Polish Construction

"Bumpy Road Ahead"

EQUITY

RESEARCH

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"Bumpy road ahead"

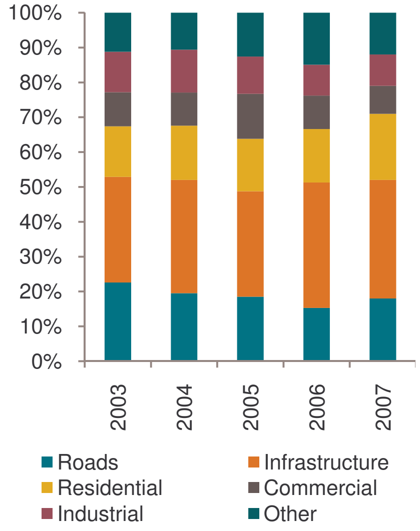
Despite ytd results showing a 57% yoy improvement in profitability, the Polish construction sector, procyclical by nature, is facing an imminent slowdown, with contraction by 1-2% a possibility in 2009. General, industrial and residential construction is expected to decline most, while infrastructure investment (supported by EU co-financing) and oil & gas investments should continue to grow. So, we prefer construction stocks with greater exposure to infrastructure, oil and gas and like least stocks exposed to general & industrial construction.

After several years of plentiful contracts and margin improvement, the key is now to secure sufficient high quality backlog with defensible margins. PBG (and its subsidiary Hydrobudowa Polska), should be the relative winner. With 85% of its PLN 7bil backlog in infrastructure or oil and gas, it should deliver double digit net profit growth in 2009, despite steep financing charges.

In contrast Budimex and Mostostal will find it challenging to secure quality backlog and offset declining sales in general/industrial/residential construction, leading to a fall in net profits in 2009. Greater uncertainty surrounds Pol-Aqua and Polimex who should be able to grow sales and net profits in 2009, provided they secure sales from the energy sector.

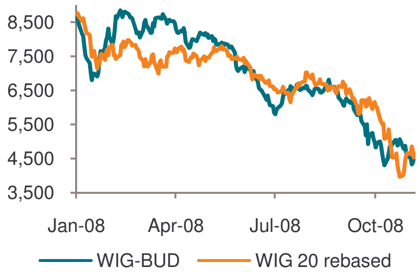
We initiate with a negative 1 year outlook on Polish construction with HOLD recommendations on PBG, Hydrobudowa and Polimex Mostostal and SELL recommendations on Budimex, Mostostal Warszawa and Pol-Aqua. Despite the HOLD, we would advise long term investors to accumulate PBG and Hydrobudowa.

Construction Output Structure



	Mkt Cap (EUR m)	ADV (EUR m)	EPS 3yr CAGR	PEG '09 (x) 3yr fwd
BDX	426	0.48	-4.2%	8.1
HBP	216	0.14	18.0%	0.7
MSW	255	0.42	2.6%	2.6
PBG	825	1.72	16.7%	0.8
PQA	141	0.62	19.3%	0.3
PXM	351	1.84	14.5%	0.6

WIG BUD Price Performance



	Current Price	Rating	Target Price	Upside	Mkt Cap/ Backlog	P/E (x) 2008e	2009e	2010e	EV/EBITDA (x) 2008e	2009e	2010e
Budimex	64.90	SELL	47.05	-28%	0.41	14.6	25.3	24.9	7.9	12.6	11.9
Hydrobudowa Polska	6.05	HOLD	5.68	-6%	0.71	13.7	11.8	9.9	14.8	10.3	8.7
Mostostal Warszawa	49.49	SELL	41.61	-16%	0.22	11.4	13.5	14.7	5.8	5.7	5.4
PBG	180.00	HOLD	197.83	10%	0.35	15.4	13.6	11.5	11.5	9.1	7.4
Pol-Aqua	19.85	SELL	16.96	-15%	0.42	7.5	6.5	5.0	4.0	3.5	2.6
Polimex Mostostal	2.94	HOLD	3.31	13%	0.20	11.5	11.3	9.1	6.9	6.3	5.3

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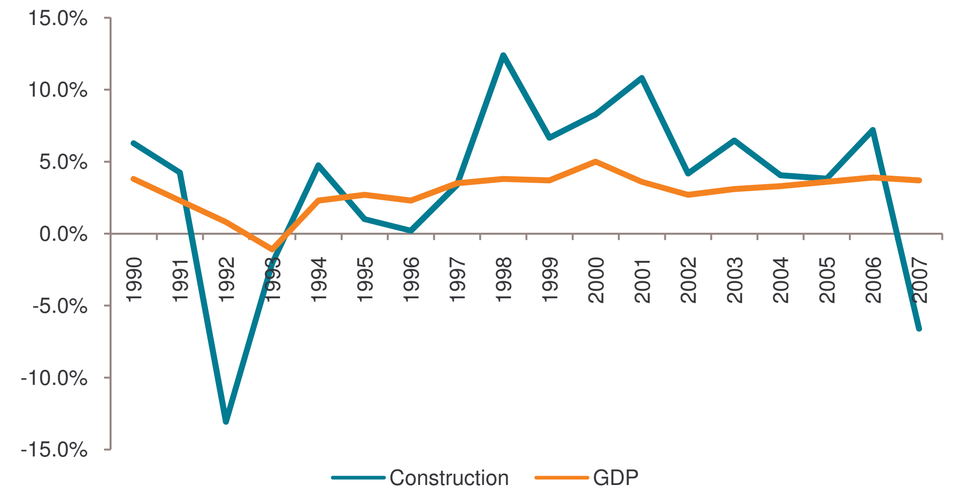
Investment summary

Very tough market conditions outside infrastructure

2% GDP growth in 2009e will drag construction output downwards

Construction output is typically pro-cyclical, moving ahead of changes in GDP growth and with much greater volatility. Since we now expect Polish GDP growth of just 2% in 2009, we must expect a sharp decline in construction output too, even into negative territory.

The lesson of Spanish construction



Source: Eurostat, Wood & Company

EU co-funded expenditure on big ticket infrastructure items will drive construction output. General and residential development will shrink.

EU funds inflows become almost the sole driver of Polish construction growth for the next couple of years. Funds will be directed almost entirely to infrastructure investment and ultimate expenditure will be determined by the Polish authorities' ability to complete tenders. Its record to date is rather poor, but improving. Thus we are negative on the 12 month outlook for the construction sector, but within that, we prefer stocks which have greater exposure to infrastructure projects. We like least stocks with greater exposure to general and industrial construction, residential construction and property development.

High quality backlog the key

To assess the quality of backlog, we look at the size of the backlog, as well as average length of contract, geography, sectoral split and customer quality.

PBG and Hydrobudowa shine with best quality backlog.

- ✓ PBG (and by association Hydrobudowa Polska), has the best quality backlog: the largest at PLN 7 bil, the longest average contract length at 25 months, almost no export exposure, 85% of backlog value in infrastructure or oil and gas contracts and blue-chip customers like national and local governments investing in EU co-financed projects or the big oil and gas concerns PGNiG and OLPP. Polimex also has very large backlog, but considerable exposure to "riskier" segments.

The rest could face problems with backlog rollover and payment on existing contracts.

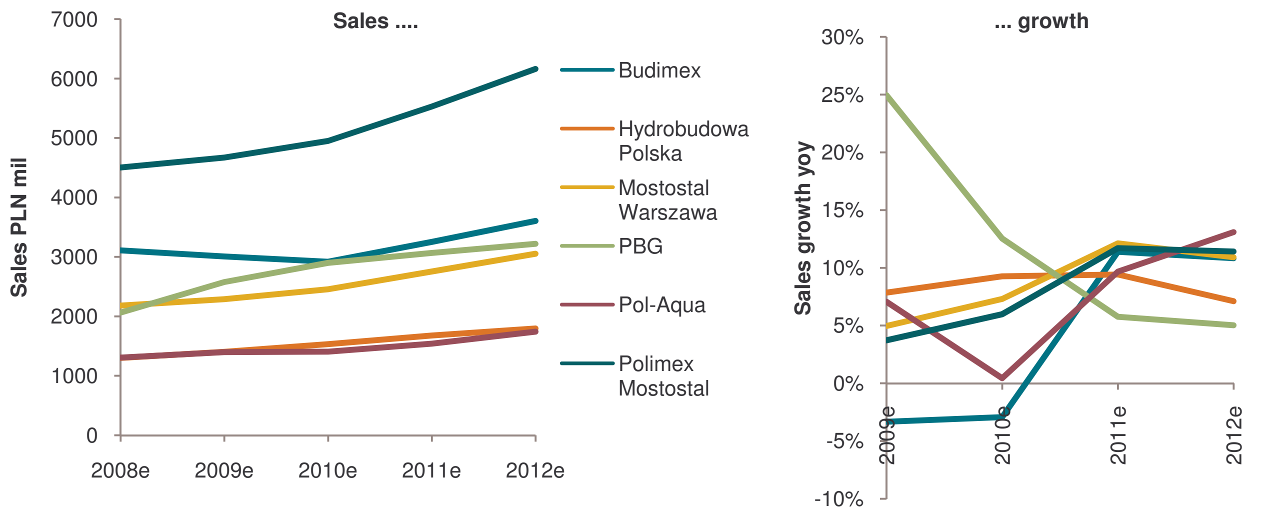
- ✓ Budimex, Mostostal Warszawa and Pol-Aqua, have smaller backlogs, shorter average contract lengths and greater exposure to the housing and general and industrial construction segments, where signing new contracts and securing payment on existing projects could be problematic.

Infrastructure projects to drive top line growth

PBG & Hydrobudowa - double-digit CAGR of sales to 2011. Budimex - just 1%.

Translating this into our sales forecasts, it is no surprise therefore to find we expect PBG and Hydrobudowa to deliver the best sales growth (at 14% and 9% CAGR to 2011), followed by Mostostal Warszawa (8%) with large transport infrastructure contracts and Polimex (7%), driven by projects for the petrochemical sector. We expect Budimex to be the worst performer (1%), dragged down by residential construction, poor property development sales and weak export numbers.

Projected sales and growth dynamics 2008e-2012e



Source: Company data, Wood & Company

Specialist margins to expand – generalists face a squeeze

Niche environmental engineering and oil & gas sectors attract higher margins. Roads in the middle, with general construction the lowest.

The margins obtainable in different sectors of the construction industry – from c. 20% in energy, through 10-15% for infrastructure projects, down to 3-8% for general construction - reflect the competitive environment of the sector. PBG, Hydrobudowa, Polimex and PolAqua have the technical expertise and references to deliver complex environmental projects, oil and gas and power industry installations and each tries to specialize further within these. PBG/Hydrobudowa and Polimex also have the financial muscle to take on the long term, capital intensive mega contracts in these areas. Road building also requires specialization and financial strength, but attracts more players, keeping margins lower, while general construction is the most competitive segment with the largest number of competitors and lowest margins. Combining this with sales structure we expect:

So we expect margin expansion for PBG and Hydrobudowa and flat or falling margins for the rest in 2009/10

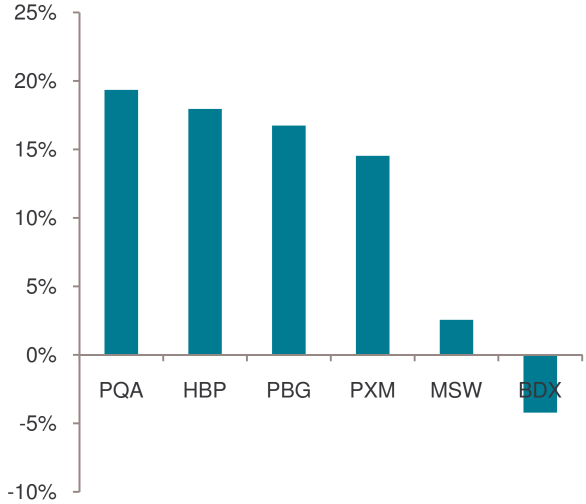
- ✓ PBG gross margins to rise as oil and gas mega contracts kick in.
- ✓ Hydrobudowa gross and EBIT margins to rise as it consolidates its position as leader in environmental projects and fully absorbs Hydrobudowa 9.
- ✓ Flat or falling gross/EBIT margins for the rest in 2009, rising steadily thereafter as the general/industrial construction starts to recover.

Net profit development – distinctly variable

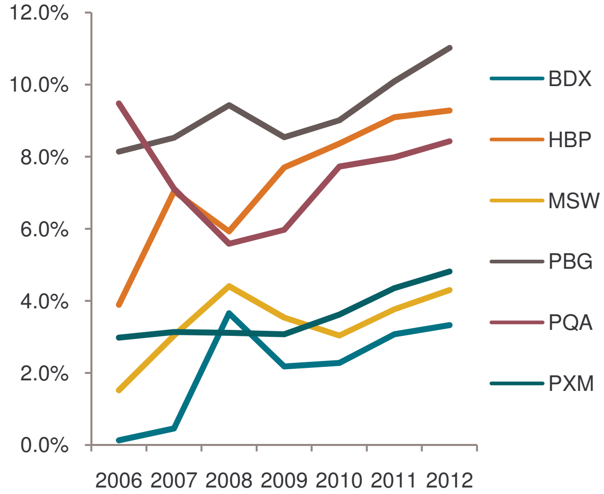
Net profits a mixed bag – PBG and Hydrobudowa double-digit in '09 – flat for the remainder.

The immediate outlook for bottom line growth is mixed, with PBG and Hydrobudowa expected to deliver net profit growth of 13% and 40% in 2009, in spite of their inflated interest costs. Polimex and Pol-Aqua should remain flat or mildly positive, depending on their success in generating energy sector contracts, while we expect Budimex and Mostostal to see declining net profits in line with operating margin squeeze.

3 yr CAGR EPS forecast



Net profit margin development



Source: Wood & Company, company reports

Flex those financial muscles

Debt levels for PBG are high, but not a threat to performance given quality of contracts and client base.

With financial strength very much in focus in the current economic climate we have compared debt levels, interest cover and working capital requirements. None of the group has worrying levels of net debt and Budimex and Mostostal have net cash positions. PBG, Hydrobudowa and Polimex have quite high absolute debt levels, but with strong EBITDA generation, comfortable interest cover, a preponderance of long term debt and recourse to bond issuance, we do not believe their financial stability is at risk. PBG's working capital requirements are also the highest of the group, reflecting their long term and capital intensive contracts. Given the quality of the clients we do not see this as a major risk. We would expect Budimex, Pol-Aqua and Mosostal Warszawa to be most at risk of write-downs on receivables as the general construction sector slows, although each can comfortably finance their working capital requirements for now. None of the companies currently looks to be financially insecure.

Always unpredictable – market tremors augment this risk

Economic crisis increases unpredictability of results from top line down. Visibility of backlog key.

Forecasting construction sector sales and profits with any exactitude is notoriously difficult in "normal" times as the regular mismatch between analyst forecasts, company forecasts and final results clearly shows. The current environment heightens this risk. While we believe PBG and Hydrobudowa's top line to be the most solid, costs of debt or the very availability of debt could be a risk. Likewise no-one can say how bad the slump in general and industrial construction will be, nor whether it will spread to the energy sector, which could force significant changes to our models in the coming months.

Valuation

Large premium to international peers implies further de-rating to come as Polish economy slows up .

