



RENEWABLE ENERGY



CONVENTIONAL ENERGY



DISTRIBUTION



TRADE

POLENERGIA GROUP

1H 2018 Results

9 August 2018

1H 2018 Highlights

1 Market environment

- Amendment to the Renewable Energy Act and some other acts has been adopted.
 - Auctions for new wind farms (more than 1GW);
 - Clear definition concerning RET for wind farms.
- Announcement of tender offer for 100% shares in Polenergia by PGE at price 16,29 PLN per share. Subscription period started on 13 VII;
- Increase in GC price to 75,2 PLN/MWh on 30.06.2018 and to more than 90 PLN/MWh in VII 2018.
- Increase in electricity prices on spot and forward market. Increase in volatility of market electricity prices.
- High price of CO₂ emission allowances amounted to 15 EUR at June 30th (and reached ca. 17,40 EUR by the end of July).

2 Group activities



- Finalisation of agreement with Equinor for sale of 50% stake in Offshore projects (Polenergia Bałtyk II and Polenergia Bałtyk III). On 22.05.2018 Polenergia received 94,3m PLN.
- Bringing a lawsuit against Tauron Polska Energia S.A. by wind farms Amon and Talia with compensation claim which amounts 78,8m PLN and another 265,22m PLN for damages which can arise in the future.
- Completion of debt restructuring in wind farms Amon, Talia and GSR (more than 76% of wind farms debt)

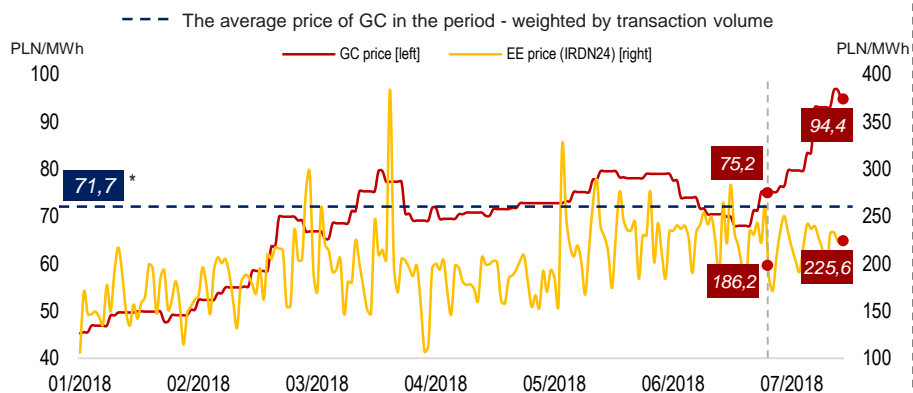


- High volatility of electricity prices on forward market (presented on the next slide) which results in:
 - a) the need to maintain an increased level of deposits securing the sale of electricity produced by the Group's assets;
 - b) loss on electricity trading which amounts to 20m PLN – loss realised, exposition closed.

**VISIBLE SYMPTOMS OF IMPROVEMENT IN THE REGULATORY ENVIRONMENT.
FINALISATION OF WIND FARMS DEBT RESTRUCTURING.**

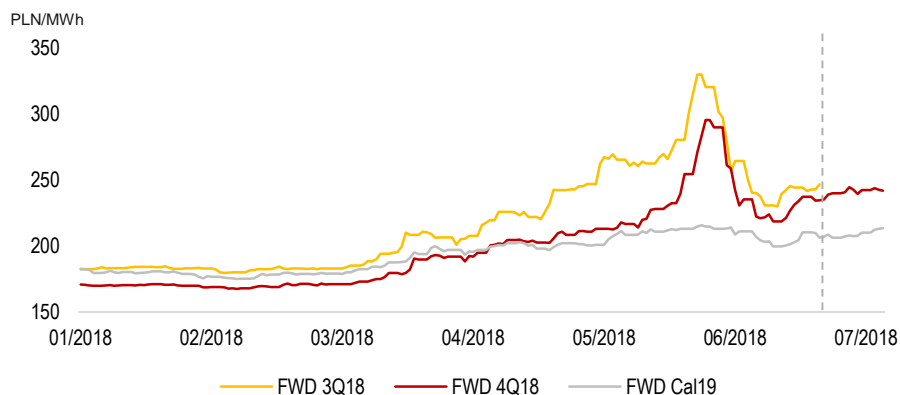
Key indexes and market prices

1 Green certificates and electricity prices

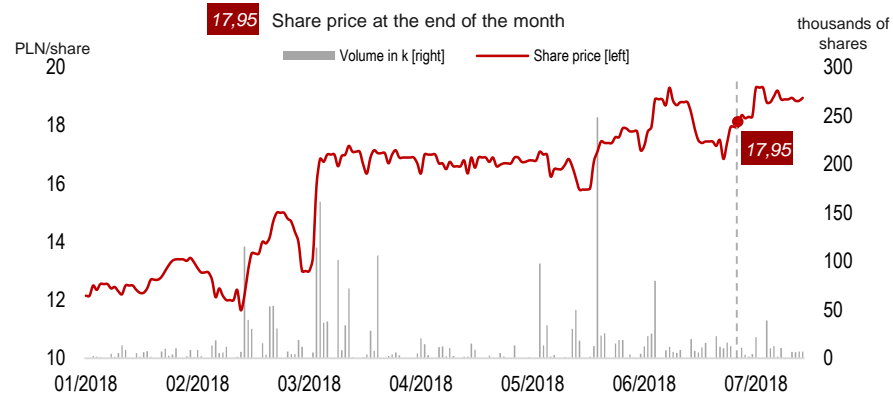


*The average price of GC in 1H 2017 amounted to 30,9 PLN/MWh

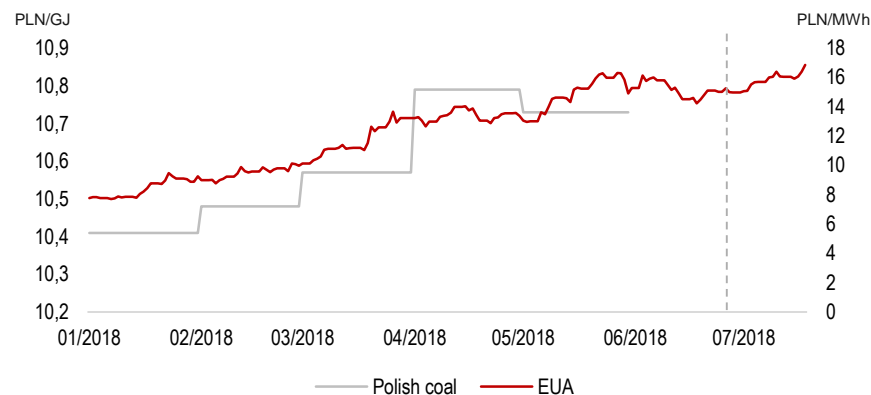
3 Electricity forward prices



2 Stock performance of Polenergia S.A.



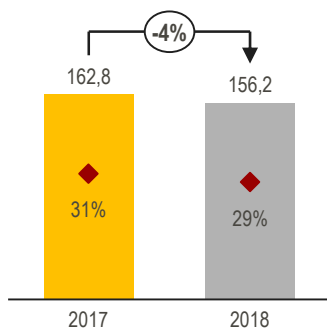
4 Polish coal and CO₂ emission allowances prices



