



Strategy for 2016-2025

16 November 2016 r.



The electricity market is undergoing

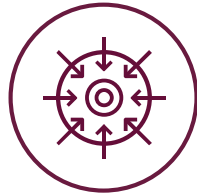


RAPID CHANGE

Retaining its position will call for aligning
the model to changes as they take place

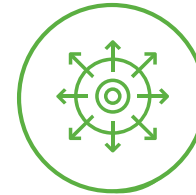
FROM THE POWER SECTOR KNOWN FROM THE PAST

TO THE POWER SECTOR OF THE FUTURE



**FROM CENTRAL
GENERATION**

- Domination of must-run units



**TO DISTRIBUTED
GENERATION**

- Distributed power sector
- The development of conventional generation needs support

FROM THE POWER SECTOR KNOWN FROM THE PAST

TO THE POWER SECTOR OF THE FUTURE



FROM PROFITABLE DISTRIBUTION

- Considerable contribution to EBITDA (as much as 60-70% in selected utilities)



TO ENERGY INDEPENDENCE

- Dwindling volume and profitability due to regulatory pressure, distributed generation and constrained / falling demand

FROM THE POWER SECTOR KNOWN FROM THE PAST

TO THE POWER SECTOR OF THE FUTURE



FROM TRADITIONAL SALES

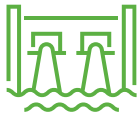
- Sales of just electricity
- Standard tariffs
- 85% of the market is closely held by 4 utilities



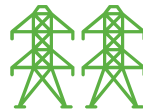
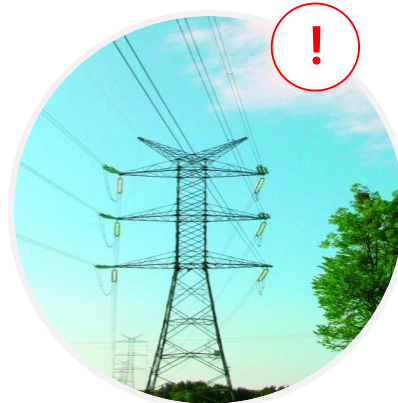
TO A POWER SECTOR DOMINATED BY NEW PLAYERS

- New competition from different industries
- New models and services
- Liberalization attenuating the market share held by the major players

