



RENEWABLE ENERGY



CONVENTIONAL ENERGY



DISTRIBUTION



TRADE

POLENERGIA 1Q 2018 Results

16th of May 2018

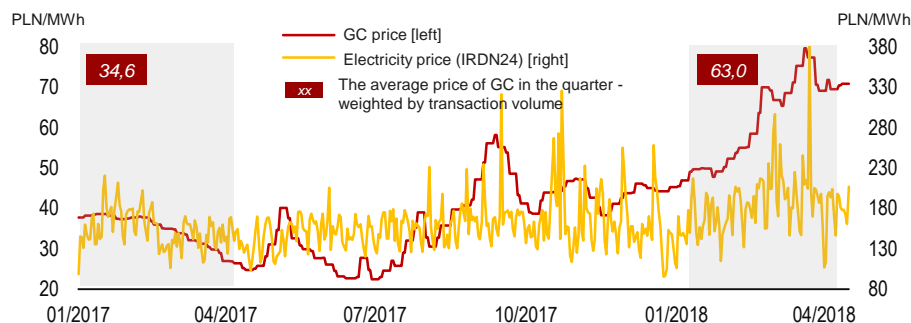
1Q 2018 Highlights

1 Market environment



- Parliament is working on the draft amendment to the Renewable Energy Act. On May 8 an extraordinary subcommittee of the Energy and Treasury Committee adopted the draft and sent it to the Energy and Treasury Committee. The project assumes auctions for new wind farms (more than 1GW) and confirms the amount of RET at the level before the Wind Farms Investment Act. Possible adoption by the end of June.
- The key players' activities indicate that the chances of implementing offshore wind farm projects are growing. Orlen - tender proceedings for a project to build offshore wind farms. PGE – intensification of works on offshore projects.
- The President of the Energy Regulatory Office approved the power market regulations. Auctions are planned for 4Q 2018.
- PSE publicly confirms the possibility of connecting next offshore wind farms - a possibility to implement the project Bałtyk I.
- The price of CO2 emission allowances has exceeded 14 EUR (an increase of about 62% between XII 2017 and III 2018).

Green certificates and electricity prices



Stock performance of Polenergia S.A.



2 Group activities



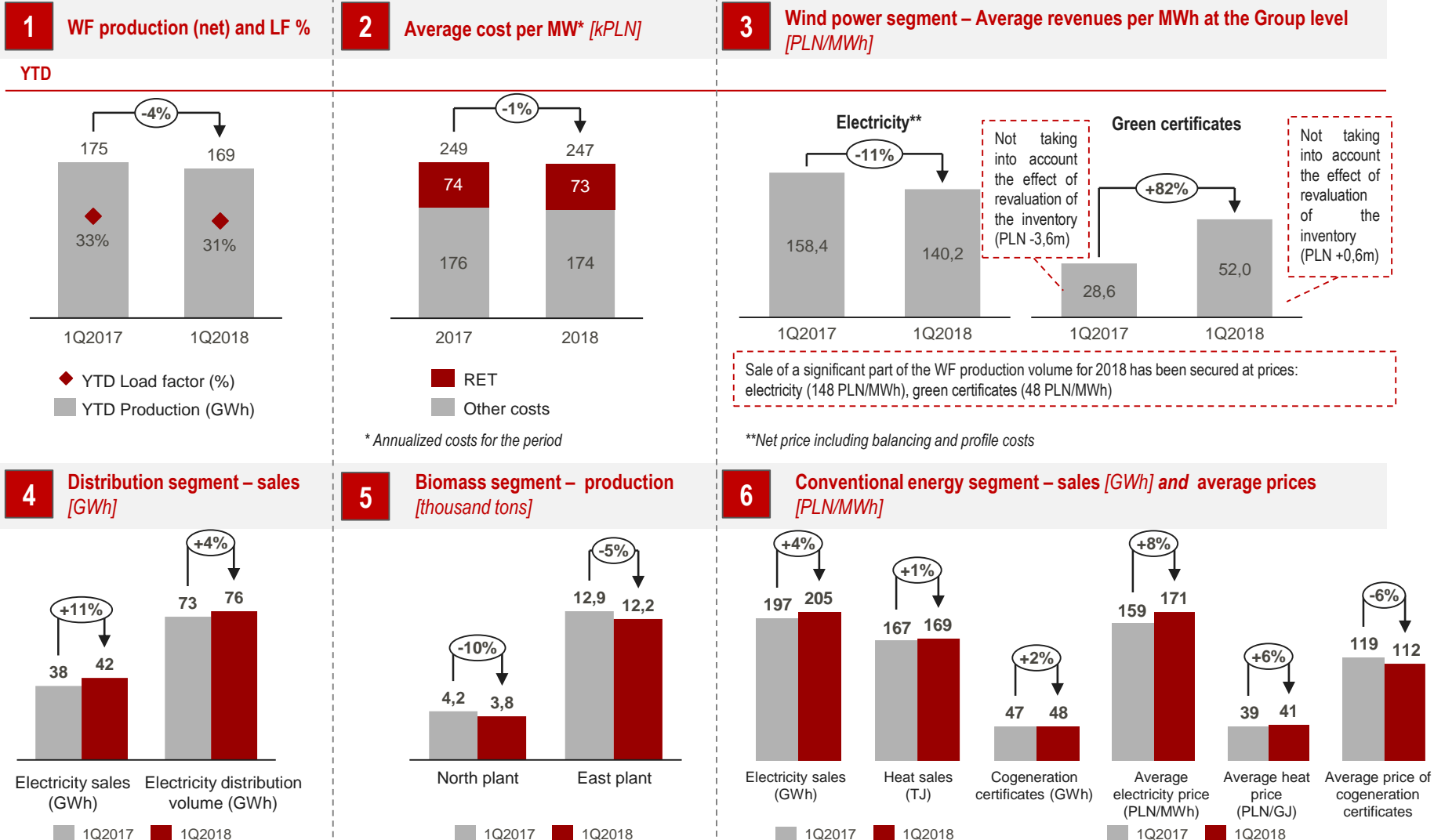
- Signing a preliminary agreement with Statoil (currently Equinor) for sale of 50% stake in Offshore (Polenergia Bałtyk II i Polenergia Bałtyk III). As a result of the fulfillment of key suspensive conditions, the Group plans to sign the agreement on May 22, 2018.
- Bringing a lawsuit against Tauron Polska Energia S.A. due to the break of long-term energy sales and property rights contracts concluded by a subsidiary of Tauron with WF Amon and WF Talia. The total amount of the dispute is 343 mPLN.
- Signing an agreement with Vestas regarding settlements related to a turbine failure on the project. A one-off positive impact of the agreement in the amount of approx. 2.9 mPLN will be recognized in 2Q2018.



