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POLENERGIA 2017 Results

20 February 2018

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Agenda:

01 Summary

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Summary of 2017

- **Preparation of growth / diversification strategy**
- **Closing of Dipol restructuring**
- **Agreeing the restructuring terms of WF Amon and Talia**
- **Continuation of HQ and WF O&M cost reduction:**
  - ✓ In 2015-2017, a significant reduction in HQ costs by ca. 30% compared to 2015 . HQ costs in 2017 were reduced by:
    - 9,0m comparing to 2015
    - 1,7m comparing to 2016
  - ✓ Reduction of WF O&M by ca 10% in 2 years
- **Maintaining low level of RET in some wind farms**
- **Stable liquidity Polenergia S.A. HQ** as a result of cost savings and optimal cash flow management in the Group

- **Amendment to the RES Act (decreasing substitution fee)**
- **RET: uncertainty and increase of tax burden in some projects**
- **Competition on the energy sales market**
- **Following fixed assets write-offs were made:**
  - ✓ Project Elektrownia Północ – 81m
  - ✓ Biomasa Południe – 10m
  - ✓ Project Grabowo – 9m

Polenergia currently operates at an optimal cost level, which is an optimal base for 2018 along with the expected improvement of the renewable energy market and the entry into force of the capacity market …

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Key issues for 2018

- **Restructuring of WF GSR and Mycielin**
- **Further cost saving**
- **Positive regulatory signals:** RET, amendment to RES Act (auctions for WF) and capacity market (opportunity for ENS)
- **Strategy**
  - ✓ Implementation of the New Strategy after prior approval by the Supervisory Board and final confirmation of Amendment to RES Act as well as optimal restructuring of WF GSR and Mycielin
- **Offshore**
  - ✓ Further development
- **Further analysis of storage opportunities with Convergent Energy & Power**

- **Debt restructuring costs**
- **Cost of court proceedings**
- **Further regulatory uncertainty**
- **Electricity, gas and GC price uncertainty**

... which gives a solid sense of optimism for 2018

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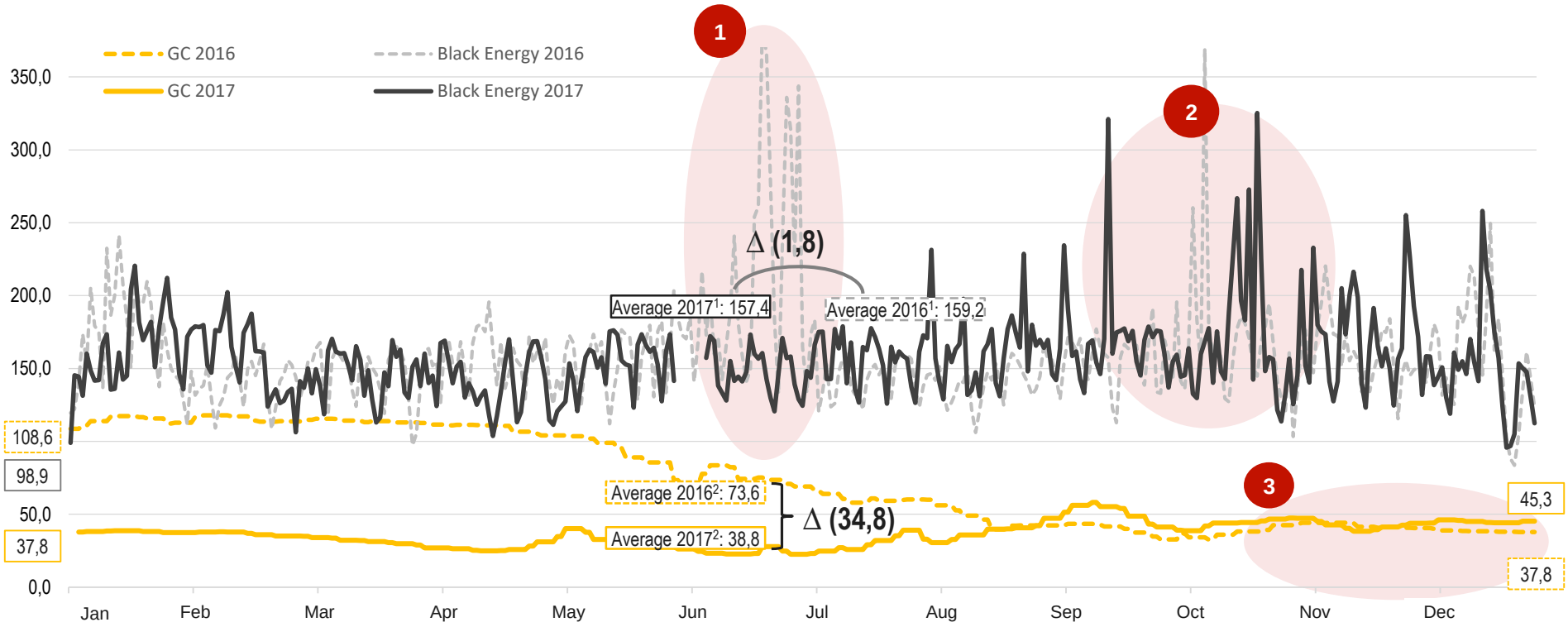
In 2017 average prices of GC lower by 34.8 PLN / MWh compared to 2016.



1. Volatility of electricity prices in June 2016 resulting from heat waves combined with worse wind conditions.
2. Price increase in 2017 from 162,4 PLN/MWh in January to 171,1 in September mainly due to technical limitations in the systemresulting from repairs and difficult weather conditions. On the futures market, electricity prices have also increased, mainly due to the current rise in coal prices and CO2 emission allowances.
3. GC prices in 4Q higher than prices in 4Q 2016. GC prices in 3Q 2017 higher than prices in 3Q 2016. Market stabilization is observed and slow price increase resulting from regulations changes. At the report date GC price amounted to ca. 55 PLN/MWh.

Source: TGE

[1] Arithmetic average based on TGE quotations

[2] Average price weighted by average volume of transactions on TGE. For the year 2017 the average price based on data between January and December

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Despite continuing of weak market conditions, margins remained relatively stable

(mPLN)	2016	2017
Total results		
Revenues	2 996,8	2 762,4
Adjusted EBITDA	228,0	181,6
Adjusted EBITDA margin	***7,6%***	***6,6%***
Results w/o Trading		
Revenues (w/o Trading)	598,5	536,5
Adjusted EBITDA (w/o Trading)	224,6	168,4
Adjusted EBITDA margin (w/o Trading)	***37,5%***	***31,4%***

Despite factors related to i.a. fall in green certificates prices, lower compensation for stranded costs and higher gas costs, EBITDA margins remained stable due to reduction of costs, productivity of wind farms and very good trading margins.

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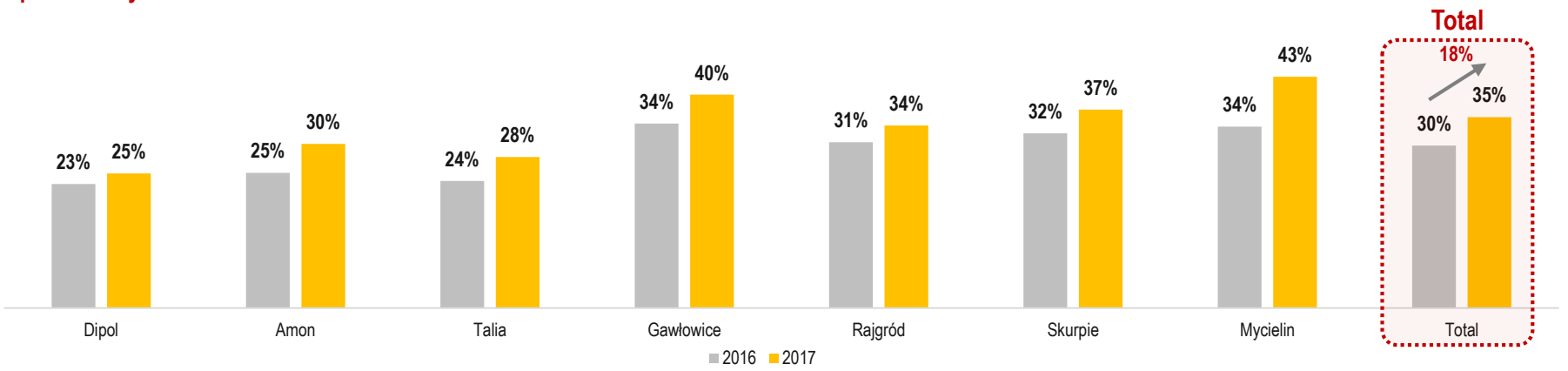
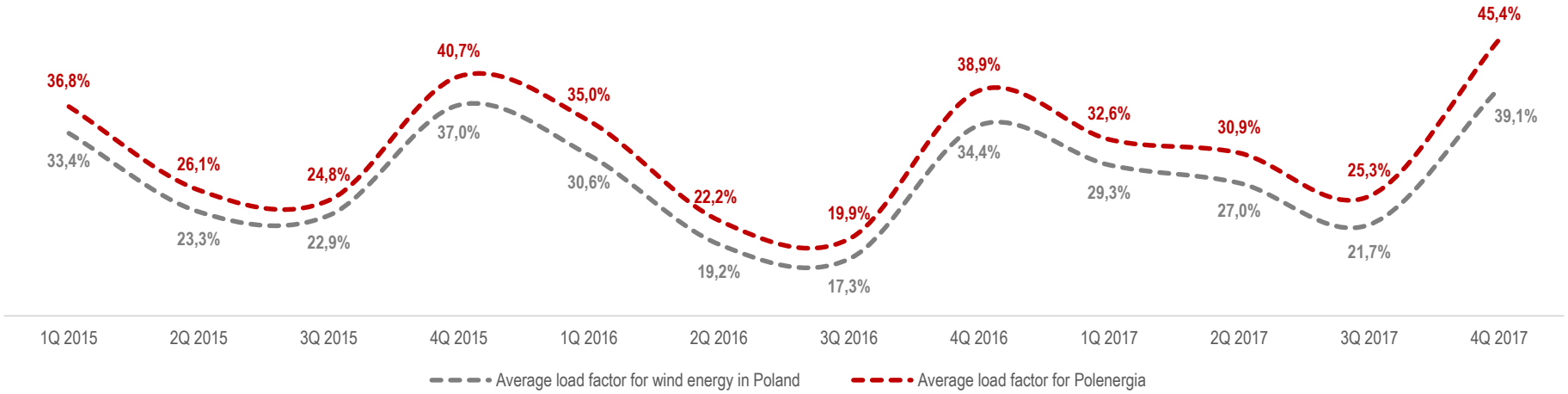
Excellent productivity, load factors consistently significantly above Polish average

Gross productivity 2017 vs. 2016



Net productivity of Polenergia wind farms above average*



Source: Polenergia calculation based on own and ARE data

Higher by 18% gross productivity compared to 2016, continuation of the trend of productivity being above average in Poland

* Comparison based on net productivity (after consumption and losses) due to availability of sector data

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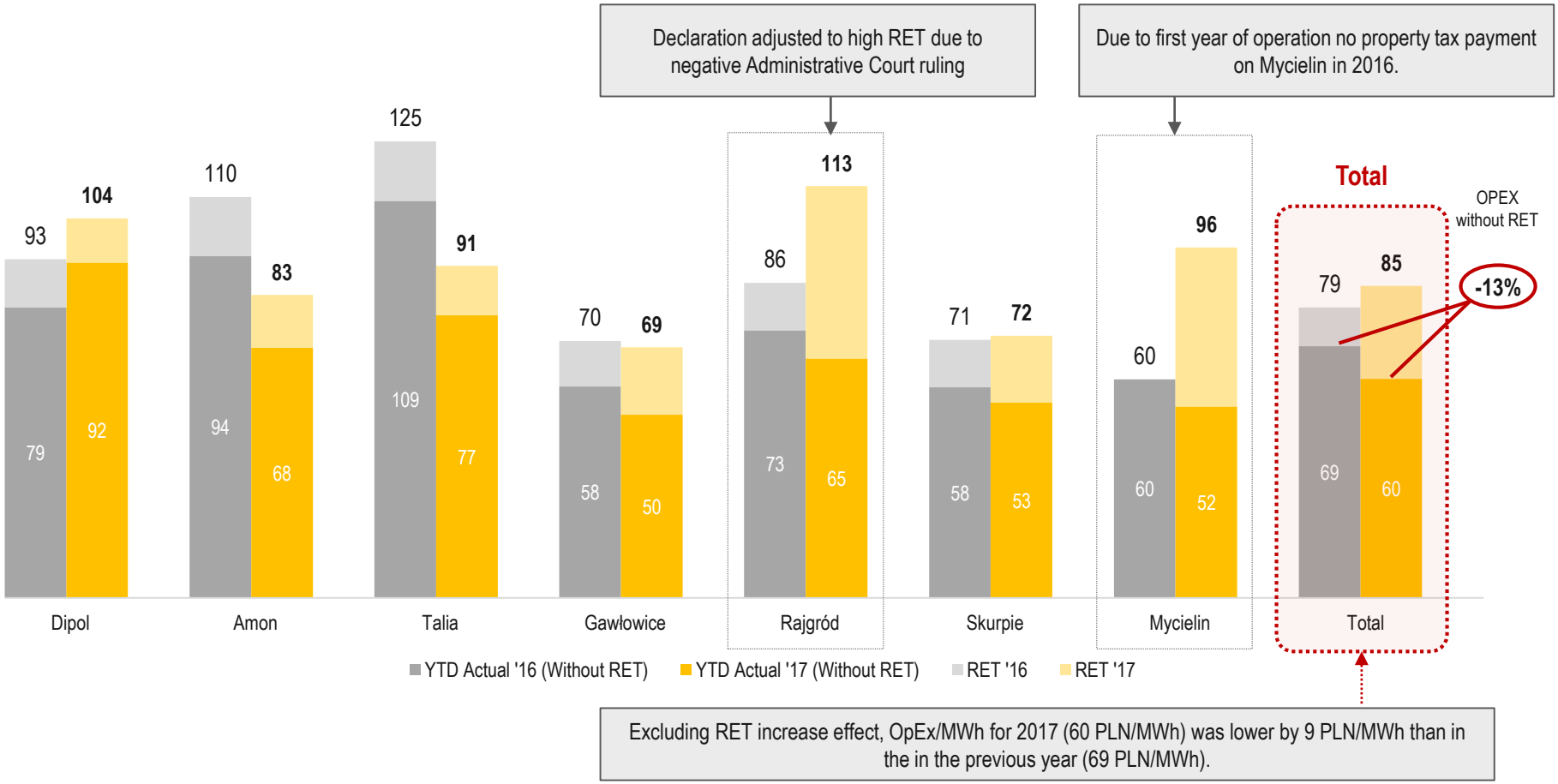
Significantly lower operating Wind Farms OPEX [PLN/MWh] (excl. RET)



Decrease of OpEx per MWh by 13% when adjusted for RET.