Drivers adversely affecting the ENERGA Group's results



**No support for large
hydropower plants**



**Suppressed allowed revenue
in the Distribution Segment**

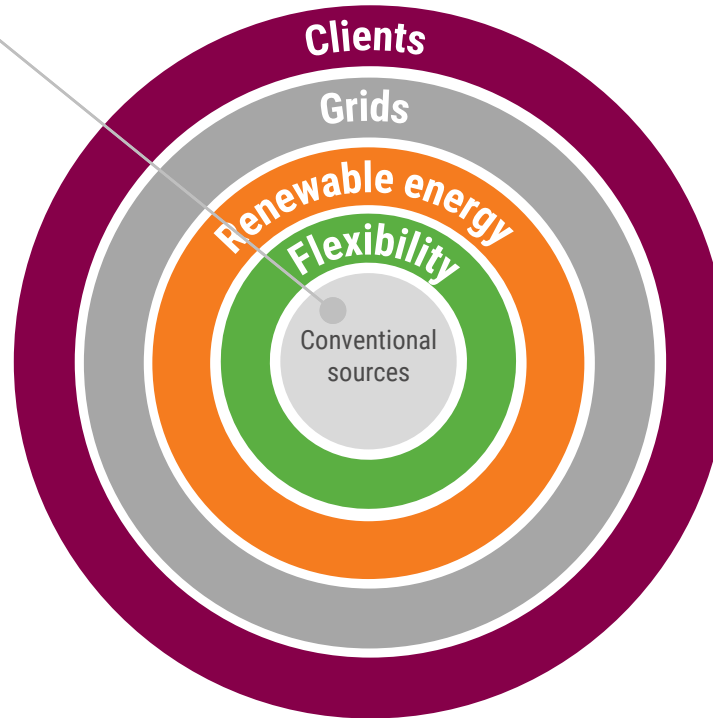


**More challenging
market conditions
in the Generation Segment**

Classic value chain

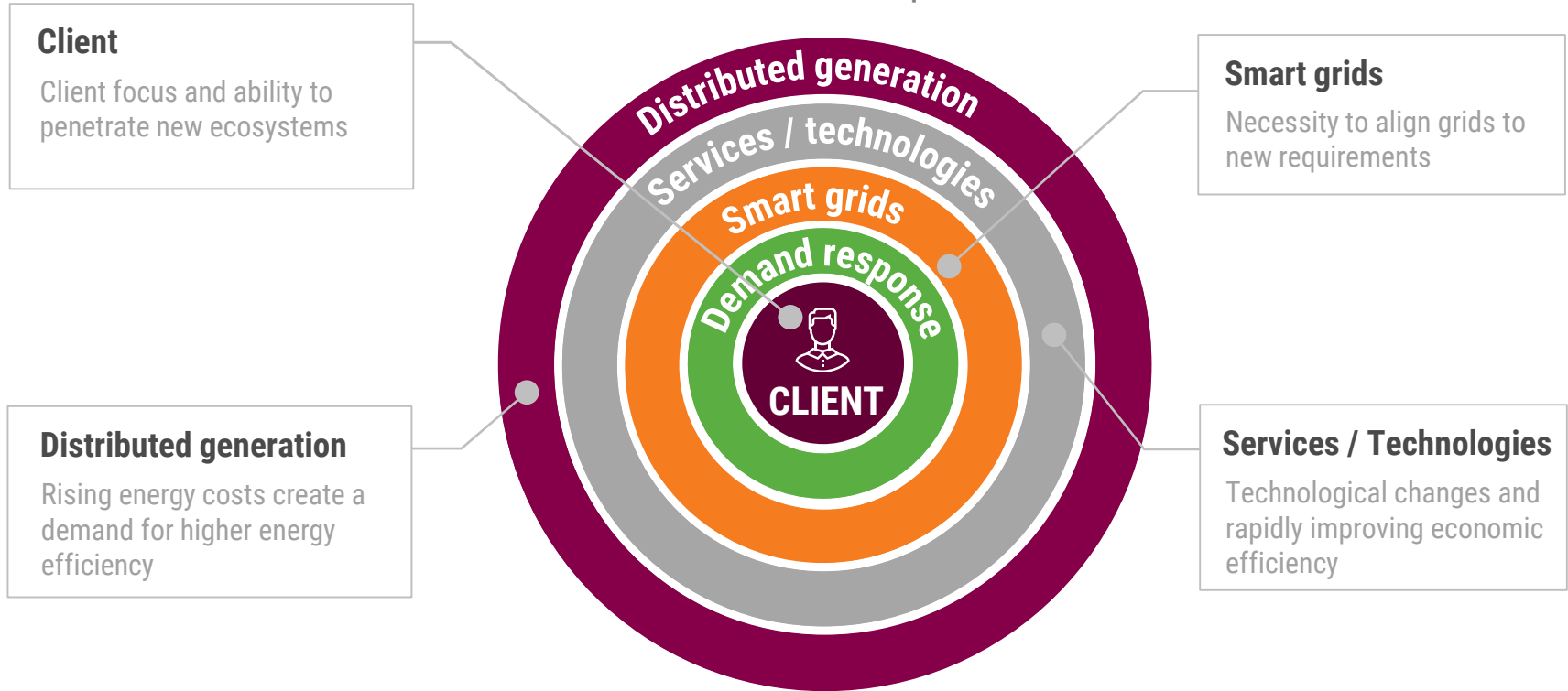
Conventional sources

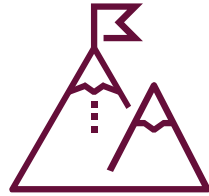
Functioning and development of conventional sources in most cases hinge on the support system



New business opportunities

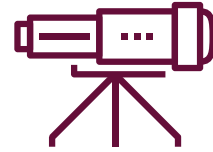
The changing electric power market is an opportunity for the
ENERGA Group





Mission

We grow by delivering the best solutions
to our clients.



Vision

We endeavor to accomplish the objectives of our shareholders, clients, employees and the environment in a sustainable manner based on reliable and modern infrastructure, a tailor-made offering and service while conserving the environment and adhering to the principles of corporate social responsibility.

Business foundations



CLIENT



INFRASTRUCTURE

Culture of innovation



IT, Big Data



Enhancing efficiency



New approach to HR management



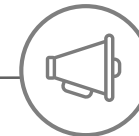
Strategic partnerships



Strong commitment to regulatory dialogue



New marketing



Strategic objectives



CLIENT

Client-focused business model facilitating effective client value management based on a coherent product and service offering



INFRASTRUCTURE

Developing modern energy infrastructure in a way that makes it possible to have a stable revenue base

Strategic objectives



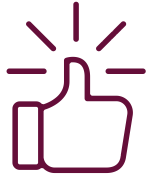
CLIENT

Client-focused business model facilitating effective client value management based on a coherent product and service offering

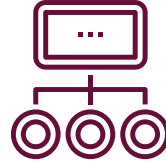
Strategic program



Implementing a new client-focused business model and developing new business areas



Tapping into the Group's competitive advantages



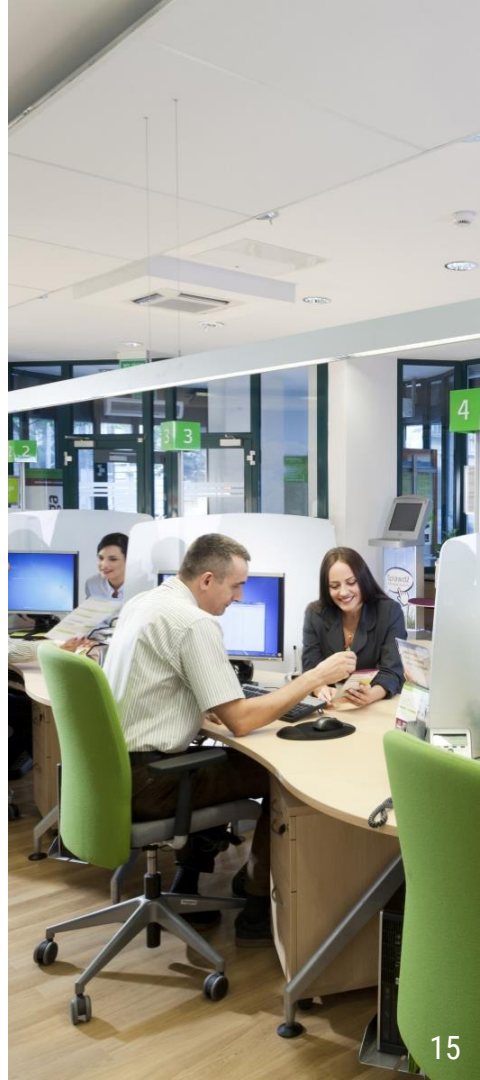
Taking on the role of an integrator



Client value management



Shifting the offering to the digital world



KPIs for the strategic program



- **New product offering**

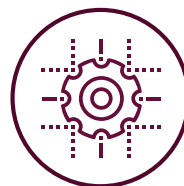
EBITDA of PLN 5 m in 2017, EBITDA of PLN 100 m in 2020

EBITDA of PLN 300 m in 2025
ultimately this ecosystem will have roughly 100 new products and services in 2018.



