




19 April 2018

Zespół Elektrowni Pątnów-Adamów-Konin SA

2017 results

PAK
Energia dla Ciebie

ZE PAK Group – 2017 Summary

Key operational and financial data	2017		Change y/y
Sale of electricity[(1)]:	11.76	TWh	-12.95%
• Electricity from own production[(1)]:	8.39	TWh	-9.49%
• Electricity from resale[(1)]:	3.37	TWh	-20.52%
Achieved average electricity sale price:	177.78	PLN/MWh	2.05%
Sale revenues:	2 443	m PLN	-9.69%
EBITDA:	512	m PLN	-13.80%
Net results:	184	m PLN	-26.40%
CAPEX:	108	m PLN	-14.96%
Indebtedness:	656	m PLN	-35.69%
Cash[(2)]:	358	m PLN	-16.16%
Net debt / EBITDA:	0.58	x	-42.00%

(1) Corresponding data for 12M 2016 including investment sale from 1 and 2 units in Pątnów I power plant, which was 0.04 TWh.

(2) Cash and cash equivalents and other financial short-term assets.

ZE PAK Group – 4Q 2017 Summary

Key operational and financial data	4Q 2017		Change y/y
Sale of electricity:	2.98	TWh	-5.40%
• electricity from own production(1):	1.82	TWh	-0.55%
• electricity from resale(1):	1.16	TWh	-12.12%
Achieved average electricity sale price:	181.72	PLN/MWh	+3.94%
Sale revenues:	630	m PLN	-3.23%
EBITDA:	120	m PLN	0.00%
Net result:	14	m PLN	-56.25%
CAPEX:	46	m PLN	-45.24%

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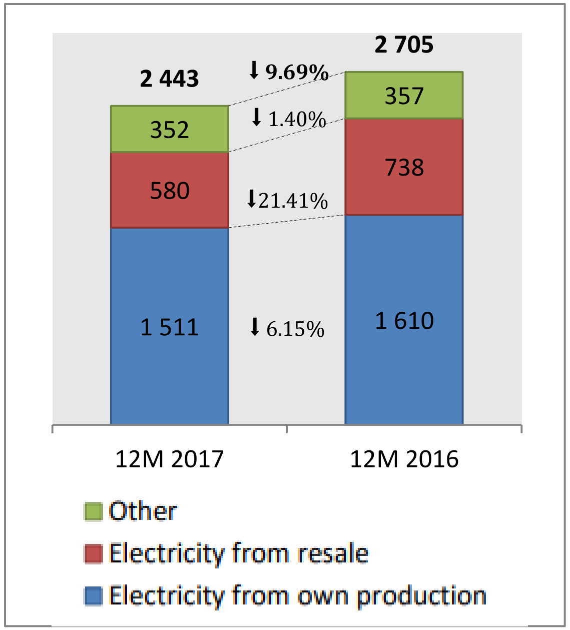
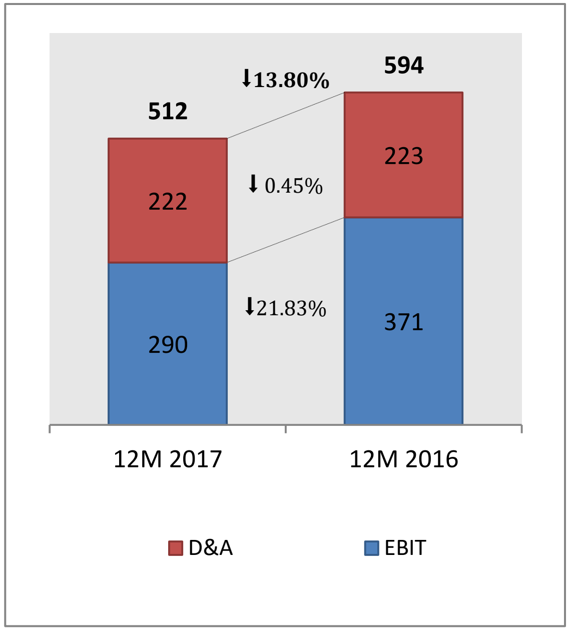
ZE PAK Group – 12M 2017 Summary

[m PLN]

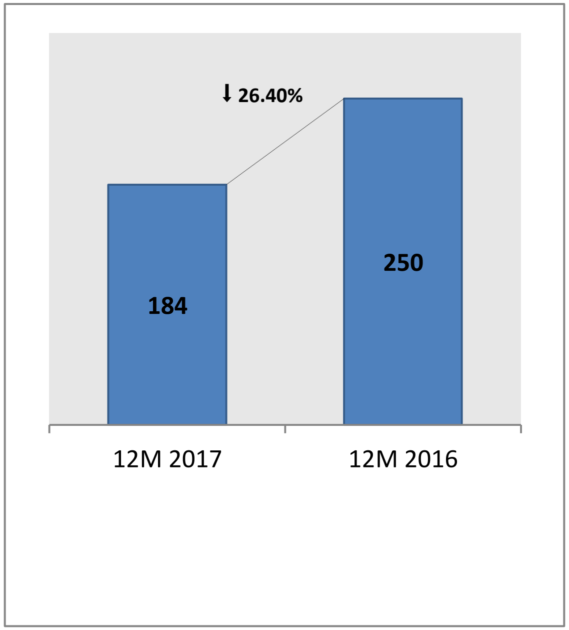
Revenues



EBITDA



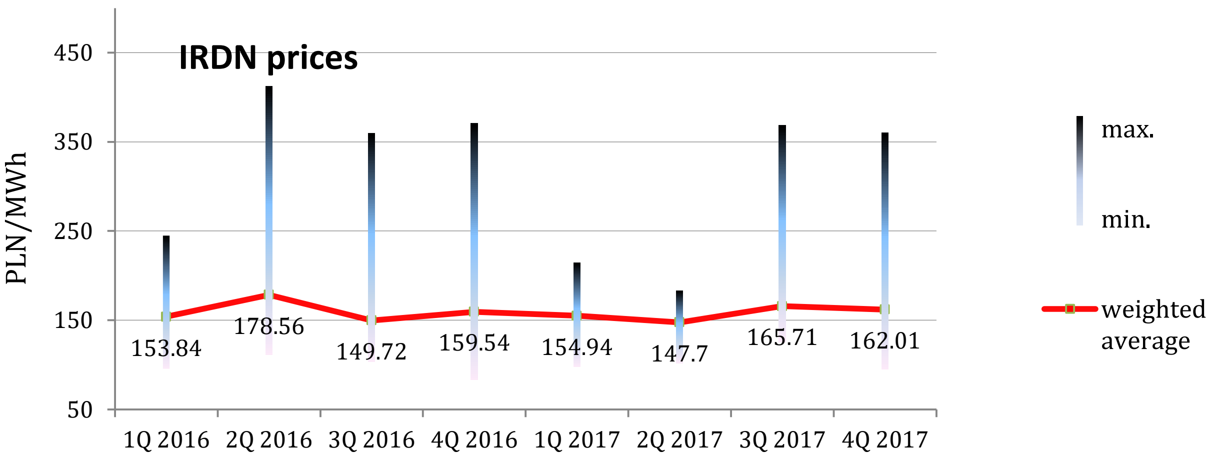
Net results

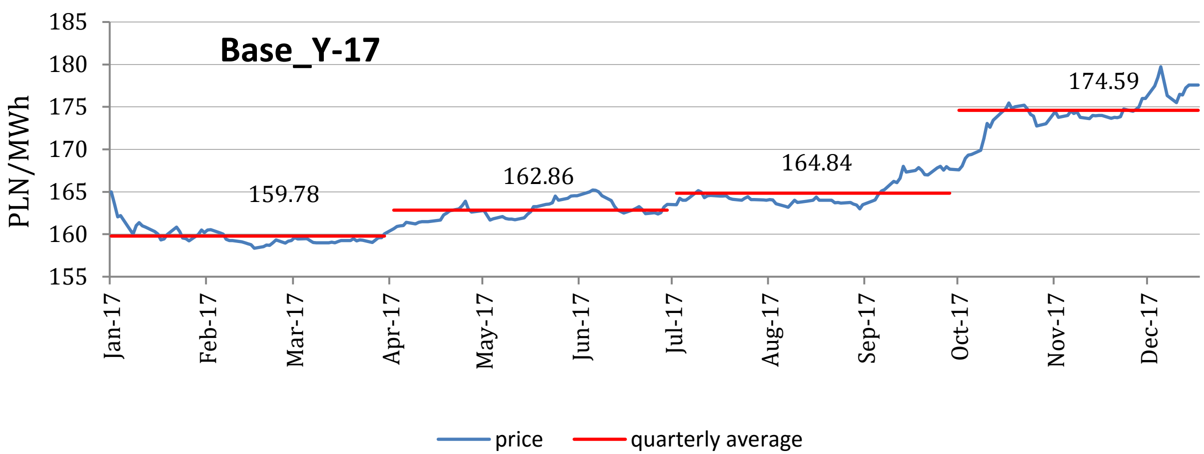


The revenue generated in 2017 was largely determined by the lower volume of electricity produced compared to the previous year. The increase in the average energy price obtained (calculated as revenue from the sale of own energy, from resale and system services, divided by the sales volume) failed to cover the loss caused by the decrease in volume. Additionally, the deterioration of the net result was affected by one-off events in the mining segment: increase in the reclamation provision, decrease in the deferred tax asset and creation of an impairment of fixed assets under construction. The total impact of one-off events on the net result in 2017 amounted to PLN 79 million.

