

1Q 2019 Financial results of Energa Group



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#EnergaWyniki

30th of May, 2019



Energa Group after Q1 2019

Key achievements

DISTRIBUTION

Upgrading and development of the grid

- Good SAIDI and SAIFI indicators
- High fulfillment of capital expenditure in Q1 2019 – 24% of the plan
- Over 21% more MV lines were converted to cables and overhead lines with partly insulated conductors in the areas of forests and tree stands, and 4.5 times more LV lines and terminals were exchanged than in Q1 2018
- Microgeneration installation connections increased almost eight times yoy

GENERATION

Environment ally-friendly energy sources

- Tender for the construction of a new 450-750 MWe combined cycle unit with balance of plant for the power plant in Grudziądz
- Start of works on the 30 MW Przykona wind farm
- Construction of a 6 MW and 27 MWh energy storage

SALES

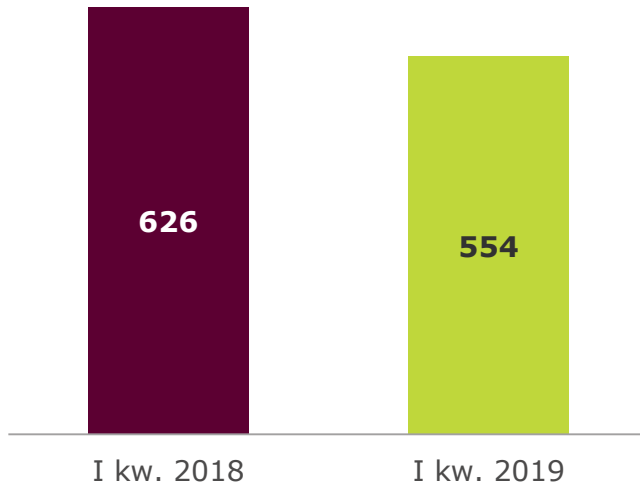
Innovative solutions for Customers

- Growth in sales of products from the new energy efficiency package, which includes monitoring of power demand and alerts to prevent consuming more power than ordered
- Installation of photovoltaic panels
- Sales of reactive power compensation which allows companies to reduce electricity spending.

Energa Group after Q1 2019

Performance summary

EBITDA (m PLN)



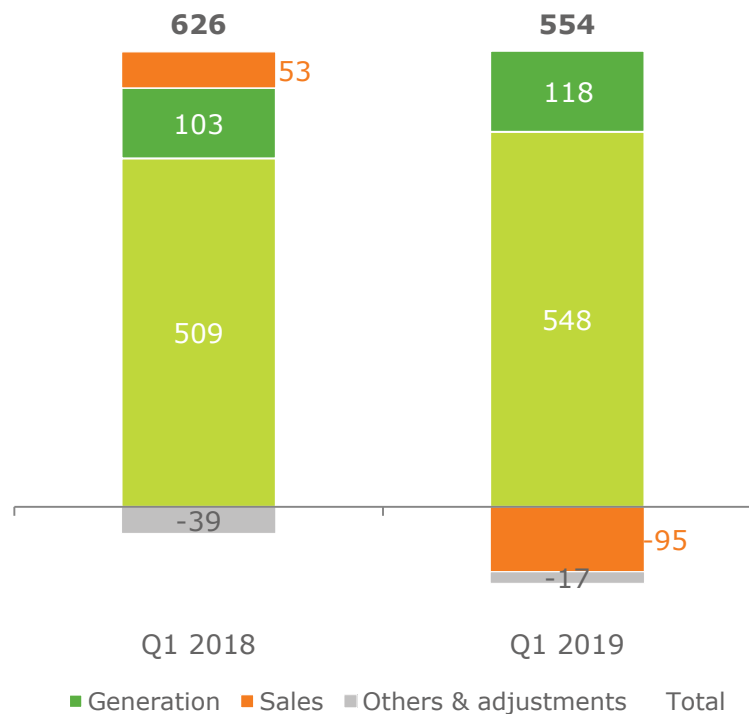
- A PLN 72 m EBITDA decline in Q1 2019 due to deteriorated performance of the Sales Business Line, Sales results being under the pressure of the Act on "energy prices in 2019"¹
- Improvement of distribution EBITDA by 8% yoy, mostly due to valuation of grid losses
- 13% increase in Generation EBITDA due to market prices of electricity, property rights, coal and emission allowances
- The highest level of revenues in the Group's history PLN 2,971 million
- Increase in RES energy production by 31 GWh and lower demand for must-run electricity generation by Ostrołęka Power Plant
- Increase in Distribution CAPEX by PLN 112 m to upgrade and expand the distribution grid



EBITDA structure of ENERGA Group

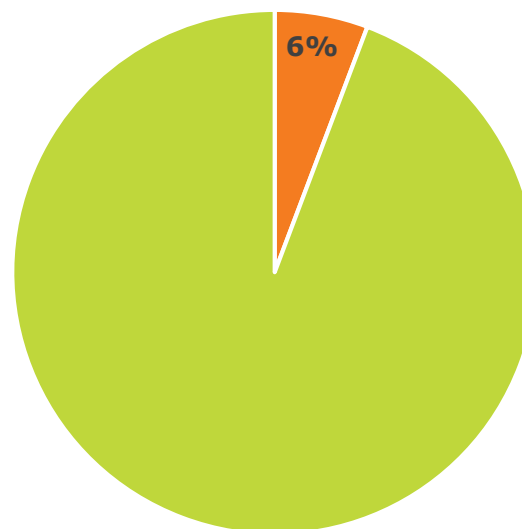
EBITDA (PLN m)

Stable share of the Distribution Business Line in the Group's results



EBITDA share from coal in the Group's EBITDA

Low share of EBITDA obtained from coal burning installations



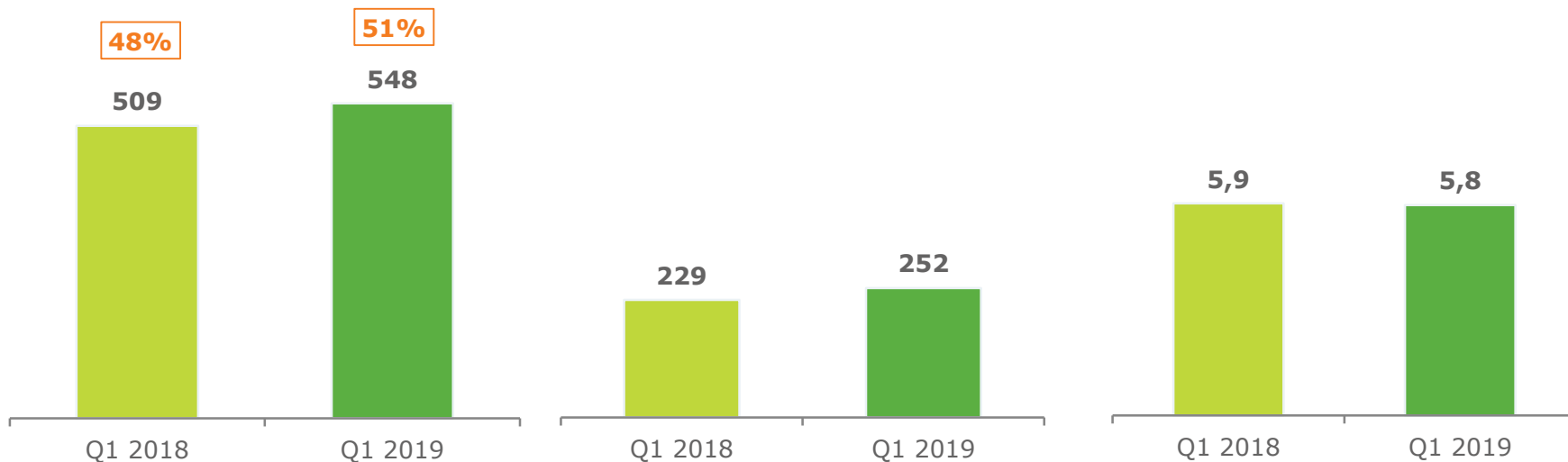
Key Distribution Bussines Line

EBITDA (PLN m)

Net profit (PLN m)

