



WIND POWER



CONVENTIONAL ENERGY



DISTRIBUTION



TRADING

POLENERGIA GROUP 1H 2019 Results

13 August 2019

Fact

- **Increased Company value**
 - On 26.07.2019 Societe Generale raised the share price quotation to PLN 33.8
- **Stabilization of prices of green certificates in Q2**
- **Increase in prices on the forward power market in Q2**
- **Amendment of the RES Act - forthcoming change of regulation**
 - On 19 July 2019 the Polish lower chamber of Parliament passed an amendment to the RES Act. On 2 August Senate passed the act without making any amendments. The bill was passed to the president.
- **The Act to freeze energy prices - regulation signed**
 - On 19 July 2019 the Minister of Energy signed the regulation for the Electricity Prices Act.
- **Debt prepayment in Amon and Talia wind farms**
- **PV - implementation plan for two projects with total power of 20MW**
- **New tariff for Polenergia Dystrybucja**
- **Amon's claim re. PE-PKH's termination of contracts granted by Court**
- **Adjustment of PPA compensation and costs of gas compensation for 2018 in ENS**



Outcome/Comment

- Share price increase from PLN 20.5 as at 31.12.2018 up to PLN 26.4 as at 30.06.2019 and PLN 27,5 as at 06.08.2019
- Between 31.12.2018 and 06.08.2019 the capitalization of the Company increased by PLN 318m.
- After a temporary drop in March, the green certificates' prices rebounded to the level of ca. PLN 130/MWh in Q2.
- In Q1 electricity prices on the forward market dropped from ca. PLN 280/MWh to PLN 260/MWh.
- In Q2 the prices rebounded to the current level of ca. PLN 270-280/MWh
- The fluctuations in the forward market are correlated with the changes in CO₂ emission allowance prices.
- The increase in electricity prices for forward contracts from PLN 259.3/MWh as at 29.03.2019 to PLN 273.6/MWh as at 28.06.2019 (PLN 284.5 as at 5.08.2019).
- The amendment deals, among others, with the rules for holding RES auctions; it also governs the provisions and deadlines for project implementation.
- The wording of the amendments specifies the maximum quantities and amounts of RES energy thus permitting a RES auction still in 2019.
- The Act has no significant impact on the financial results of the Group.
- Since the legislative process is over now, we expect improved liquidity on forward markets to positively influence the Group's operations.
- According to the loan agreement, the loan was prepaid from the surplus cashflow of 8.3m (Amon PLN 3.5m, Talia PLN 4.8m).
- Since the beginning of the year, Amon and Talia have reduced their debt by 17.1m.
- The Company began development of an 8MW project and has been preparing for participation in an auction with further 12MW.
- Advanced discussions are continued with respect to the obtaining of debt financing for both projects.
- The President of the Energy Regulatory Office approved the electricity tariff applicable until 31.12.2019.
- The update of the tariff will help increase the distribution margin in Polenergia Dystrybucja.
- The court ruled the PKH's notices of termination ineffective and decided they had no legal effect of terminating both contracts. The Court also determined that the claims for damages raised by Amon against PKH on account of non-performance by PKH of the contracts for the sale of GC were justified. The judgment is not yet valid and binding and may be complained against.
- In July ENS was informed about PPA compensation granted along with the costs of gas compensation for 2018 totaling ca. PLN 39.8m.

Fact

- **RES Act amendment**
 - No possibility to make use of the higher market prices for the projects participating in the 2019 auction.
 - Uncertainty regarding potential support in light of the notification process.

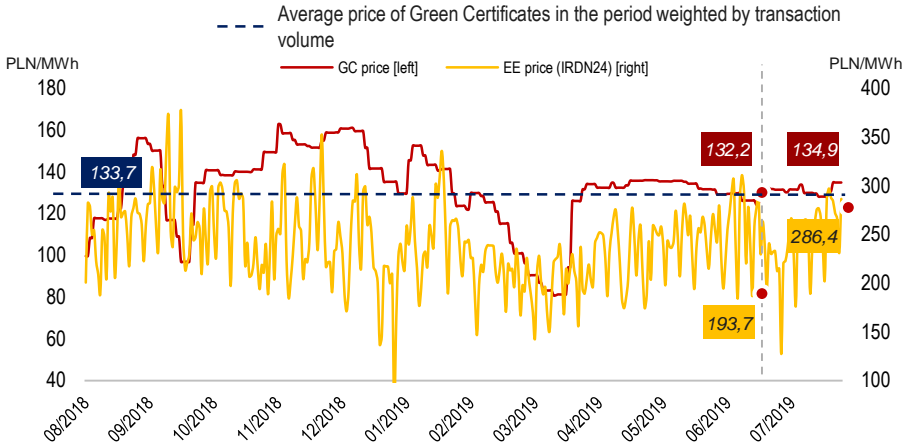


Outcome/Comment

- Prior to the parliamentary discussion stage, the amendment provided for a minimum price formula permitting the projects to make the most of the higher market prices.
- However, given the concerns that EC might refuse the notification approval, the projects participating in the 2019 auction will be governed by the existing rules.
- Extension of the support system from 2035 to 2039 requires a notification process.
- For auctions taking place prior to such notification the Energy Regulatory Office may restrict options to offer energy until 2035.

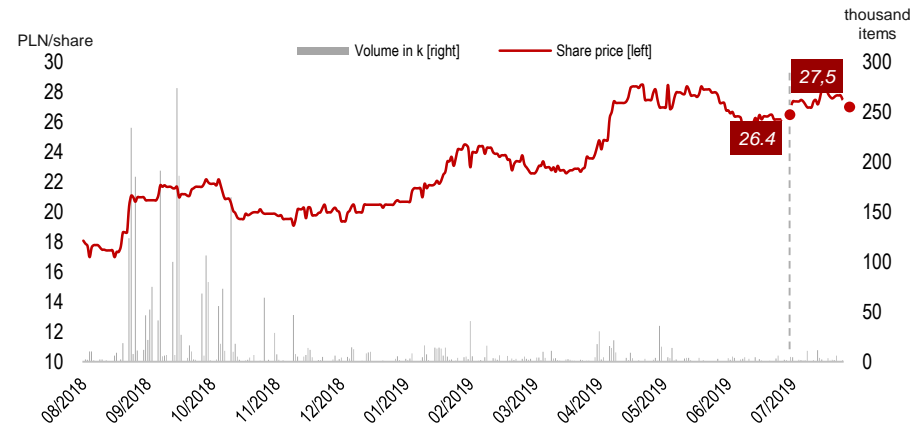
Key indexes and market prices (last 12 months)

1 Prices of green certificates and electricity

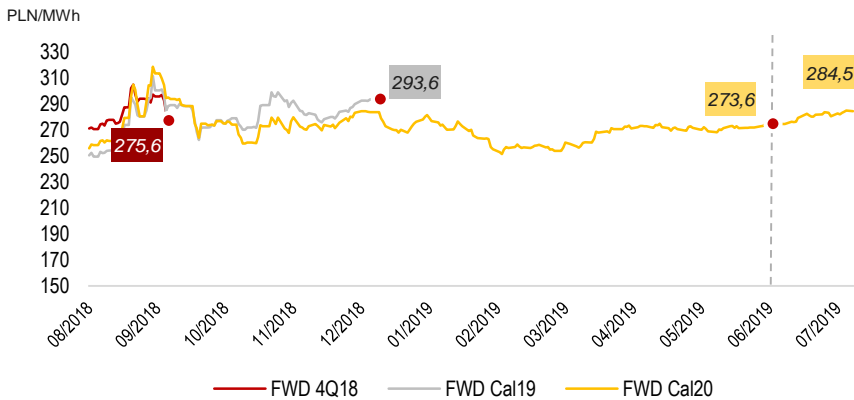


* The average price of Green Certificates weighted by transaction volume in the same period amounted to: PLN 60,7/MWh

