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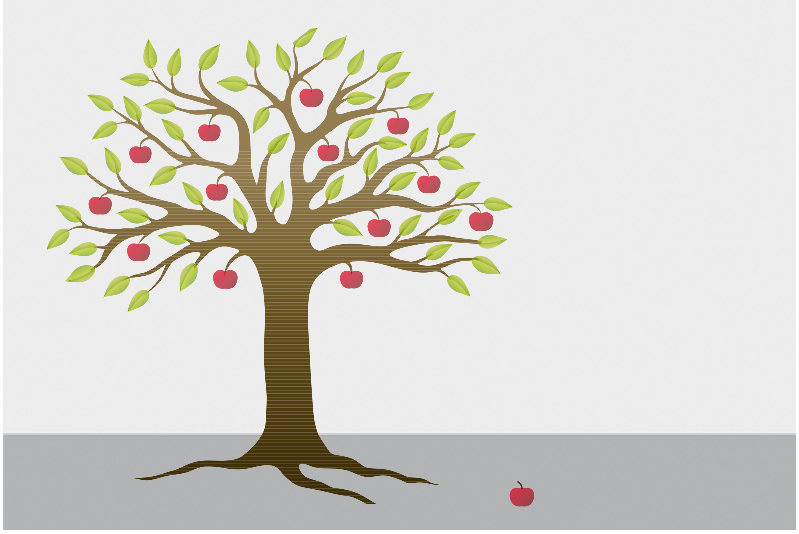
6/2008/CR (153) July 1, 2008

Company Report

Hydrobudowa Polska

The apple does not fall
far from the tree



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Hydrobudowa Polska

Sector: General construction
Fundamental rating: Hold (–)
Market relative: Neutral (–)
Price: PLN 7.7
12M EFV: PLN 8.5 (–)

Market Cap.: US$ 758 m
Reuters code: HBWLWA
Av. daily turnover: US$ 0.20 m
Free float: 49%
12M range: PLN 6.80-13.60

The apple does not fall far from the tree

Hydrobudowa Polska (HBP) is a highly specialized construction company operating on the fast growing and highly profitable environmental protection and hydro engineering construction market in Poland. With its market leader position, HBP seems to be a perfect vehicle to capture huge spending on environmental protection segments (supported by EU funds inflow) to Poland which should underlie fast pace of the Company financial results' growth for at least next couple of years. The infusion of capital from recent SPO, coupled with expected acquisitions should enable the Company to enter new niche segments as well as to participate in the largest and the most profitable contracts which at the same time may open the room for the margins expansion. However, given only moderate (11%) upside of our DCF-derived 12M EFV as well as the fact that the Company is likely to exhibit somewhat slower growth than its closest peer PBG, we initiate the coverage of HBP's equities only with a LT fundamental Hold rating and a Neutral ST market-relative bias (due to lack of clear positive triggers on the horizon).

▲ The outlook for the environmental protection construction segment in Poland seems rosy. The total spending should reach c. PLN 50 billion in the next three years and as much as PLN 20 billion only in 2008, constituting at the same time the key driving force of the Company's financial results for at least next couple of years. We forecast that by the end of 2009 HBP will almost triple its 2007 net profit.

▲ Tight cooperation with PBG, careful contract selection, partially secured construction material base as well as superior contract management enable HBP to enjoy outstanding margins vs. the peers. Entering new niche segments as well as participation in the largest infrastructural contracts (which will be possible due to recent SPO and expected acquisitions) should underpin the Company's margins expansion as well as set the pace to the Company's financials.

▲ We believe that the main risk factor for HBP is its FX exposure. Please note that c. 75% of the Company's contracts in the current backlog are denominated in EUR. The Company conducts effective hedging in this respect; in the longer term, however, continued appreciation of PLN vs. EUR may negatively affect the Company's cash flows, we believe.

Key data

IFRS consolidated		2007	2008E	2009E	2010E
Sales	*PLN m*	571.5	1,109.4	1,739.6	2,072.0
EBITDA	*PLN m*	40.3	101.9	166.9	220.9
EBIT	*PLN m*	35.2	88.1	147.3	198.3
Net profit	*PLN m*	40.2	66.4	108.8	144.9
EPS	*PLN m*	0.29	0.32	0.52	0.69
EPS yoy chng	*%*	376	9	64	33
Net debt	*PLN m*	165.0	96.5	267.8	270.3
P/E	*x*	26.5	24.4	14.9	11.2
P/CE	*x*	23.5	20.2	12.6	9.7
EV/EBITDA	*x*	30.6	16.9	11.3	8.6
EV/EBIT	*x*	35.1	19.5	12.8	9.5
EV/Sales	*x*	2.2	1.5	1.1	0.9
Gross dividend yield	*%*	0.0	0.0	0.0	0.0
No. of shares (eop)	*ths.*	138,673	210,558	210,558	210,558

Source: Company, DM IDMSA estimates

Stock performance

Source: www.money.pl

Upcoming events

1. 2Q08 results release: August 4, 2008
2. 3Q08 results release: November 4, 2008

Catalysts

1. Positive news flow in the form of good quarterly results
2. Signing new large environmental protection and specialist construction contracts

Risk factors

1. FX exposure (most of environmental protection contracts are EUR-denominated)
2. Prolonging administrative procedures may negatively affect smooth absorption of EU funds' inflow by investors (public sector)

Contents

1. Investment story

Hydrobudowa Polska (HBP) is a highly specialized construction company, operating on the fast-growing and highly profitable environmental protection and hydroengineering construction market, where it is the market leader. We believe that huge spending on environmental protection in Poland (fueled by the EU funds inflow) should constitute the key driving force for the Company's financial results for at least the next couple of years. We forecast that by the end of 2009, HBP will almost triple its 2007 net profit.

Careful contract selection, a partially secured construction material base, coupled with strict cost control, as well as praiseworthy contract management, enable the Company to enjoy outstanding margins. What is more, due to its expanding portfolio of highly profitable contracts, we see room for improvement in margins.

The Company should follow a path of growth via acquisitions. The acquisition of Hydrobudowa 9 and PRG Metro, coupled with the infusion of new capital from the last SPO, should enable the Company to participate in the largest and most profitable infrastructure contracts (which it was not able to do before) as well as extend its scope of operations into attractive new niche segments of the construction industry, we believe. At the same time the acquisitions should underpin the expansion of margins and set the pace for the Company's financials.

Given only moderate (11%) upside of our DCF-derived 12M EFV as well as the fact that the Company is likely to exhibit somewhat slower growth than its closest peer PBG, we initiate the coverage of HBP's equities only with a LT fundamental Hold rating, and a Neutral ST market relative bias (due to lack of clear positive triggers on the horizon).

HBP – the market leader

Hydrobudowa Polska is the market leader of the Polish environmental protection and hydroengineering construction market, the most profitable and fast-growing segments of the Polish construction industry. Its strong market position has been achieved thanks to last year's merger of Hydrobudowa Śląsk and Hydrobudowa Włocławek, both subsidiaries of PBG, which provided the well-restructured entity with good financial standing and great market experience.

HBP should triple its net profit in the next three years

With operations focused on environmental protection contracts, HBP constitutes probably the best vehicle to capture the influx of EU funds. The total spending on environmental protection in Poland (EU + state funds) should reach c. PLN 50 billion in the next three years and as much as c. PLN 20 billion in 2008 alone, constituting at the same time the key driving force for the Company's numbers for at least the next couple of years. We forecast that by the end of 2009, HBP will almost triple its 2007 net profit.

Careful contract selection + secured material base + proper contract management = high profitability

Tight cooperation with PBG (which enables HBP to participate in the largest and highly profitable infrastructural contracts), careful contract selection (concentration on the most profitable infrastructure contracts), partially secured construction material base (HBP is a manufacturer of steel structures, which naturally hedges its exposure to growing construction material prices), strict cost control, as well as praiseworthy contract management (at the stage of signing the contract HBP hedges its exposure to growing construction costs) enable the Company to enjoy outstanding margins. What is more, due to its expanding contract portfolio of highly profitable infrastructure contracts, we see room for improvement in margins (beginning from 1Q08 the Company's backlog is of good quality and free of "old" loss-making contracts).

Prospective M&As should be rather promising

The expected flood of contracts on the mid- to long-term horizon seems to constitute a rationale behind the Company's M&A-focused growth strategy, as growth via acquisitions appears to be a simple and quick way to improve the Company's execution potential and extend its scope of operations into attractive new niche segments. Due to its short history, HBP has not carried out any M&A transactions so far. In this area, however, the Company should continue the proven track record of PBG, its parent company. Having said that, we believe that the acquisition targets should be rather promising and be taken over at attractive valuations.

Acquisition of HB9 and PRG

The acquisition of Hydrobudowa 9 and PRG Metro (we believe they both should be finalized by the end of this year), coupled with infusion of capital from the last SPO (which was conducted in 2Q08), will enable the Company to participate in the largest and also most profitable infrastructure contracts (which it was not able to do before) as well as extend its scope of operations into attractive new niche segments of the construction industry (e.g. micro-tunneling), we believe. In other words, the acquisitions should underpin the Company's expansion of margins as well as set the pace for the Company's financials.

Significant EUR exposure

HBP is significantly exposed to EUR, mainly because most of the environmental construction contracts are denominated in EUR (c. 75% of contracts in the Company's current backlog). The Company conducts effective FX hedging in this respect; in the longer term, however, continued appreciation of PLN vs. EUR may negatively affect the Company's cash flows, we believe. We deem currency exposure to be a major risk factor for Hydrobudowa.

