



*Polska Grupa Energetyczna*



# **PGE has initialled the agreement for the sale of 84.19% shares of Energa**

**Presentation for Capital Markets Participants**

16th September 2010



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## PGE submitted the Final Offer for 84.19% shares of Energa S.A.

- ▶ Management Board of PGE Polska Grupa Energetyczna S.A. ("PGE") hereby informs that on 15 September 2010 it initialled the agreement for the sale of Energa S.A. shares, a company with its registered office in Gdańsk, registered in the Register of Entrepreneurs of the National Court Register kept by the District Court for Gdańsk – Północ in Gdańsk, VII Commercial Division of National Court Register under No. KRS 0000271591 („Company”), concerning the purchase of 4,183,285,468 shares („Shares”) constituting 84.19% of its share capital (“Transaction”) from the State Treasury („Seller”)
  
  - ▶ Fundamental conditions of PGE’s Final Offer embrace *inter alia*:
    - ▶ The purchase price of all Shares constituting 84.19% of the share capital equals to PLN 7,529,913,842.40 i.e. PLN 1.8 per share
    - ▶ Guaranteed investment scheme in the Energa Group within 10 years in the amount of PLN 5bn which not executed will result in contractual penalty due to the Seller
    - ▶ Obligations:
      - To retain the control over the Company, not to restrain the core activity of generation, turnover and distribution of electricity and heat and not to change the Company’s headquarters.
      - The introduction of the Company’s shares to the trading on a regulated market, including Warsaw Stock Exchange.
- PGE can be exempted from abovementioned duties by The State Treasury



## PGE submitted the Final Offer for 84.19% shares of Energa S.A.

- ▶ PGE and Energa are **singularly complementary** and the combination of the two businesses produces significant strategic, cost and investment synergies. PGE estimates that value of so-called fast synergies, which can be obtained without deeper integration, at PLN 100mn p.a.
- ▶ PGE has performed a **realistic assessment** of Energa's potential and has offered a package which **maximizes value for PGE and its shareholders**
- ▶ Assuming certain conditions PGE estimates that the Transaction value translates into a balanced level of market, short-term multiple EV/EBITDA 2010. Transaction price conditions are significantly better given the numerous synergies with PGE or when long-term value of the Company will be appraised (Energa's regulatory asset base itself has been specified by the decision of Energy Regulatory Office at the level of PLN 8.5bn)
- ▶ Conducting a Transaction will require for its effectiveness, in addition to signing the contract, obtaining a proper consent of the Antimonopoly Office for concentration
- ▶ The Transaction is deeply embedded in the acquisition strategy, which in this case will be carried out by PGE on the domestic market, which is best know. PGE's organic growth accompanied by selective acquisitions aims at the strategic goal of building the position of highly profitable , mid-size participant of power engineering in the European market



# Energa is the no. 3 energy distributor in Poland, with a leading portfolio of Renewables...

## Area of operations and key assets of PGE and Energa



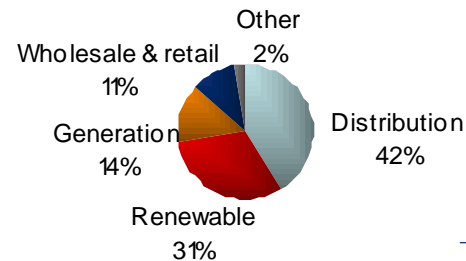
## Key financial data<sup>1</sup>

|  |                   |
|--|-------------------|
| Revenues (2009)                          | PLN 8.4bn         |
| EBITDA / EBITDA margin (2009)            | PLN 1.1bn/ 12.6%  |
| EBITDA / EBITDA margin (6M 2010)         | PLN 0.8bn / 18.4% |
| Net cash (debt) <sup>2</sup> (30.6.2010) | PLN 0.65bn        |
| Revised regulatory asset base            | ca PLN 8.5bn      |

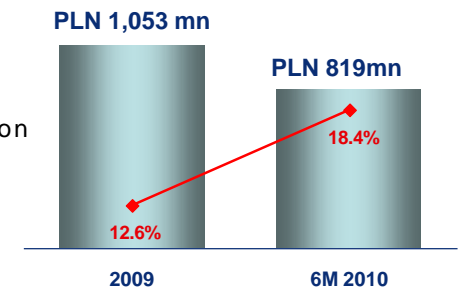
## Key operating data

|                            |                  |
|----------------------------|------------------|
| Distribution (2009)        | 18.9 TWh         |
| Generation (2009)          | 4.2 TWh          |
| incl.: renewable resources | 1.1 TWh          |
| Sales (2009)               | 16.5 TWh         |
| Customers                  | 2.5mn households |
|                            | 0.3mn businesses |
| Employment                 | ca 12.6k people  |