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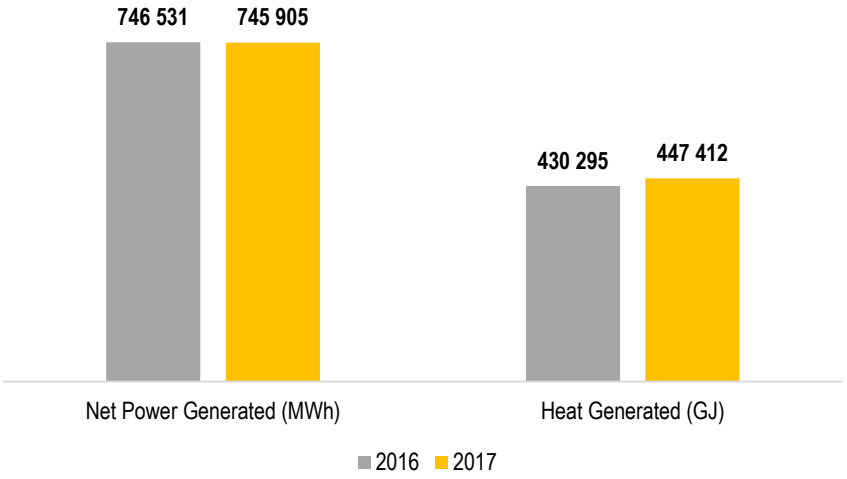
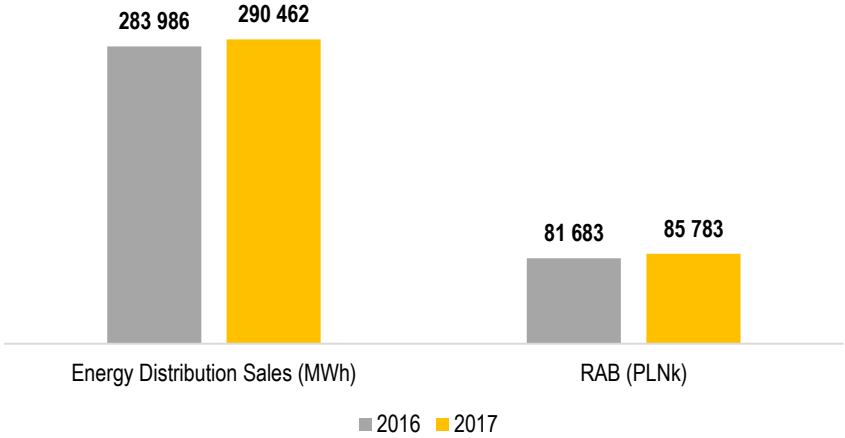
Stable operational performance and significantly higher Trading margin

Conventional (ENS) volumes: 2017 vs. 2016

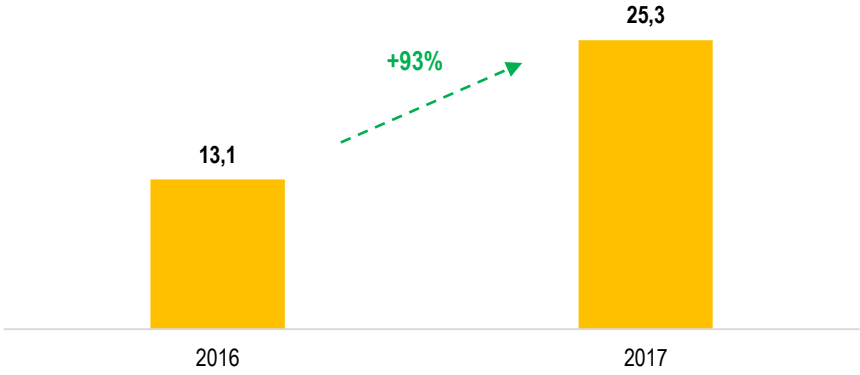


Distribution volumes: 2017 vs. 2016



- The production of the conventional energy segment and sales of the distribution segment remain stable.
- Higher trading margin results from concentration on high margin contracts and a positive strategy for GC.

Gross margin (PLNm) in Trading: 2017 vs. 2016



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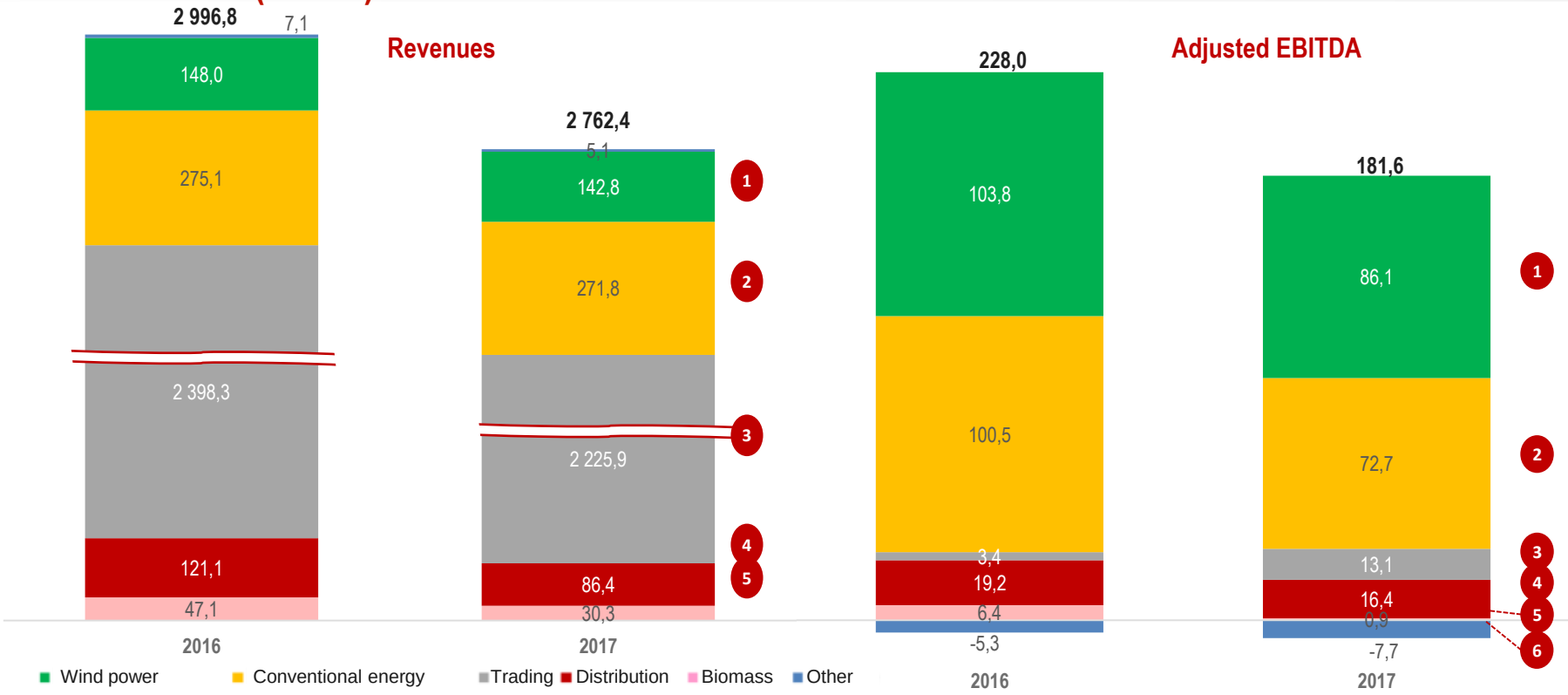
2016 vs 2017 (PLNm)



1. **Wind Farms:** Decrease as a result **of lower green certificates prices and higher real estate tax cost**, partly compensated **by higher productivity of wind farms.**
2. **Conventional energy:** Decrease as a result of **lower stranded cost compensation (2017 vs. 2016)** neutralized partly by higher revenues from gas compensation in 2017 (higher indexation rate).
3. **Trading**: Increase as a result of **better result on trading** and positive trend in GC prices (significant decrease of certificates prices in the previous year).
4. **Distribution:** Lower revenues due to discontinuation of gas sales to one of the contractors in October 2016. Lower EBITDA results from high base in 2016 (reversal of client settlement provision) and lower margins on energy distribution in 2017 (lower WACC).
5. **Biomass:** Decrease as a result of deteriorating situation in biomass market and resulting lower sales volumes and higher price of raw material.
6. **Others:** this position contains, among others, unallocated HQ cost and development expenses that were not capitalized – higher due to cost of preparation of diversification strategy and lower base in 2016 as a result of other operating revenues.

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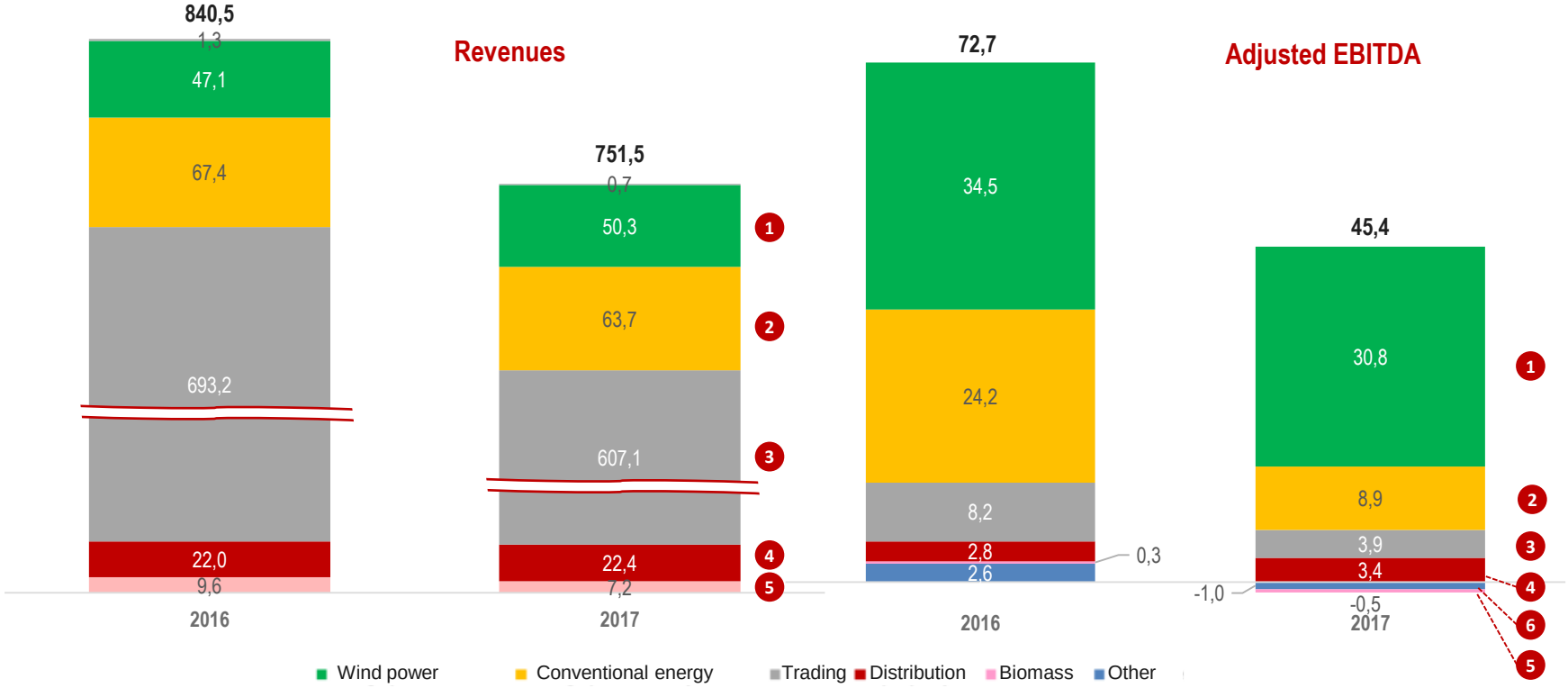
4Q 2016 vs 4Q 2017 (PLNm)



1. **Wind farms: Decrease of EBITDA as a result of higher real estate tax**, partly compensated by higher production resulting from better wind conditions and positive trend in GC prices in the last quarter 2017.
2. **Conventional energy:** EBITDA lower due to **lower compensation of stranded costs (2017 vs. 2016)** neutralized partly by higher revenues from gas compensation in 4Q 2017 (higher gas cost).
3. **Trading:** Lower EBITDA due to **lower result on forward contracts valuation for 2017-2019,** partly compensated by higher result on external trading portfolio and intra-group wind farms portfolio.
4. **Distribution:** Higher EBITDA mainly as a result of higher margin on sale and on distribution of energy.
5. **Biomass:** Lower EBITDA result from lower sales volumes of pellet and higher prices of raw materials in 2017 resulting from deteriorating of situation in the Polish biomass market.
6. **Others:** this position contains, among others, unallocated HQ cost and development expenses that were not capitalized.

