

# ENERGA Group's financial results

12M 2017



@EnergaSA

#EnergaWyniki

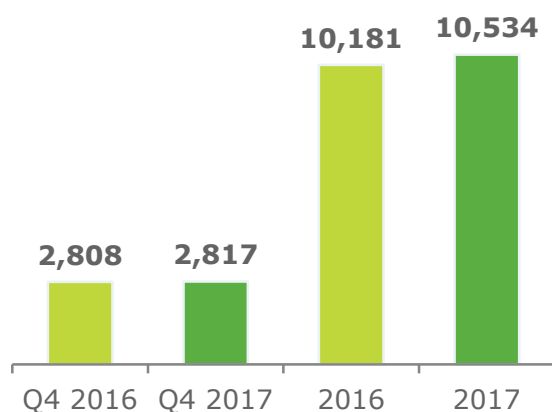
15 March 2018



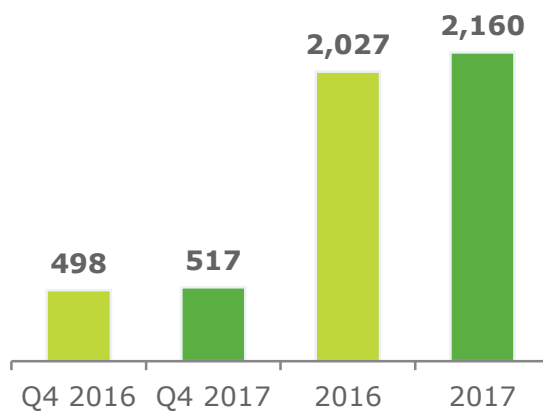
# Good results in all Energa Group's Business Lines

1. Stable Distribution Results
2. Growing electricity sales volume and positive one-off events in Sales
3. Increase in RES production volumes and revenues from Operating Reserve in Generation

Revenues (PLN m)

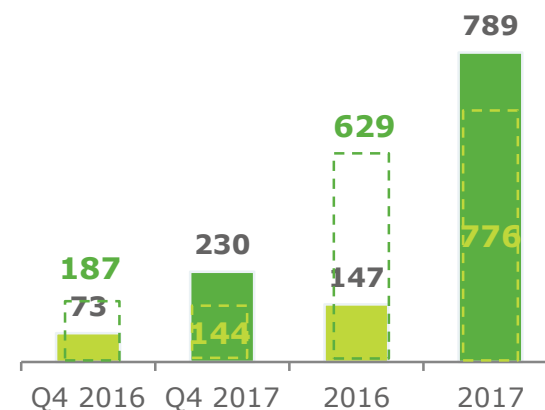


EBITDA (PLN m)



Net profit (PLN m)

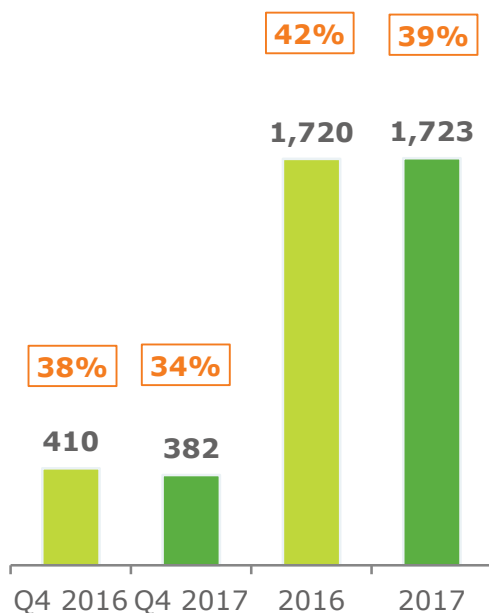
Net result before impairment



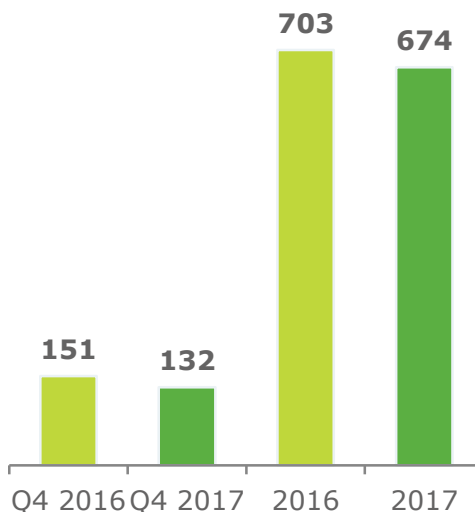
# Stable results of the Distribution Business Line

