5 April 2007

Periodic Report

BRE Bank Securities

Equity Market

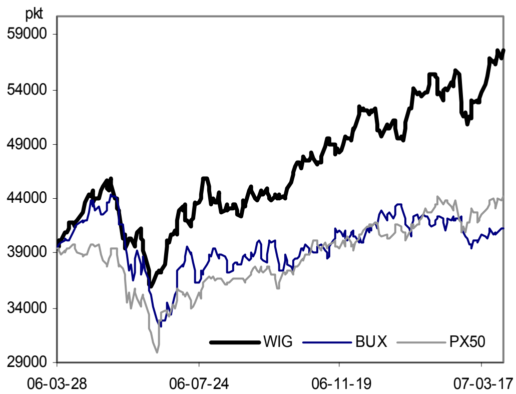
Macroeconomics

WIG	**57 982**
Average 2007 P/E	19.2
Average 2008 P/E	16.2
Avg daily trading volume	PLN 1 624m

Monthly Report

April 2007

WIG vs. indices in the region



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Macroeconomic Analyst
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Equity market

We do not see any risks to Poland's macroeconomic stability at the moment, and believe that stocks will continue to rally (the external environment is still the main risk factor). With TFI fund inflows still going strong, the IPOs scheduled for April/May are not likely to slow down the price appreciation.

Company News

Banks. March validated our recommendations to invest in bank stocks. Following price appreciations, we are closing our "Accumulate" ratings on BZ WBK, Kredyt Bank, and Pekao, and downgrading BPH from "Buy" to "Accumulate." We recommend to maintain a neutral position on the banking sector in April. BZ WBK and Millennium shareholders should consider taking profits. BPH is a great option to buy into Pekao.

Gas&Oil. The turnaround in sentiment toward oil stocks observed lately is a sustainable trend in our view. We expect that the upcoming peak-transportation season will make the macro environment even more favorable for refiners, both in terms of refining margins (enhanced profitability of production), and oil prices (LIFO effect).

Telecommunications. The strength of commodity markets is causing an outflow of capital from defensive sectors. Also the situation in the local market is not helping telecoms. We are reiterating our negative ratings on TPSA and Netia.

IT. We do not see any factors that could significantly impact technology stocks in the near term. We expect an IT spending revival in the public sector after the summer holidays. That said, smaller plays like Macrologic still offer upside potential.

Metals. The current price of copper on the LME is 14% over the 2007 analysts' consensus. We expect investment banks to raise forecasts and ratings on mining stocks. We give a "Buy" rating on KGHM.

Construction. Favorable weather conditions in the first quarter are sure to give a boost to construction company earnings, and keep the sentiment toward building stocks bullish. Because market prices have exceeded our valuations, we recommend to take profits in case the price rally continues.

Pharmaceuticals. According to IMS Health, the value of the pharmaceuticals market rose 9.8% y/y in January and February, promising strong Q1 earnings results for pharmaceutical distributors. But those gains might be offset by the effects of strong price competition which started to heat up in Q4'06. That is why we have a neutral outlook on the sector.

Retail. Both Eurocash and Eldorado (which starts consolidating BOS's earnings) will probably post strong Q1 earnings figures, although we doubt that they will be so strong as to justify the high stock prices. In our opinion, acquisitions will be the key factor shaping momentum in the sector.

Ratings. We are downgrading our ratings on BPH (Accumulate), BZ WBK (Reduce), Eldorado (Sell), Elektrobudowa (Reduce), Koelner (Reduce), Kredyt Bank (Hold), Millennium (Reduce), Pekao (Hold) and PKO BP (Reduce).

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Equity market

All traces of the turmoil that swept across world markets are gone. One index after another, most notably in emerging markets, hits new highs. The rally in commodity prices which we predicted in our January "Strategy 2007" release, confirms that investors are not discounting the bleak outlook for the world economy. With the exception of the USA, global economic momentum should drive stock prices further. Thanks to low interest rates, excess liquidity in the financial system remains, and equities still generate higher rates of return than debt. The WTO forecasts that the global economy will grow at a rate of 4.9% in 2007 and 2008, supported mainly by emerging markets, and this will also find a reflection in stock markets. We do not see any risks to Poland's macroeconomic stability for now, and believe that stocks will continue to rally (the external environment is still the main risk factor). With TFI fund inflows still going strong, the IPOs scheduled for April/May are not likely to slow down the price appreciation.

Sector-wise, we still favor commodity stocks which rally on rising copper and crude oil prices (KGHM, PKN Orlen: "Buy," Lotos: "Accumulate"). Commody' strength is telecommunication's weakness, hence our negative outlook (TPSA: "Reduce," Netia: "Sell"). We are neutral on banks: our top sector picks given the current prices are ING BSK and BPH which we recommend to overweight versus BW WBK and Millennium. With government spending still sluggish, the technology sector will remain in the background. Our picks here are Prokom over ComputerLand, and Techmex and Marcrologic over Infovide. Again, our advice is to cash in on selected MidCaps and look toward interesting IPO stories, especially among construction firms.

Interest rate hikes in Japan caused momentary carry trade liquidation. Unless additional inflation triggers emerge, Japan's central bank should leave interest rates intact. If rates were to rise, the yen would appreciate further, leading to a slowdown in exports, mainly to China, sending the Japanese economy back into recession.

The weak February data on durable goods orders (down 1.2% after a 7.4% y/y drop in January) was a sign that the US economy is probably headed for a hard landing on the one hand, and, on the other hand, hinted on a policy easing by the FED which should respond to the current developments by mid-year. If durable goods orders are equally weak in March, this will mark the emergence of a downtrend similar to the one witnessed in 2000 which preceded the 2001-2002 recession. One reason why US enterprises are investing less in capacity despite continued strong demand, good earnings, and easy access to financing, are growing salary costs combined with generous profit distributions. If the slump in capacity investments were to slide deeper, this would affect the labor market and disposable income, and, as we all know, American consumers are the bedrock of the economy. This backslide would be further aggravated by the wealth effect diminished by falling real estate prices. A recession in the USA would not be without effect on countries exporting to the States, most notably China and India, but also Germany, a neighbor of Poland where, however, GDP growth is still driven mainly by internal demand and EU funding (and which is therefore less vulnerable to a US recession). At this stage, the recession is still the worst-case, not the baseline scenario, although there has been a shift in certain probabilities from baseline to worst-case. One argument against the worst-case scenario is that there is no room in the present cycle for excess corporate investments, hence a 6.2% drop in durable goods expenditure in 2002. Macroeconomists predict a 1% downslide in 2007, which still falls within the soft landing scenario.

As for the equity market, there is also a bearish scenario, partly consistent with our forecasts. An increase in the prices of raw materials can speed up the pace of inflation growth, prompting a hike instead of a cut in US interest rates. This would be extremely dangerous for the cooling US economy. As a result, the ECB and BOJ might also tighten policies which, in addition to the global impact such rate hikes would have on the world economy, would accelerate the closing of leveraged investment strategies in equity markets, marking the end of the bull market. For now, however, we consider this to be the worst-case rather than base-case scenario.

Current ratings by BRE Bank Securities S.A.

Stock	Rating	Target Price	Date Issued
ABG STER-PROJEKT	Hold	7.87	2007-01-08
AGORA	Hold	47.60	2007-04-04
ASSECO POLAND	Reduce	49.14	2007-01-09
BPH	Accumulate	1048.00	2007-04-05
BUDIMEX	Reduce	83.70	2007-02-05
BZWBK	Reduce	242.20	2007-04-05
COMARCH	Reduce	185.80	2007-02-05
COMPUTERLAND	Hold	114.80	2007-02-05
ELDORADO	Sell	83.78	2007-04-05
ELEKTROBUDOWA	Reduce	124.60	2007-04-05
EUROCASH	Sell	7.38	2007-02-05
FARMACOL	Accumulate	45.60	2006-11-07
HANDLOWY	Hold	93.90	2007-02-20
HYDROBUDOWA ŚLĄSK	Reduce	115.00	2007-02-05
ING BSK	Accumulate	853.30	2007-02-20
KĘTY	Hold	180.50	2006-09-27
KGHM	Buy	121.00	2007-04-04
KOELNER	Reduce	53.72	2007-04-05
KOGENERACJA	Buy	61.80	2007-03-07
KREDYT BANK	Hold	23.26	2007-04-05
LOTOS	Accumulate	45.80	2007-03-05
MACROLOGIC	Buy	58.43	2007-02-13
MILLENNIUM	Reduce	9.89	2007-04-05
MONDI	Reduce	80.00	2006-12-05
NETIA	Sell	3.80	2006-09-06
PEKAO	Hold	247.80	2007-04-05
PGF	Under Revision		2006-12-05
PGNiG	Suspended		2007-02-05
PKN ORLEN	Buy	57.60	2007-03-05
PKO BP	Reduce	44.50	2007-04-05
POLIMEX MOSTOSTAL	Reduce	154.50	2007-02-05
PROKOM SOFTWARE	Hold	150.30	2007-02-05
PROSPER	Accumulate	20.90	2006-11-07
PROVIMI-ROLIMPEX	Hold	21.81	2006-12-05
RAFAKO	Reduce	10.00	2007-03-07
TECHMEX	Under Revision		2007-03-07
TELEKOMUNIKACJA POLSKA	Reduce	20.60	2006-10-27
TORFARM	Hold	63.7	2006-08-25
ZA PUŁAWY	Buy	64.76	2007-03-07

Ratings issued in the past month

Stock	Rating	Previous	Target Price	Date Issued
AGORA	Hold	Accumulate	47.60	2007-04-04
KGHM	Buy	Accumulate	121.00	2007-04-04
KOGENERACJA	Buy	Hold	61.80	2007-03-07
MILLENNIUM	Hold	Reduce	9.89	2007-03-07
ZA PUŁAWY	Buy	Accumulate	64.76	2007-03-07

Rating changes: Monthly Report

Stock	Rating	Previous	Target Price	Date Issued
BPH	Accumulate	Buy	1048.00	2007-04-05
BZ WBK	Reduce	Accumulate	242.20	2007-04-05
ELDORADO	Sell	Reduce	83.78	2007-04-05
ELEKTROBUDOWA	Reduce	Hold	124.60	2007-04-05
KOELNER	Reduce	Hold	53.72	2007-04-05
KREDYT BANK	Hold	Accumulate	23.26	2007-04-05
MILLENNIUM	Reduce	Hold	9.89	2007-04-05
PEKAO	Hold	Accumulate	247.80	2007-04-05
PKO BP	Reduce	Hold	44.50	2007-04-05

Ratings Statistics

	All					For issuers to which BRE Bank Securities S.A. has rendered services				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	3	13	10	5	5	0	5	5	1	2
% of total	8.3%	36.1%	27.8%	13.9%	13.9%	0.0%	38.5%	38.5%	7.7%	15.4%

Macroeconomics

The message of the FED's March statement was not as obvious and clear-cut as the market took it to be. Most investors wanted to interpret it as a farewell to restrictive monetary policy and a shift toward an expansive stance in the near future, which is better for the stock market than the debt market.

I do not think that the FED's policy will be the main factor shaping the dollar in the next six months. A more in-depth look at the "buck's" behavior leads to the conclusion that the depreciation against leading world currencies was not as sharp as it was professed to be. If the market remains predicated on the belief that the ECB, the Bank of England, Riksbank, or the Swiss National Bank have not yet ended their tightening cycle, we can expect the dollar to weaken further against the MCI (major currencies index) to ca. 75, and to 1.37 for 1 euro.

The dollar has been on a steady downward spiral against emerging market currencies since 2004. This is reflected in the OITP (other important trading partner) index which has declined in real terms for the first time since EM currencies included in the index were allowed to float freely in the early 1970's. We are seeing similar behavior from the zloty against the Brazilian real or the Chinese yuan, and we might see it testing the level of 2.75 in the first half of the year.

Poland's Monetary Policy Council (RPP) faces a tough challenge: although GDP grows at over 6 percent, March might be the last month before a long break when the annual inflation rate increased (to 2.1 percent). In the summer, the CPI will fall back down toward the lower end of the target inflation range (1.5 percent), accompanied by a steadying of the core inflation below 2 percent. It is hard for a central bank to raise rates at a time when current inflation indices fall below target. I think that some RPP members might have some trouble making the decision.

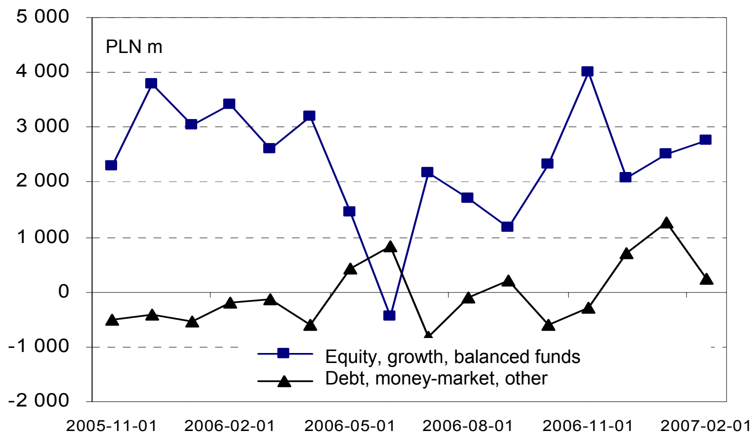
If the truth is with those economists who say that the favorable climate which pulled inflation down and boosted growth is about to shift, tightening will help the bank maintain its credibility. And this, not faith in the inflation projections predicting an increase to 4 percent in 2009, might be the argument that will make median voters in the RPP more inclined to back interest rate hikes earlier rather than later. But, if the truth is with those who say that the zloty will stay strong, and that the improving labor market and openness of the economy relativize the significance for inflation of a salary upturn, slight interest rate hikes will have zero impact on the real sphere. They will, however, help sustain real interest rates provided that inflation comes close to the RPP's target toward the end of the year.

The Finance Ministry, in what I consider an overly sanguine prediction, estimated that the planned reductions in pension contributions will cost the public finance sector PLN 2.58bn in 2007 and a further PLN 16.3bn in 2008. The costs will be higher for the state budget, at PLN 3.08bn and PLN 18.3bn respectively. As might have been expected, Finance Minister Gilowska's statements indicating the need, for the first time, to find ca. PLN 21bn in cost savings, met with harsh criticism from the coalition. And the Prime Minister, while making another one of his promises to narrow the tax wedge, made no reference whatsoever to the savings plans of his Finance Minister.

Fund Flows

TFIs
Investment funds received a total of PLN 6.8 billion in new cash inflows in the first two months of 2007. January was a record month, with PLN 3.8bn recorded in monthly inflows. The biggest gainers in March, like in the previous two months (January: PLN 1.8bn, February: PLN 1.3bn), were balanced funds (PLN 1.5bn, half of the total inflows). Partial data for March indicates that TFIs continued to generate inflows. The momentary downturn in indexes did not increase aversion to investing in funds. ING TFI garnered PLN 540m in new inflows in March, which was slightly less than in January and February (PLN 600m and PLN 650m respectively). If we assume that the other funds performed similarly, March inflows will have been impressive.

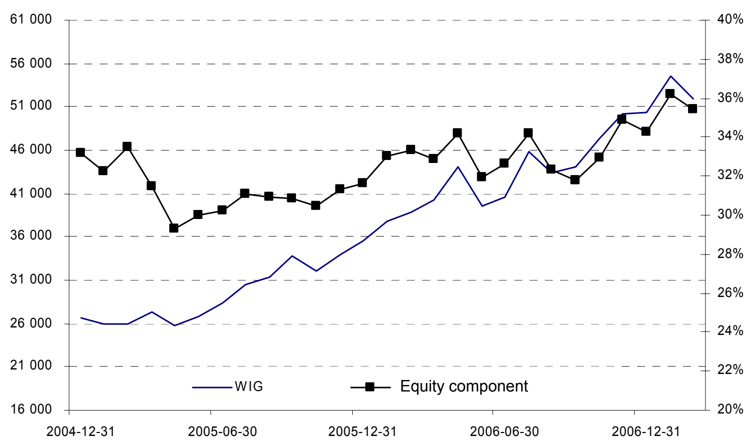
Inflows/outflows to TFIs by equity funds and money market/debt funds



Source: Analizy Online

OFE
Poland's Social Insurance Institution (ZUS) transferred close to PLN 2.8bn to Open Pension Funds (OFE) in January and February. At the end of February, the share of equities in total OFE assets stood at 35.4%. Equity allocations decreased by PLN 1.6bn from January to February on WSE stock turmoil toward the end of the month. Other components of OFE assets did not change much. Total assets shed PLN 1.65bn in February. The PLN 1.6bn decrease in the equity component (3.6%) was not as strong as the market downturn (the WIG index plunged by 4.9%, and the WIG 20 index by 6.9%). Pension funds continued to invest new inflows from the ZUS in equities, taking advantage of the weakness to buy stocks at lower prices.

Equities in OFE portfolios vs. WIG20

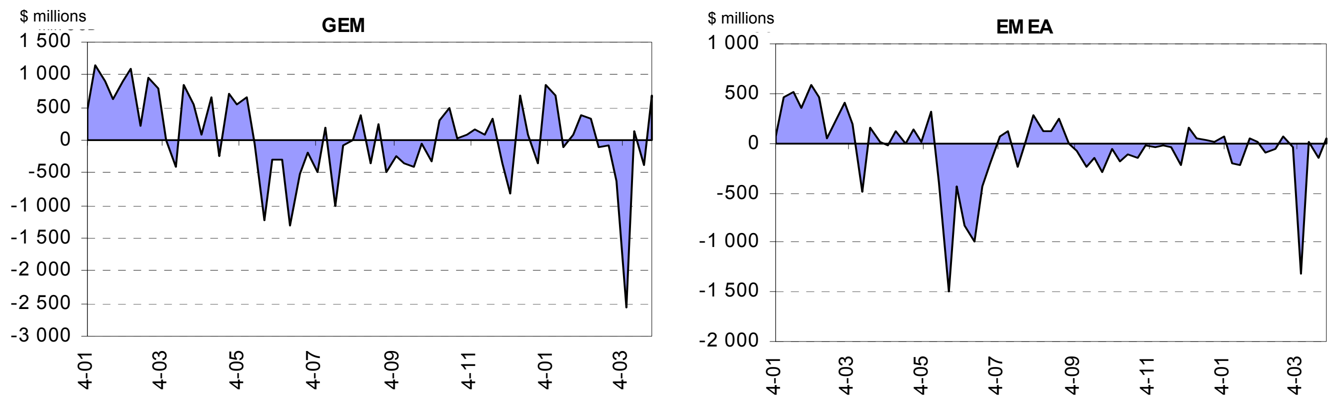


Source: BRE Bank Securities, Bankier.pl

Emerging market funds

GEM funds recorded $2.1bn in net outflows in March, spurred by cash running out in the first week of the month (-$2.6bn) on downturn in world indexes. A similar situation was observed in EMEA markets where funds lost $1.3bn in the first week, and a total $1.4bn overall in March. The downtrend in flows was reversed in the last week of the month, with funds recording a total $2 billion in inflows. During the same time, GEM funds received PLN 694m.

Weekly inflows/outflows for selected emerging market funds



Source: EmergingPortfolio.com

Financial Sector

Bank profits soared 16.9% on FY2005 (PLN 10.65bn)

This according to the President of the General Inspectorate for Banking Supervision (GINB) Wojciech Kwaśniak. The record-high profits were attained on continued strong demand for consumer loans (consumer debt surged over 34%), and a pick-up in financing demand from corporations (corporate debt was 14% higher than in FY2005). The value of bank assets increased 16%. The sector ROE is 22.4%, and the ROA is 1.8%. Wojciech Kwaśniak predicts that this year will witness a continued earnings upturn at 15%-20%. We like the quality of the bank earnings generated last year. Growth was achieved on volume-driven upswing in income. This seems like a sustainable trend that bodes well for the future. Banks will continue to improve income on the back of continuing demand for loans, not only from consumers, but now also from businesses. Even despite increased expenditure on business expansion, banks are sure to show better performance this year than last year.

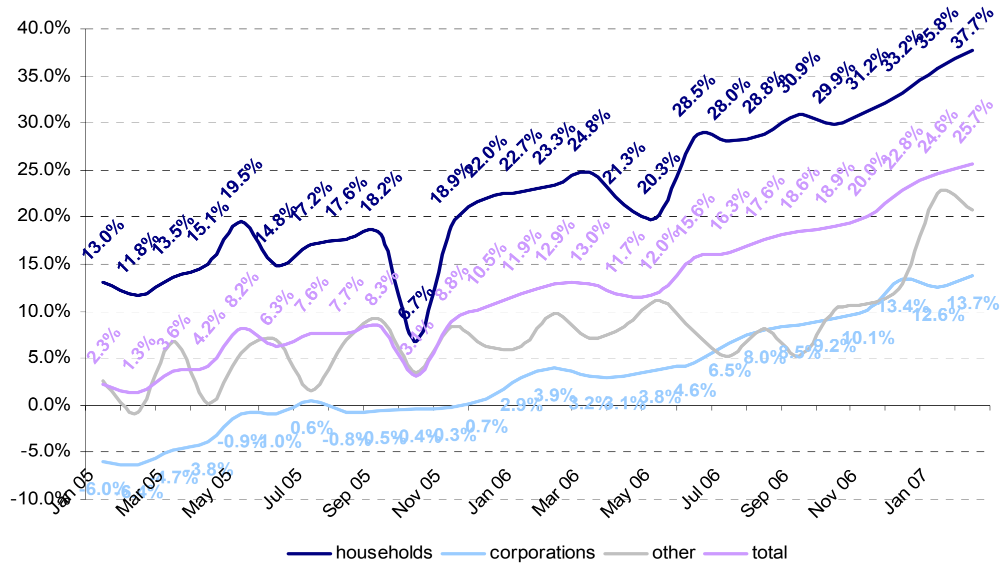
Pengab up 2.4pts to 40.7pts in March

The index rose on expectations of further earnings growth. Half of the bank locations surveyed indicated an improvement in their general financial situation, only 1% reported a deterioration, and 49% said nothing had changed since a month earlier. As for the future, 68% of branches surveyed expect an improvement, and only 2% expect a downturn. In a Pentor survey, 50% of respondents reported no changes in the prices of the products and services offered at their branches. 2007 is gearing up to be another good year for banks, justifying the level of the “bankers’ mood” index and sanguine expectations.

