



Polska Grupa Energetyczna



**We have submitted the Final Offer for Energa S.A.
A unique acquisition opportunity for PGE**

August 16, 2010



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We have submitted our Final Offer to purchase 82.9% shares in Energa

- ▶ On August 16, 2010 PGE Polska Grupa Energetyczna S.A. ('PGE') submitted the Final Offer (conditional) to purchase 82.9% or 4,120,000,000 shares of **Energa S.A.** ("Energa")
- ▶ PGE and Energa are **singularly complementary** and the combination of the two businesses produces significant synergies
- ▶ PGE has performed a **realistic assessment** of Energa's potential and has offered a package which **maximizes value for PGE and its shareholders**; however, we cannot exclude the possibility that other bidders have placed better price offers
- ▶ Our Final Offer is **conditional** on, *inter alia*, securing the proper consent of the Antimonopoly Office and obtaining satisfactory results in the final due diligence
- ▶ Our offer marks the implementation of our acquisition strategy, which in this case will be carried out on the **domestic market, which we know best**
- ▶ The objective of PGE's organic growth, supported by selective acquisitions, is to increase PGE's position as a medium-sized, **highly profitable European player**

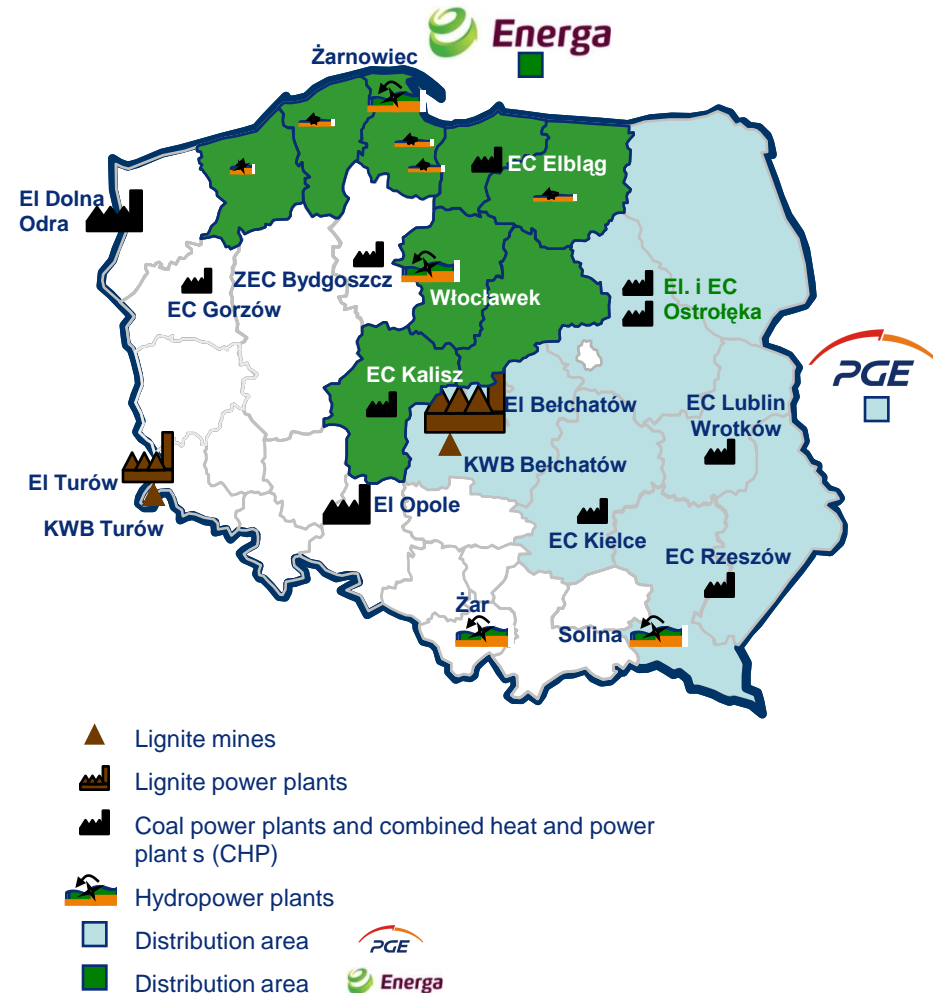


Energa is the no. 3 energy distributor in Poland, with a leading portfolio of renewables...

