POLENERGIA

RENEWABLE ENERGY

CONVENTIONAL ENERGY

DISTRIBUTION


TRADE

# POLENERGIA 1Q 2016 Results

May 12, 2016

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***Please contact PolenergiaIR@polenergia.pl for questions on any content of this presentation***

# 01 New Management and Leadership

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# New Management and Leadership (1/2)

**Supervisory Board entrusted the leadership of the Management Board to Jacek Glowacki who until today was 1st Vice President of the Management Board. The current director of the Corporate Finance Department, Bartłomiej Dujczynski, also joined the Management Board and will be responsible for the finances of the Group.**

## Jacek Głowacki

Jacek Glowacki has over 30 years experience in the power sector. He has held the position of CEO of the first gas fired CHP in Poland, Elektrociepłownia Nowa Sarzyna (ENS). In 2001 he was appointed as the head of business development for Prisma Energy who acquired ENS and, after the take-over of Prisma by Ashmore Energy in 2006, became Ashmore's VP for Central and Eastern Europe.

He joined the Polenergia Group in January 2011 and in June 2011 was appointed as the 1st Vice President of Polenergia Holding S.a.r.l. In January 2013 he was also appointed 1st Vice President of Polenergia SA.

Jacek graduated from the University of Mining and Metallurgy in Kraków, and holds an MBA from Booth Business School, University of Chicago.

## Bartłomiej Dujczynski

Bartłomiej Dujczyński has been connected to the Polenergia Group since 2011. During 2012-2013 he was Management Board member (CFO) of Polenergia SA before the merger with Polish Energy Partners. Since 2013 he has been in charge of the Corporate Finance/Investor Relations department.

He gained his experience across Warsaw and London at PriceWaterhouseCoopers (Corporate Finance), Rothschild & Sons (Utilities investment banking), Oaktree Capital Management (Principal Investing) and Kulczyk Investments (Principal Investing).

Bartłomiej graduated from Kings College, University of London and also holds a diploma from Passau University. He is a Chartered Accountant (ICEAW) and holds an MBA from Booth Business School, University of Chicago.

**Due to the changes in the Management Board of Polenergia S.A. implemented by the Supervisory Board, a streamlined Management has been implemented to continue growth and align to the regulatory surrounding**

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# New Management and Leadership (2/2)

## Michał Michalski – Head of Development

Michał Michalski has been involved with Polenergia since 2012, initially as a Business Development Director and later in charge of new projects and offshore wind. Before joining Polenergia he was an Investment Director at Kulczyk Investments.

Michał graduated from University of Economics in Poznań. He holds a PhD in Economics. Michał also completed the „Executive Studies in Finance" postgraduate program at Warsaw School of Economics.

## Hans Schweickardt – Advisor to the Management Board

Hans Schweickardt has over 40 years' experience in managing international projects in the European power sector including as CEO and Chairman of the Swiss national utility Alpiq, Chairman of the Supervisory Board of Swiss Grid (Swiss System Operator) and senior management positions at ATEL & EOS (two utilities which merged under Hans' leadership to form Alpiq in 2009) and the ABB group, the global power/infrastructure engineering company. Hans is also Vice-chairman of the Supervisory Board of the European Energy Exchange (EEX).

Hans graduated from the Swiss Federal Institute of Technology (ETH) in Zurich and gained post graduate degrees at Stanford University and INSEAD.

**The new leadership will drive through efficient cost optimization, respond positively to the Polish and EU regulatory surroundings, focus on systematic growth using its renewable/conventional vertical profile and respond to the current utility transformational trends and technological innovation**

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# 02 Financial Results

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# Summary of 1Q 2016: vertical profile provides hedge against market challenges

- **Profitability improvement:** in every segment. Overall adjusted EBITDA increased by 33% as compared to 1Q 2015, with margins improving from 35% to 44% (excluding Trading);
- **High productivity:** productivity in 1Q in line with forecast, on average 35%, slightly below 1Q 2015 on existing farms, benefitting from excellent load factors generated by new wind farms Skurpie and Mycielin;
- **369MW capacity installed**: 245,3MW wind farms, 124MW ENS and cogeneration, 36% increase YoY;
- **Market Prices:** electricity prices in a horizontal trend with a small uptake in April. Flat/low GC prices due to continued regulatory uncertainty;
- **Onshore Wind:** low GC prices and effect of PKH breach of long-term agreement offset by good productivity and comissioning of new capacities;
- **Conventional Power**: EBITDA improvement largely due to (one off) effect of annual price projections update and resultant positive stranded cost effect;
- **Trading:** growth driven by increase in volumes and profitability of gas contracts;
- **Distribution:** steady performance, EBITDA influenced positively by reversal of provisions;
- **Offshore:** positive signs from the government for future regulation support;
- **Dividend:** the dividend of PLN 0.5 per share for 2015 announced (payable in July 2016);

- **Despite the difficult regulatory environment, Polenergia was able to increase its adjusted EBITDA by 33% as compared to 1Q 2015;**
- **Regulatory perspectives remain uncertain but we note positive signs;**
- **Polenergia's vertical profile provides evident hedge against regulatory challenges in onshore wind.**

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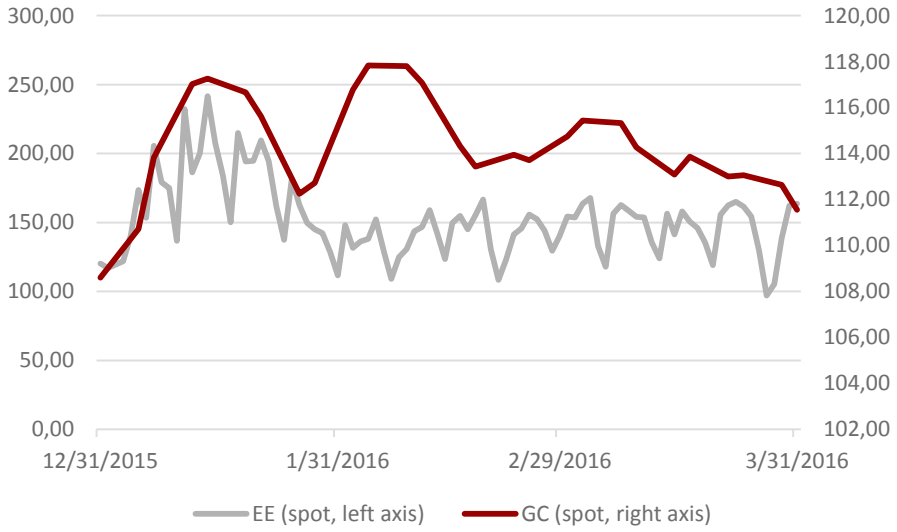
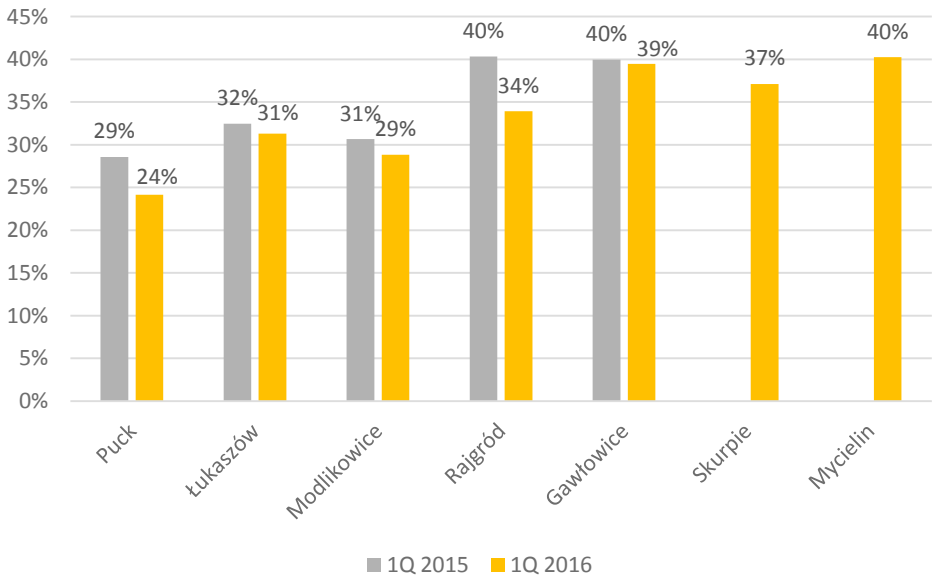
# High productivity partially offset by decline in GC prices

## GC market prices (PLN/MWh)




## Load factors 1Q 2015 versus 1Q 2016




- **In 1Q 2016 prices of GC were low/flat, while electricity prices were flat.**
- **Low prices of GC in 1Q 2016 were partially offset by good productivity: existing wind farms in line with forecast, below 1Q 2015 productivity, new wind farms exhibiting excellent productivity**

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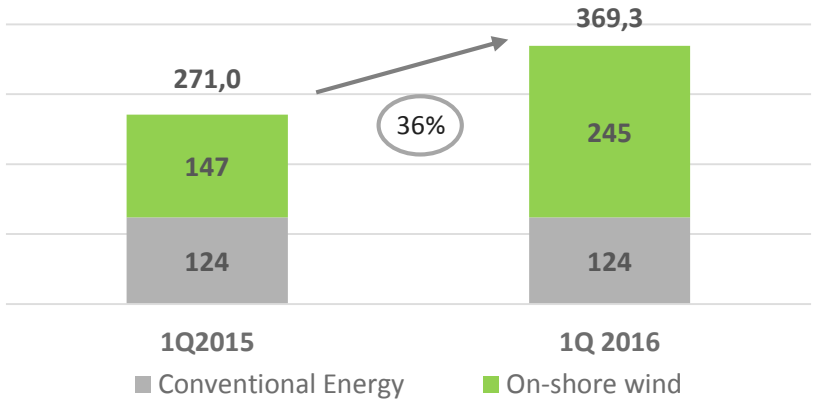
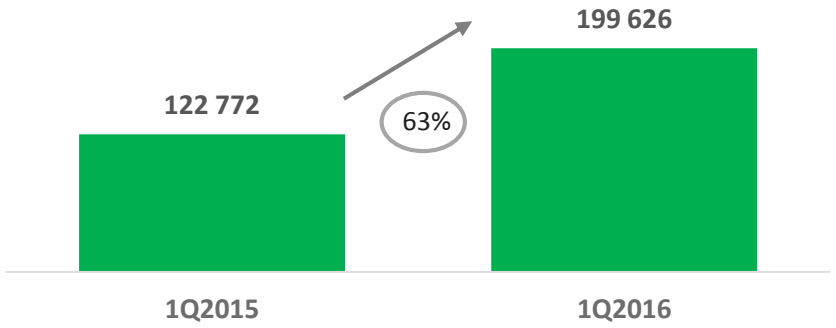
# Q1 2016: earnings and volume growth continued in challenging market

