



Polish Utilities Sector Report

August 2009

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Executive Summary

After Poland failed to renew one of the contracts for Russian gas supplies early this year, it continued to seek ways to make up for the resulting deficit (up to 2bn cubic meters vs. the annual consumption of 14bn cubic meters), which could appear already in 2010. At first, the intergovernmental talks were expected to lead to an agreement in early August, which was then put off till the last ten days of August and then - to early September, after Russian PM Vladimir Putin visits Poland.

In the meantime, the Polish natural gas provider PGNiG agreed one short-term gas supply deal with Gazprom in June and works were intensified with a view to set up an LNG terminal in 2013 to help diversify natural gas supplies. PGNiG secured a deal on gas supply from Qatar for this project. However, some media later speculated that the Qatar side forced Poland to buy more expensive gas in exchange for the Asian country's involvement in the Polish shipyards' rescuing scheme.

In the electrical energy sector, the government proceeded both with the nuclear energy (construction of bloc I of the nuclear power plant to be launched in 2016) and privatisation projects (big IPOs due in Q4/2009 and Q2/2010).

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OVERVIEW

Natural Gas

Poland seeks agreement with Russia on new gas deal

After Poland failed to renew the contract on supply of 2.3bn cubic meters of gas with RosUkrEnergo (RUE), a Russian-Ukrainian company 50%-owned by Russia's natural gas provider Gazprom, early this year, it continue to seek ways to make up for the resulting deficit (up to 2bn cubic meters vs. the annual consumption of 14bn cubic meters), which could appear already in 2010. At first, the intergovernmental talks were expected to lead to an agreement in early August. When it did not happen, deputy PM and economy minister Waldemar Pawlak warned that Poland was in store for an energy crisis next year. However, it soon turned out that the negotiations would be resumed in the last ten days of August. A few days later, it turned out that the most probably deadline is early September, after Russian PM Vladimir Putin visits Poland. In the meantime, the Polish natural gas provider PGNiG agreed one short-term gas supply deal with Gazprom in June and works were intensified with a view to set up an LNG terminal in 2013 to help diversify natural gas supplies.

Talks on additional gas supplies from Russia delayed till September

The next round of talks of the Polish-Russian intergovernmental team on additional natural gas supplies from Russia will not take the week of Aug 24-30, as planned earlier, the economy ministry's spokesperson Agnieszka Gaprys told the daily *Rzeczpospolita*. The talks will be held in September, but no concrete date has been set yet, she added. On Sep 1, Russia's PM Vladimir Putin is due to visit Poland to participate in the ceremonies commemorating the 70th anniversary of the beginning of world war II. Deputy PM and economy minister Waldemar Pawlak said, though, that he did not expect this visit to bring about a breakthrough in the gas debacle.

The talks started in the spring with a view to be finished by Putin's visit. According to *Rzeczpospolita*'s sources, in the middle of August, the economy ministry asked the Russian side to hold talks later in the month, but their answer never came. The newspaper recreated the course of the negotiations so far. The Polish side proposed to include the new supplies in the long-term Yamal contract between PGNiG and Gazprom and also to extend this agreement by as many as 12 years. However, the Russian side came up with demands of changes to the articles of association of EuRoPol Gaz, the operator of the Polish stretch of the Russia-Belarus-Poland-Germany gas pipeline Yamal. The Russian negotiators wanted to lower transit fees levied by this company, but that was the point for which the Polish side would not agree, even during a number of negotiation rounds.

All in all, the daily quotes market experts as saying that the delay in negotiations could take another 2-3 months.

Poland might buy gas from Western Europe if talks with Russia's Gazprom fail

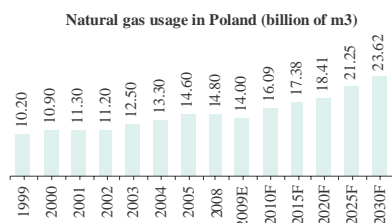
When the first - widely unexpected - break in the talks came in early August, Maciej Wozniak, the PM's chief energy security advisor, announced that **Poland still wanted to reach a compromise with Gazprom on a short-term contract, but if these talks fail, it could use its alternative scenario - it could consider offers of a few Western European suppliers.**

"Poland will not be short of natural gas this year. Even if we fail to sign a new contract with the Russian side, we will face the same situation in January 2010, as we did in January of this year. Namely, our storage facilities will be full. If the winter is similar to this year's one, the situation will repeat itself. There will be no need to limit gas deliveries for the chemical synthesis of petrochemical enterprises," Wozniak said in an interview with the TV station Polsat News at that time.

If the winter is more severe, Poland will have to refresh its crisis reaction procedures, he admitted, though. Wozniak concluded that Poland is bound to fill in its storage facilities only in June, 2010.

Poland uses about 14bn cubic metres of the high methane gas, annually, as the economy ministry reported. Imports from the eastern side is 9bn cubic metres annually (in 2007 was 8.7bn cubic metres, including 6.5bn cubic metres from Russia, and from Uzbekistan - about 2.3bn cubic metres). These supplies stand for about 63% the domestic gas usage. The remaining needs are covered by supplies from Germany, and 1/3 of using gas in Poland comes from domestic deposits.

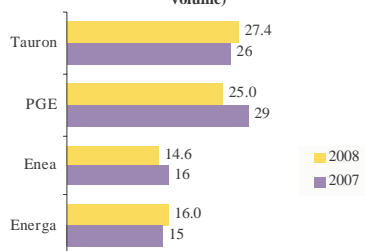
Electrical Energy



Source: PGNiG/ANiG (*Dziennik/WSJ Polska* Jun 15, 2009)

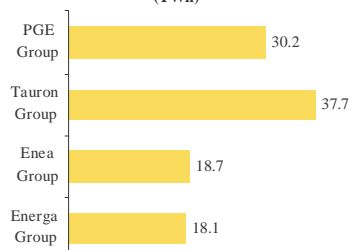
Treasury plans IPO of power group PGE in Q4/2009, Tauron - in Q2/2010

Power distribution market structure - by companies (% of sales volume)



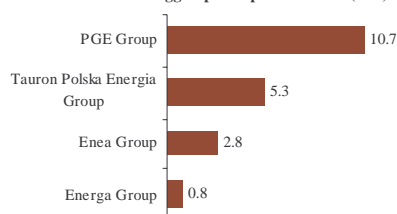
Source: companies (Parkiet May 7, 2009)

The biggest power distributors - by power sold volume in 2008 (TWh)



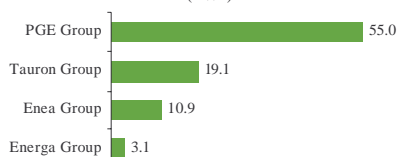
Source: URE (GazetaPrawna Jul 28, 2009)

Power installed in biggest power plants in 2008 (GW)



Source: URE (GazetaPrawna Jul 28, 2009)

Electric energy production - by biggest producers in 2008 (TWh)



Source: URE (GazetaPrawna Jul 28, 2009)

Privatisation revenue largely dependent on energy sector

Treasury shortlists Germany's RWE for talks on Enea privatisation

The power firm Tauron Polska Energia will debut on the Warsaw bourse between end-April and mid-June, 2010, whilst its biggest peer, Polska Grupa Energetyczna (PGE) will enter the stock exchange in Q4/2009, treasury minister Aleksander Grad said, presenting the government's updated privatisation programme in H1 of August.

Tauron will offer new-issue shares in its IPO, but the treasury will simultaneously sell part of its stake in such amount as to maintain control over the company, Grad said. Recently, the treasury had considered selling Tauron to a sector investor instead of via the bourse. Tauron accounts for 16% of power production in Poland and commands 26% of the power sales market.

Grad also said that the power group PGE would debut on the Warsaw Stock Exchange in Q4/2009. He added that PGE could receive "a few billion zlotys" from the debut and that this sum could be used for investments. In PGE, according to the government strategy, there will be an increase of capital by 15%. The treasury could also sell 10% of PGE shares next year, thus maintaining corporate control over the firm, Grad said.

PGE's investment programme for 2009-2012 amounts to PLN 39bn (EUR 9.5bn), of which half is to be financed from the IPO and loans. Initially, the PGE debut was planned for April, but the treasury shelved the sale owing to the then dire situation on the capital market.

PGE hopes to debut on the Warsaw Stock Exchange in Q4 of this year if conditions on the capital market are suitable, the CEO of the company told the news agency ISB in late June. At that time, PGE had already conducted initial talks with over 20 large investors. The feedback is optimistic which allows us to think that it is possible to debut in Q4, Topolnicki told ISB. He added that PGE held talks in Qatar, Kuwait, UAE, Frankfurt and in London.

