

# General construction

## The curse of prosperity



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## The curse of prosperity

The future influx of EU funds and organization of Euro 2012 Cup should be the main driving forces of the general construction industry in the coming years. In our view, however, the risks the general construction sector was facing during last year are still alive, and could negatively influence the future financial results of general construction companies. Still, we believe that the general construction sector in Poland constitutes a relatively safe investment in the mid term, as the aforementioned main drivers of the sector make it less prone to the potential slowdown of the Polish economy. In other words, should the slowdown happen, the general construction may suffer less, we believe, than other sectors.

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

▲ We like companies that (i) are vertically integrated, which partially hedges their exposure to material price growth, (ii) have a high degree of specialization and, in consequence, enjoy high margins, and (iii) follow M&A-oriented strategy.

▲ Given the sector's outlook, the companies strategies, as well as our valuations, we issue long-term fundamental Buy rating for Pol-Aqua, Hold for PBG and Polimex, and Sell for Budimex. Our market-relative approach, that is much shorter look at companies' expected share price performance, results in overweight rating for PBG, Pol-Aqua and Polimex, and an underweight for Budimex.

### Key data

| Company  | Last price | Mkt cap | 12M EFV | Upside (downside) to 12M EFV | Fundamental rating | Market-relative |
|----------|------------|---------|---------|------------------------------|--------------------|-----------------|
|          | PLN        | US\$ m  | PLN     | %                            |                    |                 |
| Budimex  | 83.7       | 870     | 79.3    | -5                           | Sell               | Underweight     |
| PBG      | 281.6      | 1,533   | 319.0   | 14                           | Hold               | Overweight      |
| Pol-Aqua | 79.5       | 889     | 92.0    | 16                           | Buy                | Overweight      |
| Polimex  | 7.57       | 1,430   | 8.38    | 11                           | Hold               | Overweight      |

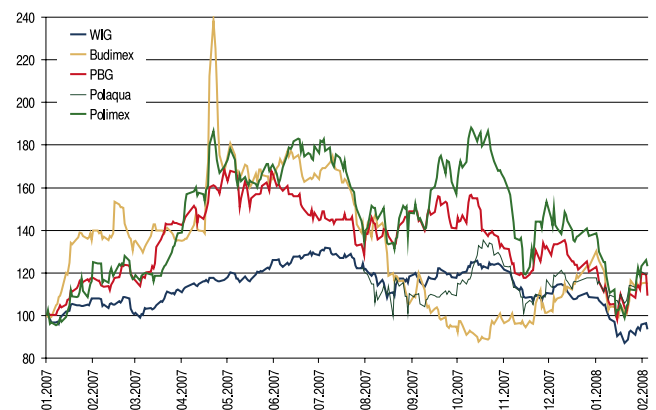
Source: DM IDMSA estimates

### General construction; Multiples comparison

|          | P/E   |       |       | EV/EBIT |       |       | EV/EBITDA |       |       |
|----------|-------|-------|-------|---------|-------|-------|-----------|-------|-------|
|          | 2008E | 2009E | 2010E | 2008E   | 2009E | 2010E | 2008E     | 2009E | 2010E |
| Budimex  | 40.9  | 30.0  | 19.6  | 27.3    | 19.0  | 11.9  | 20.2      | 15.3  | 10.1  |
| PBG      | 28.2  | 19.6  | 12.5  | 21.2    | 15.1  | 10.0  | 19.2      | 14.0  | 9.6   |
| Pol-Aqua | 22.5  | 16.5  | 13.6  | 17.7    | 12.6  | 10.1  | 13.6      | 10.2  | 9.1   |
| Polimex  | 23.9  | 18.9  | 15.1  | 17.9    | 14.2  | 11.2  | 14.8      | 12.0  | 9.6   |

Source: WSE, DM IDMSA estimates

### Stock performance



Source: www.money.pl

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## 1. Investment opinion

▲ In our opinion, the European Union, through accession and post-accession financial assistance, should facilitate acceleration in the construction industry in a mid- to long-term horizon. The largest beneficiary of the EU funds should be the engineering segment (infrastructure & environment). It will receive around PLN 100 billion (EUR 27.8 billion) representing 41% of total EU funds allocated for Poland, and should be the main driving force of the general construction industry in the coming years. We believe that the construction boom in next few years should be also supported by investments connected with the organization of Euro 2012 Euro Cup in Poland.

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

▲ Given the sector outlook, companies' strategies, as well as our valuations, we issue long-term fundamental Hold for PBG and Polimex, Buy for Pol-Aqua, and Sell rating for Budimex. Our market-relative approach, that is much shorter look at companies' share price performance, results in overweight rating for PBG, Pol-Aqua and Polimex, and underweight for Budimex.

### EU funds – the main driving force of the construction industry

In our opinion, the European Union, through accession and post-accession financial assistance, gives Poland a unique opportunity to improve living conditions in the country, and we believe that EU funds will facilitate acceleration in the general construction industry in a mid- to long-term horizon. The largest beneficiary of the EU funds should be the engineering segment (infrastructure & environment). It will receive around PLN 100 billion (EUR 27.8 billion) representing 41% of total EU funds allocated for Poland, and should be the main driving force of the general construction industry in the coming years. It is estimated that the total expenditures on engineering sector between 2007E and 2010E should grow at a CAGR of 27% and reach PLN 250 billion. Having said that, the companies that we like the most are those focused on infrastructure (roads), environmental protection and power engineering.

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

### EURO 2012 – a catalyst for the construction sector

We believe that the construction boom in next few years should be also supported by investments connected with organization of 2012 Euro Cup in Poland. First, Euro 2012 obliges Poland to finalize some construction contracts (such as roads, railroads and airports) till 2012 which at the same time forces utilization of EU funds. Second, Poland, as an organizer of Euro 2012 is obliged to invest in stadiums which should bring another PLN 2-2.5 billion to contractors. Third, it is estimated that Euro 2012 will affect the number of foreign guests in Poland, and in fact the number of hotels that will have to be developed.

### General construction → less prone on the possible slowdown of the economy

We believe the general construction sector in Poland constitutes a safe investment opportunity in the mid term. We believe the main drivers of the sector, namely aforementioned EU funds influx to Poland and Euro Cup 2012, make the general construction sector less prone to slowdown of the Polish economy. In other words, should the slowdown happen, the general construction should suffer less, we believe, than other sectors.

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



influx of EU funds. Having said that we like companies that (i) own material base, which partially hedges their exposure to price growth of materials, (ii) have a high degree of specialization and, in consequence, enjoy high margins, and (iii) follow M&A-oriented strategy.

**Pol-Aqua: Buy, Overweight**

As far as the individual exposures are concerned we like Pol-Aqua which, apart from PBG, constitutes the best vehicle to capture the growth of the influx of EU funds. We believe that the negative catalyst in the form of Prokom Investment's share supply overhang ceased, and the Company is on the right track to almost double yoy its 2008E net profit. Valuation-wise Pol-Aqua is trading with a material discount to its closest peer PBG, reaching c. 20% on average.

**Budimex: Sell, Underweight**

Regarding Budimex, we believe that the current market price reflects the market expectations of significant improvement of its financial results on the back of large road construction contracts. However, Budimex, in our view, will not necessarily profit from those contracts because (i) the Company is having problems with achieving promised margins on large contracts because of contract management issues (e.g. Terminal 2 of Warsaw Airport and the sports hall in Cracow), (ii) rising prices of construction materials (aggregate, cement, asphalt) may devour the relatively thin margins on long contracts, especially given the fact that Budimex lacks a natural hedge in this respect, meaning the Company does not own any deposit of aggregates, etc., and (iii) on top of that the Company may be facing capacity shortages when realizing large contracts.

**PBG: Hold, Overweight**

We initiate the coverage of PBG with a fundamental Hold rating. Strong growth potential, robust market environment and the skillful management are the fact. We believe that the Company deserves to be priced with a premium to its peers, but valuation-wise we see only moderate upside potential from the current level. Seeing large contracts from PGNiG to be won, which in our view should act as a positive catalyst for the share price performance, we recommend to overweight PBG in ST against its benchmark weighting.

**Polimex: Hold, Overweight**

As far as Polimex is concerned, we fear that the Company might find it difficult to achieve above-average margins on large contracts, similar to Budimex. However, the potential threat can be to large extent offset by the highly profitable production of steel structures. We initiate the coverage of Polimex with a Hold fundamental rating and overweight ST market relative stance.

## 2. Valuation; the approach

▲ We find the DCF FCFF approach the most suitable for the valuation of general construction companies. We have also conducted a peer relative forward-multiples-based comparison. However, it does not factor in substantial qualitative differences among general construction companies, in our view.

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### DCF – the most suitable tool for valuation

We find the DCF FCFF approach the most suitable for the valuation of general construction companies. We have also conducted a peer relative forward-multiples-based comparison. However, it does not factor in substantial qualitative differences among general construction companies, in our view.

We have adopted several assumptions to valuation models:

- (i) level of market yields of domestic LT Treasuries (6%) for the definite forecast period, and 5% for the residual period (>2018E),
- (ii) a 4.5% equity risk premium for the base-case scenarios,
- (iii) unleveraged beta of 1.0 (these all-equity betas are leveraged using time-varying weights of interest-bearing debt in particular companies' capital structures),
- (iv) a moderate residual nominal growth assumption of 2.5% (i.e. 0.5% growth in real terms)

### Forward multiples – secondary valuation tool

We have also conducted a peer-relative forward-multiples-based comparison. However, it does not factor in substantial qualitative differences among general construction companies, pertaining to (i) sales structure, (ii) activity scale, (iii) LT growth prospects and strategies, and – last but not least – (iv) risk; hence, we recommend to treat it as a secondary valuation tool.



### 3. General construction sector

▲ The situation in the construction industry has been improving since 2004, following the crisis that hit the sector in 2000. The market witnessed the boom since 2006. In 3Q07 the construction output rose by 20.2% yoy and according to ASM Centrum Badań i Analiz Rynku it should go up in the coming years at CAGR of 25%.

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

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

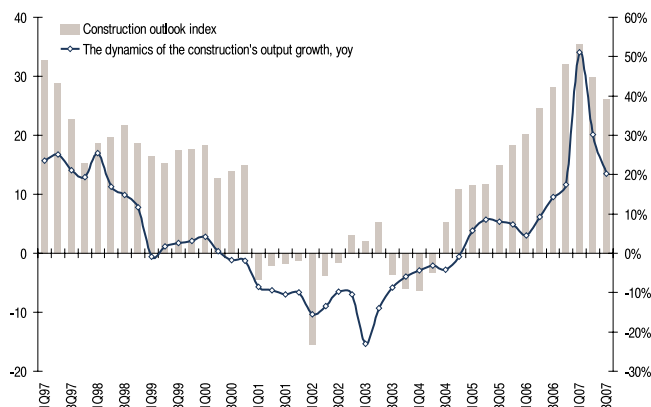
▲ In our opinion, there are at least three risks in the foreseeable future, which could hinder the dynamic growth of the construction sector in Poland in the short term, namely (i) staff shortages, (ii) growing prices of construction materials, and (iii) the risk that Poland will not manage to fully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

#### 3.1. Sector overview

##### Boom in the construction sector began in 2006

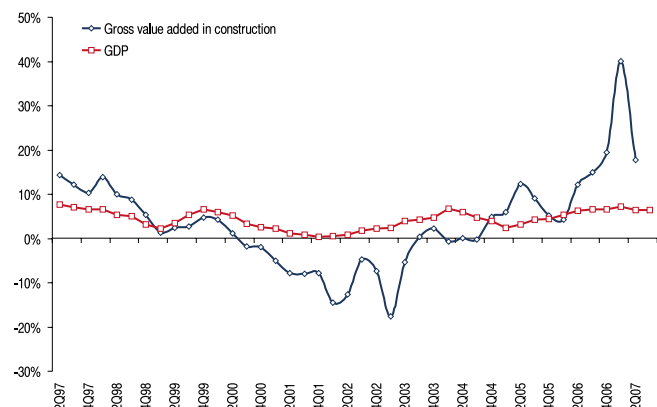
The situation in the construction industry has been improving since 2004, following the crisis that hit the sector in 2000. The first signs of revival were seen in gross value added in construction, which went up by 1.8% in 2004. The next two years brought further growth, exceeding 7% and 14% yoy, respectively. Also construction output started to increase. After poor 2001 and 2002, when it plunged by -2.5% and -7.8% yoy, it began to accelerate and grew by 3.3% and 17.5% in 2005 and 2006, respectively. Poland has been witnessing the boom in the construction sector since 2006. The construction output showed double digit pace of growth (by c. 30%) in 2H06, which was kept in 1H07.

Fig. 1 Construction output and construction outlook index



Source: CSO

Fig. 2 GDP and gross value added in construction



Source: CSO

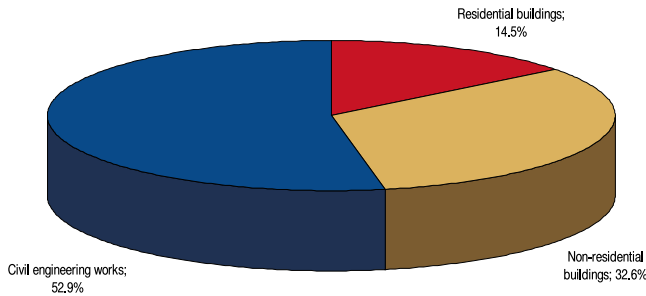
##### Construction sector is driven by civil engineering works

Breakdown of construction output shows that the construction sector is driven especially by civil engineering works (53%), which include construction of roads and railroads (53% of civil engineering works), construction of pipelines, power lines, water treatment plants (30%), and waterworks



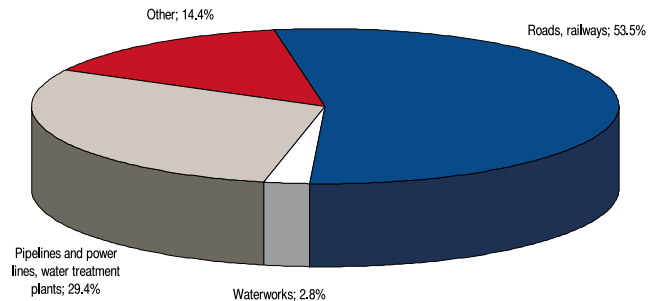
(3%). The other part of construction output comprises construction of residential- (14%), and non-residential buildings (33%), as well as industrial-, office-, or trade-buildings.

Fig. 3 Construction output by type of constructions



Source: CSO

Fig. 4 Split of civil engineering works



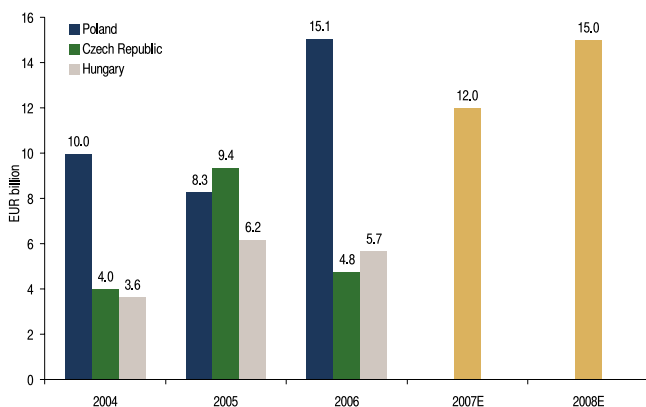
Source: CSO

### 3.2. Outlook

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

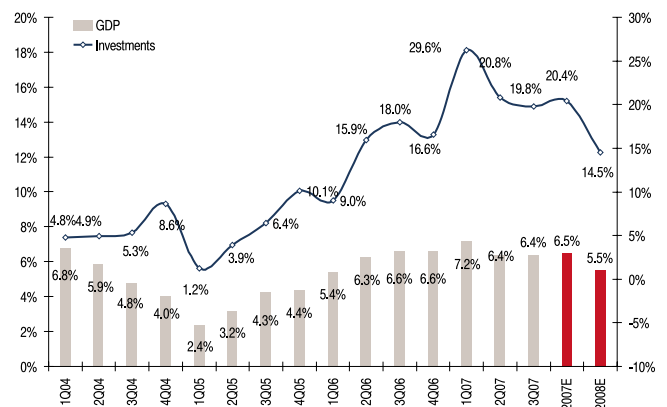
We believe stable and long-term growth forecast for the Polish economy (condition of the construction sector is highly correlated with the macroeconomic situation, particularly with the GDP) should contribute to good performance of the construction industry in the mid- to long-term. We are particularly optimistic about investments. First, Poland has witnessed great influx of foreign direct investments (FDIs) in the last three years (c. EUR 15.1 bln), which according to Polska Agencja Informacji i Inwestycji Zagranicznych should be kept in the mid term. Secondly, gross capital expenditures on fixed assets since 2H06 keep double digit growth and according to Ministry of Finance should go up by 14.5% this year. ASM Centrum Badań i Analiz Rynku presented optimistic forecasts for the construction industry. It expects the construction output to go up within the coming years at a CAGR of 25%.

Fig. 5 Foreign direct investments (FDI)



Source: NBP, Polska Agencja Informacji i Inwestycji Zagranicznych

Fig. 6 GDP and investments



Source: NBP, Ministry of Finance

### 3.3. Demand drivers for construction sector

**Need for investments in Poland seems to be apparent**

Poland lags behind most of the EU countries, and the need for investments is apparent. For instance, only 57% of the total population in Poland uses municipal waste water treatments plants (2002 GUS data, there has not been any significant improvement since), comparing to 93% in Germany.

The situation is even worse with the road infrastructure. There are c. 600 kilometers of motorways, as in Slovenia, whose population is just 1.8 million people. Austria, only for modernization purposes uses 1 ton of asphalt per capita, while in Poland the ratio (modernization and new construction) is just 0.3.

**EU funds give Poland a unique chance to improve living conditions**

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

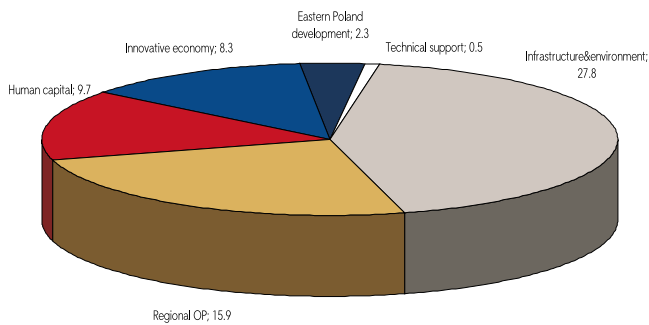
**EUR 67.3 billion of EU funds should drive the acceleration in the construction industry in a mid- to long-term**

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

**The key driver of the sector should be engineering segment**

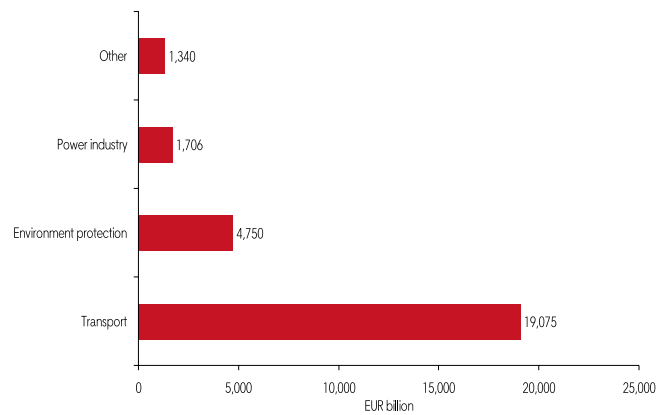
The largest beneficiary of the EU funds should be the engineering segment (Infrastructure & Environment). It will receive around EUR 27.8 billion representing 41% of total EU funds allocated for Poland, and according to PMR should drive the construction industry in the coming years. It is estimated, total expenditures on engineering sector between 2007 and 2010 should grow at a CAGR of 27% and reach PLN 250 billion.

Fig. 7 Breakdown of EU funds allocated for Poland for 2007-2013 (EUR billion)



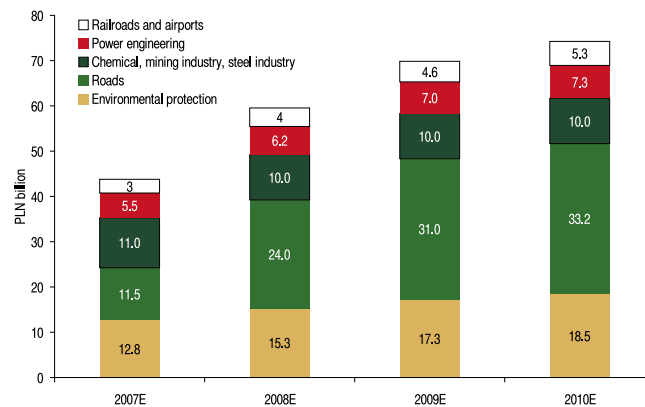
Source: Ministry of Regional Development

Fig. 8 Infrastructure & environment EU funds breakdown



Source: Ministry of Regional Development

Fig. 9 Forecast of total expenditures on engineering segment



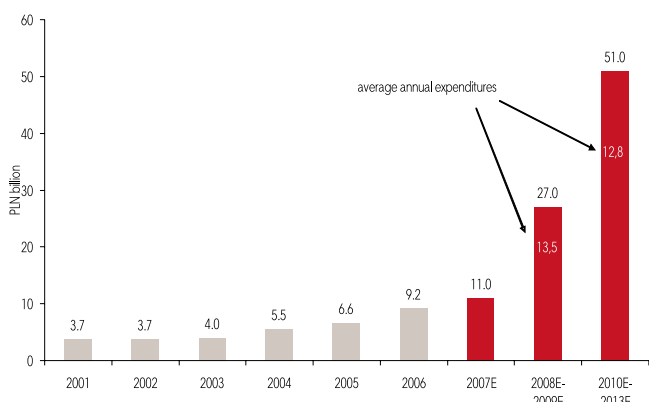
Source: PMR

### 3.3.1. Spendings on transport

**The largest chunk of EU funds will fall into transport**

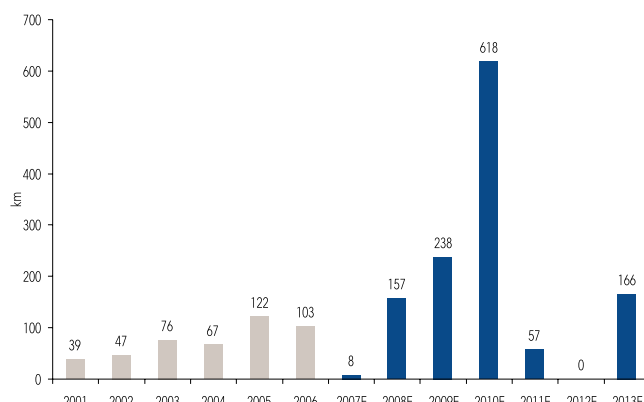
In 2007-2013 the largest part of the EU funds will fall into transport. The EU plans to grant Poland EUR 19.1 billion for transportation improvement, which together with Poland's own contribution can reach as much as EUR 33 billion. The funds will be split mainly between the road and rail transport, with EUR 10.9 billion falling into road construction and EUR 4.8 billion being used for railroads. Regarding railroad construction, we expect the Polish National Railroads (PKP) to spend over EUR 6 billion on modernization and upgrading of the railroad infrastructure. Total expenditures on roads should reach PLN 120 billion (EU funds together with Polish state budget in 2007-2013). Average annual expenditures in 2008-2013 should go up by around 40% comparing to 2006.

Fig. 10 Expenditure on construction and modernization of roads in Poland



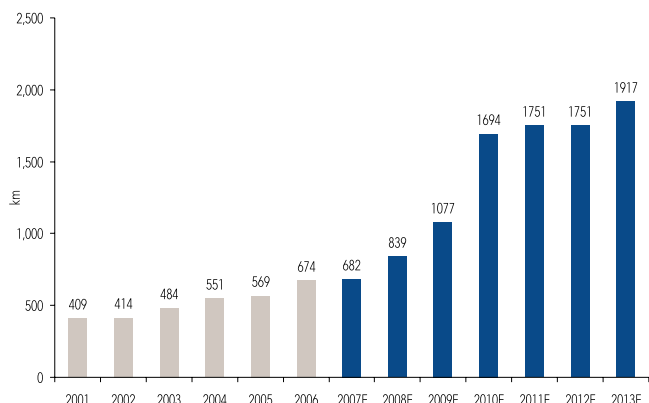
Source: GDDKiA

Fig. 11 Length of completed motorways in Poland



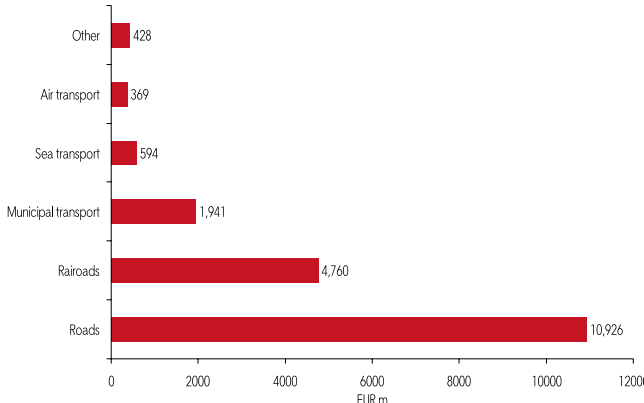
Source: GDDKiA, Dziennik

Fig. 12 Total length of motorways in Poland



Source: GDDKiA, Dziennik

Fig. 13 Breakdown of EU funds for transport



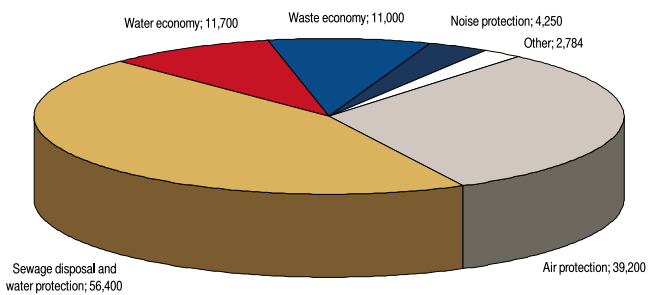
Source: Ministry of Transport

### 3.3.2. Spendings on environmental protection

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

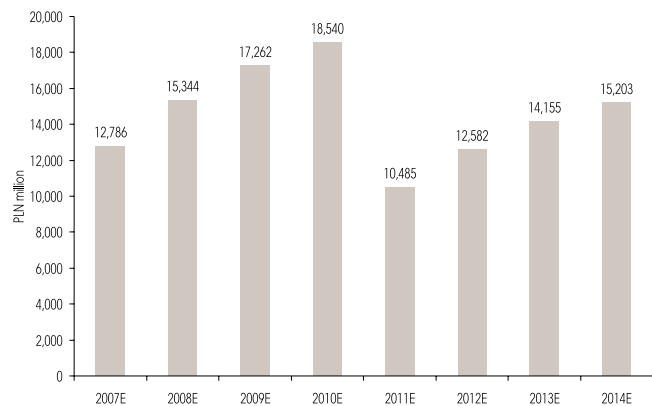
We believe long-term prosperity will relate to environmental protection construction as well. According to the Ministry of Natural Environment, the average total value of projects in 2007-2014 should stand at around PLN 15.7 billion per year (according to GUS data, the average total value of projects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

**Fig. 14 Breakdown of expected investments in environmental protection in 2007-2014 (PLN million)**



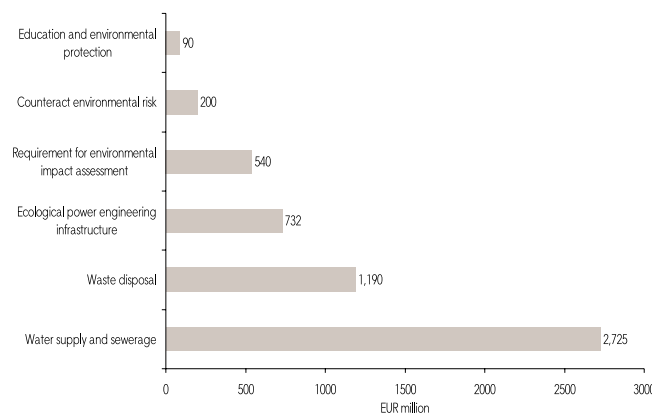
Source: Ministry of Natural Environment

**Fig. 15 Expected investments in environmental protection in 2007-2014 (PLN million)**



Source: Ministry of Natural Environment

**Fig. 16 Breakdown of EU funds for environmental protection**



Source: Ministry of Regional Development

### 3.3.3. Spendings on power engineering

**Spending on power engineering should exceed even PLN 80 billion in the next 10 years**

There are three reasons why spending in the power sector will grow significantly over the next 10 years: (i) no spare generation capacity, (ii) old and often decapitalized power units, and (iii) EU environmental requirements. According to the Ministry of Economy, Poland will have to spend at least PLN 30 billion in the power generation sector (however some estimates say the investments should exceed even PLN 50-80 billion), of which PLN 20 billion should be spent on replacement and maintenance, and PLN 10 billion on additional power capacity (including EUR 1.7 billion of EU funds). Poland has to increase the electric power capacity; otherwise the country will just have to face the problem of energy shortages (it is estimated that domestic consumption of energy will grow by 30% by 2017, around 3% per year). The existing ageing and worked out capacity needs to be closed down and replaced with new and more efficient units. Some of the generation units have been in use for 40 years, there is no possibility of upgrading them any more, and they will have to be replaced. Poland will have to meet EU requirements in the field of environmental protection, as well. Due to requirements, Poland has to reduce CO2 emission by 20% till 2020, and increase environmentally friendly power generation by 20% till 2010 (use of renewable resources in power generation should go up from 4% in 2006 to 7,5% in 2010).

