BRE Bank Securities

1 December 2009

Update

Metals
Poland

KGHM

KGHM.WA; KGH.PW

Reduce

(Reiterated)

Current price	**PLN 107.0**
Target price	**PLN 90.4**
Market cap	PLN 21.4bn
Free float	PLN 12.4bn
Average daily trading (3M)	PLN 189.84m

Shareholder Structure

State Treasury	41.79%
Others	58.21%

Sector Outlook

A cooling global economy is affecting demand for commodities. As metal prices fell, mines slashed production, above all in areas generating high unit costs. Producers are expected to restart idled capacity now that prices have recovered, even though demand is still weak.

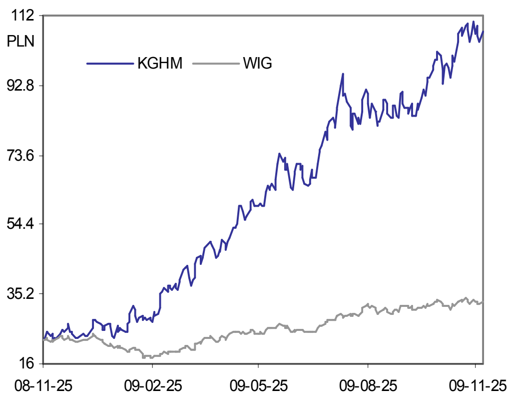
Company Profile

KGHM is the sixth largest copper producer and second largest silver producer in the world. It is also one of the most expensive ones. In addition to its core business, KGHM owns a 20% stake in the mobile telephony operator Polkomtel and a 100% stake in the fixed-line operator Dialog.

Important Dates

09.12 - Annual General Meeting

KGHM vs. WIG



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Still Walking a Tightrope

On 9 December, shareholders will vote on the advance dividends payment, which we believe could be as high as 50% of net income for Q1-Q3 2009 (PLN 927m, PLN 4.64 per share, gross DY of 4.3%). Investors should welcome this piece of news, which we believe will provide an opportunity to reduce the stock. The copper market is entering a period of seasonal weakness (December—February), which, with capacity utilization at mines high in December, is likely to bring about a surge in inventories at commodity exchanges (up to 200,000 tons). Given the recent rapid increases in the price of copper, the risk of a sharp correction in metal prices is increasing considerably. As a reminder, next year the Treasury is planning to sell an approximately 10% stake in the Company. On the optimistic assumption that the year-average price of copper will figure to USD 6,000 per ton (+13%) throughout the entire forecast horizon, and the USD/PLN exchange rate will be 2.75 (-8.3%), we are increasing the price target to PLN 90.4 per share (vs. PLN 73.0 per share previously).

Copper Market: Illusory Equilibrium

The copper market appears to be in equilibrium, and the extent of the recent expansion in inventories – given that the world economy is in crisis – is being ignored by commodity speculators. We would like to point out, however, that according to WBMS, in the first three quarters of 2009 demand has remained flat y/y, increasing by 45% in China (+1.7m tons y/y) and decreased by ca. 20% elsewhere. This means that China's share of the global demand surged to 40%! Still, Chinese manufacturers increased their purchases by a mere 16.7%, which means that the unmonitored inventories amassed by the SRB may have increased by ca. 1.1m tons over the period (8% of global consumption, i.e. more than Japan's). The data show how far from equilibrium the market really is, and also how unpredictable it is (impact of administrative decisions). Should the SRB decide to stop purchases at a time of a considerable excess supply (vs. real demand), inventories at commodity exchanges would quickly go up. As prices at the LME continue to go up, the risk increases that the SRB will decide to sell some of its stockpiles.

Good Finish to the Year

In December, KGHM will receive PLN 113m as advance on dividends from Polkomtel, which will boost its earnings, partially offsetting the upcoming asset impairment write-downs in the amount of approximately PLN 200m. Taking into account good operating earnings, we expect the company's Q4'09 net profit to exceed PLN 500m. The Treasury is determined to receive a high dividend payment.

(PLN m)	**2008**	**2009F**	**2010F**	**2011F**	**2012F**
Revenues	11 302	10 717	10 939	10 360	10 506
EBITDA	4 077	3 333	3 084	2 414	2 509
EBITDA margin	*36.1%*	*31.1%*	*28.2%*	*23.3%*	*23.9%*
EBIT	3 596	2 793	2 541	1 843	1 922
Net profit	2 920	2 289	2 270	1 717	1 820
DPS	9.0	11.7	8.0	4.5	4.3
P/E	7.3	9.3	9.4	12.5	11.8
P/CE	6.3	7.6	7.6	9.4	8.9
P/BV	2.0	2.0	1.9	1.8	1.6
EV/EBITDA*	3.9	5.1	5.3	6.4	5.8
DYield	8.4%	10.9%	7.5%	4.2%	4.0%

