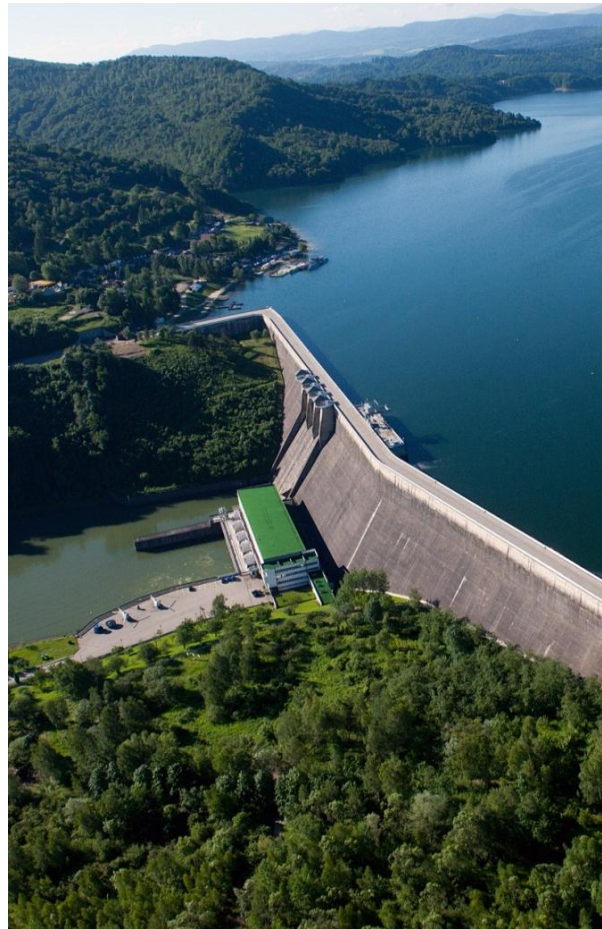


# Q1 2014 Financial and Operating Results

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May 14, 2014



# Q1 2014 Financial and Operating Results

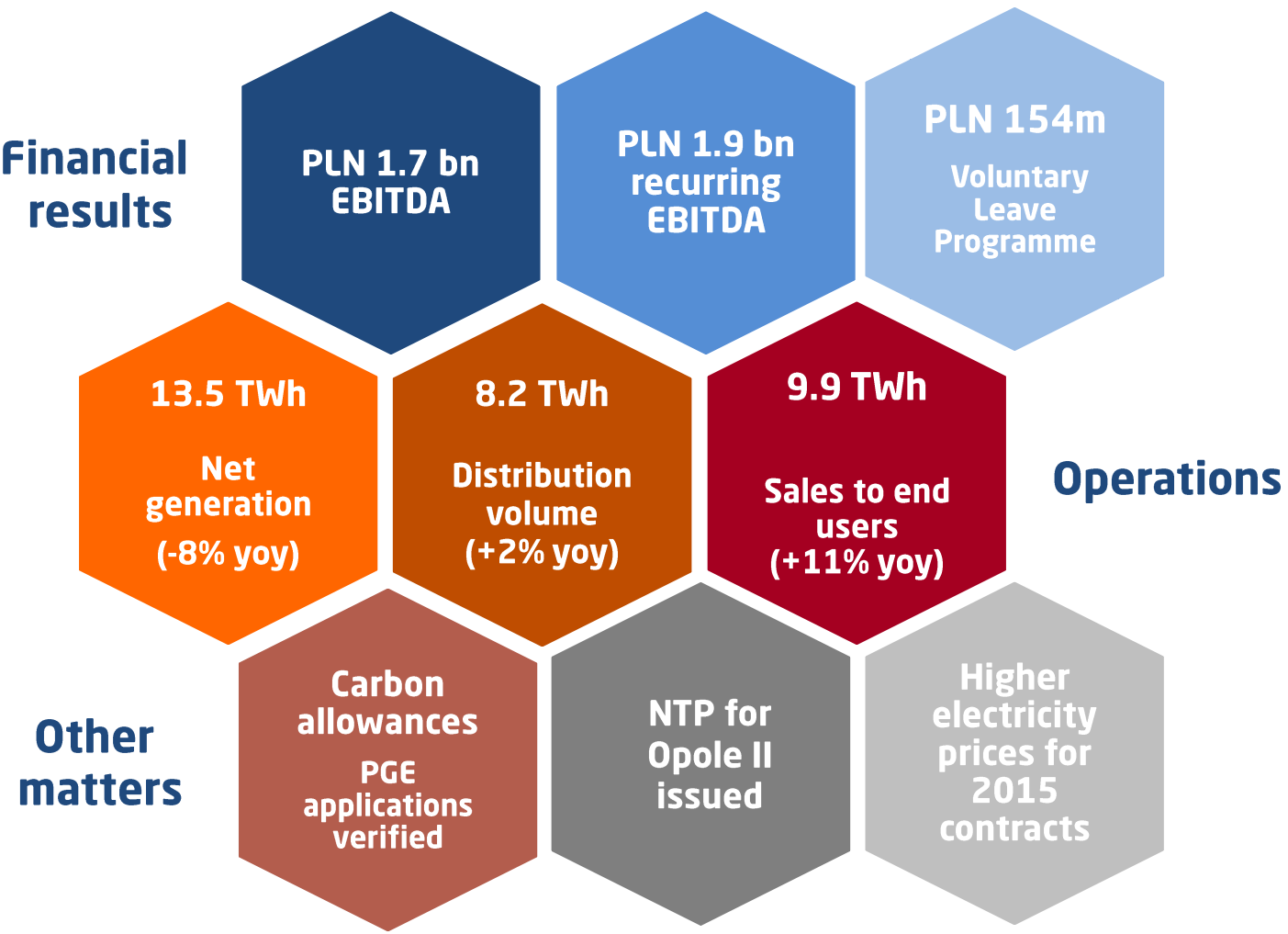


- Key takeaways



Marek Woszczyk  
- President and CEO

# Good results on a demanding market



# Q1 2014 Financial and Operating Results



## Detailed financial and operating results



Magdalena Bartoś  
- Managing Director, CFO

# Through shifting market conditions and uncertain regulations to positive outlook

## Economic and grid situation

**Electricity consumption decreased by 1.4%** in Poland mostly due to the weather conditions

Increase of installed capacity **wind assets from 2.6 GW to 3.7 GW**

**Less capacity available** at PGE due to decommissionings (total 438 MW in conventional generation)

## Costs management

Voluntary Leave Programme resulted in agreements with 975 employees for the **total cost of PLN 154m**

Costs of **gas lower by PLN 150 m** due to ceased generation at two gas fired CHPs

**Cost of coal stable** - in line with 2013 average realized price

## Carbon allowances

PGE investment **application verified and positively approved** by European and Polish administration

