



PGE Group with good results on difficult market in 2018

- PGE Group is continuing a trend of very good operating results. In 2018, it produced a record volume of electricity (65.9 TWh, up by 16% y/y) and sold a record volume of heat (49.7 PJ, up by 100% y/y), which is the effect of consolidating the assets held by PGE Energia Ciepła.
- PGE is also recording systematic growth in retail electricity sales, which in 2018 reached 42.57 TWh (up by 5%), and in distribution (36.4 TWh, up by 3%).
- In 2018, the Group posted solid EBITDA of more than PLN 6.4 billion, with PLN 1.5 billion in net profit. EBITDA adjusted for one-off items reached PLN 6.7 billion, up by 3% y/y.
- The Group is continuing its process of transformation towards low emissions. By 2025, thanks to investments in new generating capacities based on gas fuel and renewable energy sources, it intends to reduce the net emission factor from 0.88 t/MWh to 0.78 t/MWh.
- In 2018, PGE increased expenditures in the distribution area by 8% to PLN 1.85 billion, which translates into greater energy supply security.
- The Group is successively developing in the electromobility area. In March this year, it launched the first commercial EV carsharing service, while PGE Nowa Energia's charging stations are already available in seven Polish cities.
- Fitch Ratings has affirmed PGE's long-term rating at BBB+, with stable outlook. Moody's rating is also at investment grade: Baa1 with stable outlook.

Operating results

In 2018, PGE Group produced 65.9 TWh of electricity, up by 16% from 2017. Almost exactly as last year, 39 TWh came from lignite.

Hard coal-based electricity production reached 20.7 TWh, denoting 67% growth from the base period. This is the effect of having recognised in the reported results the acquired CHPs (EC Kraków, EC Gdańsk, EC Gdynia, EC Wrocław, EC Czechnica), which produced a total of 2.81 TWh, and the Rybnik plant, which contributed 4.55 TWh.

The volume of gas-based output increased by 44% in 2018 to 4.12 TWh. This was due to having included in the reported results the assets of PGE Energia Ciepła (EC Toruń, EC Zielona Góra, EC Zawidawie), which produced a total of 1.46 TWh.

Electricity distribution volume in 2018 reached 36.41 TWh, up by 3% from the base period.

Leader in Polish energy sector

"This is our first full annual report since the acquisition of EDF's assets in 2017, and the positive effects of this transaction are clearly visible. This was a record year in terms of electricity production, which we increased by 16%, and heat sales, which went up by 100%. It should be emphasised that following the 2017 transaction heat is becoming an increasingly important part of PGE Group's business – our share in the cogeneration market currently stands at 25%, with revenue from the sale of heat reaching PLN 2 billion. This is cementing our position as the undisputed leader of the Polish energy sector," says **Henryk Baranowski, CEO of PGE Polska Grupa Energetyczna.**

Financial results

Consolidated EBITDA in 2018 reached PLN 6.4 billion, down by 17% y/y. The lower reported EBITDA resulted from a high base, which was the effect of recognising last year PLN 1.2 billion in revenue from a final adjustment of long-term contracts. Recurring EBITDA, adjusted for one-off items, reached PLN 6.7 billion, up by 3% y/y.

The Conventional Generation segment (including PGE Energia Ciepła) accounted for the largest share of PGE Group's EBITDA in 2018, contributing more than PLN 2.9 billion. The Distribution segment closed the reported period with nearly PLN 2.5 billion. The Supply segment accounted for PLN 263 million, while the Renewables segment brought in PLN 463 million.

"In 2018, we posted very good operating results, which despite difficult and challenging surroundings translated into good financial results. We are currently focusing on implementing our flagship development projects, mainly the construction of gas-fired units as well as onshore and offshore wind farms, which are contributing to emission reductions and thus serve as proof that we are also a leader in energy transformation," says **Henryk Baranowski.**

Investment expenditures

Capital expenditures in 2018 reached PLN 6.9 billion. Work progress at the construction of two units at the Opole plant with total capacity of 1800 MW reached 96%. Unit 5 was synchronised with the national power system in January 2019, meaning that first electricity was produced, and in February the unit for the first time operated at 931 MW capacity, i.e. exceeding its rated power. At unit 6, final assembly works are under-way and start-up works began on the unit's equipment as well as on preparing the electrical systems for connecting the national power system with the unit's off-take transformers. The investment is planned to be completed on June 15, 2019, in the case of unit 5 and on September 30, 2019, in the case of unit 6.

The construction of a 490 MW unit at the Turów plant is also successively progressing. A boiler pressure test was successfully conducted, allowing the project to move from the assembly works stage into the unit start-up stage. Installations for ancillary tasks are also being launched. Overall work progress at the construction site is at approx. 84%. The unit should be put into service in the first half

of 2020.