- Claim brought by Eolos Polska Sp. z o.o. against subsidiaries of Polenergia S.A. (Polenergia Obrót S.A. and Certyfikaty Sp. z o.o.) for alleged non-performance of contracts. The Group believes that the claim is completely unfounded.

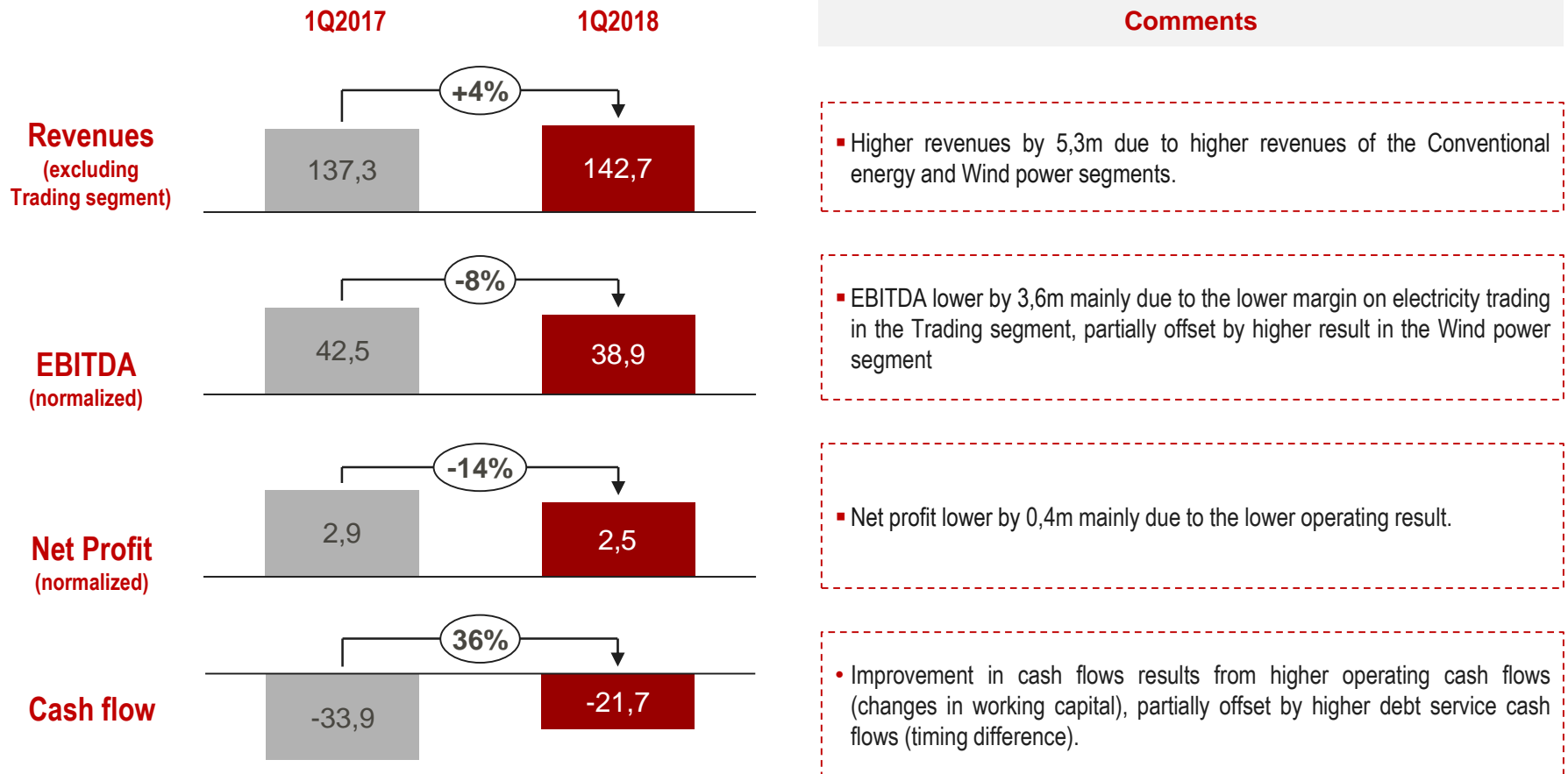
**VISIBLE SYMPTOMS OF IMPROVEMENT IN THE REGULATORY ENVIRONMENT
AND FURTHER DEVELOPMENT OF THE GROUP**