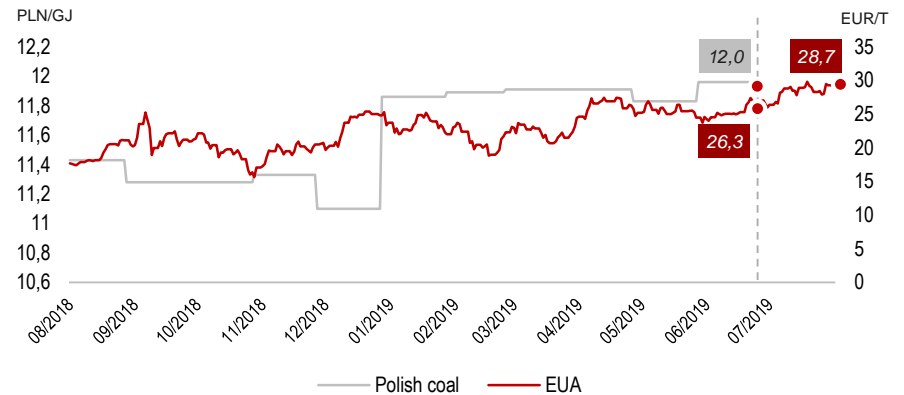
2 Quotations of Polenergia S.A. share prices



3 Forward prices of electricity



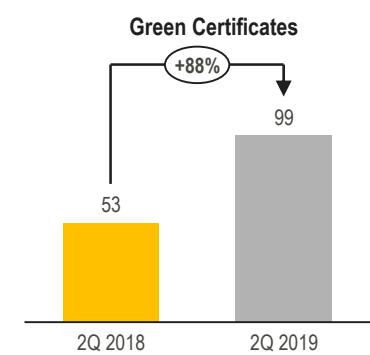
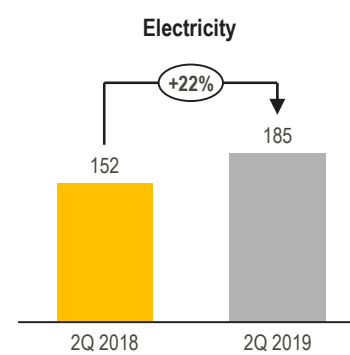
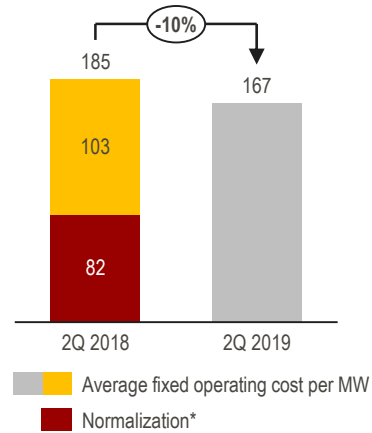
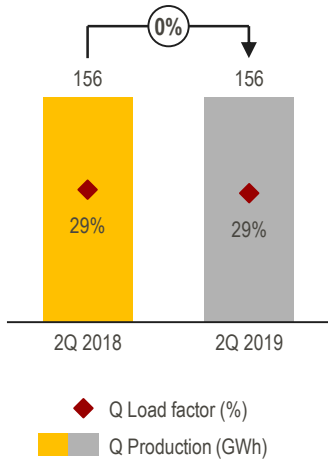
4 Quotations of coal prices in the Polish market and the rights for CO₂ emissions



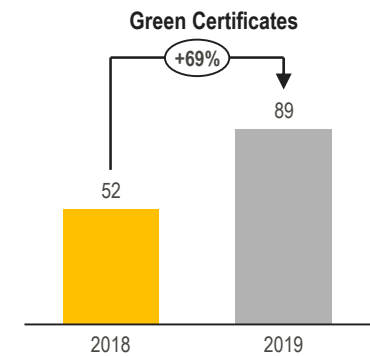
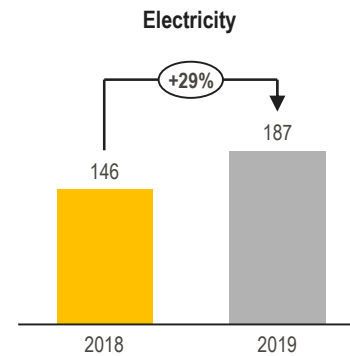
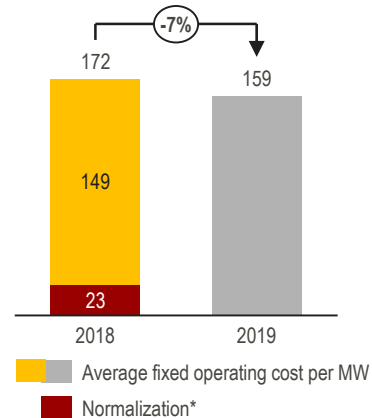
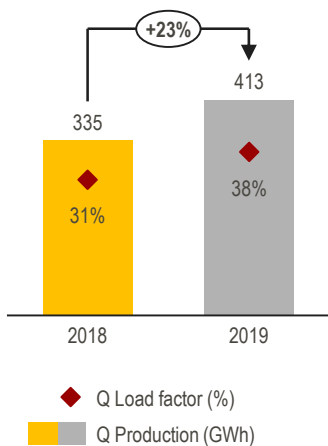
Summary of key operating parameters - Wind power segment

- 1** WF (gross) Production and LF% **2** Average fixed operating cost per MW in WF* [PLN k/year] **3** Average revenue per MWh (after balancing and profile cost) at the Group level [PLN/MWh]

