



Power Utilities

Poland

Offering price	PLN 23.00
Target price	PLN 27.90
Market cap	PLN 39.79bn
Free float	PLN 5.97bn
Avg. daily trading volume (3M)	PLN 61.31m

Shareholder Structure

State Treasury	85.0%
Others	15.0%

Sector Outlook

The Polish power utilities sector is expected to correlate increasingly with EU markets, and energy prices are converging to EU averages. The convergence process should be supported by increasing electricity usage accompanied by a hiatus in capacity expansion – a combination which could lead to power shortage during peak demand periods in the future.

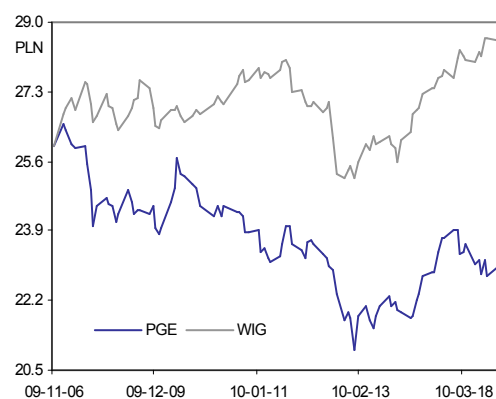
Company Profile

PGE is the largest energy holding in Poland, comprised of power plants and combined-cycle plants with a combined capacity of 12.4 GW and an annual output of 56 TWh, (representing a 42% market share). PGE produces about 68% of electricity from coal provided by its own lignite mines. In addition to power generation, the company also operates its own distribution network (covering about 26% of the Polish market), and a retail company which sales electricity to end users. Last but not least, PGE owns a 21.85% stake in telecom operator Polkomtel.

Important dates

17.05 – Q1'10 report
31.08 – H1'10 report

PGE vs. WIG



Kamil Kliszczyk

(48 22) 697 47 06
kamil.klisczyk@dibre.com.pl
www.dibre.com.pl

PGE

PGE PW; PGE.P.WA

Buy

(Reiterated)

Best Exposure to the Power Market

PGE has been underperforming the bullish market, not just because it is a defensive stock, but also due to the likely increase in share supply in the second half of the year. Regardless of the latter factor, we reiterate our buy rating. Investors should note that there is little risk that earnings will undershoot our conservative forecasts, which entail a discount to peers of several dozen percent on EV/EBITDA. Should a positive scenario play out for the Polish economy, the Company's earnings will improve much faster than those of its Western European peers (recall that PGE sets energy prices in contracts in the final months of each year). With the risk-free rate now lower, we are raising our price target to PLN 27.9 per share.

Q4'09 in Line with Expectations

PGE's fourth-quarter results came in line with expectations at the EBIT level and at the bottom line. As for individual segments, Generation naturally contributed the most to the consolidated EBIT, i.e. PLN 1.06bn (on energy output of 14.2 TWh vs. 14.6 TWh the year before), compared to PLN 0.9bn expected by us. The discrepancy stems from the recognition of higher-than-expected revenue from compensation for long-term contracts (+PLN 62m) and the reversal of a land remediation reserve of PLN 131m (vs. PLN 565m a year ago). A negative surprise appeared in Distribution, which generated an EBIT loss of PLN 4.8m (vs. +PLN 124m forecasted and -PLN 152m in Q4'08), most likely due to unexpected balance-sheet provisions. A noteworthy aspect of the earnings are the very strong cash flows from operations (PLN 1.8bn, bringing the FY total to PLN 7.3bn vs. PLN 6.3bn expected by us). With slightly lower-than-expected FY CAPEX (PLN 4bn vs. PLN 4.67bn expected by us) and share offering gains, the Company's net cash at the end of the year stood at PLN 2.7bn (vs. PLN 480m expected by us), which will improve its EV/EBITDA multiple.