Although the Polish WIG BUD construction index is down 50% ytd and although it has latterly moved in line or underperformed the WIG 20 index, it still trades at an eye-popping 66% average premium to international and emerging market peers. In the Summer this premium may have looked justifiable because Poland was expected to maintain >4% GDP growth through 2009, with domestic investment levels expected to hold up well. However, the sharply deteriorating macro environment now makes a further de-rating of the Polish construction sector in our view more likely. Thus we are negative as a whole on the sector.

Relative Valuations

	Mkt Cap	ADV	Mkt Cap/	Mkt Cap/av.	P/E (x)			EV/EBITDA (x)			ROE	ROA	EPS 3yr	PEG '09(x)
	EUR mil	EUR m	Backlog	**08/09 sales**	2008e	2009e	2010e	2008e	2009e	2010e			**CAGR**	**3yr fwd**
Budimex	426	475	0.41	0.54	14.6	25.3	24.9	7.9	12.6	11.9	19%	6%	-4.2%	8.1
Hydrobudowa Polska	216	144	0.71	0.94	13.7	11.8	9.9	14.8	10.3	8.7	24%	11%	18.0%	0.7
Mostostal Warszawa	255	421	0.22	0.44	11.4	13.5	14.7	5.8	5.7	5.4	29%	9%	2.6%	2.6
PBG	825	1724	0.35	1.04	15.4	13.6	11.5	11.5	9.1	7.4	23%	8%	16.7%	0.8
Pol-Aqua	141	620	0.42	0.40	7.5	6.5	5.0	4.0	3.5	2.6	114%	7%	19.3%	0.3
Polimex Mostostal	351	1837	0.20	0.30	11.5	11.3	9.1	6.9	6.3	5.3	13%	7%	14.5%	0.6
-Average			*0.38*	*0.61*	*12.3*	*13.7*	*12.5*	*8.5*	*7.9*	*6.9*				
% premium to international peers					*44%*	*78%*	*83%*	*117%*	*110%*	*78%*				
% premium to emerging market peers					*-1%*	*51%*	*72%*	*32%*	*59%*	*72%*				

International Valuation comparisons

Company	**Country**	**Ticker**	**Currency**	**Last price**	**Market Cap**	**P/E (x)**			**EV/EBITDA (x)**		
					(EUR mil)	2008	2009	2010	2008	2009	2010
Developed peers											
Acciona	Spain	ANA SM	EUR	64.9	4,054	7.7	6.5	6.6	0.8	0.8	0.7
ACS Actividades Cons Y Serv	Spain	ACS SM	EUR	29.2	9,945	7.2	9.3	9.6	10.5	10.6	12.8
Bauer	Germany	B5A GE	EUR	17.6	302	0.1	0.2	0.2	0.1	0.1	0.1
Bilfinger Berger Ag	Germany	GBF GE	EUR	27.4	1,021	5.7	6.1	5.5	4.2	4.0	3.8
Fomento De Construc Y Contra	Spain	FCC SM	EUR	24.8	3,106	7.7	8.3	7.6	6.0	5.9	5.8
Grupo Ferrovial	Spain	FER SM	EUR	18.1	2,542	32.0	20.8	14.0	11.3	10.3	9.4
Hochtief	Germany	HOT GE	EUR	25.2	1,761	11.0	8.9	7.9	2.5	2.2	2.2
Strabag Se-Br	Austria	STR AS	EUR	11.4	1,298	4.9	5.4	5.3	0.0	0.0	0.0
Skanska	Sweden	SKAB SW	SEK	54.5	2,165	5.7	7.4	8.0	1.9	2.3	2.4
Foster Wheeler	Usa	FWLT US	USD	14.3	1,649	3.9	3.8	3.7	1.6	1.5	1.6
- Average						*8.6*	*7.7*	*6.8*	*3.9*	*3.8*	*3.9*
Emerging Market Peers											
Daewoo Engineering & Construction	S. Korea	047040 SK	KRW	7,950	1,372	8.2	7.5	6.4	4.9	4.6	4.2
Gs Engineering & Construction	S. Korea	006360 SK	KRW	45,900	1,220	4.6	4.6	4.0	4.4	3.9	3.3
Hyundai Development Company	S. Korea	012630 SK	KRW	23,700	928	7.5	6.2	4.7	6.8	5.3	4.0
Lanco Infratech	India	LANCI IN	INR	117.2	414	6.2	4.1	3.3	5.2	3.1	2.1
Samsung Engineering Co	S. Korea	028050 SK	KRW	33,100	682	6.7	5.6	4.8	3.6	2.8	2.2
China Railway Construction	China	1186 CH	HKD	10.5	8,609	21.4	14.3	10.8	8.7	6.3	5.1
China Railway Group	China	601390 CH	CNY	5.96	14,782	32.7	21.1	16.9	11.2	9.0	7.1
- Average						*12.5*	*9.1*	*7.3*	*6.4*	*5.0*	*4.0*

Source: Bloomberg

Our target prices are based on the average of a 12 month DCF forecast and peer comparison multiples.

Recommendations: 3 HOLD, 3 SELL

	Rating	Price	12M Target	% Upside
Budimex	SELL	64.9	47.1	-28%
Hydrobudowa Polska	HOLD	6.05	5.68	-6%
Mostostal Warszawa	SELL	49.5	41.6	-16%
PBG	HOLD	180	198	10%
Pol-Aqua	SELL	19.9	17.0	-15%
Polimex Mostostal	HOLD	2.94	3.31	13%

PBG should trade at a premium to peers; Hydrobudowa should at least trade in line.

Our top picks are PBG and Hydrobudowa Polska which we expect to outperform the sector in the coming year. These stocks have the best exposure to the relative stability of good margins, EU co-financed environmental infrastructure projects and, in PBG's case, the high margin, mega size oil and gas projects. PBG trades in line with our 2009 PER average, while Hydrobudowa trades at an undeserved 14% discount to average '09 PER. Since we expect further price falls across the sector, we place the stocks on HOLD.

Polimex doesn't deserve its 20% discount.

We also place Polimex on a HOLD (12 month target price PLN 3.59), since we regard the stock's recent underperformance and 18% and 20% discounts to peers on '09 PER and EV/EBITDA, as rather deeper than is justified by the top line risk and expected flat performance in 2009.

Pol-Aqua needs visibility and stability before it can become a buy

Pol-Aqua by rights should be a buy recommendation in this market, with its high exposure to the fuel segment, road and environmental infrastructure. But, given recent company announcements about problems with securing contracts, there are serious uncertainties over its ability to deliver our 2009 forecasts. Add to this the prevailing negative sentiment towards the stock and we initiate with a SELL recommendation.

Budimex and Mostostal most exposed to the slump.

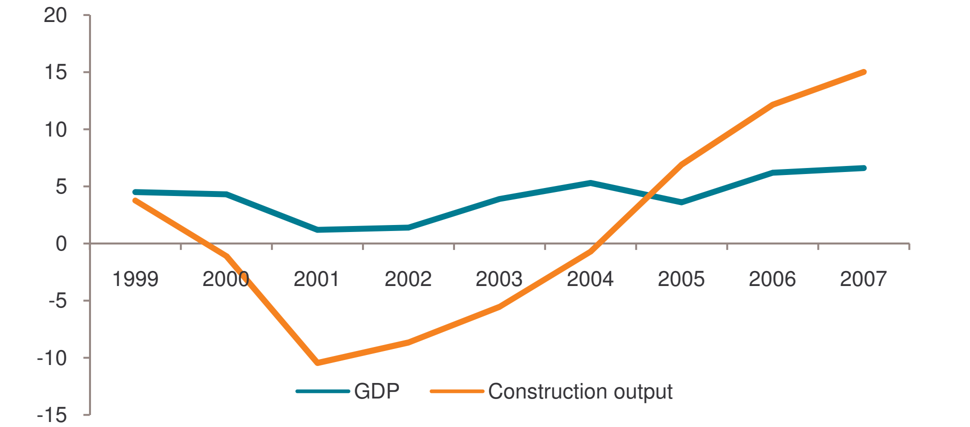
Budimex and Mosostal Warszawa are also SELL recommendations, based on their relatively high exposure to residential construction, negative EPS growth for 2009/10 and, in Mostostal's case, poor disclosure record.

Construction Market Overview

The Polish construction sector has enjoyed a purple patch, growing a meaty15.5% CAGR since 2004.

The 2000-2003 recession and 4 years of solid growth and rising GDP ……

Polish construction output vs GDP growth 1999-2007



Source: Eurostat

Construction output is normally pro-cyclical as the example of the Spanish construction industry since 1990 clearly illustrates. So now that GDP forecasts for 2009 are being slashed from 4%-5% to 2%-3% depending on source we should expect to see construction activity beginning to slow and ultimately falling faster and further than GDP in the coming two years.

… mirrors behaviour in Spain, implying construction output will fall more than GDP growth.

Spanish Construction Output 1990-2007

Source: Eurostat, Wood & Company

There is plenty of analysis available on the macro outlook for the Polish economy and we do not intend to repeat this here. For Wood & Co's latest views please see our report *"The world turns upside down?"*, published on 25th November. It is sufficient to conclude that a slowdown of greater or lesser severity is coming, with recession for some sectors of the economy (property development, industrial output) not inconceivable. Thus we are negative on the outlook for the Polish construction sector for the next year, although within the sector some segments will be hit worse than others.

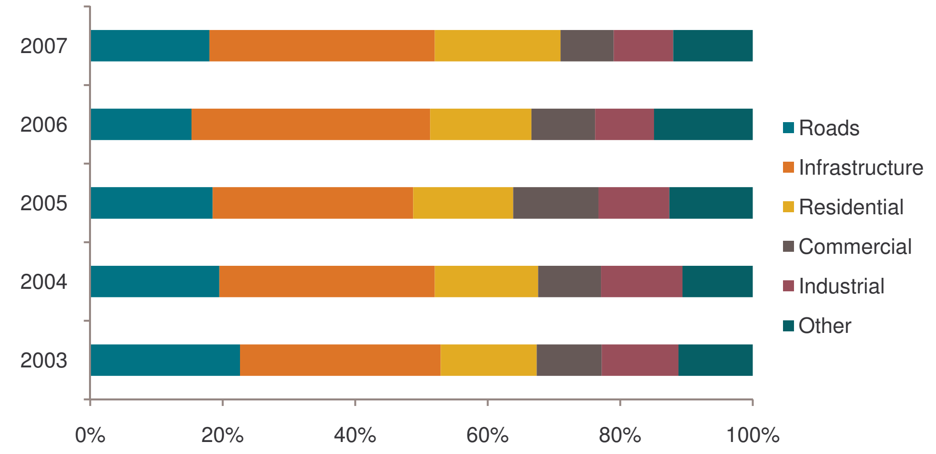
Thus, we are negative on the sector as a whole for 2009/10.

Strong drivers remain in the form of EU funds inflows, with EUR 67 bil available from the 2007-2013 budget pool for co-financing Polish development projects, with EUR 37.56 bil specifically earmarked for

EU funding for infrastructure projects remains a driver for growth as industrial and general construction goes into decline.

infrastructure and environment projects. A large slice of the remaining funds (regional, Eastern Poland, technology et al.) will also end up in the pockets of the construction industry. While FDI is expected to decrease as a result of the global slowdown, the influence of on-going investments, which totalled some USD 12 bil in 2007, will still play their part. The EURO 2012 football championships, should act rather as an accelerator – forcing national and local governments to press on with necessary investments (although we already know many projects, like the second Warsaw metro line, will not be completed in time).

Infrastructure construction will continue to dominate



Source: Eurostat, Wood & Company

Earlier supply constraints - skilled and unskilled labour shortages, high raw materials costs, zloty strength - have become less of a problem for the construction industry since the onset of the global economic crisis. Instead we see the main restrictions on growth over the medium term as:

- ✓ the severity of capex cuts by domestic and international investors.
- ✓ the speed with which the state (at national, regional or local government level) can complete tender procedures for infrastructure projects. With fiscal stimulus all the rage across the world, it would be nice to believe the Polish government will try to speed things up, but history suggests governments are better at talking than delivering.

2008 supply constraints recede,. Private investment spending and government efficacy at launching tenders become key drivers.

In the medium term EU co-funded infrastructure spending will continue to grow, so construction of roads, environmental infrastructure, rail and big ticket public works like stadia should continue unabated. The fate of private investment and FDI is less clear, while residential construction has already tanked. However, the long term prospects for the Polish construction sector remain good. The long term requirement for massive investment in almost all areas of the Polish economy – national infrastructure, the energy sector and housing – must not be underestimated in all the gloom.

Long term (2010 and beyond) the outlook for Polish construction is still rosy and we expect all of our companies to survive.

Poland's biggest construction companies are generally well-placed to survive the current slowdown and prepare themselves for profiting from the recovery. Top performers in the next twelve months will be companies with greater exposure to the infrastructure segments. We expect those with greater exposure to residential and industrial construction and property development to underperform.

From backlog to delivered sales – size isn't all that matters

Length, location, diversity and reliability of customers determines quality of backlog.

To analyse construction companies' backlogs, one needs to look not only at the size – the main factor pushed by the companies themselves - but also at the safety of these contracts and the company's ability to renew them. For this reason we also look at contract length, geography, diversity and quality of customers. This allows us to judge which company's backlog and future sales look most promising in the current tough economic environment.

	Backlog (PLN bil)	Date	% sales 2009e	% sales 09/10e	Av contract months	Backlog disclosure
Budimex	4.0	end 2008e	133%	67%	23	Good
Hydrobudowa Polska	1.8	30.09.2008	128%	61%	22	Limited
Mostostal Warszawa	4.5	30.09.2008e	197%	95%	18	Poor
PBG	7.0	end 2008e	272%	128%	25	Excellent
Pol-Aqua	1.3	15.10.08	93%	46%	14	Good
Polimex Mostostal	6.9	13.11.08	148%	72%	21	Good

PBG and Polimex have big backlogs.

Size. With the biggest backlogs, **Polimex Mostostal and PBG are the mega players,** although every company currently has a reported backlog sufficient to deliver our estimated 2009 sales and PBG and Mostostal Warszawa also look to have 2010e sales covered. There has to be some question over the absolute number for Mostostal Warszawa's orderbook, given the poor disclosure.

Pol-Aqua's average contract length is just 14 months compared to PBG's 25 months.

Length. PolAqua and Mostostal Warszawa's relatively short average duration of contract means they will have to work harder than peers to replace backlog as current projects are completed. Pol-Aqua is already suffering from the unpredictability of signing off existing and future contracts. The others by contrast have the relative luxury of assured revenue streams for most of the next two years. **PBG tops the longevity list** with its huge oil and gas contracts.

Geography. Despite the fact that Poland will see a sharp slowdown in GDP growth, commentators are agreed that Poland should be hit less hard than e.g. Western Europe and avoid a full blown recession. Thus companies with less exposure to export markets in theory should fare better than those with sizeable export sales. Thus **PBG, Pol-Aqua and Hydrobudowa should do better**, while Polimex and Budimex will see weakening of export sales.

Domestic contracts should still be easier to secure than export contracts.

