

Electric-Corporate
Poland
Credit Analysis

**PGE Polska Grupa Energetyczna
S.A.**

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Senior Unsecured	A-
Local Currency	
Long-Term IDR	BBB+
Senior Unsecured	A-

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

	31 Dec 08	31 Dec 07
PGE Polska Grupa Energetyczna S.A.		
Revenues (PLNm)	20,597.8	23,090.7
Operating EBITDAR (PLNm)	5,302.9	4,583.8
Funds from operations (PLNm)	5,664.4	5,139.6
Capital expenditure (PLNm)	4,124.1	3,635.3
Free cash flow (PLNm)	661.6	1,332.1
Total debt (PLNm)	7,511.6	7,074.4
Funds from operations/ gross interest expense (x)	10.7	9.1
Total adjusted debt net of cash/operating EBITDAR	1.0	1.0

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Related Research

- *Parent and Subsidiary Rating Linkage: Fitch's Approach to Rating Entities Within a Corporate Group Structure (June 2007)*
- *Fitch's Approach to Rating Competitive Generators (July 2007)*
- *Credit Rating Guidelines for Regulated Utility Companies (July 2007)*
- *EMEA Energy and Utilities Issuer Default Ratings and Recovery Ratings Amended (February 2006)*
- *Sovereign Ownership Impact on Corporate Ratings (June 2009)*
- *Poland (May 2009)*

Rating Rationale

- PGE Polska Grupa Energetyczna S.A.'s (PGE S.A.) ratings reflect PGE's (PGE group comprising PGE S.A. and its subsidiaries) vertically-integrated operations in the Polish electricity market, including dominance in power generation (42% of the country's generation in 2008) and a strong position in electricity distribution and supply (26% market share). The ratings also reflect PGE's low financial leverage (Fitch-adjusted net debt to EBITDA of 1x at end-2008) compared with other European utilities rated by Fitch Ratings.
- The agency views PGE's financial policy as conservative, as the group aims to maintain healthy credit ratios – with net debt to EBITDA below 2.5x in the medium term – despite a large planned capex programme of PLN39bn for 2009-2012 which will be partly debt-funded.
- The ratings are constrained by the group's short track record of operations, relatively low level of integration between PGE S.A. and its main operating subsidiaries; and the group's substantial exposure to carbon dioxide (CO₂) costs.
- The 'BBB+' IDR is notched down to 'BBB' for structural subordination of the holding company's (PGE S.A.) debt, with most debt in the group held at subsidiaries (around 72% at end-2008). However, given the group's state ownership and strategic importance as the largest player in the country's electricity sector, subordination of debt at group level is mitigated by a one-notch uplift to 'BBB+' for implicit state support.
- The Senior Unsecured rating of 'A-' incorporates an uplift of one-notch over the IDR, in line with Fitch's methodology for incorporating above-average recovery prospects for debt instruments of vertically-integrated power utilities in Europe.

Key Rating Drivers

- An increase in PGE's equity following a partial IPO planned for Q409, together with progress on group integration and reduced structural subordination of PGE S.A. debt, could be positive for the ratings.
- Financial leverage beyond the company's maximum target of 2.5x, eg due to large debt-funded acquisitions or capex substantially above the current plan, would be negative for the ratings.
- Also negative would be a potential liquidity crunch that could be caused by the default of some long-term loans of PGE Elektrownia Belchatow S.A., PGE's material subsidiary, which have been in dispute since September 2008. Discussions are ongoing between PGE and banks regarding changes to terms and conditions.
- A downgrade of the sovereign to below 'A-' would be likely to lead to PGE S.A.'s Foreign Currency Senior Unsecured Rating being constrained at that of the sovereign. Poland's Foreign Currency IDR is 'A-' / Stable.

Liquidity and Debt Structure

The PGE group had a temporarily stretched liquidity position at end-2008, when available liquidity was in Fitch's view insufficient to cover short-term debt of PLN3bn. The liquidity position improved in H109, when PGE repaid its PLN1.3bn bonds due in June 2009. Part of the bonds were refinanced with a new bond issue.

Company and Market Overview

Fully-state-owned PGE is the dominant player in the Polish electricity market, and one of the largest electricity companies in central Europe. PGE has a vertically-integrated position in the Polish market from lignite mining, through power generation to distribution and supply. The two major segments in cash flow generation terms are mining and generation (71% of group EBITDA in 2008), and distribution (18%). Fitch does not expect PGE's EBITDA split by segment to substantially change in the next three years. Mining and generation is likely to remain the main free cash flow (FCF) contributor, with EBITDA minus capex of PLN1bn or 72% of the group contribution in 2008.

Fitch estimates that most of the mining and generation segment's cash flow comes from power generation. In 2008, PGE produced 56 terawatt hours (TWh) of electricity, up 3% yoy. PGE owns 12.4 gigawatt (GW) of installed generation capacity (37% of Poland's capacity), and enjoys above-average margins on generation thanks to its fuel-cost advantage over other generation groups in Poland.

PGE's main source of generation is lignite-fired plants (68% of 2008 generation), which benefit from lower production costs than hard-coal-fired plants – the latter set the wholesale prices in Poland, as overall hard coal is the main fuel for the country's power sector (see chart *PGE and Poland Fuel Mix in Generation*). The company's business profile benefits from the high share of its own fuel in the fuel mix, as lignite-fired plants are integrated with PGE's lignite mines located close to the plants. This lowers fuel supply risk and costs, and also improves the predictability of fuel costs.

The second key segment for the group is distribution, as the group owns 26% of the country's distribution network located in central and eastern Poland. It benefits from predictable cash flow and a stable EBITDA margin (22% in 2007 and 2008), thanks to its regulated revenue stream.

Together with the remaining three state-owned power groups – Tauron Polska Energia S.A. (Tauron), ENEA S.A. and Energa S.A. – PGE and its rivals control 82% of generation and 84% of national distribution (see table *Main Players in the Polish Power Sector*). The government plans a partial privatisation of both PGE and Tauron, but aims to maintain a majority stake in PGE and management control of Tauron. The two smaller state-owned groups, ENEA and Energa, are scheduled to be privatised by end-2009 and end-2010, respectively. Foreign entities currently present in the Polish power market include subsidiaries of Electricite de France (EDF) ('A+' /Stable), Electrabel, Vattenfall AB ('A+' /Rating Watch Negative) and CEZ, a.s. ('A-' /Stable) operating in generation; and subsidiaries of RWE AG ('A+' /Negative) and Vattenfall operating in distribution.

The Polish power sector is a relatively closed market, as domestic generation covers domestic electricity demand with limited cross-border electricity flows. Generation

Main Players in the Polish Power Sector

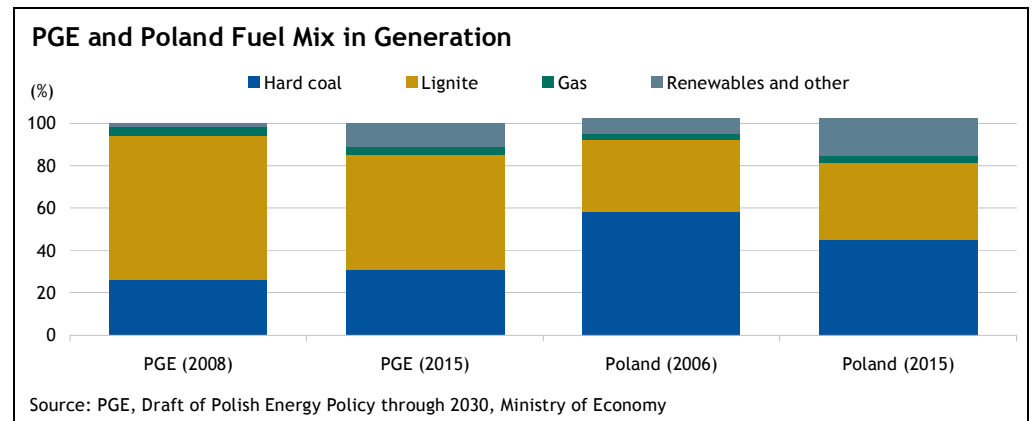
Company	PGE	Tauron Polska Energia	ENEA	Energa	Other players
Ownership	State-owned, partial privatisation planned ^a	State-owned, partial privatisation planned ^a	Majority state-owned, expected to be privatised in 2009	State-owned, expected to be privatised in 2010	Several privatised companies including subsidiaries of EdF, Electrabel, Vattenfall, RWE, CEZ and other entities
Installed capacity (GW)	12.4	5.4	2.8	0.7	6.8
Own fuels (%)	68	26	0	0	0
Market share in generation ^b (%)	40	15	8	2	18
Market share in distribution (%)	26	27	15	16	16
2008 revenue (PLNbn)	20.6	12.3	6.2	8.5	n.a.

