

ENERGA Group's financial results 9M 2017



@EnergaSA

#EnergaWyniki

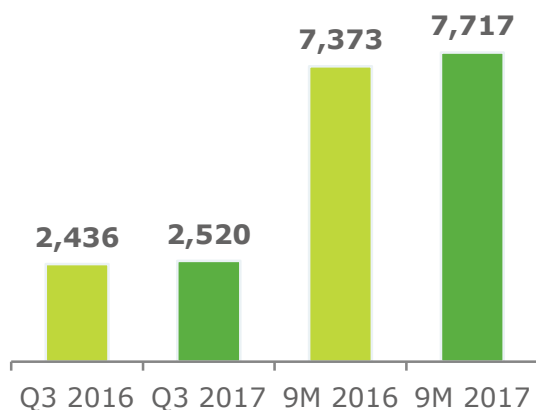
8 November 2017



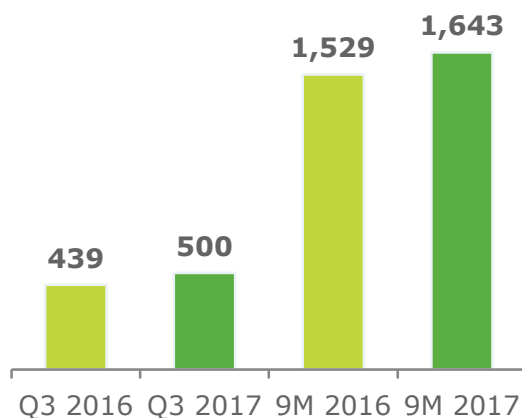
Distribution Segment is the key contributor to ENERGA Group's results

1. Stable results of the Distribution Segment
2. Decline in the margin on electricity in the Sales Segment
3. Increase in production volumes in the Generation Segment

Revenues (PLN m)

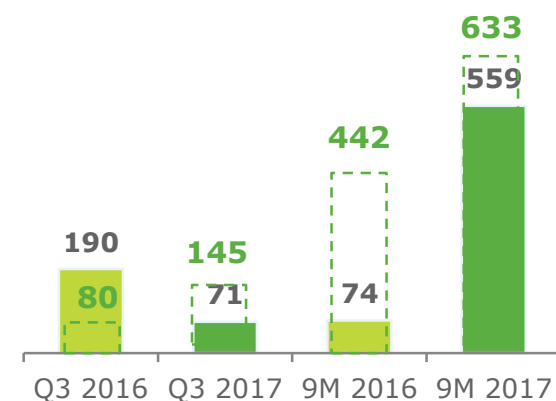


EBITDA (PLN m)



Net profit (PLN m)

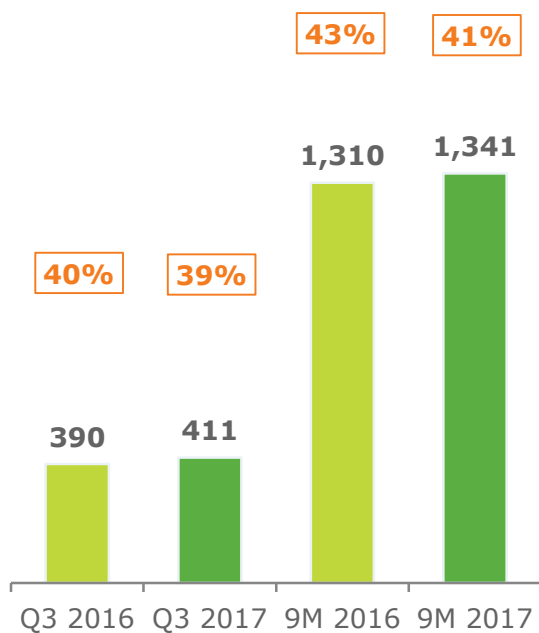
Net result before impairment



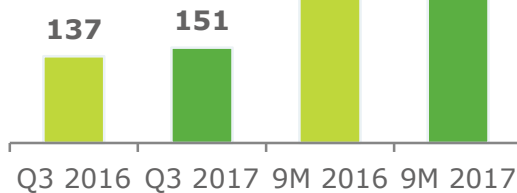
Stable financial results in the Distribution Segment

EBITDA (PLN m)

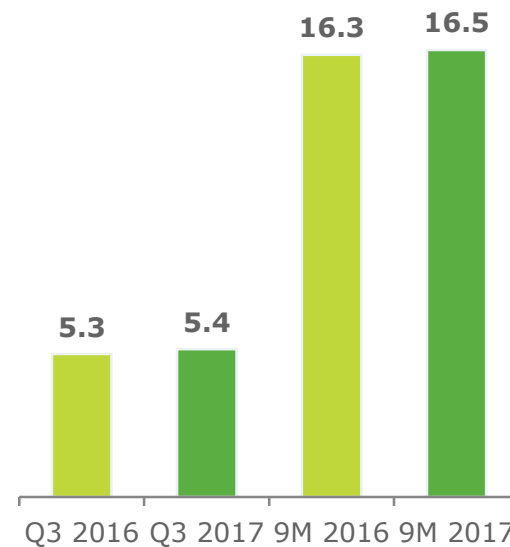
EBITDA margin



Net profit (PLN m)

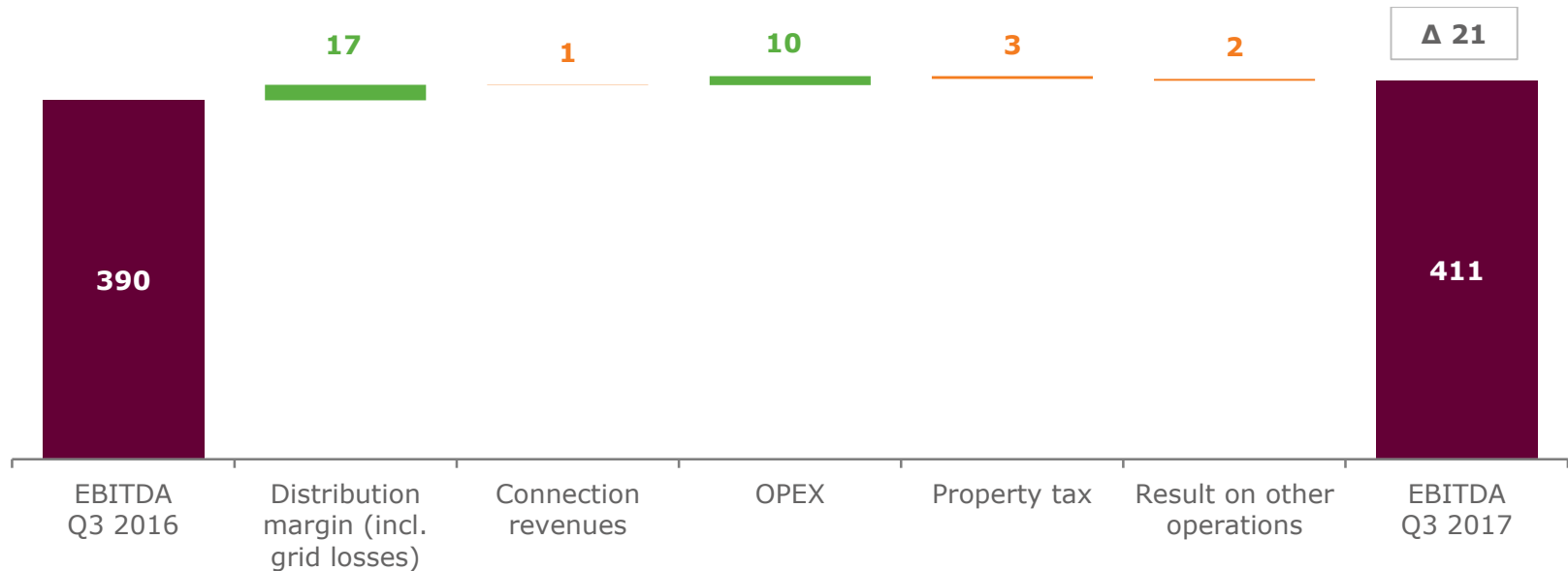


Distribution of electricity (TWh)



Increase in margin on distribution in connection with the positive sales structure

EBITDA Bridge of Distribution Segment (PLN m)

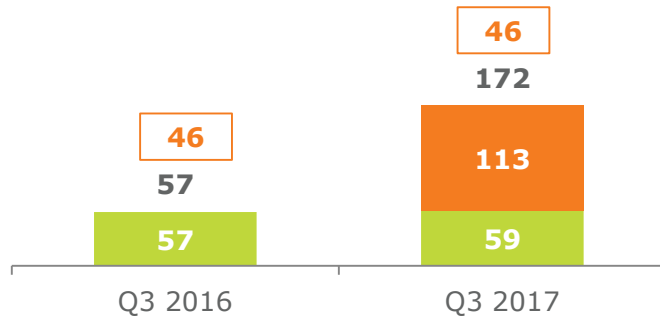


1,310	84	0	-26	-8	-19	1,341
EBITDA 9M 2016						EBITDA 9M 2017

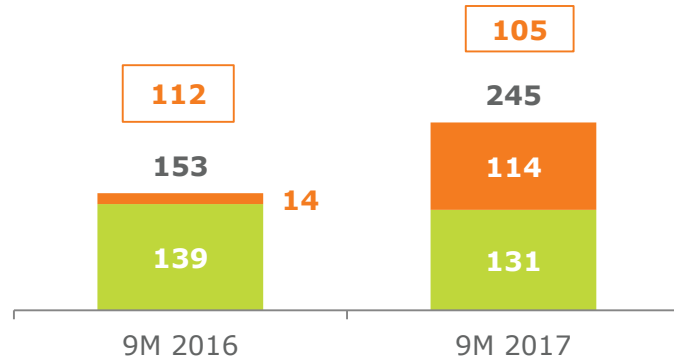
Reliability indices

SAIDI (minutes per customers)

