Monthly Macroeconomic Analysis
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Polish Market Review

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Polish economy shows strength amid global uncertainty

Macroeconomic data published in Q4 2010 show that economic recovery in Poland is continuing apace. The outlook for 2011 is optimistic as well, but persisting uncertainty about global economic prospects constitutes a major downside risk. (…)

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Positive outlook for construction in 2011

After a very weak beginning of the year, recent months brought vivid growth in the Polish construction industry. Of the three major segments of the sector, the situation improved the most in non-residential construction. Price is still the major factor when it comes to the market activity of both investors and contractors. Encouragingly, due to the early signs of improvement construction companies are more optimistic as regards the market situation in 2011. (…)

Continued on page 18 ▶

Industrial output	Manufacturing output	CPI	Unemployment	EUR/PLN	USD/PLN
10.1% ↑	11.9% ↑	2.7% ↓	11.7% ↑	3.9531 ↓	2.8913 ↑

NOTE: Data for November 2010. Exchange rates: monthly average, unemployment: end of month, output and inflation: y-o-y changes.

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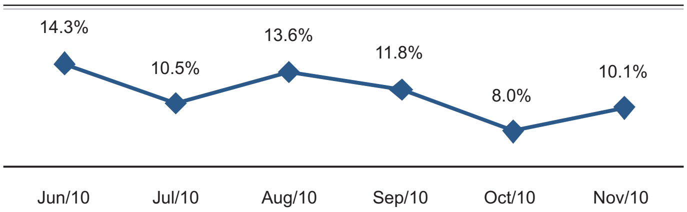
Polish economy: 13-month trends

	11/09	12/09	01/10	02/10	03/10	04/10	05/10
Output (y-o-y change)							
Industrial output	9.9%	7.4%	8.5%	9.2%	12.5%	9.7%	13.5%
Manufacturing output	11.4%	8.3%	10.1%	10.8%	13.9%	11.1%	14.5%
Construction and assembly output	9.9%	3.2%	-15.3%	-24.7%	-10.9%	-6.3%	2.3%
Retail sales (y-o-y change, real terms)	3.9%	4.1%	-1.2%	-2.8%	5.9%	-4.0%	2.0%
Prices (y-o-y change)							
CPI	3.3%	3.5%	3.5%	2.9%	2.6%	2.4%	2.2%
PPI	1.9%	2.1%	0.2%	-2.4%	-2.6%	-0.4%	1.9%
Construction and assembly prices	-0.8%	-0.7%	-0.7%	-0.6%	-0.5%	-0.3%	0.0%
Salaries in enterprise sector (y-o-y change, real terms)	-1.0%	2.9%	-3.0%	-0.1%	2.1%	0.8%	2.5%
Unemployment (end of month)	11.4%	12.1%	12.9%	13.2%	13.0%	12.4%	12.1%
Current account balance (accumulated, € bn)*	-5.95	-6.83	-0.83	-0.31	-1.14	-1.52	-2.07
Central budget execution (accumulated, PLN bn)	-24.34	-23.84	-4.78	-16.84	-22.71	-26.96	-32.05
Financial indicators							
Rediscount rate (end of period)	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Lombard rate (end of period)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
EUR/PLN (period average)	4.1734	4.1427	4.0720	4.0155	3.8919	3.8704	4.0521
USD/PLN (period average)	2.7990	2.8352	2.8518	2.9385	2.8672	2.8799	3.2137
Due to the banking system from households, PLN bn (end of period)	417.6	421.0	422.8	421.8	425.3	429.5	441.9
WIG (end of period)	39,581	39,986	40,058	38,709	42,447	43,295	41,530

	06/10	07/10	08/10	09/10	10/10	11/10
Output (y-o-y change)						
Industrial output	14.3%	10.5%	13.6%	11.8%	8.0%	10.1%
Manufacturing output	15.5%	11.1%	14.4%	13.3%	9.3%	11.9%
Construction and assembly output	9.6%	0.8%	8.4%	13.4%	9.4%	14.2%
Retail sales (y-o-y change, real terms)	4.5%	2.4%	5.1%	6.4%	6.4%	6.1%
Prices (y-o-y change)						
CPI	2.3%	2.0%	2.0%	2.5%	2.8%	2.7%
PPI	2.1%	3.8%	4.0%	4.3%	3.9%**	4.6%
Construction and assembly prices	0.1%	0.2%	0.2%	0.2%	0.1%	0.0%
Salaries in enterprise sector (y-o-y change, real terms)	1.3%	0.2%	2.3%	1.3%	1.2%	1.1%
Unemployment (end of month)	11.7%	11.5%	11.4%	11.5%	11.5%	11.7%
Current account balance (accumulated, € bn)*	-2.99	-4.26	-5.54	-6.63	-7.78	-
Central budget execution (accumulated, PLN bn)	-36.57	-34.87	-36.98	-39.54	-41.89	-42.61**
Financial indicators						
Rediscount rate (end of period)	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Lombard rate (end of period)	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
EUR/PLN (period average)	4.1025	4.0818	3.9872	3.9558	3.9562	3.9531
USD/PLN (period average)	3.3571	3.1950	3.0894	3.0318	2.8482	2.8913
Due to the banking system from households, PLN bn (end of period)	459.5	454.1	465.4	463.5	463.1	477.8
WIG (end of period)	39,392	42,465	42,216	45,237	46,230	45,361

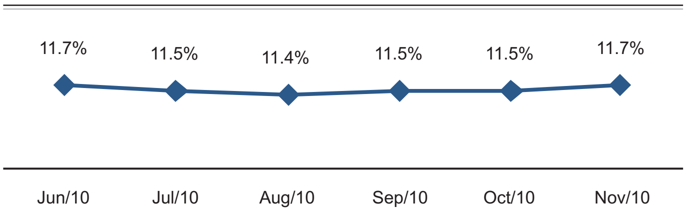
** preliminary data*
*** revised data*
Source: Central Statistical Office, National Bank of Poland, Ministry of Finance, Ministry of the Treasury, Warsaw Stock Exchange, 2011

Industrial output, June-November 2010, y-o-y



Source: GUS, 2011

Unemployment rate, June-November 2010, e-o-p



Source: GUS, 2011

Industrial output climbed by 10.1% y-o-y in November, an acceleration in relation to the previous month.

Compared with the corresponding period of 2009, output was up in 25 out of 34 industrial sectors. Of the main sectors, the highest growth (by 11.9% y-o-y) was noted in manufacturing, followed by water supply, waste management and remediation activities (up by 7.4% y-o-y). In the two other sectors output was lower than a year earlier: in mining-quarrying production dropped by 2.2% y-o-y, whereas in electricity, gas, steam and air conditioning supply by 3.3% y-o-y. In the case of the country's manufacturing sub-sectors, the best result was achieved by producers of computer, electronic and optical products, with output surging by 27% y-o-y. By contrast, production of other transport equipment slumped by 15.9% y-o-y.

In January-November industrial output rose by 9.7% y-o-y. According to our estimates, in 2010 as a whole industrial output growth amounted to 11.1%.

The **registered unemployment rate** stood at 11.7% at the end of November. This was up by 0.2 p.p. compared with October and 0.3 points higher than in the corresponding month of the previous year.

In the analysed period, just under 1.86 million Poles were registered as unemployed, an increase of 39,700 in relation to one month earlier and up by 47,200 compared with November 2009. The highest unemployment rates were registered in the voivodships of Warminsko-Mazurskie (19%), Zachodniopomorskie (16.6%), Kujawsko-Pomorskie (15.7%), Podkarpackie (15.1%) and Lubuskie (14.9%). The lowest rates were recorded in Wielkopolskie (8.7%), Mazowieckie (9%), Slaskie (9.6%) and Malopolskie (9.9%).

We estimate that at the end of 2010 the registered unemployment rate amounted to 12.1%.

Polish economy: quarterly trends, GDP

	Q4/09	Q1/10	Q2/10	Q3/10	Forecast Q4/10	Q1/11
GDP at current prices, PLN bn	373.2	324.0	343.2	348.9	-	-
GDP real change, y-o-y	3.2%	3.0%	3.5%	4.2%	4.3%	4.1%
GDP components, y-o-y						
Total consumption	1.5%	2.1%	2.8%	3.6%	-	-
Private consumption	1.7%	2.2%	3.0%	3.5%	3.8%	3.2%
Gross fixed capital formation	0.8%	-12.8%	-1.7%	0.4%	3.5%	10.6%
Exports	2.2%	10.1%	14.7%	9.6%	-	-
Imports	-3.4%	7.5%	16.2%	9.5%	-	-
Added value to GDP, y-o-y	3.4%	2.8%	3.0%	3.8%	-	-
Industry	6.1%	9.7%	11.4%	10.2%	-	-
Construction	8.6%	-6.2%	3.8%	6.1%	-	-
Market services	0.7%	-0.1%	0.8%	2.0%	-	-

Forecasts by BZ WBK, Citibank, DM BOS, Pekao, PKO BP, Raiffeisen Bank, X-Trade Brokers, PMR Publications (consensus forecasts, updated December 2010).
Source: Central Statistical Office, 2011

Polish economy: annual trends

	2007	2008	2009	Latest 2010		2010	Forecast 2011	2012
GDP								
GDP at current prices, PLN bn	1,177	1,275	1,344	Q1-Q3	1,016	-	-	-
GDP real change, y-o-y	6.8%	5.1%	1.7%	Q1-Q3	3.6%	3.8%	4.0%	4.4%
GDP components, y-o-y								
Total consumption	4.6%	6.1%	2.0%	Q1-Q3	2.9%	-	-	-
Private consumption	4.9%	5.7%	2.1%	Q1-Q3	2.9%	3.1%	3.6%	4.3%
Gross fixed capital formation	17.6%	9.6%	-1.1%	Q1-Q3	-3.8%	-1.3%	8.1%	9.2%
Exports	9.1%	7.1%	-6.8%	Q1-Q3	11.5%	-	-	-
Imports	13.7%	8.0%	-12.4%	Q1-Q3	11.0%	-	-	-
Added value to GDP, y-o-y	6.7%	5.1%	1.8%	Q1-Q3	3.2%	-	-	-
Industry	10.1%	6.8%	-0.3%	Q1-Q3	10.4%	-	-	-
Construction	10.8%	4.6%	9.9%	Q1-Q3	2.4%	-	-	-
Market services	6.5%	5.9%	0.9%	Q1-Q3	0.9%	-	-	-
Output, y-o-y*								
Industrial output	10.7%	3.6%	-3.5%	Jan-Nov	9.7%	11.1%	8.7%	10.2%
Manufacturing output	12.4%	4.0%	-3.0%	Jan-Nov	10.9%	-	-	-
Construction and assembly output	15.5%	12.1%	2.5%	Jan-Nov	2.3%	2.0%	9.0%	8.0%
Retail sales, y-o-y real change*	7.6%	5.0%	1.7%	Jan-Nov	2.2%	-	-	-
Prices, y-o-y								
CPI	2.5%	4.2%	3.5%	Jan-Nov	2.5%	2.6%	3.5%	3.1%
PPI	2.0%	2.2%	3.4%	Jan-Nov	1.8%	2.1%	3.0%	2.8%
Construction and assembly prices	7.4%	4.8%	0.2%	Jan-Nov	-0.1%	-	-	-
Salaries in enterprise sector								
Average gross monthly wage, y-o-y real change	6.8%	6.1%	1.1%	Jan-Nov	0.2%	-	-	-
Average gross monthly wage, PLN	2,889	3,186	3,325	Jan-Nov	3,394	-	-	-
Statutory minimum wage, PLN	936	1,126	1,276	Jan-Dec	1,317	-	1,386	-
Unemployment, end of period	11.2%	9.5%	12.1%	Nov	11.7%	12.1%	10.9%	9.4%
Current account balance of payments								
% GDP	-4.7%	-4.8%**	-2.1%**	Q1-Q3	-2.6%**	-2.9%	-3.2%	-3.8%
€ bn	-14.72	-17.36**	-6.83**	Jan-Oct	-7.78**	-	-	-
Foreign trade								
Exports (€ bn), by GUS	101.8	116.2	98.2	Jan-Oct	97.4**	-	-	-
Imports (€ bn), by GUS	120.4	142.4	107.5	Jan-Oct	107.4**	-	-	-
Exports (€ bn), by NBP balance of payments	105.9	121.1**	101.7**	Jan-Oct	101.7**	121.1	133.9	152.1
Imports (€ bn), by NBP balance of payments	118.2	138.8**	104.8**	Jan-Oct	105.8**	127.5	143.5	165.4
FDI (€ bn), by NBP balance of payments	17.2	10.1**	10.0**	Jan-Oct	7.5**	-	-	-
Public finance								
General government deficit, % of GDP	1.9%	3.7%	7.2%	-	-	7.9%	-	-
General government debt, % of GDP	45.0%	47.1%	50.9%	-	-	55.4%	-	-
Gross privatisation revenues, PLN bn	1.95	2.37	6.97	Jan-Nov	17.94	25.0	15.0	-
Financial indicators, end of period								
Rediscount rate	5.25%	5.25%	3.75%	Dec	3.75%	-	4.50%	5.25%
Lombard rate	6.50%	6.50%	5.00%	Dec	5.00%	-	5.75%	6.50%
EUR/PLN	3.5820	4.1724	4.1082	Dec	3.9603	-	3.7800	3.6600
USD/PLN	2.4350	2.9618	2.8503	Dec	2.9641	-	2.9000	2.8200
Due to the banking system from households, PLN bn	260.0	376.0	421.0	Nov	477.8	-	-	-
WIG	55,649	27,229	39,986	Dec	47,490	-	-	-
Market size								
Population (m), end of period	38.116	38.136	38.167	Oct	38.205	-	-	-
Average monthly per capita income of households, PLN	929	1,046	1,114	-	-	-	-	-
Average monthly per capita expenditures of households, PLN	810	904	957	-	-	-	-	-

