5 April 2011

Research Report

BRE Bank Securities

Echo Investment — Buy

EPRS.WA; ECH PW — (New)

Awakening Latent Potential

Real Estate Developers
Poland

Current price	**PLN 4.94**
Target price	**PLN 6.17**
Market cap	PLN 2.07bn
Free float	PLN 0.76bn
Avg daily trading volume (3M)	PLN 0.91m

Shareholder Structure

Michał Sołowow	40.46%
ING OFE	8.94%
AVIVA OFE BZ WBK	8.73%
OFE PZU 'Złota Jesień'	5.10%
Free float	36.77%

Sector Outlook

We would overweight real-estate stocks. We are optimistic in our outlook for housing developers and small commercial developers. However, a recovering market for investment real-estate, combined with steady capitalization rates and rental prices, also make large firms like GTC and Echo Investment an attractive investment opportunity.

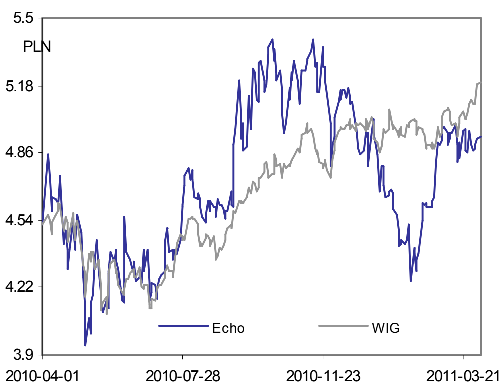
Company Profile

Echo Investment is a commercial and residential property developer since 1996. With an established presence in all major cities in Poland, the company is planning to expand into Romania, Hungary, and Ukraine.

Important Dates

02.05.2011 - 2010 report
16.05.2011 - Q1 2011 report
31.08.2011 - H1 2011 report
14.11.2011 - Q3 2011 report

ECH vs. WIG



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Echo Investment's well-diversified real-estate portfolio includes several projects shelved during the economic downturn that can be launched within the next few quarters depending on how long it takes to obtain necessary building permits and approvals. Echo's current market price factors in only projects that are either in progress or already have building permits in place. In our opinion, the developer is going to intensify its building activity in the next few years, supported by a recovering commercial real-estate market. We expect Echo to deliver 206,000 square meters of commercial spaces and 59,000 square meters of residential spaces in 2012 and 2013, with margins reaching 27.3% on the former and 24.7% on the latter. Assuming these expectations are accurate, at current price levels, ECH is trading at a 2013E price-to-book ratio of 0.66 and a 2013E P/E ratio of 3.2. Aside from a versatile portfolio of planned projects, Echo's other advantages include a safe debt load, long-standing relationships with major retail and hotel chains, and a widely recognized name. Our price target of PLN 6.17 a share implies 24.9% upside potential, leading us to initiate coverage of Echo with a buy rating.

Land bank potential

We based our valuation of Echo Investment on projects that are likely to be completed by the end of 2013. However, the company's existing land bank can be developed into over 900,000 square meters of floor space through projects which mostly already have designs and pending building permits in place.

Returns on investment properties

Echo is planning to sell some of its existing investment properties to raise funds towards future projects. We believe this can be a winning strategy for the developer given the activity of real-estate funds in the Polish market and the good yields achieved on two recent sales of the "Athina" and "Avatar" office developments. The unexpectedly high profits generated on the two deals are an indication of Echo's conservative approach to valuing its investment properties, and suggest that, as capitalization rates compress, the value-driving potential of its existing properties is much stronger than achieved by rivals.

(PLN m)	2009	2010	2011F	2012F	2013F
Revenue	431.4	427.8	400.1	603.2	736.8
EBIT b/f revaluations	219.0	205.1	189.7	260.8	317.2
EBIT margin	50.8%	48.0%	47.4%	43.2%	43.0%
Property revaluations	-22.9	-90.4	172.2	415.4	684.9
EBIT after revaluations	196.1	167.6	361.9	676.2	1 002.1
Net earnings	103.7	146.9	196.4	410.9	639.2
P/BV	1.2	1.1	1.0	0.8	0.7
P/E	20.0	14.1	10.6	5.0	3.2
P/CE	19.2	13.9	10.3	5.0	3.2
EV/EBITDA	14.7	17.3	8.0	4.3	2.9
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

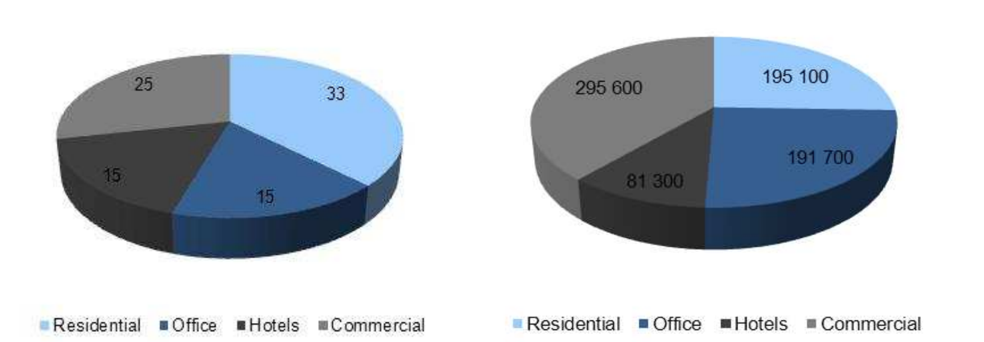
Business Profile

History of Echo Investment

Past projects

Echo Investment S.A. was established in 1996 on the basis of the publishing company Echo Press, and has since concentrated on real-estate development. Over the past 15 years, the Echo Investment Group has completed 88 projects with total floor area of 765k m^2. Virtually since it began operations, the Company has been present in all the key segments of the real-estate market: housing, commercial, office and hotel development.

Number and floor area (in m^2) of projects completed through 2010



Source: Echo Investment S.A.

In the housing segment, Echo Investment's main markets have been Warsaw, Poznań, Kraków and Kielce. The Company has extensive experience in both premium and affordable apartments. The shopping mall construction program was launched in 1999. In the first stage, Echo built numerous first-generation malls in medium-sized cities. Many of these facilities were sold in 2005. Beginning in 2001, the Company started to develop shopping malls with entertainment functions. In 2003, it completed the Galaxy mall in Szczecin, and in 2007, the *Grunwaldzki Passage* in Wrocław, two projects that to this day remain its biggest undertakings. As far as office space development is concerned, the Company has been present in Warsaw, Kraków, Łódź, Kielce, Szczecin and Poznań. It has also worked on projects combining residential and office functions, as well as ones that combine hotel, entertainment and office space. The final category of projects that needs to be mentioned here are hotels, including hotels developed for such chains as Novotel, Qubus, Kyriad, Campanile and Premiere Classe.

Management Board

Members of the current Management Board have been with Echo Investment since 1997-1998. Both CEO Piotr Gromniak and his deputy Artur Langner started as project managers. Both are graduates of the Civil Engineering Department of the Kielce University of Technology. They have held their current posts since June 2008.

Business Segments and Group Structure

The Echo Investment Group operates in four segments:

- Retail space construction and rentals;
- Housing construction and sales;
- Office space construction and rentals;
- Hotel construction and sales.

At this time, the Company manages and collects rental revenue from 11 commercial facilities. As far as retail space construction is concerned, Echo Investment develops both medium-sized shopping centers as well as modern shopping malls with entertainment functions. In the near future, the Company's activities in this area will focus on the expansion of existing facilities and the construction of modern shopping and entertainment centers. In addition to the Polish market, Echo is planning projects in Romania and Hungary.
Echo's residential segment is well diversified both in terms of geography and the standard offered. The Company owns land earmarked for residential construction in all of Poland's big cities except for the Tri-City (Gdańsk-Gdynia-Sopot). In Warsaw and Kraków, it will build,

inter alia, luxury apartments. In addition to the construction of multi-dwelling units, Echo Investment sells lots with utilities connected and accompanying home designs.

Office facilities are the only projects that the Company was able to build in 2009-2010. In this segment, Echo Investment is active in all of Poland's major markets. As of today, it is in possession of completed facilities in Warsaw, Poznań and Szczecin.

The hotel segment, which used to be relatively important for the Company, is currently represented by just one facility in Łódź. Echo Investment does not manage hotels, but delivers them to investors upon construction.

In all of the above segments, the Company is in charge of the entire investment process, which includes buying the property, obtaining administrative permits and financing, supervising construction work and delivery. The parent company within the Group is Echo Investment S.A., which provides general property development services to subsidiaries set up for concrete investment projects. Its role is to supervise projects and secure financing, as well as to find renters and sell homes. Commercial properties are managed by a dedicated wholly-owned subsidiary Est-On.

Key Factor That Affect Valuation

Situation in the real-estate market

Demand for commercial and residential space is a factor of crucial importance for the Company's long-term profit-generation capacity. A good example of what happens when it is lacking are the years 2009-2010, when the Company failed to deliver a single residential or commercial facility. After withholding commercial and residential projects during the crisis, many developers have extensive land banks. The pressure to quickly complete projects withheld during the crisis means that there is a risk of excess supply appearing in those markets where the demand for new space will rise relatively slowly.