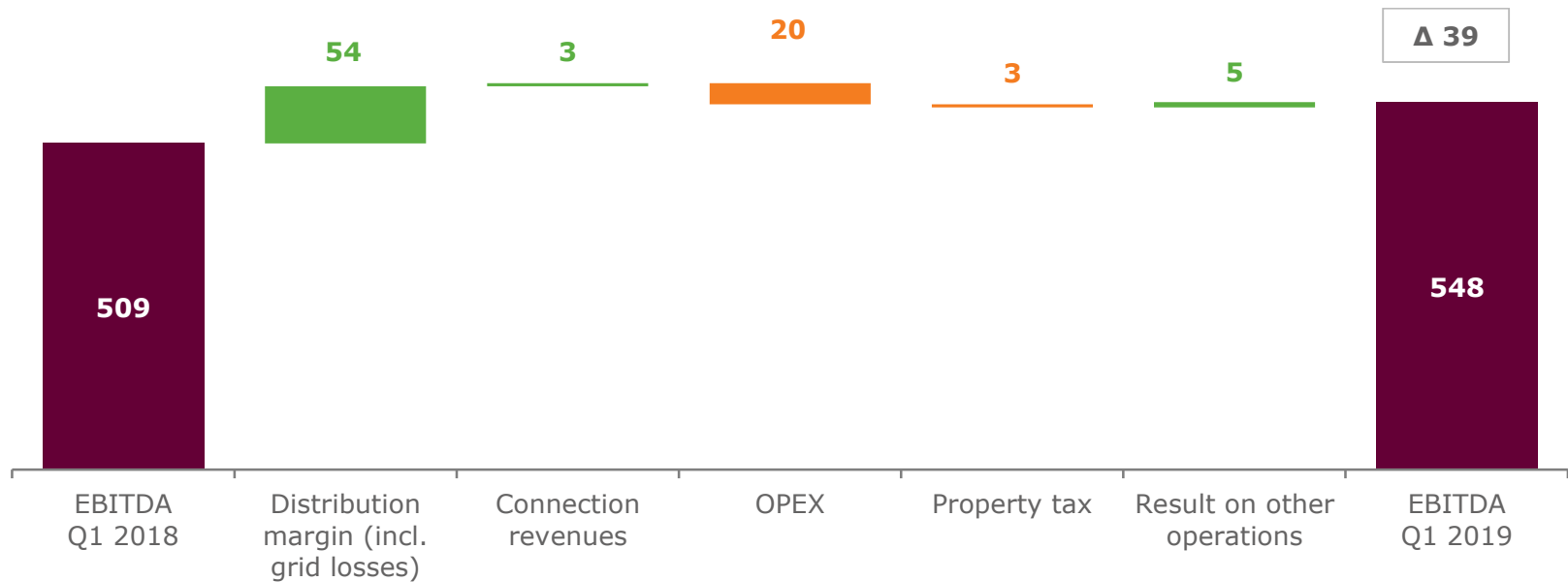
Distribution of electricity (TWh)

□ EBITDA margin



Distribution EBITDA

EBITDA bridge of the Distribution Business Line Q1 (m PLN)



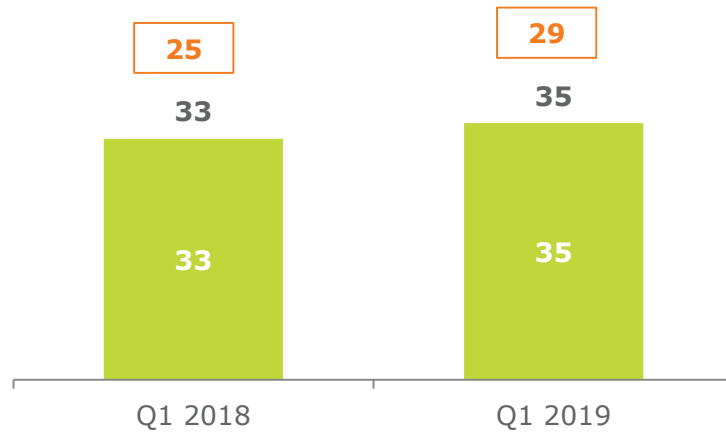
- Improved distribution margin as a result of a favourable valuation of unbilled energy losses at a higher purchase price (which brought down the overall cost of network losses for the period)
- Increase in OPEX (e.g. employee benefits, third party services and impairment charges)

Reliability indices

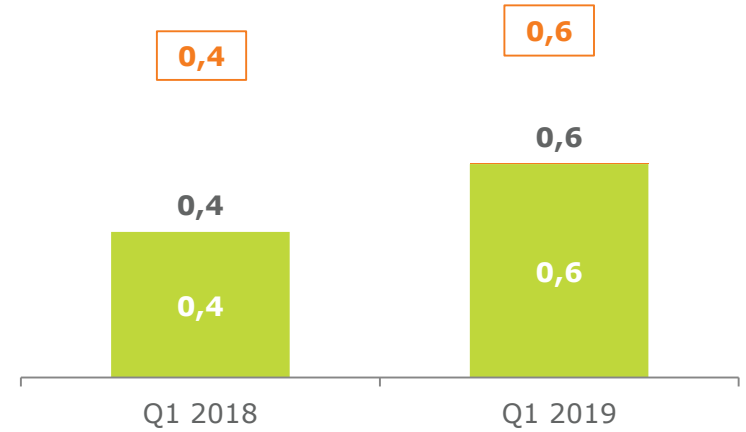
SAIDI (minutes per customers)

SAIFI (interruptions per customers)

SAIDI (planned, unplanned and catastrophic)



SAIFI (planned, unplanned and catastrophic)



■ without mass interruptions ■ mass interruptions

□ - SAIDI/SAIFI without mass interruptions- WN i SN

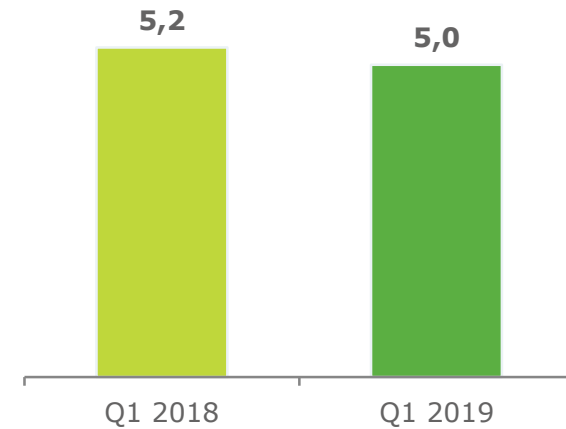
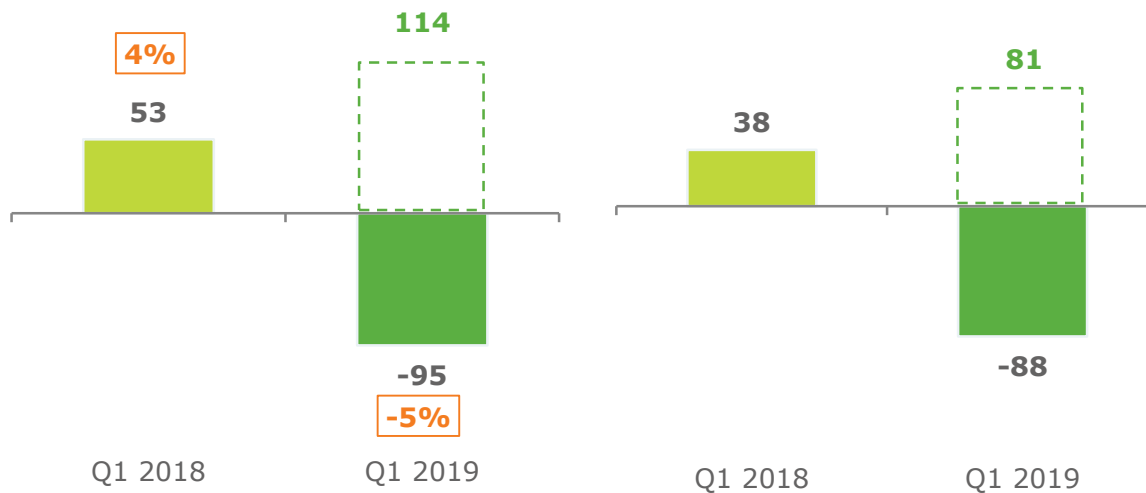
Results of the Sale Business Line

EBITDA (PLN m)

Net profit (PLN m)

Retail sales of electricity (TWh)

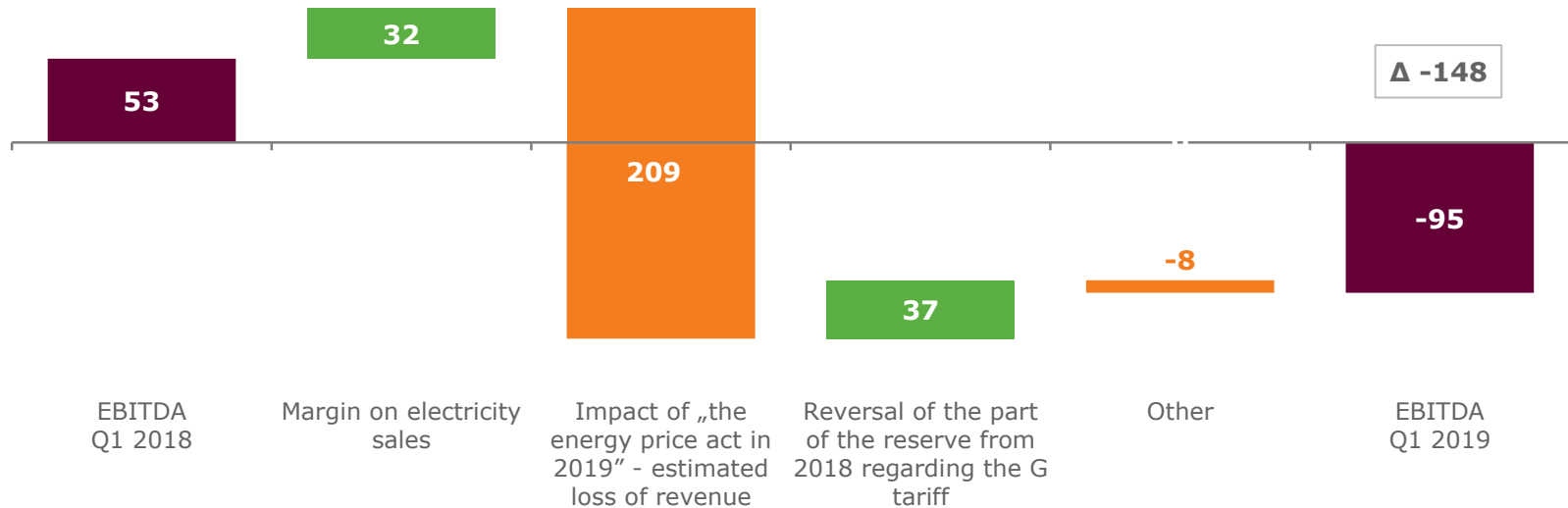
□ - EBITDA margin



□ EBITDA and net result excluding the negative impact of the law on "energy prices in 2019"