Quarterly data



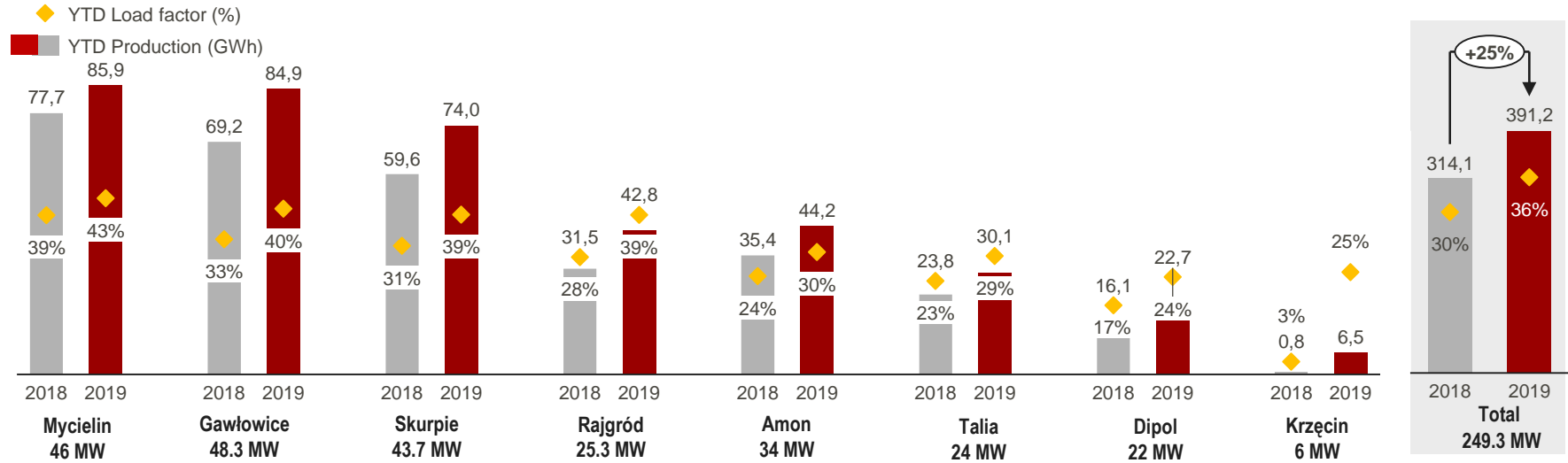
YTD data



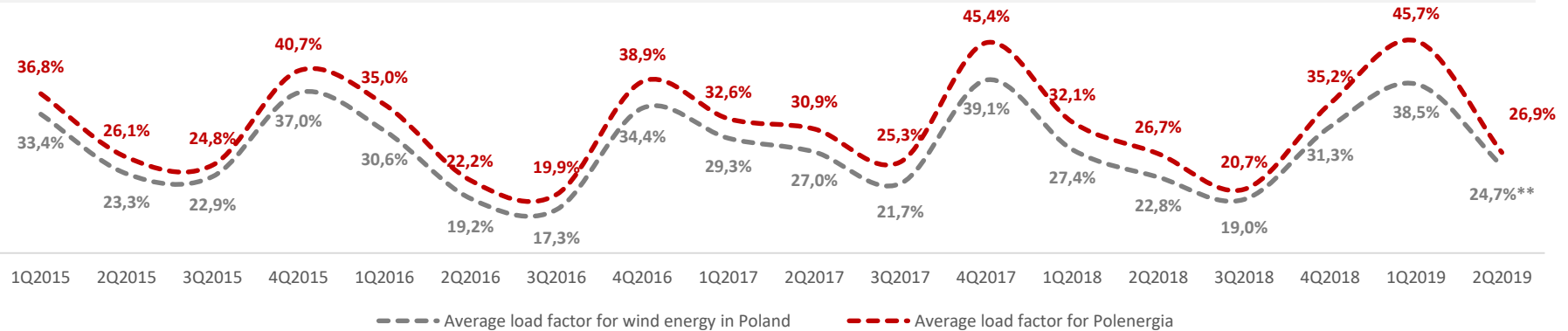
* Average fixed operating cost in 2018 was normalized to include a positive adjustment of PON declaration in GSRM (normalization in Q2 by part of the adjustment referring to Q1) and reversal of historical cost of servicing - Vestas in Mycielin.

Wind power - production

(Net) Production, YTD



Net productivity of Polenergia farms above the average*



* Comparison made based on net productivity (after own consumption and losses) in view of the availability of data on that sector

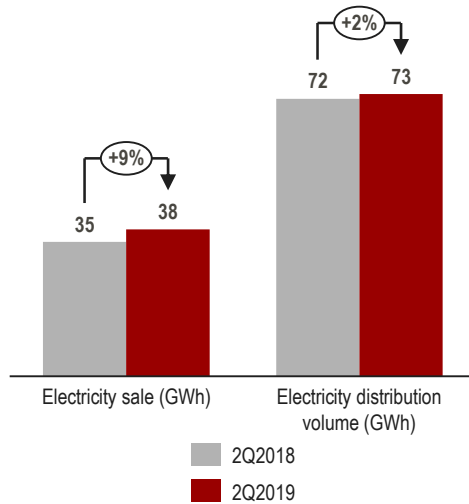
**Calculation of net production of the sector in June based on the comparison of net production of Polenergia in June against the net production of Polenergia in April and May

THE USE OF STATE-OF-THE-ART TECHNOLOGIES, VERY GOOD LOCATION OF PROJECTS AND AN EXPERIENCED TECHNICAL TEAM PERMIT TO CONSTANTLY ACHIEVE HIGHER OUTPUT THAN THE MARKET AVERAGE.

Summary of key operating parameters

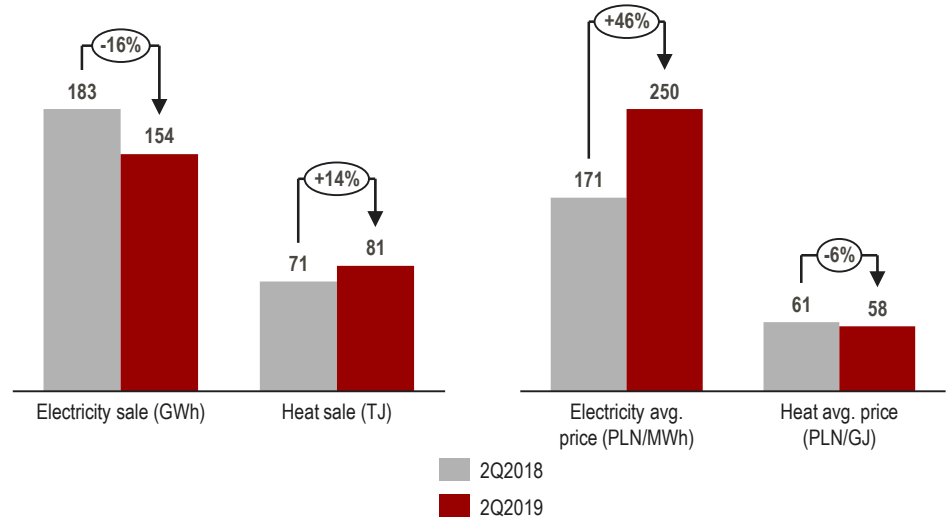
4 Distribution segment – sales [GWh]

Quarterly data

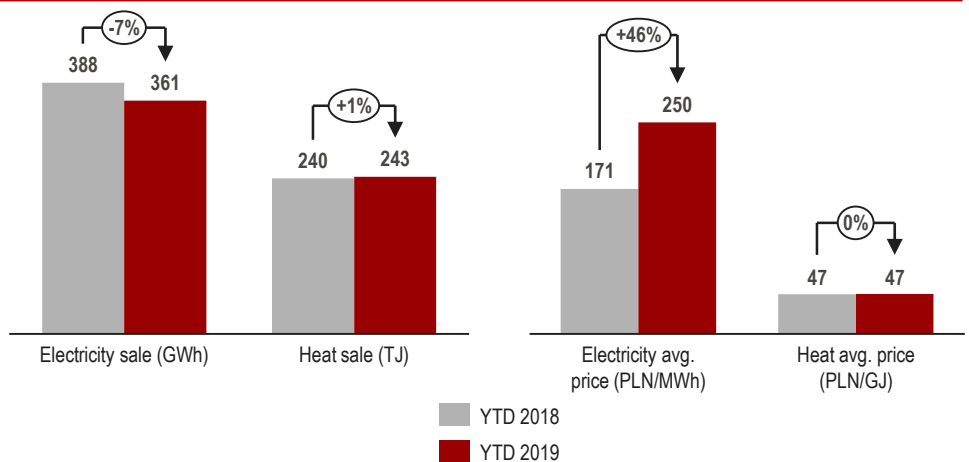
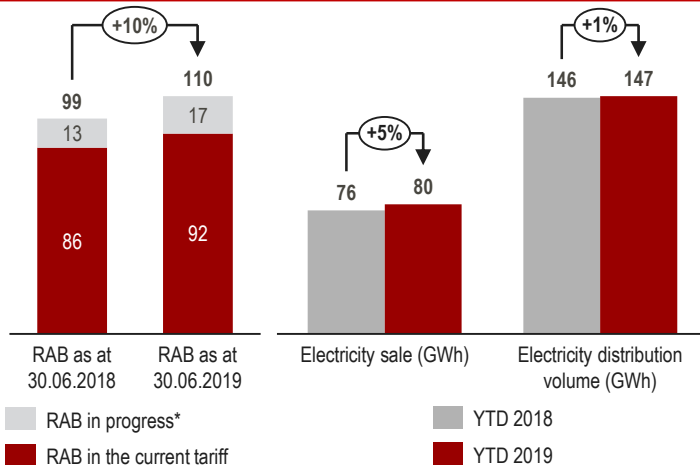


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Conventional energy segment - sales[GWh] and average prices[PLN/MWh]

