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The power sector in Poland will determine the future of the construction industry. €50bn worth of investments expected in the coming years

Source: Report „Power Sector Construction in Poland 2010 –
Development Forecasts and Planned Investments”

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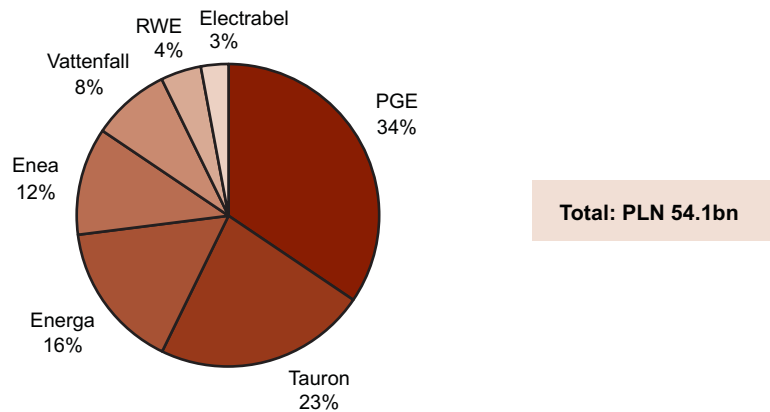


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In the coming several years the Polish construction sector, the driving force of which is now road construction, will be undergoing major transformation. The portfolios of the largest construction companies will start to be dominated by revenue from power sector projects. Capital expenditure planned by power companies in the next 10-15 years can amount to up to PLN 200bn (€50bn).

The Polish power engineering sector is among the European top 10 power markets in terms of size. In 2008, the revenue of the seven largest players in Poland's power sector exceeded PLN 54bn (€13.5bn). Combined revenue of the two largest companies operating in the market (Polska Grupa Energetyczna and Tauron Polska Energia) amounts to PLN 31bn (€7.8bn).

Revenue of the key investors in the power market in Poland, 2008



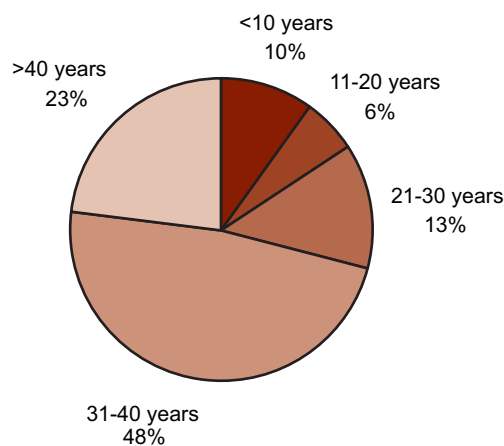
Source: PMR Publications based on the companies' data, 2010

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Due to a high level of production capacity utilisation and the continued growth in demand for electricity projected for the future combined with the required phasing out of old power-generation units, it is necessary to build new power generation assets and expand the transmission and distribution system. This is going to be one of the major challenges for the Polish power engineering sector.

The years 2010-2020 will see the construction of units with aggregate power generation capacity of around 16,000 MW. One MW of capacity in a coal-fired power plant requires expenditure of €1.5m-2m, so investment outlays on new conventional power-generation units can add up to around €24bn-32bn. Additionally, given the assumptions of the European Commission's directive on renewable energy sources and the general desire to produce nuclear energy in Poland, the actual amount could even double.

Age profile of power-generation assets (conventional energy production) in Poland, 2008



Source: the Energy Market Agency (ARE), 2009

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As described in our report entitled "Power Sector Construction in Poland 2010 – Development Forecasts and Planned Investments", due to long-standing underinvestment, over the next 10-15 years the Polish power sector will be wrestling with a genuine need for capital expenditure of up to PLN 200bn (€50bn) on new power-production capacity and transmission systems. Thus, the coming years will see the largest construction groups operating in Poland struggle to secure these orders; predictably, these groups will also compete against foreign contractors willing to get a chunk of awards in the coming contracts.

Polimex-Mostostal, which is Poland's largest construction group, increasingly participates in power sector projects. The coming investments in the Polish power sector encouraged Polimex to expand the scope of its business activities. Polimex-Mostostal intends to establish itself as the strongest organisation in Poland and Central Europe which offers comprehensive services to the power sector and the heat-generation industry.

Other market players are following in the footsteps of Polimex-Mostostal. So far, the Budimex Group has not established a firm position in the power sector construction sector, but it intends to become a major player in power sector construction by the end of 2012. The Budimex Group is seeking partner companies, including in particular suppliers of boilers and turbines.

The PBG Group plans to consolidate its power sector operations within Energomontaz-Poludnie, which is expected to achieve profitability of 7-10%. Over the next two or three years Energomontaz should generate revenue of PLN 0.5bn-1bn annually.

Furthermore, Erbud, a stock-exchange listed company, has announced its plans for the power sector. In 2009, the company acquired a 70% stake in JF Inwestycje, a power company, and intends to pursue other acquisitions in the industry. Erbud's governing bodies expect that the power sector should become the driver of Erbud's growth. The company intends to participate in consortia competing to win contracts for the construction of power-generation units – Erbud hopes that two of three tenders will be announced in 2010.

In all probability, after 2015, when the most intensive phase of the national road and motorway construction scheme is completed, the largest construction companies specialised in civil engineering construction will be seeking new contracts in the power sector, either as general contractors or consortium members or subcontractors.

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