## EBITDA (PLN m)

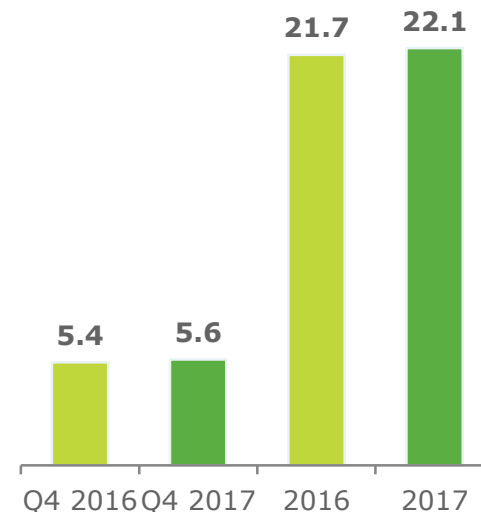
EBITDA margin



## Net profit (PLN m)

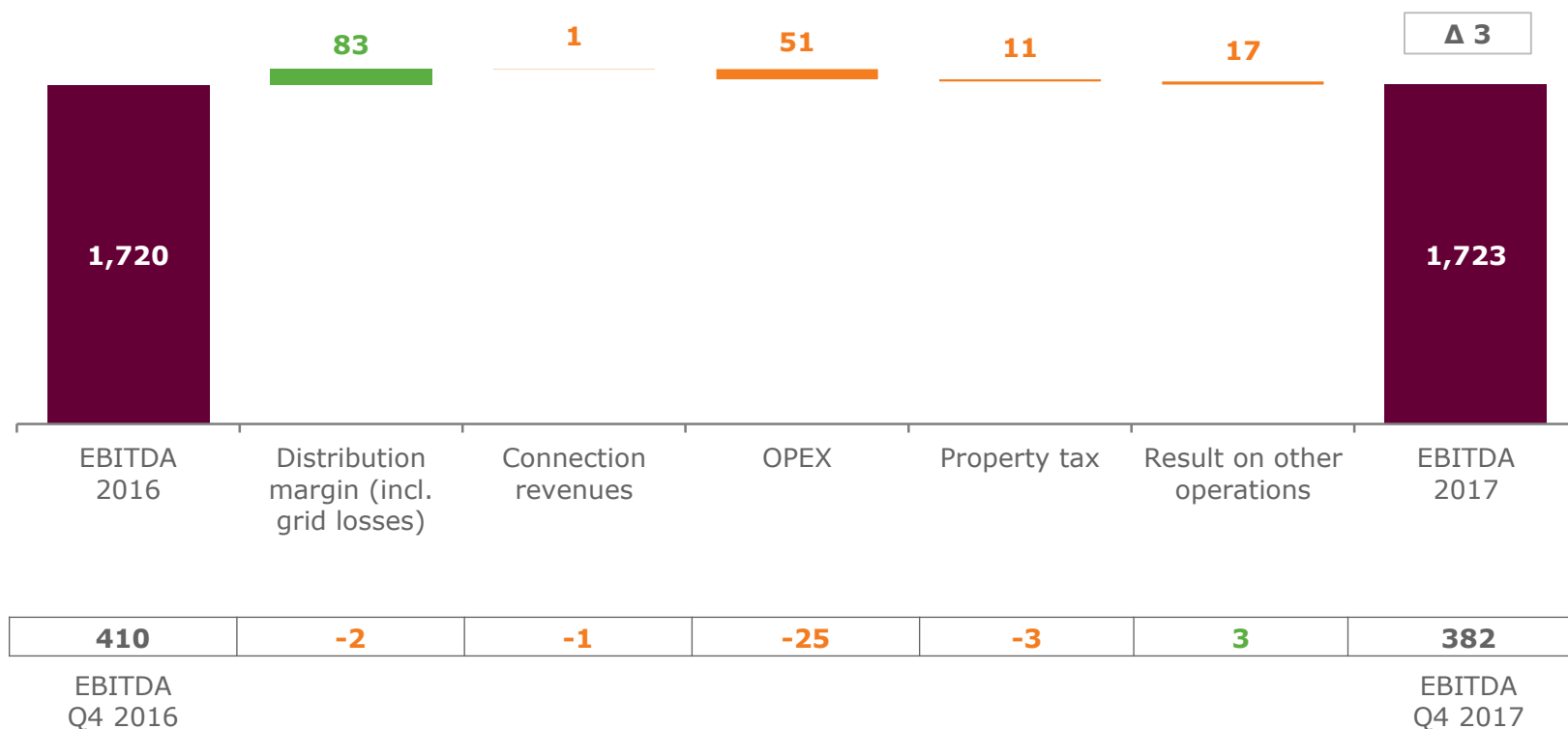


## Distribution of electricity (TWh)



# Higher distribution margin compensated by OPEX increase and deterioration on other operations

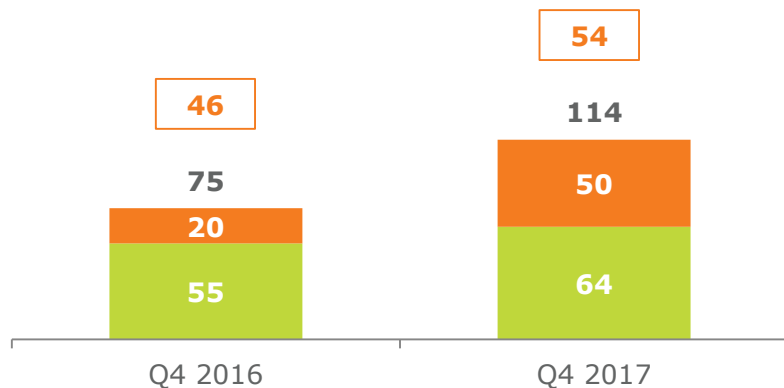
## EBITDA Bridge of the Distribution Business Line (PLN m)



# Reliability indices

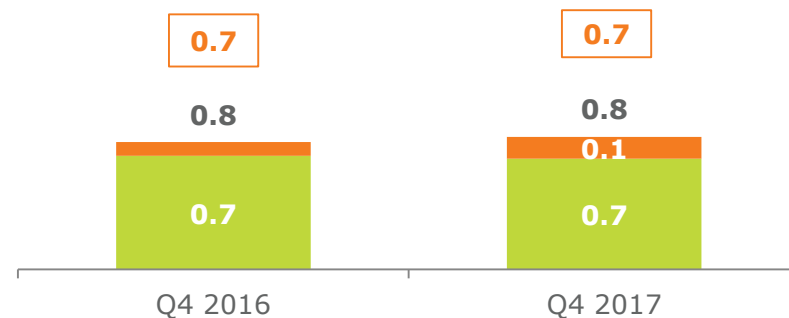
## SAIDI (minutes per customers)

SAIDI (planned, unplanned and catastrophic)

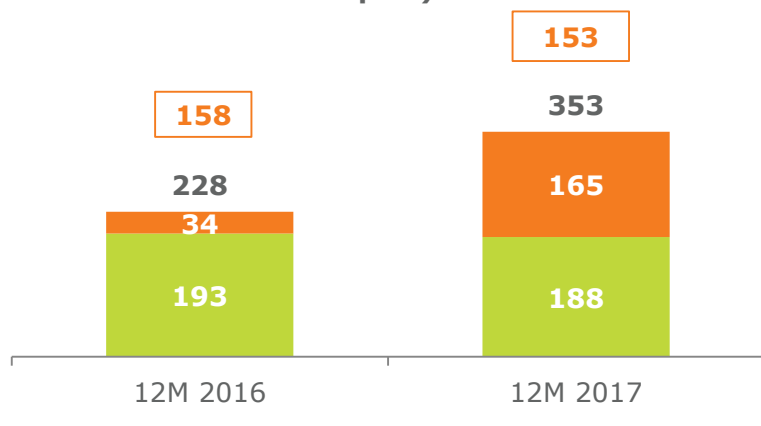


## SAIFI (interruptions per customers)

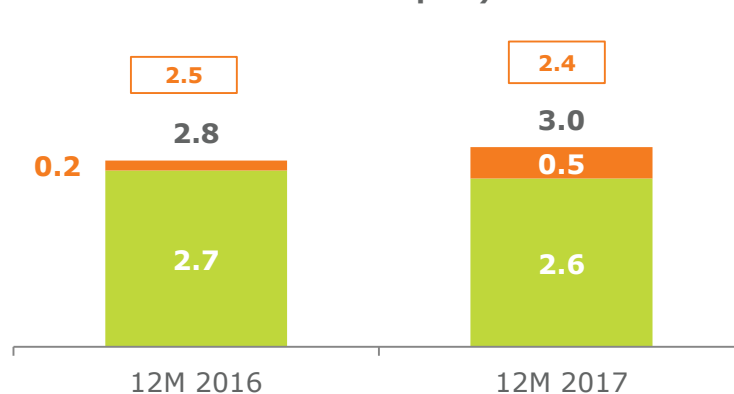
SAIFI (planned, unplanned and catastrophic)



SAIDI (planned, unplanned and catastrophic)

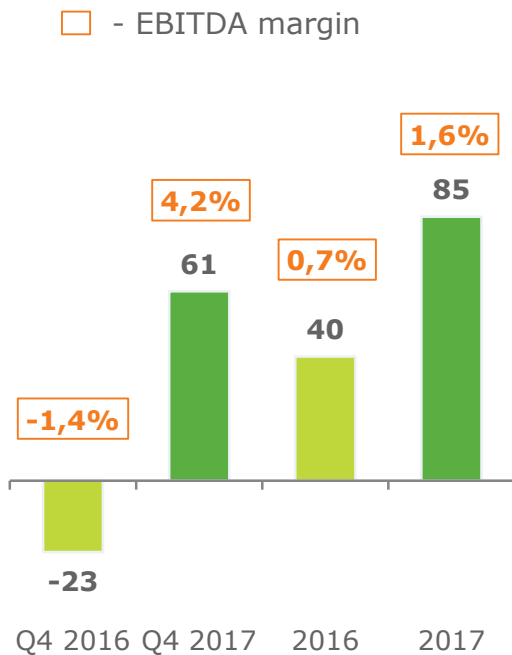


SAIFI (planned, unplanned and catastrophic)

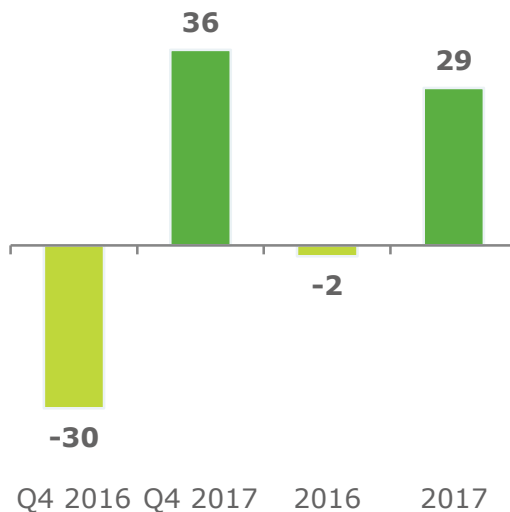


# Better financial and operational results in Sales

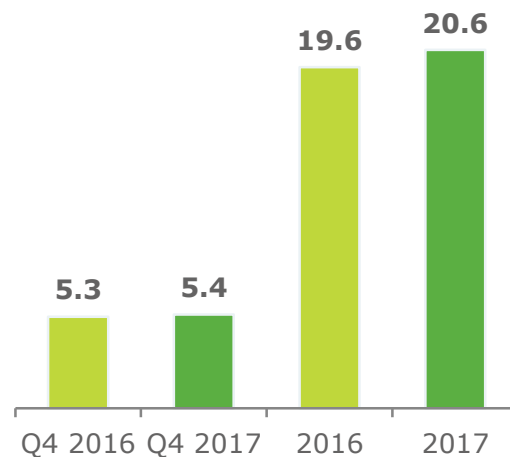
## EBITDA (PLN m)



