

# ENERGA Group's financial results

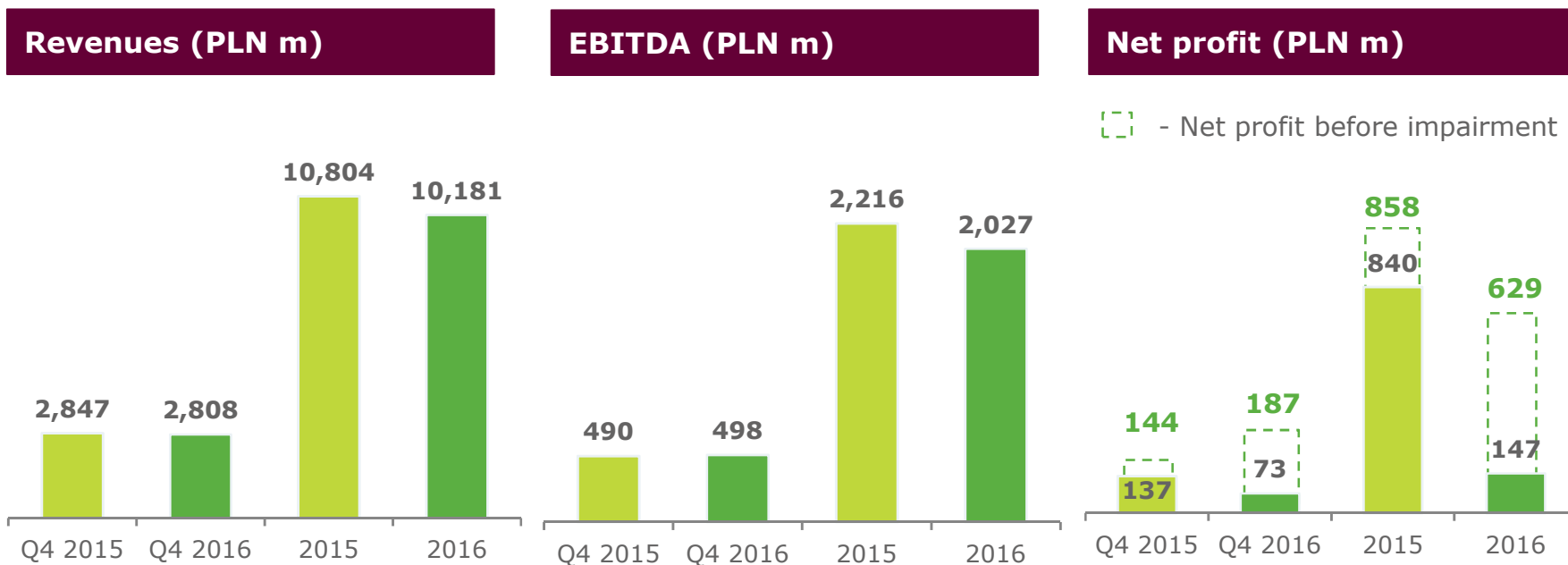
12M 2016



30 March 2017

## Distribution Segment with key contribution to ENERGA Group's results

1. Stable performance of the Distribution Segment and more difficult situation in the Sales and Generation Segment
2. Increase in the retail sales volume
3. Net result affected by impairment losses on non-financial non-current assets amounted to PLN 583 million before tax (net result of PLN 482 m)



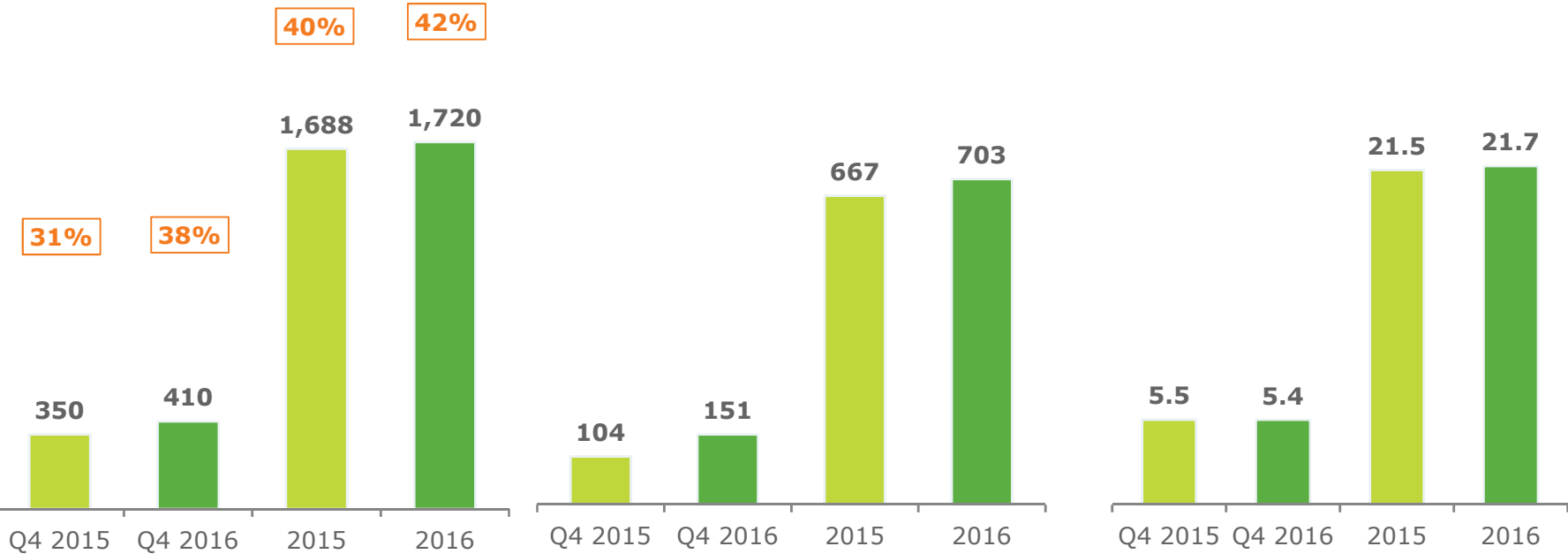
# Stable financial results in the Distribution Segment

**EBITDA (PLN m)**

**Net profit (PLN m)**

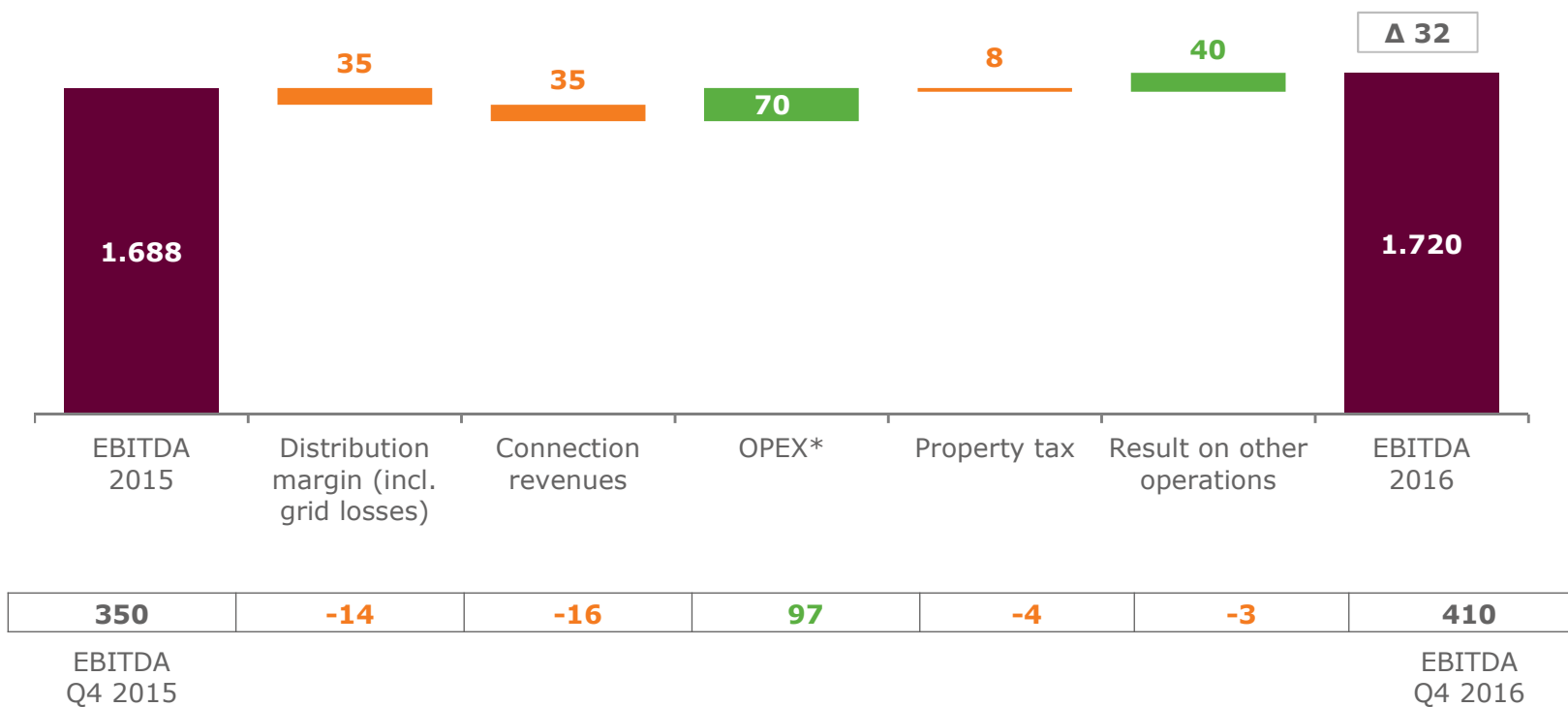
**Distribution of electricity (TWh)**

□ EBITDA margin



# Performance under pressure from the lower 2016 tariff

## EBITDA Bridge (PLN m)



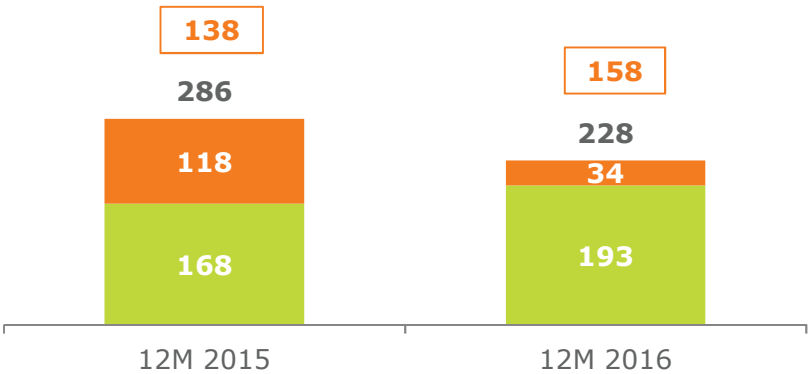
\* The lower OPEX resulted mainly from lower actuarial provisions, driven mainly by two factors: reversal of a portion of provisions where the basis for payment of energy equivalent benefits ceased to exist and reduction of the retirement age. Moreover, there were delays in OPEX.

