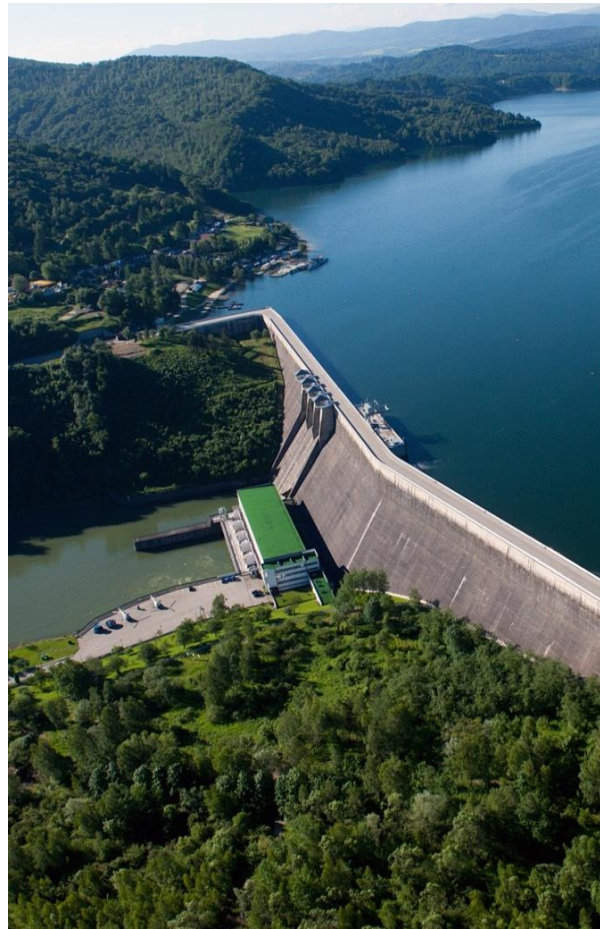


# H1 & Q2 2014 Financial and Operating Results

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August 27, 2014



# H1 & Q2 2014 Financial and Operating Results



- Key takeaways



Marek Woszczyk  
- President and CEO

# Highlights of H1 & Q2 2014

## Q2 financial results

PLN 2.9 bn  
EBITDA

PLN 1.4 bn  
recurring  
EBITDA

PLN 1.7 bn  
Net profit to  
equity

## Costs management

H1 labour  
costs flat  
(VLP adjusted\*)

Lower hard  
coal prices

Savings  
program  
on track

## Investments commitment

Turów  
contract  
signed

Retrofits of  
lignite assets  
in Bełchatów  
as planned

Wind farms  
investments  
as planned

## External financing

EUR 2 bn  
bond  
program  
established

Great  
demand  
- 8.4x  
oversubscri-  
bed

Investment  
grade ratings  
confirmed  
-stable  
outlook

# Operational performance in line with expectations

## Operating results

	<b>Q2 2014</b>	<b>% yoy</b>	<b>H1 2014</b>	<b>% yoy</b>
Net electricity generation	13.12 TWh	-3%	26.62 TWh	-6%
Distribution volume	7.73 TWh	+1%	15.95 TWh	+2%
Sales to end users	9.65 TWh	+8%	19.53 TWh	+9%

## Macroeconomic environment

	<b>Q2 2014</b>	<b>Q2 2013</b>	<b>H1 2014</b>	<b>H1 2013</b>
Real GDP growth	3.2%	0.8%	3.4%	0.7%
Domestic Electricity Consumption growth	0.9%	0.7%	-0.3%	-0.4%
Domestic Electricity Consumption	37.26 TWh	36.93 TWh	78.49 TWh	78.74 TWh

# Investment gateway

Opole II	Turów U11	Gorzów CHP	Retrofits of Bełchatów U7-12	Renewables	
<p><b>Project on schedule</b></p> <p><b>Site preparation and excavation works ongoing</b></p> <p>Engineering &amp; procurement works advanced</p> <p>Completion of excavation for Unit 6's boiler &amp; turbine island (next milestone) expected soon</p>	<p><b>EPC agreement signed on July 10, 2014</b></p> <p>496 MW gross (450 MW net)</p> <p>Net efficiency: ca. 43.4 %</p> <p><b>Notice to proceed to be issued by December 31, 2014</b></p>	<p><b>Initial construction works commenced</b></p> <p>138 MWe gross Net efficiency:</p> <ul style="list-style-type: none"> <li>• ca. 52.5 % (condensation);</li> <li>• 84% (cogeneration)</li> </ul>	<p><b>Units 11&amp;12 in progress to be completed in 2015.</b></p> <p>Units 7&amp;8 completed in 2013</p> <p>Units 9&amp;10 in preparation to be completed in 2016</p> <p>In total 120MW of new capacity after completion of retrofits</p>	<p><b>New on-shore wind capacity of 246MW</b></p> <p>Wojciechowo 28MW completed in H1 2014</p> <p>Karwice 40MW, construction started, to be completed in 2015</p> <p>Lotnisko 90MW, contracts signed, to be completed in 2015</p> <p>Resko II 76MW, tenders in progress, to be completed in 2015</p> <p>Kisielice II 12MW, tender in progress, to be completed in 2015</p>	<div> <div>U11 retrofit</div> <div>U12 retrofit</div> <div>Wind farms</div> <div>Gorzów CCGT</div> <div>U9 retrofit</div> <div>U10 retrofit</div> <div>Opole U5</div> <div>Opole U6</div> <div>Turów</div> </div> <div> <div>H1 '15</div> <div>H2 '15</div> <div>H1 '16</div> <div>H2 '16</div> <div>H1 '17</div> <div>H2 '17</div> <div>H1 '18</div> <div>H2 '18</div> <div>H1 '19</div> <div>H2 '19</div> </div>
<b>Capex H1 2014: PLN 127m</b>	<b>Capex H1 2014: PLN 4m</b>	<b>Capex H1 2014: PLN 2m</b>	<b>Capex H1 2014: PLN 532m</b>	<b>Capex H1 2014: PLN 142m</b>	

# Regulatory developments impacting the business

## Carbon allowances

### **Allowances for 2013 generation granted**

Allowances for 2014 heat generation granted

Allowances for 2014 and 2015 electricity generation secured due to large investments already realized by PGE

## Capacity markets

Introduction of **Operational Reserve Mechanism restored stability** to the conventional generation business

**Cold reserve from 2016** to deliver more safety to the system

Ongoing **works to create a capacity market**

## Support schemes

**Unpredictability of support schemes for cogeneration and renewables hampers business**

**Cogeneration support restored as of May 2014** and to be sustained till the end of 2018

**Tight supply of green certificates** together with delayed approval of RES law distort the market

## LTC Compensations

**Final LTC adjustment reviewed due to updated assumptions for discount rate**

ERO President decision on **2013 annual adjustment - in line with PGE application**



# H1 & Q2 2014 Financial and Operating Results



## Detailed financial and operating results



Magdalena Bartoś  
- Managing Director, CFO

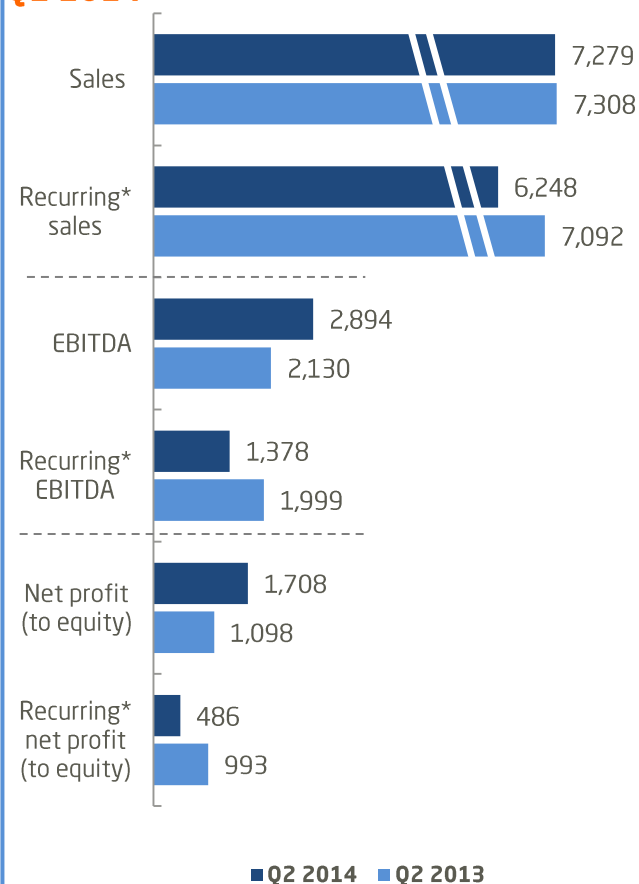
# Key financial results

PLNm	Q2 2014	Q2 2013	diff. y-o-y %
Sales revenues	7,279	7,308	0%
EBITDA	2,894	2,130	36%
Recurring* EBITDA	1,378	1,999	-31%
Net profit to equity	1,708	1,098	56%
Earning per share (PLN)	0.92	0.58	59%

Net cash from operating activities	695	1,887	-63%
CAPEX	1,231	865	42%
Net cash (end of period)	1,920	2,386**	

Credit ratings	Rating	Outlook
Fitch	BBB+	Stable
Moody's	Baa1	Stable

## Q2 2014



\*Recurring = excluding significant one-off items

\*\* As at March 31, 2014



# Key one-off items impacting the business ...

## LTC Compensations

**Final compensation estimate updated due to discount rate review**

**LTC impact breaks into:**

- PLN 911m from revaluation of final compensation
- PLN 120m from „regular“ LTC compensations
- PLN 246m from court verdicts

<b>Sales:</b>	<b>PLN 1,031m</b>
<b>Other revenues:</b>	<b>PLN 246m</b>
<b>EBITDA:</b>	<b>PLN 1,277m</b>
<b>Net profit to equity:</b>	<b>PLN 1,031m</b>

## Discount rate

**Changing cost of money resulted in decrease of discount rate** applied by PGE

Discount rate changed from 4.35% to 3.50%

Modification of the discount rate resulted in unwinding provisions for land restoration and employment benefits

<b>EBITDA:</b>	<b>PLN (648m)</b>
<b>Net profit to equity:</b>	<b>PLN (523m)</b>

## Carbon allowances

**Carbon allowances for electricity generation in 2013 granted** in April 2014  
- PLN 751m impact

**Free carbon allowances for Q1 2014** written back - PLN 136m impact

<b>EBITDA:</b>	<b>PLN 887m</b>
<b>Net profit to equity:</b>	<b>PLN 715m</b>

# ... adding on optimization programs aimed to deliver sustainable savings ...

### Conventional Generation

- Consistent implementation of programs improving operational efficiency
- Central procurement
- Increased capacity of refurbished units 7-12 in Bełchatów
- Employment restructuring

### Distribution and Supply

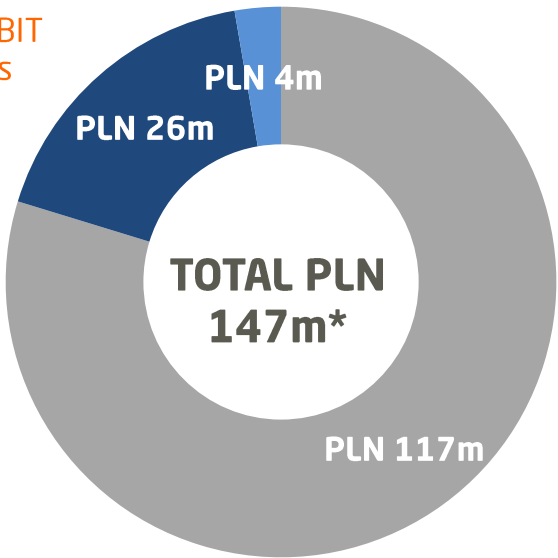
- Limitation of network losses and outages
- Operational redesign programs
- Agency sales channels
- Employment restructuring

### Renewable Energy

- Rationalization of fixed costs
- Streamlining and consolidation of the business structure



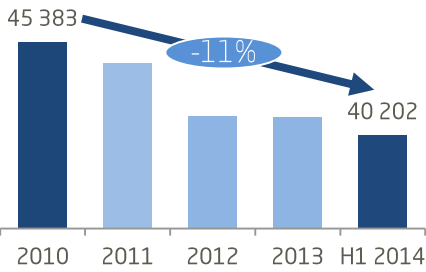
Impact on EBIT  
by segments  
H1 2014



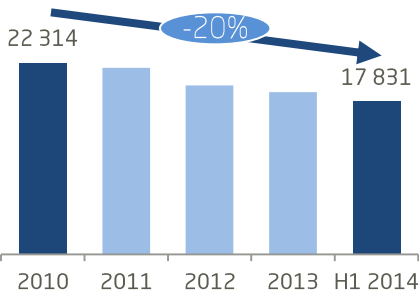
Generation      Distribution      Supply

