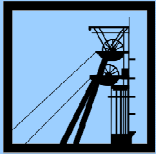


1 September 2010

Update



## Coal Mining

Poland

|                                |                  |
|--------------------------------|------------------|
| <b>Current price</b>           | <b>PLN 83.70</b> |
| <b>Target price</b>            | <b>PLN 85.40</b> |
| Market cap                     | PLN 2.85bn       |
| Free float                     | PLN 2.70bn       |
| Avg. daily trading volume (3M) | PLN 4.96m        |

### Shareholder Structure

|                |       |
|----------------|-------|
| Aviva OFE      | 14.7% |
| ING OFE        | 9.6%  |
| State Treasury | 5.0%  |
| OFE PZU        | 9.8%  |
| Amplico OFE    | 5.1%  |
| Others         | 55.8% |

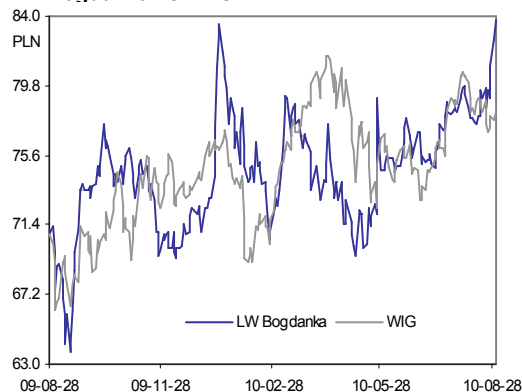
### Sector Outlook

Over 50% of energy in Poland is generated from bituminous coal, and new power-plant projects are coal-based as well. The coal output from the Silesian coal basin is decreasing by the year. Due to these factors, LW Bogdanka, one of the cheapest producers in Poland, will find it easy to sell its output, including coal from the new, currently developed "Stefanów" field.

### Company profile

Located in the Lubelskie Coal Basin in eastern Poland, Bogdanka is one of the leading and most cost-effective bituminous-coal mines in the country. In 2009, with sales approximating 5.24 Mt, Bogdanka produced 6.5% of Poland's total coal output, and achieved a 10% market share in supplies to power plants.

### LW Bogdanka vs. WIG



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# LW BOGDANKA Hold

LWBA.WA; LWB.PW

(Reiterated)

## Power Industry's Appetite for Coal Rises

**Bogdanka's environment will be changing to its advantage. The Management have already noticed a rise in demand on the part of Polish power utilities. As coal import agreements gradually expire, Silesian mines will chose to rise their prices (by cutting their discounts), probably already in H2 2010. The Management will "soon" publish its earnings guidance for Q3'10 and FY10. We are rising our target price from PLN 80.7 per share to PLN 85.4 per share and we are reiterating our hold rating.**

### Q2 2010 Results

The Company's second-quarter earnings were in line with our expectations and the Management's earlier pronouncements. Sales increased by 2.8% to PLN 284m, EBITDA to PLN 99.4m (+21% y/y) and net profit to PLN 54.2m (+49.5% y/y). Output figured to 1.415 Mt (+13.6% y/y), and sales to 1.36 Mt (we expected 1.32 Mt), i.e. 12% more than the year before. The average price of coal in Q2'10 was PLN 202/t (-7.6% y/y, -2.7% q/q). According to our estimates, Bogdanka's unit cost of production remains at ca. PLN 153/t despite higher investment outlays, thanks to, inter alia, rising output volumes and the efficiency of plow-based mining.

### Outlook for the Upcoming Quarters

We expect Bogdanka to produce 5.6 Mt of coal for sale in 2010 (representing an increase by 100 kt vs. our previous forecast). For the following year, we reiterate our forecast of sales reaching 6.8 Mt (+21.5% y/y) thanks to the launch of mining in the Stefanów field. Our estimate of the average price of coal in H2 2010 is PLN 205.2/t, i.e. 1.5% higher than in Q2, which will be made possible by the pricing differential between imported and domestic coal (the latter is ca. 40% cheaper, and import contracts are expiring) and the fact that the power industry will enter the pre-winter stocking period. In 2011, we expect the average price to increase by 3% y/y, to PLN 211.3/t. We consider this assumption cautious.

### Steam Coal Market in Poland

Although the price of ARA or Russian coal is now 40% higher (per GJ) than the price of Polish coal, imports in H1'10 once again amounted to 6 Mt due to contracts power utilities had signed in 2008-2009. New import contracts are not being signed anymore, which will result in a gradual reduction in imports to ca. 5-6 Mt per year (vs. 10 Mt in 2009). The process should start in H2 2010, and one of its consequences will be a gradual reduction in stockpiles (from the current 5.9 Mt), which will make an increase in domestic production possible. At present, the average selling price of Polish coal (-7% q/q in Q2 2010) is below its unit cost of production.

| (PLN m)              | 2008    | 2009    | 2010F   | 2011F   | 2012F   |
|----------------------|---------|---------|---------|---------|---------|
| Revenues             | 1 033.3 | 1 118.4 | 1 191.8 | 1 492.2 | 1 952.9 |
| EBITDA               | 339.6   | 368.0   | 395.6   | 554.7   | 746.2   |
| <i>EBITDA margin</i> | 32.9%   | 32.9%   | 33.2%   | 37.2%   | 38.2%   |
| EBIT                 | 203.5   | 226.7   | 246.1   | 319.7   | 496.2   |
| Net profit           | 156.0   | 191.5   | 188.7   | 241.9   | 382.3   |
| DPS                  | 0.2     | 2.6     | 0.6     | 0.6     | 3.6     |
| P/E                  | 12.3    | 14.9    | 15.1    | 11.8    | 7.4     |
| P/CE                 | 4.0     | 5.0     | 2.7     | 4.5     | 3.8     |
| P/BV                 | 1.7     | 1.6     | 1.5     | 1.3     | 1.2     |
| EV/EBITDA            | 5.7     | 6.6     | 7.6     | 5.3     | 3.7     |
| DYield               | 0.3%    | 3.1%    | 0.7%    | 0.7%    | 4.2%    |

## Q2 2010 Results

LW Bogdanka reported 2010 second-quarter results in line with expectations. Revenues increased on stronger volumes which, however, were sold at lower unit prices, reduced on the back of price cuts made by Silesian coal miners. Polish buyers are still receiving coal from ARA and Russian suppliers (6MT total in H1) under contracts signed in 2008 and 2009, but cheaper domestic coal is gradually squeezing out imports. Despite lower sales prices, by keeping mining costs in check (production effectiveness has been enhanced through the application of plow technology), LWB widened its Q2 EBITDA margin to 35%. The company's Management say that the Polish coal market has stabilized, and that demand from power plants is on the rise. The third quarter is seasonally the strongest one volume-wise. LWB is set to release a third-quarter and full-year earnings guidance "soon."

