7 January 2013

Periodic Report

BRE Bank Securities

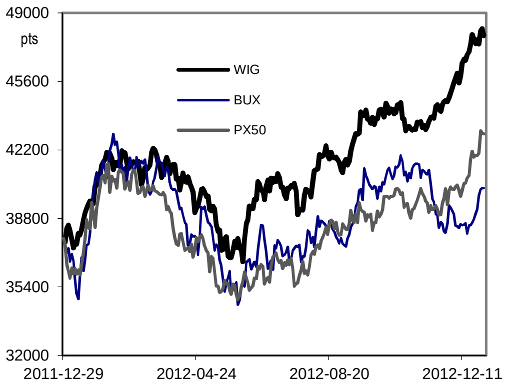
Equity Market
Macroeconomics

Monthly Report

January 2013

WIG	**47,888**
Average 2013E P/E	12.8
Average 2014E P/E	11.1
Avg daily trading volume	PLN 731m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

With Germany showing no signs of an impending recovery, and weak December data expected of the Polish economy, GDP forecasts for 2013 are set for downward revisions, creating pressure on the zloty. Against this backdrop, stock markets are likely to enter a phase of consolidation/ correction, and face increased volatility. Our medium-term outlook on stock markets remains bullish.

Company Outlook

Financial Industry. We remain positive on banks that are trading at discounts (PKO, BZW, MIL, GNB), even despite their relatively high sensitivity to economic slowdown. Led by the economic recovery expected to commence in the second half of 2013, we believe the profitability of these banks is set for a rebound later in the year.

Gas & Oil. Oil refiners are experiencing a seasonal contraction in margins, which, however, may prompt some investors to take profits. In case of Lotos, a weaker zloty provides an additional incentive. With this in mind, PKN Orlen is looking relatively better.

Power Utilities. Sentiment toward utilities is improving, but we stand by our advice to overweight distribution-oriented companies (Tauron, Enea) ahead of what we expect to be successful earnings seasons, and underweight producers who incur high fixed costs.

Coal & Metals. The Chinese steel market is showing signs of recovery, which, combined with improving PMI data, should provide support to JSW shares. In January, the Company faces a cross-industry strike planned by the Solidarity trade union across the Upper Silesia region.

Manufacturers. Our top buy picks in the manufacturing sector include Amica, AC SA, Fasing, Impexmetal, Mercor, SecoWarwick, Selena, Relpol, and Zetkama. Among Ukrainian stocks, we would draw investors' attention to the most undervalued grain producers like Agroton, Astarta, and KSG Agro.

Construction. Small construction stocks remain grossly undervalued, while larger companies look much less attractive. We remain bullish on ERB, UNI, ULM, PJP, PRM, INK, MSZ, RMK, TSG, ATR, ELT.

Real-Estate Developers. We see the most upside potential in commercial developers with healthy balance sheets and prospects for earnings growth in 2013 (Echo Investment, P.A. Nova). After a strong Q4 2012, residential developers are set for slowing sales in 2013.

Ratings. As of the date of this Monthly Report, we are downgrading our investment ratings for Kernel (Reduce), KGHM (Accumulate), Lotos (Reduce), PKN Orlen (Hold), PZU (Hold), and ZUE (Hold).

Equity Market

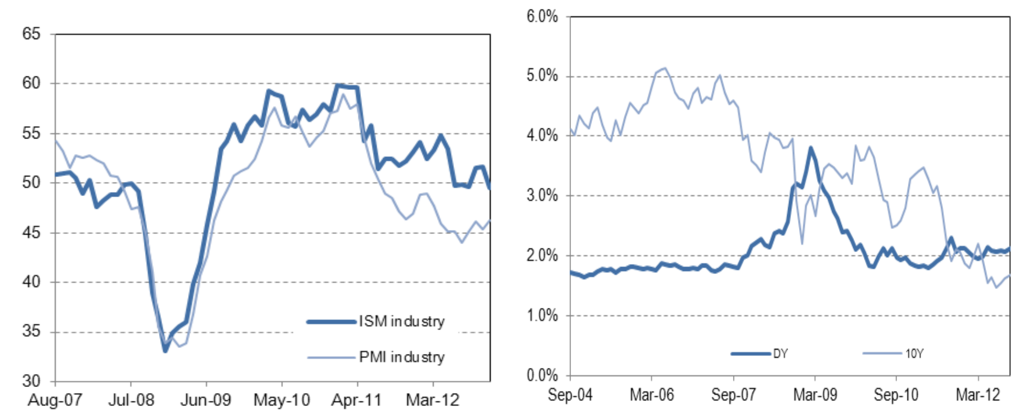
December marked a period of profit taking for investors holding portfolios with European and Asian stocks, particularly Chinese companies so far operating in a weak market. The US equity market was the only major one that did not see considerable growths, which may be attributed to the anxiety of investors, uncertain about the outcome of the fiscal cliff negotiations. The consensus was reached just in time, with markets reporting growths at the beginning of January. Maybe they responded overenthusiastically, though? The consensus reached by US Democrats and Republicans postpones the introduction of automatic spending cuts by two months. The following weeks will mark a debate that will not help the US market, as was the case in December. In Poland, macroeconomic data after October and November, when the number of working days was higher than a year ago, were not particularly impressive, but they did not disappoint, either. In December 2012 the number of working days was lower by 2 (y/y), which would yield poor data before seasonal adjustments. This, combined with a lack of major improvement in Germany, should lead to the downgrade of GDP forecast consensus for 2013. We are therefore expecting that the following weeks will see a consolidation/correction of indexes and the market will show more volatility. We remain optimistic in the medium-term perspective. Inflows to equity funds will positively impact indexes both in Poland and globally. In the following weeks banks will drastically cut interests on deposits, accelerating this process.

