

ENERGA Group's financial results H1 2018



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9 August 2018



Energa Group in Q2 2018



Over 20% increase in the EBITDA of the Distribution Business Line



SAIDI and SAIFI indicators maintained without mass interruptions at a stable level



Nearly 85% of capital expenditures allocated to Distribution



Lower EBITDA of the Sales Business Line under pressure from high electricity prices



8.9 thou. new customers connected to the distribution network



Most important events in the Group in Q2.



Ostrołęka C: execution of an agreement with the General Contractor.



CPA: the total capacity of the facilities with which settlements have been concluded so far accounts for more than **31%** of the total installed capacity of all the sued wind farms.



New areas of activity: the first energy cluster created in cooperation with the Municipality of Żerków.



We cooperate with the best ones: The development of cooperation with various partners for the implementation of innovative energy projects, the first effects of which are energy audits which are already being carried out.



We improve effectiveness: the implementation of the TETRA radio network - a radio, digital system of dispatcher communication ensuring the transmission of voice and data i.a. for the Smart Grid



Consistent development of an offer for customers: implementation of new products, such as *Telewizja tu i tam* (*Here and there TV*), *W drodze z Energa* (*Travelling with Energa*), *Energia na zdrowie* (*Energy for health*).

Ostrołęka C Project - status

The projects is being carried out by the special purpose vehicle **Elektrownia Ostrołęka Sp. z o.o.** (the **Company**) on the basis of an Investment Agreement entered into on 8 December 2016 between Energa S.A., Enea S.A. and the Company. The General Contractor has been selected by a public contract award procedure conducted using the competitive dialogue procedure under the name "Construction of Elektrownia Ostrołęka C with a capacity of approximately 1000 MW" (the "**Procedure**").



23 March 2018

Submission of the Company's application for consent to conclude the procedure



26 March 2018

Execution of Annex 1 to the Investment Agreement increasing the estimate capital expenditures to be incurred at the **Development Stage**.



04 April 2018

Conclusion of the Procedure by the Company.



12 July 2018

Execution of an agreement with the General Contractor for the construction of the unit.

The consortium **GE Power Sp. z o.o.** and **Alstom Power Systems S.A.S** has been selected as the General Contractor for the construction of the unit

Ostrołęka C Project – participation of the Project in the Capacity Market programme

It is planned that the Ostrołęka C Project will participate in the programme Capacity Market in Poland. The entity which is to apply for the registration of the generation unit is **Elektrownia Ostrołęka Sp. z o.o.**

Most important events:



03 April 2018 – commencement of the general certification process.



05 April 2018 – the Company's representative filed an application to enter Ostrołęka C in the register of the capacity market as a planned physical generation unit.



The project has successfully passed the general certification process, no remarks or requests for supplementary information have been received from Polskie Sieci Elektroenergetyczne S.A.

Capacity Market calendar

By 22 August 2018	The issuance by the Minister of Energy of a regulation determining the implementing regulations concerning the operation of the capacity market (the parameters of main auctions, power demand).
05 September 2018	Commencement of the certification process for main auctions
31 October 2018	Termination of the certification process for main auctions
21 December 2018	Main auction for the delivery period from 2023

First CPA disputes resolved. 31% of the installed capacity already agreed

11.09.2017 - Initiation of CPA disputes

- 19 statements of claim filed against wind farms and banks.
- 3 arbitration statements of claim filed against wind farms and banks
- Discontinuation of the performance of the CPA

3 settlements

Consequences of entering into settlements

1. Termination of all disputes concerning the invalidity of CPAs.
2. Discontinuation of initiated court proceedings.
3. Definitive termination of cooperation on the basis of CPAs.
4. Continuation of cooperation on the basis of new contracts.



3 awards of the arbitration court dismissing the action of ENERGA - OBRÓT

Consequences of awards issued by arbitration courts

1. Final nature of court awards
2. Extraordinary remedy – action for annulment of the court award.
3. Cooperation to be continued on the basis of the CPA.
4. Period of disputes to be accounted for and settled (discontinuation of the purchase of rights).

2 non-final judgments of common courts dismissing the action of ENERGA - OBRÓT

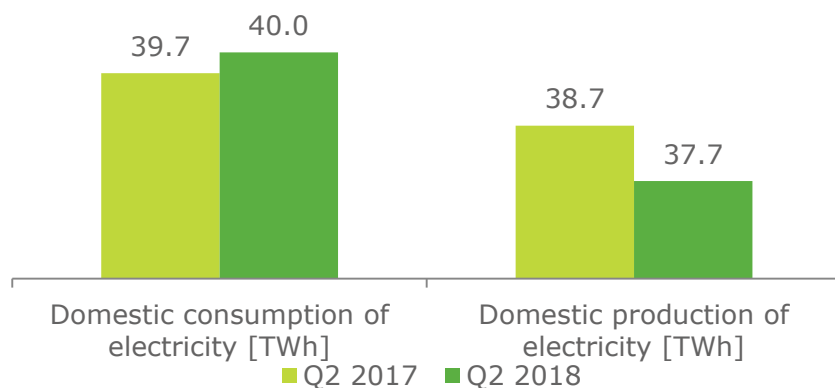
Consequences of judgments issued by common courts

1. Non-final status - judgments are not final and non-appealable.
2. Ordinary remedy – an appeal.
3. No need to continue cooperation on the basis of the CPA – the dispute continues.

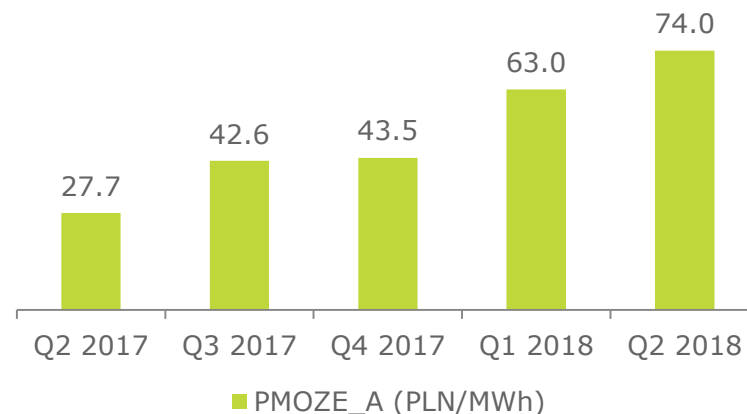
The total capacity of the facilities with which settlements have been concluded so far accounts for **more than 31%** of the total installed capacity of all the sued wind farms.

Market data

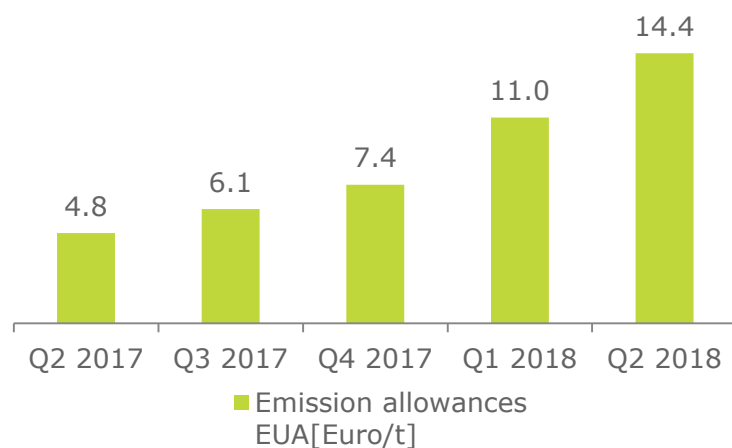
Domestic consumption and production of electricity



Green certificates prices



Prices of emission allowances



Coal sales prices



Further increase in energy prices in Q2 2018

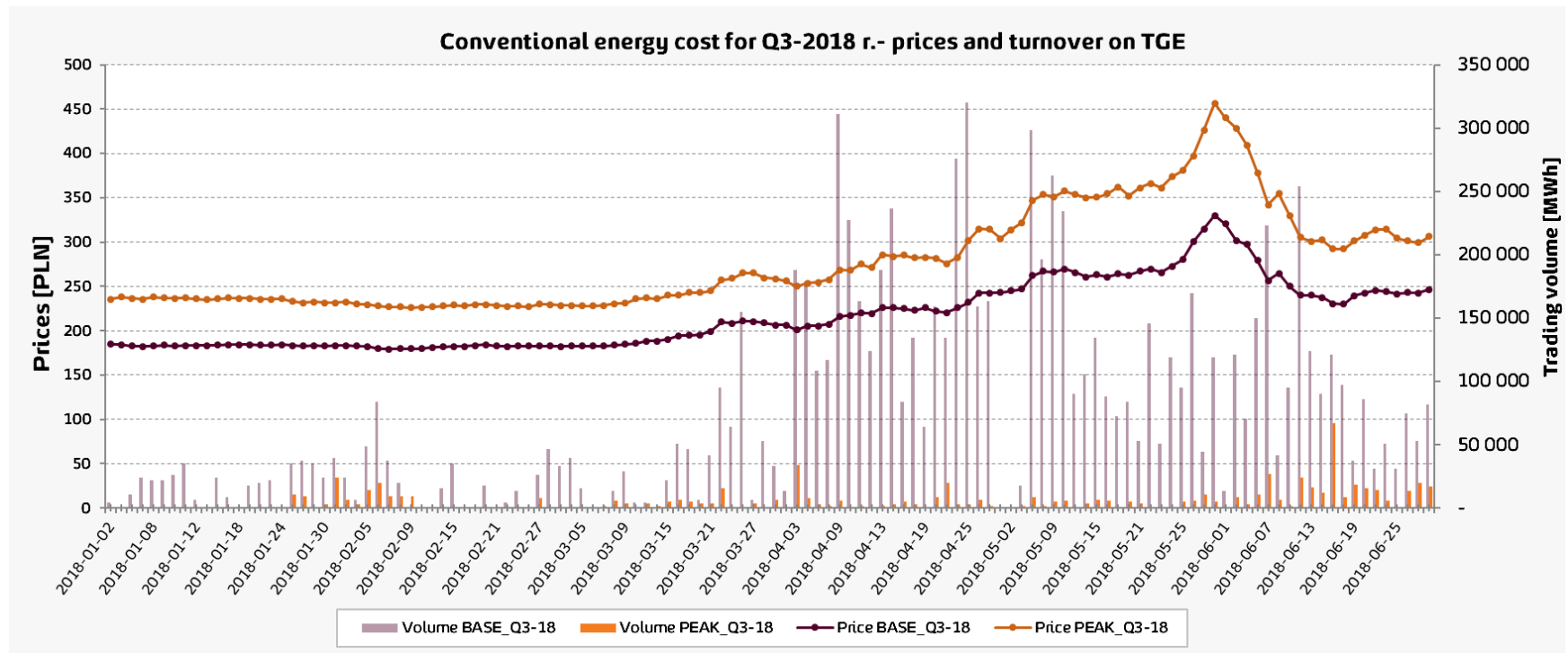
Prices of energy in the SPOT and forward market



Main drivers of an increase in energy prices:

- decrease in the production of electricity caused by, among other things, low wind generation
- high demand for electricity
- dynamic growth in the prices of CO₂ emission allowances and an increase in coal prices.