Volumes

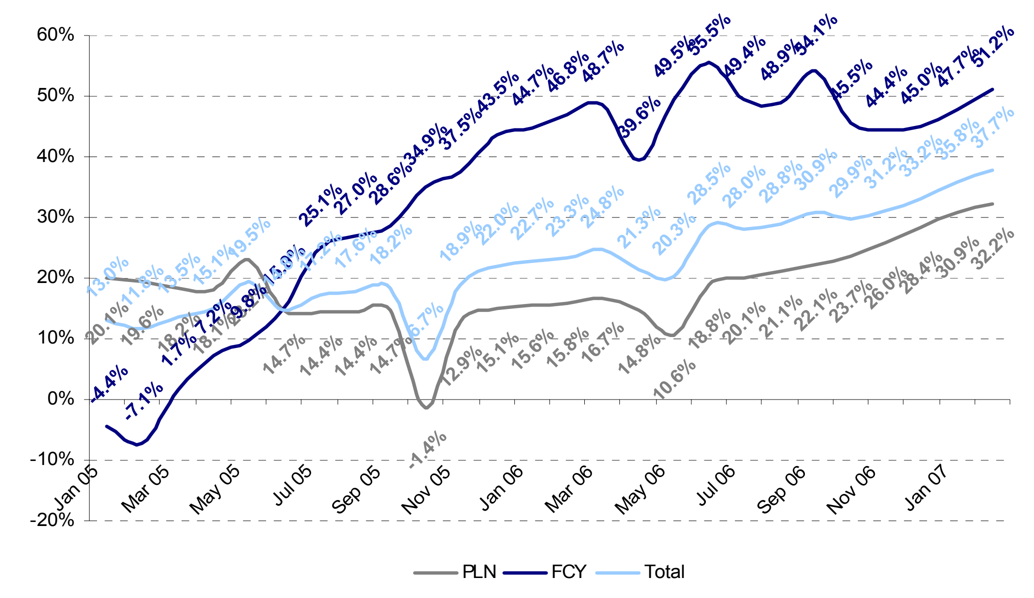
We stand by our view that this year’s earnings improvement will be generated on continued volume-driven income growth. Earnings estimates from the end of February show that banks had a great start into the new year. The lending business was up almost 26%, propelled by soaring demand for household loans (close to 38% Y/Y) and continued double-digit growth in corporate loans (close to 14% Y/Y). The momentum in retail and corporate loans points to the sustainability, and in case of consumer loans even a strengthening of the trends observed in 2006. We do not see any real threats of a slowdown in the overall lending business at the moment. Even the interest rate hikes expected by the market are not likely to affect the demand for loans as macro settings remain robust and the financial situation of bank clients improves.

Bank loans, Y/Y change



Source: BRE Bank Securities, NBP

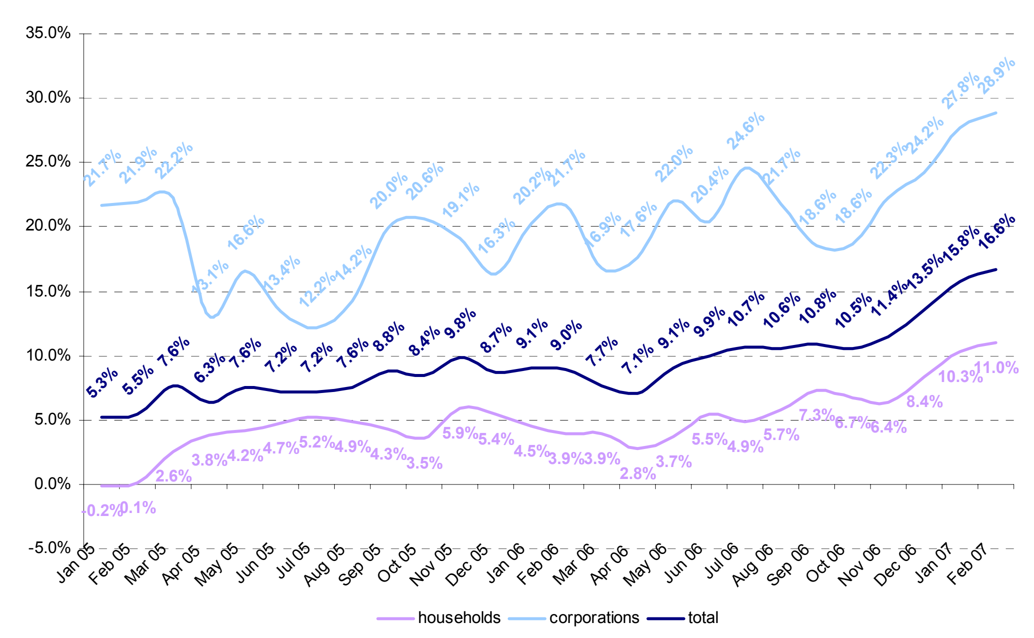
Household loans, Y/Y change



Source: BRE Bank Securities, NBP

Deposits have also accelerated, demonstrating a year-over-year growth rate of over 16% at the end of February. The start of the year was marked by a rise in the pace of both corporate deposits (up 29% Y/Y), and consumer deposits (11% Y/Y).

Deposits, Y/Y change



Source: BRE Bank Securities, NBP

Dividends

The table below shows the dividend payout proposals by banks announced so far. ING BSK will present its profit distribution proposal in the annual report scheduled for release on April 23rd, 2007. The other banks have already revealed their payout recommendations for approval by shareholders. In case of Millennium, shareholders have already given their approval, and we expect the same from other banks.

Dividends

Bank	DPS (PLN)	Date of Record	Payment	GA
BPH	36.20	17-May-07	31-May-07	26-Apr-07
BZWBK	6.00	04-May-07	18-May-07	14-Apr-07
Handlowy	4.10	05-Jul-07	31-Aug-07	n/a
ING BSK*	29.55*	n/a	n/a	n/a
Kredyt Bank	0.37	n/a	n/a	n/a
Millennium	0.17	09-May-07	23-May-07	26-Mar-07
Pekao	9.00	16-May-07	01-Jun-07	26-Apr-07
PKO BP	0.98	n/a	n/a	26-Apr-07

Source: BRE Bank Securities, banks
** ING BSK has not disclosed its dividend proposal yet, forecast based on our estimates The proposal will be included in the FY2006 annual report set for April 23rd.*

BIK issued 357.7K consumer credit scores

This was 68.3% more than in February 2006. From January to February, the Credit Reporting Agency (BIK) issued 826.4 thousand scores, which was a staggering 96.1% more than a year ago. Those numbers bode well for 2007. We believe that bank earnings in FY2007 will still largely hinge upon successful retail strategies. Gradually, however, retail will be joined by the corporate segment as one of the main income drivers.

Staff upsizing

Rzeczpospolita anticipates that banks will continue to hire more employees in the wake of the successful FY2006 (when banks employed close to 4 thousand people), as part of an ongoing battle for specialists as well as lower-rank employees aimed at leveraging the strong market momentum and manning the increasing branch numbers (most listed banks are in the process of enlarging their sales networks). *Rzeczpospolita* predicts that employment might increase by 5-6 thousand people this year. Competition on the labor market will exert upward pressure on salaries. These predictions are in line with our outlook set out in the “Strategy 2007” release. The smaller banks listed on the WSE are all planning to expand their territorial coverage, and only the three largest players, PKO BP, Pekao, and BPH, have no plans to open new branches (Pekao will get 285 branches from BPH).

Teller window withdrawal fees

As promised, the competition watchdog UOKiK put teller window withdrawal fees on its list of forbidden practices. This was a result of a ruling deeming similar fees charged by BZ WBK and Lukas Bank as illegal. All banks have been ordered to stop charging window withdrawal fees. BGŻ is going to comply as of April 15th, PKO BP as of April 16th, and BPH and MultiBank will do the same soon. This development has slightly negative implications for BRE Bank, PKO BP, and BPH. Banks that had already canceled window withdrawal fees (ING BSK, Millennium, BZ WBK) did not feel a big change in their income. The implications are the most serious for PKO BP, with its huge base of consumers who, more often than not, are not very inclined to use remote banking channels. Banks can offset income losses on window withdrawal fees by raising account management fees.

Interest rate hikes in Switzerland

The Swiss Central Bank raised interest rates by another quarter percentage point in a seventh hike in a row. The reference rate is now 2.25 percent, the euro zone rate is 3.75 percent, and Poland’s rate is 4 percent. Euro-zone central banks and the Swiss National Bank have warned that this is not the end of tightening. In Poland, Swiss-franc loans are still the most popular among home loan borrowers, but their popularity has started to dwindle lately due to rising interest rates and implementation of the so-called “Recommendation S.”

Customers stay loyal to their banks

Gazeta Prawna quotes a survey by PBS DGA which found that only 10% of Poles changed their financial provider in the last two years. Those who switched banks were looking for lower account fees and a better service offering. We believe that client turnover will grow as the size of the "banked" population increases. Poland's banked population is still smaller in size than in Western European countries, and banks fight to capitalize on the potential offered by the “unbanked” chunk of the market. Existing clients are often discouraged from changing banks by “red tape.” But, as competition becomes heated (and market saturation increases), banks are simplifying the formalities and procedures needed to start an account.

Fortis Bank Polska increases free float

The Polish Commission for Banking Supervision (KNB) allowed Fortis to take over Dominet Bank and acquire over-75% interest in Fortis Bank Polska (FBP). As a result. the Belgians now own 99% of FBP. They waited for permission from the KNB for a year. These developments will bring about an increase in FBP's free float on the WSE, in line with the investor's promise to raise the free float to 10%-15% of the market cap minimum within two years. The increase will be achieved through a secondary offering. The main shareholder has furthermore undertaken to keep FBP on the Warsaw stock market for at least 10 years. The Fortis group might operate through two different banks, FBP and Dominet Bank, for another 4 years, because capturing growth opportunities is more important for the Belgians than integration. That Fortis will be running two independent banking brands is in line with expectations. The stock offering, however, is a very interesting development. FBP owns PLN 10454m in assets, and its FY2006 net income was PLN 108.3m (up almost 7%). The number of shares after the last offering is 16771180.

EU directive will make cross-border payments cheaper and faster

The new directive provides for shorter transaction processing times (1 business day max), and states that financial institutions will be liable for transfer processing errors, The directive also introduces a uniform consumer protection system. The result will be cheaper cross-border electronic payments. Banks have until 2009 to implement the directive, which applies both to euro-zone countries, and other EU members. The directive is expected to bring EUR 50bn to EUR 100bn in savings a year. The new regulations will work to the advantage of Polish bank clients as well as the banks themselves. Cheaper prices and better effectiveness of transaction processing will drive the number and volumes of international transfers. Despite lower transfer fees, fee income at banks will grow thanks to larger volumes. As things stand, Poles tend to avoid having to make international transfers due to their costs and long lead times.

Online debit card payments coming soon

According to newspaper reports, in a few months, we will be able to pay for our online shopping with the regular unembossed cards issued on our bank accounts. Banks planning to enable such payments include PKO BP. Spokesman Marek Kłuciński confirmed that the bank was working to launch such services in three months' time.

Rabobank to take over control in BGŻ

Rabobank has increased its shareholding in BGŻ from 35.3% to 44.5% by converting bonds that BGŻ had issued to Rabobank and the European Bank for Construction and Development. The Dutch bank bought back the bonds from the EBRD. The current shareholding breakdown is Rabobank with 44.5%, the EBRD with 12.9%, and Poland's State Treasury with 37.3%. Rabobank's next step might be to buy BGŻ shares from EBRD. For now, an agreement between the State Treasury and Rabobank is still in force (until June) dividing Supervisory Board and Management Board positions between both shareholders in proportion to their previous stakes in BGŻ.In our opinion, Rabobank's increasing ownership is good for BGŻ which is poised to start seriously competing with listed banks. At the end of FY2005, the bank's assets stood at PLN 16.6 billion. Kredyt Bank's assets at the end of FY2006 amounted to PLN 21.9 billion.

Nordea Bank Polska raises equity by CHF 79m

Nordea Bank Poland signed a subordinated loan agreement with Nordea Bank Finland for CHF 79m (approx. PLN 192m). It looks like the bank keeps working to grow its loan portfolio, in line with the industry trends.

La Caixa – the Catalonian bank wants to compete for retail accounts in Poland

According to *Gazeta Prawna*, La Caixa is going to launch its Polish operations in the summer, initially through several trial branches. The bank aims to achieve a significant market share by tapping into the "unbanked" population. La Caixa is going to operate pursuant to a pan-European passport, and is currently waiting for a notification. Amidst a banking boom in Poland, La Caixa is another foreign bank that wants to come along for the ride. It is not likely t be a threat to the local listed banks. The fact that more and more international organizations are want to do business in Poland means that they believe that the banking momentum will continue for a few more years. So, all in all, newcomers are a sign that our market is strong.

BPH (Accumulate)

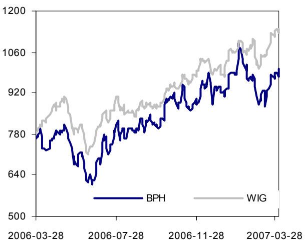
Current price: PLN 990 **Target price: PLN 1048**

Analyst: Marta Jeżewska

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Net interest income	1 981.4	2 175.5	*9.8%*	2 286.2	*5.1%*	2 435.3	*6.5%*
Interest margin	3.6%	3.5%		3.4%		3.5%	
Revenue f/banking oper.	3 083.9	3 533.6	*14.6%*	3 743.6	*5.9%*	4 017.6	*7.3%*
Operating profit	1 560.9	1 853.8	*18.8%*	2 240.7	*20.9%*	2 265.9	*1.1%*
Gross profit	1 294.4	1 633.6	*26.2%*	1 963.3	*20.2%*	1 966.6	*0.2%*
Net profit	1 027.4	1 267.8	*23.4%*	1 545.4	*21.9%*	1 542.5	*-0.2%*
ROE	16.8%	19.2%		21.9%		21.0%	
P/E	27.7	22.4		18.4		18.4	
P/BV	4.5	4.1		3.9		3.8	
D/PS	22.1	30.0		39.7		48.4	
Dyield (%)	2.2	3.0		4.0		4.9	

Basic data (PLN m)	
Number of shares (m)	28.7
MC (current price)	28 429.1
Free float	25.3%
Price change: 1 month	*10.4%*
Price change: 6 month	*21.1%*
Price change: 12 month	*29.3%*
Max (52 week)	1 088.0
Min (52 week)	610.0



BPH's stock gained 10% since our previous Monthly Report, causing our BUY rating to fold. We see a 6% upside potential relative to our target price (PLN 1048/share). We are downgrading our rating from Buy to Accumulate. April should bring about resolutions regarding the future tender offer for the Mini-BPH, and execution of the agreement with the buyer prior to BPH's and Pekao's GAs scheduled for April 26th and 27th. An investment in BPH is a good way to buy into Pekao. Pekao's stock currently trades at PLN 264.1/share. If we deduct from the current market price of BPH the value of the assets transferred to Pekao (PLN 871.5/share) and this year's dividends (PLN 36.2/hare), we arrive at the price of the Mini-BPH which is an estimated PLN 82.3/share (just under PLN 2.4bn for the whole Mini-BPH). This is much below the price range that newspapers consider achievable on the Mini-BPH (PLN 3.8bn to PLN 5.8bn, i.e. EUR 1bn-1.5bn). We expect the selling price to be somewhere near PLN 191/share (PLN 5.5bn). If we deduct this amount and dividends (PLN 36.2) from the current market price, we get a per-share valuation of Pekao of PLN 231.2, which is 14% less than the current market price. That is why an investment in BPH seems to us a more attractive way to become a shareholder of Pekao.

Bidding for Mini-BPH ended on March 20th

According to reports, the bidders included Credit Mutuel, BNP Paribas, and General Electric, but only Credit Mutuel officially confirmed submitting a quote. Spain's Santander reported that it had withdrawn from the tender. According to unofficial reports, Austria's Raiffeisen was shortlisted, but in the end decided not to make a bid.

Santander withdraws from Mini-BPH bid, says price is too high

Santander Consumer Bank confirmed that it had backed out of the tender for the Mini-BPH, saying that the deal was too pricey (reportedly EUR 1–1.5 billion). If the selling price is really EUR 1-1.5bn (PLN 3.9-5.9bn), the current price of BPH's stock offers some upside potential.

When will Mini–BPH be sold?

In an interview for *Rzeczpospolita*, Pekao's VP Mr. Luigi Lovaglio said that a sale agreement with the new Mini-BPH owner would be signed prior to Pekao's and BPH's ordinary and extraordinary shareholder meetings called to approve the BPH spin-off and integration of both banks. The ordinary general assemblies on April 26th will be followed by extraordinary general assemblies a day later. Mr. Lovaglio also spoke about the tender offer for outstanding BPH shares. UniCredit is in close touch with the government. Mr. Lovaglio said that this no way affects the other merger processes. This is in line with our expectations. We will know the name of the Mini-BPH buyer and the selling price in a matter of a few weeks. The tender offer for outstanding BPH shares is still an open issue. The solutions proposed by Deputy Treasury Minister are favorable to BPH's minority shareholders.

PLN 36.2 dividend per share proposal slightly below expectations

BPH proposed to pay PLN 36.2/share as dividends to shareholders. The dividend has to be approved by the bank's shareholders, set to meet on April 26th. The date of record is tentatively set at May 17th, with payout on May 31st. We had expected a PLN 39.73 dividend per share (90% of the consolidated FY2006 profit), while the bank's management are proposing a payout ratio of 82% and dividends at PLN 36.2/share (86% of BPH's standalone profit). The proposal is PLN 3.53/share less than our expectations, but does not affect our price target. We obtained our target using the SOTP approach, and will lower it by the PLN 3.53/share difference.

What will be the MO on tender offer for 29% of Mini-BPH?

Deputy Treasury Minister Paweł Szałamacha said that the Ministry sees two solutions. The first is for the new Mini-BPH buyer to wait a few months with the tender offer. The second is for UniCredit to pay compensation to the new owner. This stance suggests that the ministry is not planning to change the applicable laws. If the tender offer were to be delayed by a few months, the risk is that minority shareholders will keep BPH’s stock price above the price paid by the investor. For future BPH investors, this does not mean that they will purchase BPH shares at a specified price. On the other hand, UniCredit can hardly be expected to just agree to pay a compensation to the buyer. Both solutions will be favorable to minority shareholders.

Sale of 10% stake in CU PTE is official

As expected, BPH finalized the sale in the first quarter of 2007 (preliminary agreements had been signed last year). The unrealized gains (PLN 179m before taxes) were credited to the revaluation reserve, and now, they (PLN 179m gross and ca. PLN 145m net) will be added to FQ1 income. Since the specifics of the sale had been made public earlier, this is a technicality. According to the Spin-Off plan, the profits from the CTU PTE sale will benefit Pekao.

BZ WBK (Reduce)

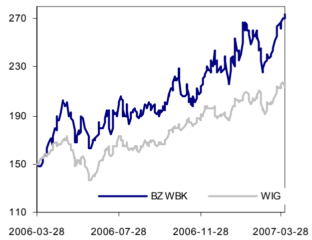
Current price: PLN 280 **Target price: PLN 242.2**

Analyst: Marta Jeżewska

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Net interest income	909.3	1 034.2	*13.7%*	1 221.0	*18.1%*	1 418.8	*16.2%*
Interest margin	3.2%	3.3%		3.5%		3.6%	
Revenue f/banking oper.	1 895.8	2 365.2	*24.8%*	2 737.6	*15.7%*	3 078.3	*12.4%*
Operating profit	750.6	1 084.1	*44.4%*	1 380.4	*27.3%*	1 613.1	*16.9%*
Gross profit	689.5	1 065.5	*54.5%*	1 301.0	*22.1%*	1 492.9	*14.7%*
Net profit	516.3	758.2	*46.9%*	939.0	*23.8%*	1 082.6	*15.3%*
ROE	16.1%	20.7%		22.3%		23.0%	
P/E	39.6	26.9		21.8		18.9	
P/BV	6.0	5.2		4.6		4.1	
D/PS	6.0	6.0		7.7		8.9	
Dyield (%)	2.1	2.1		2.8		3.2	

Basic data (PLN m)	
Number of shares (m)	73.0
MC (current price)	20 428.9
Free float	29.5%
Price change: 1 month	*19.7%*
Price change: 6 month	*36.5%*
Price change: 12 month	*84.5%*
Max (52 w eek)	273.0
Min (52 w eek)	147.5



Macro settings, industry momentum, and fund inflows all suggest that the first quarter will be a booming period for BZ WBK. The bank is strongly positioned in the SME sector and equity investments. We expect good results this quarter from all banks, including BZ WBK, as reflected in an upward revision to our forecasts for the bank after its Q4'06 earnings release. We think that BZ WBK's current market price already factors in the high FQ1 expectations. Since the stock soared ca. 20% since our last rating (Accumulate, March 6th), we are downgrading to REDUCE and recommend to take profits on BZ WBK's shares.

Mateusz Morawiecki to head BZ WBK

Mateusz Morawiecki is going to replace Mr. Jacek Kseń as BZ WBK's CEO as of May 1st. Mr. Morawiecki has headed the business support division at BZ WBK, managed the card business, and supervised the new project to launch a network of small "Minibank" branches offering basic banking services.

Cash loan sales to grow

BZ WBK estimates that its cash loan sales will increase 20%–30% this year. The cash loan portfolio at year-end FY2006 was PLN 904m (with market share at 2.46%), and sales stood at PLN 953m. The bank wants to achieve PLN 1.14bn-PLN 1.24bn in sales volumes, among others by expanding the sales network. Last year, 90% of sales were generated by the bank's own branches. BZ WBK is determined to grow. We do not know how the boosted sales will impact the loan portfolio, as cash loans have shorter durations than other loan products. The bank's sales growth objectives are in line with our projections as to its lending business.

Material agreement

BZ WBK signed a financing agreement with 11 borrowers from the same group of companies. The loan will be disbursed in installments. Its purpose is to finance a real estate purchase and building projects. The total amount of the financing is EUR 116.54 million plus PLN 97.1 million payable on February 28th, 2018. BZ WBK is experiencing a notable improvement in its corporate segment. The bank pointed out that construction companies were one of the strongest groups of borrowers. We are confident that BZ WBK stands to benefit the most from the borrowing rally in the corporate sector.

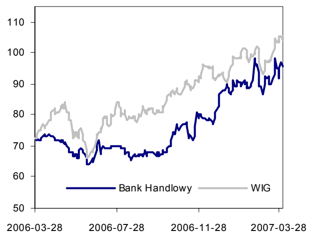
Handlowy (Hold)

Current price: PLN 97 **Target price: PLN 93.9**

Analyst: Marta Jeżewska

Last Recommendation: 2007-02-20

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	1 028.3	1 026.4	-0.2%	1 142.0	11.3%	1 219.3	6.8%	Number of shares (m)	130.7
Interest margin	3.1%	3.0%		3.1%		3.2%		MC (current price)	12 674.0
Revenue f/banking oper.	2 239.0	2 096.3	-6.4%	2 231.9	6.5%	2 416.0	8.2%	Free float	25.0%
Operating profit	770.7	802.0	4.1%	797.9	-0.5%	930.9	16.7%		
Gross profit	795.2	832.3	4.7%	742.6	-10.8%	866.5	16.7%		
Net profit	617.1	656.6	6.4%	601.5	-8.4%	701.8	16.7%		
ROE	10.7%	12.3%		11.1%		12.7%		Price change: 1 month	7.5%
P/E	20.5	19.3		21.1		18.1		Price change: 6 month	40.1%
P/BV	2.4	2.3		2.3		2.3		Price change: 12 month	32.4%
D/PS	12.0	3.6		4.5		4.1		Max (52 w eek)	98.0
Dyield (%)	12.3	3.7		4.7		4.3		Min (52 w eek)	64.0



We like Bank Handlowy's new retail strategy. The bank reported that new product and location launches are going according to plan. But it will take some time for the strategy to bring tangible improvement in retail volumes. Furthermore, we think that the bank lost a lot of ground in the corporate banking business relative to other banks in the second half of 2006, and that, even if an improvement takes place in that department, it is not likely to achieve more than just to catch up with others. Without major growth in the corporate segment, there can be no noticeable improvement in the retail segment. W e project a FY2009 ROE for Bank Handlowy at 14.3% - the lowest of all of the banks in our coverage universe. Because the bank continues to trade at +/-5% to our target of PLN 93.9/share, we are reiterating our HOLD rating on Bank Handlowy.