PGE plans to finance the first part of its investment programme with the proceeds of its IPO, but alongside the bourse plans, it is also working on an eurobond issue scheme, PGE's deputy head Wojciech Topolnicki said in his June interview with ISB. The 5-7-year eurobond issue could be worth EUR 500mn at the least and could be followed by subsequent tranches of similar value, he added.

Topolnicki admitted that the bond issue could materialise earlier, should the bourse plans fail, or later if PGE's debuts on the Warsaw Stock Exchange successfully.

The deputy president stressed that PGE's debt levels were low - net debt-to-EBITDA ratio was less than 0.9 now compared to up to 4.0 in the case of some European energy companies. Its strategy stipulates for a gradual rise of this figure to below 2.5 in a few years' time, when the power plants project kicks off.

PGE plans to grow organically putting domestic and foreign acquisitions aside, the company's Topolnicki also told ISB.

PGE produces 42% of the Polish electricity (56 TWh) and controls 26% of the distribution market, delivering electrical power to 5mn households. In 2008, the company recorded net profit of PLN 2.7bn (EUR 660mn) in comparison to PLN 4.8bn in 2007.

In mid-August, Grad said that privatisation revenue have reached PLN 3.2bn (EUR 0.8bn) so far this year. The minister added that he expected privatisation to bring another PLN 11.7bn (EUR 2.9bn) in H2 to the state coffers. In 2010, privatisation revenue is expected at around PLN 25.0bn (EUR 6.1bn). Earlier in the day, the government passed an update to its 2008-2011 privatisation programme, under which **privatisation is to bring a total of around PLN 36.7bn (EUR 9.0bn) by the end of 2010.** The list of companies earmarked for privatisation in 2009-2010 consists of 54 entities, including 15 companies to be sold this year (e.g. the power firm Enea, the Warsaw Stock Exchange and 4.15% in the telecom incumbent TPSA) and 39 firms - next year. The companies to be privatised next year include the power groups Tauron Polska Energia, PGE and ZE PAK, the copper firm KGHM, the coal mine LW Bogdanka, the chemical plants ZA Pulawy and ZCh Police, as well as the oil firm Grupa Lotos.

The treasury ministry has shortlisted only one company, Germany's RWE, for negotiations on 67.05% in the power firm Enea, the ministry said on Aug 17. According to Financial Times Deutschland, RWE could pay USD 2.3bn (EUR 1.6bn) for the stake. The daily *Rzeczpospolita* noted that this would be only EUR 66mn more than the price

based on the bourse valuation of that stake on Aug 17.

Earlier, the ministry said that it had received two offers from potential bidders. On Aug 14, the deadline for the replies to the ministry's invitation to negotiations, Sweden's Vattenfall, which already owns 18% of Enea, announced that it would not place an offer, though it declared that it was still interested in the Polish energy sector and Enea in particular. According to the news agency ISB's unofficial sources, the Czech power group CEZ, contrary to earlier statements, did not file an offer either.

Recently, deputy treasury minister Jan Bury told ISB that the ministry planned to sell the stake in September or October. As of Mar 31, 2009 the largest shareholders in Enea are the Treasury (76.48% stake), VattenfallAB (18.67%) and the EBRD with a 2.5% stake.

However, later that week, the daily *Rzeczpospolita* reported that Vattenfall still could take over Enea despite the treasury's exclusive negotiations with RWE.

"We didn't buy the shares in November (2008) to treat them as a short-term and financial investment," Vattenfall's Torbjorn Wahlborg said. "Thanks to the fact that we didn't pick up the information memorandum on Enea we have freedom in deciding whether to call a tender. We are analysing it but the decision has not been made," Wahlborg added.

Earlier, the treasury announced that it will exclusively negotiate with RWE the sale of the 67% stake in Warsaw Stock Exchange-listed Enea. However, the privatisation process was constructed in such a way that the potential investor will have to call a tender for Enea shares. Therefore, Vattenfall could always step in and outbid RWE.

Rumours had it that Vattenfall did not run for the Enea 67% stake as it lacks funds, the M&A service DealWatch of the Euromoney group reported. Wahlborg admitted that Vattenfall has a long list of planned investments in different countries, but underlined that the firm's results in H1/2009 were better than in the same period of the previous year.

The construction of the first - of two planned - nuclear plants in Poland will start in 2016, deputy PM and economy minister Waldemar Pawlak said after the cabinet passed a framework schedule of the government's nuclear energy undertakings in the middle of August.

The schedule, prepared by the government's plenipotentiary for nuclear energy, stipulates that in the first stage, by the end of 2010, a government programme for the sector will be prepared alongside the entire regulatory system.

In the second stage, in 2011-2013, a contract for building the power plant should be concluded after selecting a technology, Pawlak announced. The third stage (2014-2015) will be devoted to preparing a technical plan and collecting the required permits for the project. The fourth stage - the actual construction of the plant - should be implemented in 2016-2020, he added.

Earlier, PM Donald Tusk said that the government wanted the country's biggest energy company PGE to build one or two nuclear power plants by 2020.

The company itself announced that a special-purpose venture, majority-held by PGE, would build two nuclear power plants with capacity of 3,000 MW each, with the total investment cost at EUR 18bn. The first two blocs could be completed by 2020, the firm pledged.

Interestingly, later this month, the economy ministry's nuclear energy head, Zbigniew Kamiński, was quoted as saying by the Polish Press Agency that **the ministry assumed that nuclear energy would take up 6-8% of the country's energy balance in 2020 and around 15% in 2030, provided that not two, but three nuclear power plants were set up**. These are stipulations included in the ministry-proposed draft energy policy till 2030, which has already been passed by the cabinet's European committee and submitted with the cabinet's standing committee.

NATURAL GAS: COMPANY AND SECTOR NEWS

PGNiG signs USD 300mn deal with Russia's Gazprom on gas supplies by end-September

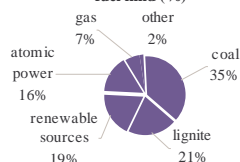
In early June, PGNiG signed an agreement with its Russian peer Gazprom on deliveries of 1.02bn cubic metres of gas to Poland by the end of September. According to current prices, the deal would be worth around PLN 950mn (USD 300mn), PGNiG said. At the same time, the sides continued to negotiate a long-term gas contract.

Thus, PGNiG will be able to fill up its gas storage facilities for the autumn-winter season,

Vattenfall still hopes for investment in Enea

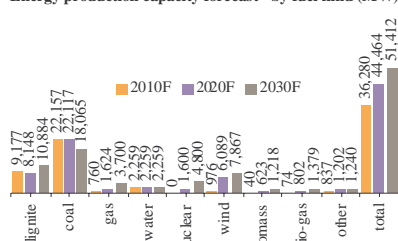
Government wants construction of first nuclear plant to start in 2016

Energy production structure projection for a year 2030 - by fuel kind (%)



Source: ARE/Government power policy assumptions to 2030
(*Rzeczpospolita* Mar 5, 2009)

Energy production capacity forecast - by fuel kind (MW)



Source: Assumptions to Polish power policy
(*Gazeta Prawna* Aug 12, 2009)

which would otherwise be impossible after the contract with RosUkrEnergo became invalid at the beginning of the year, PGNiG stressed.

On May 12, PGNiG accepted provisions of the agreement with OOO Gazprom Export on the gas supply of 1.024bn cubic metres by Sep 30, 2009. At that time, it said that the agreement's estimated value was USD 300mn. The agreement signing depended on getting the company's supervisory board's approval and the treasury minister's – now the ministry said that it granted its consent.

On May 7-8, representatives of the economy ministry, the PM chancellery and PGNiG conducted working talks with the Russian side about increasing gas supplies to Poland. This led to PGNiG and Gazprom reaching the agreement for the additional gas supplies by the end of the current year, as the economy ministry reported in May.

PGNiG has deal on LNG supply from Qatar, worth USD 550mn annually

In late June, the Polish natural gas producer **PGNiG signed a final agreement with Qatargas Operating Company to supply a liquefied natural gas**, as the treasury ministry announced. The agreement guarantee gas supplies in amount of 1mn gas tons (i.e. 1.5bn cubic meters per year worth USD 550bn) per year during 2014-2034 period. The ministry stressed that it was "the first long-term agreement since the Yamal contract" and that it "significantly increased the Polish energy security."

At the beginning of June, a crucial stage of talks ended, and ultimately, the deadline for signing of the final contract was set for Jun 30, 2009. The treasury minister agreed to sign contract, which was accepted by the company's management board and on Jun 22 - by PGNiG's supervisory board. Earlier, on Apr 12, 2009, the two companies signed the framework agreement setting conditions of the final deal.

The gas will be delivered to the sea terminal in Swinoujscie thanks to new gas pipelines Q-Flex with capacity of 216,000 cubic metres. The first supply will be delivered between June and December 2014, the release reads.

