

ENERGA Group's financial results

Q1 2018



[@EnergaSA](https://twitter.com/EnergaSA)

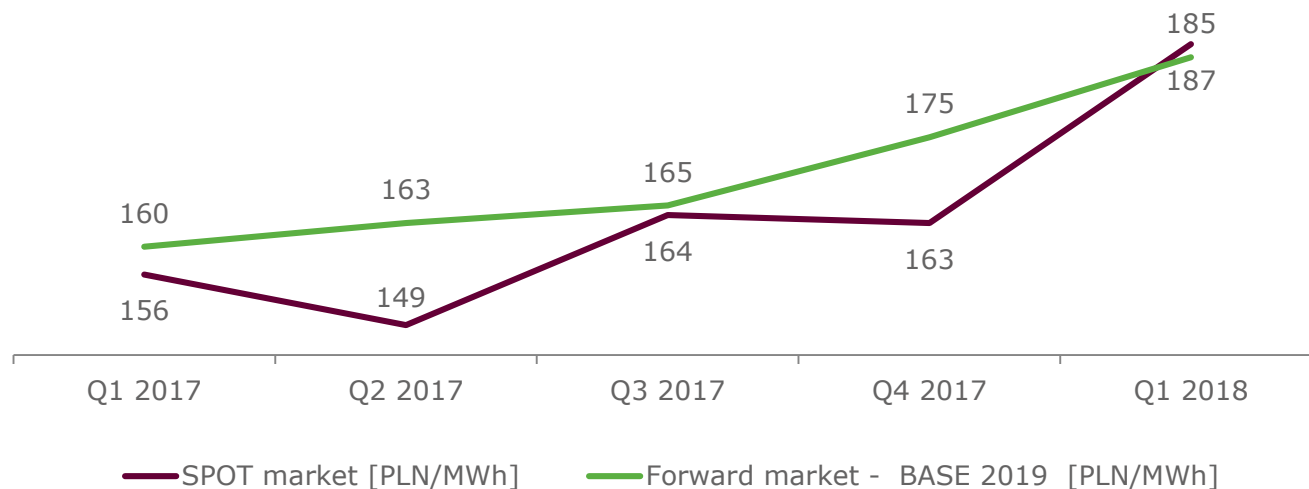
[#EnergaWyniki](https://twitter.com/EnergaSA)

10 May 2018



Growth of energy prices in Q1 2018

Prices of energy in the SPOT and forward market

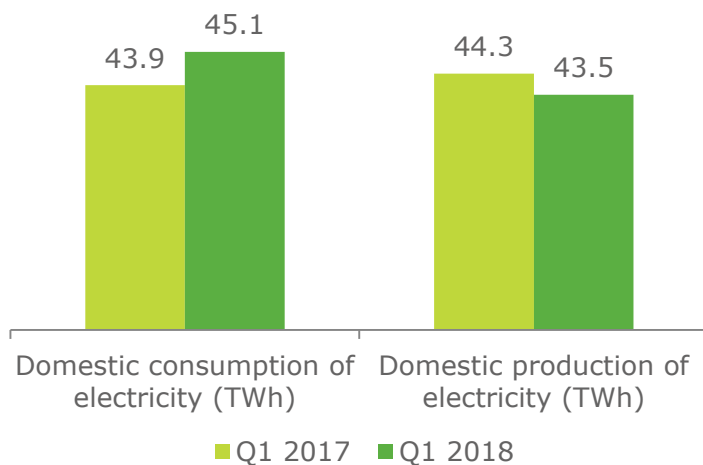


Main drivers of growth in energy prices:

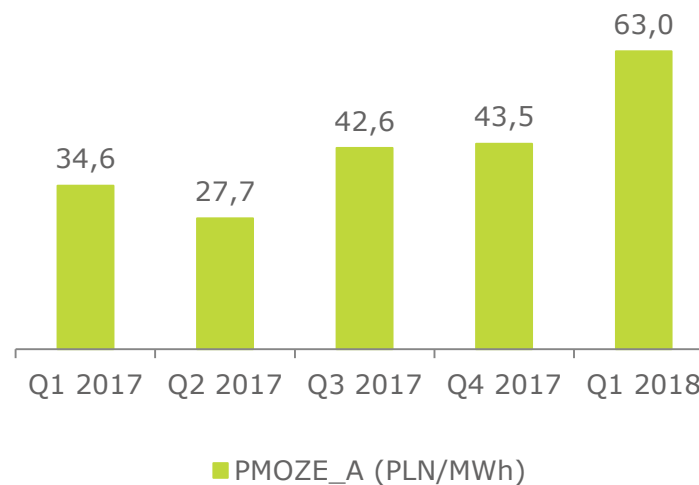
- decrease in electricity production in Q1 2018 by 1.7% (yoy) due to, amongst others, systemic outages and very low wind generation,
- a record demand for electricity in the National Power System – an increase of 2.8% (yoy) in domestic electricity consumption in Q1 2018,
- a dynamic growth in prices of CO₂ emission allowances and an increase in coal prices.

Market data

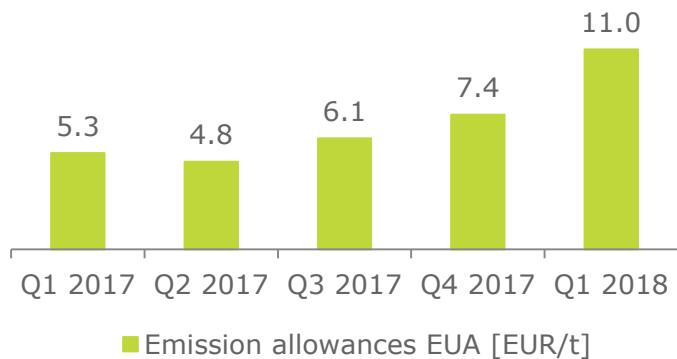
Domestic production and consumption of electricity



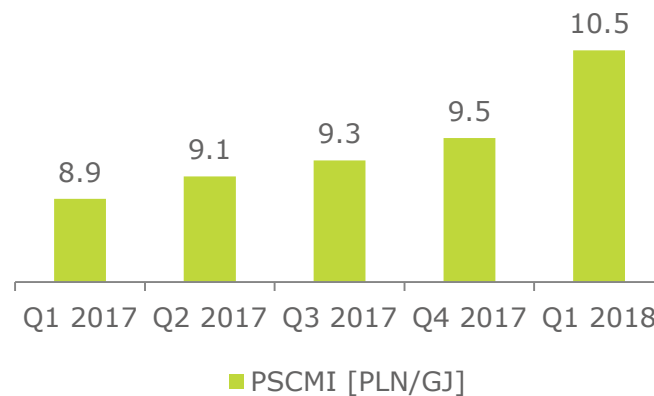
Green certificates prices



Prices of emission allowances



Coal sales prices



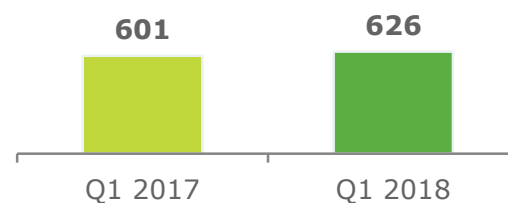
Strong performance of Energa Group

1. Significantly improved results of the Sales Business Line
2. Increased volumes of electricity distribution and sales and output of hydropower plants
3. Higher market prices of electricity, property rights, hard coal and emission allowances

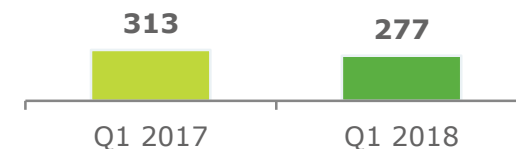
Revenues (PLN m)



EBITDA (PLN m)



Net profit (PLN m)



--- The level of revenues using a similar presentation as in the previous year. In 2018, in result of IFRS 15 application, the presentation of the transitional fee and connection fee revenues in the Distribution Business Line changed.

