

# Q4 & FY 2021 Financial and operating results

23 March, 2022



*Leading in the green transition*

**Wojciech Dąbrowski**  
**President of the Management Board, CEO**  
**PGE Polska Grupa Energetyczna**



# War in Ukraine and PGE Group activities



- PGE is the largest energy producer in Poland, supplying over 40% of domestic electricity.
- Special significance of the PGE Group for the energy security of Poland - the PGE Group's distribution area located in the areas near the border of Ukraine and Belarus.
- Priority to ensure an uninterrupted supply of electricity and heat.
- Appointment of Crisis Teams at the central level of the PGE Group and in key companies - constant monitoring of potential threats and risks.
- Impact of the current geopolitical situation on PGE's business activities - risk identification and minimization.
- Impact of coal prices in the foreign market and the increase in inflation on coal prices on the domestic market.
- Risk of an increase in investment costs due to growth in the prices of steel and building materials.

# Summary of 2021



- 2021 is the first full year of implementation of the new strategy.
- Solid financial results made possible by focusing effectiveness of operations and cost discipline.
- Key decisions in the area of offshore wind farms:
  - sale of shares in two projects to a Danish partner,,
  - award of contracts for difference,
  - commencement of the most important tenders,
  - selection of a financial advisor and market research.
- Signing a sectoral agreement on the development of offshore wind energy, as well as an agreement with Enea and Tauron for joint applications for new offshore permits.
- Submission of eight location applications for the construction of offshore wind farms in the Baltic Sea to the Ministry of Infrastructure - the basis for the implementation of the construction plan of at least 6.5 GW of capacity by 2040.
- Implementation of the next important stages of the Baltica Offshore Wind Farm investment – planned announcement of tender procedure for the construction of the onshore infrastructure necessary for power evacuation from offshore farms Baltica 2 and Baltica 3.
- Organizing workshops for potential contractors for Baltica Offshore Wind Farm.

# Summary of 2021



- Continued investments in renewable energy sources.
- Winning the renewable energy auctions for nearly 50 MW and commissioning of new solar farms.
- Obtaining construction permits for approx. 170 MW among which in 2023 the Jeziórko 1 and 2 photovoltaic projects with a total capacity of 100 MW will be commissioned.
- Implementation of investments in gas and steam units in Dolna Odra - diversification of supply sources, use of natural gas imported through the Baltic Pipe and the LNG terminal in Świnoujście.
- Recognition of gas as one of elements of the energy system and focus on the development of renewable energy sources.
- Decarbonization of heating assets - analysis of various options, such as electrode boilers (Gdańsk CHP) using power-to-heat technology, or the use of local gas deposits, such as in Gorzów Wielkopolski and Zielona Góra.

# Summary of 2021- ESG



- PGE is the leader of sustainable energy transformation - the activity of the PGE Group in each of the ESG areas - environmental, social and corporate governance.
- Efforts to increase the level of climate awareness - reporting the PGE Group's carbon footprint in three areas, as well as part of the Carbon Disclosure Project.
- Preparation of transformation plan for the regions associated with the Bełchatów and Turów Complex - building new development prospects for today's coal regions, employees, their families and other inhabitants of these areas.
- Ensuring organizational efficiency and transparent rules of operation - appointment of the Sustainable Development Committee and the Management Board Representative for ESG to enhance effectively development of the ESG area.

# Summary of 2021- carve out of coal assets

- Works on carve out of coal assets and creation of the National Energy Security Agency.
- Local energy fuel means security and resistance to turbulences on the international gas market, and consequently greater price stability.
- Preparing PGE structures for formal carve out:
  - Transfer of the Rybnik power plant to PGE GiEK
  - Transfer of Szczecin CHP plants and district heating network in Gryfino to the structures of PGE Energia Ciepła and their integration into the District Heating segment,
  - Separation of the gas and steam power plant project at Dolna Odra power plant to a subsidiary of PGE SA.
  - Separation of areas for RES investments.
- Completion of the advisor's work - by the end of the first quarter.