\* Sustainable: 82%, non-recurring: 18%

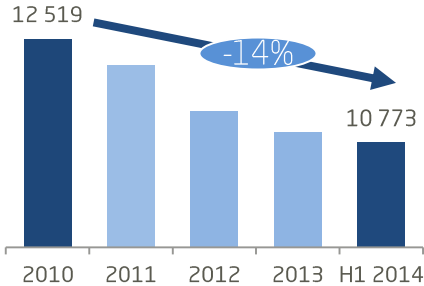
PGE Group



Conventional generation

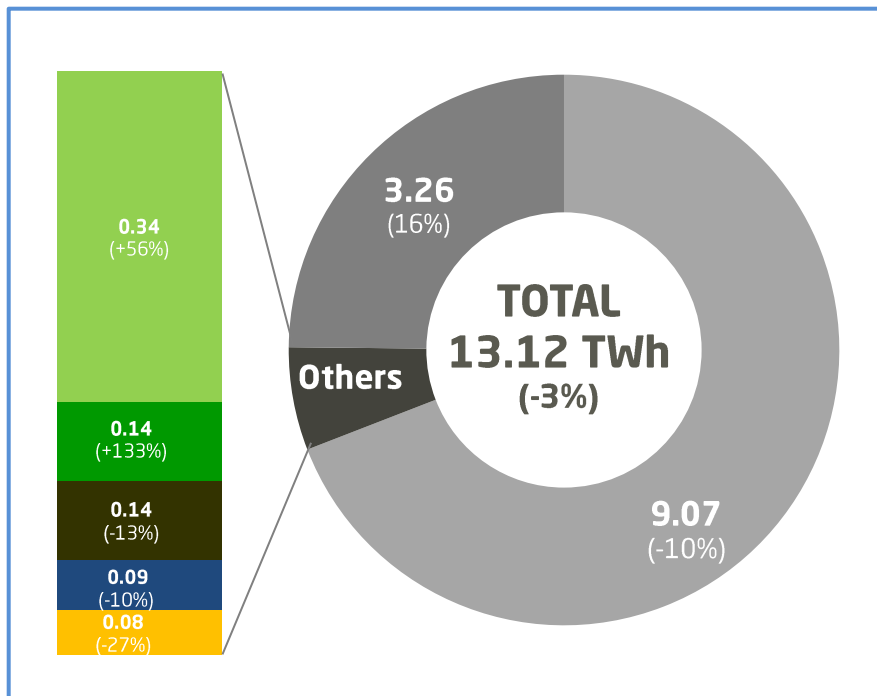


Distribution

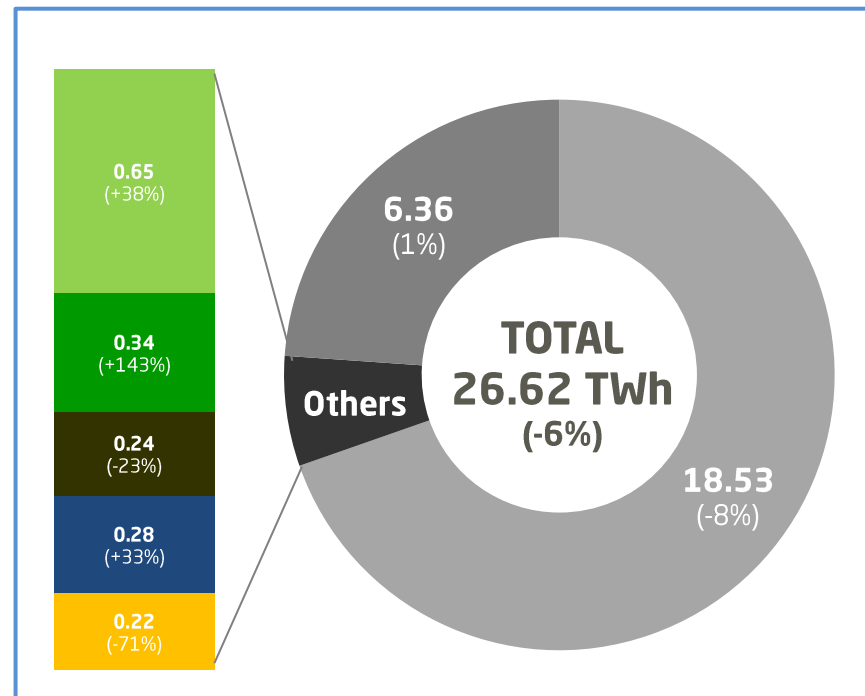


# Generation - performance excellence on a demanding market ...

Q2 2014 production (% change y-o-y)



HY 2014 production (% change y-o-y)



Lignite
  Hard coal
  Gas
  Pump-storage
  Hydro
  Wind
  Biomass

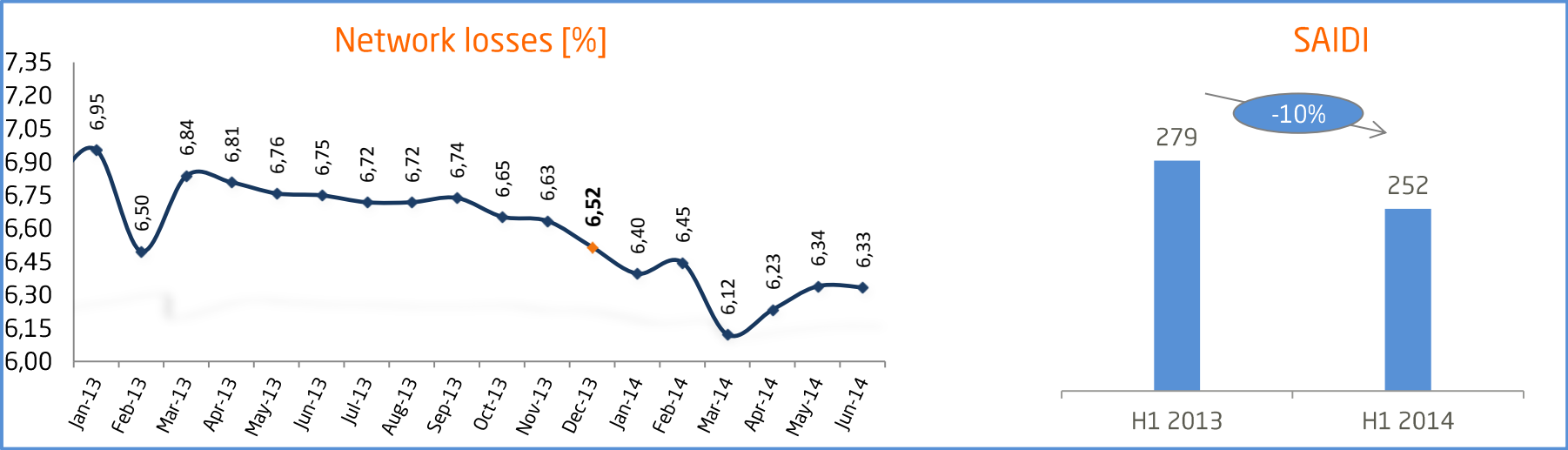
- Lower production from lignite due to decommissioned unit 10 in Turów and as a result of a month long repair at 858MW unit in Bełchatów
- Hard coal production sustained even after decommissioned unit in Dolna Odra in 2013
- Gas fired CHPs generation lower after production in Lublin and Rzeszów ceased in March 2013 due to lack of support for cogeneration.
- Renewables generation increased and amounted to 0.62 TWh due to improved economics of biomass co-combustion and contribution from new wind assets. RES generation hampered however by adverse hydro conditions.

# ... requires operating excellence of generation and distribution assets

## Generation assets

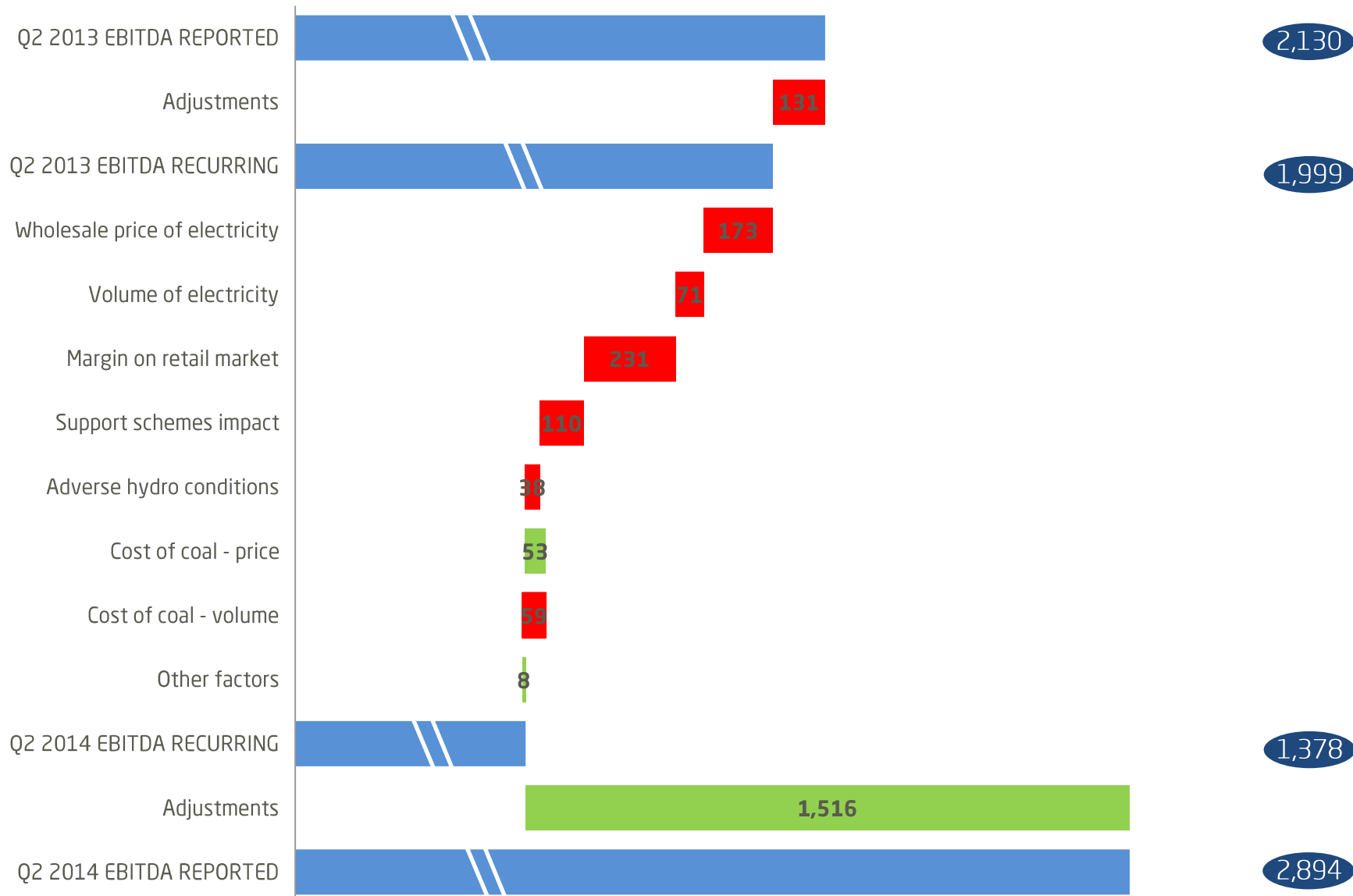
	Lignite	Hard coal	CHPs	Wind assets
Availability H1 2014	80.9%	85.2%	92.1%	98.2%
Availability H1 2013	84.2%	89.5%	84.5%	98.2%
Load factor H1 2014	85.7%	69.7%	70.5%	26.7%
Load factor H1 2013	87.3%	70.9%	62.7%	n/a

