

Poland's New Investment Programme

January 2013



Investment Programme: Overview



Investment Programme ("IP", "Inwestycje Polskie")

- Announced by the Prime Minister on 12th October 2012
- State Treasury's assets to be released to BGK and Polish Investments for Development (PID, special vehicle)
- The IP is to be managed on a commercial basis
- Targeted co-financing of ca. EUR 10bn investments by 2015
- The Privatisation Plan remains unchanged
 - revenues generated from privatisation will be transferred to the IP

Aim

- To increase available financing for Poland's infrastructure projects - long-term loans, guarantees, equity
- To attract private capital

Estimated investment levels:

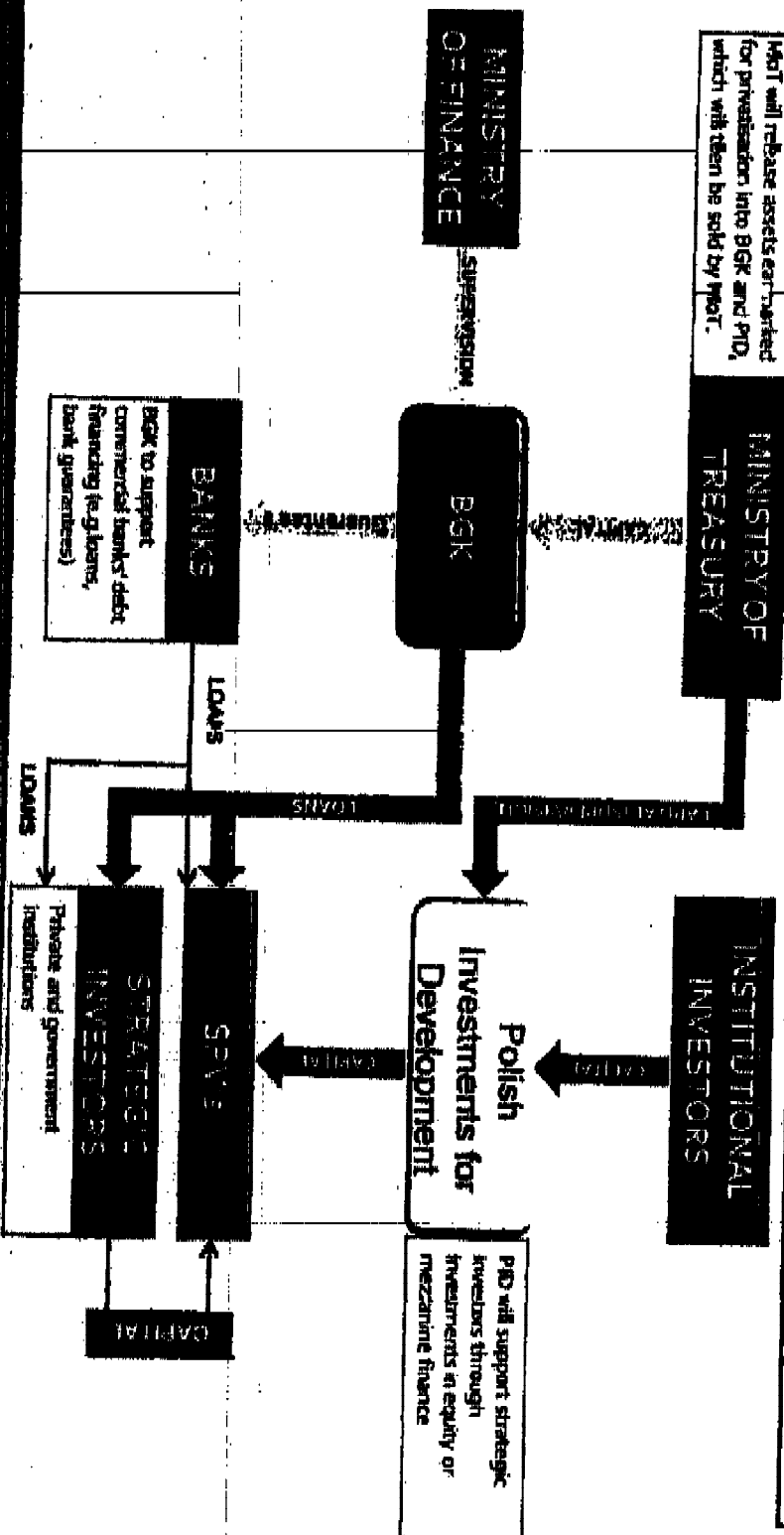
- Energy distribution – ca. EUR 10bn by 2020
- Energy generation – ca. EUR 7.5bn by 2020
- National highways – EUR10.8bn by 2015 (EUR2.5bn via IP)
- State gas – ca. EUR 12.5bn by 2016
- Gas infrastructure (transmission and storage) – ca. EUR 5.5bn

