

Decision of the ERO President on the final adjustment of LTC compensations

The Management Board of PGE Polska Grupa Energetyczna S.A. ("PGE", the "Company") discloses that on August 28, 2017 the Decision of the President of the Energy Regulatory Office (the "ERO President") was delivered regarding the settlement of the final adjustment of stranded costs for selected generators from PGE Capital Group ("PGE Group"), currently branches of PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE GiEK"), according to the Act of June 29, 2007 on coverage of stranded costs resulting at generators in relation to accelerated termination of long-term contracts (the "LTC Act").

Due to termination of the long-term contracts for sale of capacity and electricity ("LTC"), pursuant to the LTC Act, power generating units who once served as parties to such contracts have acquired the right to compensations for the coverage of the so-called stranded costs (the "LTC compensations"). Stranded costs, compensated under the rules set forth in the LTC Act, are the expenses of the power generating units, borne until May 1, 2004 for property, plant and equipment related to the production of electricity, uncovered by revenue from the sales of the electricity produced, capacity reserves and system services on the competitive market, after the premature termination of the LTCs.

The stranded costs that arose in the assets of the given generating unit and LTC compensations received in advance to cover them are at first subject to settlements on a yearly basis (by decision of the ERO President determining the amount of the yearly adjustment of the stranded costs for the subsequent years of participation of a given generating unit in the LTC compensations scheme).

Then, upon the completion of the participation of a given generating unit in the LTC compensations scheme, the ERO President makes final settlement of LTC compensations received by a given generating unit and due to that generating unit by way of decision determining the amount of the final adjustment of stranded costs.

In PGE Group, there were 6 generating units entitled to receive compensations:

- Opole power plant
- Turów power plant
- ZEDO
- Gorzów CHP
- Lublin Wrotków CHP
- Rzeszów CHP

currently constituting the branches of PGE GiEK. Due to the termination of participation of the above mentioned generating units in the LTC compensations scheme as of December 16, 2016, on April 10, 2017 PGE GiEK received information about the initiation by the ERO President of proceeding regarding the value of the final adjustment of stranded costs for PGE GiEK as a legal successor of the above mentioned generating units. After the administration proceeding, with the decision of August 25, 2017 the ERO President settled the amount of final adjustment of the stranded costs for each of the above mentioned generators, currently constituting the branches of PGE GiEK, totaling PLN (+) 938 million.

The final adjustment of stranded costs will have an impact of PLN (+) 1 212million on reported revenues and EBITDA of the PGE Group in 2017.

Impact on 2017 results is a difference between the amount of the final adjustment recognized so far in PGE's accounts and amount of final adjustment from the decision of the ERO President. LTC Act raised some serious interpretative doubt in some aspects, what was reflected inter alia in court cases regarding annual adjustments. As a result, according to international accounting standards (IAS) PGE Group recognized only revenues which were probable and did not recognize part which took risks.

The decision complies with the statement of the Court of Justice of the European Union of September 15, 2016 on the merits of taking into account changes in capital structure of generators and as a consequence, extending the period of LTC compensations until December 16, 2016.

The Management Board of PGE informs that, pursuant to the LTC Act, the amount of the final adjustment determined by the ERO President in the above mentioned decision, i.e. PLN 938 million, will be paid to PGE GiEK by Zarządca Rozliczeń S.A. by December 31, 2017. The decision can be appealed at the District Court in Warsaw – Court of Competition and Consumers Protection, within two weeks of its delivery to PGE GiEK. Nevertheless, the amount of the final adjustment determined in the decision is consistent with the Company's expectations.

The Management Board of PGE informs that the decision of the ERO President settling the amount of the stranded costs, in case there's no decision to appeal, determines the ultimate amount of LTC compensations due to PGE GiEK as a legal successor of the above mentioned generating units.

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