## Distribution assets

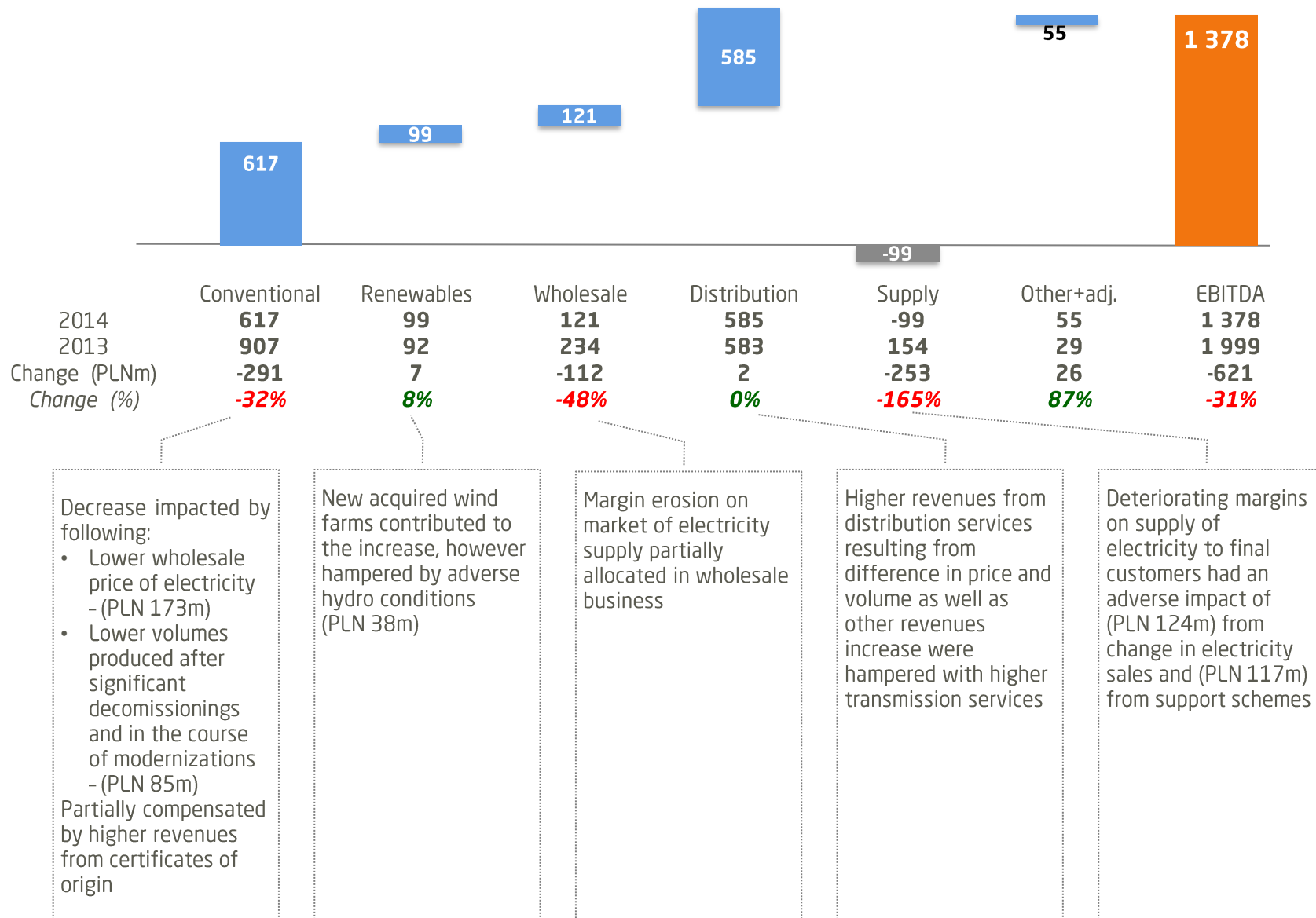


# Development of EBITDA by major value drivers

PLNm



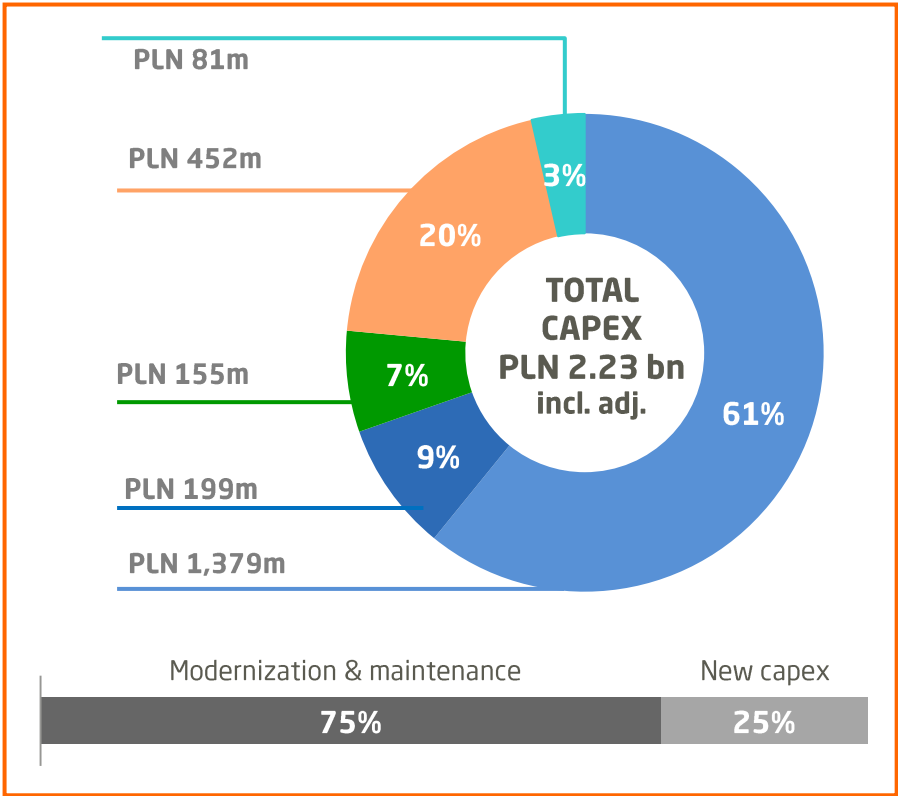
# Recurring\* Q2 2014 EBITDA - composition and development



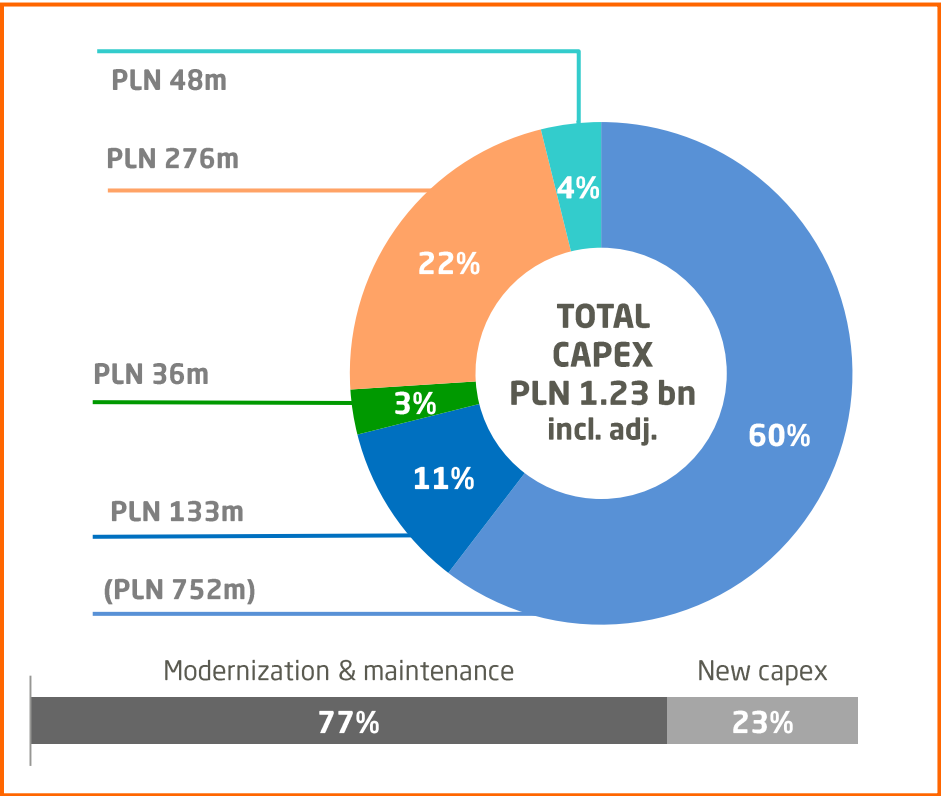
\* Recurring = excluding significant one-off items

# Capital expenditures in H1 2014 and Q2 2014

CAPEX for H1 2014



CAPEX for Q2 2014



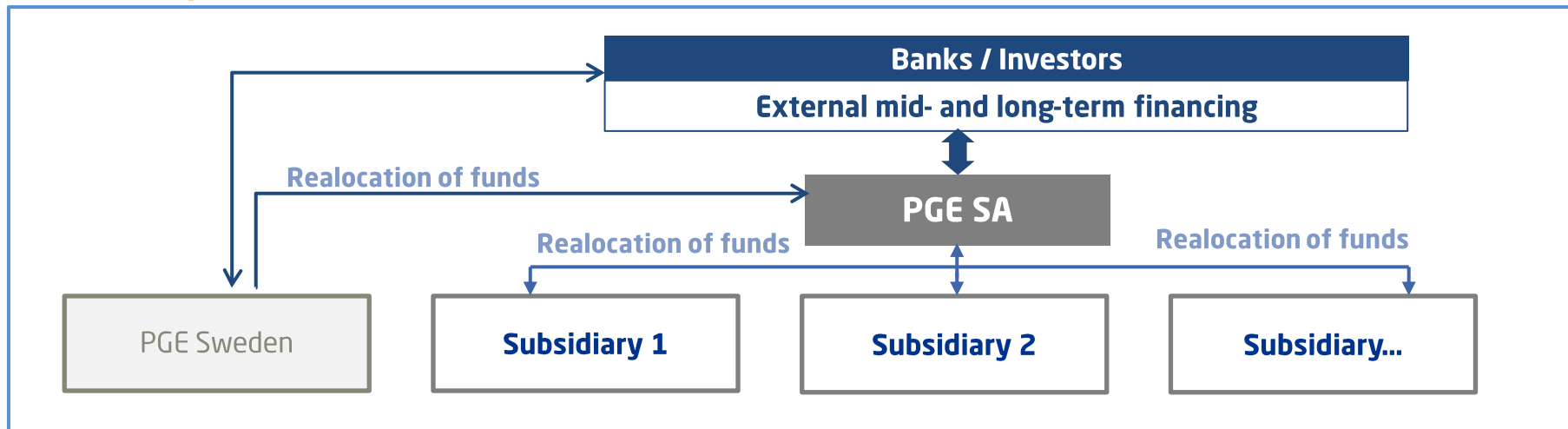
Conventional Generation - new capex    Conventional Generation - modernization, maintenance & other    Renewables    Distribution    Supply, Wholesale, Other

- Refurbishment and modernization of lignite assets in Bełchatów amounted to approx. PLN 532m in H1
- Construction of units 5&6 in Opole amounted to PLN 127m
- Distribution capex amounted to PLN 452m
  - Including PLN 202m on new clients connections



# Market conditions allow to secure funds for upcoming capex

## Financing model



## Eurobond issue

- **EUR 2bn program**
  - Issuer - PGE Sweden AB (Publ), 100% subsidiary of PGE Polska Grupa Energetyczna S.A.
- Public offer of EUR 500m:
  - **5 year tenure**
  - **8.4x oversubscribed** by app. 300 potential investors
  - **One of the lowest margins ever by a CEE corporate borrower - Mid-Swap +98 bps and a coupon 1.625%**
- Private placement of EUR 138m:
  - **15 year tenure issued at Mid-Swap +118 bps and a coupon 3.0%**
- Listing - Luxembourg Stock Exchange

# H1 & Q2 2014 Financial and Operating Results

Looking ahead of H1 2014 ...



Marek Woszczyk  
- President and CEO



Magdalena Bartoś  
- Managing Director, CFO

# Looking ahead of H1 2014 ...

## Electricity markets

- Introduction of Operational Reserve Mechanism improved profitability of conventional generation
  - Discussed changes in the system
- Cross-border exchange and price development drivers were incorporated in the strategy and investments assumptions
- Dynamics of the electricity consumption after mild winter catching up already reaching last year levels

## Carbon allowances - wider perspective

- Short and mid term outlook for carbon allowances in line with investments assumptions
- Discussion on emission reduction targets for the 2030 perspective
  - Potential impact on the supply of allowances within 2020 perspective limited

## Model of trading

- Competition on the supply market resulted in margin erosion
- Strategy of trading as a key component of the business strategy
  - Intensive works in implementing a new model of trading in advanced stage

## Fuel situation

- Hard coal supplies secured from local mining companies with flexible agreements beneficial to all parties
- Gas fired CHP units will resume operations starting from the autumn heating season
- Current economics of biomass allows for increase in co-combustion

# 180 days developments - streamlining of the Group to foster operations

## Tax Group

- Creating one Tax Group of PGE will allow for:
  - Single tax unit treatment of PGE
  - Lower tax burden
  - Lower risk of transfer prices
  - Lower CAPEX
- After creation PGE Tax Group will constitute the largest tax group in Poland
- Expected start date - January 2015

## Cash pool and Cash Management

- Implementation of a zero-balancing physical cash pool and related cash management solutions brings about:
  - Better liquidity management
  - Improved capital management and less needs for external financing
  - Decreased cost of capital on the consolidated level
  - Lower bank fees
  - Accurate forecasts for working capital financing

## Accounting & payroll processing

- Consolidation of accounting services and payroll processing
- Designed to deliver performance excellence and process standardization across the Group
- Will provide best in class services based on in-house competencies and better use of resources
- Will allow for full utilization of a single ERP (SAP)
- Expected kick-off - January 2015

## SAP implementation

- PGE is currently in the course of SAP implementation that provides for:
  - Process and transaction treatment standardization including: Accounting, Treasury, Financial Planning, HR, Asset Management and Sourcing
  - Fully interfaced with other IT systems
  - Accounts Payable and HR documents workflow
- All Group entities in scope of the project
- All modules procured and in implementation phase

# Division EBITDA & CAPEX outlook for 2014 update

**2014 outlook  
vs 2013**

**Main drivers**

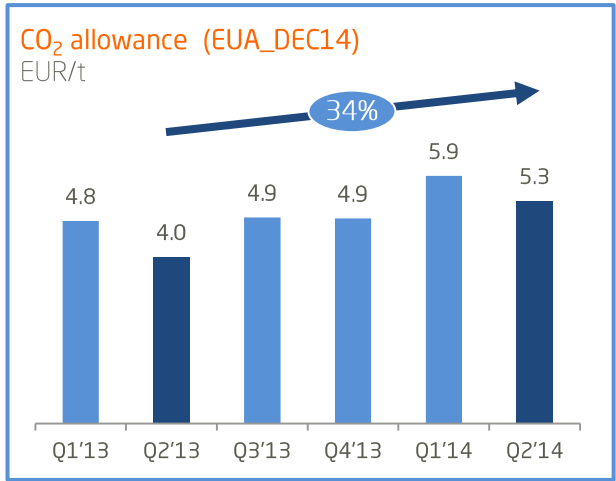
<b>Conventional Generation</b>	Higher	<ul style="list-style-type: none"> <li>+ LTC model update</li> <li>+ Clear outlook for carbon allowances</li> <li>+ Efficiency programs, better utilization of lignite assets and lower price of hard coal</li> <li>- Wholesale price to be lower by approx. 15-20 PLN/MWh</li> <li>- Unwinding of provisions</li> </ul>
<b>Renewables</b>	Flat	<ul style="list-style-type: none"> <li>+ Full year operations of new assets with contracted off-take of electricity and certificates</li> <li>- Adverse hydro conditions hamper the bottom line</li> </ul>
<b>Wholesale + Supply</b>	Lower	<ul style="list-style-type: none"> <li>- Pressure from competitive market and margin erosion</li> <li>- Negative impact after re-introduction of cogeneration certificates confirmed</li> </ul>
<b>Distribution</b>	Flat	<ul style="list-style-type: none"> <li>• RAB revaluation completed</li> <li>• However, lower risk-free rate drives WACC down significantly lowering revaluation impact</li> <li>• Tariffs increased mostly due to fees charged by grid operator</li> </ul>
<b>CAPEX</b>	Higher	<ul style="list-style-type: none"> <li>• PGE kicked off important conventional generation investment projects in Opole and Gorzów</li> <li>• Notice to proceed for Turów unit expected to be issued by YE 2014</li> <li>• Higher CAPEX in distribution impacting future return on assets</li> </ul>

