



WIND POWER



CONVENTIONAL ENERGY



DISTRIBUTION



TRADING

POLENERGIA GROUP

Financial results 2019 Q1

15 May 2019

Summary of key events (1/2)

Fact



Outcome/Comment

- **High windiness**

 - Net productivity in 2019 Q1 amounted to 46% compared to 32% in 2018 Q1
- **Increased Company value**

 - Share price increase from PLN 20.5/MWh as at 31.12.2018 up to PLN 22.9/MWh as at 31.03.2019 and PLN 28.2/MWh as at 7.05.2019
 - Between 31.12.2018 and 7.05.2019 the capitalization of the Company increased by PLN 350m.
- **Green certificate price volatility**

 - A drop in prices of green certificates from PLN 135.2/MWh as at 31.12.2018 down to PLN 80.8/MWh as at 20.03.2019 followed by a dynamic rebound up to PLN 126.0/MWh as at 31.03.2019 (PLN 135.9/MWh as at 7.05.2019).
 - The major reason for the GC price fluctuation were the government's proposals concerning changes in deriving compensatory payments which were disadvantageous to energy producers.
- **Withdrawal from the proposed changes in deriving compensatory payments by the Ministry of Energy**

 - If the wind farm revenue cap had been established at PLN 312/MWh, it would have an adverse impact on the Group's financial performance. On top of that, it would have affect the market environment attitude and would have resulted in potential impediments to implementation of new projects or to raising any financing required.
 - The resignation from the intended changes by the Ministry of Energy had a positive effect on the green certificate prices and, as a result, on the returns of the Group's operating wind farms.
- **Draft amendment of the RES Law - the auction system:**

 - With the increase of the total capacity in the wind farm auctions the probability of obtaining support for the RTB projects of Polenergia also increases.
- **The Ministry of Energy has announced a special law dedicated to offshore wind power industry would be prepared by the end of 2019.**

 - The connection terms for the projects of Polenergia have been issued for 3,000 MW in total.
 - Polenergia, as a shareholder in offshore wind farm projects, expects favorable government regulations in the offshore segment.
 - The Group hopes that once the dedicated support system for offshore projects is in place, the perspective of the construction of first Polish offshore wind farms will become much closer.
- **PSE set the auction dates in the capacity market**

 - A chance to secure additional revenue source for the Companies ENS and Mercury for the year 2024. The years 2021 - 2023 have already been secured.
- **Agreements with Siemens for providing service to wind farms**

 - The Companies Amon, Talia, Gawlowice, Skurpie and Rajgród entered into service agreements with Siemens Gamesa Renewable Energy for the provision of service to wind farms. In case of WF A/T performance under those agreements commenced on 1 April and shall continue for 23 years. In case of WF GSR performance commenced on 8 May and shall continue for 26 years.
 - The advantages of the abovementioned agreements include lower servicing prices and a wide array of services.
- **Debt prepayment in Amon and Talia wind farms**

 - According to the loan agreement, the loan was prepaid from the surplus cashflow of 7.1m (Amon PLN 4.4m, Talia PLN 2.7m).
 - It was made possible due to very good windiness and higher prices of green certificates than initially assumed.
- **Real estate tax for 2017**

 - Contrary to the earlier judgment of 7 judges of the Supreme Administrative Court, the cassation court decided that the courts were in the position and should consider whether the change of law resulting in the taxation of the entire wind turbine as of 2017 had required notification to the European Commission. The District Administrative Court will have to consider whether the amended law could be legitimately applied, against the context of their compliance with the EU law.
 - Reopening of discussion on RET for 2017 gives chances to the operating WF of the Group to obtain refund of the overpaid tax.
- **Biomasa Wschód - signing a letter of intent with Enea Polaniec**

 - Execution of a letter of intent with Enea Polaniec for the supply of pellet in the years 2020-2026.
 - This event carries a prospect of better operating performance of the Company, as well as facilitates talks with the lending bank and prospective investors.

Summary of key events (2/2)



Fact

- **No clarity in the “frozen” electricity prices law**
 - Following publication of draft executive regulations to the “frozen” electricity prices law, the Ministry received a list of comments, ambiguities and errors from the participants in the consultation process.
 - Minister Tobiszowski announced another amendment to the law would take place due to the comments raised by the European Commission.

- **Drop in prices on the forward electricity market and continued lack of liquidity**

- **Stoppage of the turbine at WF Dipol in February and March due to a damaged blade**

Mitigation/ Comment

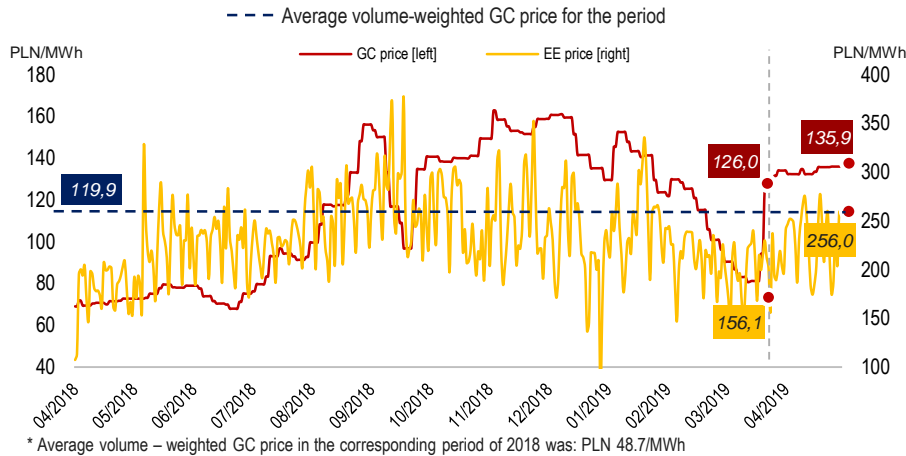
- According to the press releases, the amendment process may keep the prices frozen only with respect to the household segment, while freeing up the prices for all other customers.
- The entrepreneurs and the Association of Energy Trading (TOE) have criticized the methodology of deriving compensatory payments and the lack of individual application thereof.
- The industry has warned that the Regulation in the proposed wording, given low return of the trading sector, will jeopardize the continued business operations of most of the offtakers.
- TOE has flagged an error in the formula proposed in the Regulation, in that the delta between the excise rates has been subtracted twice, which would mean the compensation to offtakers would be reduced by PLN 15 per MWh.
- The end effect of the amendment is impossible to estimate and depends on the final wording of the Regulations.

