
MERGER PLAN
of
PGE Polska Grupa Energetyczna S.A.
and
PGE Górnictwo i Energetyka S.A.
and
PGE Energia S.A.

January 26, 2010

1. INTRODUCTION

This merger plan ("**Merger Plan**") has been developed and agreed pursuant to art. 498 and art. 499 of the Act dated 15 September 2000 - the Commercial Companies Code (Journal of Laws of 2000, No. 94, item 1037, as subsequently amended) ("**CCC**"), between:

- (1) PGE Polska Grupa Energetyczna S.A. (joint stock company) with its registered office in Warsaw, hereinafter referred to as the "**Acquiring Company**"

and

- (2) PGE Górnictwo i Energetyka S.A. (joint stock company) with its registered office in Łódź,

- (3) PGE Energia S.A. (joint stock company) with its registered office in Lublin,

hereinafter (2) and (3) referred to as the "**Acquired Companies**".

The Companies named above are hereinafter jointly referred to as the "**Companies**" and individually referred to as the "**Company**".

2. FORM, NAME AND REGISTERED OFFICE OF MERGING COMPANIES

2.1 *Acquiring Company*

PGE Polska Grupa Energetyczna S.A. with its registered office in Warsaw, at ul. Mysia 2, entered to the Register of Entrepreneurs held by the District Court for the Capital City of Warsaw, the 12th Commercial Division of the National Court Register under no. KRS 0000059307, with the share capital paid up in full in the amount of PLN 17,300,900,000, tax identification (NIP) no. 526-025-05-41, statistical (REGON) no. 006227638, ("**Acquiring Company**").

2.2 *Acquired Companies*

- (1) PGE Górnictwo i Energetyka S.A. with its registered office in Łódź, at ul. Piłsudskiego 12, entered to the Register of Entrepreneurs by the District Court in Łódź, the 20th Commercial Division of the National Court Register, under no. KRS 0000202169, with the share capital paid up in full in the amount of PLN 3,827,809,700, tax identification (NIP) no. 725-187-45-79, statistical (REGON) no. 473237030,

- (2) PGE Energia S.A. with its registered office in Lublin, at ul. Garbarska 21a, entered to the Register of Entrepreneurs by the District Court in Lublin, the 11th Commercial Division of the National Court Register, under no. KRS 0000267235, with the share capital paid up in full in the amount of 7,519,861,158, tax identification (NIP) no. 701-004-62-08, statistical (REGON) no. 140751686,

jointly referred to as the "**Acquired Companies**" and individually referred to as the "**Acquired Company**".

3. MERGER METHOD

3.1 *Legal basis of merger*

The Companies shall merge in the manner prescribed in art. 492 § 1 item 1 of the CCC, i.e. by way of transferring the entire assets of the Acquired Companies onto the Acquiring Company, in exchange for the shares of the Acquiring Company, which shall be issued to the shareholders of the Acquired Companies subject to provisions of art. 514 of the CCC, namely excluding the Acquiring Company as a shareholder of the Acquired Companies, that will not acquire its treasury stock in exchange for the shares of the Acquired Companies ("**Merger**").

As a result of the Merger, the Acquired Companies shall be dissolved without going into liquidation.

3.2 *Resolutions of General Meetings of the Companies*

As per art. 506 § 1 and § 4 of the CCC, the Merger is conducted pursuant to resolutions of the General Meetings of the Companies, including:

- (i) consent to the Merger Plan, and
- (ii) consent to proposed amendments to the Statutes of the Acquiring Company, related to the Merger.

Draft resolutions referred to above constitute respectively Appendix 1 and Appendix 2 to the Merger Plan.