Fiscal cliff to determine investors' moods, no solution so far

As anticipated, Republicans and Democrats reached a consensus on the so-called 'fiscal cliff' before the end of the year, however the nature of agreement (delaying automatic spending cuts by 2 months) does not eliminate the uncertainty factor. This may continue to deter companies from investing. The rebound of ISA expected by us once investors find their way in the new business environment should also be delayed. The deal is of a temporary nature only and it envisions raising tax on the rich, expiry of 2% payroll tax on earnings up to 114 thousand dollars and increasing tax on capital gains (from 20 to 25%). The deal does not represent a systemic tax reform, as expected, nor does it provide consensus on spending cuts or another crucial issue - raising the federal debt ceiling. The authorities estimate that the debt limit binding today is likely to be crossed in two months. Changes agreed in the process of negotiations will depress demand by less than 1%, which met with a positive reaction of investors.

There are weeks of negotiations still ahead of us, though, and their outcome remains unknown. It should be expected that the parties will finally strike a deal and the dimension of spending cuts will be adjusted to the current economic situation. Nevertheless, in the short term investment risk should go up translating into more conservative moods of investors. There is an additional risk that rating agencies may consider the level of cuts as insufficient and downgrade ratings for the USA.

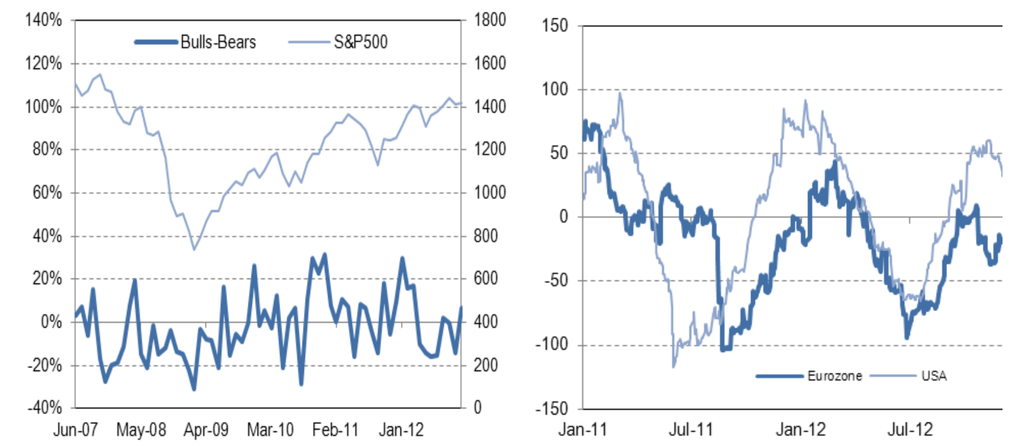
ISM Manufacturing and PMI for industry in the Euro Zone (L) yield on 10Y bonds in the US vs. DY for S&P500 (R)



Source: Bloomberg

Both awaiting the consensus on the fiscal cliff and the agreement itself supported optimistic moods of investors. As of 31 December the difference between optimists and pessimists for S&P500 amounted to 14.2 ppts. This is not an extreme level of optimism (usually higher by 30 ppts), however in the short term it should urge more prudence. The S&P500 VIX futures index dropped below 15 points. Indexes of surprise prepared by Citibank confirm that the expectations of investors are neither conservative nor overly optimistic. In the middle and long time horizon the scenario for stock is still optimistic. The US economy is on a path of growth, the Fed will maintain liquidity for at least several months to come, and the valuations of companies are attractive.

