

## EuroRating affirmed 'BBB+' credit rating with a stable outlook assigned to the company Polska Grupa Energetyczna S.A.

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the issuer
Name of the rated entity	Polska Grupa Energetyczna S.A.
Type of the rated entity	corporation
Type of the credit rating	long-term, international scale
Date of rating affirmation	18 April 2024
Rating level	BBB+
Rating outlook	stable

**Warsaw, 18 April 2024 – EuroRating credit rating agency has revised the credit rating for the company Polska Grupa Energetyczna S.A. The rating has been affirmed at 'BBB+' with a stable outlook.**

### KEY RATING DRIVERS

**Dominant position in a stable market:** The Polish electricity and district heating market is characterized by long-term demand stability. The PGE Group is the largest domestic producer, largely vertically integrated. Thanks to regulations supporting the functioning of the state quasi-monopoly on the energy market, as well as high capital entry barriers, the company's strong market position should not be threatened in the foreseeable future.

**Moderate level of net financial debt:** PGE utilizes interest-bearing debt to a moderate extent. In recent years, the net debt / normalized EBITDA ratio has not exceeded 2.0x, and the net interest-bearing debt to equity ratio has remained below 0.30. As of year-end 2023, these ratios stood at 0.8x and 0.19, respectively. Despite their increase over the past year, EuroRating continues to assess them as low and safe.

**Relatively safe liability structure:** Until 2018, the share of equity in the balance sheet remained high at 60-70%. In the following years, this ratio gradually declined, reaching 42% by the end of 2023. Despite this decrease, EuroRating still assesses PGE's liability structure as relatively safe. Additionally, the company demonstrates satisfactory coverage of long-term assets with long-term capital, which has remained very stable within the 0.9-1.1 range.

**Consistently positive normalized net profit:** PGE operates partially in a regulated sector (covering the sale of electricity and heat to retail customers), where the company does not always have the flexibility to fully pass on fluctuating operating costs (primarily fuel prices) to customers. For this

reason, since 2019, margins achieved by the PGE Group have significantly deteriorated. Nevertheless, even during periods of margin decline, the company has generated positive normalized net profit (adjusted for one-time events and changes in the balance of asset impairments) and has maintained a consistently positive normalized net margin over the past 20 years.

**Strong operating cash flows:** The PGE Group consistently generates positive and very high (typically exceeding PLN 5 billion annually) cash flows from operating activities. While the group also incurs significant capital expenditures and free cash flows exhibit relatively high volatility, they remain positive in most periods. EuroRating notes, however, that in 2023, due to a concurrent decline in operating cash flows and a substantial increase in capital expenditures, PGE generated a record negative free cash flow of PLN -8.2 billion.

**Satisfactory liquidity position:** EuroRating assesses the PGE Group's overall liquidity position as satisfactory, despite a slight deterioration in 2023, considering the nature of its business. Benefiting from typically high levels of cash in hand and a favourable maturity structure of interest-bearing debt (with the vast majority of debt maturing beyond one year), cash coverage of short-term debt has consistently remained high in most periods.

**Uncertainty regarding the fate of coal assets:** The newly formed government has revoked plans to establish a dedicated company - NABE, to which coal assets from state-owned energy companies were to be transferred. The government's specific plans in this regard remain unclear, potentially implying that PGE may need to continue operating its currently unprofitable brown and hard coal-fired power plants in the medium term.

**High likelihood of support from the main shareholder:** PGE's majority shareholder (with a 60% stake) is the Polish State Treasury. Additionally, the company is a strategic electricity supplier in Poland. EuroRating assesses that in the event of a crisis, the government would likely provide PGE with appropriate financial support.

**Public listing and strong capital market reputation:** PGE has been listed on the Warsaw Stock Exchange (GPW) since 2009 and has been a constituent of the WIG20 index of the largest companies since March 2010. The company's bonds are also listed on the Catalyst segment of the GPW.

**Susceptibility to political influences:** As a state-controlled company, PGE is susceptible to political influences that could result in frequent and unjustified personnel changes at the supervisory board and management levels, as well as decisions not aligned with sound economic principles and the company's long-term interests.

**STABLE RATING OUTLOOK**

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the company should most likely remain unchanged in the horizon of the next 12 months.

**MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE**

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to positive and/or rating upgrade), EuroRating includes: the separation of coal assets from the PGE Group under favourable conditions for the company; improvement in generated sales margins; generating positive free cash flows; an increase in the share of equity in the liability structure; reduction of the level of financial indebtedness; improvement in financial liquidity indicators; as well as the efficient implementation of the company's transformation towards renewable energy sources and low-emission sources.

The most significant potential factors that could (individually or collectively) lead to a downgrade of current credit rating (and/or to a change of the rating outlook to negative): deteriorating financial performance (including the possible generation of a negative normalized net result); a decrease in the value of generated cash flows from operating activities and/or generating negative free cash flows; a significant increase in the level of financial indebtedness; further decline in the share of equity in the total liabilities; deterioration of liquidity position; as well as any adverse solutions regarding coal assets (including, in particular, ties of coal mines with energy companies).

**BEST/WORST RATING SCENARIO**

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

## REGULATORY DISCLOSURES

### Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions. EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

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### Methodology

The presented credit rating for the company Polska Grupa Energetyczna S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for non-financial corporations" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

### Public status of the credit rating / terms of use

The presented credit rating for the company Polska Grupa Energetyczna S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

The terms of use for credit ratings issued by EuroRating are published on the agency's website at: <https://www.eurorating.com/en/ratings/about-credit-ratings/terms-of-use>

### Solicitation status

The rating assigned to the company Polska Grupa Energetyczna S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process, the agency had no access to internal documents or the management of the rated entity, and the analytical process was based on publicly available information. The main sources of information used in the rating process were: interim financial statements, presentations and reports of the rated entity, as well as publications in the media about the economy, the industries in which the company operates and about the rated entity itself. The information on the assigned credit rating was presented to the rated entity in advance. The rating was issued without any changes resulting from this disclosure.

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