Lack of significant investments in the power sector domestically during the last dozen of years forced the construction companies to seek business abroad, chiefly in Germany. Alstom and Hitachi will seek for subcontractors for building over 10 power units. Each one will be generating around 600-1000 MW, and it is estimated that cost of construction of 1MW amounts to c. EUR 1 million. Moreover, it is likely that Polish contractors will participate in construction of the nuclear power plant in Ignalin (Lithuania). As far as the home turf is concerned, investments scheduled by PGE will take c. PLN 32 billion till 2017, Energetyka Południe plans to spend c. PLN 20 billion.

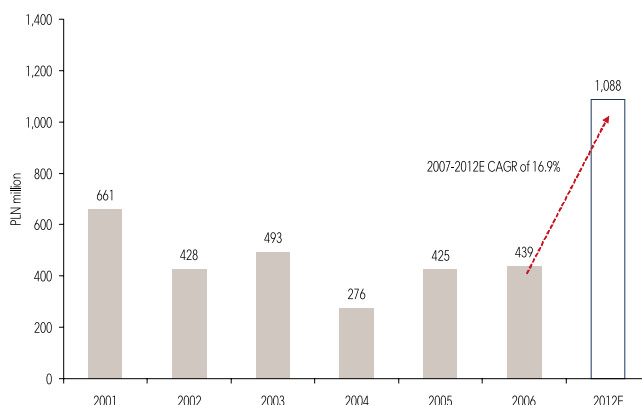


### 3.4. Euro 2012 Cup – a catalyst for the construction sector

**Construction boom in Poland should be supported by investments connected with organization of Euro 2012**

We believe construction boom in the next few years should be supported by investments connected with organization of Euro 2012 Cup in Poland. At first, Euro 2012 Cup obliges Poland to finalize some construction contracts (as road, railroad and airport contracts) till 2012 which at the same time forces utilization of EU funds. Second, Poland, as an organizer of Euro 2012 is obliged to invest in stadiums which should bring another 2-2.5 billion PLN to contractors. Third, it is estimated that Euro 2012 will affect the number of foreign guests in Poland, and in fact the number of hotels that will have to be developed. According to PMR forecasts, expenditures on hotels in Poland should grow at a 2007-2012E CAGR of 16.9%, and reach PLN 1.1 billion in 2012.

Fig. 17 Expenditures on hotels in Poland



Source: PMR

Fig. 18 Planned spendings on stadiums in Poland

| City    | Stadiums                                                  | Cost (PLN m) |
|---------|-----------------------------------------------------------|--------------|
| Gdańsk  | Arena Bałtycka for over 40 000 spectators                 | 670          |
| Poznań  | Stadion Miejski for 42 000 spectators                     | 150          |
| Warsaw  | National Sport Center, stadium for over 50 000 spectators | 1,200        |
| Wrocław | Stadion Olimpijski for 40 000 spectators                  | 520          |
| Chorzów | Stadion Śląski for around 55 000 spectators               | 364          |
| Kraków  | Stadion Wisła for 30 000 spectators                       | 212          |

Source: Rzeczpospolita, Parkiet

Fig. 19 Existing and forecasted number of hotels and beds in Poland

| City    | Number of hotels |       | Number of beds |        |
|---------|------------------|-------|----------------|--------|
|         | 2007             | 2012E | 2007           | 2012E  |
| Gdańsk  | 38               | 64    | 3 000          | 12 600 |
| Poznań  | 178              | 248   | 7 700          | 13 900 |
| Warsaw  | 97               | 105   | 16 500         | 17 700 |
| Wrocław | 66               | 89    | 3 600          | 5 200  |
| Chorzów | 31               | 33    | 2 200          | 2 400  |
| Kraków  | 113              | 164   | 6 200          | 9 000  |

Source: Rzeczpospolita

### 3.5. Other drivers

#### 3.5.1. Spendings on chemicals

**Projects to be carried out in the chemical sector in the next 10 years are estimated at PLN 24 billion**

According to the Ministry of Economy, projects to be carried out in the chemical sector in the next 10 years are estimated at PLN 24 billion, and relate mainly to longterm investment programs planned at Poland's largest chemical companies (including those in the refining and petrochemical

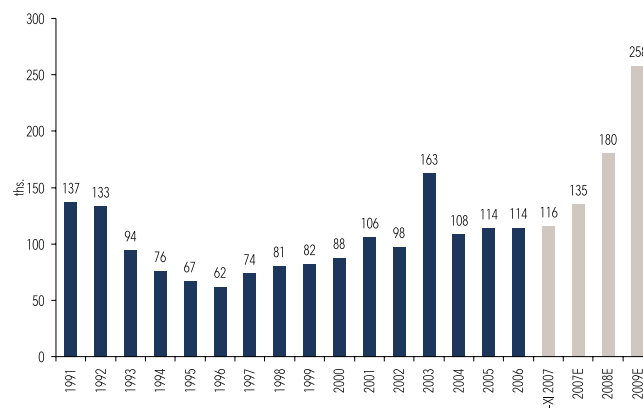
segments). LOTOS Group and PGNiG plan to spend over PLN 15 billion on investments in the next few years. PKN Orlen is supposed to invest around PLN 8 billion by 2009. Moreover, according to the government's oil and natural gas policy, there is a need to (i) increase fuel storage capacities in Poland (there is a requirement to keep 90-day reserves of liquid fuels), (ii) construct pipeline interconnections between the Polish and Norway gas systems, (iii) construct an LNG terminal on the Polish seaside (around EUR 350 million), and (iv) construct pipeline connections between Poland and the Caspian Sea region (extension of the existing Odessa Brody pipeline to Płock).

### 3.5.2. Residential construction

**Residential construction business looks appealing but only in the long run**

We are however least optimistic on the Polish residential construction market. We see an increasing number of supply drivers of dwellings, which might lead to some cool off of the market in the short run. We fear that the recent price rally in the largest Polish agglomerations, in 2006 the average prices per sq m of dwelling in Poland rose by between 50% and 75% depending on the city, will significantly lower the demand especially from people treating dwellings as a pure investment. Such purchases constituted up to 35% of the demand during the peak of the price cycle. Furthermore, the expected dynamic growth of salaries in Poland last year compensates just the growth of the mortgage cost increase, and does not improve the credit capability of potential buyers in fact. As far as the supply of dwellings is concerned we expect the primary market volumes to pick up by 17% and 33% yoy in 2008E and 2009E, respectively. We expect the profit taking on dwellings bought for investment reason to be rather significant over the course of 2008E contributing to further price drops of dwellings. We are convinced, however, that the fundamentals of the residential construction business remain strong in the longer run. The deficit of dwellings estimated at 1.5 million countrywide and healthy macro economic conditions fueling the growth of people's income should help the prices to climb up further.

Fig. 20 Number of dwelling completions in Poland



Source: CSO, DM IDMSA estimates

### 3.6. Constraints

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

**...staff shortages and salary pressure,...**

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

The ongoing emigration of Polish construction workforce to Western European countries has already posed a challenge for the construction companies. According to the research conducted by PMR, 66% of construction companies in Poland have problems recruiting employees. The emigration problem emerged after Poland joined the European Union. When "old EU" countries started to liberalize their labor market rules, the workforce from the new member states seized the opportunity. Well-qualified Polish workers, guided by the prospects of better paid jobs, started to move, especially to the UK. It is estimated that there is a lack of 150,000 specialists in Poland



now. GUS data shows that over 42% of companies reported growing costs of employment, and pointed to lack of well qualified employees, which creates staff shortages and salary pressures. In 3Q07 wages in the construction sector grew up by c. 18% yoy, comparing to c. 10% in the corporate sector. It is expected that average wages in Poland should go up by c. 10% in 2008. We believe contractors will have to raise wages much more to retain employees in Poland, otherwise the lack of workforce will deepen.

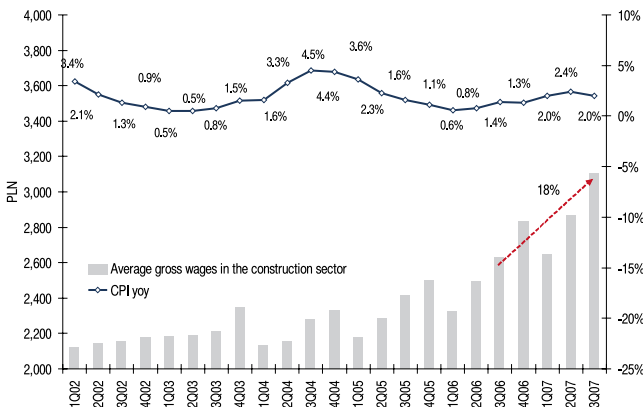
**...growing prices of construction materials,...**

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

**...and improper utilization of EU funds**

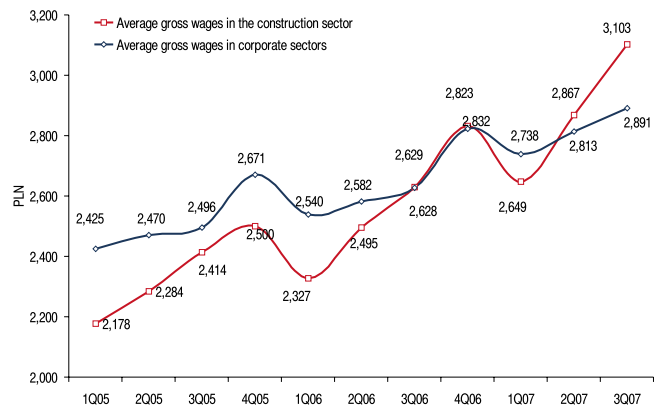
The third risk relates to EU funds and their utilization. In our opinion, there is a risk that Poland could lose a part of the EU grants in the next few years, particularly due to prolonging administrative procedures and the lack of specialists familiar with securing EU funds (lured by higher salaries,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

**Fig. 21 Average gross wages in the construction sector and CPI (yoy)**



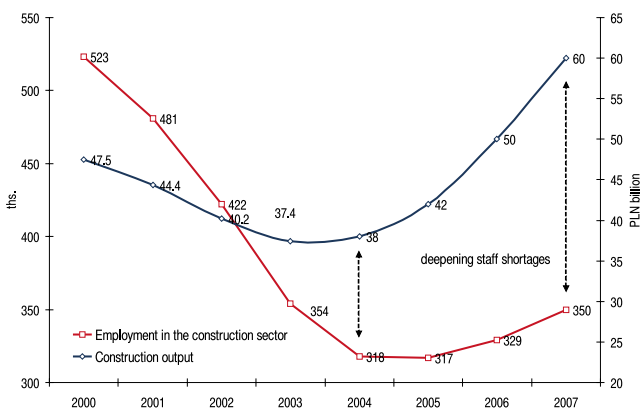
Source: CSO

**Fig. 22 Average gross wages in the construction and corporate sectors**



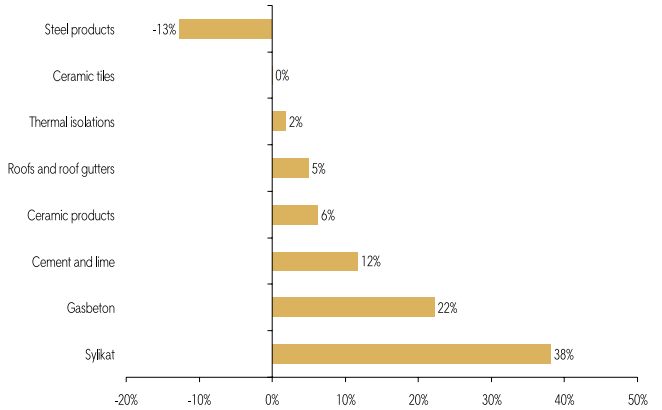
Source: CSO

**Fig. 23 Construction output vs. employment in the construction sector**



Source: Nowy Przemyst

**Fig. 24 Growth of construction material prices (I-XI 2007)**



Source: Grupa PSB, CSO





## **Company section**



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# Budimex

**Sector:** Construction  
**Fundamental rating:** Sell (-)  
**12M relative:** Underweight (-)  
**Price:** PLN 83.7  
**12M EFV:** PLN 79.3 (-)

**Market Cap.:** US\$ 870 m  
**Reuters code:** BMEX.WA  
**Av. daily turnover:** US\$ 0.97 m  
**Free float:** 41%  
**12M range:** PLN 65.75-179.90

## Investment story

Budimex – with 2007E revenues exceeding PLN 3 billion – is the second-largest general construction company in Poland. The Company is following an organic growth strategy based on execution of general construction, road construction and environmental protection construction contracts, which together generate c. 89% of total revenues. Budimex is also a residential housing developer, completing c. 600-1,000 flats a year in the largest urban areas in Poland, and a manufacturer of timber frame houses.

Budimex plans to focus on large road construction contracts. We agree with the outlook that the road construction business should drive the construction sector for the next couple of years. However, Budimex, in our view, will not necessarily profit from those contracts because (i) the Company is having, as we see it, problems with achieving promised margins on large contracts because of contract management issues (for example, Terminal 2 of Warsaw Airport and the sports hall in Cracow), (ii) rising prices of construction materials (aggregate, cement, asphalt) may devour the margins on LT contracts, especially given the fact that Budimex does not possess a natural hedge in this respect, meaning the Company does not own any deposit of aggregates, etc., and (iii) on top of that, in our view, the Company may be facing capacity shortages when realizing large contracts.

We do not like the strategy of Budimex which envisages organic growth rather than takeovers of smaller entities. In our view, current market conditions are favorable for such actions, since small companies can often be bought at a sizable discount to the average market multiples (e.g. Torpol was acquired by Polimex at 2006 P/E of c. 8x). We also do not like the lack of a clear LT strategy on what to do after 2012-2015. We are afraid Budimex has no clear view how to weather through the prospective slowdown in general construction sector after the boom supported by the influx of EU funds ends.

Valuation-wise we find Budimex expensive, especially on a domestic peers forward multiples comparison. The peer relative valuation clearly shows that the Company is trading at a significant premium on forward multiples to its domestic peers. The premium is visible on 2008E multiples due to forecasted mediocre financial showing and on 2009E P/E multiple Budimex still trades at a material premium. In our view, such high multiples show that the market still expects there should be major profitability turnaround at the Company.

In spite of the poor track record of contract management in the past, the profitability improvement scenario should finally

## Key data

| IFRS consolidated    |       | 2007E   | 2008E   | 2009E   | 2010E   |
|----------------------|-------|---------|---------|---------|---------|
| Sales                | PLN m | 3,107.1 | 3,324.5 | 3,537.1 | 3,952.5 |
| EBITDA               | PLN m | 42.8    | 86.7    | 110.8   | 157.5   |
| EBIT                 | PLN m | 22.1    | 64.3    | 89.1    | 134.1   |
| Net profit           | PLN m | 12.8    | 52.2    | 71.1    | 108.9   |
| EPS                  | PLN   | 0.50    | 2.04    | 2.79    | 4.27    |
| EPS yoy chng         | %     | 228     | 308     | 36      | 53      |
| Net debt             | PLN m | -340.3  | -383.5  | -447.3  | -542.9  |
| P/E                  | x     | n.m     | 40.9    | 30.0    | 19.6    |
| P/CE                 | x     | 63.9    | 28.6    | 23.0    | 16.1    |
| EV/EBITDA            | x     | 42.0    | 20.2    | 15.3    | 10.1    |
| EV/EBIT              | x     | 81.2    | 27.3    | 19.0    | 11.9    |
| EV/Sales             | x     | 0.6     | 0.5     | 0.5     | 0.4     |
| Gross dividend yield | %     | 0.0     | 0.0     | 0.0     | 0.0     |
| No. of shares (eop)  | ths.  | 25,530  | 25,530  | 25,530  | 25,530  |

Source: DM IDMSA estimates

## Stock performance



Source: www.money.pl

## Upcoming events

- 4Q07 results release on February 11, 2008. Slightly in the black, material risk of further provision on Okęcie Airport Terminal II

## Catalysts

- Winning large contracts

## Risk factors

- Further provisions on Okęcie Airport Terminal II are possible

materialize. We believe that all the loss-making contracts that depressed the results so far should be finally completed by the end of 1H08E, and that the current contract backlog, characterized (according to the management) by careful contract selection, should finally bring a material improvement as far as profitability is concerned. Assuming quite an optimistic scenario, as we see it, in our financial forecast and DCF model, we still do not find a fundamental upside from the current market price.

## Drivers

- ▲ **1. Terminal 2 – still a troublemaker?** Despite the fact that Budimex has already booked a loss on the Terminal 2 contract in 3Q07, and the cooperation between PPL (Polish Airports) seems to be finished, we believe the case is still active. There is still a dispute between PPL and Budimex relating to guaranties that Budimex provided to PPL when it started construction and now wants to have paid back, which is being questioned by PPL. In our opinion it is likely Budimex will create a provision, which could depress the Company's 4Q07E bottom line by c. PLN 20-25 million.
- ▲ **2. Loss-making contracts depressing the results till the end of 1H08.** Budimex is still executing some long-term loss-making contracts that are depressing the margins. As these contracts should be finalized no sooner than by the end of 1-2Q08E, we believe 1H08E should not bring a material turnaround as far as profitability is concerned.
- ▲ **3. Pressure on margins.** We believe there is still uncertainty that the risk factors, such as prices of materials and salary growth, that hit profitability in 2006 and 2007 could affect margins once more in 2008E. First, given the Company's organic growth strategy and staff shortages in Poland, we believe Budimex will have to boost salaries to retain and lure new employees. Second, as far as construction materials are concerned, as Budimex does not have its own material base (unlike Pol-Aqua and PBG, which have their own aggregate deposit used in road construction), we believe the Company lacks any hedge against price growth of materials, which constitutes a reasonable risk for margin erosion.

## Quarterly results corner; 4Q07E preview

As far as the 4Q07E numbers are concerned we believe that the measures undertaken by the management to improve overall profitability will continue bearing fruit as they did in 3Q07.

We forecast that sales will decrease yoy and reach PLN 784.7 million, as a consequence of weak backlog. We expect the margins to pick up, however. The 4Q07E EBIT margin should reach 1.3%, compared to -0.1% a year earlier. Value-wise, however, we expect

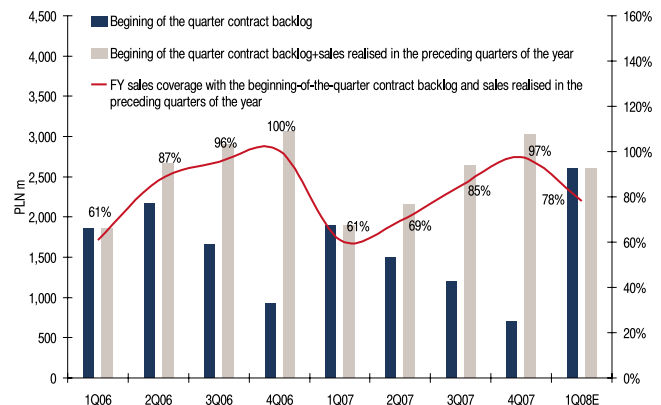
profits to be at a very low level. We forecast that in 4Q07 Budimex generated a mere PLN 10 million and PLN 16 million of EBIT and net profit, respectively.

As far as the FY2007E numbers are concerned, we forecast that Budimex should be in the black and report net profit of PLN 13 million. Please note that the Terminal 2 contract is still a troublemaker, and although Budimex has already shown a loss of PLN 22 million on that contract in the 1-3Q07 results, there is still a dispute between PPL and Budimex relating to guaranties of PLN 20-25 million paid in by Budimex. Possible provisions are not accounted for in our forecast, thus please note that should the worst-case scenario materialize, they would lower the 4Q07E bottom line by c. PLN 20 million.

## Financial forecast

The Company's sound 2008E contract backlog should, in our view, translate into dynamic growth of sales this year. We assume 7% yoy growth driven especially by road construction contracts. As we are not fully confident about the Company's capacity, due to the organic growth strategy (Budimex increased its revenues much below the market growth last year; in 1-3Q07 it showed 9% revenue growth yoy compared to 20% construction output growth), we assume total revenues should grow below the market in the long run. We forecast 2008E-2013E revenues to grow at a CAGR of 7.5%.

Fig. 26 Budimex; Contract backlog



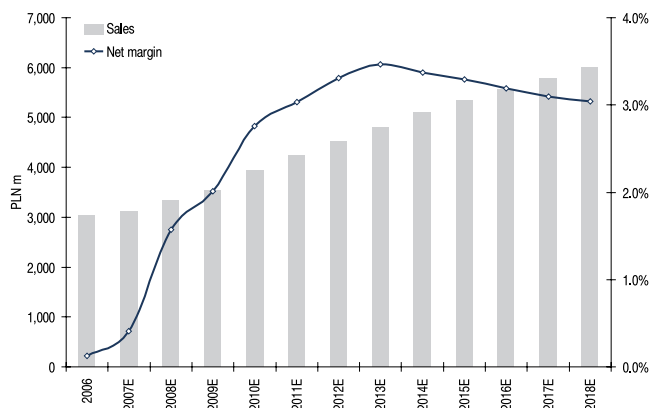
Source: Company, DM IDMSA estimates

Fig. 25 Budimex; 4Q07 forecasted results

| IFRS consolidated     | yoy change |       | Full year numbers |         | yoy change |      | realization of the FY figures in 4Q |      |
|-----------------------|------------|-------|-------------------|---------|------------|------|-------------------------------------|------|
|                       | 4Q07E      | 4Q06  | 2007E             | 2006    | 2007E      | 2006 | 2007E                               | 2006 |
| PLN m                 |            |       |                   |         |            |      |                                     |      |
| Sales                 | 784.7      | 910.7 | -14%              | 3,107.1 | 3,043.2    | 2%   | 25%                                 | 30%  |
| Gross profit on sales | 29.2       | 19.0  | 53%               | 154.9   | 124.7      | 24%  | 19%                                 | 15%  |
| Gross margin          | 3.7%       | 2.1%  | -                 | 5.0%    | 4.1%       | -    | -                                   | -    |
| EBIT                  | 10.4       | -1.2  | n.m.              | 22.1    | 9.9        | 123% | 47%                                 | n.m. |
| EBIT margin           | 1.3%       | -0.1% | -                 | 0.7%    | 0.3%       | -    | -                                   | -    |
| Pre-tax profit        | 10.5       | 0.9   | n.m.              | 15.8    | 12.2       | 30%  | 66%                                 | 8%   |
| Pre-tax margin        | 1.3%       | 0.1%  | -                 | 0.5%    | 0.4%       | -    | -                                   | -    |
| Net profit            | 15.6       | 0.9   | n.m.              | 12.8    | 3.9        | 228% | 122%                                | 24%  |
| Net margin            | 2.0%       | 0.1%  | -                 | 0.4%    | 0.1%       | -    | -                                   | -    |

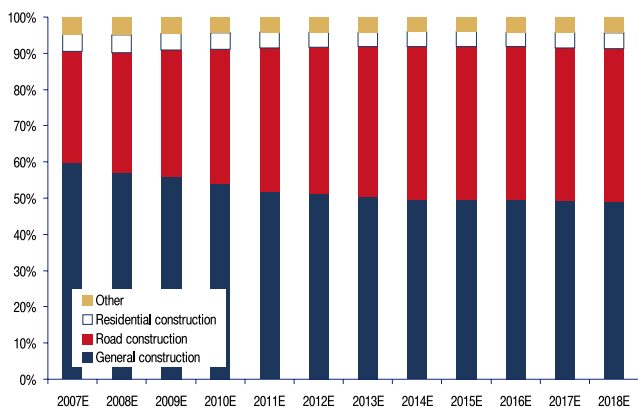
Source: Company, DM IDMSA estimates

Fig. 27 Budimex; Sales and net margin



Source: Company, DM IDMSA estimates

Fig. 28 Budimex; Sales brakedown



Source: DM IDMSA estimates

Regarding profitability, expecting a revival in margins this year and beyond, we forecast net profit margin will go up in the coming three years from c. 0.4% at the end of 2007 to c. 3.5% by the end of 2013E. Beyond 2013E we expect margins to decrease slightly.

**Valuation**

Our 12M EFV for Budimex stands at PLN 79.3 per share (regarding the details please refer to Figure 29).

**Recommendation**

We believe the current market price fully reflects expectations of a major improvement of Budimex financial results. However, given the aforementioned risks that may hinder the coming accomplishment of such a spectacular turnaround we initiate our coverage with a Sell fundamental rating and an underweight stance in market-relative terms.

Fig. 29 Budimex; DCF model

|                                                           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          | >2018E      |
|-----------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| <b>Sales</b>                                              | <b>3,107.1</b> | <b>3,324.5</b> | <b>3,537.1</b> | <b>3,952.5</b> | <b>4,248.1</b> | <b>4,521.3</b> | <b>4,799.3</b> | <b>5,096.7</b> | <b>5,339.4</b> | <b>5,574.2</b> | <b>5,778.6</b> | <b>5,991.7</b> |             |
| yoy change                                                | 2%             | 7%             | 6%             | 12%            | 7%             | 6%             | 6%             | 6%             | 5%             | 4%             | 4%             | 4%             |             |
| EBIT margin                                               | 0.7%           | 1.9%           | 2.5%           | 3.4%           | 3.7%           | 4.0%           | 4.2%           | 4.1%           | 4.0%           | 3.9%           | 3.8%           | 3.7%           |             |
| EBIT (PLN m)                                              | 22.1           | 64.3           | 89.1           | 134.1          | 157.1          | 182.2          | 202.6          | 209.2          | 214.0          | 216.6          | 218.1          | 221.9          |             |
| yoy change                                                | 123%           | 191%           | 38%            | 51%            | 17%            | 16%            | 11%            | 3%             | 2%             | 1%             | 1%             | 2%             |             |
| Effective cash tax rate (T)                               | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            |             |
| EBIT * (1-T), (PLN m)                                     | 17.9           | 52.1           | 72.1           | 108.7          | 127.2          | 147.6          | 164.1          | 169.4          | 173.3          | 175.4          | 176.7          | 179.7          |             |
| yoy change                                                | 452%           | 191%           | 38%            | 51%            | 17%            | 16%            | 11%            | 3%             | 2%             | 1%             | 1%             | 2%             |             |
| EBITDA (PLN m)                                            | 42.8           | 86.7           | 110.8          | 157.5          | 182.9          | 209.0          | 216.7          | 224.7          | 231.1          | 235.4          | 238.7          | 245.9          |             |
| yoy change                                                | 37%            | 103%           | 28%            | 42%            | 16%            | 14%            | 4%             | 4%             | 3%             | 2%             | 1%             | 3%             |             |
| EBITDA margin                                             | 1.4%           | 2.6%           | 3.1%           | 4.0%           | 4.3%           | 4.6%           | 4.5%           | 4.4%           | 4.3%           | 4.2%           | 4.1%           | 4.1%           |             |
| Depreciation (PLN m)                                      | 20.7           | 22.4           | 21.7           | 23.4           | 25.8           | 26.7           | 14.0           | 15.5           | 17.1           | 18.8           | 20.5           | 24.0           |             |
| EBIT * (1-T) + D, (PLN m)                                 | 38.6           | 74.5           | 93.9           | 132.0          | 153.1          | 174.4          | 178.2          | 185.0          | 190.4          | 194.2          | 197.2          | 203.7          |             |
| yoy change                                                | 58%            | 93%            | 26%            | 41%            | 16%            | 14%            | 2%             | 4%             | 3%             | 2%             | 2%             | 3%             |             |
| Capex (PLN m)                                             | -15.5          | -22.4          | -23.9          | -25.8          | -28.2          | -29.0          | -15.3          | -16.6          | -18.1          | -19.7          | -21.3          | -24.6          |             |
| Change in WC (PLN m)                                      | -9.6           | -20.7          | -16.6          | -33.2          | -21.7          | -20.9          | -20.1          | -18.3          | -14.8          | -13.9          | -11.9          | -12.9          |             |
| Equity issue proceeds (PLN m)                             | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |             |
| <b>Free cash flow (PLN m)</b>                             | <b>13.5</b>    | <b>31.4</b>    | <b>53.4</b>    | <b>73.0</b>    | <b>103.2</b>   | <b>124.5</b>   | <b>142.7</b>   | <b>150.0</b>   | <b>157.5</b>   | <b>160.6</b>   | <b>164.0</b>   | <b>166.2</b>   |             |
| <b>Cost of equity</b>                                     |                |                |                |                |                |                |                |                |                |                |                |                |             |
| Risk free rate (nominal)                                  | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 5.0%        |
| Equity risk premium                                       | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%        |
| Unlevered beta                                            | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00        |
| Beta adjusted for the current level of company's leverage | 1.07           | 1.06           | 1.06           | 1.05           | 1.05           | 1.05           | 1.05           | 1.05           | 1.05           | 1.05           | 1.05           | 1.04           | 1.04        |
| <b>Required rate of return computed by CAPM</b>           | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>10.7%</b>   | <b>9.7%</b> |
| <b>Cost of debt</b>                                       |                |                |                |                |                |                |                |                |                |                |                |                |             |
| Cost of debt (pre-tax)                                    | 6.1%           | 6.7%           | 6.7%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%        |
| Effective tax rate                                        | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%         |
| <b>After-tax cost of debt</b>                             | <b>4.9%</b>    | <b>5.4%</b>    | <b>5.4%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b> |
| <b>WACC</b>                                               |                |                |                |                |                |                |                |                |                |                |                |                |             |
| Weight of debt                                            | 8%             | 7%             | 7%             | 6%             | 6%             | 6%             | 6%             | 6%             | 5%             | 5%             | 5%             | 5%             | 5%          |
| Weight of equity                                          | 92%            | 93%            | 93%            | 94%            | 94%            | 94%            | 94%            | 94%            | 95%            | 95%            | 95%            | 95%            | 95%         |
| Cost of equity                                            | 10.8%          | 10.8%          | 10.8%          | 10.7%          | 10.7%          | 10.7%          | 10.7%          | 10.7%          | 10.7%          | 10.7%          | 10.7%          | 10.7%          | 9.7%        |
| After-tax cost of debt                                    | 4.9%           | 4.9%           | 5.4%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%        |
| <b>WACC</b>                                               | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>9.5%</b> |
| Discount multiple                                         | 1.00           | 1.00           | 1.10           | 1.21           | 1.34           | 1.47           | 1.63           | 1.80           | 1.98           | 2.19           | 2.42           | 2.67           |             |
| Discount factor                                           | 1.00           | 1.00           | 0.91           | 0.83           | 0.75           | 0.68           | 0.61           | 0.56           | 0.50           | 0.46           | 0.41           | 0.37           |             |
| <b>PV of free cash flow (PLN m)</b>                       |                |                | <b>48.7</b>    | <b>60.4</b>    | <b>77.3</b>    | <b>84.5</b>    | <b>87.7</b>    | <b>83.5</b>    | <b>79.4</b>    | <b>73.3</b>    | <b>67.8</b>    | <b>62.2</b>    |             |
| Sum of FCFs PVs (PLN m)                                   |                |                |                |                |                |                |                |                |                |                |                |                | 724.8       |
| Weight of debt in the residual period                     |                |                |                |                |                |                |                |                |                |                |                |                | 5%          |
| Weight of equity in the residual period                   |                |                |                |                |                |                |                |                |                |                |                |                | 95%         |
| Average cost of equity in the definite period             |                |                |                |                |                |                |                |                |                |                |                |                | 10.7%       |
| Average WACC in the definite period                       |                |                |                |                |                |                |                |                |                |                |                |                | 10.4%       |
| WACC in the residual period                               |                |                |                |                |                |                |                |                |                |                |                |                | 9.5%        |
| <b>Residual growth of FCFs, base-case scenario</b>        |                |                |                |                |                |                |                |                |                |                |                |                | <b>2.5%</b> |
| Residual value (PLN m)                                    |                |                |                |                |                |                |                |                |                |                |                |                | 2,444.9     |
| Present value of the residual value (PLN m)               |                |                |                |                |                |                |                |                |                |                |                |                | 915.4       |
| Value of operations (PLN m)                               |                |                |                |                |                |                |                |                |                |                |                |                | 1,640.2     |
| Cash and equivalents (PLN m)                              |                |                |                |                |                |                |                |                |                |                |                |                | 544.2       |
| Interest-bearing debt (PLN m)                             |                |                |                |                |                |                |                |                |                |                |                |                | 160.7       |
| Equity value (PLN m)                                      |                |                |                |                |                |                |                |                |                |                |                |                | 2,023.7     |
| No. of shares (m)                                         |                |                |                |                |                |                |                |                |                |                |                |                | 25.5        |
| <b>12-month forward fair value of Budimex (PLN)</b>       |                |                |                |                |                |                |                |                |                |                |                |                | <b>79.3</b> |