EBITDA of the Sales Business Line

EBITDA Bridge of the Sales Business Line 1Q (PLN m)

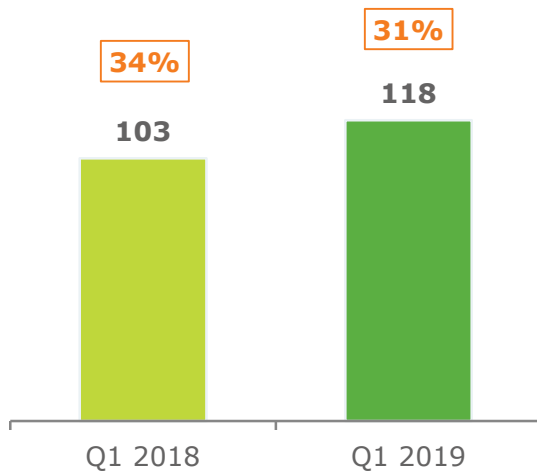


- The negative impact of the „Act on energy prices in 2019” - the loss of revenues as a result of the absence of implementing regulations to the Act, customers were invoiced at reduced prices while electricity was purchased at higher costs.
- A portion of the 2018 provision for onerous tariff G contracts for an amount of PLN 37 million was released.

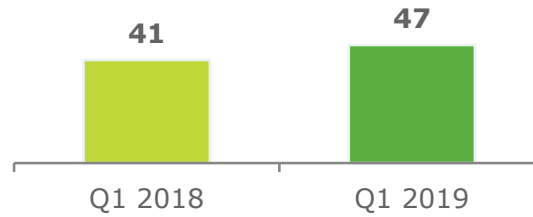
Results of Generation Bussines Line

EBITDA (PLN m)

□ - EBITDA margin

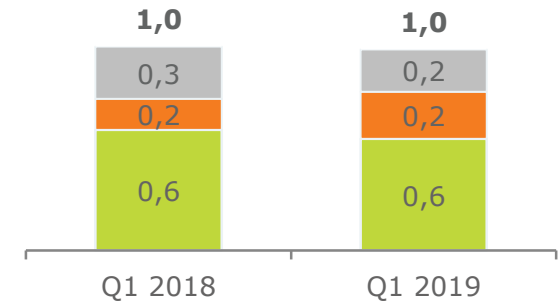


Net profit (PLN m)



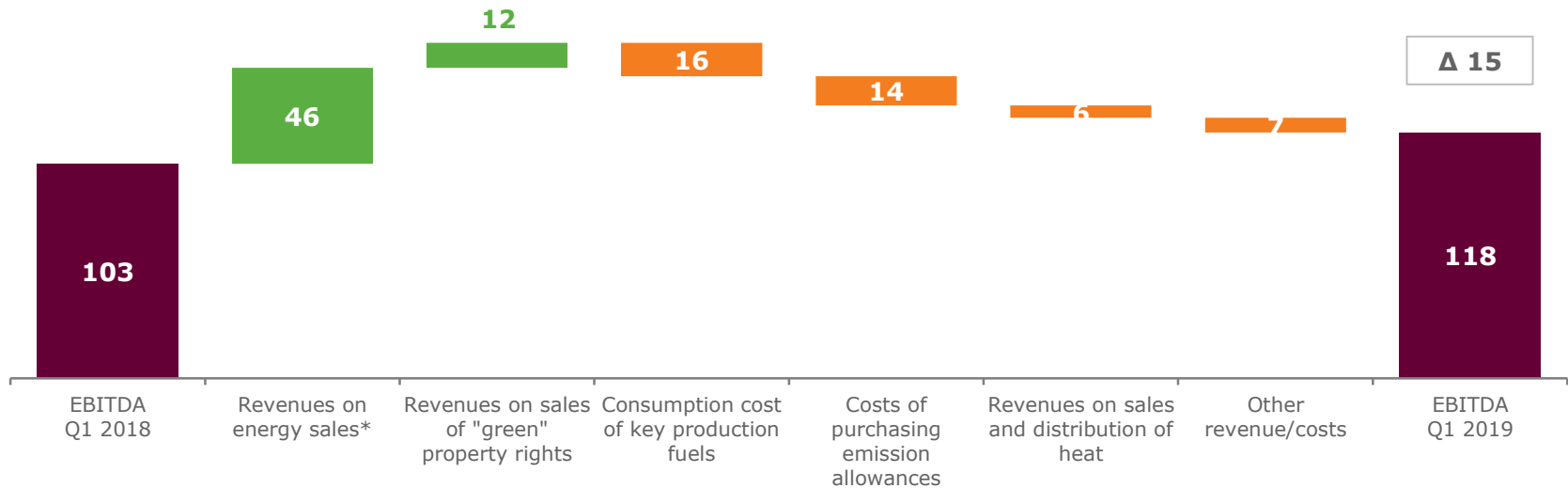
Production of electricity (TWh)

■ RES without support
 ■ RES with support
 ■ Others



EBITDA of the Generation Business Line

EBITDA Bridge of the Generation Business Line 1Q (PLN m)



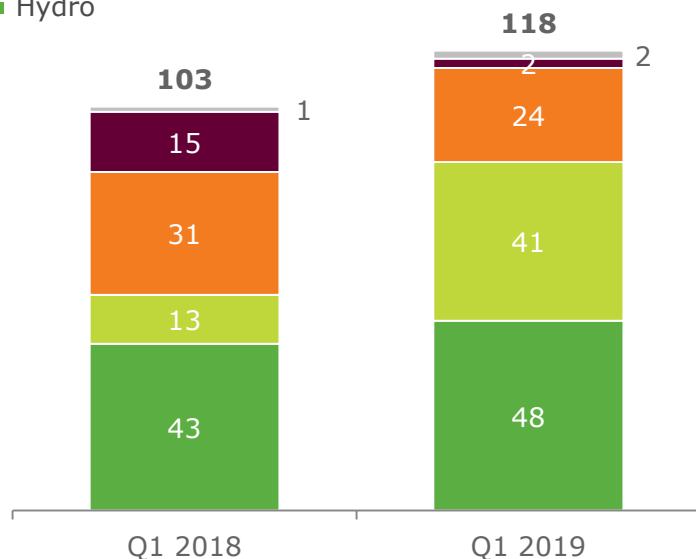
* includes net electricity trading (revenue less cost)

- Positive effect on the results of higher market prices of electricity and property rights, strengthened by the increase in RES production
- The increase in fuel costs and emission allowances as a consequence of higher market prices
- Unfavorable influence of high temperatures on heat production

Production by main types of sources

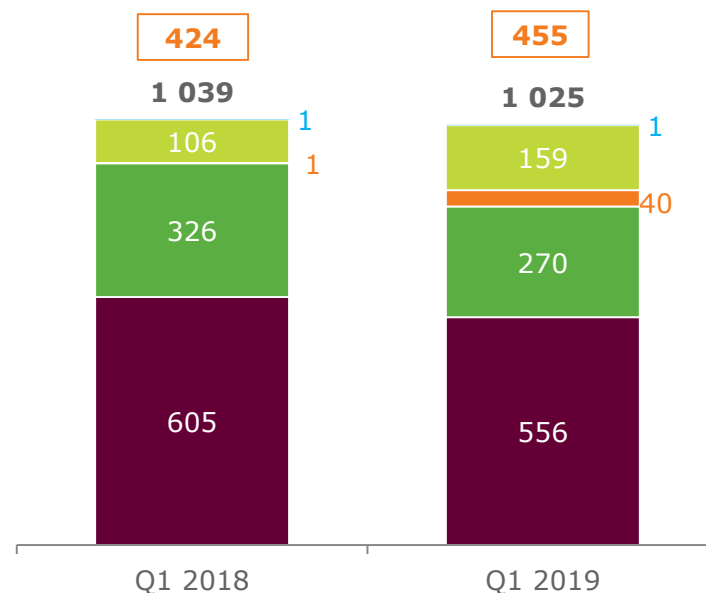
EBITDA of the Generation Business Line, by Power Division (PLN m)