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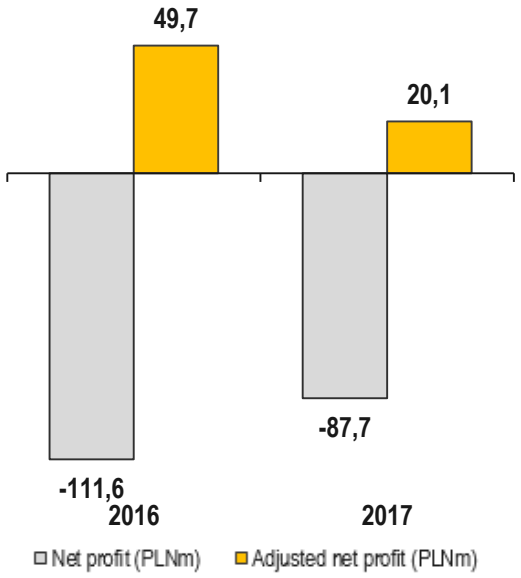
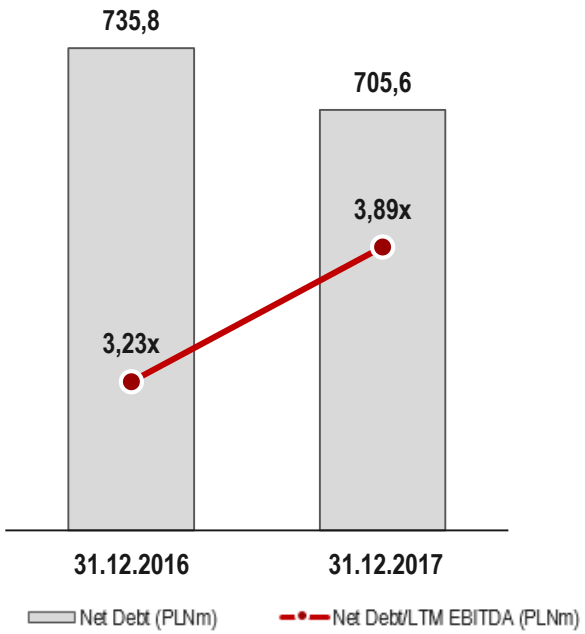
Net Profit and Group Debt

Net Profit and Adjusted Net Profit of the Group in PLNm



Net Debt of the Group (PLNm) and Net Debt / EBITDA



Adjustments [mPLN]	12M 2017	12M 2016	Difference
Effect of the purchase price allocation	6,0	6,0	0,0
Effect of unrealized exchange differences	(1,0)	1,2	(2,2)
Effect of AMC loans valuation	2,7	2,7	0,1
Write-offs	100,1	156,8	(56,6)
Effect of Zakrzów CHP sale	0,0	(5,3)	5,3
Total	**107,8**	**161,3**	**(53,5)**

- Write-offs in 2016 related to fixed assets of operating wind farms, wind farms in development and the Bernau-Szczecin gas transmission project.
- Write-offs in 2017 related to fixed assets of wind farm in development stage (Grabowo), Elektrownia Północ and Biomasa Południe.

- In 2017, the level of debt decreased, but due to decrease in EBITDA, Net Debt / EBITDA ratio increased – a safe level for the Group.
- Clear progress in debt restructuring (key for the stabilization necessary for growth / diversification):
  - Dipol: finished in December 2017
  - AT: terms agreed in December 2017, closing of the documentation planned in Q1/Q2
  - GSR and Mycielin: renegotiations with banks in progress.

02 Consolidated financial results

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Consolidated 2017 results – P&L

	Polenergia Group Income Statement (mPLN)	12M 2017	12M 2016	Diff y/y	Diff y/y [%]
	Revenues froma sales	**2 762,4**	**2 996,8**	**(234,4)**	**-8%**
	of which Trading segment	2 225,9	2 398,3	(172,5)	
	Costs of Googs Sold	(2 647,1)	(2 854,8)	207,8	-7%
	of witch Trading segment	(2 202,4)	(2 385,9)	183,5	
	of witch costs by kind	(412,3)	(405,2)	(7,1)	
	Gross profit on sales	**115,3**	**141,9**	**(26,6)**	**-19%**
	Selling, general and administrative costs	(36,4)	(33,7)	(2,7)	8%
	Other operating income/costs	(91,8)	(169,4)	77,6	-46%
A	**Gross result on sale (EBIT)**	**(12,9)**	**(61,2)**	**48,3**	**79%**
	Depreciation	97,1	115,4	(18,3)	
	Write-offs	100,1	177,4	(77,2)	
	EBITDA	**184,3**	**231,5**	**(47,2)**	**-20%**
	Eliminating the effect of purchase price allocation	(2,7)	(2,7)	0,0	
	Eliminating the effect of Zakrzów CHP sale	-	(0,8)	0,8	
	Adjusted EBITDA*	**181,6**	**228,0**	**(46,4)**	**-20%**
B	Financial income	6,4	8,0	(1,6)	
C	Financial expenses	(60,8)	(65,2)	4,4	
A+B+C	**Profit (loss) before tax**	**(67,3)**	**(118,3)**	**51,0**	
	Income tax	(20,4)	6,8	(27,2)	
	Net profit (loss)	**(87,7)**	**(111,6)**	**23,9**	**21%**
①	Eliminating the effect of purchase price allocation	6,0	6,0	0,0	
②	Eliminating the effect of unrealized exchange differences	(1,0)	1,2	(2,2)	
③	Eliminating the effect of AMC loans valuation	2,7	2,7	0,1	
④	Eliminating the effect of biomass write-off	9,5	-	9,5	
⑤	Eliminating the effect of development write-offs	90,6	96,1	(5,5)	
⑥	Eliminating the effect of operational wind farms write-off	-	60,7	(60,7)	
⑦	Eliminating the effect of Zakrzów CHP sale	-	(5,3)	5,3	
	Adjusted Net Profit*	**20,1**	**49,7**	**(29,6)**	**-60%**
	Adjusted EBITDA margin	**6,6%**	**7,6%**	**-1,0%**	
	Revenues from sales in Trading segment	2 225,9	2 398,3	(172,5)	
	Costs of Goods Sold in Trading segment	(2 202,4)	(2 385,9)	183,5	
	Adjusted EBITDA (excl. trading segment)	**168,4**	**224,6**	**(56,2)**	**-25%**
	Adjusted EBITDA margin (excl. trading segment)	**31,4%**	**37,5%**	**-6,1%**	

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

Revenues lower by 8%, mainly due to lower revenues from the sale of electricity on the Trading segment (effect of lower average prices, while maintaining the upward trend in trading margin), discontinuation of gas sales to one of the counterparties on the Distribution segment and a lower volume of pellets from due to the deteriorating situation on the biomass market.

A decrease in cost of sales by more than 7%. A detailed decomposition of costs by kind is presented on the slide 21. The visible impact of the savings program in the Group (reduction of remuneration costs by 9.1 m PLN in the entire 2016 and a further 3.2 m PLN in 2017).

Lower depreciation due to turbine useful life extension in wind farm segment to 25 years.

Write-off are described in points 4, 5 and 6 below.

EBITDA decomposition is presented on slide 17.

Higher CIT due to decrease in deferred tax provision (PLN 6,3m) connected mainly with write-off of gas pipeline project, deferred tax assets write-offs and no deferred tax asset calculation in Trading segment due to conservative approach.

Normalizing items:
1) Effect of purchase price allocation (apart from goodwill)
2) Unrealized FX differences (mainly in Dipol due to loan in EUR)
3) Accounting approach to loan valuation (IFRS)
4) Write-off connected with discontinuation of an operation in Grupa PEP Biomasa Południe Sp. z o.o. (Biomass South plant).
5) Write-off connected with revaluation of fixed assets value of project Elektrownia Północ and resignation from construction of wind farm in Grabowo in 2017. In 2016 there is visible write off in PPG project.
6) Operating wind farms impairment
7) Result on sale of CHP Zakrzów

Margin sustained at a stable level despite the decline in prices of green certificates and lower compensation for stranded costs and higher gas costs in the conventional energy segment. The effect was possible due to a reduction of the cost of sales in the Trading Segment and a better result on other operating activities.

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Consolidated 4Q 2017 results – P&L

	Polenergia Group Income Statement (mPLN)	4Q 2017	4Q 2016	Diff y/y	Diff y/y [%]
	Revenues froma sales	**751,5**	**840,5**	**(89,1)**	**-11%**
	of which Trading segment	607,1	693,2	(86,1)	
	Costs of Googs Sold	(717,0)	(791,4)	74,4	-9%
	of witch Trading segment	(599,7)	(682,4)	82,7	
	of witch costs by kind	(108,3)	(98,3)	(10,0)	
	Gross profit on sales	**34,5**	**49,1**	**(14,6)**	**-30%**
	Selling, general and administrative costs	(12,1)	(8,6)	(3,5)	40%
	Other operating income/costs	(1,4)	(71,4)	70,0	-98%
A	**Gross result on sale (EBIT)**	**21,0**	**(30,9)**	**52,0**	**168%**
	Depreciation	24,0	29,8	(5,8)	
	Write-offs	1,1	74,5	(73,4)	
	EBITDA	**46,1**	**73,4**	**(27,2)**	**-37%**
	Eliminating the effect of purchase price allocation	(0,7)	(0,7)	0,0	
	Eliminating the effect of Zakrzów CHP sale	-	-	-	-
	Adjusted EBITDA*	**45,4**	**72,7**	**(27,2)**	**-37%**
B	Financial income	0,3	1,0	(0,8)	
C	Financial expenses	(13,4)	(17,1)	3,7	
A+B+C	**Profit (loss) before tax**	**7,9**	**(47,0)**	**54,9**	
	Income tax	(11,4)	9,7	(21,0)	
	Net profit (loss)	**(3,5)**	**(37,4)**	**33,9**	**91%**
①	Eliminating the effect of purchase price allocation	1,5	1,5	0,0	
②	Eliminating the effect of unrealized exchange differences	(0,3)	0,7	(1,0)	
③	Eliminating the effect of AMC loans valuation	0,7	1,0	(0,3)	
④	Eliminating the effect of biomass write-off	(0,2)	-	(0,2)	
⑤	Eliminating the effect of development write-offs	1,3	(0,4)	1,7	
⑥	Eliminating the effect of operational wind farms write-off	-	60,7	(60,7)	
⑦	Eliminating the effect of Zakrzów CHP sale	-	-	-	
	Adjusted Net Profit*	**(0,5)**	**26,0**	**(26,5)**	**-102%**
	Adjusted EBITDA margin	**6,0%**	**8,6%**	**-2,6%**	
	Revenues from sales in Trading segment	607,1	693,2	(86,1)	
	Costs of Goods Sold in Trading segment	(599,7)	(682,4)	82,7	
	Adjusted EBITDA (excl. trading segment)	**41,5**	**64,4**	**(22,9)**	**-36%**
	Adjusted EBITDA margin (excl. trading segment)	**28,8%**	**43,7%**	**-15,0%**	

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

Revenues lower by 11% primarily due to lower revenues from sales of energy in the Trading segment (effect of lower average market prices), discontinuation of gas sales to one of the contractors in the Distribution segment, lower compensation of stranded costs in Conventional Energy segment and a decrease in the volume and prices of pellets due to the deteriorating situation on the biomass market.

A decrease in costs of sales by over 9%. Description of variances on cost by kind and selling, general and administrative costs presented on slide 22.

Lower depreciation due to turbine useful life extension in wind farm segment to 25 years.

EBITDA decomposition is presented on slide 18.

Higher tax due to impairment in Wind Farms segment in 4Q 2016, deferred tax Asset write-off in Amon and Talia and no deferred tax asset calculation in Trading segment due to conservative approach.

Normalizing items:

1) Effect of purchase price allocation (apart from goodwill)
2) Unrealized FX differences (mainly in Dipol due to loan in EUR)
3) Accounting approach to loan valuation (IFRS)
4) Write-off connected with discontinuation of an operation in Grupa PEP Biomasa Południe Sp. z o.o. (Biomass South plant).
5) Write-off connected with revaluation of fixed assets value of project Elektrownia Północ and resignation from construction of wind farm in Grabowo in 2017. In 2016 there is visible write off in PPG project.
6) Operating wind farms impairment
7) Result on sale of CHP Zakrzów

Higher decrease in margin in the fourth quarter compared to the entire 2017 results mainly from lower compensation for stranded costs and higher gas costs in the conventional energy segment.

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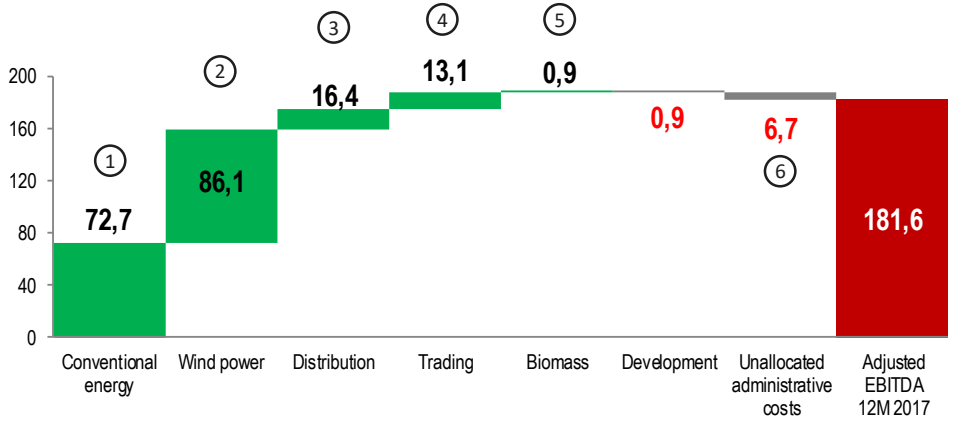
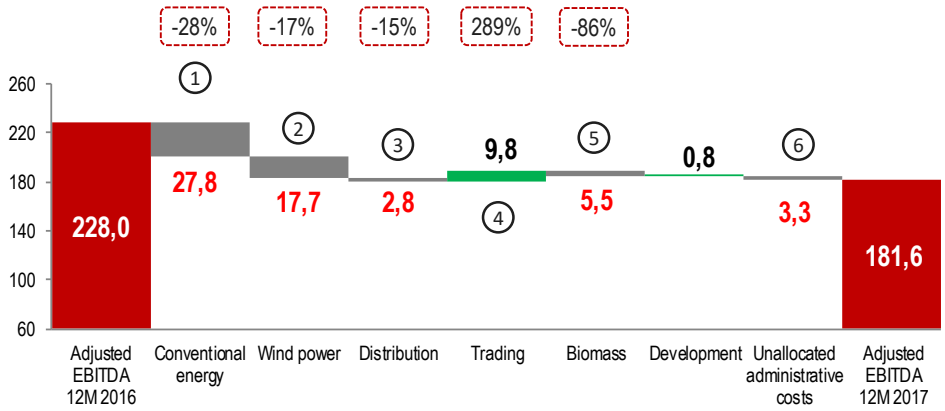
Consolidated 2017 results – EBITDA analysis

EBITDA Build-up 2017



EBITDA Bridge 2017/2016



1. **Conventional energy:** Decrease of EBITDA by 27,8 mPLN as a result of negative deviation at the level of stranded costs compensation (2017 vs 2016) partly compensated by higher revenues from gas compensation in 2017 (higher indexing rate).
2. **Wind power**: Decrease of EBITDA (by 17,7 mPLN) due to lower GC prices and higher RET partly compensated by higher production of wind farms due to excellent wind conditions.
3. **Distribution**: Decrease of EBITDA by 2,8 mPLN, resulting from high base of the year 2016 (reversal of provision for settlement with a contractor) and lower margins on electricity distribution in 2017 (decrease of WACC from 7,2% in 2016 to 5,5% in 2017).
4. **Trading**: EBITDA higher than last year (by 9,8 mPLN), mainly due to the positive trend in GC prices (significant drop in the price of certificates in the previous year) and better results on electricity trading.
5. **Biomass**: Decrease of EBITDA (by 5,5 mPLN) due to deteriorating situation on the biomass market resulting in lower volumes of sale and higher raw material prices.
6. **Unallocated administrative costs**: Unallocated administrative costs higher as compared to last year as a result of additional costs related to work on strategic diversification which were incurred in 2017 and additional other operating income recognized in 2016 resulting from the sale of assets of Zakrzów, which increased the result of the previous year.

