30 September 2008

Periodic Report

BRE Bank Securities

Equity Market

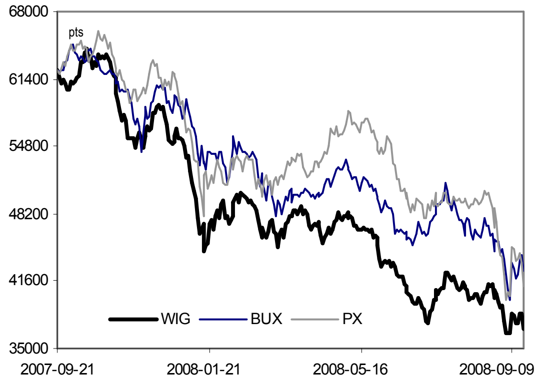
Macroeconomics

Monthly Report

October 2008

WIG	36 855
Average 2008E P/E	10.8
Average 2009E P/E	9.8
Avg daily trading volume	PLN 1145m

WIG vs. indices in the region



Analysts:

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

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

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

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

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

Macroeconomic Analyst
BRE Bank Macroeconomics Team

Equity market

It is clear from the huge price volatility that investors are unable to assess the impact of the American financial crisis on the world economy, especially now that Paulson's plan has been rejected. At present, the most likely scenario is a market slide-down as new information from the world economy flows in and as companies' Q3 earnings are published. We believe analysts will be cutting their FY2009 forecasts, which we think are over-optimistic in the current situation.

Company news

Banks. The Polish banks will be indirectly affected by the foreign banks' financial problems. The cost of financing will go up, which will exacerbate the pressure on deposit spreads. Provided there is no direct impact from the crisis, such a scenario has already been priced in. ING BSK should fare the best in this situation, while the big players will experience the greatest squeeze on their margins (i.e. PKO BP as well as Pekao, which will be forced to respond to the actions of its main competitor).

Gas&Oil. Recent changes in the macroeconomic settings have improved the outlook for Orlen's and Lotos's refining business. We recommend overweighting them vs. PGNiG.

Telecommunications. In the period of significant uncertainty, telecoms will function as a defensive sector. We are upgrading our rating on TPSA to hold.

Media. TVN's good earnings and the increasing likelihood that *Dziennik* will be discontinued, which strengthens Agora's position, are the key reasons why the sector should outperform the market.

Metals. In the last months of the year, stockpiles should grow at exchanges worldwide, due to the seasonal spike in capacity utilization at mines. Until then, copper prices and KGHM stock will be under pressure. A medium-term buy opportunity.

Construction. We reiterate our view that the most attractive stock is Budimex, Mostostal Warszawa and Polimex Mostostal. We have a positive view of Elektrobudowa and Erbud and we are neutral on Ulma and PBG.

Ratings. We are upgrading our ratings on the following stocks as of the release date of this monthly report: Kredyt Bank (Buy), Millennium (Buy), Pekao (Hold), PKO BP (Buy), Telekomunikacja Polska (Hold).

Table of Contents

Equity market

Weaker macroeconomic data and the fall of US financial giants triggered a panic selloff in stock markets across the world. The positive effect of falling oil prices on world economy, which we wrote about last month, was vastly overshadowed by the drama surrounding Lehman Brothers, Merrill Lynch (bought by Bank of America), and AIG ($80bn bailout by the US government). With correlation between world markets at over 90%, the state of the economy is of secondary importance. What is unfolding before our eyes will go down in history books right next to the Great Depression of the 1930s.

US investment firms as we knew them are no more, and the US government is taking steps to nationalize a part of the country's financial system. The $700 billion "bail-out" plan for the financial industry brought momentary calm to financial markets, but was rejected by the House of Representatives. The volatility that followed showed that investors today are not sure what the real consequences of the US financial crisis will be for the global economy, whether the US rescue plan (a new bailout proposal is in the making) will be enough to protect the country's financial system from crashing, to what extent the "American disease" will spread to other markets, or how the bank industry's recovery through lending restrictions will affect the real economy (further tightening of liquidity). The ripple effect has already made it to Europe (the case of Fortis). The questions remain unanswered.

The most probable scenario at the moment is that the market will sag under the weight of economic data, most notably United States data (which shape sentiment) and company earnings for the third-quarter, which is looking bleak. Analysts are poised to lower their 2009 forecasts which are probably too optimistic given the current climate. For example, the EPS growth forecast for the DAX index is 20%. Historically, earnings projections made at the bottom of a bull market were gloomier than reality. In the near term, markets could be affected by hedge funds which, after a period of weak performance, might face a spate of withdrawals (funds disclose their portfolios at the end of each quarter or toward the end of the year).

From the standpoint of foreign investors, Poland is among the emerging markets which enjoy a solid, or even relatively buoyant macroeconomic environment, but, on the downside, it is exposed to the foreign policy of Russia, which is responsible for the bulk of investments made in the CEE region. Unwinding of positions in Russian markets usually means unwinding in the whole region. Foreign investors accounted for as much as 41% of total WSE trading volumes in H108, and they will continue to shape WSE stock performance. Polish investment funds face another round of massive withdrawals on global financial fears, although it is worth stressing that investors have been remarkably cool in the past few months even as banks stepped up the war for their savings (8% p.a. interest rates on deposits). Pension funds remain the most pro-active equity buyers, although their equity holdings have dropped below 27%. If they were to increase this allocation by just 1 percent, this would be tantamount to demand worth PLN 1.4bn.

Financial system is bursting at the seam

There are two main aspects of the US (for now) financial crisis: the issue of bad loans and liquidity, which cause banks to face spectacular bankruptcies or gigantic losses, and the issue of how this is going to affect the economy which is bound to go into long recession without the support of a strong financing system (as demonstrated by Japanese economy). Cases like AIG, Merrill Lynch (ML), or Lehman Brothers (LB) revealed the close ties between all financial organizations in the world. And what we have seen so far is probably just the first act, or the spark which is bound to set off a chain reaction of unforeseeable proportions. Soon, most probably during the third-quarter earnings season, other US banks, as well as European and Asian banks, will be required to reveal the extent of losses suffered in the aftermath of the American credit crisis.
Example: Concerns are mounting over large and excessively leveraged European banks, including Deutsche Bank which has a leverage ratio of 50 and liabilities equal to 80% of Germany's GDP, and Barclays with a leverage ratio of 60 and liabilities equal to the total GDP for the UK. One of the first European banks to face bankruptcy was Fortis (leverage ratio at 30) which had to be bailed our by Belgium, the Netherlands, and Luxembourg who took over more than EUR 11bn-worth of its assets to provide liquidity. The EBC, unlike the Fed, has no technical or legislative tools to make such bailouts.

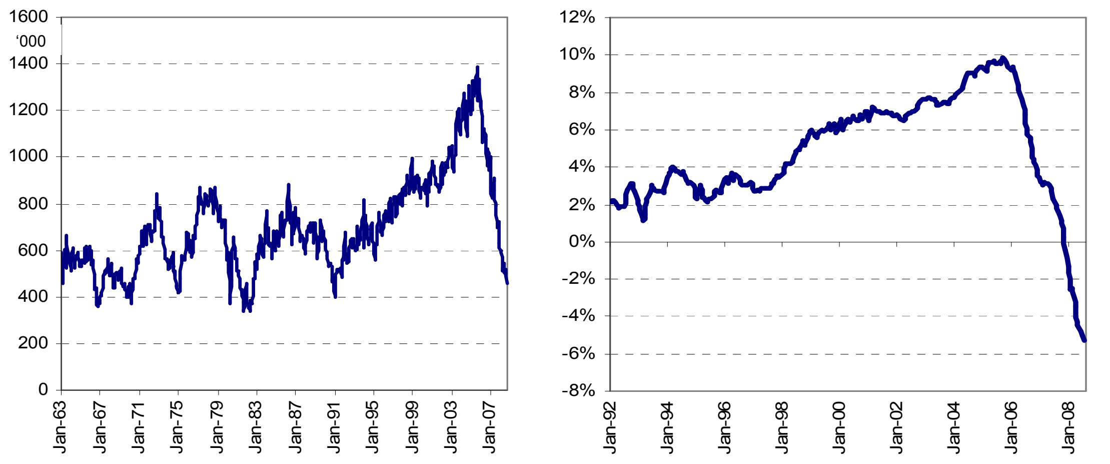
Since the beginning of the crisis, US banks have written down 280 billion dollars while increasing equity by $184 billion. The inability to build up capital at a time when property prices are falling inevitably leads to a further slowdown in lending, in turn affecting the already–cooled real economy. Capacity usage in the US industry had decreased to 78.7%, and production continues on a downward curve, as demonstrated by the manufacturing industry (automobiles) and, still, construction. At the same time, there are growing concerns over unemployment and consumption, and the circle closes with restricted access to increasingly expensive credit. The crisis was to be contained with the US government's bailout plan which, however, failed to pass through the House of Representatives. In exchange for helping banks unload their "bad assets," the government asked for their shares so that taxpayers could share in profit once those institutions recovered. The plan also allowed the government to buy troubled assets from pension plans, local governments, and small banks. The $700bn bailout was to be disbursed in stages: the first $250bn release was slated for right after bailout act entered into force, followed by $100bn subject to approval by the US President, with the remaining $350bn payout subject to further review by the Congress. The fact that the aid was supposed to be doled out in installments suggests the US government itself was not really sure how its bailout proposal would influence the banks and the economy. While subject to severe criticism, the bailout was a glimmer of hope which is now gone. There is no doubt that the Bush administration is going to come up with a new proposal soon.

At the moment, the stability of the financial system is an absolute priority if there is to be a return to the equity market (best-case scenario) instead of a crisis comparable to the Great Depression (worst-case scenario). In the best-case scenario, stabilization of the financial system (by a bad-debt wipeout) is only the first step which should be followed by initiatives aimed at putting the economy back on a growth path close to its potential. Predictions about how long this process could take range between one year and 4-5 years. Another prerequisite for the US economy to achieve balance is stabilization of the housing market. During the Savings and Loan Crisis of the 1980s and 1990s, markets eventually rebounded, discounting the upcoming sustained economic revival. In the worst case, the consequences of the current crisis will be similar to those witnessed in the 1930s (unemployment rate at 20%).

US housing slump weighs on the world

Market observers indicate that the key to assessing the situation is the US housing market (prices down 16% from last year) which influences the entire economy (consumer demand), and the condition of banks (asset depreciation). Recent developments in other parts of the world revealed the degree of global correlation between US and other banks, which are forced to revise mortgage security. In August, housing starts fell to 0.895 million from 0.954 million in July, and housing permits fell by over 80,000.

US new homes sales (left), y/y property price movement



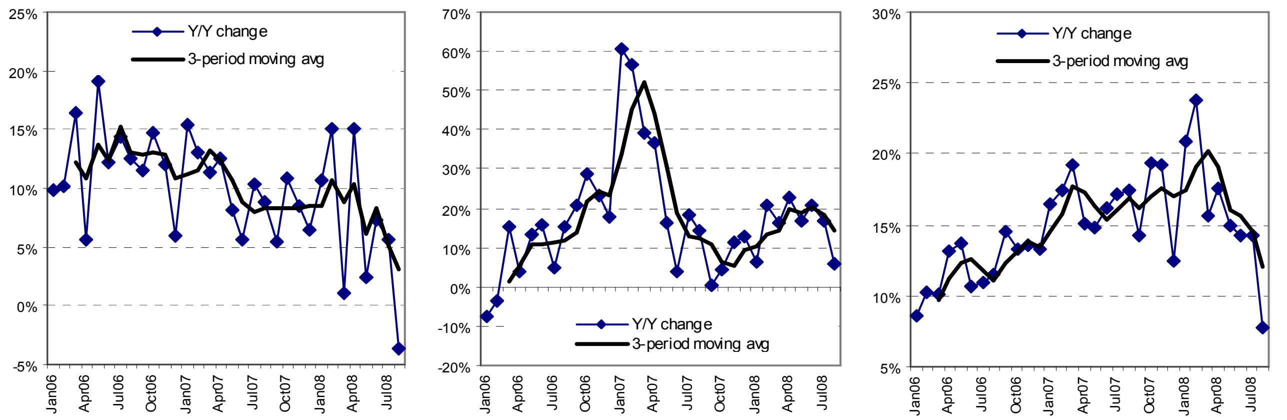
Source: Bloomberg

The problems faced by the housing market do not change: oversupply, dwindling consumer sentiment, and limited access to financing as banks struggle with liquidity issues. A slowdown in housing construction is affecting the level of investments as percentage of GDP, the labor market, and a continued downward move in prices. According to Commerzbank research, equilibrium will not be reached before late 2009 / early 2010, and banks will be forced to continue marking down the value of their assets. In Europe, similar problems are faced by Spain, Ireland, and, increasingly, the UK. The resulting weaker-than-expected macroeconomic data will underpin risk aversion among investors.

Polish economy no help for the stock market

August brought disappointing production and sales data which not only confirmed that a slowdown is upon us, but also made future economic predictions look overly optimistic. The current consensus is that the GDP growth rate will fall to 4.0-4.5% in H208, marking a year-on-year increase of a little over 5%. But these predictions were based on stronger sales forecasts (expectations for August were 12% y/y, actual growth was 7%). If these trends are confirmed by September data, macroeconomists might be forced to revise their expectations for this year and next.

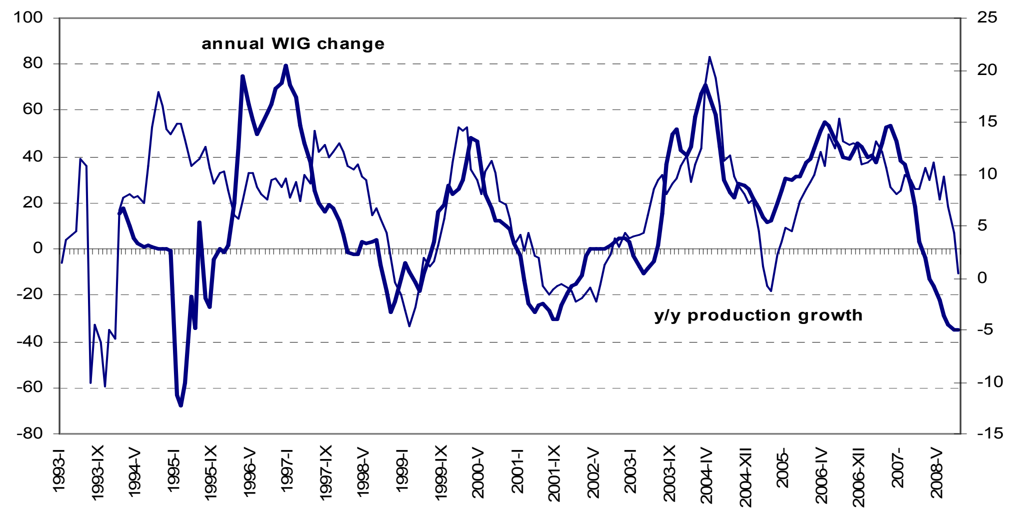
Industrial production (left), construction output, retail sales (y/y change)



Source: Central Statistical Office (GUS)

Below is a revised July chart which shows year-on-year changes in industrial production (3M average) versus WIG movements. According to our theory about cycles and their regularity offered in the July Monthly Report, the current cycle should bottom out some time in October or November. The nature of the current global crisis makes the data shown below pure statistics. A key factor here is the economic situation of EU countries which buy 78% of Poland's total exports (Germany buys 25%).

Annual percentage change in WIG index (left-hand scale) vs. industrial production growth (3M avg.)

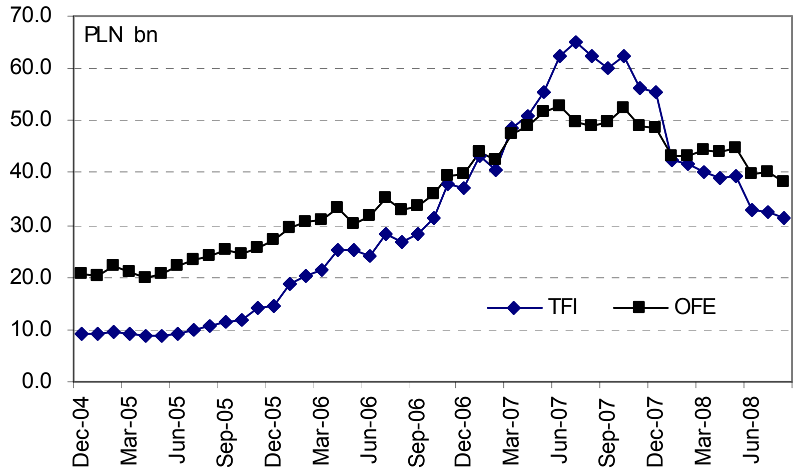


Source: Central Statistical Office (GUS)

Polish financial institutions

As a result of fund withdrawals from investment funds and the bear market on the WSE, the value of equity portfolios is again higher at open pension funds (OFEs) than at investment funds (TFIs). Moreover, in contrast to investment funds, which may be faced with further withdrawals when the markets panic, pension funds have money that could be used to purchase more shares. In August, equities (PLN 38bn) accounted for a mere 27% of OFE's assets (PLN 140bn)

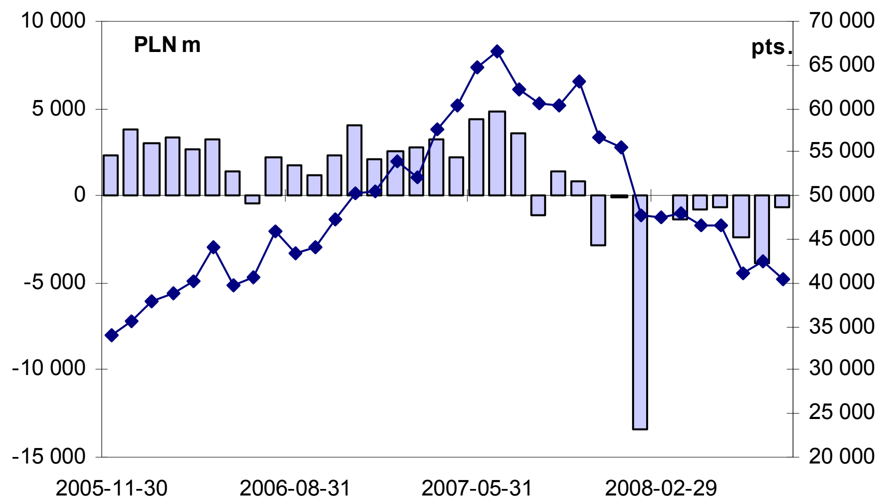
TFI and OFE equity assets



Source: Analizy on-line

Despite the downturn in the stock markets, August was a fairly placid period for investment funds. According to Analizy on-line, net withdrawals reached PLN 892m, which, compared to the previous months, can be described as stabilization. Since the start of the year, PLN 24bn has been withdrawn from investment funds, i.e. 80% of the funds that were contributed in 2007. As American investment banks went bankrupt in September, withdrawals did not surge, which may indicate that customers had “come to terms” with their losses, choosing to freeze their assets in the long term. Nonetheless, when further waves of panic hit the world markets, withdrawals may start at the WSE as well, and the banks will not be help.

TFI net inflows/outflows vs. WIG



Source: Analizy on-line

We predict that in 2008, the ratio of loans to deposits in the banking system will increase to 108%, which means that banks will no longer be able to take advantage of their excess liquidity to expand their lending. Banks are currently aggressively competing for customer deposits (APRs on one-year term deposits exceed 8%); it is therefore very unlikely that they will be actively selling investment fund shares in the upcoming quarters – in fact, the opposite effect may be expected. In absolute numbers, stock market investment by individuals is back at its 2006 level, but much below that relative to total savings. The banks' approach may change if the cost of financing in the interbank market decreases, which will not happen until liquidity is reestablished in the international financial markets and interest rates are cut. This is unlikely to happen in the upcoming months. Of course, customers will have to be persuaded that historical return on stocks has been good relative to interest on deposits.

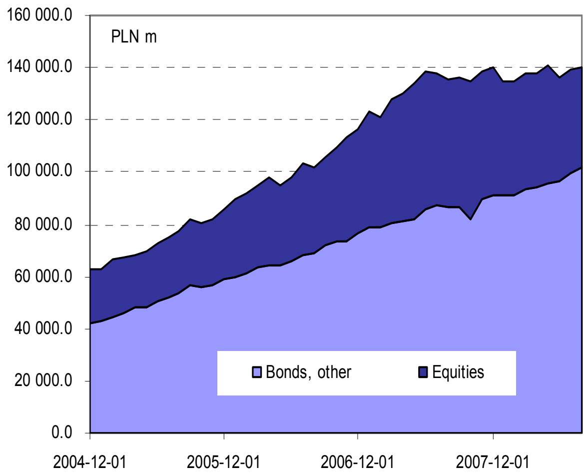
Total household savings

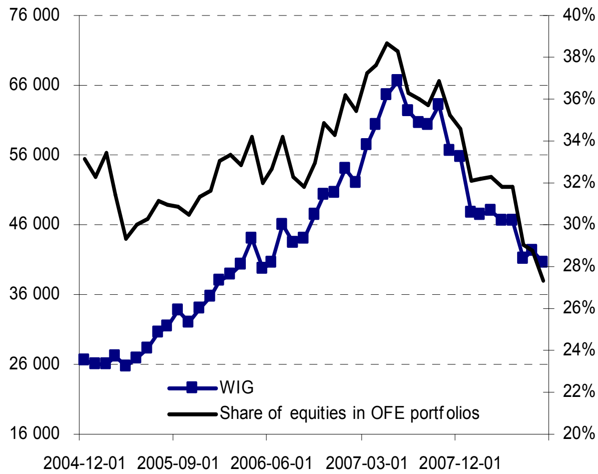
(PLN bn)	2004	2005	2006	2007	Q1'07	Q2'07	Q3'07	Q4'07	Q1'08	Q2'08
direct equity holdings	21.1	25.8	45.0	56.4	53.5	69.8	65.3	56.4		41.7
bonds and notes	20.9	18.9	12.9	10.9	12.5	11.5	11.1	10.9		10.8
investment funds (TFI)	30.4	45.2	72.7	110.4	88.4	109.2	108.8	110.4	87.0	75.3
unit-linked savings policies	13.5	18.4	27.5	35.1	30.0	36.2	37.0	35.1		30.9
pension funds	62.6	86.3	116.6	140.0	127.3	138.3	139.3	140.0		136.4
deposits	209.8	220.8	239.4	262.8	243.9	239.7	247.3	262.8	284.8	292.3
cash in circulation	50.8	57.2	68.9	77.2	70.2	73.4	75.6	77.2		82.0
TOTAL	**409.1**	**472.6**	**583.0**	**692.8**	**625.8**	**678.1**	**684.4**	**692.8**	**684.9**	**671.9**
change		**63.5**	**110.4**	**109.8**						
change		15.5%	23.4%	-1%						
Household savings as percentage of GDP	**44.4%**	**48.1%**	**55.7%**	**59.2%**						
TFI as percentage of GDP	**3.3%**	**4.6%**	**6.9%**	**9.4%**						

Source: Analizy on-line

OFEs have PLN 140bn of assets under management, of which 27% is allocated to equities. They are still the most "demand-oriented" investors. According to our estimates, OFEs have bought PLN 2.9bn-worth of equities since the start of the year, which is not very significant for the market as a whole given how much has been withdrawn from the TFIs. A medium-term risk for WSE-listed stocks is European Commission's push for limits on OFE equity investment to be lifted, in particular as regards the 5% limit for foreign investment. Proceedings against Poland were launched at the end of 2007, based on article 56 of the European Treaty which prohibits all restrictions on the movement of capital between EU member states. As a result, within 2-3 years, OFEs may significantly increase their investment in the foreign markets, which will reduce the "regular" stream of cash allocated to the shares of the Polish companies.