- **New sales channels**

aligned to client segments – 2018.



- **New organization of sales, service and settlement processes,** including

integration with the processes used by partners, vendors, etc. – 2018.



- **Implementing new IT solutions**

chiefly concerning service, billing and settlements with partners, subcontractors and clients as well as Energy Business Intelligence (EBI) – 2018.

NEW BUSINESS MODEL

Major assumptions

3

Major client segments



New dedicated distribution channels

11

Client subsegments



New organizational structure

38

Product ecosystems



New technologies and IT solutions

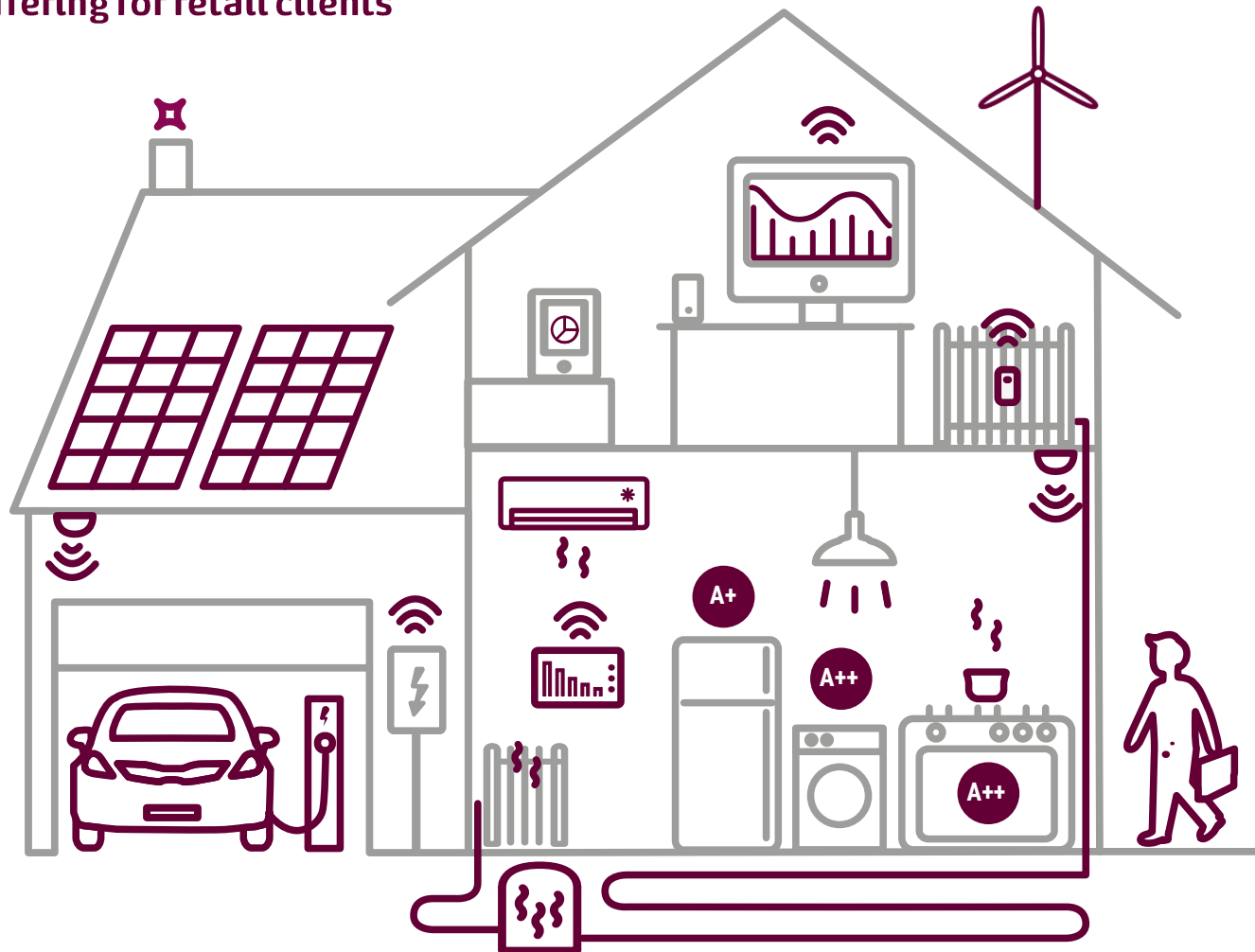
96

New products



New organization of sales and after-sales processes

Offering for retail clients



THRIFTY

- Preliminary energy audit
- Utilities 2.0
- Smart AMI

PRAGMATIC

- Safe lease
- Energy expert
- Energa ABO
- Smart home (accessories)