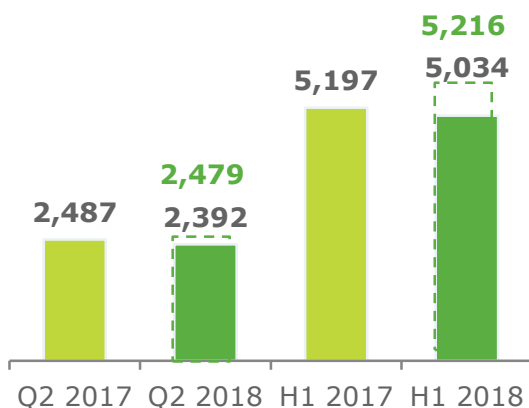
Electricity prices on the Polish Power Exchange (TGE)



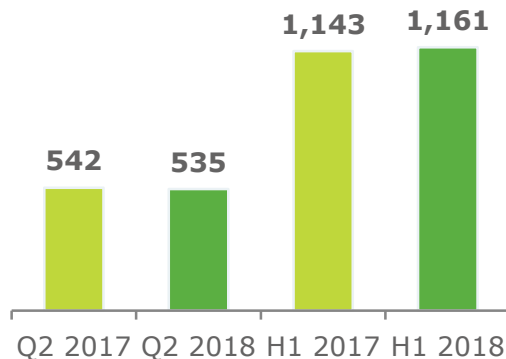
Stable results of the Energa Group

1. A significant increase in the Distribution EBITDA
2. The Sales result under pressure from high electricity purchase prices
3. A lower production of electricity and heat accompanied by an increase in the prices in emission allowances

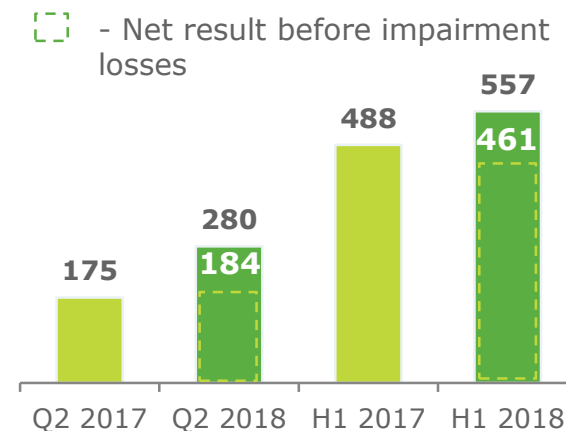
Revenues (PLN m)



EBITDA (PLN m)



Net profit (PLN m)



 - Net result before impairment losses

 The level of revenues using a similar presentation as in the previous year. In 2018, in result of IFRS 15 application, the presentation of the transitional fee and connection fee revenues in the Distribution Business Line changed

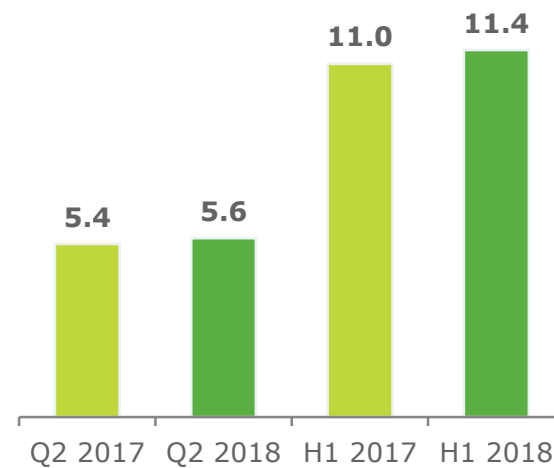
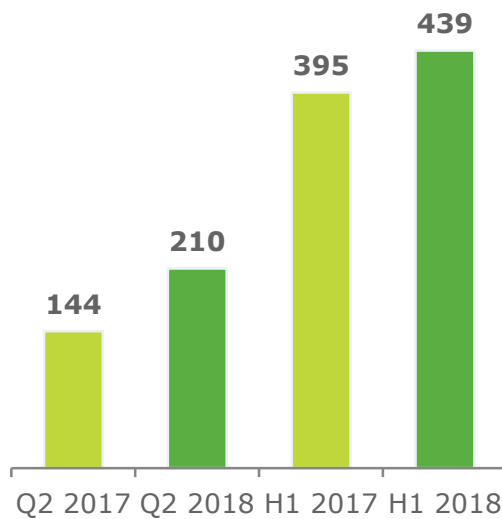
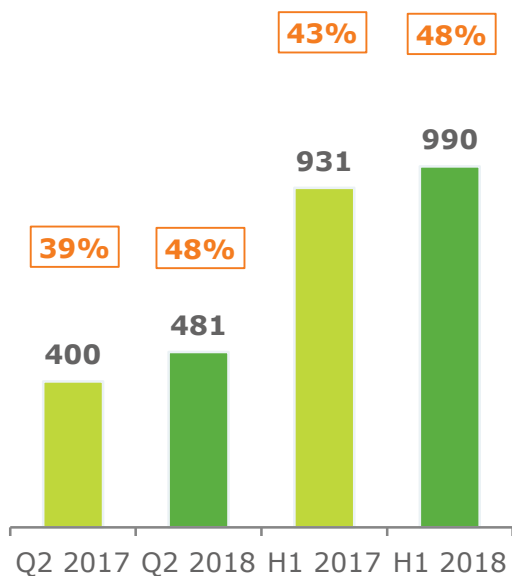
Good quarter in Distribution

EBITDA (PLN m)

Net profit (PLN m)

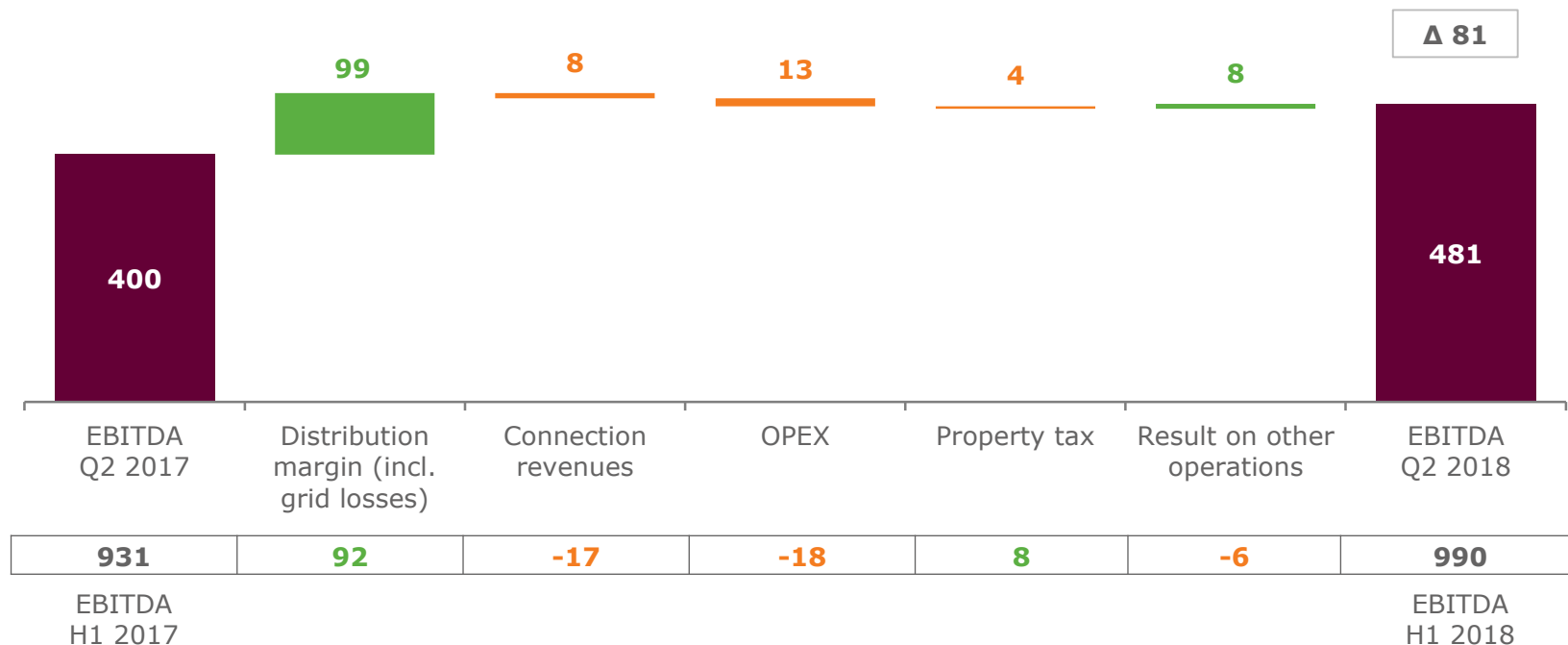
Distribution of electricity (TWh)