As the turnover in the investment market goes up, the expected liquidity risk premium goes down, as do capitalization rates, which leads to an increase in the value of the developers' investment properties. The value of properties also increases with rents in commercial facilities. Market practice has shown that developers are very reluctant to lower listed rents, and prefer to attract renters through "rent holidays" or by covering some of the costs of internal decoration work. That said, rents have decreased noticeably since the pre-crisis highs. A certain upward trend can be observed in locations where there is a temporary shortage of completed office space (chiefly Warsaw). In our opinion, listed rents are unlikely to skyrocket in the upcoming years.

How quickly building permits are obtained

One of the least predictable elements of the investment process are administrative decisions, because the Company has a limited impact on how quickly these are issued. For this reason, we expect that some of the projects will be delayed vs. the Echo's plans. A piece of good news in this area is that in early March Echo obtained the building permit for the *Olimpia* mall in Bełchatów (in November 2010, the Company had said that this would happen in Q1 2011). This makes the Management's schedule for further permits more credible. Construction work was launched one month after the building permit was received, which is extraordinarily quick.

Potential in the land bank

The cost of acquisition of land has a big impact on the margins generated on individual projects. In the case of Echo Investment, many lots that will soon be used for investment projects were bought in 2006-2007 at a cost that does not give it competitive advantage. The Company does own one lot in Poznań which has low value on its books, and we expect a solid (26%) margin on homes built there, even though they will be sold at relatively low prices. A high cost of land relative to the value of homes erected upon it might lead to low margins on residential projects in Łódź (*Okopowa*), Kraków (*Czarodziejska*) and Wrocław (*Grota-Roweckiego*).

Exchange rates

Exchange rates (the EUR/PLN exchange rate in particular) have a twofold impact on Echo Investment's earnings. First, a stronger EUR boosts the PLN value of investment properties and rental payments (rents are denominated in the euro). Second, Echo Investment loans are also in the EUR, which makes them more costly to service when the EUR/PLN rate goes up. An assessment of the foreign-currency risk involved in foreign-currency loans is complicated by the fact that the Company uses derivatives to hedge some of its financing costs.

Market Profile

Commercial Space

Investors are expected to become more active in the Polish property market

In its March 2011 report, DTZ estimates the total capital earmarked for direct investment in the global property market at USD 329m (+44% vs. the end of 2009). The European market is valued at USD 114m, with just a slight increase since late 2009. In the report, DTZ Poland is mentioned as one of the most popular countries for property investment in 2011, trailing only Germany, the UK and France.

The high level of investor activity in the Polish market for commercial property was visible in 2010 already, when the total value of transactions reached nearly EUR 2bn, i.e. much more than in 2008-2009. In 2011, investors should be even more active, which is good news for Echo Investment for two reasons. First, an increase in market liquidity may improve sentiment to the entire property-development sector, while the combination of increased demand and still-limited supply will support yield compression. Second, it will be easier for the Company to obtain cash by selling some of its properties.

Transactions executed in 2010

More than half of all transactions in the Polish property market in 2010 involved commercial facilities (EUR 1.072m). Notable transactions involved the sale of major Warsaw malls, *Arkadia* and *Warszawa Wileńska* (for a total of EUR 460m) and *Promenada* (EUR 169.5m). As for medium-sized cities, shopping malls were sold in Słupsk (*Jantar*), Konin (*Ferio*) and Krasnystaw (*Panorama*). Interestingly, several transactions involving smaller shopping centers anchored by a hypermarket also took place last year (e.g. Carrefour in Łódź, EUR 20m).

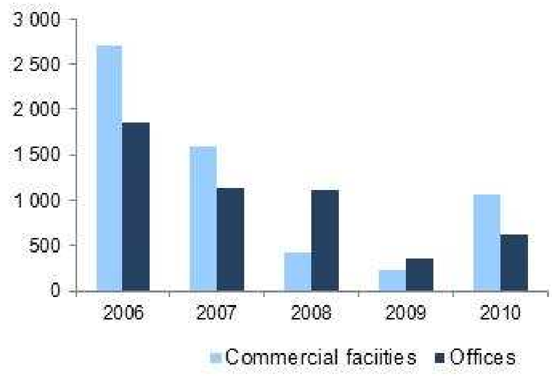
Selected transactions in the Polish property market in 2010

Facility	City	GLA (m^2)	Estimated yield	Value (EUR m)	Buyer
Offices					
Horizon Plaza	Warsaw	35 000	7.15%	102.0	Union Investment
Trinity Park III	Warsaw	32 000	7.50%	93.0	SEB Immo Invest
Nefryt + Topaz	Warsaw	26 380	6.82%	78.9	RREEF
Grunwaldzki Center	Wrocław	26 000	7.30%	76.5	RREEF
Harmony Office Center	Warsaw	15 000	6.95%	55.0	Commerzreal
Athina Park	Warsaw	11 870	7.25%	32.1	PZU AM
Avatar	Kraków	11 240	7.25%	30.5	Azora International
Mokotów Plaza I	Warsaw	15 000	8.15%	30.1	Azora Europa
Lipiński Passage	Warsaw	3 500	7.50%	28.5	Union Investment
Shopping malls					
Arkadia + CH Wileńska	Warsaw	166 000	-	460.0	Unibail-Rodamco
Promenada	Warsaw	54 000	-	169.5	Atrium European RE
CH Jantar	Słupsk	22 000	-	92.0	EPISO

Source: CB Richard Ellis, Jones Lang LaSalle, Shopping Center, Echo Investment S.A.

A gradual increase in the foreign investors' interest in commercial facilities from outside the prime category testifies to the improvement in Poland's investment climate. We believe that the demand for such facilities will increase even further, all the more so that they are still valued at relatively high yields (cap rate compression in 2010 primarily affected facilities from the prime segment). Excluding shopping malls in Kielce (after its expansion), Szczecin and Wrocław, Echo Investment's portfolio is composed of medium-sized malls in cities of 60-220 thousand inhabitants. Given the Company's strong appetite for new investment, the Management may decide to sell some of Echo's commercial facilities. The current situation in the investment market supports such a scenario.

Transactions in the Polish property market by volume, 2006-2010 (EUR m)



Source: Cushman & Wakefield, Jones Lang LaSalle

Trend in the market for office space

The newest reports by property development consultancies suggest that the office space segment in Poland is gradually recovering. Cushman & Wakefield expects a 25-50pp decline in cap rates in Poland in 2011, combined with an increase in the volume of transaction in the office market.

Office space market at the end of 2010

City	Existing space (m^2)	Rental rates (EUR/m^2)	Yields (%)	Vacancies (%)
Warsaw	3 435 830	14-26.5	6.50%	7%
Kraków	497 600	13-15	7.25%	10%
Wrocław	389 200	12-15	7.00%	4%
Tri-City	302 480	13-15	8.00%	14%
Katowice	262 680	12-15	8.80%	17%
Poznań	245 950	14-16	7.75%	12%
Łódź	214 720	12-14	8.50%	23%
Szczecin	80 000	14	9.00%	6%
Kijów	1 170 000	22-26	13.75%	14%

Source: Cushman & Wakefild, Jones Lang LaSalle, CB Richard Ellis

Improvements in the developers' situation are particularly visible in Warsaw. H2 2010 was the first quarter since the end of the crisis in the property market when rental rates were observed to go up. The increase in the landlords' bargaining power was also illustrated by the reduction in the average "rent holiday" from 12 months at the end of H1 2010 to 6 months at the end of 2010. The changing climate in the Warsaw market is also reflected in the clear increase in the share of pre-let agreements, from 2% in 2009 to 11.5% in 2010. The importance of development stems from the fact that the share of pre-lets affects the developer's ability to get financing.

In the Warsaw market in 2010, the demand/supply relationship was advantageous for developers in 2010. Sixteen new buildings with total space of 188 thousand m^2 were delivered (compared to 266 thousand m^2 in 2009). At the same time, the demand for office space was record-high (549 thousand m^2, including 36% renegotiation). The most recent estimates by Jones Land LaSalle indicate that new office space supply in Warsaw will be lower in 2011-2012 than it was in 2010 (146 thousand m^2 in 2011) with demand remaining stable. In the view of such estimates, it is not surprising that Warsaw office renters are facing tougher terms.