PLN 4.1 dividend per share

Bank Handlowy plans to pay out PLN 535.7m of its profit, i.e. PLN 4.1/share, as dividends to shareholders. The date of record is tentatively set at July 5th, with payment on August 31st. The dividend is PLN 0.47/share less than we expected. Also the payout ratio (58%) fell short of our expected 90%.

Supervisory Board reshuffle

During an extraordinary meeting in March, Bank Handlowy's shareholders voted on changes in the bank's Supervisory Board. Rupert Hubbard was replaced by Sabine S. Hansen.

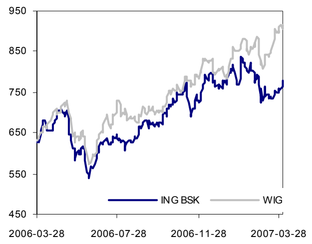
ING BSK (Accumulate)

Current price: PLN 781 **Target price: PLN 853.3**

Analyst: Marta Jeżewska

Last Recommendation: 2007-02-20

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	721.2	936.3	*29.8%*	1 069.6	*14.2%*	1 188.5	*11.1%*	Number of shares (m)	13.0
Interest margin	1.9%	2.1%		2.1%		2.1%		MC (current price)	10 160.8
Revenue f/banking oper.	1 641.2	1 755.4	*7.0%*	1 980.6	*12.8%*	2 178.1	*10.0%*	Free float	18.5%
Operating profit	561.2	539.7	*-3.8%*	702.4	*30.2%*	828.1	*17.9%*		
Gross profit	705.8	753.3	*6.7%*	704.5	*-6.5%*	797.9	*13.2%*		
Net profit	549.5	591.4	*7.6%*	563.4	*-4.7%*	638.3	*13.3%*		
ROE	16.4%	16.2%		14.7%		15.7%		Price change: 1 month	*2.4%*
P/E	18.5	17.2		18.0		15.9		Price change: 6 month	*11.9%*
P/BV	2.9	2.7		2.6		2.4		Price change: 12 month	*24.1%*
D/PS	20.5	27.5		29.5		28.1		Max (52 week)	835.0
Dyield (%)	2.6	3.5		3.8		3.6		Min (52 week)	540.0



We are reiterating our ACCUMULATE rating on ING BSK. We believe that the bank will benefit strongly from the sustained demand for corporate loans. The FQ1'07 earnings performance will be further underpinned by investment fund inflows. ING TFI was among the top-three funds in terms of inflows. Although ING BSK is not member of the same group of companies as ING TFI, it is one of the main distributors of ING fund shares and, as such, earns income on asset management fees and upfront fees. We believe that the discount in ING BSK's stock relative to other listed banks is unjustified. We are reiterating our ACCUMULATE rating.

Mortgage loan sales

According to ING BSK's VP Michał Szczurek, growth in the bank's Retail lending business will be driven by mortgage loans and small businesses. In Q1'07, the bank has sold twice the amount of mortgage loans recorded a year ago (PLN 90m in Q1'06). Mortgage loan sales in FY2006 amounted to PLN 870m (double the amount achieved in FY2005), with the most robust growth recorded in the second half of the year. In FY2006, the small business lending portfolio surged 27% to PLN 587m. According to the bank, the momentum is still strong, and growth is expected to continue this year. The VP said that he was hoping that retail lending would also be boosted by the new application launched at the beginning of 2007, enabling immediate loan sales to clients. Approximately 1 million of the bank's clients have access to this service. We saw the first signs of acceleration in ING BSK's lending business in Q4'06, and this acceleration has turned into a sustainable trend underpinned by the overall improvement in corporate financing and the growing popularity of zloty mortgage loans (ING BSK does not offer FCY loans to consumers). PLN 180m mortgage loan sales in Q1'07 will not be a spectacular result compared to PLN 199m in Q4'06. But it is clear that the upward trend in loan volumes is sustainable. The technology innovations are a smart move. We are waiting to hear how they are driving sales and if they are giving a boost to consumer lending.

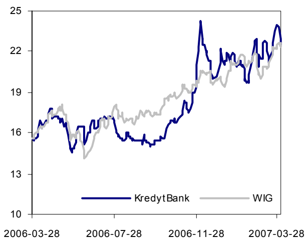
Kredyt Bank (Hold)

Current price: PLN 22.8 **Target price: PLN 23.3**

Analyst: Marta Jeżewska

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	753.4	780.0	*3.5%*	900.8	*15.5%*	1 016.1	*12.8%*	Number of shares (m)	271.7
Interest margin	3.6%	3.6%		3.9%		4.1%		MC (current price)	6 204.7
Revenue f/banking oper.	1 208.9	1 202.8	*-0.5%*	1 381.2	*14.8%*	1 536.3	*11.2%*	Free float	14.5%
Operating profit	329.3	439.8	*33.6%*	423.5	*-3.7%*	540.2	*27.6%*		
Gross profit	321.4	460.6	*43.3%*	361.7	*-21.5%*	466.4	*29.0%*		
Net profit	415.9	468.1	*12.6%*	293.0	*-37.4%*	377.8	*29.0%*		
ROE	26.0%	24.8%		13.4%		15.5%		Price change: 1 month	*3.4%*
P/E	14.9	13.3		21.2		16.4		Price change: 6 month	*43.3%*
P/BV	3.7	3.0		2.7		2.4		Price change: 12 month	*44.7%*
D/PS	0.0	0.2		0.4		0.3		Max (52 w eek)	24.2
Dyield (%)	0.0	1.0		1.6		1.2		Min (52 w eek)	14.5



After a period of restructuring, Kredyt Bank launched sales of loan products. FY2006 witnessed an improvement in loan volumes. We expect that the bank will continue to develop its lending business in 2007, translating to higher income. Kredyt Bank's network expansion plans should not affect expenses in a significant way thanks to past savings. Because the price of Kredyt Bank's stock has increased since our rating, we are downgrading from Accumulate to HOLD. We still appreciate the changes taking place at the bank, but think that they are already priced in its stock.

Supervisory Board member resigns

Mr. Józef Toczek stepped down as member of Kredyt Bank's Supervisory Board as of March 27th. He did not state the reasons for his resignation. This development is not likely to have a big impact on Kredyt Bank's business continuity.

Millennium (Reduce)

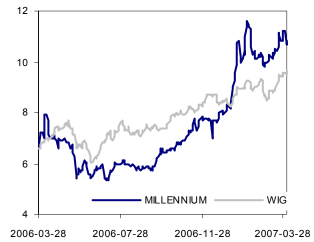
Current price: PLN 10.9 Target price: PLN 9.9

Analyst: Marta Jeżewska

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Net interest income	480.1	650.5	*35.5%*	762.5	*17.2%*	922.2	*20.9%*
Interest margin	2.3%	2.8%		2.9%		3.0%	
Revenue f/banking oper.	1 465.3	1 253.1	*-14.5%*	1 534.7	*22.5%*	1 866.3	*21.6%*
Operating profit	704.8	409.4	*-41.9%*	546.2	*33.4%*	738.1	*35.2%*
Gross profit	709.7	370.8	*-47.8%*	458.5	*23.7%*	623.9	*36.1%*
Net profit	567.1	300.8	*-47.0%*	371.4	*23.5%*	505.3	*36.1%*
ROE	25.9%	13.1%		15.9%		19.4%	
P/E	16.2	30.6		24.8		18.2	
P/BV	3.9	4.2		3.8		3.3	
D/PS	0.3	0.5		0.2		0.2	
Dyield (%)	2.6	5.0		1.6		1.9	

Basic data (PLN m)	
Number of shares (m)	849.2
MC (current price)	9 213.6
Free float	34.5%
Price change: 1 month	*8.0%*
Price change: 6 month	*66.2%*
Price change: 12 month	*50.0%*
Max (52 w eek)	11.6
Min (52 w eek)	5.3



As usual, Millennium will be the one to start the first-quarter earnings season in the banking industry. According to the management, the bank is eyeing a two-fold increase in mortgage loan sales on Q1'06. We expect robust volume-driven income growth from Millennium which will help offset increased expansion costs. The promises of strong loan sales in Q1'07 found their reflection in Millennium's stock price. Hence, we are downgrading our rating from Hold to REDUCE, and recommend to take profits on Millennium.

FQ1 mortgage loan sales up 100%

Millennium estimates that the value of mortgage loans extended in Q1'07 will be double the value recorded in Q1'06. Quoting Management Board member Mr. Zbigniew Kudaś, the bank is having a "fantastic" start of the year. Millennium has written PLN 760m worth of mortgage loans in Q1. The average loan amount is PLN 0.2m, and 85% of the total mortgage loan portfolio are CHF loans. Zloty loans account for 35% of the current sales, expected to increase to 40% by the end of the year. A new advertising campaign will be launched toward the end of March to promote Millennium's new product, a 50-year mortgage loan. We stand by our view that, by offering mortgage loans with 50-year terms, the bank exposes itself to considerable long-term risks. But so long as macro setting stay favorable, the bank is going to enjoy a sharper competitive advantage. A 100% growth in sales is obviously very good news. Mortgage loans drive sales of other retail products thanks to Millennium's cross-sell strategy. Part of the reason for the robust growth in the lending business might be the backlog from the past Christmas season, but the main reason is Millennium's boisterous home financing business. Millennium's growth momentum is underpinned by the overall trends observed in the banking industry. At the end of February, household loans were up a whopping 38%, and corporate debt gained 14%. Consumer home loans surged 60% Y/Y.

50-year loan

Millennium offers its clients 50-year zloty mortgage loans and 45-year foreign-currency mortgage loans - the first such an offer in history. Millennium extended the loan term by 10 years, and allowed clients to make loan payments until they reach the age of 75 instead of 70. From among all the banks that have prolonged mortgage loan payment terms recently, Millennium went the farthest. Millennium is following the trends observed across Western Europe. By extending home financing periods, banks compete for subprime clients. Prolongation is an easy way to reduce the amount of monthly payments. Everything is all right as long as the borrower earns enough to afford to make payments throughout the financing period. Extended loan terms carry the long-term risk of deteriorating quality of the mortgage lending business. In the short term, there will be no repercussions. Borrowers will make smaller payments, and the macroeconomic data indicates that the income of the statistical Pole is increasing. Extended loan terms are just part of the competitive battle.

Shareholders approve PLN 0.17 dividends per share

Millennium's shareholders approved the Management Board's proposal to pay out PLN 0.17/ share as dividends to shareholders. The date of record is sat at May 9th, with payment on May 23rd. The bank wants to keep the payout ratio within a range of 30% to 50% of its future profits. We had known Millennium's dividend plans since January. The declaration to keep the payout ratio at 30%–50% is in line with our expectations. (48%). based on this year's payout ratio.

Pekao (Hold)

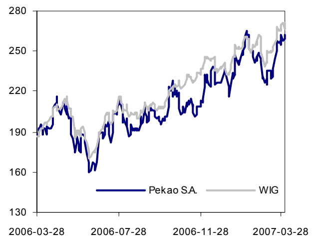
Current price: PLN 264.1 **Target price: PLN 247.8**

Analyst: Marta Jeżewska

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Net interest income	2 350.4	2 377.0	*1.1%*	2 599.6	*9.4%*	2 847.9	*9.6%*
Interest margin	3.9%	3.7%		3.7%		3.7%	
Revenue f/banking oper.	4 342.3	4 656.4	*7.2%*	5 091.7	*9.3%*	5 578.2	*9.6%*
Operating profit	2 066.9	2 335.2	*13.0%*	2 708.5	*16.0%*	3 113.9	*15.0%*
Gross profit	1 873.6	2 203.8	*17.6%*	2 556.0	*16.0%*	2 934.8	*14.8%*
Net profit	1 537.7	1 787.5	*16.2%*	2 068.2	*15.7%*	2 375.0	*14.8%*
ROE	18.7%	20.7%		22.5%		24.1%	
P/E	28.6	24.6		21.3		18.6	
P/BV	5.2	5.0		4.6		4.3	
D/PS	7.4	8.6		9.9		11.4	
Dyield (%)	2.8	3.2		3.8		4.3	

Basic data (PLN m)	
Number of shares (m)	166.8
MC (current price)	44 054.1
Free float	43.1%
Price change: 1 month	*13.1%*
Price change: 6 month	*29.7%*
Price change: 12 month	*37.2%*
Max (52 week)	264.9
Min (52 week)	159.5



Pekao has rallied 15% since our previous Monthly Report. Because our Accumulate rating on the stock has folded, we are downgrading to HOLD. We think that the stock prices factors in the upcoming merger and the resulting synergies. Toward the end of April, following general shareholder meetings at BPH and Pekao, we might get a deeper insight into UniCredit's plans on how to merge Pekao with a part of BPH. We believe that the Italians are overly conservative in estimating the post-merger annual cost synergies at PLN 240m p.a. starting in FY2009. Nothing has been revealed so far as to revenue synergies and subsidiaries. In determining our target on Pekao, we took into account the cost synergies estimated by the bank as well as our own revenue synergy forecast of PLN 50m as of FY2009. We are hoping to learn more about the next steps in the merge processes as the merger draws closer.

BPH and Pekao shareholders to hold merger proposal vote on April 27th

The integration will be carried out in line with BPH's Spin-Off scenario: incorporation of a portion of BPH into Pekao, and sale of the remaining assets as an independent bank (Mini-BPH). After the merger, the "Large Pekao" will be UniCredit's fourth largest subsidiary in terms of assets. As expected, the incorporation of assets will be done in line with the Spin-Off Plan revealed in November 2006. BPH and Pekao are holding extraordinary general meetings on April 27th to obtain formal approvals from their respective shareholders. We are hoping that those meetings will serve to unveil more details regarding the "Large Pekao" and the Mini–BPH.

PLN 9 dividend per share proposal slightly below expectations

BPH proposed to pay PLN 9/share as dividends to shareholders. The proposal will be voted on by the shareholders during an April 26th GA. The date of record is set at May 16th, with payout on June 1st. We had expected a PLN 8.57 dividend per share (80% of the consolidated FY2006 profit), while the bank's Management are proposing a payout ratio of 84% and dividends at PLN 9/share. This is PLN 0.43/share less than we forecasted. The payout determinations have no impact on Pekao's valuation.

Transfer of BPH assets to Pekao

On the issue of incorporation of BPH by Pekao, Mr. Lovaglio said that the asset transfer might take place in June. Pekao's stock placement to BPH shareholders is set at late June / early July, after the BPH spin-off is officially approved, which is also when BPH's clients will become Pekao's clients. According to Mr. Lovaglio, clients will not feel the change. They will still have access to the same services and products, only the offer will be even larger and more convenient. The Large Pekao will offer enhanced technology solutions supporting the services and clients of both banks at the same time. Mr. Lovaglio reassured that the integration plan is already so advanced that the Large Pekao could start its operations tomorrow. The Management Board and key executives have already been selected. Decisions about headquarters staff will be made within a month, and field branch employees have known what their post-merger situation will be since last year. The merger preparations seem to be in full swing, and we should know more crucial valuation-shaping details soon. We remain positive about the success of the merger and emergence of the largest bank in the CEE region. We believe that it will boost Pekao's market value.

Mortgage loan sales growth

Pekao wants to sell 60% more mortgage loans in FY2007 than in FY2006, meaning that the goal is to retain last year's rate of growth (57%) versus a higher base. Mortgage loan sales in FY2006 amounted to PLN 2.6 billion (Pekao only writes zloty mortgage loans). The bank might also increase its market share from 8% to 10% assuming an increasing popularity of PLN loans.

Pekao aims to generate PLN 4.16 billion in FY2007 sales, implying quarterly sales of ca. PLN 1 billion. Q4'06 mortgage loans sales stood at PLN 907 million after a gradual quarter-on-quarter increase driven by the growing popularity of zloty loans. We consider the quarterly sales target of a little over PLN 1 billion fully feasible. It is in line with our positive view on the bank.

Three BPH Board members will move to Pekao

According to reports, three members of BPH's Management Board will transfer to Pekao's Management Board after the merger. They will be Przemysław Gdański, Grzegorz Piwowar, and Katarzyna Niezgoda. Mr. Gdański is head of corporate banking, Mr. Piwowar is head of retail banking, and Ms. is in charge of human resources. According to *Gazeta Prawna*, the executives that will leave Pekao will be Sabina Olton, Vice President and Chief Accountant, and Przemysław Figarski, Management Board member in charge of HR. This is part of pre-merger processes. We agree that reshuffling will take place at Pekaoas UniCredit takes advantage of the opportunities to reinforce its executive ranks.

PKO BP (Reduce)

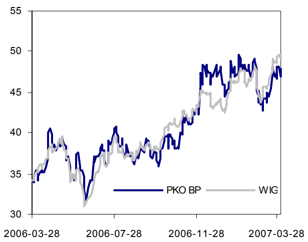
Current price: PLN 47.8 **Target price: PLN 44.5**

Analyst: Marta Jeżewska

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Net interest income	3 544.5	3 785.2	*6.8%*	4 367.4	*15.4%*	5 009.3	*14.7%*
Interest margin	4.0%	3.9%		4.1%		4.3%	
Revenue f/banking oper.	5 699.1	6 040.1	*6.0%*	6 975.3	*15.5%*	7 905.8	*13.3%*
Operating profit	2 304.6	2 715.9	*17.8%*	3 435.4	*26.5%*	3 996.3	*16.3%*
Gross profit	2 167.0	2 709.1	*25.0%*	3 139.6	*15.9%*	3 597.4	*14.6%*
Net profit	1 734.8	2 118.7	*22.1%*	2 460.4	*16.1%*	2 814.6	*14.4%*
ROE	19.8%	22.6%		22.8%		22.9%	
P/E	27.5	22.6		19.4		17.0	
P/BV	5.5	4.8		4.1		3.7	
D/PS	1.0	0.8		1.0		1.1	
Dyield (%)	2.1	1.7		2.0		2.4	

Basic data (PLN m)	
Number of shares (m)	1 000.0
MC (current price)	47 790.0
Free float	43.1%
Price change: 1 month	*6.0%*
Price change: 6 month	*26.2%*
Price change: 12 month	*37.7%*
Max (52 w eek)	49.5
Min (52 w eek)	31.6



We are disappointed that PKO BP's Supervisory Board once again did not manage to appoint a CEO. During a meeting on April 2nd, the board did not fill either the two VP vacancies, or the gaping top-job hole. Further efforts were postponed indefinitely. A General Assembly is set for April 26th, during which the management will present a new strategy for the bank. We can be certain that the strategy presentation will be made in the absence of a CEO. On the upside, PKO BP is still benefiting from strong retail market momentum, and improving sales performance. The first quarter was marked by sensational sales of investment fund shares. While we do not think that management instability will affect the bank's earnings in the near term, in the medium term, there might be significant damage. As for the new strategy, in our opinion, it will merely match the already high expectations that investors have about PKO BP's future earnings. We stand by our recommendation to overweight Pekao and underweight PKO BP. We give a REDUCE rating on PKO BP.

Cash loans on the rise

PKO BP estimates that it will generate a 23% increase in consumer loans this year (23.2% in FY2006). The value of the lending business is expected to reach PLN 15bn versus PLN 13.5bn last year. The loan value will be driven by the growing number of borrowers as well as increasing loan amounts (average loan at PKO BP was PLN 700 higher in FY'06 than in FY'05). Banks also point out that loan durations are extending as banks increasingly offer financing to less affluent borrowers. Our consumer loan forecast for PKO BP is slightly higher (25%).

Shareholders appoint Maciej Czapiewski to Supervisory Board

The Extraordinary General Assembly called for March 6 was recessed until March 19th after minority shareholders failed to put forth enough candidates to fill Supervisory Board vacancies. During the march 19th meeting, shareholders appointed Mr. Maciej Czapiewski, a candidate put forth by BZ WBK AIB AM, as new SB member.

PLN 0.98 dividend per share in line with expectations

PKO BP's management is proposing dividends at PLN 0.98/share, implying a 46% payout ratio. This is exactly in line with our forecast. The payout ratio is the same as last year when the bank paid out PLN 0.8 dividends per share. This year, the dividend is 22.5% higher, the same as PKO BP's consolidated net income.

GA called for April 26th

Shareholders will vote to approve the FY2006 financial statements, profit distribution, and strategy. We are waiting to learn the new 2007-2013 Strategy objectives. We think that market expectations are much higher than the targets set in the strategy currently in force (spanning 2006-2008), and that the new strategy will match up to those expectations rather than outdo them. If the strategy objectives prove more ambitious than our projections for the bank, we might revise our valuation of PKO BP's stock.

Still no top executive appointments

Contrary to earlier promises, PKO BP's Supervisory Board did not appoint a new CEO or vice-presidents in March. The executive competitions have not been cancelled, but are on hold for now. So, we did not learn the name of the bank's new CEO before Easter. Marek Głuchowski, acting CEO, was set to remain in office until April 10th,when he will be replaced in this capacity by Rafał Juszczak (Management Board member) and remain on the MB as member. Another SB member delegated to fill a Management Board gap is Adam Skowroński, who will temporarily fill in for the recently appointed MB member Stefan Świątkowski (scheduled to take office on May 1st). Another delay will definitely not help the bank. We are bound to hear accusations that politics is interfering with the economy. One good thing is that the executive contests were not cancelled, but just put off until later. Investors would not have liked it if the bank were to start another competition from scratch. In a similar turn of events which we witnessed in the past, the Supervisory Board managed to at least nominate two vice presidents. We do not know why the Board could not have selected two more executives from among 20 candidates.

Window withdrawal fees to disappear as of April 16th

PKO BP decided to stop charging window withdrawal fees as of April 16th. The fee was PLN 2.5 per cash withdrawal at the bank's branch. The only exception were branches without ATMs. The fees were introduced at the beginning of 2006 as a way to gain additional income, enhance branch effectiveness, and teach clients to use ATMs and other remote banking channels. The cancellation of these fees might affect not only fee income, but also lead to an increase in the branch operating costs. We were not able to single out the income from window withdrawal fees from the total income amount disclosed by the bank. Notes to financial statements only specify income from account management fees which soared almost 29% Y/Y after H1 2006, but the introduction of window withdrawal fees was not the only change in the bank's fee policy.

Gas & Oil, Chemicals

Petrolinvest files prospectus

According to reports, Petrolinvest has filed its prospectus (the stock offering will take place in the first half of the year). Proceeds from the stock offering will be allocated to exploitation of the recently acquired Kazakh oil fields estimated at 2 billion barrels. According to preliminary estimates, Petrolinvest will spend ca. $800 million on developing the fields. Mining is set to start toward the end of the year.

Russian oil companies cut sales to Belarus

Lukoil's management decided not to sell oil to Belarusian refineries in March after an an introduction of export duties made such sales unprofitable. Speculation is mounting that other Russian producers will follow suit. Deliveries to the Naftan and Mozyr refineries were slashed by half in January. For now, Minsk has managed to negotiate larger supplies from other providers, but deliveries via Lithuania are still an option to be considered. As Belarus goes deeper into its disputes with Russia, and Minsk's foreign policy shifts, the country might have to start looking for alternative oil sources. One option is to use Mazeikiu Nafta's terminal, another is to find another partner to join the Odessa-Płock pipeline project. If the oil supply problems persist, the Belarusian government might also do some ownership reshuffling at its refineries (since Russian shareholders do not guarantee continuity of supplies).