Allocation of OFE assets





Source: Analizy on-line

Macroeconomics

Although inflation had been expected to peak in August, it actually did not exceed the July level with annual inflation rate remaining at 4.8%. As we expected, despite last year's high base, the significant decreases in food and fuel prices (1.6% and 1.9%, respectively) prevented it from getting any higher. Nonetheless, the high base effect can still be observed in core inflation rates. Given the downward trends on petroleum and food prices, we are expecting headline inflation to continue decreasing to 4.5-4.6% in September (not without impact here will be the statistical effect of the high base from the fall of 2007). In December, headline inflation may decrease to below 4%. We stress, however, that we are expecting higher core inflation rates in the upcoming months.

In August, four of NBP's six core inflation estimates were expected to increase. It is worth noting that core inflation excluding most volatile prices increased to 5.0% y/y. Two other inflation indices which are closely monitored by the Monetary Policy Council and analysts also increased significantly: core inflation excluding food and fuel prices (4.0% y/y vs. 3.5% y/y in July) and core inflation excluding food and energy prices (2.7% y/y vs. 2.2% y/y in July). It should be remembered, however, that the year-on-year increases in all core inflation indices were largely determined by the low base effect of August 2007 (we all remember the decrease in broadband prices). Month on month, core inflation excluding food and fuel prices was 0.15%, while core inflation excluding food and energy prices was 0.1%, which shows that inflation measured with these indices is decelerating. We do not believe, however, that these data will sway the MPC. In our view, core inflation rates may remain at similar levels in the upcoming months. Due to the high "inertia" of core inflation, more radical decreases will not come until early 2009. We believe the first interest rate cut may come when the y/y core inflation index decreases for the first time.

In August, industrial production severely disappointed analysts - for the first time since 2005, industrial production fell year-on-year by 3.7% y/y vs. +0.3% y/y consensus. We interpret this data as a confirmation of a clear downward trend in production, signaled earlier by economic indicators and PMI movements. The reasons behind the economic slowdown in Poland include a cyclical cooldown in the EU (which cannot be offset by improved exports), and upward pressure on costs (both in the EU and in Poland). We believe that industrial output data will be even worse in the upcoming months (after adjustment for seasonalities). The situation in the construction sector is deteriorating fast (decrease in y/y growth rate from 16.8% in July to 5.9%). The data suggest a significant GDP slowdown, to 4.2-4.6% y/y in our preliminary estimate. In August, producer prices increased by 2.0% y/y, slightly below market consensus of 2.1% y/y. At the same time, the data for the previous month were revised downwards by 0.2pp, to 2.1% y/y. Month-on-month, prices increased slightly in all the categories – which is largely due to revision of July data, which created a base effect leading to higher month-on-month variance. As crude oil prices stabilize around their current levels and the raw materials markets calm down, the pressure on PPI prices will be reduced in the near future (although strong base effects are possible in October - December). The data had a limited impact on the interest rate market due to its limited liquidity.

In August, retail sales slowed down from 14.3% to 7.7%, mostly due to decreases in food and vehicle sales (1.6% y/y and the whooping 17.8% y/y, respectively). The slight deceleration in the other categories appears to be an effect of a lower number of working days. It should be pointed out, however, that the data indicate that consumer demand is gradually slowing down (the systematic decreases in vehicle sales, as well as decreases in sales excluding food and fuel, may indicate that sentiment in households is deteriorating). The slowdown in consumer demand is progressing faster than we expected (we forecasted 1 or 2 quarters of delay vs. production). These data, although not unaffected by one-offs, do not merely make it less likely that monetary tightening will continue; the first interest rate cut is now likely to come sooner rather than later (perhaps as soon as Q1 2009).

Month-on month, employment in the enterprise sector did not change in August for the fourth month in a row, with the annual growth rate at 4.2% (vs. market consensus of 4.5% and 4.7% a month earlier). This is in line with economic sentiment indicators, which show that jobs are still being cut. It should be stressed that this is happening primarily in manufacturing - this is the part of the economy that will be most affected by the global slowdown. Job cuts will surely take place in other sectors as well, but they will come with a certain delay. Our base scenario says that in the upcoming months, employment will contract month-on-month. We were also surprised by salary growth in August. Average salary in the enterprise sector increased by 9.7% y/y (vs. market consensus of 11% and 11.6% a month earlier). This is a much smaller increase than in the preceding months, which does not seem to be an effect of one-offs. Macroeconomic changes (global slowdown which is increasing in strength, liquidity problems arising all other the world, which will soon start affecting the importers of Polish products, and the fact that Polish firms are unwilling to hire more people) suggest that the pressure on salaries in the Polish economy may subside, especially given that threats to the real sphere appear underestimated at the moment. The fact that the Polish economy is more open means that it benefits more when the global economy is booming, but also that it suffers more when there is a global slowdown. As far as salary growth is concerned, it is also important to note the decrease in the “palpable” inflation rate (food and fuel prices), which makes it less likely that second-round effects will appear. Another factor that could dampen salary growth is the high base starting in October (we ascribed the unusual changes in salaries in October 2007 to labor market imbalance and the inflow of graduates, who were able to negotiate much higher pay than in the same periods in the past.) The data, despite all the commotion caused by the declarations on Poland's entry into the euro zone, make it much less likely that monetary tightening will be continued (the Monetary Policy Council and the market expected a clear inflationary peak at 5% and they doubted salaries would slow down). The market reacted with a deep decrease in yield at the short end of the yield curve. The price of a 2-year interest rate swap decreased by 10 bps.

After the first eight months, budget deficit stands at PLN 325m, which is just 1.2% of the PLN 27.2bn deficit planned for 2008. In the same period last year, there was a PLN 274m surplus. Compared to last year, both revenue and expenditure are lower as percentage of FY targets (61.4% vs. 68.7% and 56.1% vs. 60.7%, respectively). On the revenue side, as in the previous months, EU funds are underused at mere 36.3% of the target. This automatically implies some reductions in expenses. Once again, the subsidy to the Social Security Fund was at a relatively low level (55.1% of the budgeted amount vs. 63.6% last year). As a result, the budget is once again being rescued by the low expense outturn. According to the Finance Ministry, by the end of the year the budget deficit will increase to ca. PLN 23bn. Just as last year, the government will avail itself of the option to postpone some expenditure to the next fiscal year (in particular, the subsidy to the Social Security Fund, which, with the economy cooling down, may be under greater pressure then, although it will be aided by reductions in retirement privileges). With such means available to the government, the market now sees the PLN 18.2bn deficit planned for next year as a fairly realistic goal (which automatically implies that the convergence criteria will be easily met), especially given the current balanced state of the budget. Doubts pertaining to the convergence plan will probably start to be raised once the first signals of a deeper economic slowdown appear.

In July, the current account deficit decreased from EUR 2,292m to EUR 1,222m, thereby strongly diverging from the EUR 1,900m consensus. All of its components improved. The income account increased the most (from EUR -1254m to EUR -812m), thanks to the limited scale of dividend payments sent abroad, as well as the increase in transfers (from EUR 664m to EUR 1,007m). The latter account improved, among other things, thanks to the higher inflows of EU funds (EUR 596m net) than in the preceding months. It is likely that these trends will persist in the second half of the year, as budget revenues from EU funds largely remain to be realized. The balance of trade improved less radically (from EUR 1,706m in June to EUR 1,563m in July), thanks to the fact that exports outpaced imports (22.7% y/y vs. 22.4% y/y). These growth rates are, however, distorted by the appreciation of the PLN, which peaked in July (PLN volumes show slower growth rates, which has a significant impact on profitability, especially in the case of exporters). Moreover, due to their high variability, we do not think too much weight should be attached to such monthly data and that it is too early to say that, for example, exports are experiencing a sudden revival. The balance of services also improved slightly (to EUR 146m), having returned to its typical levels after a temporary slump into the red. According to our estimate, the current account deficit decreased to 4.3% of GDP from 4.4% a month earlier. We maintain, however, that in the upcoming months this ratio will continue to gradually worsen, due to the fact that the trade deficit is expanding as the domestic demand "spills over" abroad, as well as to the economic slowdown in Euroland, where 80% of Polish exports go. By the end of the year, the current account deficit should approach 5.0% of the GDP.

Current ratings by BRE Bank Securities S.A.

Company	Rating	Target Price	Date Issued
AB	Hold	12.80	2008-08-18
ACTION	Accumulate	24.00	2008-08-18
AGORA	Buy	43.40	2008-09-22
ASBIS	Buy	9.50	2008-08-18
BUDIMEX	Buy	96.30	2008-08-14
BZWBK	Accumulate	203.70	2008-09-04
CIECH	Buy	77.50	2008-08-13
CYFROWY POLSAT	Buy	16.70	2008-09-12
ELEKTROBUDOWA	Buy	246.20	2008-09-05
EMPERIA HOLDING	Buy	166.10	2008-06-03
ERBUD	Buy	80.20	2008-08-18
EUROCASH	Buy	14.00	2008-08-06
HANDLOWY	Buy	84.80	2008-09-04
ING BSK	Buy	700.00	2008-08-19
KĘTY	Buy	109.40	2008-08-04
KGHM	Accumulate	108.00	2008-05-12
KOELNER	Hold	24.20	2008-02-27
KOMPUTRONIK	Buy	33.90	2008-08-18
KREDYT BANK	Buy	16.00	2008-09-30
LOTOS	Buy	39.60	2008-08-13
MILLENNIUM	Buy	8.25	2008-09-30
MONDI	Buy	54.20	2008-08-06
MOSTOSTAL WARSZAWA	Buy	68.90	2008-08-22
NETIA	Buy	4.00	2008-07-01
NOBLE BANK	Buy	11.09	2008-08-21
PBG	Hold	245.10	2008-09-12
PEKAO	Hold	167.30	2008-09-30
PGNiG	Accumulate	4.07	2008-08-14
PKN ORLEN	Buy	45.50	2008-09-17
PKO BP	Buy	51.90	2008-09-30
POLIMEX MOSTOSTAL	Buy	7.30	2008-08-05
TELEKOMUNIKACJA POLSKA	Hold	22.60	2008-09-30
TVN	Accumulate	21.00	2008-08-13
ULMA CONSTRUCCION POLSKA	Hold	100.20	2008-09-05
WSiP	Buy	18.40	2008-08-22
ZA PUŁAWY	Hold	113.40	2008-08-11

Ratings issued in the last month

Company	Rating	Old	Target price	Date Issued
AGORA	Buy	Buy	43.40	2008-09-22
BZWBK	Accumulate	Buy	203.70	2008-09-04
CYFROWY POLSAT	Buy		16.70	2008-09-12
ELEKTROBUDOWA	Buy	Buy	246.20	2008-09-05
HANDLOWY	Buy	Accumulate	84.80	2008-09-04
PBG	Hold		245.10	2008-09-12
PKN ORLEN	Buy	Hold	45.50	2008-09-17
ULMA CONSTRUCCION POLSKA	Hold	Reduce	100.20	2008-09-05

Ratings changed as of 30 September 2008

Company	Rating	Poprzednia Rating	Target price	Date Issued
KREDYT BANK	Buy	Accumulate	16.00	2008-09-30
MILLENNIUM	Buy	Accumulate	8.25	2008-09-30
PEKAO	Hold	Reduce	167.30	2008-09-30
PKO BP	Buy	Hold	51.90	2008-09-30
TELEKOMUNIKACJA POLSKA	Hold	Reduce	22.60	2008-09-30

Recommendation Statistics

	All					Issuers who are clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	0	0	7	5	24	0	0	1	1	7
% of total	0.0%	0.0%	19.4%	13.9%	66.7%	0.0%	0.0%	11.1%	11.1%	77.8%

Financial Sector

Pengab up 2.6pts to 39.7pts in September

Assessment of the current situation improved by 1.7pts m/m to 30.6pts, while the outlook for the future went up by 3.6pts to 48.9pts. The assessment of the situation in PLN on-call accounts has deteriorated, while other types of deposits are getting more popular. Deterioration has been observed in PLN cash and mortgage loans, and in corporate loans above EUR 1m in value, while interest in FCY loans grew. A slight month-on-month increase in the demand for stocks, bonds, shares in mutual funds and life insurance policies has been observed. As far as future outlook is concerned, an improvement is expected for current and term deposits, both in PLN and in foreign currencies, as well as for cash and consumer loans. Deterioration is expected for mortgages, corporate loans exceeding EUR 1m in value and FCY loans. The general financial climate indicator (WOKKB) decreased in September vs. August by 3.5 pts to 47.5 pts. The real test for the banking industry will come in October. The current increases in Pengab are indicative of a post-summer revival rather than of a lasting trend. The sentiment is still high, but it may be difficult for it to keep growing.

Mortgage loans – August 2008

Mortgage loan portfolio increased by 36.6% to PLN 145.4m. In nominal terms, the portfolio expanded by over PLN 8.6bn. In line with expectations. The nominal growth may appear impressive, but one should bear in mind the appreciation of the CHF (5.8%). At a constant exchange rate, the portfolio expanded by PLN 4.2bn, which is this year's average level (PLN 4.8bn in July, PLN 4.5bn in June, PLN 3.9bn in May). We believe the peak season of mortgage loan sales is already over this year, although demand may pick up as customers worry about mortgage availability after the Financial Supervision Authority introduces its new guidelines.

UPB observes a decrease in demand for loans

According to the Union of Polish Banks, the number of Poles taking mortgages has decreased vs. last year. Nevertheless, the total value of mortgages granted is still on the rise. By July, the total value of all mortgages was 15% higher y/y. This is, however, slower growth than last year. In addition, the number of mortgages being repaid decreased by 20,000, which means that many people repaid their loans early. Despite the high indebtedness in the population, loans are being repaid on time with the exception of a mere 1.25% of all mortgages. In the long term, loan sales should stabilize and growth rates of several dozen percent should be gone. However, the recent information on the Financial Supervision Authority’s plans to introduce a new recommendation that will curtail over-liberal loan-granting practices may induce people to speed up their home-buying decisions, which will result in a temporary increase in sales.

Central Statistical Office – Banks earned PLN 8.6bn in H1

The bank industry generated a net income 20.5% higher than year earlier (PLN 7.05bn in H107), and an operating income of PLN 10.4bn (+19.5% y/y). Income from bank operations amounted to PLN 24.2bn (+18.8% y/y), chiefly due to interest and fee income (respectively: PLN 14.3bn, up 25.2% y/y, and PLN 5.6bn up 6% y/y). Operating expenses increased 15.9%, slightly less than income. Loan loss provisions surged 73% compared to the same period a year earlier, and accounted for 0.6% of average net loans. Loans other than to financial organizations increased 30.6%, which was almost twice the rate of deposits (16.2%). Pre-tax and net profit margins in H108 were lower than a year earlier (11.6% and 9.7% respectively vs. 15.1% and 12.3%). This is a reiteration of the data earlier announced by the KNF. Note that listed banks recorded a year-on-year earnings increase by just under 5%, suggesting that smaller players enjoyed a stronger momentum. It is also important to note that both the KNF and the CSO report the industry's aggregate standalone earnings, which do not factor in the earnings of subsidiaries, but do include dividends paid by them to the banks. Dividend payments are usually made in the first half of the year. Therefore, the H1'08 results reported by GUS include dividends on the subsidiaries' 2007 profits. We are expecting the net income of the banking sector to slow down in H2’08.

Banks toughen their loan-granting policies

In an interview, Mr. Andrzej Kopyrski, Pekao VP in charge of corporate banking, said that he was expecting corporate lending to continue growing at over 20% in FY2008. He stressed that as companies become more indebted, banks toughen their loan-granting policies and increase prices. This information is in line with expectations. Good news for banks with strong corporate lending businesses, e.g. ING BSK and Handlowy.

CEOs of PKO BP, BZ WBK and Pekao speak about the banking sector

In interviews for the *WSJ*, the leaders of Poland’s top banks spoke about the impact of the crisis on international financial markers, and especially of the Lehman Brothers bankruptcy, on the Polish banks. They all agreed that the Polish banking sector should not be directly affected by these events. Indirect effects are a different story. They will include the cost and the accessibility of financing in the foreign markets, as well as the impact on Poland's macroeconomic situation. According to the CEOs, it is currently important to have a stable capital base and to tread carefully, with emphasis on savings. They believe margins on loans will increase, while loan-granting polices should be tightened. At the same time, interest rates on deposits should continue growing. Supervisory authorities will become more strict. We concur. Loan-granting policies should indeed be tightened. With the loan/deposits ratio at over 100%, banks need to seek financing abroad, which may be very difficult to achieve given what is going on there. The demand for deposits from Polish customers is bound to increase sharply, and the price to be paid for them will as well.

Loans will get more difficult to get

The Financial Supervision Authority has warned that the bank’s loan-granting policies are too lax. The approach to risk differs by bank. The KNF considers it safe if 30% of family income is spent on debt repayment (excluding the cost of living). It is acceptable if this share is between 30-50%, but anything higher constitutes significant risk. The Authority looked at more than just LTV. A survey it had conducted earlier indicated that some banks are too liberal in their credit risk assessment. The KNF is planning to issue another recommendation, developed jointly with the UPB, which would regulate these two issues. It would be comparable to the “S” recommendation and it is supposed to be created by the end of this year, It might put an end to excesses of the most aggressive players. It will for sure bind the hands of banks supervised by the KNF. Foreign banks might come in and open branches, pushing their Polish peers out. The devil is in the details. Perhaps the new guidelines will only eliminate excessive risk-taking, while allowing the banks’ offers to remain elastic. If, however, it is too restrictive, putting the banks’ offer into a straitjacket, foreign competitors are bound to take advantage.

Competing for the wealthy clients

The Swedish SEB joined the competition for the wealthy customers, hoping to double their number from 100 next year. In order to use SEB's private banking services, it is necessary to have at least PLN 1m in assets, not necessarily in cash. The bank’s competitive advantage lies in that it offers all the investment products available in the world. The Polish private banking segment includes Pekao (PLN 13.6bn AUM), PKO BP, BRE Bank (7,500 customers and PLN 5bn assets), Raiffeisen Bank (5,600 customers and PLN 2.7bn assets), Citi Handlowy, Noble Bank, Fortis Bank, with BZ WBK joining in a few months ago. The segment is set for growth, and new players are lining up. In a few years, banks may draw significant income from this source.

The Y generation is a tasty morsel for banks

People aged 15–24 constitute 16% of the population of Poland. By 2012, 2.5m people will enter the labor market. 35% of them have a current account (vs. 80% in Western Europe). In the USA, 35% of people in this age bracket chose to get a car or educational loan, vs. 1% in Poland. According to Deloitte, Lukas Bank, BZ WBK and mBank have already prepared products tailored for the young. Interesting numbers, hitherto unknown. This confirms that at present Poles are not heavy users of banking services and that the growth outlook for the sector is therefore very good in the long term.

Credit card defaults on the rise

In its report on the condition of the Polish banking sector in H1’08, the Financial Supervision Authority (KNF) expressed concern about the increase in credit card NPLs. At the end of June 2008, credit card debt was PLN 10.5m, having increased 18% YTD. At the same time, the ratio of NPLs to total loans increased by 0.1pp, indicating that NPLs outpaced new loans. At the end of H1’08, this ratio for credit cards stood at 6.3%. The KNF also noted that defaulted mortgages increased from PLN 1.4bn to PLN 1.5bn, only in PLN-denominated loans. As far as foreign-currency denominated loans are concerned, the quality of the portfolio improved. It seems therefore that the increase in mortgage NPLs must have been due to the increasing interest rates. For the PLN-denominated mortgages, the NPL/total loans ratio is currently at 1.7% (unchanged YTD), while for the foreign-currency denominated loans, it decreased from 0.7% to 0.6% y/y. The KNF believes that the deterioration in loan portfolio quality stems from the loan-granting policies of some banks and the relaxation of criteria applied. We agree that the situation must be monitored on an ongoing basis. However, in the medium term asset quality indicators keep improving. A year ago, the ratio of NPLs to total loans stood at 6.9% for credit cards, 2.1% for PLN-denominated mortgages and 0.9% for foreign-currency denominated mortgages. We believe the NPL/total loans ratio may go up, as loan portfolios from the time of the recent credit boom – when household loans increased at almost 40% y/y – age. Provisions will go up, as the potential collect and restructure NPLs decreases. Not good news, but hardly a surprise.

Bank Pocztowy attacks

Bank Pocztowy (BP) is launching new products with an aim of luring clients in with deposits and cash loans. The bank plans to increase the number of retail accounts from 190,000 now to 220,000 by December, and add a further 100–120 thousand in 2009. BP launched an online “store” which sells term deposits, for now only in BP accounts, but soon the website will offer also deposit products of other banks. In October, BP will start offering Swiss-franc mortgage loans, hoping to boost per-customer product sales. At the moment, BP has 347,000 retail clients of whom about 100,000 took out a cash loan, over 200,000 have personal accounts, and the rest have term deposit accounts. Of the 100,000 borrowers, only 17,000 have personal accounts with BP. The bank wants to reorganize its sales network and sell simple products through post offices and intermediaries. In Q109, BP plans to launch credit cards and services targeted to micro-businesses. As proven earlier by Postbank, post-office banking can be a success thanks to a wide sales network and accessibility. Still, aside from competitive products, BP also has to put in place good customer service, and train post-office employees. For example, simple cashback operations are handled with much uncertainty and are preceded by “consultations” with colleagues.

DnB Nord to enter the mortgage loan market

The Bank, which has just concluded its merger with BISE, is planning to present its mortgage loan offer within a month. It owns 50 branches, but the network is not geographically optimized due to fact that it was created through the mergers of several banks. So as not to wait until restructuring has been completed, the offer will mostly be available from financial brokers. In the first month, the Bank wants to achieve sales of several dozen million zlotys. Mortgages are to attract new customers to the Bank. The new strategy, however, will be ready at the beginning of 2009. At present, the Bank has a mere 30,000 customers. Monetia, which has 200 banking agencies and which was taken over together with BISE, will sell mortgages, and it will also evolve into a broker of simple products from other banks. The Bank is in a rush to introduce mortgage loan sales in order to benefit from the final quarters of the credit boom. This may turn out to be a good move, as long as the Bank has good credit analysts who can accurately evaluate risk. Given the Bank’s size, we believe that it does not pose a significant threat to competitors. This will change as far as mortgage loans are concerned if the Bank gets to sell PLN 100–200m per month.

Alior Bank – CEO interview

Mr. Wojciech Sobieraj has been talking of the planned launch of Alior Bank for several weeks. For now, he has said nothing of any new products that could make his bank stand out among its competitors. Of course, the Bank’s offer will include most of the most common products. The Bank is also hoping to be competitive on service quality and availability. The new branches are supposed to be larger than the smaller branches, which are very popular at the moment; most of them will have approximately 250 sq. m. According to the CEO, the average cost of opening one branch should not exceed the sector average of PLN 1m. He also denied that the Bank was so aggressive in pursuing new branch locations that landlords sometimes terminated other banks’ lease agreements to make space for it. Due to the fact that the profile of the branches is different (they are larger), other banks did not compete for the same space. During the upcoming few weeks, we can expect the press to publish such articles increasingly often. We are reiterating our view that Alior Bank might grow to become a medium-sized bank, but for now we do not see it as a threat in 2008. When the branches will be launched, the Bank will still be small, while its brand will be neither highly recognized nor trusted, which is crucial. With time, however, this will change, which will be speeded up chiefly by good products. We believe that if the customers like the Bank’s offer, H2’09 could see competitive pressure in the sector increase.

Alior Bank – access to Euronet

AB will have 85 own ATMs, but it has also signed an agreement with the Euronet network, which will give its customers access to a further 1,500 ATMs. Euronet will also manage Alior Bank’s own ATMs. Such outsourcing is supposed to generate savings for the bank. A clever move. Alior Bank will have a wide access network right from the start. Several dozen branches in the major cities will suffice. For customers in travel, the key is access to the internet and to ATMs.

Polish banks had to have traded with Lehman Brothers

Most financial institutions claim that they are not exposed to the risk stemming from LB bankruptcy and that they have no agreements with it nor hold any of its securities. Poland, however, was not an international exception, and trading must have taken place, if only on forex contracts. This is normal business activity for FCY lenders. However, even if a bank had open positions, they were most likely settled by LB - we are talking of really small amounts. The State Treasury did business with LB for sure. We believe that the scale of potential losses by any of the banks is insignificant as far as sector-wide earnings are concerned.