Rental terms in Warsaw excl. city center

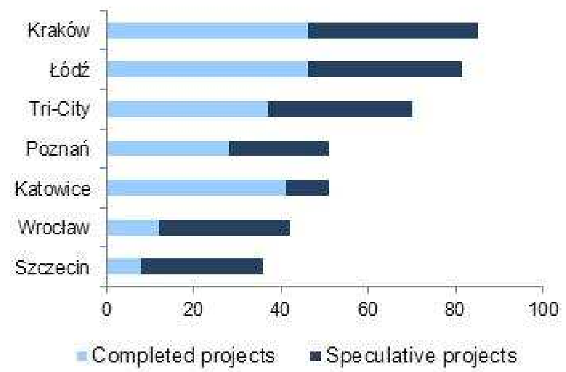
	06.2009	12.2009	06.2010	12.2010
Rental rates (EUR/m^2/month)	14-16.5	13-15.5	12-15.5	14-16.5
Underground parking (EUR/space/month)	50-90	50-90	50-90	70-90
Surface parking (EUR/space/month)	25-55	25-55	25-55	45-75
Service charge (EUR/m^2/month)	3.5-5	4-5.5	4-5.5	4-5.5
Rent holidays (months)	6-12	8-15	8-15	4-8

Source: Cushman & Wakefield

We expect that after 2012 supply and demand will balance in Warsaw. At the moment, more and more developers are planning to build office buildings in the city, including companies that have hitherto specialized in residential construction (Polnord, Robyg, LC Corp, J.W. Construction).

The situation in the office space markets of other cities is improving as well, although not as fast as in Warsaw. In 2010, 216 thousand m^2 was built in Poland's eight biggest regional markets. In addition, fewer projects were launched than in 2009, which means that the supply of new space should decline, just as in Warsaw. The situation is not uniform across all the regions. In 2010 most new space was added in Kraków and Katowice (54 thousand m^2 and 48 thousand m^2, respectively). Kraków dealt quite well with the absorption of this new space, but in Katowice the vacancy ratio nearly doubled (to 17.3-22% depending on the source). The markets in Łódź and Katowice are small enough that one developer's decision to launch a project may force others to postpone theirs by several quarters at the least. At present, ca. 12 thousand m^2 of office space is under construction in Łódź and Katowice (C&W), which is not much, but competition with completed projects as well as those with for which building permits have been issued is quite tight.

Office space availability in major cities in Q1 2011 (thousand m^2)



Source: CB Richard Ellis

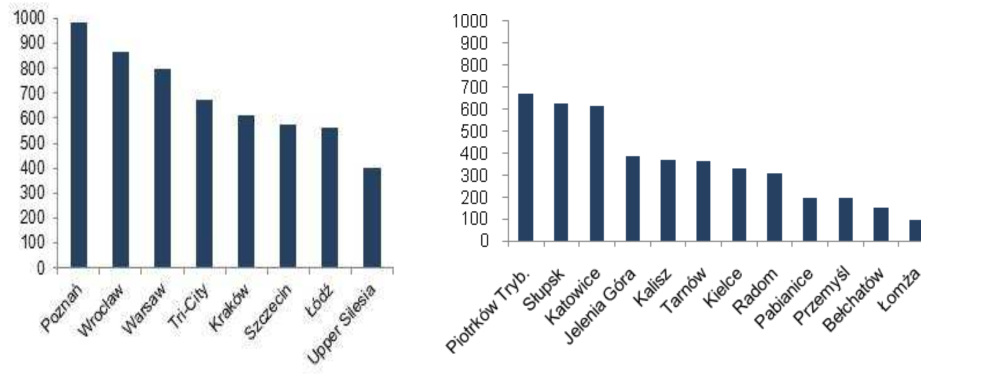
As far as the other major cities are concerned, there is a risk of considerable excess supply of office space. Seven new projects were launched there in Q1-Q3 2010. In the Tri-City, developers are focusing on business parks. One of the biggest ones is *Arkońska Business Park* (29.900 m^2 of GLA). Even though stage two of this project was completed in late 2009 or early 2010, ca. 50% of the space remains to be rented. Other big business parks under construction in the Tri-City include *Garnizon Business Space* (planned for 150.000 m^2), *Olivia Business Centre* (planned for 100.000 m^2) and *Bałtyckie Centrum Biznesu* (planned for 120.000 m^2).

Wrocław boasts the lowest vacancy ratio among major regional cities (3.7%). In addition, according to Cushman & Wakefield, it was the only regional city in Poland to have recorded a decline in the vacancy rate in H2 2010. There are many office projects in Wrocław which have already received building permits (95.000 m^2 total). In the case of some of them, construction has not started due to financing difficulties. At this time, the following companies have projects under planning/development in Wrocław: Skanska (*Green Towers*), GTC (*Karkonoska*), as well as some developers with strong ties to the local market (e.g. Vantage Development, Verity Development). Most of these projects will not be completed until 2012.

Trends in the market for retail space

In our opinion, the outlook for retail space development is just as good as the outlook for the office space market. Just as in the case of offices, Cushman & Wakefield expect yields to decline by 25-50pp in 2011. The strong internal demand in Poland encourages foreign retailers to expand their scale of operations. In mid-2010, CBRE carried out a survey among 212 leading retailers concerning their business expansion plans. Poland was the runner-up in this ranking (following Germany). Among the companies surveyed, 33% are planning to open their stores in Poland (vs. 41% in Germany). What attracts them is the strength of the Polish economy and the shortage of high-quality retail space.

Retail space GLA/thousand inhabitants in Poland's top 8 urban agglomerations and in selected other cities in H1 2010



Source: Colliers International, Echo Investment S.A.

Some estimates concerning the supply of premium retail space in 2011 are conflicting. Thus, according to Cushman and Wakefield the supply will approach the 2010 level of 560 thousand m^2, while the estimate of CB Richard Ellis puts this figure at 800 thousand m^2. Estimates of retail space currently under construction are also divergent (850-1270 thousand m^2).

In general, in the next few years we should see increased supply of and demand for retail space, and in the next two years the landlords will have greater bargaining power. This general truth need not be confirmed in each and every local market. Among the cities where Echo Investment is planning to pursue projects, Koszalin has a lot of retail space relative to its population. The city has two shopping malls (*Forum* and *Emka*), whose total rental space is ca. 76 thousand m^2. In March, the city issued a building permit for another facility (*Na Fali*), whose planned floor area is some 60 thousand m^2. Therefore, a question arises whether with its 108 thousand inhabitants Koszalin has room for another shopping mall, which Echo Investment is hoping to build. The situation is similar in Słupsk, where the expansion of the Jantar shopping mall commenced in Novebmer.

External financing

Banks still have fairly restrictive lending criteria for commercial development projects. The standard practice is to require that the developer get a certain proportion of pre-let agreements. In the case of office space, renters are still strongly opposed to such agreements, which gives the developers no way out. In addition to prolonged red tape, problems with obtaining financing are the main obstacle for new projects. Big developers with enough own cash to launch projects could benefit the most from the current situation. We believe that Echo Investment’s current financial situation (strong cash, positive cash flows from operations) means there is no risk of project delay for financing reasons.

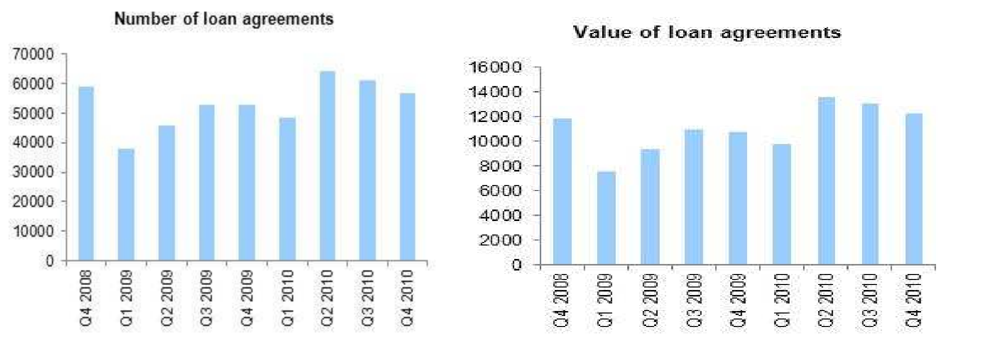
Housing Market

The factors that have a major impact on the market for residential properties include:

- the consumers' current purchasing power and confidence in future purchasing power,
- regulations governing mortgages, non-performing loan indicators,
- the government’s *Rodzina na swoim* mortgage subsidy program.

The forecasts for Poland's economic growth and the Poles' purchasing power suggest that an optimistic scenario for the housing market in 2011 is warranted. In its March report on the residential property market in Central and Eastern Europe, REAS picked Poland as the regional leader. Warsaw is perceived as the most attractive market of 2011, and other promising cities in Poland include Kraków, Wrocław, Gdańsk and Poznań. This good assessment reflects primarily the rapid economic growth forecasted for Poland in 2011.

