

18 November 2008

Update


Oil & Gas
 Poland

Current price	PLN 3.35
Target price	PLN 3.94
Market cap	PLN 19.8bn
Free float	PLN 3.0bn
Avg daily trading volume (3M)	PLN 39.24m

Shareholder Structure

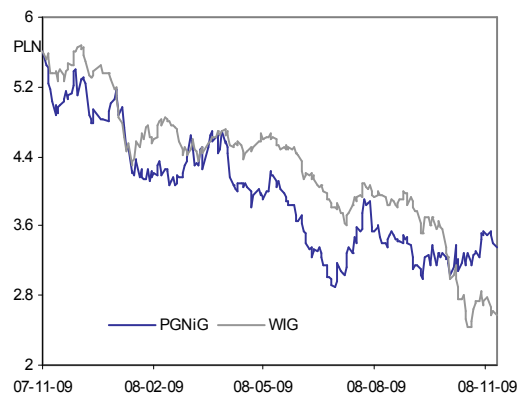
State Treasury	84.75%
Others	15.25%

Sector Outlook

PGNiG operates in a regulated market which will stay regulated for a while longer, hence, its earnings have and will largely depend on the pricing policy of the energy regulator URE. Furthermore, high prices of gas do everything but drive its consumption, with the scales in Poland still tipped in favor of coal.

Company Profile

PGNiG is Poland's leading player in natural gas exploration and distribution, with annual sales exceeding 13.7 billion cubic meters. The company is also active in crude-oil mining, a business which is more profitable than gas sales since it is not subject to price regulation.

PGNiG vs. WIG

Kamil Kliszczyk

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

PGNiG

PGNI.WA; PGN PW

Accumulate

(Reiterated)

Q4'08 May Surprise on the Upside

Q3'08 earnings came as a nice surprise, and they suggested that PGNiG had partially hedged foreign currency risk, which may have strong positive impact on Q4'08 results. As we expect these earnings to exceed the "bleak" consensus analysts are arriving at, while the outlook for next year is positive, we are reiterating an accumulate rating, with a new target price of 3.94 per share. In addition, PGNiG's share price may be given a boost by interesting and relatively cheap acquisition opportunities, primarily in the Upstream segment. We would also like to point out that in the recent weeks PGNiG has been one of the best-performing WIG20 companies (30% over the index since the start of October); therefore, we are not expecting this stock to lead the market in a rally, if one comes. We recommend persistent accumulation of the stock and taking advantage of its potential weakness on the trading floor as Q4 approaches.

Q4'08 Does Not Look So Bad

In the current situation, Q3'08 earnings – which were in line with our expectations – are less important than the outlook for the next quarter, all the more so that the most bleak scenarios predict an operating loss. We believe, however, that fourth-quarter results may bring about a big positive surprise, especially as the loss in the Trade and Storage segment is curtailed by a decrease in sales, as well as thanks to hedging transactions on the USD/PLN exchange rate. The lower volume of sales (higher average temperatures, decreased production at nitrogen plants) will reduce the share of the pricier, imported natural gas in sales volumes in favor of gas from domestic sources and from inventories amassed in the summer, at lower prices. Hedging, in turn, should bring a profit we estimate at as much as PLN 300m (due to the limited amount of available information, our forecasts are more conservative about this number). In addition, we expect consolidated income to be boosted by Distribution, thanks to the new tariffs granted in April and a seasonal spike in volumes. All in all, the PGNiG group should generate as much as PLN 180m in operating income.

New Strategy Brings More Opportunities Than Risks

The Management's new Strategy includes plans of PLN 30bn CAPEX over the next 6 years. Given how unstable the global economy currently is, investors may consider this a reason to worry, and PGNiG's image as a company with stable cash flows and unencumbered balance sheet may suffer. Of course, we will look at each investment project, including acquisitions, separately, but we do believe that with the current global asset depreciation, a company with PGNiG's financing potential stands a chance of successful value creation for the benefit of shareholders. Therefore, we consider the plans to enter the energy sector and to strengthen the Upstream segment to be an opportunity rather than a threat.

(PLN m)	2006	2007	2008F	2009F	2010F
Revenue	15197.7	16652.1	18937.0	18667.1	18717.1
EBITDA	2766.2	3665.9	3066.9	3656.4	3460.0
<i>EBITDA margin</i>	18.2%	22.0%	16.2%	19.6%	18.5%
EBIT	1470.0	2235.6	1674.4	2182.8	1890.1
Net profit	1327.4	915.0	1450.8	1826.2	1570.2
DPS	0.15	0.17	0.19	0.22	0.28
P/E	14.9	21.6	13.6	10.8	12.6
P/CE	7.5	8.4	7.0	6.0	6.3
P/BV	0.9	0.9	0.9	0.9	0.9
EV/EBITDA	6.8	5.0	5.7	4.9	5.4
DYield	4.5%	5.1%	5.7%	6.6%	8.3%