## Q2 2014 Financial and Operating Results

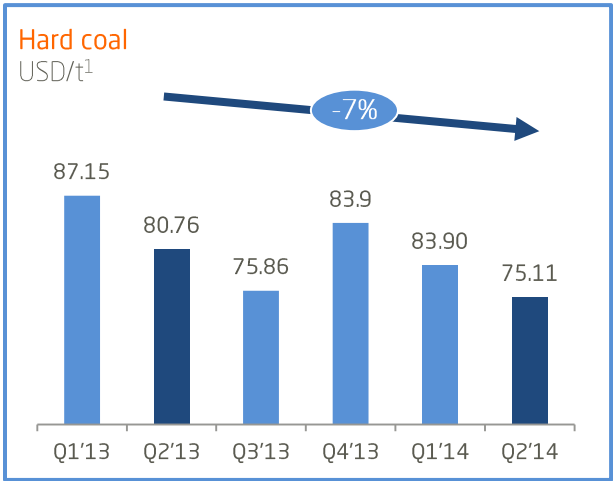


Additional information

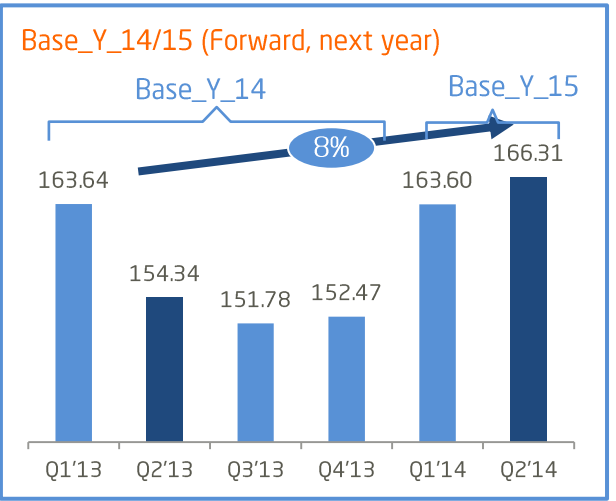
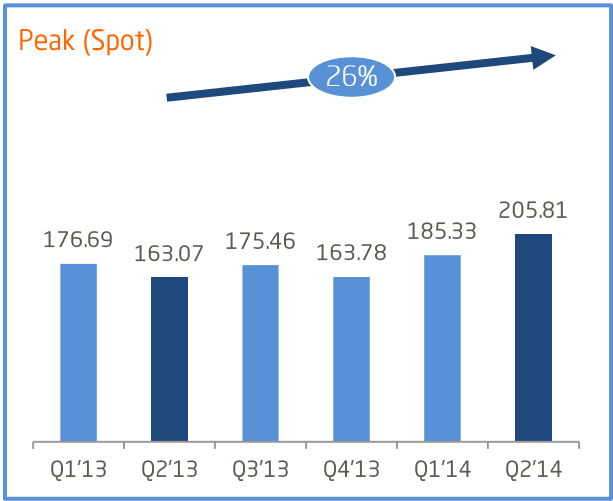
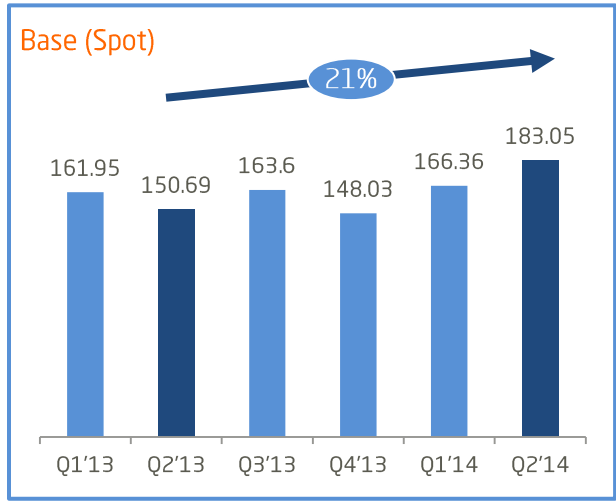
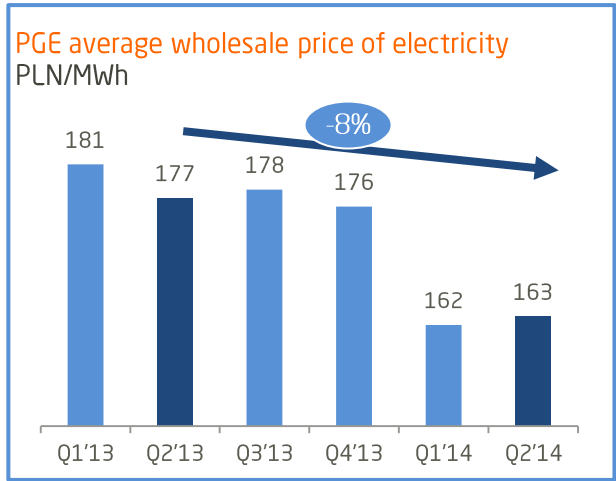
# Economics of the lignite generation remain sound with positive outlook from the forward market



Source: Reuters  
Average quarterly TGE Electricity Prices in 2013 and 2014  
PLN/MWh



Source: www.wnp.pl



<sup>1</sup> An average price on global COAL DES ARA Index



# Key Financials

Selected consolidated financial data, IFRS

	Q2 2014 PLN m not audited	Q2 2013 PLN m not audited	Q2'14 vs. Q2'13	H1 2014 PLN m reviewed	H1 2013 PLN m Data restated	H1'14 vs. H1'13
Sales	7,279	7,308	0%	14,208	15,101	-6%
<i>including LTC compensations</i>	1,031	169	510%	1,162	370	214%
Recurring* Sales	6,248	7,092	-12%	13,046	14,684	-11%
EBITDA	2,894	2,130	36%	4,608	4,245	9%
Recurring* EBITDA	1,378	1,999	-31%	3,255	4,135	-21%
EBIT	2,150	1,387	55%	3,125	2,768	13%
Recurring* EBIT	637	1,366	-53%	1,772	2,658	-33%
Net profit (to equity)	1,708	1,098	56%	2,497	2,193	14%
Recurring* net profit (to equity)	486	993	-51%	1,406	2,104	-33%
CAPEX (incl. adj.)	1,231	865	42%	2,232	1,660	34%
Net cash from operating activities	695	1,887	-63%	1,584	3,264	-51%
Net cash from investing activities	-3,133	-1,473	-113%	-5,009	-2,772	
EBITDA margin	40%	25%		32%	28%	
Recurring* EBITDA margin	22%	28%		25%	29%	
Net Working Capital				7,168	5,223	
Net Debt/LTM EBITDA				-0.2x	-0.4x	

## Recurring = excluding key one-off items in Q2 2014:

- **Sales:** LTC compensations (PLN +1,031m)
- **EBITDA / EBIT:** LTC compensations (PLN +1,031m); LTC adjustment (PLN +246m); provision for the change in the discount (-648m); CO2 free allowances (+887m);
- **Net profit (to equity):** LTC compensations (PLN +832m); LTC adjustment (PLN +198m); provision for the change in the discount (PLN -523m); CO2 free allowances (PLN +715m)

## Recurring = excluding key one-off items in Q2 2013:

- **Sales:** LTC compensations (PLN +169m); revaluation of property rights (PLN +47m)
- **EBITDA / EBIT:** LTC compensations (PLN +169m); revaluation of property rights (PLN +47m); LTC adjustment (PLN +148m); CO2 free allowances (PLN -233m);
- **Net profit (to equity):** LTC compensations (PLN +138m); revaluation of property rights (PLN +38m); LTC adjustment (PLN +118m); CO2 allowances (PLN -186m)

## Recurring = excluding key one-off items in H1 2014:

- **Sales:** LTC compensations (PLN +1,162m)
- **EBITDA / EBIT:** LTC compensations (PLN +1,162m); LTC adjustment (PLN +246m); provision for the change in the discount (PLN -648m); CO2 free allowances (PLN +751m); Voluntary Leave Programme (PLN -158m)
- **Net profit (to equity):** LTC compensations (PLN +937m); LTC adjustment (PLN +198m); provision for the change in the discount (PLN -523m); CO2 free allowances (PLN +606m); Voluntary Leave Programme (PLN -127m)

## Recurring = excluding key one-off items in H1 2013:

- **Sales:** LTC compensations (PLN +370m); revaluation of property rights (PLN +47m)
- **EBITDA / EBIT:** LTC compensations (PLN +370m); LTC adjustment (PLN +148m); Voluntary Leave Programme (PLN +0.34m); Impairment of Opole II investment project (PLN -56m); revaluation of property rights (PLN +47m); CO2 allowances (PLN -399m)
- **Net profit (to equity):** LTC compensations (PLN +296m); LTC adjustment (PLN +118m); Voluntary Leave Programme (PLN +0.28m); Impairment of Opole II investment project (PLN -45m); revaluation of property rights (PLN +38m); CO2 allowances (PLN -319m)

# Key Operating Data

Net electricity generation by sources (TWh)

	Q2 2014	Q2 2013	Q2'14 vs Q2'13	H1 2014	H1 2013	H1'14 vs H1'13
Lignite-fired power plants	9.16	10.12	-9%	18.71	20.16	-7%
Hard coal-fired power plants	3.13	2.66	18%	5.95	5.76	3%
Coal-fired CHPs	0.25	0.24	4%	0.64	0.67	-4%
Gas-fired CHPs	0.08	0.11	-27%	0.22	0.76	-71%
Biomass-fired CHP	0.13	0.12	8%	0.24	0.23	4%
Pump storage	0.09	0.10	-10%	0.28	0.21	33%
Hydro	0.14	0.16	-13%	0.24	0.31	-23%
Wind	0.14	0.06	133%	0.34	0.14	143%
<b>TOTAL</b>	<b>13.12</b>	<b>13.57</b>	<b>-3%</b>	<b>26.62</b>	<b>28.24</b>	<b>-6%</b>
Renewable generation	0.62	0.44	41%	1.23	0.92	34%
Incl. biomass co-combustion	0.21	0.10	110%	0.41	0.24	71%

# Capital expenditures

CAPEX for Q2 and H1 (PLN m)

	Q2 2014	Q2 2013	Q2'14 vs Q2'13	H1 2014	H1 2013	H1'14 vs H1'13
Segment						
Conventional Generation	885	567	56%	1,578	1,108	42%
Distribution	276	285	-3%	452	467	-3%
•New clients connection	114	124	-8%	202	207	-2%
•Distribution grid	98	94	4%	152	157	-3%
Renewables	36	-3	-	155	62	150%
•Modernization and replacement	11	9	22%	11	11	0%
Supply, Wholesale, Others	48	34	41%	81	69	17%
<b>TOTAL</b>	<b>1,245</b>	<b>883</b>	<b>41%</b>	<b>2,266</b>	<b>1,706</b>	<b>33%</b>
<b>TOTAL (incl. adjustments)</b>	<b>1,231</b>	<b>865</b>	<b>42%</b>	<b>2,232</b>	<b>1,660</b>	<b>34%</b>

# Detailed segmental revenues and costs

Conventional Generation (PLN m)

	Q2 2014	Q2 2013	Q2 2014 vs. Q2 2013	H1 2014	H1 2013	H1 2014 vs. H1 2013
<b>Sales, including</b>	<b>3 604.6</b>	<b>2 917.7</b>	<b>24%</b>	<b>6 658.3</b>	<b>6 281.7</b>	<b>6%</b>
Sale of electricity	2 310.1	2 474.2	-7%	4 704.2	5 219.6	-10%
LTC compensations	1 031.3	168.7	511%	1 161.8	370.2	214%
Sale of heat	111.4	113.7	-2%	361.2	393.8	-8%
Sale of certificates of origin	66.6	49.8	34%	227.4	82.3	176%
<b>Cost by kind, including</b>	<b>2 289.3</b>	<b>2 614.2</b>	<b>-12%</b>	<b>4 875.0</b>	<b>5 555.5</b>	<b>-12%</b>
D&A	416.7	429.7	-3%	834.1	848.6	-2%
Materials	649.1	659.6	-2%	1 309.3	1 628.5	-20%
Energy	8.0	12.6	-36%	20.0	28.3	-29%
External services	315.4	311.8	1%	620.7	639.1	-3%
Taxes and charges	235.9	559.0	0%	692.3	1 123.0	-38%
Personnel expenses	617.3	587.7	5%	1 306.4	1 186.8	10%
Other cost	46.9	53.9	-13%	92.2	101.1	-9%
<b>Cost of products sold</b>	<b>1 924.6</b>	<b>2 216.8</b>	<b>-13%</b>	<b>4 097.0</b>	<b>4 724.1</b>	<b>-13%</b>
<b>Cost of goods sold</b>	<b>2 139.2</b>	<b>2 339.5</b>	<b>-9%</b>	<b>4 621.0</b>	<b>4 996.0</b>	<b>-8%</b>
<b>EBIT</b>	<b>1 719.9</b>	<b>561.6</b>	<b>206%</b>	<b>2 114.4</b>	<b>1 070.9</b>	<b>97%</b>
<b>EBITDA</b>	<b>2 136.6</b>	<b>991.3</b>	<b>116%</b>	<b>2 948.5</b>	<b>1 919.5</b>	<b>54%</b>

# Detailed segmental revenues and costs

Renewables (PLN m)