The value of the agreement will depend on the prices of crude oil on the global markets. Based on the current level of oil prices, the estimated average value of the agreement is USD 550m (approx. PLN 1.8bn). The sides do not exclude increasing gas supplies.

Qatar gas deal triggers speculations and highly critical opinions

We should note that **the Qatar gas deal brought about a wave of speculations and interpretations.**

First of all, the price was said to be too high - this is an accusation filed by, among others, renowned energy journalist Witold Gadowski, and the sector's expert and former head of the Polish Chamber of Liquid Fuel (PIPP), Andrzej Szczesniak. Indeed, PGNiG issued a communiqué devoted to commenting on Gadowski's articles on this issue published in daily *Gazeta Wyborcza*.

"It is not true that PGNiG overpaid for the natural gas that as of 2014 will be supplied through the LNG terminal by the company Qatargas and that, as a result, we will pay by USD 100mn more than the Japanese. It is true, though, that PGNiG has negotiated a price that is comparable with the price which is paid by Qatar gas recipients from, e.g. Japan or South Korea. This price will depend on, among others, the crude oil barrel's price and transportation costs," PGNiG's release reads.

The firm added that in its June communiqué on signing the Qatar contract, it gave the value of 1mn tonnes of LNG annually (i.e. around 1.5bn cubic meters of regasified natural gas) on the basis of the then price of the crude oil at the level of around USD 70 per barrel, which translated into the contract's annual value of around USD 550mn. The company noted that if the barrel of oil cost USD 70, the value of 1,000 cubic meters would amount to around USD 420, and if the oil price was USD 50-60, the value of 1,000 cubic meters would not exceed USD 370.

Besides, the Japanese side did not negotiate a brand new contract, but merely - new pricing within their 2004-2021 deal, PGNiG argued.

On the other hand, there were also accusations that Poland agreed to buy the allegedly more expensive gas in exchange for this country's involvement in saving the assets of the bankrupt shipyards in Gdynia and Gdansk. However, the business-oriented internet portal Money.pl reported that **the Qatar gas deal was linked to this country's participation in the privatisation of the energy sector** - indeed, the state-held Qatar Investment

Authority, which took over as the shipyards' investor after the Qatar investment fund Stichting Particulier Fonds Greenrights has failed to pay for the assets on time, specialises in, among others, the energy sector.

In May, the fund won selected assets of the two bankrupt shipyards which were offered via a tender thanks to the EC's permit (the permit is valid till the end of August, hence - according to the media - the tender could not be repeated now). In June, the fund received guarantees from Qatar Islamic Bank. It now failed to pay PLN 287mn (EUR 68mn) for assets of the Gdynia shipyard, and PLN 94mn (EUR 22mn) for those of the Szczecin facility.

The treasury ministry denied any accusations that there had been any other factors at play in the Qatar gas deal except for price itself. Still, earlier this year, the ministry's representatives paid a few visits to the Arab countries as part of a kind of a road-show on the eve of big-scale privatisation projects that include the Warsaw Stock Exchange (WSE) itself, but also some of the biggest vertically integrated electrical energy groups.

Polskie LNG kicks off tender for Swinoujscie LNG terminal builder

The term of launching of gas supplies from Qatar is connected with the construction schedule of LNG terminal in Swinoujscie - a harbour in the far west part of the Polish shore of the Baltic Sea - by OGP Gaz-System and its subsidiary Polskie LNG.

In the first days of August, Polskie LNG, an SPV wholly-owned by the state gas transmission system operator Gaz-System, announced the procedure of selecting a general contractor for the construction of a liquefied natural gas (LNG) terminal in Swinoujscie in north-western Poland. The company estimates the costs of the project at EUR 600-700mn and expects the terminal to be launched on Jun 30, 2014.

In the first stage of the procedure, by Sep 30, 2009, bidders are required to file their motions for participating in the competition. In November 2009, four bidders will be picked and asked to submit their preliminary offers by Dec 31, 2009, Gaz-System's CEO Jan Chadam said. Negotiations with the bidders will follow; subsequently, by Apr 12, 2010, they will be able to file their final offers. Chadam expects the agreement with the selected contractor to be signed by the middle of next year.

As for the launch of the terminal, originally it was planned for H2/2011, but was recently put off till the turn of 2013/2014. Chadam stressed that the facility would reach its full capacity of up to 5bn cubic meters from the start. Later, it might be expanded to 7.5bn cubic meters.

Gaz-System plans to cover 20-40% of the project's costs, with the remaining sum to be provided in half by (15-18 year) credits from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) and in half - by a group of four Polish banks (a credit for around 10 years).

Polskie LNG expects LNG consumption to rise faster than traditional gas

The worldwide consumption of liquefied natural gas (LNG) will likely rise by 60% to 400bn cubic meters by 2015, while the use of traditional natural gas will increase by 12.5% at that time, to 3,230bn cubic meters, according to forecasts quoted by Polskie LNG's CEO Zbigniew Rapciak, quoted by the business-oriented internet portal. wnp.pl

In 2008, LNG consumption amounted to around 250bn cubic meters, which stood for around 8% of the total natural gas market. At that time, the consumption of the traditional gas was 2,870bn cubic meters, Rapciak argued, adding that in 2015, LNG would constitute around 11% of the entire gas market.

According to his information, currently, there are 64 LNG terminals operating throughout the world, incl. 16 of them in Europe. The biggest number of such facilities is featured in Japan (24), United States (8) and Spain (6), wnp.pl reported. Another 18 terminals is being built, incl. 5 in Europe, while there are plans to set up subsequent 40 LNG facilities, incl. 14 in Europe.

The portal said that at the moment, there were 200 ships capable of transporting more than 100 thousand cubic meters of LNG and this number is expected to rise by 45 entities till 2011.

Construction of Gdansk LPG terminal to be continued

In early August, wnp.pl reported that the works on the construction of a liquefied petroleum gas (LPG) terminal in Gdansk had been suspended. Shortly afterwards, the project's operator Polski Gaz said in a statement that it - together with its partner in the project LPG Terminals Holding of the Netherlands - were in the process of negotiations

with institutions interested in financing the construction. Because of these talks, the companies refused to spell out any further details for the time being.

Earlier presented plans stipulated for constructing a terminal with 26 underground storage containers with the total capacity of 15,600 cubic meters of gas. The first stage of the project, in which two 600mn cubic meters containers were to kick off, was due to be finished by the middle of 2009, while the second and last stage - in 2012.

Currently, LPG terminals are in operation in Gdansk (operator: Gaspol), Gdynia (operator: Petrolinvest) and Szczecin (operator: Orlen Gaz).

In 2007, 16% of LPG imported to Poland came via the sea (close on 0.4mn tonnes from the total of 2.44mn tonnes). Poland imports LPG mainly from Norway, Sweden and Britain.

EconMin plans new fuel reserves system

The economy ministry is working on a "new framework of the system of obligatory reserves" of fuels, under which they would be kept by the ministry-appointed agency, while fuel companies would pay a "targeted fee" to cover the costs of the reserves' creation, the ministry's oil and gas department told the Polish Press Agency in early July.

Under the law, the obligatory oil and oil products reserves amount to 90 days of the average daily use and in the case of natural gas - an equivalent of 30 days' imports.

The ministry's intention is to lift the burden of financing the reserves from the fuel sector's enterprises. The state would finance the fuel reserves' take-over by issuing bonds or drawing a long-term loan, the agency reported.

Gas firm PGNiG, oil firm PKN Orlen plan joint EUR 90mn upstream project

The natural gas producer PGNiG and the biggest oil concern PKN Orlen signed an agreement in late June on a joint oil seeking and extraction project in the Sierakow deposit in western Poland. The projects investment is to amount to a total of close on PLN 400mn (EUR 89mn).

PKN Orlen'sd CEO Jacek Krawiec said that investment outlays in the first two years should amount to up to PLN 50mn and the production should kick off in 2018. PGNiG's CEO Michal Szubski said that his firm would hold 51% in the project and would be responsible for the operating functions.

The deposit's capacity is estimated at around 130mn barrels, of which reachable deposit is seen at 26mn barrels.

PGNiG and VNG mull joining Polish and German gas systems

PGNiG and the German gas company Verbundnetz Gas AG (VNG) are considering returning to the idea of joining gas systems of Poland and Germany, PGNiG's deputy head Mirosław Dorbut said in early June.

According to him, the gas connection could be built by 2012, and the capacity can be at 2-3bn cubic meters, giving 15-20% usage in Poland.

In 2004, VNG and PGNiG signed an agreement to co-operate, whereby the companies would have been registered by the end of 2004, and the union of PGNiG's and VNG's gas systems would have taken place by the end of 2006. However, some years ago, plans were frozen.