Carbon **allowances for electricity generation for 2013 granted** in April 2014

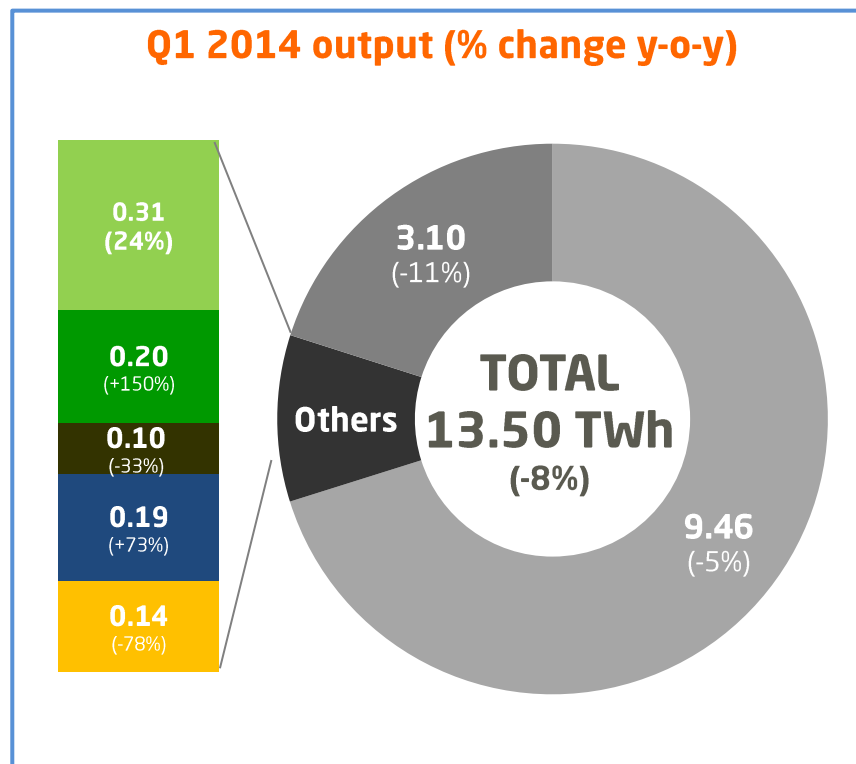
Approval of investments application justifies expectation of receiving **free allocations for 2014 emissions**

In April 2014 PGE received also **allowances for 2013 and 2014 heat generation**

## Sound operating results provide for positive outlook for 2014 and onwards

- Sustained **good utilization of operating assets** and management of electricity portfolio on the wholesale market
- Voluntary Leave Programme to **significantly impact labour costs** in following years
- 2013 provisions for carbon allowances to be reversed in Q2 2014 (**PLN 751m impact on EBIT**)
- Approval of PGE investments application justifies expectation of receiving **free carbon for 2014 emissions**

# Generation of electricity. PGE sustains cost leadership position

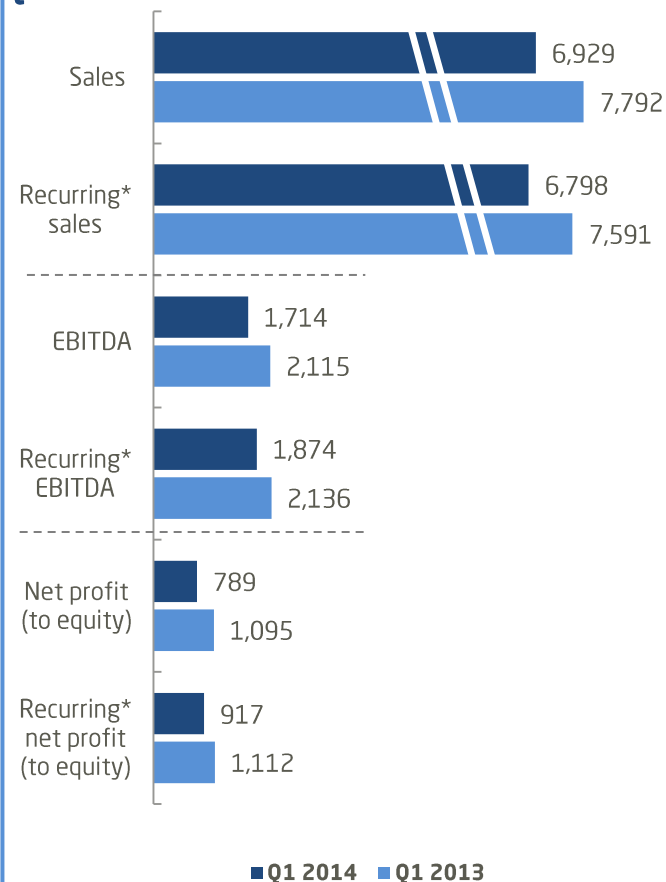


- Production in power plants fired with lignite and hard coal lower y-o-y mostly due to decommissioned unit no. 10 at Turów PP and unit no. 3 at Dolna Odra PP from January 1, 2014 as well as lower electricity demand in the system
- Lack of support for cogeneration resulted in lower generation in gas fired CHPs in Lublin and Rzeszów from March 2013
- Wind farms acquisition of 131 MW capacity and development of own projects of 42 MW increased total PGE's installed wind capacity to 311 MW and resulted in significant increase of RES generation

# Key financial results

PLNm	Q1 2014	Q1 2013	diff. y-o-y %
Sales revenues	6,929	7,792	-11%
EBITDA	1,714	2,115	-19%
Recurring* EBITDA	1,874	2,136	-12%
Net profit to equity	789	1,095	-28%
Earning per share (PLN)	0.42	0.59	-29%
Net cash from operating activities	889	1,377	-35%
CAPEX	1,001	795	26%
Net cash (end of period)	2,386	3,131**	
<b>Credit ratings</b>	Rating	Outlook	
Fitch	BBB+	Stable	
Moody's	A3	Stable	

