Polska Grupa Energetyczna

Investor Release

May 11, 2016

Details of the webcast from the meeting with CEO & CFO
May 12, 2016 (Thursday), 10.00 AM CEST

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

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Group's EBITDA challenged by planned overhauls and commodities markets
Strong operating performance of Distribution and Supply segment
Growing international pressure and local RES growth highlight necessity of capacity market
Investment in Polish coal to assure an operating hedge for PGE existing and being built units

- Group Q1 EBITDA of PLN 1.8 bn (-17% yoy); Group recurring Q1 EBITDA result of PLN 1.6 bn.
- Net cash from operations of PLN 1.1 bn.
- Our distribution assets and supply business at high level of operating performance – distribution volume +3% yoy, supply volume +9% yoy.
- Net import of electricity to Poland and local surge of wind capacities in Y2015 push to rethink the future market shape and accelerate works on full blown capacity markets.
- PGE's investment in the newly formed Polish Mining Group (called PGG) to assure the stabilization of the business environment through securing an appropriate quality of resources base at a predictable price.

Pressure on EBITDA level

Consolidated EBITDA result amounted to PLN 1.82 bn lower 17% yoy mostly due to lower lignite output and lower price of energy sold on the wholesale market. Remuneration of distribution assets was tightened by the regulator while renewables suffered from lower prices of green certificates. Supply segment witnessed lower margins.

Towards the capacity market

Growing international price pressure coming from neighbouring countries and local accelerated growth of wind capacities in Y2015 limit the utilisation of thermal assets and their profitability. Outlook of higher import, introduction of phase shifters on German border and hardly any incentives to build new units or to modernize old ones under BAT conclusions' perspective compels capacity mechanism implementation securing stability and reliability of energy supply in Poland.

Investment gateway in full swing

Recent progress of Opole project exceeded 40%. Works on construction site are conducted in line with schedule and on budget.

Turów project is progressing in line with schedule amended with the new requirements of BAT conclusions.

Third of our major projects - Gorzów – is advanced with over 80%. In the first quarter of 2016 we have started its trial run. The expected commissioning of the investment is scheduled for H2 2016.

We are just about to finish our long-term project of comprehensive modernization units 7-12 in Bełchatów with budget of PLN 4.6 bn while we are launching Turów units 1-3 retrofit. Both modernisations, in Pomorzany and in Lublin-Wrotków are at tender procedure stage.

Investment in Polish Mining Group

PGE entered the investment in the newly formed Polish Mining Group (called PGG) - the largest hard coal producer in Poland and in Europe. Involvement in PGG will provide our company with the resources of thermal coal of parameters meeting the needs of PGE's existing and being built units. These measures are consistent with our strategic objectives.

Q1 2016 PGE Group Results

May 11, 2016

Key Financials

PLNm	Q1 2016	Q1 2015	y-o-y [%]
Sales	7 133	7 553	-6%
Sales recurring*	7 003	7 391	-5%
EBITDA	1 822	2 202	-17%
EBITDA recurring**	1 563	2 040	-23%
EBIT	1 123	1 416	-21%
EBIT recurring**	864	1 254	-31%
Net profit (to equity)	870	1 095	-21%
Net profit (to equity) recurring**	660	964	-32%

*adjusted for LTC compensations; **adjusted for LTC compensations, court verdicts and Voluntary Leave Program (details in Q1'16 presentation, p. 20)

EBITDA by segments

PLNm	Q1 2016	Q1 2015	y-o-y [%]
Conventional Generation	1 000	1 256	-20%
Renewables	114	125	-9%
Distribution	555	632	-12%
Supply	139	159	-13%

EBIT by segments

PLNm	Q1 2016	Q1 2015	y-o-y [%]
Conventional Generation	680	810	-16%
Renewables	49	70	-30%
Distribution	273	367	-26%
Supply	132	153	-14%

Key operating data

TWh	Q1 2016	Q1 2015	y-o-y [%]
Net Generation Volume	13.16	14.53	-9%
Sales on the Wholesale Market	14.27	15.90	-10%
Sales to end-users	10.70	9.84	9%
Electricity Distribution Volume	8.64	8.41	3%

Electricity generation by source

TWh	Q1 2016	Q1 2015	y-o-y [%]
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 CHPs	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%

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Questions and answers – Q1 2016 results in a nutshell

1. What drove net debt expansion by PLN 1.5 bn qoq?

We generated operating cash flow of PLN 1.1 billion, whereas investment cash flow amounted to PLN -2.5 billion. Our strategic investment in Opole, was scheduled to result in peak CAPEX in years 2015-2016.

2. You report CAPEX of PLN 1.8 bn vs. Investment Cash Flow of PLN -2,5 bn. Could you explain this gap?

In Q1'16 we paid invoices for intensive construction works conducted in previous year. Balance of investment payables decreased q-o-q by PLN 807 million. On the other hand balance of advanced payments contracted by PLN 108 million on the back of current works.

3. Q1'16 Operating Cash Flow of PLN 1,068 million came out lower by PLN 293 million compared to Q1'15. What caused the deterioration?

The yoy OCF decline is fully in line with lower profits (our net working capital remained at the end of the year level).

4. Consolidated Q1'16 EBITDA was lower by PLN 380 million. Which segment caused yoy deterioration of profits?

Business environment in Q1'16 was tougher for each of our segments.

- Conventional Generation results were pressed twofold, by lower electricity prices (i.e. realized blended price) combined with lower generation volumes (heavier overhaul, furthermore unit 1 in Bełchatów was shifted to peak work). Segment's EBITDA came out lower by PLN 256 million yoy.
- Remuneration of distribution assets was tightened with new remuneration strategy (as the pre-tax WACC was trimmed from effective 6.8% last year to 5.7%). Segment's EBITDA was lower by PLN 77 million.
- Renewables segment suffered from lower prices of green certificates despite positive volume impact from new wind farms. Segment's EBITDA decreased by PLN 11 million.
- Supply earnings suffered from lower margins. Segment's EBITDA decreased by PLN 20 million.

5. Could you briefly comment on your engagement in PGG deal?

a) What is the business rationale?

We have a rationale to work on sustainability of our operations. This transaction safeguards fuel supply and lowers operating risk. Not only from supplies perspective. Hard coal is crucial in value chain of electricity and therefore establishing of PGG stabilizes situation on Polish hard coal market and moderates volatility at electricity market. We believe this deal strengthens our value chain and lowers our business risk.

b) What is the schedule of your cash contribution?

Our subsidiary PGE GIEK has already wired the first tranche of PLN 361.1 million in cash to acquire 15.7% share in equity of PGG. Second tranche of PLN 83.3 million is to be paid by November and the remainder of PLN 55.6 million by February. Our equity stake will arrive at 17.1% in exchange for the total amount of PLN 500 million.