Hold + Neutral

The comparison shows that HBP trades with a discount to PBG, its closest peer. However, this discount narrows in time (i.e. is lower for 2010E forward P/E and EV/EBIT multiples than for the 2009E ones), which is indicative of slower envisaged mid-term growth of HBP compared to PBG. This, coupled with only moderate (11%) upside to our DCF-derived 12M EFV prompts us to initiate our coverage of the Company's equities with a Hold LT fundamental rating. Furthermore, as the HBP equity story seems to lack strong ST positive catalysts on the horizon, we recommend an adoption of a neutral stance towards the Company's shares in a short-term market-relative contex.

2. Valuation

- **Our DCF-derived 12M EFV assessment of HBP stands at PLN 8.5 per share.**

- **Our 12M EFV is diluted for the expected new share issue which is to be exchanged into a 100% stake in Hydrobudowa 9.**

DCF valuation

We value Hydrobudowa Polska using our standard DCF FCFF approach. We apply a residual growth assumption of 2.5% and all-equity beta of 1.0. Our assessment of HBP's 12M EFV stands at PLN 8.5 per share (in the base scenario).

Peer-relative comparison

We reality-test the results of our DCF exercise via relative-to-peers comparison of HBP. We believe HBP should be priced with a premium to the peers' average – due to such factors as: (i) above-average profitability of HBP compared to its peers (2008E/2009E/2010E operating margin of 7.9%/8.5%/9.6%, respectively, compared to the average for peers of 6.1% for 2008E, 6.5% for 2009E and 7.0% for 2010E), (ii) relatively low competition in the segment the Company operates in, and (iii) expected faster growth of HBP against the peers' average (the 2008E-2010E EBIT CAGR for HBP stands at 50%, while for the peers' universe it averages 30%).

Fig. 1 Hydrobudowa Polska; Peer-relative comparison

	P/E			EV/EBITDA			EV/EBIT		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Polimex-Mostostal	16.7	13.2	9.2	10.0	8.2	6.1	12.6	10.2	7.2
Erbud	17.4	12.1	10.5	12.7	8.6	7.5	13.4	9.0	7.9
Average:	**17.0**	**12.6**	**9.8**	**11.3**	**8.4**	**6.8**	**13.0**	**9.6**	**7.5**
HBP	**24.4**	**14.9**	**11.2**	**19.5**	**12.8**	**9.5**	**16.9**	**11.3**	**8.6**
Premium/discount	**43%**	**18%**	**14%**	**72%**	**53%**	**40%**	**30%**	**18%**	**14%**

Source: Reuters, DM IDMSA estimates

We account for acquisition of Hydrobudowa 9

Our valuation accounts for the issue of c. 36.9 million new shares which are to be exchanged into a 100% stake in Hydrobudowa 9. As HB9 is expected to be consolidated not earlier than from 4Q08, the significant premium to peers visible in 2008 may be misleading, since on the one hand we account for full dilution of HBP's equity, and on the other HB9's contribution to the Company's consolidated profits this year will be limited to only one quarter.

Fig. 2 Hydrobudowa Polska; Comparison to PBG

	P/E			EV/EBITDA			EV/EBIT		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
PBG	22.3	17.3	11.2	15.3	11.8	8.1	17.3	13.1	8.8
Hydrobudowa Polska	24.4	14.9	11.2	19.5	12.8	9.5	16.9	11.3	8.6
Premium / discount	**9%**	**-14%**	**0%**	**27%**	**9%**	**18%**	**-3%**	**-14%**	**-3%**

Source: DM IDMSA estimates

Compared to its closest peer, PBG, HBP should be priced with a discount, we believe, due to (i) lower mid-term envisaged pace of growth, and (ii) lower share liquidity. This condition is met at the moment (see *Figure 2*).

Fig. 3 Hydrobudowa Polska; DCF valuation

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2018E>
Sales	571.5	1,109.4	1,739.6	2,072.0	2,460.1	2,835.3	2,935.9	3,006.9	3,100.5	3,254.5	3,374.9	3,503.1	
yoy change	*115%*	*94%*	*57%*	*19%*	*19%*	*15%*	*4%*	*2%*	*3%*	*5%*	*4%*	*4%*	
EBIT margin	6.2%	7.9%	8.5%	9.6%	10.8%	11.7%	11.7%	11.8%	11.6%	11.2%	10.0%	9.9%	
EBIT	35.2	88.1	147.3	198.3	266.1	330.3	343.4	353.5	359.7	363.8	339.1	347.3	
yoy change	*493%*	*151%*	*67%*	*35%*	*34%*	*24%*	*4%*	*3%*	*2%*	*1%*	*-7%*	*2%*	
Effective cash tax rate (T)	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	
EBIT * (1-T)	28.1	71.4	119.3	160.6	215.5	267.6	278.2	286.4	291.3	294.7	274.7	281.3	
yoy change	*429%*	*154%*	*67%*	*35%*	*34%*	*24%*	*4%*	*3%*	*2%*	*1%*	*-7%*	*2%*	
EBITDA	40.3	101.9	166.9	220.9	291.3	358.1	374.2	387.5	397.1	405.1	384.6	397.4	
yoy change	*314%*	*153%*	*64%*	*32%*	*32%*	*23%*	*4%*	*4%*	*2%*	*2%*	*-5%*	*3%*	
EBITDA margin	7.1%	9.2%	9.6%	10.7%	11.8%	12.6%	12.7%	12.9%	12.8%	12.4%	11.4%	11.3%	
Depreciation	5.1	13.8	19.6	22.6	25.2	27.8	30.7	33.9	37.5	41.3	45.5	50.1	
EBIT * (1-T) + D	33.2	85.2	138.9	183.2	240.7	295.4	308.9	320.3	328.8	336.0	320.2	331.4	
yoy change	*264%*	*156%*	*63%*	*32%*	*31%*	*23%*	*5%*	*4%*	*3%*	*2%*	*-5%*	*4%*	
Capex	-31.1	-85.7	-45.3	-28.6	-28.2	-30.9	-33.9	-37.1	-40.7	-44.6	-48.9	-53.6	
Change in NWC	-74.7	-226.4	-263.3	-146.1	-173.7	-167.5	-43.3	-30.8	-38.0	-60.2	-36.6	-52.0	
Equity issue proceeds	0.0	292.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow	-72.5	65.7	-169.7	8.5	38.7	97.0	231.8	252.4	250.1	231.1	234.7	225.8	
Cost of equity													
Risk free rate (nominal)	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	5.0%
Equity risk premium	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Unlevered beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Beta adjusted for the level of leverage	1.10	1.06	1.13	1.11	1.10	1.09	1.09	1.09	1.09	1.08	1.09	1.08	1.08
Required rate of return	**11.5%**	**11.4%**	**11.7%**	**11.6%**	**11.5%**	**11.5%**	**11.5%**	**11.5%**	**11.5%**	**11.5%**	**11.5%**	**11.5%**	**9.9%**
Cost of debt													
Cost of debt (Pre-tax)	7.1%	8.4%	8.2%	8.0%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Effective tax rate	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
After-tax cost of debt	5.6%	6.8%	6.6%	6.5%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
WACC													
Weight of debt	11%	7%	14%	12%	11%	10%	10%	10%	10%	9%	10%	9%	9%
Weight of equity	89%	93%	86%	88%	89%	90%	90%	90%	90%	91%	90%	91%	91%
Cost of equity	11.5%	11.4%	11.7%	11.6%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	9.9%
After-tax cost of debt	5.6%	6.8%	6.6%	6.5%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
WACC	10.9%	11.1%	11.0%	11.0%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	10.9%	9.5%
Discount multiple	1.00	1.00	1.05	1.17	1.30	1.44	1.60	1.77	1.96	2.18	2.41	2.68	
Discount factor	1.00	1.00	0.95	0.85	0.77	0.69	0.63	0.56	0.51	0.46	0.41	0.37	
PV of free cash flow (PLN m)			**-160.8**	**7.2**	**29.8**	**67.4**	**145.2**	**142.6**	**127.4**	**106.2**	**97.2**	**84.3**	
Sum of FCFFs PVs (PLN m)													**646.5**
Weight of debt in the residual period													9%
Weight of equity in the residual period													91%
Average cost of equity in the definite period													11.5%
Average WACC in the definite period													10.9%
WACC in the residual period													9.5%
Residual growth of FCFFs, base-case scenario													**2.5%**
Residual value													3,328.1
Present value of the residual value													1,242.9
Value of HBP's operations													1,889.4
Cash and equivalents													36.1
Interest-bearing debt													132.7
Equity value													1,792.8
No. of shares (ths)													210.6
12-month forward fair value of Hydrobudowa Polska (PLN per share)													**8.5**

Source: Company, DM IDMSA estimates

3. General construction sector

The situation in the construction industry has been improving since 2004, following the crisis that hit the sector in 2000. The market witnessed the boom since 2006. In 2007 the construction output rose by 15.7% yoy and according to ASM Centrum Badań i Analiz Rynku it should go up in the comming years at CAGR of 25%.

Poland lags behind most of the EU countries and the need for investments is apparent. We believe the acceleration in the construction industry in the next few years should be fuelled by EU funds (Poland will receive EUR 67 billion during 2007-2013, compared to EUR 11.4 billion in 2004-2006). In our opinion the revival should be seen in the most of the construction segments with an emphasis put on infrastructure, environmental protection and power engineering.

In 2007-2013 the largest part of the EU funds (EUR 19 billion) will fall into transport, and the biggest beneficiary should be road construction. Average annual expenditures should go up by around 40% comparing to 2006, and reach in total even PLN 120 billion. Expected expenditures on other segments look promising as well. Investments in environmental protection should reach PLN 125 billion, in chemical sector around PLN 24 billion, and c. PLN 50-80 billion in the power engineering construction.