Investment Programme Structure



- Gradual recapitalisation of BGK up to PLN 10bn (EUR 2.5bn)
- Recapitalisation of PID up to PLN 10bn (EUR 2.5bn)
- Flexible allocation of capital between BGK and PID dependant on debt (BGK) and equity (PID) requirements

MoT will release assets earmarked for privatisation into BGK and PID, which will then be sold by PwC.



Investment Programme to bridge the gap in available financing on the Polish market



| | Private Equity | Commercial banks | Mutual funds (TFVOFEJ) | EB / EBRD | Companies? | BOK | FD | EU Funds |
|--------------------|-----------------------|--|---|---|---|--|--|--|
| Sectors | Sectors with high RIR | Low risk | Low risk Stability of investment | Sectors strategic to a country's development | Typically core business | Sectors with high growth potential | Sectors with high growth potential | Sectors strategic to a country's development |
| Financing | Equity | Debt Guarantees Mezzanine Other | Equity | Debt Guarantees Mezzanine | Shareholder's equity | Debt Guarantees Mezzanine | Debt Guarantees Mezzanine | Debt Guarantees Mezzanine |
| Amount invested | Limited by AUM | < PLN 500 mln, depends on risk | < PLN 2 bln, depends on portfolio mgmt strategy | < PLN 1 bln, depends on region's development strategy | Depends on company's financial standing | < PLN 1 bln, depends on company's financial standing | < PLN 1 bln, depends on company's financial standing | Depends on the development program |
| Share in financing | Majority (>50%) | Minority (10-30%) | Minority (10-25%) | Minority (<30%) | Depends on available funds | Depends on project profile | Depends on project profile | 35-85%, depends on the program |

Expected return:

Short

1. RIR of the financing stock holding 2. Operational financing to bank clients 3. Debt 4. Equity

The proposed PID business model supports the strategic role of Poland's Investment Programme



Other sources

- Investment with a minimum target IRR, taking into account benefits to GDP and to the society
- Prioritization of infrastructure programs to public entities (e.g. PPP)

Investment

- Selected strategic sectors in Poland
- PID with minority share excluding PPP, in the form of equity (majority) and mezzanine
- Minimum commitment - PLN 250 mln (first 3 years), thereafter - PLN 50 mln, total maximum commitment - 750 mln PLN
- Maximum commitment period = construction period + debt repayment; quick exit preferred
- PID to invest on conditions no worse than other investors, taking into consideration risk class
- Return on the project calculated as IRR on equity, taking into account benefits to GDP and to the society.
- IRR above market average for debt financing including project risk

PID role in the project

- Active project sourcing and investor education (e.g. public sector)
- Monitoring milestones during construction phase and interventions when necessary
- Active investment management (e.g. through the board of directors)
- Building a competitive advantage through risk management: construction, regulatory, operational
- Active mitigation of other external risks: demand/market risk, liquidity, currency

