

ENERGA Group's financial results 9M 2018



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8 November 2018



Energa Group after Q3 2018



Over 40 000 new clients connected to the distribution network



Stable Group's results after 9 months y-o-y



Improved SAIDI and SAIFI indices (no mass failures)



Nearly 83% of capital expenditure allocated to Distribution



The Sales Business Line's EBITDA under pressure from high electricity prices



Group Q3 Highlights



Upgrading of the generation fleet: Ostrołęka B – the modernization of the last unit together with deNOx and dedusting installations was completed; all three blocks available from the end of September; signing a contract for the construction of a second IOS. ESP Żydowo – upgrades completed, full availability.



Hydroelectric power plants: submission of 31 applications for FIT/FIP contracts to the Energy Regulatory Office (RES Act)



Environmental protection: The Group has successfully passed EMAS certification (*Eco-Management and Audit Scheme*)



Ostrołęka C: Signing a Memorandum of Understanding concerning the potential capital investment of Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Energia [Private Assets Closed-End Mutual Fund] in the Ostrołęka C project

Group Q3 Highlights



Capacity Market: successful completion of the certification process for all notified units (Ostrołęka B and C; ESP Żydowo; major hydroelectric power plants, including Włocławek, and DSR-Enspirion)



Lighting projects: Energa Oświecenie's record high contract for lighting modernisation in Elbląg



Reserve supplies: acquisition of 25 000 clients as a result of discontinuation of competitor operations



Customers: the number of PPEs has exceeded the record level of 3.030 million in the Business Line Sales

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.



4 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.



**3 September
2018**

General Shareholders' Meetings of Energa consented to commence the construction of the unit.



**4 September
2018**

Signing a Memorandum of Understanding concerning the capital investment of Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych Energia in the Project

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

The Ostrołęka C Project is prepared to take part 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.**

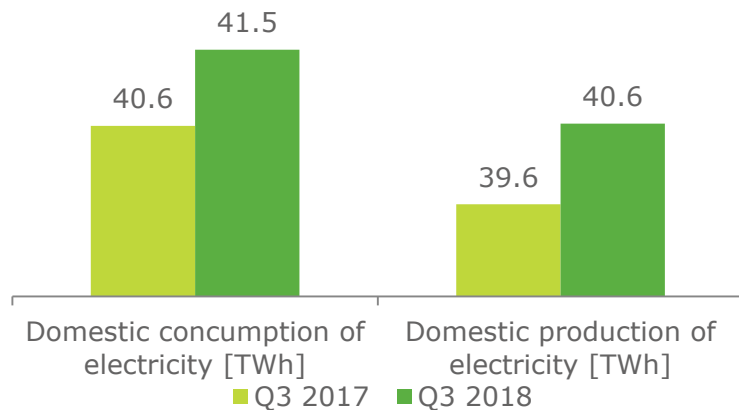
Most important events:

- ✓ **5 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.
- ✓ **11 September 2018** – SPV applied for a certificate authorising the Project to participate in the main auction for the delivery period from 2023.
- ✓ **12 October 2018** – SPV received from PSE a conditional certificate authorising the Project to participate in the main auction for the delivery period from 2023.

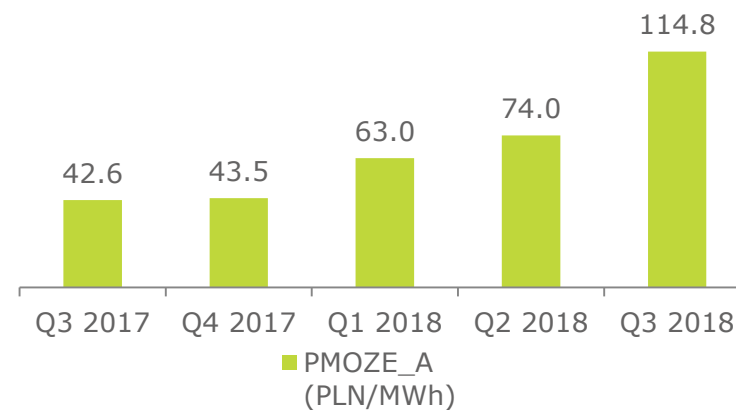
Capacity Market calendar	
By 22 August 2018	The issuance by the Minister of Energy of a regulation determining the implementing regulations concerning the operation of the capacity market (the parameters of main auctions, power demand).
5 September 2018	Commencement of the certification process for main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

Market data

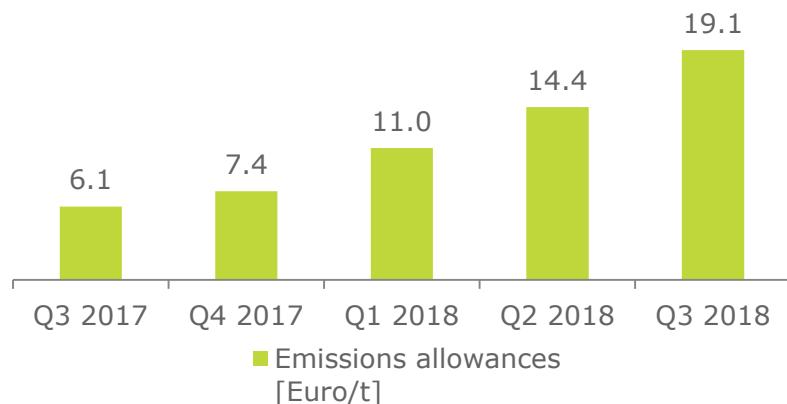
Domestic consumption and production of electricity



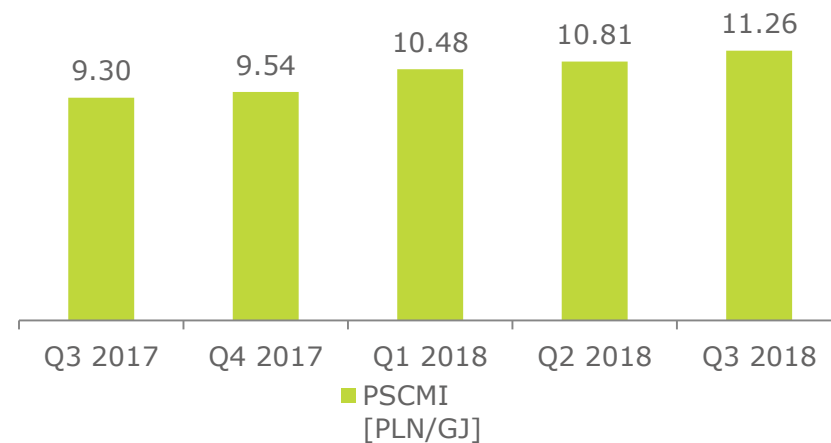
Green certificates prices



Prices of emission allowances

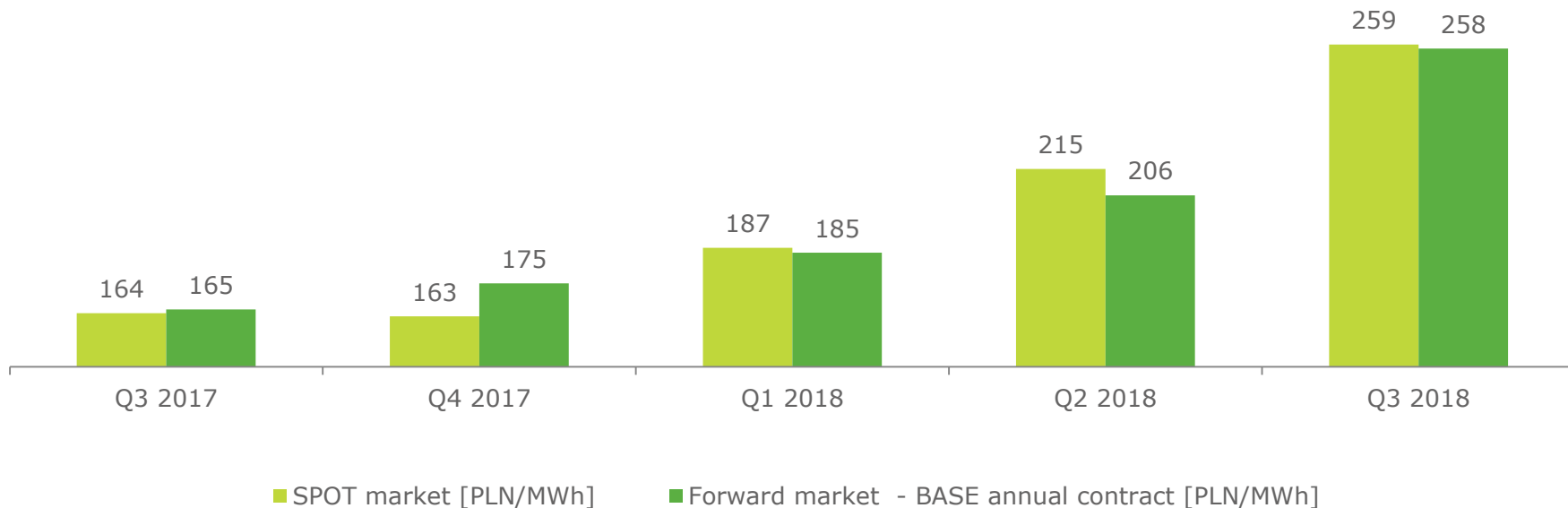


Coal sales prices



Further increase in energy prices in Q3 2018

Prices of energy in the SPOT and forward market



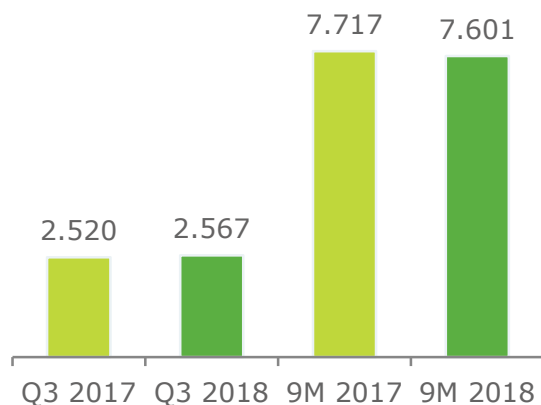
Main drivers of an increase in energy prices:

- high demand for electricity
- dynamic growth in the prices of CO2 emission allowances and an increase in coal prices

Results of the Energa Group

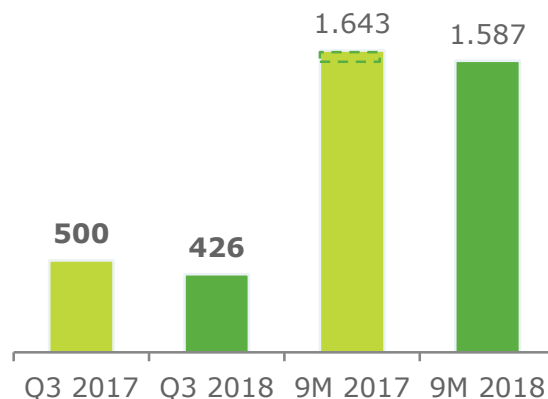
1. Higher Distribution EBITDA after 9 months
2. The Sales result under pressure from high electricity prices
3. General overhaul in Ostrołęka B and hydrometeorological conditions were determinants of lower electricity and heat production accompanied by an increase in emission allowance prices

Revenues (PLN m)



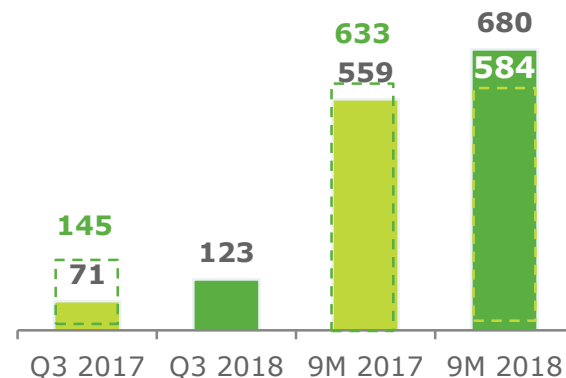
EBITDA (PLN m)

 - gain on a bargain acquisition arising from the preliminary settlement of the acquisition of a stake in Polimex-Mostostal S.A. in the amount of PLN 50 m



Net profit (PLN m)

 - Net result before impairment losses



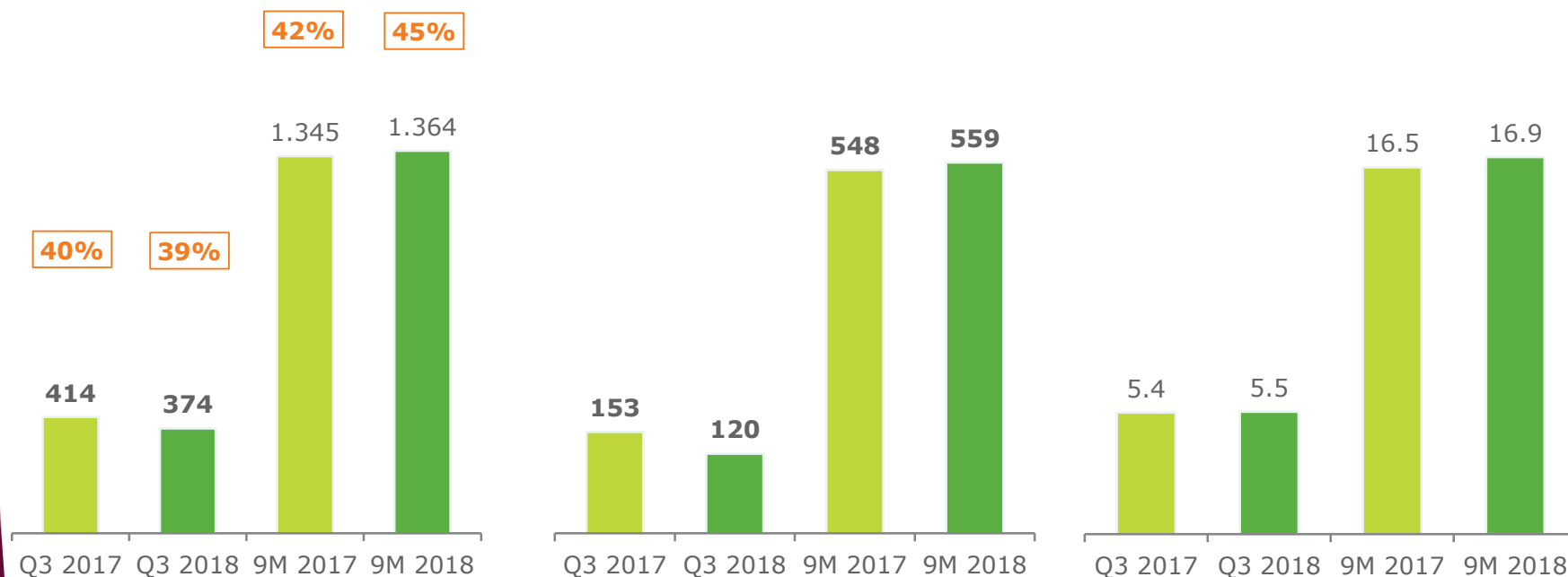
Key Distribution Bussines Line

EBITDA (PLN m)

Net profit (PLN m)

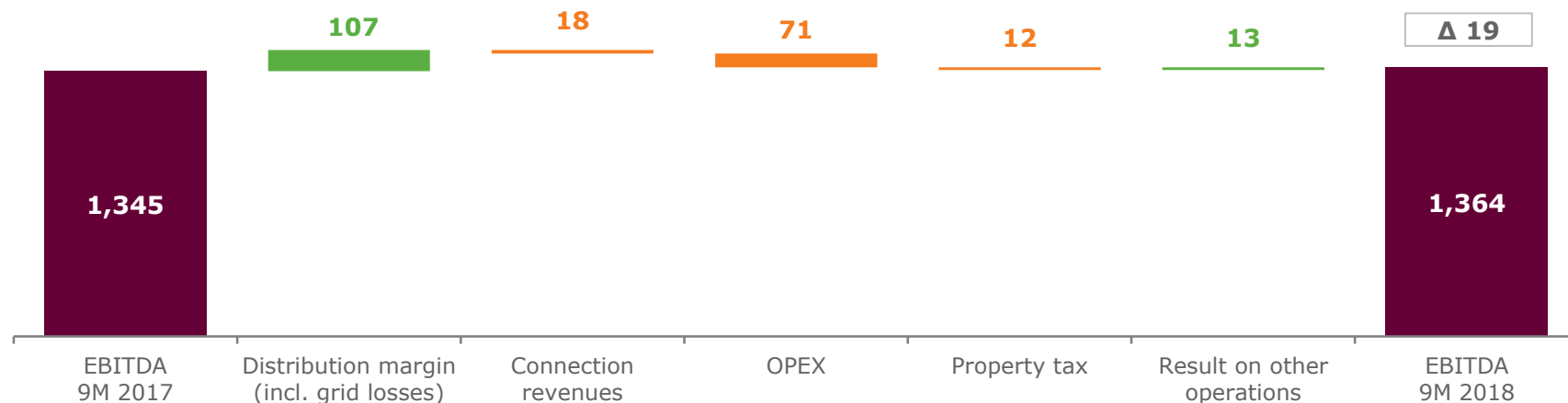
Distribution of electricity (TWh)

□ EBITDA margin

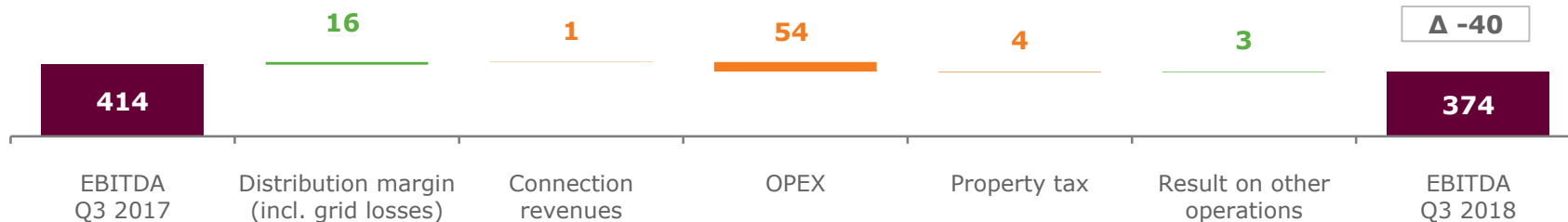


EBITDA of the Distribution Business Line

EBITDA Bridge of the Distribution Business Line 9M (PLN m)



EBITDA Bridge of the Distribution Business Line 3Q (PLN m)

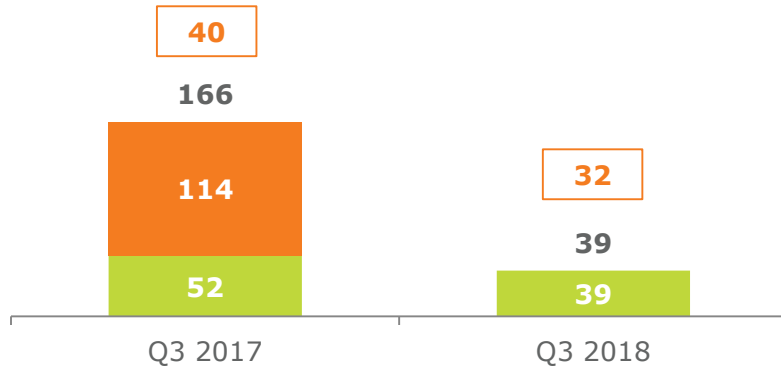


- Increase in Distribution margin as a result of volume growth
- Increase in OPEX costs (e.g. employee benefits and third party services)