KNF to look at structured products

The Financial Supervision Authority (KNF) has scrutinized agreement templates, sales procedures and advertising messages used to sell structured instruments. As such instruments are complex, customers may not understand them in full. Frequently, life and endowment policies are key elements of such products. There are no legal regulations pertaining to them. The KNF will consider issuing a recommendation to govern their sales. A move in the right direction, which should lead to greater transparence. Everything hinges on what the recommendation says. If it is correctly formulated, it may help the market.

Awareness of new players' brands

SMG/KRC conducted a survey of brand awareness concerning new entrants into the banking market. Allianz Bank, which commissioned the study, was recognized by 58% of those surveyed; Alior Bank, by 15% and HSBC Bank, by 26%. We believe that Alior's 15% score may be perceived as success, given that the plans to create the bank were announced just six months ago, KNF's operating license was granted a few weeks ago, and neither operations nor advertising (e.g. TV or outdoor) have started yet. Customers may associate the Allianz brand with insurance and the international financial conglomerate. The case of HSBC is similar – although its operations in Poland are limited in scale, customers associate it with the big financial group.

All of BGŻ to Rabobank?

At the September 30 special meeting of shareholders, the decision will be taken on the future of BGŻ's IPO, which was previously planned to be concluded in Q3'08. According to *Puls Biznesu*, the shares may not end up on the stock market, because Rabobank made an attractive bid, allegedly with a premium. Rabobank is not interested in seeing BGŻ floated. Likewise, the State will probably get much more this way than through the market. The Treasury is already a minority shareholder. We think such a scenario is very likely.

Getin Holding – PDK / Fiolet merger final

Two of Getin Holding's subsidiaries, PDK and Fiolet, are officially merged. The share capital of PDK as the acquiring company was increased to PLN 55.4m. The company's new name is FIOLET–PDK. The merger was carried out via a share placement to Fiolet shareholders. GH's stake is now 25.6%,plus a call option on more shares which would add up to a 32.8% interest. FIOLET–PDK will continue in the business of financial intermediation. The merger was aimed at internal restructuring. The two companies used to sell mainly GH products, and the merged intermediary can offer a complete range of key loan products (mortgages, car loans, cash loans). We have a neutral view on GH's holdings in FIOLET-PDK; the important thing is the sales network.

Getin Holding – Buyback program launched

GH has decided to launch the buyback program approved by shareholders on March 28, 2008. The objective of the program is to contain share dilution stemming from the ongoing management option plan which entails a conditional share capital increase achieved via the issue of up to 4m shares. The program will begin on September 8. Up to PLN 70m from GH's own funds will be spent. The program will end on March 28, 2011 at the latest, with 1m shares bought by October 31, 1m between November 1, 2008 – December 31, 2009, 1m in 2010 and 1m afterwards. The Management will make a decision on the starting date of the buyback every year, by October 15. This program has been previously announced. By October 31, i.e. during the next two months, 1m shares are to be bought, with unit price not exceeding PLN 17.5 per share. In other words, PLN 17.5m can be spent on the buyback. Given the current market valuation of PLN 9.65 per share, PLN 9.65m will be spent.

Getin Holding – Share Buyback

During the share buyback conducted between September 8 and September 12, Getin Holding purchased 145,000 shares which comprise 0.02% of its share capital. The average price was PLN 9.78 apiece. We are awaiting further information. The objective of the buyback was to prevent EPS dilution that could result from the management stock option plan. Therefore, it has no impact on long-term valuation.

BPH – 775 corporate clients

At the end of August 2008, BPH had 775 corporate clients. As per earlier information, the Bank would want to have 1,250 such customers by the end of the year. There were 286 of them at the end of Q1'08 and 560 at the end of Q2'08. The Bank currently has 11 corporate centers. If the Bank manages to keep the growth rate observed in the recent months, it should be able to meet its target. We are impressed by how fast the corporate segment is being rebuilt at the bank, given that it had only a few employees and the products, but no corporate centers. In just 8 months, 11 centers were built, with customer acquisitions at almost 100/month. Good news for BPH may be bad news for Pekao. New BPH clients may be coming from various banks, but given that some of the staff transferred to Pekao have returned to BPH, and the customers themselves are used to BPH and its service standards, it is likely that many of them do come from Pekao.

BPH – Strategy, merger

The BPH / GE Money Bank (GEMB) Merger Plan provides that BPH will issue 47.94 million shares, increasing the number of capital-stock shares to 76.66 million. As a result, free float (currently 9.76m shares representing 34% of total MCAP) will represent 12.74% of total MCAP.

Calculated based on yesterday's closing price (PLN 69.6/share, PLN 2bn MCAP), the value of the new bank after the Merger Issue figures to PLN 5.3 billion. Yesterday, GEMB and BPH announced a strategy plan for the new bank spanning the years 2009 through 2011 which sets the ROE target at not less than 20%. Generally speaking, the strategic objectives are very ambitious, although it is hard to assess their feasibility without knowing the operating parameters of GEMB, which reported a considerable drop in net income in H108 (from PLN 207.4m in H107 to PLN 97.9m). What is more, we are unable to determine the amount of net income that the new bank would have to generate in 2011 to achieve a ROE of 20% without knowing the offering price of the new shares. This information is also necessary to assess the amount of goodwill which will arise from the transaction. Summing up, we are missing key figures: the offering price and GEMB financial statements. According to the merger schedule, the banks will make all necessary KNF filings this week, and their shareholders will meet in December to approve the merger plan. The last of the KNF approvals are expected in the first quarter of 2009, followed by completion of the legal merger after which the new bank will go on as an enlarged organization undergoing operational integration. What the ownership structure is going to be after the merger is unknown - GE hinted that it will reduce its interest to 75% max. Right after the merger, GE’s stake in the new bank will be a little over 87%, and the firm is considering different ways of reducing its interests, including a diluting stock offering, which we think is unlikely. Another possible but unlikely solution is to sell the shares on the market below the purchase price. A more probable scenario is that GE could will “park” the shares in one of its companies, or issue convertible bonds (a solution tested with Bank Handlowy). It is still unclear how big an interest GE wants to keep in the merged bank. In order to avoid making a tender offer for the remaining shares, GE has to reduce its interest to no more than 66%.In case of a tender offer, GE would be required to offer a price at least equal to the price at which it bought the shares in the last 12 months, or to the average traded price over past six months. If the tender offer had been announced before 20 July (the final date of GE’s last offer), the price would have been PLN 89.02 a share. Whether GE wants to keep 66%, or 75% of the merged bank remain an open question. According to the 2009–2011 strategy plan, the merged bank aspires to becoming a key player in consumer finance and SME banking, and the number-five bank in the most attractive areas. To achieve this goal, the bank plans to develop new products and keep up to speed with its service range, and intends further to open 220 new branches (adding to the 530 already existing), manage 450 franchise outlets, and operate through 450 mobile agents, 4000 agents, and 2300 sales outlets (car loans). Financial targets for FY2011 include a ROE of 20%, a costs-to-income ratio below 50%, and a capital adequacy ratio of over 10%. Pre-tax synergies are expected to reach PLN 282m in 2011. The financial targets were set based on an assumption of average annual asset growth rate of 19% (from PLN 42bn at year-end 2009 to PLN 59bn in 2011). GEMB posted a ROA of 3.2% in 2007, and 1.2% in H108. In Q108, at a net income of PLN 74.3m, ROA stood at 1.9%. Based on this, we agree that a long-term ROA of around 2% is a feasible objective for the new bank. If ROA were to meet 2%, net income would have to rise well above PLN 1 billion.

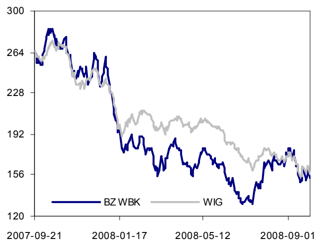
BZ WBK (Accumulate)

Current price: PLN 152.5 Target price: PLN 203.7

Analyst: Marta Jeżewska
Last Recommendation: 2008-09-04

(PLN m)	2006	2007	change	2008F	change	2009F	change
Net interest income	1 333.5	1 653.9	24.0%	1 661.0	0.4%	1 726.3	3.9%
Interest margin	3.3%	3.5%		3.7%		3.7%	
Revenue f/banking oper.	2 365.2	2 940.6	24.3%	3 350.7	13.9%	3 697.0	10.3%
Operating income	1 084.1	1 395.2	28.7%	1 601.4	14.8%	1 746.0	9.0%
Pre-tax income	1 065.5	1 391.4	30.6%	1 459.0	4.9%	1 568.6	7.5%
Net income	758.2	954.7	25.9%	1 068.2	11.9%	1 177.9	10.3%
ROE	20.7%	23.0%		21.9%		20.2%	
P/E	14.7	11.7		10.4		9.4	
P/BV	2.8	2.6		2.1		1.8	
D/PS	6.0	6.0		3.0		4.4	
Dyield (%)	3.9	3.9		2.0		2.9	

Basic data (PLN m)	
Number of shares (m)	73.0
MC (current price)	11 126.4
Free float	29.5%
Price change: 1 month	*-13.2%*
Price change: 6 month	*-15.2%*
Price change: 12 month	*-40.1%*
Max (52 week)	285.0
Min (52 week)	130.0



In Q3, trends from H1 have continued. Demand for loans was high among household as well as corporations. We also saw household deposits grow rapidly, while corporate deposits found themselves under increased pressure. It was in mid September that competition in the sector tightened, due to the situation in the market and the loans/deposits ratio across the sector. Therefore, interest income will not be impacted for now. Assets under management continued to shrink. In this market context, BZ WBK will feel the pressure on its earnings in some segments (equity markets), but we believe it will be able to offset this with expanding volumes, just as in the previous quarters. Just as in the previous quarters, additional pressure will come from operating costs due to the network expansion program which is underway. We also believe the cost of risk will be much higher. Q3'08 earnings should not be materially better than previous quarters' earnings. Nonetheless, we believe our FY2008 net income forecast of PLN 1.07bn is achievable. All that is required is an average of PLN 250m net income per quarter till the end of the year. This income forecast entails an '08 P/E of 10.4. With our target price of PLN 203.7 per share, the upside potential is 34%. We are reiterating an accumulate rating.

Handlowy (Buy)

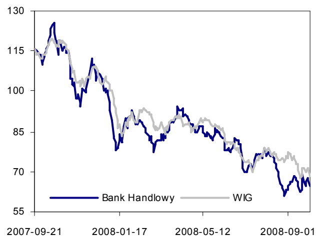
Current price: PLN 65 **Target price: PLN 84.8**

Analyst: Marta Jeżewska

Last Recommendation: 2008-09-04

(PLN m)	2006	2007	change	2008F	change	2009F	change
Net interest income	1 026.4	1 204.4	17.3%	1 329.7	10.4%	1 459.6	9.8%
Interest margin	3.0%	3.2%		3.3%		3.5%	
Revenue f/banking oper.	2 096.3	2 447.1	16.7%	2 523.8	3.1%	2 759.3	9.3%
Operating income	801.8	990.3	23.5%	1 042.2	5.3%	1 243.7	19.3%
Pre-tax income	832.1	1 034.2	24.3%	972.6	-6.0%	1 143.7	17.6%
Net income	657.1	824.2	25.4%	787.8	-4.4%	926.4	17.6%
ROE	12.3%	15.0%		13.9%		15.6%	
P/E	12.9	10.3		10.8		9.2	
P/BV	1.6	1.5		1.5		1.4	
D/PS	12.0	3.6		4.1		4.8	
Dyield (%)	18.4	5.5		6.3		7.3	

Basic data (PLN m)	
Number of shares (m)	130.7
MC (current price)	8 492.9
Free float	25.0%
Price change: 1 month	*2.8%*
Price change: 6 month	*-28.6%*
Price change: 12 month	*-43.3%*
Max (52 week)	125.6
Min (52 week)	61.0



We believe it will not be possible to reach the 20% ROE target without exceptional trading gains as well as one-offs. Earnings might be improved through savings, for example layoffs (we will see the full picture as regards personnel costs after layoffs in Q4'08, when the terms of notice expire). However, even with a moderate net income forecast of PLN 788m, Bank Handlowy is trading at an '08 P/E of 10.8, which is the sector average. At the current market price, the dividend yield is very attractive. If we assume the same payout ratio as last year (75% of the net income), '08 DPS stands at PLN 4.54, which entails 7% gross dividend yield. The yield on 10Y T-bonds is 5.86%. We are reiterating a buy rating.

After Q3'08, the Management will decide whether a ROE of 20% can be achieved in FY2008

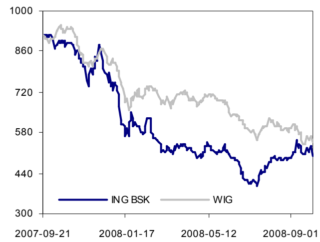
CEO Sikora said that he had considered the target realistic at the onset of 2008, but this had become more difficult after Q2 earnings had come in. Q3'08 will allow to determine the chances of meeting this target. We believe it is not attainable. We would be also surprised if it is attained within the next two years and we would consider this good news. We believe that if the 20% ROE target is met this year, it will not be due to interest and fee income, but rather trading, savings and provisions reversals.

ING BSK (Buy)

Analyst: Marta Jeżewska

Current price: PLN 500 **Target price: PLN 700** **Last Recommendation: 2008-08-19**

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	936.3	1 048.6	12.0%	1 147.1	9.4%	1 309.9	14.2%	Number of shares (m)	13.0
Interest margin	2.1%	2.1%		2.0%		1.9%		MC (current price)	6 505.0
Revenue f/banking oper.	1 752.2	2 009.5	14.7%	2 386.8	18.8%	2 606.1	9.2%	Free float	19.6%
Operating income	547.6	639.1	16.7%	851.3	33.2%	950.6	11.7%		
Pre-tax income	753.3	787.7	4.6%	942.2	19.6%	884.3	-6.1%		
Net income	591.4	631.4	6.8%	756.2	19.8%	708.6	-6.3%		
ROE	16.2%	16.6%		17.9%		14.5%		Price change: 1 month	*1.9%*
P/E	11.0	10.3		8.6		9.2		Price change: 6 month	*-6.0%*
P/BV	1.7	1.7		1.4		1.3		Price change: 12 month	*-45.7%*
D/PS	27.5	27.9		11.7		14.5		Max (52 week)	920.0
Dyield (%)	5.5	5.6		2.3		2.9		Min (52 week)	395.0



We changed our outlook on ING BSK after a stellar performance in the first half of the year. The bank resisted the pressure created by the equity-market slump and downward trends in debt valuations, and increased revenues by almost 14% compared to a year earlier (adjusted for PLN 25.3m gains from MasterCard divestment, y/y growth was 11%). The key driver here were financial-market transactions with clients, supported by sales of structured instruments which generate additional fee income. But the highlights of the first half were robust volumes (loans up 40% y/y, deposits up 18%, assets up 14%) and the bank's potential to continue expanding its loan portfolio (loans/deposits at 43%). Going forward, we expect a sustained upward momentum in loan sales and widening margins on corporate lending. We also expect bigger payouts in the long term, and we like the compromise as to FY2007 earnings distribution reached between ING BSK's management and shareholders. At a '08E P/E of 8.6 and a '09E P/E of 9.2, ING BSK is the cheapest bank stock on the market. Calculated based on our target price, the '08 P/E figures to 12 ('09E P/E=13).

8% deposit account

ING BSK is offering a three-month non-renewable deposit with an 8% interest rate. To open the deposit, one has to have an account with ING BSK. ING BSK was one of the first banks to launch a deposit offensive this year. The Bank's savings offer has always been very good. Before the banks started to fiercely compete for deposits due to liquidity worries, ING BSK had been offering one of the best savings products (OKO). In the last few quarters, the OKO accounts continued to pay decent interest, but others started to pay more. ING BSK has one of the most liquid balance sheets in the industry, and does not need to take aggressive measures to fund its lending business. In fact, the CEO says that he has no intention of outbidding every offer introduced by other banks, and that the aim is to pay better than average, but only provided that it will not affect market share. We believe ING BSK made a preemptive move, and the fact that it came so early can only be commended. It thereby managed to respond to the expected change in PKO BP's savings offer before it took place. The deposit is for three months, and customers who use it will have opened accounts at ING BSK. Three months will allow the Bank to make it through the three months when competition will be most intense. A term deposit is not a savings account and it cannot be closed early. We see this as a defensive move. If even a liquid bank like ING BSK decides to take such measures, it means that the competitive battle will be fierce and that deposit margins can be expected to shrink. We believe that ING BSK will keep NIM at a sustained level until the end of 2008. On the upside, margins on corporate loans will be expanding.

ING's rating affirmed

Fitch affirmed an AA- rating with a stable outlook for ING BSK's strategic investor, ING. Ratings given to majority shareholders influence their subsidiaries.

Kredyt Bank (Buy)

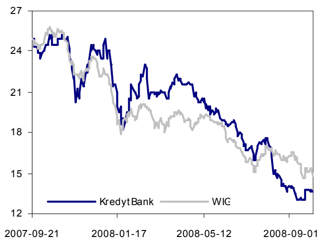
Current price: PLN 13.6 Target price: PLN 16

Analyst: Marta Jeżewska

Last Recommendation: 2008-09-30

(PLN m)	2006	2007	change	2008F	change	2009F	change
Net interest income	780.0	871.5	11.7%	1 020.5	17.1%	1 172.1	14.9%
Interest margin	3.6%	3.5%		3.5%		3.4%	
Revenue f/banking oper.	1 202.8	1 362.5	13.3%	1 545.2	13.4%	1 760.6	13.9%
Operating income	439.8	470.4	7.0%	489.0	3.9%	610.1	24.8%
Pre-tax income	460.6	502.0	9.0%	369.9	-26.3%	417.3	12.8%
Net income	468.1	390.5	-16.6%	299.7	-23.3%	338.0	12.8%
ROE	24.8%	17.9%		12.7%		13.2%	
P/E	7.9	9.5		12.3		10.9	
P/BV	1.8	1.6		1.5		1.4	
D/PS	0.2	0.4		0.5		0.4	
Dyield (%)	1.6	2.7		3.8		2.8	

Basic data (PLN m)	
Number of shares (m)	271.7
MC (current price)	3 694.6
Free float	9.4%
Price change: 1 month	*-2.9%*
Price change: 6 month	*-39.1%*
Price change: 12 month	*-44.0%*
Max (52 week)	25.3
Min (52 week)	13.0



Q2'08 earnings have shown that the Bank is unable to join the elite group of banks which are able to improve their results with the help of sales. Sales were excellent (PLN 1.7bn in mortgages, PLN 813m in consumer finance loans at Żagiel), but with no cost control, recurrent operating income before provisions decreased by 4.4% y/y. We believe that the Bank's earnings will improve in the future, but given Q2'08 results the improvement will be much slower than we expected, and at lower profitability. The key factors driving this will be: pressure on interest margin stemming from the need to seek financing in the interbank market (KBC), competition for retail deposits and cost expansion. However, Kredyt Bank's strong sales capacity, demonstrated in the last few quarters, may give it an edge over competition at the time of a downturn. The Bank should be able to improve its revenues, especially as far as fee income is concerned. Due to the decrease in Kredyt Bank's share price since our last recommendation, we are upgrading our rating from accumulate to buy.

CEO approved

The Financial Supervision Authority approved Mr. Maciej Bardan as the Bank's CEO. Mr. Bardan has replaced Ronald Richardson as the Bank's CEO on March 1, 2008. A technicality related to the provisions of the Polish banking law.

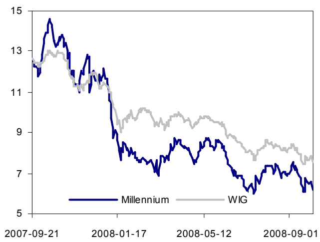
Millennium (Buy)

Current price: PLN 6.2 **Target price: PLN 8.3**

Analyst: Marta Jeżewska

Last Recommendation: 2008-09-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	641.6	771.7	20.3%	967.9	25.4%	1 170.2	20.9%	Number of shares (m)	849.2
Interest margin	2.7%	2.8%		2.8%		2.7%		MC (current price)	5 273.4
Revenue f/banking oper.	1 253.0	1 648.2	31.5%	1 906.2	15.7%	2 216.7	16.3%	Free float	34.5%
Operating income	409.4	651.1	59.0%	714.7	9.8%	855.2	19.7%		
Pre-tax income	370.7	584.6	57.7%	613.8	5.0%	697.2	13.6%		
Net income	300.8	461.6	53.5%	487.3	5.6%	553.5	13.6%		
ROE	13.1%	19.5%		18.2%		18.2%		Price change: 1 month	*-10.5%*
P/E	17.5	11.4		10.8		9.5		Price change: 6 month	*-26.8%*
P/BV	2.4	2.1		1.9		1.6		Price change: 12 month	*-49.3%*
D/PS	0.5	0.2		0.2		0.2		Max (52 week)	14.6
Dyield (%)	8.7	2.7		3.1		3.2		Min (52 week)	6.0



In a nutshell, H1 earnings were good given the pressure on equity market income and expenses. Revenues are still satisfactory. We believe that our FY2008 target of PLN 487m in net income will be met. The upside potential, however, is limited and it does not stem from an improvement in the Bank's business (as in Q2'08, it may be brought about by higher trading income). At the current market price, '08 P/E is 10.8, which is the sector average. The Bank is growing fast, however, gaining market share, and this may continue in the periods to come. We are upgrading our rating from accumulate to buy.

Mortgage loan sales

Millennium is hoping that in H2'08 it will sell more mortgage loans than the PLN 3.1bn extended in H1'08. FY sales, however, should not top PLN 7.1bn (the 2007 figure). The bank reports an increasing popularity of refinance loans (a 24% share in sales in June). It believes that margins earned on mortgage loans remain at a steady, relatively low level, although they do increase in some areas (e.g. high LTV). We forecasted PLN 6.4bn sales. Slightly positive news, but without impact on earnings. Even if we assume that the difference between our and the bank's estimate bears interest throughout the whole year (in actuality, only a few months are left until December), net interest income figures to slightly more than PLN 7m, without including loan loss provisions and increasing costs of financing. The sales forecasts have no impact on our outlook on Millennium.

BCP not selling its foreign assets

In an interview for the Portuguese press, Mr. Luis Pereira Coutinho, a member of the Executive Board, reaffirmed that BCP is not planning to sell its foreign assets. In addition to Poland, the Bank is present in Romania, Turkey, Greece and Africa. This should curtail speculation on the possible divestment from Poland.

Interbank loan

Bank Millennium signed a medium-term syndicated loan agreement with Bayerische Landesbank, BayernLB (Coordinator and Agent), Bank Austria Creditanstalt AG, Commerzbank AG, Erste Group Bank AG, Landesbank Baden-Wurttemberg (LBBW), Raiffeisen Zentralbank Österreich AG, WGZ BANK AG Westdeutsche, Genossenschafts-Zentralbank. The total amount of the loan is EUR 175m (ca. PLN 600m), and the due date is September 2010 with an option to prolong the repayment period by one year (i.e. to September 2011). The Bank wants to ensure financing for its lending business. This means that the lending business is still growing at a pace that makes it difficult to ensure adequate funding. Given the current situation on the interbank market, margins on loans are going up, which could negatively affect the Bank's interest margin.

