



*Polska Grupa Energetyczna*



# Q1 2010 Results

Nonaudited consolidated, in accordance with IFRS

Warsaw, May 17, 2010

## Key financials

- ▶ EBITDA margin kept at high level, reached 37.3%
- ▶ EBITDA reached PLN 2bn, EBITDA ex-LTC increased by 1.2%
- ▶ Revenues amounted to PLN 5.34bn, revenues ex-LTC increased by 5.2% y-o-y
- ▶ Net profit (to equity) increased by 3.0% y-o-y to PLN 0.90bn
- ▶ LTC compensations significantly lower amounting to PLN 66m in Q1 2010 vs. PLN 336m in Q1 2009

## Consolidation Programme

- ▶ Merger plans accepted by the appointed experts, court decision expected till end of August 2010
- ▶ Memoranda for mergers and issue under preparation
- ▶ Works on new operational structure and value chain management principles in advanced stage
- ▶ Progress noted in the field of non-core assets disposal as well

## Investment Programme

- ▶ Key projects (Belchatow, Opole) progressing on schedule
- ▶ Plans for new gas-fired units in ZEDO (ca.900MW) under serious consideration
- ▶ EUR 180bn grant agreement for CCS installation in Belchatow signed
- ▶ Next technology working group in nuclear program started

## Market Conditions

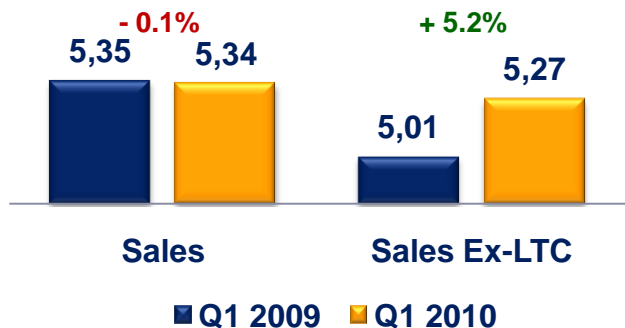
- ▶ Power consumption in Poland in Q1 2010 increased by 3.5% y-o-y, while our retail volume increased by 3.8% in corporate and by 4.2% in households.
- ▶ Average market baseload spot price in Q1 2010 amounted to PLN 189.5/MWh and was more than 10% higher than average prices in previous quarters



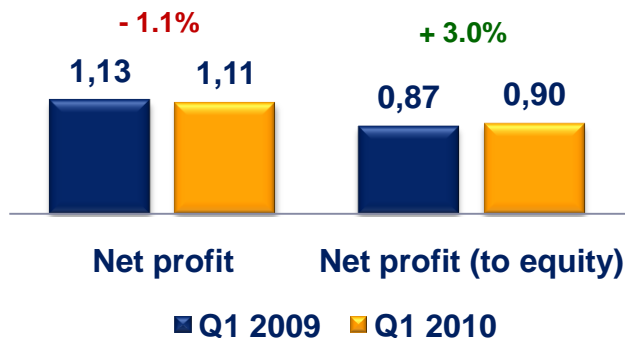
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Financial results