Summary of key operational parameters



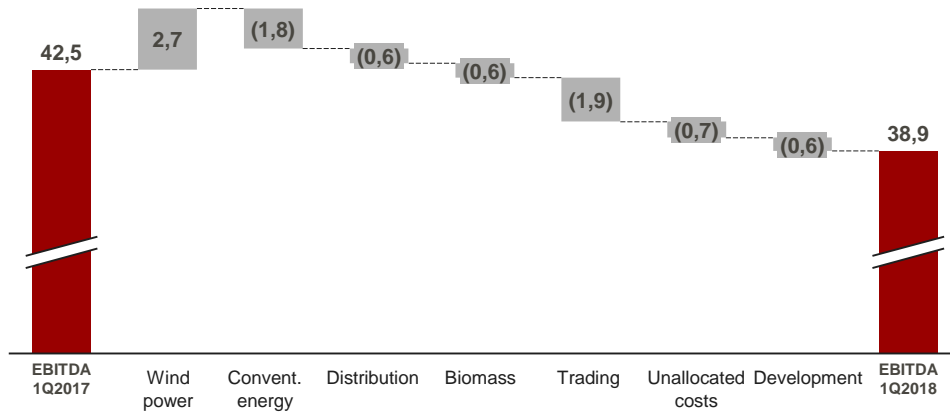
INCREASE IN GREEN CERTIFICATES PRICES AND STABLE OPERATIONAL PERFORMANCE IN THE KEY SEGMENTS

1Q 2018 Financial Highlights



HIGHER REVENUES AND LOWER EBITDA MAINLY DUE TO NEGATIVE VALUATION OF ELECTRICITY TRADING CONTRACTS

EBITDA by operating segments – 1Q2017 vs. 1Q2018



Comments

Wind power: effect of higher green certificates prices and lower operating costs, partially offset by lower production

Conventional energy: impact of higher gas and EUA prices; lower forecasted amount of gas compensation

Distribution: impact of lower connection fees and a lower margin on distribution as a result of timing difference in the tariff update

Biomass: impact of the lower volume and pellet sales prices; higher raw material prices

Trading: impact of the negative valuation of contracts in the trading portfolio, which was partially offset by the higher result on the wind farm portfolio

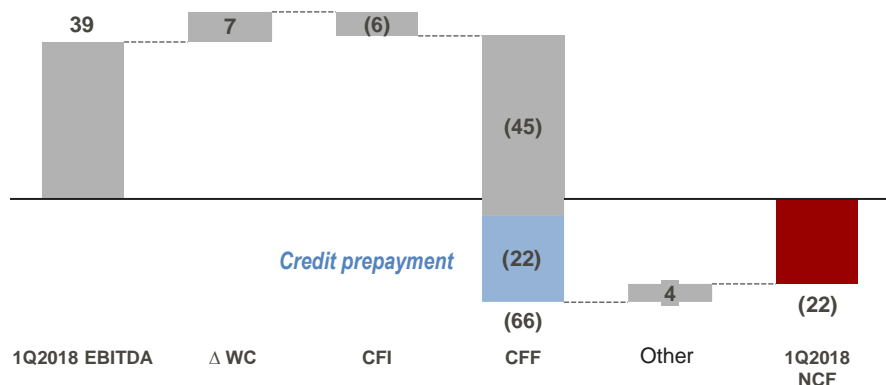
Unallocated costs: impact of settling the costs of the shared services center (lower share of costs subject to allocation) and additional settlements resulting from tax and other public liabilities

Development: impact of the lower capitalization of costs related to projects at an early stage of development