Thermal Processing Installation with Energy Recovery

The construction of an installation for the thermal processing of waste with energy recovery in Rzeszów was also finalised. This unit already serves the local community in pursuing the eco-friendly concept of circular economy. The investment, which processes 100 000 tonnes of waste per year, is intended to diversify the fuel mix, while taking into account local needs and fuel availability, in line with PGE Group's District Heating Strategy.

Consolidation in district heating

The Group completed the process of consolidating its district heating assets in 2018. Having transferred assets from PGE Górnictwo i Energetyka Konwencjonalna to PGE Energia Ciepła, one strong district heating entity was formed – the largest company on the heating market in Poland, with 14 CHPs in the largest cities, with total installed heating capacity of 7.7 GW and 4.1 GW of electric capacity.

Offshore wind farms

In December 2018, PGE began a search for a strategic partner to prepare, build and operate offshore wind farms in the Baltic Sea with total capacity of up to 2545 MW, as the first stage of the Group's offshore programme. PGE intends to eventually sell a 50% stake in two special purpose vehicles, which will prepare the offshore wind farm projects, and subsequently implement these projects with the partner on a joint venture basis. 13 potential partners from around the world responded in January 2019 to the invitation to participate in the project. The Group intends to close the transaction in the third quarter of 2019. At the current stage of the project, necessary environmental permits are being secured, wind speed tests are being conducted and works concerning capacity off-take and other technical activities are under-way. Preparations for preliminary geological surveys are also in progress.

Onshore wind farms

PGE is also investing in wind farms on land. Three wind farms with total installed capacity of 97.17 MW will be built by the end of the first half of 2020 in the Zachodniopomorskie voivodship as part of the "Klaster" investment. This project will be possible because Klaster won an auction to sell electricity from renewable energy sources.

Gas-and-steam units

The Group is also investing in gas-fired assets. New gas-and-steam units will be built at the Dolna Odra plant, among other sites, thus utilising the potential stemming from the availability of fuel being delivered to the LNG terminal and over the planned Baltic Pipe. Thanks to a decision to select the variant with an H/J class gas turbine, i.e. even more efficient and low-emission, the two new gas units at Dolna Odra will be in the 700 MW class. The process to select the general contractor is expected to begin in the second quarter of 2019. The units have already passed general certification and should participate in the nearest capacity market auction with planned delivery in 2024.

Cogeneration

In December 2018, PGE Group's investment committee issued a positive recommendation to continue building the new CHP Czechnica. The construction of this modern production unit is aligned with PGE Group's District Heating Strategy, which aims to enhance energy security and improve the quality of air in Polish cities. The industrial gas-based unit will replace the existing coal-based unit. The CHP's overall heat capacity will increase from the existing 247 MWt to approx. 320 MWt, while electric capacity will go up from 100 MWe to approx. 170 MWe.

Distribution grids

PGE is also investing in the security of supply, implementing numerous projects, mainly in the area of mid- and low-voltage lines. In 2018, expenditures in this segment grew by 8% to PLN 1.85 billion. The Group is also aiming to increase the share of cable lines from 20% currently to 30%. This means an additional PLN 1.9 billion in the distribution area's investment budget.

Electromobility

PGE is successively developing in the electromobility area. PGE Group currently has 11 EV charging stations in seven Polish cities (Warsaw, Łódź, Siedlce, Zakopane, Łądek Zdrój, Rzeszów and Krynica Zdrój). Charging stations in Bełchatów, Nowy Sącz, Arłamów and additional stations in Rzeszów will be launched next month. The company is in advanced talks regarding additional installations at new locations. PGE Group's first commercial EV carsharing service is operating in Siedlce. A special zone was set up in the city, in which customers can rent and return electric vehicles using a smartphone app.

Credit ratings

In a credit opinion published on February 15, Fitch Ratings affirmed a long-term rating for PGE Polska Grupa Energetyczna at BBB+ with stable outlook. The latest rating takes into account forecast revenue from the capacity market, transfer of higher prices of CO2 emission allowances to wholesale electricity prices, the advanced construction stage of the new units in Opole and Turów and PGE's development in the district heating sector.



(https://cmsstatic.gkpgge.pl/var/gkpgge_site/storage/images/_aliases/galleryfull/4/3/4/5/335434-3-pol-PL/opole-marzec-2019.jpg)



(https://cmsstatic.gkpgge.pl/var/gkpgge_site/storage/images/_aliases/galleryfull/0/3/4/5/335430-3-pol-PL/turow-marzec-2019.jpg)