### Consolidated Q2 2010 results

| (PLN m)       | 2Q10  | 2Q09  | change | 1H2010 | 1H2009 | change |
|---------------|-------|-------|--------|--------|--------|--------|
| Revenues      | 284.0 | 276.3 | 2.8%   | 578.1  | 520.8  | 11.0%  |
| EBITDA        | 99.4  | 82.1  | 21.1%  | 194.7  | 173.7  | 12.1%  |
| EBITDA margin | 35.0% | 29.7% | -      | 33.7%  | 33.4%  | -      |
| EBIT          | 64.5  | 45.4  | 42.0%  | 126.6  | 104.5  | 21.1%  |
| Net income    | 54.2  | 36.2  | 49.5%  | 106.9  | 83.5   | 28.0%  |

Source: LWB

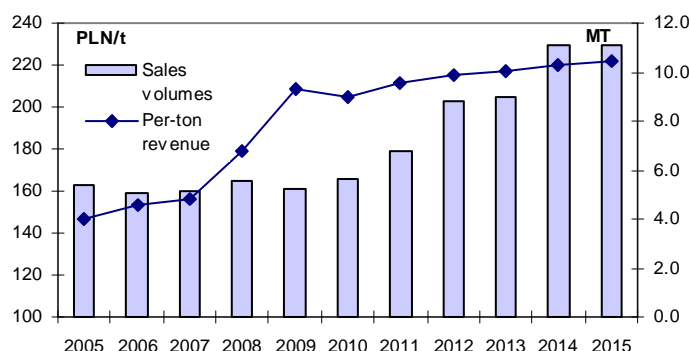
The first-six-month coal output at LWB amounted to PLN 2.8 MT (+13.6% y/y), and sales totaled PLN 2.73m (+17.4% y/y). In the second quarter alone, production was 1.415MT (+13.6% y/y), and sales came in at PLN 1.36m (ahead of our 1.32m estimate) after a 12% y/y increase. The factors that drove the first-half production volumes included:

- a low 2009 base, when LWB experienced stoppages necessitated by the launch of development of the new "Stefanów" coal field (in 2009, production fell to 5.24MT from 5.58MT the year before, with the biggest drop seen in H1 2009, when the coal output was only 2.48MT).
- commissioning of a new coal plow used to mine low seams (after a test run in March, the plow reached a daily capacity of 10 thousand tons in June, setting its daily record at nearly 17 thousand tons) which drove the daily face output by 7%.

LWB says that its current mining capacity is higher than actual production because of bottlenecks which include a limited capacity of the existing shaft, expected to be addressed after the launch of the new Stefanów shaft in March/April 2011. Capacity constraints also apply to LWB's coal-handling facilities, but they will be overcome through the construction of new facilities, scheduled to start in October and tentatively set for first-stage completion in H2 2011.

Heavy investment in new plant and equipment, combined with effectiveness-enhancing measures, has prompted an increase in our estimate of this year's commercial coal production volumes by 100KT to 5.6MT. Our sales forecast for 2011, which takes into account the launch of operations in the Stefanów field, remains at 6.8MT (+21.5% y/y).

### Sales volume forecast for LWB

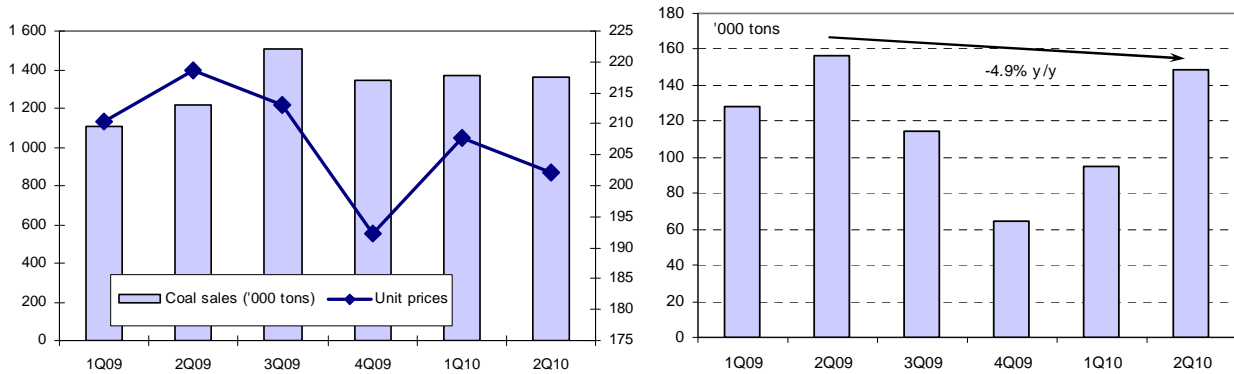


Source: BRE Bank Securities

LWB says that it foresees no problems with unloading the higher coal volumes to existing customers (which include power plants in Koźienice, Połaniec, and Ostrołęka). Its coal inventory as of 30 June stood at 149KT (-4.9% y/y), which is an adequate level given the upcoming seasonal inventory buildup by the power industry.

