



Polska Grupa Energetyczna

The electricity market leader in Poland

Press conference
11 May 2009



This presentation is based on data
as of 31 December 2008, unless indicated
otherwise in the text of the presentation



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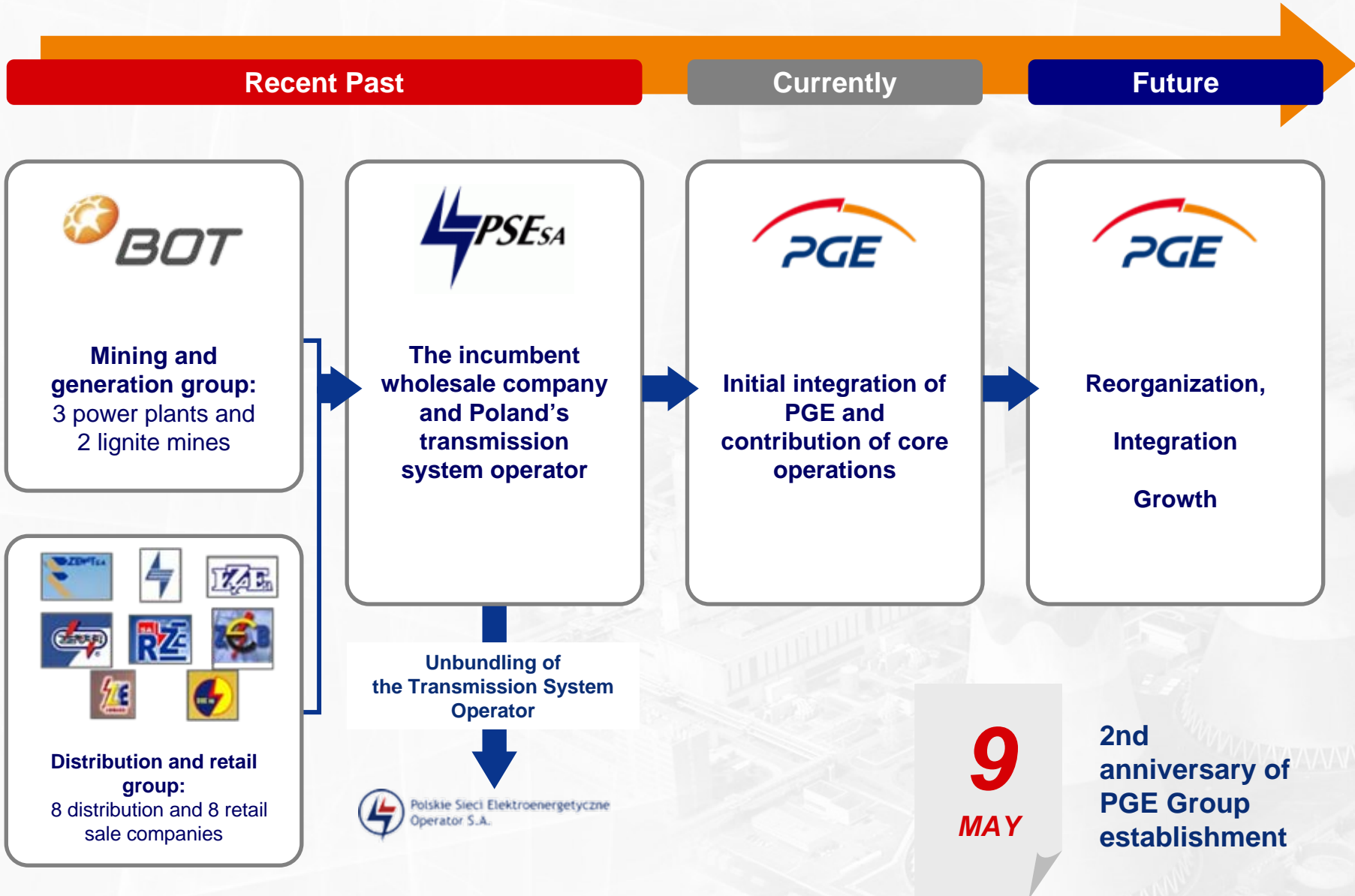
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- **An Overview of PGE**
- 2008 selected financial results
- Investments programme – key element of PGE's strategy
- Consolidation and Integration plan – new chapter in PGE's history
- Conclusions





