

8 March 2010

Update


Oil & Gas
Poland

Current price	PLN 35.35
Target price	PLN 40.20
Market cap	PLN 15.12bn
Free float	PLN 9.40bn
Avg daily trading volume (3M)	PLN 80.72m

Shareholder Structure

State Treasury	27.52%
ING OFE	5.17%
AVIVA OFE	5.08%
Others	62.23%

Sector Outlook

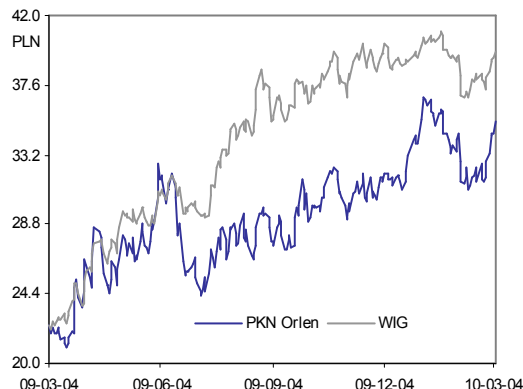
In the recent months, the environment has been unfavorable for the refining business, both in terms of margins and the Urals/Brent pricing differential. There are signals, however, that this is changing. If the current revival in the global fuel market continues, the sentiment in the sector should improve.

Company Profile

PKN Orlen is the largest refinery in the CEE region, with 14.1 million tons of annual capacity. In addition to crude refining, PKN Orlen is also active in the chemicals industry via its subsidiary Anwil, and in petrochemicals through BOP. In 2005, PKN Orlen took over the Czech "Unipetrol" group, followed by the acquisition of Lithuania's Mazeikiu Nafta in 2006.

Important dates

30.04 - FY 2009 report
13.05 - Q1'10 report

PKN Orlen vs. WIG

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PKN Orlen Accumulate

PKNA.WA; PKN.PW

(Reiterated)

Positive Trends in the Industry

Since the publication of Q4'09 results, the Orlen stock has been outperforming the broad market. In addition to the surprising reduction in net debt through working capital optimization, it should now receive a boost from the positive macroeconomic trends for refining, in particular the widening in the Urals-Brent differential, which is a consequence of higher output by OPEC countries and tightening competition in the market for high-sulfur petroleum, and which we consider lasting. We would also like to point out that a huge investment in the Petrochemical segment will be wrapped up this year, entailing additional cash flows starting in 2011 and a chance for a reduction in CAPEX in the coming years, which should make a dividend from FY 2010 profits possible. We reiterate our accumulate rating and we set our price target at PLN 40.2 per share.

Q4 2009: Clear Reduction in Debt

Orlen's results for Q4'09 did not surprise the market, given the prior publication of estimates. The reduction in net debt by the staggering PLN 3.4bn, attained through working capital optimization was, however, a big surprise. The Company showed that it had a lot of potential to free cash through such actions as factoring or extension of payment terms, at a cost lower than through bank loans, thereby alleviating the investors concerns about a potential breach of loan covenants in the future. The Management declared it was going to take advantage of these instruments in the future (a transaction involving mandatory reserves is already in the works), which means that the reduction in debt may be a lasting one.

Positive Trends for Refining

In early 2010, crack spreads increased, thanks mostly to increased demand for gasoline in Asia and a seasonal increase in the consumption of fuel oil. The expected revival in the market for diesel should help make this trend permanent. In addition, increased production by OPEC countries and Saudi Arabia's decision to be aggressive on price tightened competition in the market for high-sulfur petroleum, which has led to a rapid increase in the Urals-Brent differential to USD 1.7/bbl. Any further improvement in macroeconomic conditions would be particularly helpful for Orlen's foreign refineries, which posted a LIFO loss in excess of PLN 760m in FY 2009.

Biggest Investment Project Near Completion

An important development for Orlen in 2010 will be the completion and launch of the PX/PTA installation, which has cost it an estimated EUR 1bn. Not only will the project provide additional EBITDA as soon as next year (at full capacity, total revenue from this source may amount to PLN 1.6bn) and make it possible to optimize the use of refining capacity at the Plock refinery, but it will lead to a big reduction in CAPEX as well, making a dividend payout from FY 2010 profits possible.

(PLN m)	2008	2009	2010F	2011F	2012F
Revenue	79 533.0	67 928.0	83 784.3	89 823.6	99 210.0
EBITDA	888.4	3 665.0	4 248.3	4 964.1	6 337.1
<i>EBITDA margin</i>	1.1%	5.4%	5.1%	5.5%	6.4%
EBIT	-1 603.0	1 097.0	1 619.3	2 030.3	3 412.9
Net income	-2 505.2	1 308.7	1 553.0	1 502.7	2 549.1
DPS	1.62	0.00	0.00	0.74	0.72
P/E	-	11.6	9.7	10.1	5.9
P/CE	-	3.9	3.6	3.4	2.8
P/BV	0.8	0.8	0.7	0.7	0.7
EV/EBITDA*	34.2	7.7	7.1	6.3	5.1
DYield	4.6%	0.0%	0.0%	2.1%	2.0%

*excluding Polkomtel and mandatory reserves



Big Debt Reduction in Q409

A Q409 EBIT of PLN 334m was slightly higher than we had predicted, and in line with the company's preliminary estimates released a few weeks earlier. The Refining segment generated an operating profit of PLN 333m (we expected PLN 168m), including positive effects of inventory revaluations totaling PLN 163m (we expected PLN 254m), suggesting a LIFO EBIT of PLN 170m, ahead of our expected PLN 126m loss. The difference was partly owed to profits generated on sales of CO₂ emission credits (a PLN 62m y/y increase), and PLN 140m savings. Retail's EBIT came in at PLN 207m, in line with our estimate of PLN 212m, after a PLN 29m one-time boost from asset value adjustments. Petrochemicals made a disappointing showing with a PLN 17m operating loss (we expected a PLN 50m profit) incurred in spite of a nearly PLN 50m gain from CO₂ credits. Unattributed expenses decreased to PLN 189m from PLN 263m in Q4 2008, due mainly to lower payroll reserves. Typical one-offs recognized in the Q409 accounts, i.e. mostly CO₂ credits combined with cost savings, amounted to PLN 128m, falling short of PKN's estimate of PLN 300m. After adjustment for the carbon profits, the Q409 LIFO EBIT figures to PLN 43m vs. our estimate of PLN 33m.