## Net profit (PLN m)

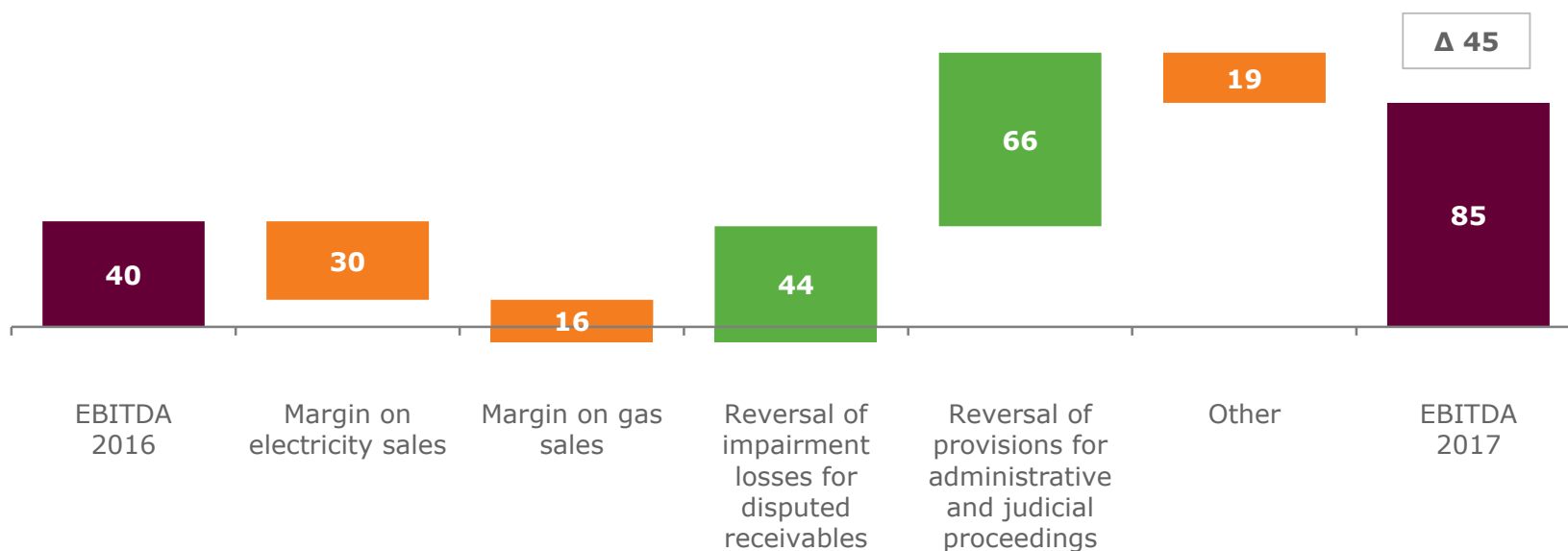


## Retail sales of electricity (TWh)



# Results under the influence of one-off events

## EBITDA Bridge of the Sales Business Line (PLN m)

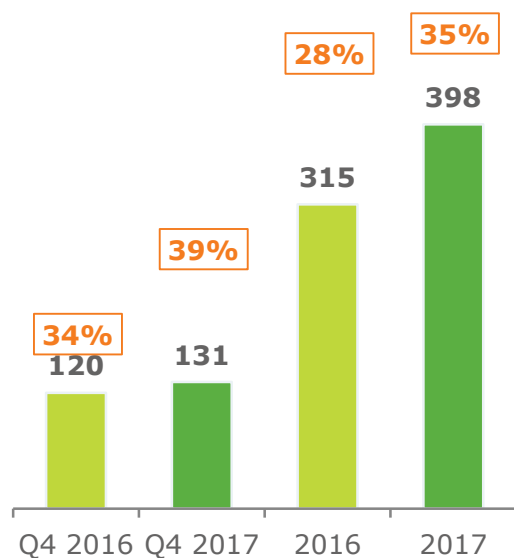


-23	-8	-6	44	50	5	61
EBITDA Q4 2016						EBITDA Q4 2017

# Generation results better than expected

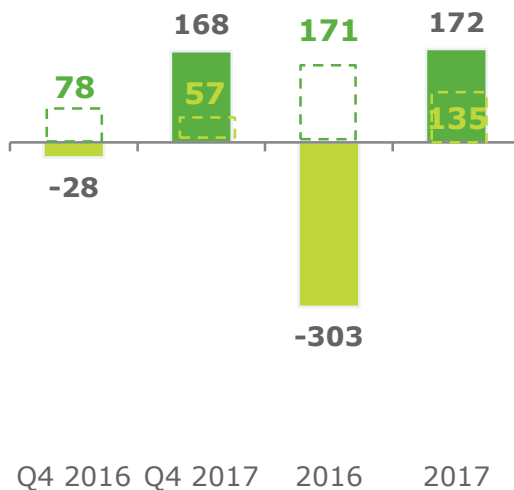
## EBITDA (PLN m)