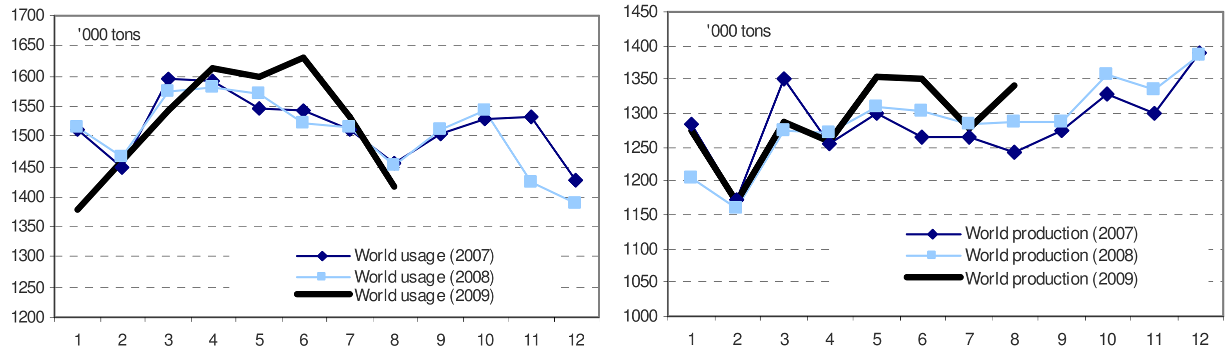
*Standalone figures; *excluding telecoms*

Copper Market

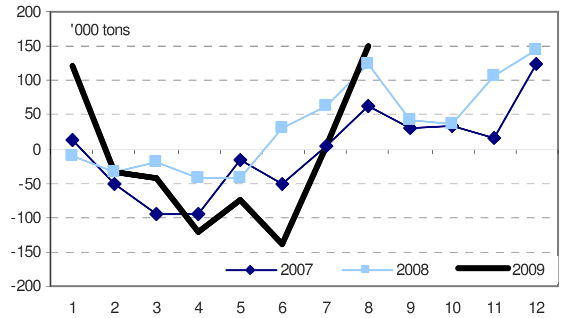
- **Global demand for copper is still slumping, and the resulting oversupply is not as massive as it could be (600-700KT) only thanks to purchases by China's SRB. The dwindling demand is also evidenced by low capacity usage at copper smelters.**
- **The operating rates of copper mines are also low, but there is no pressure on inventories.**
- **Speculation about a weaker dollar has lifted copper prices to nearly $7000/T.**
- **As the industry enters a period of seasonally low demand and growing mine capacity usage, copper stocks are expected to surge in December. We can also assume that the SRB will cut down on buying if prices increase. All this could lead to a sharp downturn in LME copper prices within the next few weeks.**

According to ICSG statistics, global demand shrunk 1.5% during the first eight months of the year, including a 45% increase in China and a 19.5% drop in other countries. Primarily responsible for the shrinkage were highly industrialized countries (which account for 29% of global demand): Japan (-34%), USA (-23%) and the EU (-23%). During the same period, mine output increased 3%, and refined-copper output declined 0.8%. The huge Chinese imports are a sign of continued inventory building by the SRB (read on for a detailed analysis). The 2009 summer vacation season (when demand fell most noticeably in the EU) caused a copper surplus of ca. 150KT in August. The months from September through November saw a rebound in demand, before the slowest period of the year from December to February (see diagrams below). December could see a big shift in inventories due to a combination of dwindling demand and high capacity usage at mines (in the past two years, the resulting oversupply was an estimated 150KT).

Global monthly copper consumption and ore output



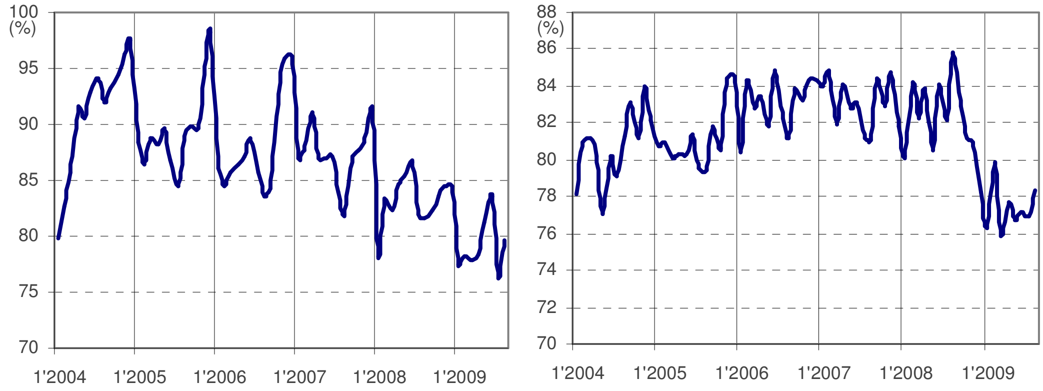
Refined copper surplus/shortage (concentrates+scrap) by month



Source: ICSG

According to ICSG research, capacity usage remains low at copper mines and smelters. However, while mines can explain this with operational obstacles, smelters are forced to cut production due to weak demand. This confirms that producers who significantly expanded their capacities in recent years (industry consolidation into multinational corporations) are adjusting to market reality.