SAIDI (planned, unplanned and catastrophic)

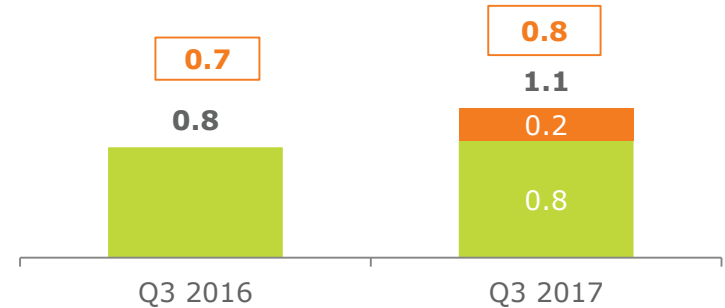


SAIDI (planned, unplanned and catastrophic)

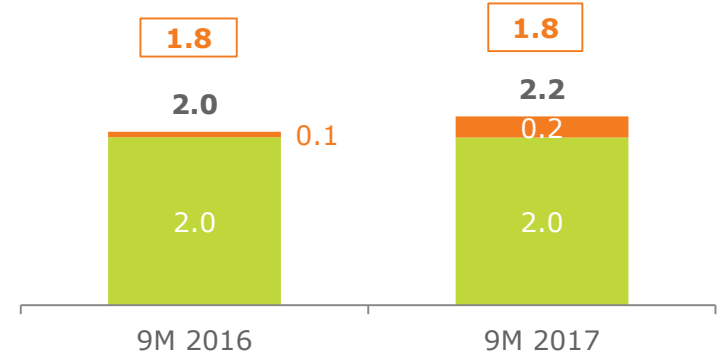


SAIFI (interruptions per customers)

SAIFI (planned, unplanned and catastrophic)



SAIFI (planned, unplanned and catastrophic)



■ mass interruptions ■ without mass interruptions

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

Damage caused by the August storms

nearly **180 thous.**
users without the
power

damage suffered
by **more than 200**
lines

240 intervention
teams at work
(1000 people)

Estimated cost: **about PLN 30 m**

Insurance: ENERGA OPERATOR maintains a comprehensive line insurance policy. An advance of **PLN 13 m** was paid out in connection with the losses.

Underground cables

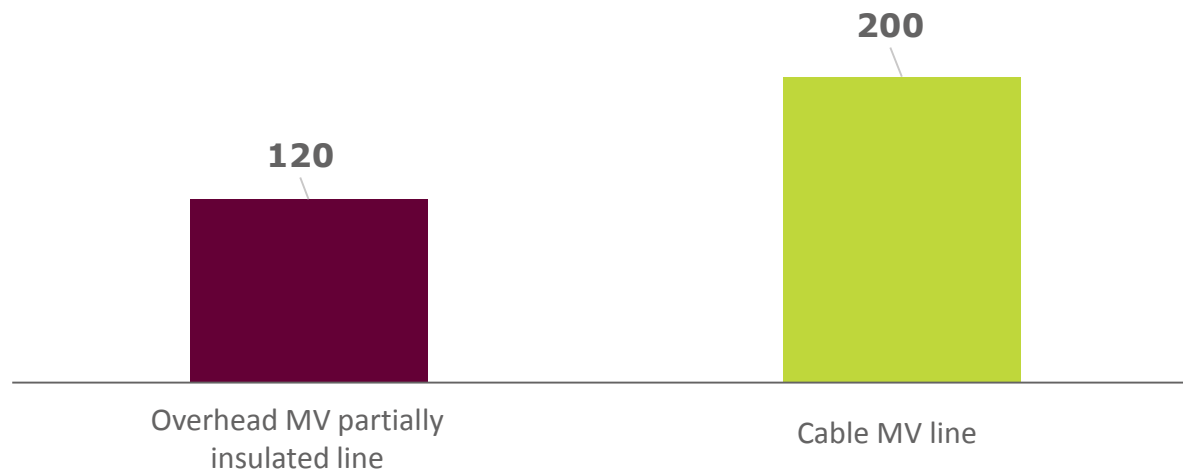
Goal: make the grid resistant to extreme weather conditions

Current status (underground MV cable ratio):

- Western European Countries **40-100%**
- ENERGA OPERATOR **18.6%**

Cost:

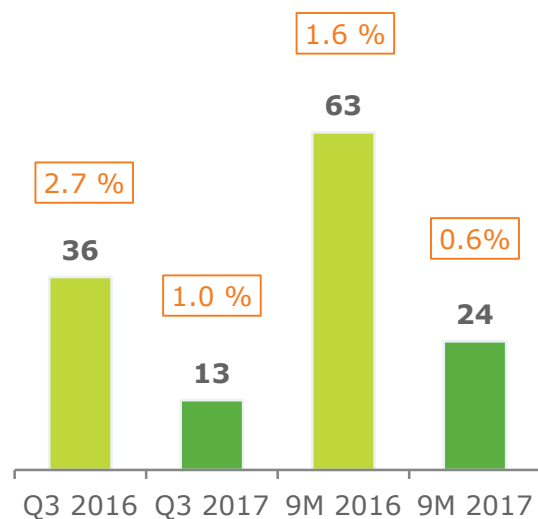
Average costs of construction of MV lines per 1 km [PLN thousand]



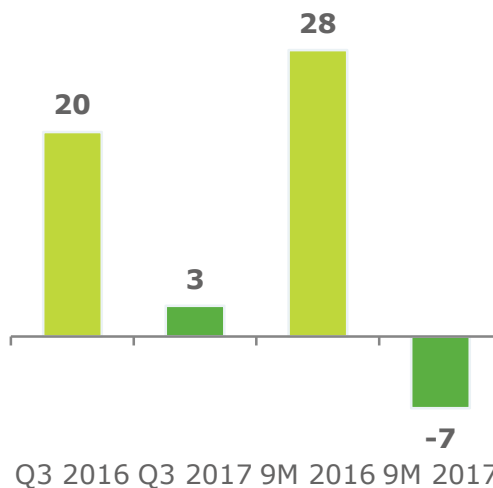
Growing electricity sales volume and lower EBITDA in the Sales Segment

EBITDA (PLN m)

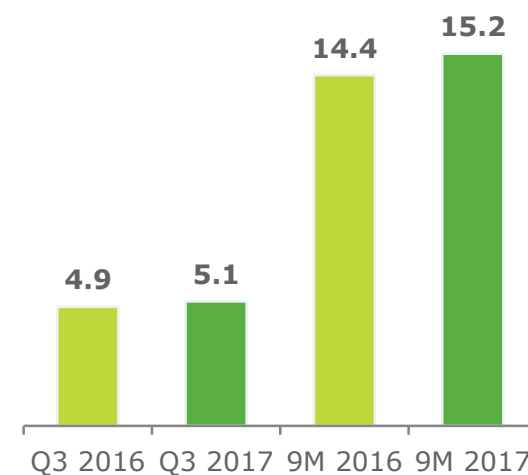
□ - EBITDA margin



Net profit (PLN m)

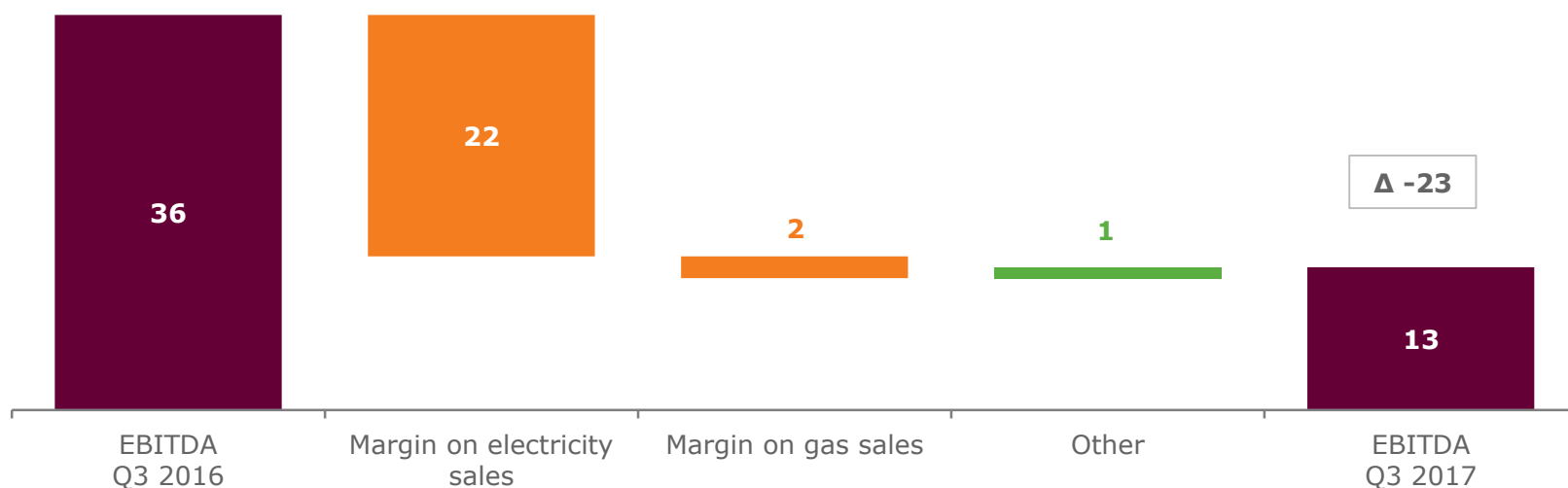


Retail sales of electricity (TWh)