□ - EBITDA margin



## Net profit (PLN m)

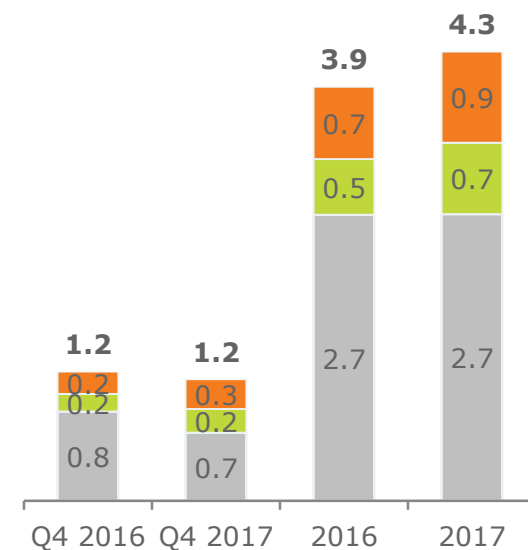
□ - Net result before impairment



## Gross production of electricity (TWh)

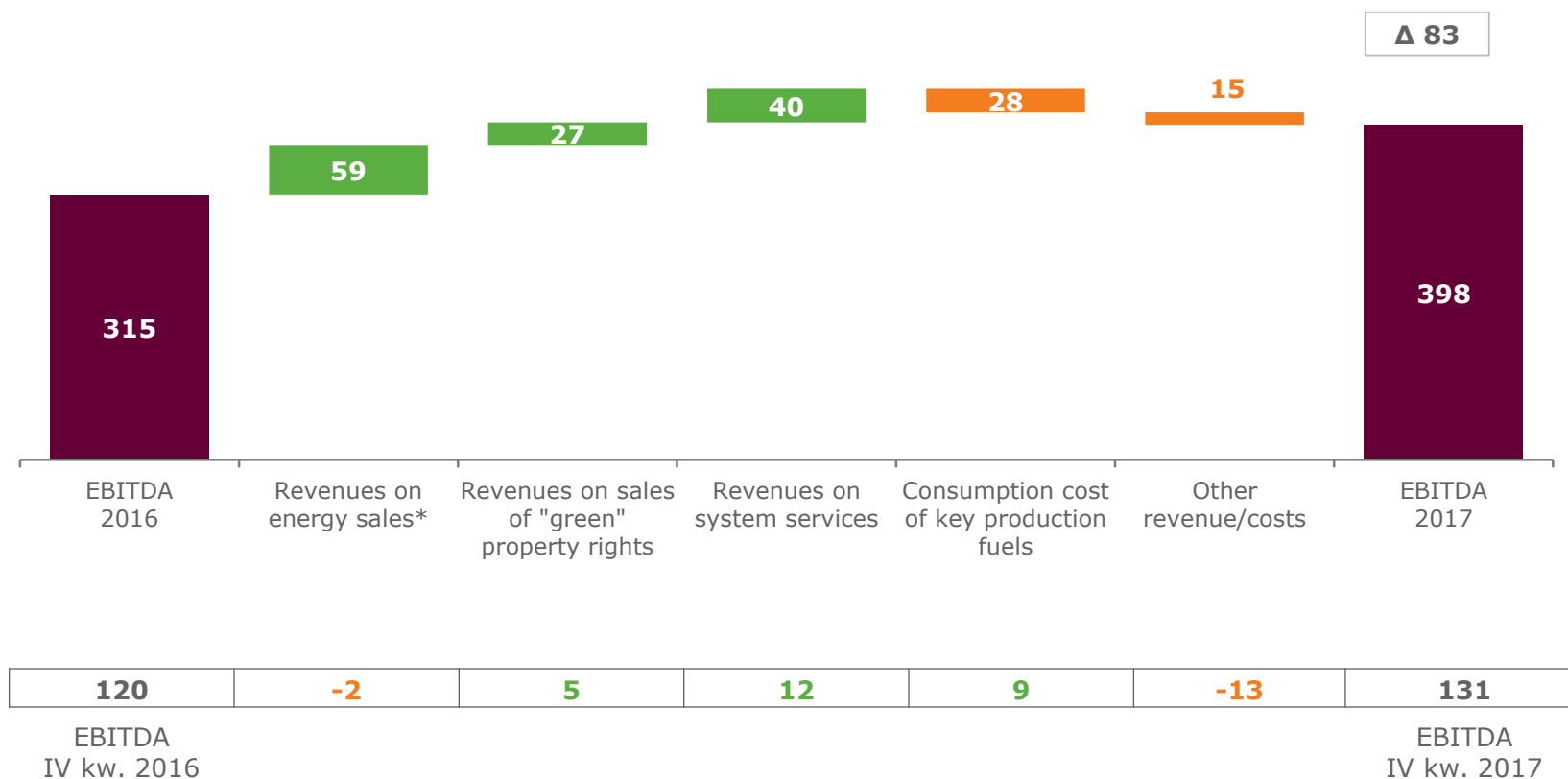
Gross production of electricity

■ RES without support



# Increase in revenues from sales of energy, property rights and operating reserve

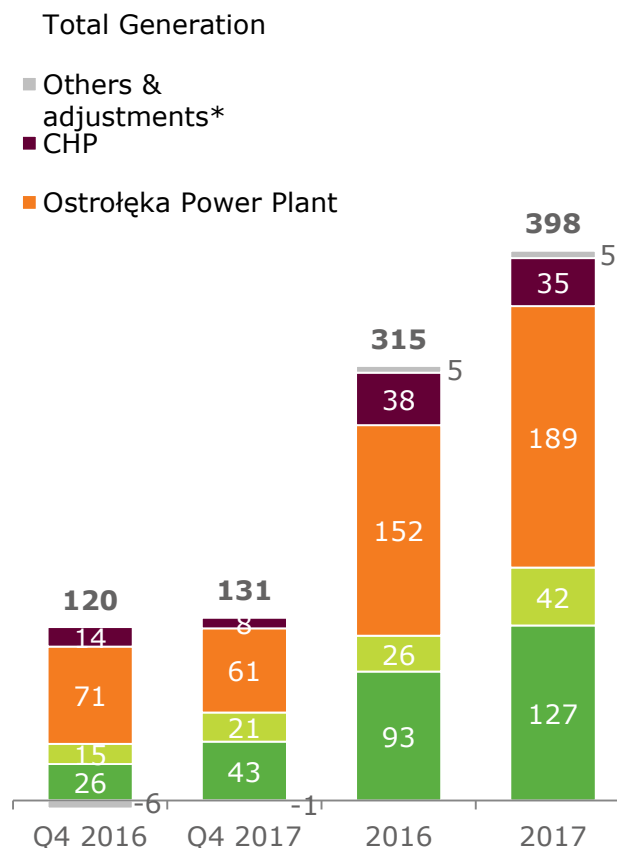
## EBITDA Bridge of the Generation Business Line (PLN m)



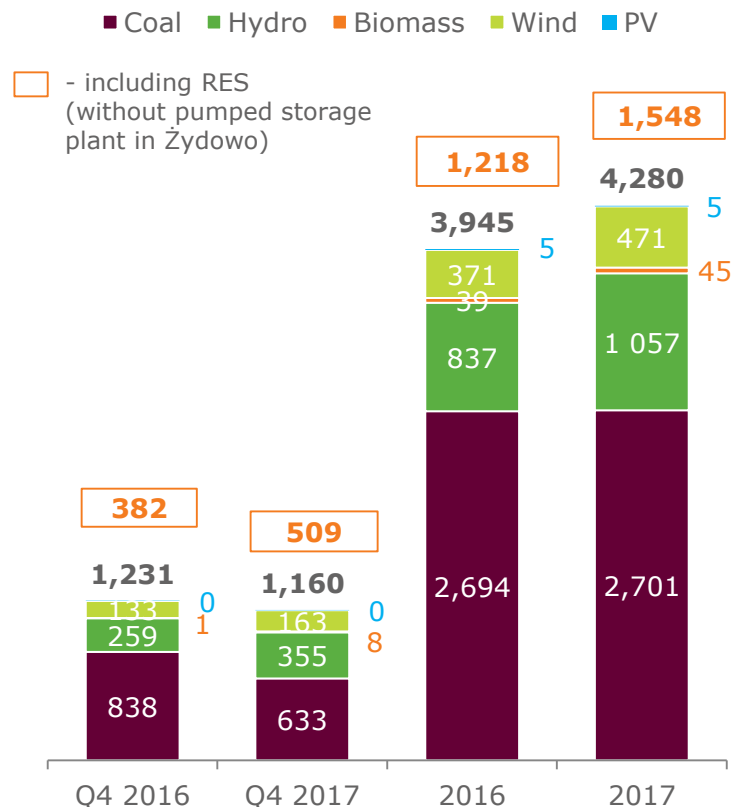
\*includes net electricity trading (revenue less cost)

# Higher RES production volumes

## EBITDA of the Generation Business Line, by Power Division



## Gross electricity production by fuel (GWh)



- The "Other & adjustments" category comprises companies providing services to the Generation Business Line, special purpose vehicles building new generation sources in the ENERGA Group, PV farms and elimination of transactions between business lines.

# PLN 1.4 bn of capital expenditures made in 2017

The ENERGA Group's total capital expenditures in 2017 were **PLN 1,402 m.**

Major investments in the **Distribution Business Line:**

1. **PLN 413 m** grid development to facilitate connection of new customers
2. **PLN 604 m** distribution network modernization to improve reliability of supply
3. **PLN 62 m** other expenditures for innovative grid technologies and solutions (Smart Grid)

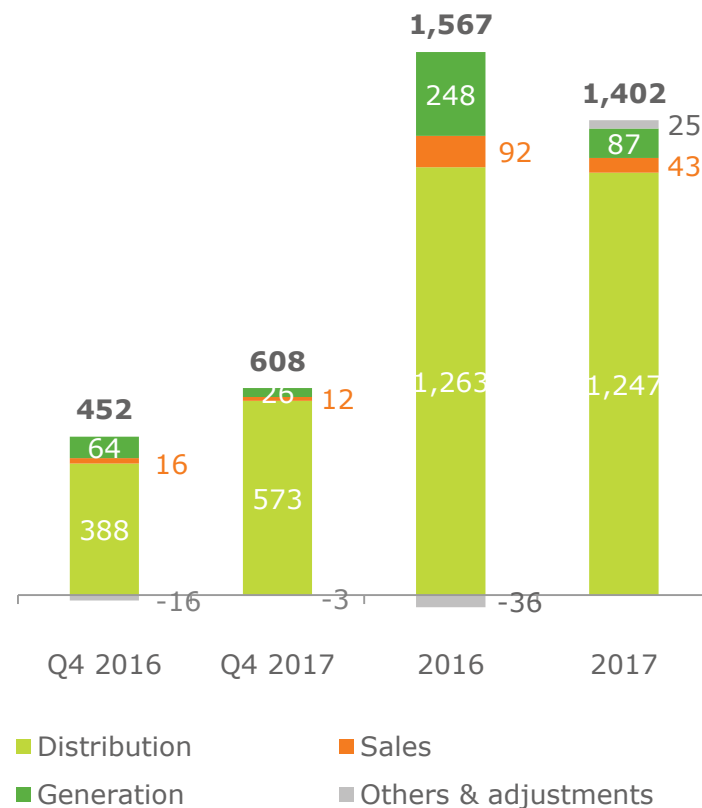
*contributed to:*

- a. **51.7 thous.** - new customer connections
- b. **3,718 km linii** -built and modernized LV, MV and HV lines
- c. **32 MW** – new RES connections to the network

Major investments in the Generation Business Line:

- a. **PLN 49 m** Elektrownia in Ostrołęka (mainly overhaul of block No. 1 and adjustment to the IED Directive)
- b. **PLN 20 m** CHP (mainly modernization of heat sources)
- c. **PLN 13 m** Water, (mainly modernization of water sources)

PLN m



# Material factors relating to ENERGA SA Group's development at least for 2018

**Consequences of the decision to recognize long-term contracts for the purchase of green certificates as invalid**

**Entry into force of the amendments to the RES act significantly reducing the costs of discharging the function of the Offtaker of Last Resort as of 1 January 2018**