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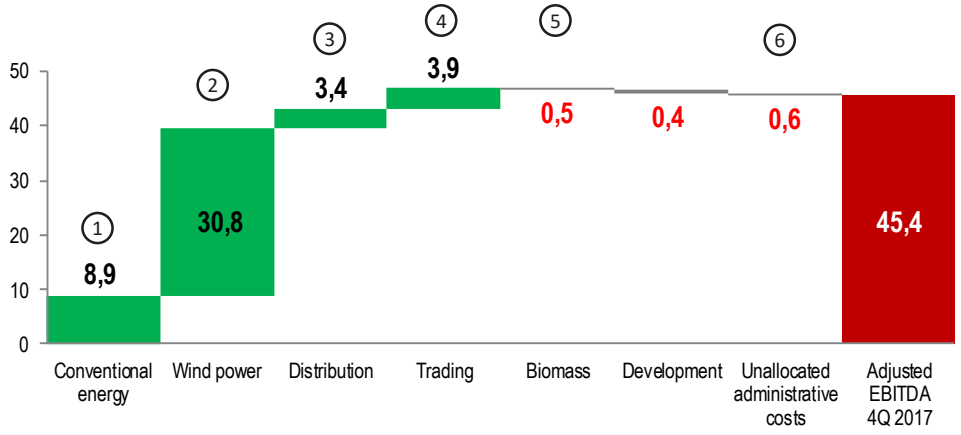
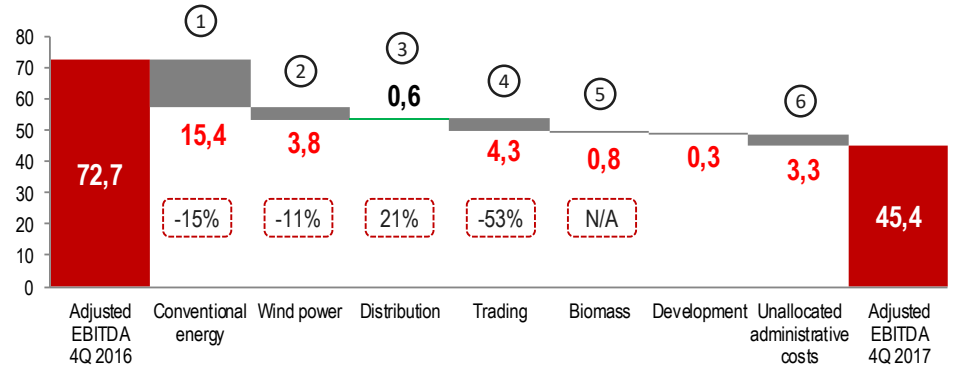
Consolidated 4Q 2017 results – EBITDA analysis

EBITDA Build-up 4Q 2017



EBITDA Bridge 4Q 2017/ 4Q 2016



1. **Conventional Energy:** Decrease of EBITDA by 15,4 mPLN as a result of negative deviation at a level of stranded costs compensation (2017 vs 2016) partly neutralized by higher revenues from gas compensation in 4Q 2017 (as a consequence of higher cost of gas).

2. **Wind:** Decrease of EBITDA (by 3,8 mPLN) as a result of higher RET, partly compensated by higher production of wind farms due to excellent wind conditions.

3. **Distribution:** EBITDA higher by 0,6 mPLN mainly due to higher margin on both, sales and distribution of electricity (in December 2016 new tariff for large DSOs while Distribution still had previous tariff, which resulted in much lower result of December 2016 as compared to the rest of 2016).

4. **Trading:** EBITDA lower than last year (by 4,4 mPLN), due to higher transaction costs as a result of larger volume of green certificates trading and lower result on valuation of future contracts for 2017-2019, partly compensated by higher result on external trading portfolio and on intra-group portfolio of wind farms

5. **Biomass:** Decrease of EBITDA (by 0,8 mPLN) due to lower sales volumes as a result of deteriorating situation on the biomass market and higher raw material prices.

6. **Unallocated administrative costs:** Unallocated administrative costs higher as compared to last year as a result of additional costs related to work on strategic diversification which were incurred in 2017 and additional other operating income recognized in 2016 resulting from the sale of assets of Zakrzów, which increased the result of the previous year.

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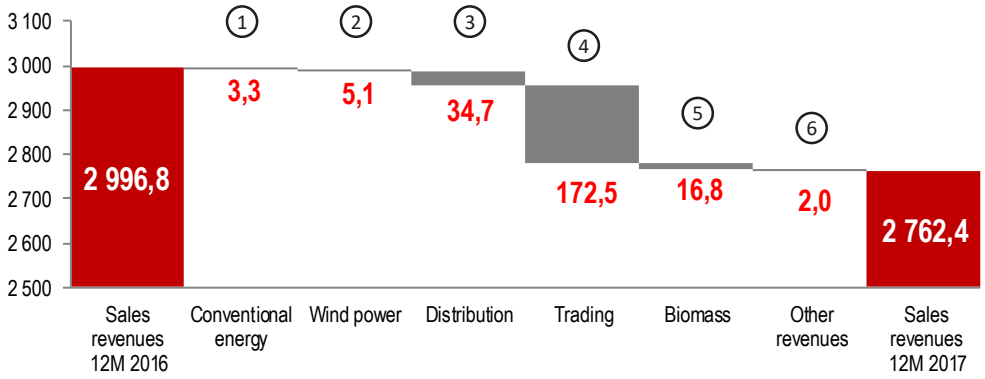
Revenues split and evolution: 12M 2017

Revenues bridge 2016/2017



Revenues by segments (PLN m)	12M 2017	12M 2016	Diff	%	
Conventional energy	271,8	275,1	(3,3)	-1%	1
Wind power	142,8	148,0	(5,1)	-3%	2
Distribution	86,4	121,1	(34,7)	-29%	3
Trading	2 225,9	2 398,3	(172,5)	-7%	4
Biomass	30,3	47,1	(16,8)	-36%	5
Other revenues	5,1	7,1	(2,0)	-28%	6
Total	**2 762,4**	**2 996,8**	**(234,4)**	-8%	

1. **Conventional energy**: Sales revenues on a stable level – negative deviation resulting from maintaining production at a level similar to 2016. Additionally, revenues from gas compensation and stranded costs compensation, containing the effect of compensation of stranded costs recognized on the revenue side in 1Q and 4Q 2016 is close to the total level of gas compensation and compensation of stranded costs, which were recognized in revenues in 2017.
2. **Wind power**: Lower revenues due to lower GC prices, especially in the first half of 2017 in comparison with 2016, partly compensated by higher productivity resulting from better wind conditions in 2017.
3. **Distribution**: Lower revenues due to termination of gas supplies to one of the clients from October 2016 as a result of unfavorable result of the tender.
4. **Trading**: Lower revenues due to lower volume of sales while maintaining the upward trend in trade margins in 2017.
5. **Biomass**: Sales revenues lower due to lower volumes and sales prices of pellets as a result of deteriorating situation on the biomass market.
6. **Other revenues, including**: Revenues from lease and operator services, revenues from sales of goods and rental income.

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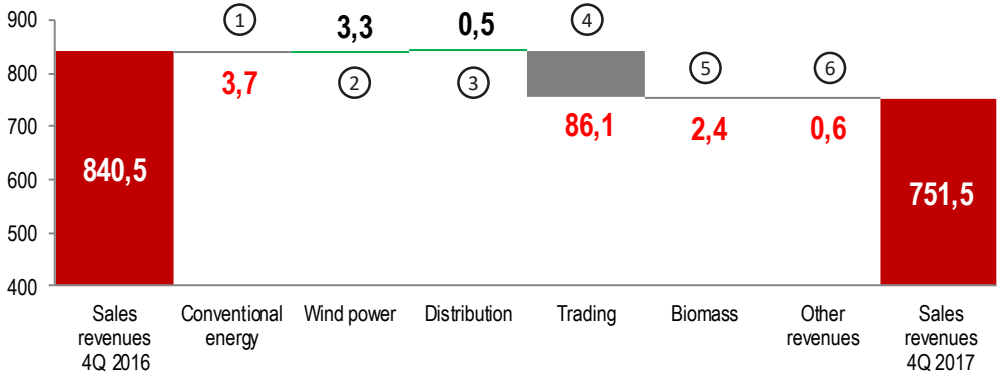
Revenues split and evolution: 4Q 2017

Revenues bridge 2016/2017



Revenues by segments (PLN m)	4Q 2017	4Q 2016	Diff	%	
Conventional energy	63,7	67,4	(3,7)	-6%	1
Wind power	50,3	47,1	3,3	7%	2
Distribution	22,4	22,0	0,5	2%	3
Trading	607,1	693,2	(86,1)	-12%	4
Biomass	7,2	9,6	(2,4)	-25%	5
Other revenues	0,7	1,3	(0,6)	-45%	6
Total	**751,5**	**840,5**	**(89,1)**	-11%	

1. **Conventional energy**: Sales revenues on a stable level – negative deviation resulting from maintaining production at a level similar to 4Q 2016. Additionaly, revenues from gas compensation and stranded costs compensation, containing the effect of compensation of stranded costs recognized on the revenue side in 4Q 2016 is close to the total level of gas compensation and compensation of stranded costs, which were recognized in revenues in 4Q 2017.
2. **Wind power**: Higher revenues due to excellent wind conditions and positive trend of GC prices in 4Q 2017.
3. **Distribution**: Stable revenues of the segment at the level similar to 4Q 2016.
4. **Trading**: Lower sale revenues due to lower volume of sales resulting from lower average market prices while maintaining the upward trend in trade margins in 4Q 2017.
5. **Biomass**: Sales revenues lower due to lower volumes and sales prices of pellets as a result of deteriorating situation on the biomass market.
6. **Other revenues, including**: Revenues from lease and operator services, revenues from sales of goods and rental income.

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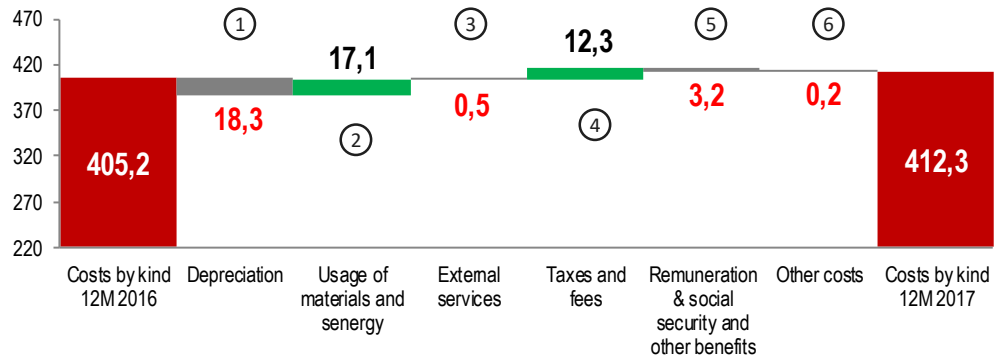
Operating cost split and evolution 12M 2017

Cost bridge 2017/2016



Operating cost split	12M 2017	12M 2016	Diff	%	
Depreciation	97,1	115,4	(18,3)	-16%	①
Usage of materials and energy	188,5	171,4	17,1	10%	②
External services	56,1	56,7	(0,5)	-1%	③
Taxes and fees	29,8	17,5	12,3	70%	④
Remuneration	37,6	40,7	(3,2)	-8%	⑤
Other costs	3,3	3,5	(0,2)	-7%	⑥
TOTAL OpEx	**412,3**	**405,2**	**7,1**	2%	
- Value of goods and materials sold (positive value)	2 271,2	2 483,4	(212,2)	-9%	⑦
- Selling, general and administrative costs (negative value)	(36,4)	(33,7)	(2,7)	8%	⑧
Cost of Goods Sold	**2 647,1**	**2 854,8**	**(207,8)**	-7%	

1. **Depreciation**: Decrease mainly due to lengthening of economic useful life of turbines in wind farm segment and write-off made in 2016.
2. **Materials and energy**: Increase due to higher cost of gas in ENS, partially compensated by lower use of materials and energy in Biomass, Distribution, Wind Farm segments and those resulting from sale of EC Zakrzów.
3. **External services**: External services costs on similar level to comparable period in previous year.
4. **Taxes and charges**: Increase result from higher real estate tax in wind farms, mainly resulting from higher costs of RET in WF Mycielin (lack of payment in 2016) and correction of RET to maximum amount resulting from RES Act in WF Rajgród in 2017.
5. **Salaries**: Decrease in salaries due to savings programme introduced in HQ (Polenergia S.A. treated separately), sale of EC Zakrzów and headcount reduction in the Biomass segment. Decrease in social insurance is consistent with decrease in salaries.
6. **Other:** Decrease in other costs by kind as a result of cost reduction within the Group.
7. **Cost of goods sold:** Decrease caused mainly by change in Trading segment.
8. **Cost of sales and general admin:** Change mainly in unallocated administrative costs, especially higher costs of external services and lower allocation of remuneration to companies.

Stable margins – decrease in the value of goods and materials sold resulting from the reduction in turnover in less profitable areas. A noticeable reduction in costs of salaries, compensated by remaining beyond the control of the Group's increase in the cost of gas in Conventional Energy segment and higher RET in Wind Farm segment.