Bulls and bears for S&P500 and indexes of surprise prepared by Citibank

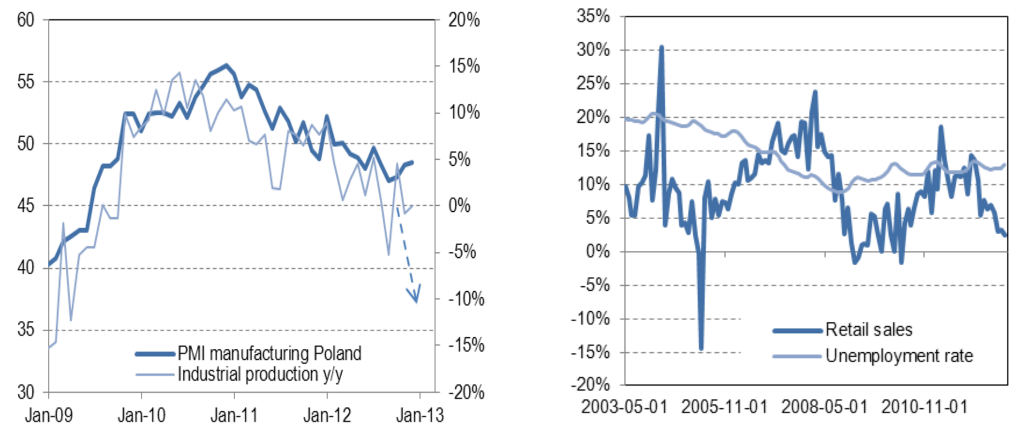


Source: Bloomberg

Polish economy slowing down

October and November data have been announced and the two months had a higher number of working days than a year ago, which improved macroeconomic data (without seasonal adjustments) compared to an analogical period last year. December saw a reversal of this trend (-2 working days), which, according to our macroeconomists, may lead to 10% decline in industrial production y/y. Investors will be provided with a series of weak data, so the consensus for 2013 GDP growth should continue to fall.

PMI for Polish industry vs. industrial production growth (L) and unemployment rate vs. retail sales (R) in Poland



Source: Central Statistical Office (GUS)

Polish Manufacturing PMI is still below 50 points (48.5), however it looks strong compared to the indexes of the Euro Zone or other CEE countries (December saw several percent decline in Czech Republic and Hungary – 46.0 points and 48.9 points, respectively). In addition, real macroeconomic data on Polish economy (industrial production, job market, retail sales, GDP) show greater than implied by current PMI level economic cooling. Does it mean that the following weak will usher in a dramatic plunge of Polish PMI? This would come as a major disappointment to investors.

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Previous ratings issued for companies re-rated as of the date of this Monthly Report:

KERNEL

rating	Hold	Hold	Reduce	Hold	Hold	Reduce
rating day	2012-06-05	2012-08-09	2012-08-31	2012-11-06	2012-12-10	2013-01-07
price on rating day	58.00	72.30	68.10	63.70	66.00	65.65
WIG on rating day	37287.97	41254.00	41077.44	43567.60	45538.45	47888.16

KGHM

rating	Buy	Buy	Accumulate
rating day	2012-09-12	2012-12-10	2013-01-07
price on rating day	142.90	176.10	193.50
WIG on rating day	43010.58	45538.45	47888.16

LOTOS

rating	Accumulate	Hold	Reduce
rating day	2012-09-27	2012-12-10	2013-01-07
price on rating day	30.06	41.50	40.60
WIG on rating day	43462.14	45538.45	47888.16

PKN ORLEN

rating	Buy	Hold
rating day	2012-09-13	2013-01-07
price on rating day	42.80	51.30
WIG on rating day	42982.12	47888.16

PZU

rating	Hold	Accumulate	Hold
rating day	2012-07-04	2012-12-04	2013-01-07
price on rating day	327.00	397.00	423.00
WIG on rating day	40788.16	45293.43	47888.16

ZUE

rating	Accumulate	Hold	Hold	Accumulate	Hold
rating day	2012-08-06	2012-10-05	2012-11-21	2012-12-10	2013-01-07
price on rating day	6.15	7.25	6.02	5.74	6.47
WIG on rating day	40594.36	43840.23	44438.93	45538.45	47888.16

List of abbreviations and ratios contained in the report.
EV *– net debt + market value (EV – economic value)*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
PBA *– Profit on Banking Activity*
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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BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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