## Q1 2014

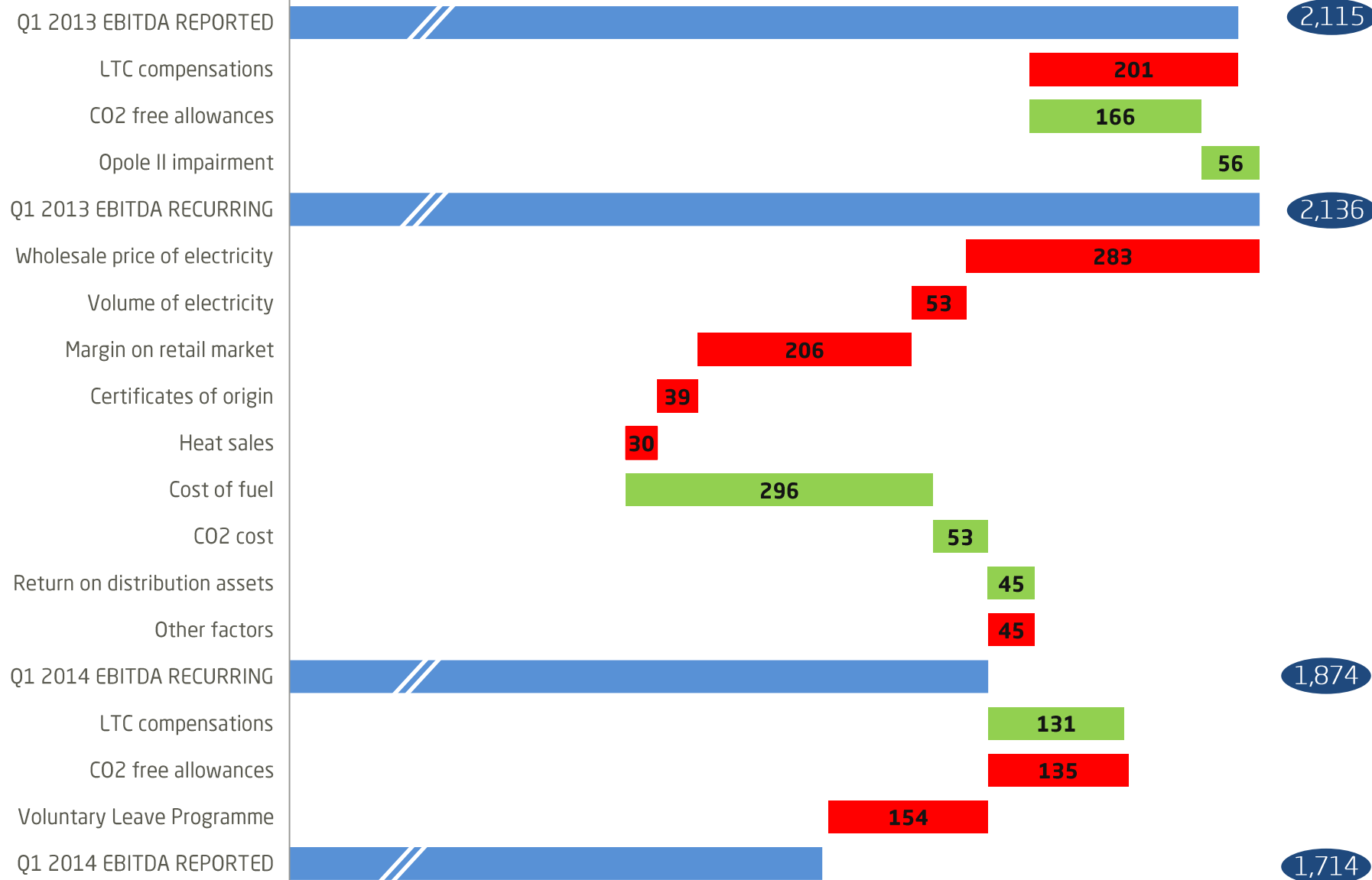


\*Recurring = excluding significant one-off items

\*\* As at December 31, 2013

# Development of EBITDA by major value drivers

PLNm



# Q1 2014 Financial and Operating Results

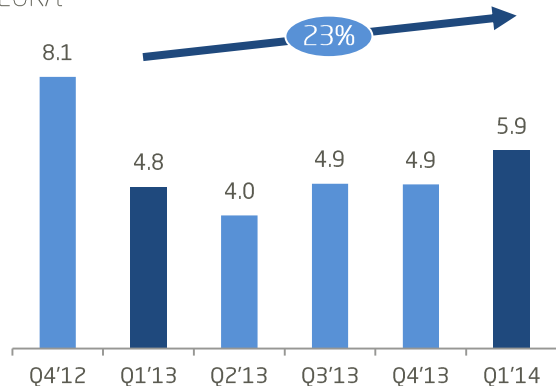


Additional information

# Economics of the lignite generation remain sound despite situation on commodities markets

CO<sub>2</sub> allowance (EUA\_DEC14)

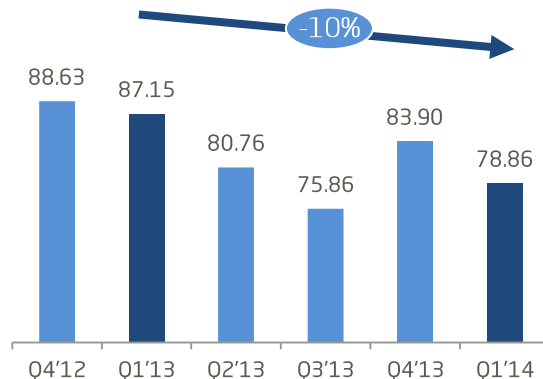
EUR/t



Source: Reuters

Hard coal

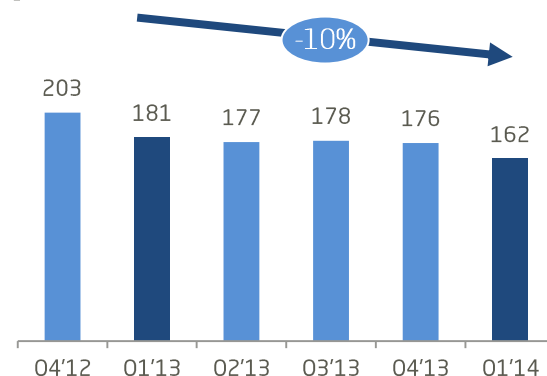
USD/t<sup>1</sup>



Source: www.wnp.pl

PGE average wholesale price of electricity

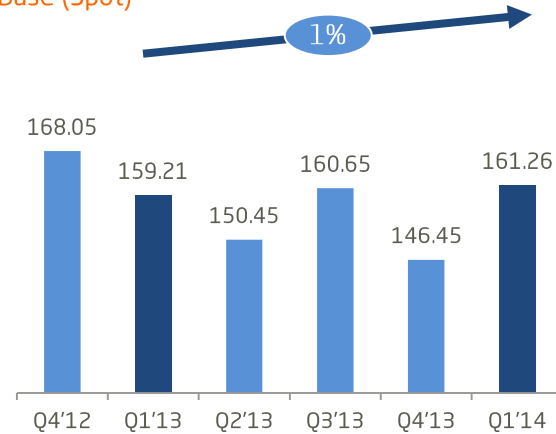
PLN/MWh



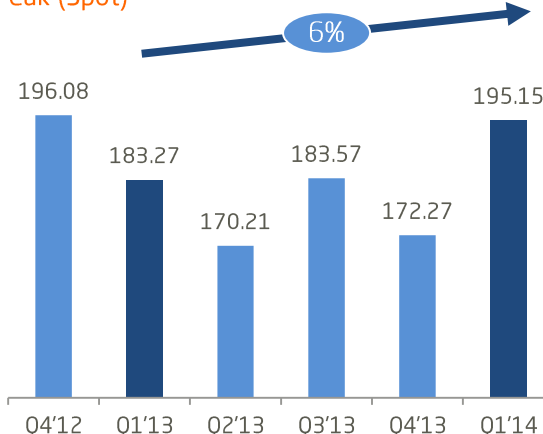
Average quarterly TGE Electricity Prices in 2013 and 2012

PLN/MWh

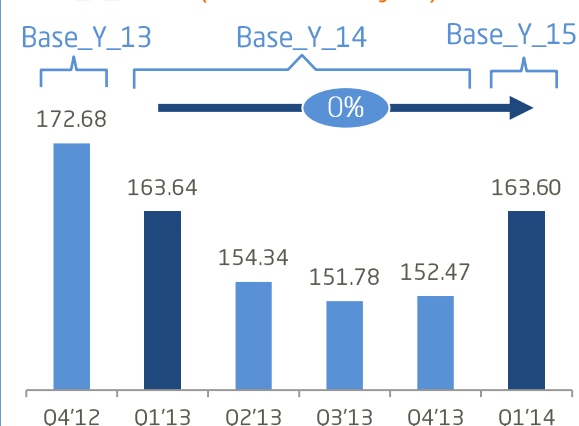
Base (Spot)