Belarus to sell refineries

According to reports, the Belarusian government wants to sell its controlling stakes in the Mozyr and Naftan refineries. The two refiners remain under Russian influence (Mozyr is partly owned by Slavneft, in turn controlled by TNK and Sibneft, while Naftan cooperates closely with Lukoil). Looking at the ongoing trade dispute between Moscow and Minsk, leading to disruptions in supply continuity, we suspect that the Belarus government is not very keen on letting the Russians increase their influence further. Unfortunately, western oil companies might not be interested in the refineries, which are still totally dependent on Russian oil. Things will be much different once the Odessa-Płock pipeline is deployed and starts pumping oil in an opposite direction.

Self-service pumping stations in the Czech Republic

Parkiet reported that the fuel retailers present in Czech Republic (Petrol Plzen, G7, JS Patrol, W.A.G.) are planning to aggressively expand self-service station chains, posing a threat to PKN Orlen's Benzina chain. In our view, retailers entering the "economy" service segment are not necessarily bound to succeed given that their competitive advantage largely depends on the prices at which they buy fuel from refineries. Benzina's strategy provides for a segmentation of its station chain and dynamic growth of the "premium" stations. But we are sure that Benzina will put equally strong efforts into developing the "discount" stations to reduce the role of intermediaries in the sales of its refineries.

Rompetrol shares put up for sale

According to reports, more bidders entered the race for a 10%-25% stake in the Romanian oil firm "Rompetrol," including PKN Orlen. We do not believe these reports given PKN Orlen's limited financing resources.

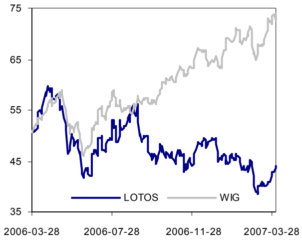
Lotos (Accumulate)

Current price: PLN 43.8 **Target price: PLN 45.8**

Analyst: Kamil Kliszcz
Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	9 645.5	12 812.7	32.8%	11 932.5	-6.9%	11 814.3	-1.0%
EBITDA	1 333.2	1 101.7	-17.4%	1 027.5	-6.7%	985.1	-4.1%
EBITDA margin	*13.8%*	*8.6%*		*8.6%*		*8.3%*	
EBIT	1 069.9	804.3	-24.8%	650.9	-19.1%	474.4	-27.1%
Net profit	915.1	666.1	-27.2%	491.6	-26.2%	326.0	-33.7%
P/E	5.4	7.5		10.1		15.3	
P/CE	4.2	5.2		5.7		6.0	
P/BV	1.1	1.0		0.9		0.8	
EV/EBITDA	3.6	4.4		4.9		5.6	
Dyield (%)	0.4	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	113.7
MC (current price)	4 980.1
EV (current price)	4 832.4
Free float	41.2%
Price change: 1 month	*9.9%*
Price change: 6 month	*-3.6%*
Price change: 12 month	*-13.0%*
Max (52 week)	59.9
Min (52 week)	38.5



Rallying oil prices and the uptrend in refining margins have shifted sentiment toward Polish refineries, including Lotos. We believe that the favorable macro settings will continue to drive the stock, and retain an "Accumulate" rating. In a longer term (second half of the year), investors might start to discount a future deterioration in earnings caused by a surge in amortization charges ("Technological Upgrade Program"), and the risks entailed in the planned upgrades (high sensitivity to target margin levels in a 3-4-year perspective).

ING NN exceeds 5% interest

ING NN exceeded the 5% shareholding threshold and now holds 5.17% of Lotos's equity.

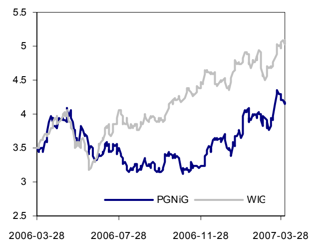
PGNiG (Suspended)

Current price: PLN 4.2 **Target price: -**

Analyst: Kamil Kliszcz

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	12 560.0	15 676.5	24.8%	17 062.0	8.8%	17 300.1	1.4%	Number of shares (m)	5 900.0
EBITDA	2 654.5	2 900.9	9.3%	3 089.4	6.5%	3 707.6	20.0%	MC (current price)	24 839.0
EBITDA margin	*21.1%*	*18.5%*		*18.1%*		*21.4%*		EV (current price)	22 968.2
EBIT	1 252.6	1 465.2	17.0%	1 510.9	3.1%	2 064.7	36.7%	Free float	15.3%
Net profit	879.7	1 148.9	30.6%	1 242.3	8.1%	1 703.0	37.1%		
P/E	28.2	21.6		20.0				Price change: 1 month	*5.3%*
P/CE	10.9	9.6		8.8				Price change: 6 month	*23.2%*
P/BV	1.2	1.2		1.2				Price change: 12 month	*20.4%*
EV/EBITDA	9.1	8.3		7.9				Max (52 week)	4.4
Dyield (%)	0.6	3.5		3.7		4.0		Min (52 week)	3.1



Wholesale gas prices to remain in force until September

The Energy Regulatory Office (URE) granted PGNiG's request to extend the applicability of the current wholesale prices of natural gas until the end of September. Obviously, this is good news for PGNiG which will be able to maintain sales profitability for six more months (the last price hike was made in January). Gas import prices are indexed to crude oil prices with a ca.-nine-month delay, therefore, we can expect that the prices of Russian gas will trend downwards in Q2 and Q3 (the basis for price calculations in Q2 2007 might be even 6% lower than in Q1 2007). As a result, PGNiG will achieve higher margins on regulated sales, and be able to accumulate cash to finance the LNG terminal and more interests in the gas deposits in the Norway sea shelf (the Economy Minister said that such acquisitions were not out of the question).

EuRoPol Gaz wants to repay debts to Gazprom

EuRoPol Gaz wants to repay a part of its debt to the Russian gas giant (ca. $200m out of the $1bn total), and convert the balance to a loan with another bank on more favorable terms. To date, EuRoPol Gaz's huge debt (the payment deadline is 2019) was Gazprom's trump card used to increase influence over the Polish operator (among others by deflating gas transit fees and increasing the risk of insolvency for EuRoPol Gaz). It does not seem probable that the Russians will want to give up this advantage by allowing for an early repayment, even if their chances to take over control over the Polish gas pipelines are very slim (the Polish government has a hard stance on this), and despite enormous cash needs related to wide-scale upstream and transmission investment plans.

No agreement with workers

So far, PGNiG has not managed to reach an agreement with its workers who are demanding employee shares (or cash compensations), or strike a deal with the government on the same issue. The workers warned that they would not give up the fight for the "promised" shares. From a legal point of view, PGNiG's workers are not entitled to the shares as the State Treasury has not sold its symbolic one share and decided to stop privatization processes at the company to protect Poland's energy safety. But offhand statements offered by some ministers have done nothing to relieve the situation, and are bound to cause a lot of problems for PGNiG'a management who will be the ones charged with appeasing the workers. We predict that PGNiG will have to pay one way or another.

Framework gas trade agreement with Total

PGNiG signed a framework agreement with the French energy provider Total for prospective gas purchases from Total's Norwegian deposits and access to gas intake sources in Germany, France, and the UK. Because this is a framework arrangement, not a binding contract, its the impact on PGNiG's business is zero for now. Actual purchases (or sale of surplus gas) will only be possible on a larger scale after establishment of interconnection with Germany.

PGNiG establishes LNG subsidiary

PGNiG's GA approved the establishment of a special-purpose vehicle to manage construction of an LNG terminal in Świnoujście. Financing issues and selection of potential partners will be decided by the end of the year. PGNiG wants to cover half the costs from its own cash resources, and half from bank loans. The project is estimated at EUR 350 million. The terminal's initial (2011) transshipment capacity is set at 2.5bn cubic meters. The key to the project's success will be for PGNiG to find suppliers and buyers of liquefied gas which will probably more expensive than the gas pumped via the pipeline. LNG market analysts say that they feel that the demand for LNG will far exceed the supply in the next few years due to shortage of investments in gas liquefaction systems in LNG exporting countries.

EuRoPolGaz: the next round

Bartimpex moved to reinstate the "original" distribution of votes in Gas-Trading (shareholder of EuRoPolGaz), which would strengthen Gazprom's powers: if Gas-Trading were to be wound up, Gazprom would take over control over the Yamal gas pipeline. PGNiG is more than certain to reject Bartimpex's motion, meaning that we can expect more clashing at EuRoPolGaz.

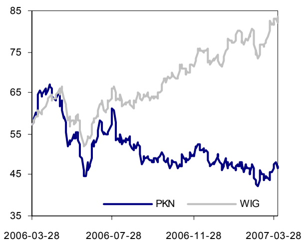
PKN Orlen (Buy)

Current price: PLN 46.1 **Target price: PLN 57.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	41 188.0	52 869.1	28.4%	56 322.4	6.5%	63 913.9	13.5%
EBITDA	6 727.6	5 021.1	-25.4%	5 398.1	7.5%	5 700.1	5.6%
EBITDA margin	*16.3%*	*9.5%*		*9.6%*		*8.9%*	
EBIT	4 947.6	2 917.7	-41.0%	2 732.3	-6.4%	2 906.1	6.4%
Net profit	4 585.1	2 330.2	-49.2%	2 070.9	-11.1%	2 153.3	4.0%
P/E	4.3	8.5		9.5		9.1	
P/CE	3.1	4.4		4.2		4.0	
P/BV	1.2	1.0		0.9		0.9	
EV/EBITDA	3.8	6.1		5.2		4.3	
Dyield (%)	4.6	0.0		0.0		2.2	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	19 696.0
EV (current price)	30 525.2
Free float	72.5%
Price change: 1 month	*9.8%*
Price change: 6 month	*-4.7%*
Price change: 12 month	*-20.2%*
Max (52 week)	67.0
Min (52 week)	42.5



We are confident that the recent improvement in sentiment to oil stocks is a sustainable trend, and are reiterating our BUY rating on PKN Orlen. Demand for fuels in the US started to grow even before the start of the peak transportation season, suggesting that the rallying prices of gasoline might move even further up in the coming months, which will find its reflection in the futures contracts traded in Rotterdam that serve as benchmarks for PKN Orlen's wholesale prices. We might not see the full impact of soaring refining margins in Orlen's refinery segment's FQ1 results due to Mazeikiu Nafta's huge losses, but subsequent quarters will definitely reflect the momentum as the margins move seasonally further up in Q2 and MN resumes production (end of February). In a mid-term horizon, PKN Orlen's performance will also depend on the new strategy factoring in Mazeikiu Nafta, slated for release in June.

Presidential visit to Kazakhstan and Azerbaijan

According to CEO Mr. Kownacki, the talks with Azerbaijan's leading fuel company Socar were more successful than previous negotiations with Kazakhstan's KazMunaiGaz (which declined to sign a cooperation agreement with PKN Orlen). Azerbaijan extracts approximately 32 million of crude oil a year (and uses less than 10m tons), which makes Socar an interesting partner for Polish refineries. Note, however, that the Azerbaijani mining capacity is not enough to fill the Odessa-Płock pipeline (although the government has recently been speaking about doubling the output in three years). So, Kazakhstan's involvement remains crucial to the success of Poland's oil source diversification strategy. The Kazakh President declared that he would participate in the May energy summit in Poland on the condition that some concrete decisions would be made in the course of the meetings. It is no secret that KazMunaiGaz wants to own a portion of refining assets in exchange for its partnership in extraction undertakings. Another issue which came up during the Poland-Kazakhstan talks was the latter's pressure on including Russian firms in the Odessa-Płock pipeline project. As KazMunaiGaz is about to go public, and given the equity interests if Russian oil firms, the idea of it and PKN Orlen working together as partners is becoming less and less feasible.

Opportunity to enlarge Czech pumping station chain

A contract tender is being held in Czech Republic for 42 well-positioned "Esso" stations owned by ExxonMobil. According to press reports, one of the bidders is Benzina, currently in the process of restructuring Unipetrol's retail chain. It is hard to tell if Orlen really wants to enlarge its Czech retailing business which is already the leader in the number of outlets (320). Benzina's new strategy focuses on station streamlining and segmentation of the retail chain (premium and standard fuel brands) to increase market share. But the Esso stations offer the benefit of good locations, which is not without relevance to the "Benzina Plus" premium stations that will be launched this year.

European Commission to join Druzhba negotiations

European Commission President Jose Manuel Barroso sent a letter to Polish and Lithuanian governments in which he undertakes to speak with Russian President Putin about the shutdown of Druzhba pipeline during the EU-Russia summit in May. We do not expect the Russians to just yield to the EU, especially when we remember their hard stance on keeping the embargo on Polish meat despite EU mediation. But, since inland deliveries to Mazeikiu Nafta were cut for political reasons, politics is probably the only way to make the Russians come back to the negotiating table.

Battle for interests in 16% Ceska Rafinersks is on

Lukoil has sent quotes to the current shareholders of Ceska Rafinerska for a 16% stake owned by Conoco-Philips. The Russians will have a chance of taking over interestst in the Czech refinery if the other shareholders waive their rights of first refusal. The shareholders include Unipetrol (51% interests), Shell (16.3%), and Agip (16.3%). Unipetrol has already announced that it wants to increase interests in the refinery.

Management reshuffle

After weeks of speculation, Jan Maciejewicz and Cezary Smorszczewski were indeed dismissed from PKN Orlen's Management Board. A replacement was found in Krystian Pater who has been with PKN Orlen since 1993 (most recently as Head of Refinery Production), and who has served on the Management Boards of Unipetrol and Mazeikiu Nafta. The management reshuffle comes as no surprise, and is a confirmation of an agenda to get rid of all of PKN's executives who had worked with former CEO Igor Chalupec. It is crucial that the vacancies are filled as quickly as possible so as to give the new management time to prepare the new strategy set to be announced in June. According to press speculation, PKN Orlen's Supervisory Board made another Management Board appointment aside from Krystian Pater during its meeting last Thursday, but the candidate proposed by CEO Kownacki was not approved by the SB members. The CEO reportedly recommended Jacek Dowgiałło (a former colleague from BOŚ bank) who was rejected due to a lack of previous experience in the oil industry. If this is indeed why the SB rejected the candidacy, this is good news.

Orlen Deutschland's deal with Shell

Orlen Deutschland signed a fuel delivery agreement for 2007 with Shell Deutschland. The contract value is estimated at EUR 800m.

Pipeline to Klaipeda

Lithuanian newspapers are again writing about Orlen's plans to build a product-pumping pipeline from Mazeikiai to Klaipeda, and possibly buy a transshipment terminal in the Klaipeda port. According to reports, the project might last longer than a year, and its costs are estimated at $ 1 billion. Orlen spoke about such plans after it had acquired Mazeikiu Nafta. A product pipeline would facilitate considerable cutbacks in logistics costs and streamlining of sales destinations (MN currently does not operate a product pipeline that would directly connect the refinery to the sea). But the cost estimations quoted by Lithuanian papers are exaggerated in our view. Given the distance from Klaipeda to Mazeikiai, they should approximate EUR 250-330 million. It is hard to tell what price Orlen would have to pay for the terminal; the Lithuanian government has consistently denied wanting to sell it.

Mazeikiu completed another stage of repairs

After launching a replacement distilling tower in February, MN completed repairs on the damaged parts of visbreaking facilities, which will facilitate further improvement in output. The progress confirms CEO Kownacki's assurances that everything is going according to plan, and we are gaining confidence that MN will be restored to its full capacity earlier than scheduled (year-end 2007).

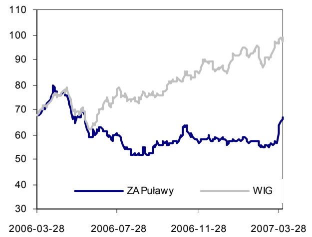
Za Puławy (Buy)

Current price: PLN 68 **Target price: PLN 64.76**

Analyst: Kamil Kliszcz
Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	2 030.4	2 070.6	2.0%	2 070.3	0.0%	2 072.2	0.1%
EBITDA	274.4	212.4	-22.6%	218.0	2.6%	213.1	-2.3%
EBITDA margin	*13.5%*	*10.3%*		*10.5%*		*10.3%*	
EBIT	157.0	101.6	-35.3%	105.5	3.9%	97.7	-7.4%
Net profit	126.2	89.7	-28.9%	97.4	8.6%	92.5	-5.0%
P/E	10.3	14.5		13.3		14.0	
P/CE	5.3	6.5		6.2		6.3	
P/BV	1.1	1.1		1.0		1.0	
EV/EBITDA	3.6	4.4		4.0		3.8	
Dyield (%)	2.4	2.9		2.1		2.3	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	1 299.8
EV (current price)	864.5
Free float	38.4%
Price change: 1 month	*21.2%*
Price change: 6 month	*17.9%*
Price change: 12 month	*-0.3%*
Max (52 week)	79.5
Min (52 week)	51.2



Puławy's management submitted draft strategy objectives for approval by the Supervisory Board which will convene on April 20th. This means that, contrary to earlier promises, investors will gain insight into the new strategy at the earliest during the Q3 2006/2007 earnings presentation (April 26.). But this delay should not affect Puławy's stock performance which is being reinforced by favorable market settings (prices of chemicals relatively steady). Especially noteworthy is the 20% increase in the prices of urea and UAN. On a low base (gas delivery problems curbed production in 2006), and amidst the favorable trends in core products (including high local demand for ammonium nitrate), the January-February business season is bound to bring strong results even despite natural gas wholesale prices. That is why we are reiterating our ACCUMULATE rating on Puławy even though the stock has already reached out target: we expect that growing fertilizer prices and the new strategy will become growth drivers in a month, and we will be prompted to revise our earnings projections.

Share swap with Kompania Węglowa

It looks like the rumors that the State Treasury wants to swap its interests in KGHM, ZAP and Ruch for Kompania Węglowa's shares in Ciech (36.7%). Treasury Minister Paweł Szałamacha said tentatively that the government will transfer stakes in the three companies worth PLN 280m, PLN 107m, and PLN 123m respectively (the process is set to be completed by the end of April). Kompania Węglowa is in urgent need of cash, and will probably liquidate the shares received from the State Treasury, possibly leading to a temporary downslide in their market quotes (the risk is especially big in case of the less liquid Puławy and Ruch).

Telecommunications

UKE / European Commission talks

The Office for Electronic Communications (UKE) and the European Commission ironed out their differences. UKE's President Anna Streżyńska spoke about a “breakthrough,” while the Commission's representative was more reserved and reiterated the Commission's firm stance that the legal systems of Member States must conform with EU regulations. The UKE still has to convince the Commission that it is not breaking EU laws. However this dispute ends, the market is already feeling the impact of the UKE's decisions (emergence of new operators). Even if the UKE loses, the conflict concerns just one area of the market, so, the deregulation processes will not stop entirely.

Dividends from Polkomtel

Polkomtel's shareholders decided to pay out dividends from the FY2005 profit. Shareholders will receive a total of PLN 1.031bn net of the PLN 235m advance payout. The payout ratio is close to 80%. Polkomtel's biggest shareholders are PKN Orlen, PSE, KGHM, TDC, and Vodafone. The dividends are in line with our expectations. No impact on either KGHM or PKN.

Another major moves into Poland?

Russia's Menatep decided to back out of the telecom business and sell its stake in GTS Central Europe, an operator present in Poland, the Czech Republic, Slovakia, Romania, and Hungary. The group's annual revenues in FY2006 were EUR 382m, with an EBIDA of EUR 60m. In Poland, GTS Energis is one of the main rivals of TPSA. It mainly caters to business customers, but has also recently signed WLR and BSA agreements with TPSA. The deal is expected to be sealed in Q3 2007. According to unofficial reports, British Telecom, Telefonicaandi Swisscom have expressed interest in acquiring the stake. Entry into Poland of another European telecom giant through GTS would deal a hard blow to TPSA. GTS Energis operates a large (ca. 4,000km) fiber optic network in Poland (based on a long-term lease agreement with Telekomunikacja Kolejowa). GTS's BsA and WLR agreements with TPSA would enable such an operator to make a fast launch in the retail market. A few weeks ago, Telekom Austria, via a holding company, took over eTel, a small alternative operator, which had also signed a BSA agreement with TPSA.

Fifth mobile operator unlikely

Another tender for free GSM1800 frequency bands is on. The last one was won by Telefonia Kolejowa which subsequently backed out of its plans. The award was annulled. Operators interested in GSM1800 include Tele2, Centernet (R. Karkosik), and incumbents. We think that the new tender will attract little interest. The example of Play is bound to scare investors away. The one operator which should be interested in buying the frequency is Centertel which operates a narrower band than Polkomtel or PTC. The tender is not likely to bring forth a fifth operator.

New telecom regulations around the corner

In March, a Committee of the Council of Ministers discussed amendments to the telecom laws to make future fines imposed on operators by the UKE executable immediately. Over the last few months, fines imposed on TPSA have amounted to PLN 440m, but the operator appealed each time and has not paid a penny yet. The UKE wants its fines to be payable immediately. Operators would deposit the cash with a court, and get it back should the court quash the fine. Sources say that the new laws might enter into force in Q3 2007.

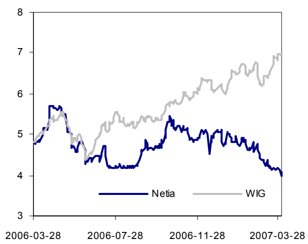
Netia (Sell)

Current price: PLN 4.1 **Target price: PLN 3.8**

Analyst: Michał Marczak
Last Recommendation: 2006-09-06

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	908.6	862.1	-5.1%	971.7	12.7%	1 088.0	12.0%
EBITDA	338.8	-68.9		262.0		267.9	2.3%
EBITDA margin	*37.3%*	*-8.0%*		*27.0%*		*24.6%*	
EBIT	90.3	-341.4		16.8		27.5	63.7%
Net profit	59.0	-378.9		-53.1		-50.6	
P/E	29.8						
P/CE	5.7			9.2		9.3	
P/BV	0.7	0.8		0.8		0.8	
EV/EBITDA	4.4			6.3		5.8	
Dyield (%)	9.1	3.0		1.8		1.8	

Basic data (PLN m)	
Number of shares (m)	389.2
MC (current price)	1 607.4
EV (current price)	1 410.4
Free float	100.0%
Price change: 1 month	*-7.5%*
Price change: 6 month	*-16.1%*
Price change: 12 month	*-15.7%*
Max (52 week)	5.7
Min (52 week)	4.0



Play is a disappointing debut, with an aggressive price strategy and an obscure offering targeted at an indeterminate group of customers. We stand by our belief that the project will be a failure. FY2007 marketing expenditure is pegged at PLN 250m which will reflect on costs and the overall financial performance (losses might be even bigger than we forecasted). We are reiterating our negative rating on Netia.

