



WIND POWER



CONVENTIONAL ENERGY



DISTRIBUTION



TRADING

# POLENERGIA GROUP

## Q3 2019 Financial Results

November 2019

## Highlights Summary



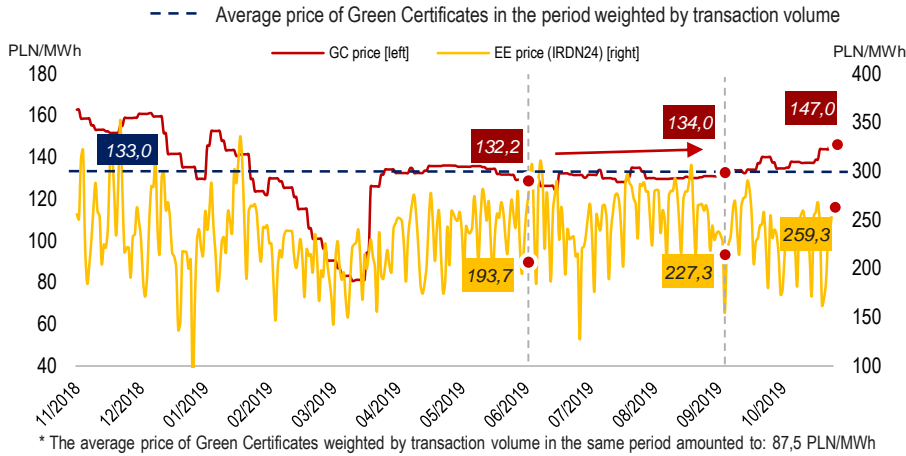
### Fact

### Outcome/Comment

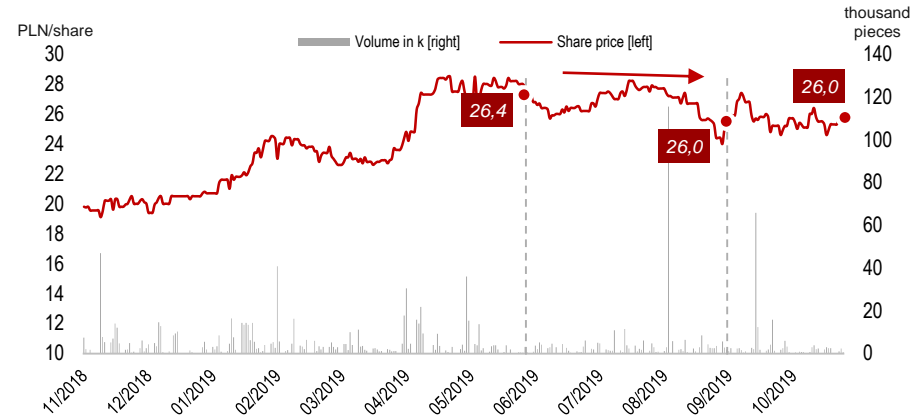
- **Increased Company value**
  - Share price increase from PLN 20.5 as at 31.12.2018 up to PLN 26 as at 30.09.2019 and PLN 26 as at 06.11.2019.
  - Between 31.12.2018 and 06.11.2019 the capitalization of the Company increased by PLN 242m.
- **Stable trend in green certificate and electricity prices on forward market in Q3**
  - The prices of green certificates have remained at a steady level of ca. PLN 131 on the average, while the prices of electricity on the forward market - at the level of ca. PLN 270/MWh on the average in Q3.
- **Commencement of construction of Szymankowo WF - the first project of this scale in Poland not dependent on the support system**
  - On 5.11.2019 investment loan up to PLN 107m and facility to service VAT payments up to PLN 20m have been signed.
  - Technical service agreement and turbines delivery agreement have been executed with Siemens Gamesa Renewables Energy.
  - Construction agreement with Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. has been signed.
- **PV - loan agreement has been entered into for two projects with total capacity of 19.6 MW**
  - On 22.10.2019 a loan agreement was entered into with ING bank for the projects of PV Sulechów 1 (capacity of 8x1MW) and PV Sulechów 2 (12x 1MW) for the total amount of PLN 44.5m.
  - The loan agreement covers the refinancing of the capital expenditures for the construction of 8 photovoltaic farms PV Sulechów 1 with the total capacity of 8MW in the amount up to PLN 15.5m.
  - The loan agreement also covers the investment loan financing for the development of PV Sulechów 2 farms with total capacity up to 12MW and the service of VAT in the amount of up to PLN 29m provided that, among others, the RES auction is won and investment decision regarding the project is made.
- **Adjustment of PPA compensation and costs of gas compensation for 2018 in ENS**
  - In July ENS received decision from head of IRO about adjustments of PPA compensations granted along with the costs of gas compensation for 2018 totaling ca. PLN 39.8m.
- **Successful National Energy System restoration test with the participation of EC Nowa Sarzyna**
  - Polenergia successfully passed the test of restoration of the National Electroenergy System (NES). The test (start of the blok in Kozienice) was made by Elektrociepłownia Nowa Sarzyna together with Polskie Sieci Elektroenergetyczne S.A. under a four-year contract for the provision of systemic services of NES restoration.
- **Debt prepayment in Amon and Talia wind farms**
  - According to the loan agreement, the loan was prepaid from the surplus cashflow in the amount of 3.1m (Amon PLN 1.8m, Talia PLN 1.3).
- **Subsidiaries of Polenergia claim PLN 48.3 m against the Tauron group**
  - FW Amon and FW Talia filed their actions to the District Court in Gdańsk against a subsidiary of Tauron in view of the breaking of long-term contracts for the sale of energy and claim PLN 48.3 in aggregate.
  - FW Amon claims payment of PLN 29m as compensation, together with interest and litigation cost.
  - FW Talia filed with the court the modification of its action against PKH. FW Talia claims payment of PLN 19.3m as compensation, together with interest.
- **RES auctions - the Energy Regulatory Office announced the auction dates**
  - An auction for new wind projects is scheduled for 5 December and for photovoltaic projects of the capacity up to 1 MW - for 10 December.
  - Polenergia considers participating in the auction with a portfolio of its wind farms of the total capacity of 199 MW and a portfolio of its photovoltaic farms of the capacity up to 20 MW.

# Key indices and market prices (in the last 12 months)

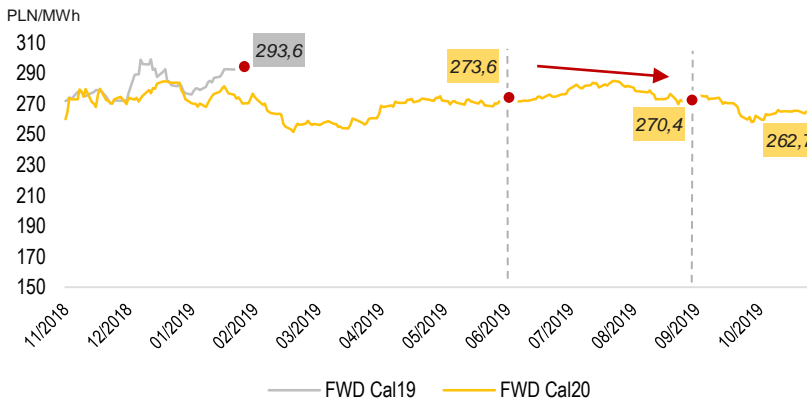
## 1 Prices of green certificates and electricity



