

# ENERGA Group's financial results

## Q1 2017

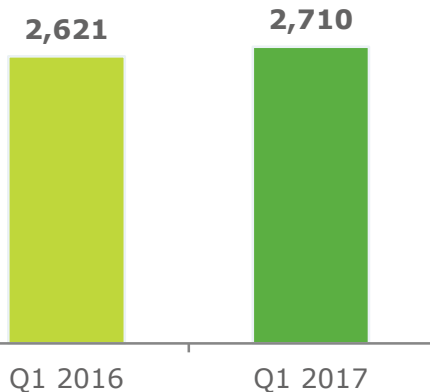


10 May 2017

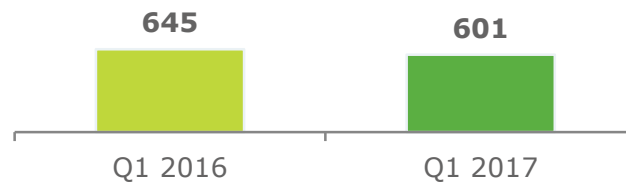
# Distribution Segment with key contribution to ENERGA Group's results

1. Stable results of the Distribution Segment, coupled with a more difficult situation in the Sales and Generation Segments
2. Performance of the Sales Segment under pressure of increasing regulatory and contractual burdens
3. Results of the Generation Segment affected by the declining prices of property rights

Revenues (PLN m)

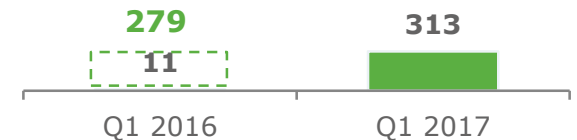


EBITDA (PLN m)



Net profit (PLN m)

□ - Net profit before impairment



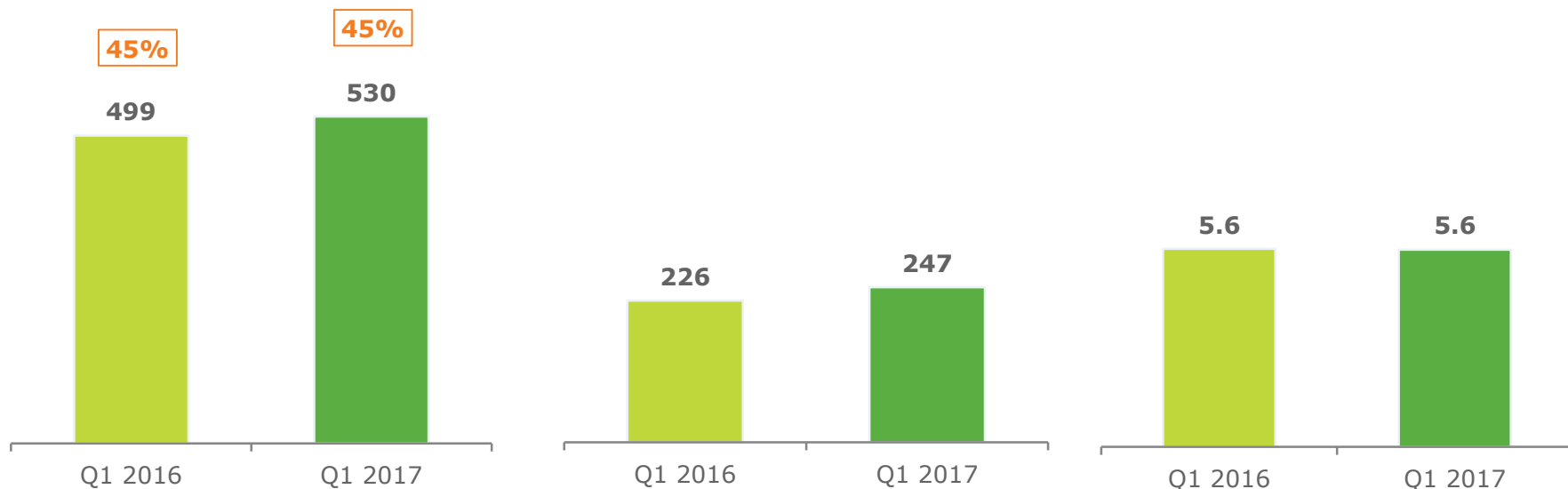
# Stable financial results in the Distribution Segment

## EBITDA (PLN m)

## Net profit (PLN m)

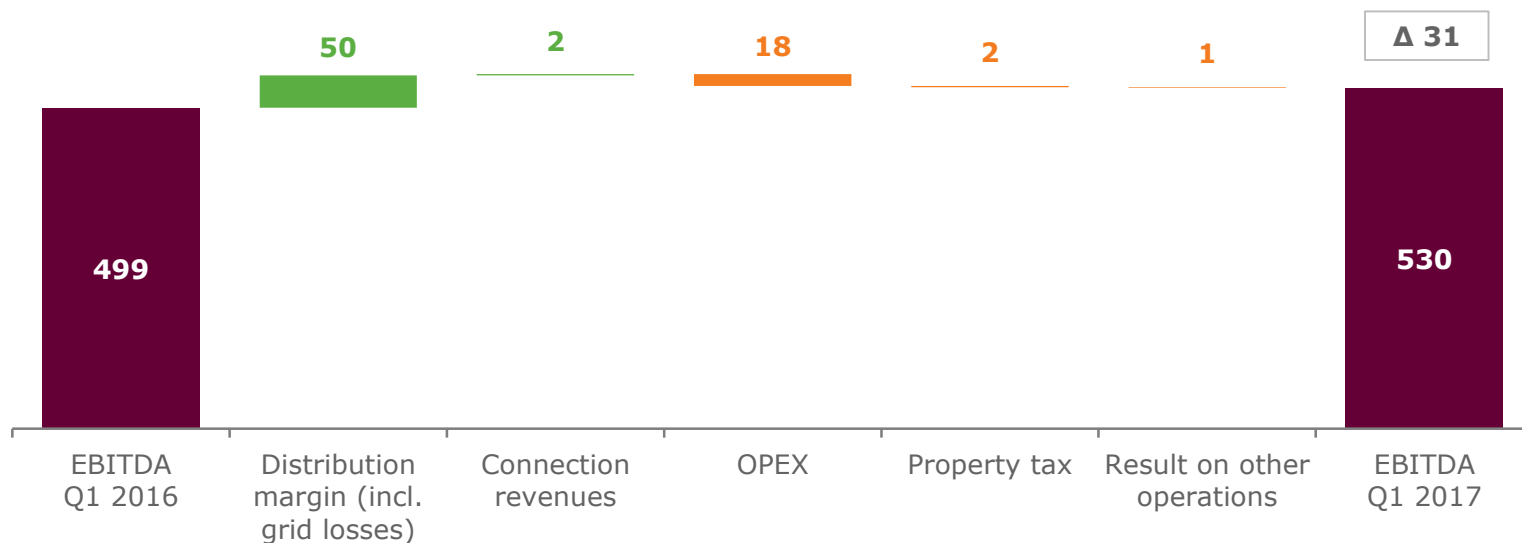
## Distribution of electricity (TWh)

□ EBITDA margin



# Stable results in the Distribution Segment

**EBITDA Bridge of Distribution Segment (PLN m)**

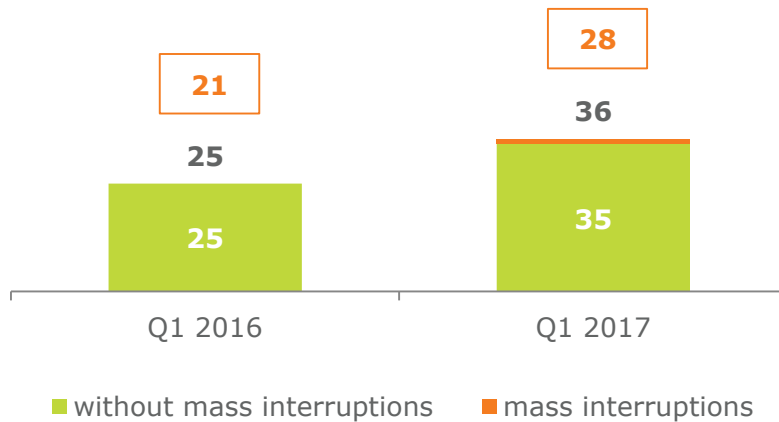


# Reliability ratios

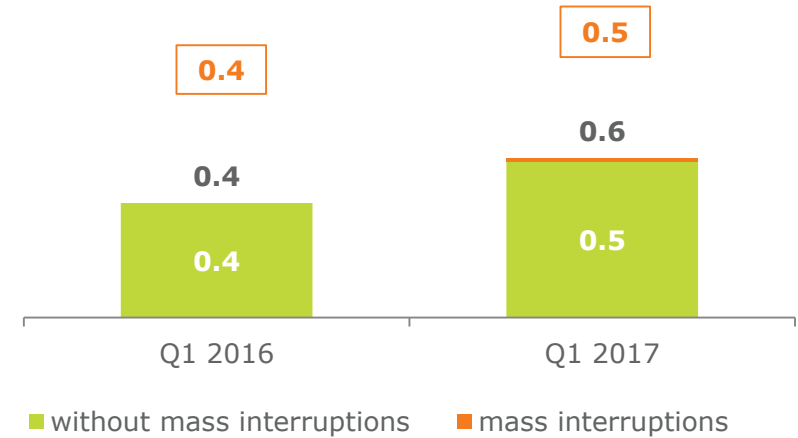
**SAIDI** (minutes per customers)

**SAIFI** (interruptions per customers)

SAIDI (planned, unplanned and catastrophic)



SAIFI (planned, unplanned and catastrophic)



