



CONSTRUCTION

Poland

ESPIRITO SANTO Research

17 June 2008

CONSTRUCTION – A BOOMING SECTOR

Statistical data leaves no doubt: construction is one of the fastest growing sectors of the Polish economy, with construction sales in Jan – Apr up 25.7% y-o-y. The main drivers for this boom are 1) a surge in investments (both FDI and domestic expenditures) and 2) UE financed projects. We believe that this good environment for construction industry should remain intact for the next couple of years, as we expect significant acceleration of EU funds flow (€ 67bn in 2007-13E vs. € 12.7bn in 2004-06), out of which a significant portion should impact directly the construction segment (mostly infrastructure and environmental protection). Moreover, we expect big investments in power, chemical, oil & gas segments that should benefit specialized contractors. Housing segment (although exposed to short term fluctuations) is also forecasted to do well in the future. Consequently we expect construction market to grow at 13.8% CAGR in 2007-13E, well above the average economic growth.

INVESTMENT DILEMMA – PROSPECTS VS. VALUATION

While we can't complain about industry's prospects, company's valuations look rather demanding – 2008E median P/E of 19.3 (for 5 covered stocks), clearly above Western European median of 10.4. However, if we factor-in the estimated EPS growth for the sector (CAGR 27.6% for 2008E-10E) we tend to believe that recent correction has already driven some construction stock prices into attractive territory.

TOP PICKS – IT IS ALL ABOUT PRICING

We initiate coverage of 5 construction companies and in every particular case we are estimating significant earnings growth for the next 3 years. Therefore our stock picking is to a large extent based on relative valuation attractiveness. At current prices level our favourite construction stocks are: Elektrobudowa, Erbud and Polimex (all rated BUY). On the other hand we initiate with a SELL rating on Budimex and PBG

Budimex

SELL – High Risk

Price Target (Jun. 09)	PLN 76
Price (16 Jun. 08)	PLN 80
Potential	-5%

Elektrobudowa

BUY - Medium/Low Risk

Price Target (Jun. 09)	PLN 242
Price (16 Jun. 08)	PLN 199
Potential	22%

Erbud

BUY – Medium/Low Risk

Price Target (Jun. 09)	PLN 93
Price (16 Jun. 08)	PLN 76.5
Potential	22%

PBG

SELL – Medium/Low Risk

Price Target (Jun. 09)	PLN 252
Price (16 Jun. 08)	PLN 271.3
Potential	-7%

Polimex

BUY– Medium/Low Risk

Price Target (Jun. 09)	PLN 8.5
Price (16 Jun. 08)	PLN 5.8
Potential	47%

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	Market Cap		P/E			EPS Growth			EV/EBITDA	
	Price (PLN)	(EUR m)	2008E	2009E	2010E	2008E-10E	2008E	2009E	2010E	
Budimex	80	603	30.5	19.9	15.3	41.2%	17.2	11.7	9.4	
Elektrobudowa	199	279	18.1	16.3	12.1	22.2%	14.5	12.1	8.9	
Erbud	76.5	284	18.2	14.9	12.6	20.1%	13.4	10.9	8.7	
PBG	271.3	1075	24.8	18.2	15.0	28.7%	18.2	12.4	10.5	
Polimex	5.8	795	19.3	15.0	11.8	27.6%	11.4	9.1	7.4	

Source: Espirito Santo Research Poland, Prices as of June 16, 2008

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INVESTMENT SUMMARY

We believe that the Polish construction companies are well positioned to take advantage of the current market boom. Construction has been growing at double digit since the beginning of the year and nothing suggests us this situation could reverse soon (construction sales in Jan – Apr were up 25.7% y-o-y). We are estimating 2007-2013E CAGR for the construction market of 13.8%, which is only slightly below the 15.5% reported in the 2004-07 period (helped by a low base effect).

The drivers will continue to work – We are optimistic about the construction market growth as we see major drivers to strengthen its positive impact. EU funds have, in fact, just started to flow, and should have much bigger impact than they had in the recent past (€ 67bn in 2007-13E vs. € 12.7bn in 2004-06). Structural investments in crucial areas of economy as power sector, oil & gas are also still ahead of us. The Housing segment may suffer from oversupply (speculation driven) in the next 12 months, but on the long run there is significant potential demand to support sector growth. Another relevant driver is EURO 2012 which will take place in Poland/Ukraine. We believe that EURO 2012 should not only trigger some additional investments but also, more importantly, would put additional pressure to accelerate big infrastructure projects.

There are risks but should be overcome – The major risks we see for the industry are: 1) lack of skilled workforce (wage pressure), 2) ability to manage large-scale projects, 3) currency risk and 4) capacity to utilize EU funds flow (administrative barriers). We believe that Polish companies should be able to deal with company specific risks as wage pressure (it should be possible to include wage inflation in construction prices) or currency risk (most of them have already gained enough experience in the past). Regarding the ability to manage large scale projects, Polish companies will probably seek to establish partnerships with foreign companies, in order to gain enough experience/references. The most unpredictable factor is administrative barriers/bureaucracy, which might hamper the speed of some projects. Our assessment is that the current government is more business friendly than the previous one, having promised several initiatives to simplify administrative procedures. It is too soon, however, to say if those measures will be implemented and will bring the expected results.

Earnings growth should continue - The median EPS CAGR growth for 2008E-2010E we are estimating for our coverage universe is 27.4%, ranging between 20% and 41%. In our opinion, results should grow driven mainly by volume and in some cases also by margin expansion. In a market with strong and growing demand for construction services, the pricing power of construction companies increases significantly, which should more than compensate the pressure on the costs side. 1Q08 results confirmed our view in this regard – aggregated results of the 18 listed construction stocks were very promising, with Revenues, EBIT and Net profit growing y-o-y by 32%, 115% and 63% respectively.

Growth sometimes justifies high valuation – Valuation of Polish construction sector remains the major concern as it is well above Western European “standards” – Polish stocks trade usually at very high premiums based on 2008E-10E. However, at the same time Polish construction stock should (according to our estimates) experience much higher EPS growth in the next couple of years, which will bring the current premium to much lower levels in the following years. If we look at 2008E-10E PEG ratio (which we find much more applicable than simple P/E ratio, taking in consideration the early stage of development of the Polish Construction sector) we conclude that Polish contractors

Construction market should continue to boom

Main drivers will be: EU funds, EURO 2012 championship, demand for residential and industrial investments

Major risk is bureaucracy

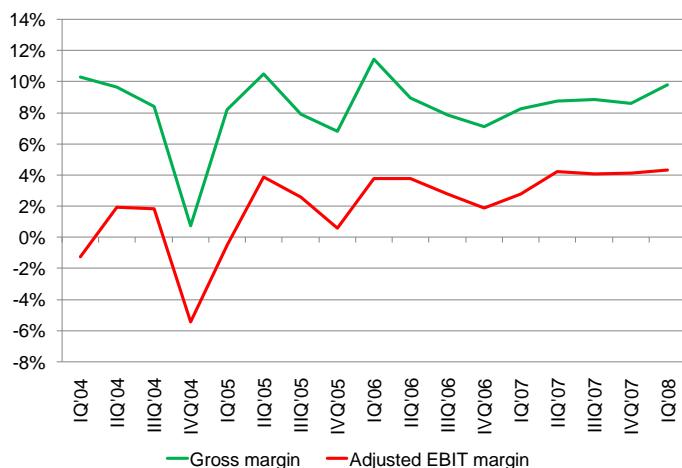
We forecast 2008E-10E CAGR EPS in our coverage universe at between 21% and 41%

We believe that in some cases reach valuation could be explained by growth factor

trade with discount vs. its Western European peers.

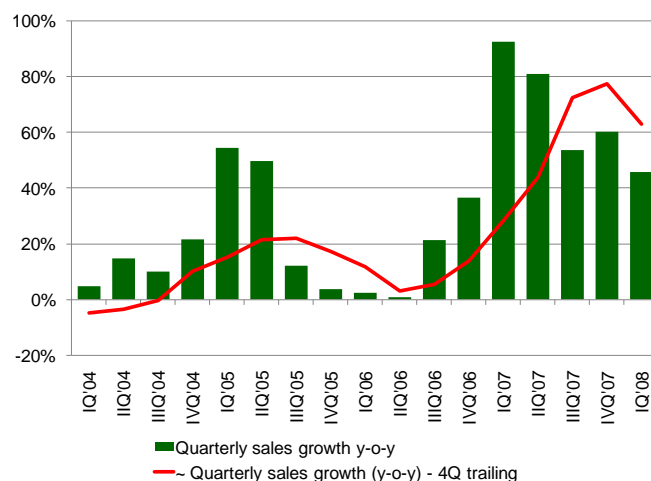
DCF model is the most applicable - We believe that this fast growth will not end in 2010E, which should make Polish contractors to trade at premium to Western peers going forward. Therefore we believe that the best way to properly evaluate the value of Polish construction business is DCF, since it enables to catch the long term growth potential of the industry. As supporting tools we use peer comparison as well as valuation with PEG ratio.

Development of margins of top 18 listed construction companies, 1Q04-1Q08



Source: Company data & Espirito Santo Research Poland

Quarterly growth of sales of top 18 listed construction companies, 1Q04-1Q08



Source: Company data & Espirito Santo Research Poland

VALUATION & RECOMMENDATION SUMMARY

In the table below we present short summary of construction stocks under coverage with valuation outcomes (using different valuation methods), main business areas, opportunities and risks. We also make some comments regarding our valuation and recommendation for each company. A thorough analysis on the industry and market perspectives per segment, as well as a detailed report on each company is provided later on the report.

We focus on DCF valuation that captures long-term growth potential but...

We have set target prices for companies under coverage based on long-term DCF models. We believe that this is the best way to capture long-term above average growth potential that Polish construction companies should continue to post. In this table we present only final results, however in the specific company sections we provide detailed DCF models with its major assumptions and sensitivity analysis.

To cross check our DCF valuation results, we applied two different multiple valuation methods. We reached different valuation ranges using: 1) median ratios for the domestic companies under our coverage (based on 2009 P/E and EV/EBITDA ratios), 2) median 2008E-10E PEG ratio for Western European stocks (we believe PEG is the most reasonable ratio to compare Polish and Western construction stocks – due its very different growth prospects).

...we present also peer group analysis

Company name:	Budimex	Elektrobudowa	Erbud	PBG	Polimex Mostostal
Bloomberg ticker:	BDX PW	ELB PW	ERB PW	PBG PW	PXM PW
Mkt.Capitalisation (€ m)	603	279	284	1 075	795
Recommendation	Sell - High Risk	Buy - Medium / Low Risk	BUY - Medium / Low Risk	Sell - Medium / Low Risk	Buy - Medium / Low Risk
Target price (Jun 09)	PLN 76	PLN 242	PLN 93	PLN 252	PLN 8.5
Upside Potential	-5%	22%	22%	-7%	47%
DCF valuation outcome (Jun 09)	PLN 76	PLN 242	PLN 93	PLN 252	PLN 8.5
Multiple valuation range: (current prices)					
- with no discount on 2009 P/E - 2009 EV/EBITDA vs. median domestic peer group	PLN 66 - 80	PLN 199 - 193	PLN 84 - 84	PLN 243 - 254	PLN 6.3 - 7.8
- at no discount to 2008E-10E PEG vs. median Western peer group	PLN 121	PLN 273	PLN 95	PLN 351	PLN 9.3
Main business areas	Infrastructure construction with focus on roads Developing activity	Power infrastructure construction Specialized energy related construction for industry	General construction (specializes in shells of buildings) Roads and developing activity commenced	Construction for gas, oil and fuels industries Waterworks Roads and developing activity commenced	Construction for chemical and power industry Production of steel elements Roads and Railroads activity commenced
Main growth drivers / Opportunities	Huge road construction program Interesting high margin housing projects	Power infrastructure investments Privatization of the power plant sector First contract on nuclear power plant	Diversification of revenues Entering local road markets	Expected big investments in oil & gas sectors Difersification into other market segments	Planned increase of production capacity Expected big investments in oil & chemical sectors Exposure to railway construction market
Risks	Timing and magnitude of expected recovery The Company has very weak track record	Timing of start of investments in Polish power sector	Weak diversification Potential slowdown in growth pace	Huge working capital needs (capital increase may be needed)	Performance of road construction division Market capacity in steel structures division

Source: Espirito Santo Research Poland

Valuation, Recommendation & Risks - Comments

Budimex – too expensive recovery

Even though we are estimating asignificant earnings growth for 2008E-10E we have a SELL – High Risk recommendation on Budimex . The stock is too expensive in our view and despite the fact its earnings growth 2008E-10E should be above sector average, it is still trading at premium to the sector based on 2009E - 2010E P/E ratios.

Budimex - High growth but starting from low base

Key issues/risks:

- Low base effect might be misleading – the company might look surprisingly cheap based on growth ratios (PEG) due to the fact it is growing from very low numbers. However, we should not apply similar growth pace going forward as in fact Budimex should grow below industry average (faster profits growth results from simple differences as no impact of loss making contracts rather than faster development of the business).
- 2008E-10E figures are supported by extra profitable housing business. In our long-term forecasts this business still adds to Budimex valuation but its profitability should be lower (since current projects are being developed on cheap land, which should not be the case in the future).
- Poor track record in the past seven years. While we believe that the risk of signing loss making contracts is signinfcanly lower now – it is also very hard to predict what kind of profitability Budimex will actually be able to show. This of course also might work the other way around, and than the upside risk would exist in case the profitability improves faster than we are predicting in our estimates.
- Short – term fluctuation in housing market might have negative implications on the recognition of highly profitable apartmnents sales. Please note however that Budimex (unlike many other developers) purchased most of its land at reasonable prices and should not have liquidity problems, which in our view limits this risk to the “delay option”.

Elektrobudowa – small but efficient, cheap and with promising growth potential

We have a BUY – Medium/Low Risk on Elektrobudowa, one of the most efficient companies in the sector. Although our EPS CAGR forecast is below industry average, the stock still trades at discount vs. its peers on 2008E-10E results. Moreover, the company should show higher than average growth when finally planned investments in power industry kick-off.

Elektrobudowa – effectiveness + attractive valuation

Key issues/risks:

- The growth rate should remain relatively solid even beyond the forecast period if the expected investments in power industry actually start (we believe this is an upside risk to our terminal period 0% real growth rate we assumed in our model). However potential further delays in this process should be considered as downside risk.
- The company is extremely effective managing costs, which together with the limited competition on the domestic market should impact positively the profitability. On the other hand, as we already assumed significant growth in the company's proftiability in our estimates, if this impact happens later or/and is lower than we actually expect it might constitute a downside risk to our estimates.

Erbud – Cheaper and safer (less complex) than industry

The company has been growing very fast for the last couple of years, which to some extent limits its ability to maintain the pace. However, the stock is cheaper than the median of its peer group. It is also relatively safe as it has very low debt burden and low working capital needs. We have a BUY – Medium/Low Risk recommendation on Erbud.

Erbud – Cheaper than industry peers

Key issues/risks:

- The company acquired a regional housing developer, which increases profitability but also exposes the company's results to some risk related to fluctuations of local housing market. However, as the acquisition price looked very attractive to us we believe this is a limited risk.
- The company has been growing so fast recently that this might lead to a relatively fast slowdown in the growth pace. If this slowdown is faster than we actually forecast it may constitute a risk to our valuation.
- Acquisitions of road construction business constitute both upside and downside risk. This activity is fairly new to the company and in spite of the fact we find it a good move, it also increases the execution risk.

PBG – very strong business prospects but trading at very demanding price

We recommend to SELL – Medium/Low Risk PBG shares mostly because of its very demanding valuation (trades significantly above sector average), which in our view already more than anticipates the estimated earnings growth.

PBG – Strong prospects but demanding share price

Key issues/risks:

- The company is fastly expanding to other than “historical” activities, as road construction, housing development and other, which may result in margin deterioration.
- PBG competes currently in few very big tenders (Metro, Underground Gas Storages, Oil&Gas Mine and other) – if it wins/(doesn't win) more contracts than we have in our forecast it may constitute upside/(downside) risk to our estimates
- We can not rule out future shares issues, if the expansion of the business continues at this pace, taking in consideration the high “working capital appetite” of the company.

Polimex – Capacity expansion supports valuation

We rate Polimex shares with a BUY – Medium/Low Risk. The company trades with slight discount to the industry on P/E basis and with discount on EV/EBITDA. What makes it more attractive is the company's plans to double its capacity that should impact results beyond 2011E and therefore is included only in our DCF valuation.

Polimex – DCF valuation captures capacity expansion plan

Key issues/risks:

- Capacity expansion looks very attractive (highly profitable), but even though sector reports estimates growth in the demand for steel structures, it is not clear yet how and if the company will be able to allocate the additional supply when the investment is completed (2011E/2012E)
- Polimex has recently entered road construction business, which proved to be less profitable last year. We are expecting an improvement in the profitability, which if not materialised would constitute downside risk to our forecasts.

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Multiple valuation analysis

In this section we provide a detailed multiple valuation analysis for our sector's coverage. In the following tables we present ratios for Polish and Western European stocks, Premium/(Discount) analysis and finally the implied valuation of the companies in our coverage universe using specific assumptions.

Polish Construction Stocks – Peer Group Multiples, Prices as of June 16, 2008

				P/E				EV/EBITDA			EV/SALES			
		Market Cap				EPS Growth		PEG						
		Last Price	(EUR m)	2008E	2009E	2010E	2008E-10E	2008E-10E	2008E	2009E	2010E	2008E	2009E	2010E
PLN	Budimex	PLN 80	603	30.5	19.9	15.3	41.2%	0.74	17.2	11.7	9.4	0.57	0.52	0.46
PLN	Elektrobudowa	PLN 199	279	18.1	16.3	12.1	22.2%	0.82	14.5	12.1	8.9	1.06	0.93	0.74
PLN	Erbud	PLN 76.5	284	18.2	14.9	12.6	20.1%	0.91	13.4	10.9	8.7	0.98	0.79	0.64
PLN	PBG	PLN 271.3	1075	24.8	18.2	15.0	28.7%	0.87	18.2	12.4	10.5	2.00	1.36	1.02
PLN	Polimex	PLN 5.8	795	19.3	15.0	11.8	27.6%	0.70	11.4	9.1	7.4	0.73	0.63	0.55
Median				19.3	16.3	12.6	27.6%	0.82	14.5	11.7	8.9	0.98	0.79	0.64

Source: Espirito Santo Research Poland

Western European Construction Stocks – Peer Group Multiples, Prices as of June 16, 2008

Western European Construction Stocks - Peer Group multiples, Prices as of June 16, 2009														
				P/E			EV/EBITDA			EV/SALES				
		Market Cap		EPS Growth			PEG							
	Company	Last Price	(EUR m)	2008E	2009E	2010E	2008E-10E	2008E-10E	2008E	2009E	2010E	2008E	2009E	2010E
GBp	Balfour Beatty	GBp 451	2 691.85	12.0	11.2	10.7	5.7%	2.11	7.9	7.3	6.4	0.25	0.23	0.22
EUR	Bauer AG	EUR 67.52	1 150.86	12.1	10.3	9.3	13.9%	0.87	4.4	4.0	3.7	0.77	0.71	0.62
EUR	FCC	EUR 40.26	5 183.53	10.4	10.0	9.7	3.7%	2.83	7.6	7.3	7.2	1.10	1.07	1.03
EUR	Heijmans NV	EUR 17.75	429.21	7.2	6.0	5.3	16.0%	0.45	7.3	6.6	6.3	0.27	0.27	0.26
EUR	Hochtief	EUR 69.1	4 762.10	30.6	25.7	16.3	36.9%	0.83	8.5	7.8	7.0	0.30	0.29	0.28
GBp	Kier Group PLC	GBp 1054	488.77	7.0	6.9	5.6	12.6%	0.56	4.0	4.4	3.9	0.17	0.17	0.16
GBp	PLC	GBp 774.5	400.72	7.3	6.7	6.7	3.8%	1.90	3.1	2.9	2.8	0.09	0.09	0.09
EUR	OHL	EUR25.15	2 187.30	12.5	11.3	10.1	11.2%	1.12	7.6	6.6	6.0	1.14	1.04	1.03
EUR	Sacyr Vallehermoso SA	EUR 21.5	5 923.28	8.3	8.4	8.3	0.2%	39.13	21.3	20.4	19.5	4.66	4.51	4.35
SEK	Skanska	SEK 94.75	4 287.20	9.5	9.7	9.7	-1.0%	-9.43	6.2	6.4	6.1	0.28	0.27	0.27
EUR	Strabag	EUR 48.87	5 459.46	21.8	17.6	16.3	15.8%	1.38	6.3	5.3	5.1	0.40	0.35	0.32
Median				10.4	10.0	9.7	11.2%	1.12	7.3	6.6	6.1	0.30	0.29	0.28

Source: Bloomberg Data and Espirito Santo Research Poland

Not surprisingly Polish construction companies trade at high premium to its Western peers, with exception of the PEG ratio. In this case, the significantly higher estimated growth puts Polish companies in a favourable position (despite higher P/E). We believe that the most useful information from the table below is the comparison of Polish stocks vs. domestic peer group, which helps to choose relatively cheap investment ideas.

Polish Construction Stocks – Peer Group Comparison – Premium/(Discount) analysis, Prices as of June 16, 2008

	P/E					EV/EBITDA			EV/SALES		
	EPS Growth					PEG					
	2008E	2009E	2010E	2008E-10E	2008E-10E	2008E	2009E	2010E	2008E	2009E	2010E
Budimex - premium/(discount) to											
- Median Domestic Peers	58%	22%	21%	49%	-9%	19%	0%	5%	-42%	-34%	-29%
- Median Western European Peers	192%	99%	58%	269%	-34%	137%	78%	54%	91%	79%	63%
Elektrobudowa - premium/(discount) to											
- Median Domestic Peers	-6%	0%	-4%	-20%	0%	0%	3%	0%	9%	19%	15%
- Median Western European Peers	74%	63%	25%	99%	-27%	99%	84%	47%	256%	223%	162%
Erbud - premium/(discount) to											
- Median Domestic Peers	-5%	-9%	0%	-27%	11%	-8%	-7%	-2%	0%	0%	0%
- Median Western European Peers	74%	48%	30%	80%	-19%	84%	66%	43%	227%	172%	128%
PBG - premium/(discount) to											
- Median Domestic Peers	29%	11%	19%	4%	6%	26%	6%	17%	104%	73%	58%
- Median Western European Peers	137%	81%	54%	157%	-23%	150%	89%	72%	569%	371%	260%
Polimex - premium/(discount) to											
- Median Domestic Peers	0%	-8%	-6%	0%	-15%	-22%	-22%	-18%	-26%	-20%	-15%
- Median Western European Peers	84%	50%	22%	147%	-38%	56%	39%	21%	143%	118%	93%

Source: Company reports and Espirito Santo Research Poland

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Below we present the implied valuation of the Polish construction companies under our coverage in two basic scenarios: 1) at the median multiple of domestic peer group and 2) at 30% premium to median multiple of Western peer group (we put Polish companies at premium as we expect that their profits should be growing faster not only in next 2-3 years but also in a longer perspective (4-7 years)).