Consolidated fourth-quarter results

(PLN m)	Q42009	Q42008	change	Q42009F	actuals vs. forecasts	consensus	actuals vs. consensus	2009	2008	change
Revenue	17 807	16 445	8.3%	17 568.4	1.4%	18 511	-3.8%	67 928.0	79 533.0	-14.6%
EBITDA	967	-3 637	-	936.1	3.3%	950	1.8%	3 665.0	888.4	312.7%
EBITDA margin	5.4%	-22.1%	-	5.33%	-	5.1%	-	5.4%	1.1%	-
EBIT	334	-4 327	-	287.9	16.0%	303	10.2%	1 097.0	-1 603.0	-
Pre-tax income	269	-5 968	-	564.0	-52.3%	-	-	1 440.7	-2 915.4	-
Net income	302	-4 893	-	464.3	-35.0%	315	-4.1%	1 308.7	-2 505.2	-

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

Financial operations generated expenses totaling PLN 64m (after dividends from Polkomtel) in the fourth quarter, compared to our forecasted income of PLN 276m, which we later adjusted to account for PKN's warning about high negative exchange differences arising out of the zloty's depreciation in December. After a tax gain of PLN 14m, and minority losses of PLN 19m, the Q409 bottom-line profit came in at PLN 302m.

Historical quarterly figures by business segment

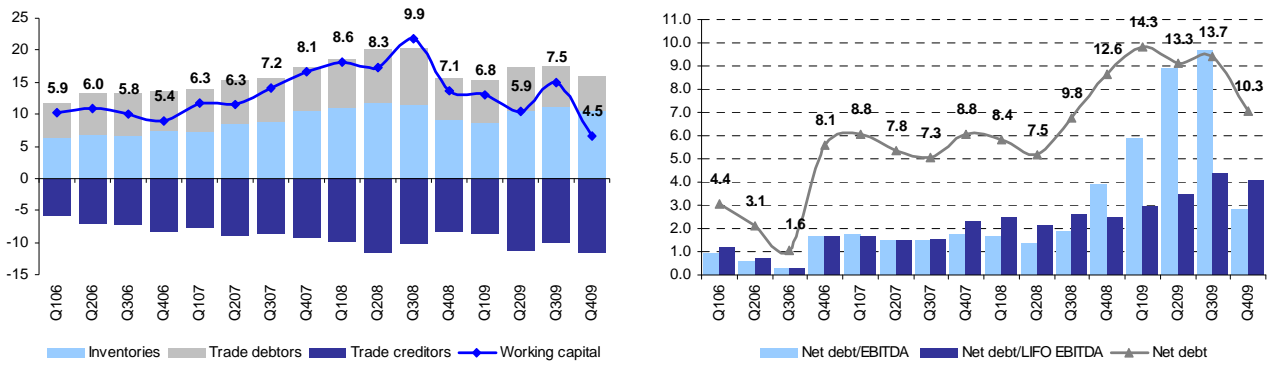
(PLN m)	Q107	Q207	Q307	Q407	Q108	Q208	Q308	Q408*	Q109	Q209	Q309	Q409
Revenue	13 408	16 218	17 265	16 902	17 938	22 090	23 057	16 449	14 702	16 770	18 649	17 807
EBIT	385	1 311	848	120	565	1 646	512	-1 965	-320	661	423	334
refining	65	921	462	241	330	1 407	184	-1 778	-116	770	137	333
LIFO	-229	596	267	564	355	845	-316	-2 713	-246	928	307	160
retail	68	113	175	67	70	109	247	165	87	223	363	207
petrochemicals	370	349	294	55	278	35	104	-97	-162	-180	33	17
chemicals	83	69	56	38	0	73	87	33	90	8	34	-34
other	-69	6	-9	-45	0	74	29	33	0	0	0	0
unattributed	-132	-146	-130	-236	-113	-52	-139	-321	-219	-160	-142	-189
LIFO EBIT	614	715	581	-444	210	801	828	748	-74	-267	116	174
D&A expenses	619	582	603	613	587	607	608	690	651	656	627	633
EBITDA	1 005	1 893	1 451	733	1 152	2 253	1 120	-1 275	331	1 317	1 050	967

adjusted for charges booked in 2008 totaling PLN 2.3bn

Source: PKN Orlen

It is worth noting the operating cash flows generated in the quarter, which amounted to an impressive PLN 2.9 billion, owing largely to working-capital streamlining (with accounts receivable and payable increased by PLN 1bn and PLN 1.25bn respectively). It remains to be seen whether these changes are permanent, in particular with respect to receivables which displayed an unprecedented turnover rate (payables returned to their Q209 level). Thanks to strong cash flows and emission credits (PKN sold over PLN 700m-worth of credits, while booking a PLN 590m allowance for possible future purchases of more credits, resulting in a PLN 128m end profit), PKN Orlen managed to reduce its net debt by PLN 3.4bn to PLN 10.3bn at year-end 2009, implying a net debt/ EBITDA ratio of 2.5. We consider lower debt to be the absolute highlight of PKN's Q409 announcement, in spite of uncertainty over the sustainability of the working-capital streamlining effects (we keep in mind that the company might have to buy PLN 600m more CO₂ credits in the future).