Coal prices in H1 2010 averaged PLN 205/T, which was 4.5% less than in the same period a year ago. The second-quarter average was PLN 202/T after a 7.6% decrease relative to Q209 and a 2.7% decline vis-à-vis Q1 2010. Effective sales prices continue to decline in the wake of reductions made by Silesian coal mines, whose coal in Q2 2010 traded 12.6% lower than in the same period a year ago and 7% lower than in the preceding quarter. Read on for a more in-depth look at the Polish coal market. We believe that coal prices will reach an annual average of PLN 205/T (revised from PLN 206/T) in 2010, given that Polish coal is currently about 40% cheaper than exported coal, and considering that the energy industry is about to start stocking up on feedstock for the winter. In 2011, we conservatively predict that the price average will increase by 3% to PLN 211.3 a ton.

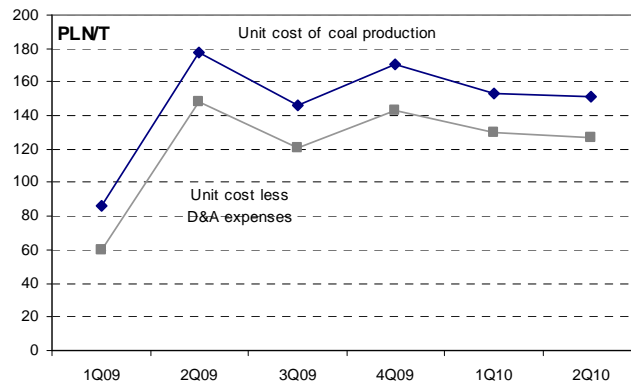
**LWB's sales volumes and per-ton prices (l), coal inventories (r)**



Source: LWB, BRE Bank Securities

It is worth pointing out that LWB managed to bring down its unit production costs in spite of a higher CAPEX, thanks to increased mining volumes (offsetting fixed costs) and implementation of more effective mining technology (less rock). A portion of the savings was also owed to delayed hiring of workers for the new coal-handling plant (which itself is delayed). Next year, gradual completion of the projects currently in progress (mine shaft, coal conveyor, first longwall in Stefanów) is going to drive D&A expenses by an estimated PLN 85m.

**Unit coal cost estimates**



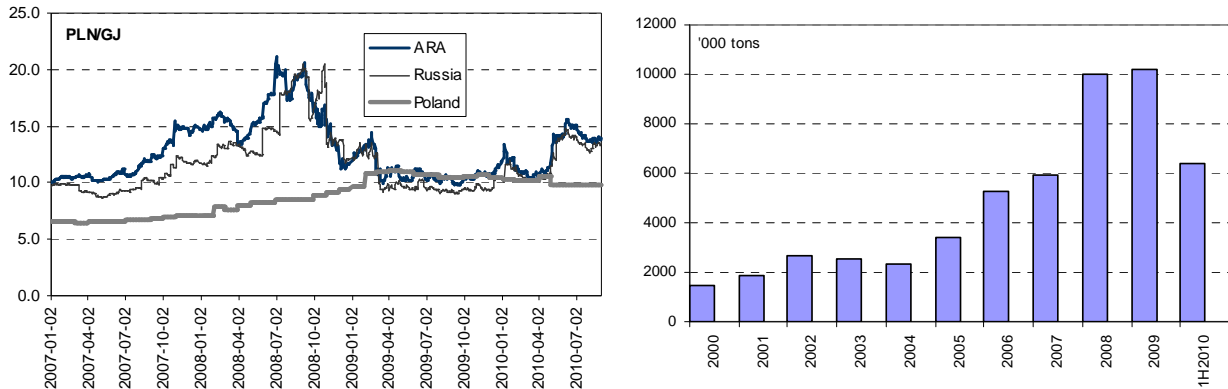
Source: BRE Bank Securities based on LWB data

**Polish Steam Coal Market**

Thermal coal in ARA ports and in Russia continues to trade high at \$92 and \$91 a ton respectively. From the standpoint of Polish power producers, domestic coal is much more attractive at a price which is as much as 40% lower after taking into account exchange rates, transportation costs, insurance, and calorific values (PLN 13.5/GJ vs. PLN 9.6/GJ). Even so, 6 million tons of coal were imported to Poland in H1 2010 under supply contracts signed back in 2008, when power plants were faced with a shortage of domestic feedstock, and in 2009, when locally produced coal traded higher than Russian coal. Since coal buyers have no reason to purchase coal from abroad amid current domestic price trends and supply levels, imports are expected to decrease to 5-6MT a year (levels last seen in 2007/2008) going

forward, leaving more room for domestically mined volumes. As for prices, however, high mine inventories are preventing hikes for now, but major draw-downs are expected going forward.

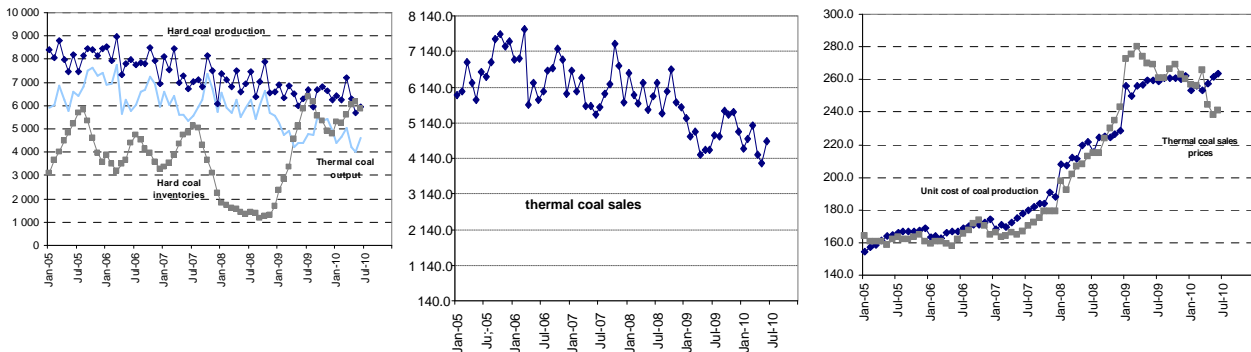
**Coal prices per GJ in ARA, in Russia (Baltic ports), and Poland (incl. PLN/T freight costs), Polish coal imports (t)**



Source: BRE Bank Securities, GUS, Bloomberg

Polish coal miners continue to struggle with high inventories (which stood at 5.9MT at 30 June according to the Economy Ministry) which, combined with high imports, force production cuts (a 5% y/y decline in June) that in turn drive unit costs. To regain liquidity (a portion of the coal output is used to pay off the co-called “coal bonds” issued by mines as a means of raising investment capital), the mines are reducing their sales prices which, for several months now, have been trading below unit production costs.

