

Q1 2016 Financial and Operating Results

May 12, 2016



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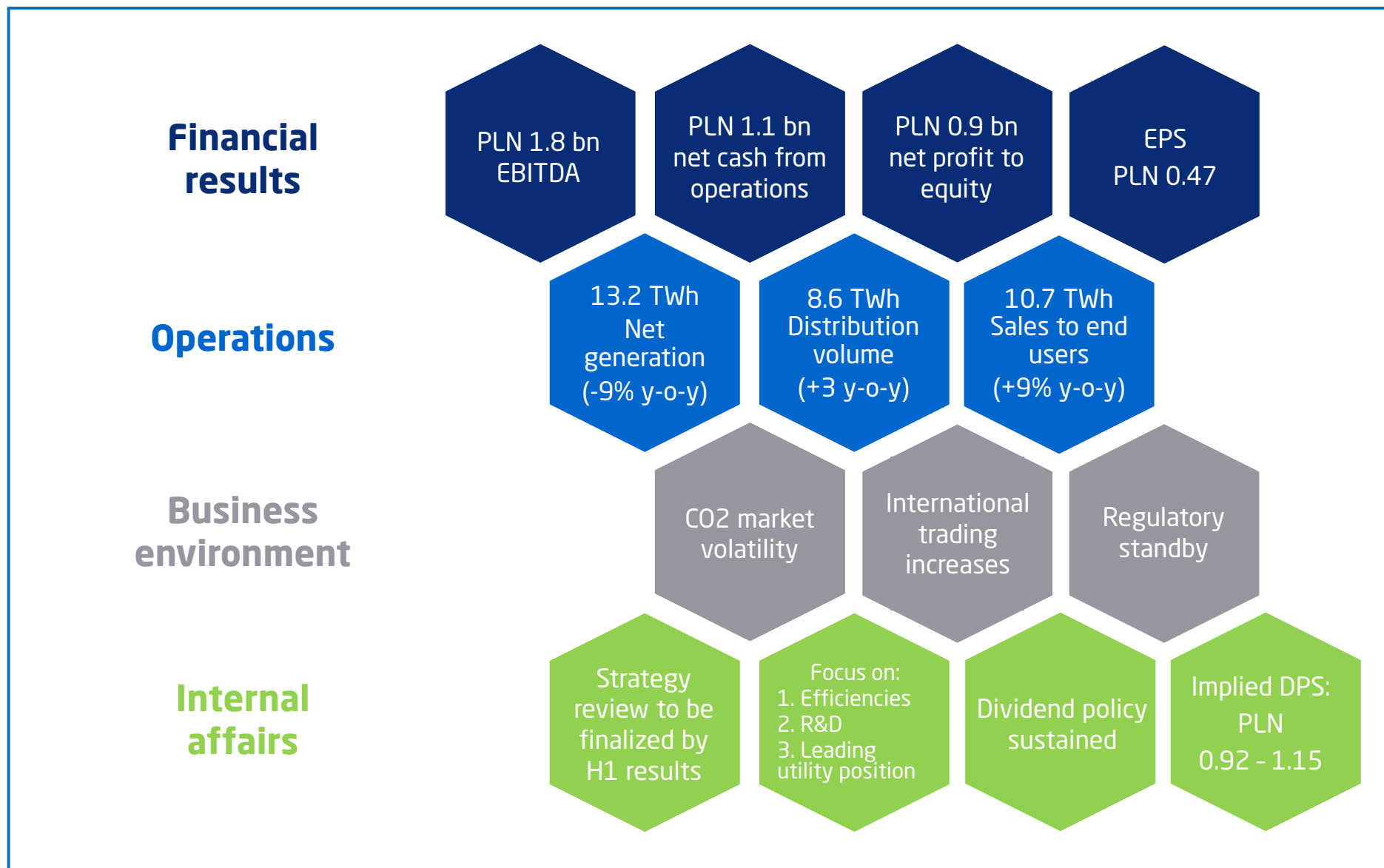
Key takeaways



Henryk Baranowski

- President of the Board and CEO

Highlights



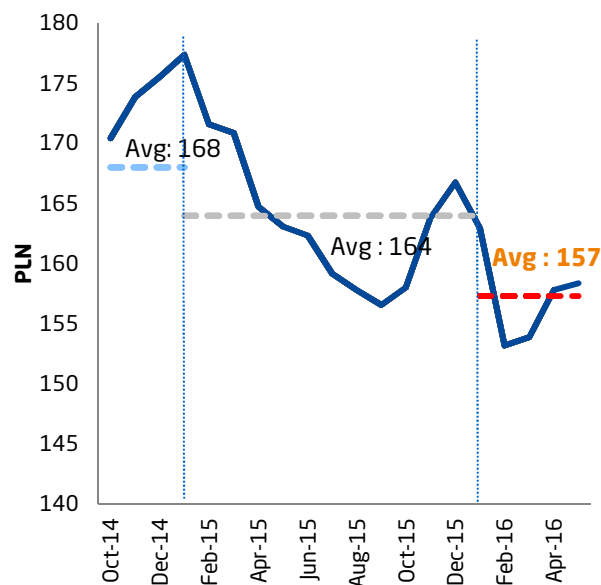
Benefits of growth outside the sector

Macroeconomic environment

	Q1 2016	Q1 2015
Real GDP growth (y-o-y)	3.9%*	3.6%
Domestic Electricity Consumption growth (y-o-y)	2.1%	1.3%
Domestic Electricity Consumption (TWh)	42.63	41.76

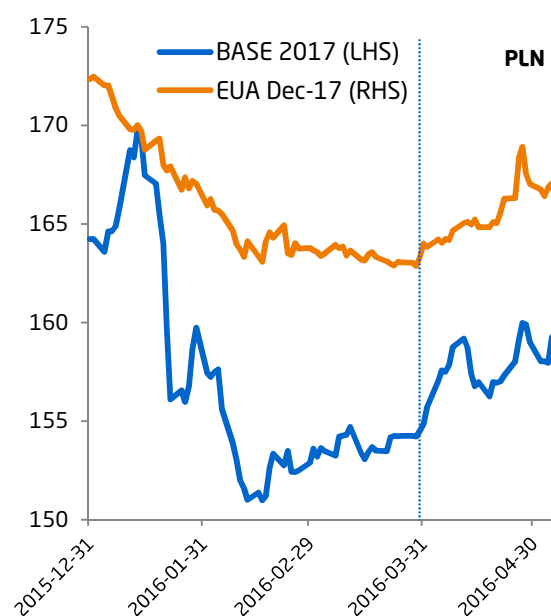
* Estimated

BASE Forward next year



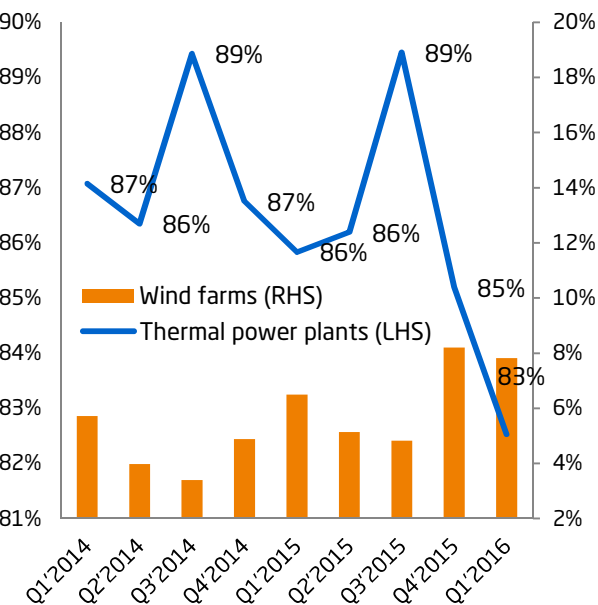
Source: TGE

CO2-driven BASE price



Source: TGE, ICE

Generation share in country's demand

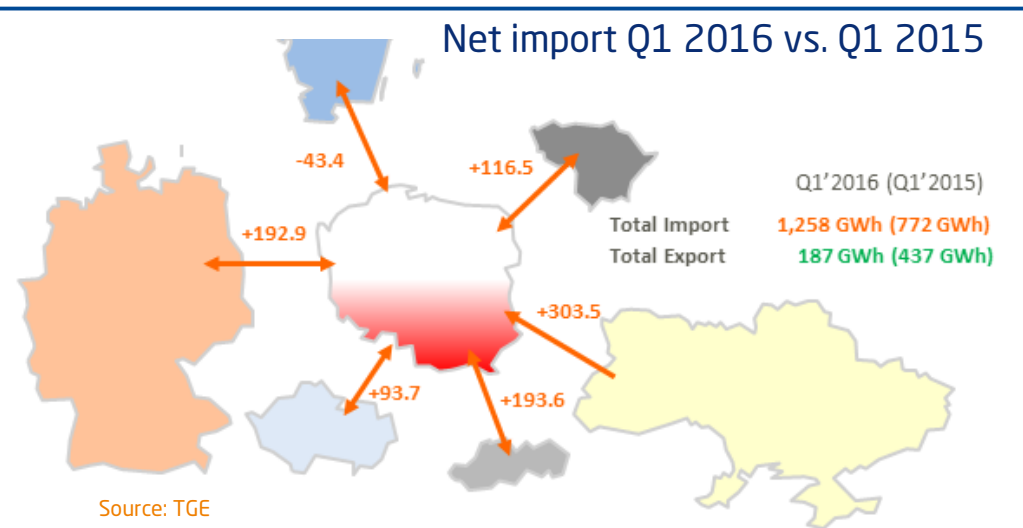


Source: TGE

Landscape change implies market reshape. Towards capacity markets...