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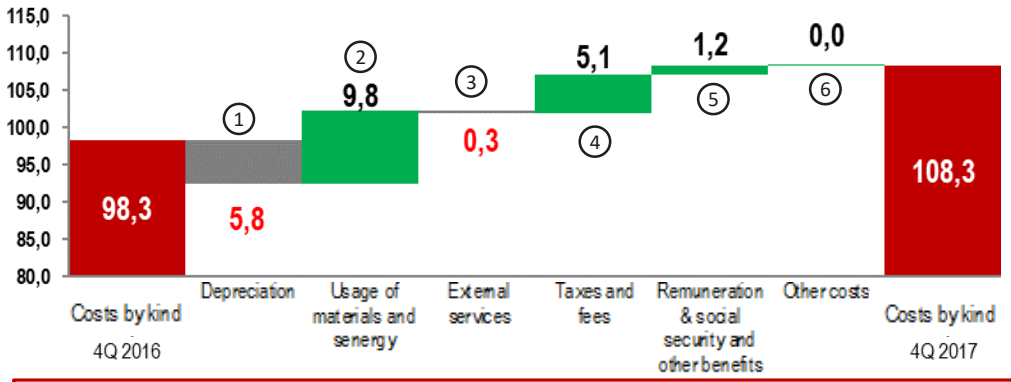
Operating costs split and evolution in 4Q 2017

Costs bridge 2017/2016



Operating cost split	4Q 2017	4Q 2016	Diff	%	
Depreciation	24,0	29,8	(5,8)	-19%	1
Usage of materials and energy	48,6	38,8	9,8	25%	2
External services	14,8	15,1	(0,3)	-2%	3
Taxes and fees	9,8	4,7	5,1	109%	4
Remuneration	10,1	8,9	1,2	14%	5
Other costs	0,9	0,9	0,02	2%	6
TOTAL OpEx	**108,3**	**98,3**	**10,0**	10%	
- Value of goods and materials sold (positive value)	620,8	701,8	(81,0)	-12%	7
- Selling, general and administrative costs (negative value)	(12,1)	(8,6)	(3,5)	40%	8
Cost of Goods Sold	**717,0**	**791,4**	**(74,4)**	-9%	

1. **Amortisation**: decrease results from extension of economic utility of the turbines in wind farm segment as well as the write-off made in 2016.
2. **Consumption of materials and energy**: increase mainly due to ENS and is dictated by higher gas costs in 2017.
3. **External services:** costs of external services at a similar level as in 4Q 2016.
4. **Taxes and charges**: increase results from higher real estate tax in wind farms, mainly due to inclusion of RET costs in Mycielin WF (lack of payment in 2016) as well as RET adjustment to the maximum value from distance act in Rajgród WF in 2017.
5. **Salaries**: in 2016 one-off effect visible of partial reversal of provision regarding remuneration due to savings program, normalized costs at a similar level year to year.
6. **Other:** other costs at a similar level comparing to 4Q 2016.
7. **Value of goods and materials sold:** decrease resulting from change of cost level in Trading segment.
8. **Selling costs and general and administrative costs:** mainly change at the level of unallocated costs of Group management, in particular higher level of external services costs and a lower allocation of remuneration costs to individual companies.

Stable margins – decrease in the value of goods and materials sold resulting from a reduction in activity in less profitable areas. Increase in costs due to factors beyond control of the Group, namely gas price increase in the conventional energy sector and charges related to RET.

POLENERGIA

Consolidated cash flow statement analysis

Consolidated statement of cash flows (PLN m)	12M 2017	12M 2016
A. Cash flows from operating activities		
I.EBITDA	184	232
II. Adjustments	(82)	(22)
III. Net cash flow from operating activities (I+/-II)	**112**	**208**
B. Cash flows from investing activities		
I. Cash received	7	6
II. Expenses	(32)	(84)
III. Net cash flow from investing activities (I-II)	**(25)**	**(78)**
C. Cash flows from financing activities		
I. Cash received	12	93
II. Expenses	(182)	(204)
III. Net cash flow from financing activities (I-II)	**(170)**	**(111)**
D. Net cash flow, total (A.III+/-B.III+/-C.III)	**(83)**	**19**
E. Balance transition of cash, including:	(83)	19
F. Cash and cash equivalents at beginning of period	381	362
G. Consolidated cash and cash equivalents at end of period	**298**	**381**
Consolidated debt	**1 004**	**1 117**
Consolidated net debt	**706**	**736**

Comment to 2017

The value of adjustments consists mainly of changes in working capital (-80 mPLN) in Trading segment and in ENS as well as income tax (-3 mPLN).

Development expenditures in 2017 include Distribution segment development (15 mPLN) and projects development (9 mPLN). In 2016 effect of Mycielin WF construction visible (46 mPLN).

Inflows result mainly from drawdown of investment loan in Distribution segment (7 mPLN) and revolving loan in Trading segment (4 mPLN).

The repayment of investment loans and interest, mainly wind farms (120 mPLN), ENS (53 mPLN) and Distribution (3,5 mPLN).

Including stable cash level of 165 mPLN in Polenergia S.A. as a response for uncertainty on the market and funds for further diversification / growth.

- Adjusted EBITDA of 181,6 mPLN, and Net debt as of December 31st, 2017 was of 705,6 mPLN.
- Net debt / EBITDA at the level of 3,89x, an increase noted compared to 2016 (3,23x).

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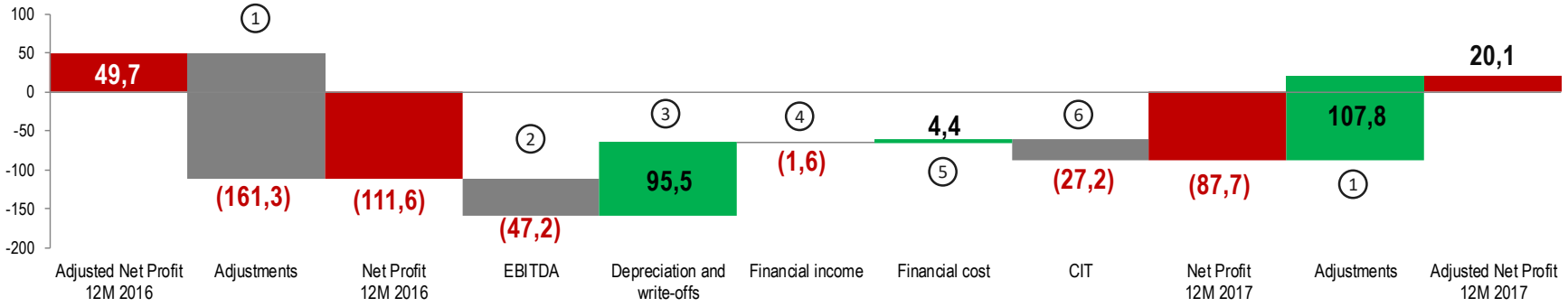
Net result – overview of the changes y/y

EBITDA / Net profit [mPLN]	12M 2017	12M 2016	Difference
EBITDA	184,3	231,5	(47,2)
Adjusted EBITDA	181,6	228,0	(46,4)
Net Profit/Loss	(87,7)	(111,6)	23,9
Adjusted Net Profit/Loss	20,1	49,7	(29,6)

Adjustments [mPLN]	12M 2017	12M 2016	Difference
Effect of the purchase price allocation	6,0	6,0	0,0
Effect of unrealized exchange differences	(1,0)	1,2	(2,2)
Effect of AMC loans valuation	2,7	2,7	0,1
Write-offs	100,1	156,8	(56,6)
Effect of Zakrzów CHP sale	0,0	(5,3)	5,3
Total	**107,8**	**161,3**	**(53,5)**



At the level of adjusted net profit, result decreased by 3,1 mPLN, what resulted from:

1. Detailed decomposition of normalization adjustments for 2016 and 2017 has been presented above;
2. EBITDA influence (result lower by 47,2 mPLN);
3. Lower depreciation due to change in policy regarding useful economic life of wind farm projects (extension to 25 years resulting from technical premises identified during the dialogue with turbines' producers) and write-offs costs in 2016;
4. Lower financial revenues (by 1,6 mPLN), due to disposal of CHP Zakrzów in 2016 (positive result at the level of 3,2 mPLN) partly compensated by higher interest on deposit and positive FX changes;
5. Lower financial expenses (by 4,4 mPLN) mainly due to lower interest cost and provisions.
6. Higher income tax in 2017 (by 27,2 mPLN).

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Balance sheet

Assets (PLN m)	As at 31.12.2017	As at 31.12.2016	Diff
Fixed assets (long-term)	**2 050**	**2 271**	**(221)**
Tangible fixed assets	1 791	2 000	(209)
Intangible assets	30	39	(9)
Goodwill of subordinate entities	185	185	(0)
Financial assets	15	12	3
Long-term receivables	4	5	(1)
Deferred income tax	25	30	(5)
Accruals	0	0	0
Current Assets (short-term)	**615**	**703**	**(88)**
Inventories	26	41	(15)
Receivables from deliveries and services	123	149	(26)
Receivables from income tax	1	6	(5)
Other short-term receivables	40	20	20
Accruals	7	6	1
Short-term financial assets	119	100	19
Cash and cash equivalents	298	381	(83)
Total Assets	**2 664**	**2 974**	**(310)**

Mainly current depreciation of operational assets and write-offs made, partially compensated by increase of the value in Distribution and development segment, resulting from capital expenditures incurred in this period.

Decrease mainly as a result of a decrease in trade receivables in segments of Wind farms, Distribution, Trading and HQ.

Mainly the valuation of contracts in Trading.

Change in the cash balance was commented in the cash flow section.

Liabilities (PLN m)	As at 31.12.2017	As at 31.12.2016	Diff
Equity	**1 182**	**1 267**	**(85)**
Long-term liabilities	**895**	**1 016**	**(121)**
Credit and borrowings	706	820	(114)
Provision from deferred income tax	74	66	8
Reserves	23	26	(3)
Accruals	57	59	(2)
Other liabilities	36	45	(9)
Current liabilities	**587**	**692**	**(105)**
Credit and borrowings	298	296	2
Trade payables	130	156	(26)
A liability for income tax	0	1	(1)
Other liabilities	140	220	(80)
Reserves	4	3	1
Accruals	16	15	1
Total liabilities	**2 664**	**2 974**	**(310)**

Credit and borrowings repayment (WF segment – 70 mPLN, ENS – 49 mPLN) compensated by new drawdowns (Distribution – 6 mPLN) and revolving loan (Trading - 4mPLN)

Other liabilities consist mainly of liabilities of ENS related to LTC settlements contracts in Trading and liability resulting from PPA.

Decrease in liabilities mainly as a result of a decrease in trade liabilities in segments of Trading and Distribution.

Mainly liabilities of ENS and contracts valuation in Trading segment.

- **Adjusted EBITDA for the last 12M amounted to 181,6 mPLN, and Net debt of the Group as of December 31st, 2017 was of 705,6 mPLN.**
- **Net debt / EBITDA is at the level of 3,89x.**

03 Market and Regulatory Update

POLENERGIA

In 2018 we expect the announcement of auctions for wind and PV...

Expected support	▪ 3 TWh of electricity per annum worth PLN 15,75 bn* during 15-year support period (equivalent of reference price at 350 PLN/MWh) expected in the large wind farms basket in 2018. ▪ Draft of the act provides auctions for wind projects with a total capacity of 1000 MW.
Status of regulation	▪ The matter of the amendment of the RES Act and this year's auction were accepted on 16.02.2018 at the meeting of Komitet Stały Rady Ministrów (*the Standing Committee of the Council of Ministers*). ▪ The implementation of the amendment to the RES Act is a condition on which the launch of this year's auction depends.
Impact on Polenergia	▪ Polenergia has a portfolio of 4 wind farms having total capacity of 185 MW with a building permit obtained, which Polenergia prepares for participation in the first auction. ▪ Additionally Polenergia has a wind farms portfolio, which do not have the possibility to obtain a building permit in connection with the entry into force of the so called „Distance" Act. We are working to transform some of these projects into PV, which will allow to obtain a building permit and to participate in the auction. ▪ Announcement of the auction in 2018 will signal a change in the government's approach to wind energy.

Polenergia has a portfolio of 4 wind farms having total capacity of 185 MW with a building permit obtained, which Polenergia prepares for participation in the first auction.

*Information based on press article published on the website of http://www.wysokienapiecie.pl

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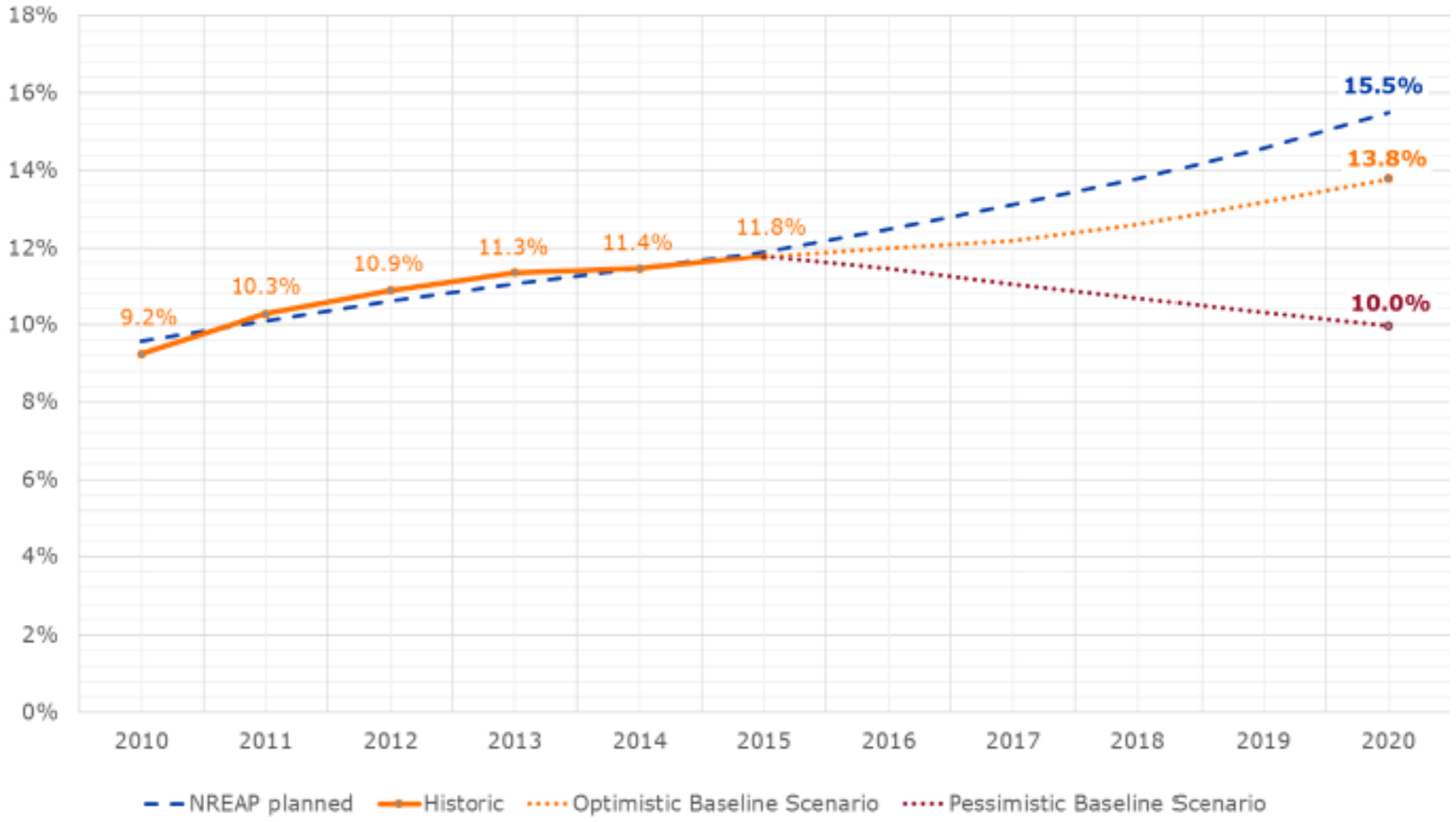
...however Poland remains exposed to serious risk of not meeting 2020 EU targets