**Polish hard-coal market**



Source: BRE Bank Securities, Bloomberg

Once imports start to decline, Silesian mines will be able to raise prices and increase production, although this will not be enough to bring them back from the edge of insolvency, which requires either radical restructuring, or a rapid upturn in coal prices (in a move to converge to global prices, which is highly unlikely today because of the consequences for energy prices, and because 2011 is a parliamentary election year in Poland). In any case, LWB will be the beneficiary of such changes.

## Valuation

DCF Analysis and multiples comparison place LWB's value in the range of PLN 2.65bn and PLN 2.72bn. Our overall valuation is the weighted average of the two approaches, each of which is assigned a 50% weight. Our new price target for LWB is PLN 85.4 per share.

### Valuation Summary

| (PLN)                    | Weight | New Valuation |             | Old Valuation |
|--------------------------|--------|---------------|-------------|---------------|
|                          |        | Total         | Per share   | Per share     |
| Relative valuation       | 50%    | 2 721.3       | 80.0        | 76.1          |
| DCF analysis             | 50%    | 2 652.9       | 78.0        | 73.0          |
| Value                    |        |               | 79.0        | 74.6          |
| <b>Target price (9M)</b> |        |               | <b>85.4</b> | <b>80.7</b>   |

Source: BRE Bank Securities

The peer group for relative valuation purposes comprises hard-coal miners focusing on production of steam coal. Using available earnings data and consensus estimates for the years 2009-2011, we calculated the median values of the EV/EBITDA, P/E, and EV/Sales for LW Bogdanka and its peers, giving each ratio a weight as shown in the following table.

### Relative Valuation Summary

| (PLN)                   | EV/EBITDA   |             |        | EV/SALES |             |        | P/E    |             |        |
|-------------------------|-------------|-------------|--------|----------|-------------|--------|--------|-------------|--------|
|                         | 2009        | 2010F       | 2011F  | 2009     | 2010F       | 2011F  | 2009   | 2010F       | 2011F  |
| Implied value per share | 97.3        | 83.1        | 82.0   | 72.5     | 62.4        | 59.2   | 94     | 73          | 61     |
| Year weight             | 33.33%      | 33.33%      | 33.33% | 33.33%   | 33.33%      | 33.33% | 33.33% | 33.33%      | 33.33% |
| Premium/discount        | 0%          | 0%          | 0%     | 0%       | 0%          | 0%     | 0%     | 0%          | 0%     |
| Multiple weight         |             | 45%         |        |          | 10%         |        |        | 45%         |        |
| <b>Value</b>            | <b>80.0</b> | <b>87.5</b> |        |          | <b>64.7</b> |        |        | <b>75.9</b> |        |

Source: BRE Bank Securities

### Peer Multiples

|                             | Price   | EV/EBITDA  |            |            | EV/S       |            |            | P/E         |             |            | EBITDA margin |              |              |
|-----------------------------|---------|------------|------------|------------|------------|------------|------------|-------------|-------------|------------|---------------|--------------|--------------|
|                             |         | 2009       | 2010F      | 2011F      | 2009       | 2010F      | 2011F      | 2009        | 2010F       | 2011F      | 2009          | 2010F        | 2011F        |
| ALPHA NATURAL RESOURCES INC | 37.1    | 4.7        | 2.8        | 2.1        | 1.0        | 0.7        | 0.6        | 19.8        | 7.3         | 4.6        | 17.1%         | 20.9%        | 23.9%        |
| ALLIANCE RESOURCE PARTNERS  | 54.1    | 6.2        | 4.0        | 3.7        | 1.6        | 1.2        | 1.1        | 15.2        | 8.2         | 7.9        | 25.2%         | 25.8%        | 30.7%        |
| PEABODY ENERGY CORP         | 42.8    | 11.0       | 7.6        | 5.9        | 2.4        | 2.0        | 1.8        | 25.5        | 13.8        | 9.4        | 27.7%         | 21.4%        | 26.5%        |
| CENTENNIAL COAL COMPANY     | 6.0     | 11.7       | 13.9       | 7.1        | 2.9        | 3.2        | 2.4        | 31.5        | 37.3        | 14.9       | 26.0%         | 24.8%        | 22.7%        |
| WHITEHAVEN COAL LTD         | 6.1     | 18.6       | 23.7       | 13.0       | 4.8        | 6.1        | 4.1        | 32.6        | 42.6        | 22.6       | 25.1%         | 25.8%        | 25.8%        |
| CONSOL ENERGY INC           | 32.2    | 5.3        | 4.4        | 3.2        | 1.5        | 1.3        | 1.1        | 10.9        | 10.9        | 6.9        | 22.9%         | 28.0%        | 28.9%        |
| ARCH COAL INC               | 22.5    | 9.2        | 5.9        | 4.1        | 1.6        | 1.4        | 1.2        | 49.0        | 18.1        | 7.9        | 25.4%         | 17.9%        | 23.1%        |
| SEMIRARA MINING CORP        | 127.0   | 13.6       | 8.2        | 6.4        | 2.6        | 1.8        | 1.4        | 25.6        | 15.1        | 9.7        | 27.3%         | 19.4%        | 21.5%        |
| BUMI RESOURCES TBK PT       | 0.2     | 3.7        | 3.2        | 2.4        | 1.3        | 1.0        | 0.8        | 9.6         | 11.2        | 7.5        | 36.3%         | 33.9%        | 32.3%        |
| TAMBANG BATUBARA BUKIT      | 17700.0 | 9.5        | 11.8       | 8.2        | 4.1        | 4.2        | 3.3        | 14.1        | 17.1        | 12.1       | 38.3%         | 43.3%        | 35.2%        |
| BANPU PUBLIC CO LTD         | 622.0   | 10.4       | 9.8        | 6.6        | 3.5        | 3.1        | 2.3        | 11.8        | 12.5        | 9.2        | 28.6%         | 33.4%        | 31.4%        |
| GUIZHOU PANJIANG REFINED    | 20.2    | 7.3        | 7.3        | 4.6        | 2.3        | 2.3        | 1.5        | 11.6        | 9.3         | 5.8        |               | 31.1%        | 30.8%        |
| SHANXI GUOYANG NEW          | 16.4    | 4.7        | 3.8        | 3.0        | 0.8        | 0.7        | 0.6        | 8.5         | 6.4         | 5.7        | 16.9%         | 17.6%        | 18.1%        |
| STRAITS ASIA RESOURCES      | 1.6     | 9.9        | 14.9       | 7.2        | 4.0        | 3.9        | 2.8        | 18.1        | 27.9        | 12.4       | 36.8%         | 39.9%        | 26.5%        |
| NEW WORLD RESOURCES         | 8.7     | 67.4       | 20.1       | 16.9       | 9.8        | 6.7        | 6.2        |             | 39.5        | 34.3       | 33.6%         | 14.6%        | 33.2%        |
| Maximum                     |         | 67.4       | 23.7       | 16.9       | 9.8        | 6.7        | 6.2        | 49.0        | 42.6        | 34.3       | 38.3%         | 43.3%        | 35.2%        |
| Minimum                     |         | 3.7        | 3.2        | 2.4        | 0.8        | 0.7        | 0.6        | 8.5         | 6.4         | 5.7        | 16.9%         | 14.6%        | 18.1%        |
| <b>Median</b>               |         | <b>9.5</b> | <b>7.6</b> | <b>5.9</b> | <b>2.4</b> | <b>2.0</b> | <b>1.5</b> | <b>16.7</b> | <b>13.8</b> | <b>9.2</b> | <b>26.7%</b>  | <b>25.8%</b> | <b>26.5%</b> |