Quarterly changes in working capital and Net Debt (PLN bn)/ EBITDA

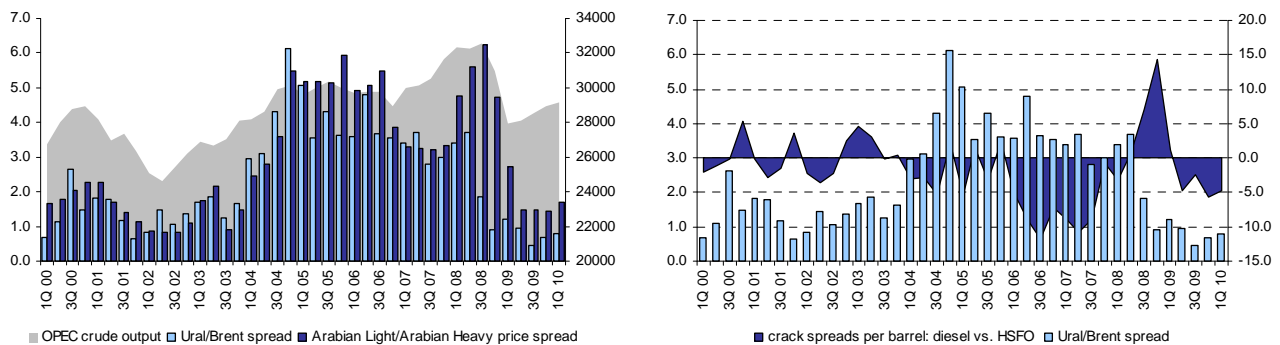


Source: BRE Bank Securities based on PKN Orlen data

Refining On Sustained Uptrend

2010 has seen a considerable improvement in the operating conditions of oil refineries, though the recovery progresses from very low crack-spread levels and Ural/Brent differential values. There are a few indicators that the upward momentum is a sustainable trend. One is a narrowing discount in the prices of high-sulfur crudes which we predicted in our previous update on PKN based on an expected increase in OPEC output prompted by rising crude prices (an increased supply of heavy crude after severe cuts made in H208), and an increasing disparity between deteriorating negative heavy-residue cracks and narrow diesel cracks, which were not able to offset the lost processing margins on heavy crude. While crack spreads on high-sulfur fuel oil have stabilized thanks to increased demand supported by freezing winter temperatures, OPEC's production decisions have had a considerable impact on Ural/Brent spread levels. OPEC supply has increased over 5% from the local low, and is expected to continue increasing thanks to attractive prices. To liquidate the increasing crude volumes, Arab countries are forced to reduce prices, as evidenced by the February reduction in the prices of high-sulfur crude oil for April delivery to Asian markets. Such discounts support competition, and they are likely to influence the pricing moves of Russian producers who have been increasing sales in the Far East since the launch of the first phase of the ESPO pipeline. These developments were probably the reason behind the expansion to \$1.7/Bbl in the Ural/Brent differential at the beginning of March.

Light/heavy crude spreads vs. OPEC production, Diesel vs. HSFO crack spreads



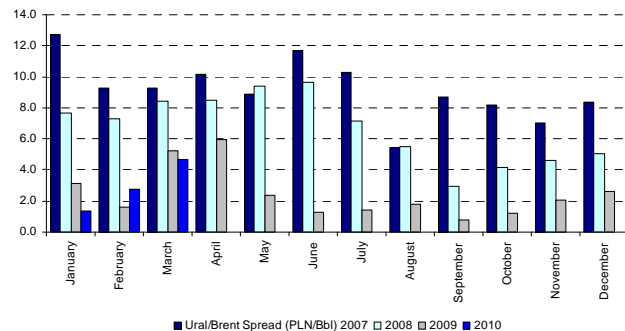
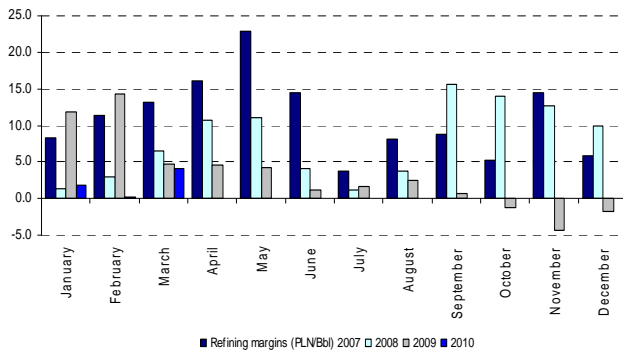
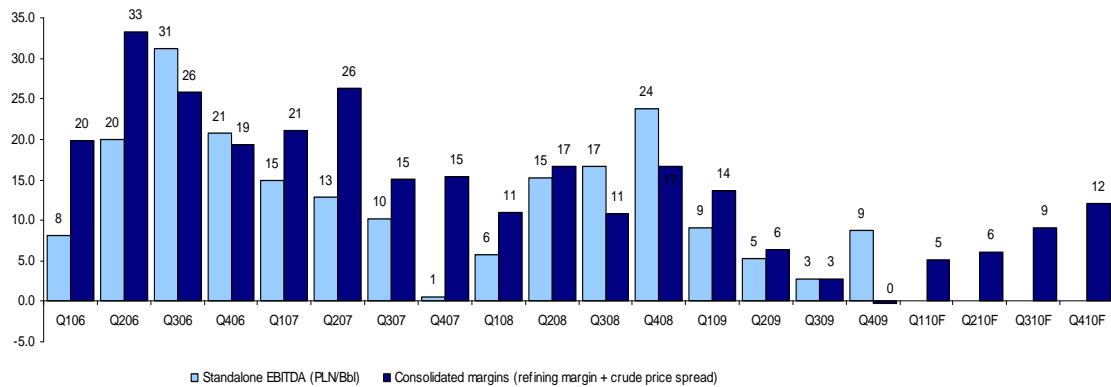
Source: Bloomberg, estimates by BRE Bank Securities

Refining margins have also been expanding in past weeks, with PKN Orlen's average zloty benchmark (which factors in 12% crude usage for own consumption, half of which is used by the Petrochemicals segment) returning to Q209 levels. While not satisfying, this increase is bound to give a noticeable lift to the Refining segment's profits after a series of quarters when it hovered around break even. It is too early to tell whether the crack-spread expansion is a sustainable trend, but it is worth noting that its main driving force have been gasoline fractions (which generate strong crack spreads thanks to increased industrial demand for gasoline and naphtha in Asia), and heavy fuel oils which have been in demand amid cold winter temperatures (the negative margins on HSFO remain relatively low in spite of growing crude prices). In contrast, diesel cracks are stuck at their average 2009 level, which is 20% lower than the 10-year average. Going forward, middle distillates will be key to the continuation of positive trends in refining margins, and there are hopes

that their consumption in Europe and the USA will recover enough to offset the spring weakness of the HSFO market. US demand data have been promising so far (a 25% increase relative to the July low), but year-to-date middle-distillate supplies are still about 7% lower than the 10-year average. The end of the harsh winter should accelerate this recovery.