Source: Ecofys

The estimated Poland's RES share range between 10.0% and 13.8% in 2020 for the pessimistic and optimistic scenarios respectively, while the target is set at 15,5%

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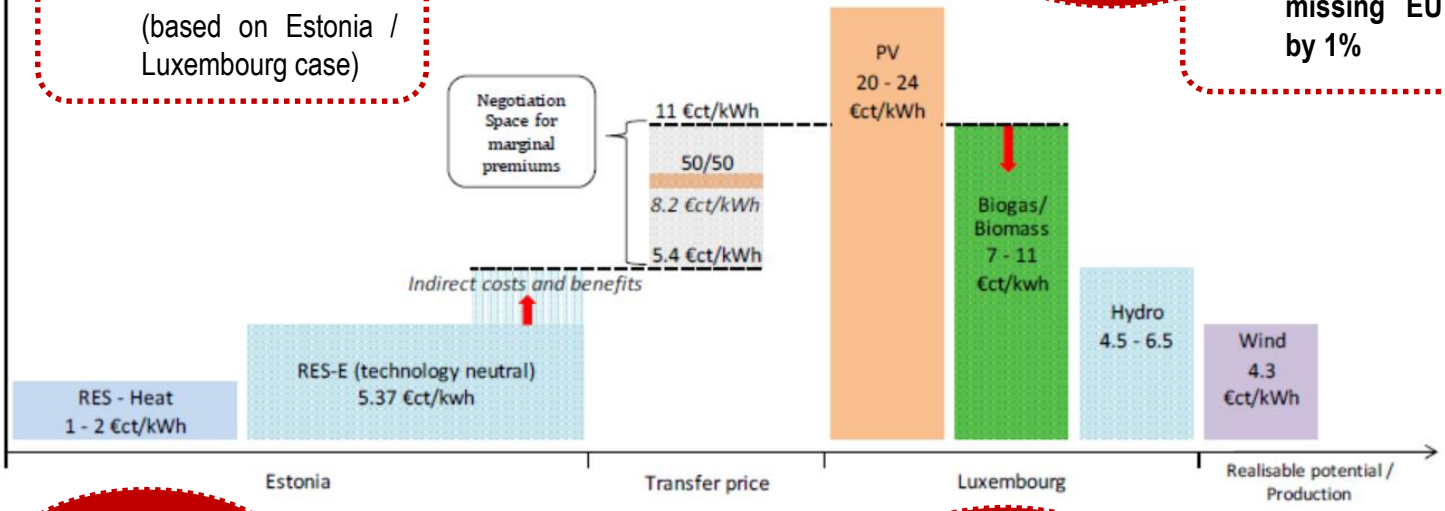
...which means the potential for significant costs

EUR 54 – 110/MWh

Cost of **statistical transfer of 1MWh** (based on Estonia / Luxembourg case)

EUR 89m – 181m

Cost for Poland of **missing EU goal by 1%**



Source: Ecofys

EUR 151m – 308m

Total cost of statistical transfer for Poland (**optimistic scenario** – 13,8% RES share)

EUR 490m – 996m

Total cost of statistical transfer for Poland (**pessimistic scenario** – 10,0% RES share)

In order to avoid substantial cost of statistical transfer, Poland needs to invest in new RES capacities and support the cheapest technologies such as onshore wind and PV

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Key changes in legislation in 2017 (1/2)

(Amendment to the Act on RES as at 20.07.2017)

Issue:	*Details*	*Impact on Polenergia*
Change in substitution fee level	▪ Amendment assumes linking the substitution fee level to the GC market prices so that in a given calendar year it is equal to 125% of weighted average of GC market prices for the previous year. ▪ Impact assessment clearly states that GC oversupply problem requires solving and proposed change in substitution fee combined with expected increase in GC redemption obligation quota to 19,5% in 2020 will result in decrease of oversupply to the negative level by 2020.	
Determination of the obligation to redeem certificates of origin from RES in 2018 and 2019	▪ Determination of the obligation at the level of 17,5% in 2018 and 18,5% in 2019 is a positive signal for reducing of oversupply of Green Certificates, in particular, if the upward trend will be maintained according to assumptions of Draft Act amending the Act on Renewable Energy Sources.	

Introduced changes in legislation have potentially a positive impact on Polenergia

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Key changes in legislation in 2017 (2/2)

(Capacity Market Act as of 8.12.2017)

Aim	▪ The capacity market is expected to provide an additional source of revenues to energy producers in return for their capacity availability.. The charge will be added to energy bills. ▪ Introduction of this mechanism aims to ensure the security of energy supply in the medium and long term.
Status	▪ In the second half of 2018, 3 auctions for 2021 - 2023 are expected to be announced ▪ the Act was passed by the parliament on 8.12.2017 and signed by the president on 28.12.2017. ▪ on 7.02.2018 The Act was approved by European Comission.
Consequences for ENS	▪ According to the Act sice 2021 there will be capacity market in operation ▪ Additional source of revenues – till 2027 energy producers will receive ca. PLN 26,9 bn ▪ Capacity charge will be added to the bills since 2021 ▪ Capacity charge will depend on auctions results where the cheapest offer will win

ENS will be part of capacity market. In 2020 ENS will be fully depreciated, debt-free gas power plant which will allow to successfully compete on the new market.

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Key expected changes in legislation in 2018

(Draft of amendment to RES Act and other acts)

Issue:	*Details:*	*Impact on Polenergia*
Return to a clear division of a wind turbine into the structural part and technical elements	▪ Proposed definition of a wind farm implements a justified division of a wind turbine into the structural part and technical elements effectively reversing the negative effects of Wind Turbines Investment Act. ▪ This change solves the controversial problem of increased property tax on wind farms that is now returning to its previous lower level. There will be also no further room for different interpretations issued by local authorities or administrative courts.	
Resignation from the requirement to acquire use permit by 2019	▪ The Act lifts the obligation to acquire valid use permit in 3 years from the date Wind Turbine Investment Act entered into force i.e. in 2019	
Enabling renovation of existing wind turbines	▪ Amended provision allows for renovations that lead to change in functional and technical parameters of wind farm unless these activities do not increase environmental impact. ▪ This amendment allows for both re-powering of wind farms as well as retrofits leading to life extension, productivity increase or limiting the environmental impact.	

Majority of proposed changes into RES and WTI Act can have a positive impact on Polenergia

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Regulatory issues: draft ordinance on reference prices confirmed

Installation type		Reference price 2018*	Opportunity for Polenergia
Biomass	≤50MW	415	✓
Onshore	>1MW	350	✓
Offshore		450	✓
Hybrid Installation	>1MW	350	✓

- Ordinance regarding **reference prices** was published in March 2017.
- Ordinances regarding **maximum volumes and value** of energy that can be purchased through auction and **sequence of auctions** in 2017 were published in April.

In December 2016 and June 2017 Polish Energy Regulatory Office organized auctions for the following technology baskets:

	Technology basket	Outcome	Price (PLN)
December 2016	Existing agricultural biogas plants with installed capacity ≤ 1MW	7 offers submitted, 7 won. Total energy sold: 824,6 TWh	Min: 502,2 Max: 504,6
December 2016	Existing agricultural biogas plants with installed capacity > 1MW	Auction did not happen due to too few offers submitted	
December 2016	New installations, other than mentioned in Art. 73 sec. 3a item 1-3 and 6, RES Act, with installed capacity ≤ 1MW **(PV installations)**	152 offers submitted, 84 won. Total energy sold: 1 567,3 TWh	Min: 253,5 Max: 408,8
December 2016	Installations with an installed capacity ≤ 1 MW, with installed capacity utilization above 3 504 MWh / MW / year and with the emission not exceeding 100 kg / MWh **(hydro plants)**	49 offers submitted, 49 won. Total energy sold: 416,6 TWh	Min: 30,0 Max: 468,0
June 2017	New installations, other than mentioned in Art. 73 sec. 3a item 1-6 and , RES Act, with installed capacity ≤ 1MW **(PV, Onshore and hydro installations)**	472 offers submitted, 352 won. Total energy sold: 4,721 TWh	Min: 195,0 Max: 398,87
June 2017	Installations with an installed capacity ≤ 1 MW, with installed capacity utilization above 3 504 MWh / MW / year and with the emission not exceeding 100 kg / MWh **(hydro plants)**	44 winning offers submitted Total energy sold: 312,4 GWh	Min: 290,0 Max: 474,0

On 29.09.2017 RES auctions were cancelled as a result of a special regulation of the Council of Ministers. ME on 16/02/2018 expressed confidence that next auctions will be held this year.

*Information based on project of regulation of the Minister of Energy regarding the reference price of electricity from renewable energy sources in 2018 and producers who won the auction in 2018

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Polenergia is looking for opportunities to develop new projects regardless to regulations

Wind farms with secured building permit

- Polenergia posses portfolio of 185MW with building permit
- Projects are waiting for auctions. Due to cancelation of planned auctions in 2017, auctions for new wind projects can held in 2018
- Polenergia analysis alternative formulas for realization of the projects without auctions ex. using resources from Wielkopolski Regional Operational Program for the years 2014-2020
- Polenergia has applied for the Piekło grant financing and we are currently waiting for results
  - Wielkopolski Regional Operational Program for the years 2014-2020 is financed from the funds of European Regional Development Fund under task 3.1.1 "Generation of energy from renewable energy sources"
  - Results will be published in February 2018

Conversion of wind farm development projects into PV projects

- Polenergia in 2016 made a write-off on the portfolio of wind farms due to the lack of possibility to obtain a building permit after the entry into force of the Act on Wind Power Investment as at 20.05.2016.
- Some of these projects, despite the write-off, can be brought back to life ex. by converting them to PV which will allow to obtain a building permit.
- Currently, Polenergia implements a plan to transform the Niekarzyn 14MW project into a photovoltaic farm
  - 2H 2018 - participation in the auction planned
  - 2H 2019 - forecasted start of commercial activity
- In December 2016 and June 2017 auctions for PV farms took place
  - Total energy sold – 6 288,3 TWh
  - Prices up to 408 PLN/ MWh

In anticipation of the announcement of the auction for wind farms Polenergia is looking for alternative solutions.

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Polenergia Dystrybucja conducts pilot projects in the field of prosumer energy and electromobility

Photovoltaics

- The offer is addressed both to individual and commercial customers
- The service includes:
  - individual technical and economic analysis
  - obtaining a grant on behalf of and for the Client
  - connecting to DSO network.
- As a part of the pilot project, the company made several micro-installations for individual customers with total capacity of 31 kWp and also is in talks with commercial customers in the field of PV installations with the capacity of over 40 kWp.
- In the area of R&D the company launched a micro-installation with the capacity of 5 kWp at one of own buildings. Currently, works in the field of energy storage is being carried out (off-grid PV installation + storage).

Electric vehicle charging stations

- In 2017, the company launched pilot project to install an electric vehicle charging station (POLD-EV).
- Within the framework of the project, a comprehensive offer for the delivery, assembly and commissioning of the station has been developed
- The company's offer includes two types of stations – free standing stations –Vertica and wall mounted – Wollbox.
- The offer is addressed mainly to the administration of housing estates and development companies implementing investment projects.
- As a part of the project, the company has assembled several car charging stations in Warsaw and has signed contracts for the assembly of another 8 units by the end of 2017.