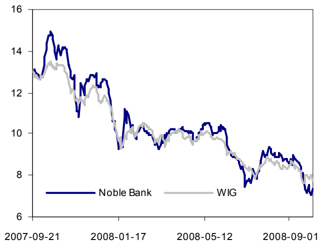
Noble Bank (Buy)

Current price: PLN 7 **Target price: PLN 11.1**

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-21

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	24.1	33.5	39.3%	66.9	99.6%	104.3	55.9%	Number of shares (m)	215.2
Interest margin	4.2%	2.6%		2.0%		1.7%		MC (current price)	1 506.2
Revenue f/banking oper.	97.3	244.5	151.3%	365.5	49.5%	452.4	23.8%	Free float	12.6%
Operating income	45.3	138.1	204.7%	220.4	59.6%	281.7	27.8%		
Pre-tax income	64.8	155.6		207.4	33.4%	252.8	21.9%		
Net income	52.6	126.5	140.2%	164.6	30.2%	202.3	22.9%		
ROE	23.7%	32.4%		26.9%		25.4%		Price change: 1 month	*-13.9%*
P/E	26.6	11.9		9.2		7.4		Price change: 6 month	*-27.7%*
P/BV	5.6	2.6		2.0		1.6		Price change: 12 month	*-43.0%*
D/PS	0.0	0.0		0.0		0.0		Max (52 week)	14.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	7.1



A second-quarter net income of PLN 41m is in keeping with our full-year bottom-line estimate of PLN 165m. Noble Bank is very successful in all of its markets. In mortgage loans, it is increasing market share and achieving above-average growth. In the second quarter, Open Finance brokered over PLN 1.4bn-worth of home loans, generating an 18% increase from Q207, and Metrobank extended loans for PLN 666m, marking an increase by an impressive 62% quarter on quarter and 145% year on year. Amid an equity market slump, Noble Funds TFI and Open Finance made considerable contributions to the quarter's trading income results. OF generated PLN 18.2m revenues from sales of investment products in H108, the same amount as in the same period last year, which is quite an impressive achievement given the general downtrend in trading income in the bank industry. Noble Funds TFI suffered withdrawals like all other investment funds, but generated higher income than last year, when it was launching operations for the first time. We like Noble's plans to introduce credit cards for mass customers, and to develop a line of banking services targeted to SMEs. We are reiterating a buy rating on Noble Bank

Certificates of deposit

As stated in its June 2007 report, the Bank issued 2-year certificates of deposit for a total of PLN 57.5m. Funds will be used to finance mortgage loans as well as loans secured by financial assets. We already knew this was to come. It is one of the methods to obtain funds to finance lending. Given the size of the offering and the size of Noble Bank's lending business, not a significant development.

Supervisory Board member resigns

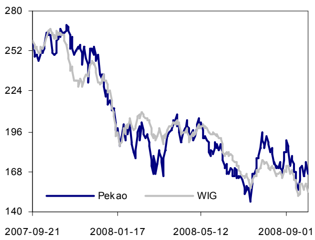
Mr. Marek Kaczałko resigned from Noble Bank's Supervisory Board.

Pekao (Hold)

Current price: PLN 167 **Target price: PLN 167.3**

Analyst: Marta Jeżewska
Last Recommendation: 2008-09-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	4 081.5	4 323.0	5.9%	4 714.8	9.1%	4 959.9	5.2%	Number of shares (m)	262.2
Interest margin	3.7%	3.6%		3.7%		3.7%		MC (current price)	43 789.5
Revenue f/banking oper.	7 571.0	8 314.2	9.8%	7 888.3	-5.1%	8 345.7	5.8%	Free float	36.7%
Operating income	3 830.5	4 509.5	17.7%	4 547.3	0.8%	4 540.7	-0.1%		
Pre-tax income	3 494.1	4 342.4	24.3%	4 422.2	1.8%	4 246.6	-4.0%		
Net income	2 805.2	3 547.2	26.5%	3 569.0	0.6%	3 426.7	-4.0%		
ROE	20.7%	24.7%		23.5%		21.2%		Price change: 1 month	*-7.9%*
P/E	15.6	12.3		12.3		12.8		Price change: 6 month	*-17.7%*
P/BV	3.1	3.0		2.8		2.6		Price change: 12 month	*-32.9%*
D/PS	7.4	9.0		9.6		9.5		Max (52 week)	270.5
Dyield (%)	4.4	5.4		5.7		5.7		Min (52 week)	147.1



Q2'08 net income was in line with our expectations, but this means that our forecast of a decrease in recurrent net income in FY2008 is a real threat. Last year, the Bank's net income was PLN 3.55bn (of which PKN 145m was the sale of shares in CU PTE by the part of BPH transferred to Pekao; we are therefore estimating the recurrent net income at PLN 3.4bn). Our FY2008 net income forecast is PLN 3.57bn, of which PLN 352m is from the sale of a part of CDM Pekao. The forecast does not factor in the sale of the NPL portfolio, which was finalized before the end of September. It will boost Q3'08 earnings, causing '08 P/E to decrease. We still think that the Bank's strategic goals are very ambitious (ROE at 25% minimum, C/I ratio under 40% with revenue growing by 10% p.a. on average through 2010). We believe these targets will not be reached without a significant contribution from one-offs, all the more so that we are expecting growth in the sector to slow down. Due to the decrease in share price since our last monthly report, we are upgrading our rating from reduce to hold. Market valuation is in line with our target price.

Awaiting the new deposit offer

By the end of the year, Pekao will join the banks that have introduced new deposit products. Details have not been revealed yet. We believe the rivalry between the banks will reach its most intense level this fall. Perhaps the bank will avoid the need to offer excessively good terms to customers, but this may entail market share loss, which will dampen its long-term growth potential. Pekao should in fact be keenly interested in increasing its standing in household deposits. Over half of its portfolio are corporate deposits, where we seen significant pressure on volumes, which we believe will persist in 2009 as well.

100 ATMs per year

Pekao SA is planning to install ca.100 ATMs per year in the next few years. Including the Euronet network, 3,347 ATMs are currently free-of-charge for Pekao customers. As of Monday, Pekao customers are no longer able to withdraw money free of charge from BPH ATMs, which was possible during the BPH merger. Some of Pekao's new ATMs will be located near these. The ATM network is very important, but Pekao's is very extensive anyway. The value added by new ATM openings is much smaller than in the case of smaller players, especially when one of the goals is the re-creation of the wide network that was available when BPH and Pekao cooperated with each other.

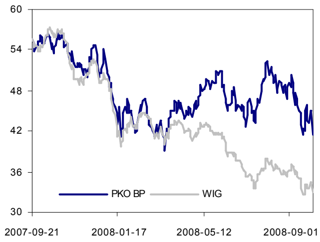
PKO BP (Buy)

Current price: PLN 41.5 **Target price: PLN 51.9**

Analyst: Marta Jeżewska
Last Recommendation: 2008-09-30

(PLN m)	2006	2007	change	2008F	change	2009F	change
Net interest income	3 832.2	4 643.7	21.2%	5 914.9	27.4%	6 479.8	9.5%
Interest margin	4.0%	4.4%		5.1%		4.8%	
Revenue f/banking oper.	6 206.0	7 447.1	20.0%	9 015.0	21.1%	9 774.2	8.4%
Operating income	2 705.8	3 661.5	35.3%	4 873.2	33.1%	5 482.8	12.5%
Pre-tax income	2 701.5	3 609.2	33.6%	4 533.4	25.6%	4 965.1	9.5%
Net income	2 149.1	2 903.6	35.1%	3 628.6	25.0%	3 971.8	9.5%
ROE	22.9%	26.4%		27.5%		25.2%	
P/E	19.3	14.3		11.4		10.4	
P/BV	4.1	3.5		2.9		2.4	
D/PS	0.8	1.0		1.1		1.4	
Dyield (%)	1.9	2.4		2.6		3.3	

Basic data (PLN m)	
Number of shares (m)	1 000.0
MC (current price)	41 500.0
Free float	43.1%
Price change: 1 month	*-15.3%*
Price change: 6 month	*-7.4%*
Price change: 12 month	*-23.9%*
Max (52 week)	56.5
Min (52 week)	39.1



Q2'08 earnings were excellent. Even so, our long-term outlook on the bank remains unchanged as the strong Q2 earnings were mainly owed to a high interest income built on a rising net interest margin, which, at 5.1% (based on total assets) is unsustainable over a long term. As the Bank has been losing market share in retail deposits (a 7% y/y increase vs. a market average of 21%), it has revised its strategy in this segment. This entails very strong pressure on its deposit margin. The Bank shelved for the time being its Eurobonds offering plans, due to the situation currently prevailing in international financial markets. This makes retail deposit acquisition even more important. Moreover, in the long term the margin will be squeezed by the falling interest rates. We are still optimistic about the Bank's long-term growth prospects (greater market share in deposits will allow it to lend more), but we think margins will shrink. We think, however, that the pressure on the Bank's NIM has been partially priced in. We are upgrading our rating from hold to buy.

PKO BP strategy by the end of the year

The Supervisory Board Chair said that the Bank's new strategy would be prepared by the end of the year. The CEO has prepared three variants. In the first scenario, the Bank will not be injected with additional capital and its growth will be limited to the Polish market. In the second scenario, capital will be increased somehow to stimulate the growth of both the Bank itself and its subsidiaries (ca. PLN 4bn according to the SB Chair). In the third, ambitious scenario, the Bank will need even more capital to grow in the Ukraine and perhaps in other countries of the region (several dozen billion zloty will be needed). The CEO would like the new strategy to take advantage of PKO BP's size. Earlier, the Minister of the Treasury said that he was expecting an ambitious strategy that would make it possible to build a strong regional player. We have thought that the strategy will be announced in the fall. The delay is a slightly negative development. All the three variants have been discussed in the press and by analysts. We believe that scenario no. 2 would be optimal. At present, the Bank has many internal problems and enough growth potential in both Poland and Ukraine. Excessive expansion could detract attention from domestic growth.

Interest on deposits goes up

On Monday, the Bank will offer new term deposits: 9M at 5%, 12M at 5.5% and 15M at 6%. These deposits will be on offer for one month, through October 22. Another new offering is the 18M deposit with progressive interest. It will be possible to withdraw funds without losing interest, while deposits allowed to mature will pay 7% p.a. This new offer will be on sale through the end of the year. A news savings account will also be introduced in the near future (5% APR). A strong marketing campaign will be launched. The three term deposits are not very competitive: some banks offer 5.5% on a savings account, which does not require funds to be frozen. The "progressive" deposit should be more attractive, as it offers higher earnings than savings accounts, but it allows funds to be withdrawn. We believe these changes to the offer will inevitably lead to a lower NIM. PKO BP's current customers will surely transfer their funds to these new products, which will not bring new cash to the Bank. We believe this was a necessity, as otherwise the Bank would have to reduce lending. We are awaiting the results.

War for deposits

In his comments to the press, the CEO declared that the new deposit offering has been launched in order to regain market shares. The Bank's NIM will suffer, but in the long term, this should be offset by higher volumes. According to *Rzeczpospolita*, by 4pm customers deposited PLN 110m in the "Progresja" accounts, with PLN 27m deposited in the new regular deposit accounts. The CEO also said that investors should "like" the Q3'08 results. He added that due to the situation in the international markets, no decisions on the Eurobonds will be made at this time. We agree that the Bank should do all it can to regain market shares in household deposits. Next year, retail customers will drive deposit growth, and help make them more stable. It is hard to say how the customers will react to the Bank's new offering. We believe the “progressive” term deposit is the more attractive. The other parts of the offer can be described as “neutral” vs. the market, where similar interest rates are available. However, the PKO BP brand and its access network, which is the widest in Poland, may play an important role here. We believe that in the long term, this will boost the Bank’s volumes, which in turn will boost its earnings. Nonetheless, next year the Bank’s net interest margin may be under strong pressure, which will also impact its income. FY2008 as a whole should be good for PKO BP. In Q3'08, the new pricing of deposits will not have been introduced yet. Therefore, the interest margin should approach the Q2'08 level. At the same time, write-offs should decrease from their high Q2'08 level, at least in Q3’08, which will be further boosted by NPL sales totaling PLN 700m. In Q4’08, however, we will see a gradual decrease in margins coupled with increase in the costs of risk. We are somewhat skeptical about PKO BP’s chances of finding buyers for Eurobonds within the next 6 months, given the current situation in the financial markets.

VP competition

There are nine candidates left in the competition for Management Board VP in charge of the corporate division. Six of the 15 applications sent were rejected for formal reasons. Applications were read on September 23, and interviews will be held on October 6-15. *Parkiet* speculated that the new VP might be Janusz Wojtas, a former BRE Bank VP, who did admit that he was considering running in the contest.

Moody’s rating for the EUR 3bn Eurobonds issue

PKO BP issued the bonds via PKO Finance AB. Unsecured debt was rated Aa2, subordinate debt received an Aa3 rating, and short-term debt was assigned Prime-1, all with a stable outlook. The BFSR rating for PKO BP is C and Aa2/P-1 for local-currency deposits, with a stable outlook. A financial-strength rating of C maps to a baseline credit assessment of A3, which was reinforced by a high probability of governmental support in emergency which Moody's rated as high. The State Treasury is PKO BP’s controlling shareholder with a 51.49% stake. The rating has little influence on the Eurobond issue. No details of the amount or currency of the first installment have been revealed yet. What is more, it is not clear who will buy the bonds and what margins PKO BP will have to pay to place them.

PZU – Inteligo joint venture

PZU and Inteligo are to build an online platform to directly sell policies. It will be launched towards the end of the year. PZU earlier said that it would launch phone and online policy sales in mid-2008. A clever idea on the part of the insurer. It will have a chance to acquire new customers and to expand its target group. Inteligo will broaden its online banking offer. No material impact on earnings, even of PZU pays a broker’s fee to Inteligo.

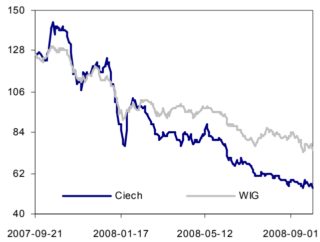
Gas & Oil, Chemicals

Ciech (Buy)

Current price: PLN 53.7 Target price: PLN 77.5

Analyst: Kamil Kliszcz
Last Recommendation: 2008-08-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 174.3	3 415.0	57.1%	4 313.2	26.3%	4 615.2	7.0%	Number of shares (m)	28.0
EBITDA	287.8	493.0	71.3%	633.1	28.4%	723.7	14.3%	MC (current price)	1 502.2
EBITDA margin	*13.2%*	*14.4%*		*14.7%*		*15.7%*		EV (current price)	3 141.0
EBIT	192.0	313.6	63.4%	394.1	25.7%	469.1	19.0%	Free float	42.7%
Net profit	195.7	240.2	22.7%	226.8	-5.6%	271.6	19.8%		
P/E	7.7	6.3		6.6		5.5		Price change: 1 month	*-5.5%*
P/CE	5.2	3.6		3.2		2.9		Price change: 6 month	*-32.9%*
P/BV	1.3	1.1		1.0		0.9		Price change: 12 month	*-58.0%*
EV/EBITDA	7.1	5.4		5.0		4.5		Max (52 week)	143.0
Dyield (%)	1.5	3.9		3.9		3.0		Min (52 week)	53.7



H2 should be much better for Ciech than H1, thanks to restructuring projects and price adjustments in the soda segment. What is more, the effects of Ciech's investments in capacity expansion on several key product lines will manifest themselves in the second half of the year. Further, given the company's huge long-term exposure the EUR/PLN exchange rate fluctuations, the observed depreciation in the value of the zloty will be another driving factor in the coming months. Ciech's stock performance is also likely to be positively influenced by divestment of PTU which is rumored to generate a gain as high as PLN 150m. The Company may also recognize additional gains from the sale of real estate and salt caverns. We approve of the new ideas for the consolidation of the Polish chemical sector, through which Ciech's credit risk should be reduced.

Ciech keen on dumping PTU stake

According to unofficial reports, Ciech plans to wrap up negotiations on PTU sale within a few weeks. After Uniqua's withdrawal, Generali is the only bidder left. Allegedly, it is offering PLN 230m for the shares owned by Ciech (which implies that the total value of PTU is PLN 500m). This price would give Ciech ca. PLN 180m in pre-tax income (the value of PTU shares on its books is ca. PLN 50m). For now, it is hard to say how likely such a scenario is, but it seems that with Uniqua withdrawing, Ciech's bargaining position has weakened, and the actual price may be lower. Given its plans to acquire Anwil and ZAT, Ciech is determined to finalize the transaction quickly, which also strengthens the buyer's bargaining power.

New strategy for the chemical sector

In line with expectations, in September the Ministry of the Treasury revealed its strategy for the privatization of the chemical sector. It is supposed to lead towards the creation of two holdings. The first group would be based on Ciech, including ZAT and ZAK, as well as Anwil, if Orlen decides to divest. The other group would include ZAP and Police, with PGNiG as the potential investor. The privatization processes at the two groups would be concluded in Q3 2009 and H1 2010, respectively. This concept is not new, but interesting new ideas on the technical aspects of this consolidation have been presented as well. We approve of the fact that Ciech, ZAT and ZAK will not be merged just now, but only if the potential investor, who will buy them in one package, decides to do so. We are not entirely sure, however, whether it is such a good idea for these three companies to buy Anwil in a consortium. This purchase (PLN 2bn) would put heavy strain on Ciech's budget (it would be supposed to take up over 50% of Anwil's shares). We also approve of the fact that there will be the option of selling ZAP and Police separately, to different investors.

Lotos (Buy)

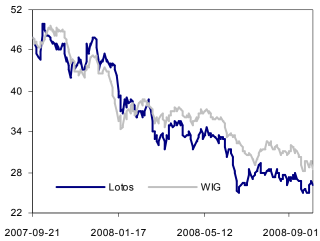
Current price: PLN 26.2 **Target price: PLN 39.6**

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-13

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	12 798.1	13 125.1	2.6%	15 759.0	20.1%	13 414.8	-14.9%
EBITDA	1 095.7	1 019.9	-6.9%	1 068.1	4.7%	767.8	-28.1%
EBITDA margin	*8.6%*	*7.8%*		*6.8%*		*5.7%*	
EBIT	798.3	713.7	-10.6%	721.1	1.0%	339.2	-53.0%
Net profit	679.9	777.2	14.3%	817.1	5.1%	106.9	-86.9%
P/E	4.4	3.8		3.7		27.9	
P/CE	3.1	2.8		2.6		5.6	
P/BV	0.6	0.5		0.4		0.4	
EV/EBITDA	2.8	3.7		4.6		8.7	
Dyield (%)	0.0	1.4		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	113.7
MC (current price)	2 983.5
EV (current price)	4 905.9
Free float	41.2%
Price change: 1 month	*-3.8%*
Price change: 6 month	*-25.0%*
Price change: 12 month	*-43.5%*
Max (52 week)	50.0
Min (52 week)	25.0



Positive macroeconomic trends are appearing for Lotos (as well as Orlen). To be sure, the decrease in crude oil price will hurt the long-term profits of the E&P segment, but this should be offset by higher LIFO profitability of refining, which will have a crucial impact on cash flows. In Q3, despite the correction in petroleum prices, we are expecting record-high profits in upstream, due to the fact that the margin on extracted petroleum is recognized with a delay. In the near future, Lotos, as well as Orlen, should outperform the broad market.

Petrobaltic valuation coming soon

According to the Ministry of the Treasury, in October a consultancy should be chosen whose task will be to make a valuation of Petrobaltic, which will allow the transfer of its shares to Lotos to be concluded quickly. In other news, VP Mariusz Machajewski informed that due to one-offs, Lotos's Q3 net income will be lower than in Q2.

Mandatory reserves under state control?

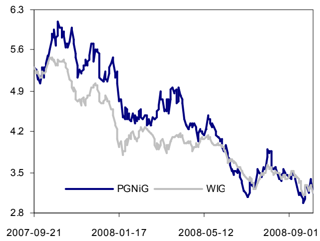
According to the newspapers, the blueprint of "Poland's Energy Strategy by 2030" includes the proposal that mandatory fuel reserves be ran not by individual companies, but by a new governmental agency. It would charge fees for its services, and it would allow the state to exercise tighter control over strategic reserves. For now, this is just a proposal. We do not know when and how exactly it might be implemented. Certainly, if control over mandatory reserves passes to the government, Orlen and Lotos will benefit, as they will be able to free huge amounts of cash, i.e. PLN 5bn and PLN 2bn, respectively.

PGNiG (Accumulate)

Current price: PLN 3.2 **Target price: PLN 4.07**

Analyst: Kamil Kliszcz
Last Recommendation: 2008-08-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	15 197.7	16 629.8	9.4%	20 250.8	21.8%	23 459.3	15.8%	Number of shares (m)	5 900.0
EBITDA	2 766.2	2 731.0	-1.3%	3 163.9	15.9%	3 732.3	18.0%	MC (current price)	18 644.0
EBITDA margin	*18.2%*	*16.4%*		*15.6%*		*15.9%*		EV (current price)	16 275.5
EBIT	1 470.0	1 301.9	-11.4%	1 727.1	32.7%	2 216.5	28.3%	Free float	15.3%
Net profit	1 327.4	1 251.3	-5.7%	1 496.5	19.6%	1 847.2	23.4%		
P/E	14.0	14.9		12.5		10.1		Price change: 1 month	*-7.6%*
P/CE	7.1	7.0		6.4		5.5		Price change: 6 month	*-33.2%*
P/BV	0.9	0.9		0.9		0.9		Price change: 12 month	*-38.0%*
EV/EBITDA	6.4	6.3		5.1		4.6		Max (52 week)	6.1
Dyield (%)	4.7	5.4		6.0		7.2		Min (52 week)	3.0



In the medium-term, PGNiG should bounce back to its average profitability levels, but the next two quarters may be very tough. The market did price in lower revenues from the Trade segment (a consequence of the fact that tariff changes were not approved), but we believe an unpleasant surprise may still come from the E&P segment, just as the case was in Q2). The increase in gas field E&P expenses (even if we adjust for one-off provisions for unsuccessful exploration projects), which is quite clear in the Q2 report, will have a negative impact on Q3 EBIT as well. For PGNiG stock to go up, a positive decision by the energy regulator URE would be needed. Although the Company has the better arguments, the final outcome of negotiations with the regulator is difficult to predict due to the social and political context.

Management's plans

CEO Michał Szubski said that PGNiG will continue to try to build up its hydrocarbon stockpiles, both in Poland and abroad. Abroad, PGNiG wants to acquire deposits of 200bn m^3 (documented Polish deposits amount to 100bn m^3), with the major investments planned in Norway, Libya, Algeria and Egypt. The concern will also participate in the consolidation of the chemical sector, in line with the government's strategy. It will thus sell its shares in ZAT and buy majority stakes in ZAP and ZCH Police. PGNiG also wants to participate in Enea's offering. We believe it is unlikely that E&P assets of such size may be acquired abroad in the near future due to the price that would have to be paid (PGNiG paid USD 360m for slightly more than 5bn m^3 in Norway). As far as acquisitions are concerned, these statements confirm that there are no firm plans and no coherent growth strategy. The fact that ZAT shares will be sold demonstrates how feeble the Management's arguments in favor of this recent purchase were. It also does not seem to be a good idea to buy ZAP and Police, as in our view any attempts to benefit from synergies when supplying gas to them will be closely scrutinized by the anti-trust authorities. As far as expansion in the energy sector is concerned, we have made our view clear on several occasions. Although we think the direction is right, we see no reasons why Enea should be bought.

No change to the tariff

The energy regulator URE announced on September 15 that although it did not reject PGNiG's request to increase gas prices, it did not approve the amount of the hike, which means that there will be no price hike as of October 1st. PGNiG was asked to supply some missing documents, which will inevitably delay the process. This is in line with expectations. Nobody expected the URE's approval, and there was no change in PGNiG's stock price. Like we said yesterday, the URE would have a hard time justifying higher gas costs to the public at a time when oil prices are falling. According to some URE representatives, PGNiG should not expect a decision until after oil prices and exchange rates stabilize.

Imports from Germany, own output to be given a boost

According to VP Mirosław Dobrut, PGNiG should complete work on capacity expansion at the interconnector with Germany within 2-3 years. Its imports capacity will thereby increase by 0.8-1bn m^3 from the current 1bn m^3. The Company also announced that after 2009, the group's annual output will be 5-5.5bn m^3. Prior to that date, however, volumes cannot be expected to increase vs. 2007. The interconnector expansion plans do not have a direct impact on PGNiG's valuation. In our forecasts, we do not take into account the Company's increased output targets for after 2010, as similar promises made earlier have not been kept, prompting the recent revision to PGNiG's 3-year plans.