^a The Polish government plans to maintain a majority stake in PGE, and management control of Tauron, despite partial privatisation

^b Gross electricity generation in 2007; data for PGE based on net electricity generation

Source: PGE, Ministry of Treasury

is based mainly on hard coal (58% of 2006 generation) and lignite (34%), as Poland has large deposits of these two fuels. As a result of its large coal-based generation portfolio (92% of the country's fuel mix is coal or lignite compared with the EU average of 30%), the Polish power sector is highly exposed to CO₂ costs, especially after 2013. The government plans to reduce this exposure by diversifying away from coal to generation sources with no or limited CO₂ emissions by 2020-2025 – including wind, nuclear energy, and (to a lesser extent) gas-fired plants.



Despite a 3% decline in domestic consumption in January-May 2009 (driven by the economic slowdown), long-term prospects for demand growth are favourable, with around 18% overall demand growth expected by 2020. The Polish market's reserve margin is expected to tighten considerably between 2011 and 2015, when capacity decommissioned will not be fully replaced with capacity additions. This should continue to support wholesale electricity prices.

History and Group Structure

PGE's predecessor, Polskie Sieci Elektryczne S.A. (PSE), was set up in 1990, and operated as the state-owned incumbent wholesale electricity company and Poland's transmission system operator.

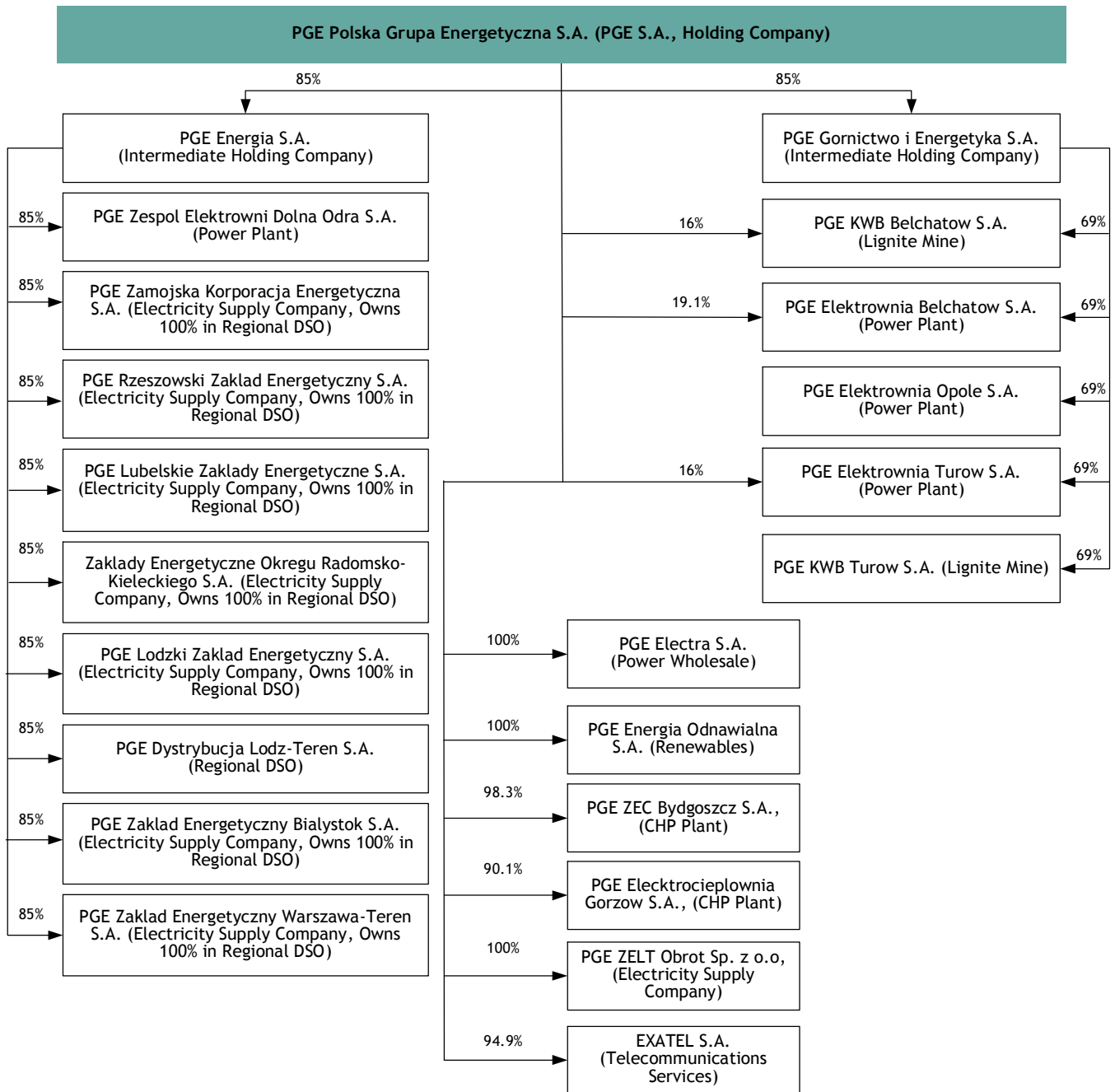
The PGE group was established in 2007 within the government programme to restructure the power sector and create four state-owned power groups. PGE, as the largest group, was created in May 2007, when the government increased PSE's share capital by PLN14.3bn by contributing in kind the following assets:

- 85% of shares of BOT GiE S.A. (currently PGE GiE S.A.), the majority owner of the Belchatow, Turow and Opole power plants and the Belchatow and Turow lignite mines
- 85% of shares of PGE Energia S.A., the majority owner of the Dolna Odra power plant and eight regional power distribution and supply companies, which were then separated into eight distribution system operators (DSOs) and eight supply companies following legal unbundling.

PSE changed its name to PGE Polska Grupa Energetyczna S.A. in September 2007.

In December 2008, PGE purchased additional stakes in three material subsidiaries – PGE Elektrownia Belchatow (PGE EB, 19.1%), PGE Elektrownia Turow (PGE ET, 16%) and PGE KWB Belchatow (16%) – from the state treasury for a total cash consideration of PLN1.2bn. The group plans to acquire the government's stakes in another two material subsidiaries, PGE Elektrownia Opole (PGE EO) and PGE KWB Turow, by end-2010. Fitch believes these transactions will enable PGE to enhance control over cash flows at these subsidiaries.

Group Structure With Main Subsidiaries
(As of 25 September 2009)



The minority interest at the main subsidiaries includes employee shares (usually owning 15% of shares) and the state treasury
Source: PGE

PGE S.A. as the holding company for the group, aims to simplify the group structure and management, optimise cash flow within the group, reduce operating costs, and centralise selected functions. It plans to reorganise the complex group structure comprising around 200 companies by merging subsidiaries in 2010 into five business segments: mining and generation, renewable, wholesale, distribution and retail, and creating a new nuclear segment in the structure.