- Drop in electricity prices for forward contracts from PLN 283.8/MWh as at 31.12.2018 (for a 2020 forward contract) down to PLN259.3/MWh as at 29.03.2019 (PLN 274.0 as at 7.05.2019). The declining trend was stopped this March.
- A drop of liquidity on the forward electricity market has been significantly constraining the ability to enter into forward contracts for 2021.

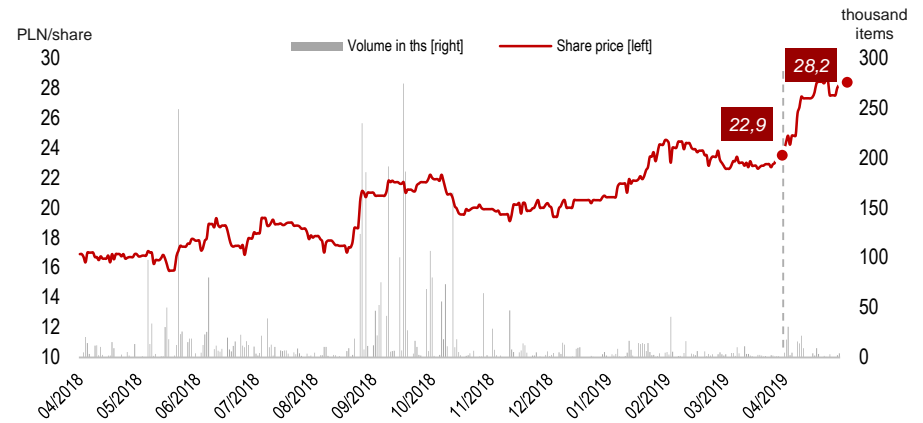
- WF Dipol was unable to make the most of the high windiness.
- The weather conditions in the winter and spring transition time were preventing repair of the damaged blade for some weeks.

Key indices and market prices (last 12 months)

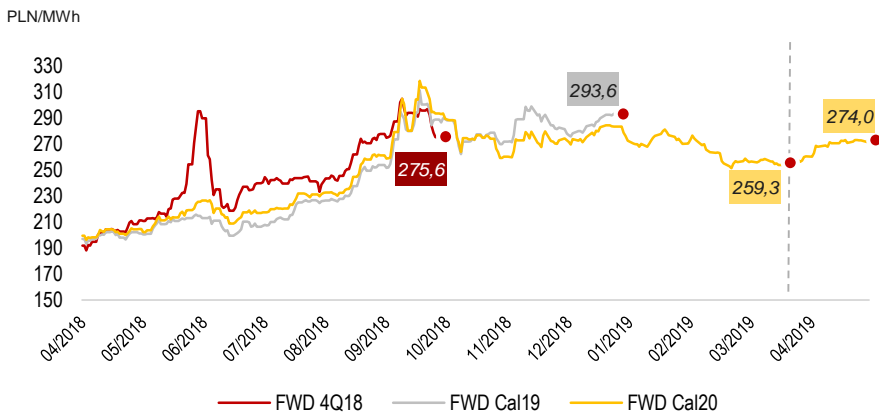
1 Green certificates and electricity prices



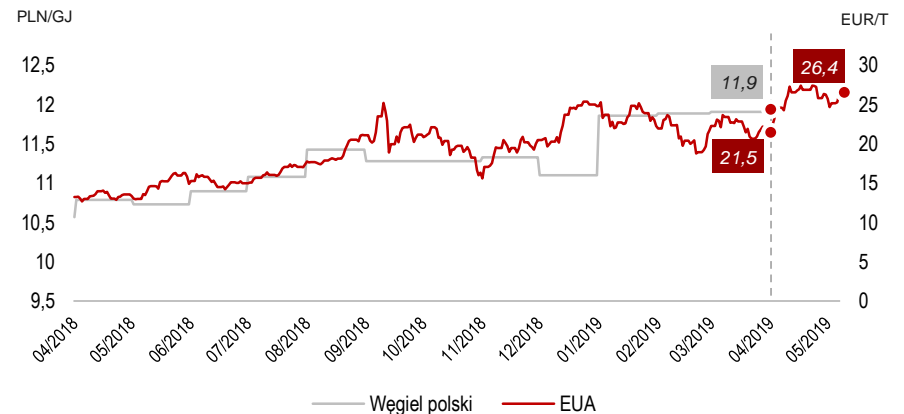
2 Polenergia S.A. share prices quotations