IMPROVEMENT IN WIND POWER SEGMENT OFFSET BY LOWER EBITDA IN OTHER SEGMENTS – MAINLY THE EFFECT OF CONTRACT VALUATION IN TRADING SEGMENT

Consolidated cash flow

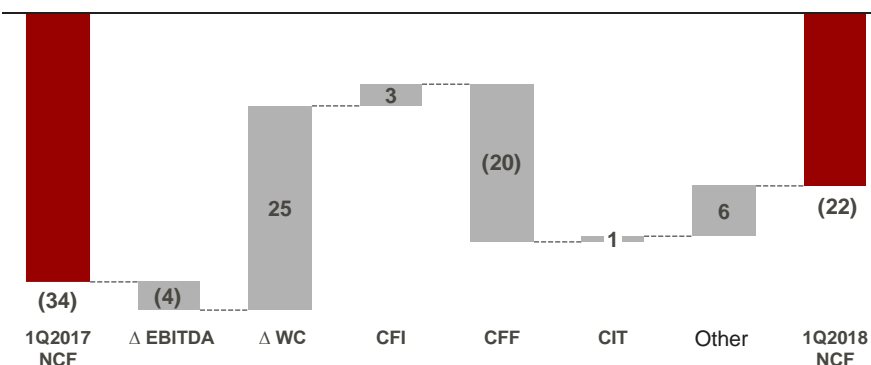
1 Conversion of EBITDA into Net cash flow



Comments

- **Δ WC:** mainly changes in working capital in the Trading segment and Conventional energy segment.
- **CFI:** capital expenditures mainly in the Distribution segment (implementation of the development plan from 2016) and expenditure on the development of offshore wind farm projects.
- **CFF:** mainly debt service in the Wind power segment and Conventional energy segment. Includes loan prepayment in the amount of 22 mPLN.

2 Cash flow 1Q2017 – 1Q2018

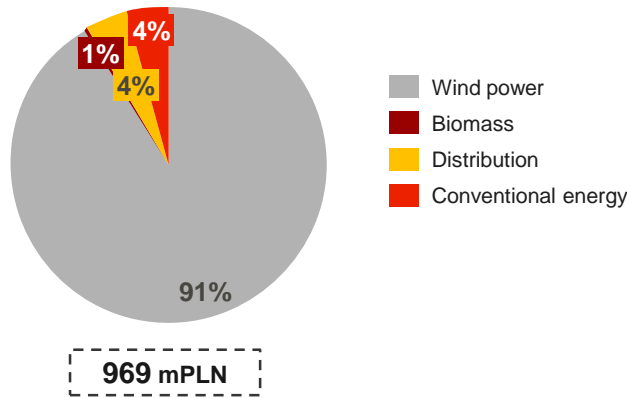


- Improvement in cash flows results from higher operating cash flow (positive change in working capital in the Trading segment), which were partially offset by higher debt service (timing difference in the Wind power segment).

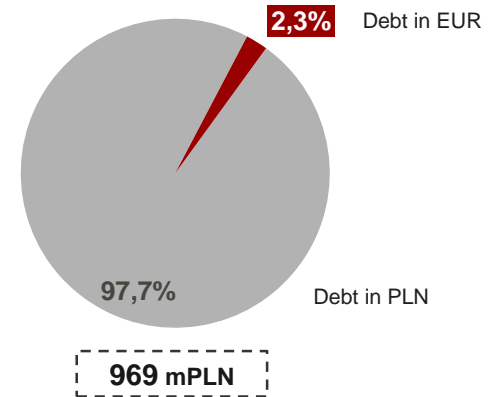
IMPROVEMENT IN NET CASH FLOW AS A RESULT OF HIGHER OPERATING CASH FLOWS

Debt structure as of 31 March 2018

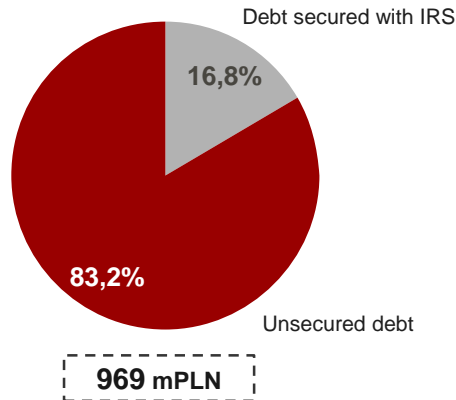
The structure of debt by segments



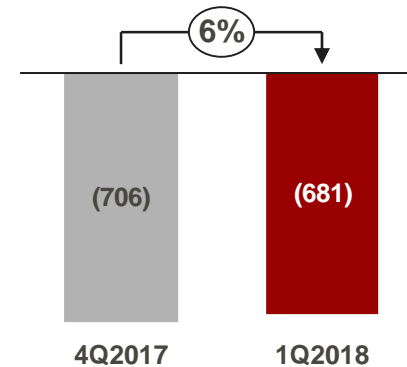
The structure of debt by currency (EUR vs. PLN)