Warehouse operator spin-off?

The European Commission is unimpressed with the pace at which the Polish natural gas market is being deregulated. In particular, there is no free access to storage space, which constitutes a barrier to entry for the alternative operators. Indeed, the deregulation of Poland's natural gas market is progressing very slowly. Potential competitors raised the issue of storage facilities many times before when PGNiG refused to give them access to its infrastructure on account of the alleged lack of capacity. A likely scenario is that PGNiG will be forced to spin-off a storage facility operator, just as the case was with distribution. In our opinion, this should have little impact on PGNiG's profitability. In fact, the planned increase in storage capacity could bring in additional revenue when separate storage fees are introduced.

KGHM to build gas-fired power stations

KGHM announced plans to build two combined-cycle power plants with a total capacity of 90 MW, to be fired by gas supplied by PGNiG, which will also build a pipeline connecting its gas site with KGHM. PGNiG and KGHM signed a similar contract a few years ago, when the copper producer assumed that it would need as much as 0.5 billion cubic meters of gas a year. Recently, however, negotiations were held between the companies as KGHM cut its gas demand forecast. A 90MW investment means that PGNiG will supply only 120m cubic meters (equivalent to ca. 100m cubic meters of methane-rich gas). Since we did not factor this deal in our valuation model for PGNiG, KGHM's announcement is good news. PGNiG will pump the gas directly from its mine in Kościan, and charge a price not subject to the tariff regime. We estimate that the KGHM contract could bring an additional 60m a year in EBIT to the Upstream business, assuming that tariff prices stay the same (non-regulated gas prices are indexed to the tariff prices). The end-impact on EBIT would also depend on whether PGNiG increases sales for purposes of the contract, or redirects a portion of the volumes pumped into the national grid (after de-nitrogenation). For the Trade & Storage segment, the question is also whether the energy regulator URE considers increased gas imports (at the expense of domestic gas sold at tariff prices) when establishing a new tariff regime.

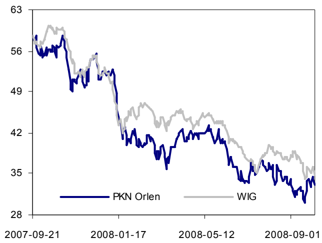
PKN Orlen (Buy)

Current price: PLN 33.2 Target price: PLN 45.5

Analyst: Kamil Kliszcz
Last Recommendation: 2008-09-17

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	52 867.2	63 793.0	20.7%	82 104.6	28.7%	78 840.7	-4.0%
EBITDA	4 684.7	5 035.3	7.5%	4 632.3	-8.0%	4 681.9	1.1%
EBITDA margin	*8.9%*	*7.9%*		*5.6%*		*5.9%*	
EBIT	2 576.6	2 603.9	1.1%	2 223.4	-14.6%	2 179.0	-2.0%
Net profit	1 986.0	2 412.4	21.5%	1 986.6	-17.6%	1 751.6	-11.8%
P/E	7.2	5.9		7.1		8.1	
P/CE	3.5	2.9		3.2		3.3	
P/BV	0.8	0.7		0.7		0.6	
EV/EBITDA	5.4	5.1		5.6		5.7	
Dyield (%)	0.0	0.0		4.9		0.0	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	14 199.9
EV (current price)	26 158.9
Free float	72.5%
Price change: 1 month	*0.4%*
Price change: 6 month	*-19.9%*
Price change: 12 month	*-43.3%*
Max (52 week)	58.6
Min (52 week)	30.1



Recent macroeconomic trends in the refining industry are moving in a direction which is very favorable for PKN Orlen. An appreciating dollar, paired with depreciating oil, foster generation of higher cash flows from the core activity, and current refining- and petrochemical margin quotes give reason to believe that the worst is over in this department. We realize that PKN Orlen will continue to feel the crude-oil slump in the quarters ahead, and post a negative LIFO effect (most painfully in Q4), but we stress again that the LIFO effect has no bearing on the company's fundamental value. That is why the recent sharp drop in the stocks of oil companies with strong exposure to upstream should not be taken to reflect on Orlen whose future earnings are not likely to be sensitive to lower oil-price projections. Since we raised our recommendation from hold to buy, PKN stock appreciated by 13%, significantly outperforming other WIG20 companies. We are reiterating our positive rating.

Heydel quits, replaced by Krawiec

In line with speculation that had been coming up for a while, at the last Supervisory Board meeting CEO Wojciech Heydel resigned from his post, citing "inability to continue collaboration with the current Management Board". The supervisory board appointed VP Jacek Krawiec to take his place. Heydel's resignation had been considered a given in recent days. We will form an opinion about the new CEO based on his strategy plan slated for late October/early November. Anyway, restoration of stability in the management ranks is good news.

New CEO speaks about his plans

PKN's new CEO Jacek Krawiec gave a series of interviews about his vision for the future. He confirmed plans to sell Polkomtel and Anwil, and said that the management would be focusing on improving effectiveness in Refinery and Petrochemicals. Mr. Krawiec added that he wants PKN to build upstream operations, and that the first investment would probably be finalized within six months. The upstream business would cover Poland, the Baltic Sea, Ukraine, and Africa, and it would be developed jointly with partners (e.g. PGNiG, or the Kuwait Energy Company which is expected to join prospecting in a Latvian shelf). Finally, Mr. Krawiec supports the consolidation of the Polish refining industry, and PKN's entry into the power-generation industry. We are waiting for PKN's new strategy plan which is sure to offer more specifics about the company's future undertakings. As for upstream, it is a sensitive issue, and success here depends on the size of expenditure as well as timing. We approve of the plan to divest non-core assets. According to our estimates of Anwil's FY2008 profits, the 85% stake held by Orlen could bring in PLN 1.7bn to PLN 1.9bn, on the assumption that no premium will be paid on the market valuation. Our estimate of Orlen's stake in Polkomtel is ca. PLN 2.7bn. As far as industry consolidation is concerned, a merger with Lotos would be a tricky issue at the moment as stock valuations remain low, but it will be decided by politicians.

Mandatory reserves under state control?

According to the newspapers, the blueprint of "Poland's Energy Strategy by 2030" includes the proposal that mandatory fuel reserves be ran not by individual companies, but by a new governmental agency. It would charge fees for its services, and it would allow the state to exercise tighter control over strategic reserves. For now, this is just a proposal. We do not know when and how exactly it might be implemented. Certainly, if control over mandatory reserves passes to the government, Orlen and Lotos will benefit, as they will be able to free huge amounts of cash, i.e. PLN 5bn and PLN 2bn, respectively.

Speculation on Conoco claim

Czech newspapers reported yesterday that Conoco Phillips is demanding US $100m in damages from PKN Orlen for breach of contract. When acquiring Unipetrol, the Polish oil giant undertook to sell Conoco its Benzina service-station chain at a predetermined price, but has failed to fulfill that obligation. Orlen declared that the company was in negotiations with Conoco Phillipps, and that the outlook was good. The amount allegedly demanded by Conoco seems much too much, similarly to an earlier claim by Agrofert.

Conflict with Lithuanian Rail getting more intense

A Lithuanian court opened its inquiry into Mazeikiu Nafta's conflict with the Lithuanian railway operator. For the duration of the proceedings, the forwarder's claims will be secured on the refinery's assets. According to Lithuanian rail, Mazeikiu Nafta's debt is PLN 9m. The refinery claims that it is acting within its rights when paying lower rates. We hope that the dispute will not be escalated to the point when fuel supplies are interrupted and that the parties reach an agreement, all the more so that retaining such a big customer should be important for LR. Given the news that has been coming so far, it does not seem likely that an agreement will be reached quickly. At present, it is difficult to say what the additional costs would be that Orlen's subsidiary would need to recognize if it loses, as reports change quickly even on the amount in dispute – from PLN 35m reported earlier to PLN 9m currently.

PKN Orlen sells Petrotel for PLN 32m

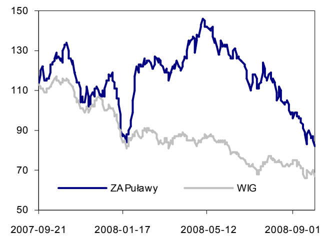
PKN Orlen signed a conditional agreement with Telefonia Dialog to sell a 75% stake in telecom services provider Petrotel (the condition is that the other shareholders do not exercise preemptive rights). The selling price is set at PLN 32.4m vs. Petrotel's book value as disclosed by PKN of PLN 6.15m. PKN is divesting non-core assets, and this particular deal will bring about PLN 26m in pre-tax gain (though it might not yet be recognized in the Q308 accounts because the preemptive rights of Petrotel's shareholders expire in three weeks' time). But a revaluation gain is sure to appear in the Q3 report.

ZA Puławy (Hold)

Current price: PLN 82 **Target price: PLN 113.4**

Analyst: Kamil Kliszcz
Last Recommendation: 2008-08-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 205.3	2 516.5	14.1%	2 655.5	5.5%	2 727.4	2.7%	Number of shares (m)	19.1
EBITDA	252.3	432.9	71.6%	357.0	-17.5%	347.2	-2.8%	MC (current price)	1 567.4
EBITDA margin	*11.4%*	*17.2%*		*13.4%*		*12.7%*		EV (current price)	1 121.3
EBIT	151.4	359.9	137.7%	272.0	-24.4%	247.3	-9.1%	Free float	39.4%
Net profit	130.0	323.7	149.0%	224.4	-30.7%	203.5	-9.3%		
P/E	12.1	4.8		7.0		7.7		Price change: 1 month	*-17.4%*
P/CE	6.8	4.0		5.1		5.2		Price change: 6 month	*-31.7%*
P/BV	1.2	1.0		0.9		0.9		Price change: 12 month	*-32.8%*
EV/EBITDA	4.9	2.5		3.1		3.3		Max (52 week)	145.9
Dyield (%)	2.4	2.5		6.3		4.3		Min (52 week)	82.0



Recent weeks have brought about a correction in the fertilizer market. The prices of urea, although they had long resisted the negative trends seen in the grain market, finally fell under USD 700/t from the record USD 810/t. We believe this trend will continue, as in the context of the farmers' purchasing power, fertilizer prices are unsustainable in the long term. Only if the market for agricultural products rebounds could the segment revive, but for now this seems far-off. In the near future, we will issue an update to our research report that takes the current tendencies into account.

PLN 8bn capex

ZAP's CEO Paweł Jarczewski announced that the management board was preparing a new strategy plan through to 2020, expected to be unveiled by mid-2009. The plan includes a coal gasification project (PLN 2-4bn) which will be executed jointly with the Bogdanka coal mine, and a new project to build an urea production complex called "Puławy II." A preliminary cost estimate for the coal gasification project will be ready by December, following which ZAP will hire a financial advisor to draft a financing plan. ZAP's borrowing capacity is currently PLN 1.2bn, and its cash resources are PLN 600m, suggesting a need for more leverage. Such a far-fetched capacity expansion is a new development. Earlier, the plan was to use the gas derived from coal as feedstock for existing facilities, and in this way reduce ZAP's dependence on PGNiG. Such expensive investments may raise concerns among investors, especially in light of an expected shrinkage in margins earned on fertilizers in coming months. The coal gasification project is viable only assuming that the ratio of coal-to-gas prices remains at the current level. As for urea capacity, the planned expansion is in line with similar plans announced by other international fertilizer producers, and it will not be without influence on medium-term fertilizer prices.

Dividend proposal approved

ZAP's supervisory board approved the management's proposal to pay out 25% of last year's earnings, totaling PLN 82m, as dividends to shareholders (PLN 4.3 / share). We are convinced that ZAP has a capacity to pay more to its shareholders, and the final decision lies with the State Treasury. The current proposal entails gross dividend yield of ca. 5%.

Telecommunications

Seven bidders for GSM900

The seven companies competing for 900 MHz radio frequencies are PTC, Polkomtel, PTK Centertel, P4, Centernet, Aero 2 SA (Warsaw) and Arbit Sp. z o.o. (Wrocław). Telecom regulator UKE wants to select the winner within a few weeks. The criteria include price, compliance with the rules of fair-competition, and financial reliability. The license is valid countrywide until 31 December 2023. The minimum asking price per booking is PLN 1m. We expect that the frequency will be granted to two of the first four companies listed above. History has shown that allocations to small companies without capital and know-how become dead weight which holds the market down.

P4 subscriber base on the rise

P4, the operator of the Play network, has some 1.6m subscribers at the moment and it is planning to boost this number to 2m by the end of 2008. In 2009, the company would like to maintain its current growth rate, adding a further 1m customers. In January, Play had 1m subscribers. P4 remains the fastest-growing operator, which is in line with our expectations. We reiterate the view that when the market slow downs to 0.5m new additions per year (2010-2011), Play will be the only one with net adds, due to the high churn rate at the other operators. Nonetheless, we still believe that the project will not prove to be economically viable.

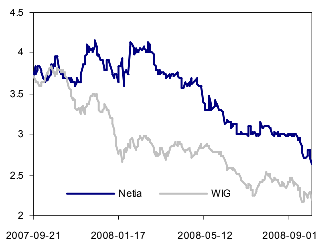
Netia (Buy)

Current price: PLN 2.6 **Target price: PLN 4**

Analyst: Michał Marczak
Last Recommendation: 2008-07-01

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	862.1	838.0	-2.8%	949.2	13.3%	1 118.5	17.8%
EBITDA	-68.9	170.7		142.4	-16.6%	215.3	51.2%
EBITDA margin	*-8.0%*	*20.4%*		*15.0%*		*19.3%*	
EBIT	-341.4	-103.8	-69.6%	-98.6	-5.0%	-22.4	-77.3%
Net profit	-378.9	-268.9	-29.0%	332.0		-14.9	
P/E				3.1			
P/CE		182.2		1.8		4.6	
P/BV	0.5	0.6		0.5		0.5	
EV/EBITDA		6.2		5.9		4.1	
Dyield (%)	4.8	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	389.2
MC (current price)	1 027.4
EV (current price)	842.5
Free float	100.0%
Price change: 1 month	*-11.7%*
Price change: 6 month	*-29.8%*
Price change: 12 month	*-30.5%*
Max (52 week)	4.2
Min (52 week)	2.6



When the merger with Tele2 is carried out in the next few months, revenues should surge thanks to cost optimization stemming from adding Tele2 subscribers to Netia's network and from decreased advertising expenditure, with the EBITDA margin improving as well. We are reiterating a buy rating with PLN 4 per-share target price. We stand by our view that 2010 will be the year when the key owners (private equity) "prepare" the Company for takeover by an investor from the sector.

Forecast revisions?

As per the Management's pronouncements, Netia may publish a revised FY08 earnings guidance within a few weeks. In other news, Netia shares were included in Vienna's CECE MID CAP index as of 22 September. The CECE MID index is made up of the highest-capitalized mid-cap stocks traded on stock exchanges in Central, Eastern, and South-Eastern Europe. Netia is revising its earnings estimates to factor in Tele2 Polska which we expect to boost revenues, and less so EBITDA (due to merger costs). Tele2 Polska has a full-year EBITDA estimate of PLN 40m (consolidation this year during just one quarter).

Tele2 is officially Netia's

Netia completed the acquisition of a 100% stake in Tele2 Poland. Expected synergies are estimated at PLN 30m within 12 months, and will be achieved mainly in marketing and network expenses. Annual revenues are expected to surge by over 40%. After the takeover, the pro-forma customer base includes over 1 million voice users (direct and indirect through WLR) and over 335,000 broadband users. The acquisition price was EUR 31.4m (PLN 105.8m), plus EUR 4.8m (PLN 16.2m) conditioned on future earnings, payable within 12 months. We reiterate our view that the acquisition was a smart move on Netia's part (effective deployment of unused infrastructure), and the price was attractive (FY08 EBITDAx2.5).

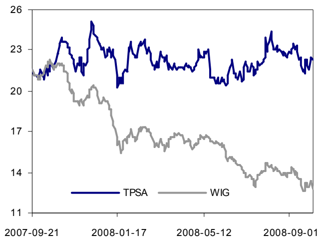
TP SA (Hold)

Current price: PLN 22.3 **Target price: PLN 22.6**

Analyst: Michał Marczak

Last Recommendation: 2008-09-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	18 625.0	18 244.0	-2.0%	18 324.7	0.4%	18 141.2	-1.0%	Number of shares (m)	1 368.8
EBITDA	7 856.0	7 721.0	-1.7%	7 569.0	-2.0%	7 418.5	-2.0%	MC (current price)	30 510.0
EBITDA margin	*42.2%*	*42.3%*		*41.3%*		*40.9%*		EV (current price)	35 683.9
EBIT	3 367.0	3 282.0	-2.5%	3 282.4	0.0%	3 282.4	0.0%	Free float	46.0%
Net profit	2 096.0	2 273.0	8.4%	2 894.0	27.3%	2 503.9	-13.5%		
P/E	14.9	13.7		10.5		12.2		Price change: 1 month	*-2.5%*
P/CE	4.7	4.6		4.2		4.6		Price change: 6 month	*3.2%*
P/BV	1.7	1.8		1.6		1.7		Price change: 12 month	*5.6%*
EV/EBITDA	4.9	4.7		4.7		4.7		Max (52 week)	25.1
Dyield (%)	4.5	8.5		7.6		7.7		Min (52 week)	20.3



Given the current market price and our target price, we are upgrading our investment rating from reduce to hold. In H2, we are expecting increased pressure on revenues, especially in the case of Centertel (lower MTR rates, market saturation). Moreover, the operator's earnings may be affected if the economy slows down and if companies – especially SMEs – start to look for cost savings. Nonetheless, dividend yield determines the floor for TPSA's share price.

European Commission sues Poland

The Commission claims that the telecom regulator UKE was not authorized under EU laws to tell dominant operator TPSA what prices to charge for its broadband "Neostrada" service. The main bone of contention were line maintenance charges which were higher for Neostrada than for voice services. Under the EU law, broadband internet access is not a "regulated service". At the moment, as many as seven cases related to telecommunications industry are pending against Poland, and several have already made their way before the European Court of Justice. For comparison, ten EU members are not facing any such proceedings, and the others just one or two. The UKE's pro-active stance may soon become politically inconvenient, and we maintain that its influence will be diminishing going forward. The regulator's last big challenge is the functional division of TPSA (a feasibility study report is expected in November).

UKE boss speaks harshly

According to the head of the Office of Electronic Communication (UKE), the decision to divide TPSA along functional lines could be taken towards the end of November. The regulator is currently analyzing the cost audit conducted by Ernst&Young. Before September is over, the UKE might present its view on the reliability of the audit and on whether the data presented by TPSA may be used to determine the regulated prices. According to Ms. Streżyńska, the UKE will not approve an increase in the wholesale prices of line access and broadband internet access, which is what TP is proposing in its "2008-2011 Strategy of Support for Telecommunications Investment in Poland". She added that the results of the audit may not be used in a way which harms competitors. According to the UKE, almost half of TP's customers pay less than wholesale price. UKE may also consider the introduction of a "zero" interconnect rate in 2010 (at present, it is PLN 0.34, on January 1, 2009 it will fall to PLN 0.22, and a year later, to PLN 0.16). If these two ideas are carried through, i.e. TPSA is divided and the MTR us brought down to zero, this will be a strong blow for the operator, significantly affecting its valuation.

Media

Mobile TV will come 6-12 months after the tender

According to Polkomtel CEO Jarosław Bauc, if the consortium of mobile operators wins the tender for the mobile TV license, broadcasting will start in 6-12 months. If another entity wins the tender, mobile TV might not even come into being. The estimated cost of the project is EUR 100-200m. We believe that due to the long payback period, the project does not make business sense for a media company. TVN and Polsat, which might participate in the tender together as POT, will derive income from the project anyway, as they will be selling their content. We therefore believe that they do not need to enter this rather risky business themselves. It seems to make much more sense for mobile operators to build mobile TV, given all their experience.

Multiplex launch schedule

According to Office of Electronic Communications (UKE), the composition of the first multiplex will be known by December, and frequencies in the second, and possibly also third multiplex will be awarded by mid-2009, followed by a launch in December of that year. The UKE's head Ms. Streżyńska added that if TVN and Polsat decided not to request to be rebooked onto new frequencies, all the space in the first multiplex would be allocated to TVP and TV Puls. This launch schedule is in line with our predictions as to the launch of digital terrestrial TV in Poland. We expect that the dispute between the UKE and TVN and Polsat will be resolved without the broadcasters having to request frequency re-allocation.

Dziennik cuts costs again

Axel Springer decided to merge the editorial teams of the paper and online editions of *Dziennik* into a single newsroom. after the editor for Dziennik.pl quit. The merger is aimed at leveraging synergies between print- and Internet media. This confirms our predictions that, with sales dwindling, *Dziennik* will have to make further cost cuts, compromising quality by letting go of its writers.

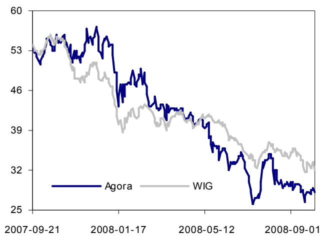
Agora (Buy)

Current price: PLN 28.2 **Target price: PLN 43.4**

Analyst: Michał Marczak

Last Recommendation: 2008-09-22

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 133.7	1 152.0	1.6%	1 252.3	8.7%	1 336.3	6.7%	Number of shares (m)	55.0
EBITDA	116.5	198.6	70.5%	183.1	-7.8%	208.0	13.6%	MC (current price)	1 547.6
EBITDA margin	*10.3%*	*17.2%*		*14.6%*		*15.6%*		EV (current price)	1 391.0
EBIT	39.6	120.3	203.8%	106.4	-11.5%	132.8	24.8%	Free float	37.0%
Net profit	32.0	100.2	213.1%	92.6	-7.6%	113.7	22.8%		
P/E	48.4	15.4		16.7		13.6		Price change: 1 month	*-3.7%*
P/CE	14.2	8.7		9.1		8.2		Price change: 6 month	*-33.7%*
P/BV	1.3	1.3		1.3		1.3		Price change: 12 month	*-46.6%*
EV/EBITDA	10.7	6.6		7.6		6.6		Max (52 week)	57.2
Dyield (%)	1.8	5.3		7.6		6.0		Min (52 week)	26.1



Gazeta Wyborcza is emerging from this "war of the dailies" as the winner, although it is certainly hurt by the shrinking newspaper readership. *Dziennik's* "newsstand" sales collapsed in June-July to slightly under 90,000 copies. Polskapress national daily project missed the target of a 300,000 increase in daily sales by a long shot. The actual increase in sales was a mere 45,000 copies per day, with a significant increase in editorial costs. We believe *Dziennik* will be either discontinued or reduced to a low-cost daily, which will not be attractive to advertisers. While Agora may boost its income by capturing a portion of Dziennik's revenue, the key benefit will come from a reduction in promotional and advertising costs. We are reiterating a buy rating with PLN 43.4 per-share target price.

Dziennik's situation

Dziennik's newsstand sales – which encompass single-copy sales (at cover price) and subscription (at 40% of the cover price or higher) – decreased to the record low level of 89,000 copies. This entails a 50% year-on-year drop in sales. The publisher is attempting to rescue daily sales by expanding other distribution channels (63,000 copies per day!), which gradually erases the difference between *Dziennik* and the free newspapers. *Dziennik* has failed to find subscribers (4.5% of total sales via this channel, vs. 30% for *Gazeta Wyborcza* and 60% for *Rzeczpospolita*), which would have made it far less sensitive to seasonalities and temporary sales slumps.

Upshoot

For reasons of prestige, Axel Springer will continue the fight at least until the end of the year (Q4 being the period when advertising revenue is at its highest), but the publisher's recent actions suggest an ongoing change towards the low-cost profile (lower promotional expenditure, departure of experienced journalists). As the quality of journalism worsens, so will – from the point of view of the media houses – the readership profile. In addition, decreasing sales discourage advertisers from signing long-term agreements for advertising space. On the other hand, we are expecting that the pressure on costs will ease. Agora's annual promotional budget for the newspaper segment amounts to PLN 190m. Prior to the "war" that the entry of *Dziennik* and then *Polska* brought about it was PLN 130m. We believe that a 20% reduction in the current budget is possible next year. In addition, we are expecting a decrease in the pressure on the journalists' salaries, as *Dziennik* and the news department of TV Puls lay them off.