3 Forward electricity prices



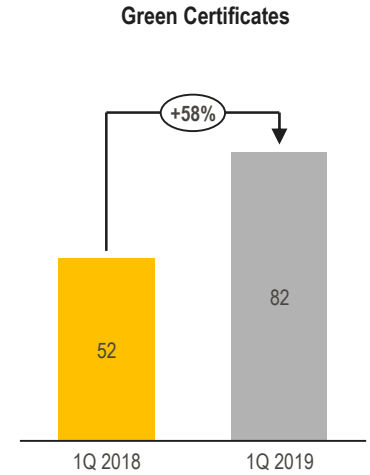
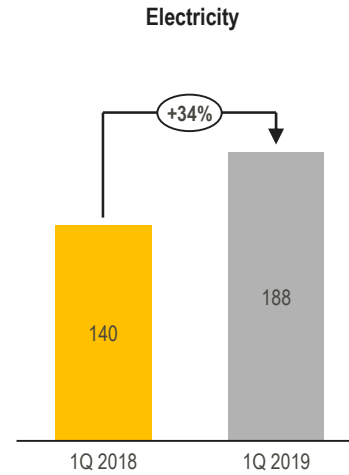
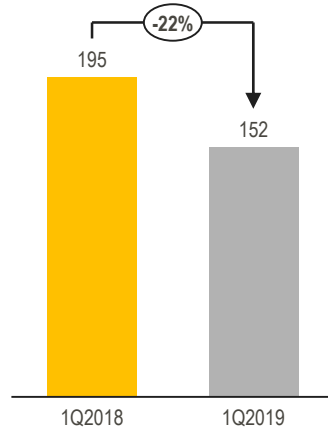
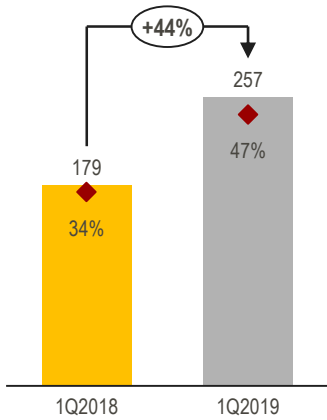
4 Coal price quotations and CO₂ emission allowance on the Polish market



Key operating indicators – Wind Power segment

- 1** WF production (gross) and LF %
- 2** Average fixed operating cost per MW in WF [PLN/MW/year]
- 3** Average revenues per MWh (balancing costs included) at the Group level [PLN/MWh]

Quarterly data

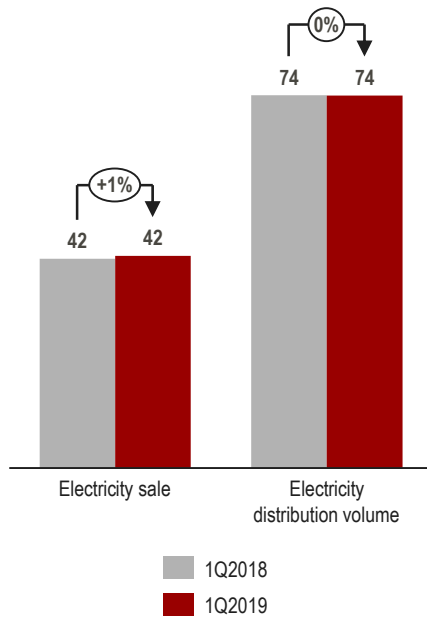


◆ Q Load factor (%)
 ■ Q Production (GWh)

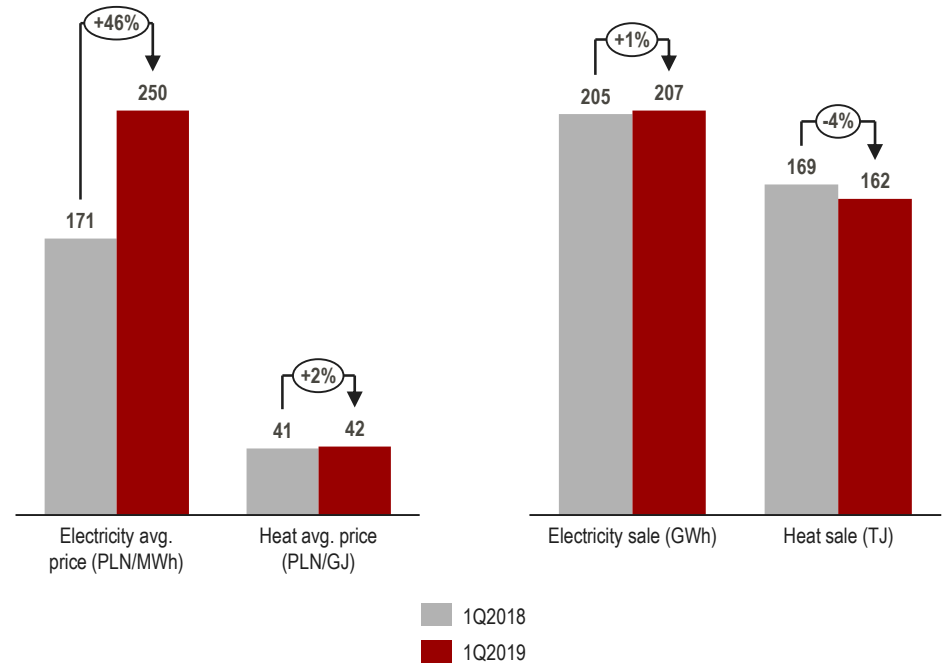
Key operating indicators

4 Distribution segment – sales [GWh]

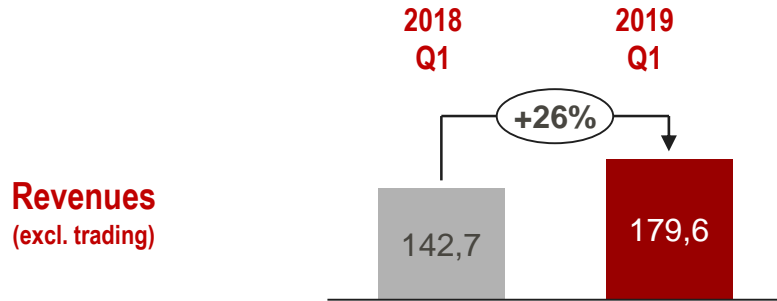
Quarterly data



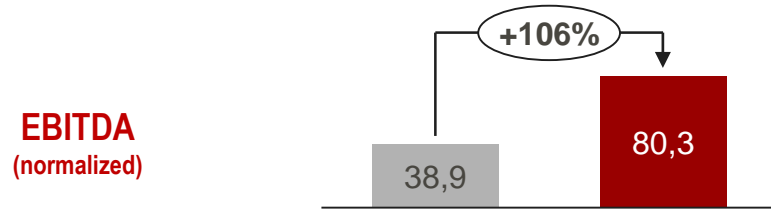
5 Conventional energy segment – sales [GWh] and average prices [PLN/MWh]