Looming Supply of Additional Shares Still a Problem

One of the main risk factors working against the PGE stock is still the likely increase in share supply in the second half of the year. On the one hand, the State Treasury is planning to offer a 10% stake to institutional investors; on the other, the Company is planning to issue up to 136.7m shares for employees in exchange for their minority stakes in PGE's power plants and mines, as part of a group restructuring exercise (the transaction will be neutral for valuation, as it will reduce minority interest). All in all, additional PLN 7bn worth of shares will appear on the market (the employee shares will be admitted to trading immediately).

(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	19 408.7	21 623.4	21 123.7	22 348.1	24 070.2
EBITDA	5 846.9	7 983.4	7 394.2	7 950.2	8 854.8
EBITDA margin	30.1%	36.9%	35.0%	35.6%	36.8%
EBIT	3 262.3	5 344.7	4 667.4	4 889.6	5 566.6
Net profit	1 920.2	3 370.7	3 138.3	3 305.3	3 548.0
DPS	0.29	0.71	0.76	0.91	0.96
P/E	17.6	11.8	12.7	12.0	11.2
P/CE	7.5	6.6	6.8	6.3	5.8
P/BV	1.5	1.3	1.2	1.2	1.1
EV/EBITDA*	7.4	5.2	5.8	6.0	6.2
DYield	1.3%	3.1%	3.3%	3.9%	4.2%

*incl. investment in Polkomtel



In-Line Q409 Results Highlighted By Strong Cash Flows

PGE's Q409 operating profit and bottom line came in line with our expectations, but the reported results displayed slight differences relative to the company's February 19th guidance which served as a basis for an 8% higher-than-actual consensus estimates. Reported were lower than expected due to a change in the approach to accounting for intercompany transactions with lesser subsidiaries (which trimmed annual sales by PLN 1.4bn). By segment, the biggest contribution to the consolidated EBIT was made, as always, by Power Generation which generated an operating profit of PLN 1.06 billion (with the annual power output at 14.2 TWh vs. 14.6 TWh a year earlier), ahead of our expected PLN 0.9 billion. The difference was a result of a PLN 62m higher-than-expected compensation for cancelled long-term contracts, and a reversal of a PLN 131m land remediation provision (a year earlier, the reversal was much higher at PLN 565m). By contrast, the Distribution segment disappointed with a PLN 4.8m EBIT loss (vs. our estimate of PLN 124m and a PLN 152m loss reported in Q408) which was probably an effect of recognition of higher-than-expected balance-sheet provisions. The respective EBIT contributions of the Wholesale and the Retail segments amounted to PLN 90m (we expected PLN 52m), and PLN 109m (we expected PLN 111m). In all, the consolidated Q4 2009 EBIT amounted to PLN 1.3bn.

Reported vs. forecasted Q4 2009 results

(PLN m)	Q409	Q408	change	Q409F	actuals vs. forecasts	consensus estimates	actuals vs. consensus	2009	2008	change
Revenue	5 752.9	4 499.7	28%	6 511.9	-12%	6 072.0	-5%	21 623.4	19 408.7	11%
EBITDA	2 020.3	1 693.3	19%	1 995.8	1%	2 188.0	-8%	7 983.4	5 846.9	37%
EBITDA margin	35.1%	37.6%	-	30.6%	-	36.0%	-	36.9%	30.1%	-
EBIT	1 319.0	1 023.5	29%	1 283.9	3%	1 481.0	-11%	5 344.7	3 262.3	64%
Pre-tax income	1 362.6	877.2	55%	1 348.4	1%	-	-	5 378.5	3 169.5	70%
Net income	848.8	512.6	66%	860.9	-1%	871.0	-3%	3 370.7	1 920.2	76%