** annual figures have been updated, while the column "Latest 2010" is based on preliminary data regarding companies with more than nine employees.*
*** preliminary data*
Forecast of gross privatisation revenues comes from the draft budget for 2011.
Forecast of general government sector debt originates from the Ministry of Finance's fiscal notification to Eurostat, October 2010
Construction output forecasts come from PMR report "Construction sector in Poland – H2 2010. Comparative regional analysis and development forecasts for 2010-2013", October 2010.
Other forecasts by BZ WBK, Citibank, DM BOS, Pekao, PKO BP, Raiffeisen Bank, X-Trade Brokers, PMR Publications (consensus forecasts, updated December 2010).
Source: Central Statistical Office, National Bank of Poland, Ministry of Finance, Ministry of the Treasury, Warsaw Stock Exchange, 2011

Sold production and trends in manufacturing and construction in November 2010

The growth rates in rows presenting sales are based on PLN at constant prices. The graphs display month-on-month sales at current prices and, thus, do not correspond to the growth rates in the tables. The tables also present average monthly employment and gross wages. The growth rates in rows with wages are in nominal terms, based on PLN. The € values were calculated using the average NBP exchange rate for November: €1=PLN 3.9531 ($1=PLN 2.8913).

The growth rates in tables presenting investment outlays are based on PLN at current prices. The € values were calculated using the average NBP exchange rate for Q1-Q3 2010: €1=PLN 4.0032 ($1=PLN 3.0472).

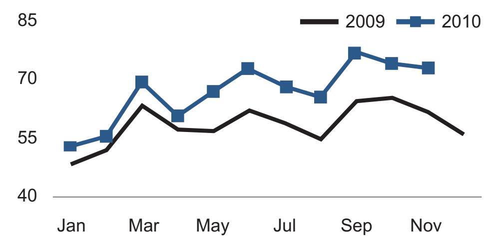
All the data are from companies with nine or more employees, with the exception of data on investment outlays, which are from companies employing over 49 people. They are presented in accordance with the Polish Classification of Activities (PKD 2007), compiled on the basis of Statistical Classification of Economic Activities in the European Community — NACE Rev. 2.

Total manufacturing sector

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€17.8bn	PLN 70.2bn	-1.8%	11.9%	10.9%
Employment	2,017,000		0.0%	1.8%	-1.0%
Wages	€815	PLN 3,223	2.2%	5.6%	5.1%

Investment outlays		
Q1-Q3 2010	PLN bn	18.4
	€ bn	4.6
	Y-o-y change	-25.9%

Total manufacturing, PLN bn

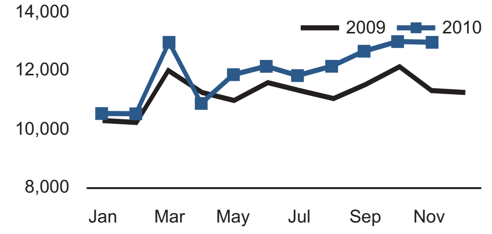


Food products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€3.3bn	PLN 13.0bn	0.2%	11.7%	6.3%
Employment	361,000		-0.1%	2.8%	1.7%
Wages	€711	PLN 2,812	0.4%	4.1%	4.4%

Investment outlays		
Q1-Q3 2010	PLN bn	2.8
	€ m	707
	Y-o-y change	10.6%

Food products, PLN m

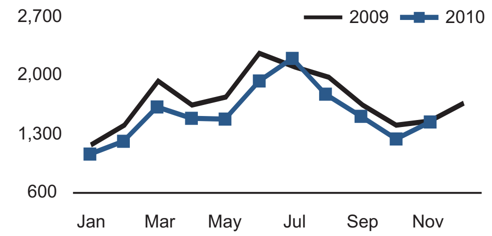


Beverages

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€363m	PLN 1.4bn	13.6%	-3.0%	-7.1%
Employment	26,000		-0.4%	-8.4%	-10.9%
Wages	€1,147	PLN 4,534	2.6%	5.0%	2.5%

Investment outlays		
Q1-Q3 2010	PLN m	439
	€ m	110
	Y-o-y change	-28.7%

Beverages, PLN m

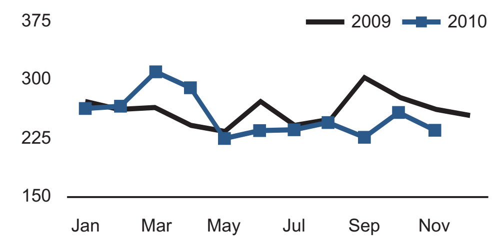


Tobacco products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€60m	PLN 238m	-7.5%	-14.4%	-2.2%
Employment	6,000		0.2%	-5.6%	-8.8%
Wages	€1,433	PLN 5,667	13.6%	6.3%	1.9%

Investment outlays		
Q1-Q3 2010	PLN m	255
	€ m	64
	Y-o-y change	19.9%

Tobacco products, PLN m

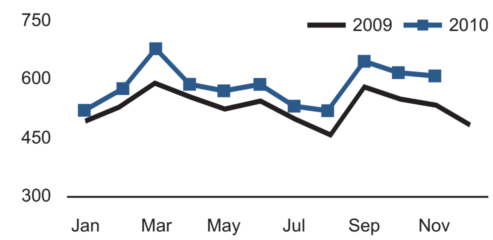


Textiles

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€154m	PLN 608m	-0.6%	11.9%	5.5%
Employment	43,000		0.0%	0.6%	-4.3%
Wages	€597	PLN 2,361	0.2%	4.4%	4.8%

Investment outlays		
Q1-Q3 2010	PLN m	126
	€ m	31
	Y-o-y change	48.5%

Textiles, PLN m

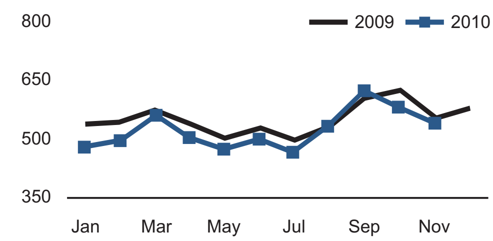


Wearing apparel

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€135m	PLN 533m	-7.5%	2.5%	0.2%
Employment	90,000		0.2%	-12.0%	-14.1%
Wages	€471	PLN 1,862	0.3%	7.0%	6.6%

Investment outlays		
Q1-Q3 2010	PLN m	60
	€ m	15
	Y-o-y change	-48.3%

Wearing apparel, PLN m

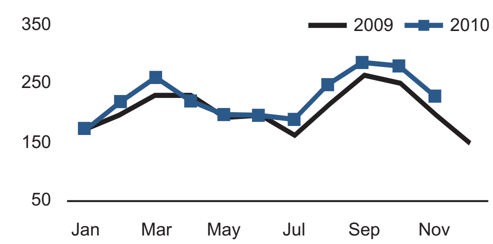


Leather and related products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€58m	PLN 229m	-18.9%	13.0%	6.5%
Employment	20,000		-0.3%	-4.3%	-7.4%
Wages	€534	PLN 2,109	1.8%	9.6%	7.0%

Investment outlays		
Q1-Q3 2010	PLN m	44
	€ m	11
	Y-o-y change	1.4%

Leather and related products, PLN m

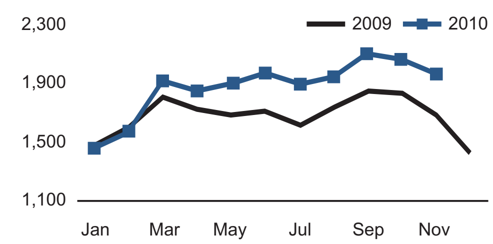


Wood, cork, straw and wicker products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€491m	PLN 1.9bn	-5.9%	10.2%	9.8%
Employment	90,000		0.1%	4.7%	3.6%
Wages	€641	PLN 2,533	0.9%	6.4%	5.6%

Investment outlays		
Q1-Q3 2010	PLN m	397
	€ m	99
	Y-o-y change	7.5%

Wood, cork, straw and wicker products, PLN m

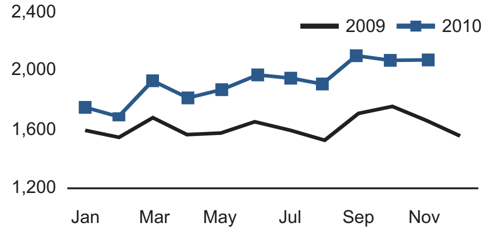


Paper and paper products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€537m	PLN 2.1bn	-0.4%	12.7%	18.3%
Employment	47,000		0.1%	4.5%	3.3%
Wages	€899	PLN 3,554	-0.4%	2.6%	4.5%

	Investment outlays	
Q1-Q3 2010	PLN bn	1.0
	€ m	251
	Y-o-y change	-18.5%

Paper and paper products, PLN m

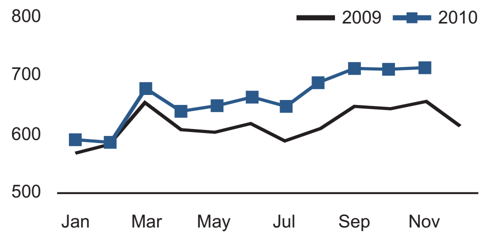


Printing and reproduction of recorded media

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€184m	PLN 726m	0.0%	8.8%	9.9%
Employment	28,000		0.4%	7.7%	5.0%
Wages	€985	PLN 3,892	7.2%	10.8%	3.5%