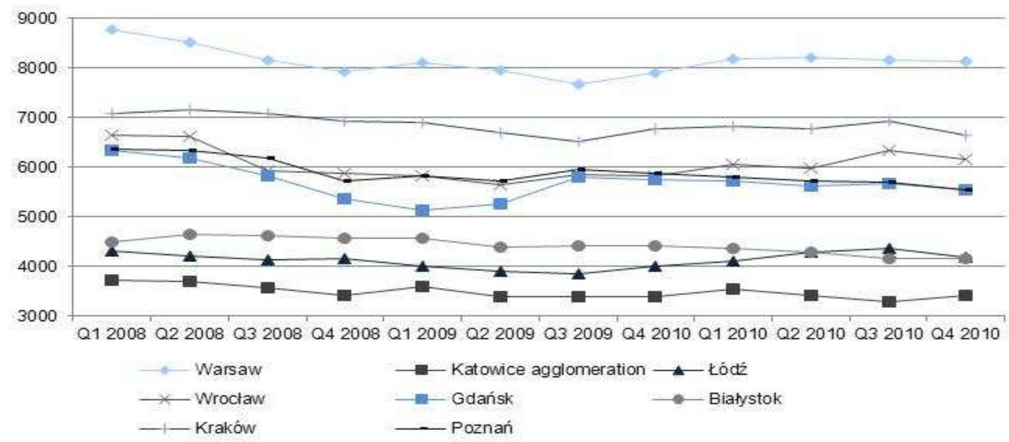
Number and value (PLN m) of new mortgages in Poland



Source: AMRON

The most recent data on mortgages suggest that the total value of mortgages granted in 2011 may be lower than in 2009. In Q4 2010, the value of new mortgage agreements declined by 6.5% q/q. Lending will further decelerate due to the Financial Supervision Authority's new Recommendation S, which was approved in January and which forces the banks to use tighter lending criteria. Another threat for the residential property market comes from the expected changes to the *Rodzina na swoim* subsidy program. In Q4 2010, ca. 25% of all mortgages were subsidized. The proposed changes will lower the program's cap on apartment prices or home construction costs (lowering the price-cost limit factor from 1.4 to 1.1). On the other hand, transactions in second-hand homes will no longer be eligible for subsidies (ca. 60% of all subsidized transactions so far). The "net" effect of these two changes for developer could be positive as well as negative. The developers with the highest stocks of low-priced apartments could benefit the most. An important question is when these changes come into force. We believe that the parliamentary elections that are approaching in the fall, and the resultant unwillingness to cut social expenses on the part of the politicians, could result in the subsidy program surviving in its current form for some time.

Average selling prices per square meter 2008-2010



Source: AMRON

In Q4 2010, the average price per square meter of a home declined in most Polish cities (by 1.8% on average). The only major urban area where prices increased was the Katowice agglomeration. In 2011, we expect the average price per square meter to stabilize at the current level for new homes. The high demand for small and medium apartments might lead to a slight increase in prices in this segment, and the reverse will be the case for big apartments, where supply remains much higher than demand, which will lead to pressure on prices.

Strategy

Investment plans

The Company has ambitious plans for the next five years. In 2011-2016, it is planning to build ca. 900 thousand square meters of homes, offices and retail space. For comparison, in 2009-2010 it only managed to build 74 thousand square meters of office space. Echo is planning to benefit from the expected improvements in the property market, and to pursue projects shelved during the crisis.

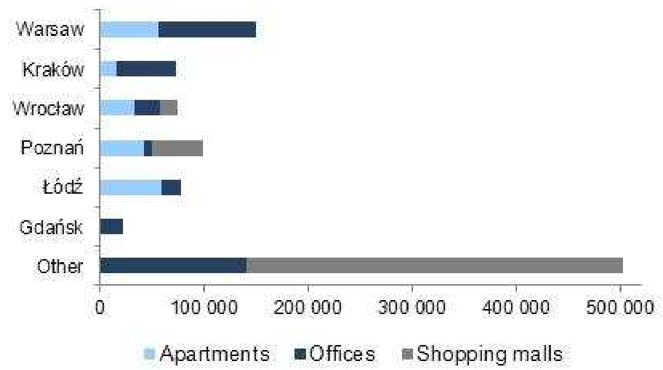
Projects set for completion according to the Management (m^2 of usable floor space or GLA)

Segment	through 2009	2010	2011F	2012F	2013F	2014F	2015F	2016F	2011-2016
Homes*	195 100		15 000	59 400	29 600	36 200	36 900		**177 100**
Offices	149 800	41 900	6 500	34 900	80 100	87 300	36 000	46 700	**291 500**
Hotels	81 300			7 100					**7 100**
Shopping centers	295 600		45 000	89 400	103 800	178 500		11 500	**428 200**
Total	**721 800**	**41 900**	**66 500**	**190 800**	**213 500**	**302 000**	**72 900**	**58 200**	**903 900****

Source: Echo Investment S.A.,

It is worth noting that the abovementioned investment plans do not include a number of projects whose timing or likelihood of completion are difficult to assess, such as office projects in Warsaw (*Jana Pawła II*) and in Kiev (*Dehtiarivska*), a shopping center in Lublin and further stages of residential projects in Poznań.

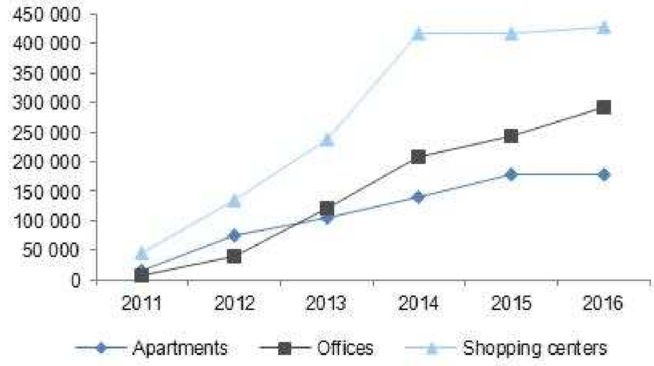
Investment plans by geography (m^2)



Source: Echo Investment S.A., the data exclude the following projects: Warsaw Jana Pawła II, Lublin Poligonowa, further stages of Poznań Naramowice.

Geographically, the Company will be present in most of the key markets in Poland in both the residential and the office segment. In the office segment, the Kiev project plays a major role (110 thousand m^2). Shopping mall projects concentrate on small and medium markets in cities with 60-110 thousand inhabitants (Bełchatów, Łomża, Kalisz, Słupsk, Koszalin). It is worth taking note of the Company's Warsaw projects, since Warsaw is now the most attractive market for office and residential investments, and the most important market for Echo. The current land bank will enable Echo to build 150 thousand square meters of offices and homes in Warsaw. Most of the Warsaw land was bought in 2010, and the Company is now working on obtaining zoning decisions. Since these proceedings are at early stages, we assume that most of the Warsaw projects will not be completed until after 2013.

2011-2016 investment plans for the current land bank (m^2)



Source: Echo Investment S.A.

Shopping centers

Shopping centers account for most of Echo's investment plans. By the end of 2014, the Company would like to rent 417 thousand square meters of retail space, which means that of 12 investment projects being considered, at least half would have to commence before the end of 2011.

Land acquired in 2010 and 2011

In 2010, the Company spent PLN 158m on land purchases. In addition, it signed a preliminary agreement for the purchase of a lot at Jana Pawła II street in Warsaw, now housing Hotel Mercure (for an approximate price of EUR 31m). On this lot, Echo Investment is planning to build an office building with rental space of ca. 53 thousand square meters. The final agreement will be signed by 31 December 2012, depending on the progress of administrative procedures and a due diligence study on the property.

On 22 March, the Company bought land in Kraków and Szczecin for a total of PLN 59.5m (lots which currently house hotels of the Orbis Group). The properties will not be transferred to the Company until July 2011. In Szczecin, the plans foresee expansion of the existing Galaxy mall, while in Kraków, Echo will build a residential building. The Company has not disclosed the details of these future projects. We believe that the expansion of the mall in Szczecin is a fairly safe undertaking (even if we take into account the need to demolish the hotel that occupies the land). The situation in Kraków is much more complex, because immediately after the transaction the hotel was entered onto the list of protected historical buildings. We do not believe the Company will be able to withdraw from the transaction. Since it will be unable to demolish the hotel, the most likely scenario is adapting or converting it.

Land purchases in 2010

Location	Area (m^2)	Price (PLN m)	Type	GLA/UFA (m^2)	Price per m^2 of GLA/PUM
Warsaw, Beethovena	34 300	70.0	Offices	60 000	1 167
Warsaw, Konstruktorska	73 600	63.0	Offices Apartments	33 800 44 000	810
Katowice, Kościuszki	54 000	19.0	Mall	49 100	387
Wrocław, Swobodna	10 400	5.6	Offices	24 400	230
Total	**172 300**	**157.6**		**211 300**	
Warsaw, Jana Pawła II *	3 200	121.0	Offices	53 000	2 283

*Source: Echo Investment, * preliminary agreement, purchase price is EUR 31m*

By buying land in the Mokotów district of Warsaw and in Wrocław, the Company expanded its land bank for the two most attractive office-space markets in Poland. The first stages of projects to be built in these locations will not be completed by late 2012 / early 2013, and further stages will take until 2016.

Shopping center in Lublin

In 2000, Echo Investment bought 113.5 hectares of land in the Górki Czechowskie area of Lublin for PLN 12.2m. For several years, it has been negotiating the construction of a shopping center on this land. In March this year, newspapers reported that an agreement has been reached, according to which Echo Investment will build a commercial facility and spend PLN 60m on changes in the transportation infrastructure. The city will in turn buy 70 hectares of land from the Company and establish a park there. The project will not start until the local council approves new zoning plan, which should take some 14 months; accordingly, we do not take the project into account in our valuation.

