



# **Tender offer for Energa S.A.**

*Strategic fit with ORLEN Group's business*

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December 5th 2019

**1**

## **Energa Group**

**2**

Development of Power Generation at the ORLEN Group

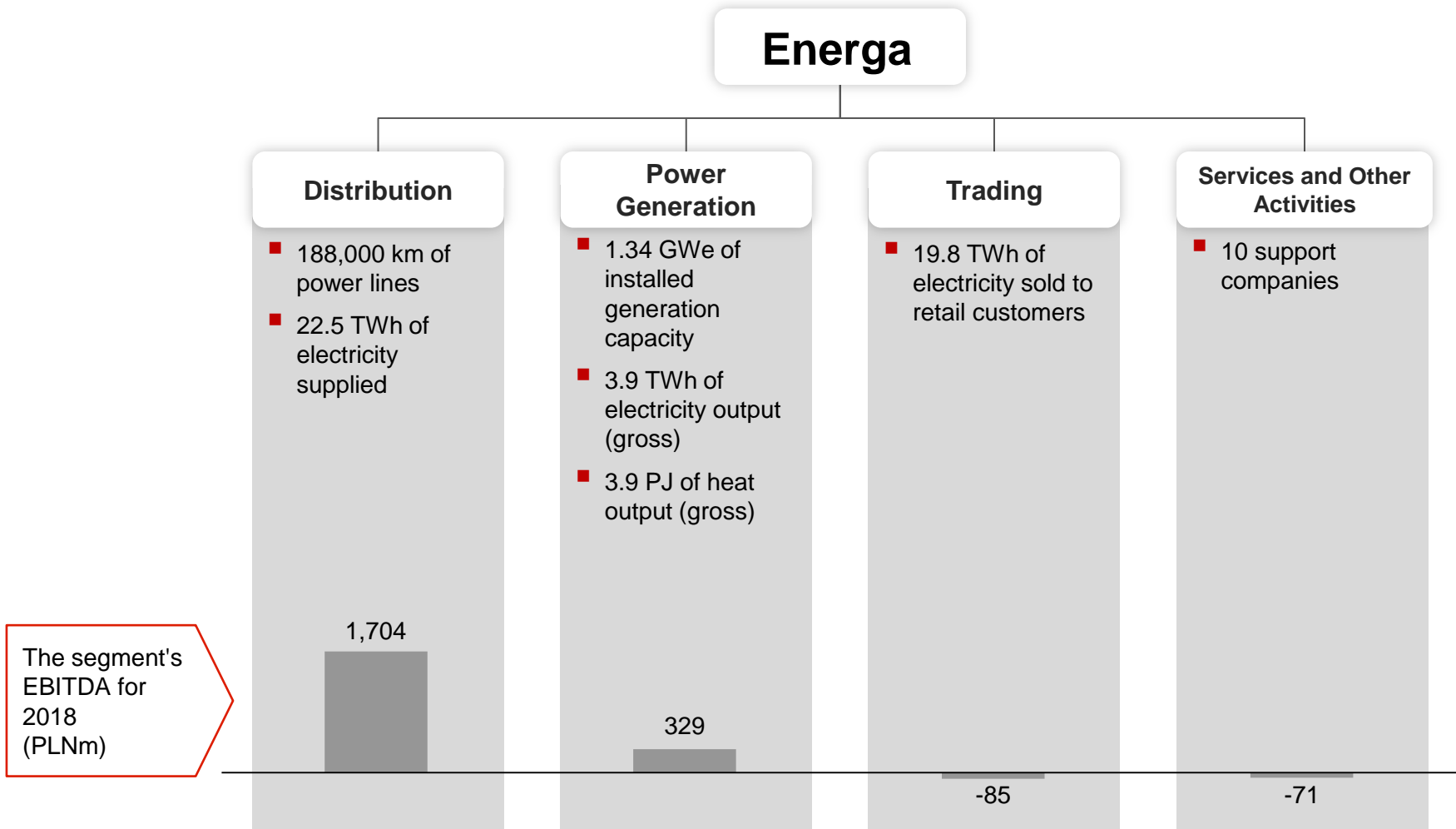
**3**

Key investment drivers

**4**

Transaction details and timetable

# Energa is one of Poland's largest energy groups

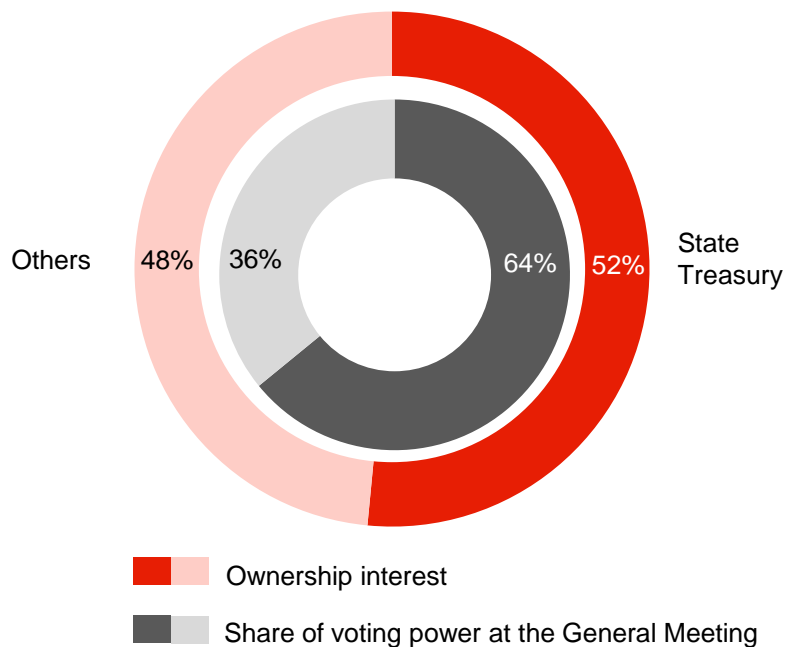


# Energa S.A. has been listed on the main market of the Warsaw Stock Exchange since 2013



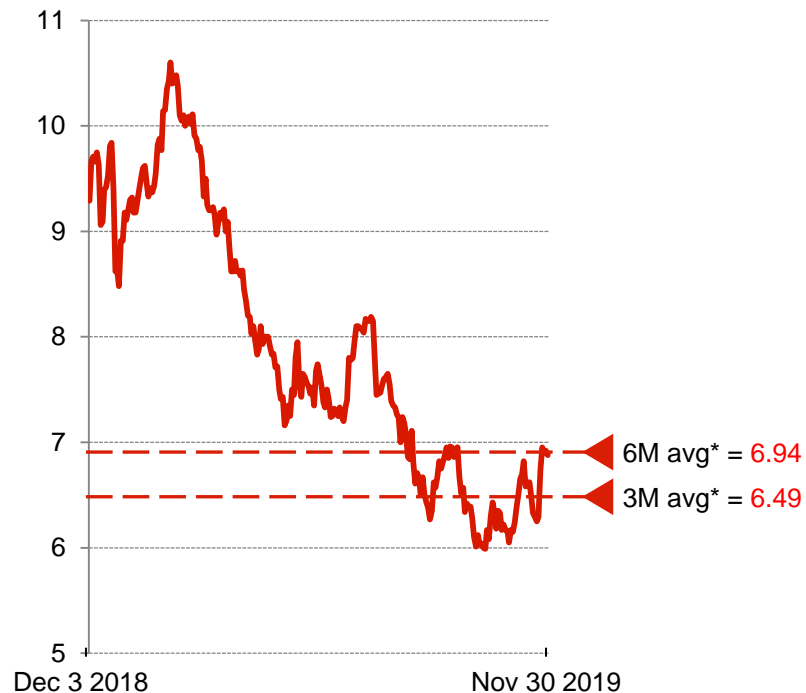
## Energa S.A.'s majority shareholder is the Polish State Treasury