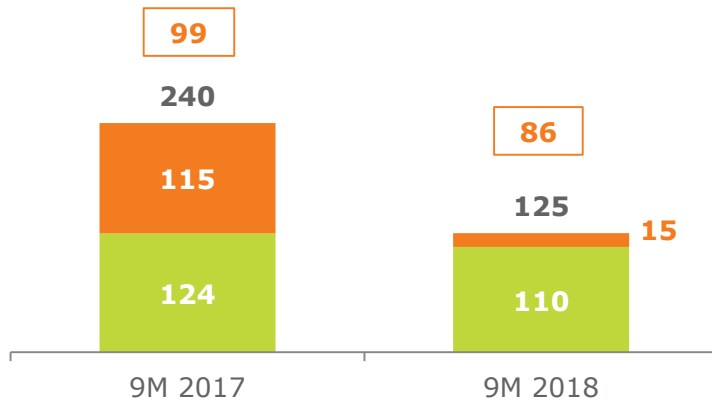
Reliability indices

SAIDI (minutes per customers)

SAIDI (planned, unplanned and catastrophic)

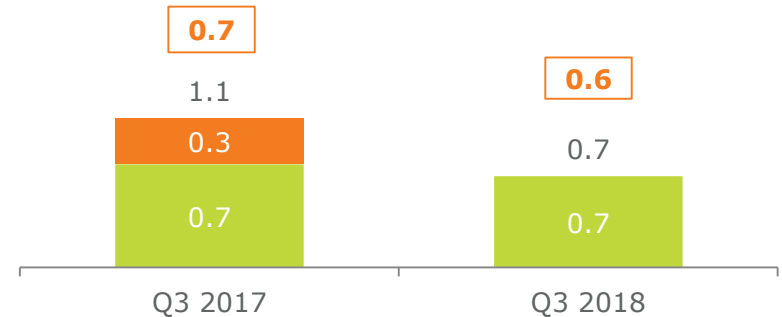


SAIDI (planned, unplanned and catastrophic)

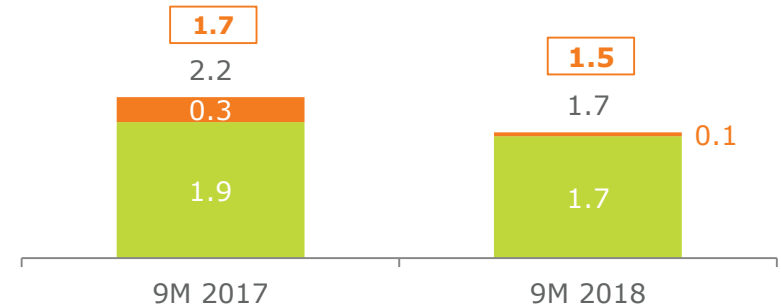


SAIFI (interruptions per customers)

SAIFI (planned, unplanned and catastrophic)



SAIFI (planned, unplanned and catastrophic)



■ mass interruptions ■ without mass interruptions
 □ - SAIDI/SAIFI without mass interruptions- WN i SN

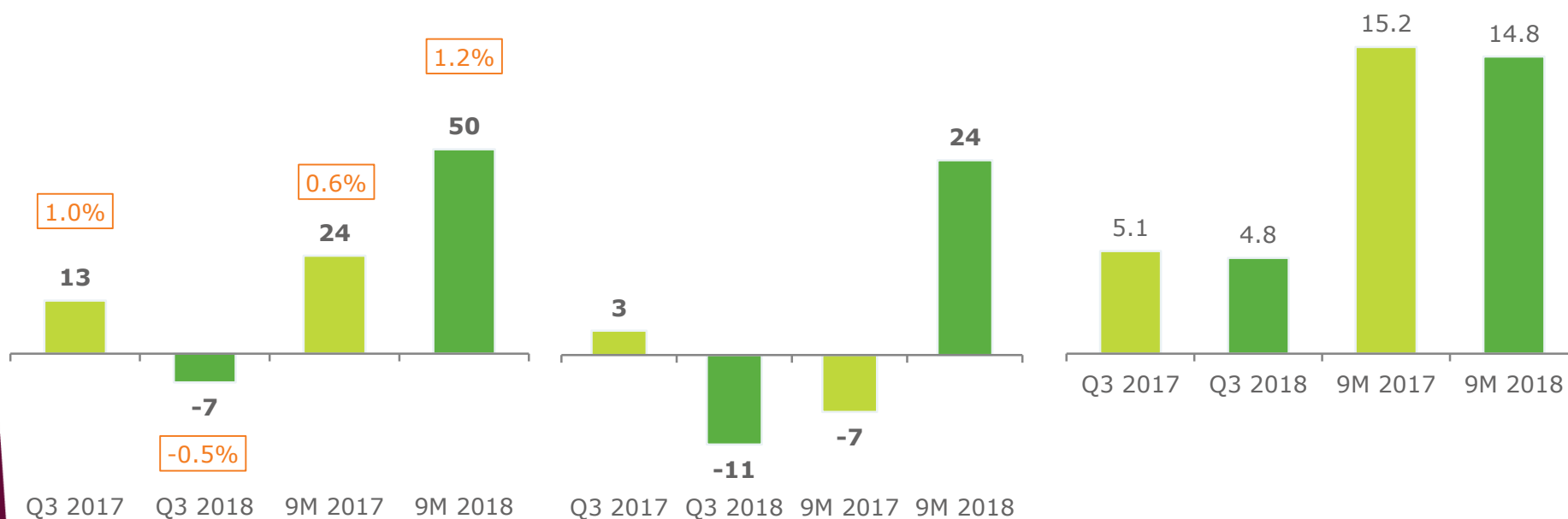
Sales results under pressure from high electricity purchase prices on the market

EBITDA (PLN m)

Net result (PLN m)

Retail sales of electricity (TWh)

□ - EBITDA margin

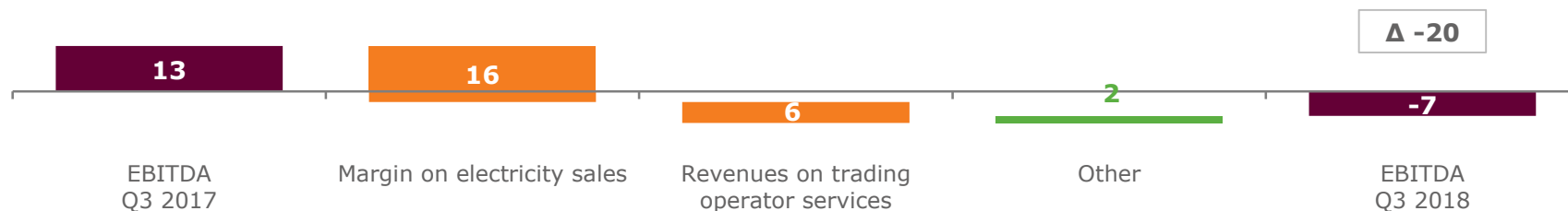


EBITDA of the Sales Business Line

EBITDA Bridge of the Sales Business Line 9M (PLN m)



EBITDA Bridge of the Sales Business Line 3Q (PLN m)

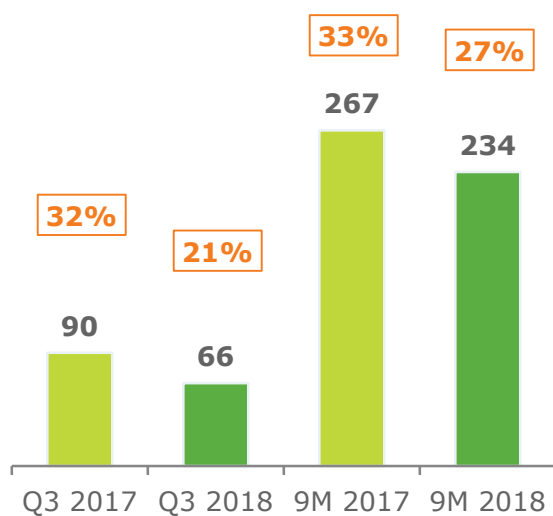


- The positive effects of reduction of additional burdens (long-term green certificate contracts and the Last Resort Supplier) have been offset by high electricity prices on the market
- Lower revenues from the commercial operator's services – an effect of reduction of the Last Resort Supplier's obligations

results of Generation Bussines Line

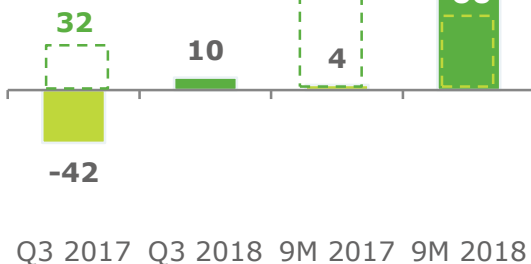
EBITDA (PLN m)

□ - EBITDA margin



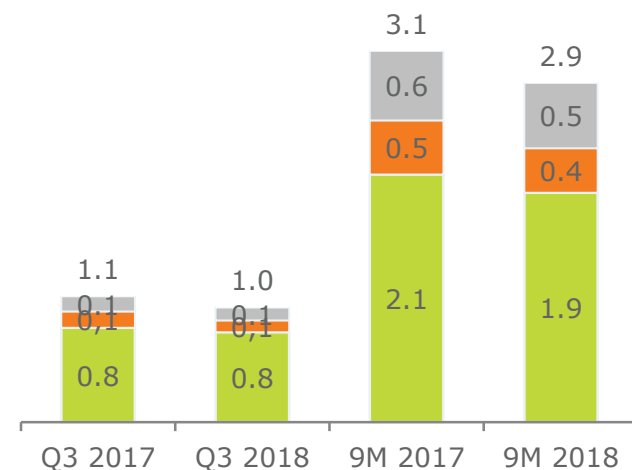
Net result (PLN m)