2007 sales geographical breakdown

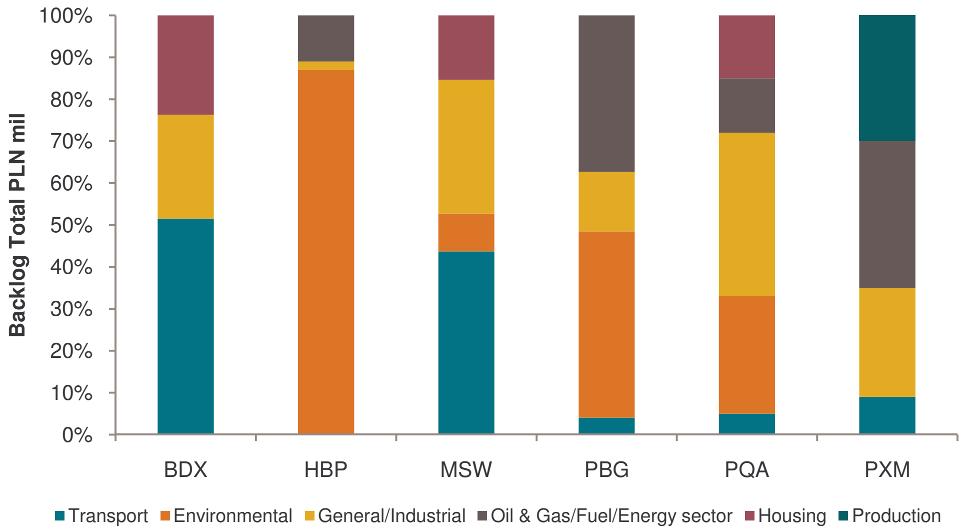
	BDX	HBP	MSW	PBG	PA	PXM
Domestic	85%	100%	92%	100%	100%	66%
Export	15%	0%	8%	0%	0%	34%

PBG and Pol-Aqua now have limited export contracts which they hope to expand significantly in the future.

Diversity and quality of contracts. In the current climate it is more important to look at exposure to particular sectors rather than praise diversification per se, particularly since none of our companies relies on exposure to one risky sector. Transport infrastructure, environmental engineering and the oil and gas industries are perceived as higher quality since they are projects largely co-funded by EU structural funds and signed with the state or local government or state-owned monoliths like PGNiG, Lotos and PKN. These contracts, once signed, are not usually saddled with concerns over payment, delay or cancellation. In contrast, exposure to the housing, general construction and industrial sectors is regarded as higher risk, as companies start to restrict their investment programs and the housing developers falter.

EU funded government infrastructure contracts and PGNiG, PKN investments less likely to be cancelled or default on payments. Developers already cancelling contracts and delaying new projects.

Backlog size and structure as end 2008e

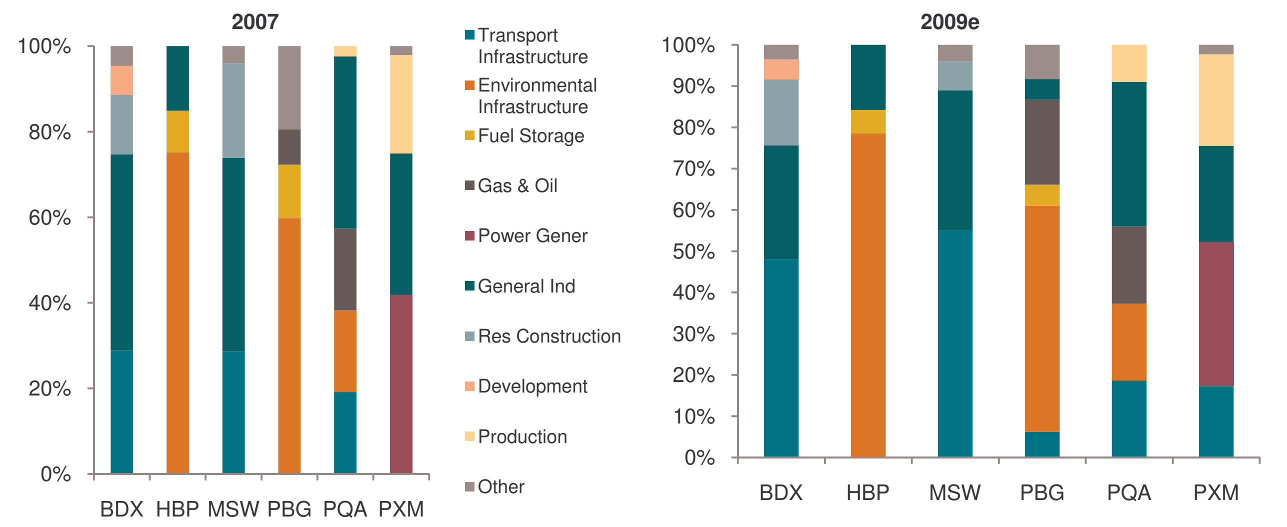


Source: Wood & Company, company information

The chart above illustrates the current backlog split across sectors for each of the construction companies. With the greatest exposure to housing and general/industrial construction, **Budimex, Pol-Aqua and Mostostal Warszawa's backlogs are at most risk** of delay/default on contracts, while **PGB and its subsidiary Hydrobudowa look most secure**. Polimex's diversified activities – usually a positive - could see a slide in demand for their steel products as well as in general/industrial construction.

These factors will have a strong influence on the dynamics of sales growth and the structure of future sales. The chart below illustrates the structure of 2007 sales and the sectoral sources of expected 2009 sales.

Sales structure compared 2007 – 2009e



Source: Wood & Company, company information

PBG 2007 figures include General Industrial and Residential in "Other". Pol-Aqua doesn't provide detailed breakdown so have assumed split of engineering across transport, environment and energy sectors

✓ There will be a clear reduction in the contribution of general and residential construction across the board and Budimex and

Polimex will see their revenues from these sources flat or decline in 2009 as contracts in these areas are hard to come by in the next 12 months.

General and industrial construction fall away, infrastructure construction increases.

✓ There will be a significant increase in the share of blue-chip environmental and transport infrastructure in each company's sales. For Budimex and Polimex (and to some extent Mostostal) this will help offset the declines in other sectors. For Hydrobudowa and PBG this will be a key driver of top line growth.

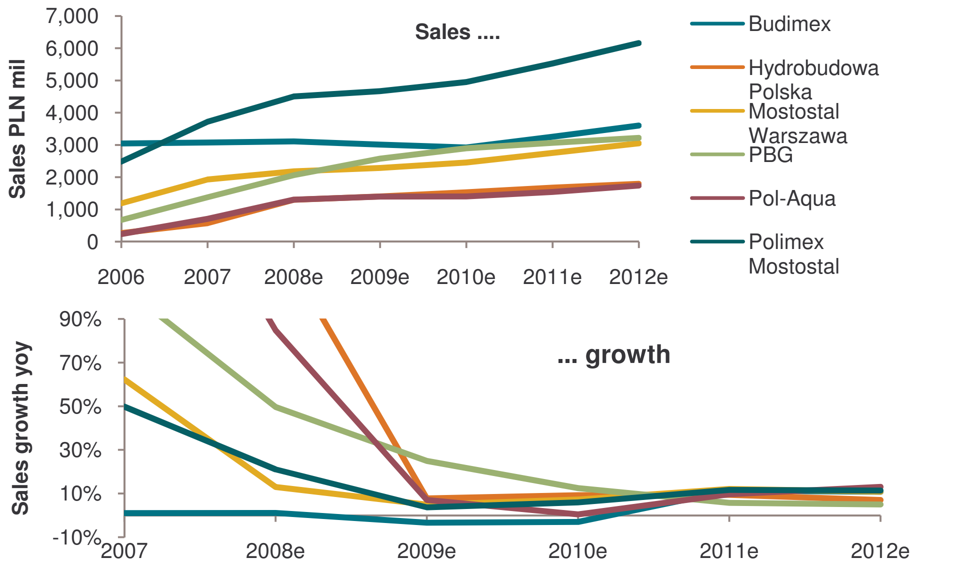
✓ General construction sales will largely be maintained through public works contracts like renovation of public buildings and the construction of stadia and other infrastructure necessary for the EURO 2012 football championships.

The main drivers for each company's top line, as we see it, are set out in the table below.

PBG delivers fastest sales growth. Budimex expected to be negative in 2009.

Sales growth	CAGR '08-'11	
PBG	14%	Niche long term contracts for Oil & Gas segment, dominance of environmental/water business, nascent road business and public works
Hydrobudowa Polska	9%	Sustained growth (10% p.a.) of water/environmental projects and some
Mostostal Warszawa	8%	Big ticket road/rail and public works. Rollover of shorter term industrial, residential and general construction projects could be problematic
Polimex	7%	A steady stream of sales from the Petrochemical business and the fast growth of transport infrastructure contracts will offset stagnation in production, general construction and power engineering
Pol-Aqua	6%	Steady growth of engineering business (pipelines, stadia et al), but slowdown in general construction raises concern over ability to secure new
Budimex	1%	Sustained growth (10%+ p.a.) in infrastructure offset by decline in residential construction, development sales and weak German sales in

Historic and forecast sales and growth dynamics



Source: Company information, Wood & Company

Very high rates of sales growth give way to flat or single digit levels, except for PBG.

We conclude therefore that **PBG and Hydrobudowa stand out as the companies with the best mix of sales growth, backlog visibility and security, with Polimex just behind.** We view the risks to Polimex as greater, due to potential weaker demand for steel products and energy sector sales. Mostostal should also perform well, growing its transport infrastructure business, but the lack of disclosure makes top line prediction much harder.

Margin dynamics – growth for some, maintenance for others.

From the table below it can be seen that the highest margins can be obtained from contracts in the energy sector, while general construction typically has the lowest margins at around 5%. This reflects the relative competitive environment for each segment.

Gross margin by sector 2007

<table>
<tr><th rowspan="2"></th><th colspan="3">ENERGY</th><th colspan="2">INFRASTRUCTURE</th><th rowspan="2">Gen. Construction incl Res & ind</th><th rowspan="2">Production</th><th rowspan="2">Develop ment</th><th rowspan="2">Consolidated Total</th></tr>
<tr><th>Oil & Gas</th><th>Fuel Storage</th><th>Power Industry</th><th>Road & Rail</th><th>Water & Environmental</th></tr>
<tr><td>BDX</td><td></td><td></td><td></td><td colspan="3">3.5%*</td><td></td><td>28%</td><td>4.8%</td></tr>
<tr><td>HBP</td><td></td><td>21%</td><td></td><td></td><td>6.1%</td><td></td><td></td><td></td><td>9.5%</td></tr>
<tr><td>MSW</td><td colspan="5">6.3%*</td><td>5.4%</td><td></td><td></td><td>5.5%</td></tr>
<tr><td>PBG</td><td>17%</td><td>16%</td><td></td><td>7%</td><td>10.3%</td><td>10%</td><td></td><td></td><td>13.0%</td></tr>
<tr><td>PQA</td><td colspan="5">10%*</td><td>5%-6%*</td><td>15%</td><td></td><td>12.7%</td></tr>
<tr><td>PXM</td><td colspan="2">11%</td><td>4.5%</td><td colspan="2">4%</td><td>3.1%</td><td>16%</td><td></td><td>8.7%</td></tr>
</table>

*Company guidance/Wood & Co estimates since no breakdown by segment provided in annual reports.

Gross margins dependent upon competitive environment within sectors.

Large, high tech, niche contracts for the oil and gas segment attract few competitors. The contracts are typically too small for the big international engineering companies to bother with setting up execution capacity in Poland and only very few Polish companies have the experience and financial muscle to take on such big, complex projects. PBG (also through Hydrobudowa), Polimex Mostostal and PolAqua have effectively cornered the energy market. We expect the high margins in this segment to continue.

Oil and gas enjoy highest margins, then environmental engineering, road building and general construction.

The road building segment - with several large national competitors - typically draws 8% gross margins and the lower 2007 results reflect the tight market for labour and construction materials during the year. Given the enormous demand for transport infrastructure construction in Poland we expect these margins to remain at around 8%.

Environmental engineering is similar to the oil and gas segment, where, particularly for larger contracts, experience and financial firepower are more important than price and only a handful of companies can compete.

General construction is typified by the lowest gross margins, since there are many competitors and contracts are usually smaller, technically less complicated and require less financial muscle to participate in tenders.

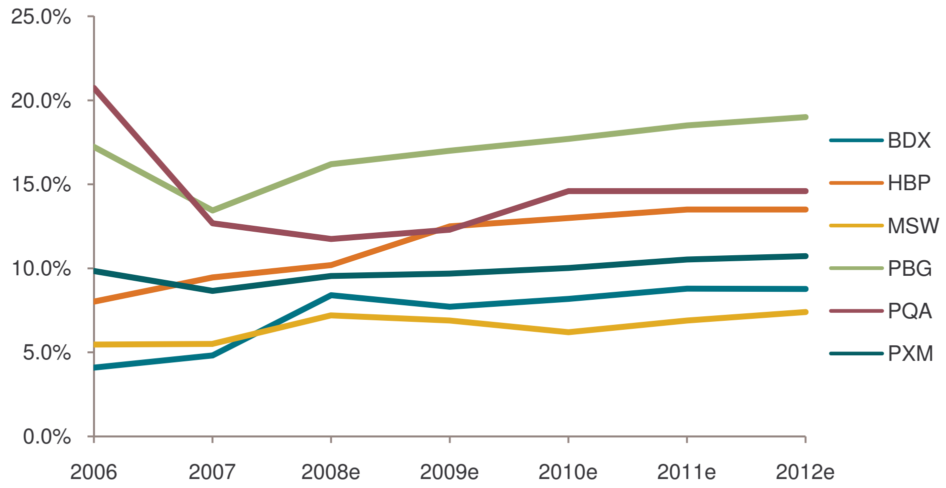
Developers normally have high margins, but these will decline as weak demand continues.

Property development has in recent years been a highly profitable activity and both Budimex (and to a smaller degree PBG and Polimex) have been drawn into it. However, we expect the profitability of this activity (and the level of sales) to decline sharply in the medium term. We do not expect sales from property development to exceed 8% of any company's total sales in the next 5 years, so margin development here is rather insignificant to the overall picture.

The tables below show our forecasts for gross and EBIT margin development for the next 5 years. Only Mostostal Warszawa will see a decline in gross margin in our view as their mix of sales moves away from higher margin industrial, chemical and power construction towards lower margin road contracts. In general gross margins will expand as the pressure on wages and raw materials eases off in 2008/2009. Thereafter most will be trying to maintain margins over the next few years as they compete for contracts. We expect PBG and Hydrobudowa to expand their margins as they consolidate their positions as leaders of the oil & gas and environmental construction sectors.

PBG and Pol-Aqua, with their niche oil & gas contracts have the highest margins, with Hydrobudowa close behind.

Gross margin development

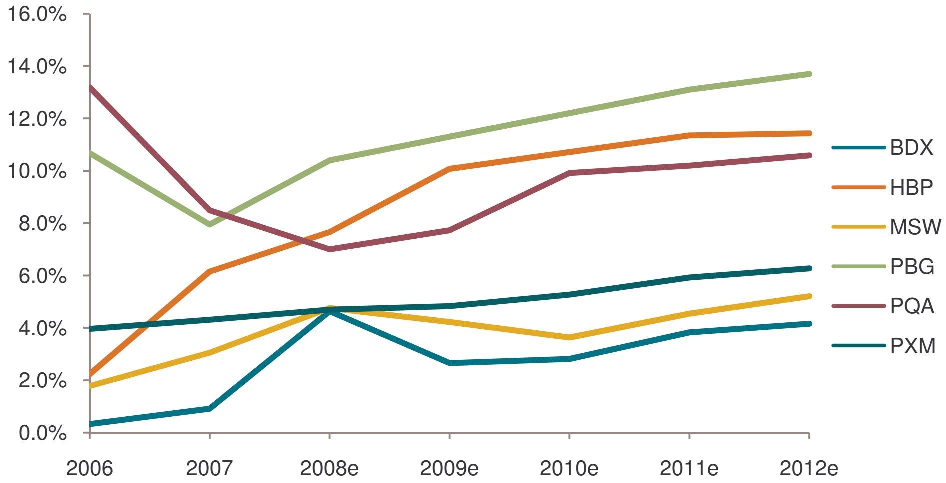


Source: Wood & Co, company guidance

EBIT margin development will largely mirror gross margin development, although we expect particular improvement for Hydrobudowa as it restructures its newly merged subsidiary Hydrobudowa 9.