	Investment outlays	
Q1-Q3 2010	PLN m	266
	€ m	66
	Y-o-y change	-13.5%

Printing and reproduction of recorded media, PLN m

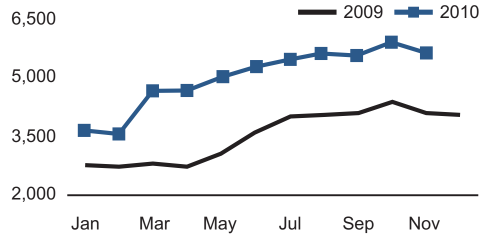


Coke and refined petroleum products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€1.5bn	PLN 5.9bn	-6.3%	4.4%	5.3%
Employment	15,000		-0.1%	-0.1%	-1.7%
Wages	€1,560	PLN 6,168	7.3%	11.6%	9.7%

	Investment outlays	
Q1-Q3 2010	PLN bn	2.5
	€ m	622
	Y-o-y change	-52.1%

Coke and refined petroleum products, PLN m

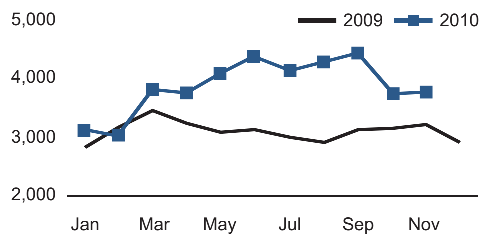


Chemicals and chemical products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€941m	PLN 3.7bn	0.0%	9.9%	11.6%
Employment	68,000		-0.4%	3.9%	1.7%
Wages	€1,048	PLN 4,141	3.1%	6.9%	5.4%

	Investment outlays	
Q1-Q3 2010	PLN bn	1.3
	€ m	323
	Y-o-y change	-8.1%

Chemicals and chemical products, PLN m

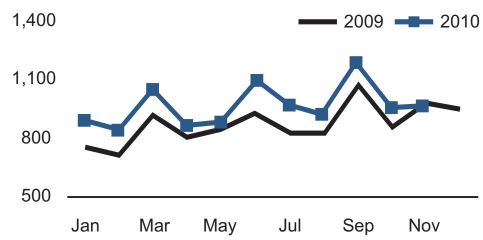


Pharmaceutical products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€246m	PLN 971m	2.0%	-4.0%	6.3%
Employment	23,000		0.3%	-3.8%	-5.3%
Wages	€1,291	PLN 5,105	0.8%	-0.9%	-1.1%

	Investment outlays	
Q1-Q3 2010	PLN m	253
	€ m	63
	Y-o-y change	-23.3%

Pharmaceutical products, PLN m

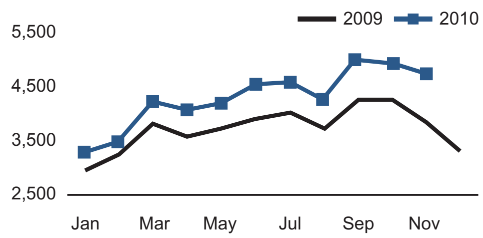


Rubber and plastic products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€1.2bn	PLN 4.6bn	-4.3%	22.0%	15.4%
Employment	145,000		0.1%	5.1%	3.3%
Wages	€798	PLN 3,154	0.4%	4.7%	5.2%

Investment outlays		
Q1-Q3 2010	PLN bn	1.2
	€ m	300
	Y-o-y change	-13.6%

Rubber and plastic products, PLN m

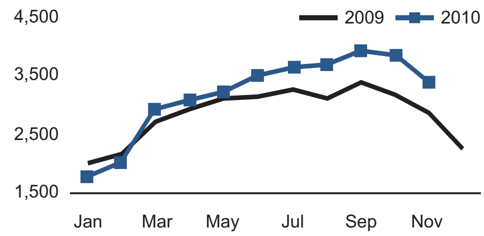


Other non-metallic mineral products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€863m	PLN 3.4bn	-12.3%	24.8%	17.1%
Employment	110,000		-0.4%	3.7%	1.4%
Wages	€889	PLN 3,513	1.5%	4.1%	4.7%

Investment outlays		
Q1-Q3 2010	PLN bn	1.1
	€ m	278
	Y-o-y change	-35.3%

Other non-metallic mineral products, PLN m

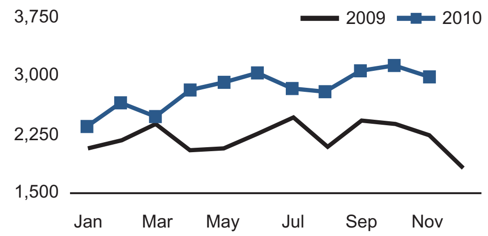


Basic metals

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€758m	PLN 3.0bn	-3.4%	10.6%	11.5%
Employment	57,000		0.2%	1.8%	-3.5%
Wages	€1,009	PLN 3,988	7.7%	7.1%	4.3%

Investment outlays		
Q1-Q3 2010	PLN m	645
	€ m	161
	Y-o-y change	-57.3%

Basic metals, PLN m

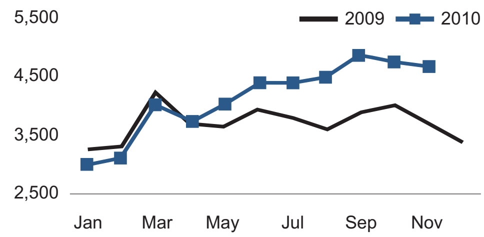


Metal products (excluding machinery and equipment)

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€1.2bn	PLN 4.9bn	-1.9%	23.9%	12.7%
Employment	209,000		0.1%	5.6%	2.0%
Wages	€804	PLN 3,178	1.2%	5.8%	5.1%

Investment outlays		
Q1-Q3 2010	PLN bn	1.2
	€ m	300
	Y-o-y change	-16.6%

Metal products, PLN m

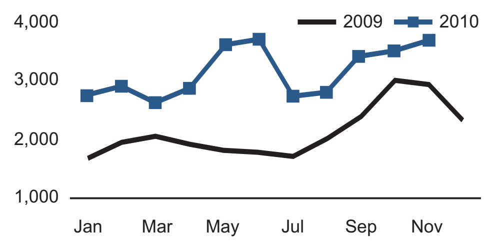


Computer, electronic and optical products

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€944m	PLN 3.7bn	5.9%	27.0%	49.1%
Employment	58,000		-0.3%	8.6%	5.0%
Wages	€854	PLN 3,376	3.0%	6.9%	4.8%

Investment outlays		
Q1-Q3 2010	PLN m	567
	€ m	142
	Y-o-y change	-43.5%

Computer, electronic and optical products, PLN m

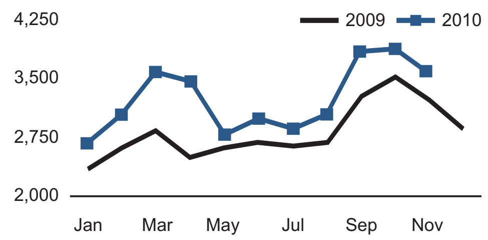


Electrical equipment

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€902m	PLN 3.6bn	-6.4%	16.9%	14.4%
Employment	88,000		0.5%	1.8%	-0.8%
Wages	€841	PLN 3,324	-1.8%	7.4%	7.2%

Investment outlays		
Q1-Q3 2010	PLN m	667
	€ m	167
	Y-o-y change	-17.6%

Electrical equipment, PLN m

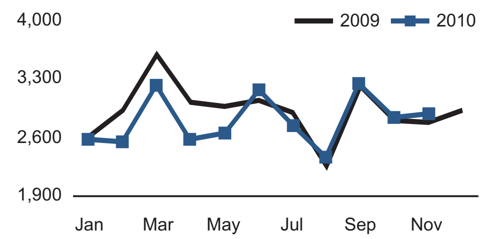


Machinery and equipment n.e.c.

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€731m	PLN 2.9bn	3.7%	7.5%	-2.9%
Employment	124,000		0.1%	-5.6%	-10.6%
Wages	€921	PLN 3,641	3.6%	8.3%	6.3%

Investment outlays		
Q1-Q3 2010	PLN m	738
	€ m	184
	Y-o-y change	-29.9%

Machinery and equipment n.e.c., PLN m

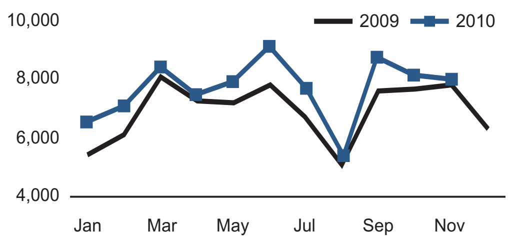


Motor vehicles, trailers and semi-trailers

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€2.0bn	PLN 7.9bn	-1.5%	3.7%	15.8%
Employment	141,000		0.0%	6.7%	2.0%
Wages	€947	PLN 3,744	7.6%	1.8%	7.7%

Investment outlays		
Q1-Q3 2010	PLN bn	1.6
	€ m	400
	Y-o-y change	-17.5%

Motor vehicles, trailers and semi-trailers, PLN m

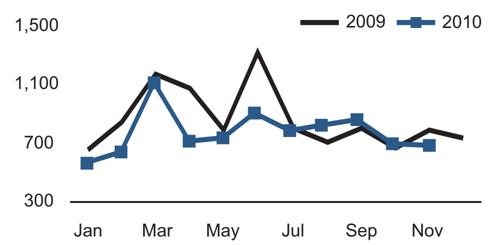


Other transport equipment

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€172m	PLN 681m	-1.7%	-15.9%	-16.6%
Employment	38,000		-0.4%	-8.5%	-16.3%
Wages	€914	PLN 3,611	5.9%	7.9%	0.9%

Investment outlays		
Q1-Q3 2010	PLN m	208
	€ m	52
	Y-o-y change	-32.5%

Other transport equipment, PLN m

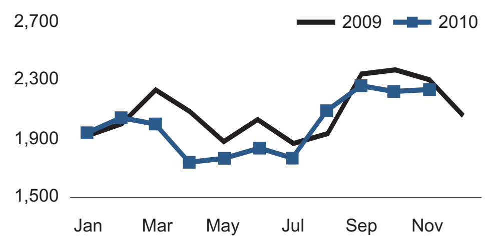


Furniture

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€564m	PLN 2.2bn	0.4%	-2.2%	-5.7%
Employment	130,000		0.1%	0.0%	-1.3%
Wages	€641	PLN 2,534	1.2%	2.5%	2.9%

Investment outlays		
Q1-Q3 2010	PLN m	613
	€ m	153
	Y-o-y change	-17.3%

Furniture, PLN m

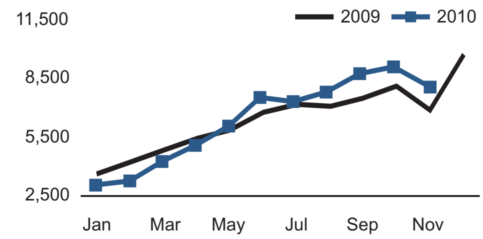


Construction and assembly

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€2.0bn	PLN 7.9bn	-10.8%	14.2%	2.3%
Employment	445,000		-0.1%	2.6%	0.9%
Wage s	€921	PLN 3,641	2.4%	2.7%	1.5%