## Revenues (in PLN bn)



## Net profit (in PLN bn)

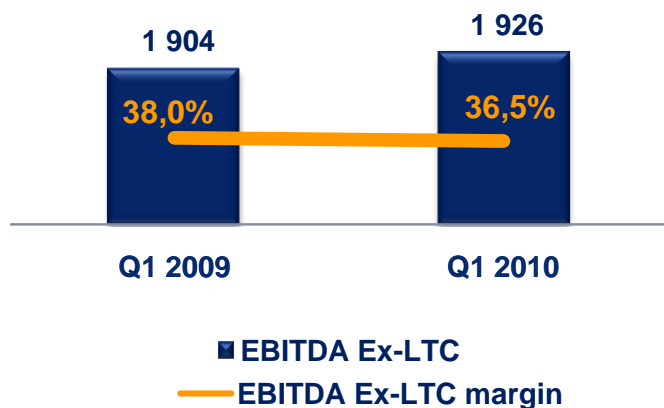


## Key drivers in Q1 2010

- ▶ Sales and generations volumes in Q1 flat y-o-y (respectively 14.9 and 14.0 TWh)
- ▶ Revenues flat as well despite big drop in LTC compensations
  - ▶ LTC compensation for Q1 2010 amounted to PLN 66m comparing to PLN 336m in Q1 2009
- ▶ Ex-LTC revenues increased by 5.2% mainly due to :
  - ▶ increase in volume of energy sold to the final customers by 4% from 7.7TWh in Q1 2009 to 8.0TWh in Q1 2010
  - ▶ growth in revenues from sale of certificates of origin and CO2 allowances
  - ▶ higher revenues from the sale of heat
  - ▶ and higher distribution revenues (average increase in distribution tariffs for 2010 of 5.3%)
- ▶ Net profit (to equity) increased y-o-y by 3.0% while net profit decreased by 1.1% y-o-y



# EBITDA and EBITDA margin – Q1 usually the strongest period of the year



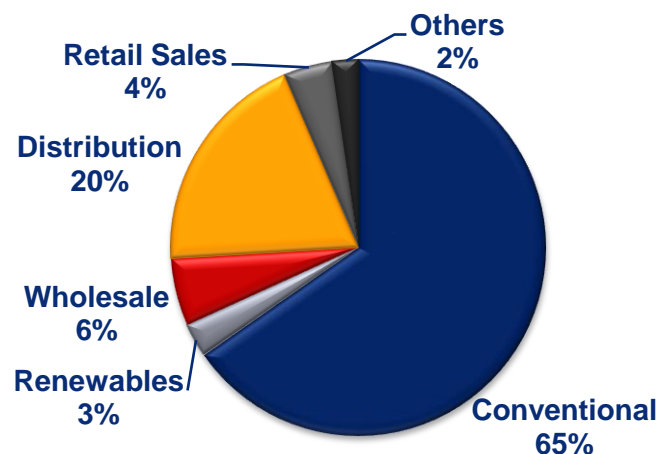
## Key information

- ▶ EBITDA margin remains strong and accounted in Q1 2010 for 37.3%
- ▶ In Q1 2010, EBITDA excluding LTC compensation has registered growth of 1.2% y-o-y and the EBITDA Ex-LTC margin has reached 36.5%
- ▶ Conventional segment accounted for 65% of total EBITDA, followed by Distribution segment with the share of 20%
- ▶ Q1 is usually the strongest quarter of the year, accounting for more than ¼ of annual EBITDA