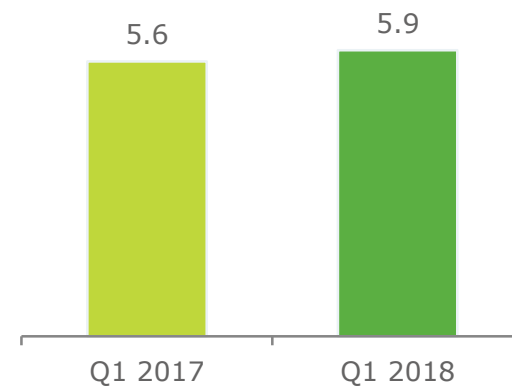
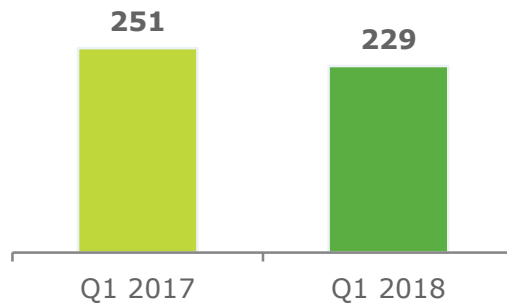
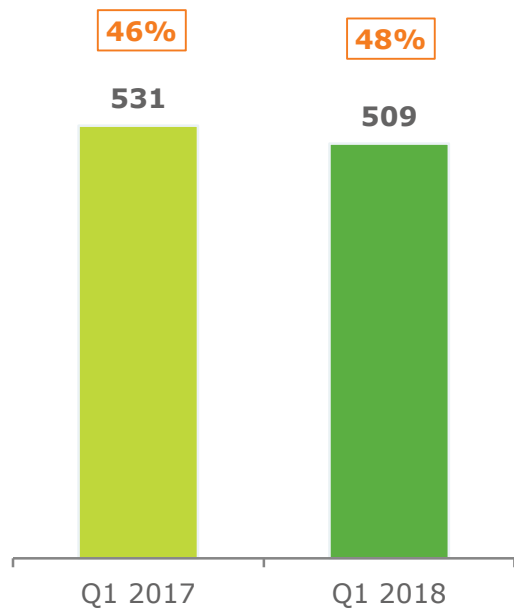
Comparable Distribution results

EBITDA (PLN m)

Net profit (PLN m)

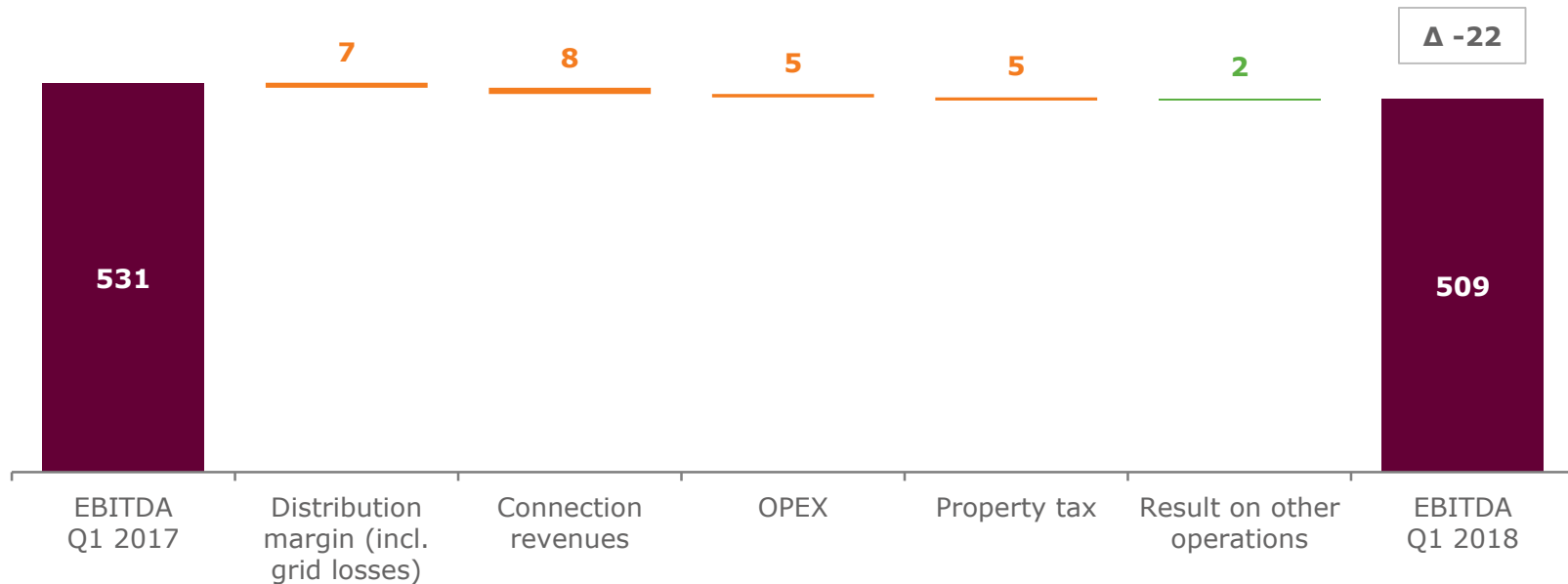
Distribution of electricity (TWh)

□ EBITDA margin



Distribution's EBITDA under the pressure of negative factors

EBITDA Bridge of the Distribution Business Line (PLN m)

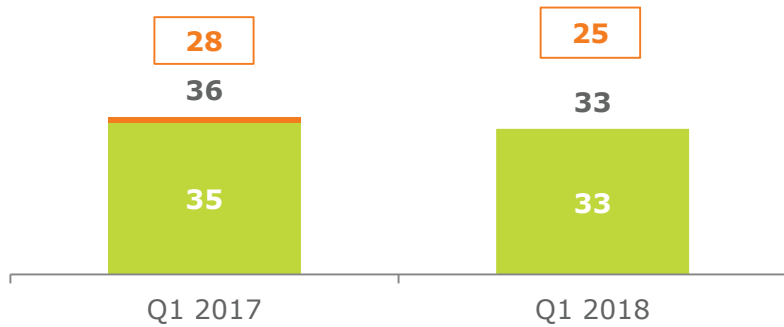


- Volume of the distribution service higher by 233 GWh yoy
- No beneficial event - unlike in Q1 2017 when there was an adjustment of the PSE transitional fee
- Decrease in revenue from connections due to, amongst others, the application of IFRS 15 and non-recognition of such revenue over time

Reliability indices

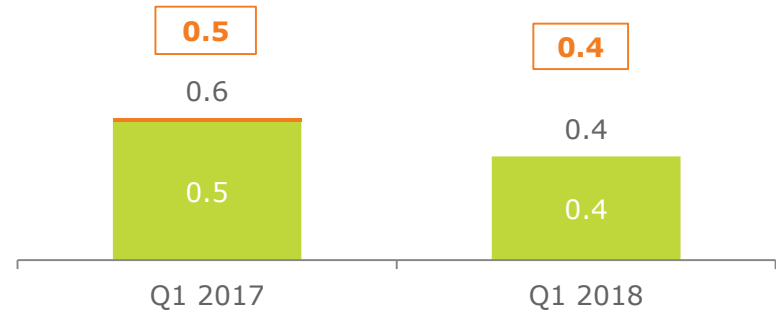
SAIDI (minutes per customers)

SAIDI (planned, unplanned and catastrophic)



SAIFI (interruptions per customers)

SAIFI (planned, unplanned and catastrophic)



■ mass interruptions SAIFI (interruptions per customer)