Please note that in multiple valuation method we derive implied share price for the stock as of today (or more exactly as of pricing day), while in case of DCF method we get 12 month target price. In order to derive 12 month target price based on our multiple analysis you should multiple implied share price by WACC for particular company.

Polish Construction Stocks – Peer Group Comparison – Implied share price calculation, Prices as of June 16, 2008

	P/E			EV/EBITDA			EV/SALES		
	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
Budimex - implied share price									
- at no discount to domestic peers	51	66	66	68	80	77	131	117	109
- at 30% premium to Western European peers	36	52	66	48	60	69	57	60	66
Elektrobudowa - implied share price									
- at no discount to domestic peers	211	199	207	199	193	199	184	169	175
- at 30% premium to Western European peers	149	159	207	134	143	178	79	85	105
Erbud - implied share price									
- at no discount to domestic peers	81	84	77	83	84	78	76	77	76
- at 30% premium to Western European peers	57	67	76	55	61	70	32	39	46
PBG - implied share price									
- at no discount to domestic peers	211	243	229	208	254	226	115	142	159
- at 30% premium to Western European peers	149	195	228	124	175	196	24	49	75
Polimex - implied share price									
- at no discount to domestic peers	5.8	6.3	6.2	7.7	7.8	7.2	8.2	7.5	7.0
- at 30% premium to Western European peers	4.1	5.0	6.2	4.6	5.4	6.2	2.6	3.0	3.5

Source: Company reports and Espirito Santo Research Poland

We have also used the median PEG ratio from our Western peer group to evaluate the Polish construction companies. Similarly to other multiple valuation methods, we obtain a potential share price as of today (pricing day).

We treat PEG comparison only as supportive tool as it could provide very misleading results in the case of companies growing fast from low levels (see Budimex example- very low PEG), while in fact it could be very difficult to maintain a similar growth pace when low base effect stops working.

Polish Construction Stocks – Peer Group Comparison – Implied share price calculation, Prices as of June 16, 2008

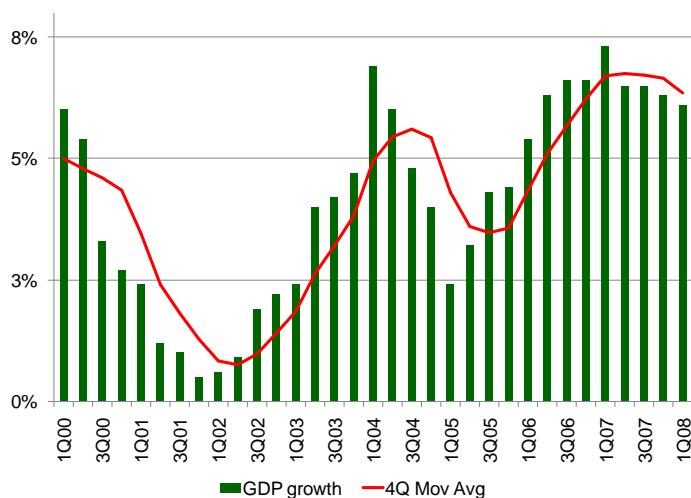
	At no discount on PEG ratio to Western European peers			
	European peers		At 1.0 PEG	
	Implied 2008E P/E	Implied Share Price	Implied 2008E P/E	Implied Share Price
Budimex	46	121	41	108
Elektrobudowa	25	273	22	244
Erbud	23	95	20	84
PBG	32	351	29	313
Polimex	31	9.3	28	8.3

Source: Company reports and Espirito Santo Research Poland

CONSTRUCTION MARKET - GAINING MOMENTUM

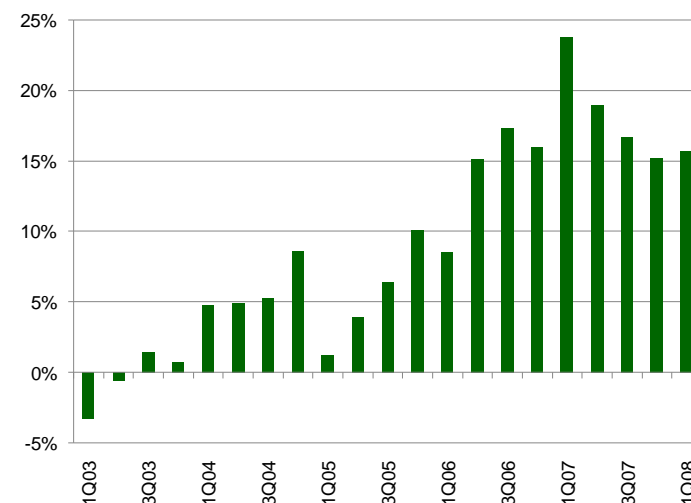
The Polish economy was one of the most dynamic economies of the EU-27, growing above 6% in the last 2 consecutive years. The main drivers for this performance were consumption and investment. The huge investment growth is directly benefiting the construction industry, which is among those who are taking the most of the EU adhesion, namely from the EU funds being applied in transport infrastructures and environmental related projects. This strong growth dynamic in the construction sector had a spill-over effect on other sectors and this led to an increase in the internal demand, which boosted other construction segments in turn.

Poland – Quarterly GDP growth, 1Q00 – 1Q08



Source: Central Statistical Office

Poland – Quarterly Investments growth, 1Q03 – 1Q08

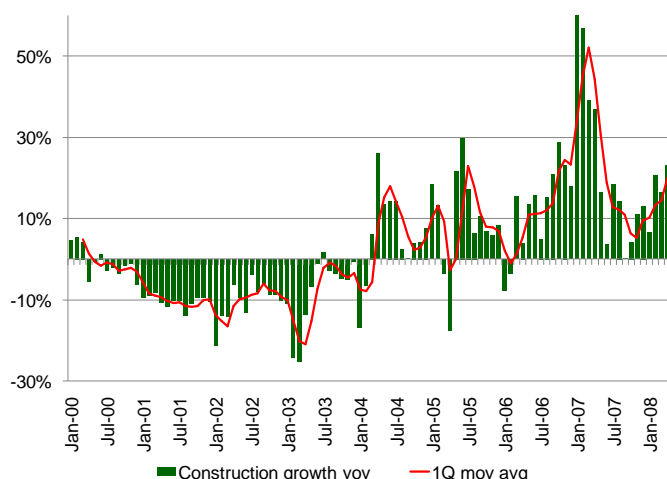


Source: Central Statistical Office

This friendly environment stimulated construction market, which reached its bottom in 2002-2004 but is recovering ever since and is expected to recover in 2008 the weight on total GDP it had in 2000. Construction annual CAGR of 15.5% in the last 3 years was high enough to recapture its position and perspectives for the forthcoming years are similarly positive. We expect that this segment should be able to grow faster than whole economy and consequently its weight on the GDP should increase in the years to come.

Recovery in construction market is about to turn one of economy's driving force

Poland – Y-o-Y Construction Sales Growth, Monthly Data, Jan 00- Apr 08



Source: Central Statistical Office

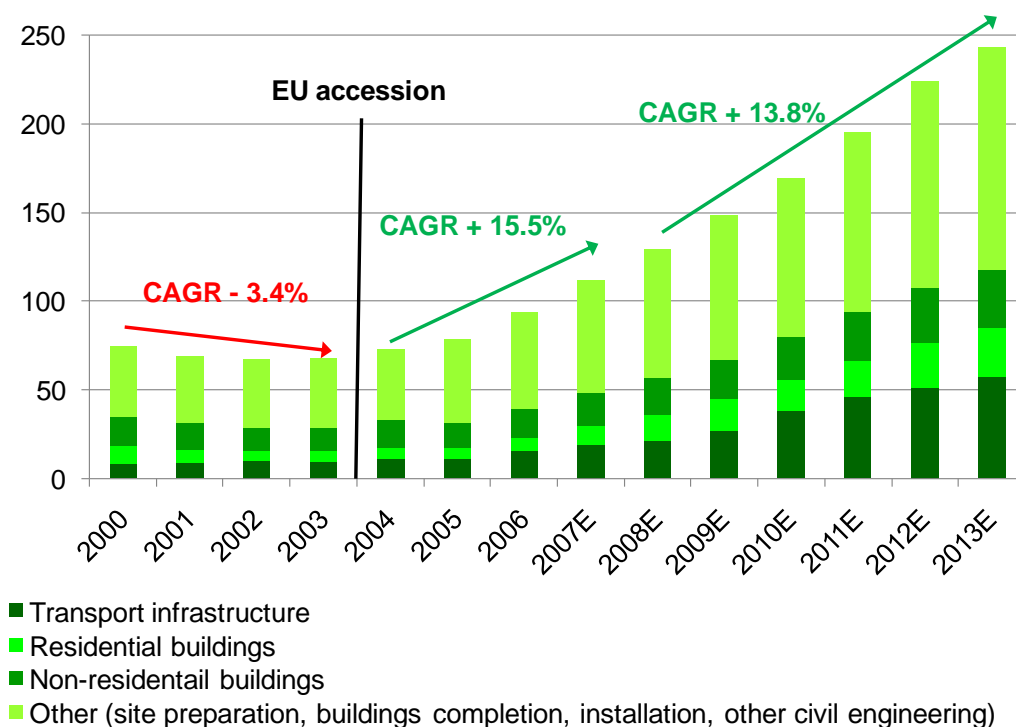
Taking a deeper look at construction sector we see that transport infrastructure was the one that experienced the most significant, steady and long-lasting growth in the 2000-2007 period (CAGR of 11.9%) and the prospects for next 5 years remain extremely positive. However, the healthiness of the construction market can be assessed by the recent revitalization was seen in all construction sectors, which shows the demand is strong and leads us to conclude there will be lots of work for construction companies in the next several years.

We estimate CAGR of 13.8% for the construction market till 2013E

We estimate that the Polish construction market will grow at CAGR of 13.8% in 2008E-2012E driven mainly by EU funds and demand from an expanding economy. Slightly lower pace of growth is simply the effect of higher base in 2008 than in 2003. We are expecting that transport infrastructure should be the major contributor to this growth, soaring with CAGR of 22%, driven not only by EU money, but also because the EURO 2012 should trigger some transport projects. Secondly, residential market is expected to perform well as house stock deficit makes the sector unlikely to decline. All other subsectors of construction market are expected to perform well and grow faster than estimated GDP growth.

Construction is hot and new portion of EU moneys is likely to add fuel to the flames

Poland – Construction market by segments



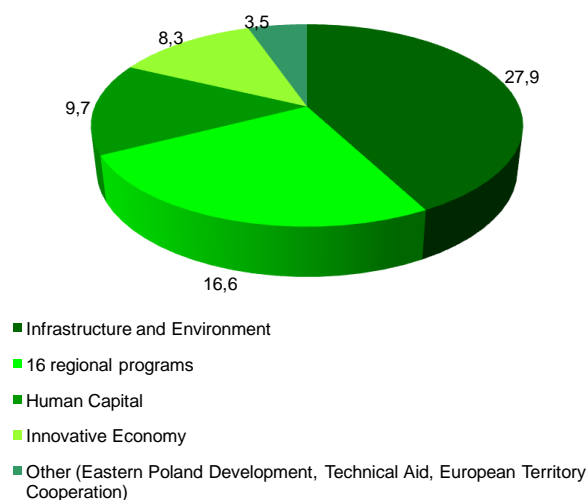
Source: Central Statistical Office

EU funds flows – one of the major drivers

With EU adhesion there was significant amounts of money flows into the Polish economy. Funds allocated for 2004-2006 period totaled € 12.7bn and a much larger support of € 67bn is reserved for 2007-2013. Distribution of the funds to particular operational programs is presented in the chart below. Please note that the construction sector should be major beneficiary of “Infrastructure and Environment” program but will also strongly benefit from “Regional Programs”. These two areas together represent 67% of total money to be received by Poland from EU, which clearly indicates construction as one of major beneficiaries of EU funding.

Construction is major beneficiary of EU support

Breakdown of 2007-2013E EU funds attributable for Poland, € bn



Source: Ministry of Regional Development

In order to give an idea of the amounts to be invested by segment we have the table below, which summarizes EU co-financed projects conducted in 2004-1H2007 period. It is important to notice that, on top of this amounts, Poland has to put its own money to co-finance projects (public and/or private investment), which significantly increases total expected value of the construction works.

Value of transportation projects co-financed by EU in 2004-1H2007

	Total value	EU financed	EU financed
Railroads	7 299.5	5059.7	69.3%
Roads	9 840.9	6408.2	65.1%
Highw ays	4 668.0	3288.2	70.4%
Airports and seaports	285.6	164.6	57.6%
Other transportation infrastrucutre	3 826.9	2 505.6	65.5%
Municipal and intelligent transportation systems	2 268.5	995.9	43.9%
TOTAL	28 189.4	18 422.2	65.4%
in EUR m	8 054.1	5 263.5	

Source: Ministry of Regional Development

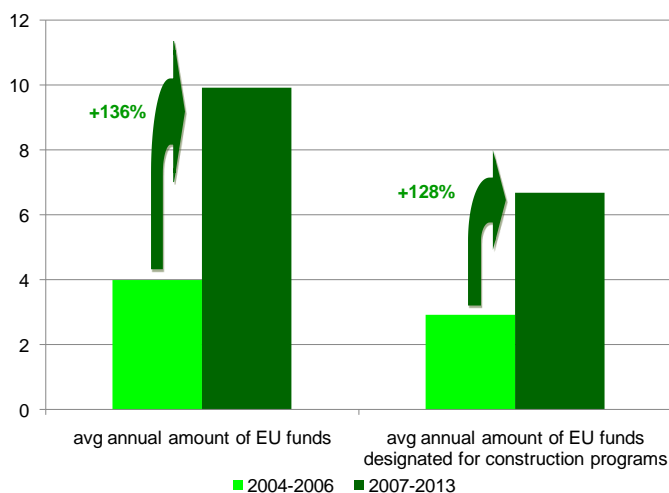
EU funds amount to € 67.3bn with further € 18.3bn of national funds, which are required to co-finance the projects (assuming 100% absorption). From the construction point of view the most important part of the funding is the Infrastructure and Environment Operational Program with € 27.9bn and regional programs totaling € 16.6bn. These

amounts together with national co-financing bring the total sum of funds in construction related works to € 54.2bn or around € 7.7bn per year.

Looking at absorption of pre-adhesion EU funds, we conclude Poland was quite effective (though some delays occurred). In mid 2008 the absorption level exceeded 100% in terms of positive processed claims and 80% in terms of actual payments made, which makes it possible to reach almost 100% by year end (deadline for 2004-06 funds). We believe that Poland learned by experience and will manage the 2007-2013 funds in a more efficiently (especially regarding timing). However, given the fact that there are much larger amounts to deal with this time, we would rather expect 70%-80% absorption levels – which would be still a lot in our view.

We believe that this level of absorption would result in unprecedented inflow of money into Polish economy and especially into Polish construction sector. We estimate that EU funding may reach even between 2%-3% of GDP in some particular years.

Comparison of average annual EU funds designated for Poland in 2004-2006 and 2007-2013



Source: Espirito Santo Research Poland

The above comparison brings another argument to support our estimated strong growth of the construction sector. Given the fact that more than two times smaller amounts of EU money managed to revive construction market in the past, it is hard for us to believe to see any decline with much more significant sums up to grab in the near future.

Last three years were to learn how to absorb EU money, now it's time to rumble

It is much more money to be spent in 2007-13E

Construction market – Big should become bigger

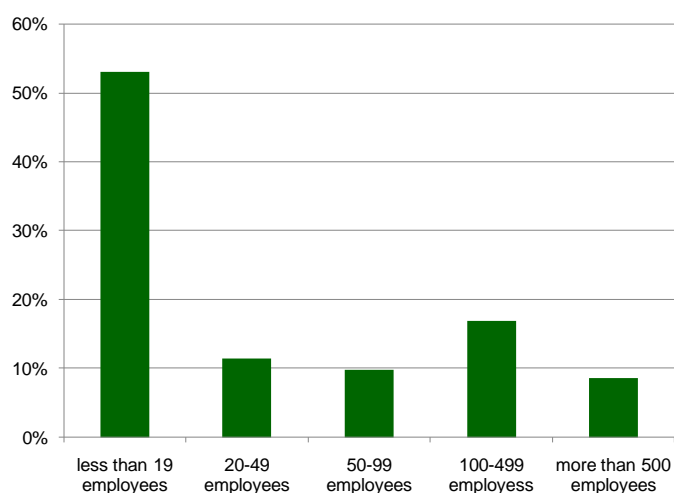
After a detailed statistical data analysis, the construction market seems highly fragmented, with 53% of production taking place in entities with less than 19 employees and only 9% being conducted by 56 firms with more than 500 workers in 2006. Thus, it was mainly the large entities who benefited from the recent market recovery as 2 years earlier there were only 42 large companies, which seized only 7% of the market.

Concentration is going to gradually proceed

Although the data suggests correctly the upward trend for large companies it is misleading in terms of rough data. Large entities represent a much larger portion of the market as they are the only ones capable of carrying out large scale projects, which revitalized the market recently.

We estimate market share of large companies at c. 25-35%. Significant portion of the market held by small and medium sized companies can be explained by the fact that large companies divide projects into smaller parts and order execution to subcontractors concentrating their efforts on general construction. Recent trend shows that large entities are eager to execute larger part of the work themselves relying more on their own workforce due to increased complexity of the larger scale projects.

Construction Market Breakdown By Size Of enterprise, 2006



Source: Central Statistical Office

Bearing in mind the positive outlook for the construction market and the number of large scale projects due in next 4 years, large entities are expected to gain even larger share in the market.

Transport Infrastructure - money won't be an issue this time

Roads

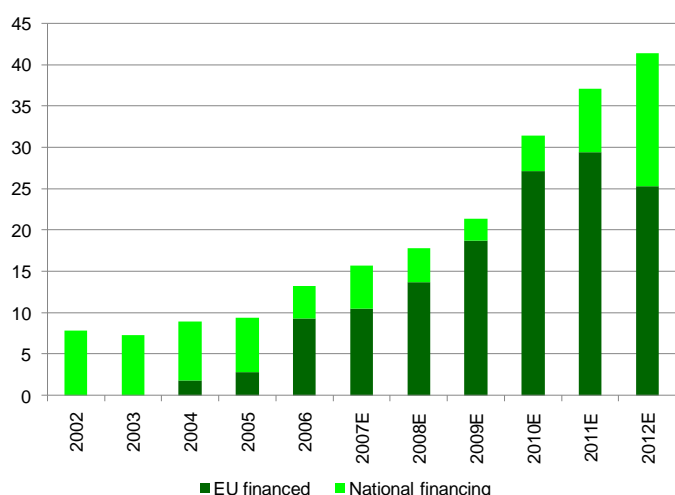
We believe that Polish roads and railways are the most evident slam dunks of EU flows after years of heavy underfunding; therefore EU funds will be the major contributor to bridge the gap.

Spending on roads is growing but the boom is still ahead

Amounts spent on roads in Poland experienced significant growth with CAGR of 33% in 2002-2007 period and for the first time surpassed PLN 10bn (€ 3.4bn) in 2007, stimulated mainly by EU funds flows, which accounted for on average for 65% of the financed projects. However, this seems just like an appetizer comparing to what is planned for the 2008-2012 period as GDDKiA budget for 2008 is almost two times higher and amounts to € 5.9 bn.

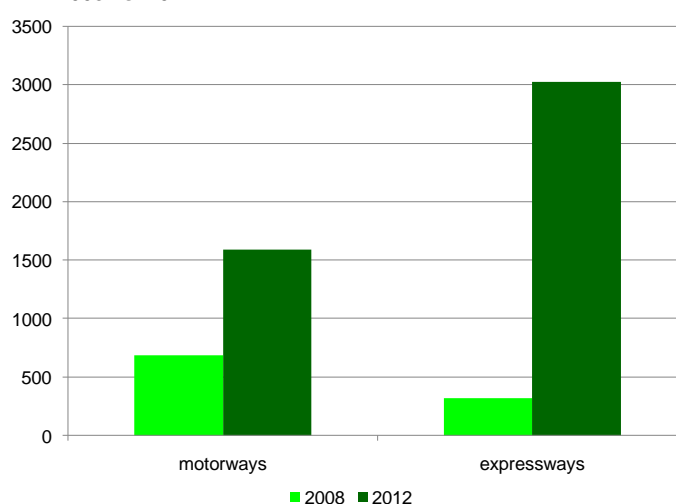
The annual amount spent in the 2003-2007 period totaled € 2.2bn, while we expect that this figure will soar to as much as € 6.8bn in 2008-2012. This means annual average investment should triple and the fact that 75%-80% of the funds are reimbursed by EU makes these sums more trustworthy in our view.

Expenditure on Polish roads in PLN bn



Source: GDDKiA, Espirito Santo Research Poland

Comparison of the length of Polish motorways and expressways in km in 2008 vs. 2012



GDDKiA, Espirito Santo Research Poland

According to the 2008-2012 Governmental program for roads construction, c. 900 km of motorways and c. 2700km of expressways are to be constructed by the end of 2012. As there are 690km of motorways as of mid 2008 and c. 320km of expressways, huge amount of work will be required to more than triple the network of the most important roads.

Network of motor- and expressways is to triple in next 5 years

Apart from new roads construction, a significant amount of PLN 3.3bn annually will be allocated in the renovation of existing roads. The latest report of GDDKiA indicated that 45% of national roads require repairs (22.5% labelled "bad" and another 22.5% labelled "unsatisfactory"). While the annual average number of repaired national roads in the last 4 years stood at 1,700km, the report labelled 3,900km as national roads requiring immediate repairs and the cost of the renovation is estimated at PLN 8bn.