□ - Net result before impairment losses



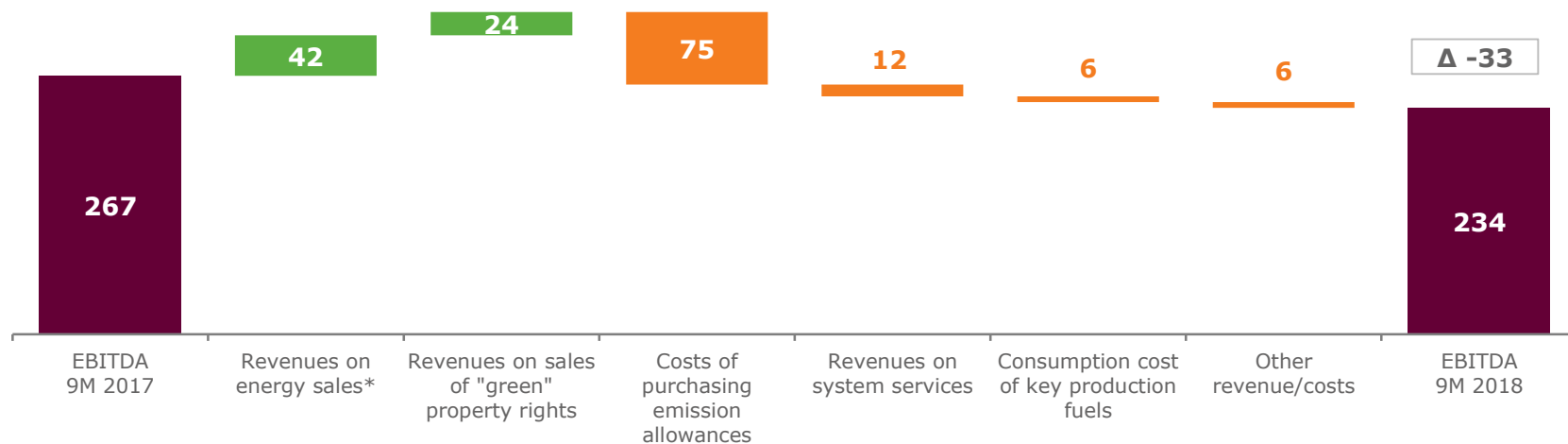
Production of electricity (TWh)

■ Others
■ RES with support
■ RES without support

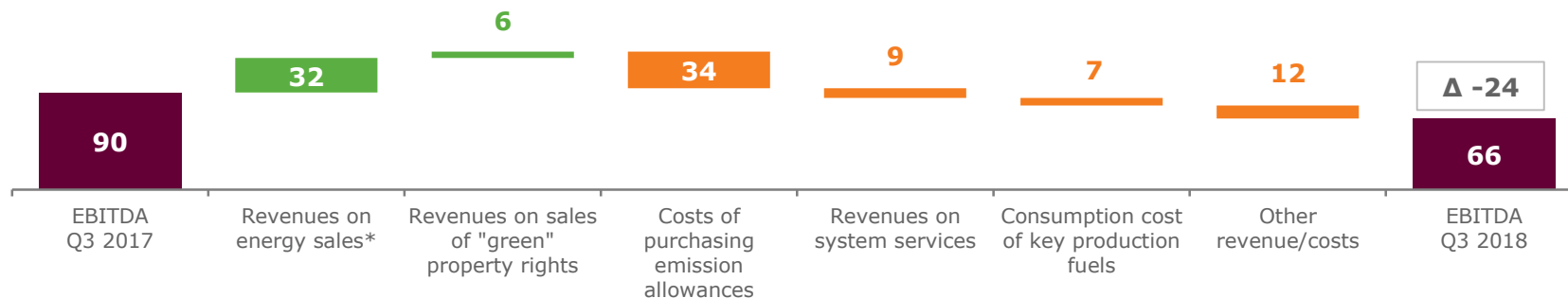


EBITDA of the Generation Business Line

EBITDA Bridge of the Generation Business Line 9M (PLN m)



EBITDA Bridge of the Generation Business Line 3Q (PLN m)

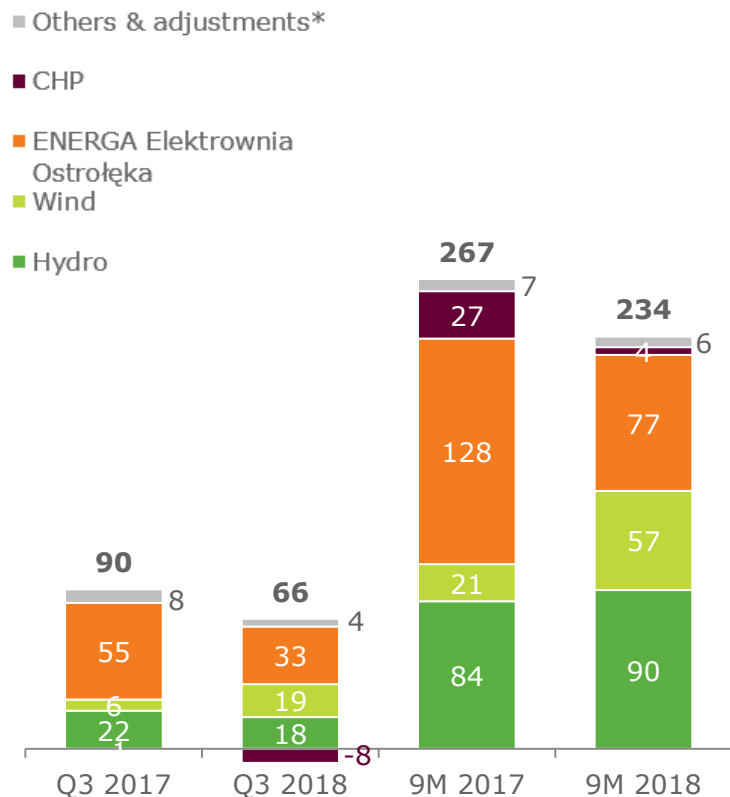


* includes net electricity trading (revenue less cost)

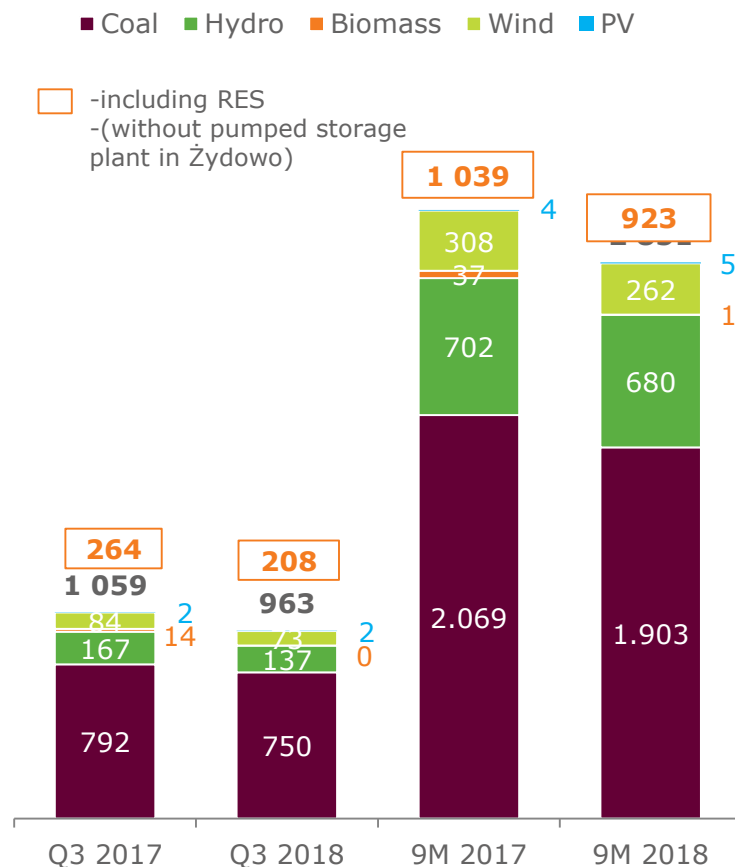
- Higher prices of emission allowances
- Lower power production
- Higher market prices of power (mainly at the Ostrołęka Power Plant) and of property rights

Production by main types of sources

EBITDA of the Generation Business Line, by Power Division (PLN m)



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 418 m of capital expenditures made in Q3 2018

The ENERGA Group's total capital expenditures in Q3 2018 were **PLN 418 m**.

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

1. **PLN128 m** grid development to facilitate connection of new customers
2. **PLN156 m** distribution network modernization to improve reliability of supply
3. **PLN13 m** other expenditures for innovative grid technologies and solutions (Smart Grid)

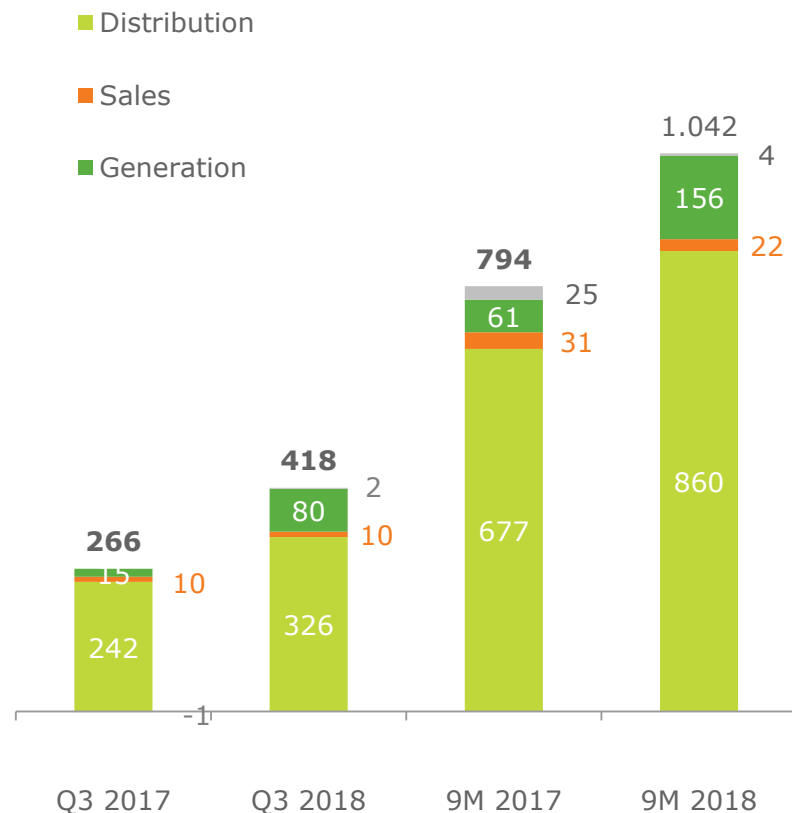
contributed to :

