




24 September 2018

Zespół Elektrowni Pątnów-Adamów-Konin SA

First half of 2018 results

PAK Energia dla Ciebie

ZE PAK SA Group – 6M 2018 Summary

Key operational and financial data	6M 2018		Change y/y
Sale of electricity:	4.27	TWh	-24.42%
• Electricity from own production:	2.90	TWh	-31.92%
• Electricity from resale:	1.37	TWh	-1.44%
Achieved average electricity sale price[1]:	195.88	PLN/MWh	+11.32%
Sale revenues:	983	m PLN	-16.55%
EBITDA:	71	m PLN	-71.71%
Net results:	(52)	m PLN	-
CAPEX:	50	m PLN	+117.39%
Indebtedness:	555	m PLN	-33.77%
Cash[2]:	252	m PLN	-23.64%
Net debt / EBITDA:	0.91	x	-8.08%

(1) The average price calculated as revenues from the electricity sale (including system services) divided by the sales volume.

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

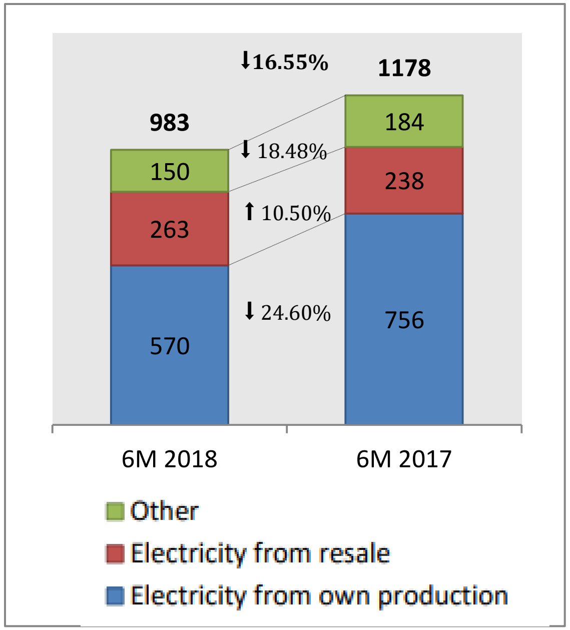
ZE PAK SA Group – 2Q 2018 Summary

Key operational and financial data	2Q 2018		Change y/y
Sale of electricity:	2.18	TWh	-22.14%
• Electricity from own production:	1.51	TWh	-26.70%
• Electricity from resale:	0.67	TWh	-9.46%
Achieved average electricity sale price:	201.84	PLN/MWh	+14.99%
Sale revenues:	517	m PLN	-10.55%
EBITDA:	22	m PLN	-82.54%
Net result:	(36)	m PLN	-
CAPEX:	12	m PLN	+20.00%

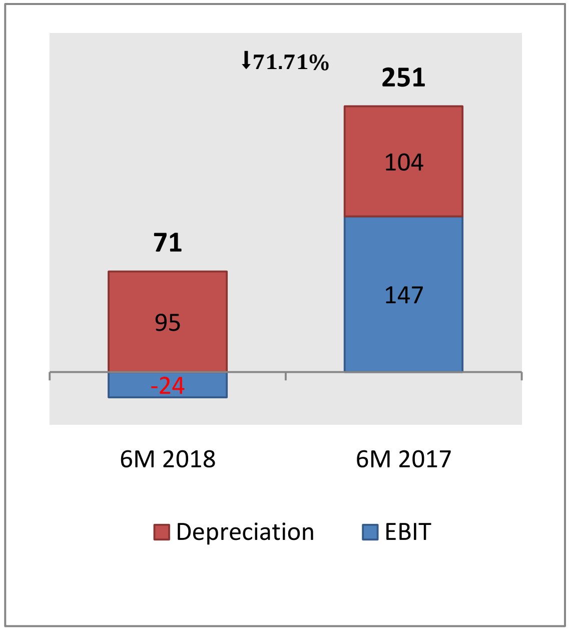
ZE PAK SA Group – 6M 2018 Summary

[m PLN]