Asset divestment

Is the balance-sheet investment property valuation conservative?

In H2 2010, Echo Investment sold two office projects: *Athina Park* in Warsaw (Żoliborz) and *Avatar* in Kraków, posting gains of PLN 37.9m and PLN 15.0m, respectively (recognized in Q3 2010 and Q4 2010). The estimated yield on these transactions was 7.25%. At such cap rates, the profit recognized on these transactions is big enough to suggest that the Company is fairly conservative in its property valuations. Due to its extensive investment plans, the Company will most likely attempt to sell other investment properties (in March 2011, newspapers reported that it had plans to sell *Park Postępu* and *Galeria Echo* shopping mall in Pabianice). As the climate in the investment market improves and foreign investors become more interested in Polish properties, such an approach should be easier to pursue, which might entail further valuation gains. Since it is impossible to tell how high these potential profits will be, we are not factoring them into our valuation.

Possible scenarios for investment property divestment

In the upcoming quarters, the most likely development is the sale of the Warsaw *Park Postępu*, which was completed in H2 2010. All space in it has been rented out, and the terms of the agreement are just starting, which is something the potential buyers like. We believe that in the near future the Company will decide to sell other office properties as well. Despite the lost rental revenue, the overall impact on the valuation of Echo Investment would be positive.

As far as shopping centers are concerned, the Company is planning to sell the one in Pabianice. Although it is not a modern facility, it has the best location of all of Echo's malls in medium-sized cities (right in the city center). Therefore, it is quite likely that a buyer will be found quickly. Echo's other malls have less attractive locations and we would not expect it to sell these in the near future.

Tax strategy

In June and October 2010 as well as in January 2011, one of Echo Investment's subsidiaries (Barconsel Holdings) placed a subscription for investment certificates issued by FORUM XXIX FIZ, a closed investment fund. Barconsel paid for the certificates in kind, by contributing the companies for which it is a parent. We believe that these moves are aimed at reducing the tax burden (the tax will be paid when the fund is closed). The tax impact of the transfer of these companies to the fund was already visible in Q3-Q4 2010. We believe that in the future the Company will continue transferring its properties to closed investment funds. Our valuation conservatively ignores the potential tax gains of such an approach.

Asset Valuation

Completed Commercial Properties

Valuation

Echo does not disclose the fair values of the individual properties in its portfolio, but does report the combined value of all of its completed properties (shopping centers and office buildings), which at 31 December 2010 stood at PLN 2,807m (EUR 709m). Looking at this data, the capitalization rates estimated by the company for its portfolio look quite conservative.

Completed retail properties

Shopping Centers	City	GLA (m2)	Rental rates (EUR/m2)				Yield				Valuation (EUR m)			
			10*	11F	12F	13F	10*	11F	12F	13F	10*	11F	12F	13F
Galeria Echo	Bełchatów	9 300	9.0	9.2	9.4	9.5	10.5%	10.5%	10.3%	10.1%	9.5	9.7	10.1	10.5
Galeria Echo	Jelenia Góra	19 000	10.1	10.3	10.5	10.7	10.5%	10.5%	10.3%	10.1%	21.9	22.4	23.3	24.3
Galeria Echo	Pabianice	13 500	11.7	-	-	-	10.5%	-	-	-	18.1	-	-	-
Galeria Echo	Piotrków	17 400	10.1	10.3	10.5	10.7	11.5%	11.5%	11.3%	11.1%	18.3	18.7	19.4	20.2
Galeria Echo	Przemyśl	4 900	10.2	10.4	10.7	10.9	11.5%	11.5%	11.3%	11.1%	5.2	5.3	5.5	5.8
Galeria Echo	Radom	19 500	10.3	10.5	10.7	10.9	10.5%	10.5%	10.3%	10.1%	22.9	23.4	24.3	25.3
Galeria Echo	Tarnów	20 200	10.3	10.5	10.8	11.0	11.0%	11.0%	10.8%	10.6%	22.7	23.2	24.2	25.1
Alma	Warsaw	1 500	11.1	11.4	11.6	11.8	9.5%	9.3%	9.1%	8.9%	2.1	2.2	2.3	2.4
Galeria Echo	Kielce	26 000	12.5	12.8	13.1	13.3	7.5%	7.3%	7.1%	7.0%	52.0	54.6	57.4	59.4
Galaxy	Szczecin	41 700	23.2	23.7	24.2	24.7	7.4%	7.2%	7.1%	7.0%	156.8	164.7	170.6	176.5
Pasaż Grunwaldzki	Wrocław	48 700	22.8	23.3	23.8	24.2	7.3%	7.1%	7.0%	6.9%	182.2	191.4	198.5	205.4
Total		**221 700**									**511.6**	**515.6**	**535.7**	**554.8**

*Source: Echo, BRE Bank Securities; *our estimates*

According to our estimates, the combined book value of Echo Investment's retail properties is EUR 512m, and the carrying value of office properties is EUR 197m. Except for two office buildings in Warsaw and Szczecin completed in H2 2010, all these properties are 100% leased, and all are generating steady rental income. By the end of 2013, we expect the value of the currently completed properties to increase 12.3% (*Galeria Echo* in Pabianice and the *Park Postępu* offices in Warsaw will most likely be sold by then).

Completed office properties

Office Developments	City	GLA (m2)	Rental rates (EUR/m2)				Yield				Valuation (EUR m)			
			10*	11F	12F	13F	10*	11F	12F	13F	10*	11F	12F	13F
Babka Tower	Warsaw	6 200	13.4	13.7	14.0	14.3	7.5%	7.4%	7.3%	7.2%	13.3	13.8	14.3	14.8
Postępu 3	Warsaw	10 200	13.1	13.4	13.7	13.9	7.4%	7.3%	7.2%	7.1%	21.6	22.4	23.2	24.0
Park Postępu	Warsaw	33 800	15.8	16.1	-	-	7.4%	7.3%	-	-	86.5	89.6	-	-
Malta I	Poznań	6 700	13.7	14.0	14.3	14.6	7.9%	7.8%	7.7%	7.6%	13.9	14.4	14.9	15.4
Malta II	Poznań	15 190	14.8	15.1	15.5	15.8	7.9%	7.8%	7.7%	7.6%	33.7	35.4	36.6	37.8
Oxygen	Szczecin	14 100	15.4	15.7	16.0	16.4	8.9%	8.8%	8.7%	8.6%	28.5	30.2	31.2	32.2
Total		**86 190**									**197.5**	**205.8**	**120.3**	**124.3**

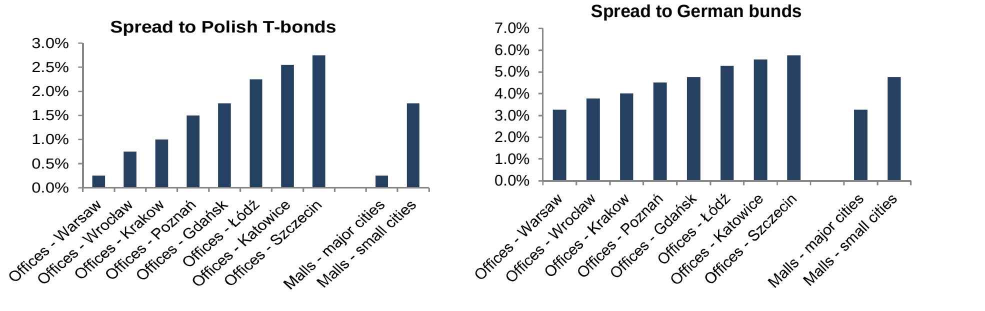
*Source: Echo, BRE Bank Securities; *our estimates*

Rental prices and capitalization rates

Our prediction about 12.3% appreciation in Echo's portfolio value is based on expectations of rental rate growth at an annual rate of 2% (in line with the inflation rate forecasted for the eurozone) combined with capitalization rate compression by an average 0.4-0.5 ppt for retail properties and 0.3 ppt for office properties, in the next three years. The cap-rate decline will be supported by a narrowing in the spread between market rates and 10-year T bond yields, facilitated by an increasing confidence in the real-estate market. We believe there is still room for such narrowing even as cap rates for Warsaw's prime commercial and retail locations hover around a mere 0.3%. One scenario which could keep Polish cap rates high would be sudden inflation and monetary tightening. The latest Bloomberg consensus forecasts suggest stabilization in Polish T-bond yields at 6.25-6.30% in the coming year at a 2011 NBP reference rate of 4.50%.

One may ask whether Polish Treasury yields are the best benchmark for property valuations. More than 90% of demand for Polish commercial properties comes from foreign investment firms. After a much sharper drop in capitalization rates in leading markets like London and Paris, Poland currently offers much better real-estate risk premiums than Western Europe. That Treasury yields are not always the best benchmark for capitalization rates is illustrated by the example of GTC's *City Gate* office complex in Bucharest, Romania, which has a capitalization rate about 0.3% lower than the Romanian 10Y Treasury yield. In case of *City Gate*, the primary value drivers were its attractiveness and location, a good tenant mix, and long-term rental contracts. Another possible benchmark for commercial properties in Poland are Eurobond yields; the euro is the rent currency for business tenants and the borrowing currency for investment properties. Relative to 10-year German bunds, the risk premium for Polish properties falls in the range of 3.3% to 5,8%.