	Q2 2014	Q2 2013	Q2 2014 vs. Q2 2013	H1 2014	H1 2013	H1 2014 vs. H1 2013
<b>Sales, including</b>	<b>183</b>	<b>217.4</b>	<b>-16%</b>	<b>386.5</b>	<b>375.8</b>	<b>3%</b>
Sale of electricity	74.2	65.5	13%	167.2	130.4	28%
Sale of certificates of origin	49.5	93.7	-47%	102.2	125.5	-19%
<b>Cost by kind, including</b>	<b>141</b>	<b>127.7</b>	<b>10%</b>	<b>289.3</b>	<b>246.6</b>	<b>17%</b>
D&A	51.9	47.3	10%	103	89.7	15%
Materials	1.2	2.1	-42%	3.3	4.4	-25%
Energy	31.4	33.3	-6%	73	65.5	11%
External services	18.4	13.5	36%	34.4	23.8	45%
Taxes and charges	12.3	10.9	13%	24.8	22.3	12%
Personnel expenses	22.6	17.9	26%	44.5	35	27%
Other cost	3.2	2.7	19%	6.3	6	6%
<b>Cost of products sold</b>	<b>120</b>	<b>111.9</b>	<b>7%</b>	<b>247.9</b>	<b>214.3</b>	<b>16%</b>
<b>Cost of goods sold</b>	<b>120</b>	<b>111.9</b>	<b>7%</b>	<b>247.9</b>	<b>214.4</b>	<b>16%</b>
<b>EBIT</b>	<b>46.1</b>	<b>91.7</b>	<b>-50%</b>	<b>104.7</b>	<b>127.4</b>	<b>-18%</b>
<b>EBITDA</b>	<b>97.9</b>	<b>139</b>	<b>-30%</b>	<b>207.7</b>	<b>217.1</b>	<b>-4%</b>

# Detailed segmental revenues and costs

Wholesale (PLN m)

	Q2 2014	Q2 2013	Q2 2014 vs. Q2 2013	H1 2014	H1 2013	H1 2014 vs. H1 2013
<b>Sales, including</b>	<b>2 308.5</b>	<b>2 761.6</b>	<b>-16%</b>	<b>4 765.1</b>	<b>6 172.9</b>	<b>-23%</b>
Sale of electricity	1 760.5	2 464.1	-29%	3 626.5	5 088.1	-29%
Sale of certificates of origin	237.3	25.3	838%	637.5	443.9	44%
<b>Cost by kind, including</b>	<b>56.7</b>	<b>62.1</b>	<b>-9%</b>	<b>125.3</b>	<b>130.4</b>	<b>-4%</b>
D&A	3.2	3.6	-12%	6.6	7.2	-9%
Materials	0.3	0.5	-30%	0.7	0.8	-21%
Energy	0.6	0.7	-16%	1.3	1.4	-5%
External services	13.4	12.9	5%	30.3	30.4	0%
Taxes and charges	0.9	2.1	-56%	1.9	5.1	-63%
Personnel expenses	22.7	20.7	10%	46.5	42.3	10%
Other cost	15.5	21.7	-29%	38.1	43.2	-12%
<b>Cost of products sold</b>	<b>17.7</b>	<b>18.3</b>	<b>-3%</b>	<b>43.2</b>	<b>39.2</b>	<b>10%</b>
<b>Cost of goods sold</b>	<b>2 148.5</b>	<b>2 490.2</b>	<b>-14%</b>	<b>4 400.2</b>	<b>5 607.5</b>	<b>-22%</b>
<b>EBIT</b>	<b>117.7</b>	<b>230</b>	<b>-49%</b>	<b>280.2</b>	<b>478.8</b>	<b>-42%</b>
<b>EBITDA</b>	<b>120.9</b>	<b>233.6</b>	<b>-48%</b>	<b>286.8</b>	<b>486</b>	<b>-41%</b>

# Detailed segmental revenues and costs

Distribution (PLN m)

	Q2 2014	Q2 2013	Q2 2014 vs. Q2 2013	H1 2014	H1 2013	H1 2014 vs. H1 2013
<b>Sales, including</b>	<b>1 363.4</b>	<b>1 351.0</b>	<b>1%</b>	<b>2 848.2</b>	<b>2 786.2</b>	<b>2%</b>
Revenues from distribution services	1 282.8	1 256.7	2%	2 688.6	2 609.6	3%
Other operating revenues	52.0	56.9	-9%	102.2	108.6	-6%
<b>Cost by kind, including</b>	<b>1 074.7</b>	<b>1 017.5</b>	<b>6%</b>	<b>2 239.6</b>	<b>2 157.1</b>	<b>4%</b>
D&A	248.0	239.4	4%	492.0	487.3	1%
Materials	17.7	22.2	-20%	39.5	43.4	-9%
Energy	87.8	83.9	5%	250.5	273.7	-9%
External services	375.8	324.4	16%	752.5	648.3	16%
Taxes and charges	81.9	78.0	5%	171.0	162.4	5%
Personnel expenses	259.0	264.2	-2%	526.0	532.8	-1%
Other cost	4.7	5.4	-14%	8.2	9.2	-11%
<b>Cost of products sold</b>	<b>995.2</b>	<b>921.7</b>	<b>8%</b>	<b>2 075.7</b>	<b>1 966.7</b>	<b>6%</b>
<b>Cost of goods sold</b>	<b>995.2</b>	<b>922.3</b>	<b>8%</b>	<b>2 075.8</b>	<b>1 968.3</b>	<b>6%</b>
<b>EBIT</b>	<b>336.9</b>	<b>343.4</b>	<b>-2%</b>	<b>690.6</b>	<b>648.6</b>	<b>7%</b>
<b>EBITDA</b>	<b>584.9</b>	<b>582.8</b>	<b>0%</b>	<b>1 182.6</b>	<b>1 136.0</b>	<b>4%</b>



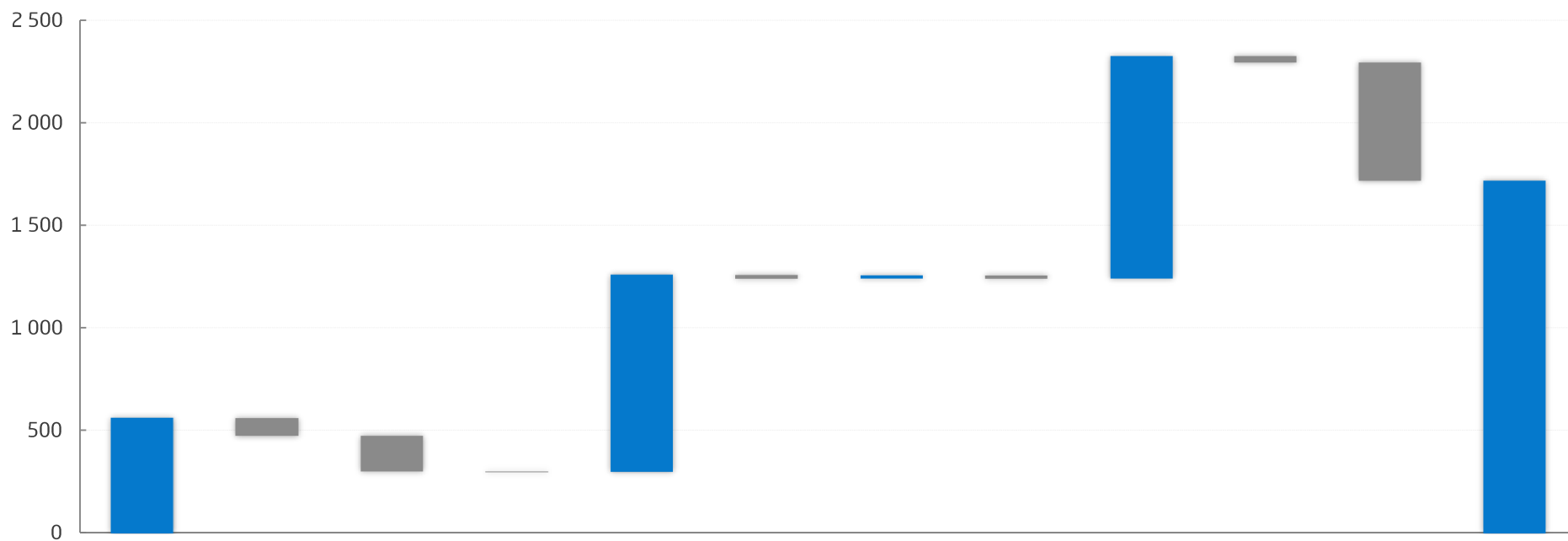
# Detailed segmental revenues and costs

Supply (PLN m)

	Q2 2014	Q2 2013	Q2 2014 vs. Q2 2013	H1 2014	H1 2013	H1 2014 vs. H1 2013
<b>Sales, including</b>	<b>2 955.2</b>	<b>3 121.7</b>	<b>-5%</b>	<b>6 128.8</b>	<b>6 486.3</b>	<b>-6%</b>
Sale of electricity	1 995.5	2 122.2	-6%	4 100.9	4 399.7	-7%
Revenues from distribution services	950.6	983.6	-3%	2 005.9	2 054.4	-2%
<b>Cost by kind, including</b>	<b>345.5</b>	<b>226.3</b>	<b>53%</b>	<b>680.9</b>	<b>430.8</b>	<b>58%</b>
D&A	1.9	2.1	-9%	3.8	4.2	-10%
Materials	1.2	1.0	12%	2.1	2.1	-1%
Energy	0.2	0.2	-4%	0.5	0.6	-12%
External services	24.3	24.3	0%	50.0	46.8	7%
Taxes and charges	273.7	157.7	74%	529.7	295.3	79%
Personnel expenses	37.2	33.9	10%	74.0	67.6	10%
Other cost	7.2	7.2	0%	20.7	14.3	45%
<b>Cost of products sold</b>	<b>2.3</b>	<b>12.1</b>	<b>-81%</b>	<b>4.8</b>	<b>24.5</b>	<b>-81%</b>
<b>Cost of goods sold</b>	<b>2 709.7</b>	<b>2 752.7</b>	<b>-2%</b>	<b>5 553.5</b>	<b>5 660.2</b>	<b>-2%</b>
<b>EBIT</b>	<b>-103.3</b>	<b>151.6</b>	<b>-</b>	<b>-104.1</b>	<b>413.9</b>	<b>-</b>
<b>EBITDA</b>	<b>-101.5</b>	<b>153.7</b>	<b>-</b>	<b>-100.4</b>	<b>418.1</b>	<b>-</b>

# Conventional Generation - EBIT Q2 2014

Key Changes in EBIT (PLN m)

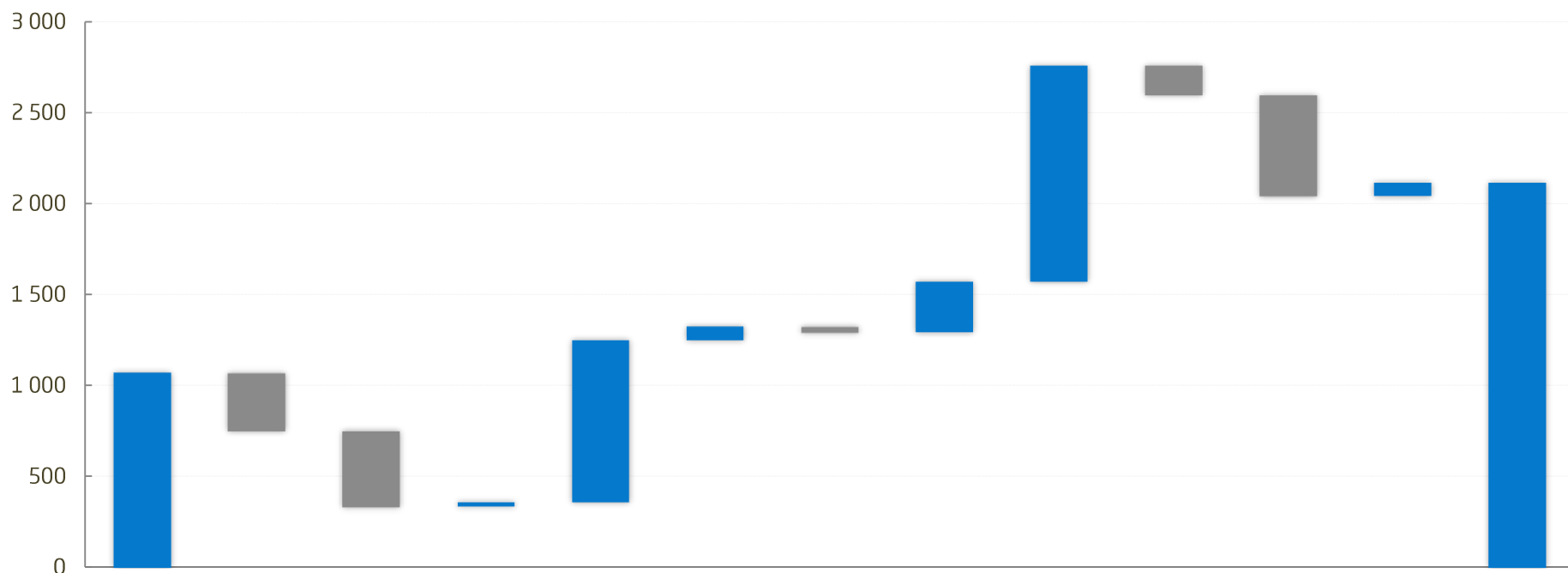


	Result Q2 2013	Sale of electricity - difference in volume	Sale of electricity - difference in price	Result of electricity purchased for resale	Revenues from LTC	Revenues from regul. serv.	Revenues from cert. of origin	Cost of fuel	Cost and release of provision of CO2	Personal costs	Other operating activity*	Result Q2 2014
Change		-85	-173	-4	960	-17	17	-16	1 080	-30	-574	
Q2 2013	562			74	317	62	50	501	376	587	12	
Q2 2014				71	1 277	45	67	517	-704	617	-562	1720

\* including the change in the discount rate for recultivation (PLN -601.2m)

# Conventional Generation - EBIT H1 2014

Key Changes in EBIT (PLN m)