Q3'08 in Line with Expectations

Consolidated third-quarter results

(PLN m)	Q3'08F	Q3'07	change	Q3'08F	actual vs. forecast	consensus	actuals vs. consensus.	Q1-3 2008	Q1-3 2007	change
Revenues	3 654	3 135	16.6%	3 770	-3.1%	3 593	1.7%	12 913	11 575	11.6%
EBITDA	529	760	-30.4%	548	-3.5%	596	-11.2%	2 552	2 849	-10.4%
EBITDA margin	14.5%	24.3%	-40.4%	14.5%	-0.4%	16.6%	-12.7%	19.8%	24.6%	-19.7%
EBIT	193	385	-50.0%	177	9.1%	218	-11.6%	1 494	1 771	-15.6%
Pre-tax income	228	411	-44.5%	221	3.4%	-	-	1 598	1 816	-12.0%
Net income	179	302	-40.8%	179	0.1%	193	-7.3%	1 239	1 416	-12.5%

Source: PGNiG, forecasts by BRE Bank Securities, PAP consensus

PGNiG's consolidated Q3 earnings are in line with expectations. EBIT is somehow higher than forecasted, mostly due to the lower loss on Trade & Storage (-PLN 39m vs. -PLN 81m). Distribution did slightly worse than forecasted (-PLN 4.6m vs. PLN 20m we had expected). Upstream came in line at PLN 244m (PLN 248m forecasted). It is worth pointing out that the Q3 report includes a revision of H1'08 results, with a reclassification of the valuation and settlement of derivatives related to foreign upstream assets, which added PLN 91m to this segment's H1'08 earnings (accounting for the difference between the EBIT reported for Q3 and the EBIT implied by the difference in the 9M and 6M values, i.e. PLN 1.5bn and PLN 1.2bn). The Company's finance gains were slightly below what we had forecasted (PLN 36m vs. PLN 44m). All in all, bottom line profit was in line with our expectations. In the Q3'08 report, we can see much lower negative other operating cost charges (-PLN 31m vs. -PLN 173m in Q3'07), which is by and large due to the hedging of natural gas purchases made in the USA (PLN +80m) and gains on the hedging of a loan granted to a Norwegian subsidiary.

Outlook for Q4'08 and FY2009

Given the high price of Russian gas and the depreciation of the zloty, worries are mounting for PGNiG's last-quarter results. In our opinion, it is not at all certain that Q4 must close in the red. In fact, PGNiG stands a good chance of generating a consolidated EBIT of PLN 180m, which may be a big surprise to investors. Our optimism is based on the following assumptions:

- Upstream:** in this segment, on the assumption that crude oil prices remain stable and that in November there is an increase in the price of gas in non-regulated sales proportional to the increase in the regulated tariff, the Company should generate ca. PLN 200m (vs. PLN 244m in Q3'08, the drop being due to lower crude prices, partially offset by the increase in the gas tariff and the promised increase in volumes on Q3, when technical downtime occurred). The segment, however, will also incur additional losses on the hedging of the investment in a Norwegian subsidiary (starting in Q3'08, this is a direct charge to upstream EBIT), as a result of the depreciation of the PLN vs. the NOK. All in all, our estimate of the profit in this segment is PLN 162m.
- Trade & Storage:** In this segment, the clear decrease in the price of imported gas will surely be felt, but most of all as a result of zloty depreciation (in USD-terms, we forecast no q/q change in the average price of Russian gas). As a result, the Company will incur a loss on this business, but not as big as could be expected from the negative spread between the average tariff and import price. One reason for this will be the lower volumes, which we are expecting due to the higher temperatures in the first half of the quarter and the decrease in demand from the chemical sector in its second half (plans to reduce capacity utilization have been announced). The lower volumes will make it possible to reduce the share of the expensive imported gas in favor of gas from domestic sources and inventories amassed in the summer, at lower prices. Second, we are expecting that PGNiG's hedging transactions will partially offset the higher price of Russian gas. Of course, we do not have detailed data on hedging positions, but judging from the information the Company presented in its semi-annual report, and assuming that the same hedging strategy will be continued in the upcoming quarters, we expect that the valuation of hedging positions (closed and open as of December 31, with the PLN/USD exchange rate at 2.8) might generate additional profits of up to PLN 330m (details are presented in the table below). Due to the lack of detailed data on positions open as of the end of September 2008, which made it necessary to make assumptions on volumes and



strike prices of the new option structures, we decided to apply a 30% discount to our calculations. With the additional PLN 230m in hedging gains, our forecast for Trade & Storage EBIT is –PLN 270m

- **Distribution:** this segment should be the holding's strongest pillar in Q4'08, due to the seasonal increase in volumes and the increases in distribution tariffs granted in April (20-25% in our estimate). Therefore, despite the expected decrease in gas transfer volumes vs. Q1'08, we are expecting this segment to generate a whopping PLN 298m in EBIT, i.e. more than in Q1'08, which is usually the peak season.