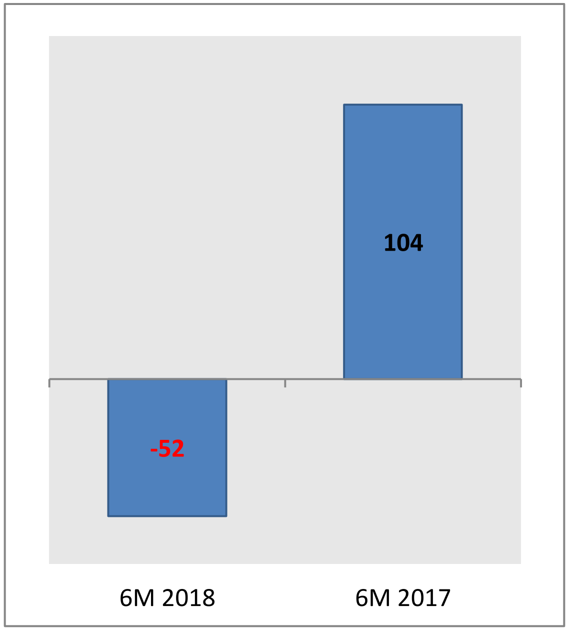
Revenues



EBITDA



Net result

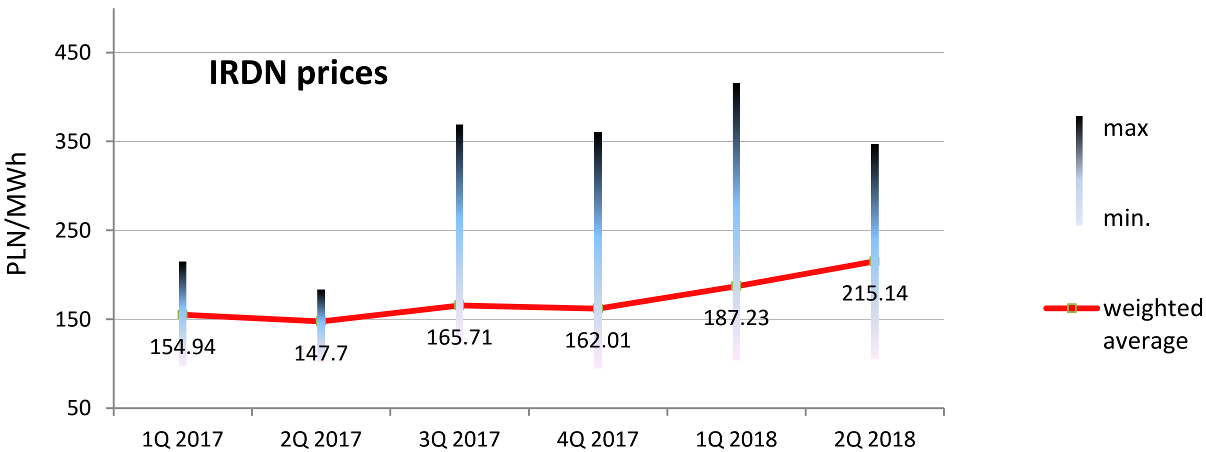


Lower revenues of ZE PAK SA Group in the first half of 2018 in relation to the analogous period of the previous year were caused by a lower volume of electricity production. The decrease in the volume mainly resulted from the lack of production at Adamów power plant, which ended production at the beginning of January 2018. The decrease in production also concerned, although to a lesser extent, Pątnów power plant.

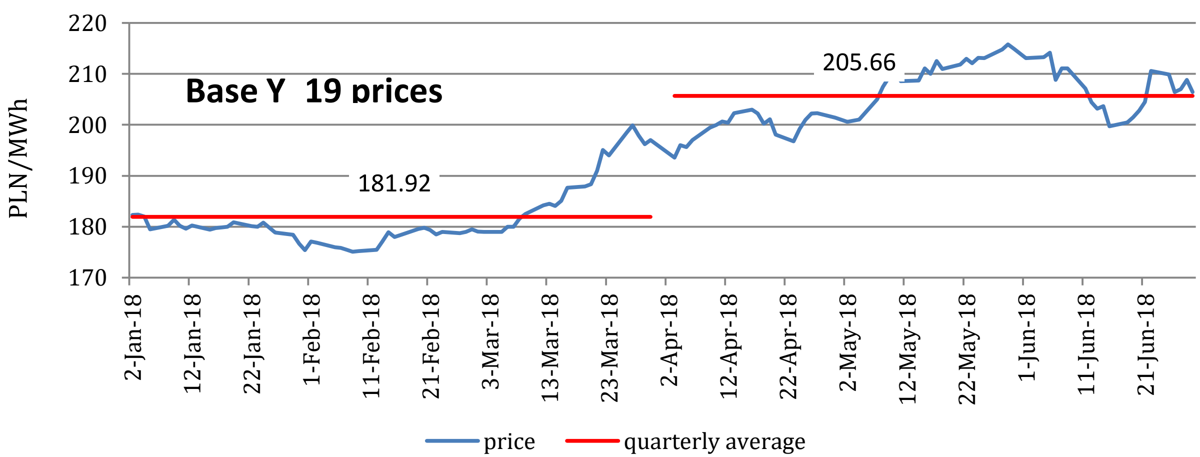
In addition to the decrease in the level of revenues, the main factor affecting the deterioration of the result at the EBITDA level and net profit in the first half of 2018 was the higher purchase price of CO_2 emission allowances. This factor in particular determined the results of the second quarter.

SELECTED ELECTRICITY MARKET DATA

Electricity prices



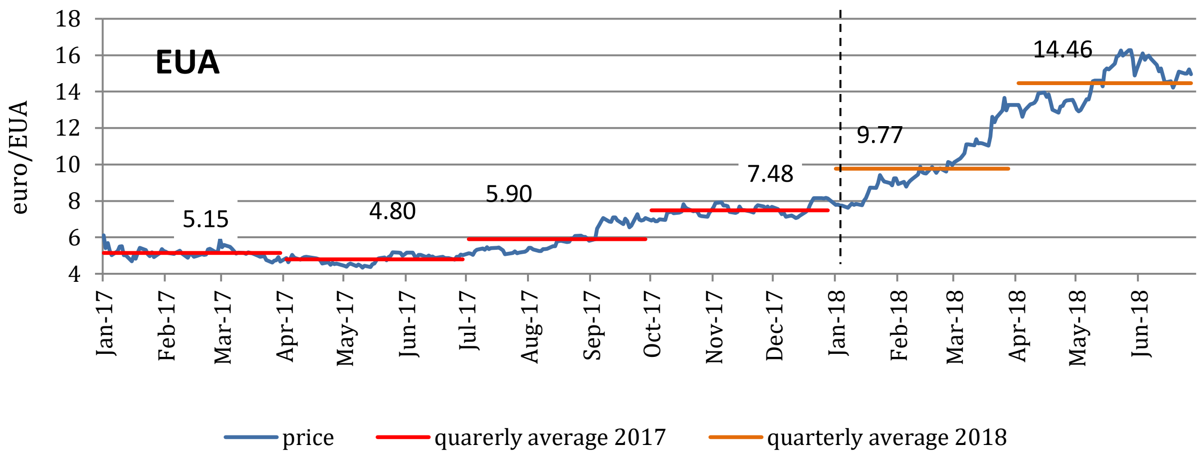
The first two quarters of 2018 were characterized by definitely higher prices and greater volatility than it was in the corresponding periods of 2017. The most important factors: an increase in national electricity consumption by 1.9%, record demand for electricity in the evening peak of winter and summer, relatively low wind generation (-12.9%), higher prices of hard coal and CO2 emission allowances. The weighted average price (DAMI) in the first quarter of 2018 was at the level of PLN 187.23 / MWh, which is higher by PLN 32.29, i.e. around 20.84% than in the first quarter of the previous year. The weighted average price (DAMI) in the second quarter of 2018 was at an even higher level of 215.14 PLN / MWh, which is higher by 67.44 PLN, i.e. by as much as 45.66% than in the second quarter of the previous year.