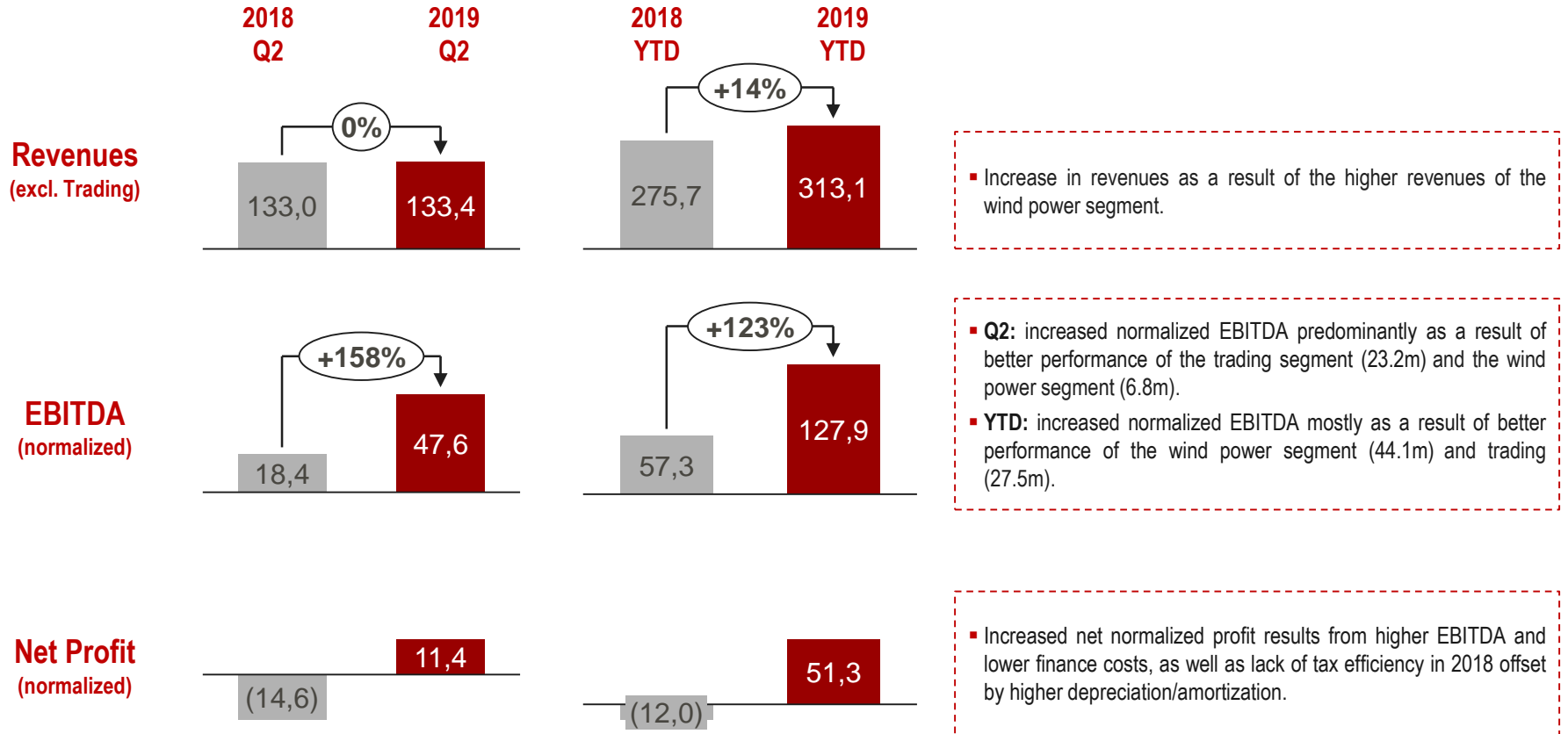


YTD data



*Expenditure already made but not reflected in the distribution tariff. Such inclusion will take place during successive updates of the tariff.

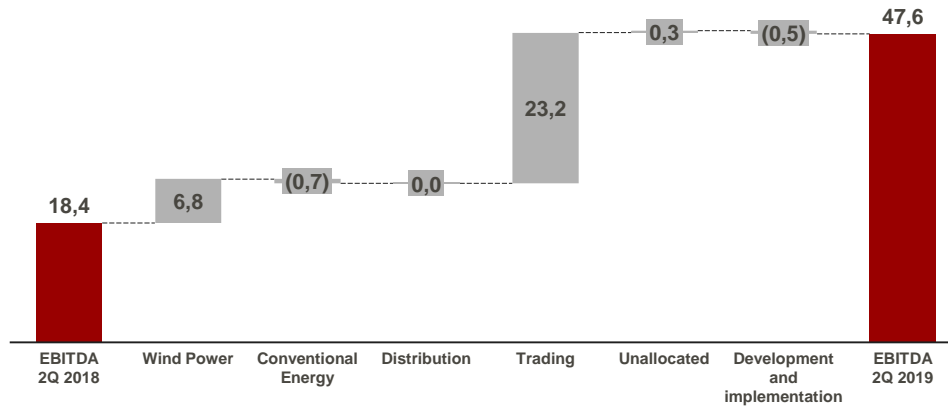
Summary of key figures



SIGNIFICANT IMPROVEMENT OF PERFORMANCE PREDOMINANTLY DUE TO BETTER WINDINESS, HIGHER PRICES OF GREEN CERTIFICATES AND ELECTRICITY AND BETTER COMMERCIAL ACTIVITY RISK MANAGEMENT

EBITDA by operating segments

Quarterly



Comments

Wind Power: better performance driven by higher production volumes and higher prices of green certificates and electricity.

Conventional Energy: the drop in performance results from lack of revenues from yellow certificates following the expiration, with the end of 2018, of the existing support system for gas cogeneration, partly offset by higher stranded cost compensation revenues (negative impact of an update of long-term prices of natural gas and CO₂ allowances in 2018 Q2) and by higher revenues from gas compensation for 2019 (higher Wg adjustment index). From the quarterly perspective, lower revenues from gas compensation result mainly from lower cost of gas in 2019 Q2 and lower electricity production in 2019 Q2 (overhaul).

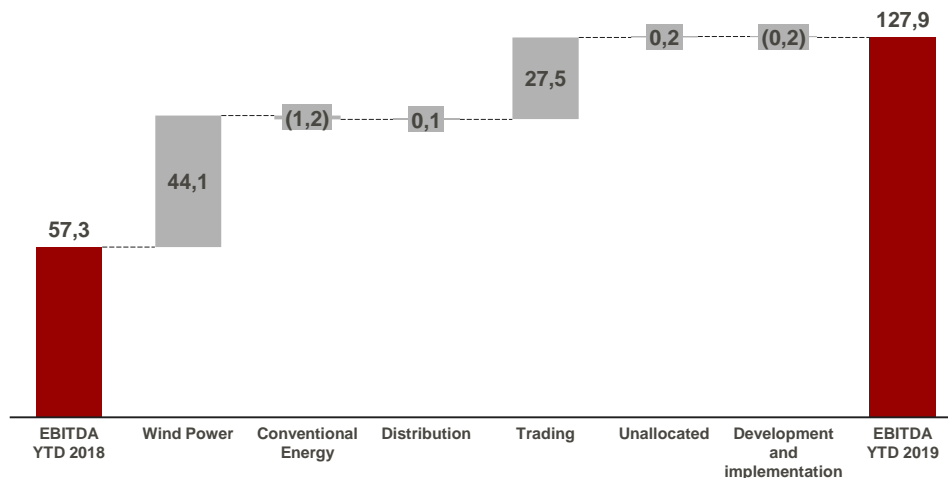
Distribution: better performance due to higher distribution margin, lower operating expenditures and refund of real estate tax, offset by lower margin on energy sales.

Trading: better performance due to better performance of electricity trading, better sales of green certificates resulting from higher selling prices and lower operating expenditures, as well as lower commission cost, partly offset by worse performance on sale of electricity from wind farms in view of higher balancing and profiling costs.

Unallocated costs: Under unallocated costs segment we have also included the difference of -0.5m from the biomass segment following the decision to stop distinguishing it as a separate segment in 2019. Should this change be disregarded, the difference in the unallocated costs segment would be 0.7 predominantly due to lower cost of external services at headquarters.

Development: worse performance due to higher costs of the segment allocated to profit and loss account.

