Investor Release

February 16, 2016

Details of the webcast from the meeting with CEO & CFO
February 17, 2016 (Wednesday), 9.00 AM CET

Link to the webcast: www.gkpge.pl/en
Questions for Q&A session allowed via email: pgeresults@gkpge.pl

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Very good financial and operating performance in 2015 across all segments
Distribution business chasing quality, however under pressure with new regulations
Wind of change in renewables
Dividend – too early to propose distribution of profit

- Group FY EBITDA of PLN 8.2 bn (+1% yoy); Group recurring FY EBITDA result of PLN 7.5 bn
- Net cash from operations of PLN 6.8 bn
- Our generation and distribution assets at high level of operating performance – net generation +1% yoy, distribution volume +3% yoy, supply volume -2% yoy
- Dividend policy changed: 40-50% of the consolidated net profit adjusted by impairment of assets
- Update of regulations: change of RES support scheme, revised model of distribution asset's remuneration, new items in capacity mechanisms

Dividend

On October 15, 2015 we paid out dividend from 2014 profit with DPS of PLN 0.78 - in line with 2014 dividend policy.

As of 2015 dividend policy was changed to adjust for assets impairments. Due to the dynamic market environment it is too early to declare the proposed distribution of 2015 profit. Final decision pending until the Ordinary General Meeting.

Key projects gateway

Opole II project is progressing in line with the adopted schedule reaching 35% of project advancement in February 2016.

Turów unit required substantial redesign to meet the requirements of BAT Conclusions for new units. Currently, engineers are working on project documentation while the excavation work for main objects are carried out.

Our third major project - cogeneration unit in Gorzów – is at the most advanced stage of works. Trial run scheduled for Q1 2016.

Wind of changes in renewables. We have completed projects of 4 wind farms with a total capacity of 218 MW almost doubling wind power generation capacity. With total of 529 MW installed in wind PGE took the leadership in installed onshore wind capacities in Poland.

Regulatory update

Amended in December 2015 RES Act reduces support for biomass co-combustion and remove it at all for large hydro - both already effective since January 2016. Moreover, launch of the feed-in tariff and scheduling of the first auction was postponed until July, with further expected potential law amendment.

New regulation strategy for distribution operators for 2016-2020 introduced as of January 2016. Approved tariffs under reviewed WACC computation model meeting revised parameters. Final WACC was set at 5.675%. Coefficients introduced in new model: regulator's adjustment in 2016 set at 1.0, base year for quality rating just started – first quality coefficient to enter the model in 2018.

Changes in capacity mechanisms: Operational Reserve (ORM) in 2016 with budget extended of over 20% and enriched by mechanism enabling full budget utilization. Interventional Cold Reserve (IRZ) kicked-off in January 2016 with PGE's Dolna Odra power plant representing over half of total IRZ capacities in Poland.

Q4 and FY 2015 PGE Group Results

Polska Grupa Energetyczna

February 16, 2016

Key Financials

PLNm	Q4 2015	Q4 2014	y-o-y [%]	FY 2015	FY 2014	y-o-y [%]
Sales	7 381	7 281	1%	28 542	28 143	1%
*Sales recurring**	*7 279*	*7 096*	3%	*27 996*	*26 604*	*5%*
EBITDA	1 997	1 420	41%	8 228	8 129	1%
*EBITDA recurring**	*1 970*	*1 558*	26%	*7 511*	*6 340*	*18%*
EBIT	1 273	633	101%	-3 589	5 096	n.a.
*EBIT recurring**	*1 353*	*846*	60%	*4 733*	*3 463*	*37%*
Net profit (to equity)	995	439	127%	-3 032	3 638	n.a.
*Net profit (to equity) recurring**	*1 061*	*612*	73%	*3 708*	*2 634*	*41%*

EBITDA by segments

PLNm	Q4 2015	Q4 2014	y-o-y [%]	FY 2015	FY 2014	y-o-y [%]
Conventional Generation	1 112	722	54%	4 698	4 983	-6%
Renewables	113	67	69%	391	391	0%
Distribution	596	535	11%	2 461	2 329	6%
Supply	187	46	307%	610	246	148%

EBIT by segments

PLNm	Q4 2015	Q4 2014	y-o-y [%]	FY 2015	FY 2014	y-o-y [%]
Conventional Generation	739	286	158%	-5 732	3 296	-274%
Renewables	2	10	-80%	107	174	-39%
Distribution	318	272	17%	1 387	1 306	6%
Supply	180	41	339%	585	228	157%

Key operating data

TWh	Q4 2015	Q4 2014	y-o-y [%]	FY 2015	FY 2014	y-o-y [%]
Net Generation Volume	13.84	14.42	-4%	55.58	54.84	1%
Sales on the Wholesale Market	15.31	18.65	-18%	60.89	62.44	-2%
Sales to End-users	9.97	10.27	-3%	39.00	39.64	-2%
Electricity Distribution Volume	8.58	8.48	1%	33.38	32.54	3%

Electricity generation by source

TWh	Q4 2015	Q4 2014	y-o-y [%]	FY 2015	FY 2014	y-o-y [%]
Lignite-fired power plants	9.34	10.07	-7%	38.98	39.22	-1%
Hard coal-fired power plants	2.72	2.81	-3%	11.04	11.35	-3%
Coal-fired CHPs	0.38	0.32	19%	1.30	1.10	18%
Gas-fired CHPs	0.75	0.76	-1%	2.05	1.16	77%
Biomass CHPs	0.12	0.08	50%	0.46	0.43	7%
Pumped storage	0.20	0.13	54%	0.57	0.52	10%
Hydro	0.05	0.08	-38%	0.36	0.42	-14%
Wind	0.28	0.17	65%	0.82	0.64	28%
TOTAL	13.84	14.42	-4%	55.58	54.84	1%
Renewable generation	0.63	0.56	13%	2.41	2.32	4%
incl. biomass co-combustion	0.18	0.23	-22%	0.77	0.83	-7%

* For details please see the presentation page 23

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1. Does the net loss of PLN 3 bn imply that PGE will not pay the FY15 income tax?