- a. **15.2 thous.** - new customer connections
- b. **1,196 km** - built and modernized LV, MV and HV lines
- c. **18.1 MW** - new RES connections to the network

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

- a. **PLN 63 m** Elektrownia in Ostrołęka (mainly overhaul of block No. 1 and adjustment to the IED Directive)
- b. **PLN 10 m** CHP (mainly optimization in the BB20p biomass unit)

PLN m



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

Costs of right of way

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

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Additional information

ENERGA Group's key assets

Distribution

1. 187 thous. km of power lines
2. 16.9 TWh - electricity delivered in 9M 2018 (5.5 TWh w Q3 2018)
3. Geographical coverage of 75 thous. 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, 220 MWt)
5. Other CHP plants (82 MW, 443 MWt)

Sales

1. 3.03 million customers
2. 14.8 TWh – electricity sold in 9M 2018 (4.8 TWh w Q3 2018)

* Installed capacity



Summary of 3Q 2018

PLN m	Distribution*			Sales			Generation		
	Q3 2017	Q3 2018	Change (%)	Q3 2017	Q3 2018	Change (%)	Q3 2017	Q3 2018	Change (%)
Revenues	1,028	948	-8%	1,242	1,391	12%	277	316	14%
EBITDA	414	374	-10%	13	-7	<-100%	90	66	-27%
<i>EBITDA margin</i>	<i>40.3%</i>	<i>39.5%</i>	<i>Δ -0.8 p.p.</i>	<i>1.0%</i>	<i>-0.5%</i>	<i>Δ -1.5 p.p.</i>	<i>32.5%</i>	<i>20.9%</i>	<i>Δ -11.6 p.p.</i>
EBIT	221	186	-16%	3	-17	<-100%	-37	24	>100%
Net profit/loss	153	120	-22%	3	-11	<-100%	-42	10	>100%
<i>Net profit/loss margin</i>	<i>14.9%</i>	<i>12.7%</i>	<i>Δ -2.2 p.p.</i>	<i>0.2%</i>	<i>-0.8%</i>	<i>Δ -1 p.p.</i>	<i>-15.2%</i>	<i>3.2%</i>	<i>Δ 18.3 p.p.</i>
CAPEX	242	326	35%	10	10	0%	15	80	>100%

PLN m	Generation business lines. including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	Q3 2017	Q3 2018	Change (%)	Q3 2017	Q3 2018	Change (%)	Q3 2017	Q3 2018	Change (%)	Q3 2017	Q3 2018	Change (%)
Revenues	38	38	0%	19	29	53%	190	210	10%	23	20	-15%
EBITDA	22	18	-17%	6	19	>100%	55	33	-41%	-1	-8	<-100%
<i>EBITDA margin</i>	<i>57.7%</i>	<i>48.2%</i>	<i>Δ -9.5 p.p.</i>	<i>33.3%</i>	<i>63.9%</i>	<i>Δ 30.5 p.p.</i>	<i>28.9%</i>	<i>15.5%</i>	<i>Δ -13.3 p.p.</i>	<i>-3.2%</i>	<i>-40.6%</i>	<i>Δ -37.4 p.p.</i>
EBIT	14	10	-24%	-73	8	>100%	39	17	-57%	-10	-16	-65%
CAPEX	2	4	>100%	0	0	-	1	63	>100%	7	10	60%

* Figures for 2017 were converted in connection with the reallocation of Energa Logistyka Sp. z o.o. to the Business Line. In 2017, the company was presented under the Distribution Business Line. From 2018, it has been presented under the Other & Adjustments Business Line.

Summary of 9M 2018

PLN m	Distribution*			Sales			Generation		
	9M 2017	9M 2018	Change (%)	9M 2017	9M 2018	Change (%)	9M 2017	9M 2018	Change (%)
Revenues	3,203	3,020	-6%	3,859	4,074	6%	808	862	7%
EBITDA	1,345	1,364	1%	24	50	>100%	267	234	-12%
<i>EBITDA margin</i>	42.0%	45.2%	Δ 3.2 p.p.	0.6%	1.2%	Δ 0.6 p.p.	33.0%	27.1%	Δ -5.9 p.p.
EBIT	771	799	4%	-8	20	>100%	58	229	>100%
Net profit/loss	548	559	2%	-7	24	>100%	4	154	>100%
<i>Net profit/loss margin</i>	17.1%	18.5%	Δ 1.4 p.p.	-0.2%	0.6%	Δ 0.8 p.p.	0.5%	17.9%	Δ 17.4 p.p.
CAPEX	677	860	27%	31	22	-29%	61	156	>100%

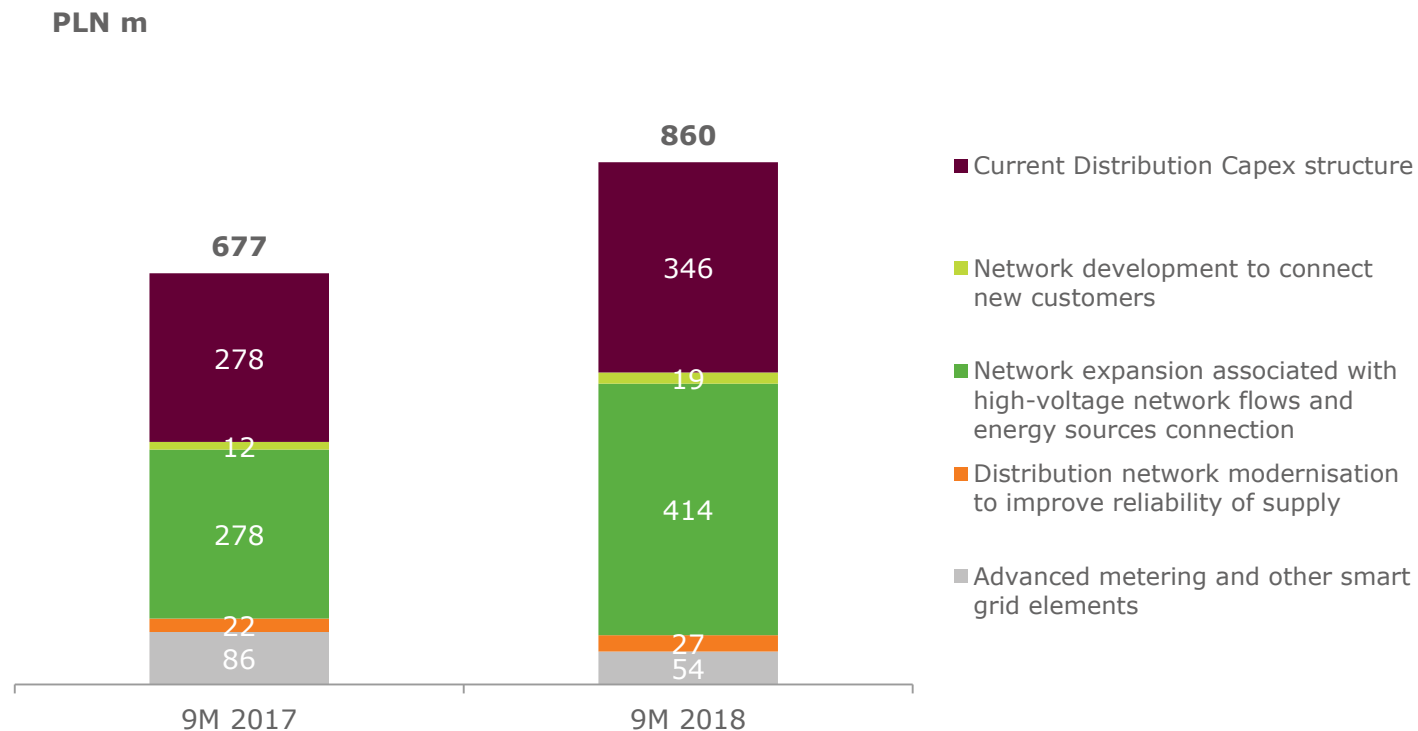
PLN m	Generation business lines, including:											
	Hydro			Wind			Ostrołęka Power Plant			CHP		
	9M 2017	9M 2018	Change (%)	9M 2017	9M 2018	Change (%)	9M 2017	9M 2018	Change (%)	9M 2017	9M 2018	Change (%)
Revenues	144	155	7%	59	76	28%	481	501	4%	113	107	-6%
EBITDA	84	90	7%	21	57	>100%	128	77	-40%	27	4	-84%
<i>EBITDA margin</i>	58.3%	58.3%	Δ 0 p.p.	35.3%	74.1%	Δ 38.7 p.p.	26.7%	15.4%	Δ -11.3 p.p.	23.7%	4.1%	Δ -19.6 p.p.
EBIT	59	66	11%	-75	145	>100%	81	29	-64%	0	-20	<-100%
CAPEX	6	8	42%	0	0	-85%	36	107	>100%	12	32	>100%