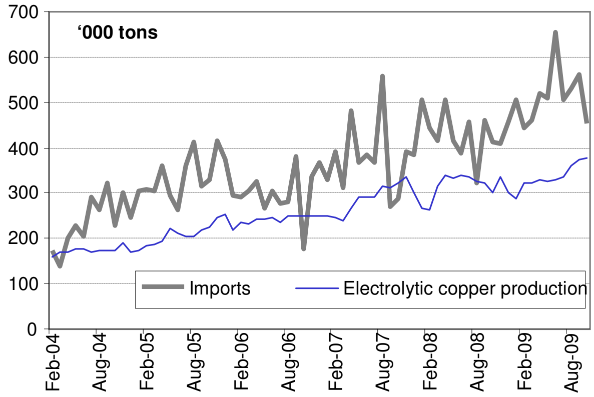
Capacity usage at copper mines and smelters



Source: BRE Bank Securities based on ICSG, LME data

No new trends emerge from the eight-month statistics compiled by ICSG. Global demand is clearly still weak, and the high prices quoted on the LME are a consequence of investors' betting on a weak dollar and China's strategic reserve buildup. The SRB's decisions are completely unpredictable, making it pointless to attempt a fundamental analysis of the copper market. In a scenario where the Bureau wants to buy another half-a-million tons of copper for up to $8000 a ton, LME prices will rally on increased demand from recovering developed countries where demand is currently down 20% compared to last year. Investors will probably ignore inventory buildups during the slow winter season. What is more, they will emphasize the fact that copper inventories in the previous cycle increased to 1.7MT, compared to just 600KT in this cycle. Keep in mind, however, that in the very likely event that high prices stop China from buying copper, the resulting demand gap (80KT-100KT per month) is going to quickly manifest itself in inventories, leading to a rapid downturn in prices.

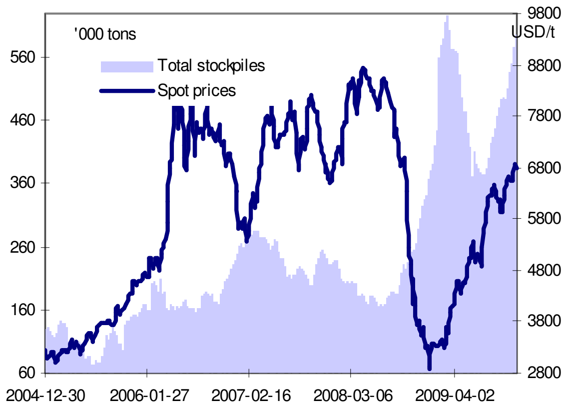
Chinese copper imports and smelter output

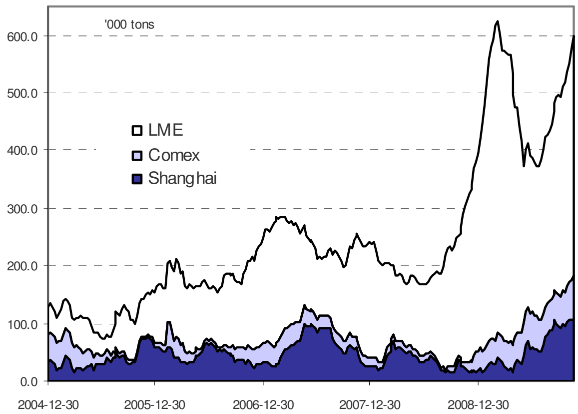


Source: Bloomberg

Chinese demand peaked in June (656KT), and contracted at a monthly rate of 150KT between July and September, as a result of seasonal fluctuations rather than a shift in the SRB's policy. If the Bureau cuts purchases again in the next few months, this should be considered a warning sign. In addition to purchase decisions, another question when dealing with the SRB is what it will do with all the copper it has piled up. If the answer is sell some of it on the market, the new supply is going to bring prices down by at least several hundred dollars.

LME, COMEX, SHP stockpiles vs. LME prices





Source: LME, Bloomberg

Copper inventories monitored by the three commodity exchanges listed above have increased by 600KT, nearing the 635KT peak reached during the previous 12-month cycle (the high was recorded in early March, marking an extended period of slumping demand caused by the collapse of global manufacturing early this year). Summing up, we predict that copper inventories will expand to ca. 800KT in December, and increase by another 50K-100KT in January 2010. So far, growing stockpiles have not spurred a copper sell-off in a repeat of the pattern observed in the past three years. However, looking at current price levels driven by speculation and betting on a weaker dollar, the expected sharp buildup could trigger a sell-off.

Q3 2009 results

KGHM's Q3 2009 earnings results fell short of our forecasts and consensus estimates. On a revenue of PLN 2636m, the company generated an EBITDA of PLN 613m and a bottom-line profit of PLN 382m. Net profit was PLN 463m lower than in the preceding quarter due to PLN 305m dividend receipts booked in Q2, and a PLN 246.4m hedging loss incurred in Q3 (the main reason behind the disappointing quarterly showing). Higher prices of copper and silver had a positive impact on revenues and EBIT.