Our financial forecasts for PKN's Refining segment are based on the conservative assumption that the macroeconomic variables will remain at their average YTD levels. Even in this conservative scenario, the refineries show great potential for earnings growth. An increase in the Ural/Brent spread by \$0.5 on a barrel implies a PLN 300m boost to annual EBIT, matched by another PLN 300m if refining margins stay at their current levels. Earnings will also increase thanks to increased capacity utilization, especially in Poland where PKN plans to commission a new HDS unit, and thanks to elimination of oil distillation bottlenecks. A new PX/PTA plant will also contribute to better capacity utilization. A stronger-than-expected improvement in macro conditions will be reflected most conspicuously in the profits of PKN's refineries in Lithuania and the Czech Republic, which generated LIFO EBIT losses of PLN 391m and PLN 373m respectively last year, while the refinery in Plock reported a PLN 800m profit (including asphalt production). In the best-case macroeconomic scenario, PKN's foreign operations would be able to more to more than offset the effects of a combination of an expected drop in imported fuel-sales profits in Poland, and narrower asphalt margins (increasing oil prices, stronger zloty, stronger fuel demand in CEE countries).

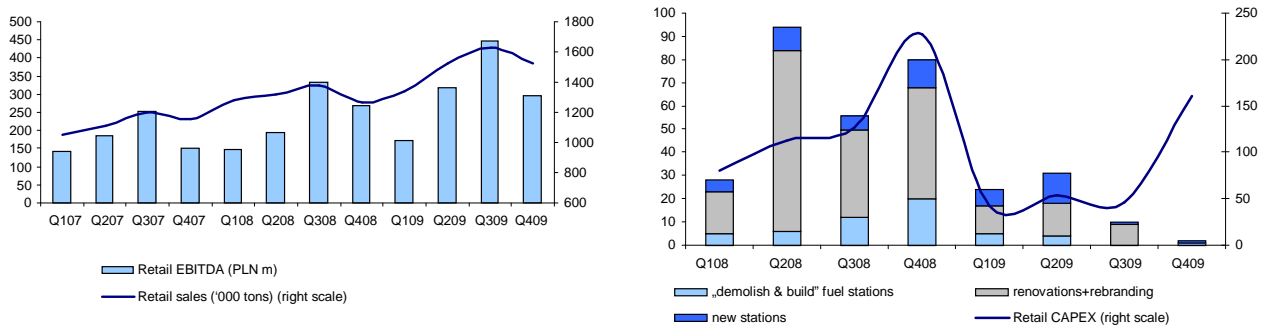
PKN's refining profits vs. macro conditions



Source: Bloomberg, estimates by BRE Bank Securities

Amid the difficult macroeconomic conditions observed last year, the "Orlen" fuel stations provided stability to cash flows and operating profits. Record EBIT (PLN 880m) and EBITDA (PLN 1.23bn) figures reported in FY2009 were owed to a 15% increase in fuel sales volumes, favorable retail margins, and increasing sales of non-fuel products (driven by the "stop cafe" and "bistro cafe" chains). Profits also increased for the pumping chains in the Czech Republic (+PLN 100m) and Germany (+PLN 77m), displaying the positive effects of rebranding. Another earnings driver was the completion of several dozen "demolish and build" service stations. Station rebranding is close to finish (there are about 20-25% stations left to revamp), as evidenced by CAPEX figures (PLN 777m in 2007, PLN 549m in 2008, and PLN 304m in 2009), and this will contribute to stronger free cash flows in the future. One potential threat to Retail's 2010 earnings performance is the weather, which is bound to affect Q1 2010 results more than it usually does at this time of the year. To account for this risk, we assume a PLN 80m y/y drop in the segment's EBIT.

Retail EBITDA vs. sales volumes, Rebranding vs. CAPEX

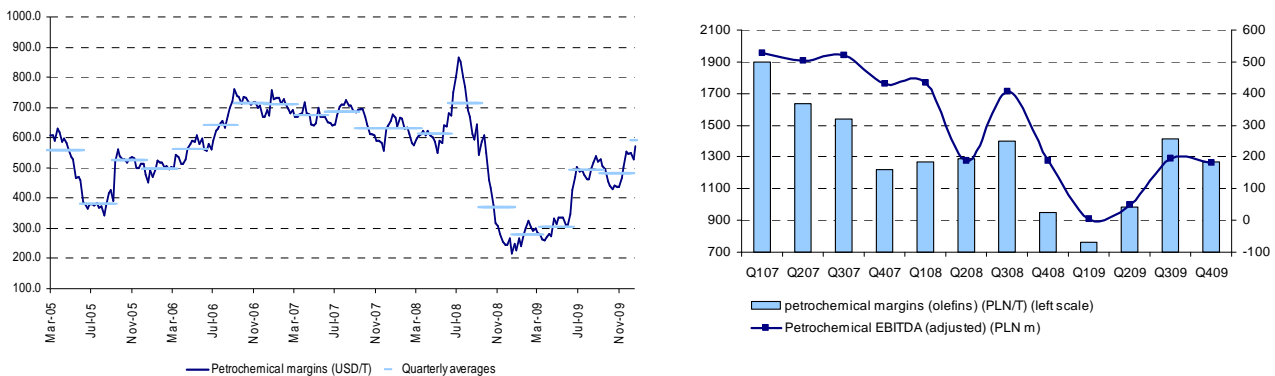


Source: PKN Orlen, estimates by BRE Bank Securities

Petrochemicals – Stronger Margins, PTA Plant

PKN's petrochemical business remains under the influence of positive market trends observed since the second half of 2009. Theoretical price spreads between olefins/polyolefins and naphtha/VGO, are gradually improving, moreover, sales volumes have displayed an upward trend since late 2009. The main indicator of the positive momentum in the petrochemical industry (fueled mainly by Asia) are widening crack spreads on naphtha fractions. To account for these trends, we raised our 2010 profit forecast for the Petrochemical segment from PLN 150m to PLN 300m. Additional support will be provided by a completed downsizing exercise (meaning a lack of severance-pay costs and a reduced payroll), and improved operating effectiveness, most notably at Unipetrol. The Czech refiner is planning a launch of a butadiene plant with an annual capacity of 12KT in Q1 2010, expected to increase annual revenues by PLN 400m (+10% for Unipetrol's petrochemical business).