## EBITDA and LTC quarterly development\*

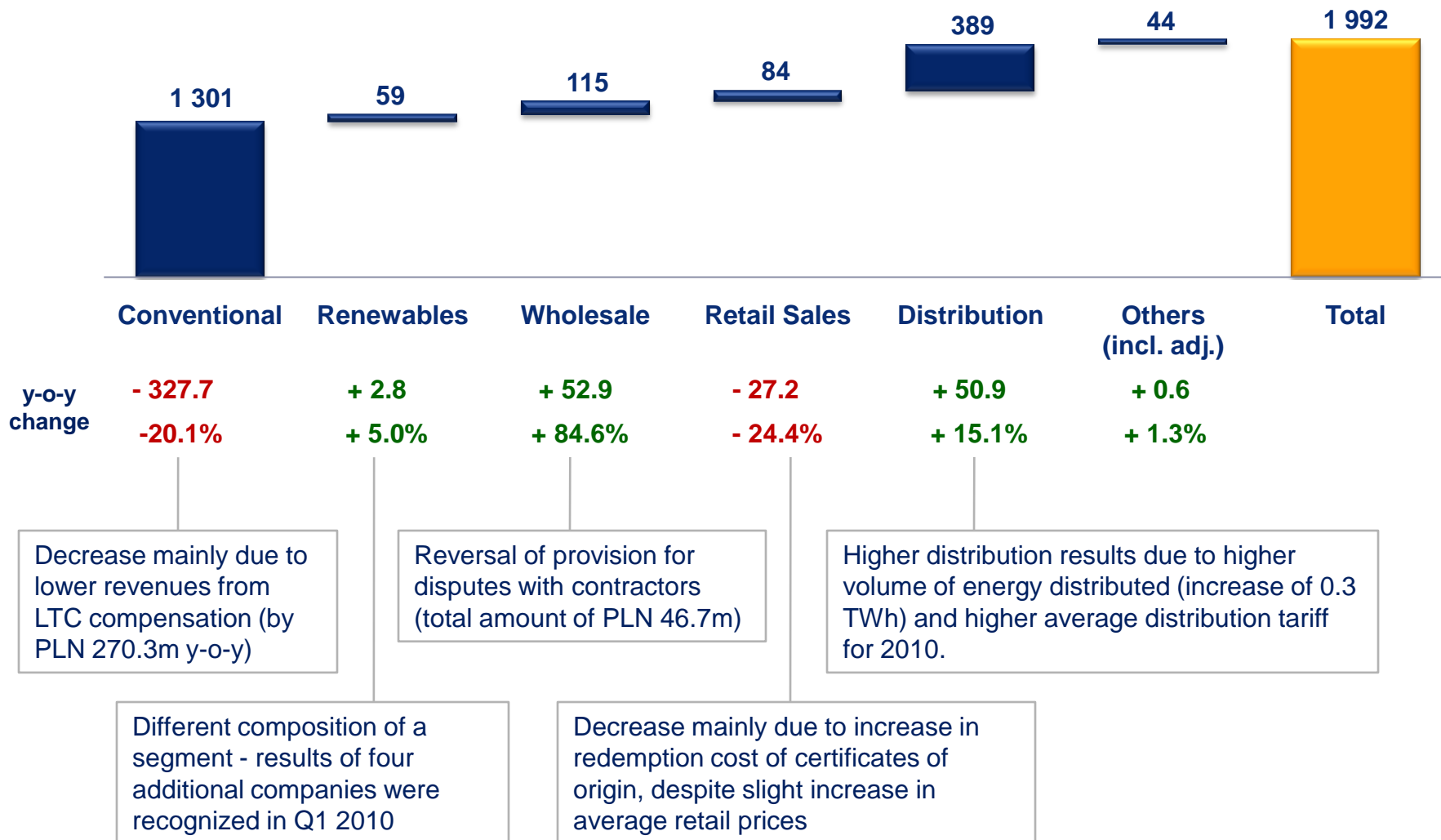


## Q1 2010 EBITDA Split



# EBITDA Composition and Development

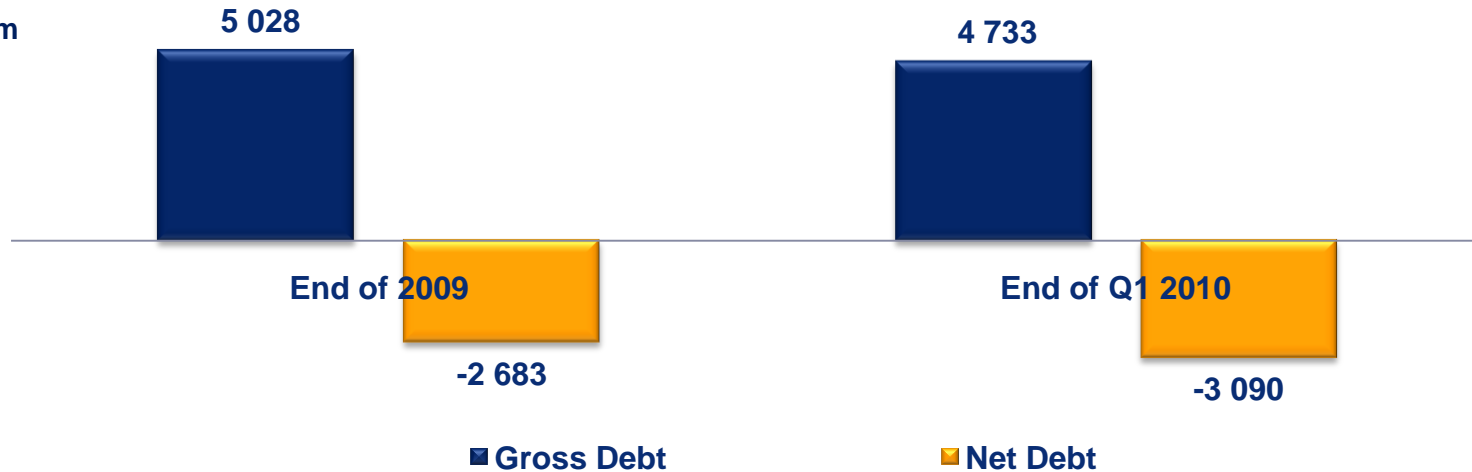
Q1 2010 in PLNm





# No Net Debt – company capable to invest heavily in organic or external growth

in PLNm



## PGE – Least leveraged utility in Europe

- Our unique financial strength on the Polish market allows us to execute massive investments
- Lack of leverage gives us possibility to trigger significant debt financing when needed
- Our debt structure improved, as we repaid PLN 1,65bn facility in Belchatow Power Plant
- Medium term target – not to exceed Net Debt/EBITDA ratio of 2.5

## Financial Strength Confirmed by Rating Agencies

Moody's: A3 Stable  
Fitch: BBB+ Stable (Issuer);  
A- (Senior Unsecured Debt)