Dorbut also said that PGNiG would sell about 800mn cubic meters less of gas than in 2008, which means that company would decrease the level, below 14bn cubic meters. The reason of the sales decreasing is lower gas demand in the face of the current economic crisis, he explained.

Poland uses about 14bn cubic metres of the high methane gas annually, as the economy ministry reported. Imports from the eastern side is 9bn cubic metres annually (in 2007 was 8.7bn cubic metres, including 6.5bn cubic metres from Russia, and from Uzbekistan - about 2.3bn cubic metres). These supplies stand for about 63% the domestic gas usage. The remaining needs are covered by supplies from Germany, and 1/3 of using gas in Poland comes from domestic deposits.

Gas firm PGNiG counts on net profit in 2009, after EUR 110mn loss in H1

The natural gas producer **PGNiG counts on reporting a net result in the black for the whole of 2009** even though it posted a net loss of PLN 493.56mn (EUR 109mn) in H1, the firm's deputy head, Sławomir Hinc said. He added that this would be in line with the plan for the capital group. The deputy head stressed, though, that this result would depend on the volume of gas sold.

Hinc also announced that PGNiG was still noting a negative margin on gas trade. He suggested, however, that the difference between the gas it sold in Poland and the purchase price (on gas imported chiefly from Russia) was diminishing.

Notwithstanding the H1 loss, Hinc saw no grounds now to apply for an upward revision of gas tariffs.

In H1, the group's operating loss was PLN 679.24mn (EUR 150mn) vs. PLN 1292.55mn (EUR 372mn) profit a year earlier. Consolidated revenue in this period was PLN 10,253.59mn (EUR 2,270mn) compared with PLN 9,259.60mn (EUR 2,663mn) a year earlier.

In Q1, the firm posted net loss of PLN 398.84mn vs. a profit of PLN 778.81mn a year before. In Q2/2009, analysts expected PGNiG to post net profit of PLN 109-246mn, with the average forecast at PLN 180mn vs. a profit of PLN 280mn a year before.

PGNiG's AGM spends almost entire 2008 profit on dividend

PGNiG's AGM decided in late June to earmark PLN 531mn from last year's unconsolidated net profit of PLN 546mn for dividend, including PLN 382.5mn of non-cash dividend, which translates into a pay-out of PLN 0.09 per share.

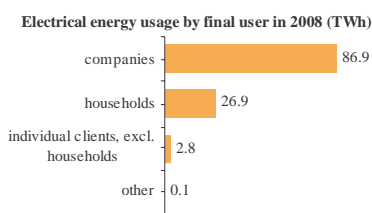
The dividend day was set for Aug 26 and the payment day - for Oct 2. In May, the firm's management board proposed to allocate PLN 236mn to dividend, which would translate into a pay-out of PLN 0.04 apiece.

The non-cash dividend to the state treasury; the assets to be distributed as dividend and the valuation method will be defined separately. The treasury holds over 72% in the company.

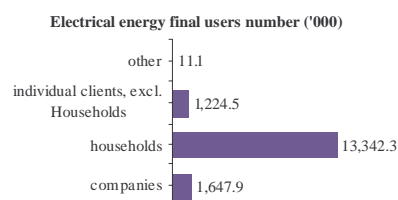
ELECTRICAL ENERGY: COMPANY AND SECTOR NEWS

Energy traders want household prices to be freed as of 2010

Electrical energy vendors would like the Energy Regulatory Office (URE) to free power priced in the so-called tariff group G - incl. households, dormitories and orphanages - as of January, 2010, the daily *Gazeta Prawna* reported in late August. This group consists of around 15mn customers and makes up around 25% of the country's power use. Group G is the last cluster of customers whose power tariffs still need to be approved of by the URE.



Source: URE (*Gazeta Prawna* Aug 26, 2009)



Source: URE (*Gazeta Prawna* Aug 26, 2009)

Treasury seeks deal with power group ZE PAK shareholders over stake sale

The newspaper quoted deputy head of Energa Obrot from the power group Energa, Marcin Ludwicki as saying that the firm intended to submit the URE with a motion to lift the need to have the tariffs for this group accepted by the regulator. Enion Energa and Tauron's EnergaPro Gigawat are also preparing similar motions, *Gazeta Prawna* reported. The same stance has been taken by the country's biggest power group, PGE.

EnergaPro's CEO Leszek Kosiorek admits, as quoted by the newspaper, that freeing the tariff would translate into price hikes, albeit significantly less dramatic than previously forecasted. The 2008 estimates stipulated for electrical energy prices surging by as much as 40% upon their freeing. However, the global economic crisis led to lower demand for power - according to PSE Operator, it was down by 6% y/y in Jan-Jul. Meanwhile, wholesale prices in 2010 term contracts are close to those paid this year, which allows the market experts to expect no major price hikes, if Group G's tariffs are liberated.

The URE maintains that its head, Mariusz Swora, will live up to his pledge and announce the final decision on the issue in September, after a thorough analysis of this segment.

The treasury ministry, which holds a 50% stake in power plant group Zespól Elektrowni Patnow-Adamow-Konin (ZE PAK) and a 100% stake in two brown coal mines supplying the plants, thinks it wise to reach an agreement with remaining shareholders to sell the combined holding to a single investor. "An ideal idea would be a joint sale of PAK shares. Such a solution was discussed on Wednesday with the official receiver of Elektrim," deputy treasury minister Jan Bury told the news agency ISB in the middle of July.

Bury said the shares of ZE PAK and the two coal mines could be sold to one investor. Reportedly, Vattenfall, CEZ and RWE are all interested in the PAK group.

The deputy minister added that if the shareholders failed to reach an agreement, the treasury could sell its stake in ZE PAK and the coal mines independently. However, it must first reach an agreement with the official receiver of Elektrim, which has the right of first refusal to the treasury stake.

PGNiG, Tauron to build EUR 400mn gas-fuelled power bloc by 2013

The ministry's advisor will present an analysis with regards to the privatisation method by the end of August, Bury said.

The natural gas producer PGNiG and the country's second-biggest virtually-integrated power group Tauron Polska Energia (TPE) plan to build and exploit a gas-fuelled power bloc in Tauron's power plant Elektrownia Stalowa Wola. The investment is to be completed by 2013 at the cost of around PLN 1.8bn (EUR 405mn), PGNiG announced in early June.

The 400 MW bloc is to be the biggest and most state-of-the-art gas-fuelled facility in Poland, the firm stressed. Its gas consumption might amount to 0.5bn cubic metres annually.

In November last year, Tauron and PGNiG signed a letter of intent about the cooperation in constructing a gas-fuelled power bloc in Elektrownia Stalowa Wola and a polygeneration power plant based on hard coal gasification in Kedzierzyn Kozle, especially in the field of CO2 storing and transfer.

PGNiG plans more investments in energy sector

More details on the gas firm PGNiG's plans concerning the electrical energy sector were revealed by the daily *Parkiet* in the middle of August. It quoted PGNiG's director for strategic issues Tomasz Karas as saying that the firm was in talks on several projects of steam-and-gas blocs in smaller plants, with the capacity of 10-20 MW. These facilities would focus on heat production, with electrical power more of a by-product, he stressed. The director argued that cogeneration is more profitable for PGNiG than production of either heat or power alone.

PGNiG is now holding talks with one municipal and two industry needs-oriented heat-and-power plants, but pledged to reveal their names only if letters of intent are signed.

PGE to participate in 6 tenders for gas-fuelled power plants

PGE Polska Grupa Energetyczna wants to operate gas-fuelled power plants and is bracing for participating in six tenders for such units to be organised by PSE Operator, the country's transmission system operator, PGE's deputy head Wojciech Topolnicki said in an interview with the news agency ISB in late June.

The firm already launched talks with the natural gas producer PGNiG on fuel deliveries for such power blocs. Before bidding in these tenders, PGE would like to sign letters of intent on gas deliveries, but could take part in the tenders even prior to reaching a deal with PGNiG, he explained.

Enea's AGM decides on big dividend payment, defying management

The AGM of the virtually-integrated energy group Enea decided in late June to earmark PLN 203.00mn from the 2008 unconsolidated net profit of PLN 203.79mn for dividend, which will translate into a pay-out of PLN 0.46 per share. The dividend day was set for Aug 13 and the pay-out day - on Aug 31.

A week earlier, deputy treasury minister Jan Bury said that the treasury would want Enea to pay out dividend, but lower than 100% of the firm's 2008 net profit. The management board of Enea - which is 76.48%-owned by the state treasury - recommended retaining the profits in the company preferring to earmark them for financing investments.