Reported vs. forecasted Q3 2009 results

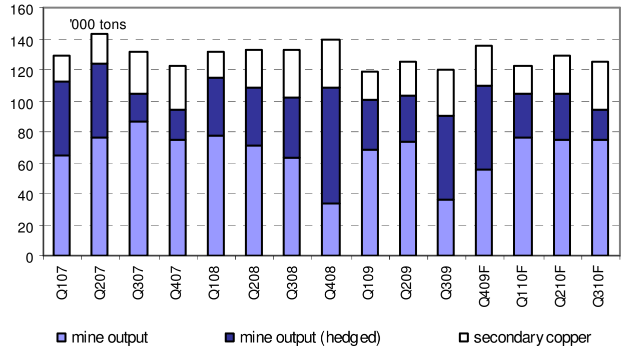
(PLN m)	Q3 2009	Q3 2009F	Q3 2008	y/y change	Q1-Q309	Q1-Q308	y/y change
Revenue	2 636.4	2 660.0	2 719.7	-3.1%	7 735.7	8 750.0	-11.6%
EBITDA	613.3	802.7	1 013.3	-39.5%	2 647.6	3 439.2	-23.0%
margin	23.3%	30.2%	37.3%		34.2%	39.3%	
EBIT	477.5	667.5	896.0	-46.7%	2 243.6	3 089.8	-27.4%
Pre-tax income	471.4	647.5	885.1	-46.7%	2 218.6	3 061.2	-27.5%
Net income	382.2	524.5	718.1	-46.8%	1 854.8	2 532.2	-26.7%

Source: BRE Bank Securities

Sales

KGHM sold 120KT of copper and 316T of silver in Q3 2009 (we expected copper sales of 125KT). The Management explains that the lower-than-expected sales were a result of a delayed delivery caused by summer maintenance downtime on a furnace in the smelter in Głogów. This suggests that Q4 2009 copper sales could reach 136KT, enough to fulfill the full-year target. Fourth-quarter revenue will be ca. PLN 200m, and EBIT will be ca. PLN 40m higher than in Q309. LME copper prices in October and November averaged $6440, or PLN 18,200 per ton, after a 10% and 6% increase from Q309 respectively. Average silver prices were 18.1% higher in dollars and 13.8% higher in zlotys. Higher copper sales will make for a successful fourth quarter even at higher unit costs (a seasonal increase due to, among others, employee bonuses) and lower sales of silver (expected to decrease to 265 tons).

Quarterly copper sales volumes



Source: KGHM

Operating costs

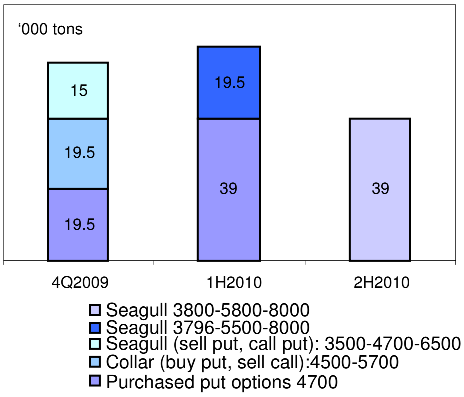
KGHM's Q309 costs came in line with expectations. The per-ton cost of copper amounted to PLN 12,405 after a 2.2% decline versus Q308 resulting from higher sales of silver and flat costs of scrap copper. Costs of electricity increased significantly after a 25% price hike (including transmission charges), topping last year's third-quarter costs by an estimated PLN 35m. Further, payroll expenses increased 6%, i.e. by PLN 105m, in the first three quarters. After KGHM increased the FY09 earnings guidance by 15%, its workers responded by demanding raises just a few months after they collected PLN 5000 one-time bonuses each and agreed not to make any more demands this year. This might be a prelude to "negotiations" concerning next year's salaries, which could be tough looking at the growing prices of metals. KGHM's Management needs to link salaries to the situation on the LME, otherwise, the unions will have the raises take effect at the start of next year, and the resulting increase in operating expenses will become a problem once the commodity rally ends. A 10% increase in the salary of a statistical KGHM miner means a PLN 250m addition to costs, expected to take place next year. The PLN 250m will be offset in profit assuming an increase by $150/T (i.e. 2.5%) in the average copper price quoted on the LME.