This is reflected in operating margins, although Hydrobudowa also gets a lift from restructuring Hydrobudowa 9.

EBIT margin development



Source: Wood & Co, company guidance

PBG and Pol-Aqua have best margins and PBG expected to maintain them.

PBG, Hydrobudowa and Pol-Aqua are the clear margin winners, both in percentage terms and growth outlook. PBG boasts consistently superior margin performance to its peers. We would expect all three to be able to maintain this advantage, with perhaps a question mark over Pol-Aqua. Given its smaller size and shorter average contract lengths, it will have to work hard to secure replacement contracts and may be forced to compete hard on price, sacrificing some of its margin. It should be noted that Mostostal Warszawa's margin outlook is hardest to predict due to the lack of disclosure on margins from contracts executed for its majority shareholder Acciona. Historically some 15% of sales (2007 data) were derived from Acciona contracts, but the expected decline in residential construction in the sales mix, should mitigate this risk in the coming 2 years.

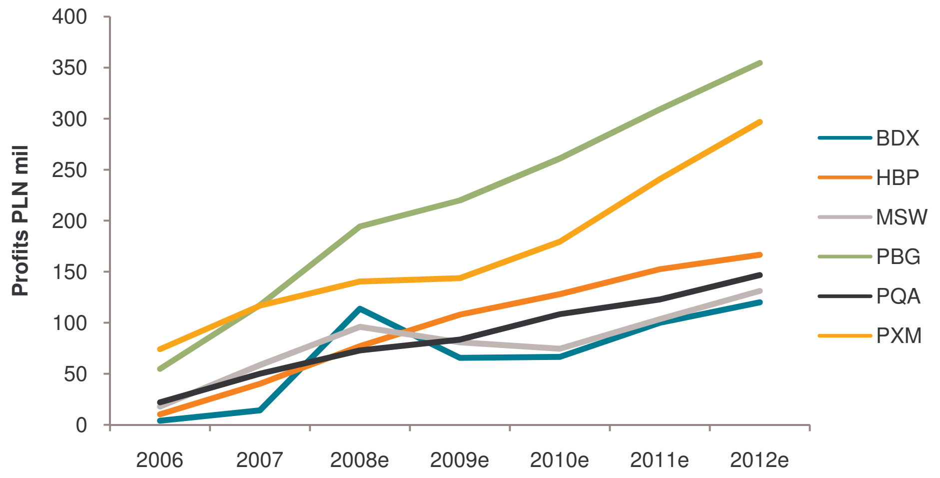
Profit Outlook – PBG and Hydrobudowa steal the show

Long term net profit growth for the sector is positive, but for 2009/10, Mostostal and Budimex will see falling profits.

PBG and Hydrobudowa should deliver net profit growth in spite of slowdown and high financing charges.

The future for net profits can be split into two distinct periods – 2009/10 and after the crisis. The long term outlook for the net profit growth of these big Polish construction companies is promising, where we forecast a rebound in net profit growth on average of over 20% CAGR 2010-2012. This is based on our continued faith in the long term potential of the Polish construction market. Predicting the absolute level of profits during the next 18 months is perhaps a mug's game given the heightened levels of uncertainty. However the direction of profits is clear. Mosostal Warszawa and Budimex should see falling profits while Polimex, PolAqua and Hydrobudowa and PBG will see steadily rising profits, although in our view those of PBG/Hydrobudowa are much more certain than Pol-Aqua's or Polimex's given the preponderance of EU co-funded contracts in the orderbook. **PBG and Hydrobudowa should outperform peers**, delivering net profit growth even in the slowdown and in spite of high interest costs, because of their concentration of long term, high margin contracts with blue chip customers.

Net profit development



Source: Wood & Company, company information

In addition to rising absolute profits the margin development bears examination. We expect Budimex and Mostostal Warszawa's margins to dip in 2009/10, as lower margins are achieved on development activity (Budimex) and Mostostal faces more intense competition to secure infrastructure contracts. The rest are expected to maintain and expand their margins throughout the period, with the exception of PBG who will see their net margin dip slightly in 2009 from the weight of interest costs. Since PBG has the highest margins of the group, we do not see this as a negative for the stock.

Margin summary

Gross	2006	2007	2008e	2009e	2010e	2011e	2012e
BDX	4.1%	4.8%	8.4%	7.7%	8.2%	8.8%	8.8%
HBP	8.0%	9.5%	10.2%	12.5%	13.0%	13.5%	13.5%
MSW	5.5%	5.5%	7.2%	6.9%	6.2%	6.9%	7.4%
PBG	17.2%	13.4%	16.2%	17.0%	17.7%	18.5%	19.0%
PQA	20.7%	12.7%	11.8%	12.3%	14.6%	14.6%	14.6%
PXM	9.8%	8.7%	9.5%	9.7%	10.0%	10.5%	10.7%
EBIT	**2006**	**2007**	**2008e**	**2009e**	**2010e**	**2011e**	**2012e**
BDX	0.3%	0.9%	4.6%	2.7%	2.8%	3.8%	4.2%
HBP	2.2%	6.2%	7.7%	10.1%	10.7%	11.3%	11.4%
MSW	1.8%	3.1%	4.8%	4.2%	3.6%	4.5%	5.2%
PBG	10.7%	7.9%	10.4%	11.3%	12.2%	13.1%	13.7%
PQA	13.2%	8.5%	7.0%	7.7%	9.9%	10.2%	10.6%
PXM	4.0%	4.3%	4.7%	4.8%	5.3%	5.9%	6.3%
Net	**2006**	**2007**	**2008e**	**2009e**	**2010e**	**2011e**	**2012e**
BDX	0.1%	0.5%	3.7%	2.2%	2.3%	3.1%	3.3%
HBP	3.9%	7.0%	5.9%	7.7%	8.4%	9.1%	9.3%
MSW	1.5%	3.0%	4.4%	3.5%	3.0%	3.8%	4.3%
PBG	8.1%	8.5%	9.4%	8.5%	9.0%	10.1%	11.0%
PQA	9.5%	7.1%	5.6%	6.0%	7.7%	8.0%	8.4%
PXM	3.0%	3.1%	3.1%	3.1%	3.6%	4.4%	4.8%

Financial Strength

In times of economic crisis balance sheet strength comes under the spotlight, particularly for companies engaged in large, long-term capital projects like the construction companies. The table below compares the balance sheet strength of the six companies at two balance sheet dates – 1H08, as reported under IFRS and our estimates of FY2008.

Balance Sheet Analysis

	Net debt/Equity (%)		Net Debt/EBITDA (x)		Interest Cover (x)		Net WC/Sales (x)	
	1H08	**FY2008e**	**1H08**	**FY2008e**	**1H08**	**FY2008e**	**1H08**	**FY2008e**
BDX	-20%	-54%	-1.9	-2	n/a	n/a	0.39	0.08
HBP	72%	75%	9.8	3.40	9.6	8.0	1.1	0.41
MSW	-48%	-66%	-3.1	-2	n/a	n/a	-ve	0.04
PBG	34%	54%	3.1	2.00	6.2	7.9	0.9	0.40
PQA	9%	82%	1.0	0.53	54.4	51.8	0.6	0.27
PXM	57%	55%	4.1	2.12	7.0	6.4	0.4	0.20

PBG, Polimex and Hydrobudowa have highest levels of net debt, working capital requirements and lowest interest cover.

The net debt/equity column tells us that Hydrobudowa Polska is the most highly indebted company among the group. Budimex and Mostostal Warszawa have net cash positions. In the current climate Hydrobudowa, PBG and Polimex could find it difficult to obtain additional debt, but we don't expect them to be looking for it as they have sufficient credit lines in place to fund working capital needs and for mega contracts they intend to use project financing. Pol-Aqua should also be able to increase its leverage (ceteris paribus) given its relatively low level of debt.

Each has access to alternative sources of funding and has secured credit lines through 2009.

With the Net Debt/EBITDA column we examine the ability of future sales to pay off total debt. Hydrobudowa, Polimex and PBG have quite high ratios of Net Debt/EBITDA. Over 50% of PBG and Hydrobudowa's bank debt is to be paid off within the next twelve months (some PLN 370 mil), but with combined 2008e and 2009e EBITDA of PLN 590 mil, this should not pose a serious problem. We might expect PBG to try to issue some of the remaining PLN 300 mil bonds it has authorized in order to roll this debt into long term debt. Polimex has ~PLN 730 mil of bank debt and bonds of which just over 40% is categorized as short term. With an estimated PLN 600 mil of EBITDA for 2008/09, they should also not face any problems paying down this debt.

The interest cover ratio describes the company's ability to service its debt. Each company has comfortable interest cover and in each case this ratio is forecast to rise in the coming years as they pay down debt.

PBG has the highest net working capital requirement of the group. This is not surprising since it is heavily engaged in high value, technologically complex, long term contracts with the oil & gas sector as well as executing many EU co-financed projects, where payment, although guaranteed, can take many months.

No one in particular trouble, although close monitoring of receivables increases is advisable for all stocks.

In conclusion, **none of the group looks to have worrying levels of debt** relative to their ability to service and pay down and each can comfortably meet their working capital needs out of cashflow. **PBG/Hydrobudowa are on paper the riskiest.** The main area to watch in the coming months will be the appearance of receivables write downs bumping up working capital figures. This is more likely to happen to the companies involved in residential, industrial and general construction – so Budimex, Pol-Aqua and Mosostal will be watched very closely.

Construction, Poland

November 26, 2008

Budimex

Sell

(Initiation of coverage)

Price: PLN 64.9
Price Target: PLN 47.1

"Caught in the property trap"

Budimex, is a general contractor focused on road infrastructure and general construction, plus property development, which, despite improvement, still has the lowest margins in the sector.

Budimex's backlog, estimated at PLN 4bil end 2008e, is split 50% for road building and the rest between residential and industrial/commercial construction. We expect sales to fall some 3% in 2009/10 as the solid growth in road contracts fails to compensate for the decline in residential and general contracting.

Greater competition for road contracts and firesales of apartments at lower margins will squeeze gross margins from their 2008 peak of 8.4% to 7.7% in 2009. Despite cost-cutting measures this will reverse the recent improvement in profit margins, causing net profit to fall 42% in 2009 (after the unusually successful 2008) with profit contraction of -4% CAGR to 2011. Net profits could be rescued by compensation of PLN 100 mil from the Okecie airport contract, but this is unlikely before 2012.

Budimex has outperformed the WIG construction index by 23% in the last 6 months as profitability has improved. Given its riskier exposure to property development (as developer and contractor) and more intense competition in road building, Budimex should trade at a discount to peers and not at its current premium of more than 80% on '09 PER, or 60% on '09 EV/EBITDA. We expect the negative newsflow on EPS to close this premium and we initiate coverage with a SELL recommendation. Target price PLN 47.05, 28% downside.

Expected Events

4Q08 results	February 27, 2009

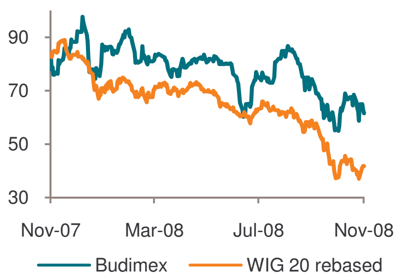
Key Data

Market Cap	EUR 426 mil
Free Float	26.72%
Shares outstanding	25.5 mil
Average daily volume	EUR 475 mil
Major Sh'holder	Ferrovial 59.06%
	BZWBK AIB Asset Management 14.22%
Reuters Code	BMEX.WAI
Bloomberg Code	BDX PW

Price Performance

52-w range (PLN)	55.0 -97.7
YTD PLN Performance	-33.1 %
Relative YTD PLN Performance	+16.5 %

Budimex Price Performance



	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012e	3,604	120	4.70	20%	13.8	6.3	12.7%	5.2%	
2011e	3,252	100	3.92	50%	16.6	8.1	12.0%	4.6%	
2010e	2,920	66.6	2.61	1.5%	24.9	11.9	8.9%	3.2%	1.0
2009e	3,008	65.6	2.57	-42%	25.3	12.6	9.6%	3.2%	8.1
2008e	3,111	114	4.46	655%	14.6	7.9	19.2%	6.0%	0.1
2007	3,076	14.1	0.59	287%	110	27.6	2.7%	1.2%	
2006	3,043	3.98	0.15	92%	426	45.0	0.8%	0.5%	

EQUITY RESEARCH

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Income Statement

(PLN m except where stated)	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Total Sales	**2703**	**3043**	**3076**	**3111**	**3008**	**2920**	**3252**	**3604**
Sales growth (%)	*26%*	*13%*	*1.1%*	*1.1%*	*-3.3%*	*-2.9%*	*11.4%*	*10.8%*
CoGS	2597	2918	2928	2850	2776	2681	2966	3288
Gross Profit	**106**	**125**	**148**	**261**	**232**	**239**	**286**	**316**
Gross margin	*3.9%*	*4.1%*	*4.8%*	*8.4%*	*7.7%*	*8.2%*	*8.8%*	*8.8%*
Gross margin incl hedging result	*5.9%*	*4.9%*	*6.2%*	*9.5%*	*7.7%*	*8.2%*	*8.8%*	*8.8%*
Cost of Sales	*25.4*	*28.0*	*26.2*	*24.0*	*24.0*	*24.7*	*25.5*	*26.2*
G&A	109.8	108.0	114.6	128.0	128.0	131.8	135.8	139.9
Hedging result on fx sales	52	23.1	41.7	35	0	0	0	0
EBITDA	**23**	**31**	**52**	**165**	**99**	**99**	**139**	**163**
EBITDA margin (%)	*0.9%*	*1.0%*	*1.7%*	*5.3%*	*3.3%*	*3.4%*	*4.3%*	*4.5%*
EBITDA growth (%)	*-124.8%*	*34.5%*	*66.0%*	*219.9%*	*-40.1%*	*0.3%*	*39.6%*	*17.6%*
Operating profit	**2.0**	**9.9**	**28.0**	**144.2**	**80.0**	**82.3**	**124.5**	**149.9**
Operating profit margin (%)	*0.1%*	*0.3%*	*0.9%*	*4.6%*	*2.7%*	*2.8%*	*3.8%*	*4.2%*
Net interest expenses	-15	-9	-10	-10	-10	-10	-10	-10
As % of avg net debt	*4.5%*	*2.9%*	*4.0%*	*3.4%*	*2.6%*	*2.3%*	*2.0%*	*1.7%*
Interest cover (x)	*-1.6*	*-3.5*	*-5.3*	*-16.5*	*-9.9*	*-9.9*	*-13.9*	*-16.3*
Profit before tax	**7.314**	**12.177**	**13.583**	**142.196**	**81.950**	**84.260**	**126.527**	**151.879**
Tax	6	8	-1	28	16	18	27	32
Effective tax rate (%)	*115.3%*	*78.5%*	*-4.9%*	*20.0%*	*20.0%*	*21.0%*	*21.0%*	*21.0%*
Net profit	**1.175**	**3.976**	**14.126**	**113.757**	**65.560**	**66.565**	**99.956**	**119.985**
Net margin (%)	*0.0%*	*0.1%*	*0.5%*	*3.7%*	*2.2%*	*2.3%*	*3.1%*	*3.3%*
Net profit growth (%)	*-86.9%*	*238.4%*	*255.3%*	*705.3%*	*-42.4%*	*1.5%*	*50.2%*	*20.0%*
Weighted average no shares	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5
EPS (PLN)	**0.08**	**0.15**	**0.59**	**4.46**	**2.57**	**2.61**	**3.92**	**4.70**
EPS growth (%)	*-76%*	*92%*	*287%*	*655%*	*-42%*	*2%*	*50%*	*20%*