Implicit State Support

Fitch rates PGE according to the *Parent and Subsidiary Rating Linkage* criteria – given that the company is 100%-owned by the Polish state. Despite the planned partial privatisation, the state intends to remain the majority shareholder as it regards the company as the country's main strategic asset in the power sector, in line with energy policy. Although Fitch does not generally incorporate implicit state support in its ratings for state-owned utilities in the European Union (see the agency's *Sovereign Ownership Impact on Corporate Ratings* report), it includes a one-notch rating uplift for state support in PGE's ratings within a "bottom-up" approach.

This uplift is related to the group's structure as Fitch feels the implicit state support mitigates the negative rating impact (one notch down from 'BBB+' to 'BBB') of structural subordination of PGE S.A.'s debt – given the substantial debt located at PGE subsidiaries. This is the legacy of the previous structure of Polish power, as PGE subsidiaries (in particular, PGE EB, PGE EO and PGE ET) continue to hold debt raised when they operated as independent companies owned by the state.

The uplift for state support reflects the group's relatively recent creation by the government in 2007 through in-kind contribution of generation and distribution assets to PSE within the government programme to create stronger, integrated power groups ahead of a substantial increase in capex in Polish power.

Fitch expects that state support will become less relevant to PGE's ratings in the next three to five years, when PGE S.A. will likely reduce its exposure to structural subordination, for example by raising new debt at the holding company level and repaying subsidiary debt. At the same time, the government stake is likely to decrease to around 70% by 2011 due to the partial IPO of a 15% stake (new equity issue) planned for Q409, conversion of employee shares in PGE subsidiaries into employee shares in PGE, and the planned sale of a 10% stake in PGE held by the state in 2010.

Fitch believes it is unlikely that changes in the level of subordination and state support would not interact to mitigate each other over time (in other words re-location of the majority of debt to holdco level would not necessarily result in an upgrade of the ratings as there would likely be a reduction in perceived state support).

The agency believes that in the long term, its assessment of state support for PGE will also depend on the government's implicit or explicit support for PGE's nuclear programme. Not only does PGE have strategic importance to Poland's energy security as the national champion, but the entity is likely to lead any national move to build nuclear power plants in order to diversify the sector's power generation mix away from generation based on coal.

Almost 30% of PGE's consolidated debt is guaranteed by the state. This debt was raised by two of the group's power plants, PGE EO and PGE ET, in the 1990s to fund the modernisation capex, and is due in 2012 and 2015-2019, respectively. There have been no new state guarantees issued to the group debt since the creation of the PGE group in 2007. PGE expects that financing for the nuclear power plants, to be raised after 2014, may require government guarantees due to the amounts required and construction risk. Fitch does not rate PGE's state-guaranteed debt.

The agency met with Poland's Deputy Minister of Treasury to discuss potential support from the state and PGE's partial privatisation. The Deputy Minister gave clear indications of the government's willingness to provide support to PGE either directly or indirectly (through state-owned banks or insurance companies), in case of need.

Business Segments (Data in PLNm)

	Mining and generation	Renewable energy	Distribution	Wholesale	Retail	Other	Exclusions	Total
2008								
Revenue	10,300	525	4,756	10,529	10,692	2,429	-18,633	20,598
EBITDA ^a	4,133	197	1,052	123	81	269		5,854
Assets	23,333	1,404	13,266	800	1,189	1,439		41,431
Capex	3,084	130	970	12	6	190		4,393
EBITDA - capex	1,048	67	82	110	75	79		1,462
EBITDA margin (%)	40.1	37.6	22.1	1.2	0.8	11.1		28.4
EBITDA contribution (%)	70.6	3.4	18.0	2.1	1.4	4.6		100.0
2007								
Revenue	8,751	421	4,609	10,466	8,837	2,602	-12,595	23,091
EBITDA ^a	3,188	196	1,021	257	34	238		4,934
Assets	21,611	1,358	13,273	1,343	1,049	1,559		40,193
Capex	2,287	92	881	7	5	501		3,774
EBITDA - capex	900	105	140	250	29	-263		1,160
EBITDA margin (%)	36.4	46.6	22.2	2.5	0.4	9.1		21.4
EBITDA contribution (%)	64.6	4.0	20.7	5.2	0.7	4.8		100.0

^a Segment EBITDA not adjusted by Fitch
Source: PGE, Fitch calculations

Corporate Governance

The state as the sole owner of PGE is represented in the company at the supervisory board level. Fitch regards frequent management changes, and the current management's relatively short track record, as weaknesses, particularly in view of the substantial planned capex programme.

Dividend Policy

Fitch regards PGE's dividend policy as moderate despite a substantial increase in the 2009 dividend decided by the government. Dividends increased to PLN942m in 2009 (170% of the 2008 standalone net profit and 36% of consolidated net profit) from a relatively modest PLN407m paid in 2008 and PLN196m in 2007. The dividend increase reflects the government's efforts to obtain additional funds from state-owned companies in 2009 to fund the expanded budget deficit.

Segment Analysis

In 2008, the company's Fitch-adjusted EBITDA rose by 16% to PLN5.3bn, and funds from operations (FFO) grew by 8% to PLN5.7bn. Most of the growth came from the mining and generation segment (mainly in power generation). This was due to the combination of a higher average wholesale electricity price (16% growth during 2008) and relatively stable fuel prices. PGE's own lignite was used to produce 68% of electricity generated, and saw only a modest price increase of 8%, whilst hard-coal prices (24% of PGE generation fuel) grew by 18% in 2008.

The cost of fuel, be it lignite or hard coal, accounts for about half of electricity production cost. Fitch projects that PGE's EBITDA and FFO will increase further in 2009 as the substantial growth in wholesale electricity prices has continued to outpace the growth in PGE's overall fuel mix price, due to PGE's relatively more stable lignite prices (see table *PGE: Lignite, Coal and Electricity Prices*).

PGE: Lignite, Coal and Electricity Prices

	2006	2007	2008	2009F	Change in 2009 (%)
Average Lignite price (PLN/GJ) ^a	5.1	5.3	5.7	6.1	7
Average Hard coal price (PLN/GJ)	6.7	7.0	8.2	11.5	40
Average wholesale price of electricity sold by PGE group (PLN/MWh)	126.0	127.6	148.6	189.9	28

^a Price paid within the group, including margin
Source: PGE

Mining and Generation (71% of Group EBITDA in 2008)

PGE's two lignite mines, Belchatow and Turow, cover all the group's annual lignite needs, and have substantial lignite deposits (1.2 billion tons), which translate into a solid reserve to production ratio of 27 years. Between them they provide reliable and cost-effective fuel supplies to PGE's power plants.

PGE's generation fleet comprises two large lignite-fired plants (Belchatow, 4.4GW, the largest lignite-fired power plant in Europe; and Turow, 2.1GW), two large hard coal-fired power plants (Dolna Odra, 1.8GW and Opole, 1.5GW, one of the most modern plants in Poland), 36 smaller hydropower plants with a total capacity of 1.6GW, and 10 combined heat and power (CHP) plants. PGE has relatively modern generation assets given that its fleet is on average 23 years old versus the national average of 33 years.

All PGE's power plants except for the Dolna Odra power plant compare well with its Polish peers in terms of net generation efficiency, availability, and unplanned outages. The Dolna Odra plant is a must-run asset. The Belchatow and Turow plants are ranked as the first fossil fuel plants in the merit order for the Polish power sector because of their cost advantage over hard-coal-fired plants. Two of PGE's hard-coal-fired plants purchase coal centrally through PGE Electra S.A from domestic state-owned mining companies, primarily Kompania Weglowa.