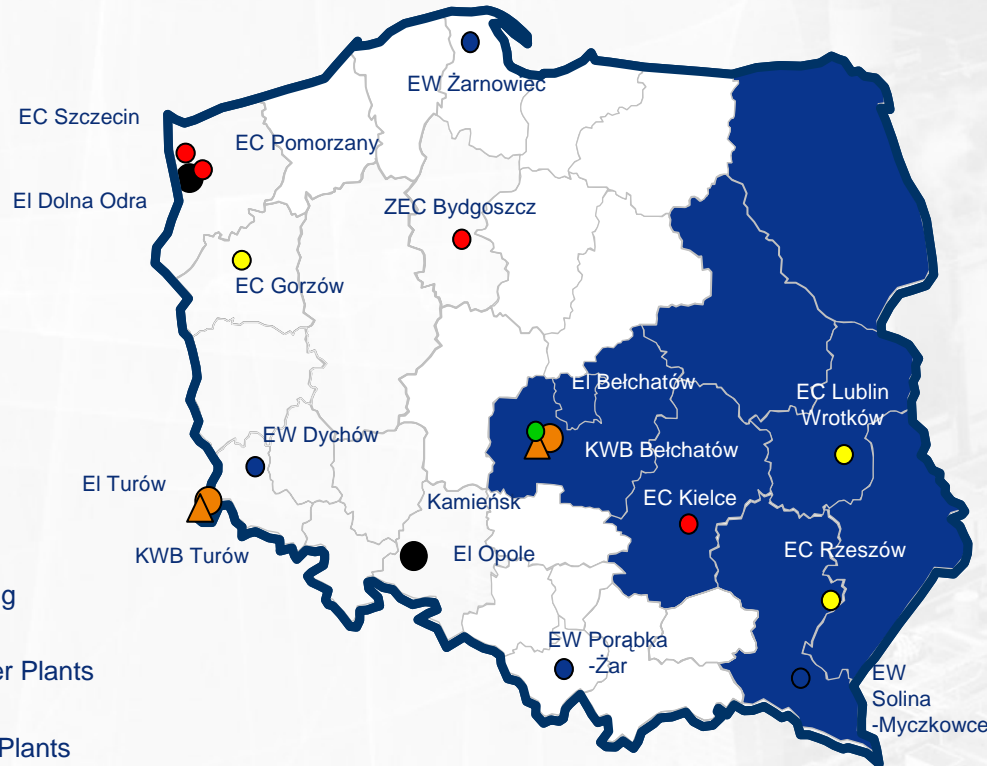
The largest vertically integrated power utility in Poland

■ Distribution and retail companies

● Gas CHP

● Hydroelectric Power Plants

● Wind farm



▲ Lignite Mining

● Lignite Power Plants

● Coal Power Plants

● Coal CHP

12.4 GW
installed capacity

45.1 million tonnes
annual lignite
production

56.0 TWh
net power production

268.1k km
distribution lines

~ 5 m customers

~ 46.6k
employees



A strong player across the entire electricity value chain

Well-diversified portfolio of activities: upstream / downstream, regulated / unregulated operations

PGE's main business units

Mining and generation

- 2 lignite-based, 2 hard coal-based power plants and 5 main CHPs as well as 2 lignite mines

Renewables

- PGE Energia Odnawialna, which focuses on pump-storage and construction of new production capacity including hydro and wind. The Group currently has 36 hydroelectric PP and 1 wind farm

Wholesale

- PGE Electra

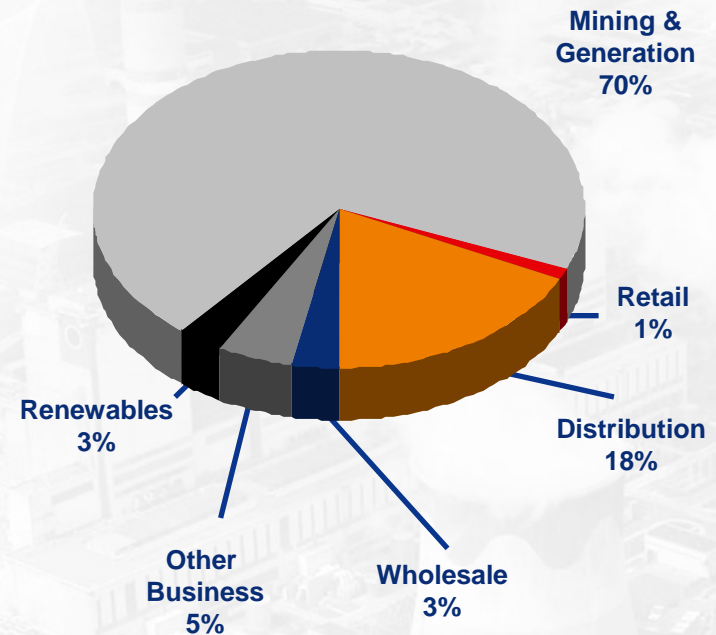
Distribution and Retail

- PGE Energia – 8 distribution companies and 8 retail companies

Other Businesses

- Telecom company Exatel and major stake in Polkomtel

EBITDA split (2008)



Total: PLN 5.8m
EBITDA Margin 28.4%

Regional coverage



Installed Capacity	12.4 GW	5.4 GW	2.8 GW	0.7 GW	6.8 GW (a)
% of Own Fuels					
Market Share Generation (b)	40% (c) (42% 2008) (c)	15%	8%	2%	18%
Number of End Customers	~ 5.0 mio	4.0 mio	2.3 mio	2.8 mio	NA
Market Share Distribution	26%	27%	15%	16%	16%
2007 Sales	23.2 bn (20.6 bn 2008) (d)	12.0 bn	5.4 bn	7.3 bn	NM
2007 EBITDA Margin	20% (28% 2008) (d)	10%	9%	15%	NM



...on one of the Largest Electricity Consumption Markets in Europe

Strong market fundamentals make Poland one of the most attractive electricity markets in Europe

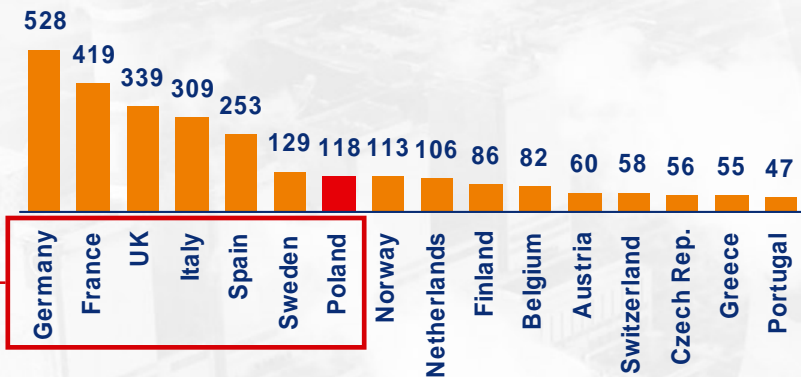
Poland's relatively strong macroeconomic fundamentals provide support to the power sector ...