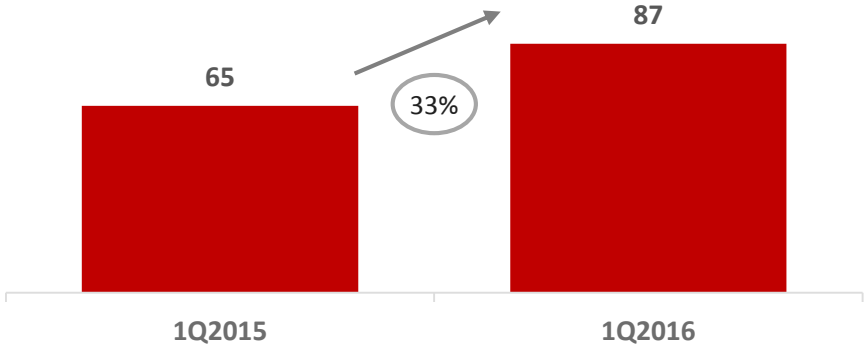
## Total Capacity (MW)



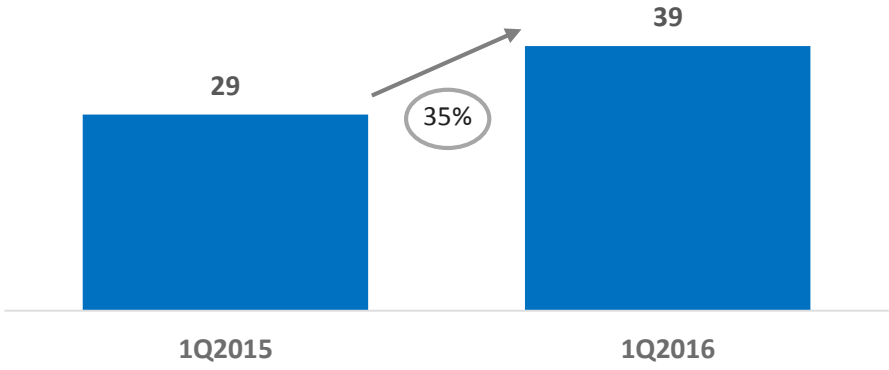

## Onshore Volumes (Certificates, MWh)




## Adjusted EBITDA Growth (PLNm)




## Adjusted Net income (PLNm)



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# Q1 2016 results and realization of forecast for 2016

| (mPLN) | Q1 2016 Actual | Q1 2015 Actual | Q1 16 / Q1 15 diff | Q1 16 / Q1 15 diff % |
|---|---|---|---|---|
| Adjusted EBITDA | 87,1 | 65,4 | 21,7 | 33% |
| Adjusted Net Profit | 38,6 | 28,6 | 10,0 | 35% |

| (mPLN) | Q1 2016 Actual | 2016 Budget | % realised |
|---|---|---|---|
| Adjusted EBITDA | 87,1 | 233,3 | 37% |
| Adjusted Net Profit | 38,6 | 52,1 | 74% |

High adjusted net profit realization results mainly from revenues from update of price forecasts in ENS, better wind conditions in Q1 and no depreciation and interest cost for Mycielin WF in Jan-Feb 2016. Furthermore, selected segments reported results slightly above expectations (of 57% of annual Net Profit coming in Q1).
Management maintains the forecast noting the following risks:

- wind conditions,
- level of green certificates prices,
- regulatory uncertainty.

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# Consolidated results for Q1 2016 – P&L

| Polenergia Group Income Statement (mPLN) | | Q1 2016 | Q1 2015 | Diff y/y |
|---|---|---|---|---|
| **Revenues from sales** | | **722,5** | **677,8** | **44,7** |
| of which trading segment | | 538,2 | 490,8 | 47,4 |
| Cost of sales | | (653,6) | (625,6) | (28,0) |
| of which trading segment | | (529,2) | (487,0) | (42,2) |
| **Gross profit on sales** | | **68,9** | **52,2** | **16,7** |
| *Gross profit on sales margin* | | *9,5%* | *7,7%* | *1,8%* |
| Other operating income | | 1,4 | 1,2 | 0,2 |
| Administrative expenses | | (8,7) | (8,0) | (0,6) |
| Other operating expenses | | (0,6) | (1,4) | 0,8 |
| **Gross result on sale** | | **61,1** | **43,9** | **17,1** |
| Depreciation | | 26,7 | 20,8 | 6,0 |
| **EBITDA** | | **87,8** | **64,7** | **23,1** |
| *EBITDA margin* | | *12,2%* | *9,5%* | *2,6%* |
| Eliminating the effect of purchase price allocation | | (0,7) | 0,6 | (1,3) |
| Elimination of fundraising costs | | - | 0,1 | (0,1) |
| **Adjusted EBITDA*** | | **87,1** | **65,4** | **21,7** |
| *Adjusted EBITDA margin* | | *12,1%* | *9,7%* | *2,4%* |
| Financial income | | 1,2 | 4,2 | (3,0) |
| Financial expenses | | (14,4) | (11,7) | (2,6) |
| **Profit (loss) before tax** | | **47,9** | **36,4** | **11,5** |
| Income tax | | (11,5) | (9,8) | (1,7) |
| **Net Profit (loss)** | | **36,4** | **26,6** | **9,8** |
| *Net profit margin* | | *5,0%* | *3,9%* | *1,1%* |
| Eliminating the effect of the purchase price allocation | 1) | 1,5 | 2,5 | (1,0) |
| Eliminating the effect of unrealized exchange differences | 2) | 0,2 | (1,2) | 1,4 |
| Eliminating the effect of AMC loan valuation | 3) | 0,4 | 0,5 | (0,1) |
| Elimination of fundraising costs | 4) | - | 0,1 | (0,1) |
| **Adjusted Net Profit*** | | **38,6** | **28,6** | **10,0** |
| *Adjusted Net profit margin* | | *5,3%* | *4,2%* | *1,1%* |
| **Adjusted EBITDA (excl. trading segment)** | | **80,5** | **65,4** | **15,1** |
| **Adjusted EBITDA margin (excl. trading segment)** | | **43,7%** | **35,0%** | **8,7%** |

Detailed analysis of the results of EBITDA by segment is presented on the following pages.

Lower financial income due to lower cash balance and lower interest rates.

Higher interest cost resulting from start of new projects, partially offset by decrease in debt in other operating assets.

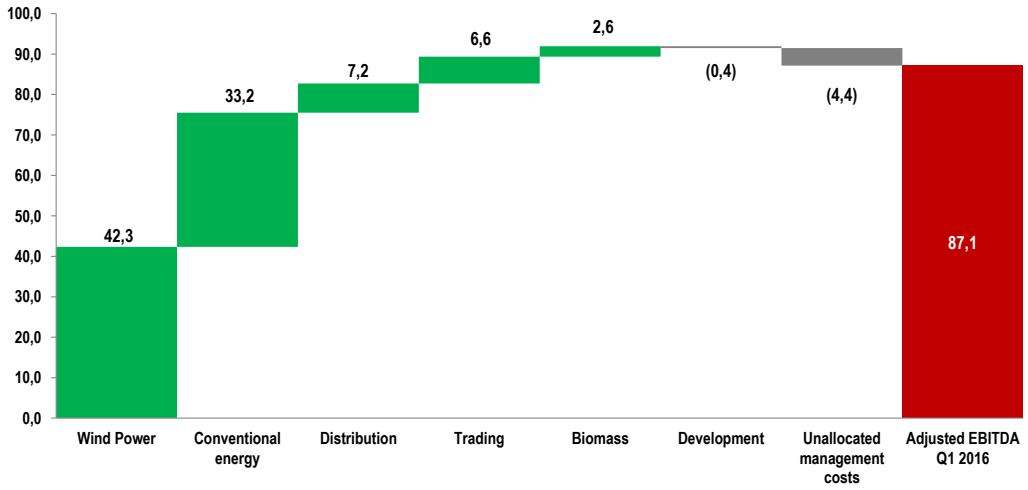
Higher CIT costs results from higher profit before tax of the Group.

1) Purchase price allocation effect of non-goodwill assets
2) Unrealized exchange differences (mostly in Dipol due to loan in EUR)
3) IFRS accounting approach to loan valuation
4) Historical cost for strategic investor

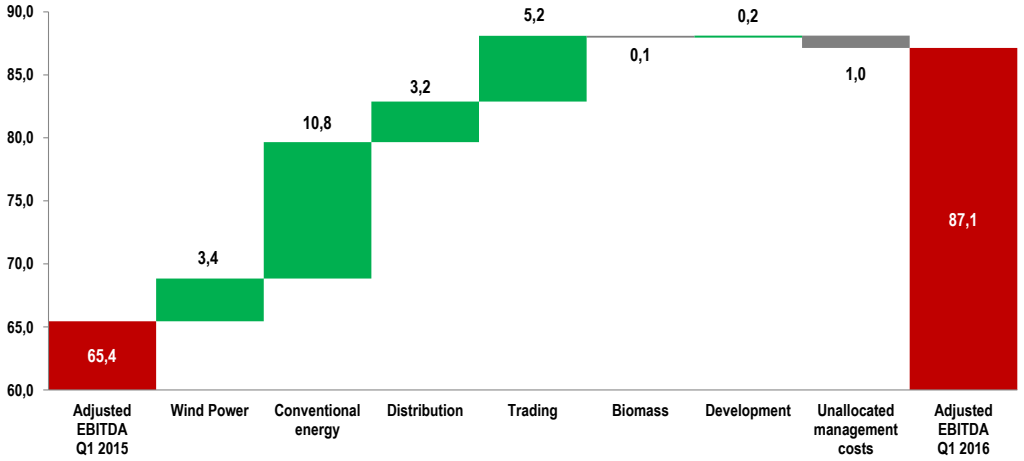
*) adjusted for non-cash/one-off items

# Consolidated results for Q1 2016 – EBITDA Analysis

## EBITDA Build-up Q1 2016




## EBITDA Bridge Q1 2016/ Q1 2015




- Conventional energy provides stable EBITDA, however significantly higher EBITDA (by PLN 10.8m) is a result of update of energy, gas and CO2 price forecasts for 2016 – 2020 (in 1Q 2016) that changed allocation of stranded costs compensation in the whole compensation system period (2008 – 2020), reflected in the current period resulting in relatively high operating outcome in 1Q 2016.
- Due to start of Mycielin and Skurpie wind farms (48 MW and 43,7 MW respectively) **wind farm segment** has reported increase of the result (by PLN 3.4m y/y) partly compensating impact of lower green certificates prices and long-term contract breach by PKH.
- Result of **distribution segment** was higher y/y mainly due to reversal of rebate provision and higher sales.
- Growing share of **trading segment**, results increased y/y mainly due to profitability of gas supply contracts and better margins on green certificates sales.
- Stable **biomass** performance.

