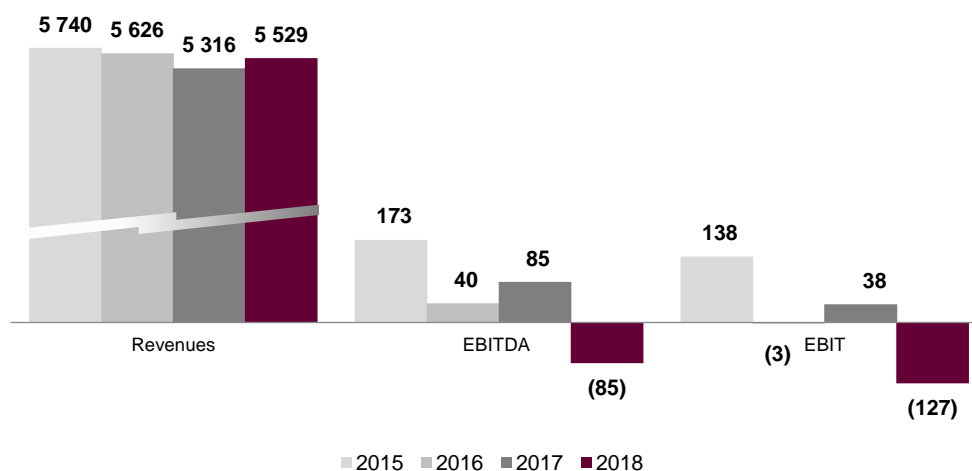


Sales Business Line

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

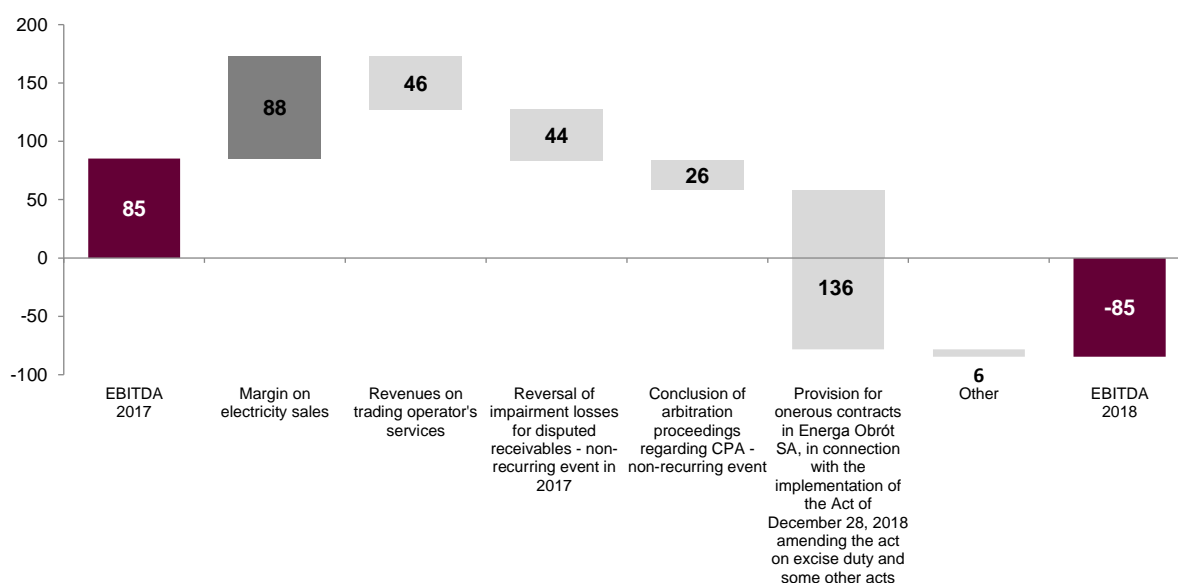


Results of the Sales Business Line of the Energa Group

PLN m	2015	2016	2017	2018	Change 2018/2017	Change 2018/2017 (%)
Revenue	5,740	5,626	5,316	5,529	213	4%
EBITDA	173	40	85	(85)	(170)	< -100%
amortisation and depreciation	34	39	43	39	(4)	-9%
impairment losses on non-financial non-current assets	1	4	4	3	(1)	-25%
EBIT	138	(3)	38	(127)	(165)	< -100%
Net result	119	(2)	29	(100)	(129)	< -100%
CAPEX	58	92	43	45	2	5%