Shifting Q1 business environment

- Growing international price pressure:
 - Lithuanian reversal with NordBalt
 - Swedish import
 - Reinstated Ukraine import
 - Minimized DE/CZ/SK exports (-90%)
- Growth of 2015 wind capacities begins to contribute
- Lower utilization of thermal assets limits their profitability



Current picture & outlook

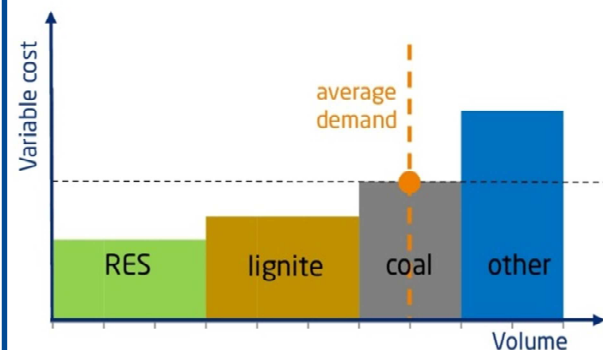
- Lithuanian rising import perspective
- Phase-shifter no. 1 on German border to be completed in May
- Fragility of interconnections
- Quasi-supported import
- Current investments due to existing environmental regulations
- Hardly any incentives to build new units or to modernize old ones (BAT conclusions' perspective)

Rational future recognised

- Permanent capacity mechanisms securing stability and reliability
- Capacity becoming commodity
- Thermal power plants as reliability guarantors
- Sensible RES development
- Interconnections as system's backup

PGG investment: benefits and key figures

Electricity price is linked to the price of marginal fuel - hard coal.



Investment in PGG:

1. lowers operating risk for PGE

- safeguards fuel supply

2. lowers business risk for PGE

- stabilizes hard coal market in Poland
- moderates volatility of electricity prices

Quasi operating hedge
Equity stake in PGG is comparable to share in PGG sales structure (capital engagement does not exceed the magnitude of trade cooperation).

Polska Grupa Górnicza:

- 27.4m tonnes of extraction
- 11 mines + support
- 32.5 ths. employees

PGE stake:

- ✓ 15.7% acquired for PLN 361m in cash
(17.1% by Feb'17 for PLN 500m)

PGE Investment grid



Opole II project

- Project's overall progress **in line with schedule and on budget**
- Current status: **+40%**
- Both power trains, as well as all Balance of Plant (BoP) systems - **civil and construction works in full swing**



Turów project

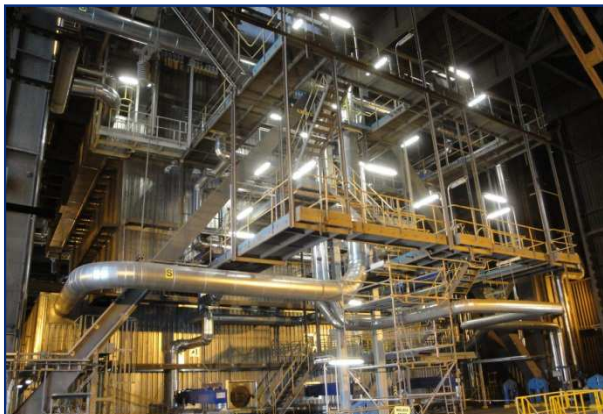
- Progress **in line with schedule** amended with new requirements from BAT conclusions
- Project at **documentation development stage**
- Currently the **excavation work for the main facilities** of the new unit are conducted



Gorzów CHP project

- Currently project at advanced stage of works - **current status of ca. 80%**
- **Final installation, commissioning and start-up** works on going
- Expected project completion date - **H2 2016**

Towards cleaner energy - modernizations in PGE



Comprehensive modernization of units 7-12 in Bełchatów

- Contract with Alstom signed in **Q1 2011**
- Overall budget of **PLN bn 4.6** (net, without costs of financing)
- Objective:
 - **extend the life-time of the units by 160 ths. hours up to 320 ths. hours** which enables utilization of existing lignite resources
 - **boosting the efficiency of the units by approx. 2 pp.**
 - increase of **achievable power capacity** of each unit **from 370 MWe to 390 MWe**
- Unit #10 (last unit being under modernization) expected to be connected to National Power Grid at the end of May
- Following the project completion in **Bełchatów Power Plant with additional 120 MWe** of achievable capacity

Other projects

- **1-3 Turów modernization**
 - January - contract for modernization of generators
 - March - contract for modernization of electrostatic precipitators
- **Pomorzany and Lublin Wrotków**
 - both projects at tender procedure stage