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# Consolidated cash flow analysis

| Consolidated statement of cash flows (PLN m) | Q1 2016 |
|---|---|
| **A. Cash flows from operating activities** | |
| I.EBITDA | 88 |
| II. Adjustments | (40) |
| **III. Net cash flow from operating activities (I+/-II)** | **48** |
| **B. Cash flows from investing activities** | |
| I. Cash received | 0 |
| II. Expenses | (47) |
| **III. Net cash flow from investing activities (I-II)** | **(47)** |
| **C. Cash flows from financing activities** | |
| I. Cash received | 45 |
| II. Expenses | (65) |
| **III. Net cash flow from financing activities (I-II)** | **(20)** |
| **D. Net cash flow, total (A.III+/-B.III+/-C.III)** | **(20)** |
| E. Balance transition of cash, including: | (19) |
| F. Cash and cash equivalents at beginning of period | 362 |
| **G. Consolidated cash and cash equivalents at end of period** | **343** |
| | |
| **Consolidated debt** | **1 137** |
| **Consolidated net debt** | **794** |

The amount consists mainly from the change in working capital (PLN -25m) and CIT settlement (PLN -11m). Detailed analysis of WC is presented on slide 17.

Construction of Mycielin WF, distribution segment development and further projects development.

Long-term investment loans for Mycielin WF construction and distribution segment development.

Investment loans and interest repaid, mainly wind farms, ENS and PE-D.

- **Adjusted EBITDA for last 12M (from April 1st 2015 to March 31th 2016) amounted to PLN 244.6m, which compared with the Group's net debt at the level of PLN 794.5m (as at March 31st 2016) implies Net debt / EBITDA ratio of 3.25x and was lower than as at 4Q 2015 (3.53x).**
- **The long-term goal of Management Board is to maintain Net Debt/EBITDA ratio below 3.0x.**

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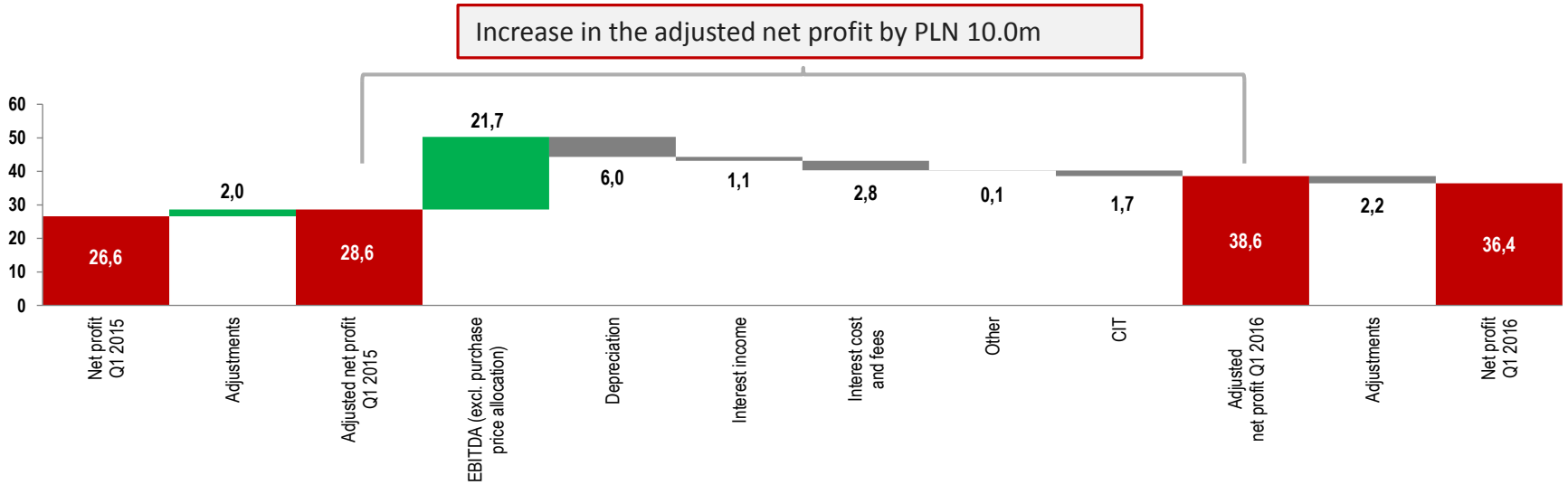
# Segmental Results

| Q1 2016 (PLN m) | Conventional energy | Development activity | Biomass | Wind power | Distribution | Trading | Unallocated management | Purchase price allocation | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Revenues from sale | 83,6 | 0,0 | 14,6 | 53,3 | 31,3 | 538,2 | 0,9 | 0,7 | 722,5 |
| Operating expenses | (53,2) | (0,2) | (12,8) | (27,2) | (24,1) | (529,2) | (4,5) | (2,5) | (653,6) |
| including depreciation | (4,9) | - | (1,0) | (16,8) | (1,1) | (0,0) | (0,4) | (2,5) | (26,7) |
| **Gross profit on sales** | **30,4** | **(0,2)** | **1,9** | **26,1** | **7,2** | **9,0** | **(3,6)** | **(1,9)** | 68,9 |
| *Gross profit on sales margin* | *36,4%* | *"n/a"* | *12,8%* | *49,0%* | *22,9%* | *1,7%* | *-413,9%* | *-271,8%* | *9,5%* |
| General and administrative expenses | (1,7) | (0,2) | (0,3) | (1,6) | (1,1) | (2,5) | (1,3) | - | (8,7) |
| Other operating activities | (0,4) | (0,0) | 0,0 | 1,0 | 0,0 | 0,1 | 0,1 | - | 0,9 |
| **Profit from operating activities** | **28,3** | **(0,4)** | **1,6** | **25,5** | **6,2** | **6,6** | **(4,8)** | **(1,9)** | 61,1 |
| **EBITDA** | **33,2** | **(0,4)** | **2,6** | **42,3** | **7,2** | **6,6** | **(4,4)** | **0,7** | **87,8** |
| *EBITDA margin* | *39,7%* | *"n/a"* | *17,6%* | *79,5%* | *23,0%* | *1,2%* | *-505,0%* | *100,0%* | *12,2%* |
| Eliminating the effect of purchase price allocation | | | | | | | | (0,7) | (0,7) |
| **Adjusted EBITDA** | **33,2** | **(0,4)** | **2,6** | **42,3** | **7,2** | **6,6** | **(4,4)** | **-** | **87,1** |
| *Adjusted EBITDA margin* | *39,7%* | *"n/a"* | *17,6%* | *79,5%* | *23,0%* | *1,2%* | *-505,0%* | *0,0%* | *12,1%* |
| Result on financial operations | (1,9) | (0,0) | (0,3) | (11,2) | (0,3) | (0,4) | 0,9 | - | (13,2) |
| **Profit (loss) before tax** | **26,4** | **(0,5)** | **1,3** | **14,4** | **5,8** | **6,2** | **(3,9)** | **(1,9)** | **47,9** |
| Income tax | | | | | | | | | (11,5) |
| **Profit (loss) for the period** | | | | | | | | | **36,4** |
| Eliminating the effect of the purchase price allocation | | | | | | | | | 1,5 |
| Eliminating the effect of unrealized exchange differences | | | | | | | | | 0,2 |
| Elimination of the effect of AMC loans valuation | | | | | | | | | 0,4 |
| **Adjusted Net Profit** | | | | | | | | | **38,6** |

| Q1 2015 (PLN m) | Conventional energy | Development activity | Biomass | Wind power | Distribution | Trading | Unallocated management | Purchase price allocation | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Revenues from sale | 87,6 | 0,3 | 16,3 | 44,4 | 38,4 | 490,8 | (0,0) | - | 677,8 |
| Operating expenses | (67,6) | (0,6) | (14,6) | (17,8) | (33,8) | (487,0) | (1,1) | (3,1) | (625,6) |
| including depreciation | (4,6) | - | (1,0) | (11,3) | (1,0) | (0,0) | (0,3) | (2,5) | (20,8) |
| **Gross profit on sales** | **20,0** | **(0,3)** | **1,7** | **26,7** | **4,6** | **3,7** | **(1,1)** | **(3,1)** | **52,2** |
| *Gross profit on sales margin* | *22,8%* | *-89,8%* | *10,6%* | *60,0%* | *11,9%* | *0,8%* | *"n/a"* | *"n/a"* | *7,7%* |
| General and administrative expenses | (1,8) | (0,1) | (0,2) | (0,3) | (1,0) | (2,3) | (2,2) | - | (8,0) |
| Other operating activities | (0,4) | (0,2) | 0,2 | 1,3 | (0,6) | (0,0) | (0,5) | - | (0,2) |
| **Profit from operating activities** | **17,8** | **(0,6)** | **1,7** | **27,6** | **3,0** | **1,4** | **(3,8)** | **(3,1)** | **43,9** |
| **EBITDA** | **22,4** | **(0,6)** | **2,7** | **38,9** | **4,0** | **1,4** | **(3,5)** | **(0,6)** | **64,7** |
| *EBITDA margin* | *25,5%* | *-191,8%* | *16,7%* | *87,7%* | *10,4%* | *0,3%* | *"n/a"* | *"n/a"* | *9,5%* |
| Elimination of fundraising costs | | | | | | | 0,1 | | 0,1 |
| Eliminating the effect of purchase price allocation | | | | | | | | 0,6 | 0,6 |
| **Adjusted EBITDA** | **22,4** | **(0,6)** | **2,7** | **38,9** | **4,0** | **1,4** | **(3,4)** | **-** | **65,4** |
| *Adjusted EBITDA margin* | *25,5%* | *-191,8%* | *16,7%* | *87,7%* | *10,4%* | *0,3%* | *"n/a"* | *"n/a"* | *9,7%* |
| Result on financial operations | (2,4) | 0,1 | (0,3) | (5,7) | (0,5) | (0,4) | 1,7 | - | (7,5) |
| **Profit (loss) before tax** | **15,4** | **(0,5)** | **1,4** | **22,0** | **2,5** | **0,9** | **(2,1)** | **(3,1)** | **36,4** |
| Income tax | | | | | | | | | (9,8) |
| **Profit (loss) for the period** | | | | | | | | | **26,6** |
| Eliminating the effect of the purchase price allocation | | | | | | | | | 2,5 |
| Eliminating the effect of unrealized exchange differences | | | | | | | | | (1,2) |
| Elimination of the effect of AMC loans valuation | | | | | | | | | 0,5 |
| Elimination of fundraising costs | | | | | | | | | 0,1 |
| **Adjusted Net Profit** | | | | | | | | | **28,6** |
| **Adjusted EBITDA y/y** | **10,8** | **0,2** | **(0,1)** | **3,4** | **3,2** | **5,2** | **(1,0)** | **-** | **21,7** |

# Net profit - overview of the changes y / y




**Adjusted net profit increased by PLN 10.0m, due to:**

- Higher EBITDA excluding the effect of the settlement of the purchase price allocation (results better by PLN 21.7m – explained in detail on slide 12);
- Higher depreciation (by PLN 6.0m) excluding depreciation related to the purchase price allocation, which is primarily driven by depreciation of new wind farm projects;
- Lower interest income (by PLN 1.1m) resulting form lower cash balance and lower interest rates;
- Higher interest costs and fees (by PLN 2.8m ) – effect of commisioning of new wind farm projects;
- Negative CIT impact (PLN 1.8m) resulting from higher profit before tax of the Group;
- Detailed decomposition of normalizing adjustments was presented on P&L summary page (explained on slide 11).