The structure of debt by collateral



Net debt (4Q2017 vs. 1Q2018)



**NO CURRENCY RISK. INTEREST RATE RISK SECURED IN ABOUT 20%.
CONTINUATION OF NEGOTIATIONS ON DEBT REPROFILING IN WIND FARMS**



RENEWABLE ENERGY



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DISTRIBUTION



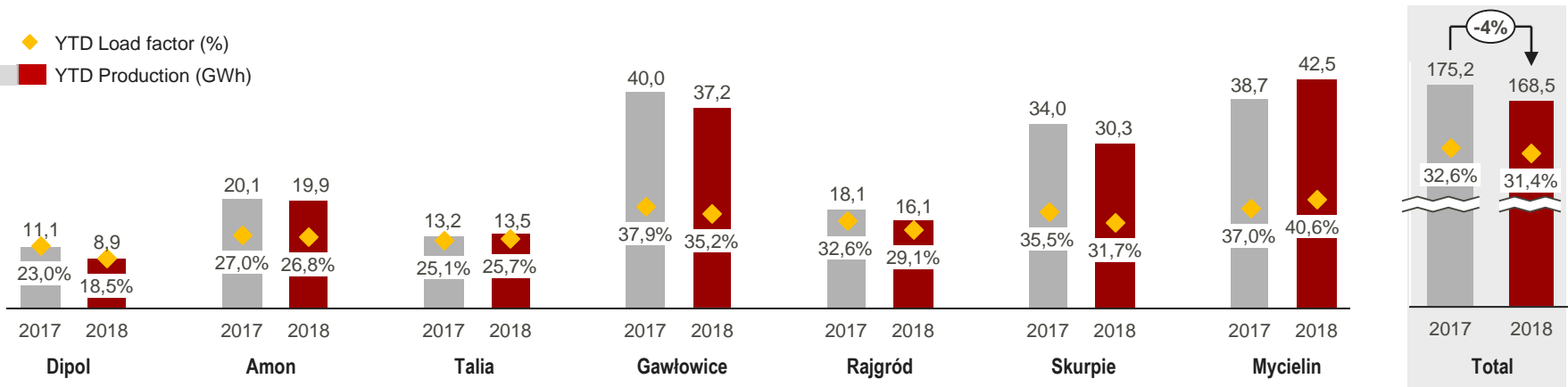
TRADE

Summary of segment results

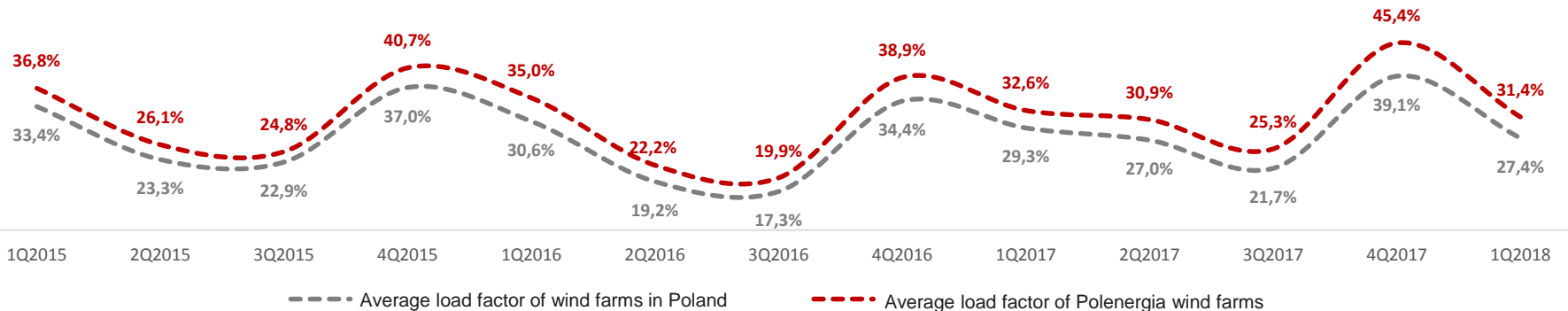
Wind power - production

Production (net), YTD for 1Q2017 and 1Q2018

◆ YTD Load factor (%)
■ YTD Production (GWh)



Productivity of Polenergia wind farms above average*

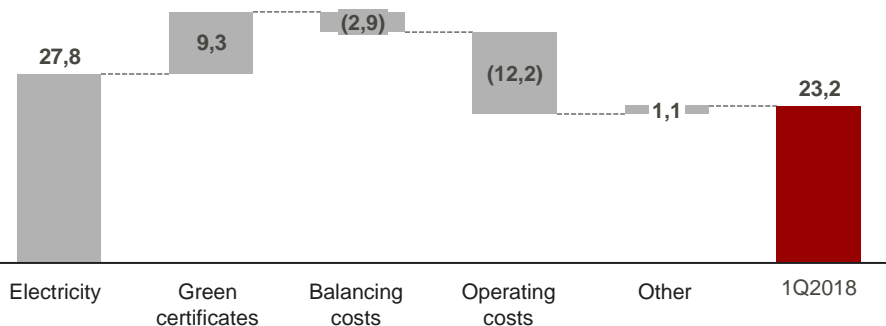


* Based on net productivity (after own consumption and losses) due to the availability of data