Spread between capitalization rates in major Polish cities and 10Y T-bond yields (%)



Source: BRE Bank Securities, Bloomberg, Cushman & Wakefield

For Echo's existing portfolio (excluding *Park Postępu* and *Galeria Echo Pabianice*), a cap rate decrease by 0.1% means an increase in value by EUR 7.6m. Cap rate fluctuations will also have an increasing influence on the company's earnings as the portfolio of completed properties expands.

Planned Commercial Properties

We assume that Echo will complete a total of 338,000 square meters of commercial and residential spaces by the end of 2013, and this assumption is 28% less than the company's target for the period. The difference reflects the allowances we made for administrative bottlenecks (building permit issuance processes) and market-related factors (weak demand for office spaces and housing, market saturation with retail spaces in certain locations) which, we think, can lead to delayed completion of shopping centers in Słupsk and Koszalin, office projects in Łódź, Katowice, and Warsaw, and residential developments in Łódź, Krakow (*Bronowicka*), Warsaw (*Puławska, Konstruktorska*), and Poznań (*Wojskowa II*).

Completions assumed for valuation purposes (sqm)

Segment	2011F	2012F	2013F	Total
Residential Developments	15 000	40 075	18 467	**73 542**
Offices Developments	6 530	12 200	57 900	**76 630**
Hotels		7 100		**7 100**
Shopping Centers	45 000	35 400	100 800	**181 200**
Total	**66 530**	**94 775**	**177 167**	**338 472**

Source: BRE Bank Securities

Shopping Centers

We believe Echo will be able to complete most of its planned shopping centers as scheduled thanks to strong demand for retail spaces. The two projects which we believe may fail due to local market saturation and strong competition are in Słupsk and Koszalin.

Echo has only one shopping center in progress at the moment - the *Galeria Echo* in Kielce, scheduled for completion this August, which is already mostly leased out, and which, we assume, will start generating rental income in Q4 2011. As for valuation gains, we estimate roughly that the Kielce project can generate a profit margin of about 30% and net proceeds of PLN 200m. With a portion of the margin already recognized in previous periods, we predict tentatively that Echo will recognize a further PLN 30m or so before completion.

Retail spaces scheduled for completion between 2011 and 2013

Project	City	Start	Finish	GLA (m2)	CAPEX	Value	Profit	Margin
Galeria Echo II	Kielce	H1 2009	Q3 2011	45 000	464.1	658.7	194.6	30%
Galeria Olimpia	Bełchatów	Q2 2011	Q3 2012	21 100	129.9	152.4	22.5	15%
Outlet Park I	Szczecin	Q2 2011	Q4 2012	14 300	85.0	108.6	23.6	22%
Galeria Veneda	Łomża	H2 2011	H1 2013	15 400	106.0	133.2	27.2	20%
Pasaż Grunw. II	Wrocław	H2 2011	Q1 2013	16 600	153.3	220.1	66.9	30%
Galeria Amber	Kalisz	H1 2012	H2 2013	33 100	235.1	318.8	83.7	26%
Mundo I	Budapest	Q4 2011	H2 2013	35 700	361.0	469.4	108.4	23%
Total				**181 200**	**1 534.4**	**2 061.2**	**526.8**	**26%**

Source: BRE Bank Securities

The *Outlet Park* mall that Echo is planning to open in 2012 in Szczecin faces competition from a similar establishment by Neinver, owner of the "Factory" chain. The *Factory* outlet mall is designed as a one-story building housing 120 stores and offering 18,000 square meters of gross leasable area. It is not scheduled to be open before H2 2013, but if Echo's *Outlet Park* should be delayed beyond the Q4 2012 deadline it would be likely to lose to Factory which is a leading outlet chain in Poland.

Galeria Amber is going to be the first modern shopping center in Kalisz (at the moment, the city has only one anchored retail establishment with 32,000 sqm GLA). Its big advantage is a location close to the bus terminal and train station and near an exit road for the nearby city of Ostrów Wielkopolski. The project (33,000 sqm) will drive the local ratio of retail space per 1000 population by 300 sqm, but the Kalisz market has a relatively low saturation rate at the moment. Echo hopes to obtain a building permit for *Galeria Amber* in Q3 2011, and we expect construction work to start in spring 2012 at the earliest.

A building permit for the Galeria Veneda project in Łomża is pending. Łomża (population of 63,000) lacks a major shopping center and has a small supply of modern retail spaces. There are plans to build a rival 46,000 sqm shopping center there called *Galeria Narew* which, however, has not been able to get off the ground to date because of protests by the local community who are fighting the building permit in court. We predict that the building permit procedure for *Galeria Veneda* will take at least until H2 2011, and we assume that the shopping center will be finished in 2013.

As for the extensions to the *Pasaż Grunwaldzki* shopping center in Wrocław, even though the city has the second highest rate of retail-space saturation after Poznań, the enlargement of an existing retail establishment entails much less risk than a greenfield project. If Echo manages to gather all the necessary permits and approvals by the end of the year, the 16,600 sqm of additional spaces should be ready to open in 2013.

Finally, permits for the *Mundo* shopping and entertainment center in Budapest, Romania, are also pending, and given the involvement of local authorities (*Mundo* is going be home to the government of Budapests's Zuglo district), the project has a good chance of being finished on time.

Office Developments

For the purposes of valuation, we assume that Echo will complete five office projects with a combined GLA of 76,630 sqm by 2013. We decided to count out the projects planned in Łódź and Katowice where there are a lot of vacancies and where other developers also want to build offices.

Office spaces scheduled for completion between 2011 and 2013

Project	City	Start	Finish	GLA (m2)	CAPEX	Value	Profit	Margin
Malta III	Poznań	Oct.2010	Dec.2011	6 530	37.8	56.5	18.7	33%
Aquarius I	Wrocław	H1 2011	H2 2012	12 200	73.5	114.7	41.1	36%
Opolska I	Krakow	H2 2011	H1 2013	19 200	129.1	193.9	64.7	33%
Konstruktorska I	Warsaw	H1 2012	H2 2013	16 900	115.2	172.9	57.7	33%
Tryton	Gdańsk	H2 2011	H2 2013	21 800	137.5	215.7	78.2	36%
Total				**76 630**	**493.2**	**753.6**	**260.4**	**35%**

Source: BRE Bank Securities

Echo is slated to complete only one office project this year, namely the last stage of the *Malta Office Park* in Poznań which currently has a tenancy rate of ca. 40%. In 2012, we expect the company to complete stage one of the *Aquarius* complex in Wrocław. The main obstacle that stands in the way of Echo's building schedule are administrative procedures (all of the projects listed in the table above are pending some or other type of permit) which, for example, are the reason behind the long deadline for an office park in Krakow which could otherwise be easily finished in 2012. For the same reason, we do not think Echo will be able to complete its target 120,000 sqm of office spaces by the end of 2013. We assume that the company will obtain building permits for, and start construction of, three office projects this year.

Residential Properties

We assume for valuation purposes that Echo will complete ten multi-family housing developments and finish five single-family and terrace house projects by the end of 2013. Five of the multi-family projects (*Klimt House*, *Kasztanowa Aleja I*, *Dom Pod Słowikiem*, *Przy*

Słowiańskim Wzgórzu, *Pod Klonami I*) started or resumed in 2010, and are already between 8% and 34% sold. As for the single-family housing projects (ready-to-build sites for sale), two of them started in Q4 2010; Echo has already sold about 25% of the sites available as part of the *Osiedle Południowe I* project, and has just announced sales in the *Rezydencje Leśne* estate. In addition to the new developments, there are still about 10% of flats and sites available for sale in Echo's older projects in Poznań (*Naramowice - Rynek*) and Kielce (*Bilcza II*). We assume they will be sold by the end of the first half of 2011.