## EBITDA structure 2009<sup>1</sup>



## EBITDA / EBITDA margin<sup>1</sup>



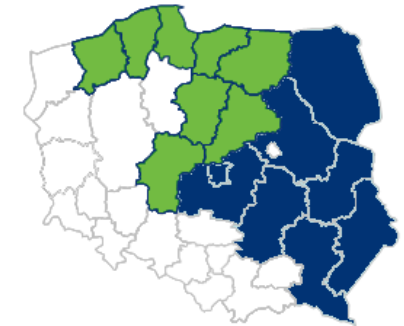
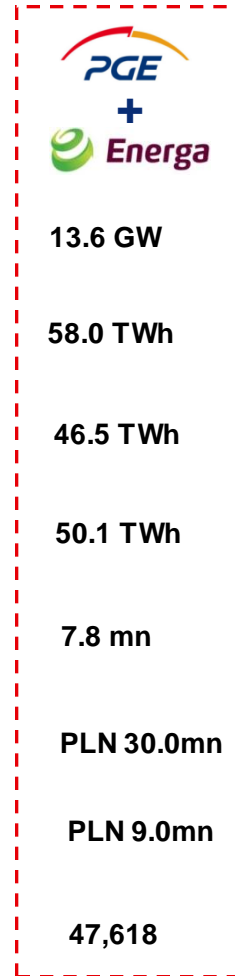
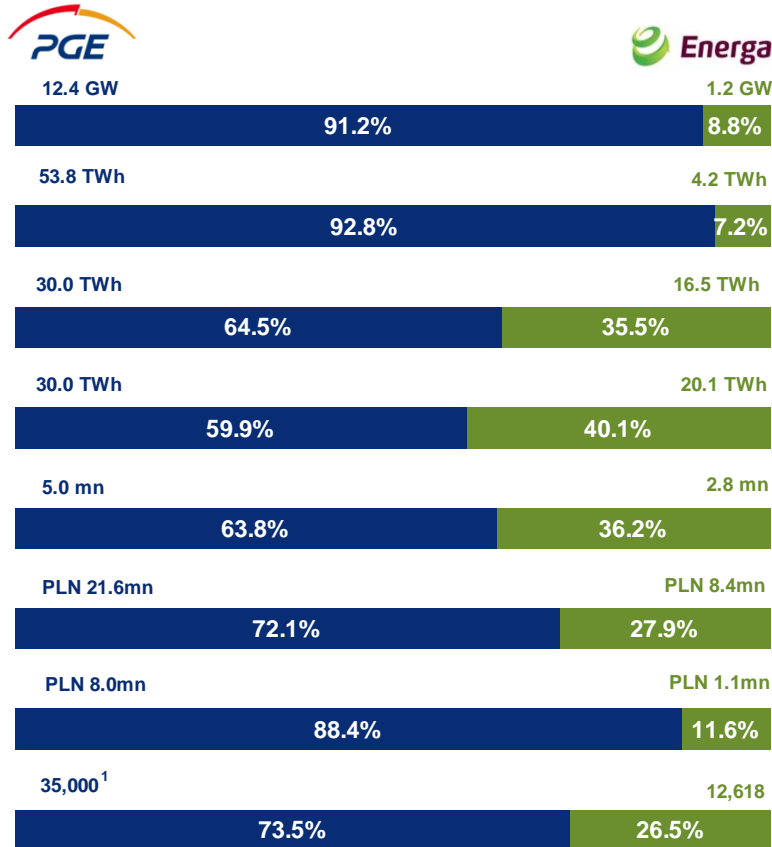
Source: Energa S.A.