Estimates of PGNiG's hedging position as of the end of December 2008

expiration date	strike price	volume (USD m)	instrument
October 08	2.30	80	call option
November 08	2.30	80	call option
December 08	2.31	60	call option

expiration date	cap	floor	volume (USD m)	instrument
December 08	2.66	2.32	120	collar
January 09	2.53	2.15	260	collar
February 09*	2.45	2.06	200	collar
March 09*	2.44	2.04	130	collar
April 09(2.63	2.23	130	collar
May 09*	2.72	2.32	130	collar

Estimated value of the hedging portfolio as of the end of December 2008

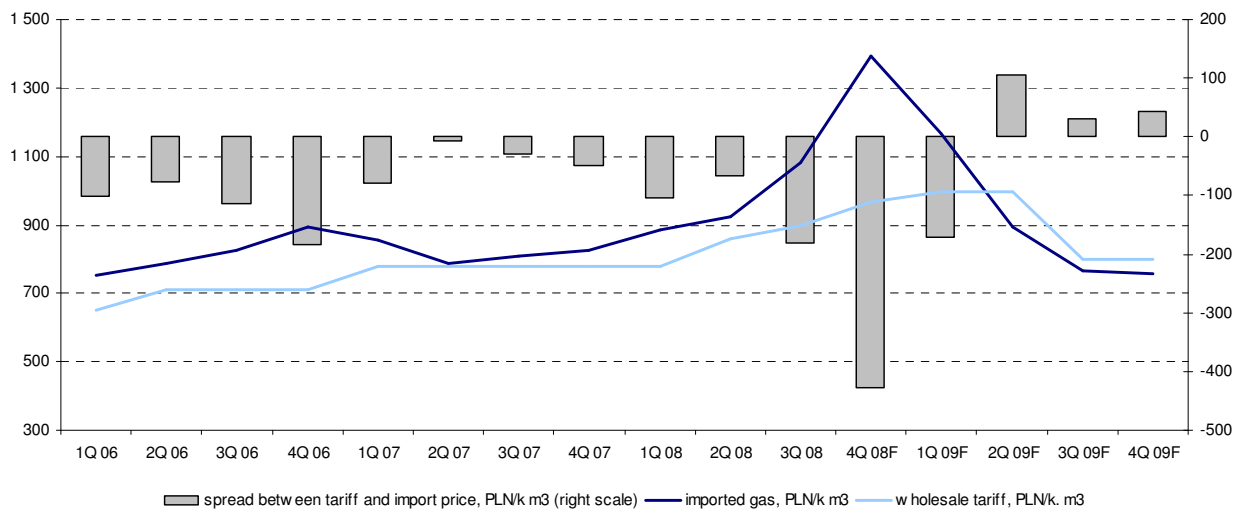
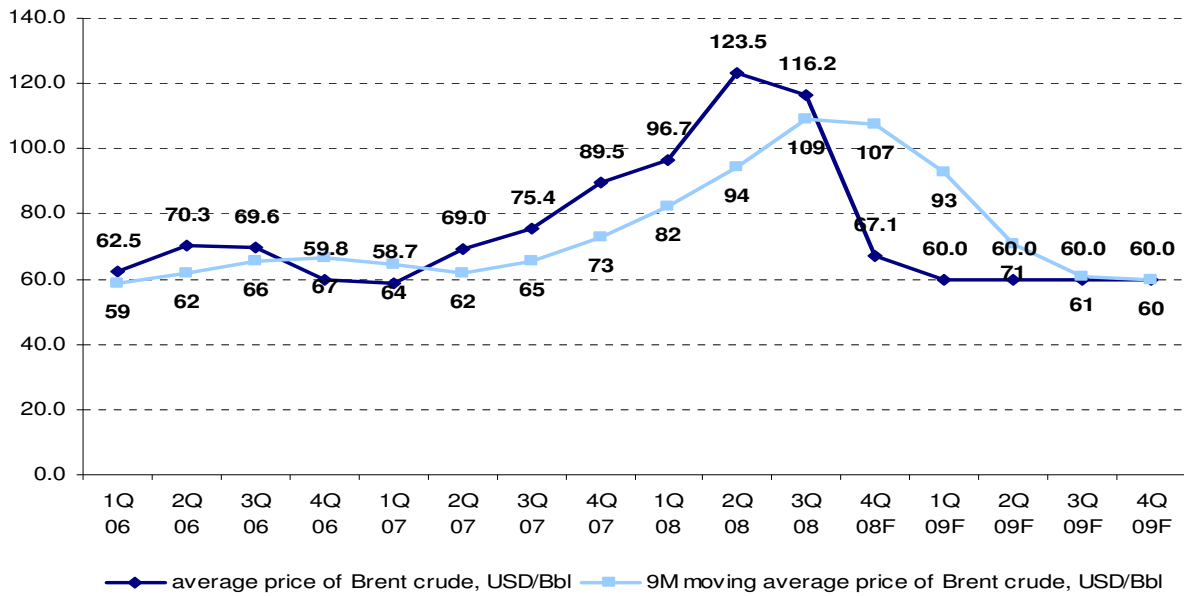
Average exchange rate in October	2.70
Average exchange rate in November	2.86
Average exchange rate in December	2.80
Exchange rate on December 31	2.80
Positions closed in Q4	82.8
Positions open as of December 31	246.0
Total	328.8
Value at a 30% discount	230.2

*positions open on for the given expiration dates are estimated by BRE Bank Securities on the assumption that the strategy from the previous periods will be consistently maintained, taking into account Russian gas purchase volumes