□ SAIDI/SAIFI w/o mass interruptions – HV & MV

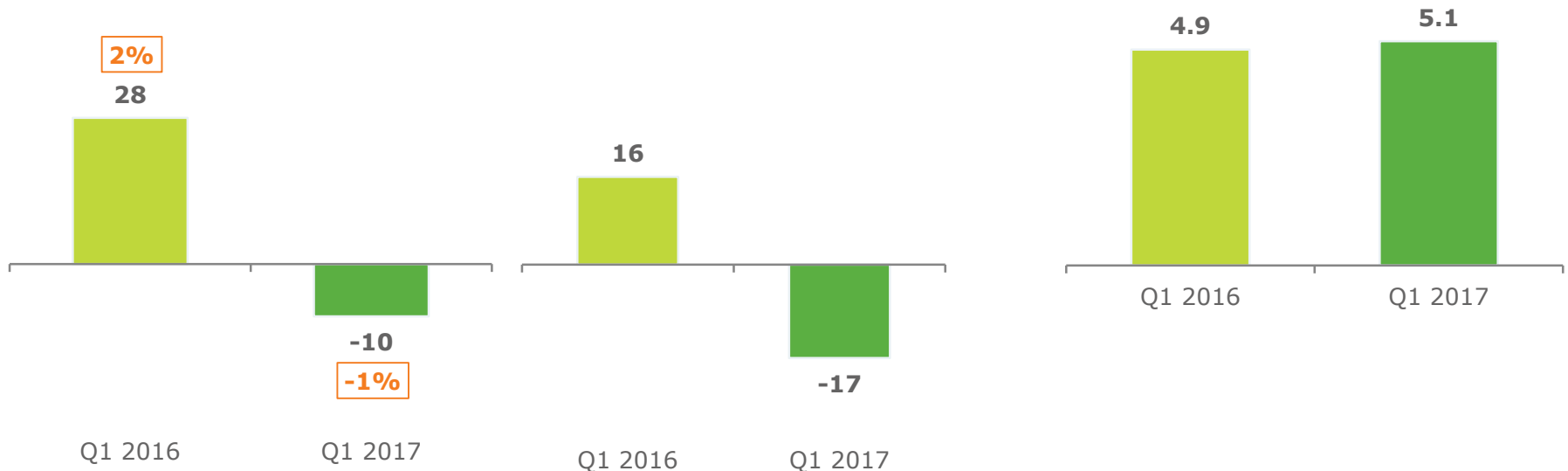
# Increased volume of sales to end-users in the Sales Segment

EBITDA (PLN m)

Net profit (PLN m)

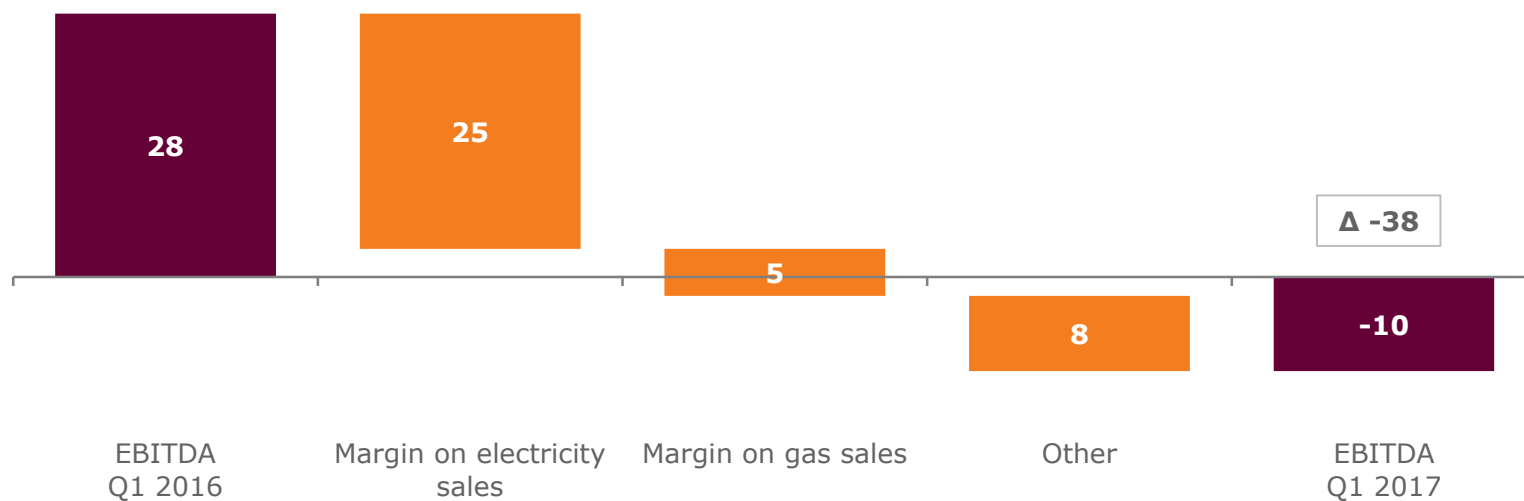
Retail sales of electricity (TWh)

□ - EBITDA margin



# Results under pressure of increasing regulatory and contractual burdens

## EBITDA Bridge of Sales Segment (PLN m)



# Result of the Generation Segment affected by declining prices of property rights and legislative changes

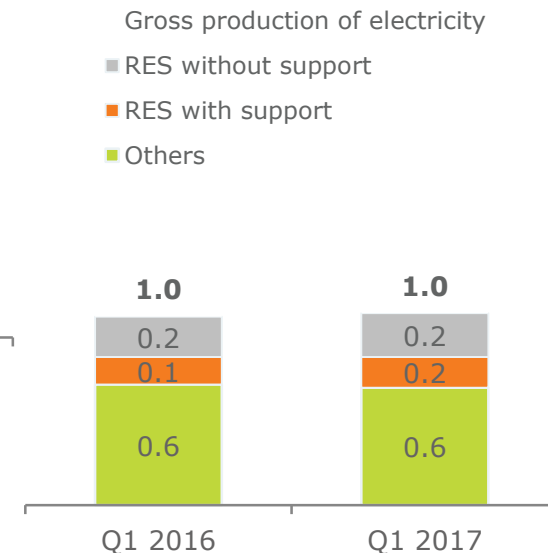
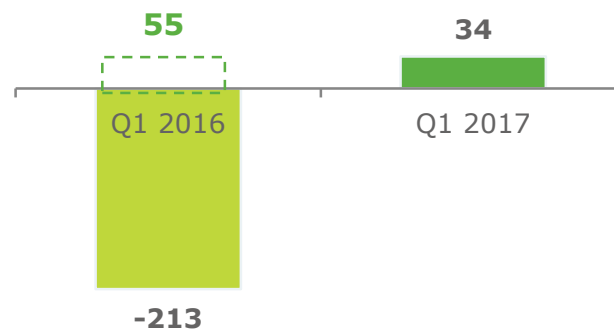
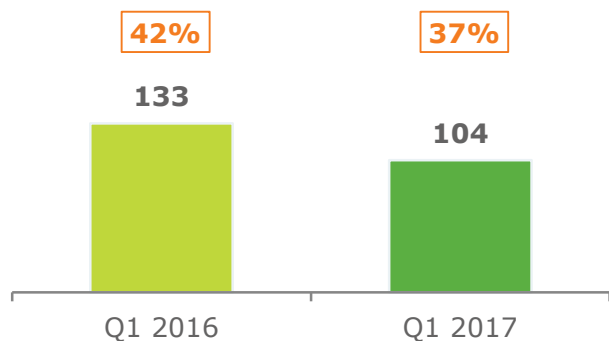
## EBITDA (PLN m)