Balance Sheet

	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Fixed Assets	97	103	97	89	90	88	91	87
Working Capital (net)	88	227	249	249	256	263	293	324
Total assets	**1,939**	**2,312**	**2,344**	**2,471**	**2,563**	**2,652**	**2,799**	**2,959**
Long term debt	23	96	171					
Short term debt	102	138	106					
Total liabilities	1416	1788	1808	1821	1848	1870	1917	1957
Shareholders' equity	**523**	**523**	**536**	**650**	**716**	**782**	**882**	**1,002**
BVPS (PLN)	20.5	20.5	21.0	25.5	28.0	30.6	34.6	39.2
Net debt, end of year	-368	-255	-232	-354	-412	-473	-540	-632
Net debt / equity (%)	*-70%*	*-49%*	*-43%*	*-54%*	*-58%*	*-60%*	*-61%*	*-63%*
Net debt/EBITDA (%)	*-1591%*	*-820%*	*-449%*	*-214%*	*-416%*	*-477%*	*-390%*	*-388%*
Enterprise value	1,289	1,402	1,425	1,303	1,245	1,184	1,117	1,024

Cashflow Statement

	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Net profit	1	4	14	114	66	67	100	120
Depreciation	21	21	24	21	19	17	14	13
Increase in working capital (net)	71	139	22	0	7	7	30	32
Other cashflow items	86	13	-33	0	0	0	0	0
Net cash from operations	37	-100	-18	135	78	76	84	101
Capex (net)	-43	13	5	13	20	15	17	9
Free cash flow	**80**	**-113**	**-23**	**122**	**58**	**61**	**67**	**92**
Share issues	0	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0	0
Increase in net debt	-80	113	23	-122	-58	-61	-67	-92
	-80	113	23					

Budimex: Key return and valuati

	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
ROE (%)	*0%*	*1%*	*3%*	*19%*	*10%*	*9%*	*12%*	*13%*
ROA (%)	*0%*	*0%*	*1%*	*6%*	*3%*	*3%*	*5%*	*5%*
ROIC (%)	*-0.6%*	*-0.2%*	*0.3%*	*4.4%*	*2.3%*	*2.2%*	*3.4%*	*3.9%*
WACC (%)	*23.5%*	*16.4%*	*14.3%*	*12.0%*	*12.0%*	*11.5%*	*11.0%*	*11.0%*
EVA (%)	*-24.1%*	*-16.5%*	*-14.1%*	*-7.6%*	*-9.7%*	*-9.3%*	*-7.6%*	*-7.1%*
PER (x)	*816.2*	*425.5*	*110.0*	*14.6*	*25.3*	*24.9*	*16.6*	*13.8*
EV/EBITDA (x)	*55.7*	*45.0*	*27.6*	*7.9*	*12.6*	*11.9*	*8.1*	*6.3*
EV/FCF (x)	*16.0*	*-12.4*	*-62.5*	*10.7*	*21.5*	*19.3*	*16.7*	*11.1*
PBR (x)	*3.2*	*3.2*	*3.1*	*2.5*	*2.3*	*2.1*	*1.9*	*1.7*
PSR (x)	*0.6*	*0.5*	*0.5*	*0.5*	*0.6*	*0.6*	*0.5*	*0.5*
EV/S (x)	*0.5*	*0.5*	*0.5*	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*
PEG (x, 3 yr prospective)		*1.2*	*0.4*	*0.1*	*8.1*	*1.0*		

Construction, Poland November 26, 2008

Hydrobudowa Polska

Hold

(Initiation of coverage)

Price: PLN 6.05
Price Target: PLN 5.68

Security in water & sewage

Hydrobudowa, Poland's leading environmental engineering company, has around 90% of its PLN 1.8bn orderbook in environmental projects with the other 10% in fuel storage contracts. Given the estimated EUR 5.3 bil of EU funds earmarked for environmental work from 2007-2013, we expect a regular flow of new contracts for Hydrobudowa, delivering sales growth of 9% CAGR to 2011.

As Hydrobudowa increases its scale of operations, we expect gross margins to rise from 10% in 2008 to above 13% by 2010. The incorporation of Hydrobudowa 9 and continuing restructuring from the 2007 mergers between Hydrobudowas Slask and Wroclaw should also see EBIT and EBITDA margins expand by some 3% to 2011.

On the downside, HBP has the highest working capital requirements of the PL constructors with '08e net debt to EBITDA at 3.4x. Approx 50% of debt is short term, but 2008/09 EBITDA comfortably covers this, interest cover is at 8x and HBP has recourse to further cash from the bond program. We do not at this stage regard the debt levels as a risk to the bottom line. Thus we forecast strong EPS growth of 18% CAGR to 2011.

The stock trades at an unwarranted 14% discount to peer average '09 PER and despite our DCF indicating a 12 month price of PLN 4.38, we believe Hydrobudowa will continue to outperform peers in the next year and rate the stock a HOLD. with 12 month target price of PLN 5.68 a 6% downside to today's price.

Expected Events

4Q08 results	February 2009

Key Data

Market Cap	EUR 216 mil
Free Float	19.8%
Shares outstanding	210.5 mil
Average daily volume	EUR 144 mil
Major Sh'holder	PBG S.A. 61.61%
Reuters Code	HBWL..WA
Bloomberg Code	HBP PW

Price Performance

52-w range (PLN)	5.25 -9.76
YTD PLN Performance	-29.0 %
Relative YTD EUR Performance	+20.6 %

Hydrobudowa Price Performance

	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012e	1,795	167	0.79	9%	7.6	6.2	17.0%	10.1%	
2011e	1,676	152	0.72	19%	8.4	7.2	18.6%	10.6%	
2010e	1,532	128	0.61	19%	9.9	8.7	18.8%	10.5%	0.6
2009e	1,402	108	0.51	16%	11.8	10.3	19.2%	10.3%	0.7
2008e	1,300	77.1	0.44	52%	13.7	14.8	23.8%	10.7%	0.5
2007	572	40.2	0.29	290%	20.9	42.3	34.4%	7.3%	
2006	265	10.3	0.07	n/a	81.2	162.3	21.9%	3.1%	

EQUITY RESEARCH

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Income Statement

(PLN m except where stated)	2006	2007	2008e	2009e	2010e	2011e	2012e
Total Sales	**265**	**572**	**1300**	**1402**	**1532**	**1676**	**1795**
Sales growth (%)		*115%*	*127%*	*8%*	*9%*	*9%*	*7%*
CoGS	244	517	1167	1227	1333	1450	1553
Gross Profit	**21**	**54**	**133**	**175**	**199**	**226**	**242**
Gross margin	*8.0%*	*9.5%*	*10.2%*	*12.5%*	*13.0%*	*13.5%*	*13.5%*
G&A	22.5	21.3	33.0	34.0	35.0	36.1	37.1
EBITDA	**10**	**40**	**112**	**155**	**178**	**205**	**221**
EBITDA margin (%)	*3.7%*	*7.1%*	*8.6%*	*11.1%*	*11.6%*	*12.2%*	*12.3%*
EBITDA growth (%)		*307.2%*	*176.9%*	*39.1%*	*14.7%*	*15.2%*	*7.8%*
Operating profit	**5.929**	**35.2**	**99.6**	**141.3**	**164.2**	**190.2**	**205.2**
Operating profit margin (%)	*2.2%*	*6.2%*	*7.7%*	*10.1%*	*10.7%*	*11.3%*	*11.4%*
Net interest expenses	1	7	14	12	10	6	4
As % of avg net debt	*0.5%*	*1.9%*	*3.5%*	*3.4%*	*3.3%*	*2.6%*	*2.5%*
Interest cover (x)	*11.9*	*5.6*	*8.0*	*12.9*	*17.8*	*34.2*	*63.2*
Other net financial income	5	4	4	4	4	4	4
Profit Before Tax	**11.6**	**50.4**	**90**	**133**	**158**	**188**	**206**
Tax	1	10	13	25	30	36	39
Net profit	**10**	**40**	**77**	**108**	**128**	**152**	**167**
Net margin (%)	*3.9%*	*7.0%*	*5.9%*	*7.7%*	*8.4%*	*9.1%*	*9.3%*
Net profit growth (%)		*289.6%*	*91.5%*	*40.1%*	*18.7%*	*19.0%*	*9.3%*
Weighted average no shares	123.6	138.7	174.7	210.6	210.6	210.6	210.6
EPS (PLN)	**0.07**	**0.29**	**0.44**	**0.51**	**0.61**	**0.72**	**0.79**
EPS growth (%)		*2.90*	*0.52*	*0.16*	*0.19*	*0.19*	*0.09*

Balance Sheet

Balance Sheet	2006	2007	2008e	2009e	2010e	2011e	2012e
Fixed Assets	57	70	88	104	120	135	149
Working Capital (net)	146	236	538	580	633	693	742
Total assets	**378**	**583**	**1,283**	**1,463**	**1,675**	**1,917**	**2,163**
Long term debt	151	11					
Short term debt	205	467					
Total liabilities	283	443	775	847	930	1020	1099
Shareholders' equity	**95**	**139**	**509**	**617**	**745**	**897**	**1,064**
BVPS (PLN)	0.8	1.0	2.9	2.9	3.5	4.3	5.1
Net debt, EOP	332.4	429.8	380	330	272	194	90
Net debt / equity (%)	*352%*	*308%*	*75%*	*53%*	*36%*	*22%*	*8%*
Net debt/EBITDA (x)	*33.58*	*10.66*	*3.40*	*2.12*	*1.52*	*0.94*	*0.41*
Enterprise value	1,606	1,704	1,654	1,604	1,545	1,468	1,364

Cashflow Statement

Cashflow Statement	2006	2007	2008e	2009e	2010e	2011e	2012e
Net profit	10	40	77	108	128	152	167
Depreciation	4	5	12	14	14	15	16
Increase in working capital (net)	146	90	301	42	54	60	49
Other cashflow items	-99	-36	0	0	0	0	0
Net cash from operations	**-231**	**-81**	**-212**	**80**	**88**	**108**	**133**
Capex	3	17	30	30	30	30	30
Free cash flow	**-233**	**-97**	**-242**	**50**	**58**	**78**	**103**
Share issues	76	0	292	0	0	0	0
Dividends paid	0	0	0	0	0	0	0
Increase in net debt	158	97	-50	-50	-58	-78	-103
	332	**97**					

Key return and valuation ratios

Key return and valuation ratios	2006	2007	2008e	2009e	2010e	2011e	2012e
ROE (%)	*22%*	*34%*	*24%*	*19%*	*19%*	*19%*	*17%*
ROA (%)	*3%*	*7%*	*11%*	*10%*	*10%*	*11%*	*10%*
ROIC (%)	*5.8%*	*9.6%*	*9.5%*	*8.6%*	*8.7%*	*8.8%*	*8.3%*
WACC (%)	*2.4%*	*3.4%*	*9.2%*	*8.7%*	*8.8%*	*9.6%*	*11.0%*
EVA (%)	*3.4%*	*6.1%*	*0.3%*	*-0.1%*	*-0.1%*	*-0.8%*	*-2.7%*
PER (x)	*81.2*	*20.9*	*13.7*	*11.8*	*9.9*	*8.4*	*7.6*
EV/EBITDA (x)	*162.3*	*42.3*	*14.8*	*10.3*	*8.7*	*7.2*	*6.2*
EV/FCF (x)	*-6.9*	*-17.5*	*-6.8*	*32.2*	*26.5*	*18.9*	*13.2*
PBR (x)	*7.9*	*6.0*	*2.1*	*2.1*	*1.7*	*1.4*	*1.2*
PSR (x)	*4.8*	*2.2*	*1.0*	*0.9*	*0.8*	*0.8*	*0.7*
EV/S (x)	*6.1*	*3.0*	*1.3*	*1.1*	*1.0*	*0.9*	*0.8*
PEG (x, 3 yr prospective)		*0.2*	*0.5*	*0.7*	*0.6*		

Construction, Poland

November 26, 2008

Mostostal Warsawa

Sell

(Initiation of coverage)

Price: PLN 49.5
Price Target: PLN 41.6

The unknown quantity

Mostostal Warszawa has a 2008e backlog of PLN 4.5 bil of which we estimate 50% is in infrastructure projects, mainly road building. The remaining 50% is split between general/industrial construction and residential construction. The sustained flow of infrastructure contracts should offset declines in general/industrial and residential construction, to give sales growth of 8% CAGR to 2011.

We expect gross margins to be squeezed as the company replenishes its backlog with new road building contracts in a much more competitive environment. Despite cost controls, we expect this to translate into EPS decline of -16% and -8% in 2009/10 (after a golden 2008 which will see EPS growth of 64%).

The biggest negative for the stock is its very limited disclosure and the untransparent nature of its residential contsruction work for its parent company Acciona - factors which make orderbook and margin forecasting much riskier.

The stock has outperformed peers by 27% in the last six months, having been largely overlooked by the market prior to this. Despite the PLN 85 indicative price of our DCF model and its discount to peers on '09 multiples, we believe the combination of poor disclosure and expected negative newsflow on earnings will cause downward pressure on the price. We initiate coverage with a SELL recommendation. Target price PLN 41.61, -16% downside.