Petrochemical margins vs. PKN's Petrochemical EBITDA

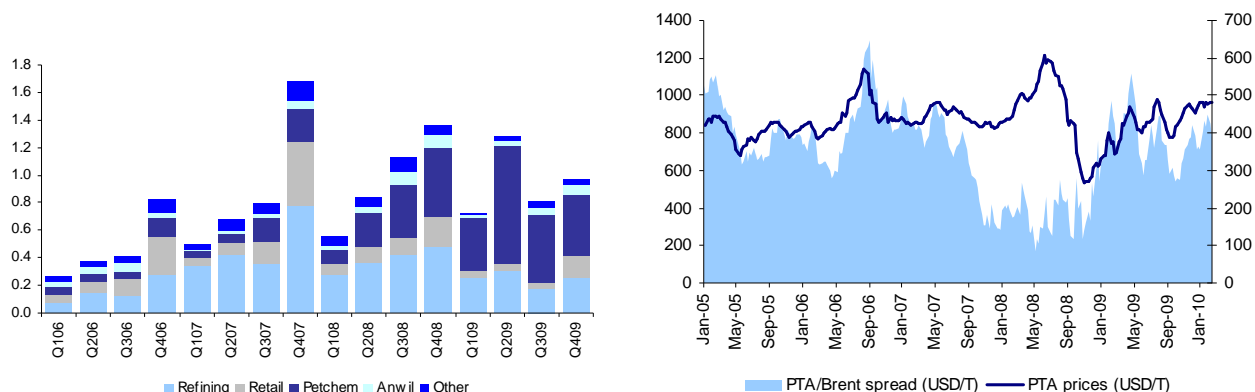


Source: PKN Orlen, Bloomberg, estimates by BRE Bank Securities

It is important to note that PKN is scheduled to complete a PX/PTA system this year, with the paraxylene plant slated for a launch in September, and the terephthalic acid plant set to be commissioned in November. The system is expected to achieve a target PTA output of 600KT within two years (PTA is produced by oxygenation by oxygen in air of paraxylene recovered from light fractions of crude oil and aromatics; the process produces byproducts: 80KT of benzene and 40KT of orthoxylene). PKN Orlen has already signed off-take agreements with Mitsubishi Chemical (for supplies of 150KT annually) and SK Eurochem (for target sales of 120KT). In the current petrochemical market, as PTA prices increase, the company should have no problem finding buyers for the balance of the output. The theoretical price spread between PTA and crude oil hovers around \$400/T, a level close to the average recorded during the boom years of 2005-2007. At current price levels, assuming 100% capacity usage, the PTA plant could generate PLN 1.6bn in annual sales. Its impact on PKN's consolidated profits and cash flows will also be considerable, given that the annual depreciation expenses themselves are expected to range between PLN 130m and PLN 150m (the total cost of 30-year depreciation is EUR 1 billion). The costs related to the launch of the PX/PTA system are probably already being charged against the Petrochemical segment's profits. In addition to the PX/PTA unit, PKN is also working on eliminating bottlenecks at

the refinery in Plock to increase diesel output and secure PX/PTA feedstock (we expect the refinery to increase oil output by 1MMT in 2011).

Ratio of Petrochemical CAPEX to PKN Orlen's consolidated CAPEX, PTA prices and spreads



Source: Bloomberg, PKN Orlen, estimates by BRE Bank Securities

Finally, investors should remember that the PTA unit was one of the biggest burdens on PKN Orlen's investment budget in the last two years. That is why the launch of the PTA unit, combined with a cancellation of a hydrocracker project at Orlen Lietuva, is going result in a considerable reduction in CAPEX, and possibly to more generous dividends. Orlen's 2009-2013 CAPEX plan is PLN 12.6bn, with the bulk of the expenses (almost PLN 10bn) scheduled in the years 2009-2011. Capital expenses in 2012 and 2013 will be much lower at an average PLN 1.3bn a year, which is less than our conservative assumptions underlying the valuation model.

Macroeconomic Assumptions

Macroeconomic assumptions for the DCF model

\$/Bbl	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
Brent crude	72.8	98.0	62.0	75.0	80.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0	90.0
Urals crude	69.5	95.1	61.2	73.7	78.0	87.6	87.7	87.7	87.7	87.8	87.8	87.8	87.8
Urals-Brent spread	3.3	2.9	0.8	1.3	2.0	2.4	2.3	2.3	2.3	2.2	2.2	2.2	2.2
PKN's margin	6.4	4.9	2.8	3.7	4.0	4.2	4.4	4.6	4.8	5.1	5.2	5.2	5.2
Mazeikiu Nafta's margin	3.6	2.7	2.2	2.2	4.8	5.0	5.2	5.4	5.6	5.8	6.0	6.0	6.0
Unipetrol's margin	7.3	9.7	4.4	4.6	4.8	5.0	5.3	5.5	5.7	6.0	6.3	6.3	6.3
Oil throughput (millions of tons)													
Orlen	14.2	14.2	14.5	15.0	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Unipetrol	4.1	4.5	4.1	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Mazeikiu Nafta	4.7	9.2	8.4	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Petrochemical output ('000 of tons)	3059	2956	2927	3204	3604	3804	3804	3804	3804	3804	3804	3804	3804
Chemical products output ('000 of tons)	1826	1759	1892	1870	1890	1970	1970	1970	1970	1970	1970	1970	1970
Chemical & Petrochemical Lines													
Margin on chemicals (EUR/t)	568	619	545	506	516	568	568	559	559	559	559	559	559
Margin on petrochemicals (\$/t)	625	553	389	581	567	609	609	590	590	590	590	590	590
Margin on HDPE+LDPE (\$/t)	662	653	477	468	445	471	450	430	430	430	430	430	430
Margin on PP (\$/t)	901	738	423	415	391	412	412	393	393	393	393	393	393
Margin on PTA (\$/t)	349	192	379	401	383	407	407	391	391	391	391	391	391

Other macroeconomic assumptions	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F
USD/PLN exchange rate	2.77	2.42	3.12	3.00	2.90	2.80	2.70	2.70	2.70	2.70	2.70	2.70	2.70
EUR/PLN exchange rate	3.78	3.48	4.33	4.05	3.80	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50

Source: Bloomberg, PKN, Mazeikiu Nafta, estimates by BRE Bank Securities



Earnings Forecast and Valuation

Our DCF model (which factors in PKN's interests in Polkomtel) produced a nine-month per-share target price of PLN 40.2.