# Improvement of reliability ratios

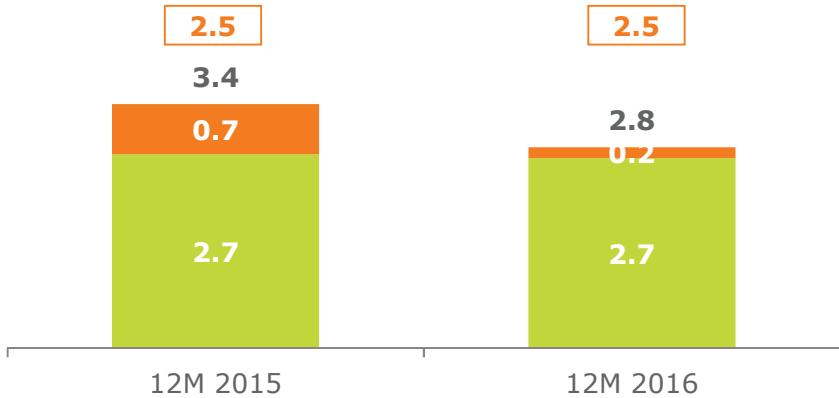
## SAIDI (minutes per customers)

## SAIFI (interruptions per customers)

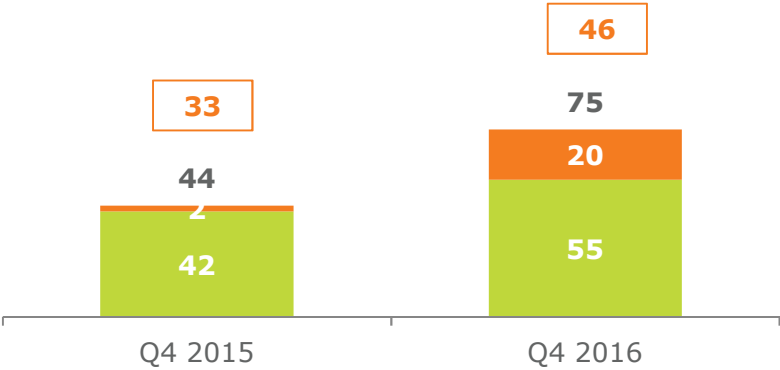
SAIDI (planned, unplanned and catastrophic)



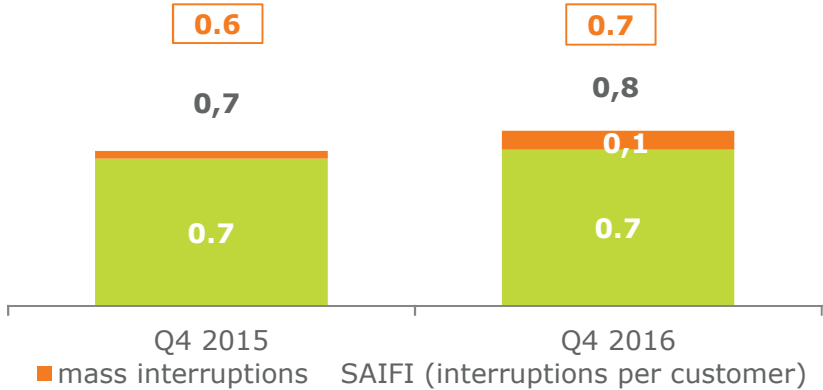
SAIFI (planned, unplanned and catastrophic)



SAIDI (planned, unplanned and catastrophic)



SAIFI (planned, unplanned and catastrophic)



■ mass interruptions SAIFI (interruptions per customer)



□ - SAIDI/SAIFI without mass interruptions - HV and MV

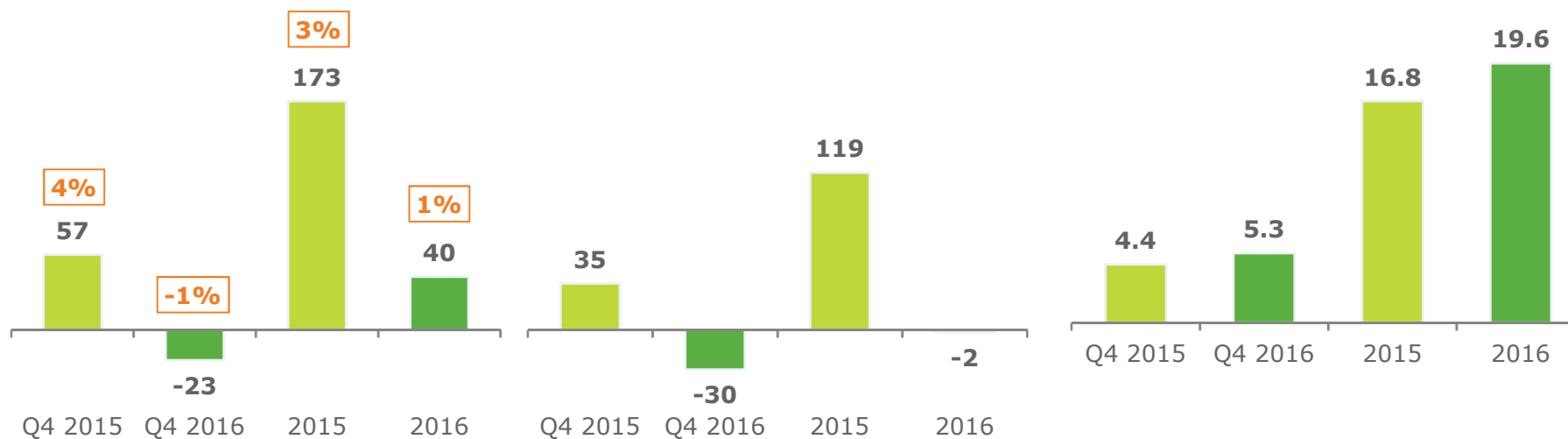
# Increased volume of sales to end-users in the Sales Segment

**EBITDA (PLN m)**

**Net profit (PLN m)**

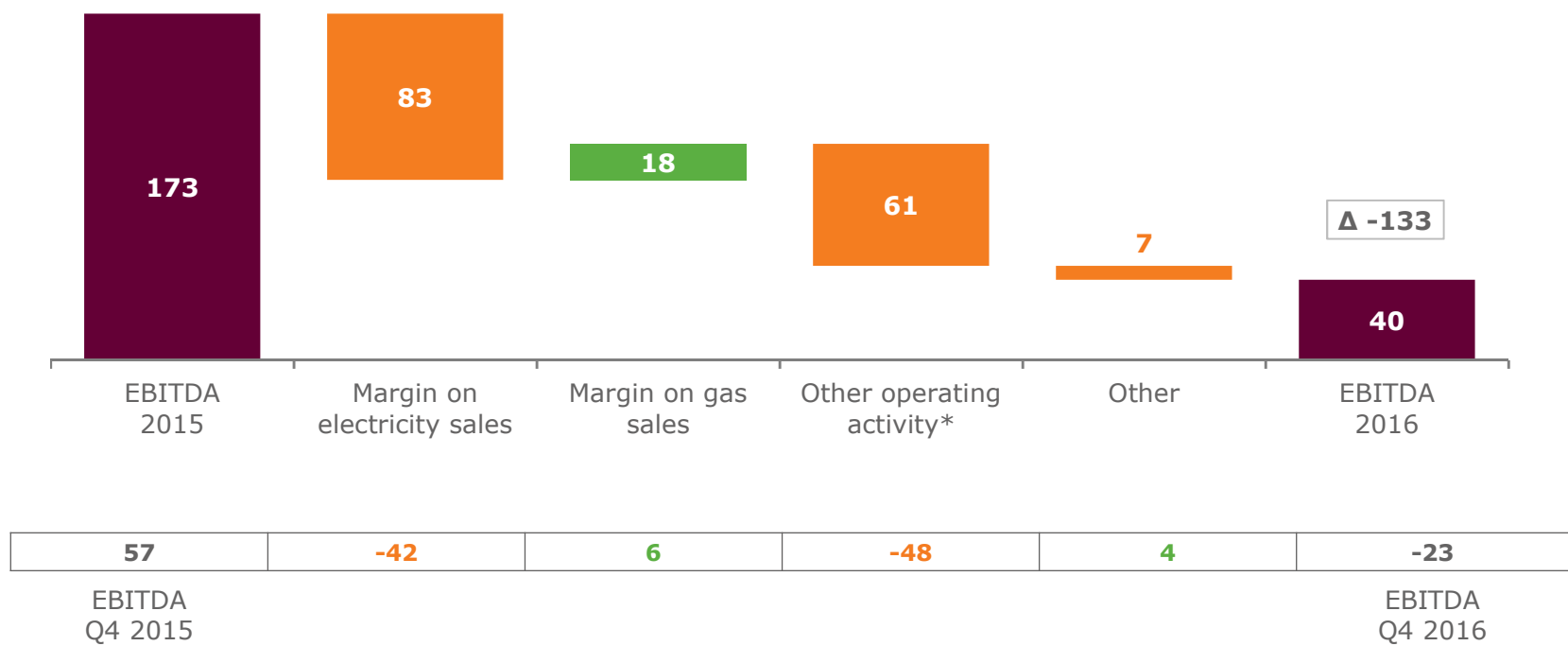
**Retail sales of electricity (TWh)**

□ - EBITDA margin



# Results under pressure from declining unit margins and one-off events

## EBITDA Bridge (PLN m)

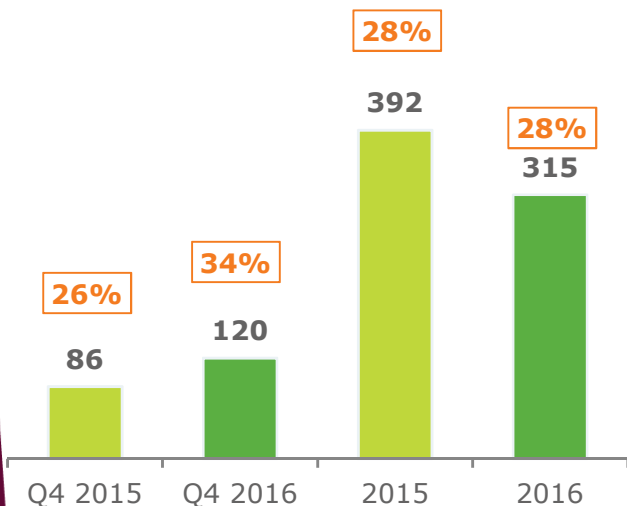


\* Mainly as a result of a negative impact of one-off and non-cash events: provisions recognized in 2016 due to the pending administrative and court proceedings in the total amount of PLN 43 million