□ EBITDA margin



EBITDA of the Distribution Business Line

EBITDA Bridge of the Distribution Business Line (PLN m)

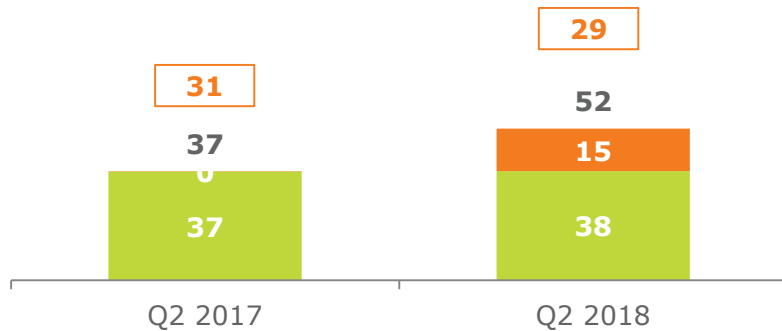


- ➔ A change in the method of measurement of sales revenues which have not been invoiced yet as a result of transition to reports generated from the new billing system – an increase in the margin on distribution
- ➔ Decrease in revenue from connections due to, amongst others, the application of IFRS 15 and non-recognition of such revenue over time

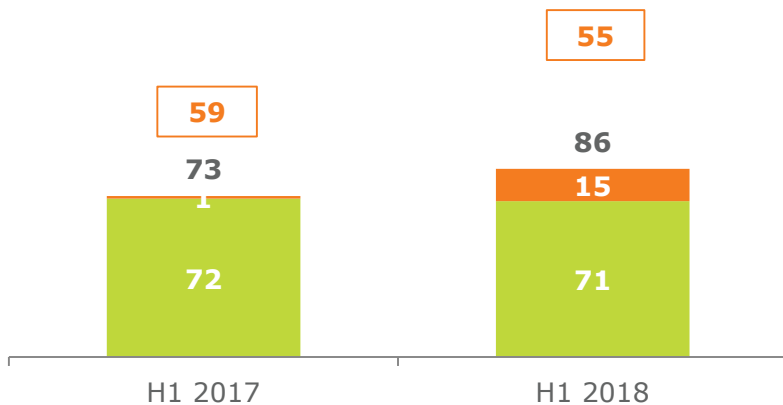
Reliability indices

SAIDI (minutes per customers)

SAIDI (planned, unplanned and catastrophic)

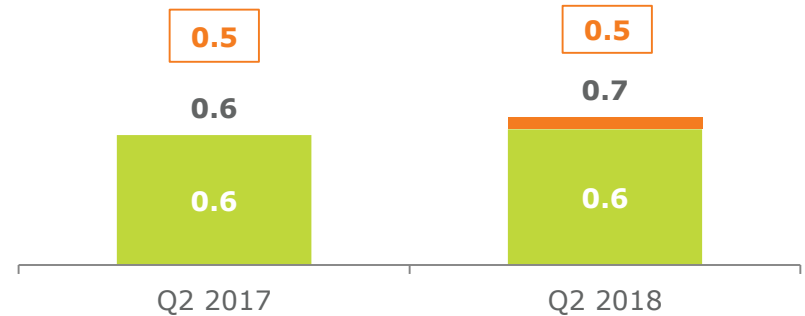


SAIDI (planned, unplanned and catastrophic)



SAIFI (interruptions per customers)

SAIFI (planned, unplanned and catastrophic)



SAIFI (planned, unplanned and catastrophic)



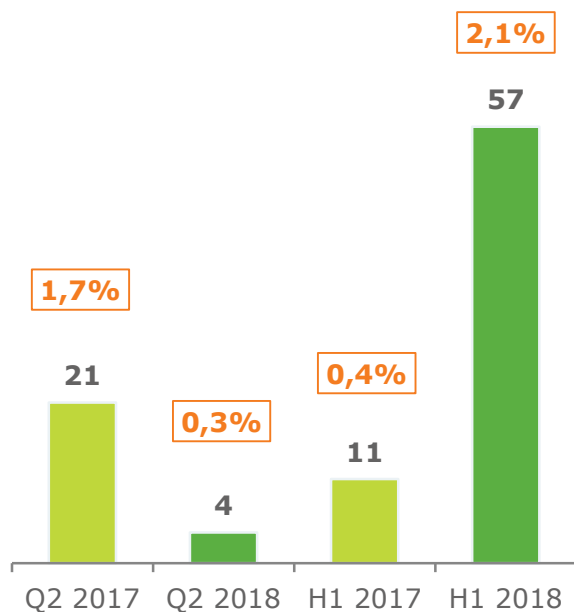
■ mass interruptions ■ without mass interruptions

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

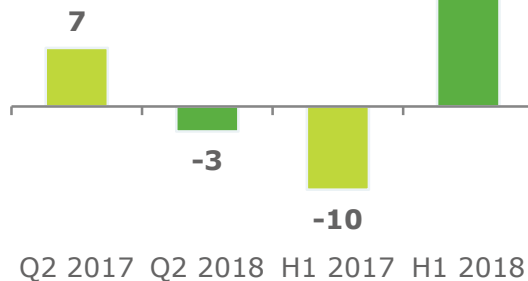
Sales results under pressure from high electricity purchase prices on the market

EBITDA (PLN m)

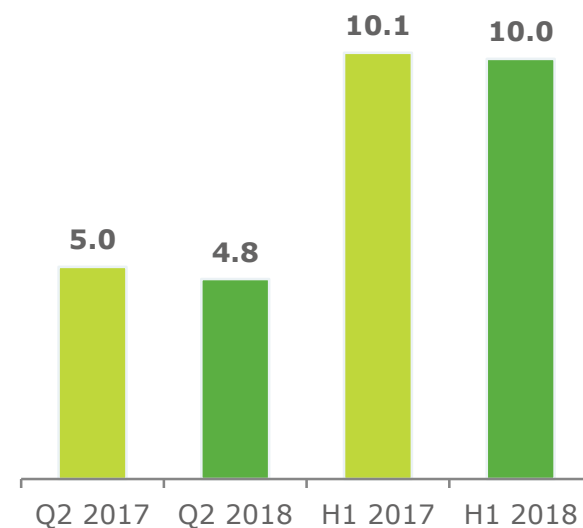
□ - Marża EBITDA



Net profit (PLN m)

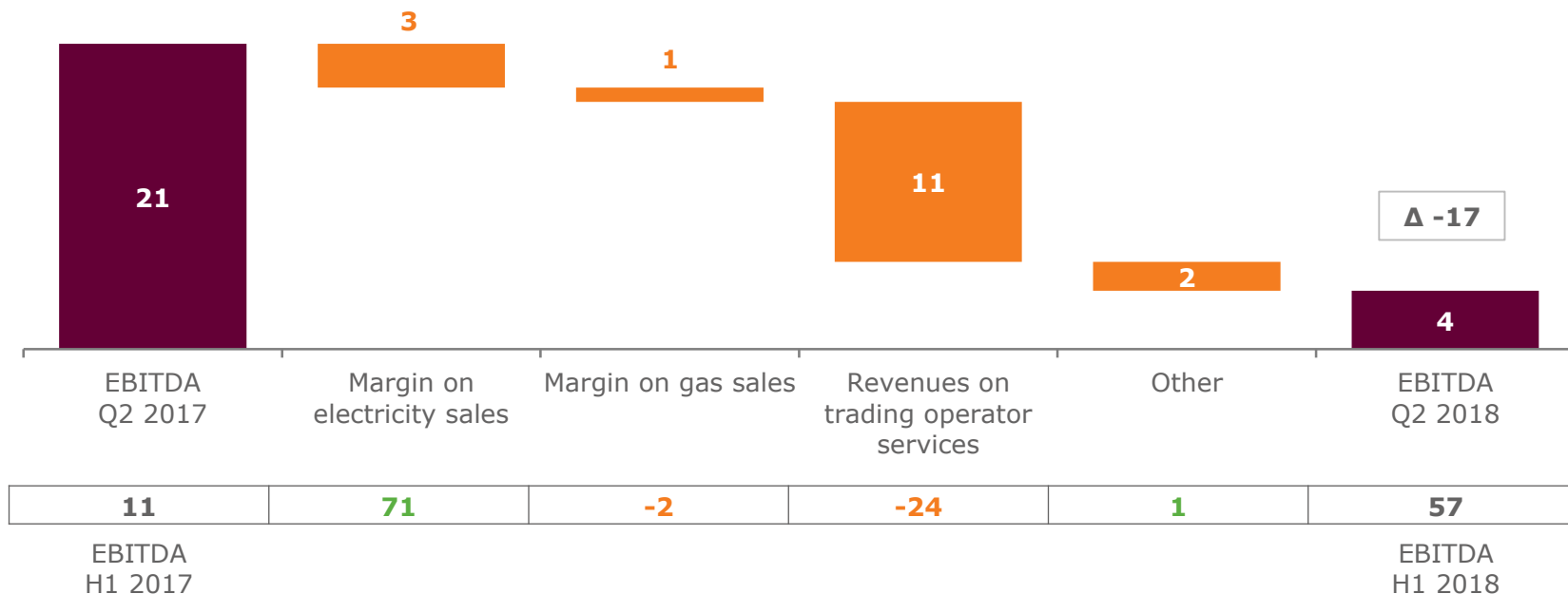


Retail sales of electricity (TWh)



EBITDA of the Sales Business Line

EBITDA Bridge of the Sales Business Line (PLN m)