# Planned new issue of shares



- Searching for new sources of financing - proposal of a share issue for a minimum amount of PLN 3.2 billion.
- Decision to vote on the new issue of PGE shares postponed until April 6.
- Voting on the issue of new shares is a key decision, both for the company itself and from the point of view of its owners.
- Waiting for the finalization of the investment agreement with the State Treasury before voting on the resolution.
- Dialogue with shareholders.



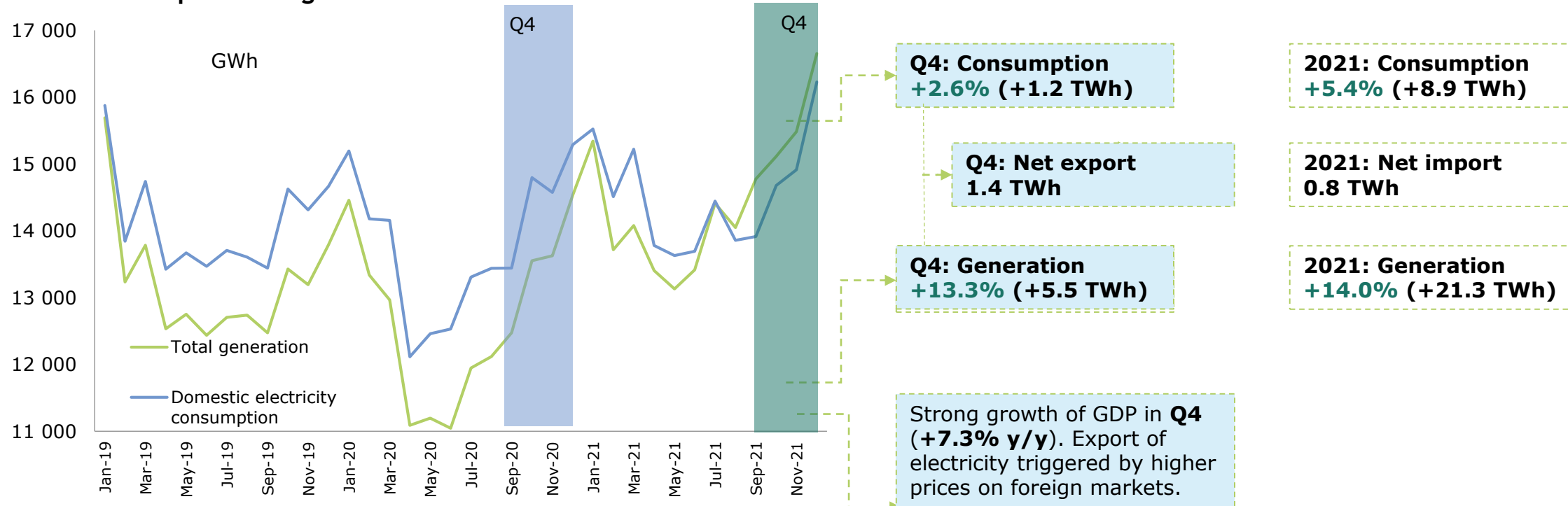
**Lechosław Rojewski**  
**Vice-President of the Board for Finance, CFO**



# Electricity market - balance of energy

The economy makes up for pandemic downturn. Poland as net exporter of electricity in Q4

