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Press release

## **Polenergia effectively reduces costs in the background of increasing productivity**

**Polenergia S.A. ('Polenergia'), the largest Polish private and vertically integrated energy group, presented a consolidated report for the first half of 2017. Sales revenues amounted to PLN 1.343 billion, adjusted EBITDA over PLN 81 million, and adjusted net profit nearly PLN 5 million.**

- **PLN 1.343 billion of sales revenues in the first half of 2017;**
- **PLN 81.3 million of adjusted EBITDA in the first half of 2017;**
- **PLN 4.8 million of adjusted net profit in the first half of 2017;**
- **30.4 percent of adjusted EBITDA margin in the first half of 2017 (trading activity excluded);**
- **16 percent higher productivity in wind farms;**
- **9 percent lower operating costs per 1 MWh in wind farms, excluding a negative impact of property tax;**
- **PLN 4 million reduction of operating costs in 2017;**
- **24 percent increase of adjusted EBITDA in the second quarter of 2017 y/y;**
- **Two environmental decisions for the construction of offshore wind farms in the Baltic Sea with the capacity of 1200 MW;**
- **Positive regulatory signals in terms of property tax and an increase in 2018 of the obligation to buy green certificates to 17.5 percent.**

In the first two quarters of 2017 Polenergia Group achieved adjusted EBITDA at the level of PLN 81.3 million. It was mainly due to the results of wind energy (PLN 40.5 million), conventional energy (PLN 34.9 million), distribution segment (PLN 8 million), trading segment (PLN 1.7 million) and biomass segment (PLN 0.8 million). The company continues the program of savings which resulted in the operating costs reduction by PLN 4 million this year. The savings at the level of the Main Office as well as the renegotiation of the wind farm turbines maintenance agreements encourage further cost reduction in other farms.

*“Analyzing this year’s results of Polenergia, it is a better windiness effect and a very good level of turbine accessibility that deserve special attention. The wind farm production was bigger by as much*

*as 16 percent compared to last year. Once again the company significantly exceeded the productivity of the entire wind industry. Despite the negative impact of the higher property tax in some wind farms, our facilities still have very low operating costs which in addition were lowered by 9 percent this year. Our optimal-cost base allows us to at least partially offset the persistently low prices of green certificates, which is evident especially in the results of the second quarter”, declares Jacek Głowacki, directing the works of the Management Board of Polenergia.*

The wind energy segment in the first six months of 2017 recorded a decrease of EBITDA compared to the corresponding period of the previous year, which was a result of the lower revenues due to lower prices of green certificates and higher costs associated with property tax, offset by the technical maintenance savings. In the second quarter of 2017 the wind energy segment recorded a 17-percent growth of the results due to the higher volume of production and savings on technical maintenance, whose significant impact was only partly lowered by the fall in green certificate prices and the property tax increase.

The conventional energy segment EBITDA was in line with expectations and lower than last year due to upgrading (in the first quarter of 2016) of forecasts of prices of electrical energy, gas and CO<sub>2</sub> for the years 2016–2020. It resulted in a change of allocation of revenues from stranded costs compensation throughout the compensation period, partially offset by higher revenues from gas cost compensation in 2017 due to the higher gas price.

In the first half of the year the trading segment EBITDA was better than last year. It was the valuation of the certificate portfolio that had a significant impact on the results. The index of certificates fell from PLN 108.60/MWh at the end of December 2015 to the level of PLN 69/MWh at the end of June 2016, whereas in 2017 the price of green certificates fell from PLN 37.76/MWh at the end of December 2016 to PLN 22.46/MWh at the end of June 2017. In absolute terms it means a lower fall of prices and translates to a more visible effect of this reduction in the corresponding period in 2016. The decline in market prices of certificates still negatively influences the gained sales prices and causes overestimation of the status of unsold certificates.

The distribution segment EBITDA in the first half of the year was lower than last year, which was mainly due to the release of the reserve for settlements with the contractor in the first quarter of 2016 as well as the lower margin for electrical energy distribution in 2017. Moreover, the biomass segment EBITDA turned out to be lower than last year due to the continuation of lower pellet volumes and sales prices.

As a result of the above-described events, the adjusted EBITDA margin on a year-to-date basis amounted to 6.1 percent and was lower than the last year one by 2.6 pp. The adjusted EBITDA margin (trading activity excluded – this segment is characterized by a minimum unit margin at a very high volume of transactions – sales revenues constituted 80 percent of the Group revenues in the period of six months of 2017) decreased in the discussed period by 7.3 pp to 30.4 percent.

*„We consider positive some signals coming from the regulator and related to amendments to the laws concerning the RES market. The Distance Act may undergo changes, at the same time restoring the historical legal status of property tax, while the obligation to buy certificates of the RES origin of energy at the level of 17.5 percent in 2018 is a sign of hope for reduction of the oversupply of green certificates. On the other hand, we are afraid of a significant reduction of the substitute fee,*

*which in the future will adversely affect the price increase”, declares Jacek Głowacki, directing the works of the Management Board of Polenergia.*

In parallel with ongoing operations, Polenergia continues working on the development of new projects and strategy. The offshore wind farm projects maintained their value growth potential. Both Baltic Sea II and Baltic Sea III wind farm obtained the legally binding environmental decisions from the Regional Director for Environmental Protection in Gdańsk, and public statements by the government representatives indicate that the Council of Ministers intends to promote offshore wind farms. The signed in the second quarter of 2017 agreement on cooperation with Convergent Energy + Power in the field of energy storage facilities gives Polenergia an opportunity to enter the new, highly promising energy sector both in Poland and in Western Europe.

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**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](http://www.polenergia.pl)

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