Q1 2016 Financial and Operating Results



Detailed financial and operating results

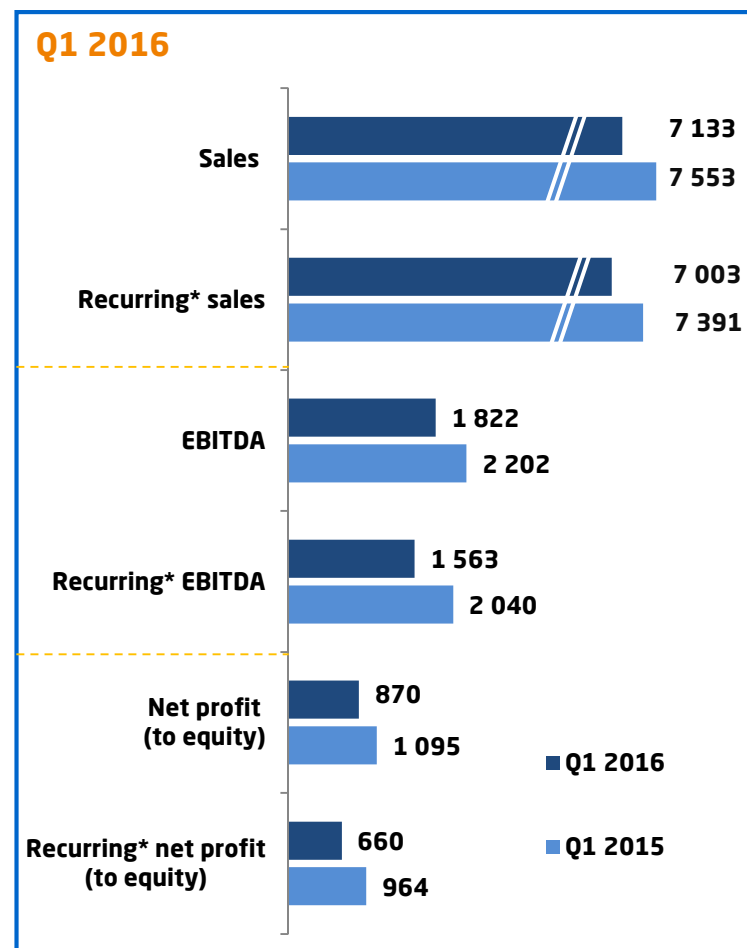


Emil Wojtowicz

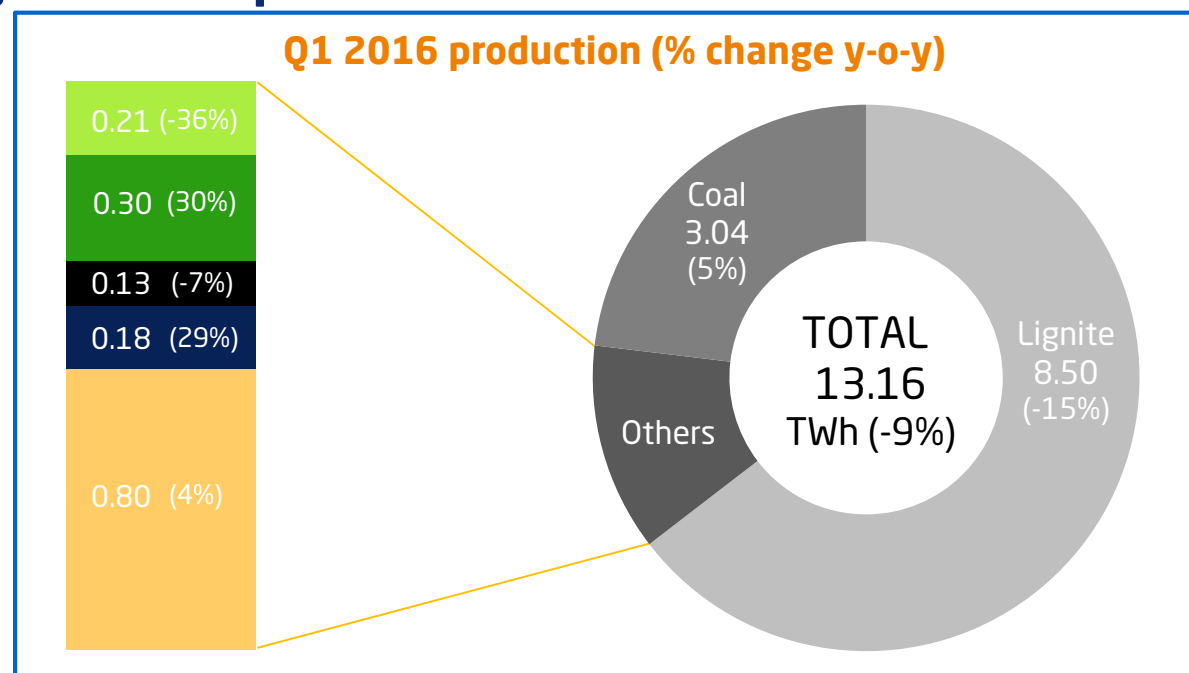
- Vice-President of the Board, CFO

Focusing on the key financial results

PLNm	Q1 2016	Q1 2015	diff. y-o-y %
Sales revenues	7,133	7,553	-6%
EBITDA	1,822	2,202	-17%
Recurring* EBITDA	1,563	2,040	-23%
Net profit to equity	870	1,095	-21%
Earning per share (PLN)	0.47	0.59	-20%
Net cash from operating activities	1,068	1,361	-22%
CAPEX	1,841	1,393	32%
Net debt (end of period)	4,171	2,637**	58%
Credit ratings	Rating	Outlook	
Fitch	BBB+	Stable	
Moody's	Baa1	Stable	



Summary of generation performance



- Lignite generation dropped because of heavier overhaul compared to the base quarter (yet please recall that Q1'15 was light in terms of overhaul works). In addition, unit 1 in Bełchatów operates as a peak unit since January 2016
- Hard coal generation increased due to the return of unit 4 in Opole which was in outage for the entire January 2015
- Higher generation at pumped-storage plants was incentivized by wider peak vs. off-peak price differential
- Wind generation higher by one-third on the back of capacity expansion (in H2'15 PGE completed 218MW of new wind farms)
- Biomass generation declined as the RES Act reduced undedicated co-combustion support
- Natural gas generation stabilized as the support scheme was stable

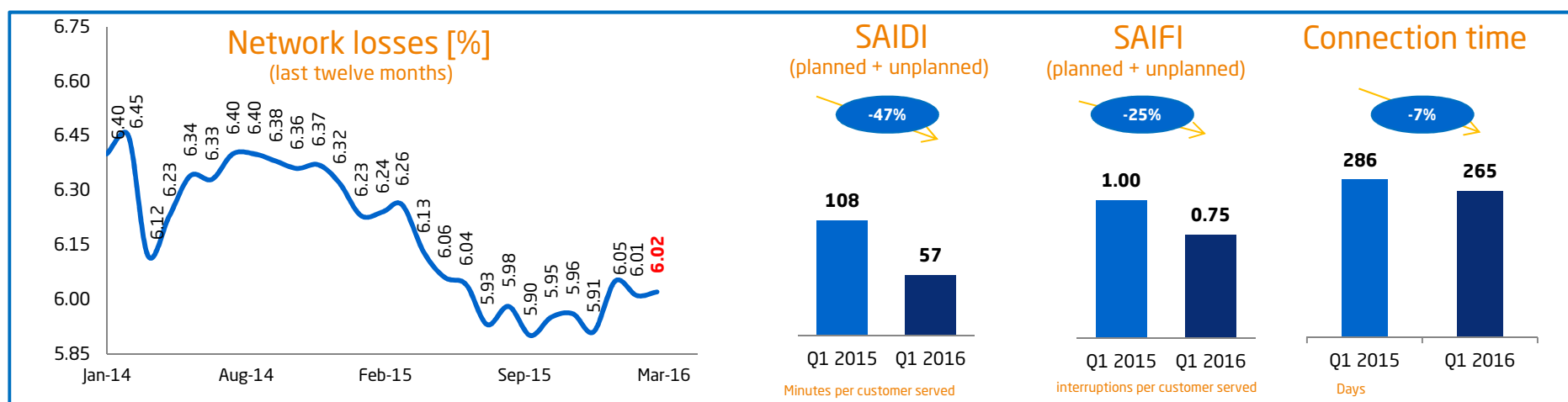
Focusing on performance indicators

Generation assets

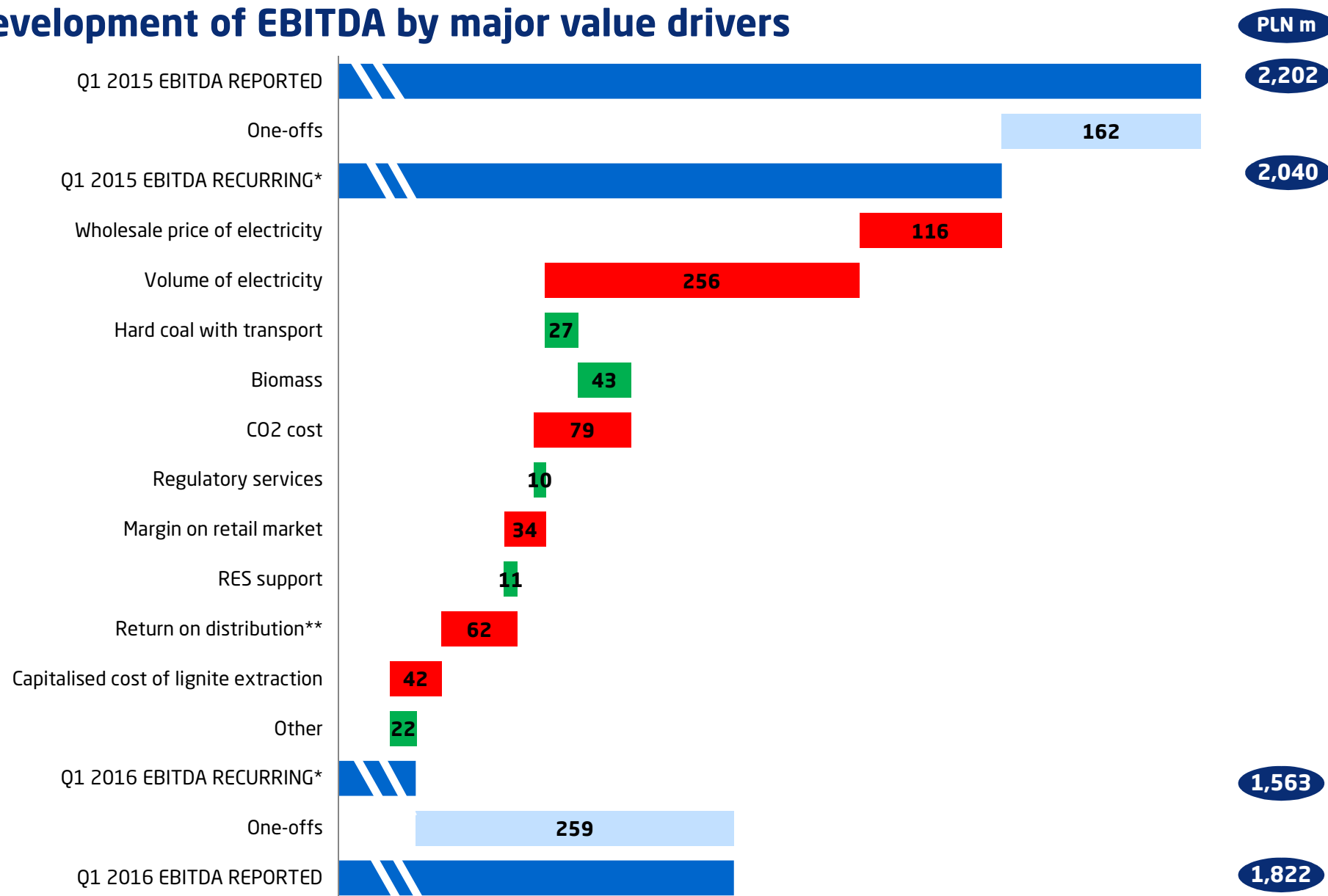
	Lignite	Hard coal	CHPs	Wind assets
Availability Q1 2016	81.4%	98.5%	98.3%	97.4%
Availability Q1 2015	89.4%	92.4%	94.4%	98.8%
Capacity factor Q1 2016	66.4%*	54.5%*	67.8%	28.9%
Capacity factor Q1 2015	75.6%	46.3%	67.1%	34.4%

* Capacity factor excluding units no. 1-2 in Dolna Odra (Interventional Cold Reserve) and unit no. 1 in Bełchatów (working as a peak unit)