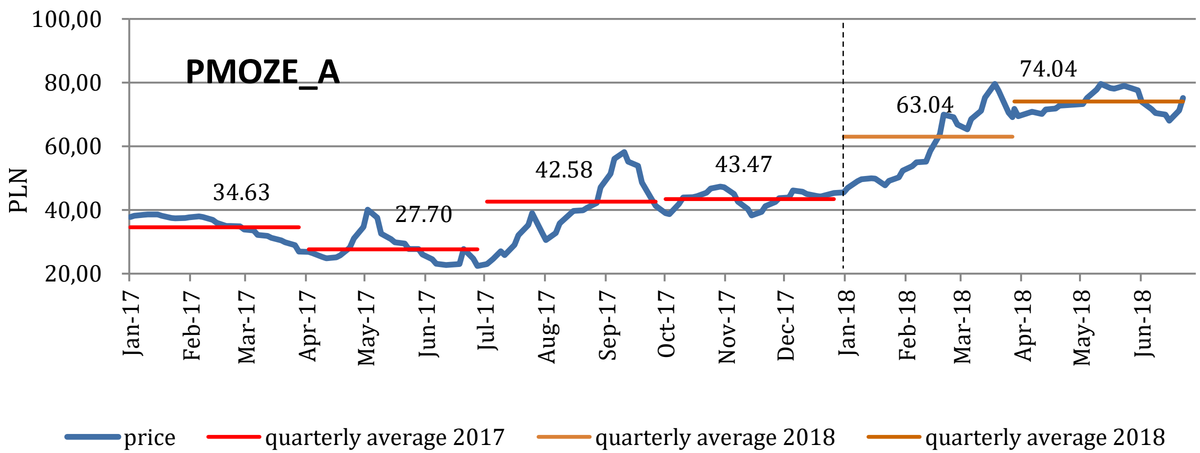


The BASE_Y-19 deadline contract was characterized by low volatility in January and February. It was only from March to the end of May that a clear upward trend continued. At the end of May, the highest daily clearing price was recorded at 215.80 PLN / MWh. Factors affecting the growth are mainly the higher price of coal and emission rights.

Poland as an energy importer in 6M 2018 - the dominance of imports over exports in 6M 2018 amounted to about 3.8 TWh, which means an increase in relation to 0.5 TWh balance in 6M 2017.

EUA and green certificates





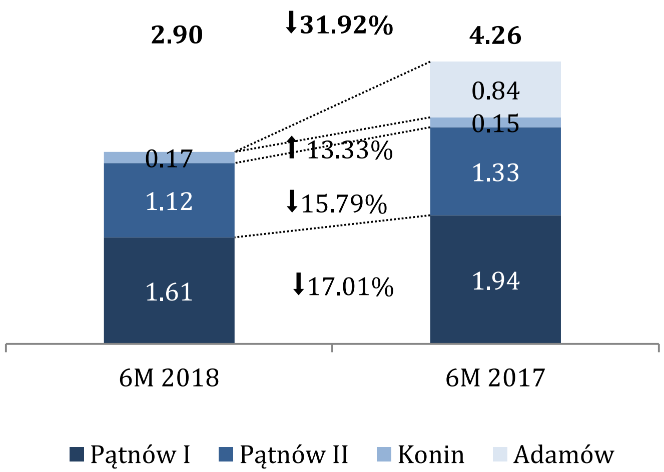
In 1H 2018 there was a clear upward trend on the EUA market. At the same time its dynamics was even stronger than in 2H 2017. In Q1 2018, market participants were preparing to settle the issue for the previous year, which always takes place in April. Those who did not have coverage of last year's emissions were forced to buy EUA at high prices and the demand that was reported affected the growth rate of EUA prices. After the settlement of emissions for the previous year, there was a short stabilization period of between EUR 13 and 14. In the following months, relatively high EUA prices obtained in the auctions on the primary market, higher energy raw materials (including hard coal and oil) and high electricity prices have contributed to the resumption of the upward trend. Due to the strong trend prevailing in this market, it may not be unreasonable to assume that emission allowance units could become the object of interest of financial investors with speculative attitudes. The arithmetic average of EUA quotations in Q1 2018 was 9.77 euros, which means an increase of 89.7% compared to Q1 2017. In Q2 2018, the same average was at the level of 14.46 euro, which means an increase by 201% compared to the average of 2Q 2017.

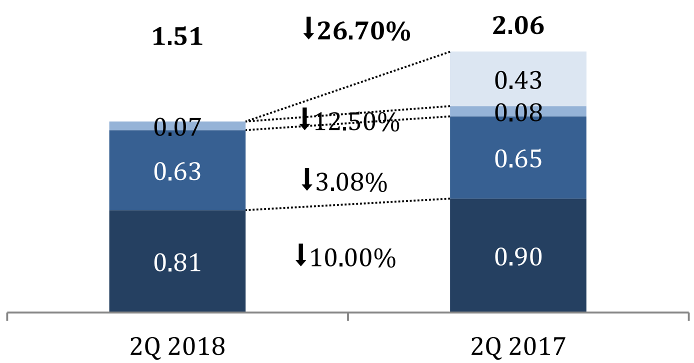
From the beginning of 2018, there was a significant and dynamic growth trend on the green certificates market. The increase may be treated as a further part of the upward trend initiated in mid-2017. Prices managed to remain at relatively high levels, although in Q2 2018 the growth dynamics slowed down. Despite the considerable oversupply of renewable energy rights on the market, there are several reasons for price increases in recent times. The main factors affecting the increase in the price of green certificates: the possibility of using the substitution fee has been reduced, the coefficient of redemption obligation increased, announcements of migration auctions for sources participating today in the green certificates system, in 1H 2018 also the wind generation was lower, that is from the main source of green certificates supply. The weighted average price of green certificates in Q1 2018 at 63.04 PLN / MWh, which is an increase of 82% compared to the weighted average in 1Q 2017. In 2Q 2018, the same average at 74.04 PLN / MWh, which means an increase as much as 167.29% compared to 2Q 2017.