Play spoils the market

According to *Gazeta Prawna*, Play is charging PLN 0.49/minute for calls to other networks, beating competition by a wide margin (Orange Go – PLN 0.8 Polkomotel's "SamiSwoi" plan – PLN 0.66, Centertel's POP – PLN 0.8). The same rate will apply to calls within the (as-yet non-existing) "Play" network which, in turn, is more than charged by other operators (which is less relevant at this stage of development). If confirmed, this strategy is in line with the warnings by P4's CEO that Play is going to compete for subscribers by offering competitive prices. In our view, this price war is going to spoil the market, and initially affect existing operators who will probably cut prices, with bad implications for earnings and margins. We predict that incumbents will reiterate with even more aggressive price cuts to drive the financially weak newcomer out of the market. As for Play itself, it will probably drum up a sizeable subscriber base in the initial stage, driving investor sentiment to Netia. We would advise investors to focus on Play's earnings which we expect to show huge losses over the next few years. We stand by our view that Play was a bad idea. If we assume a simplified scenario that Play users will only place calls to other networks at PLN 0.49/minute, we can make a rough estimate of the operator's profitability relative to competition. The average termination rate for off-network calls is PLN 0.44.minute, meaning that Play will be earning PLN 0.05.minute. A Centertel subscriber talks for 97 minutes a month on average (pre-paid users only talk for 36 minutes). Assuming very optimistically (Centertel has business subscribers that inflate the statistics) that the average Play user is also going to spend ca. 97 minutes a month on his or her mobile, the monthly ARPU is PLN 4.85. With the same assumptions, Centertel's ARPU is PLN 34/month. Considering further that Play is going to give out "free" handsets (cost of user acquisition), meaning that will have to pitch in PLN 500 minimum per user, the investment will pay off after 10 years at the ARPU estimated above. Added to all this expenditure are also fixed costs. The above scenario is based on very rough estimates, but it gives an idea of how risky Play's strategy is at the current interconnect rates.

Management reshuffle

In the wake of recent resignations by Paweł Karłowski and Paul Kearney, Netia appointed Mr. Bertrand Le Guern, former privatization executive at TPSA, to the position of Management Board member and Chief Operating Officer. Mr. Le Guern will be in charge of Netia's network and customer relations, including customer service. President and CEO Mirosław Godlewski will manage sales in two key areas: business and retail customers. Le Guern's appointment is good news for investors. He is the first executive with experience in telecommunications. For now, however, we stand by our negative view on Netia. A new improved strategy framework might make us change our minds. In the short term, we expect Netia to generate increasing losses driven by the costs incurred on entry into the mobile telephony market.

Shareholder reshuffle

SISU funds purchased a further 250,000 shares of Netia. They now own 39.04 million shares representing 10.03% of share capital. In turn, Netia reported that its new vice-president B. Le Guner received an option to purchase 5 million Netia shares as part of an incentive plan. SISU's minor investment is not likely to affect investor behavior. The options vesting is bad news in our view: Mr. Le Guner is another officer despite recent heavy executive reshuffling to receive such a generous incentive.

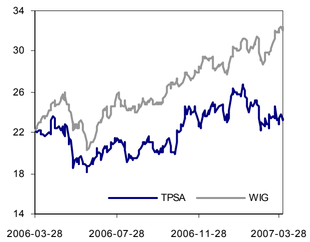
TP SA (Reduce)

Current price: PLN 23.2 Target price: PLN 20.6

Analyst: Michał Marczak
Last Recommendation: 2006-10-27

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	18 342.0	18 625.0	1.5%	17 871.2	-4.0%	17 892.6	0.1%
EBITDA	7 992.0	7 856.0	-1.7%	7 267.0	-7.5%	7 427.4	2.2%
EBITDA margin	*43.6%*	*42.2%*		*40.7%*		*41.5%*	
EBIT	3 781.0	3 367.0	-10.9%	3 166.1	-6.0%	3 470.5	9.6%
Net profit	2 216.0	2 096.0	-5.4%	1 841.9	-12.1%	2 169.9	17.8%
P/E	14.6	15.5		17.6		14.9	
P/CE	5.0	4.9		5.5		5.3	
P/BV	1.8	1.8		1.8		1.8	
EV/EBITDA	5.1	5.0		5.2		5.0	
Dyield (%)	1.4	4.3		6.7		6.8	

Basic data (PLN m)	
Number of shares (m)	1 400.0
MC (current price)	32 410.0
EV (current price)	39 565.0
Free float	46.0%
Price change: 1 month	*1.6%*
Price change: 6 month	*12.8%*
Price change: 12 month	*5.7%*
Max (52 week)	26.7
Min (52 week)	18.2



We are reiterating our negative rating on TPSA's stock. The scenarios we outlined for the telecom market (strong commodities take away relative strength from telecoms) and the company itself (a flurry of bad news spurred by the changing market) are starting to play out. Play's offer is not a breakthrough, but it has the power to spoil the market. We are more worried, however, about PTC's plans to cut call prices. Competition in fixed-line telephony is heating up from quarter to quarter, and GTS Energis is probably planning to introduce a major European national operator to Poland.

PTC's plans confirm bleak outlook

PTC is not expecting much change in its earnings through 2010 as it continues with its price-cutting strategy to restore itself as leader in terms of the client base. The company is also planning to launch a TV and Internet service to oust PTK Centertel from the pole position. The operator is aiming to increase its client base to 13 million from 12.2 million at year-end 2006. In the second half of the year, PTC plans to launch WiMax-based Internet services for customers living in small towns and villages who are not covered by TPSA's broadband access service. According to the company's CEO, PTC, which currently charges PLN 0.72 per minute in its basic call plan, wants to bring its prices down to par with the new operator Play (P4) which charges PLN 0.49 per minute for all calls. For comparison, the per-minute charge for Centertel subscribers is PLN 0.75. These statements by PTC confirm that the launch of the aggressive operator Play has created a very tough market for other operators, in particular for TPSA. As Centertel's earnings performance steadies and POTS revenues continue to erode, our forecasts (below analysts' consensus) are starting to seem very optimistic.

Orange to replace TPSA, Centertel

TPSA is going to absorb Centertel and launch mobile telephony brand "Orange." Those changes are aimed at lowering the operator's operating costs in anticipation of a gradual downturn in revenues. We consider the operating merger with Centertel a smart move in light of the convergence services. We are neutral on the Orange brand plans. FT will probably also charge brand use fees which currently generate 1.4% of Centertel's revenues.

On February 12th, 2007 an Administrative Court ruled against TPSA regarding its appeal against the UKE's decision dated October 4th, 2006 to uphold the June 23rd, 2006 decision obligating TPSA to modify its Reference Interconnection Offer (RTIO).The court emphasized that, in each and every case, it looks into whether decisions are issued by duly authorized bodies, and, in this case, the President of the Office for Electronic Communications (UKE) was fully authorized to order TPSA to modify its RIO, which TPSA contested. This case has three types of implications for TPSA. First, the court's ruling validates the UKE's unfavorable regulation. Second, the case went through the court system faster than TPSA was used to. Third, the court confirmed that the UKE's President has the right to issue rulings even despite the doubts as to whether her appointment was fully compliant with the applicable regulations. All in all, this is bad news for TPSA.

Another fine for TPSA

The UKE imposed another fine on TPSA. This time, its is a PLN 30m penalty for sluggishness in signing agreements to allow competition to make flat-rate settlements with TPSA instead of being charged per every minute of calls made by subscribers. The UKE hopes that, by introducing flat-rate payments, alternative operators, like TPSA, will be able to offer their customers plans with an unlimited number of calls per month. The introduction of flat-rate prices will undoubtedly lower retail prices, something that the UKE has been striving to achieve, and that will deal a painful blow to TPSA by blunting its competitive edge.

Media

More changes at TV Puls

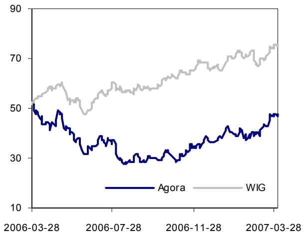
A delegate of the News Corporation flew into Poland in March to replace Father Zdzisław Dzido as President of TV Puls. Father Dzido will probably be put in charge of Catholic content. Farrell E. Meisel has 30-year media expertise. He was responsible for the success of Russia's first commercial channel, the "TV6 Moskva." He also oversaw the establishment by the US government of Alhurra Television broadcasting in 22 Arabic speaking countries and territories. He worked for Rupert Murdoch in Singapore where he helped News Corp gain enormous influence on Southeast Asia's media market. Obviously, Mr. Meisel's arrival is in no way reflected in TV Puls's audience share just yet, but it makes us even more confident that the station is gearing up to become a major market player in a matter of 2-3 years.

Agora (Hold)

Current price: PLN 48.1 **Target price: PLN 47.6**

Analyst: Michał Marczak
Last Recommendation: 2007-04-04

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 202.1	1 133.7	-5.7%	1 147.7	1.2%	1 242.2	8.2%	Number of shares (m)	56.8
EBITDA	252.1	116.6	-53.8%	152.4	30.7%	217.5	42.7%	MC (current price)	2 731.2
EBITDA margin	*21.0%*	*10.3%*		*13.3%*		*17.5%*		EV (current price)	2 432.2
EBIT	157.9	39.6	-74.9%	78.7	98.8%	145.3	84.5%	Free float	37.0%
Net profit	125.0	31.8	-74.6%	73.0	129.6%	126.5	73.3%		
P/E	20.9	82.2		35.8		20.6		Price change: 1 month	*18.8%*
P/CE	11.9	24.0		17.8		13.1		Price change: 6 month	*63.9%*
P/BV	2.4	2.2		2.2		2.1		Price change: 12 month	*-3.7%*
EV/EBITDA	10.2	20.7		15.7		10.8		Max (52 week)	49.4
Dyield (%)	5.7	1.1		2.9		2.8		Min (52 week)	27.7



Since we raised our investment rating in January ("Accumulate"), Agora shot up 25% and over our target (PLN 41.6). Agora either has or is about to implement a number of remedial measures that are bound to cause a gradual shift in investor sentiment. Especially praiseworthy were the changes introduced in the Internet business, newspapers, and books. The biggest risk factor at present is the new daily being readied for launch by Polskapresse, although we for our part do not expect it to be a success. *Dziennik* will continue to make space for itself in the advertising market in 2007, but we still say that the success of Axel Springer's broadsheet project has been far from spectacular. In our view, the price of Agora's stock already factors in a PLN 0.3 hike in the selling price of *Gazeta Wyborcza* which is likely to take place in 2008 given at the approach adopted by other key players. We also took the price hike into account in our valuation. We are raising our target on Agora to PLN 47.5, and downgrading our rating from Accumulate to HOLD.

New supplement to GW

Starting on March 15th, every Thursday, Gazeta Wyborcza will come out with a new eight-page money and business supplement. Named *"Pieniądze"* ("Money"), it will be written by GW's business team, who will tell readers how to invest, save, and earn money. The lead story in the first issue will be investment funds, with a fund ranking and a guide for investors on the differences between funds, their strategies, and earnings. The supplement is sponsored by Polbank and RMF FM radio. The new supplement is a way for GW to increase its advertising revenues from the financial industry, last year's number one big spender which, however, pumped most of the cash into TV advertising. To date, reviews of GW's business pages have been far from rave, which did not do much to attract advertisers. The new supplement seems like a very smart move.

Buoyant *Gazeta Wyborcza* sales, *Fakt* price to rise!

Gazeta Wyborcza (GW) posted average daily sales in January of 481 thousand copies, a whopping 25% more than a year earlier! *Dziennik* sold 204,000 copies, 3.7% fewer than in December. The third leading broadsheet, *Rzeczpospolita*, recorded a 11.8% Y/Y plunge in sales. Tabloid sales were relatively flat compared to a year ago (*Fakt* 0%, *SuperExpress* down 3.1%). GW's phenomenal sales prove that the paper has succeeded in defending its readership position against *Dziennik*, whose share in the advertising market might be lower than we expected (13%, 3% in 2006). There was more good news for Agora in March: according to *Rzeczpospolita*, Axel Springer is going to raise the price of the local editions of *Fakt* (except for the Warsaw edition) by 10%, to PLN 1.1. Our January predictions are coming true. In light of flat sales, Axel Springer decided to shift from a market-share-oriented confrontational strategy to a more profit-oriented approach. Looking at those developments, we are considering raising our price target for Agora.

IT Sector

ePUAP tender delayed again

The tender for an electronic platform supporting public administration services (e-PUAP) was delayed again. The PLN 35m tender is dragging through its fifth month. The ultimate price of the assignment is expected to reach PLN 200-300m, hence the repeated appeals and protests by the bidders. Eleven consortia are competing for the contract. ComArch's offer was originally chosen as the best bid. The e-PUAP competition shows that not much has changed in public procurement practices. The administration is not able to handle the constant protests by rejected bidders, leading to delays or even annulments.

Poland ranked 58th in ICT use

We fell five spots down the ranking ladder in one year and scored the least points from among EU countries together with Bulgaria. The survey, covering 122 countries, focused on the accessibility and degree of utilization of new ICT technologies by public administration bodies, businesses, and private individuals. According to the President of the Polish Chamber of Information Technology and Communications, Poland is going to seriously step up its efforts to catch up with the rest of the EU.

ABG Ster-Projekt (Hold)

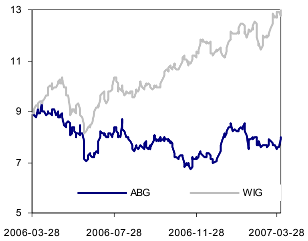
Current price: PLN 7.8 **Target price: PLN 7.87**

Analyst: Andrzej Lis

Last Recommendation: 2007-01-08

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	407.3	262.0	-35.7%	379.1	44.7%	404.9	6.8%	Number of shares (m)	64.4
EBITDA	22.6	31.0	37.2%	37.0	19.3%	43.6	17.7%	MC (current price)	504.6
EBITDA margin	*5.6%*	*11.8%*		*9.8%*		*10.8%*		EV (current price)	414.0
EBIT	14.5	25.8	78.2%	31.4	21.7%	37.2	18.6%	Free float	43.7%
Net profit	22.8	25.1	10.0%	27.4	9.3%	32.6	18.9%		
P/E	22.1	49.6		21.0		14.8		Price change: 1 month	*2.2%*
P/CE	16.3	32.7		15.8		11.8		Price change: 6 month	*-0.4%*
P/BV	2.8	2.5		1.6		1.5		Price change: 12 month	*-9.9%*
EV/EBITDA	19.1	25.7		11.5		8.4		Max (52 week)	9.4
Dyield (%)	0.0	0.9		1.0		1.4		Min (52 week)	6.7

** FY2006 earnings adjusted for real-estate sale (PLN 8m) and reversal of a tax allowance (PLN 6m), FY2007-FY2008 multiples estimated based on pro-forma financial statements of the merged Spin and ABG Ster-Projekt*



The public sector, ABG Ster-Projekt's key account, is still sound asleep when it comes to technology investments. ABG Ster-Projekt's new strategy revealed in March provides for a continued focus on government customers, a greater emphasis on in-house software development, and simplification of the organizational structure. We do not expect any developments in the near term that could affect the company's stock. We are reiterating our HOLD rating.

New contracts

A consortium of Spin, ABG Ster-Projekt, and Unicom Sp. z o.o. inked a deal with the Border Guard Service for development and implementation of an "ODPRAWA SG" system to support customs clearance processes. The deadline is set at September 1st, 2007. The net price is PLN 7.1m.

ABG Ster-Projekt signed an annex to its agreement with Hewlett-Packard Sp. z o.o. for services provided to the Agency for Agricultural Restructuring and Modernization (ARiMR). The annex raises ABG Ster-Projekt's consideration by PLN 3.4m. The value of the agreement, which was signed back in 2005, now stands at PLN 104.6m.

2007-2010 Strategy

A 2007-2010 Strategy has been revealed for the merged ABG Spin. The EBITDA margin is pegged at 8%-10%, and net profitability at 7%. ABG Spin will focus on supplying custom solutions to the public sector which is expected to continue to generate 50% of the company's sales. ABG Spin also wants to streamline its organizational structure, among others by buying out the minority shareholders of Kom-Pakt and Optix, and divesting non-core operations (Steren). As regards the FY2007 earnings targets, CEO Mr. Brzeski promised that they would be better than the combined earnings the two companies generated in FY2006, meaning sales over PLN 510m and a net income over PLN 30m. Our forecasts for the merged company are PLN 633m in revenues, PLN 54.7m in EBITDA (EBITDA margin at 8.7%), and PLN 35.5m net, with the bulk of the earnings generated toward the end of the year. We want to stress that ABG Spin's performance this year rests on the situation in the public sector, the company's key account. W do not expect a spending revival until after the summer holidays.

FY2006 report release

ABG Ster-projekt released its FY2006 report, showing PLN 274.9m in sales, an EBIT of PLN 24.3m, and a net profit of PLN 24.2m. The full-year revenue amount is identical with the cumulative four-quarter figure disclosed in the Q4'06 report, while EBIT and net profit are PLN 0.5m lower.

Management Board to recommend 30% payout ratio

The Management Board of ABG Ster-Projekt will recommend to pay out 30% of the FY2006 profit as dividends to shareholders. The standalone bottom line was PLN 20.1m, meaning that PLN 6m will be distributed to shareholders (PLN 0.09/share). The dividends are in line with expectations.

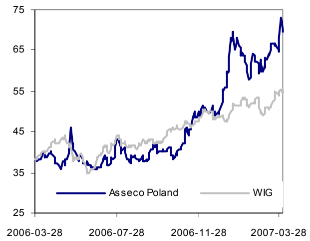
Asseco Poland (Reduce)

Current price: PLN 70 **Target price: PLN 49.14**

Analyst: Andrzej Lis
Last Recommendation: 2007-01-09

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	539.2	501.2	-7.1%	1 227.6	144.9%	1 308.6	6.6%	Number of shares (m)	25.2
EBITDA	48.3	64.2	33.1%	168.0	161.6%	184.0	9.5%	MC (current price)	1 761.0
EBITDA margin	*9.0%*	*12.8%*		*13.7%*		*14.1%*		EV (current price)	1 680.9
EBIT	38.2	50.2	31.5%	139.0	177.1%	154.2	11.0%	Free float	65.7%
Net profit	30.8	64.5	109.5%	114.6	77.7%	127.8	11.6%		
P/E	57.2	30.9		28.3		25.4		Price change: 1 month	*12.4%*
P/CE	43.1	24.8		22.6		20.6		Price change: 6 month	*71.9%*
P/BV	6.1	5.2		2.8		2.6		Price change: 12 month	*83.6%*
EV/EBITDA	35.7	24.4		18.3		16.3		Max (52 week)	72.9
Dyield (%)	0.0	0.9		0.8		1.1		Min (52 week)	35.8

** FY2006 multiples based on earnings adjusted for Asseco Poland stock options (PLN 3.9m), divestment of Mediabank (PLN 4.1m), goodwill write-off on S2Koma (PLN 4.8m), and net profit of the "old" Asseco Poland accounted for by the equity method (PLN 12m), FY2007-FY2008 multiples estimated based on pro-forma consolidated financial statements of the "new" Asseco Poland, including subsidiary earnings consolidated on a pro-rata basis*



In the coming months, sentiment to Asseco Poland will stay bearish on acquisition news and public offerings by group members (e.g. Asseco Business Solutions). But the company's bright future is already more than factored in its stock price (a 50% premium to median on the P/E multiple). Hence, we are reiterating our REDUCE rating.

Sale of Softlab shares to subsidiary

Asseco Poland sold its 284 shares (44.6% of equity) in Softlab Sp. z o.o. to its subsidiary Asseco Business Solutions (ABS) for PLN 12m. As a result, Asseco Poland now owns 328 shares in Softlab accounting for 51.6% of equity. ABS is a subsidiary of Asseco Poland which will be the bedrock for building a competence center in charge of ERP, outsourcing, and e-learning. Eventually, ABS will comprise Incenti, Softlab, and Wa-Pro.

Acquisition of interests in Safo

Asseco Business Solutions (ABS), a subsidiary of Asseco Poland, acquired a 28.3% stake in Safo Sp. z o.o. for PLN 17.2m as part of its strategy to build an organization dedicated to providing technology solutions to businesses. Safo's net profit guidance for this year is PLN 5.5m, and Asseco Business Solutions is eyeing a bottom line of PLN 13-15m. After the merger of Safo, Softlab, and Wapro is complete, Asseco Poland's shareholding stake in ABS will approximate 67.47%. The company has reiterated its plans to float ABS on the Warsaw Stock Exchange by the end of 2007. This report is a follow up to Asseco's notification of a due diligence audit at Safo earlier this month. The acquisition price implies a 2007P/E ratio of 11.

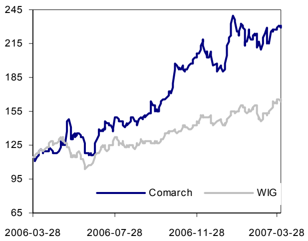
ComArch (Reduce)

Current price: PLN 234 **Target price: PLN 185.8**

Analyst: Andrzej Lis
Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	444.0	455.0	2.5%	579.0	27.3%	675.7	16.7%	Number of shares (m)	7.5
EBITDA	38.6	57.6	49.0%	76.5	32.9%	95.0	24.2%	MC (current price)	1 759.4
EBITDA margin	*8.7%*	*12.7%*		*13.2%*		*14.1%*		EV (current price)	1 730.4
EBIT	27.4	45.5	66.3%	63.7	40.0%	81.1	27.3%	Free float	56.9%
Net profit	28.1	50.0	78.2%	63.7	27.5%	81.7	28.2%		
P/E	77.6	37.9		30.0		23.9		Price change: 1 month	*6.7%*
P/CE	50.4	30.1		24.9		20.3		Price change: 6 month	*40.5%*
P/BV	11.1	7.5		6.3		5.0		Price change: 12 month	*107.6%*
EV/EBITDA	39.7	28.3		23.2		18.2		Max (52 week)	240.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	111.0

** multiples estimated based on earnings adjusted for a deferred tax asset, gains from sale of Interia shares, and profits of subsidiaries accounted for by the equity method (Interia)*



The seasonal start-of-year lull did not spare ComArch. After the official earnings guidance for this year has already been announced, we see no factors that could trigger a rally on the company's stock. A continued upward pressure on salaries might prevent ComArch from repeating last year's robust earnings performance. We are reiterating our REDUCE rating.

New contracts

ComArch will implement its "CDN XL" system at the Ukrainian electronics and appliances retailer "Action Ukraine" (a subsidiary of the Polish "Action").The value of the contract was not disclosed.

The company will also roll out its "ComArch Loyalty Management" system across the Alma food store chain for an undisclosed price.

ComputerLand (Hold)

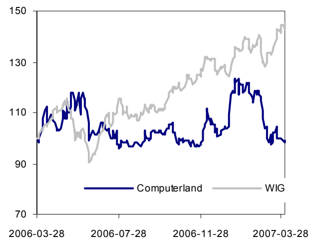
Current price: PLN 99.9 **Target price: PLN 114.8**

Analyst: Andrzej Lis
Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	858.1	814.4	-5.1%	1 315.4	61.5%	1 394.2	6.0%
EBITDA	55.8	39.6	-29.0%	116.6	194.4%	145.9	25.1%
EBITDA margin	*6.5%*	*4.9%*		*8.9%*		*10.5%*	
EBIT	34.1	17.3	-49.2%	85.0	390.7%	113.6	33.6%
Net profit	11.5	2.8	-75.6%	65.2	2234.3%	88.7	36.1%
P/E	60.2	285.4		16.3		11.9	
P/CE	20.7	31.7		10.9		8.8	
P/BV	3.1	2.5		1.4		1.3	
EV/EBITDA	10.6	21.1		9.2		7.0	
Dyield (%)	0.0	1.0		1.0		1.0	

Basic data (PLN m)	
Number of shares (m)	6.9
MC (current price)	689.0
EV (current price)	593.9
Free float	79.9%
Price change: 1 month	*-8.1%*
Price change: 6 month	*-2.8%*
Price change: 12 month	*-1.2%*
Max (52 week)	123.5
Min (52 week)	96.0

***** FY2007-FY2008 multiples estimated based on pro-forma financial statements of the merged ComputerLand and Emax*



We do not expect any surprises from ComputerLand in the next two-three quarters: a market revival is nowhere in sight, and the company will be busy integrating with Emax. Furthermore, we might see more write-offs as ComputerLand gets rid of the "overhang" of old unprofitable contracts. The bulk of this year's profit will be generated toward the end of the year. We are reiterating our HOLD rating.