Domestic consumption and generation

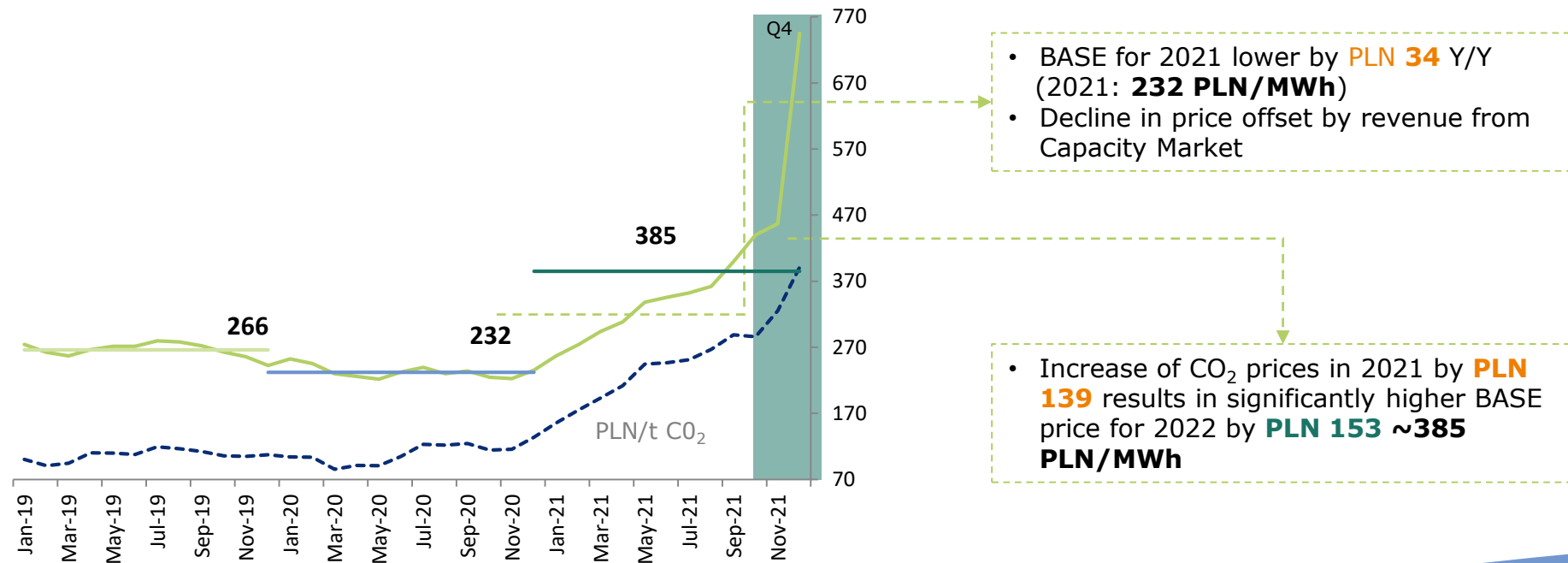


Source: PSE

# Electricity market - price

Continued rises in CO<sub>2</sub> prices and improvement of model CDS as effect of market situation

BASE Forward next year and CO<sub>2</sub> prices



Source: TGE

# Summary of 2021 - operating results

## Net electricity generation



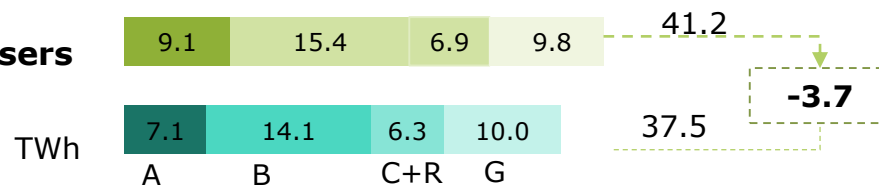
Higher lignite and hard coal generation.  
Comparable y/y RES generation.

## Distribution of electricity



Continued growth in electricity demand as result of strong growth of GDP and industrial production in 2021.

## Sales to end-users



Lower sales to end users (-9% y/y) mainly as effect of decline in volumes to the largest business clients (-13% y/y). Higher volumes (+2%) in G tariff (households).

## Heat sales



Higher demand for heat in result of outdoor conditions.