OPERATIONAL DATA

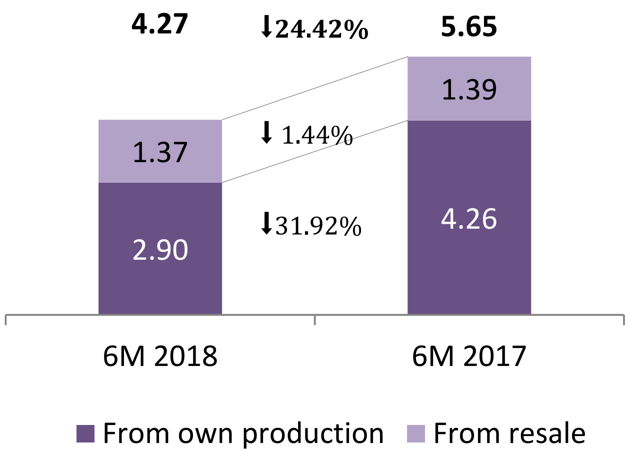
Net production and sale of electricity
[TWh]

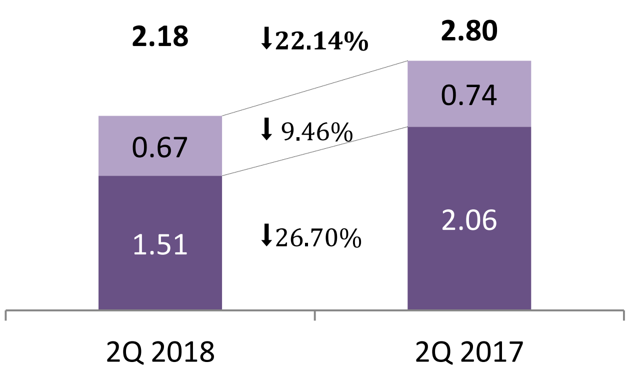
NET PRODUCTION





SALE





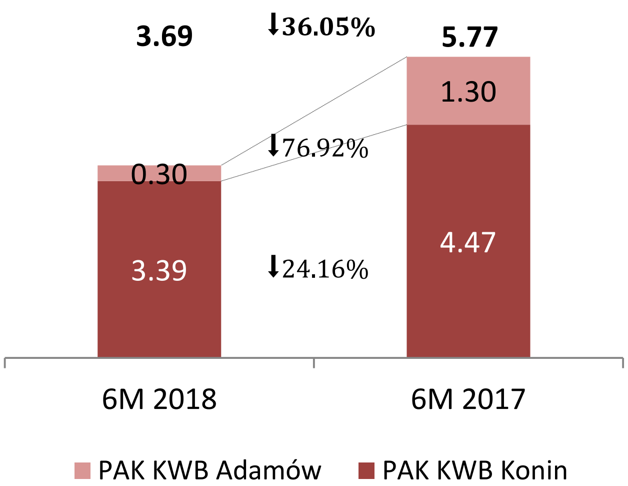
The lower volume electricity sale mainly resulted from the sale of electricity from own production.

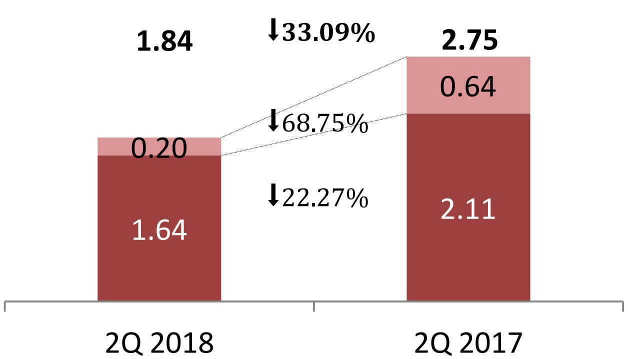
The main reason was the end with the beginning of January of energy production in the coal units of Adamów power plant. The lack of production at Adamów power plant was responsible for more than half of the overall production decline. The decline in production in Pątnów I and II concerned especially the months of January-April, in May and June the production was comparable to last year. The increase in production at Konin power plant was the result of the start of the biomass unit, which did not produce energy last year due to unfavourable market conditions.

Lignite consumption and CO_2 emission

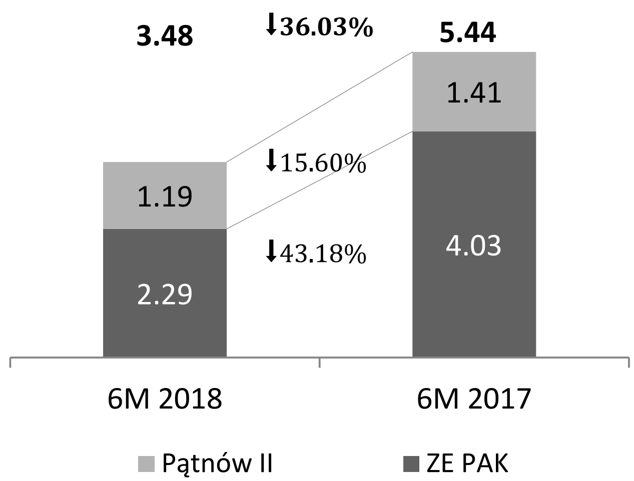
[m ton]