Summary of key operational parameters – Wind energy segment

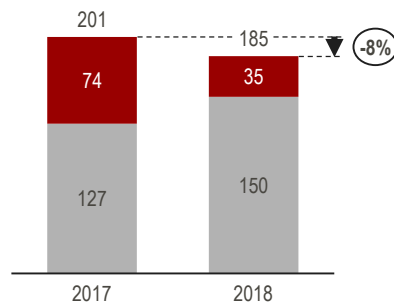
1 WF production (gross) and LF %

Quarterly



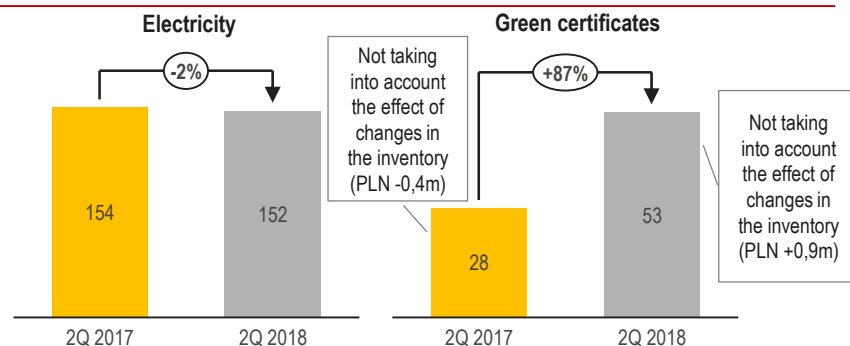
◆ Q Load factor (%)
■ Q Production (GWh)

2 Average cost per MW* [kPLN] (without balancing)

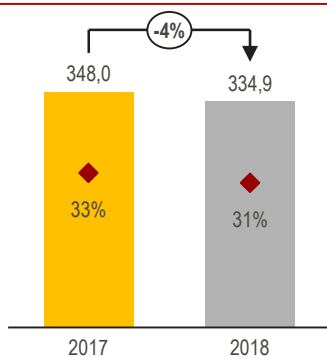


■ RET
■ Other expenses

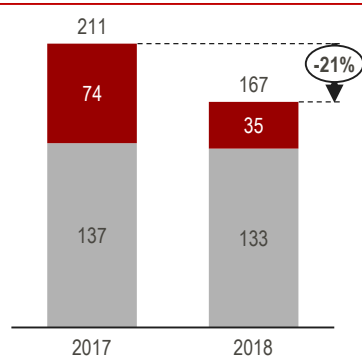
3 Average revenues per MWh (after balancing costs) at the Group level [PLN/MWh]



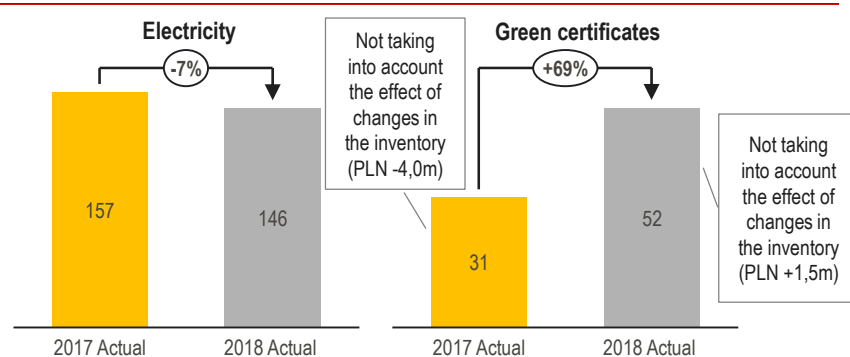
YTD



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



■ RET
■ Other expenses

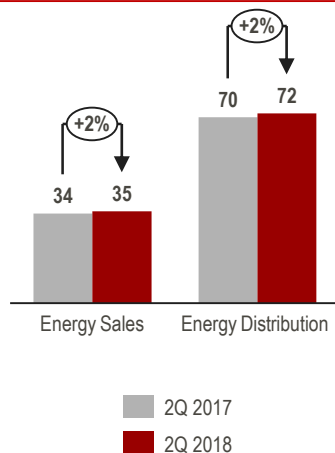


*The result normalised by effect of RET declaration adjustment and partial reversal of historical costs in Mycielin (7,3m PLN in total)

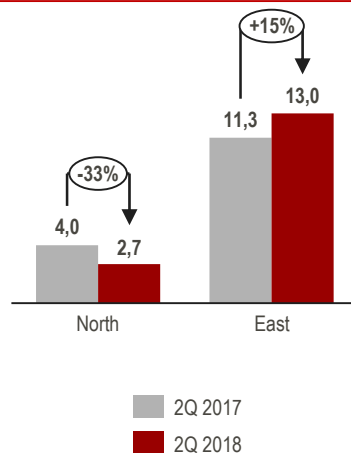
Summary of key operational parameters

4 Distribution segment – sales [GWh]

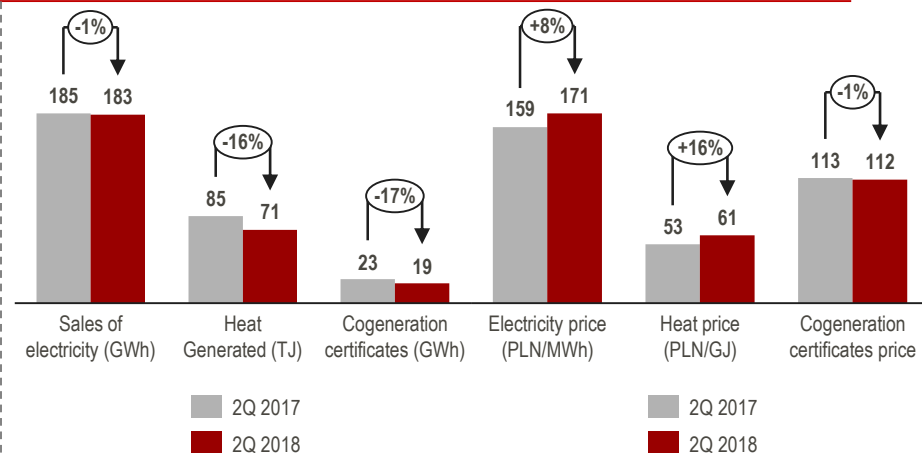
Quarterly



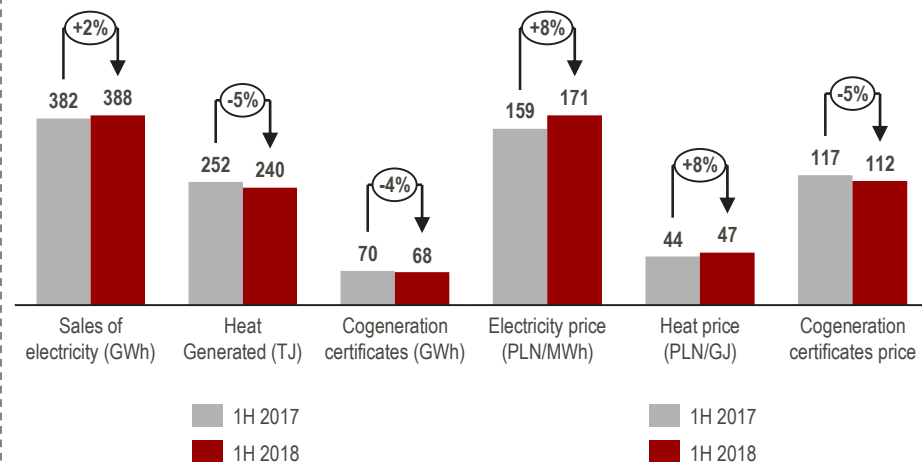
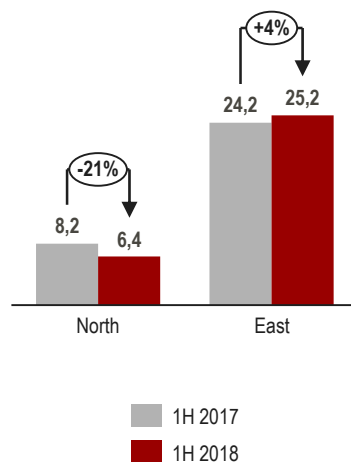
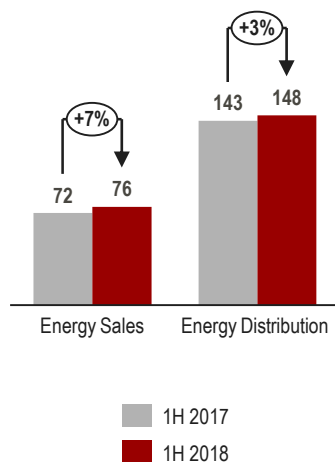
5 Biomass segment – production [thousand tons]