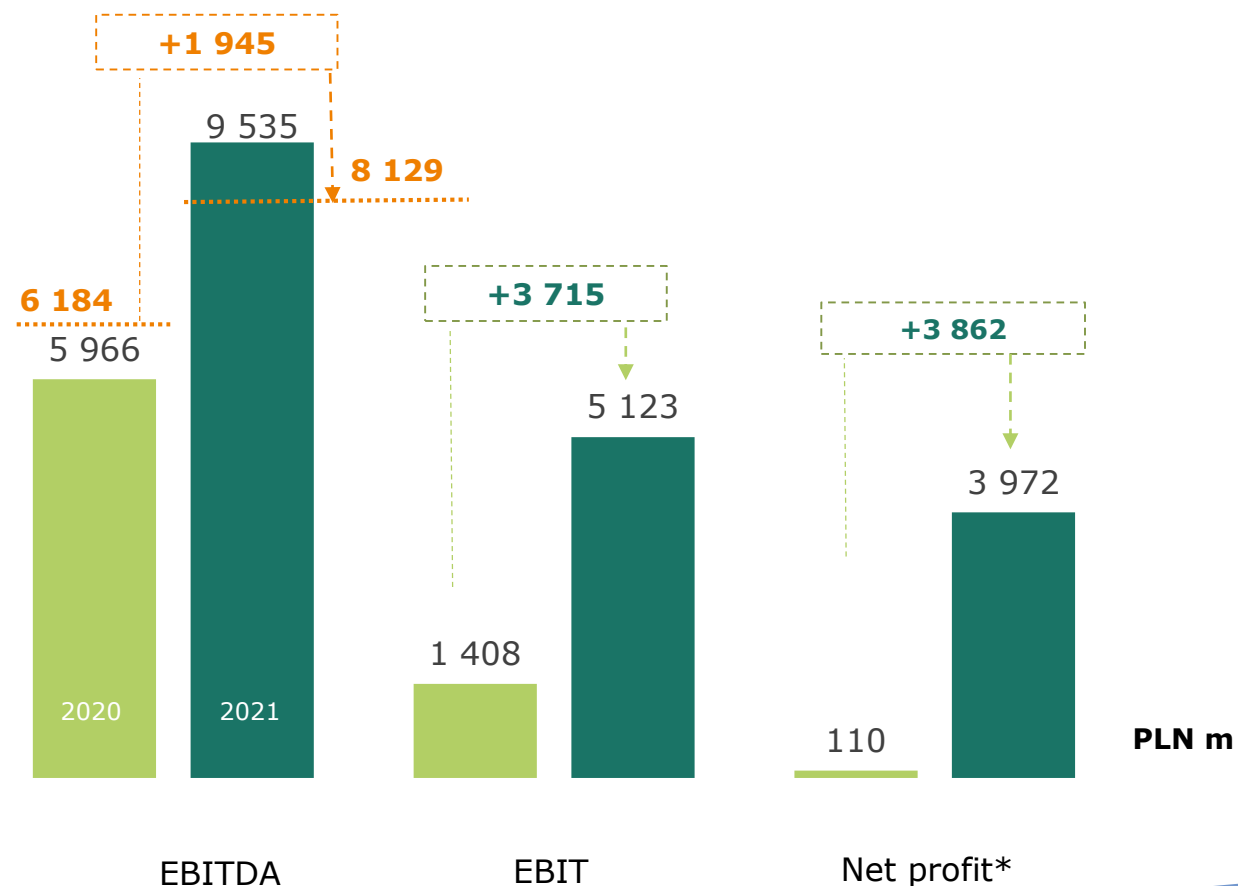
# Development of EBITDA by major value drivers