Residential projects scheduled for completion in 2011-2013

Project	City	Start	Finish	Floor area/ Area	Flats/ Sites	CAPEX/ sqm (PLN)	Value/ sqm (PLN)	Profit (PLN m)	Margin
Flats									
Klimt House	Warsaw	H1 2008	H1 2011	5 100	61	8 655	11 961	16.9	28%
Kasztanowa Aleja I	Poznań	03.2010	10.2011	8 600	141	5 116	7 174	17.7	29%
Kirkor *	Warsaw	H1 2011	H1 2011	1 300	26	3 000	10 077	9.2	70%
Dom Pod Słowikiem	Krakow	09.2010	Q2 2012	5 200	85	4 804	7 365	13.3	35%
Przy Słowiańskim Wzgórzu	Wrocław	H1 2010	04.2012	14 200	208	4 661	6 908	31.9	33%
Pod Klonami I	Poznań	05.2010	H1 2012	9 300	145	4 153	5 495	12.5	24%
Okopowa I	Łódź	H1 2011	Q4 2012	11 375	183	4 219	5 086	9.9	17%
Pod Klonami II	Poznań	H2 2011	H1 2013	4 500	35	3 551	4 733	5.3	25%
Tyniecka/Czarodziejska	Krakow	H2 2011	H1 2013	4 600	51	10 835	13 043	10.2	17%
Korzeniowskiego	Krakow	H2 2011	H1 2013	3 100	40	5 716	7 419	5.3	23%
Grota Roweckiego I	Wrocław	H1 2012	H2 2013	6 267	99	5 086	6 335	7.8	20%
Total				**73 542**	**1 074**			**139.9**	
Building Sites									
Rezydencje Leśne	Warsaw	Q4 2010	Q4 2011	52 900	32	608	849	12.7	28%
Osiedle Południowe I	Dyminy	Q4 2010	Q4 2011	60 700	69	126	159	2.0	21%
Osiedle Południowe II	Dyminy	Q4 2011	Q4 2012	49 700	56	129	159	1.5	19%
Osiedle Południowe III	Dyminy	Q4 2012	Q4 2013	49 700	57	131	159	1.4	17%
Sołacz	Poznań	Q1 2012	Q2 2013	13 700	13	501	803	4.1	38%
Total				**226 700**	**227**			**21.7**	

Source: BRE Bank Securities.; Echo wants to have the titles to the flats, which were completed in 2003, converted from perpetual usufruct to full ownership, and sell them by the end of 2011.

Echo has an objective of completing 104,00 sqm of residential spaces by the end of 2013. For the purposes of our valuation, we assume that certain projects included in the company's schedule will be delayed, and we omit certain other projects altogether. Further, we assume that 30-40% of the units developed in each project will be sold by the time of completion, and the rest will be sold within a year from completion.

Most of the flats scheduled to be built in the next three years can be characterized as mid-range housing priced between PLN 5,500 and 7,500 per square meter. The two high-end projects are the *Klimt House* in Warsaw's Mokotów district, and *Czarodziejska* in Krakow.

Echo Investment has one hotel in the pipeline at the moment, a Novotel in Łódź, set for completion in H1 2013 and expected to generate a profit of PLN 7.3m and a margin of 16%.

Valuation of Echo Investment

We used two methods to estimate Echo's value: the Net Asset Value approach and relative valuation. We assigned a higher, 80% weight to the NAV methodology because it takes a more complete account of Echo's unique property portfolio and investment plans. The two methods yielded a per-share price target of PLN 6.17, suggesting 24.9% upside potential warranting a buy rating.

Valuation Summary

(PLN)	Valuation
NAV	5.94
Relative valuation	4.71
Value per share	5.69
9M cost of equity	8.5%
Target price	**6.17**

Source: BRE Bank Securities

Valuation Based On Net Asset Value

In the NAV approach, we assumed that Echo's value is equivalent to the present value of its equity in 2013, when the company hopes to complete all the projects currently in progress or pending building permits. An attempt at assessing the chances of punctual completion and success of projects extending beyond 2013 would have too wide a margin of error.
The key variables that influence NAV valuation include project completion timelines, assumptions with respect to future rental rates, capitalization rates for investment properties, building costs, home sales prices and timing, and currency exchange rates.

Valuation Assumptions

- Echo's office portfolio will increase by 76,600 sqm, and the retail property portfolio will expand by 181,200 sqm, between 2010 and 2013;
- Rental rates rising at an annual rate of 2%.
- Margin averages assumed at 34.6% for office properties and 25.6% for retail properties;
- We expect Echo to sell the *Galeria Echo Pabianice* shopping center in 2011 and the *Park Postępu* office complex in 2012 (with a conservative assumption of zero sales profits);
- Capitalization rates for currently completed properties will decrease by 0.3-0.5 ppt (depending on the property) by 2013;
- 73,500 sqm of residential spaces and 226,700 of building sites will be delivered by 2013;
- Average margin on housing sales assumed at 26.6%;
- EUR/PLN exchange rate at the end of each forecast year at the 2010 level of 3.96.

NAV Valuation

(PLN m)	2010	2011F	2012F	2013F
Equity	1 874.6	2 071.0	2 481.9	3 121.2
Discount rate	8.7%	8.8%	8.4%	8.3%
Discount factor	100.0%	93.8%	86.5%	79.9%
Equity (PV)	1 874.6	1 942.5	2 147.0	2 493.3
Number of shares	420.0	420.0	420.0	420.0
Equity per share (PLN)	4.46	4.62	5.11	**5.94**
WACC	**8.7%**	**8.8%**	**8.4%**	**8.3%**
Cost of debt	**7.3%**	**7.3%**	**7.3%**	**7.3%**
Risk-free rate	6.3%	6.3%	6.3%	6.3%
Credit risk premium	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%
Net debt / EV	47.4%	46.0%	53.3%	55.9%
Cost of equity	**11.3%**	**11.3%**	**11.3%**	**11.3%**
Credit risk premium	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0

Source: BRE Bank Securities

Relative Valuation

A comparison of Echo with its Polish and international peers form the commercial real estate sector based on forward price-to-book ratios shows that the Polish firm is trading at a premium to the peer group on 2010-2012 multiples. In 2013, the premium to Polish peers disappears, while a discount appears in Echo's P/BV ratio relative to foreign peers. Echo's valuation premium can be explained with greater potential for cap rate compression in the CEE region and better growth prospects.

We assigned equal weights to both peer groups and we thought the years 2011 through 2013 should have higher weights in the valuation than 2010 because they better reflect the growth potential of Echo and its peers. The nine-month price target yielded by relative valuation figures to PLN 4.71/share.

Relative Valuation

	2010 P/BV	2011E P/BV	2012E P/BV	2013E P/BV
GTC	1.18	1.02	0.89	0.77
BBI Development	0.96	0.91	0.81	0.63
Median	**1.07**	**0.97**	**0.85**	**0.70**
Weight	**50%**	**50%**	**50%**	**50%**
Atrium European Real Estate	0.81	0.78	0.75	-
CA Immobilien Anlagen	0.74	0.66	0.63	0.56
Conwert Immobilien Invest SE	0.75	0.74	0.72	0.75
Deutsche Euroshop AG	1.08	1.03	1.00	0.99
Immofinanz AG	0.72	0.64	0.63	0.58
IVG Immobilien AG	0.66	0.62	0.56	0.58
Klepierre	1.21	1.14	1.07	1.07
Segro	0.88	0.89	0.84	0.79
Unibail Rodamco SE	1.33	1.18	1.10	1.01
Sparkassen Immobilien AG	0.74	0.69	0.63	0.60
Median	**0.78**	**0.76**	**0.74**	**0.75**
Weight	**50%**	**50%**	**50%**	**50%**
Median	**0.92**	**0.86**	**0.79**	**0.73**
Echo Investment	1.11	1.00	0.84	0.66
Premium	19.8%	16.0%	5.4%	-8.4%
Implied price				
Median	0.92	0.86	0.79	0.73
Year weight	10%	30%	30%	30%
BVPS	4.46	4.93	5.91	7.43
Value per share (PLN)	**4.71**			