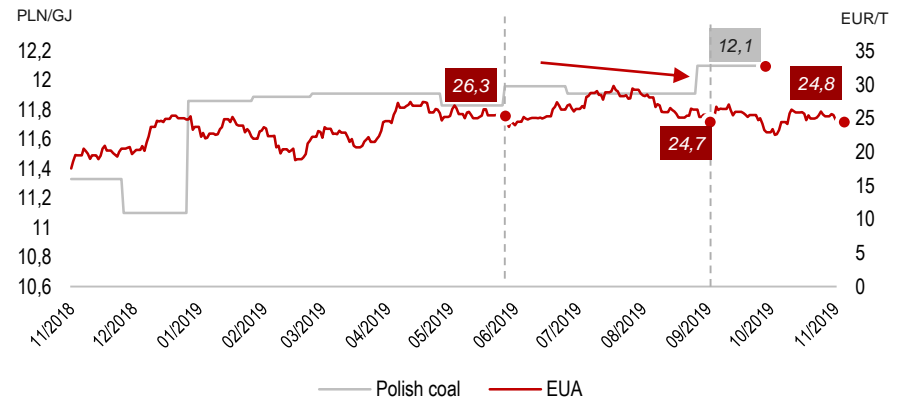
## 2 Stock exchange price quotations of Polenergia S.A. shares



## 3 Forward electricity prices



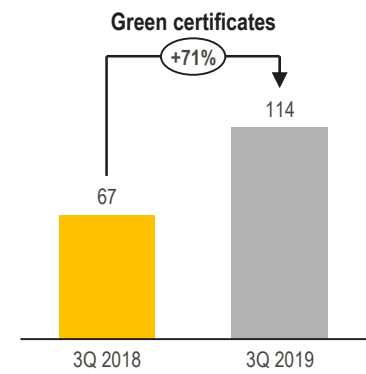
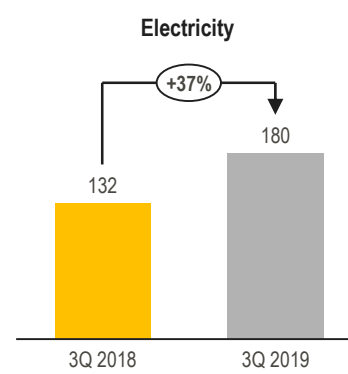
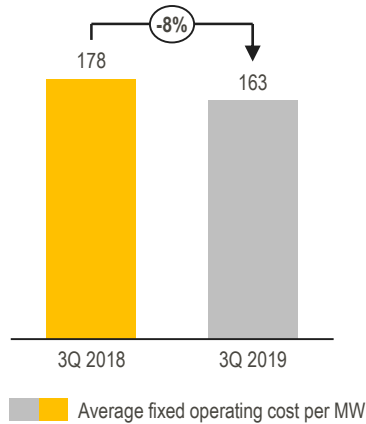
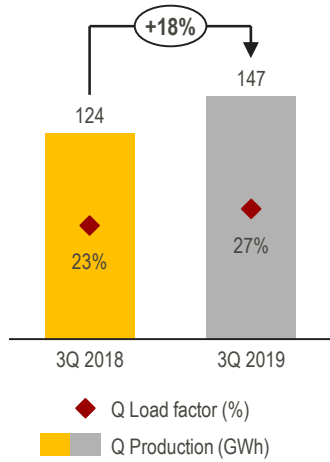
## 4 Coal price quotations and CO<sup>2</sup> emission allowance on the Polish market



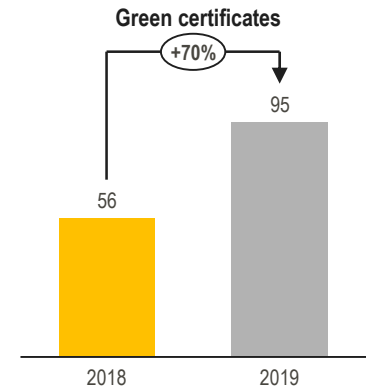
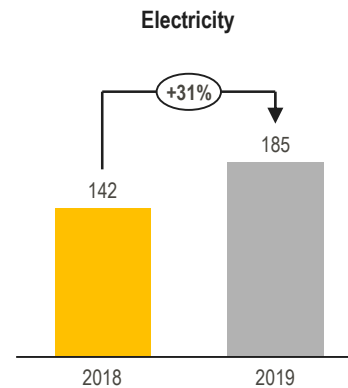
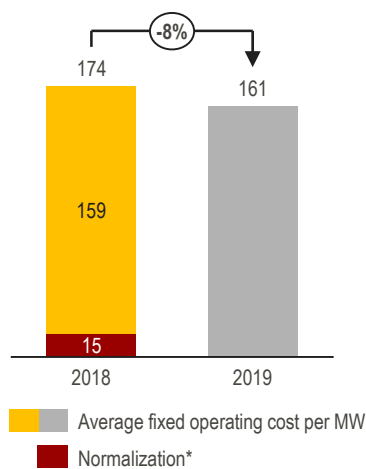
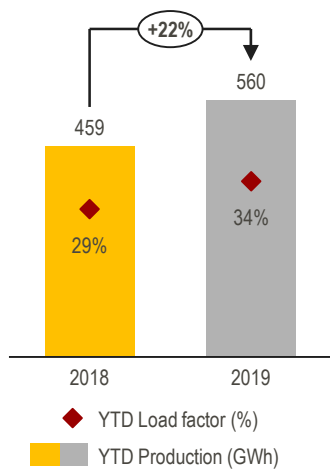
## Summary of key operating parameters - Wind power segment