Source: DM IDMSA estimates

Fig. 30 Budimex; Forward multiples comparison to local peers

|                                                       | EV/EBITDA   |             |             | EV/EBIT     |             |             | P/E         |             |             |
|-------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       |
| Polimex-Mostostal                                     | 14.8        | 12.0        | 9.6         | 17.9        | 14.2        | 11.2        | 23.9        | 18.9        | 15.1        |
| Pol-Aqua                                              | 13.6        | 10.2        | 9.1         | 17.7        | 12.6        | 10.1        | 22.5        | 16.5        | 13.6        |
| PBG                                                   | 19.2        | 14.0        | 9.6         | 21.2        | 15.1        | 10.0        | 28.2        | 19.6        | 12.5        |
| Mostostal Warszawa                                    | 9.0         | 8.7         | 7.5         | 11.3        | 11.1        | 9.4         | 15.4        | 15.0        | 12.5        |
| <b>Median</b>                                         | <b>14.2</b> | <b>11.1</b> | <b>9.3</b>  | <b>17.8</b> | <b>13.4</b> | <b>10.1</b> | <b>23.2</b> | <b>17.7</b> | <b>13.1</b> |
| EBITDA, EBIT, Net profit of Budimex (PLN m)           | 86.7        | 110.8       | 157.5       | 64.3        | 89.1        | 134.1       | 52.2        | 71.1        | 108.9       |
| Implied value of Budimex (PLN m)                      | 1,232.6     | 1,227.4     | 1,470.1     | 1,145.0     | 1,195.8     | 1,349.7     |             |             |             |
| Net debt of Budimex (PLN m)                           | -383.5      | -447.3      | -542.9      | -383.5      | -447.3      | -542.9      |             |             |             |
| Implied equity value of Budimex (PLN m)               | 1,616.1     | 1,674.7     | 2,013.0     | 1,528.5     | 1,643.1     | 1,892.6     | 1,211.3     | 1,260.7     | 1,422.0     |
| Number of shares (m)                                  | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        |
| <b>Equity value per Budimex's share (PLN)</b>         | <b>63.3</b> | <b>65.6</b> | <b>78.8</b> | <b>59.9</b> | <b>64.4</b> | <b>74.1</b> | <b>47.4</b> | <b>49.4</b> | <b>55.7</b> |
| <b>Average equity value per Budimex's share (PLN)</b> | <b>62.1</b> |             |             |             |             |             |             |             |             |

Source: Reuters, DM IDMSA estimates

Fig. 31 Figure X. Budimex; Forward multiples comparison to foreign peers

|                                                       | EV/EBITDA   |             |             | EV/EBIT     |             |             | P/E         |             |             |
|-------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       |
| Acciona SA                                            | 17.2        | 14.1        | 16.6        | 27.3        | 22.8        | 30.0        | 15.0        | 16.3        | 17.1        |
| Astaldi SPA                                           | 5.0         | 4.4         | 3.6         | 7.0         | 6.0         | 5.3         | 8.5         | 6.9         | n.a.        |
| Bilfinger Berger AG                                   | 6.3         | 5.9         | 5.9         | 9.3         | 8.3         | 8.1         | 10.6        | 9.5         | 9.1         |
| Eiffage SA                                            | 8.7         | 8.4         | n.a.        | 13.8        | 12.8        | n.a.        | 11.7        | 10.6        | n.a.        |
| Impregilo SPA                                         | 4.6         | 4.4         | n.a.        | 5.9         | 5.5         | n.a.        | 9.2         | 8.7         | n.a.        |
| Skanska AB                                            | 6.6         | 6.3         | 5.4         | 8.2         | 7.7         | 6.4         | 11.1        | 10.7        | 9.2         |
| Ferrovial                                             | 11.7        | 10.9        | 10.1        | 18.7        | 18.1        | 16.2        | 20.9        | 14.8        | 11.4        |
| Hochtief                                              | 6.6         | 5.9         | 6.1         | 12.8        | 10.9        | 11.7        | 31.0        | 26.3        | 20.8        |
| <b>Median</b>                                         | <b>6.6</b>  | <b>6.1</b>  | <b>6.0</b>  | <b>11.1</b> | <b>9.6</b>  | <b>9.9</b>  | <b>11.4</b> | <b>10.6</b> | <b>11.4</b> |
| EBITDA, EBIT, Net profit of Budimex (PLN m)           | 86.7        | 110.8       | 157.5       | 64.3        | 89.1        | 134.1       | 52.2        | 71.1        | 108.9       |
| Implied value of Budimex (PLN m)                      | 571.4       | 675.2       | 943.6       | 712.4       | 855.3       | 1,328.2     |             |             |             |
| Net debt of Budimex (PLN m)                           | -383.5      | -447.3      | -542.9      | -383.5      | -447.3      | -542.9      |             |             |             |
| Implied equity value of Budimex (PLN m)               | 954.9       | 1,122.5     | 1,486.5     | 1,095.9     | 1,302.6     | 1,871.1     | 595.6       | 754.1       | 1,244.1     |
| Number of shares (m)                                  | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        | 25.5        |
| <b>Equity value per Budimex's share (PLN)</b>         | <b>37.4</b> | <b>44.0</b> | <b>58.2</b> | <b>42.9</b> | <b>51.0</b> | <b>73.3</b> | <b>23.3</b> | <b>29.5</b> | <b>48.7</b> |
| <b>Average equity value per Budimex's share (PLN)</b> | <b>45.4</b> |             |             |             |             |             |             |             |             |

Source: Reuters, DM IDMSA estimates

**Financial statements (IFRS consolidated)**

Fig. 32 Budimex; Balance sheet

| PLN m                               | 2006           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Fixed assets</b>                 | <b>352.2</b>   | <b>347.1</b>   | <b>347.0</b>   | <b>349.2</b>   | <b>351.6</b>   | <b>354.0</b>   | <b>356.3</b>   | <b>357.5</b>   | <b>358.6</b>   | <b>359.6</b>   | <b>360.5</b>   | <b>361.3</b>   | <b>361.9</b>   |
| Intangibles                         | 8.9            | 7.3            | 5.4            | 6.1            | 7.2            | 8.1            | 8.8            | 9.3            | 9.6            | 9.7            | 9.6            | 9.3            | 8.6            |
| Goodwill                            | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           | 73.2           |
| Tangible fixed assets               | 102.8          | 99.3           | 101.2          | 102.6          | 104.0          | 105.4          | 107.0          | 107.7          | 108.6          | 109.5          | 110.5          | 111.6          | 112.8          |
| LT receivables                      | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           | 49.2           |
| LT investments                      | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           | 38.2           |
| LT deferred assets                  | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           | 63.1           |
| Others                              | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           | 16.8           |
| <b>Current assets</b>               | <b>1,886.1</b> | <b>1,922.9</b> | <b>2,058.8</b> | <b>2,215.6</b> | <b>2,492.6</b> | <b>2,634.6</b> | <b>2,766.8</b> | <b>2,899.8</b> | <b>3,035.3</b> | <b>3,145.5</b> | <b>3,251.2</b> | <b>3,343.8</b> | <b>3,441.5</b> |
| Inventories                         | 416.1          | 420.9          | 445.2          | 471.2          | 521.7          | 558.9          | 592.8          | 627.9          | 667.7          | 700.2          | 732.0          | 759.7          | 788.3          |
| ST receivables                      | 952.9          | 972.9          | 1,041.0        | 1,107.5        | 1,237.6        | 1,330.2        | 1,415.7        | 1,502.7        | 1,595.9        | 1,671.9        | 1,745.4        | 1,809.4        | 1,876.1        |
| ST deferred assets                  | 5.9            | 6.0            | 6.4            | 6.8            | 7.6            | 8.2            | 8.7            | 9.3            | 9.8            | 10.3           | 10.8           | 11.1           | 11.6           |
| Cash & equivalents                  | 489.2          | 501.0          | 544.2          | 608.0          | 703.6          | 715.3          | 727.6          | 737.9          | 740.0          | 741.1          | 741.1          | 741.6          | 743.6          |
| Other assets                        | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           | 22.0           |
| <b>Total assets</b>                 | <b>2,238.3</b> | <b>2,269.9</b> | <b>2,405.8</b> | <b>2,564.8</b> | <b>2,844.2</b> | <b>2,988.7</b> | <b>3,123.0</b> | <b>3,257.3</b> | <b>3,394.0</b> | <b>3,505.1</b> | <b>3,611.7</b> | <b>3,705.1</b> | <b>3,803.4</b> |
| <b>Equity</b>                       | <b>524.3</b>   | <b>537.0</b>   | <b>589.2</b>   | <b>660.4</b>   | <b>769.3</b>   | <b>789.2</b>   | <b>809.9</b>   | <b>826.7</b>   | <b>832.1</b>   | <b>836.1</b>   | <b>838.2</b>   | <b>839.4</b>   | <b>842.4</b>   |
| <b>Liabilities &amp; reserves</b>   | <b>1,714.1</b> | <b>1,732.9</b> | <b>1,816.6</b> | <b>1,904.4</b> | <b>2,074.9</b> | <b>2,199.4</b> | <b>2,313.1</b> | <b>2,430.7</b> | <b>2,561.8</b> | <b>2,669.1</b> | <b>2,773.5</b> | <b>2,865.7</b> | <b>2,961.0</b> |
| Reserves                            | 32.9           | 33.6           | 35.9           | 38.2           | 42.7           | 45.9           | 48.8           | 51.8           | 55.1           | 57.7           | 60.2           | 62.4           | 64.7           |
| LT liabilities                      | 108.2          | 109.9          | 115.7          | 121.4          | 132.5          | 140.4          | 147.7          | 155.1          | 163.1          | 169.6          | 175.8          | 181.3          | 187.0          |
| Non-interest-bearing                | 85.8           | 87.5           | 93.3           | 99.0           | 110.1          | 118.0          | 125.3          | 132.7          | 140.6          | 147.1          | 153.4          | 158.9          | 164.6          |
| Interest-bearing                    | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           | 22.4           |
| ST liabilities                      | 1,517.8        | 1,533.0        | 1,604.6        | 1,680.6        | 1,827.9        | 1,936.0        | 2,034.5        | 2,136.5        | 2,251.1        | 2,344.9        | 2,436.3        | 2,517.0        | 2,600.5        |
| Non-interest-bearing                | 1,379.5        | 1,394.7        | 1,466.3        | 1,542.3        | 1,689.6        | 1,797.7        | 1,896.2        | 1,998.3        | 2,112.9        | 2,206.6        | 2,298.0        | 2,377.7        | 2,460.2        |
| Interest-bearing                    | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 138.3          | 139.3          | 140.3          |
| Reserves                            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Deferred liabilities                | 55.3           | 56.4           | 60.4           | 64.2           | 71.8           | 77.1           | 82.1           | 87.2           | 92.6           | 97.0           | 101.2          | 104.9          | 108.8          |
| <b>Total liabilities and equity</b> | <b>2,238.3</b> | <b>2,269.9</b> | <b>2,405.8</b> | <b>2,564.8</b> | <b>2,844.2</b> | <b>2,988.7</b> | <b>3,123.0</b> | <b>3,257.3</b> | <b>3,394.0</b> | <b>3,505.1</b> | <b>3,611.7</b> | <b>3,705.1</b> | <b>3,803.4</b> |

Source: Company, DM IDMSA estimates

Fig. 33 Budimex; Income statement

| PLN m                           | 2006           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Sales</b>                    | <b>3,043.2</b> | <b>3,107.1</b> | <b>3,324.5</b> | <b>3,537.1</b> | <b>3,952.5</b> | <b>4,248.1</b> | <b>4,521.3</b> | <b>4,799.3</b> | <b>5,096.7</b> | <b>5,339.4</b> | <b>5,574.2</b> | <b>5,778.6</b> | <b>5,991.7</b> |
| COGS                            | -2,918.4       | -2,952.2       | -3,122.2       | -3,305.0       | -3,659.1       | -3,920.0       | -4,157.3       | -4,403.8       | -4,682.6       | -4,910.7       | -5,133.4       | -5,327.8       | -5,528.6       |
| Gross profit on sales           | 124.7          | 154.9          | 202.3          | 232.1          | 293.4          | 328.1          | 364.0          | 395.5          | 414.1          | 428.7          | 440.8          | 450.7          | 463.1          |
| Selling costs                   | -28.0          | -28.6          | -30.6          | -32.6          | -36.4          | -39.1          | -41.6          | -44.2          | -46.9          | -49.2          | -51.3          | -53.2          | -55.2          |
| General administration costs    | -108.0         | -102.5         | -106.4         | -109.6         | -122.5         | -131.7         | -140.2         | -148.8         | -158.0         | -165.5         | -172.8         | -179.1         | -185.7         |
| <b>Net profit on sales</b>      | <b>-11.3</b>   | <b>23.7</b>    | <b>65.3</b>    | <b>89.9</b>    | <b>134.5</b>   | <b>157.3</b>   | <b>182.2</b>   | <b>202.5</b>   | <b>209.1</b>   | <b>214.0</b>   | <b>216.7</b>   | <b>218.3</b>   | <b>222.2</b>   |
| Other operating income          | 43.5           | 44.4           | 47.5           | 50.6           | 56.5           | 60.7           | 64.6           | 68.6           | 72.9           | 76.3           | 79.7           | 82.6           | 85.6           |
| Other operating costs           | -45.4          | -60.9          | -48.5          | -51.4          | -56.9          | -60.9          | -64.6          | -68.4          | -72.8          | -76.3          | -79.8          | -82.8          | -85.9          |
| Others                          | 23.1           | 14.8           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>EBIT</b>                     | <b>9.9</b>     | <b>22.1</b>    | <b>64.3</b>    | <b>89.1</b>    | <b>134.1</b>   | <b>157.1</b>   | <b>182.2</b>   | <b>202.6</b>   | <b>209.2</b>   | <b>214.0</b>   | <b>216.6</b>   | <b>218.1</b>   | <b>221.9</b>   |
| Financial income                | 27.6           | 17.8           | 18.9           | 18.5           | 19.8           | 21.4           | 21.8           | 22.1           | 22.3           | 22.3           | 22.4           | 22.4           | 22.4           |
| Financial costs                 | -27.1          | -24.8          | -18.8          | -19.8          | -19.4          | -19.4          | -19.4          | -19.4          | -19.4          | -19.4          | -19.4          | -19.5          | -19.5          |
| Others                          | 1.8            | 0.6            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Pre tax</b>                  | <b>12.2</b>    | <b>15.8</b>    | <b>64.4</b>    | <b>87.8</b>    | <b>134.5</b>   | <b>159.0</b>   | <b>184.6</b>   | <b>205.3</b>   | <b>212.0</b>   | <b>216.9</b>   | <b>219.5</b>   | <b>221.0</b>   | <b>224.7</b>   |
| Income tax                      | -8.2           | -3.0           | -12.2          | -16.7          | -25.6          | -30.2          | -35.1          | -39.0          | -40.3          | -41.2          | -41.7          | -42.0          | -42.7          |
| Minority interest in net Income | -0.1           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Net income</b>               | <b>3.9</b>     | <b>12.8</b>    | <b>52.2</b>    | <b>71.1</b>    | <b>108.9</b>   | <b>128.8</b>   | <b>149.5</b>   | <b>166.3</b>   | <b>171.8</b>   | <b>175.7</b>   | <b>177.8</b>   | <b>179.0</b>   | <b>182.0</b>   |
| <b>EBITDA</b>                   | <b>31.1</b>    | <b>42.8</b>    | <b>86.7</b>    | <b>110.8</b>   | <b>157.5</b>   | <b>182.9</b>   | <b>209.0</b>   | <b>216.7</b>   | <b>224.7</b>   | <b>231.1</b>   | <b>235.4</b>   | <b>238.7</b>   | <b>245.9</b>   |

Source: Company, DM IDMSA estimates



Fig. 34 Budimex; Cash flow

| PLN m                           | 2006         | 2007E       | 2008E       | 2009E        | 2010E        | 2011E         | 2012E         | 2013E         | 2014E         | 2015E         | 2016E         | 2017E         | 2018E         |
|---------------------------------|--------------|-------------|-------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Gross income (Loss)</b>      | <b>12.2</b>  | <b>15.8</b> | <b>64.4</b> | <b>87.8</b>  | <b>134.5</b> | <b>159.0</b>  | <b>184.6</b>  | <b>205.3</b>  | <b>212.0</b>  | <b>216.9</b>  | <b>219.5</b>  | <b>221.0</b>  | <b>224.7</b>  |
| Depreciation and amortization   | 21.2         | 20.7        | 22.4        | 21.7         | 23.4         | 25.8          | 26.7          | 14.0          | 15.5          | 17.1          | 18.8          | 20.5          | 24.0          |
| NWC change:                     | -55.9        | -9.6        | -20.7       | -16.6        | -33.2        | -21.7         | -20.9         | -20.1         | -18.3         | -14.8         | -13.9         | -11.9         | -12.9         |
| Change in inventories           | -133.7       | -4.8        | -24.2       | -26.1        | -50.5        | -37.2         | -33.8         | -35.2         | -39.8         | -32.5         | -31.8         | -27.7         | -28.6         |
| Change in receivables           | -216.1       | -20.0       | -68.1       | -66.6        | -130.1       | -92.6         | -85.5         | -87.0         | -93.1         | -76.0         | -73.5         | -64.0         | -66.7         |
| Change in payables              | 293.8        | 15.2        | 71.6        | 76.0         | 147.4        | 108.1         | 98.5          | 102.1         | 114.6         | 93.7          | 91.4          | 79.8          | 82.5          |
| Other                           | -55.4        | -7.6        | -9.7        | -13.0        | -12.6        | -25.3         | -31.7         | -35.7         | -36.2         | -40.1         | -41.0         | -42.9         | -43.1         |
| <b>Operating cash flow</b>      | <b>-78.0</b> | <b>19.2</b> | <b>56.5</b> | <b>79.9</b>  | <b>112.1</b> | <b>137.9</b>  | <b>158.7</b>  | <b>163.5</b>  | <b>173.1</b>  | <b>179.1</b>  | <b>183.4</b>  | <b>186.7</b>  | <b>192.7</b>  |
| Capital expenditures            | -20.7        | -15.5       | -22.4       | -23.9        | -25.8        | -28.2         | -29.0         | -15.3         | -16.6         | -18.1         | -19.7         | -21.3         | -24.6         |
| Other                           | 110.9        | 17.8        | 18.9        | 18.5         | 19.8         | 21.4          | 21.8          | 22.1          | 22.3          | 22.3          | 22.4          | 22.4          | 22.4          |
| <b>Investing cash flow</b>      | <b>90.2</b>  | <b>2.3</b>  | <b>-3.5</b> | <b>-5.4</b>  | <b>-6.0</b>  | <b>-6.8</b>   | <b>-7.2</b>   | <b>6.8</b>    | <b>5.7</b>    | <b>4.2</b>    | <b>2.6</b>    | <b>1.0</b>    | <b>-2.1</b>   |
| Change in interest-bearing debt | 31.1         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 1.0           | 1.0           |
| Dividends payment               | 0.0          | 0.0         | 0.0         | 0.0          | 0.0          | -108.9        | -128.8        | -149.5        | -166.3        | -171.8        | -175.7        | -177.8        | -179.0        |
| Interest                        | -6.6         | -9.8        | -9.8        | -10.8        | -10.4        | -10.4         | -10.4         | -10.4         | -10.4         | -10.4         | -10.4         | -10.5         | -10.5         |
| Other                           | -4.7         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Financing cash flow</b>      | <b>19.8</b>  | <b>-9.8</b> | <b>-9.8</b> | <b>-10.8</b> | <b>-10.4</b> | <b>-119.4</b> | <b>-139.3</b> | <b>-160.0</b> | <b>-176.7</b> | <b>-182.2</b> | <b>-186.1</b> | <b>-187.3</b> | <b>-188.6</b> |
| <b>Total cash flow</b>          | <b>32.0</b>  | <b>11.8</b> | <b>43.2</b> | <b>63.8</b>  | <b>95.6</b>  | <b>11.7</b>   | <b>12.3</b>   | <b>10.3</b>   | <b>2.0</b>    | <b>1.1</b>    | <b>-0.1</b>   | <b>0.5</b>    | <b>2.0</b>    |

Source: Company, DM IDMSA estimates

Fig. 35 Budimex; Ratios

| PLN m                         | 2006 | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|-------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales growth (yoy)            | 13%  | 2%    | 7%    | 6%    | 12%   | 7%    | 6%    | 6%    | 6%    | 5%    | 4%    | 4%    | 4%    |
| Gross profit growth (yoy)     | 18%  | 24%   | 31%   | 15%   | 26%   | 12%   | 11%   | 9%    | 5%    | 4%    | 3%    | 2%    | 3%    |
| EBITDA growth (yoy)           | 34%  | 37%   | 103%  | 28%   | 42%   | 16%   | 14%   | 4%    | 4%    | 3%    | 2%    | 1%    | 3%    |
| Operating profit growth (yoy) | 406% | 123%  | 191%  | 38%   | 51%   | 17%   | 16%   | 11%   | 3%    | 2%    | 1%    | 1%    | 2%    |
| Net income growth (yoy)       | 92%  | 228%  | 308%  | 36%   | 53%   | 18%   | 16%   | 11%   | 3%    | 2%    | 1%    | 1%    | 2%    |
| A/R turnover days             | 100  | 113   | 111   | 111   | 108   | 110   | 111   | 111   | 111   | 112   | 112   | 112   | 112   |
| Inventory turnover days       | 43   | 52    | 51    | 51    | 50    | 50    | 51    | 51    | 50    | 51    | 51    | 51    | 51    |
| A/P turnover days             | 118  | 133   | 130   | 130   | 128   | 130   | 130   | 131   | 130   | 131   | 131   | 132   | 132   |
| Cash cycle days               | 25   | 32    | 31    | 31    | 30    | 31    | 31    | 31    | 31    | 31    | 31    | 32    | 32    |
| NWC/Sales                     | -3%  | -3%   | -2%   | -2%   | -1%   | -1%   | 0%    | 0%    | 0%    | 0%    | 0%    | 1%    | 1%    |
| Gross margin                  | 4.1% | 5.0%  | 6.1%  | 6.6%  | 7.4%  | 7.7%  | 8.1%  | 8.2%  | 8.1%  | 8.0%  | 7.9%  | 7.8%  | 7.7%  |
| EBITDA margin                 | 1.0% | 1.4%  | 2.6%  | 3.1%  | 4.0%  | 4.3%  | 4.6%  | 4.5%  | 4.4%  | 4.3%  | 4.2%  | 4.1%  | 4.1%  |
| EBIT margin                   | 0.3% | 0.7%  | 1.9%  | 2.5%  | 3.4%  | 3.7%  | 4.0%  | 4.2%  | 4.1%  | 4.0%  | 3.9%  | 3.8%  | 3.7%  |
| Pretax margin                 | 0.4% | 0.5%  | 1.9%  | 2.5%  | 3.4%  | 3.7%  | 4.1%  | 4.3%  | 4.2%  | 4.1%  | 3.9%  | 3.8%  | 3.8%  |
| Net margin                    | 0.1% | 0.4%  | 1.6%  | 2.0%  | 2.8%  | 3.0%  | 3.3%  | 3.5%  | 3.4%  | 3.3%  | 3.2%  | 3.1%  | 3.0%  |
| ROE                           | 0.7% | 2.4%  | 9.3%  | 11.4% | 15.2% | 16.5% | 18.7% | 20.3% | 20.7% | 21.1% | 21.2% | 21.3% | 21.6% |
| ROA                           | 0.2% | 0.6%  | 2.2%  | 2.9%  | 4.0%  | 4.4%  | 4.9%  | 5.2%  | 5.2%  | 5.1%  | 5.0%  | 4.9%  | 4.8%  |
| Current ratio                 | 1.2  | 1.3   | 1.3   | 1.3   | 1.4   | 1.4   | 1.4   | 1.4   | 1.3   | 1.3   | 1.3   | 1.3   | 1.3   |
| Quick ratio                   | 1.0  | 1.0   | 1.0   | 1.0   | 1.1   | 1.1   | 1.1   | 1.1   | 1.1   | 1.0   | 1.0   | 1.0   | 1.0   |

Source: Company, DM IDMSA estimates

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# PBG

**Sector:** Construction  
**Fundamental rating:** Hold (-)  
**12M relative:** Overweight (-)  
**Price:** PLN 280.6  
**12M EFV:** PLN 319 (-)

**Market Cap.:** US\$ 1,533 m  
**Reuters code:** PBGG.WA  
**Av. daily turnover:** US\$ 3.24 m  
**Free float:** 34%  
**12M range:** PLN 250.10-430.00

## Investment opinion

Driven by an M&A-oriented strategy, in terms of profits PBG has become the second-largest construction company on the Polish market, after Polimex. It delivers highly specialized services in a few niche segments of the construction sector, namely water, natural gas and crude oil, which allows the Company to enjoy above-average margins.

PBG is probably the best vehicle to capture the growth in the influx of EU funds. Please note that the next three years should bring spending on environmental protection at a level of c. PLN 51 billion, and around half of that should constitute investments in sewage disposal and water protection, which drive the Company's results. We believe PBG should maintain its leading market position as far as the execution of environmental protection and hydro construction contracts is concerned. Moreover, entering the road construction business will allow the Company to unlock additional value from realization of complex projects, in our view.

The high growth potential of the Company is reinforced by its M&A strategy. This year should bring further acquisition of a road building company, however single-digit P/E is not probable any longer. It is also likely that PBG will acquire PRG Metro, a company that should support PBG in prospective construction of a second metro line in Warsaw. Still, the acquisitions should be value-accretive and might constitute an upside to our valuation.