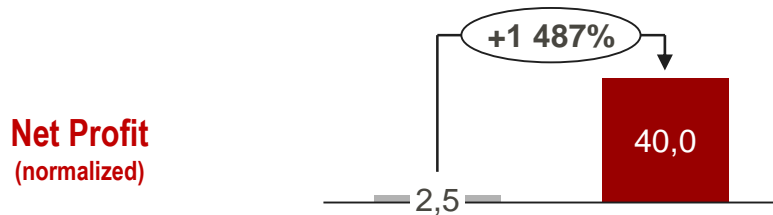
Key figures summary



Higher revenues due to increased revenues of wind power and conventional energy segments partially offset by lower revenues in biomass segment.



Increased normalized EBITDA mostly as a result of better performance of the wind power segment (37.4m) and trading (4.3m).

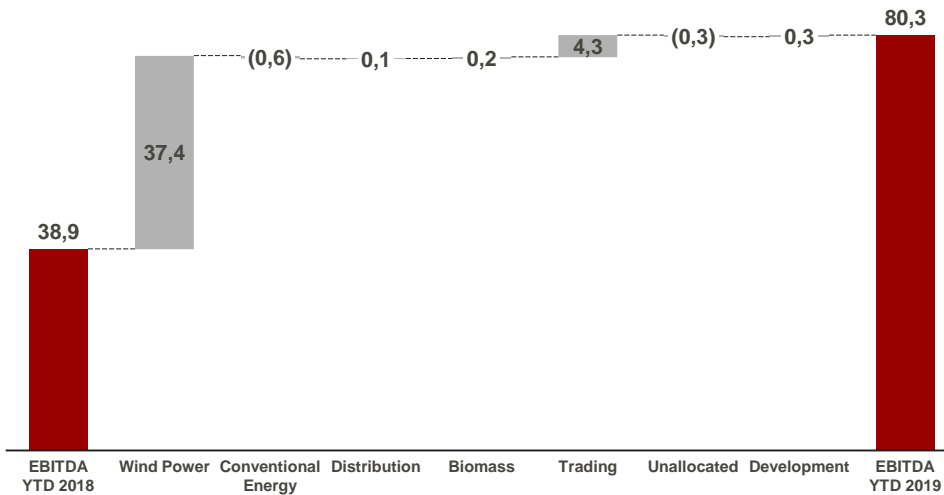


The growth of normalized net profit results from higher EBITDA offset by higher income tax.

BETTER PERFORMANCE MOSTLY DUE TO BETTER WINDINESS AND HIGHER PRICES OF GREEN CERTIFICATES AND ELECTRICITY

EBITDA by operating segments

Quarterly



Comments

Wind Power: better performance driven by higher output 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, partially offset by higher stranded cost compensation revenues (negative impact of an update of long-term prices of natural gas and CO2 allowances in 2018 Q1) and by higher revenues from gas compensation for 2019 (higher Wg adjustment index).

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

Biomass: better performance is a result of the continued restructuring of this segment. In addition, higher pellet prices permitted reaching higher production returns.

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, partially offset by worse performance on sale of electricity from wind farms in view of higher balancing and profiling costs.

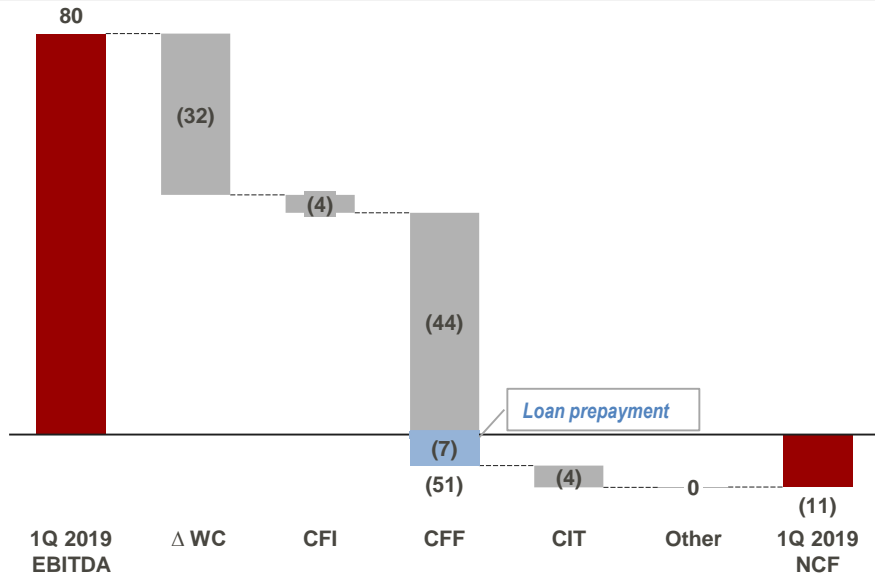
Unallocated costs: lower performance due to higher Headquarters operating cost resulting from the adjustment of VAT settlement for 2018.