- 1** WF gross production 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



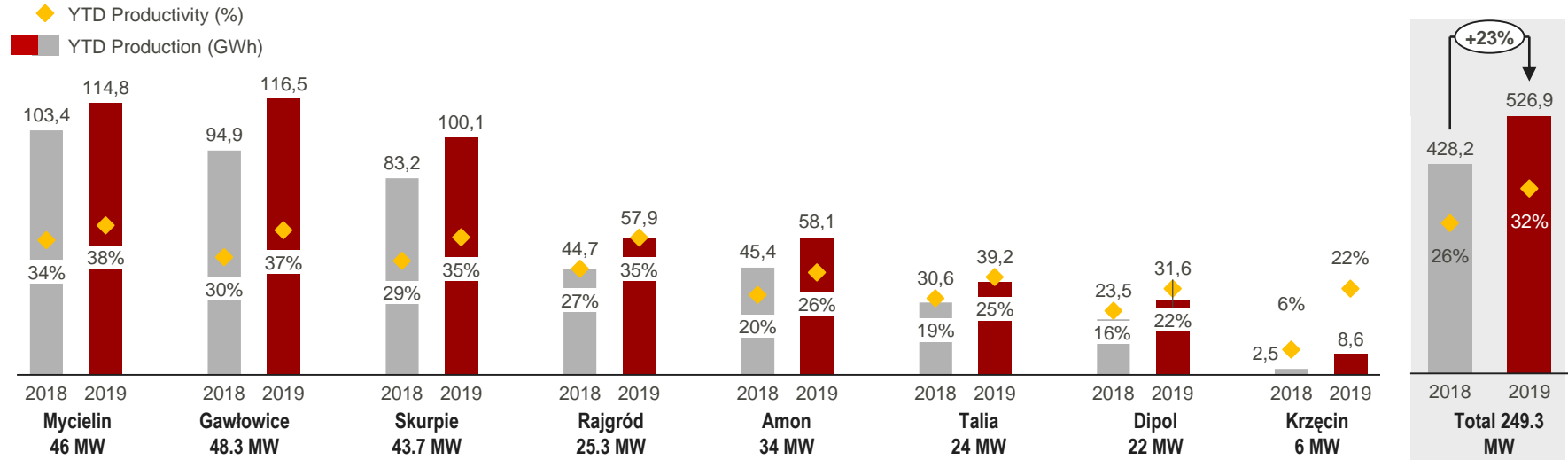
### YTD figures



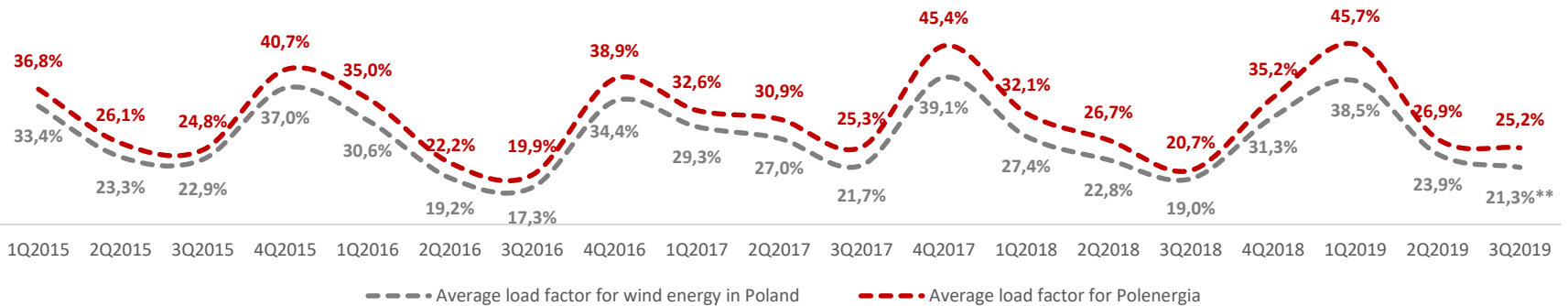
\*Average fixed operating cost in 2018 was normalized to include an adjustment of the technical service

## 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

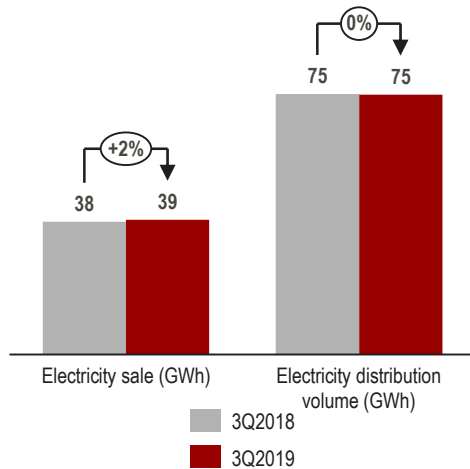
\*\*Calculation of net production of the sector in September based on the comparison of net production of Polenergia in September against the net production of Polenergia in July and August.

**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.**

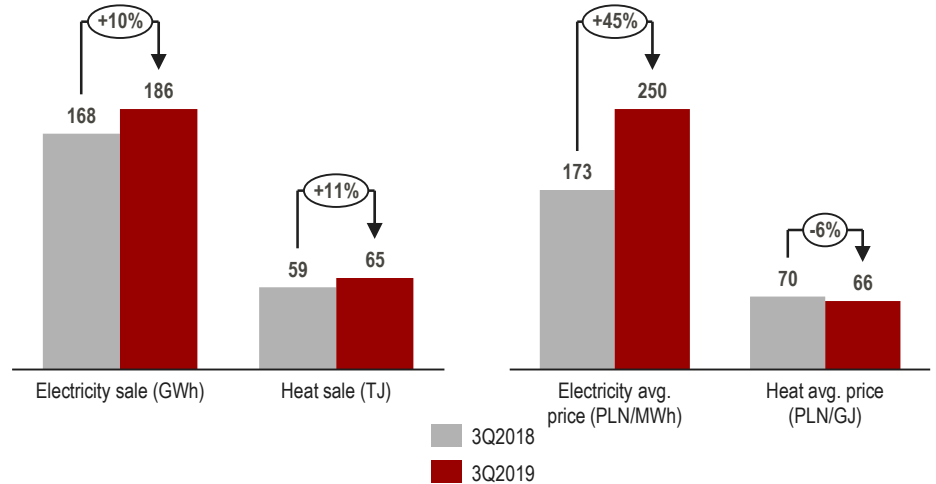
## Summary of key operating parameters

### 4 Distribution segment – sales [GWh]

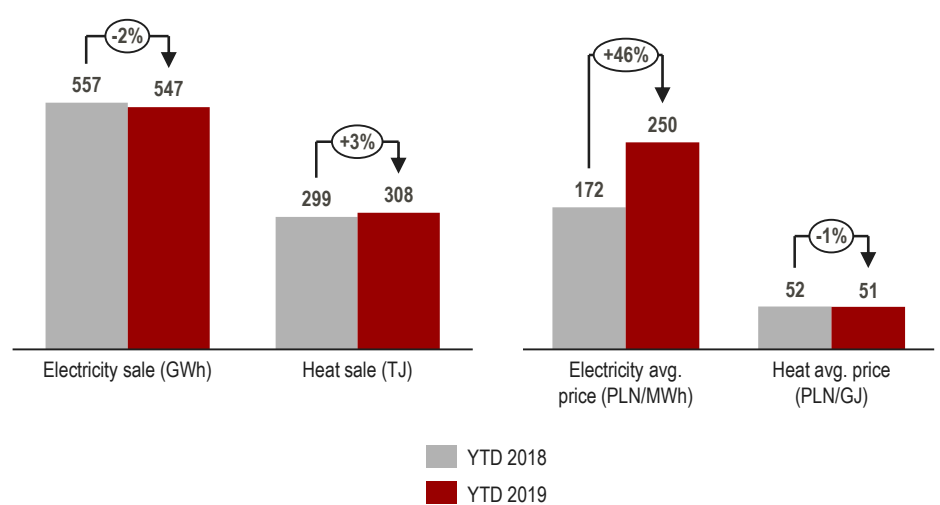
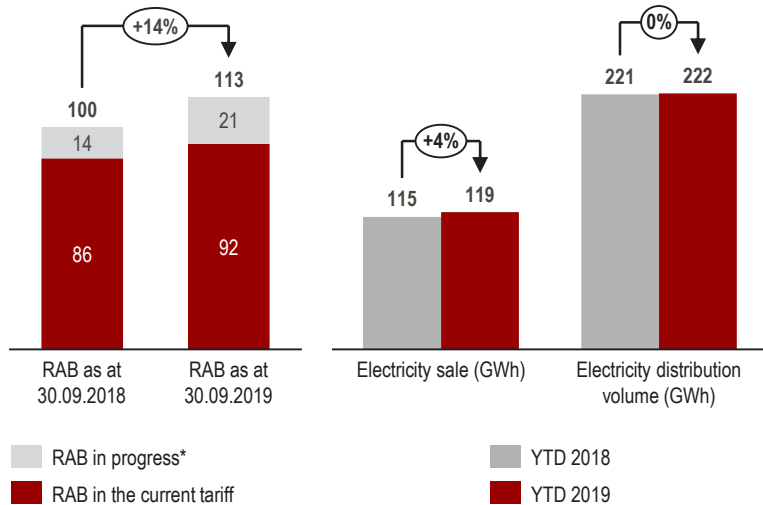
Quarterly data