DCF Analysis

Model Assumptions

1. Cash flows are discounted as of 28 February 2010. When calculating enterprise value, we took the net debt amount as at 31 December 2009 increased by a PLN 600m provision for a repurchase of carbon emission credits sold in Q4 2009.
2. We reduced the amount of a provisions against Agrofert claims from PLN 624m to PLN 164m to account for a PLN 460m payment made by PKN Orlen in July 2009 (reflected in the year-end net debt amount).
3. The macroeconomic assumptions are as set out above.
4. We added the investment in Polkomtel to equity value, including the shares bought at the end of 2008 (at cost of PLN 733m).
5. The amortization and depreciation expense projected for 2019 is higher than CAPEX, which is unsustainable over the long term, prompting us to revise the D&A expense to PLN 2.0 billion for terminal value calculation purposes.
6. When calculating FCF_{TV} , we based the terminal value calculations on the sales growth rate and EBITDA margins projected for 2019.
7. We assume that FCF will grow at a rate of 1% after FY2019. The risk-free rate is 6.05%, and beta is 1.0%.



DCF Valuation Model for PKN Orlen

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2019+	
Revenue	83 784	89 824	99 210	97 355	98 489	99 798	101 064	102 318	103 472	104 651	105 843	
change	23.3%	7.2%	10.4%	-1.9%	1.2%	1.3%	1.3%	1.2%	1.1%	1.1%	1.1%	
EBITDA	4 248.3	4 964.1	6 337.1	5 733.1	5 737.5	5 850.1	5 982.2	6 073.8	6 068.0	6 105.0	6 174.6	
EBITDA margin	5.1%	5.5%	6.4%	5.9%	5.8%	5.9%	5.9%	5.9%	5.9%	5.8%	5.8%	
D&A expenses	2 628.9	2 933.8	2 924.2	2 931.9	2 722.1	2 592.4	2 516.7	2 450.4	2 458.0	2 474.7	2 032.4	
EBIT	1 619.3	2 030.3	3 412.9	2 801.2	3 015.4	3 257.7	3 465.4	3 623.4	3 610.0	3 630.3	4 142.2	
EBIT margin	1.9%	2.3%	3.4%	2.9%	3.1%	3.3%	3.4%	3.5%	3.5%	3.5%	3.9%	
Tax rate on EBIT	307.7	385.8	648.4	532.2	572.9	619.0	658.4	688.4	685.9	689.8	787.0	
NOPLAT	1 311.7	1 644.5	2 764.4	2 269.0	2 442.5	2 638.8	2 807.0	2 934.9	2 924.1	2 940.5	3 355.2	
CAPEX	-3 627	-3 184	-2 627	-2 382	-2 032	-2 032	-2 032	-2 032	-2 032	-2 032	-2 032	
Working capital	-2 299	-1 971	-2 966	275	-736	-63	-61	-61	-56	-57	-61	
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	-1 985	-577	96	3 094	2 396	3 135	3 230	3 292	3 294	3 326	3 295	
WACC	9.0%	9.0%	9.0%	9.2%	9.2%	9.2%	9.3%	9.4%	9.4%	9.4%	9.4%	
discount factor	93.0%	85.4%	78.3%	71.7%	65.7%	60.1%	55.0%	50.3%	46.0%	42.0%	42.0%	
PV FCF	-1 847	-493	75	2 219	1 574	1 886	1 777	1 656	1 515	1 397		
WACC	9.0%	9.0%	9.0%	9.2%	9.2%	9.2%	9.3%	9.4%	9.4%	9.4%	9.4%	
Cost of debt	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	7.05%	
Risk-free rate	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	6.05%	
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	37.6%	38.9%	37.9%	34.9%	35.1%	33.8%	32.7%	31.6%	30.9%	30.1%	30.0%	
Cost of Equity	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	
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	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
FCF growth after the forecast horizon							1.0%	Sensitivity Analysis				
Terminal value						38 997		FCF growth in perpetuity				
Present value of the terminal value (PV TV)						16 385		0.0%	1.0%	2.0%	3.0%	4.0%
Present value of FCF in the forecast horizon						9 760	WACC +1.0ppt	32.2	35.8	40.2	45.7	53.0
Net debt						10 864	WACC +0.5ppt	33.9	37.8	42.8	49.1	57.6
Minority interests						2 669	WACC	35.8	40.2	45.7	53.0	63.0
Additional allowance for Agrofert claims						-164	WACC -0.5ppt	37.8	42.8	49.1	57.6	69.5
Enterprise value						12 448	WACC -0.1ppt	40.2	45.7	53.0	63.0	77.4
Number of shares (millions)						427.7						
Enterprise value per share (PLN)						29.1						
Per-share value of investment in Polkomtel						8.0						
Equity value per share (PLN)						37.1						
Cost of equity (9M)						8.4%						
Target Price						40.2						
EV/EBITDA(*10) for the target price						7.2						
P/E(*10) for the target price						11.1						
TV to EV						53%						