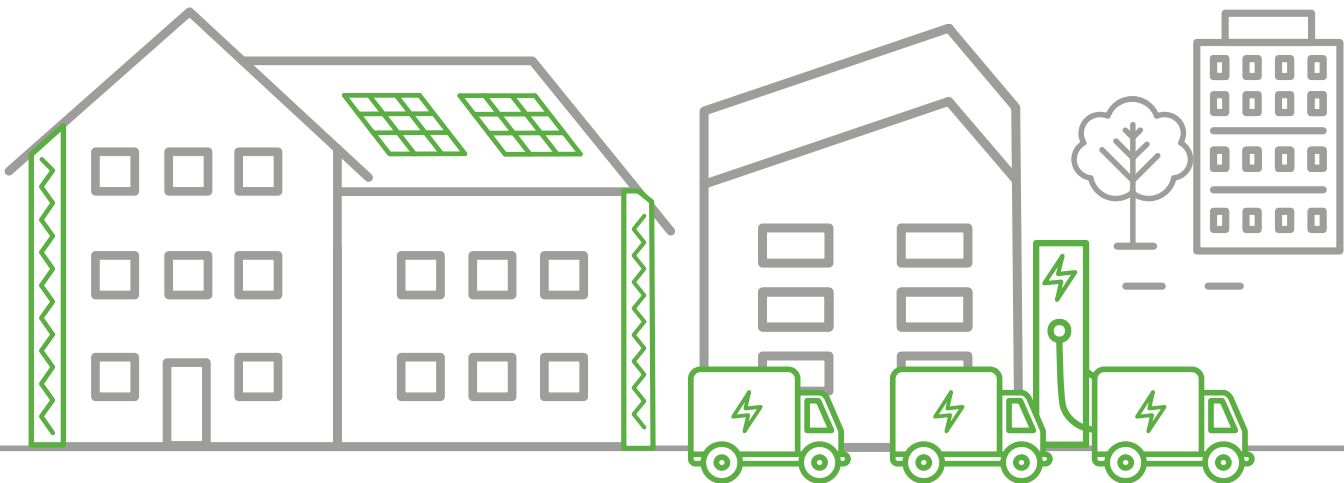
AWARE

- Energy advisor
- Heat and cool air in a subscription p
- Micro generation

CONVENIENT

- Energy assistant
- Smart home (dedicated solutions)
- E-mobility

Offering for business clients



MICROBUSINESSES (SOHO)

- Utility supply services
- Utility consumption metering and visualization service
- Individual efficiency reports (automatic)

SMALL AND MEDIUM ENTERPRISES (SMEs)

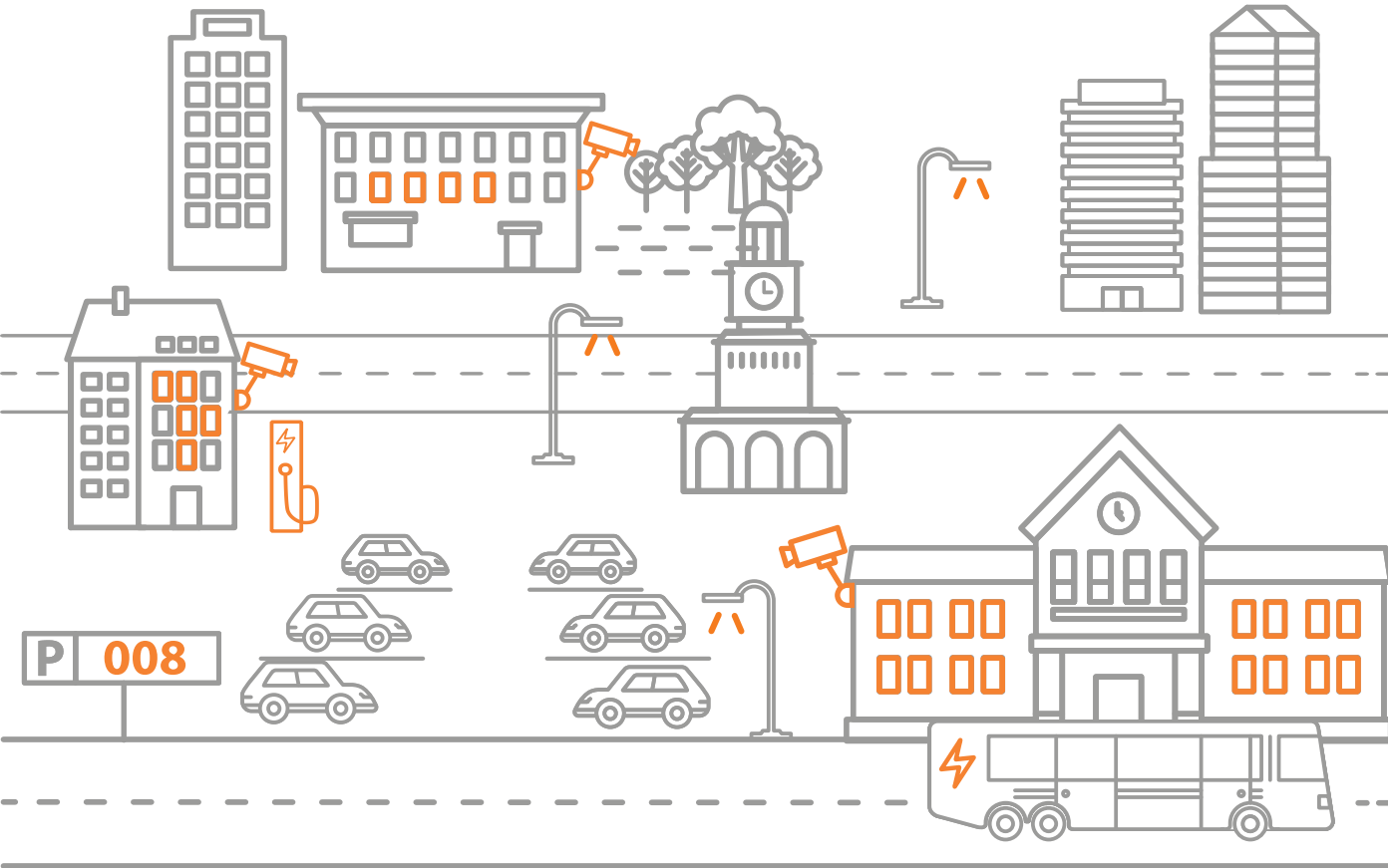
- Energy Business Intelligence (EBI)