## Net result (PLN m)

## Produkcja ee brutto (TWh)

□ - EBITDA margin

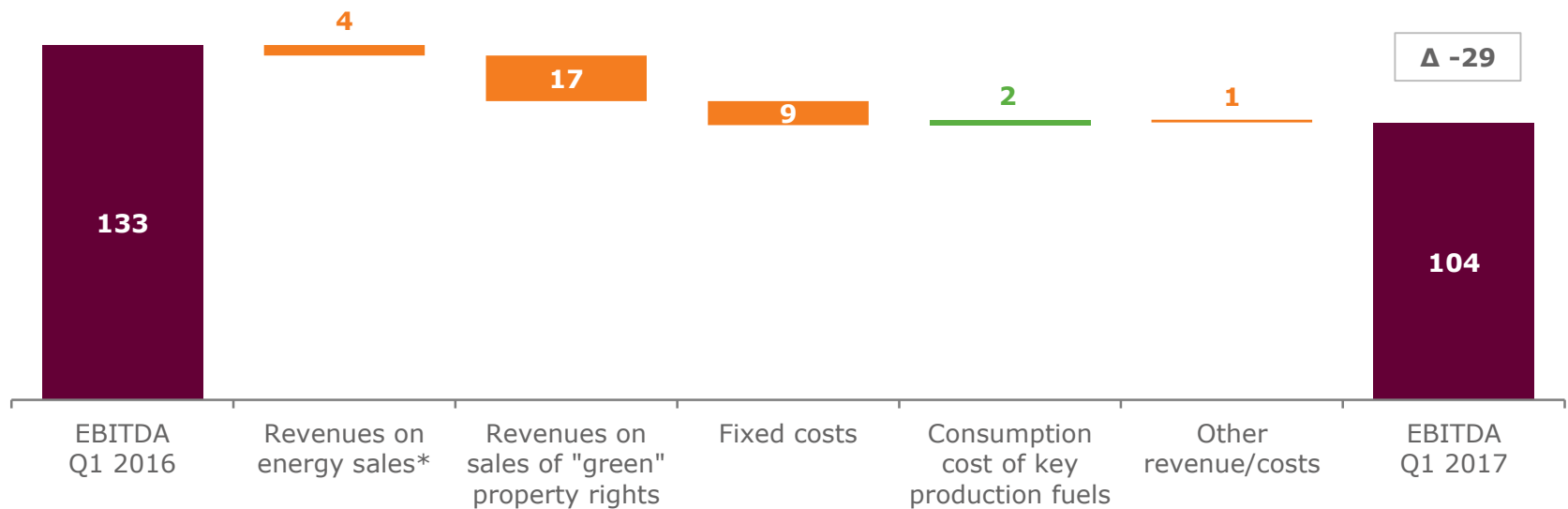
□ - Net profit before impairment





# Lower prices of green certificates

## EBITDA Bridge of Generation Segment (PLN m)

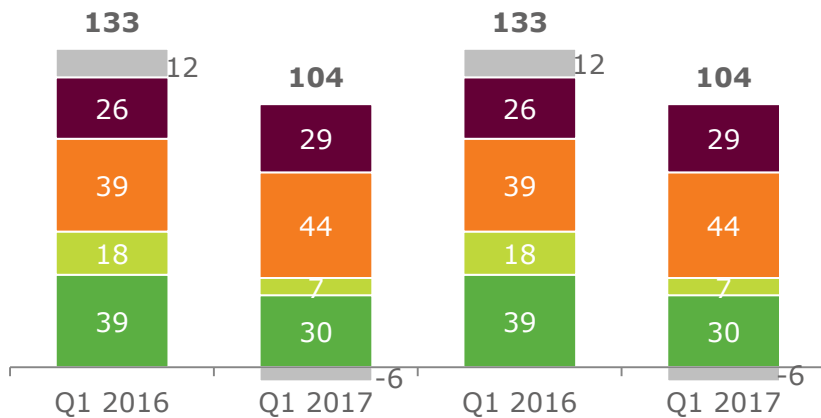


\* includes net trading of electricity (revenue less cost)

# Comparable production volumes

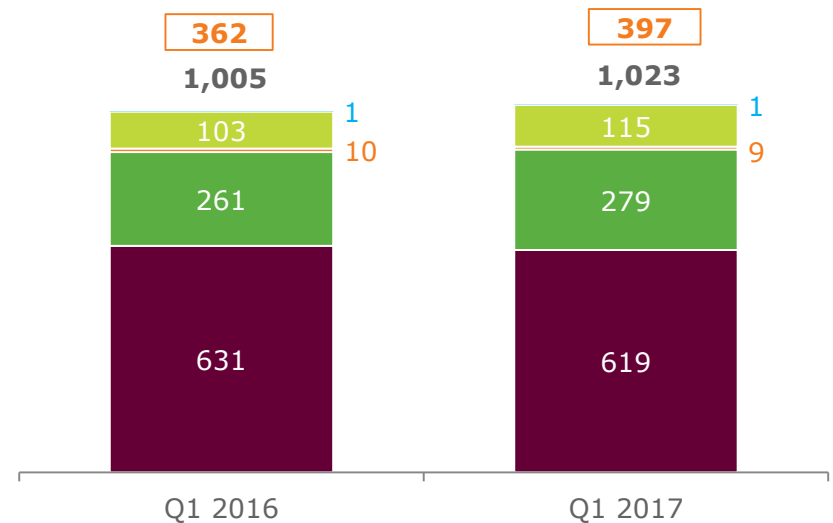
## EBITDA per business lines (PLN m)

- Hydro
- Wind
- ENERGA Elektrownia Ostrołęka
- CHP
- Other & adjustments\*



## Gross electricity production by fuel (GWh)

- Coal
  - Hydro
  - Biomass
  - Wind
  - PV
- - including RES (without pumped storage plant in Żydowo)



\*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 217 m

The ENERGA Group's total capital expenditures in Q1 2017 were **PLN 217 m**.

Major investment in the **Distribution Segment**:

- 1. PLN 77 m** grid development to facilitate connection of new customers
- 2. PLN 63 m** distribution network modernization to improve reliability of supply
- 3. PLN 4 m** other expenditures for innovative grid technologies and solutions(Smart Grid, SID)

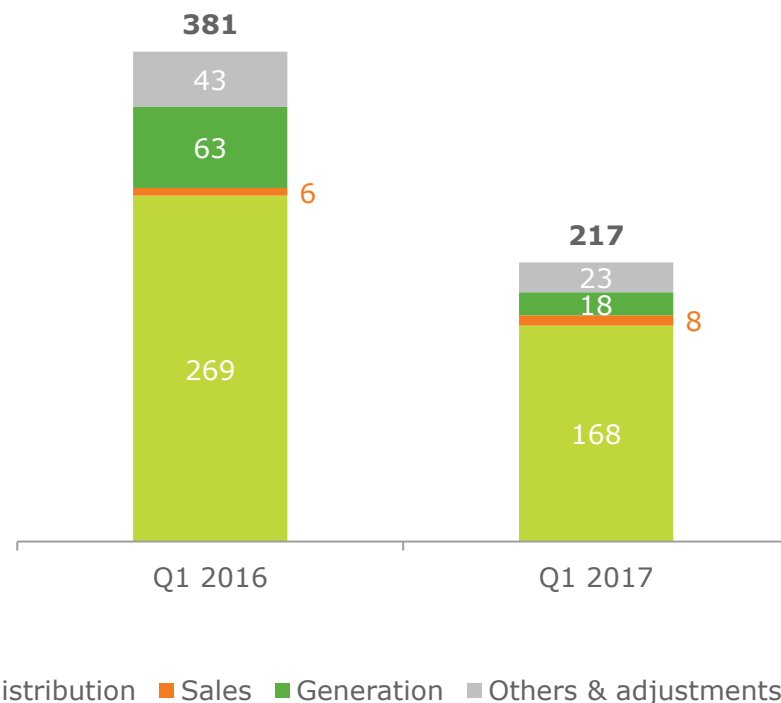
*contributed to:*

- a. 8 thous.** - new customer connections
- b. 989 km** - built and modernized LV, MV and HV lines
- c. 5 MW** - new RES connections to the network

Major investments in the **Generation Segment**:

**PLN 13 m** - the Ostrołęka Power Plant business line, including general overhaul and environmental expenditures

PLN m



# ENERGA Group performance drivers in the next quarter

**Change of the structure of distributed energy in relation to the structure set in the tariff**

**Incurring expenditures on the grid in connection with the quality regulation requirements in the Distribution Segment**

**Long-term contracts for purchase of "green" certificates based on the substitution fee in the environment of low market prices for such rights**

**Increasing competition in the electricity suppliers market**

**Impact of the function of the Obligated Offtaker and RES source balancing**

**Electricity prices on the SPOT and balancing markets**

**Must run production level at ENERGA Elektrownie Ostrołęka**

**Expected increase of coal prices**

**Prices of CO<sub>2</sub> emission allowances in the face of decreasing number of free allowances**

**Actual rate received and the operating reserve volume**

**Share in the net result of PGG and Polimex-Mostostal and the valuation of Polimex-Mostostal stock options**

**Weather and hydrometeorological conditions**

# Additional information

# ENERGA Group's key assets

## Distribution

1. 184 thous. km of power lines
2. 5.6 TWh - of electricity delivered in Q1 2017
3. Geographical coverage of 75 thous. km<sup>2</sup>

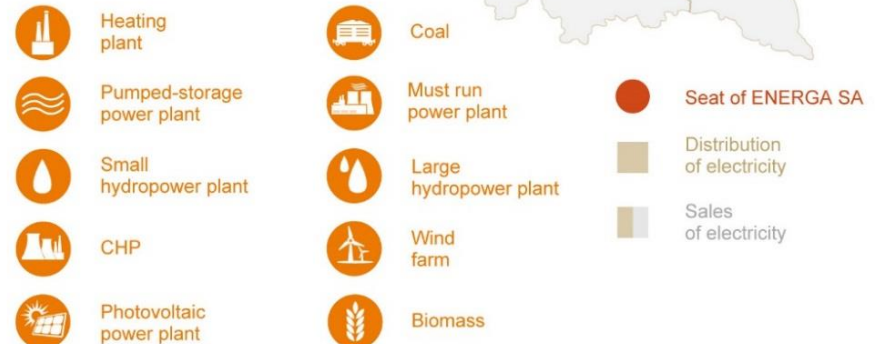
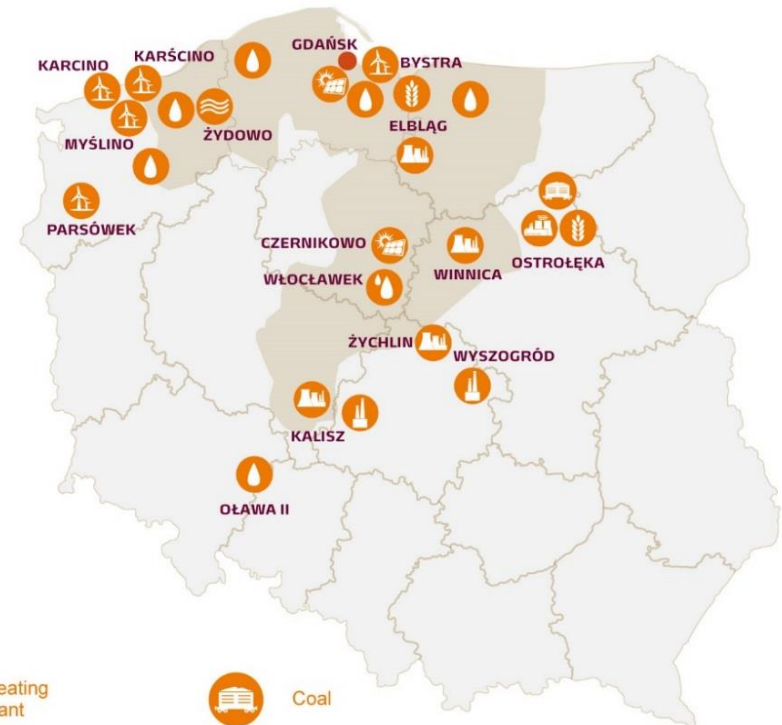
## Generation\*