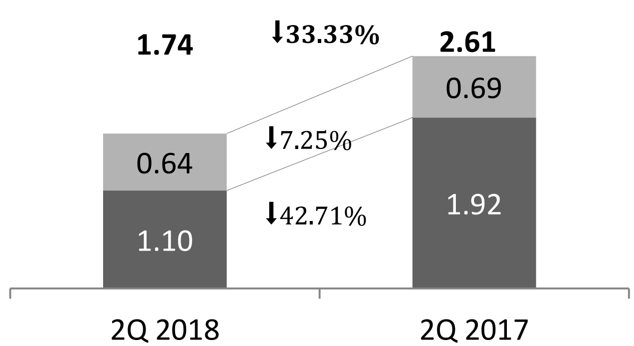
LIGNITE CONSUMPTION





CO_2 EMISSION





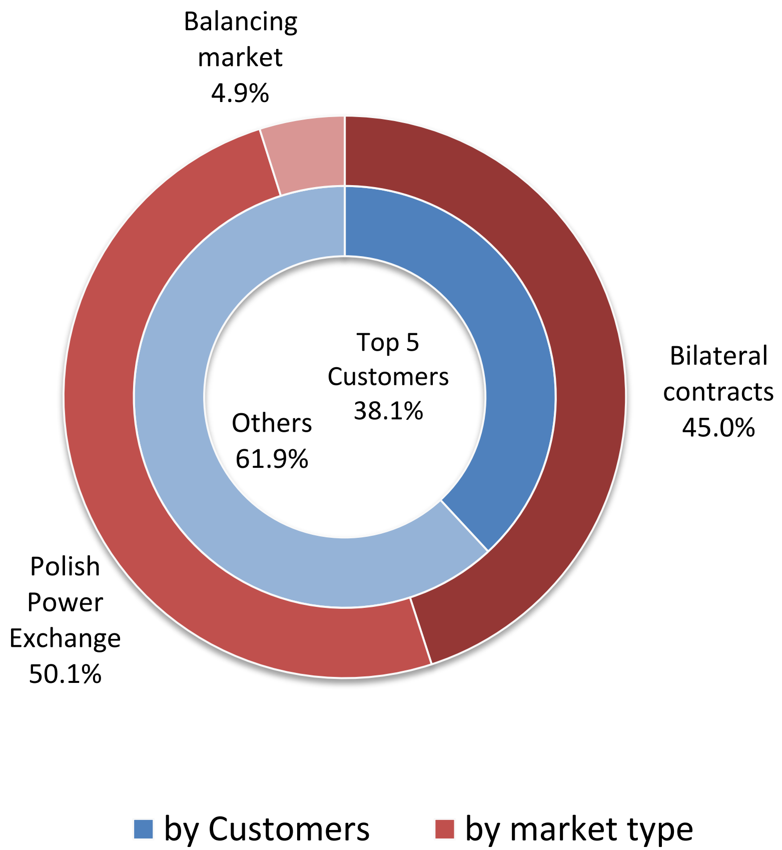
Data on lignite consumption and CO2 emissions in the first half of 2018 as well as in Q2 2018 alone show a decrease in lignite consumption and lower emissions, which results from lower volumes of energy produced in relation to the same periods of the previous year. The dynamics of the decrease in coal consumption is definitely higher in the case of PAK KWB Adamów, which until the end of 2017 extracted coal for the needs of Adamów power plant.

The Group acquires almost all emission allowances on the market. The number of free allowances used both in the first half of 2017 and in 2018 did not exceed 1% of the total number of allowances.