Development: better performance due to lower costs of the segment allocated to profit and loss account.

BETTER PERFORMANCE OF THE WIND POWER AND TRADING SEGMENTS MOSTLY DUE TO BETTER WINDINESS AND HIGHER PRICES OF GREEN CERTIFICATES AND ELECTRICITY

Polenergia Group cash flow

Quarterly



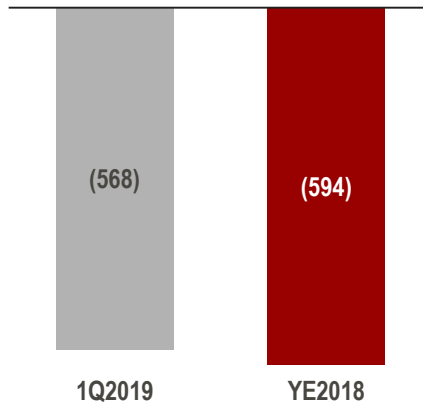
Comments

- **Δ WC:** temporary increase of receivables from gas compensation and stranded costs (payment made on 5 April) (-19m), higher receivables from higher electricity prices in ENS (-6m) and commercial transaction settlement in the trading segment (-5m).
- **CFI:** capex in Onshore RTB and distribution network development.
- **CFF:** predominantly debt service in wind power segment, conventional energy and distribution (-10m) and repayment of the overdraft in the trading segment (-29m). Includes prepayment of the investment credit of PLN 7m in Amon and Talia wind farms.

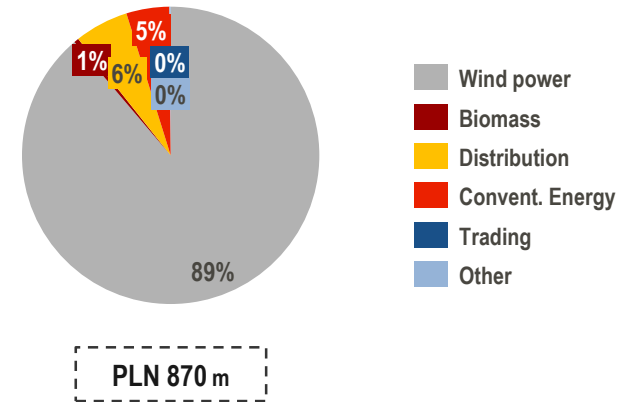
POSITIVE OPERATING CASH FLOWS OFFSET BY THE CHANGE IN WORKING CAPITAL IN ENS, REPAYMENT OF THE OVERDRAFT IN THE TRADING SEGMENT AND PREPAYMENT OF THE LOAN IN WF AMON AND TALIA

Debt structure as of 31 March 2019

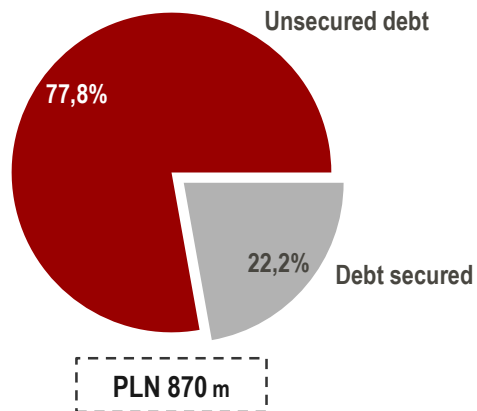
Net debt (2019Q1 vs. YE2018)



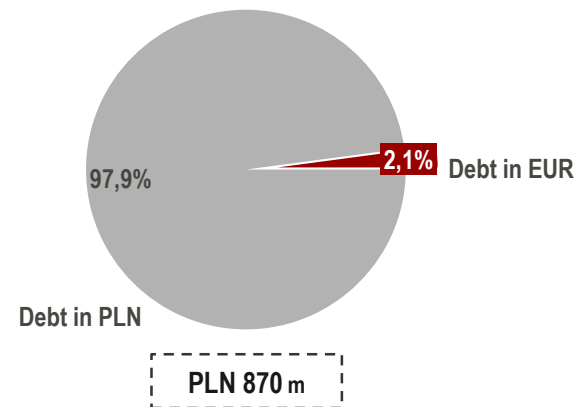
Debt structure by segments



Debt structure – interest rate hedging



Debt structure by currencies (EUR vs. PLN)