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# Assets and financing structure of Polenergia Group

| Assets (PLN m) | As at 31.03.2016 | As at 31.12.2015 | Diff |
|---|---|---|---|
| **Fixed assets (long-term)** | **2 480** | **2 448** | **32** |
| Tangible fixed assets | 2 220 | 2 192 | 28 |
| Intangible assets | 47 | 49 | (2) |
| Goodwill of subordinate entities | 185 | 185 | (0) |
| Financial assets | 12 | 6 | 6 |
| Long-term receivables | 5 | 5 | (0) |
| Deferred income tax | 12 | 11 | 1 |
| Accruals | 0 | 0 | 0 |
| **Current Assets (short-term)** | **664** | **751** | **(87)** |
| Stock | 56 | 47 | 9 |
| Receivables from deliveries and services | 124 | 159 | (35) |
| Receivables from income tax | 4 | 3 | 1 |
| Other short-term receivables | 30 | 65 | (35) |
| Accruals | 10 | 11 | (1) |
| Short-term financial assets | 98 | 104 | (6) |
| Cash and cash equivalents | 343 | 362 | (19) |
| **Total Assets** | **3 144** | **3 199** | **(55)** |

Construction of Mycielin wind farm and development of projects.

Mainly increase of green certificates stock.

Mainly decrease of trade receivables in wind farms, distribution and trading segments.

Mainly valuation of contracts in trading segment.

Change in cash and cash equivalents is presented on the next page.

| Liabilities (PLN m) | As at 31.03.2016 | As at 31.12.2015 | Diff |
|---|---|---|---|
| **Equity** | **1 411** | **1 397** | **14** |
| **Long-term liabilities** | **1 323** | **1 304** | **19** |
| Loans and borrowings | 1 043 | 1027 | 16 |
| Provision from deferred income tax | 75 | 66 | 9 |
| Reserves | 2 | 2 | 0 |
| Accruals | 62 | 64 | (2) |
| Other liabilities | 141 | 145 | (4) |
| **Current liabilities** | **410** | **498** | **(88)** |
| Loans and borrowings | 95 | 121 | (26) |
| Trade payables | 124 | 179 | (55) |
| A liability for income tax | - | 7 | (7) |
| Other liabilities | 161 | 166 | (5) |
| Reserves | 4 | 4 | 0 |
| Accruals | 27 | 21 | 6 |
| **Total liabilities** | **3 144** | **3 199** | **(55)** |

Change in loans and credits is presented on the next page.

Including ENS liabilities due to long term contracts termination settlement (KDT), long term liabilities in trading segment and PPA liability.

Mainly decrease of trade liabilities in distribution and trading segments and KDT settlement liability in ENS.

Mainly valuation of contracts in trading segment, investment liabilities in EP and liabilities of Polenergia S.A..

- **Adjusted EBITDA for last 12M (from April 1st 2015 to March 31th 2016) amounted to PLN 244.6m, which compared with the Group's net debt at the level of PLN 794.5m (as at March 31st 2016) implies Net debt / EBITDA ratio of 3.25x and was lower than as at 4Q 2015 (3.53x).**
- **The long-term goal of Management Board is to maintain Net Debt/EBITDA ratio below 3.0x.**
- **The ratio of Net debt / Equity and Equity / Assets ratio amount to 0.56x and 0.45x respectively.**

POLENERGIA

# Consolidated cash flow analysis for Q1 2016

| Consolidated statement of cash flows (PLN m) | Q1 2016 |
|---|---|
| **A. Cash flows from operating activities** | |
| I.EBITDA | 88 |
| II. Adjustments | (40) |
| 1. Income tax | (11) |
| 2. Change in provisions | - |
| 3. Change in inventories | (9) |
| 4. Change in receivables | 70 |
| 5. Change in current liabilities, excluding borrowings | (76) |
| 6. Change in accruals | (9) |
| 7. Other adjustments | (4) |
| **III. Net cash flow from operating activities (I+/-II)** | **48** |
| **B. Cash flows from investing activities** | |
| I. Cash received | 0 |
| II. Expenses | (47) |
| 1. Purchase of intangible and tangible fixed assets | (47) |
| 2. For financial assets, including: | (0) |
| 3. Other investment expenses | - |
| **III. Net cash flow from investing activities (I-II)** | **(47)** |
| **C. Cash flows from financing activities** | |
| I. Cash received | 45 |
| 1. Net proceeds from issue of shares and other equity instruments | - |
| 2. Credit and loans | 45 |
| II. Expenses | (65) |
| 1. Dividends and other distribution to owners | - |
| 2. Repayment of borrowings | (53) |
| 3. Payment of financial lease agreements | (0) |
| 4. interest | (11) |
| 5. Other financial expenses | (1) |
| **III. Net cash flow from financing activities (I-II)** | **(20)** |
| **D. Net cash flow, total (A.III+/-B.III+/-C.III)** | **(20)** |
| E. Balance transition of cash, including: | (19) |
| F. Cash and cash equivalents at beginning of period | 362 |
| **G. Consolidated cash and cash equivalents at end of period** | **343** |

Mainly CIT in ENS and operating wind farms.

Mainly increase of green certificates stock.

Change in receivables and current liabilities (PLN -7m), results mainly from:
- Lower receivables (PLN 56m) in WF segment,
- Lower receivables (PLN 9m) in distribution and trading segments,
- Lower payables in distribution (PLN 36m), ENS (PLN 30m) and trading (PLN 9m) segments.

Higher accruals in WF segment (PLN 4m), trading segment (PLN 2m) and Polenergia S.A. (PLN 2m).

Construction of Mycielin WF (PLN 39m), distribution segment development (PLN 2m) and further projects development (PLN 6m).

Long-term investment loans Mycielin WF construction (PLN 42m) and distribution segment development (PLN 3m).

Investment loans and interest repayment drawn by the operating assets, mainly wind farms, ENS, and distribution.

# 03 Market Update

POLENERGIA

# Regulatory market surrounding and impact on strategy

- **Leading position to participate in Poland's renewable strategy….**
  - 258 MW ready for first auction in 2016: largest from any single market participant, 216MW already at Ready to Build Stage (i.e. Building Permit secured);
  - Auctions/Regulation: work on an anti-wind legislation slowed down, proposed provisions will be reconsidered and possibly eased, new amendment to the RES Act proposed includes auctions which can be shaped to Polenergia's profile.
  - Offshore wind: positive signals.
- **….however, we need to take actions to ensure Polenergia is optimized to the current market and fits with the strategy of the Government:**
  - Ensure fully optimized HQ cost base – process has commenced;
  - Reduce O&M costs in operational wind farms – process has commenced;
  - Fully utilize the vertically integrated position of the Company to maximize its stable generation profile e.g. participation in „hybrid" aspects of the auctions or contributing to the overall stability of the Polish Grid via ENS;
  - Ensure the strategy for the Company is ready for the transformational trends among European/global utilities (e.g. customer flexibility/proximity and technological innovations)
- **Regulatory changes still uncertain**
  - Wind Turbine Investment Act introducing minimum distance criteria and additional UDT requirements with property tax implications has been put on hold. However signs could be positive for favorable outcome;
  - The new draft of RES Act has been published on 6th May but the key provisions are very general and most of the issues will be settled by implementing regulations;

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# Offshore windfarms: huge growth potential

- Polenergia has two projects of offshore wind farms with a total capacity of 1,2 GW, which are scheduled to commence operations consecutively in 2022 and 2026;
- Taking as a reference point value of the project at the Ready To Build Stage (i.e. with Construction Permit) Polenergia assesses the current progress of offshore wind farm projects at 45% (among others projects have permit use of artificial islands, placement of submarine cables and signed Connection Agreement with PSE). By the end of 2016 Polenergia plans to secure the Environmental Decision;
- Based on actual transactions in the European market in recent times, the potential value of offshore wind farm projects at the time of Financial Close may reach c.260k EUR* / 1MW;
- Assuming this valuation, we can determine the potential value of the project as:


** Multiple based on purchase of Gode Wind I and II by Dong Energy from PNE Wind in 2012, according to data published by Bloomberg New Energy Finance*

**Polenergia estimates potential disruptive valuation effect at PLN13/share**

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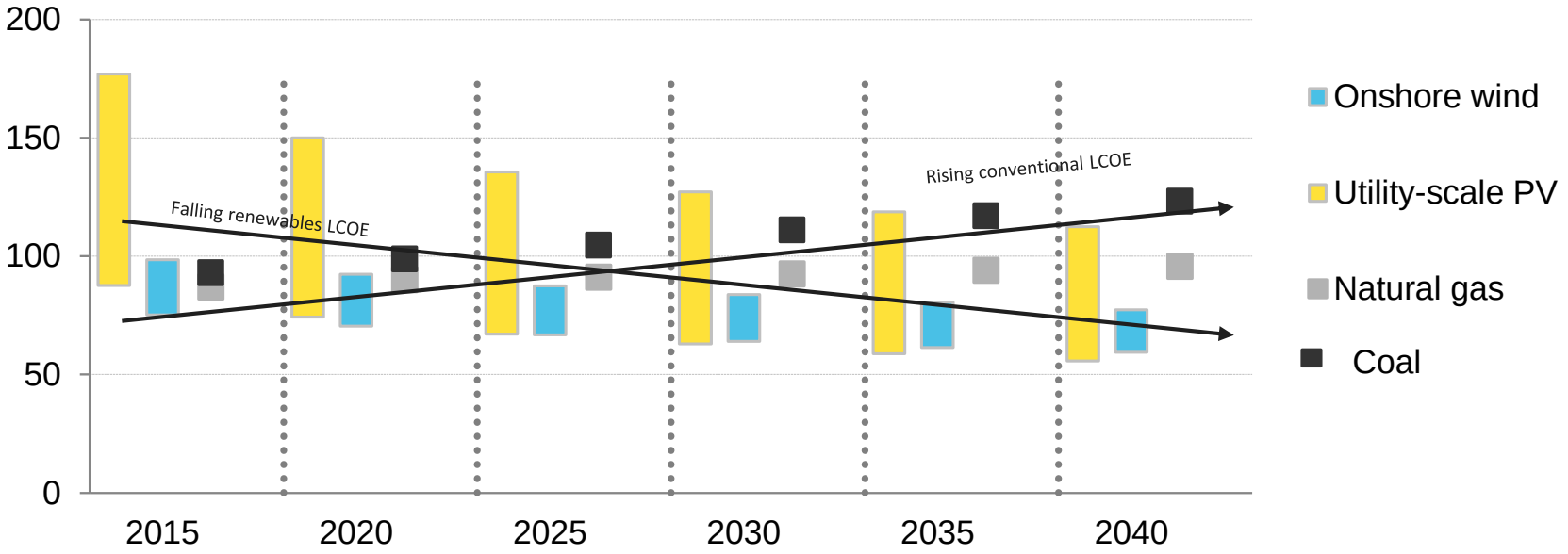
# Europe renewables LCOE declining whilst conventional growing