# Net result of the Generation Segment affected by impairment losses on non-financial non-current assets

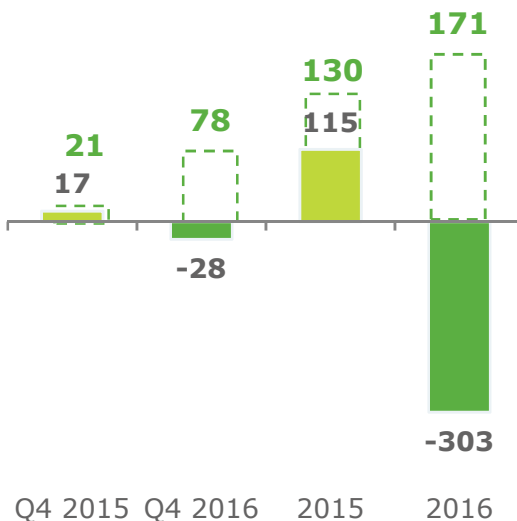
**EBITDA (PLN m)**

□ - EBITDA margin



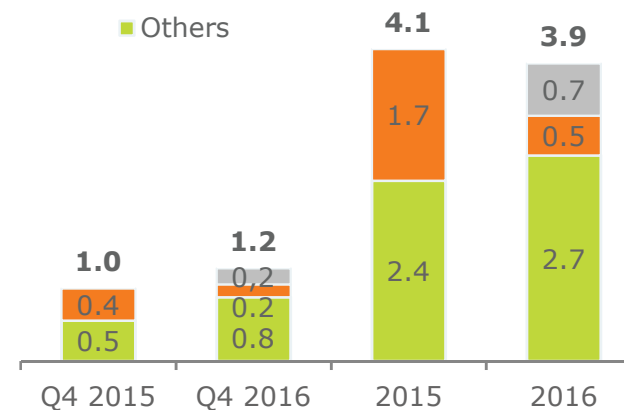
**Net profit (PLN m)**

□ - Net result before impairment



**Gross production of electricity (TWh)**

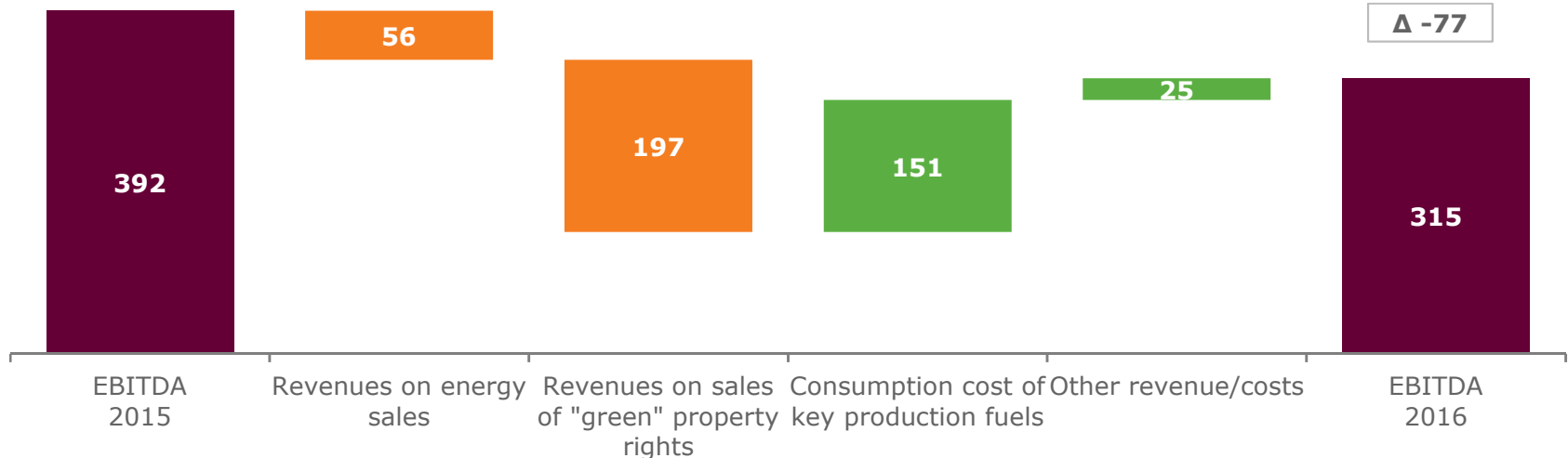
■ RES without support  
 ■ RES with support  
 ■ Others





# Lower green certificate prices

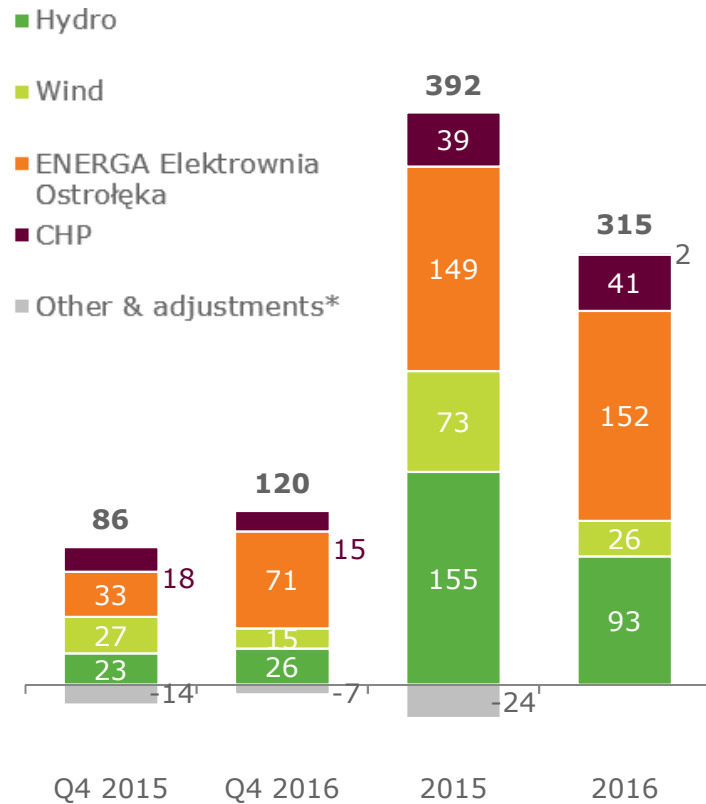
## EBITDA Bridge (PLN m)



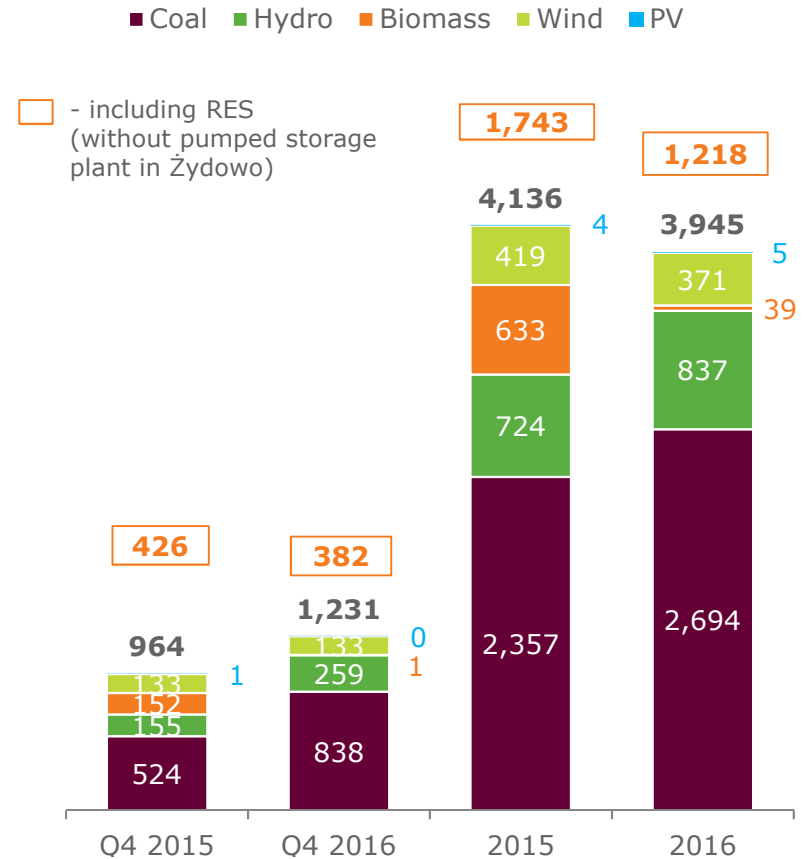
86	46	-33	14	7	120
EBITDA Q4 2015					EBITDA Q4 2016

# Increased production of coal-fired and hydro sources

**EBITDA per business lines (PLN m)**



**Gross electricity production by fuel (GWh)**



\*the Other & adjustments category includes companies providing services to the Generation segments, special-purpose vehicles building new generation sources in the ENERGA Group, PV farms and elimination of transactions between business lines.

# Capital expenditures of PLN 1.6 bn in 2016

The ENERGA Group's total capital expenditures in 2016 were PLN **1,567 m**

Major investment in the **Distribution Segment** :

1. **PLN 476 m** -grid development to facilitate connection of new customers
2. **PLN 562 m** - distribution network modernization to improve reliability of supply
3. **PLN 49 m** - other expenditures for innovative grid technologies and solutions(Smart Grid, SID)

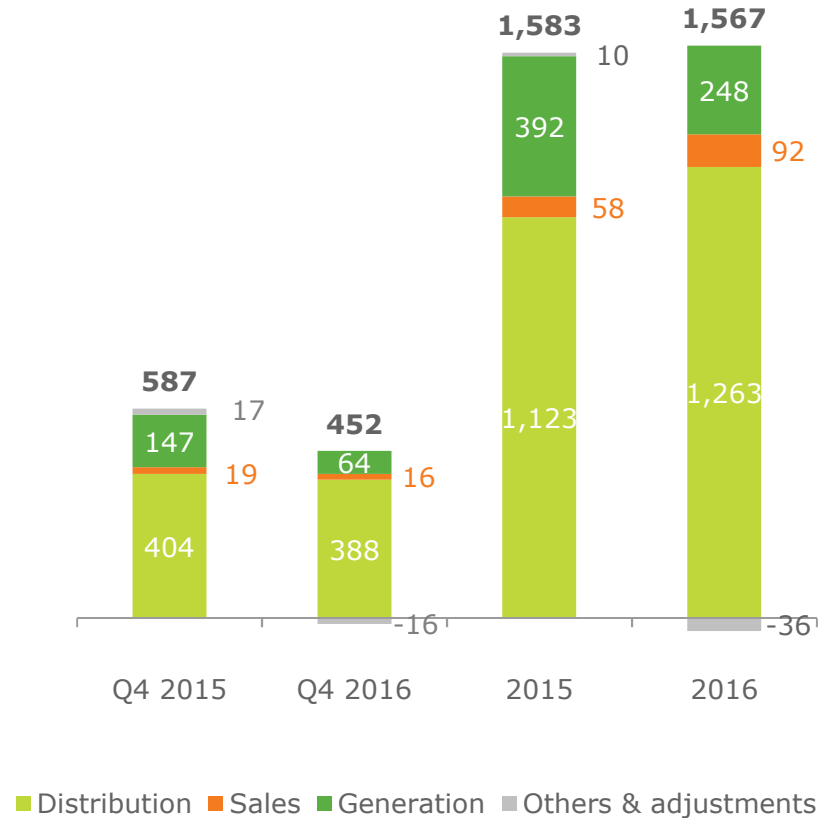
*contributed to:*

- a. **33 thous.** - new customer connections
- b. **4,490 km** - built and modernized LV, MV and HV lines
- c. **108 MW** - new RES connections to the network

Major investments in the **Generation Segment**:

1. **PLN 182 m** - the Ostrołęka Power Plant business line, including general overhaul and environmental expenditures
2. **PLN 20 m** - CHP businesse line
3. **PLN 12 m** - Hydro
4. **PLN 34 m** - Others

PLN m



# Outlook for 2017 under strong pressure from market and regulatory factors

## Distribution Segment

- increase in Regulatory Asset Base up to PLN 11.7 bn in the 2017 tariff
- slight drop in WACC from 5.68% to 5.63%
- increase in expenditures for grid repairs and operation to achieve SAIDI and SAIFI quality targets
- the 2016 cost base understated by one-off events (actuarial calculations, court case won)

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## Generation Segment

### RES

- further decline in "green" certificate prices
- potentially better hydrological and weather conditions and better wind conditions

### Ostrołęka Power Plant

- maintenance of the manner in which PSE uses the units
- market coal prices
- overhaul of another unit (technical shutdown in March-April of this year)

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## Sales Segment

- high costs of the "Obligated Offtaker"
- low market prices of "green" certificates versus long-term contracts
- reduction of tariff G for 2017 by the regulatory by an average of 4.3%
- flat retail sales volumes

# Additional information

# Key assets of the ENERGA Group

## Distribution

1. 184 thous. km of power lines
2. 21.7 TWh - of electricity delivered in 2016
3. Geographical coverage of 75 thous. km<sup>2</sup>

## Generation<sup>1</sup>

1. Hydro power plants
  - a) Włocławek (162 MW)
  - b) Smaller generating entities (46 MW)
  - c) Pumped storage plant in Żydowo (157 MW)
2. 5 wind farms (total capacity 211 MW)
  - a) Karcino (51 MW)
  - b) Karścino (90 MW)
  - c) Bystra (24 MW)
  - d) Myślino (20 MW)
  - e) Parsówek (26 MW)
3. PV farm near Gdansk (1,6 MWe) and in Czernikowo (3,8 MWe)
4. System power plant in Ostrołęka (677 MW, new heat source EEO B - 220 MWt)
5. Other CHP plants (82 MWe, 441 MWt)