... which is significant in growth opportunities

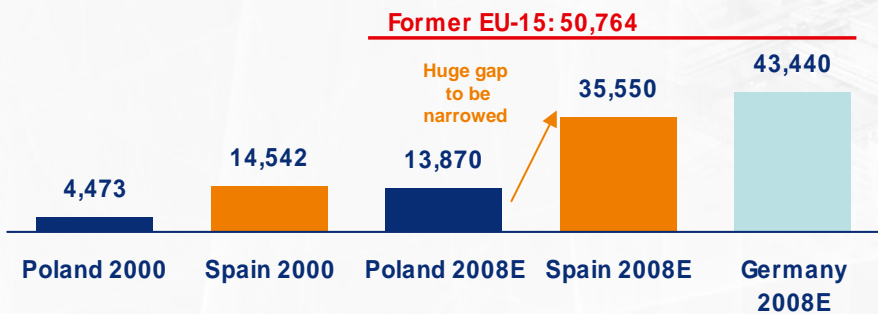
Most favourable GDP outlook in Central & Eastern Europe (2009E, %)



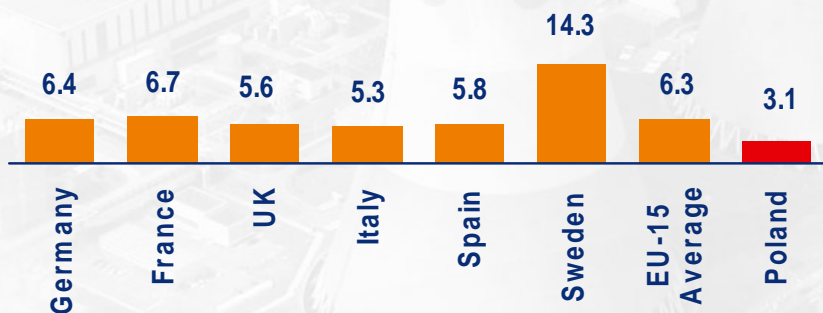
Consumption by end-users, 2007 (TWh)



Long term affluence convergence
Historical and current GDP per capita (USD)^(a)



Electricity consumption per capita, 2007 (MWh)



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Robust Profitability and Solid Financial Position

EBITDA margin in 2008 of 28.4% - at comparable level with other major European utilities

	Year Ended 31 December (PLN m)		
	2007	2008	Change (%)
Revenues	23,166	20,598	-10.8%
EBITDA	4,743	5,847	23.3%
EBITDA margin	20.5%	28.4%	
Profit on continued operations	2,926	2,670	-8.7%
Net profit	4,771	2,670	-44.0%

- Revenue decreased in 2008 as a result of cancelation of PPAs at the end of 1Q 2008, among other factors
- Net profit from continuing operations in 2007 increased by PLN 1.4 bn in non-recurring items
- Net profit achieved in 2007 was a result of one-off items which increased net profit by ~ PLN 3.2 bn:
 - Spin-off of transmission assets and transfer to PSE-Operator (PLN 1.8 bn)
 - Elimination of reserve for deferred tax in connection with spin-off of distribution assets (PLN 1.4 bn)



Capital Expenditure Summary & Low Net Financial Debt

Selected investment goals in 2008:

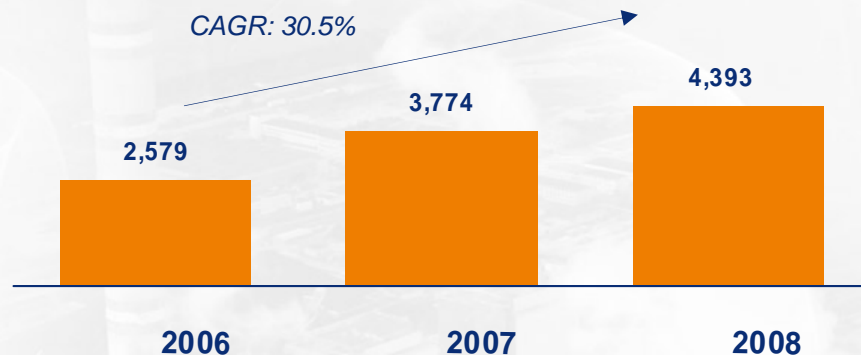
- Continued construction of power unit No. 13 in ELB (ca. PLN 1.6 bn)
- Reconstruction and modernisation of units No. 3,4,5 and 6 in ELB (ca. PLN 111 m)
- Providing adequate connections to new customer in all distribution entities (ca. PLN 430 m)
- Development of a 110kV distribution network (ca. PLN 25 m)

Safe, conservative level of debt

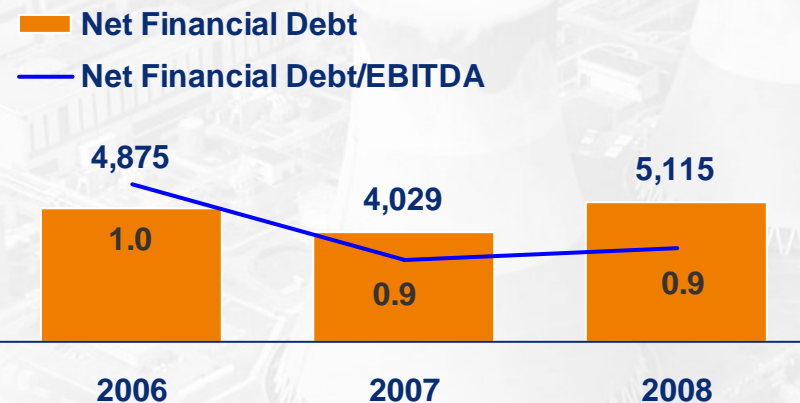
- Estimated significant capacity to carry out major future investments