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

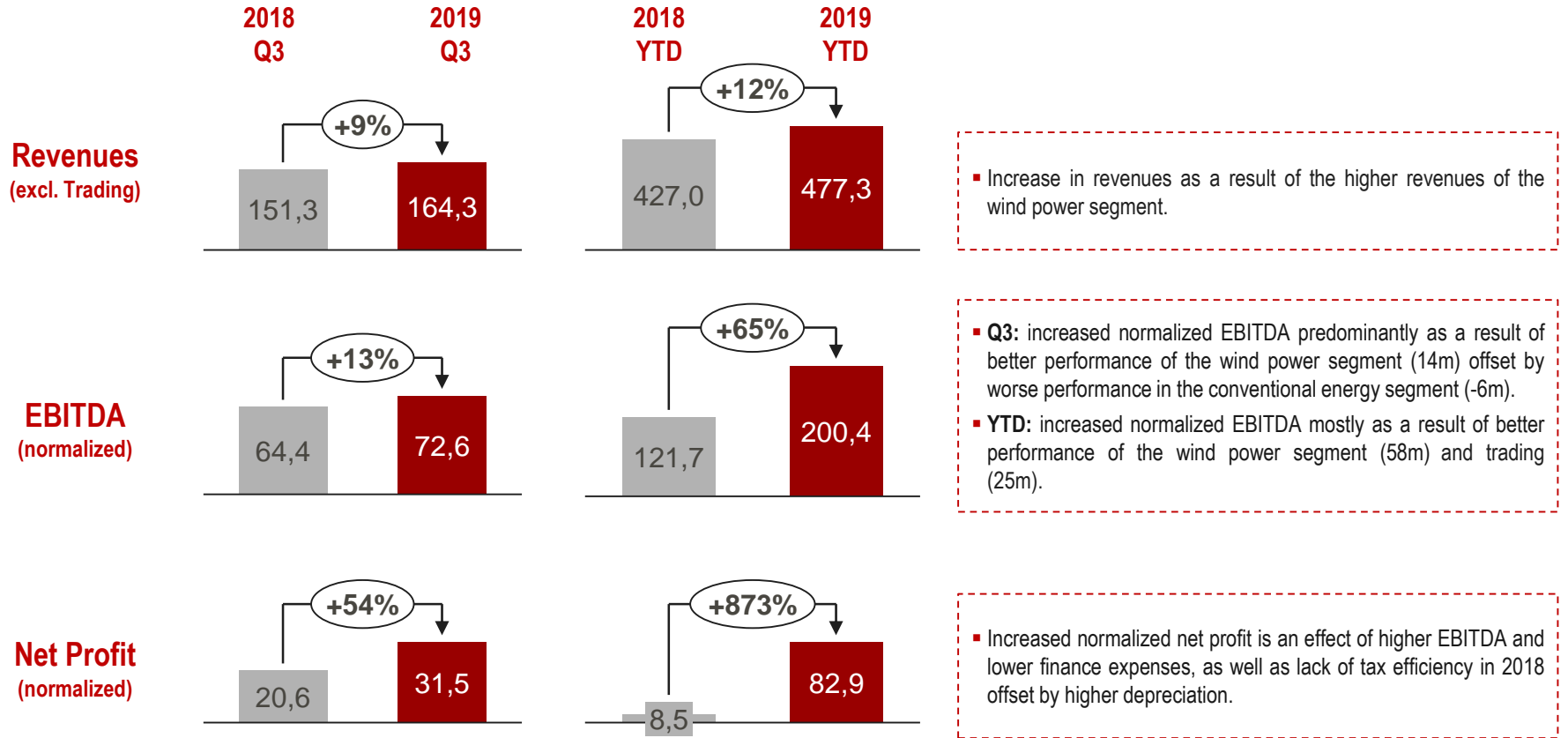


YTD figures



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

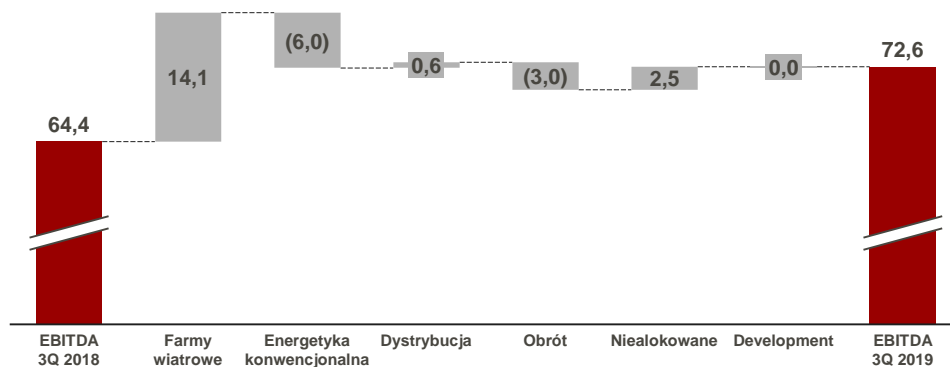
## Summary of key figures



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

## EBITDA by operating segments

Q3



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 no revenues from yellow certificates after the existing support scheme for gas cogeneration expired with the end of 2018 and from lower revenues from gas cost compensation (lower gas price). The impact of this factor has been partly offset by higher revenues from stranded costs compensation (negative impact of the update of long-term natural gas prices and CO<sub>2</sub> emission allowances in 2018 HY1).

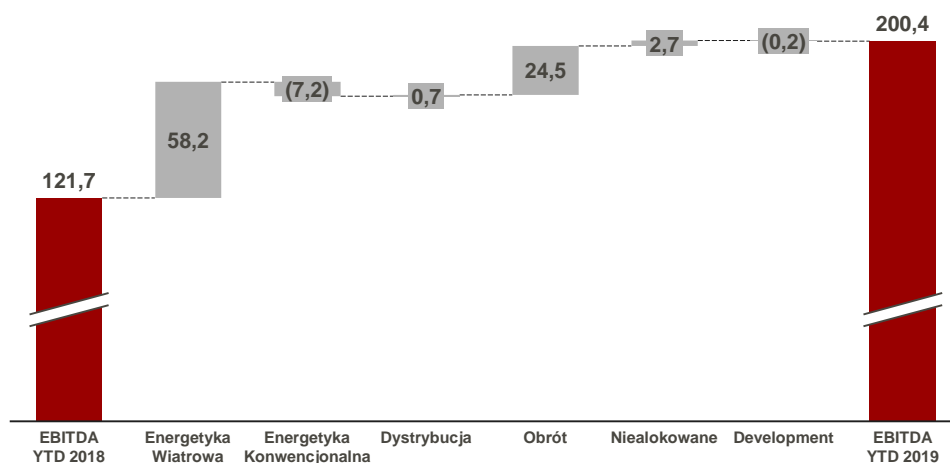
**Distribution:** better performance due to higher distribution margin, lower operating costs and higher other operating revenues offset by lower margin on energy sales. Quarterly EBITDA higher due to higher margin on electricity.

**Trading:** better performance due to better performance of electricity trading, better sales of green certificates resulting from higher selling prices and lower operating costs, as well as lower commission cost, partly offset by higher balancing and profiling costs (which are not fully allocated to wind farms). Lower EBITDA in Q3 results mainly for one-off transactions closed in Q3 2018.

**Unallocated costs:** better performance due to higher other operating revenues resulting from VAT adjustment for the period 12.2017 - 11.2018, lower headquarters external services costs and the costs resulting from the sale of shares in the companies developing offshore wind farms projects and the costs of servicing two calls for share transfer, borne in 2018. Better result under the Unallocated item (by PLN 2.5m) results also from the inclusion of the positive impact of the biomass segment's result of PLN 0.8m coming from the decision to discontinue its disclosure in 2019 under a separate item.