PGE Fossil Fuel Plants at YE08

Power plant	Fuel	Efficiency of electricity and heat generation (%)	Electricity capacity (MW)	Power utilisation in 2008	Net electricity production (TWh)	Year of commissioning ^a
Belchatow	Lignite	39.7	4,450	73.8	26.6	1982/1988
Turow	Lignite, biomass	37.9	2,106	69.0	11.5	1970/2005
Opole	Coal, biomass	39.8	1,532	65.1	7.4	1993/1997/2004
Dolna Odra	Coal, biomass	37.7	1,772	45.9	5.9	1974/1977

^a Commissioning dates for the first and last unit commissioned
Source: PGE

Competitive Position

PGE enjoys a favourable market position, as it is the only large utility in Poland with a substantial surplus of electricity generation over supply (given that it has a 42% share in the country's generation and 26% in supply). PGE sells its surplus generation (around 44% of its annual production) on the wholesale market, mainly through one-year bilateral contracts signed in Q4 of each year, as there is limited liquidity in the power exchange (less than 1% of the wholesale market is traded on the exchange). PGE's main non-group customers for electricity include other state-owned groups, which do not have sufficient own-generation to cover their supply volumes (in particular, Energa), power distributors and traders. As a result of the market structure, and limited liquidity of the wholesale market, PGE can at times have a significant influence on wholesale prices.

Fitch believes that the Polish electricity market does not have transparent price-setting mechanisms for wholesale electricity and hard-coal prices. The latter are only partly linked to international coal prices, with most supply contracts being negotiated annually between domestic coal mines and power plants. Hard-coal prices are one of the main drivers for wholesale electricity prices, as hard-coal-fired plants are the marginal price setting plants in the merit order.

The ratings reflect PGE's solid profitability, as it has the highest EBITDA margin among the four state-owned groups. Fitch believes this is partly driven by PGE's higher EBITDA contribution from generation than distribution. PGE's EBITDA margin in generation was 40% in 2008, versus 22% in distribution, in part reflecting the higher business and financial risks and more capital-intensive business of generation.

However, the higher EBITDA margin also stems from PGE's cost advantage; as lower-cost lignite-fired plants account for 68% of production, while other groups have generation based predominantly on more expensive hard coal. This results in additional margin for PGE, as the production cost of lignite-fired plants is about 15% to 30% lower (depending on technology) than that of hard-coal-fired plants (excluding CO₂ and transportation costs).

The agency expects that this cost advantage will be diminished if CO₂ costs become an important component of Poland's wholesale electricity prices in the medium- to long-term. Lignite-fired plants have about 15% higher emissions of CO₂ than hard-coal-fired, hence the higher the price of future emission allowances the lower the cost advantage will be for lignite-fired plants.

The group has a long position in generation over distribution; as some 56% of generated electricity is sold to retail companies owned by the group, and the remaining 44% to non-group retail companies or traders. This exposes the company's cash flow to volatility in wholesale electricity prices. This risk is partly mitigated by the structural issues surrounding the Polish electricity market, including a tightening supply/demand balance and gradually rising wholesale prices, as domestic electricity prices still remain lower than in neighbouring Germany, the Czech Republic and Slovakia.

Compensation for PPA cancellations

The risk of lower cash flow in the generation business (in the case of a substantial decrease in wholesale prices) is partly mitigated by a cash compensation mechanism covering stranded costs related to the early termination of previous state-backed power purchase agreements (PPAs). Several PGE group companies, in particular PGE ET and PGE EO, are entitled to the maximum compensation under this mechanism of up to PLN6.3bn, to be received over the period 2007 to 2016 according to the PPA act. The compensation is part of a government scheme to cancel long-term PPAs in the Polish power sector that was finalised in 2008. The actual compensation received each year depends on many factors, including changes in power prices, and may increase if wholesale prices are lower than those assumed in the government's electricity price path used in the calculation of the compensation. As a result, this mechanism provides additional funds for debt service in case of a drop in wholesale prices, in a weak year for generation, further helping to stabilise margins.

However, Fitch notes that compensation may be lower than projected by PGE due to a discrepancy between some power generators and the Energy Regulatory Office (ERO) regarding the interpretations of the PPA act and the calculation of annual compensation, in particular related to power plants operating as part of a group. PGE is in legal dispute with the ERO regarding the compensation for 2008. The group's revenue from PPA compensation calculated according to the ERO's interpretation of the PPA act would be lower than the PLN1.3bn reported by PGE as per the company's interpretation. Fitch projects that in case the ERO's interpretation proves valid in court leading to lower compensation and also lower EBITDA than currently expected by PGE, the group would show reduced financial headroom in 2012 and 2013 within its maximum leverage target of 2.5x. In a Fitch scenario assuming that an equity increase, planned for Q409, does not actually take place, PGE's capex growth would have to be constrained in 2012 and 2013 in order for leverage to remain within management's 2.5x target.

Exposure to CO₂ Costs

PGE's shortfall of CO₂ emission rights in NAP II for 2008-2012 is about 6.1 million tons (mt) per year, which is around PLN500m of additional costs assuming an average CO₂ emission allowances price of EUR20/t. PGE management expects that this additional CO₂ cost in the NAP II and in the period from 2013 to 2020 will be largely passed on to end-users in the form of higher electricity prices.

PGE's market exposure to CO₂ costs will increase in 2013 with the start of the EU auctioning system for CO₂ allowances. On a positive note, Poland, together with some other central European countries, has received derogation from full auctioning of its CO₂ allowances until 2020. The amount of free allocation for Polish power plants is currently planned to gradually decrease from 70% in 2013 (30% to be purchased in auctions) to 0% in 2020 (100% to be purchased in auctions).

As mentioned earlier, higher exposure to CO₂ costs, especially after 2013, is likely to diminish PGE's cost advantage over hard coal-fired plants and erode profit margin on generation.

PGE plans to lower the shortfall of CO₂ emission rights largely by obtaining certified emission reductions (CERs) and emission reduction units (ERUs) through realization of CDM (clean development mechanism) and JI (joint implementation) projects. The company is also planning a PLN2bn investment in "carbon capture and storage" technology, with a full-scale demonstration unit to be commissioned in Belchatow in 2015 (1.7mt reduction of CO₂ emissions per year).

Distribution (18% of Group EBITDA in 2008)

PGE owns eight regional DSOs together with associated distribution networks, located in central and eastern Poland. The distribution segment supplies electricity to about 5 million customers, and has a 26% market share. Distribution activity is regulated by the ERO over three-year periods.

Revenues are dependent on unit distribution tariffs that are proposed to and then accepted by the ERO, and comprise full coverage of justified costs and a market level of return on distribution assets calculated as the regulatory asset base (RAB) multiplied by weighted average cost of capital (WACC) set by the regulator for each period. Capex plans for the next three years are revised annually and accepted by the regulator each year.

One of the efficiency improvement efforts in distribution is to lower annual distribution losses, which are twice as high as in Western Europe (7% versus 3%-4%).

Distribution revenues are planned to gradually increase in the next six to nine years, as the regulator has agreed to revalue the RAB from the historical book value to a valuation based on enterprise value and replacement cost. An increase in the RAB from PLN4.9bn to PLN 13.4bn to be gradually achieved in the six to nine years would result in a higher return on distribution assets and higher tariffs (PLN21m of additional revenue in 2009), and is viewed positively for PGE's ratings.

Wholesale and Retail (3% of Group EBITDA in 2008)

The wholesale and retail market segments are low-margin businesses for PGE, with EBITDA of around 1%. All end-customers (except households) have a liberalised price-setting mechanism, but the regulator continues to approve tariffs for households. The 2009 tariffs for households do not fully reflect the steep rise in the cost of electricity generated from hard coal. As a result, PGE reports no profit on sales to households, while some other utilities which had to purchase more expensive electricity generated from hard coal are reportedly making losses in the household segment in 2009.

Renewables (3% of Group EBITDA in 2008)

The renewables segment, comprising hydropower plants with a capacity of 1.6GW and a small wind farm (30 megawatts (MW)), is a small contributor to group EBITDA and electricity generation. However, its importance is expected to increase as PGE plans substantial capex for renewables by 2015, in particular onshore wind farms.

