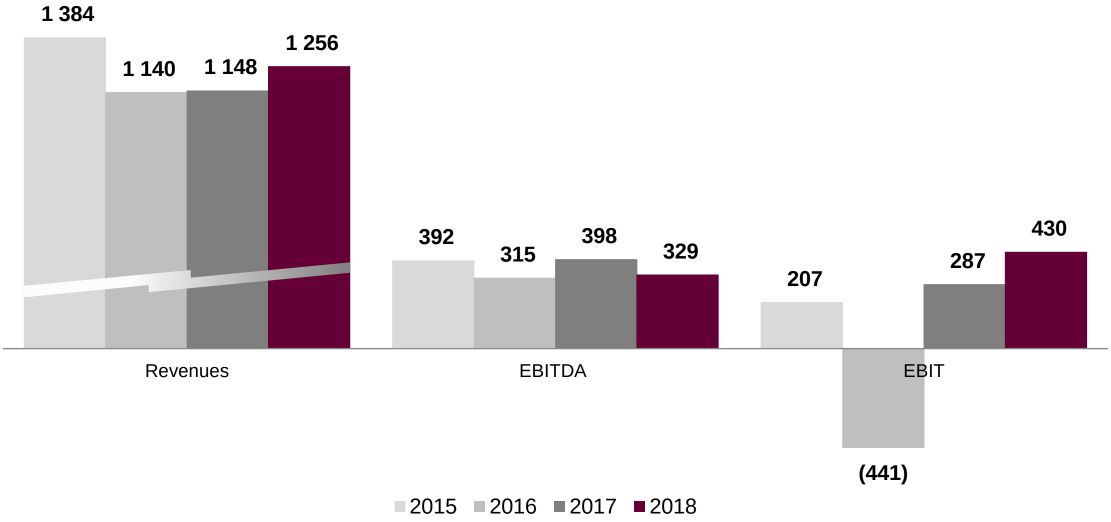
Generation Business Line

Results of the Generation Business Line of the Energa Group (m PLN)

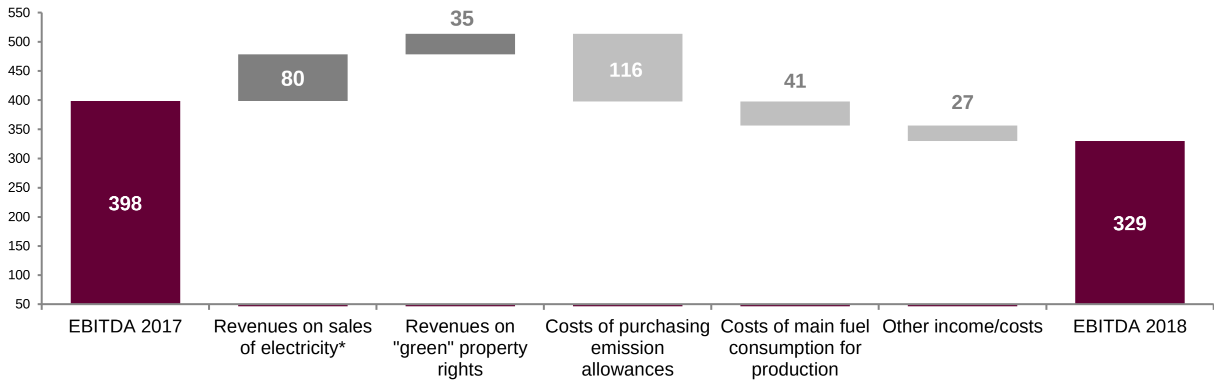


Results of the Generation Business Line of the Energa Group

PLN m	2015	2016	2017	2018	Change 2018/2017	Change 2018/2017 (%)
Revenue	1,384	1,140	1,148	1,256	108	9%
EBITDA	**392**	**315**	**398**	**329**	**(69)**	**-17%**
amortisation and depreciation	168	183	164	166	2	1%
impairment losses on non-financial non-current assets	17	573	(53)	(267)	(214)	< -100%
EBIT	207	(441)	287	430	143	50%
Net result	115	(303)	172	306	134	78%
CAPEX	392	248	87	238	151	> 100%

PLN m	Q4 2017	Q4 2018	Change	Change (%)
Revenue	340	394	54	16%
EBITDA	**131**	**95**	**(36)**	**-27%**
amortisation and depreciation	41	44	3	7%
impairment losses on non-financial non-current assets	(139)	(150)	(11)	-8%
EBIT	229	201	(28)	-12%
Net result	168	152	(16)	-10%
CAPEX	26	82	56	> 100%

EBITDA bridge of the Generation Business Line (m PLN)



** includes net electricity trading (revenue less cost)*

The following table presents a breakdown of EBITDA for the Generation Business Line by Division. The overview shows non-consolidated data, considering the Line management cost mark-up, elimination of inter-company transactions between business areas and consolidation adjustments.

The data presented may differ from historical data due to the clarification of the methodology for the allocation of Business Line results between individual Divisions.

EBITDA of the Generation Business Line by Division

EBITDA in PLN m	2015	2016	2017	2018	Change 2018/2017	Change 2018/2017 (%)
Water	155	93	127	103	(23)	-18%
Wind	73	26	42	88	46	> 100%
Ostrołęka Power Plant	149	152	189	124	(65)	-34%
Other and adjustments	15	43	40	13	(27)	-67%
Total Generation	**392**	**315**	**398**	**329**	**(69)**	**-17%**

EBITDA in PLN m	Q4 2017	Q4 2018	Change	Change (%)
Water	43	13	(30)	-69%
Wind	21	32	11	51%
Ostrołęka Power Plant	61	47	(14)	-23%
Other and adjustments	6	3	(3)	-54%
Total Generation	**131**	**95**	**(36)**	**-28%**

The EBITDA of the Generation Business Line in 2018 was PLN 329 m, accounting for 18% of the total Group EBITDA (also 18% in 2017). The Line's EBITDA in 2018 was driven by a range of factors, including revenue from the sale of electricity and green property rights, cost of purchase of emission allowances and cost of consumption of key fuels for production.

Revenue from the sale of electricity depends mainly on the level of selling prices for electricity charged by the Ostrołęka and wind farms. The increase in revenue from the sale of green property rights was driven by high market prices. The cost of purchase of CO_2 emission allowances depended on the market prices of emission allowances and a smaller pool of free production allowances granted for 2018. However, it is appropriate to note that this cost is largely offset by electricity prices. The cost of consumption of key fuels for production was determined by the unit prices for the coal purchased by the Group.

Apart from the factors affecting the gross results of the Business Line presented above, one has to note that:

- impairment charges on wind farms totalling PLN 117 m were reversed in Q2 2018. The reversal was dictated by developments in the legislative environment, namely signing of the Act of 7 June 2018 Amending the Renewable Energy Sources Act and Certain Other Acts by the President of the Republic of Poland;
- impairment charges on wind farms and photovoltaic farms totalling PLN 145 m were reversed in Q4 2018. The reversal was dictated by developments in the market environment, in particular an increase in electricity and green certificate prices.

Capital expenditures of the Line in 2018 increased by PLN 151 m and were mainly related to repair work at the Ostrołęka power plant and optimisation of the biomass unit in Elbląg.

In Q4 2018, sales were boosted by higher selling prices for electricity charged by the Ostrołęka power plant, coupled with a higher production of energy and increased revenue from the sale of green property rights in renewable energy sources. On the other hand, the market level of CO_2 prices inflated the cost of purchase of emission allowances, and the higher purchase price of coal drove up the cost of fuel consumption.