Risk policy

- Allocation to different strategic sectors (minimum 1 project per sector)
- Full amount of investment disbursed in tranches within three consecutive years
 - 2-3 projects initiated in the first year to build credibility of the IP
 - Target financing of 20-25 projects

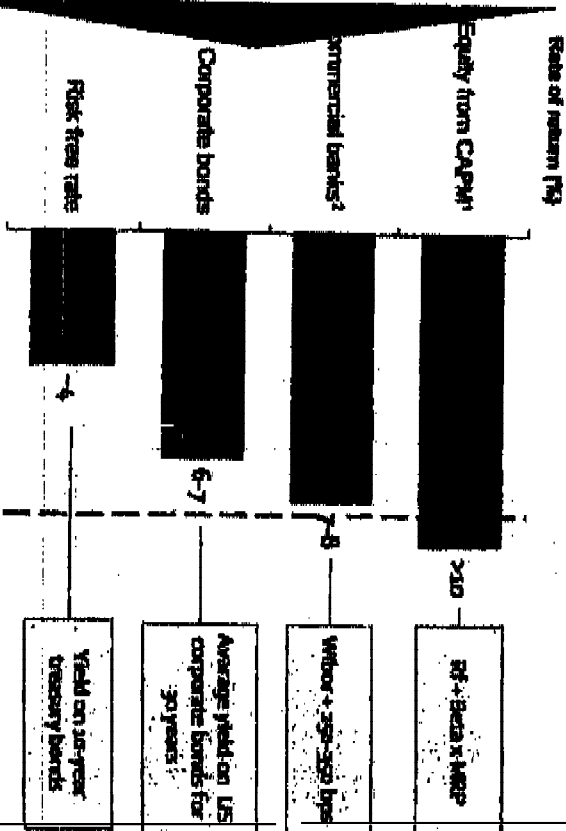
Expected IRR for Infrastructure projects



Expected IRR

IRR for PID higher than IRR for commercial banks, but lower than expected market IRR

| Expected IRR | Examples of Institutions |
|--|---------------------------|
| Expected market return e.g. 8% IRR | Investment banks |
| Cost of financing + margin e.g. Withor + 200 bps | Banks |
| Market + Margin e.g. 8% + 200 bps | Investment banks |
| Inflation + margin e.g. CPI + 100% | "Future generation funds" |
| Cost of financing on international markets e.g. LIBOR | IBs, EIBs |
| Return based on expected activities | Mutual Funds |
| Return based on financing e.g. 8% + 200 bps | Investment banks |
| Risk free rate + risk premium x Beta | Private companies |