New contracts

Emax's subsidiary Winuel signed a contract with PSE–Operator S.A. for software maintenance on the electricity market system (SIRE). The net value of the agreement is an estimated PLN 7.1m.

ComputerLand signed a contract with the National Bank of Poland for an upgrade of the bank's central internal management system. The contract price was not disclosed.

Executive appointments

ComputerLand's Supervisory Board appointed Messrs Bogdan Kosturek and Andrzej Kosturek as Vice-Presidents of the Management Board. Mr. Andrzej Miernik was promoted from Management Board member to Vice-President. The management changes are a part of the merger processes between ComputerLand and Emax.

Sygnity to replace ComputerLand & Emax

ComputerLand's shareholders voted in favor of the merger with Emax during yesterday's GA. ComputerLand will shortly offer 2.5 million of its shares to Emax's shareholders (the exchange ratio is set as 1.2 shares of ComputerLand for 1 share of Emax). The court will probably register the merger toward the end of May. The shareholders also decided that the merged company will operate under the name of "Sygnity."

Acquisition of shareholdings in Geomar

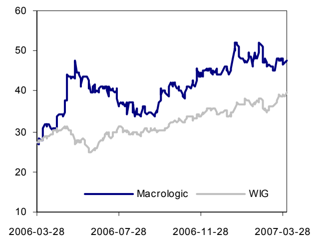
ComputerLand bought a further 27.09% shares in Geomar SA for PLN 2.95m, increasing its stake to 81.35%. Geomar provides services to land development authorities and energy companies. Its core business are geographic information systems (GIS), geodesy and cartography, photogrammetry, and numerical map reproductions and geodesic duplicates. By taking over Geomar, ComputerLand is advancing its inter-company consolidation strategy.

Macrologic (Buy)

Current price: PLN 48 **Target price: PLN 58.43**

Analyst: Andrzej Lis
Last Recommendation: 2007-02-13

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	32.6	38.4	18.0%	44.3	15.3%	50.9	15.0%	Number of shares (m)	1.9
EBITDA	8.1	8.9	9.7%	10.7	20.0%	12.3	15.2%	MC (current price)	90.7
EBITDA margin	*24.9%*	*23.1%*		*24.1%*		*24.1%*		EV (current price)	86.7
EBIT	5.0	5.9	17.2%	7.3	23.9%	8.8	20.6%	Free float	29.8%
Net profit	3.7	4.5	20.8%	5.6	24.7%	6.8	21.1%		
P/E	24.2	20.0		16.1		13.3		Price change: 1 month	*-1.0%*
P/CE	13.3	12.0		10.0		8.8		Price change: 6 month	*19.6%*
P/BV	5.2	4.9		4.2		3.6		Price change: 12 month	*67.8%*
EV/EBITDA	10.7	9.8		8.0		6.7		Max (52 week)	52.0
Dyield (%)	2.4	0.0		3.1		3.8		Min (52 week)	27.7



Steady organic growth in a rallying ERP market, paired with acquisition opportunities, are still valued at a discount to other IT companies (2007 P/E at 16). We are reiterating our BUY rating on Macrologic.

Standalone annual report

Macrologic released its FY2006 report, showing PLN 17.4m in sales, an EBIT of PLN 3.9m, and a net profit of PLN 3.69m. The revenue and EBIT figures in the FY2006 report were identical to those disclosed in the Q4'06 report, while the bottom line was PLN 150,000 higher.

Macrologic to pay entire profit to shareholders

Macrologic's Management Board is going to recommend payout of the entire FY2006 profit (PLN 3.69m on a standalone basis) as dividends to shareholders (PLN 1.96/share). The Supervisory Board has approved this proposal, and, if shareholders do the same, the dividends might be paid out in May. With the FY2006 profit at PLN 3.69m, the dividends will be PLN 1.96/ share. At a market price of PLN 47.95, the gross yield is 4%. Last year, the entire profit was used to buy back treasury stock.

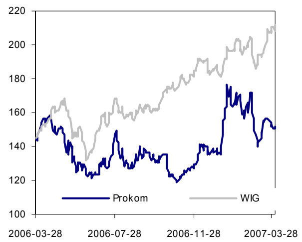
Prokom Software (Hold)

Current price: PLN 158.5 **Target price: PLN 150.3**

Analyst: Andrzej Lis
Last Recommendation: 2007-02-05

(PLN m)	**2005**	**2006F**	**change**	**2007F**	**change**	**2008F**	**change**	**Basic data (PLN m)**	
Revenues	1 854.8	1 662.7	-10.4%	2 401.0	44.4%	2 533.4	5.5%	Number of shares (m)	13.9
EBITDA	226.2	205.6	-9.1%	366.1	78.1%	410.0	12.0%	MC (current price)	2 201.7
EBITDA margin	*12.2%*	*12.4%*		*15.2%*		*16.2%*		EV (current price)	2 291.3
EBIT	151.1	146.6	-3.0%	274.2	87.0%	315.6	15.1%	Free float	78.5%
Net profit	80.3	80.4	0.1%	111.2	38.4%	132.8	19.4%		
P/E	27.4	27.4		19.8		16.6		Price change: 1 month	*1.7%*
P/CE	17.6	20.0		14.5		12.7		Price change: 6 month	*13.4%*
P/BV	2.0	1.8		1.5		1.3		Price change: 12 month	*3.6%*
EV/EBITDA	18.9	17.3		11.2		9.1		Max (52 week)	176.0
Dyield (%)	0.2	0.9		0.7		1.2		Min (52 week)	119.2

** multiples estimated based subsidiary earnings consolidated on a pro-rata basis (Asseco Poland, ABG Ster-Projekt, Spin)*



We stand by our view that the Prokom group is the best positioned IT player to benefit from the rally in public sector spending expected to start after the summer holiday season at the earliest. For the first half of the year, we do not expect a significant year-over-year improvement. We are reiterating our HOLD rating.

30% payout ratio proposal

According to Prokom Software's CEO Ryszard Krauze, the management's payout proposal for this year is 30% of the FY2006 net income. The CEO reminded that Prokom's dividend policy applies to all affiliated companies (Asseco Poland, ABG Ster-Projekt, Spin, and Comp). Prokom Software's standalone FY2006 profit amounted to PLN 48.3m, implying dividends at PLN 1.04/ share at a 30% payout ratio.

Techmex (Under Review)

Current price: PLN 31.8 Target price: -

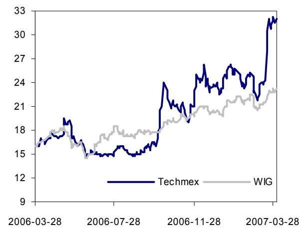
Analyst: Andrzej Lis

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	360.6	368.5	2.2%	393.6	6.8%	410.4	4.3%
EBITDA	19.4	33.5	73.1%	40.9	22.1%	43.5	6.3%
EBITDA margin	*5.4%*	*9.1%*		*10.4%*		*10.6%*	
EBIT	11.2	15.9	42.2%	22.0	38.0%	23.1	5.0%
Net profit	4.6	8.0	74.4%	12.0	49.3%	13.1	9.4%
P/E	57.8	33.2		22.2		20.3	
P/CE	20.9	10.5		8.7		8.0	
P/BV	2.1	1.9		1.8		1.7	
EV/EBITDA	19.2	11.1		8.7		7.8	
Dyield (%)	0.0	0.0		0.0		1.0	

Basic data (PLN m)	
Number of shares (m)	8.4
MC (current price)	266.4
EV (current price)	360.7
Free float	71.5%
Price change: 1 month	*41.5%*
Price change: 6 month	*65.7%*
Price change: 12 month	*101.2%*
Max (52 week)	32.2
Min (52 week)	14.5

* *multiples estimated based on subsidiary Karen Notebook's earnings consolidated on a pro-rata basis*



The large GIS contracts that Techmex had been waiting for finally materialized (a large deal from the Norwegian army, an agreement with the Ministry of the Environment). What is more, the company has a chance to earn ca. PLN 15m in farmland control contracts awarded by the Agency for Agricultural Restructuring and Modernization (ARiMR). The subsidiary Karen Notebook is back on track, and is about to switch from being traded on the OTC "CeTO" market to the Warsaw Stock Exchange. All this will keep sentiment to the company positive. We will revise our rating after an adjustment in our earnings forecasts.

Karen Notebook to ready prospectus by the end of the month

Techmex's subsidiary Karen Notebook is going to file the prospectus necessary to switch from being traded on the CeTO market to the Warsaw Stock Exchange with the Polish Financial Supervision Authority (KNF). The company is going to move 13.35 million shares of its existing stock. We cannot rule out that Techmex will want to sell a part of its 64% stake in Karen Notebook still this year. The book value of this stake is PLN 1.6 per one share of the old issue, and PLN 2.5 per one share of the recent issue.

Millennium TFI increases interest

Millennium TFI increased its holdings in Techmex from 833,000 shares (9.9554% of equity and votes) to 838,000 shares (10.0152%).

Contract from Norwegian army

Techmex landed a deal under the Multinational Geospatial Co-Production Program (MGCP). Techmex, as subcontractor of the Danish COWI, is going to create digital maps of an area of 2 million square kilometers. The price of the three-year contract is estimated at PLN 25m. According to CEO Mr. Studencki, the contract is just the beginning of a long-term partnership. He also revealed that the company is eyeing another interesting opportunity for its GIS business, probably from the Agency for Agricultural Restructuring and Modernization (ARiMR). Yesterday, the agency revealed offers for verification of EU funding applications. Techmex's PLN 15m quote proved to be the cheapest in three voivodships. ARiMR says that price is not the only, but the main criterion based on which it will choose the provider. This is the first such a major GIS assignment for Techmex.

Contract from Environment Ministry

Techmex won a contract from the Ministry of the Environment for 10.5 thousand square kilometers of digital maps of areas protected as part of the European "Natura 2000" network. The contract value is PLN 1.5m.

Techmex to grow revenues through GIS and notebooks

CEO Jacek Studencki said that Techmex's revenues are expected to soar 30% this year, mainly thanks to improved sales of the subsidiary Karen Notebook (the demand for mobile computers increases at a rate of 50% a year, and Karen has tripled the size of its sales outlet network over the past year), and higher sales of geographic information systems. According to the company's management, profits will grow faster than revenues, but no concrete estimates were offered.

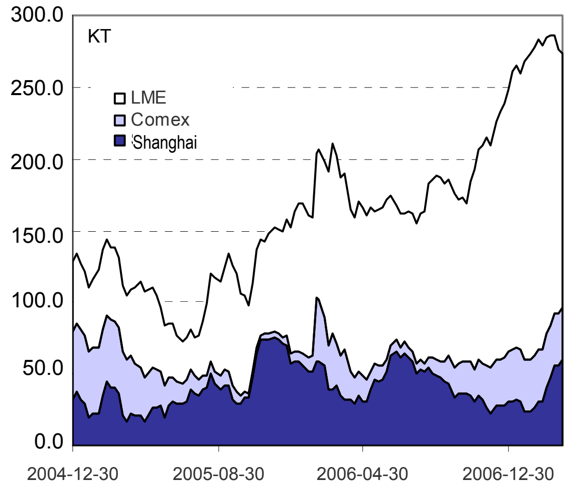
Metals

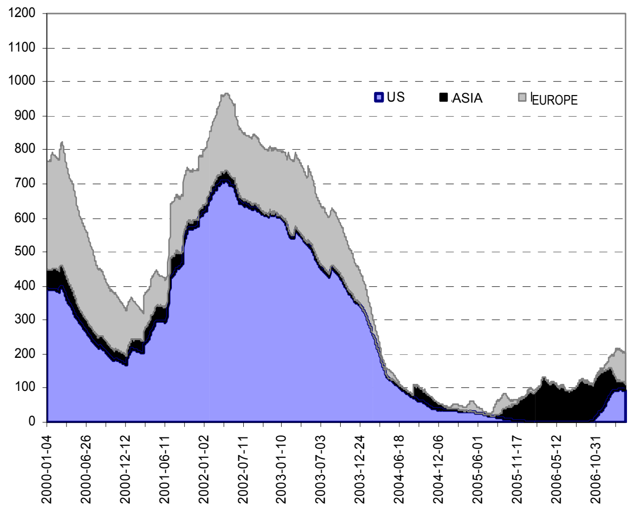
Demand from China has accelerated considerably since the beginning of the year (50% surge in product imports). Momentum is also strong in Europe. Most producers project robust demand in the world throughout 2007 even if US demand weakens on the tumbling housing industry which accounts for over 40% of the local demand for the metal. In recent months, new home sales in the USA shed over ten percent (y/y). The American market remains the main "curse" which might turn out to be a blessing if the downtrend is reversed.

The 1MMT increase mine capacity boost projection for 2007 seems to us a very ambitious one. Producers are reporting problems not only with building, but also equipping mines. All plans to that effect are being constantly postponed. Equipment producers are not keeping up with the booming mining industry (coal and other metal mines included), delaying new capacity launches. To give an example, a heavy-duty strip-mine excavator is a 24-month wait. Workforce is another problem. It is hard to tell if we are going to see capacity utilization problems in 2007 similar to those observed in 2006. In our opinion, with metal prices soaring, workers are going to be more inclined to stage strikes.

The increase in copper stockpiles observed over the past few months is mainly an effect of a slowdown in the US housing market. Total stockpiles monitored by COMEX, LME, and Shanghai are 273,000 tons, with inventories stored in US locations (COMEX, partly LME) up to 140,000 tons.

Copper inventories: LME, Comex and Shanghai; geographic distribution of LME inventories





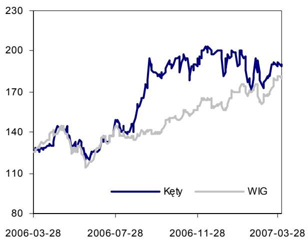
Source: Bloomberg, ICSG

Kęty (Hold)

Current price: PLN 191 **Target price: PLN 180.5**

Analyst: Michał Marczak
Last Recommendation: 2006-09-27

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	726.0	1 045.5	44.0%	1 046.7	0.1%	1 140.9	9.0%	Number of shares (m)	9.2
EBITDA	133.9	155.7	16.3%	199.0	27.8%	228.0	14.6%	MC (current price)	1 762.2
EBITDA margin	*18.4%*	*14.9%*		*19.0%*		*20.0%*		EV (current price)	1 856.8
EBIT	97.3	111.3	14.4%	152.8	37.3%	179.8	17.7%	Free float	46.0%
Net profit	89.4	87.7	-1.9%	120.1	37.0%	143.3	19.3%		
P/E	19.7	20.1		14.6		12.3		Price change: 1 month	*6.6%*
P/CE	14.0	13.3		10.6		9.2		Price change: 6 month	*3.8%*
P/BV	2.8	2.6		2.2		2.0		Price change: 12 month	*49.2%*
EV/EBITDA	13.9	13.0		10.0		8.5		Max (52 week)	203.0
Dyield (%)	2.1	2.1		1.0		2.0		Min (52 week)	119.0



The FQ1 earnings preview was a disappointment. Large volumes are still not translating to higher profits and, if the company shows no surprises on the upside, we are going to leave our target price intact. We are reiterating our HOLD rating on Kęty.

FQ1 a disappointment

According to Kęty's estimates, the group will generate over PLN 270m in sales in the first quarter of 2007, which implies an almost-20% increase year over year. Sales in the Flexible packaging Segment are projected to be 17% better than a year earlier. Sales growth in the Extruded Product Segment is estimated at 15%. The Aluminum Systems Segment is projected to generate sales 25% over the Q1 2006 level. The Q1 consolidated operating profit is estimated at PLN 24-26m, and the bottom line will fall within a range of PLN 20-22m. Net debt at the end of Q1 is expected to reach ca. PLN 290m. In a repeat of previous quarters, robust sales do not generate equally robust profits which increase at a disappointing rate. The FQ1 EPS will double, but we should remember that net profit in Q1 2006 (PLN 9m) was depressed by the consequences of the fire in the Flexible Packaging Segment.

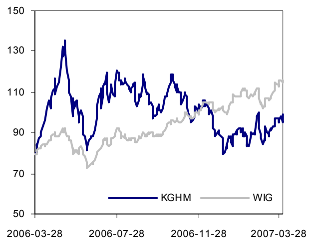
KGHM (Buy)

Current price: PLN 101.9 Target price: PLN 121

Analyst: Michał Marczak

Last Recommendation: 2007-04-04

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	8 000.1	11 669.7	45.9%	10 185.5	-12.7%	9 628.3	-5.5%	Number of shares (m)	200.0
EBITDA	2 800.0	4 545.5	62.3%	3 945.5	-13.2%	3 762.7	-4.6%	MC (current price)	20 380.0
EBITDA margin	*35.0%*	*39.0%*		*38.7%*		*39.1%*		EV (current price)	21 795.0
EBIT	2 508.7	4 201.2	67.5%	3 565.2	-15.1%	3 327.4	-6.7%	Free float	36.0%
Net profit	2 289.4	3 395.1	48.3%	3 338.6	-1.7%	3 117.7	-6.6%		
P/E	8.6	5.8		5.9		6.4		Price change: 1 month	*14.2%*
P/CE	7.7	5.3		5.3		5.6		Price change: 6 month	*-2.7%*
P/BV	3.2	2.5		2.0		1.7		Price change: 12 month	*19.4%*
EV/EBITDA	5.2	3.1		3.3		3.1		Max (52 week)	135.0
Dyield (%)	2.0	10.1		7.1		7.1		Min (52 week)	79.4



If our forecasts of an average annual drop in copper prices to $5300/t in 2008 (5% above consensus) materialize, KGHM should net over PLN 3bn in annual profits in the next two years. The company's hedges now expired, the effective selling price of copper is only slightly lower than in FY2006 according to our projections. We assume an average per-ton price of copper for FY2007 at $6,245, 8% above consensus and 14% off the current LME quotes. We maintain our positive outlook on commodity stocks. We are raising our target price from PLN 97 to PLN 121, and upgrade from Accumulate to BUY.

PAK suitors

According to the Minister of the State Treasury, other investors besides KGHM are interested in acquiring PAK. The Minister did not reveal any details. This information corroborates our assessment of an investment in the PAK power plants, but does not change the fact that there is still no end in sight to the conflict between the PAK owners which hampers any such investments for the time being.

Payout cutback? Over PLN 1bn for PAK?

KGHM might pay out less than 40% of its FY2006 profit if its new investment projects so require, said Deputy Treasury Minister Ireneusz Dąbrowski. One such project would be to take over the PAK power plant – it seems that the government has managed to "convince" KGHM's CEO Mr. Skóra that this is a smart move. The company's Supervisory Board backed the management's original dividend payout proposal of 40%, i.e. PLN 1.4bn, implying PLN 7 per share in dividends. KGHM's FY2006 standalone net profit was PLN 3.39bn. According to statements by Mr. Solorz, Elektrim is no longer interested in the State Treasury's offer to back out of the investment. On the contrary, Mr. Solorz now wants to buy out the State Treasury's shares in PAK. He would consider selling Elektrim's 37% stake in the power plant complex, but only for a price considerably higher than PLN 1 billion. The dividend cutback is bad news from KGHM's standpoint, but it seems less and less probable in light of Elektrim's stance on PAK.

KGHM strikes alliance with Chinese partner

KGHM is going to look for copper deposits jointly with China's ChinaMinmetals. in locations in China, Germany, and Ukraine. The respective financial contributions have not been agreed yet. The Chinese copper producer is one of KGHM's key buyers, with purchases equal to 10% of the company's annual output. The partnership is very good news. Investments "under the wings" of the Chinese metal giant should protect KGHM from flops similar to that which took place in Congo. The outlook on the copper market is bright. We are guessing that, of the two allies, KGHM will be mainly responsible for exploration (know-how), without investing much in ownership (lower margins, but smaller risk and CAPEX).

Dividend proposal rules

KGHM's Management disclosed the rules governing its dividend recommendations in the Annual Report. See table below for details. History has taught us that management recommendations and the actual dividends are two different things, given that the final say in this matter rests with the State Treasury. As the probability of the PAK acquisition decreases, dividends have an increasing chance of reaching at least PLN 10/share in 2007.

Net profit	Dividends	MIN	MAX
up to 700	No dividends	-	-
over 700 to 1 700	200 + 50% of the excess over 700	200	700
over 1 700 to 3 700	700 + 60% of the excess over 1 700	700	1 900
over 3 700	1 900 + 100% of the excess over 3 700	1 900	no limit

Source: KGHM

Dialog to go public

The Management Board of KGHM's telecom subsidiary Telefonia Dialog wants the company to go public next year. The IPO would serve to raise capital to finance acquisitions and launch new services over the unbundled local loop. This is hardly the first time that Dialog announces IPO plans; we think that they should be taken with a grain of salt.

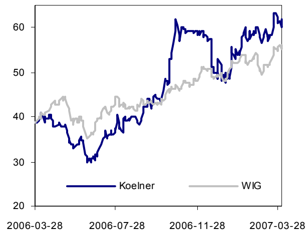
Koelner (Reduce)

Current price: PLN 62.5 **Target price: PLN 53.72**

Analyst: Kamil Kliszcz

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	241.3	411.8	70.7%	590.9	43.5%	734.3	24.3%	Number of shares (m)	30.3
EBITDA	45.9	71.1	54.9%	107.4	51.2%	127.6	18.8%	MC (current price)	1 894.4
EBITDA margin	*19.0%*	*17.3%*		*18.2%*		*17.4%*		EV (current price)	1 999.5
EBIT	34.3	54.3	58.3%	78.3	44.4%	91.8	17.2%	Free float	37.0%
Net profit	27.6	40.5	46.6%	61.9	52.8%	74.8	20.9%		
P/E	68.6	47.1		32.9		27.2		Price change: 1 month	*6.7%*
P/CE	48.3	33.3		22.4		18.4		Price change: 6 month	*40.5%*
P/BV	10.8	8.9		5.7		4.7		Price change: 12 month	*60.5%*
EV/EBITDA	41.5	26.9		19.0		15.9		Max (52 week)	63.4
Dyield (%)	0.4	0.2		0.2		0.1		Min (52 week)	29.9



In the coming months, Koelner's market performance will be determined by the progress made in the incorporation of Śrubex. Given the recent problems with minority shareholders, this process might take longer than expected, generating higher costs. Because we believe that the offering price of PLN 55 reflects well Koelner'a value (our target of PLN 53.72 plus ca. PLN 2 from a German acquisition), we recommend to Reduce the stock at the current price level.

New shares sold at PLN 55 apiece

The offering price of 1.5 million shares was set at PLN 55 apiece. Koelner will therefore raise PLN 82.5m from the SPO, i.e. 56% of what it needs to finance its investment strategy (including investments in Śrubex, the total CAPEX is estimated at PLN 146m). Originally, the management were hoping to raise more capital (ca. PLN 100m), or, at least, they said they did. On March 22nd, Koelner was notified that the court had approved its equity following the SPO. Koelner's share capital is currently comprised of 32 020 600 shares.