- Others & adjustments*
- CHP
- Energa Elektrownia Ostrołęka
- Wind
- Hydro



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 369 m of capital expenditures made in Q1 2019

The Energa Group's total capital expenditures in Q1 2019 were **PLN 369 m**

Major investments in the Distribution Business Line :

1. **PLN 129 m** grid development to facilitate connection of new customers
2. **PLN 153 m** distribution network modernization to improve reliability of supply
3. **PLN 3 m** other expenditures for innovative grid technologies and solutions (Smart Grid)

contributed to :

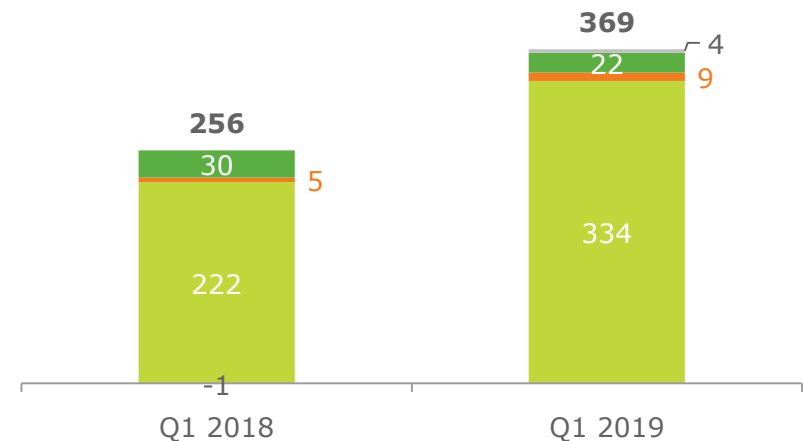
- a. **12.4 ths.** - new customer connections
- b. **1,045 km** - built and modernized LV, MV and HV lines
- c. **24 MW** - new RES connections to the network

Major investments in the Generation Business Line (re. Power Plant B in Ostrołęka):

- a. **PLN 5 m** Nox reduction installation
- b. **PLN 4 m** construction of IOS II (flue gas desulphurization)

PLN m

- Distribution
- Sales
- Generation
- Others & adjustments



2019 expected to be strongly impacted by market and regulatory drivers

DISTRIBUTION

- Increase in Regulatory Asset Value to PLN 12.6 bn in the 2019 tariff
- WACC unchanged yoy (6.015%)
- Late entry into force of the electricity distribution tariff for 2019 (starting from 6 April)

GENERATION

RES

- high selling prices for energy and green certificates
- potentially better hydro-meteorological and wind conditions

Ostrołęka Power Plant

- PSE continues to manage the generating units on a must-run basis
- margin on the sales of electricity at the same level

SALES

- Operational implementation of the Act of 28 December 2018 Amending the Act on Excise Duty and Certain Other Acts (the Act on energy prices in 2019)
- Retail sales volume unchanged
- Disputes around CPAs continue
- Fixed cost optimisation

Environmental protection



High share of RES in electricity generation¹

44%



New RES connections

59.2 MW including microgeneration installations totalling 33.2 MW



Lower dust emissions into the air

NO_x and SO_x emissions cut down by 9% in 2015-2018



Environmental protection spending

PLN 375 m



Generating installations adjusted to BAT requirements

Ostrołęka Power Plant:

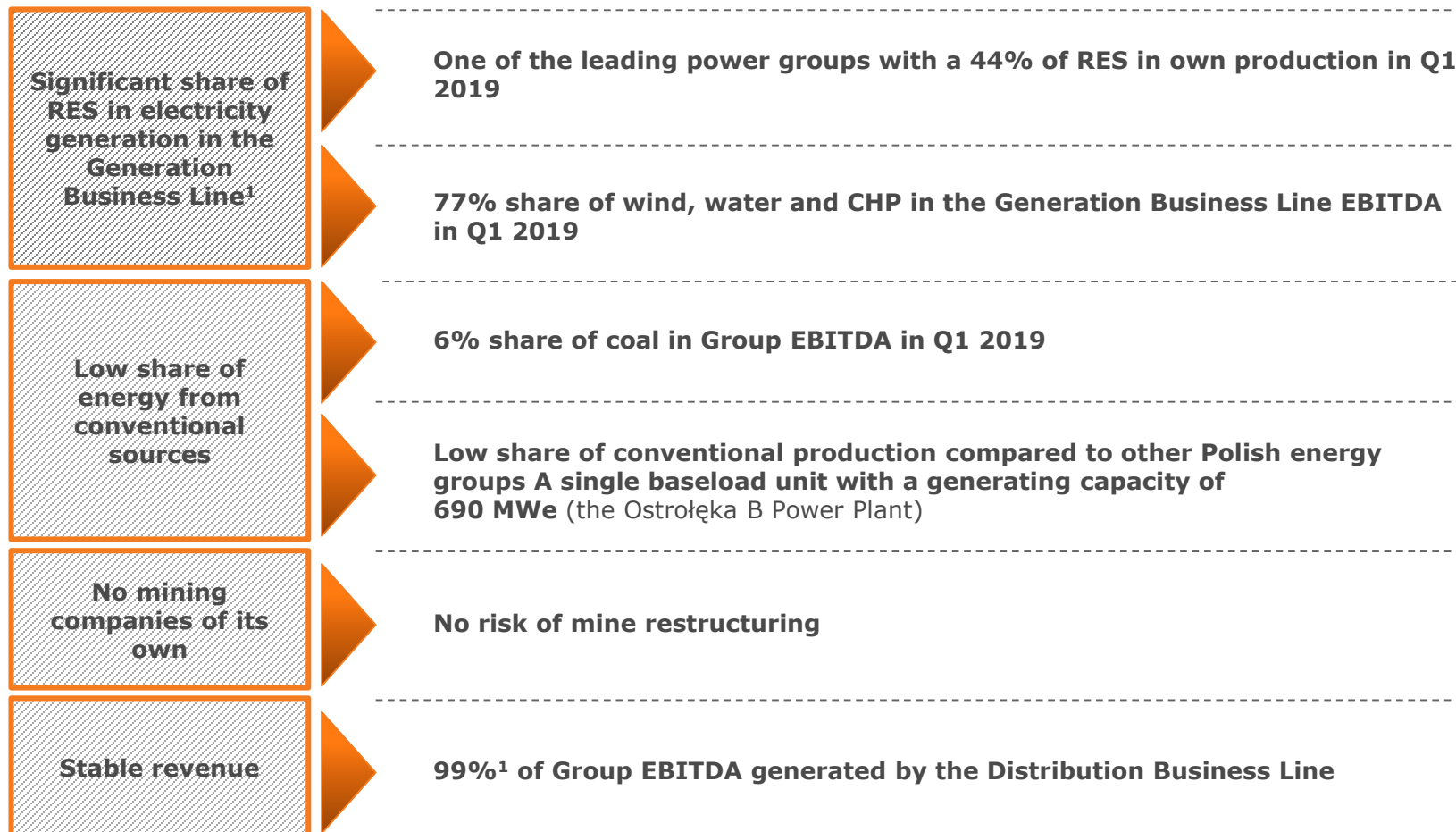
- ESP upgrades for units 1, 2 and 3²
- Flue gas denitrification system completed³
- Construction of a second flue gas desulphurisation system
- **Eiśląg CHF Plant:** A plan to build a flue gas treatment plant

Generation Business Line: work progress of investment projects

Project	Capacity (MW)	Work progress (%)	Planned implementation (year)
Construction of IOS II at the Ostrołęka B Power Plant			2020
Przykona Wind Farm construction	30		2020
Energy storage facility at the Bystra Wind Farm	6		2020
Optimisation EC Elbląg/adaptation to environmental requirements			2021
Optimisation EC Kalisz/adaptation to environmental requirements			2022
Ostrołęka C Power Plant Construction	1000		2023
Gas-fired power plant – Grudziądz construction	~600		2023-2024
Gas-fired power plant - Gdańsk construction	~456		2025-2026