Management Strategy

Management plans a substantial PLN39bn capex programme for 2009-2012, as the group aims to modernise its generation and distribution assets and increase generation capacity (see table *Capex Programme for 2009-2012*). It also plans ambitious investments in renewables, in particular onshore wind farms, as it aims to boost wind capacity to 1,000MW by 2015 – in order to increase production from renewable energy sources (RES) in line with Poland's target to reach 15% of energy from RES in the total energy consumption mix by 2020 (from 6% in 2010). Another driver for substantial investment in wind farms is the high internal rate of return on these projects in Poland (in the 13%-20% range), due to them earning green certificates. Increased generation from wind farms is also likely to mitigate the negative impact of PGE's CO₂ allowances shortfall.

Main Investment Projects in Fossil Fuel Generation

Location	Capacity (MW)	Fuel	Commissioning date
Belchatow	858	Lignite	Early 2011, project on schedule
Opole	2x800	Hard coal	2014/2015
Turow	460	Lignite	2016
Lublin	2x800	Hard coal	2015/2016
Total	4,518		

Source: PGE

Capex Programme for 2009-2012 (PLNbn)

Investment item	Amount	As a %
Modernisation of existing mining and generation assets	9.4	24
Construction of renewable energy sources	8.9	23
Construction of new conventional, fossil-fuel-fired power stations	8.2	21
Investment in distribution assets	5.6	14
Acquisitions and other	4.8	12
Investments in new technologies (incl. nuclear)	2.0	5
Total	38.9	100

Source: PGE

Annual capex (including acquisitions) averages PLN9.7bn from 2009-2012, considerably up from an average PLN4.1bn per year spent in 2006-2008. According to Fitch's projections, the large capex increase is likely to result in negative FCF for 2010-2012 compared with positive FCF generated in 2006-2008. This is likely to considerably increase debt by 2012 and weaken the group's credit ratios. The rating reflects management commitment not to increase financial leverage beyond net debt to EBITDA of 2.5x by 2012 – despite the large capex. PGE management believes that a significant portion of the capex plan is discretionary, including acquisitions, some investments in renewables and new technology. These projects may be postponed or cancelled in the case of weaker-than-expected cash flow.

PGE plans M&A activity particularly in the Polish heat market. Fitch understands that foreign acquisitions in the central and eastern Europe region (including Germany) are also being considered, but are not a priority.

Within the group's integration and restructuring, management plans to dispose of non-core assets – including its most valuable non-core investment, a 21.85% stake in Polkomtel, Poland's leading mobile operator. Fitch believes that the Polkomtel disposal would enhance the group's liquidity ahead of any capex increase.

Nuclear Investment

PGE envisages substantial nuclear investments between 2014-2023, in order to reduce its exposure to CO₂ costs by lowering its average CO₂ emissions per megawatt hour (MWh) of produced electricity. This is in line with the government's energy policy to diversify the country's generation mix away from coal – and to build the first nuclear plant by 2020. PGE plans to construct two nuclear plants of 6GW total capacity to be commissioned in 2020 and 2023. Fitch estimates that total capex for the nuclear plants may amount to as much as EUR18bn (PLN74bn), assuming a cost of EUR3m per MW.

The agency believes that the risks of the nuclear project – given no operational track record of the company in nuclear power – will be partly mitigated by the participation of experienced foreign players, which could own up to a 49% stake in JVs for the two plants. The company expects that the government will provide some form of support or funding for the nuclear projects. If it occurs the large nuclear capex may put pressure on the company's credit ratios when most of the capex starts to be spent (probably around 2015-2020). Fitch will analyse the credit impact of the nuclear project once more details (including funding) become available.

Financial Analysis

Financial Strategy

PGE expects to fund about 50% of the PLN39bn capex programme for 2009-2012 from operating cash flow. The remainder will be funded from debt and an increase in equity from the partial IPO planned for Q409. The group's financial strategy assumes that net debt/EBITDA will not exceed 2.5x despite the planned increase in debt. This threshold is regarded by management as maximum leverage in the medium term. Net debt/EBITDA below 2.5x is defined as the main covenant in PGE S.A.'s PLN0.9bn bonds due in November 2010.

Capital Structure

Subordination of PGE S.A. Debt

As mentioned above, PGE S.A.'s rating reflects the structural subordination of PGE S.A.'s creditors to the creditors at the subsidiary level. Most group debt is located at subsidiaries, primarily at power generation companies, including PGE EB, PGE EO and PGE ET – see the table *Group Debt by Company at YE08*. The agency believes that the creditors of PGE S.A. have weaker access to the cash flows of PGE subsidiaries (where most cash flow is generated) than creditors lending directly to the subsidiaries. As a result, the IDR for PGE S.A. is reduced by one notch for subordination from the rating assessed based on the consolidated financial and business profile of the PGE group – from 'BBB+' to 'BBB'.

Management plans to raise fresh debt at the PGE S.A. level, or repay some debt of the subsidiaries, so that some 50%-60% of group debt is at the holding company level by 2012. Fitch believes that structural subordination could cease to be an issue for PGE S.A.'s ratings if PGE S.A. creditors' access to subsidiary cash flow is materially improved. This may be achieved through substantially increasing the share of group debt raised at the holding company level, upstream guarantees for PGE S.A. debt provided by material subsidiaries or a substantial increase in recurring dividend flow from subsidiaries.

Fitch notes that PGE S.A. on a standalone basis has substantially higher leverage (net debt/EBITDA including dividends of about 3x at YE08) than the overall PGE group (1x). This is partly driven by a low level of dividend distribution from subsidiaries to PGE S.A.

PGE Group Debt at FYE08^a (PLNm)

		As a %
Total debt	7,322	100
- Of which secured debt	1,942	27
- Of which debt guaranteed by the state	2,068	28
- Of which debt at holding level (PGE S.A.)	2,084	28

^a This table includes debt of 34 companies from the PGE group. Total consolidated debt of all group companies is PLN7,512m
Source: PGE, Fitch calculations

PGE Pledged Assets at FYE08 (PLNm)

	Pledged	Total	As % of total
Assets	3,388	47,192	7
- Of which property, plant and equipment	2,995	37,812	8
- Of which trade receivables	368	1,793	21

Source: PGE

Group Debt by Company at YE08

Company	Business	Share of PGE group (%)	Debt (PLNm)	Total debt (%)	Comments
PGE Polska Grupa Energetyczna S.A.	Holding company	n.a.	2,084	28	Largely unsecured debt
PGE Elektrownia Bełchatów S.A.	Power generation	88.1	2,061	27	Debt secured on assets, primarily the 858MW unit under construction
PGE Elektrownia Opole S.A.	Power generation	69.0	1,683	22	Debt guaranteed by the state
PGE Elektrownia Turów S.A.	Power generation	85.0	769	10	Part of debt guaranteed by the state
Exatel S.A.	Telecoms	94.9	187	2	
PGE Kopalnia Węgla Brunatnego Turów S.A.	Lignite mining	69.0	151	2	Secured debt
PGE Zespół Elektrowni Dolna Odra S.A.	Power generation	85.0	146	2	Largely secured debt
Other	Various		432	6	
Total			7,512	100	

Source: PGE, Fitch calculations

Secured Debt

Secured debt accounted for 27% of the group's debt at YE08, most of which was raised by a key operating subsidiary, PGE EB, for the construction of a new 858MW power unit scheduled for commissioning in early 2011.

Fitch believes that in PGE S.A.'s case secured debt does not significantly affect the unsecured creditors' position and their recovery prospects in a distress situation. Assets pledged as security for the group's bank loans account for only 7% of total group assets, and secured debt represents only 0.4x EBITDA for YE08.