SELECTED ELECTRICITY MARKET DATA

Electricity prices





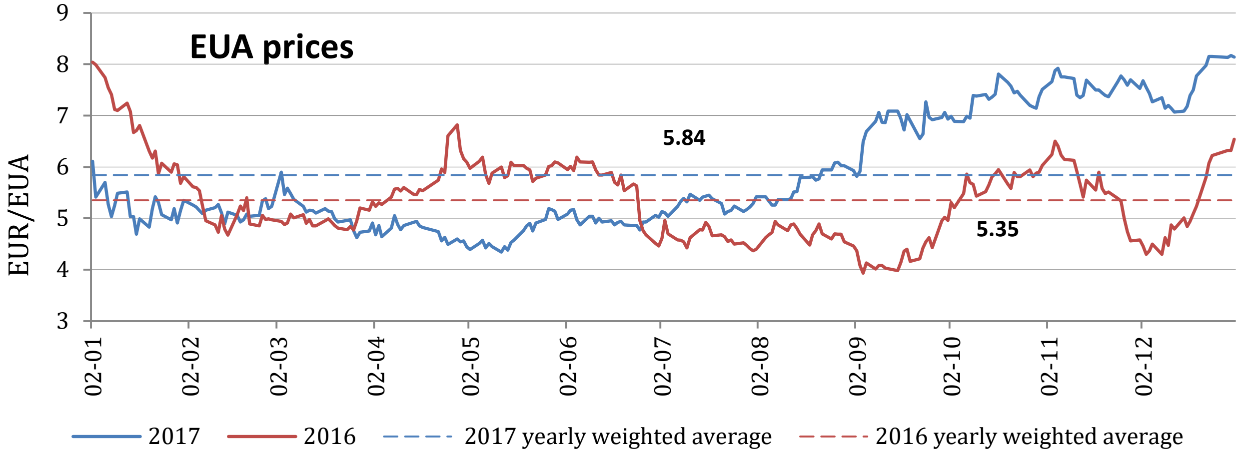
In 2017 there was a drop in the weighted average annual electricity price (Day-Ahead Market Index on TGE) by PLN 5.15, i.e. by 3.2% compared to 2016. The weighted average annual electricity price (IRDN) in 2017 at 155.56 PLM / MWh.

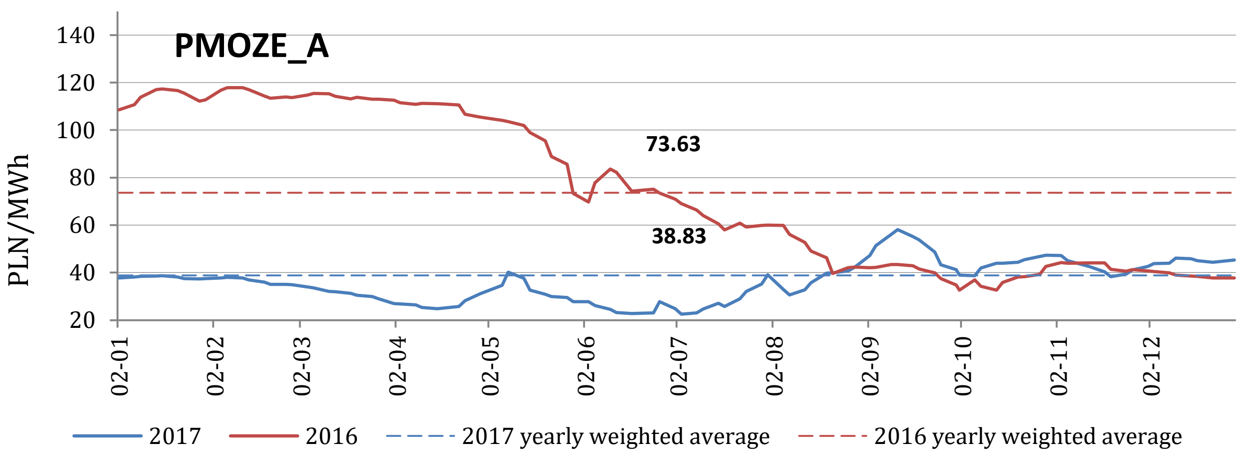
The first half of the year was characterized by lower price levels, while the second half was definitely higher prices and increased volatility of quotations. In addition to factors that affect the price level in each period, such as: participation of unstable wind generation, distribution of planned conventional power maintenance shutdowns, weather factors, in the second half of the year, energy prices exerted an influence on energy prices (including especially coal energy) and CO2 emissions permits.

Also on the forward energy market, the first half of the year was characterized by lower price levels. The second half of the year, and especially the fourth quarter, was characterized by a stronger growth rate of prices. The main factors decisive for the rise are expectations of higher hard coal prices in future periods and rising CO2 prices.

In 2017, as in the previous year, Poland was a net importer of electricity. Energy imports amounted to 2.29 TWh.

EUA and green certificates





Prices of CO2 emission rights (EUA) in the second half of 2017 started an upward trend. Regulatory factors (announced interference in the market mechanism of ETS trade and change in the rules of its functioning) determined high growth dynamics in the third and fourth quarters of 2017. The arithmetic average of 2017 was at the level of 5.85 EUR and was 9.1% higher than in 2016. The highest prices, exceeding 8 EUR, were recorded at the very end of the year.

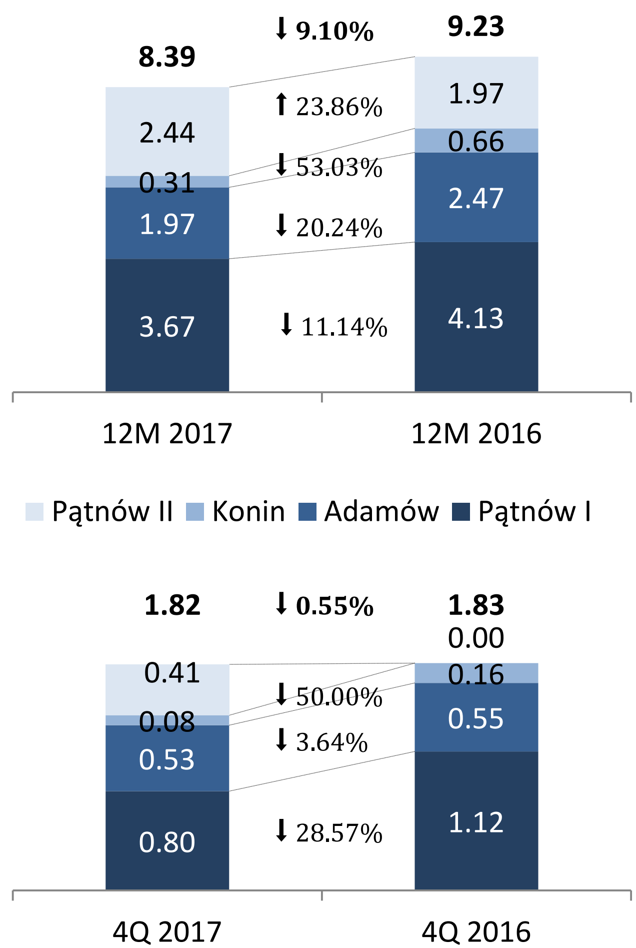
The weighted average price of green certificates - in 2017 stood at 38.83 PLN, i.e. by 47.26%, or 34.8 PLN less than in 2016.

Despite a very significant fall in the average price of certificates in 2017, mid-year this market managed to stop the current long-term downward trend and even to create growth attempts. In 2017, the market for certificates was influenced by announcements and implementation of intentions regarding amendments to the Act on RES and the announcement of the redemption rate for green certificates of origin of energy immediately to the next two years.

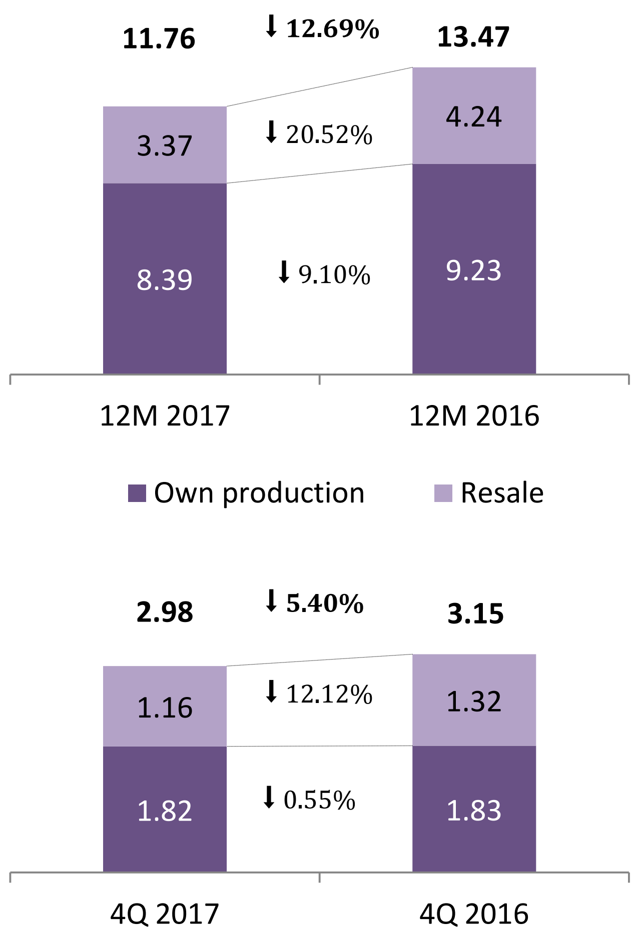
OPERATIONAL DATA

Net production and sale of electricity
[TWh]

NET PRODUCTION[1]



SALE[2]



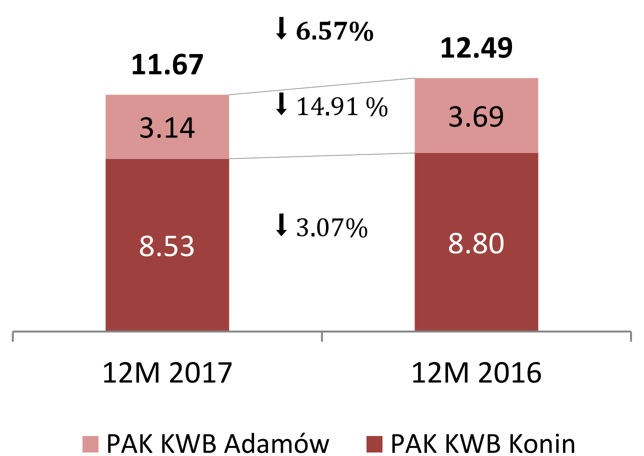
(1) In addition to the values presented in the chart, in 12 months of 2016, 0.04 TWh of electricity was produced as part of the production of units 1 and 2 in Pątnów I power plant during the investment period, including in the fourth quarter of 2016, 0.00 TWh.