Commitment according to realized expenditures

Competitive advantages



1Q 2019 Financial Results of Energa Group



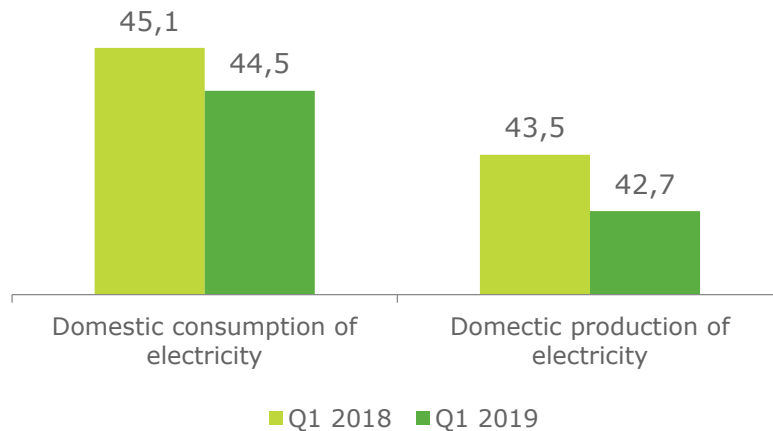
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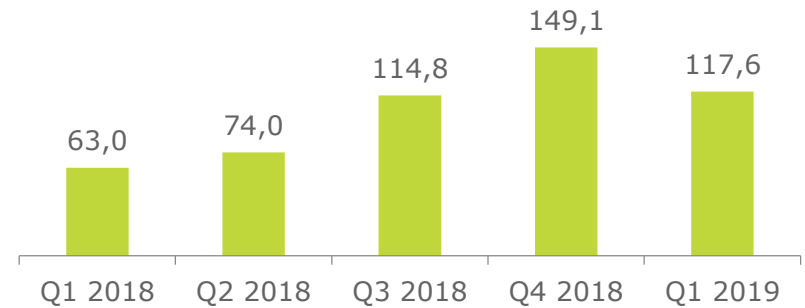
Additional information

Market data

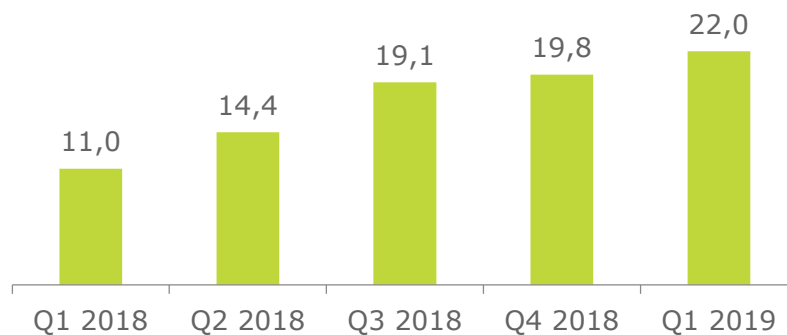
Domestic consumption and production of electricity (TWh)



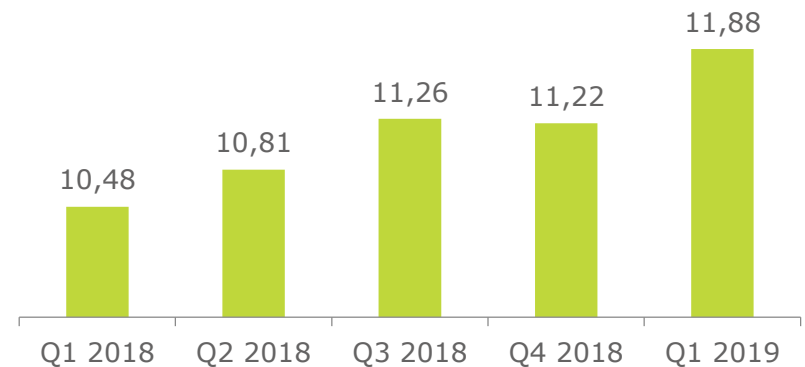
Green certificates prices (PMOZE_A PLN/MWh)



Prices of emission allowances (Euro/t)

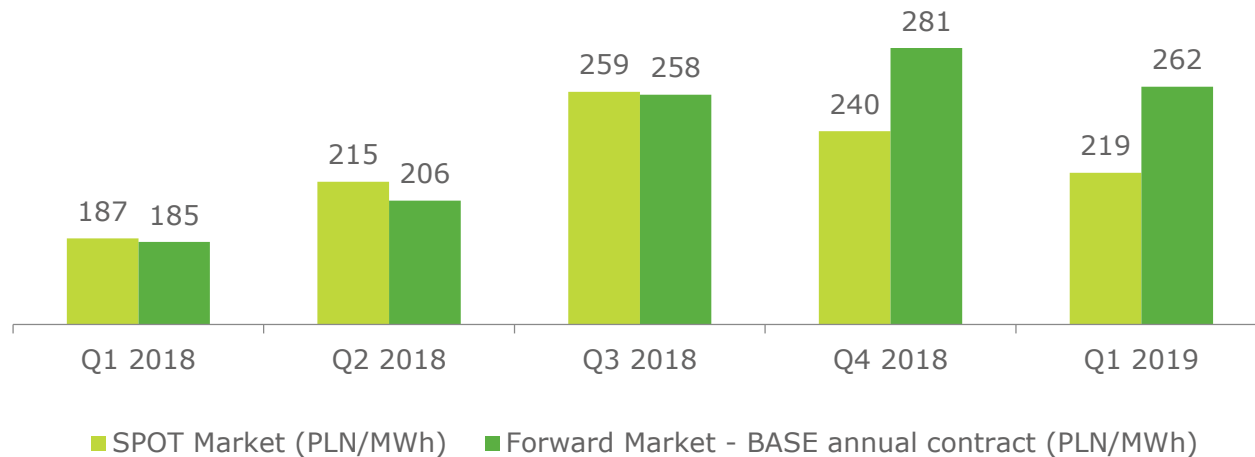


Coal sales prices (PSCMI PLN/GJ)



Further increase in energy prices in Q1 2019

Prices of energy in the SPOT and forward market



The dynamic increase of prices of emission allowances and coal directly influenced on the SPOT and forward market

Energa Group's key assets

Distribution

1. 188 thous. km of power lines
2. 5,8 TWh - electricity delivered in Q1 2019
3. Geographical coverage of 75 thous. km²

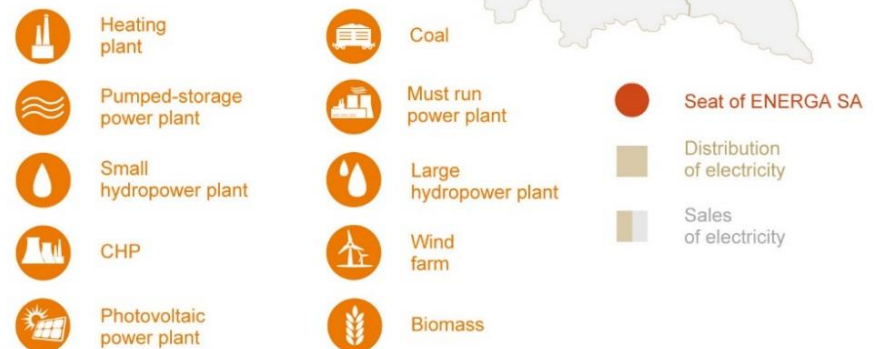
Generation*

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 Gdansk (1.6 MWe) and in Czernikowo (3.8 MWe)
4. System power plant in Ostrołęka B (690 MWe, 220 MWt)
5. Other CHP plants (82 MW, 443 MWt)

Sales

1. 3.05 million customers
2. 5.0 TWh – electricity sold in Q1 2019

* Installed capacity



Summary of 1Q 2019

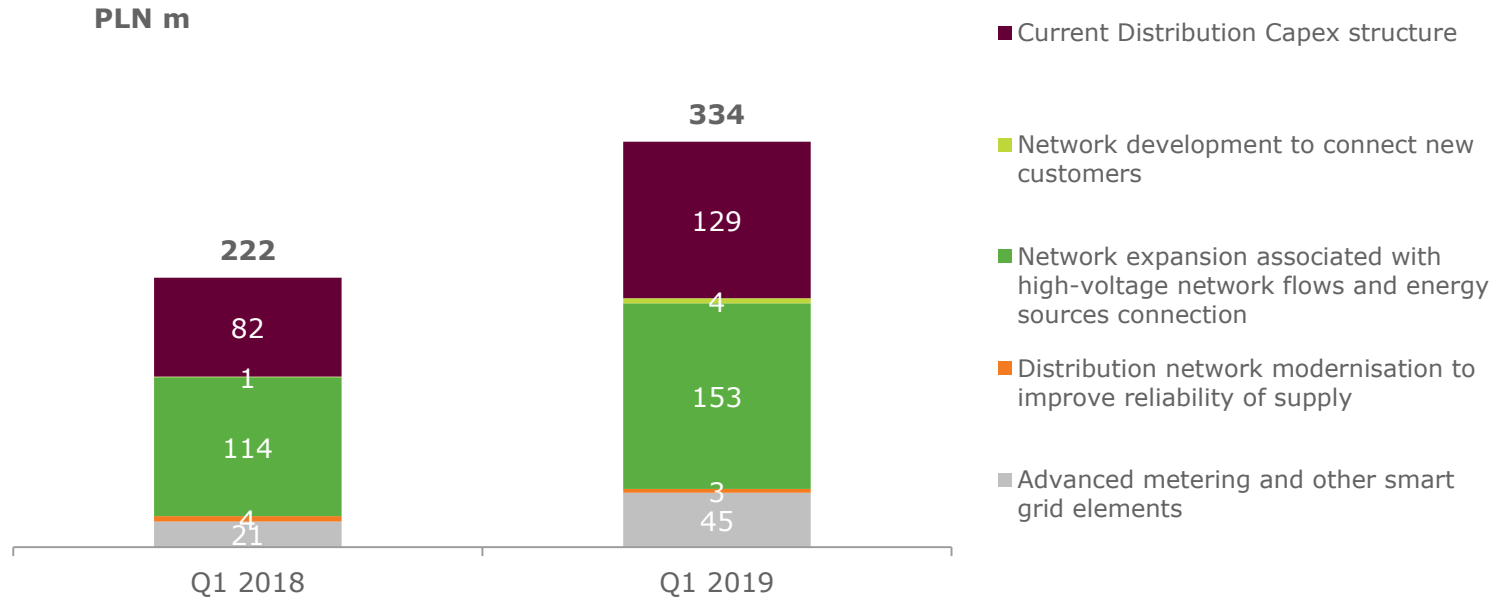
PLN m	Distribution			Sales			Generation		
	Q1 2018	Q1 2019	Change (%)	Q1 2018	Q1 2019	Change (%)	Q1 2018	Q1 2019	Change (%)
Revenues	1 067	1 074	1%	1 423	1 732	22%	304	378	24%
EBITDA	509	548	8%	53	-95	<-100%	103	118	15%
<i>EBITDA margin</i>	<i>47,7%</i>	<i>51,0%</i>	<i>Δ 3,3 p.p.</i>	<i>3,7%</i>	<i>-5,5%</i>	<i>Δ -9,2 p.p.</i>	<i>33,9%</i>	<i>31,2%</i>	<i>Δ -2,7 p.p.</i>
EBIT	321	346	8%	43	-107	<-100%	63	72	14%
Net profit/loss	229	252	10%	38	-88	<-100%	41	47	15%
<i>Net profit/loss margin</i>	<i>21,5%</i>	<i>23,5%</i>	<i>Δ 2 p.p.</i>	<i>2,7%</i>	<i>-5,1%</i>	<i>Δ -7,8 p.p.</i>	<i>13,5%</i>	<i>12,4%</i>	<i>Δ -1,1 p.p.</i>
CAPEX	222	334	50%	5	9	80%	30	22	-27%