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, including Karścino 90 MW)
3. System power plant in Ostrołęka B (681 MW, new heat source EEO B – 220 MWt)
4. PV farm near Gdansk (1.6 MWe) and in Czernikowo (3.8 MWe)
5. Other CHP plants (82 MW, 444 MWt)

## Sales

1. 2.9 million customers
2. 5.9 TWh – electricity sold in Q1 2017 (5.1 TWh – retail sales)

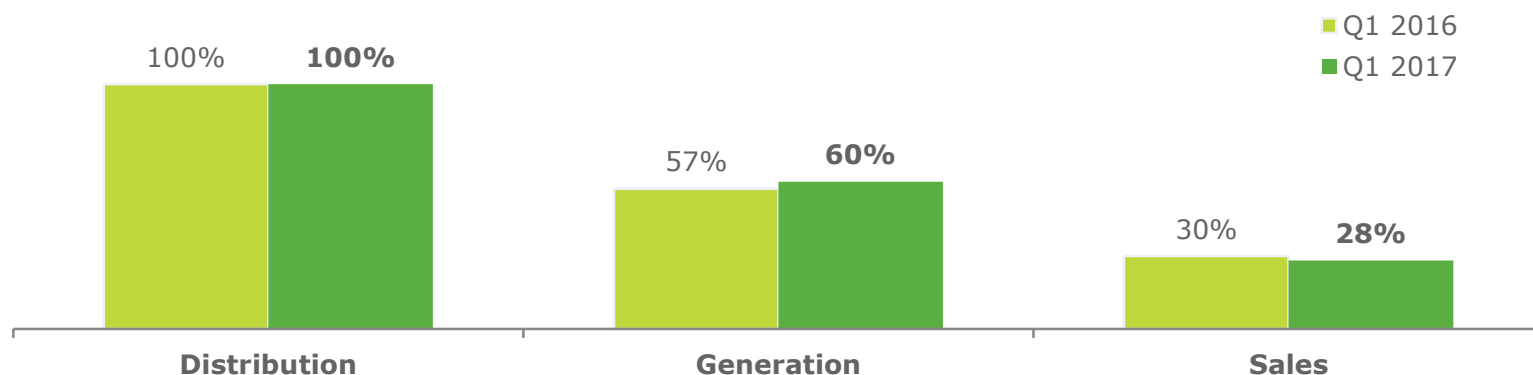
\* Installed capacity



# ENERGA Group's regulated business

GWh	Q1 2016	Q1 2017	Growth rate
Distribution of electricity	5,644	5,623	-
Gross production of electricity:	1,005	1,023	2%
RES (regulated)*	147	164	12%
from Pumped storage plant in Żydowo	12	7	-45%
from Must-run - ENERGA Elektrownie Ostrołęka	417	445	7%
Retail sales of electricity:	4,905	5,094	4%
Tariff Group G	1,461	1,428	-2%

## Regulatory business contribution per Segments\*\*

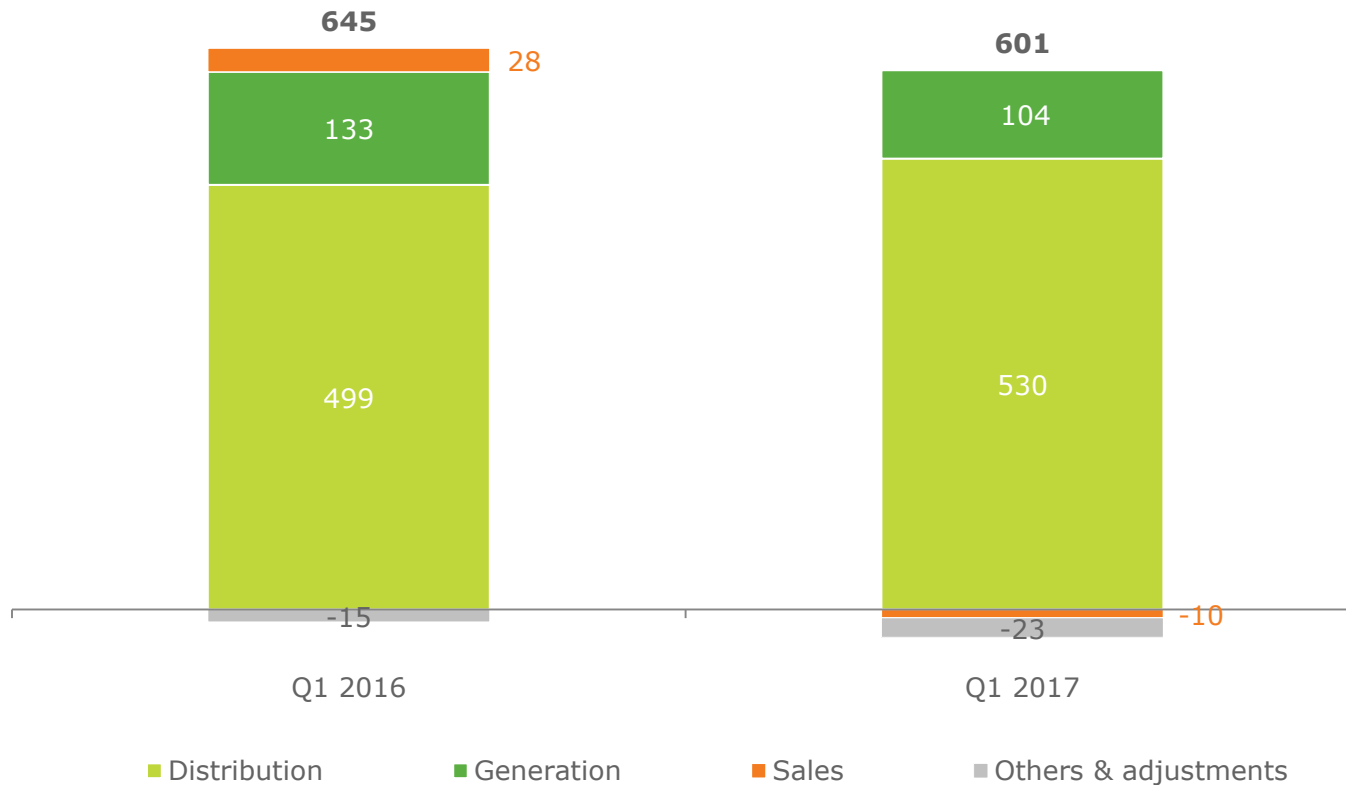


\* without the Hydropower Plant in Włocławek, which lost support from 1 January 2016

\*\* based on electricity volumes

# ENERGA Group EBITDA structure

EBITDA (PLN m)





# Summary of Q1 2017

PLN m	Distribution			Sales			Generation		
	Q1 2016	Q1 2017	Change (%)	Q1 2016	Q1 2017	Change (%)	Q1 2016	Q1 2017	Change (%)
Revenues	1,107	1,172	6%	1,401	1,350	-4%	317	278	-12%
<b>EBITDA</b>	<b>499</b>	<b>530</b>	<b>6%</b>	<b>28</b>	<b>-10</b>	<b>&lt;-100%</b>	<b>133</b>	<b>104</b>	<b>-22%</b>
<i>EBITDA margin</i>	45.1%	45.2%	$\Delta 0.1$ p.p.	2.0%	-0.7%	$\Delta -2.7$ p.p.	42.0%	37.4%	$\Delta -4.5$ p.p.
EBIT	319	339	6%	19	-21	<-100%	-217	63	>100%
<b>Net profit/loss</b>	<b>226</b>	<b>247</b>	<b>9%</b>	<b>16</b>	<b>-17</b>	<b>&lt;-100%</b>	<b>-213</b>	<b>34</b>	<b>&gt;100%</b>
<i>Net profit/loss margin</i>	20.4%	21.1%	$\Delta 0.7$ p.p.	1.1%	-1.3%	$\Delta -2.4$ p.p.	-67.2%	12.2%	$\Delta 79.4$ p.p.
CAPEX	269	168	-38%	6	8	33%	63	18	-71%

PLN m	Generation business lines, including:											
	Hydro			Wind			ENERGA Elektrownia Ostrołęka			CHP		
	Q1 2016	Q1 2017	Change (%)	Q1 2016	Q1 2017	Change (%)	Q1 2016	Q1 2017	Change (%)	Q1 2016	Q1 2017	Change (%)
Revenues	60	53	-11%	28	20	-29%	167	147	-12%	71	69	-3%
<b>EBITDA</b>	<b>39</b>	<b>30</b>	<b>-22%</b>	<b>18</b>	<b>7</b>	<b>-60%</b>	<b>39</b>	<b>44</b>	<b>14%</b>	<b>26</b>	<b>29</b>	<b>11%</b>
<i>EBITDA margin</i>	65.2%	56.6%	$\Delta -8.6$ p.p.	63.3%	36.0%	$\Delta -27.2$ p.p.	23.2%	30.2%	$\Delta 6.9$ p.p.	36.0%	41.2%	$\Delta 5.2$ p.p.
EBIT	31	22	-29%	-112	-1	99%	22	28	25%	17	20	15%
CAPEX	3	2	-22%	0	0	-	51	13	-75%	2	2	-24%