Expected Events

4Q08 results	February 2009

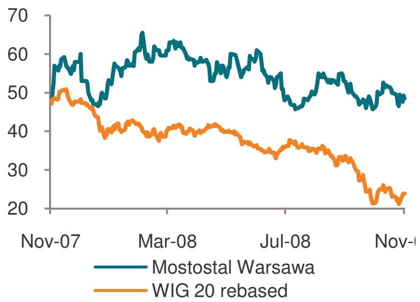
Key Data

Market Cap	EUR 255 mil
Free Float	28.9%
Shares outstanding	20 mil
Average daily volume	EUR 421 mil
Major Sh'holder	Acciona S.A. 50.09%
Reuters Code	MOWA.WA
Bloomberg Code	MSW PW

Price Performance

52-w range (PLN)	45.7-65.5
YTD EUR Performance	-8.5 %
Relative YTD EUR Performance	+41.1 %

Mostostal Warszawa Price Performance



	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012e	3,053	131	5.93	27%	8.4	2.2	18.6%	9.2%	
2011e	2,752	104	4.68	39%	10.6	3.5	17.6%	7.9%	
2010e	2,455	74.7	3.37	-7.7%	14.7	5.4	15.0%	6.2%	0.8
2009e	2,288	80.9	3.65	-16%	13.5	5.7	19.2%	7.5%	2.6
2008e	2,180	96.1	4.34	64%	11.4	5.8	28.9%	9.3%	0.8
2007	1,928	58.6	2.65	165%	19	9.5	23.0%	6.7%	
2006	1,188	18.1	1.00	n/a	50	21	11.5%	3.4%	

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Income Statement

(PLN m except where stated)	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Total Sales	**836**	**1,188**	**1,928**	**2,180**	**2,288**	**2,455**	**2,752**	**3,053**
Sales growth (%)	*23%*	*42%*	*62%*	*13%*	*5%*	*7%*	*12%*	*11%*
CoGS	788	1,123	1,822	2,023	2,130	2,303	2,562	2,827
Gross Profit	**48**	**65**	**106**	**157**	**158**	**152**	**190**	**226**
Gross margin	*6%*	*5.5%*	*5.5%*	*7.2%*	*6.9%*	*6.2%*	*6.9%*	*7.4%*
Cost of Sales	*2.0*	*0.8*	*0.8*	*1.2*	*1.2*	*1.2*	*1.3*	*1.3*
G&A	51.0	54.5	59.2	60.0	60.0	61.8	63.7	65.6
Other income / costs net	11	11	12.685	8	0	0	0	0
EBITDA	**24**	**41**	**78**	**128**	**125**	**122**	**160**	**196**
EBITDA margin (%)	*2.9%*	*3.4%*	*4.1%*	*5.9%*	*5.4%*	*5.0%*	*5.8%*	*6.4%*
EBITDA growth (%)	*-172.7%*	*69.2%*	*93.2%*	*62.8%*	*-2.4%*	*-2.0%*	*31.0%*	*22.5%*
Operating profit	**6.0**	**21.2**	**58.9**	**103.8**	**96.7**	**89.2**	**125.0**	**159.0**
Operating profit margin (%)	*0.7%*	*1.8%*	*3.1%*	*4.8%*	*4.2%*	*3.6%*	*4.5%*	*5.2%*
Net interest expenses	-12	1	-3	-3	-2	-3	-3	-3
As % of avg net debt	*239.7%*	*-1.0%*	*1.6%*	*1.2%*	*0.7%*	*1.0%*	*0.8%*	*0.6%*
Interest cover (x)	*-2.0*	*64.1*	*-26.1*	*-42.6*	*-62.3*	*-40.7*	*-53.3*	*-65.3*
Fx gains/losses net		*-1.5*	*-4.0*	*0*	*0*	*0*	*0*	*0*
Profit Before Tax	**-19**	**19.5**	**62**	**107**	**99**	**92**	**128**	**162**
Tax	11	1	4	11	18	18	24	31
Minorities	1	1	6	9	8	7	10	13
Net profit	**-30**	**18.1**	**58.62**	**96**	**81**	**75**	**104**	**131**
Net margin (%)	*-3.6%*	*1.5%*	*3.0%*	*4.4%*	*3.5%*	*3.0%*	*3.8%*	*4.3%*
Net profit growth (%)	*-28.6%*	*-160.2%*	*224.7%*	*63.9%*	*-15.8%*	*-7.7%*	*38.9%*	*26.6%*
Weighted average no shares	10.0	17.0	20.0	20.0	20.0	20.0	20.0	20.0
EPS (PLN)	**-3.10**	**1.00**	**2.65**	**4.34**	**3.65**	**3.37**	**4.68**	**5.93**
EPS growth (%)	*-16%*	*-132%*	*165%*	*64%*	*-16%*	*-8%*	*39%*	*27%*

Balance Sheet

	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Fixed Assets	144	140	151	227	274	291	286	279
Working Capital (net)	65	105	75	85	89	95	107	118
Total assets	**480**	**750**	**1,009**	**1,215**	**1,375**	**1,506**	**1,651**	**1,824**
Long term debt	54	24	16					
Short term debt	18	17	29					
Total liabilities	392	526	724	834	913	970	1011	1053
Shareholders' equity	**88**	**224**	**285**	**381**	**462**	**537**	**640**	**771**
BVPS (PLN)	8.8	13.2	14.2	19.0	23.1	26.8	32.0	38.6
Net debt, end of period	9	-130	-242	-252	-282	-333	-430	-557
Net debt / equity (%)	*10%*	*-58%*	*-85%*	*-66%*	*-61%*	*-62%*	*-67%*	*-72%*
Net debt/EBITDA (%)	*37%*	*-319%*	*-308%*	*-197%*	*-226%*	*-273%*	*-269%*	*-284%*
Enterprise value	999	860	748	738	708	657	560	433

Cashflow Statement

	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Net profit	-30	18	59	96	81	75	104	131
Depreciation	19	19	20	24	28	33	35	37
Increase in working capital (net)	-11	39	-30	10	4	6	12	12
Other cashflow items	-16	34	-17	0	0	0	0	0
Net cash from operations	-15	32	91	110	105	101	127	157
Capex	13	12	-22	100	75	50	30	30
Free cash flow	**-28**	**21**	**113**	**10**	**30**	**51**	**97**	**127**
Share issues	0	118	0	0	0	0	0	0
Dividends paid	0	0	1	0	0	0	0	0
Increase in net debt	27.6	-138.5	-112.2	-10	-30	-51	-97	-127

Key ratios

	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
ROE (%)	*-29%*	*12%*	*23%*	*29%*	*19%*	*15%*	*18%*	*19%*
ROA (%)	*1%*	*3%*	*7%*	*9%*	*7%*	*6%*	*8%*	*9%*
ROIC (%)	*-8.2%*	*3.0%*	*6.4%*	*8.4%*	*6.1%*	*5.0%*	*6.4%*	*7.4%*
WACC (%)	*26.2%*	*23.7%*	*55.8%*	*9.2%*	*8.7%*	*8.8%*	*9.6%*	*11.0%*
EVA (%)	*-34.3%*	*-20.6%*	*-49.4%*	*-0.8%*	*-2.6%*	*-3.8%*	*-3.2%*	*-3.6%*
PER (x)	*-16.0*	*49.6*	*18.7*	*11.4*	*13.5*	*14.7*	*10.6*	*8.4*
EV/EBITDA (x)	*41.6*	*21.2*	*9.5*	*5.8*	*5.7*	*5.4*	*3.5*	*2.2*
EV/FCF (x)	*-36.2*	*41.7*	*6.6*	*71.5*	*23.8*	*12.8*	*5.8*	*3.4*
PBR (x)	*5.6*	*3.8*	*3.5*	*2.6*	*2.1*	*1.8*	*1.5*	*1.3*
PSR (x)	*1.2*	*0.8*	*0.5*	*0.5*	*0.4*	*0.4*	*0.4*	*0.3*
EV/S (x)	*1.2*	*0.7*	*0.4*	*0.3*	*0.3*	*0.3*	*0.2*	*0.1*
PEG (x, 3 yr prospective)		*1.5*	*0.3*	*0.8*	*2.6*	*0.8*		

Construction, Poland

November 26, 2008

PBG

Hold

(Initiation of coverage)

Price: PLN 180
Price Target: PLN 198

Strength, length and quality

PBG's orderbook, estimated at PLN 7 bil at end 2008, not only rivals Polimex for the highest value, but has an enviable structure going into the economic crisis. With 48% of its value in infrastructure projects (44% environmental, 4% roads) and a further 37% in the oil & gas sector, PBG has long term contracts secured on EU co-financing (environmental) or with blue-chip customers like PGNiG. Thus we conservatively forecast a CAGR of sales to 2011 of 14%.

PBG has the highest gross margin among peers (2007 13% vs peer average of 8%) and we expect this to expand up to 18% by 2011 as the share of high margin oil & gas contracts increases. As the scale of PBG's operations grows and 2007/08 acquisitions are fully integrated, we also expect improvement at the operating level. Thus, despite the hefty increase in interest costs, we expect 17% EPS growth CAGR to 2011.

The major concern for PBG is its large working capital requirements (due to mega projects and slow payment from EU funds) and high debt levels. But, with comfortable levels of interest cover and EBITDA generation as well as the option of issuing more bonds, we do not see this as a serious medium term risk.

PBG has moved in line with the WIG construction index since May and trades at a tiny discount to peers on '09 PER and EV/EBITDA. We expect PBG to widen its outperformance against peers and issue a 12 month HOLD recommendation, TP 198 PLN.

Expected Events

4Q08 results	February 2009

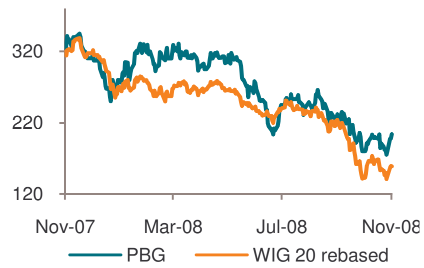
Key Data

Market Cap	EUR 825 mil
Free Float	39.8%
Shares outstanding	13.4 mil
Average daily volume	EUR 1724 mil
Major Sh'holder	Jerzy Wisniewski 50.14%
Reuters Code	PBGG.WA
Bloomberg Code	PBG PW

Price Performance

52-w range (PLN)	175 – 345
YTD PLN Performance	-33.6%
Relative YTD PLN Performance	+16.0%

PBG Price Performance



	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012e	3,218	355	21.3	14.7%	8.4	5.0	18.6%	9.6%	
2011e	3,065	309	18.6	18.4%	9.7	6.0	19.6%	9.6%	
2010e	2,898	261	15.7	18.7%	11.5	7.4	20.2%	9.5%	0.7
2009e	2,575	220	13.2	13.2%	13.6	9.1	20.9%	9.1%	0.8
2008e	2,061	194	11.7	51.1%	15.4	11.5	23.0%	8.2%	0.6
2007	1,377	117	7.7	67.2%	23.3	19.6	21.1%	6.6%	
2006	674	55	4.6	31.8%	38.9	31.1	19.9%	8.4%	

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Income Statement

(PLN m except where stated)	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Total Sales	**409**	**674**	**1377**	**2061**	**2575**	**2898**	**3065**	**3218**
Sales growth (%)	*89%*	*65%*	*104%*	*50%*	*25%*	*13%*	*6%*	*5%*
CoGS	337	558	1192	1727	2138	2385	2498	2607
Gross Profit	**71**	**116**	**185**	**334**	**438**	**513**	**567**	**611**
Gross margin	*17.4%*	*17.2%*	*13.4%*	*16.2%*	*17.0%*	*17.7%*	*18.5%*	*19.0%*
Cost of Sales	*2.8*	*1.4*	*0.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
G&A	31.0	52.8	79.6	119.5	146.8	159.4	165.5	170.6
- growth yoy	*37.7%*	*70.1%*	*50.7%*	*50.2%*	*22.8%*	*8.6%*	*3.8%*	*3.1%*
- as % sales	*7.6%*	*7.8%*	*5.8%*	*5.8%*	*5.7%*	*5.5%*	*5.4%*	*5.3%*
Other income / costs net	5	10	4	0	0	0	0	0
EBITDA	**51**	**89**	**139**	**254**	**333**	**396**	**444**	**484**
EBITDA margin (%)	*12.4%*	*13.1%*	*10.1%*	*12.3%*	*12.9%*	*13.6%*	*14.5%*	*15.0%*
EBITDA growth (%)	*82.0%*	*74.8%*	*57.2%*	*82.7%*	*30.9%*	*18.8%*	*12.4%*	*8.9%*
Operating profit	**41.3**	**72.0**	**109.4**	**214.4**	**291.0**	**353.5**	**401.5**	**440.9**
Operating profit margin (%)	*10.1%*	*10.7%*	*7.9%*	*10.4%*	*11.3%*	*12.2%*	*13.1%*	*13.7%*
Net interest expenses	6	13	21	32	43	35	22	4
As % of avg net debt	*4.4%*	*4.3%*	*6.6%*	*7.8%*	*7.7%*	*6.3%*	*5.7%*	*3.2%*
Interest cover (x)	*8.2*	*7.0*	*6.5*	*7.9*	*7.7*	*11.3*	*20.2*	*121.0*
Other net financial income	3	11	32	22	12	12	12	12
Profit Before Tax	**45**	**70**	**144**	**204**	**260**	**331**	**391**	**449**
Tax	8	15	27	10	40	69	82	94
Minorities	1	3	15	37.4	42.3	50.2	59.5	68.2
Net profit	**37**	**55**	**117**	**194**	**220**	**261**	**309**	**355**
Net margin (%)	*9.0%*	*8.1%*	*8.5%*	*9.4%*	*8.5%*	*9.0%*	*10.1%*	*11.0%*
Net profit growth (%)	*175.2%*	*48.6%*	*113.8%*	*65.5%*	*13.2%*	*18.7%*	*18.4%*	*14.7%*
Weighted average no shares	10.5	11.3	13.2	13.4	13.4	13.4	13.4	13.4
EPS (PLN)	**3.51**	**4.63**	**7.73**	**11.69**	**13.23**	**15.70**	**18.60**	**21.33**
EPS growth (%)	*131.7%*	*31.8%*	*67.2%*	*51%*	*13%*	*19%*	*18%*	*15%*

Balance Sheet

Balance Sheet	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Fixed Assets	196	374	718	878	986	1019	1026	1033
Working Capital (net)	236	369	597	824	1030	1159	1226	1287
Total assets	**666**	**1,045**	**2,289**	**2,912**	**3,487**	**3,952**	**4,378**	**4,845**
Long term debt	192	180	259					
Short term debt	138	205	467					
Total liabilities	482	666	1507	1969	2325	2529	2646	2757
Shareholders' equity (excl minority interest)	**184**	**367**	**748**	**942**	**1,162**	**1,424**	**1,733**	**2,087**
BVPS (PLN)	17.5	30.5	55.7	70.2	86.6	106.0	129.0	155.4
Net debt, end of year	247.6	333.9	314.9	509	602	503	267	-19
Net debt / equity (%)	*134%*	*91%*	*42%*	*54%*	*52%*	*35%*	*15%*	*-1%*
Net debt/EBITDA (x)	*4.89*	*3.77*	*2.26*	*2.00*	*1.81*	*1.27*	*0.60*	*-0.04*
Enterprise value	2,665	2,751	2,732	2,926	3,020	2,920	2,685	2,399

Cashflow Statement

Cashflow Statement	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Net profit	38	55	117	194	220	261	309	355
Depreciation	9	17	30	40	42	42	43	43
Increase in working capital (net)	127	134	227	228	206	129	67	62
Other cashflow items	-107	-99	-53	0	0	0	0	0
Net cash from operations	-186	-161	-133	6	56	174	286	336
Capex	97	112	179	200	150	75	50	50
Free cash flow	**-284**	**-274**	**-312**	**-194**	**-94**	**99**	**236**	**286**
Share issues	67	187	333	0	0	0	0	0
Dividends paid	0	0	2	0	0	0	0	0
Increase in net debt	217.027	86	-19	194	94	-99	-236	-286

PBG: Key return and valuation ratios

PBG: Key return and valuation ratios	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
ROE (%)	*23%*	*20%*	*21%*	*23%*	*21%*	*20%*	*20%*	*19%*
ROA (%)	*9%*	*8%*	*7%*	*8%*	*9%*	*10%*	*10%*	*10%*
ROIC (%)	*8.6%*	*7.6%*	*8.1%*	*8.5%*	*8.0%*	*7.8%*	*7.9%*	*7.8%*
WACC (%)	*6.1%*	*6.6%*	*8.2%*	*9.2%*	*8.7%*	*8.8%*	*9.6%*	*11.0%*
EVA (%)	*2.5%*	*1.0%*	*-0.1%*	*-0.7%*	*-0.7%*	*-1.0%*	*-1.7%*	*-3.2%*
PER (x)	*51.3*	*38.9*	*23.3*	*15.4*	*13.6*	*11.5*	*9.7*	*8.4*
EV/EBITDA (x)	*52.6*	*31.1*	*19.6*	*11.5*	*9.1*	*7.4*	*6.0*	*5.0*
EV/FCF (x)	*-9.4*	*-10.1*	*-8.8*	*-15.1*	*-32.2*	*29.5*	*11.4*	*8.4*
PBR (x)	*10.3*	*5.9*	*3.2*	*2.6*	*2.1*	*1.7*	*1.4*	*1.2*
PSR (x)	*5.9*	*3.6*	*1.8*	*1.2*	*0.9*	*0.8*	*0.8*	*0.8*
EV/S (x)	*6.5*	*4.1*	*2.0*	*1.4*	*1.2*	*1.0*	*0.9*	*0.7*
PEG (x, 3 yr prospective)		*0.8*	*0.5*	*0.6*	*0.8*	*0.7*		

Construction, Poland **November 26, 2008**

Pol-Aqua

Sell

(Initiation of coverage)

Price: PLN 19.9
Price Target: PLN 16.9

Victim of uncertainty

Pol-Aqua has the smallest backlog of the six construction companies, with some 50% of the value from road building, environmental and fuel sector projects and the other 50% in industrial, residential and general construction.