**Increasing competition in the market of electricity sellers**

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

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

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

**Amendment to the Renewable Energy Sources Act changing the basis of the property tax**

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

**Weather and hydrometeorological conditions**

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

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

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15 March 2018



# Additional information

# ENERGA Group's key assets

## Distribution

1. 185 thous. km of power lines
2. 22.1 TWh - electricity delivered in 2017 (5.6 TWh in Q4 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. PV farm near Gdansk (1.6 MWe) and in Czernikowo (3.8 MWe)
2. System power plant in Ostrołęka B (681 MW, new heat source EEO B – 220 MWt)
3. Other CHP plants (82 MW, 443 MWt)

## Sales

1. 3.0 million customers
2. 20.6 TWh – electricity sold in 2017 (5.4 TWh in Q4 2017 )

\* Installed capacity



Heating plant



Pumped-storage power plant



Small hydropower plant



CHP



Photovoltaic power plant



Coal



Must run power plant



Large hydropower plant



Wind farm



Biomass



Seat of ENERGA SA



Distribution of electricity



Sales of electricity

# Summary of Q4 2017

PLN m	Distribution			Sales			Generation		
	Q4 2016	Q4 2017	Change (%)	Q4 2016	Q4 2017	Change (%)	Q4 2016	Q4 2017	Change (%)
Revenues	1,066	1,124	5%	1,608	1,457	-9%	352	340	-3%
<b>EBITDA</b>	<b>410</b>	<b>382</b>	<b>-7%</b>	<b>-23</b>	<b>61</b>	<b>&gt;100%</b>	<b>120</b>	<b>131</b>	<b>9%</b>
<i>EBITDA margin</i>	<i>38.5%</i>	<i>34.0%</i>	<i>Δ -4.5 p.p.</i>	<i>-1.4%</i>	<i>4.2%</i>	<i>Δ 5.6 p.p.</i>	<i>34.1%</i>	<i>38.5%</i>	<i>Δ 4.4 p.p.</i>
EBIT	220	191	-13%	-39	46	>100%	-62	229	>100%
<b>Net profit/loss</b>	<b>151</b>	<b>132</b>	<b>-13%</b>	<b>-30</b>	<b>36</b>	<b>&gt;100%</b>	<b>-28</b>	<b>168</b>	<b>&gt;100%</b>
<i>Net profit/loss margin</i>	<i>14.2%</i>	<i>11.7%</i>	<i>Δ -2.5 p.p.</i>	<i>-1.9%</i>	<i>2.5%</i>	<i>Δ 4.4 p.p.</i>	<i>-8.0%</i>	<i>49.4%</i>	<i>Δ 57.4 p.p.</i>
CAPEX	388	573	48%	16	12	-25%	64	26	-59%

PLN m	Generation power division, including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	Q4 2016	Q4 2017	Change (%)	Q4 2016	Q4 2017	Change (%)	Q4 2016	Q4 2017	Change (%)	Q4 2016	Q4 2017	Change (%)
Revenues	53	71	34%	28	35	25%	215	178	-17%	56	50	-11%
<b>EBITDA</b>	<b>26</b>	<b>43</b>	<b>62%</b>	<b>15</b>	<b>21</b>	<b>42%</b>	<b>71</b>	<b>61</b>	<b>-14%</b>	<b>14</b>	<b>8</b>	<b>-45%</b>
<i>EBITDA margin</i>	<i>49.8%</i>	<i>60.2%</i>	<i>Δ 10.4 p.p.</i>	<i>52.8%</i>	<i>60.0%</i>	<i>Δ 7.1 p.p.</i>	<i>32.9%</i>	<i>34.2%</i>	<i>Δ 1.3 p.p.</i>	<i>24.8%</i>	<i>15.5%</i>	<i>Δ -9.3 p.p.</i>
EBIT	18	35	88%	3	77	>100%	-86	114	>100%	2	-1	-158%
CAPEX	8	7	-2%	1	0	-92%	38	13	-65%	10	9	-17%

# Summary of 2017

PLN m	Distribution			Sales			Generation		
	2016	2017	Change (%)	2016	2017	Change (%)	2016	2017	Change (%)
Revenues	4,143	4,392	6%	5,626	5,316	-6%	1,140	1,148	1%
<b>EBITDA</b>	<b>1,720</b>	<b>1,723</b>	<b>0%</b>	<b>40</b>	<b>85</b>	<b>&gt;100%</b>	<b>315</b>	<b>398</b>	<b>26%</b>
<i>EBITDA margin</i>	<i>41.5%</i>	<i>39.2%</i>	<i>Δ -2.3 p.p.</i>	<i>0.7%</i>	<i>1.6%</i>	<i>Δ 0.9 p.p.</i>	<i>27.6%</i>	<i>34.7%</i>	<i>Δ 7 p.p.</i>
EBIT	984	959	-3%	-3	38	>100%	-441	287	>100%
<b>Net profit/loss</b>	<b>703</b>	<b>674</b>	<b>-4%</b>	<b>-2</b>	<b>29</b>	<b>&gt;100%</b>	<b>-303</b>	<b>172</b>	<b>&gt;100%</b>
<i>Net profit/loss margin</i>	<i>17.0%</i>	<i>15.3%</i>	<i>Δ -1.7 p.p.</i>	<i>0.0%</i>	<i>0.5%</i>	<i>Δ 0.5 p.p.</i>	<i>-26.6%</i>	<i>15.0%</i>	<i>Δ 41.6 p.p.</i>
CAPEX	1,263	1,247	-1%	92	43	-53%	248	87	-65%

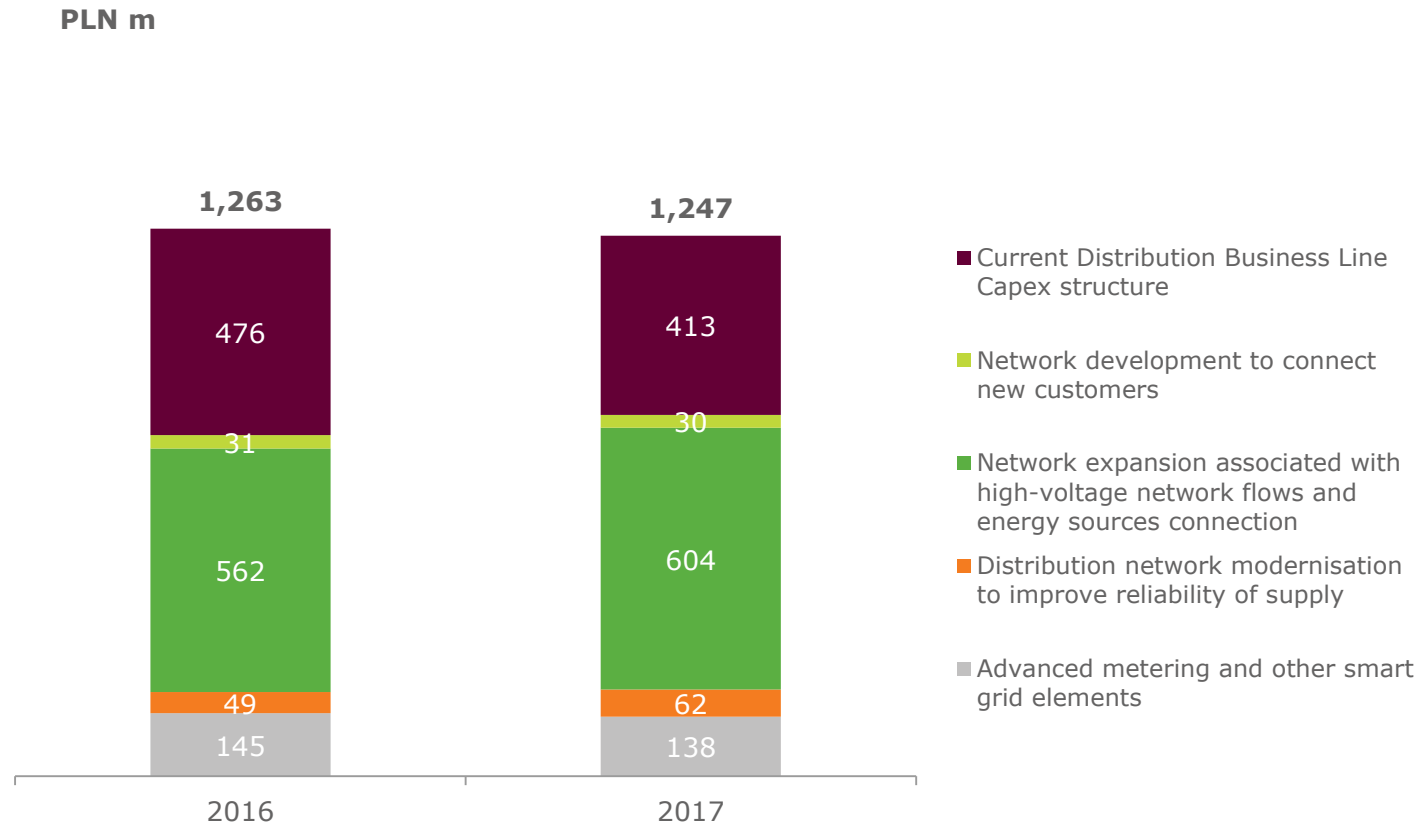
PLN m	Generation power division, including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	2016	2017	Change (%)	2016	2017	Change (%)	2016	2017	Change (%)	2016	2017	Change (%)
Revenues	180	215	20%	69	94	37%	715	659	-8%	167	163	-2%
<b>EBITDA</b>	<b>93</b>	<b>127</b>	<b>36%</b>	<b>26</b>	<b>42</b>	<b>61%</b>	<b>152</b>	<b>189</b>	<b>24%</b>	<b>38</b>	<b>35</b>	<b>-9%</b>
<i>EBITDA margin</i>	<i>51.9%</i>	<i>58.9%</i>	<i>Δ 7 p.p.</i>	<i>37.8%</i>	<i>44.4%</i>	<i>Δ 6.7 p.p.</i>	<i>21.3%</i>	<i>28.7%</i>	<i>Δ 7.4 p.p.</i>	<i>22.8%</i>	<i>21.2%</i>	<i>Δ -1.6 p.p.</i>
EBIT	61	94	54%	-279	2	>100%	-56	195	>100%	1	-1	<-100%
CAPEX	12	13	10%	1	0	-63%	182	49	-73%	20	20	-