Source: PGE, F – forecasts by BRE Bank Securities, Consensus estimates by PAP

Fourth-quarter financial operations generated an income of PLN 43.6m (after adjustment for gains from consolidated subsidiary Polkomtel), which fell slightly short of our PLN 64.4m estimate due to lower-than-expected interest income. Tax was in line, and minority interests were only PLN 23m higher than we predicted. All told, the Q409 net profit came in line at PLN 848.8m. The highlight of PGE's financial fourth quarter was a strong operating cash flow which totaled PLN 1.8bn (adding to a full-year total of PLN 7.3bn vs. our forecast of PLN 6.3bn). After spending slightly less than expected on capital investment (PLN 4bn vs. PLN 4.67bn), and booking IPO gains, PGE's net cash at 31 December 2009 stood at PLN 2.7bn, far exceeding our forecast of PLN 480m, with positive effects for the EV/EBITDA ratio. The company's Management Board suggested distribution of PLN 1.3 billion, or PLN 0.76 per share, as dividends to shareholders (we expected PLN 0.98 per share),

Quarterly earnings by business segment*

(PLN m)	1H2008	Q308	Q408	1H2009	Q309	Q409
Revenue	10 689	4 220	4 500	11 100	4 770	5 753
EBIT	1 566	673	1 023	2 913	1 113	1 319
Power Generation	773.7	561.7	1 314.7	2 176.8	788.8	1 060.6
Renewable Energy	71.6	34.4	29.7	39.9	19.6	18.1
Distribution	296.6	87.6	-154.4	207.9	60.2	-4.8
Wholesale	309.2	-45.2	-189.5	199.8	149.4	90.3
Retail	47.1	25.3	4.4	206.1	82.6	109.0
Other	67.5	9.4	18.5	82.2	12.5	40.8
EBITDA	2 900	1 253	1 693	4 208	1 755	2 020
Electricity output (GWh)	27.6	13.9	14.6	26.4	13.2	14.2
Power distribution volumes (GWh)	b/d	b/d	7.8	14.7	7.4	7.9

*Since PGE did not publish quarterly financial data for Q108, Q208, Q109, and Q209, only first-half financials are available

Source: BRE Bank Securities based on PGE data

Macroeconomic Assumptions

Macroeconomic assumptions for the DCF model

	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Prices of Brent crude (USD/Bbl)	98.0	62.0	75.0	80.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
EEX electricity prices (EUR/MWh)	54.9	69.1	49.3	50.2	55.8	63.3	66.6	67.3	68.1	71.4	75.4	77.0
Electricity prices in Poland (PLN/MWh)	154.3	195.0	190.0	190.8	200.9	221.5	233.1	235.7	238.4	249.8	263.8	269.4
CO2 allowance prices (EUR/T)	23.9	13.8	14.0	17.6	22.3	30.0	31.5	33.0	34.6	36.3	38.1	40.0
Steam coal prices (PLN/T)	192.7	274.1	240.2	247.7	284.9	274.7	274.7	274.7	274.7	274.7	274.7	274.7
Avg. PLN/USD exchange rate	2.42	3.12	3.00	2.90	2.80	2.70	2.70	2.70	2.70	2.70	2.70	2.70
Avg. EUR/PLN exchange rate	3.48	4.33	4.05	3.80	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
PGE power output (TWh)	56.1	53.8	53.1	58.4	60.9	61.1	63.8	71.2	69.7	70.9	71.1	71.1
brown coal	38.2	35.9	35.3	40.2	42.1	42.1	42.1	42.1	40.4	40.4	40.4	40.4
hard coal	14.8	14.6	14.8	14.8	14.8	14.8	14.8	20.1	20.1	20.1	20.1	20.1
natural gas	2.0	2.0	2.0	2.0	2.0	2.0	3.5	4.4	4.4	5.3	5.3	5.3
wind	0.1	0.1	0.1	0.6	1.1	1.3	2.5	3.8	4.0	4.3	4.5	4.5
other	1.0	1.2	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9

Source: Bloomberg, PGE, estimates by BRE Bank Securities

Earnings Forecast and Valuation

Based on DCF analysis and relative valuation, we set the nine-month price target for PGE at PLN 27.90/share.