Note: US$/MWh. Capacity factors – onshore wind: 25-35%; solar PV: 10-15%

Source: BNEF

**In Europe onshore wind as well as PV have already reached grid parity compared to natural gas/coal in some cases. Coal LCOE is expected to grow due to rising CO2 prices medium/long term (despite recent falls), lower utilization rates as a result of the changing market, as well as rising financing costs and declining ablity of external financing availability for coal fired generation.**

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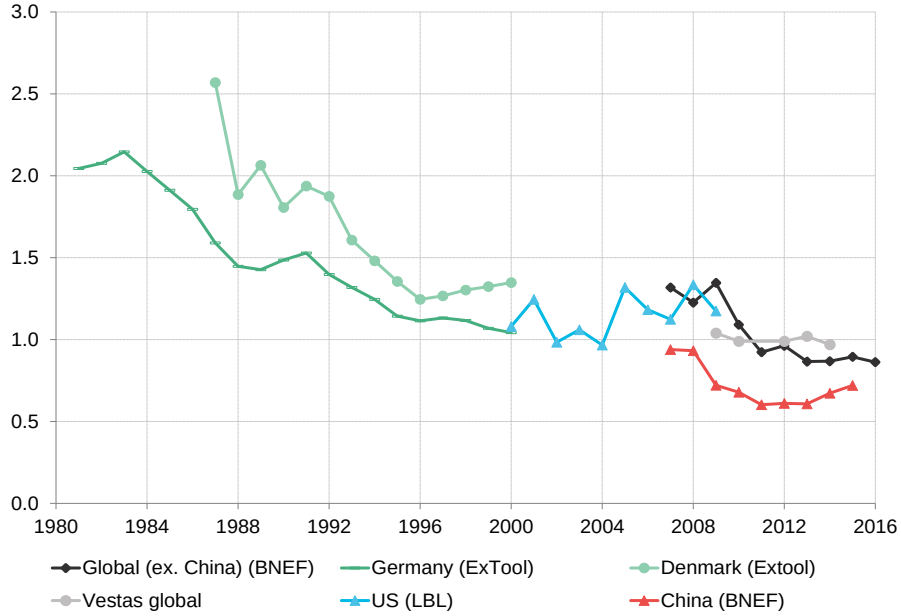
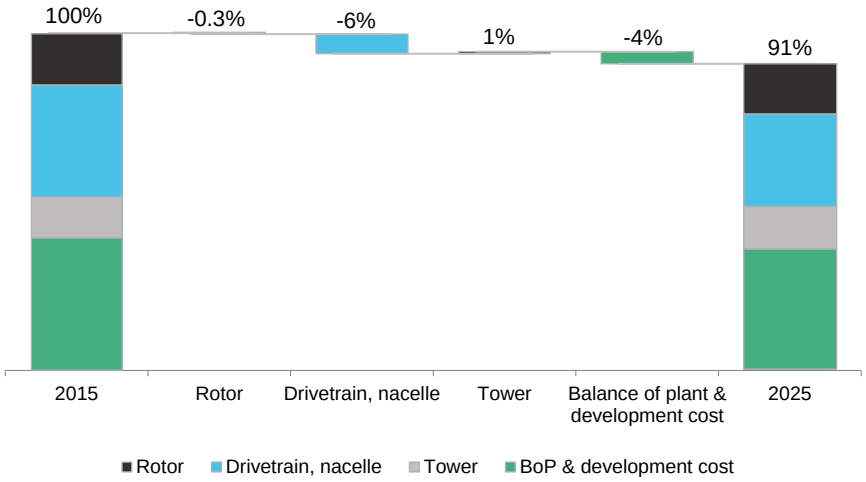
# Turbines price declines

## Wind turbine price (inflation corrected to 2014),1984-2016e (mEUR/MW)




Source: Bloomberg New Energy Finance, Lawrence Berkeley National Laboratory (LBNL), ExTool study (Neij et al.2003), Vestas annual reports.

## Wind project capital expenditure cost (per MW nameplate capacity) reduction drivers (%)




Source: Bloomberg New Energy Finance

**BNEF estimates significant prices declines of turbines (9% cost reduction for every doubling of installed capacity) – Polenergia best placed to take advantage of this due to significant negotiation power.**

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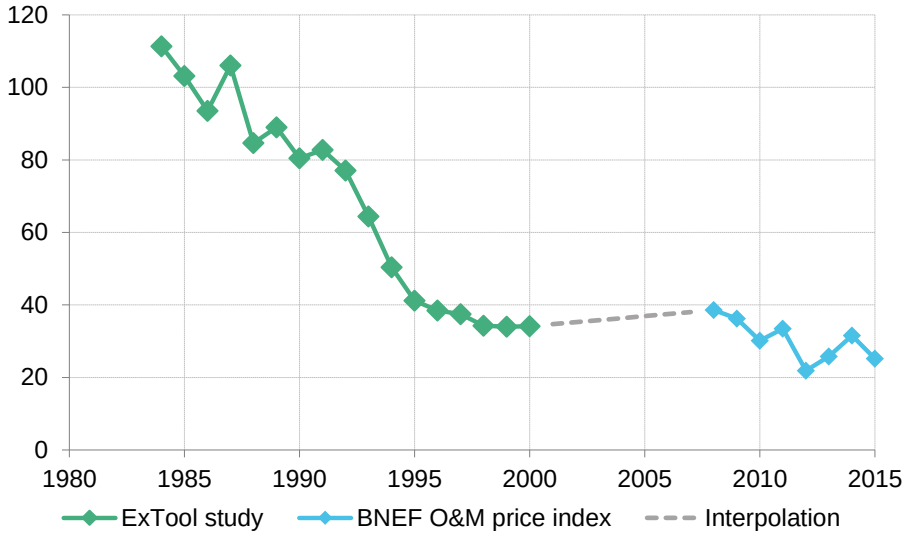
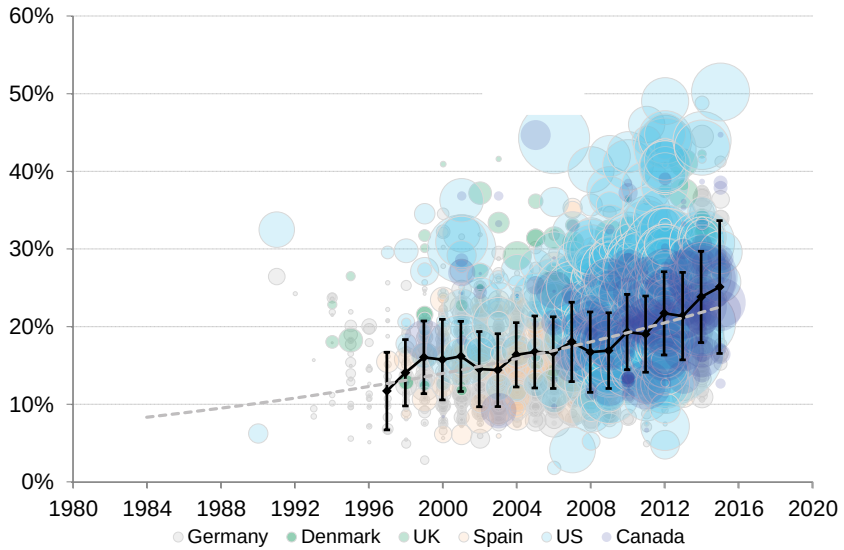
# Decrease in O&M costs and improving load factors

**Global (excluding China) onshore wind O&M price trend (inflation corrected to 2014), 1984-2015 (thousand EUR/MW/yr)**




Source: Bloomberg New Energy Finance

**Global (ex. China) onshore wind capacity factor improvement over years, 1997-2015 (%)**




Source: Bloomberg New Energy Finance

**Decreasing O&M driven by economies of scale and more standardized, mature technology along with improving the average global load factor will even further allow Polenergia for more aggressive bids in auctions.**

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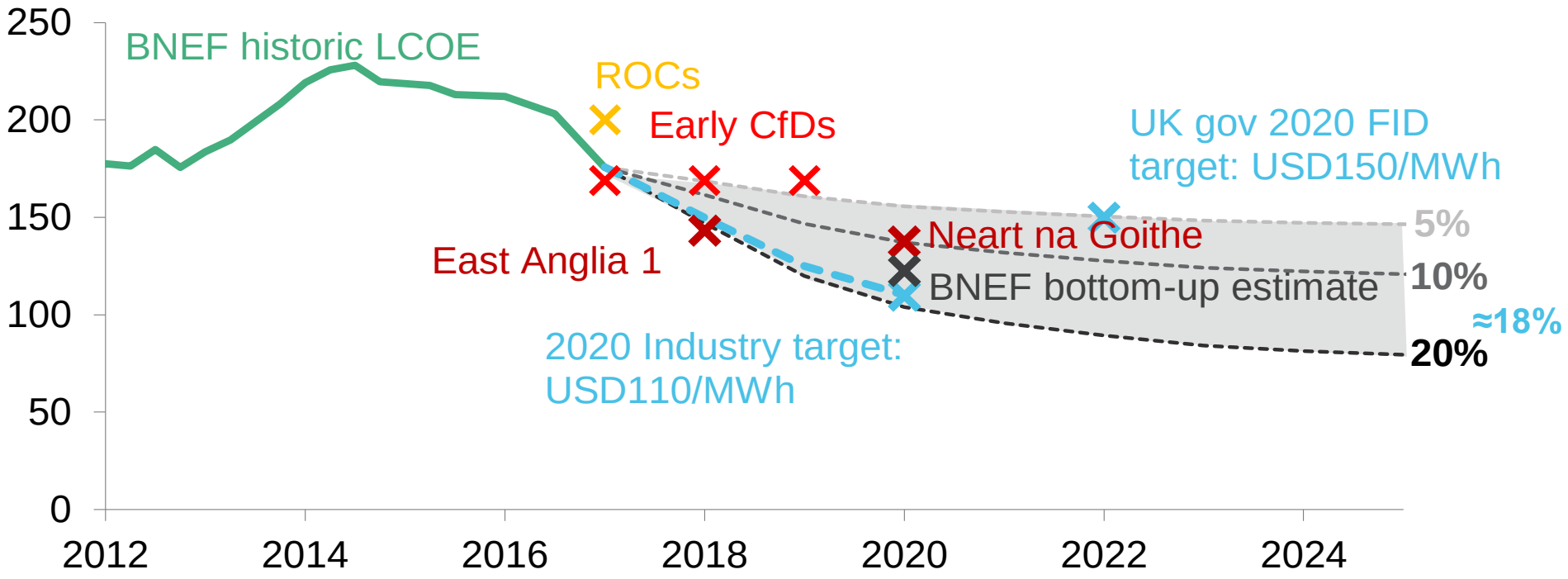
# Levelised cost of electricity – offshore wind at US$110/MWh target for 2020 (BNEF)