Peak (Spot)



Base\_Y\_13/14 (Forward, next year)



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

# Key Financials

Selected consolidated financial data. IFRS

	Q1 2014 PLN m reviewed	Q1 2013 PLN m not audited, data restated	Q1'14 vs. Q1'13
<b>Sales</b>	6,929	7,792	-11%
<i>including LTC compensations</i>	131	201	-35%
<b>Recurring* Sales</b>	6,798	7,591	-10%
<b>EBITDA</b>	1,714	2,115	-19%
<b>Recurring* EBITDA</b>	1,874	2,136	-12%
<b>EBIT</b>	975	1,381	-29%
<b>Recurring* EBIT</b>	1,135	1,402	-19%
<b>Net profit (to equity)</b>	789	1,095	-28%
<b>Recurring* net profit (to equity)</b>	917	1,112	-18%
<b>CAPEX (incl. adj.)</b>	1,001	795	26%
<b>Net cash from operating activities</b>	889	1,377	-35%
<b>Net cash from investing activities</b>	-1,876	-1,299	-44%
<b>EBITDA margin</b>	25%	27%	
<b>Recurring* EBITDA margin</b>	28%	28%	
<b>Net Working Capital</b>	5,179	5,223**	

**\*Recurring = excluding key one-off items in Q1 2014:**

**Sales:** LTC compensations (PLN 131m)

**EBITDA / EBIT:**

- LTC compensations (PLN 131m);
- Voluntary Leave Programme (PLN -154m);
- CO2 free allowances (PLN -136m)

**Net profit (to equity):**

- LTC compensations (PLN 105m);
- Voluntary Leave Programme (PLN -124m);
- CO2 free allowances (PLN -109m)

**\*Recurring = excluding key one-off items in Q1 2013:**

**Sales:** LTC compensations (PLN 201m)

**EBITDA / EBIT:**

- LTC compensations (PLN 201m);
- Impairment of Opole II investment project (PLN -56m)
- CO2 free allowances (PLN -166m)

**Net profit (to equity):**

- LTC compensations (PLN 160m);
- Impairment of Opole II investment project (PLN -45m)
- CO2 free allowances (PLN -133m)

\*\* As at December 31, 2013

# Key Operating Data

Net electricity generation by sources (TWh)

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
Lignite-fired power plants	9.55	10.04	-5%
Hard coal-fired power plants	2.82	3.10	-9%
Coal-fired CHPs	0.39	0.43	-9%
Gas-fired CHPs	0.14	0.65	-78%
Biomass-fired CHP	0.11	0.11	0%
Pump storage	0.19	0.11	73%
Hydro	0.10	0.15	-33%
Wind	0.20	0.08	150%
<b>TOTAL</b>	<b>13.50</b>	<b>14.67</b>	<b>-8%</b>
Renewable generation	0.69	0.48	44%
Incl. biomass co-combustion	0.20	0.14	43%

# Capital expenditures

CAPEX for Q1 2014 (PLN m)

Segment	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
Conventional Generation	693	541	28%
Distribution	176	182	-3%
• New clients connection	88	83	6%
• Distribution grid	54	63	-14%
Renewables	119	65	83%
• Modernization and replacement	0	2	-
Retail, Wholesale, Others	33	35	-6%
<b>TOTAL</b>	<b>1,021</b>	<b>823</b>	<b>24%</b>
<b>TOTAL (incl. adjustments)</b>	<b>1,001</b>	<b>795</b>	<b>26%</b>

# Detailed segmental revenues and costs

Conventional Generation (PLN m)

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
<b>Sales, including</b>	<b>3,053.8</b>	<b>3,363.9</b>	<b>-9%</b>
Sale of electricity	2,394.2	2,745.4	-13%
LTC compensations	130.5	201.4	-35%
Sale of heat	249.8	280.1	-11%
Sale of certificates of origin	160.8	32.5	395%
<b>Cost by kind, including</b>	<b>2,585.7</b>	<b>2,941.3</b>	<b>-12%</b>
D&A	417.4	418.9	0%
Materials	660.2	968.9	-32%
Energy	11.9	15.7	-24%
External services	305.3	327.4	-7%
Taxes and charges	456.4	564.0	-19%
Personnel expenses	689.1	599.2	15%
Other cost	45.3	47.2	-4%
<b>EBIT</b>	<b>394.5</b>	<b>509.2</b>	<b>-23%</b>
<b>EBITDA</b>	<b>811.8</b>	<b>928.2</b>	<b>-13%</b>

# Detailed segmental revenues and costs

Renewables (PLN m)

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
<b>Sales, including</b>	<b>203.5</b>	<b>158.5</b>	<b>28%</b>
Sale of electricity	93.1	64.9	43%
Sale of certificates of origin	52.8	31.8	66%
<b>Cost by kind, including</b>	<b>148.4</b>	<b>118.9</b>	<b>25%</b>
D&A	51.1	42.3	21%
Materials	2.0	2.2	-9%
Energy	41.6	32.3	29%
External services	16.0	10.3	55%
Taxes and charges	12.6	11.4	11%
Personnel expenses	21.9	17.1	28%
Other cost	3.2	3.3	-4%
<b>EBIT</b>	<b>58.6</b>	<b>35.7</b>	<b>64%</b>
<b>EBITDA</b>	<b>109.7</b>	<b>78.0</b>	<b>41%</b>

# Detailed segmental revenues and costs

Wholesale (PLN m)

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
<b>Sales, including</b>	<b>2,456.6</b>	<b>3,411.2</b>	<b>-28%</b>
Sale of electricity	1,866.0	2,624.0	-29%
Sale of certificates of origin	400.2	418.6	-4%
<b>Cost by kind, including</b>	<b>68.6</b>	<b>68.3</b>	<b>0%</b>
D&A	3.4	3.6	-6%
Materials	0.3	0.3	0%
Energy	0.7	0.7	0%
External services	16.9	17.6	-4%
Taxes and charges	1.0	3.0	-67%
Personnel expenses	23.7	21.6	10%
Other cost	22.6	21.5	5%
<b>EBIT</b>	<b>162.5</b>	<b>248.8</b>	<b>-35%</b>
<b>EBITDA</b>	<b>165.9</b>	<b>252.4</b>	<b>-34%</b>

# Detailed segmental revenues and costs

Distribution (PLN m)

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
<b>Sales, including</b>	<b>1,484.8</b>	<b>1,435.2</b>	<b>3%</b>
Revenues from distribution services	1,405.8	1,352.9	4%
Other operating revenues	50.2	51.7	-3%
<b>Cost by kind, including</b>	<b>1,164.9</b>	<b>1,139.6</b>	<b>2%</b>
D&A	244.0	247.9	-2%
Materials	21.8	21.2	3%
Energy	162.8	189.8	-14%
External services	376.7	323.9	16%
Taxes and charges	89.1	84.4	6%
Personnel expenses	267.1	268.6	-1%
Other cost	3.5	3.8	-7%
<b>EBIT</b>	<b>353.7</b>	<b>305.2</b>	<b>16%</b>
<b>EBITDA</b>	<b>597.7</b>	<b>553.2</b>	<b>8%</b>