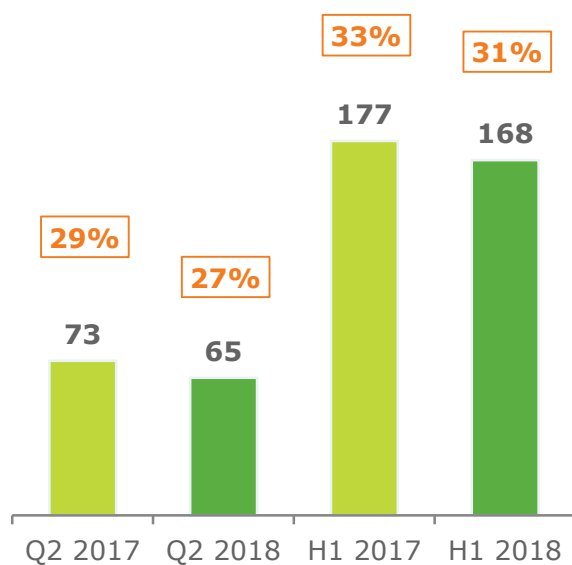


- ➔ High electricity purchase prices on the market have neutralised the positive effect of the limitation of additional burdens (long-term agreements for green certificates and the Offtaker of Last Resort)
- ➔ Lower revenues from the sale of the services of the commercial operator – an effect of the limitation of obligations of the Offtaker of Last Resort

Stable Generation results

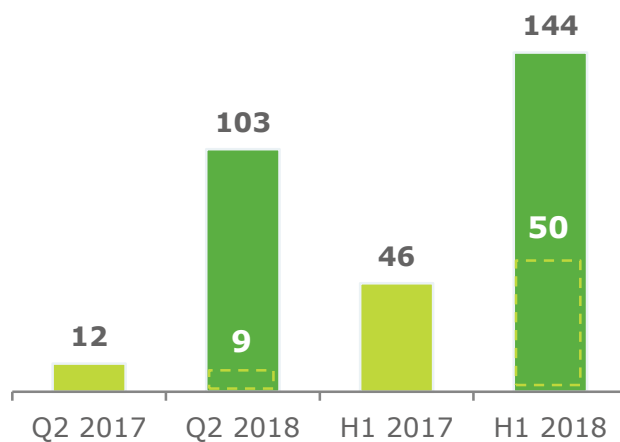
EBITDA (PLN m)

□ - EBITDA margin



Net profit (PLN m)

□ - Net result before impairment losses

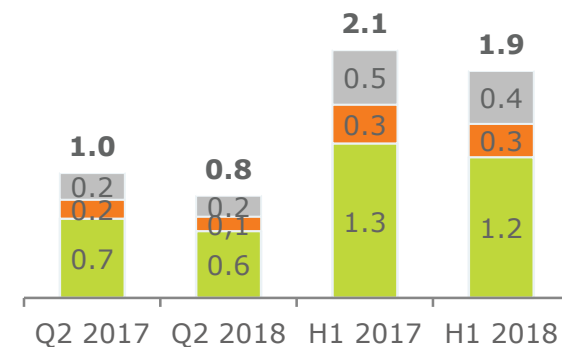


Gross production of electricity (TWh)

Gross production of electricity

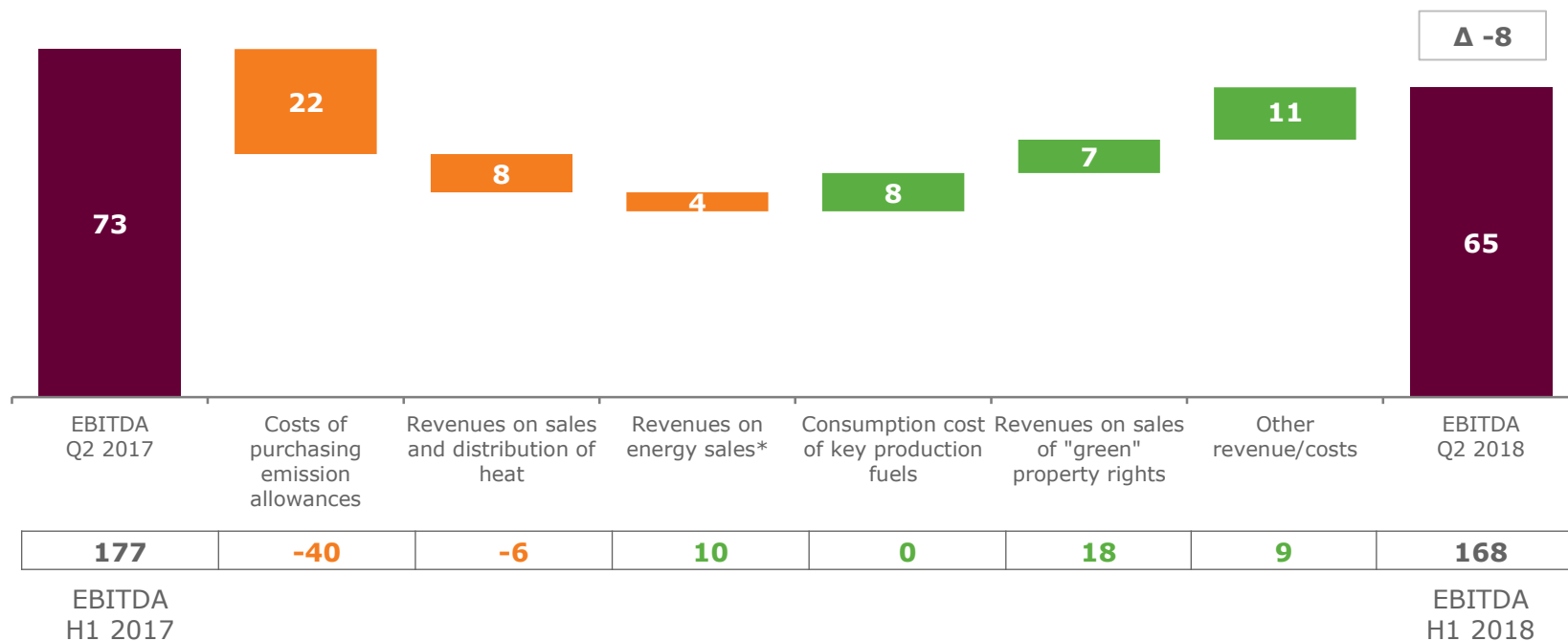
■ RES without support

■ RES with support



Results depending on the level of market prices and production volumes

EBITDA Bridge of the Generation Business Line (PLN m)

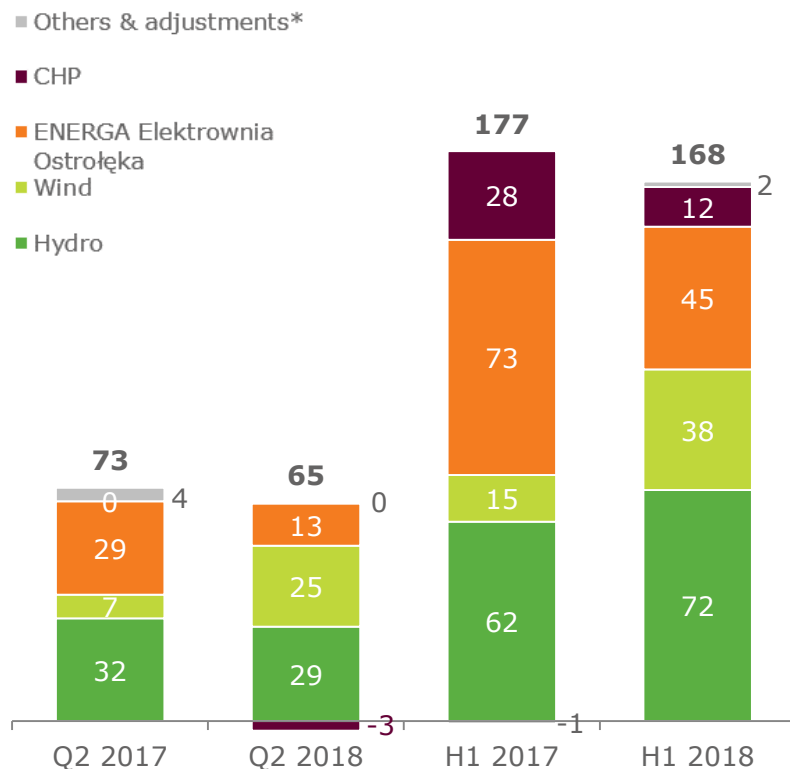


*includes net electricity trading (revenue less cost)

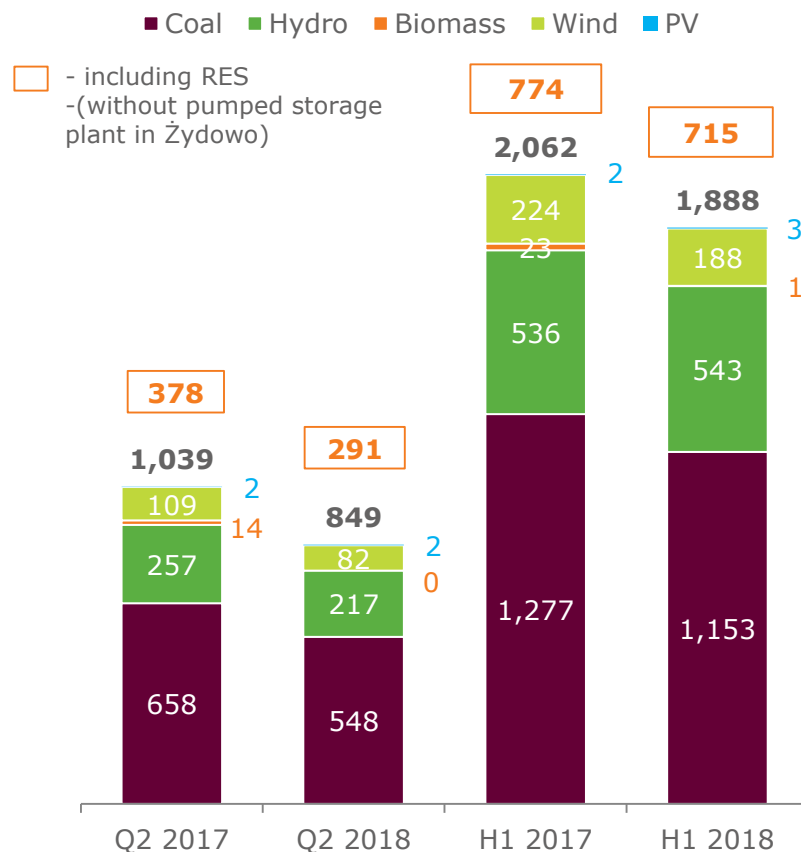
- ➡ Higher prices of emission allowances
- ➡ Lower production of energy and heat
- ➡ Higher market prices of energy (mainly at the Ostrołęka Power Plant) and of property rights

Production by main types of sources

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 368 m of capital expenditures made in Q2 2018

The ENERGA Group's total capital expenditures in Q2 2018 were **PLN 368 m**.