	Weight	Price
Relative Valuation	50%	24.20
DCF Analysis	50%	27.72
		price
	9M target price	27.90

DCF Analysis

DCF model assumptions

- Cash flows are discounted to their present value as of 31 March 2010. Equity value calculations take into account minority interests and net debt as at 31 December 2008, adjusted for the portion of the compensation due for canceled long-term supply contracts that is subject of a dispute between PGE and the energy regulator (URE).
- The macroeconomic assumptions are as laid out above.
- The valuation factors in PGE's non-operating assets including a 21.85% investment in Polkomtel (PLN 3.1bn) and holdings in Exatel and Autostrada Wielkopolska (PLN 329m).
- We added the expected amount of an excise tax refund due to PGE for network losses (PLN 320m) to the valuation.
- Free cash flows are adjusted for the disputed amount of the long-term contract compensation, which we added to accounts receivable.
- The depreciation and amortization expense projected for FY2019 is higher than CAPEX, which is unsustainable over a long term, prompting a revision in the D&A expense to PLN 3.8m for purposes of terminal value estimations.
- When calculating FCF_{TV} , we based terminal-value calculations on the sales growth rate and EBITDA margins projected for FY2019.
- We assume that FCF will grow at a rate of 2% after FY2019. The risk-free rate is 5.6%, and beta is 0.9%.



DCF Valuation Model for PGE

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+
Revenue	21 124	22 348	24 070	26 025	28 164	30 377	30 817	32 262	33 916	34 710	34 710
<i>change</i>	-2.3%	5.8%	7.7%	8.1%	8.2%	7.9%	1.4%	4.7%	5.1%	2.3%	0.0%
EBITDA	7 394.2	7 950.2	8 854.8	9 127.1	9 970.3	10 965.7	10 539.8	11 196.7	11 387.4	11 669.0	11 669.0
<i>EBITDA margin</i>	35.0%	35.6%	36.8%	35.1%	35.4%	36.1%	34.2%	34.7%	33.6%	33.6%	33.6%
D&A expenses	2 726.7	3 060.6	3 288.1	3 806.2	4 216.4	4 517.0	4 718.8	4 915.7	5 085.8	5 277.5	3 783.1
EBIT	4 667.4	4 889.6	5 566.6	5 320.9	5 753.9	6 448.7	5 821.0	6 281.0	6 301.6	6 391.4	7 885.9
<i>EBIT margin</i>	22.1%	21.9%	23.1%	20.4%	20.4%	21.2%	18.9%	19.5%	18.6%	18.4%	22.7%
Tax rate on EBIT	886.8	929.0	1 057.7	1 011.0	1 093.2	1 225.2	1 106.0	1 193.4	1 197.3	1 214.4	1 498.3
NOPLAT	3 780.6	3 960.6	4 509.0	4 309.9	4 660.7	5 223.4	4 715.0	5 087.6	5 104.3	5 177.1	6 387.6
CAPEX	-4 813	-8 226	-12 023	-8 550	-6 871	-5 426	-4 061	-3 993	-3 985	-3 783	-3 783
Working capital	-848.1	-627.5	-480.7	-508.2	-432.6	-424.7	-214.3	-311.1	-172.0	-82.5	-82.5
Equity investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	845.9	-1 832.3	-4 706.4	-942.0	1 573.9	3 889.6	5 158.9	5 698.7	6 033.0	6 589.0	6 305.1
<i>WACC</i>	10.1%	9.7%	8.8%	8.3%	8.2%	8.4%	8.6%	9.0%	8.9%	8.9%	8.9%
<i>discount factor</i>	93.0%	84.8%	78.0%	72.0%	66.6%	61.4%	56.5%	51.9%	47.6%	43.7%	43.7%
PV FCF	787.0	-1 553.9	-3 670.1	-678.5	1 047.9	2 389.6	2 917.2	2 955.8	2 873.2	2 881.2	
WACC	10.1%	9.7%	8.8%	8.3%	8.2%	8.4%	8.6%	9.0%	8.9%	8.9%	8.9%
Cost of debt	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Risk-free rate	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	0.0%	8.3%	28.4%	38.4%	40.4%	36.4%	30.6%	22.8%	25.0%	25.0%	25.0%
Cost of Equity	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
FCF growth after the forecast horizon			2.0%		Sensitivity Analysis						
Terminal value			91 226		FCF growth in perpetuity						
Present value of the terminal value (PV TV)			39 891				0.0%	1.0%	2.0%	3.0%	4.0%
Present value of FCF in the forecast horizon			9 949		WACC +1.0ppt	22.55	24.55	27.06	30.32	34.71	
Enterprise value (EV)			49 840		WACC +0.5ppt	23.49	25.73	28.58	32.34	37.52	
2009 net debt (adj.)			-2 087		WACC	24.55	27.06	30.32	34.71	40.93	
Minority interests			7 681		WACC -0.5ppt	25.73	28.58	32.34	37.52	45.14	
Investments in Polkomtelt			3 067		WACC -0.10ppt	27.06	30.32	34.71	40.93	50.46	
Other non-operating assets			329								
Taxes refundable on network losses			320								
Enterprise value			47 962								
Number of shares (millions)			1 730								
Equity value per share (PLN)			27.72								
Cost of equity (9M)			7.5%								
Target Price			29.80								
EV/EBITDA('10) for the target price			6.7								
P/E('10) for the target price			16.4								
TV to EV			80%								