## Sales

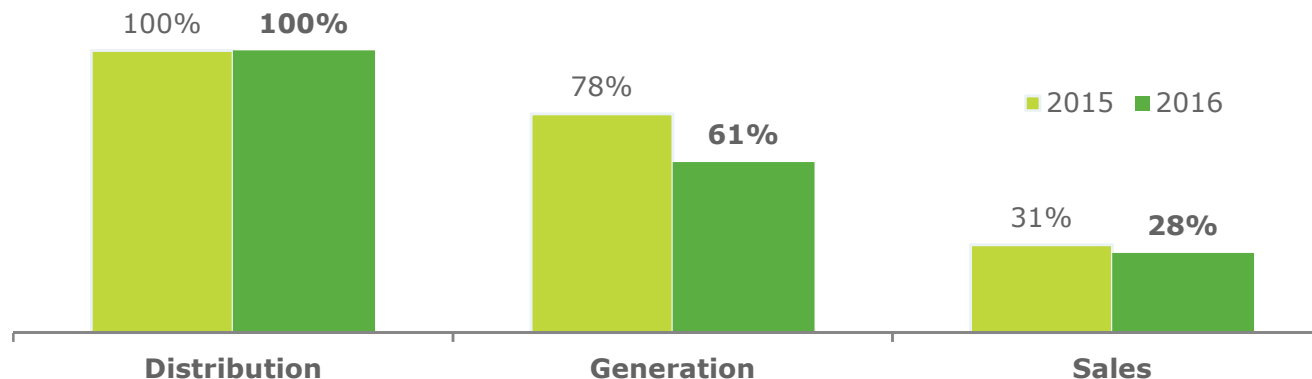
1. 3.0 million customers
2. 24.6 TWh -of electricity sold in 2016 (19.6 TWh - retail sales)



## Regulated business of ENERGA Group

(GWh)	Q4 2015	Q4 2016	Growth rate	2015	2016	Growth rate
Distribution of electricity	5,452	5,442	0%	21,486	21,727	1%
Gross production of electricity:	964	1,231	28%	4,136	3,945	-5%
RES*	426	169	-60%	1,743	529	-70%
from Pumped storage plant in Żydowo	15	12	-20%	37	33	-10%
from Must-run - ENERGA Elektrownie Ostrołęka**	394	535	36%	2,038	1,836	-10%
Retail sales of electricity:	4,423	5,262	19%	16,767	19,628	17%
Tariff Group G	1,231	1,450	18%	5,240	5,549	6%

### Regulatory business contribution per Segments\*\*\*



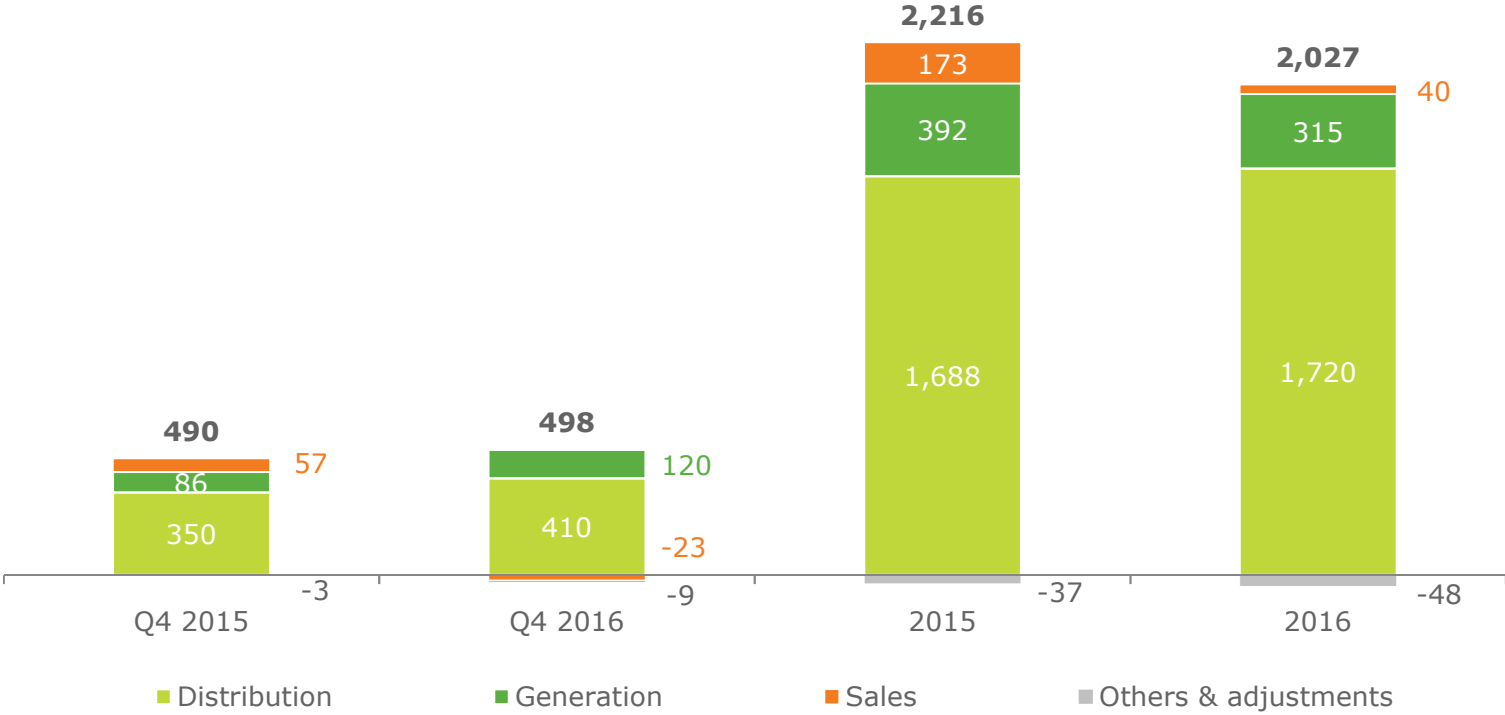
\* including loss of support for the Hydropower Plant in Włocławek

\*\* including RES production from biomass

\*\*\* Based on volumes on energy electricity

# ENERGA Group EBITDA structure

**EBITDA (PLN m)**





## Summary of Q4 2016

PLN m	Distribution			Sales			Generation		
	Q4 2015	Q4 2016	Growth rate	Q4 2015	Q4 2016	Growth rate	Q4 2015	Q4 2016	Growth rate
Revenues	1,118	1,066	-5%	1,543	1,608	4%	332	352	6%
<b>EBITDA</b>	<b>350</b>	<b>410</b>	<b>17%</b>	<b>57</b>	<b>-23</b>	<b>&lt;-100%</b>	<b>86</b>	<b>120</b>	<b>40%</b>
<i>EBITDA margin</i>	<i>31.3%</i>	<i>38.5%</i>	<i>Δ 7.2 p.p.</i>	<i>3.7%</i>	<i>-1.4%</i>	<i>Δ -5.1 p.p.</i>	<i>25.9%</i>	<i>34.1%</i>	<i>Δ 8.2 p.p.</i>
EBIT	168	220	31%	47	-39	<-100%	33	-62	<-100%
<b>Net profit</b>	<b>104</b>	<b>151</b>	<b>45%</b>	<b>35</b>	<b>-30</b>	<b>&lt;-100%</b>	<b>17</b>	<b>-28</b>	<b>&lt;-100%</b>
<i>Net profit margin</i>	<i>9.3%</i>	<i>14.2%</i>	<i>Δ 4.9 p.p.</i>	<i>2.3%</i>	<i>-1.9%</i>	<i>Δ -4.1 p.p.</i>	<i>5.1%</i>	<i>-8.0%</i>	<i>Δ -13.1 p.p.</i>
CAPEX	404	388	-4%	19	16	-16%	147	64	-56%

PLN m	Generation business lines, including:											
	Water			Wind			Elektrownia Ostrołęka			CHP		
	Q4 2015	Q4 2016	Growth rate	Q4 2015	Q4 2016	Growth rate	Q4 2015	Q4 2016	Growth rate	Q4 2015	Q4 2016	Growth rate
Revenues	49	53	8%	35	28	-20%	190	215	13%	58	66	14%
<b>EBITDA</b>	<b>23</b>	<b>26</b>	<b>15%</b>	<b>27</b>	<b>15</b>	<b>-45%</b>	<b>33</b>	<b>71</b>	<b>&gt;100%</b>	<b>18</b>	<b>15</b>	<b>-17%</b>
<i>EBITDA margin</i>	<i>46.9%</i>	<i>49.8%</i>	<i>Δ 2.9 p.p.</i>	<i>76.9%</i>	<i>52.8%</i>	<i>Δ -24.1 p.p.</i>	<i>17.3%</i>	<i>32.9%</i>	<i>Δ 15.6 p.p.</i>	<i>30.8%</i>	<i>22.5%</i>	<i>Δ -8.3 p.p.</i>
EBIT	15	18	23%	15	3	-80%	11	-86	<-100%	9	3	-64%
CAPEX	3	8	>100%	0	1	-	62	38	-39%	12	10	-11%

## Summary of 2016

PLN m	Distribution			Sales			Generation		
	2015	2016	Growth rate	2015	2016	Growth rate	2015	2016	Growth rate
Revenues	4,255	4,143	-3%	5,740	5,626	-2%	1,384	1,140	-18%
<b>EBITDA</b>	<b>1,688</b>	<b>1,720</b>	<b>2%</b>	<b>173</b>	<b>40</b>	<b>-77%</b>	<b>392</b>	<b>315</b>	<b>-20%</b>
<i>EBITDA margin</i>	39.7%	41.5%	Δ 1.8 p.p.	3.0%	0.7%	Δ -2.3 p.p.	28.3%	27.6%	Δ -0.7 p.p.
EBIT	977	984	1%	138	-3	<-100%	207	-441	<-100%
<b>Net profit</b>	<b>667</b>	<b>703</b>	<b>5%</b>	<b>119</b>	<b>-2</b>	<b>&lt;-100%</b>	<b>115</b>	<b>-303</b>	<b>&lt;-100%</b>
<i>Net profit margin</i>	15.7%	17.0%	Δ 1.3 p.p.	2.1%	0.0%	Δ -2.1 p.p.	8.3%	-26.6%	Δ -34.9 p.p.
CAPEX	1,123	1,263	12%	58	92	59%	392	248	-37%

PLN m	Generation business lines, including:											
	Water			Wind			Elektrownia Ostrołęka			CHP		
	2015	2016	Growth rate	2015	2016	Growth rate	2015	2016	Growth rate	2015	2016	Growth rate
Przychody ze sprzedaży	247	180	-27%	112	69	-39%	844	715	-15%	188	197	5%
<b>EBITDA</b>	<b>155</b>	<b>93</b>	<b>-40%</b>	<b>73</b>	<b>26</b>	<b>-64%</b>	<b>149</b>	<b>152</b>	<b>3%</b>	<b>39</b>	<b>41</b>	<b>4%</b>
<i>EBITDA margin</i>	62.6%	51.9%	Δ -10.6 p.p.	65.3%	37.8%	Δ -27.6 p.p.	17.6%	21.3%	Δ 3.7 p.p.	21.0%	20.8%	Δ -0.1 p.p.
EBIT	124	61	-51%	29	-279	<-100%	88	-56	<-100%	6	3	-45%
CAPEX	15	12	-21%	9	1	-91%	175	182	4%	40	20	-49%

## Structure of cost by nature – ENERGA Group

Expenses by nature (PLN m)	Q4 2015	Q4 2016	2015	2016
Depreciation of property, plant and equipment, intangible assets and investment property	238	253	916	957
Materials and energy used	216	235	832	651
External services	428	381	1 434	1 400
Taxes and fees	89	101	377	393
Employee benefits expenses	256	216	913	873
Impairment	18	162	59	533*
Other expenses	20	10	-26	-23
Value of merchandise and raw materials	1,305	1,273	4,960	4,718
<b>Total operating expenses</b>	<b>2,570</b>	<b>2,632</b>	<b>9,466</b>	<b>9,502</b>
of which:				
Cost of sales	2,374	2,459	8,786	8,846
Selling expenses	98	95	336	338
General and administrative expenses	98	78	344	318