We like PBG's foreign expansion (Gas & Oil Engineering in Slovakia, Excan Oil and Gas Engineering in Canada), which we believe is the way to build a reference for foreign expansion once the flow of EU funds declines.

We see numerous triggers on the horizon which should be supportive for the share price performance of the stock, mainly in the form of large tenders to be completed. Within the next 2 months at least two large contracts with a total value of PLN 1.3 billion are expected to be finalized. We believe that PBG is well-positioned to win at least one of them.

We believe a particularly favorable external environment, sound backlog (33% up yoy) and high growth potential should translate into a strong increase in the financial numbers for this year and beyond. We forecast PBG to boost its sales in 2007-2010E at c. 34% CAGR and EBITDA at an impressive CAGR of c. 49%.

Although we have accounted for the fact that PBG will be one of the most dynamically developing companies on the Polish general construction market within the coming years, our 12M forward

### Guide to adjusted profits

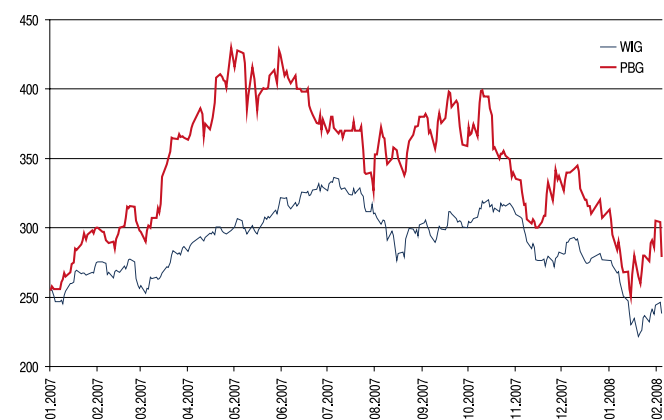
Adj EBITDA, adj EBIT, adj NI exclude the impact of IFRS2 SOCs.

### Key data

| IFRS consolidated    |       | 2007E   | 2008E   | 2009E   | 2010E   |
|----------------------|-------|---------|---------|---------|---------|
| Sales                | PLN m | 1,294.4 | 1,753.2 | 2,357.8 | 3,136.3 |
| EBITDA               | PLN m | 140.3   | 223.4   | 313.2   | 468.6   |
| EBIT                 | PLN m | 121.5   | 201.5   | 290.6   | 445.8   |
| Net profit           | PLN m | 102.6   | 133.7   | 191.8   | 302.5   |
| EPS                  | PLN   | 7.64    | 9.95    | 14.28   | 22.53   |
| EPS yoy chng         | %     | 70      | 30      | 44      | 58      |
| Net debt             | PLN m | 403.0   | 513.1   | 615.6   | 707.4   |
| P/E                  | x     | 36.7    | 28.2    | 19.6    | 12.5    |
| P/ICE                | x     | 31.1    | 24.2    | 17.6    | 11.6    |
| EV/EBITDA            | x     | 29.7    | 19.2    | 14.0    | 9.6     |
| EV/EBIT              | x     | 34.3    | 21.2    | 15.1    | 10.0    |
| EV/Sales             | x     | 3.2     | 2.4     | 1.9     | 1.4     |
| Gross dividend yield | %     | 0.0     | 0.0     | 0.0     | 0.0     |
| No. of shares (eop)  | ths.  | 13,430  | 13,430  | 13,430  | 13,430  |

Source: DM IDMSA estimates

### Stock performance



Source: www.money.pl

### Upcoming events

1. Release of 4Q07 results on February 28, 2008. We do not expect the results to come as a surprise to the investor community

### Catalysts

1. PBG wins the battle for PGNIIG contracts
2. Winning other large environmental protection contracts

### Risk factors

1. Suspension of PGNIIG tenders
2. PBG loses the battle for PGNIIG contracts

DCF valuation yields EFV of PLN 319 per share, which rests only moderately above current market price.

### Drivers

- ▲ 1. Further M&A's. The M&A-oriented strategy should be followed and bring further acquisitions this year. We believe that

the next acquisition target should be a road-building company. Second, Hydrobudowa Polska (PBG's 76% subsidiary) aims to take part in the construction of the second metro line in Warsaw (in a consortium with German Alpine Bau and Spanish FCC Construction), and an acquisition target could be PRG Metro, a company that played a key role in construction of the first line. So far, Hydrobudowa Polska has signed a letter of intent with PRG Metro.

- ▲ 2. *Tenders for c. PLN 1.2 billion to be completed by the end of 1Q08E.* 1Q08E should bring completion of 2 tenders for an impressive PLN 1.3 billion, both announced by PGNiG, which is to speed up its investment process. We believe PBG should win at least one of them. The first one is a contract for construction of an underground gas storage facility in Wierzchowiec (PLN 0.6 billion), the second one is a contract for construction of the Lubiatów-Międzychód-Grotów crude oil plant (PLN 0.7 billion).
- ▲ 3. *Announcement of 2008E management forecast.* Given the Company's sound contract backlog, we believe that the 2008E financial forecast, which by the way should be announced shortly by the management, may provide a slightly positive catalyst for the stock price. We believe the announcement should come no later than the end of 1Q08.

### Quarterly results corner; 4Q07E preview

We believe the management's FY2007E financial forecast should be slightly exceeded, especially as far as the top line is concerned. In the course of 2007, the management of PBG updated its full-year numbers forecast twice, increasing the net income estimates from PLN 82.3 million to PLN 101.0 million, while keeping the sales

Fig. 36 PBG; The management vs. DM IDMSA forecast

|                   |       | Management<br>2007 forecast | DM IDM<br>forecast | Management<br>forecast vs.<br>DM IDM forecast |
|-------------------|-------|-----------------------------|--------------------|-----------------------------------------------|
| Sales             | PLN m | 1,207.7                     | 1,294.4            | -7%                                           |
| EBIT              | PLN m | 118.1                       | 121.5              | -3%                                           |
| EBIT margin       |       | 9.8%                        | 9.4%               |                                               |
| Net Income        | PLN m | 101.0                       | 102.6              | -2%                                           |
| Net Income margin |       | 8.4%                        | 7.9%               |                                               |

Source: Company, DM IDMSA estimates

Fig. 37 PBG; 4Q07 forecasted results

| IFRS consolidated<br>PLN m | yoy change |       | Full year<br>numbers | yoy change |       | realization of the FY<br>figures in 4Q |      |
|----------------------------|------------|-------|----------------------|------------|-------|----------------------------------------|------|
|                            | 4Q07E      | 4Q06  |                      | 2007E      | 2006  | 2007E                                  | 2006 |
| Sales                      | 494.4      | 252.7 | 96%                  | 1,294.4    | 674.6 | 92%                                    | 37%  |
| Gross profit on sales      | 82.6       | 44.0  | 87%                  | 188.7      | 119.1 | 59%                                    | 37%  |
| Gross margin               | 16.7%      | 17.4% | -                    | 14.6%      | 17.7% | -                                      | -    |
| EBIT                       | 60.2       | 26.7  | 126%                 | 121.5      | 74.1  | 64%                                    | 36%  |
| EBIT margin                | 12.2%      | 10.6% | -                    | 9.4%       | 11.0% | -                                      | -    |
| Pre-tax profit             | 57.1       | 29.3  | 95%                  | 142.4      | 72.4  | 97%                                    | 40%  |
| Pre-tax margin             | 11.5%      | 11.6% | -                    | 11%        | 11%   | -                                      | -    |
| Net profit                 | 40.2       | 24.1  | 67%                  | 102.6      | 54.2  | 89%                                    | 44%  |
| Net margin                 | 8.1%       | 9.5%  | -                    | 7.9%       | 8.0%  | -                                      | -    |

Source: Company, DM IDMSA estimates

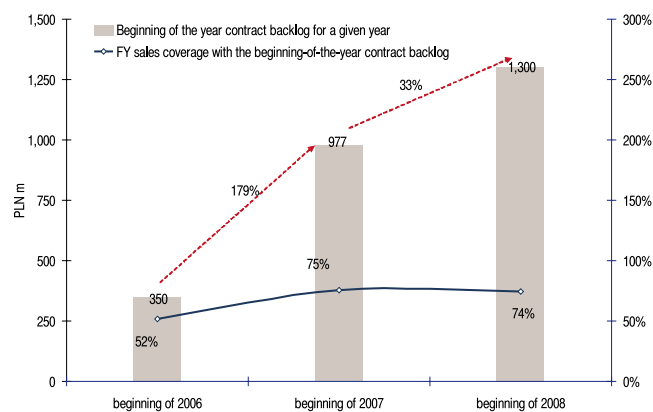
and EBIT forecast intact. We forecast consolidated revenues to move up by c. 92% yoy to PLN 1,294.4 million (7% above the management forecast), and NI to reach PLN 102.6 million (2% above the management forecast).

### Financial forecast

The Company's sound 2008 contract backlog (up 33% yoy) should translate into strong growth in sales this year. The contract backlog as of the beginning of the year represents c. 74% coverage of our FY2008E sales forecast for the Company, and should translate into c. 35% yoy sales growth in 2008.

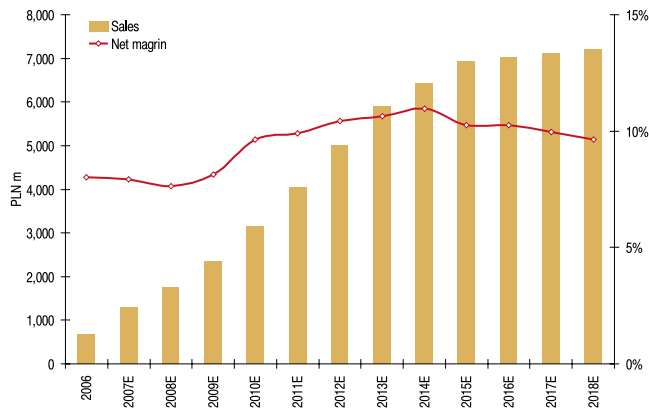
As far as profitability is concerned, the Company aims to reach 10% NI margin in 2010 (in 2007E NI margin should stand at c. 8%), which we believe is a quite realistic scenario. The Company's 2007E net margin would reach c. 9.6% (which is close to the management's 2010E target), if it had not been for the loss booked by Hydrobudowa Polska (HP), PBG's 76% subsidiary, in 3Q07. HP's profitability was hit by a loss on the Cracow-Plaszow sewage treatment plant. The loss on that contract caused consolidated net margin erosion in 3Q07 (it dropped from 10.1% in 2Q07 to 6.1 in 3Q07). As the contract has already been finished, it should not depress margins of PBG in 4Q07E and beyond. Second, it is likely that poorly managed Hydrobudowa 9 (a 69% subsidiary), which joined the PBG capital group last year, was in the red in 2007E, however 2008E should bring a turnaround and Hydrobudowa 9

Fig. 38 PBG; Contract backlog



Source: Company, DM IDMSA estimates

Fig. 39 PBG; Sales and net margin



Source: Company, DM IDMSA estimates

may, we believe, show a net margin of c. 5% (c. PLN 20 million). Third, we believe that profitability improvement should result from the mixture of (i) careful contract selection on the basis of profitability criteria, and (ii) clear effects of synergy between newly acquired companies.

**Valuation**

DCF valuation yields PBG's 12M forward EFV of PLN 319 per share (regarding the details please refer to *Figure 40*).

**Recommendation**

We initiate coverage of PBG with a LT Hold fundamental recommendation. In the wake of upcoming triggers in the form of possible large contracts from PGNiG, we recommend to overweight the stock in the ST.

Fig. 40 PBG; DCF model

|                                                           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          | >2018E      |
|-----------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| <b>Sales</b>                                              | <b>1,294.4</b> | <b>1,753.2</b> | <b>2,357.8</b> | <b>3,136.3</b> | <b>4,050.3</b> | <b>5,002.1</b> | <b>5,890.6</b> | <b>6,422.2</b> | <b>6,937.7</b> | <b>7,024.0</b> | <b>7,113.9</b> | <b>7,207.6</b> |             |
| yoy change                                                | 92%            | 35%            | 34%            | 33%            | 29%            | 23%            | 18%            | 9%             | 8%             | 1%             | 1%             | 1%             |             |
| EBIT margin                                               | 9.4%           | 11.5%          | 12.3%          | 14.2%          | 14.4%          | 14.8%          | 14.8%          | 15.1%          | 14.0%          | 14.0%          | 13.6%          | 13.1%          |             |
| EBIT (PLN m)                                              | 121.5          | 201.5          | 290.6          | 445.8          | 583.0          | 741.5          | 874.2          | 967.2          | 972.0          | 981.1          | 965.3          | 946.3          |             |
| yoy change                                                | 64%            | 66%            | 44%            | 53%            | 31%            | 27%            | 18%            | 11%            | 0%             | 1%             | -2%            | -2%            |             |
| Effective CTR (T)                                         | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            |             |
| EBIT * (1-T), (PLN m)                                     | 98.5           | 163.2          | 235.4          | 361.1          | 472.2          | 600.6          | 708.1          | 783.4          | 787.3          | 794.7          | 781.9          | 766.5          |             |
| yoy change                                                | 69%            | 66%            | 44%            | 53%            | 31%            | 27%            | 18%            | 11%            | 0%             | 1%             | -2%            | -2%            |             |
| EBITDA (PLN m)                                            | 140.3          | 223.4          | 313.2          | 468.6          | 607.1          | 766.9          | 901.0          | 995.4          | 1,001.7        | 1,012.4        | 998.1          | 982.3          |             |
| yoy change                                                | 55%            | 59%            | 40%            | 50%            | 30%            | 26%            | 17%            | 10%            | 1%             | 1%             | -1%            | -2%            |             |
| EBITDA margin                                             | 10.8%          | 12.7%          | 13.3%          | 14.9%          | 15.0%          | 15.3%          | 15.3%          | 15.5%          | 14.4%          | 14.4%          | 14.0%          | 13.6%          |             |
| Depreciation (PLN m)                                      | 18.8           | 21.8           | 22.6           | 22.8           | 24.1           | 25.4           | 26.8           | 28.2           | 29.7           | 31.3           | 32.8           | 36.0           |             |
| EBIT * (1-T) + D, (PLN m)                                 | 117.2          | 185.1          | 258.0          | 383.9          | 496.3          | 626.1          | 734.9          | 811.6          | 817.0          | 826.0          | 814.7          | 802.5          |             |
| yoy change                                                | 57%            | 58%            | 39%            | 49%            | 29%            | 26%            | 17%            | 10%            | 1%             | 1%             | -1%            | -1%            |             |
| Capex (PLN m)                                             | -241.0         | -35.8          | -23.2          | -26.3          | -26.4          | -26.6          | -27.9          | -29.2          | -30.6          | -32.1          | -33.6          | -36.5          |             |
| Change in WC (PLN m)                                      | -355.7         | -265.4         | -345.9         | -457.8         | -522.8         | -545.7         | -508.2         | -306.4         | -268.1         | -45.7          | -39.1          | -42.4          |             |
| Equity issue proceeds (PLN m)                             | 349.3          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |             |
| <b>Free cash flow (PLN m)</b>                             | <b>-130.1</b>  | <b>-116.2</b>  | <b>-111.1</b>  | <b>-100.2</b>  | <b>-52.9</b>   | <b>53.7</b>    | <b>198.8</b>   | <b>476.0</b>   | <b>518.3</b>   | <b>748.2</b>   | <b>742.0</b>   | <b>723.6</b>   |             |
| <b>Cost of equity</b>                                     |                |                |                |                |                |                |                |                |                |                |                |                |             |
| Risk free rate (nominal)                                  | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 5.0%        |
| Equity risk premium                                       | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%        |
| Unlevered beta                                            | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00        |
| Beta adjusted for the current level of company's leverage | 1.08           | 1.10           | 1.11           | 1.10           | 1.09           | 1.08           | 1.07           | 1.07           | 1.06           | 1.06           | 1.06           | 1.05           | 1.05        |
| <b>Required rate of return computed by CAPM</b>           | <b>10.8%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>11.0%</b>   | <b>10.9%</b>   | <b>10.9%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.7%</b>   | <b>9.7%</b> |
| <b>Cost of debt</b>                                       |                |                |                |                |                |                |                |                |                |                |                |                |             |
| Cost of debt (pre-tax)                                    | 6.3%           | 6.5%           | 6.5%           | 6.6%           | 6.6%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%        |
| Effective tax rate                                        | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19           | 0.19        |
| <b>After-tax cost of debt</b>                             | <b>5.1%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b> |
| <b>WACC</b>                                               |                |                |                |                |                |                |                |                |                |                |                |                |             |
| Weight of debt                                            | 9%             | 11%            | 11%            | 11%            | 10%            | 9%             | 8%             | 8%             | 7%             | 7%             | 7%             | 6%             | 6%          |
| Weight of equity                                          | 91%            | 89%            | 89%            | 89%            | 90%            | 91%            | 92%            | 92%            | 93%            | 93%            | 93%            | 94%            | 94%         |
| Cost of equity                                            | 10.8%          | 11.0%          | 11.0%          | 11.0%          | 10.9%          | 10.9%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.7%          | 9.7%        |
| After-tax cost of debt                                    | 5.1%           | 5.3%           | 5.0%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%        |
| <b>WACC</b>                                               | <b>10.3%</b>   | <b>10.3%</b>   | <b>10.3%</b>   | <b>10.3%</b>   | <b>10.3%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>9.5%</b> |
| Discount multiple                                         | 1.00           | 1.00           | 1.09           | 1.21           | 1.33           | 1.47           | 1.62           | 1.79           | 1.98           | 2.18           | 2.41           | 2.66           |             |
| Discount factor                                           | 1.00           | 1.00           | 0.91           | 0.83           | 0.75           | 0.68           | 0.62           | 0.56           | 0.51           | 0.46           | 0.42           | 0.38           |             |
| <b>PV of free cash flow (PLN m)</b>                       |                |                | <b>-101.5</b>  | <b>-83.0</b>   | <b>-39.7</b>   | <b>36.5</b>    | <b>122.5</b>   | <b>265.8</b>   | <b>262.1</b>   | <b>342.8</b>   | <b>308.0</b>   | <b>272.0</b>   |             |
| Sum of FCFs PVs (PLN m)                                   |                |                |                |                |                |                |                |                |                |                |                |                | 1,385.7     |
| Weight of debt in the residual period                     |                |                |                |                |                |                |                |                |                |                |                |                | 6%          |
| Weight of equity in the residual period                   |                |                |                |                |                |                |                |                |                |                |                |                | 94%         |
| Average cost of equity in the definite period             |                |                |                |                |                |                |                |                |                |                |                |                | 10.9%       |
| Average WACC in the definite period                       |                |                |                |                |                |                |                |                |                |                |                |                | 10.4%       |
| WACC in the residual period                               |                |                |                |                |                |                |                |                |                |                |                |                | 9.5%        |
| <b>Residual growth of FCFs, base-case scenario</b>        |                |                |                |                |                |                |                |                |                |                |                |                | <b>2.5%</b> |
| Residual value (PLN m)                                    |                |                |                |                |                |                |                |                |                |                |                |                | 10,646.5    |
| Present value of the residual value (PLN m)               |                |                |                |                |                |                |                |                |                |                |                |                | 4,002.6     |
| Value of operations (PLN m)                               |                |                |                |                |                |                |                |                |                |                |                |                | 5,388.3     |
| Cash and equivalents (PLN m)                              |                |                |                |                |                |                |                |                |                |                |                |                | 111.5       |
| Interest-bearing debt (PLN m)                             |                |                |                |                |                |                |                |                |                |                |                |                | 624.6       |
| PV of minorities (PLN m)                                  |                |                |                |                |                |                |                |                |                |                |                |                | 314.1       |
| PV of residual value of minorities (PLN m)                |                |                |                |                |                |                |                |                |                |                |                |                | 274.6       |
| Equity value (PLN m)                                      |                |                |                |                |                |                |                |                |                |                |                |                | 4,286.5     |
| No. of shares (m)                                         |                |                |                |                |                |                |                |                |                |                |                |                | 13.4        |
| <b>12-month forward fair value of PBG (PLN)</b>           |                |                |                |                |                |                |                |                |                |                |                |                | <b>319</b>  |

Source: DM IDMSA estimates

Fig. 41 PBG; Forward multiples comparison to local peers

|                                                   | EV/EBITDA    |              |              | EV/EBIT      |              |              | P/E          |              |              |
|---------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                                   | 2008E        | 2009E        | 2010E        | 2008E        | 2009E        | 2010E        | 2008E        | 2009E        | 2010E        |
| Polimex-Mostostal                                 | 14.8         | 12.0         | 9.6          | 17.9         | 14.2         | 11.2         | 23.9         | 18.9         | 15.1         |
| Pol-Aqua                                          | 13.6         | 10.2         | 9.1          | 17.7         | 12.6         | 10.1         | 22.5         | 16.5         | 13.6         |
| Budimex                                           | 20.2         | 15.3         | 10.1         | 27.3         | 19.0         | 11.9         | 40.9         | 30.0         | 19.6         |
| Mostostal Warszawa                                | 9.0          | 8.7          | 7.5          | 11.3         | 11.1         | 9.4          | 15.4         | 15.0         | 12.5         |
| <b>Median</b>                                     | <b>14.2</b>  | <b>11.1</b>  | <b>9.4</b>   | <b>17.8</b>  | <b>13.4</b>  | <b>10.6</b>  | <b>23.2</b>  | <b>17.7</b>  | <b>14.4</b>  |
| EBITDA, EBIT, Net profit of PBG (PLN m)           | 223.4        | 313.2        | 468.6        | 201.5        | 290.6        | 445.8        | 133.7        | 191.8        | 302.5        |
| Implied value of PBG (PLN m)                      | 3,175.2      | 3,470.2      | 4,391.3      | 3,587.5      | 3,901.7      | 4,743.8      |              |              |              |
| Net debt of PBG (PLN m)                           | 513.1        | 615.6        | 707.4        | 513.1        | 615.6        | 707.4        |              |              |              |
| Implied equity value of PBG (PLN m)               | 2,662.2      | 2,854.6      | 3,683.9      | 3,074.5      | 3,286.1      | 4,036.3      | 3,101.8      | 3,399.2      | 4,349.8      |
| Number of shares (m)                              | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         |
| <b>Equity value per PBG's share (PLN)</b>         | <b>198.2</b> | <b>212.6</b> | <b>274.3</b> | <b>228.9</b> | <b>244.7</b> | <b>300.5</b> | <b>231.0</b> | <b>253.1</b> | <b>323.9</b> |
| <b>Average equity value per PBG's share (PLN)</b> | <b>251.9</b> |              |              |              |              |              |              |              |              |

Source: Reuters, DM IDMSA estimates

Fig. 42 PBG; Forward multiples comparison to foreign peers

|                                                   | EV/EBITDA    |             |              | EV/EBIT      |              |              | P/E          |              |              |
|---------------------------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                                   | 2008E        | 2009E       | 2010E        | 2008E        | 2009E        | 2010E        | 2008E        | 2009E        | 2010E        |
| Bilfinger Berger AG                               | 6.3          | 5.9         | 5.9          | 9.3          | 8.3          | 8.1          | 10.6         | 9.5          | 9.1          |
| Per Aarsleff                                      | 3.7          | 3.5         | n.a.         | 7.0          | 6.5          | 5.3          | 7.6          | 7.0          | n.a.         |
| Linde AG                                          | 8.1          | 7.4         | 7.0          | 14.0         | 11.9         | 11.4         | 15.8         | 13.5         | 12.3         |
| Skanska AB                                        | 6.6          | 6.3         | 5.4          | 8.2          | 7.7          | 6.4          | 11.1         | 10.7         | 9.2          |
| Ferrovial                                         | 11.7         | 10.9        | 10.1         | 18.7         | 18.1         | 16.2         | 20.9         | 14.8         | 11.4         |
| Impregilo SPA                                     | 4.6          | 4.4         | n.a.         | 5.9          | 5.5          | n.a.         | 9.2          | 8.7          | n.a.         |
| Acciona SA                                        | 17.2         | 14.1        | 16.6         | 27.3         | 22.8         | 30.0         | 15.0         | 16.3         | 17.1         |
| Astaldi SPA                                       | 5.0          | 4.4         | 3.6          | 7.0          | 6.0          | 5.3          | 8.5          | 6.9          | n.a.         |
| Eiffage SA                                        | 8.7          | 8.4         | n.a.         | 13.8         | 12.8         | n.a.         | 11.7         | 10.6         | n.a.         |
| Hochtief                                          | 6.6          | 5.9         | 6.1          | 12.8         | 10.9         | 11.7         | 31.0         | 26.3         | 20.8         |
| <b>Median</b>                                     | <b>6.6</b>   | <b>6.1</b>  | <b>6.1</b>   | <b>11.1</b>  | <b>9.6</b>   | <b>9.8</b>   | <b>11.4</b>  | <b>10.6</b>  | <b>11.8</b>  |
| EBITDA, EBIT, Net Income of PBG (PLN m)           | 223.4        | 313.2       | 468.6        | 201.5        | 290.6        | 445.8        | 133.7        | 191.8        | 302.5        |
| Implied value of PBG (PLN m)                      | 1,472.0      | 1,909.2     | 2,858.6      | 2,232.1      | 2,790.5      | 4,352.7      |              |              |              |
| Net debt of PBG (PLN m)                           | 513.1        | 615.6       | 707.4        | 513.1        | 615.6        | 707.4        |              |              |              |
| Implied equity value of PBG (PLN m)               | 958.9        | 1,293.5     | 2,151.1      | 1,719.0      | 2,174.9      | 3,645.2      | 1,525.1      | 2,033.2      | 3,582.0      |
| Number of shares (m)                              | 13.4         | 13.4        | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         | 13.4         |
| <b>Equity value per PBG's share (PLN)</b>         | <b>71.4</b>  | <b>96.3</b> | <b>160.2</b> | <b>128.0</b> | <b>161.9</b> | <b>271.4</b> | <b>113.6</b> | <b>151.4</b> | <b>266.7</b> |
| <b>Average equity value per PBG's share (PLN)</b> | <b>157.9</b> |             |              |              |              |              |              |              |              |