APPLICATION OF MODERN TECHNOLOGIES, VERY GOOD LOCATIONS AND THE EXPERIENCED TECHNICAL TEAM ALLOW FOR ACHIEVING PRODUCTIVITY ABOVE MARKET AVERAGE

Wind power

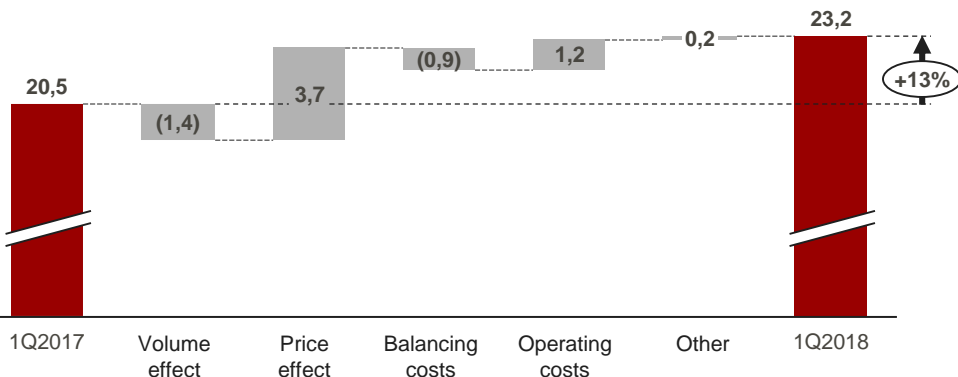
1 EBITDA build-up



Comments

- Lower production volume by 6,7 GWh in 1Q2018 as compared to 1Q2017.
- Higher average price of green certificates (in case of projects selling GC on market prices).
- Operating costs lower as compared to 1Q2017 mainly as a result of lower technical service costs (replacing of gearbox in WF Puck in 2017) partially offset by higher RET in WF Rajgród (correction of tax declaration in December 2017).

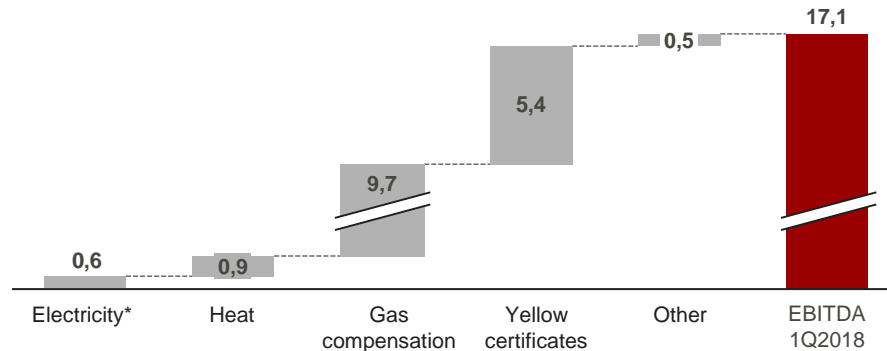
2 EBITDA bridge



HIGHER GREEN CERTIFICATES PRICES AND LOWER OPERATING COSTS

Conventional energy

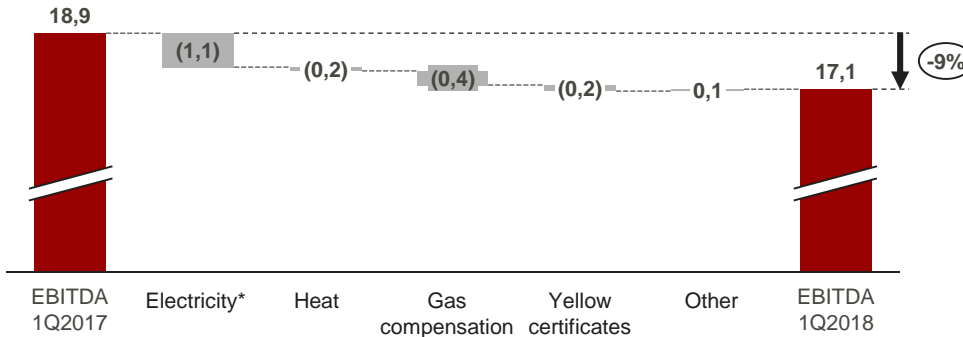
1 EBITDA build-up



Comments

- Lower EBITDA on electricity results from the increase in gas and EUA prices.
- Lower gas compensation results from the lower projected value of Wg indicator (the price of domestic gas to the price of imported gas). The actual value of the indicator for 2018 will be announced by the Energy Regulatory Office in July 2019.