**Historical and forecasted LCOE using various learning rates vs commissioning year (USD/MWh)**



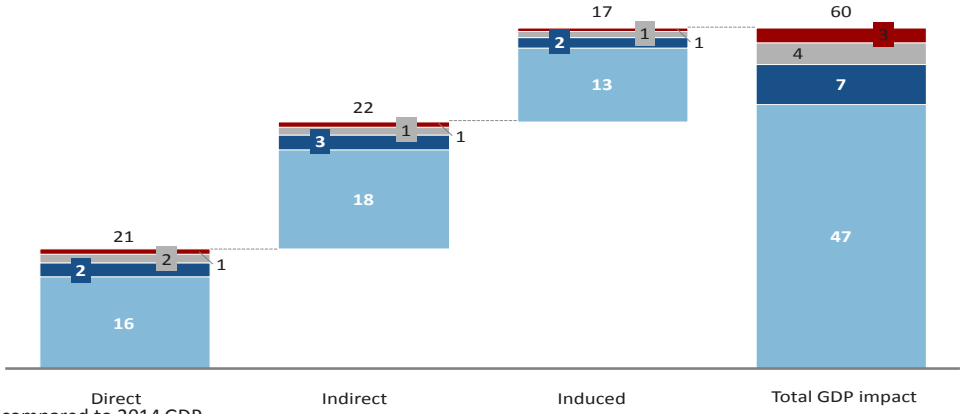

Notes: Reading off the chart will give the LCOE at the time of commissioning. For example, the historic LCOE reaches until 2017 because for a project commissioned in 2017 it reflects the calculated LCOE at pre-construction 2 years prior. Calculations based on forecasted number of units rather than installed capacity. Conversion rate of USD/GBP = 1.5 and USD/EUR = 1.1 (last 3 month average).

Source: BNEF

POLENERGIA

# Offshore could have significant positive impact on Polish economy

## Impact on GDP 2019-2030 from 6 GW wind farms, PLN billion




1 In 2014 prices, compared to 2014 GDP

**Percent of 10 year GDP[1]**

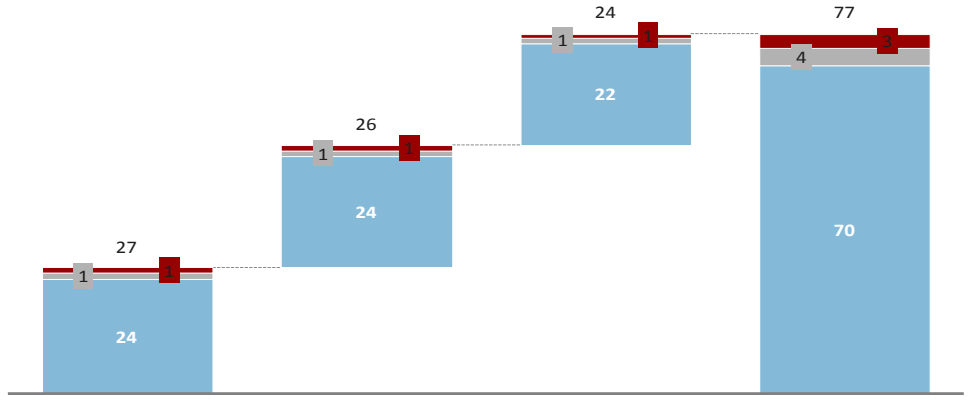
0.35

**Potential Tax revenues**

PLN 15bn

Infrastructure
Export
O&M
Capex

## Impact on employment 2019-2030 from 6 GW wind farms, thousands of FTEs (average)




1 For Q1 2015 – total workforce 17.3 million, unemployed 1.5 million

SOURCE: GUS; McKinsey

**Percent of unemployed[1]**

5.2

**> PLN 60bn in additional GDP and up to 70 thousand jobs across entire Polish economy – easily offsetting (or providing an alternative) to any potential restructuring effect of Polish coal mines thus providing a good replacement alternative for the Polish State.**



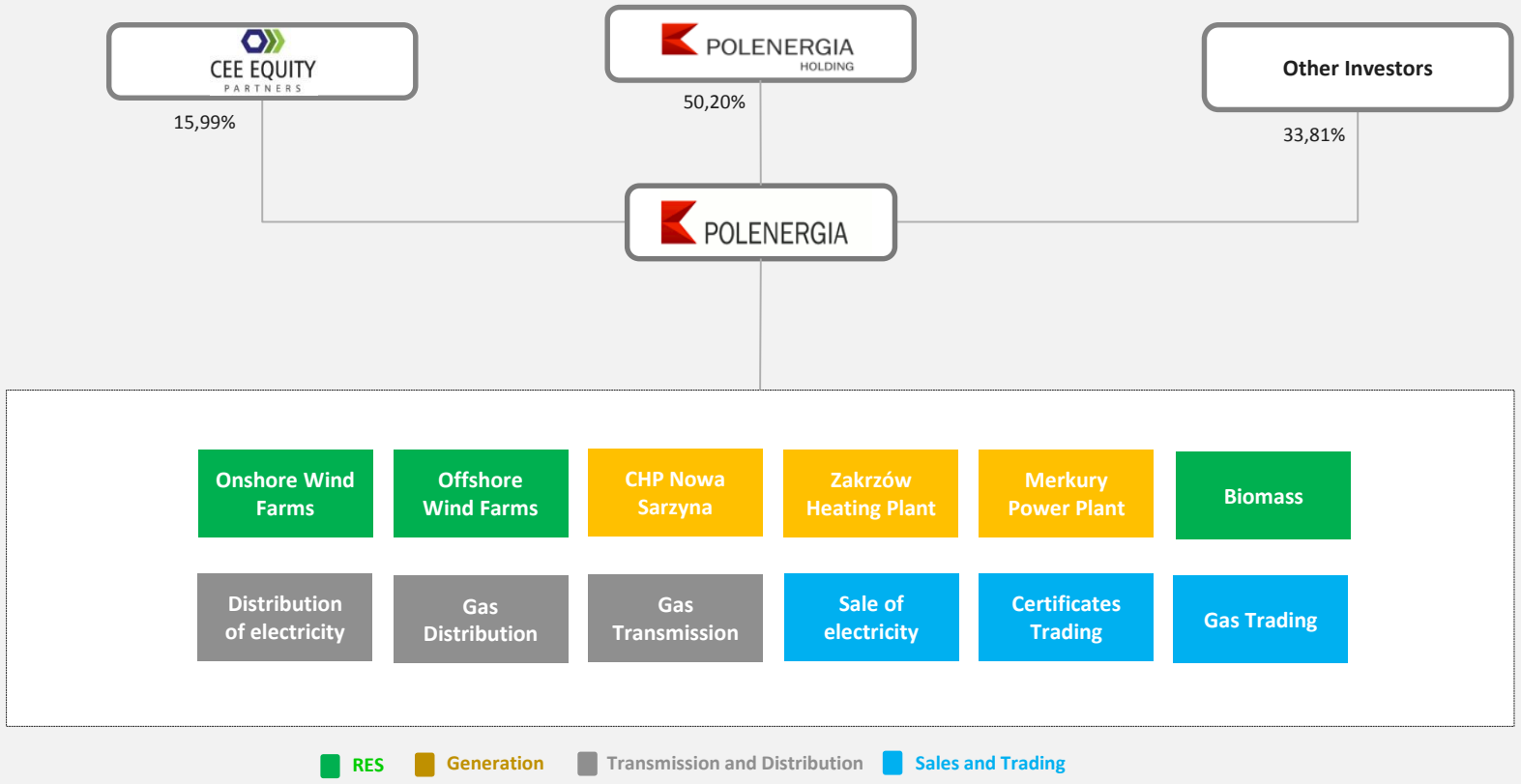
SOURCE: McKinsey

POLENERGIA

# 5A Business/Project Descriptions

POLENERGIA

# Group Structure

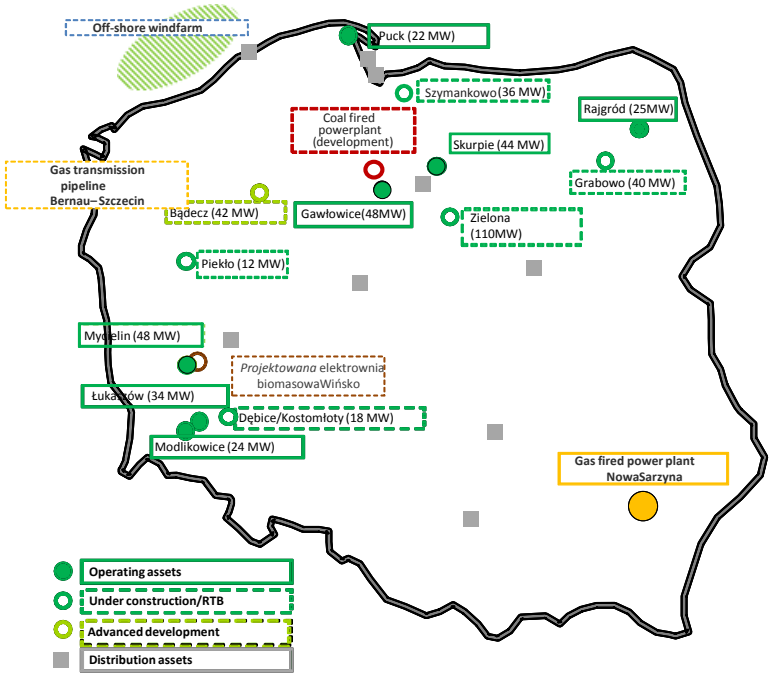


POLENERGIA

# Renewable listed vertically integrated utility with predictable returns and strong near term growth profile

| | Generation | Distribution | Sales / Trading |
|---|---|---|---|
| **RES** | • Operating and pipeline on-shore wind assets and offshore projects | • Specialised distributor and seller for: industrials, commercial and residential communities | |
| **Gas** | • CHP plant – infra-like profile | • German-Poland gas interconnector project | |
| **Coal** | • Coal-fired power plant project | | |