Results under pressure from long-term certificate purchase contracts

EBITDA Bridge of Sales Segment (PLN m)



63	-22	-10	-8	24
EBITDA 9M2016				EBITDA 9M 2017

Evolution of the Sales Segment model

OBJECTIVE:
Increase of EBITDA by 2020

III

SERVICE INTEGRATOR – COMPETITIVENESS PLATFORM

INITIATIVES TO ENSURE THE COMPANY'S GROWTH AND INCREASE COMPETITIVENESS OF THE COMPANY'S OFFERING IN THE MARKET – NEW BUSINESSES AND SALES CHANNELS

II

ENERGY DNA – GROWTH PLATFORM

INITIATIVES TO ENSURE GROWTH OF MARGIN ON CORE BUSINESS – SALE OF ELECTRICITY AND GAS

I

ENERGY DNA – OPERATIONAL EXCELLENCE PLATFORM

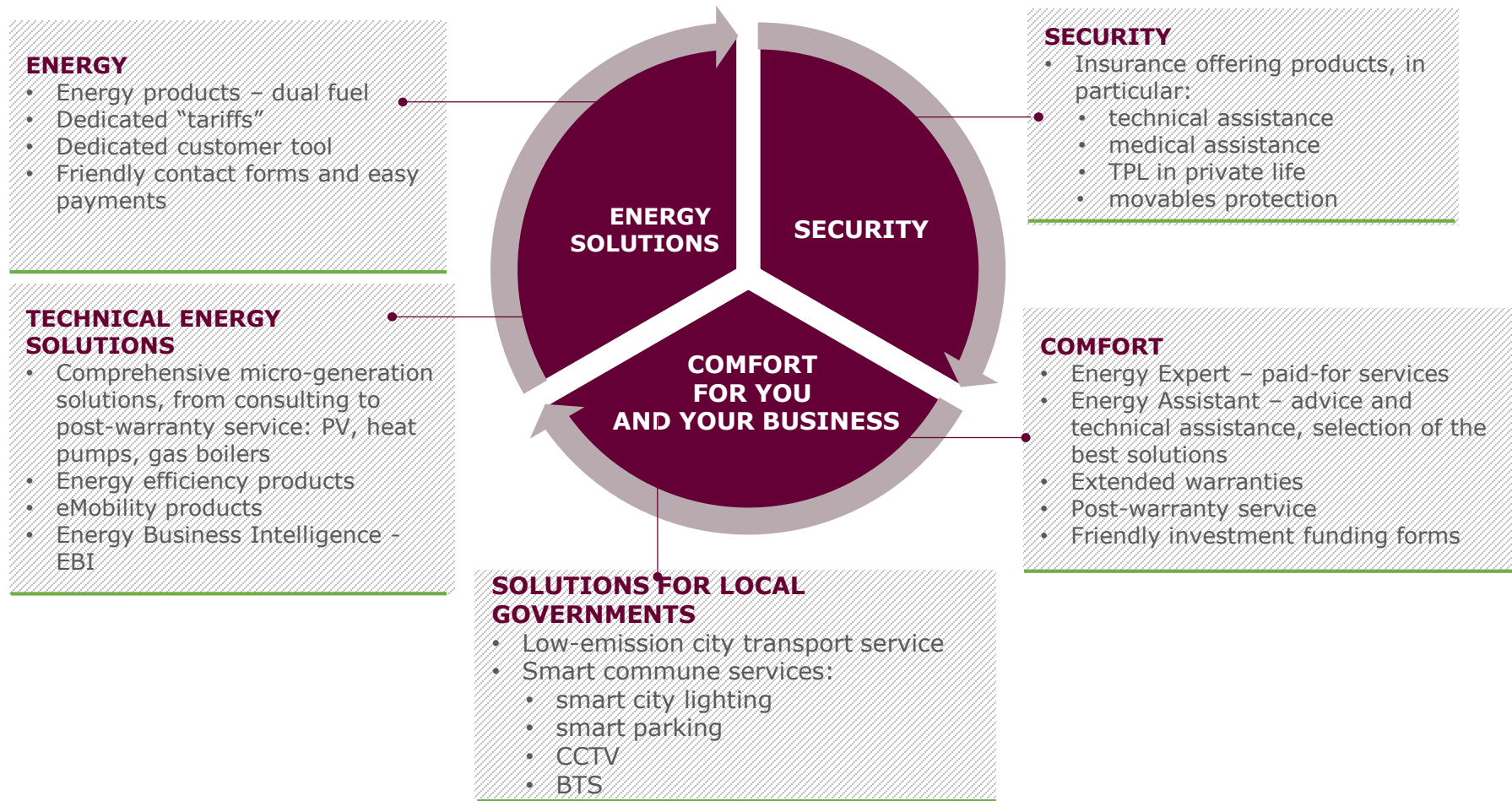
COST, OPERATIONAL AND PROCESS OPTIMIZATION INITIATIVES

EVOLUTIONARY CHANGE

TRANSFORMATION OF THE ORGANIZATIONAL CULTURE

INITIATIVES TO CHANGE THE ORGANIZATIONAL CULTURE AND ENSURE STRATEGIC COMPETENCES AND OPERATING SYNERGIES IN TEAMS

Integrator model – new products & services



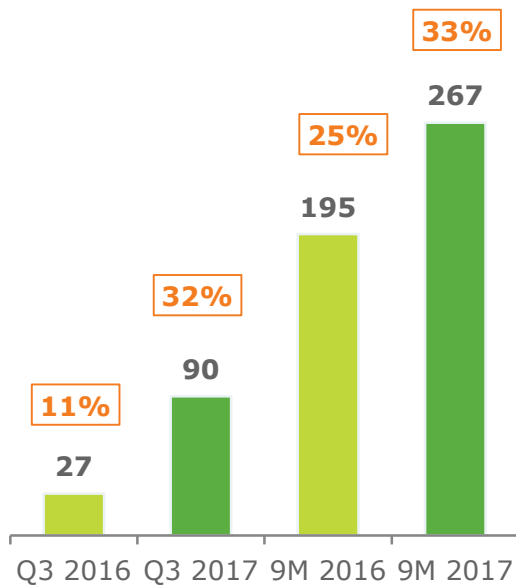
Long-term certificate purchase contracts – status

- As of 11 September 2017, the Company filed 22 statements of claim aimed at ascertaining the non-existence of the legal relationships that were allegedly established as a result of the Company and subsidiaries generating electricity from renewable sources entering into framework agreements for the sale of property rights arising from certificates of origin ("CPA"). The statements of claim were filed with the: Regional Court in Warsaw (14), Regional Court in Gdańsk (5) and Court of Arbitration at the Polish Chamber of Commerce in Warsaw ("KIG") (3).
- On 12-13 September 2017, the Company filed, with common courts, 43 calls for conciliatory settlement of the disputes for payment of refund of the pecuniary considerations paid by the Company as part of performance of unconditionally invalid CPAs. The calls were filed against wind farms and against banks.
- On 28 September 2017, the Company received a statement of claim for payment of PLN 31.9 million filed by Boryszewo Wind Invest Sp. z o.o. against ENERGA-OBRÓT SA. The Regional Court in Gdańsk set a 30 day deadline for response.