**Relative Valuation**

	Price	P/E				EV/EBITDA			
		2009	2010F	2011F	2012F	2009	2010F	2011F	2012F
MOL	18550	22.8	11.1	9.0	8.1	8.0	5.7	5.0	4.5
OMV	27.3	11.3	7.5	6.0	5.5	4.7	3.8	3.2	3.0
Lotos*	28.5	4.2	9.4	6.4	4.8	10.2	10.3	6.6	5.8
Tupras	30.3	9.8	9.2	8.3	8.8	6.3	5.8	5.1	5.0
Hellenic	8.6	12.7	13.3	10.9	8.4	9.0	8.5	7.6	6.2
Unipetrol (CZK)	138.4	-39.4	29.6	13.2	9.7	9.3	5.9	4.5	4.0
SNP Petrom	0.3	11.0	9.5	8.1	6.9	5.8	4.7	4.0	3.6
ERG	9.9	-22.5	24.0	13.7	11.2	24.9	6.7	4.7	4.5
Neste	11.7	21.8	20.2	10.1	7.4	10.0	9.0	6.2	5.3
Motor Oil	10.1	10.5	8.7	7.0	6.9	8.2	6.7	5.6	6.6
INA	1804.8	33.0	13.1	9.4	7.7	9.5	6.3	5.2	4.4
Maximum		33.0	29.6	13.7	11.2	24.9	10.3	7.6	6.6
Minimum		-39.4	7.5	6.0	4.8	4.7	3.8	3.2	3.0
Median		11.0	11.1	9.0	7.7	9.0	6.3	5.1	4.5
PKN**	35.4	11.6	9.7	10.1	5.9	5.5	4.7	4.1	3.2
(premium / discount)		4.8%	-12.5%	12.3%	-23.4%	-38.8%	-24.9%	-19.8%	-29.7%
Implied price									
Median		11.0	11.1	9.0	7.7	9.0	6.3	5.1	4.5
Multiple weight			50.0%				50.0%		
Year weight		0.0%	33.3%	33.3%	33.3%	0.0%	33.3%	33.3%	33.3%
Value per share (PLN)		45.2							

*Lotos's multiples were estimated based on net debt as in 2007 through 2012, value calculated based on adjusted FY2009 debt

**EV/EBITDA based on net debt at year-end 2009 (for PKN, net debt is adjusted for temporary changes in receivables in Q409 and the sale of carbon credits for PLN 1.8bn)

Net debt adjusted for the value of the stake in Polkomtel and strategic reserves worth PLN 5.4bn (PLN 2bn in case of Lotos)

**Income Statement**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Revenue	52 867	63 793	79 533	67 928	83 784	89 824	99 210
<i>change</i>	28.4%	20.7%	24.7%	-14.6%	23.3%	7.2%	10.4%
EBIT	2 576.6	2 603.9	-1 603.0	1 097.0	1 619.3	2 030.3	3 412.9
Oil Refining	1 614.0	1 672.0	-2 158.0	1 124.0	1 091.6	1 114.3	1 927.4
LIFO effect	32.0	1 167.0	-1 724.0	1 030.0	302.7	-53.6	462.8
Retail	439.0	423.0	641.0	880.0	804.4	831.9	879.8
Petrochemicals	842.0	1 068.0	277.0	-293.9	300.3	543.9	957.9
Chemicals	224.0	246.0	285.0	97.9	60.4	183.9	297.9
Other	8.0	-155.0	0.0	0.0	0.0	0.0	0.0
Unattributed costs	-550.4	-650.1	-648.0	-711.0	-637.3	-643.7	-650.1
LIFO EBIT (adjusted)	2 544.6	1 436.9	2 483.0	67.0	1 316.6	2 083.9	2 950.0
Profit/loss on financial activity	-68.0	139.8	-1 579.0	71.0	73.2	-395.2	-461.4
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	220.7	267.4	267.0	273.0	273.0	273.0	273.0
Pre-tax income	2 729.3	3 011.1	-2 915.0	1 441.0	1 965.5	1 908.1	3 224.4
Tax	669.1	530.6	-388.4	140.7	373.4	362.5	612.6
Minority interests	74.2	68.0	-21.4	-8.4	39.1	42.9	62.7
Net income	1 986.0	2 412.4	-2 505.2	1 308.7	1 553.0	1 502.7	2 549.1
<i>change</i>	-56.6%	21.5%	-203.8%	-152.2%	18.7%	-3.2%	69.6%
<i>margin</i>	3.8%	3.8%	-3.1%	1.9%	1.9%	1.7%	2.6%
D&A expenses	2 108.1	2 431.4	2 491.4	2 568.0	2 628.9	2 933.8	2 924.2
EBITDA	4 684.7	5 035.3	888.4	3 665.0	4 248.3	4 964.1	6 337.1
<i>change</i>	-30.4%	7.5%	-82.4%	312.5%	15.9%	16.9%	27.7%
<i>EBITDA margin</i>	8.9%	7.9%	1.1%	5.4%	5.1%	5.5%	6.4%
Shares at year-end (millions)	427.7	427.7	427.7	427.7	427.7	427.7	427.7
EPS	4.6	5.6	-5.9	3.1	3.6	3.5	6.0
CEPS	9.6	11.3	0.0	9.1	9.8	10.4	12.8
ROAE	11.2%	12.4%	-13.3%	7.1%	7.9%	7.2%	11.5%
ROAA	5.0%	5.3%	-5.4%	2.7%	3.1%	2.8%	4.5%