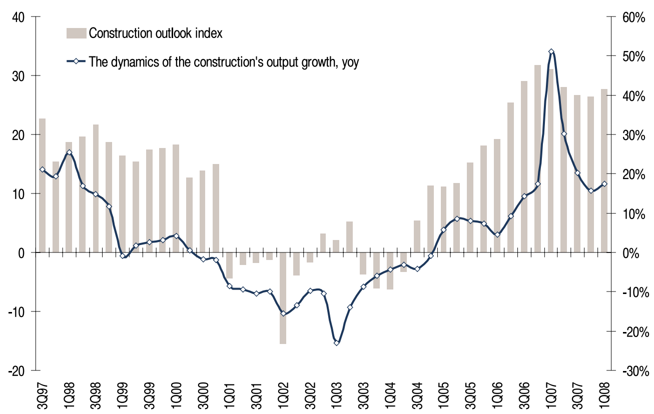
In our opinion, there are at least three risks in the foreseeable future which could hinder the dynamic growth of the construction sector in Poland in the short term, namely (i) staff shortages, (ii) growing prices of construction materials and (iii) the risk that Poland will not manage to fully use the influx of EU funds.

3.1. Sector overview

Boom in the construction sector began in 2006

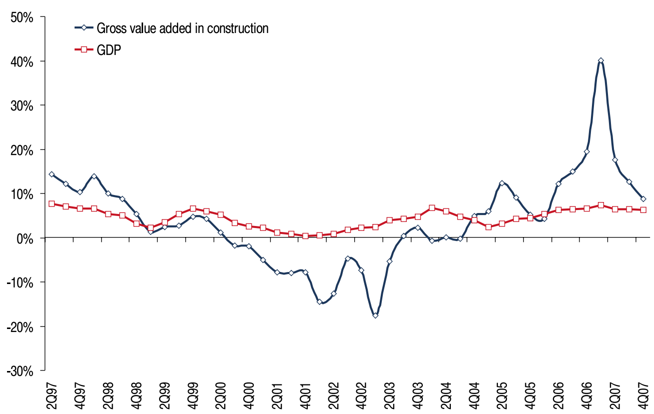
The situation in the construction industry has been improving since 2004, following the crisis that hit the sector in 2000. The first signs of revival were seen in gross value added in construction, which went up by 1.8% in 2004. The next two years brought further growth, exceeding 7% and 14% yoy, respectively. Also construction output started to increase. After poor 2001 and 2002, when it plunged by -2.5% and -7.8% yoy, it began to accelerate and grew by 3.3% and 17.5% in 2005 and 2006, respectively. Poland has been witnessing the boom in the construction sector since 2006. The construction output showed double digit pace of growth (by c. 30%) in 2H06, which was kept in the whole 2007.

Fig. 4 Construction output and construction outlook index



Source: CSO

Fig. 5 GDP and gross value added in construction

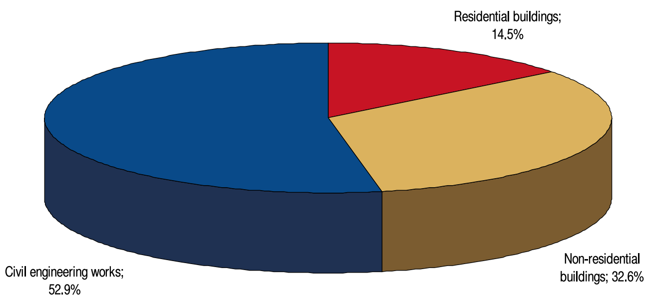


Source: CSO

Construction sector is driven by civil engineering works

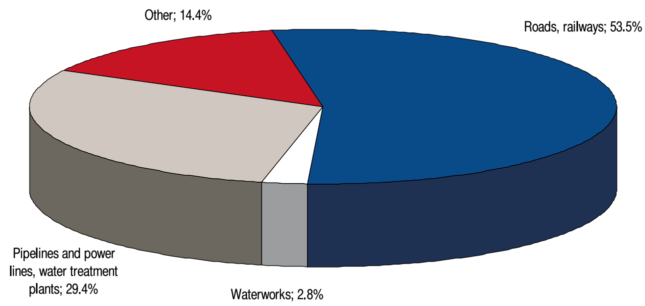
Breakdown of construction output shows that the construction sector is driven especially by civil engineering works (53%), which include construction of roads and railroads (53% of civil engineering works), construction of pipelines, power lines, water treatment plants (30%), and waterworks (3%). The other part of construction output comprises construction of residential- (14%), and non-residential buildings (33%), as well as industrial-, office-, or trade-buildings.

***Fig. 6** Construction output by type of constructions*



Source: CSO

***Fig. 7** Split of civil engineering works*



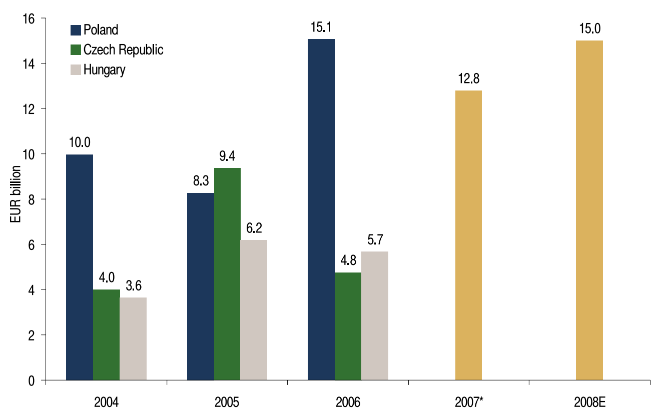
Source: CSO

3.2. Outlook

Construction output should show double digit pace of growth in the coming years

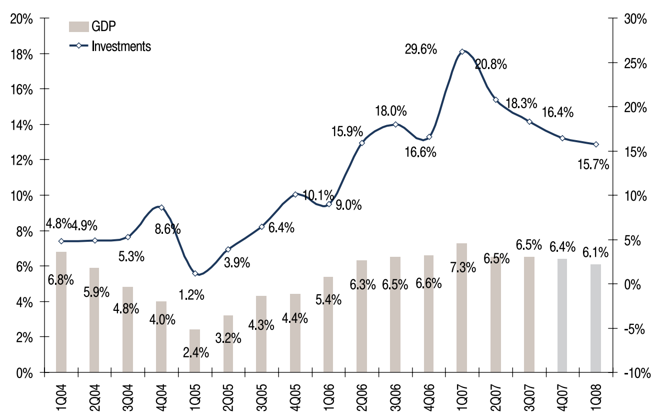
We believe stable and long-term growth forecast for the Polish economy (condition of the construction sector is highly correlated with the macroeconomic situation, particularly with the GDP) should contribute to good performance of the construction industry in the mid- to long-term. We are particularly optimistic about investments. First, Poland witnessed great influx of foreign direct investments (FDIs) in the last three years (c. EUR 15.1 billion), which according to Polska Agencja Informacji i Inwestycji Zagranicznych should be kept in this year. Second, gross capital expenditures on fixed assets since 2H06 keep double digit growth and according to Ministry of Finance should advance at c. a 22-25% pace in the years 2008-2012. ASM Centrum Badań i Analiz Rynku presented optimistic forecasts for the construction industry. It expects the construction output to go up during the coming years at a CAGR of 25%.

***Fig. 8** Foreign direct investments (FDI)*



** preliminary data*
Source: NBP, Polska Agencja Informacji i Inwestycji Zagranicznych

***Fig. 9** GDP and investments*



Source: NBP, Ministry of Finance

3.3. Demand drivers for construction sector

Need for investments in Poland seems to be apparent

Poland lags behind most of the EU countries and the need for investments is apparent. For instance, only 57% of the total population in Poland uses municipal waste water treatments plants (2002 GUS data, there has not been any significant improvement since), comparing to 93% in Germany. The situation is even worse with the road infrastructure. There are c. 600 kilometers of motorways, as in Slovenia, whose population is just 1.8 million people. Austria only for modernization purposes uses 1 ton of asphalt per capita, while in Poland the ratio (modernization and new construction) is just 0.3.

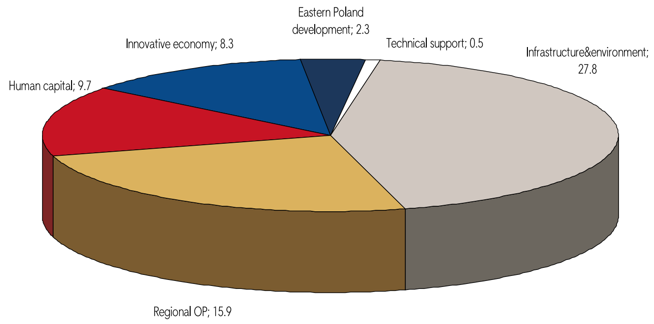
EU funds give Poland a unique chance to improve living conditions

In our opinion, the European Union, through accession and post-accession financial assistance, gives Poland a unique opportunity to improve living conditions in the country, and we believe that EU funds will drive the acceleration in the construction industry in a mid- to long-term horizon.

EUR 67.3 billion of EU funds should drive the acceleration in the construction industry in a mid- to long-term

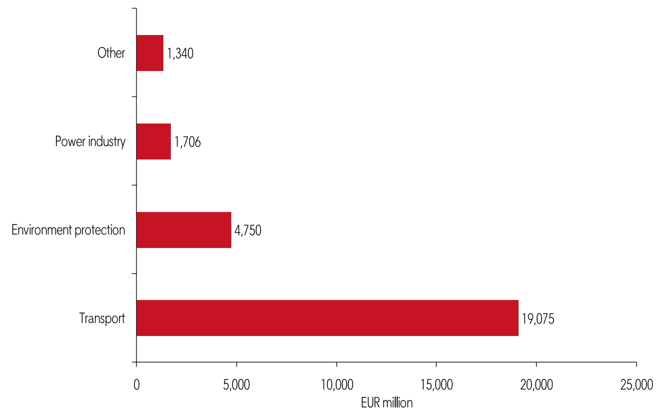
According to the Ministry of Regional Development, in 2007-2013 Poland will receive c. EUR 67.3 billion, which looks sound comparing to EUR 11.4 billion that the country received in 2004-2006 (the average annual amount of EU funds will more than double). In our opinion, the revival should be seen in most of the construction segments, with an emphasis put on infrastructure, environmental protection, and power engineering.