Results of the Generation Segment better than expected

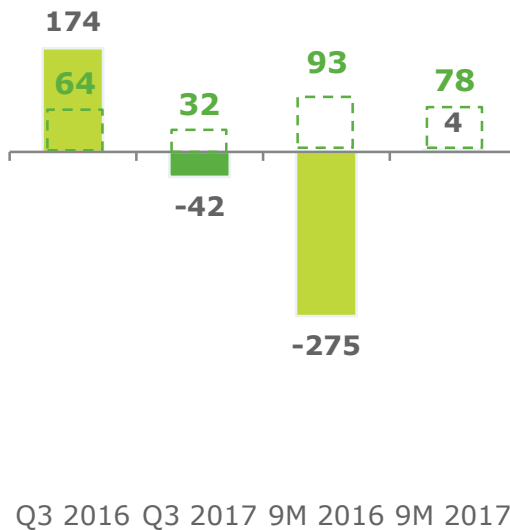
EBITDA (PLN m)

□ - EBITDA margin



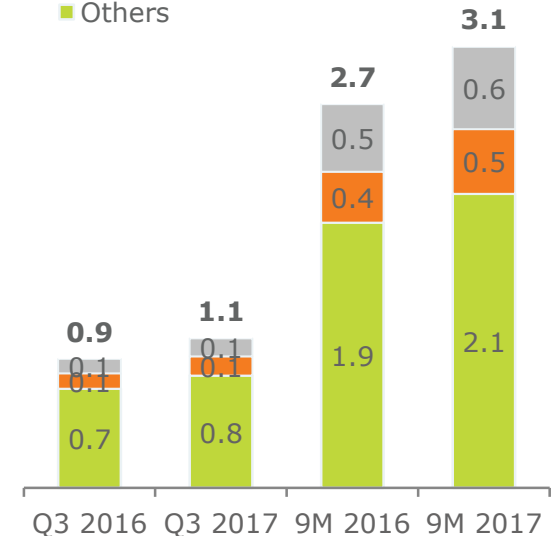
Net profit (PLN m)

□ - Net result before impairment



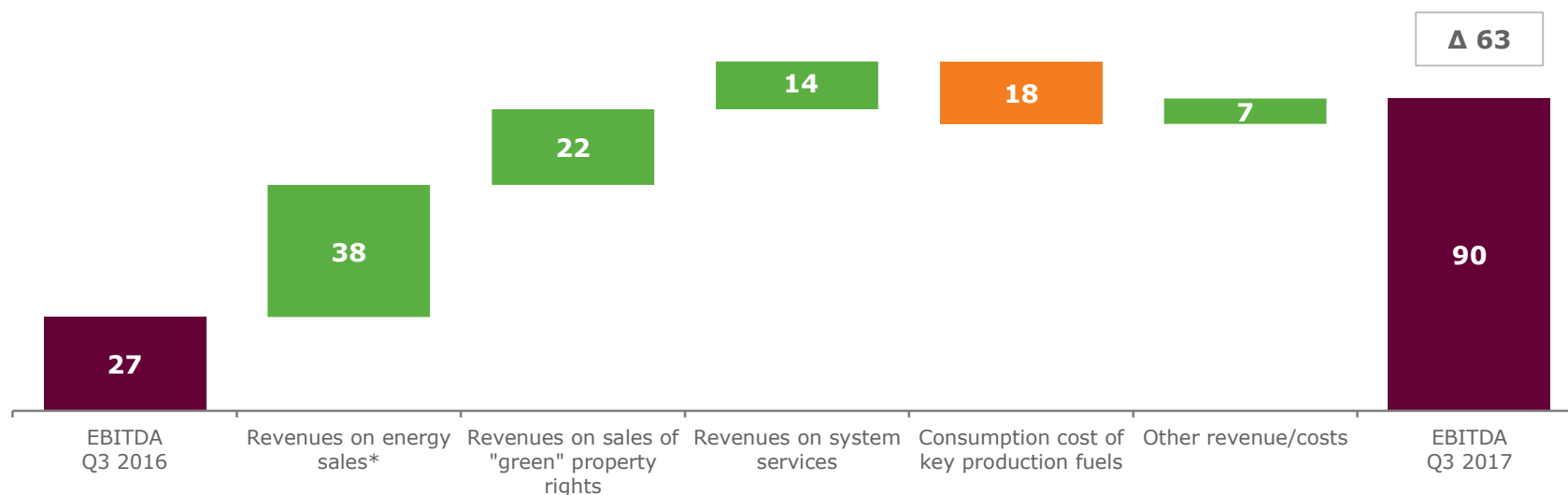
Gross production of electricity (TWh)

■ RES without support
■ RES with support
■ Others



Increased revenues on energy and property rights

EBITDA Bridge of Generation Segment (PLN m)



195	61	22	28	-37	-2	267
EBITDA 9M 2016						EBITDA 9M 2017

*includes net electricity trading (revenue less cost)

Higher production volumes

EBITDA per business lines (PLN m)

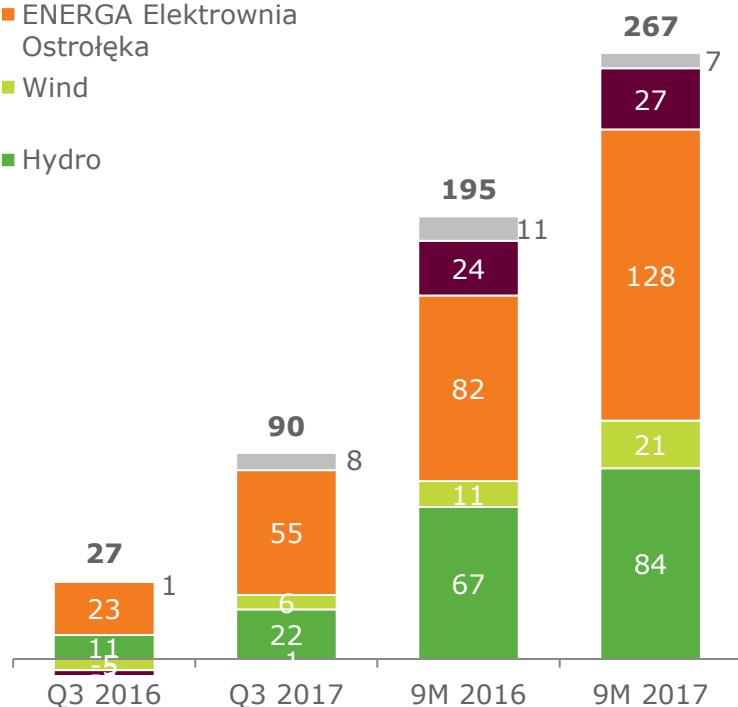
■ Others & adjustments*

■ CHP

■ ENERGA Elektrownia Ostrołęka

■ Wind

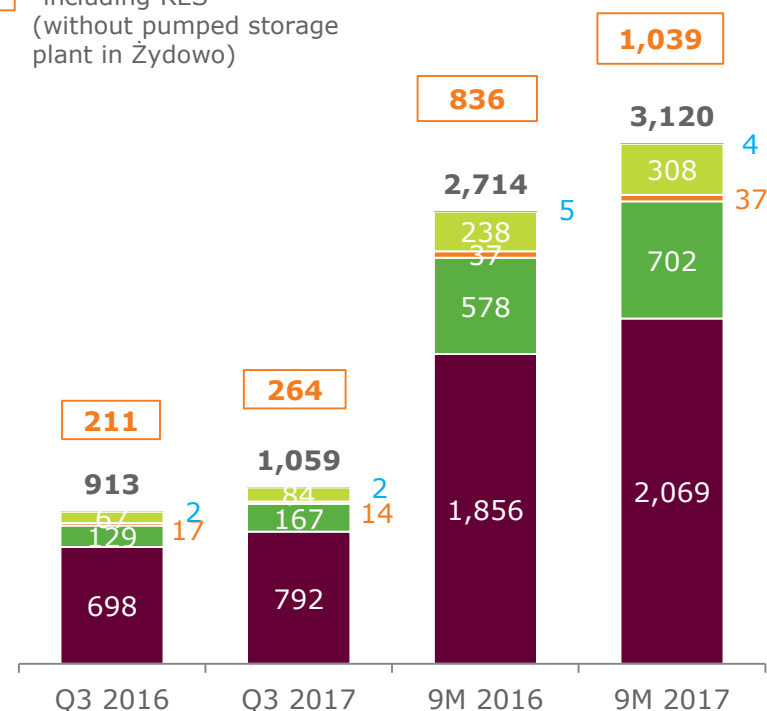
■ Hydro



Gross electricity production by fuel (GWh)

■ Coal ■ Hydro ■ Biomass ■ Wind ■ PV

□ -including RES (without pumped storage plant in Żydowo)



* 'Other & adjustments' includes companies providing services to the Generation segments, SPVs, PV farms and elimination of transactions between business lines.

PLN 794 m of capital expenditures made in 9 months of 2017

The ENERGA Group's total capital expenditures in **Q3 2017** were **PLN 266m**.

Major investments in the **Distribution Segment**:

1. **PLN 96m** grid development to facilitate connection of new customers
2. **PLN 91m** distribution network modernization to improve reliability of supply
3. **PLN 13m** other expenditures for innovative grid technologies and solutions (Smart Grid)

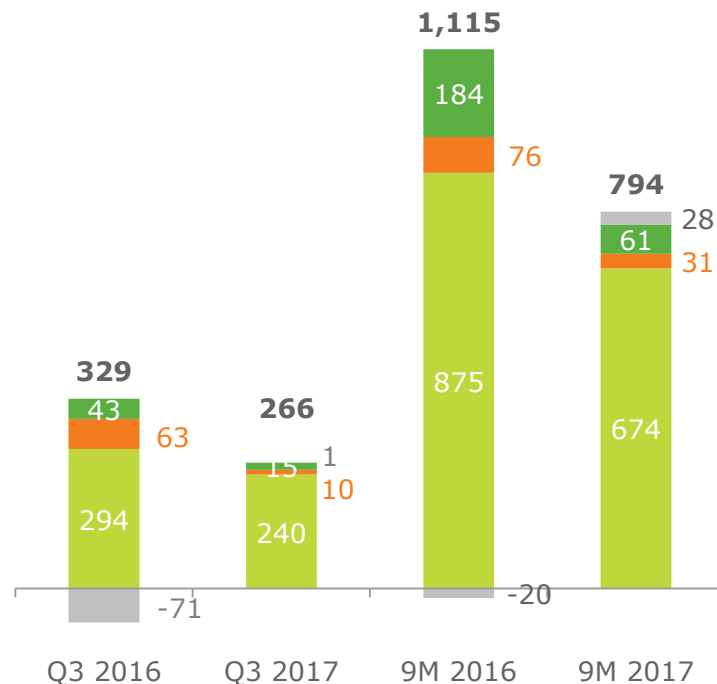
contributed to:

- a. **13 thous.** - new customer connections
- b. **831km** - built and modernized LV, MV and HV lines
- c. **6 MW** – new RES connections to the network

Under the EU's Operational Programme Infrastructure and Environment **2014-2020**, Distribution obtained over **PLN 166 million** of subsidy for investments associated with implementation of the smart grid, including among others:

- installation of smart metering,
- network automation,
- construction of energy storage systems.