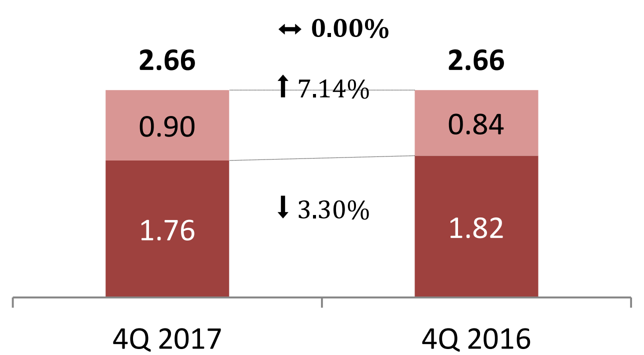
(2) In addition to the values presented in the chart, in 2016, 0.04 TWh of electricity was sold as part of the production of units 1 and 2 in Pątnów I power plant during the investment period, including in the fourth quarter of 2016, 0.00 TWh.

Production / sales investment of El. Pątnów I - production / sale of electricity from units 1 and 2 of Pątnów I power plant before completion of modernization and putting them into operation (from 2Q 2015 to 1Q 2016).

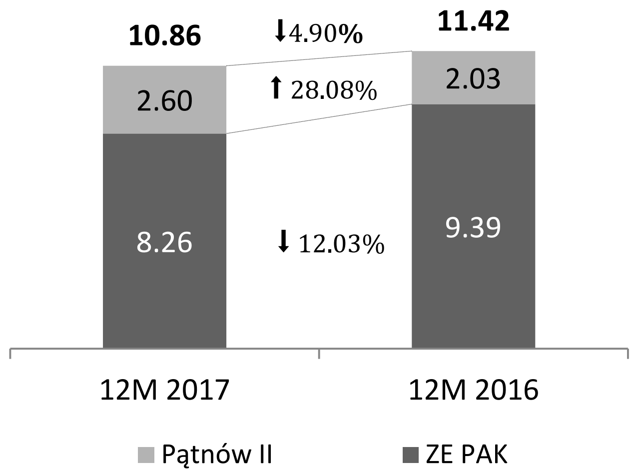
Lignite consumption and CO_2 emission
[m tons]

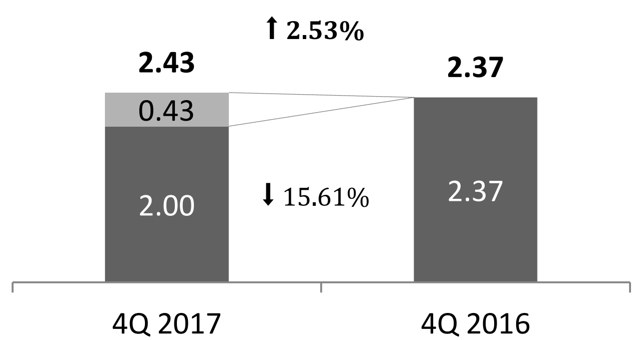
LIGNITE CONSUMPTION[1]





EMISSION OF CO_2 [2]





(1) Apart from the values presented in the chart, additionally 0.05 m tonnes of coal were consumed within 12 months of 2016 for the needs of units 1 and 2 at the Pątnów I Power Plant in the investment period., in 4Q 2016 - 0,00 TWh.

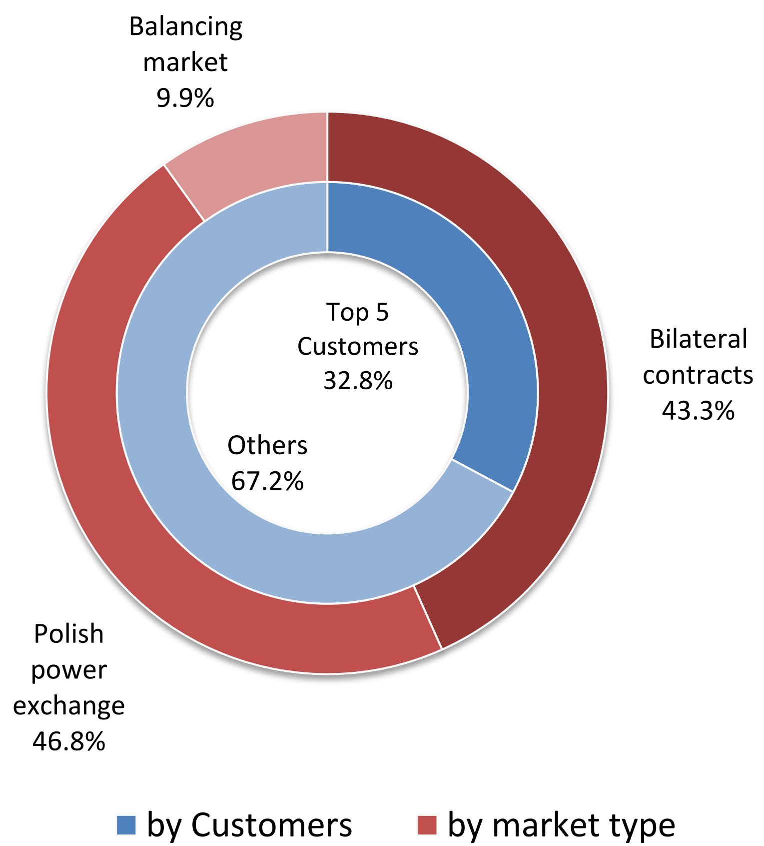
(2) Apart from the values presented in the chart, additionally 0.04 m tonnes of CO2 were emitted in the course of generation in units 1 and 2 at the Pątnów I Power Plant in the investment period, within 12 months of 2016, in 4Q 2016 - 0,00 TWh.

Production / sales investment of El. Pątnów I - production / sale of electricity from units 1 and 2 of Pątnów I power plant before completion of modernization and putting them into operation (from 2Q 2015 to 1Q 2016).

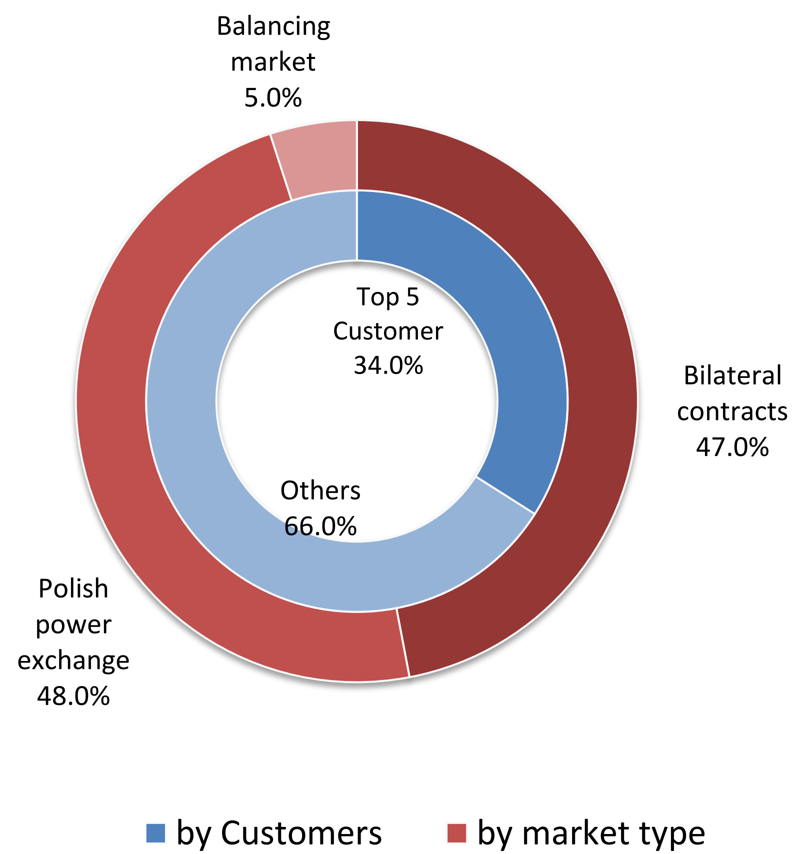
Sale of electricity breakdown

by customers (internal ring) and by the market type (external ring)