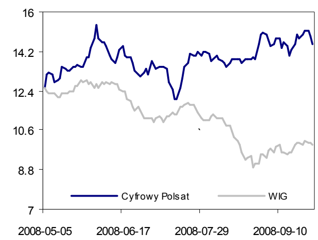
Cyfrowy Polsat (Buy)

Current price: PLN 14.5 **Target price: PLN 16.7**

Analyst: Piotr Grzybowski

Last Recommendation: 2008-09-12

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	493.8	796.7	61.3%	1 109.9	39.3%	1 267.5	14.2%	Number of shares (m)	268.3
EBITDA	74.3	165.9	123.4%	335.5	102.2%	448.7	33.8%	MC (current price)	3 890.7
EBITDA margin	*15.0%*	*20.8%*		*30.2%*		*35.4%*		EV (current price)	3 884.7
EBIT	41.7	145.1	247.8%	314.2	116.5%	427.0	35.9%	Free float	31.8%
Net profit	55.7	113.4	103.6%	247.2	117.9%	342.6	38.6%		
P/E	69.8	34.3		15.7		11.4		Price change: 1 month	*0.0%*
P/CE	44.1	29.0		14.5		10.7		Price change: 6 month	
P/BV		63.6		21.1		10.9		Price change: 12 month	
EV/EBITDA	54.1	23.9		11.6		8.4		Max (52 week)	15.4
Dyield (%)	0.0	0.0		3.2		4.4		Min (52 week)	12.0



It is estimated that the number of pay-TV subscribers will increase in H2'08 by almost 0.5m, with the lion's share going to satellite providers. In the next few years, their subscriber base will grow by a further 1.5m. Although we do notice several factors which could tighten the competition between pay-TV providers, we believe they do not warrant a discount quite as high as the one currently attached to the share price.

0.5m viewers expected to go digital in H2'08

According to estimates by Gazeta Prawna, the number of digital television subscribers will increase to 4.2 million by December from 3.7 million now. with 'n' and Cyfrowy Polsat recording the biggest gains. We are not sure that the DTV subscriber base will expand at such a fast rate as estimated by the paper, but we agree that DTV operators will be gaining users in the next two years.

Post-paid service launch

Cyfrowy Polsat is set to launch post-paid mobile services on 8 September. The company expects that the MVNO business will generate 7-10% of total revenues in 2009, and it will break even after acquiring 1 million subscribers. We believe that the MVNO will serve as support for set-top box sales, and that it is not going to break even in the foreseeable future. We also think that the revenue forecast is unrealistic; according to our estimates, a 7-10% share in total sales would figure to over PLN 100m.

Loan to Praga Business Park Sp. z o.o.

Cyfrowy Polsat granted a PLN 29m loan to its property-management subsidiary, of which PLN 26m will be used to pay off debt to Raiffeisen. The debt is being repaired because registered pledge on PBP shares needs to be waived before the two companies merge.

TP TV launch in October

TPSA's CEO Maciej Witucki announced that the company would start broadcasting (via satellite) in October. This is in line with expectations. We expect that TPSA will be capturing viewers mainly from Cyfra+ whose programs will be featured in its offer. Other digital platforms like 'n' and Cyfrowy Polsat are not threatened. We would venture a guess that Cyfra+ and the TPSA platform will merge in the future.

TVN (Accumulate)

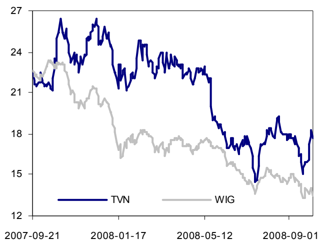
Analyst: Piotr Grzybowski

Current price: PLN 17.7 Target price: PLN 21

Last Recommendation: 2008-08-13

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	1 165.0	1 554.7	33.5%	1 842.2	18.5%	2 078.2	12.8%
EBITDA	399.8	554.1	38.6%	671.3	21.1%	761.0	13.4%
EBITDA margin	*34.3%*	*35.6%*		*36.4%*		*36.6%*	
EBIT	348.4	482.1	38.4%	593.6	23.1%	676.8	14.0%
Net profit	258.8	243.3	-6.0%	359.8	47.9%	432.7	20.3%
P/E	23.5	25.3		17.2		14.3	
P/CE	19.6	19.5		14.1		11.9	
P/BV	4.9	4.3		3.7		3.2	
EV/EBITDA	17.1	12.3		10.6		9.5	
Dyield (%)	0.0	2.1		2.1		2.1	

Basic data (PLN m)	
Number of shares (m)	348.3
MC (current price)	6 172.0
EV (current price)	7 134.7
Free float	38.8%
Price change: 1 month	*-1.0%*
Price change: 6 month	*-23.0%*
Price change: 12 month	*-18.2%*
Max (52 week)	26.4
Min (52 week)	14.5



TVN's fall schedule makes it likely that it will be able to capture a significant share of the audience. We are expecting a very good Q3 sales-wise. The Management should increase the FY guidance. We rate it as a buy.

UKE makes ultimatum

The Office for Electronic Communications (UKE) has warned TVN and Polsat that it would take away the multiplex space allocated to them by default if they did not accept the terms of the analog-to-digital switch. TVP and TV Puls have already filed for a frequency switch. The issue at hand is that broadcasters are expected to swap their analog frequencies for digital instead of just being given digital frequencies. This would mean that the UKE would be entitled to evict Polsat and TVN before the 2015 deadline set by the EU, i.e. as early as 2012, even if DVB-T takeup is low. In our opinion, launch of digital television without key TV broadcasters would be pointless, and the UKE's warnings cannot be considered too seriously. The situation is a stalemate because, on the one hand, TVN and Polsat both want multiplex space, and, on the other hand, the UKE needs them in the multiplex to convince viewers to buy DTV set-top boxes.

'n' has 335,000 viewers, ARPU at PLN 56.2

The 'n' platform had 335,000 subscribers at the end of August, each generating a monthly ARPU of PLN 56.2. The platform hopes to cater to 520,000 subscribers by the end of December, at an ARPU of PLN 56.0. The latest additions to the programming offer are children's channels (Disney Chanel, Nickelodeon, JimJam) and a film channel (FilmBox Family). 'n' has managed to acquire a mere 15,000 new viewers since 30 June, and still has 190,000 to win over if it wants to achieve the full-year target. This is more less the average quarterly customer acquisition rate of Cyfrowy Polsat – which was aided by its lower ARPU – in 2008, i.e. the record year for digital platforms. The fourth quarter is the peak season for new user additions, but even with strong advertising, success is highly unlikely. We predict that 'n' will have no more than 470-480 thousand subscribers at the end of the year. The ARPU target seems more feasible, but not certain given that 'n' will be using special offers to attract more viewers. Nonetheless, the new channels will probably offset the decline in ARPU, and the target will be achieved in the end.

Viewership down in August

The share of the TVN channel in 24H audience fell from 14.3% to 13%, and the share of the TVN Group as a whole fell from 21% to 18.9%. The share in peak time audiences was also lower (a y/y drop to 17.9% from 18.5% for TVN channel, and a decline to 23.2% from 23.8% for the Group). The 24H share in target audience fell from 18.2% to 16.3%, and the peak-time target share dropped from 23.5% to 21.5%. August saw a continuation of the trends observed in July. Going forward, we predict the emergence of a pattern where the majors voluntarily give up market share in the least attractive months and gather strength for the spring and fall seasons. The most important month of the third quarter is September, which marks the launch of the fall TV season, meaning that September viewership data will establish the balance of power in the Polish TV market for the coming months.

Onet to grow revenues by 40% a year

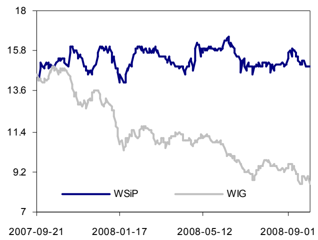
The CEO of Grupa Onet Mr. Łukasz Wejchert predicts 40-percent annual growth in his company's revenues driven by online advertising. The main growth drivers will be the zumi.pl map service, and vortals like the dating service sympatia.pl. Online ads are the fastest-growing segment of the advertising market, expected to surge 40% this year. In the years ahead, this segment will grow at a rate much faster than the market average and will be less sensitive to economic trends. Our long-term CAGR estimate for the 2008-2011 period is 32%. As for Onet.pl, we predict that the advertising market leader will gradually lose some of its market share, and expand slower than average. This slowdown will be offset by zumi.pl, a search engine marketing site. All in all, growth should be close to 30% per year.

WSiP (Buy)

Current price: PLN 15 **Target price: PLN 18.4**

Analyst: Piotr Grzybowski
Last Recommendation: 2008-08-22

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	253.4	224.9	-11.3%	190.7	-15.2%	192.6	1.0%	Number of shares (m)	24.8
EBITDA	30.7	34.6	12.7%	41.3	19.4%	42.5	2.9%	MC (current price)	371.4
EBITDA margin	*12.1%*	*15.4%*		*21.7%*		*22.1%*		EV (current price)	317.9
EBIT	23.2	29.8	28.7%	37.6	26.0%	38.6	2.6%	Free float	40.5%
Net profit	20.1	49.2	144.9%	33.0	-32.8%	33.5	1.3%		
P/E	23.4	8.1		11.2		11.1		Price change: 1 month	*-0.7%*
P/CE	17.0	7.3		10.1		9.9		Price change: 6 month	*0.0%*
P/BV	3.9	3.2		3.5		3.5		Price change: 12 month	*1.4%*
EV/EBITDA	12.7	9.4		7.7		7.5		Max (52 week)	16.6
Dyield (%)	0.0	7.1		13.2		8.9		Min (52 week)	14.1



The Company is currently in its peak sales season, when most of FY sales take place. It should be able to slightly improve its market shares. We are expecting the period to be very good for the company, with growth exceeding the 3% assumed in the standalone earnings guidance. We recommend buying the stock.

Textbook shortage

According to *Parkiet*, some book stores have run out of WSiP textbooks. The company reassured that this shortage will soon be remedied. We expect WSiP to exceed sales targets this year, though the supply shortage may affect growth.

Property sale in Gniew after Q3?

According to a Management Board member, Mr. Karol Żbikowski, the sale of a piece of property in Gniew – one of the three that the Company is supposed to sell in Q3 – may be delayed until Q4. At the same time Mr. Żbikowski expressed his hope that the sale of the other two pieces of property, in Gdańsk and in Koszalin, will be finalized before September is over. The asking prices for the lots are: PLN 4.3m in Gdańsk, PLN 117k in Koszalin and PLN 1.3m in Gniew. In our model, we estimate that the sale of these pieces of property will be neutral for the Company's earnings. Its only effect will be to boost the Company's liquidity, which is excellent anyway. The above asking prices are based on their book value. If two of them are carried through, the Company should be able to register a small profit.

No investor for WSiP

According to unofficial sources, WSiP shareholders have not reached an agreement with the prospective buyer, the German Cornelsen, which seems reluctant to accept the asking price of PLN 19 per share. We maintain that WSiP's current valuation is not fair, and that the shareholders should demand a control premium from the buyer. The parties will be back to the bargaining table soon.

IT Sector

Polish IT industry ranks low in The Economist's competitiveness index

Poland was ranked 32nd in the world and 19th in the EU in an IT industry competitiveness index compiled by *The Economist*. Each country was ranked by its technology infrastructure, flow of talent, legal regime, and R&D spending. Poland's poor ranking reflects the weak condition of our IT industry. Amid a cooling in the local as well as global economy, the government should provide greater support to IT businesses and appropriate funding for long-delayed projects.

ABG SPIN

Deal with ARiMR; Q3 earnings much better y/y

ABG signed an agreement with the Agricultural Restructuring and Modernization Agency under which it will implement software which will be used to process applications filed under the Rural Areas Development Program. The consideration is PLN 44.97m, with a deadline on December 31, 2009. In addition, VP Karol Cieślak described Q3 earnings as materially better than a year ago, both in terms of revenue and net income. Net income improvement will be driven by increased profitability of sales, because proprietary software will account for a greater part of the product mix and due to savings stemming from synergies with Spin. Both the contract and the Management's earnings preview are very good news. The contract amounts to almost 10% of FY2007 consolidated revenue. Both ABG and Asseco Poland should benefit from this news, as the stock of the latter is linked to the former through the 0.099 share exchange ratio.

Asseco Poland

Higher stake in the IPS share capital increased

The Management announced the purchase of a 50% stake in the Lithuanian company IPS for LTL 941.2k (ca. PLN 921k). Combined with the shares Asseco received after its merger with Prokom, the company is now the sole owner of IPS. After the Asseco Germany deal, this is another transaction through which Asseco increases its interest in a subsidiary, with the view to reorganizing the group. The transaction is, however, small, and it has no impact on the Company.

Siveco acquisition may not come to pass

It is now uncertain whether the Romanian Siveco will be taken over. According to *Puls Biznesu*, the price demanded by its Romanian owners was too high, and the negotiations stalled. Given the plans to float Asseco South Eastern Europe, talks will most likely be suspended for some time. The purchase of Siveco would certainly boost ASEE strength, but so far nobody considered it a done deal and it should not therefore impact share price.

Asseco South Eastern Europe prospectus at the KNF

The Company has announced that its Balkan division filed its prospectus with the Financial Supervision Authority (KNF) and that it will most likely be floated at the WSE in Q4. The ASEE group comprises seven companies: Net Consulting and FIBA Software (Romania), Pexim, Pexim Cardinfor and Antegra (Serbia) and Arbor Informatyka and Logos (Croatia). The shares of the minority shareholders of these companies were converted to ASSE shares, as a result of which the share of Asseco Poland in ASEE decreased from 99.97% to 64.32%. According to unofficial estimates, ASEE could have EUR 112m in revenue in 2008, with EUR 16m net income. The estimated value of the investment is EUR 50-60m.

An acquisition in the upcoming weeks

According to *Parkiet*, Asseco Poland will soon take over a medium-sized Polish IT company. We do not know who the target is nor any details of the transaction. The target is supposedly highly profitable, with PLN 6-7m in net income. Good news for the Company if it finds confirmation. The Company has been working on another takeover in the Polish IT market for a while. We do not know the details of the transaction, but when it makes acquisitions, Asseco always strives to improve its P/E ratio.

Downsizing after the merger with ABG

After its merger with ABG, the Company is planning to trim the back office of its integration division by some 170 FTAs, in particular in accounting, finance, administration, HR and marketing. Downsizing will certainly bring some savings, the highest of which will be the cost of remuneration. We estimate that the amount may exceed PLN 14m annually. Additional savings will most likely come from the lower office space rental payments, decreased equipment costs etc.

Sygnity

No payment for Geomar, KPG

According to *Parkiet*, Sygnity has not yet received payment for the two companies it sold in Q2. The paper speculates that, since the owner of the buyer is being sued, Sygnity will never get its money back, and will be forced to revise its Q208 report which discloses a PLN 7m operating profit from the deal. The correction appears very likely, but it will not be too painful because Sygnity can easily regain its holdings in the two subsidiaries. Sygnity was able to demonstrate strong operating profits in the past few quarters even without one-time gains. A PLN 7m one-off is insignificant in the context of the Company's long-term turnover efforts.

Sygnity asks for loan extension

Sygnity is negotiating an extension of its existing credit facilities to March 2009. The management hope to reach an agreement with the lenders by mid-October. Sygnity needs capital to fully recover. We believe that banks will agree to extend the financing period.

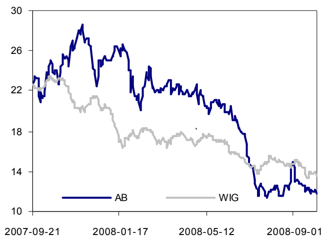
IT Distributors

AB (Hold)

Current price: PLN 11.8 **Target price: PLN 12.8**

Analyst: Piotr Grzybowski
Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 230.2	3 100.4	152.0%	3 069.0	-1.0%	3 364.2	9.6%	Number of shares (m)	16.0
EBITDA	16.8	41.2	145.9%	53.7	30.2%	58.4	8.9%	MC (current price)	187.4
EBITDA margin	*1.4%*	*1.3%*		*1.7%*		*1.7%*		EV (current price)	363.1
EBIT	15.4	38.2	148.4%	48.4	26.4%	52.9	9.4%	Free float	37.9%
Net profit	9.6	19.7	104.5%	25.8	30.9%	29.9	16.1%		
P/E	14.3	9.5		7.3		6.3		Price change: 1 month	*-21.1%*
P/CE	12.5	8.3		6.0		5.3		Price change: 6 month	*-45.6%*
P/BV	1.8	1.0		0.8		0.7		Price change: 12 month	*-49.6%*
EV/EBITDA	12.7	8.6		6.8		6.4		Max (52 week)	28.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	11.3



AB presented disappointing Q2 earnings due to the strong competition in the Czech market and the weakness of the Polish market in May. We believe, however, that macroeconomic factors in the form of a weakening zloty and the decreasing crude oil price should in the long term affect the entire hardware distribution segment, including AB. The upcoming month should tell us how advanced the pursuit of synergies with ATC is. We should also be able to say whether competition in the Czech market has returned to its normal intensity. We recommend holding the stock during the next month.

Expanding storage space

AB is modernizing and expanding its storages in Wrocław at an estimated cost of PLN 30m, with a view to enlarging the storage space by an estimated 83% while doubling its cubic capacity. The Wrocław warehouse will supply Polish and Czech markets. It will include machinery for automatic completion of goods with slow turnover. Previously, the cost of the modernization was estimated to be ca. PLN 8m lower. The new system will handle up to 160,000 logistic units per day (up from 34,500 currently). The logistics costs are expected to decrease by 11%.

Organic growth

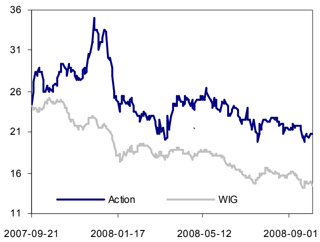
AB's Management plan to focus on realizing synergies arising from the takeover of AT Computers, and do not plan any more acquisitions for now. There are, however, plans to strengthen the retail segment by opening stores jointly with a hardwarde producer and by the further expansion of the Alsen network. We believe that for now it is a wise move to leave acquisition plans aside. We agree that maximization of synergies with ATC is more important at the moment than further rapid growth.

Action (Accumulate)

Current price: PLN 20.9 **Target price: PLN 24**

Analyst: Piotr Grzybowski
Last Recommendation: 2008-08-18

(PLN m)	**2006**	**2007**	**change**	**2008F**	**change**	**2009F**	**change**	**Basic data (PLN m)**	
Revenues	1 797.5	2 339.7	30.2%	4 568.6	95.3%	3 310.4	-27.5%	Number of shares (m)	17.2
EBITDA	37.7	61.6	63.5%	128.6	108.7%	93.1	-27.7%	MC (current price)	359.9
EBITDA margin	*2.1%*	*2.6%*		*2.8%*		*2.8%*		EV (current price)	514.6
EBIT	30.4	53.7	76.7%	113.4	111.4%	81.7	-27.9%	Free float	31.0%
Net profit	22.0	34.5	56.8%	75.9	119.7%	49.7	-34.5%		
P/E	15.6	10.4		4.7		7.2		Price change: 1 month	*-1.5%*
P/CE	11.7	8.5		4.0		5.9		Price change: 6 month	*-13.7%*
P/BV	2.4	2.0		1.4		1.2		Price change: 12 month	*-26.4%*
EV/EBITDA	10.7	8.4		4.0		5.5		Max (52 week)	35.0
Dyield (%)	0.7	1.3		2.0		4.4		Min (52 week)	19.8



In September, Action will announce its earnings for the fourth quarter of its financial year. This period will encompass May, which was weak for the entire sector, and this may have an impact on the reported earnings. The stock price should, however, receive a boost thanks to the buyback approved by the shareholders. We also believe that the possibility of weaker sales results in May has already been priced in. In the upcoming months, Action should be positively impacted by macroeconomic factors. We recommend accumulating the stock.

Buyback approved

Action's shareholders approved the Management's proposal to conduct a PLN 20m share buyback. Funding will come from reserves. The company plans to repurchase up to 1.64 million of its own shares. The buyback will last until 1 March 2009.

Q4 successful, work on acquisitions underway

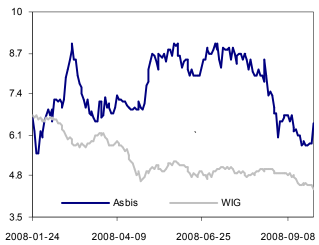
The Management is happy about Q4 earnings (the business year ended in July). Furthermore, work on acquisitions is still being carried out. We do not know, however, when the transaction may be announced. At the beginning of July, Action increased its targets: revenue from PLN 2.26bn to PLN 2.35bn, net income from PLN 30.5m to PLN 33.6m. What the Management say may suggest that the targets have been met, or perhaps exceeded, which is good news.

ASBIS (Buy)

Current price: PLN 6.5 **Target price: PLN 9.5**

Analyst: Piotr Grzybowski
Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 008.8	1 397.3	38.5%	1 774.2	27.0%	2 085.5	17.5%	Number of shares (m)	55.5
EBITDA	17.9	27.6	54.2%	38.8	40.5%	46.7	20.3%	MC (current price)	360.2
EBITDA margin	*1.8%*	*2.0%*		*2.2%*		*2.2%*		EV (current price)	366.7
EBIT	16.1	25.7	60.0%	34.5	33.9%	40.5	17.5%	Free float	32.8%
Net profit	9.5	18.9	99.6%	24.0	27.0%	28.5	18.6%		
P/E	38.0	19.0		15.0		12.6		Price change: 1 month	*8.0%*
P/CE	31.8	17.3		12.7		10.4		Price change: 6 month	*-4.6%*
P/BV	6.0	3.8		3.1		2.5		Price change: 12 month	
EV/EBITDA	23.4	13.0		9.4		8.0		Max (52 week)	9.0
Dyield (%)	0.3	0.3		0.8		1.0		Min (52 week)	5.5



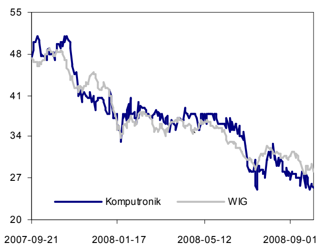
We are reiterating a positive rating on the Company. We expect its operating earnings to keep improving in H2.

Komputronik (Buy)

Current price: PLN 25.5 **Target price: PLN 33.9**

Analyst: Piotr Grzybowski
Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	338.4	519.2	53.5%	921.2	77.4%	1 229.1	33.4%	Number of shares (m)	8.2
EBITDA	11.4	13.9	22.4%	18.0	29.4%	31.7	76.4%	MC (current price)	209.0
EBITDA margin	*3.4%*	*2.7%*		*2.0%*		*2.6%*		EV (current price)	195.0
EBIT	10.5	11.3	8.1%	13.3	17.5%	25.9	94.6%	Free float	20.3%
Net profit	8.7	10.2	17.1%	20.3	99.0%	27.9	37.4%		
P/E	17.6	18.6		10.3		7.5		Price change: 1 month	*-8.6%*
P/CE	15.9	14.9		8.4		6.2		Price change: 6 month	*-29.9%*
P/BV	8.9	2.3		1.2		1.0		Price change: 12 month	*-48.9%*
EV/EBITDA	12.5	11.4		10.8		6.4		Max (52 week)	51.0
Dyield (%)	0.2	0.3		0.0		0.0		Min (52 week)	25.0



In Q2, Komputronik posted improved results that bode well for the crucial fourth quarter. We are expecting the Company's earnings to improve sharply in the upcoming months and we recommend buying the stock.