□ - SAIDI/SAIFI w/o mass interruptions – HV & MV

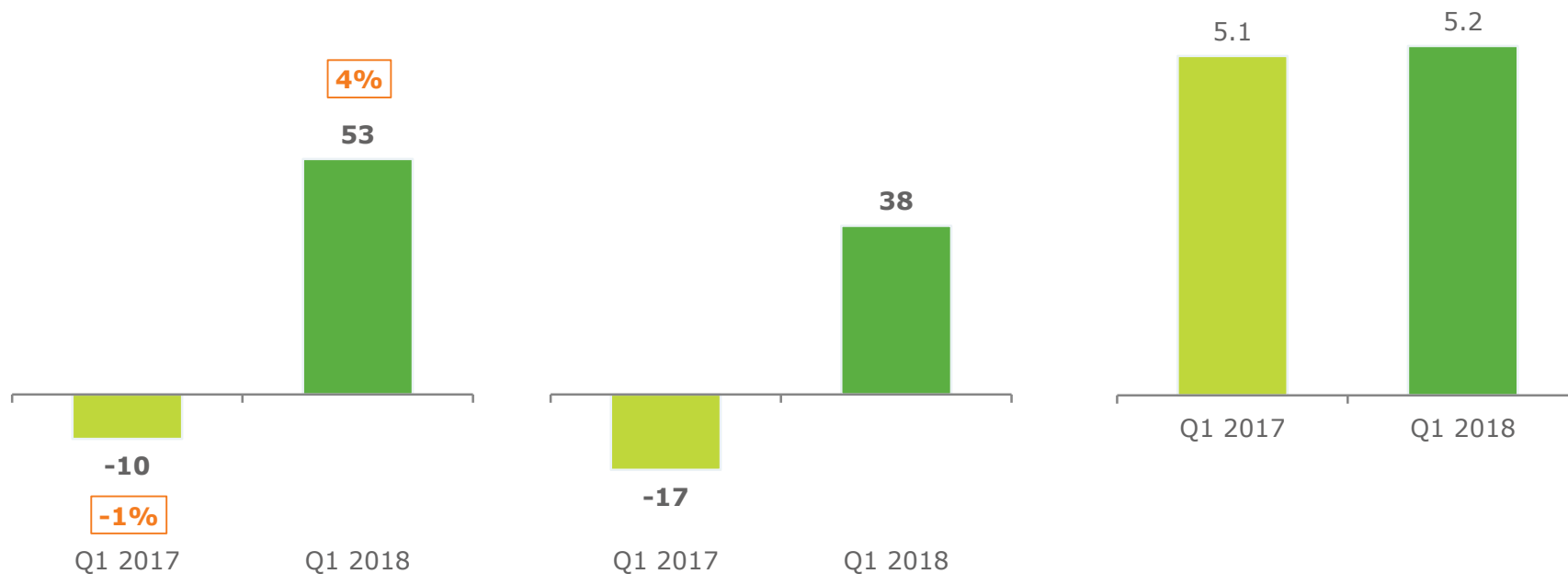
Improved financial and operational results of Sales

EBITDA (PLN m)

Net profit (PLN m)

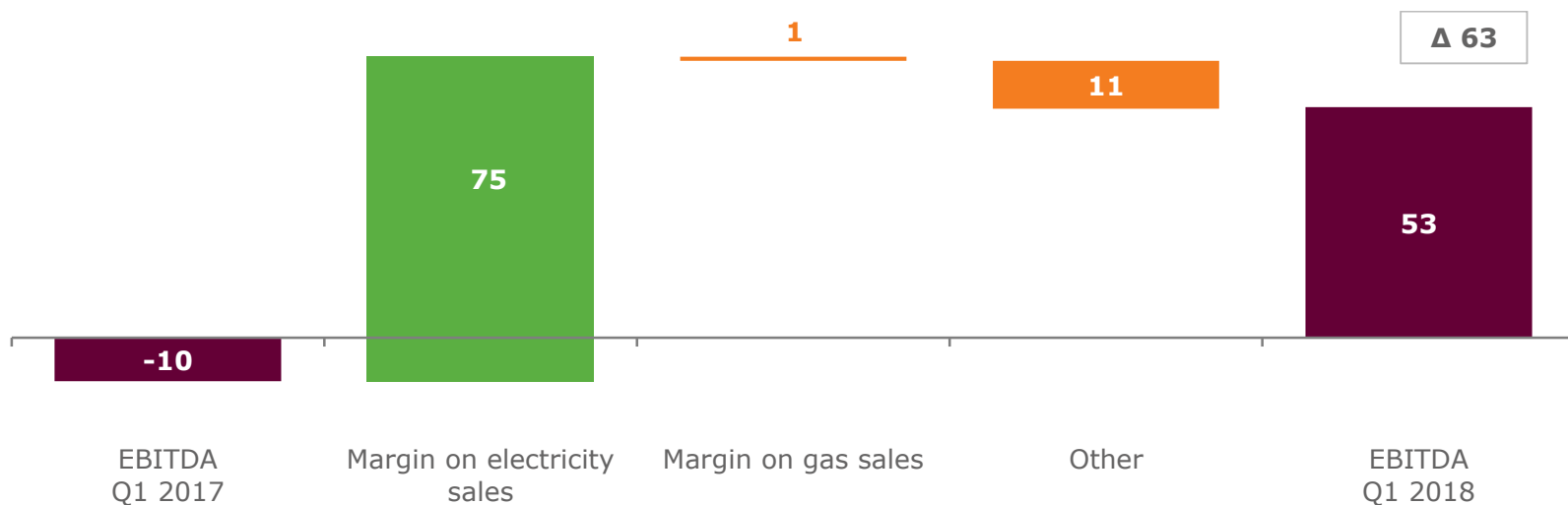
Retail sales of electricity (TWh)

□ - EBITDA margin



Significant reduction of legal and contractual burdens

EBITDA Bridge of the Sales Business Line (PLN m)

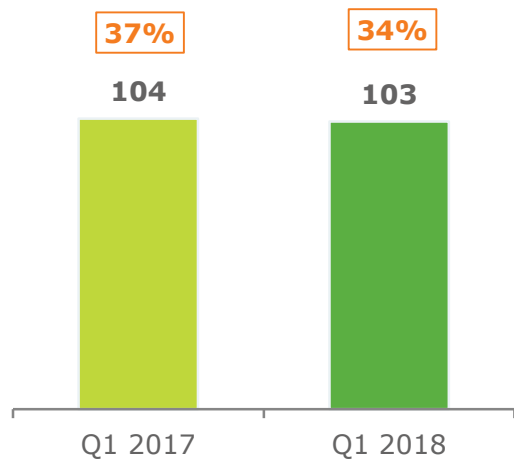


- ➔ Lower purchase prices of green certificates – an effect of recognising long-term contracts as invalid
- ➔ Lower purchase costs of electricity despite an increase in market prices – an effect of reducing the obligations of the Offtaker of Last Resort

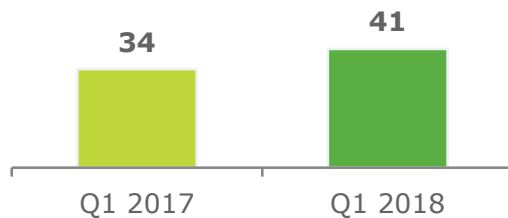
Stable Generation results

EBITDA (PLN m)

□ - EBITDA margin



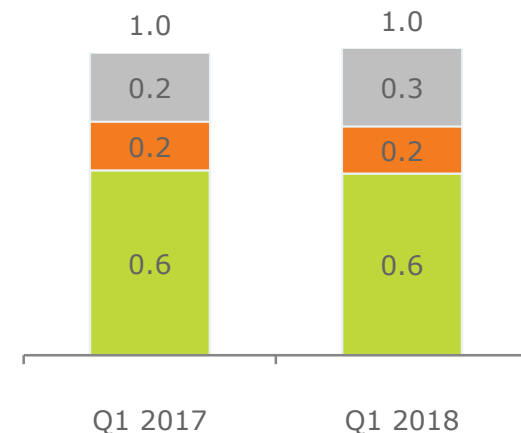
Net profit (PLN m)