2 EBITDA bridge

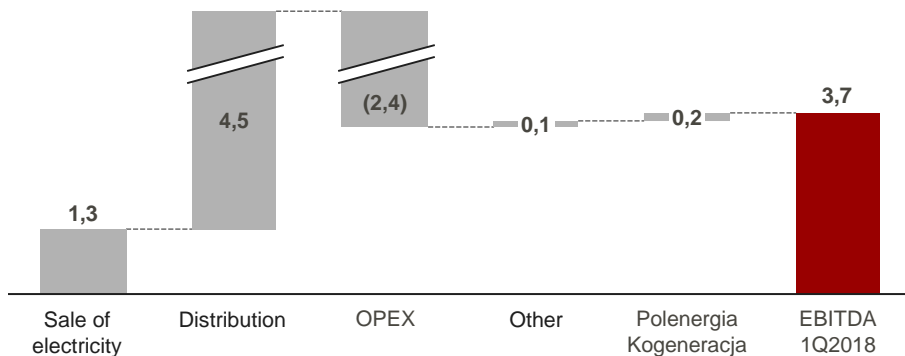


* Includes compensation for stranded costs and revenues from black-start services

STABLE OPERATIONAL ACTIVITY. LOWER EBITDA DUE TO INCREASE IN GAS AND EUA PRICES AND LOWER FORECASTED GAS COMPENSATION

Distribution

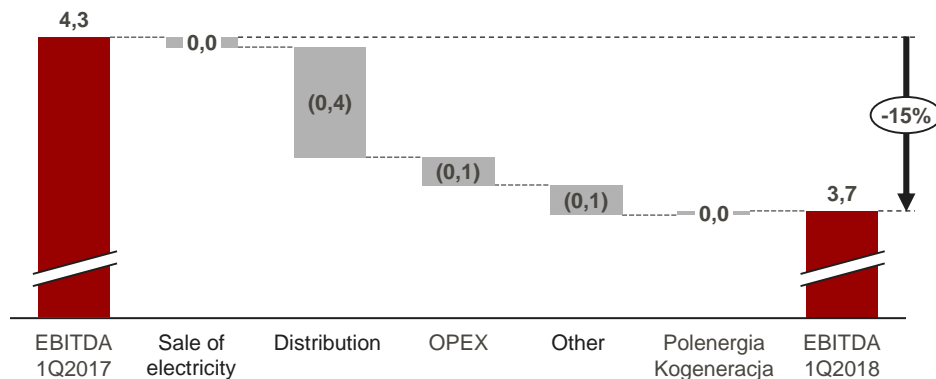
1 EBITDA build-up



Comments

- Lower distribution margin mainly caused by lower level of connection fees and a timing difference in the tariff update.

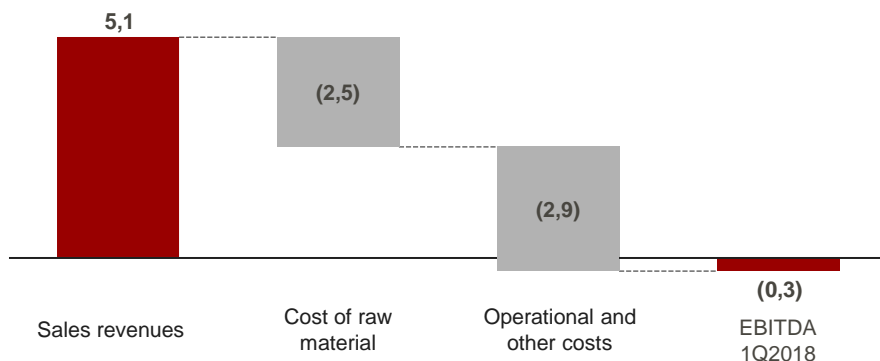
2 EBITDA bridge



STABLE OPERATIONAL ACTIVITY. LOWER LEVEL OF CONNECTION FEES AND TIMING DIFFERENCE IN THE TARIFF UPDATE

Biomass

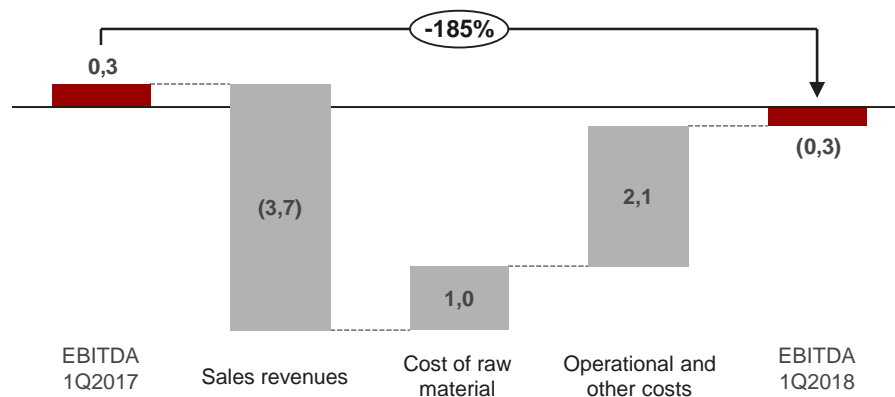
1 EBITDA build-up



Comments

- Lower revenues as a consequence of decrease in volumes and pellet sales prices.
- Higher raw material (straw) costs due to the higher price (invisible directly at the level of operating costs due to the lower volume of pellet production).