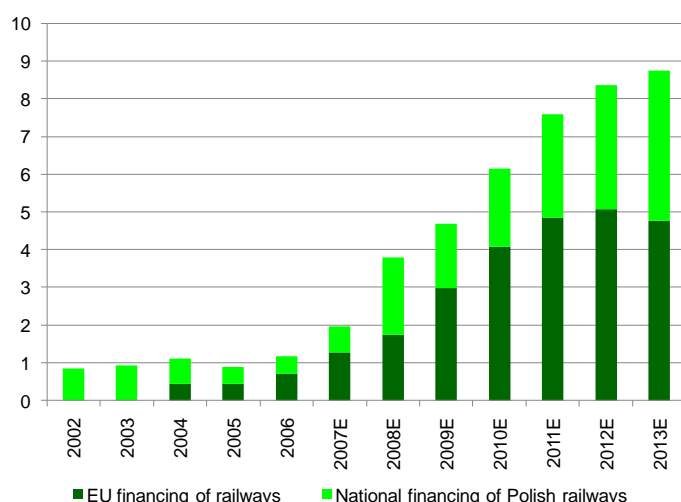
Railways

After years of negligence and oblivion, Polish railways are finally witnessing the necessary funds allocation to reshape their condition, which is far behind its EU peers standards. A recent report on the Polish railways highlighted that out of c. 20,000km of existing tracks c. 35% were labeled as requiring immediate replacement.

The investment amount dedicated to railways in 2008 alone is 20% higher than all the funding Polish railways have seen in the period of 2004-2006 and higher amounts are allocated for the next phase of railways redevelopment. In the next five years, investments on railways should grow at CAGR of 18%. The first objective is to renovate old tracks, but construction of new high speed lines is also planned.

Railway transport will be one of priority targets for EU funds

Expenditure on Polish railways in PLN bn



Source: Strategy for railways transportation till 2013, Ministry of Transport, April 2007

Summing up, the huge needs of the railway sector are finally going to receive significant amounts of investment, which makes us believe that specialized (in railways services) construction companies should expect both revenues boost and wider margins.

Euro 2012 Impact

Another important growth driver for construction sales is the European Soccer Championship in 2012, co-organized by Poland and Ukraine. The table below summarizes the required investment in EURO 2012 infrastructures. We believe that this amount will increase to at least € 1.5bn, as some additional project will be added and construction inflation is likely to reevaluate initial estimates.

EURO 2012 required investment in € m

Stadiums	835.4
Training arenas	94.5
EURO 2012 related infrastructure	157.6
Total	1087.5

Source: Ministry of Regional Development

The above estimate refers strictly to sports related expenses, but due to specificities of these kinds of events additional investments in infrastructures will be required, hence the EURO 2012 impact on the Polish construction sector should be higher than initially estimated. As the big majority of the infrastructure investments were already planned

EURO 2012 matters not only because of additional projects but also as it should impact timing of infrastructure investments

within the EU funding scope, we believe the Euro 2012 impact will be essentially in:

- bringing the implantation of the projects forward by 2-3 years
- increasing credibility of timely projects implementation

Environmental/water works

The investments in Waterworks were neglected for many years, but the EU adhesion change significantly the name of the game, and we saw lot of activity driven essentially by municipalities' desire to win voters support using EU moneys.

In urban areas 95% of population is connected to water supply but only 85% is connected to sewage collecting systems and the same number stands for population connected to waste water treatment. These statistics are well above 90% in Western Europe countries, which clearly signs up the direction in which construction for water related works will go. Local communities' politicians are under pressure to cope with this situation, and this already shows up in the data on 2004-2006 EU funds spending patterns - the funds spent on water supply systems exceeded initial allocation by 488% and sewage systems allocation was exceeded by 173%. Thus, network of sewage system is growing fast – last year 5% of total network was built and the construction for sewage and water supply consists of renovation of pipelines as well with 40% of the sewage older than 10 years and 62% of water supply lines older than 10 years. The situation is even worse in the Polish anti flood system, where out of total length of 8500km levees, 60% are older than 40 years and only 20% are not older than 20 years.

During the first round of EU support in the 2004-2006 period, the amount allocated to environment related construction stood at PLN 13bn, with construction and renovation of water treatment plants getting PLN 3.3bn and PLN 1.7bn invested for water supply and sewage systems. These sums resulted in the construction of 1,300km of water supply pipelines, 1,450km of sewage and 67 water treatment plants (refurbished and new). The next phase of EU support involves € 4bn for environment related construction. Another PLN 3.6bn coming from the Program for Odra 2006 should be invested (this program should be completed by 2016).

Waterworks is the area where EU funds had already visibly helped

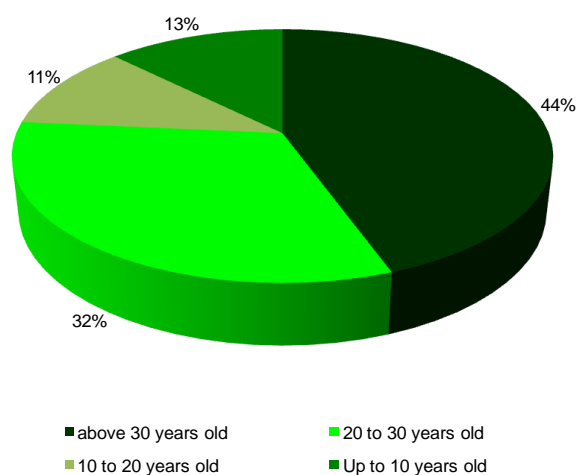
Power Construction

The Polish power infrastructure has a gross installed capacity of 35.7GW and is completely outdated comparing to its European peers. The Installed capacity grew at CAGR of 0.5% in the last decade, which means it did not kept up with the electricity consumption, which grew at CAGR of 2% in the same period. The Ministry of Economy estimates that electricity consumption is likely to grow even stronger in the future (CAGR of 3% until 2030), meaning that Polish power plant capacity should be increased to 45GW, apart from the renovation works that should be done. In practical terms, 9.3GW of additional capacity must be built. On top of this figure, there is also the necessity to build at least c. 1000MW of capacity in power plants annually just to replace the existing obsolete capacity (as estimated by Ministry of Economy).

Power sector – underfunded for years might see a change

As the average estimated cost of 1MW of conventional power plant capacity stands at € 1.5m, it is reasonable to say that the Polish energy market is on the verge of receiving significant sums. We estimate the necessary investment in next 12-13 years at minimum level of €30bn or €2.3bn annually. Construction companies, specialized in providing services for the industry, are unlikely to complain about lack of work. However, even if the potential for the construction companies in power infrastructure is huge, we are skeptical about its timing and do not expect to see major investments taking place until the privatization process brings in the necessary funds.

Breakdown of Polish installed energy capacity by age structure



Source: Energy Market Agency

Construction in Chemical, Oil and Gas industries

In order to increase the competitiveness of the industry and to reduce the trade deficit in chemical products, the Strategy for Polish Chemical Industry predicts PLN 4bn to be spent yearly in increasing the capacity of Polish chemical industry. Apart from the national strategy, there are several investment programs from industry leading companies aiming capacity increases and improving competitiveness.

PKN Orlen approved an investment plan with a total value of PLN 21bn until 2012 i.e. PLN 3.5bn annually. Investment in refinery segment sums up to PLN 6.5bn to bring PKN refining capacity to 33m tones/year. Petrochemical segment is to absorb PLN 5.3bn,

PKN, Lotos and PGNiG are planning huge investments

spent mainly on PX and PTA installations. The investment in the Lithuanian capacity of Mazejku Nafta is c. PLN 3.7bn.

Lotos plans to spend PLN 7.5bn until 2012, mainly to increase its crude oil refining capacity by 4.5m tones per year, bringing total refining capacity up to 10.5m tones. Refining capacity upgrade will cost PLN 5bn, while another PLN 1bn is to be spent on Gdansk Refinery renovation. Other investments include increasing extraction capacity from Baltic sea from 300k tones/year to 1m tones/year.

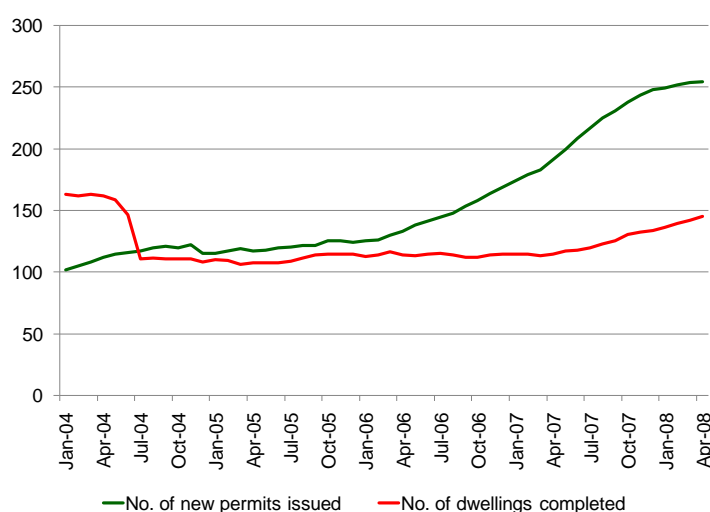
The Polish oil and gas Strategy projects to increase its storage capacity from 1.2bn m3 to 2.8bn m3 in 2012, being the major project to double Wierchowice storage's capacity. We estimate total necessary investment outlays to achieve targeted capacity at PLN 2.7bn. PGNiG's plans are integrated into Poland's strategy of diversification of natural gas supply sources, which will require the construction of LNG onshore terminal and adjustments in the Polish transmission network. Another PGNiG investment includes extraction of Lubiatow-Miedzychod-Grotów deposits, thus doubling company's crude oil production capacity. We estimate these investments will offer approximately PLN 3.5-4bn potential revenues for construction companies.

Residential construction – some slowdown in short run

Residential market in Poland saw its bottom in 2002-2003 and has been recovering ever since. Outlook for 2008 in terms of construction activity is very promising as the number of permissions for new dwelling rose 47% and the number of completed dwellings lagged behind with 16% only. However what is good for contractors is not necessarily good for developers (at least in the medium run). With the increasing supply (new units but also stronger supply of apartments that have been speculatively purchased by investors for last 2 years) and hampering demand (mismatch between residential prices growth and purchasing power growth, increasing cost of credit) they can face problems with sales volume growth and some of them could even face liquidity problems (mostly smaller developers).

Short term outlook for residential is gloomy but...

Poland Residential – 12M trailing no. of new permits and completed units (Thousands)



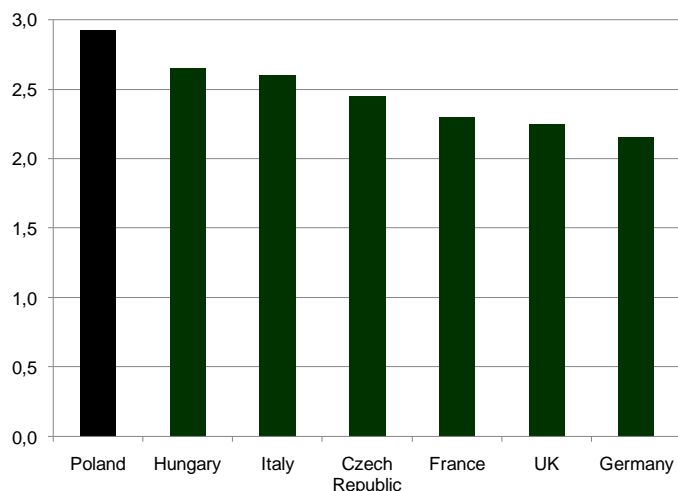
Source: Central Statistical Office

While in the mid time horizon (6-18 months) we may see turbulences on residential market, we remain positive on the long run. The major reason behind our long run optimism is the high potential we still see on the demand side (estimated at 1.5-2m units) that should be gradually released alongside with the increase in Pole's purchasing

...the long-run growth seems inevitable

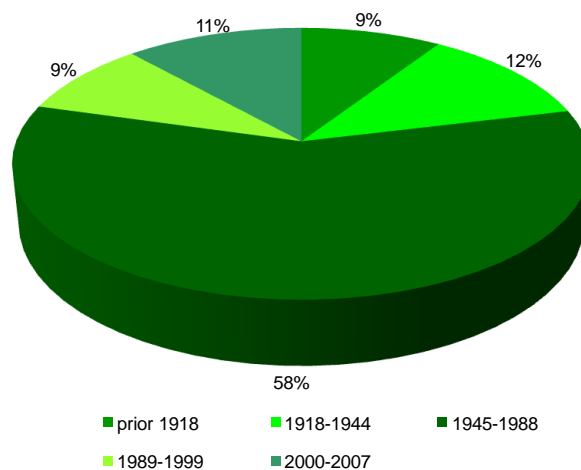
power. This demand results from both relatively high number of families without own apartment and relatively high average age of a dwelling with 80% of the stock older than 20 years.

Average number of persons per household in selected European countries 2007



Source: Eurostat, Central Statistical Office

Breakdown of Polish housing stock by completion year



Source: Central Statistical Office

Commercial and industrial buildings – continuing boom

Expanding economy halved the unemployment rate and puts pressure on employers to increase wages. This is materializing in robust retail sales increases, which is impacting retail centers, warehouses and office buildings development. The demand for office space was fueled twofold – firstly by the significant number of small, family owned Polish companies, which grew into medium size corporations and needed decent office spaces and secondly by a substantial number of foreign companies that decided to relocate their financial, accounting and IT services to new EU members, driving demand for modern office space even further. The demand for warehouses was already high 3 years ago (as logistics is usually among the first activities to see the effects of an economy recovery) and is expected to remain high as long as the prospects for high GDP growth remain.

There is still demand for new office and retail space

Poland is on the verge of a commercial market boom, as its GLA/1000 inhabitants ratio of 150 is well below European average of 190. Non-residential construction posted 35% growth on the past 3 years.

Commercial property market in Poland as of the end of 2007

	Existing stock in sqm'000	Space under construction and space planned in sqm'000	Projected space as % of existing space	Avg vacancy rate
Industrial	3 818	1 342	35%	9%
Retail	7 500	3 000	40%	2%
Office	4 009	2 717	68%	3%

Source: Cushman & Wakefield

17 June 2008

BUDIMEX – EXPENSIVE RECOVERY STORY

Recovery is likely but the stock is not cheap

Budimex has been reporting very weak results in the last 7 years, which were driven essentially by weak construction market and more recently by losses in some big contracts (i.e. “Okecie” terminal). It is likely that with the market rebound (higher margins) and with no major losses in old contracts portfolio, the company is able to significantly improve its results in the coming two-three years. However, we believe that this expected improvement is already priced in. Budimex trades at 30.5P/E, 19.9P/E and 15.3P/E according to our 2008E-10E estimates. We believe this valuation is demanding and does not reward the risk that the recovery comes later than we are expecting.

Focus is on profitability, Not on fast growth

The company has now a big focus on the quality of its contracts portfolio which means Budimex should not be bidding aggressively in future tenders. Moreover, Budimex didn't take over any relevant construction company (as many of its competitors did), which together with the lack of subcontractors in the marketplace may limit its appetite for huge backlog growth. Consequently, we forecast rather mild top-line growth of 4%, 11% and 13% in 2008-10E, which is below market growth.

Road construction should be key driver

Given the fact that the governmental program of road construction alone represents PLN 121bn. (€ 36bn) in 2008E-12E and that 80% of that could be financed by EU money, we tend to believe that the sector is likely to boom. Budimex is one of the top 3 road contractors in Poland and is likely to take advantage of this market situation.

Housing Development projects may surprise...

The Housing Development should not represent more than 10% of total revenues but this business is usually more profitable than the core business and may have significant impact on earnings in some periods. This could be particularly the case of the big Warsaw project “Inflandzka” (very attractive land acquired at low price) where we estimate EBIT could reach even PLN 200-300M (which should be considered as a one off in terms of profitability). Timing of recognition of these profits will depend on situation on residential market but it would not be sooner than 2H2009. We assume the company will gradually recognize these profits in 2009-11E.

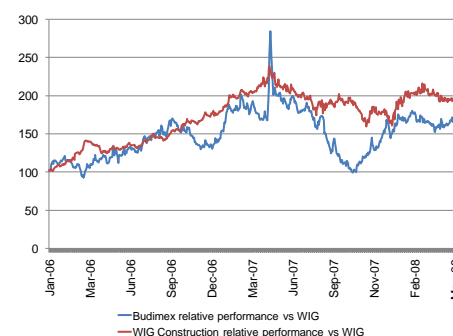
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	3 043	31	4	0.2	0.2	92%	479.3	51.1	0.0%
2007	3 076	52	15	0.6	0.6	287%	156.4	40.5	0.0%
2008E	3 214	107	67	2.6	2.6	345%	30.5	17.2	0.0%
2009E	3 552	157	102	4.0	4.0	53%	19.9	11.7	0.0%
2010E	3 997	196	134	5.2	5.2	30%	15.3	9.4	0.0%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

Budimex

SELL – High Risk

Price Target (Jun. 09)	PLN 76
Price (16 Jun. 08)	PLN 80
Potential	-5%



Trading

Reuters Code	BMEX.WA
Bloomberg Code	BDX PW
Shares Outstanding (m)	25.53
Market Cap (€m)	603
12M Avg. Daily Turnover (€m)	1.5
12M Avg. Daily Volume (th)	29.3
WIG Weight (%)	0.50
WIG 20 Weight (%)	na
52 W High / Low	132.0 / 63.2

Performance	Abs.	vs. WIG
3M	0%	7%
YTD	-13%	12%
12M	-39%	-7%

Financials	2008E
Revenue growth	4.5%
Operating margin	2.9%
ROE	12.5%
Bank Debt / Equity	50.8%

Shareholders	Stake
Valivala Holdings (Ferrovial Group)	59.1%
BZ WBK AIB AM	14.2%
Other	26.7%

Source: Espirito Santo Research Poland

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Business & Strategy

Budimex group is the 3rd largest construction company in Poland in terms of revenues and market capitalization on Warsaw Stock Exchange. The company's two major divisions are general construction and real estate.

The general construction division is specialized in performing all-in construction projects, with a special focus on road construction. Engineering construction represents around 30% of total group's revenues and this weight should grow in the next couple of years driven mainly by the large demand for big road construction projects. Other important market segments for Budimex are Industrial construction, Housing construction and Utility construction.

The majority of Budimex's real estate projects are residential ones, essentially in three Polish cities: Warsaw, Cracow and Poznan, being Warsaw the most significant (42% of residential sales in 1Q08 but 65% of land bank structure). Most of the company's real estate business is done at "Budimex Property" level. This is a 50%/50% joint venture with the Spanish Ferrovial (which is also Budimex Group's largest shareholder) - Budimex still has some projects in which the company controls 100%, but all the new investments are done by "Budimex Property" subsidiary.

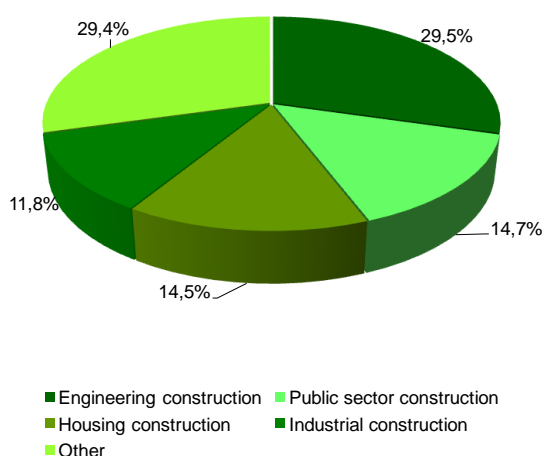
Although Budimex's real estate business is not very relevant in terms of revenues (7% of total turnover in 2007), as it is highly profitable (and also due to the weak profitability of the general construction activity) it has a significant impact on the Group's bottom line. In 2007 Budimex group reported PLN 28m of EBIT and PLN 45.4 came from developing activity, which means that the general construction business was in the red.

Apart from general construction and real estate, Budimex is also involved in the production of timber frame houses (through its subsidiary Danwood, which started its activity on the German market and now is trying to introduce this kind of housing construction in Poland). This segment seems like a good alternative for developers' high prices, also because the assembly process takes just few weeks. However at least for the next 2-3 years it is unlikely this business will be relevant to Budimex's group revenues/profits.

One of the largest construction companies focusing on infrastructure business...

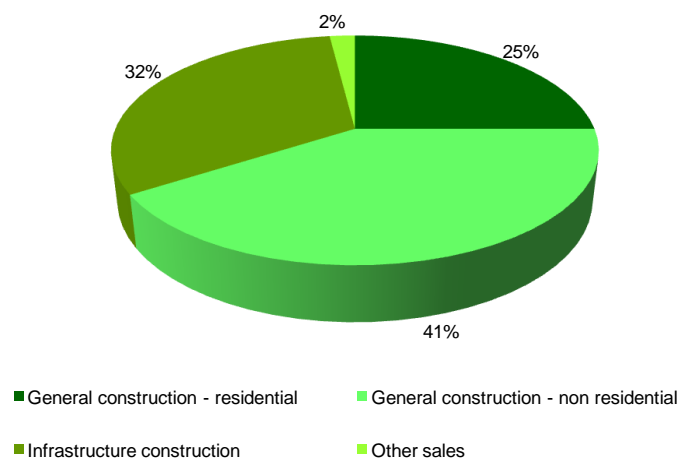
...though expects to benefit from residential sales as well

Budimex – Breakdown of total revenues by segment, 2007



Source: Company reports and Espirito Santo Research Poland

Budimex – Breakdown of construction revenues by segment, 1Q08



Source: Company reports and Espirito Santo Research Poland

Revenues / Backlog

Since 2004 Budimex has managed to increase significantly the number of large contracts won, although the situation stabilized by the end of 2007. Eventually Budimex backlog stood at PLN 3.3bn at the end of 1Q08 comparing with PLN 3.3bn last year. We believe that is likely that the company's backlog will increase again by the second half of this year, when the company may win few important road construction contracts. However, the company stated that it would not fight for new orders that would result in weaker margin (the main reason for the negative performance in the recent past). This is why we are estimating a rather mild revenue growth of 4%, 11% and 13% in 2008-10E. We definitely see the major growth prospects in the road construction segment – both due to bright market prospects (see construction market section) as well as to Budimex large experience and market position in this specific segment.