Gross production of electricity (TWh)

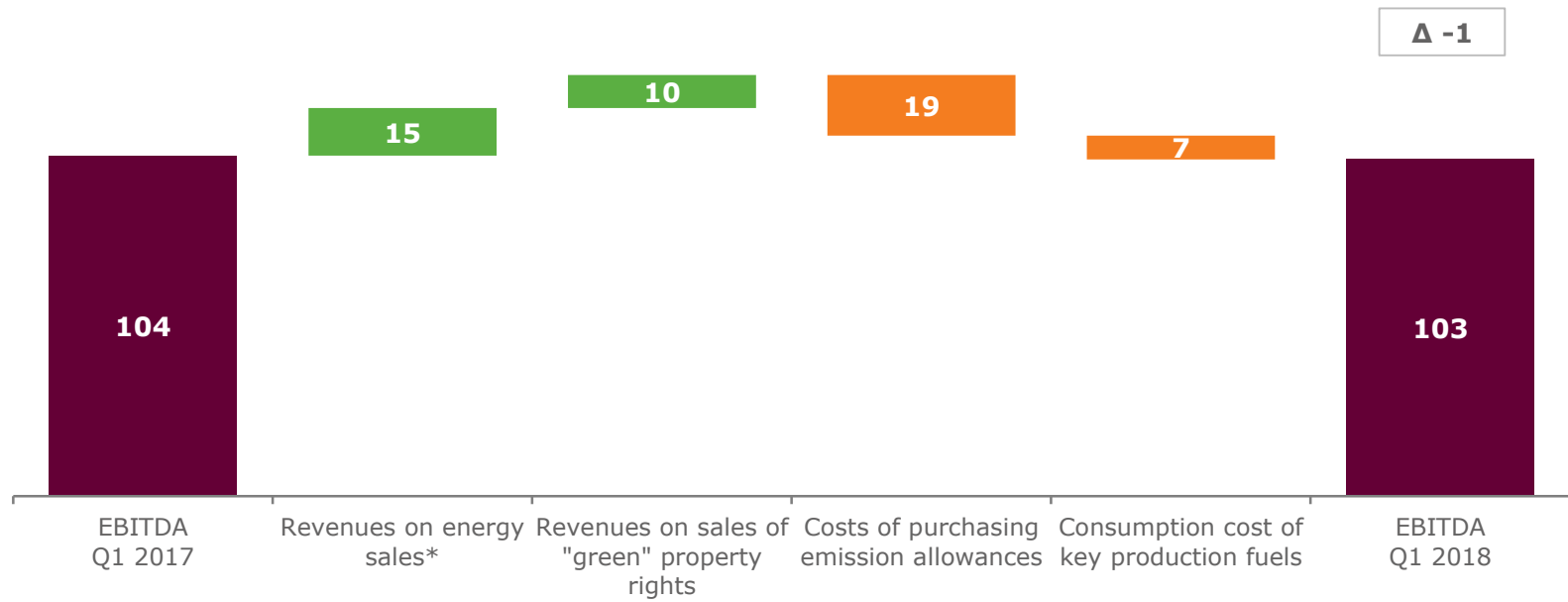
Gross production of electricity

- RES without support
- RES with support



Results dependent on market prices

EBITDA Bridge of the Generation Business Line (PLN m)



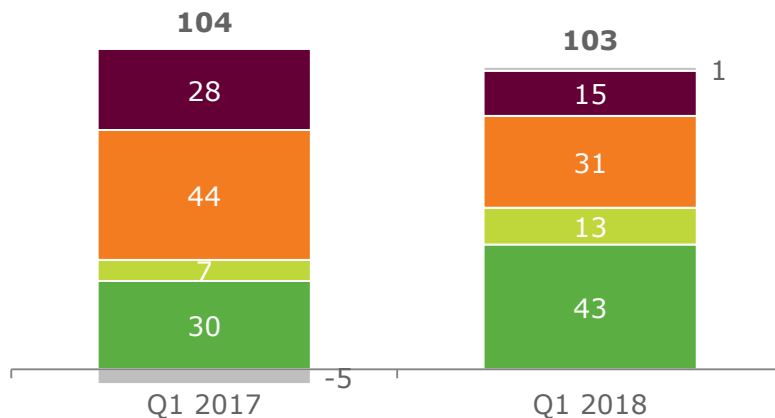
*includes net electricity trading (revenue less cost)

- Higher market prices of energy, mainly at Ostrołęka power plant, and of property rights
- Higher purchase prices of coal and emission allowances
- Higher output of hydropower plants

Higher production volumes of hydropower plants

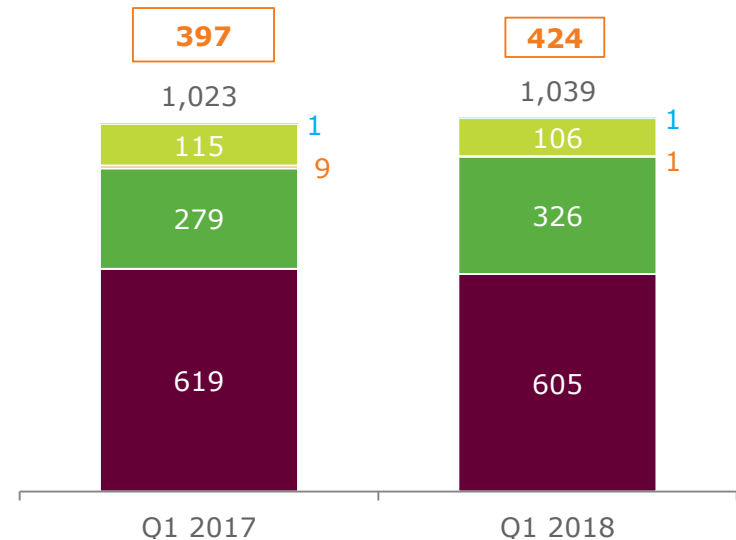
EBITDA of the Generation Business Line, by Power Division

- Others & adjustments*
- CHP
- ENERGA Elektrownia Ostrołęka
- Wind



Gross electricity production by fuel (GWh)

- Coal
 - Hydro
 - Biomass
 - Wind
 - PV
- - including RES (without pumped storage plant in Żydowo)



* The "Other & adjustments" category comprises companies providing services to the Generation Business Line, special purpose vehicles building new generation sources in the ENERGA Group, PV farms and elimination of transactions between business lines.

PLN 256 m of capital expenditures made in 2017

The ENERGA Group's total capital expenditures in Q1 2018 were **PLN 256 m**.