PLN m	Generation business line, including:											
	Hydro			Wind			Energa Elektrownia Ostrołęka			CHP		
	Q1 2018	Q1 2019	Change (%)	Q1 2018	Q1 2019	Change (%)	Q1 2018	Q1 2019	Change (%)	Q1 2018	Q1 2019	Change (%)
Revenues	67	73	8%	24	50	>100%	149	189	26%	63	66	5%
EBITDA	43	48	14%	13	41	>100%	31	24	-23%	15	2	-85%
<i>EBITDA margin</i>	<i>64,2%</i>	<i>65,8%</i>	<i>Δ 1,6 p.p.</i>	<i>54,2%</i>	<i>82,0%</i>	<i>Δ 27,8 p.p.</i>	<i>20,8%</i>	<i>12,7%</i>	<i>Δ -8,1 p.p.</i>	<i>23,8%</i>	<i>3,0%</i>	<i>Δ -20,8 p.p.</i>
EBIT	34	40	17%	4	27	>100%	15	8	-47%	7	-6	-184%
CAPEX	1	2	83%	0	0	-	17	15	-9%	10	2	-81%

Structure of cost by nature – Energa Group

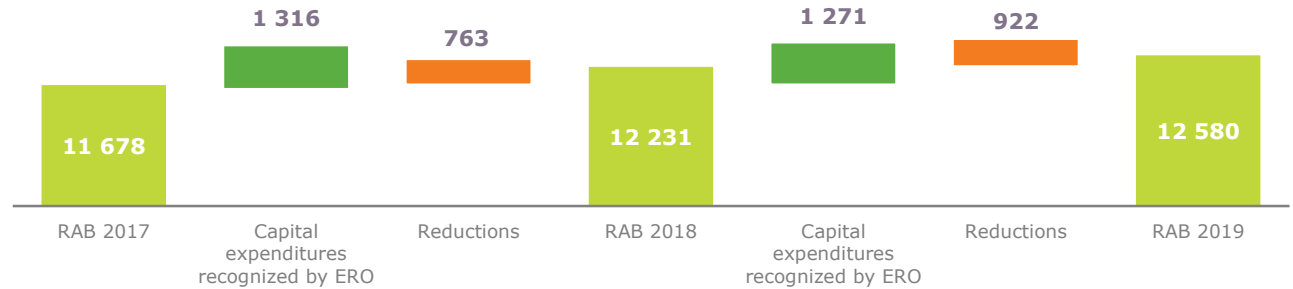
Operating expenses (PLN m)	Q1 2018	Q1 2019
Depreciation of property, plant and equipment, intangible assets and investment property	238	265
Materials and energy used	174	138
incl. fuel used for balance difference	53	-4
inc. fuel used (with transport)	84	100
External services	296	310
incl. transmission and transit fees	188	189
Taxes and fees	126	138
Employee benefits expenses	261	298
Impairment	17	16
Other expenses	-10	-26
Value of merchandise and raw materials	1 145	1 583
Total operating expenses	2 247	2 722

Current Distribution Capex structure



Regulatory asset base

RAB



Return on RAB

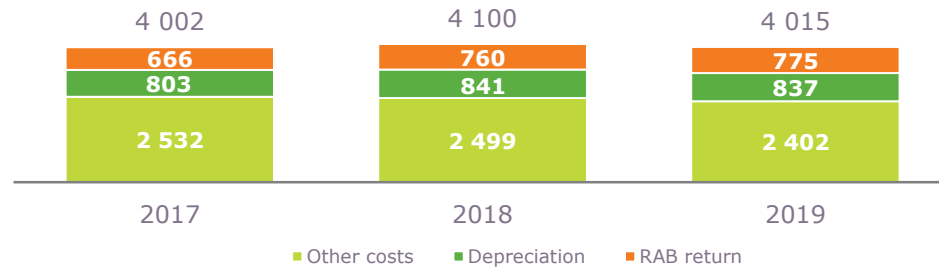
"standard"

included in tariff

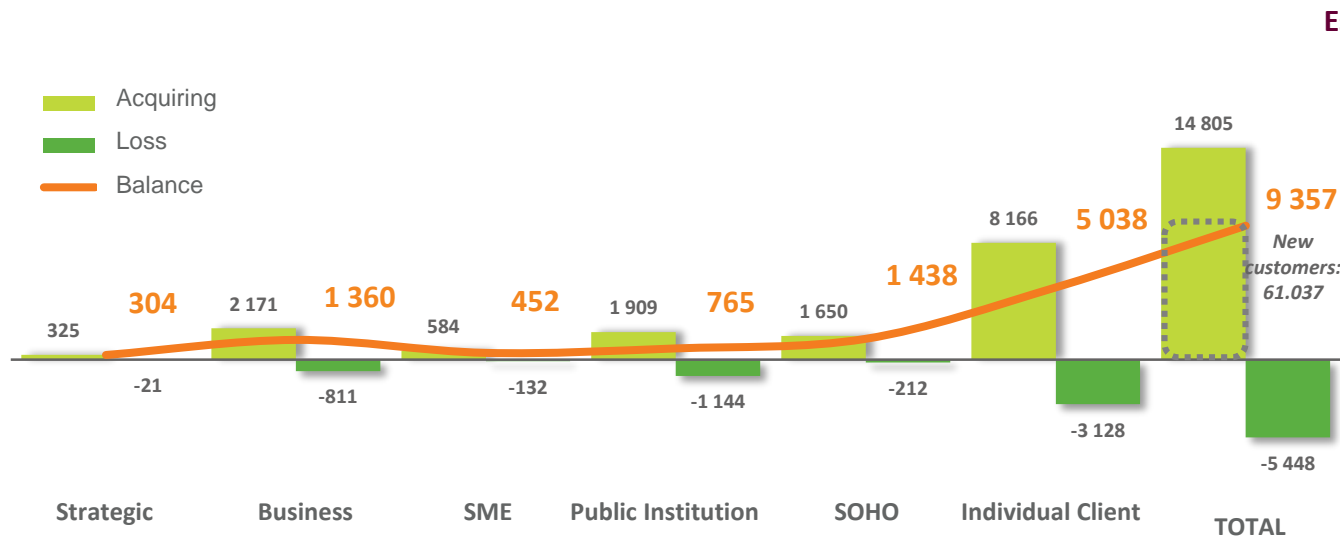
Effective return on RAB

	2017	2018	2019
WACC	5,63%	6,02%	6,02%
risk free rate	2,91	3,26	3,26
Q (Quality coefficient)	-	1,00	1,00
WR (Regulatory coefficient)	0,99	1,01	1,00
Return on capital based on RAB	673	752	775
Allowed return on capital	666	760	775
Effective return on RAB	5,71%	6,21%	6,16%

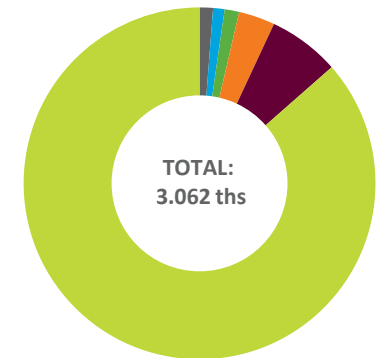
Regulated revenue



Balance of PPE acquisitions and losses for the period of 1 January 2019 to 31 March 2019 according to the declared start/end date of sale after 1 January 2019