## Structure of cost by nature – ENERGA Group

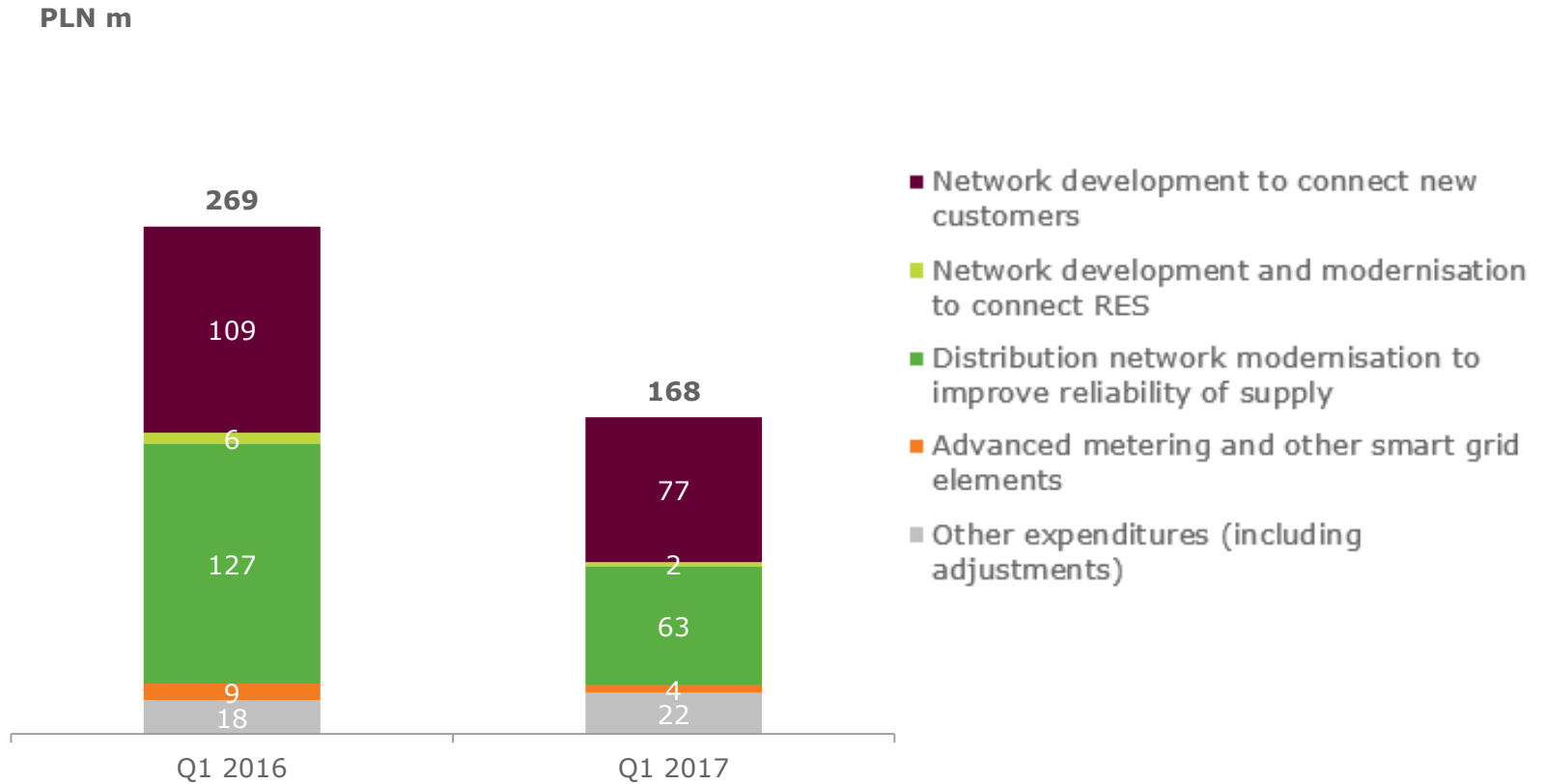
Expenses by nature (PLN m)	Q1 2016	Q1 2017
Depreciation of property, plant and equipment, intangible assets and investment property	234	246
Materials and energy used	168	177
External services	327	367
Taxes and fees	99	103
Employee benefits expenses	222	249
Impairment	200	10
Other expenses	-6	-22
Value of merchandise and raw materials	1,153	1,223
<b>Total operating expenses</b>	<b>2,397</b>	<b>2,352</b>
of which:		
Cost of sales	2,233	2,177
Selling expenses	84	90
General and administrative expenses	80	85

\* This item contains impairment losses on property, plant and equipment in the total amount of PLN 188 m. Other operating expenses included additional losses of PLN 117 m. The aggregated impact of those losses on EBITDA was PLN 305 m.

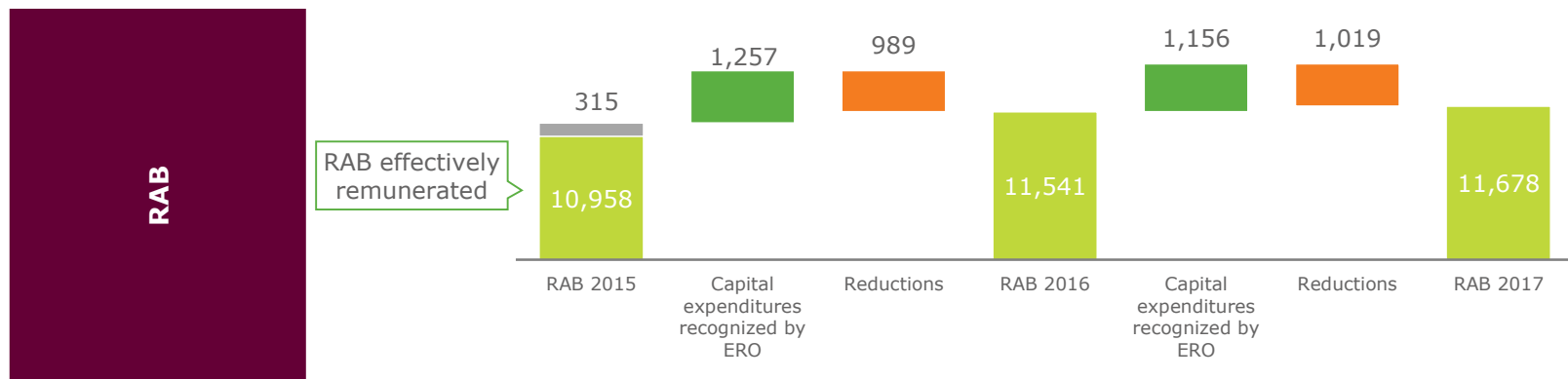
## Structure of cost by nature – Distribution Segment

Expenses by nature (PLN m)	Q1 2016	Q1 2017
Depreciation of property, plant and equipment, intangible assets and investment property	180	191
Materials and energy used	82	83
incl. fuel used for balance difference	70	53
External services	297	318
incl. transmission and transit fees	238	254
Taxes and fees	71	74
Employee benefits expenses	139	152
Impairment	5	3
Other expenses	-14	-22
Value of merchandise and raw materials	27	31
<b>Total operating expenses</b>	<b>786</b>	<b>829</b>
of which:		
Cost of sales	732	774
Selling expenses	18	15
General and administrative expenses	36	41

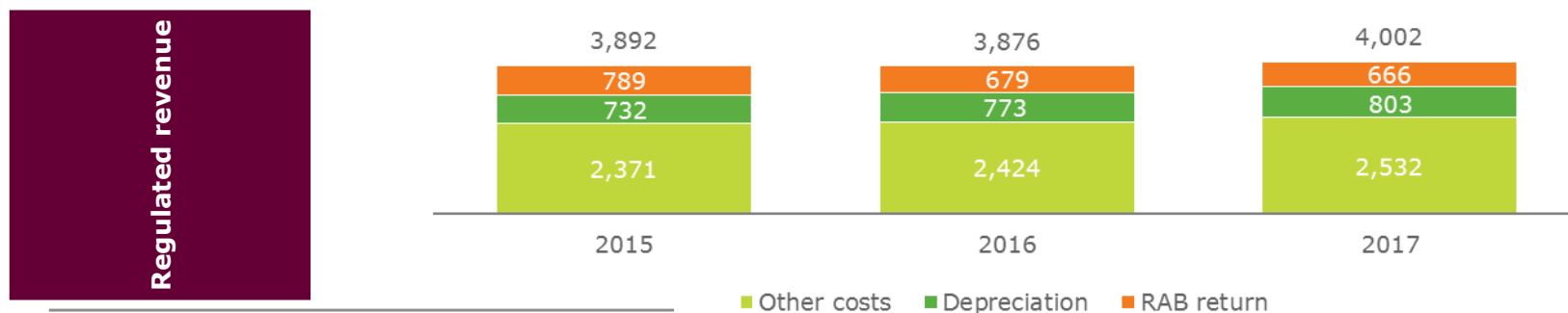
# Current Distribution Capex structure



# Regulatory asset base



Return on RAB	„Standard”	2015	2016	2017
		WACC	7.20%	5.68%
	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
	„Included in tariff”	789*	679	666
	Effective return on RAB	7.00%	5.88%	5.71%



## Structure of cost by nature – Sales Segment

Expenses by nature (PLN m)	Q1 2016	Q1 2017
Depreciation of property, plant and equipment, intangible assets and investment property	9	11
Materials and energy used	6	9
External services	38	45
Taxes and fees	4	3
Employee benefits expenses	36	35
Impairment	9	8
Other expenses	7	6
Value of merchandise and raw materials	1,275	1,253
<b>Total operating expenses</b>	<b>1,383</b>	<b>1,369</b>
of which:		
Cost of sales	1,321	1,301
Selling expenses	53	62
General and administrative expenses	9	7