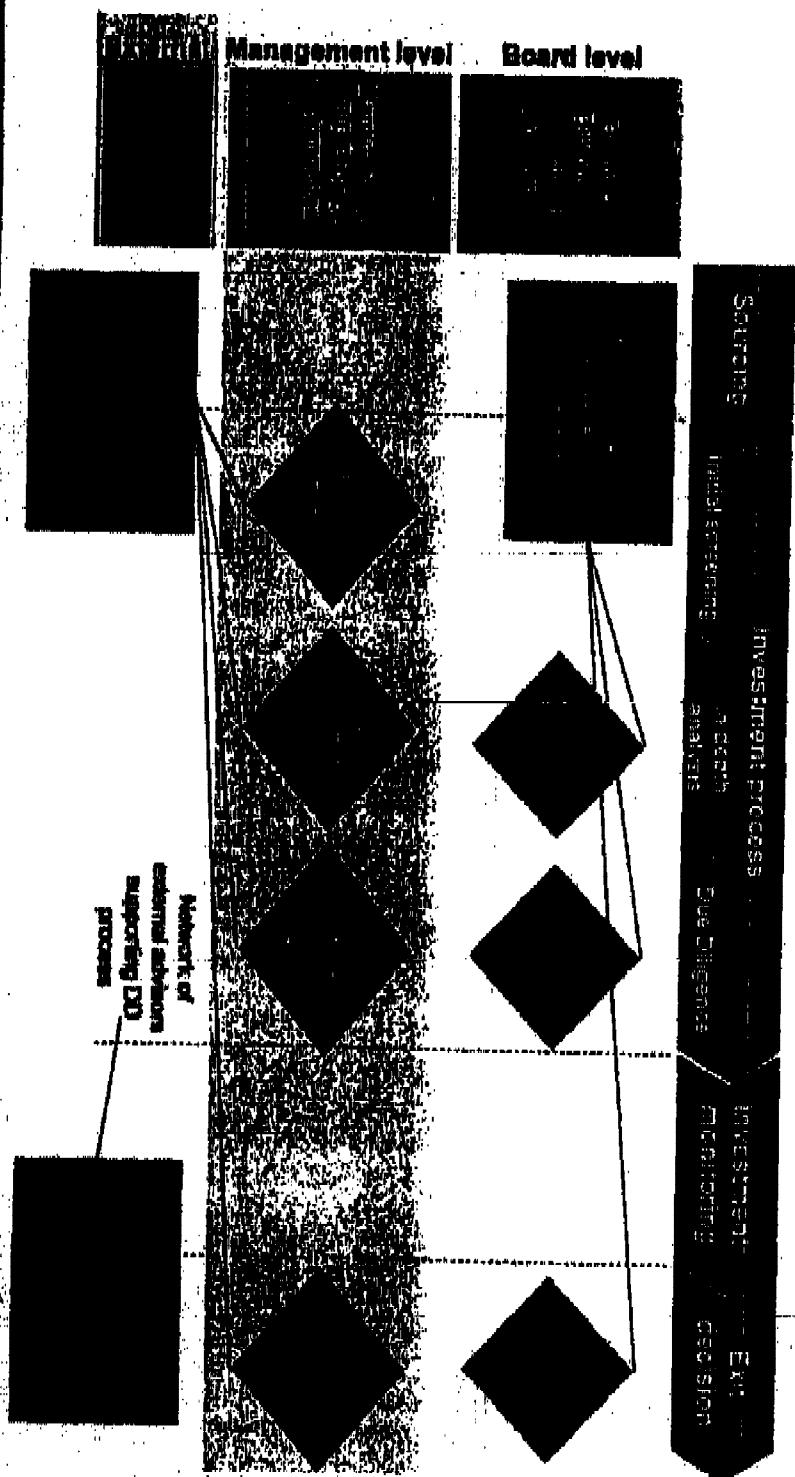
• IRR above market IRR for infrastructure projects
• IRR below market IRR for commercial banks

PID principles of governance aimed at ensuring full transparency, responsibility and efficiency



- 1 **Commercial evaluation of projects and investment decisions**
 - Decision made by PID – excludes 'external' influences
 - Investment decision process to be based on independent and well-documented analysis prepared by or at the request of PID
- 2 **Segregation of responsibilities: preparation and recommendations vs. decision making**
- 3 **3-tier investment process**
 - PID Management, Investment Committee, Board of Directors
- 4 **Board of Directors involved in key decision making, composed of 9 members:**
 - 5 independent members with a business or investment background
 - 4 members representing ministries and BGK (2 members from Ministry of Treasury, 1 member from Ministry of Finance, 1 member from BGK)
- 5 **PID Management responsible for preparation of recommendations, investment process and monitoring**