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## Consolidation Programme





# Consolidation Programme – update on current status

## Legal & Formal Consolidation

- All merger plans audited by the experts with positive opinion
- Works on information memoranda in progress
- Merger with subholdings and between operating companies expected till the end of August 2010
- Merger of the Parent with Wholesale Subsidiary (PGE Electra) will follow

## Organisational Changes

- Principles of improvements in value chain management approved
- Detailed allocation of processes, tasks and duties among the Parent and business divisions under progress

## Key Non-core Assets Disposal

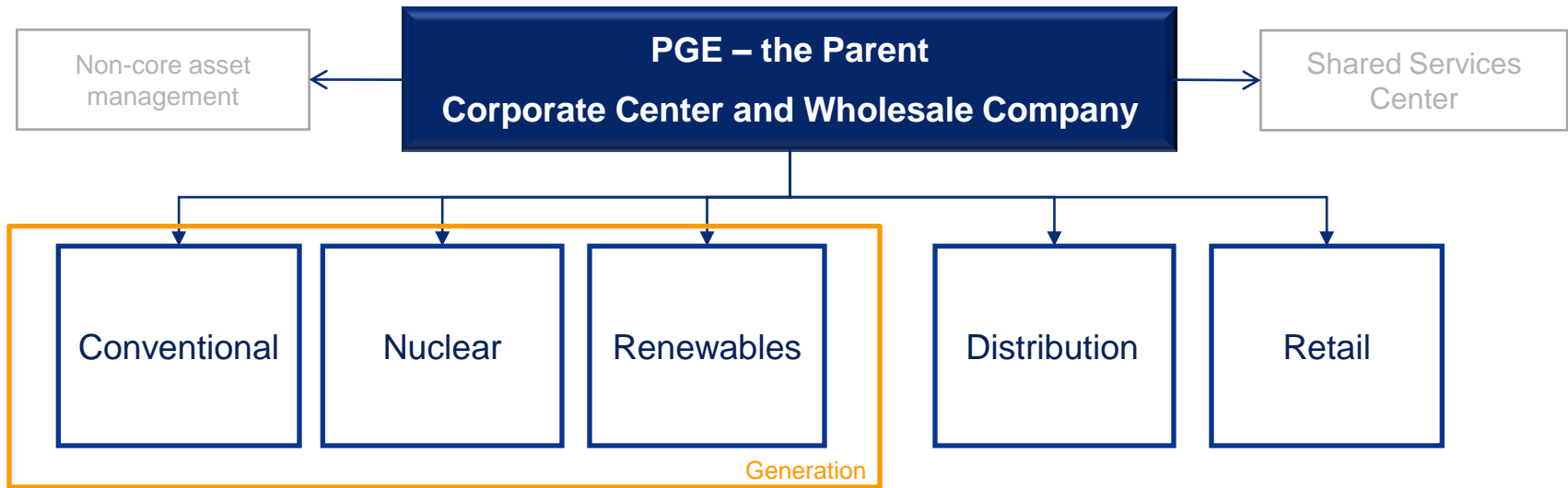
- Advisors in Polkomtel disposal process appointed
- Advisor for Exatel transaction expected to be appointed soon