Major investments in the **Distribution Business Line**:

1. **PLN 82 m** grid development to facilitate connection of new customers
2. **PLN 114 m** distribution network modernization to improve reliability of supply
3. **PLN 4 m** other expenditures for innovative grid technologies and solutions (Smart Grid)

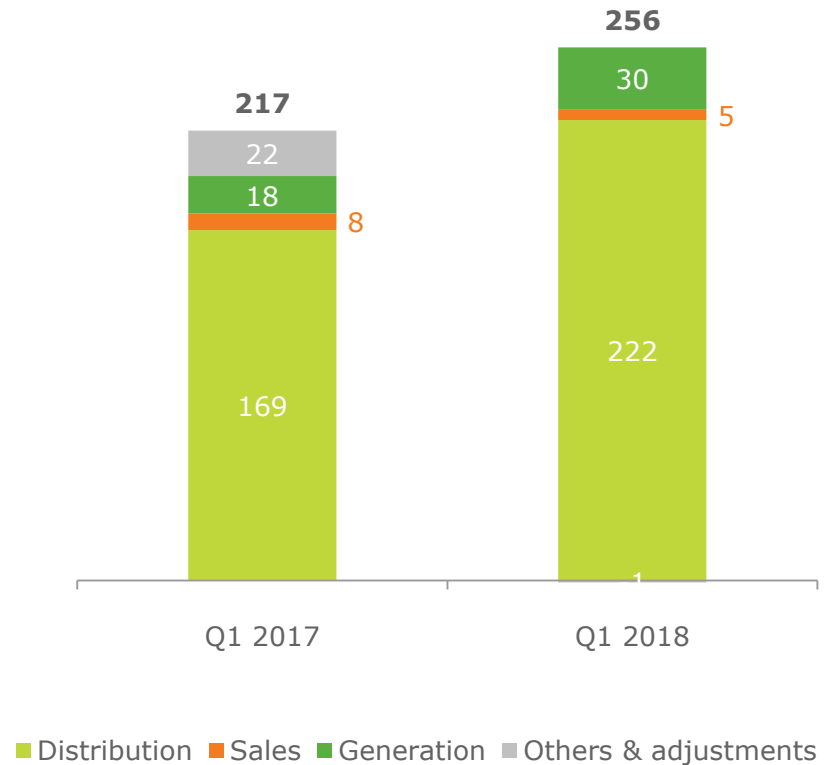
contributed to:

- a. **11.7 thous.** - new customer connections
- b. **931 km linii** -built and modernized LV, MV and HV lines
- c. **9 MW** – new RES connections to the network

Major investments in the Generation Business Line:

- a. **PLN 17 m** Elektrownia in Ostrołęka (mainly overhaul of block No. 1 and adjustment to the IED Directive)
- b. **PLN 10 m** CHP (mainly modernization of heat sources)

PLN m



Factors affecting ENERGA Group result in the next quarter

Expenditures incurred on the grid so as to meet quality regulation requirements in the Distribution Business Line

Electricity prices on the forward market, SPOT market and balancing market

Amendment to the Renewable Energy Sources Act which changes the basis of the property tax

Consequences of the decision to recognise long-term contracts for the purchase of green certificates as invalid

Conducting settlement processes with four entities on the termination of court disputes and conclusion of new contracts for the purchase of property rights

Entry into force of the amendments to the RES act significantly reducing the costs of discharging the function of the Offtaker of Last Resort as of 1 January 2018

Growing competition on the electricity sale market

Must-run production level at Energa Elektrownie Ostrołęka

Weather and hydrometeorological conditions

Actual rate received and the operating reserve volume

Prices of CO2 emission allowances

Share in the net result of PGG and Polimex-Mostostal and valuation of the options for Polimex-Mostostal shares

ENERGA Group's financial results Q1 2018



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10 maja 2018 roku



Additional information

ENERGA Group's key assets

Distribution

1. 185 thous. km of power lines
2. 5.9 TWh - electricity delivered in Q1 2018
3. Geographical coverage of 75 thous. km²

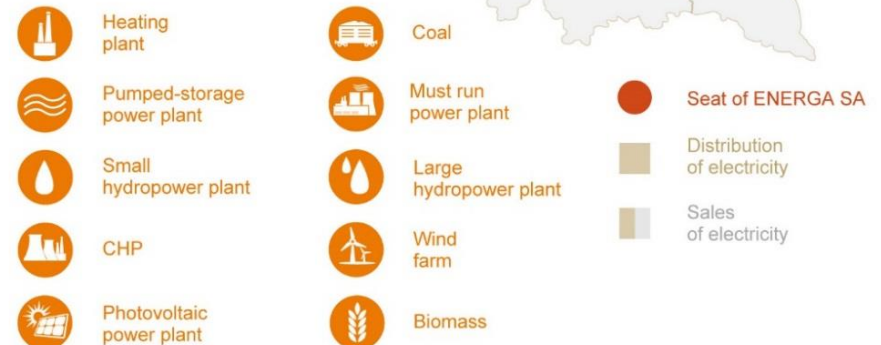
Generation*

1. Hydro power plants
 - a) Włocławek (162 MW)
 - b) Smaller generating entities (46 MW)
 - c) Pumped storage plant in Żydowo (157 MW)
2. 5 wind farms (total capacity 211 MW, including Karścino 90 MW)
3. PV farm near Gdańsk (1.6 MWe) and in Czernikowo (3.8 MWe)
2. System power plant in Ostrołęka B (681 MW, new heat source EEO B – 220 MWt)
3. Other CHP plants (82 MW, 443 MWt)

Sales

1. 3.0 million customers
2. 5.2 TWh – electricity sold in O1 2018

* Installed capacity



Summary of Q1 2017

PLN m	Distribution			Sales			Generation		
	Q1 2017	Q1 2018	Change (%)	Q1 2017	Q1 2018	Change (%)	Q1 2017	Q1 2018	Change (%)
Revenues	1,151	1,067	-7%	1,350	1,423	5%	278	304	9%
EBITDA	531	509	-4%	-10	53	>100%	104	103	-1%
<i>EBITDA margin</i>	<i>46.1%</i>	<i>47.7%</i>	<i>Δ 1.6 p.p.</i>	<i>-0.7%</i>	<i>3.7%</i>	<i>Δ 4.5 p.p.</i>	<i>37.4%</i>	<i>33.9%</i>	<i>Δ -3.5 p.p.</i>
EBIT	340	321	-6%	-21	43	>100%	63	63	0%
Net profit/loss	251	229	-9%	-17	38	>100%	34	41	21%
<i>Net profit/loss margin</i>	<i>21.8%</i>	<i>21.5%</i>	<i>Δ -0.3 p.p.</i>	<i>-1.3%</i>	<i>2.7%</i>	<i>Δ 3.9 p.p.</i>	<i>12.2%</i>	<i>13.5%</i>	<i>Δ 1.3 p.p.</i>
CAPEX	169	222	31%	8	5	-38%	18	30	67%