**CONTINUED REDUCTION OF NET DEBT
NO CURRENCY RISK. INTEREST RATE RISK HEDGED IN CA. 22%**



WIND POWER



CONVENTIONAL ENERGY



DISTRIBUTION

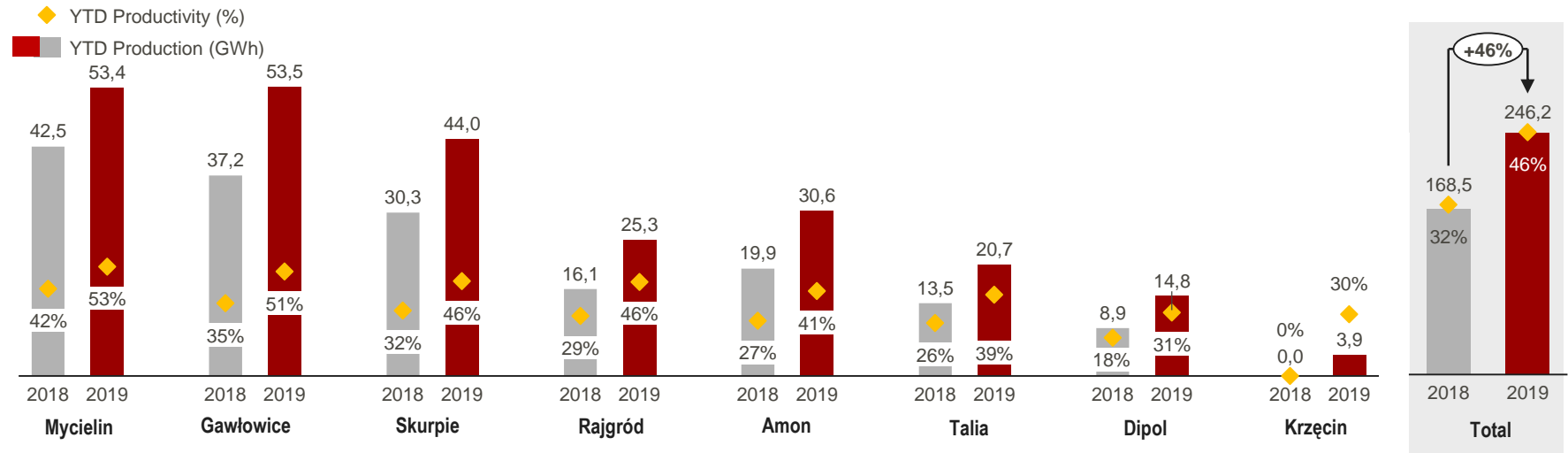


TRADING

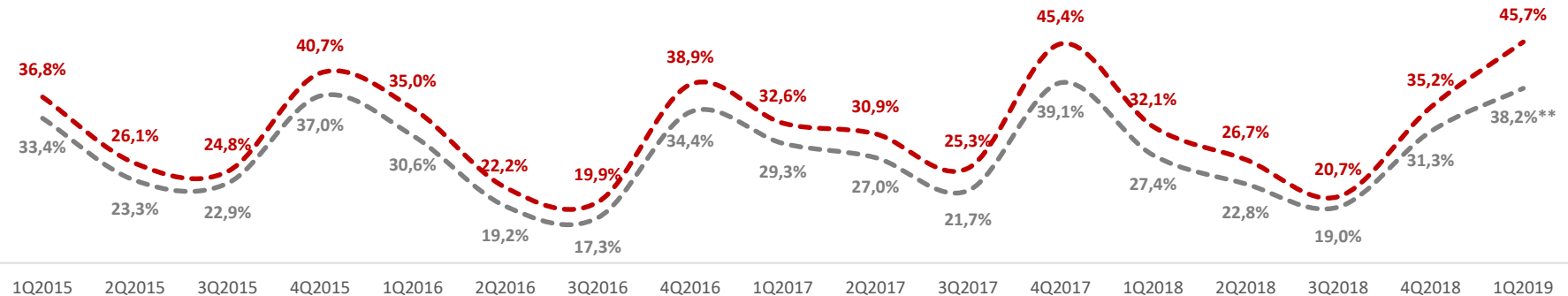
Summary of segment results

Wind power - production

Production (net), YTD



Net productivity of Polenergia farms above the average*



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

** Calculation of net output of a sector in March based on the comparison of net output of Polenergia in January and February

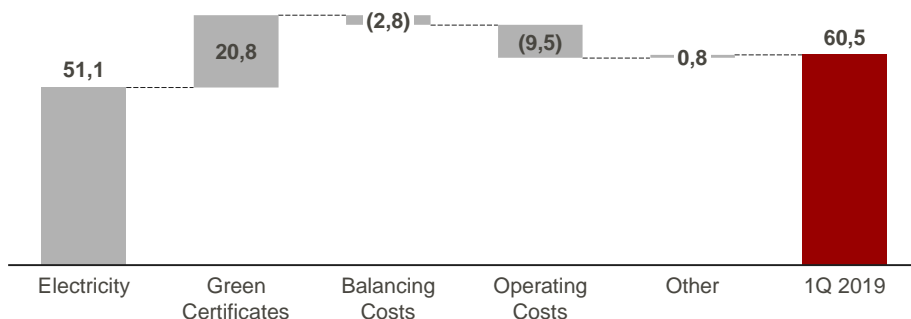
--- Average productivity of wind farms in Poland

- - - Average productivity of wind farms in Polenergia

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.

Wind power – Q1

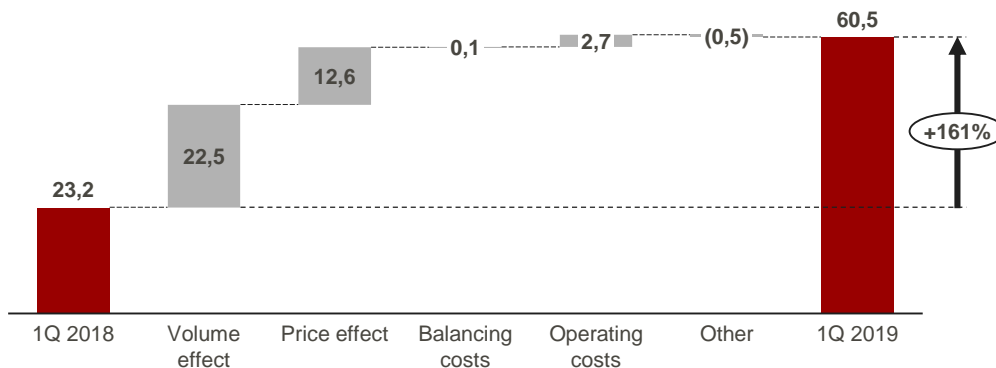
1 EBITDA build-up



Comments

- EE production volume higher by 77.7 GWh, with GC production volume higher by 78.1 GWh.
- Higher average price of green certificates and electricity.
- Lower operating cost due a change in presentation of leasehold costs. The new accounting approach applied in 2019 (IFRS 16) provides for presentation of leasehold costs similarly to financial lease.