Relative Valuation

We compared PGE's P/CE and EV/EBITDA multiples with the multiples of its peers forecasted for FY2010 through FY2012. The peer group includes power producers and distributors, and natural gas supplier PGNiG, which is the closest to meeting the definition of a utility among Polish companies. Compared to European energy companies, PGE's offering price carries a discount to average EV/EBITDA (between 14% and 20%), and a small premium on P/CE. The discount is even higher when compared to CEZ, at 30% on estimated FY2011 and 2012 EV/EBITDA. We expect the discount to decrease in the near term, but, in the long term, we expect PGE's multiples to be slightly lower than CEZ's which is better positioned to meet the requirements of the EU climate package.

	Price	P/CE				EV/EBITDA			
		2009	2010F	2011F	2012F	2009	2010F	2011F	2012F
EDF	38.79	6.6	6.1	5.7	5.3	7.0	6.4	6.0	5,6
E.ON AG	27.01	5.8	5.8	5.7	5.6	6.8	6.6	6.5	6,4
IBERDROLA SA	6.31	6.8	6.5	6.0	5.6	9.3	8.8	8.1	7,5
ENEL SPA	4.15	4.1	4.1	4.0	3.9	6.2	6.1	5.9	5,8
RWE AG	64.61	6.7	6.0	5.7	5.1	7.1	6.3	6.1	5,5
ENDESA SA	21.88	4.8	5.7	5.6	5.3	6.1	6.3	6.2	6,0
FORTUM OYJ	19.38	9.5	9.6	9.6	8.8	10.1	10.2	10.1	9,4
ENEA	18.91	7.1	6.3	6.3	6.1	5.1	4.3	4.3	4,0
PGNiG	3.65	6.9	5.2	5.4	5.2	6.9	4.8	5.0	4,7
CEZ	893.00	6.5	6.6	6.6	6.4	6.6	6.9	6.9	6,6
Maximum		9.5	9.6	9.6	8.8	10.1	10.2	10.1	9,4
Minimum		4.1	4.1	4.0	3.9	5.1	4.3	4.3	4,0
Median		6.6	6.0	5.7	5.5	6.9	6.4	6.1	5,9
PGE	23.0	6.6	6.8	6.3	5.8	5.2	5.6	5.2	4,7
(premium / discount)		-0.4%	12.5%	9.5%	6.7%	-24.1%	-11.4%	-14.2%	-20,2%
Implied price									
Median		6.6	6.0	5.7	5.5	6.9	6.4	6.1	5,9
Multiple weight			50.0%			50.0%			
Year weight		0.0%	33.3%	33.3%	33.3%	0.0%	33.3%	33.3%	33,3%
Implied value of PGE (PLN)		24.20							