Śrubex's minority shareholder alliance

The alliance of Śrubex's shareholders owns 14% of the company's shares. One of the alliance's members is Mr. Stanisław Drabarek (ca. 6.5% of shares) who infamously fought with Boryszew for a "fair" exchange ratio during the merger with Impexmetal. Again, resistance from minority shareholders might delay Śrubex's incorporation and boost the costs that Koelner will incur on the acquisition.

Construction

Energomontaż Północ: ING TFI increases shareholding

Over the last three months, ING TFI decreased its interests in Energomontaż Północ from 10.03% to 12.05%.

Energomontaż Północ: New Contracts for PLN 46.9m

Energomontaż Północ won a contract from Polimex to deliver a biomass management system to the Białystok CHP. The contract is estimated at PLN 19.8m, and its term is March 2007 to June 2008. Energomontaż Północ's subsidiary ZRE Lublin has garnered PLN 13.1m in contracts from the Kozienice Power Plant so far this year, plus a PLN 14m contract from Rafako for heaters for the Bełchatów Power Plant. The combined value of these contracts is PLN 46.9m, i.e. almost 20% of the company's consolidated revenues last year.

Energomontaż Północ: PLN 187m contract backlog, acquisition plans

Energomontaż-Północ is negotiating a takeover estimated at PLN 15-25m, and wants to expand its prefabricated pipeline capacity at the cost of PLN 25-30m. Energomontaż Północ's contract backlog is currently worth PLN 187m – four times more than in the same period a year ago. The company wants to focus on serving customers operating in energy and materials (oil, gas) generation, storage, transport, and distribution. Energomontaż Północ will bid for contracts for German power plant overhauls, and become involved in a Polish petrochemical project. The company's management predict that the 2007-1010 net profit CAGR will amount to 33%. All those plans are in line with the strategy objectives revealed on the occasion of Energomontaż's secondary stock offering. Given that the company's FY2006 profit was PLN 8.69m, at the CAGR projected by the management, the bottom line should reach PLN 27.2m by 2010, implying a 2010 P/E ratio of 23.2.

Instal Kraków: Sale of PLN 77.7m real-estate project

Instal Kraków signed a preliminary agreement to sell the "Inwestycja Śliczna" housing project for PLN 77.7m. The final agreement will be signed by the end of August 2007.

Mostostal Płock: Labor dispute

Mostostal Płock's trade unions lodged a collective dispute with the Management over salary demands. Mostostal Płock works on relatively short deadlines, so, any salary demands will be offset by raising selling prices. Still, the dispute carries a risk of a short-term decline in margins.

Mostostal Warszawa: EUR 31.7m environmental engineering contract

Mostostal Warszawa, in consortium with HYDROBIEL, signed a contract with the Tychy municipality for design and construction of a sewage system and storm water drainage in the Wygorzele, Jaroszowice, and Cielmice districts of Tychy. The gross contract price is EUR 31.7m.

Naftobudowa: EUR 2m contract

Naftobudowa signed a contract with AB Mazeiku Nafta for renovation of heat exchangers and pipelines, and a non-intrusive survey on the Visbreaking system. The contract value is EUR 2.0m (PLN 7.8m). The contract accounts for 6% of Naftobudowa's consolidated FY2006 revenues.

Naftobudowa: PLN 30.5m contract

Naftobudowa's subsidiary Montonaft struck two deals for a combined EUR 7.8m (PLN 30.5m). The larger of the contracts (EUR 4.5m) is for installation of fourteen 22.000m^3 tanks in Amsterdam, the Netherlands. Montonaft will subcontract the two assignments to Naftobudowa. This is a material contract accounting for over 23% of Naftobudowa's consolidated FY2006 revenues.

PBG: Acquisition of Hydrobudowa 9

The shareholders of Hydrobudowa 9 PIB voted to approve divestment of the company to PBG. We viewed PBG as the natural front-runner in the race to take over Hydrobudowa 9, but did not expect the sale to tale place so fast.

PBG: Condition precedent met

The condition precedent for acquisition of Hydrobudowa 9 stipulating that PBG was to purchase at least 51% of the company's shares, has been met. All the conditional agreements with shareholders to acquire shares in Hydrobudowa 9, following approval by the competition watchdog UOKiK, will give PBG a 66% interest in the company's equity and 65.97% of votes. After merging Hydrobudowa Śląsk and Hydrobudowa Włocławek, PBG might float its recent acquisition, Hydrobudowa 9, on the Warsaw Stock Exchange. Eventually, Hydrobudowa could be integrated with the other two Hydrobudowas to create one strong market player.

PBG: EUR 1.1m Norwegian deal

PBG won a contract from Norway's Kanfa Aragon AS for a floating glycol regeneration and gas drying unit. The contract value is EUR 1.1 million. This is a relatively small contract which opens the door for PBG to compete for other assignments from abroad.

Prochem: Earnings guidance, dividend proposal

Prochem published its earnings guidance for FY2007. Sales are pegged at close to PLN 270m, and the bottom line at PLN 11m. The net profit guidance does not factor in the results of the dispute pending with PERN (earlier, the company said that any ruling to its favor can only have a positive impact on earnings). The Supervisory Board and Management Board are going to recommend to shareholders during the June 2nd GA payment of PLN 3.9m in dividends to shareholders (PLN 1/share). Prochem's official guidance seems conservative to us in light of last year's performance (PLN 259.5m revenues, PLN 10.2m net).

Prochem: New real estate projects

Prochem reported that it had several real-estate projects in the pipeline: a housing project in Krakow covering 15-20 thousand square meters of usable space (scheduled to start in the fall of 2007), an apartment house project in Krakow with 3,000 sqm of usable space, and an office building with 25,000 sqm (set to start in 2008). Prochem will complete the projects with a 50-50 partner. The company also revealed its FY2007 earnings guidance with revenues pegged at PLN 270m, and the bottom line at PLN 11m including PLN 2.4m gross from divestment of BISE. Prochem has a track record in real estate projects, one example being the "Irydion" office building in Warsaw. We expect the new deals to be equally profitable. We estimate that Prochem might earn between PLN 25m and PLN 35m on the housing projects, i.e. PLN 3.2-4.5 per share from its 50% share in the ventures.

Projprzem: ING TFI below 10% in Projprzem

ING TFI reduced its voting interest in Projprzem from 10.16% to 9.73%.

Projprzem: Less work for LG

LG Electronics decided to cut back on the work contracted to Projprzem by way of the Letter of Intent signed last month. As a result, the contract value will decrease from PLN 22m to ca. PLN 10m.

Projprzem: Pioneer Pekao IM increases shareholding

Pioneer Pekao Investment Management zwiększył zaangażowanie w Projprzemie z 6,14% (4,76%) do 6,47% (5,02%) udziałów (głosów na walnym zgromadzeniu).

Projprzem: New subsidiary

Projprzem established "Lubuskie Przedsiębiorstwo Budowlane Projprzem sp. z o.o.," a wholly-owned subsidiary that will continue the business of "Lubuskie Przedsiębiorstwo Budownictwa Przemysłowego Przedsiębiorstwo Państwowe" which Projprzem is going to take over from the government.

Remak: Generali OFE divests shares

Generali OFE sold all of its shareholdings in Remak (162.3 thousand shares).

Remak: Extra assignment for PLN 4.5m

Remak signed an annex to its PLN 4.5m boiler contract with Ansaldo with a deadline set at August 2007.

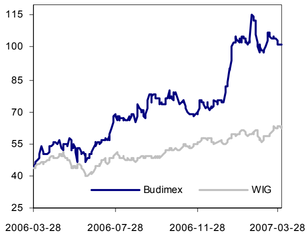
Budimex (Reduce)

Current price: PLN 102 **Target price: PLN 83.7**

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	2 702.9	3 043.2	12.6%	3 368.8	10.7%	3 736.9	10.9%	Number of shares (m)	25.5
EBITDA	23.1	30.7	32.7%	84.1	173.9%	146.5	74.2%	MC (current price)	2 604.1
EBITDA margin	*0.9%*	*1.0%*		*2.5%*		*3.9%*		EV (current price)	2 238.6
EBIT	2.0	9.9	405.6%	61.5	519.4%	123.3	100.4%	Free float	30.0%
Net profit	2.0	3.9	91.8%	43.1	1007.3%	90.1	109.0%		
P/E	1 282.8	668.7		60.4		28.9		Price change: 1 month	*1.2%*
P/CE	112.2	105.6		39.7		23.0		Price change: 6 month	*38.4%*
P/BV	5.0	4.9		4.5		4.1		Price change: 12 month	*120.3%*
EV/EBITDA	96.7	75.8		27.9		15.9		Max (52 week)	115.0
Dyield (%)	0.0	0.0		0.0		0.9		Min (52 week)	46.1



Budimex's core lines of business - building construction and road development - are being affected by growing costs of subcontractors which, in our view, pose the biggest threat to the FY2007 general-contracting earnings. We are reiterating our negative rating on Budimex.

PLN 197m deal

Budimex Dromex (a wholly-owned subsidiary of Budimex) won a contract for sports and entertainment facilities from the city of Sopot. The contract value is PLN 196.9m. The deadline is set at the end of 2008. According to *Parkiet*, last year, other quotes were submitted for the same contract (PLN 133m from Strabag, PLN 147m from Budimex Dromex), but, in the end, the bidders backed out of the deal. The current price is almost 50% higher.

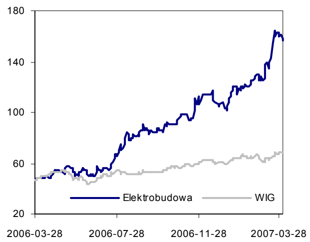
Elektrobudowa (Reduce)

Current price: PLN 160.7 Target price: PLN 124.6

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	344.9	473.9	37.4%	531.6	12.2%	599.9	12.9%	Number of shares (m)	4.0
EBITDA	18.0	27.7	53.6%	37.5	35.4%	47.0	25.5%	MC (current price)	642.8
EBITDA margin	*5.2%*	*5.8%*		*7.0%*		*7.8%*		EV (current price)	650.4
EBIT	13.0	23.0	77.5%	31.8	38.2%	40.9	28.6%	Free float	47.0%
Net profit	9.3	15.4	65.7%	21.8	41.8%	28.2	29.3%		
P/E	72.7	43.9		31.0		23.9		Price change: 1 month	*21.9%*
P/CE	47.1	33.7		24.6		19.7		Price change: 6 month	*81.4%*
P/BV	9.6	7.8		6.9		6.0		Price change: 12 month	*226.4%*
EV/EBITDA	37.9	24.7		18.2		14.3		Max (52 week)	164.0
Dyield (%)	0.6	0.8		1.5		1.9		Min (52 week)	47.8



Elektrobudowa reported signing contracts for a total price of over PLN 60m in March, accounting for over 11% of our FY2007 revenue estimate. Aside from these contracts, there were no other developments that would justify the current "bloated" price of the company's stock. We recommend investors to cash in on Elektrobudowa.

PLN 13.6m deal

Elektrobudowa signed a contract for 15 transformer stations with the BOT lignite mine of Bełchatów. The contract value is PLN 13.6m. The deadline is July 2007. The contract accounts for 2.5% of our FY2007 consolidated revenue estimate for Elektrobudowa.

Two deals for a combined PLN 15.3m

Elektrobudowa landed two contracts, one for an electrical system for the Pątnów Power Plant (PLN 7.6m), and the other for an upgrade of PKN Orlen's power supply system serving the computer network (PLN 7.7m). Both contracts have deadlines in 2007. Combined, the two deals account for close to 3% of Elektrobudowa's forecasted FY2007 revenues.

PLN 19.1m deal

Elektrobudowa signed a contract with the Bełchatów Power Plant for a control system upgrade, covering the electrical cabling of power units 3 and 4. The contract value is EUR 4.9m (PLN 19.1m). The deadline is set at January 2009. The deal accounts for 3.6% of our consolidated FY2007 revenue forecast for Elektrobudowa.

PLN 12.7m deal

Elektrobudowa signed a turnkey contract concerning a five-storey apartment building in Hel. The contract value is PLN 12.7m. The deadline is set for April 2008. It accounts for 2% of our FY2007 consolidated revenue estimate for Elektrobudowa.

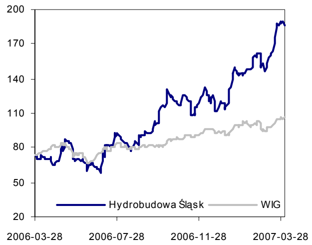
Hydrobudowa Śląsk (Reduce)

Current price: PLN 192 **Target price: PLN 115**

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	111.2	127.2	14.4%	238.0	87.1%	330.0	38.7%	Number of shares (m)	3.4
EBITDA	-112.3	11.1		22.7	103.9%	37.1	64.0%	MC (current price)	646.2
EBITDA margin	*-101.0%*	*8.7%*		*9.5%*		*11.3%*		EV (current price)	643.2
EBIT	-114.2	8.9		19.1	113.2%	33.5	75.6%	Free float	37.0%
Net profit	-114.6	7.1		15.2	114.2%	21.9	43.7%		
P/E		90.8		42.4		29.5		Price change: 1 month	*22.2%*
P/CE		69.6		34.3		25.3		Price change: 6 month	*60.5%*
P/BV		256.6		36.4		16.3		Price change: 12 month	*163.8%*
EV/EBITDA		57.9		29.4		17.7		Max (52 week)	189.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	58.3



We think that the current price of Hydrobudowa Śląsk's stock factors in the option to buy into "Hydrobudowa Polska." In a valuation conducted for the purposes of the upcoming merger, the best-case price scenario was PLN 130 on which the market attaches an over-40% premium. The downside potential until the merger seems limited. Still, because we do not see anything at the moment that could convince us to raise our price target, we recommend to take profits on Hydrobudowa Śląsk on any strength.

Draft GA resolutions

Hydrobudowa Śląsk called a General Assembly for April 5th to vote, among other things, on the merger with Hydrobudowa Włocławek.

Polimex Mostostal (Reduce)

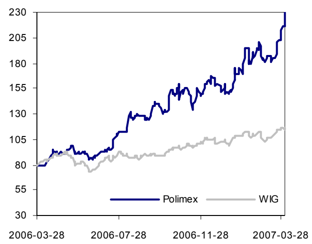
Current price: PLN 239 **Target price: PLN 154.5**

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	1 849.9	2 466.1	33.3%	2 860.6	16.0%	3 439.6	20.2%
EBITDA	101.2	129.3	27.7%	172.2	33.2%	227.9	32.4%
EBITDA margin	*5.5%*	*5.2%*		*6.0%*		*6.6%*	
EBIT	73.2	99.6	36.0%	138.4	39.0%	192.8	39.4%
Net profit	42.8	60.1	40.5%	93.5	55.6%	135.2	44.5%
P/E	85.2	60.6		48.1		33.7	
P/CE	51.5	40.6		35.3		26.7	
P/BV	12.4	10.5		10.2		7.9	
EV/EBITDA	37.5	29.8		27.1		20.0	
Dyield (%)	0.0	0.2		0.3		0.4	

Basic data (PLN m)	
Number of shares (m)	15.2
MC (current price)	3 644.4
EV (current price)	3 798.9
Free float	76.0%
Price change: 1 month	*24.3%*
Price change: 6 month	*71.8%*
Price change: 12 month	*191.1%*
Max (52 week)	230.0
Min (52 week)	78.8



The Polimex Group garnered PLN 190m-worth of contracts in March. The Polish Financial Supervision Authority (KNF) approved the prospectus relating to a private placement to shareholders of ZREW and Energomontaż Północ. The two acquisitions will influence the company's second-quarter earnings (ZREW will be 100% consolidated, and Energomontaż Północ will be 65% consolidated). Expectations of robust FQ1'07 earnings driven by favorable weather conditions keep sentiment to the company positive. We recommend to take advantage of the current strength to take profits.

PLN 38m deal

Polimex inked a deal for development of the Court of Appeals and District Court buildings in Łódź. The contract value is PLN 38m, and the effective term is thirty-six months.

PLN 119.8m deal

A consortium of Polimex and Remak signed an agreement with a consortium of ALSTOM Power Boiler GmbH and Hitachi Power Europe GmbH for mounting of pressure parts in two 1100MW boilers at the Neureth Power Plant (Germany). The contract price is EUR 30.7m (PLN 119.8m), of which Polimex-Mostostal will net some EUR 15.4m. The deadline is April 2009. The companies had reported earlier that they were going to join forces to win energy engineering contracts. In case of Polimex, the contract accounts for ca. 2% of forecasted consolidated FY2007 revenues, while, for Remak, this is a material contract equal to 41% of its FY2006 revenues.

KNF approves prospectus

The Polish Financial Supervision Authority (KNF) approved Polimex-Mostostal's prospectus concerning a public offering of its "H" stock, and an upcoming request to allow its "H" and "I" shares to be traded on the regulated market. The new offering is related to Polimex's upcoming merger with ZREW and takeover of a majority stake in Energomontaż Północ.

Polimex is going to Kuwait

Polimex-Mostostal is reported to be among the several firms that Prime Minister Kaczyński invited to accompany him during his trip to Kuwait and Qatar. Polimex is considering an acquisition of a steel fabricating company, and is surveying the Kuwaiti market for general contracting and hot-dip galvanizing business opportunities. It is a long journey from idea to execution, especially if the destination if a foreign country, that is why we quote this information as an interesting rather than momentous piece of news.

Torpol's EUR 18.8m deal

A consortium led by Torpol (Polimex's wholly-owned subsidiary) signed a contract for railway surface replacement works with the national railway operator PKP PLK. The contract price is EUR 18.8m, of which Torpol's share is EUR 4.6m. The deadline is nineteen months. Polimex reported that Torpol had won the contract in mid-January, so, this information

ING TFI increases interest above 5%

The investment fund company ING TFI increased its holdings in Polimex from 4.96% to 5.02%.

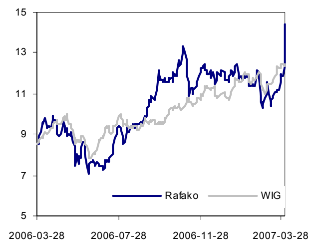
Rafako (Reduce)

Current price: PLN 14.4 **Target price: PLN 10**

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	500.8	776.7	55.1%	1 249.5	60.9%	1 117.3	-10.6%	Number of shares (m)	17.4
EBITDA	24.5	31.7	29.3%	43.2	36.4%	68.4	58.2%	MC (current price)	250.4
EBITDA margin	*4.9%*	*4.1%*		*3.5%*		*6.1%*		EV (current price)	181.9
EBIT	14.4	21.0	45.6%	31.6	50.5%	58.5	85.1%	Free float	45.0%
Net profit	5.2	12.8	145.5%	22.4	74.9%	42.5	89.6%		
P/E	48.0	19.5		44.7		23.6		Price change: 1 month	*37.3%*
P/CE	16.3	10.6		29.4		19.1		Price change: 6 month	*22.9%*
P/BV	1.1	1.0		3.9		3.5		Price change: 12 month	*60.4%*
EV/EBITDA	7.4	5.1		21.7		13.1		Max (52 week)	14.4
Dyield (%)	0.0	0.0		3.4		4.5		Min (52 week)	7.1



Rafako is conducting a secondary stock offering with an aim of gaining PLN 100m. The capital will be used mainly to finance acquisitions of and make capital injections in companies with business profiles similar or complementary to Rafako's. The targets are mid-sized firms located in Poland and abroad with potential to boost the Rafako group's earnings. We did not include the acquisitions in our earnings projections for Rafako for lack of specifics. As subcontractor costs grow, with Rafako's contract backlog being as large as it is, margins are threatened, prompting us to reiterate our negative rating on the stock.

KNF approves Rafako's Prospectus

The Polish Financial Supervision Authority (KNF) approved Rafako's prospectus for an offering of 52.2m "I" shares. The offering price will be PLN 2/share. The lead underwriter is Dom Maklerski Penetrator.

PLN 34.1m deal

Rafako signed a PLN 34.1m turnkey contract with Elektrownia Skawina for an FGD plant for power units 5 and 6. The deadline is December 2008. The contract accounts for just under 2.7% of our FY2007 consolidated revenue estimate for Rafako.

Elektrim exercises rights for Rafako shares

Elektrim exercised its rights to purchase common bearer "I" stock of Rafako. The purchase was financed with a loan taken out on March 21st.

Pharmaceutical Manufacturers and Distributors

IMS Health forecasts 3.7% growth in 2007

According to IMS Health, the value of the Polish pharmaceutical market will increase 3.7% in 2007 versus 4.2% in 2006. The slowdown will be a result of lower regulated prices and growing competition. IMS estimated that the value of the overall pharmaceutical market in producer price terms increased by 9.8% between January and February relative to the corresponding period a year earlier, and reached PLN 2.7bn. IMS expects that the market will slow down its pace below 5%, after entry into force of the new reimbursable drug lists at the beginning of March. The figures quoted above are revised estimates by IMS Health from a below-1% growth forecast. Looking at the market's performance in the first two months of the year, the revised estimates might also prove overly conservative.

Bioton: Loan to Bioton Vostok upped by PLN 10m

Bioton Trade, a subsidiary of Bioton, signed an annex to a loan agreement with Bioton Vostok dated 23rd February 2006, increasing the loan amount by $10m (PLN 29.2m) to $30m (PLN 87.5m). The loan was taken out to finance a finished dosage form factory for human insulin and other medical products in Orle (Russia), and increase working capital.

Bioton: Acquisition of BioPartners Holding

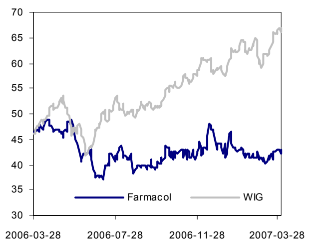
Bioton signed an agreement to acquire a 100% stake in BioPartners Holding AG, Switzerland, owner of the biotech companies BioPartners GmbH Switzerland and BioPartners GmbH Germany.Bioton will contribute 81.5 million shares of its ex-rights "I" stock as takeover consideration, and repay BioPartners' debt of $15.8m from its own cash and bank loans. By acquiring BioPartners, Bioton will gain access to innovation and biotech products in advanced development stages (Valtropin, a growth hormone, Biferonex, an innovative drug containing interferon beta used in MS treatment, Alpheon used in treatment of hepatitis "C," Ravanex, also used in treatment of hepatitis "C"). The market launch dates for the different drugs are set for 2007, 2008, and subsequent years. An acquisition of a developer of patented innovative treatments will speed up the expansion of Bioton's medication mix.

Farmacol (Accumulate)

Current price: PLN 43 **Target price: PLN 45.6**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	3 053.9	3 372.1	10.4%	3 463.2	2.7%	3 635.4	5.0%	Number of shares (m)	23.4
EBITDA	91.2	84.5	-7.3%	98.2	16.1%	106.1	8.0%	MC (current price)	1 006.2
EBITDA margin	*3.0%*	*2.5%*		*2.8%*		*2.9%*		EV (current price)	918.5
EBIT	80.7	72.2	-10.5%	87.7	21.4%	95.5	8.9%	Free float	35.9%
Net profit	68.6	64.2	-6.5%	75.2	17.2%	83.6	11.2%		
P/E	14.7	15.7		13.4		12.0		Price change: 1 month	*4.4%*
P/CE	12.7	13.2		11.7		10.7		Price change: 6 month	*4.4%*
P/BV	2.6	2.3		2.0		1.8		Price change: 12 month	*-7.5%*
EV/EBITDA	10.1	10.4		8.4				Max (52 week)	49.0
Dyield (%)	0.0	0.0		1.3		1.5		Min (52 week)	37.1



Farmacol's CEO said in an interview that he expects revenues to increase 5ppts above the market's growth rate, and that a repeat of last year's 10.3% y/y improvement is not likely. The company is aiming to retain its net profit margin at 2%. Farmacol is also hoping to make acquisitions this year, and admitted to having placed bids for three pharmacy chains. Still up for grabs are Aptekarz and MultiPharme. The company's real estate development business will start bringing profits in FY2008 (Farmacol owns real estate in Warsaw, Wrocław, and Szczecin where the company is preparing several projects). We are reiterating our HOLD rating until we revise our forecasts.