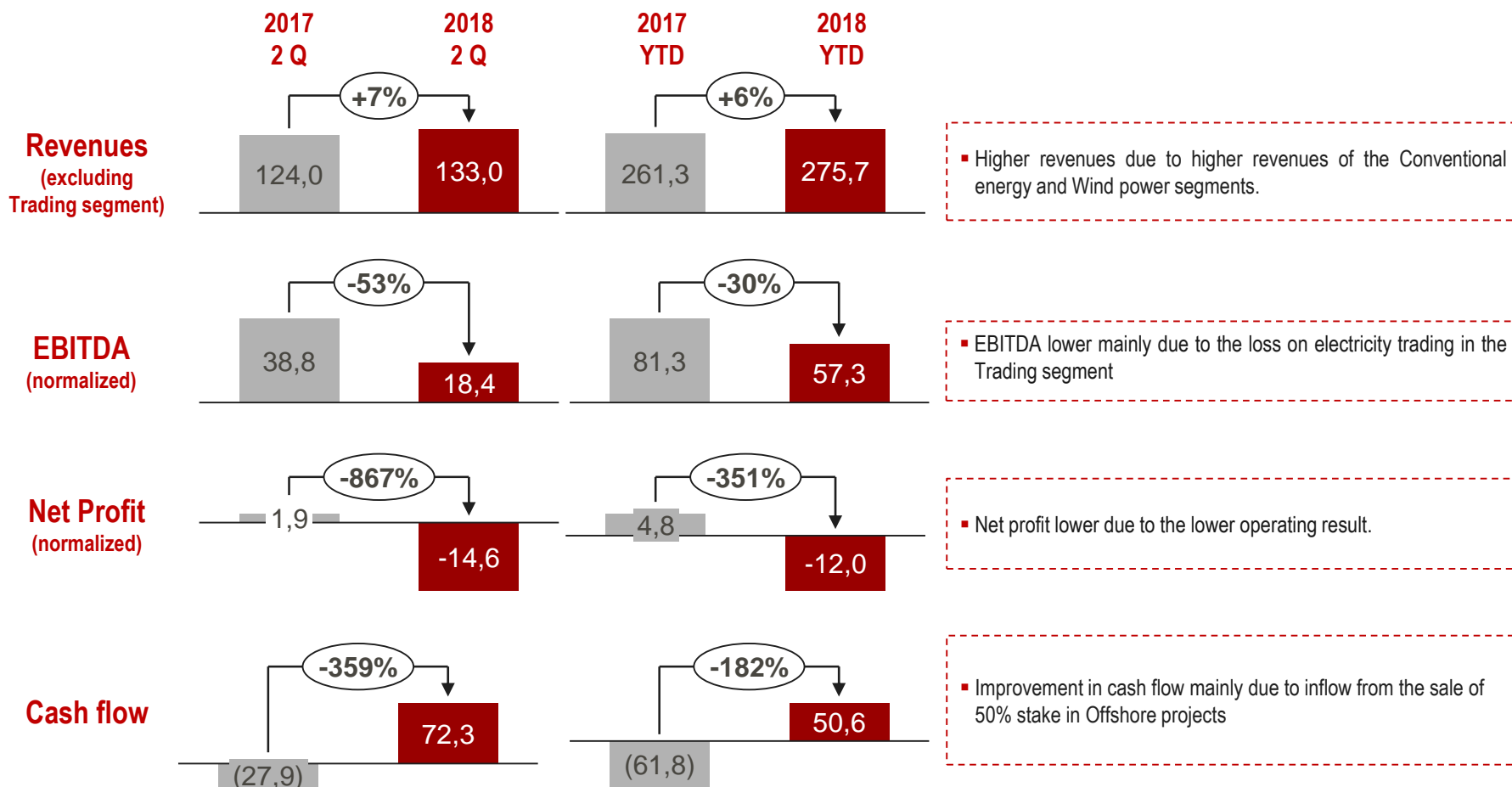
6 Conventional energy segment – sales [GWh] and average prices [PLN/MWh]



YTD



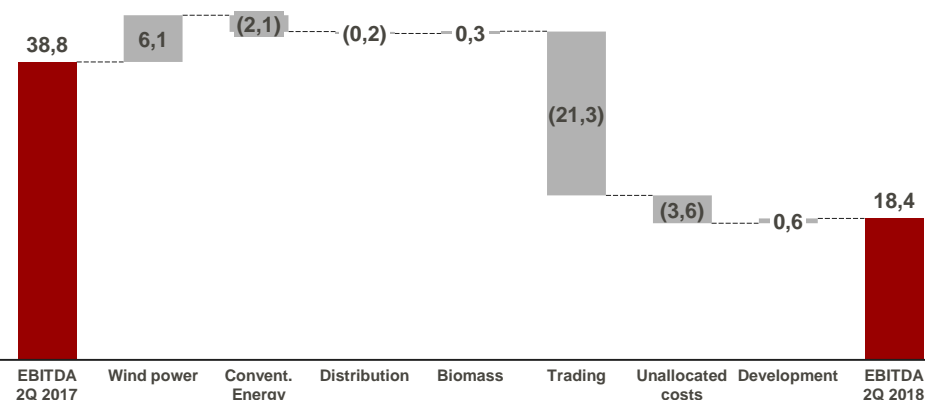
Financial Highlights



HIGHER REVENUES AND LOWER EBITDA MAINLY DUE TO LOSS ON ELECTRICITY TRADING CONTRACTS

EBITDA by operating segments

2 Q



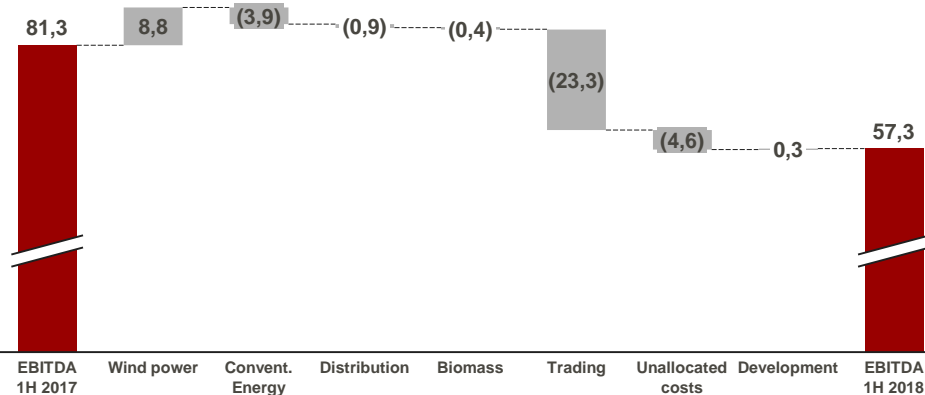
Comments

Wind power: effect of higher green certificates prices, adjustment of RET declaration and partial reversal of historical costs in Mycielin, in some measure offset by lower production

Conventional energy: impact of higher gas and EUA prices; lower revenues from cogeneration certificates

Distribution: impact of lower margin on supply and delay in the entry into force of the new tariff

YTD



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

Trading: impact of the loss on the trading portfolio caused by sudden increase in electricity prices in 1H 2018 and growth in volatility