Fig. 10 Breakdown of EU funds allocated for Poland for 2007-2013 (EUR billion)



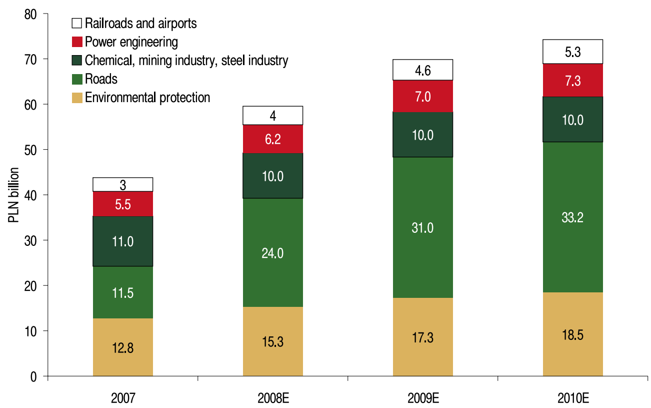
Source: Ministry of Regional Development

Fig. 11 Infrastructure & environment EU funds breakdown



Source: Ministry of Regional Development

Fig. 12 Forecast of total expenditures on engineering segment



Source: PMR

The key driver of the sector should be engineering segment

The largest beneficiary of the EU funds should be the engineering segment (infrastructure& environment). It will receive around EUR 27.8 billion representing 41% of total EU funds allocated for Poland, and according to PMR should drive the construction industry in the coming years.

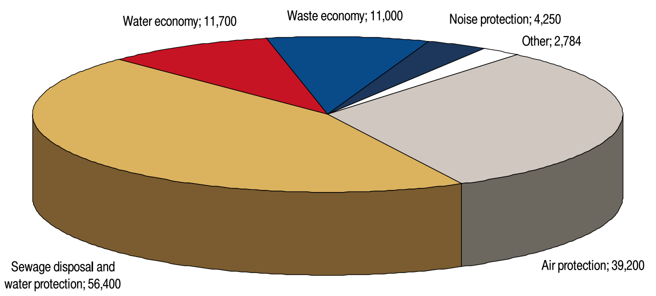
It is estimated that total expenditures on engineering sector between 2007 and 2010 should grow at a CAGR of 27% and reach PLN 250 billion.

3.3.1. Spendings on environmental protection

The average annual value of spendings on environmental protection in 2007-2014 should be doubled compared to spendings in 2001-2004

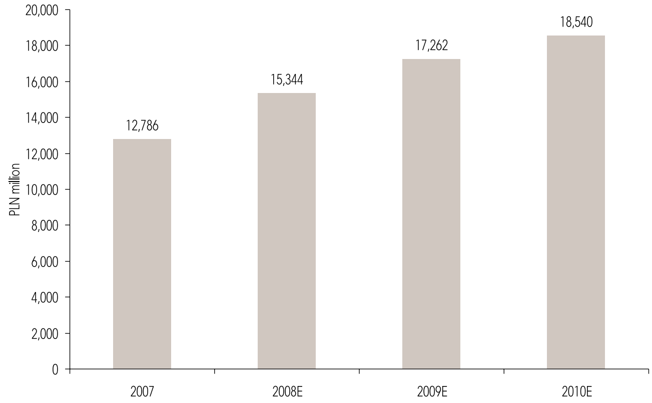
We believe long-term prosperity will relate to environmental protection construction. According to the Ministry of Natural Environment, the average total value of projects in 2007-2014 should stand at around PLN 15.7 billion per year (according to GUS data, the average total value of projects in 2001-2004 was twice lower and stood at PLN 6.5-7.5 billion per year), forced by Poland's commitments made in the Accession Treaty (around 82% of the environmental-protection-related projects planned in Poland are a result of the Accession Treaty rulings). The largest chunk of the spending will relate to sewage disposal and water protection (45%) and air protection (31%). The investments will be financed by (i) companies with their own funds (44%), (ii) Polish environmental-protection funds (22%), (iii) foreign funds (20%), (iv) local governments (9%), and (v) the state budget (6%). Total expenditure on environmental protection should reach PLN 125 billion. Total support from the EU will exceed PLN 21.6 billion (EUR 6 billion).

***Fig. 13** Breakdown of expected investments in environmental protection in 2007-2014 (PLN million)*



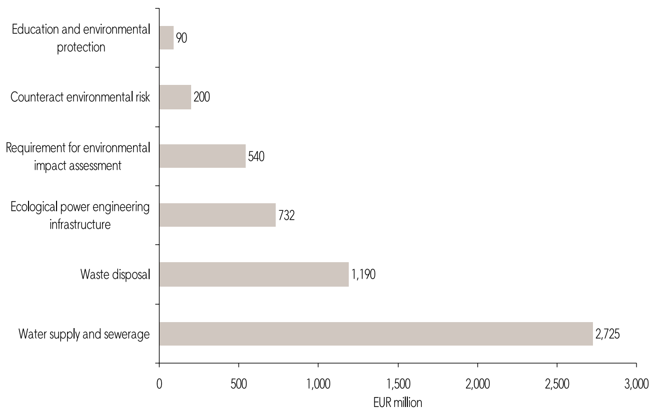
Source: Ministry of Natural Environment

***Fig. 14** Expected investments in environmental protection in 2007-2010 (PLN million)*



Source: Ministry of Natural Environment

***Fig. 15** Breakdown of EU funds for environmental protection*



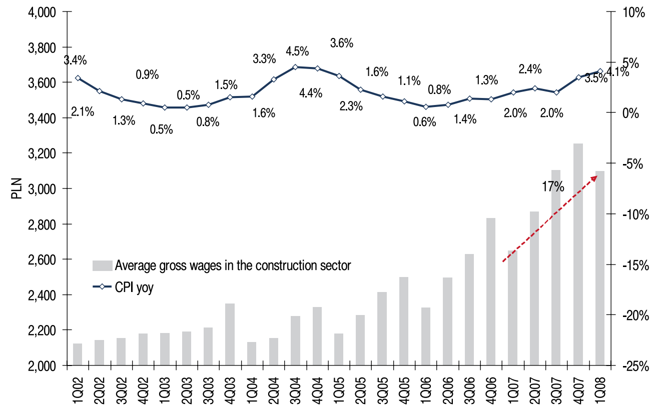
Source: Ministry of Regional Development

3.4. Constraints

We see at least three risks, which could hinder the dynamic growth of the construction sector in Poland, namely…

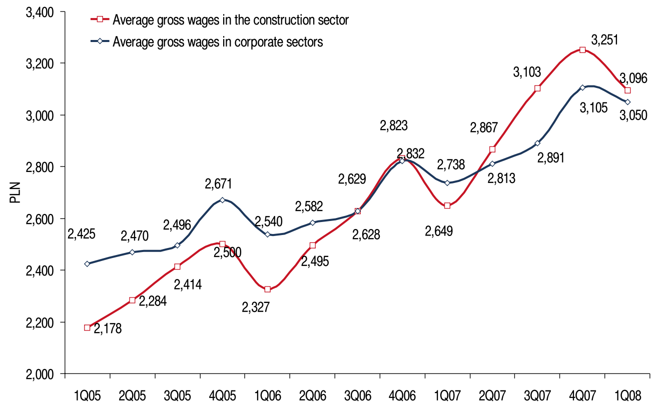
In our opinion, there are at least three risks in the foreseeable future, which could hinder the dynamic growth of the construction sector in Poland, namely (i) staff shortages, (ii) growing prices of construction materials, and (iii) the risk that Poland will not manage to fully use the influx of EU funds.

Fig. 16 Average gross wages in the construction sector and CPI (yoy)



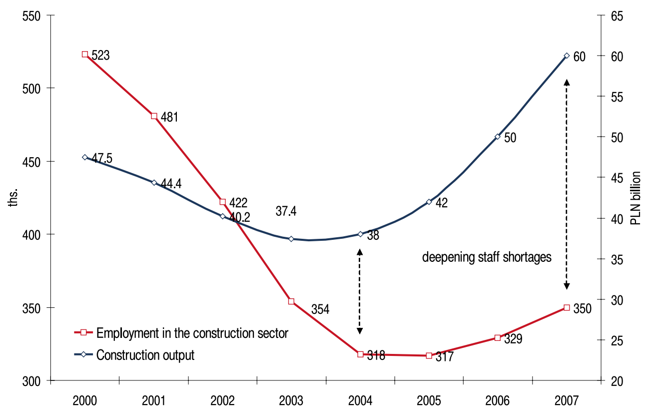
Source: CSO

Fig. 17 Average gross wages in the construction and corporate sectors



Source: CSO

Fig. 18 Construction output vs. employment in the construction sector



Source: Nowy Przemysł

…staff shortages and salary pressure,…

The ongoing emigration of Polish construction workforce to Western European countries has already posed a challenge for the construction companies. According to the research conducted by PMR, 66% of construction companies in Poland have problems recruiting employees. The emigration problem emerged after Poland joined the European Union. When “old EU” countries started to liberalize their labor market rules, the workforce from the new member states seized the opportunity. Well-qualified Polish workers, guided by the prospects of better paid jobs, started to move, especially to the UK. It is estimated that there is a lack of 150,000 specialists in Poland now. GUS data show that over 55% of companies reported growing costs of employment and pointed to lack of well qualified employees which creates staff shortages and salary pressures. In 1Q08 wages in the construction sector grew up by c. 17% yoy, comparing to c. 11 % in the corporate sector. It is expected that average wages in Poland should go up by c. 10% in 2008. We believe contractors will have to raise wages much more to retain employees in Poland, otherwise the lack of workforce will deepen.