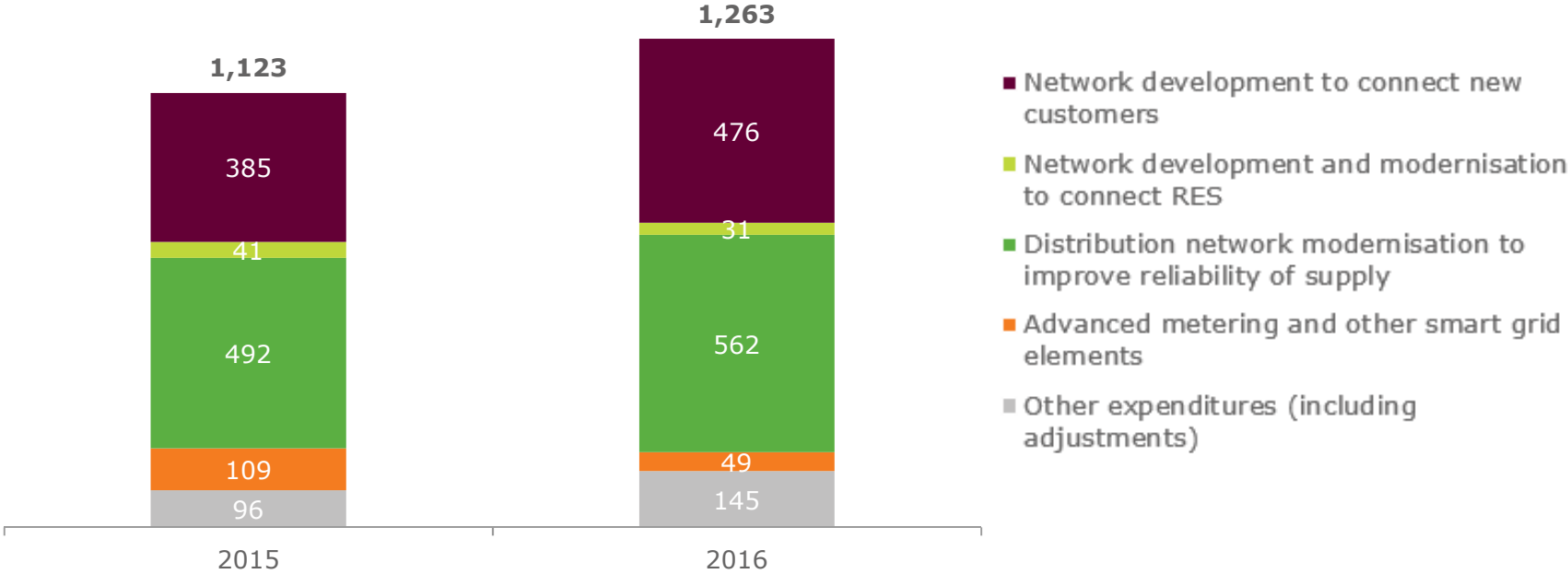
\*goodwill write-off made in 2016 was recognized in other operating expenses

## Structure of cost by nature – Distribution Segment

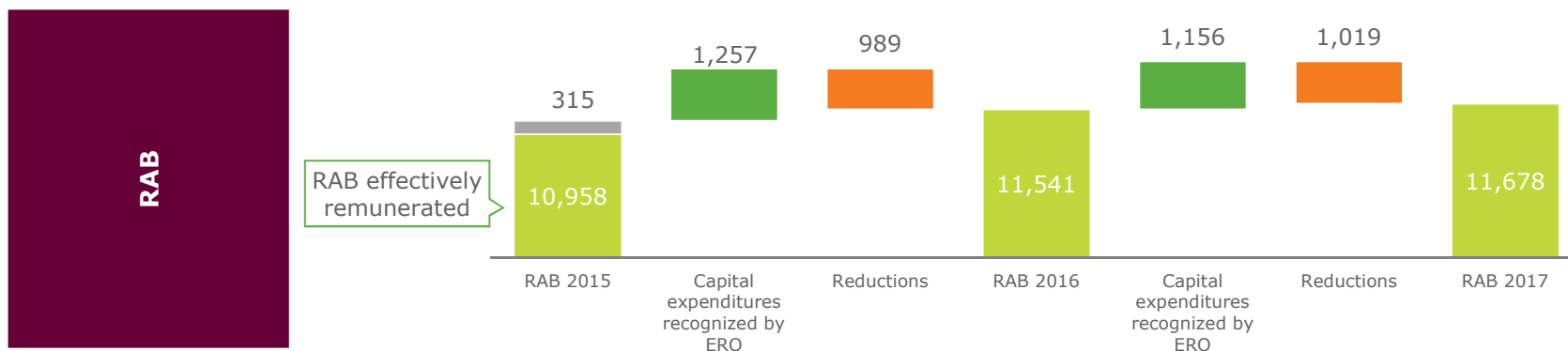
Expenses by nature (PLN m)	Q4 2015	Q4 2016	2015	2016
Depreciation of property, plant and equipment, intangible assets and investment property	182	191	711	736
Materials and energy used	91	138	291	334
incl. fuel used for balance difference	80	74	256	251
External services	370	327	1,267	1,228
incl. transmission and transit fees	236	236	933	950
Taxes and fees	68	72	276	286
Employee benefits expenses	158	121	570	525
Impairment	3	2	9	29
Other expenses	6	-6	-72	-61
Value of merchandise and raw materials	46	-30	155	52
<b>Total operating expenses</b>	<b>921</b>	<b>816</b>	<b>3,207</b>	<b>3,129</b>
of which:				
Cost of sales	856	761	2,972	2,910
Selling expenses	22	17	77	71
General and administrative expenses	43	38	158	148

# Current Distribution Capex structure

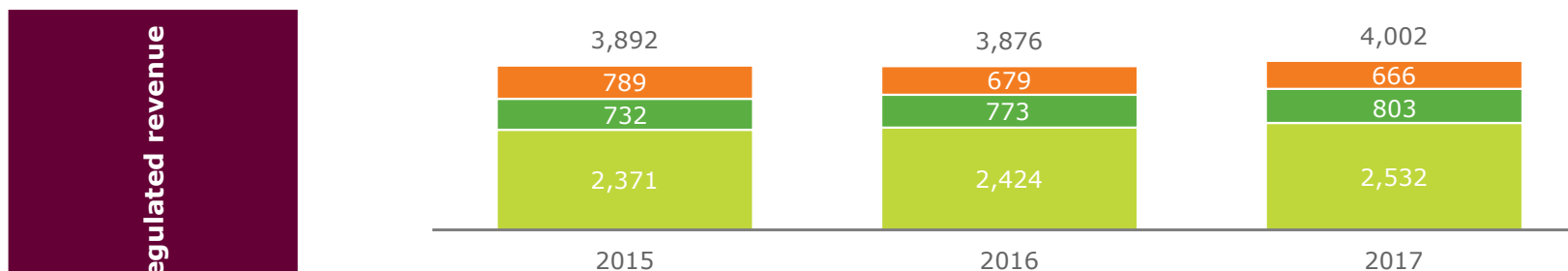
PLN m



# Regulatory Asset Base



		2015	2016	2017
Return on RAB	WACC	7.20%	5.68%	5.63%
	Risk free rate	3.96%	2.95%	2.91%
	Q (quality coefficient)	-	-	-
	RC (regulatory coefficient)	-	1.00	0.99
	Return on capital based on RAB	830	679	673
	Allowed return on capital	789*	679	666
Effective return on RAB	7.00%	5.88%	5.71%	



■ Other costs ■ Depreciation ■ RAB return

## Structure of cost by nature – Sales Segment

Expenses by nature (PLN m)	Q4 2015	Q4 2016	2015	2016
Depreciation of property, plant and equipment, intangible assets and investment property	9	12	34	39
Materials and energy used	15	13	52	32
External services	52	47	164	151
Taxes and fees	2	3	12	12
Employee benefits expenses	40	35	129	132
Impairment	8	17	31	38
Other expenses	10	9	33	31
Value of merchandise and raw materials	1,363	1,466	5,161	5,147
<b>Total operating expenses</b>	<b>1,500</b>	<b>1,602</b>	<b>5,616</b>	<b>5,581</b>
of which:				
Cost of sales	1,423	1,534	5,382	5,337
Selling expenses	64	60	195	214
General and administrative expenses	13	8	39	30

## Key operating data of the Sales Segment

	Q4 2015	Q4 2016	Growth rate	2015	2016	Growth rate
Electricity sales by Sales Segment (GWh)	6,848	7,156	4%	25,658	24,602	-4%
<i>inc. retail sales</i>	4,423	5,262	19%	16,767	19,628	17%
Average selling price of electricity (PLN/MWh)	218.9	219.4	0%	219.7	224.3	2%
Cost of electricity purchase (PLN m)	1,184	1,243	5%	4,467	4,283	-4%
Cost of electricity purchase with certificates of origin (PLN m)	1,323	1,429	8%	5,050	4,978	-1%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	172.9	173.8	1%	174.1	174.1	0%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	193.1	199.7	3%	196.8	202.3	3%
Variable margin*	7.3%	4.3%	Δ -3 p.p.	5.8%	4.5%	Δ -1.4 p.p.

\* Variable margin calculated as the ratio of the result on electricity sold to revenues on electricity sold.

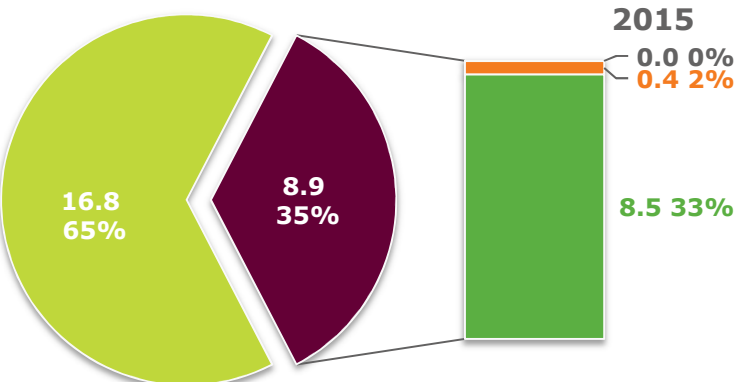
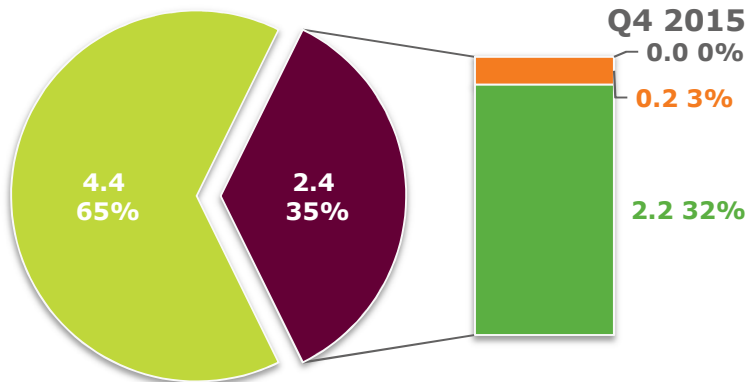
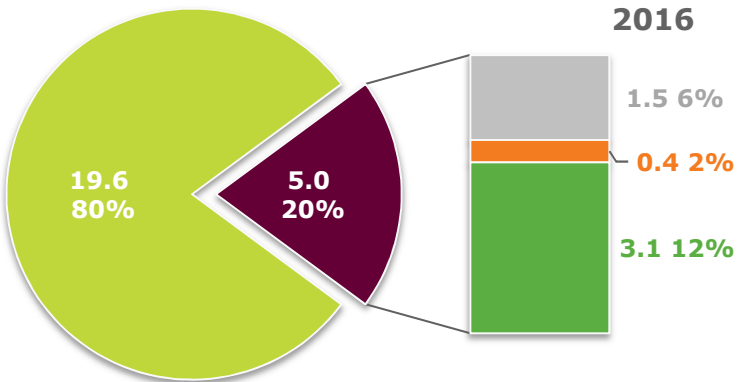
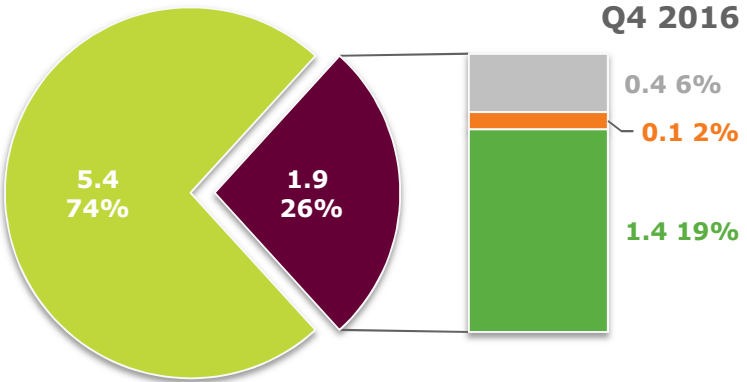
Purchase of electricity by the Sales Segment (TWh)	Q4 2015	Q4 2016	Growth rate	2015	2016	Growth rate
Electricity purchases from ENERGA Group generators	409	534	30%	1,835	1,834	0%
Electricity purchases on the wholesale market – exchange	2,576	3,089	20%	8,946	10,989	23%
Electricity purchases on the wholesale market – other	3,829	3,345	-13%	14,076	10,999	-22%
Electricity purchases on the balancing market	35	186	>100%	800	779	-3%
<b>Total electricity purchase</b>	<b>6,850</b>	<b>7,155</b>	<b>4%</b>	<b>25,657</b>	<b>24,600</b>	<b>-4%</b>