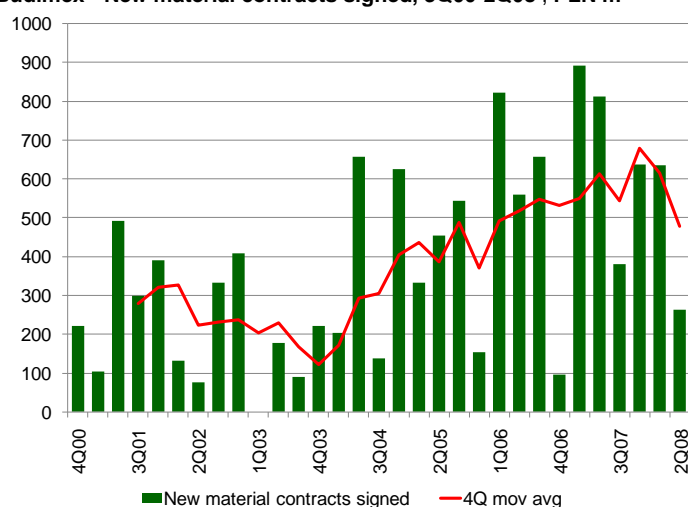
Huge pool of large contracts would be beneficial, though the attention should be paid to margins

The Biggest Road construction tenders to be proceeded 2H08-1H09

Contract name	Length in km	Value in PLN m
A-1 motorway Nowe Marzy Toruń	62.5	1 460
A-1 motorway Toruń Stryków	144	3 456
A-1 motorway Pyrzyce Maciejów Sosnica	43.4	984
S-3 expressway Gorzów Wielkopolski Nowa Sol	125.1	2 100
S-5 expressways Gniezno Poznań "Kleszczewo"	43.4	896
S-5 expressways Poznań (A-2 Głuchów) and Wrocław	155	4 200
S-7 expressways Gdańsk Elbląg	60	1 343
S-7 expressways Elbląg Olsztyn	94	1 451
S-7 expressways Olsztyn Płock	128	1 539
S-7 expressways Radom Jędrzejów	95.4	2 298
S-8 expressways Piotrków Trybunalski Warszawa	130	1 152
S-17 expressways Warszawa Garwolin	42	800
S-17 expressways Garwolin Kurow	55.9	895
S-17 expressways Kurow Lublin Płaski	38.4	1 404
S-19 expressways Stobierna Lutycz	33.5	785
S-19 expressways Lutycz Baranów	88.7	992
Total		25 755

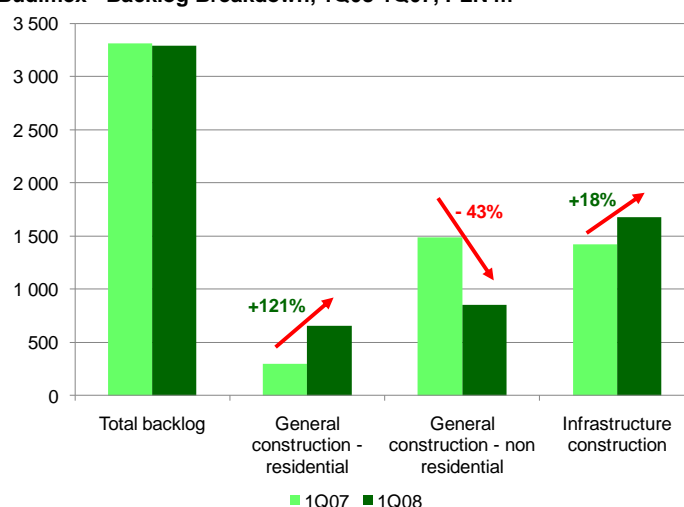
Source: GDDKiA and Espirito Santo Research Poland

Budimex - New material contracts signed, 3Q00-2Q08, PLN m



Source: Company reports and Espirito Santo Research Poland

Budimex - Backlog Breakdown, 1Q08-1Q07, PLN m



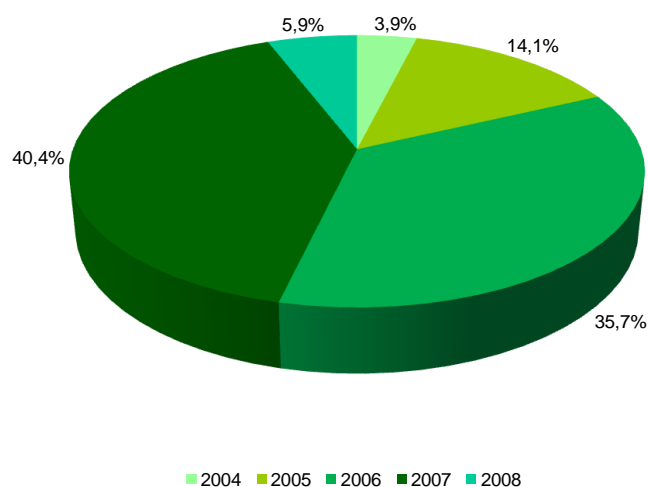
Source: Company reports and Espirito Santo Research Poland

Real Estate

Budimex plans to sell around 1,000 residential units a year, which should not be difficult in 2008E (despite weak market conditions), as the majority of the planned sales were already pre-sold before. Looking to future prospects, Budimex has land bank that should allow building around 255 thousand sq m of apartments or around 4.3 thousand units. This should enable Budimex to have around PLN 350 – PLN 450 yearly sales from developing activity (or 10% of total revenues) in next 2-3 years (on average). We might see some volatility on residential sales, due to accounting recognition of particular residential projects but also due to situation on local residential markets (we are rather skeptical on that in next 12 months but quite optimistic in the long run – for more details see the construction market section).

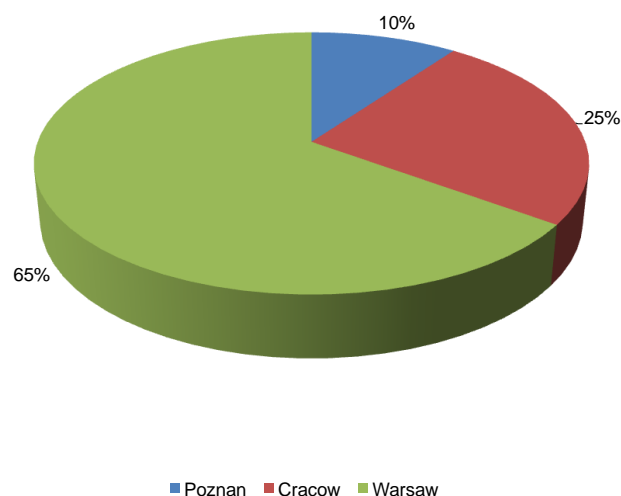
Developing activity should continue to be important

Budimex – Land Bank ageing (by year of purchase)



Source: Company reports and Espirito Santo Research Poland

Budimex – Land Bank geographical structure



Source: Company reports and Espirito Santo Research Poland

Margins/Cost

We believe that the value of the Company is essentially in its main activity – general construction, and although this business unit was resilient to drive financial results to break even in terms of profit after SG&A costs, positive trends were already seen throughout 2007. Latest delays in contracts settlement by GDDKiA may impact Budimex's results in the coming 12 months, but the upward trend should continue. Contracts signed in the last 6 months should bring the margins to acceptable levels and further signings should be even more positive.

The 2007 gross margin on sales of 4.8% (6.2% if we account hedging gains) was stimulated by the development activity margin of 28%, which itself accounted for 40% of total gross profit (before hedging). Recent poor results can be attributed to the old contracts portfolio, which were battered by rising construction prices, but we believe this situation should end when the company starts to gain new contracts, with significant values and better margins (see Sector analysis).

We are expecting a significant margin improvement to 7.8%, 9% and 9.6% in 2008E-10E, driven mainly by better margins on general construction activity. We expect general weakening of the margin of development activity because these margins are abnormally high now (this should happen due to an increase in the cost of construction together with mild decreases in selling prices). The exception to this trend could be "Inflandzka" project which could generate operating profit of around PLN 200-300m.

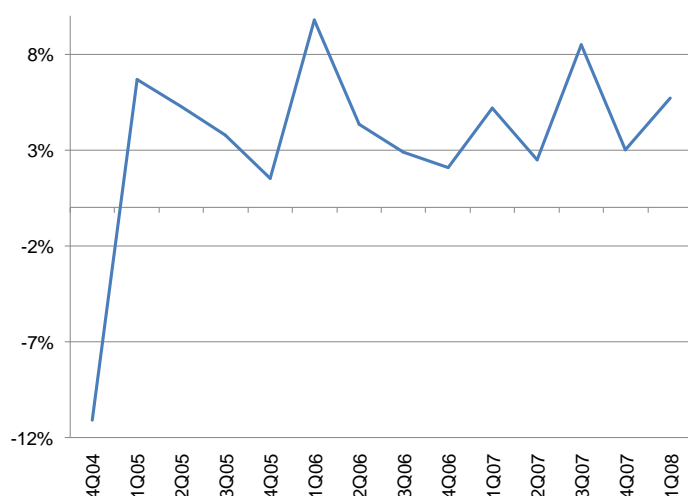
Track record is not good but the market is different this time

On the cost side the company has been quite efficient in last two years, bringing SG&A costs to 4.6% of the revenues. On the long run we expect some cost pressure related to expansion as well as higher costs of development and thus we forecast SG&A cost at around 5% revenues.

Consequently, the significant rebound we are estimating on the margins together with a moderate increase in general costs (in % of revenues units) should lead to operating margin improvement. We are estimating operating margins of 2.9%, 4.0% and 4.4% in 2008E-2010E vs. just 0.9% in 2007 and 0.3% in 2006. Given the improvement on the construction market as well as the ending of many loss making contracts on Budimex's portfolio, we are quite confident about profitability growth. However, the risk that the the magnitude and/or timing of this recovery are different than we are estimating is relatively high (obviously this works both ways). The point is: the forecasting risk is high—especially given the poor track record of the company in the last couple of years.

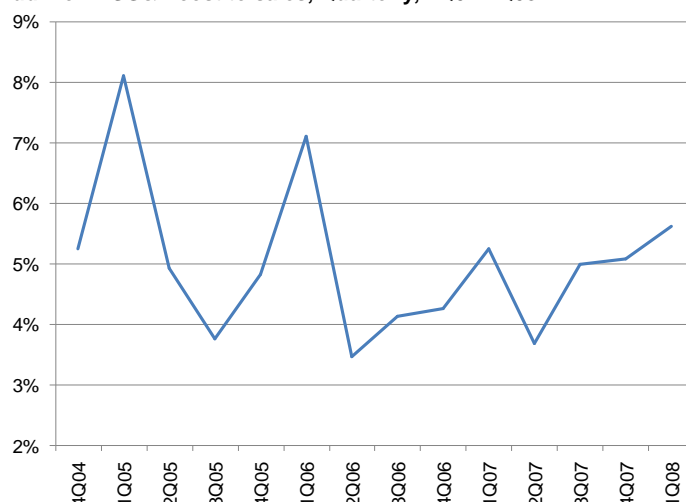
Forecast risk is relatively high

Budimex – Gross margin on sales, Quarterly, 4Q04-1Q08



Source: Company reports and Espirito Santo Research Poland

Budimex – SG&A cost to sales, Quarterly, 4Q04-1Q08



Source: Company reports and Espirito Santo Research Poland

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Financials

BUDIMEX - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
Revenues	2 703	3 043	3 076	3 214	3 552	3 997
- yoy change		13%	1%	4%	11%	13%
Cost of Revenue	-2 597	-2 918	-2 928	-2 964	-3 231	-3 615
Gross Profit	106	125	148	250	321	382
- yoy change		18%	19%	69%	28%	19%
SG&A cost	-135	-136	-141	-156	-178	-202
- yoy change		1%	4%	11%	14%	14%
Hedging gain/(loss)	52	23	42	0	0	0
Other Operating Income/(Cost)	-21	-2	-21	-2	-2	-2
EBIT	2	10	28	92	141	178
- yoy change		406%	182%	228%	53%	26%
Depreciation cost	-21	-21	-24	-15	-16	-19
EBITDA	23	31	52	107	157	196
- yoy change		34%	66%	107%	47%	25%
Interest Income/(Cost)	15	9	10	4	-1	0
Other Financial Income/(Cost)	-10	-8	-26	-13	-13	-12
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	1	2	2	2	2	2
Pretax Profit	7	12	14	85	129	168
- yoy change		66%	12%	523%	52%	30%
Income Tax	-6	-8	1	-17	-25	-33
Minority (Profits)/Losses	1	0	1	-1	-1	-1
Net Income	2	4	15	67	102	134
- yoy change		92%	287%	345%	53%	30%
EPS (PLN)	0.08	0.15	0.59	2.63	4.01	5.23
- yoy change		92%	287%	345%	53%	30%
Profitability Ratios	2005	2006	2007	2008E	2009E	2010E
Gross Margin	3.9%	4.1%	4.8%	7.8%	9.0%	9.6%
Gross Margin including hedging	5.9%	4.9%	6.2%	7.8%	9.0%	9.6%
EBIT Margin before other operating items	0.9%	0.4%	1.6%	2.9%	4.0%	4.5%
EBIT Margin	0.1%	0.3%	0.9%	2.9%	4.0%	4.4%
Net Margin	0.1%	0.1%	0.5%	2.1%	2.9%	3.3%
ROE	0.4%	0.7%	2.9%	12.5%	17.0%	18.9%
ROA	0.1%	0.2%	0.7%	2.9%	4.1%	4.9%

Top-line is growing below the market

Low base effect EPS growth look amazing

Source: Company reports and Espirito Santo Research Poland

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BUDIMEX - Balance Sheet

(PLN m)	2005	2006	2007	2008E	2009E	2010E
Total Current Assets	1 591	1 887	1 838	1 930	2 153	2 445
Cash and Equivalents	457	489	509	479	533	604
Receivables	706	985	760	820	906	1019
Inventory	279	385	533	595	675	779
Other Current Assets	149	28	36	38	40	42
Total Fixed Assets	343	425	506	550	598	654
Tangible Assets	97	103	97	100	107	124
Investments	57	128	161	193	212	223
Other Fixed Assets	190	193	248	258	279	307
Total Assets	1 935	2 312	2 344	2 480	2 751	3 099
Stockholders` Equity	520	523	536	603	706	839
Including Minority Interest	3	1	0	1	2	3
Long Term Liabilities	135	216	313	338	370	397
Long -Term Debt	23	96	171	189	206	213
Other Long - Term liabilities	112	120	142	148	164	185
Short Term Liabilities	1281	1573	1495	1539	1675	1862
Accounts Payable	767	1049	912	948	1048	1179
Short -Term Debt	102	138	106	118	128	132
Other Current Liabilities	411	386	477	473	499	551
Total Equity & Liabilities	1 935	2 312	2 344	2 480	2 751	3 099
BVPS (PLN)	20.2	20.5	21.0	23.6	27.6	32.7
Ratios	2005	2006	2007	2008E	2009E	2010E
Current Ratio	1.2	1.2	1.2	1.3	1.3	1.3
Quick Ratio	1.0	1.0	0.9	0.9	0.9	0.9
Bank Debt/Assets	6%	10%	12%	12%	12%	11%
Bank Debt/Equity	24%	45%	52%	51%	47%	41%

BUDIMEX - Cash Flow (PLN m)	2005	2006	2007	2008E	2009E	2010E
Net Profit	2	4	15	67	102	134
Depreciation and Amortisation	21	21	24	15	16	19
Net Working Capital Change	8	-118	19	-81	-56	-73
Other	-80	15	-72	-12	11	31
Operating Cash Flows	-50	-78	-15	-11	73	110
Capital Expenditures (Net)	-14	-21	-11	-19	-26	-39
Other	136	37	30	-10	4	11
Cash Flows from Investing Activities	123	17	19	-28	-23	-29
Change in Debt	58	100	22	30	27	11
Issuance of Shares	0	0	0	0	0	0
Interest paid	-2	-7	-6	-21	-23	-21
Dividends paid	0	0	0	0	0	0
Other	-3	0	0	0	0	0
Cash Flows from Financing Activities	53	93	16	9	4	-10
Beginning Cash	332	457	489	509	479	533
Increase/(Decrease) in Cash	126	32	20	-30	54	71
Ending Cash	457	489	509	479	533	604
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company reports and Espirito Santo Research Poland

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DCF Model

Budimex - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	12.6%	1.1%	4.5%	10.5%	12.5%	18.3%	8.3%	8.0%	5.5%	3.0%
Revenues	3 043	3 076	3 214	3 552	3 997	4 730	5 123	5 533	5 837	6 012
Operating Margin	0.3%	0.9%	2.9%	4.0%	4.4%	5.0%	4.4%	4.4%	4.5%	4.5%
EBIT	10	28	92	141	178	235	225	246	261	271
Taxes Rate	0.0%	0.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
EBIT(1-t)	10	28	75	114	144	190	182	199	212	219
+ Depreciation			15	16	19	22	26	28	30	31
- Capital Expenditures			-15	-21	-32	-36	-42	-46	-43	-38
- Chg WC			-85	-67	-87	-90	-33	-61	-46	-26
FCFF			-11	43	44	87	134	120	153	186
Terminal Value										2 746
Cost of Capital Calculations										
Tax Rate			19%	19%	19%	19%	19%	19%	19%	19%
Debt Ratio			15%	16%	17%	17%	18%	18%	20%	25%
Equity Ratio			85%	84%	83%	83%	83%	82%	80%	75%
Beta			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity			12.0%	11.6%	11.4%	11.3%	11.3%	11.2%	11.2%	11.2%
Cost of Debt			6.5%	6.1%	5.9%	5.8%	5.8%	5.7%	5.7%	5.7%
Cost of Debt for the Firm			7.5%	7.1%	6.9%	6.8%	6.8%	6.7%	6.7%	6.7%
After-tax cost of debt			6.1%	5.8%	5.6%	5.5%	5.5%	5.4%	5.4%	5.4%
Cost of Capital			11.1%	10.6%	10.4%	10.3%	10.2%	10.2%	10.1%	9.8%
Present Value Calculations										
Cumulative WACC			1.0	1.1	1.2	1.3	1.5	1.6	1.8	
Present Value of FCFF			-11	39	36	64	90	73	85	
Present Value of Terminal Value										1 524

Budimex - DCF Valuation Summary (PLN m)

PV of FCFF during high growth phase =	377
PV of Terminal Value =	1 524
Value of Operating Assets of the firm =	1 901
Value of Cash & Non-operating assets =	250
Value of Firm =	2 151
- Value of Outstanding Debt =	-307
Value of Equity =	1 844
Value of Equity per share at 2008 end (PLN) =	72
12 Month Target Price (PLN)	76

Budimex - DCF Model Key Assumptions

Revenue CAGR 2008E-2014E	10%
Nominal (Real) growth rate in perpetuity	3% (0%)
Average operating margin in 2008E-2014E	4.2%
Operating margin in perpetuity	4.5%
Market Risk Premium	5.5%
Average WACC in 2008E-2014E	10.4%
WACC in perpetuity	9.8%

Budimex - Target Price Sensitivity (PLN)

Real Growth Rate in Perpetuity		Operating Margin in Perpetuity			
	Nominal Growth	5.5%	4.5%	3.5%	
-1.0%	2.0%	86	71	55	
0.0%	3.0%	94	76	58	
1.0%	4.0%	105	84	63	

Source: Espirito Santo Research Poland

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ELEKTROBUDOWA – SPECIALIZED IN POWER SECTOR**Strong track record and good prospects at relatively low price**

Elektrobudowa definitely managed to take advantage of the recent market recovery: the company posted an impressive revenue growth of CAGR 33.5% since 2004, showing also continuing margin improvement. Apparently the market is fast in recognizing the company's improvement (share price CAGR was 95%), however we still find discount in the Company's value bearing in mind the market prospects and further results improvement scenario. Elektrobudowa trades at P/E 19.2, 16.3 and 12.1 according to our 2008E-2010E forecasts, which we find attractive vs. other construction companies.

Highly specialized construction pays off

The fact that the company offers complex services benefits the company by: 1) being able to increase average value of executed contracts without the need to do relevant investments in working capital or capex and 2) increasing workers' productivity. The average value of signed contracts increased at an impressive CAGR of 27% and Elektrobudowa's employees' productivity showed similar growth (CAGR 22%). We believe that these two factors should continue to contribute to the company's further growth in revenues and margins.

Power sector privatization will be a driver in the future

Most of companies operating in power sector in Poland are still State Owned, which hampered investments in the sector and therefore didn't allow Elektrobudowa to strongly benefit from its "natural" market. However, we believe that the projected privatization of the power infrastructure will remove the obstacles, as the market desperately needs immediate investments (see power infrastructure segment of construction market description for details). As this is unlikely to happen soon we estimate these segments to be among the major growth drivers from 2010E onwards.

Natural hedge makes it less vulnerable to external factors

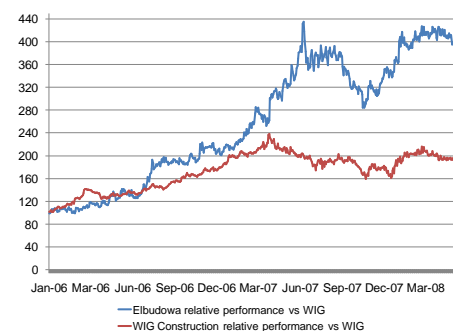
Elektrobudowa's specific characteristics put the company in a privileged position among other construction companies as some specifics of its operations produce a natural hedge against external unfavorable forces. Firstly, the duration of the average contract is relatively short and stands at 11 months (down from 13 two years ago) and makes the contract's margins more resilient to construction market inflation. Secondly, the know-how of experienced employees is the true value added, which allows the company to grab more complex and higher value contracts also justifies why Elektrobudowa has been able to do it without the necessity to increase headcount parallel.