…growing prices of construction materials,…

The booming construction market translates into growing demand for construction materials and, consequently, their growing prices. According to CEE Property Group, prices of construction materials grew by 50-80% in 2006. According to GUS and Grupa PSB, in 2007 they grew by 38%, and are expected to edge up further 3-10% in 2008. The risk of growing prices relates chiefly to general contractors and contracts with long-term execution periods (1-2 years). Contractors seek to include the rising costs in their initial costs estimates and shift growing costs onto bid prices (it should be stressed that there is no possibility to hedge construction material prices, as opposed to currency which is usually hedged); however, real construction costs are hard to predict and often exceed the budgets.

…and improper utilization of EU funds

The third risk relates to EU funds and their utilization. In our opinion, there is a risk that Poland could lose a part of the EU grants in the next few years, particularly due to prolonging administrative procedures and the lack of specialists familiar with securing EU funds (lured by higher salaries, they have been moving from state-owned institutions to privately-owned consulting companies). It is estimated that Poland should use c. 90% of 2004-2006 EU funds till 2008, which would be quite a good result; however, please note that the annual amount of EU 2007-2013 funds will be twice higher.

4. The company

▲ **The present shape of Hydrobudowa Polska stems from last year's merger between two subsidiaries of PBG: the WSE-listed Hydrobudowa Śląsk and privately-owned Hydrobudowa Włocławek.**

▲ **The post-merger entity has been powered by equity issue proceeds which enable HBP to compete for the largest infrastructure contracts.**

▲ **HBP is controlled by PBG, which holds a 61% stake in the Company.**

▲ **The Company's capital group structure is simple and transparent.**

4.1. Background

The present shape of HBP stems from the merger between two Hydrobudowas: Śląsk and Włocławek

Hydrobudowa Polska was created in August 2007 on the basis of a merger between two subsidiaries of PBG: the WSE-listed Hydrobudowa Śląsk (a 65% subsidiary) and the privately-owned Hydrobudowa Włocławek (76% subsidiary).

The roots of HBP date back to the 1950s

HBP's market presence seems short; however, the track record of the entities that it stems from is far longer, as their roots date back to the 1950s and 1960s. Since that time, tracking the development strategy, Hydrobudowa Śląsk and Hydrobudowa Włocławek had become the leading entities operating on the Polish environmental protection construction market.

HBŚ and HBW joined PBG group in 2002 and 2006, respectively

Before joining PBG Group, HBŚ and HBW presented strong execution potential and good track records (references) on one side, but rather inefficient management and poor financial standing on the other. Apart from these perceived weaknesses, the Hydrobudowas appeared to be attractive acquisition targets for PBG, especially due to the impressive prospects of the market that these companies were operating in (high spending on environmental protection and hydroengineering in Poland driven by the inflow of pre- and post-accession EU funds). PBG acquired majority stakes in Hydrobudowa Włocławek and Hydrobudowa Śląsk in 2002 and 2006, respectively. Afterwards, it successively carried out an in-depth restructuring process.

Post-merger entity powered by equity issue proceeds

The merger of Hydrobudowa Ślask and Hydrobudowa Włocławek established a well-restructured entity with strong execution potential and great experience in execution of environmental protection contracts. In 2Q08 the Company was powered by equity issue proceeds of c. PLN 308 million from an SPO. The proceeds are likely to be spent on working capital (c. PLN 230 million), equipment (c. PLN 55 million), acquisitions (c. PLN 50 million) and IT solutions (PLN 5 million).

HBP is well-positioned to participate individually in the largest construction contracts

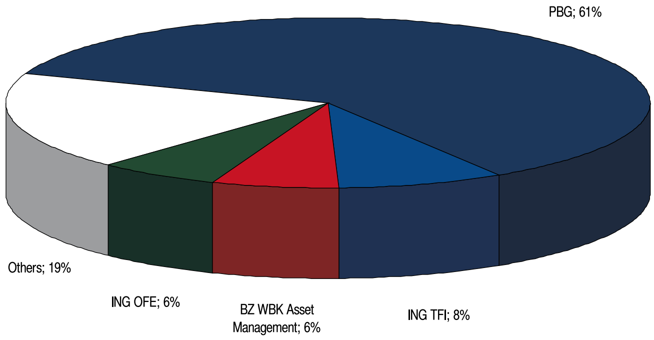
The infusion of new capital has substantially improved the Company's financial standing, also enabling it to compete for the largest infrastructure contracts (which it was not able to do before, due to the high financial requirements of such contracts), such as (i) the contract for the construction of the second metro line in Warsaw, (ii) 'fuel' contracts for PGNiG (Wierzchowice), and (iii) contracts related to the EURO 2012 European Football Championship, such as stadiums. The award of any of these contracts should underpin the expansion of HBP's margins as well as set the pace for the Company's financial numbers, we believe (for more commentary please refer to the *Business model* section).

4.2. Shareholders and group structure

HBP is controlled by PBG

HBP is controlled by PBG, which holds 61% of the Company's shares. After the issue of c. 36.9 million new shares (the new shares are to be issued to the present shareholders of HB9, which are PBG and the managers of HB9, in exchange for a 100% stake in HB9), PBG will increase its stake in HBP to c. 66% (for details please refer to the *Acquisitions* section).

Fig. 19 Shareholder structure of Hydrobudowa Polska (before acquisition of Hydrobudowa 9)

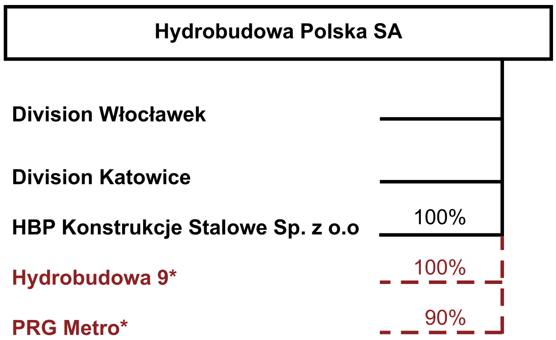


Source: Company

Simple and transparent group structure

The structure of HBP appears simple and transparent. The Company conducts its business through two divisions, which are located in Włocławek and Katowice, and are responsible for proper contract execution. HBP Konstrukcje Stalowe, the sole subsidiary of HBP, is a manufacturer of steel structures which are used by HBP in the construction process. The parent entity, in turn, which is located in Wysogotowo (near Poznań), is in charge of management, financing of contracts, as well as bidding policy. Hydrobudowa 9 (an entity that is currently controlled by PBG) together with PRG Metro are expected to join HBP by the end of 3Q08 (for details please refer to the *Acquisitions* section).

Fig. 20 Hydrobudowa Polska; Capital group structure



** HB9 and PRG Metro are to join HBP by the end of 3Q08*
Source: Company

5. Business model and strategy

▲ **HBP, with its market leader position, presents exposure to the highly profitable and fastest-growing segments of the construction sector.**

▲ **The business model of HBP comprises tight cooperation with PBG (which enables HBP to participate in large lucrative contracts), careful contract selection (making the criterion of profitability a priority), proper contract management (at the stage of signing the contract it hedges it exposure to any negative trends on the costs side), as well as strict cost control, which altogether enables the Company to enjoy relatively high margins.**

▲ **The Company's organic-oriented growth should be supported by M&As. By the end of 3Q08 the most probable is the acquisition of a 100% stake in Hydrobudowa 9 and a controlling stake in PRG Metro, which will enable the Company to enter new niche segments as well as to participate in the largest infrastructure contracts, which at the same time would open the room for expansion of margins.**

5.1. Product portfolio

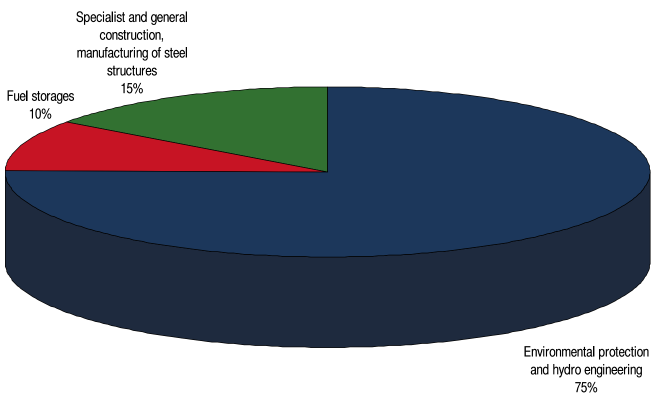
HBP = market leader with exposure to fast-growing construction segments

Hydrobudowa Polska is a highly specialized general contractor with a core business that includes execution of (i) environmental protection and (ii) hydroengineering construction contracts (c. 75% of the Company's sales). In these fast-growing and highly profitable construction segments, HBP holds the position of market leader. The Company's third area of activity includes execution of specialist constructions, general construction contracts as well as manufacturing of steel structures. This segment generates c. 25% of the Company's sales. Below we present the scope of operations in the following segments.

▲ 1. Environmental protection
  (i) transmission of wastewater,
  (ii) sewage treatment plants,
  (iii) water intakes.

▲ 2. Hydro-technical construction
  (i) dams,
  (ii) storage reservoirs,
  (iii) flumes,
  (iv) river regulation.

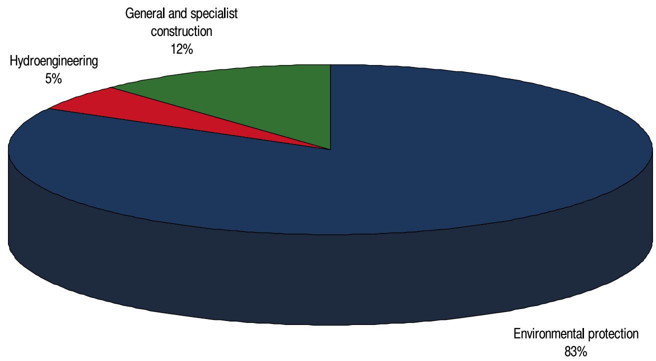
Fig. 21 Hydrobudowa Polska; Sales breakdown (2007)



Source: Company

- 3. Specialist construction
  - (i) sports facilities,
  - (ii) underground car parks,
  - (iii) steel constructions,
  - (iv) fuel storage facilities,
  - (v) general construction.