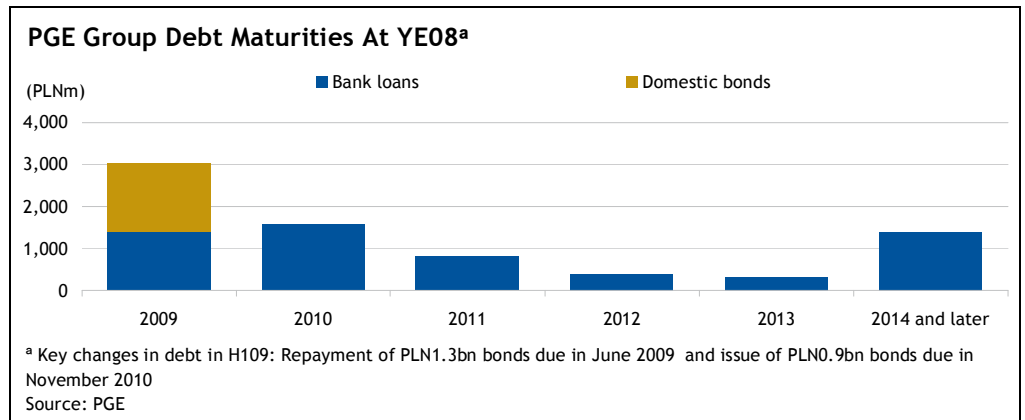
Capital Markets Access

Fitch believes that PGE has relatively good access to the domestic bank and bond markets. Bank loans account for the vast majority of consolidated debt, 78% at YE08 with domestic bonds accounting for the remaining 22%. PGE aims to increase funding from the bond market as the planned Eurobond issues will be used for the capex programme. The agency notes that large European utilities have been frequent bond issuers in 2009 to date (September 2009), and managed to tap the bond market even in the most difficult quarter - Q408.

Debt Maturities and Liquidity

PGE group's debt maturity profile is biased towards short- and medium-term debt, with management plans to extend this profile by the issuance of long-term Eurobonds.

In the agency's view, PGE group had a temporarily stretched liquidity position at end-2008, when available liquidity comprising unrestricted cash of PLN2.1bn, and unused committed liquidity facilities with maturities longer than 12 months of PLN409m was insufficient to cover short-term debt of PLN3bn. However, its liquidity position improved in H109, when PGE repaid its PLN1.3bn bonds due in June 2009. Part of the bonds were refinanced with a new bond issue of PLN0.9bn due in November 2010.



Potential Liquidity Crunch

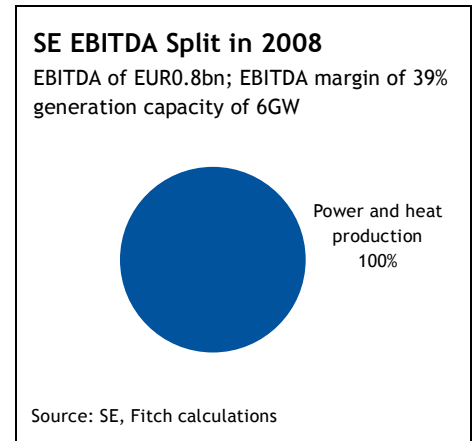
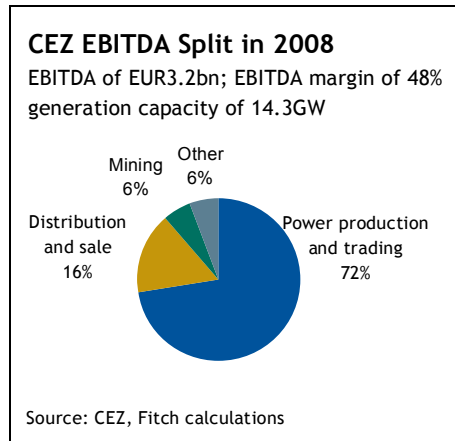
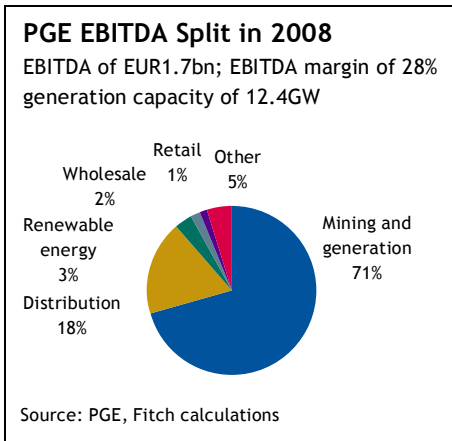
Fitch believes that PGE may potentially face a liquidity issue if some of its long-term loans (with a total outstanding amount of PLN1.1bn at YE08, or 15% of group debt) raised by PGE EB are ‘called’ by its lending banks – thereby becoming immediately due and payable. These loans have been in dispute since September 2008, when the lending banks informed PGE about alleged infringements of finance agreement conditions, in particular regarding transparency of pricing of the sale of electricity between group companies.

Fitch understands that the infringement issue remains unresolved, as discussions are ongoing between PGE and the lending banks regarding potential changes to the terms and conditions at the request of the banks. However, should the banks demand early repayment of these loans, this could – through cross-default clauses with other loans of PGE EB and PGE S.A.’s bonds – lead to early repayment of some PLN2.6bn of debt (35% of group debt). Fitch anticipates that this potential liquidity risk will be partially mitigated if PGE increases its equity in Q409 within the IPO, or issues long-term Eurobonds. Given the period for which the loans have already remained in dispute, Fitch believes it likely that new terms acceptable to all parties will be agreed, or the loans partly or wholly paid down from new bonds.

PGE Peer Group (EURm)

Issuer name	Long-Term IDR	Outlook	Statement date	Revenue	Operating EBITDAR	Total adjusted debt	Funds from operations	Free cash flow	Adjusted debt net of cash/operating EBITDAR (x)	Funds from operations/total adjusted debt	FFO interest coverage (x)	EBITDAR margin (%)
CEZ, a.s.	A-	Stable	31 Dec 08	6,746	3,237	3,952	2,584	118	1.0	65.4	16.9	48.0
DONG Energy A/S	BBB+	Negative	31 Dec 08	8,263	1,725	3,208	1,542	-105	1.7	48.1	7.4	20.9
E.ON AG	A	Stable	31 Dec 08	87,306	13,542	42,436	7,023	-4,059	2.7	16.5	3.2	15.5
Edison Spa	BBB+	Stable	31 Dec 08	11,750	1,643	3,207	645	-723	1.8	20.0	3.9	14.0
Electricite de France (EDF)	A+	Stable	31 Dec 08	64,279	15,744	39,923	10,083	-11,554	1.7	25.3	7.0	24.5
Endesa, S.A.	A-	Stable	31 Dec 08	22,836	6,895	18,504	4,333	-2,340	2.0	23.4	3.8	30.2
Enel SpA	A-	Stable	31 Dec 08	61,184	14,338	59,622	9,227	-288	3.8	15.5	2.6	23.4
Fortum Corporation	A	Negative	31 Dec 08	5,636	2,347	7,620	2,206	-215	2.7	29.0	7.3	41.6
PGE Polska Grupa Energetyczna S.A.	BBB+	Stable	31 Dec 08	4,997	1,287	1,824	1,374	161	1.0	75.3	10.7	25.7
RWE AG	A+	Negative	31 Dec 08	47,704	8,208	14,139	7,166	-186	0.6	50.7	8.4	17.2
Slovenske Elektrarne, a.s.	BBB	Stable	31 Dec 08	1,989	782	288	502	399	0.3	174.6	24.3	39.3
Statkraft As	BBB+	Stable	31 Dec 08	1,983	1,432	4,236	1,334	-52	2.8	31.5	5.2	72.2
Vattenfall AB	A+	RWN	31 Dec 08	15,138	4,009	10,335	3,570	524	2.1	34.5	10.4	26.5

Source: Fitch, based on company reports



Industry Peer Analysis

Fitch regards large vertically-integrated electricity utility companies operating in Europe as relatively stable businesses, as they benefit from a higher predictability of cash flow and a lower dependence on the business cycle than cyclical industries. Ratings in the *PGE Peer Group* table range from 'A+' to 'BBB', reflective of different scale, business profile (for example, the EBITDA contribution from the distribution business, which generates stable cash flow, and from the more volatile electricity generation), financial policy, and both current and projected financial leverage.

PGE is a medium-sized company in EBITDA terms compared with large western European utilities. Its financial leverage and interest coverage ratios compare well with its peer group.