Source: PGNiG, BRE Bank Securities estimates

As far as FY2009 is concerned, we are also optimistic. We assume that despite the decrease in average crude oil prices (with USD 60/bbl projected for FY2009) as well as the clear deterioration in Upstream earnings (PLN 770m vs. PLN 1bn in FY2008), the Company should see a y/y improvement in EBIT. This will be made possible by Trade & Storage, which, after a period of high volatility in prices and exchange rates, should significantly improve the return on the regulated business. We assume that the USD/PLN exchange rate will remain at ca. 2.8, while crude oil prices will be ca. USD 60/bbl. In this environment, the price of the Russian gas will be gradually declining, which will bring about a significant drop in the unit loss on imports starting as early as Q1, with the break even point coming in Q2. We believe PGNiG will be able to get an extension for the current tariff into June next year (the determination of URE's new tariffs will be a prolonged process, but this time to the benefit of the Company). At the start of Q3, PGNiG may be forced to apply for a tariff adjustment, which may entail a 23% reduction in tariff prices. All in all, we are expecting the earnings on the T&S segment to increase from slightly under PLN 130m in 2008 to PLN 890m. In the case of the Distribution, we are expecting operating profits to stabilize at around PLN 550m.

Average oil prices, estimated prices of imported gas (baseline scenario)



Source: Bloomberg, estimates by BRE Bank Securities

Strategy Through 2015

According to the Board's growth strategy for the PGNiG group, investment outlays will amount to PLN 30bn by 2015. In the current market situation, investors may therefore worry that the Company will misspend its cash reserves, and that debt will surge in the short term (in the recent weeks, low levels of debt gave PGNiG an edge over other WSE-listed giants). The Management did not present a detailed breakdown of outlays by segment or by project, but given our current assumptions the projects we already know about (a total of PLN 14.6bn CAPEX assumed for storage capacity expansion, domestic upstream projects and the expansion of the gas distribution pipelines), we can estimate on what projects the Company will spend heavily in the upcoming years. Such projects, not factored into our model, include the Skanled pipeline, foreign petroleum and natural gas deposits, interconnectors, gas-fueled power solutions and chemical acquisitions. These investments are supposed to consume the additional PLN 15bn over the next six years. Below, we present a detailed breakdown of investment outlays by project, with an estimate of their effectiveness.

- **Skanled pipeline:** In this project, a Norwegian gas terminal will be connected with Swedish and Danish distribution systems, which is supposed to enable the sales of natural gas from fields in which PGNiG owns shares. The Polish concern will

participate in the costs proportionally to the capacity it booked (PLN 700m). **At present, it is difficult to make a precise estimate of this project, but it seems that there should be no problems with transferring the cost of gas distribution to end-customers in the future. The rate of return, however, should not be considered in isolation from the margin on the gas extracted in Norway.**

- **Foreign upstream projects:** at present, PGNiG owns a stake in a Norwegian shelf upstream project, purchased for PLN 1bn (PGNiG's share is ca. PLN 5.4bn cubic meters of gas). In addition, the concern promised to spend PLN 1.6bn on the exploitation of the field. **Given that the Management's target for gas and oil mining output from foreign sources in FY2025 is 1.5bn cubic meters and 0.8m tons, respectively, in the near future we can expect ca. PLN 7bn in total outlays on the foreign upstream business. Each project will have to be considered separately, but we believe that the current situation in the market may offer multiple investment opportunities to a company as liquid as PGNiG. For this reason, while we have not factored this into our model, we consider such projects as a value-building opportunity rather than a threat.**
- **Construction of interconnectors on the western and southern borders:** Interconnection with the German and Czech transfer systems is supposed not only to boost supply security, but also to enable PGNiG to expand in Central Europe, by gaining access to the European network of hubs and customers. **We estimate construction costs in this case at ca. PLN 600m, but we have not factored them into our model, just as we have not included the potential income from transfer fees.**
- **Gas-fueled power generation:** In the recent months, the PGNiG Management has been voicing increasingly strong interest in entering the power-generation sector, which could be achieved by initiating and possibly co-financing the construction of gas-and-steam powered facilities. The following projects are currently being mentioned: 2X400MW in cooperation with RWE, 150MW in cooperation with Energa and Lotos. There are also projects under planning where PGNiG would only function as a supplier (90MW for KGHM, 400MW for Tauron). **On the assumption that PGNiG co-finances projects totaling 1000MW, our estimate of the related outlays through 2015 amounts to PLN 2.8bn. For now, of course, we cannot factor this into our model as detailed information is lacking. Nonetheless, we have a positive view of the plan to enter gas-fueled energy generation, as this should not only allow PGNiG to diversify its business, but also to achieve vertical integration (higher gas trading volumes, access to additional margin on processing).**
- **Acquisitions in the chemical sector:** PGNiG mentions the fertilizer producers Police and Puławy as potential takeover targets (in line with the government's strategy for the sector). The concern is also considering a joint venture with ZAP on the coal gasification project. **Majority stakes in these two companies would cost ca. PLN 1.5-2bn. The cost of the coal gasification project for PGNiG would depend on how big its involvement would be (the total cost of the project is around PLN 2bn).**

To sum up, although the plan to spend as much as PLN 30bn in the next 6 years may appear to be very ambitious and risky in terms of economic efficiency, we do believe that many of these new projects may end up boosting shareholder value. The Company has significant financing potential; as far as acquisitions are concerned, a slump in international equity markets is a good time to make purchases.