Note:

- 1 Consolidated financial statements after 1H 2010 GK Energa S.A. according to MSSF, unaudited semi-annual financial statement according to MSSF for 1H2010
- 2 Net debt defined as a sum of financial long- and short-term debt minus cash & equivalents and assets available for sale



# Strengths and weaknesses of PGE and Energa complement each other...



- ▶ PGE has positive generation balance while Energa has negative
- ▶ PGE is in possession of know-how and experience in the field of implementation large investment projects. Energa has experience and measures essential in process of distribution integration
- ▶ Energa has its own renewable sources of energy and opportunities for its further development. PGE has sufficient resources to finance Energa's projects
- ▶ Distribution activity fields of PGE and Energa border with one another

Note:  
1 Number of employed in core business of PGE



## ...generating numerous synergies and producing shareholder value

| Synergies           | Comments / examples  |
|---------------------|--|
| Cost synergies      | <p>Examples of quick implementation savings:</p> <ul style="list-style-type: none"><li>▶ Reduction of fuel purchase costs</li><li>▶ Reduction of third-party service costs</li><li>▶ Reduction of IT systems costs</li><li>▶ Reduction of assorted other fixed costs</li></ul> |
| Investment program  | <ul style="list-style-type: none"><li>▶ Optimization / rationalization of the scope of the investment program</li><li>▶ Reduction of unit costs / economies of scale</li><li>▶ Reduction of financing costs</li></ul>  |
| Strategic synergies | <ul style="list-style-type: none"><li>▶ Greater stability of both companies</li></ul>  |

**We estimate the immediate cost synergies to exceed PLN 100mn p.a.**



## The potential transaction will be neutral for the financing potential and leverage ratios of PGE

- ▶ PGE has a surplus of cash over financial debt (ca. PLN 4.2bn net cash) <sup>(1)</sup>
- ▶ Energa also has a surplus of cash over financial debt (ca. PLN 0.65bn net cash) <sup>(2)</sup>
- ▶ Both companies generate significant positive operating cash flows and both have investment programs that can be subject to optimization
- ▶ PGE will continue the strategy of not exceeding the net debt/EBITDA level of 2.5x in the mid term
- ▶ Financing – own resources and potentially debt financing (bond issuance is currently arranged)
- ▶ Fitch, 5 July 2010: "(...) Fitch believes that PGE's potential acquisition of Energa S.A. is unlikely to put immediate pressure on the ratings due to the group's net cash position(...)", "(...)The Energa acquisition may strengthen PGE's business profile by creating a more balanced mix of generation versus distribution and supply, and by increasing the proportion of regulated cash flow (...)"

*Note:*

<sup>1</sup> Consolidated financial statement of PGE S.A. after 1H 2010

<sup>2</sup> Unaudited financial statement after 1H 2010 according to MSSF



## Summary



- ▶ Strategic, unique **complement of activities** and competence on the energy market in Poland
- ▶ Significant **synergies** and **potential to optimize costs** and the investment program
- ▶ PGE has made a **rational assessment** of Energa's potential and submitted its Final Offer with conditions that **maximize value** for PGE and its shareholders