Polenergia has acquired the competence to carry out projects in the area of PV and electromobility

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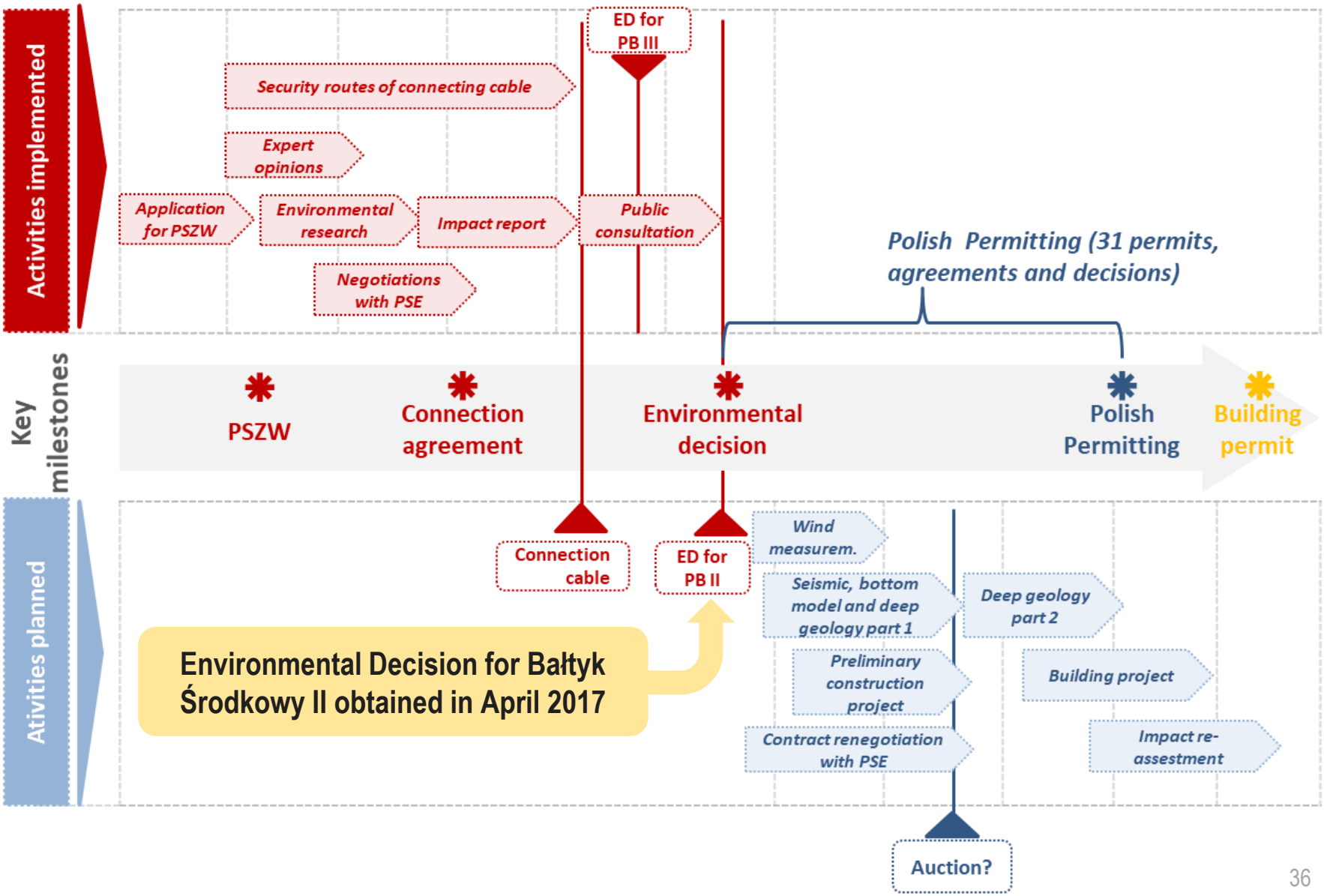
Status of Offshore Wind



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CONVERGENT ENERGY + POWER

Continuation of Storage Co-operation with Convergent Energy & Power

Convergent Power overview

- **History:** founded in late 2011 with a pure-play focus on energy storage project development Convergent Power develops, owns, and operates cost-effective energy storage assets, creating new value for utilities, electricity end-users, and project investors (see: http://www.convergentep.com/);
- **Market Leader in US/Canada:** US$40m in energy storage financing raised and deployed to-date in US and Canada; 70MW & 230MWh of projects contracted (7 Utilities + 3 large Industrial Customers). Trusted by investors such a Statoil (global energy player) and Great Plains Energy (leading US utility).
- **Strong revenue stream:** projects have stable revenues and create new value for the electric grid and its customers. All Convergent Projects in US/Canada generate high target equity IRR.
- **Technology-neutral:** select technologies / vendors to meet the application, safety & financing requirements of specific applications.

CENTRAL MAINE POWER

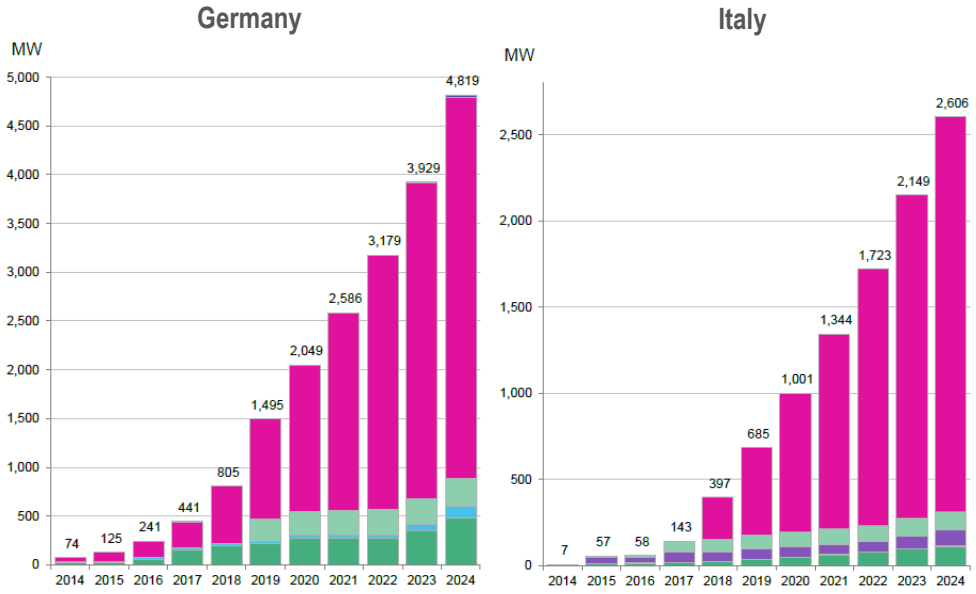
ieso Independent Electricity System Operator

Pacific Gas and Electric Company

Statoil

SOUTHERN CALIFORNIA EDISON

Cumulative energy storage deployment by application, 2014-24 (MW)



Source: BNEF

According to BNEF, in 2016 in Germany there were 241MW of installed storage capacity. By 2024 installed capacity is estimated to increase to 4 819MW, which means 20 times increase. Total investment in new storage capacities in Germany is projected to amount to USD 4bn.
Approx. USD 2,5bn will be invested in energy storage in Italy. This will translate into increase of installed capacity from 58MW in 2016 to 2 606 MW in 2024 (40 times increase).

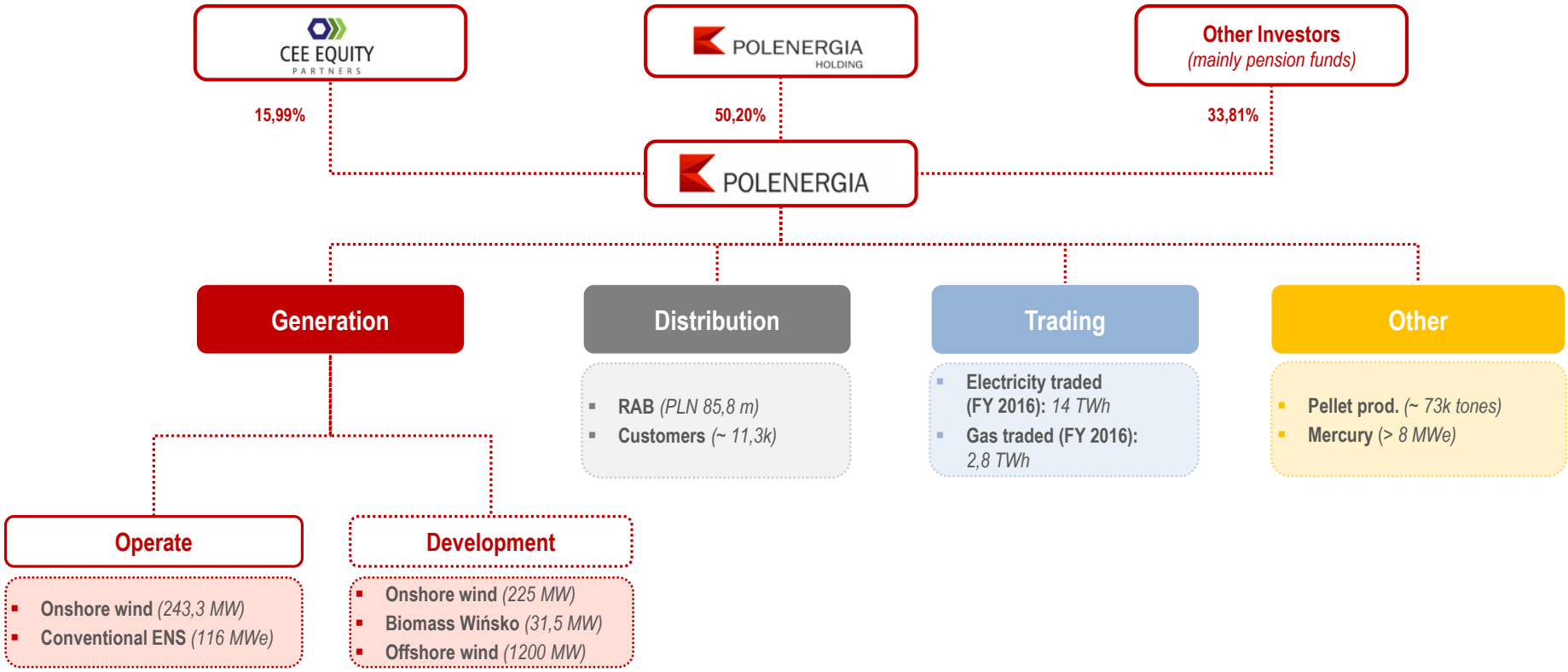
Partnership with Convergent Power to allow Polenergia become a technology agnostic IPP storage developer who owns, and operates cost-effective, high-yielding and financeable projects for both utilities and industrial customers

04 Appendix

A Group Descriptions

POLENERGIA

Group Structure



Polenergia S.A. is listed on the Warsaw Stock Exchange, (c. 45 million shares traded), and is included in WIG80 index

POLENERGIA

Generation (in operation): Onshore wind

	Location	Capacity (MW)	COD	Clients	Technical details	
1	**Puck**	**22,0**	2007	Energa, Polenergia Obrót	▪ Combined project capacity equals 22,0 MWe, comprise 11 turbine (Gamesa) 2,0 MW each; ▪ Location: Pomorskie voivodeship, district Puck; ▪ Average annual production of approximately **45 GWh;**	
2	**Modlikowice**	**24,0**	2012	Tauron Sprzedaż	▪ Combined project capacity equals 24,0 MWe, comprise 12 turbine (Vestas) 2,0 MW each; ▪ Location: Dolnośląskie voivodeship, district złotoryjski; ▪ Average annual production of approximately **52 GWh;**	
3	**Łukaszów**	**34,0**	2012	Tauron Sprzedaż	▪ Combined project capacity equals 34,0 MWe, comprise 17 turbine (Vestas) 2,0 MW each; ▪ Location: Dolnośląskie voivodeship, district złotoryjski; ▪ Average annual production of approximately **78 GWh;**	
4	**Gawłowice**	**48,3**	2014	Polenergia Obrót, Energa	▪ Combined project capacity equals 48,3 MWe, comprise 21 turbine (Siemens) 2,3 MW each; ▪ Location: Kuj. – pom. voivodeship, district grudziądzki; ▪ Annual production of approximately **149 GWh;**	
5	**Rajgród**	**25,3**	2014	Polenergia Obrót, PGE	▪ Combined project capacity equals 25,3 MWe, comprise 11 turbine (Siemens) 2,3 MW each; ▪ Location: Podlaskie voivodeship, district grajewski; ▪ Annual production of approximately **70 GWh;**	
6	**Skurpie**	**43,7**	2015	Polenergia Obrót, Energa	▪ Combined project capacity equals 43,7 MWe, comprise 19 turbine (Siemens) 2,3 MW each; ▪ Location: Warmińsko-Mazurskie voivodeship, district działdowski; ▪ Annual production of approximately **128 GWh;**	
7	**Mycielin**	**46,0**	2015	Polenergia Obrót	▪ Combined project capacity equals 48 Mwe, comprise 24 turbine (Vestas) 2,0 MW each; ▪ Location: Lubuskie voivodeship, district szprotawski; ▪ Annual production of approximately **150 GWh;**	
	Total capacity	**243,3 MW**				

POLENERGIA

Generation (in operation): Conventional ENS

Elektrociepłownia Nowa Sarzyna (ENS) is the first private gas power plant built in Poland as a green field project. The power plant has been in the commercial operation since June 2000.

Business overview

- **The facility is supplied with natural gas and has a total electricity output of 116 MWe and heat output of 70 MWt. The electrical energy generated by Nowa Sarzyna CHP is transmitted to the National Energy System via three 110 kV overhead transmission lines.**
- Operating with high efficiency unit works as a power system.
- CHP meets polish environmental standards.
- Income and cash flow secured by stranded cost compensation system.
- ENS become a part of the agreement with PSE (entered into force on 1 July) under which provides services including reconstruction of the power system within the scope necessary to restore operation process of the National Power System (KSE) after a black-out.

Location of facility in Poland

Technical Specifications

Installed capacity	116 MWe, 70 MWt
Net capacity	113 MWe
Avg. net output	Electricity ca. 750 GWh 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)
COD	2000
Availability	96.5%

Details of compensation formula

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

Nowa Sarzyna CHP is uniquely predisposed to cooperate with the National Power System by provision of different system services including reconstruction of the power system under agreement with the system operator (blackstart)

POLENERGIA

Generation (in development): Onshore wind/ Biomass Wińsko

Pipeline build up

- The portfolio of operating wind farms at the end of Q4 2017 equal to **243,3 MW of installed capacity**;
- Additional portfolio of 4 wind farms projects with capacity of **185 MW** in ready to build stage as follow:

#	Location	Capacity (MW)	Building permit
8	Piekło	12	Secured
9	Zielona	110	Secured
10	Kostomłoty	27	Secured
11	Szymankowo	36	Secured
		185 MW	

Biomass – Wińsko Power Plant in development

Polenergia is currently working on power plant with a capacity of 31,5 MWe in Wińsko - received all permits

Key features	
Turbine	Condensation / Alstom
Cauldron	Vibrating grate / DP Cleantech
Installed capacity	31,5 MWe
Start-up	2020
Client	Delivery to the grid
Productivity (load factor)	92%
Efficiency	Electric 33%
Operational period	30 years

Projects with Building Permit

Achieved stages of the development:

MPZ - Local Development Plan
DŚ - Environmental Decision
WPS - Terms of connections to the Network
PB - Building Permit