Shareholding and voting power structure at Energa S.A. as at November 29th 2019 [%]



## Energa S.A. stock is currently trading at a price close to last 6M average

Energa S.A. stock performance in the last 12 months as at November 29th 2019 (PLN)



\* Arithmetic mean of average daily prices weighted by volume traded

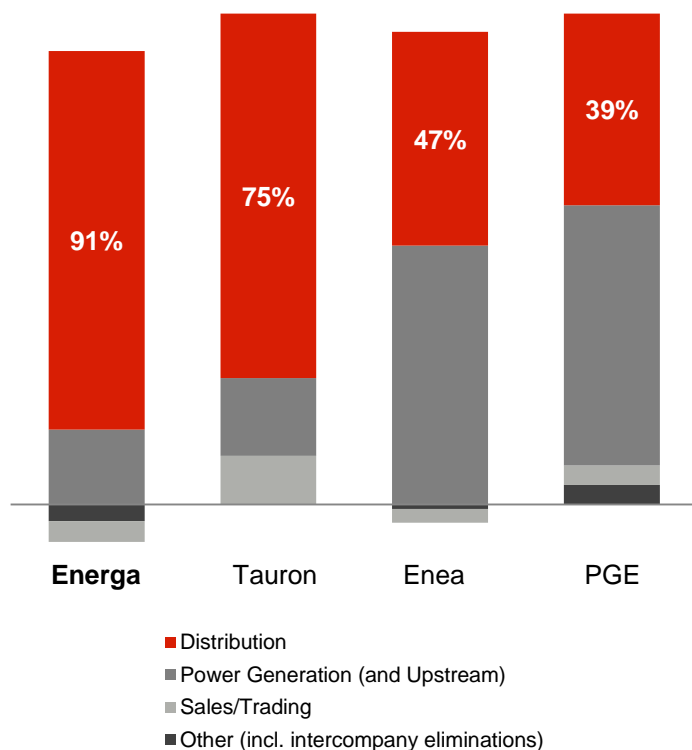
Source: Bloomberg

# Unlike its major competitors, the Energa Group generates most of its EBITDA from distribution



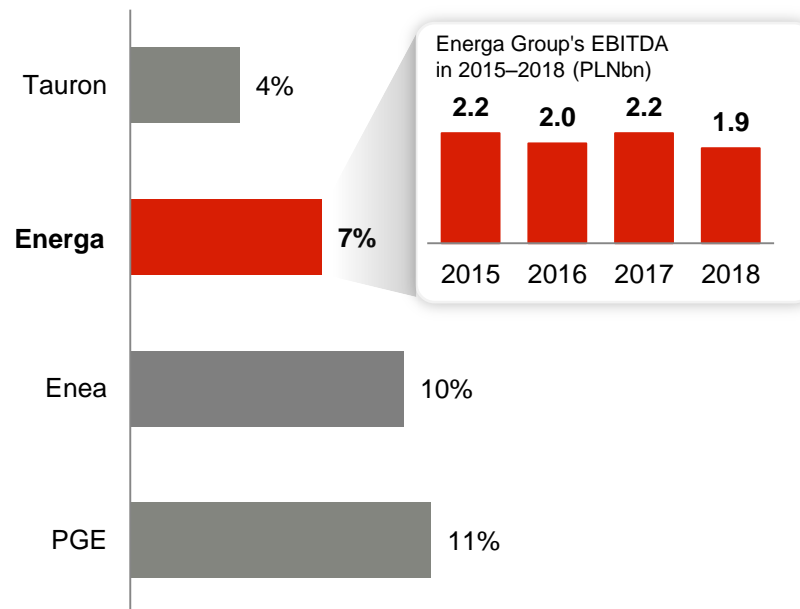
## The Distribution segment contributes over 90% to the Energa Group's EBITDA...

EBITDA structure of Polish energy groups in 2018 [%]



## ...which translates directly into stable performance

EBITDA volatility (coefficient of variation) for each company in 2015–2018\* (%)



\* Coefficient of variation = standard deviation in the sample / arithmetic mean

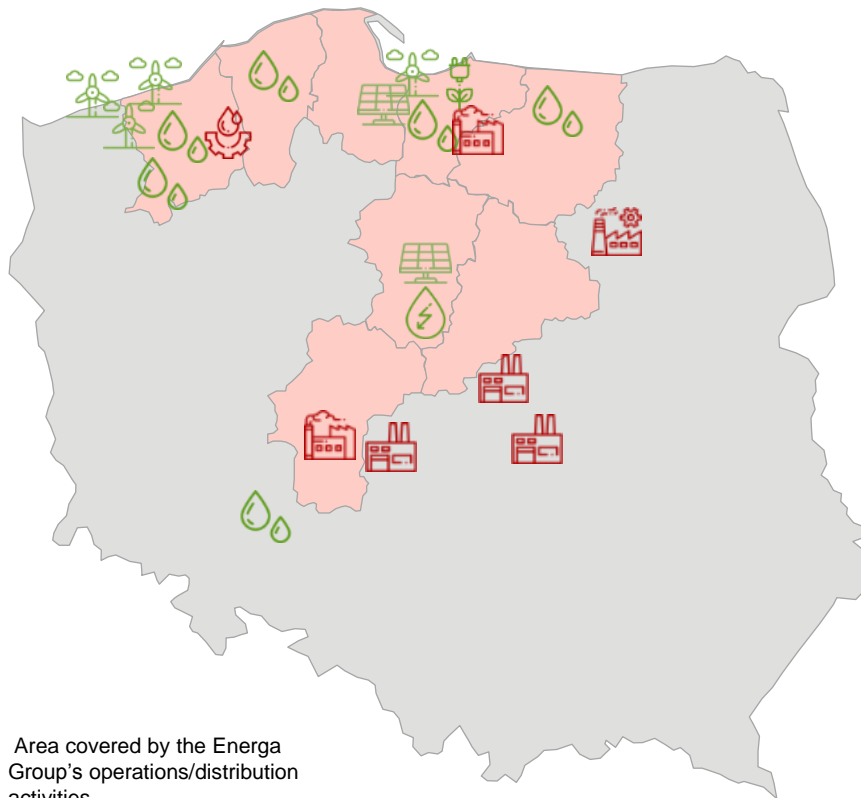
Source: Energy companies' periodic reports, in-house analysis

# Renewables account for a significant part of the Energa Group's power generation assets...




## Operating mainly in northern and central Poland, the Energa Group is well-positioned to expand its wind assets


Energa Group's power generation assets and area covered by its operations and distribution activities at the end of 2018