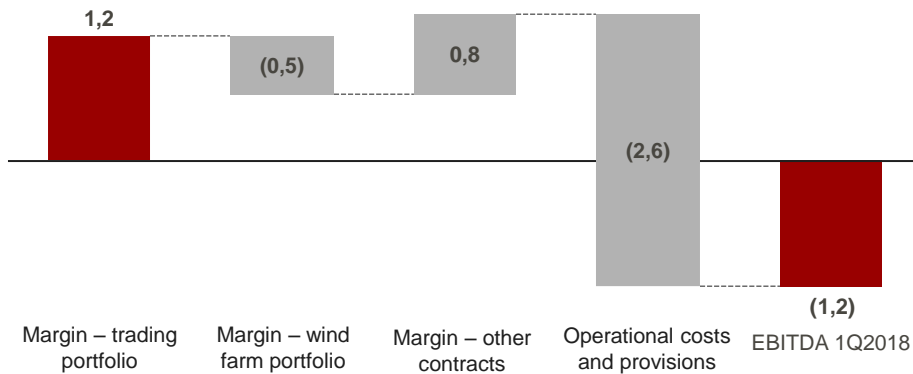
2 EBITDA bridge



LOWER VOLUMES AND PELLET SALE PRICES AND HIGHER RAW MATERIAL PRICES

Trading

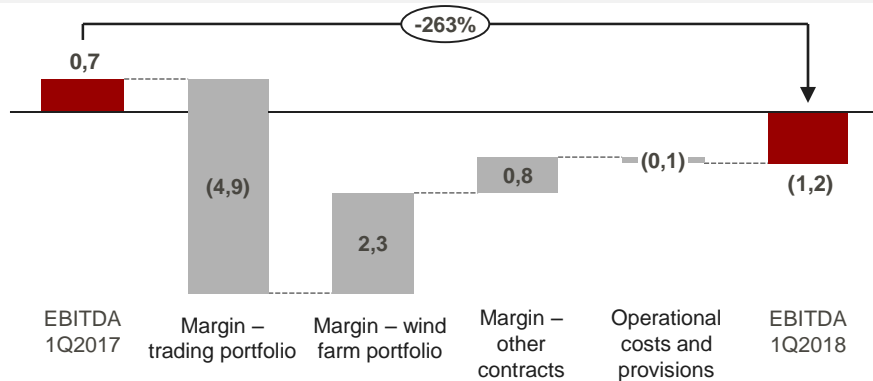
1 EBITDA build-up



Comments

- Lower trade margin caused by the negative valuation of contracts in the trading portfolio resulting from high price volatility in 1Q2018.
- An increase in the margin on the wind farms portfolio as a result of the increase in green certificates prices.
- Increased margin on other contracts due to ongoing optimization.
- Operating costs at a stable level.

2 EBITDA bridge



IMPROVED MARGIN ON WIND FARM PORTFOLIO AND OTHER CONTRACTS OFFSET BY NEGATIVE VALUATION OF CONTRACTS IN TRADING PORTFOLIO

Development activity

Onshore RTB (Dębask, Szymankowo, Kostomłoty, Piekło):

- Preparation to participate in the auction in 2018 in progress;
- New decisions on admission to the auction have been obtained (projects: Szymankowo, Dębask, Kostomłoty);
- Discussions on potential funding conditions have started.

Wińsko:

- Preparation works to participate in auction with a project of a capacity of 31MW in progress;
- New connection conditions have been obtained, the connection agreement has been agreed and signed;
- An application for prequalification for the auction has been submitted;
- The procedure of obtaining an Integrated Permit is in progress;
- The offers for the delivery of the main components of the power plant are being updated.

Offshore:

- Two suspensive conditions for the share purchase agreement have been fulfilled: the increase in the share capital of companies was registered and the Office of Competition and Consumer Protection consent for the transaction was obtained. Thus, all suspensive conditions of an external nature have been met;
- Wind measurement and acquiring of environmental decision for the connection cable is in progress.

PV:

- Preparation works to participate in the auction with projects of a total capacity of 40MW in progress;
- Land rights and some of the required permits / documents were obtained;
- The first project will be ready to participate in the auction at the end of 2018.

**OBTAINING A STRATEGIC PARTNER FOR THE IMPLEMENTATION OF THE OFFSHORE WIND FARM PROJECT.
PREPARATIONS FOR THE AUCTION FOR ONSHORE WIND FARMS (185 MW), PV (40 MW) AND BIOMASS (31MW)**