More acquisitions

Komputronik's VP Mr. Bugajski revealed that the company was talking acquisitions with computer retailers. The Company is also considering taking over an online store, one focused on just one segment of the computer business so as to avoid cannibalization. We believe it makes sense for the Company to continue participating in the process of market consolidation. We do not expect, however, purchases as big as the acquisition of Karen. The Company should rather target a smaller player.

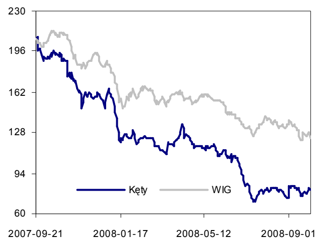
Metals

Kęty (Buy)

Current price: PLN 79.5 | Target price: PLN 109.4

Analyst: Michał Marczak
Last Recommendation: 2008-08-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 085.6	1 253.0	15.4%	1 280.0	2.2%	1 369.6	7.0%	Number of shares (m)	9.2
EBITDA	154.1	194.0	25.9%	187.9	-3.2%	201.0	7.0%	MC (current price)	733.4
EBITDA margin	*14.2%*	*15.5%*		*14.7%*		*14.7%*		EV (current price)	1 089.2
EBIT	109.6	141.9	29.4%	128.0	-9.8%	141.1	10.2%	Free float	46.0%
Net profit	87.8	97.8	11.4%	86.1	-12.0%	98.3	14.2%		
P/E	8.4	7.5		8.5		7.5		Price change: 1 month	*7.5%*
P/CE	5.5	4.9		5.0		4.6		Price change: 6 month	*-35.8%*
P/BV	1.1	1.0		1.0		0.9		Price change: 12 month	*-60.1%*
EV/EBITDA	6.4	5.6		5.8		5.2		Max (52 w eek)	199.0
Dyield (%)	5.0	5.0		5.7		5.9		Min (52 w eek)	69.6



Kęty's stock price already factors in the bleak macroeconomic outlook which assumes a slowdown in Poland's GDP growth to less than 4% and a general EU economic cooling in the EU, particularly in Germany. Weaker-than-expected forecasts for the third quarter stem from a deceleration in industrial production, most evident in August, and a decrease in aluminum prices. Kęty's earnings for the first three quarters amounted to PLN 62m, and the company is PLN 23m short of achieving its full-year bottom-line estimate - a goal which is ambitious, but achievable (last year's Q4 net income was PLN 27.3m). We are reiterating a buy rating on Kęty.

Q308 earnings guidance

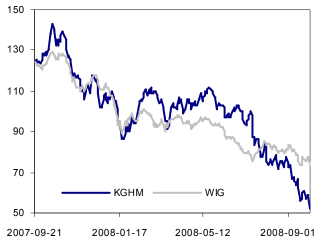
Kęty's consolidated Q308 sales estimate is PLN 290-300m, representing a 13% decline from last year caused by a strengthening zloty and a drop in the sales volumes of the Extruded Products Segment (-15%), as well as a 13% year-on-year plunge in the zloty prices of aluminum. By line of business, the Construction Services Segment is expected to post the best sales performance in the third quarter (15%), followed by Construction Accessories (5%). The Aluminum Systems Segment will generate sales similar to last year's, and the Flexible Packaging Segment and the Extruded Products Segment will lose 10% and 25% respectively in sales revenues. The Q3 consolidated operating profit is estimated at PLN 35-37m, and the bottom-line profit will fall within the range of PLN 22-24m. Kęty's net debt as of the end of the second quarter is estimated at PLN 360-370, indicating no change compared to the preceding quarter in spite of a PLN 40m dividend payout.

KGHM (Accumulate)

Current price: PLN 52.1 Target price: PLN 108

Analyst: Michał Marczak
Last Recommendation: 2008-05-12

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	11 669.7	12 183.0	4.4%	11 202.5	-8.0%	9 395.8	-16.1%	Number of shares (m)	200.0
EBITDA	4 646.5	5 034.0	8.3%	4 126.1	-18.0%	3 140.7	-23.9%	MC (current price)	10 420.0
EBITDA margin	*39.8%*	*41.3%*		*36.8%*		*33.4%*		EV (current price)	7 852.8
EBIT	4 302.2	4 682.0	8.8%	3 666.1	-21.7%	2 630.7	-28.2%	Free float	36.0%
Net profit	3 504.6	3 799.0	8.4%	3 069.6	-19.2%	2 225.0	-27.5%		
P/E	3.0	2.7		3.4		4.7		Price change: 1 month	*-32.6%*
P/CE	2.7	2.5		3.0		3.8		Price change: 6 month	*-48.2%*
P/BV	1.3	1.2		1.0		1.0		Price change: 12 month	*-58.3%*
EV/EBITDA	1.8	1.6		1.9		2.5		Max (52 week)	143.0
Dyield (%)	19.2	32.6		19.2		14.7		Min (52 week)	52.1



We maintain our outlook on KGHM, whose stock plunged recently following a correction in commodity markets which coincided with a seasonal increase in copper inventories. The situation will not start to change until early October, meaning that KGHM should continue to underperform the WIG index, offering an opportunity to buy for the medium term.

Polkomtel stays, Dialog goes

KGHM wants to take its minority stake in Telefonia Dialog public within 12 months, and cash out in 2-3 years' time. Dialog's new management board are working on a new strategy plan. To date, KGHM has invested over 2bn in the altnet, whose book value is over PLN 1bn. As far as Polkomtel is concerned, KGHM plans to remain its passive shareholder with a 24-25% stake (after adding shares bought from TDC to the current 19.61% stake). In our view, the price KGHM is asking is so unrealistic (PLN 700m max) that it makes Dialog unsalable.
Keeping Polkomtel makes sense only if the controlling stake is in the hands of Polish shareholders (there is a possibility that PKN Orlen will sell its interests), and provided that KGHM cannot ensure diversity in another way (which it can, by building the planned power stations). The annual dividends received from Polkomtel amount to PLN 300m, i.e. 2.8% of KGHM's market cap.

No deal with unions

KGHM's management and workers did not reach a compromise. The employer side is refusing to increase salaries, while the workers say that the 2.8% raise set at the beginning of the year (excl. annual bonuses) is not enough to keep up with the "dramatic increase in the costs of living." The parties scheduled regular weekly meetings to try and work on a compromise, but the trade unions are already thinking about going on strike to prevent the planned merger of two mines. We had predicted that September would be tough for worker relations, which are likely to affect stock performance, and it looks like these problems will continue in October. KGHM's victory over trade unions would be a welcome surprise for investors.

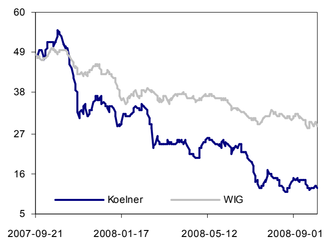
Koelner (Hold)

Current price: PLN 12.2 **Target price: PLN 24.2**

Analyst: Kamil Kliszcz

Last Recommendation: 2008-02-27

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	426.9	542.1	27.0%	774.8	42.9%	917.2	18.4%	Number of shares (m)	32.6
EBITDA	66.0	57.4	-13.0%	101.2	76.4%	134.5	32.9%	MC (current price)	397.2
EBITDA margin	*15.5%*	*10.6%*		*13.1%*		*14.7%*		EV (current price)	732.9
EBIT	50.6	40.6	-19.8%	76.5	88.5%	107.5	40.6%	Free float	35.7%
Net profit	39.8	8.3	-79.1%	42.2	407.7%	66.7	58.1%		
P/E	9.3	47.8		9.4		6.0		Price change: 1 month	*-18.1%*
P/CE	6.7	15.8		5.9		4.2		Price change: 6 month	*-51.1%*
P/BV	1.7	1.3		1.1		1.0		Price change: 12 month	*-75.4%*
EV/EBITDA	7.4	11.2		7.2		5.5		Max (52 week)	55.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	10.9



Calculated based on our FY08 earnings estimate, Koelner remains a dearly-priced company (FY08E P/E at 20) with a weak earnings outlook for the next few quarters. This is discouraging for investors in spite of the announcement that the company will achieve a net profit of PLN 100m in 2010. We maintain a hold rating on Koelner.

Construction

Construction down in August

According to GUS statistics, August construction was 5.9% higher than in the same period a year earlier but 1.7% lower than in July. Seasonally adjusted construction output was 11.2% higher than last year and 1.8% lower than in the preceding month. Going forward, we expect uneven growth in different sectors of the building industry. Companies operating in road and railroad development, environmental engineering, and chemical- and power plant engineering will see strong upward momentum, while growth in commercial and public-building construction will be modest, and housing and industrial construction will see a slowdown in 2009.

Construction slowdown

According to statistics by the General Office of Building Control (GUNB), the number of industrial- and storage-building permits issued dropped 13% in H108, possibly reflecting a slowdown in building investments caused by a general economic cooling. All in all, 2689 permits were issued in H108 compared to 3082 in H107 and 3089 in H106. Equally worrying trends were observed in road, bridge, and railway construction, where the number of permits fell by 14%. But there is a likelihood of a turnaround in coming months as demonstrated by building permits: hotel applications are up almost 15%, and permit requests for pipelines, telephone lines, and power lines surged a staggering 45%. In housing, the number of single-family home permits rose 6%, but multi-family-dwelling permits decreased 5%. Permits for public buildings rose 5%.

New building laws

An amendment prepared by the Ministry of Infrastructure includes cancellation of building permits, compensated by an increased accountability of designers, building owners, and contractors, who will be responsible for the appointment of construction site managers and for compliance with health and safety requirements. Further, contractors will be required to ensure compliance with building documentation and regulations, and clear the construction site after completion.

Infrastructure

Inspection at the GDDKiA

The Supreme Chamber of Control (NIK) audited the operations of the General Directorate for National Roads and Motorways (GDDKiA) in 2006 and 2007. The auditors' opinion was overwhelmingly negative. They questioned whether the GDDKiA in its current shape can handle the government's road-building plan program, given the numerous organizational and procedural violations found. Reportedly, many of the issues faced in 2006 and 2007 stemmed from a shortage of staff (the ministries in charge repeatedly refused to let GDDKiA hire more people, plus, salaries in the Directorate are too low to lure highly-trained experts). The NIK auditors also identified other setbacks that are beyond the GDDKiA's control. Their advice was to divide the Directorate into two organizations, one focused on motorways and expressways, and the other dealing with road renovation.

The GDDKiA's response

In response to the NIK audit conclusions, infrastructure minister Cezary Grabarczyk said that reorganization and de-centralization efforts are already underway at the GDDKiA, and the GDDKiA's Director General promised to streamline internal regulations, create 400 more jobs, and improve the efficiency of internal audit.

More areas in Natura2000

The government included new bird SPAs in the Natura2000 network, which covers as much as 17% of Poland's territory.

Road spending half of what it should be

Newspapers reported that 50% of the capacity of road developers sits idle due to delays in contracting procedures. Adrian Furgalski of TOR Transport Consultants predicts that we are only going to spend 60% of the PLN 20bn capex earmarked for this year. Wojciech Malusi of OIGD roadbuilders' association admits that his spending forecast of PLN 12-13bn was too optimistic. Spending effectiveness is better in railroad construction; we expect two awards regarding track redevelopment on routes from Warsaw to Gdynia, and from Wrocław to Poznań, by the end of the year, plus, 13 new modernization tenders will be announced soon.

GDDKiA's idea for cheaper roads

The GDDKiA announced plans to introduce more flexible rules, give separate consideration to each component of each planned road investment, impose minimum requirements wherever possible, and shorten awarded road sections from 30 to 20 kilometers to enable subcontractors to compete with contractors in case of some projects. The new rules will be applied in tenders expected to be announced toward the end of the year, expected to attract no fewer than 20 new players, possibly leading to a drop in the price of one kilometer of roads by 2% to 20%.

Public Buildings

Global credit crisis and public construction

Two opposing views: Krzysztof Kalicki, CEO of Deutsche Bank Polska, thinks that the public sector is still a trusted partner, but even government agencies may face problems with securing financing since borrowing costs have increased. And the indecision of many local government officials does not help. In turn, President of Warsaw Ms. Hanna Gronkiewicz-Waltz is more optimistic, saying that the current conditions are perfect to issue bonds which offer low, but guaranteed returns.

Government not set on bringing in Chinese workforce

The Labor Ministry denied that it was planning to put in place special procedures to make it easier to employ Chinese workers.

Commercial Construction

Good outlook for commercial construction

There are plans to develop PLN 10 billion-worth of commercial space in the next few years, 62% of which will be in towns with populations 100,000 or less. By 2010, 1.5m square meters of retail space will be added to the 5.65m already existing. Demand for shopping centers is driven by the increasing purchasing power of the Polish population.

Power Engineering

PLN 135bn power plant upgrades

Polish energy regulator URE estimated that, by 2030, a whopping PLN 135 billion will be spent on new power plants and existing capacity updates. From 2008 to 2015, investments will reach PLN 65bn. The target for new power capacity is 6600 MW, including 300 MW from gas-fired plants, and 600 from biomass plants. Meanwhile, experts say that Poland will face an energy supply gap in the years 2008-2014 as big as 6%, which can only be filled by cross-border power lines.

Contracts for peaking power plants

The Polish Economy Ministry plans to announce a tender for 400 MW gas-fired peaker plants in Q109.

No electricity deregulation?

According to unofficial reports, the URE might not agree to deregulate retail electricity prices this year. The European Commission determined beyond doubt that there is no competition in the Polish energy market. The URE’s spokeswoman said that the regulator was still undecided on the issue.

Vattenfall expands capacity

According to reports, Vattenfall will start looking for a contractor for a new power plant in the next few weeks. The 480 MW generator located at the Siekierki CHP is estimated to cost EUR 800m, (PLN 2.7bn). Construction is set to start in 2009 and last four years. Prospective contractors include Alstom Polska, Polimex-Mostostal, and Rafako.

Tauron to add capacity

According to the CEO of the Tauron energy group, the company might spend as much as PLN 20bn by 2010 to increase its generating capacity to 6,000 MW (from 5,400 MW) and modernize its transmission lines. The money will come from a secondary stock offering and loans.

Energy industry demands access to private land

Electricity distributors are asking the government to pass a law that will make it easier for them to run power lines through private properties. At the moment, it takes several to over ten years to obtain permission from land owners. Other utilities, including gas, water, heat suppliers and telecoms will also benefit from such regulations. The situation has been made easier by the introduction of utility easements, and further legislative efforts are underway.

Mine Engineering

New lignite deposit

As lignite resources in Bełchatów slowly run out, the Polish government is looking toward new deposits near Legnica, estimated at 35 billion tons, of which 15bn are recoverable resources (about 2 billion tons of lignite are left in Bełchatów). The cost of setting up a mine and a power station, and buying land from the people living near the deposits, is estimated at PLN 23 billion. Local authorities have been trying everything to stop this plan.

Building Materials

Steel prices retreat

According to reports, prices of steel have dropped by as much as 30% in some cases on weaker demand from manufacturers. ArcelorMittal announced 8% price cuts in South Africa. In Eastern Europe, prices of hot-rolled steel depreciated by almost 30% within two months. In the USA, prices fell by 8%. Indian producers decided not to reduce prices, while prices of imported sheet in Brazil dropped by 15%.

Lafarge cuts down on investments

Lafarge trimmed the budget allocated to a new cement line from EUR 320-350m (PLN 1.07-1.17bn) to PLN 400m. The investment may not get ahead.

ABM Solid, Resbud

Material contract

ABM Wschód, which is 51% owned by ABM Solid and 49% owned by Resbud, landed a contract for a turnkey academic complex and hotel in Kiev. The EUR 55.2m (PLN 185m) order has a deadline in September 2011. It accounts for 46.1% of ABM Solid's FY08 revenue estimate and 231% of Resbud’s expected topline figure. According to unofficial estimates, the profit margin hovers around 10%. Financing for the contract will be provided by Polish banks. ABM insiders say they expect more orders from the “east” in the future.

Budopol Wrocław

Budopol’s backlog up PLN 172.7m

Budopol signed three housing contracts in September with its key account, the retail chain operator Gant, for a total fee of PLN 172.7m. According to CEO Mirosław Motyka, the profit margins on these contracts are in line with the company’s regular margins. The advantage of building for Gant is reduced risk.

Energopol Południe

End of a losing streak?

Energopol-Południe announced that it has only one more loss-making contract left in its backlog, and expects to generate a profit next year (the company posted a PLN 9.3m net loss in H108, and predicts a 30% increase in revenues by December). Next year’s pipeline is 20% full.

Mostostal Export

FY2008 earnings guidance

Mostostal Export expects to generate sales of PLN 200m this year, including PLN 120m from Russian contracts. Adjusted for PIP Instal-Lublin, sales are forecasted at PLN 104.4m.

Material contract from Russia

Mostostal Export won a contract for renovation of a five-star hotel in Penza, Russia. The nine-month contract, set to start in Q408, is worth $24m, i.e. ca. PLN 58.8m (37.8% of FY07 revenue).

Mostostal Płock

Contracts from PKN Orlen

Between 11 August and 3 September, Mostostal Płock signed contracts with PKN Orlen for a total fee of PLN 16.8m, representing approximately 10% of our FY08 revenue forecast (PLN 181.7m).

PLN 10.7m capex, Remak stays on balance

Mostostal Płock will decide whether to take full control over Centromost in a few weeks. The company confirmed that it plans to spend the rest of its PLN 10.7m capex in H208 (investments in H1 amounted to PLN 1.6m). At the current price level, Mostostal Płock is not likely to sell its 9.99% interest in Remak, treating it as a long-term investment.

Mostostal Zabrze

Material contract opportunities

Mostostal Zabrze's (MZ) CEO Mr. Juchniewicz revealed that the company might add a few more contracts to its backlog by the end of the year. The company is awaiting a decision on a Kaufland logistics center contract worth over PLN 100m, and a tender for a Gdańsk-Warszawa railroad route in which MZ filed protest (the contract could bring PLN 50-70m). Consolidated FY08 revenue is projected at PLN 1bn (P/S = 0.84), and net income is expected to at least match last year's (PLN 57.77m; P/E>15.1).

"Green" contract

Mostostal received an order for a biomass storage, transportation, and preparation facility for the Połaniec power plant, deemed to be the biggest facility of this kind in Poland. Mostostal's CEO says that the company is going to bid for more power engineering contracts to increase their share in total revenues (currently at ca. 30%). The contract accounts for 26% of Mostostal's FY07 revenue.

No investor from abroad

Mostostal Zabrze's CEO Mr. Leszek Juchniewicz said in an interview that the company was not in talks with any prospective new shareholder.

Naftobudowa

H2 is looking better

Naftobudowa's first-half report shows a Q208 operating profit and net income almost PLN 2.1m lower than disclosed in the second-quarter report. After consultations with the auditor, Naftobudowa decided to set aside an allowance against a lost dispute with ULAK, a German body regulating paid-leave issues in the building industry (ULAK's claim was PLN 5m). The CEO promised that earnings results in H208 would be better thanks to a full portfolio of profitable contracts. He said that if it had not been for the ULAK allowance, Naftobudowa would deliver its FY08 net-income target of PLN 12.3m. Second-quarter performance will be further supported by a weakening zloty (75% of sales are abroad). In H1, Naftobudowa recognized a PLN 3.7m loss on negative exchange differences.

Pol-Aqua

FY2008 guidance reiterated

Pol-Aqua's CEO Mr. Marek Stefański reiterated the earnings targets for this year. The company has accumulated a backlog of contracts worth PLN 1.1-1.2bn.

Pol-Auqa chosen to demolish Warsaw stadium

Pol-Aqua will demolish the "10th Anniversary Stadium" in Warsaw and lay the foundations for a new National Stadium for a fee of PLN 125.4m (8.8% of FY08 revenue estimate).

Pol-Auqa's demolition bid

The CEO says that the contract to dismantle the stadium will generate a gross margin of 10% even though Pol-Aqua offered a very low price. Mr. Stefański assured that his company has the necessary machine fleet and human resources to complete the dismantling within the deadline of 200 days. Pol-Aqua has done similar work before. The CEO added that Pol-Aqua expects to land new orders for an estimated total of PLN 600m in the next 2-3 months, plus, it is bidding for contracts in the Ukraine and Belarus. The CEO's optimistic forecasts for FY2009 assume a bottom-line profit of PLN 200m (FY2008 estimate is PLN 100.1m), conditioned on whether Pol-Aqua wins new gas-pipe contracts.

Pol-Aqua quits the real-estate business

CEO Marek Stefański announced that he would be closing down PRI Pol-Aqua Development, an operation set up just nine months ago to purchase land for future real-estate developments. Further, Weneda, a company acquired together with Polnord's contractor business, also no longer fits Pol-Aqua's profile (Weneda was taken over together with a three-star hotel, whose fate is yet to be decided).

Rafako

20% earnings boost

Rafako's CEO confirmed that he expected FY08 net income to be 20% higher than last year (at PLN 14.5m minimum) after a stronger second half of the year. Rafako eyes even better results in the years ahead as it enters the business of general contracting services for power plants. The CEO further admitted that the company was working on acquisitions in Poland and abroad, all being smaller firms not requiring an increase in equity.

Remak

Big contract from Germany

A consortium of Remak and Polimex Mostostal (both having 50% stakes) received an order from Alstom Power Systems to install pressure parts in two 800 MW power-generating units for purposes of a project called "STKW Westfalen". Remak's zloty proceeds from the contract, which has a deadline in Q3 2010, approximate PLN 54.4m (33.5% of our FY08 revenue forecast).

Unibep

New factory

Unibep's new lightweight building factory will be ready in spring 2009, and is expected to start generating profits in the first year of operation. By 2010, the factory will generate annual revenues of EUR 80m (PLN 270m), and profit margins of 15%. Unibep postponed land purchases due to a downturn in the real-estate market. The company's CEO reiterated FY2008 forecasts of PLN 670m sales and PLN 24m net profit, and said he would like to keep net profitability at 4.5% in H2 though he realizes it is an ambitious task. Unibep's 2008 contract pipeline is already full, and the company is accepting only high-margin orders, mostly from customers in neighboring countries in the east. Last year, exports accounted for close to PLN 40m of revenues, and, this year, they are expected to generate as much as PLN 150m.

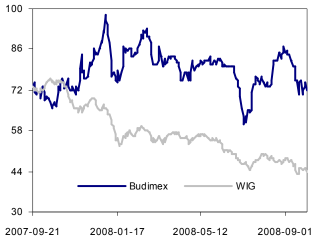
Budimex (Buy)

Current price: PLN 72 **Target price: PLN 96.3**

Analyst: Maciej Stokłosa
Last Recommendation: 2008-08-14

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	3 043.2	3 075.9	1.1%	3 237.0	5.2%	3 665.0	13.2%
EBITDA	31.1	51.7	66.0%	118.8	130.1%	151.3	27.3%
EBITDA margin	*1.0%*	*1.7%*		*3.7%*		*4.1%*	
EBIT	9.9	28.0	182.2%	94.7	237.8%	126.8	33.8%
Net profit	3.9	15.1	286.9%	84.5	460.8%	112.5	33.1%
P/E	472.1	122.0		21.8		16.3	
P/CE	73.3	47.5		16.9		13.4	
P/BV	3.5	3.4		3.1		2.8	
EV/EBITDA	50.9	31.0		12.9		9.9	
Dyield (%)	0.0	0.0		1.1		3.1	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	1 838.2
EV (current price)	1 537.4
Free float	26.7%
Price change: 1 month	*-17.0%*
Price change: 6 month	*-13.5%*
Price change: 12 month	*1.8%*
Max (52 week)	97.7
Min (52 week)	60.3



September did not change much in either Budimex's situation, or our view on the company. We still rate the stock as a buy, forecasting robust earnings growth in 2010 and a gradual improvement in profitability through 2008 and 2009. Budimex expects two motorway contracts still this year.

