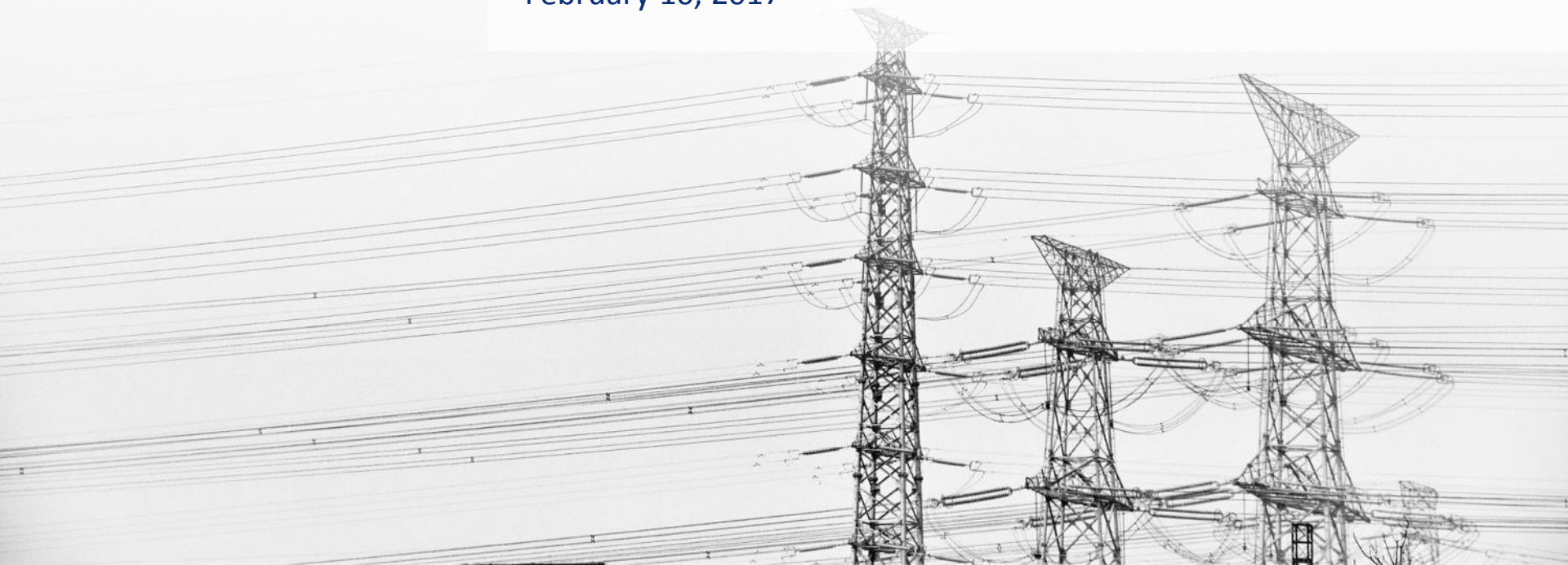


# Q4 & FY 2016 preliminary results

February 10, 2017





## Disclaimer: estimated data

The Management Board of PGE Polska Grupa Energetyczna (the “Company” or “PGE”) emphasize that figures presented hereby are preliminary estimates, which may change. The financial statements of PGE Group still remain in the audit process. Consolidated report for 2016 will be released on March 7, 2017.

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## Estimated operating volumes and sales data