CORPORATE BUSINESS

- Energy efficiency enhancement service
- Financial and insurance services (blended and embedded in the offering)
- E-mobility
- Professional energy services



Offering for local government entities and public administration



SMALL COMMUNE

- Utility supply services
- Utility consumption metering and visualization service
- Individual efficiency reports

SMART COMMUNE - SPECIFIC COMMUNES

- Smart commune services

EFFICIENT COMMUNE - URBAN COMMUNES, METROPOLITAN AREAS

- Energy efficiency enhancement services
- Financial and insurance services (blended and embedded in the offering)
- E-mobility
- Professional energy services

Strategic objectives



INFRASTRUCTURE

Developing modern energy infrastructure in a way that makes it possible to have a stable revenue base

Strategic programs

Infrastructure – focusing on regulated business



Expanding a smart and reliable electricity distribution grid



Development of infrastructure for broadband web access



Utilizing regulations to stabilize revenue



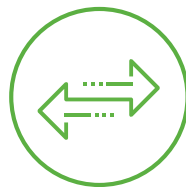
Maintaining its strong position in RES



KPIs for strategic programs



- **75% in 2020 and 100% in 2025** of the metering systems **will be remotely controlled**
- **Satisfaction of the requirements of the quality-based tariff:** SAIDI, SAIFI, connection time



- **Business model to commence the provision of a fiber-optic network** as broadband web access infrastructure legally, financially and organizationally - to be devised by 2017



- **By the end of 2018** enter into an agreement to build the Ostrołęka C power unit
- **Commission** the Ostrołęka C power unit by the end of 2023
- **EBITDA/CAPEX 5.5%** for the first 5 years of operation
- **Average capex** per CHP business line of PLN 50 million per annum



- **Environmental decision** to carry out the 2nd step dam on the Vistula River in 2017
- **Construction permit** for the 2nd step dam on the Vistula River by 2020
- **Installed capacity of other** new RES projects of 50 MW by 2020



Ostrołęka C power plant

Status:

- building permit and environmental permitting obtained,
- land acquired and the necessary easements are in place,
- some of the field work has been completed



1000 MWe

Capacity

5-7 TWh (net)