Estimated power supply points (PPE) as at 30 March 2019

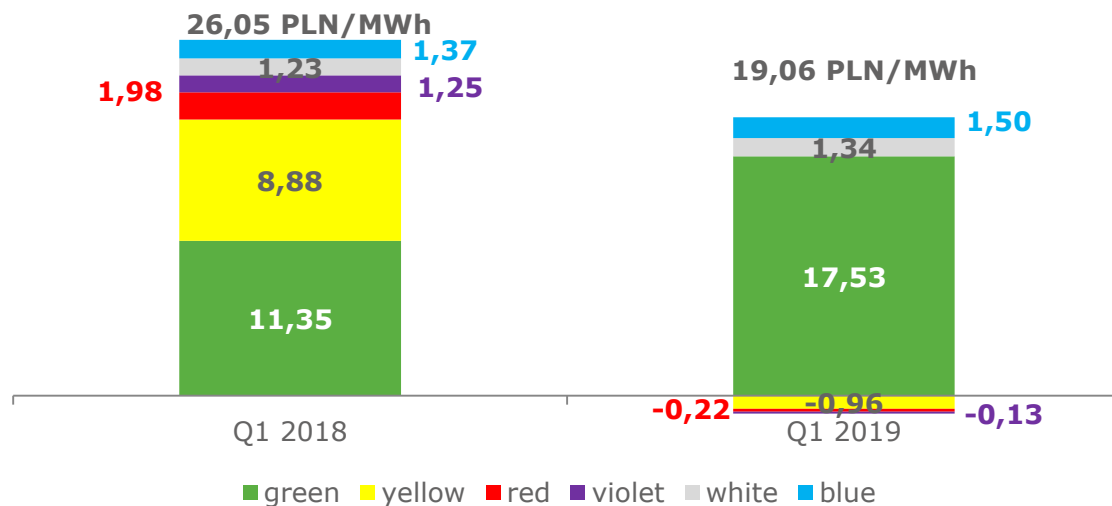


Strategic | 34.2 ths
 Business | 38.6 ths
 SME | 39.7 ths
 Public Institutions | 108.0 ths
 SOHO | 202.1 ths
 Retail customers | 2 639.9 ths

Source: BINOCLE Analytics based on data from the nTPA vendor change application, IZZ EOP and CRM SRS notifications.

Key operating data of the Sales Business Line

Cost of property rights redemption per 1 MWh and its structure in Sales Business Line



	Q1 2018	Q1 2019	Change (%)
Electricity sales by Sales Business Line (GWh)	6 218	6 590	6%
<i>incl. retail sales</i>	5 244	4 968	-5%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	176,4	245,2	39%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	197,7	259,1	31%
Variable margin**	8,0%	-3,8%	Δ -11,9 p.p.

* From 2019, there is no obligation to redemption of yellow, red and purple certificates. Negative values in the first quarter of 2019 are related to the final settlement for 2018.

** The 1st degree variable margin calculated as the product of the result and revenues from the sale of electricity

Key operating data of the Generation Business Line

Consumption of fuels	Q1 2018	Q1 2019	Change	Change (%)
Coal				
Quantity (000s tons)	316,6	279,8	-36,8	-12%
Cost* (PLN m)	82,4	80,6	-1,8	-2%
Cost per unit (PLN/ton)	260,3	288,2	27,9	11%
Cost per unit (PLN/MWh)**	78,0	85,5	7,5	10%
Biomass				
Quantity (000s tons)	0,9	31,7	30,8	3593%
Cost* (PLN m)	0,3	18,5	18,2	6275%
Cost per unit (PLN/ton)	337,8	583,3	245,4	73%
Cost per unit (PLN/MWh)**	163,4	290,9	127,4	78%

* Including cost of transport

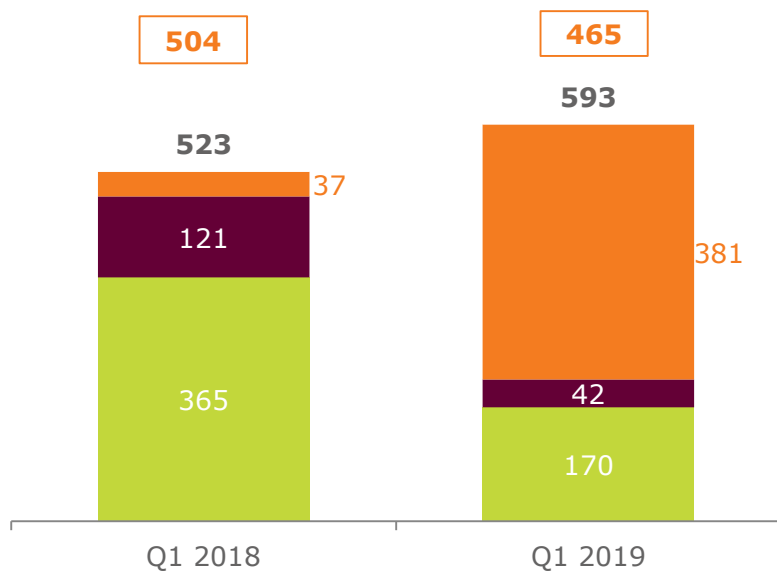
** In relation to the total production of electricity and heat

CO2 emission allowances	Q1 2018	Q1 2019
CO2 emission allowances (thous. tons CO2), incl.:	649	574
The amount of free CO2 emission allowances	180	143
Volume of emission allowances purchased	469	431
Cost of CO2 purchase (PLN m)	27,5	41,3

Key operating data of ENERGA Elektrownie Ostrołęka

Sales structure (GWh)

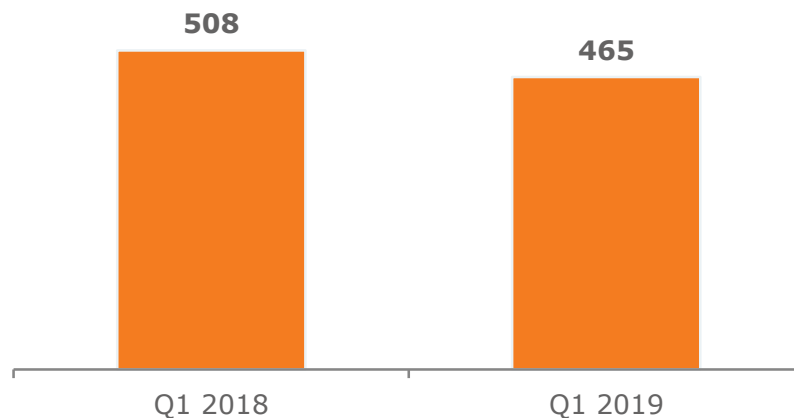
- Own net production
- Other electricity sales
- Other sales to PSE
- Sales to PSE in must-run



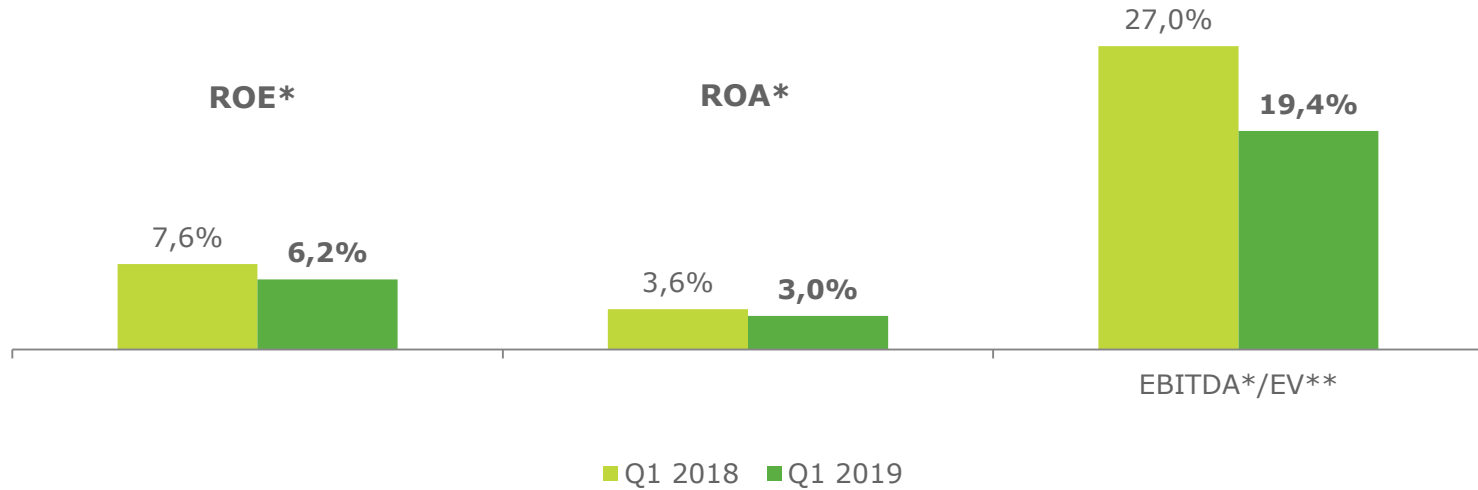
Fuels consumption volumes and costs in Q1 2019

	unit	Coal
Total consumption	(000s tons)	223,2
Consumption cost per unit	(PLN/ton)	281,4
Total fuel cost	(PLN m)	62,8