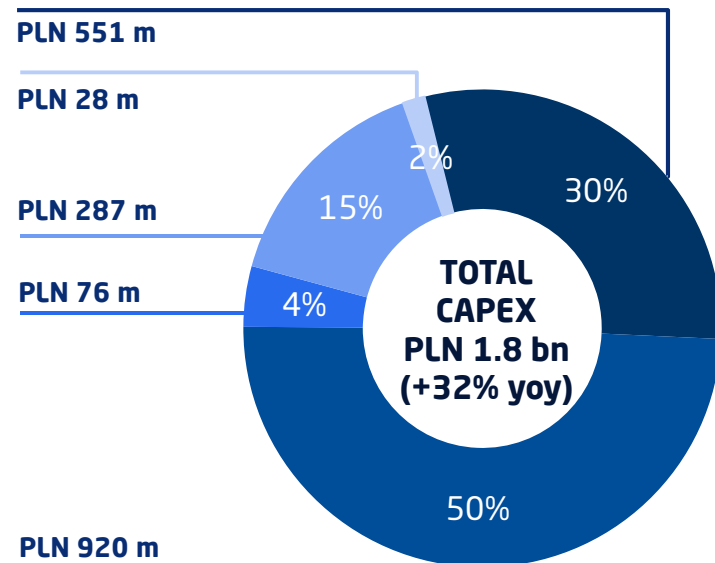
Distribution assets



Development of EBITDA by major value drivers



Capital expenditures in Q1 2016



New projects

Modernization & maintenance

67%

33%

Investments in generating capacities incl. conventional generation, renewables and distribution

Significant projects

CAPEX in Q1 2016

Construction of Opole II	PLN 904 m
Refurbishment and modernization in Bełchatów	PLN 267 m
Modernization of distribution assets	PLN 160 m
New developments in distribution area	PLN 127 m
Lotnisko wind farm (final settlement of the project)	PLN 69 m

Conventional Generation
Distribution



Conventional Generation - modernization, maintenance & other



Conventional Generation - new projects



Renewables



Distribution



Supply & other

- CAPEX in 2016 dominated by new projects with the highest level of efficiency and applied best available technologies in Europe
- Opole outlays at its peak in 2016
- Going forward RES CAPEX focused on maintenance. Further developments depending on regulatory environment

Division EBITDA outlook for 2016

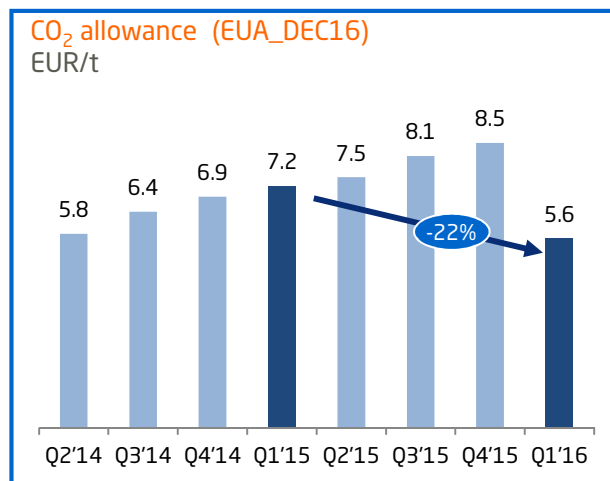
2016 outlook vs 2015		Main drivers
Conventional Generation	Substantially lower	<ul style="list-style-type: none"> • Wholesale blended realized price to be hampered by adverse market conditions and to arrive within a range of 165-167 PLN/MWh • Volumes on lignite lower as unit #1 in Bełchatów shifted to peak capacity reserve • Volumes on hard coal lower after shift of 2 units in Dolna Odra to cold reserve • Stable volumes from gas fired CHPs • Efficiency programs to be enhanced • Mid single digit % lower blended hard coal price • Full year „ordinary” LTC revenues in the range of PLN 500m • Positive impact from LTC court cases at PLN 148m • Approx. 3.5m tonnes higher shortage of carbon allowances
Renewables	Flattish	<ul style="list-style-type: none"> • No changes in installed capacity y-o-y • Significantly higher wind generation after commissioning of 218 MW throughout last months of 2015 • Impact of low prices of green certificates undermines bottom line
Supply	Lower	<ul style="list-style-type: none"> • Negative impact of increasing market competition • Volatility of green certificates prices increases risk but temporarily improves margins
Distribution	Lower	<ul style="list-style-type: none"> • RAB valued at PLN 15.1bn for 2016 tariff • WACC for 2016 set on 5.7% (pre-tax) • Efficiency programs to be continued • Altogether regulatory and business environment changes to impact segment EBITDA negatively in the range of PLN 250m

Q1 2016 Financial and Operating Results

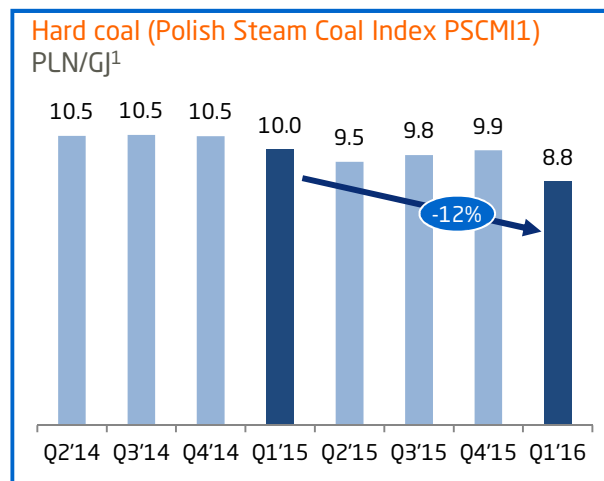


Additional information

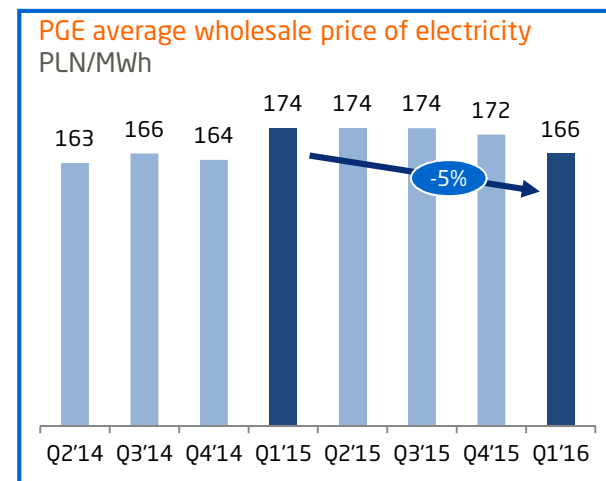
Mixed impact of commodity markets



Source: Bloomberg

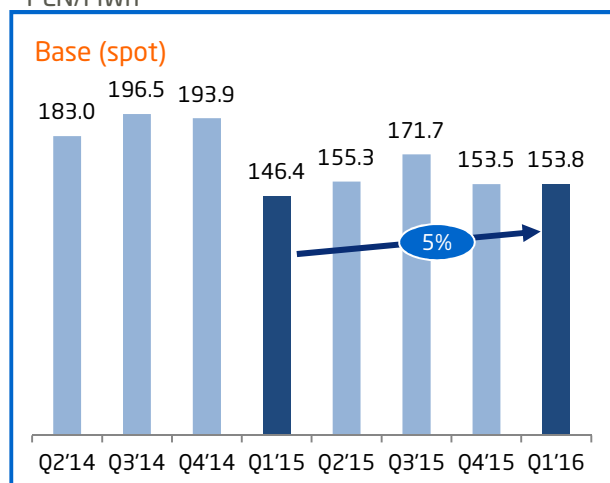


Source: ARP

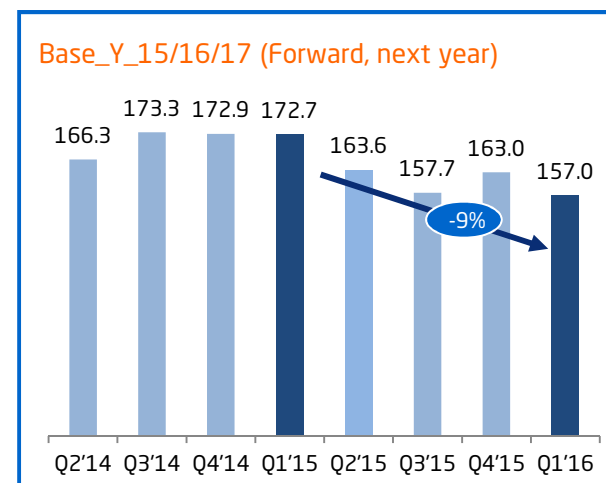
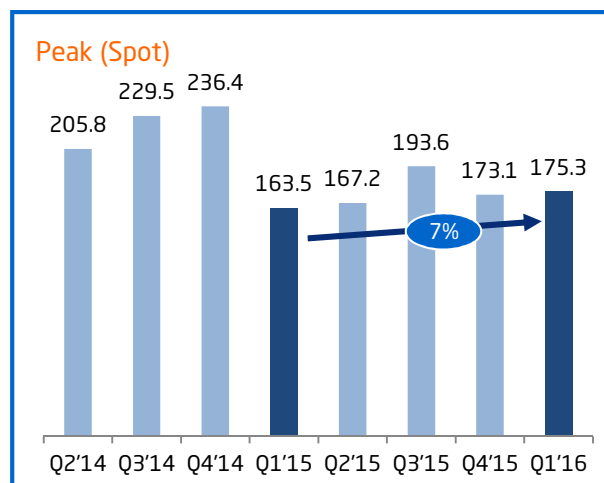