In its IPO prospectus, Enea stipulated for dividends of 30-60% of its annual profits. In 2008, the AGM allocated PLN 88.63mn to dividend, which translated into a pay-out of PLN 0.25 per share.

In 2008, the company posted PLN 203.78mn of unconsolidated net profit compared with PLN 431.10mn profit a year earlier.

On Mar 31, 2009 (according to the firm's Q1/2009 report), Enea's biggest shareholders were the state treasury (76.48%), Vattenfall AB (18.67%) and the European Bank for Reconstruction and Development (EBRD, 2.50%).

PGE 2008 dividend and 2009 advance dividend to reach PLN 1.6bn

The treasury counts on obtaining PLN 1.6bn dividend in total from the country's biggest virtually-integrated energy company PGE Polska Grupa Energetyczna, treasury minister Aleksander Grad said in early July. The amount will include PLN 941mn from the obtained 2008 dividend and the 2009 advance dividend, he added.

Earlier that week, PGE's general meeting passed the dividend pay-out at PLN 941mn. The company's PR office director Urszula Baranowska told the news agency ISB that the recommended dividend by the owner did not present a problem for the company.

Also in June, the company's CEO Wojciech Topolnicki said in an interview with ISB that

PGE recommended the dividend pay-out at PLN 100mn.

In 2008, PGE posted PLN 553mn net profit in case of the mother company, and achieved PLN 2.670mn of the consolidated net profit.

PEP generates two-third of forecasted annual net profit in H1

Polish Energy Partners (PEP), a company specialising in development, implementation, and management of electricity and heat generation projects, **posted consolidated net profit of PLN 5.92mn in Q2 compared to PLN 24.05mn in Q1 and PLN 4.36mn a year before**. In the entire H1, its net profit was 29.97mn vs. PLN 15.37mn -- and compared to the whole-year forecast of PLN 44.00mn. Therefore, it said in its biannual report that it upholds the forecasts.

PEP's operating profit was PLN 5.97mn in Q2 vs. PLN 4.70mn a year before. Consolidated revenue was PLN 18.73mn vs. PLN 13.97mn a year earlier, while in the entire H1, PEP's revenue reached PLN 51.43mn vs. PLN 37.58. The 2009 forecast stipulates for consolidated revenue of 123.7mn.

PEP intends to invest PLN 51mn in H2, mainly to purchase machines e.g. for biomass and wind farm projects (Lukaszow, Modlikowice).

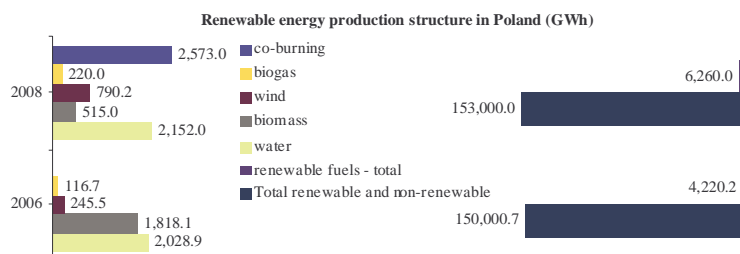
Its wind farm projects portfolio now exceeds 1,000 MW; they are designed to be completed in 2014.

RENEWABLE ENERGY: COMPANY AND SECTOR NEWS

EconMin wants subsidies for biogas same as for renewable power

The economy ministry wants producers of biogas to receive the same budget subsidies as those who generate power from renewable resources, the daily *Gazeta Prawna* reported in late July. The ministry is working on a regulation on this issue. Thus, biogas producers (from animal faeces or cabbage fermentation residue) would be able to sell certificates to power vendors who are obliged to trade in law-required volumes of green energy.

Wind energy enterprises are highly critical of such a solution - pointing that biogas will be treated as power, which is not the case. The daily quotes Krzysztof Prasalek, deputy head of the Polish Wind Energy Association (PSEW), as saying that this would be an inconsistent move in the government's renewable energy policy - he warns that this would infringe on investors' trust in the support system's stability.



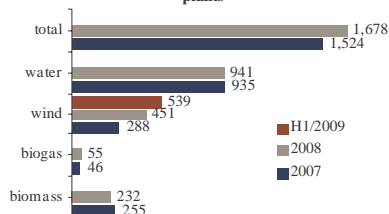
Source: PSEW (psew.pl Jul 3, 2009), URE (*Rzeczpospolita* Jun 15, 2009)

Interest in biogas manufacturing on the rise

The agriculture ministry wants to support - financially, from EU resources - biogas manufacturing facilities with the capacity ranging from 15 kW to 1-2 MW, as the level of EU resources would not allow helping bigger-scale projects. According to Kazimierz Zmuda, director of the ministry's agricultural market department, a 1 MW biogas plant could already be seen as a huge investment due to its considerable demand for raw materials (substrate). He notes that in Germany, close on 5000 biogas plants have an average capacity of below 0.3 MW.

According to the ministry's data, there are merely four biogas generating plants operating in Poland, located in the northern provinces (Zachodniopomorskie and Pomorskie), but the interest in such projects is rising thanks to publicity of the subject. So far (according to July data), 60 entities submitted their motions for financial assistance for such projects (most of them are local governments).

Renewable energy market development - by number of power plants

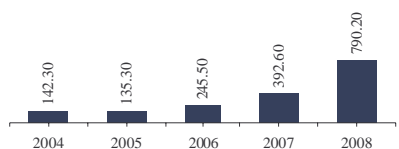


Source: URE (*Rzeczpospolita* Jun 15, 2009/May 12, 2009, ure.gov.pl Jun 6, 2009)

Only 14 wind farm projects operating in Poland

At the end of June, the installed capacity of wind energy in Poland is around 530 MW, the Polish Wind Energy Association (PSEW) reported, on the basis of data from the URE. It added that there are 14 professional projects among the investments, most of them located in the two seaside provinces (Zachodniopomorskie and Pomorskie). It adds that there are also individual turbines or groups of a number of small turbines distributed among the whole country. The average capacity of a wind turbine located in Poland is

Wind energy production growth (GWh)



Source: PSEW (psew.pl Jul 3, 2009), URE
(Rzeczpospolita Jun 15, 2009)

approximately 1,52 MW.

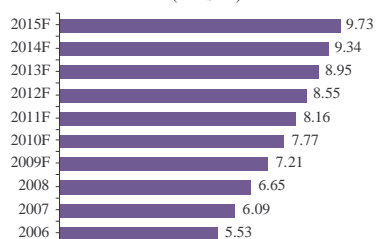
"Wind energy density in Poland is one of the smallest in Europe. Installed capacity per capita is 0.012 kW, whereas per km² of land area the figure amounts to 1.44 kW," the PSEW notes.

The organisation provides data on the production of wind energy in Poland (2004: 142.3 GWh; 2007: 494.2 GWh; 2008: 790.2 GWh) as well as on the share of wind generation in domestic consumption of electric energy (2004: 0.1%; 2007: 0.32%; 2008: 0.51%). It notes that according to the government's plans, in 2010, there should be 2,000 MW of installed capacity, while the share of wind generation in domestic energy consumption should rise to 2.3%.

WATER SUPPLY & TREATMENT: COMPANY AND SECTOR NEWS

Wastewater treatment plant Czajka's expansion is proceeding on time

Water supply and sewage prices growth for household use
(PLN/m²)



Source: IWiK (Rzeczpospolita Jun 19, 2009)

In the middle of July, the provincial governor of Mazowieckie issued a location decision for the expansion of Warsaw's wastewater treatment plant Czajka. Thus, sewers could be built so as to bring sewage from the Warsaw districts located on the left side of the Vistula river (Czajka is located in the Bialoleka district on the right side of the Vistula), which are expected to take up two-third of the facility's capacity in 2012.

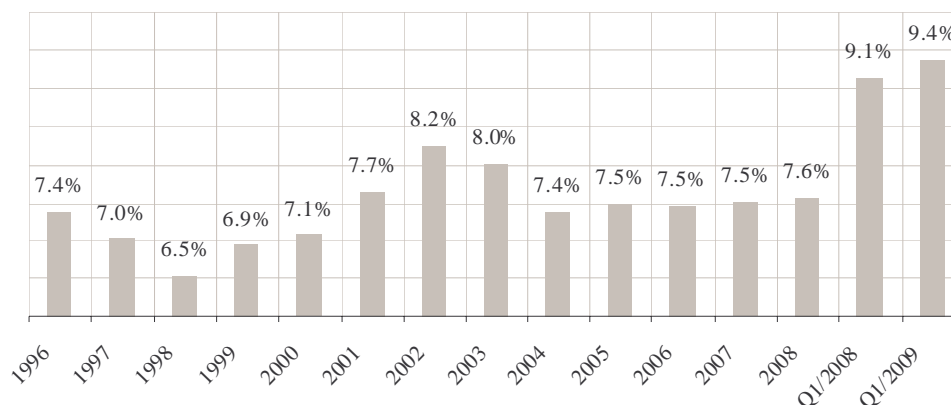
Now, Municipal Water Supply and Wastewater Treatment Company (MPWiK), the Warsaw city-owned joint-stock company operating the capital's water supply (3,352 km) and sewage (3,038 km) systems, only awaits a construction permit. As MPWiK's spokesman Bartosz Milczarczyk told the daily *Rzeczpospolita*, if the permit is received, the firm would end the tender and sign a contract with the selected constructor within one year. If this scenario materializes, the sewers will be ready in 2012, he assures.