EV/EBITDA based on FY2009 net debt



Income Statement

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Revenue	24 344.0	23 090.7	19 408.7	21 623.4	21 123.7	22 348.1	24 070.2
<i>change</i>	-	-5.1%	-15.9%	11.4%	-2.3%	5.8%	7.7%
incl. LTC	0.0	0.0	1 322.0	1 532.3	851.8	513.6	519.3
EBIT, incl.	2 322.7	2 134.3	3 262.3	5 344.7	4 667.4	4 889.6	5 566.6
Mining and Generation	1 307.6	1 485.9	2 650.1	4 026.3	3 365.9	3 274.2	3 527.2
Renewable Energy	71.6	87.6	135.7	77.6	97.1	248.0	470.0
Distribution	228.3	213.4	229.9	263.2	487.8	607.0	712.6
Wholesale	643.6	201.7	74.5	439.4	395.5	429.3	442.7
Retail	n/a	41.4	76.7	397.7	193.2	195.3	264.6
Other	96.7	104.2	95.3	140.5	128.0	135.8	149.5
EBIT	2 322.7	2 134.3	3 262.3	5 344.7	4 667.4	4 889.6	5 566.6
<i>change</i>	-	-8.1%	52.8%	63.8%	-12.7%	4.8%	13.8%
<i>EBIT margin</i>	9.5%	9.2%	16.8%	24.7%	22.1%	21.9%	23.1%
Profit/loss on financial activity	-323.5	-396.0	-331.3	-208.4	-79.4	-121.4	-427.0
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	198.0	239.2	238.6	242.2	242.2	242.2	242.2
Pre-tax income	2 197.2	1 977.5	3 169.5	5 378.5	4 830.2	5 010.3	5 381.9
Tax	395.2	-948.1	499.3	1 041.3	917.7	952.0	1 022.6
Minority interests	363.6	803.0	750.1	966.5	774.2	753.1	811.3
Income from discontinued operations	284.3	1 845.3	0.0	0.0	0.0	0.0	0.0
Net income	1 722.6	3 967.9	1 920.2	3 370.7	3 138.3	3 305.3	3 548.0
<i>change</i>	-	130.3%	-51.6%	75.5%	-6.9%	5.3%	7.3%
<i>margin</i>	7.1%	17.2%	9.9%	15.6%	14.9%	14.8%	14.7%
D&A expenses	3 836.7	3 840.8	2 584.6	2 638.7	2 726.7	3 060.6	3 288.1
EBITDA	6 159.4	5 975.1	5 846.9	7 983.4	7 394.2	7 950.2	8 854.8
<i>change</i>	-	-3.0%	-2.1%	36.5%	-7.4%	7.5%	11.4%
<i>EBITDA margin</i>	25.3%	25.9%	30.1%	36.9%	35.0%	35.6%	36.8%
Shares at year-end (millions)	1 470.6	1 470.6	1 470.6	1 730.1	1 730.1	1 730.1	1 730.1
EPS	1.2	2.7	1.3	1.9	1.8	1.9	2.1
CEPS	3.8	5.3	3.1	3.5	3.4	3.7	4.0
ROAE	12.6%	16.3%	8.7%	12.5%	9.8%	9.9%	10.1%
ROAA	6.3%	7.9%	4.2%	6.6%	5.7%	5.8%	5.7%