# Sales of energy by the Sales Segment

**Electricity sales volume in Q4\***

**Electricity sales volume in 12M\***

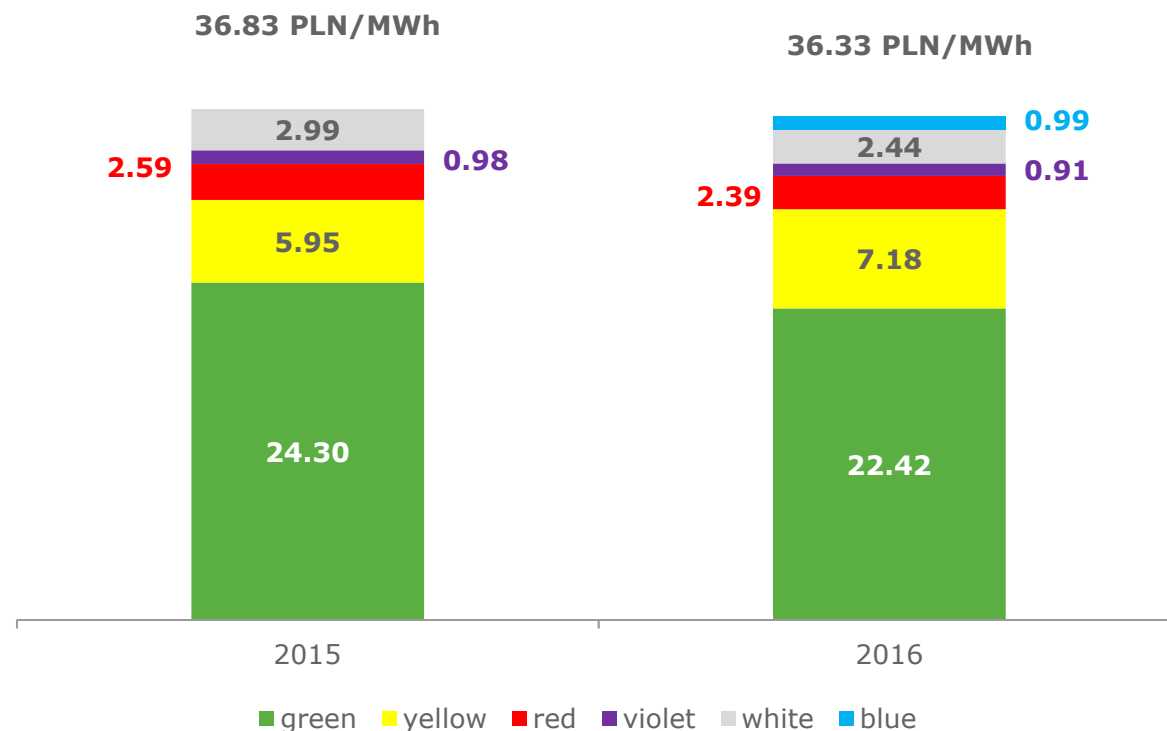


- Retail Sales
- Wholesale sales
- Sales to cover network losses to ENERGA-OPERATOR SA
- Sales to the balancing market
- Other wholesales trade

\* Sales by the Sales Segment



# Cost of property rights redemption per 1 MWh and its structure in Sales Segment\*



As of 1 July 2016, a new obligation was introduced for H2 2016 referred to as blue certificates (0.65%) while the obligation concerning green certificates was scaled down (from 15% in H1 2016 to 14.35% in H2 2016.)

\* in relation to the volume of electricity sold to final customers governed by the "coloring"

## Structure of cost by nature – Generation Segment

Expenses by nature (PLN m)	Q4 2015	Q4 2016	2015	2016
Depreciation of property, plant and equipment, intangible assets and investment property	47	50	168	183
Materials and energy used	113	100	496	335
incl. fuel used	99	86	448	298
External services	36	35	123	109
Taxes and fees	17	25	79	92
Employee benefits expenses	40	42	145	143
Impairment	6	139	17	461
Other expenses	5	4	12	8
Value of merchandise and raw materials	28	27	136	141
<b>Total operating expenses</b>	<b>291</b>	<b>421</b>	<b>1,177</b>	<b>1,471</b>
of which:				
Cost of sales	271	403	1,102	1,394
Selling expenses	1	1	2	1
General and administrative expenses	20	18	73	76

## Key operational data

Consumption of fuels	Q4 2015	Q4 2016	Growth rate	Growth rate (%)	2015	2016	Growth rate	Growth rate (%)
<b>Coal</b>								
Quantity (000s tons)	261.2	400.5	139.3	53%	1,156.7	1,287.7	131.0	11%
Cost* (PLN m)	62.3	84.0	21.7	35%	283.8	282.8	-1.0	0%
Cost per unit (PLN/ton)	238.6	209.8	-28.8	-12%	245.4	219.6	-25.7	-10%
Cost per unit (PLN/MWh)**	74.8	69.0	-5.8	-8%	85.5	74.7	-10.8	-13%
<b>Biomass</b>								
Quantity (000s tons)	94.8	1.1	-93.8	-99%	406.4	30.1	-376.4	-93%
Cost* (PLN m)	35.7	0.4	-35.4	-99%	160.8	11.0	-149.8	-93%
Cost per unit (PLN/ton)	376.5	333.5	-43.1	-11%	395.7	366.3	-29.3	-7%
Cost per unit (PLN/MWh)**	193.6	150.8	-42.7	-22%	214.7	133.9	-80.9	-38%

\* Including cost of transport

\*\* In relation to the total production of electricity and heat

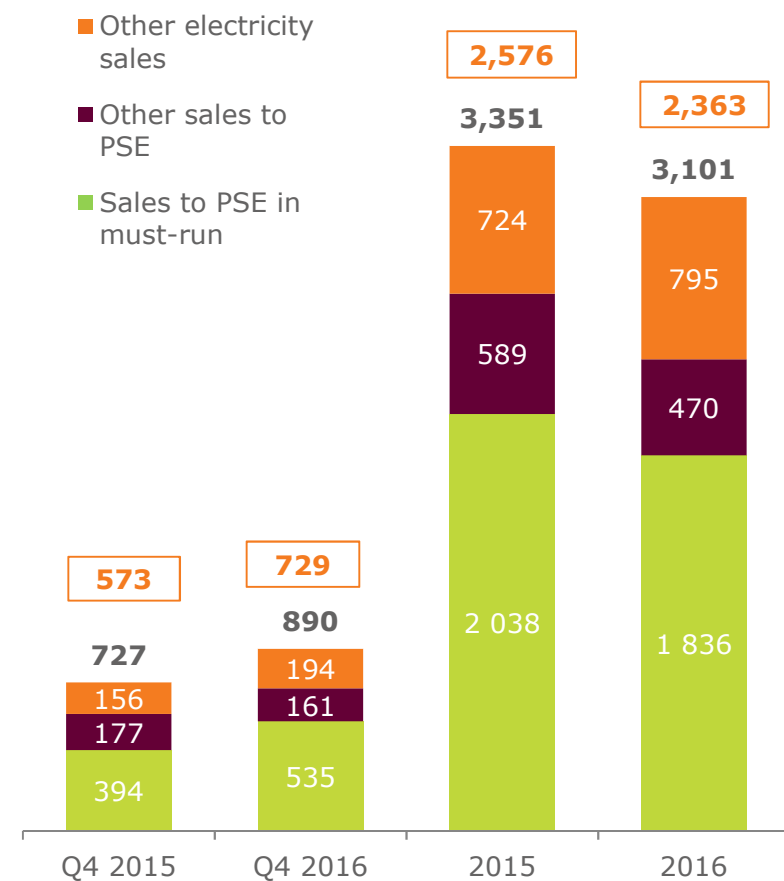
CO <sub>2</sub> emission allowances in Generation Segment	Q4 2015	Q4 2016	2015	2016
<b>CO<sub>2</sub> emission allowances (thous. tons CO<sub>2</sub>), incl.:</b>	<b>536</b>	<b>804</b>	<b>2,349</b>	<b>2,640</b>
The amount of free CO <sub>2</sub> emission allowances *	363	287	1,408	1,084
Volume of emission allowances purchased	173	518	941	1,556
<b>Cost of CO<sub>2</sub> purchase (PLN m)</b>	<b>7.7</b>	<b>13.0</b>	<b>33.4</b>	<b>43.3</b>

\* The number of allocated free emission allowances is calculated in proportion to the passage of time