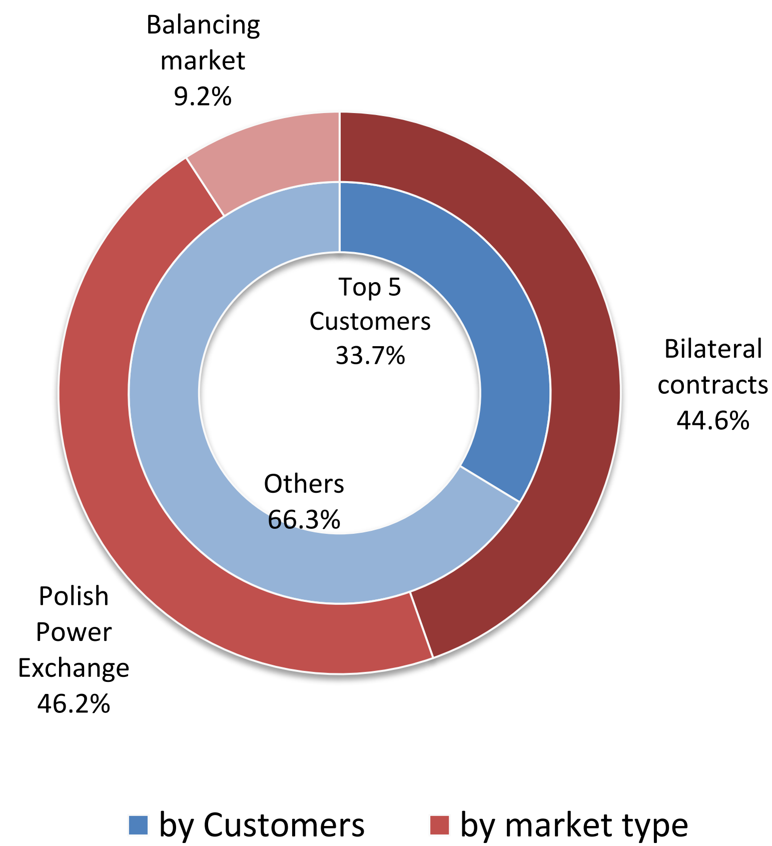
Sale of electricity breakdown

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

6M 2018

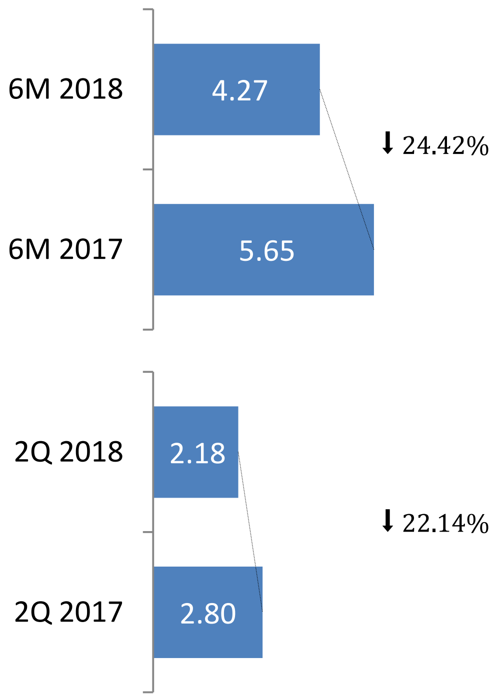


6M 2017

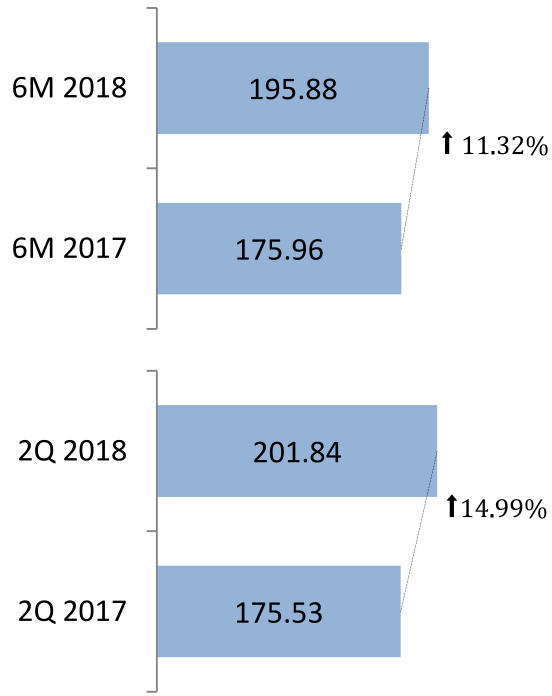


Sale of electricity

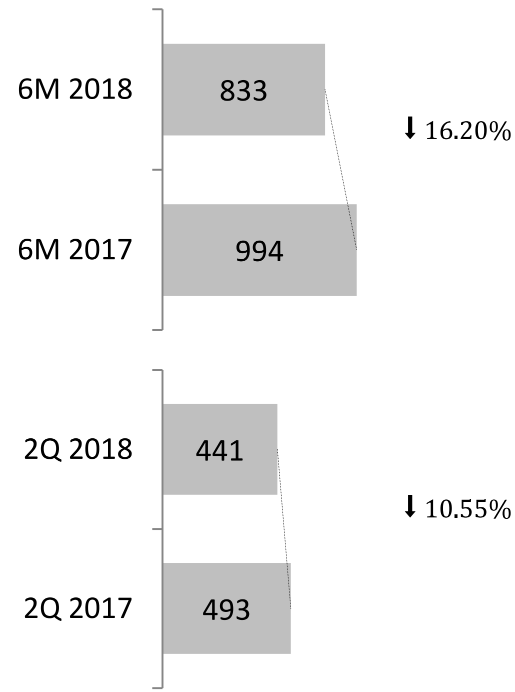
Sale of electricity[(1)]
[TWh]



Average prices[(2)]
[PLN/MWh]



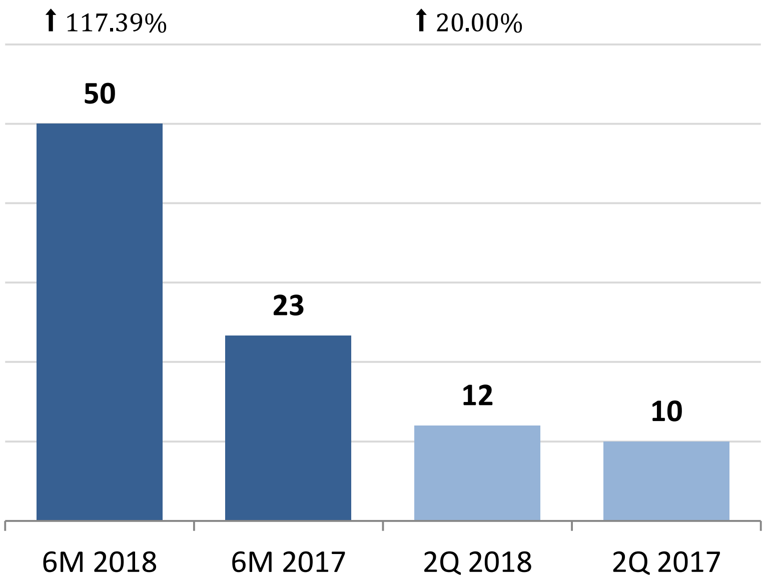
Revenues[(3)]
[m PLN]



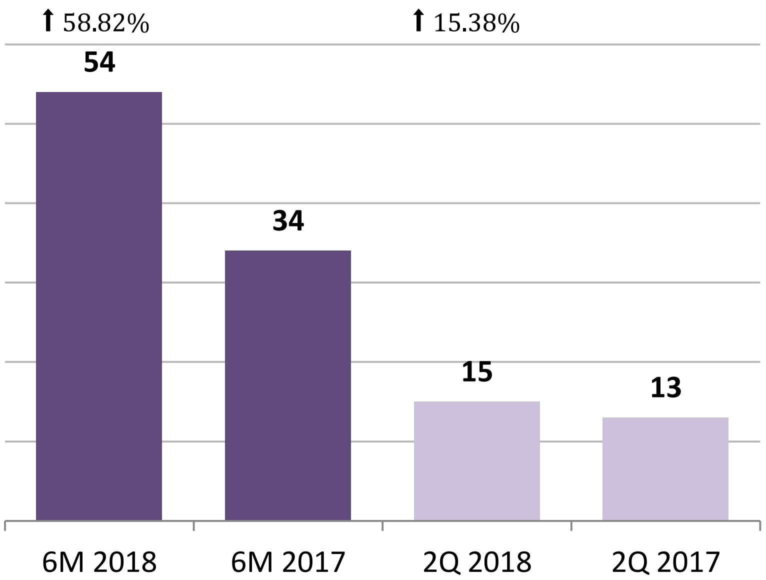
[(1)] Sales of electricity from own production and resold on the market
[(2)] Average price calculated as sales revenues (from own production of electricity, electricity from resale and system services) divided by sales volume
[(3)] Sale revenues decreased by excise tax