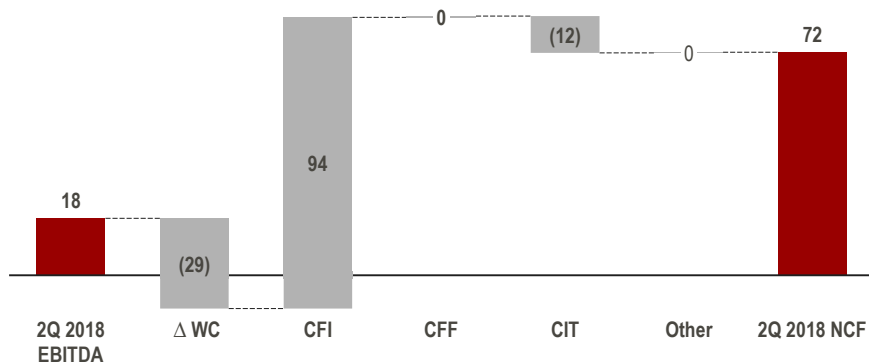
Unallocated costs: additional costs connected with sale of stake in Offshore projects and additional settlements resulting from tax and other public liabilities

Development: lower development costs allocated to P&L

IMPROVEMENT IN WIND POWER SEGMENT OFFSET BY LOWER EBITDA IN OTHER SEGMENTS – MAINLY THE EFFECT OF LOSS ON TRADING CONTRACTS

Consolidated cash flow

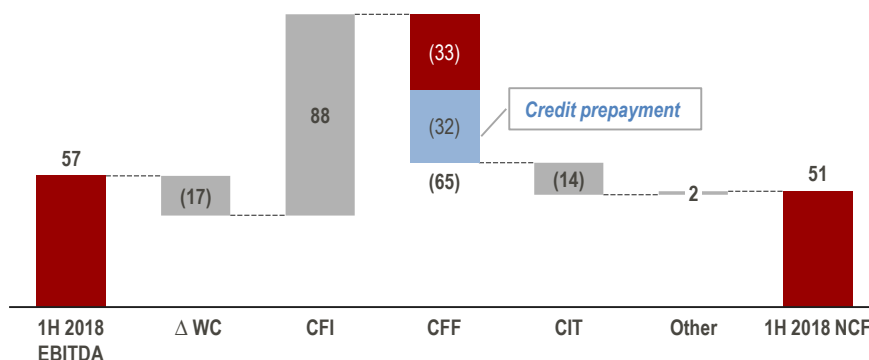
2 Q



Comments

- **Δ WC:** mainly changes in working capital in the Trading segment and Conventional energy segment.
- **CFI:** settlement of sale of 50% stake in Offshore projects
- **CFF:** mainly debt service in the Wind power segment and Conventional energy segment. Includes loan prepayment in the amount of 9,2 mPLN.

YTD



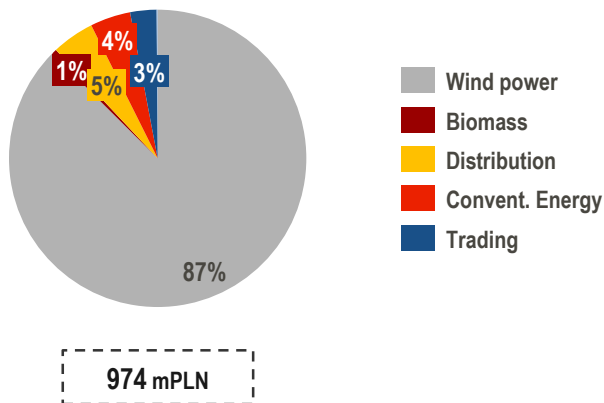
Comments

- **Δ WC:** mainly changes in working capital in the Trading segment and Conventional energy segment.
- **CFI:** settlement of sale of 50% stake in Offshore projects
- **CFF:** mainly debt service in the Wind power segment and Conventional energy segment. Includes loan prepayment in the amount of 32 mPLN.

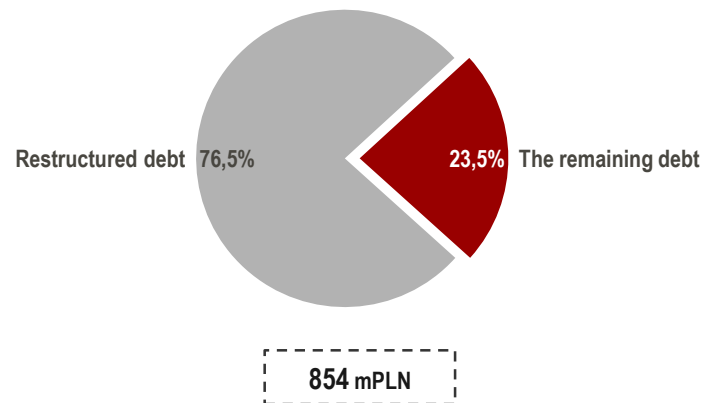
IMPROVEMENT IN NET CASH FLOW DUE TO SETTLEMENT OF SALE OF STAKE IN OFFSHORE PROJECTS

Debt structure as of 30 June 2018

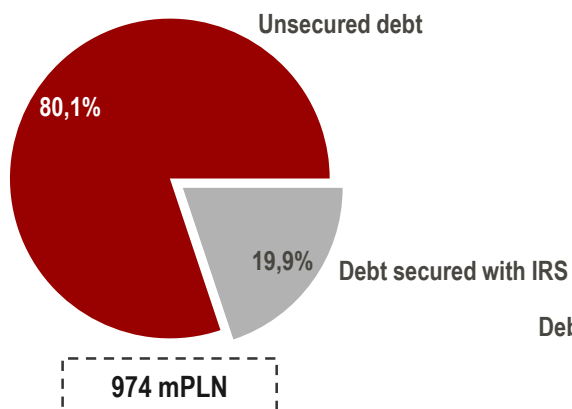
The structure of debt by segments



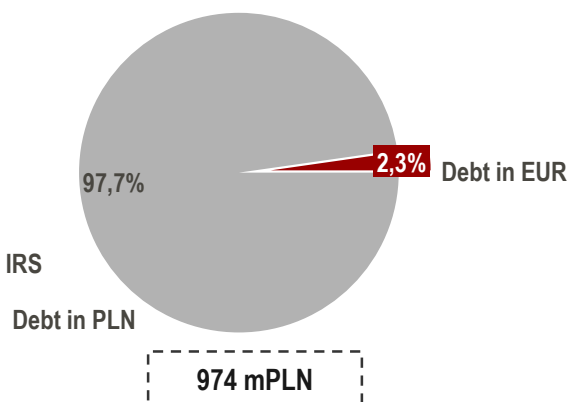
The structure of debt in Wind Power segment



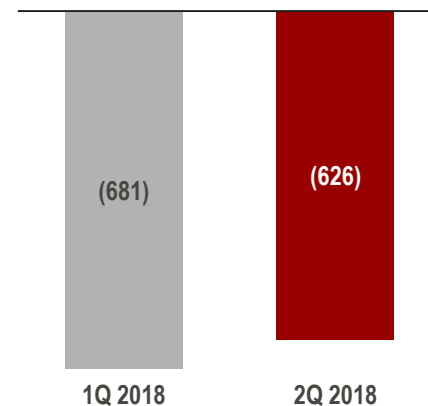
The structure of debt – interest rate hedging



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



Net debt (1Q 2018 vs. 2Q 2018)