	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	474	28	15	3.8	3.8	61%	28.5	16.0	1.4%
2007	680	50	35	8.2	8.2	119%	24.3	17.0	1.0%
2008E	844	62	49	11.0	11.0	33%	18.1	14.5	1.3%
2009E	971	75	58	12.2	12.2	11%	16.3	12.1	2.6%
2010E	1 199	99	78	16.4	16.4	35%	12.1	8.9	3.7%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

Elektrobudowa**BUY - Medium/Low Risk**

Price Target (Jun. 09)	PLN 242
Price (16 Jun. 08)	PLN 199
Potential	22%

**Trading**

Reuters Code	LBUD.WA
Bloomberg Code	ELB PW
Shares Outstanding (m)	4.75
Market Cap (€m)	270
12M Avg. Daily Turnover (€m)	0.5
12M Avg. Daily Volume (th)	3.9
WIG Weight (%)	0.49
WIG 20 Weight (%)	na
52 W High / Low	301.3 / 159.0

Performance	Abs.	vs. WIG
3M	2%	9%
YTD	-1%	28%
12M	-9%	37%

Financials	2008E
Revenue growth	24.2%
Operating margin	6.7%
ROE	44.1%
Bank Debt / Equity	8.3%

Shareholders	Stake
ING NN Pension Fund	13.7%
CU Pension Fund	10.1%
ING Investment Fund	10.0%
AIG Pension Fund	7.4%
PZU Pension Fund	6.7%
Legg Mason AM	6.7%
AXA Pension Fund	6.3%
Other	39.1%

Source: Espirito Santo Research Poland

Analysts

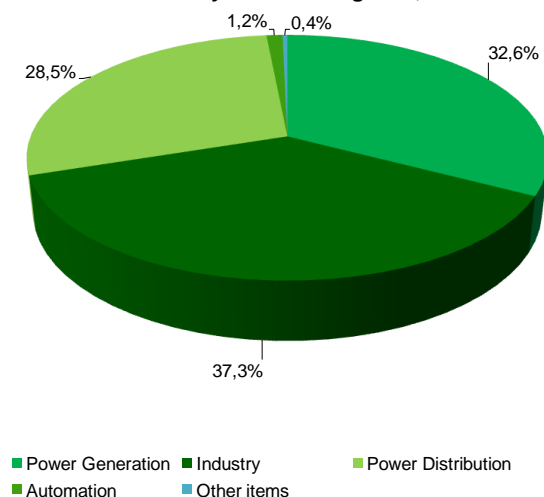
Arkadiusz Chojnacki, CFA	
achojnacki@esinvestment.pl	+ 48 22 347 40 40
Tomasz Duda	
tduda@esinvestment.pl	+ 48 22 347 40 42

Business & Strategy

Elektrobudowa provides construction services for generation and distribution power industries as well as for industrial sector, having the 3 segments more or less the same weight on the company's sales breakdown. The Power Generation division provides services for power plants, extractive, metallurgic and transport industries, focusing on the construction of complex electrical power engineering installations in the scope of low and medium voltages. The Industrial division provides services to the petrochemical industry, commercial buildings and public utility sector, mainly focused on the management of energy needs and renovation of electrical units. The Power Distribution unit provides services to the same customers as the Generation division but focusing on the production, renovation, inspections and delivery of equipment and facilities. The latest innovation of the Company is the introduction of the Automation unit, which targets pumping stations, water treatment plants, waste management units, gas and energy distribution units providing complex services from all its capabilities.

Unique company in our coverage in terms of its operations

Elektrobudowa – Revenues by business segment, 2007



Source: Company reports and Espirito Santo Research Poland

Working in construction for Polish power infrastructure means competing on a market where decisions are made mainly by State owned enterprises, and private companies like Elektrobudowa face competition from other State owned companies, making it hard to call it a free market competition. Since it might take some time to this market situation to change, the company looked to diversify its customer base i.e. focusing on the industrial sector and expanding beyond the Polish borders. The entrance on foreign markets has been done using 2 different approaches: firstly, by being a partner of foreign subsidiaries or associates like Kruelta in Russia or Saudi Elektrobudowa in Saudi Arabia or secondly, by direct bidding for foreign contracts, like the latest Finnish contract for the construction of a nuclear power plant, which is the largest in company's history.

Domestic competition is relatively weak

The recent share's issuance allowed Company to raise PLN 89.7m of capital, which is should be used essentially in acquisitions and in the renovation of the existing production facilities. Regarding recent acquisitions, we believe Energoefekt, which is expected to bring c. 12m in sales, was bought mainly as a way of securing the necessary highly skilled human capital. A similar comment can be made about Energotest-Energopomiar, which should produce c. 40m in sales. These acquisitions are aiming not only to support the development of the company's know-how, but also to deprive competition of the best brains on the market – building Company's competitive

IPO proceeds are used for takeovers

advantage. Acquisition of Vector, a Russian company, aims to strengthen the company's presence on the Eastern markets and supports Kruelto's ability to grab larger contracts.

Contract on nuclear power plants – opportunity in a highly complex environment

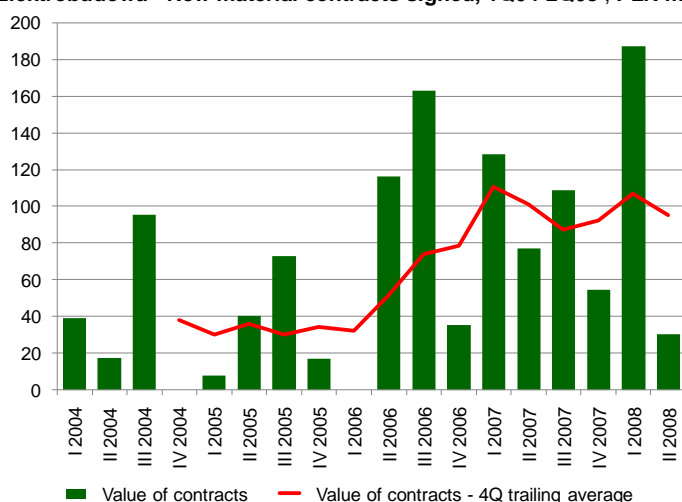
It is not easy to gain a contract to execute the construction services of a nuclear power plant, as only companies with top references and the necessary know-how are able to participate in those tenders. The recent awarding of such a contract in Finland (worth PLN 121m) is a clear sign that large international companies specialized in such type of works find Elektrobudowa as trustworthy partner. We believe that a diligent execution of this contract should enable Elektrobudowa to establish similar cooperation agreements in the future, which can represent another growth driver for the Company

Revenues / Backlog

Elektrobudowa is growing at CAGR of 33% since 2004 and we are estimating this growth pace to slow down to CAGR 21% till 2010E. We expect 2008E revenues to continue with the existing trend, i.e., driven mainly by industrial sector. On the other hand, we expect power infrastructure segment to pick up in 2010E, becoming Elektrobudowa's main driving force, as the listed energy companies will be more eager to show investors they are making the adequate investments. We believe that Company will be able to grab its piece of the cake in the large investments, which will take place on Polish railways and other significant contracts like the construction of the second line of the Warsaw Underground (electricity related works only). International operations should become more and more significant in the revenues' structure as operations in Russia will get a larger scale due to the recent acquisition of Vectra and also follow-up contracts of the Finnish nuclear power plant might be expected. A new segment – automation should deliver fast growth, as investments in increasingly more complex equipment will drive demand for this kind of services, which comprise all the processes of energy management.

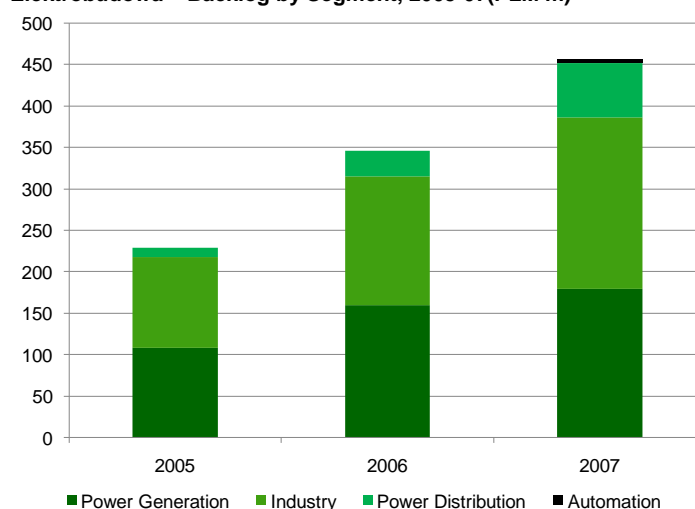
Fast growth is expected to be sustained

Elektrobudowa - New material contracts signed, 1Q04-2Q08, PLN m



Source: Company reports and Espirito Santo Research Poland

Elektrobudowa – Backlog by Segment, 2005-07(PLM m)



Source: Company reports and Espirito Santo Research Poland

Margins/Cost

Although the impressive growth the company delivered recently is attributable in large extent to the industrial segment (CAGR of 44%) and power infrastructure (more profitable business segment) lagged behind (CAGR of 28%), still Elektrobudowa was able to improve its overall profitability. This was possible because Elektrobudowa was able to improve its margins in all units over the last three years. We expect this trend to continue based on the management's strategy of selective approach towards contracts. Nevertheless, we do not expect the company to be able to show similar growth rates as in the recent past. 2010 should be an important year for the company as the demand for this kind of services is likely to allow more generous margins.

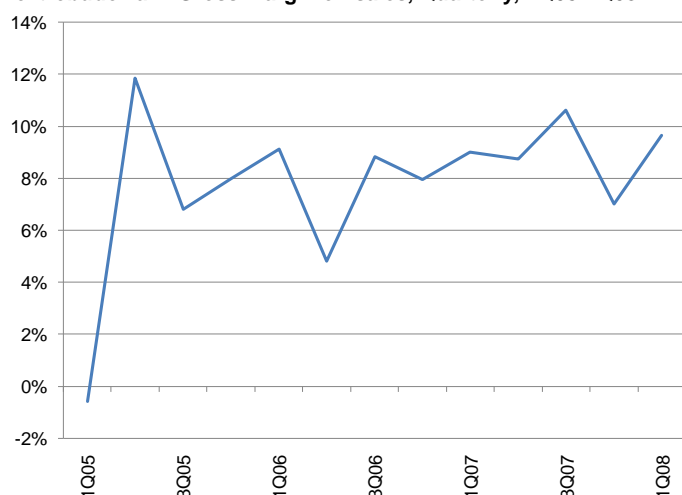
International operations face the risk of unfavorable currency movements; however costs should be in the same currency of the revenues, thus the risk is at the bottom line level only.

Currency exposure is hedged in major part

We expect gross margin to go up to 8.6%, 8.7% and 9.3% in 2008E-2010E, driven mainly by two internal factors: 1) scale effect is expected to impact EBIT as Elektrobudowa showed consistent and effective management of its SG&A costs; 2) company's reliance on highly skilled work force, which allows it to execute larger scale contracts without necessity to increase employment accordingly.

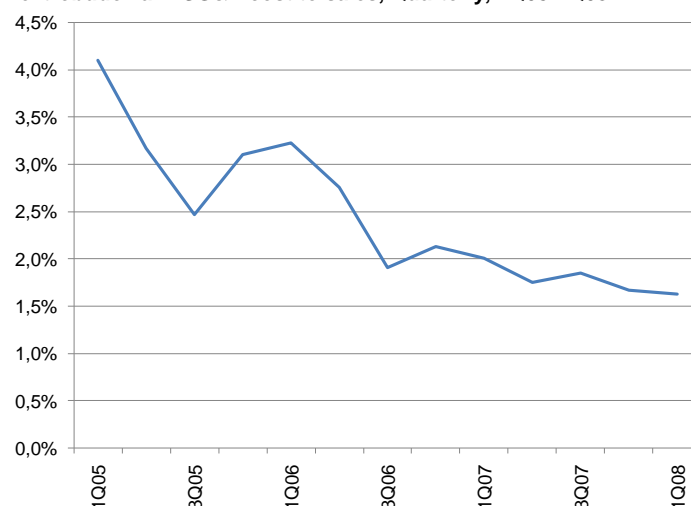
There is a space for wider margins

Elektrobudowa – Gross margin on sales, Quarterly, 1Q05-1Q08



Source: Company reports and Espirito Santo Research Poland

Elektrobudowa – SG&A cost to sales, Quarterly, 1Q05-1Q08



Source: Company reports and Espirito Santo Research Poland

17 June 2008

Financials

ELEKTROBUDOWA - P&L (PLN m)						
	2005	2006	2007	2008E	2009E	2010E
Revenues	345	474	680	844	971	1 199
- yoy change		38%	43%	24%	15%	24%
Cost of Revenue	-319	-438	-621	-771	-887	-1 087
Gross Profit	25	37	58	73	84	112
- yoy change		44%	58%	25%	15%	33%
SG&A cost	-11	-11	-12	-14	-15	-19
- yoy change		6%	9%	15%	9%	28%
Other Operating Income/(Cost)	-2	-2	-2	-2	-2	-2
EBIT	13	24	44	57	67	90
- yoy change		81%	88%	29%	18%	35%
Depreciation cost	-5	-5	-5	-5	-8	-9
EBITDA	18	28	50	62	75	99
- yoy change		56%	76%	25%	21%	32%
Interest Income/(Cost)	0	-1	-1	-1	-1	-1
Other Financial Income/(Cost)						
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	0	2	4	4	5
Pretax Profit	13	22	45	60	70	95
- yoy change		74%	101%	34%	17%	35%
Income Tax	-3	-5	-9	-11	-13	-17
Minority (Profits)/Losses	-1	-2	-1	0	0	0
Net Income	9	15	35	49	58	78
- yoy change		66%	126%	42%	18%	35%
EPS (PLN)	2.3	3.6	8.2	10.4	12.2	16.4
- yoy change		56%	126%	26%	18%	35%
Profitability Ratios	2005	2006	2007	2008E	2009E	2010E
Gross Margin	7.4%	7.8%	8.6%	8.6%	8.7%	9.3%
EBIT Margin before other operating items	4.3%	5.4%	6.8%	7.0%	7.1%	7.7%
EBIT Margin	3.8%	5.0%	6.5%	6.7%	6.9%	7.5%
Net Margin	2.7%	3.2%	5.1%	5.8%	6.0%	6.5%
ROE	14.3%	21.9%	41.1%	44.1%	24.1%	28.5%
ROA	5.4%	8.8%	12.7%	14.5%	11.0%	13.0%

Source: Company reports and Espirito Santo Research Poland

We are conservative in our revenues growth, though post privatization boom is expected to be seen in 2010E

Margins are expected to perform well on the back of strong demand and effective costs management

17 June 2008

ELEKTROBUDOWA - Balance

Sheet (PLN m)	2005	2006	2007	2008E	2009E	2010E
Total Current Assets	132	224	281	403	445	554
Cash and Equivalents	10	22	22	37	56	74
Receivables	115	178	238	304	350	432
Inventory	6	23	15	30	34	42
Other Current Assets	1	1	6	33	6	7
Total Fixed Assets	43	49	58	124	154	160
Tangible Assets	30	34	38	100	131	136
Investments	0	0	4	4	4	4
Other Fixed Assets	13	16	16	20	20	20
Total Assets	175	274	339	527	600	714
Stockholders` Equity	72	88	112	240	273	316
Including Minority Interest	2	3	0	0	0	0
Long Term Liabilities	6	8	11	32	34	37
Long -Term Debt	0	0	0	18	18	18
Other Long - Term liabilities	6	8	11	14	16	19
Short Term Liabilities	98	178	216	255	293	361
Accounts Payable	80	153	193	251	288	356
Short -Term Debt	16	22	22	2	2	2
Other Current Liabilities	1	2	0	2	2	3
Total Equity & Liabilities	175	274	339	527	600	714
BVPS (PBG)	17.7	20.0	26.5	50.6	57.6	66.6
Ratios	2005	2006	2007	2008E	2009E	2010E
Current Ratio	1.3	1.3	1.3	1.6	1.5	1.5
Quick Ratio	1.3	1.1	1.2	1.5	1.4	1.4
Bank Debt/Assets	9%	8%	7%	4%	3%	3%
Bank Debt/Equity	23%	25%	20%	8%	7%	6%

Large debt should not be required

ELEKTROBUDOWA - Cash Flow

(PLN m)	2005	2006	2007	2008E	2009E	2010E
Net Profit	9	15	35	49	58	78
Depreciation and Amortisation	5	5	5	5	8	9
Net Working Capital Change	8	-5	-12	-23	-12	-22
Other	-5	1	-4	-20	30	3
Operating Cash Flows	17	16	23	12	83	67
Capital Expenditures (Net)	-6	-8	-11	-72	-38	-13
Other	1	1	-4	0	0	0
Activities	-6	-7	-15	-72	-38	-13
Change in Debt	-5	6	-3	-2	0	0
Issuance of Shares	0	5	0	90	0	0
Interest paid	-2	-1	-1	-1	-1	-1
Dividends paid	-4	-6	-8	-11	-25	-35
Other	0	0	0	0	0	0
Cash Flows from Financing Activities	-11	4	-13	75	-26	-36
FX Differences	0	0	0	0	0	0
Beginning Cash	9	2	14	22	37	56
Increase/(Decrease) in Cash	1	12	-4	15	19	18
Ending Cash	10	22	22	37	56	74
DPS (PLN)	1.0	1.5	2.0	2.5	5.2	7.3

Capital expenditures are allocated mainly on acquisitions

Solid dividend is expected to support investors interest in Elektrobudowa's performance

Source: Company reports and Espirito Santo Research Poland

17 June 2008

DCF Model

Elektrobudowa - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	37.5%	43.3%	24.2%	15.0%	23.5%	19.7%	16.2%	13.1%	12.3%	3.0%
Revenues	474	680	844	971	1199	1436	1669	1888	2120	2183
Operating Margin	5.0%	6.5%	6.7%	6.9%	7.5%	8.0%	8.0%	8.1%	8.3%	7.2%
EBIT	24	44	57	67	90	114	134	153	175	153
Taxes Rate	22.7%	21.3%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
EBIT(1-t)	18	35	46	54	73	93	109	124	142	124
+ Depreciation			5	8	9	9	9	10	10	10
- Capital Expenditures			-72	-38	-13	-16	-16	-16	-16	-13
- Chg WC			-19	-12	-22	-23	-22	-21	-22	-6
FCFF			-39	12	47	63	80	97	114	115
Terminal Value										1510.0
Cost of Capital Calculations										
Tax Rate			19%	19%	19%	19%	19%	19%	19%	19%
Debt Ratio			3%	3%	3%	4%	4%	4%	5%	10%
Equity Ratio			97%	97%	97%	96%	96%	96%	95%	90%
Beta			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity			12.3%	11.7%	11.5%	11.3%	11.3%	11.2%	11.2%	11.2%
Cost of Debt			6.8%	6.2%	6.0%	5.8%	5.8%	5.7%	5.7%	5.7%
Cost of Debt for the Firm			7.5%	7.1%	6.9%	6.8%	6.8%	6.7%	6.7%	6.7%
After-tax cost of debt			6.1%	5.8%	5.6%	5.5%	5.5%	5.4%	5.4%	5.4%
Cost of Capital			12.0%	11.5%	11.3%	11.1%	11.0%	11.0%	10.9%	10.6%
Present Value Calculations										
Cumulative WACC			1.0	1.1	1.2	1.4	1.5	1.7	1.9	
Present Value of FCFF			-39	11	38	46	52	57	60	
Present Value of Terminal Value									801	

Elektrobudowa- DCF Valuation Summary (PLN m)

PV of FCFF during high growth phase =	247
PV of Terminal Value =	801
Value of Operating Assets of the firm =	1 048
Value of Cash & Non-operating assets=	72
Value of Firm =	1 119
- Value of Outstanding Debt =	-20
- Adjustment for Minority Stakes	-15
Value of Equity =	1 084
Value of Equity per share at 2008 end (PLN) =	228
12 Month Target Price (PLN)	242

Elektrobudowa - DCF Model Key Assumptions

Revenue CAGR 2008E-2014E	16.6%
Nominal (Real) growth rate in perpetuity	3% (0%)
Average operating margin in 2008E-2014E	8.0%
Operating margin in perpetuity	7.0%
Market Risk Premium	5.5%
Average WACC in 2008E-2014E	11.3%
WACC in perpetuity	10.6%

Elektrobudowa - Target Price Sensitivity (PLN)

Real Growth Rate in		Operating Margin in Perpetuity		
Perpetuity	Nominal Growth	8.0%	7.0%	6.0%
-1.0%	2.0%	248	224	200
0.0%	3.0%	270	242	215
1.0%	4.0%	298	266	234

Source: Espirito Santo Research Poland

17 June 2008

ERBUD – MIDDLE SIZE BUT FAST GROWING

Diversification is to support growth and margins

The exceptional CAGR of 71% the company posted since 2004 was essentially driven by its strong domestic expansion. Erbud is on the verge of reaching PLN 1bn of sales in the near future - a base that might be difficult to expand further with similar pace. The emphasis is now on diversification to other segments of the construction market – development activity and road construction, which should not only support the company's growth but also its margin expansion. And although we expect revenues growth to slowdown (44%, 21% and 15% in 2008E-2010E), we still find the stock quite attractive vs. competition as supporting margins will drive P/E to 18.2, 14.9 and 12.6 in 2008E-2010E.

Domestic sales remain driving force

We expect domestic construction sales to remain the main business line of the company, weighting more than 67% of revenues in 2010E, changing the focus from retail centers to other larger scale projects as office and industrial buildings. Roads construction and development activity should weight 15% of total sales each.

Erbud's strategy impacts valuation

The company uses leased equipment in several projects, which hurts the margins, but leaves more cash in the company impacting positively valuation. This strategy made the staggering growth possible as Erbud was able to execute large scale contracts without significant investments.

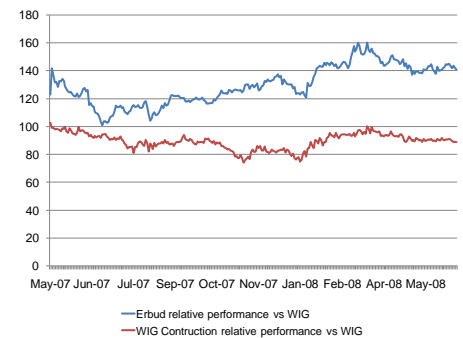
Acquisitions add value

We like Erbud's strategy of diversification into other segments through acquisitions essentially due to the company's good track record in acquisitions, which normally are value added. The acquisition of the major developer in the Kujawy region gave Erbud a dominant position in that regional market at a reasonable price. The takeover of PRD Torun is another good example, as the company did not overpaid and we believe more transactions done at such parameters are likely to add value, both in terms of successful and well priced diversification and in terms of growth opportunities of taken over companies.

Erbud

BUY – Medium/Low Risk

Price Target (Jun. 09)	PLN 93
Price (16 Jun. 08)	PLN 76.5
Potential	22%



Trading

Reuters Code	ERBA.WA
Bloomberg Code	ERB PW
Shares Outstanding (m)	12.57
Market Cap (€m)	280
12M Avg. Daily Turnover (€m)	0.5
12M Avg. Daily Volume (th)	10.4
WIG Weight (%)	0.19
WIG 20 Weight (%)	na
52 W High / Low	103.2 / 68.0

Performance	Abs.	vs. WIG
3M	-14%	-8%
YTD	-16%	8%
12M	-22%	18%

Financials	2008E
Revenue growth	43.1%
Operating margin	7.0%
ROE	25.1%
Bank Debt / Equity	24.7%

Shareholders	Stake
Wolff&Müller Baubeteiligungen GmbH&Co.	32.0%
Juladal Investments Limited	26.4%
Grzeszczak Dariusz	6.0%
BPH Investment Fund	5.2%
CU Pension Fund	5.1%
Other	25.4%

Source: Espirito Santo Research Poland

	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	426	27	20	2.0	2.0	502%	na	na	na
2007	663	35	32	2.8	2.4	18%	38.1	30.1	0.0%
2008E	949	70	53	4.2	4.2	76%	18.2	13.4	0.0%
2009E	1 160	86	65	5.1	5.1	22%	14.9	10.9	2.7%
2010E	1 372	101	76	6.1	6.1	18%	12.6	8.7	3.4%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

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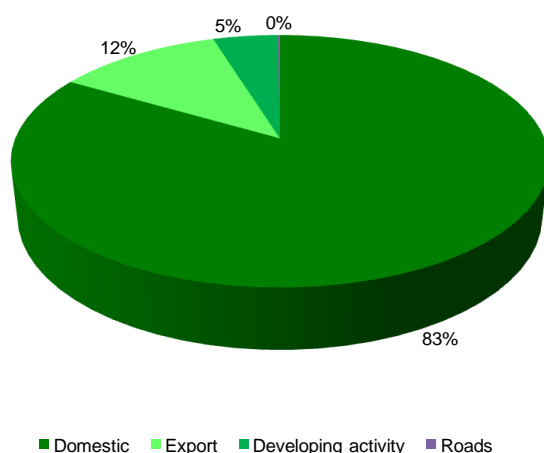
Business & Strategy

We would say that till last year Erbud still belonged to Tier 2 group among the Polish construction companies (in 2007 was 12th in revenues and 8th on market cap on WSE), but the strong growth the company should post this year should bring it at least to the top 10.