## Geographical location



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# Onshore wind farms - operating

## Operating wind farms

| # | Location | Capacity (MW) | COD | Clients |
|---|---|---|---|---|
| 1 | **Puck** | **22,0** | 2007 | Energa, Polenergia Obrót |
| 2 | **Modlikowice** | **24,0** | 2012 | Tauron Sprzedaż |
| 3 | **Łukaszów** | **34,0** | 2011 | Tauron Sprzedaż |
| 4 | **Gawłowice** | **48,3** | 10.2014 | Polenergia Obrót |
| 5 | **Rajgród** | **25,3** | 11.2014 | Polenergia Obrót |
| 6 | **Skurpie** | **43,7** | 08.2015 | Polenergia Obrót |
| 7 | **Mycielin** | **48,0** | 12.2015 | Polenergia Obrót |
| | | **245,3 MW** | | |

**WF Puck**
- Combined project capacity equals 22,0 MWe, comprise 11 turbine (Gamesa) 2,0 MW each;
- Location: Pomorskie voivodeship, district Puck;
- COD in January 2007;
- Average annual production of approximately 42 GWh;

**WF Modlikowice**
- Combined project capacity equals 24,0 MWe, comprise 12 turbine (Vestas) 2,0 MW each;
- Location: Dolnośląskie voivodeship, district złotoryjski;
- COD in 2012;
- Average annual production of approximately 50 GWh;

**WF Łukaszów**
- Combined project capacity equals 34,0 MWe, comprise 17 turbine (Vestas) 2,0 MW each;
- Location: Dolnośląskie voivodeship, district złotoryjski;
- COD in 2012;
- Average annual production of approximately 74 GWh;

**WF Gawłowice**
- Combined project capacity equals 48,3 MWe, comprise 21 turbine (Siemens) 2,3 MW each;
- Location: Kuj. – pom. voivodeship, district grudziądzki;
- COD in November 2014;
- Planned annual production of approximately 144 GWh;

**WF Rajgród**
- Combined project capacity equals 25,3 MWe, comprise 11 turbine (Siemens) 2,3 MW each;
- Location: Podlaskie voivodeship, district grajewski;
- COD in October 2014;
- Planned annual production of approximately 67 GWh;

**WF Skurpie**
- Combined project capacity equals 43,7 MWe, comprise 19 turbine (Siemens) 2,3 MW each;
- Location: Warmińsko-Mazurskie voivodeship, district działdowski;
- COD in August 2014;
- Planned annual production of approximately 122 GWh;

**WF Mycielin**
- Combined project capacity equals 48 Mwe, comprise 24 turbine (Vestas) 2,0 MW each;
- Location: Lubuskie voivodeship, district szprotawski;
- COD in December 2015;
- Planned annual production of approximately 136 MWh;

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# Onshore wind farms – development portfolio

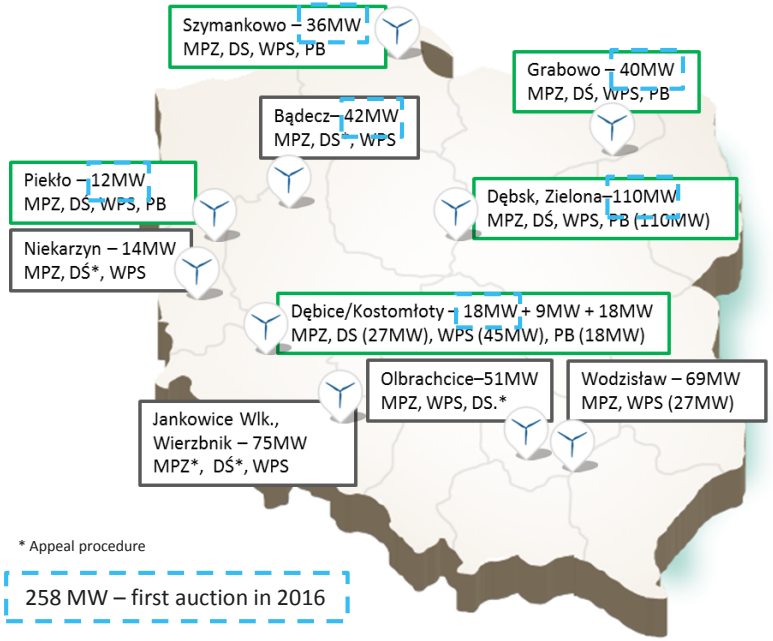
## Pipeline build up

- The portfolio of operating wind farms at YE2015 reached installed capacity equal 245,3 MW;
- Additional 669MW portfolio of wind farms under development of which:
  - 6 projects of 258 MW will participate in first auction planned for 2016;
  - 411 MW will participate in auctions in 2017-2019.

## Planned participation in the first auction in 2016

| # | Location | Power (MW) | Building permit | Possible completion |
|---|---|---|---|---|
| 8 | **Piekło** | **12** | **Secured** | 2017 |
| 9 | **Grabowo** | **40** | **Secured** | 2017 |
| 10 | **Zielona** | **110** | **Secured** | 2018 |
| 11 | **Kostomłoty** | **18** | **Secured** | 2018 |
| 12 | **Bądecz** | **42** | Q2'16 | 2018 |
| 13 | **Szymankowo** | **36** | **Secured** | 2019 |
| | | **258 MW*** | | |

* Decrease in comparison to YE 2015 r. due to technical limitations of project sites




Projects under construction

Projects with Building Permit

Wind farm at an advanced development stage

Achieved stages of the development:

MPZ - Local Development Plan

DŚ - Environmental Decision

WPS - Terms of connections to the Network

PB - Building Permit

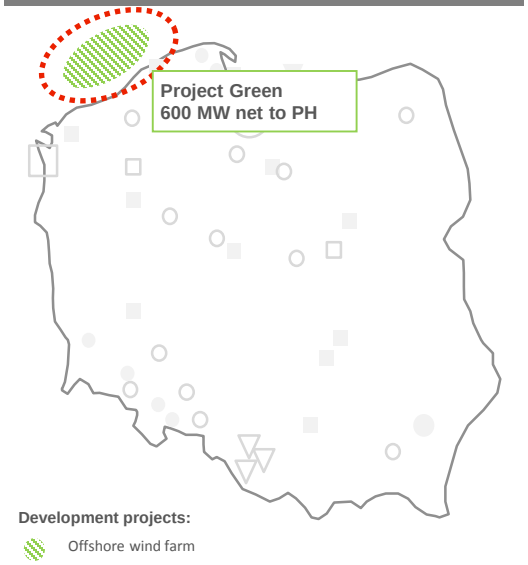
POLENERGIA

# Polenergia is a leading offshore wind farms developer in Poland

## Description

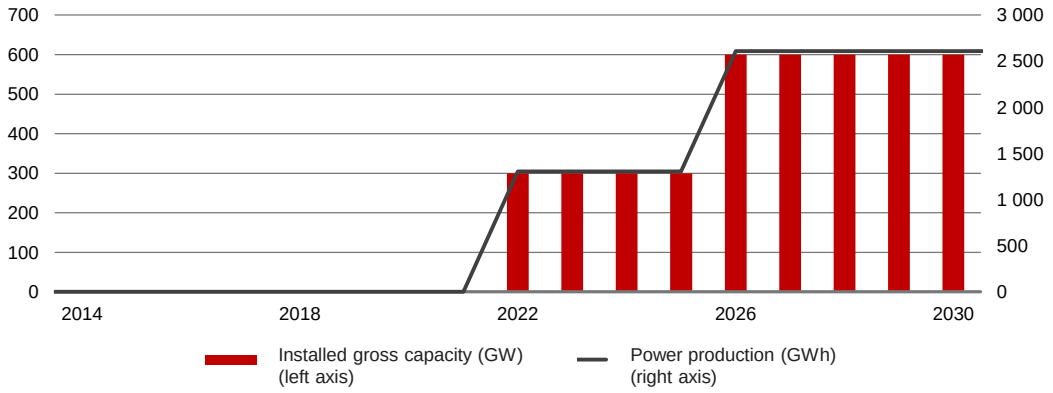
- Two projects with total power of c. 1.2 GW
- The plan is to build offshore projects in cooperation with an experienced industrial player (50/50 JV)
- An additional option is third project with a capacity of 1,6 GW with a valid location permit
- In August 2014, connection agreement for 1200 MW with PSE SA was signed

## Location and power




| Name of project | Bałtyk Środkowy III | Bałtyk Środkowy II |
|---|---|---|
| Actual planned capacity (MW) | 600 | 600 |
| Number of turbines | Ca. 75 | Ca. 75 |
| Distance from the shore | 22 km | 37 km |
| Region | 116,6 km $^2$ | 122 km $^2$ |
| Depth | 25-39m | 23-41m |
| Average wind speed | 9 – 10 m/s | 9 – 10 m/s |

## Installed capacity and electricity generation (PH share)




| Planned key dates | Bałtyk Środkowy III | Bałtyk Środkowy II |
|---|---|---|
| Environmental decision | Q2 2016 | Q3 2016 |
| Construction start | 2020 | 2023 |
| Commisionig date | 2021/22 | 2026 |

**Leading developer of offshore in Poland, supported by increasingly attractive cost economics. Also, the Polish government wants to impose regulations to suport offshore wind farm projects.**

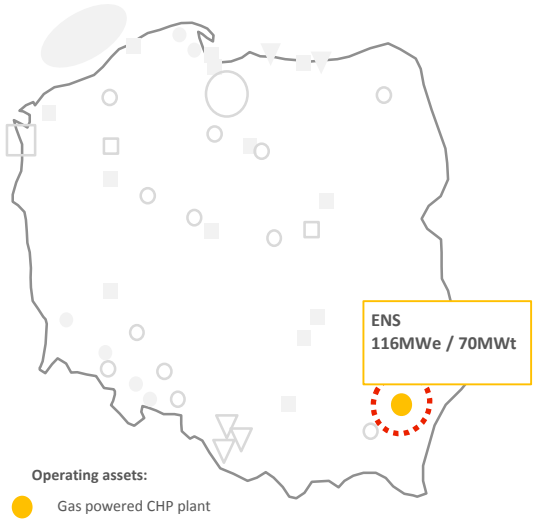
POLENERGIA

# ENS Gas-fired CHP – operational portfolio

## Description

- Natural gas powered CHP plant with a capacity of 116 MWe and 70 MWt.
- Modern asset, which began commercial operations in 2000.
- Operating with high efficiency unit works as a power system.
- Produced energy is ejected by the three above-ground transmission lines with a capacity of 110 kV.
- CHP meets polish environmental standards.
- Fixed income and cash flow of stranded costs for 2020.
- ENS after 2020 will operate a gas turbine and a steam turbine, producing electricity and heat in combination. The Board assumes that the second turbine will be used as a power source for the intervention of the National Power System based on the agreement to share power with the operator of the National Power System. In addition, Nowa Sarzyna CHP as a source will be able to provide a service of the National Power System reconstruction under an agreement with the operator of the system;

## Location and power




## Technical Specifications

| | |
|---|---|
| Installed capacity | 116 MWe, 70 MWt |
| Net capacity | 113 MWe |
| Avg. net output | Electricity ca. 750 GWh<br>Heating ca. 435 TJ |
| Technology | CCGT |
| Fuel | Natural gas / fuel oil backup |
| Efficiency | HHV (47.7%), LHV (52.9%) |
| Type | 2*1 CCGT Thomassen (GE) frame 6 |
| COD | 2000 |
| Availability | 96.5% |

## Compensation formula

- ENS generates revenue through the sale of electricity and heat, additionally receives compensation for stranded costs, compensation for gas and yellow certificates.
- Guaranteed compensation for stranded costs sufficient to cover all the costs of fuel and operating expense (EBIT = 0). It is calculated in such way to balance power and heat sales minus the cost of fuel and operating expense.
- Depreciation (included in the compensation) allows for debt service and interest costs.
- Gas Compensation and yellow certificates directly increase the profit before tax.