[TWh]	Q4 2016	Q4 2015	y/y	2016	2015	y/y
<b>Net electricity generation, by fuels:</b>	<b>14.63</b>	<b>13.84</b>	<b>6%</b>	<b>53.67</b>	<b>55.58</b>	<b>-3%</b>
lignite	10.14	9.28	9%	37.35	38.74	-4%
hard coal	2.95	2.98	-1%	11.30	11.81	-4%
natural gas	0.83	0.75	11%	2.33	2.05	14%
pumped-storage plants	0.13	0.20	-35%	0.45	0.57	-21%
hydro	0.12	0.05	140%	0.43	0.36	19%
wind	0.38	0.28	36%	1.08	0.82	32%
biomass	0.08	0.30	-73%	0.73	1.23	-41%
<b>Sales to final off-takers</b>	<b>11.01</b>	<b>9.97</b>	<b>10%</b>	<b>42.91</b>	<b>39.00</b>	<b>10%</b>
<b>Distribution</b>	<b>8.89</b>	<b>8.58</b>	<b>4%</b>	<b>34.32</b>	<b>33.38</b>	<b>3%</b>
[PLN/MWh]	Q4 2016	Q4 2015	y/y	2016	2015	y/y
<b>Realized wholesale electricity price</b>	<b>168</b>	<b>172</b>	<b>-3%</b>	<b>168</b>	<b>173</b>	<b>-3%</b>

## Estimated EBITDA and one-off items

[PLN m]	Q4 2016	Q4 2015	y/y	2016	2015	y/y
<b>EBITDA PGE Group</b>	<b>2 599</b>	<b>1 998</b>	<b>30%</b>	<b>7 385</b>	<b>8 228</b>	<b>-10%</b>
Conventional Generation	1 736	1 112	56%	4 182	4 698	-11%
Renewables	117	113	3%	373	391	-5%
Distribution	545	596	-9%	2 230	2 461	-9%
Supply	180	187	-4%	500	610	-18%

### One-off items

[PLN m]	Q4 2016	Q4 2015	y/y	2016	2015	y/y
LTC compensations	136	103		520	546	
LTC adjustment (court verdicts)	0	0		148	0	
Reclamation provision	643	-100		643	93	
Actuarial provision	48	4		48	58	
Revaluation of certificates at ZEDO	0	0		-118	0	
Voluntary Leave Program	12	20		-16	20	
<b>Recurring EBITDA</b>	<b>1 760</b>	<b>1 971</b>	<b>-11%</b>	<b>6 160</b>	<b>7 511</b>	<b>-18%</b>
Fixed assets impairments (pre-tax)*	229	107		1 069	9 039	

\*Fixed asset impairments do not distort EBITDA (presented in D&A line), but do affect reported pre-tax profit (and EPS)

# Estimated CAPEX, net debt and EPS

[PLN m]	Q4 2016	Q4 2015	y/y	2016	2015	y/y
<b>CAPEX, including:</b>	<b>2 555</b>	<b>3 613</b>	<b>-29%</b>	<b>8 152</b>	<b>9 450</b>	<b>-14%</b>
Conventional Generation	1 870	2 481	-25%	6 179	6 495	-5%
Distribution	586	703	-17%	1 721	1 841	-7%
Renewables	31	366	-92%	144	931	-85%
<b>Net debt</b>				<b>5 128</b>	<b>2 637</b>	
<b>Consolidated net profit (to equity)</b>	<b>1 245</b>	<b>995</b>	<b>25%</b>	<b>2 447</b>	<b>-3 032</b>	<b>n/a</b>
Fixed assets impairment (net)	176	87		923	7 322	
<b>Consolidated net profit (to equity) excl. impairment</b>	<b>1 421</b>	<b>1 082</b>	<b>31%</b>	<b>3 370</b>	<b>4 290</b>	<b>-21%</b>
EPS [PLN]	0.67	0.53	26%	1.31	-1.62	n/a
EPS excl. impairment [PLN]	0.76	0.58	31%	1.80	2.29	-21%