Macroeconomic Assumptions

Macroeconomic assumptions for the DCF model.

	2005	2006	2007	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F
Crude oil prices (\$/Bbl)	55	65	73	100	60	80	90	90	90	90	90	90	90
9M crude-oil price estimates (\$/Bbl)	49	64	66	98	90	65	83	90	90	90	90	90	90
Price of imported gas (US\$/1000 cubic meters)	190	260	299	439	320	326	387	405	405	405	405	405	405
Average wholesale tariff price (PLN/1000 cubic meters)	527	694	779	873	874	831	910	956	953	952	953	955	955
PLN/USD exchange rate (avg. for the year)	3.23	3.11	2.77	2.42	2.80	2.60	2.40	2.40	2.40	2.40	2.40	2.40	2.40
EUR/PLN exchange rate (avg. for the year)	4.02	3.90	3.79	3.48	3.70	3.50	3.30	3.30	3.30	3.30	3.30	3.30	3.30
PGNiG's gas sales (billions of cubic meters)*	13.6	13.5	13.6	14.0	13.9	14.4	14.8	15.6	15.9	16.5	17.2	17.7	17.7
Gas imports (billions of cubic meters)	9.7	10.0	9.3	10.3	9.9	10.3	10.7	11.5	11.8	12.4	13.1	13.6	13.6
Domestic production (billions of cubic meters)	4.3	4.3	4.3	4.1	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Crude oil production (millions of tons)	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.9	0.9	0.9	0.9	0.9
PGNiG's non-tariff gas sales (billions of cubic meters)	0.55	0.56	0.63	0.58	0.63	0.63	0.63	0.63	0.63	0.63	0.63	0.63	0.63
PGNiG's share in the Polish natural-gas wholesale market	100.0%	99.5%	99.5%	99.3%	99.0%	98.8%	98.5%	98.3%	98.0%	97.8%	97.5%	97.3%	97.0%

Source: PGNiG, BRE Bank Securities, Bloomberg



Earnings Forecast and Valuation

Our DCF analysis (including the present value of transmission-asset leases, equity interest in EuRoPolGaz, and PGNiG's share in Norwegian shelf deposits) produced a nine-month per-share price target on PGNiG of PLN 3.94.

	weight	Price
Relative valuation	50%	3.63
DCF Analysis	50%	3.67
	price	3.65
	9M Target Price	3.94

DCF Analysis

Model Assumptions

1. Cash flows were discounted as of October 30, 2008. Equity value was calculated based on net debt as of year-end 2007.
2. The macroeconomic assumptions are as laid out above.
3. We recognize PGNiG's stakes in the Norwegian oil fields at their price of purchase (our CAPEX does not include outlays on the development of these deposits, nor potential revenues in the future). We do not take into account potential outlays on and revenue from the Skanled project (the estimated cost of participation is ca. PLN 700m)
4. We assume that CAPEX will decrease to PLN 1.6 billion after 2012 because we project no additional volumes in gas extracted for the 2011-2017 period.
5. We are expecting a significant delay in the launch of the LMG project (2010 to 2013). In line with PGNiG's press release, we are lowering our forecasts concerning domestic natural-gas production in FY2009 from 5bn to 4.6bn cubic meters.
6. We added the present value of PGNiG's transmission asset lease agreement (PLN 0.6bn after adjusting for in-kind dividends) and the value of the company's equity stake in EuRoPolGaz to the Equity Value (adjusted upwards for the appreciation of the USD).
7. The amortization and depreciation expense projected for FY2017 is slightly higher than CAPEX, which is unsustainable over a long term, prompting us to revise the D&A expense to PLN 1.6 billion when calculating the terminal value.
8. We based the FCF_{TV} calculations on the sales growth rate and EBITDA margins projected for 2017.
9. We assume that FCF after FY2017 will grow at a rate of 2%. Risk-free rate is 6.2%, and beta is 0.9.