# Key operating data of the Sales Segment

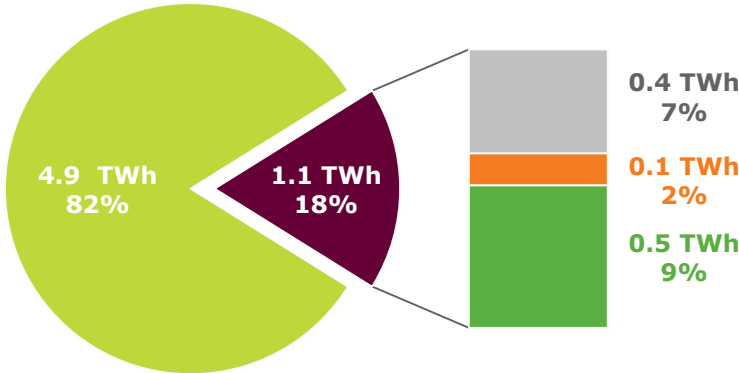
	Q1 2016	Q1 2017	Change (%)
Electricity sales by Sales Segment (GWh)	5,962	5,943	-0.3%
<i>incl. retail sales</i>	4,905	5,094	4%
Average selling price of electricity including excise (PLN/MWh)	227.7	222.0	-2%
Cost of electricity purchase (PLN m)	1,027	1,033	1%
Cost of electricity purchase with certificates of origin (PLN m)	1,217	1,218	0%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	172.2	173,9	1%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	204.1	204.9	0%
Variable margin*	4.7%	3.0%	Δ -1.8 p.p.

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

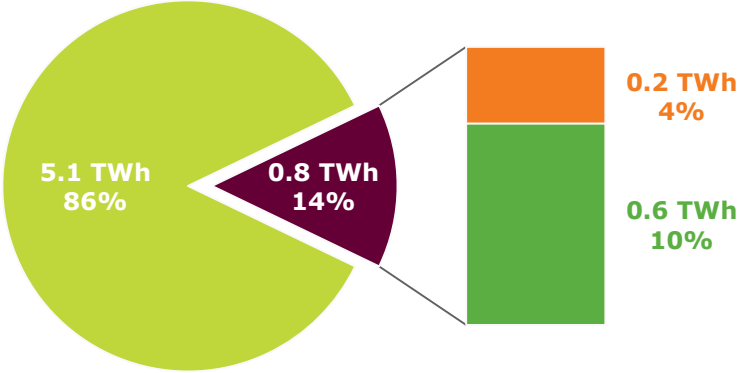
Purchase of electricity by the Sales Segment (GWh)	Q1 2016	Q1 2017	Change (%)
Electricity purchases from ENERGA Group generators	549	402	-27%
Electricity purchases on the wholesale market – exchange	2,364	2,317	-2%
Electricity purchases on the wholesale market – other	2,740	3,095	13%
Electricity purchases on the balancing market	311	128	-59%
<b>Total electricity purchase</b>	<b>5,963</b>	<b>5,942</b>	<b>0%</b>

# Sales of energy by the Sales Segment

**Electricity sales volume in Q1 2016\***



**Electricity sales volume in Q1 2017 \***

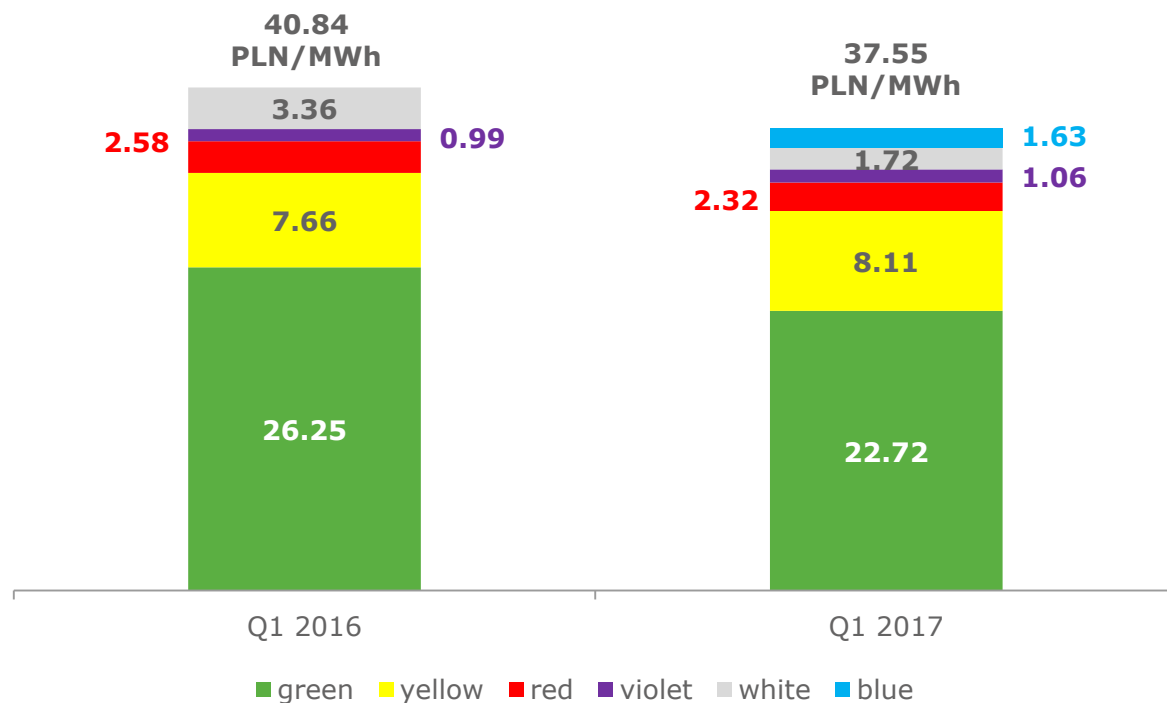


- Retail Sales
- Wholesale sales
- Sales to cover network losses to ENERGA-OPERATOR SA
- Sales to the balancing market
- Other wholesales trade

\* Sales by the Sales Segment



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



In H2 2016, an obligation of redeeming „blue” certificates was introduced and the rules for calculating the obligation for „white” certificates was changed.

\* 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)	Q1 2016	Q1 2017
Depreciation of property, plant and equipment, intangible assets and investment property	45	42
Materials and energy used	86	90
incl. fuel used	79	77
External services	18	28
Taxes and fees	23	24
Employee benefits expenses	28	39
Impairment	186	0
Other expenses	2	-2
Value of merchandise and raw materials	29	6
<b>Total operating expenses</b>	<b>417</b>	<b>224</b>
of which:		
Cost of sales	399	208
Selling expenses	0	0
General and administrative expenses	17	16

# Key operational data

Consumption of fuels	Q1 2016	Q1 2017	Growth rate	Growth rate (%)
<b>Coal</b>				
Quantity (000s tons)	313.9	313.2	-0.7	0%
Cost* (PLN m)	74.3	72.2	-2.1	-3%
Cost per unit (PLN/ton)	236.7	230.6	-6.1	-3%
Cost per unit (PLN/MWh)**	69.8	68.4	-1.4	-2%
<b>Biomass</b>				
Quantity (000s tons)	8.4	9.5	1.1	13%
Cost* (PLN m)	3.2	3.2	0,0	-1%
Cost per unit (PLN/ton)	382.6	334.1	-48.5	-13%
Cost per unit (PLN/MWh)**	126.8	147.9	21.0	17%

\* Including cost of transport

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

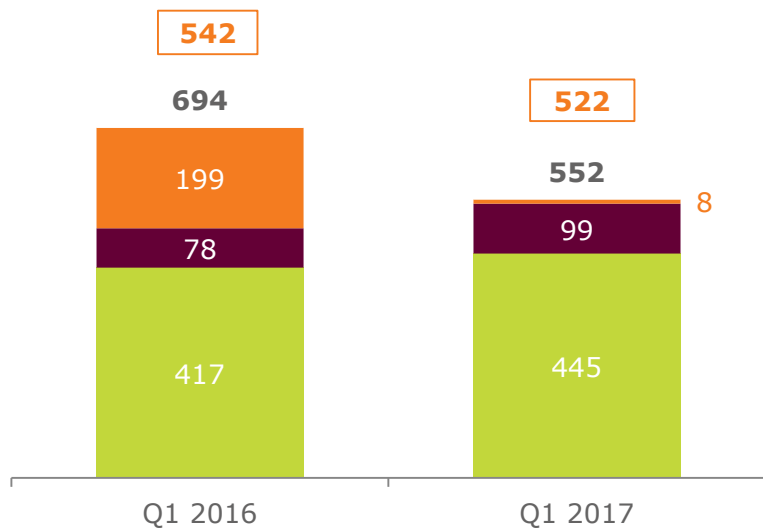
CO <sub>2</sub> emission allowances in Generation Segment	Q1 2016	Q1 2017
<b>CO<sub>2</sub> emission allowances (thous. tons CO<sub>2</sub>), incl.:</b>	648	642
The amount of free CO <sub>2</sub> emission allowances	298	231
Volume of emission allowances purchased	350	412
<b>Cost of CO<sub>2</sub> purchase (PLN m)</b>	11.2	8.9