# Drivers of periodic results

## Key factors that influenced y/y results dynamics

Q4 2016	FY 2016
<b>Recurring EBITDA lower by 11% y/y</b> <ul style="list-style-type: none"> <li>• CO2 emission costs higher by ca. PLN 117 m</li> <li>• Capitalized extraction costs lower by PLN 130 m</li> <li>• Realized wholesale electricity price lower by 4 PLN/MWh</li> </ul>	<b>Recurring EBITDA lower by 18% y/y</b> <ul style="list-style-type: none"> <li>• CO2 emission costs higher by ca. PLN 390 m</li> <li>• Capitalized extraction costs lower by PLN 332 m</li> <li>• Realized wholesale electricity price lower by 5 PLN/MWh</li> <li>• Generation volume lower by nearly 2 TWh, mainly as a result (since 2016) of Bełchatów unit no. 1 working in peak mode and Dolna Odra units no. 1-2 in Interventional Cold Reserve</li> </ul>
<b>Reported EBITDA higher by 30% y/y</b> <ul style="list-style-type: none"> <li>• Positive impact of one-off items, particularly decrease of reclamation provision* caused by both higher discount rate and the update of technical plan</li> </ul>	<b>Reported EBITDA lower by 10% y/y</b> <ul style="list-style-type: none"> <li>• Milder decline of results (compared to recurring result) due to favorable impact of one-off items, particularly decrease of reclamation provision* caused by both higher discount rate and the update of technical plan</li> </ul>

\*more details on the next page

# One-offs items: reclamation provision

Reclamation provision (PLN m)	PGE Group	Lignite mines	One-off factors	
			technical plan	discount rate
Balance sheet: beginning of 2016	3 350	3 051	old	3.00%
Balance sheet: end of 2016	2 670	2 366	new	3.50%
Change in 2016, including:	-680	-686	update	0.50%
change related to recurring factors	229	189		
change related to one-off factors, including:	-909	-875		
<b>fraction recognized in the income statement</b>	<b>-643</b>	-630		
asset adjustment	-266	-245		

The value of reclamation provision changes due to both:

**recurring factors** – such as progress in extraction works, discount rollover (time passage),

**one-off factors** – changes of the discount rate, changes in assumptions of the technical plan regarding ultimate reclamation works.

Due to remote time horizon (decades) the balance sheet value of provision is highly sensitive to discount rate changes. In addition, the 2016 end of the year value is based on the new reclamation plan for open cast mines in Bełchatów and Turów.

Change of reclamation provision is partially recognized in the income statement, partially as a fixed assets adjustment. Reclamation provision in PGE Group, aside aforementioned lignite mines, involves also ash storage in power plants, ultimate dismantling of wind farms or other tangible fixed assets.

# Reclamation provision in lignite mines

## Sensitivity analysis

Change of discount rate	Change of provision value [PLN m]	Change of EBITDA [PLN m]
+100 bp	-659	+451
-100 bp	+943	-427

Theoretic deviation relative to the 2016 EOP balance sheet value and the discount rate of 3.5%

Change of reclamation provision is partially recognized in the income statement, partially as a fixed assets adjustment.

## Why the change of provision is not linearly reflected in the change of EBITDA?

In case of increase of discount rate, the corresponding fixed asset can absorb a fraction of the decline of provision (this is limited to the value of this fixed asset), the remainder is reflected in periodic result. In case of decline of discount rate, there is no limitation imposed by the asset value. This is the reason why EBITDA is more sensitive to the increase of discount rate, than to the decrease.



# Change of technical and geological assumptions

The computation of 2016 end of year provision was based on the new technical plan of ultimate reclamation of lignite mines Bełchatów and Turów.

## Why the technical plan was changed?

According to the PGE Group's accounting policy technical and geological assumptions are updated at least every 5 years. Among rationales for update of technical plan was also the upcoming termination of mining works at the field Bełchatów.

## Why did the new plan cause the decrease of reclamation provision?

The Bełchatów lignite mine runs extraction works at two fields – the Bełchatów field and the Szczerców field. Resources of the Bełchatów field are running out about 2020, whereas resources of the Szczerców field are running out about 2040.

Given the operational interrelatedness between both fields, and for sake of safety of extraction works, a fraction of reclamation works at the Bełchatów field needs to be postponed until extraction at the Szczerców field is finished.

This assumption changes the classification of costs. A fraction of reclamation costs related to the Bełchatów field, that was planned to be covered from the provision, will be included in current operating costs of the field Szczerców (as the overburden from the Szczerców field is being deposited in the Bełchatów field).

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