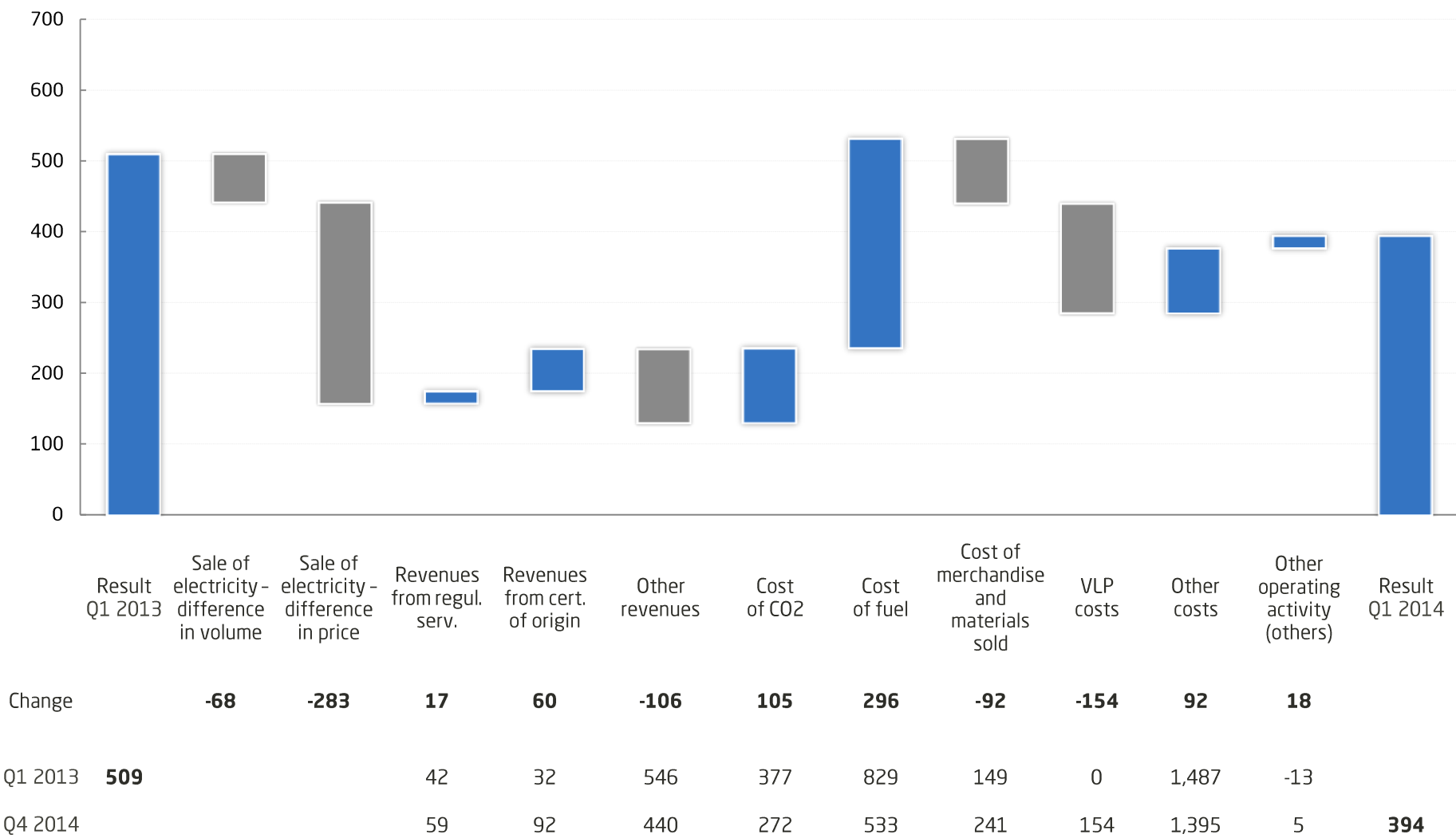
# Detailed segmental revenues and costs

Retail (PLN m)

	Q1 2014	Q1 2013	Q1 2014 vs. Q1 2013
<b>Sales, including</b>	<b>3,173.7</b>	<b>3,364.6</b>	<b>-6%</b>
Sale of electricity	2,105.4	2,277.5	-8%
Revenues from distribution services	1,055.2	1,070.8	-1%
<b>Cost by kind, including</b>	<b>335.3</b>	<b>204.4</b>	<b>64%</b>
D&A	1.9	2.1	-11%
Materials	0.9	1.1	-13%
Energy	0.3	0.3	0%
External services	25.8	22.5	15%
Taxes and charges	256.1	137.6	86%
Personnel expenses	36.8	33.7	9%
Other cost	13.5	7.1	90%
<b>EBIT</b>	<b>-0.8</b>	<b>262.3</b>	<b>-</b>
<b>EBITDA</b>	<b>1.0</b>	<b>264.4</b>	<b>-100%</b>

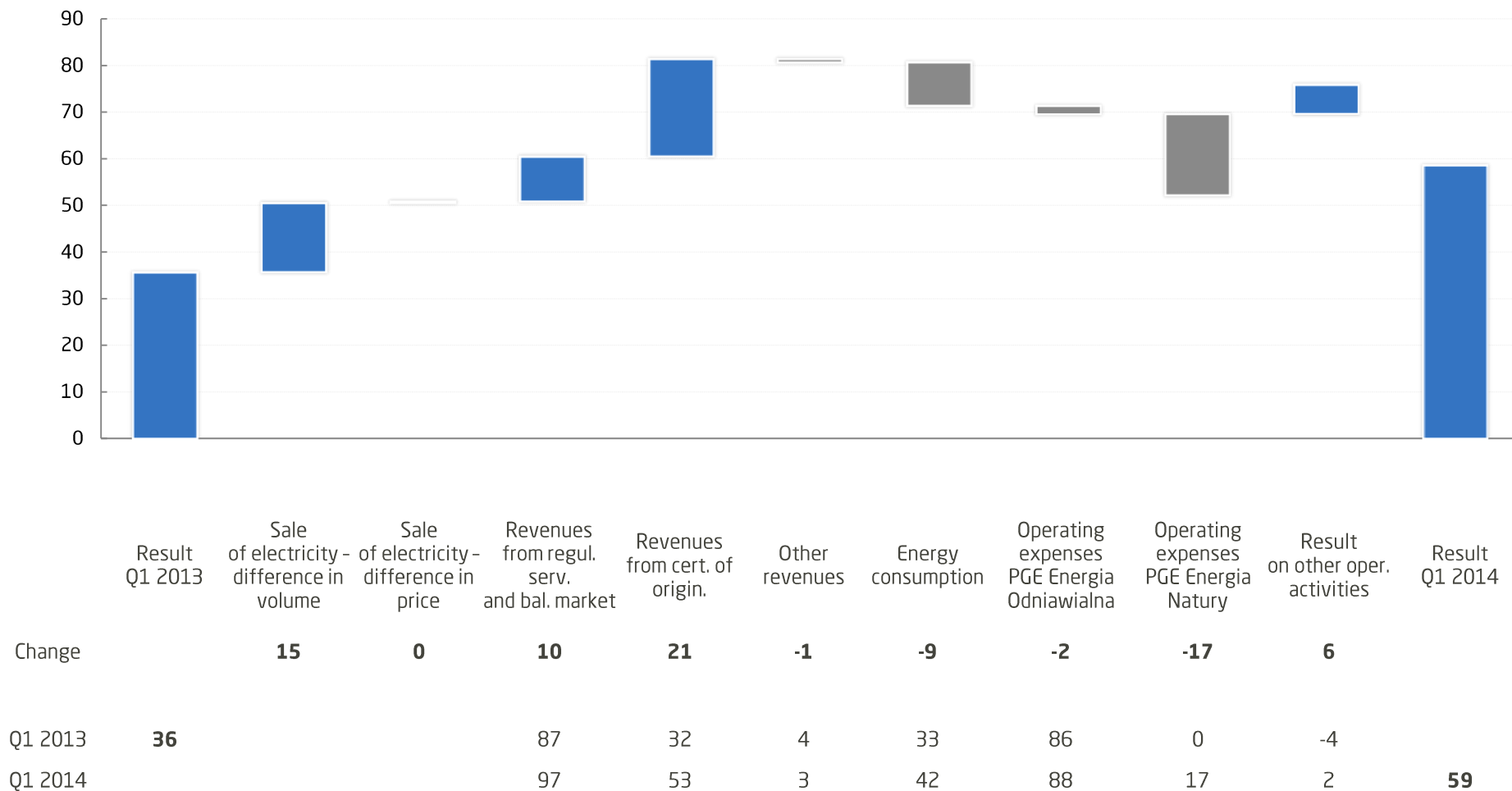
# Conventional Generation - EBIT Q1 2014