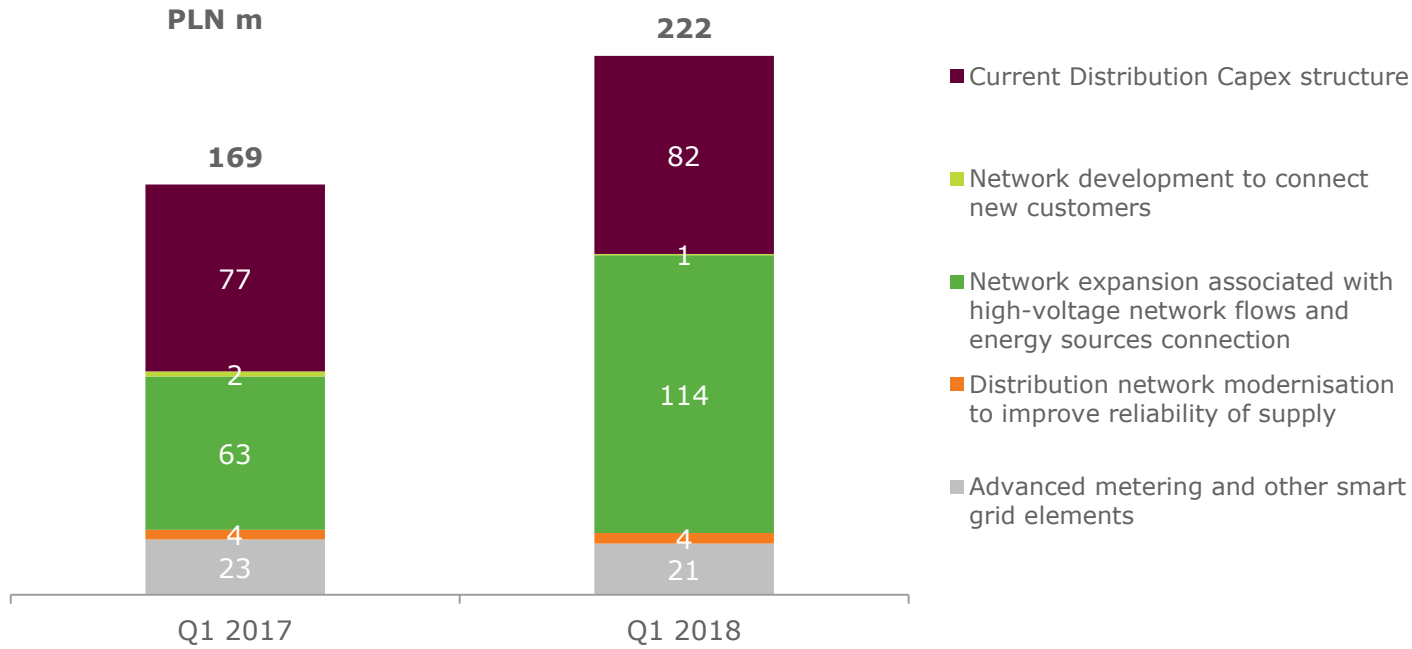
PLN m	Generation business lines, including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	Q1 2017	Q1 2018	Change (%)	Q1 2017	Q1 2018	Change (%)	Q1 2017	Q1 2018	Change (%)	Q1 2017	Q1 2018	Change (%)
Revenues	53	67	26%	20	24	19%	147	149	2%	59	63	7%
EBITDA	30	43	41%	7	13	72%	44	31	-29%	28	15	-44%
<i>EBITDA margin</i>	<i>56.6%</i>	<i>63.2%</i>	<i>Δ 6.6 p.p.</i>	<i>36.0%</i>	<i>52.1%</i>	<i>Δ 16.1 p.p.</i>	<i>30.2%</i>	<i>21.0%</i>	<i>Δ -9.2 p.p.</i>	<i>47.1%</i>	<i>24.6%</i>	<i>Δ -22.5 p.p.</i>
EBIT	22	34	56%	-1	4	>100%	28	15	-45%	19	7	-61%
CAPEX	2	1	-54%	0	0	-100%	13	17	29%	2	10	>100%

Structure of cost by nature – ENERGA Group

Expenses by nature (PLN m)	Q1 2017	Q1 2018
Depreciation of property, plant and equipment, intangible assets and investment property	246	238
Materials and energy used	177	174
incl. fuel used for balance difference	53	53
incl. fuel used (with transport)	76	84
External services	367	296
incl. transmission and transit fees	254	188
Taxes and fees	103	126
Employee benefits expenses	249	261
Impairment	10	17
Other expenses	-22	-10
Value of merchandise and raw materials	1,223	1,145
Total operating expenses	2,352	2,249

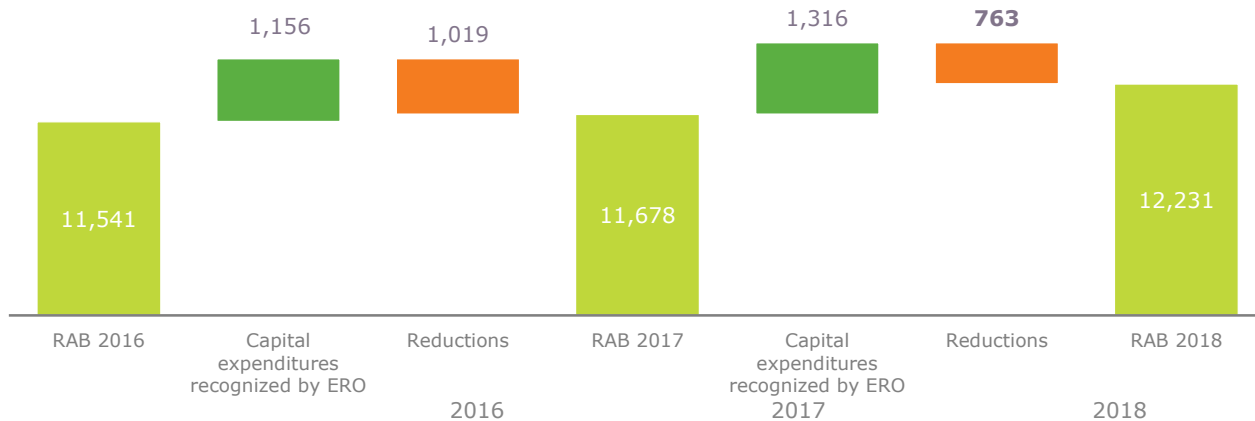
* A decrease in costs of external services was mainly due to the change of presentation of the costs of the transitional fee – revenues are adjusted downwards by the value of the transitional fee previously presented under costs.

Current Distribution Capex structure



Regulatory asset base

RAB



Return on RAB

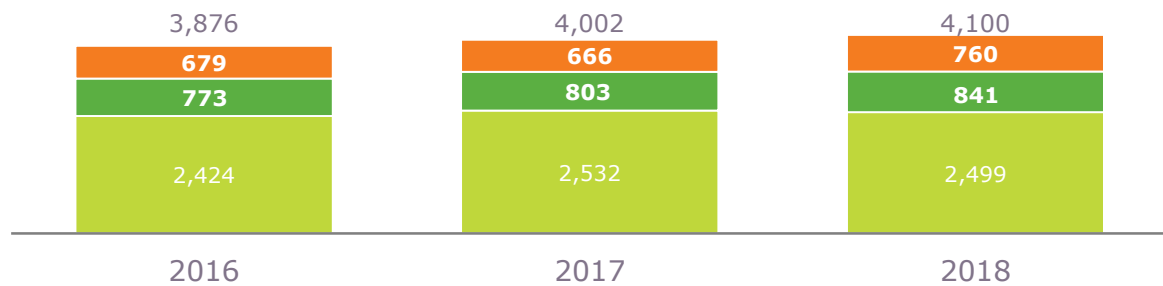
"Standard"

"Included in tariff"

Effective return on RAB

	2016	2017	2018
WACC	5.68%	5.63%	6.02%
Riskfree rate	2.95%	2.91%	3.26%
Q (Quality coefficient)	-	-	1.00
RC (regulatory coefficient)	1.00	0.99	1.01
Return on capital based on RAB	679	673	752
Allowed return on capital	679	666	760
Effective return on RAB	5.88%	5.71%	6.21%

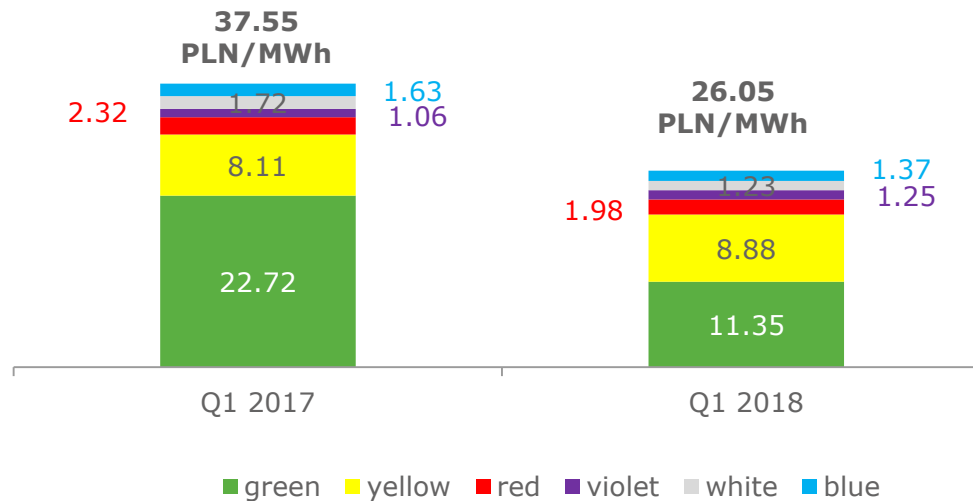
Regulated revenue



Other costs Depreciation RAB return

Key operating data of the Sales Business Line

Structure of property rights redemption per 1 MWh of electricity sold to end customers



	Q1 2017	Q1 2018	Change (%)
Electricity sales by Sales Business Line (GWh)	5,943	6,218	5%
<i>incl. retail sales</i>	5,094	5,244	3%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	173.9	176.4	1%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	204.9	197.7	-4%
Variable margin**	3.0%	8.0%	Δ 5.1 p.p.