Investment outlays		
Q1-Q3 2010	PLN bn	1.8
	€ m	451
	Y-o-y change	-13.8%

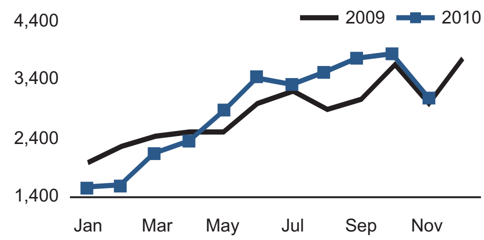
Construction and assembly, PLN m



Construction of buildings

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€761m	PLN 3.0bn	-19.2%	1.8%	0.4%
Employment	187,000		0.0%	2.0%	-0.5%
Wages	€913	PLN 3,607	4.6%	5.0%	1.3%

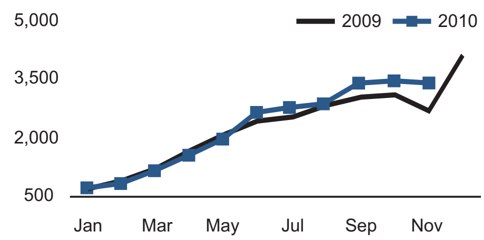
Construction of buildings, PLN m



Civil engineering

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€829m	PLN 3.3bn	-2.4%	20.0%	1.5%
Employment	134,000		-0.1%	2.6%	1.3%
Wages	€959	PLN 3,793	0.3%	2.3%	2.4%

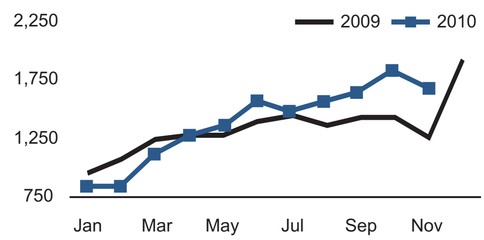
Civil engineering, PLN m



Specialised construction activities

	November 2010 Total		November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Sales	€415m	PLN 1.6bn	-9.5%	30.3%	7.8%
Employment	125,000		-0.2%	3.6%	2.6%
Wages	€893	PLN 3,530	1.6%	-0.2%	0.6%

Specialised construction activities, PLN m



Source of all data: GUS

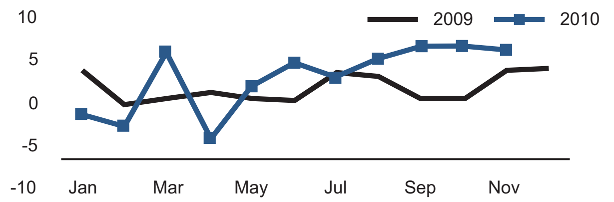
Retail sales of goods by type of enterprise activity in November 2010

The data on retail sales are from companies with nine or more employees. The graphs display year-on-year changes at constant prices. Groups of enterprises were created on the basis of the Polish Classification of Activities (PKD 2007), and a given enterprise is included to a specific category by predominating kind of activity and according to its present organisational state. The dynamic of the retail sale result from, among others, change both in the predominating kind of activity of the enterprise and in its organisation.

Total retail sales

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-6.7%	8.3%	4.6%
Real change	-	6.1%	2.2%

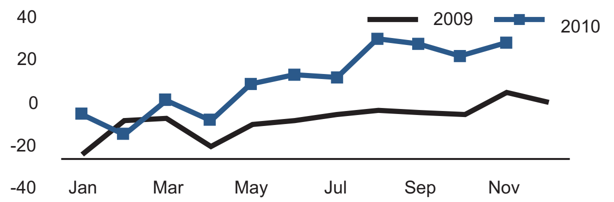
Total retail sales (%, y-o-y)



Motor vehicles, motorcycles, parts

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	11.8%	21.9%	4.5%
Real change	-	23.6%	4.8%

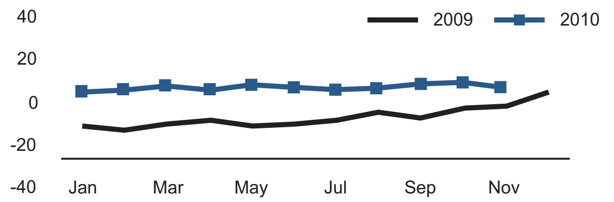
Motor vehicles, motorcycles, parts (%, y-o-y)



Solid, liquid and gaseous fuels

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-11.6%	12.4%	12.6%
Real change	-	5.9%	4.8%

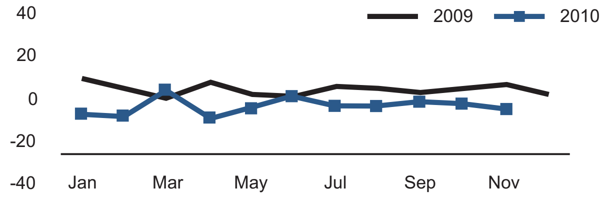
Solid, liquid and gaseous fuels (%, y-o-y)



Food, beverages and tobacco products

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-7.5%	0.1%	0.4%
Real change	-	-3.9%	-2.7%

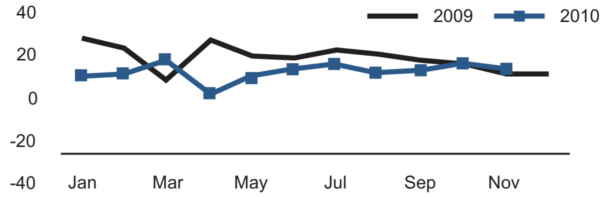
Food, beverages and tobacco products (%, y-o-y)



Other retail sale in non-specialised stores

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-10.2%	15.1%	13.2%
Real change	-	15.1%	13.3%

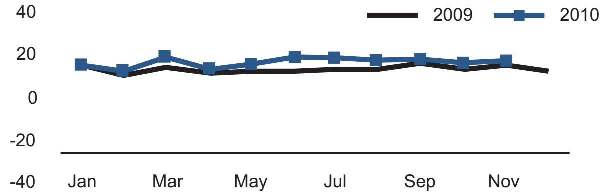
Other retail sale in non-specialised stores (%, y-o-y)



Pharmaceuticals, cosmetics, orthopaedic equipment

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-1.5%	18.0%	16.7%
Real change	-	15.7%	14.0%

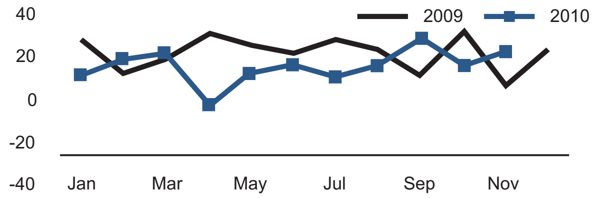
Pharmaceuticals, cosmetics, orthopaedic equipment (%,y-o-y)



Textiles, clothing, footwear

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-22.8%	20.5%	12.7%
Real change	-	23.9%	16.8%

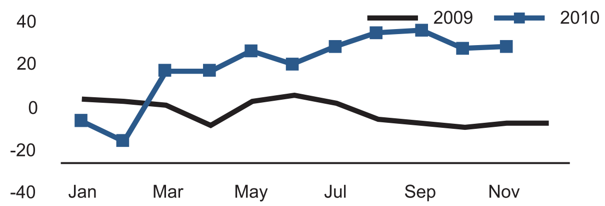
Textiles, clothing, footwear (%, y-o-y)



Furniture, radio, TV and household appliances

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	3.2%	26.3%	23.0%
Real change	-	27.0%	23.4%

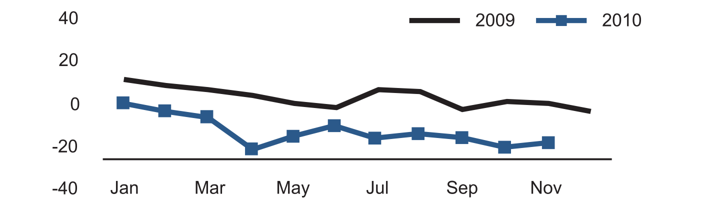
Furniture, radio, TV and household appliances (%, y-o-y)



Newspapers, books, other sale in specialised stores

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-2.6%	-17.2%	-16.6%
Real change	-	-18.1%	-17.9%

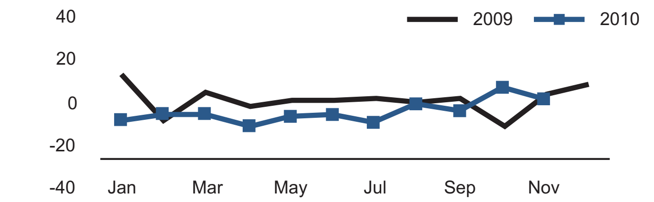
Newspapers, books, other sale in specialised stores (%, y-o-y)



Others

	November 2010 (m-o-m)	November 2010 (y-o-y)	Jan-Nov 2010 (y-o-y)
Nominal change	-11.9%	2.2%	-5.1%
Real change	-	0.8%	-6.1%

Others (%, y-o-y)



Source of all data: GUS

Economic analysis and forecast

Polish economy shows strength amid global uncertainty

Macroeconomic data published in Q4 2010 show that economic recovery in Poland is continuing apace. The outlook for 2011 is optimistic as well, but persisting uncertainty about global economic prospects constitutes a major downside risk.

After growing at a moderate pace in the first half of 2010, the Polish economy accelerated substantially in Q3. Third-quarter GDP growth quickened to 4.2% y-o-y (seasonally-adjusted growth was an impressive 4.7% y-o-y in Q3, the third-highest rate in the EU). The strong performance continued into the final quarter of last year. Based on macroeconomic data published in recent months, we estimate that in Q4 Poland's GDP grew by 4.3% y-o-y, taking the full-year growth rate to 3.8%

External demand the main growth engine

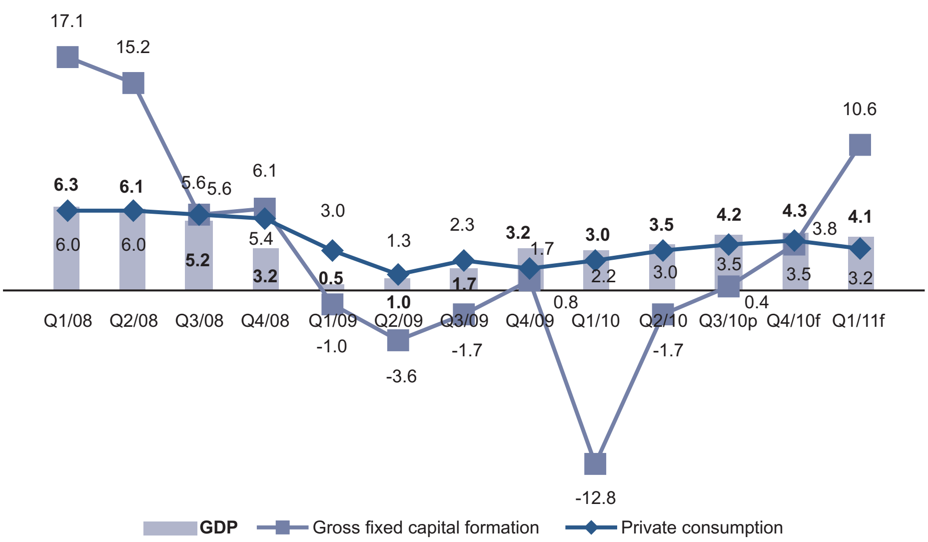
Although superficial examination of GDP data does not show this[1], one of the main motors of economic growth in Poland in 2010 was robust external demand. It was the strong inflow of export orders that led to a recovery of industrial output, which enabled a gradual increase in hiring, thus giving an indirect boost to domestic demand.