PLN m



■ Distribution ■ Sales ■ Generation ■ Others & adjustments

ENERGA Group performance drivers in the next quarter

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

OPEX & CAPEX for the grid in connection with the quality requirements in the Distribution Segment

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

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

Increasing competition in the market of electricity sellers

Impact of the function of the Offtaker of Last Resort and RES source balancing

Electricity prices on the spot and balancing markets

Must-run production level at ENERGA Elektrownie Ostrołęka

Final settlement of the purchase of Polimex-Mostostal S.A. shares

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

Weather and hydrometeorological conditions

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8 November 2017



Additional information

ENERGA Group's key assets

Distribution

1. 185 thous. km of power lines
2. 16.5 TWh - electricity delivered in 9M 2017 (5.4 TWh in Q3 2017)
3. Geographical coverage of 75 thous. km²

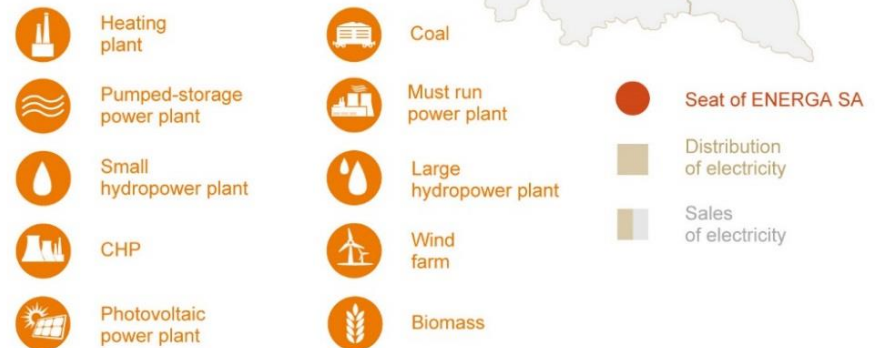
Generation*

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 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, 444 MWt)

Sales

1. 3.0 million customers
2. 15.2 TWh – electricity sold in 9M 2017 (5.1 TWh in Q3 2017)

* Installed capacity



Summary of Q3 2017

PLN m	Distribution			Sales			Generation		
	Q3 2016	Q3 2017	Change (%)	Q3 2016	Q3 2017	Change (%)	Q3 2016	Q3 2017	Change (%)
Revenues	983	1,049	7%	1,353	1,242	-8%	246	277	13%
EBITDA	390	411	5%	36	13	-64%	27	90	>100%
<i>EBITDA margin</i>	<i>39.7%</i>	<i>39.2%</i>	<i>Δ -0.5 p.p.</i>	<i>2.7%</i>	<i>1.0%</i>	<i>Δ -1.6 p.p.</i>	<i>11.0%</i>	<i>32.5%</i>	<i>Δ 21.5 p.p.</i>
EBIT	205	220	7%	27	3	-89%	95	-37	<-100%
Net profit/loss	137	151	10%	20	3	-85%	174	-42	<-100%
<i>Net profit/loss margin</i>	<i>13.9%</i>	<i>14.4%</i>	<i>Δ 0.5 p.p.</i>	<i>1.5%</i>	<i>0.2%</i>	<i>Δ -1.2 p.p.</i>	<i>70.7%</i>	<i>-15.2%</i>	<i>Δ -85.9 p.p.</i>
CAPEX	294	240	-18%	63	10	-84%	43	15	-65%

PLN m	Generation business lines, including:											
	Hydro			Wind			ENERGA Elektrownia Ostrołęka			CHP		
	Q3 2016	Q3 2017	Change (%)	Q3 2016	Q3 2017	Change (%)	Q3 2016	Q3 2017	Change (%)	Q3 2016	Q3 2017	Change (%)
Revenues	29	38	30%	5	19	>100%	184	190	3%	21	23	12%
EBITDA	11	22	>100%	-5	6	>100%	23	55	>100%	-3	-1	71%
<i>EBITDA margin</i>	<i>36.4%</i>	<i>57.7%</i>	<i>Δ 21.4 p.p.</i>	<i>-95.0%</i>	<i>33.3%</i>	<i>Δ 128.3 p.p.</i>	<i>12.7%</i>	<i>28.9%</i>	<i>Δ 16.2 p.p.</i>	<i>-12.4%</i>	<i>-3.2%</i>	<i>Δ 9.1 p.p.</i>
EBIT	2	14	>100%	-13	-73	<-100%	5	39	>100%	-11	-10	14%
CAPEX	1	2	65%	0	0	-	34	1	-96%	5	7	39%

Summary of 9M 2017

PLN m	Distribution			Sales			Generation		
	9M 2016	9M 2017	Change (%)	9M 2016	9M 2017	Change (%)	9M 2016	9M 2017	Change (%)
Revenues	3,077	3,268	6%	4,018	3,859	-4%	788	808	3%
EBITDA	1,310	1,341	2%	63	24	-62%	195	267	37%
<i>EBITDA margin</i>	42.6%	41.0%	Δ -1.5 p.p.	1.6%	0.6%	Δ -0.9 p.p.	24.7%	33.0%	Δ 8.3 p.p.
EBIT	764	768	1%	36	-8	<-100%	-379	58	>100%
Net profit/loss	552	542	-2%	28	-7	<-100%	-275	4	>100%
<i>Net profit/loss margin</i>	17.9%	16.6%	Δ -1.4 p.p.	0.7%	-0.2%	Δ -0.9 p.p.	-34.9%	0.5%	Δ 35.4 p.p.
CAPEX	875	674	-23%	76	31	-59%	184	61	-67%

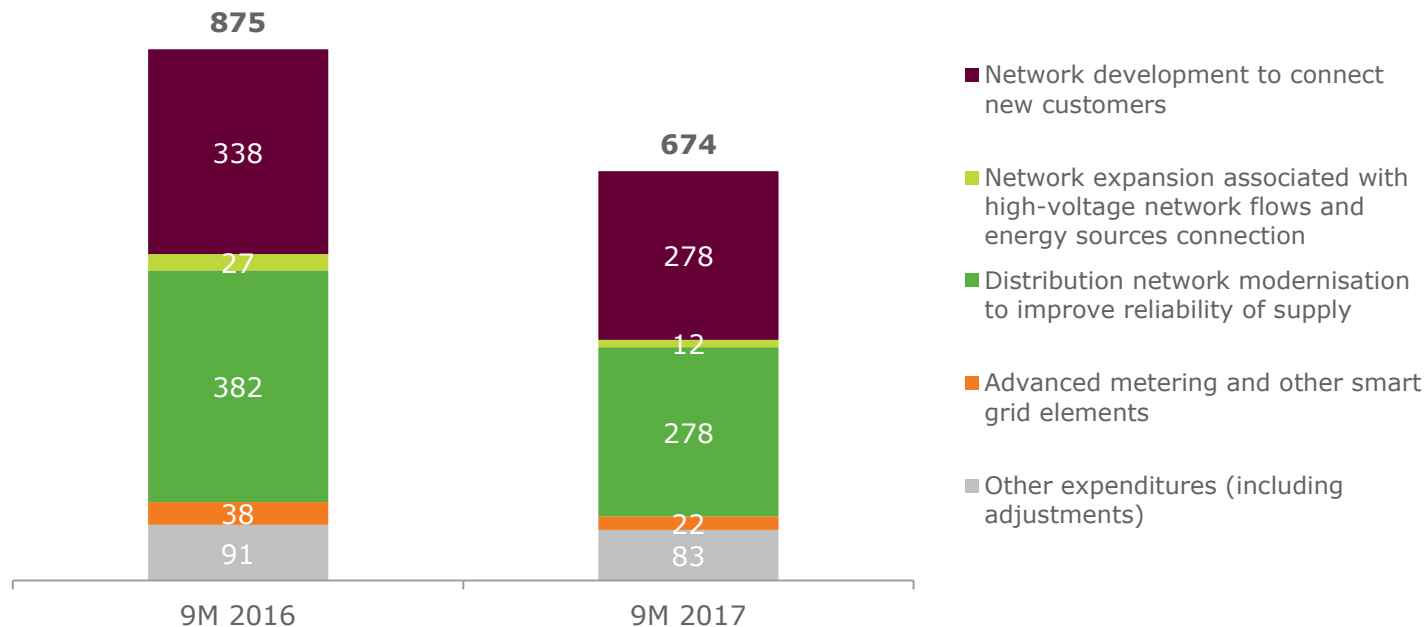
PLN m	Generation business lines, including:											
	Woda			Hydro			Wind			ENERGA Elektrownia Ostrołęka		
	9M 2016	9M 2017	Change (%)	9M 2016	9M 2017	Change (%)	9M 2016	9M 2017	Change (%)	9M 2016	9M 2017	Change (%)
Revenues	127	144	14%	41	59	45%	500	481	-4%	111	113	3%
EBITDA	67	84	25%	11	21	85%	82	128	57%	24	27	12%
<i>EBITDA margin</i>	52.8%	58.3%	Δ 5.5 p.p.	27.6%	35.3%	Δ 7.7 p.p.	16.4%	26.7%	Δ 10.3 p.p.	21.8%	23.7%	Δ 2 p.p.
EBIT	43	59	39%	-282	-75	73%	30	81	>100%	-2	0	104%
CAPEX	4	6	31%	0	0	>100%	144	36	-75%	10	12	18%