The problem with these sewers was that they will have to be installed under the Vistula's bed, north of the planned Northern Bridge, through an area of special environment protection included in the EU's Nature 2000 scheme, which means that only the construction of safe and necessary communication and technical infrastructure could be built here. However, the provincial governor ruled that MPWiK's project posed no danger for the environment.

After completion of the expansion scheme, Czajka will be the biggest wastewater treatment plant in Poland.

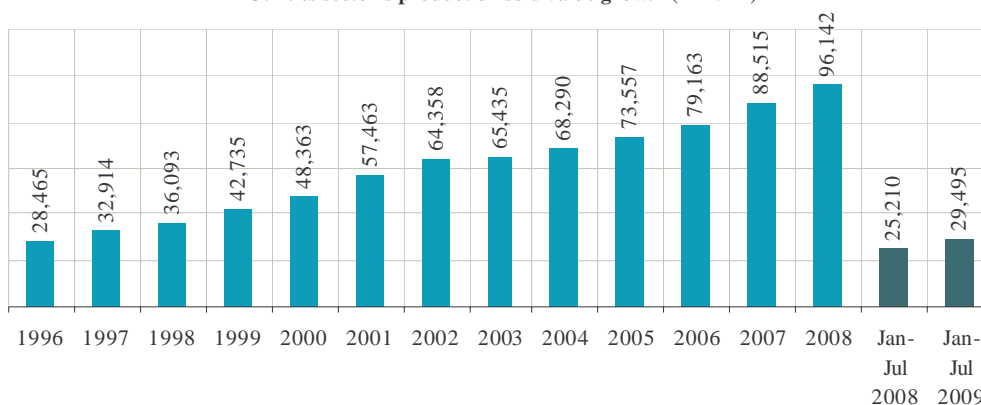
APPENDIX

Utilities sector's share in GDP (production sold value/GDP)



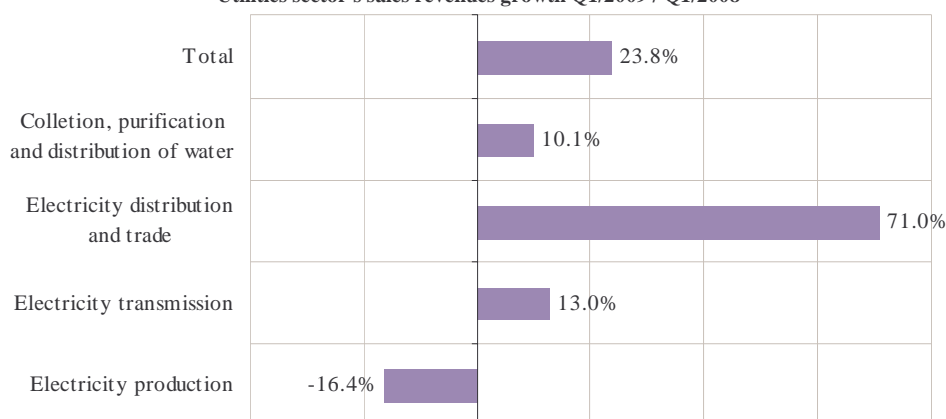
Source: CEIC/GUS

Utilities sector's production sold value growth (PLNmn)