# Key operating data of ENERGA Elektrownie Ostrołęka

## Sales structure (GWh)

□ - Own net production

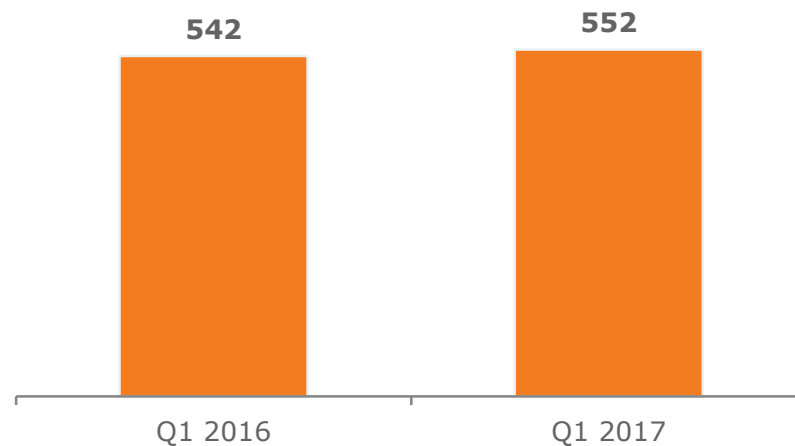
- Other electricity sales
- Other sales to PSE
- Sales to PSE in must-run



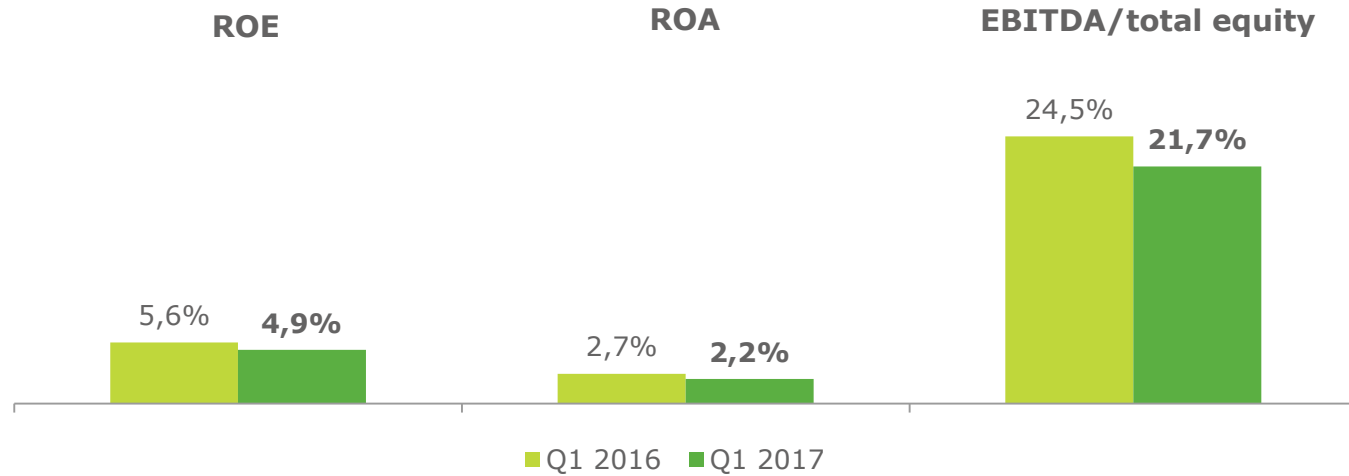
## Fuels consumption volumes and costs in Q1 2017

	Jedn.	Węgiel
Total consumption	(000s tons)	251.6
Consumption cost per unit	(PLN/ton)	226.8
Total fuel cost	(PLN m)	57.1

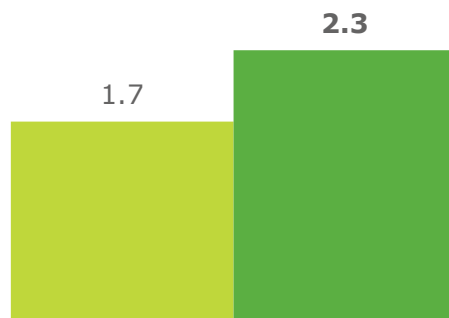
## Gross heat production (TJ)



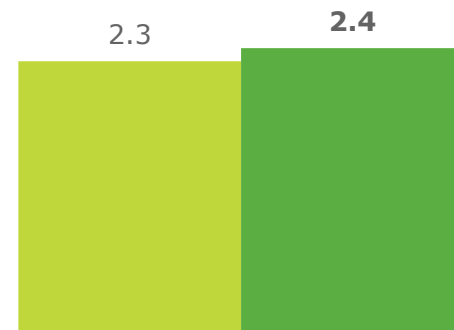
# Profitability and liquidity ratios



## Current Ratio



## Net debt/EBITDA

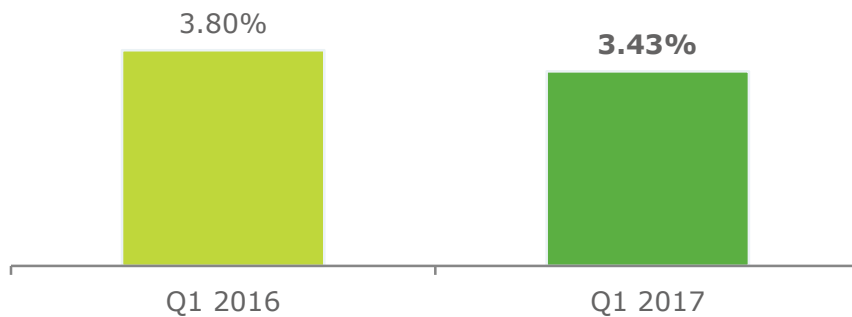


■ 31 December 2016 ■ 31 March 2017

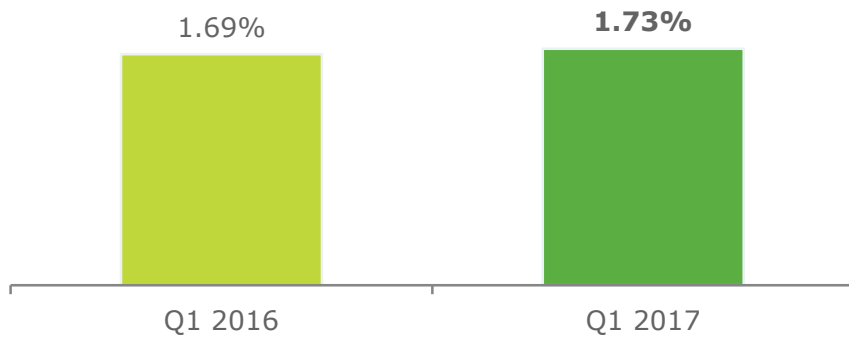
\* Net profit and EBITDA for last 12 months

# ENERGA Group's average cost of debt

## ENERGA Group's average cost of debt



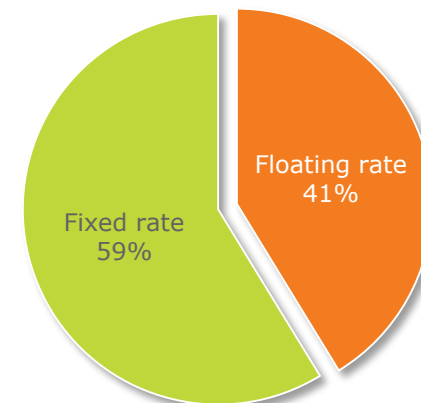
## Average WIBOR 3M



## Main drivers:

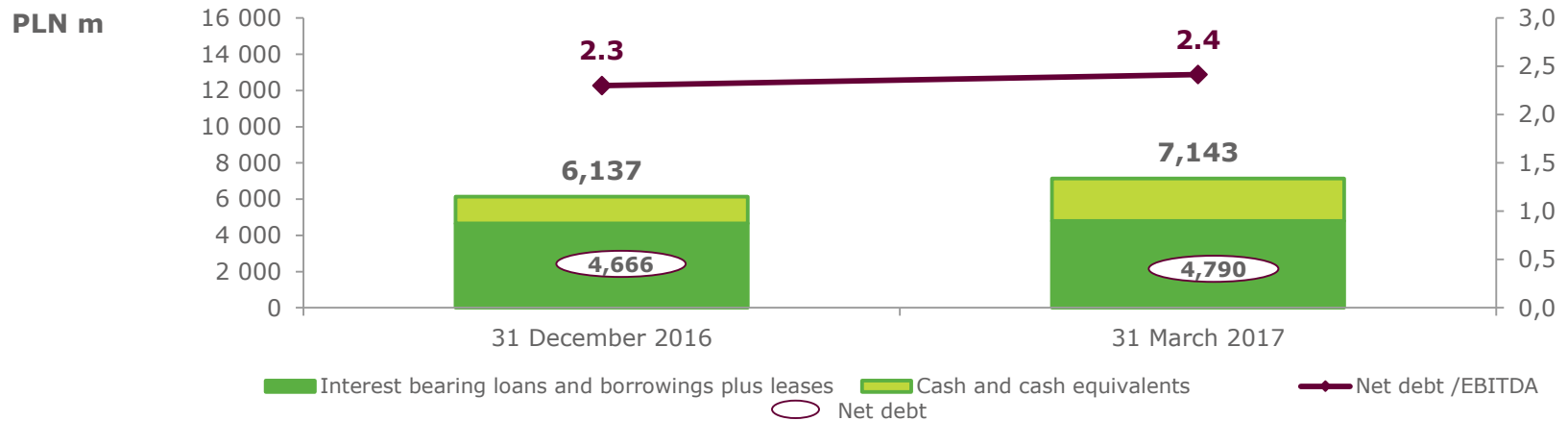
- Reduction of the cost of debt by entering into 2-year and 4-year hedging transactions in the total amount of PLN 850 m. The transactions reduce the cost of debt incurred to finance ENERGA-OPERATOR's capital expenditures, by swapping the floating interest rate WIBOR 3M to a lower average weighted fixed interest rate for the instruments.