Comments

Capital Expenditure Development (PLNm)



Net Financial Debt (PLNm)



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A primary goal of PGE Group is to increase the Company's value and satisfy customer's demand for electricity and heat in Poland and abroad

1 Development of an integrated utility business	2 Efficiency improvement and modernisation	3 Fostering organic and external growth	4 Enhancement of competitive strengths and regulatory environment
<ul style="list-style-type: none">▪ Implementation of an optimal management structure▪ Reorganization of the capital structure▪ Centralization of selected functions	<ul style="list-style-type: none">▪ Realization of significant integration synergies▪ Realization of potential for cost reductions in mining, generation and distribution areas▪ Optimization of capital expenditures	<ul style="list-style-type: none">▪ Development of new generation units▪ Development of distribution network▪ Domestic and foreign acquisitions▪ Ownership of sizeable own fuel resources	<ul style="list-style-type: none">▪ Increased activity on the wholesale energy market▪ Strengthening of trading functions▪ Promotion of positive changes in the regulatory environment both at the domestic and international level

Human capital development

Composition of the capex programme (2009–2012)^(a)

Investment Item	Approximate ^(a) amount	
	PLN bn	%
Construction of new conventional, fossil-fuel-fired power stations	8.2	21.1%
Construction of new generation capacities based on renewable energy sources	8.9	22.9%
Investments in new technologies (incl. nuclear)	2.0	5.1%
Investments in distribution assets	5.6	14.4%
Modernisation of existing mining and generation assets	9.4	24.2%
Acquisitions and other	4.8	12.3%
Total	38.9	100.0%

Key elements of the 2009-2012 capex programme

Modernisation and efficiency improvement of existing assets

- Thermal efficiency of new coal units of up to ca. 46% compared to ca. 36% for older units
- Reduction of CO2 emissions below 1 ton / MWh for lignite units and 0.7 ton / MWh for hard coal units
- Modernized distribution network aimed at limiting network losses

Significant growth in new capacity

- Construction of the new Bełchatów unit ongoing
- Further development of projects in Opole and Turów

Expansion into new technologies

- Development of selective renewables technologies
- Analysis of nuclear options under way

Most important Investment Projects

Renewables Projects

- ▶ Construction, within the PGE EO group, of land-based and off-shore wind farms
- ▶ Total capacity of approx. 2,000 MW
- ▶ Projects are on a preparation stage
- ▶ Expected to be commissioned gradually until 2020

Turów Power Plant

- ▶ Construction of unit 11
- ▶ Capacity of approx. 460 MW
- ▶ Project is on an investment preparation stage
- ▶ Preliminary estimate of the commissioning date is 2016

Opole Power Plant

- ▶ Construction of units 5 and 6
- ▶ Capacity of up to 1,600 MW
- ▶ Presently on an advanced investment preparation stage
- ▶ Technical advisor appointed and tender for the general contract planned to be announced in the first half of 2009
- ▶ Preliminary estimate of the commissioning date is 2014/2015

Bełchatów Power Plant

- ▶ Completion of a new power unit
- ▶ Capacity of 858 MW
- ▶ To be commissioned in 2010
- ▶ Work progress on schedule

Lublin Power Plant

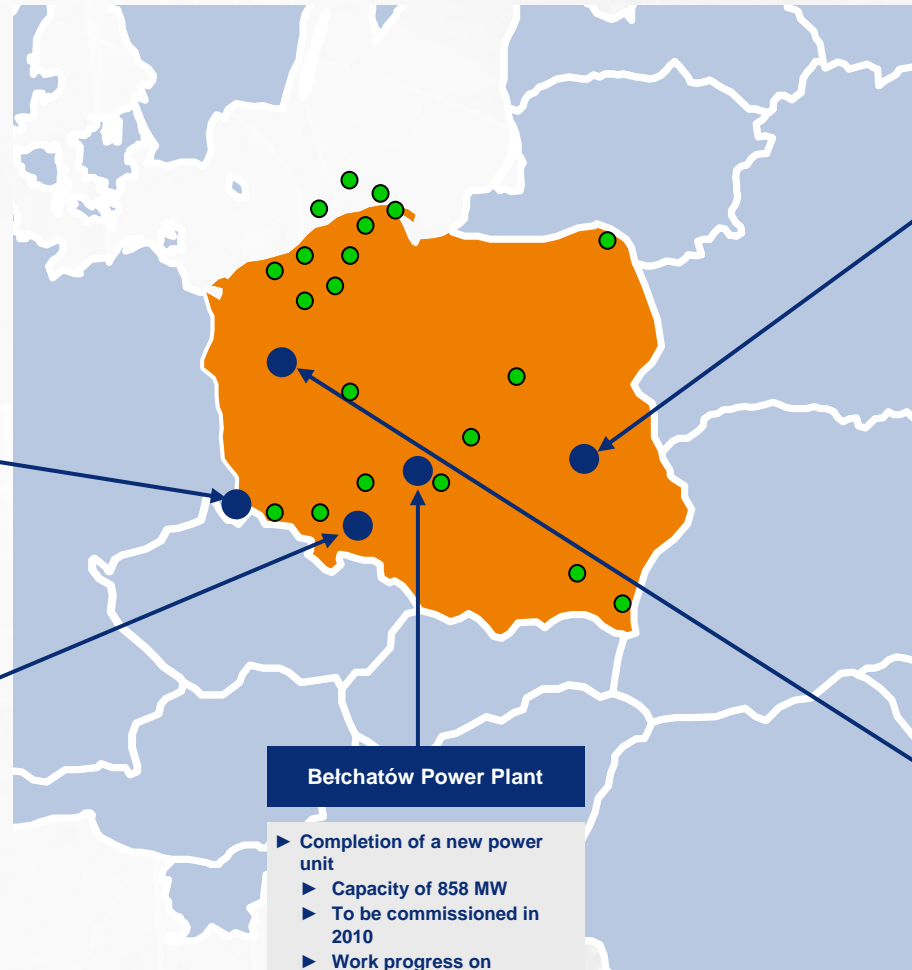
- ▶ Construction of a new power plant
- ▶ Capacity of approx. 2x800 MW
- ▶ Project is on an investment preparation stage
- ▶ Power plant is to be coal-fired
- ▶ Precondition for the commencement of the project is cooperation commitments from coal suppliers
- ▶ Preliminary estimate of the commissioning date is 2015/2016