Energa key data (2009) according to public sources

Distribution	~20 TWh
Generation	4.2 TWh
Sales	16.5 TWh
Balance sales – generation	–12.3 TWh
Revenues (2009)	PLN 8.6bn
EBITDA (2009)	PLN 1.1bn
EBITDA 2010 (Energa estimate)	>PLN 1.5bn
EBITDA margin (2009)	12.7%
Net debt (2008)	cash PLN 517m
Customers	2.5m households 300,000 businesses
Employment	ca. 12,500 individuals
Other company strengths	<ul style="list-style-type: none"> ✓ Integrated distribution ✓ Selling competencies

Area of operations and key assets of PGE and Energa





...and the strengths and weaknesses of Energa and PGE are complementary...

Balance of production vs. sale of energy

The share of renewables in the fuel-mix

Know-how and financial strength for the implementation of large projects

Distribution geographical range



-

+

large

small

small

large

neighboring areas



...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">▶ Reduction of coal purchase costs▶ Reduction of third party service costs▶ Reduction of IT software costs▶ Reduction of some other position of fixed costs
Investment program	<ul style="list-style-type: none">▶ Optimization / rationalization of the scope of the investment program▶ Reduction of unit costs / economies of scale▶ Reduction of financing costs
Strategic synergies	<ul style="list-style-type: none">▶ More stable position of both companies

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



In our opinion, the Antimonopoly Office has good reasons to issue approval for the transaction, even if conditional

Antimonopoly office objections as understood by PGE	Potential solutions / explanations
<p>1 Overly strong position in distribution</p>	<ul style="list-style-type: none">▶ Two local natural monopolies are currently subject to effective regulation by the ERO<ul style="list-style-type: none">▶ <i>vide: position of PGNiG on the regulated gas market</i>
<p>2 Overly strong position in generation (both conventional and renewable)</p>	<ul style="list-style-type: none">▶ The generation capacity of Energa is relatively rather small▶ Sale of some generation assets or relinquishing control over them<ul style="list-style-type: none">▶ <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>
<p>3 Negative effect on the wholesale market in areas in which PGE’s surplus energy has thus far been placed</p>	<ul style="list-style-type: none">▶ Sales of nearly 100% of electricity generated by PGE through a dedicated exchange market from 2011
<p>4 Overly strong position in the retail segment</p>	<ul style="list-style-type: none">▶ Customers have the right to change suppliers (TPA rule) and the number of customers changing suppliers is rising dramatically▶ In any case, if TPA needs to be further facilitated, this is where focus should be and not on objecting to the Transaction<ul style="list-style-type: none">▶ <i>vide: successful implementation of number portability in Poland in telecommunication</i>

We anticipate receiving the conditional approval of the Antimonopoly Office




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

- ▶ PGE has surplus of cash over financial debt (ca. PLN 3bn net cash) ⁽¹⁾
- ▶ Energa also has surplus of cash over financial debt (ca. PLN 0.5bn net cash) ⁽²⁾
- ▶ Both companies generate significant positive operational cash flows and both have investment programs that can be a 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, 5/07/2010: *"(...) 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 (...)"*



Summary

Potential combination of PGE and Energa translates into growth of shareholder value

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- A large, stylized graphic consisting of a red arc on the left and an orange arc on the right, both curving upwards and meeting at a point in the center, resembling a wide arrow or a bridge.
- ▶ 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 the Final Offer with conditions that **maximize value** for PGE and its shareholders



Polska Grupa Energetyczna

Thank you

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