NO CURRENCY RISK. INTEREST RATE RISK SECURED IN ABOUT 20%. 77% OF WIND FARMS DEBT SUCCESSFULLY RESTRUCTURED



RENEWABLE ENERGY



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DISTRIBUTION

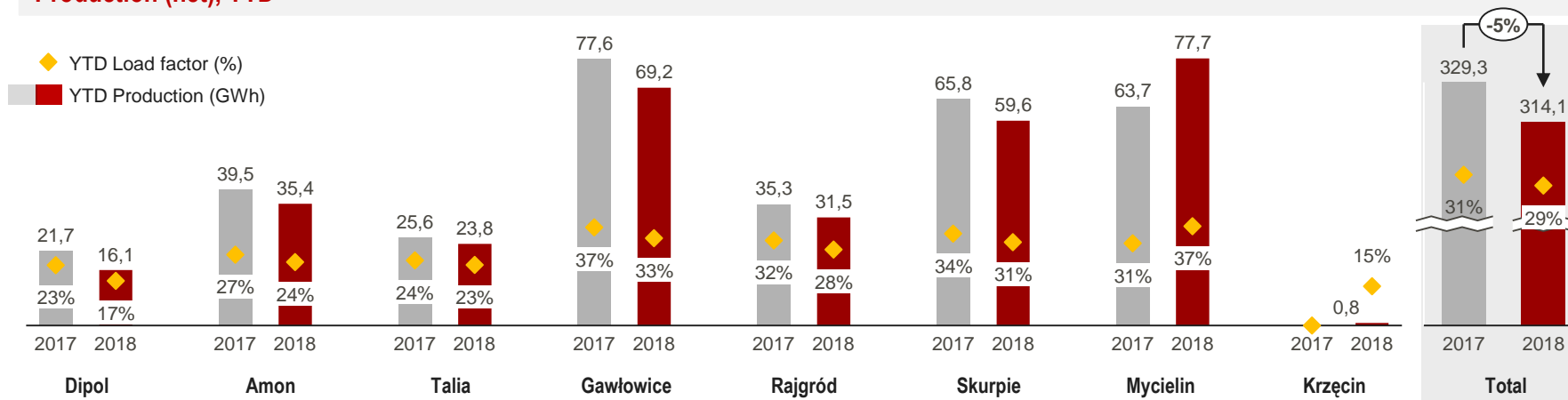


TRADE

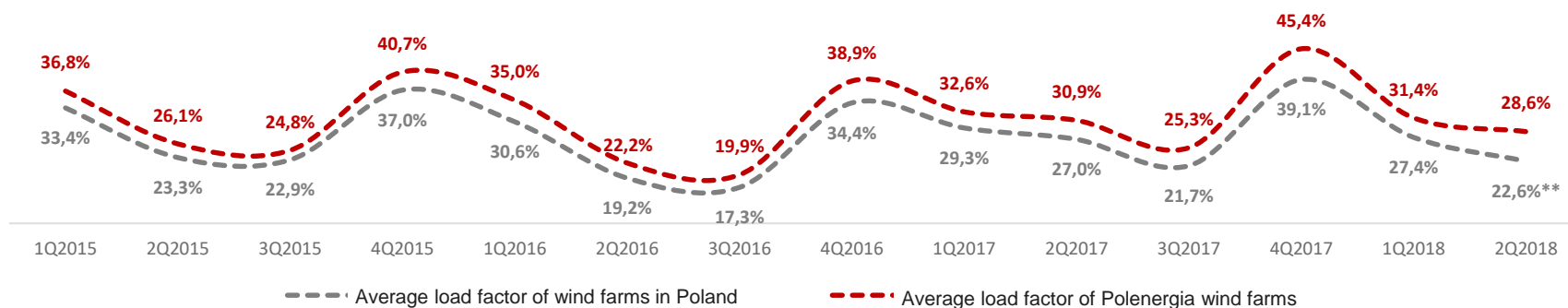
Summary of segment results

Wind power - production

Production (net), YTD



Productivity of Polenergia wind farms above average*



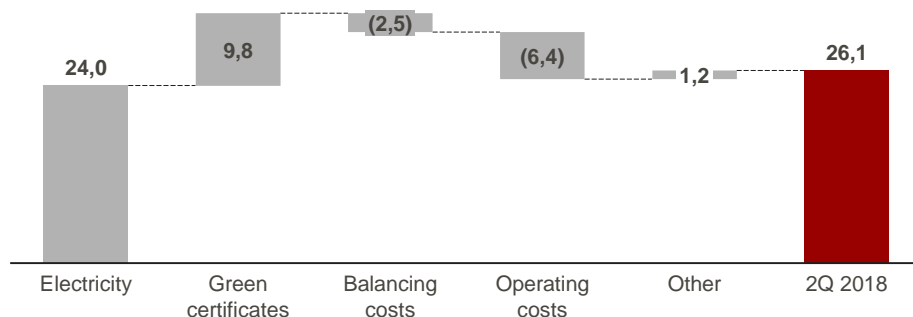
* Based on net productivity (after own consumption and losses) due to the availability of data

** Estimated result for VI.2018

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

Wind power - 2 Q

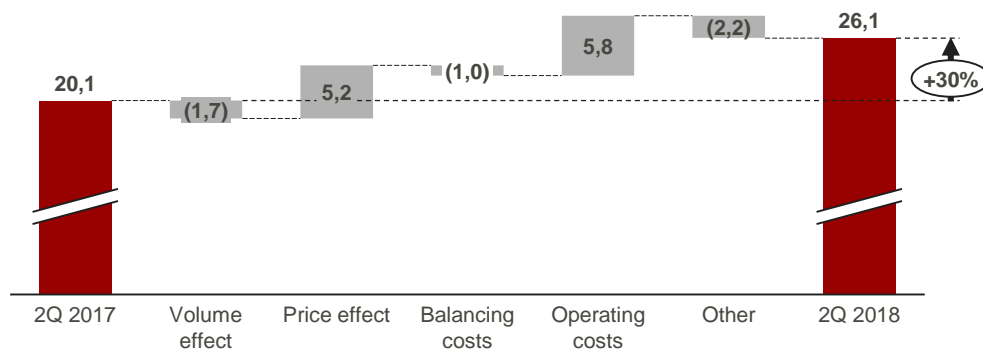
1 EBITDA build-up



Comments

- Lower production volume by 8,6 GWh.
- Higher average price of green certificates (in case of projects selling GC on market prices).
- Operating costs lower mainly due to RET adjustment for I-VI 2018 and lower technical service costs (reversal of historical costs in Mycielin) partially compensated by higher balancing costs (higher unit price)

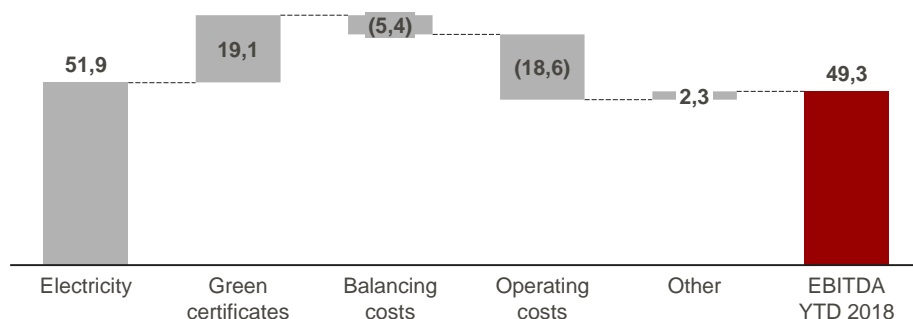
2 EBITDA bridge



HIGHER GREEN CERTIFICATES PRICES AND LOWER OPERATING COSTS

Wind power - YTD

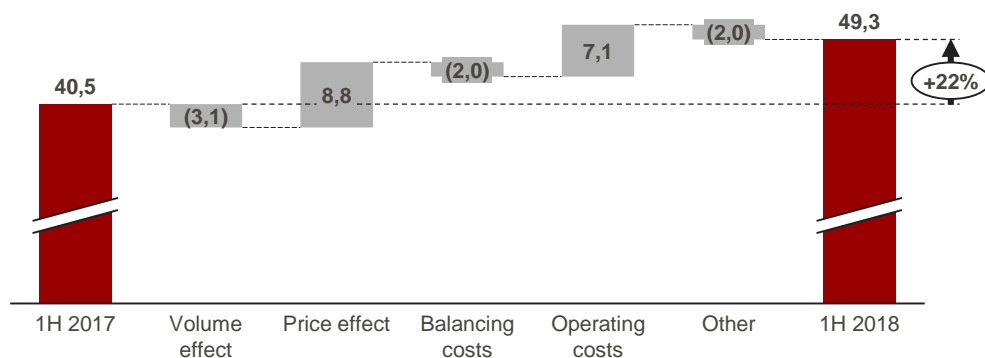
1 EBITDA build-up



Comments

- Lower production volume by 15,3 GWh.
- Higher average price of green certificates (in case of projects selling GC on market prices).
- Operating costs lower mainly due to RET adjustment for I-VI 2018 and lower technical service costs (reversal of historical costs in Mycielin and replacement of gear box in WF Puck) partially compensated by higher balancing costs (higher unit price)