***Fig. 22** Backlog of contracts (as of beginning of 2Q08) – breakdown*



Source: Company

5.2. Business model

HBP capitalizes on tight cooperation with PBG

HBP capitalizes on tight cooperation with PBG, its parent company. With its strong financial potential, PBG is able to use higher leverage and as a result to bid for large, highly profitable, but capital-intensive construction contracts, which is not possible for smaller contractors such as HBP. HBP often acts as a subcontractor, however, on such large contracts that are won by PBG (such as contract for the construction of LMG), capturing lucrative margins. Naturally HBP also tenders for contracts individually, as well as participates in consortia; in this case, however, usually together with PBG, due to the complementary business profiles of the two companies (as in the case of the contract for construction of the second metro line in Warsaw).

Concentration on large contracts opens room for margins growth

The Company plans to shift from execution of small and medium-sized infrastructure contracts to the large ones. This is possible due to (i) consolidation with Hydrobudowa 9 (probably in 4Q08) which will significantly strengthen its execution potential (employment should increase by c. 60%), and (ii) better financial standing, as a result of the recent SPO (c. 75% of the capital collected from the SPO is to finance the NWC). We find the idea positive for at least two reasons. First, it will set the pace for the Company's financials. Second, large contracts are more profitable as a smaller number of contractors compete for them (among other reasons because of the capital requirements just mentioned) which opens the room for margins growth.

Proper contract management – a strength of HBP

Proper contract management – one of the key success factors on the construction market – seems to be a strength of HBP. In this field, the Company follows an apparently simple, but efficient model. In a nutshell, at the stage of signing the contract, the Company hedges (i) the supply of construction materials (signing forward contracts with suppliers), as well as (ii) subcontractors, fixing construction costs at the same time. This constitutes a natural hedge against fluctuations in construction costs during contract execution. Furthermore, the Company includes a clause in the contracts which enables it to offset any other negative cost trends by increasing the contract value. This strategy appears particularly relevant in the case of contracts with a multi-year execution period, as it enables the Company to fully control the costs and margins throughout the period of contract execution.

Careful contract selection – a priority for HBP

The management of Hydrobudowa pays particular attention to careful contract selection as well as proper bidding, placing a priority on the criterion of profitability (while attaching less importance to the number of contracts that it bids for). In practice this boils down to application of the following rule: HBP participates in a new contract provided that the expected gross profit on sales margin equals or exceeds the average margin that it realizes on the portfolio of existing contracts. This enables the management of Hydrobudowa to control and gradually increase the profitability of the Company. Please note that at present the gross profit on sales margin of newly signed contracts is fat, at an average of around 20%. Taking into account the Company's gross profit on sales margin of 9.5% in 2007, the room for expansion of margins in the coming year seems evident.

People – the key competitive advantage

HBP is highly focused as far as the scope of activities is concerned; however, it seems to be flexible enough to participate in a wide spectrum of construction contracts. Apart from an excellent track record (references), the Company's key competitive advantage is its experienced management team, employees, and trusted group of subcontractors (most of them connected with the capital group of PBG), which enables the Company to take part even in the contracts we see as the most complex, such as ski jumps (HBP is a contractor of the ski jump in Wisła) or stadiums (the Company is a contractor of the grandstands for the municipal stadium in Poznan). In our opinion this demonstrates the Company's flexibility and prospective ability to react to future market trends in the construction industry. We believe, however, that this may not be especially relevant until 2013-2015, because until then the Company's numbers should be fueled by the stream of EU funds supporting spending on environmental protection in Poland.

Production of steel structures – a natural hedge

A competitive edge for the Company is its production entity HBP Konstrukcje Stalowe (a 100% subsidiary), which manufactures steel structures that are chiefly used by HBP in the construction process. This means that the Company has its own material base, which partially hedges its exposure to price growth of raw materials and enables the Company to internalize the margin. Due to the observed high demand for steel structures (which may be attributed to the prosperity of the construction sector), the Company plans to increase its capacity, which given the fat margins realized by steel structure producers (c. 20% in the case of Polimex-Mostostal) seems to be a good move.

HBP's strategy envisages concentration on the home turf

The domestic market is the Company's most important one, as it is attractive due to the number of contracts that are expected to emerge in the mid- to long-term perspective as well as relatively higher margins than in other countries. On the back of that, HBP does not plan any moves abroad in the foreseeable future.

5.3. Acquisitions

Organic growth supported by acquisitions

The Company's organic growth-oriented strategy should be supported by growth via acquisitions, as it seems to be a simple and efficient way to strengthen the execution potential as well as to extend into attractive new segments of the construction industry. Due to its short history, HBP has not carried out any acquisitions so far; in this area, however, it should continue the proven track record of PBG, its parent company, which means that the acquisition targets should be rather promising and taken over at attractive valuations, we believe.

Acquisition of HB9 and PRG Metro is looming

The Company plans to spend around PLN 50 million on the acquisition of several construction companies. The spending should be financed from the equity issue proceeds from the recent SPO, which was conducted by HBP in 2Q08. In the near future, the most probable are acquisitions of two companies, namely Hydrobudowa 9 and PRG Metro.

5.3.1. Hydrobudowa 9

Acquisition will streamline the structure of PBG Group

HB9's shareholders are PBG, which holds a controlling stake in the company (69%), and its managers (holding 31% of the shares). The idea of the acquisition of HB9 stems from the strategy followed by PBG (the parent company of HBP) which envisages streamlining its group structure by grouping all its environmental protection assets into one entity, which is HBP.

Acquisition should be completed by the end of 3Q08

The acquisition plan envisages that HBP will issue up to c. 36.9 million new shares in an exchange for a 100% stake in HB9. The acquisition will require the approval of the shareholders of HBP (the shareholders of HB9 have already approved it), valuation of HB9 by auditors and approval by the court; hence, it may take a few months from now. In our financial forecast we assume full consolidation of HB9 from 4Q08 onwards.

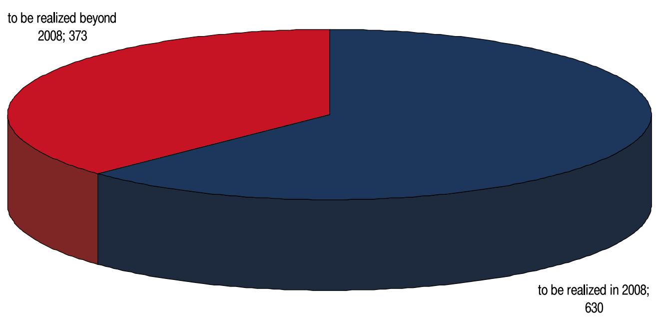
Although in the longer term the acquisition looks promising…

The profile of HB9 is close to HBP's; hence, the acquisition should strengthen the execution potential of the Group (employment in HBP should grow by c. 60%). Furthermore, in the longer run, the transaction should bring some positive effects of synergy in the form of cost savings, we believe.

… in the short term it may negatively affect the Company's results

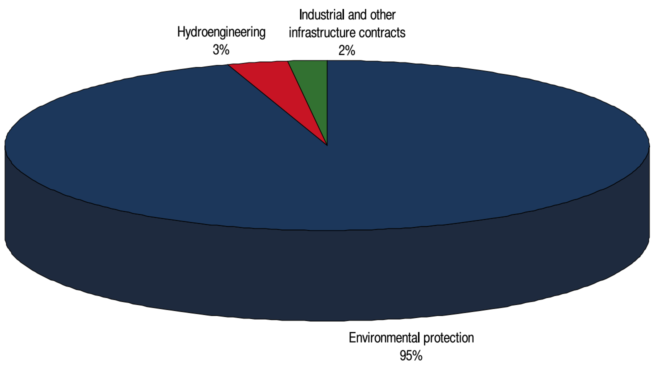
In 2008 and 2009 HB9 will be executing some long-term and loss-making contracts from its 'old' contract portfolio with a value of c. PLN 250 million (as the reserves have been created, HB9 will recognize 0% margin on these contracts). Most of them (c. 80%) should be completed by the end of 2008, nevertheless due to the expected consolidation of HB9 from 4Q08, the transaction may negatively affect HBP's profitability this year. Please note, however, that this should be offset by the expanding portfolio of HBP, the parent company, which should allow us to witness a growth in margins this year.

Fig. 23 Hydrobudowa 9; Backlog of contracts (January 2008) (PLN m)



Source: Company

Fig. 24 Hydrobudowa 9; Backlog of contracts – breakdown



Source: Company

5.3.2. PRG Metro

PRG Metro would extend the Company's scope of operations into an attractive new segment

PRG Metro, with its unique specialization in underground works and micro-tunneling, constitutes the second possible acquisition target this year. Given its experience in underground works, the acquisition would extend HBP's scope of operations into attractive new construction segments and, for example, enable the Company to participate in contracts for construction of underground car parks. PRG Metro's flagship project was the construction of 10 out of 15 sections of the metro line in Warsaw. It is taking part in a consortium for construction of the second metro line together with Alpine Bau, PBG and HBP. We envisage that HBP will acquire a 90% stake in PRG Metro for c. PLN 31.5 million by the end of 3Q08 (the conditional agreement has been already signed). The remaining 10% will stay in the hands of the managers of PRG.

6. Financial forecast

▲ We forecast a fast pace of the top line growth in the coming years driven by the expending portfolio of environmental protection contracts as well as full consolidation of Hydrobudowa 9.