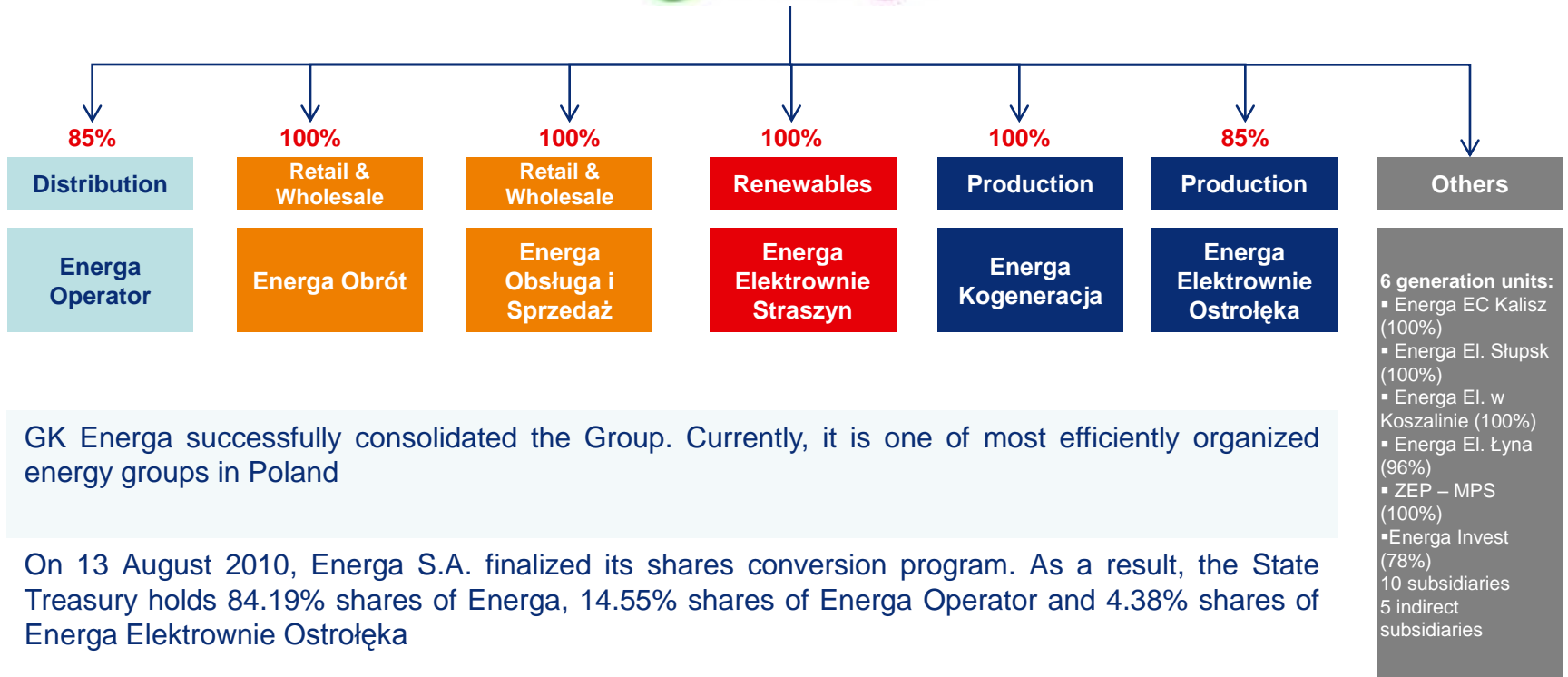
## Appendix

Additional information about Energa Group



# Capital structure of Energa Group

Transparent, integrated group



GK Energa successfully consolidated the Group. Currently, it is one of most efficiently organized energy groups in Poland

On 13 August 2010, Energa S.A. finalized its shares conversion program. As a result, the State Treasury holds 84.19% shares of Energa, 14.55% shares of Energa Operator and 4.38% shares of Energa Elektrownie Ostrołęka

Minority shareholders hold 15.81% in Energa



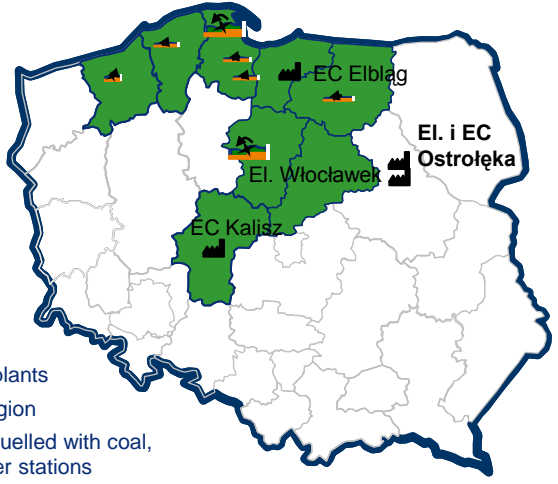
# Energa is one of the leading energy groups in Poland...

Stable sources of EBITDA (75% from distribution and RES) with potential to increase performance