## Non-core Assets Disposal

- None core assets and areas identified
- Processes of disposal launched
- Shares in 9 companies sold
- Conditional agreement to sell one company signed



# Consolidation – Improving Value Chain Management



## Value Chain Management Principles

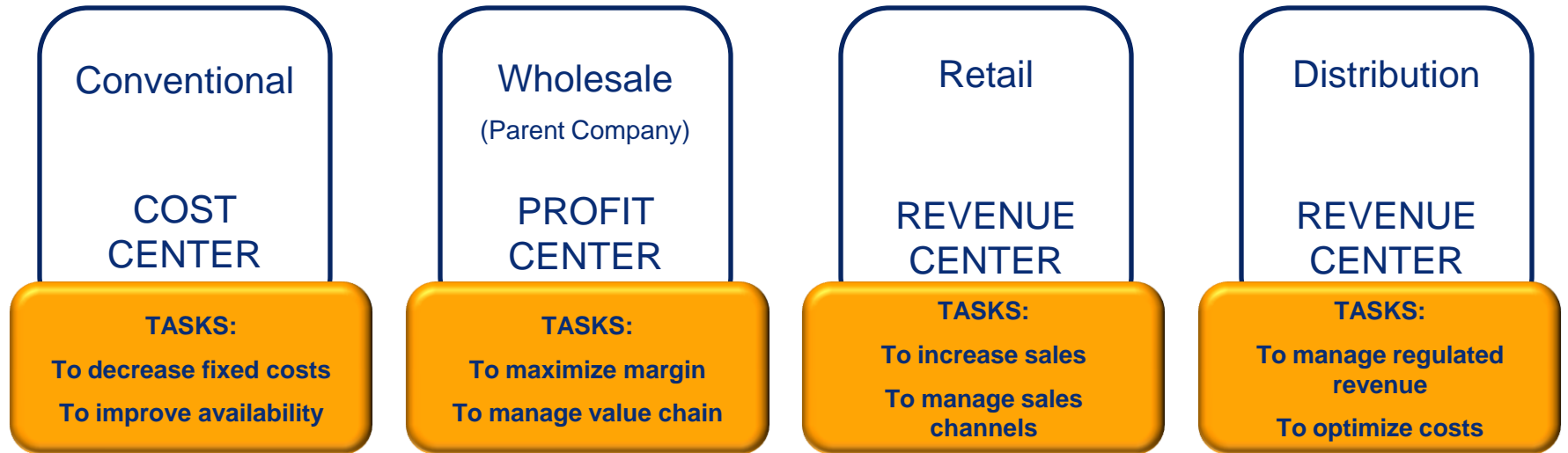
- ▶ Value chain managed by the Parent
- ▶ All business lines focused on value creation
- ▶ Streamlined structure without overlapping responsibilities
- ▶ No internal competition between business lines

## Timeline

- ▶ Subholding companies and operating businesses to be merged till the end of August
- ▶ Merger of the wholesale subsidiary with the Parent will follow
- ▶ Operational goals and targeted cost savings to be announced in 2011



# Consolidation – Profit Center Planned to be Moved to the Parent Level



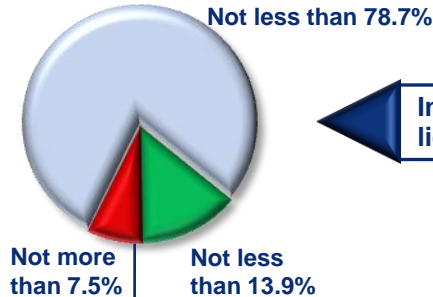
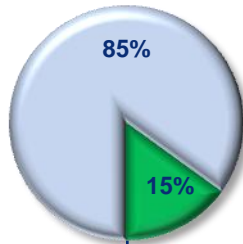
## Planned Duties of the Wholesale Division (at the Parent Company)