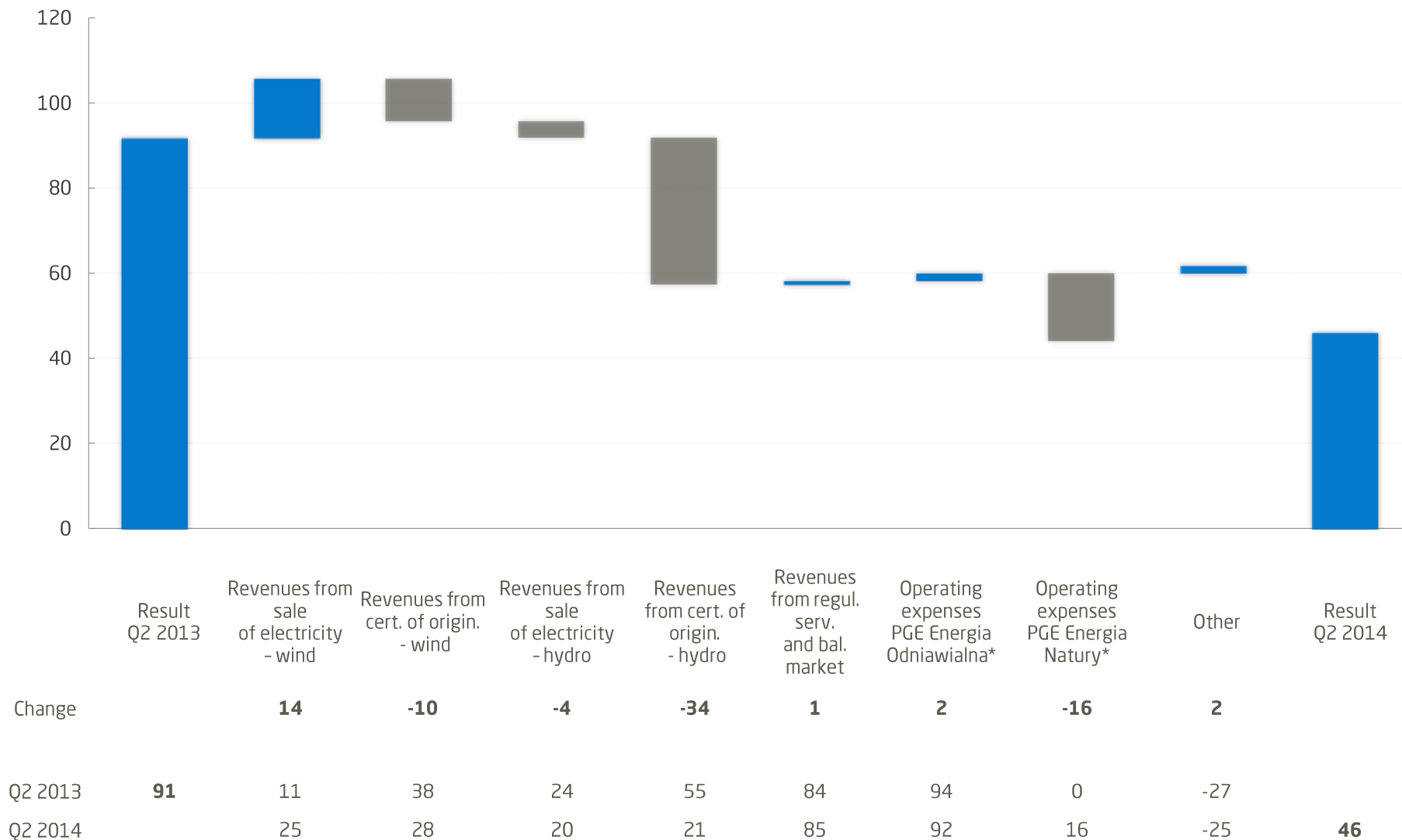


	Result H1 2013	Sale of electricity - difference in volume	Sale of electricity - difference in price	Result of electricity purchased for resale	Revenues from LTC	Revenues from cert. of origin	Sale of heat	Cost of fuel	Cost and release of provision of CO2	Costs of VLP	Other operating activity*	Other operating costs	Result H1 2014
Change		-318	-417	23	889	77	-33	279	1 185	-159	-556	73	
H1 2013	1 071	4 808	4 490	158	519	82	394	1 330	754	0	-1	2 805	
H1 2014		4 490	4 073	181	1 408	159	361	1 051	-431	159	-557	2 732	2 114

\* including the change in the discount rate for recultivation (PLN -601.2m)

# Renewable Generation - EBIT Q2 2014

Key Changes in EBIT (PLN m)



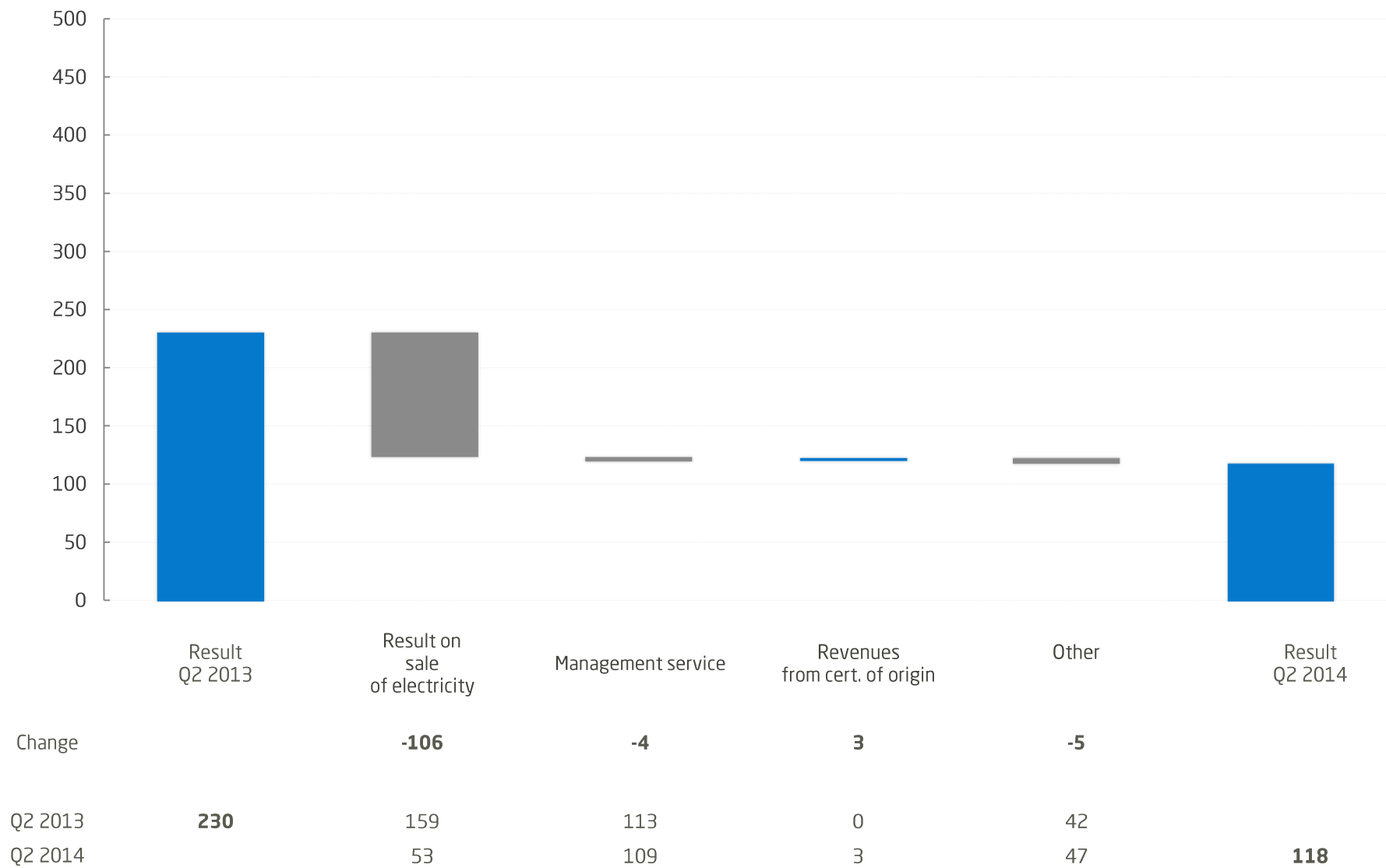
# Renewable Generation - EBIT H1 2014

Key Changes in EBIT (PLN m)



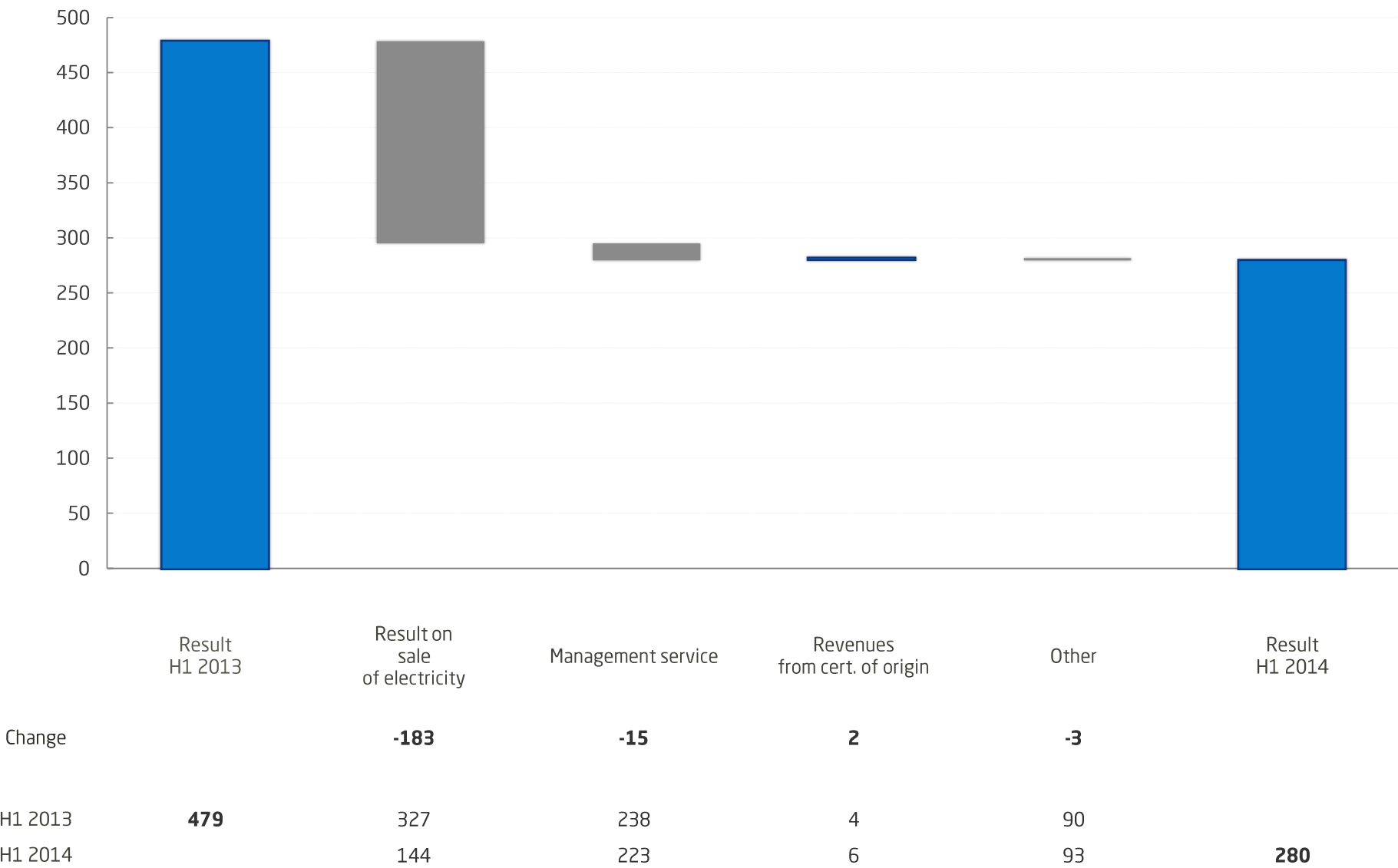
# Wholesale - EBIT Q2 2014

Key Changes in EBIT (PLN m)



# Wholesale - EBIT H1 2014

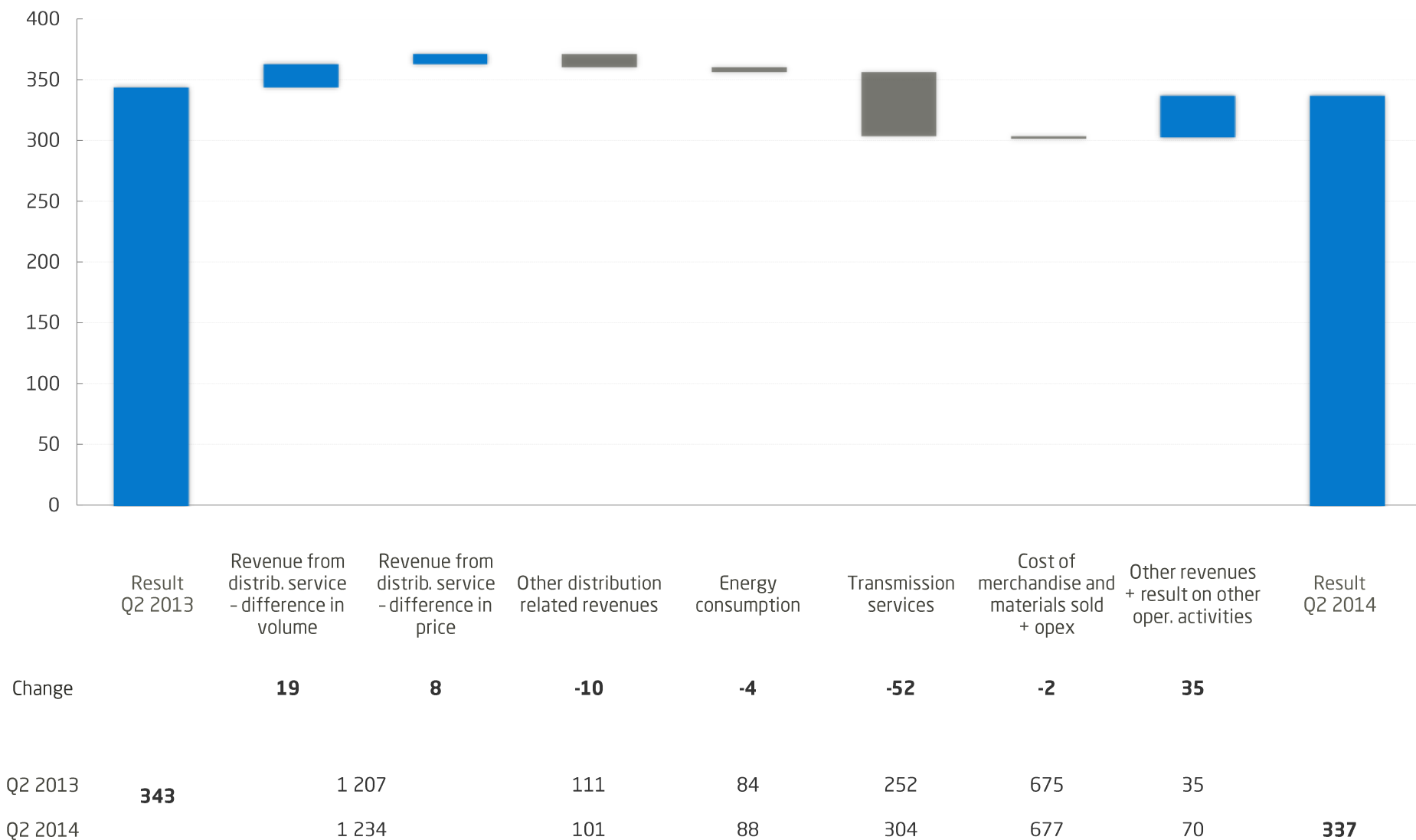
Key Changes in EBIT (PLN m)