 **Large hydroelectric power plant**  
(Włocławek | 162 MWe)


 **Small hydroelectric power plants**  
(45 plants | 46 MWe)


 **Wind farms**  
(5 farms | 211 MWe)


 **Solar farms**  
(2 farms | 5.4 MWe)

 **Biomass-fired generation unit\***  
(1 unit | 25 MWe and 30 MWt)

 **Pumped-storage power plant**  
(Żydowo | 157 MWe)

 **CHP plants**  
(2 plants | 82 MWe | 343 MWt)

 **Heat plants**  
(3 plants and local units | 92.3 MWt)

 **Commercial power plant**  
(Ostrołęka B | 690 MWe | 220 MWt)

\*Biomass-fired unit at the Elbląg CHP plant

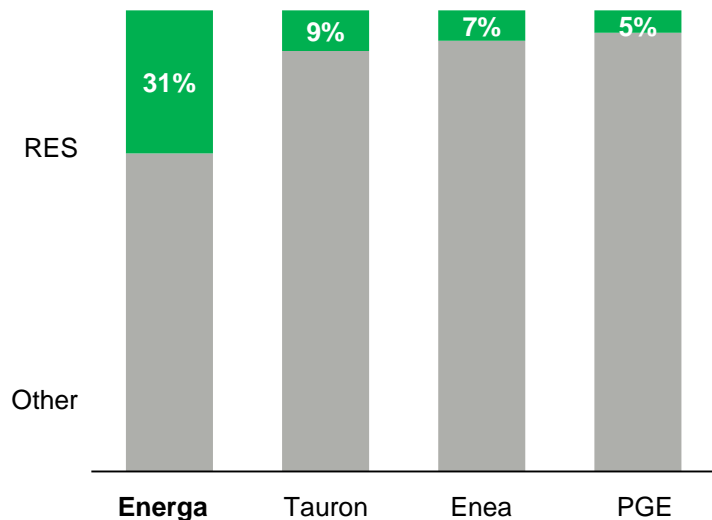
Source: Energa Group periodic reports and presentations

# ...which positions Energa among the largest renewables market players in Poland



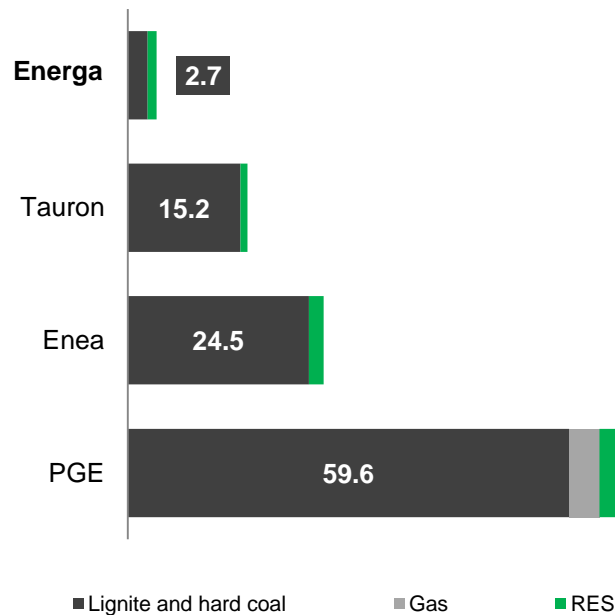
## Compared with its main competitors, the Energa Group has the largest share of Renewable Energy Source (RES) generation capacities...

Share of RES in the electricity generation mix of Polish energy groups in 2018 [%]

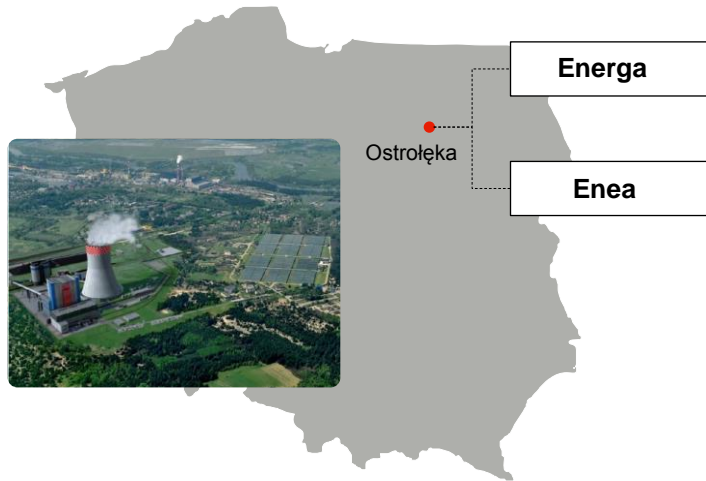


## ...combined with the smallest nominal exposure to lignite and hard coal

Electricity generation by type of fuel used in 2018 (TWh)



# Ostrołęka C – Energa Group’s largest investment project



## Project landmarks to date

- December 8th 2016: Energa and Enea sign a memorandum of understanding whereby they commit to cooperation across many fields in the construction of a new power generation unit – Ostrołęka C
- April 30th 2018: Enea and Energa enter into a financing agreement for the new project
- July 12th 2018: a contract is signed with the General Contractor – a consortium of GE Power (consortium leader) and Alstom Power System
- December 28th 2018: the Management Board of the SPV Elektrownia Ostrołęka issues a Notice to Proceed for the construction work to commence; the contractual deadline for its completion is 56 months (scheduled completion in 2023)
- Potential financial involvement by other equity investors and banks remains an open issue; on November 19th 2019, PGE notified its decision to withdraw from talks over such involvement



**50/50**  
JV of Energa and  
Enea



**2023**  
scheduled date of  
project commissioning



**ca. PLN 6bn**  
target capital  
expenditure



**ca. 2.8 million tonnes**  
target hard coal  
consumption



**1,000 MWe**  
target power  
generation capacity



**5-7 TWh**  
target net output



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# For many years now, the ORLEN Group has been consistently developing its power generation assets



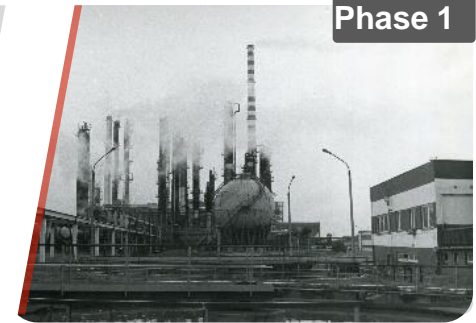
## Evolution of the ORLEN Group's power generation business

1968

### CHP plant

- The gas and heavy fuel oil-fired CHP plant has been operating in Płock since 1968; being the largest industrial unit of its kind in Poland and one of the largest in Europe
- The plant's turbine generation sets are upgraded on an ongoing basis; in 2019, an upgrade of the TG1 set was launched
- Currently, the CHP plant comprises 7 turbine sets and has 415 MWe and 2,150 MWt, respectively, of electricity and heat generation capacities

Phase 1



2013

### CCGT units

- 2013 marked the launch of construction of the ORLEN Group's first CCGT unit (in Włocławek)
- As a low-carbon fuel, gas helps achieve the climate policy objectives and limit exposure to rising CO<sub>2</sub> emission costs, which underpins its competitive advantage over traditional sources
- In 2017 the ORLEN Group commissioned its 474 MWe CCGT unit in Włocławek, and in 2018 another 608 MWe CCGT unit was placed in service in Płock

Phase 2



2018

### Renewables

- The ORLEN Group has a licence to build and use artificial islands in the Baltic Sea to construct an offshore wind farms with a capacity of up to 1,200 MWe
- In 2018, preparatory work was resumed on the wind farms construction
- Currently, site geology and wind surveys are being conducted, and a process is under way to find a strategic JV partner
- The ORLEN Group's plans also include a solar farm project in Włocławek