12M 2017

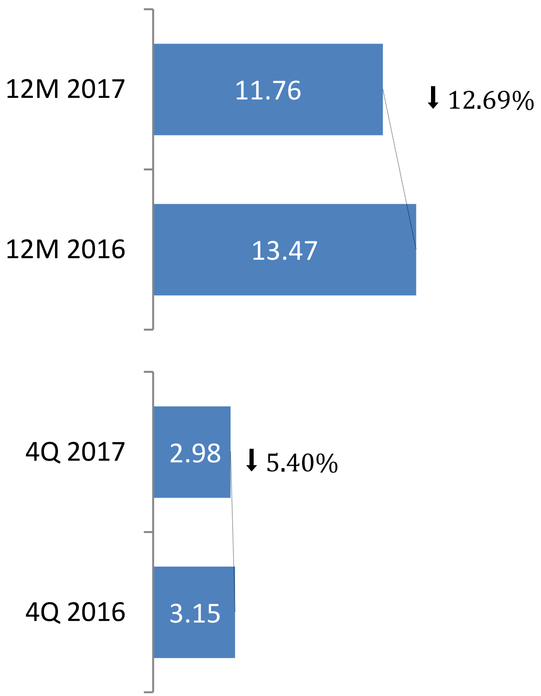


12M 2016

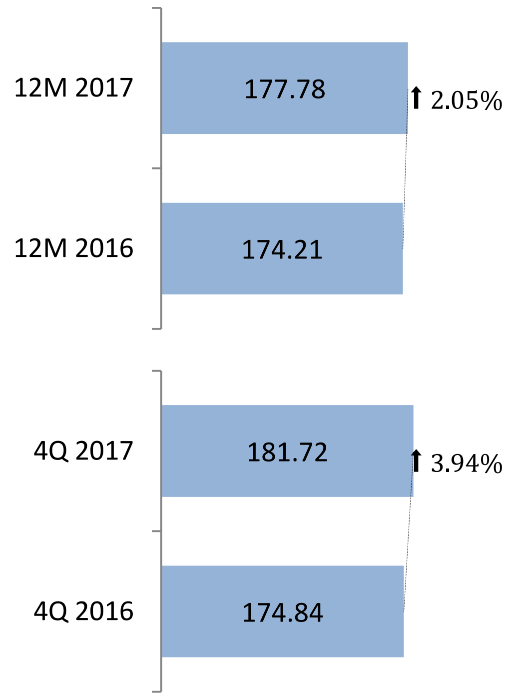


Sale of electricity

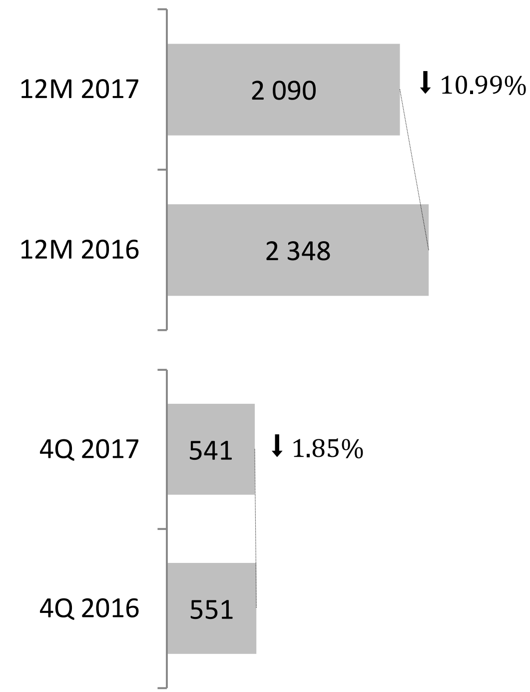
Sale of electricity[1]
[TWh]



Average prices[2]
[PLN/MWh]



Revenues
[mln PLN]

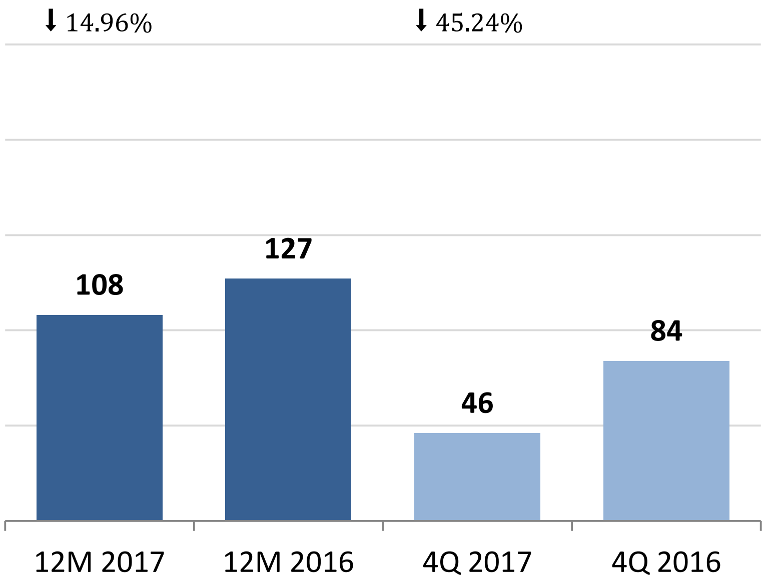


(1) Sales of electricity from own production and resold on the market

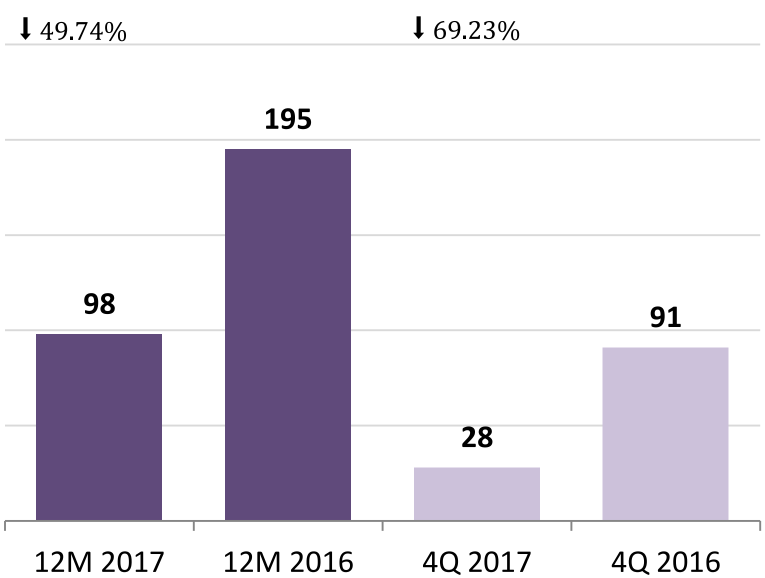
(2) Average price calculated as sales revenues (from own production of electricity, electricity from resale and system services) divided by sales volume

Capex on fixed assets and intangible assets (excluding CO_2)

CAPEX [m PLN]



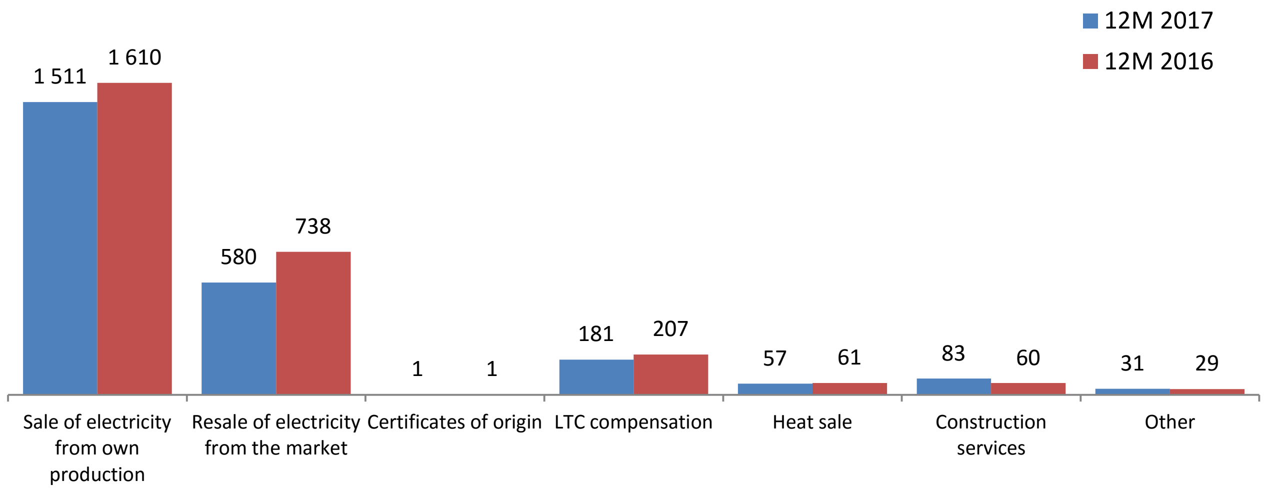
EXPENDITURES [m PLN]

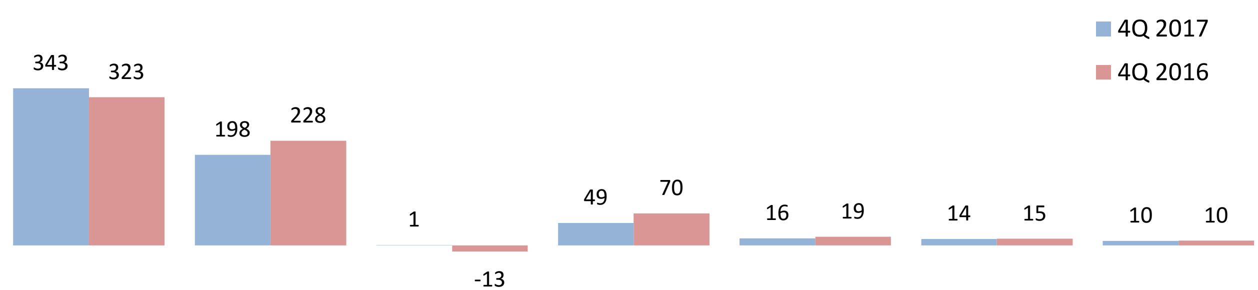


- Comparable size of capex. In both years no new large investment projects were implemented.
- In Q4 2016, the visible impact of inputs on capital overhaul at Pątnów II power plant.