**Balance Sheet**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
ASSETS	54 987.9	45 309.4	47 192.3	54 447.8	56 005.1	57 694.1	66 995.7
Fixed assets	47 169.5	38 419.9	40 701.2	41 964.4	44 051.1	49 216.5	57 951.2
Property, plant and equipment	35 490.7	36 282.6	37 811.6	38 945.7	41 038.3	46 199.4	54 911.2
Intangible assets	150.3	138.6	142.0	153.3	147.4	151.6	174.6
Investments	724.9	726.1	1 479.1	1 354.8	1 354.8	1 354.8	1 354.8
Other fixed assets	10 803.5	1 272.6	1 268.6	1 510.6	1 510.6	1 510.6	1 510.6
Current assets	7 818.4	6 889.4	6 491.1	12 483.4	11 954.0	8 477.6	9 044.5
Inventories	747.1	798.9	1 128.0	1 271.2	1 241.8	1 313.8	1 415.0
Short-term receivables	2 403.5	2 335.2	1 792.6	2 059.1	2 011.5	2 128.1	2 292.1
Other current assets	1 357.7	1 028.9	1 429.6	1 440.2	2 340.2	2 840.5	3 142.2
Cash and cash equivalents	3 310.2	2 726.4	2 140.8	7 712.8	6 360.4	2 195.2	2 195.2
(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
LIABILITIES	54 987.9	45 309.4	47 192.3	54 447.8	56 005.1	57 694.1	66 995.7
Equity	27 301.8	21 252.4	22 809.7	31 168.3	32 749.7	34 243.6	35 896.9
Share capital	397.5	14 705.8	14 705.8	17 300.9	17 300.9	17 300.9	17 300.9
Other equity	26 904.4	6 546.6	8 103.9	13 867.4	15 448.8	16 942.7	18 596.0
Minority interests	7 414.6	8 168.0	7 365.9	7 681.4	7 682.4	7 816.1	8 024.9
Long-term liabilities	14 157.4	10 469.8	9 519.9	9 762.3	9 762.3	9 762.3	15 696.6
Loans	6 856.1	5 739.4	4 470.8	4 056.3	4 056.3	4 056.3	9 990.6
Other	7 301.3	4 730.4	5 049.1	5 706.1	5 706.1	5 706.1	5 706.1
Short-term liabilities	6 114.0	5 419.1	7 496.8	5 835.7	5 810.7	5 872.0	7 377.2
Loans	1 608.7	1 312.1	3 038.1	969.9	969.9	969.9	2 388.9
Trade creditors	1 634.8	1 554.0	1 012.1	1 082.6	1 057.6	1 118.9	1 205.1
Other	2 870.5	2 553.0	3 446.6	3 783.2	3 783.2	3 783.2	3 783.2
Debt	8 464.8	7 051.5	7 508.9	5 026.2	5 026.2	5 026.2	12 379.5
Net debt	5 154.6	4 325.1	5 368.0	-2 686.6	-1 334.2	2 831.0	10 184.3
(Net debt / Equity)	18.9%	20.4%	23.5%	-8.6%	-4.1%	8.3%	28.4%
(Net debt / EBITDA)	0.8	0.7	0.9	-0.3	-0.2	0.4	1.2
BVPS	18.6	14.5	15.5	18.0	18.9	19.8	20.7

**Cash Flows**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Cash flows from Operating Activities	5 584.5	5 683.4	5 386.6	7 298.9	5 628.4	6 370.7	7 351.6
Net income	1 722.6	3 967.9	1 920.2	3 370.7	3 138.3	3 305.3	3 548.0
D&A expenses	3 836.7	3 840.8	2 584.6	2 638.7	2 726.7	3 060.6	3 288.1
Working capital	-299.6	4.6	-904.6	-499.5	-848.1	-627.5	-480.7
Other	324.8	-2129.9	1786.4	1789.0	611.4	632.4	996.1
Cash flows from investing activities	-2 572.0	-3 511.5	-5 444.5	-3 628.6	-4 523.2	-7 918.0	-11 760.1
CAPEX	-3 406.3	-3 635.3	-4 124.1	-4 022.2	-4 813.4	-8 225.9	-12 022.9
Other	834.3	123.8	-1320.3	393.6	290.2	307.9	262.7
Cash flows from financing activities	-1 686.4	-2 761.2	-528.3	1 898.3	-2 457.6	-2 617.9	4 408.5
Stock offering	0.0	0.0	0.0	5 917.5	0.0	0.0	0.0
Debt	-660.4	-1 716.8	288.2	-2 449.3	0.0	0.0	7 353.3
Dividends (buyback)	-395.7	-229.8	-424.4	-1 227.4	-1 314.8	-1 569.2	-1 652.6
Other	-630.4	-814.6	-392.1	-342.6	-1142.8	-1048.7	-1292.1
Change in cash	1 323.4	-586.4	-582.7	5 572.0	-1 352.4	-4 165.2	0.0
Cash at end of period	3 310.2	2 726.4	2 140.8	7 712.8	6 360.4	2 195.2	2 195.2
DPS (PLN)	0.27	0.16	0.29	0.71	0.76	0.91	0.96
FCF	2 058.3	3 292.5	318.9	2 420.4	815.0	-1 855.3	-4 671.3
(CAPEX / Sales)	14.0%	15.7%	21.2%	18.6%	22.8%	36.8%	49.9%