# Key operating data of ENERGA Elektrownie Ostrołęka

## Sales structure (GWh)

□ - own net production

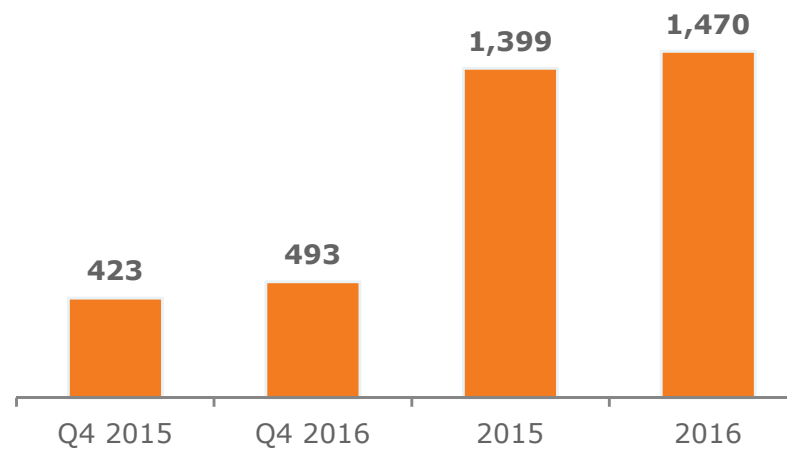


## Fuels consumption volumes and costs in 2016

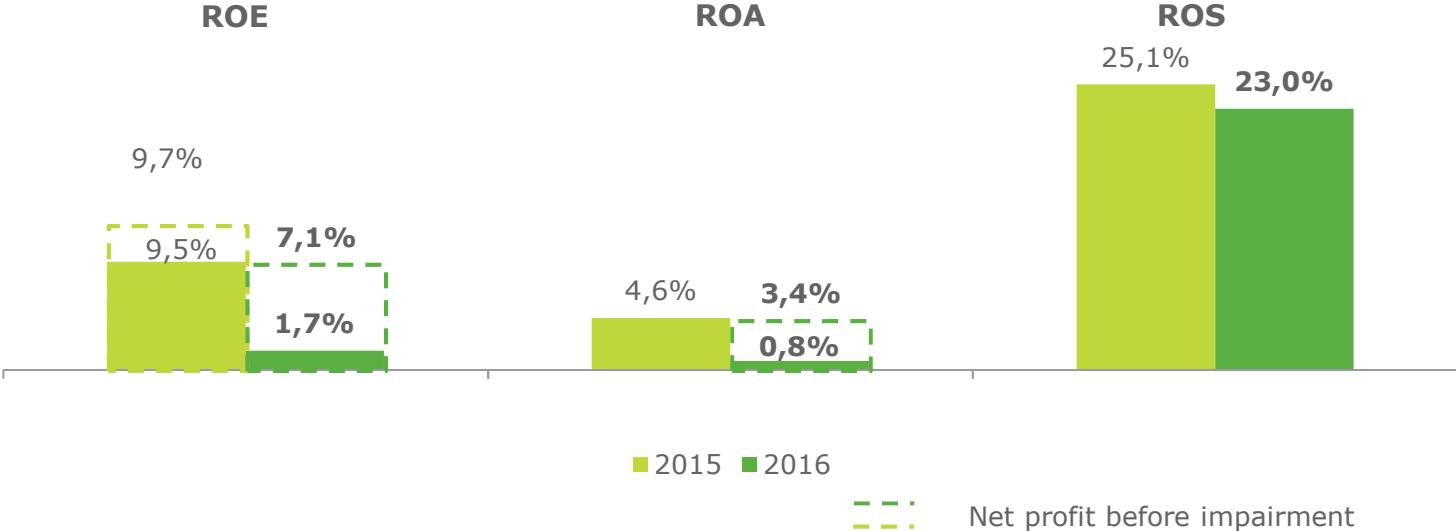
	Unit	Coal	Biomass*
Total consumption	(000s tons)	1,123.5	6.7
Consumption cost per unit	(PLN/ton)	218.4	340.0
Total fuel cost	(PLN m)	245.4	2.3

\* The absence of biomass cofiring is linked to the construction of a dedicated installation during the renovation of the power generation unit in Ostrołęka.

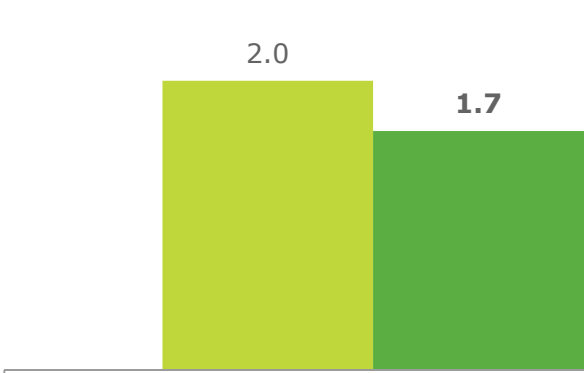
## Gross heat production (TJ)



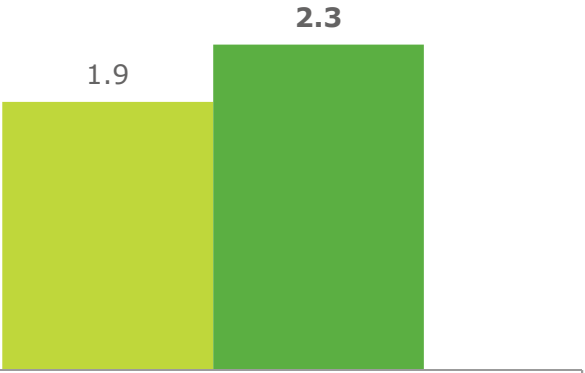
# Profitability and liquidity ratios



## Current Ratio

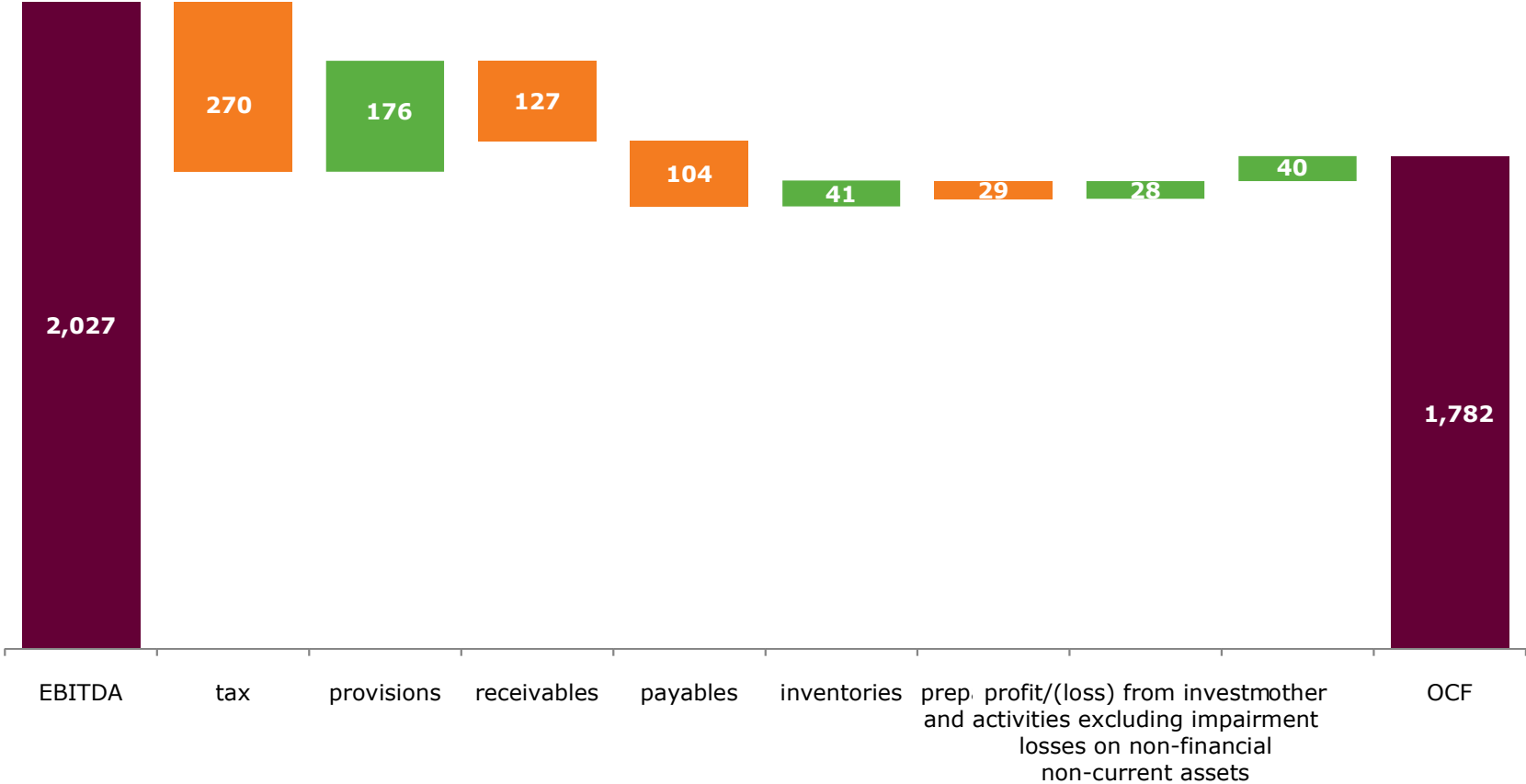


## Net debt/EBITDA



■ 31 December 2015 ■ 31 December 2016

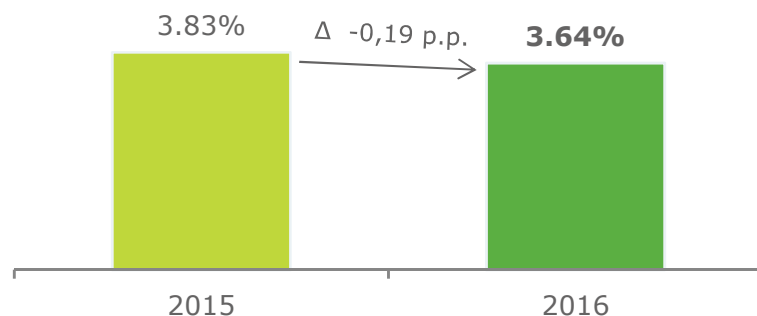
# Cash flow from operating activities



\*excluding impairment losses on non-financial non-current assets

# ENERGA Group's average cost of debt

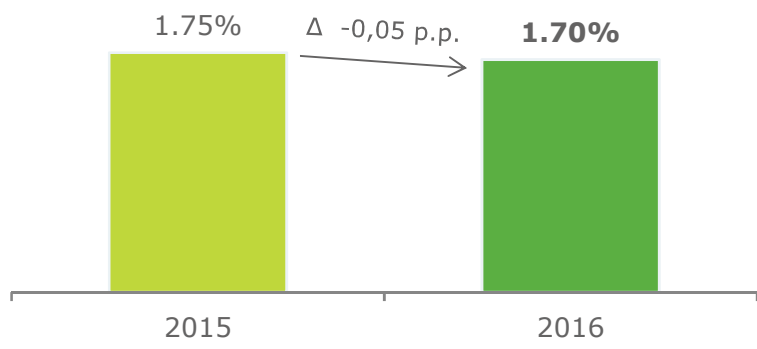
## ENERGA Group's average cost of debt



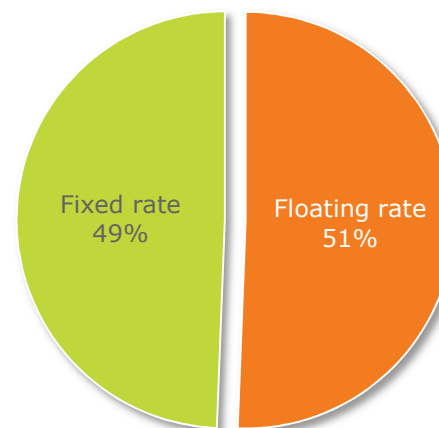
### Main drivers:

- Dip in the average WIBOR 3M rate by 0.05 p.p. in 2016 compared to its average in 2015.
- 2-year and 4-year hedging transactions to secure the cost of debt connected with the financing of ENERGA-OPERATOR's project in the total amount of PLN 850 m and based on the floating WIBOR 3M rate converted to an average weighed for transactions concluded below the current WIBOR 3M rate.