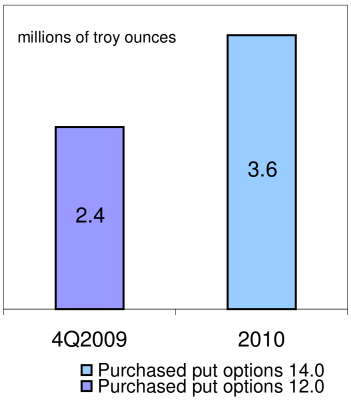
Cost expansion is curbed by KGHM's savings plan as well as higher percentage extraction of copper (1.69% at 30 Sep. 2009 vs. 1.62% at 30 Sep. 2008). The biggest success so far has been the establishment of a Central Purchasing Department, expected to generate PLN 300m in savings compared to 2008 (PLN 250m was saved as of 30 Sep. 2009). Alongside central purchases, KGHM is implementing a program called "efficiency," expected to bring cost savings of PLN 75m a year. That said, all the savings measures are merely keeping total operating costs from increasing on the back of higher electricity bills and salaries.

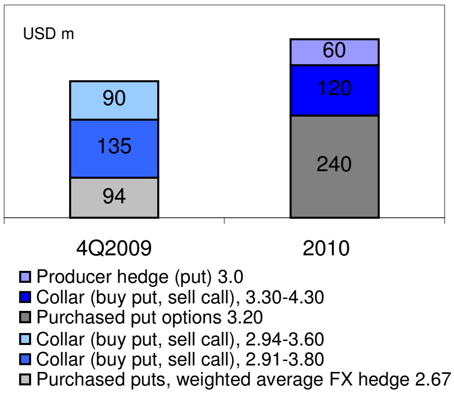
Hedging

KGHM's open position in derivatives was a positive PLN 156m. The company has hedged 54KT of copper for Q4 2009, 58.5KT for H1 2010, and 39KT for H2 2010, representing 40%, 23.5%, and 15.4% respectively of the sales volumes projected for these periods. Silver hedges cover ca. 31% of expected Q409 sales volumes, and 10% of expected 2010 volumes. The value of the hedge position is $321m in Q409 (28% of expected revenue) and $480m in 2010 (11% of expected revenue).

Hedge positions in copper and silver







Source: KGHM

Important developments in Q4 2009

KGHM expects to recognize ca. PLN 200m in asset impairment losses at year-end, which will depress otherwise strong profits. The company did not provide any specifics. Announcements about year-end charges and far-reaching investment plans mark the beginning of the annual dividend back-and-forth between KGHM's Management and its main shareholder. Obviously, the impairment charge will reduce the amount of distributable profits. KGHM's CEO has said that he does not rule out payment of dividends out of 2009 profits, but he would prefer any surplus to be allocated toward next year's investments estimated to cost more than the projects completed this year. For example, the company hopes to finalize the acquisition of a greenfield in the USA late this year or in early 2010.

The battle over profits has started early this year, after the State Treasury postulated that KGHM should pay advance dividends from 2009 earnings. The proposal will be voted on during a General Meeting on December 9th, whose agenda also includes a vote on changes in the company's Articles allowing the State Treasury to retain control over KGHM even after it sells a portion of its holdings. Knowing that the Treasury is desperate to fill the budget gap, the companies it controls are likely to recognize different charges and provisions to protect their profits. As for the guarantee of control to be given to the State Treasury, we think it will be welcome by investors. Since there is little chance for an industry investor to ever be allowed into KGHM, retention of control by the State Treasury, even through reduced interests, is good for minority shareholders (as defense against unions).

KGHM's Q409 profit will be boosted by advance dividends from Polkomtel equivalent to 50% of the earnings generated in the nine months ended 20 September, i.e. PLN 464m. KGHM's stake in the telecom's equity entitles it to a payout of PLN 113m. Note that the State Treasury treats its subsidiaries as vehicles of control over Polkomtel. The fact that the Treasury has also postulated an early dividend payout by KGHM (the shareholders will vote on 9 December) shows its determination to maximize budget revenues still this year.

Valuation

We based our financial forecasts and valuation of KGHM on the following assumptions:

	2009F	2010F	2011F	2012F	2013F	2014F	2014F	2015F	2016F	2017F
Copper sales ('000 tons)	500.0	505.0	505.0	505.0	505.0	505.0	505.0	505.0	505.0	505.0
change	*-7.1%*	*1.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Silver sales ('000 tons)	1.21	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.16
change	*2.9%*	*-4.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Avg. spot price of copper (USD/T)	5 156.1	6 300.0	6 000.0	6 000.0	6 000.0	6 000.0	6 000.0	6 000.0	6 000.0	6 000.0
change	*-25.5%*	*22.2%*	*-4.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Average price of silver (USD/kg)	468.1	550.0	471.4	471.4	471.4	471.4	471.4	471.4	471.4	471.4
change	*-2.2%*	*17.5%*	*-14.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Average USD/PLN exchange rate	3.12	2.71	2.71	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Unit cost of copper (USD)	3 771.1	4 757.7	5 017.4	4 981.0	5 003.2	5 017.8	5 032.5	5 072.3	5 113.2	5 155.0
change	*-24.9%*	*26.2%*	*5.5%*	*-0.7%*	*0.4%*	*0.3%*	*0.3%*	*0.8%*	*0.8%*	*0.8%*
Unit cost of copper (PLN)	11 752	12 905	13 610	13 698	13 759	13 799	13 839	13 949	14 061	14 176
change	*-2.7%*	*9.8%*	*5.5%*	*0.6%*	*0.4%*	*0.3%*	*0.3%*	*0.8%*	*0.8%*	*0.8%*

We raised our average copper price estimate for 2009 from $4886.5/T to $5156.1/T, and lowered the assumed USD/PLN exchange rate from 3.15 do 3.12. We also increased the estimated price average for silver from $439/kg to $468/kg.