To Conventional Generation	To Retail	In relation to the market
<ul style="list-style-type: none"><li>▶ To buy power and certificates</li><li>▶ To manage generation load</li><li>▶ To coordinate renovations</li><li>▶ To supply fuels (except lignite)</li><li>▶ To manage CO2 allowances</li><li>▶ To manage compulsory exchange trading</li></ul>	<ul style="list-style-type: none"><li>▶ To sell power and certificates</li><li>▶ To prepare product offer</li><li>▶ To plan and coordinate marketing activities</li></ul>	<ul style="list-style-type: none"><li>▶ To manage key strategic TPA accounts (large industrials who demands wholesale products)</li><li>▶ To trade on wholesale market</li><li>▶ To conduct import/export activities</li><li>▶ To sell regulatory system services</li></ul>

# Consolidation – Increased Financial Power and Improved Dividend Payment Capability

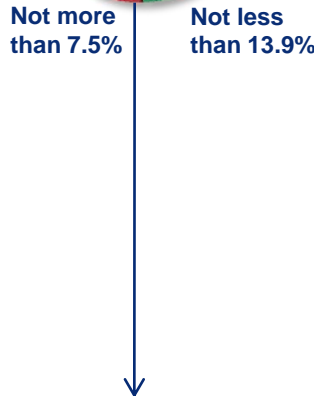
TODAY → AFTER CONSOLIDATION

**LEVEL I**  
Parent Company  
(PGE)



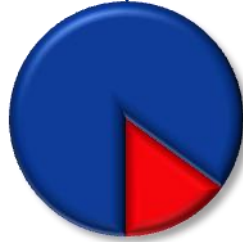
Increased  
liquidity

**LEVEL II**  
Subholding  
Companies  
(PGE GiE&PGE  
Energia)

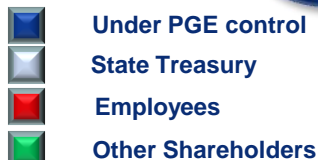


No Level II  
minorities

**LEVEL III**  
Operating  
Companies  
(Mines, Power  
Plants, Retail  
Companies)



Option to  
buy minority



## Immediate effects of mergers

Increased financial power – higher cash flows of the Parent

Improved Dividend Payment Capability – higher net profit of the Parent, increased net income = increased yield

## Illustration of changes in P&L

If consolidation happened in 2009, net profit attributable to minorities for 2009 would have been decreased by ca. PLN 390m, from PLN 967m

## Illustration of changes in BS

After consolidation and assuming no changes in capital (i.e. no dividends), minority interest as at December 31, 2010 would have been decreased by ca. PLN 3.4bn, from PLN 7.7bn



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## Investment Programme

# Investment Programme – update on current status in Conventional Generation

## Belchatow

858 MW Lignite Unit

- Commissioning expected for April 2011
- Total project capex estimated for PLN 4.9bn
- CCS installation under construction – part of financing ensured – EUR 180m grant agreement recently signed



## Opole

1600-1800 MW Hard coal (Two units)

- Tender to be closed in Q3/Q4 2010 – four consortia in the procedure
- Commissioning planned for 2016



## Other projects

- Modernization of Belchatow units 3-12 progressing
- Construction of gas units (2x432MW) in Dolna Odra under serious consideration, final decision to be taken soon
- Bydgoszcz CHP revitalisation being prepared
- Several biomass projects ongoing



# Capital Expenditures – details for Q1 2010

## Segments

### Conventional– PLN 666.1m

- construction of 858MW unit in Belchatow – PLN 362.6m
- preparatory work on Szczercow Field – PLN 68.5m
- modernization of units 3-12 in Belchatow – PLN 40.7m
- biomass unit in Szczecin – PLN 43.2m