Planned production

2023

Planned commissioning date

5.5-6.0 m PLN / MW

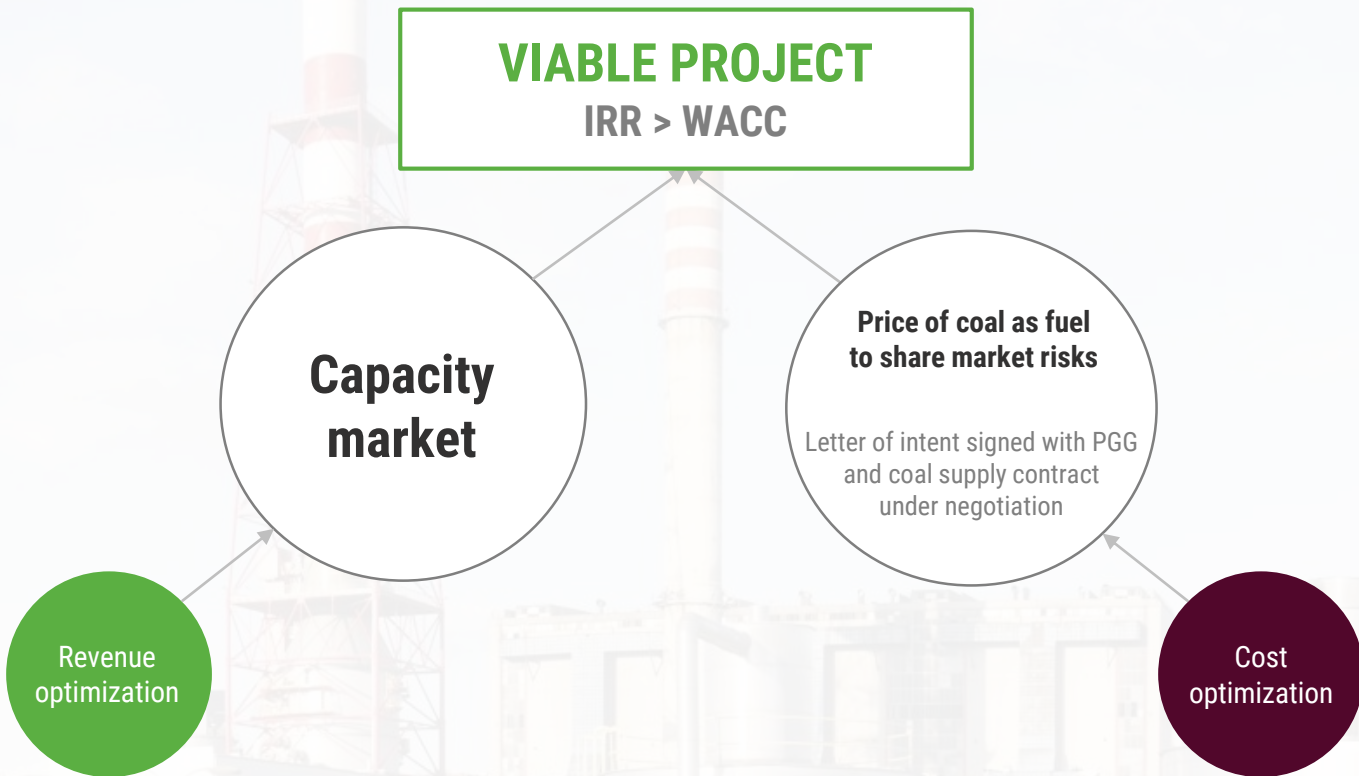
Capital expenditures

Hard coal

Fuel
(demand: roughly 2.0-2.8 m tons p.a.)

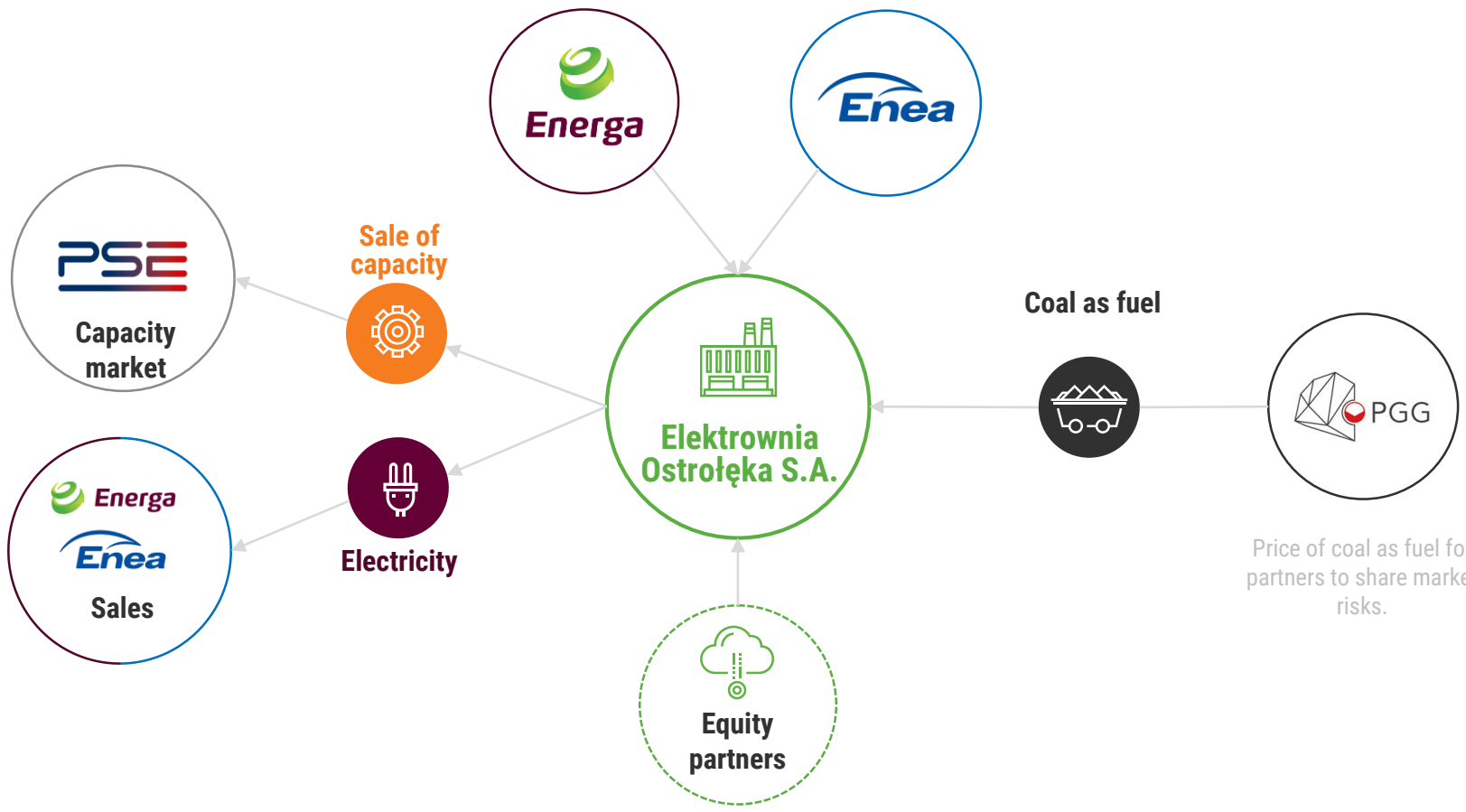


Project's business model **OSTROŁĘKA C**



MAJOR SHAREHOLDERS (CO-CONTROL)

REVENUE SOURCES



SUPPLIER

Price of coal as fuel for partners to share market risks.