Source: BRE Bank Securities based on Bloomberg data



**DCF Model**

| (PLN m)                                      | 2010F          | 2011F                           | 2012F          | 2013F          | 2014F          | 2015F          | 2016F          | 2017F          | 2018F          | TV             |
|--|----------------|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenues</b>                              | <b>1 191.8</b> | <b>1 492.2</b>                  | <b>1 952.9</b> | <b>2 016.7</b> | <b>2 499.0</b> | <b>2 524.7</b> | <b>2 550.8</b> | <b>2 564.7</b> | <b>2 578.6</b> |                |
| change                                       | -              | 25.2%                           | 30.9%          | 3.3%           | 23.9%          | 1.0%           | 1.0%           | 0.5%           | 0.5%           |                |
| <b>EBITDA</b>                                | <b>395.6</b>   | <b>554.7</b>                    | <b>746.2</b>   | <b>736.4</b>   | <b>911.2</b>   | <b>898.1</b>   | <b>879.5</b>   | <b>837.3</b>   | <b>792.9</b>   |                |
| EBITDA margin                                | 33.2%          | 37.2%                           | 38.2%          | 36.5%          | 36.5%          | 35.6%          | 34.5%          | 32.6%          | 30.8%          |                |
| Amortization and depreciation                | 149.5          | 235.0                           | 250.0          | 261.8          | 269.1          | 272.2          | 267.0          | 267.3          | 267.5          |                |
| <b>EBIT</b>                                  | <b>246.1</b>   | <b>319.7</b>                    | <b>496.2</b>   | <b>474.6</b>   | <b>642.1</b>   | <b>625.9</b>   | <b>612.6</b>   | <b>570.0</b>   | <b>525.4</b>   |                |
| EBIT margin                                  | 20.6%          | 21.4%                           | 25.4%          | 23.5%          | 25.7%          | 24.8%          | 24.0%          | 22.2%          | 20.4%          |                |
| EBIT tax                                     | 56.1           | 72.9                            | 113.1          | 108.2          | 146.4          | 142.7          | 139.7          | 130.0          | 119.8          |                |
| <b>NOPLAT</b>                                | <b>190.0</b>   | <b>246.8</b>                    | <b>383.1</b>   | <b>366.4</b>   | <b>495.7</b>   | <b>483.2</b>   | <b>472.9</b>   | <b>440.1</b>   | <b>405.6</b>   | <b>397.5</b>   |
| CAPEX  | -854.3         | -385.0                          | -368.0         | -335.0         | -300.0         | -220.0         | -270.0         | -270.0         | -270.0         | -267.5         |
| Working capital                              | -24.0          | 2.0                             | 3.8            | 12.8           | -16.0          | -5.1           | -6.0           | 1.3            | 2.4            | -6.0           |
| Other  | 0.0            | 0.0                             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>FCF</b>                                   | <b>-538.9</b>  | <b>98.8</b>                     | <b>268.8</b>   | <b>306.0</b>   | <b>448.8</b>   | <b>530.3</b>   | <b>463.8</b>   | <b>438.6</b>   | <b>405.6</b>   | <b>391.5</b>   |
| WACC   | 10.5%          | 10.7%                           | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          |
| discount factor                              | 90.5%          | 81.7%                           | 73.7%          | 66.5%          | 60.0%          | 54.2%          | 48.9%          | 44.1%          | 39.8%          | 35.9%          |
| <b>PV FCF</b>                                | <b>-487.7</b>  | <b>80.8</b>                     | <b>198.2</b>   | <b>203.6</b>   | <b>269.4</b>   | <b>287.2</b>   | <b>226.6</b>   | <b>193.3</b>   | <b>161.3</b>   | <b>1 098.0</b> |
| <b>WACC</b>                                  | <b>10.5%</b>   | <b>10.7%</b>                    | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   |
| Cost of debt                                 | 6.6%           | 6.6%                            | 6.6%           | 6.6%           | 6.6%           | 6.6%           | 6.6%           | 6.6%           | 6.6%           | 6.6%           |
| Risk-free rate                               | 5.6%           | 5.6%                            | 5.6%           | 5.6%           | 5.6%           | 5.6%           | 5.6%           | 5.6%           | 5.6%           | 5.6%           |
| Risk premium                                 | 1.0%           | 1.0%                            | 1.0%           | 1.0%           | 1.0%           | 1.0%           | 1.0%           | 1.0%           | 1.0%           | 1.0%           |
| Effective tax rate                           | 22.8%          | 22.8%                           | 22.8%          | 22.8%          | 22.8%          | 22.8%          | 22.8%          | 22.8%          | 22.8%          | 22.8%          |
| Net debt / EV                                | 5.8%           | 2.6%                            | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           | 0.0%           |
| Cost of equity                               | 10.8%          | 10.8%                           | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          |
| Risk premium                                 | 5.0%           | 5.0%                            | 5.0%           | 5.0%           | 5.0%           | 5.0%           | 5.0%           | 5.0%           | 5.0%           | 5.0%           |
| Beta   | 1.0            | 1.0                             | 1.0            | 1.0            | 1.0            | 1.0            | 1.0            | 1.0            | 1.0            | 1.0            |
| FCF growth after the forecast horizon        | -2.0%          | <b>Sensitivity Analysis</b>     |                |                |                |                |                |                |                |                |
| Terminal value                               | 3 059.6        | <b>FCF growth in perpetuity</b> |                |                |                |                |                |                |                |                |
| Present value of terminal value (PV TV)      | 1 098.0        |                                 |                |                | <b>-5.0%</b>   | <b>-4.0%</b>   | <b>-2.0%</b>   | <b>0.0%</b>    | <b>1.0%</b>    |                |
| Present value of FCF in the forecast horizon | 1 132.7        | WACC +1.0ppt                    | 69.5           | 71.1           | 74.8           | 79.8           | 83.1           |                |                |                |