Prices of copper forecasted for 2010 were raised by $800, and prices forecasted for subsequent years increased by $700 per ton. Estimated prices of silver were adjusted upwards by $100/kg and $82/kg respectively. The assumed long-term average USD/PLN exchange rate is 2.75 (lowered from 3.0).

DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2014F	2015F	2018F	...	2035
Revenue	**10 939**	**10 360**	**10 506**	**10 517**	**10 527**	**10 538**	**10 549**	**10 560**		
change	*2.1%*	*-5.3%*	*1.4%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*		
EBITDA	**3 084.2**	**2 414.2**	**2 509.2**	**2 494.1**	**2 479.4**	**2 465.1**	**2 416.3**	**2 366.5**		
EBITDA margin	*28.2%*	*23.3%*	*23.9%*	*23.7%*	*23.6%*	*23.4%*	*22.9%*	*22.4%*		
Amortization & depreciation	543.4	571.2	587.7	593.3	588.6	584.2	580.0	576.0		
EBIT	**2 540.8**	**1 843.0**	**1 921.6**	**1 900.9**	**1 890.8**	**1 880.9**	**1 836.3**	**1 790.5**		
EBIT margin	*23.2%*	*17.8%*	*18.3%*	*18.1%*	*18.0%*	*17.8%*	*17.4%*	*17.0%*		
Tax rate on EBIT	482.8	350.2	365.1	361.2	359.3	357.4	348.9	340.2		
NOPLAT	**2 058.1**	**1 492.9**	**1 556.5**	**1 539.7**	**1 531.6**	**1 523.5**	**1 487.4**	**1 450.3**		
CAPEX	-1 100.0	-900.0	-700.0	-500.0	-500.0	-500.0	-500.0	-500.0		
Working capital	259.4	458.4	64.3	33.8	32.4	33.3	42.0	43.2		
Other	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0		
FCF	**1 760.8**	**1 622.5**	**1 508.5**	**1 666.8**	**1 652.5**	**1 641.0**	**1 609.4**	**1 569.5**		**1 151.1**
WACC	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*		*11.0%*
discount factor	*89.3%*	*79.7%*	*71.2%*	*63.6%*	*56.7%*	*50.7%*	*45.2%*	*40.4%*		*5.7%*
PV FCF	1 572.2	1 293.5	1 073.7	1 059.3	937.7	831.4	728.0	633.9		65.5
WACC	***12.0%***	***12.0%***	***12.0%***	***12.0%***	***12.0%***	***12.0%***	***12.0%***	***12.0%***		***11.5%***
Cost of debt	*6.7%*	*6.7%*	*6.7%*	*6.7%*	*6.7%*	*6.7%*	*6.7%*	*6.7%*		*6.2%*
Risk-free rate	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*		*5.7%*
Risk premium	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*		*0.5%*
Effective tax rate	*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%*
Cost of Equity	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*	*11.5%*		*11.0%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*		*5.0%*
Beta	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1		1.1

Mining Operations	
Terminal value	0.0
Present value of FCF in the forecast horizon	12 118
Value of mining operations (EV)	12 118
Number of shares (millions)	200.0
Equity value per share (PLN)	**60.6**
Cost of equity (9M)	*7.5%*
Target Price	**65.1**

Sum-of-parts (SOP)	new	old valuation
Mining operations	12 118	10 027
Net cash (ex dividends)	660	-542
Other non-operating assets	4 047	4 047
incl. Polkomtel	3 444	3 444
incl. Dialog	403	403
incl. other subsidiaries	200	200
Goodwill	16 826	13 532
Equity value per share (PLN)	**84.1**	**67.7**
Target Price	**90.4**	**73.0**

EV/EBITDA('09) for the target price (Mines)*	4.1
P/E('09) for the target price (Mines)*	6.0
TV to EV	0%