# Summary of 2021- financial results

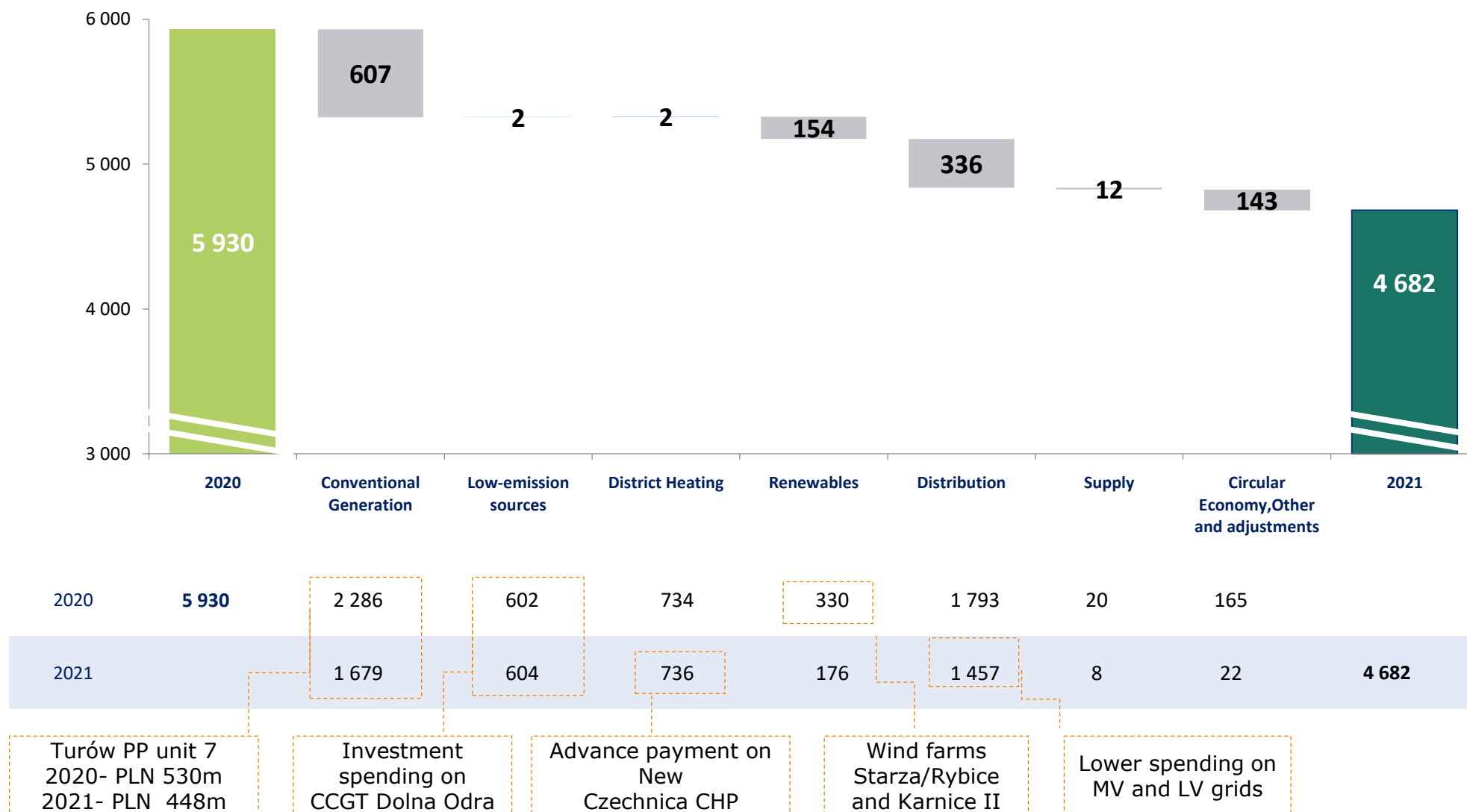
- Increase in recurring EBITDA by **PLN 1 945m**.
- Reported EBITDA higher by **PLN 3 569m**. Positive impact of one-offs:
  - reclamation provision **PLN + 1 463m**
- In 2020 negative impact on EBIT of impairments of PPA in Conventional Generation segment (**PLN -530m**) and negative impact on net profit of share of loss of associates –PGG (**PLN -552m**).