| Equity value                                 | 2 230.7        | WACC +0.5ppt                    | 72.6           | 74.3           | 78.5           | 84.2           | 87.9           |                |                |                |
| Net debt                                     | -431.7         | WACC                            | 77.7           | 79.6           | <b>84.3</b>    | 90.8           | 95.0           |                |                |                |
| Other non-operating assets                   | 0.0            | WACC -0.5ppt                    | 79.5           | 81.6           | 86.9           | 94.3           | 99.2           |                |                |                |
| Minority interests                           | 0.0            | WACC -0.1ppt                    | 83.3           | 85.7           | 91.7           | 100.2          | 105.9          |                |                |                |
| Equity value                                 | 2 652.9        |                                 |                |                |                |                |                |                |                |                |
| Number of shares (millions)                  | 34.0           |                                 |                |                |                |                |                |                |                |                |
| <b>Equity value per share (PLN)</b>          | <b>78.0</b>    |                                 |                |                |                |                |                |                |                |                |
| Cost of equity                               | 8.1%           |                                 |                |                |                |                |                |                |                |                |
| <b>Target Price</b>                          | <b>84.3</b>    |                                 |                |                |                |                |                |                |                |                |
| EV/EBITDA for the target price               | 7.6            |                                 |                |                |                |                |                |                |                |                |
| P/E for the target price                     | 15.2           |                                 |                |                |                |                |                |                |                |                |
| TV to EV                                     | 49%            |                                 |                |                |                |                |                |                |                |                |

**Income Statement**

| (PLN m)                       | 2007         | 2008           | 2009           | 2010F          | 2011F          | 2012F          | 2013F          |
|-------------------------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenues</b>               | <b>862.5</b> | <b>1 033.3</b> | <b>1 118.4</b> | <b>1 191.8</b> | <b>1 492.2</b> | <b>1 952.9</b> | <b>2 016.7</b> |
| <i>change</i>                 | -            | 19.8%          | 8.2%           | 6.6%           | 25.2%          | 30.9%          | 3.3%           |
| <b>COGS</b>                   | <b>643.4</b> | <b>727.9</b>   | <b>760.9</b>   | <b>818.3</b>   | <b>1 024.0</b> | <b>1 267.0</b> | <b>1 346.3</b> |
| <b>EBIT</b>                   | <b>121.4</b> | <b>203.5</b>   | <b>226.7</b>   | <b>246.1</b>   | <b>319.7</b>   | <b>496.2</b>   | <b>474.6</b>   |
| <i>change</i>                 | -            | 67.7%          | 11.4%          | 8.5%           | 29.9%          | 55.2%          | -4.4%          |
| <i>EBIT margin</i>            | 14.1%        | 19.7%          | 20.3%          | 20.6%          | 21.4%          | 25.4%          | 23.5%          |
| Financial activity            | 0.8          | -1.6           | 11.1           | -1.6           | -6.4           | -0.9           | 3.7            |
| Extraordinary gains/losses    | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Other                         | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Pre-tax income</b>         | <b>122.1</b> | <b>201.9</b>   | <b>237.8</b>   | <b>244.5</b>   | <b>313.3</b>   | <b>495.3</b>   | <b>478.3</b>   |
| Tax                           | 27.8         | 46.1           | 47.0           | 55.7           | 71.4           | 112.9          | 109.1          |
| Minority interests            | -0.2         | 0.2            | 0.6            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Net income</b>             | <b>94.1</b>  | <b>156.0</b>   | <b>191.5</b>   | <b>188.7</b>   | <b>241.9</b>   | <b>382.3</b>   | <b>369.3</b>   |
| <i>change</i>                 | -            | 65.8%          | 22.7%          | -1.4%          | 28.2%          | 58.1%          | -3.4%          |
| <i>margin</i>                 | 10.9%        | 15.1%          | 17.1%          | 15.8%          | 16.2%          | 19.6%          | 18.3%          |
| Amortization and depreciation | 122.1        | 136.2          | 141.3          | 149.5          | 235.0          | 250.0          | 261.8          |
| <b>EBITDA</b>                 | <b>243.4</b> | <b>339.6</b>   | <b>368.0</b>   | <b>395.6</b>   | <b>554.7</b>   | <b>746.2</b>   | <b>736.4</b>   |
| <i>change</i>                 | 0.8%         | 39.5%          | 8.3%           | 7.5%           | 40.2%          | 34.5%          | -1.3%          |
| <i>EBITDA margin</i>          | 28.2%        | 32.9%          | 32.9%          | 33.2%          | 37.2%          | 38.2%          | 36.5%          |
| Shares at year-end (millions) | 23.0         | 23.0           | 34.0           | 34.0           | 34.0           | 34.0           | 34.0           |
| EPS                           | 4.1          | 6.8            | 5.6            | 5.5            | 7.1            | 11.2           | 10.9           |
| CEPS                          | 15.4         | 21.0           | 16.6           | 30.7           | 18.4           | 22.1           | 20.7           |
| ROAE                          | 10.1%        | 15.1%          | 13.5%          | 10.4%          | 12.0%          | 17.0%          | 14.9%          |
| ROAA                          | 7.0%         | 10.2%          | 9.3%           | 7.4%           | 8.9%           | 12.7%          | 11.2%          |