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

YTD

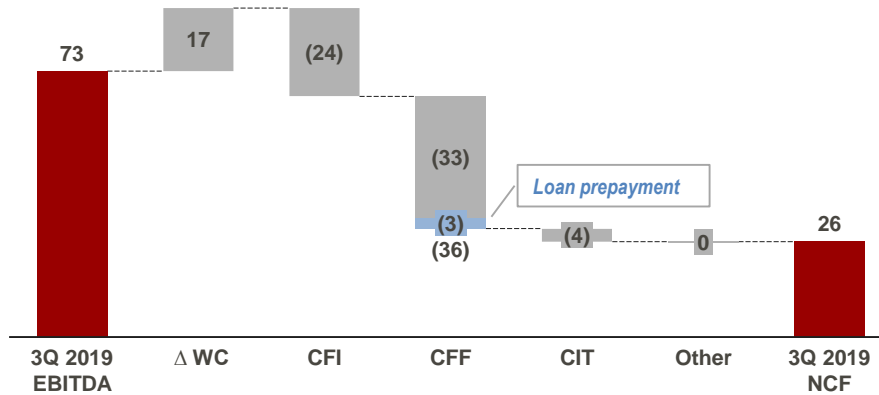


**SIGNIFICANTLY BETTER PERFORMANCE OF WIND POWER AND TRADING SEGMENTS**



## Cash flow of Polenergia Group

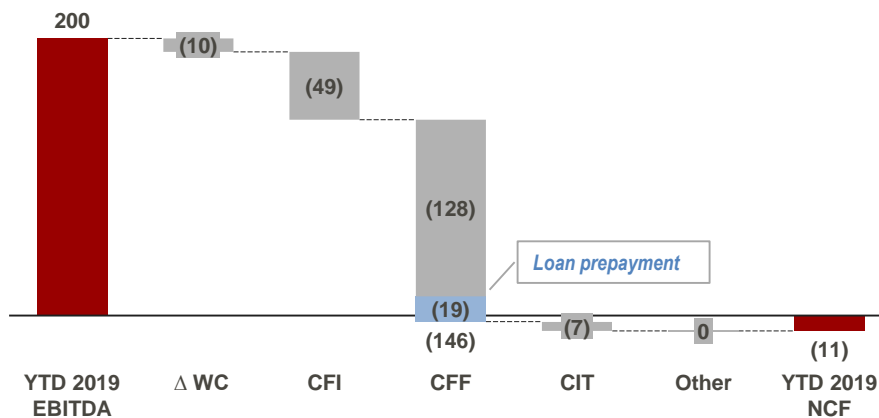
Q3



Comments

- **Δ WC:** increased receivables from electricity, provisions for CO<sub>2</sub> emission allowances and for liabilities on account of gas costs, drop in receivables from both types of compensation in ENS.
- **CFI:** capital expenditures on wind farm and photovoltaic projects, distribution network development and rehabilitation at ENS.
- **CFF:** predominantly debt service in wind power segment and distribution (- PLN23m), repayment of the overdraft in Trading (-PLN12m). Includes prepayment of the investment loan of PLN 3m in Amon and Talia wind farms.

YTD



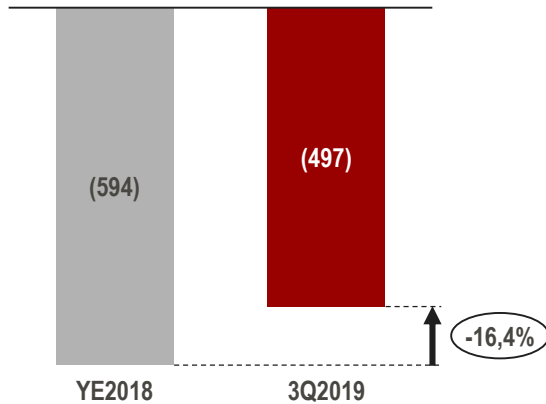
Comments

- **Δ WC:** predominantly settlement of commercial transactions in Trading (-PLN12m), movements in ENS working capital offset by changes in the wind power segment and distribution.
- **CFI:** capital expenditures on Onshore RTB and PV projects, distribution network development and rehabilitation at ENS. Additional payments for Offshore project.
- **CFF:** predominantly repayment of interest and lease costs in the wind power, conventional energy and distribution segments (-PLN 35m), repayment of the overdraft in the trading segment (-PLN 29m) and repayment of debt by ENS (-PLN 26m of overdraft and -PLN 11m of long-term loan), incurring a loan by Distribution (PLN 6m), repayment of loan installments in the wind power segment (-PLN 50m). Includes prepayment of the investment loan of PLN 19m in Amon and Talia wind farms.

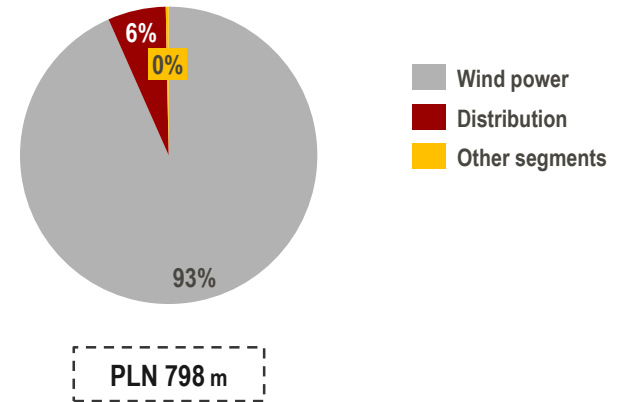
**NEGATIVE OPERATING CASH FLOWS RESULTING FROM NEGATIVE CHANGE IN WORKING CAPITAL IN THE TRADING SEGMENT, REPAYMENT OF THE OVERDRAFT IN THE TRADING SEGMENT, REPAYMENT OF LOAN INSTALMENTS IN THE WIND FARM SEGMENT AND PREPAYMENT OF THE LOAN IN AMON AND TALIA WIND FARMS**

## Debt structure as at 30 September 2019

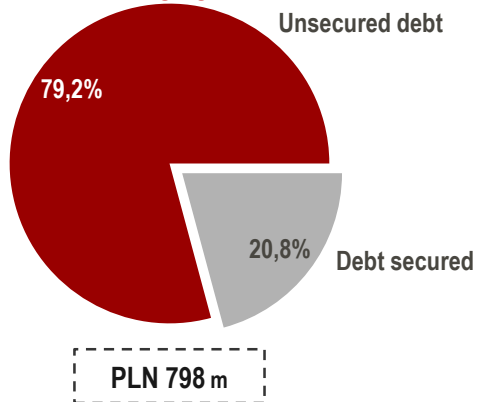
Net debt (YE2018 vs. Q3 2019)