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

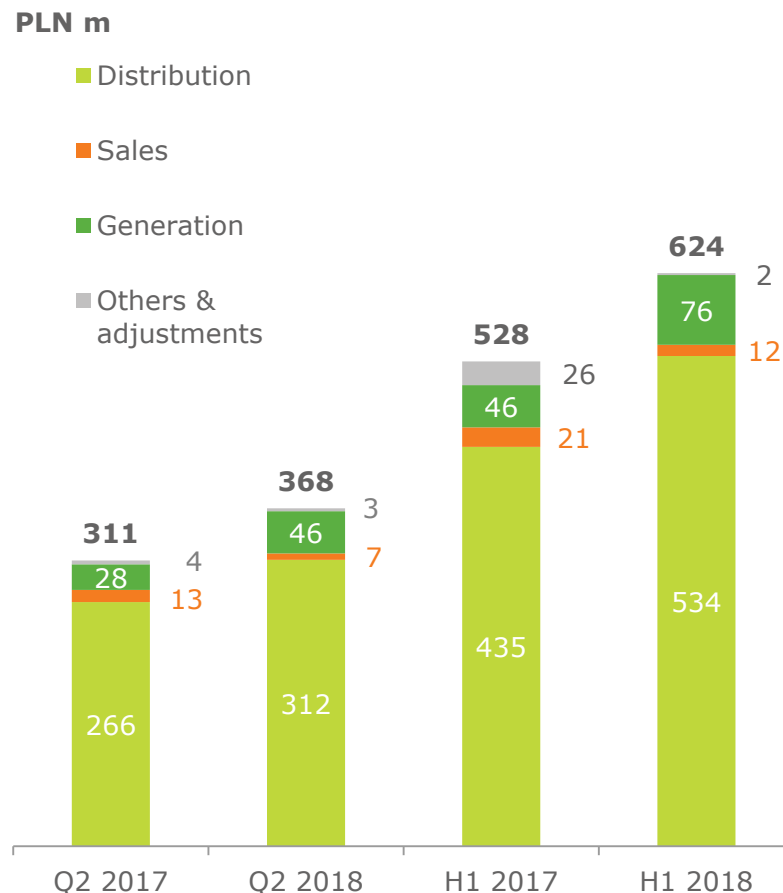
1. **PLN137 m** grid development to facilitate connection of new customers
2. **PLN144 m** distribution network modernization to improve reliability of supply
3. **PLN10 m** other expenditures for innovative grid technologies and solutions (Smart Grid)

contributed to :

- a. **8.9 thous.** - new customer connections
- b. **1,018 km** - built and modernized LV, MV and HV lines
- c. **6 MW** - new RES connections to the network

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

- a. **PLN 27 m** Elektrownia in Ostrołęka (mainly overhaul of block No. 1 and adjustment to the IED Directive)
- b. **PLN 11 m** CHP (mainly modernization of heat sources)



Factors affecting ENERGA Group result in the next quarter

Expenditures incurred on the grid so as to meet quality regulation requirements in the Distribution Business Line

Electricity prices on the forward market, SPOT market and balancing market

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

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

Settlement discussions to end litigation and enter into new agreements for purchase of property rights

Introduction of amendments to the Renewable Energy Sources Act that significantly reduce the costs of discharging the function of the Offtaker of Last Resort as of 1 January 2018

Growing competition on the electricity sale market

Must-run production level in the Ostrołęka Power Plant

Weather and hydrometeorological conditions

Actual rate received and the operating reserve volume

Prices of CO2 emission allowances

ENERGA Group's financial results H1 2018



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Additional information

ENERGA Group's key assets

Distribution

1. 187 thous. km of power lines
2. 11.4 TWh - electricity delivered in H1 2018 (5.6 TWh in Q2 2018)
3. Geographical coverage of 75 tys. km²

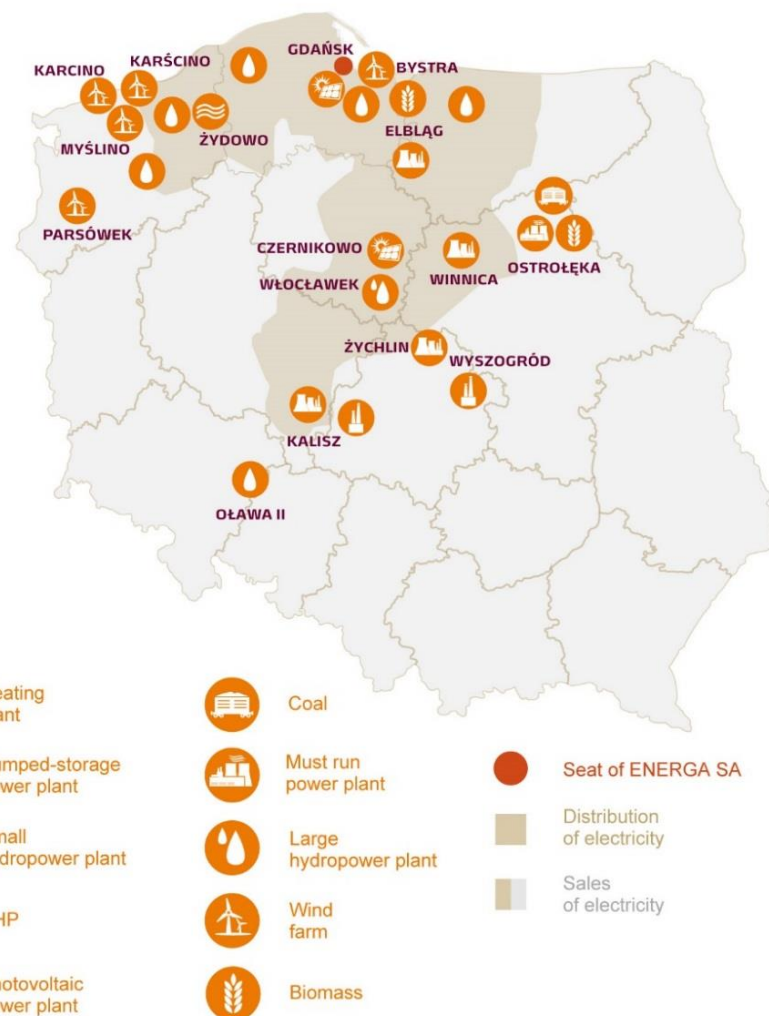
Generation*

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 Gdańsk (1.6 MWe) and in Czernikowo (3.8 MWe)
4. System power plant in Ostrołęka B (681 MW, new heat source EEO B – 220 MWt)
5. Other CHP plants (82 MW, 443 MWt)

Sales

1. 3.0 million customers
2. 10.0 TWh – electricity sold in H1 2018 (4.8 TWh in Q2 2018)

* Installed capacity



Summary of Q2 2018

PLN m	Distribution*			Sales			Generation		
	Q2 2017	Q2 2018	Change (%)	Q2 2017	Q2 2018	Change (%)	Q2 2017	Q2 2018	Change (%)
Revenues	1,024	1,005	-2%	1,267	1,260	-1%	253	242	-4%
EBITDA	400	481	20%	21	4	-81%	73	65	-11%
<i>EBITDA margin</i>	<i>39.1%</i>	<i>47.9%</i>	<i>Δ 8.8 p.p.</i>	<i>1.7%</i>	<i>0.3%</i>	<i>Δ -1.3 p.p.</i>	<i>28.9%</i>	<i>26.9%</i>	<i>Δ -2 p.p.</i>
EBIT	210	292	39%	10	-6	<-100%	32	142	>100%
Net profit/loss	144	210	46%	7	-3	<-100%	12	103	>100%
<i>Net profit/loss margin</i>	<i>14.1%</i>	<i>20.9%</i>	<i>Δ 6.8 p.p.</i>	<i>0.6%</i>	<i>-0.2%</i>	<i>Δ -0.8 p.p.</i>	<i>4.7%</i>	<i>42.6%</i>	<i>Δ 37.8 p.p.</i>
CAPEX	266	312	17%	13	7	-46%	28	46	64%

PLN m	Generation business lines, including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	Q2 2017	Q2 2018	Change (%)	Q2 2017	Q2 2018	Change (%)	Q2 2017	Q2 2018	Change (%)	Q2 2017	Q2 2018	Change (%)
Revenues	53	50	-6%	20	23	13%	144	142	-1%	32	25	-23%
EBITDA	32	29	-8%	7	25	>100%	29	13	-55%	0	-3	<-100%
<i>EBITDA margin</i>	<i>60.5%</i>	<i>59.2%</i>	<i>Δ -1.3 p.p.</i>	<i>36.6%</i>	<i>110.2%</i>	<i>Δ 73.6 p.p.</i>	<i>20.3%</i>	<i>9.3%</i>	<i>Δ -11 p.p.</i>	<i>0.2%</i>	<i>-12.3%</i>	<i>Δ -12.5 p.p.</i>
EBIT	24	21	-10%	-1	133	>100%	14	-3	<-100%	-9	-11	-25%
CAPEX	2	3	67%	0	0	-100%	22	27	25%	3	11	>100%