DCF Valuation

(PLN m)	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2017+
Revenue	18 937	18 667	18 717	20 317	21 947	22 934	23 690	24 612	25 416	25 373	25 329
change	13.7%	-1.4%	0.3%	8.5%	8.0%	4.5%	3.3%	3.9%	3.3%	-0.2%	-0.2%
EBITDA	3 066.9	3 656.4	3 460.0	3 559.2	3 715.8	4 234.2	4 343.3	4 473.1	4 586.0	4 591.8	4 583.9
EBITDA margin	16.2%	19.6%	18.5%	17.5%	16.9%	18.5%	18.3%	18.2%	18.0%	18.1%	18.1%
Amortization and depreciation	1 392.4	1 473.6	1 569.9	1 656.5	1 706.6	1 717.8	1 726.2	1 740.8	1 770.9	1 803.6	1 616.0
EBIT	1 674.4	2 182.8	1 890.1	1 902.6	2 009.2	2 516.3	2 617.1	2 732.3	2 815.1	2 788.2	2 967.9
EBIT margin	8.8%	11.7%	10.1%	9.4%	9.2%	11.0%	11.0%	11.1%	11.1%	11.0%	11.7%
Tax on EBIT	318.1	414.7	359.1	361.5	381.8	478.1	497.2	519.1	534.9	529.8	563.9
NOPLAT	1 356.3	1 768.1	1 531.0	1 541.1	1 627.5	2 038.2	2 119.8	2 213.2	2 280.2	2 258.4	2 404.0
CAPEX	-2 116	-2 616	-2 616	-2 316	-2 216	-1 616	-1 616	-1 616	-1 616	-1 616	-1 616
Working capital	-257.3	177.6	15.7	-414.0	-261.8	-443.0	-141.5	-168.8	-142.0	11.2	11.2
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	375.4	803.3	500.6	467.6	856.2	1 697.1	2 088.6	2 169.1	2 293.1	2 457.2	2 415.2
WACC	10.8%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
discount factor	98.3%	88.8%	80.2%	72.5%	65.5%	59.1%	53.4%	48.3%	43.6%	39.4%	39.4%
PV FCF	369.1	713.3	401.6	338.9	560.5	1 003.5	1 115.7	1 046.7	999.6	967.6	
WACC	10.8%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
Cost of debt	7.3%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Risk-free rate	6.30%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
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%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	10.8%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%	10.7%
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	27 761		FCF growth in perpetuity								
Present value of the terminal value (PV TV)	10 932		0.0% 1.0% 2.0% 3.0% 4.0%								
Present value of FCF in the forecast horizon	7 516	WACC +1.0pp	3.46	3.59	3.76	3.97	4.23				
Equity value	18 448	WACC +0.5pp	3.52	3.67	3.86	4.09	4.39				
Net debt	-1 275	WACC	3.59	3.76	3.97	4.23	4.57				
Minority interests	9	WACC -0.5pp	3.67	3.86	4.09	4.39	4.78				
Equity value	19 723	WACC -0.1.0pp	3.76	3.97	4.23	4.57	5.02				
Equity in EuRoPolGaz	1 363										
Present value of leased assets	604										
Value of PGNiG's stake in Norwegian gas deposits (cost)	900										
Equity Value	21 681										
Number of shares (millions)	5 900										
Equity value per share (PLN)	3.67										
Cost of equity (9M)	8.0%										
Target Price	3.97										
EV/EBITDA('08) for the target price	7.2										
P/E('08) for the target price	16.1										
TV to EV	59%										

**Relative valuation**

In selecting companies to create a peer group for PGNiG, we chose utilities (electricity, water, gas distribution and generation) as well as mining and transmission companies. Because PGNiG incurs high depreciation charges, we decided to replace our usual P/E multiple with the more reliable P/CE ratio. The valuation horizon covers the years 2008-2010, and each year is assigned the same weight. We added the value of PGNiG's transmission asset leases and interests in EuRoPolGaz and Norwegian gas deposits to the result of the relative valuation.

	Price	F/CE				EV/EBITDA				
		2007	2008F	2009F	2010F	2007	2008F	2009F	2010F	
Centrica	3.14	7.0	5.9	6.3	5.7	5.3	5.0	4.6	4.4	
Enagas	14.81	8.3	7.6	6.8	6.0	9.1	8.5	7.4	6.4	
E.ON.	29.10	6.9	6.4	5.7	5.4	5.9	5.3	4.7	4.4	
Gaz de France	34.99	19.8	7.0	6.8	6.4	15.4	5.7	5.2	4.8	
Gas Natural SDG	24.15	6.8	6.0	5.6	5.3	6.5	5.7	5.2	4.8	
Novatek	3.04	12.2	6.7	5.4	3.8	6.1	3.5	2.8	2.0	
RWE AG	66.80	7.4	7.2	6.4	5.9	4.7	4.7	4.3	4.0	
Suez	32.10	7.9	7.3	6.9	6.1	7.6	7.1	6.4	6.0	
Maximum		19.8	7.6	6.9	6.4	15.4	8.5	7.4	6.4	
Minimum		6.8	5.9	5.4	3.8	4.7	3.5	2.8	2.0	
Median		7.6	6.8	6.4	5.8	6.3	5.5	4.9	4.6	
PGNiG*	3.29	5.0	6.1	5.1	5.3	4.4	5.2	4.2	4.4	
(premium / discount)		-34.0%	-11.3%	-19.9%	-8.8%	-29.4%	-5.5%	-14.2%	-4.3%	
Implied valuation										
Median		7.6	6.8	6.4	5.8	6.3	5.5	4.9	4.6	
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 equity value per share (PLN)		3.1								
Per-share value of EuRoPolGaz		0.2								
Per-share value of leasing		0.1								
Per-share value of Norwegian fields		0.2								
PGNiG per-share valuation		3.63								

