

PGE Capital Group's District Heating Strategy for years 2018-2023 and 2030 perspective (the „Strategy”)

The approval of the District Heating Strategy results directly from the PGE Group's Strategy involving carve-out of the Cogeneration business line, that is to exploit the growth potential of the district heating market. The foundation for the planned development of the PGE's district heating is 16 combined heat and power plant operating within the PGE Group, that have a total of close to 6.7 GWt and approx. 2.5 GWe of installed capacities, as well as approx. 500 kilometres of district heating grids.

The potential of the district heating market in Poland stems directly from general conditions of the sector – the district heating fits in with the vision of developing modern „energy of tomorrow”, as well as local – Poland is one of the largest district heating markets in Europe and possesses well-developed infrastructure that enables connection of new customers, and providing heat supplies is as important as providing electricity supply. At the same time, high efficiency of district heat generation is guaranteed by the cogeneration of heat and electricity. It enhances the fuel efficiency, contributing to the protection of environment and is one of key tools in action against increasing smog problem in many Polish cities. At the same time it strengthens the energy security of the country.

Main benefits of the District Heating Strategy for PGE include:

- Better response of PGE Group to new challenges and opportunities
- Rising management focus on district heating business – carve-out of the new business line - PGE Energia Ciepła
- Maximum utilization of the local growth potential
- Rising share of stable, regulated EBITDA

Mission and vision

PGE Group's mission in district heating segment assumes stimulation of transformation and development of the domestic district heating, contributing to improvement of environment, competitiveness of the economy, social welfare and energy security on the local and country level.

In accordance with the vision of development, PGE will become the district heating company of first choice, the leader of the innovative district heating development oriented towards customer, efficiency and cooperation with local governments.

The Strategy will be implemented in accordance with the PGE Group's values – Partnership, Growth and Responsibility.

Strategic goals

With a view to customers' thermal comfort and energy security and care for improvement of environment, PGE intends to be:

- Most effective district heating company in Poland
- District heating company of first choice
- Largest producer and distributor of heat
- Initiator of changes in the sector

Key goals of the Strategy:

- Managing district heating networks in at least 2/3 of PGE Energia Ciepła locations by 2023
- Construction of 1 000 MWe of new cogeneration capacities by 2030
- Increasing share of low-emission fuels in PGE Energia Ciepła generation mix to 50% by 2030
- Reducing maintenance costs of generation assets by 10% until 2023 in relations to 2017

Assumed additional annual EBITDA, resulting from the Strategy implementation, is approx. PLN 0.25 billion in 2023 and approx. PLN 1.0 billion from 2030. Assumed cumulated additional EBITDA until 2023 is approx. PLN 0.7 billion and PLN 4.2 billion in 2024-2030.

The above values do not include profits from the district heating assets currently owned by the Group, which amounted to PLN 829 million after 9 months of 2017.

Planned investments

Assumed capital expenditures in 2018-2023 will amount to approx. PLN 6.9 billion, including capex for new initiatives development of approx. PLN 3.2 billion and approx. PLN 0.8 billion for development of district heating network and assets in current locations. The environmental and maintenance expenditures will amount to approx. PLN 2.9 billion.

The planned capital expenditures in 2024-2030 amount to approx. PLN 10.6 billion, including capex for development of approx. PLN 8.1 billion and PLN 2.5 billion of environmental and maintenance expenditures.

Investment directions and their scale are indicative and will be subject to constant optimization, with changes in market and regulatory environment taken into consideration as well as maintaining the investment credit rating of PGE.

Indicated capital expenditures for implementation of the Strategy include:

- Adaptation of existing assets to regulatory requirements (particularly to BAT conclusions)
- Ongoing maintenance
- Development (also through acquisitions) of district heating network and generation capacities

Planned capital expenditures relate to regulated activities with relatively low operational risk. Investments in cogeneration assets based on low emission and zero emission sources constitute a significant step towards diversification of PGE Group's fuel mix.

Investment projects will be financed in corporate model as well as using project finance structure, including, to the possible extent, EU financial instruments, domestic preferential funds and ETS-related financing (free CO2 allowances and Modernization Fund) beyond 2020.

Conditions of Strategy implementation

The Group evaluates that the implementation of the Strategy will depend on number of external conditions, among which the key ones are of regulatory nature:

- Poland's energy policy
- Support schemes for cogeneration and renewable energy sources, Capacity Market
- EU Energy and climate policies

The Strategy will be periodically revised in response to the changes of the regulatory environment and new market opportunities.

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The approval of the District Heating Strategy results directly from the PGE Group's Strategy involving carve-out

Files to download

- [Presentation "District Heating Strategy"](#)
- [Presentation PGE EC 9M 2017 pro forma data](#)
- [Recording of conference call on District Heating Strategy \(for investors and analysts\)](#)