The experience and technology Erbud acquired operating in the German market allowed the company to gain a relevant market share in the Polish market quite fast. The company usually builds a shell of the building using its own resources while it hires subcontractors for other types of works. This way Erbud is able to start construction timely and gains time to line up necessary subcontractors at reasonable prices to order the execution of the rest of the contract.

This successful strategy allowed Erbud to gain the critical mass necessary to execute larger scale contracts like the construction of retail centers in Poznan and Koszalin valued at PLN 155m and 178m, respectively. A big part of the company's growth potential depends on its ability to get more contracts of such dimension and diversifying to office buildings seems a good move.

Erbud – Revenues by business segment, 1Q08



Source: Company reports and Espirito Santo Research Poland

Erbud's development activity is carried out through one of its latest acquisitions – Budlex, the major player in the Kujawy region with an estimated market share of 60%. Budlex has c. 80k of sq m under development which means the total revenues to be cashed in from the ongoing projects can be estimated at c. PLN 500m, to be booked in the next three years. As it does not possess large land bank, the company's future prospects depend to a large extent on its ability to purchase plots at reasonable prices.

The Road construction market is on the verge to receive large investments, hence it is very unlikely to see construction companies complaining about lack of work. Erbud is well positioned in the market for the development of regional and municipal roads or to become a subcontractor of the larger scale works. We expect that in the middle run revenues from road construction activity should not be higher than PLN 200m a year, which makes share of this market segment in total Erbud business to remain below 20%. However, these kinds of contracts could offer quite generous margins – especially if comparing with large scale motorway contracts.

The company should be in Polish top 10 contractors soon

Developing activity is concentrated in "Kujawy" region

Local roads will be another segment of Erbud's activity

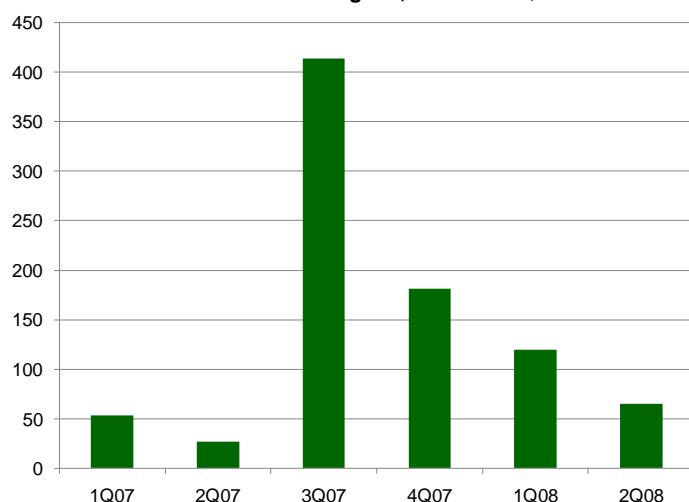
Revenues / Backlog

Erbud posted strong revenues' growth by expanding its operations across Poland through its network of regional divisions. Erbud managed to sign significant number of contracts that supported its backlog growth and to increase the value of the signed contracts. The largest contract in 2005 amounted to PLN 40m, while just a year later the largest contract had more than tripled reaching PLN 155m. We have no doubt that such contracts are under the management's sight and will be crucial to define Erbud's future growth. We estimate domestic sales to grow to c. PLN 940m in 2010E with further PLN 400m coming from roads construction and residential sales.

Revenue growth will depend on ability to get more, larger value contracts

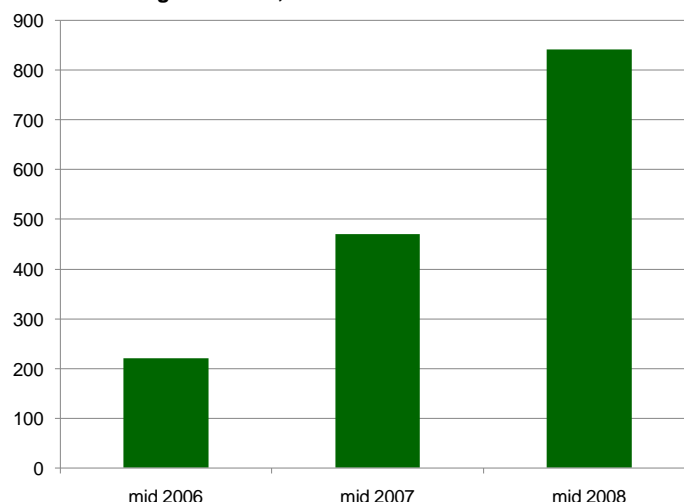
We think that Residential sales have a limited risk of not being materialized this year as the projects are already under construction (some already pre-sold). Being a major player on a regional market gives Erbud some comfort regarding its ability to find customers in the future (though some fluctuations are possible if the correction on housing market is deeper than expected). The awarding of roads construction contracts should be favored by the support of the acquired companies' managements and the strong financial position of the group.

Erbud – New material contracts signed, 1Q07-2Q08, PLN m



Source: Company reports and Espirito Santo Research Poland

Erbud – Backlog 2006-2008, PLN m



Source: Company reports and Espirito Santo Research Poland

Margins and costs

Erbud managed to sustain gross margin above 9% in the domestic construction market and we expect such margins are sustainable on the long run. Export margins deteriorated along with export sales due to the strength of Polish currency. Erbud's activity in this segment is likely to remain as it is (both on revenues and margins), which means it will continue to have rather insignificant impact on the Company's valuation. The Development activity, with gross margins of c. 25% is the main driving force of the projected gross margin increase, which we expect to rise to 10.6% in 2008E from 8.5% in 2007. In the following years we are looking for gradual decrease in margin on development activity (higher cost, more competition), however this margin should still be around twice as high as the margin of the general construction business.

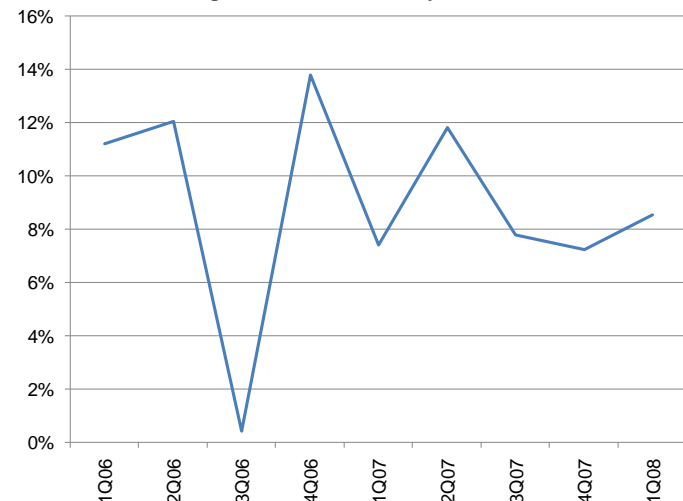
Hike in margins is expected as developing activity offers higher profitability

The expected increase on the weight of roads construction unit in Erbud's total revenues should impact negatively the company's margins. Thus we expect the margin to go below 10% in 2012 as the roads construction business should reach its peak housing

residential margins are likely to shrink.

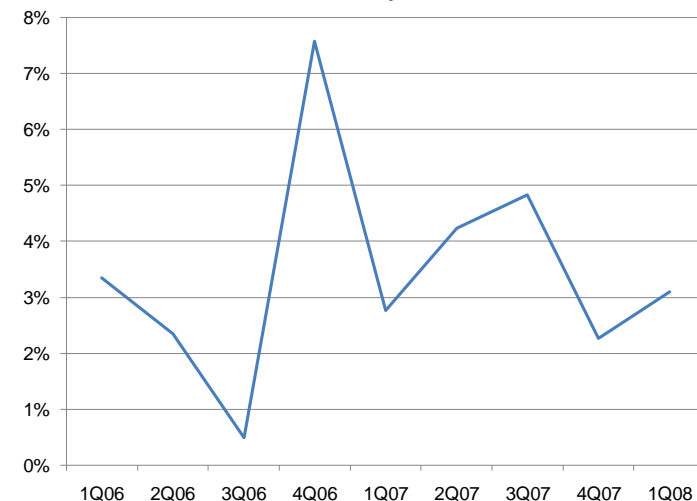
So far Erbud managed its SG&A costs very efficiently, maintaining them well below 4% of the revenues. We expect that critical mass should help to keep costs at this level, eventually a bit higher due to the group's diversification strategy.

Erbud – Gross margin on sales, Quarterly, 1Q06-1Q08



Source: Company reports and Espirito Santo Research Poland

Erbud – SG&A cost to sales, Quarterly, 1Q06-1Q08



Source: Company reports and Espirito Santo Research Poland

Financials

ERBUD - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
Revenues	224	426	663	949	1 159	1 370
- yoy change		90%	56%	43%	22%	18%
Cost of Revenue	-211	-389	-607	-849	-1 037	-1 227
Gross Profit	13	37	56	100	122	143
- yoy change		183%	52%	78%	22%	17%
SG&A cost	-6	-14	-23	-35	-42	-48
- yoy change		137%	61%	55%	19%	15%
Other Operating Income/(Cost)	-1	2	-1	2	2	2
EBIT	6	25	33	67	82	97
- yoy change		309%	29%	103%	23%	18%
Depreciation cost	-1	-1	-2	-2	-3	-4
EBITDA	7	27	35	69	85	100
- yoy change		273%	30%	99%	24%	18%
Interest Income/(Cost)	-2	0	6	-1	-3	-3
Other Financial Income/(Cost)						
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	0	0	0	0	0
Pretax Profit	5	25	39	65	80	94
- yoy change		450%	55%	66%	22%	18%
Income Tax	-1	-5	-7	-12	-15	-18
Minority (Profits)/Losses	0	0	0	0	0	0
Net Income	3	20	32	53	65	76
- yoy change		502%	57%	66%	22%	18%
EPS (PLN)	0.34	2.02	2.82	4.20	5.13	6.06
- yoy change		502%	39%	49%	22%	18%
Profitability Ratios	2005	2006	2007	2008E	2009E	2010E
Gross Margin	5.9%	8.7%	8.5%	10.6%	10.6%	10.5%
EBIT Margin before other operating items	3.2%	5.4%	5.1%	6.9%	7.0%	7.0%
EBIT Margin	2.8%	5.9%	4.9%	7.0%	7.1%	7.1%
Net Margin	1.5%	4.7%	4.8%	5.6%	5.6%	5.6%
ROE		100.6%	77.4%	25.1%	24.6%	25.3%
ROA		22.3%	20.8%	10.7%	9.9%	9.9%

Source: Company reports and Espirito Santo Research Poland

17 June 2008

ERBUD - Balance Sheet (PLN m)	2005	2006	2007	2008E	2009E	2010E
Total Current Assets	83	140	445	584	694	795
Cash and Equivalents	20	29	128	112	129	155
Receivables	58	105	127	196	255	288
Inventory	3	0	119	169	197	233
Other Current Assets	1	5	71	107	113	119
Total Fixed Assets	8	14	46	66	77	92
Tangible Assets	2	5	17	24	30	38
Investments	1	1	12	17	21	25
Other Fixed Assets	5	8	17	25	26	29
Total Assets	91	153	491	649	771	887
Stockholders` Equity	20	41	210	263	301	345
Including Minority Interest	0	0	17	17	17	17
Long Term Liabilities	1	3	25	18	22	23
Long -Term Debt	0	0	21	13	15	15
Other Long - Term liabilities	1	3	4	5	7	8
Short Term Liabilities	70	109	256	369	448	519
Accounts Payable	58	99	166	256	313	370
Short -Term Debt	2	1	20	52	60	60
Other Current Liabilities	10	9	71	61	75	89
Total Equity & Liabilities	91	153	491	649	771	887
BVPS (PBG)	2.0	4.1	15.3	19.5	22.5	26.0
Ratios	2005	2006	2007	2008E	2009E	2010E
Current Ratio	1.2	1.3	1.7	1.6	1.5	1.5
Quick Ratio	1.1	1.3	1.3	1.1	1.1	1.1
Bank Debt/Assets	2%	1%	8%	10%	10%	8%
Bank Debt/Equity	10%	3%	19%	25%	25%	22%

ERBUD - Cash Flow (PLN m)	2005	2006	2007	2008E	2009E	2010E
Net Profit	3	20	32	53	65	76
Depreciation and Amortisation	1	1	2	2	3	4
Net Working Capital Change	-7	-2	13	-27	-31	-12
Other	2	-6	-11	-53	5	2
Operating Cash Flows	-1	14	36	-25	42	70
Capital Expenditures (Net)	-2	-3	-3	-15	-9	-11
Other	3	-3	-72	0	0	0
Cash Flows from Investing Activities	2	-6	-75	-15	-9	-11
Change in Debt	0	1	19	24	10	0
Issuance of Shares	0	1	121	0	0	0
Interest paid	0	0	-2	0	0	0
Dividends paid	0	0	0	0	-26	-32
Other	0	0	0	0	0	0
Cash Flows from Financing Activities	-1	2	138	24	-16	-32
FX Differences						
Beginning Cash	21	20	29	128	112	129
Increase/(Decrease) in Cash	-1	9	99	-16	16	26
Ending Cash	20	29	128	112	129	155
DPS (PLN)	0.0	0.0	0.0	0.0	2.1	2.6

Source: Company reports and Espirito Santo Research Poland

17 June 2008

DCF Model

Erbud - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	90.4%	55.6%	43.1%	22.1%	18.2%	9.1%	9.0%	9.0%	9.1%	3.0%
Revenues	426	663	949	1159	1370	1494	1628	1775	1936	1994
Operating Margin	5.9%	4.9%	7.0%	7.1%	7.1%	6.8%	6.7%	6.6%	6.5%	6.0%
EBIT	25	33	67	82	97	102	110	117	127	120
Taxes Rate	20.2%	18.9%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	0.0%
EBIT(1-t)	20	27	54	67	78	83	89	95	103	120
+ Depreciation			2	3	4	4	5	6	6	7
- Capital Expenditures			-15	-9	-11	-11	-11	-11	-11	-9
- Chg WC			-41	-37	-18	-17	-11	-11	-11	-8
FCFF			0	23	53	59	72	78	87	110
Terminal Value										1396.2
Cost of Capital Calculations										
Tax Rate			19%	19%	19%	19%	19%	19%	19%	0%
Debt Ratio			6%	6%	6%	7%	7%	7%	7%	7%
Equity Ratio			94%	94%	94%	93%	93%	93%	93%	93%
Beta			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity			12.0%	11.6%	11.4%	11.3%	11.3%	11.2%	11.2%	11.2%
Cost of Debt			6.5%	6.1%	5.9%	5.8%	5.8%	5.7%	5.7%	5.7%
Cost of Debt for the Firm			7.5%	7.1%	6.9%	6.8%	6.8%	6.7%	6.7%	6.7%
After-tax cost of debt			6.1%	5.8%	5.6%	5.5%	5.5%	5.4%	5.4%	6.7%
Cost of Capital			11.6%	11.2%	11.0%	10.9%	10.9%	10.8%	10.8%	10.9%
Present Value Calculations										
Cumulative WACC			1.0	1.1	1.2	1.4	1.5	1.7	1.9	
Present Value of FCFF			0	21	43	43	48	47	46	
Present Value of Terminal Value										748

Erbud - DCF Valuation Summary (PLN m)

PV of FCFF during high growth phase =	247
PV of Terminal Value =	748
Value of Operating Assets of the firm =	996
Value of Cash & Non-operating assets =	191
Value of Firm =	1 186
- Value of Outstanding Debt =	-65
- Adjustment for Minority Stakes	-20
Value of Equity =	1 101
Value of Equity per share at 2008 end (PLN) =	88
12 Month Target Price (PLN)	93

Erbud - DCF Model Key Assumptions

Revenue CAGR 2008E-2014E	12.6%
Nominal (Real) growth rate in perpetuity	3% (0%)
Average operating margin in 2008E-2014E	6.8%
Operating margin in perpetuity	6.0%
Market Risk Premium	5.5%
Average WACC in 2008E-2014E	11.0%
WACC in perpetuity	10.9%

Erbud - Target Price Sensitivity (PLN)

Real Growth Rate in		Operating Margin in Perpetuity		
Perpetuity	Nominal Growth	7.0%	6.0%	5.0%
-1.0%	2.0%	96	86	76
0.0%	3.0%	104	93	81
1.0%	4.0%	114	101	88

Source: Company reports and Espirito Santo Research Poland

17 June 2008

PBG – GOOD BUT NOT CHEAP

Staggering results are met by staggering price

In the 2004-07 period, PBG posted an impressive CAGR 69% EPS growth. This performance is related with PBG's ability to grow via acquisitions and via the awarding of significant size projects, which generated a comfortable back-log. We have no reason to believe that this strategy will not be successfully implemented in the future, although apparently the market became used to this exceptional performance. Much of the future growth is already priced in as PBG trade at P/E 24.8, 18.2 and 15 according to our 2008E-2010E estimates, which we find demanding and not accommodating the risk of decreasing profitability.

The growth is there but margins are likely to decrease

With PLN 3.5bn of backlog as of mid 2008, PBG is doomed to see strong top-line performance, which we estimate to be 50%, 47% and 34% in 2008E-2010E, well above market growth. Taking a glance at the bottom line we expect to see EPS growth of 44%, 36% and 21% in the same period. Our major concern is profitability's unfavorable trend in recent years and backlog structure: the majority (85%) of the projects is in the less profitable water segment. Nevertheless, we expect to see EBIT margins of 9.6%, 9.7% and 8.6% in 2008E-2010E, as growth itself impacts margins negatively- the pool of high profitable contracts is limited, so growth is done at margin expense

Large contracts are additional driver

Several large contracts are to be awarded in the near future with works for PGNiG, PKN Orlen, Warsaw Underground and EURO 2012 sport facilities at the front row. These are additional growth drivers for the Company, incorporated in our 2009E-2012E estimates. However, it is not likely that these projects are as profitable as the margins PBG has enjoyed in recent years.

Roads and real estate support growth but remain insignificant

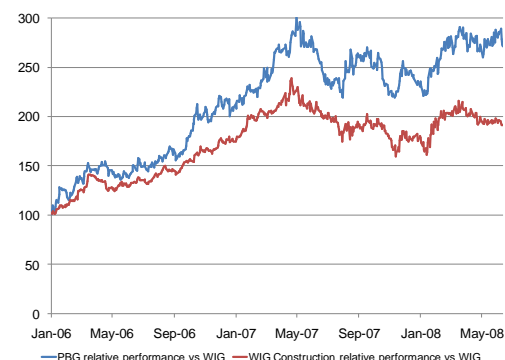
The acquisition of three roads construction companies marked the entry in the sector and although PBG is unlikely to get large contracts, the company might benefit from regional and municipal roads construction. We expect PBG's roads division capacity to reach PLN 500m in 2010E, meaning it will still be immaterial to the total top line. We are also expecting increasing profits from the development activity, although they should still be not relevant taking in consideration the whole PBG picture.

	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	674	88	52	4.6	4.5	20%	57.3	37.5	0.0%
2007	1 377	138	102	8.0	6.2	38%	49.8	30.6	0.0%
2008E	2 061	226	147	10.9	9.0	45%	24.8	18.2	0.0%
2009E	3 028	333	200	14.9	13.4	49%	18.2	12.4	0.0%
2010E	4 052	393	243	18.1	17.8	33%	15.0	10.5	0.0%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

PBG

SELL – Medium/Low Risk

Price Target (Jun. 09) **PLN 252**Price (16 Jun. 08) **PLN 271.3**Potential **-7%**

Trading

Reuters Code	PBGG.WA
Bloomberg Code	PBG PW
Shares Outstanding (m)	13.43
Market Cap (€m)	1 109
12M Avg. Daily Turnover (€m)	4.4
12M Avg. Daily Volume (th)	22.5
WIG Weight (%)	1.46
WIG 20 Weight (%)	2.45
52 W High / Low	404.8 / 242.0

Performance	Abs.	vs. WIG
3M	-15%	-9%
YTD	-12%	13%
12M	-32%	3%

Financials	2008E
Revenue growth	49.7%
Operating margin	10.0%
ROE	18.8%
Bank Debt / Equity	16.0%

Shareholders	Stake
Wiśniewski Jerzy	50.1%
ING Pension Fund	6.8%
Other	43.1%

Source: Espirito Santo Research Poland

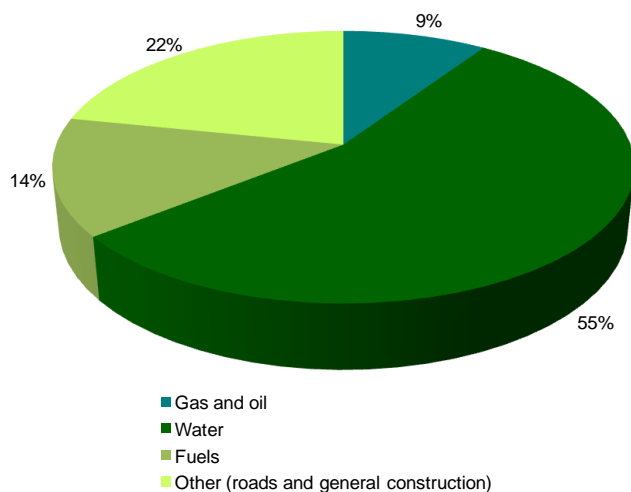
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Business & Strategy

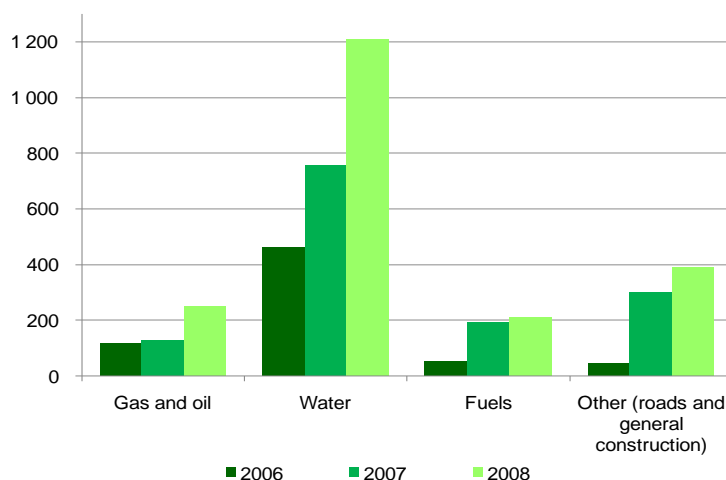
The most relevant PBG group's operations are on waterworks, as the company was a relevant player in the M&A that took place in the sector in recent years. As in the last 3 years the Polish water related infrastructures received substantial inflows from EU (which boosted investments), PBG grabbed its piece of the pie, namely via acquisitions. Positive prospects for the environmental related construction in the forthcoming years, supported by lined up financing from 2007-2013 operational program, make the market generous both in terms of revenues and margins. Other very important segment (especially in terms of profitability) is the construction in oil & gas segment, where PBG holds a very strong position in the domestic marketplace.