PGF (Under Review)

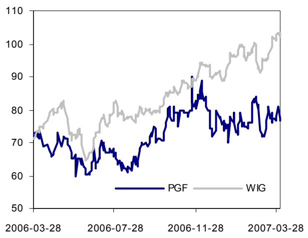
Current price: PLN 78.1 Target price: -

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-12-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	3 891.5	4 006.0	2.9%	4 342.8	8.4%	4 554.6	4.9%
EBITDA	91.2	108.1	18.5%	105.2	-2.7%	113.5	7.9%
EBITDA margin	*2.3%*	*2.7%*		*2.4%*		*2.5%*	
EBIT	74.4	87.0	16.9%	89.2	2.5%	97.8	9.7%
Net profit	52.1	62.9	20.9%	69.1	9.8%	77.1	11.5%
P/E	18.7	15.6		14.2		12.8	
P/CE	14.1	11.7		11.6		10.6	
P/BV	3.8	3.9		3.4		3.0	
EV/EBITDA	14.4	11.4		12.0		10.8	
Dyield (%)	2.8	3.1		3.5		3.5	

Basic data (PLN m)	
Number of shares (m)	12.2
MC (current price)	955.6
EV (current price)	1 207.3
Free float	47.9%
Price change: 1 month	*-5.5%*
Price change: 6 month	*7.1%*
Price change: 12 month	*5.0%*
Max (52 week)	90.0
Min (52 week)	59.4



PGF was the last to make a bid for Optima Radix, probably because the market is not offering any interesting acquisition stories. In the end, Optima will be taken over by Torfarm. We are in the process of updating our forecast and rating for PGF, and do not rule our a downward revision to the FY2007 estimates.

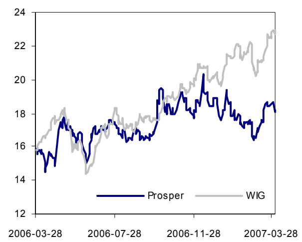
Prosper (Accumulate)

Current price: PLN 18.5 **Target price: PLN 20.9**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	1 714.6	1 817.2	6.0%	1 929.3	6.2%	2 025.7	5.0%
EBITDA	25.3	23.2	-8.5%	25.1	8.2%	25.3	1.0%
EBITDA margin	*1.5%*	*1.3%*		*1.3%*		*1.2%*	
EBIT	19.5	17.7	-9.1%	19.3	8.9%	19.7	1.9%
Net profit	10.8	11.9	11.0%	13.0	9.3%	13.6	4.1%
P/E	11.9	10.7		9.8		9.4	
P/CE	7.7	7.3		6.8		6.6	
P/BV	1.4	1.2		1.1		1.0	
EV/EBITDA	6.5	6.7		5.8		5.3	
Dyield (%)	0.0	2.7		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	6.9
MC (current price)	127.7
EV (current price)	185.1
Free float	58.1%
Price change: 1 month	*9.6%*
Price change: 6 month	*-6.3%*
Price change: 12 month	*16.3%*
Max (52 week)	20.4
Min (52 week)	14.5



In our view, Prosper's acquisition talk is exercise to show that it is keeping up with other distributors rather than an actual plan. But, since Prosper remains the cheapest pharmaceutical distributor stock, we are reiterating our positive rating.

Prosper considers acquisitions

Prosper has earmarked several dozen million zlotys for acquisitions. The company is in takeover talks with four pharmaceutical wholesalers, shareholders of Apofarm. The Management will recommend that Prosper distribute its FY2006 as dividends to shareholders. The payout ratio in 2006 was 30%. The FY2006 standalone profit was PLN 10m, for which a 30% payout ratio implies PLN 0.44/share. Prosper has been talking about acquisitions for some time now, as a response to Torfarm's M&A activity.

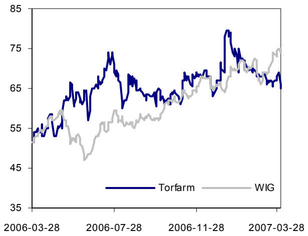
Torfarm (Hold)

Current price: PLN 65 **Target price: PLN 63.7**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-08-25

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	1 412.9	1 700.9	20.4%	1 694.1	-0.4%	1 812.7	7.0%
EBITDA	11.5	18.4	60.3%	17.6	-4.7%	19.4	10.3%
EBITDA margin	*0.8%*	*1.1%*		*1.0%*		*1.1%*	
EBIT	7.7	13.7	77.0%	14.2	3.9%	15.9	11.4%
Net profit	9.8	11.3	15.6%	12.2	8.1%	13.5	10.8%
P/E	18.1	15.7		14.4		13.0	
P/CE	13.1	11.0		11.3		10.3	
P/BV	2.4	2.1		1.9		1.7	
EV/EBITDA	16.4	9.7		9.8		8.5	
Dyield (%)	1.5	1.5		1.5		1.5	

Basic data (PLN m)	
Number of shares (m)	2.7
MC (current price)	175.6
EV (current price)	187.7
Free float	24.0%
Price change: 1 month	*-4.1%*
Price change: 6 month	*4.9%*
Price change: 12 month	*20.7%*
Max (52 week)	79.5
Min (52 week)	53.0



Torfarm is set to become the number two pharmaceutical distributor after taking over Optima Radix. However, it will take 2-3 years to reorganize the group and bring net profitability above 1%. Our forecasts do not include either the Galenica-Silfarm, or the Optima Radix acquisition. We are reiterating our HOLD rating.

New stock offering registered

Torfarm's equity raise by PLN 1.24m to PLN 3.95m following an offering of 1.24 million shares of “H” stock was registered by the court. The number of shares outstanding post-SPO stands at 3.95 million.

Retail

Alma Market: FY2007 net profit target at PLN 25m

Alma Market pegged its FY2007 net profit at PLN 25 million. This target includes gains from the sale of real estate in Krakow (PLN 12.2m) whose book value as of the end of December was PLN 1.7m. This implies that the net profit from the sale could amount to PLN 8.5m. Adjusted for this sale, the bottom line estimate is PLN 16.5m, which, we find, will be difficult to achieve based on just Alma Market's recurring operations if the company rapidly increases the number of stores, and given location risks (stores in the best locations break even after six months).

Tim: Upward revision to revenue guidance

Tim revised its FY2007 revenue guidance from PLN 550m to PLN 570m. The EBIT and net profit targets were left intact at PLN 50m and PLN 40m respectively. This is in line with the Management's earlier reports about the outstanding sales performance achieved in January and February. The stellar revenues are a confirmation of the upward momentum among companies catering to the construction sector. If these trends are sustained, we expect an upward revision to net profit guidance in a few months' time.

Tim: IPO gains total PLN 92m

Tim reported that a secondary offering of 3.057 million shares was a success, with PLN 91.7m raised in capital which will be allocated toward investments.

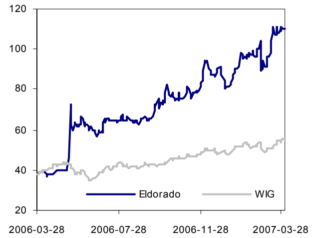
Eldorado (Sell)

Current price: PLN 115 **Target price: PLN 83.78**

Analyst: Kamil Kliszcz
Last Recommendation: 2007-04-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 280.1	4 140.1	223.4%	4 581.1	10.7%	5 041.0	10.0%	Number of shares (m) *	13.3
EBITDA	49.0	112.9	130.3%	126.6	12.2%	141.3	11.6%	MC (current price) *	1 526.1
EBITDA margin	*3.8%*	*2.7%*		*2.8%*		*2.8%*		EV (current price) *	1 752.4
EBIT	31.8	85.1	167.8%	95.6	12.4%	106.0	10.9%	Free float	71.0%
Net profit	20.9	57.9	177.7%	67.2	16.1%	77.1	14.7%		
P/E	36.6	26.3		22.7		19.8		Price change: 1 month	*17.0%*
P/CE	20.0	17.8		15.5		13.6		Price change: 6 month	*48.6%*
P/BV	7.0	4.0		3.5		3.0		Price change: 12 month	*186.5%*
EV/EBITDA	19.7	15.5		13.7		12.0		Max (52 week)	111.4
Dyield (%)	0.3	2.4		0.4		0.5		Min (52 week)	37.2

** incl. stock issue to BOS shareholders*



The current price of Eldorado's stock is 30% over our target, prompting us downgrade to SELL. Investors have already discounted the planned acquisitions, but we will probably have to wait for specifics until mid-year, when the company is going to hold an SPO. We do not see any reasons to revise our forecasts for now, but the FQ1 earnings figures will give us an idea of what kind of purchasing synergies are achievable after Eldorado's merger with the BOS group.

Stokrotka branches out into gourmet grocery chain

Eldorado opened the first "Stokrotka Premium" gourmet grocery store this month in Rybnik, at the "Plaza" shopping mall. The decision to split the supermarket chain into two brands was a very smart move. Market penetration with "gourmet grocery" stores is still low, so, there is plenty of room to expand. The next two stores (ca. 1300sqm in area, offering premium grocery and deli brands) will be opened in Lublin and Sosnowiec.

Rabat Pomorze will not join Eldorado

According to *Rzeczpospolita*, Rabat Pomorze's Supervisory Board decided not to join the Eldorado group, and instead to build its own a retail chain. Rabat is a wholesaler (with its own logistics depot) and manager of the local "Sieć 34" chain of stores which generated sales of PLN 3 billion last year (the sales figures are not consolidated in Rabat Pomorze's accounts; on a standalone basis, Rabat Pomorze generated PLN 200m sales and a PLN 4m net profit last year). This is bad news for Eldorado: the takeover of Rabat Pomorze would facilitate a speedy geographic expansion (depending on the supply arrangements with "Sieć 34"). Rabat Pomorze offered access to the countrywide segment of local neighborhood stores (1109 outlets with an average area of 90sqm).

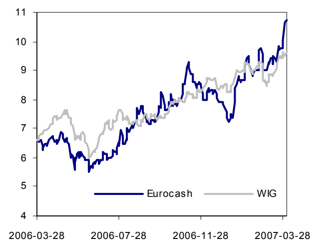
Eurocash (Sell)

Current price: PLN 10.4 **Target price: PLN 7.38**

Analyst: Kamil Kliszcz
Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	1 687.1	3 683.3	118.3%	4 011.4	8.9%	4 354.8	8.6%
EBITDA	70.2	89.8	27.9%	108.4	20.7%	115.1	6.2%
EBITDA margin	*4.2%*	*2.4%*		*2.7%*		*2.6%*	
EBIT	44.7	58.2	30.3%	76.8	31.9%	85.5	11.4%
Net profit	32.6	41.5	27.6%	56.6	36.2%	65.1	15.0%
P/E	40.8	32.0		23.5		20.9	
P/CE	22.9	18.2		15.1		14.4	
P/BV	7.6	6.8		5.7		5.1	
EV/EBITDA	18.5	14.9		11.9		11.0	
Dyield (%)	0.0	1.5		1.6		2.1	

Basic data (PLN m)	
Number of shares (m)	127.7
MC (current price)	1 329.8
EV (current price)	1 371.9
Free float	34.8%
Price change: 1 month	*18.9%*
Price change: 6 month	*39.9%*
Price change: 12 month	*63.4%*
Max (52 week)	10.7
Min (52 week)	5.5



Eurocash has still not revealed any concrete acquisition plans that would justify the current price of its stock. Because we do not see any reasons for a revision, we are reiterating our SELL rating on Eurocash.

Merger with KDWT

Eurocash reported that it was going to merge with KDWT to facilitate more effective utilization of synergy benefits and faster operational integration of the tobacco and impulse product segments with other FMCG ranges. KDWT is a wholly-owned subsidiary of Eurocash, hence, the merger will not change much in the company's organization, but will speed up the implementation of the strategy to enlarge the company's impulse buy market.

Others

Kogeneracja (Buy)

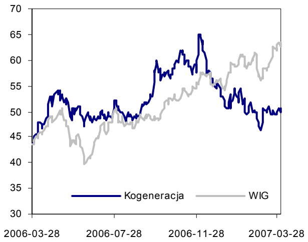
Current price: PLN 50.4 Target price: PLN 61.8

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	780.2	851.2	9.1%	812.5	-4.5%	829.0	2.0%
EBITDA	164.5	180.4	9.7%	178.8	-0.9%	184.5	3.2%
EBITDA margin	*21.1%*	*21.2%*		*22.0%*		*22.3%*	
EBIT	72.0	86.2	19.8%	88.0	2.0%	96.9	10.1%
Net profit	33.4	50.8	52.2%	53.7	5.7%	62.1	15.7%
P/E	22.5	14.8		14.0		12.1	
P/CE	6.0	5.2		5.2		5.0	
P/BV	1.1	1.0		1.0		0.9	
EV/EBITDA	6.7	6.0		5.7		5.3	
Dyield (%)	1.4	1.6		5.6		5.4	

Basic data (PLN m)	
Number of shares (m)	14.9
MC (current price)	750.2
EV (current price)	1 102.5
Free float	
Price change: 1 month	*7.3%*
Price change: 6 month	*-13.0%*
Price change: 12 month	*12.1%*
Max (52 week)	65.0
Min (52 week)	45.0



Warm winter temperatures will hurt Kogeneracja's FQ1'07 earnings results, causing sentiment to dwindle in the near term.

Lower CO_2 emission credits curbed for 2008-2012

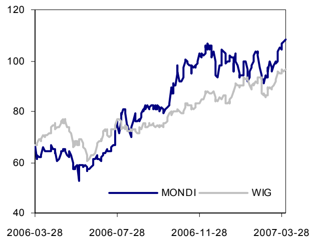
The annual CO_2 emission credits allocated to Poland for the years 2008-2012 are 208.5m tons, i.e. 3% more than in the previous period (2005-2007), but 27% less than the Polish government wanted. The credits were allocated based on calculations by the European Commission. Poland only used 203.1m tons of the emissions quota granted for 2005, but continued economic growth and booming production will lead to an increase in CO_2 emissions. The emission cutbacks could cause an increase in electricity prices, and indirectly, also in manufacturing prices. On the other hand, a lower supply of emission credits will keep their prices high. Since we do not know how the credits will be allocated between the different companies, we are unable to assess their potential impact on Kogeneracja.

Mondi (Reduce)

Current price: PLN 113 **Target price: PLN 80**

Analyst: Michał Marczak
Last Recommendation: 2006-12-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 282.5	1 443.9	12.6%	1 603.4	11.0%	1 673.1	4.3%	Number of shares (m)	50.0
EBITDA	304.5	434.9	42.8%	466.5	7.3%	480.9	3.1%	MC (current price)	5 650.0
EBITDA margin	*23.7%*	*30.1%*		*29.1%*		*28.7%*		EV (current price)	5 649.7
EBIT	197.2	326.4	65.5%	368.9	13.0%	380.9	3.2%	Free float	19.0%
Net profit	135.4	270.0	99.4%	303.3	12.3%	313.2	3.3%		
P/E	41.7	20.9		18.6		18.0		Price change: 1 month	*19.2%*
P/CE	23.3	14.9		14.1		13.7		Price change: 6 month	*37.3%*
P/BV	5.8	5.7		5.4		5.1		Price change: 12 month	*73.6%*
EV/EBITDA	18.4	13.1		12.1		11.8		Max (52 week)	108.5
Dyield (%)	3.5	4.3		4.4		4.3		Min (52 week)	52.8



Contrary to expectations, Mondi gained only PLN 110/share, mainly on rallying paper prices. We assumed in our valuation model that the average price of paper in FY2007 will be 4% higher than in FY2006, driving earnings performance. The market is even more optimistic in its expectations. We will see who is right in the next few months. We are going to review our earnings projections for Mondi after the FQ1 earnings release. For now, we are reiterating our REDUCE rating.

Investment plans

Mondi Świecie is going to invest EUR 50m this year, mainly in machine upgrades. In June, the company will pay EUR 38.8m to revamp the first paper machine, and up its capacity from 130,000 to 180,000 tons. The investment will start to yield returns after six years. The remaining EUR 12.2m will be allocated to enhance the capacity of another machine set to be overhauled in 2008. In addition, Mondi is trying to obtain a permit for another project in a location in Świecie worth EUR 320m - a lightweight recycled paper machine. With the new machine in place, the company will compete with Mondi's Czech factory. The investment plans have been public knowledge for some time. We did not take the impact of the new machine into account in our earnings projections and valuation of Mondi Świecie. We think that the machine will lead to a deep cutback in dividends (if any at all) which will coincide with a downturn in paper prices (another phase in the cycle).

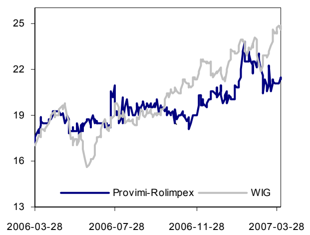
Provimi-Rolimpex (Hold)

Current price: PLN 21.3 **Target price: PLN 21.81**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-12-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change
Revenues	1 015.5	1 315.9	29.6%	1 369.3	4.1%	1 423.8	4.0%
EBITDA	57.1	73.5	28.7%	93.1	26.8%	107.0	14.9%
EBITDA margin	*5.6%*	*5.6%*		*6.8%*		*7.5%*	
EBIT	43.8	54.0	23.3%	73.3	35.8%	86.2	17.6%
Net profit	38.4	38.6	0.7%	53.1	37.5%	65.4	23.1%
P/E	19.3	19.2		13.9		11.3	
P/CE	14.3	12.7		10.2		8.6	
P/BV	1.6	1.5		1.3		1.2	
EV/EBITDA	16.0	12.1		9.2		7.5	
Dyield (%)	0.0	0.0		1.0		1.4	

Basic data (PLN m)	
Number of shares (m)	34.7
MC (current price)	739.8
EV (current price)	875.6
Free float	16.2%
Price change: 1 month	*-5.7%*
Price change: 6 month	*9.8%*
Price change: 12 month	*19.7%*
Max (52 week)	23.8
Min (52 week)	17.6



The fact that PZU AM increased shareholding in Provimi is a sign that the tender offer is no likely to be a success. This is understandable given that the offered price does not factor in the takeover of full control over Rolimpex. The grain market does not offer great profit opportunities to animal feed producers at the moment (FQ1 is expected to be weak), but there are some signs that thing are going back to normal (gradual decline in the prices of feed-grade wheat: PLN 611/t at the end of March vs. PLN 640/t in February). As the livestock prices rise, the situation of poultry and pig producers is improving, and prices of feed can be raised. We recommend to HOLD provimi-Rolimpex.

Management's stance on tender price

The management of Provimi-Rolimpex determined that the proposed tender price (PLN 21.31) agrees with the stock's fair value, and that the increase in equity interest by Provimi Holding will contribute to the company's growth and effectiveness. The management also pointed out the unfavorable trends currently seen in the grain and feed markets, and said that they expected an improvement only after the next harvest, signaling that Provimi-Rolimpex's first-half earnings performance might disappoint investors.

PZU AM exceeds 10% threshold

PZU AM exceeded the 10% shareholding threshold in Provimi-Rolimpex.

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Previous ratings revised in this Monthly Report:

BPH

Recommendation	Accumulate	Hold	Buy
Date issued	2007-01-09	2007-02-05	2007-03-05
Price on day of recommendation	938.50	1080.00	910.00
WIG on day of recommendation	50477.49	55314.03	51917.31

BZ WBK

Recommendation	Hold	Hold	Hold	Accumulate	Reduce	Accumulate
Date issued	2006-07-10	2006-08-04	2006-11-29	2007-01-09	2007-02-05	2007-03-05
Price on day of recommendation	188.00	190.00	208.50	225.00	266.50	228.10
WIG on day of recommendation	42875.60	43507.40	49344.90	50477.49	55314.03	51917.31

Eldorado

Recommendation	Accumulate	Hold	Reduce	Accumulate	Hold	Reduce
Date issued	2006-08-04	2006-09-06	2006-11-07	2006-11-24	2006-12-05	2007-02-05
Price on day of recommendation	65.00	66.50	78.00	78.00	92.90	96.00
WIG on day of recommendation	43507.40	45033.33	48767.01	49701.36	51680.97	55314.03

Elektrobudowa

Recommendation	Accumulate	Hold	Hold	Accumulate	Hold
Date issued	2006-08-01	2006-08-17	2006-10-05	2007-01-09	2007-02-05
Price on day of recommendation	68.20	78.00	85.40	105.00	119.00
WIG on day of recommendation	45894.89	43402.61	44267.46	50477.49	55314.03

Koelner

Recommendation	Accumulate	Hold	Hold	Hold
Date issued	2006-07-28	2006-10-03	2006-11-21	2007-01-29
Price on day of recommendation	37.00	43.86	59.00	54.00
WIG on day of recommendation	45750.76	44209.10	48300.38	53487.96

Kredyt Bank

Recommendation	Hold	Hold	Accumulate	Accumulate	Hold	Hold
Date issued	2006-07-10	2006-07-28	2006-08-04	2006-10-31	2006-12-11	2007-01-09
Price on day of recommendation	17.00	16.90	15.70	16.80	22.50	20.20
WIG on day of recommendation	42875.60	45750.76	43507.40	47761.04	52166.51	50477.49

Kredyt Bank cont.

Recommendation	Accumulate
Date issued	2007-02-20
Price on day of recommendation	21.56
WIG on day of recommendation	54712.06

Millennium

Recommendation	Hold	Reduce	Hold	Reduce	Hold	Hold
Date issued	2006-07-26	2006-10-03	2006-10-26	2006-12-05	2007-01-09	2007-01-29
Price on day of recommendation	5.95	6.44	6.79	7.80	8.05	10.14
WIG on day of recommendation	44063.27	44209.10	47951.50	51680.97	50477.49	53487.96

Previous ratings on securities revised in this Monthly Report:

Millennium cont.

Recommendation	Reduce	Hold
Date issued	2007-02-05	2007-03-07
Price on day of recommendation	11.60	10.05
WIG on day of recommendation	55314.03	51482.87

Pekao

Recommendation	Accumulate	Hold	Accumulate
Date issued	2007-01-09	2007-02-05	2007-03-05
Price on day of recommendation	226.90	260.00	231.60
WIG on day of recommendation	50477.49	55314.03	51917.31

PKO BP

Recommendation	Reduce	Reduce	Reduce	Reduce	Sell	Reduce
Date issued	2006-07-10	2006-08-04	2006-08-17	2006-11-13	2006-12-05	2006-12-11
Price on day of recommendation	38.00	38.00	38.50	41.20	45.70	48.50
WIG on day of recommendation	42875.60	43507.40	43402.61	49032.64	51680.97	52166.51

PKO BP cont.

Recommendation	Reduce	Hold
Date issued	2007-01-09	2007-03-05
Price on day of recommendation	48.00	45.10
WIG on day of recommendation	50477.49	51917.31

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

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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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