Structure of cost by nature – ENERGA Group

Expenses by nature (PLN m)	Q3 2016	Q3 2017	9M 2016	9M 2017
Depreciation of property, plant and equipment, intangible assets and investment property	237	243	704	731
Materials and energy used	116	172	416	504
incl. fuel used for balance difference	31	52	152	156
incl. fuel used (with transport)	75	93	212	249
External services	350	404	1,019	1,133
incl. transmission and transit fees	240	270	714	790
Taxes and fees	98	110	292	315
Employee benefits expenses	209	203	657	682
Impairment	-83	94	371	124
Other expenses	-16	-33	-33	-66
Value of merchandise and raw materials	1,205	1,149	3,445	3,505
Total operating expenses	2,115	2,342	6,870	6,928

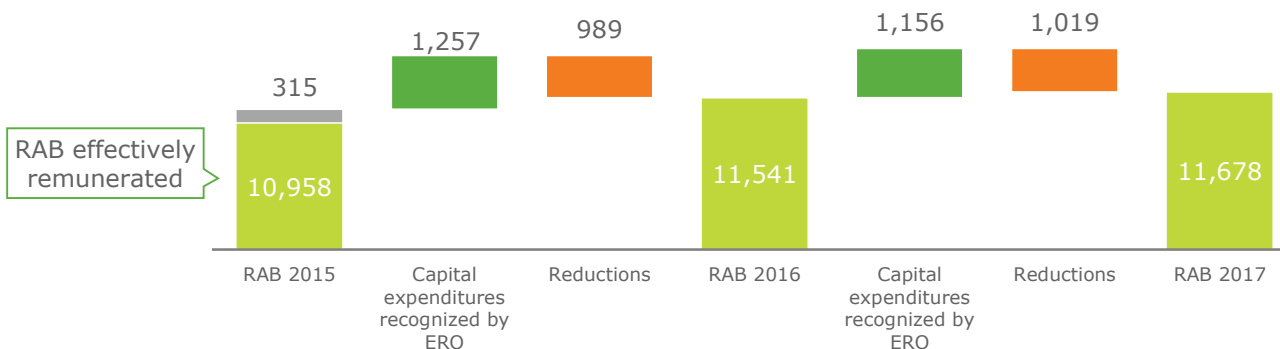
Current Distribution Capex structure

PLN m



Regulatory asset base

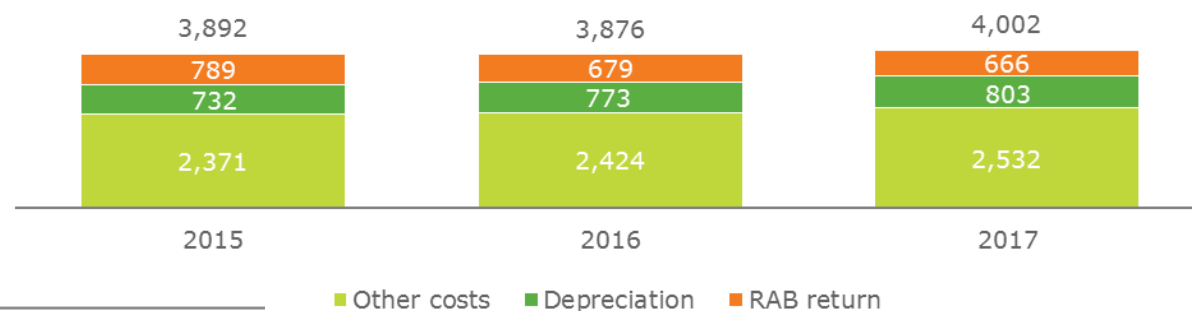
RAB



Return on RAB

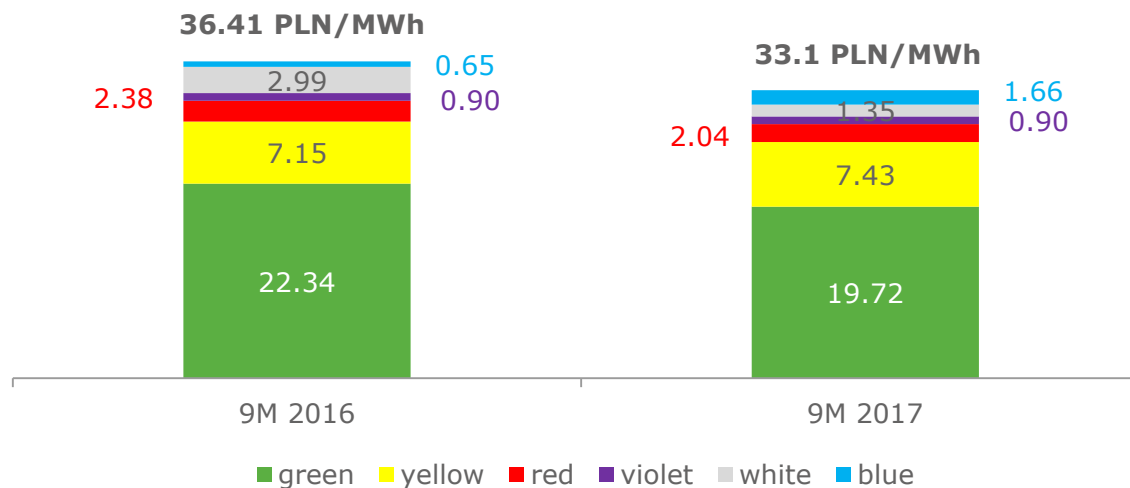
"Standard"	WACC	2015 7.20%	2016 5.68%	2017 5.63%
	Riskfree rate	3.96%	2.95%	2.91%
	Q (Quality coefficient)	-	-	-
	RC (regulatory coefficient)	-	1,00	0,99
	Return on capital based on RAB	830	679	673
	Allowed return on capital	789*	679	666
"Included in tariff"	Effective return on RAB	7.00%	5.88%	5.71%

Regulated revenue



Key operating data of the Sales Segment

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



	Q3 2016	Q3 2017	Change (%)	9M 2016	9M 2017	Change (%)
Electricity sales by Sales Segment (GWh)	6,001	5,515	-8%	17,446	17,218	-1%
<i>incl. retail sales</i>	4,878	5,092	4%	14,366	15,233	6%
Average purchase price of electricity w/o certificates of origin (PLN/MWh)	174.8	174.9	0%	174.2	173.0	-1%
Average purchase price of electricity w/ certificates of origin (PLN/MWh)	199.0	204.0	3%	203.4	201.0	-1%
Variablemargin**	5.4%	4.1%	Δ -1.4 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 Segment

Consumption of fuels	Q3 2016	Q3 2017	Change	Change (%)	9M 2016	9M 2017	Change	Change (%)
Coal								
Quantity (000s tons)	320.9	361.7	40.9	13%	887.2	968.7	81.5	9%
Cost* (PLN m)	69.8	87.1	17.3	25%	198.8	233.2	34.4	17%
Cost per unit (PLN/ton)	217.6	240.9	23.3	11%	224.0	240.7	16.7	7%
Cost per unit (PLN/MWh)**	87.7	97.1	9.4	11%	77.4	83.3	5.8	8%
Biomass								
Quantity (000s tons)	12.2	14.1	1.9	16%	29.0	38.4	9.4	33%
Cost* (PLN m)	4.3	4.9	0.7	16%	10.7	13.4	2.8	26%
Cost per unit (PLN/ton)	348.7	350.0	1.3	0%	367.6	349.3	-18.3	-5%
Cost per unit (PLN/MWh)**	112.8	138.3	25.6	23%	133.4	140.9	7.6	6%

* Including cost of transport

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

CO2 emission allowances in Generation Segment	Q3 2016	Q3 2017	9M 2016	9M 2017
CO2 emission allowances (thous. tons CO2), incl.:	671	744	1,835	2,009
The amount of free CO2 emission allowances	241	187	797	614
Volume of emission allowances purchased	429	557	1,038	1,394
Cost of CO2 purchase (PLN m)	11.3	17.7	30.3	34.8