Gross heat production (TJ)

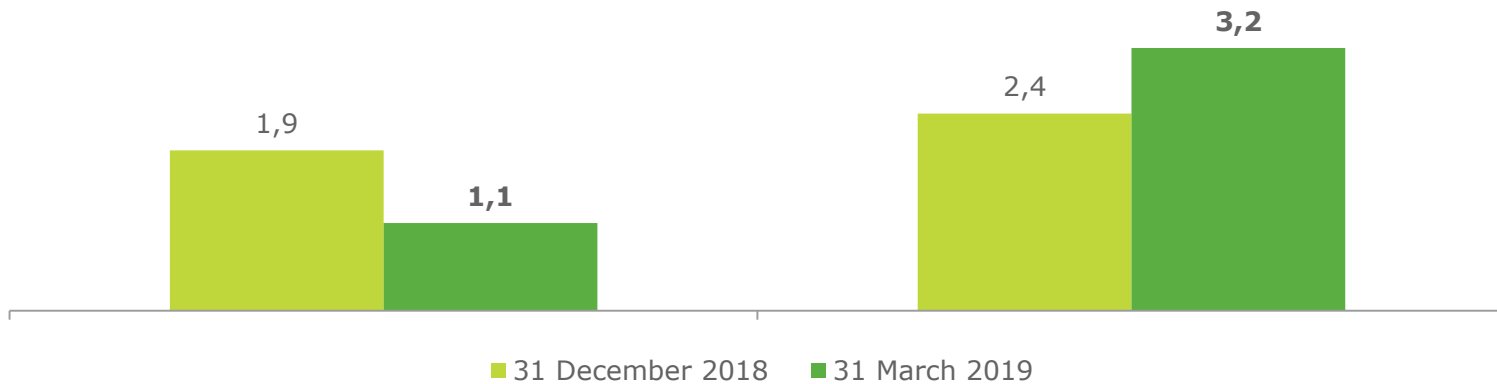


Profitability and liquidity ratios



Current Ratio

Net debt/EBITDA*



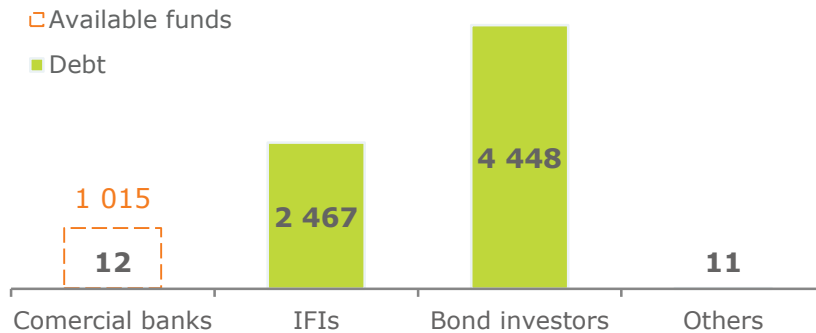
* net profit and EBITDA for last 12 months

**market value + net debt

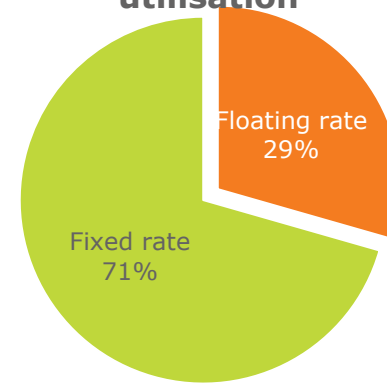
Energa Group's average cost of debt

Structure of financing as at 31 March 2019

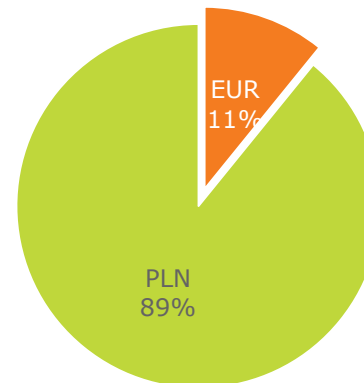
Debt utilisation (PLN m)



Interest rate convention of the debt utilisation

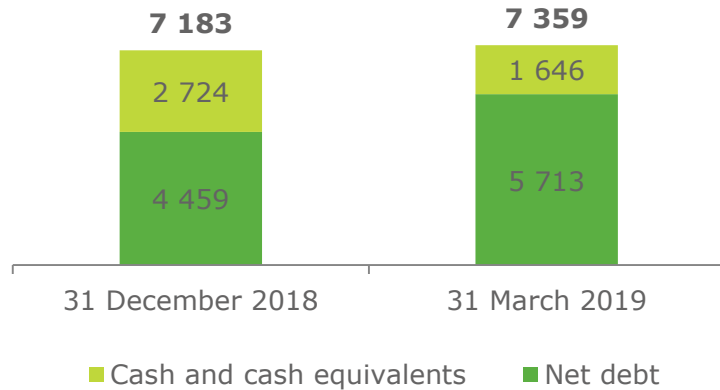


Currency of the debt utilisation

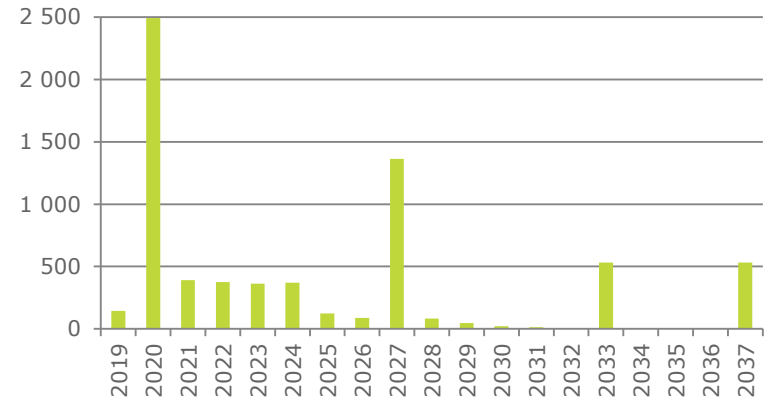


Financial security

Debt (PLN m)



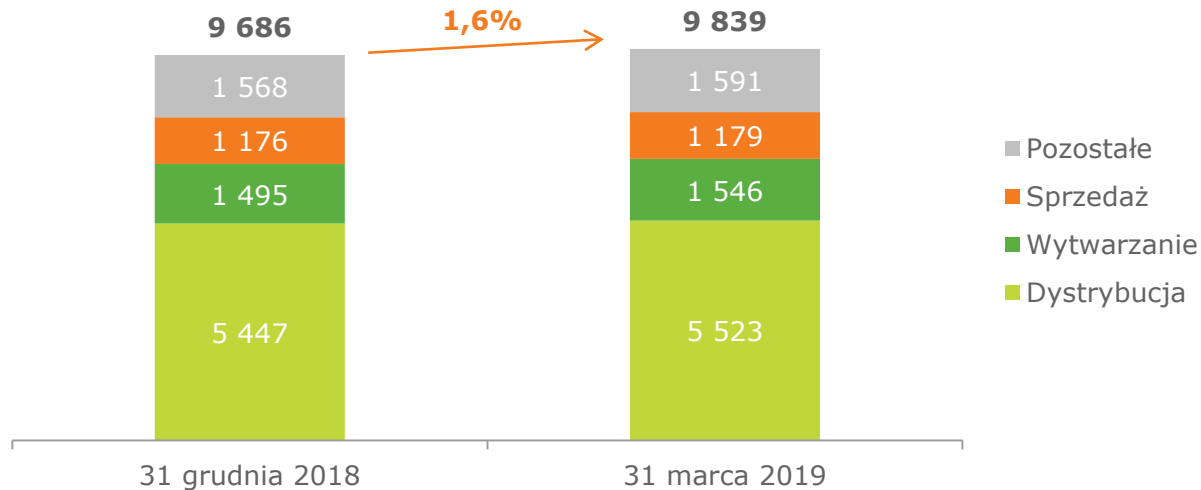
Debt maturities (PLN m)



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

Employment in the Energa Group

Headcount at the end of the period



Main employment growth drivers:

- Measures to close competence and generation gaps affecting electricians, engineers and technical staff in Distribution and Generation Business Lines
- Hiring of temporary staff in ENERGA Elektrownie Ostrołęka SA in connection with the construction of the second flue gas desulphurisation system and repair and upgrading works.

Investor relations team and calendar

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CALENDAR

14 March 2019	Annual Report 2018
30 May 2019	First Quarter Report 2019
7 August 2019	Semi-annual Report 2019
6 November 2019	Third Quarter Report 2019



2015 Constituent
MSCI Global
Sustainability Indexes



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