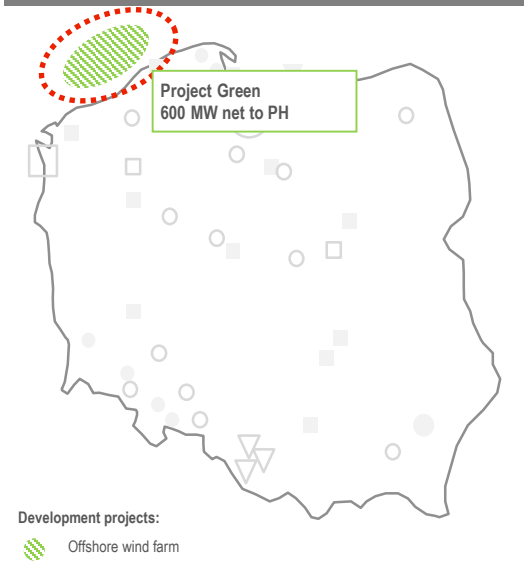
POLENERGIA

Generation (in development): Offshore wind

Description

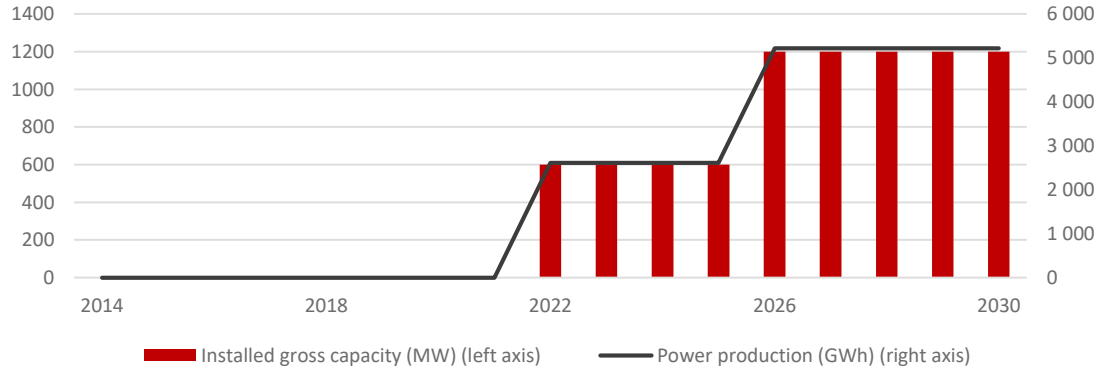
- Two projects with total capacity of c. 1.2 GW
- The plan is to build offshore projects in cooperation with an experienced industrial player (50/50 JV)
- An additional option is third project with a capacity of 1,6 GW with a valid location permit
- In August 2014, connection agreement for 1200 MW with PSE SA was signed
- In July 2016 obtained Poland's first environmental permit for Offshore Wind Farm. In April 2017 Polenergia received second environmental permit which means that Polenergia possess two environmental permits with total planned capacity of 1,2 GW
- Polenergia is the No 1 in Poland in the offshore wind development. PGE Group, second behind with their 1 GW project is about 2 years less advanced (beginning of environmental survey)
- No other companies have secured connection agreements, with no further offshore wind connection capacity available in the system now.

Location and capacity



	Bałtyk Środkowy III	Bałtyk Środkowy II	Bałtyk Północny (susp.)
Site Permit Net Area (sq.km)	116,6	122	128,5
Site Permit Max. Capacity (MW)	1200	1200	1560
Planned Capacity (MW)	600	600	>600
Depth (m)	25-39	23-41	25-35
Distance to the shore (straight line, km)	22	37	81
Planned turbines (MW)	8	8-10	8-10
Planned number of turbines	75	60-75	60-75+
Average wind speed (m/s)	9-10	9-10	9-10

Installed capacity and electricity generation



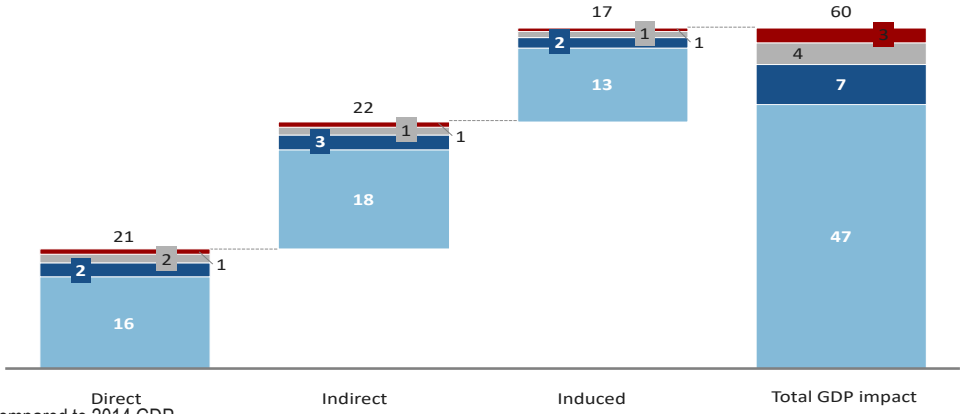
Planned key dates	Bałtyk Środkowy III	Bałtyk Środkowy II
Environmental decision	Secured	Secured
Construction start	2020	2023
Commisionig date	2021/22	2026

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

POLENERGIA

Offshore could have significant impact on Polish economy

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

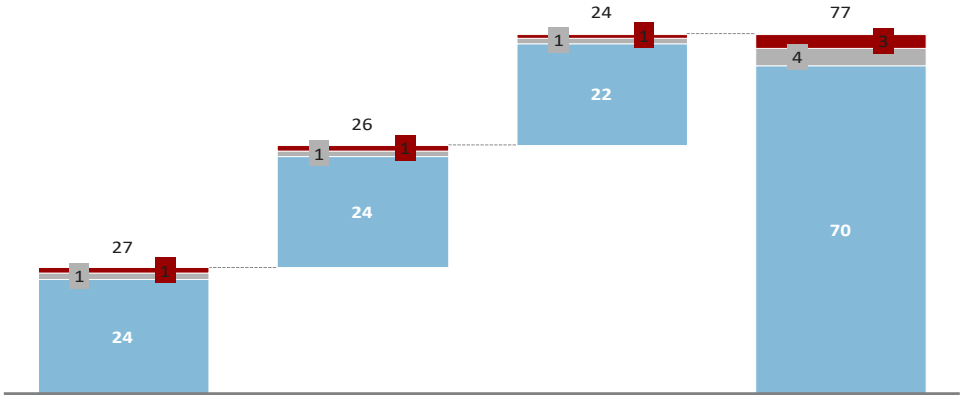


1 In 2014 prices, compared to 2014 GDP

Percent of 10 year GDP[1]	Potential Tax revenues
0.34	PLN 15bn

Infrastructure
Export
O&M
Capex

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



1 For Q1 2016 – unemployed 1.2 million

SOURCE: GUS; McKinsey

Percent of unemployed[1]

6,4

> PLN 60bn in additional GDP and up to 77 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

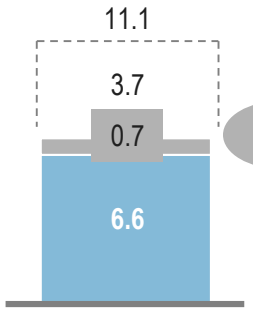
POLENERGIA

Coastal regions will not be the only beneficiaries of Offshore investments

Economic impact of offshore wind on Pomorskie and Zachodniopomorskie in 2020-2030 – over PLN 11 billion GDP and over 15 000 jobs

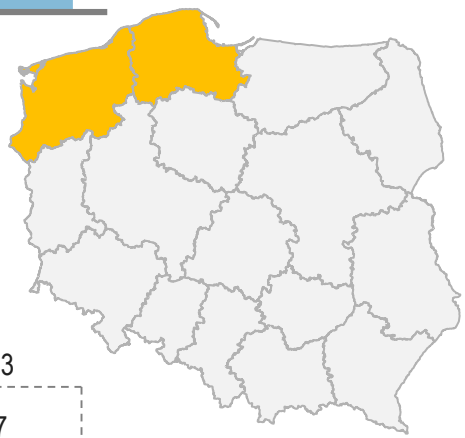
Indirect and induced impact[3] | O&M (direct impact) | Construction + export (direct impact)

Cumulative GDP impact 2020-2030
PLN billion

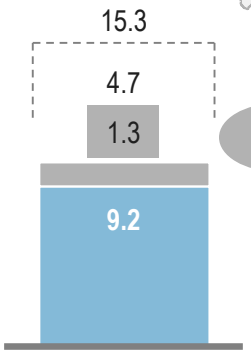


0.7

Share of cumulative 10-year GDP of Pomorskie and Zachodniopomorskie[1]



New jobs 2020-2030
Thousands of FTEs



9.6

Share of unemployment in Pomorskie and Zachodniopomorskie[2]

Companies in Poland already involved in offshore wind development

Current coal mining regions of Poland will also benefit from the offshore wind industry

1 Based on latest available GDP by voivodship GUS data (2012)
2 Based on GUS Q1 2016 data
3 Share of indirect and induced estimated based on share in Polish GDP in 2012 of Pomorskie (5.7%) and Zachodniopomorskie (3.7%)

SOURCE: McKinsey

POLENERGIA

Polenergia Distribution

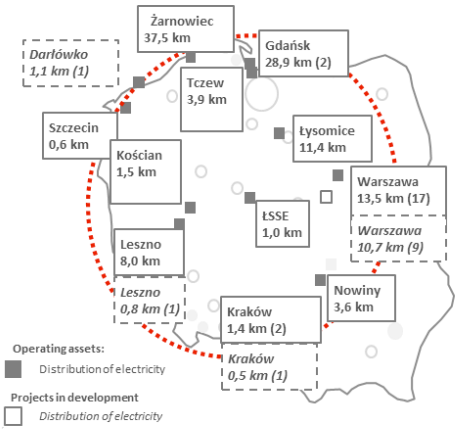
Business overview

- Polenergia Dystrybucja is a distributor and supplier of electricity to industrial, residential and commercial customers, ie. residential areas, factories, office buildings and shopping centers. The Company is operating in various regions of Poland, additionally with a country-wide energy sales license.
- Regulated entity based on WACC / WRA with approved investment plans ensuring stable and predictable cash flows.

Distribution „islands" across Poland/majority in Warsaw;

- *Largest Polish independent distributor after main 4 Polish state-owned DSOs, 2nd largest in Warsaw after Innogy*
- *31 projects in operation and 20 in development based on ERO approved Investment Plan until 2020*
- *c.11,3k clients distributing 291 GWh across 110 km of power lines, 91 substations and 146 transformers*

The length of the distribution network (number of projects)



Increase in value and benefits for customers

Combined profits: Effective use of cooperation between the regulated activities (distribution of electricity) and commercial (sales of energy).

Unique package of benefits: 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, the ability to change vendors (TPA) by the customers

Part of Polenergia Group: strategic player with strong financial discipline

Obtaining a license to distribute electricity for the electrical infrastructure (ie. the "last mile") in non-residential buildings, ie. shopping centers and office buildings. Providing partners with opportunities to optimize the cost of electricity infrastructure during construction and maintenance.

Stable regulatory returns combined with profits on electricity supply to the final customers

Business results	Unit	FY 2016	FY 2017
Distribution sales	**GWh**	**284.0**	**290.5**
Electricity sales	GWh	162.5	146.3
CAPEX	m PLN	8.2	16.2
RAB	**m PLN**	**81.7**	**85.5**

	In use	In Development	Total
Distribution power	**75 MW**	**19 MW**	**126 MW**
Final users	11.3k	10.7k	22.0k
Number of substations	91	38	129
Number of transformers	**146**	**55**	**201**

POLENERGIA

Polenergia Trading

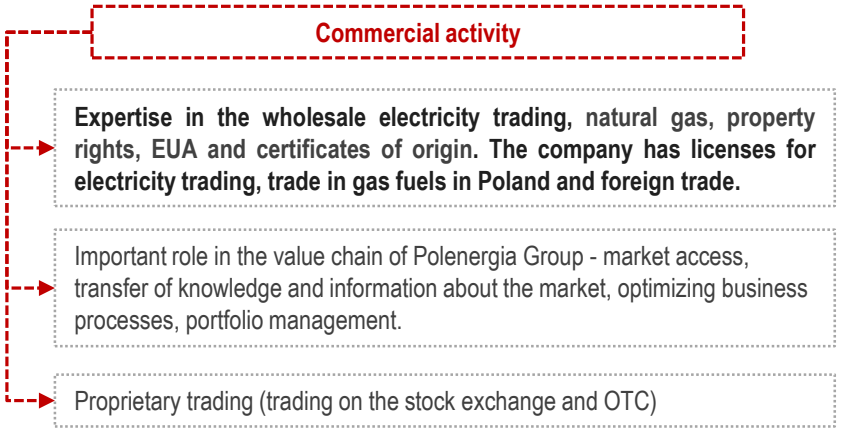
Polenergia Trading specializes in wholesale trading of electricity, natural gas, property rights, EUA and certificates of origin, as well as the management of energy contracts for the Polenergia Group entities and other external companies.

Business overview

- Polenergia Trading is one of the most dynamically growing companies in the sector of electric energy trade in Poland.
- Central platform for trading and risk management located in Warsaw.
- The Company specializes in wholesale trading of electricity, natural gas, property rights, EUA and certificates of origin both under long-term contracts and current transactions and operates as market maker on the POLPX property right market.

Key highlights

- Since July 2016 Polenergia Trading plays the **market maker role** with respect to electricity instruments.
- **As the first company on the Polish market**, Polenergia Trading initiated transactions for certificates of origin on behalf of energy producers from Polenergia Group (certificates originated from one of the wind farms in Polenergia Group) and it continues this activity to this day, with increasing volumes.
- Since March 2017, the Company is a member of OTE exchange (Czech Republic) and OKTE exchange (Slovakia).
- Since the end of 2016, the Company has been trading EUA on the ICE exchange in London.
- At the end of 2017 Polenergia Obrót started trading in natural gas on ICE Endex exchange - one of the priorities is the development of this activity in the field of wholesale trading on the exchange market as well as OTC and intersystem exchange transactions.



Business results	Unit	2016	2017
Electricity traded	**TWh**	**13**	**12**
Natural gas traded	TWh	3	3

- An important area of the Company's activity is the provision of comprehensive management services for the portfolio of electricity, property rights and CO2 emissions for the companies of the Polenergia Group. This cooperation covers the full energy value chain from generation (FW, heat and power plant, etc.) to the sale and distribution of energy to the end customer
- Comprehensive management services mentioned above are also addressed to companies that are not part of the Capital Group, including in particular wind farms, combined heat and power plants, sales companies.

Current market share of Trading in the wholesale energy market in Poland is estimated at approx. 6% in 2017.

POLENERGIA

Other

In operations

Pellet production

- In response to the growing demand, since 2008 Polenergia launched 2 projects which produce pellet from agricultural biomass, required for power industry and municipal power plants. The company has two pellet factories
  - North Factory, located in Sępólno Krajeńskie
  - East Factory, located in Zamość

	North Factory	East Factory
Start-up	2009	2012
Annual production (t)*	21k	52k

* Production in 2016, only pellet production

Gas – Mercury Power Plant

- The power plant is located in Walbrzych
- Launched in July 2006.
- Power unit boiler fueled with gas and steam turbine with capacity 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.