Source: PGE

Average quarterly TGE Electricity Prices 2014-2016
PLN/MWh



Source: TGE



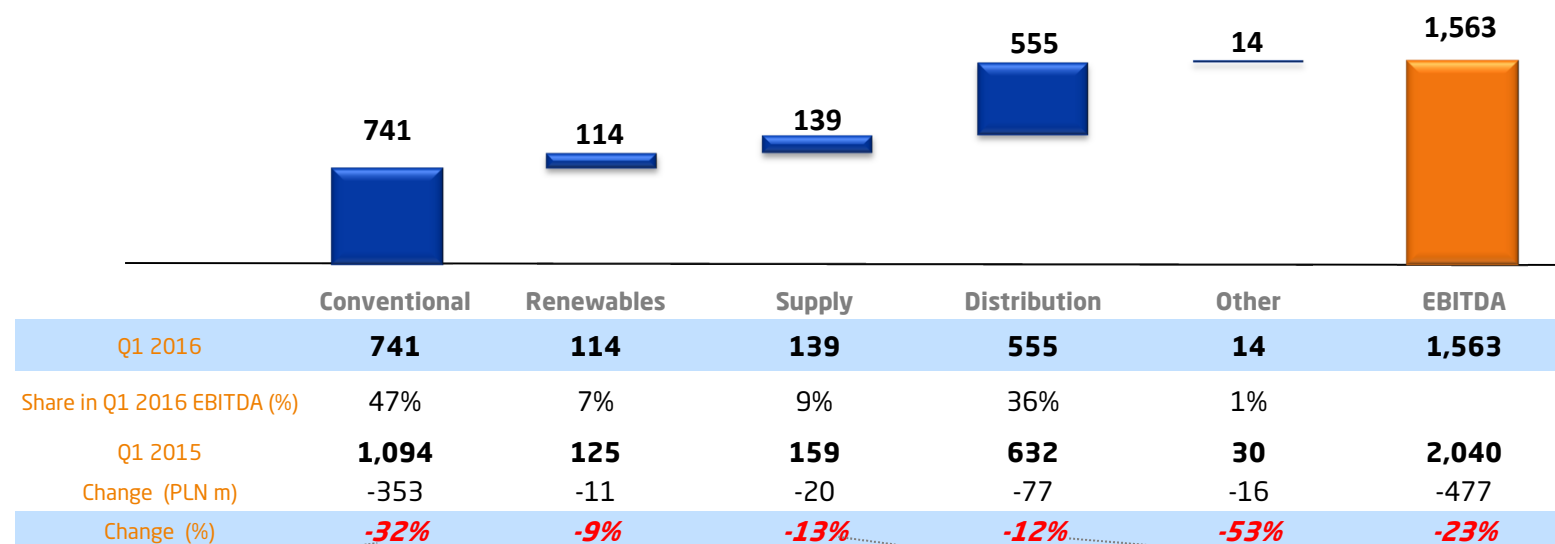
¹ arithmetic average of monthly data

Capital expenditures

CAPEX for Q1 2016 (PLN m)

	Q1 2016	Q1 2015	Q1 2016 vs Q1 2015
Segment			
Conventional Generation	1,471	1,042	41%
Distribution	287	263	9%
New clients connection	116	100	16%
Distribution grid	118	114	4%
Renewables	76	68	12%
Modernization and replacement	4	2	100%
Supply, Others	28	37	-24%
TOTAL	1,862	1,410	32%
TOTAL (incl. adjustments)	1,841	1,393	32%

Recurring* Q1 2016 EBITDA - composition and development



Decrease mostly due to:

- Lower volumes generated due to unsupportive overhauls' schedule of Bełchatów and unit no. 1 working as a peak reserve
- Lower blended price
- Higher cost of CO2 allowances

Effect of cheaper hard coal limited due to higher consumption - higher utilization of hard coal units and lower consumption of biomass (reduced support).

Higher volumes in wind with new farms commissioned however hampered by weather conditions. Additionally, negatively affected by lower prices of green certificates and lower price of electricity sold.

Additionally exacerbated by termination of support for large hydro plants.

Significant increase in volumes sold goes hand in hand with decrease in margin.

Higher volumes reported (+0.2 TWh) but business strongly affected by the new model of remuneration.

Key Financials

Selected consolidated financial data, IFRS

	Q1 2016	Q1 2015	Q1'16
	PLN m	Restated PLN m	vs. Q1'15
Sales	7,133	7,553	-6%
including LTC compensations	130	162	-20%
Recurring* Sales	7,003	7,391	-5%
EBITDA	1,822	2,202	-17%
Recurring* EBITDA	1,563	2,040	-23%
EBIT	1,123	1,416	-21%
Recurring* EBIT	864	1,254	-31%
Net profit (to equity)	870	1,095	-21%
Recurring* net profit (to equity)	660	964	-32%
CAPEX (incl. adj.)	1,841	1,393	32%
Net cash from operating activities	1,068	1,361	-22%
Net cash from investing activities	-2,522	-2,433	4%
EBITDA margin	26%	29%	-3 pp
Recurring EBITDA margin	22%	28%	-6 pp
Net Working Capital	4,121	4,126**	0%
Net Debt/LTM EBITDA	0.53	0.32**	+0.21

Guide to one off adjustments:

Computation of recurring EBITDA

key one-off items Q1 2016 Q1 2015

LTC compensations	-130	-162
LTC adjustment (court verdicts)	-148	0
Voluntary Leave Program	19	0

Total adjustment at EBITDA level -259 -162

Computation of recurring net profit to equity

key one-off items Q1 2016 Q1 2015

LTC compensations	-105	-131
LTC adjustment (court verdicts)	-120	0
Voluntary Leave Program	15	0

Total adjustment at net income level -210 -131



* Recurring = excluding significant one-off items

** As at December 31, 2015

Key Operating Data

Net electricity generation by sources (TWh)

	Q1 2016	Q1 2015	Q1'16 vs. Q1'15
Lignite-fired power plants	8.50	10.13	-16%
Hard coal-fired power plants	2.74	2.60	5%
Coal-fired CHPs	0.39	0.41	-5%
Gas-fired CHPs	0.80	0.77	4%
Biomass-fired CHP	0.12	0.11	9%
Pumped-storage	0.18	0.14	29%
Hydro	0.13	0.14	-7%
Wind	0.30	0.23	30%
TOTAL	13.16	14.53	-9%
Renewable generation	0.64	0.70	-9%
Incl. biomass co-combustion	0.09	0.22	-59%

Detailed segmental revenues and cost

Conventional Generation (PLN m)

	Q1 2016	Q1 2015	Q1'16 vs. Q1'15
Sales, including	3,073	3,517	-13%
Sale of electricity	2,401	2,823	-15%
LTC compensations	130	162	-20%
Sale of heat	278	265	5%
Sale of certificates of origin	145	144	1%
Cost by kind, including	2,545	2,718	-6%
D&A	351	496	-29%
Materials	780	861	-9%
Energy	8	9	-11%
External services	245	266	-8%
Taxes and charges	429	368	17%
Personnel expenses	703	692	2%
Other cost	28	25	12%
Cost of products sold	2,044	2,154	-5%
Cost of goods sold	2,315	2,472	-6%
EBIT	680	810	-16%
EBITDA	1,000	1,256	-20%

Detailed segmental revenues and cost

Renewables (PLN m)

	Q1 2016	Q1 2015	Q1'16 vs. Q1'15
Sales, including	213	215	-1%
Sale of electricity	101	98	3%
Sale of certificates of origin	44	56	-21%
Cost by kind, including	166	148	12%
D&A	65	55	18%
Materials	1	1	0%
Energy	37	32	16%
External services	25	20	25%
Taxes and charges	14	13	8%
Personnel expenses	19	21	-10%
Other cost	4	6	-33%
Cost of products sold	144	128	13%
Cost of goods sold	144	128	13%
EBIT	49	70	-30%
EBITDA	114	125	-9%

Detailed segmental revenues and cost

Distribution (PLN m)

	Q1 2016	Q1 2015	Q1'16 vs. Q1'15
Sales, including	1,510	1,541	-2%
Revenues from distribution services	1,439	1,466	-2%
Other operating revenues	45	48	-6%
Cost by kind, including	1,253	1,197	5%
D&A	283	265	7%
Materials	15	18	-17%
Energy	167	138	21%
External services	424	400	6%
Taxes and charges	99	92	8%
Personnel expenses	262	281	-7%
Other cost	4	3	33%
Cost of products sold	1,170	1,100	6%
Cost of goods sold	1,170	1,100	6%
EBIT	273	367	-26%
EBITDA	555	632	-12%