According to preliminary data from the Central Statistical Office (GUS), in the first 10 months of the year the total value of Polish exports of goods amounted to €97.4bn, while imports totalled €107.4bn. This translates into nominal increases of 20.3% y-o-y and 21% y-o-y, respectively. As a result, the country's foreign trade deficit widened by more than 28% y-o-y to €10bn[2].

Poland's trade balance with developed countries (including the European Union) substantially improved over the analysed period and showed a surplus of €10.6bn (€13.1bn with the EU). At the same time, there was a marked deterioration in the balance with developing countries, which showed a deficit of €15.7bn, and a sharp widening of the deficit with the countries of Southern and Eastern Europe, which amounted to €4.8bn.

Of Poland's main trading partners, the highest increase (by 44.2% y-o-y) was noted in exports to Slovakia, followed by Russia (up by 38.9% y-o-y), Sweden (up by 28.5% y-o-y) and Hungary (up by 26.7% y-o-y). Italy was the only country among Poland's top 10 export destinations with growth in the single digits (up by 4.7% y-o-y). Imports from Russia rose at by far the highest rate in the analysed period (up by 46.9% y-o-y), followed by the United States (up by 35.5% y-o-y) and China (up 25.9% y-o-y). Again, Italy was the

GDP and its components changes in Poland (%, y-o-y), Q1 2008-Q1 2011



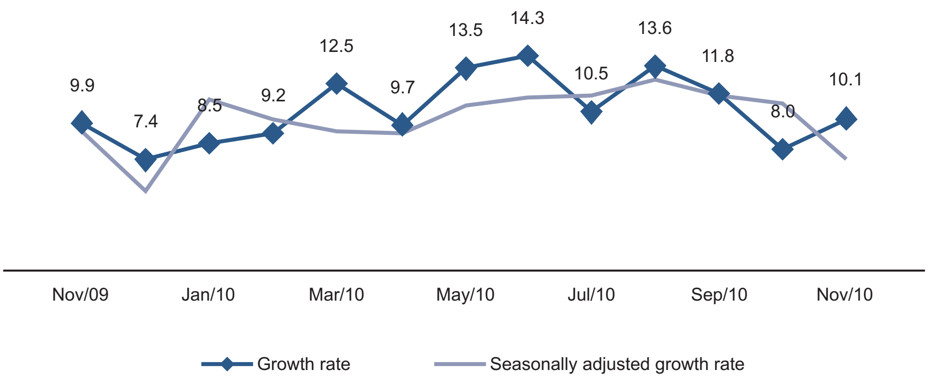
p – preliminary estimate
f – forecast
Source: GUS, PMR Publications, January 2011
www.pmrpublications.com

Foreign trade in Poland (%, y-o-y), 2004-2009 and January-October 2010

Note: the above graph maps nominal changes based on turnover in the euro.
p – preliminary data
Source: GUS, January 2011
www.pmrpublications.com

[1] *In Q1-Q3 2010 the contribution of net exports to GDP growth was a mere 0.2 p.p.*
[2] *In 2009 as a whole the trade deficit amounted to €9.3bn, i.e. approximately 3% of GDP.*

Industrial output in Poland (%, y-o-y), November 2009-November 2010



Source: GUS, January 2011 www.pmrpublications.com

only main importer country with growth below double digits (imports from Italy inched up by 0.2% y-o-y in January-October).

Despite continued robust export demand for Polish goods, in the second half of 2010 the rate of growth of imports pulled ahead of exports, due to a combination of reviving domestic demand, lower reference base and the high import-intensiveness of Polish exports. We estimate that in 2010 as a whole Polish exports of goods grew by 18.6%, while imports rose by 20.5%. As a result, the foreign trade deficit amounted to €13.1bn, i.e. about 3.7% of GDP.

In view of the very good performance of the German economy (the main recipient of Polish exports) and a favourable exchange rate of the zloty, foreign demand should remain a major driver of economic growth in Poland also in the early part of this year (this is suggested e.g. by the December reading of the PMI index of purchasing managers, which showed a solid increase in export orders). This is likely to be accompanied by a further strengthening of domestic demand, thanks to relatively robust consumption and a recovery in investments. Taking into account the much higher comparative base than in 2010, we forecast that in 2011 Polish exports of goods will rise by 10.6% while imports will increase by 12.5%.

Big increase in industrial output

The steady firming of demand is driving industrial output, which has exhibited a strong upward trend for more than a year now. In November output in the sector grew by 10.1% y-o-y, an improvement compared with the preceding month. It is worth noting that the double-digit rate of output growth was achieved despite a very high reference base. On the other hand, the result was helped by a higher number of working days than in November 2009[3].

Compared with the corresponding period of the previous year, output was up in 25 out of 34 industrial sectors. Of the main sectors, the highest growth (by 11.9% y-o-y) was noted in manufacturing, followed by water supply, waste management and remediation activities (up by 7.4% y-o-y). In the two other sectors output was lower than a year earlier: in mining-quarrying production dropped by 2.2% y-o-y, whereas in electricity, gas, steam and air conditioning supply by 3.3% y-o-y.

In the case of the country's manufacturing sub-sectors, particularly strong output increases occurred in computer, electronic and optical products (up by 27% y-o-y), other non-metallic mineral products (up by 24.8% y-o-y), metal products (up by 23.9% y-o-y) and rubber and plastic products (up by 22% y-o-y). Solid double-digit growth was also noted e.g. in electrical equipment (up by 16.9% y-o-y). On the other hand, production of other transport equipment slumped by 15.9% y-o-y, while output in the tobacco sector declined by 14.4% y-o-y.

In the first 11 months of 2010 industrial output increased by 9.7% y-o-y. With the economy is robust health[4] and with favourable statistical effects (a lower reference base and more working days), we estimate that the December increase in industrial output was at least as strong as the November one, and that in 2010 as a whole industrial output grew by 11.1%. For 2011 we are forecasting industrial output growth of 8.7%.

An even sharper improvement was noted in the construction sector: construction-assembly output surged by 14.2% y-o-y in November, its highest growth rate since June 2008, even despite a high comparative base. Here too the result was partly helped by a higher number of working days (in seasonally-adjusted terms output grew by 10.9% y-o-y), but the key factor appears to have been a jump in infrastructure projects as construction companies moved to make up for the very weak first half of the year, when an unusual series of exceptional adverse events constrained activity for extended periods of time.

Output was up in all the main segments of construction in November. The highest increase (for another consecutive month) occurred in specialised construction activities (up by 30.3% y-o-y). There was also a marked improvement in civil engineering (up by 20% y-o-y), whereas in construction of buildings output rose by a meagre 1.8% y-o-y.

Despite the high growth rate in November, in the first 11 months of 2010 construction-assembly output rose by just 2.3% y-o-y. We expect the sector to maintain its strong performance in the coming months, helped by a low reference base, although the December figure may have been weakened by the onset of harsh winter conditions. According to our estimates, in 2010 as a whole construction-assembly output rose by 3-4%. Provided that weather conditions are favourable, we expect activity in the sector to pick up substantially this year, with a realistic prospect that construction-assembly output will rise by as much as 10%.

Gradual recovery of labour demand, rise in unemployment only seasonal

The rising level of economic activity is slowly but surely feeding through into the situation on the labour market. Although employers remain very cautious about hiring, labour demand has been recovering steadily since March 2010.

In November, average monthly employment in the enterprise sector amounted to a little

[3] *Seasonally-adjusted industrial output grew by 7.3% y-o-y in November.*
[4] *A clear sign of continued strength of the sector is the December reading of the PMI index for manufacturing, which rose to its highest level since May 2004, i.e. the period of dynamic economic growth stimulated by Poland's entry to the EU.*

over 5.38 million people and was 0.1% higher in relation to the previous month. During the analysed period there were approximately 5,800 more people in work compared with October. In the 12 months to November, average employment in the enterprise sector rose by 2.2%, i.e. by about 116,000.

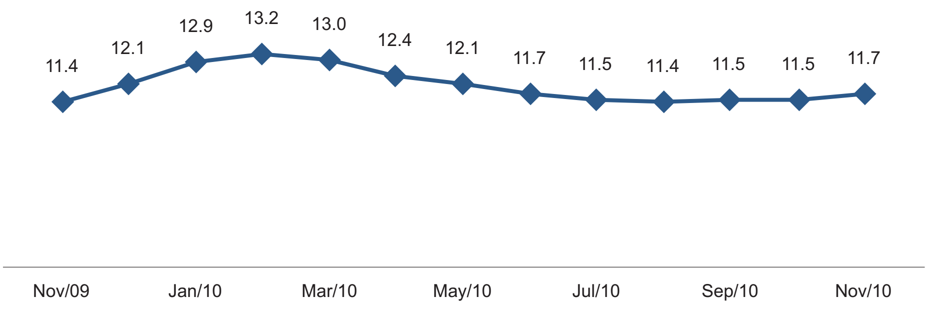
Despite the increase in employment in the enterprise sector, the number of people registered as unemployed at labour offices actually rose in November, by about 39,700 to just under 1.86 million (compared with a year earlier the figure was up by nearly 47,200). As a result, the registered unemployment rate stood at 11.7%, i.e. 0.2 p.p. higher than in October and up by 0.3 p.p. year-on-year.

In our view, the slight rise in the jobless rate in November does not reflect any permanent reversal of the positive labour-market trends observed in preceding months, but is the result of the usual cutting of seasonal jobs with the advent of winter. According to our estimates, at the end of 2010 the registered unemployment rate amounted to 12.1%. Although we expect a seasonal weakening of labour demand in the next few months, in the latter part of the year the jobless rate should fall to just below 11%.

The improved economic conditions are yet to make an impact on wages. In spite of a very low reference base, in November the average gross monthly wage in the enterprise sector rose by just 3.6% y-o-y[5], to just under PLN 3,526 (approx. €892). The result was below market expectations, which averaged 4.5% y-o-y.

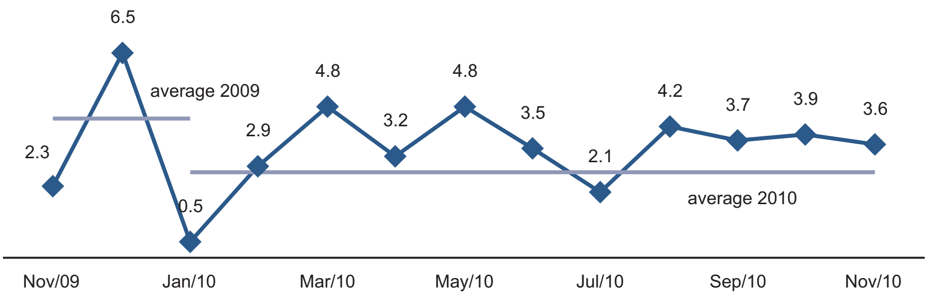
In January-November the average gross monthly wage in the enterprise sector rose by 2.7% y-o-y. We estimate that in 2010 as a whole, wage growth at current prices was in the region of 3%. We expect a certain acceleration in wage growth (to about 5%) this year, as labour demand recovers more vigorously and as positive tendencies in the economy take firmer root.

Registered unemployment rate in Poland (%), November 2009-November 2010



Source: GUS, January 2011 www.pmrpublications.com

Average gross monthly wage in the enterprise sector in Poland (%, y-o-y), November 2009-November 2010



Source: GUS, January 2011 www.pmrpublications.com

Stable labour market and VAT changes driving retail sales

Although Poles' purchasing power continues to rise at a moderate pace[6], recent months brought a marked acceleration in retail sales, which jumped by 8.3% y-o-y in November (at current prices), i.e. only slightly less than the month before despite a much higher comparative base (at fixed prices, retail sales rose by 6.1% y-o-y in November, against 6.4% y-o-y in October). However, the result was below market expectations, which were that growth would remain at around 9% y-o-y thanks to a higher number of working days compared with November 2009.