## Recurring EBITDA



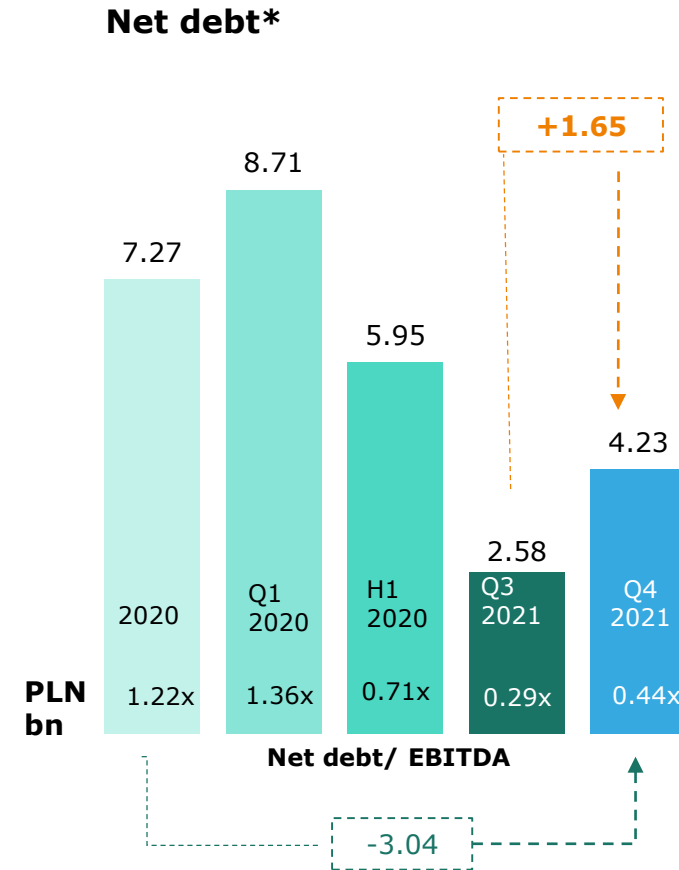
\* Net profit to equity

# CAPEX 2021 y/y (cash)



# Summary of 2021 -net debt

- Increase in net debt q/q in Q4 2021.
  - Strong EBITDA adjusted by one-offs and CO<sub>2</sub> provision (approx. PLN 4.4bn). CO<sub>2</sub> cost on the managerial accounting basis amounted to PLN 2.4bn).
  - Cash investment spending at PLN 1.3bn.
  - Cash spending on purchase of CO<sub>2</sub> at approx. PLN 4.9bn.
- Real value of net debt (adjusted by forward payment for CO<sub>2</sub>): **PLN 10.3bn** (Net debt/ LTM EBITDA 1.08x)





# Recurring EBITDA: outlook for 2022

2022 vs 2021 perspective		The main factors
Conventional Generation	↓	<ul style="list-style-type: none"> <li>• Average annual wholesale price of electricity ~480 PLN/MWh</li> <li>• Average annual cost of CO<sub>2</sub> 300-310 PLN/t</li> <li>• Volatile state of the markets poses risk to margin on unhedged position</li> <li>• Expected higher average cost of hard coal, although price of volume covered by long-term contracts is relatively stable</li> <li>• Pressure on production volumes from new RES capacities and assumed higher wind generation</li> </ul>
District heating	↓	<ul style="list-style-type: none"> <li>• A two-fold increase in cost of CO<sub>2</sub></li> <li>• Average price of contracted natural gas increased by approx. 50%</li> <li>• The increase in heating tariffs to a large extent does not cover the increase in CO<sub>2</sub> prices and fuel costs</li> </ul>
Renewables	↑	<ul style="list-style-type: none"> <li>• Expected higher SPOT prices of electricity</li> <li>• Expected higher prices of green certificates</li> <li>• New PV capacities</li> </ul>
Supply	→	<ul style="list-style-type: none"> <li>• Pressure on margin from substantial rise in cost of electricity and prices of green certificates</li> <li>• Higher revenues from services of commercial management of generation capacities</li> </ul>
Distribution	→	<ul style="list-style-type: none"> <li>• Regulatory Asset Base (RAB) higher by ~PLN 0.7bn up to PLN ~19.6bn</li> <li>• Slightly higher WACC 5.8% (before tax) as result of possible additional premium for reinvestment</li> </ul>

# CAPEX: outlook for 2022

	2022 vs 2021 perspective	The main factors
<b>Conventional Generation</b>	↓	<ul style="list-style-type: none"> <li>Reduction of investment spending to maintenance outlays as BAT adjustment program concludes</li> </ul>
<b>Low-emission sources</b>	↑	<ul style="list-style-type: none"> <li>Rising spending on construction of CCGT units in Dolna Odra along with the progress of the investment</li> </ul>
<b>District heating</b>	↑	<ul style="list-style-type: none"> <li>Increase in expenditures related to the construction of new low-emission gas units, including: New Czechnica CHPP, Bydgoszcz CHPP, Zgierz CHPP, Kielce CHPP</li> </ul>
<b>Renewables</b>	↑	<ul style="list-style-type: none"> <li>Increase in outlays for the construction of offshore wind farms</li> <li>Consistent increase in outlays as part of the PV development program</li> <li>Regardless of the growing expenditure on organic growth, possible acquisitions</li> </ul>
<b>Supply</b>	→	<ul style="list-style-type: none"> <li>Implementation of ongoing development and maintenance projects</li> </ul>
<b>Distribution</b>	↑	<ul style="list-style-type: none"> <li>Increase in planned outlays for connecting new sources</li> <li>Implementation of grid grounding program and smart metering installation</li> </ul>

# Q&A session