Key operating data of ENERGA Elektrownie Ostrołęka

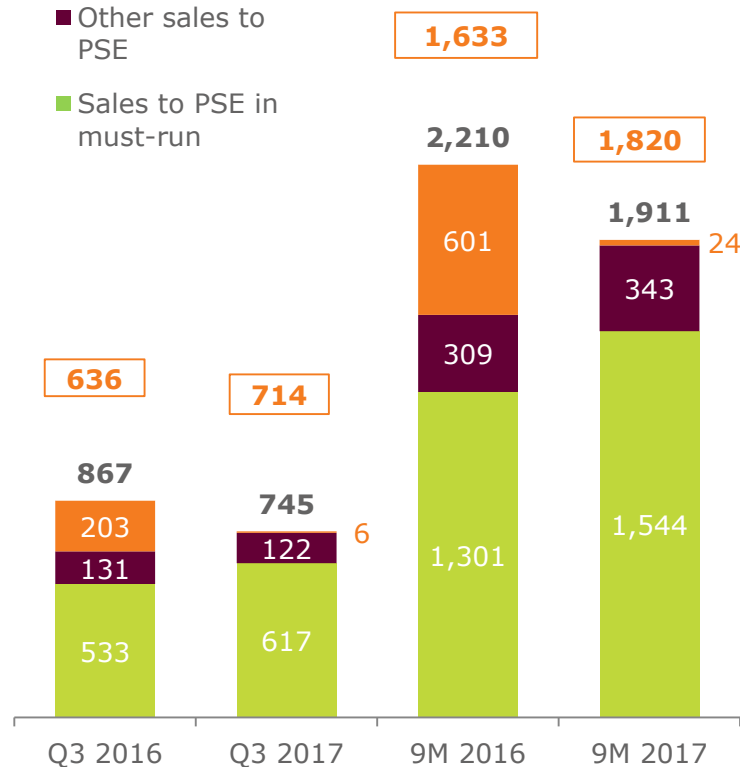
Sales structure (GWh)

□ -Own net production

■ Other electricity sales

■ Other sales to PSE

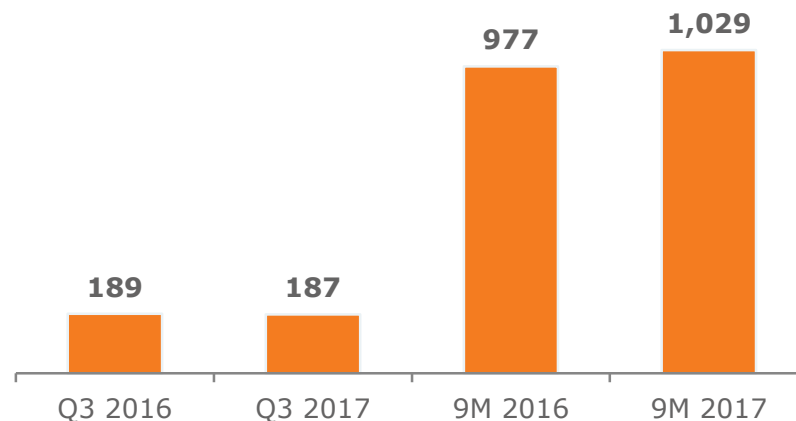
■ Sales to PSE in must-run



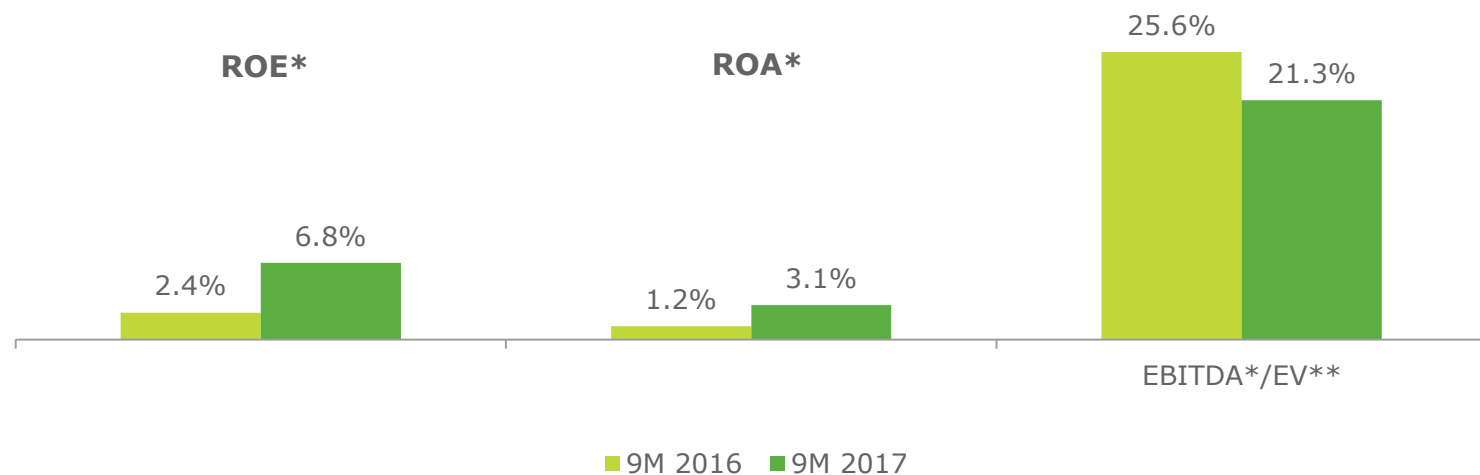
Fuels consumption volumes and costs in 9M2017

	Unit	Coal
Total consumption	(000s tons)	864,4
Consumption cost per unit	(PLN/ton)	238,6
Total fuel cost	(PLN m)	206,3

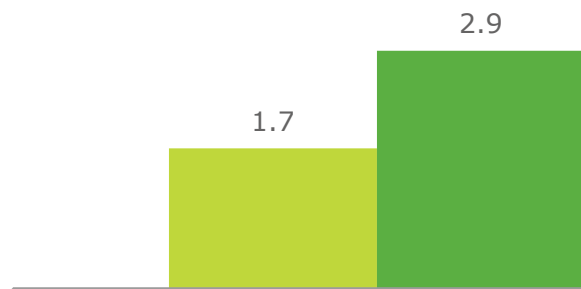
Gross heat production (TJ)



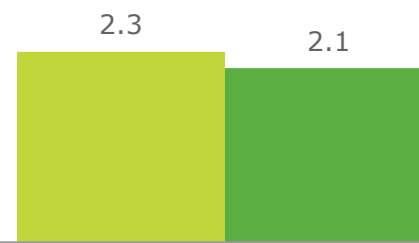
Profitability and liquidity ratios



Current Ratio



Net debt/EBITDA



■ 31 December 2016 ■ 30 September 2017

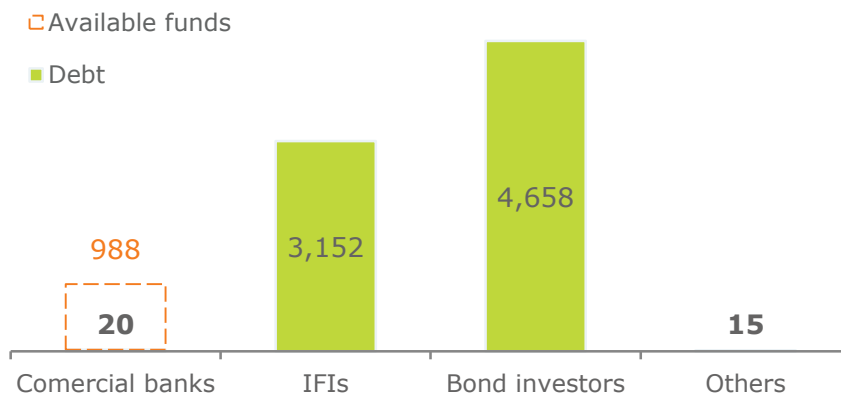
* net profit and EBITDA for last 12 months