PBG – Breakdown of total revenues by segment, 2007



Source: Company reports and Espirito Santo Research Poland

PBG – Breakdown of total revenues by segments, 2006-2008E



Source: Company reports and Espirito Santo Research Poland

Waterworks – main focus

In order to have a significant presence on the most lucrative parts of the hydro technical market, PBG had to build strong capabilities to be able to implement its selective strategy. In 2005 Meteorex, Hydrobudowa Wloclawek and Infra were acquired, allowing PBG to position itself not only on the water supply and sewage systems market but also on the aforementioned systems' renovation market as well. One year after, taking advantage of this company profitability and financial liquidity problems, PBG acquired Hydrobudowa Slask, merging the company with Hydrobudowa Wloclawek (the new co's name is Hydrobudowa Polska). According to the management, as of the end of 2007, all the unprofitable contracts were already settled. Hydrobudowa 9 was also added to the group in 2007 and should be merged with Hydrobudowa Polska. As of mid 2008 PBG holds 60.7% stake in Hydrobudowa Polska, accounting for the latest issuance of K series shares, in which PBG did not participate allowing for the reduction of its holding from prior level of 76%. Taking a glance at current PBG's backlog it seems likely that waterworks will be PBG's main division in terms of revenues, at least until the large oil & gas projects finally kick-off.

Gas and oil are to fuel growth

The project to build an installation to remove nitrogen from gas in Grodzisk proves PBG's ability to manage large scale contracts. This contract awarded in 2006 totals PLN 119m and clearly is a landmark for this business unit, since the typical oil & gas contracts the company was involve in the past did not exceed PLN 20m. As we have been saying,

PBG was able to quickly benefit from robust recovery in environment related construction...

...though it did not overlook the segment it knows best and which is about to offer big perspectives

there are much more significant contracts to be tendered in the future, like the construction of Lubiatów-Miedzichód-Grotów oil & gas mine and Underground Wierchowice Storage, where PBG should be preferred contractor (we expect that it is very likely that the company wins both projects). PBG also decided to expand this business unit into foreign markets, setting up subsidiaries in Canada and Slovakia.

Roads – introduction to the group

The most recent business segment of the PBG group is road construction, where the company will try to play a part in the huge investments to be done in 2008-2012, when c. 900km of motorways and c. 2700km of expressways are to be constructed. A clear sign of the management's determination to enter this business was the acquisition, in 2007, of BETPOL, PDM Dromost and PRID for c. PLN 70 (already represented c. 120m of revenues in 2007). Although many large scale contracts are yet to be awarded in the near future, we believe that PBG's activity in the sector will be focused more on regional and municipal roads or being a subcontractor engaged in national roads construction. This strategy might actually produce more generous margins than general roads construction, though still comparably lower than the ones PBG showed recently. Another part of the strategy was executed when quarries in Brodziszow and Sulislaw were bought in mid 2007 allowing for extraction of 32m tones of building materials, what should offer Company some stability in material prices.

Struggle to be part of the transport infrastructure market was successful, though is expected to remain marginal at least in the near future

Housing – small at the moment

In mid 2007 PBG Dom and Apartamenty Poznanskie were included into the group's structure and PBG might develop this activity on the back of non-core plots of land it seized along with acquired companies. Nevertheless, the scale of this activity will continue to be rather minor, and should be used essentially to finance the execution of ongoing large construction contracts.

No straight forward strategy for residential as of now

Revenues/Backlog

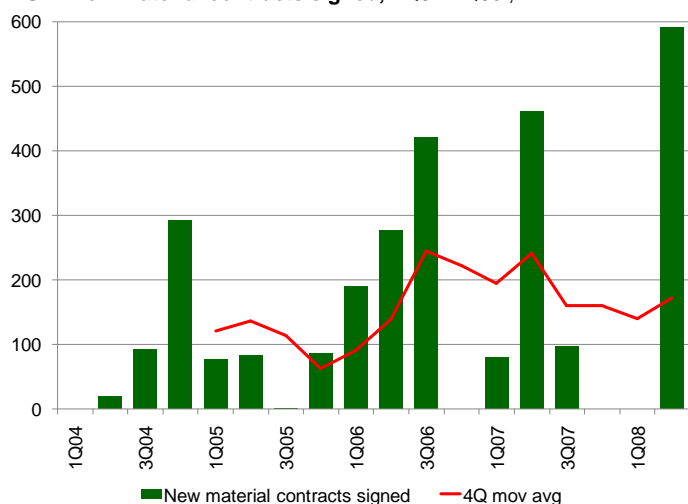
The management's ability to win profitable contracts coped with the solid backlog makes us believe that that PBG should see revenues growth at CAGR of 43% in 2008E-2010E. Although the majority (85%) of the backlog comes from water related works, large infrastructure contracts, which are to be granted in the next two years, should reweight this structure, and this is what we have in our estimates. The most successful period in terms of signing contracts was 2006 when PBG managed to triple its backlog from PLN 700m to c. 2.1bn and the average value of new material contract signed amounted to c. PLN 80m. 2007 was less successful and the average value of new material contracts signed dropped to c. PLN 50m. This was probably due to the management focus to get large contracts tenders and also to a selective approach to new contracts.

Little risk to see weak top line

Additional activity in roads construction and residential sector would be of minor significance for the top line and we do not expect it to exceed 15% of total revenues in 2010E

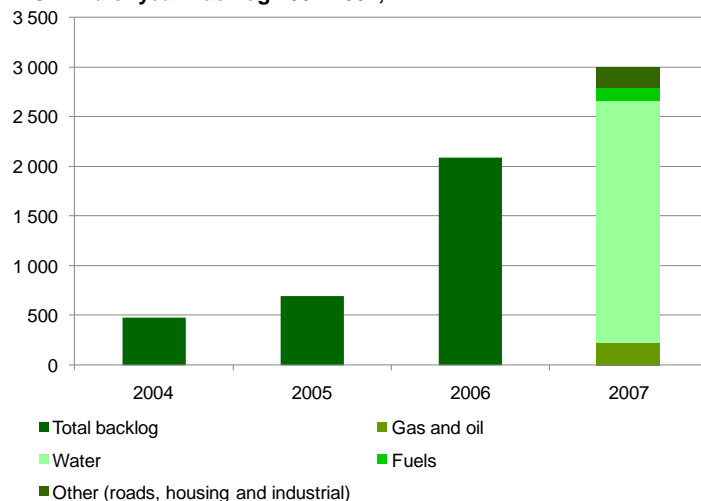
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PBG – New material contracts signed, 1Q04-2Q08, PLN m



Source: Company reports and Espirito Santo Research Poland

PBG– End of year Backlog 2004-2007, PLN m

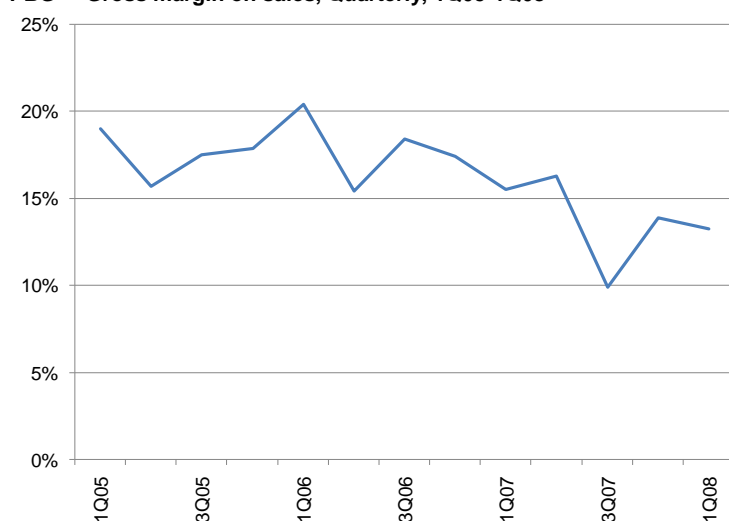


Source: Company reports and Espirito Santo Research Poland

Margins and costs

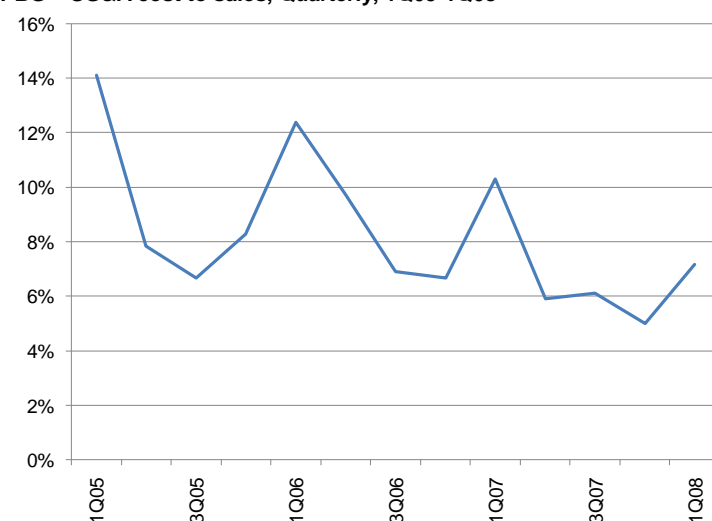
Although PBG enjoyed high gross and EBIT margins in the recent past, the direction of the margins development is unfavorable and this can be attributed in part to unfavorable currency movements as significant part of Company's contracts are invoiced in Euros. The fact that the company is gaining scale is also to take blame as it forcing PBG to get less profitable contracts as the pool of high margin contracts is limited. Although on the adjusted EBIT level margin above 9% was sustained for 2004-06, it was achieved mainly due to scale effects (share of SG&A costs in revenues was reduced) while the gross margin on sales have been declining. Alarming is the fact that the margin deterioration is seen in all segments, what can be explained by the fact that growth was done at the expense of subcontractors and the demand for external services boosted subcontractors prices.

PBG – Gross margin on sales, Quarterly, 1Q05-1Q08



Source: Company reports and Espirito Santo Research Poland

PBG – SG&A cost to sales, Quarterly, 1Q05-1Q08



Source: Company reports and Espirito Santo Research Poland

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We expect margins in 2008E-12E to remain around 2007 level in regard of gross profit and that further scale effect will be seen on the cost side. Positive impact on margins development could occur if the company manages to get one of the large contracts from the oil & gas sector, which we partially include in our model. We also expect, though with a relatively low impact, effects of the newly started roads activity this year. Consequently we forecast operating margin to slightly go up comparing with 2007.

Factor which should hurt net margin is the financial result: the increasing scale of the company is driving working capital needs. We expect further external financing will need to be lined up in order to manage effectively current contracts' execution.

Financials

PBG - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
Revenues	409	674	1 377	2 061	3 028	4 052
- yoy change		65%	104%	50%	47%	34%
Cost of Revenue	-337	-558	-1 192	-1 782	-2 601	-3 502
Gross Profit	71	116	185	278	427	550
- yoy change		63%	59%	50%	54%	29%
SG&A cost	-34	-54	-80	-115	-163	-215
- yoy change		60%	48%	44%	42%	31%
Other Operating Income/(Cost)	4	10	4	35	31	12
EBIT	41	72	109	198	295	347
- yoy change		74%	52%	81%	49%	18%
Depreciation cost	-9	-16	-29	-28	-37	-46
EBITDA	50	88	138	226	333	393
- yoy change		76%	56%	64%	47%	18%
Interest Income/(Cost)	-6	-12	-21	0	0	0
Other Financial Income/(Cost)	3	11	27	13	-1	11
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	8	-1	28	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	0	0	0	0	0
Pretax Profit	45	70	144	211	294	358
- yoy change		54%	106%	47%	39%	22%
Income Tax	-8	-15	-27	-38	-56	-68
Minority (Profits)/Losses	-1	-3	-15	-26	-38	-47
Net Income	36	52	102	147	200	243
- yoy change		45%	96%	44%	36%	21%
EPS (PLN)	3.72	4.63	8.02	10.94	14.90	18.11
- yoy change		24%	73%	36%	36%	21%
Profitability Ratios	2005	2006	2007	2008E	2009E	2010E
Gross Margin	17.4%	17.2%	13.4%	13.5%	14.1%	13.6%
EBIT Margin before other operating items	9.1%	9.2%	7.6%	7.9%	8.7%	8.3%
EBIT Margin	10.1%	10.7%	7.9%	9.6%	9.7%	8.6%
Net Margin	8.8%	7.7%	7.4%	7.1%	6.6%	6.0%
ROE	25.2%	28.3%	26.9%	18.8%	21.5%	21.5%
ROA	11.8%	7.8%	9.8%	6.4%	6.8%	6.5%

2008E-10E CAGR of 43% in revenue line

We expect margins to reverse the trend and grow on the back of strong demand for Company services but 2005-06 levels will be hard to be repeated

Source: Company reports and Espirito Santo Research Poland

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PBG - Balance Sheet (PLN m)	2005	2006	2007	2008E	2009E	2010E
Total Current Assets	465	671	1 571	2 078	2 755	3 496
Cash and Equivalents	82	51	410	330	363	405
Receivables	342	569	1048	1579	2184	2843
Inventory	12	19	40	60	88	118
Other Current Assets	29	31	73	109	120	131
Total Fixed Assets	201	374	718	878	992	1 088
Tangible Assets	183	266	335	461	575	671
Investments	9	6	76	99	99	99
Other Fixed Assets	10	101	307	318	319	319
Total Assets	666	1 045	2 289	2 957	3 747	4 585
Stockholders` Equity	178	367	748	895	1095	1338
Including Minority Interest	7	12	35	35	35	35
Long Term Liabilities	202	213	330	422	436	467
Long -Term Debt	79	70	50	172	177	198
Other Long - Term liabilities	123	142	280	250	260	269
Short Term Liabilities	280	453	1177	1605	2182	2745
Accounts Payable	124	172	408	600	899	1196
Short -Term Debt	138	203	350	519	664	819
Other Current Liabilities	18	78	418	486	619	730
Total Equity & Liabilities	666	1 045	2 289	2 957	3 747	4 585
BVPS (PLN)	16,2	29,5	53,1	64,1	79,0	97,1
Ratios	2005	2006	2007	2008E	2009E	2010E
Current Ratio	1,7	1,5	1,3	1,3	1,3	1,3
Quick Ratio	1,6	1,4	1,3	1,3	1,2	1,2
Bank Debt/Assets	33%	26%	17%	23%	22%	22%
Bank Debt/Equity	122%	75%	54%	77%	77%	76%

Debt is going to grow as a way of financing working capital and necessary Capex

PBG - Cash Flow (PLN m)	2005	2006	2007	2008E	2009E	2010E
Net Profit	36	52	102	147	200	243
Depreciation and Amortisation	9	16	29	28	37	46
Net Working Capital Change	-81	-57	-178	-279	-132	-208
Other	-19	-146	-71	-112	-70	-74
Operating Cash Flows	-55	-134	-118	-216	35	7
Capital Expenditures (Net)	-106	-160	-260	-155	-151	-142
Other	9	48	81	0	0	0
Cash Flows from Investing Activities	-97	-112	-179	-155	-151	-142
Change in Debt	131	46	342	290	150	176
Issuance of Shares	67	187	333	0	0	0
Interest paid	-8	-18	-24	0	0	0
Dividends paid	0	0	-2	0	0	0
Other	0	2	6	0	0	0
Cash Flows from Financing Activities	190	217	655	290	150	176
FX Differences	0	-1	0	0	0	0
Beginning Cash	44	82	51	410	330	363
Increase/(Decrease) in Cash	38	-30	359	-81	34	42
Ending Cash	82	51	410	330	363	405
DPS (PLN)	0,0	0,0	0,1	0,0	0,0	0,0

We do not account for potential future acquisitions...

...as well as don't assume another shares issue (that can happen)

Source: Company reports and Espirito Santo Research Poland

17 June 2008

DCF Model

PBG - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	65.1%	104.2%	49.7%	46.9%	33.8%	18.3%	15.7%	13.5%	12.0%	3.0%
Revenues	674	1 377	2 061	3 028	4 052	4 793	5 545	6 294	7 049	7 260
Operating Margin	10.7%	7.9%	9.6%	9.7%	8.6%	8.3%	8.2%	8.4%	8.4%	8.5%
EBIT	72	109	198	295	347	398	455	526	589	617
Taxes Rate	21.5%	18.5%	18.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
EBIT(1-t)	57	89	163	239	281	323	369	426	477	500
+ Depreciation			28	37	46	51	54	57	60	61
- Capital Expenditures			-155	-151	-142	-96	-83	-83	-86	-68
- Chg WC			-306	-224	-300	-164	-138	-150	-151	-42
FCFF			-270	-99	-114	114	201	250	299	450
Terminal Value										7 012.2
Cost of Capital Calculations										
Tax Rate			18%	19%	19%	19%	19%	19%	19%	19%
Debt Ratio			15%	17%	17%	18%	18%	20%	22%	30%
Equity Ratio			85%	83%	83%	82%	82%	80%	78%	70%
Beta			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity			12.0%	11.6%	11.4%	11.3%	11.3%	11.2%	11.2%	11.2%
Cost of Debt			6.5%	6.1%	5.9%	5.8%	5.8%	5.7%	5.7%	5.7%
Cost of Debt for the Firm			7.3%	6.9%	6.7%	6.6%	6.6%	6.5%	6.5%	6.5%
After-tax cost of debt			6.0%	5.6%	5.4%	5.3%	5.3%	5.3%	5.3%	5.3%
Cost of Capital			11.1%	10.6%	10.4%	10.2%	10.2%	10.1%	9.9%	9.4%
Present Value Calculations										
Cumulative WACC			1.0	1.1	1.2	1.3	1.5	1.6	1.8	
Present Value of FCFF			-270	-89	-94	85	136	153	167	
Present Value of Terminal Value										3 912

PBG - DCF Valuation Summary

PV of FCFF during high growth phase =	87
PV of Terminal Value =	3 912
Value of Operating Assets of the firm =	3 999
Value of Cash & Non-operating assets =	520
Value of Firm =	4 520
- Value of Outstanding Debt =	-691
- Adjustment for Minority Stakes	-624
Value of Equity =	3 205
Value of Equity per share at 2008 end (PLN) =	239
12 Month Target Price (PLN)	252

PBG - DCF Model Key Assumptions

Revenue CAGR 2008E-2014E	22.7%
Nominal (Real) growth rate in perpetuity	3% (0%)
Average operating margin in 2008E-2014E	8.7%
Operating margin in perpetuity	8.5%
Market Risk Premium	5.5%
Average WACC in 2008E-2014E	10.3%
WACC in perpetuity	9.4%

PBG - Target Price Sensitivity (PLN)

Real Growth Rate in		Operating Margin in Perpetuity			
Perpetuity	Nominal Growth	9.5%	8.5%	7.5%	
-1.0%	2.0%	254	217	181	
0.0%	3.0%	295	252	209	
1.0%	4.0%	350	299	249	

Source: Company reports and Espirito Santo Research Poland

17 June 2008

POLIMEX – SPECIALIZED AND DIVERSIFIED

The largest construction group in Poland

With 2007 revenues of PLN 3.7bn Polimex Mostostal became the largest Polish construction group, growing at CAGR of 29% in the last three years. The earnings performance is also impressive as EPS CAGR was 43% in the same period. We expect that the successful strategy of diversification and mergers and acquisitions along with further margins improvement will continue to be effectively implemented in the future. We find the stock attractive at the current price as it trades at P/E 19.3, 15, 11.8 on our 2008E-2010E estimates, below PBG or Budimex levels.

Diversification and specialization are the key words

Polimex Mostostal's strategy of diversification its revenue sources reduces the risk of slowdown in case of a contraction in one of the sectors. But risk mitigation is not the main purpose of the strategy. To have a presence in each segment gives the company a complete picture of the market situation and allows being vigilant if any M&A opportunities arise. Specialized construction services have margins above market average with construction for chemical sector and production of steel elements at the forefront in the profitability ranking. The other areas of Polimex activity include construction for power sector (including production of boilers), general construction, roads & railways and housing development.

From acquisitions to investments in capacity expansion

Last few years have been a period of extensive M&A with the major milestones being the merger between Polimex and Mostostal Siedlce and takeovers of ZREW, Energomontaz Pn and Coifer (very recently). The future will be more determined by organic growth (taking advantage of the capacity of all members of the group) and extensive investments in production capacity starting from now – the company plans to double its capacity in steel structures, galvanizing services and boilers production.

Not strongly exposed to housing but some impact is possible

Housing development is a marginal activity in Polimex but given the fact that the company purchased some attractive projects/land in the past it may have positive impact on results when sold/completed. This could be especially the case with "Hotel Warsaw" that should bring at least PLN 20 – 30m additional profit.