Summary of H1 2018

PLN m	Distribution*			Sales			Generation		
	H1 2017	H1 2018	Change (%)	H1 2017	H1 2018	Change (%)	H1 2017	H1 2018	Change (%)
Revenues	2,175	2,072	-5%	2,617	2,683	3%	531	546	3%
EBITDA	931	990	6%	11	57	>100%	177	168	-5%
<i>EBITDA margin</i>	42.8%	47.8%	Δ 5 p.p.	0.4%	2.1%	Δ 1.7 p.p.	33.3%	30.8%	Δ -2.6 p.p.
EBIT	550	613	11%	-11	37	>100%	95	205	>100%
Net profit/loss	395	439	11%	-10	35	>100%	46	144	>100%
<i>Net profit/loss margin</i>	18.2%	21.2%	Δ 3 p.p.	-0.4%	1.3%	Δ 1.7 p.p.	8.7%	26.4%	Δ 17.7 p.p.
CAPEX	435	534	23%	21	12	-43%	46	76	65%

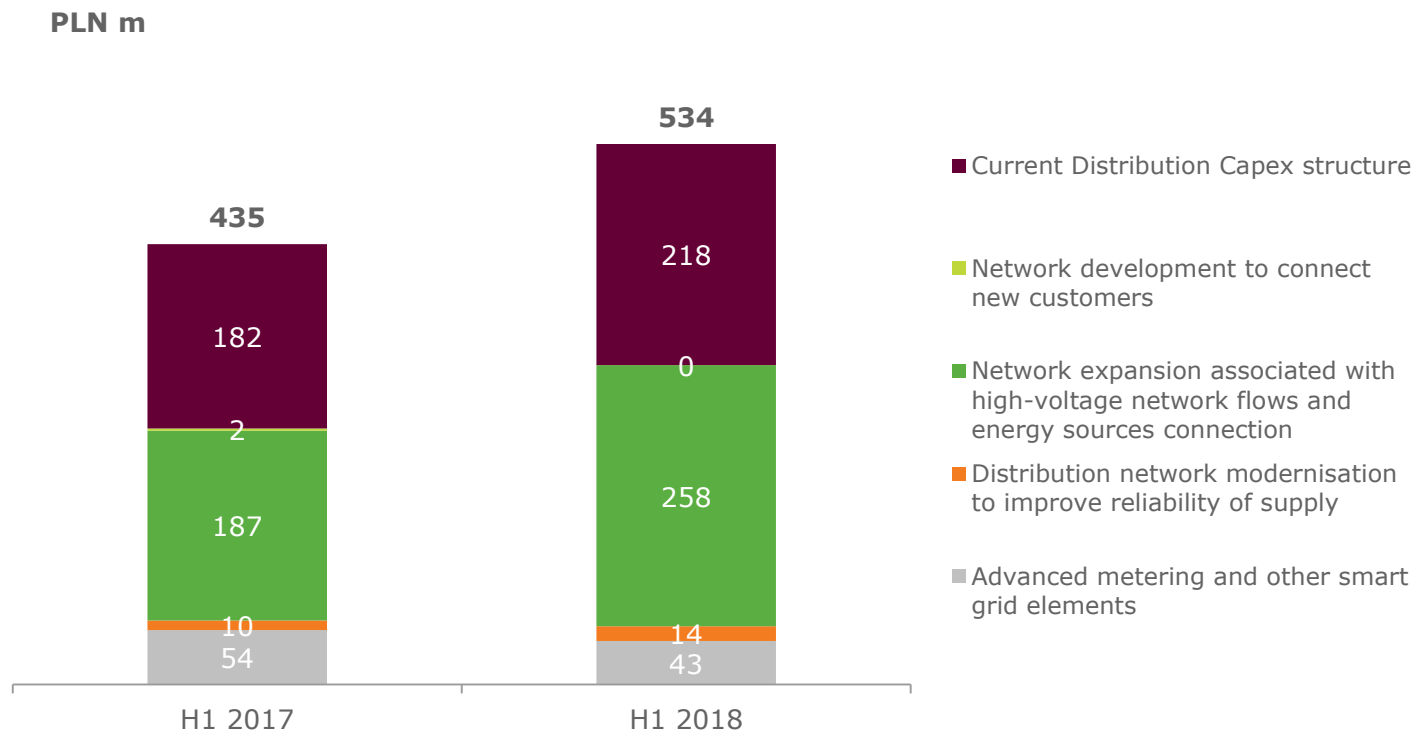
PLN m	Generation business lines, including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	H1 2017	H1 2018	Change (%)	H1 2017	H1 2018	Change (%)	H1 2017	H1 2018	Change (%)	H1 2017	H1 2018	Change (%)
Revenues	106	117	10%	40	47	16%	290	291	0%	90	87	-4%
EBITDA	62	72	16%	15	38	>100%	73	45	-39%	28	12	-55%
<i>EBITDA margin</i>	58.5%	61.5%	Δ 3 p.p.	36.3%	80.5%	Δ 44.2 p.p.	25.3%	15.3%	Δ -10 p.p.	30.6%	14.2%	Δ -16.4 p.p.
EBIT	46	56	22%	-2	138	>100%	42	13	-69%	10	-4	<-100%
CAPEX	4	4	6%	0	0	-100%	35	44	26%	5	21	>100%

Structure of cost by nature – ENERGA Group

Expenses by nature (PLN m)	Q2 2017	Q2 2018	H1 2017	H1 2018
Depreciation of property, plant and equipment, intangible assets and investment property	242	239	488	477
Materials and energy used	155	108	332	282
incl. fuel used for balance difference	50	17	103	70
incl. fuel used (with transport)	80	72	156	156
External services	363	317	730	613
incl. transmission and transit fees	265	191	520	379
Taxes and fees	102	115	205	241
Employee benefits expenses	229	239	479	500
Impairment	20	-103	30	-86
Other expenses	-12	1	-33	-9
Value of merchandise and raw materials	1,133	1,066	2,356	2,211
Total operating expenses	2,233	1,982	4,585	4,230

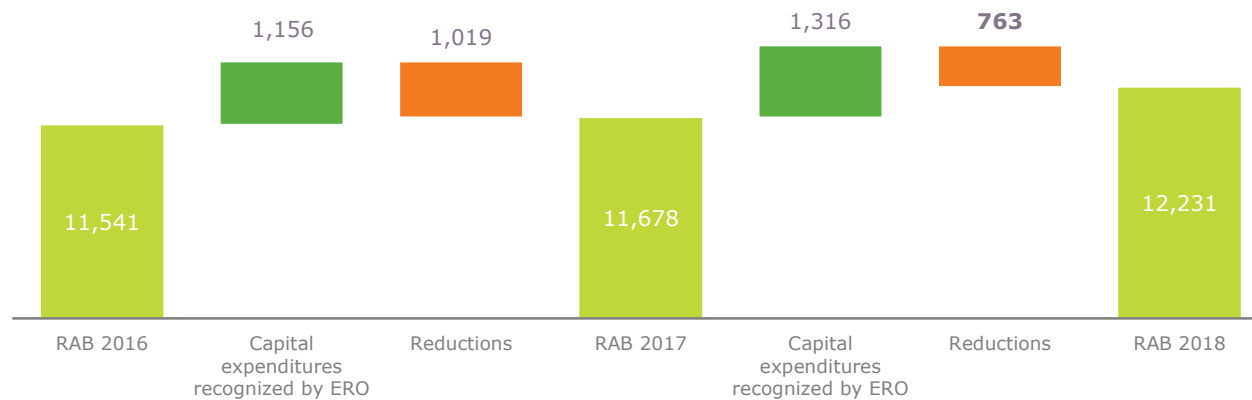
* A decrease in costs of external services was mainly due to the change of presentation of the costs of the transitional fee – revenues are adjusted downwards by the value of the transitional fee previously presented under costs.