Phase 3

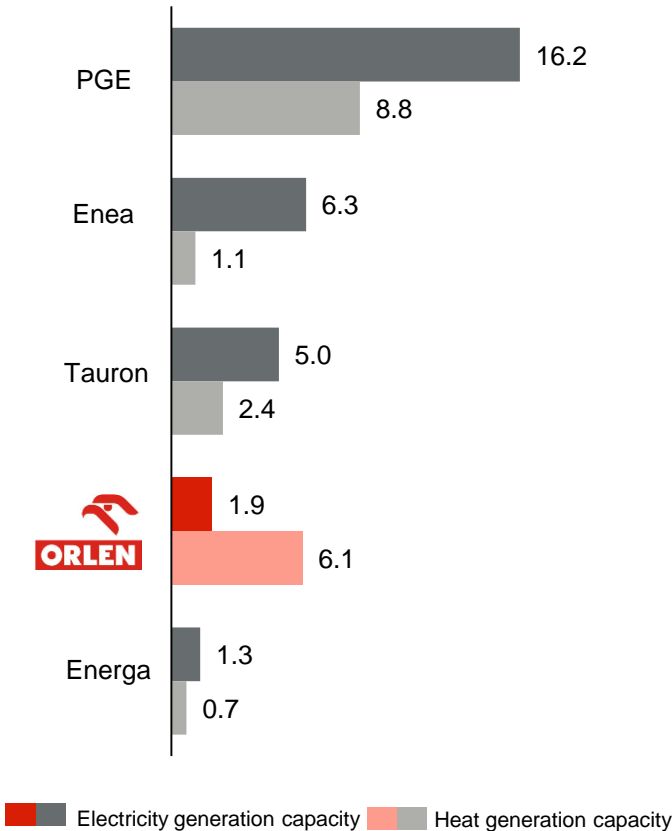


# Currently, the ORLEN Group is Poland's fourth largest producer of electricity



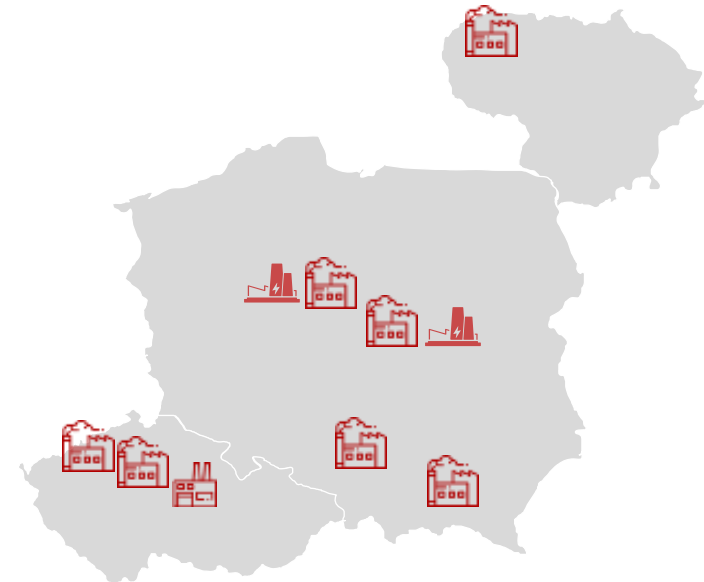
## The ORLEN Group already owns electricity generation assets with a total capacity of 1.9 GWe...

Installed electricity and heat generation capacities at the end of 2018 (GWe/GWt)



## ...located in the vicinity of its production facilities in three countries

ORLEN Group's power generation assets and capacities



**CCGT units**  
(2 units – Włocławek and Płock | 1.1 GWe | 0.9 GWt)



**CHP plants**  
(7 plants | 0.8 GWe | 5.1 GWt)



**Heat plant**  
(Pardubice | 80 MWt)

# Power Generation already accounts for almost 15% of the ORLEN Group's EBITDA



### Upstream

- Ca. 210 million boe of 2P reserves in Canada and Poland\*
- Average volume of hydrocarbon production in Canada and Poland: **18,000 boe/d**

### Refining

- Diversification of crude oil supplies (ca. 40% from sources alternative to REBCO suppliers)
- 6 refineries** in Poland, the Czech Republic and Lithuania; integrated Downstream assets
- 33 million tonnes** of annual crude throughput\* – regional leader
- Ca. 95% – refining capacity utilisation

### Petrochemicals

- Integrated petrochemical and refining assets
- 40 petrochemical products**, exported to over 60 countries

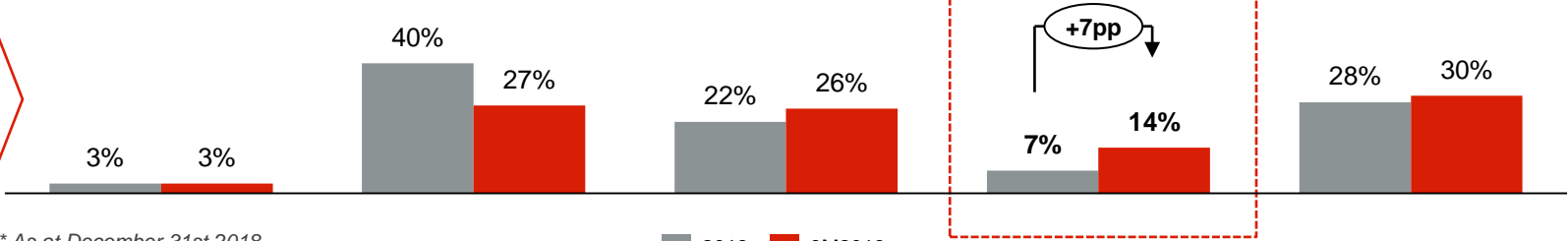
### Energy

- Płock CHP plant (**415 MWe**)
- 2 modern CCGT units: in Płock (**608 MWe**) and Włocławek (**474 MWe**)
- Building permit for an offshore wind farm (**1,200 MWe**)

### Retail

- 2,807 service stations**, comprising the region's largest fuel retail network
- 2,108 food service outlets**
- Over **1.6 million** transactions daily
- Almost **6 million** loyal customers throughout Poland

Share in the ORLEN Group's EBITDA\*\* (%)



\* As at December 31st 2018  
 \*\* Excluding the support functions

Source: ORLEN Group materials

# The ORLEN Group's current strategy is to further develop Power Generation



## Trends

## ORLEN Group's response:



### Climate policy

- EU energy policy to reduce CO<sub>2</sub> emissions by increasing emission allowance prices
- Lower share of fossil fuels (in particular coal) in the EU energy mix
- Rapid growth in renewable energy output

- Growing share of low- and zero-carbon generation technologies in the energy mix
- Offshore wind farm development
- Asset replacement and environmental compliance



### Decentralisation

- Replacement of commercial power plants by smaller (mainly RES) generation units
- Growing interest in prosumption (energy generation by consumers) and in energy clusters and cooperatives that balance electricity consumption and output locally
- Deteriorating position of energy majors, losing the market to new players

- Investments in solar farms
- Distributed energy generation at service stations
- Development of energy sales and trading (optimisation, expansion of wholesale, cross-selling in the B2B segment)
- Development of the range of products and services to maintain the customer base



### Digitalised production

- Use of big data and cloud technologies in analysing energy markets and system operation
- Lower costs of repairs and improved equipment availability supported by predictive maintenance
- Advances in the Virtual Power Plant (VPP) technology, increasing the flexibility of the Group's generating assets through integrated management of diverse energy sources and energy uptake