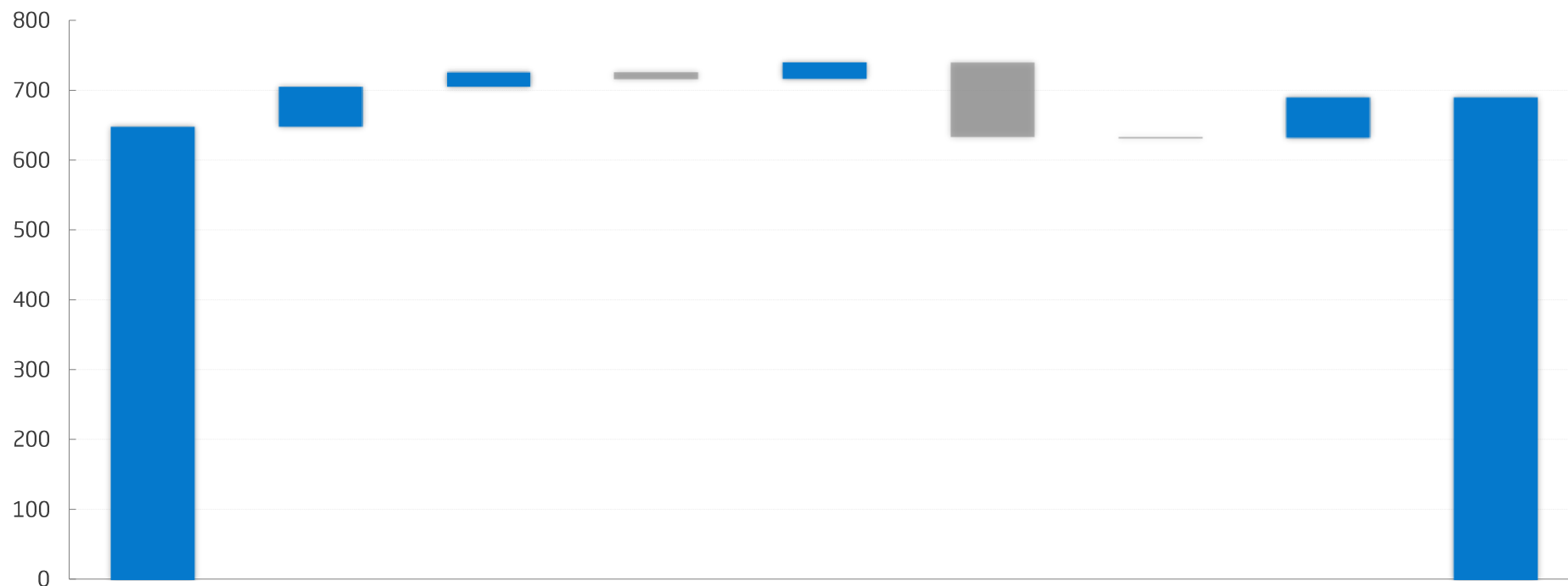
# Distribution - EBIT Q2 2014

Key Changes in EBIT (PLN m)



# Distribution - EBIT H1 2014

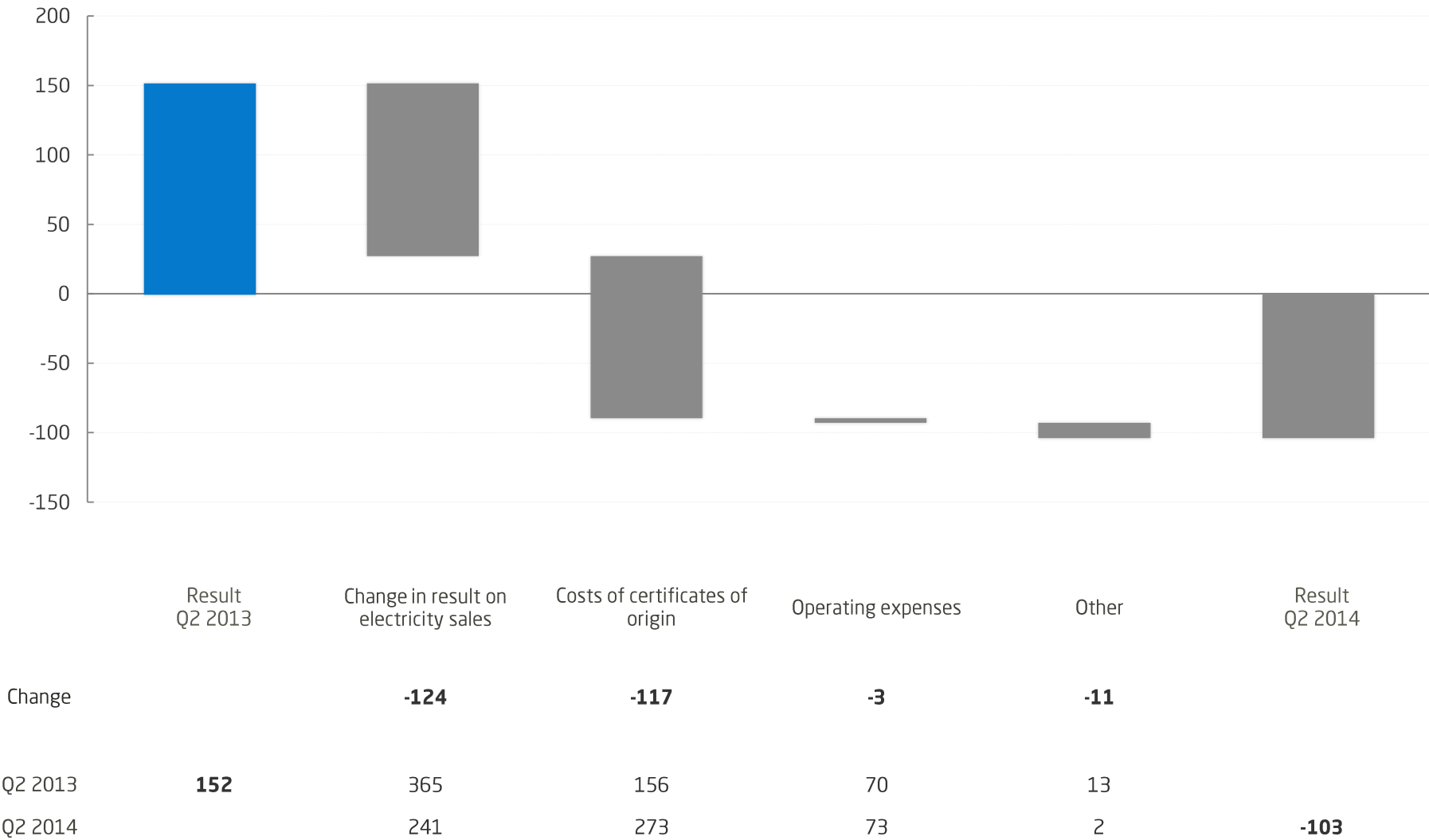
Key Changes in EBIT (PLN m)



	Result H1 2013	Revenue from distrib. service - difference in volume	Revenue from distrib. service - difference in price	Other distribution related revenues	Energy consumption	Transmission services	Cost of merchandise and materials sold + opex	Other revenues + result on other oper. activities	Result H1 2014
Change		57	21	-9	23	-106	-2	58	
H1 2013	649		2 514	208	274	510	1 356	66	
H1 2014			2 592	199	251	616	1 358	124	691

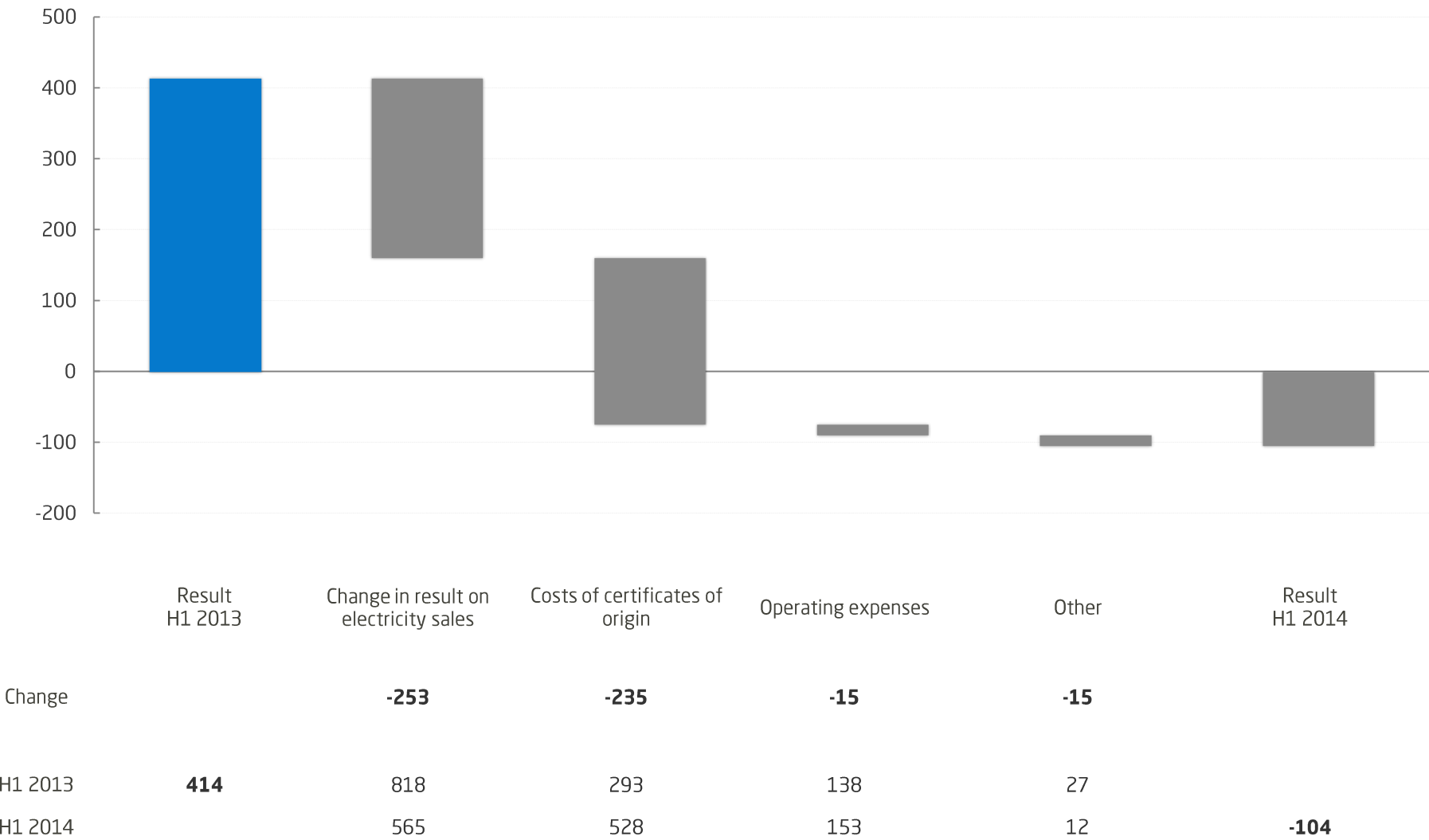
# Supply - EBIT Q2 2014

Key Changes in EBIT (PLN m)



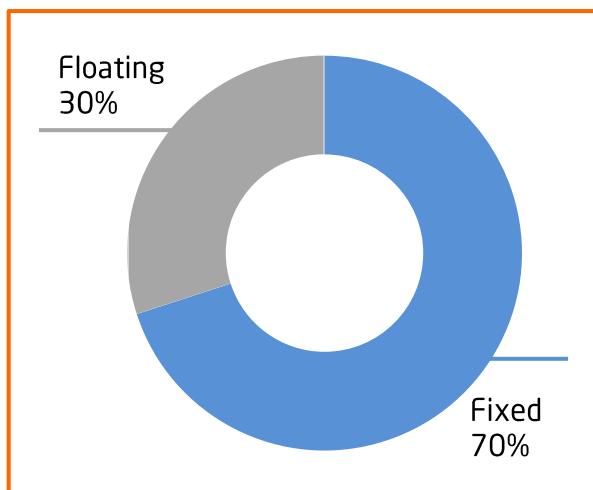
# Supply - EBIT H1 2014

Key Changes in EBIT (PLN m)

