

## Tractebel – Electrabel Completes Połaniec Deal

The Belgian power company [Electrabel](#) has completed a deal started three years ago: the acquisition of the Polish power plant Elektrownia im. Tadeusza Kościuszki S.A. (Połaniec). The deal very much conforms to market trends in other parts of the world, reflecting significantly lower valuations on power plants than three years ago.

Tractebel (the acquiring company then) paid €87.5 million for 25% interest (plus one share, to give it a blocking minority shareholding), and undertook the obligation to increase the capital of Połaniec by an additional €61.6 million in return for an additional 12.5% of the shares. At that time, government policy was to sell no more than 35% of the shares of any of the “system” power plants to foreign investors. Tractebel/Electrabel did not actually increase the capital as promised. The main argument against further investments was the imposition by the Polish government of an excise tax on electricity generation that the regulatory agency refused to let the generators pass through to the customers.

In recent days, Electrabel and the Ministry of the State Treasury have agreed for Electrabel to acquire an additional 60% of the shares (we presume from the government) for a payment of €160 million.

Based on a capacity of 1,800 megaWatts, the original transaction (including the capital increase obligation) valued Połaniec at €221/kW of capacity. The general market in Central Europe for privatization of similar facilities was in the range of \$200 to \$300 per kW of installed capacity. The deal was in line with the market.

But, instead, the two payments of €87.5 million (for 25%) and €160 million for 60% works out to a valuation of €162/kW. We expect this to be generally in line with drops in market value in a post-Enron debacle world.

Had Electrabel paid the Ministry of the State Treasury the same valuation price as the original deal, the payment would have been almost €90 million more. But, it should be remembered that the additional payment of €61.6 million for 12.5% was to be a capital increase at the power plant, which money would not have gone to the State. We suspect that the deal that was cut allowed for recognition of a lower valuation overall, in return for which the State got an unplanned for additional payment of €160 million, but perhaps Electrabel agreed to inject more capital into Połaniec in the future in recognition of the lower valuation.

Electrabel is not able to acquire the full 100% of the shares due to a provision of the Polish Law. The law requires that some shares be set aside for employees, and that some shares be retained by the government in a special fund to cover costs of “reprivatization,” the return of properties (or the value thereof) to owners who had property taken illegally by the Communist regime after World War II.