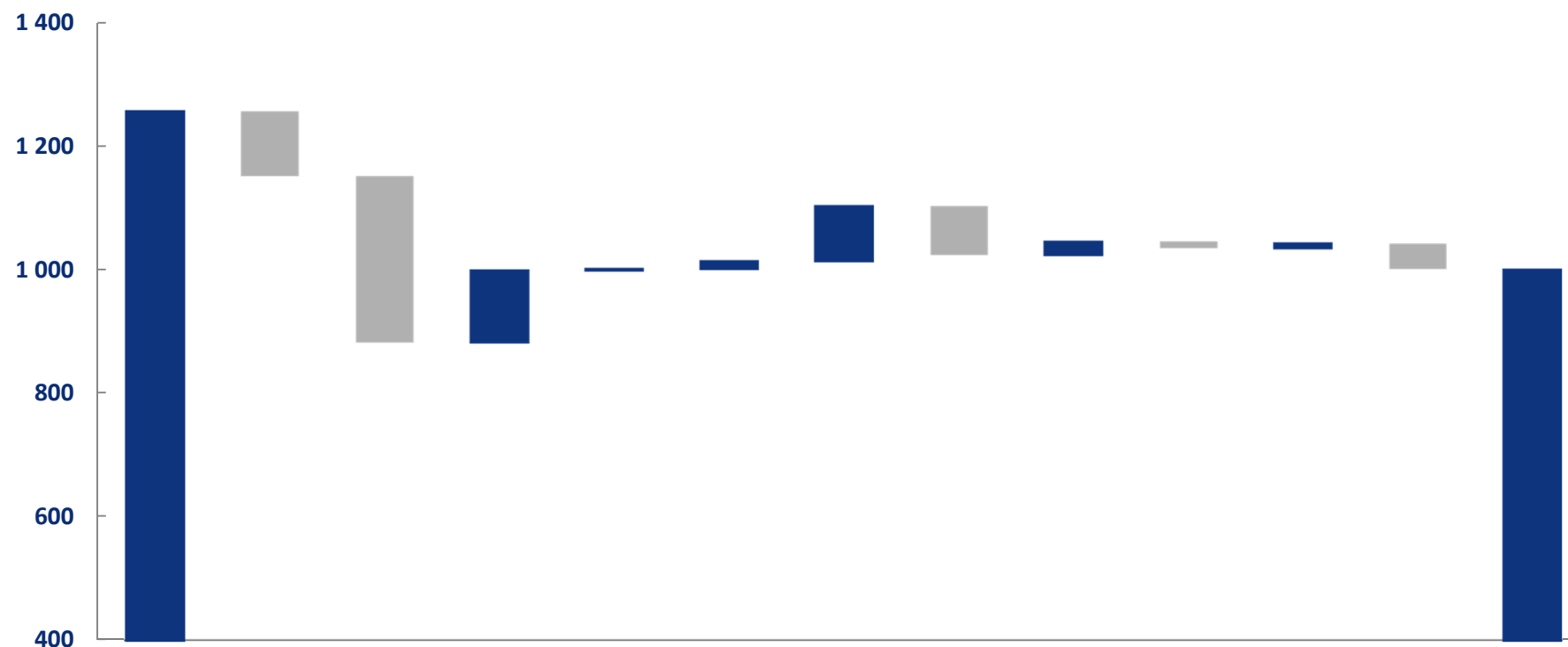
Detailed segmental revenues and cost

Supply (PLN m)

	Q1 2016	Q1 2015	Q1'16 vs. Q1'15
Sales, including	4,142	3,797	9%
Sale of electricity	2,546	2,440	4%
Revenues from distribution services	997	1,050	-5%
Sale of certificates of origin	0	6	-100%
Cost by kind, including	415	437	-5%
D&A	7	6	17%
Materials	1	2	-50%
Energy	1	1	0%
External services	52	54	-4%
Taxes and charges	263	285	-8%
Personnel expenses	68	68	0%
Other cost	23	21	10%
Cost of products sold	34	20	70%
Cost of goods sold	3,624	3,230	12%
EBIT	132	153	-14%
EBITDA	139	159	-13%

Conventional Generation - EBITDA Q1 2016

Key changes in EBITDA (PLN m)



	EBITDA 2015	Sale of electricity difference in price	Sale of electricity difference in volume	Revenues from LTC	Revenues from agreement with TSO	Sale of heating	Fuel	CO2	Environmental costs	Personnel costs	Other	Capitalized costs	EBITDA 2016
Change		-104	-269	116	2	13	89	-79	21	-11	8	-42	
EBITDA Q1'15	1,256	2,514		162	68	265	717	172	92	692		286	
EBITDA Q1'16		2,141		278	70	278	628	251	71	703		244	1,000

Renewables - EBITDA Q1 2016

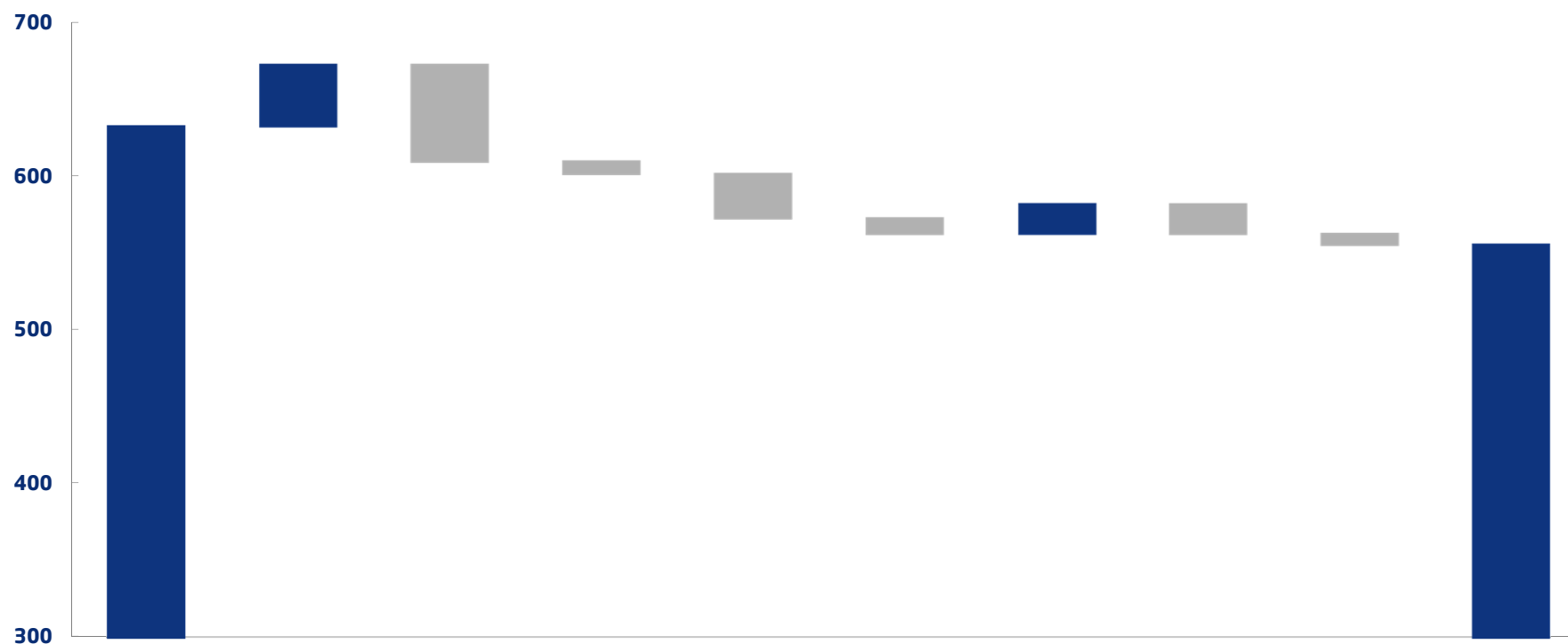
Key changes in EBITDA (PLN m)



	EBITDA 2015	Sale of electricity - wind	Sale of property rights - wind	Sale of electricity - water	Sale of property rights - water	Revenues from agreement with TSO*	Personnel costs	Other	EBITDA 2016
Change		5	3	-4	-15	8	2	-10	
EBITDA Q1'15	125	40	37	27	19	59	21		
EBITDA Q1'16		45	40	23	4	67	19		114

Distribution - EBITDA Q1 2016

Key changes in EBITDA (PLN m)



	EBITDA 2015	Volume of distributed energy	Change of distribution tariff*	Other distribution related revenues**	Network losses	Transmission services*	Personnel costs	Fixed costs***	Other	EBITDA 2016
Change		40	-63	-8	-29	-10	19	-19	-7	
EBITDA Q1'15	632	1 421		93	138	336	281	134		
EBITDA Q1'16		1 398		85	167	346	262	153		555



* Increase of transmission costs with no impact on result, offset by the increased revenues from distribution services

** Other revenues (reactive power, excess capacity, additional services), revenues from connection fee, sale of transit services

*** Fixed costs (lowered by cost of own use, fixed costs of transmission by PSE S.A. and personnel expenses)

Supply - EBITDA Q1 2016

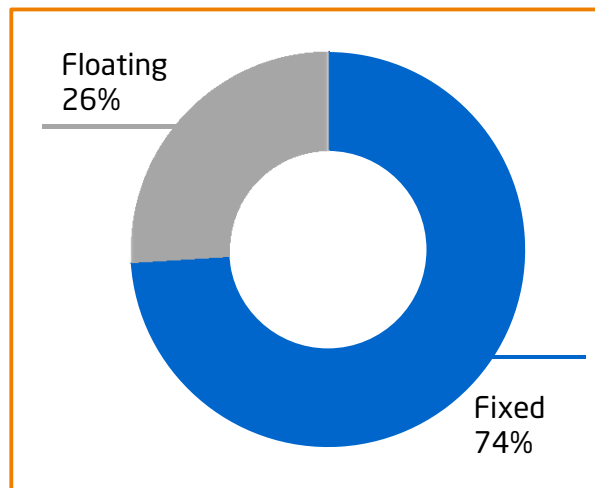
Key changes in EBITDA (PLN m)