FINANCIAL DATA

Revenues
[m PLN]





Reasons for changes in key positions:

Lower total revenues from the sale of electricity. The slightly higher price of electricity in 12M 2017 did not compensate for the drop in the volume of both energy from own production and the volume of electricity in the market. In Q4 2017, compared to Q4 2016, the decline in revenues is proportionally less noticeable than in the whole year due to the comparable volume of electricity production.

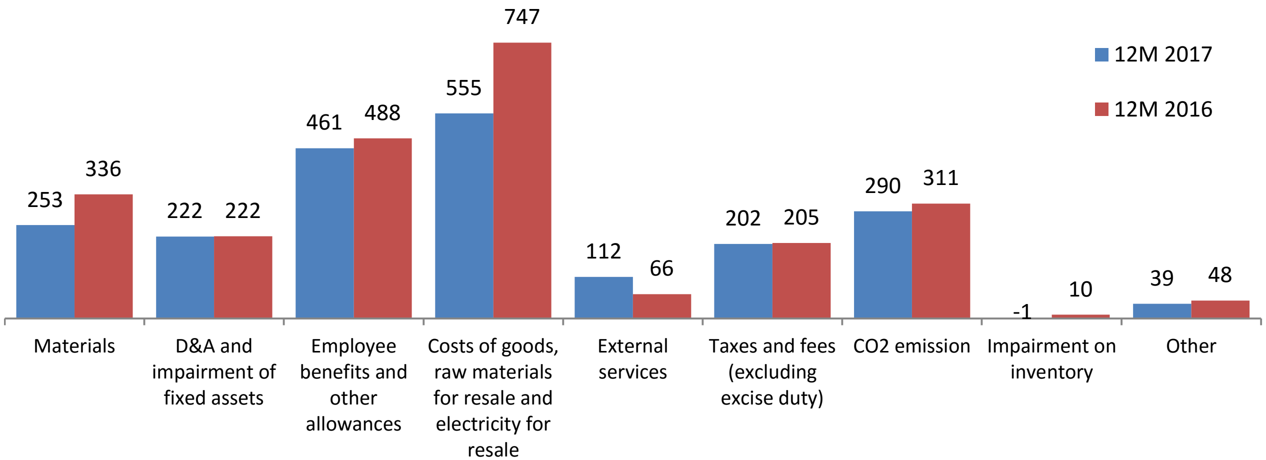
Due to the deep decline in prices of green certificates in 12M 2017, production from biomass was stopped, therefore no revenues related to newly created green certificates were recorded. Green certificates were sold from stocks made in earlier periods. On a current basis, revenues related to property rights from cogeneration were realized - red certificates.

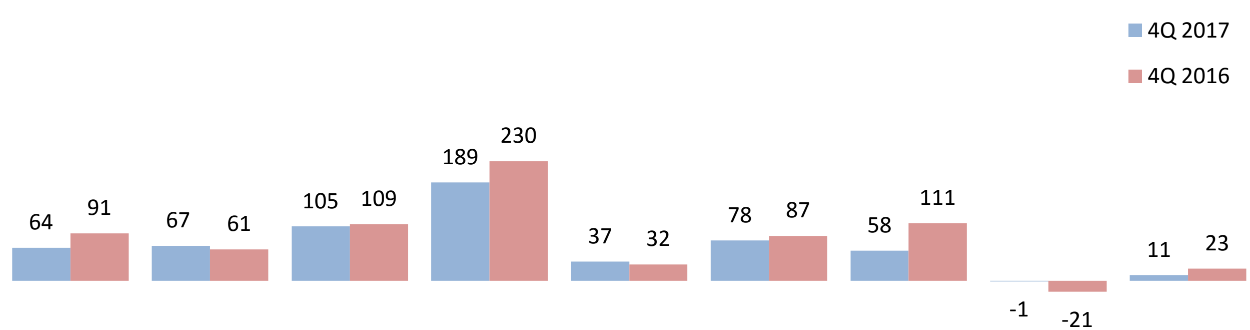
LTC compensation in both 12M 2017 and 4Q 2017 was at a lower level due to more favorable market conditions.

In 12M of 2017, revenues from construction services contracts increased as a result of greater involvement of companies from the renovation segment for external entities.

Costs by type

[m PLN]





Reasons for changes in key positions:

The lower costs of materials result mainly from the lack of biomass costs.

Decrease in employee benefits costs due to lower average employment.

Lower value of goods and materials sold caused mainly by a lower scale of commercial activity (lower volume of electricity purchased on the market).

Higher costs of external services as a result of greater involvement of the repair company in the implementation of contracts for external customers and slightly higher service costs.

The lower CO_2 emission costs shown in costs by type for 12M and 4Q 2017 result from the lower amount of acquired emission permits necessary to cover lower energy production. The price of purchase of emission allowances in 12M 2017 and Q4 2017 itself was lower than in the corresponding periods of the previous year.

In 2017, in spite of a further drop in the prices of green certificates, there was no need of making an impairment write-down on inventories of certificates due to the suspension of production from biomass and the gradual reduction of green certificates.

EBITDA 12M 2017

[m PLN]

	12M 2017	12M 2016
Sales revenue	**2 443**	**2 705**
Change%	*(9.69)%*	
Costs of goods sold	(2 035)	(2 241)
Gross profit	**408**	**463**
Margin %	*16.70%*	*17.12%*
Other operating costs	11	26
Selling and distribution expenses	(4)	(4)
Administrative expenses	(119)	(109)
Other operating expenses	(5)	(5)
EBITDA(1)	**512**	**594**
Margin %	*20.96%*	*21.96%*
EBIT	**290**	**371**
Margin %	*11.87%*	*13.72%*

(1) EBITDA lower by PLN 82 million (-13.80%) -> after bringing to comaparbility lower by **47 mln PLN (-7.78%)**

comparable EBITDA for 12M 2016 amounted to PLN 604 million -> value of PLN 594 million is the result of one-off reated to valuation of green certificates on stock (-10)

comparable EBITDA for 12M 2017 amounted to PLN 557 million -> value of PLN 512 million is the result of increasing the reclamation reserve (-46) and an event related to revaluation updating the value of material inventory (+1)

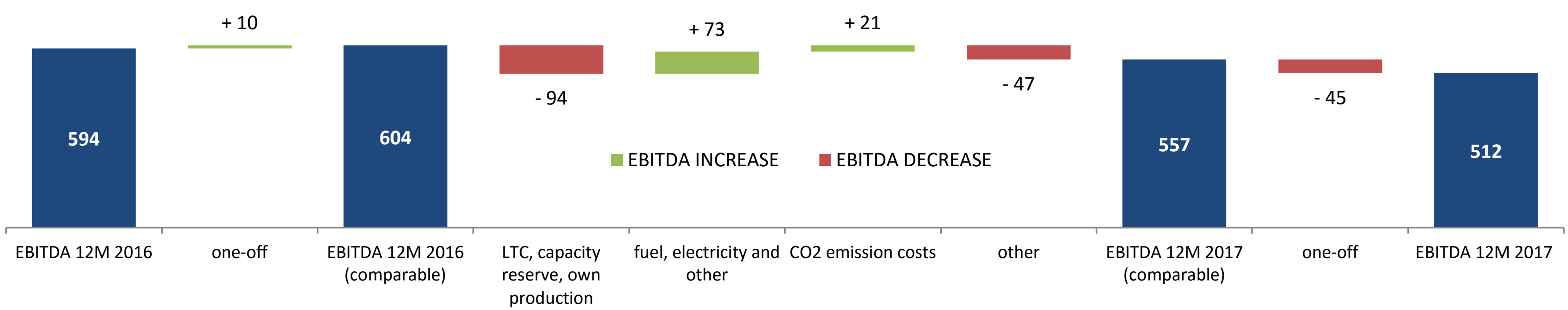
(-94) lower revenues from own energy, lower revenues from LTCs, lower revenues from heat, higher revenues from system services and power reserves and higher result on the market

(+73) lower fuel costs (biomass), energy (in mines), higher mazout and oil costs, higher costs of other materials