Fitch regards PGE's EBITDAR margin (26% in 2008) as strong, partly driven by PGE's higher income contribution from generation than some other integrated players and PGE's cost advantage related to lignite-fired generation.

Peer Analysis of Central European Utilities (PGE, CEZ and SE)

PGE, Czech Republic's CEZ, a.s. ('A-'/Stable) and Slovakia's Slovenske Elekrarne a.s. (SE, 'BBB'/Stable) all have a dominant market position in their home markets. In the agency's view, CEZ has the strongest business profile, followed by PGE and SE, the latter being a pure generation company.

Both CEZ and SE have a cost advantage regarding CO₂ as nuclear generation accounted for 39% and 66%, respectively, of their total electricity production in 2008. CEZ and SE have higher EBITDA margins than PGE, which partly stems from their nuclear cost advantage and higher wholesale electricity prices in the Czech Republic and Slovakia.

PGE had comparable credit ratios with CEZ and slightly weaker ratios than SE at YE08. According to Fitch's projections, all the companies will reach a comparable net debt/EBITDA of around 2x-2.5x by 2012.

PGE POLSKA GRUPA ENERGETYCZNA S.A.

	31 Dec 2008 PLNm Original	31 Dec 2007 PLNm Restated	31 Dec 2006 PLNm Original	31 Dec 2005 PLNm Original	31 Dec 2004 PLNm Original
Summary Balance Sheet					
ASSETS					
Cash and Marketable Securities	2,071.2	2,675.0	3,270.5	520.7	275.6
Accounts Receivable/Trade Debtors	1,792.6	2,335.2	2,403.5	1,767.8	1,647.7
Inventory	1,128.0	798.9	747.1	17.1	17.9
Other Current Assets	1,495.8	1,077.2	1,394.9	464.2	497.0
Property, Plant & Equipment	37,811.6	36,282.6	35,490.9	4,564.8	4,601.8
Intangible Assets	142.0	138.6	150.3	62.1	95.5
Other Non-current Assets	2,751.1	2,001.8	11,530.7	1,632.4	1,292.5
TOTAL ASSETS	47,192.3	45,309.3	54,987.9	9,029.1	8,428.0
LIABILITIES					
Short-term Debt (inc. CPLTD)	3,039.2	1,331.3	1,636.2	332.2	159.7
Accounts Payable/Trade Creditors	1,012.1	1,554.0	1,634.8	1,615.3	1,408.2
Provisions	4,013.6	3,821.2	6,477.3	128.8	79.9
Other Short-term Liabilities	3,445.5	2,533.8	2,843.0	734.6	496.4
Other Long-term Liabilities	1,033.9	905.5	802.6	1.6	1.1
Long-term Secured Debt	1,943.6	1,317.4	1,055.9	9.5	431.2
Long-term Unsecured Debt	2,528.8	4,425.7	5,821.6	779.4	984.6
TOTAL LIABILITIES	17,016.7	15,888.9	20,271.4	3,601.4	3,561.1
EQUITY					
Minority Interest/Minorities	7,365.9	8,168.0	7,414.6	56.2	59.2
Equity Capital & Reserves	22,809.7	21,252.4	27,301.9	5,371.5	4,807.7
TOTAL LIABILITIES & EQUITY	47,192.3	45,309.3	54,987.9	9,029.1	8,428.0
Adjusted Gross Debt	7,519.6	7,079.2	8,513.7	1,121.1	1,575.5
Debt Schedule					
DEBT PRIORITY					
Lease Liabilities	2.7	22.9	49.0	17.0	28.4
Secured	1,942.0	1,313.7	1,115.4	122.8	476.2
Unsecured	5,566.9	5,737.8	7,349.3	981.3	1,070.9
Convertible	0.0	0.0	0.0	0.0	0.0
Subordinated	0.0	0.0	0.0	0.0	0.0
Total Debt	7,511.6	7,074.4	8,513.7	1,121.1	1,575.5
Off-Balance Sheet Debt	8.0	4.8	0.0	0.0	0.0
Total Adjusted Debt	7,519.6	7,079.2	8,513.7	1,121.1	1,575.5
Non-recourse + Equity Hybrid Component	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt with Equity Credit	7,519.6	7,079.2	8,513.7	1,121.1	1,575.5
Adjusted Liabilities~~	7,519.6	7,079.2	8,513.7	1,121.1	1,575.5
DEBT SOURCE					
Bank	5,876.5	5,310.4	6,835.5	954.1	1,397.1
Capital Markets	1,632.4	1,741.1	1,629.2	150.0	150.0
Other	2.7	22.9	49.0	17.0	28.4
TOTAL DEBT	7,511.6	7,074.4	8,513.7	1,121.1	1,575.5
DEBT MATURITY					
Less than 1 Year	3,039.2	1,331.3	1,636.2	332.2	159.7
1 To 2 Years	1,578.4	2,726.2	1,859.5	496.8	1,100.7
2 To 5 Years	1,507.1	2,018.0	3,633.4	216.4	154.5
More than 5 Years	1,386.9	998.9	1,384.6	75.7	160.6
TOTAL DEBT	7,511.6	7,074.4	8,513.7	1,121.1	1,575.5
Unrestricted Cash & Deposits	2,071.2	2,675.0	3,270.5	520.7	275.6
CURRENT DEBT NET OF CASH	968.0	-1,343.7	-1,634.3	-188.5	-115.9
TOTAL DEBT NET OF CASH	5,440.4	4,399.4	5,243.2	600.4	1,299.9
TOTAL ADJUSTED DEBT NET OF CASH	5,448.4	4,404.2	5,243.2	600.4	1,299.9
Adjusted Liabilities Net of Cash	5,448.4	4,404.2	5,243.2	600.4	1,299.9
Restricted Cash & Deposits	69.6	51.3	39.6	3.2	1.1

~ includes Restricted Cash

~~ Total Adjusted Debt with Equity Credit plus Debt-like Pref. Stock

PGE POLSKA GRUPA ENERGETYCZNA S.A.

Summary Income Statement

	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004
	PLNm	PLNm	PLNm	PLNm	PLNm
	Original	Restated	Original	Original	Original
SUMMARY INCOME STATEMENT					
Revenue*	20,597.8	23,090.7	24,344.0	16,999.8	16,087.3
Cost of Goods Sold	12,968.2	16,432.3	18,247.9	15,013.2	14,428.9
GROSS PROFIT	7,629.6	6,658.4	6,096.1	1,986.6	1,658.4
Selling, Distribution & Administrative Expenses	1,897.3	2,006.8	1,349.9	403.0	320.6
Other Operating Expenditure**	430.4	68.4	-39.8	89.0	14.3
Presentational only: L-T Rentals (incl. in SG&A above)	1.0	0.6	0.0	0.0	0.0
Operating EBITDAR	5,302.9	4,583.8	4,786.0	1,494.6	1,323.5
Depreciation & Amortisation	2,584.2	2,608.7	2,590.5	632.4	646.8
Non-recurring, non-operational and non-recourse income***	544.7	159.8	127.1	-44.1	-7.8
Associate Income/Loss	238.6	239.2	198.0	-0.5	0.8
Other Income/Expense	-1.0	-0.6	0.0	0.0	0.0
EBIT	3,501.0	2,373.5	2,520.6	817.6	669.7
Interest Income	219.2	227.8	225.0	73.7	47.6
Interest Expense	477.3	601.1	657.6	97.4	120.0
Non-interest Financial Income/Charges	-73.4	-22.7	109.2	217.1	73.4
PBT	3,169.5	1,977.5	2,197.2	1,011.0	670.7
Taxation	499.3	-948.1	395.2	204.1	114.6
Minorities	0.0	0.0	0.0	-2.8	1.4
NET INCOME	2,670.2	2,925.6	1,802.0	804.1	557.5
Extraordinary Items/Accounting Changes	0.0	1,845.3	284.3	-104.3	-75.7
NET INCOME AFTER EXTRAORDINARY ITEMS (before dividends)	2,670.2	4,770.9	2,086.3	699.8	481.8