# Structure of cost by nature – ENERGA Group

Expenses by nature (PLN m)	Q4 2016	Q4 2017	2016	2017
Depreciation of property, plant and equipment, intangible assets and investment property	253	242	957	973
Materials and energy used	264	183	680	687
incl. fuel used for balance difference	93	85	246	240
incl. fuel used (with transport)	85	77	296	326
External services	381	447	1 400	1 580
incl. transmission and transit fees	236	270	950	1 060
Taxes and fees	101	99	393	414
Employee benefits expenses	216	225	873	907
Impairment	162	-154	533	-30
Other expenses	10	13	-23	-53
Value of merchandise and raw materials	1,244	1,299	4,689	4,804
<b>Total operating expenses</b>	<b>2,632</b>	<b>2,354</b>	<b>9,502</b>	<b>9,282</b>

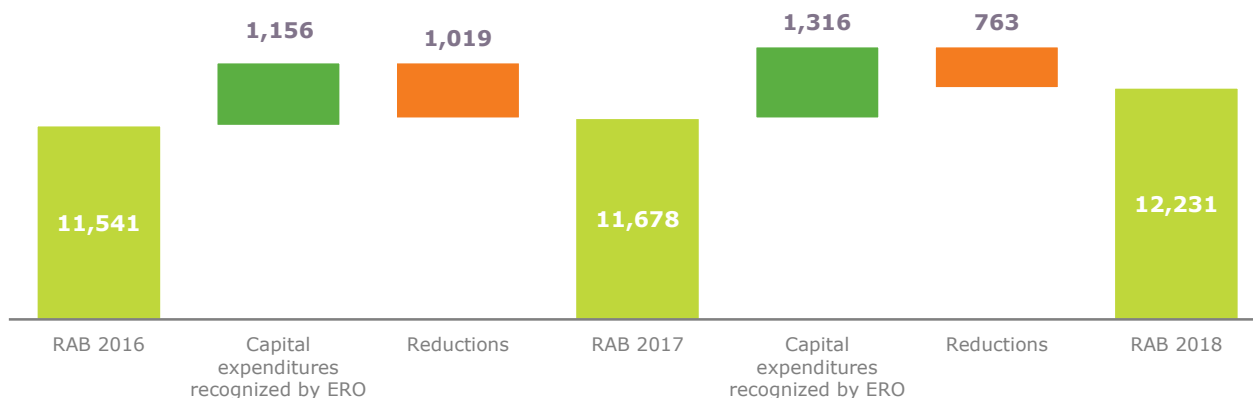
\* The data for 2016 has been adjusted in order to correctly present the value of fuel consumption

# Current Distribution Capex structure



# Regulatory asset base

RAB



Return on RAB

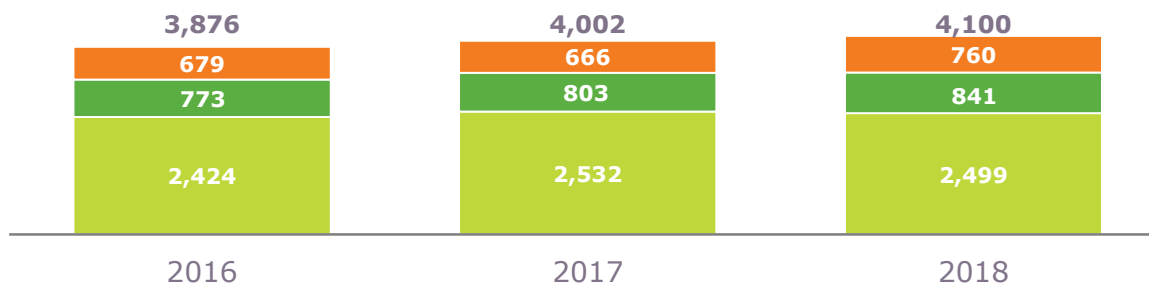
"Standard"

"Included in tariff"

Effective return on RAB

WACC	5.68%	5.63%	6.02%
Riskfree rate	2.95%	2.91%	3.26%
Q (Quality coefficient)	-	-	1.00
RC (regulatory coefficient)	1.00	0.99	1.01
Return on capital based on RAB	679	673	752
Allowed return on capital	679	666	760
Effective return on RAB	5.88%	5.71%	6.21%

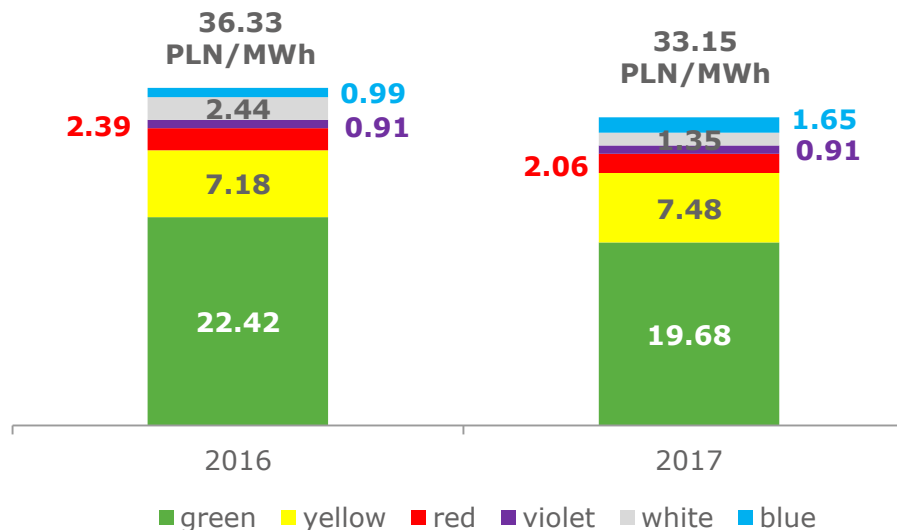
Regulated revenue



Other costs Depreciation RAB return

# Key operating data of the Sales Business Line

Structure of property rights redemption per 1 MWh of electricity sold to end customers



	Q4 2016	Q4 2017	Change (%)	2016	2017	Change (%)
Electricity sales by Sales Business Line (GWh)	7,156	6,598	-8%	24,602	23,815	-3%
<i>incl. retail sales</i>	5,262	5,382	2%	19,628	20,615	5%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	173.8	172.1	-1%	174.1	172.7	-1%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	199.7	198.1	-1%	202.3	200.2	-1%
Variable margin**	4.3%	4.1%	Δ -0.2 p.p.	4.5%	4.1%	Δ -0.4 p.p.