Source: Reuters, DM IDMSA estimates

## Financial statements (IFRS consolidated)

Fig. 43 PBG; Balance sheet

| PLN m                               | 2006           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Fixed assets</b>                 | <b>361.1</b>   | <b>584.5</b>   | <b>599.4</b>   | <b>600.0</b>   | <b>603.5</b>   | <b>605.8</b>   | <b>607.1</b>   | <b>608.2</b>   | <b>609.2</b>   | <b>610.1</b>   | <b>611.0</b>   | <b>611.7</b>   | <b>612.2</b>   |
| Intangibles                         | 4.7            | 4.8            | 4.8            | 5.3            | 8.9            | 11.2           | 12.4           | 13.6           | 14.6           | 15.5           | 16.3           | 17.1           | 17.6           |
| Goodwill                            | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           | 72.0           |
| Tangible fixed assets               | 266.5          | 388.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          | 402.6          |
| LT receivables                      | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| LT investments                      | 15.9           | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          | 115.9          |
| LT deferred assets                  | 1.3            | 2.5            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            | 3.4            |
| Others                              | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            | 0.8            |
| <b>Current assets</b>               | <b>683.3</b>   | <b>1,251.6</b> | <b>1,706.3</b> | <b>2,225.4</b> | <b>2,896.7</b> | <b>3,701.0</b> | <b>4,598.3</b> | <b>5,615.0</b> | <b>6,262.7</b> | <b>6,905.5</b> | <b>7,013.9</b> | <b>7,110.9</b> | <b>7,205.6</b> |
| Inventories                         | 15.6           | 31.1           | 41.4           | 55.1           | 71.9           | 92.7           | 114.3          | 134.6          | 146.5          | 160.5          | 162.8          | 165.9          | 168.9          |
| ST receivables                      | 594.8          | 1,141.2        | 1,545.7        | 2,078.6        | 2,765.0        | 3,570.8        | 4,409.9        | 5,193.3        | 5,661.9        | 6,116.4        | 6,192.5        | 6,271.7        | 6,354.3        |
| ST deferred assets                  | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Cash & equivalents                  | 65.2           | 71.6           | 111.5          | 84.0           | 52.2           | 29.8           | 66.4           | 279.4          | 446.7          | 620.9          | 650.9          | 665.6          | 674.6          |
| Other assets                        | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            | 7.7            |
| <b>Total assets</b>                 | <b>1,044.4</b> | <b>1,836.1</b> | <b>2,305.7</b> | <b>2,825.4</b> | <b>3,500.2</b> | <b>4,306.8</b> | <b>5,205.4</b> | <b>6,223.2</b> | <b>6,872.0</b> | <b>7,515.6</b> | <b>7,624.8</b> | <b>7,722.6</b> | <b>7,817.8</b> |
| <b>Equity</b>                       | <b>380.2</b>   | <b>844.8</b>   | <b>996.7</b>   | <b>1,216.5</b> | <b>1,554.7</b> | <b>2,000.9</b> | <b>2,576.3</b> | <b>3,263.1</b> | <b>3,716.4</b> | <b>4,139.0</b> | <b>4,212.1</b> | <b>4,263.0</b> | <b>4,311.2</b> |
| <b>Minority interest</b>            | <b>12.1</b>    | <b>24.9</b>    | <b>43.1</b>    | <b>71.0</b>    | <b>106.8</b>   | <b>151.4</b>   | <b>205.0</b>   | <b>265.1</b>   | <b>327.5</b>   | <b>390.8</b>   | <b>454.0</b>   | <b>517.2</b>   | <b>580.4</b>   |
| <b>Liabilities &amp; reserves</b>   | <b>664.3</b>   | <b>991.3</b>   | <b>1,308.9</b> | <b>1,609.0</b> | <b>1,945.4</b> | <b>2,305.9</b> | <b>2,629.0</b> | <b>2,960.1</b> | <b>3,155.6</b> | <b>3,376.6</b> | <b>3,412.7</b> | <b>3,459.6</b> | <b>3,506.6</b> |
| Reserves                            | 14.4           | 14.5           | 19.7           | 26.4           | 35.2           | 45.4           | 56.1           | 66.1           | 72.0           | 77.8           | 78.8           | 79.8           | 80.8           |
| LT liabilities                      | 180.2          | 196.7          | 204.6          | 239.9          | 263.2          | 278.8          | 295.1          | 310.3          | 319.4          | 328.2          | 329.7          | 331.2          | 332.8          |
| Non-interest-bearing                | 0.3            | 22.1           | 30.0           | 40.3           | 53.6           | 69.2           | 85.5           | 100.7          | 109.8          | 118.6          | 120.1          | 121.6          | 123.2          |
| Interest-bearing                    | 179.9          | 174.6          | 174.6          | 199.6          | 209.6          | 209.6          | 209.6          | 209.6          | 209.6          | 209.6          | 209.6          | 209.6          | 209.6          |
| ST liabilities                      | 461.9          | 764.8          | 1,064.1        | 1,314.9        | 1,610.2        | 1,934.1        | 2,219.0        | 2,514.5        | 2,688.7        | 2,889.1        | 2,921.8        | 2,965.0        | 3,008.3        |
| Non-interest-bearing                | 246.4          | 452.7          | 602.0          | 802.8          | 1,048.1        | 1,351.9        | 1,666.9        | 1,962.4        | 2,136.5        | 2,336.9        | 2,369.6        | 2,412.8        | 2,456.1        |
| Interest-bearing                    | 203.3          | 300.0          | 450.0          | 500.0          | 550.0          | 570.0          | 540.0          | 540.0          | 540.0          | 540.0          | 540.0          | 540.0          | 540.0          |
| Reserves                            | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           | 12.2           |
| <b>Deferred liabilities</b>         | <b>7.7</b>     | <b>15.2</b>    | <b>20.6</b>    | <b>27.7</b>    | <b>36.8</b>    | <b>47.6</b>    | <b>58.8</b>    | <b>69.2</b>    | <b>75.5</b>    | <b>81.5</b>    | <b>82.5</b>    | <b>83.6</b>    | <b>84.7</b>    |
| <b>Total liabilities and equity</b> | <b>1,044.4</b> | <b>1,836.1</b> | <b>2,305.7</b> | <b>2,825.4</b> | <b>3,500.2</b> | <b>4,306.8</b> | <b>5,205.4</b> | <b>6,223.2</b> | <b>6,872.0</b> | <b>7,515.6</b> | <b>7,624.8</b> | <b>7,722.6</b> | <b>7,817.8</b> |

Source: Company, DM IDMSA estimates

Fig. 44 PBG; Income statement

| PLN m                           | 2006         | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|---------------------------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Sales</b>                    | <b>674.6</b> | <b>1,294.4</b> | <b>1,753.2</b> | <b>2,357.8</b> | <b>3,136.3</b> | <b>4,050.3</b> | <b>5,002.1</b> | <b>5,890.6</b> | <b>6,422.2</b> | <b>6,937.7</b> | <b>7,024.0</b> | <b>7,113.9</b> | <b>7,207.6</b> |
| COGS                            | -555.6       | -1,105.7       | -1,468.6       | -1,957.9       | -2,551.8       | -3,292.4       | -4,059.6       | -4,779.8       | -5,203.5       | -5,700.3       | -5,781.1       | -5,890.3       | -5,999.2       |
| Gross profit on sales           | 119.1        | 188.7          | 284.7          | 399.9          | 584.4          | 757.9          | 942.5          | 1,110.8        | 1,218.7        | 1,237.5        | 1,242.9        | 1,223.7        | 1,208.4        |
| Selling costs                   | -1.4         | -1.1           | -0.9           | -1.2           | -1.6           | -2.0           | -2.5           | -2.9           | -3.2           | -3.5           | -3.5           | -3.6           | -3.6           |
| General administration costs    | -52.8        | -76.4          | -96.4          | -127.3         | -163.1         | -206.6         | -240.1         | -282.8         | -301.8         | -319.1         | -316.1         | -313.0         | -317.1         |
| <b>Net profit on sales</b>      | <b>64.9</b>  | <b>111.3</b>   | <b>187.3</b>   | <b>271.4</b>   | <b>419.8</b>   | <b>549.3</b>   | <b>699.9</b>   | <b>825.2</b>   | <b>913.6</b>   | <b>914.9</b>   | <b>923.3</b>   | <b>907.1</b>   | <b>887.7</b>   |
| Other operating income          | 25.4         | 20.5           | 27.7           | 37.3           | 49.6           | 64.1           | 79.1           | 93.2           | 101.6          | 109.8          | 111.1          | 112.5          | 114.0          |
| Other operating costs           | -16.1        | -10.2          | -13.6          | -18.1          | -23.6          | -30.4          | -37.5          | -44.1          | -48.0          | -52.6          | -53.4          | -54.4          | -55.4          |
| Other                           | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>EBIT</b>                     | <b>74.1</b>  | <b>121.5</b>   | <b>201.5</b>   | <b>290.6</b>   | <b>445.8</b>   | <b>583.0</b>   | <b>741.5</b>   | <b>874.2</b>   | <b>967.2</b>   | <b>972.0</b>   | <b>981.1</b>   | <b>965.3</b>   | <b>946.3</b>   |
| <b>Adj EBIT</b>                 | <b>78.3</b>  | <b>121.5</b>   | <b>201.5</b>   | <b>290.6</b>   | <b>445.8</b>   | <b>583.0</b>   | <b>741.5</b>   | <b>874.2</b>   | <b>967.2</b>   | <b>972.0</b>   | <b>981.1</b>   | <b>965.3</b>   | <b>946.3</b>   |
| Financial income                | 21.8         | 19.7           | 21.7           | 21.7           | 19.9           | 18.6           | 18.6           | 22.3           | 28.0           | 33.2           | 36.2           | 36.9           | 37.2           |
| Financial costs                 | -21.0        | -27.0          | -35.7          | -41.1          | -48.2          | -50.8          | -49.7          | -48.7          | -48.7          | -48.7          | -48.7          | -48.7          | -48.7          |
| Other                           | -2.6         | 28.1           | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Pre tax</b>                  | <b>72.4</b>  | <b>142.4</b>   | <b>187.5</b>   | <b>271.3</b>   | <b>417.6</b>   | <b>550.8</b>   | <b>710.4</b>   | <b>847.8</b>   | <b>946.5</b>   | <b>956.5</b>   | <b>968.6</b>   | <b>953.5</b>   | <b>934.9</b>   |
| Income tax                      | -15.5        | -27.1          | -35.6          | -51.5          | -79.3          | -104.7         | -135.0         | -161.1         | -179.8         | -181.7         | -184.0         | -181.2         | -177.6         |
| Minority interest in net income | -2.7         | -12.8          | -18.2          | -27.9          | -35.7          | -44.7          | -53.6          | -60.0          | -62.5          | -63.2          | -63.2          | -63.2          | -63.2          |
| <b>Net income</b>               | <b>54.2</b>  | <b>102.6</b>   | <b>133.7</b>   | <b>191.8</b>   | <b>302.5</b>   | <b>401.5</b>   | <b>521.8</b>   | <b>626.7</b>   | <b>704.2</b>   | <b>711.5</b>   | <b>721.3</b>   | <b>709.1</b>   | <b>694.0</b>   |
| <b>Adj net income</b>           | <b>58.4</b>  | <b>102.6</b>   | <b>133.7</b>   | <b>191.8</b>   | <b>302.5</b>   | <b>401.5</b>   | <b>521.8</b>   | <b>626.7</b>   | <b>704.2</b>   | <b>711.5</b>   | <b>721.3</b>   | <b>709.1</b>   | <b>694.0</b>   |
| <b>EBITDA</b>                   | <b>90.7</b>  | <b>140.3</b>   | <b>223.4</b>   | <b>313.2</b>   | <b>468.6</b>   | <b>607.1</b>   | <b>766.9</b>   | <b>901.0</b>   | <b>995.4</b>   | <b>1,001.7</b> | <b>1,012.4</b> | <b>998.1</b>   | <b>982.3</b>   |
| <b>Adj EBITDA</b>               | <b>94.9</b>  | <b>140.3</b>   | <b>223.4</b>   | <b>313.2</b>   | <b>468.6</b>   | <b>607.1</b>   | <b>766.9</b>   | <b>901.0</b>   | <b>995.4</b>   | <b>1,001.7</b> | <b>1,012.4</b> | <b>998.1</b>   | <b>982.3</b>   |

Source: Company, DM IDMSA estimates



Fig. 45 PBG; Cash flow

| PLN m                           | 2006          | 2007E         | 2008E        | 2009E        | 2010E        | 2011E        | 2012E        | 2013E        | 2014E         | 2015E         | 2016E         | 2017E         | 2018E         |
|---------------------------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|
| <b>Pre-tax income (Loss)</b>    | <b>72.4</b>   | <b>142.4</b>  | <b>187.5</b> | <b>271.3</b> | <b>417.6</b> | <b>550.8</b> | <b>710.4</b> | <b>847.8</b> | <b>946.5</b>  | <b>956.5</b>  | <b>968.6</b>  | <b>953.5</b>  | <b>934.9</b>  |
| Depreciation and amortization   | 16.6          | 18.8          | 21.8         | 22.6         | 22.8         | 24.1         | 25.4         | 26.8         | 28.2          | 29.7          | 31.3          | 32.8          | 36.0          |
| NWC change:                     | -57.1         | -355.7        | -265.4       | -345.9       | -457.8       | -522.8       | -545.7       | -508.2       | -306.4        | -268.1        | -45.7         | -39.1         | -42.4         |
| Change in inventories           | 4.3           | -15.5         | -10.2        | -13.8        | -16.7        | -20.9        | -21.6        | -20.3        | -11.9         | -14.0         | -2.3          | -3.1          | -3.1          |
| Change in receivables           | -105.8        | -546.4        | -404.5       | -532.9       | -686.3       | -805.8       | -839.1       | -783.4       | -468.6        | -454.5        | -76.1         | -79.3         | -82.6         |
| Change in payables              | 44.4          | 206.2         | 149.3        | 200.8        | 245.3        | 303.9        | 315.0        | 295.5        | 174.2         | 200.4         | 32.7          | 43.2          | 43.3          |
| Other                           | -166.0        | 25.5          | 12.9         | 9.0          | -2.9         | -18.9        | -48.7        | -82.1        | -120.9        | -128.5        | -151.1        | -148.7        | -145.4        |
| <b>Operating cash flow</b>      | <b>-134.2</b> | <b>-169.0</b> | <b>-43.2</b> | <b>-43.0</b> | <b>-20.3</b> | <b>33.3</b>  | <b>141.4</b> | <b>284.3</b> | <b>547.5</b>  | <b>589.5</b>  | <b>803.2</b>  | <b>798.4</b>  | <b>783.0</b>  |
| Capital expenditures            | -130.3        | -241.0        | -35.8        | -23.2        | -26.3        | -26.4        | -26.6        | -27.9        | -29.2         | -30.6         | -32.1         | -33.6         | -36.5         |
| Other                           | 17.8          | 2.7           | 4.7          | 4.7          | 2.9          | 1.6          | 1.6          | 5.3          | 11.0          | 16.2          | 19.2          | 19.9          | 20.2          |
| <b>Investing cash flow</b>      | <b>-112.5</b> | <b>-238.3</b> | <b>-31.1</b> | <b>-18.5</b> | <b>-23.4</b> | <b>-24.8</b> | <b>-25.1</b> | <b>-22.6</b> | <b>-18.2</b>  | <b>-14.5</b>  | <b>-12.9</b>  | <b>-13.7</b>  | <b>-16.3</b>  |
| Change in interest-bearing debt | 47.5          | 91.4          | 150.0        | 75.0         | 60.0         | 20.0         | -30.0        | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| Dividends payment               | 0.0           | 0.0           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | -313.4        | -352.1        | -711.5        | -721.3        | -709.1        |
| Interest                        | -17.8         | -27.0         | -35.7        | -41.1        | -48.2        | -50.8        | -49.7        | -48.7        | -48.7         | -48.7         | -48.7         | -48.7         | -48.7         |
| Other                           | 187.3         | 349.3         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Financing cash flow</b>      | <b>217.0</b>  | <b>413.7</b>  | <b>114.3</b> | <b>33.9</b>  | <b>11.8</b>  | <b>-30.8</b> | <b>-79.7</b> | <b>-48.7</b> | <b>-362.1</b> | <b>-400.8</b> | <b>-760.2</b> | <b>-770.1</b> | <b>-757.8</b> |
| <b>Total cash flow</b>          | <b>-29.7</b>  | <b>6.4</b>    | <b>40.0</b>  | <b>-27.6</b> | <b>-31.8</b> | <b>-22.4</b> | <b>36.6</b>  | <b>213.1</b> | <b>167.2</b>  | <b>174.2</b>  | <b>30.0</b>   | <b>14.7</b>   | <b>9.0</b>    |

Source: Company, DM IDMSA estimates

Fig. 46 PBG; Ratios

| PLN m                              | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales growth (yoy)                 | 65%   | 92%   | 35%   | 34%   | 33%   | 29%   | 23%   | 18%   | 9%    | 8%    | 1%    | 1%    | 1%    |
| Gross profit on sales growth (yoy) | 67%   | 59%   | 51%   | 40%   | 46%   | 30%   | 24%   | 18%   | 10%   | 2%    | 0%    | -2%   | -1%   |
| EBITDA growth (yoy)                | 81%   | 55%   | 59%   | 40%   | 50%   | 30%   | 26%   | 17%   | 10%   | 1%    | 1%    | -1%   | -2%   |
| Adj EBITDA growth (yoy)            | 74%   | 48%   | 59%   | 40%   | 50%   | 30%   | 26%   | 17%   | 10%   | 1%    | 1%    | -1%   | -2%   |
| Operating profit growth (yoy)      | 79%   | 64%   | 66%   | 44%   | 53%   | 31%   | 27%   | 18%   | 11%   | 0%    | 1%    | -2%   | -2%   |
| Adj operating profit growth (yoy)  | 72%   | 55%   | 66%   | 44%   | 53%   | 31%   | 27%   | 18%   | 11%   | 0%    | 1%    | -2%   | -2%   |
| Net income growth (yoy)            | 50%   | 89%   | 30%   | 44%   | 58%   | 33%   | 30%   | 20%   | 12%   | 1%    | 1%    | -2%   | -2%   |
| Adj net income growth (yoy)        | 45%   | 76%   | 30%   | 44%   | 58%   | 33%   | 30%   | 20%   | 12%   | 1%    | 1%    | -2%   | -2%   |
| A/R turnover days                  | 255   | 245   | 280   | 281   | 282   | 285   | 291   | 298   | 308   | 310   | 320   | 320   | 320   |
| Inventory turnover days            | 9     | 8     | 9     | 9     | 9     | 9     | 9     | 10    | 10    | 10    | 10    | 10    | 10    |
| A/P turnover days                  | 126   | 115   | 131   | 131   | 132   | 133   | 136   | 138   | 144   | 143   | 148   | 148   | 148   |
| Cash cycle days                    | 138   | 138   | 158   | 159   | 159   | 162   | 165   | 169   | 175   | 177   | 182   | 182   | 182   |
| NWC/Sales                          | 54%   | 54%   | 54%   | 55%   | 55%   | 55%   | 55%   | 55%   | 55%   | 55%   | 55%   | 55%   | 55%   |
| Gross margin                       | 17.7% | 14.6% | 16.2% | 17.0% | 18.6% | 18.7% | 18.8% | 18.9% | 19.0% | 17.8% | 17.7% | 17.2% | 16.8% |
| EBITDA margin                      | 13.4% | 10.8% | 12.7% | 13.3% | 14.9% | 15.0% | 15.3% | 15.3% | 15.5% | 14.4% | 14.4% | 14.0% | 13.6% |
| Adj EBITDA margin                  | 14.1% | 10.8% | 12.7% | 13.3% | 14.9% | 15.0% | 15.3% | 15.3% | 15.5% | 14.4% | 14.4% | 14.0% | 13.6% |
| EBIT margin                        | 11.0% | 9.4%  | 11.5% | 12.3% | 14.2% | 14.4% | 14.8% | 14.8% | 15.1% | 14.0% | 14.0% | 13.6% | 13.1% |
| Adj EBIT margin                    | 11.6% | 9.4%  | 11.5% | 12.3% | 14.2% | 14.4% | 14.8% | 14.8% | 15.1% | 14.0% | 14.0% | 13.6% | 13.1% |
| Pretax margin                      | 10.7% | 11.0% | 10.7% | 11.5% | 13.3% | 13.6% | 14.2% | 14.4% | 14.7% | 13.8% | 13.8% | 13.4% | 13.0% |
| Adj pretax margin                  | 11.4% | 11.0% | 10.7% | 11.5% | 13.3% | 13.6% | 14.2% | 14.4% | 14.7% | 13.8% | 13.8% | 13.4% | 13.0% |
| Net margin                         | 8.0%  | 7.9%  | 7.6%  | 8.1%  | 9.6%  | 9.9%  | 10.4% | 10.6% | 11.0% | 10.3% | 10.3% | 10.0% | 9.6%  |
| Adj net margin                     | 8.7%  | 7.9%  | 7.6%  | 8.1%  | 9.6%  | 9.9%  | 10.4% | 10.6% | 11.0% | 10.3% | 10.3% | 10.0% | 9.6%  |
| ROE                                | 19.2% | 16.7% | 14.5% | 17.3% | 21.8% | 22.6% | 22.8% | 21.5% | 20.2% | 18.1% | 17.3% | 16.7% | 16.2% |
| ROA                                | 6.3%  | 7.1%  | 6.5%  | 7.5%  | 9.6%  | 10.3% | 11.0% | 11.0% | 10.8% | 9.9%  | 9.5%  | 9.2%  | 8.9%  |
| Current ratio                      | 1.5   | 1.6   | 1.6   | 1.7   | 1.8   | 1.9   | 2.1   | 2.2   | 2.3   | 2.4   | 2.4   | 2.4   | 2.4   |
| Quick ratio                        | 1.4   | 1.6   | 1.6   | 1.7   | 1.8   | 1.9   | 2.0   | 2.2   | 2.3   | 2.3   | 2.3   | 2.3   | 2.3   |

Source: Company, DM IDMSA estimates



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**Sector:** Construction  
**Fundamental rating:** Buy (-)  
**12M relative:** Overweight (-)  
**Price:** PLN 79.50  
**12M EFV:** PLN 92 (-)

**Market Cap.:** US\$ 889 m  
**Reuters code:** PQAA.WA  
**Av. daily turnover:** US\$ 0.72 m  
**Free float:** 37%  
**12M range:** PLN 66.00-89.70

# Pol-Aqua

## Investment opinion

Pol-Aqua is focused on specialized, highly profitable engineering works, such as sewage systems, sewage pumping stations, rainwater drainage, water mains, grids, etc. Since last year the Company has been carrying out turnkey realization of high-capacity buildings, such as shopping malls, block of flats, and logistic centers. Pol-Aqua is also engaged in the production of steel structures, oil & gas pipelines, fuel storage and road construction.

We believe that Pol-Aqua, apart from PBG, constitutes the best vehicle to capture the growth in the influx of EU funds. Please note that the average total value of environmental protection projects in 2007-2014E should stand at around PLN 15.7 billion per year, twice the 2001-2004 amount, and the largest chunk of spending will relate to sewage disposal and water protection (45%), the segment that drives Pol-Aqua's results. Moreover, we believe that entering the general construction business will allow the Company to unlock additional value from realization of complex projects.

We like the Company's M&A-oriented growth path, which we believe should support the Company's results in the coming years. In our view 2008E should bring further acquisitions of a road building company and engineering companies. Although the acquisitions are likely to be value-accretive, we do not account for them in our valuation.

As far as the financial forecast is concerned, we expect the Company to almost double its 2008E NI yoy. Moreover, the figure of PLN 97.0 million is close to the Company's management forecast of PLN 100.1 million.

As far as risks are concerned, we believe that the 4Q07E results might be still negatively influenced by the general construction business bought from Polnord in 2Q07. Although we account for the poor profitability of those contracts, we can not preclude that the actual adverse impact will be stronger than we assume.

We believe that the negative catalyst in the form of Prokom Investments shares supply overhang ceased to exist.

## Drivers

- ▲ **1. Further acquisitions this year.** It is likely that during 2008E Pol-Aqua will conduct further acquisitions. First, Pol-Aqua should finalize acquisition of a company specializing in road and bridge building. Given huge spending on roads in Poland in the coming years, and clear effects of synergy, this seems to be a good move. As the acquisition is still uncertain we do not include it in our forecast, however

## Key data

| IFRS consolidated    |       | 2007E  | 2008E   | 2009E   | 2010E   |
|----------------------|-------|--------|---------|---------|---------|
| Sales                | PLN m | 860.3  | 1,434.9 | 1,708.0 | 2,031.8 |
| EBITDA               | PLN m | 99.2   | 157.0   | 204.2   | 220.3   |
| EBIT                 | PLN m | 68.4   | 120.9   | 164.9   | 199.1   |
| Net profit           | PLN m | 53.9   | 97.0    | 132.5   | 160.5   |
| EPS                  | PLN   | 1.96   | 3.53    | 4.82    | 5.84    |
| EPS yoy chng         | %     | 91     | 80      | 37      | 21      |
| Net debt             | PLN m | -104.0 | -48.8   | -104.8  | -178.7  |
| P/E                  | x     | 40.5   | 22.5    | 16.5    | 13.6    |
| P/CE                 | x     | 25.8   | 16.4    | 12.7    | 12.0    |
| EV/EBITDA            | x     | 21.0   | 13.6    | 10.2    | 9.1     |
| EV/EBIT              | x     | 30.5   | 17.7    | 12.6    | 10.1    |
| EV/Sales             | x     | 2.4    | 1.5     | 1.2     | 1.0     |
| Gross dividend yield | %     | 0.0    | 0.0     | 0.0     | 0.0     |
| No. of shares (eop)  | ths.  | 27,500 | 27,500  | 27,500  | 27,500  |

Source: DM IDMSA estimates

## Stock performance



Source: www.money.pl

## Upcoming events

1. Remaining stake of 3.65% of Pol-Aqua to be sold by Prokom Investments to the founder and largest shareholder of Pol-Aqua, Mr Marek Stefański, by the end of 4Q08
2. Publication of 4Q07 results on February 29, 2008; we expect the Company to deliver FY2007E results slightly below the management forecast, which should not come as a surprise to the investor community, however

## Catalysts

1. Signing new construction contracts
2. Signing contract with Polnord for construction of Miasteczko Wilanów, for a value of c. PLN 1.0 billion

## Risk factors

1. 4Q07E results and FY2008E results might be hit by the general construction business bought from Polnord in 2Q07

we estimate it could bring around PLN 100 million to the consolidated top line. Second, it is likely that Pol-Aqua takes the first step to move abroad. It has announced its plans to take over several engineering companies in Germany, with a view to participate in an investment program for construction of gas pipelines. As no details have been announced yet, we do not account for any of the potential acquisitions in the Company's financials, however – in our view – they may provide a positive trigger for the stock price.

▲ **2. Contract from Polnord.** We believe the Company's results should be driven by large general construction contracts in the Wilanów district of Warsaw in the coming years. On the back of an agreement signed with Polnord in 4Q07, Pol-Aqua should be the key arm's length contractor for the Park Technologiczny office complex (c. 150,000 sq m of net rentable area), shopping center (c. 50,000 sq m of net rentable area) and infrastructure works (sewage system, water main, and internal roads) on an area of c. 54 hectares. As far as the results are concerned, we believe that the construction of Park Technologiczny and the shopping center should bring c. PLN 1.0 billion to the Company's top line in 2008-2012E. Another PLN 1.5 billion should bring infrastructure works.

▲ **3. General construction contracts depressing the margins.** We believe that poorly managed and not very profitable general construction contracts bought from Polnord last year could reduce margins in 4Q07E. Although we account for the poor profitability of these contracts, there is a risk that the actual impact may prove more adverse than we assume.

▲ **4. Supply overhang of Prokom Investment's stake – no longer a threat.** We believe that the negative catalyst in the form of the supply overhang of shares belonging to Prokom Investments does not exist anymore. Under the November 2007 agreement between Mr. Marek Stefański, the founder and CEO of Pol-Aqua, and Prokom Investments, the latter will sell its remaining 3.65% stake in Pol-Aqua by the end of 4Q08E.

### Quarterly results corner; 4Q07E preview

At the beginning of October 2007, due to IFRS implementation, the management of Pol-Aqua revised upwards its 2007E and 2008E financial forecast. Keeping consolidated revenues unchanged, it boosted the EBIT forecast by c. 27% and 22%, and the NI forecast by c. 38% and 29% for 2007 and 2008, respectively.

As far as 2007E is concerned, we forecast material growth in numbers supported by full consolidation of Vectra (since 4Q07), and general construction contracts brought from Polnord in 2Q07. We believe the Company's results should be slightly below the management forecast, especially, as far as the bottom line is concerned. The margins are likely to be much lower than in 2006, due to relatively low profitability of general construction contracts, which account for as much as c. 40% of total sales. We see a risk that the low-profit general construction contract backlog that was bought from Polnord in 2Q07 could reduce the full-year margins more than the management expected. We forecast EBIT to come out below the management's expectations (PLN 74.8 million vs PLN 68.4 million).

### Financial forecast

As far as the 2008E forecast is concerned, we believe it should bring significant improvement at every level of P&L. There is a risk, however, that the general construction business might affect the Company's profitability in 2008E as well. We forecast 2008E sales and net income to go up by 67% and 80%, respectively, to PLN 1,434.9 million and PLN 97.0 million, respectively.

Fig. 47 Pol-Aqua; The management vs. DM IDMSA forecast

|                   |       | Management<br>2007<br>forecast | DM IDM<br>2007<br>forecast | Management<br>forecast<br>vs. DM IDM<br>forecast | Management<br>2008<br>forecast | DM IDM<br>2008<br>forecast | Management<br>forecast<br>vs. DM IDM<br>forecast |
|-------------------|-------|--------------------------------|----------------------------|--------------------------------------------------|--------------------------------|----------------------------|--------------------------------------------------|
| Sales             | PLN m | 935.4                          | 860.3                      | 9%                                               | 1,420.9                        | 1,434.9                    | -1%                                              |
| EBITDA            | PLN m | 104.9                          | 99.2                       | 6%                                               | 162.9                          | 157.0                      | 4%                                               |
| EBIT margin       |       | 11.2%                          | 11.5%                      | -                                                | 9.2%                           | 10.9%                      | -                                                |
| EBIT              | PLN m | 74.8                           | 68.4                       | 9%                                               | 131.0                          | 120.9                      | 8%                                               |
| EBITDA margin     |       | 8.0%                           | 7.9%                       | -                                                | 9.2%                           | 8.4%                       | -                                                |
| Net Income        | PLN m | 55.3                           | 53.9                       | 3%                                               | 100.1                          | 97.0                       | 3%                                               |
| Net Income margin |       | 5.9%                           | 6.3%                       | -                                                | 7.0%                           | 6.8%                       | -                                                |

Source: Company, DM IDM SA estimates

Fig. 48 Pol-Aqua; 4Q07 forecasted results

| IFRS consolidated<br>PLN m | yoy change |       |      | Full year<br>numbers |       | yoy change |       |      | realization<br>of the FY figures in 4Q |  |
|----------------------------|------------|-------|------|----------------------|-------|------------|-------|------|----------------------------------------|--|
|                            | 4Q07E      | 4Q06  |      | 2007E                | 2006  |            | 2007E | 2006 |                                        |  |
| Sales                      | 410.3      | 88.9  | 361% | 860.3                | 233.6 | 268%       | 48%   | 38%  |                                        |  |
| Gross profit on sales      | 48.7       | 16.7  | 192% | 99.2                 | 41.8  | 137%       | 49%   | 40%  |                                        |  |
| Gross margin               | 11.9%      | 18.7% | -    | 11.5%                | 17.9% | -          | -     | -    |                                        |  |
| EBIT                       | 36.7       | 11.7  | 214% | 68.4                 | 29.8  | 129%       | 54%   | 39%  |                                        |  |
| EBIT margin                | 8.9%       | 13.1% | -    | 7.9%                 | 12.8% | -          | -     | -    |                                        |  |
| Pre-tax profit             | 33.7       | 7.8   | 330% | 66.6                 | 27.5  | 142%       | 51%   | 29%  |                                        |  |
| Pre-tax margin             | 8.2%       | 8.8%  | -    | 8%                   | 12%   | -          | -     | -    |                                        |  |
| Net profit                 | 22.6       | 5.1   | 340% | 53.9                 | 20.5  | 163%       | 42%   | 25%  |                                        |  |
| Net margin                 | 5.5%       | 5.8%  | -    | 6.3%                 | 8.8%  | -          | -     | -    |                                        |  |

Source: Company, DM IDM SA estimates

This compares to PLN 1,420 million and PLN 100.1 million forecast by the management.