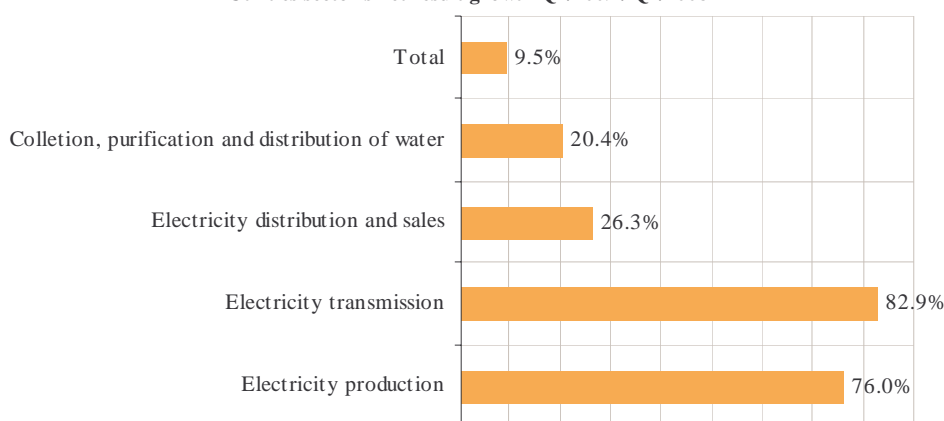
Source: CEIC/GUS

Utilities sector's sales revenues growth Q1/2009 / Q1/2008



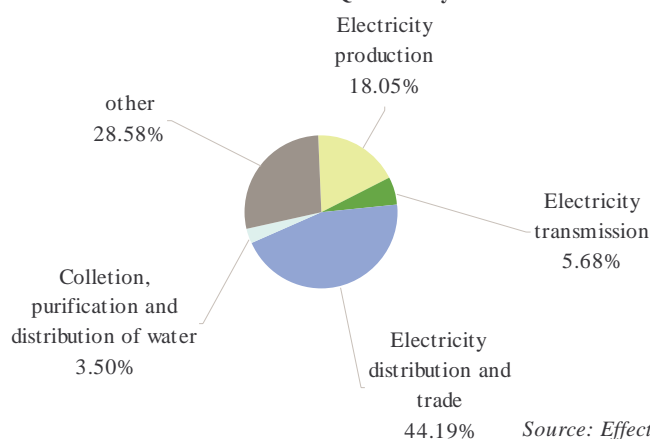
Source: Effect/GUS

Utilities sector's net result growth Q1/2009 / Q1/2008



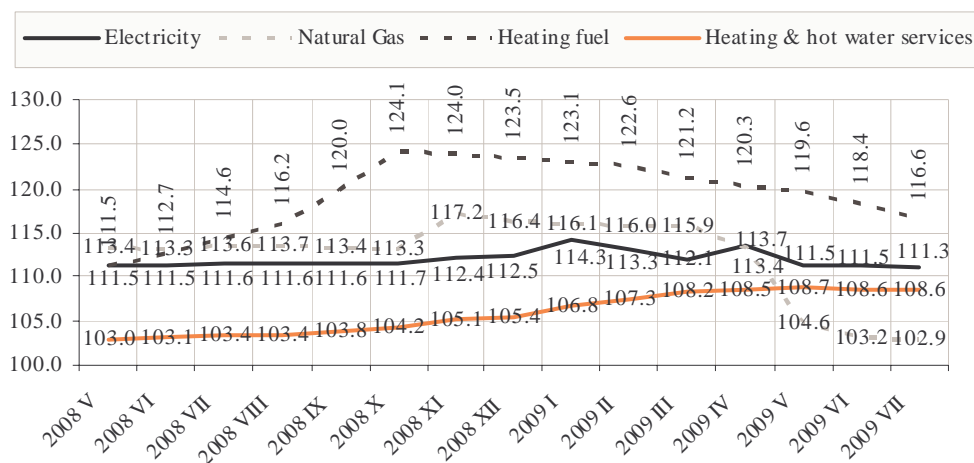
Source: Effect/GUS

Market share of Utilities sector Q1/2009 - by sales revenues

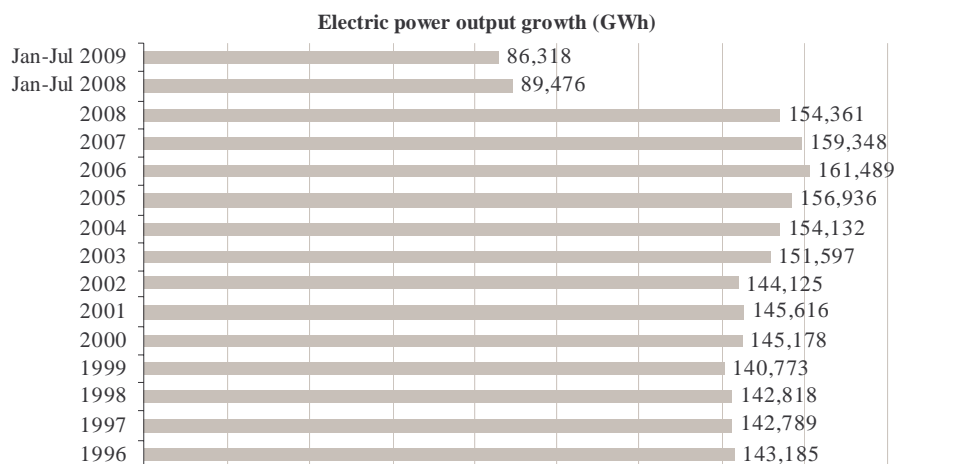


Source: Effect/GUS

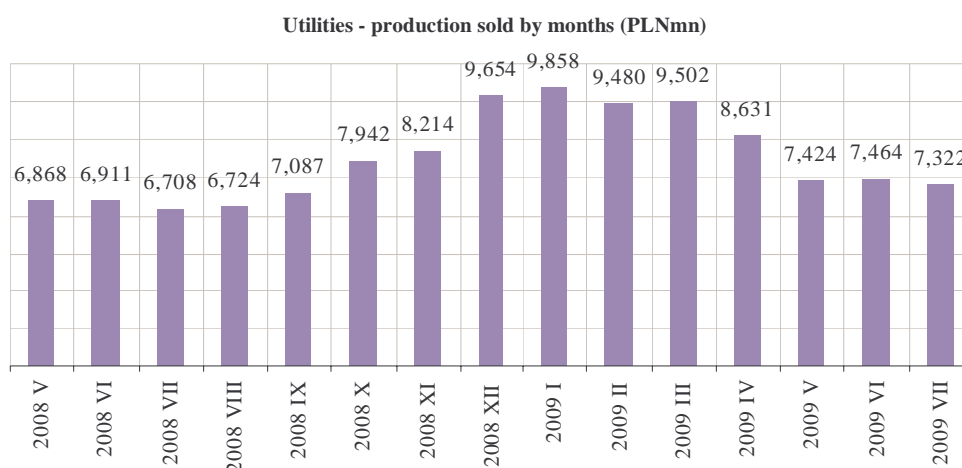
Utilities consumer price indices growth (corresponding period of prev. year=100)



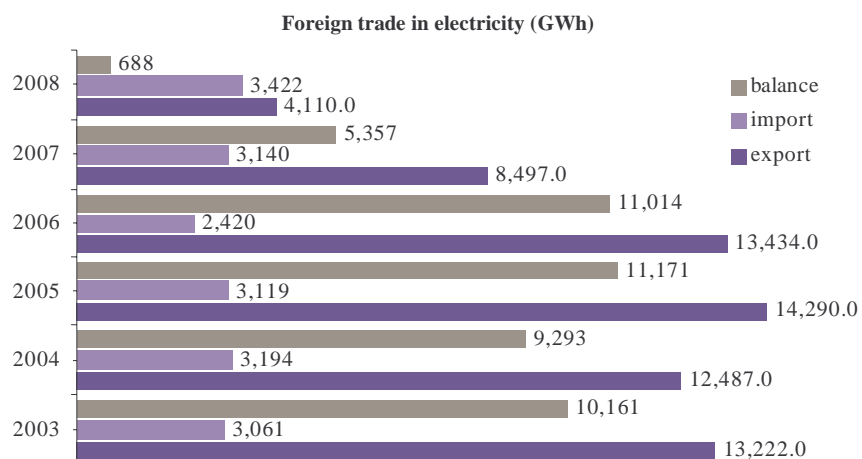
Source: CEIC/GUS



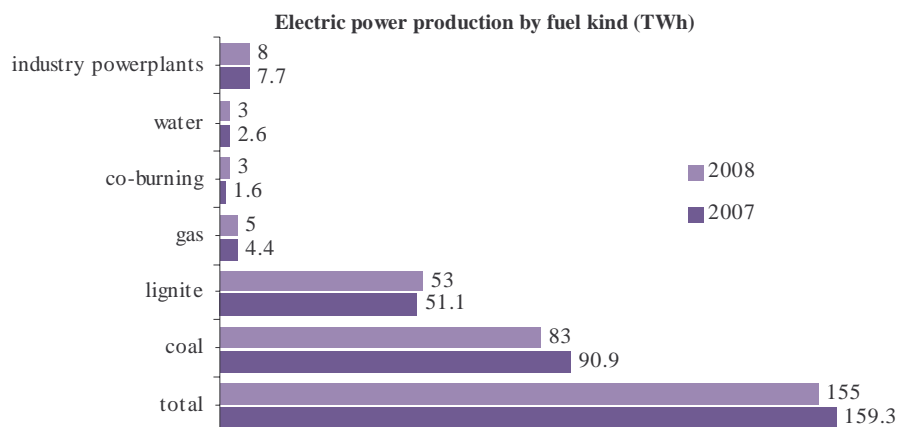
Source: CEIC/GUS



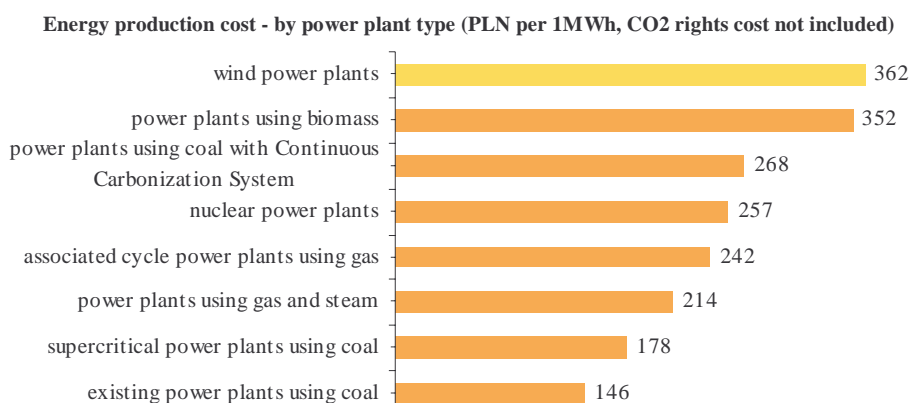
Source: CEIC/GUS



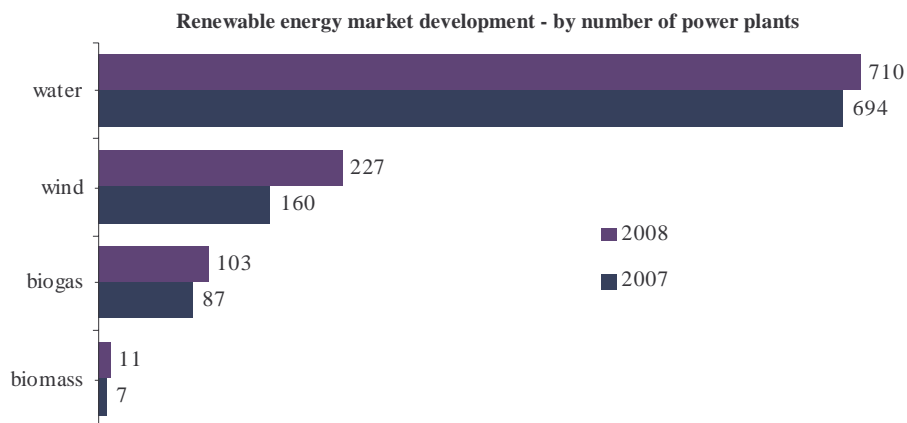
Source: PSE Operator (ure.gov.pl Jun 5, 2009)



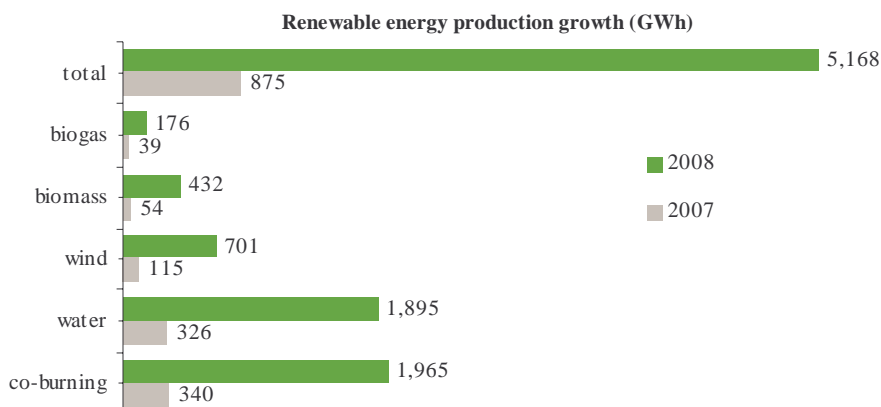
Source: ARE (ure.gov.pl Jun 5, 2009)