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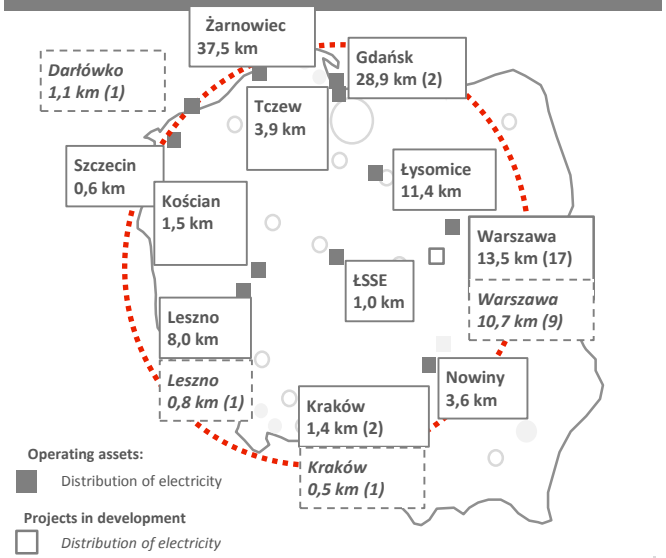
# Electricity distribution

## The length of the distribution network (number of projects)




| | In use | In development | Total |
|---|---|---|---|
| **Distribution power** | 75 MW | 19 MW | 94 MW |
| **Distribution volume** | 279 GWh | 30 GWh | c. 309 GWh |
| **Number of projects** | 31 | 12 | 43 |
| **Final users** | 10,5k | 4,7k | ca. 15,2k |
| **The length of the medium-voltage lines (km)** | 111,3 | 13,1 | 124,4 |
| **Number of substations** | 87 | 25 | 112 |
| **Number of transformers** | 143 | 34 | 177 |

## Polenergia Distribution

### Description

- Polenergia Distribution is a niche distributor of electricity to industrial, retail and commercial customers, ie. residential areas, factories, office buildings and shopping centers.
- Regulated entity based on WACC / WRA with approved investment plans.

**Projects in development**

- 12 projects based on contracts with developers of housing and industrial partner.
- All regulated in accordance with the system WACC / WRA with approved investment plans.
- Excellent platform for expansion on a larger scale in the distribution of energy.

### Increase in value and benefits for customers

**Increase of value**

- Obtaining a license to distribute electricity for the electrical infrastructure (ie. the "last mile") in non-residential buildings, ie. shopping centers and office buildings.
- Effective use of cooperation between the regulated activities (distribution of electricity) and commercial (sales of energy).
- Providing partners with opportunities to optimize the cost of electricity infrastructure during construction and maintenance.
- Effective use of cooperation within the Group.

**A unique package of benefits for customers**

- Immediate settlement or reduction of electrical infrastructure costs.
- Competitive tariffs for distribution and connection to the grid.
- All costs associated with the maintenance of infrastructure covered by Polenergia Distribution.
- Settlement for electricity by company.
- Risk of delays in payments for electricity transferred to company.
- The ability to change vendors (TPA) by the customers.

POLENERGIA

# Trading (Polenergia Obrót)

## Review of Polenergia Obrót (trading)

- Central platform for trading and risk management located in Warsaw.
- In January, 2013 the company took over the former Vattenfall Trading team operating in the energy markets in the CEE region.

## Commercial activity

Expertise in the wholesale electricity trading, property rights and natural gas. The company has licenses for electricity trading, trade in gas fuels in Poland and foreign trade.

Important role in the value chain of Polenergia Group - market access, transfer of knowledge and information about the market, optimizing business processes, portfolio management.

Proprietary trading (trading on the stock exchange and OTC)

## Low risk profile

Trade based on the physical delivery of the product

Limited risk profile - monitored daily

| Polenergia Obrót | 2015 | 1Q 2016 |
|---|---|---|
| Energy sold | 12 TWh | 3,3 TWh |
| Natural gas sold | 290 GWh | 600 GWh |

## Polenergia Obrót – key highlights 2015/2016

- Apart from energy trading, Polenergia Obrót actively participates in the natural gas market, taking advantage from its ongoing liberalization. In Q1 2016 the company **increased its natural gas volume** to 0,6 TWh (more than two times as much as in the whole 2015).
- In 2016 Polenergia Obrót will start supplying gas in a **physical delivery point**.
- Polenergia Obrót also plans to **take part in the forward market for green certificates** formed by Towarowa Giełda Energii (Polish Power Exchange). As a step towards this market, in 2015 the company was the **first in Poland to sell certificates of origin** in the Polskie Gwarancje Pochodzenia Energii Programme (certificates originated from one of the wind farms in Polenergia Group).

POLENERGIA

# Bernau – Szczecin pipeline (Germany-Poland)

## Overview

- Gas transmission project is ideally located to connect western gas markets with the isolated markets of Poland and other Eastern European countries (Ukraine, Lithuania)
- It is to provide the access to import infrastructure in Germany and become one of the key market openers of the East Europe gas market
- Customers in Poland (and potentially in neighbouring countries to the east and south of Poland) will gain access to the liquid Gaspool spot market which allows them to purchase gas at lower prices and from various suppliers, thus significantly improving their energy security and ensuring supplies of this strategic commodity in a diversified way
- Strategic partners are to be invited for joint development of the project in Poland and Germany, however the company assumes to hold minimum 51% of German part of the business
- Transmission return structured on attractive RAB based remuneration


## Pipeline Bernau – Szczecin

| | |
|---|---|
| Total technical capacity | 3,0 - 5,0 bcm p.a.m |
| Compressor stations | 3 x 5,4 MW |
| Lenght | c. 150km (30km in POL. 120km in GER) |

## Project status

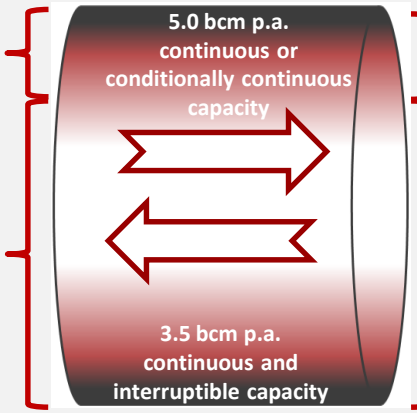
| | |
|---|---|
| FEED Design | Secured |
| Construction Permits | Secured |
| Rigths of way | C. 50% Secured |
| TPA/Unbundling | In progress |
| Commercial closing | In progress |
| Grid connection | In progress |
| EPC | To be completed |
| Financing | To be completed |

## General characteristics

**EXIT FROM POLAND/ENTRY TO GERMANY**

10 % of the pipeline capacity dedicated for short-term products (up to 1 year) offered in auctions acc. to CAM network code rules

90 % of the pipeline capacity dedicated to annual products with an option of booking 15 subsequent years) offered in auctions acc. to CAM network code rules




**EXIT FROM GERMANY/ENTERING TO POLAND**

10 % of the pipeline capacity dedicated to short-term products ( up to 1 year) offered in auctions acc. to CAM rules

90 % of the pipeline capacity dedicated to annual products with an option of booking 20 subsequent years offered in auctions (1.5 bcm p.a reserved exclusively for POLENERGIA)

POLENERGIA

# Other operating assets and projects

## Coal power plant - Power station Północ

- The construction of coal-fired power plants with total capacity of 2 * 800 MW using supercritical technology.
- The project will be based on a long-term PPA contract with a guaranteed collection price for 20 years.

| | |
|---|---|
| Planned power | to 2*800 Mwe |
| Efficiency | over 45% |
| Fuel (coal) | 20-22 GJ/ton |

## Biomass power plant

- Polenergia is currently working on power plant with a capacity of 31 MWe in Wińsko - received all permits

| Key features | |
|---|---|
| Turbine | Condensation / Alstom |
| Cauldron | Vibrating grate / DP Cleantech |
| Installed power | 31 MWe |
| Start-up | 2020 |
| Client | Delivery to the grid |
| Productivity (load factor) | 92% |
| Efficiency | Electric 33% |
| Operational period | 30 years |

## Zakrzów heating plant

- The plant with heat power of 23 MW located in Wroclaw
- Energy is produced from natural gas supplied by PGNiG distribution network
- Built in 2000 in order to provide electricity and heat to Whirlpool under long-term contract (valid up to approx. 2020).
- Built by Polenergia turnkey, along with the necessary infrastructure (gas pipeline and terminals)
- Whirlpool is the sole user of the produced thermal energy

## Power Plant Mercury

- The power plant is located in Walbrzych
- Launched in July 2006.
- Power unit boiler fueled with gas and steam turbine with power above 8 MWe
- Power unit generates electricity from gas that is a byproduct in the production of coke in WZK Victoria
- The power plant operates on the basis of a contract concluded between Polenergia and Victoria WZK for supply of coke oven gas and electricity reception. The contract is valid until December 31 2021.

## Production of pellet

- In response to the growing demand, since 2008 Polenergia launched 3 projects which produce pellet from agricultural biomass, required for power industry and municipal power plants. The company has three pellet factories
  - North Factory, located in Sępólno Krajeńskie
  - South Factory, located in Ząbkowice Śląskie
  - East Factory, located in Zamość

| | North Factory | South Factory | East Factory |
|---|---|---|---|
| Start-up | 2009 | 2010/2011 | 2012 |
| Annual production (t)* | 28k | 50k | 54k |

*Production in 2015, only pellet production