Structure of cost by nature – ENERGA Group

Expenses by nature (PLN m)	Q3 2017	Q3 2018	9M 2017	9M 2018
Depreciation of property, plant and equipment, intangible assets and investment property	243	241	731	718
Materials and energy used	172	185	504	467
incl. fuel used for balance difference	52	68	156	138
incl. fuel used (with transport)	93	100	249	256
External services	404	338	1 133	951
incl. transmission and transit fees	270	188	790	568
Taxes and fees	110	147	315	387
Employee benefits expenses	203	255	682	755
Impairment	94	14	124	-72
Other expenses	-33	-13	-66	-22
Value of merchandise and raw materials	1,149	1,221	3,505	3,432
Total operating expenses	2,342	2,388	6,928	6,616

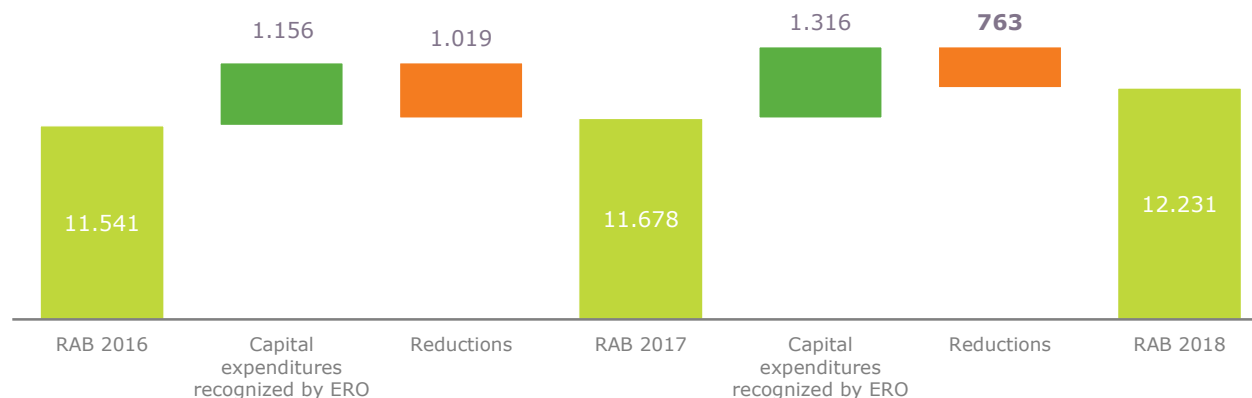
* A decrease in costs of external services was mainly due to the change of presentation of the costs of the transitional fee – revenues are adjusted downwards by the value of the transitional fee previously presented under costs.

Current Distribution Capex structure



Regulatory asset base

RAB



Return on RAB

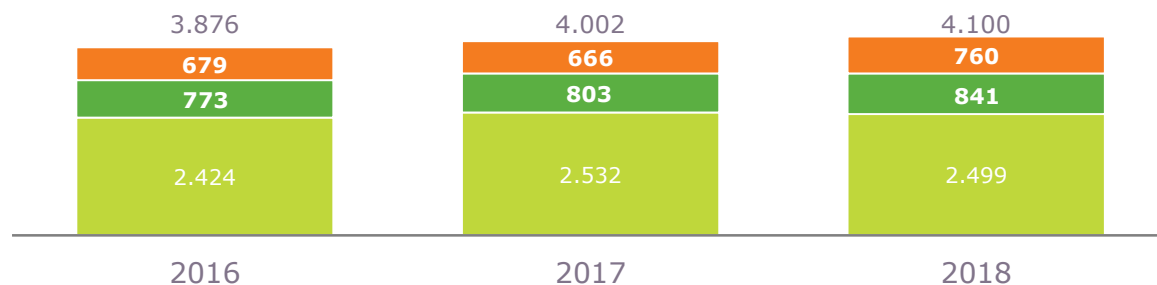
„Standard“

„Included in tariff“

Effective return on RAB

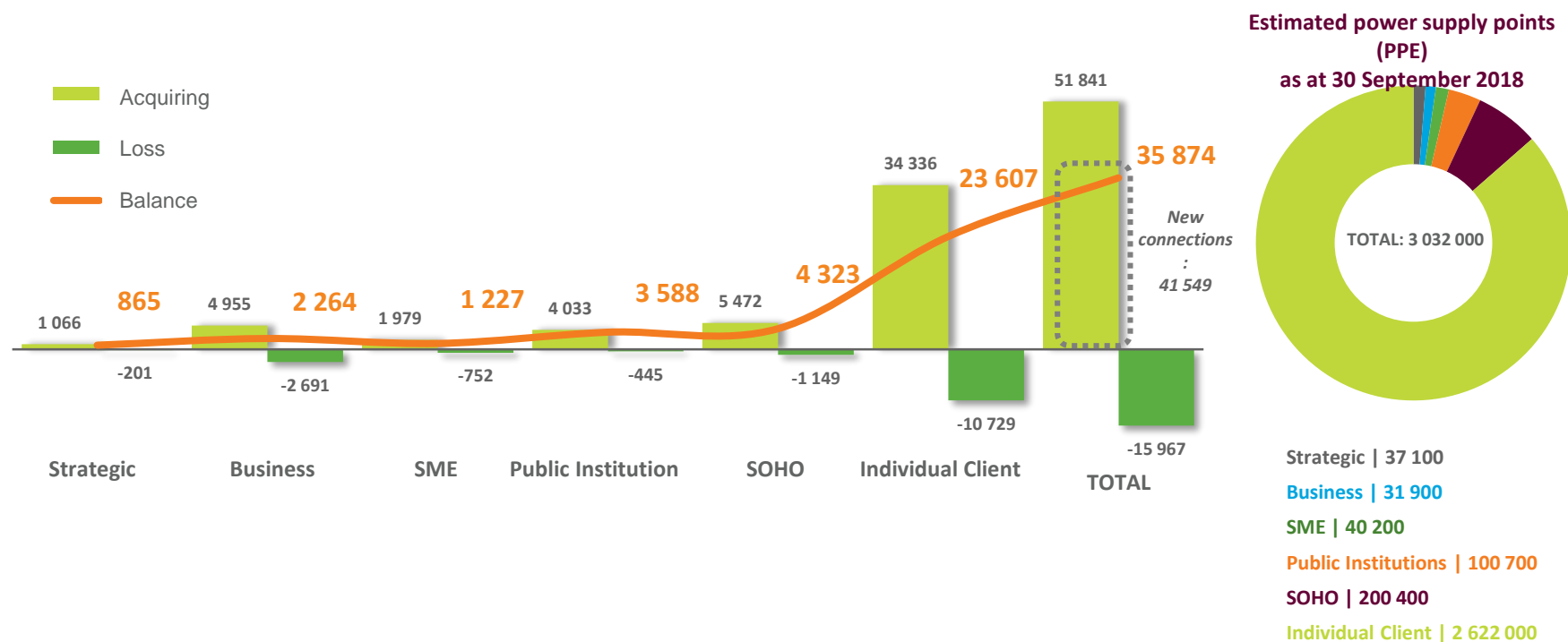
WACC	5.68%	5.63%	6.02%
Riskfree rate	2.95%	2.91%	3.26%
Q (Quality coefficient)	-	-	1.00
RC (regulatory coefficient)	1.00	0.99	1.01
Return on capital based on RAB	679	673	752
Allowed return on capital	679	666	760
Effective return on RAB	5.88%	5.71%	6.21%

Regulated revenue



■ Other costs ■ Depreciation ■ RAB return

Balance of PPE acquisitions and losses for the period of 1 January 2018 to 30 September 2018 according to the declared start/end date of sale after 1 January 2018