Source: BRE Bank Securities

Income Statement

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
Revenue	**373.7**	**438.2**	**431.4**	**427.8**	**400.1**	**603.2**	**736.8**
change %	*12.1%*	*17.2%*	*-1.5%*	*-0.9%*	*-6.5%*	*50.8%*	*22.1%*
incl. space rentals	333.8	249.1	306.5	317.2	326.1	357.8	469.0
incl. housing sales	32.0	174.7	113.4	81.0	74.0	245.4	222.5
incl. hotels and other	7.9	14.4	11.5	29.6	0.0	0.0	0.0
COGS	-185.9	-177.8	-167.7	-174.8	-142.4	-267.4	-336.5
Gross profit	**187.8**	**260.4**	**263.7**	**252.9**	**257.6**	**335.9**	**400.2**
gross profit margin	*50.3%*	*59.4%*	*61.1%*	*59.1%*	*64.4%*	*55.7%*	*54.3%*
Gross profit: space rentals	171.3	170.1	225.5	227.7	235.8	261.7	341.6
gross profit margin	*51.3%*	*68.3%*	*73.6%*	*71.8%*	*72.3%*	*73.1%*	*72.8%*
Gross profit: housing sales	12.4	86.1	34.6	16.5	21.9	74.2	51.3
gross profit margin	*38.8%*	*49.3%*	*30.5%*	*20.4%*	*29.6%*	*30.2%*	*23.0%*
Selling expenses	-21.5	-21.3	-18.0	-21.2	-24.4	-28.0	-32.2
G&A expenses	-49.0	-48.3	-37.2	-40.4	-43.6	-47.1	-50.8
Other net operating income/expenses	14.8	22.8	10.6	13.7	0.0	0.0	0.0
EBIT ex. revaluation	**132.2**	**213.6**	**219.0**	**205.1**	**189.7**	**260.8**	**317.2**
Investment property valuation	250.3	458.1	-22.9	-90.4	172.2	415.4	684.9
Proceeds from property sales	29.6	-0.1	0.0	52.9	0.0	0.0	0.0
EBIT	**412.1**	**671.7**	**196.1**	**167.6**	**361.9**	**676.2**	**1 002.1**
change %	*8.2%*	*63.0%*	*-70.8%*	*-14.6%*	*116.0%*	*86.8%*	*48.2%*
EBIT margin	*110.3%*	*153.3%*	*45.5%*	*39.2%*	*90.5%*	*112.1%*	*136.0%*
Financial income/expenses	-12.2	-526.3	-66.5	-30.0	-119.4	-168.9	-212.9
Subsidiary revaluations	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Pre-tax profit	**399.8**	**145.4**	**129.6**	**137.5**	**242.5**	**507.3**	**789.2**
Tax	-75.4	-41.2	-25.9	9.2	-46.1	-96.4	-149.9
Minority interests	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Net profit	**324.4**	**104.2**	**103.7**	**146.9**	**196.4**	**410.9**	**639.2**
change %	*16.2%*	*-67.9%*	*-0.5%*	*41.6%*	*33.7%*	*109.2%*	*55.6%*
margin	*86.8%*	*23.8%*	*24.0%*	*34.3%*	*49.1%*	*68.1%*	*86.8%*
D&A expenses	5.7	4.8	4.4	2.1	5.1	5.1	5.2
EBITDA	**417.8**	**676.5**	**200.5**	**169.6**	**367.0**	**681.4**	**1 007.3**
change %	*8.2%*	*61.9%*	*-70.4%*	*-15.4%*	*116.4%*	*85.6%*	*47.8%*
EBITDA margin	*111.8%*	*154.4%*	*46.5%*	*39.7%*	*91.7%*	*113.0%*	*136.7%*
Shares at year-end (millions)	420.0	420.0	420.0	420.0	420.0	420.0	420.0
EPS	0.77	0.25	0.25	0.35	0.47	0.98	1.52
CEPS	0.79	0.26	0.26	0.35	0.48	0.99	1.53
ROAE	*23.9%*	*6.6%*	*6.1%*	*8.1%*	*10.0%*	*18.0%*	*22.8%*
ROAA	*10.5%*	*2.7%*	*2.4%*	*3.4%*	*4.2%*	*7.5%*	*9.1%*

Balance Sheet

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
ASSETS	**3 442.8**	**4 198.0**	**4 270.9**	**4 488.8**	**4 817.9**	**6 207.8**	**7 777.2**
Fixed assets	**2 460.6**	**3 281.4**	**3 548.3**	**3 562.2**	**3 794.0**	**5 390.6**	**7 336.3**
Property, plant and equipment	20.0	19.9	18.6	25.4	25.6	25.7	25.9
Investment properties	2404.4	3192.6	3485.7	3519.9	3751.6	5348.0	7293.5
Investments in associates	11.0	24.1	0.3	0.5	0.5	0.5	0.5
Deferred tax assets	24.7	42.5	42.5	15.1	15.1	15.1	15.1
Other	0.6	2.4	1.1	1.3	1.3	1.3	1.3
Current assets	**982.2**	**916.5**	**722.7**	**926.6**	**1 023.9**	**817.2**	**440.9**
Inventories	492.1	486.7	420.5	457.1	524.1	491.3	434.4
Trade debtors and other	16.4	56.7	96.4	44.9	44.9	44.9	44.9
Loans	26.8	0.6	0.1	1.0	1.0	1.0	1.0
Derivative instruments	6.7	0.4	1.6	0.8	0.8	0.8	0.8
Cash and cash equivalents	394.0	321.8	169.1	378.8	409.1	235.1	-84.3
Other	46.2	50.4	35.0	44.0	44.0	44.0	44.0

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
EQUITY AND LIABILITIES	**3 442.8**	**4 198.0**	**4 270.9**	**4 488.8**	**4 817.9**	**6 207.8**	**7 777.2**
Equity	**1 519.1**	**1 640.6**	**1 733.7**	**1 874.6**	**2 071.0**	**2 481.9**	**3 121.2**
Minority interests	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Long-term liabilities	**1 545.7**	**2 129.2**	**2 049.7**	**2 106.1**	**2 238.8**	**3 217.7**	**4 147.9**
Loans	1 230.6	1 589.2	1 664.1	1 746.1	1 846.1	2 746.1	3 546.1
Derivative instruments	0.0	174.1	2.7	10.3	10.3	10.3	10.3
Deferred tax allowance	232.8	275.5	287.8	240.9	273.7	352.6	482.7
Other	82.3	90.4	95.1	108.7	108.7	108.7	108.7
Current liabilities	**378.0**	**428.2**	**487.5**	**508.2**	**508.2**	**508.2**	**508.2**
Loans	30.3	125.0	176.8	325.2	325.2	325.2	325.2
Derivative instruments	0.0	65.8	164.0	8.6	8.6	8.6	8.6
Trade creditors	116.1	98.9	65.9	102.2	102.2	102.2	102.2
Advances received	192.1	111.4	54.6	18.6	18.6	18.6	18.6
Other	39.5	27.0	26.3	53.6	53.6	53.6	53.6
Debt	1 260.9	1 714.2	1 840.9	2 071.3	2 171.3	3 071.3	3 871.3
Net debt	866.8	1 392.4	1 671.8	1 692.5	1 762.2	2 836.2	3 955.6
(Net debt / Equity)	*57.1%*	*84.9%*	*96.4%*	*90.3%*	*85.1%*	*114.3%*	*126.7%*
(Net debt / EBITDA)	2.1	2.1	8.3	10.0	4.8	4.2	3.9
BVPS	3.6	3.9	4.1	4.5	4.9	5.9	7.4

Cash Flows

(PLN m)	2007	2008	2009	2010	2011F	2012F	2013F
Cash flows from operating activities	**49.5**	**33.7**	**185.0**	**118.3**	**114.5**	**281.2**	**359.4**
Net profit	324.4	104.2	103.7	146.8	196.4	410.9	639.2
D&A expenses	5.7	4.8	4.4	2.1	5.1	5.1	5.2
Working capital	-53.1	-75.6	-9.5	-6.8	-67.0	32.7	56.9
Investment property valuation	-271.6	-225.1	6.2	-68.8	-172.2	-415.4	-684.9
Other	44.2	225.3	80.3	45.1	152.1	247.9	343.1
Cash flows from investing activities	**-172.3**	**-320.9**	**-393.4**	**-62.5**	**-64.7**	**-1 186.3**	**-1 265.9**
Fixed asset divestment (purchases)	-80.4	-272.9	-3.4	-27.0	-5.3	-5.3	-5.3
Sales of investment properties	45.6	0.0	0.0	248.4	428.1	0.0	0.0
Property purchases	-128.9	-53.4	-358.4	-187.1	-487.5	-1 181.0	-1 260.6
Other	-8.6	5.4	-31.6	-96.7	0.0	0.0	0.0
Cash flows from financing activities	**225.9**	**191.6**	**63.3**	**159.9**	**-19.4**	**731.1**	**587.1**
Stock issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	297.9	280.7	148.7	270.5	100.0	900.0	800.0
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest paid	-71.5	-89.7	-91.1	-110.5	-119.4	-168.9	-212.9
Other	-0.5	0.6	5.7	-0.1	0.0	0.0	0.0
F/X differences	-6.1	23.3	-7.6	-5.9	0.0	0.0	0.0
Change in cash	**97.0**	**-72.3**	**-152.7**	**209.7**	**30.3**	**-174.0**	**-319.4**
Cash at period-end	394.0	321.8	169.1	378.8	409.1	235.1	-84.3
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-76.3	44.8	-169.0	126.2	58.0	-892.8	-891.8
(CAPEX / Sales)	*56.0%*	*74.5%*	*83.9%*	*50.1%*	*123.2%*	*196.7%*	*171.8%*

Market multiples

	2007	2008	2009	2010	2011F	2012F	2013F
P/E	6.4	19.9	20.0	14.1	10.6	5.0	3.2
P/CE	6.3	19.0	19.2	13.9	10.3	5.0	3.2
P/BV	1.37	1.26	1.20	1.11	1.00	0.84	0.66
P/S	5.6	4.7	4.8	4.9	5.2	3.4	2.8
FCF/EV	*-2.6%*	*1.5%*	*-5.7%*	*4.3%*	*2.0%*	*-30.4%*	*-30.3%*
EV/EBITDA	7.0	4.3	14.7	17.3	8.0	4.3	2.9
EV/EBIT	7.1	4.4	15.0	17.6	8.1	4.4	2.9
EV/S	7.9	6.7	6.8	6.9	7.4	4.9	4.0
DYield	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Price (PLN)	**4.94**						
Shares at year-end (millions)	420.0	420.0	420.0	420.0	420.0	420.0	420.0
MC (PLN m)	2074.8	2074.8	2074.8	2074.8	2074.8	2074.8	2074.8
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
EV (PLN m)	2 941.7	3 467.2	3 746.5	3 767.3	3 836.9	4 911.0	6 030.4

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

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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