Capex on fixed assets and intangible assets
(excluding CO_2)

CAPEX [m PLN]



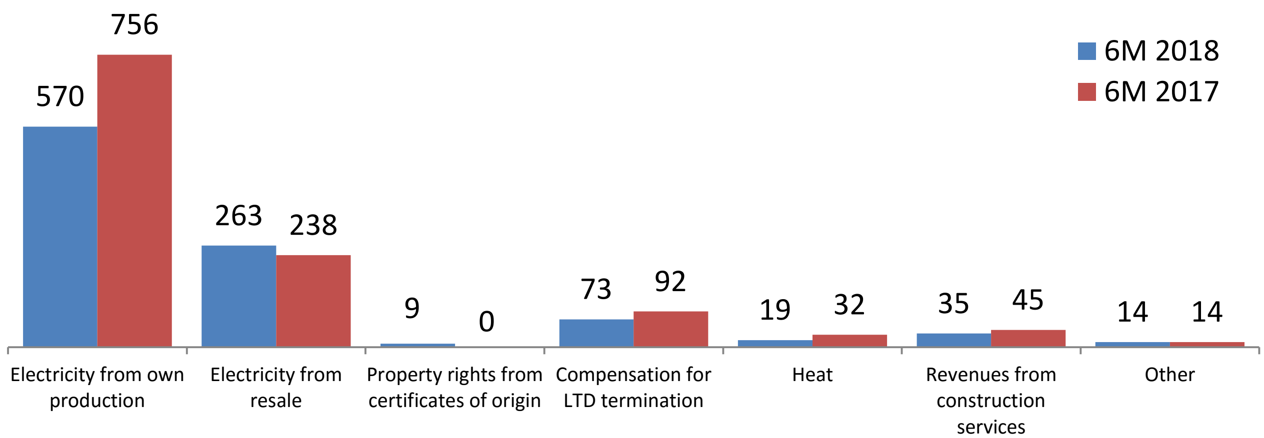
EXPENDITURES [m PLN]

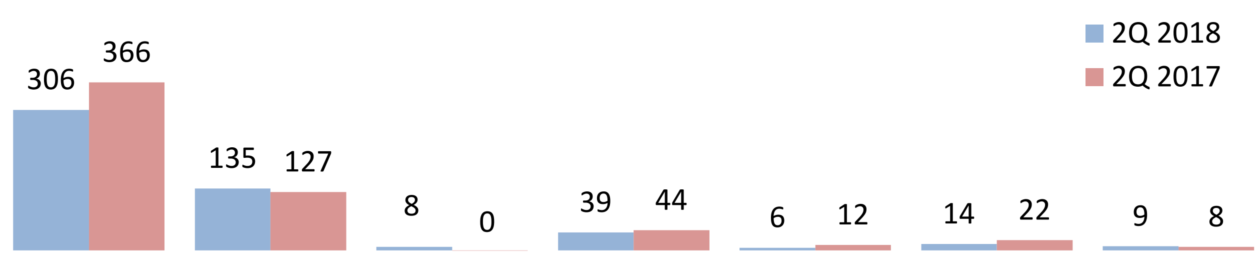


In terms of investment activities, the Group focuses on the maintenance of current assets and their trouble-free operation.

FINANCIAL DATA

Revenues
[m PLN]





Revenues

Lower total revenues from electricity sale:

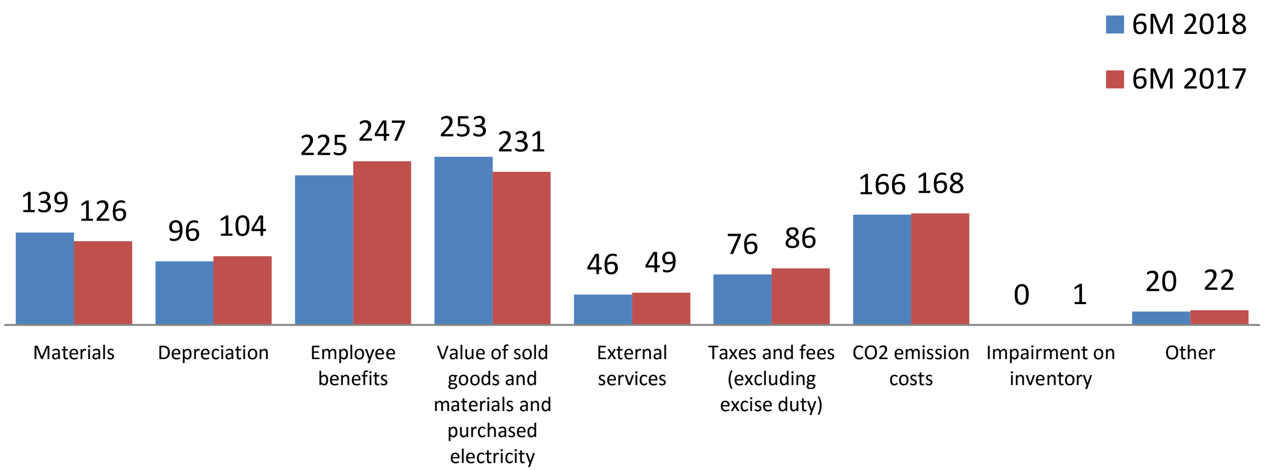
- Lower volume of electricity sale from own production,
- Higher obtained price does nor compensate for the drop in volume