**Balance Sheet**

| (PLN m)                       | 2007           | 2008           | 2009           | 2010F          | 2011F          | 2012F          | 2013F          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>ASSETS</b>                 | <b>1 398.4</b> | <b>1 657.4</b> | <b>2 469.8</b> | <b>2 619.2</b> | <b>2 841.7</b> | <b>3 179.1</b> | <b>3 396.4</b> |
| <b>Fixed assets</b>           | <b>1 206.5</b> | <b>1 386.0</b> | <b>1 617.5</b> | <b>2 326.9</b> | <b>2 484.2</b> | <b>2 610.1</b> | <b>2 691.4</b> |
| Intangible assets             | 11.4           | 10.1           | 12.2           | 12.4           | 12.6           | 12.8           | 12.9           |
| Property, plant and equipment | 1 158.3        | 1 334.0        | 1 558.7        | 2 263.6        | 2 413.6        | 2 531.6        | 2 604.8        |
| Long-term receivables         | 0.5            | 0.9            | 0.4            | 0.3            | 0.4            | 0.5            | 0.6            |
| Long-term investments         | 0.1            | 0.0            | 0.1            | 0.0            | 0.0            | 0.0            | 0.0            |
| Cash and cash equivalents     | 36.3           | 41.1           | 46.2           | 50.6           | 57.7           | 65.2           | 73.0           |
| <b>Current assets</b>         | <b>191.9</b>   | <b>271.4</b>   | <b>852.3</b>   | <b>292.3</b>   | <b>357.5</b>   | <b>569.0</b>   | <b>705.1</b>   |
| Inventories                   | 41.8           | 35.1           | 50.4           | 49.8           | 62.3           | 77.1           | 81.9           |
| Short-term receivables        | 101.6          | 135.8          | 117.5          | 121.8          | 152.5          | 199.6          | 206.1          |
| Excess tax                    | 0.0            | 0.7            | 2.8            | 1.0            | 1.0            | 1.0            | 1.0            |
| Cash and cash equivalents     | 48.5           | 99.9           | 681.7          | 119.7          | 141.7          | 291.3          | 416.1          |

| (PLN m)                       | 2007           | 2008           | 2009           | 2010F          | 2011F          | 2012F          | 2013F          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>LIABILITIES</b>            | <b>1 398.4</b> | <b>1 657.4</b> | <b>2 469.8</b> | <b>2 619.2</b> | <b>2 841.7</b> | <b>3 179.1</b> | <b>3 396.4</b> |
| <b>Equity</b>                 | <b>955.9</b>   | <b>1 106.3</b> | <b>1 730.0</b> | <b>1 899.5</b> | <b>2 122.5</b> | <b>2 384.0</b> | <b>2 562.0</b> |
| Capital stock                 | 246.2          | 246.2          | 301.2          | 301.2          | 301.2          | 301.2          | 301.2          |
| Capital reserve               | 325.5          | 400.0          | 890.5          | 890.5          | 890.5          | 890.5          | 890.5          |
| Other capital                 | 384.2          | 460.1          | 538.3          | 707.9          | 930.9          | 1 192.3        | 1 370.4        |
| <b>Minority interests</b>     | <b>9.7</b>     | <b>9.5</b>     | <b>8.9</b>     | <b>9.5</b>     | <b>9.5</b>     | <b>9.5</b>     | <b>9.5</b>     |
| <b>Long-term liabilities</b>  | <b>231.1</b>   | <b>222.9</b>   | <b>477.8</b>   | <b>468.1</b>   | <b>458.9</b>   | <b>503.0</b>   | <b>522.0</b>   |
| Debt                          | 30.0           | 0.0            | 250.0          | 250.0          | 200.0          | 200.0          | 200.0          |
| Other                         | 201.1          | 222.9          | 227.8          | 218.1          | 258.9          | 303.0          | 322.0          |
| <b>Short-term liabilities</b> | <b>201.7</b>   | <b>318.8</b>   | <b>253.1</b>   | <b>242.0</b>   | <b>250.7</b>   | <b>282.6</b>   | <b>302.9</b>   |
| Debt                          | 20.0           | 100.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Other                         | 181.7          | 218.8          | 253.1          | 242.0          | 250.7          | 282.6          | 302.9          |

|                     |      |       |        |       |       |       |        |
|---------------------|------|-------|--------|-------|-------|-------|--------|
| Debt                | 50.0 | 100.0 | 250.0  | 250.0 | 200.0 | 200.0 | 200.0  |
| Net debt            | 1.5  | 0.1   | -431.7 | 130.3 | 58.3  | -91.3 | -216.1 |
| (Net debt / Equity) | 0.2% | 0.0%  | -25.0% | 6.9%  | 2.7%  | -3.8% | -8.4%  |
| (Net debt / EBITDA) | 0.0  | 0.0   | -1.2   | 0.3   | 0.1   | -0.1  | -0.3   |

|      |      |      |      |      |      |      |      |
|------|------|------|------|------|------|------|------|
| BVPS | 41.5 | 48.1 | 50.9 | 55.8 | 62.4 | 70.1 | 75.3 |
|------|------|------|------|------|------|------|------|