- Investments in predictive maintenance
- Automated optimisation of heat and electricity production in generation units
- Building of in-house capabilities



### New mobility

- Rapidly growing impact of electromobility and alternative fuels (hydrogen, LPG/CNG/LNG) on the liquid fuel market
- Digitalisation of transport, autonomous vehicles and the sharing economy, changing existing mobility models

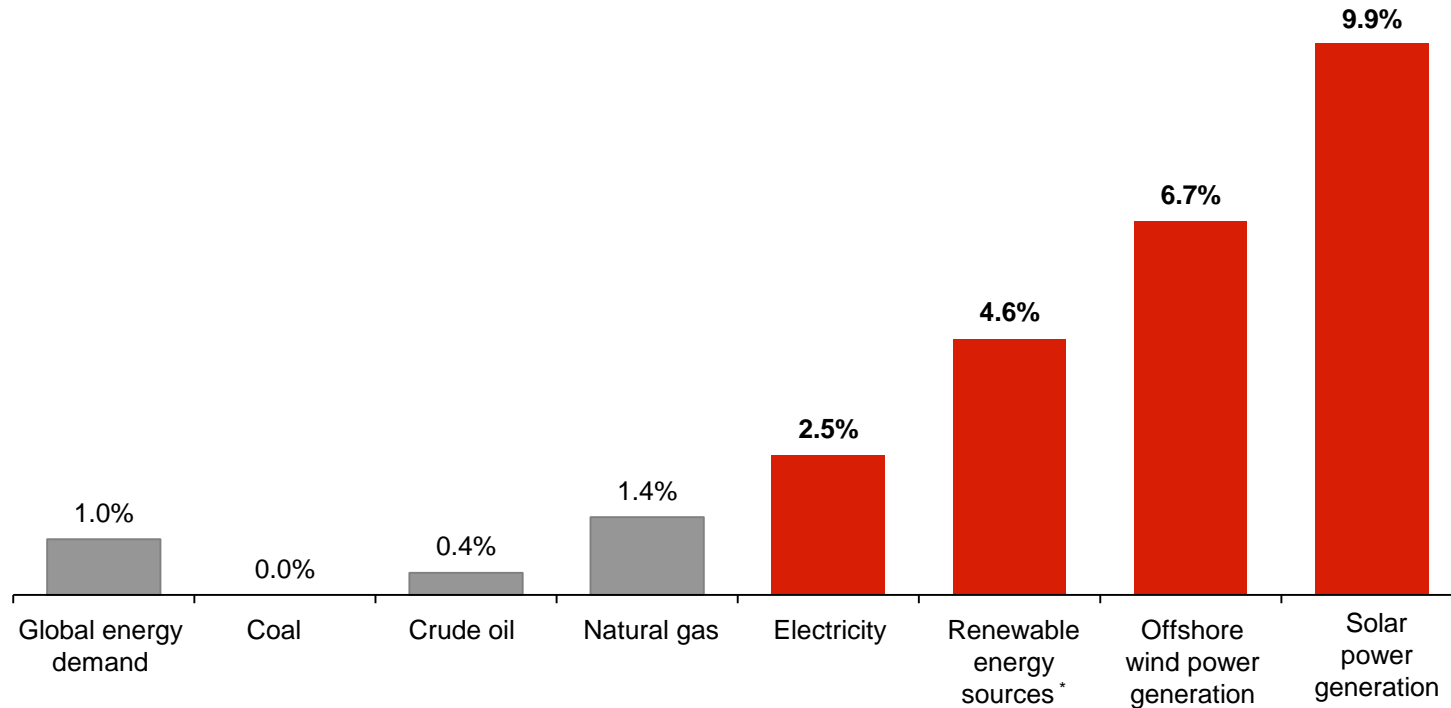
- Gaining a foothold in the alternative fuel market by developing infrastructure for electromobility
- Development of hydrogen refuelling stations in the region

# Further development of the ORLEN Group's Power Generation will give it exposure to a market expanding faster than Oil&Gas



According to International Energy Agency (IEA) forecasts, electricity and renewables will be the fastest growing segments of the energy sector until 2040

Global growth segments in the energy sector until 2040 – 'Stated Policies' scenario  
(% CAGR)



\* Renewable energy sources include water, bioenergy, wind, geothermal, solar PV, CSP, and sea current energy

# The ORLEN Group's evolution towards a multi-utility model is consistent with activities pursued by other Oil&Gas companies



Activity dimensions	Shell	BP	Total	Equinor	Eni	OMV	MOL	ORLEN
Biofuels	✓	✓	✓		✓			✓
Conventional energy		✓				✓	✓	✓
Renewables	✓	✓	✓	✓	✓		✓	✓
Electricity trading (B2C)	✓		✓			✓	✓	✓
E-mobility	✓	✓	✓	✓	✓	✓	✓	✓
Hydrogen in transport	✓		✓	✓	✓	✓		✓

✓ – a strategic area or area under development

- Leading players of the fuel industry are actively involved in the energy sector transformation, by expanding their business to include new areas associated with power generation
- Investment in renewable energy sources, especially wind and solar, plays an increasing role in power generation
- In moving towards a multi-utility model companies typically rely on M&A activity, which is a way to integrate operations around the full energy value chain

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Energa Group

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Development of Power Generation at the ORLEN Group

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**Key investment drivers**

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Transaction details and timetable



# Key investment drivers for the transaction



1

## Expansion of the ORLEN Group's energy division

Acquisition by the ORLEN Group of a power sector entity would be in line with global trends set by the leading fuel companies and would expand the Group's existing power generation business



2

## Acquisition of a business with a sustainable EBITDA

EBITDA generated by power sector companies, especially in the distribution segment, tends to be highly stable and resilient to macro factors



3

## Purchase of a renewables portfolio and capabilities in the construction of RES plants

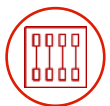
In line with the global trends and transition towards a low-carbon economy, the ORLEN Group is looking to invest in low- and zero-carbon energy sources, and by acquiring the Energa Group it would gain an entity with a significant share of a renewables portfolio



4

## Response to trends on the alternative fuel market

The ORLEN Group would acquire a competitor with electric vehicles charging infrastructure



5

## Optimisation of the energy portfolio

As the Energa Group's electricity trading portfolio is now highly imbalanced, the transaction would offer a potential to optimise the combined group's energy portfolio



6

## Development of the energy trading area

Business combination with the Energa Group would generate a potential for cross-selling products and services, especially within the mass customer segment