* Marża zmienna I stopnia liczona jako iloraz wyniku i przychodów ze sprzedaży energii elektrycznej

Key operating data of the Generation Business Line

Consumption of fuels	Q1 2017	Q1 2018	Change	Change (%)
Coal				
Quantity (000s tons)	313.2	316.6	3.4	1%
Cost* (PLN m)	72.2	82.4	10.2	14%
Cost per unit (PLN/ton)	230.6	260.3	29.7	13%
Cost per unit (PLN/MWh)**	68.4	78.0	9.7	14%
Biomass				
Quantity (000s tons)	9,5	0,9	-8.6	-91%
Cost* (PLN m)	3,2	0,3	-2.9	-91%
Cost per unit (PLN/ton)	334,1	337,8	3.8	1%
Cost per unit (PLN/MWh)**	147,9	163,4	15.6	11%

* Including cost of transport

** In relation to the total production of electricity and heat

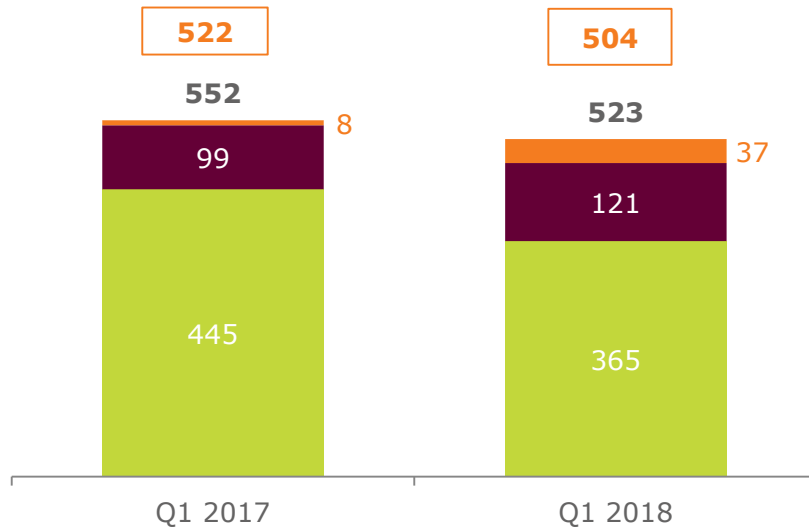
CO2 emission allowances in Generation Segment	Q1 2017	Q1 2018
CO2 emission allowances (thous. tons CO2), incl.:	642	649
The amount of free CO2 emission allowances	231	180
Volume of emission allowances purchased	412	469
Cost of CO2 purchase (PLN m)	8.9	27.5

Key operating data of ENERGA Elektrownie Ostrołęka

Sales structure (GWh)

□ - Own net production

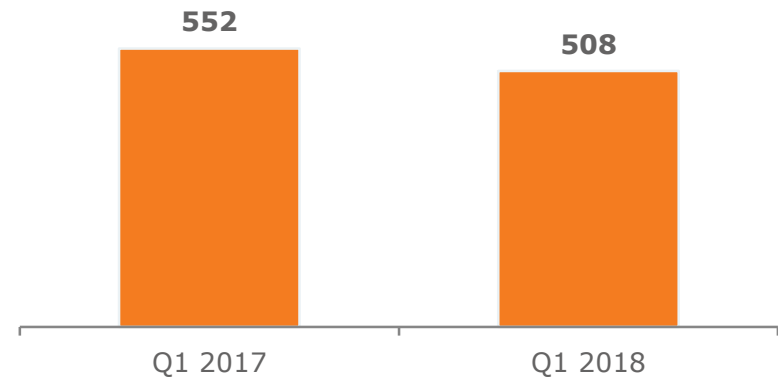
- Other electricity sales
- Other sales to PSE
- Sales to PSE in must-run



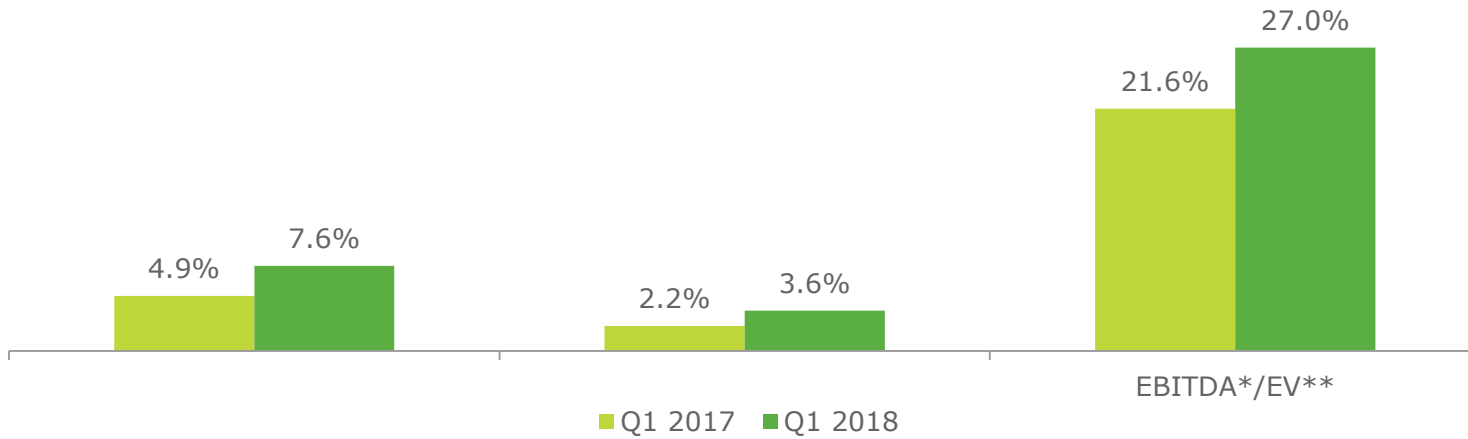
Fuels consumption volumes and costs in Q1 2018

	Unit	Coal
Total consumption	(000s tons)	247.8
Consumption cost per unit	(PLN/ton)	252.9
Total fuel cost	(PLN m)	62.7

Gross heat production (TJ)