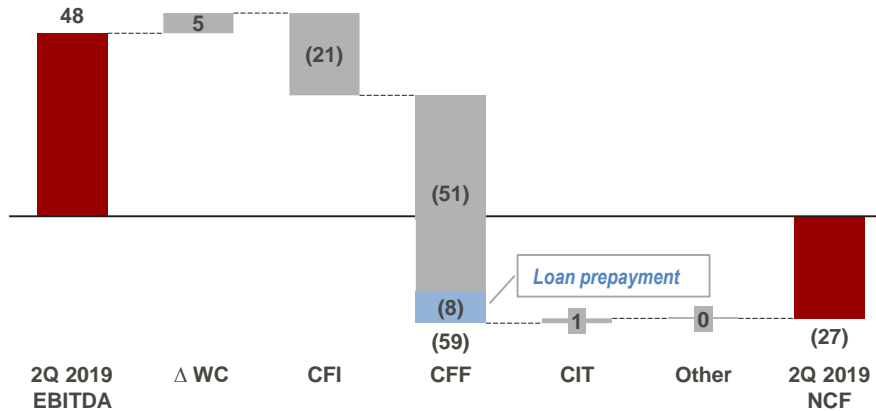
YTD



SIGNIFICANTLY BETTER PERFORMANCE OF WIND POWER AND TRADING SEGMENTS STABLE OPERATIONS IN THE CONVENTIONAL ENERGY AND DISTRIBUTION SEGMENTS

Cash flow Polenergia Group

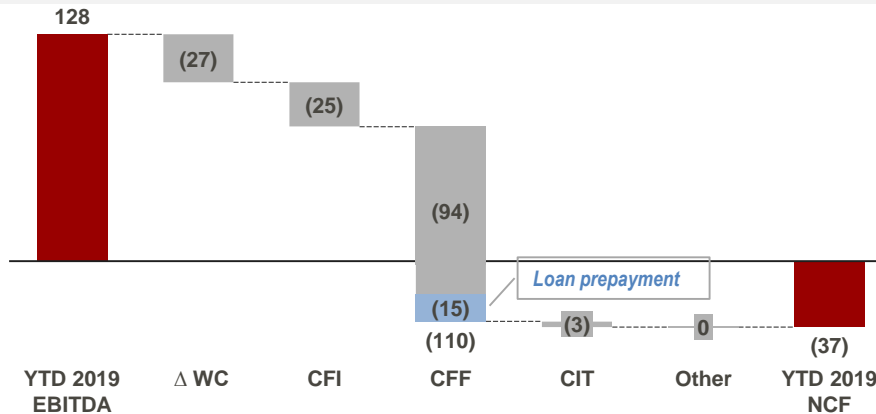
Q2



Comments

- **Δ WC:** change in receivables from electricity and provision for CO2 allowances in ENS, as well as reduction of certificates of origin inventory.
- **CFI:** capex in Onshore RTB, PV and distribution network development. Additional payments to Offshore projects.
- **CFF:** predominantly debt service in wind power segment and conventional energy segment, repayment of the overdraft facility by ENS (-35m), incurring an overdraft facility by Trading (11.7m). Includes prepayment of the investment loan of PLN 8m in Amon and Talia wind farms.

YTD



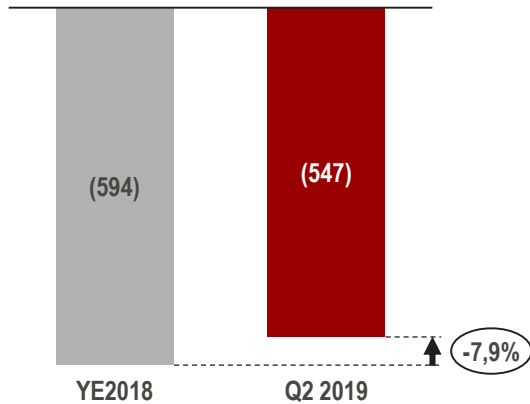
Comments

- **Δ WC:** commercial transaction settlement in Trading (-19m) and deferment of settlement in Distribution (-3.5m).
- **CFI:** capex in Onshore RTB and PV projects and distribution network development. Additional payments to Offshore project.
- **CFF:** predominantly debt service and lease costs in wind power segment, conventional energy segment and distribution (-20m), repayment of the overdraft facility in Trading (-17m) and debt repayment by ENS (-26m of overdraft facility and -11m of long-term facility), incurring a loan by Distribution (7m). Includes prepayment of the investment loan of PLN 15m in Amon and Talia wind farms.

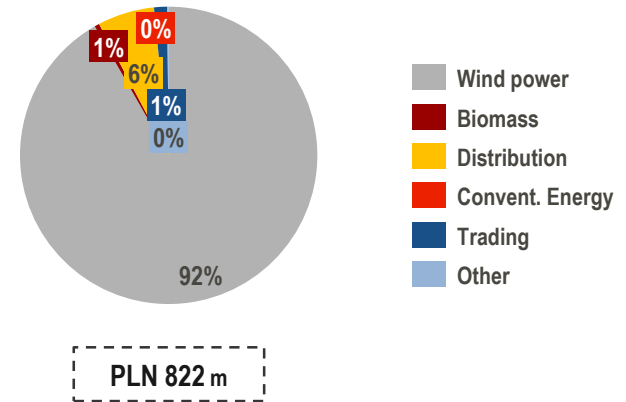
POSITIVE OPERATING CASH FLOWS OFFSET BY THE CHANGE IN WORKING CAPITAL IN THE TRADING AND DISTRIBUTION SEGMENTS, REPAYMENT OF THE OVERDRAFT IN THE TRADING SEGMENT AND ENS AND PREPAYMENT OF THE LOAN IN AMON AND TALIA WIND FARMS

Debt structure as at 30 June 2019

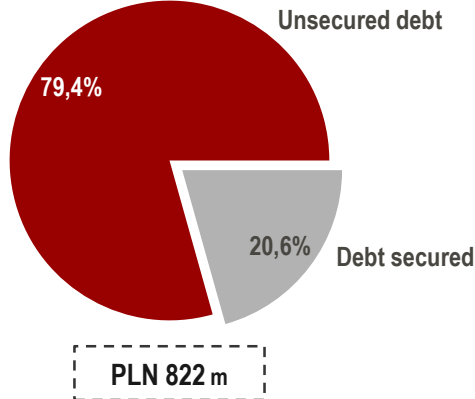
Net debt YE2018 vs. Q2 2019)



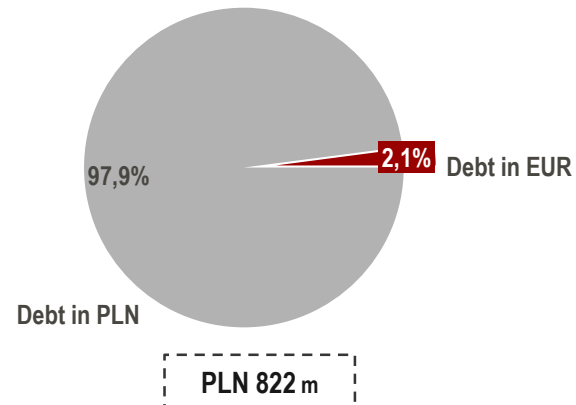
Debt structure according to segment



Debt structure - interest rate hedging



Debt structure according to currency (EUR vs. PLN)