Source: FEWE (*Rzeczpospolita* Apr 16, 2009)

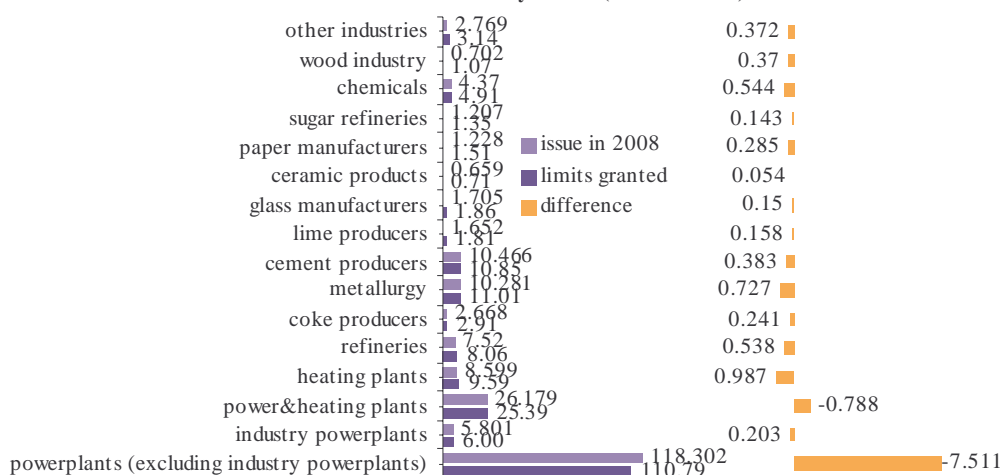


Source: URE (*Rzeczpospolita* May 12, 2009/Aug 9-10, 2008)



Source: URE (ure.gov.pl Jun 6, 2009)

CO2 issue limits for 2008 by sectors (million tonnes)



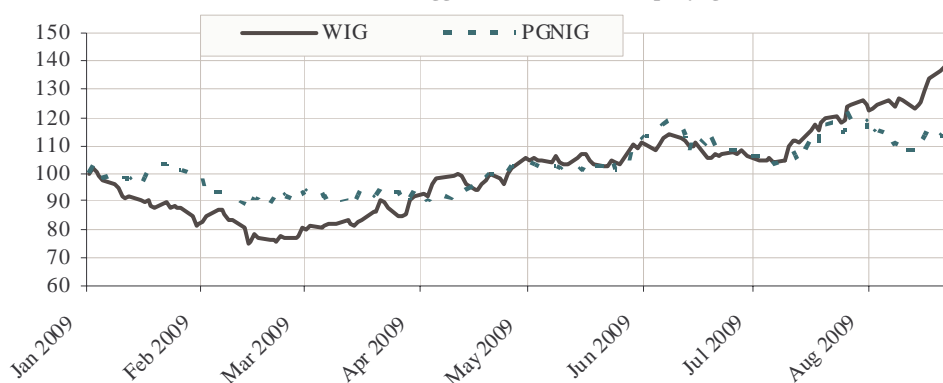
Source: Ministry of Environment (GazetaPrawna May 7, 2009)

Utilities sector companies quoted on Warsaw Stock Exchange

	YTD % (2009-08-28)	52-week change %	Capitalisation (PLN mn)
PGNIG	8.29	18.08	23,895.00
ENEA	-	-	10,197.32
KOGENERA	55.50	56.09	1,231.49
PEP	65.43	10.56	629.74
BEDZIN	-14.04	-5.11	86.60
CPENERGIA	5.37	-7.11	86.50
Sector	8.49	14.02	36,126.65
WIG	34.94	-4.78	354,994.88

Source: WSE

WIG (Main Market Index) and PGNIG (the biggest utilities sector company) growth (2009-01-05=100)



Source: WSE

Top companies

			Sales revenues (PLNmn)			
	Name	-	2008	Change/2007 (%)	Q1/2009	Change/ Q1/2008 (%)
1	PGE S.A. (cons.)	electricity distribution	20,597.7	7.3	n/a	n/a
2	PGNiG S.A. (cons.)	natural gas distribution	18,432.0	10.7	6,378.9	19.7
3	ENION Grupa Tauron S.A.	electricity distribution	12,500.0	235.8	n/a	n/a
4	TAURON Polska Energia S.A. (cons.)	electricity production and distribution	12,283.1	53.4	n/a	n/a
5	ENERGA S.A. (skons.)	electricity production	8,300.0	3.6	n/a	n/a
6	PSE Operator S.A.	electricity distribution	6,776.4	-3.0	n/a	n/a
7	ENEA S.A. (cons.)	electricity distribution	6,157.8	13.1	1,884.7	19.8
8	PKE S.A.	electricity production	3,527.2	-2.9	n/a	n/a
9	POLSKA ENERGIA - PKH Sp. z o.o.	trade in electricity	2,567.1	235.0	n/a	n/a

10	RWE Polska S.A.	electricity distribution	2,325.4	22.1	n/a	n/a
11	PKP Energetyka Sp. z o.o.	electricity distribution	2,255.0	8.9	n/a	n/a
12	PAK Zespół Elektrowni S.A. (cons.)	electricity production	1,774.4	8.2	n/a	n/a
13	Dalkia Polska S.A. (cons.)	gas distribution	1,726.2	23.8	n/a	n/a
14	Elektrownia Rybnik S.A.	electricity production	1,543.0	16.9	n/a	n/a
15	ELECTRABEL POLANIEC S.A.	electricity distribution	1,461.2	25.3	n/a	n/a
16	GAZ SYSTEM S.A.	natural gas distribution	1,380.0	-11.3	n/a	n/a
17	EUROPOL GAZ S.A.	gas distribution	1,243.9	-17.5	n/a	n/a
18	SPEC S.A.	electricity distribution	1,222.3	0.7	n/a	n/a
19	LUBZEL S.A.	electricity distribution	1,195.9	13.5	n/a	n/a
20	PGE Dystrybucja Warszawa-Teren S.A.	electricity distribution	963.1	106.4	n/a	n/a
Sector			154,535.5	20.5	47,099.0	16.2

Sources: ISI Corporate Database, companies, RZP/GB/H&M rankings, Monitor B, GUS

			Net result (PLNmn)			
	Name	-	2008	Change/2007 (%)	Q1/2009	Change/ Q1/2008 (%)
1	PGE S.A. (cons.)	electricity distribution	2,670.0	28.5	n/a	n/a
2	PGNiG S.A. (cons.)	natural gas distribution	865.3	-5.4	-398.7	-151.2
3	ENERGA S.A. (skons.)	electricity production	435.0	670.0	n/a	n/a
4	GAZ SYSTEM S.A.	natural gas distribution	289.0	-10.9	n/a	n/a
5	Dalkia Polska S.A. (cons.)	gas distribution	219.7	180.5	n/a	n/a
6	ENEA S.A. (cons.)	electricity distribution	215.4	-58.7	202.1	168.4
7	PSE Operator S.A.	electricity distribution	191.9	15.0	n/a	n/a
8	ELECTRABEL POLANIEC S.A.	electricity distribution	130.2	-48.5	n/a	n/a
9	PAK Zespół Elektrowni S.A. (cons.)	electricity production	113.7	160.8	n/a	n/a
10	Elektrownia Rybnik S.A.	electricity production	95.3	27.3	n/a	n/a
11	PGE Dystrybucja Warszawa-Teren S.A.	electricity distribution	89.5	107.4	n/a	n/a
12	PKE S.A.	electricity production	42.8	-68.9	n/a	n/a
13	SPEC S.A.	electricity distribution	35.2	13.8	n/a	n/a
14	POLSKA ENERGIA - PKH Sp. z o.o.	trade in electricity	16.2	94.6	n/a	n/a
15	LUBZEL S.A.	electricity distribution	6.9	-79.1	n/a	n/a
16	ENION Grupa Tauron S.A.	electricity distribution	5.0	-73.3	n/a	n/a
17	TAURON Polska Energia S.A. (cons.)	electricity production and distribution	1.7	104.1	n/a	n/a
18	PKP Energetyka Sp. z o.o.	electricity distribution	-17.7	-141.7	n/a	n/a
19	EUROPOL GAZ S.A.	gas distribution	-116.2	-127.8	n/a	n/a
20	RWE Polska S.A.	electricity distribution	n/a	n/a	n/a	n/a
	Sector		7,009.5	-9.2	3,279.7	-2.1

Written by Tomasz Oljasz and Jacek Frączyk

toljasz@securities.com

jfraczyk@securities.com