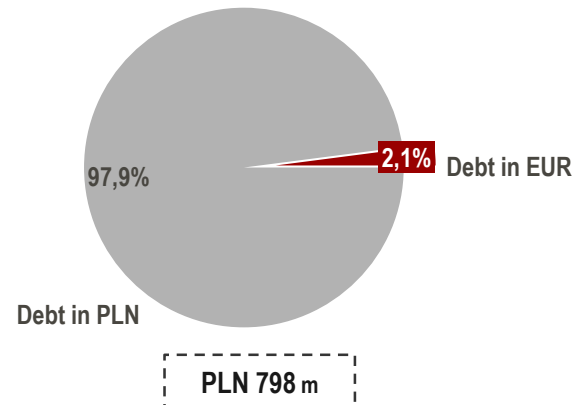
Debt structure according to segment



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

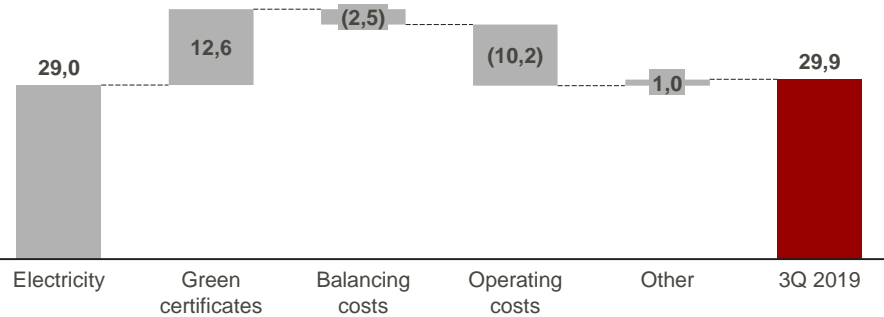


TRADING

## Summary of segment results

## Wind power - Q3

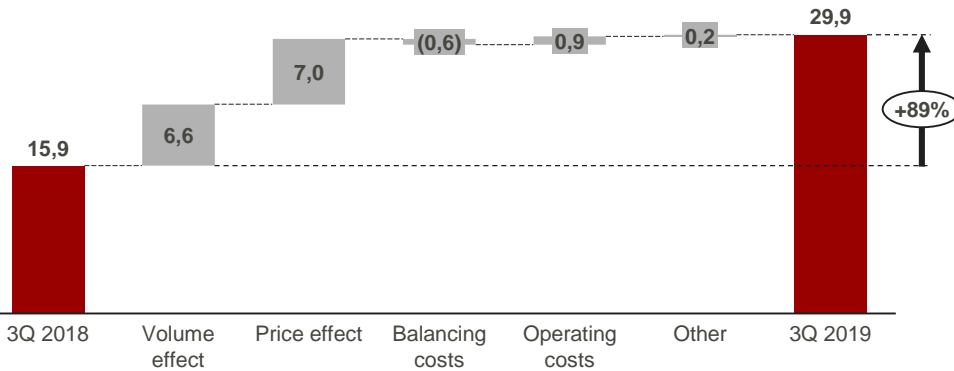
### 1 EBITDA build-up



### Comments

- Production volume of electricity and green certificates higher by 22 GWh.
- Increase in sales prices of green certificates and electricity (by PLN 60 in total).

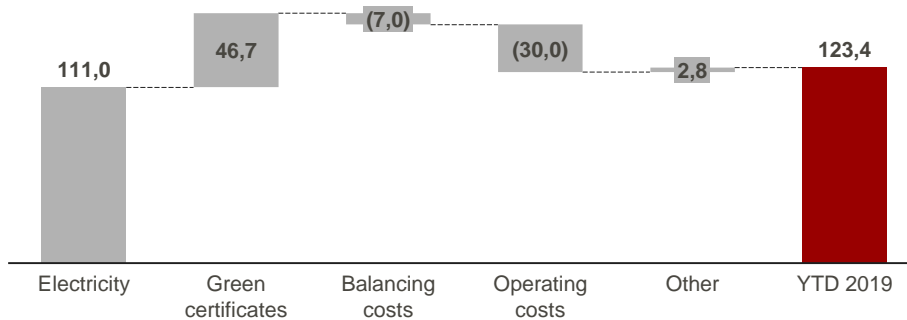
### 2 EBITDA bridge



**HIGHER PRODUCTION VOLUMES AND HIGHER SALES PRICES OF GREEN CERTIFICATES AND ELECTRICITY**

## Wind power - YTD

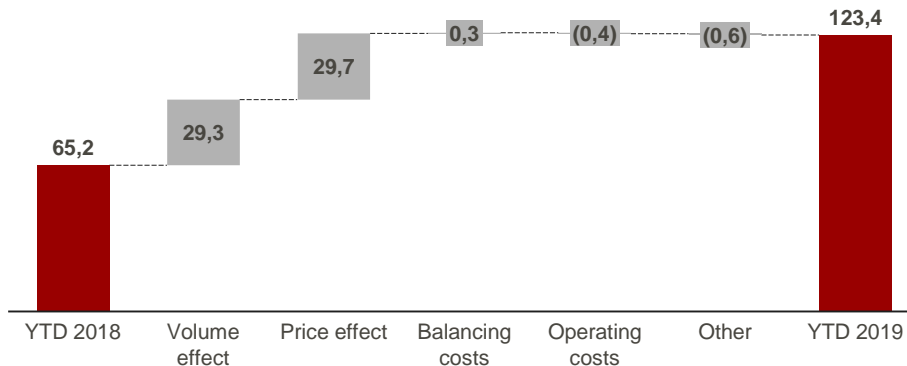
### 1 EBITDA build-up



### Comments

- Electricity production volume higher by 99 GWh, with green certificates production volume higher by 101 GWh.
- Increase in sales prices of green certificates and electricity (by PLN 67 in total).
- Higher operating costs result from the reversal of part of historic costs of technical service at Mycielín due to the settlement with Vestas in 2018 which have been partly offset by positive variation of lease costs driven by changes in the accounting standards (enactment of IFRS 16).

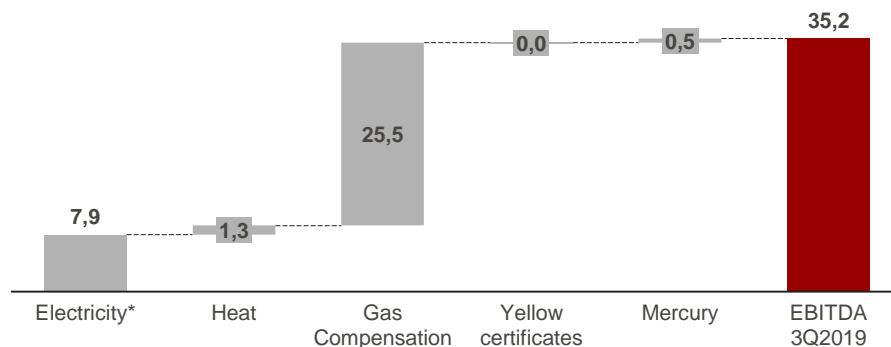
### 2 EBITDA bridge



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

## Conventional energy - Q3

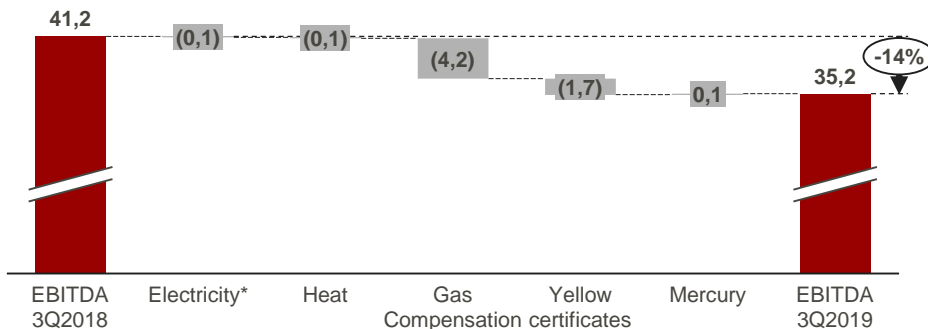
### 1 EBITDA build-up



### Comments

- Lower revenues from gas compensation result from lower gas cost adjustment for 2018 (+ PLN 15.2m) recognized in July 2019 compared to the adjustment for 2017 (+PLN 20.8m) recognized in July 2018, partly offset by higher compensation in Q3 2019 mainly due to higher Wg index in Q3 2019 vs Q3 2018 (0.55 vs 0.46)
- Lack of revenues from yellow certificates in 2019 following the expiration of the existing support system for cogeneration with the end of December 2018.