**CONTINUED REDUCTION OF NET DEBT
NO CURRENCY RISK. INTEREST RATE RISK HEDGED IN CA. 21%**



WIND POWER



CONVENTIONAL ENERGY



DISTRIBUTION

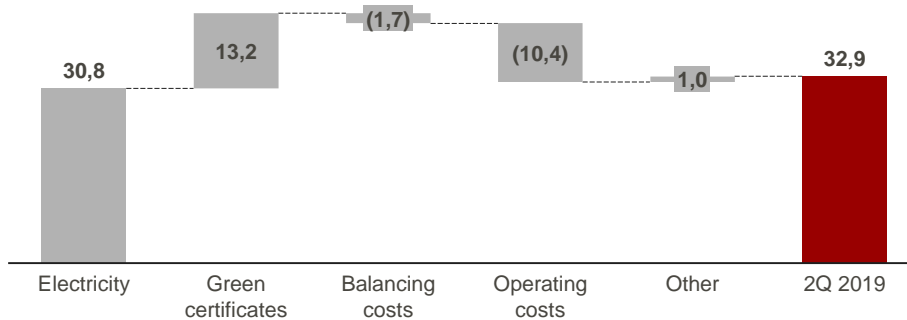


TRADING

Summary of segment results

Wind power - Q2

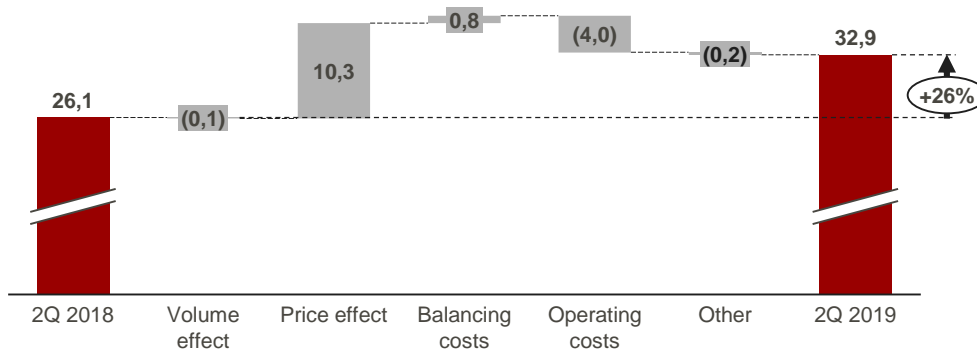
1 EBITDA build-up



Comments

- EE production volume lower by 0.6 GWh, with GC production volume higher by 0.1 GWh.
- Increase in prices of green certificates and electricity (totaling PLN 69.3).
- Operating expenditures higher as a result of one-off events: in 2018 some of the historical costs of technical service were reversed in Mycielin following an amicable settlement with Vestas (April), positive adjustment of RET declaration for January - June was recognized in GSRM and no operating cost was borne in Krzęcin until end of May.

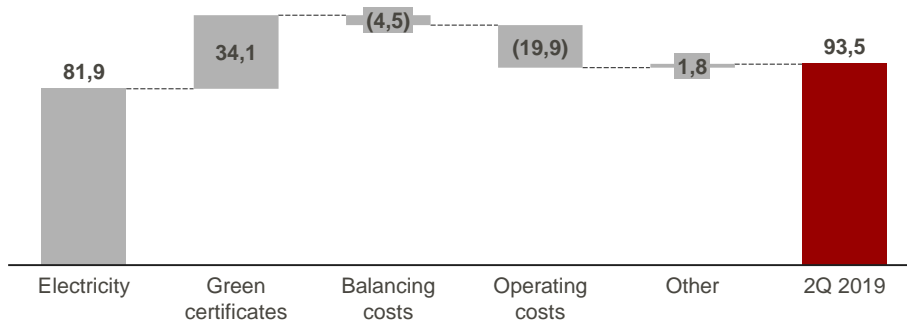
2 EBITDA bridge



HIGHER SALES PRICES OF GREEN CERTIFICATES AND ELECTRICITY

Wind power - YTD

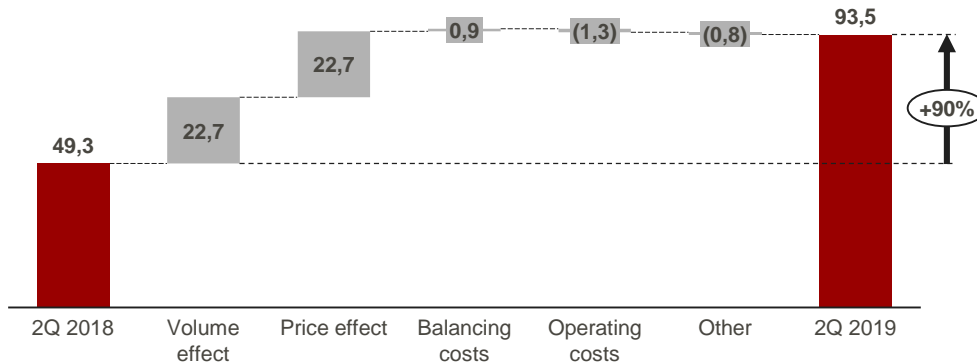
1 EBITDA build-up



Comments

- EE production volume higher by 77.1 GWh, with GC production volume higher by 78.1 GWh.
- Increase in prices of green certificates and electricity (totaling PLN 69.8).
- Operating expenditures were higher as a result of one-off events: in 2018 some of the historical costs of technical service were reversed in Mycielin following an amicable settlement with Vestas, positive adjustment of RET declaration for January - June was recognized and only in late May the takeover of Krzęcin wind farm took place (no costs related to that wind farm had been borne by most of the half-year period).

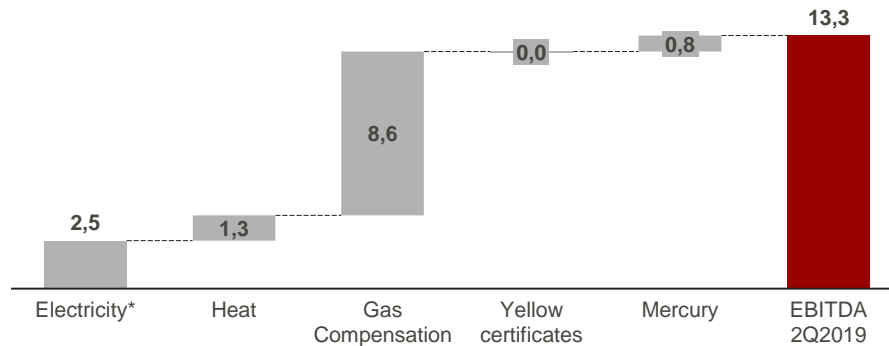
2 EBITDA bridge



HIGHER PRODUCTION VOLUME, HIGHER SELLING PRICES OF GREEN CERTIFICATES AND ELECTRICITY

Conventional energy - Q2

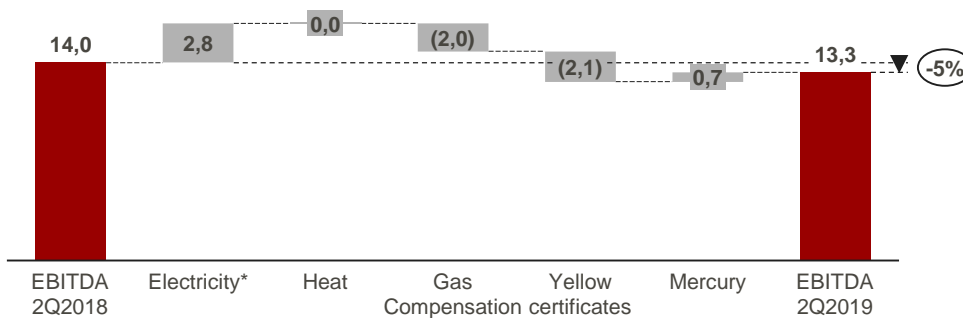
1 EBITDA build-up



Comments

- Lack of revenues from yellow certificates in 2019 following the expiration, with the end of December 2018, of the existing support system for cogeneration.
- Better performance on electricity results from higher stranded cost compensation revenues (in 2018 Q2 negative impact of an update of prices of natural gas and CO₂ emission allowances throughout the entire 2018).
- Lower revenues from gas compensation result mainly from lower cost of gas in 2019 Q2 and lower electricity production in 2019 Q2 (overhaul), partly offset by the effect of a higher Wg index in 2019 Q2 vs. 2018 Q2 (0.55 vs. 0.46).