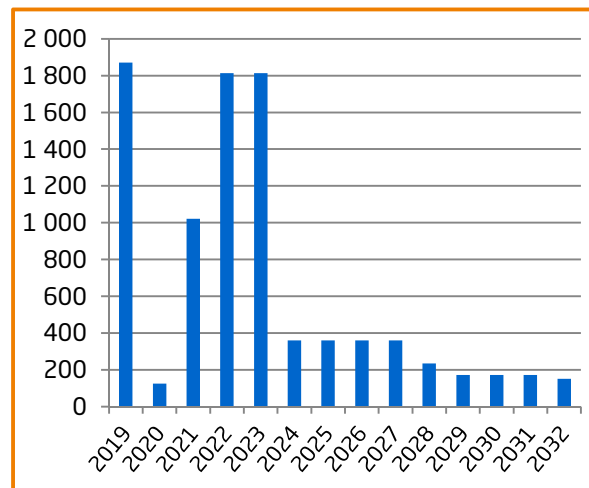
	EBITDA 2015	Margin on electricity	Property rights redemption costs	Management service	Other	EBITDA 2016
Change		-34	20	-16	10	
EBITDA Q1'15	159	418	281	133	111	
EBITDA Q1'16		384	261	117	101	139

Debt Structure and Liquidity (as at March 31, 2016)

Fixed vs floating debt (drawn debt)

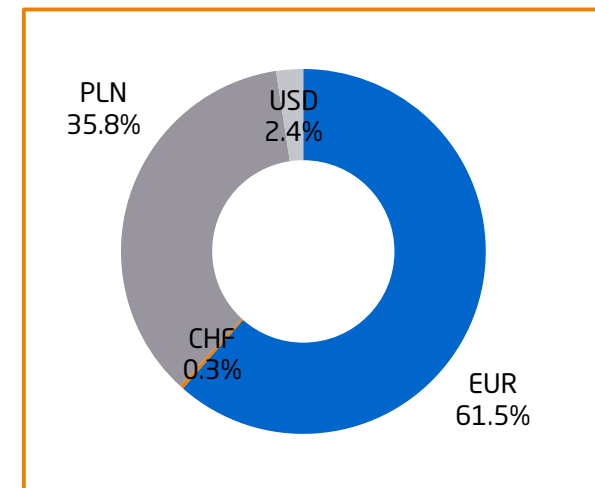


Bank loans repayment schedule* (PLN m)



* Illustrative only, assumption of full utilization of available bank loans (syndicated loan, BGK and EIB loans)

Drawn Debt by currency

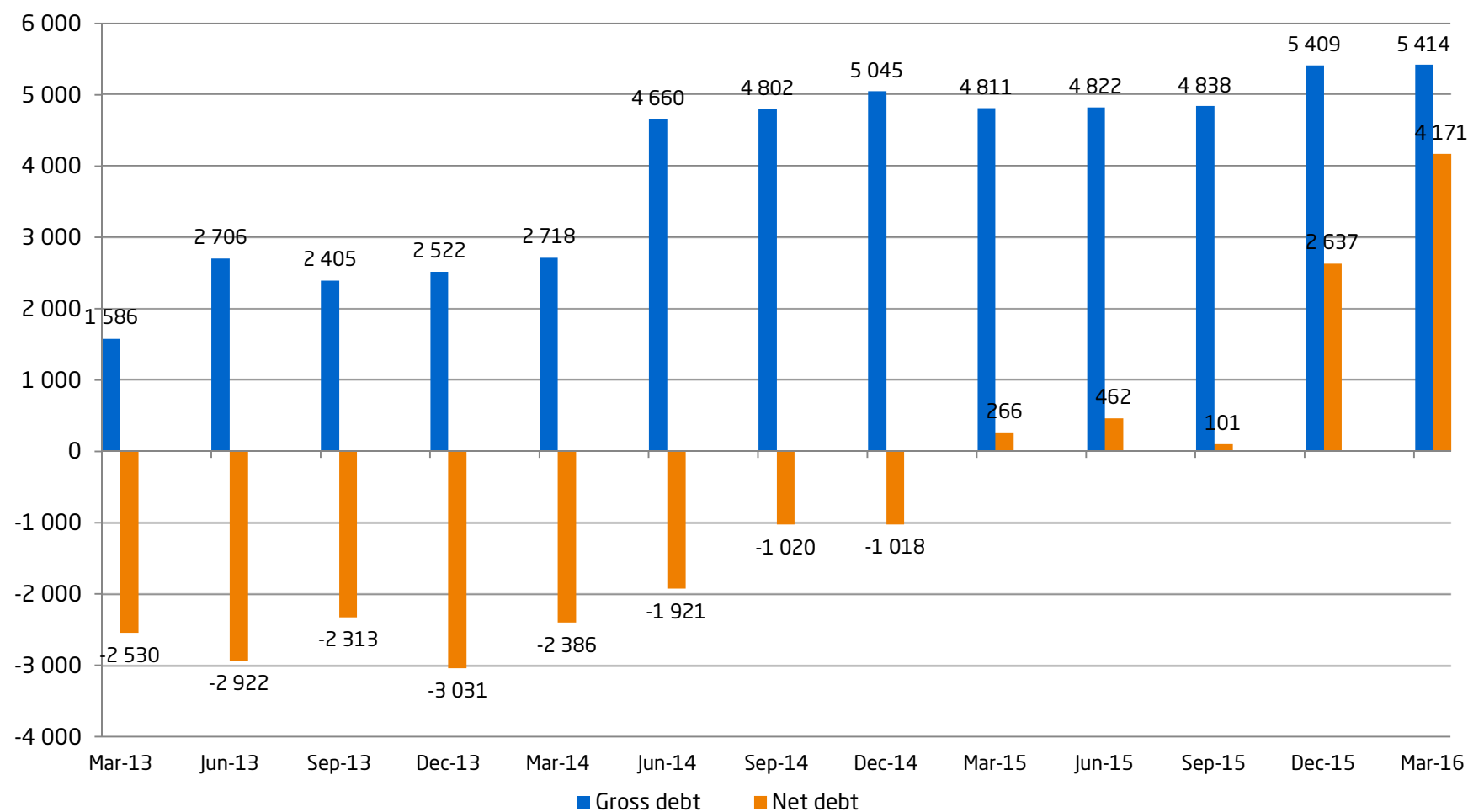


Issues under the EMTN program

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

Debt development by quarters

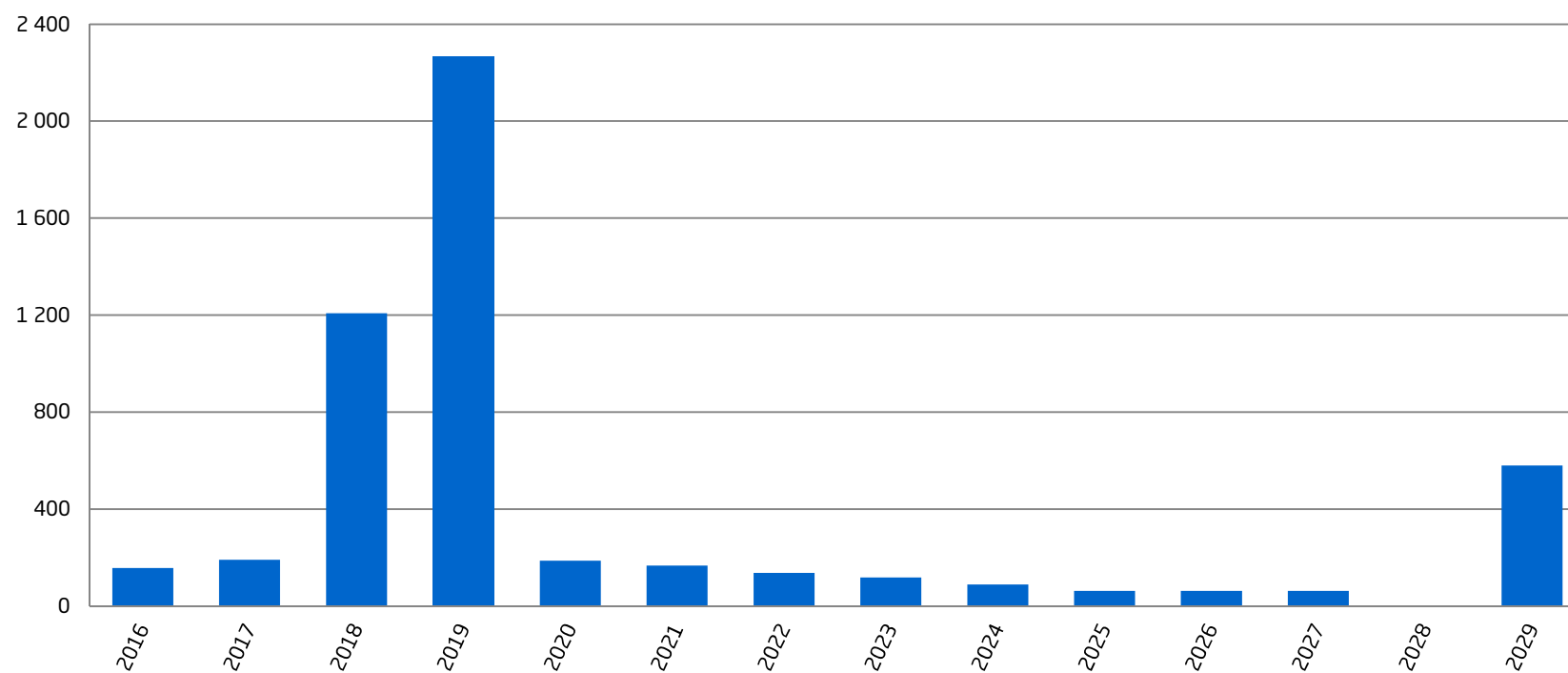
Gross debt and net debt* (PLN m)