** ex. dividends from Polkomtel*

Income Statement

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
Revenue	**12 183.1**	**11 302.3**	**10 716.6**	**10 939.4**	**10 359.9**	**10 506.2**	**10 516.5**
change	*4.4%*	*-7.2%*	*-5.2%*	*2.1%*	*-5.3%*	*1.4%*	*0.1%*
COGS	6 617.3	7 215.4	6 933.0	7 566.5	7 773.3	7 823.3	7 846.2
Gross profit	5 565.8	4 086.9	3 783.6	3 372.8	2 586.6	2 682.9	2 670.4
gross margin	*45.7%*	*36.2%*	*35.3%*	*30.8%*	*25.0%*	*25.5%*	*25.4%*
Selling expenses	77.6	79.8	94.9	95.9	91.2	94.6	96.8
General and administrative expenses	608.5	615.3	610.0	616.1	538.7	551.6	557.4
Other net operating income/loss	-197.7	204.0	-285.5	-120.0	-113.6	-115.2	-115.4
EBIT	**4 682.0**	**3 595.7**	**2 793.2**	**2 540.8**	**1 843.0**	**1 921.6**	**1 900.9**
change	*8.8%*	*-23.2%*	*-22.3%*	*-9.0%*	*-27.5%*	*4.3%*	*-1.1%*
EBIT margin	*38.4%*	*31.8%*	*26.1%*	*23.2%*	*17.8%*	*18.3%*	*18.1%*
Finance gains/losses	-26.5	-42.7	-12.5	250.0	277.3	325.1	366.6
Extraordinary gains/losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Pre-tax income	**4 655.5**	**3 553.0**	**2 780.7**	**2 790.8**	**2 120.3**	**2 246.6**	**2 267.5**
Tax	856.7	633.3	491.5	520.8	402.9	426.9	430.8
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**3 798.8**	**2 919.8**	**2 289.2**	**2 270.1**	**1 717.4**	**1 819.8**	**1 836.7**
change	*8.4%*	*-23.1%*	*-21.6%*	*-0.8%*	*-24.3%*	*6.0%*	*0.9%*
margin	*31.2%*	*25.8%*	*21.4%*	*20.8%*	*16.6%*	*17.3%*	*17.5%*
Amortization & depreciation	344.4	481.4	539.8	543.4	571.2	587.7	593.3
EBITDA	**5 026.4**	**4 077.1**	**3 333.0**	**3 084.2**	**2 414.2**	**2 509.2**	**2 494.1**
change	*79.5%*	*-12.3%*	*-33.7%*	*-24.4%*	*-27.6%*	*-18.6%*	*3.3%*
EBITDA margin	*41.3%*	*36.1%*	*31.1%*	*28.2%*	*23.3%*	*23.9%*	*23.7%*
Shares at year-end (millions)	200.0	200.0	200.0	200.0	201.0	202.0	203.0
EPS	19.0	14.6	11.4	11.4	8.6	9.1	9.2
CEPS	20.7	17.0	14.1	14.1	11.4	12.0	12.1
ROAE	*44.5%*	*29.9%*	*21.7%*	*20.9%*	*14.8%*	*14.6%*	*13.8%*
ROAA	*30.8%*	*22.2%*	*16.6%*	*16.0%*	*11.4%*	*11.4%*	*10.9%*

Balance Sheet

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
ASSETS	**12 423.5**	**13 900.6**	**13 735.1**	**14 602.0**	**15 516.6**	**16 549.0**	**17 178.1**
Fixed assets	**7 428.3**	**8 726.6**	**9 386.8**	**9 943.4**	**10 272.2**	**10 384.5**	**10 291.3**
Property, plant and equipment	4 832.6	5 515.0	6 175.3	6 731.9	7 060.6	7 173.0	7 079.7
Intangible assets	80.9	80.9	80.9	80.9	80.9	80.9	80.9
Financial fixed assets	2 509.9	3 068.8	3 068.8	3 068.8	3 068.8	3 068.8	3 068.8
Long-term receivables	11.0	61.9	61.9	61.9	61.9	61.9	61.9
Current assets	**4 995.1**	**5 174.0**	**4 348.2**	**4 658.6**	**5 244.4**	**6 164.4**	**6 886.8**
Inventories	1 603.5	1 446.8	1 637.3	1 671.3	1 582.8	1 605.1	1 606.7
Short-term receivables	772.3	1 222.5	1 339.6	1 215.5	920.9	875.5	876.4
Securities	84.4	711.1	711.1	711.1	711.1	711.1	711.1
Prepayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	2 535.0	1 793.6	660.3	1 060.7	2 029.6	2 972.7	3 692.6