Vistula Hydropower Plant

Status:

- siting analyses considering multiple scenarios,
- technical studies,
- economic and nature study, including environmental inventory,
- environmental permitting in the course of being obtained

80 MWe

Capacity

0,4 TWh (net)

Planned
production

2026

Planned
commissioning
date

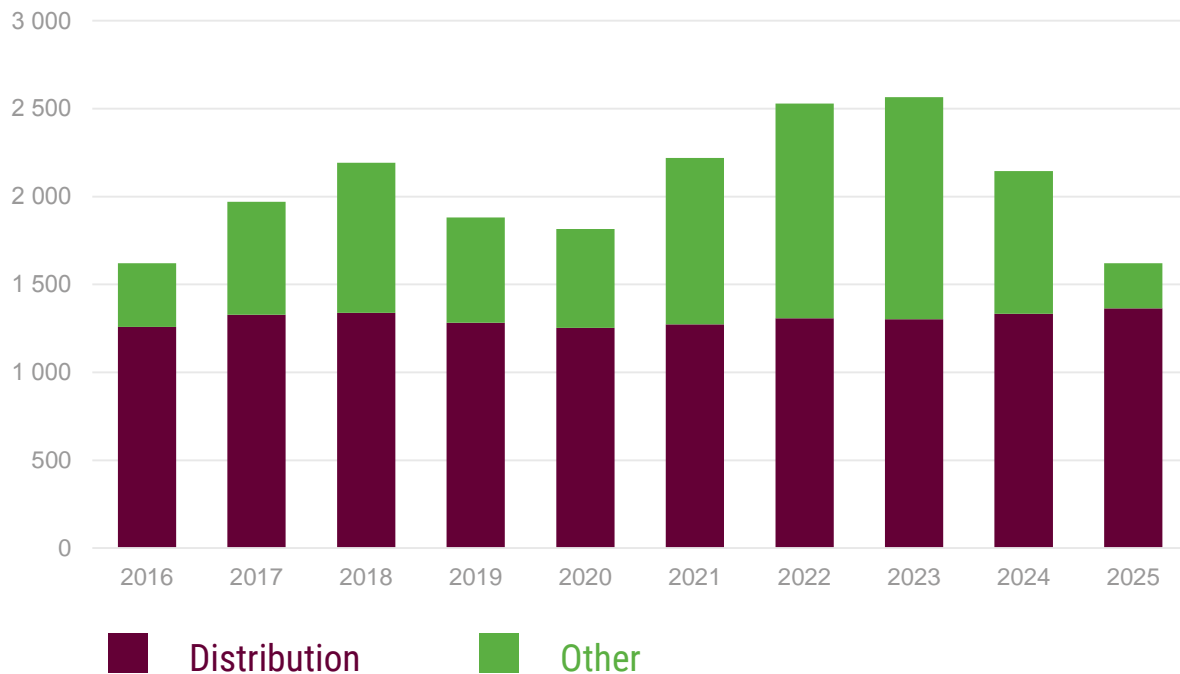
1 bn PLN

Capital expenditures
(total capex of PLN 3.5 bn)



Capital expenditures

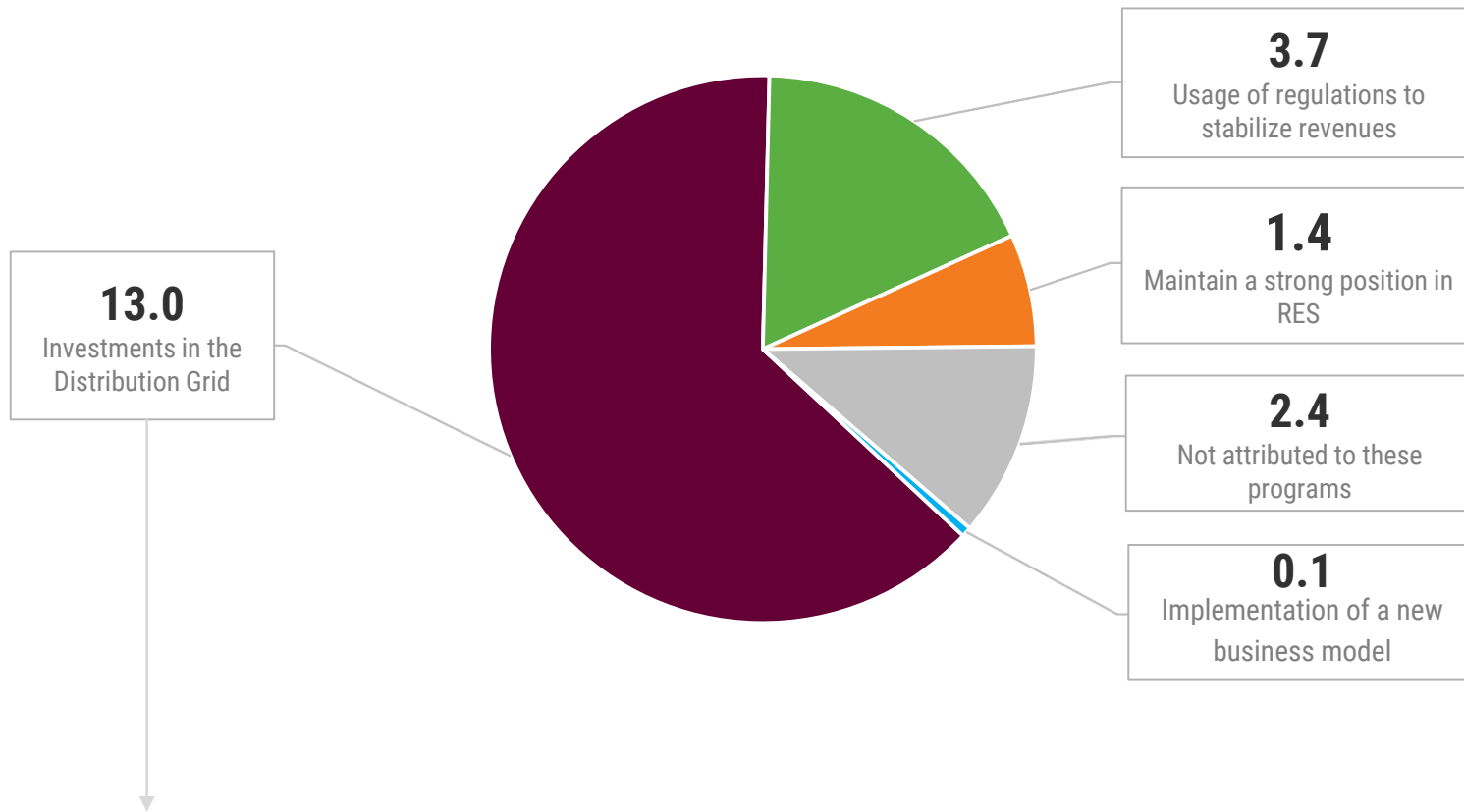
Distribution and other [m PLN]



