

Warsaw, August 8, 2018

Press release

## **Lack of market stabilization reduces the results of Polenergia**

**Polenergia S.A. ('Polenergia'), the largest Polish private and vertically integrated energy group, presented a consolidated report for the first half of 2018. Sales revenues amounted to PLN 1.574 billion, and adjusted EBITDA over PLN 57 million.**

- **PLN 1.574 billion of sales revenues in the first half of 2018;**
- **PLN 57.3 million of adjusted EBITDA in the first half of 2018;**
- **28.6 percent of adjusted EBITDA margin in the first half of 2018 (trading activity excluded);**
- **Finalization of an agreement with Equinor for the sale of 50 percent of shares in Polenergia Bałtyk II and Polenergia Bałtyk III.**
- **End of reprofiling of 77 percent of the debt of the wind farms.**

In the first half of 2018 Polenergia Group recorded a 17-percent increase in sales revenues in relation to the corresponding period of the previous year. Noteworthy are the very good sales revenues achieved in the second quarter of 2018. A growth in revenue by 31 percent in comparison to the second quarter of 2017 to the level of PLN 827 million was an effect of higher sales revenues from the trading segment. However, a loss on electricity trading in this segment, which was partially offset by a higher result in the wind energy segment, lowered the adjusted EBITDA in the first half-year by PLN 24 million to the level of PLN 57 million.

*“An unquestionable success of Polenergia recorded in the first half of the year is the finalization of the agreement with Equinor, enabling the joint implementation of strategic projects of wind farms in the Baltic Sea. Moreover, the works on reprofiling of over  $\frac{3}{4}$  debt of our wind farms have been completed. It allows us to watch with less concern what is currently happening on the market. The visible symptoms of an improvement of the regulatory environment connected with the removal of ambiguity regarding the basis for calculating a real estate tax as well as auctions for new wind farms with a capacity of over 1,000 MW are accompanied by a surprisingly large volatility of market electricity prices both on the spot and on the forward market”,* indicates Jacek Głowacki, President of the Management Board of Polenergia.

From January to June 2018 the Wind Energy segment recorded an increase in EBITDA by PLN 8.8 million to PLN 49.3 million, and in the second quarter alone EBITDA increased by PLN 6.1 million to

the level of PLN 26.1 million. What contributed to the better results of this segment was higher average prices of green certificates and the lower cost of property tax and technical maintenance, partially offset by lower production volumes. In the second quarter of 2018 the valuation of green certificates continued to grow. Their average price was PLN 71.7/MWh, with green certificates costing PLN 75.2/MWh at the end of June and in July reaching the level of over PLN 90/MWh. The use of modern technologies, very good location of projects and an experienced technical team enable a continuous achievement of higher levels of productivity than the market average. In the first half-year the wind farms generated over 314 GWh of electricity, and their productivity reached 28.6 percent. In addition, as a result of an acquisition of assets of Krzęcin wind farm, the installed capacity of Polenergia's wind farms has increased since May 2018 by 6 MW to nearly 250 MW.

The EBITDA of the Conventional Energy segment in the first half-year decreased to PLN 31.1 million. The worse result is a consequence of higher prices of natural gas and CO<sub>2</sub> emission allowances as well as lower revenues from cogeneration certificates, partially offset by higher revenues from gas compensation. In the period from December 2017 to July 2018 the prices of carbon dioxide emission allowances rose by over 100 percent to a high level of over 16 euros. However, the price of cogeneration certificates dropped from PLN 117/MWh in 2017 to PLN 112/MWh in 2018.

The remaining segments of the Group recorded in the first half-year the following EBITDA results: Distribution PLN 7.1 million, Biomass PLN 0.5 million, Trading PLN -21.6 million. The worse result of the Trading segment was mainly a consequence of a loss on electricity trading due to a sharp increase of electricity prices in the second quarter. In order to limit exposure to risk, the Group has taken steps to close positions that result in a loss and to reduce the scale of trading activity until the situation on the energy market gets stabilized.

As a result of the events described above, the adjusted EBITDA margin, Trading segment excluded, amounted to 28.6 percent and it was lower by 1.8 p.p. than the recognized one in the corresponding period last year. In the second quarter in turn, this index reached 29.1 percent and it was lower by 1.3 p.p. than in the previous year.

In parallel with its current operating activity, the Company continues its works on the development of new projects. The wind farm projects with a total capacity of 185 MW, which already have a construction permit, will join an auction expected in the IV quarter of 2018. Winning the auction will depend on the number of projects participating in it and the level of proposed price in relation to other bidders.

For part of the wind farm portfolio at an earlier stage of development (with a total capacity of 26 MW) a decision was made to implement photovoltaic projects in this place, based on the existing connection conditions and lease contracts. The works on the development of these projects will be continued in 2018 and 2019. The total capacity of all photovoltaic projects prepared by the Group for the auction is 40 MW.

The Company is also preparing a project of construction and operation of a 31-MW biomass power plant connected to the power grid. In the second quarter of 2018 it obtained a decision of the ERO on admission to the auction (prequalification) as well as an Integrated Permit. The Company allows a possibility of getting an investor interested in purchasing this project prior to the auction or after winning it.

A strategic investment presently implemented by the Group is preparation for the construction of two offshore wind farms, Polenergia Bałtyk II and Polenergia Bałtyk III, located in the Baltic Sea, with a total capacity of 1,200 MW. The date of construction depends on an entry into force of a relevant regulatory system. Furthermore, the Group analyses the conditions from the perspective of a resumption of preparatory works related to Polenergia Bałtyk I project with a capacity of 1,500 MW.

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**Polenergia** – a Polish private group in the power industry with an international reach, which is made up of vertically integrated companies functioning in the area of generation of energy from conventional and renewable sources, as well as electricity distribution and trade. Read more: [www.polenergia.pl](http://www.polenergia.pl)

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