### Valuation

We value Pol-Aqua at PLN 92 per share in the 12M horizon. We have not included the potential acquisitions of the road building company and engineering companies, which should open the door for lucrative contracts for construction of gas pipelines on the German market. These acquisitions constitute thus a potential upside to our valuation.

### Recommendation

We initiate the coverage of Pol-Aqua with a LT fundamental Buy rating. Given the prospective acquisitions and the fact that the negative catalyst in the form of supply overhang of shares belonging to Prokom Investments ceased to exist, we recommend to overweight the stock in the ST market-relative context.

Fig. 49 Pol-Aqua; DCF model

|                                                           | 2007E        | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          | >2018E      |
|-----------------------------------------------------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|
| <b>Sales</b>                                              | <b>860.3</b> | <b>1,434.9</b> | <b>1,708.0</b> | <b>2,031.8</b> | <b>2,326.2</b> | <b>2,622.5</b> | <b>2,831.3</b> | <b>3,001.1</b> | <b>3,181.2</b> | <b>3,372.1</b> | <b>3,574.4</b> | <b>3,788.9</b> |             |
| yoy change                                                | 268%         | 67%            | 19%            | 19%            | 14%            | 13%            | 8%             | 6%             | 6%             | 6%             | 6%             | 6%             |             |
| EBIT margin                                               | 7.9%         | 8.4%           | 9.7%           | 9.8%           | 10.0%          | 9.4%           | 9.4%           | 9.4%           | 9.3%           | 9.7%           | 8.8%           | 8.8%           |             |
| EBIT (PLN m)                                              | 68.4         | 120.9          | 164.9          | 199.1          | 232.4          | 246.2          | 266.1          | 282.3          | 296.5          | 325.8          | 313.0          | 331.7          |             |
| yoy change                                                | 129%         | 77%            | 36%            | 21%            | 17%            | 6%             | 8%             | 6%             | 5%             | 10%            | -4%            | 6%             |             |
| Effective cash tax rate (T)                               | 19%          | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            |             |
| EBIT * (1-T), (PLN m)                                     | 55.4         | 97.9           | 133.6          | 161.2          | 188.3          | 199.4          | 215.5          | 228.7          | 240.1          | 263.9          | 253.5          | 268.7          |             |
| yoy change                                                | 148%         | 77%            | 36%            | 21%            | 17%            | 6%             | 8%             | 6%             | 5%             | 10%            | -4%            | 6%             |             |
| EBITDA (PLN m)                                            | 99.2         | 157.0          | 204.2          | 220.3          | 248.9          | 264.2          | 285.6          | 303.6          | 319.6          | 351.0          | 340.2          | 363.1          |             |
| yoy change                                                | 137%         | 58%            | 30%            | 8%             | 13%            | 6%             | 8%             | 6%             | 5%             | 10%            | -3%            | 7%             |             |
| EBITDA margin                                             | 11.5%        | 10.9%          | 12.0%          | 10.8%          | 10.7%          | 10.1%          | 10.1%          | 10.1%          | 10.0%          | 10.4%          | 9.5%           | 9.6%           |             |
| Depreciation (PLN m)                                      | 30.8         | 36.1           | 39.3           | 21.2           | 16.5           | 18.0           | 19.6           | 21.3           | 23.2           | 25.2           | 27.3           | 31.4           |             |
| EBIT * (1-T) + D, (PLN m)                                 | 86.2         | 134.1          | 172.9          | 182.5          | 204.8          | 217.4          | 235.1          | 250.0          | 263.3          | 289.1          | 280.8          | 300.1          |             |
| yoy change                                                | 151%         | 56%            | 29%            | 6%             | 12%            | 6%             | 8%             | 6%             | 5%             | 10%            | -3%            | 7%             |             |
| Capex (PLN m)                                             | -95.0        | -38.3          | -41.7          | -22.5          | -17.5          | -19.0          | -20.7          | -22.6          | -24.6          | -26.7          | -28.9          | -33.3          |             |
| Change in WC (PLN m)                                      | -108.3       | -102.4         | -51.5          | -58.6          | -53.0          | -47.0          | -35.5          | -28.4          | -29.0          | -35.0          | -25.9          | -37.2          |             |
| Equity issue proceeds (PLN m)                             | 222.6        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |             |
| <b>Free cash flow (PLN m)</b>                             | <b>105.5</b> | <b>-6.6</b>    | <b>79.7</b>    | <b>101.4</b>   | <b>134.3</b>   | <b>151.3</b>   | <b>178.9</b>   | <b>199.0</b>   | <b>209.7</b>   | <b>227.4</b>   | <b>225.9</b>   | <b>229.6</b>   |             |
| <b>Cost of equity</b>                                     |              |                |                |                |                |                |                |                |                |                |                |                |             |
| Risk free rate (nominal)                                  | 6.0%         | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 5.0%        |
| Equity risk premium                                       | 4.5%         | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%        |
| Unlevered beta                                            | 1.00         | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00        |
| Beta adjusted for the current level of company's leverage | 1.02         | 1.02           | 1.02           | 1.02           | 1.02           | 1.01           | 1.01           | 1.01           | 1.01           | 1.01           | 1.01           | 1.01           | 1.01        |
| <b>Required rate of return computed by CAPM</b>           | <b>10.6%</b> | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>10.6%</b>   | <b>9.6%</b> |
| <b>Cost of debt</b>                                       |              |                |                |                |                |                |                |                |                |                |                |                |             |
| Cost of debt (pre-tax)                                    | 6.3%         | 6.7%           | 6.7%           | 6.6%           | 6.6%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%        |
| Effective tax rate                                        | 19%          | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%         |
| <b>After-tax cost of debt</b>                             | <b>5.1%</b>  | <b>5.4%</b>    | <b>5.4%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b> |
| <b>WACC</b>                                               |              |                |                |                |                |                |                |                |                |                |                |                |             |
| Weight of debt                                            | 3%           | 2%             | 2%             | 2%             | 2%             | 2%             | 2%             | 2%             | 2%             | 1%             | 1%             | 1%             | 1%          |
| Weight of equity                                          | 97%          | 98%            | 98%            | 98%            | 98%            | 98%            | 98%            | 98%            | 98%            | 99%            | 99%            | 99%            | 99%         |
| Cost of equity                                            | 10.6%        | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 10.6%          | 9.6%        |
| After-tax cost of debt                                    | 5.1%         | 5.7%           | 5.4%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%        |
| <b>WACC</b>                                               | <b>10.5%</b> | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>10.5%</b>   | <b>9.5%</b> |
| Discount multiple                                         | 1.00         | 1.00           | 1.10           | 1.21           | 1.34           | 1.48           | 1.63           | 1.80           | 1.99           | 2.20           | 2.43           | 2.69           |             |
| Discount factor                                           | 1.00         | 1.00           | 0.91           | 0.83           | 0.75           | 0.68           | 0.61           | 0.55           | 0.50           | 0.45           | 0.41           | 0.37           |             |
| <b>PV of free cash flow (PLN m)</b>                       |              |                | <b>72.8</b>    | <b>83.7</b>    | <b>100.4</b>   | <b>102.4</b>   | <b>109.6</b>   | <b>110.4</b>   | <b>105.3</b>   | <b>103.3</b>   | <b>92.9</b>    | <b>85.5</b>    |             |
| Sum of FCFs PVs (PLN m)                                   |              |                |                |                |                |                |                |                |                |                |                |                | 966.2       |
| Weight of debt in the residual period                     |              |                |                |                |                |                |                |                |                |                |                |                | 1%          |
| Weight of equity in the residual period                   |              |                |                |                |                |                |                |                |                |                |                |                | 99%         |
| Average cost of equity in the definite period             |              |                |                |                |                |                |                |                |                |                |                |                | 10.6%       |
| Average WACC in the definite period                       |              |                |                |                |                |                |                |                |                |                |                |                | 10.5%       |
| WACC in the residual period                               |              |                |                |                |                |                |                |                |                |                |                |                | 9.5%        |
| <b>Residual growth of FCFs, base-case scenario</b>        |              |                |                |                |                |                |                |                |                |                |                |                | <b>2.5%</b> |
| Residual value (PLN m)                                    |              |                |                |                |                |                |                |                |                |                |                |                | 3,333.4     |
| Present value of the residual value (PLN m)               |              |                |                |                |                |                |                |                |                |                |                |                | 1,514.6     |
| Value of operations (PLN m)                               |              |                |                |                |                |                |                |                |                |                |                |                | 2,480.8     |
| Cash and equivalents (PLN m)                              |              |                |                |                |                |                |                |                |                |                |                |                | 106.8       |
| Interest-bearing debt (PLN m)                             |              |                |                |                |                |                |                |                |                |                |                |                | 58.0        |
| Equity value (PLN m)                                      |              |                |                |                |                |                |                |                |                |                |                |                | 2,529.6     |
| No. of shares (m)                                         |              |                |                |                |                |                |                |                |                |                |                |                | 27.5        |
| <b>12-month forward fair value of Pol-Aqua (PLN)</b>      |              |                |                |                |                |                |                |                |                |                |                |                | <b>92.0</b> |

Source: DM IDMSA estimates

Fig. 50 Pol-Aqua; Forward multiples comparison to local peers

|                                                        | EV/EBITDA   |              |             | EV/EBIT     |             |             | P/E         |             |             |
|--------------------------------------------------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                        | 2008E       | 2009E        | 2010E       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       |
| Polimex-Mostostal                                      | 14.8        | 12.0         | 9.6         | 17.9        | 14.2        | 11.2        | 23.9        | 18.9        | 15.1        |
| PBG                                                    | 19.2        | 14.0         | 9.6         | 21.2        | 15.1        | 10.0        | 28.2        | 19.6        | 12.5        |
| Budimex                                                | 20.2        | 15.3         | 10.1        | 27.3        | 19.0        | 11.9        | 40.9        | 30.0        | 19.6        |
| Mostostal Warszawa                                     | 9.0         | 8.7          | 7.5         | 11.3        | 11.1        | 9.4         | 15.4        | 15.0        | 12.5        |
| <b>Median</b>                                          | <b>17.0</b> | <b>13.0</b>  | <b>9.6</b>  | <b>19.6</b> | <b>14.7</b> | <b>10.6</b> | <b>26.0</b> | <b>19.3</b> | <b>13.8</b> |
| EBITDA, EBIT, Net profit of Pol-Aqua (PLN m)           | 157.0       | 204.2        | 220.3       | 120.9       | 164.9       | 199.1       | 97.0        | 132.5       | 160.5       |
| Implied value of Pol-Aqua (PLN m)                      | 2,668.3     | 2,650.8      | 2,112.7     | 2,367.5     | 2,416.9     | 2,113.3     |             |             |             |
| Net debt of Pol-Aqua (PLN m)                           | -48.8       | -104.8       | -178.7      | -48.8       | -104.8      | -178.7      |             |             |             |
| Implied equity value of Pol-Aqua (PLN m)               | 2,717.1     | 2,755.7      | 2,291.4     | 2,416.3     | 2,521.7     | 2,292.0     | 2,524.0     | 2,557.2     | 2,217.0     |
| Number of shares (m)                                   | 27.5        | 27.5         | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        |
| <b>Equity value per Pol-Aqua's share (PLN)</b>         | <b>98.8</b> | <b>100.2</b> | <b>83.3</b> | <b>87.9</b> | <b>91.7</b> | <b>83.3</b> | <b>91.8</b> | <b>93.0</b> | <b>80.6</b> |
| <b>Average equity value per Pol-Aqua's share (PLN)</b> | <b>90.1</b> |              |             |             |             |             |             |             |             |

Source: Reuters, DM IDMSA estimates

Fig. 51 Pol-Aqua; Forward multiples comparison to foreign peers

|                                                        | EV/EBITDA   |             |             | EV/EBIT     |             |             | P/E         |             |             |
|--------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                        | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       |
| Bilfinger Berger AG                                    | 6.3         | 5.9         | 5.9         | 9.3         | 8.3         | 8.1         | 10.6        | 9.5         | 9.1         |
| Per Aarsleff                                           | 3.7         | 3.5         | n.a.        | 7.0         | 6.5         | 5.3         | 7.6         | 7.0         | n.a.        |
| Linde AG                                               | 8.1         | 7.4         | 7.0         | 14.0        | 11.9        | 11.4        | 15.8        | 13.5        | 12.3        |
| Skanska AB                                             | 6.6         | 6.3         | 5.4         | 8.2         | 7.7         | 6.4         | 11.1        | 10.7        | 9.2         |
| Ferrovial                                              | 11.7        | 10.9        | 10.1        | 18.7        | 18.1        | 16.2        | 20.9        | 14.8        | 11.4        |
| Impregilo SPA                                          | 4.6         | 4.4         | n.a.        | 5.9         | 5.5         | n.a.        | 9.2         | 8.7         | n.a.        |
| Acciona SA                                             | 17.2        | 14.1        | 16.6        | 27.3        | 22.8        | 30.0        | 15.0        | 16.3        | 17.1        |
| Astaldi SPA                                            | 5.0         | 4.4         | 3.6         | 7.0         | 6.0         | 5.3         | 8.5         | 6.9         | n.a.        |
| Eiffage SA                                             | 8.7         | 8.4         | n.a.        | 13.8        | 12.8        | n.a.        | 11.7        | 10.6        | n.a.        |
| Hochtief                                               | 6.6         | 5.9         | 6.1         | 12.8        | 10.9        | 11.7        | 31.0        | 26.3        | 20.8        |
| <b>Median</b>                                          | <b>6.6</b>  | <b>6.1</b>  | <b>6.1</b>  | <b>11.1</b> | <b>9.6</b>  | <b>9.8</b>  | <b>11.4</b> | <b>10.6</b> | <b>11.8</b> |
| EBITDA, EBIT, Net Income of Pol-Aqua (PLN m)           | 157.0       | 204.2       | 220.3       | 120.9       | 164.9       | 199.1       | 97.0        | 132.5       | 160.5       |
| Implied value of Pol-Aqua (PLN m)                      | 1,034.8     | 1,244.7     | 1,343.8     | 1,339.0     | 1,583.3     | 1,943.3     |             |             |             |
| Net debt of Pol-Aqua (PLN m)                           | -48.8       | -104.8      | -178.7      | -48.8       | -104.8      | -178.7      |             |             |             |
| Implied equity value of Pol-Aqua (PLN m)               | 1,083.6     | 1,349.5     | 1,522.5     | 1,387.8     | 1,688.2     | 2,122.0     | 1,106.4     | 1,404.7     | 1,900.6     |
| Number of shares (m)                                   | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        | 27.5        |
| <b>Equity value per Pol-Aqua's share (PLN)</b>         | <b>39.4</b> | <b>49.1</b> | <b>55.4</b> | <b>50.5</b> | <b>61.4</b> | <b>77.2</b> | <b>40.2</b> | <b>51.1</b> | <b>69.1</b> |
| <b>Average equity value per Pol-Aqua's share (PLN)</b> | <b>54.8</b> |             |             |             |             |             |             |             |             |

Source: Reuters, DM IDMSA estimates

**Financial statements (IFRS consolidated)**

Fig. 52 Pol-Aqua; Balance sheet

| PLN m                               | 2006         | 2007E        | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|-------------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Fixed assets</b>                 | <b>89.6</b>  | <b>266.3</b> | <b>268.5</b>   | <b>270.9</b>   | <b>272.1</b>   | <b>273.1</b>   | <b>274.2</b>   | <b>275.4</b>   | <b>276.6</b>   | <b>278.0</b>   | <b>279.5</b>   | <b>281.2</b>   | <b>283.1</b>   |
| Intangibles                         | 0.3          | 0.3          | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            | 0.3            |
| Goodwill                            | 0.0          | 112.6        | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          | 112.6          |
| Tangible fixed assets               | 87.3         | 151.5        | 153.7          | 156.1          | 157.3          | 158.3          | 159.4          | 160.6          | 161.9          | 163.3          | 164.8          | 166.4          | 168.3          |
| LT receivables                      | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| LT investments                      | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| LT deferred assets                  | 1.9          | 1.9          | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            | 1.9            |
| Others                              | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Current assets</b>               | <b>228.3</b> | <b>719.9</b> | <b>1,022.3</b> | <b>1,254.3</b> | <b>1,534.6</b> | <b>1,735.2</b> | <b>1,918.5</b> | <b>2,053.5</b> | <b>2,152.9</b> | <b>2,233.2</b> | <b>2,321.8</b> | <b>2,397.0</b> | <b>2,496.6</b> |
| Inventories                         | 6.8          | 26.5         | 44.3           | 52.4           | 62.3           | 71.3           | 81.2           | 87.8           | 93.3           | 99.3           | 105.0          | 112.5          | 119.3          |
| ST receivables                      | 107.6        | 396.3        | 660.9          | 786.7          | 935.8          | 1,071.4        | 1,207.9        | 1,304.0        | 1,382.3        | 1,465.2        | 1,553.1        | 1,646.3        | 1,745.1        |
| ST deferred assets                  | 34.2         | 126.1        | 210.3          | 250.4          | 297.8          | 341.0          | 384.4          | 415.0          | 439.9          | 466.3          | 494.3          | 523.9          | 555.4          |
| Cash & equivalents                  | 79.7         | 171.0        | 106.8          | 164.8          | 238.7          | 251.4          | 245.0          | 246.6          | 237.4          | 202.4          | 169.3          | 114.2          | 76.9           |
| Other assets                        | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Total assets</b>                 | <b>317.9</b> | <b>986.2</b> | <b>1,290.8</b> | <b>1,525.1</b> | <b>1,806.8</b> | <b>2,008.3</b> | <b>2,192.7</b> | <b>2,328.9</b> | <b>2,429.5</b> | <b>2,511.2</b> | <b>2,601.3</b> | <b>2,678.2</b> | <b>2,779.7</b> |
| <b>Equity</b>                       | <b>147.6</b> | <b>536.7</b> | <b>633.7</b>   | <b>766.2</b>   | <b>926.7</b>   | <b>1,017.9</b> | <b>1,084.2</b> | <b>1,139.7</b> | <b>1,174.2</b> | <b>1,184.6</b> | <b>1,208.8</b> | <b>1,198.1</b> | <b>1,212.6</b> |
| Minority interest                   | 0.5          | 0.5          | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            | 0.5            |
| <b>Liabilities &amp; reserves</b>   | <b>169.8</b> | <b>449.1</b> | <b>656.6</b>   | <b>758.5</b>   | <b>879.6</b>   | <b>989.9</b>   | <b>1,108.1</b> | <b>1,188.7</b> | <b>1,254.8</b> | <b>1,326.1</b> | <b>1,392.0</b> | <b>1,479.6</b> | <b>1,566.6</b> |
| Reserves                            | 9.8          | 36.1         | 60.2           | 71.7           | 85.3           | 97.6           | 110.0          | 118.8          | 125.9          | 133.5          | 141.5          | 150.0          | 159.0          |
| LT liabilities                      | 37.6         | 75.8         | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           | 65.8           |
| Non-interest-bearing                | 15.8         | 15.8         | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           | 15.8           |
| Interest-bearing                    | 21.8         | 60.0         | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           | 50.0           |
| ST liabilities                      | 116.8        | 317.9        | 498.9          | 583.3          | 683.8          | 775.4          | 874.7          | 942.0          | 997.4          | 1,057.2        | 1,110.9        | 1,185.7        | 1,259.0        |
| Non-interest-bearing                | 70.1         | 270.3        | 450.3          | 532.7          | 633.2          | 724.8          | 824.0          | 891.4          | 946.7          | 1,006.5        | 1,065.3        | 1,140.0        | 1,208.3        |
| Interest-bearing                    | 6.1          | 7.0          | 8.0            | 10.0           | 10.0           | 10.0           | 10.0           | 10.0           | 10.0           | 10.0           | 5.0            | 5.0            | 10.0           |
| Other                               | 40.6         | 40.6         | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           | 40.6           |
| <b>Deferred liabilities</b>         | <b>5.6</b>   | <b>19.2</b>  | <b>31.7</b>    | <b>37.6</b>    | <b>44.7</b>    | <b>51.1</b>    | <b>57.5</b>    | <b>62.0</b>    | <b>65.7</b>    | <b>69.6</b>    | <b>73.8</b>    | <b>78.2</b>    | <b>82.8</b>    |
| <b>Total liabilities and equity</b> | <b>317.9</b> | <b>986.2</b> | <b>1,290.8</b> | <b>1,525.1</b> | <b>1,806.8</b> | <b>2,008.3</b> | <b>2,192.7</b> | <b>2,328.9</b> | <b>2,429.5</b> | <b>2,511.2</b> | <b>2,601.3</b> | <b>2,678.2</b> | <b>2,779.7</b> |

Source: Company, DM IDMSA estimates

Fig. 53 Pol-Aqua; Income statement

| PLN m                           | 2006         | 2007E        | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|---------------------------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Sales</b>                    | <b>233.6</b> | <b>860.3</b> | <b>1,434.9</b> | <b>1,708.0</b> | <b>2,031.8</b> | <b>2,326.2</b> | <b>2,622.5</b> | <b>2,831.3</b> | <b>3,001.1</b> | <b>3,181.2</b> | <b>3,372.1</b> | <b>3,574.4</b> | <b>3,788.9</b> |
| COGS                            | -185.1       | -727.2       | -1,213.6       | -1,435.6       | -1,707.0       | -1,954.4       | -2,224.3       | -2,406.7       | -2,556.8       | -2,719.3       | -2,877.7       | -3,082.5       | -3,267.5       |
| Gross profit on sales           | 48.4         | 133.2        | 221.3          | 272.3          | 324.9          | 371.8          | 398.2          | 424.6          | 444.4          | 461.9          | 494.4          | 491.9          | 521.4          |
| General administration costs    | -18.6        | -61.1        | -103.3         | -111.0         | -130.0         | -144.2         | -157.3         | -164.2         | -168.1         | -171.8         | -175.3         | -185.9         | -197.0         |
| <b>Net profit on sales</b>      | <b>29.9</b>  | <b>72.1</b>  | <b>118.0</b>   | <b>161.3</b>   | <b>194.8</b>   | <b>227.6</b>   | <b>240.9</b>   | <b>260.4</b>   | <b>276.3</b>   | <b>290.1</b>   | <b>319.0</b>   | <b>306.0</b>   | <b>324.4</b>   |
| Other operating income          | 1.2          | 6.5          | 10.8           | 12.9           | 15.4           | 17.6           | 19.8           | 21.4           | 22.7           | 24.0           | 25.5           | 27.0           | 28.6           |
| Other operating costs           | -1.2         | -10.2        | -7.9           | -9.3           | -11.1          | -12.7          | -14.5          | -15.7          | -16.6          | -17.7          | -18.7          | -20.1          | -21.3          |
| Other                           | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>EBIT</b>                     | <b>29.8</b>  | <b>68.4</b>  | <b>120.9</b>   | <b>164.9</b>   | <b>199.1</b>   | <b>232.4</b>   | <b>246.2</b>   | <b>266.1</b>   | <b>282.3</b>   | <b>296.5</b>   | <b>325.8</b>   | <b>313.0</b>   | <b>331.7</b>   |
| Financial income                | 1.1          | 8.2          | 10.7           | 10.2           | 11.1           | 11.0           | 9.6            | 9.5            | 9.5            | 9.1            | 8.6            | 8.0            | 7.3            |
| Financial costs                 | -3.4         | -10.0        | -11.9          | -11.5          | -12.0          | -12.0          | -11.9          | -11.9          | -11.9          | -12.9          | -11.7          | -11.6          | -11.7          |
| Other                           | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Pre tax</b>                  | <b>27.5</b>  | <b>66.6</b>  | <b>119.7</b>   | <b>163.6</b>   | <b>198.2</b>   | <b>231.5</b>   | <b>243.9</b>   | <b>263.7</b>   | <b>279.9</b>   | <b>292.7</b>   | <b>322.6</b>   | <b>309.3</b>   | <b>327.3</b>   |
| Income tax                      | -6.9         | -12.6        | -22.7          | -31.1          | -37.7          | -44.0          | -46.3          | -50.1          | -53.2          | -55.6          | -61.3          | -58.8          | -62.2          |
| Minority interest in net income | 0.0          | 0.0          | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Net income</b>               | <b>20.5</b>  | <b>53.9</b>  | <b>97.0</b>    | <b>132.5</b>   | <b>160.5</b>   | <b>187.5</b>   | <b>197.5</b>   | <b>213.6</b>   | <b>226.7</b>   | <b>237.1</b>   | <b>261.3</b>   | <b>250.6</b>   | <b>265.1</b>   |
| <b>EBITDA</b>                   | <b>41.8</b>  | <b>99.2</b>  | <b>157.0</b>   | <b>204.2</b>   | <b>220.3</b>   | <b>248.9</b>   | <b>264.2</b>   | <b>285.6</b>   | <b>303.6</b>   | <b>319.6</b>   | <b>351.0</b>   | <b>340.2</b>   | <b>363.1</b>   |

Source: Company, DM IDMSA estimates

Fig. 54 Pol-Aqua; Cash flow

| PLN m                           | 2006         | 2007E        | 2008E        | 2009E        | 2010E        | 2011E         | 2012E         | 2013E         | 2014E         | 2015E         | 2016E         | 2017E         | 2018E         |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net income (Loss)</b>        | <b>20.5</b>  | <b>53.9</b>  | <b>97.0</b>  | <b>132.5</b> | <b>160.5</b> | <b>187.5</b>  | <b>197.5</b>  | <b>213.6</b>  | <b>226.7</b>  | <b>237.1</b>  | <b>261.3</b>  | <b>250.6</b>  | <b>265.1</b>  |
| Depreciation and amortization   | 12.0         | 30.8         | 36.1         | 39.3         | 21.2         | 16.5          | 18.0          | 19.6          | 21.3          | 23.2          | 25.2          | 27.3          | 31.4          |
| NWC change:                     | -10.3        | -108.3       | -102.4       | -51.5        | -58.6        | -53.0         | -47.0         | -35.5         | -28.4         | -29.0         | -35.0         | -25.9         | -37.2         |
| Change in inventories           | -3.6         | -19.8        | -17.8        | -8.1         | -9.9         | -9.0          | -9.8          | -6.7          | -5.5          | -5.9          | -5.8          | -7.5          | -6.8          |
| Change in receivables           | -48.4        | -288.7       | -264.6       | -125.8       | -149.2       | -135.6        | -136.4        | -96.2         | -78.2         | -82.9         | -87.9         | -93.2         | -98.8         |
| Change in payables              | 41.7         | 200.2        | 180.0        | 82.4         | 100.5        | 91.6          | 99.3          | 67.3          | 55.3          | 59.8          | 58.7          | 74.8          | 68.3          |
| Other                           | -27.3        | -50.2        | -46.4        | -21.4        | -26.0        | -23.4         | -22.2         | -14.9         | -11.6         | -11.2         | -12.7         | -13.2         | -13.3         |
| <b>Operating cash flow</b>      | <b>-5.2</b>  | <b>-73.7</b> | <b>-15.7</b> | <b>99.0</b>  | <b>97.2</b>  | <b>127.5</b>  | <b>146.2</b>  | <b>182.7</b>  | <b>208.0</b>  | <b>220.1</b>  | <b>238.9</b>  | <b>238.8</b>  | <b>245.9</b>  |
| Capital expenditures            | -65.2        | -95.0        | -38.3        | -41.7        | -22.5        | -17.5         | -19.0         | -20.7         | -22.6         | -24.6         | -26.7         | -28.9         | -33.3         |
| Other                           | 0.2          | 8.2          | 10.7         | 10.2         | 11.1         | 11.0          | 9.6           | 9.5           | 9.5           | 9.1           | 8.6           | 8.0           | 7.3           |
| <b>Investing cash flow</b>      | <b>-65.0</b> | <b>-86.8</b> | <b>-27.6</b> | <b>-31.5</b> | <b>-11.4</b> | <b>-6.5</b>   | <b>-9.5</b>   | <b>-11.2</b>  | <b>-13.1</b>  | <b>-15.4</b>  | <b>-18.1</b>  | <b>-20.9</b>  | <b>-26.0</b>  |
| Change in interest-bearing debt | 20.3         | 39.1         | -9.0         | 2.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | -5.0          | 0.0           | 5.0           |
| Dividends payment               | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | -96.3         | -131.2        | -158.0        | -192.2        | -226.7        | -237.1        | -261.3        | -250.6        |
| Interest                        | -1.1         | -10.0        | -11.9        | -11.5        | -12.0        | -12.0         | -11.9         | -11.9         | -11.9         | -12.9         | -11.7         | -11.6         | -11.7         |
| Other                           | 92.4         | 222.6        | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Financing cash flow</b>      | <b>111.6</b> | <b>251.8</b> | <b>-20.9</b> | <b>-9.5</b>  | <b>-12.0</b> | <b>-108.3</b> | <b>-143.1</b> | <b>-169.9</b> | <b>-204.1</b> | <b>-239.6</b> | <b>-253.8</b> | <b>-272.9</b> | <b>-257.3</b> |
| <b>Total cash flow</b>          | <b>41.5</b>  | <b>91.3</b>  | <b>-64.2</b> | <b>58.1</b>  | <b>73.8</b>  | <b>12.8</b>   | <b>-6.4</b>   | <b>1.6</b>    | <b>-9.3</b>   | <b>-35.0</b>  | <b>-33.1</b>  | <b>-55.1</b>  | <b>-37.3</b>  |