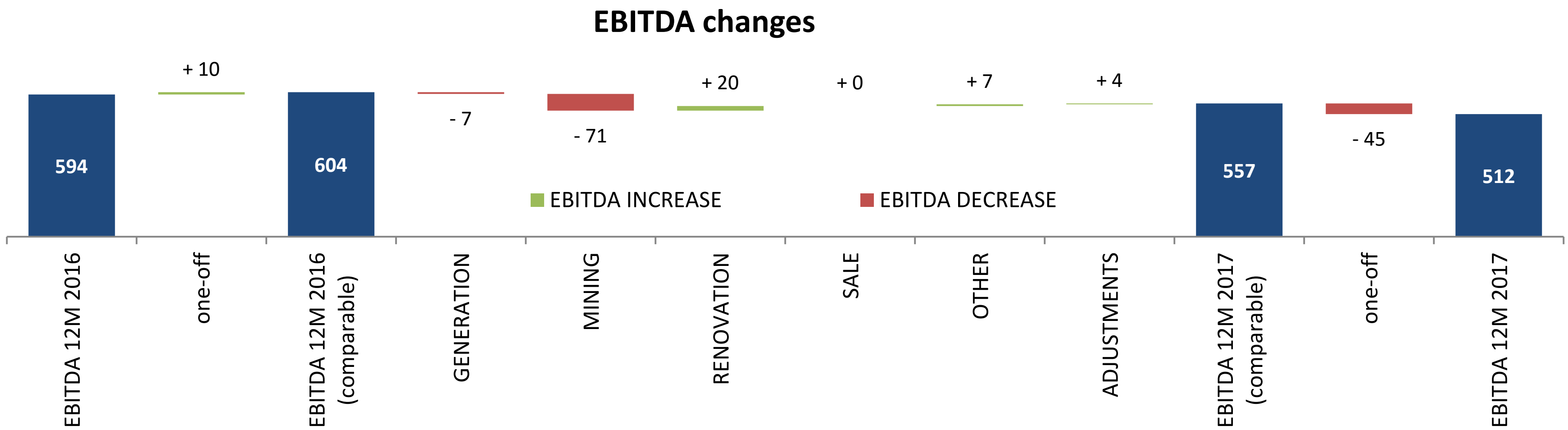
(+21) lower costs of CO_2 emission

(-47) lower costs of employee benefits, higher other costs of current operations and external services, and lower result on other operating activities, lower level of dissolved provisions for retirement benefits and similar

EBITDA changes



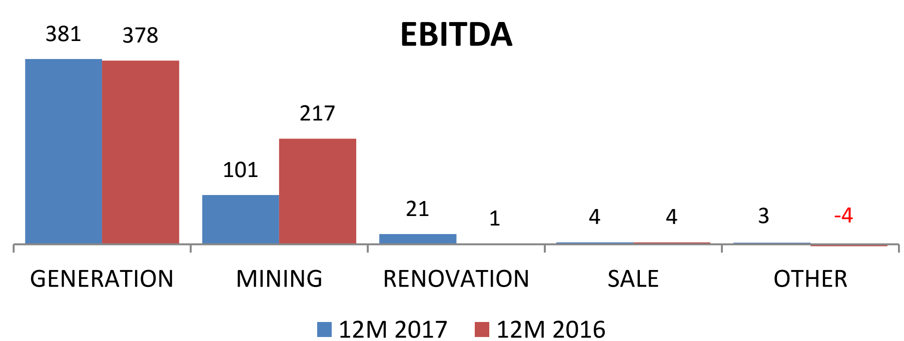
EBITDA 12M 2017 by segments
[m PLN]



Main reasons for EBITDA changes in segments:

Generation:
- lower revenues from own-generation, lower revenues from LTC, higher revenues from system service and capacity reserve,
- lower costs of fuel,
- lower costs of CO_2,
- lower costs of employee benefts and highte costs of properrty maintenance.

Mining:
- lower revenues from lignite sale ,
- lower costs of electricity, higher costs of other materials,
- increase of reclamation reserve , lower level of dissolved provisions (retirement benefits and mining damage)



Renovation and other:
- a wider range of services for non-Group customers
- higher costs of external services and employee benefits -> higher increase of revenueas compared to costs .

Consolidated Profit and Loss Acount for 12M 2017 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sale revenues from external customers	1 758	6	96	576	7	-	2 443
External sale revenues %	*83.87%*	*0.74%*	*34.78%*	*100.00%*	*4.14%*	*0.00%*	*100.00%*
Sale revenues between segments	339	808	180	-	161	(1 489)	-
Sale revenues	**2 096**	**815**	**276**	**576**	**169**	**(1 489)**	**2 443**
Cost of goods sold	(1 796)	(761)	(244)	(567)	(160)	1 492	(2 035)
Gross profit (loss)	**301**	**54**	**32**	**9**	**9**	**3**	**408**
Margin %	*14.36%*	*6.63%*	*11.59%*	*1.56%*	*5.33%*	*(0.20%)*	*16.70%*
EBITDA	**381**	**101**	**21**	**4**	**3**	**2**	**512**
Margin %	*18.18%*	*12.39%*	*7.61%*	*0.69%*	*1.78%*	*(0.13%)*	*20.96%*
EBIT	**258**	**10**	**14**	**4**	**1**	**3**	**290**
Margin %	*12.31%*	*1.23%*	*5.07%*	*0.69%*	*0.59%*	*(0.20%)*	*11.87%*
Net profit (loss)	**196**	**(27)**	**10**	**3**	**1**	**1**	**184**
Margin %	*9.35%*	*(3.31%)*	*3.62%*	*0.52%*	*0.59%*	*(0.07%)*	*7.53%*

EBITDA 4Q 2017

[m PLN]

	4Q 2017	4Q 2016
Sale revenues	**630**	**651**
Change %	*(3.23)%*	
Cost of goods sold	(545)	(564)
Gross profit	**85**	**87**
Margin %	*13.49%*	*13.36%*
Other operating revenues	0	8
Selling and distribution expenses	(1)	(1)
Administrative expenses	(29)	(37)
Other operating expenses	(2)	3
EBITDA[(1)]	**120**	**120**
Margin %	*19.05%*	*18.43%*
EBIT	**52**	**60**
Margin %	*8.25%*	*9.22%*

(1) **EBITDA** in both periods at the same level -> after bringing to comprability higher by PLN **22 mln** (+22.22%)

comparable EBITDA for 4Q 2016 amounted to PLN 99 million -> value of PLN 120 million is the effect of reducing the write-down related to the revaluation of unsold green certificates (+21)

comparable EBITDA for 4Q 2017 amounted to PLN 121 million -> value of PLN 120 million is the result of an event related to revaluation updating the value of material inventory (-1)

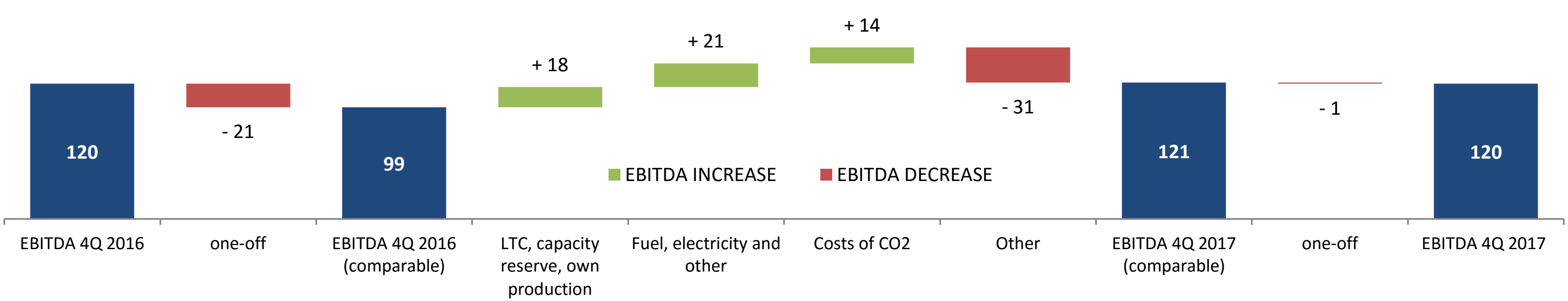
(+18) higher revenues from certificates, lower revenues from LTCs, lower revenues from heat, higher revenues from system services and power reserves and higher result on the market

(+21) lower costs of fuel (biomass), energy (in mines)

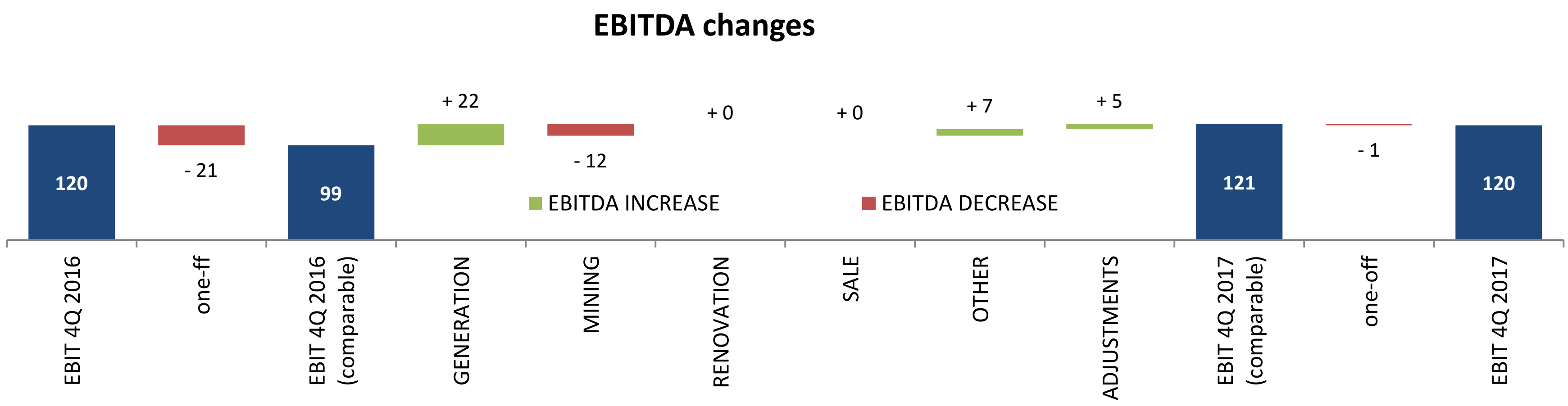
(+14) lower costs of CO_2

(-31) lower costs of employee benefits, higher other costs of current operations and external services, and lower result on other operating activities, lower level of dissolved provisions