2 EBITDA bridge

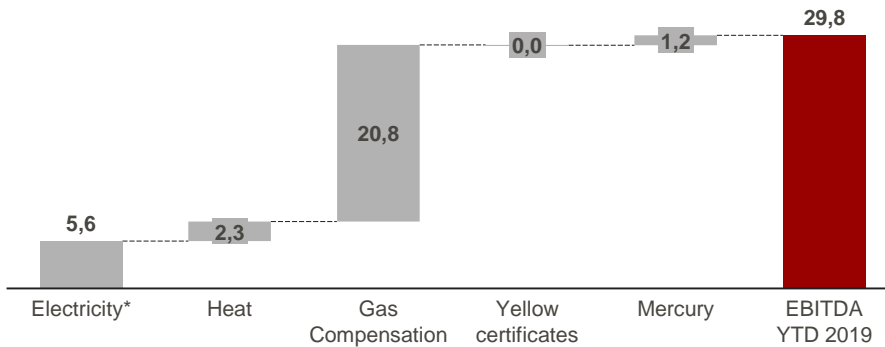


* Includes stranded cost compensation and revenue from black-start services

STABLE OPERATIONAL ACTIVITY LOWER EBITDA DUE TO NO REVENUES FROM YELLOW CERTIFICATES AFTER THE GAS COGENERATION SUPPORT SYSTEM EXPIRED WITH THE END OF 2018.

Conventional energy - YTD

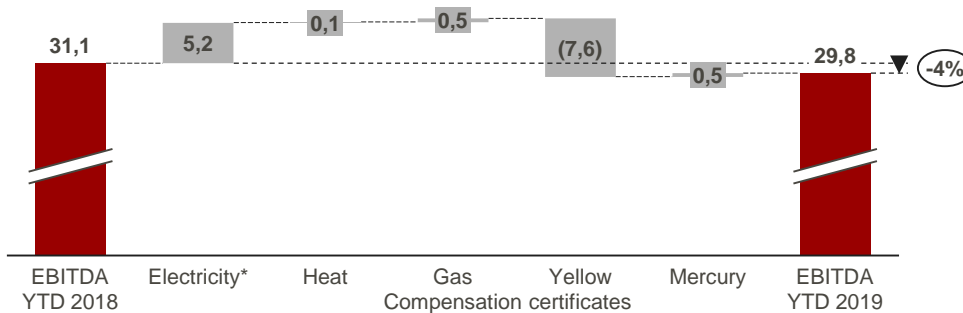
1 EBITDA build-up



Comments

- Lack of revenues from yellow certificates in 2019 following the expiration, with the end of December 2018, of the existing support system for cogeneration.
- Better performance on electricity results from higher stranded cost compensation revenues (in 2018 H1 negative impact of an update of prices of natural gas and CO₂ emission allowances for 2018).
- Higher revenues from gas compensation result mainly from higher forecast Wg index in 2019 H1 vs. 2018 H1 (0.55 vs. 0.46) less the impact of lower electricity production in 2019 H1 (overhaul of the gas and steam turbine), and lower cost of gas in 2019 H1.

2 EBITDA bridge

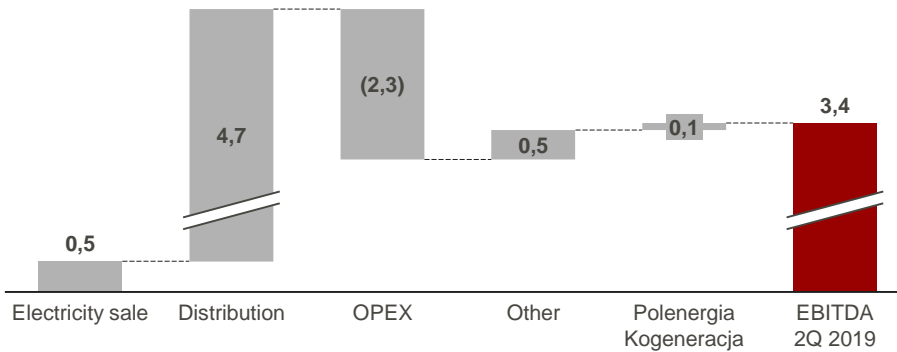


* Includes stranded cost compensation and revenue from black-start services

STABLE OPERATIONAL ACTIVITY. LOWER EBITDA DUE TO NO REVENUES FROM YELLOW CERTIFICATES AFTER THE GAS COGENERATION SUPPORT SYSTEM EXPIRED WITH THE END OF 2018.

Distribution - Q2

1 EBITDA build-up

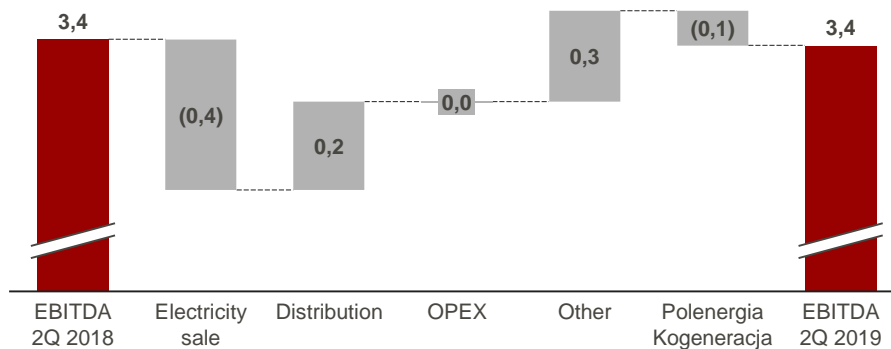


Comments

In 2019 Q2 the distribution segment achieved EBITDA at the level comparable to the corresponding period of the preceding year which has mainly been the effect of:

- lower energy sales margin,
- higher distribution margin,
- refund of the real estate tax.

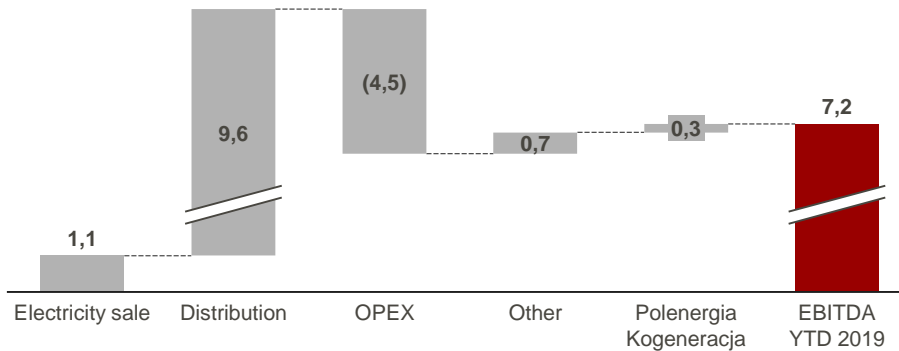
2 EBITDA bridge



STABLE OPERATIONAL ACTIVITY. IMPACT ON EBITDA IS EXERTED BY LOWER SALES MARGIN ON ELECTRICITY OFFSET BY INCREASED MARGIN ON DISTRIBUTION OF ELECTRICITY AND THE REAL ESTATE TAX REFUND

Distribution - YTD

1 EBITDA build-up

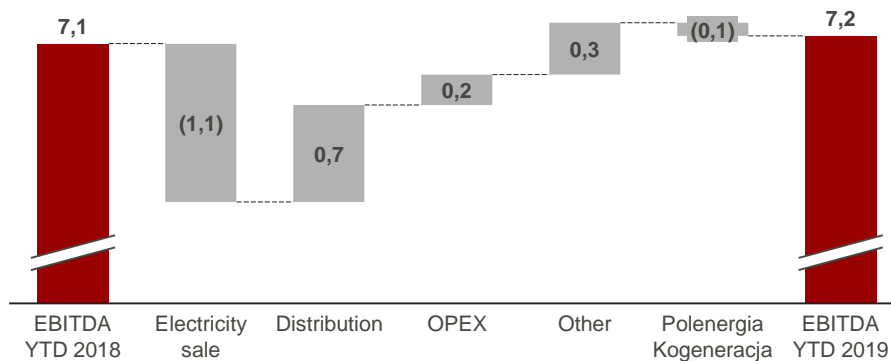


Comments

The distribution segment showed a growth of EBITDA by PLN 0.1m in 1H 2019, mainly due to:

- higher distribution margin,
- lower operating expenditures (lower real estate costs and salaries cost),
- refund of the real estate tax,
- lower energy sales margin.