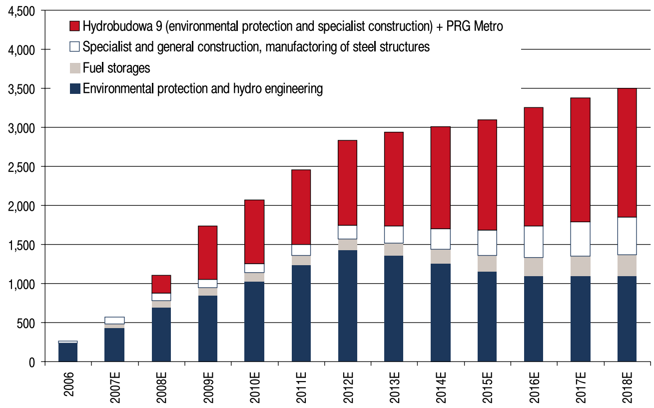
▲ HBP should successively increase its margins; we expect the Company to almost triple its 2007 NI in two years' time.

▲ Significant currency exposure constitutes the major risk factor for Hydrobudowa.

Fast pace of the top line

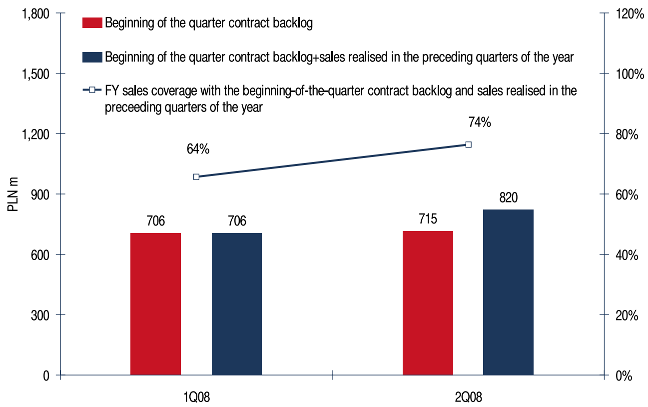
We forecast rapid growth in the Company's top line in the coming years. In 2008E, we forecast about 80% growth, driven by environmental protection and engineering contracts as well as full consolidation of Hydrobudowa 9 from 4Q08, which we envisage should add c. PLN 200 million to the consolidated top line this year. For the years 2008E-2010E, we forecast CAGR of the Company's sales at around 37%, spurred by an expanding portfolio of environmental protection contracts as well as execution of the Lubiatów-Międzychód-Grotów oil well (we believe HBP should act as a subcontractor). In our forecast we do not account for any prospective acquisitions or profits from any other large contracts such as Wierzchowice, stadiums, or the metro in Warsaw.

Fig. 25 Hydrobudowa Polska; Sales breakdown (PLN m)



Source: Company, DM IDMSA estimates

Fig. 26 Hydrobudowa Polska; Backlog (PLN m)



Source: Company, DM IDMSA estimates

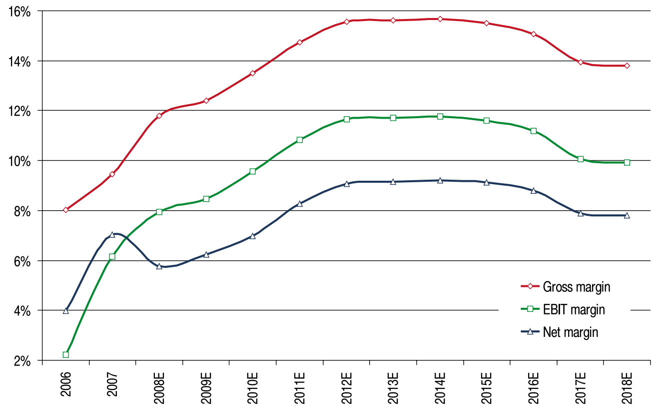
Peak in margins is still ahead of HBP

The upcoming years should bring material margin improvement, due to a couple of reasons, we believe. First, HBP has finally completed the long-term and loss-making contracts from its 'old' portfolio last year, e.g. the contract for construction of the sewage treatment plant in Cracow-Płaszów, which diminished the Company's 2007 operating profits by c. PLN 27 million (it was booked in COGS; the contract in question was won by Hydrobudowa Śląsk before it joined the capital group of PBG); the current contract portfolio is of good quality and free of unprofitable contracts. Second, the future results should reflect positive effects of the intra-group synergies among Hydrobudowa 9, Hydrobudowa Polska and PRG Metro in the form of cost savings. Third, HBP is starting to compete for the largest and most profitable contracts (due to lower number of contractors that fight for large contracts in these segments, the margins are higher). On top of that, the flood of contracts on the horizon should enable the Company to make the criterion of profitability (while tendering for contracts) a priority. We envisage margins reaching their peak in 2011-2012. Beyond, we believe the margins may level off or contract.

Currency exposure constitutes a key risk factor for Hydrobudowa

As around 75% of contracts in the Company's current contract portfolio are denominated in EUR, currency fluctuation may constitute a material risk factor for the Company's financial performance, we believe. The Company runs natural as well as FX hedging; in the longer run, however, continued appreciation of PLN vs. EUR may negatively affect the Company's cash flow, we believe.

Fig. 27 *Hydrobudowa Polska; Margins forecast*



Source: Company, DM IDMSA estimates

7. Financial statements (IFRS consolidated)

Fig. 28 Hydrobudowa Polska; Balance sheet

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Fixed assets	**80.0**	**151.9**	**177.6**	**183.6**	**186.7**	**189.8**	**192.9**	**196.1**	**199.4**	**202.7**	**206.0**	**209.5**
Intangibles	0.8	0.8	0.9	1.3	1.6	1.9	2.1	2.3	2.4	2.5	2.5	2.5
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible fixed assets	70.1	142.0	167.5	173.2	176.0	178.8	181.7	184.7	187.8	191.0	194.4	197.9
LT receivables	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
LT investments	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
LT deferred assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**502.7**	**899.7**	**1,375.3**	**1,625.6**	**1,933.1**	**2,310.3**	**2,434.9**	**2,518.0**	**2,610.3**	**2,726.5**	**2,827.6**	**2,931.5**
Inventories	5.2	9.8	15.3	18.0	21.1	24.0	24.9	25.5	26.3	27.8	29.2	30.3
ST receivables	426.5	827.8	1,298.1	1,546.2	1,835.8	2,115.8	2,190.9	2,243.8	2,313.7	2,428.6	2,518.4	2,614.1
ST deferred assets	3.4	6.7	10.5	12.5	14.8	17.1	17.7	18.1	18.7	19.6	20.4	21.1
Cash & equivalents	48.3	36.1	32.2	29.7	42.2	134.2	182.2	211.3	232.4	231.3	240.5	246.7
Other assets	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2	19.2
Total assets	**582.7**	**1,051.6**	**1,552.9**	**1,809.2**	**2,119.8**	**2,500.1**	**2,627.8**	**2,714.1**	**2,809.7**	**2,929.1**	**3,033.7**	**3,141.0**
Equity	**139.4**	**498.4**	**607.2**	**752.1**	**955.8**	**1,213.1**	**1,276.1**	**1,338.1**	**1,399.2**	**1,459.3**	**1,496.7**	**1,556.6**
Liabilities & reserves	**443.4**	**553.2**	**945.7**	**1,057.2**	**1,164.0**	**1,287.1**	**1,351.8**	**1,375.9**	**1,410.6**	**1,469.8**	**1,537.0**	**1,584.4**
Reserves	9.3	18.1	28.4	33.8	40.1	46.2	47.9	49.0	50.6	53.1	55.0	57.1
LT liabilities	67.3	67.3	114.6	104.6	84.6	84.6	114.6	114.6	114.6	114.6	124.6	124.6
Non-interest-bearing	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Interest-bearing	62.7	62.7	110.0	100.0	80.0	80.0	110.0	110.0	110.0	110.0	120.0	120.0
ST Liabilities	364.4	463.3	795.7	910.4	1,029.3	1,144.8	1,177.4	1,200.1	1,232.9	1,289.0	1,343.7	1,388.5
Non-interest-bearing	213.7	393.3	605.7	710.4	829.3	944.8	977.4	1,000.1	1,032.9	1,089.0	1,143.7	1,188.5
Interest-bearing	150.7	70.0	190.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred liabilities	2.3	4.5	7.0	8.4	9.9	11.4	11.9	12.1	12.5	13.1	13.6	14.1
Total liabilities and equity	**582.7**	**1,051.6**	**1,552.9**	**1,809.2**	**2,119.8**	**2,500.1**	**2,627.8**	**2,714.1**	**2,809.7**	**2,929.1**	**3,033.7**	**3,141.0**