Summary Cash Flow

	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004
	PLNm	PLNm	PLNm	PLNm	PLNm
	Original	Restated	Original	Original	Original
SUMMARY CASH FLOW					
Operating EBITDAR	5,302.9	4,583.8	4,786.0	1,494.6	1,323.5
Cash Interest Paid, Net of Interest Income	347.7	722.9	531.5	75.9	120.1
Cash Tax Paid	573.7	592.0	357.6	0.0	0.0
Associate Dividends	171.2	236.7	388.2	60.5	49.8
Other Changes before Funds From Operations****	1,111.7	1,634.0	562.1	14.6	-45.0
FUNDS FROM OPERATIONS	5,664.4	5,139.6	4,847.2	1,493.8	1,208.2
Working Capital	-454.3	57.6	-121.2	42.0	222.5
CASH FLOW FROM OPERATIONS	5,210.1	5,197.2	4,726.0	1,535.8	1,430.7
Non-Operational Cash Flow***	0.0	0.0	0.0	0.0	0.0
Capital Expenditure	4,124.1	3,635.3	3,406.3	458.8	532.1
Dividends Paid	424.4	229.8	395.7	251.1	70.4
FREE CASH FLOW	661.6	1,332.1	924.0	825.9	828.2
Receipts from Asset Disposals	82.1	87.0	17.6	3.4	13.1
Business Acquisitions	1,932.7	0.0	0.0	0.0	0.0
Business Divestments	0.0	0.0	0.0	0.0	0.0
Exceptional & Other Cash Flow Items	314.3	-238.8	394.0	-81.3	57.2
NET CASH IN/OUTFLOW	-874.7	1,180.3	1,335.6	748.0	898.5
Equity Issuance/(Buyback)	0.0	0.0	0.0	-0.2	-1.3
FX movement	0.0	0.0	0.0	0.0	0.0
Other Items Affecting Cash Flow****	-166.3	-336.5	-5,978.4	-48.3	-18.5
NET CASH FLOW AVAILABLE FOR FINANCING	-1,041.0	843.8	-4,642.8	699.5	878.7
OPENING TOTAL DEBT NET OF CASH	4,399.4	5,243.2	600.4	1,299.9	2,178.6
Net Debt Increase/(Decrease)	1,041.0	-843.8	4,642.8	-699.5	-878.7
CLOSING TOTAL DEBT NET OF CASH	5,440.4	4,399.4	5,243.2	600.4	1,299.9

* Net of Sales, Royalty & Other Operational Taxes

** Excludes Depreciation & Amortisation

*** Analyst Estimate

**** Balancing Item

PGE POLSKA GRUPA ENERGETYCZNA S.A.

Ratio Analysis

	31 Dec 2008 PLNm Original	31 Dec 2007 PLNm Restated	31 Dec 2006 PLNm Original	31 Dec 2005 PLNm Original	31 Dec 2004 PLNm Original
EARNINGS/PROFITABILITY					
Revenue Growth (%)	-10.8	-5.1	43.2	5.7	3.9
Gross Profit/Revenues (%)	37.0	28.8	25.0	11.7	10.3
Op. EBITDAR/Revenues (%)	25.7	19.9	19.7	8.8	8.2
EBIT/Revenues (%)	17.0	10.3	10.4	4.8	4.2
Pre-Tax Profit/Revenues (%)	15.4	8.6	9.0	5.9	4.2
Profit after tax/Revenues (%)	13.0	12.7	7.4	4.7	3.5
Effective Tax Rate (%)	15.8	0.0	18.0	20.2	17.1
Profit after tax/Average Equity (%)	10.6	6.2	10.9	19.6	13.8
Return on Average Assets (%)	6.8	7.0	7.7	10.4	8.0
FFO Return on Adjusted Capital (%)	16.6	15.8	12.7	24.3	20.6
Free Cash Flow Margin (%)	3.2	5.8	3.8	4.9	5.1
COVERAGES					
FFO/Gross Interest Expense and Preferred Dividends (x)	10.7	9.1	8.4	16.3	11.1
FFO Fixed Charge Cover (x)	10.7	9.1	8.4	16.3	11.1
(Op. EBITDAR-Capex)/Gross Fixed Charges(x)	2.2	1.5	2.1	10.6	6.6
Op. EBITDAR/Net Fixed Charges (x)	14.6	11.2	11.1	63.1	18.3
FFO/Interest Expense Net of Interest Income (x)	16.6	13.6	12.2	64.0	17.7
Free Cash Flow Debt Service Coverage (x)	0.3	1.0	0.7	2.1	3.4
Net Fixed Charges Cover (x)	8.0	5.5	6.0	-18.0	74.9
LEVERAGE					
Total Adjusted Debt/Op. EBITDAR (x)	1.4	1.5	1.8	0.8	1.2
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	1.0	1.0	1.1	0.4	1.0
Adjusted Liabilities Net of Cash/Op. EBITDAR (x)	1.0	1.0	1.1	0.4	1.0
Adjusted Net Leverage/FFO (x)	0.9	0.8	1.0	0.4	1.0
Adjusted Leverage/FFO (x)	1.2	1.2	1.5	0.7	1.2
Free Cash Flow/ Adjusted Liabilities (%)	8.8	18.8	10.9	73.7	52.6
CFO/Total Debt Net of Cash (%)	95.8	118.1	90.1	255.8	110.1
CFO/Adjusted Liabilities Net of Cash (%)	95.6	118.0	90.1	255.8	110.1
Total Adjusted Debt/Total Adjusted Capitalisation (%)	19.9	19.4	19.7	17.1	24.5
FINANCIAL STRUCTURE					
Secured and Lease Debt/Total Debt (%)	25.9	18.9	13.7	12.5	32.0
Current Debt/Total Debt (%)	40.5	18.8	19.2	29.6	10.1
Off-Balance Sheet Debt/Total Adjusted Debt (%)	0.1	0.1	0.0	0.0	0.0
Total Debt Net of Cash/Tangible Equity (%)	18.1	15.0	15.2	11.2	27.2
PENSION ADJUSTED RATIOS					
Mixed Scheme Pension Liability	317.0	204.6	207.8	3.4	3.8
Pension Adjusted Net Leverage	1.1	1.0	1.1	0.4	1.0
Pension Adjusted Net Coverage	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Net Coverage (Implied)	10.8	8.9	9.3	-29.6	132.0
Implied Interest Cost	17.4	12.3	10.4	0.2	0.2
Pension Adjusted Gross Coverage	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Gross Coverage (Implied)	10.8	8.9	9.3	-29.6	132.0
WORKING CAPITAL CYCLE					
Average Inventory Processing Period (days)	27.1	17.2	7.6	0.4	0.5
Average Receivables Collection Period (days)	36.6	37.5	31.3	36.7	37.4
Gross Cash Cycle (days)	63.7	54.6	38.9	37.1	37.8
Average Payables Payment Period (days)	36.1	35.4	32.5	36.8	35.6
Cash Conversion Cycle (days)	27.6	19.2	6.4	0.3	2.2
ADDITIONAL INFORMATION					
Depreciation	2,584.2	2,608.7	2,590.5	632.4	646.8
Amortisation	0.0	0.0	0.0	0.0	0.0
Capital Expenditure/Depreciation (x)	1.6	1.4	1.3	0.7	0.8
CFO/Capital Expenditure (x)	1.3	1.4	1.4	3.3	2.7
Interest Capitalised	105.0	34.3	0.0	0.0	0.0
Hire/Lease/Rent Costs for Current Assets	0.0	0.0	0.0	0.0	0.0
Hire/Lease/Rent Costs for Long-term Assets	1.0	0.6	0.0	0.0	0.0
Contingent Liabilities	0.0	0.0	0.0	0.0	0.0
Operating Exceptionals in Operating Costs	0.0	0.0	0.0	0.0	0.0
Staff cost/Revenues (%)	0.0	0.0	0.0	0.0	0.0
R&D (net)/Revenues (%)	0.0	0.0	0.0	0.0	0.0

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