- External long-term debt is mainly drawn by PGE Polska Grupa Energetyczna S.A. (the parent company) and PGE Sweden AB (Swedish SPV for Eurobonds issues). Some historical investments loans exist in PGE GiEK S.A. (Conventional Generation company)

Debt maturity profile

Debt maturity profile (PLN m) as at March 31, 2016



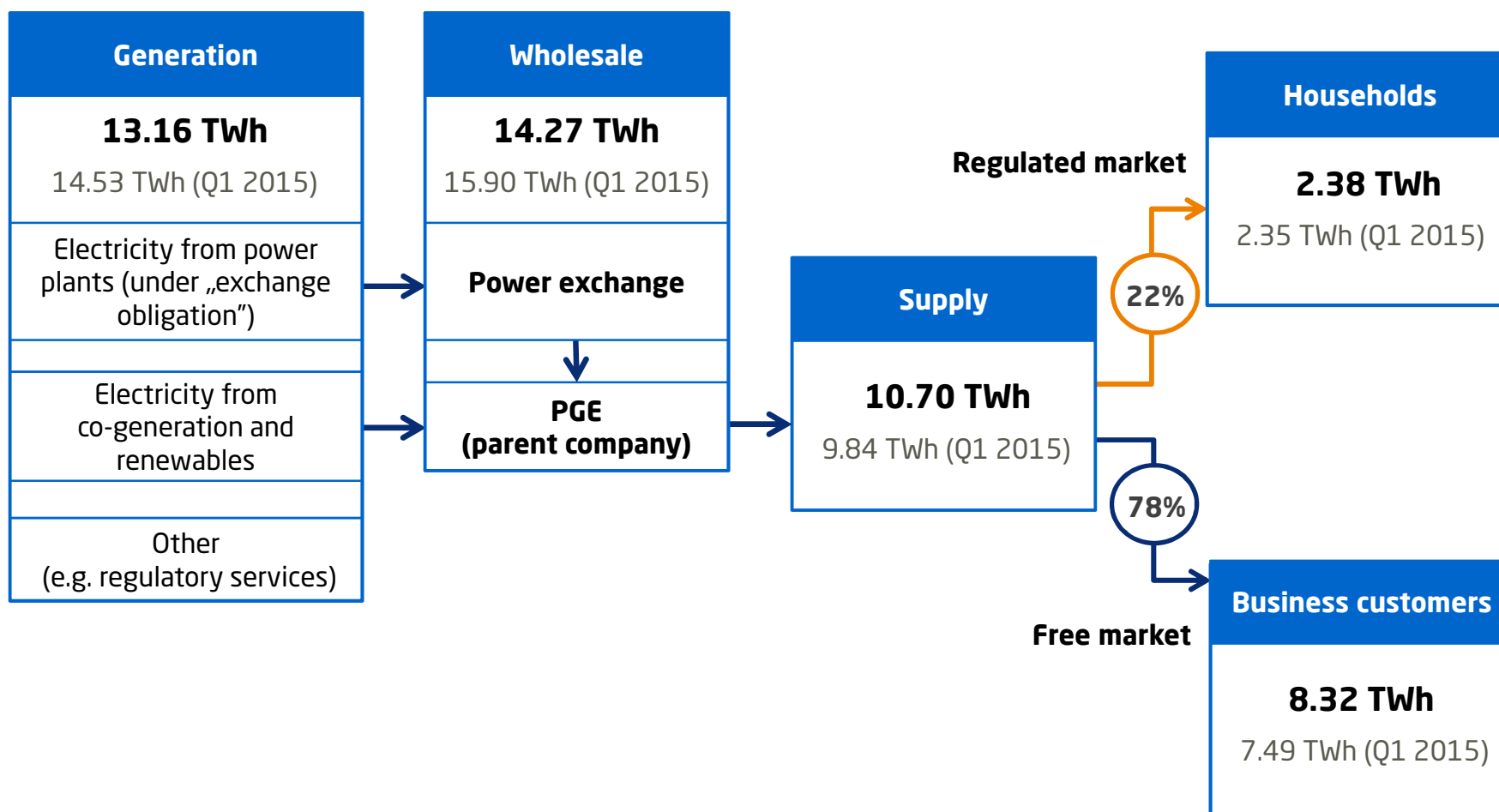
PGE cash position provides...

... plenty of headroom in the balance sheet		Q1 2016	FY 2015
	Gross Debt (PLN m)	5,414	5,409
	Net debt (PLN m)	4,171	2,637
	Net Debt/LTM EBITDA	0.53x	0.32x
	Net Debt/Equity	0.10x	0.07x

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	February 12, 2016	May 21, 2015
	Senior unsecured rating		BBB+
	Date of the latest rating change	May 26, 2014	August 4, 2011
	Date of the latest rating confirmation		May 21, 2015
	Long-term national rating		AA- (pol)
	Date of rating assignment		August 10, 2012
	Date of latest rating confirmation		May 21, 2015

Q1 2016 Key business flows

Key business flows (illustrative only)



CO₂ 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

2016 allowances settlement

- In Q1'16 PGE's installations emitted 13.50m tonnes of CO₂
- Consequently PGE's full cost related to CO₂ emissions in Q1'16 amounted to approx. 251 m.
- In April 2016, entities of PGE Capital Group received free of charge emission allowances amounting to approx. 25 m tonnes regarding electricity generated in FY15 and nearly 1 m tonnes regarding heat to be generated in FY16.
- Also in April 2016, PGE completed the settlement of FY15 period (i.e. PGE redeemed EUA equal to FY15 emission).

Free EUA recognized at a zero value - note 12, Q1'16 consolidated FS

	EUA	
	Quantity (m)	Value (PLN m)
As at Jan. 1, 2015	68	1,552
Purchased	38	1,301
Free allocation	30	-
Redeemed	-59	-681
As at Jan. 1, 2016	77	2,172
Purchased	6	153
Free allocation	1	-
Redeemed	-	-
As at Mar. 31, 2016	84	2,325

Provision for purchase of CO₂ allowances - note 17, Q1'16 consolidated (PLN m)

As at Jan. 1, 2016	760
Redeemed	-
Released provisions	-
Provided in Q1'16	251
As at Mar 31, 2016	1,011

Impact on P&L (PLN m) - illustrative only

	Q1'16
Costs by kind	4,155
Taxes and charges	811

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 2008-2010.

Stranded cost compensation in 2011-2014 are not subject to court disputes.

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*	Case at the Supreme Court*
2009	Case closed	Case closed	Case at the Supreme Court*	Case at the Supreme Court*	CCCP verdict*	Case at the Supreme Court*
2010	Court of Appeal verdict**	Case closed***	n/a	Case closed***	Case closed***	Case closed***

* Cases dependent on the Court of Justice of the European Union verdict

** PGE GiEK S.A. appeal fully allowed, the ERO President's appeal rejected on April 14, 2016. The ERO President entitled to file a cassation appeal with the Supreme Court

*** 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
	Not a subject to LTC compensations
	Court of Appeal verdict favourable for PGE, cassation appeal filed by the ERO with the Supreme Court
	Court of Competition and Consumer Protection - favourable verdict

PLN m	2011	2012	2013	2014	2015	2016
Provision for outstanding court cases re LTC from 2008-2010	(1,038)					
Reversal of provision based on legally binding verdicts	-	200	337	246	-	173
Unsettled LTC disputes - total value	82					

Sell-side analysts covering PGE

Domestic analysts

Institution	Analyst
• BOŚ	• Michał Stalmach
• BZ WBK	• Paweł Puchalski
• Citigroup	• Piotr Dzieciołowski
• Deutsche Bank	• Tomasz Krukowski
• Erste Group	• Tomasz Duda
• Haitong Bank	• Robert Maj
• ING	• Maria Mickiewicz
• IPOPEMA	• Sandra Piczak
• JP Morgan	• Michał Kuzawiński
• mBank	• Kamil Kliszc
• Pekao IB	• Łukasz Jakubowski
• PKO BP	• Stanisław Ozga
• Societe Generale	• Bartłomiej Kubicki
• Trigon	• Krzysztof Kubiszewski
• UBS	• Michał Potyra

Foreign analysts

Institution	Analyst
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• Bank of America Merrill Lynch	• Anton Fedotov
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