Source: Company, DM IDMSA estimates

Fig. 29 Hydrobudowa Polska; Income statement

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Sales	**571.5**	**1,109.4**	**1,739.6**	**2,072.0**	**2,460.1**	**2,835.3**	**2,935.9**	**3,006.9**	**3,100.5**	**3,254.5**	**3,374.9**	**3,503.1**
COGS	-517.5	-978.5	-1,523.7	-1,792.3	-2,097.6	-2,394.0	-2,477.8	-2,536.1	-2,620.1	-2,764.2	-2,904.5	-3,019.6
Gross profit on sales	**54.1**	**130.9**	**215.9**	**279.7**	**362.5**	**441.3**	**458.1**	**470.8**	**480.4**	**490.3**	**470.3**	**483.5**
Selling costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General administration costs	-21.3	-42.8	-68.5	-81.4	-96.4	-111.0	-114.7	-117.2	-120.7	-126.5	-131.2	-136.2
Net profit on sales	**32.8**	**88.1**	**147.3**	**198.3**	**266.1**	**330.3**	**343.4**	**353.5**	**359.7**	**363.8**	**339.1**	**347.3**
Other operating income	9.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating costs	-7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**35.2**	**88.1**	**147.3**	**198.3**	**266.1**	**330.3**	**343.4**	**353.5**	**359.7**	**363.8**	**339.1**	**347.3**
Financial income	15.8	5.5	5.2	5.2	5.4	7.1	9.4	10.7	11.6	12.0	12.3	12.7
Financial costs	-16.7	-11.5	-17.7	-24.0	-19.1	-18.5	-19.5	-20.5	-20.5	-20.5	-20.8	-21.1
Other	16.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	**50.4**	**82.1**	**134.8**	**179.5**	**252.4**	**319.0**	**333.4**	**343.8**	**350.8**	**355.3**	**330.6**	**338.9**
Income tax	-10.2	-15.6	-25.6	-34.1	-48.0	-60.6	-63.3	-65.3	-66.6	-67.5	-62.8	-64.4
Minority interest in net income	0.0	-0.1	-0.5	-0.5	-0.7	-1.1	-1.2	-1.3	-1.4	-1.5	-1.3	-1.4
Net profit	**40.2**	**66.4**	**108.8**	**144.9**	**203.7**	**257.2**	**268.8**	**277.1**	**282.7**	**286.3**	**266.5**	**273.1**

Source: Company, DM IDMSA estimates

Fig. 30 Hydrobudowa Polska; Cash flow

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Pre-tax profit	50.4	82.1	134.8	179.5	252.4	319.0	333.4	343.8	350.8	355.3	330.6	338.9
Depreciation and amortization	5.1	13.8	19.6	22.6	25.2	27.8	30.7	33.9	37.5	41.3	45.5	50.1
NWC change:	-74.7	-226.4	-263.3	-146.1	-173.7	-167.5	-43.3	-30.8	-38.0	-60.2	-36.6	-52.0
Change in inventories	4.5	-4.6	-5.5	-2.7	-3.1	-3.0	-0.8	-0.6	-0.8	-1.4	-1.4	-1.2
Change in receivables	-164.0	-401.3	-470.3	-248.1	-289.6	-280.0	-75.1	-53.0	-69.9	-114.9	-89.8	-95.7
Change in payables	84.8	179.6	212.4	104.6	118.9	115.5	32.6	22.7	32.7	56.1	54.7	44.8
Other	-37.0	5.0	-0.4	-6.8	-25.0	-40.5	-48.4	-51.1	-52.9	-53.3	-48.7	-50.1
Operating cash flow	**-56.1**	**-125.4**	**-109.4**	**49.2**	**78.8**	**138.8**	**272.4**	**295.8**	**297.3**	**283.1**	**290.8**	**286.8**
Capital expenditures	-31.1	-85.7	-45.3	-28.6	-28.2	-30.9	-33.9	-37.1	-40.7	-44.6	-48.9	-53.6
Other	57.0	1.5	1.1	0.9	1.1	2.6	4.7	5.9	6.7	7.0	7.1	7.3
Investing cash flow	**26.0**	**-84.2**	**-44.2**	**-27.7**	**-27.2**	**-28.3**	**-29.1**	**-31.2**	**-34.0**	**-37.6**	**-41.8**	**-46.3**
Change in interest-bearing debt	64.2	-80.7	167.3	0.0	-20.0	0.0	30.0	0.0	0.0	0.0	10.0	0.0
Dividends payment	0.0	0.0	0.0	0.0	0.0	0.0	-205.8	-215.0	-221.7	-226.2	-229.1	-213.2
Interest	-8.7	-14.5	-17.7	-24.0	-19.1	-18.5	-19.5	-20.5	-20.5	-20.5	-20.8	-21.1
Other	-0.8	292.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	**54.7**	**197.4**	**149.6**	**-24.0**	**-39.1**	**-18.5**	**-195.3**	**-235.5**	**-242.2**	**-246.6**	**-239.8**	**-234.3**
Total cash flow	**24.6**	**-12.2**	**-3.9**	**-2.5**	**12.5**	**92.0**	**48.0**	**29.1**	**21.1**	**-1.2**	**9.2**	**6.2**

Source: Company, DM IDMSA estimates

Fig. 31 Hydrobudowa Polska; Ratios

PLN m	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Sales growth (yoy)	115%	94%	57%	19%	19%	15%	4%	2%	3%	5%	4%	4%
Gross profit growth (yoy)	154%	142%	65%	30%	30%	22%	4%	3%	2%	2%	-4%	3%
EBITDA growth (yoy)	314%	153%	64%	32%	32%	23%	4%	4%	2%	2%	-5%	3%
Operating profit growth (yoy)	493%	151%	67%	35%	34%	24%	4%	3%	2%	1%	-7%	2%
Net income growth (yoy)	280%	65%	64%	33%	41%	26%	4%	3%	2%	1%	-7%	2%
A/R turnover days	218	206	223	251	251	254	268	269	268	266	268	267
Inventory turnover days	5	3	3	3	3	3	4	4	4	4	4	4
A/P turnover days	110	109	117	132	132	133	140	141	140	138	139	139
Cash cycle	113	100	109	122	122	124	132	132	132	131	132	131
NWC/Sales	37%	40%	40%	41%	42%	42%	42%	42%	42%	42%	41%	41%
Gross margin	9.5%	11.8%	12.4%	13.5%	14.7%	15.6%	15.6%	15.7%	15.5%	15.1%	13.9%	13.8%
EBITDA margin	7.1%	9.2%	9.6%	10.7%	11.8%	12.6%	12.7%	12.9%	12.8%	12.4%	11.4%	11.3%
EBIT margin	6.2%	7.9%	8.5%	9.6%	10.8%	11.7%	11.7%	11.8%	11.6%	11.2%	10.0%	9.9%
Pretax margin	8.8%	7.4%	7.8%	8.7%	10.3%	11.3%	11.4%	11.4%	11.3%	10.9%	9.8%	9.7%
Net margin	7.0%	6.0%	6.3%	7.0%	8.3%	9.1%	9.2%	9.2%	9.1%	8.8%	7.9%	7.8%
ROE	34.4%	20.8%	19.7%	21.3%	23.9%	23.7%	21.6%	21.2%	20.7%	20.0%	18.0%	17.9%
ROA	8.5%	8.1%	8.4%	8.6%	10.4%	11.1%	10.5%	10.4%	10.2%	10.0%	8.9%	8.8%
Current ratio	1.4	1.9	1.7	1.8	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1
Quick ratio	1.4	1.9	1.7	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	2.1

Source: Company, DM IDMSA estimates

BASIC DEFINITIONS
A/R turnover (in days) = 365/(sales/average A/R))
Inventory turnover (in days) = 365/(COGS/average inventory))
A/P turnover (in days) = 365/(COGS/average A/P))
Current ratio = ((current assets – ST deferred assets)/current liabilities)
Quick ratio = ((current assets – ST deferred assets – inventory)/current liabilities)
Interest coverage = (pre-tax profit before extraordinary items + interest payable/interest payable)
Gross margin = gross profit on sales/sales
EBITDA margin = EBITDA/sales
EBIT margin = EBIT/sales
Pre-tax margin = pre-tax profit/sales
Net margin = net profit/sales
ROE = net profit/average equity
ROA = (net income + interest payable)/average assets
EV = market capitalization + interest bearing debt – cash and equivalents
EPS = net profit/ no. of shares outstanding
CE = net profit + depreciation
Dividend yield (gross) = pre-tax DPS/stock market price
Cash sales = accrual sales corrected for the change in A/R
Cash operating expenses = accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes

DM IDM S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

Banks
Net Interest Margin (NIM) = net interest income/average assets
NIM Adjusted = (net interest income adjusted for SWAPs)/average assets
Non interest income = fees&commissions + result on financial operations (trading gains) + FX gains
Interest Spread = (interest income/average interest earning assets)/ (interest cost/average interest bearing liabilities)
Cost/Income = (general costs + depreciation + other operating costs)/ (profit on banking activity + other operating income)
ROE = net profit/average equity
ROA = net income/average assets
Non performing loans (NPL) = loans in 'substandard', 'doubtful' and 'lost' categories
NPL coverrage ratio = loan loss provisions/NPL
Net provision charge = provisions created – provisions released

DM IDM S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation.

Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc.

Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

KEY TO INVESTMENT RANKINGS
This is a guide to expected price performance in absolute terms over the next 12 months:
Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:
Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM IDMSA's recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first. Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

LT fundamental recommendation tracker

Recommendation		Issue date	Reiteration date	Expiry date	Performance	Relative performance	Price at issue/ reiteration (PLN)	12M EFV (PLN)
Hydrobudowa Polska								
Hold	–	*01.07.2008*	-	*Not later than 01.07.2008*	-	-	7.70	8.50

Market-relative recommendation tracker

Relative recommendation		Issue date	Reiteration date	Expiry date	Price at issue/ reiteration (PLN)	Relative performance
Hydrobudowa Polska						
Neutral	–	*01.07.2008*	-	*Not later than 01.07.2008*	7.70	-

Distribution of IDM's current recommendations

	Buy	Hold	Sell	Suspended	Under revision
Numbers	24	17	4	1	0
Percentage	52%	37%	9%	2%	0%

Distribution of IDM's current recommendations for companies that were within the last 12M IDM customers in investment banking

	Buy	Hold	Sell	Suspended	Under revision
Numbers	2	2	0	1	0
Percentage	40%	40%	0%	20%	0%

Distribution of IDM's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	18	21	6	1	0
Percentage	39%	46%	13%	2%	0%

Distribution of IDM's current market relative recommended weightings for the companies that were within the last 12M IDM customers in investment banking

	Overweight	Neutral	Underweight	Suspended	Under revision
Numbers	3	1	0	1	0
Percentage	60%	20%	0%	20%	0%

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