Key Changes in EBIT (PLN m)



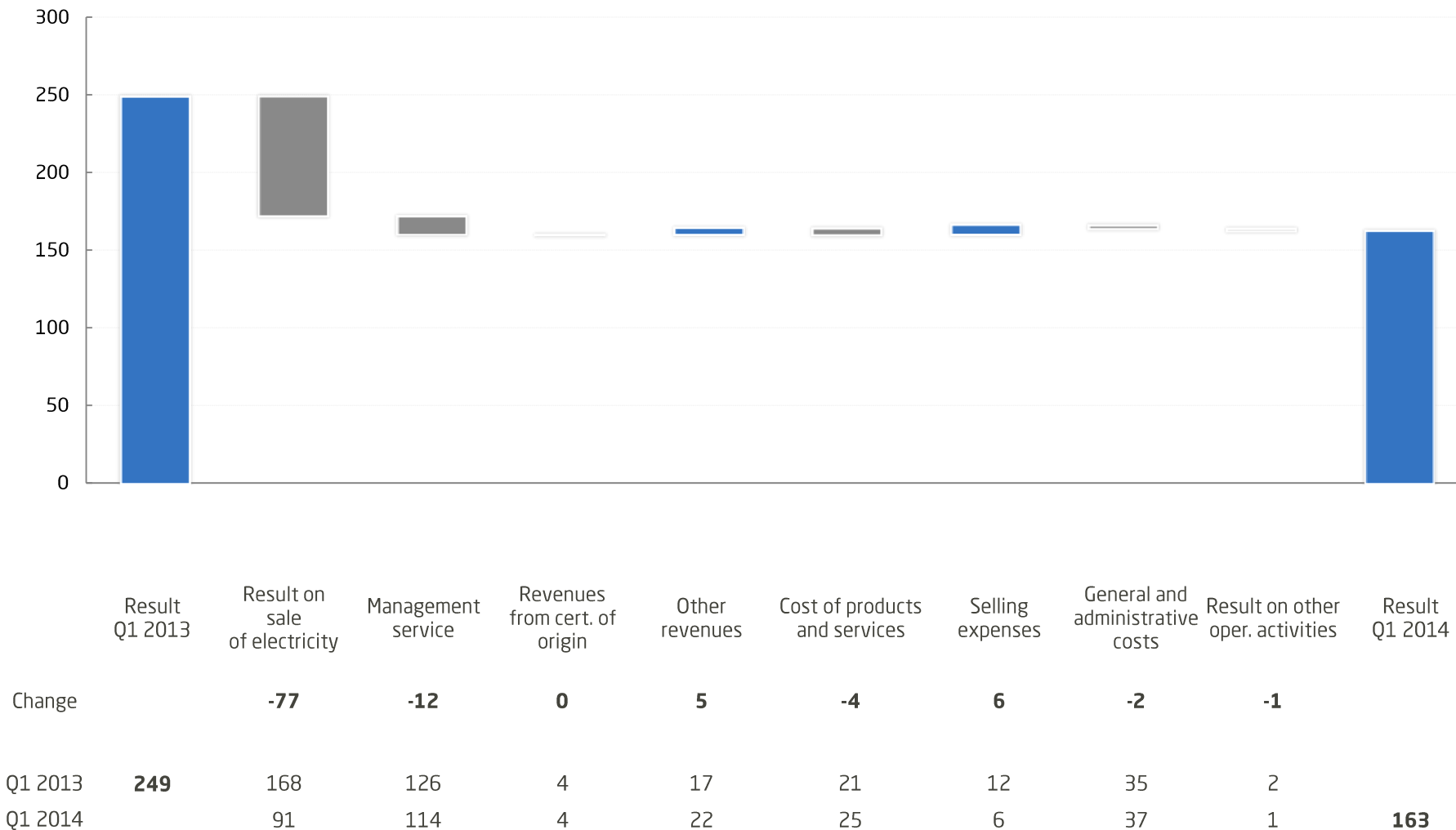
# Renewable Generation - EBIT Q1 2014

Key Changes in EBIT (PLN m)