**Balance Sheet**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
ASSETS	45 419.1	46 103.3	46 975.8	49 160.0	52 589.9	55 861.7	58 285.1
Fixed assets	27 660.8	26 736.4	29 280.9	29 727.0	30 725.3	30 975.4	30 678.1
Property, plant and equipment	25 199.7	24 833.5	26 268.8	27 070.0	28 045.8	28 307.8	28 028.9
Intangible assets	619.8	531.0	557.0	601.0	623.6	611.6	593.2
Investments	716.3	700.3	1 561.1	1 401.0	1 401.0	1 401.0	1 401.0
Other fixed assets	1 125.0	671.5	893.9	655.0	655.0	655.0	655.0
Current assets	17 758.3	19 367.0	17 694.9	19 433.0	21 864.6	24 886.2	27 607.0
Inventories	7 398.9	10 365.4	9 089.0	10 620.0	12 214.4	12 755.2	14 255.7
Short-term receivables	6 293.7	6 884.5	6 356.2	5 418.0	6 682.7	8 982.4	9 921.0
Other current assets	1 714.4	618.9	905.4	454.0	454.0	454.0	454.0
Cash and cash equivalents	2 351.3	1 498.2	1 344.2	2 941.0	2 513.5	2 694.7	2 976.3
(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
LIABILITIES	45 419.1	46 103.3	46 975.8	49 160.0	52 589.9	55 861.7	58 285.1
Equity	18 850.9	19 935.3	17 813.1	19 038.0	20 318.0	21 229.3	23 196.2
Share capital	1 057.6	1 057.6	1 057.6	1 058.0	1 058.0	1 058.0	1 058.0
Other equity	17 793.3	18 877.6	16 755.5	17 980.0	19 260.0	20 171.3	22 138.2
Minority interests	2 731.6	2 638.0	2 718.6	2 669.0	2 708.1	2 751.0	2 813.7
Long-term liabilities	8 958.1	11 091.4	4 634.2	13 242.0	13 928.8	15 135.9	15 902.8
Loans	6 211.2	8 602.7	2 610.7	11 611.0	12 297.8	13 504.9	14 271.8
Other	2 747.0	2 488.7	2 023.5	1 631.0	1 631.0	1 631.0	1 631.0
Short-term liabilities	14 878.4	12 438.7	21 809.9	14 211.0	15 635.1	16 745.5	16 372.4
Loans	4 277.9	1 719.2	11 282.1	1 594.0	2 457.7	2 698.9	2 852.2
Trade creditors	8 221.4	9 181.2	8 377.0	11 498.0	12 058.4	12 927.6	12 401.2
Other	2 379.1	1 538.2	2 150.8	1 119.0	1 119.0	1 119.0	1 119.0
Debt	10 489.1	10 321.9	13 892.8	13 205.0	14 755.4	16 203.8	17 124.0
Net debt	8 137.8	8 823.7	12 548.5	10 264.0	12 241.9	13 509.1	14 147.7
(Net debt / Equity)	43.2%	44.3%	70.4%	53.9%	60.3%	63.6%	61.0%
(Net debt / EBITDA)	1.8	1.8	14.1	2.8	2.9	2.7	2.2
BVPS	44.1	46.6	41.6	44.5	47.5	49.6	54.2

**Cash Flows**

(PLN m)	2006	2007	2008	2009	2010F	2011F	2012F
Cash flows from operating activities	3 693.2	1 965.1	3 617.0	5 162.0	1 576.2	2 630.3	2 758.9
Net income*	2 060.2	2 480.4	-2 526.6	1 300.3	1 592.1	1 545.6	2 611.8
D&A expenses	2 108.1	2 431.4	2 491.4	2 568.0	2 628.9	2 933.8	2 924.2
Working capital	-492.8	-2 830.4	1 358.2	1 815.0	-2 298.6	-1 971.3	-2 965.6
Other	17.6	-116.3	2294.0	-521.3	-346.2	122.2	188.4
Cash flows from investing activities	-6 746.2	-2 845.1	-4 385.0	-2 540.0	-3 627.3	-3 183.9	-2 626.9
CAPEX	-1 924.6	-3 693.7	-3 969.4	-2 671.0	-3 627.3	-3 183.9	-2 626.9
Equity investments	-5 836.5	-539.5	-736.9	-1 019.0	0.0	0.0	0.0
Other	1015.0	1388.2	321.3	1150.0	0.0	0.0	0.0
Cash flows from financing activities	4 277.6	27.0	612.6	-1 022.0	1 623.6	734.8	149.6
Stock offering	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt	4 505.3	667.9	1 902.1	-269.0	1 550.4	1 448.4	920.1
Dividend (buy-back)	0.0	0.0	-692.9	0.0	0.0	-318.4	-309.1
Other	-227.8	-640.9	-596.7	-753.0	73.2	-395.2	-461.4
Change in cash	1 224.5	-853.1	-155.4	1 600.0	-427.5	181.2	281.6
Cash at end of period	2 351.3	1 498.2	1 344.5	2 941.0	2 513.5	2 694.7	2 976.3
DPS (PLN)	0.00	0.00	1.62	0.00	0.00	0.74	0.72
FCF	-4 322.3	-2 559.0	-2 071.3	1 649.3	-2 051.1	-553.6	132.0
(CAPEX / Sales)	3.6%	5.8%	5.0%	3.9%	4.3%	3.5%	2.6%

* incl. minority interests

Market multiples

	2006	2007	2008	2009	2010F	2011F	2012F
P/E	7.9	6.3	-6.0	11.6	9.7	10.1	5.9
P/CE	3.8	3.1	-1 094.3	3.9	3.6	3.4	2.8
P/BV	0.8	0.8	0.8	0.8	0.7	0.7	0.7
P/S	0.3	0.2	0.2	0.2	0.2	0.2	0.2
FCF/EV	-16.6%	-9.6%	-6.8%	5.9%	-6.8%	-1.8%	0.4%
EV/EBITDA	5.6	5.3	34.2	7.7	7.1	6.3	5.1
EV/EBIT	10.4	10.2	-19.0	25.6	18.6	15.5	9.4
EV/S	0.5	0.4	0.4	0.4	0.4	0.3	0.3
DYield	0.0%	0.0%	4.6%	0.0%	0.0%	2.1%	2.0%
Price (PLN)	35.35						
Shares at year-end (millions)	427.7	427.7	427.7	427.7	427.7	427.7	427.7
MC (PLN m)	15 120	15 120	15 120	15 120	15 120	15 120	15 120
Equity attributable to minority shareholders (PLN m)	2 732	2 638	2 719	2 669	2 708	2 751	2 814
EV (PLN m)	25 989	26 581	30 387	28 053	30 070	31 380	32 081



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**List of abbreviations and ratios contained in the report:**

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

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ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
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Rating	Buy	Buy	Accumulate
Rating date	2009-09-16	2009-11-18	2010-02-03
Price on rating day	27.15	31.97	34.20
WIG on rating day	35989.98	40723.06	39904.02