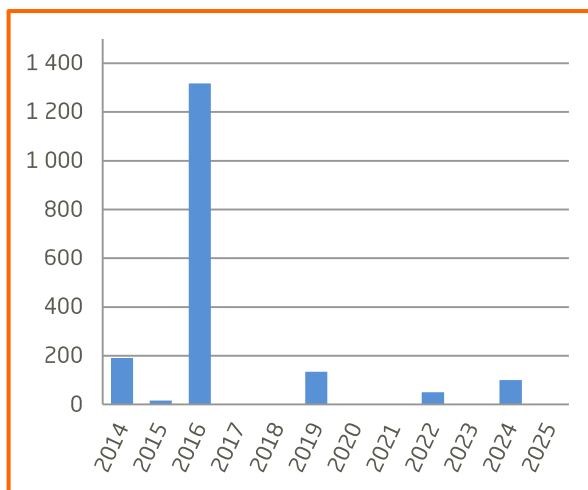


# Debt Structure and Liquidity (as at June 30, 2014)

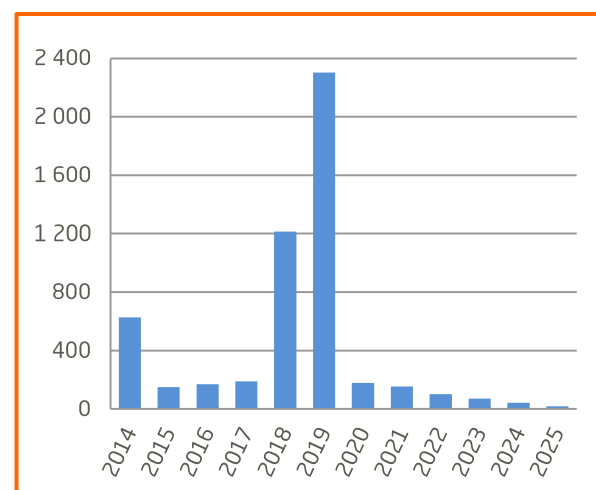
Fixed vs Floating Debt (Drawn Debt)



Available Lines of Credit (PLN m)



Debt Maturity Profile (Drawn Debt PLN m)



Debt Location Within the Group (Drawn Debt PLN m)

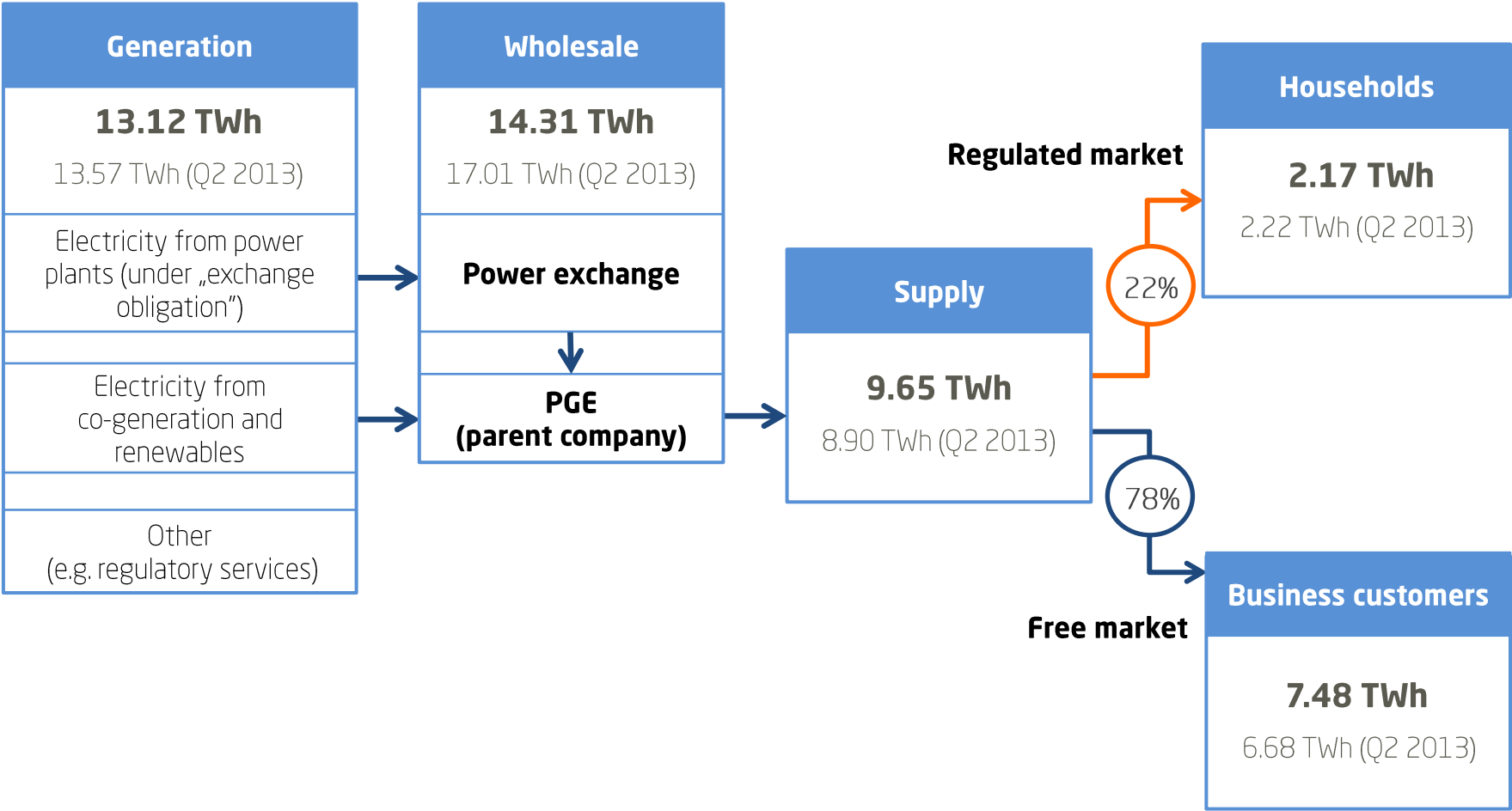
	External		Intra-group	
	Holding	Subsidiaries	Subsidiary bonds purchased by PGE	PGE loans from subsidiaries
As at end of				
March 2014	1,000	1,624	3,933	-
June 2014	1,000	3,665	4,759	2,125

Issues under the EMTN program

<b>Value</b>	EUR 500,000,000	EUR 138,000,000
<b>Tenure</b>	5 years	15 years
<b>Maturity date</b>	June 9, 2019	August 1, 2029
<b>Coupon</b>	1.625% annual	3% annual
<b>Rating</b>	BBB+ (Fitch); Baa1 (Moody's)	BBB+ (Fitch)
<b>ISIN Code</b>	XS1075312626	XS1091799061

# Q2 2014 Key business flows

Key business flows (illustrative only)



## PGE cash position provides...

### ...plenty of headroom in the balance sheet

	H1 2014	Q1 2014
Gross Debt (PLNm)	4,660	2,718
Net Cash (PLNm)	1,920	2,386
Net Debt/LTM EBITDA	-0.23x	-0.31x
Net Debt/Equity	-0.04x	-0.05x

### Financial strength has been confirmed by rating agencies

	Moody's	Fitch
Long-term company rating (IDR)	Baa1	BBB+
Rating outlook	Stable	Stable
Date of rating assignment	September 2, 2009	September 2, 2009
Date of the latest rating confirmation		May 23, 2014
Senior unsecured rating		BBB+
Date of the latest rating change	May 26, 2014	August 4, 2011
Date of the latest rating confirmation		May 23, 2014
Long-term national rating		AA- (pol)
Date of rating assignment		August 10, 2012
Date of latest rating confirmation		May 23, 2014

# CO<sub>2</sub> allowances - regulations and settlement

## Regulations in the III Settlement Period

- As of 2013 only carbon allowances for heat production are received free of charge
- Carbon allowances for electricity production are granted free of charge conditionally on investments realized that were included in the National Investment Plan

## Accounting standard

- All allowances received free of charge are recognized at its nominal value - zero
- Provision for allowances required for redemption is raised respectively to its actual shortage in a given period
- Cost incurred is visible in taxes and charges P&L line

## 2014 allowances settlement

- In Q2 2014 relevant regulations have been adopted and free of charge emission rights were granted
- In Q2 (H1) 2014 PGE's installations emitted 13.95m tonnes of CO<sub>2</sub> (28.63m tonnes)
- Consequently PGE's full cost related to CO<sub>2</sub> emissions in Q2 (H1) 2014 amounted to approx. PLN 49m (321m)

## Free EUA recognized at a zero value - note 15 H1 2014 consolidated FS

	EUA		CER/ERU		Total value
	Quantity (mn)	Value (PLN m)	Quantity (mn)	Value (PLN m)	(PLN m)
As at Jan 1, 2013	76	597	6	194	791
Purchased	38	772	-	-	772
Free allocation for 2013	-	-	-	-	-
Redeemed	(55)	(42)	(6)	(193)	(235)
Adjustments	-	77	-	(1)	76
<b>As at Dec 31, 2013</b>	59	1,404	-	-	1,404
Purchased	10	240	-	-	240
Free allocation	34	-	-	-	-
Redeemed	61	(682)	-	-	(682)
<b>As at June 30, 2014</b>	42	962	-	-	962

## Provision for purchase of CO<sub>2</sub> allowances - note 20 H1 2014 consolidated FS (PLN m)

As at Jan 1, 2014	1,432
<b>Provided in the reporting period (H1 2014)</b>	321
<b>Redeemed</b>	(683)
<b>Released provisions</b>	(751)
As at June, 30 2014	319

## Impact on P&L (PLNm) - illustrative only

Costs by kind	8,083
<b>Taxes and charges</b>	1,430



# Revenues from LTC compensations - components of revenue

## Other operating revenues

Reversal of adjustments from 2011

- PLN246 m in Q2 2014
- There is approximately PLN250m left

## Revenues from LTC compensations - operating part

Adjustments

- The difference between the projected value of the annual adjustment for the year (n-1) and the actual adjustments value

Allocated part of the final adjustment

- Allocated part of the final adjustment - [dependent on the forecasts for the years from the year (n) until 2016 and the discount rate]

Annual adjustment

- The projected value of the annual adjustment for year (n) - [dependent on the forecasted results of the year (n)]

Advance payments

- The amount of advance payments received in year (n) in accordance with the request made in year (n-1)

# LTC compensations - current status of court disputes

Generators from the PGE Capital Group are in disputes with the ERO President regarding stranded cost compensations in years 2008-2012.

Status of court cases:

Year	Opole PP	Turów PP	Gorzów CHP	Rzeszów CHP	Lublin-Wrotków CHP	ZEDO PP
2008	Case at the Supreme Court	Case closed	Case closed	Case closed	Case at the Supreme Court	Court of Appeal verdict*
2009	Court of Appeal verdict	Case closed	Case at the Supreme Court	Court of Appeal verdict	CCCP verdict	Court of Appeal verdict
2010	CCCP verdict**	Court of Appeal verdict***	n/a	Court of Appeal verdict***	Court of Appeal verdict**	Court of Appeal verdict***
2011	No dispute	No dispute	n/a	No dispute	n/a	n/a
2012	No dispute	No dispute	n/a	No dispute	n/a	n/a
2013	No dispute	No dispute	n/a	n/a	n/a	n/a

\* PGE GiEK S.A. appeal partially allowed, PGE GiEK and ERO President both entitled to file cassation appeal with the Supreme Court

\*\* PGE GiEK S.A. appeal partially allowed, PGE GiEK and ERO President both entitled to file appeal with the Court of Appeal

\*\*\* One verdict jointly for PGE GiEK S.A. as a legal successor of the merged companies from conventional generation segment

Case closed - favourable verdict

Court of Appeal - favourable verdict. ERO President entitled to cassation appeal

Court of Competition and Consumer Protection - favourable verdict

Court of Appeal verdict favourable for PGE, cassation appeal filed by the ERO with the Supreme Court

Not a subject to LTC compensations

No dispute

PLNm	2011	2012	2013	H1 2014
Provision for outstanding court cases re LTC from 2008-2010	(1,038)			
Reversal of provision based on legally binding verdicts	-	200	337	246

# Sell-side analysts covering PGE

## Domestic analysts

Institution	Analyst
• BRE Bank	• Kamil Kliszc
• BZ WBK	• Paweł Puchalski
• Citigroup	• Piotr Dzieciołowski
• Deutsche Bank	• Tomasz Krukowski
• Espirito Santo	• Maria Mickiewicz
• IDM	• Andrzej Bernatowicz
• ING Securities	• Milena Olszewska
• Ipopema	• Piotr Zielonka
• JP Morgan	• Michał Kuzawiński
• PKO BP	• Stanisław Ozga
• UniCredit CAIB	• Flawiusz Pawluk

## Foreign analysts

Institution	Analyst
• Erste Group	• Petr Bartek
• Goldman Sachs	• Fred Barasi
• HSBC	• Dmytro Konovalov
• Morgan Stanley	• Igor Kuzmin
• Raiffeisen Centrobank	• Teresa Schinwald
• UBS	• Patrick Hummel • Michał Potyra

# Investor relations contacts

## Head of IR

### Jakub Frejlich

Tel: (+48 22) 340 10 32  
Mob: +48 695 883 902



## IR Officers

### Krzysztof Dragan

Tel: (+48 22) 340 15 13  
Mob: +48 601 334 290



### Karolina Drach-Kowalczyk

Tel: (+48 22) 340 16 90  
Mob: +48 784 036 365



### Agata Milewska

Tel: (+48 22) 340 10 35  
Mob: +48 723 996 513



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