In comparison with the corresponding period of the previous year, sales were up in all the main branch specialisations except sales of newspapers, books and other items at specialist stores, which tumbled by 17.2% y-o-y. The highest increase was noted in sales of furniture, radio, TV and household appliances (up by 26.3% y-o-y), followed by motor vehicles, motor cycles and parts (up by 21.9% y-o-y) and textiles, clothing and footwear (up by 20.5% y-o-y). Double-digit growth also occurred in sales of pharmaceuticals, cosmetics and orthopaedic equipment (up by 18% y-o-y), sales at non-specialist retail stores (up by 15.1% y-o-y), and fuels (up by 12.4% y-o-y). By contrast, sales of food, beverages and tobacco products edged up by 0.1% y-o-y.

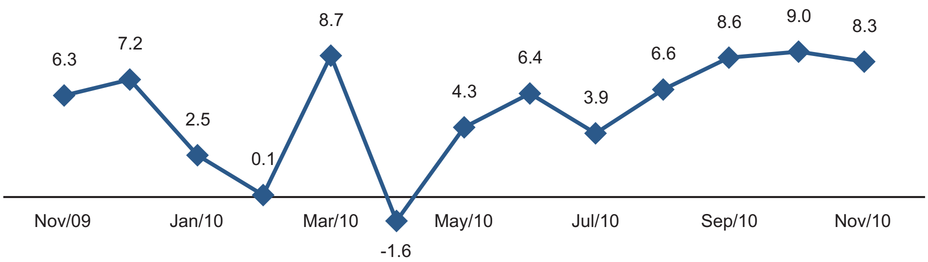
In January-November retail sales at current prices climbed by 4.6% y-o-y. We believe that the strong upturn in retail sales observed in recent months was due both to a rise in Poles' underlying readiness to spend (thanks to a steady dissipation of fears over job loss) and to a series of one-off factors (reconstruction effort in flood-stricken areas, but especially the prospect of a rise in VAT rates and the introduction of less favourable tax treatment of passenger cars converted into delivery vans as of the new year, which encouraged consumers to stockpile certain supplies or bring forward purchases). For these reasons, we estimate that in December retail sales at current prices grew by close to 10% y-o-y, taking the full-year growth rate to 5.5%. Although the front-loading of consumer spending could have a negative impact on sales figures in Q1, we forecast that in 2011 retail sales will rise by 8.1%, helped chiefly by the anticipated more tangible improvement on the labour market.

[5] In real terms, wage growth in the enterprise sector was 1.1% y-o-y in November.
[6] In November the total wage bill in the enterprise sector rose by about 3.3% y-o-y in real terms.

The closing weeks of 2010 were marked by frantic car-buying activity among entrepreneurs seeking to take advantage of favourable VAT rules that were due to be scrapped on 1 January 2011. In the case of many car brands this led to vehicle shortages at dealerships and to the absence of special promotions, which normally tend to drive car sales in Poland in the opening weeks of a new year. Therefore, car sales in January will be significantly lower than in the same period of 2010, by about 20% according to my estimates. The stagnation will probably extend into February, but its scale will be smaller, and from the second quarter onwards the market should start regaining ground. There are several reasons for my optimism. First, according to our research, the hike in sales caused by the prospect of less generous VAT rules as of 2011 was only about 8-10%; the buying spree did not extend to big companies, which pursue more stable fleet management policies and so will press on with pre-scheduled replacements in 2011. Second, the economic situation in Poland is considerably better than in most other countries, and preparations for the Euro 2012 football championships are entering their final phase. Thirdly, all brands will be fighting hard for market share. Most importers predict 2011 sales to be roughly the same as in 2010, and our budget assumptions are similar, so new-car sales of 340-350,000 vehicles in 2011 appear entirely realistic.
It can be expected that importers will deploy a wider array of marketing techniques aimed consumers and large fleet customers. Pick-up trucks and small and medium delivery vans will be back in demand. The one-point increase in VAT will be something of a drag on sales, but in my view it will be mainly as a psychological inhibitor that will soon be discarded. This process will be supported by those importers who do offer new-year promotions, as these special offers will more than compensate for the 1-point tax increase.

Wojciech Kordalewski, President of PGD Group (the largest car dealer group in Poland)

Retail sales in Poland (%, y-o-y), November 2009-November 2010



Note: at current prices
Source: GUS, January 2011

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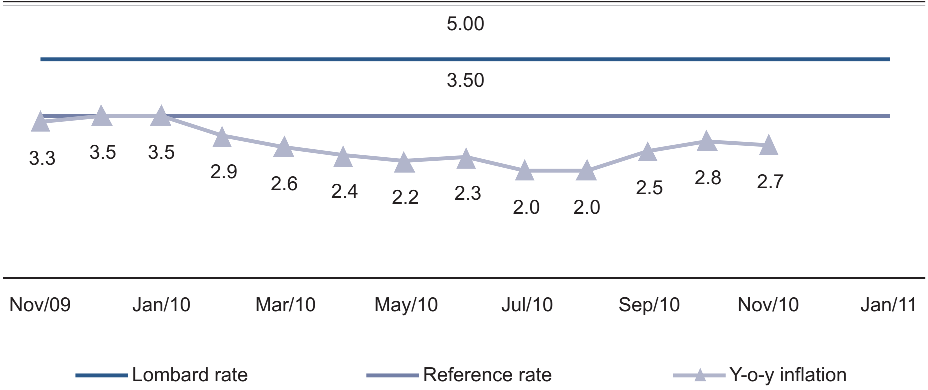
Inflation in comparison with the central bank's interest rates in Poland (%), November 2009-January 2011



Source: GUS, January 2011

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Slight easing of inflation, strong rise in producer prices

The uptick in retail sales in the autumn was accompanied by accelerated growth in consumer prices, although in November consumer inflation actually slowed somewhat due to a higher reference base. The consumer price index (CPI) eased to 2.7% y-o-y in November, but remained above the central bank's inflationary target of 2.5% y-o-y. The result was below market expectations, which averaged 2.9% y-o-y.

The highest price increase in the 12 months to November was noted in food and non-alcoholic beverages and in housing and energy (up by 4.3% y-o-y), followed by alcoholic beverages and tobacco products (up by 3.8% y-o-y) and transport (a category that includes car fuel), up by 3.7% y-o-y. Prices in health and in hotels & restaurants grew by 2.9% y-o-y, and in education they were up by 2.4% y-o-y. By contrast, clothing and footwear prices were down by 3% y-o-y, communication charges dropped by 1.2% y-o-y, while prices in recreation and culture were down by 1.1% y-o-y. On a month-on-month basis, the CPI was 0.1%.

In January-November consumer prices rose by 2.5% y-o-y. Though the quickening of inflation in the autumn resulted, not so much from higher demand but more from a lower reference base and certain supply factors[7], we should expect a further acceleration in the CPI in the months ahead[8]. According to our estimates, in 2010 annual inflation amounted to 2.6%. We forecast that in 2011 average annualised CPI will increase to 3.5%.

Producer prices have been rising at a much faster pace than the CPI. In November the producer price index (PPI) was 4.6% y-o-y, its highest level since April 2009 and ahead of market expectations, which averaged 4.4% y-o-y.

Of Poland's main industrial sectors, by far the steepest price increase (by 19.3% y-o-y) was noted in mining-quarrying. Prices in water supply, sewerage, waste management and remediation activities rose by 5.7% y-o-y, while in electricity, gas, steam and air conditioning supply they climbed by 5.1% y-o-y. In the manufacturing sector, which is the biggest contributor to the PPI, price growth was

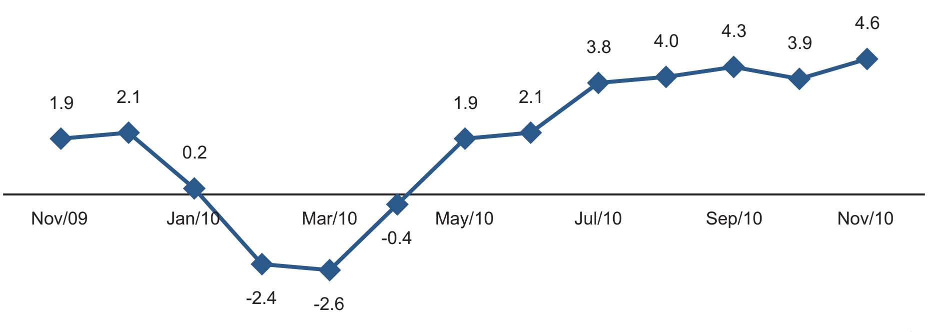
[7] *This can be seen from the very low level of net core inflation (CPI excluding food and energy prices), which in November stood at 1.2% y-o-y for another consecutive month.*

[8] *According to preliminary estimates from the Ministry of Finance, in December the consumer price index rose to 3.1% y-o-y.*

slowest, at 3.4% y-o-y, although prices accelerated there, too. On a month-on-month basis the PPI amounted to 0.3%.

In the first 11 months of the year producer prices increased by 1.8% y-o-y. We estimate that in 2010 as a whole the average annualised PPI was 2.1%, and are forecasting that it will rise to 3% this year.

Producer price index in Poland (%, y-o-y), November 2009-November 2010



Source: GUS, January 2011 www.pmrpublications.com

Interest rates left unchanged in 2010, a tightening cycle expected to begin in Q1

After examining latest macroeconomic data, the Monetary Policy Council (RPP) decided to keep interest rates on hold at its December session. The decision was in line with market expectations.

In its commentary on the session, the Council noted that the global economy continued to exhibit modest recovery, although growth in the biggest emerging economies slowed and economic activity in developed countries was being pulled down by high unemployment and adjustments in private and public spending. Also, major downside risks for global growth remained, notably fiscal imbalances in developed economies and uncertain effects of the measures to redress them, as well as of monetary expansion policies. Meanwhile, latest domestic macroeconomic figures point to an acceleration of economic growth in Poland in the third quarter, supported mainly by faster growth in private consumption, which in turn was helped by rising employment. At the same time, salary growth is being moderated by a rise in the professional activity rate (which in turn caused the seasonally-adjusted official unemployment rate to creep up). However, business investment remains weak, even despite rising capacity utilisation and strong corporate finances, as companies remain wary about the economic outlook.

In November the consumer price index eased, mainly due to slower growth in food and energy prices, but remained above the central bank's inflationary target. The RPP expects that inflation will quicken in the months ahead, driven by energy prices and the rise in VAT that is due to take effect as of January.

Nevertheless, taking into account the still limited scale of inflationary and wage pressures in the Polish economy and persisting uncertainty about the strength of recovery in Poland and globally, the Council decided to keep interest rates unchanged, noting however that it would be watching for any signs of strengthening inflationary pressures.

Between November 2008 and June 2009 the Council slashed interest rates by a total of 250 basis points. As a result, the main reference rate currently stands at 3.50%, an all-time low. We expect a slight tightening of monetary policy in the coming months. According to our forecasts, by the end of 2011 the main reference rate will increase to 4.25%.