TOTAL
20,6 BN
PLN

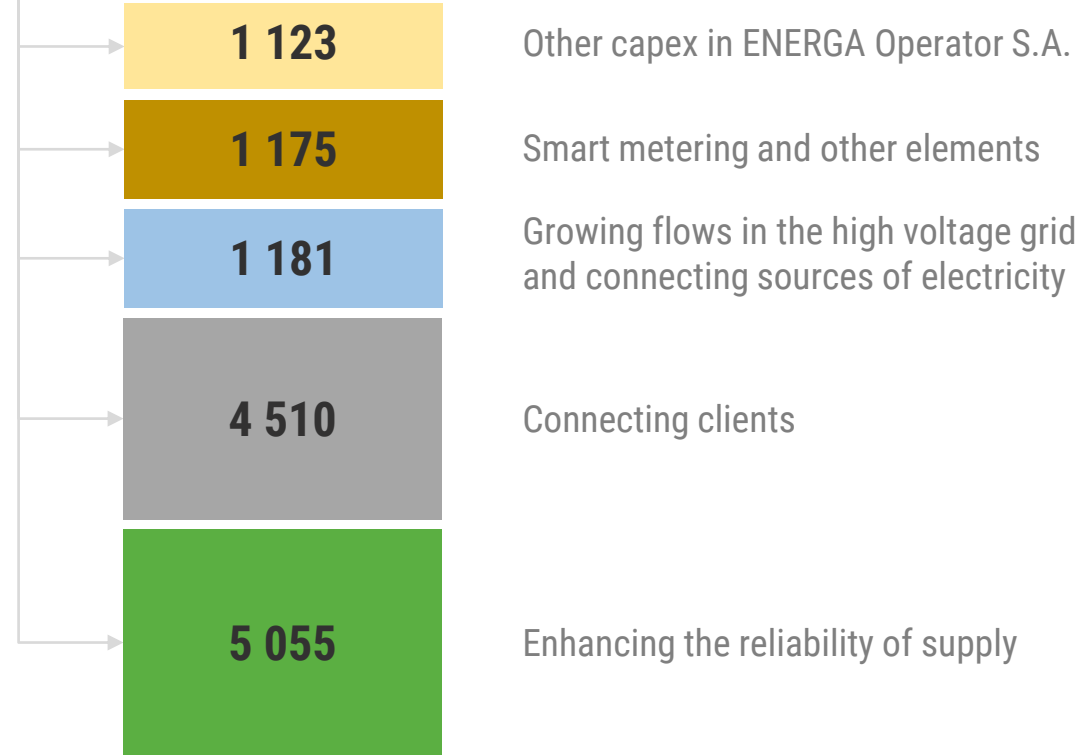
Capital expenditures

[bn PLN]



Investments in the Distribution Grid

[m PLN]



EBITDA

[bn PLN]

	2020 r.	2025 r.
EBITDA target, of which:	2,4	3,0
New business areas	0,10	0,30
Efficiency enhancement	0,13	0,15

Financial stability



Retain
investment grade rating



Net debt / EBITDA ratio
under 3.5



Dividend aligned to the
investment process

Recap



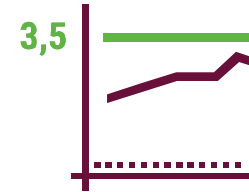
Client focus



Strategic
partnerships



Focus
on regulated
business



Debt ratios
below covenants

2,4 ▶ 3,0
2020 2025

EBITDA
targets
[bn]



16.11.2016 r.