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
LIABILITIES	**12 423.2**	**13 900.6**	**13 735.1**	**14 602.0**	**15 516.6**	**16 549.0**	**17 178.1**
Equity	**8 965.9**	**10 591.3**	**10 544.5**	**11 212.1**	**12 021.5**	**12 982.6**	**13 545.4**
Share capital	2 000.0	2 000.0	2 000.0	2 000.0	2 000.0	2 000.0	2 000.0
Capital reserve	3 153.3	5 671.5	6 255.3	6 942.1	8 304.1	9 162.8	9 708.7
Other	3 812.6	2 919.8	2 289.2	2 270.1	1 717.4	1 819.8	1 836.7
Provisions	**631.9**	**666.3**	**696.3**	**726.3**	**756.3**	**786.3**	**816.3**
Long-term liabilities	**882.4**	**1 000.7**	**950.0**	**978.5**	**1 007.9**	**1 038.1**	**1 069.2**
Debt	20.3	17.2	0.0	0.0	0.0	0.0	0.0
Other	862.1	983.5	950.0	978.5	1 007.9	1 038.1	1 069.2
Short-term liabilities	**1 943.0**	**1 625.1**	**1 544.2**	**1 685.1**	**1 730.9**	**1 742.0**	**1 747.1**
Trade creditors	1 920.1	1 614.2	1 540.7	1 681.5	1 727.4	1 738.5	1 743.6
Debt	8.6	7.1	0.0	0.0	0.0	0.0	0.0
Other	14.3	3.8	3.6	3.6	3.5	3.5	3.5
Debt	28.9	24.3	0.0	0.0	0.0	0.0	0.0
Net debt	-2 506.1	-1 769.3	-660.3	-1 060.7	-2 029.6	-2 972.7	-3 692.6
(Net debt / Equity)	*-28.0%*	*-16.7%*	*-6.3%*	*-9.5%*	*-16.9%*	*-22.9%*	*-27.3%*
(Net debt / EBITDA)	-0.5	-0.4	-0.2	-0.3	-0.8	-1.2	-1.5
BVPS	44.8	53.0	52.7	56.1	60.1	64.9	67.7

Cash Flows

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
Cash flows from operating activities	**4 763.9**	**2 819.9**	**2 437.3**	**2 900.3**	**2 552.5**	**2 238.5**	**2 196.8**
Net earnings	3 798.8	2 919.8	2 289.2	2 270.1	1 717.4	1 819.8	1 836.7
Amortization & depreciation	344.4	481.4	539.8	543.4	571.2	587.7	593.3
Working capital	592.3	-615.8	-401.8	289.4	488.4	94.3	63.8
Other	28.5	34.6	10.1	-202.5	-224.6	-263.3	-297.0
Cash flows from investing activities	**-806.7**	**-1 728.7**	**-1 200.0**	**-1 100.0**	**-900.0**	**-700.0**	**-500.0**
CAPEX	-845.0	-1 169.8	-1 200.0	-1 100.0	-900.0	-700.0	-500.0
Capital investments	38.3	-558.9	0.0	0.0	0.0	0.0	0.0
Other (non-cash)	0.0	0.0	0.0	0.0	1.0	2.0	3.0
Cash flows from financing activities	**-3 515.7**	**-1 832.2**	**-2 370.6**	**-1 399.9**	**-683.6**	**-595.4**	**-976.9**
Debt	-11.4	-4.6	-24.3	0.0	0.0	0.0	0.0
Dividends/share buy-back	-3 396.0	-1 800.0	-2 336.0	-1 602.4	-908.0	-858.7	-1 273.8
Other	-108.2	-27.5	-10.3	202.6	224.4	263.3	297.0
Change in cash	**441.6**	**-740.9**	**-1 133.3**	**400.4**	**968.9**	**943.1**	**719.9**
Cash at end of period	2 535.1	1 794.0	660.3	1 060.7	2 029.6	2 972.7	3 692.6
DPS (PLN)	17.0	9.0	11.7	8.0	4.5	4.3	6.4
FCF	3 776.8	1 663.7	1 170.5	1 760.8	1 622.5	1 508.5	1 666.8
(CAPEX / Sales)	*6.9%*	*10.4%*	*11.2%*	*10.1%*	*8.7%*	*6.7%*	*4.8%*

Multiples

	2007	2008	2009F	2010F	2011F	2012F	2013F
P/E	5.6	7.3	9.3	9.4	12.5	11.8	11.7
P/CE	5.2	6.3	7.6	7.6	9.4	8.9	8.8
P/BV	2.4	2.0	2.0	1.9	1.8	1.6	1.6
P/S	1.8	1.9	2.0	2.0	2.1	2.0	2.0
FCF/EV	*25.1%*	*10.5%*	*6.9%*	*10.7%*	*10.5%*	*10.3%*	*12.0%*
EV/EBITDA	3.0	3.9	5.1	5.3	6.4	5.8	5.6
EV/EBIT	3.2	4.4	6.0	6.5	8.4	7.6	7.3
EV/S	1.2	1.4	1.6	1.5	1.5	1.4	1.3
DYield	*15.9%*	*8.4%*	*10.9%*	*7.5%*	*4.2%*	*4.0%*	*6.0%*

Price (PLN)	**107.0**						
Shares at year-end (millions)	200.0	200.0	200.0	200.0	200.0	200.0	201.0
MC (PLN m)	21 400.0	21 400.0	21 400.0	21 400.0	21 400.0	21 400.0	21 400.0
Ex. telecom assets	3 847.2	3 847.2	3 847.2	3 847.2	3 847.2	3 847.2	3 847.2
EV (PLN m)	15 499.7	15 046.7	15 783.5	16 892.5	16 492.1	15 523.2	14 580.1

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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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Rating	Accumulate	Suspended	Reduce	Reduce
Rating date	2009-04-02	2009-06-04	2009-06-08	2009-08-14
Price on rating day	46.45	75.30	77.40	84.90
WIG on rating day	24145.69	31030.61	31399.03	35998.12