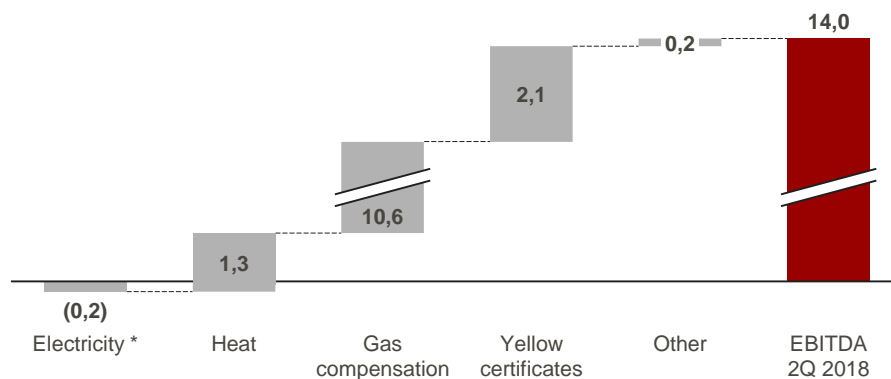
2 EBITDA bridge



HIGHER GREEN CERTIFICATES PRICES AND LOWER OPERATING COSTS

Conventional Energy – 2 Q

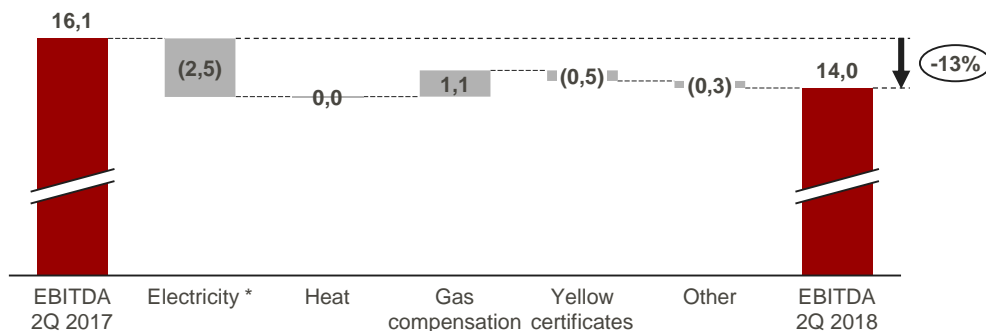
1 EBITDA build-up



Comments

- Lower EBITDA on electricity results from the increase in gas and EUA prices.
- Higher gas compensation results from higher cost of gas (higher variable gas price) partially compensated by 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.
- Lower revenues from yellow certificates due to lower amount of certificates (lower heat generation)

2 EBITDA bridge

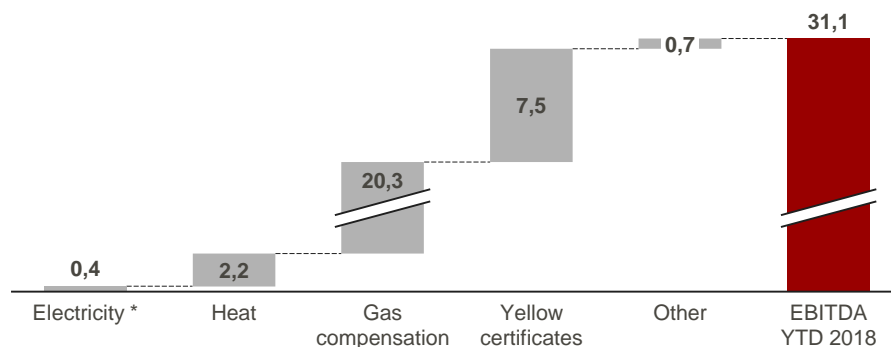


* Includes compensation for stranded costs and revenues from black-start services

STABLE OPERATIONAL ACTIVITY. LOWER EBITDA DUE TO INCREASE IN GAS AND EUA PRICES AND LOWER REVENUES FROM YELLOW CERTIFICATES.

Conventional Energy – YTD

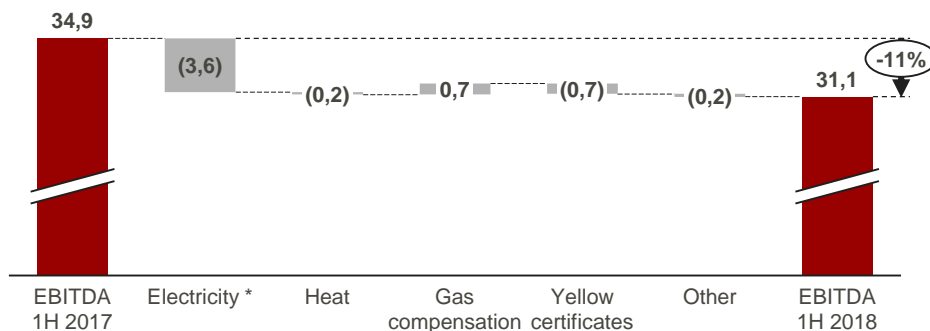
1 EBITDA build-up



Comments

- Lower EBITDA on electricity results from the increase in gas and EUA prices.
- Higher gas compensation results from higher cost of gas (higher variable gas price) partially compensated by 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.
- Lower revenues from yellow certificates due to lower amount of certificates (lower heat generation) and lower price (2017 = 117 PLN/MWh, 2018 = 112 PLN/MWh)

2 EBITDA bridge

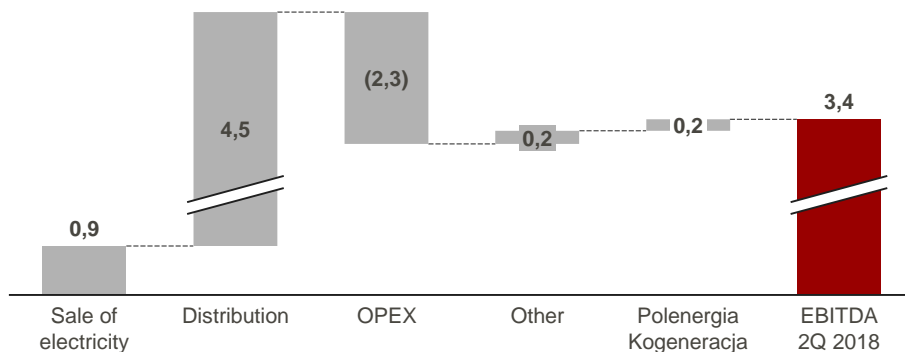


* Includes compensation for stranded costs and revenues from black-start services

STABLE OPERATIONAL ACTIVITY. LOWER EBITDA DUE TO INCREASE IN GAS AND EUA PRICES AND LOWER REVENUES FROM YELLOW CERTIFICATES.