Construction of new co-generation units at the Group's CHPs

- ▶ Including ZEC Bydgoszcz (190 MWe and 120 MWt)
- ▶ Projects are on a preparation stage
- ▶ Planned commissioning dates is 2018
- ▶ Focus on low-CO2 units

Gorzów CHP

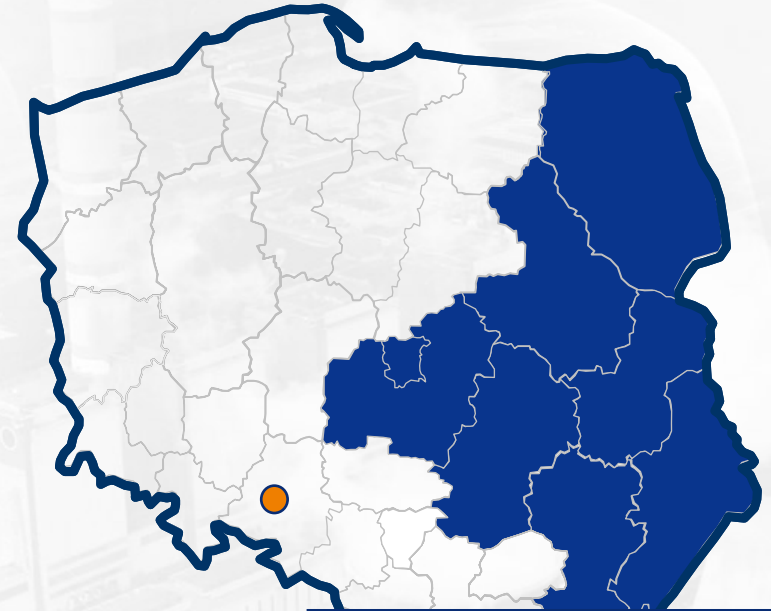
- ▶ Construction of a gas-fired peaking unit
- ▶ Burning nitrogen-rich natural gas from a local deposit (126 MWe)
- ▶ Project is on a preparation stage
- ▶ Planned commissioning date is 2013



Project features

Installed capacity	2x 800 MW
Net electricity generation	9.7 TWh per annum
Capex	PLN 9.3 bn
Date of launch	2014/2015
Technology	Supercritical PC (pulverised coal) boilers, CCS Ready
Fuel type	Hard-coal
Key advantages	Availability of site and infrastructure at present location
	Increased local demand for electricity
	Increase of efficiency of existing units
Key feasibility condition	Strengthening of the transmission network

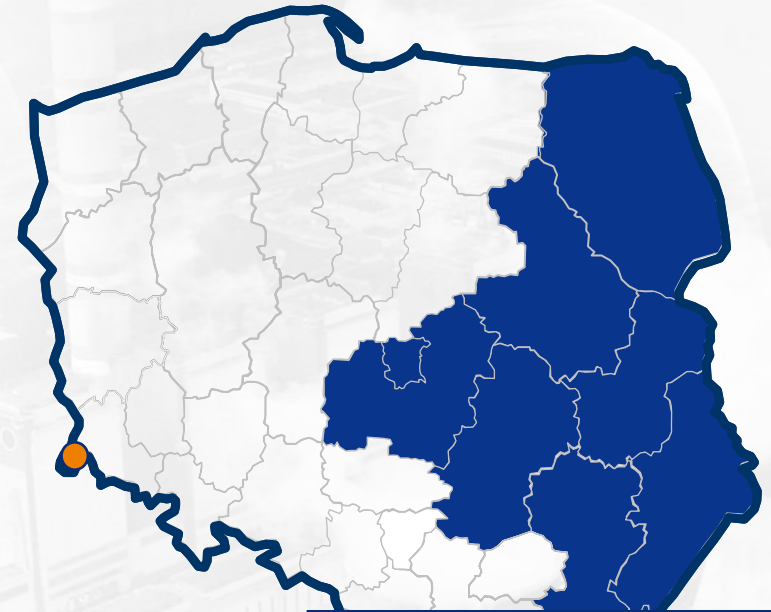
Location



Project features

Installed capacity	460 MW
Net electricity generation	2.8 TWh per annum
Capex	PLN 4.0 bn ^(a)
Date of launch	2016
Technology	Supercritical PC (pulverised coal) boilers or supercritical FB (fluidised bed) boilers, CCS Ready
Fuel type	Lignite
Key advantages	Full utilization of the Turów lignite reserves
Key feasibility condition	Agreements with neighboring countries with respect to cross-border impact