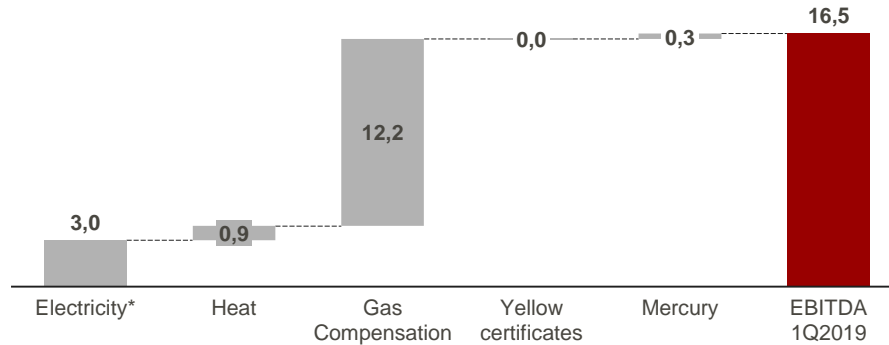
2 EBITDA bridge



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

Conventional Energy – Q1

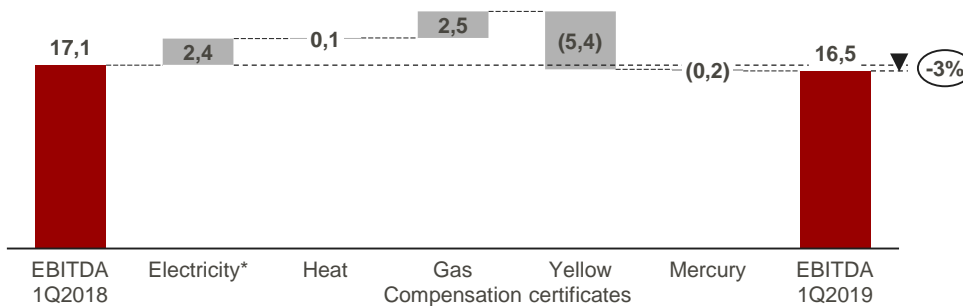
1 EBITDA build-up



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 the gas compensation results from the higher forecast Wg index in 2019 Q1 vs. 2018 Q1 (0.55 vs. 0.46).
- Better performance on electricity results from higher stranded cost compensation revenues (negative impact of an update of long-term prices of natural gas and CO2 allowances in 2018 Q1).

2 EBITDA bridge

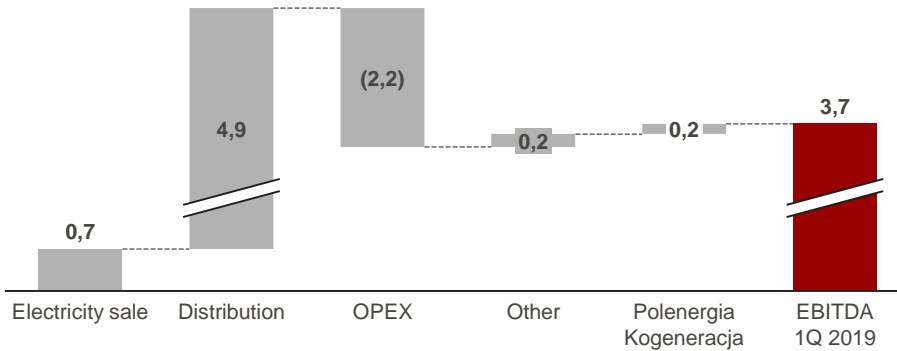


* Includes stranded cost compensation and revenue from black-start services

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 – Q1

1 EBITDA build-up

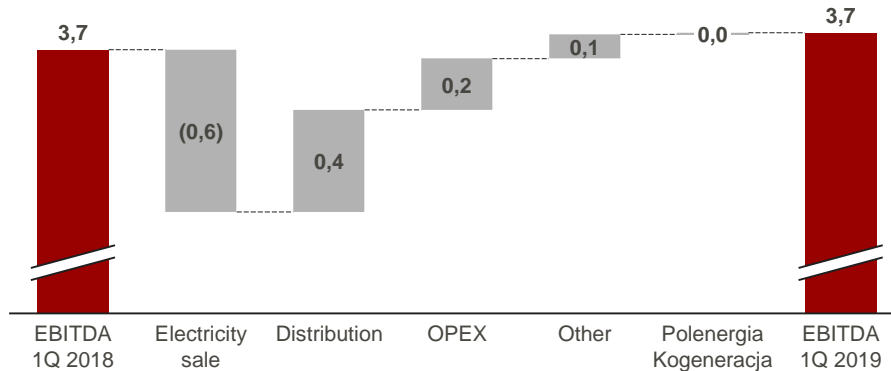


Comments

The distribution segment recorded a growth of EBITDA by PLN 0.1m in 2019, mostly because of:

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

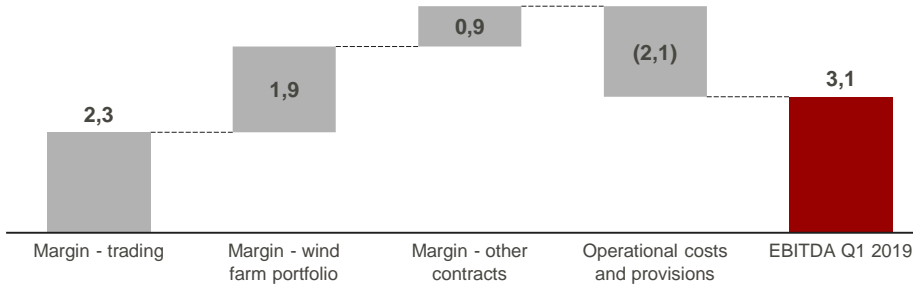
2 EBITDA bridge



STABLE OPERATIONAL ACTIVITY. HIGHER EBITDA DUE TO THE INCREASE OF THE MARGIN ON ELECTRICITY DISTRIBUTION AND LOWER OPERATING COSTS