We are close to our clients – development of our sales network

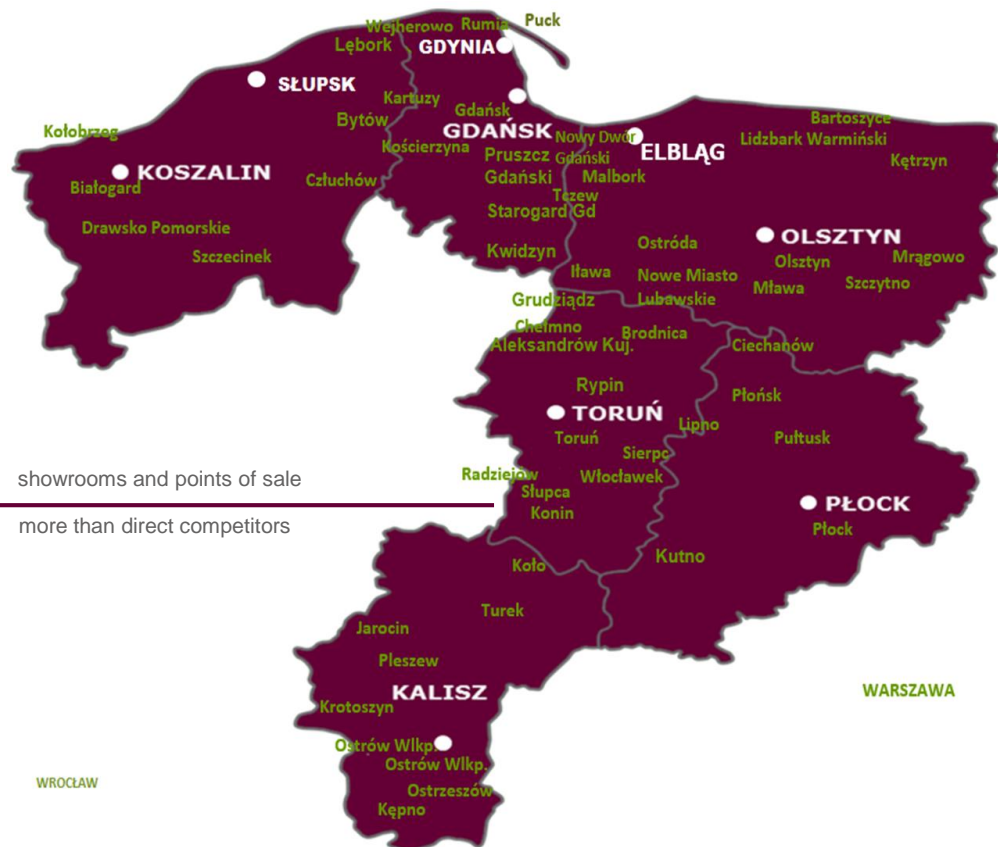


70

showrooms and points of sale

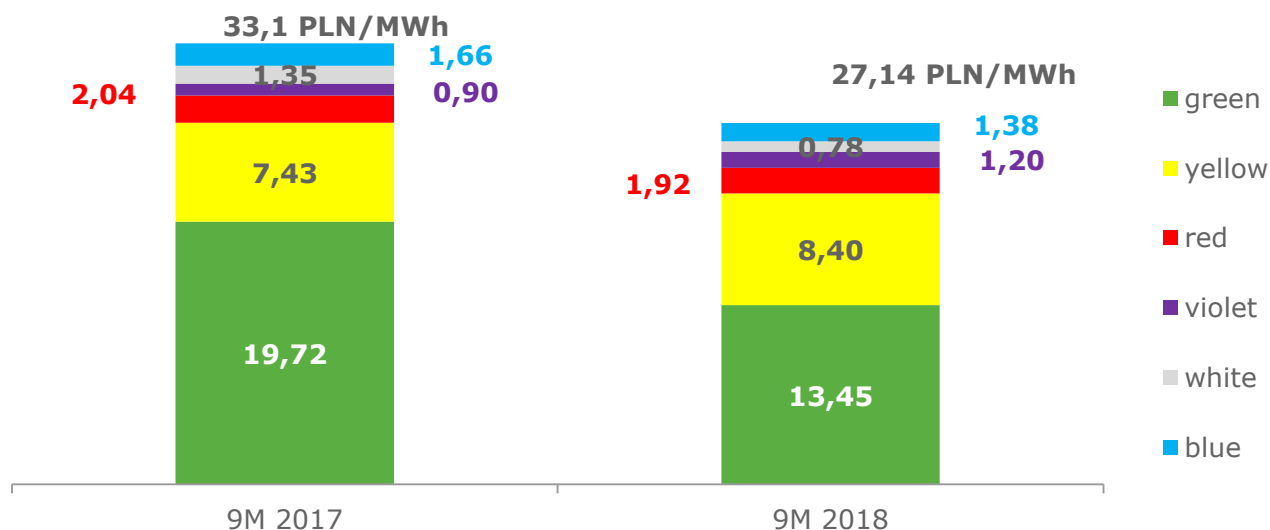
2x

more than direct competitors



Key operating data of the Sales Business Line

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



	Q3 2017	Q3 2018	Change	9M 2017	9M 2018	Change
Electricity sales by Sales Business Line (GWh)	5,515	5,748	4%	17,218	17,564	2%
<i>incl. retail sales</i>	5,092	4,752	-7%	15,233	14,751	-3%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	174.9	195.5	12%	173.0	184.3	7%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	204.0	219.3	7%	201.0	206.3	3%
Variable margin**	4.1%	2.5%	Δ -1.5 p.p.	4.1%	5.3%	Δ 1,1 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

Consumption of fuels	Q3 2017	Q3 2018	Change	Change (%)	9M 2017	9M 2018	Change	Change (%)
Hard coal								
Coal	361.7	351.5	-10.2	-3%	968.7	925.2	-43.5	-4%
Quantity (000s tons)	87.1	98.7	11.6	13%	233.2	252.7	19.5	8%
Cost* (PLN m)	240.9	280.9	40.0	17%	240.7	273.1	32.4	13%
Cost per unit (PLN/ton)	97.1	113.4	16.3	17%	83.3	96.2	12.9	16%
Cost per unit (PLN/MWh)**								
Biomass	14.1	0.1	-14.1	-100%	38.4	0.9	-37.4	-98%
Quantity (000s tons)	4.9	0.0	-4.9	-100%	13.4	0.3	-13.1	-98%
Cost* (PLN m)	350.0	362.3	12.3	4%	349.3	335.7	-13.6	-4%
Cost per unit (PLN/ton)	138.3	173.2	34.8	25%	140.9	166.0	25.1	18%

* Including cost of transport

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

CO2 emission allowances in Generation Segment	Q3 2017	Q3 2018	9M 2017	9M 2018
CO2 emission allowances (thous. tons CO2), incl.:	744	710	2,009	1,877
The amount of free CO2 emission allowances	187	156	614	496
Volume of emission allowances purchased	557	554	1,394	1,381
Cost of CO2 purchase (PLN m)	17.7	52.1	34.8	109.6

Key operating data of ENERGA Elektrownie Ostrołęka

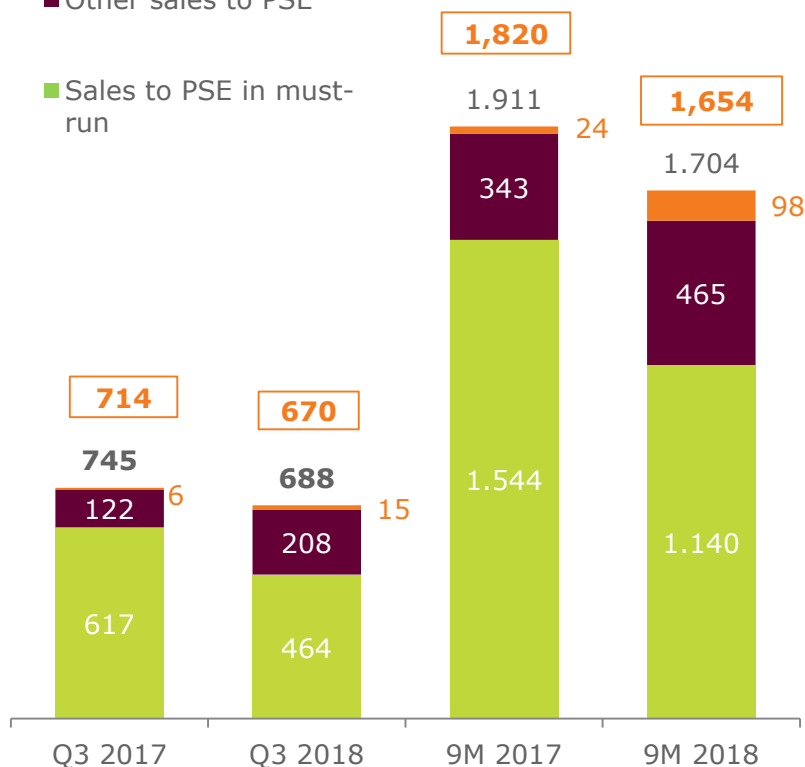
Sales structure (GWh)