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

# Key operating data of the Generation Business Line

Consumption of fuels	Q4 2016	Q4 2017	Change	Change (%)	2016	2017	Change	Change (%)
<b>Coal</b>								
Quantity (000s tons)	400.5	311.7	-88.8	-22%	1,287.7	1,280.4	-7.3	-1%
Cost* (PLN m)	84.0	73.1	-10.9	-13%	282.8	306.3	23.5	8%
Cost per unit (PLN/ton)	209.8	234.6	24.8	12%	219.6	239.2	19.6	9%
Cost per unit (PLN/MWh)**	69.0	75.0	6.0	9%	74.7	81.1	6.4	9%
<b>Biomass</b>								
Quantity (000s tons)	1.1	7.7	6.7	613%	30.1	46.1	16.1	53%
Cost* (PLN m)	0.4	2.6	2.2	609%	11.0	16.0	5.0	45%
Cost per unit (PLN/ton)	333.5	331.6	-1.9	-1%	366.3	346.3	-20.0	-5%
Cost per unit (PLN/MWh)**	150.8	128.7	-22.1	-15%	133.9	138.8	4.9	4%

\* Including cost of transport

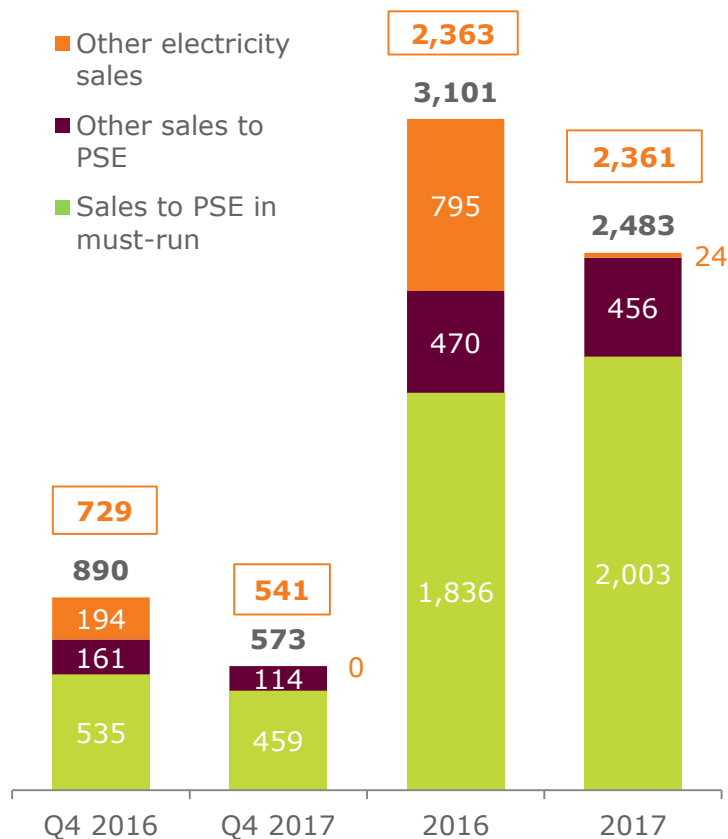
\*\* In relation to the total production of electricity and heat

CO2 emission allowances in Generation Segment	Q4 2016	Q4 2017	2016	2017
<b>CO2 emission allowances (thous. tons CO2), incl.:</b>	804	641	2,640	2,650
The amount of free CO2 emission allowances	287	216	1,084	831
Volume of emission allowances purchased	518	425	1,556	1,819
<b>Cost of CO2 purchase (PLN m)</b>	13.0	13.7	43.3	48.5

# Key operating data of ENERGA Elektrownie Ostrołęka

## Sales structure (GWh)

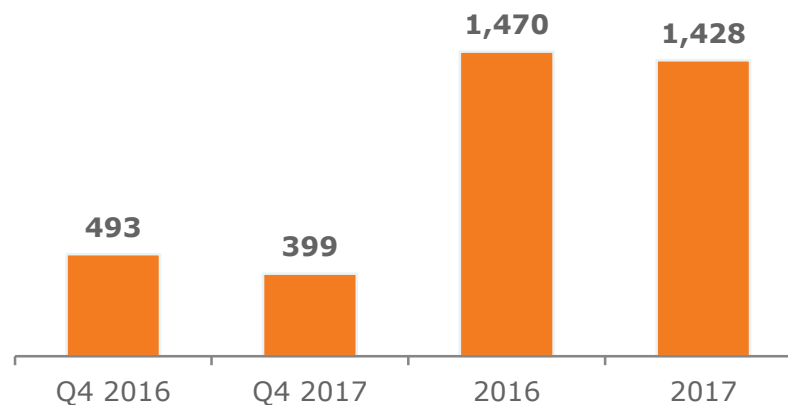
□ - Own net production



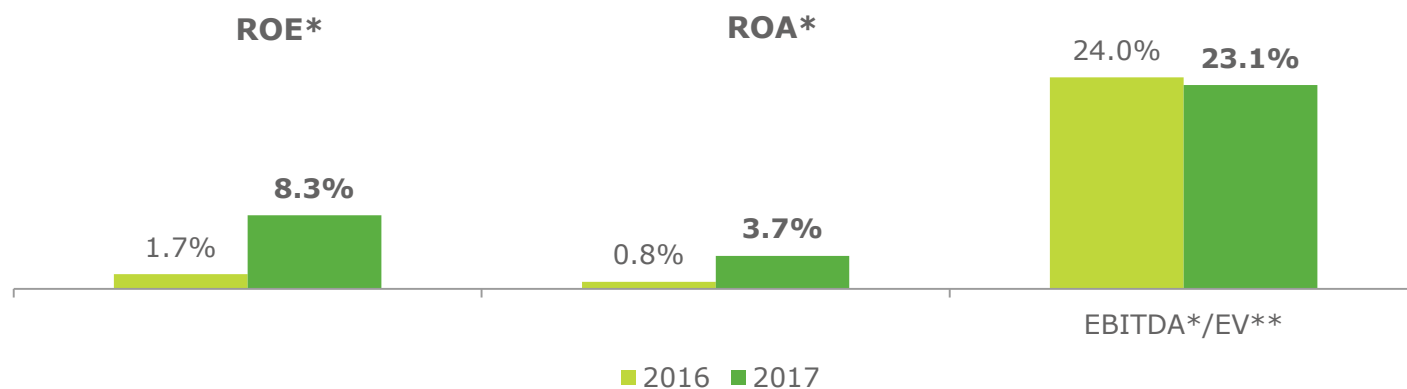
## Fuels consumption volumes and costs in 2017

	Unit	Coal
Total consumption	(000s tons)	1,125.6
Consumption cost per unit	(PLN/ton)	237.1
Total fuel cost	(PLN m)	266.9