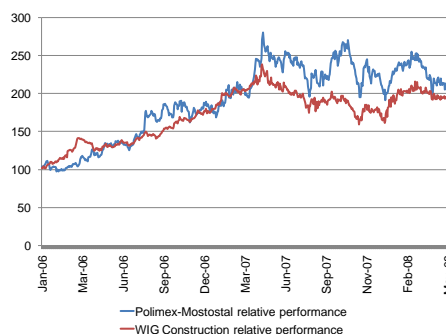
	Revenues	EBITDA	Net Profit	EPS	EPS (adj)	EPS chg.	P/E	EV/EBITDA	DY
2006	2 483	127	63	0.2	0.2	46%	38.1	19.7	0.3%
2007	3 720	205	100	0.2	0.2	37%	38.9	21.9	0.2%
2008E	4 449	285	140	0.3	0.3	33%	19.3	11.4	0.4%
2009E	5 140	356	179	0.4	0.4	28%	15.0	9.1	0.5%
2010E	5 931	439	229	0.5	0.5	27%	11.8	7.4	1.3%

Source: Company for historical figures and Espirito Santo Research Poland for estimates. Note: Revenues, EBITDA, net profit in PLN m; EPS in PLN; Extraordinary items excluded from EPS (adj)

Polimex

BUY– Medium/Low Risk

Price Target (Jun. 09)	PLN 8.5
Price (16 Jun. 08)	PLN 5.8
Potential	47%



Trading

Reuters Code	MOSD.WA
Bloomberg Code	PXMPW
Shares Outstanding (m)	464.36
Market Cap (€m)	778
12M Avg. Daily Turnover (€m)	3.2
12M Avg. Daily Volume (th)	927.4
WIG Weight (%)	1.42
WIG 20 Weight (%)	2.39
52 W High / Low	11.9 / 5.4

Performance	Abs.	vs. WIG
3M	-28%	-23%
YTD	-32%	-13%
12M	-49%	-23%

Financials 2008E

Revenue growth	19.6%
Operating margin	5.3%
ROE	12.9%
Bank Debt / Equity	57.1%

Shareholders Stake

CJ Pension Fund	8.9%
PZU Pension Fund	7.0%
Gloria s.a.r.l.	6.2%
Sices International B.V.	6.2%
ING NN Pension Fund	5.1%
Polimex-Development	2.8%
Other	72.6%

Source: Espirito Santo Research Poland

Analysts

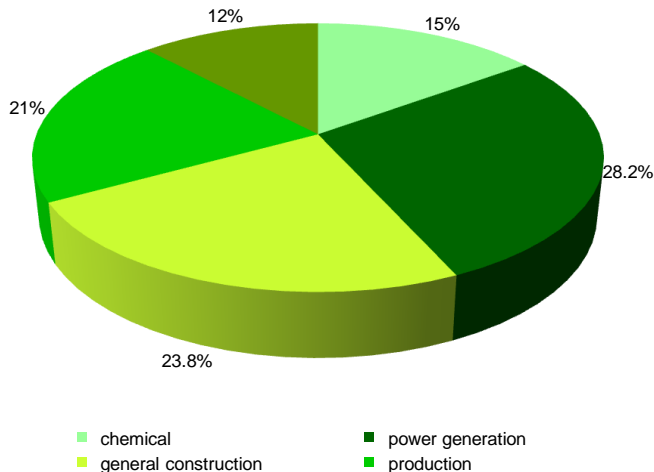
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Business & Strategy

Polimex Mostostal is the largest Polish construction company by revenues and second largest by market capitalization, and this is mainly due its diversification strategy and M&A activity. Polimex Mostostal is involved in services for chemical, power and production industries as well as in roads and railways and general construction.

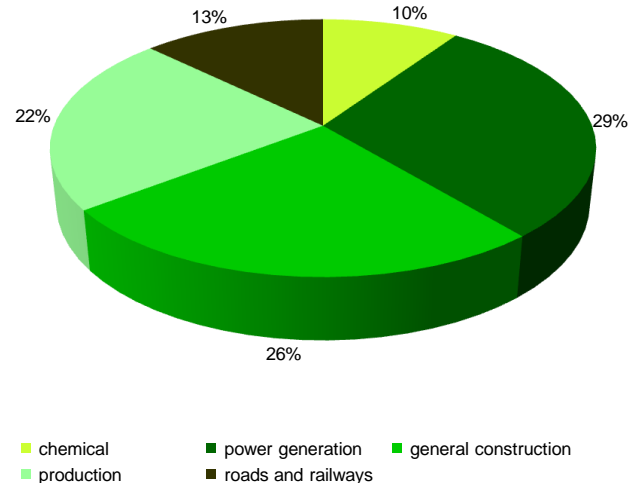
Largest construction group in Poland

Polimex – Breakdown of total revenues by segment, 2007



Source: Company reports and Espirito Santo Research Poland

Polimex – Breakdown of revenues by segment, 1Q08



Source: Company reports and Espirito Santo Research Poland

Power Segment

Complex renovation and building services are carried out by the Company's power unit, mainly for power and heat generating plants. There are six subsidiaries in the group involved in the sector, four of which were acquired in 2007/2008, what indicates Management's strive to increase the share in the sector. ZREW and Sefako are the oldest members of the segment, ZREW specialized in the renovation and assembly of boilers and turbines and Sefako offering services for steam boilers and various other components of the power industry. Polimex Mostostal holds now 65.5% stake in Energomontaz Polnoc, which is expected to absorb PLN 70m in necessary investments, mainly to renovate outdated production capacity. ZRE Krakow is a recent acquisition, which operates on heat boilers and steam and water turbines with fittings renovation, modernization and assembly. Energotechnika Projekt was acquired as a mean of strengthening Polimex's human capital in environmentally clean technologies and is involved in modernization of power and heat plants, water and waste systems management with specialized installations construction. EPE ZRE Rybnik is involved in assembly and renovation works for power and building engineering industries.

Polimex group controls few companies involved in different activities in power sector

General Construction

General construction includes activities as construction of industrial facilities, offices, shopping centres, residential buildings as well as developing the company's own residential projects. There were two subsidiaries acquired in 2007 – Torbud, which is involved in residential and industrial construction and Projekt Poludnie, which is specialized in construction engineering and projects management.

Transport

Roads and railways is the division which was spun-off from the general construction unit as it acquired the necessary critical mass in the group's revenues. Polimex has now an additional focus in the segment which is expected to offer decent growth opportunities in the next five years. The latest acquisition of Elmont Kostrzyn gives access to specialized construction services in roads electrical power engineering and lighting, which should be

Roads & railways – new but promising segment

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supportive for the segments profitability. Acquired in 2006, Torpol specializes in renovation and construction of railways and trams tracks. This specific sector, which in 2007 already received a significant amount of investments, is scheduled to receive much larger amounts in the years to come.

Production

The main activity of this division is steel structures production and the zinc galvanizing of steel elements. This division's importance for the group results not only from its top profitability and significant weight in total sales but also because it is complementary to other divisions and it is well known in the market for the quality of its products and services. Hence characteristics make it easier for the group to win contracts and strengthen its position on the market. The Production segment grew this year through the acquisition of Romanian S.C. Coifer Impex SRL for c. € 25m. This acquisition should add c. PLN 150m in 2008E in revenues.

Production is also the most important segment in Polimex investment plans. The company is going to spent around PLN 270 on a new steel production plant in Siedlce that would enable to double current production capacity of the group. The investment process has already started but the new capacity will be added gradually from 2010/2011 to reach its full capability in 2012/2013.

Steel structures production is the most profitable division...

...that is aimed to double its capacity

Chemical Segment

The Chemical segment makes the construction of installations and buildings for the petrochemical and chemical industries and is involved in environment protection projects as well. There are four subsidiaries in the group engaged in the segment's operations with the listed Naftobudowa in the front run. Naftoremont is involved in production, renovation and modernisation for petrochemical industry, being PKN and Lotos the major clients. Biprokwas offers specialised services of engineering design on environmental protection programs with involvement in chemical sector as well.

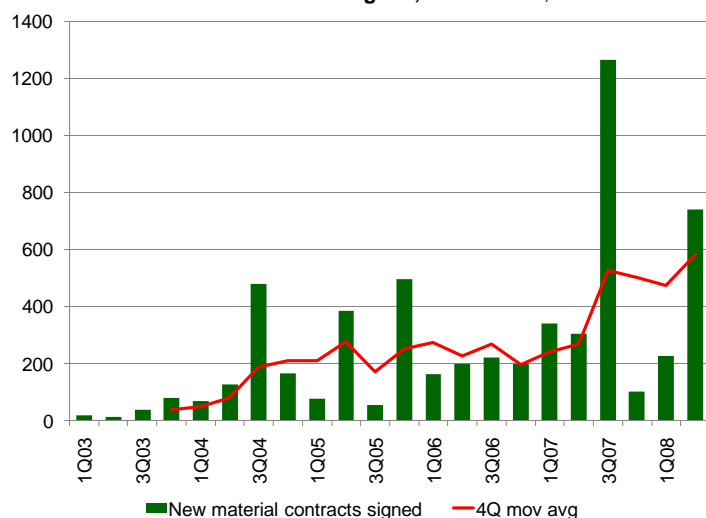
Revenues & Backlog

We expect to see growth in all segments with production and construction being the major drivers. Transport infrastructure projects should also add to the top line, as the big majority will be tendered in the next couple of years. We have also our attentions at the railways as well, since it is what makes Polimex Mostostal's transport segment unique among the Polish construction companies.

As of mid 2008 the contracts portfolio summed up to PLN 5.3bn i.e. +33% yoy with the majority of the projects coming from construction and production industries. Though transport infrastructure projects backlog is 11% lower but we believe this is simply the result of some delays in contracts awarding. Chemical segment is becoming more and more important for the group with 15% of total backlog. Backlog for power segment is 13% lower yoy, however we expect the effects of the recent acquisitions to be seen from 2009E onwards. The backlog structure indicates the well diversified structure of revenues is to remain stable in next periods.

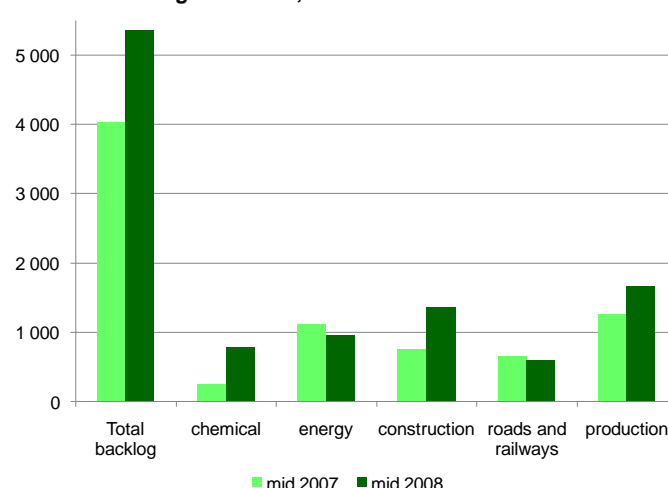
Backlog is at PLN 5.3 bn, +33% yoy

Polimex – New material contracts signed, 1Q03-2Q08, PLN m



Source: Company reports and Espirito Santo Research Poland

Polimex – Backlog 2007-2008, PLN m



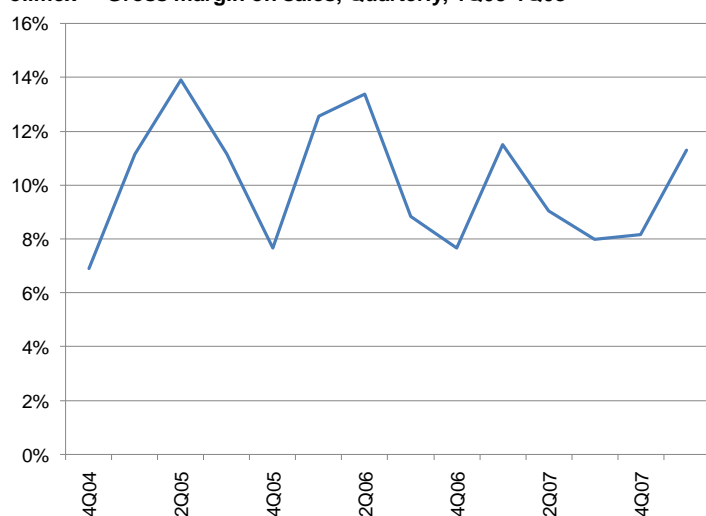
Source: Company reports and Espirito Santo Research Poland

Margins and Costs

Polimex Mostostal managed to increase the EBIT margin in 2007 mainly because scale effect allowed it to capitalize on the reduction of the weight of SG&A costs in revenues. The gross margin was lower in 2007 what we attribute mainly to the kick-off of the roads and railways unit, which hardly produced any profits during the year. We expect margins to rebound in 2008E with power and transport infrastructure segments being the ones with more room from improvement. Thus we expect gross margins to be at 9.7%, 10% and 10.2% in our 2008E-2010E estimates. The current backlog structure, with larger part of the revenues coming from the highly profitable production and chemical segments and the positive trend in 1Q08 results reassured us of our assumptions. We also expect that higher volumes together with post acquisitions reorganization of the group should bring an effect of smaller SG&A cost in relation to revenues.

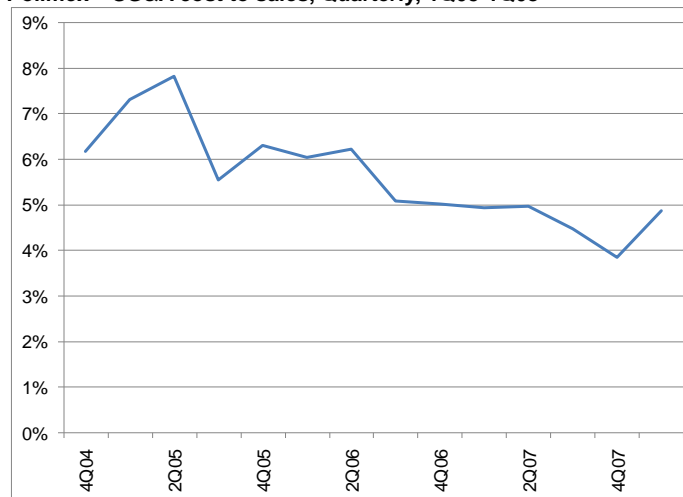
We are looking for slight improvement in gross margins

Polimex – Gross margin on sales, Quarterly, 1Q05-1Q08



Source: Company reports and Espirito Santo Research Poland

Polimex – SG&A cost to sales, Quarterly, 1Q05-1Q08



Source: Company reports and Espirito Santo Research Poland

Financials

POLIMEXMS - P&L (PLN m)	2005	2006	2007	2008E	2009E	2010E
Revenues	1 850	2 483	3 720	4 449	5 140	5 931
- yoy change		34%	50%	20%	16%	15%
Cost of Revenue	-1 650	-2 239	-3 398	-4 018	-4 626	-5 324
Gross Profit	200	244	322	431	514	607
- yoy change		22%	32%	34%	19%	18%
SG&A cost	-123	-135	-165	-196	-223	-244
- yoy change		9%	23%	18%	14%	10%
Other Operating Income/(Cost)	-3	-11	4	0	1	1
EBIT	73	98	160	235	292	364
- yoy change		35%	63%	47%	24%	25%
Depreciation cost	-28	-31	-44	-50	-64	-75
EBITDA	101	130	205	285	356	439
- yoy change		28%	58%	39%	25%	23%
Interest Income/(Cost)	-7	-8	-17	-34	-45	-46
Other Financial Income/(Cost)	-2	2	2	-4	4	5
Amortisation of Goodwill	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	0	0
Share in (profit)/loss of companies subject to acquisition accounting	0	-2	4	2	2	0
Pretax Profit	65	91	149	200	254	323
- yoy change		41%	63%	34%	27%	27%
Income Tax	-16	-17	-33	-39	-49	-63
Minority (Profits)/Losses	-6	-11	-17	-21	-26	-31
Net Income	43	63	100	140	179	229
- yoy change		46%	60%	40%	28%	28%
EPS (PLN)	0.11	0.16	0.23	0.30	0.39	0.49
- yoy change		46%	37%	33%	28%	27%
Profitability Ratios	2005	2006	2007	2008E	2009E	2010E
Gross Margin	10.8%	9.8%	8.7%	9.7%	10.0%	10.2%
EBIT Margin before other operating items	4.1%	4.4%	4.2%	5.3%	5.7%	6.1%
EBIT Margin	4.0%	4.0%	4.3%	5.3%	5.7%	6.1%
Net Margin	2.3%	2.5%	2.7%	3.1%	3.5%	3.9%
ROE	12.9%	17.2%	22.3%	12.9%	14.5%	16.1%
ROA	4.0%	5.7%	6.1%	5.0%	5.5%	6.1%

Source: Company reports and Espirito Santo Research Poland

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POLIMEXMS - Balance Sheet (PLN m)	2005	2006	2007	2008E	2009E	2010E
Total Current Assets	784	1 214	1 818	2 134	2 465	2 844
Cash and Equivalents	84	148	143	165	190	219
Receivables	568	873	1290	1557	1799	2076
Inventory	117	169	349	400	463	534
Other Current Assets	14	24	37	12	14	16
Total Fixed Assets	322	418	983	1 097	1 270	1 321
Tangible Assets	214	262	426	525	683	718
Intangibles and consolidation goodwill	2	20	438	444	450	455
Investments	62	42	63	63	63	63
Other Fixed Assets	45	94	56	66	75	85
Total Assets	1 106	1 632	2 801	3 231	3 736	4 165
Stockholders` Equity	365	449	1086	1237	1427	1669
Including Minority Interest	72	94	103	124	149	180
Long Term Liabilities	166	353	628	695	815	836
Long -Term Debt	36	171	330	415	485	486
Other Long - Term liabilities	131	181	298	280	330	350
Short Term Liabilities	575	830	1088	1300	1493	1660
Accounts Payable	389	631	680	845	977	1127
Short -Term Debt	73	83	229	291	339	340
Other Current Liabilities	113	116	178	164	178	193
Total Equity & Liabilities	1 106	1 632	2 801	3 231	3 736	4 165
BVPS (PLN)	0.8	0.9	2.1	2.4	2.8	3.2
Ratios	2005	2006	2007	2008E	2009E	2010E
Current Ratio	1.4	1.5	1.7	1.6	1.7	1.7
Quick Ratio	1.2	1.3	1.4	1.3	1.3	1.4
Bank Debt/Assets	10%	16%	20%	22%	22%	20%
Bank Debt/Equity	30%	57%	52%	57%	58%	49%

POLIMEXMS - Cash Flow (PLN m)	2005	2006	2007	2008E	2009E	2010E
Net Profit	43	63	100	140	179	229
Depreciation and Amortisation	28	28	45	50	64	75
Net Working Capital Change	22	-94	-463	-146	-149	-171
Other	-28	47	134	3	101	74
Operating Cash Flows	66	44	-184	46	194	207
Capital Expenditures (Net)	-46	-68	-149	-154	-228	-115
Other	64	-52	52	33	7	6
Cash Flows from Investing Activities	18	-120	-97	-121	-221	-109
Change in Debt	-34	145	280	147	118	2
Issuance of Shares	0	11	0	15	15	0
Interest paid	-9	-7	-16	-40	-52	-52
Dividends paid	0	-7	-9	-10	-14	-36
Other	2	-1	3	0	0	0
Cash Flows from Financing Activities	-42	140	258	111	67	-87
Beginning Cash	22	78	142	143	180	220
Increase/(Decrease) in Cash	42	64	-24	36	40	12
Ending Cash	84	148	143	180	220	232
DPS (PLN)	0.00	0.02	0.02	0.02	0.03	0.08

Source: Company reports and Espirito Santo Research Poland

17 June 2008

DCF Model

Polimex - DCF Model (PLN m)	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal Year
Revenue Growth Rate	34.2%	49.8%	19.6%	15.5%	15.4%	19.1%	18.2%	11.5%	6.0%	3.0%
Revenues	2483	3720	4449	5140	5931	7063	8350	9308	9866	10162
Operating Margin	4.0%	4.3%	5.3%	5.7%	6.1%	6.7%	7.2%	7.3%	7.2%	7.0%
EBIT	98	160	235	292	364	473	604	680	706	711
Taxes Rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
EBIT(1-t)	80	130	191	237	295	383	489	550	571	576
+ Depreciation			50	64	75	81	88	96	98	98
- Capital Expenditures			-154	-228	-115	-136	-160	-177	-114	-107
- Chg WC			-192	-186	-213	-270	-257	-197	-112	-59
FCFF			-106	-114	42	58	160	273	443	508
Terminal Value										7519
Cost of Capital Calculations										
Tax Rate			19%	19%	19%	19%	19%	19%	19%	19%
Debt Ratio			15%	17%	17%	17%	18%	19%	20%	25%
Equity Ratio			85%	83%	83%	83%	82%	81%	80%	75%
Beta			1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of Equity			12.0%	12.0%	11.6%	11.4%	11.3%	11.3%	11.2%	11.2%
Cost of Debt			6.5%	6.5%	6.1%	5.9%	5.8%	5.8%	5.7%	5.7%
Cost of Debt for the Firm			7.5%	7.5%	7.1%	6.9%	6.8%	6.8%	6.7%	6.7%
After-tax cost of debt			6.1%	6.1%	5.8%	5.6%	5.5%	5.5%	5.4%	5.4%
Cost of Capital			11.1%	11.0%	10.6%	10.4%	10.3%	10.2%	10.1%	9.8%
Present Value Calculations										
Cumulative WACC			1.0	1.1	1.2	1.4	1.5	1.6	1.8	
Present Value of FCFF			-106	-102	34	43	107	166	244	
Present Value of Terminal Value									4149	

Polimex - DCF Valuation Summary

PV of FCFF during high growth phase =	385
PV of Terminal Value =	4 149
Value of Operating Assets of the firm =	4 535
Value of Cash & Non-operating assets =	371
Value of Firm =	4 906
- Value of Outstanding Debt =	-706
- Adjustment for Minority Stakes	-297
Value of Equity =	3 903
Value of Equity per share at 2008 end (PLN) =	8.1
12 Month Target Price (PLN)	8.5

Polimex - DCF Model Key Assumptions

Revenue CAGR 2008E-2014E	14.9%
Nominal (Real) growth rate in perpetuity	3% (0%)
Average operating margin in 2008E-2014E	6.5%
Operating margin in perpetuity	7.0%
Market Risk Premium	5.5%
Average WACC in 2008E-2014E	10.5%
WACC in perpetuity	9.8%

Polimex - Target Price Sensitivity (PLN)

Real Growth Rate in		Operating Margin in Perpetuity		
Perpetuity	Nominal Growth	8.0%	7.0%	6.0%
-1.0%	2.0%	8.9	7.6	6.3
0.0%	3.0%	10.1	8.5	7.0
1.0%	4.0%	11.6	9.8	7.9

Source: Company reports and Espirito Santo Research Poland

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	Total	0%

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