On the basis of the current backlog and information about contracts won, but yet to be signed, we forecast sales growth of 6% CAGR to 2011. This should be accompanied by margin improvement (it already has higher than average margins) due to the declining share of non-specialist general construction in sales. This would translate into EPS growth of 19% CAGR to 2011 – the highest of the peer group.

But delays to signing already won contracts and the urgent need to replace existing backlog with new contracts (average length a mere 14 months), raises serious questions about Pol-Aqua's ability to deliver on our 2009/10 forecasts. Given the tone of the recent investor meeting, the risks look to be on the downside, but we believe the company could equally well overshoot.

The stock has underperformed the WIG construction index by 25% since May and trades at a 44% and 47% discount to peers on '09 EV/EBITDA and PER. If 2009 earnings were more predictable, the stock would be a clear buy. But given the negative sentiment towards the stock and the high risk of undershooting our forecasts, we think the lack of any positive news could see further de-rating. SELL. TP PLN 16.96, -15%.

Expected Events

4Q08 results	February 2009

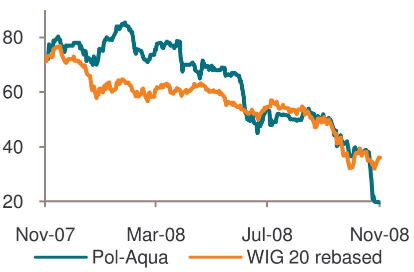
Key Data

Market Cap	EUR 351 mil
Free Float	36.1%
Shares outstanding	27.5 mil
Average daily volume	EUR 620 mil
Major Sh'holder	Marek Stefanski 46.7%
Reuters Code	PQAA.WA
Bloomberg Code	PQA PWP

Price Performance

52-w range (PLN)	17.8 -85.5
YTD PLN Performance	-77.2 %
Relative YTD PLN Performance	-27.6 %

Pol-Aqua Price Performance



	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012e	1,741	147	5.37	19.2%	3.7	1.3	30.0%	9.0%	
2011e	1,540	123	4.51	13.2%	4.4	1.9	34.7%	8.7%	
2010e	1,404	109	3.98	29.6%	5.0	2.6	45.6%	8.6%	0.2
2009e	1,398	83.5	3.07	15.9%	6.5	3.5	58.7%	7.4%	0.3
2008e	1,306	72.9	2.65	35%	7.5	4.0	114%	7.4%	0.3
2007	706	50.2	1.97	57%	10	5.9	212%	8.6%	
2006	234	22.1	1.25	n/a	16	13	221%	19.3%	

EQUITY RESEARCH

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Income Statement

(PLN m except where stated)	2007	2008e	2009e	2010e	2011e	2012e
Total Sales	**706**	**1306**	**1398**	**1404**	**1540**	**1741**
Sales growth (%)	*202%*	*85%*	*7%*	*0%*	*10%*	*13%*
CoGS	617	1152	1226	1199	1315	1487
Gross Profit	**90**	**153**	**172**	**205**	**225**	**254**
Gross margin	*12.7%*	*11.8%*	*12.3%*	*14.6%*	*14.6%*	*14.6%*
Cost of Sales	0.2	0.0	0.0	0.0	0.0	0.0
G&A	47.8	62.0	63.9	65.8	67.7	69.8
EBITDA	**88**	**155**	**161**	**181**	**200**	**227**
EBITDA margin (%)	*12.5%*	*11.9%*	*11.5%*	*12.9%*	*13.0%*	*13.1%*
EBITDA growth (%)	*106.4%*	*76.5%*	*3.7%*	*12.5%*	*10.4%*	*13.7%*
Operating profit	**60.0**	**91.4**	**108.1**	**139.2**	**157.0**	**184.4**
Operating profit margin (%)	*8.5%*	*7.0%*	*7.7%*	*9.9%*	*10.2%*	*10.6%*
Net interest expenses	2	3	5	4	4	2
As % of avg net debt	*-15.1%*	*10.3%*	*9.7%*	*-13.1%*	*-3.3%*	*-1.0%*
Interest cover (x)	*41.4*	*51.8*	*32.2*	*45.3*	*50.0*	*113.7*
Profit Before Tax	**60.5**	**88**	**103**	**135**	**153**	**182**
Tax	10	15	19	26	29	35
Net profit	**50**	**73**	**84**	**109**	**123**	**147**
Net margin (%)	*7.1%*	*5.6%*	*6.0%*	*7.7%*	*8.0%*	*8.4%*
Net profit growth (%)	*126.8%*	*45.2%*	*14.5%*	*29.9%*	*13.3%*	*19.4%*
Weighted average no shares	25.5	27.5	27.5	27.5	27.5	27.5
EPS (PLN)	**1.97**	**2.65**	**3.07**	**3.98**	**4.51**	**5.37**
EPS growth (%)	*57%*	*35%*	*16%*	*30%*	*13%*	*19%*

Balance Sheet

	2007	2008e	2009e	2010e	2011e	2012e
Fixed Assets	174	190	187	191	198	210
Working Capital (net)	193	356	381	383	420	474
Total assets	**1,070**	**1,386**	**1,545**	**1,701**	**1,911**	**2,168**
Long term debt	88					
Short term debt	18					
Total liabilities	465	1286	1361	1409	1495	1605
Shareholders' equity (excl minority interest)	**28**	**100**	**184**	**292**	**415**	**562**
BVPS (PLN)	1.0	3.7	6.7	10.6	15.1	20.4
Net debt, EOP	-24	82	21	-82	-161	-241
Net debt / equity (%)	*-88%*	*82%*	*11%*	*-28%*	*-39%*	*-43%*
Net debt/EBITDA (x)	*-0.27*	*0.53*	*0.13*	*-0.45*	*-0.80*	*-1.06*
Enterprise value	522	628	567	464	385	305

Cashflow Statement

	2007	2008e	2009e	2010e	2011e	2012e
Net profit	50	73	84	109	123	147
Depreciation	28	64	53	42	43	43
Increase in working capital (net)	114	163	25	2	37	55
Other cashflow items	-141	0	0	0	0	0
Net cash from operations	-176	-26	111	149	129	135
Capex	206	80	50	46	50	55
Free cash flow	**-382**	**-106**	**61**	**103**	**79**	**80**
Share issues	402	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Increase in net debt	-20.1	106	-61	-103	-79	-80
	-20.0					

Key return and valuation ratios

	2007	2008e	2009e	2010e	2011e	2012e
ROE (%)	*212%*	*114%*	*59%*	*46%*	*35%*	*30%*
ROA (%)	*9%*	*7%*	*7%*	*9%*	*9%*	*9%*
ROIC (%)	*7.5%*	*6.1%*	*6.0%*	*6.9%*	*7.0%*	*7.3%*
WACC (%)	*159.9%*	*8.9%*	*9.3%*	*17.2%*	*17.2%*	*17.2%*
EVA (%)	*-152.4%*	*-2.8%*	*-3.3%*	*-10.3%*	*-10.2%*	*-9.9%*
PER (x)	*10.1*	*7.5*	*6.5*	*5.0*	*4.4*	*3.7*
EV/EBITDA (x)	*5.9*	*4.0*	*3.5*	*2.6*	*1.9*	*1.3*
EV/FCF (x)	*-1.4*	*-5.9*	*9.2*	*4.5*	*4.9*	*3.8*
PBR (x)	*19.9*	*5.4*	*3.0*	*1.9*	*1.3*	*1.0*
PSR (x)	*0.8*	*0.4*	*0.4*	*0.4*	*0.4*	*0.3*
EV/S (x)	*0.7*	*0.5*	*0.4*	*0.3*	*0.3*	*0.2*
PEG (x, 3 yr prospective)	*0.3*	*0.3*	*0.3*	*0.2*		

Construction, Poland | November 26, 2008

Polimex Mostostal

Hold

(Initiation of coverage)

Price: PLN 2.94
Price Target: PLN 3.31

Diversity drag

With the largest estimated 2008 orderbook next to PBG, standing at PLN 6.9 bil, Polimex is well equipped to withstand the impending slowdown. It is diversified across general construction (1/4), pet-chem/oil & gas (1/3), production (1/3) and has a nascent road building segment. So although we expect stagnation in production, general contraction and power engineering in 2009, the pet-chem and fast-growing road engineering segments should deliver 7% CAGR of sales to 2011.

As the share of lower margin general construction and power engineering falls, we expect slight gross margin expansion and the slower growth of G&A should improve operating margins. Thus, although the tougher market will see flat EPS growth in 2009, we expect EPS to grow 15% CAGR to 2011.

Polimex has relatively high levels of net debt, but 60% of total debt is long term and credit lines were all renewed in 3Q08. So there is comfortable interest cover and cash generation to manage their debt, while working capital requirements, relative to sales, are among the lowest of peers.

In the current market, the biggest risk to Polimex paradoxically is its diversity, which makes top line growth vulnerable. However, we believe the stock's recent underperformance and 18% discount to peers on '09 PER is more than is justified by this risk and the expected flat performance in 2009. HOLD. 12 month TP 3.31.

Expected Events

4Q08 results	February 2009

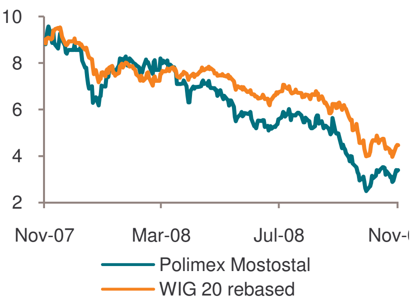
Key Data

Market Cap	EUR 351 mil
Free Float	63%
Shares outstanding	464.4 mil
Average daily volume	EUR 1837 mil
Major Sh'holder	ING OFE 8%
	PYU Slota Jesien 8%
	CU OFE 7.5%
Reuters Code	MOSD.WA
Bloomberg Code	PXM PW

Price Performance

52-w range (PLN)	2.50 -9.57
YTD PLN Performance	-60.3 %
Relative YTD PLN Performance	-10.7 %

Polimex Mostostal Price Performance



	Sales (PLNm)	Net Profit (PLNm)	EPS (PLN)	EPS gr (%)	PER (x)	EV/EBITDA (x)	ROE (%)	ROA (%)	PEG (x)
2012e	6,162	297	0.53	22.3%	5.5	3.3	16.6%	8.1%	
2011e	5,531	241	0.43	34.2%	6.8	4.2	15.7%	7.7%	
2010e	4,952	179	0.32	24.6%	9.1	5.3	13.4%	6.7%	0.3
2009e	4,672	144	0.26	1.47%	11.3	6.3	12.1%	6.4%	0.6
2008e	4,505	140	0.26	18.8%	11.5	6.9	13.4%	6.9%	0.8
2007	3,720	117	0.22	31%	14	8.7	17.4%	7.2%	
2006	2,483	74.1	0.16	46%	18	11	22.9%	7.2%	

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Income Statement

(PLN m except where stated)	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Total Sales	**1850**	**2483**	**3720**	**4505**	**4672**	**4952**	**5531**	**6162**
Sales growth (%)	*7%*	*34%*	*50%*	*21%*	*4%*	*6%*	*12%*	*11%*
CoGS	1650	2239	3398	4075	4220	4456	4949	5501
Gross Profit	**200**	**244**	**322**	**430**	**453**	**496**	**582**	**661**
Gross margin	*10.8%*	*9.8%*	*8.7%*	*9.5%*	*9.7%*	*10.0%*	*10.5%*	*10.7%*
Cost of Sales	*27.9*	*28.1*	*28.3*	*38.0*	*39.9*	*41.9*	*44.0*	*46.2*
G&A	95.3	106.6	137.1	180.2	186.9	193.1	210.2	228.0
Other income / costs net	-3	-11	3.64	0	0	0	0	0
EBITDA	**101**	**130**	**205**	**288**	**314**	**350**	**418**	**478**
EBITDA margin (%)	*5.5%*	*5.2%*	*5.5%*	*6.4%*	*6.7%*	*7.1%*	*7.6%*	*7.8%*
EBITDA growth (%)	*5.4%*	*28.1%*	*58.4%*	*40.0%*	*9.1%*	*11.5%*	*19.4%*	*14.3%*
Operating profit	**73.2**	**98.5**	**160.4**	**211.7**	**225.8**	**261.0**	**327.8**	**386.5**
Operating profit margin (%)	*4.0%*	*4.0%*	*4.3%*	*4.7%*	*4.8%*	*5.3%*	*5.9%*	*6.3%*
Net interest expenses	8	8	17	45	55	45	34	22
As % of avg net debt	*14.0%*	*11.8%*	*6.5%*	*8.8%*	*9.0%*	*8.2%*	*7.9%*	*7.5%*
Interest cover (x)	*12.2*	*17.1*	*12.1*	*6.4*	*5.7*	*7.8*	*12.3*	*21.7*
Other net financial income	4	7	7	7	7	7	7	7
Share of profits of associates	0	-2	4	4	4	4	4	4
Profit Before Tax	**65**	**91**	**149**	**178**	**182**	**227**	**305**	**376**
Tax	16	17	33	37	38	48	64	79
Minorities	6	11	17	21.5	23	29	39	50
Net profit	**49**	**74**	**116.684**	**140**	**144**	**179**	**241**	**297**
Net margin (%)	*2.6%*	*3.0%*	*3.1%*	*3.1%*	*3.1%*	*3.6%*	*4.4%*	*4.8%*
Net profit growth (%)	*-6.2%*	*51.2%*	*57.6%*	*20.3%*	*2.3%*	*24.9%*	*34.3%*	*23.2%*
Shares	381.2	381.2	464.4	464.4	464.4	464.4	464.4	464.4
EPS (PLN)	**0.11**	**0.16**	**0.22**	**0.26**	**0.26**	**0.32**	**0.43**	**0.53**
EPS growth (%)	*13%*	*46%*	*31%*	*19%*	*1%*	*25%*	*34%*	*22%*
DPS (PLN)	*0.02*	*0.02*	*0.02*	*0.01*	*0.02*	*0.02*	*0.03*	*0.04*
Payout ratio (%)	*16.0%*	*11.2%*	*8.5%*	*4.9%*	*8.7%*	*7.2%*	*6.7%*	*7.3%*