Financial reporting and tax reporting are parallel activities. Tax law defines the catalogue of items which are involved in computation of net profit for tax purposes. Our FY15 net loss was caused by the fixed assets impairment. From the perspective of tax authorities, fixed assets impairments are not involved in computation of net profit for tax purposes. We keep paying taxes.

2. In 4Q'15 net debt of PGE expanded by PLN 2.5 bn qoq (following fairly stable 9M'15), what caused such a large swing?

- FY15 was planned to be a year of ambitious capital investments, mainly because of power plant in Opole. 4Q'15 CAPEX contributed nearly 40% of annual CAPEX figure (the book value of tangible assets expanded in Q4'15 by PLN 3.2 billion qoq).
- In 4Q'15 we paid out PLN 1.5 bn of dividend, while a year ago we did this in third quarter.

	FY 2015	FY 2014 (restated)
Net debt (cash) end of period [PLN m]	2,637	-1,018
Net Debt/LTM EBITDA	0.32x	-0.13x

3. In FY15 capitalized costs of stripping amounted to PLN 778 million vs. PLN 578 million. What is behinds such a dynamics? How is the process reflected in your books? Is that growth sustainable?

Whether costs of stripping (i.e. removal of the overburden) are capitalized depends on the overburden-to-lignite ratio (O/L). When the period's O/L ratio is beyond the average value[1] (which indicates abnormal overburden extraction during the year), then the abnormal fraction of stripping costs is capitalized, as the extracted overburden will bring economic benefits in future periods (i.e. it had provided access to lignite). The increase of capitalized stripping costs in FY15 was driven by the field Szczerców, which is relatively new and required more preparatory works.

It should be stressed, however, that not entire stripping costs are capitalized. Only the excessive fraction is. The remainder goes to OPEX. The impact of stripping on the financial results is mixed: The capitalized stripping costs reduces total costs by kind figure (negative adjustment). Capitalized costs bypass current periods P&L, instead they will go into future P&Ls through depreciation line. However one cannot say that the more stripping during the year the greater EBITDA. Although this logic do apply to fixed costs which can be partially postponed through capitalization but do not apply to variable costs which increase mutually with stripping. Since in our lignite business fixed costs outweigh, we can say, as a rule of thumb, that stripping supports our annual results, but again, bear in mind this is not straightforward relation.

4. What drove PLN 316 million yoy decline in net financial costs?

Financial costs dropped yoy mainly because the base year figure contained the impairment losses related to bonds of Autostrada Wielkopolska (PLN 386 million on pre-tax level). On the other hand, financial income also lowered by PLN 111 yoy because of declining cash balance.

5. How were the FY15 results shaped by one-offs?

First, please remember that impact on one-offs depends on the layer of P&L (i.e. It depends whether we focus on EBITDA, EBIT, net profit to equity).

One-offs had adverse impact on FY15 reported EBITDA (total adverse impact of PLN -1.1 bn compared to FY14).

- LTC revenues were lower by PLN 1.2 bn compared to FY14.
- Recall that FY14 reported EBITDA was additionally fueled by the release of CO2 provision (PLN 751 million) which did not reoccurred in FY15.

[1] Average value has been defined based on long term geological estimates when PGE adopted IFRIC20. The average O/L ratio means: remaining overburden to remaining lignite (it refers to the terminal horizon of lignite deposit).

- The costs Voluntary Leave Program decreased base year EBITDA by PLN 404 million, while in FY15 we released VLP provision amounting to PLN 20 million.
- Finally, the mutual impact of reclamation provision and actuarial provision was supportive for FY15 reported figure and adverse for FY14 figure, which drove PLN 0.5 bn yoy swing on reported EBITDA.

Fixed assets impairment of c. PLN 9 bn was neutral to reported EBITDA (because impairments are included in D&A line), but this should be added back to arrive at the recurring EBIT.
At the Net profit to equity level, the yoy comparability was additionally distorted by bonds impairment, which decreased the bottom line in FY14 by PLN 313 million.

* Please have a look on detailed summary of one-offs we provided in our annual presentation, page 23.

6. What is the progress in the Voluntary Leave Program?

During years 2014-2015 over 2,300 people participated in the group-wide VLP program. About one-fifth of the initial PLN 404 million provision created last year still remains available.

PLN m	FY15	FY14
VLP provision balance bop	235	3
creation of provision (release)	-20	404
utilization	-146	-171
provision balance eop	70	235

Participation in VLP (no. of employees)	FY15	FY14
Conventional Generation segment	802	1154
Distribution segment	200	0
Renewables segment	49	0
Supply segment	116	0
PGE Group	1 167	1 154

Precise quantification of savings on personnel cost is complex because of distorted time-pattern (lags).