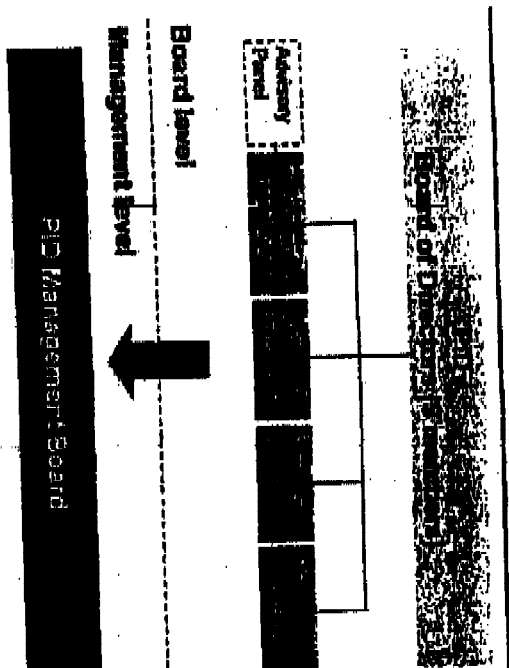
Decision process engaging PID Management and BoD with early BGI Involvement



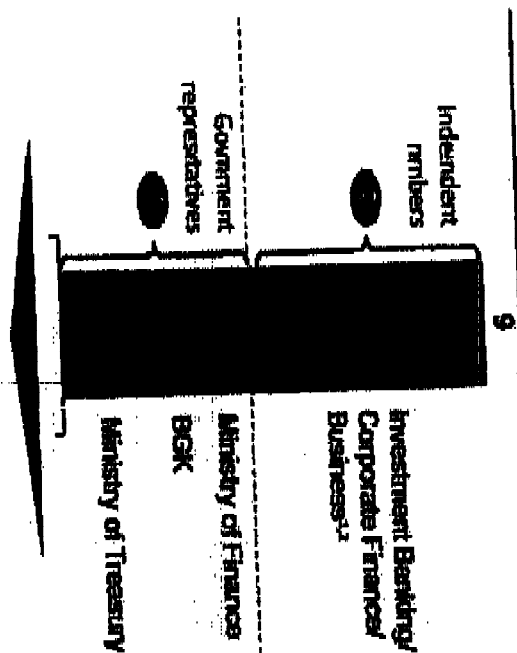
Governance principles to ensure full transparency, responsibility and efficiency of PID activities



Governance structure



Board of Directors with a majority of business representatives



Majority a Independent Board members to ensure commercial selection of projects

Organisational structure of PID to be detailed after the appointment of the Board of Directors / CEO

1. For independent members to be appointed by the President 2. For government representatives to be appointed by the Board of Directors

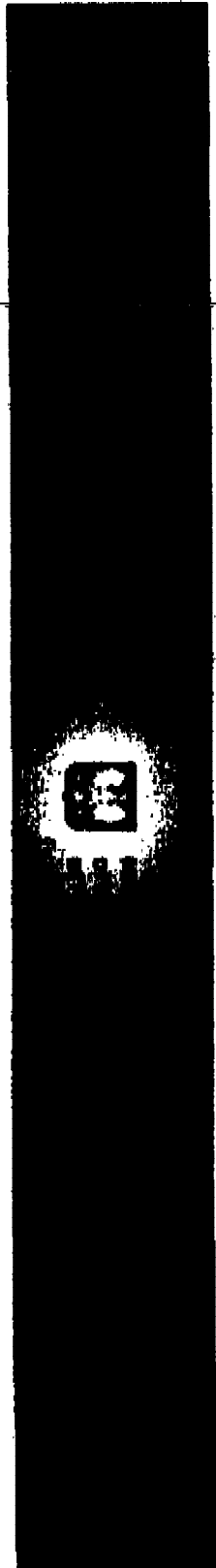
Investment Programme: Timing



| 2012 | 2013 | 2014-2015 |
|--|--|--|
| Investment Programme Launch | Recapitalization of BGI | Corporate services campaign of BGI |
| Launch of the Special Investment Vehicle | Recapitalization of PID | Corporate services of Special Investment Vehicle |
| Recapitalization of the Special Investment Vehicle | Launch external financing of BGI | |
| | Launch landing campaign of BGI and PID | Corporate recapitalization of BGI and PID |
| | Corporate Investment | |

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TOTAL P.12



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