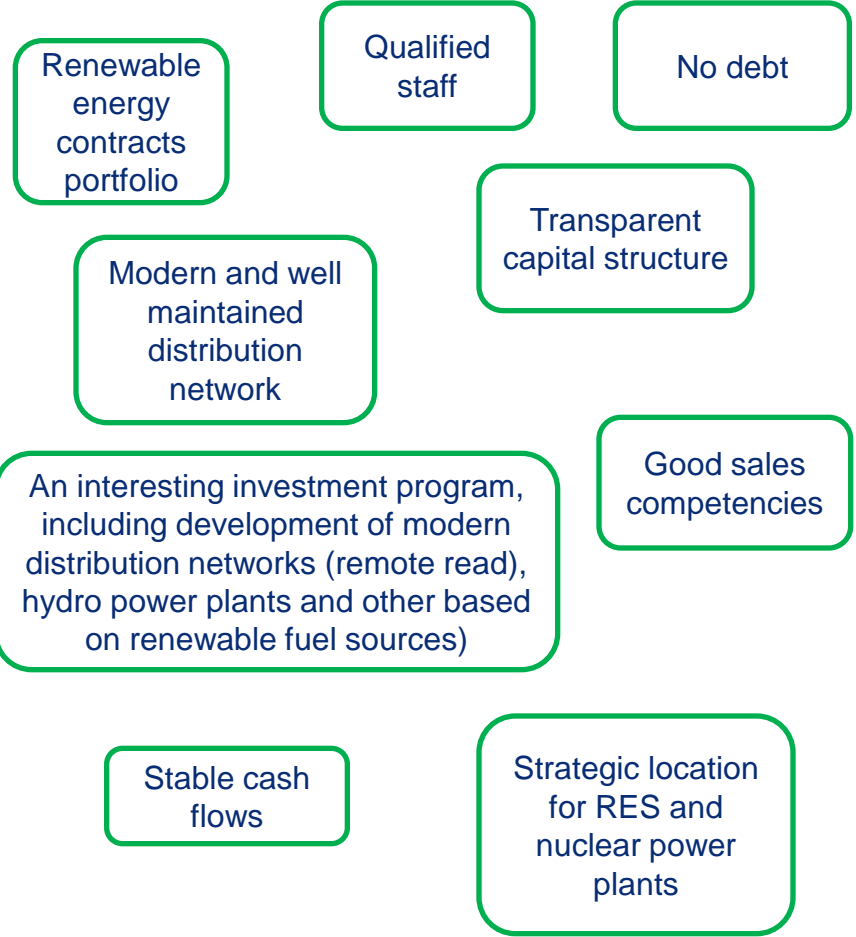
## Energa was founded 5 years ago on the basis of G8 Group

|             |   |
|-------------|---|
| 2005        | Establishment of Energia Gdańska Kompania in January 2005 to consolidate G8 Group   |
| 2006        | Set-up of Energa Group  |
| 2007        | Contribution of 85% in-kind shares of Koncern Energetyczny Energa and 85% in-kind shares of Zespół Elektrowni Ostrołęka to Energa Group |
| 2007        | Unbundling of the distribution business and transfer to Energa Operator   |
| 2010        | Commencing privatization process  |
| August 2010 | Finalizing conversion process of the employee shares  |

## Energa distribution area covers central and northern part of Poland



## Energa has many strengths ... (regardless the possible benefits from the merger with PGE)



EBITDA  
from distribution  
6M 2010:

PLN 341mn

Employment  
figure:

~6.6k people

Volume of  
distributed  
energy:

18.9 TWh

Total cable length:

188k km

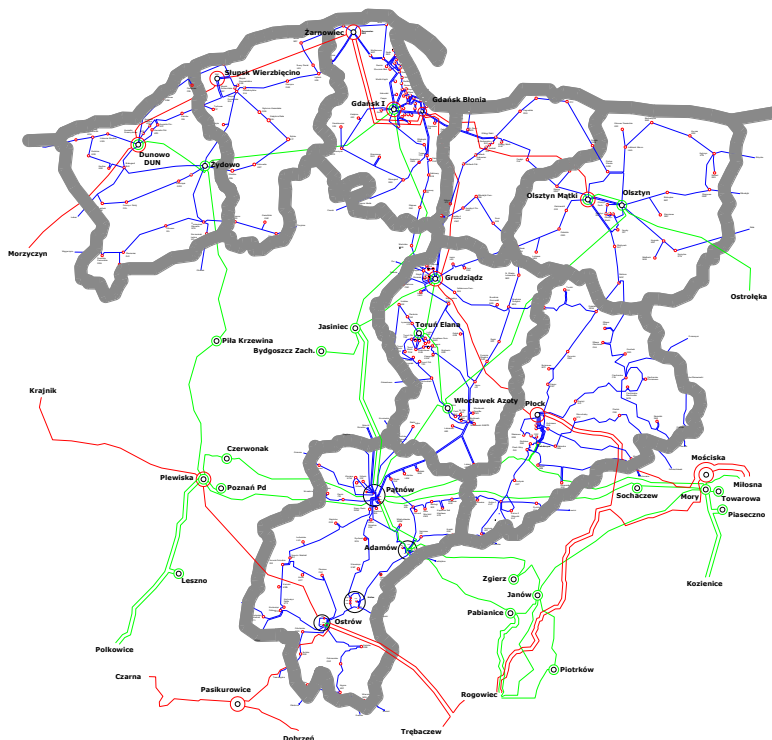
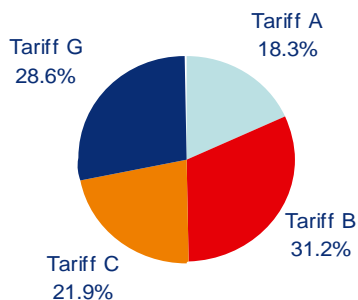