**Cash Flows**

| (PLN m)                                     | 2007          | 2008          | 2009          | 2010F         | 2011F         | 2012F         | 2013F         |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Operating cash flows</b>                 | <b>214.6</b>  | <b>333.1</b>  | <b>367.5</b>  | <b>314.2</b>  | <b>478.9</b>  | <b>636.1</b>  | <b>643.8</b>  |
| Net income                                  | 94.1          | 156.0         | 191.5         | 188.7         | 241.9         | 382.3         | 369.3         |
| Amortization and depreciation               | 122.1         | 136.2         | 141.3         | 149.5         | 235.0         | 250.0         | 261.8         |
| Working capital                             | -1.6          | 40.9          | 34.8          | -24.0         | 2.0           | 3.8           | 12.8          |
| <b>Cash flows from investing activities</b> | <b>-260.8</b> | <b>-327.9</b> | <b>-373.5</b> | <b>-854.3</b> | <b>-385.0</b> | <b>-368.0</b> | <b>-335.0</b> |
| CAPEX                                       | -260.8        | -327.9        | -373.5        | -854.3        | -385.0        | -368.0        | -335.0        |
| <b>Cash flows from financing activities</b> | <b>3.5</b>    | <b>46.2</b>   | <b>587.7</b>  | <b>-21.7</b>  | <b>-71.9</b>  | <b>-118.5</b> | <b>-184.1</b> |
| Debt  | 50.0          | 50.0          | 150.0         | 0.0           | -50.0         | 0.0           | 0.0           |
| Dividends/buy-back                          | -50.0         | -5.6          | -88.8         | -19.1         | -18.9         | -120.9        | -191.2        |
| Other                                       | 3.6           | 1.9           | 526.6         | -2.6          | -3.0          | 2.5           | 7.1           |
| <b>Change in cash</b>                       | <b>-42.6</b>  | <b>51.4</b>   | <b>581.8</b>  | <b>-561.8</b> | <b>22.0</b>   | <b>149.6</b>  | <b>124.8</b>  |
| Cash at period-end                          | 48.1          | 99.9          | 681.7         | 119.8         | 141.7         | 291.3         | 416.1         |
| DPS (PLN)                                   | 2.2           | 0.2           | 2.6           | 0.6           | 0.6           | 3.6           | 5.6           |
| FCF   | -46.6         | 6.2           | -15.5         | -538.9        | 98.8          | 268.8         | 306.0         |
| (CAPEX / Sales)                             | 30.2%         | 31.7%         | 33.4%         | 71.7%         | 25.8%         | 18.8%         | 16.6%         |

**Market multiples**

|  | 2007        | 2008    | 2009    | 2010F   | 2011F   | 2012F   | 2013F   |
|--|-------------|---------|---------|---------|---------|---------|---------|
| P/E  | 20.5        | 12.3    | 14.9    | 15.1    | 11.8    | 7.4     | 7.7     |
| P/CE   | 5.4         | 4.0     | 5.0     | 2.7     | 4.5     | 3.8     | 4.0     |
| P/BV   | 2.0         | 1.7     | 1.6     | 1.5     | 1.3     | 1.2     | 1.1     |
| P/S  | 2.2         | 1.9     | 2.5     | 2.4     | 1.9     | 1.5     | 1.4     |
| FCF/EV   | -2.4%       | 0.3%    | -0.6%   | -18.0%  | 3.4%    | 9.7%    | 11.6%   |
| EV/EBITDA  | 8.0         | 5.7     | 6.6     | 7.6     | 5.3     | 3.7     | 3.6     |
| EV/EBIT  | 16.0        | 9.5     | 10.7    | 12.1    | 9.1     | 5.6     | 5.6     |
| EV/S   | 2.2         | 1.9     | 2.2     | 2.5     | 2.0     | 1.4     | 1.3     |
| DYield   | 2.6%        | 0.3%    | 3.1%    | 0.7%    | 0.7%    | 4.2%    | 6.7%    |
| <b>Price (PLN)</b>                                   | <b>83.7</b> |         |         |         |         |         |         |
| Shares at year-end (millions)                        | 23.0        | 23.0    | 34.0    | 34.0    | 34.0    | 34.0    | 34.0    |
| MC (PLN m)   | 1926.2      | 1926.2  | 2846.9  | 2846.9  | 2846.9  | 2846.9  | 2846.9  |
| Equity attributable to minority shareholders (PLN m) | 9.7         | 9.5     | 8.9     | 9.5     | 9.5     | 9.5     | 9.5     |
| EV (PLN m)   | 1 937.4     | 1 935.8 | 2 424.2 | 2 986.6 | 2 914.7 | 2 765.0 | 2 640.2 |

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**List of abbreviations and ratios contained in the report:**

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

**Recommendations of BRE Bank Securities**

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

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

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**Previous ratings issued for LW Bogdanka**

| Rating              | Buy        | Hold       | Buy        | Buy        | Hold       |
|---------------------|------------|------------|------------|------------|------------|
| Rating date         | 2009-12-15 | 2010-02-03 | 2010-05-06 | 2010-05-19 | 2010-08-04 |
| Price on rating day | 70.00      | 77.00      | 70.90      | 72.45      | 79.15      |
| WIG on rating day   | 39769.97   | 39904.02   | 41287.90   | 41562.65   | 43412.75   |