Current Distribution Capex structure



Regulatory asset base

RAB



Return on RAB

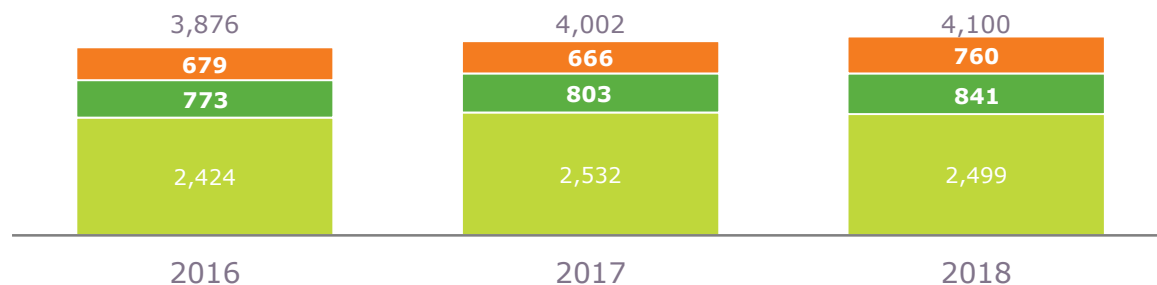
„Standard“

„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%

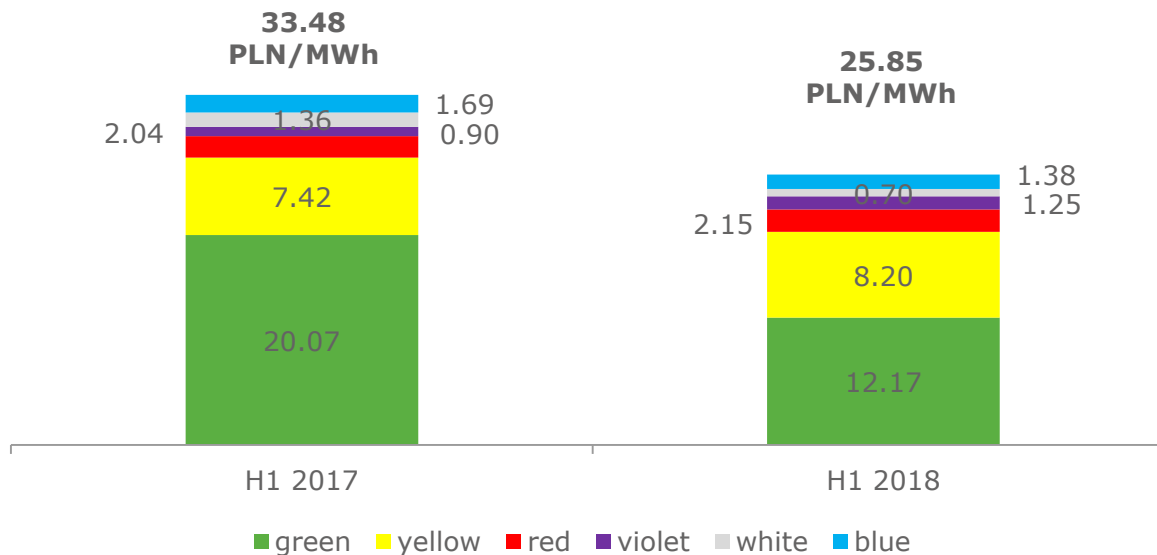
Regulated revenue



■ 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



	Q2 2017	Q2 2018	Change	H1 2017	H1 2018	Change
Electricity sales by Sales Business Line (GWh)	5,760	5,598	-3%	11,703	11,816	1%
<i>incl. retail sales</i>	5,047	4,754	-6%	10,141	9,998	-1%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	170.2	181.4	7%	172.1	178.8	4%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	194.0	202.4	4%	199.5	199.9	0%
Variable margin**	5.4%	5.1%	Δ -0.3 p.p.	4.1%	6.7%	Δ 2.5 p.p.

* The 1st degree variable margin calculated as the product of the result and revenues from the sale of electricity

Key operating data of the Generation Business Line

Zużycie paliw	Q2 2017	Q2 2018	Change	Change (%)	H1 2017	H1 2018	Change	Change (%)
Węgiel kamienny								
Coal	293.8	257.2	-36.6	-12%	607.0	573.7	-33.2	-5%
Quantity (000s tons)	73.8	71.5	-2.3	-3%	146.0	153.9	7.9	5%
Cost* (PLN m)	251.2	278.2	27.0	11%	240.6	268.3	27.7	12%
Cost per unit (PLN/ton)	87.2	102.2	15.0	17%	76.8	87.7	10.9	14%
Cost per unit (PLN/MWh)**								
Biomass	14.8	-	-14.7	-100%	24.3	0.9	-23.4	-96%
Quantity (000s tons)	5.3	-	-5.3	-100%	8.5	0.3	-8.2	-97%
Cost* (PLN m)	358.4	171.3	-187.1	-52%	348.9	333.8	-15.1	-4%
Cost per unit (PLN/ton)	139.5	-	-	-	142.5	165.5	23.0	16%

* Including cost of transport

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

CO2 emission allowances in Generation Segment	Q2 2017	Q2 2018	H1 2017	H1 2018
CO2 emission allowances (thous. tons CO2), incl.:	622	518	1,265	1,167
The amount of free CO2 emission allowances	196	160	427	340
Volume of emission allowances purchased	426	359	837	827
Cost of CO2 purchase (PLN m)	8.2	30.1	17.1	57.5

Key operating data of ENERGA Elektrownie Ostrołęka

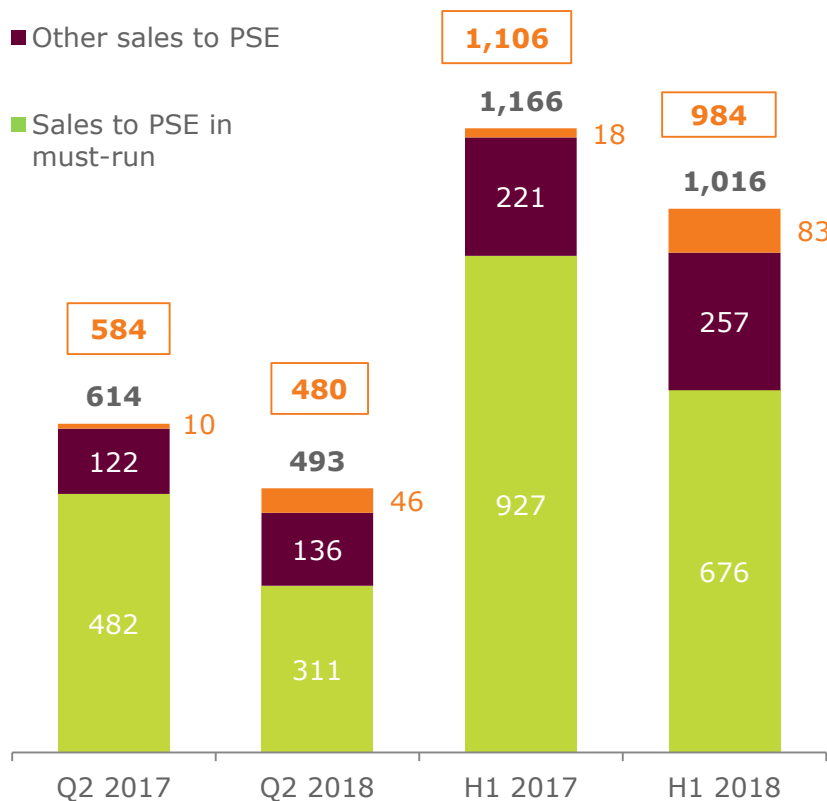
Sales structure (GWh)