Market multiples

	2006	2007	2008	2009	2010F	2011F	2012F
P/E	19.6	8.5	17.6	11.8	12.7	12.0	11.2
P/CE	6.1	4.3	7.5	6.6	6.8	6.3	5.8
P/BV	1.2	1.6	1.5	1.3	1.2	1.2	1.1
P/S	1.4	1.5	1.7	1.8	1.9	1.8	1.7
FCF/EV	4.8%	7.6%	0.7%	5.8%	1.9%	-3.9%	-8.5%
EV/EBITDA*	7.0	7.2	7.4	5.2	5.8	6.0	6.2
EV/EBIT	18.7	20.3	13.3	7.8	9.2	9.7	9.9
EV/S	1.8	1.9	2.2	1.9	2.0	2.1	2.3
DYield	1.2%	0.7%	1.3%	3.1%	3.3%	3.9%	4.2%

Price (PLN)

	23.00						
Shares at year-end (millions)	1470.6	1470.6	1470.6	1730.1	1730.1	1730.1	1730.1
MC (PLN m)	33 823.3	33 823.3	33 823.3	39 792.1	39 792.1	39 792.1	39 792.1
Equity attributable to minority shareholders (PLN m)	7414.6	8168.0	7365.9	7681.4	7682.4	7816.1	8024.9
EV (PLN m)	43 325.1	43 249.0	43 489.8	41 719.5	43 072.8	47 371.8	54 933.9

*incl. the investment in Polkomtel



Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals, Media

Research Department:

Marta Jeżewska tel. (+48 22) 697 47 37
Deputy Director
marta.jezewska@dibre.com.pl
Banks

Analysts:

Kamil Kliszczyk tel. (+48 22) 697 47 06
kamil.kliszczyk@dibre.com.pl
Fuels, Chemicals, Energy, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction, Real-Estate Developers

Jakub Szkopek tel. (+48 22) 697 47 40
jakub.szkopek@dibre.com.pl
Manufacturers

Sales and Trading:

Piotr Dudziński tel. (+48 22) 697 48 22
Director
piotr.dudzinski@dibre.com.pl

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95
Deputy Director
marzena.lempicka@dibre.com.pl

Traders:

Emil Onyszczyk tel. (+48 22) 697 49 63
emil.onyszczyk@dibre.com.pl

Grzegorz Stępień tel. (+48 22) 697 48 62
grzegorz.stepien@dibre.com.pl

Tomasz Dudź tel. (+48 22) 697 49 68
tomasz.dudz@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

Tomasz Jakubiec tel. (+48 22) 697 47 31
tomasz.jakubiec@dibre.com.pl

Grzegorz Strublewski tel. (+48 22) 697 48 76
grzegorz.strublewski@dibre.com.pl

"Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26
Director
jacek.szczepanski@dibre.com.pl

Paweł Szczepaniak tel. (+48 22) 697 49 47
Sales
pawel.szczepanik@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

**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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Rating	Buy	Buy
Rating date	2009-11-04	2010-02-12
Price on rating day	23.00	21.00
WIG on rating day	37391.24	37322.52