□ - Own net production

■ Other electricity sales

■ Other sales to PSE

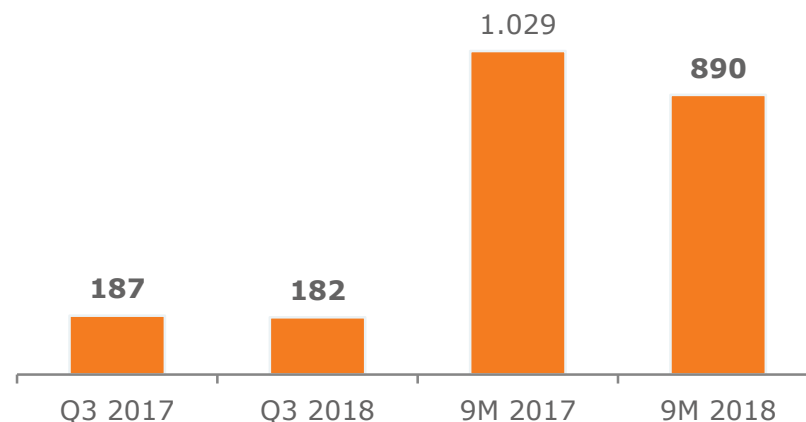
■ Sales to PSE in must-run



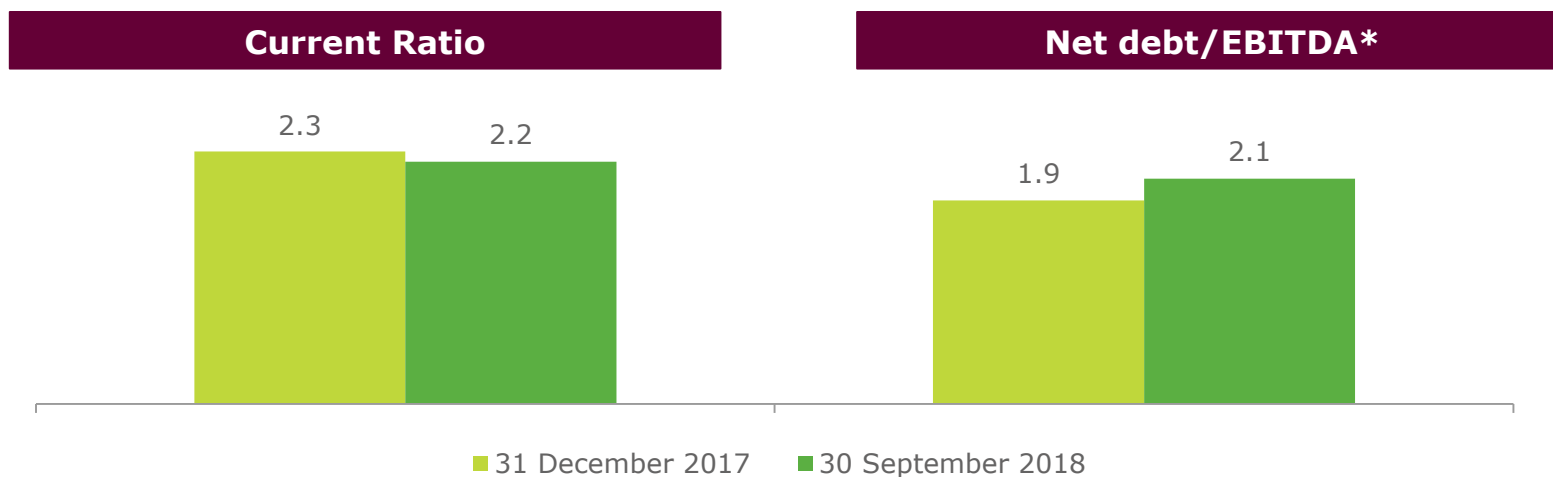
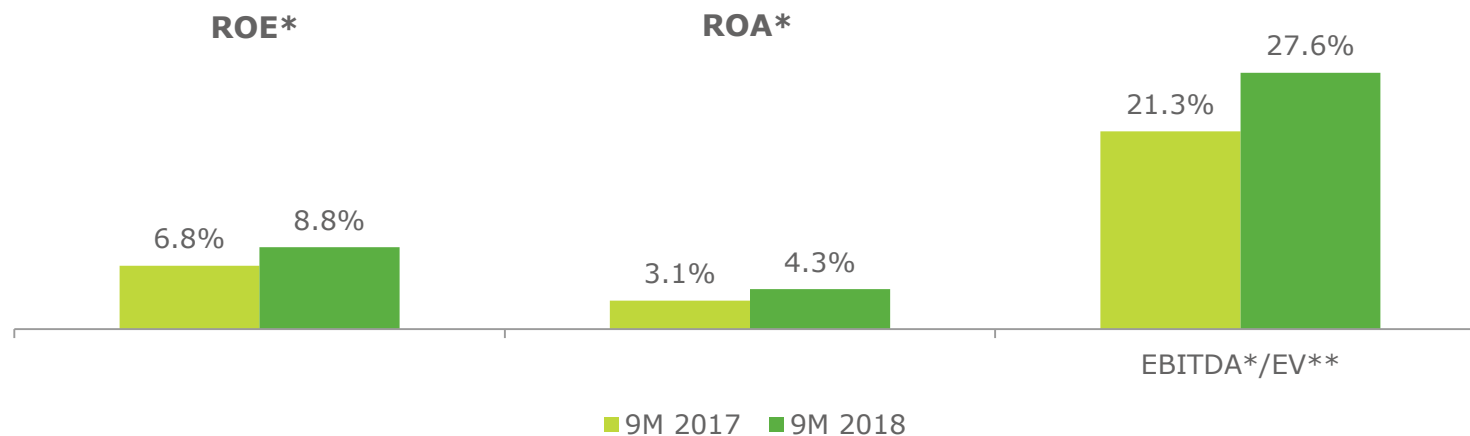
Fuels consumption volumes and costs in 9M 2018

	Unit	Coal
Total consumption	(000s tons)	805.3
Consumption cost per unit	(PLN/ton)	269.9
Total fuel cost	(PLN m)	217.3

Gross heat production (TJ)



Profitability and liquidity ratios



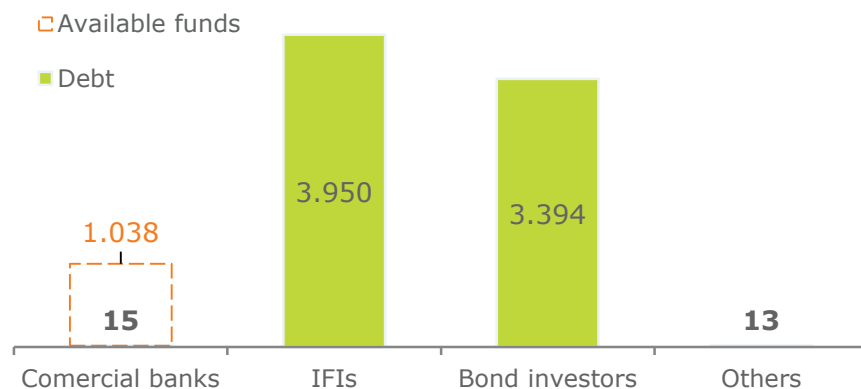
* net profit and EBITDA for last 12 months

** market value+ net debt

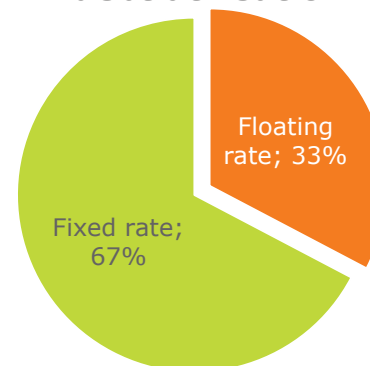
ENERGA Group's average cost of debt

Structure of financing as at 30 September 2018

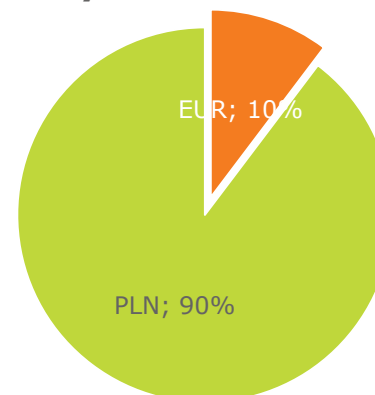
Debt utilisation



Interest rate convention of the debt utilisation

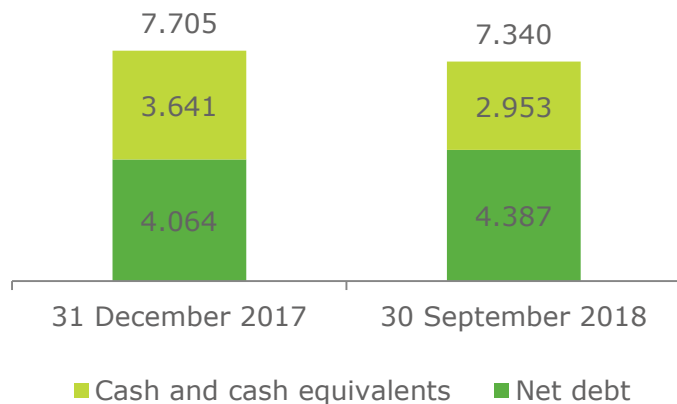


Currency of the debt utilisation

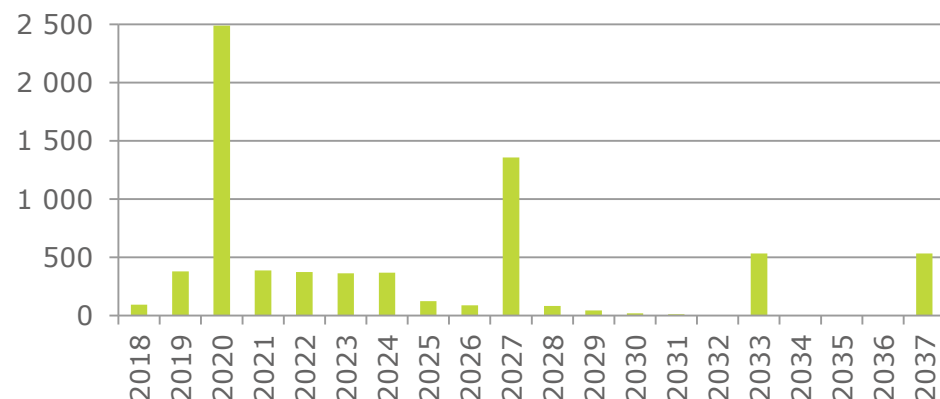


Financial security

Debt (PLN m)



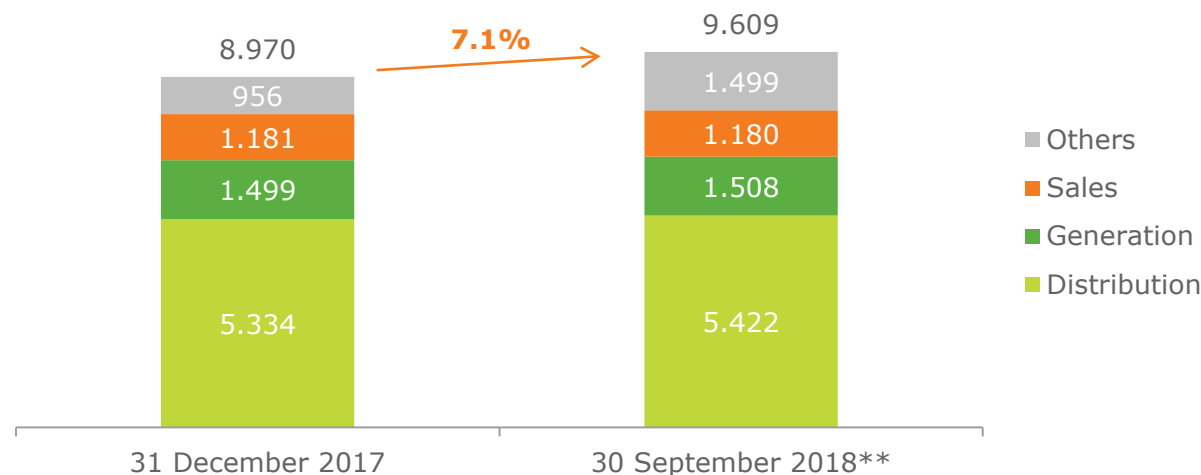
Debt maturities (PLN m)



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 employment growth:

- **Development of Energa Ochrona Sp. z o.o.**, a company providing the Group's companies with property and facility surveillance services
- **Competence development** within the Group with regard to the design of MV and HV power lines and switching stations for the Distribution Business Line
- Implementation of a policy of gradual replacement of outsourced services with the Energa Group's inhouse services, i.e. **employment under a contract of employment** of temporary agency workers working on a continuous basis for the Group's companies
- Measures to **close competence and generation gaps** affecting electricians, engineers and technical staff in Distribution and Generation Business Lines

* historical data were transformed in line with the segmentation effective in 2018

** the status as at 30 September 2018 takes into account employee transitions among Business Lines as part of the purchasing and IT centralisation process

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