Fig.: Scheme of 110kV lines

A relatively large  
proportion of  
stable clients  
with C i G tariffs



- ▶ Third largest electricity distributor in Poland after Tauron and PGE
- ▶ 2.8mn clients, business area of 75k sq km
- ▶ The Group's distribution activity is conducted mainly by Energa Operator
- ▶ Energa Operator consists of HQ and 8 divisions in Elbląg, Gdańsk, Kalisz, Koszalin, Olsztyn, Płock, Słupsk i Toruń
- ▶ Modern, well maintained network

### Interesting investment plans in the distribution

- ▶ The company carries out a very interesting and ambitious investment program designed for further expansion and network modernization (including the introduction of advanced remote reading)
- ▶ These investments will generate solid return in the future

# Conventional and renewable production

Attractive portfolio of 200 MWe in hydro plants, relatively low capacities in conventional coal fuelled production

EBITDA from generation segment 6M 2010:

PLN 312mn

Employment figure:

~ 1.4k people

Electricity generation 2009:

4.2 TWh

Incl. RES:

1.1 TWh

## El. Ostrołęka      EC Ostrołęka      EC Elbląg



| Installed Capacity                  | 647 MWe (Installed capacity) | 456 MWt | 242 MWt   |
|-------------------------------------|------------------------------|---------|-----------|
| Year of opening                     | 1972                         | 1956    | 1928      |
| Year last turboset put into service | 1972                         | 1967    | 2000      |
| Fuel                                | Coal                         | Coal    | Coal      |
| Turbosets                           | 3                            | 4       | 3         |
| Environmental installations:        |                              |         |           |
| electrofilters (#)                  | 3                            | 5       | 3         |
| installations for desulphurization  | -                            | -       | -         |
| reduction of NO <sub>x</sub>        | 3 systems                    | -       | 4 systems |

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"> <li>2008-2010 complex modernization power outgoes in blocks 1-3</li> <li>Expected life span of 3 existing blocks after essential environmental investments: till 2030</li> <li>Plans for a significant increase in the share of biomass in the fuel</li> </ul> | <ul style="list-style-type: none"> <li>3 boilers OP-100 to be closed till the end of 2015</li> <li>Since 2011 it is planned to reduce heat production as a consequence of expected loss of the major client</li> </ul> | <ul style="list-style-type: none"> <li>Planned construction of new 20 MWE block entity fuelled with biomass</li> </ul> |
|---|--|--|

Investment plans<sup>(1)</sup> / modernization

## El. Wodne Straszyn<sup>(1)</sup>

Water power plant in Włocławek



| EW          | Construction/modernization | Installed Capacity (MWe) |
|-------------|----------------------------|--------------------------|
| Włocławek   | 1970                       | 160.2                    |
| Rutki       | 1910                       | 0.4                      |
| Łapino      | 1925/1999                  | 2.0                      |
| Bielkowo    | 1925                       | 7.2                      |
| Straszyn    | 1910/1937                  | 2.5                      |
| Przędziszyn | 1937                       | 0.8                      |
| Kuźnice     | 1908/2006                  | 0.8                      |
| Juszkowo    | 1934/2006                  | 0.2                      |
| Pruszcz I   | 1921/2000                  | 0.1                      |
| Pruszcz II  | 2005                       | 0.2                      |
| Czarn. Piec | 1907/2009                  | 0.2                      |
| Owidz       | 1910/2006                  | 0.3                      |
| Kolincz     | 1912                       | 0.4                      |
| Stocki Młyn | 1908/1994                  | 0.4                      |



# Wholesale and retail

Very active player in energy trading market, implementing innovative products

EBITDA from wholesale and retail segment 6M 2010:

PLN 152mn

Employment figure in Energa Obrót:

~ 130 people

Employment figure in Energa Ois:

~ 1.3 th. people

Volume of energy sold 2009:

16.5 TWh

## Example: Energa as one of the first companies in Poland introduced a brand in electricity sales



- ✓ Ecology
- ✓ Economy
- ✓ Effectiveness



| Audit Smart Eco               | House | Area | Firm | Authority |
|-------------------------------|-------|------|------|-----------|
| Energy certificate            | ☑ ☑ ☑ | ☑ ☑  | ☑ ☑  | ☑ ☑       |
| Energy Audit                  |       | ☑ ☑  | ☑ ☑  | ☑ ☑       |
| <b>Smart Eco settlement</b>   | ☑     | ☑    | ☑    | ☑         |
| Real settlement               | ☑ ☑   |      |      |           |
| Pre-Paid settlement           | ☑ ☑   |      |      |           |
| <b>Smart Eco technology</b>   | ☑     | ☑    | ☑    | ☑         |
| Compensation of passive power |       |      | ☑ ☑  | ☑ ☑       |
| <b>Smart Eco Energy</b>       |       |      |      |           |
| Wind turbines                 | ☑ ☑   | ☑ ☑  | ☑ ☑  | ☑ ☑       |
| Solar collectors              | ☑ ☑   | ☑ ☑  |      | ☑ ☑       |
| Pumps of heats                | ☑ ☑   | ☑ ☑  |      | ☑ ☑       |
| <b>Smart Eco advertising</b>  | ☑     | ☑    | ☑    | ☑         |
|                               | ☑ ☑   | ☑ ☑  | ☑ ☑  | ☑ ☑       |

Smart Eco allows clients not only to use energy with greater awareness, which leads to energy savings and reduced utility bills, but also to participate in the energy production process

- Consumer -> Prosumer**
- Active participant
- Provider of services
- Co-author of the offer
- Eco Power plant**
- Micro-sources of energy integrated in a network, creating a dispersed power plant