Source: Company, DM IDMSA estimates

Fig. 55 Pol-Aqua; Ratios

| PLN m                         | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales growth (yoy)            | 78%   | 268%  | 67%   | 19%   | 19%   | 14%   | 13%   | 8%    | 6%    | 6%    | 6%    | 6%    | 6%    |
| Gross profit growth (yoy)     | 41%   | 175%  | 66%   | 23%   | 19%   | 14%   | 7%    | 7%    | 5%    | 4%    | 7%    | -1%   | 6%    |
| EBITDA growth (yoy)           | 51%   | 137%  | 58%   | 30%   | 8%    | 13%   | 6%    | 8%    | 6%    | 5%    | 10%   | -3%   | 7%    |
| Operating profit growth (yoy) | 34%   | 129%  | 77%   | 36%   | 21%   | 17%   | 6%    | 8%    | 6%    | 5%    | 10%   | -4%   | 6%    |
| Net income growth (yoy)       | 20%   | 163%  | 80%   | 37%   | 21%   | 17%   | 5%    | 8%    | 6%    | 5%    | 10%   | -4%   | 6%    |
| A/R turnover days             | 126   | 107   | 134   | 155   | 155   | 157   | 159   | 162   | 163   | 163   | 163   | 163   | 163   |
| Inventory turnover days       | 8     | 8     | 11    | 12    | 12    | 12    | 13    | 13    | 13    | 13    | 13    | 13    | 13    |
| A/P turnover days             | 100   | 85    | 108   | 125   | 124   | 127   | 127   | 130   | 131   | 131   | 131   | 130   | 131   |
| Cash cycle days               | 34    | 30    | 37    | 42    | 43    | 43    | 44    | 45    | 45    | 45    | 45    | 46    | 45    |
| NWC/sales                     | 12%   | 16%   | 17%   | 17%   | 17%   | 17%   | 17%   | 17%   | 17%   | 17%   | 17%   | 17%   | 17%   |
| Gross margin                  | 20.7% | 15.5% | 15.4% | 15.9% | 16.0% | 16.0% | 15.2% | 15.0% | 14.8% | 14.5% | 14.7% | 13.8% | 13.8% |
| EBITDA margin                 | 17.9% | 11.5% | 10.9% | 12.0% | 10.8% | 10.7% | 10.1% | 10.1% | 10.1% | 10.0% | 10.4% | 9.5%  | 9.6%  |
| EBIT margin                   | 12.8% | 7.9%  | 8.4%  | 9.7%  | 9.8%  | 10.0% | 9.4%  | 9.4%  | 9.4%  | 9.3%  | 9.7%  | 8.8%  | 8.8%  |
| Pretax margin                 | 11.8% | 7.7%  | 8.3%  | 9.6%  | 9.8%  | 10.0% | 9.3%  | 9.3%  | 9.3%  | 9.2%  | 9.6%  | 8.7%  | 8.6%  |
| Net margin                    | 8.8%  | 6.3%  | 6.8%  | 7.8%  | 7.9%  | 8.1%  | 7.5%  | 7.5%  | 7.6%  | 7.5%  | 7.7%  | 7.0%  | 7.0%  |
| ROE                           | 27.8% | 15.8% | 16.6% | 18.9% | 19.0% | 19.3% | 18.8% | 19.2% | 19.6% | 20.1% | 21.8% | 20.8% | 22.0% |
| ROA                           | 11.0% | 8.3%  | 8.5%  | 9.4%  | 9.6%  | 9.8%  | 9.4%  | 9.4%  | 9.5%  | 9.6%  | 10.2% | 9.5%  | 9.7%  |
| Current ratio                 | 2.0   | 2.3   | 2.0   | 2.2   | 2.2   | 2.2   | 2.2   | 2.2   | 2.2   | 2.1   | 2.1   | 2.0   | 2.0   |
| Quick ratio                   | 1.9   | 2.2   | 2.0   | 2.1   | 2.2   | 2.1   | 2.1   | 2.1   | 2.1   | 2.0   | 2.0   | 1.9   | 1.9   |

Source: Company, DM IDMSA estimates



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# Polimex-Mostostal

**Sector:** Construction  
**Fundamental rating:** Hold (-)  
**12M relative:** Overweight (-)  
**Price:** PLN 7.57  
**12M EFV:** PLN 8.38 (-)

**Market Cap.:** US\$ 1,430 m  
**Reuters code:** MOSD.WA  
**Av. daily turnover:** US\$ 4.33 m  
**Free float:** 88%  
**12M range:** PLN 6.18-11.75

## Investment opinion

In terms of revenues Polimex-Mostostal is the leading general construction company in Poland. It is well diversified with its core business based on five strong foundations including (i) general construction, (ii) road and rail construction, (iii) specialist construction works in the chemical and petrochemical sector, (iv) power engineering, and (v) production of steel structures including corrosion protection services (galvanizing services).

Polimex's share price has dropped c. 35% from its peak in October 2007. The main reason for the price drop was disappointment with 3Q07 results. Polimex was not able to shift the rising prices for construction materials and subcontracting works to its clients, a scenario which can repeat itself in the future, especially given the fact that the Company will focus on larger accounts. Should the Company exceed its budgeted costs within the contracts, it will find it very hard, in our view, to cover the poor performance of large contracts by the production of steel structures, which is operating on a fat 20% gross margin.

As far as the 4Q07E results are concerned we expect them to be rather decent, however, mainly due to the low base. In fact the PLN 26 million of forecast net profit implies net margin of only 2.7%.

So far Polimex has been doing well as far as M&A's are concerned. Through acquisitions executed within the last two years, the Company is able to tackle fast-growing construction segments. A good example is Torpol (acquired in 2006), dynamically boosting sales fuelled by investments in modernization of rail tracks in Poland. We believe, however, that relatively cheap takeovers are a thing of the past. We expect future takeovers to occur at much higher multiples, which may not be warmly welcomed by the investor community.

Although we see numerous threats on the horizon, we believe that Polimex will be successful in overcoming them. As a result, we forecast significant improvement in the Company's results for 2008E and beyond. Moreover, we believe that announcements of larger contracts won might act as a positive catalyst to the share price performance.

## Drivers

▲ **1. Further M&A's.** It seems that the M&A-based growth track followed by Polimex should continue this year. Polimex has announced the takeover of a foreign producer of steel structures, which should significantly boost the Company's capacity in this field (employment in the production division should go up by c. 800 people). Polimex should present details of the

## Guide to adjusted profits

Adj EBITDA, adj EBIT, adj NI exclude the impact of IFRS2 SOCs.

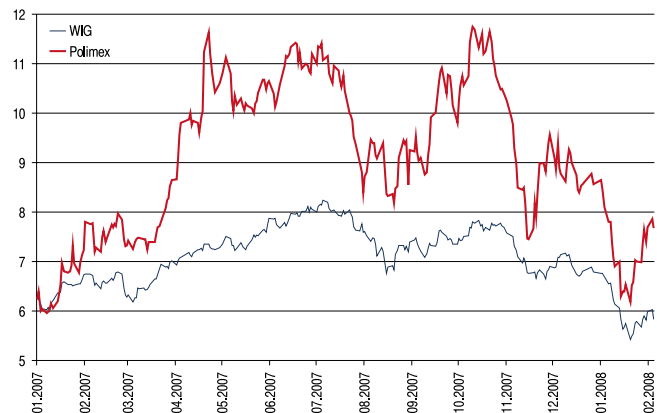
## Key data

| IFRS consolidated    |       | 2007E   | 2008E   | 2009E   | 2010E   |
|----------------------|-------|---------|---------|---------|---------|
| Sales                | PLN m | 3,407   | 4,255   | 4,948   | 5,711   |
| EBITDA               | PLN m | 190.4   | 252.2   | 302.7   | 360.8   |
| EBIT                 | PLN m | 154.6   | 208.5   | 254.5   | 310.4   |
| Net profit           | PLN m | 106.0   | 147.3   | 185.5   | 232.2   |
| EPS                  | PLN m | 0.2     | 0.3     | 0.4     | 0.5     |
| EPS yoy chng         | %     | 29      | 39      | 26      | 25      |
| Net debt             | PLN m | 196.0   | 222.3   | 106.6   | -40.6   |
| P/E                  | x     | 33.2    | 23.9    | 18.9    | 15.1    |
| P/CE                 | x     | 25.6    | 19.7    | 16.2    | 13.3    |
| EV/EBITDA            | x     | 19.5    | 14.8    | 12.0    | 9.6     |
| EV/EBIT              | x     | 24.0    | 17.9    | 14.2    | 11.2    |
| EV/Sales             | x     | 1.1     | 0.9     | 0.7     | 0.6     |
| Gross dividend yield | %     | 0.6     | 0.8     | 1.1     | 1.3     |
| No. of shares (eop)  | ths.  | 464,356 | 464,356 | 464,356 | 464,356 |

Multiples calculated on the basis of adjusted profits.

Source: DM IDMSA estimates

## Stock performance



Source: www.money.pl

## Upcoming events

- 4Q07E results release: February 27, 2008
- Further acquisitions likely to be announced during 1Q08

## Catalysts

- Winning large contracts, especially in the road construction, electricity and petrochemical segments

## Risk factors

- Rising prices of construction materials

transaction in 1Q08. We like the decision, as demand for the Company's products remains strong, and production is the most profitable part of the Company's business.

▲ **2. Growing capacity of production arm of Polimex.** The beginning of 2008 brought startup of a new plant (corrosion protection



services) in Częstochowa, however, investments in the production division should continue this year and beyond. Expenditures reaching a total of c. PLN 260 million (c. PLN 60 million this year) should enable the Company to double capacity of the plant in Siedlce, providing corrosion protection services. Investment should be finalized in mid-2009E. Additionally Polimex plans to construct a new plant in Ukraine.

- ▲ 3. Proper management of long-term contracts. In our view the Company's profitability will depend to a great extent on the management of large contracts. Polimex, like most of the other construction companies, cannot really hedge itself against the rising prices of construction materials.

### Quarterly results corner, 4Q07E preview

Polimex should show decent 4Q07E revenue on the back of a strong backlog, but rather miserable profitability. We forecast the 4Q07E revenues to reach PLN 958.4 million, up 11% yoy.

We expect the earnings growth dynamic to be quite impressive, but this should be rather an effect of the low base. Nonetheless, we believe that the Company's 4Q07E results will be supported by mild winter months and the lesson learned in 3Q07 as far as the management of long-term contracts is concerned.

### Financial forecast

Polimex is concentrated on large contracts, which drive its sales but cause a decrease of profitability. On the back of a strong contract backlog in 1-3Q07, the Company's sales rose by an impressive 53% yoy, whereas the EBITDA margin and net profit margin moved down from 6.5% and 3.3% to 5.9% and 3.1% yoy, respectively. We believe the main reason was higher-than-expected construction material price growth and growing services of subcontractors in 1H07.

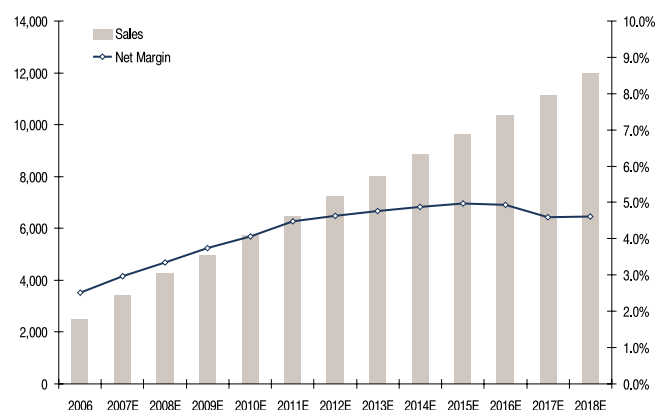
We believe the year 2008E should bring improvement as far as profitability is concerned. First, we believe construction material price growth still constitutes a risk, however to a lesser degree than in 2007, and should not have a material impact on margins this year. Second, the Group's new joiners (ZREW and Energomontaż Pólnoc) enable the Company to execute turnkey realization using its own capacity, which allows Polimex to reduce the number of subcontractors and retain margins in the Company.

Fig. 56 Polimex-Mostostal; 4Q07 forecasted results

| IFRS consolidated<br>PLN m | yoy change |       |      | Full year numbers |         | yoy change realization of the FY figures in 4Q |      |     |
|----------------------------|------------|-------|------|-------------------|---------|------------------------------------------------|------|-----|
|                            | 4Q07E      | 4Q06  |      | 2007E             | 2006    | 2007E                                          | 2006 |     |
| Sales                      | 958.4      | 866.5 | 11%  | 3,406.6           | 2,483.4 | 53%                                            | 28%  | 35% |
| EBIT                       | 36.9       | 16.2  | 128% | 148.6             | 98.5    | 34%                                            | 25%  | 16% |
| EBIT margin                | 3.9%       | 1.9%  | -    | 4.4%              | 4.0%    | -                                              | -    | -   |
| Pre-tax profit             | 31.8       | 15.2  | 109% | 137.6             | 91.4    | 37%                                            | 23%  | 17% |
| Pre-tax margin             | 3.3%       | 1.8%  | -    | 4.0%              | 3.7%    | -                                              | -    | -   |
| Net profit                 | 26.0       | 7.7   | 235% | 101.1             | 62.6    | 44%                                            | 26%  | 12% |
| Net margin                 | 2.7%       | 0.9%  | -    | 3.0%              | 2.5%    | -                                              | -    | -   |

Source: Company, DM IDMSA estimates

Fig. 57 Polimex-Mostostal; Sales and net margin



Source: Company, DM IDMSA estimates

Third, please note Polimex is investing heavily in the production division (organic growth and prospective acquisitions), which is the most profitable arm of the Group: (i) the beginning of 2008 brought startup of a new plant in Częstochowa, (ii) the capacity of the plant in Siedlce should significantly increase by the end of 1H09, and (iii) it is likely Polimex will build a new plant in Ukraine this year, which together should drive the Company's numbers as far as sales and profits are concerned.

As far as sales are concerned, the Company's contract backlog seems robust (total contract backlog exceeds PLN 5.2 billion), which should translate into a strong sales increase this year.

We forecast sales should go up by 25% yoy and reach PLN 4,255 million. Regarding profitability we forecast Polimex should maintain a net profit margin above 3% in the long run.

### Valuation

Our 12M forward DCF valuation yields Polimex EFV at PLN 8.38 per share.

### Recommendation

In the market-relative context, we recommend an overweight stance on the back of expected new large contracts acquisition, which may provide a ST catalyst. Our EFV assessment hardly gives any leeway to rate Polimex anything but Hold.

Fig. 58 Polimex-Mostostal; DCF model

| PLN m                                                         | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E           | 2017E           | 2018E           | >2018E      |
|---------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-------------|
| <b>Sales</b>                                                  | <b>3,406.6</b> | <b>4,255.0</b> | <b>4,948.4</b> | <b>5,711.3</b> | <b>6,453.1</b> | <b>7,219.3</b> | <b>8,013.5</b> | <b>8,840.2</b> | <b>9,612.4</b> | <b>10,340.8</b> | <b>11,129.2</b> | <b>11,926.6</b> |             |
| yoy change                                                    | 37%            | 25%            | 16%            | 15%            | 13%            | 12%            | 11%            | 10%            | 9%             | 8%              | 8%              | 8%              |             |
| EBIT margin                                                   | 4.4%           | 4.8%           | 5.1%           | 5.4%           | 5.8%           | 6.0%           | 6.1%           | 6.2%           | 6.3%           | 6.3%            | 5.9%            | 5.9%            |             |
| EBIT (PLN m)                                                  | 148.6          | 202.5          | 254.5          | 310.4          | 376.3          | 430.8          | 487.6          | 550.6          | 608.8          | 649.7           | 653.2           | 703.8           |             |
| yoy change                                                    | 51%            | 36%            | 26%            | 22%            | 21%            | 14%            | 13%            | 13%            | 11%            | 7%              | 1%              | 8%              |             |
| Adj EBIT (PLN m)                                              | 154.6          | 208.5          | 254.5          | 310.4          | 376.3          | 430.8          | 487.6          | 550.6          | 608.8          | 649.7           | 653.2           | 703.8           |             |
| Effective cash tax rate (T)                                   | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%             | 19%             | 19%             |             |
| Adj EBIT * (1-T), (PLN m)                                     | 125.2          | 168.9          | 206.2          | 251.4          | 304.8          | 348.9          | 394.9          | 446.0          | 493.2          | 526.2           | 529.1           | 570.0           |             |
| yoy change                                                    | 48%            | 35%            | 22%            | 22%            | 21%            | 14%            | 13%            | 13%            | 11%            | 7%              | 1%              | 8%              |             |
| Adj EBITDA (PLN m)                                            | 190.4          | 252.2          | 302.7          | 360.8          | 429.2          | 486.3          | 545.8          | 611.7          | 653.6          | 685.2           | 691.5           | 748.5           |             |
| yoy change                                                    | 40%            | 32%            | 20%            | 19%            | 19%            | 13%            | 12%            | 12%            | 7%             | 5%              | 1%              | 8%              |             |
| Adj EBITDA margin                                             | 5.6%           | 5.9%           | 6.1%           | 6.3%           | 6.7%           | 6.7%           | 6.8%           | 6.9%           | 6.8%           | 6.6%            | 6.2%            | 6.2%            |             |
| Depreciation (PLN m)                                          | 35.8           | 43.7           | 48.2           | 50.5           | 52.9           | 55.5           | 58.2           | 61.1           | 44.7           | 35.5            | 38.3            | 44.7            |             |
| Adj EBIT * (1-T) + D, (PLN m)                                 | 161.0          | 212.6          | 254.3          | 301.9          | 357.7          | 404.5          | 453.2          | 507.0          | 537.9          | 561.7           | 567.4           | 614.7           |             |
| yoy change                                                    | 39%            | 32%            | 20%            | 19%            | 19%            | 13%            | 12%            | 12%            | 6%             | 4%              | 1%              | 8%              |             |
| Capex (PLN m)                                                 | -181.2         | -135.8         | -43.7          | -48.2          | -50.5          | -52.9          | -55.5          | -58.2          | -61.1          | -44.7           | -35.5           | -47.4           |             |
| Change in WC (PLN m)                                          | -103.8         | -102.8         | -86.1          | -94.3          | -94.7          | -94.3          | -97.9          | -102.9         | -95.9          | -86.9           | -83.7           | -102.5          |             |
| Equity issue proceeds (PLN m)                                 | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0             | 0.0             |             |
| <b>Free cash flow (PLN m)</b>                                 | <b>-124.1</b>  | <b>-26.0</b>   | <b>124.6</b>   | <b>159.4</b>   | <b>212.6</b>   | <b>257.2</b>   | <b>299.8</b>   | <b>346.0</b>   | <b>380.9</b>   | <b>430.1</b>    | <b>448.3</b>    | <b>464.9</b>    |             |
| <b>Cost of equity</b>                                         |                |                |                |                |                |                |                |                |                |                 |                 |                 |             |
| Risk free rate (nominal)                                      | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%           | 6.0%            | 6.0%            | 6.0%            | 5.0%        |
| Equity risk premium                                           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%           | 4.5%            | 4.5%            | 4.5%            | 4.5%        |
| Unlevered beta                                                | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00           | 1.00            | 1.00            | 1.00            | 1.00        |
| Beta adjusted for the current level of company's leverage     | 1.06           | 1.07           | 1.06           | 1.06           | 1.06           | 1.05           | 1.06           | 1.06           | 1.06           | 1.06            | 1.06            | 1.06            | 1.06        |
| <b>Required rate of return computed by CAPM</b>               | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.7%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.8%</b>    | <b>10.8%</b>    | <b>10.8%</b>    | <b>9.8%</b> |
| <b>Cost of debt</b>                                           |                |                |                |                |                |                |                |                |                |                 |                 |                 |             |
| Cost of debt (pre-tax)                                        | 6.7%           | 6.9%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%           | 6.5%            | 6.5%            | 6.5%            | 6.5%        |
| Effective tax rate                                            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%            | 19%             | 19%             | 19%             | 19%         |
| <b>After-tax cost of debt</b>                                 | <b>5.4%</b>    | <b>5.6%</b>    | <b>5.2%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>    | <b>5.3%</b>     | <b>5.3%</b>     | <b>5.3%</b>     | <b>5.3%</b> |
| <b>WACC</b>                                                   |                |                |                |                |                |                |                |                |                |                 |                 |                 |             |
| Weight of debt                                                | 7%             | 8%             | 7%             | 7%             | 7%             | 6%             | 6%             | 6%             | 7%             | 7%              | 7%              | 7%              | 7%          |
| Weight of equity                                              | 93%            | 92%            | 93%            | 93%            | 93%            | 94%            | 94%            | 94%            | 93%            | 93%             | 93%             | 93%             | 93%         |
| Cost of equity                                                | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.8%          | 10.7%          | 10.8%          | 10.8%          | 10.8%          | 10.8%           | 10.8%           | 10.8%           | 9.8%        |
| After-tax cost of debt                                        | 5.4%           | 5.6%           | 5.2%           | 5.5%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%           | 5.3%            | 5.3%            | 5.3%            | 5.3%        |
| <b>WACC</b>                                                   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>   | <b>10.4%</b>    | <b>10.4%</b>    | <b>10.4%</b>    | <b>9.5%</b> |
| Discount multiple                                             | 1.00           | 1.00           | 1.10           | 1.21           | 1.33           | 1.47           | 1.63           | 1.80           | 1.98           | 2.19            | 2.42            | 2.67            |             |
| Discount factor                                               | 1.00           | 1.00           | 0.91           | 0.83           | 0.75           | 0.68           | 0.61           | 0.56           | 0.50           | 0.46            | 0.41            | 0.37            |             |
| <b>PV of free cash flow (PLN m)</b>                           |                |                | <b>113.8</b>   | <b>131.8</b>   | <b>159.2</b>   | <b>174.5</b>   | <b>184.3</b>   | <b>192.6</b>   | <b>192.1</b>   | <b>196.5</b>    | <b>185.5</b>    | <b>174.2</b>    |             |
| Sum of FCFFs PVs (PLN m)                                      |                |                |                |                |                |                |                |                |                |                 |                 |                 | 1,704       |
| Weight of debt in the residual period                         |                |                |                |                |                |                |                |                |                |                 |                 |                 | 7%          |
| Weight of equity in the residual period                       |                |                |                |                |                |                |                |                |                |                 |                 |                 | 93%         |
| Average cost of equity in the definite period                 |                |                |                |                |                |                |                |                |                |                 |                 |                 | 10.8%       |
| Average WACC in the definite period                           |                |                |                |                |                |                |                |                |                |                 |                 |                 | 10.4%       |
| WACC in the residual period                                   |                |                |                |                |                |                |                |                |                |                 |                 |                 | 9.5%        |
| <b>Residual growth of FCFFs, base-case scenario</b>           |                |                |                |                |                |                |                |                |                |                 |                 |                 | <b>2.5%</b> |
| Residual value (PLN m)                                        |                |                |                |                |                |                |                |                |                |                 |                 |                 | 6,846.4     |
| Present value of the residual value (PLN m)                   |                |                |                |                |                |                |                |                |                |                 |                 |                 | 2,566.2     |
| Value of operations (PLN m)                                   |                |                |                |                |                |                |                |                |                |                 |                 |                 | 4,270.6     |
| Cash and equivalents (PLN m)                                  |                |                |                |                |                |                |                |                |                |                 |                 |                 | 108.2       |
| Interest-bearing debt (PLN m)                                 |                |                |                |                |                |                |                |                |                |                 |                 |                 | 330.5       |
| PV of minorities (PLN m)                                      |                |                |                |                |                |                |                |                |                |                 |                 |                 | 78.3        |
| PV of residual value of minorities (PLN m)                    |                |                |                |                |                |                |                |                |                |                 |                 |                 | 76.5        |
| Equity value (PLN m)                                          |                |                |                |                |                |                |                |                |                |                 |                 |                 | 3,893.5     |
| No. of shares (ths)                                           |                |                |                |                |                |                |                |                |                |                 |                 |                 | 464.4       |
| <b>12-month forward fair value of Polimex-Mostostal (PLN)</b> |                |                |                |                |                |                |                |                |                |                 |                 |                 | <b>8.38</b> |

Source: DM IDMSA estimates

Fig. 59 Polimex-Mostostal; Forward multiples comparison to local peers

|                                                       | EV/EBITDA   |             |            | EV/EBIT     |             |             | P/E         |             |             |
|-------------------------------------------------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                                       | 2008E       | 2009E       | 2010E      | 2008E       | 2009E       | 2010E       | 2008E       | 2009E       | 2010E       |
| Budimex                                               | 20.2        | 15.3        | 10.1       | 27.3        | 19.0        | 11.9        | 40.9        | 30.0        | 19.6        |
| Pol-Aqua                                              | 13.6        | 10.2        | 9.1        | 17.7        | 12.6        | 10.1        | 22.5        | 16.5        | 13.6        |
| PBG                                                   | 19.2        | 14.0        | 9.6        | 21.2        | 15.1        | 10.0        | 28.2        | 19.6        | 12.5        |
| Mostostal Warszawa                                    | 9.0         | 8.7         | 7.5        | 11.3        | 11.1        | 9.4         | 15.4        | 15.0        | 12.5        |
| <b>Median</b>                                         | <b>16.4</b> | <b>12.1</b> | <b>9.3</b> | <b>19.5</b> | <b>13.9</b> | <b>10.1</b> | <b>25.4</b> | <b>18.1</b> | <b>13.1</b> |
| EBITDA, EBIT, net profit of Polimex (PLN m)           | 252.2       | 302.7       | 360.8      | 208.5       | 254.5       | 310.4       | 147.3       | 185.5       | 232.2       |
| Implied value of Polimex (PLN m)                      | 4,134.0     | 3,660.8     | 3,367.5    | 4,058.8     | 3,526.4     | 3,123.2     |             |             |             |
| Net debt of Polimex (PLN m)                           | 222.3       | 106.6       | -40.6      | 222.3       | 106.6       | -40.6       |             |             |             |
| Implied equity value of Polimex (PLN m)               | 3,911.7     | 3,554.3     | 3,408.1    | 3,836.5     | 3,419.8     | 3,163.8     | 3,736.9     | 3,353.1     | 3,031.3     |
| Number of shares (m)                                  | 464.4       | 464.4       | 464.4      | 464.4       | 464.4       | 464.4       | 464.4       | 464.4       | 464.4       |
| <b>Equity value per Polimex's share (PLN)</b>         | <b>8.4</b>  | <b>7.7</b>  | <b>7.3</b> | <b>8.3</b>  | <b>7.4</b>  | <b>6.8</b>  | <b>8.0</b>  | <b>7.2</b>  | <b>6.5</b>  |
| <b>Average equity value per Polimex's share (PLN)</b> | <b>7.5</b>  |             |            |             |             |             |             |             |             |

Source: Reuters; DM IDM SA estimates

Fig. 60 Polimex-Mostostal; Forward multiples comparison to foreign peers

|                                                         | EV/EBITDA  |            |            | EV/EBIT     |            |            | P/E         |             |             |
|---------------------------------------------------------|------------|------------|------------|-------------|------------|------------|-------------|-------------|-------------|
|                                                         | 2008E      | 2009E      | 2010E      | 2008E       | 2009E      | 2010E      | 2008E       | 2009E       | 2010E       |
| Acciona SA                                              | 17.2       | 14.1       | 16.6       | 27.3        | 22.8       | 30.0       | 15.0        | 16.3        | 17.1        |
| Astaldi SPA                                             | 5.0        | 4.4        | 3.6        | 7.0         | 6.0        | 5.3        | 8.5         | 6.9         |             |
| Bilfinger Berger AG                                     | 6.3        | 5.9        | 5.9        | 9.3         | 8.3        | 8.1        | 10.6        | 9.5         | 9.1         |
| Eiffage SA                                              | 8.7        | 8.4        | n.a.       | 13.8        | 12.8       | n.a.       | 11.7        | 10.6        | n.a.        |
| Impregilo SPA                                           | 4.6        | 4.4        | n.a.       | 5.9         | 5.5        | n.a.       | 9.2         | 8.7         | n.a.        |
| Skanska AB                                              | 6.6        | 6.3        | 5.4        | 8.2         | 7.7        | 6.4        | 11.1        | 10.7        | 9.2         |
| Ferrovial                                               | 11.7       | 10.9       | 10.1       | 18.7        | 18.1       | 16.2       | 20.9        | 14.8        | 11.4        |
| Hochtief                                                | 6.6        | 5.9        | 6.1        | 12.8        | 10.9       | 11.7       | 31.0        | 26.3        | 20.8        |
| <b>Median</b>                                           | <b>6.6</b> | <b>6.1</b> | <b>6.0</b> | <b>11.1</b> | <b>9.6</b> | <b>9.9</b> | <b>11.4</b> | <b>10.6</b> | <b>11.4</b> |
| EBITDA, EBIT, net profit of Polimex-Mostostal (PLN m)   | 252.2      | 302.7      | 360.8      | 208.5       | 254.5      | 310.4      | 147.3       | 185.5       | 232.2       |
| Implied value of Polimex-Mostostal (PLN m)              | 1,662.2    | 1,844.9    | 2,161.5    | 2,309.7     | 2,444.1    | 3,073.4    |             |             |             |
| Net debt of Polimex-Mostostal (PLN m)                   | 222.3      | 106.6      | -40.6      | 222.3       | 106.6      | -40.6      |             |             |             |
| Implied equity value of PM (PLN m)                      | 1,439.9    | 1,738.3    | 2,202.1    | 2,087.5     | 2,337.5    | 3,114.0    | 3,436.2     | 5,480.3     | 11,317.0    |
| Number of shares (m)                                    | 464.4      | 464.4      | 464.4      | 464.4       | 464.4      | 464.4      | 464.4       | 464.4       | 464.4       |
| <b>Equity value per Polimex-Mostostal's share (PLN)</b> | <b>3.1</b> | <b>3.7</b> | <b>4.7</b> | <b>4.5</b>  | <b>5.0</b> | <b>6.7</b> | <b>7.4</b>  | <b>11.8</b> | <b>24.4</b> |
| <b>Average equity value per Polimex's share (PLN)</b>   | <b>7.9</b> |            |            |             |            |            |             |             |             |