### Renewables – PLN 18.1m

- modernization – PLN 15.7m

### Wholesale – PLN 6.2m

### Retail – PLN 0.6m

### Distribution – PLN 124.1m

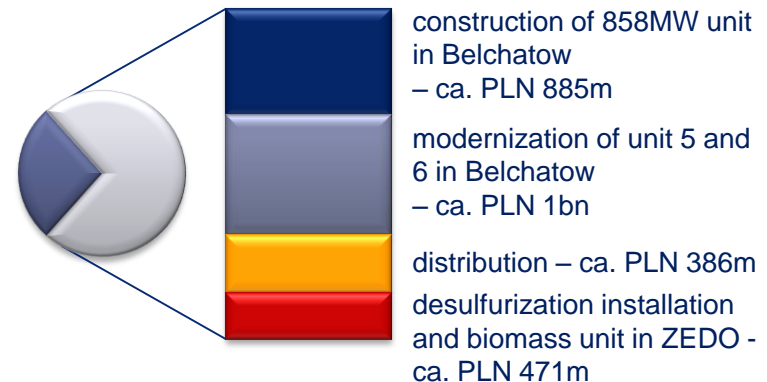
- new clients connection – PLN 58.6m
- distribution grid – PLN 28.5m

### Others – PLN 19.2m

Q1 2010

**Total CAPEX expenditures amounted in Q1 2010 to PLN 834.3m**

**Committed CAPEX as at March 31, 2010 – PLN 3,751.5m**





*Polska Grupa Energetyczna*

***Thank you***

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Back-up slides



# Strong Profitability and Growth in Q1 2010

## Period Ended 31 March (IFRS)

	2009	2010	2009	2010
	PLNm <i>not audited</i>	PLNm <i>not audited</i>	EURm	EURm
Sales	5,348	5,340	1,163	1,346
Sales Ex-LTC	5,012	5,275	1,090	1,330
EBITDA	2,239	1,992	487	502
<i>EBITDA margin</i>	41.9%	37.3%	41.9%	37.3%
EBITDA Ex-LTC	1,904	1,926	414	486
<i>EBITDA Ex-LTC margin</i>	38.0%	36.5%	38.0%	36.5%
EBIT	1,594	1,335	347	337
EBIT margin	29.8%	25.0%	29.8%	25.0%
Profit before tax	1,456	1,375	316	347
Profit for the year	1,125	1,114	245	281
Minority interest	252	215	55	54
Net profit (to equity)	873	899	190	227

EUR/PLN rate used: exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period, from January 1, 2010 till March 31, 2010 – EUR/PLN 3.9669 (for period from January 1, 2009 till March 31, 2009 EUR/PLN 4.5994)



# Consolidated Balance Sheet

Period Ended (IFRS)				
	Dec 31, 2009	Mar 31, 2010	Dec 31, 2009	Mar 31, 2010
	PLNm audited	PLNm <i>not audited</i>	EURm	EURm
Shareholder equity	31,169	32,105	7,587	8,313
Minority interest	7,681	7,910	1,870	2,048
Non-current assets	41,964	41,965	10,215	10,865
Current assets	12,483	12,585	3,038	3,259
<b>Total assets</b>	<b>54,448</b>	<b>54,550</b>	<b>13,253</b>	<b>14,124</b>
Non-current liabilities	9,762	7,928	2,376	2,052
Current liabilities	5,836	6,607	1,420	1,711
<b>Total equity and liabilities</b>	<b>54,448</b>	<b>54,550</b>	<b>13,253</b>	<b>14,124</b>

EUR/PLN rate used: average exchange rate published by the National Bank of Poland as of March 31, 2010 – EUR/PLN 3.8622 (as of March 31, 2009 – EUR/PLN 4.1082)

