

„The market was and will continue to be very difficult. Energy sector will face further challenges.“

Marek Woszczyk, President and CEO of PGE Polska Grupa Energetyczna, comments on results, distribution of profit and investments in 2015.



2015 was a year full of interesting developments and challenges. How would you describe performance of the Group?

I think we can be satisfied with our performance in 2015. Our operating and financial results are very good, despite shifting market conditions.

Operating results of all segments were very good which allowed for EBITDA of over 8 billion and 200 million zloty - the highest level in PGE history.

Generation volume amounted to 55.6 TWh and was 1% higher than a year ago while distribution volume increased by 3% year over year and amounted to 33.4 TWh due to higher demand.

Very good performance of conventional generation segment results from favourable hedging of energy sales in previous periods.

However, we cannot and we do not forget about the impairments of assets of almost 9 billion zloty value. Those resulted from changing environment on commodities market – I mean in particular hard coal market and climate change policies – mostly prospects of carbon allowances.

These write-offs mean that at the bottom line for the first time in the history PGE recorded the loss of 3 billion zloty.

What does it mean for shareholders? Can they count on dividend from 2015 results?

Company is still able to share cash generated last year with our shareholders, because the impairments are non-cash only. That is why we modified our dividend policy to adjust it by impairments. After adjustment, the profit, being basis for the computation of dividend, amounts to almost 4 billion and 287 million zloty.

We want to stay a dividend company however, due to the dynamic market environment it is worthwhile to wait with proposal of profit's distribution until the Ordinary General Meeting, which, like last year, will decide on that matter.

As you have mentioned, PGE's business environment is very dynamic. How would you comment on changes taking place on the market during last 12 months?

The market was difficult and continues to challenge utility companies. European climate policy and new regulations on renewables' support in Poland were the most important topics for the sector in 2015.

We have witnessed declining wholesale electricity prices in forward contracts for 2016 which follow global trends related to falling hard coal prices and changes in installed capacity in system.

At the end of the year changes in remuneration of distribution system operators were announced for next 5-year-period. Quality goals are very ambitious. To large extent they go in line with targets that PGE outlined in its strategy in 2014. That does not mean however these will not require extensive works to achieve them.

PGE is leading a very ambitious investment plan. Could you give us some details what is happening on PGE's main construction sites?

Among the most important investments in our pipeline are two hard coal fired units in Opole power plant, one lignite unit in Turów and gas cogeneration unit in Gorzów. All of these projects employ the best currently available technologies with lowest emission rates. Given that, over time we will be able to change the emission profile of the entire Group.

Opole is progressing in line with the adopted schedule reaching 35% of project advancement. The size of works is really impressive.

Turów unit required substantial redesign to meet the requirements of BAT Conclusions for new units. Currently, engineers are working on project documentation while the excavation work for main objects are carried out.

Our third major project - cogeneration unit in Gorzów – is at the most advanced stage of works. In the first quarter of 2016 we will start its trial run.

Our investment program comprises not only conventional generation. Last year was a period of very intensive works in renewables. We have completed projects of 4 wind farms with a total capacity of

218 MW almost doubling wind power generation capacity reaching total of 529 MW. This allowed us to take the leadership in installed onshore wind capacities in Poland.

Finally, we carried out intensive works in distribution segment which aim to improve the quality of supply. In 2015 we constructed more than 1500 km of distribution lines and almost 3000 were subject of comprehensive modernization. We are constantly focusing on reliability of supply through reducing SAIDI index, defined the length of interruptions in energy supply. During a year we reduced the duration of unplanned electricity outages by 7% despite gusting winds in July 2015.

To sum up our conversation could you give us any view on what shareholders of PGE can expect in 2016?

We can expect pressure on earnings due to the situation on commodity markets - both fossil fuels and energy. Despite optimization initiatives unfortunately we will not be able to offset them fully.

We are well prepared to daily operations of our generation and distribution assets. In my opinion schedule of refurbishments of existing assets as well as new investment projects are well prepared and will go according to plan.

Certainly in 2016 we will have to face new challenges and changing market environment. We expect stabilization of regulatory aspects in terms of support for renewables and we are looking forward to continuation of works on structure of the future capacity market.

I kindly invite you to read our annual statements and reports.

Faithfully,

Marek Woszczyk

President of the Management Board
PGE Polska Grupa Energetyczna S.A.