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Press release

Polenergia still optimizes costs and reaches PLN 710 million in sales revenues

Polenergia S.A. ('Polenergia'), the largest Polish private and vertically integrated energy group, presented its consolidated profit and loss account for the first quarter of 2017. Its sales revenues amounted to nearly PLN 710 million, adjusted EBITDA – over PLN 42 million, and adjusted net profit – nearly PLN 3 million.

- **PLN 710 million in sales revenues in the first quarter of 2017;**
- **PLN 42.5 million of adjusted EBITDA in the first quarter of 2017;**
- **PLN 2.9 million of adjusted net profit in the first quarter of 2017;**
- **30.4 percent of adjusted EBITDA margin in the first quarter of 2017 (trading activity excluded);**
- **The Group's vertically integrated profile enables it to partially offset the apparent results of confusion in the onshore wind farm market;**
- **Operating costs lower by PLN 4 million, including PLN 2 million for cost optimization;**
- **Second environmental decision for the construction of the Baltic Sea wind farm with the capacity of 600 MW;**
- **Signing of a memorandum with Convergent Energy + Power for the development of highly efficient and cost-effective energy storage facilities in Europe;**

In the first quarter of 2017 Polenergia achieved the adjusted EBITDA at the level of PLN 42.5 million. It was mainly due to the results of wind energy (PLN 20.5 million), conventional energy (PLN 18.8 million), distribution segment (PLN 4.3 million), trading segment (PLN 0.8 million) and biomass segment (PLN 0.3 million). After eliminating of the impact of the one-off factors last year as well as negative regulatory changes being beyond the Company's control but involving e.g. a significant fall of green certificate prices, the results of most of Polenergia's operating segments were similar to or exceeded the results in the first quarter of 2016. It was achieved by cost savings in service in the wind farm segment which neutralized lower productivity in the first quarter of 2017 as well as by increased volumes of electricity and heat generation in the conventional energy segment, an increase of sales in the distribution segment, and an increase of volume of wholesale trade and development of the gas trading segment.

The lower turnover and EBITDA compared to the first quarter of 2016 is caused mainly by a fall of prices of green certificates to the lowest level ever, that is only PLN 27 per MWh. Their average price in the first quarter of 2017 was PLN 35 per MWh, while in the first quarter of 2016 it was PLN

114.5 per MWh. The beginning of this year was also marked by worse wind conditions in the wind farm sector. The average yield for the whole sector in Poland in the first quarter of 2017 was 29.3 percent. Polenergia, however, once again significantly exceeded the entire wind industry productivity, reaching 32.6 percent.

The company has been implementing a program of savings, which resulted in a reduction of remuneration costs throughout 2016 by PLN 9.1 million, and in 2017 – by further PLN 2 million. A renegotiation of service agreements for turbines in wind farms enabled a reduction of operating costs, which effectively encourages further cost reduction in other farms.

As a result of the above-described events, the adjusted EBITDA margin for the first quarter of 2017 was 6.0 percent and it was lower than last year mainly due to the fall of certificate prices that affected the result of the trading and wind segments as well as a one-off effect of higher base in the first quarter of 2016 in the conventional energy and distribution sectors. The EBITDA margin on the adjusted results (trading activity excluded) fell in the analyzed period to 30.4 percent (this segment is characterized by a relatively low unit margin at a very high transaction volume).

„Polenergia’s results confirm the need for its further technological and geographical diversification, so the company continues to work on a new strategy. We strongly prefer offshore wind energy, which is reflected by our getting the second legally binding environmental decision for construction of Polenergia Baltic Sea II wind farm with the capacity of 600 MW. We still confirm the readiness of our 267 MW of wind farms and 31 MW of biomass power plant for auction. Further opportunities for prospective diversification are to be provided to Polenergia by the signed agreement on cooperation with the American Convergent Energy + Power, which is focused on the development in Europe of highly efficient and cost-effective energy storage facilities”, declares Jacek Głowacki, directing the works of the Management Board of Polenergia.

Polenergia continues to work on development of new projects. In March 2017 Polenergia’s Baltic Sea II project obtained the legally binding environmental decision from the Regional Director for Environmental Protection in Gdańsk. It is already the second legally binding environmental decision issued for the company within the last nine months. At present, offshore wind farms are strategic projects implemented by Polenergia, as their 1200 MW capacity is three times bigger than the capacity of the onshore wind farms, the implementation of which has been suspended last year due to the entry into force of the new rules governing the onshore RES sector.

At the end of the first quarter of 2017 Polenergia had the total installed capacity at the level of 369 MW, 245 MW of which was from wind farms, which in turn made the company one of the leaders on the Polish market. The remaining 124 MW came from gas-based cogeneration, giving the Group a 15-percent share in the domestic market of energy generation from natural gas, mainly due to Nowa Sarzyna heat and power plant.

Polenergia – a Polish private group in the power industry with an international reach, which is made up of vertically integrated companies functioning in the area of generation of energy from conventional and renewable sources, as well as electricity distribution and trade. It is one of the strategic assets of an international investment group Kulczyk Investments. Read more: www.polenergia.pl

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