Source: Reuters; DM IDM SA estimates

**Financial statements (IFRS consolidated)**

Fig. 61 Polimex-Mostostal; Balance sheet

| PLN m                               | 2006           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E          | 2017E          | 2018E          |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Fixed assets</b>                 | <b>417.8</b>   | <b>1,037.7</b> | <b>1,129.8</b> | <b>1,125.3</b> | <b>1,123.0</b> | <b>1,120.6</b> | <b>1,118.0</b> | <b>1,115.3</b> | <b>1,112.4</b> | <b>1,128.8</b> | <b>1,138.0</b> | <b>1,135.2</b> | <b>1,137.9</b> |
| Intangibles                         | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            | 2.8            |
| Goodwill                            | 16.9           | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          | 441.2          |
| Tangible fixed assets               | 261.7          | 453.8          | 545.9          | 541.4          | 539.1          | 536.6          | 534.0          | 531.3          | 528.5          | 544.8          | 554.1          | 551.2          | 553.9          |
| LT receivables                      | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           | 35.2           |
| LT investments                      | 86.7           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           | 90.3           |
| Deferred assets                     | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           | 14.6           |
| <b>Current assets</b>               | <b>1,213.9</b> | <b>1,542.9</b> | <b>1,898.7</b> | <b>2,312.7</b> | <b>2,789.5</b> | <b>3,313.3</b> | <b>3,885.8</b> | <b>4,240.6</b> | <b>4,606.5</b> | <b>4,929.3</b> | <b>5,237.1</b> | <b>5,561.1</b> | <b>5,926.2</b> |
| Inventories                         | 168.3          | 232.2          | 288.7          | 334.3          | 384.6          | 432.7          | 483.3          | 535.8          | 590.1          | 640.9          | 689.9          | 745.9          | 803.1          |
| ST receivables                      | 867.1          | 1,189.5        | 1,485.7        | 1,727.8        | 1,994.2        | 2,253.2        | 2,520.7        | 2,798.0        | 3,086.7        | 3,356.3        | 3,610.7        | 3,885.9        | 4,183.9        |
| ST deferred assets                  | 9.4            | 12.9           | 16.1           | 18.7           | 21.5           | 24.3           | 27.2           | 30.2           | 33.4           | 36.3           | 39.0           | 42.0           | 45.2           |
| Cash & equivalents                  | 169.2          | 108.5          | 108.2          | 231.9          | 389.1          | 603.1          | 854.5          | 876.5          | 896.3          | 895.8          | 897.6          | 887.3          | 894.1          |
| Other assets                        | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| <b>Total assets</b>                 | <b>1,631.8</b> | <b>2,580.7</b> | <b>3,028.5</b> | <b>3,438.0</b> | <b>3,912.5</b> | <b>4,433.9</b> | <b>5,003.7</b> | <b>5,355.8</b> | <b>5,718.9</b> | <b>6,058.1</b> | <b>6,375.2</b> | <b>6,696.3</b> | <b>7,064.1</b> |
| <b>Equity</b>                       | <b>354.9</b>   | <b>866.3</b>   | <b>988.5</b>   | <b>1,145.6</b> | <b>1,340.7</b> | <b>1,583.0</b> | <b>1,859.5</b> | <b>1,906.9</b> | <b>1,957.2</b> | <b>2,003.4</b> | <b>2,035.5</b> | <b>2,037.2</b> | <b>2,077.0</b> |
| Minority interest                   | 93.9           | 154.1          | 162.5          | 171.6          | 181.6          | 192.2          | 203.5          | 215.6          | 228.1          | 241.0          | 254.2          | 267.8          | 281.6          |
| <b>Liabilities &amp; reserves</b>   | <b>1,183.0</b> | <b>1,560.3</b> | <b>1,877.4</b> | <b>2,120.9</b> | <b>2,390.3</b> | <b>2,658.7</b> | <b>2,940.7</b> | <b>3,233.3</b> | <b>3,533.6</b> | <b>3,813.6</b> | <b>4,085.4</b> | <b>4,391.4</b> | <b>4,705.5</b> |
| Reserves                            | 61.1           | 83.8           | 104.7          | 121.8          | 140.5          | 158.8          | 177.6          | 197.2          | 217.5          | 236.5          | 254.4          | 273.8          | 294.8          |
| LT liabilities                      | 231.9          | 281.9          | 307.9          | 315.9          | 325.9          | 345.9          | 366.9          | 388.9          | 408.9          | 426.9          | 446.9          | 466.9          | 486.9          |
| Non-interest-bearing                | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           | 60.6           |
| Interest-bearing                    | 171.3          | 221.3          | 247.3          | 255.3          | 265.3          | 285.3          | 306.3          | 328.3          | 348.3          | 366.3          | 386.3          | 406.3          | 426.3          |
| ST liabilities                      | 830.4          | 1,112.8        | 1,362.7        | 1,564.4        | 1,786.8        | 1,999.1        | 2,223.0        | 2,454.9        | 2,695.0        | 2,919.5        | 3,135.9        | 3,383.5        | 3,636.2        |
| Non-interest-bearing                | 747.2          | 1,029.6        | 1,279.5        | 1,481.2        | 1,703.6        | 1,915.9        | 2,139.7        | 2,371.7        | 2,611.8        | 2,836.3        | 3,052.7        | 3,300.3        | 3,553.0        |
| Interest-bearing                    | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           | 83.2           |
| Reserves                            | 15.3           | 21.0           | 26.2           | 30.5           | 35.2           | 39.7           | 44.5           | 49.3           | 54.4           | 59.2           | 63.7           | 68.5           | 73.8           |
| Deferred liabilities                | 44.3           | 60.8           | 75.9           | 88.3           | 101.9          | 115.2          | 128.8          | 143.0          | 157.8          | 171.5          | 184.5          | 198.6          | 213.8          |
| <b>Total liabilities and equity</b> | <b>1,631.8</b> | <b>2,580.7</b> | <b>3,028.5</b> | <b>3,438.0</b> | <b>3,912.5</b> | <b>4,433.9</b> | <b>5,003.7</b> | <b>5,355.8</b> | <b>5,718.9</b> | <b>6,058.1</b> | <b>6,375.2</b> | <b>6,696.3</b> | <b>7,064.1</b> |

Source: Company, DM IDMSA estimates

Fig. 62 Polimex-Mostostal; Income statement

| PLN m                           | 2006           | 2007E          | 2008E          | 2009E          | 2010E          | 2011E          | 2012E          | 2013E          | 2014E          | 2015E          | 2016E           | 2017E           | 2018E           |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| <b>Sales</b>                    | <b>2,483.4</b> | <b>3,406.6</b> | <b>4,255.0</b> | <b>4,948.4</b> | <b>5,711.3</b> | <b>6,453.1</b> | <b>7,219.3</b> | <b>8,013.5</b> | <b>8,840.2</b> | <b>9,612.4</b> | <b>10,340.8</b> | <b>11,129.2</b> | <b>11,982.6</b> |
| COGS                            | -2,239.1       | -3,089.5       | -3,842.0       | -4,449.4       | -5,118.8       | -5,758.2       | -6,432.1       | -7,130.4       | -7,853.4       | -8,529.3       | -9,180.9        | -9,926.5        | -10,687.2       |
| Gross profit on sales           | 244.3          | 317.1          | 412.9          | 499.1          | 592.5          | 694.9          | 787.1          | 883.1          | 986.8          | 1,083.1        | 1,159.9         | 1,202.6         | 1,295.3         |
| Selling costs                   | -28.1          | -30.7          | -38.3          | -44.5          | -51.4          | -58.1          | -65.0          | -72.1          | -79.6          | -86.5          | -93.1           | -100.2          | -107.8          |
| General administration costs    | -106.6         | -138.0         | -172.3         | -200.4         | -231.3         | -261.4         | -292.4         | -324.5         | -358.0         | -389.3         | -418.8          | -450.7          | -485.3          |
| <b>Net profit on sales</b>      | <b>109.6</b>   | <b>148.5</b>   | <b>202.3</b>   | <b>254.1</b>   | <b>309.8</b>   | <b>375.5</b>   | <b>429.8</b>   | <b>486.4</b>   | <b>549.2</b>   | <b>607.3</b>   | <b>648.0</b>    | <b>651.7</b>    | <b>702.2</b>    |
| Other operating income          | 9.3            | 21.3           | 26.6           | 30.9           | 35.7           | 40.3           | 45.1           | 50.1           | 55.3           | 60.1           | 64.7            | 69.6            | 74.9            |
| Other operating costs           | -20.4          | -21.2          | -26.4          | -30.5          | -35.1          | -39.5          | -44.1          | -48.9          | -53.9          | -58.5          | -63.0           | -68.1           | -73.3           |
| <b>EBIT</b>                     | <b>98.5</b>    | <b>148.6</b>   | <b>202.5</b>   | <b>254.5</b>   | <b>310.4</b>   | <b>376.3</b>   | <b>430.8</b>   | <b>487.6</b>   | <b>550.6</b>   | <b>608.8</b>   | <b>649.7</b>    | <b>653.2</b>    | <b>703.8</b>    |
| <b>Adj EBIT</b>                 | <b>104.5</b>   | <b>154.6</b>   | <b>208.5</b>   | <b>254.5</b>   | <b>310.4</b>   | <b>376.3</b>   | <b>430.8</b>   | <b>487.6</b>   | <b>550.6</b>   | <b>608.8</b>   | <b>649.7</b>    | <b>653.2</b>    | <b>703.8</b>    |
| Financial income                | 12.4           | 6.0            | 5.1            | 7.2            | 10.7           | 15.4           | 18.8           | 22.3           | 22.8           | 23.0           | 23.0            | 22.9            | 22.9            |
| Financial costs                 | -17.6          | -19.8          | -21.5          | -21.4          | -22.2          | -22.1          | -23.0          | -23.7          | -24.7          | -25.6          | -26.5           | -27.4           | -28.4           |
| Extraordinary gains/losses      | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0             | 0.0             |
| Other                           | -1.8           | 2.7            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            | 0.0             | 0.0             | 0.0             |
| <b>Pre tax</b>                  | <b>91.4</b>    | <b>137.6</b>   | <b>186.2</b>   | <b>240.3</b>   | <b>299.0</b>   | <b>369.6</b>   | <b>426.6</b>   | <b>486.1</b>   | <b>548.7</b>   | <b>606.3</b>   | <b>646.3</b>    | <b>648.7</b>    | <b>698.3</b>    |
| Income tax                      | -17.4          | -26.1          | -35.4          | -45.7          | -56.8          | -70.2          | -81.1          | -92.4          | -104.3         | -115.2         | -122.8          | -123.3          | -132.7          |
| Minority interest in net income | -11.4          | -10.3          | -8.4           | -9.1           | -9.9           | -10.7          | -11.3          | -12.1          | -12.5          | -12.9          | -13.2           | -13.5           | -13.9           |
| <b>Net income</b>               | <b>62.6</b>    | <b>101.1</b>   | <b>142.4</b>   | <b>185.5</b>   | <b>232.2</b>   | <b>288.7</b>   | <b>334.2</b>   | <b>381.7</b>   | <b>431.9</b>   | <b>478.2</b>   | <b>510.3</b>    | <b>511.9</b>    | <b>551.7</b>    |
| <b>Adj net income</b>           | <b>67.5</b>    | <b>106.0</b>   | <b>147.3</b>   | <b>185.5</b>   | <b>232.2</b>   | <b>288.7</b>   | <b>334.2</b>   | <b>381.7</b>   | <b>431.9</b>   | <b>478.2</b>   | <b>510.3</b>    | <b>511.9</b>    | <b>551.7</b>    |
| <b>EBITDA</b>                   | <b>129.7</b>   | <b>184.4</b>   | <b>246.2</b>   | <b>302.7</b>   | <b>360.8</b>   | <b>429.2</b>   | <b>486.3</b>   | <b>545.8</b>   | <b>611.7</b>   | <b>653.6</b>   | <b>685.2</b>    | <b>691.5</b>    | <b>748.5</b>    |
| <b>Adj EBITDA</b>               | <b>135.7</b>   | <b>190.4</b>   | <b>252.2</b>   | <b>302.7</b>   | <b>360.8</b>   | <b>429.2</b>   | <b>486.3</b>   | <b>545.8</b>   | <b>611.7</b>   | <b>653.6</b>   | <b>685.2</b>    | <b>691.5</b>    | <b>748.5</b>    |

Source: Company, DM IDMSA estimates

Fig. 63 Polimex-Mostostal; Cash flow

| PLN m                           | 2006          | 2007E         | 2008E         | 2009E        | 2010E        | 2011E        | 2012E        | 2013E         | 2014E         | 2015E         | 2016E         | 2017E         | 2018E         |
|---------------------------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Gross income (loss)</b>      | <b>91.4</b>   | <b>137.6</b>  | <b>186.2</b>  | <b>240.3</b> | <b>299.0</b> | <b>369.6</b> | <b>426.6</b> | <b>486.1</b>  | <b>548.7</b>  | <b>606.3</b>  | <b>646.3</b>  | <b>648.7</b>  | <b>698.3</b>  |
| Depreciation and amortization   | 31.2          | 35.8          | 43.7          | 48.2         | 50.5         | 52.9         | 55.5         | 58.2          | 61.1          | 44.7          | 35.5          | 38.3          | 44.7          |
| NWC change:                     | -93.8         | -103.8        | -102.8        | -86.1        | -94.3        | -94.7        | -94.3        | -97.9         | -102.9        | -95.9         | -86.9         | -83.7         | -102.5        |
| Change in inventories           | -21.2         | -63.9         | -56.5         | -45.6        | -50.3        | -48.0        | -50.6        | -52.5         | -54.3         | -50.8         | -49.0         | -56.0         | -57.2         |
| Change in receivables           | -238.4        | -322.4        | -296.2        | -242.1       | -266.4       | -259.0       | -267.5       | -277.3        | -288.6        | -269.6        | -254.3        | -275.3        | -298.0        |
| Change in payables              | 165.8         | 282.4         | 249.9         | 201.7        | 222.3        | 212.4        | 223.8        | 231.9         | 240.1         | 224.5         | 216.4         | 247.6         | 252.7         |
| Other                           | 14.8          | 24.7          | 14.5          | -5.1         | -16.2        | -35.5        | -48.0        | -61.0         | -71.3         | -84.3         | -93.2         | -90.3         | -96.1         |
| <b>Operating cash flow</b>      | <b>43.6</b>   | <b>94.2</b>   | <b>141.6</b>  | <b>197.3</b> | <b>239.0</b> | <b>292.4</b> | <b>339.8</b> | <b>385.5</b>  | <b>435.6</b>  | <b>470.8</b>  | <b>501.6</b>  | <b>513.1</b>  | <b>544.4</b>  |
| Capital expenditures            | -108.7        | -181.2        | -135.8        | -43.7        | -48.2        | -50.5        | -52.9        | -55.5         | -58.2         | -61.1         | -44.7         | -35.5         | -47.4         |
| Other                           | -11.3         | 5.0           | 4.1           | 6.2          | 9.7          | 14.4         | 17.8         | 21.3          | 21.8          | 22.0          | 22.0          | 21.9          | 21.9          |
| <b>Investing cash flow</b>      | <b>-120.0</b> | <b>-176.2</b> | <b>-131.6</b> | <b>-37.5</b> | <b>-38.4</b> | <b>-36.0</b> | <b>-35.1</b> | <b>-34.3</b>  | <b>-36.4</b>  | <b>-39.1</b>  | <b>-22.7</b>  | <b>-13.5</b>  | <b>-25.5</b>  |
| Change in interest-bearing debt | 127.4         | 50.0          | 26.0          | 8.0          | 10.0         | 20.0         | 21.0         | 22.0          | 20.0          | 18.0          | 20.0          | 20.0          | 20.0          |
| Dividends payment               | -6.9          | -8.5          | -20.2         | -28.5        | -37.1        | -46.4        | -57.7        | -334.2        | -381.7        | -431.9        | -478.2        | -510.3        | -511.9        |
| Interest                        | -7.4          | -14.5         | -16.0         | -15.6        | -16.2        | -15.9        | -16.6        | -17.0         | -17.7         | -18.3         | -18.9         | -19.6         | -20.2         |
| Other                           | 8.9           | 0.0           | 0.0           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           | 0.0           |
| <b>Financing cash flow</b>      | <b>122.1</b>  | <b>26.9</b>   | <b>-10.2</b>  | <b>-36.1</b> | <b>-43.3</b> | <b>-42.4</b> | <b>-53.3</b> | <b>-329.2</b> | <b>-379.4</b> | <b>-432.3</b> | <b>-477.1</b> | <b>-509.8</b> | <b>-512.2</b> |
| <b>Total cash flow</b>          | <b>45.6</b>   | <b>-55.0</b>  | <b>-0.2</b>   | <b>123.7</b> | <b>157.2</b> | <b>214.0</b> | <b>251.4</b> | <b>22.0</b>   | <b>19.8</b>   | <b>-0.5</b>   | <b>1.8</b>    | <b>-10.3</b>  | <b>6.8</b>    |

Source: Company, DM IDMSA estimates

Fig. 64 Polimex-Mostostal; Ratios

| PLN m                              | 2006  | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sales growth (yoy)                 |       | 37%   | 25%   | 16%   | 15%   | 13%   | 12%   | 11%   | 10%   | 9%    | 8%    | 8%    | 8%    |
| Gross profit on sales growth (yoy) |       | 30%   | 30%   | 21%   | 19%   | 17%   | 13%   | 12%   | 12%   | 10%   | 7%    | 4%    | 8%    |
| EBITDA growth (yoy)                |       | 42%   | 34%   | 23%   | 19%   | 19%   | 13%   | 12%   | 12%   | 7%    | 5%    | 1%    | 8%    |
| Adj EBITDA growth (yoy)            |       | 40%   | 33%   | 20%   | 19%   | 19%   | 13%   | 12%   | 12%   | 7%    | 5%    | 1%    | 8%    |
| Operating profit growth (yoy)      |       | 51%   | 36%   | 26%   | 22%   | 21%   | 15%   | 13%   | 13%   | 11%   | 7%    | 1%    | 8%    |
| Adj operating profit growth (yoy)  |       | 48%   | 35%   | 22%   | 22%   | 21%   | 15%   | 13%   | 13%   | 11%   | 7%    | 1%    | 8%    |
| Net income growth (yoy)            |       | 61%   | 41%   | 30%   | 25%   | 24%   | 16%   | 14%   | 13%   | 11%   | 7%    | 0%    | 8%    |
| Adj net income growth (yoy)        |       | 57%   | 39%   | 26%   | 25%   | 24%   | 16%   | 14%   | 13%   | 11%   | 7%    | 0%    | 8%    |
| A/R turnover days                  | 106   | 110   | 115   | 119   | 119   | 120   | 121   | 121   | 121   | 122   | 123   | 123   | 123   |
| Inventory turnover days            | 23    | 24    | 25    | 26    | 26    | 26    | 26    | 26    | 26    | 26    | 26    | 26    | 26    |
| A/P turnover days                  | 92    | 105   | 109   | 113   | 113   | 114   | 115   | 115   | 116   | 116   | 117   | 117   | 117   |
| Cash cycle days                    | 37    | 29    | 30    | 31    | 31    | 32    | 32    | 32    | 32    | 32    | 32    | 33    | 32    |
| NWC/Sales                          | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   | 12%   |
| Gross margin                       | 9.8%  | 9.3%  | 9.7%  | 10.1% | 10.4% | 10.8% | 10.9% | 11.0% | 11.2% | 11.3% | 11.2% | 10.8% | 10.8% |
| EBITDA margin                      | 5.2%  | 5.4%  | 5.8%  | 6.1%  | 6.3%  | 6.7%  | 6.7%  | 6.8%  | 6.9%  | 6.8%  | 6.6%  | 6.2%  | 6.2%  |
| Adj EBITDA margin                  | 5.5%  | 5.6%  | 5.9%  | 6.1%  | 6.3%  | 6.7%  | 6.7%  | 6.8%  | 6.9%  | 6.8%  | 6.6%  | 6.2%  | 6.2%  |
| EBIT margin                        | 4.0%  | 4.4%  | 4.8%  | 5.1%  | 5.4%  | 5.8%  | 6.0%  | 6.1%  | 6.2%  | 6.3%  | 6.3%  | 5.9%  | 5.9%  |
| Adj EBIT margin                    | 4.2%  | 4.5%  | 4.9%  | 5.1%  | 5.4%  | 5.8%  | 6.0%  | 6.1%  | 6.2%  | 6.3%  | 6.3%  | 5.9%  | 5.9%  |
| Pretax margin                      | 3.7%  | 4.0%  | 4.4%  | 4.9%  | 5.2%  | 5.7%  | 5.9%  | 6.1%  | 6.2%  | 6.3%  | 6.2%  | 5.8%  | 5.8%  |
| Net margin                         | 2.5%  | 3.0%  | 3.3%  | 3.7%  | 4.1%  | 4.5%  | 4.6%  | 4.8%  | 4.9%  | 5.0%  | 4.9%  | 4.6%  | 4.6%  |
| Adj net margin                     | 2.7%  | 3.1%  | 3.5%  | 3.7%  | 4.1%  | 4.5%  | 4.6%  | 4.8%  | 4.9%  | 5.0%  | 4.9%  | 4.6%  | 4.6%  |
| ROE                                | 19.3% | 16.6% | 15.4% | 17.4% | 18.7% | 19.8% | 19.4% | 20.3% | 22.4% | 24.1% | 25.3% | 25.1% | 26.8% |
| ROA                                | 4.6%  | 4.8%  | 5.1%  | 5.7%  | 6.3%  | 6.9%  | 7.1%  | 7.4%  | 7.8%  | 8.1%  | 8.2%  | 7.8%  | 8.0%  |
| Current ratio                      | 1.5   | 1.4   | 1.4   | 1.5   | 1.6   | 1.7   | 1.7   | 1.7   | 1.7   | 1.7   | 1.7   | 1.6   | 1.6   |
| Quick Ratio                        | 1.3   | 1.2   | 1.2   | 1.3   | 1.3   | 1.4   | 1.5   | 1.5   | 1.5   | 1.5   | 1.5   | 1.4   | 1.4   |

Source: Company, DM IDMSA estimates

## BASIC DEFINITIONS

**A/R turnover** (in days) =  $365 / (\text{sales} / \text{average A/R})$

**Inventory turnover** (in days) =  $365 / (\text{COGS} / \text{average inventory})$

**A/P turnover** (in days) =  $365 / (\text{COGS} / \text{average A/P})$

**Current ratio** =  $(\text{current assets} - \text{ST deferred assets}) / \text{current liabilities}$

**Quick ratio** =  $(\text{current assets} - \text{ST deferred assets} - \text{inventory}) / \text{current liabilities}$

**Interest coverage** =  $(\text{pre-tax profit before extraordinary items} + \text{interest payable}) / \text{interest payable}$

**Gross margin** =  $\text{gross profit} / \text{sales}$

**EBITDA margin** =  $\text{EBITDA} / \text{sales}$

**EBIT margin** =  $\text{EBIT} / \text{sales}$

**Pre-tax margin** =  $\text{pre-tax profit} / \text{sales}$

**Net margin** =  $\text{net profit} / \text{sales}$

**ROE** =  $\text{net profit} / \text{average equity}$

**ROA** =  $(\text{net income} + \text{interest payable}) / \text{average assets}$

**EV** =  $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$

**EPS** =  $\text{net profit} / \text{no. of shares outstanding}$

**CE** =  $\text{net profit} + \text{depreciation}$

**Dividend yield** (gross) =  $\text{pre-tax DPS} / \text{stock market price}$

**Cash sales** =  $\text{accrual sales corrected for the change in A/R}$

**Cash operating expenses** =  $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

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

## KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

**Buy** – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;

**Hold** – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;

**Sell** – fundamentally overvalued (12M EFV < current share price) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

**Overweight** – expected to perform better than the benchmark (WIG) over the next quarter in relative terms

**Neutral** – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms

**Underweight** – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

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

## Banks

**Net Interest Margin (NIM)** =  $\text{net interest income} / \text{average assets}$

**NIM Adjusted** =  $(\text{net interest income adjusted for SWAPs}) / \text{average assets}$

**Non interest income** =  $\text{fees} + \text{commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$

**Interest Spread** =  $(\text{interest income} / \text{average interest earning assets}) / (\text{interest cost} / \text{average interest bearing liabilities})$

**Cost/Income** =  $(\text{general costs} + \text{depreciation} + \text{other operating costs}) / (\text{profit on banking activity} + \text{other operating income})$

**ROE** =  $\text{net profit} / \text{average equity}$

**ROA** =  $\text{net income} / \text{average assets}$

**Non performing loans (NPL)** = loans in 'substandard', 'doubtful' and 'lost' categories

**NPL coverage ratio** =  $\text{loan loss provisions} / \text{NPL}$

**Net provision charge** =  $\text{provisions created} - \text{provisions released}$

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

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

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

*LT fundamental recommendation tracker*

| Recommendation  | Issue date | Reiteration date | Expiry date               | Performance | Relative performance | Price at issue/reiteration (PLN) | 12M EFV (PLN) |
|-----------------|------------|------------------|---------------------------|-------------|----------------------|----------------------------------|---------------|
| <b>Budimex</b>  |            |                  |                           |             |                      |                                  |               |
| Sell            | 06.02.2008 | -                | not later than 06.02.2009 | -           | -                    | 83.7                             | 79.3          |
| <b>PBG</b>      |            |                  |                           |             |                      |                                  |               |
| Hold            | 06.02.2008 | -                | not later than 06.02.2009 | -           | -                    | 280.6                            | 319           |
| <b>Pol-Aqua</b> |            |                  |                           |             |                      |                                  |               |
| Buy             | 06.02.2008 | -                | not later than 06.02.2009 | -           | -                    | 79.5                             | 92            |
| <b>Polimex</b>  |            |                  |                           |             |                      |                                  |               |
| Hold            | 06.02.2008 | -                | not later than 06.02.2009 | -           | -                    | 7.57                             | 8.38          |

*Market-relative recommendation tracker*

| Relative recommendation | Issue date | Reiteration date | Expiry date               | Price at issue/reiteration (PLN) | Relative performance |
|-------------------------|------------|------------------|---------------------------|----------------------------------|----------------------|
| <b>Budimex</b>          |            |                  |                           |                                  |                      |
| Underweight             | 06.02.2008 | -                | not later than 06.02.2009 | 83.7                             | -                    |
| <b>PBG</b>              |            |                  |                           |                                  |                      |
| Overweight              | 06.02.2008 | -                | not later than 06.02.2009 | 280.6                            | -                    |
| <b>Pol-Aqua</b>         |            |                  |                           |                                  |                      |
| Overweight              | 06.02.2008 | -                | not later than 06.02.2009 | 79.5                             | -                    |
| <b>Polimex</b>          |            |                  |                           |                                  |                      |
| Overweight              | 06.02.2008 | -                | not later than 06.02.2009 | 7.57                             | -                    |

*Distribution of IDM's current recommendations*

|            | Buy | Hold | Sell | Suspended | Under revision |
|------------|-----|------|------|-----------|----------------|
| Numbers    | 16  | 11   | 4    | 0         | 0              |
| Percentage | 52% | 35%  | 13%  | 0%        | 0%             |

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

|            | Buy | Hold | Sell | Suspend | Under revision |
|------------|-----|------|------|---------|----------------|
| Numbers    | 2   | 2    | 1    | 0       | 0              |
| Percentage | 40% | 40%  | 20%  | 0%      | 0%             |

*Distribution of IDM's current market relative recommended weightings*

|            | Overweight | Neutral | Underweight | Suspended | Under revision |
|------------|------------|---------|-------------|-----------|----------------|
| Numbers    | 12         | 13      | 6           | 0         | 0              |
| Percentage | 39%        | 42%     | 19%         | 0%        | 0%             |

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

|            | Overweight | Neutral | Underweight | Suspended | Under revision |
|------------|------------|---------|-------------|-----------|----------------|
| Numbers    | 2          | 2       | 1           | 0         | 0              |
| Percentage | 40%        | 40%     | 20%         | 0%        | 0%             |

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