# Energa's historical financial data

| Consolidated P&L  |              |              |              |              | Consolidated Balance Sheet                 |               |               |               |               |
|---|--------------|--------------|--------------|--------------|--|---------------|---------------|---------------|---------------|
|   | 2007         | 2008         | 2009         | 1H 2010      |  | 31.12.2007    | 31.12.2008    | 31.12.2009    | 30.06.2010    |
| PLN mn  | PSR          | MSSF         | MSSF         | MSSF         | PLN mn                                     | PSR           | MSSF          | MSSF          | MSSF          |
| <b>Sales</b>  | <b>3,682</b> | <b>8,251</b> | <b>8,380</b> | <b>4,448</b> | Fixed Assets:                              | 8,762         | 8,070         | 8,463         | 8,469         |
| Cost of sales   | 3,402        | 7,180        | 7,504        | 3,705        | Property, Plant and Equipment              | 7,880         | 7,699         | 8,032         | 8,004         |
| Gross profit on sales                                   | 280          | 1,071        | 876          | 744          | Intangible Assets                          | 85            | 173           | 212           | 213           |
| <i>Gross profit on sales margin</i>                     | <i>7.6%</i>  | <i>13.0%</i> | <i>10.5%</i> | <i>16.7%</i> | Deferred tax assets                        | 177           | 81            | 98            | 108           |
| Selling expenses  | 95           | 91           | 93           | 47           | Current Assets:                            | 1,691         | 2,208         | 2,471         | 3,210         |
| G&A   | 190          | 298          | 354          | 157          | Receivables                                | 934           | 1,022         | 1,152         | 1,272         |
| Other operating income                                  | 158          | 102          | 135          | 28           | Cash and Cash Equivalents                  | 439           | 810           | 887           | 1,378         |
| Other operating costs                                   | 39           | 72           | 66           | 40           | <b>Assets</b>                              | <b>10,453</b> | <b>10,278</b> | <b>10,934</b> | <b>11,679</b> |
| <b>EBITDA</b>   | <b>600</b>   | <b>1,192</b> | <b>1,053</b> | <b>819</b>   | Owner's Equity:                            | 5,690         | 7,063         | 7,383         | 7,717         |
| <i>EBITDA margin</i>                                    | <i>16.3%</i> | <i>14.4%</i> | <i>12.6%</i> | <i>18.4%</i> | Attributed to equity holders of the parent | 4,906         | 6,030         | 6,477         | 6,804         |
| <b>Operating profit</b>                                 | <b>113</b>   | <b>712</b>   | <b>498</b>   | <b>528</b>   | Minority Interest                          | 783           | 1,033         | 906           | 912           |
| Gross profit  | 108          | 716          | 531          | 545          | Non-Current Liabilities:                   | 1,310         | 1,491         | 1,667         | 2,288         |
| Income tax  | 39           | 135          | 104          | 102          | Loans                                      | 80            | 140           | 57            | 689           |
| <b>Net Income</b>                                       | <b>73</b>    | <b>581</b>   | <b>425</b>   | <b>442</b>   | Provisions                                 | 1,230         | 970           | 1,130         | 1,121         |
| <i>Net profit margin</i>                                | <i>2.0%</i>  | <i>7.0%</i>  | <i>5.1%</i>  | <i>9.9%</i>  | Current liabilities:                       | 3,453         | 1,724         | 1,883         | 1,674         |
| <b>Assigned to equity holders of the parent company</b> | <b>56</b>    | <b>495</b>   | <b>397</b>   | <b>426</b>   | Accounts Payables and Other                | 468           | 704           | 775           | 688           |
| Assigned to minority interest                           | 16           | 86           | 28           | 16           | Current Portion of Loans Payables          | 459           | 144           | 289           | 42            |
|   |              |              |              |              | Provisions                                 | 422           | 389           | 323           | 300           |
|   |              |              |              |              | <b>Liabilities and Owner's Equity</b>      | <b>10,453</b> | <b>10,278</b> | <b>10,934</b> | <b>11,679</b> |
|   |              |              |              |              |  |               |               |               |               |
|   |              |              |              |              | Consolidated Cash Flow Statement           |               |               |               |               |
|   |              |              |              |              |  | 2007          | 2008          | 2009          | 1H 2010       |
|   |              |              |              |              | PLN mn                                     | PSR           | MSSF          | MSSF          | MSSF          |
|   |              |              |              |              | Cash Flows from Operating Activities       | 778           | 1,220         | 873           | 486           |
|   |              |              |              |              | Cash Flows from Investing Activities       | -731          | -562          | -831          | -350          |
|   |              |              |              |              | Cash Flows from Financing Activities       | 257           | -288          | 19            | 354           |
|   |              |              |              |              | <b>Net increase in cash</b>                | <b>304</b>    | <b>370</b>    | <b>60</b>     | <b>490</b>    |
|   |              |              |              |              | Cash at the beginning of year              | 135           | 434           | 804           | 864           |
|   |              |              |              |              | <b>Cash at the end of year</b>             | <b>439</b>    | <b>804</b>    | <b>864</b>    | <b>1,355</b>  |



## In our opinion, the Antimonopoly Office has good reasons to issue approval for the transaction, both under an extraordinary or ordinary procedure

| Antimonopoly office objections as understood by PGE   | Potential solutions / explained by PGE  |
|---|---|
| Overly strong position in distribution  | <ul style="list-style-type: none"> <li>▶ Two local natural monopolies are currently subject to effective regulation by the ERO               <ul style="list-style-type: none"> <li>▶ <i>vide: position of PGNiG on the regulated gas market</i></li> </ul> </li> </ul>   |
| Overly strong position in generation (both conventional and renewable)                                  | <ul style="list-style-type: none"> <li>▶ The generation capacity of Energa is relatively rather small</li> <li>▶ Sale of some generation assets or relinquishing control over them               <ul style="list-style-type: none"> <li>▶ <i>PGE currently represents 38.6% of generated electricity (gross), which compares well with numerous other examples in Europe, including EdF – 87% market share and CEZ – 73%</i></li> </ul> </li> </ul>   |
| Negative affect on the wholesale market in areas in which PGE’s surplus energy has thus far been placed | <ul style="list-style-type: none"> <li>▶ Sales of nearly 100% of electricity generated by PGE through a dedicated exchange market from 2011</li> </ul>  |
| Overly strong position in the retail segment  | <ul style="list-style-type: none"> <li>▶ Customers have the right to change suppliers (TPA rule) and the number of customers changing suppliers is rising dramatically</li> <li>▶ In any case, if TPA needs to be further facilitated, this is where authorities should act               <ul style="list-style-type: none"> <li>▶ <i>vide: successful implementation of number portability in Poland in telecommunication</i></li> </ul> </li> </ul> |



*Polska Grupa Energetyczna*

***Thank you***

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