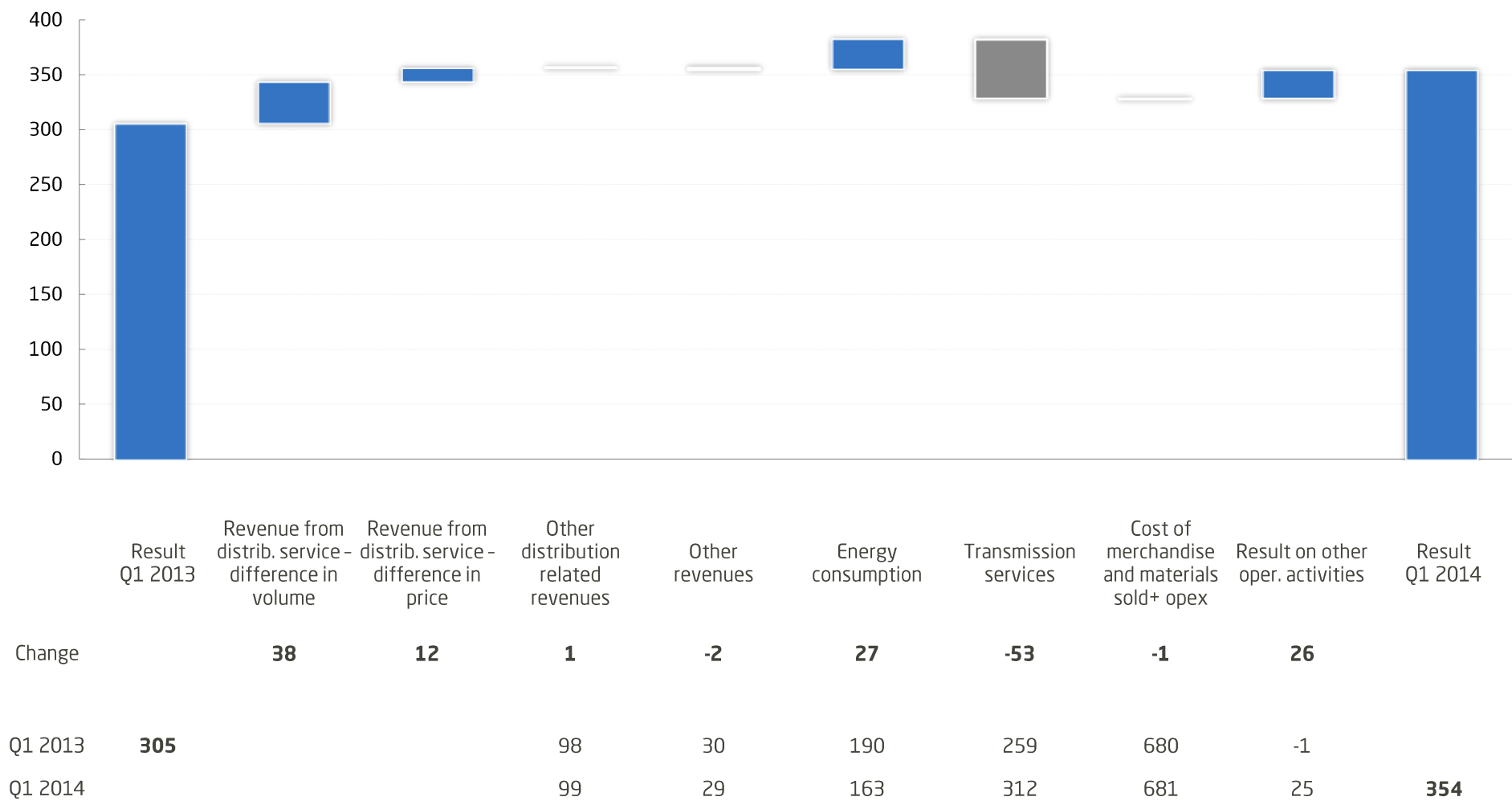
# Wholesale - EBIT Q1 2014

Key Changes in EBIT (PLN m)



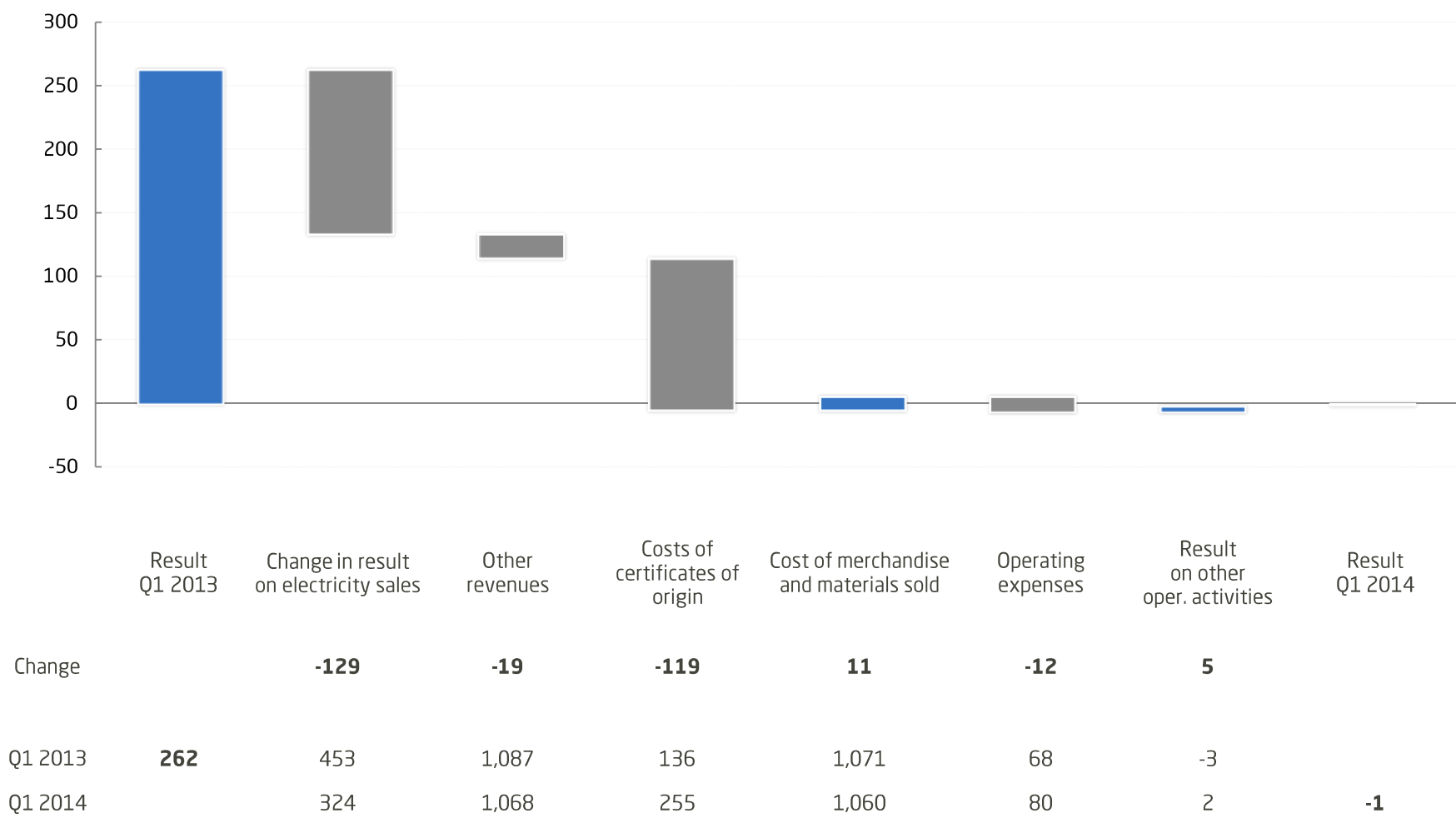
# Distribution - EBIT Q1 2014

Key Changes in EBIT (PLN m)