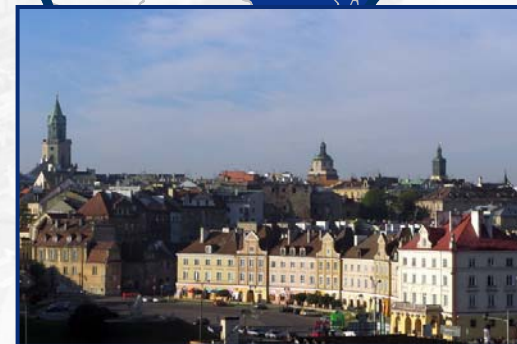
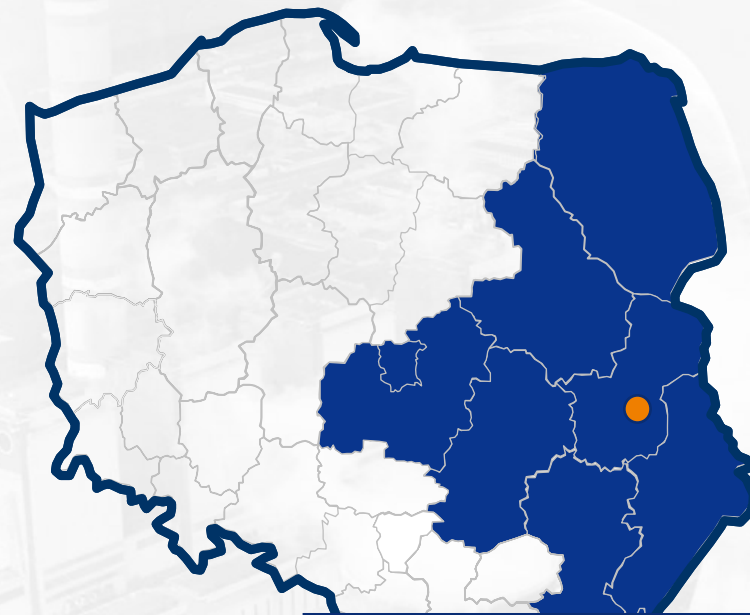
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Project features

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Net electricity generation	9.7 TWh per annum
Capex	PLN 9.3 bn ^(a)
Date of launch	2015/2016
Technology	Supercritical PC (pulverised coal) boilers, CCS Ready
Fuel type	Hard-coal
Key advantages	<p>Possibility of constructing a power plant near the mine (minimal transportation costs)</p> <p>Potential growth of the base of resources</p>
Key feasibility condition	Access to fuel

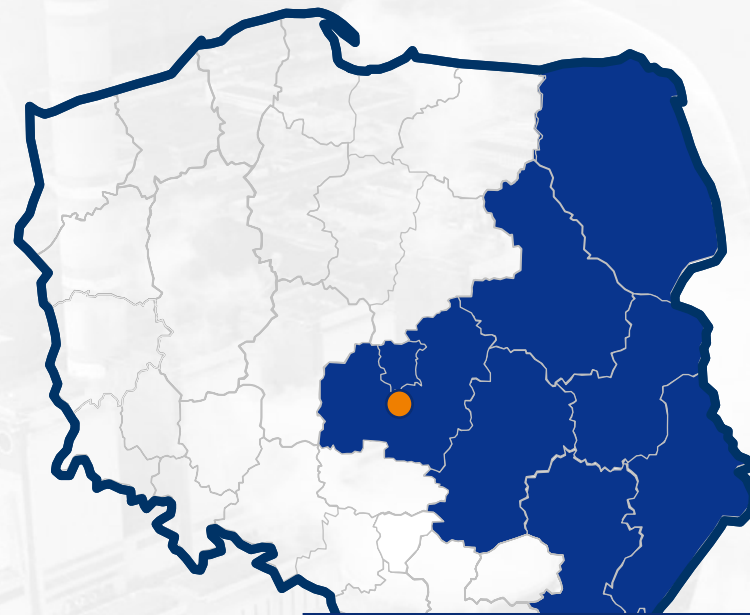
Location



Project features

Volume of CO ₂ eliminated	1.7m tons (1/3 of emissions of the 858 MW unit)
Capex	ca. PLN 2.0 bn
Date of launch	2011 (pilot installation) ^(a) 2015 (demo installation)
Technology	Post-combustion CO₂ capture (MEA), transport and geological storage
Key advantages	Building know-how of designing, construction and operation of CCS installations Optimization of CO₂ capture Identification and introduction of industrial-scale system of CO₂ storage in geological structures Potential support of EU funding from the EU CCS Demonstration Programme
Key feasibility condition	Receipt of EU/national grants

Location



Project features

Installed capacity	ca. 1,000 MW
Net electricity generation	ca. 2.4 TWh per annum
Capex	ca. PLN 9.9 bn (2009-2016)
Date of launch	until 2016
Technology	1.5 - 3.0 MW wind turbines
Fuel type	Wind power
Key advantages	Utilization of the on-shore wind power potential in Poland
	Reduction of CO ₂ emissions
	Diversification of supply sources
	Increased domestic energy security
Key feasibility conditions	Fulfilling of national RES targets
	Expansion of distribution and transmission network (mainly Northern Poland) Investments permissions and local communities acceptance