EV/EBITDA based on net debt as of December 30, 2008

**market cap adjusted for leases, EuRoPolGaz shares, and Norwegian deposit interests*

**Income Statement**

(PLN m)	2005	2006	2007	2008F	2009F	2010F	2011F
Revenue	12 560.0	15 197.7	16 652.1	18 937.0	18 667.1	18 717.1	20 317.0
<i>change</i>	15.1%	21.0%	9.6%	13.7%	-1.4%	0.3%	8.5%
EBIT, incl.	1 397.7	1 470.0	851.6	1 674.4	2 182.8	1 890.1	1 902.6
Extraction & Production	755.9	987.7	1 001.1	1 040.5	776.4	857.5	889.5
Trade & Storage	531.1	258.6	1 195.7	128.1	891.3	468.8	469.9
Distribution	133.2	231.3	-1 311.1	547.4	556.7	605.4	585.0
Other, Eliminations	-22.4	-7.6	-34.1	-41.7	-41.7	-41.7	-41.7
Costs, one-time charges	0.0	0.0	1 384.0	0.0	0.0	0.0	0.0
Adjusted EBIT	1 397.7	1 470.0	2 235.6	1 674.4	2 182.8	1 890.1	1 902.6
<i>change</i>	5.4%	5.2%	-42.1%	96.6%	30.4%	-13.4%	0.7%
<i>EBIT margin</i>	11.1%	9.7%	13.4%	8.8%	11.7%	10.1%	9.4%
Profit on financing activity	-193.0	24.6	167.2	132.7	87.8	64.4	22.2
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	49.6	77.5	-16.0	-16.0	-16.0	-16.0	-16.0
Pre-tax income	1 254.4	1 572.0	1 002.7	1 791.1	2 254.6	1 938.5	1 908.9
Tax	206.8	244.1	86.7	340.3	428.4	368.3	362.7
Minority interests	0.9	0.5	1.0	0.0	0.0	0.0	0.0
Net income	1 046.6	1 327.4	915.0	1 450.8	1 826.2	1 570.2	1 546.2
<i>change</i>	11.0%	50.9%	-31.1%	58.6%	25.9%	-14.0%	-1.5%
<i>margin</i>	8.3%	8.7%	5.5%	7.7%	9.8%	8.4%	7.6%
Amortization and depreciation	1 401.9	1 296.1	1 430.3	1 392.4	1 473.6	1 569.9	1 656.5
EBITDA	2 799.6	2 766.2	3 665.9	3 066.9	3 656.4	3 460.0	3 559.2
<i>change</i>	-2.0%	-1.2%	-17.5%	34.4%	19.2%	-5.4%	2.9%
<i>EBITDA margin</i>	22.3%	18.2%	22.0%	16.2%	19.6%	18.5%	17.5%
Shares at year-end (millions)	5 900.0	5 900.0	5 900.0	5 900.0	5 900.0	5 900.0	5 900.0
EPS	0.2	0.2	0.2	0.2	0.3	0.3	0.3
CEPS	0.4	0.4	0.4	0.5	0.6	0.5	0.5
ROAE	5.4%	6.3%	4.3%	6.8%	8.4%	7.2%	7.1%
ROAA	3.6%	4.3%	3.1%	5.0%	6.2%	5.3%	5.2%

**Balance Sheet**

(PLN m)	2005	2006	2007	2008F	2009F	2010F	2011F
ASSETS	30 363.7	30 677.5	28 401.9	29 180.3	29 676.4	29 626.5	30 015.5
Fixed assets	23 530.5	23 234.5	22 131.1	21 619.6	22 504.9	23 551.0	24 210.5
Property, plant and equipment	17 524.4	18 762.1	18 715.5	20 229.3	21 362.9	22 405.5	23 069.2
Intangible assets	952.7	80.8	84.6	94.4	103.2	106.7	102.5
Shareholdings	512.1	589.3	557.5	557.5	557.5	557.5	557.5
Other fixed assets	4 541.2	3 802.4	2 773.4	738.4	481.3	481.3	481.3
Current assets	6 833.2	7 443.0	6 270.8	7 560.6	7 171.5	6 075.4	5 805.0
Inventories	815.3	1 351.2	1 216.0	2 056.5	1 881.6	1 865.4	2 263.4
Short-term receivables	2 618.4	2 473.3	3 331.0	3 029.9	2 986.7	2 994.7	3 250.7
Other current assets	199.0	79.4	140.2	140.2	140.2	140.1	140.2
Cash and cash equivalents	3 200.5	3 539.1	1 583.6	2 334.1	2 163.0	1 075.2	150.7
LIABILITIES	30 363.7	30 677.5	28 401.9	29 180.3	29 676.4	29 626.5	30 015.5
Equity	20 760.3	21 145.7	21 013.1	21 358.9	21 895.4	21 838.1	21 987.1
Share capital	5 900.0	5 900.0	5 900.0	5 900.0	5 900.0	5 900.0	5 900.0
Other equity	14 860.3	15 245.7	15 113.1	15 458.9	15 995.4	15 938.1	16 087.1
Minority shares	7.2	7.7	8.7	8.7	8.7	8.7	8.7
Long-term liabilities	6 624.9	6 724.1	3 879.6	3 979.9	3 979.9	3 979.9	3 979.9
Loans	2 369.1	2 343.8	31.4	131.7	131.7	131.7	131.7
Other	4 255.8	4 380.2	3 848.2	3 848.2	3 848.2	3 848.2	3 848.2
Short-term liabilities	2 971.2	2 800.0	3 500.6	3 832.8	3 792.3	3 799.8	4 039.8
Loans	89.2	113.6	106.7	6.4	6.4	6.4	6.4
Trade creditors	2 108.8	2 175.5	2 408.0	2 840.6	2 800.1	2 807.6	3 047.6
Other	773.1	511.0	985.9	985.9	985.9	985.9	985.9
Debt	2 458.3	2 457.5	138.1	138.1	138.1	138.1	138.1
Net debt	-742.2	-1 081.6	-1 445.5	-2 196.0	-2 024.9	-937.1	-12.6
(Net debt / Equity)	-3.6%	-5.1%	-6.9%	-10.3%	-9.2%	-4.3%	-0.1%
(Net debt / EBITDA)	-0.3	-0.4	-0.4	-0.7	-0.6	-0.3	0.0
BVPS	3.5	3.6	3.6	3.6	3.7	3.7	3.7