Distribution – 2 Q

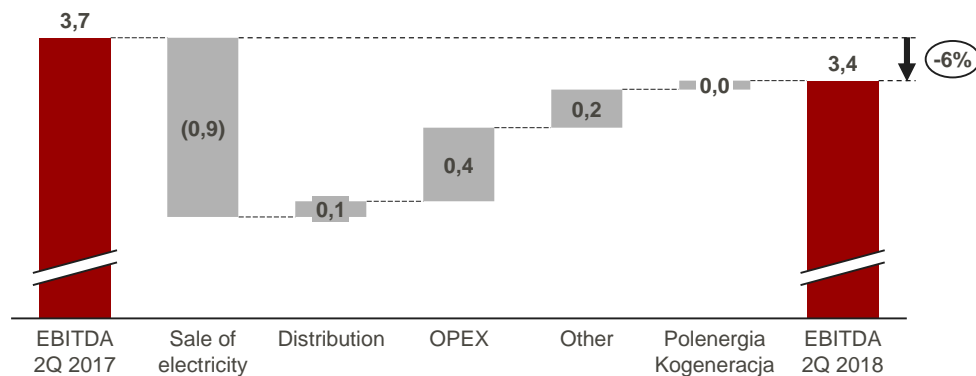
1 EBITDA build-up



Comments

- Lower margin on electricity sale due to higher electricity cost.
- Higher distribution margin results from higher volume (investment plan effect)
- Lower OPEX due to savings on HQ, payroll and RET costs.
- Higher other operating costs due to return of RET

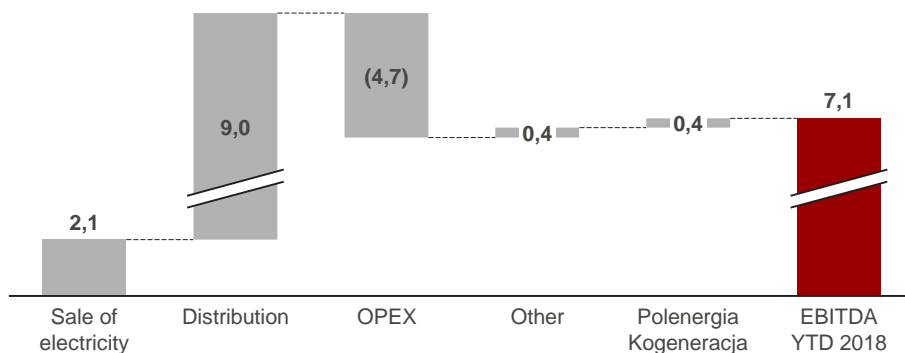
2 EBITDA bridge



STABLE OPERATIONAL ACTIVITY. LOWER EBITDA DUE TO INCREASE IN ELECTRICITY PURCHASE PRICE COMPENSATED BY LOWER OPEX AND RET RETURN

Distribution – YTD

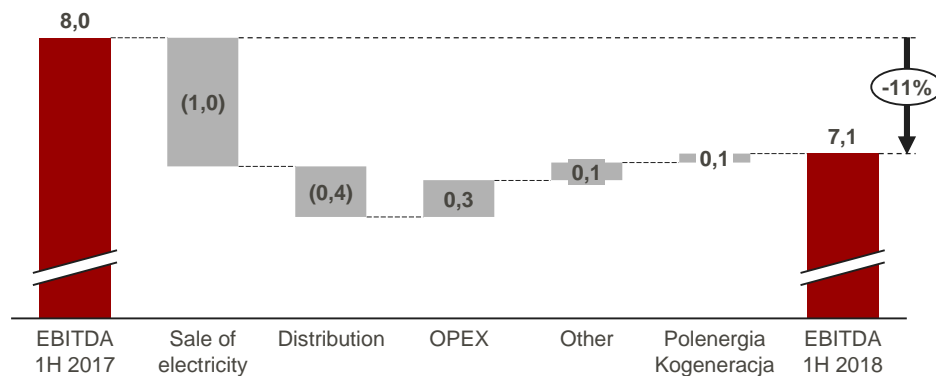
1 EBITDA build-up



Comments

- Lower margin on electricity sale due to higher electricity cost.
- Lower distribution margin mainly due to lower connection fees and a timing difference in the tariff update (valid from 12.05.2018).
- Lower OPEX mainly due to savings on HQ and RET costs.

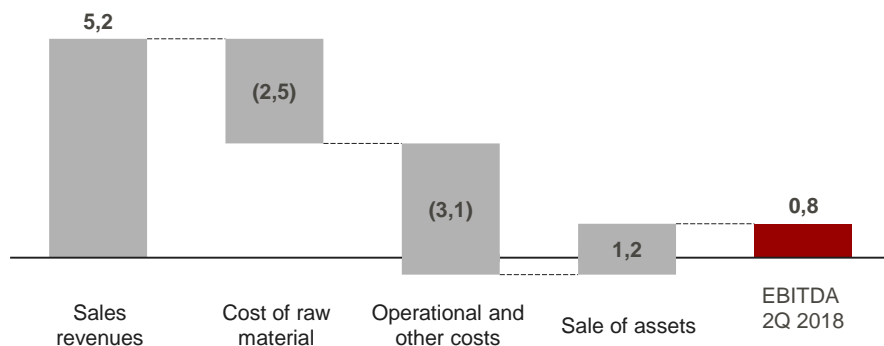
2 EBITDA bridge



STABLE OPERATIONAL ACTIVITY. LOWER EBITDA DUE TO INCREASE IN ELECTRICITY PURCHASE PRICE AND LOWER CONNECTION FEES COMPENSATED BY LOWER OPEX

Biomass – 2 Q

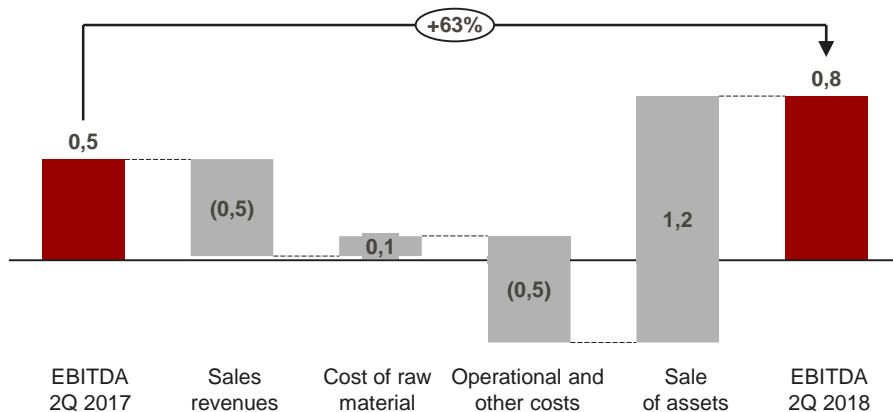
1 EBITDA build-up



Comments

- Lower revenues as a consequence of decrease in volumes and pellet sales prices.
- Higher raw material (straw) costs due to the higher price.
- At the level of EBITDA YTD visible effect of sale of assets of the Biomass South plant above the book value allowing for the recognition of a positive result on sales in the amount of 1.2 mPLN.