# Expansion of the ORLEN Group's energy division

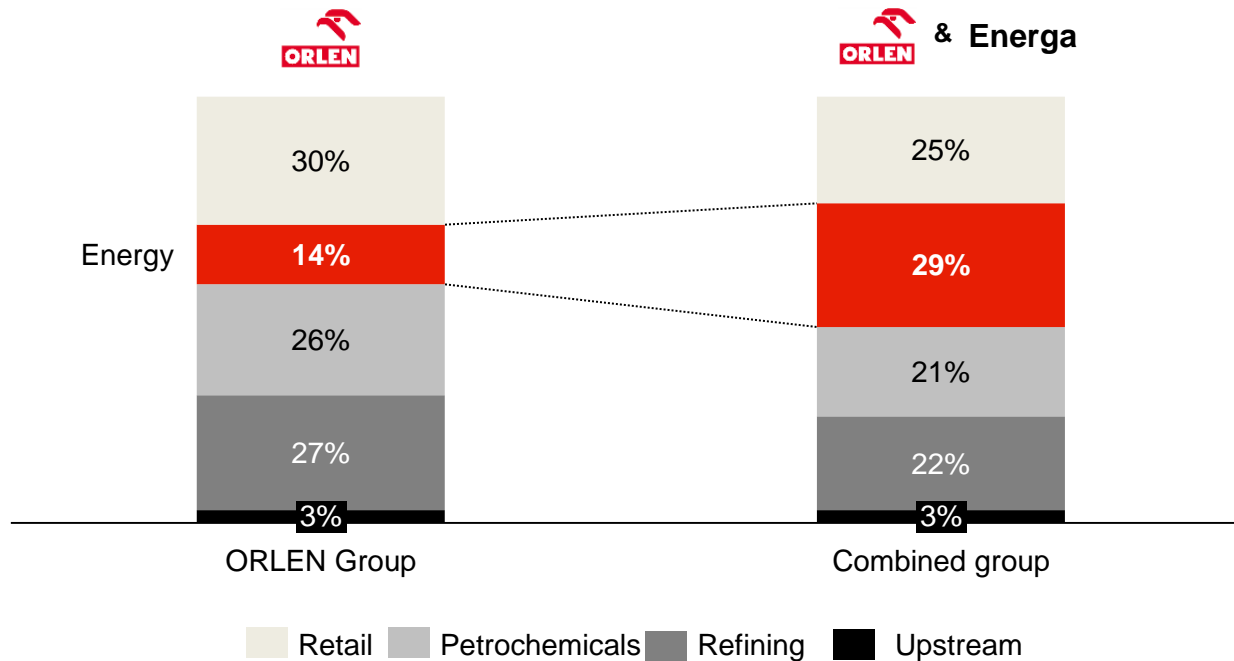


## Energy already accounts for almost 15% of the ORLEN Group's EBITDA

Structure of the ORLEN Group's EBITDA for 9M2019\* [%]

## Following the acquisition of Energa, the energy divisions's share in the combined group's EBITDA would grow to nearly 30%

Structure of the ORLEN Group and Energa Group's combined EBITDA based on the results for 9M 2019\* [%]



\* Excluding EBITDA of the support functions

Source: Energa Group periodic reports, ORLEN Group materials



## Acquisition of a business with a sustainable EBITDA

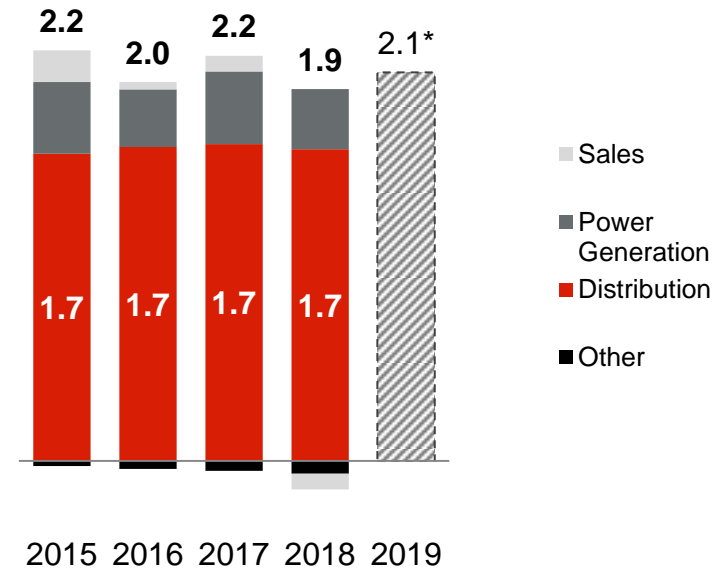


### The electricity distribution segment in Poland is strictly regulated...

- Most of the Energa Group's EBITDA (ca. 90%) is derived from the distribution segment
- The Energa Group's electricity distribution network covers approximately one-fourth of Poland
- Energa has exclusivity for power distribution in the area covered by its operations
- The rules for calculating distribution tariffs are closely regulated by the Energy Regulatory Office (URE) and apply to all market participants
- The tariff rates cover reasonable operating and development costs and a set rate of return on capital
- Factors determining the rate levels include a company's performance in terms of the SAIDI and SAIFI indices, measuring the quality of electricity supply – in this respect Energa outperforms Poland's three largest energy groups

### ...resulting in strong EBITDA stability for the Energa Group

Energa Group's EBITDA in 2015–2019 by segment (PLNbn)



\* Energa Group 2019 EBITDA consensus as at November 28th 2019; source: Bloomberg