## Gross heat production (TJ)



# Profitability and liquidity ratios



## Current Ratio

## Net debt/EBITDA

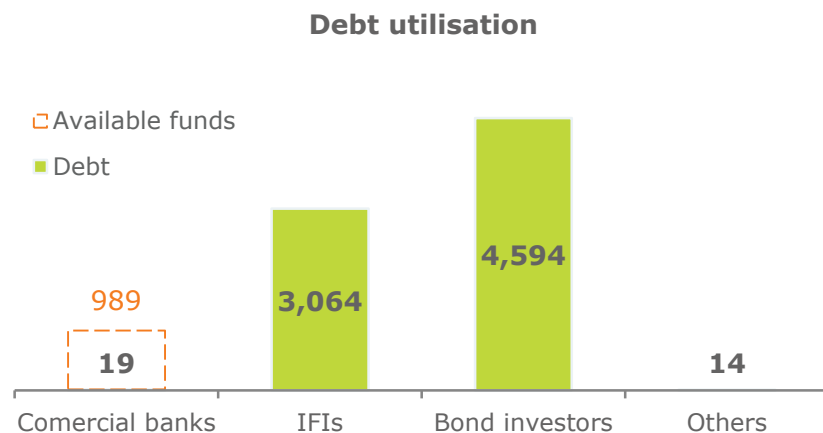


\* net profit and EBITDA for last 12 months

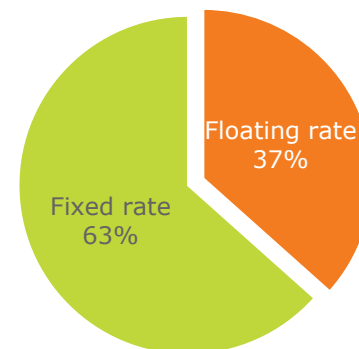
\*\* market value+ net debt

# ENERGA Group's average cost of debt

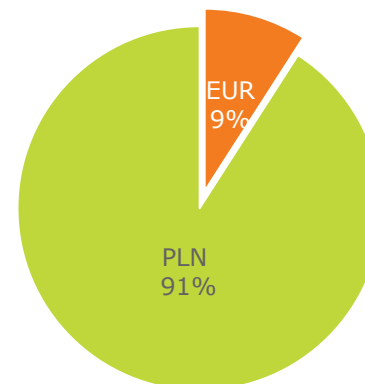
Structure of financing as at 31.12.2017



Interest rate convention of the debt utilisation

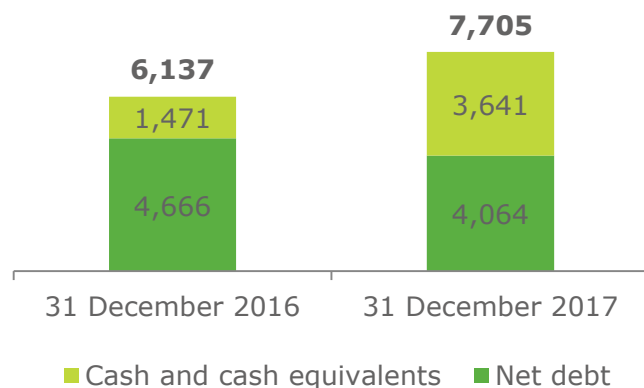


Currency of the debt utilisation

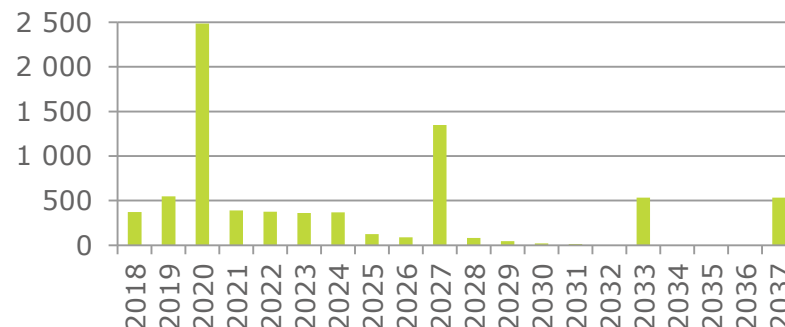


# Financial security

## Debt (PLN M)



## Net debt/ EBITDA

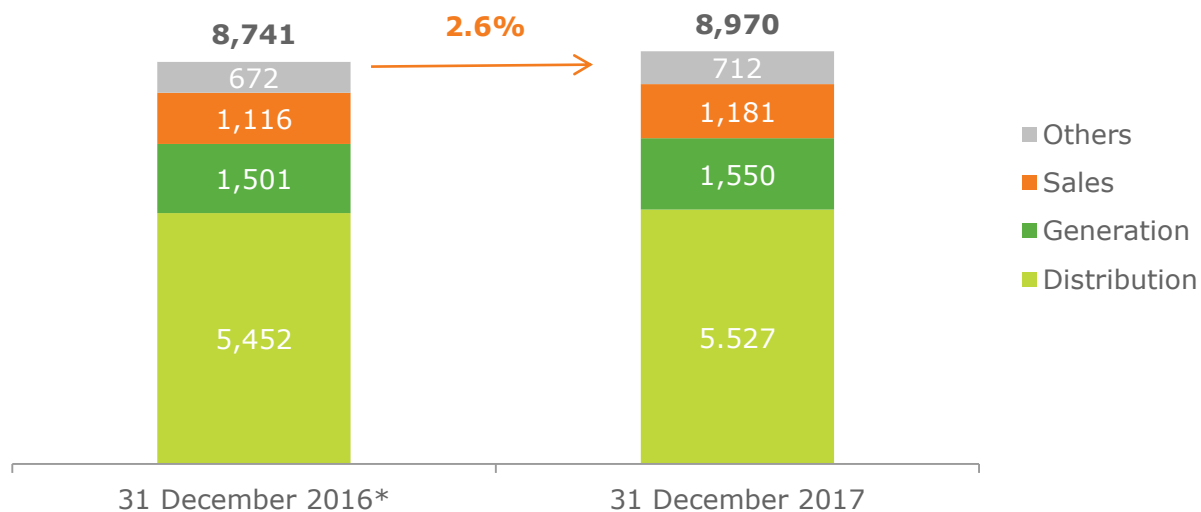


Financing programs	Issue value	Maturity/Final maturity
Domestic bond issue*	PLN 1,000	18.10.2019
Eurobond issues	EUR 500 m	03.2020
	EUR 300 m	03.2027
Hybridbonds issues	EUR 125 m	09.2033
	EUR 125 m	09.2037
Agreement with the European Investment Bank (EIB)	1,050 m	03.2030
Agreement with the European Bank for Reconstruction and Development (EBRD)	800 m	12.2024

\* as at 31 December 2017, ENERGA-OPERATOR SA held a package of ENERGA SA bonds in the total amount of 82 969 bonds with a nominal value of PLN 829.7 million, which is related to the optimization of the financing structure and cash management in the Energa Group

# Headcount in the ENERGA Group

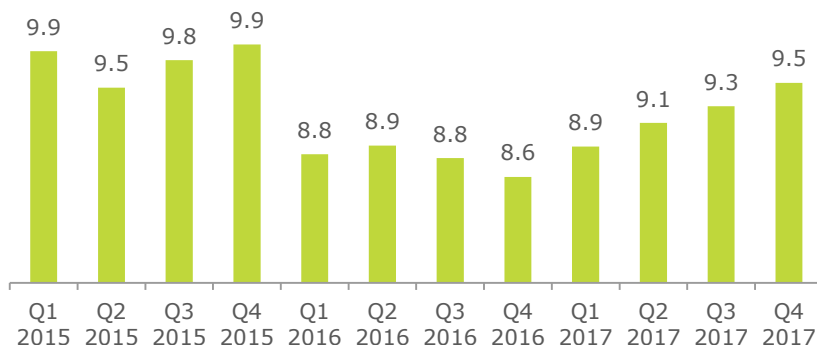
## Headcount – end of period



\* historical data has been adjusted to segmentation introduced in 2017

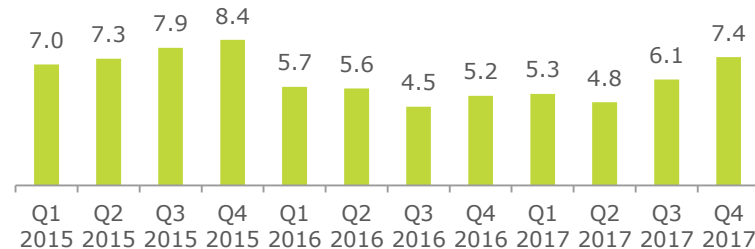
# Key market data

**Coal [PLN/GJ]**



Source: Polish coal market

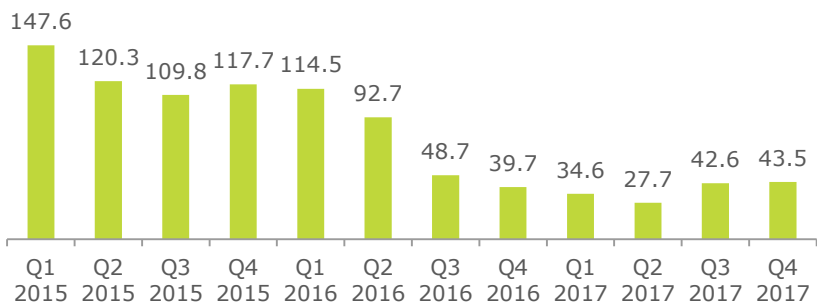
**EUA - CO2 emission rights [EUR/t]**



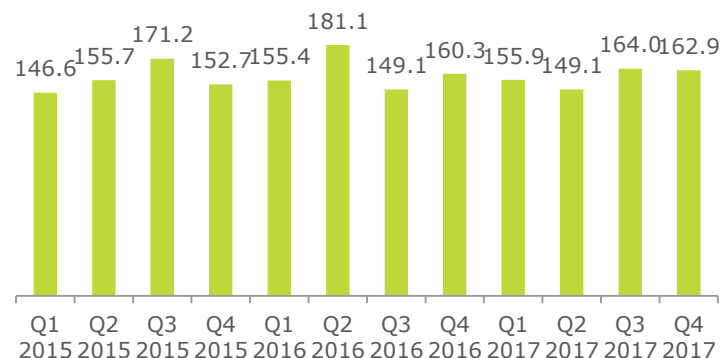
Source : Bloomberg

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

**Green certificates - PMOZE\_A (spot)**



**Electricity (spot)**



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

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