3.3 *Increase of the share capital of the Acquiring Company*

In relation to the Merger, the share capital of the Acquiring Company shall be increased by the amount arising from the adopted exchange parity of shares in line with the shareholding structure of the Acquired Companies as at the date of adopting the resolution on Merger, while the maximum amount of increase, even if there is no need to round the number of shares to full numbers, shall total PLN 1,396,981,460.00 (in words: one billion three hundred and ninety six million nine hundred and eighty one thousand four hundred and sixty zloty) and it shall take place by way of issue of maximum 139,698,146 shares (in words: one hundred and thirty nine million six hundred and ninety eight thousand one hundred and forty six) with the nominal value of PLN 10 each ("**Merger Shares**"), which shall be issued to the shareholders of the Acquired Companies, subject to regulations of art. 514 of the CCC, i.e. excluding the Acquiring Company as a shareholder of the Acquired Companies, that will not acquire its treasury stock in exchange for the shares of the Acquired Companies.

In accordance with art. 11 section 2 of the Act dated 7 September 2007 on principles of acquisition of shares from the State Treasury in the process of consolidation of companies from the electric power sector (Journal of Laws of 2007 No. 191, item 1367, as subsequently amended) ("**Conversion Act**"), the share capital of the Acquiring Company is increased while accounting for the rights of successors of those entitled to convert the shares of consolidated companies to the shares of the consolidating company, subject to terms and conditions stipulated in the Conversion Act.

4. EXCHANGE PARITY OF THE SHARES

4.1 *Exchange parity of the shares of the Acquiring Company exchanged for the shares of the Acquired Companies*

Merger Shares shall be issued to:

- (i) the shareholders of the Acquired Companies, subject to provisions of art. 514 of the CCC, i.e. excluding the Acquiring Company as a shareholder of the Acquired Companies, that will not acquire its treasury stock in exchange for the shares of the Acquired Companies;
- (ii) the successors of those authorised to convert the shares of consolidated companies to the shares of the consolidating company, as specified in art. 11 section 2 of the Conversion Act.

The Merger Shares shall be issued to entities referred to in items (i) and (ii) above, while applying the following exchange parity of the shares ("**Exchange Parity**"):

PGE Górnictwo i Energetyka S.A.	1* : 1.27560301
PGE Energia S.A.	1* : 0.05891657

4.2 *Methodology applied to determine the Exchange Parity*

- (i) For the Acquiring Company – income method, including the value of financial assets determined using one of the following: income method, market multiplier method, transaction multiplier method, adjusted net asset method, stock exchange capitalization method, book value method.
- (ii) For the Acquired Companies – adjusted net asset method, including value of financial assets calculated using one of the following: income method, market multiplier method, transaction multiplier method, adjusted net asset method, stock exchange capitalization method, book value method.

5. PRINCIPLES OF ISSUING MERGER SHARES TO THE SHAREHOLDERS OF THE ACQUIRED COMPANIES

- (i) The Merger Shares shall be issued to entities that are shareholders of the Acquired Companies as at the date of Merger registration ("Merger Date"), subject to provisions of art. 514 of the CCC, i.e. excluding the Acquiring Company as a shareholder of the Acquired Companies, that will not acquire its treasury stock in exchange for the shares of the Acquired Companies.
- (ii) The number of the Merger Shares to be received by each authorised shareholder of the Acquired Company shall be determined by multiplying the number of shares of the Acquired Company held by that shareholder as

* "1" means one share of the Acquired Company. Due to the fact that parity is not an integer, it is not possible to specify *in abstracto* the number of shares of the Acquiring Company that is the integer (it is not possible to take up a fraction of the share). It will be possible to determine a specific number of shares of the Acquiring Company in relation to individual shareholders of the Acquired Company, in respect of the specific number of shares held by those shareholders, however, if as the result of multiplying the number of shares by the adopted parity, the number of shares of the Acquiring Company is not an integer, the remaining fraction due to the shareholders shall be settled by way of payments referred to in item 5 of the Merger Plan.

at the Merger Date by the Exchange Parity, and rounding the result (if it is not an integer) down to the nearest integer.

- (iii) Each authorised shareholder of the Acquired Company, that as a result of rounding referred to in item (ii) above has not been received the fraction of the Merger Shares due to that shareholder in line with the Exchange Parity, that shareholder shall be entitled to a cash payment ("Payment").
- (iv) The amount of Payment due to a given authorised shareholder of the Acquired Company shall be calculated using the following formula:

$$D = A \times W,$$

where: D – the amount of Payment, A – fraction used to round down the result specified in item (ii) above, W – price of one share of the Acquiring Company as per valuation prepared for the purposes of the Merger.