PLN m	Q4 2017	Q4 2018	Change	Change (%)
Revenue	1,457	1,455	(2)	0%
EBITDA	61	(135)	(196)	< -100%
amortisation and depreciation	11	9	(2)	-18%
impairment losses on non-financial non-current assets	4	3	(1)	-25%
EBIT	46	(147)	(193)	< -100%
Net result	36	(124)	(160)	< -100%
CAPEX	12	23	11	92%

EBITDA bridge of the Sales Business Line (m PLN)



In 2018, EBITDA in the Sales Business Line was PLN -85 m, as compared to PLN 85 m in EBITDA in 2017. Non-recurring events which occurred both in 2017 and 2018 significantly contributed to the change in EBITDA.

The revenue of the Sales Business Line in 2018 amounted to PLN 5,529 m, and it grew by PLN 213 m (or 4%) relative to 2017. As usual, the most important revenue item of the Business Line is revenue from the sale of electricity, which went up by 4% (or PLN 216 m) yoy in 2018. This is an effect of an increase in the average selling price of energy by 5%, with a similar sales volume.

One-off events had the most significant impact on the Business Line results in 2018. In connection with the implementation of the Act amending the Act on Excise Tax and Some Other Acts of 28 December 2018, a provision was established for contracts giving rise to charges at Energa Obrót SA in the amount of PLN 136 m (one-off non-cash event).

In connection with the cases seeking recognition of long-term contracts for purchase of green certificates as invalid, the Sales Business Line in the year 2018 was charged with the amount of PLN 26 m arising from the resolutions of some of those cases in arbitration proceedings (another one-off event). Furthermore, settlements ending disputes were concluded in 2018 with three counterparties. The aggregate power generating capacity of the facilities with whom settlements have previously been concluded accounts for over 31% of the aggregate installed capacity of all sued wind farms. As a result of the decision to recognise the said contracts as invalid, in 2018 the Business Line proceeded to the purchase of green certificates at market prices in the overwhelming majority (in addition to the disputes resolved during that period).

It is worthwhile to remember that the 2017 results of the Sales Business Line were higher due to the occurrence of a one-off non-cash event. At the end of 2017, the provisions for impairment losses on disputed receivables in the amount of PLN 44 m were released. As a result of an analysis of the wording of IFRS 9 introducing changes in the approach to the creation of provisions for impairment losses on disputed receivables, the previously established provisions were partially released. No similar event took place in the year 2018.

The margin on the sale of electricity, went up by PLN 88 m yoy, driven mainly by considerably reduced legal and contractual obligations in connection with the limitation of the scope of the Offtaker of Last Resort function starting from 1 January 2018 and the discontinuation of performance of long-term purchase contracts for green certificates starting from September 2017. However, the growth of the margin was limited as a result of a sudden and unexpected increase in electricity prices on the futures, SPOT and balancing markets observed last year. This translated into unexpectedly high costs of closing out of contract positions.

An important factor having a bearing on EBITDA was the revenue from the sale of services by the commercial operator, which were mostly provided to wind farm operators. The decline in this revenue by PLN 46 m is attributable to a substantially reduced scope of the function of Offtaker of Last Resort and thus the considerably lower volume of obligatory energy purchases from farms located in the territory of the Energa Group. However, it should be noted that the decline in revenue from the sale of commercial operator services is outweighed by the benefits of a reduced cost of electricity resulting from the restriction of this function.

In Q4 2018, the Business Line's EBITDA was at the level of PLN -135 m. Following the adjustment for a non-recurring event which occurred in that period (provision for onerous contracts, conclusions of arbitration proceedings, as discussed above), the result is PLN 27 m.