### 2 EBITDA bridge

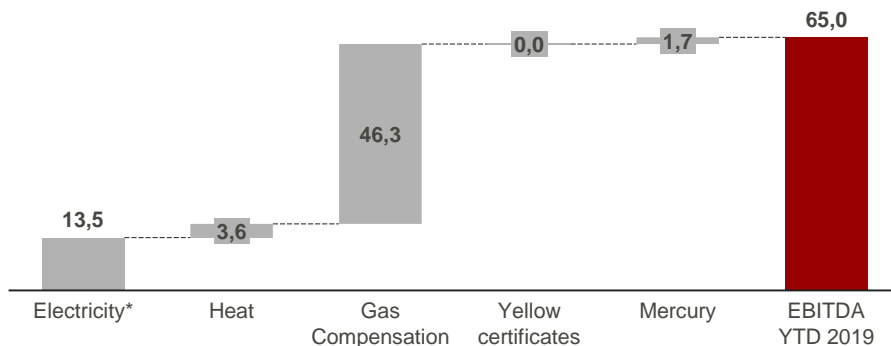


\* Includes stranded cost compensation and revenue from black-start services

**STABLE OPERATIONAL ACTIVITY LOWER EBITDA IN VIEW OF NO REVENUES FROM YELLOW CERIFICATES AND LOWER REVENUES FROM GAS COMPENSATION**

## Conventional energy - YTD

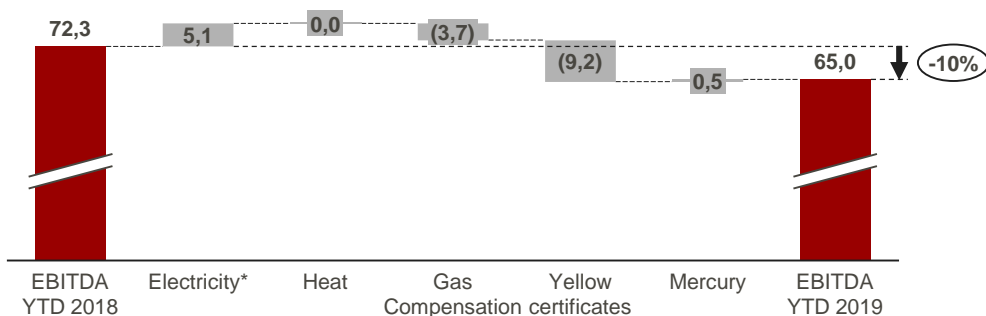
### 1 EBITDA build-up



### Comments

- Lack of revenues from yellow certificates in 2019 following the expiration of the existing support system for cogeneration with the end of December 2018.
- Better performance on electricity results from higher stranded cost compensation revenues (in 2018 negative impact of an update of prices of natural gas and CO<sub>2</sub> emission allowances for 2018).
- Lower revenues from gas compensation result from lower gas cost adjustment for 2018 (+ PLN 15.2m) recognized in July 2019 compared to the adjustment for 2017 (+PLN 20.8m) recognized in July 2018, partly offset by higher compensation in Q1-Q3 2019 mainly due to higher Wg index in 2019 vs 2018 (0.55 vs 0.46)

### 2 EBITDA bridge

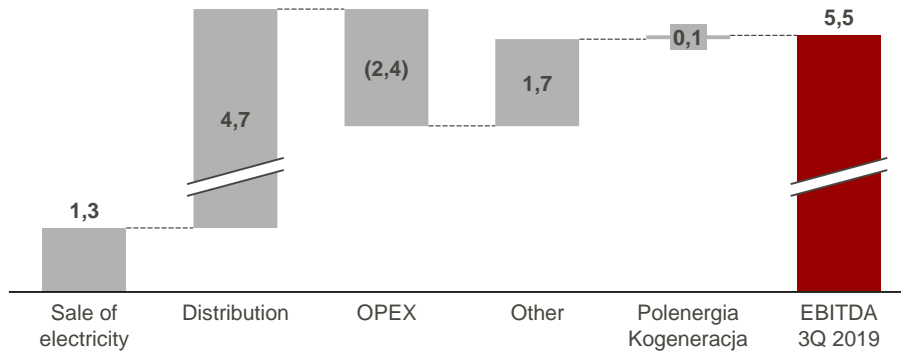


\* Includes stranded cost compensation and revenue from black-start services

**STABLE OPERATIONAL ACTIVITY LOWER EBITDA IN VIEW OF NO REVENUES FROM YELLOW CERIFICATES AND LOWER REVENUES FROM GAS COMPENSATION**

## Distribution - Q3

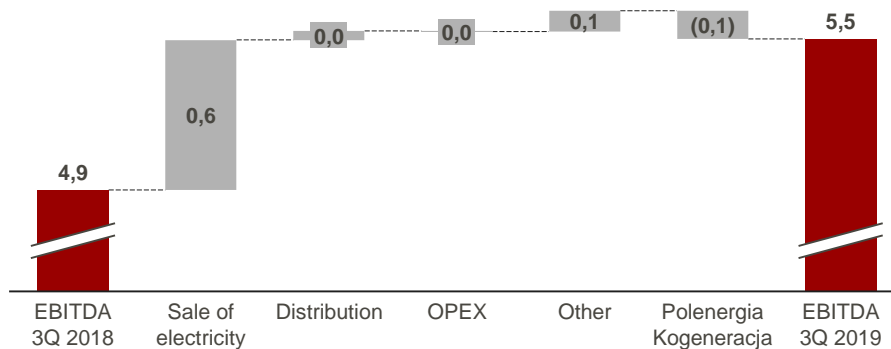
### 1 EBITDA build-up



### Comments

The distribution segment featured a growth of EBITDA by PLN 0.6m in Q3 2019 compared to the similar period of the preceding year, mainly because of a higher energy sales margin. This was made possible by partial electricity price release as of 1 July 2019.

### 2 EBITDA bridge

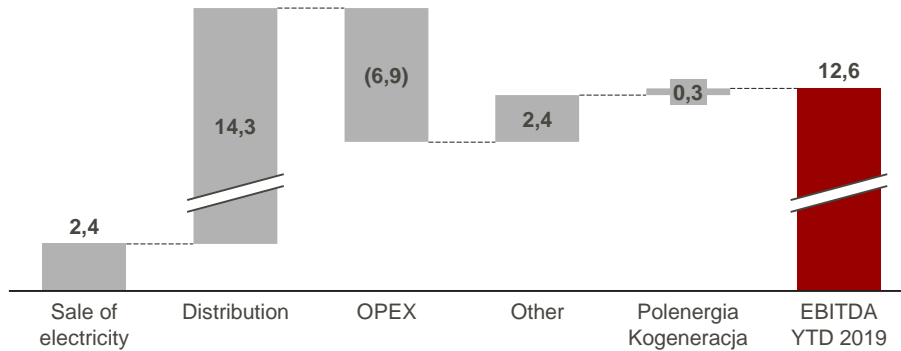


**STABLE OPERATIONAL ACTIVITY HIGHER EBITDA DUE TO HIGHER MARGIN ON ENERGY SALES**



## Distribution - YTD

### 1 EBITDA build-up

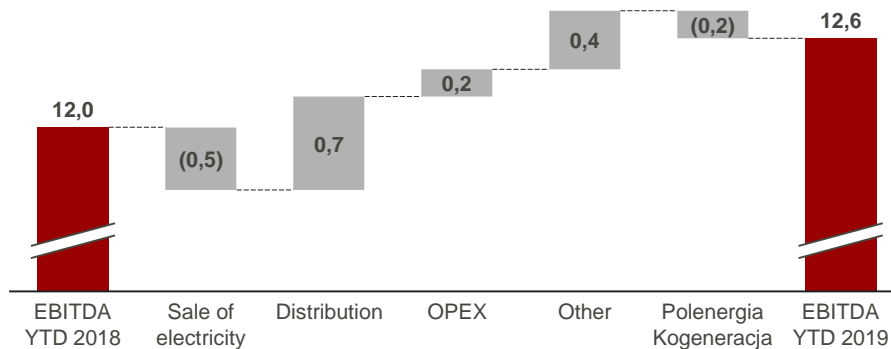


### Comments

The distribution segment featured a growth of EBITDA by PLN 0.7m compared to the similar period of the preceding year, mainly because of:

- higher distribution margin,
- lower operating costs (lower real estate costs),
- higher other operating revenues (refund of the real estate tax and release of the litigation provision),
- lower energy sales margin.