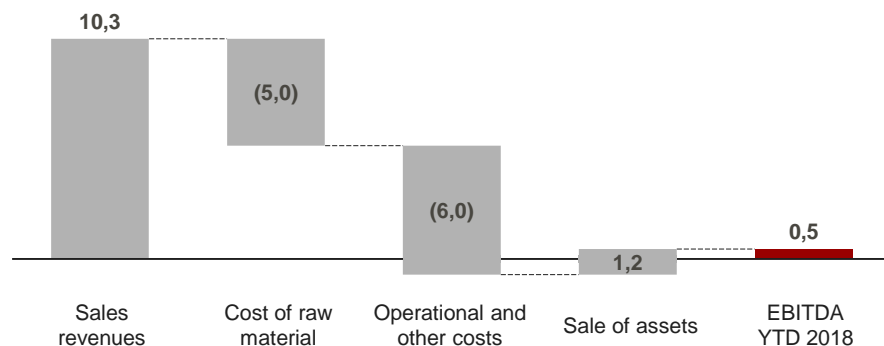
2 EBITDA bridge



LOWER SALES VOLUMES AND HIGHER RAW MATERIAL PRICES

Biomass – YTD

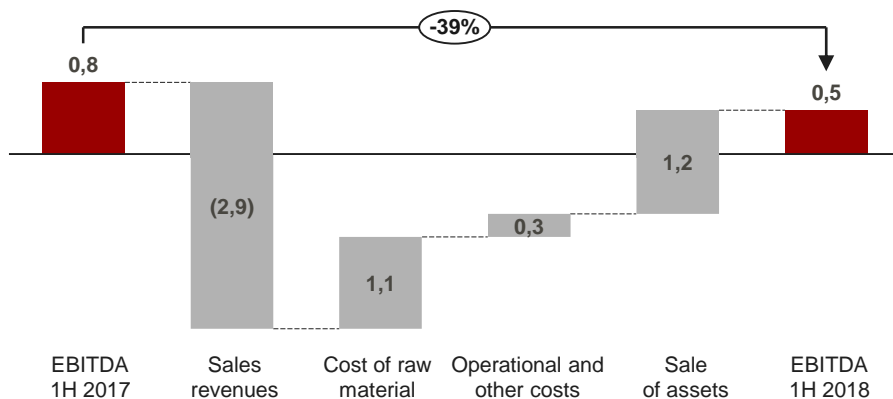
1 EBITDA build-up



Comments

- Lower revenues as a consequence of decrease in volumes and pellet sales prices.
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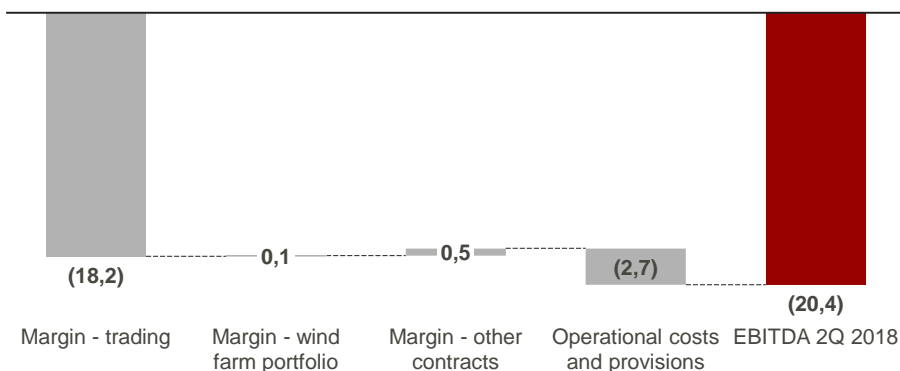
2 EBITDA bridge



LOWER SALES VOLUMES AND HIGHER RAW MATERIAL PRICES

Trading – 2 Q

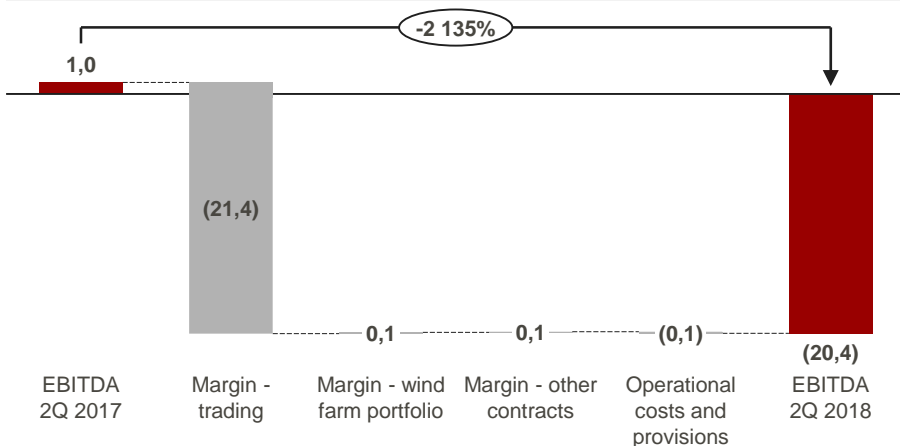
1 EBITDA build-up



Comments

- Loss on trading portfolio mainly due to sudden increase of electricity price in 1H 2018 and increase in volatility.
- 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.

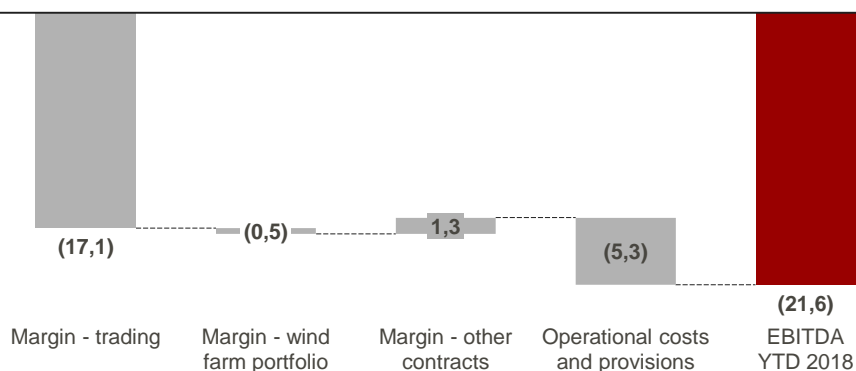
2 EBITDA bridge



LOSS ON TRADING PARTIALLY COMPENSATED BY INCREASE ON WIND FARMS PORTFOLIO AND OTHER CONTRACTS

Trading – YTD

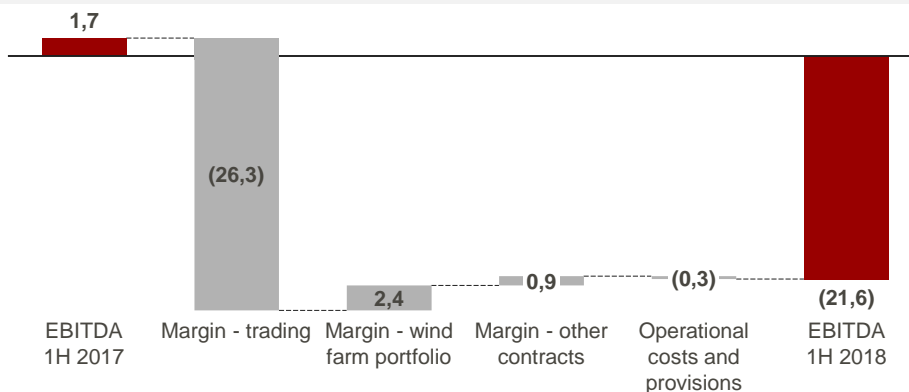
1 EBITDA build-up



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2 EBITDA bridge



LOSS ON TRADING PARTIALLY COMPENSATED BY INCREASE ON WIND FARMS PORTFOLIO AND OTHER CONTRACTS

Development activity

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

- Preparation works to participate in the auction in 2018 in progress;
- Activities undertaken aimed to selection of building contractors and turbines suppliers for the projects;
- Discussions on potential funding conditions have been started.

Offshore:

- Public consultation on the maritime area development plan have commenced;
- Wind measurement and acquiring of environmental decision for the connection cable in progress.

Wińsko:

- Preparation works to participate in auction;
- Decision concerning prequalification for the auction obtained;
- Integrated Permit obtained;

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 in the process of obtaining;
- The first project will be ready to participate in the auction at the end of 2018.

**FURTHER WORKS CONCERNING DEVELOPMENT OF OFFSHORE PROJECTS.
PREPARATIONS FOR THE AUCTION FOR ONSHORE WIND FARMS (185 MW), PV (40 MW) AND BIOMASS (31MW)**