Possible Localisations



Project features

Installed capacity	1,000 MW
Net electricity generation	4 – 4.5 TWh per annum
Capex	ca. PLN 13.4 bn
Date of launch	until 2020
Technology	Turbines capacity 3.6 – 5 MW
Fuel type	Wind power
Key advantages	Reduction of CO ₂ emissions
	Diversification of supply sources
	Increased domestic energy security
	Fulfilling of national RES targets
Key feasibility conditions	Development of adequate legal environment to allow construction of artificial islands
	Limiting project influence on environment

Possible Localisations



Project features

Installed capacity	6,000 MW - 2 nuclear PP approx. 3,000 MW each
Net electricity generation	47 TWh per annum
Capex	EUR 3 bn per 1,000 MW
Date of launch	1st unit in 2020, 2nd in 2022/2023
Technology	TBD
Fuel type	Uranium, MOX
Key advantages	<ul style="list-style-type: none"> Lowest generation costs Reduction of CO₂ emissions Secure supply of energy
Key feasibility conditions	<ul style="list-style-type: none"> Development of adequate legal environment Social acceptance Personnel education

Selected Nuclear Power Plants



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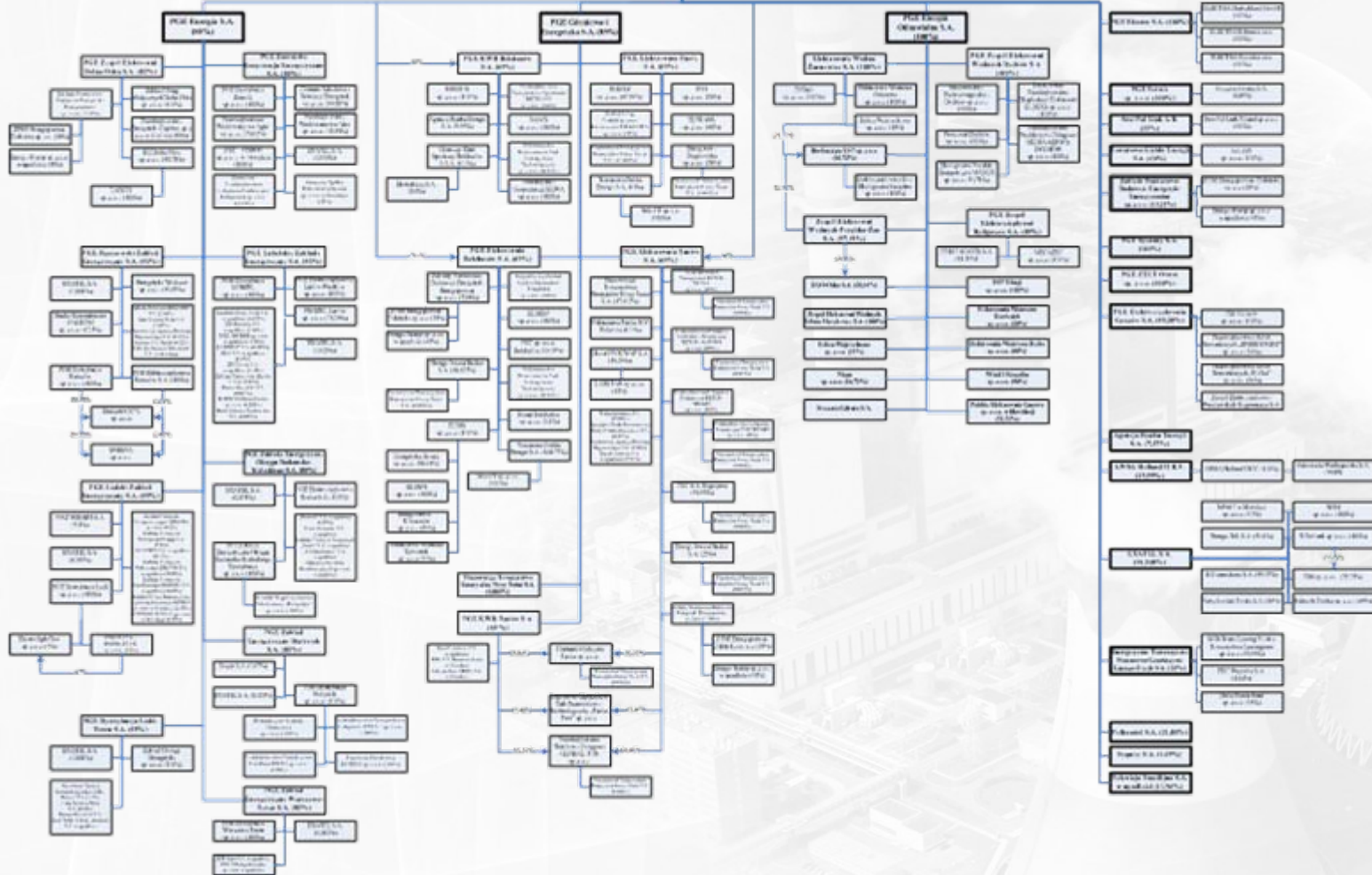
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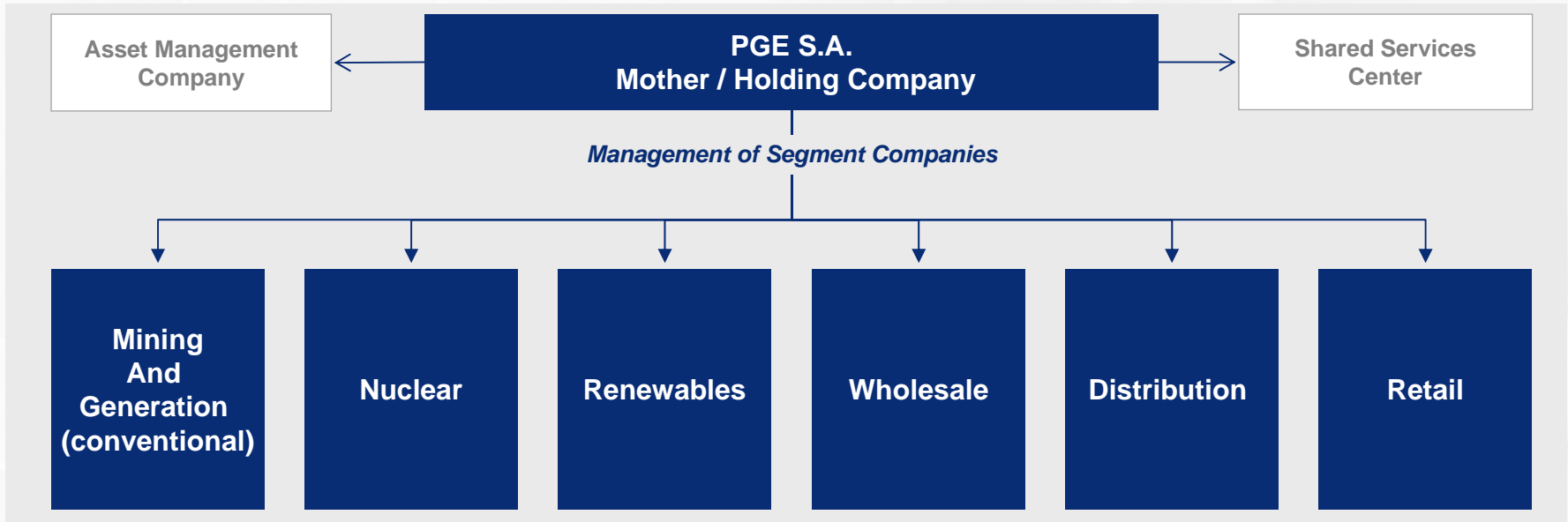
Human capital development