Balance Sheet

Balance Sheet	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Fixed Assets	214	262	426	650	762	773	783	792
Working Capital (net)	193	292	780	901	934	990	1106	1232
Total assets	**1,108**	**1,632**	**2,801**	**3,357**	**3,723**	**4,048**	**4,491**	**4,996**
Long term debt	36	171	330					
Short term debt	73	83	229					
Total liabilities	743	1183	1716	2239	2473	2628	2844	3070
Shareholders' equity	**293**	**355**	**983**	**1,118**	**1,251**	**1,419**	**1,647**	**1,925**
BVPS (PLN)	0.8	0.9	2.1	2.4	2.7	3.1	3.5	4.1
Net debt, end of year	23	106	416	610	607	489	371	212
Net debt / equity (%)	*8%*	*30%*	*42%*	*55%*	*49%*	*34%*	*23%*	*11%*
Net debt/EBITDA (%)	*22%*	*82%*	*203%*	*212%*	*193%*	*140%*	*89%*	*44%*
Enterprise value	1,388	1,471	1,781	1,975	1,972	1,854	1,737	1,577

Cashflow Statement

Cashflow Statement	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
Net profit	55	85	133	140	144	179	241	297
Depreciation	31	31	45	76	88	89	90	91
Increase in working capital (net)	-41	100	488	121	33	56	116	126
Other cashflow items	-72	15	105	16	16	16	16	16
Net cash from operations	**55**	**32**	**-204**	**112**	**214**	**229**	**231**	**277**
Capex	-18	120	97	300	200	100	100	100
Free cash flow	**73**	**-88**	**-301**	**-188**	**14**	**129**	**131**	**177**
Share issues	0	11	0	0	0	0	0	0
Dividends paid	0	7	9	6	11	11	13	18
Increase in net debt	-73.4	83.5	310.0	194	-4	-118	-117	-159
	-73.4	83.5	310.0					

PXM: Key ratios

PXM: Key ratios	2005	2006	2007	2008e	2009e	2010e	2011e	2012e
ROE (%)	*18%*	*23%*	*17%*	*13%*	*12%*	*13%*	*16%*	*17%*
ROA (%)	*7%*	*7%*	*7%*	*7%*	*6%*	*7%*	*8%*	*8%*
ROIC (%)	*5.1%*	*5.9%*	*5.9%*	*5.7%*	*5.3%*	*5.6%*	*6.3%*	*6.6%*
WACC (%)	*9.6%*	*9.5%*	*8.2%*	*9.2%*	*8.7%*	*8.8%*	*9.6%*	*11.0%*
EVA (%)	*-4.5%*	*-3.6%*	*-2.3%*	*-3.4%*	*-3.4%*	*-3.3%*	*-3.3%*	*-4.4%*
PER (x)	*26.2*	*17.9*	*13.6*	*11.5*	*11.3*	*9.1*	*6.8*	*5.5*
EV/EBITDA (x)	*13.7*	*11.3*	*8.7*	*6.9*	*6.3*	*5.3*	*4.2*	*3.3*
EV/FCF (x)	*18.9*	*-16.8*	*-5.9*	*-10.5*	*139.3*	*14.4*	*13.3*	*8.9*
PBR (x)	*3.8*	*3.2*	*1.4*	*1.2*	*1.1*	*1.0*	*0.8*	*0.7*
PSR (x)	*0.7*	*0.5*	*0.4*	*0.3*	*0.3*	*0.3*	*0.2*	*0.2*
EV/S (x)	*0.8*	*0.6*	*0.5*	*0.4*	*0.4*	*0.4*	*0.3*	*0.3*
PEG (x, 3 yr prospective)		*0.6*	*0.8*	*0.8*	*0.6*	*0.3*		

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Appendix I – DCF Calculations

Budimex

Free Cash-Flow Forecasts	2008E	2009E	2010E	2011E	2012E
EBIT (Operating Profit)	144.2	80.0	82.3	124.5	149.9
- Notional Taxes on EBIT	28.8	16.0	17.3	26.2	31.5
NOPAT (Net Oper. Profit After Tax)	115.4	64.0	65.0	98.4	118.4
+ Depreciation	21.0	19.0	17.0	14.0	13.0
Operating Cash-Flow	136.4	83.0	82.0	112.4	131.4
- Increase in Net Working Capital	-0.1	6.8	7.1	29.9	31.7
- Capital Expenditure	13.0	20.0	15.0	17.0	9.0
Free Cash Flow	123.5	56.2	59.9	65.5	90.7

WACC Calculation	2008-12E	Terminal		
Risk Free Rate	6.50%	6.00%	PV of FCF 2008-2012	522
Poland Risk Premium	5.50%	5.00%	PV of Terminal Value	620
Beta	1.00	1.00	Net debt	-354
WACC	12%-11%	11.00%	**12m Fair Value**	**1496**
Terminal Growth Rate		4%	**12m Fair Value/share**	**58.6**

Weighted Average Cost of Capital (rows: Terminal Growth Rate)

59	10.0%	10.5%	11.0%	11.5%	12.0%
2%	55.1	53.9	52.8	51.9	51.0
3%	58.4	56.8	55.4	54.1	53.0
4%	62.6	60.5	58.6	57.0	55.6
5%	68.6	65.5	62.9	60.7	58.8
6%	77.6	72.8	69.0	65.8	63.2

Average: PLN 59

-6%	-8%	-10%	-12%	-13%
0%	-3%	-6%	-8%	-10%
7%	3%	0%	-3%	-5%
17%	12%	7%	4%	0%
33%	24%	18%	12%	8%

Hydrobudowa Polska

Free Cash-Flow Forecasts	2008E	2009E	2010E	2011E	2012E
EBIT (Operating Profit)	99.6	141.3	164.2	190.2	205.2
- Notional Taxes on EBIT	13.9	26.8	31.2	36.1	39.0
NOPAT (Net Oper. Profit After Tax)	85.7	114.4	133.0	154.1	166.2
+ Depreciation	12.0	14.0	14.0	15.0	16.0
Operating Cash-Flow	97.7	128.4	147.0	169.1	182.2
- Increase in Net Working Capital	301.2	42.2	53.8	59.7	49.2
- Capital Expenditure	30.0	30.0	30.0	30.0	30.0
Free Cash Flow	-233.6	56.2	63.2	79.4	103.0

WACC Calculation	2008-12E	Terminal		
Risk Free Rate	6.50%	0.00%	PV of FCF 2008-2012	586
Poland Risk Premium	5.50%	0.00%	PV of Terminal Value	716
Beta	1.00	1.00	Net debt	330
WACC	10.3%-11.1%	11.00%	**12m Fair Value**	**923**
Terminal Growth Rate		4%	**12m Fair Value/share**	**4.38**

Weighted Average Cost of Capital (rows: Terminal Growth Rate)

4	10.0%	10.5%	11.0%	11.5%	12.0%
2%	3.9	3.7	3.6	3.4	3.3
3%	4.4	4.1	3.9	3.8	3.6
4%	5.0	4.6	4.4	4.2	4.0
5%	5.8	5.4	5.0	4.7	4.4
6%	7.0	6.4	5.8	5.4	5.0

Average: PLN 4

-11%	-15%	-18%	-22%	-24%
-1%	-6%	-10%	-14%	-18%
13%	6%	0%	-5%	-10%
32%	22%	14%	7%	1%
61%	45%	33%	23%	15%

Mostostal Warszawa

Free Cash-Flow Forecasts	2008E	2009E	2010E	2011E	2012E
EBIT (Operating Profit)	103.8	96.7	89.2	125.0	159.0
- Notional Taxes on EBIT	10.4	17.4	16.9	23.7	30.2
NOPAT (Net Oper. Profit After Tax)	93.4	79.3	72.2	101.2	128.8
+ Depreciation	24.0	28.0	33.0	35.0	37.0
Operating Cash-Flow	117.4	107.3	105.2	136.2	165.8
- Increase in Net Working Capital	9.8	4.2	6.5	11.5	11.7
- Capital Expenditure	100.0	75.0	50.0	30.0	30.0
Free Cash Flow	28.1	48.7	94.7	124.1	131.6

WACC Calculation	2008-12E	Terminal		
Risk Free Rate	6.50%	0.00%	PV of FCF 2008-2012	598
Poland Risk Premium	5.50%	0.00%	PV of Terminal Value	849
Beta	1.00	1.00	Net debt	-282
WACC	11%-12%	11.00%	**12m Fair Value**	**1700**
Terminal Growth Rate		4%	**12m Fair Value/share**	**85**

Weighted Average Cost of Capital

Terminal Growth Rate	85	10.0%	10.5%	11.0%	11.5%	12.0%
	2%	79.0	76.8	74.9	73.2	71.7
	3%	84.6	81.8	79.3	77.1	75.2
	4%	92.1	88.2	85.0	82.1	79.7
	5%	102.5	97.1	92.5	88.7	85.4
	6%	118.2	109.8	103.1	97.6	93.0

Average: PLN 85.55

-7%	-10%	-12%	-14%	-16%
0%	-4%	-7%	-9%	-11%
8%	4%	0%	-3%	-6%
21%	14%	9%	4%	0%
39%	29%	21%	15%	9%

PBG

Free Cash-Flow Forecasts	2008E	2009E	2010E	2011E	2012E
EBIT (Operating Profit)	214.4	291.0	353.5	401.5	440.9
- Notional Taxes on EBIT	10.5	44.8	74.2	84.3	92.6
NOPAT (Net Oper. Profit After Tax)	203.9	246.2	279.3	317.2	348.3
+ Depreciation	40.0	42.0	42.0	43.0	43.0
Operating Cash-Flow	243.9	288.2	321.3	360.2	391.3
- Increase in Net Working Capital	227.9	205.7	129.0	66.7	61.5
- Capital Expenditure	200.0	150.0	75.0	50.0	50.0
Free Cash Flow	-67.4	117.3	243.5	279.8	296.6

WACC Calculation	2008-12E	Terminal		
Risk Free Rate	6.50%	0.00%	PV of FCF 2008-2012	1145
Poland Risk Premium	5.50%	0.00%	PV of Terminal Value	1941
Beta	1	1	Net debt	602
WACC	10.5%-11%	11.00%	**12m Fair Value**	**2577**
Terminal Growth Rate		4%	**12m Fair Value/share**	**192**

Weighted Average Cost of Capital

Terminal Growth Rate	192	10.0%	10.5%	11.0%	11.5%	12.0%
	2%	171	164	158	152	147
	3%	191	181	173	165	159
	4%	216	203	192	182	174
	5%	252	233	218	205	193
	6%	305	277	254	235	219

Average: PLN 193.5

-11%	-14%	-18%	-21%	-24%
-1%	-6%	-10%	-14%	-17%
13%	6%	0%	-5%	-9%
31%	21%	13%	7%	1%
59%	44%	32%	22%	14%

Pol-Aqua

Free Cash-Flow Forecasts	2008E	2009E	2010E	2011E	2012E
EBIT (Operating Profit)	91.4	108.1	139.2	157.0	184.4
- Notional Taxes on EBIT	16.0	19.5	26.5	29.8	35.0
NOPAT (Net Oper. Profit After Tax)	75.4	88.6	112.8	127.2	149.4
+ Depreciation	64.0	53.0	42.0	43.0	43.0
Operating Cash-Flow	139.4	141.6	154.8	170.2	192.4
- Increase in Net Working Capital	163.2	25.2	1.7	37.0	54.9
- Capital Expenditure	80.0	50.0	46.0	50.0	55.0
Free Cash Flow	-103.8	66.5	107.1	83.2	82.5

WACC Calculation	2008-12E	Terminal		
Risk Free Rate	6.50%	0.00%	PV of FCF 2008-2012	563
Poland Risk Premium	5.50%	0.00%	PV of Terminal Value	695
Beta	1.00	1.00	Net debt	21
WACC	10.2%-11.6%	11.00%	**12m Fair Value**	**1176**
Terminal Growth Rate		3%	**12m Fair Value/share**	**43**

Weighted Average Cost of Capital

Terminal Growth Rate / 43	10.0%	10.5%	11.0%	11.5%	12.0%
2%	39.2	37.9	36.8	35.8	34.8
3%	42.5	40.9	39.4	38.1	37.0
4%	47.0	44.7	42.8	41.1	39.6
5%	53.2	50.0	47.3	45.0	43.0
6%	62.6	57.6	53.6	50.3	47.5

Average: PLN 43.09

-8%	-11%	-14%	-16%	-19%
-1%	-4%	-8%	-11%	-14%
10%	5%	0%	-4%	-7%
24%	17%	11%	5%	1%
46%	35%	25%	18%	11%

Polimex Mostostal

Free Cash-Flow Forecasts	2008E	2009E	2010E	2011E	2012E
EBIT (Operating Profit)	211.7	225.8	261.0	327.8	386.5
- Notional Taxes on EBIT	44.5	47.4	54.8	68.8	81.2
NOPAT (Net Oper. Profit After Tax)	167.3	178.4	206.2	258.9	305.4
+ Depreciation	76.0	88.0	89.0	90.0	91.0
Operating Cash-Flow	243.3	266.4	295.2	348.9	396.4
- Increase in Net Working Capital	120.7	33.5	55.8	115.9	126.2
- Capital Expenditure	300.0	200.0	100.0	100.0	100.0
Free Cash Flow	32.9	139.4	133.1	170.2	180.4

WACC Calculation	2008-12E	Terminal		
Risk Free Rate	6.50%	0.00%	PV of FCF 2008-2012	877
Poland Risk Premium	5.50%	0.00%	PV of Terminal Value	1445
Beta	1.00	1.00	Net debt	607
WACC	10.7%-11.7%	11.00%	**12m Fair Value**	**1711**
Terminal Growth Rate		3%	**12m Fair Value/share**	**4**

Weighted Average Cost of Capital

Terminal Growth Rate / 4	10.0%	10.5%	11.0%	11.5%	12.0%
2%	3.24	3.09	2.95	2.82	2.71
3%	3.66	3.45	3.27	3.11	2.97
4%	4.20	3.93	3.69	3.48	3.30
5%	4.97	4.57	4.24	3.96	3.72
6%	6.12	5.51	5.01	4.61	4.27

Average: PLN 3.72

-12%	-16%	-20%	-23%	-26%
-1%	-6%	-11%	-16%	-19%
14%	6%	0%	-6%	-11%
35%	24%	15%	7%	1%
66%	49%	36%	25%	16%

Important disclosures

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The Company hereby informs that if a specific investment recommendation does not contain all information required by the relevant legislation (i.e. Public Notice 114/2006 Coll. on the honest presentation of investment recommendations), then such information is freely available on the website of WOOD & Company Financial Services, a.s. at http://www.wood.cz/web/services/research/public_notice The Company recommends that the recipients of this announcement thoroughly review the appropriate sections of its website.

VALUATION & RISKS

More/less severe economic slowdown in Poland will adversely/positively affect companies' ability to acquire new contracts. Risk for Mosostal Warszawa, Budimex, Pol-Aqua and Polimex greater than for PBG or Hydrobudowa. Continued tightening of credit markets could restrict further supply of loans and guarantees required for working capital financing which could in turn restrict companies' abilities to compete in tenders or deliver contracts.

For details of the methodologies used to determine our price targets and risks related to the achievement of the targets refer to main body of report or at http://www.wood.cz/web/services/research/public_notice

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