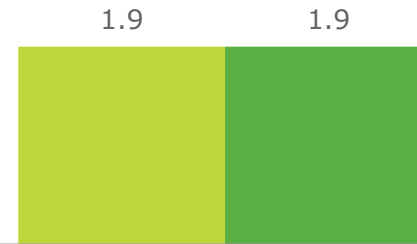
Profitability and liquidity ratios



Current Ratio



Net debt/EBITDA



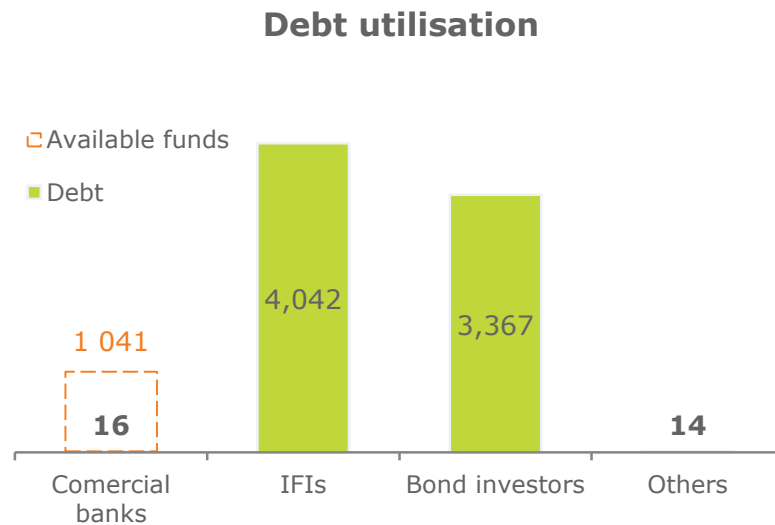
■ 31 December 2017 ■ 31 March 2018

* net profit and EBITDA for last 12 months

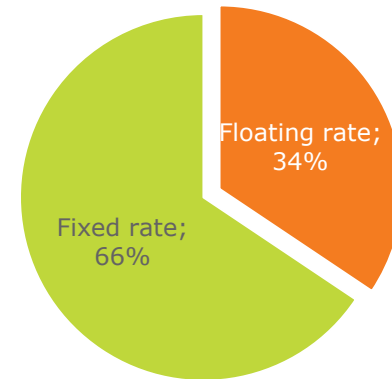
** market value+ net debt

ENERGA Group's average cost of debt

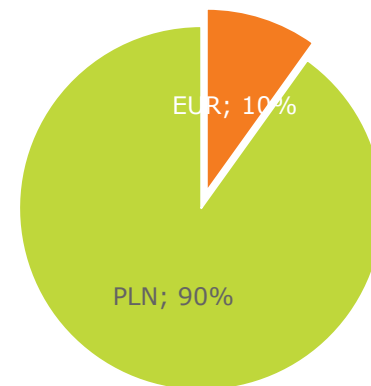
Structure of financing as at 31.03.2018



Interest rate convention of the debt utilisation

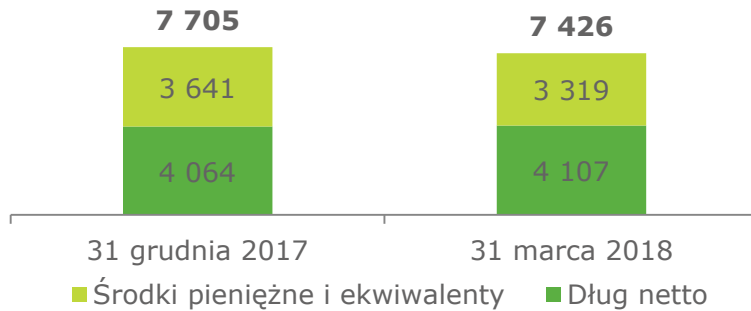


Currency of the debt utilisation

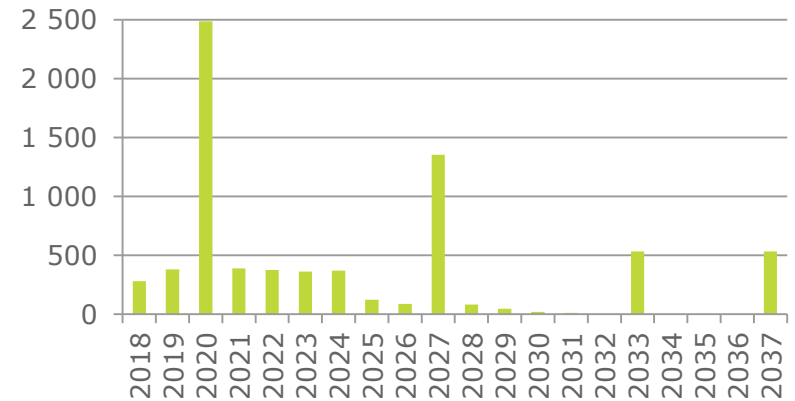


Financial security

Debt (PLN M)



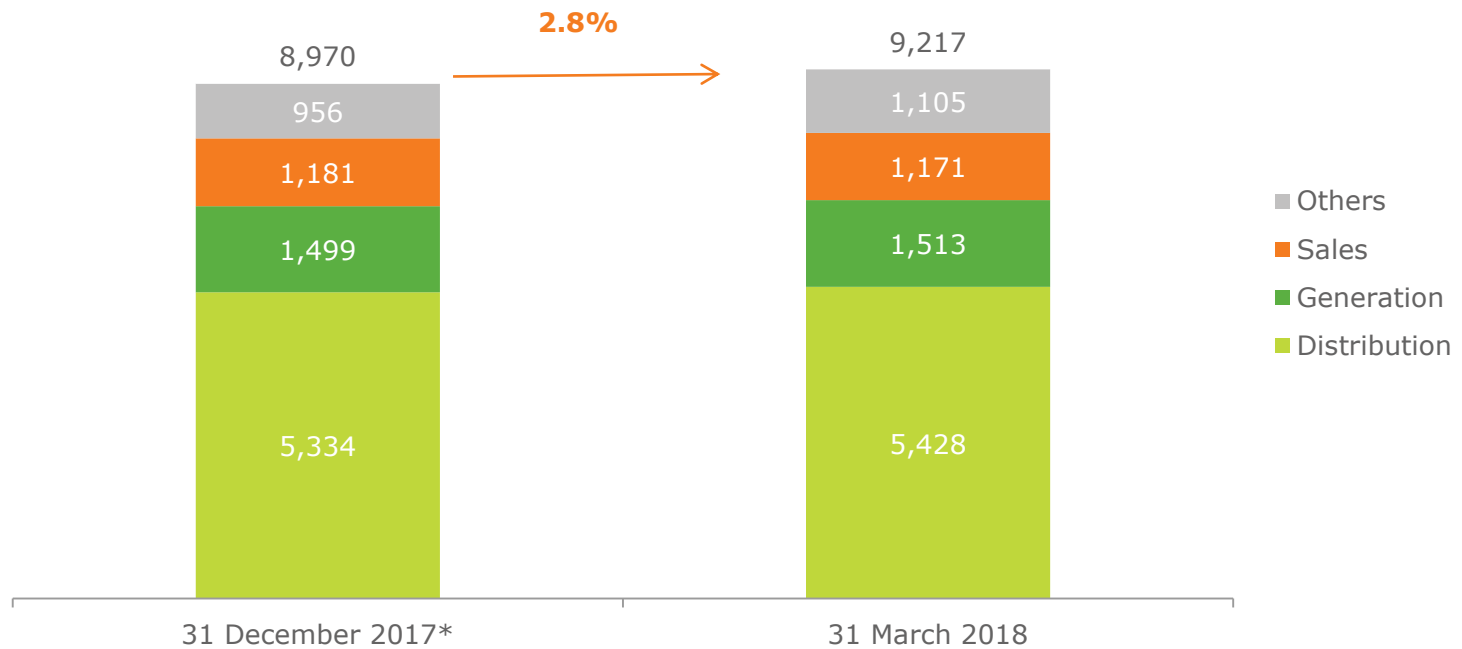
Net debt/ EBITDA



Selected programs / contracts for financing	Issue value	Maturity/Final maturity
Eurobond issues	EUR 500 m	03.2020
	EUR 300 m	03.2027
Hybridbonds issues	EUR 125 m	09.2033
	EUR 125 m	09.2037
Agreement with the European Investment Bank (EIB)	1,000 m	09.2031
Agreement with the European Bank for Reconstruction and Development (EBRD)	800 m	12.2024

Headcount in the ENERGA Group

Headcount – end of period



* historical data has been transformed in line with the segmentation effective in 2018

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Calendar of events

16 May 2018

Chat for individual investors

10 July – 9 August 2018

The close period due to
the publication of the half-yearly report

9 August 2018

Publication of half-yearly results 2018

9 October – 8 November 2018

The close period in connection
with the publication of the 3Q report

8 November 2018

Publication of 3Q results 2018



2015 Constituent
MSCI Global
Sustainability Indexes



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