The current structure of the PGE Group includes about 200 entities and requires reorganization and consolidation



The largest consolidation in Poland and one of the largest ones in CEE



Key goals and benefits

- ✓ *Improved management and integration*
- ✓ *Cost savings*

Simplified timeline of our restructuring process:

Planning
and legal

3 months

Completed



Approval of
consolidation
concept

1 month

Completed



Execution up to 18 months

Phase 1 – Merger of
consolidated entities

Phase 2 - Merger of
consolidating entities

Optimization of management structure

- Streamlining of capital structure: establishment of 6 large, strong companies each handling a single line of business
- Clear definition of the role of PGE Corporate Centre and the companies handling each business line
- Buy-out of minorities stakes in subsidiary companies
- Introduction of an additional entity effectively managing assets from non-core activity

Exploitation of potential synergies existing within the Group

- Centralization of certain functions on holding level: strategy, financial management and planning, planning and development of investment projects, risk management, internal audit, HR, brand management
- Creation of low-cost Shared Services Centre focused on effective performance of selected support functions (e.g. purchasing, IT, payroll) for PGE Group companies
- Identification and realization of synergies within key business processes (optimization of basic processes)
- Identification and realization of synergies across key business processes

Targeted effects of consolidation (1)

Operations

- Increased management efficiency
- Streamlining and expediting decision-making processes
- Increased freedom of operation within specialized business lines
- Better use of centralized functions (integration of IT systems, single brand)
- Exploitation of complementary resources and skills (knowledge exchange)
- Streamlining of specific production processes (technical integration)

Targeted effects of consolidation (2)

Markets and marketing

- Value growth of PGE in context of planned privatization
- Stronger competitive position
- Stronger negotiating position in acquisition projects
- Building position of strong partner in development projects (e.g. nuclear energy)

Targeted effects of consolidation (3)

Financial

- Optimization of cash flows within PGE Group
- Improvement of cost effectiveness and investment effectiveness based on economies of scale
- Reduction of operating costs (cost synergies, economies of scale)
- Reduction of raising capital cost

- **Supervisory Board approval of consolidation strategy defining target model for PGE Capital Group**
- **Legal solutions currently being supplemented with analyses reflecting provisions of source documents (corporate documents, key social agreements and business contracts, administrative decisions etc.) and economic analyses**
- **Ground rules for conducting the consolidation process:**
 - Respect for employees and their rights
 - Clarity and transparency of process
 - Respecting social agreements
- **Transparent process taking into account the interests of all internal and external stakeholders**

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- **Conclusions**



- ✓ **Market leader, one of the largest corporates in Poland, a major European utility player**
- ✓ **Attractive fundamentals of the Polish electricity market**
- ✓ **Integrated operations thanks to presence at almost every link of the value chain in the power industry**
- ✓ **Own fuel supplies**
- ✓ **Strong results delivered in 2008, sound financial profile**
- ✓ **Balanced and transparent investment programme for the modernization of existing infrastructure and development of new capacity**
- ✓ **Greater efficiencies and improved optimization activities through the largest consolidation and integration plan in Poland**
- ✓ **Reliable and strong partner in ambitious energetic projects**



Thank you

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