** market value+ net debt

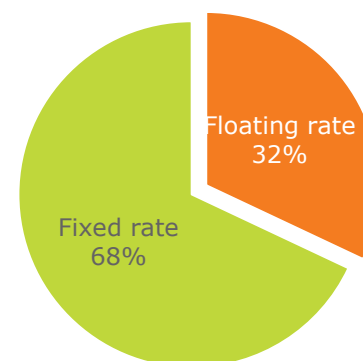
ENERGA Group's average cost of debt

Structure of financing as at 30.09.2017

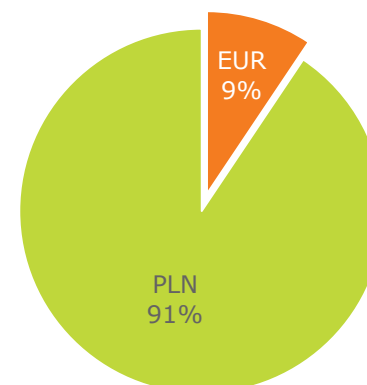
Debt utilisation



Interest rate convention of the debt utilisation

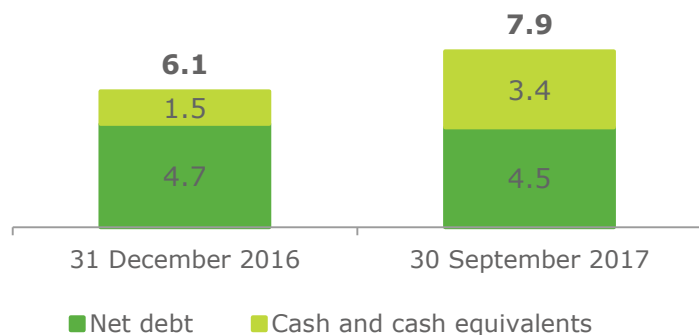


Currency of the debt utilisation

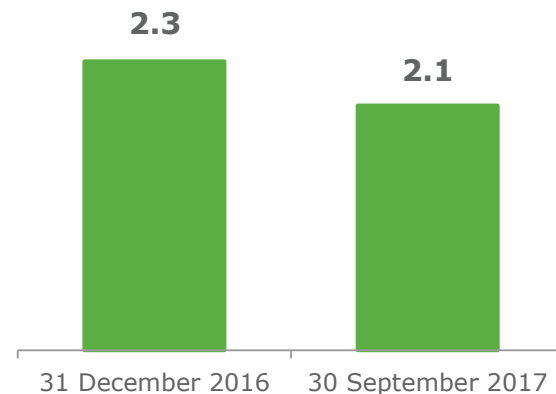


Financial security

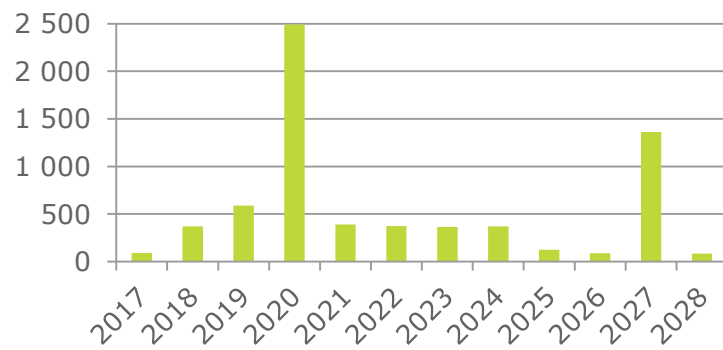
Debt (PLN bn)



Net debt/ EBITDA



Debt maturities (PLN m)



Financing programs

Domestic bond issue

Issue value: PLN 1,000 m, Maturity: 18.10.2019

Eurobond issues

Value: EUR 500 m & EUR 300 m, Maturity: 03.2020 & 03.2027

Hybridbonds issues

Value: EUR 125m & EUR 125m, Maturity: 09.2033 & 09.2037

Agreement with the European Investment Bank (EIB)

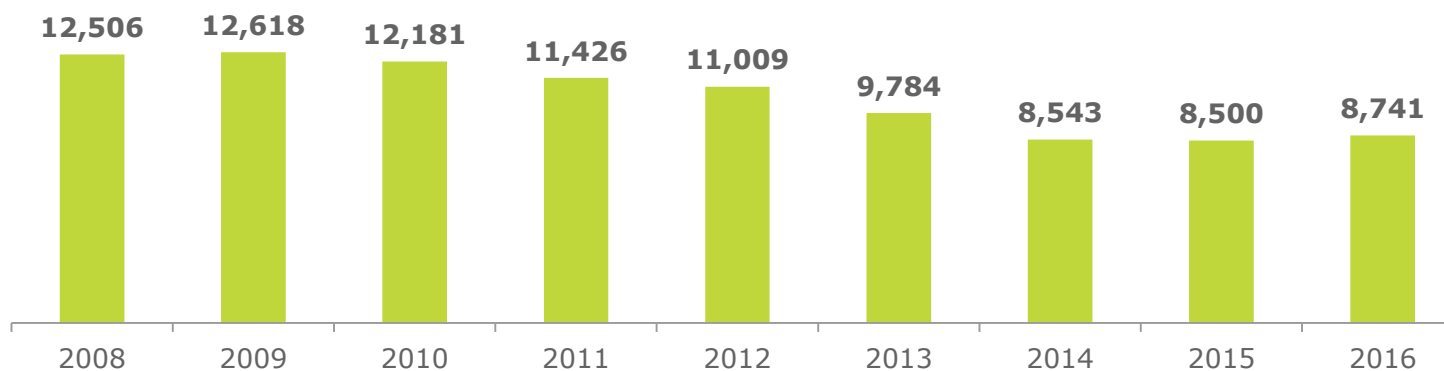
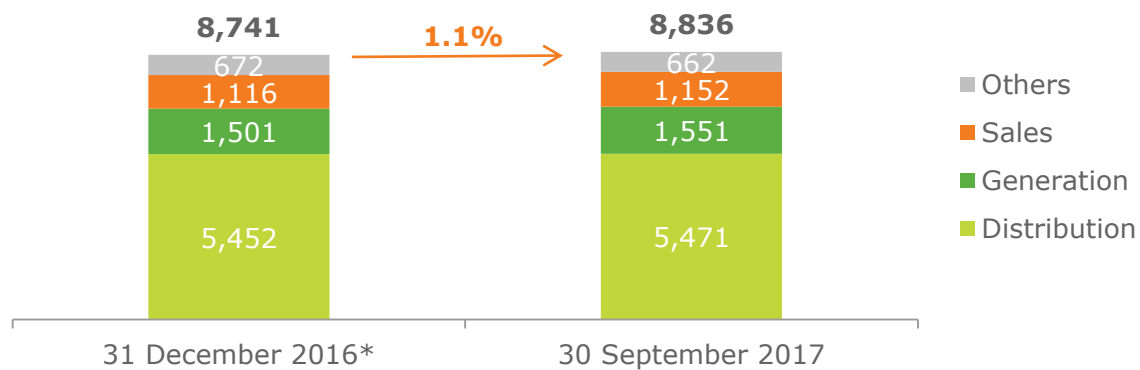
Limit: PLN 1,050 m, Final maturity: 15.03.2030

Agreement with the European Bank for Reconstruction and Development (EBRD)

Limit: PLN 800 m, Final maturity: 18.12.2024

Headcount in the ENERGA Group

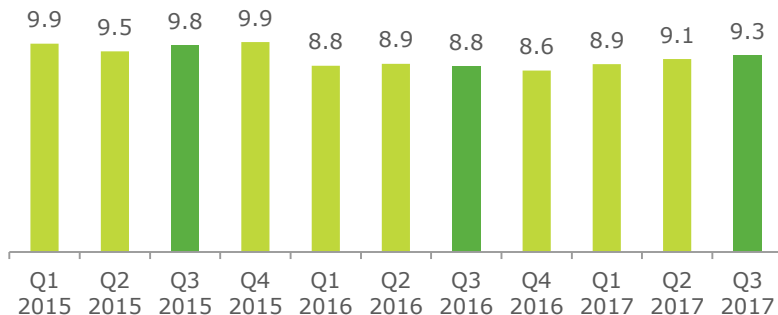
Headcount – end of period



*the historical data have been converted to match the current segmentation

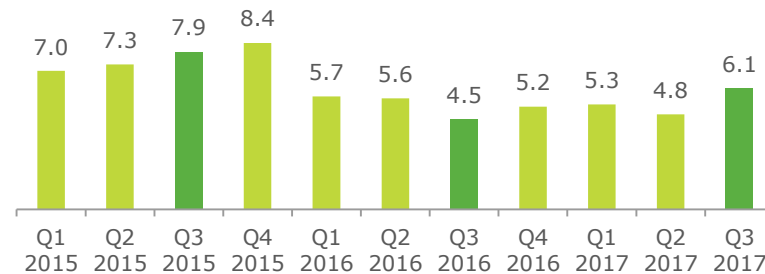
Key market data

Coal [PLN/GJ]



Source: Polishcoal market

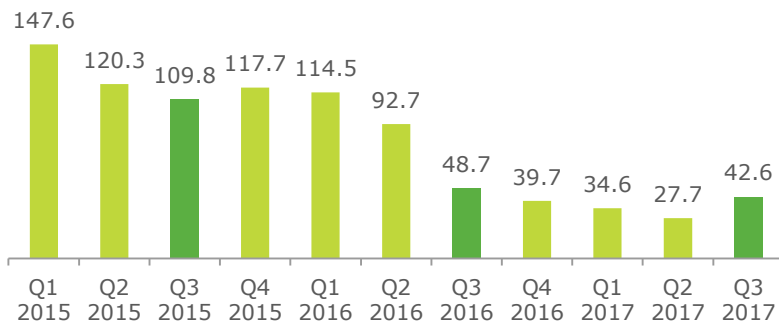
EUA - CO2 emission rights [EUR/t]



Source : Bloomberg

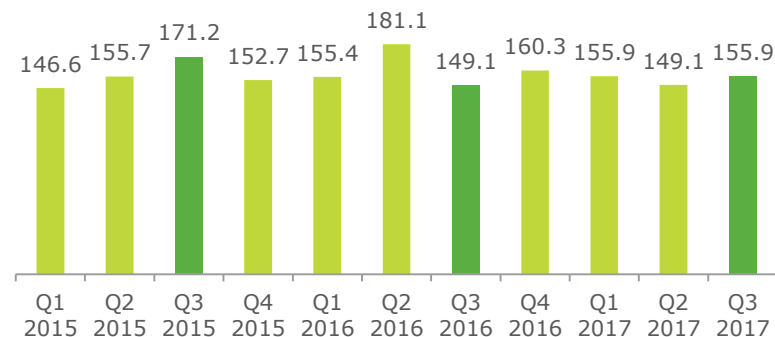
Przeciętne ceny energii elektrycznej i zielonych certyfikatów na TGE (zł/MWh)

Green certificates - PMOZE_A (spot)



Source: Polish Power Exchange(Polish: TowarowaGiełdaEnergii S.A. – TGE)

Electricity (spot)



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