EBITDA changes



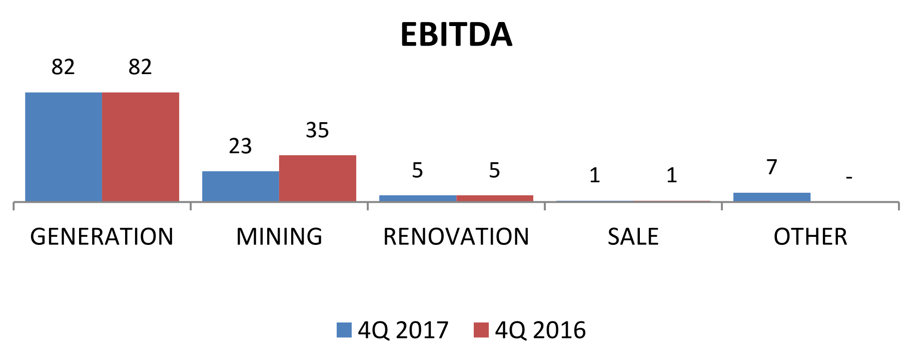
EBITDA 4Q 2017 by segments
[m PLN]



Main reasons for EBITDA changes in segments:

Generation:
- higher revenues from green certificates
- lower compensation from LTC
- higher revenues from system service and reserve capacity
- lower costs of fuel (biomass)
- lower costs of CO_2
- higher costs of services

Mining:
- lower costs of employee benefits
- lower material consumption
- higher external service
- lower level of dissolved provisions (retirement benefits and mining damage)



Other:
- optimization of costs structure, change of contracts' conditions

Consolidated Profit & Loss Account for 4Q 2017 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	463	2	19	144	2	-	630
External sale revenues %	*86.06%*	*1.16%*	*38.00%*	*100.00%*	*2.94%*	*0.00%*	*100.00%*
Sale revenues between segments	75	170	31	-	66	(343)	0
Sale revenues	**538**	**172**	**51**	**144**	**68**	**(343)**	**630**
Cost of goods sold	(469)	(174)	(43)	(142)	(59)	341	(545)
Gross profit (loss)	**69**	**(2)**	**8**	**3**	**9**	**(2)**	**85**
Margin %	*12.83%*	*(1.16%)*	*16.00%*	*2.07%*	*13.24%*	*0.58%*	*13.49%*
EBITDA	**82**	**23**	**5**	**1**	**6**	**3**	**120**
Margin %	*15.24%*	*13.37%*	*10.00%*	*0.69%*	*8.82%*	*(0.87%)*	*19.05%*
EBIT	**54**	**(10)**	**4**	**1**	**6**	**(2)**	**52**
Margin %	*10.04%*	*(5.81%)*	*8.00%*	*0.69%*	*8.82%*	*0.58%*	*8.25%*
Net profit (loss)	**41**	**(34)**	**2**	**1**	**4**	**-**	**14**
Margin %	*7.62%*	*(19.19%)*	*4.00%*	*0.69%*	*4.41%*	-	*2.22%*

Financial activities, taxation and net profit

[m PLN]

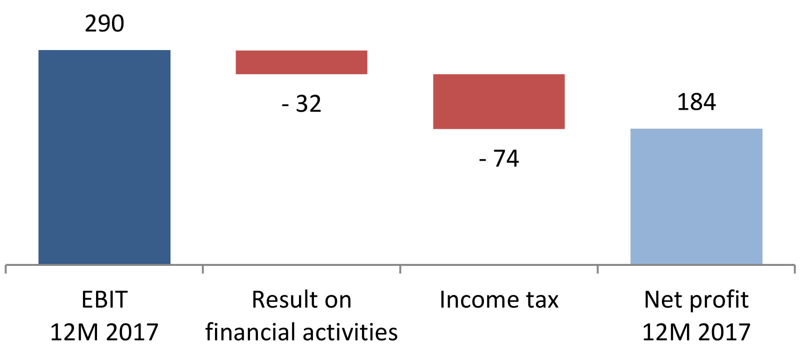
	12M 2017	12M 2016	4Q 2017	4Q 2016
EBIT	**290**	**371**	**52**	**60**
Financial income [(1)]	16	9	5	3
Financial costs [(2)]	(48)	(73)	(12)	(17)
Gross profit	**258**	**308**	**45**	**45**
Income tax (taxation)[(3)]	(74)	(58)	(31)	(14)
Effective tax rate	*28.57%*	*18.83%*	*69.57%*	*31.11%*
Net profit (loss) for the period	**184**	**250**	**14**	**32**
Margin %	*7.53%*	*9.24%*	*2.22%*	*4.92%*

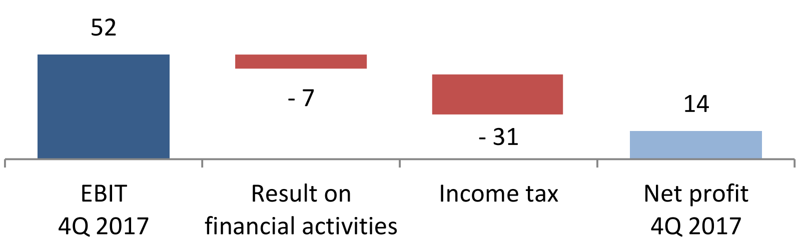
(1) The greatest impact on the increase in financial revenues in 2017 was the appreciation of the zloty against the euro through the impact on the valuation of credit liabilities in euro.

(2) Two reasons have contributed to the decline in financial costs: the first is the lack of exchange-rate looses in 2017 that were noted a year earlier, the second is caused by lower interest expenses related to declining debt.

(3) Relatively high tax burden as a result of a decrease in the deferred tax asset in Q4 2017.

EBIT --> net profit

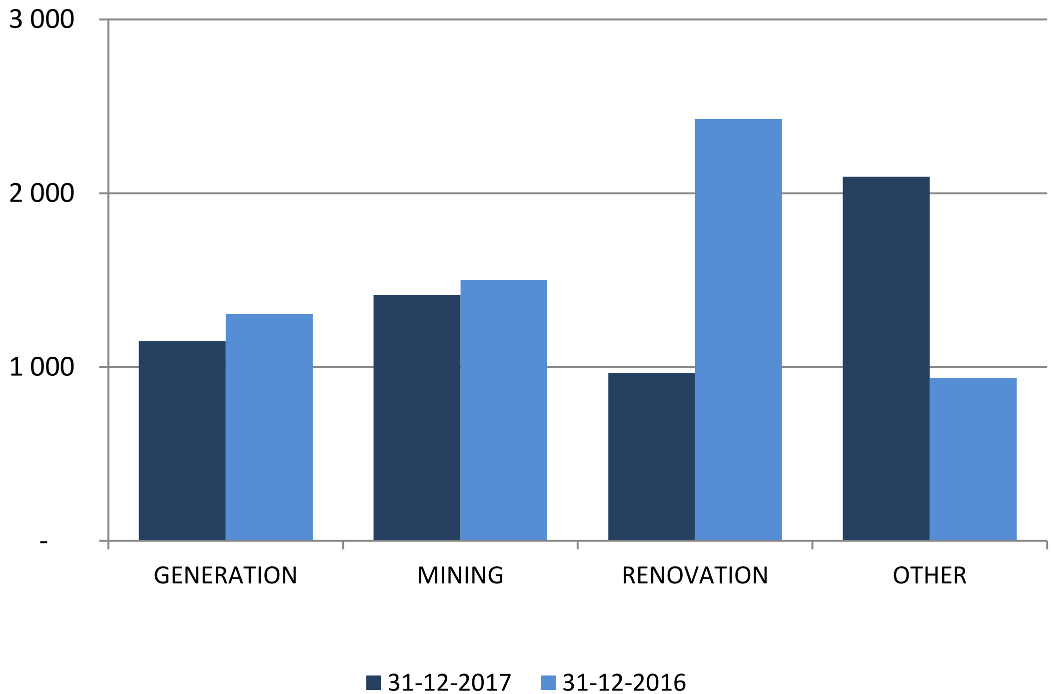




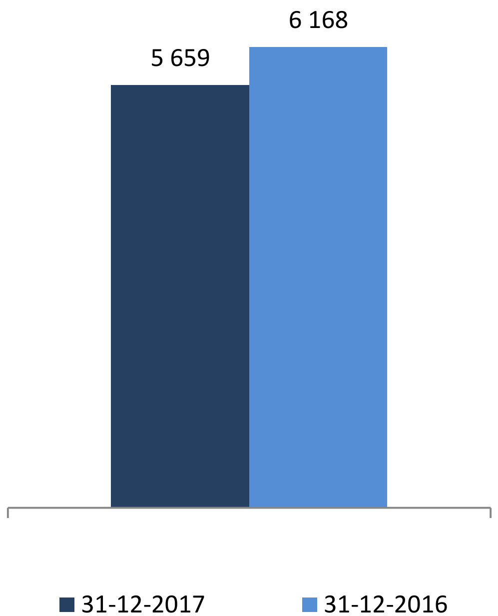
Employment

[full time]