H2 earnings on a par with H1

Budimex's CEO Mr. Michałowski expects that earnings results in the second half of the year will be at least as good as in the first, suggesting a H208 net income of around PLN 90m. About 80 percent of this year's bottom-line profit will come from construction contracts. CEO of Budimex Dromex Dariusz Blocher says that his company plans to make bids for all upcoming stadium contracts. The company ranked first in the first round of a stadium tender in Gdańsk. Mr. Blocher predicts double-digit revenue growth.

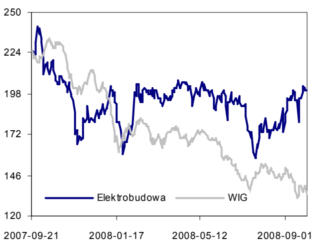
Elektrobudowa (Buy)

Current price: PLN 200 **Target price: PLN 246.2**

Analyst: Maciej Stokłosa
Last Recommendation: 2008-09-05

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	473.9	679.6	43.4%	873.3	28.5%	943.6	8.0%
EBITDA	28.2	49.6	75.8%	79.9	61.1%	91.0	13.9%
EBITDA margin	*6.0%*	*7.3%*		*9.2%*		*9.6%*	
EBIT	23.5	44.2	87.9%	69.4	56.8%	73.9	6.5%
Net profit	15.4	34.7	125.2%	57.3	65.0%	63.4	10.7%
P/E	54.8	24.3		16.6		15.0	
P/CE	42.0	21.1		14.0		11.8	
P/BV	9.3	7.6		4.0		3.4	
EV/EBITDA	30.0	17.0		11.6		10.1	
Dyield (%)	0.7	1.0		2.0		2.2	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	949.5
EV (current price)	929.6
Free float	39.1%
Price change: 1 month	*14.9%*
Price change: 6 month	*0.5%*
Price change: 12 month	*-10.2%*
Max (52 week)	241.3
Min (52 week)	157.5



A new earnings guidance prompted an upward revision in our price target on Elektrobudowa and a reiteration of a buy rating. Simultaneous revisions in our valuation model resulted in a more conservative outlook. We raised our forecasts for revenues generated from contracts from the power-distribution industry, and lowered our estimates for services targeted to manufacturers.

Upward forecast revisions

As per the new guidance, Elektrobudowa will post a revenue of PLN 873m this year (vs. old estimate of PLN 685m and our forecast of PLN 787.1m), and a net income of PLN 57.3m (vs. PLN 39m and PLN 51m respectively). The revised forecasts include the consolidated earnings of recent acquisitions (Energotest-Energopomiar, Energoefekt).

Government to sell Elektrobudowa

The Ministry of the State Treasury announced that it was putting up for sale a 3.5% voting interest in Elektrobudowa.

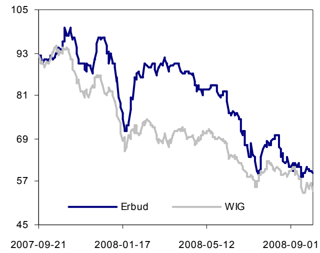
Erbud (Buy)

Current price: PLN 59.5 **Target price: PLN 80.2**

Analyst: Maciej Stokłosa
Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	426.2	663.1	55.6%	1 056.0	59.3%	1 297.0	22.8%
EBITDA	26.6	34.6	30.1%	67.8	96.0%	79.6	17.3%
EBITDA margin	*6.2%*	*5.2%*		*6.4%*		*6.1%*	
EBIT	25.4	32.8	29.3%	61.3	87.2%	72.5	18.3%
Net profit	20.2	31.8	57.6%	54.0	69.6%	65.9	22.1%
P/E	29.7	23.5		13.9		11.3	
P/CE	27.9	22.2		12.4		10.3	
P/BV	14.6	3.9		3.0		2.4	
EV/EBITDA	21.4	19.6		9.1		6.8	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	12.6
MC (current price)	748.0
EV (current price)	615.1
Free float	21.0%
Price change: 1 month	*-2.5%*
Price change: 6 month	*-32.4%*
Price change: 12 month	*-34.0%*
Max (52 week)	100.1
Min (52 week)	58.1



Erbud has been very successful in securing lucrative contracts, and we are reiterating it as a buy in anticipation that proceeds not recognized in Q2 will be in Q3 and Q4.

Future prospects

Erbud's contract backlog is estimated at PLN 1.07bn (vs. PLN 660m a year ago), and 80% of it are buildings. The company sees tremendous opportunities in Euro 2012 stadium contracts, and is bidding for two: one in Gdańsk and one in Wrocław. Erbud could garner some 30-40% of the future orders, of which each is estimated at PLN 500-700m. As for the road-building business, orders are still few and far between. On a more positive note, the company is negotiating five contracts for shopping centers worth PLN 100-200m, and hopes to sign three still this year. Finally, Erbud is in acquisition talks with two Polish road developers with annual turnover above PLN 60m.

Shopping-center contract

Erbud signed a PLN 229m contract with Guava to build a shopping center in Wałbrzych. The deal accounts for 22% of Erbud's FY08 revenue estimate.

PLN 102m order from Dom Development

Dom Development hired Erbud to build a delayed residential complex in Wrocław for PLN 102m, i.e. 9.7% of the FY08 revenue estimate.

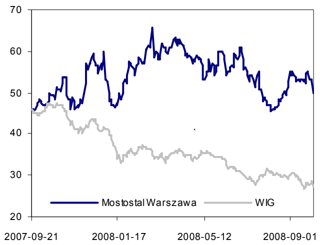
Mostostal Warszawa (Buy)

Current price: PLN 50 **Target price: PLN 68.9**

Analyst: Maciej Stokłosa

Last Recommendation: 2008-08-22

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 188.1	1 928.4	62.3%	2 275.9	18.0%	2 595.6	14.0%	Number of shares (m)	20.0
EBITDA	40.6	78.5	93.2%	113.8	45.0%	132.1	16.1%	MC (current price)	1 000.0
EBITDA margin	*3.4%*	*4.1%*		*5.0%*		*5.1%*		EV (current price)	778.5
EBIT	21.2	58.9	178.0%	90.9	54.4%	107.6	18.3%	Free float	18.7%
Net profit	17.0	52.9	211.7%	78.7	48.7%	87.4	11.0%		
P/E	50.1	18.9		12.7		11.4		Price change: 1 month	*-9.1%*
P/CE	23.4	13.8		9.8		8.9		Price change: 6 month	*-18.6%*
P/BV	3.8	3.5		2.8		2.4		Price change: 12 month	*8.7%*
EV/EBITDA	19.1	10.4		6.8		5.7		Max (52 w eek)	65.5
Dyield (%)	0.0	0.1		0.0		3.9		Min (52 w eek)	45.7



Not much has changed with respect to Mostostal Warszawa in the past moth. Buy incentives such as a strong earnings outlook and a large contract backlog are still valid.

Mostostal hired by Acciona

As stakeholder in a consortium led by Acciona Infraestructuras, Mostostal Warszawa was hired by Acciona Nieruchomości to build two residential/commercial buildings in Warsaw. The contract has a deadline in October 2010. The consortium also won a contract from Tucana Sp. z o.o. (a member of Acciona) concerning a residential project called “Atmosfera Apartamenty” with a deadline in August 2010. The contract is worth PLN 79.5m. Combined, the two contracts account for approximately 9.0% of Mostostal’s 2008 revenue estimate.

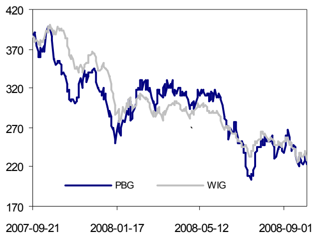
PBG (Hold)

Current price: PLN 222.9 Target price: PLN 245.1

Analyst: Maciej Stokłosa
Last Recommendation: 2008-09-12

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	674.3	1 376.8	104.2%	2 036.4	47.9%	2 769.7	36.0%
EBITDA	88.5	138.2	56.1%	268.4	94.3%	356.7	32.9%
EBITDA margin	*13.1%*	*10.0%*		*13.2%*		*12.9%*	
EBIT	72.0	109.4	52.0%	234.3	114.2%	322.5	37.6%
Net profit	52.2	102.1	95.6%	143.1	40.2%	194.3	35.8%
P/E	51.4	28.8		20.9		15.4	
P/CE	39.0	22.5		16.9		13.1	
P/BV	7.3	3.9		3.4		2.9	
EV/EBITDA	34.2	23.8		13.1		10.0	
Dyield (%)	0.0	0.1		0.0		1.9	

Basic data (PLN m)	
Number of shares (m)	13.4
MC (current price)	2 993.5
EV (current price)	3 513.8
Free float	53.0%
Price change: 1 month	*-6.3%*
Price change: 6 month	*-28.1%*
Price change: 12 month	*-40.2%*
Max (52 w eek)	399.0
Min (52 w eek)	203.5



PBG's stock value has fallen in the past month, but we are reiterating it as a hold due to the company's risky real-estate plans (an office building in Poznań). We think that completion of the offices could coincide with a rapid increase in supply of commercial space in the city, affecting the expected yield. What is more, PBG is priced at a significant premium to peers.

Backlog, growth prospects

PBG's CEO Mr. Wiśniewski said in an interview that the contract backlog for this year could reach PLN 5bn or even PLN 6bn. The current backlog is worth PLN 4.9bn, and the company is bidding for environmental-engineering contracts estimated at PLN 1bn. Upward guidance revisions are likely in early Q4. PBG is in acquisition talks with a foreign infrastructure company. whose cost should not exceed PLN 50m.

Hydrobudowa 9's real-estate project

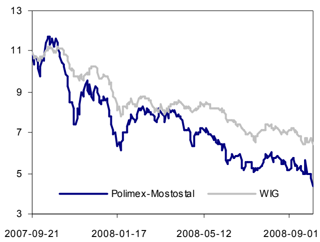
Hydrobudowa 9 (HBD9) is going to build an office building in Poznań with over 20,000 sqm of floor space. HBD9's CEO Szymon Tamborski estimates the cost of the building at PLN 100m, and the future gain at PLN 150m. The offices will be completed in late 2009/ early 2010. The average office rent in Poznań is EUR 12-16 EUR/ sqm. At EUR 15 per sqm and a yield of 7%, the property has an estimated value of PLN 128m. HBD9, and hence also Hydrobudowa Polska and PBG, will recognize the first income from this project around 1Q08 (land revaluation). The value of the building site is estimated at over ten million zlotys, while its book value is PLN 1.9m.

Polimex Mostostal (Buy)

Current price: PLN 4.3 **Target price: PLN 7.3**

Analyst: Maciej Stokłosa
Last Recommendation: 2008-08-05

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 483.4	3 720.5	49.8%	4 667.2	25.4%	5 291.5	13.4%	Number of shares (m)	482.2
EBITDA	129.7	205.4	58.4%	295.7	44.0%	359.8	21.7%	MC (current price)	2 092.7
EBITDA margin	*5.2%*	*5.5%*		*6.3%*		*6.8%*		EV (current price)	2 920.3
EBIT	98.5	160.4	62.8%	231.7	44.5%	293.6	26.7%	Free float	58.6%
Net profit	62.6	100.1	59.9%	132.5	32.4%	169.7	28.1%		
P/E	32.7	20.7		15.8		12.3		Price change: 1 month	*-16.5%*
P/CE	21.8	14.3		10.7		8.9		Price change: 6 month	*-44.6%*
P/BV	5.8	2.1		1.9		1.6		Price change: 12 month	*-59.6%*
EV/EBITDA	17.2	12.5		9.9		8.5		Max (52 week)	11.8
Dyield (%)	0.2	0.5		0.2		0.2		Min (52 week)	4.3



We are reiterating our price target and buy rating for Polimex. The company has a strong long-term growth and profitability outlook, and the near-term risks related to steel-frame manufacturing are not as grave as painted. There is a chance that the new steel-frame factory in Sidelce will be opened 6-9 months earlier than planned. On the downside, Torpol's PLN 150m railroad contract offers a lower-than-expected profit margin.

Capacity expansion

CEO Jaskóła announced that the steel-frame and galvanization plant in Siedlce will double its capacity by mid-2009. He revealed that Polimex earned the lowest margins on road and railroad contracts, mid-sized margins on chemical-plant engineering orders, and the highest margins on manufacturing The company's contract pipeline is currently worth PLN 6bn.

Expansion of Hotel Warszawa

Polimex Mostostal hopes to obtain a permit to enlarge the hotel soon. The expansion will cost PLN 150m, and the construction will last two years. Polimex Mostostal wants to either hire an operator to run the hotel, or sell the hotel after enlargement.

Torpol lands major contracts

A consortium involving Torpol won a contract to modernize the Warszawa-Gdynia railroad route for EUR 144m. Torpol's share in the fee is EUR 44.5m (PLN 150m). In addition, another Torpol-led consortium was selected to rebuild a street in Poznań for a consideration of PLN 82.5m. The deadline is November 2009. The two contracts have a combined value of PLN 232.5m, i.e. 82.6% of Torpol's 2007 revenue and close to 5% of the 2008 estimate.

Gloria, Sices shareholders hold on to their PXM interests

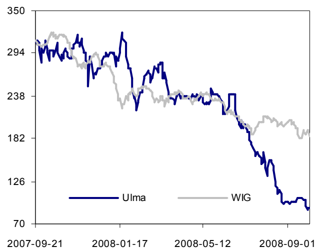
The shareholders of Gloria and Sices stated that they are not planning on selling their holdings in Polimex any time soon. They think that the company is undervalued given its future growth prospects.

Ulma Construccion Polska (Hold)

Current price: PLN 89,7 **Target price: PLN 100,2**

Analyst: Maciej Stokłosa
Last Recommendation: 2008-09-05

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	154.3	222.6	44.3%	248.3	11.5%	273.3	10.1%	Number of shares (m)	5.3
EBITDA	74.7	108.5	45.3%	91.9	-15.3%	108.8	18.4%	MC (current price)	471.4
EBITDA margin	*48.4%*	*48.7%*		*37.0%*		*39.8%*		EV (current price)	661.5
EBIT	45.6	66.6	46.0%	42.3	-36.5%	47.5	12.3%	Free float	24.5%
Net profit	32.9	50.9	54.6%	27.0	-47.0%	25.8	-4.4%		
P/E	13.3	9.3		17.5		18.3		Price change: 1 month	*-8.7%*
P/CE	7.1	5.1		6.2		5.4		Price change: 6 month	*-62.2%*
P/BV	4.3	2.0		1.7		1.6		Price change: 12 month	*-70.8%*
EV/EBITDA	7.2	4.9		7.2		6.9		Max (52 week)	320.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	88.1



We are reiterating a hold rating on Ulma in anticipation of Q308 results (net income will be just PLN 3m). There is a chance of improvement in Q4 thanks to new rental deals, and the euro's appreciation against the zloty (competition quote rental rates in euros) which, however, seems to have stopped recently.

Retail

Emperia Holding (Buy)

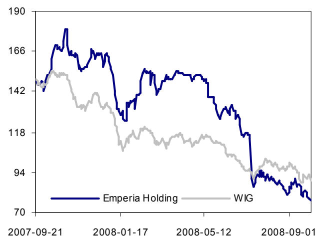
Current price: PLN 77 **Target price: PLN 166.1**

Analyst: Kamil Kliszcz
Last Recommendation: 2008-06-03

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	1 406.7	4 596.5	226.8%	5 936.2	29.1%	6 757.4	13.8%
EBITDA	51.2	173.4	238.5%	210.8	21.5%	278.0	31.9%
EBITDA margin	*3.6%*	*3.8%*		*3.6%*		*4.1%*	
EBIT	33.0	134.3	307.5%	153.1	13.9%	198.6	29.8%
Net profit	23.4	89.7	283.9%	116.2	29.5%	150.3	29.3%
P/E	44.4	12.9		9.9		7.7	
P/CE	24.9	9.0		6.6		5.0	
P/BV	2.9	1.7		1.5		1.3	
EV/EBITDA	22.0	7.3		6.4		5.0	
Dyield (%)	3.6	2.3		1.2		4.0	

Basic data (PLN m)	
Number of shares (m) *	15.0
MC (current price) *	1 154.4
EV (current price) *	1 354.1
Free float	75.4%
Price change: 1 month	*-4.9%*
Price change: 6 month	*-50.0%*
Price change: 12 month	*-47.4%*
Max (52 week)	179.5
Min (52 week)	77.0

** incl. stock issue to BOS shareholders*



Emperia outperformed the broad market in September, edging down a mere 2.5%. Based on a full-year net-income prediction of ca. PLN 100m (H108 bottom line was PLN 40m), the company is trading at a FY08E P/E of 12. Emperia is expected to report much better profitability figures in the years ahead thanks to reduced capital expenditure and a lack of costs related to the integration of Eldorado and BOS. As a result, the P/E ratio will decline below 9, making the company a good buy opportunity at the current price level.

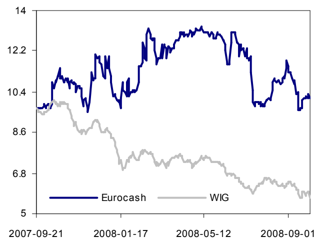
Eurocash (Buy)

Current price: PLN 10.1 **Target price: PLN 14**

Analyst: Kamil Kliszcz
Last Recommendation: 2008-08-06

(PLN m)	2006	2007	change	2008F	change	2009F	change
Revenues	3 237.0	4 729.4	46.1%	6 779.2	43.3%	7 914.1	16.7%
EBITDA	87.3	121.9	39.7%	158.0	29.7%	196.5	24.3%
EBITDA margin	*2.7%*	*2.6%*		*2.3%*		*2.5%*	
EBIT	55.2	85.8	55.3%	109.9	28.2%	141.1	28.4%
Net profit	41.6	58.9	41.7%	87.4	48.4%	114.9	31.4%
P/E	31.0	21.9		14.9		11.3	
P/CE	17.5	13.6		9.6		7.7	
P/BV	6.5	5.5		4.1		3.3	
EV/EBITDA	15.2	10.1		8.0		6.1	
Dyield (%)	1.6	2.3		0.9		3.4	

Basic data (PLN m)	
Number of shares (m)	129.0
MC (current price)	1 302.7
EV (current price)	1 261.7
Free float	35.3%
Price change: 1 month	*-14.1%*
Price change: 6 month	*-20.5%*
Price change: 12 month	*4.1%*
Max (52 week)	13.3
Min (52 week)	9.5



Given seasonality (over 60% of earnings generated in H2, H108 net income at PLN 32m), we are confident that Eurocash can achieve or even exceed our full-year earnings forecasts. At the moment, however, the company is priced at a premium to peers and has no upside potential in the current market in spite of a strong growth outlook for the near future.

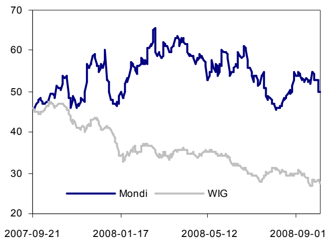
Others

Mondi (Buy)

Current price: PLN 41 **Target price: PLN 54.2**

Analyst: Michał Marczak
Last Recommendation: 2008-08-06

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 443.9	1 610.4	11.5%	1 410.8	-12.4%	1 594.6	13.0%	Number of shares (m)	50.0
EBITDA	434.9	400.0	-8.0%	287.0	-28.2%	320.7	11.7%	MC (current price)	2 049.5
EBITDA margin	*30.1%*	*24.8%*		*20.3%*		*20.1%*		EV (current price)	2 379.6
EBIT	326.4	295.7	-9.4%	186.1	-37.0%	182.8	-1.8%	Free float	19.0%
Net profit	270.0	246.2	-8.8%	156.3	-36.5%	130.7	-16.3%		
P/E	7.6	8.3		13.1		15.7		Price change: 1 month	*-7.4%*
P/CE	5.4	5.8		8.0		7.6		Price change: 6 month	*-20.6%*
P/BV	2.1	2.1		1.8		1.6		Price change: 12 month	*6.1%*
EV/EBITDA	4.8	5.1		8.3		8.4		Max (52 w eek)	65.5
Dyield (%)	12.0	13.2		0.0		0.0		Min (52 w eek)	45.7



We are seeing a reversal in USD/EUR exchange rate trends, which should ease the pressure created by cheap paper imported to Europe from the dollar zone (and lead paper prices to rebound in 2009). European paper stocks responded positively to this shift. A stronger dollar enables profit-taking on the zloty relative to the euro, supporting Mondi's profitability. The company is expected to increase sales volumes in H2 after completing an upgrade of one of its paper machines (annual capacity upped by 100,000 tons). We are reiterating a buy rating on Mondi.

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

Research Department:

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

Analysts:

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

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

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

Sales and Trading:

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

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

Traders:

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

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

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

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

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

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

"Private Broker"

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

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

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

Previous ratings for stocks re-rated as of the date of this Monthly Report

Kredyt Bank

Rating	Buy	Accumulate	Buy	Accumulate
Date Issued	2008-01-24	2008-04-03	2008-04-30	2008-08-11
price on rating day	19.00	22.35	20.99	14.95
WIG on rating day	45362.07	48548.05	46223.87	40651.79

Millennium

Rating	Accumulate	Buy	Accumulate	Accumulate	Hold	Buy	Accumulate
Date Issued	2008-01-17	2008-01-24	2008-04-03	2008-04-28	2008-06-03	2008-07-01	2008-08-06
price on rating day	8.59	8.25	8.55	7.61	8.55	6.85	7.40
WIG on rating day	46204.97	45362.07	46265.27	46265.27	46390.78	41146.26	42118.25

Pekao

Rating	Buy	Buy	under revision	Hold	Reduce
Date Issued	2008-01-17	2008-01-24	2008-05-15	2008-06-17	2008-08-06
price on rating day	196.50	187.00	191.00	185.10	192.00
WIG on rating day	46204.97	45362.07	48321.35	45819.40	42118.25

PKO BP

Rating	Buy	Buy	Buy	Accumulate	Buy	Accumulate	Hold
Date Issued	2008-01-17	2008-01-24	2008-02-18	2008-06-03	2008-07-01	2008-08-06	2008-08-12
price on rating day	43.00	42.30	45.00	50.50	45.49	51.40	49.45
WIG on rating day	46204.97	45362.07	49309.45	46390.78	41146.26	42118.25	40949.96

Telekomunikacja Polska

Rating	Hold	Accumulate	Reduce
Date Issued	2008-01-17	2008-04-14	2008-07-31
price on rating day	21.20	21.65	23.99
WIG on rating day	46204.97	47064.18	42416.36

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

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

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

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

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

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

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

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.
Recommendations are addressed to all Clients of BRE Bank Securities S.A.
The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

BRE Bank Securities S.A. serves as animator in relation to the shares of the following companies: Certyfikaty Skarbiec Nieruchomości, Erbud, Es-System, Macrologic, Mieszko, Mondi, Monnari Trade, Nepentes, Optopol, Pemug, Polimex-Mostostal, Seco Warwick, Torfarm, Unibep
BRE Bank Securities S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Ambra, Bakalland, BRE Bank, DZ Bank Polska, Elektrobudowa, Elzab, Enap, Erbud, Es-System, Farmacol, GTC, Huta Ferrum, Inter Groclin, Komputronik, Macrologic, Mennica Polska, Mieszko, Mondi, Nepentes, Odratrans, Optopol, Pemug, PGF, PGNiG, Polimex-Mostostal, Polmos Lublin, Polnord, Prokom Software, Provimi-Rolimpex, Seco Warwick, Skarbiec Nieruchomości, Sygnity, Techmex, Unibep.
In the last 12 months BRE Bank Securities S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: Optopol, Nepentes, Seco Warwick, Sygnity, Unibep.
Asseco Poland provides IT services to BRE Bank Securities.

The present Monthly Report exclusively contains information previously published by BRE Bank Securities S.A. and only comprises a comprehensive presentation of unaltered data. The information, including recommendations, contained in the Monthly Report has been published in separate reports, the publication dates of which are located on page 3 of the Monthly Report.
In connection with the above, BRE Bank Securities S.A. does not consider the Monthly Report to be a recommendation as understood in the Order of the Council of Ministers, dated 19 October 2005 r., in regard to information comprising recommendations concerning financial instruments or their issuers.

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

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