Source: Energa Group periodic reports, Bloomberg

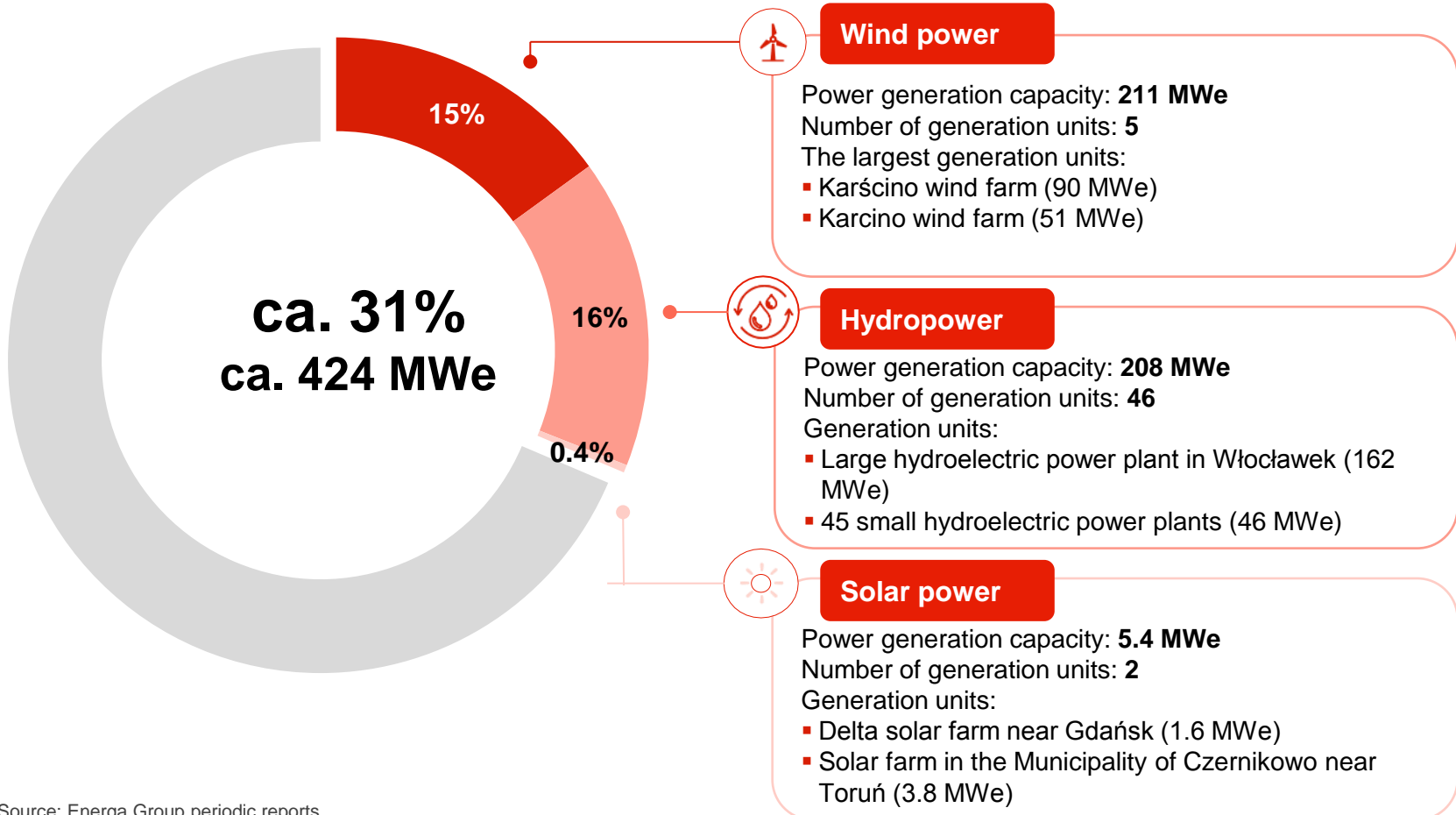


# Purchase of a renewables portfolio and capabilities in the construction of RES plants



**With renewables accounting for ca. 31% of its total generation capacities, Energa is one of the greenest energy groups in Poland**

Share of different RES types in the Energa Group's total generation capacities at the end of 2018 [%]



Source: Energa Group periodic reports

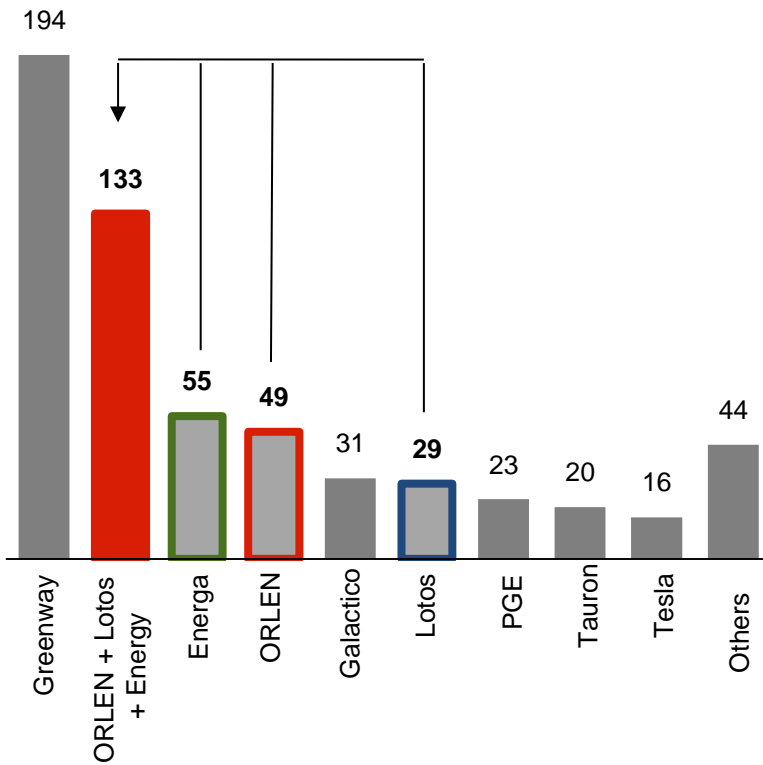


# Response to trends on the alternative fuel market



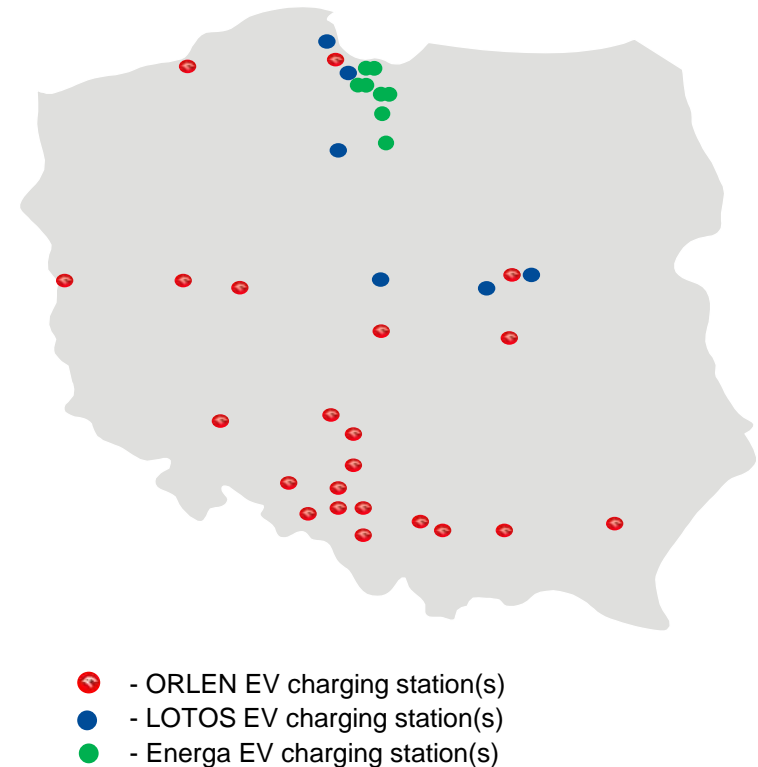
**Fast EV charging stations deployed by the ORLEN Group, Energa Group and LOTOS Group would be combined to make up Poland's second largest network...**

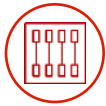
Forecast number of fast and ultra-fast EV charging stations owned by the respective players in Poland at the end of 2019



**...with good geographical coverage thanks to complementary locations**

Indicative locations of the ORLEN Group's, Energa Group's and LOTOS Group's EV charging sites