BY SEGMENTS



TOTAL

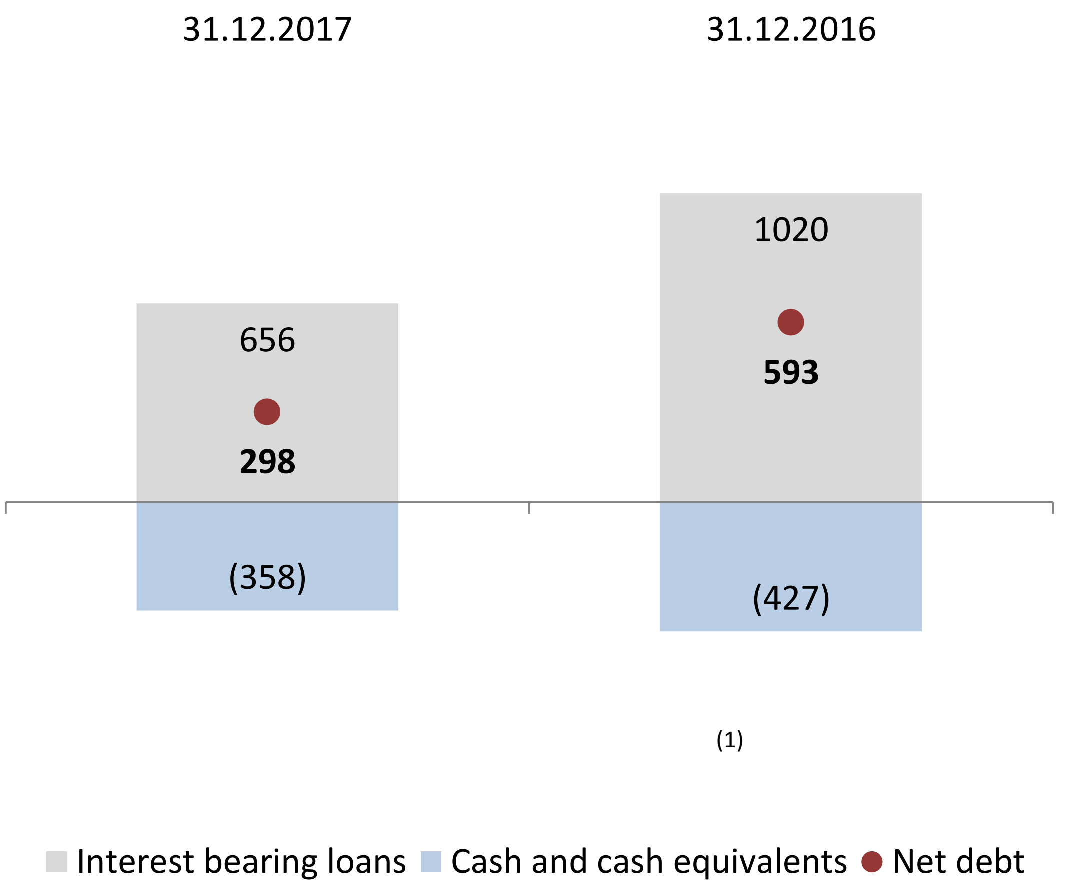


The employment level in the Group is still decreasing. Declines of employment in second half of the year result from adjustment of employment structure to a reduction of the activity range in 2018 including termination of Elektrownia Adamów operation.

The structure of the Group has been simplified and the "auxiliary" activity was concentrated in one company which took over employees of four other companies in liquidation.

Financial indebtedness

Net debt [m PLN]

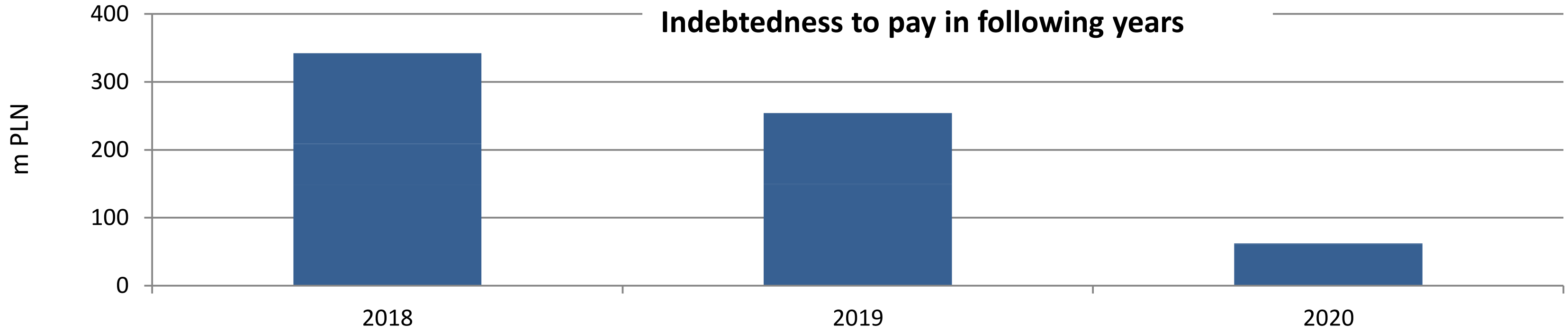


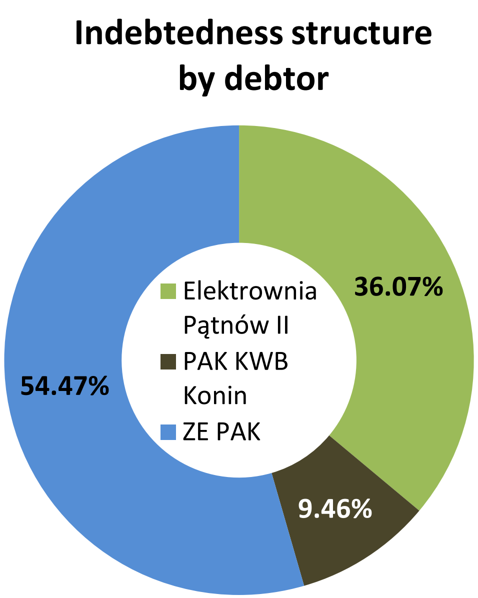
Net debt / EBITDA

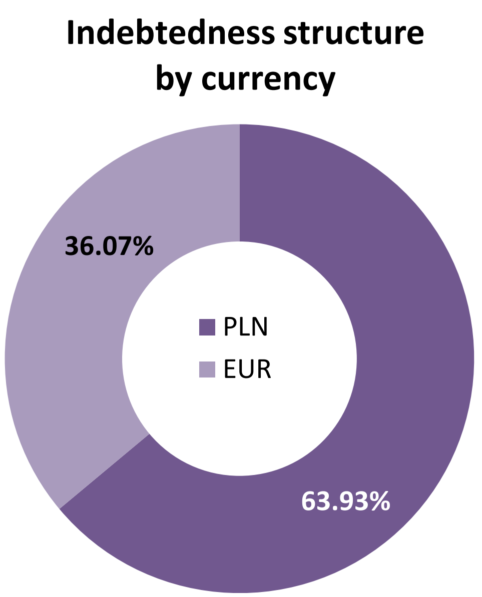
31.12.2017	0.58
31.12.2016	1.00

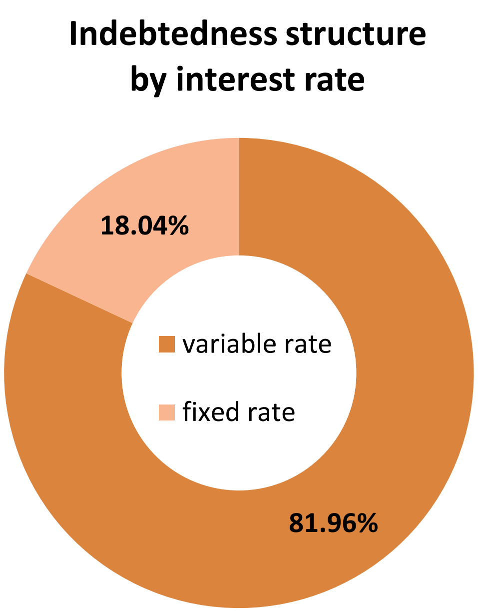
(1) Cash and cash equivalents from consolidated statement of financial position and other short-term financial assets

Financial indebtedness structure[1]









(1) Indebtedness of main Group companies, excluding PLN 0.75 million indebtedness of other Group's companies. Indebtedness in EUR calculated using NBP average exchange rate as of 31.12.2017

Consolidated cash flow
[m PLN]

	12M 2017	12M 2016	4Q 2017	4Q 2016
Gross profit (loss)	**259**	**308**	**46**	**45**
Depreciation and amortization	196	208	45	56
Profit/loss on investing and financial activities	21	71	7	27
Changes in working capital	249	289	76	54
Income tax	(20)	(24)	(12)	(4)
Purchase of EUA (1)	(249)	(316)	(118)	(116)
Other(2)	23	-	25	-
Net cash flo from operational activities	**479**	**536**	**69**	**61**
(inflows/outflows) of investments in tangible and intangible fixed assets (3)	(98)	(195)	(28)	(91)
other	40	12	1	3
Net cash flow from investing activities	**(58)**	**(184)**	**(27)**	**(88)**
Inflows of credits, loans, leases and securities	-	12	-	-
Payment of credits, loans, leases and securities	(348)	(349)	(78)	(71)
Interest paid	(33)	(49)	(11)	(12)
Dividend paid	(66)	-	-	-
Other	-	(1)	-	-
Net cash flow from financial activities (4)	**(447)**	**(387)**	**(89)**	**(83)**
Change in cash and cash equivalents	(26)	(35)	(46)	(110)
Cash and cash equivalents at the beginning of the period	349	383	369	459
Cash and cash equivalents at the end of the period	**323**	**349**	**323**	**349**

(1) In 2017, a value of expenditure on the purchase of CO2 emission allowances is lower than recorded in the profit and loss account, which results from the settlement in 2017 of the portion of allowances acquired in the previous year.

(2) In 2017, it is a impairment of the value of fixed assets under construction in the mining segment

(3) There were no large investment projects implemented in 2017.

(4) Lower level of interest payable due to lower total liabilities. Cash from financing activities decreased mainly due to the payment of dividend from the profit for 2016.

Questions and answers

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