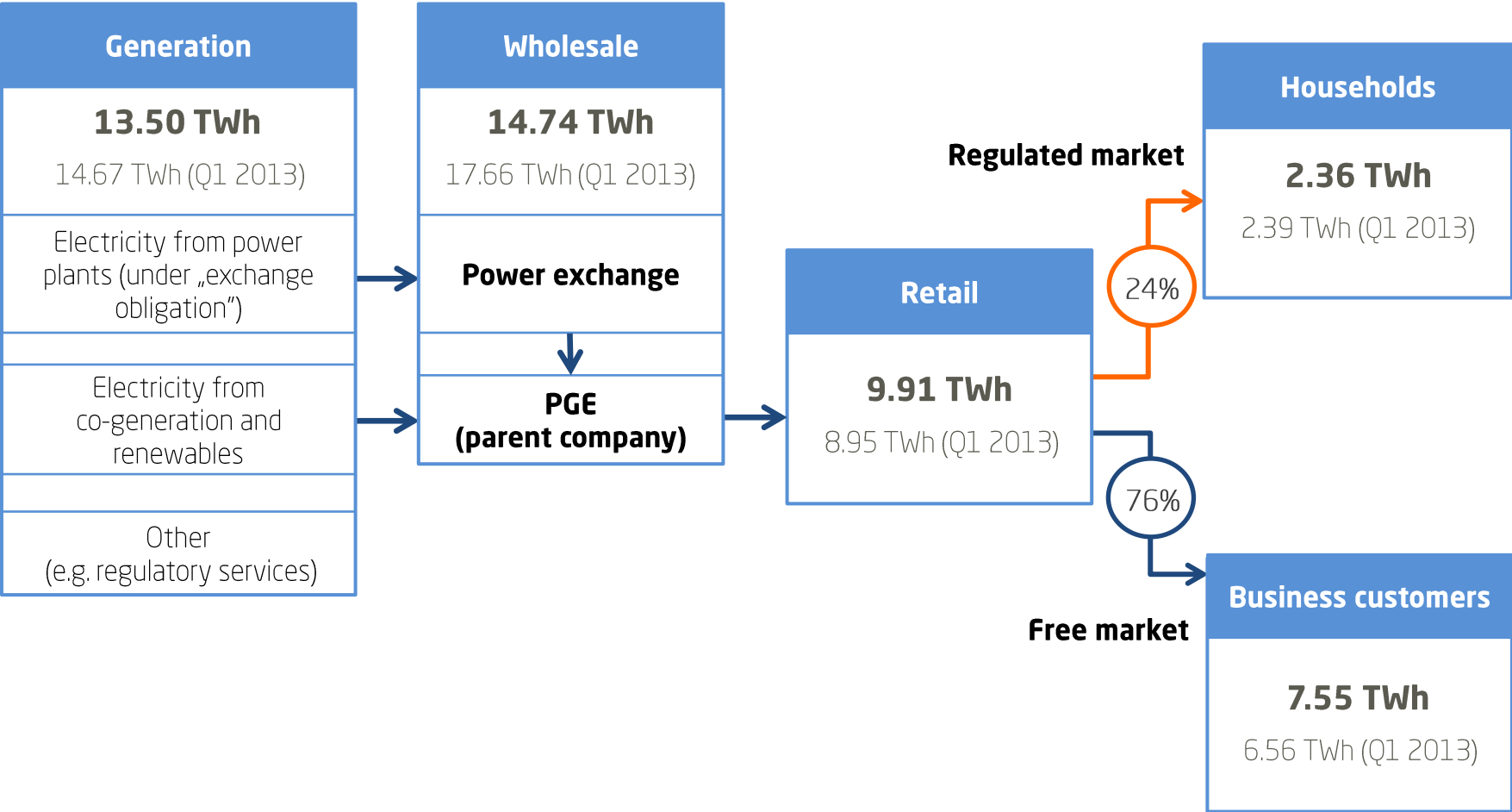
# Retail - EBIT Q1 2014

Key Changes in EBIT (PLN m)



# Q1 2014 Key business flows

Key business flows (illustrative only)



## PGE cash position provides...

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

	Q1 2014	FY 2013
Gross Debt (PLNm)	2,718	2,522
Net Cash (PLNm)	2,386	3,131
Net Debt/LTM EBITDA	-0.31x	-0.39x
Net Debt/Equity	-0.05x	-0.07x

### Financial strength has been confirmed by rating agencies

	Moody's	Fitch
Long-term company rating (IDR)	A3	BBB+
Rating outlook	Stable	Stable
Date of rating assignment	September 2, 2009	September 2, 2009
Date of the latest rating confirmation	April 30, 2013*	August 9, 2013
Senior unsecured rating		BBB+
Date of the latest rating change		August 4, 2011
Date of the latest rating confirmation		August 9, 2013
Long-term national rating		AA- (pol)
Date of rating assignment		August 10, 2012
Date of latest rating confirmation		August 9, 2013

\* Latest credit opinion

# 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 providing reports from 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

- By the end of Q1 2014 relevant regulations have not been adopted and the allocation of free of charge emission rights was not established
- In Q1 2014 PGE's installations emitted 14.7m tonnes of CO<sub>2</sub>
- Consequently PGE's full cost related to CO<sub>2</sub> emissions in Q1 2014 amounted to approx. PLN 272m

## Free EUA recognized at a zero value - note 15 Q1 2014 consolidated FS

	EUA		CER/ERU		Total value (PLN m)
	Quantity (mn)	Value (PLN m)	Quantity (mn)	Value (PLN m)	
As at Jan 1. 2013	76	597	6		791
Purchased	38	772	-		772
Free allocation for 2013	-	-	-		-
Redeemed	(55)	(42)	(6)		(235)
Adjustments	-	77	-		76
<b>As at Dec 31, 2013</b>	59	1.404	-		1.404
Purchased	3	54	-		54
Free allocation for 2014	-	-	-		-
Redeemed	-	-	-		-
<b>As at March 31, 2014</b>	62	1.458	-		1.458

## Provision for purchase of CO<sub>2</sub> allowances - note 18 Q1 2014 consolidated FS (PLN m)

As at Jan 1, 2014	1.432
<b>Provided in the reporting period (Q1 2014)</b>	272
As at March 31, 2014	1.704

## Impact on P&L (PLNm)

Costs by kind	4.198
<b>Taxes and charges</b>	821

# 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 closed	Case closed	Case closed	Case closed	Case closed	Court of Appeal verdict
2009	CCCP verdict	Case closed	Case closed	CCCP verdict	CCCP verdict	Court of Appeal verdict
2010	No verdict	CCCP verdict*	n/a	CCCP verdict*	CCCP verdict*	CCCP verdict*
2011	No dispute	No dispute	n/a	No verdict PLN 7m dispute	n/a	n/a
2012	No dispute	No dispute	n/a	No verdict PLN 11m dispute	n/a	n/a

\* 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

Not a subject to LTC compensations

No dispute

PLNm	2011	2012	2013	Q1 2014
Provision for outstanding court cases re LTC from 2008-2010	(1,038)			
Reversal of provision based on legally binding verdicts	-	200	337	0

# Sell-side analysts covering PGE

## Domestic analysts

Institution	Analyst
• BRE Bank	• Kamil Kliszcz
• BZ WBK	• Paweł Puchalski
• Citigroup	• Piotr Dzięciołowski
• 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

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*#1 in Thomson Reuters Emtel 2013  
Corporate Best for Investor Relations - Poland*



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