# Optimisation of the energy portfolio

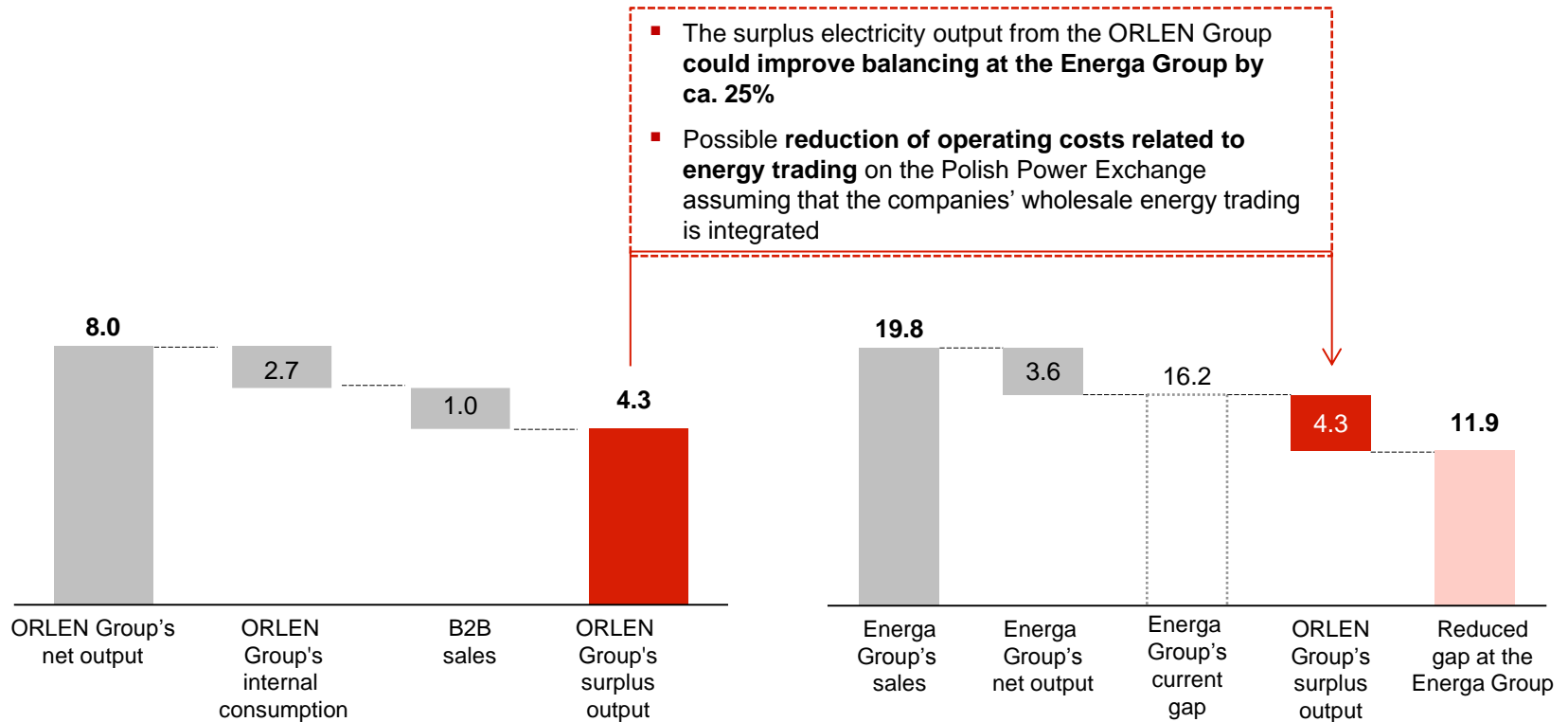


## The ORLEN Group's surplus electricity output...

Optimum generation, consumption and sales of electricity at the ORLEN Group (TWh)

## ...would help better balance the Energa Group's portfolio

Coverage gap for electricity sold at the Energa Group in 2018 (TWh)





## Development of the energy trading area



**With the transaction, the ORLEN Group would gain access to the Energa Group's capabilities in electricity trading on the mass customer market**

Energa Group's key capabilities in electricity trading on the mass customer market



Sales processes and procedures



Sales teams



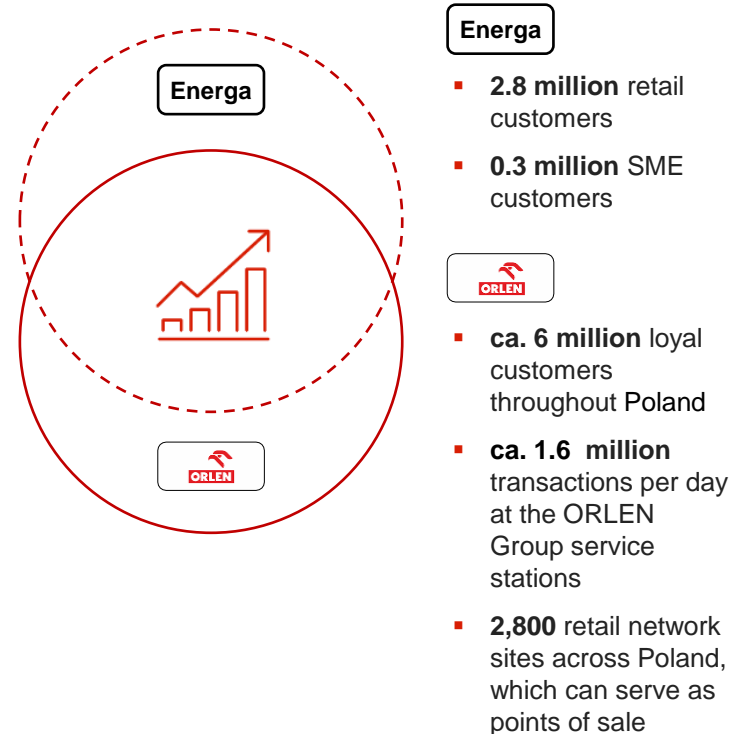
IT systems (including billing and debt collection systems)



Understanding of retail and SME customers' needs

**The combined group would have significant potential for cross-selling services in the mass customer segment**

Selected information on the ORLEN Group's and Energa Group's customer base



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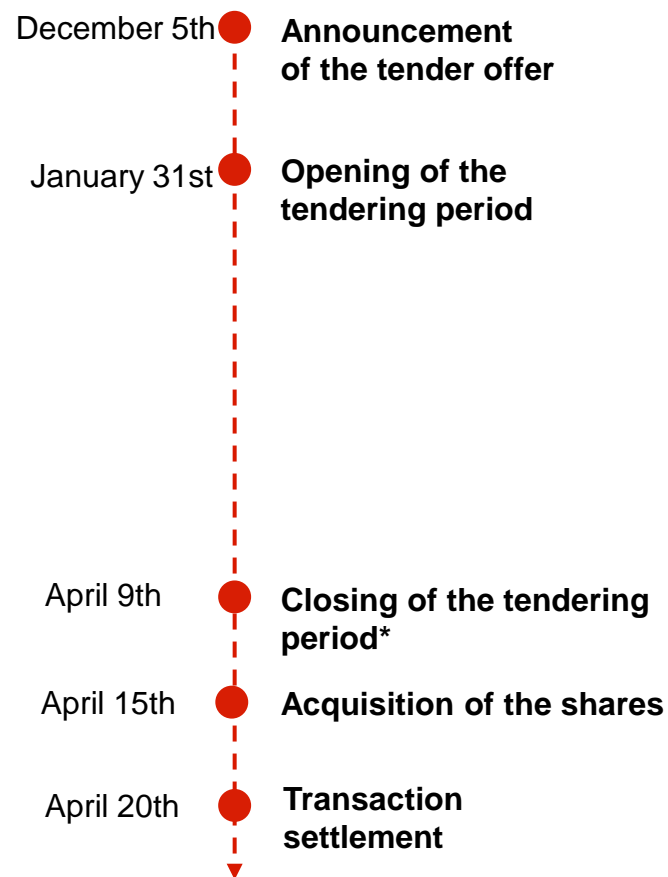
**Transaction details and timetable**



## Terms and conditions of the tender offer

- Price per share: **PLN 7.00**
- Tender offer for **100% of shares**
- Conditions precedent:
  - a. An unconditional decision of the European Commission (or another competent anti-monopoly authority) approving the acquisition involving the takeover of control of the Company
  - b. The Company's General Meeting passes a resolution to amend the Articles of Association by **removing the voting cap** referred to in Art. 27.1-27.7 of the Articles of Association
  - c. The Company's Supervisory Board passes a resolution to determine the **consolidated text of the Articles of Association**, in accordance with Art. 17.1.15 of the Articles of Association (incorporating the amendments)
  - d. The aggregate number of Shares tendered for sale in response to the Offer correspond to at least **66% of the aggregate number of votes**
  - e. The Company and the Offeror enter into **agreement to conduct a due diligence review of the Company**

## Transaction timetable



\*Optionally, PKN ORLEN may extend the tendering period by up to 50 calendar days if the conditions precedent are not met