## Structure of financing as at 31.03.2017



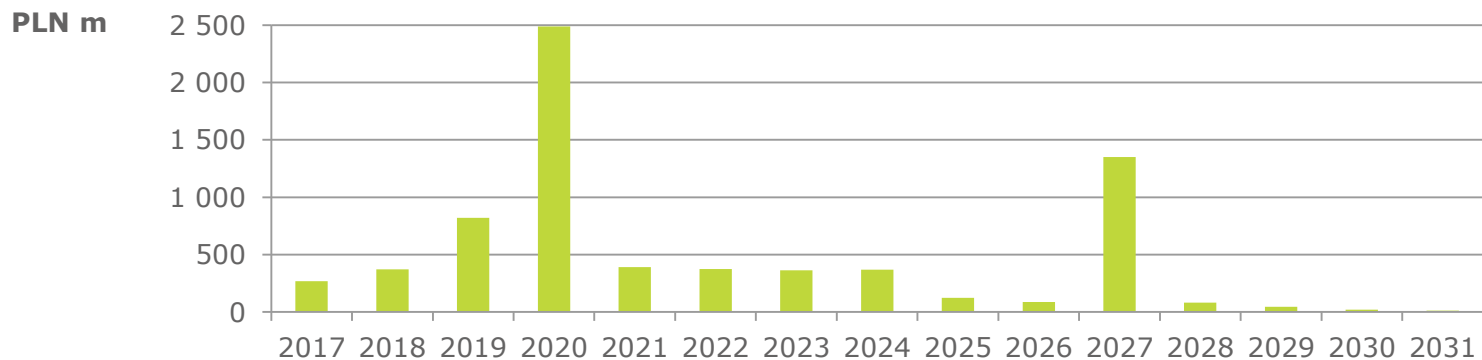
# Financial security

## Net debt/ EBITDA ENERGA Group



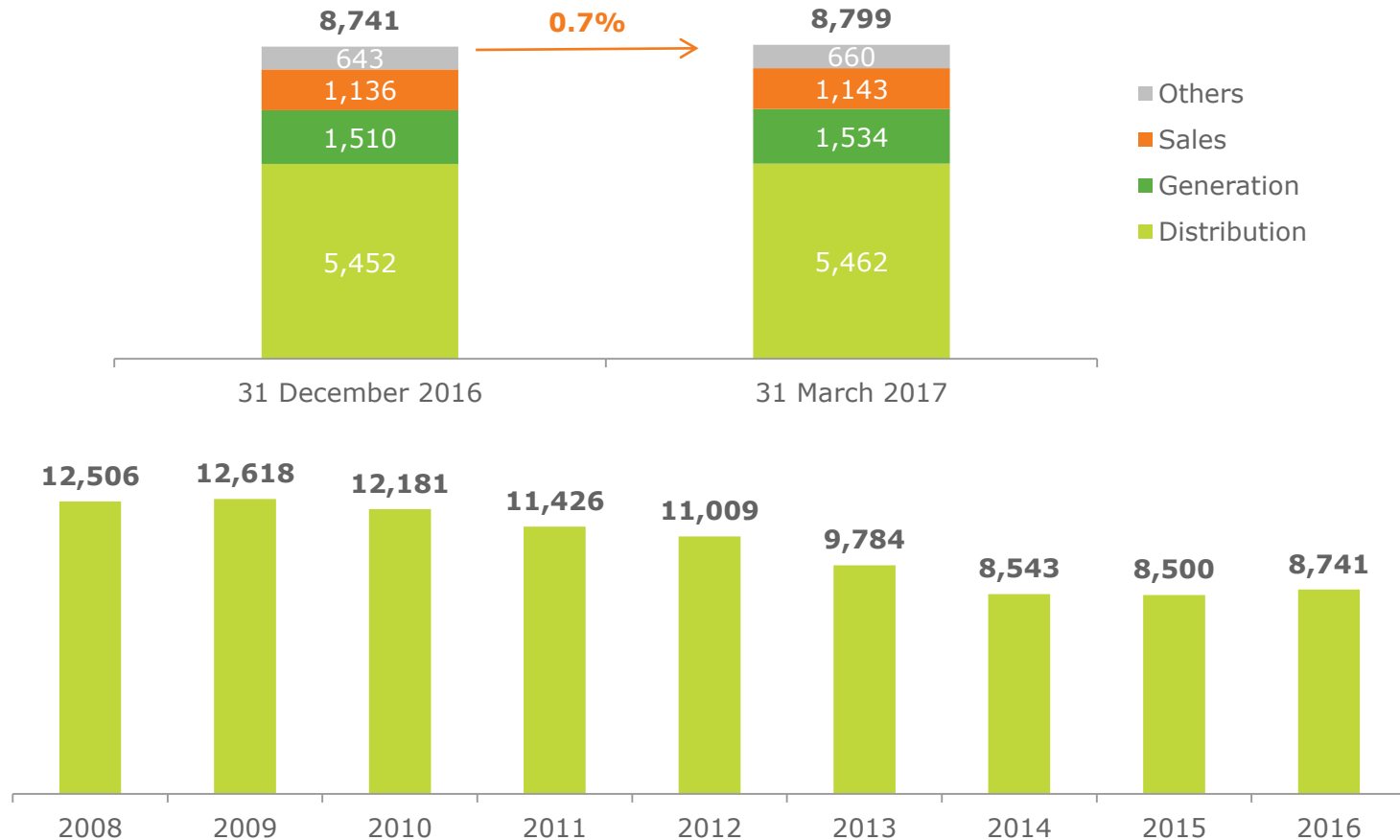
Commencing with Q1 2016 the definition of EBITDA used by the Company has been modified as follows: operating profit/loss plus depreciation and amortization and impairment losses on non-financial non-current assets. This change aims above all to enhance transparency and simplify analyses by ensuring comparability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

## Debt maturities



# Headcount in the ENERGA Group

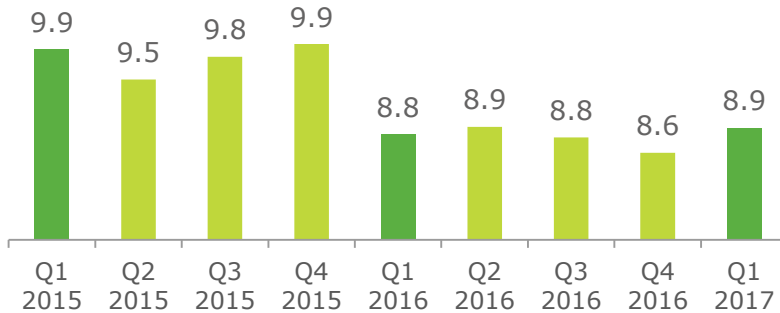
## Headcount – end of period





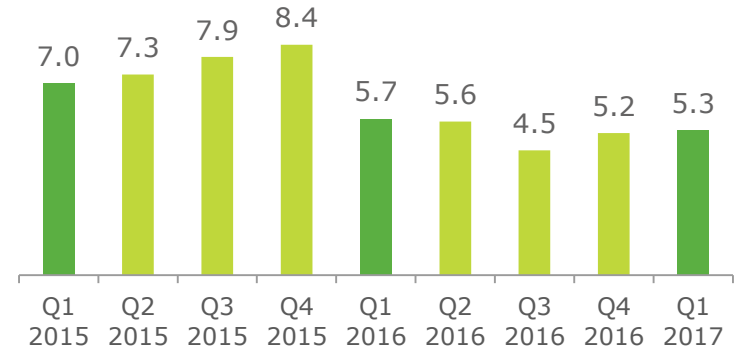
# Key market data

Coal [PLN/GJ]



Source: Polish coal market

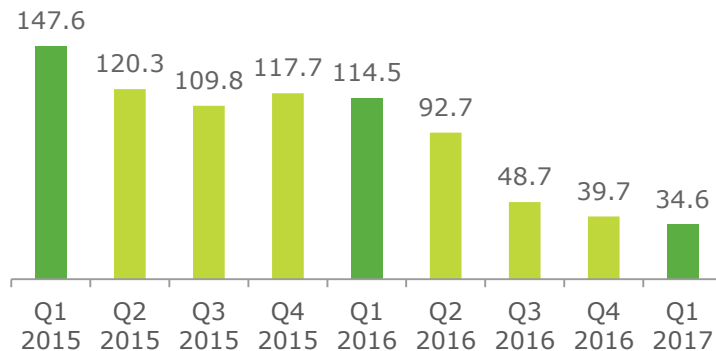
EUA - CO2 emission rights [EUR/t]



Source : Bloomberg

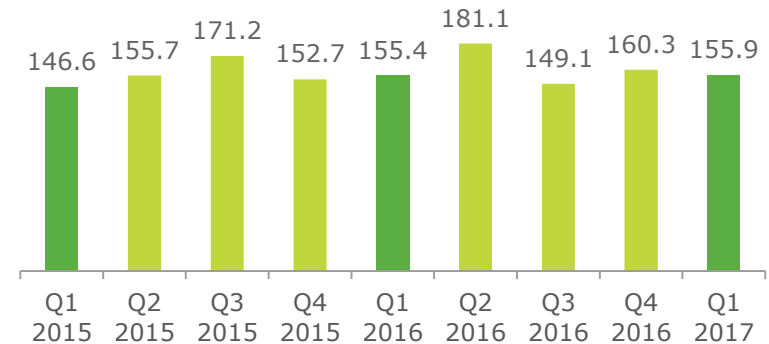
## Average electricity and green certificates prices on TGE (PLN/MWh)

Green certificates - PMOZE\_A (spot)



Source: Polish Power Exchange (Polish: Towarowa Gielda Energii S.A. – TGE)

Electricity (spot)



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