# Electricity generation by source [TWh]

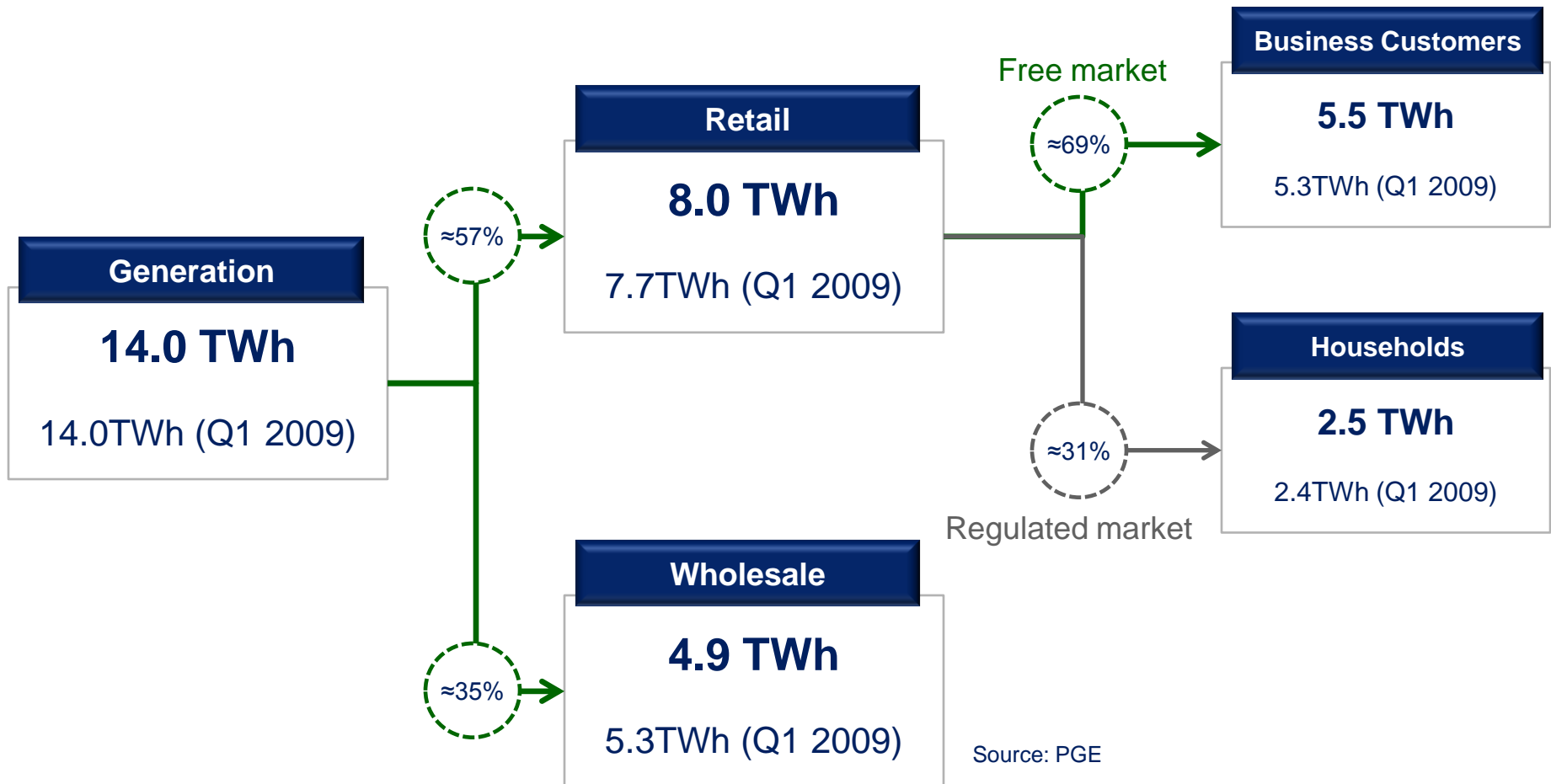
	Q1 2010	Q1 2009
Lignite-fired power plants	9.56	9.49
Coal-fired power plants	3.04	2.98
Coal-fired CHPs	0.47	0.50
Gas-fired CHPs	0.63	0.77
Pump-storage	0.14	0.08
Water	0.14	0.15
Wind	0.01	0.02
<b>TOTAL</b>	<b>14.00</b>	<b>14.00</b>

- Coal-fired generation figure includes 0.1TWh from biomass combustion (vs. 0.1TWh in Q1 2009)
- Increase in production of electricity in lignite-fired power plants resulted from full operation of Turow power plant in Q1 2010 (in March 2009 two units were under modernization and recovery repair)
- Decrease in in production of electricity in gas-fired CHPs mainly due to outage in Rzeszow CHP in January 2010



# Q1 2010 Key business flows

ILLUSTRATIVE



Source: PGE

Percentages shown represent share in sales to wholesale and retail customers

Other business flows incl. balancing market, foreign trade and own consumption are not shown

Volumes shown after intra-group eliminations