Trading – Q1

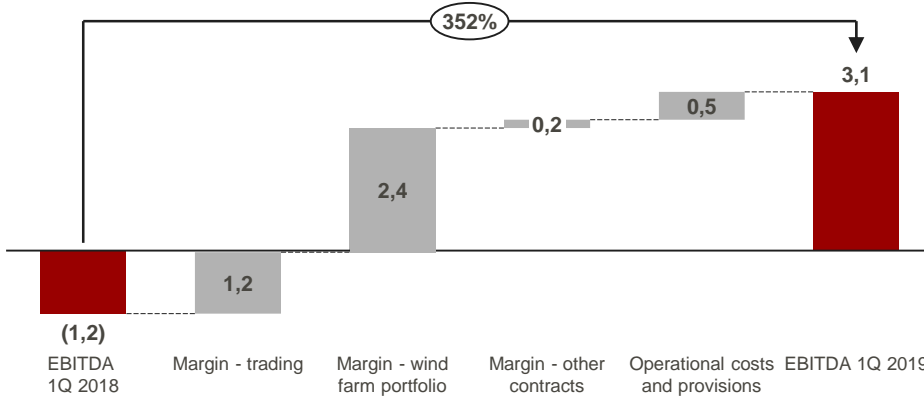
1 EBITDA build-up



Comments

- Better performance on electricity trading.
- Better performance on sales of green certificates resulting from higher selling prices.
- Lower performance on electricity sales by WF due to higher balancing and profiling costs.
- Lower operating costs and lower commission costs.

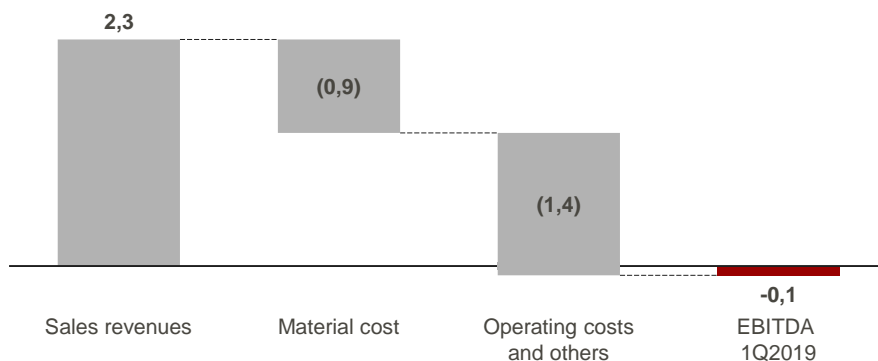
2 EBITDA bridge



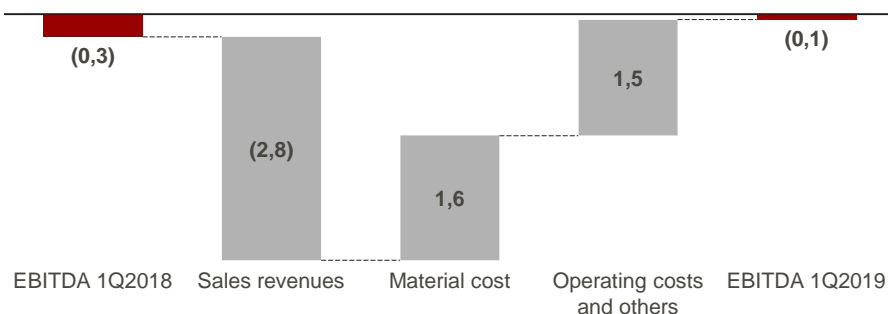
GOOD PERFORMANCE ON ELECTRICITY TRADING AND GREEN CERTIFICATES, COUPLED WITH LOWER OPERATING COSTS

Biomass – Q1

1 EBITDA build-up



2 EBITDA bridge



Comments

- Better performance compared to the preceding year due to partial restructuring of the segment (shutdown of Biomasa Południe plant and limited operation of Biomasa Północ) and higher return on the operating level of Biomasa Wschód plant.
- Lower sales revenues and lower operating costs due to the termination of operating activity of two plants and lower sales volume of Biomasa Wschód.
- A letter of intent was signed with Enea Polaniec for the supply of pellet in the years 2020-2026 which may positively impact the talks of the lending bank with the investor for Biomasa Wschód plant.
- A memorandum of understanding was executed with Pekao SA Bank which modified the investment credit repayment schedule in order to maintain liquidity.

BETTER PERFORMANCE RESULTING FROM THE CURBING OF THE BIOMASS SEGMENT OPERATIONS AND IMPROVED MARKET SITUATION.

Development projects

Onshore RTB (Dębisk, 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.
- The Group continues preparatory work to build a wind farm project portfolio based on the revenue from the energy market or long term contracts. The Group has not excluded its participation in any potential auction for wind farms 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 with 240MW which means the 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.
- 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 an offshore wind farm of the total capacity of 1560 MW.

Wińsko:

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

PV:

- The Company developing photovoltaic farm projects with total capacity of 8MW was successful bidder in an auction and thus was granted the right to redress the negative balance with reference to the price for the produced electricity quoted in auction for a 15-year period.
- Preparatory work is in progress to build a photovoltaic farm project 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 16MW. 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 199 MW ONSHORE WIND FARMS AND 54 MW PV FARMS (OF WHICH 8 MW WITH GUARANTEED SUPPORT)