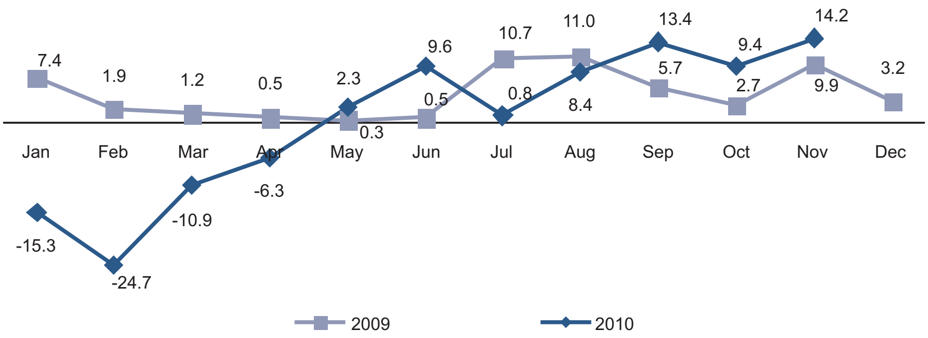
Paweł Sionko
Senior Economist, PMR Publications
pawel.sionko@pmrpublications.com

Sector review

Positive outlook for construction in 2011

After a very weak beginning of the year, recent months brought vivid growth in the Polish construction industry. Of the three major segments of the sector, the situation improved the most in non-residential construction. Price is still the major factor when it comes to the market activity of both investors and contractors. Encouragingly, due to the early signs of improvement construction companies are more optimistic as regards the market situation in 2011.

Construction and assembly output in Poland (y-o-y change, %), January 2009-November 2010



Note: preliminary data from companies with more than nine employees
Source: GUS, January 2011
www.pmrpublications.com

Construction and assembly output in Poland, Q1-Q3 2010

	Y-o-y nominal change	Share of output
Construction and assembly output total, of which:	**-1.7%**	**100.0%**
Residential construction, of which:	**-12.9%**	**13.8%**
Single family buildings	-6.8%	1.6%
Double and multiple-dwelling buildings	-12.4%	10.9%
Collective accommodation buildings	-23.3%	1.3%
Non-residential construction, of which:	**3.0%**	**29.4%**
Hotels and tourist accommodation buildings	-8.0%	0.9%
Office buildings	-1.4%	3.3%
Trade and services	0.0%	6.8%
Transport and communications	39.3%	0.5%
Industrial and warehouse buildings	-15.8%	8.3%
Cultural, educational, sports, healthcare buildings and hospitals	42.3%	8.0%
Others	2.1%	1.6%
Civil engineering construction, of which	**-1.0%**	**56.8%**
Motorways, expressways, roads and other carriageways	-0.8%	23.9%
Railways	-1.9%	3.1%
Airport runways	48.4%	0.2%
Bridges, viaducts and flyovers, tunnels, subways and pedestrian bridges	-3.0%	3.6%
Water installations	24.0%	1.0%
Pipelines,telecommunication cables and long-distance power lines	-4.7%	4.8%
Distribution pipelines and cables	-6.9%	10.7%
Industrial complexes	0.7%	5.0%
Sporting and recreational structures	9.0%	2.3%
Miscellaneous	18.3%	2.2%

Source: PMR Publications based on data from GUS, January 2011
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Recovery in the second half of 2010

After a sharp decline in early 2010, the activity on Polish construction sites intensified in the second half of the year, with very high growth rates in the September-November period. According to preliminary data from the Central Statistical Office (GUS), in the first 11 months of 2010 companies with more than nine employees generated more than PLN 71bn (approx. €17.8bn) in construction and assembly output. This represents an annual increase of 2.3% in real terms. We estimate that in 2010 as a whole construction and assembly output posted annual growth of about 3-4%, compared to 5.1% final growth reported in 2009.

The recovery in construction and assembly output observed in H2 2010 reflected improvements in all the segments of the market compared to the situation in the early part of the year, with the largest progress in the non-residential segment, which in nominal terms grew by 3% in Q1-Q3 2010. The year-on-year decline in civil engineering was reduced to only 1%, with stadium projects for the Euro 2012 constituting the main driving force. At the same time, there was a 12.9% decline in residential construction. Due to the high increases in October and November, we estimate that in the final quarter of 2010 the situation improved further in each of the three subdivisions.

Preliminary estimates of GDP for Q3 2010 confirm that this was a much better quarter than the previous two for the construction industry. The gross value added (GVA) generated by the sector increased by 6.1% year-on-year in real terms and expectations for Q4 data are even more optimistic. In Q1-Q3 2010 the share of construction as a proportion of total GVA in the country was 6.4%, slightly less than the 6.8% reported in the same period of 2009. We estimate that GVA in the construction industry increased further in the fourth quarter of 2010, mostly because of the recovery in building construction.

Price still the most important criterion

When it comes to plans and measures already taken by construction companies to combat the on-going slowdown in the sector, price is still perceived as the major issue. However, the significance of low prices in the sector has decreased slightly during the last 12 months.

Still, almost half of the largest construction companies mentioned reduced bid prices and seeking cheaper suppliers of materials and subcontractors as central to their efforts to protect themselves against the crisis in the construction industry and its impact. In addition, some of them are still planning renegotiation of prices with existing partners and in some cases they have already done it.

Reduction of administrative expenses and lay-offs were in the autumn of 2010 the only two measures that gained in popularity among contractors as a response to the crisis. On the other hand, companies were less likely to engage in activities aimed at increasing the volume of orders, were less focused on new market segments, and not so much focused on streamlining plant and equipment management. The percentage of companies who declared that they had taken no action with a view to maintaining stability during the crisis increased over the last year. This shows that the situation in the industry is slightly improving and companies are also more optimistic when it comes to 2011.

Construction output growth to speed up in 2011

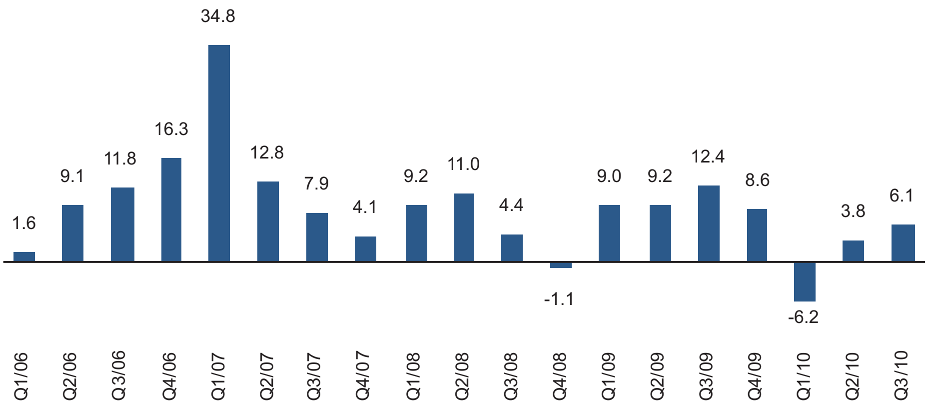
After two meagre years for the industry, the year 2011 can be a breakthrough year in terms of construction output growth. Provided that weather conditions in the winter months are relatively favourable, we expect that the 2011 average annual growth rate can be up to 10%, driven by large civil engineering projects and major improvement in the building construction sector.

Civil engineering construction will continue to be the main driver of growth in the Polish construction industry in the upcoming years, mainly due to the Euro 2012-related transport projects that are already under construction. However, given the fact that a vast majority of civil engineering projects are public projects, some of them may be delayed. A serious risk is also posed by the concurrent execution of so many large road projects, as some of these projects can encounter various obstacles.

Compared to the situation in early 2010, development prospects for non-residential construction have improved, mainly due to the stabilisation in commercial construction and expectations of continued increases in the public utility construction segment. Improvement will be also powered by recovery in the financial sector, more dynamic growth of the Polish economy and a stronger inflow of foreign direct investments into Poland.

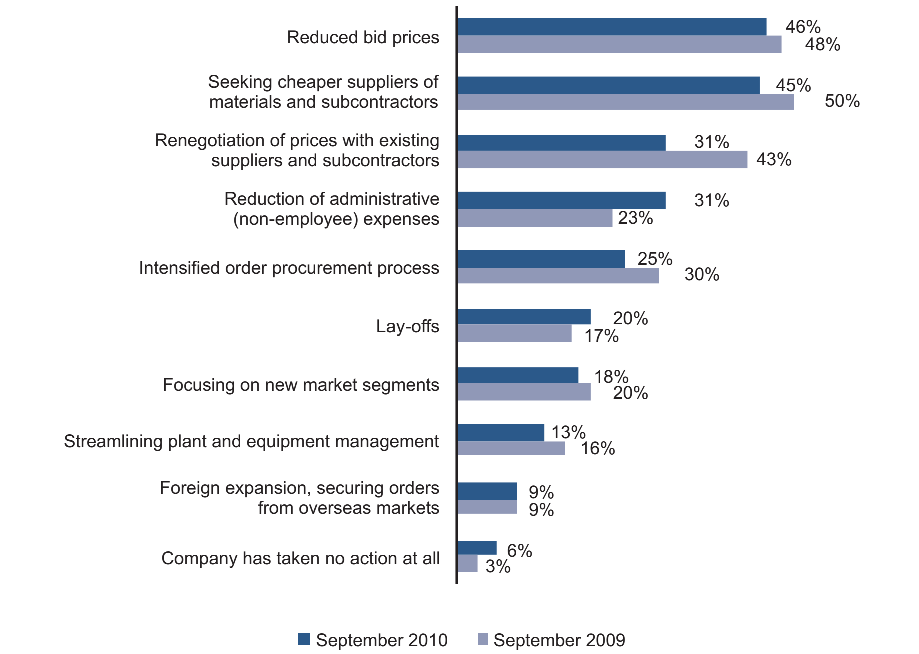
Despite the major slowdown in the housing market, long-term growth prospects for the sector remain positive. It should be noted that the crisis in the Polish housing market proved decisively less severe than commonly expected and its impact was much less acute when compared with most EU countries. Information published by major developers in recent months suggests that the supply of developer-built homes has recovered already in 2010, and in 2011 more large multi-residential projects will be brought to completion that are already under construction.

Gross value added in construction in Poland (y-o-y change, %), Q1 2006-Q3 2010



Source: GUS, January 2011 www.pmrpublications.com

What measures are planned or have been implemented by the largest Polish construction companies in response to the slowdown in the construction sector?



Source: PMR Publications, January 2011 www.pmrpublications.com

Bartlomiej Sosna
Senior Construction Analyst, PMR Publications
bartek.sosna@pmrpublications.com

Investor's perspective

Advantage of a lucky twist of events...

The turmoil hitting the eurozone proved a boon to the Polish economy. As a result, the zloty did not appreciate excessively, which kept profitability of domestic exports at a high level, while Germany, the largest recipient of Polish products, experienced an unprecedented economic boom. It was so because the cheap euro is as good for Germany as the possibility of continued suppression of the yuan exchange rate is beneficial for China – these measures help these countries stimulate their exports. But in the case of Germany there is no one to accuse it of manipulating the market. What is more, the recent months have shown Germany rising to the position of an all-European leader.

The crisis spreading across the eurozone can enter a new phase in the forthcoming weeks. The European Union summit which took place in the middle of December was actually a flop. It demonstrated that the EU community was threatened by numerous forces capable of blowing apart the eurozone. The mechanism which introduced a common European currency 12 years ago proved a failure. It did so because this milestone was not followed decisions aiming to tighten political cooperation. In other words, the next step after adopting a common currency was supposed to be a joint economic government, which in practical terms meant a fiscal union. However, neither politicians, nor EU citizens are ready to accept such a reality.