- (v) If the total amount of Payments for all the shareholders of the Acquired Companies exceeds 10% of the balance sheet value of the Merger Shares, determined according to the statement referred to in art. 499 § 2 item 4 of the CCC, the amount of Payments for individual shareholders shall be proportionally decreased.
- (vi) The Management Board of the Acquiring Company shall define, in agreement with Management Boards of Acquired Companies, a detailed manner of issuing Merger Shares to the shareholders of the Acquired Companies.

6. PRINCIPLES REGARDING ISSUE OF MERGER SHARES TO THE SUCCESSORS REFERRED TO IN ART. 11 SECTION 2 OF THE CONVERSION ACT

- (i) Issue of the Merger Shares to each of successors mentioned in art. 11 section 2 of the Conversion Act shall take place subject to provisions of the Conversion Act regarding conversion of shares of the consolidated companies to shares of the consolidating company, while appropriately accounting for the principles specified in item 5 above.
- (ii) The Management Board of the Acquiring Company shall specify, in agreement with Management Boards of the Acquired Companies, a detailed manner of issuing the Merger Shares to the successors referred to in art. 11 section 2 of the Conversion Act.

7. DATE FROM WHICH THE MERGER SHARES ENTITLE THEIR HOLDERS TO PARTICIPATION IN PROFIT OF THE ACQUIRING COMPANY

The Merger Shares shall participate in dividend as from 1 January 2010, i.e. in dividend for the financial year ended 31 December 2010.

8. RIGHTS GRANTED BY THE ACQUIRING COMPANY TO THE SHAREHOLDERS OF THE ACQUIRED COMPANIES OR OTHER PERSONS WITH PRIVILEGED POSITION IN THE ACQUIRED COMPANIES

There are no special rights planned to be granted to the shareholders of the Acquired Companies or other persons with privileged position in the Acquired Companies.

9. SPECIAL BENEFITS FOR MEMBERS OF AUTHORITIES OF MERGING COMPANIES AND OTHER PARTICIPANTS OF MERGER

There are no special benefits planned to be offered in relation to the Merger to members of authorities of merging companies or other participants of the Merger.

10. APPROVAL OF THE MERGER PLAN

In accordance with art. 498 of the CCC, the Merger Plan has been approved by way of resolutions of Management Boards of the Companies, dated 26 January 2010, and signed by the Companies on 26 January 2010.

11. APPENDICES TO THE MERGER PLAN

In line with art. 499 § 2 of the CCC, the following documents constitute appendices to this Merger Plan:

- (i) **Appendix 1:** draft resolution of the General Meeting of the Acquiring Company on Merger
- (ii) **Appendix 2:** draft resolution of General Meetings of the Acquired Companies on Merger
- (iii) **Appendix 3:** draft amendments to the Statutes of the Acquiring Company
- (iv) **Appendices 4a and 4b:** calculation of the value of assets of the Acquired Companies, drawn up as at 1 December 2009
- (v) **Appendices 5a, 5b and 5c:** statements with information on the accounting status of the merging Companies, drawn up as at 1 December 2009

1. PGE Polska Grupa Energetyczna Spółka Akcyjna

.....
Tomasz Zadroga – President of the Management Board

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**Piotr Szymanek – Vice-president
of the Management Board**

.....
**Marek Szostek – Vice-president
of the Management Board**

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**Wojciech Topolnicki – Vice-president
of the Management Board**

.....
**Marek Trawiński – Vice-president
of the Management Board**

2. PGE Górnictwo i Energetyka Spółka Akcyjna

.....
**Antoni Pietkiewicz – President
of the Management Board**

.....
**Andrzej Jeznach – Vice-president
of the Management Board**

3. PGE Energia Spółka Akcyjna

.....
Tomasz Flis – President of the Management Board