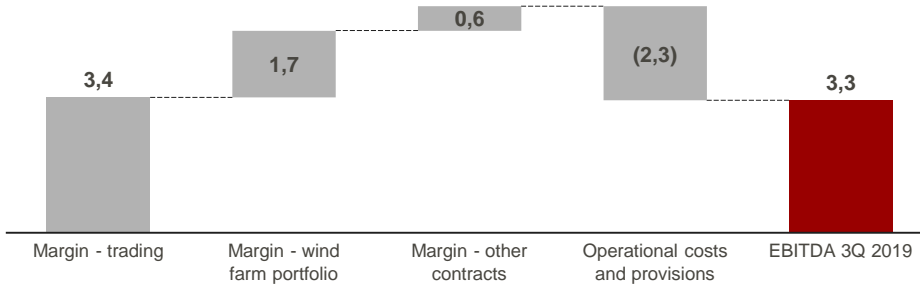
### 2 EBITDA bridge



**STABLE OPERATIONAL ACTIVITY HIGHER EBITDA DUE TO THE INCREASE OF THE MARGIN ON ELECTRICITY DISTRIBUTION, LOWER OPERATING EXPENSES AND HIGHER OTHER OPERATING REVENUES**

## Trading - Q3

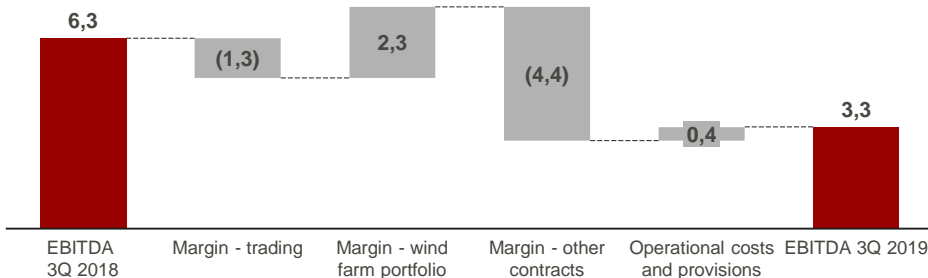
### 1 EBITDA build-up



### Comments

- Lower result on the trading portfolio due to settlement of green certificates sale transaction in Q3 2018.
- High margin on the wind farms portfolio due to higher prices of green certificates.
- Lower result on other contracts due to recognition of electricity sale transaction for the year 2019 in Q3 2018.
- Lower operating costs and lower commission costs.

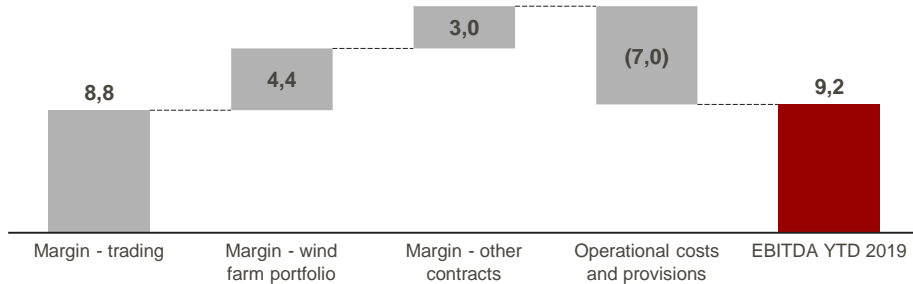
### 2 EBITDA bridge



**GOOD RESULT ON TRADING OF ELECTRICITY AND GREEN CERTIFICATES, AS WELL AS LOWER OPERATING EXPENSES. OFFSET BY LOWER RESULT ON OTHER CONTRACTS**

## Trading - YTD

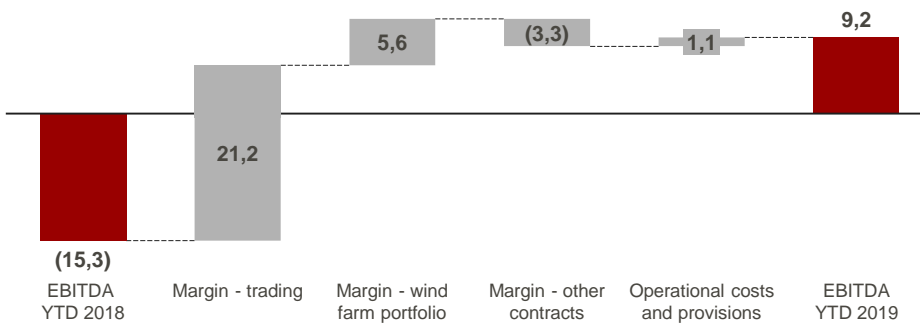
### 1 EBITDA build-up



### Comments

- Better performance of electricity trading due to improved commercial operations 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).
- Lower result on other contracts due to recognition of electricity sale transaction for the year 2019 in Q3 2018.
- Lower operating costs and lower commission costs.

### 2 EBITDA bridge



**GOOD RESULT ON TRADING OF ELECTRICITY AND GREEN CERTIFICATES, AS WELL AS LOWER OPERATING EXPENSES. OFFSET BY LOWER RESULT ON OTHER CONTRACTS**

## Projects under development

### Wind farms (Dębsk, Szymankowo, Kostomłoty, Piekło):

- Commencement of construction of Szymankowo WF - the first project of this scale in Poland not dependent on the support system. On 5.11.2019 investment loan up to PLN 107m and facility to service VAT payments up to PLN 20m have been signed. Technical service agreement and turbines delivery agreement have been executed with Siemens Gamesa Renewables Energy. Construction agreement with Przedsiębiorstwo Budownictwa Drogowo-Inżynieryjnego S.A. has been signed.
- The Group holds 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 auction for wind farm that may take place in 2019, either.

### Offshore wind farms:

- 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 240 MW 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 18 October 2019 an amending agreement was executed to the preliminary sales agreement dated 20 December 2018 with Wind Power AS, a company of the Equinor group. The condition precedent of obtaining the legally binding registration by the Court of Registration of the resolution concerning the transformation of Polenergia Bałtyk I S.A. into a limited liability was replaced by some new conditions precedent, including, inter alia, the transfer of the Polenergia Bałtyk I S.A. shares onto MFW Bałtyk I sp. z o.o.

### Biomass power plant (Wińsko):

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

### Photovoltaic farms:

- The Company Polenergia Farma Wiatrowa 17 Sp. z o.o. developing photovoltaic farm projects with total capacity of 8MW (the "Company") 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.
- On 22 October 2019 the Company entered into a facility agreement with ING Bank Śląski S.A. for the term financing up to PLN 40m and an overdraft facility to service Value Added Tax payments up to PLN 4.5m.
- Construction of 8 photovoltaic farm projects with total capacity of 8MW, which won auction in 2018, has been ended.
- Preparations are being made to further auctions expected in 2019 with photovoltaic power plant projects of the total capacity up to 20 MW. Further projects with the capacity of ca. 40 MW are at their early stage of development.

**FURTHER DEVELOPMENT OF OFFSHORE WIND FARMS OF THE TOTAL CAPACITY UP TO 3,000 MW. CONSTRUCTION OF WF SZYMANKOWO 38MW AND PV SULECHÓW 8MW. FURTHER DEVELOPMENT OF 161 MW ONSHORE WIND FARMS AND 60MW PHOTOVOLTAIC FARMS**