□ - Own net production

■ Other electricity sales

■ Other sales to PSE

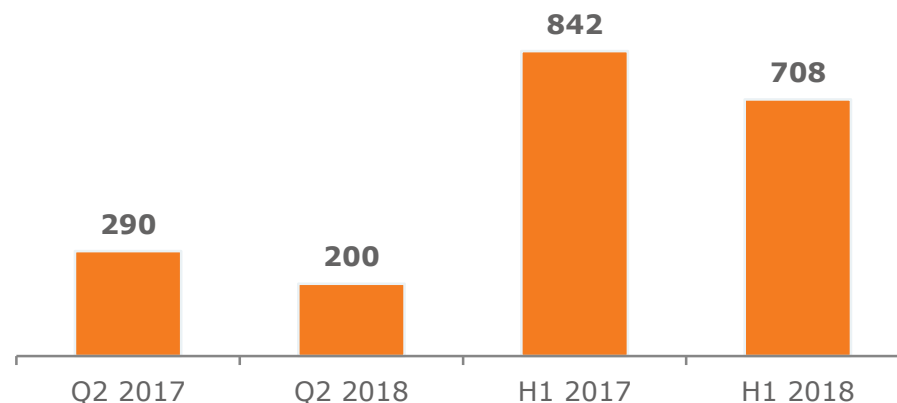
■ Sales to PSE in must-run



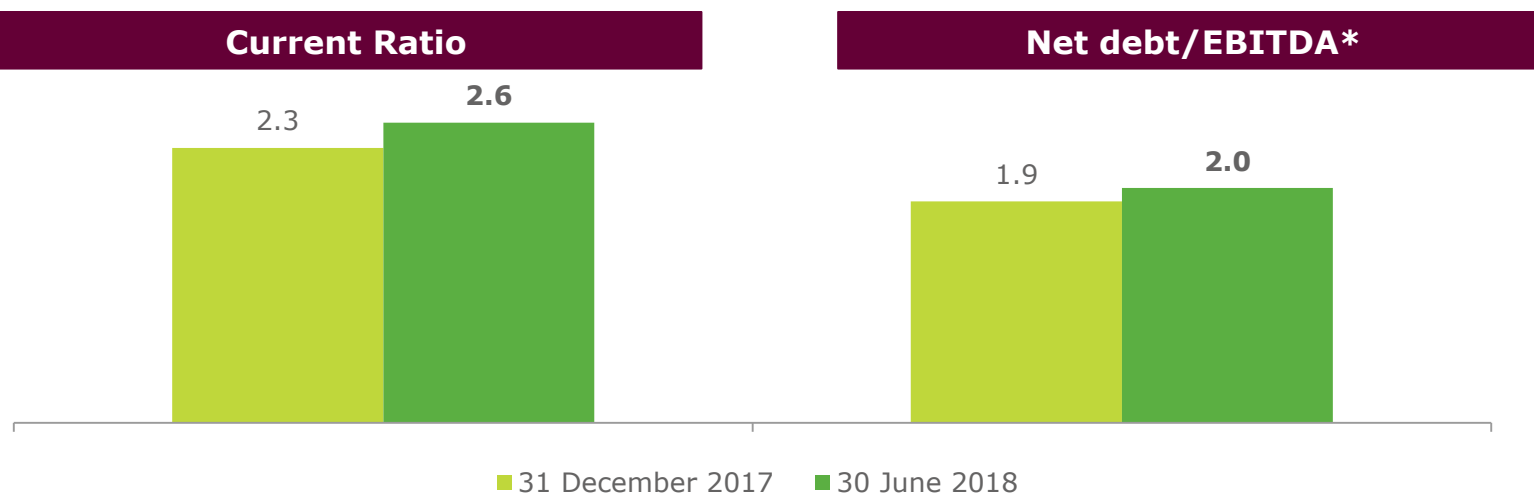
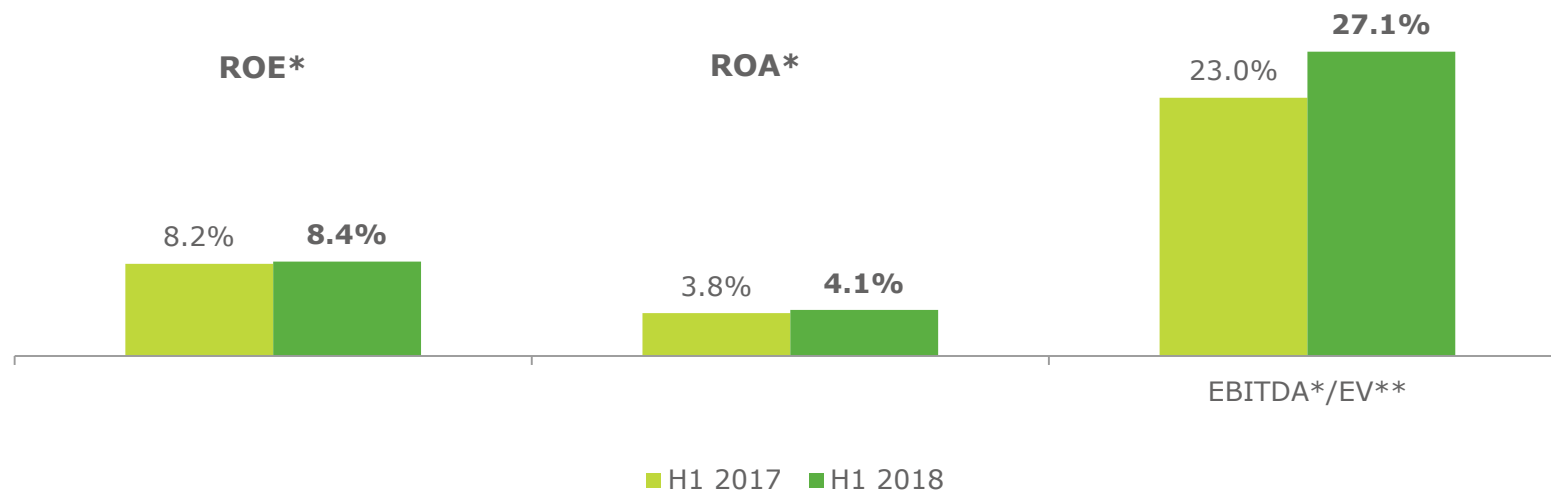
Fuels consumption volumes and costs in H1 2018

	Jedn.	Węgiel
Total consumption	(000s tons)	478.1
Consumption cost per unit	(PLN/ton)	263.5
Total fuel cost	(PLN m)	126.0

Gross heat production (TJ)



Profitability and liquidity ratios



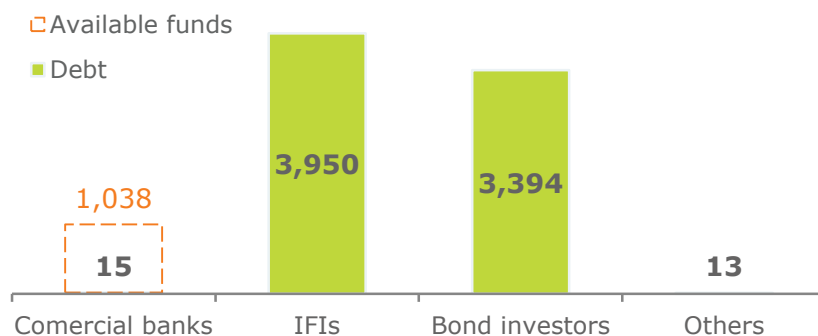
* net profit and EBITDA for last 12 months

** market value+ net debt

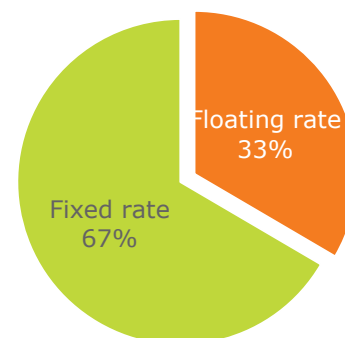
ENERGA Group's average cost of debt

Structure of financing as at 30 June 2018

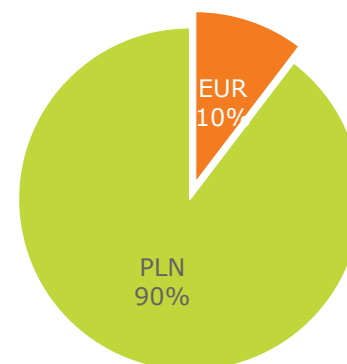
Debt utilisation



Interest rate convention of the debt utilisation

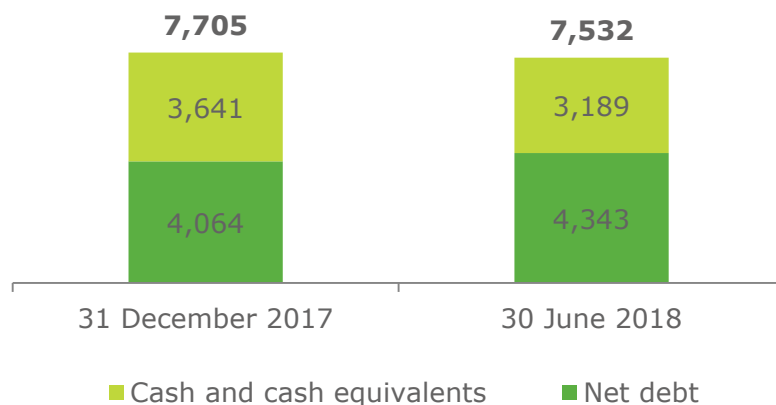


Currency of the debt utilisation

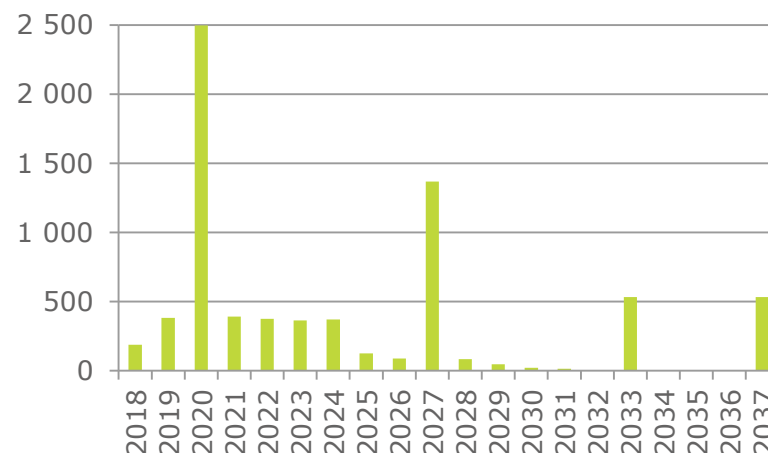


Financial security

Debt (PLN m)



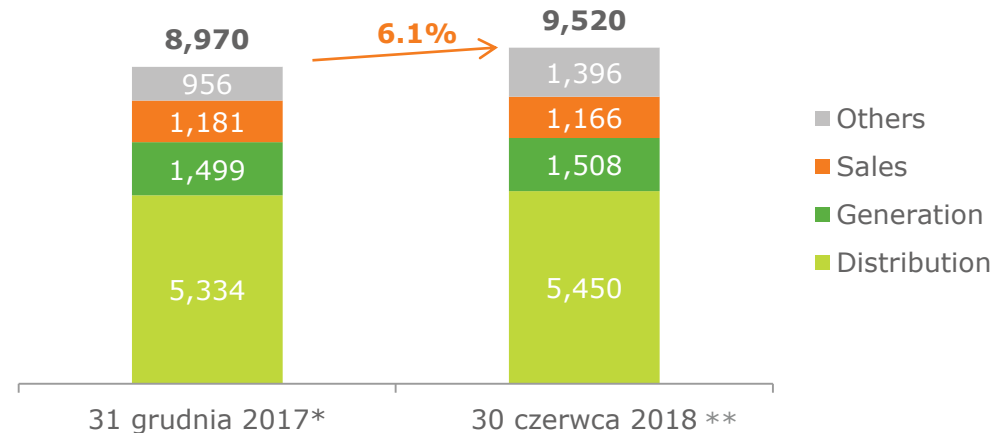
Debt maturities (PLN m)



Selected programs / contracts for financing	Issue value	Maturity/Final maturity
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)	1,000 m	09.2031
Agreement with the European Bank for Reconstruction and Development (EBRD)	800 m	12.2024

Headcount in the ENERGA Group

Headcount – end of period



Main reasons for the increase in employment :

- **Establishment of Energa Ochrona Sp. z o.o.**, a company responsible for supervision over property and facilities of the Group,
- **Development of competencies** in the Group as regards services of design of MV and HV power lines and the distribution substation for the Distribution Business Line,
- Implementation of the policy which provided for gradual replacement of outsourced services with services performed by human resources of the Energa Group, i.e. recruitment of persons working round-the-clock in Group companies under **contracts** signed with temporary work agencies,
- Actions aiming to **eliminate competence- and generation gaps** affecting electricians, engineers and technical staff in Distribution and Generation Business Lines.

**historical data has been transformed in line with the segmentation effective in 2018*

***As of June 30, 2018, it includes employees transition from Group companies to two companies in the Other Business Line as part of the process of centralisation of procurement and IT centralisation*

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Calendar of events

9 August 2018

Publication of half-yearly results 2018

9 October – 8 November 2018

The close period in connection
with the publication of the 3Q report

8 November 2018

Publication of 3Q results 2018



2015 Constituent
MSCI Global
Sustainability Indexes



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