**Cash Flows**

(PLN m)	2005	2006	2007	2008F	2009F	2010F	2011F
Cash flows from operating activities	2 399.1	1 535.2	3 028.7	2 761.8	3 502.8	3 181.2	2 814.1
Net income	879.7	1 327.9	1 252.1	1 450.8	1 826.2	1 570.2	1 546.2
Amortization and depreciation	1 401.9	1 296.1	1 430.3	1 392.4	1 473.6	1 569.9	1 656.5
Working capital	163.6	-537.0	-606.5	-106.8	177.6	15.7	-414.0
Other	-46.2	-551.9	952.9	25.4	25.4	25.4	25.4
Cash flows from investing activities	-732.3	-867.2	-2 455.6	-2 116.0	-2 616.0	-2 616.0	-2 316.0
CAPEX	-1 320.7	-1 582.1	-2 980.0	-2 116.0	-2 616.0	-2 616.0	-2 316.0
Other	588.4	714.9	524.4	0.0	0.0	0.0	0.0
Cash flows from financing activities	626.9	-295.0	-2 547.5	104.6	-1 057.9	-1 653.0	-1 422.5
Stock offering	2 640.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt	-1 658.7	7.7	-2 295.4	0.0	0.0	0.0	0.0
Dividend (buy-back)	-150.6	-203.5	-153.0	-171.0	-1 305.7	-1 643.6	-1 413.2
Other	-203.9	-99.2	-99.1	275.6	247.8	-9.4	-9.4
Change in cash	2 293.9	352.9	-1 975.6	750.4	-171.1	-1 087.8	-924.5
Cash at the end of period	3 200.5	3 539.1	1 583.6	2 334.1	2 163.0	1 075.2	150.7
DPS (PLN)	0.03	0.15	0.17	0.19	0.22	0.28	0.24
FCF	1 435.7	402.9	-7.3	503.7	789.6	491.4	466.4
(CAPEX / Sales)	10.5%	10.4%	17.9%	11.2%	14.0%	14.0%	11.4%

Market multiples

	2005	2006	2007	2008F	2009F	2010F	2011F
P/E	18.9	14.9	21.6	13.6	10.8	12.6	12.8
P/CE	8.1	7.5	8.4	7.0	6.0	6.3	6.2
P/BV	1.0	0.9	0.9	0.9	0.9	0.9	0.9
P/S	1.6	1.3	1.2	1.0	1.1	1.1	1.0
FCF/EV	7.5%	2.2%	0.0%	2.9%	4.4%	2.6%	2.4%
EV/EBITDA	6.8	6.8	5.0	5.7	4.9	5.4	5.6
EV/EBIT	13.6	12.7	8.2	10.5	8.1	10.0	10.4
EV/S	1.5	1.2	1.1	0.9	1.0	1.0	1.0
DYield	0.8%	4.5%	5.1%	5.7%	6.6%	8.3%	7.1%
Price (PLN)	3.35						
Shares at year-end (millions)	5900.0	5900.0	5900.0	5900.0	5900.0	5900.0	5900.0
MC (PLN m)	19 765.0	19 765.0	19 765.0	19 765.0	19 765.0	19 765.0	19 765.0
Equity attributable to minority shareholders (PLN m)	7.2	7.7	8.7	8.7	8.7	8.7	8.7
EV (PLN m)	19 030.1	18 691.1	18 328.2	17 577.7	17 748.8	18 836.6	19 761.1



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 Kliszcz tel. (+48 22) 697 47 06
kamil.klischcz@dibre.com.pl
Fuels, chemicals, retail

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

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction

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

Recommendations of BRE Bank Securities

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from -5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
 Recommendations are updated at least once every nine months.

This document has been created and published by BRE Bank Securities S.A. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

The present report was not transferred to the issuer prior to its publication.
 BRE Bank Securities S.A. receives remuneration from the issuer for services rendered.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.

Recommendations are addressed to all Clients of BRE Bank Securities S.A. This report is not for distribution to third parties.
 The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of this recommendation, but had or could have had access to the recommendation prior to its publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendation.

Strong and weak points of valuation methods used in recommendations:

DCF – acknowledged as the most methodologically correct method of valuation; it is based in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Recent recommendations issued for PGNiG

Rating	Buy	Accumulate	Buy	Accumulate
Date issued	2008-04-30	2008-05-15	2008-07-02	2008-08-14
Price on rating day	4.24	4.47	3.18	3.48
WIG on rating day	46223.87	48321.35	40489.39	41049.76