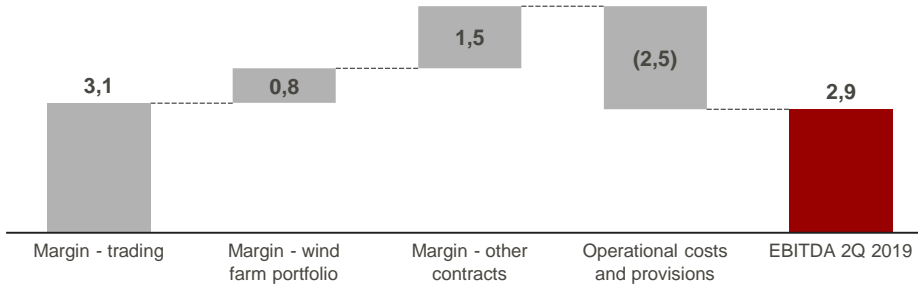
2 EBITDA bridge



STABLE OPERATIONAL ACTIVITY. HIGHER EBITDA DUE TO THE INCREASE OF THE MARGIN ON ELECTRICITY DISTRIBUTION, LOWER OPERATING EXPENDITURES AND REAL ESTATE TAX REFUND

Trading - Q2

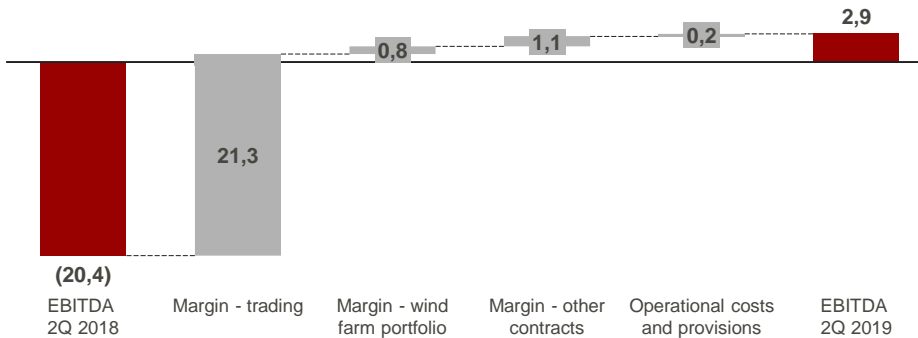
1 EBITDA build-up



Comments

- Better performance of electricity trading due to improved commercial activity risk management.
- High margin on WF portfolio due to higher prices of green certificates, partly offset by increased profile and balancing cost (which is not totally allocated to wind farms).
- Better performance on other contracts.
- Lower operating costs and lower commission costs.

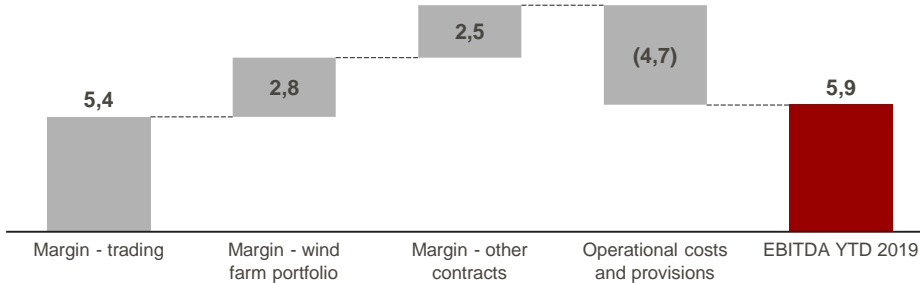
2 EBITDA bridge



GOOD PERFORMANCE ON TRADING OF ELECTRICITY AND GREEN CERTIFICATES, AS WELL AS OTHER CONTRACTS, COUPLED WITH LOWER OPERATING COSTS

Trading - YTD

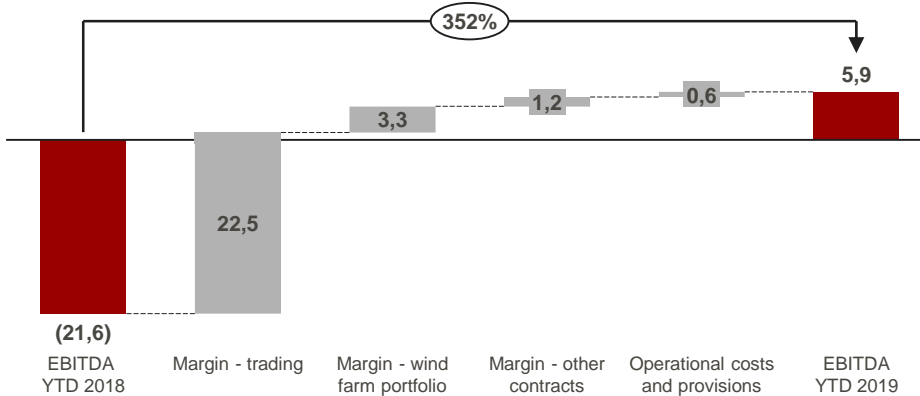
1 EBITDA build-up



Comments

- Better performance of electricity trading due to improved commercial activity risk management.
- High margin on WF portfolio due to higher prices of green certificates, partly offset by increased profile and balancing cost (which is not totally allocated to wind farms).
- Better performance on other contracts.
- Lower operating costs and lower commission costs.

2 EBITDA bridge



GOOD PERFORMANCE ON TRADING OF ELECTRICITY AND GREEN CERTIFICATES, AS WELL AS OTHER CONTRACTS, COUPLED WITH LOWER OPERATING COSTS

Projects under development

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

- The Group possesses a project portfolio with total capacity of 199MW which are in the final development phase. Building permits have been issued for those projects, too.
- The Group continues preparatory work to create a wind farm project portfolio based on the revenue from the energy market or its long term contracts. The Group has not excluded its participation in any potential auction for wind farm that may take place in 2019, either.

Offshore:

- The Group prepares three offshore wind farms (Polenergia Bałtyk I S.A., MFW Bałtyk II Sp. z o.o. and MFW Bałtyk III Sp. z o.o.) located on Baltic Sea with total capacity up to 3000 MW.
- The date of construction of those farms will depend on when the relevant regulatory framework is in place.
- On 28 January 2019 the company MFW Bałtyk II sp. z o. o. was granted connection terms providing for connection of Bałtyk Środkowy II offshore wind farm totaling 240MW which means a potential increase of the total capacity of the offshore wind farms (MFW Bałtyk II sp. z o. o. and MFW Bałtyk III sp. z o. o.) from 1200 MW to 1440 MW. A meeting was also held with PSE to discuss the issue of connecting 240 MW under the connection terms for MFW Bałtyk II granted by PSE.
- On 30 January 2019 the company Polenergia Bałtyk I S.A. was granted the connection terms for the developed project of an offshore wind farm Bałtyk Północny. According to those terms, connection has been provided for of an offshore wind farm of the total capacity of 1560 MW.
- On 9 May 2019 a Supplier Day event was held. It was the first meeting of this kind with representatives of the companies from the Polish supply chain for offshore wind farm projects. It was a perfect opportunity to establish good relations with the potential local suppliers of components and services for the projects and to discuss potential future cooperation.

Wińsko:

- This project is offered for sale to potential buyers; preliminary talks are held with prospective stakeholders.

PV:

- The Company developing photovoltaic farm projects with total capacity of 8MW was the successful bidder in an auction and thus was granted the right to cover the negative balance with reference to the price for the produced electricity quoted in the auction for a 15-year period.
- Implementation process is ongoing to develop a photovoltaic plant with total capacity of 8 MW.
- Preparations are being made to further auctions expected in 2019 with photovoltaic power plant projects of the total capacity of 12 MW. Even further projects with the capacity of 30 MW are at their early stage of development.

FURTHER DEVELOPMENT OF OFFSHORE WIND FARMS AND THE INCREASE OF THE TOTAL POLENERGIA PROJECT POTENTIAL TO 3,000 MW. CONTINUED DEVELOPMENT OF 199MW ONSHORE WIND FARMS AND 50MW PV PLANTS (OF WHICH 8 MW WITH GUARANTEED SUPPORT)