But time is getting on and the eurozone has attracted numerous market-riggers. The succession of events resembles a predictable domino scenario that can earn really huge money. Last year Greece and Ireland were trapped in the financial plight; 2011 will see Portugal, Spain, Belgium and France, one after another, facing similar challenges. Special attention should be paid to Spain, but France deserves a closer look as well. And it is not that Paris has, to some extent, neglected public finances, but rather the fact that French banks have a significant exposure in Europe's peripheral countries. The eurozone appeared to them like a golden business opportunity – in view of the economic disparities between the peripheral markets and the eurozone's centre, banks were willing to extend funding to all kinds of projects (especially in the construction segment), which, by all means, were supposed to be exposed to a limited risk – belonging to the eurozone was expected to be a sufficient shield against more serious turbulences, while the ultimate objective behind such actions was certainly glorious – to reduce economic and social disparities in Europe as a whole.

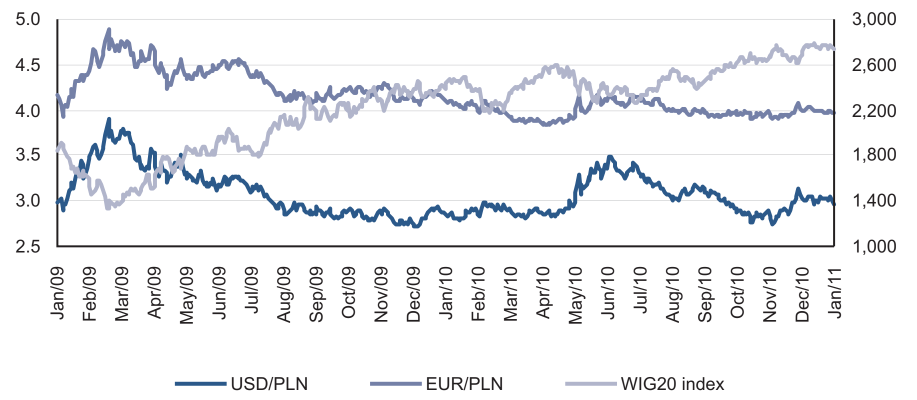
As things are now, everybody knows it is a dreamland and the forthcoming years will see even larger disparities between the peripheral regions and the centre (including in particular Germany, which was the country to reap the biggest profits on the euro-concept). The banking system in the peripheral eurozone appears to be showing signs of instability, while some countries have really huge debt levels. Consequently, banks from the central markets can lose money both on loans advanced and bonds in their hands, whose prices plummeted (as provisions had to be created). Besides, the condition of the European banking sector will be the hot topic in the approaching weeks. The sector will likely undergo further stress tests since those conducted in the summer of 2010 did not take into account all potential factors. Therefore, a question arises if the impending stress tests can spell out the end of the cajas (Spanish saving banks) and thereby intensify speculations that Spain is next in line for trouble.

Eurozone plight will affect the zloty

Why did I spend so much space to discuss the situation in the eurozone? Because it is currently fundamental to the prospects for the Polish economy. Last year, the zloty did not stay too firm, with the average EUR/PLN exchange rate fluctuating around 4, which many economists believe to be an optimum level. This explains why the Polish economy was more competitive, while exports continued to grow rapidly and companies were finally making capital expenditure, thus fuelling hopes for strong GDP growth in 2011. It is also possible that salaries will go up more markedly this year (the result of opening up the German labour market to Polish workers), thus stimulating internal demand. Therefore, Poland stands a chance of delivering more balanced economic growth. Forecasts for 2011 expect GDP to grow at 4-4.5%, which appears to be a plausible projection.

Global economy is unlikely to collapse (helped by stimulation programmes), while continued turbulence in the eurozone, which will weaken the euro and the zloty, will only boost the trends observed to date. In the first months of 2011 the EUR/USD exchange rate

EUR/PLN and USD/PLN fixing in comparison with WIG20 index, January 2009-December 2010



Source: NBP, WSE, January 2011

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can slide to 1.20, falling to around 1.15 at the end of the year. Consequently, Q1 can see the euro priced at PLN 4.08-4.10, and the US dollar rising even to PLN 3.40. The zloty can appreciate in relation to the euro in the forthcoming months, but the US dollar and the Swiss franc will remain stronger (the franc is unlikely to fall below PLN 3 and the US dollar will stay around PLN 3.30 until the end of the year).

That 2011 will be the year of the dollar is also a result of market expectations regarding the policies applied by the US Fed. It should be noted that the Fed's decision of 3 November 2010 to spend an extra $600bn to buy US government bonds did not weaken the dollar. On the contrary, long-term rates for FRAs and bond yields immediately jumped. This shows that despite Ben Bernanke's assurances, investors are wary that such policy might lead to an inflation outbreak within the next two or three years. Hence expectations will be on the rise that the Fed will move to raise interest rates within the next year or year and half. The better macroeconomic data comes from the US, the more likely this scenario is.

Foreign currency projections for 2011

	Q1 2011 (end of period)	H1 2011 (end of period)	2011 (end of period)
EUR/PLN	4.08	3.95	3.85
USD/PLN	3.40	3.23	3.34
CHF/PLN	3.37	3.22	3.23
EUR/USD	1.20	1.22	1.15
EUR/CHF	1.21	1.23	1.19

Source: author's own projection, January 2011 www.pmrpublications.com

Stock exchanges will continue high

Continued turmoil in the eurozone, which is likely to occur in the forthcoming months, can be used as an excuse for correction of price increases recorded in H2 2010. Following in the footsteps of foreign stock markets, the Warsaw Stock Exchange (WSE) can decline by 10-15%. Thus, WIG20 could fall to 2,400-2,450 pts. However, this decline will provide a convenient opportunity to increase exposure to the stock market. No major downturn should be expected as the macroeconomic data fuels continued bullish activity. The German engine is running at full speed and it is likely to count 2011 as yet another successful year. The Polish economy will capitalise on the German success as well. As a result, WIG20 should end the year breaking 3,000 pts.

Increased activity can be expected in medium-sized and small companies as the WSE is about to see a wider bull market phase. It should be noted that funds even venture to invest in the NewConnect market, which is characterised by poor liquidity. This trend demonstrates how the market as a whole is perceived – just two years ago no one would even look at start-ups. This is evidence that investors are more prone to risk-taking behaviours.

As yet, market will forgive government for not implementing reforms

While most European countries will implement harsh budget cuts in 2011, the Polish government performs rather poorly against this background. Unpopular decisions to reform the pension system and the Agricultural Social Insurance Fund (KRUS) are still avoided; instead, interim emergency steps are taken, such as the increased VAT rate.

In the long run, these steps will only contribute to heightened investment risk. Because what will happen when the Germany engine finally stops running? That Poland has not experienced any major fiscal crisis is only attributable to high economic growth that can continue into the next two or even three years. But what will come afterwards? Every business cycle is a sinusoidal wave. When in the downward swing, will Poland have to ask Europe for financial aid? And what about Poland adopting the euro? Although it is true that financial markets do not offer such generous rewards to euro-aspiring countries as in the past, because entering the eurozone is not an honour in its own right any longer, but the struggle to meet the Maastricht criteria should be an objective worth pursuing for its own merits.

Parliamentary elections will be held this year, probably in the autumn. Thus, the government will be working on the 2012 budget feeling the pressure of the looming election campaign. This can result in a setback with rating agencies starting to lose patience in the year of the European Football Championships hosted by Poland.

Marek Rogalski
Analyst, Dom Maklerski Banku Ochrony Srodowiska (www.bossa.pl)
m.rogalski@bossa.pl

CEE economy highlights

Czech Republic

- Revised GDP up by 2.5% y-o-y in Q3, compared with 2.9% y-o-y in the previous quarter
- Inflation rate remains unchanged at 2% y-o-y in November
- Producer price growth accelerates to 2.7% y-o-y in November, from 2.6% y-o-y in October
- Industrial output increases by 6.9% y-o-y in October, after a growth of 12.4% y-o-y in September
- Construction output down by 1.4% y-o-y in October, compared with 5.1 y-o-y in the previous month
- Retail sales decline by 0.7% y-o-y in October, after an increase of 3.2% y-o-y in September
- October exports rise by 17.2% y-o-y, while imports by 19.4% y-o-y, resulting in a trade surplus of CZK 15.3bn (€624m)
- Registered unemployment rate up to 8.6% in November, from 8.5% in October

Industrial output (October)	CPI (November)	Unemployment (November)	EUR/CZK (November)	USD/CZK (November)
6.9%	2.0%	8.6%	24.64	18.03

NOTE: Exchange rates: monthly average, unemployment: end-of-month figure, output and inflation: y-o-y change

Hungary

- Inflation stays flat at 4.2% y-o-y in November
- Producer prices grow by 7.1% y-o-y in October, after an increase of 7.9% y-o-y in the previous month
- Industrial output up by 8.3% y-o-y in October, compared with a 10.9% y-o-y rise in September
- October construction output down by 12.2% y-o-y, after a fall of 9.2% y-o-y in the previous month
- Retail sales adjusted for calendar effects decrease by 0.7% y-o-y in October, against a 0.9% y-o-y increase in September
- Exports calculated in euro up by 21% y-o-y and imports by 19.2% y-o-y in January-October, trade surplus at €4.4bn
- LFS unemployment rate remains unchanged at 10.9% in August-October
- Average gross monthly wage increases by 1.2% y-o-y to HUF 195,835 (€716) in October

Industrial output (October)	CPI (November)	Unemployment (October)	EUR/HUF (November)	USD/HUF (November)
8.3%	4.2%	10.9%	284.54	218.76

NOTE: Exchange rates: monthly average, unemployment: end of month figure, output and inflation: y-o-y change

Russia

- Inflation rate higher at 8.1% y-o-y in November, compared with 7.5% y-o-y in October
- Producer price growth accelerates to 16% y-o-y in November, from 10.4% y-o-y a month earlier
- Industrial output up by 6.7% y-o-y in November, after a growth of 6.6% y-o-y in October
- November construction output grows by 2.3% y-o-y, against an increase of 6.3% y-o-y in September
- Retail sales rise by 4.6% y-o-y in November, after a growth of 4.5% y-o-y in October
- October exports up by 14.9% y-o-y, while imports by 27% y-o-y – to yield a trade surplus of $10.5bn
- Average gross monthly wage at RUR 21,599 (€509) in November, 3.2% higher y-o-y in real terms
- Unemployment rate down to 6.7% in November, from 6.8% in October

Industrial output (November)	CPI (November)	Unemployment (November)	EUR/RUR (November)	USD/RUR (November)
6.7%	8.1%	6.7%	42.40	30.97

NOTE: Exchange rates: monthly average, unemployment: end-of-month figure, output and inflation: y-o-y change

Slovakia

- Inflation at 1% y-o-y in November, the same rate as in October
- Producer price growth at 1.5% y-o-y in November, compared with 2.1% y-o-y in the previous month
- Industrial output up by 12.6% y-o-y in October, against a growth of 13.2 % y-o-y in September
- October construction output grows by 4% y-o-y, after a decrease of 6.5% y-o-y in the previous month
- Retail sales decline by 3.7% y-o-y in October, compared with a drop of 1.8% y-o-y in September
- October exports up by 16.7% y-o-y, while imports by 22.4% y-o-y, resulting in a trade surplus of €145m
- Registered unemployment rate down to 12.2% in November, from 12.3% in October
- State budget deficit at €3.5bn in January-November

Industrial output (October)	CPI (November)	Unemployment (November)
12.6%	1.0%	12.2%

NOTE: Unemployment: end of month figure, output and inflation: y-o-y change

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Customer service: tel. /48/ 12 618 90 30, moreinfo@pmrcorporate.com