## Average WIBOR 3M



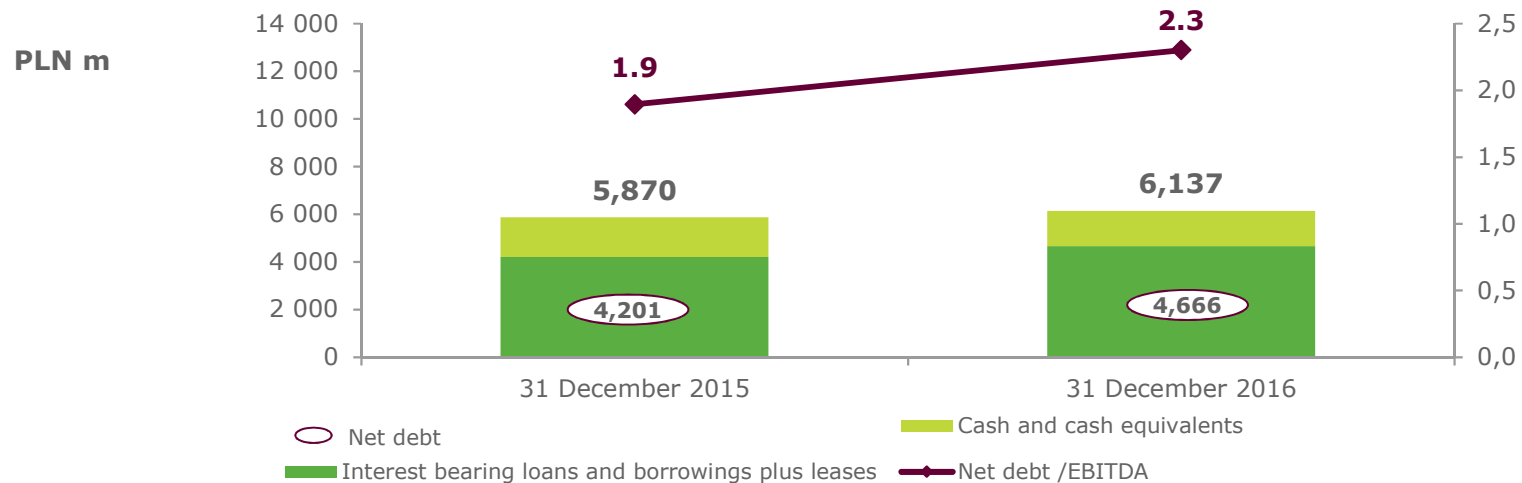
## Structure of financing as at 31.12.2016





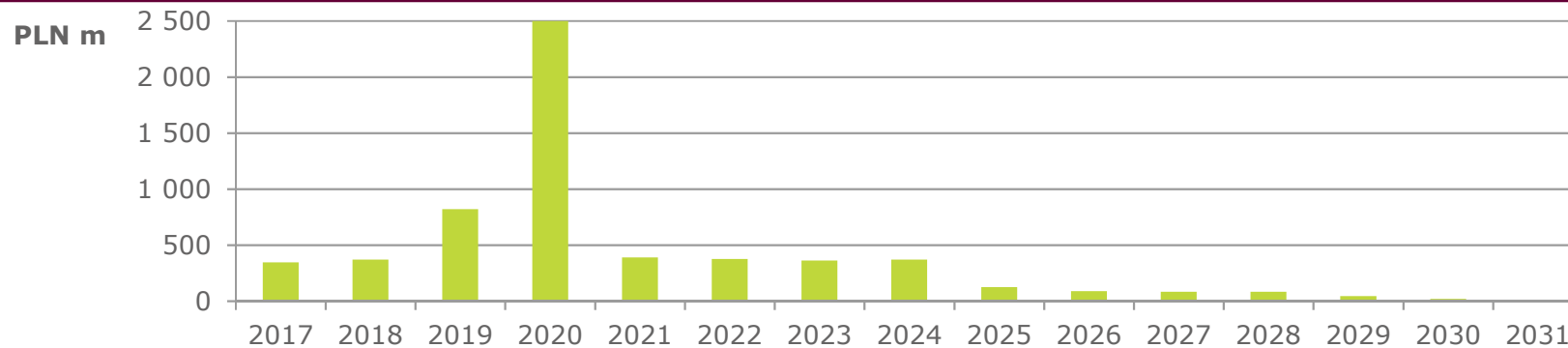
# Financial security

## Net debt/ EBITDA ENERGA Group



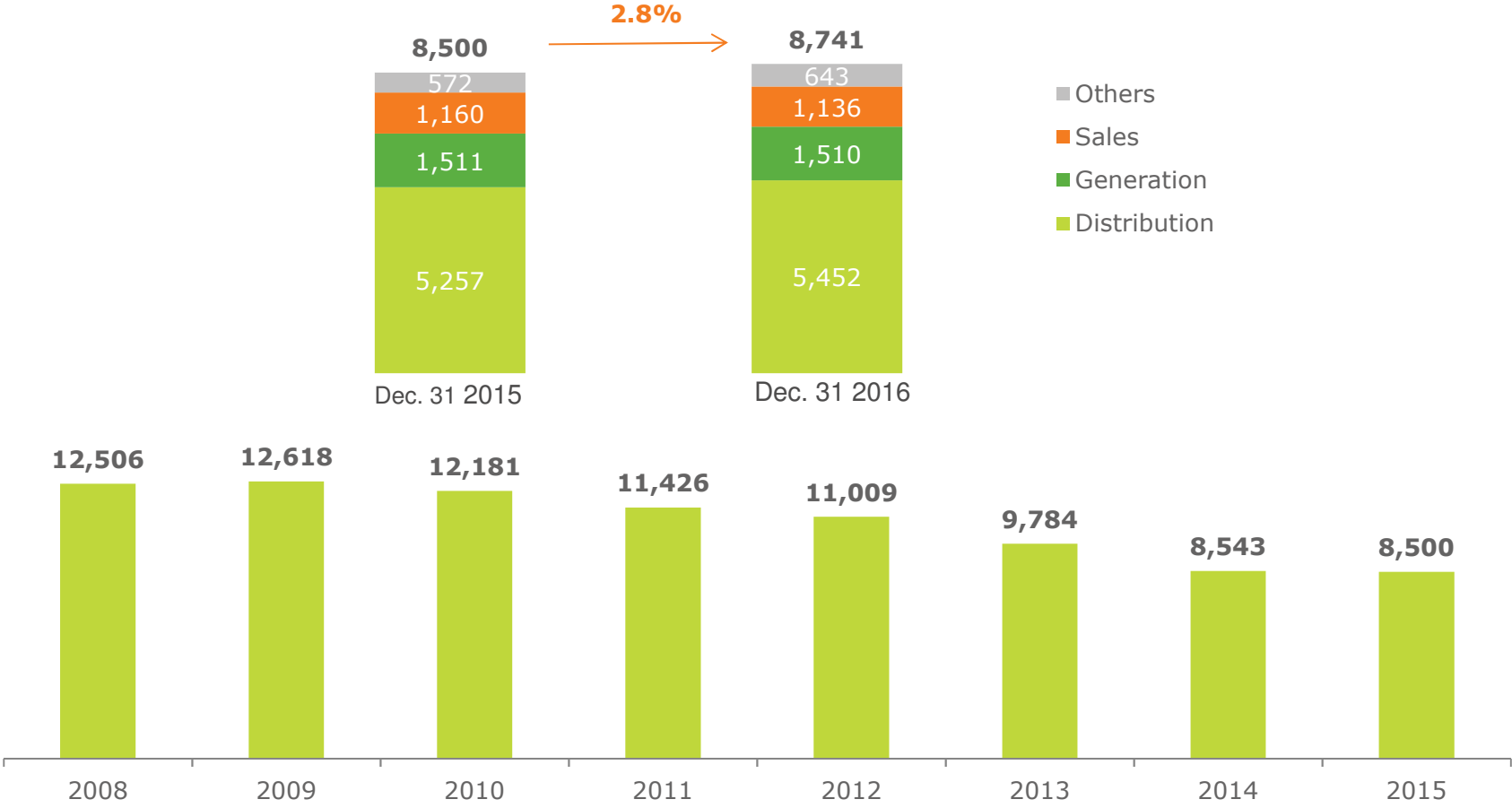
Commencing with Q1 2016 the definition of EBITDA used by the Company has been modified as follows: operating profit/loss plus depreciation and amortization and impairment losses on non-financial non-current assets. This change aims above all to enhance transparency and simplify analyses by ensuring comparability of the key parameter used in the industry in which the Issuer and its group operate.

## Debt maturities



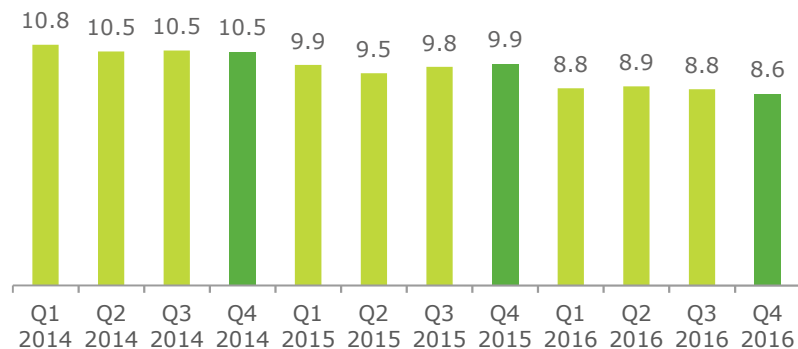
# Headcount in the ENERGA Group

## Headcount – end of period



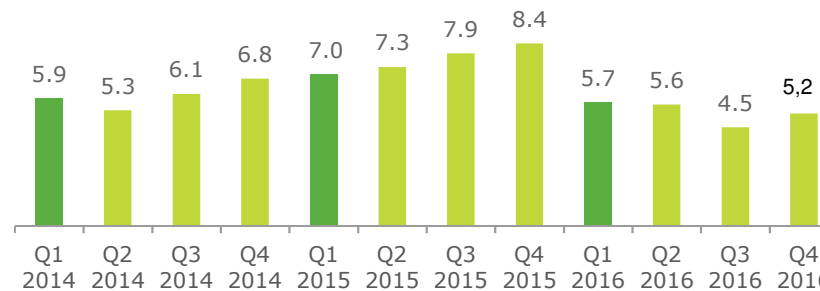
# Key market data

Coal [PLN/GJ]



\* Source: Polish coal market

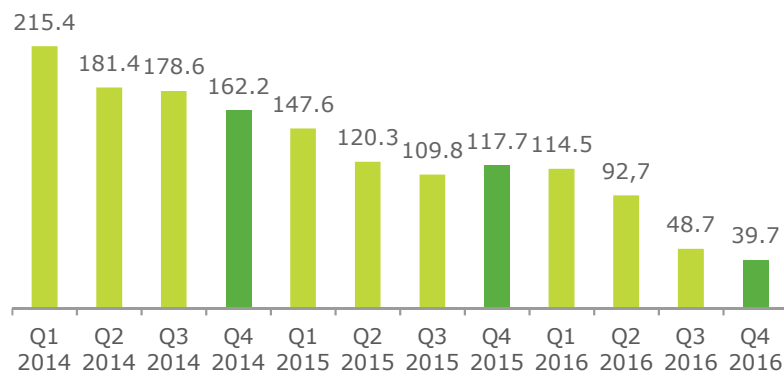
EUA - CO2 emission rights [EUR/t]



\*\* Source: Bloomberg

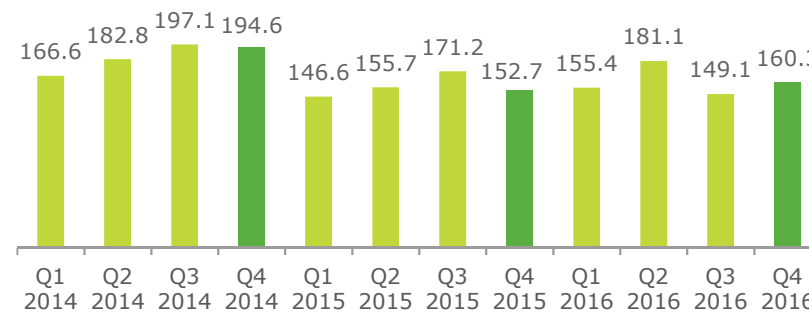
## Average electricity and green certificates prices on TGE (PLN/MWh)

Green certificates - PMOZE\_A (spot)



\*\*\* Source: Polish Power Exchange

Electricity (spot)



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