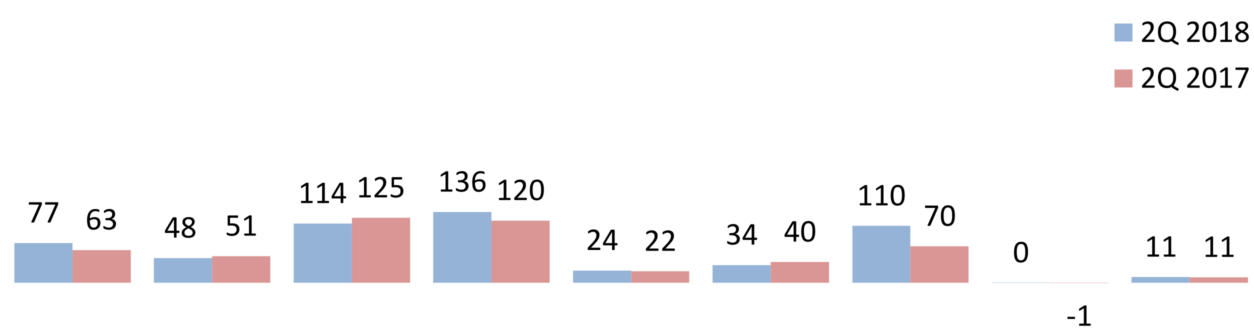
Lower compensation for LTD termination caused by the lower advanced payment (as a result of assumptions adopted at the stage of establishing the Act) and lower adjustment (the effect of higher achieved sales prices in Pątnów II Power Plant, among others)

The decrease in revenues from heat sale mainly as a result of the lack of heat production in Adamów power plant.

The increase in revenues from property rights from certificates of origin is associated with the production of biomass unit in Konin power plant. In the I half of 2017, due to unfavourable market conditions, the production from this unit was stopped.

Costs by type
[m PLN]





Reasons for changes in key positions:

CO_2 emission costs decreased by PLN 2 m, however it should be noted that it concerns much lower volume of production. In practice, this means that the unit price paid for emission permits has increased very much. Consequently, the cost of emissions has increased significantly for comparable production volumes

Higher value of sold goods and materials – higher price of purchased electricity.

Lower depreciation - the result of extending the exploitation period of the Adamów mine.

Lower costs of employee benefits as a result of lower average employment.

Lower costs of external services caused by the lower repair service executed by external entities.

Taxes and fees in mining segment are lower due to lower extraction.

.

EBITDA 6M 2018

[m PLN]

	6M 2018	6M 2017
Sales revenue	**983**	**1 178**
Change%	*(16.55)%*	
Costs of goods sold	(942)	(979)
Gross profit	**41**	**199**
Margin %	*4.17%*	*16.89%*
Other operating costs	4	9
Selling and distribution expenses	(2)	(2)
Administrative expenses	(65)	(57)
Other operating expenses	(3)	(2)
EBITDA(1)	**71**	**251**
Margin %	*7.22%*	*21.31%*
EBIT(2)	**(25)**	**147**
Margin %		*12.48%*

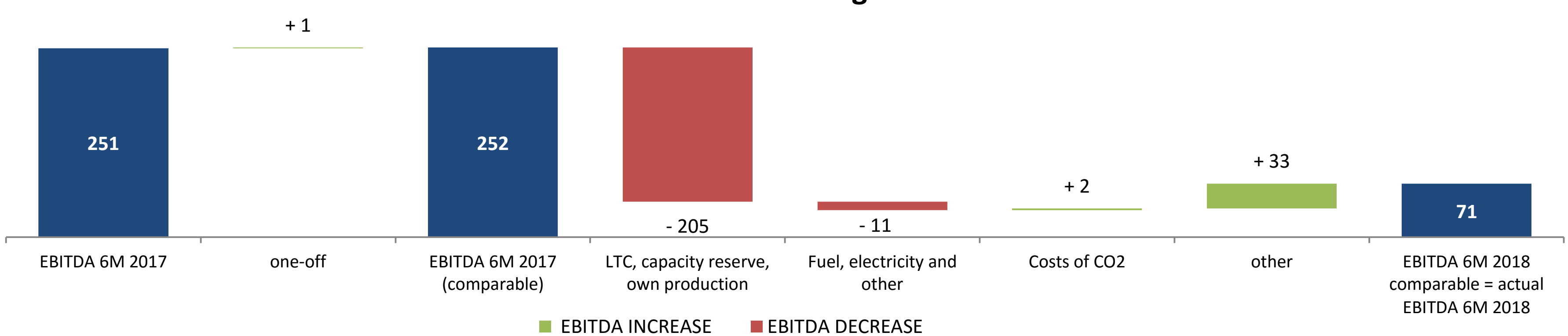
(1) **EBITDA** lower by PLN 180 ml (-71.71%) -> after bringing to comparability **lower by PLN 181 m** (-71.82%)

comparable EBITDA for 6M 2017 amounted to PLN 252 m -> value of PLN 251 m is the result of one-off related to valuation of green certificates on stock (-1)

- (-205) lower revenues from own-generation electricity, lower revenues from system services and capacity reserve, lower revenues from LTD, lower revenues from heat sale, higher revenues from certificates, higher result from trading.
- (-11) higher costs of biomass, lower costs of electricity (in mines), lower costs of other fuels and materials (mazout, heating oil, sorbent)
- (+2) lower costs of CO_2 emission
- (+33) lower costs of employee benefits (reduction of average employment by approximately 700 full-times), lower taxes and fees, lower costs of external services and lower result on remaining operational activities

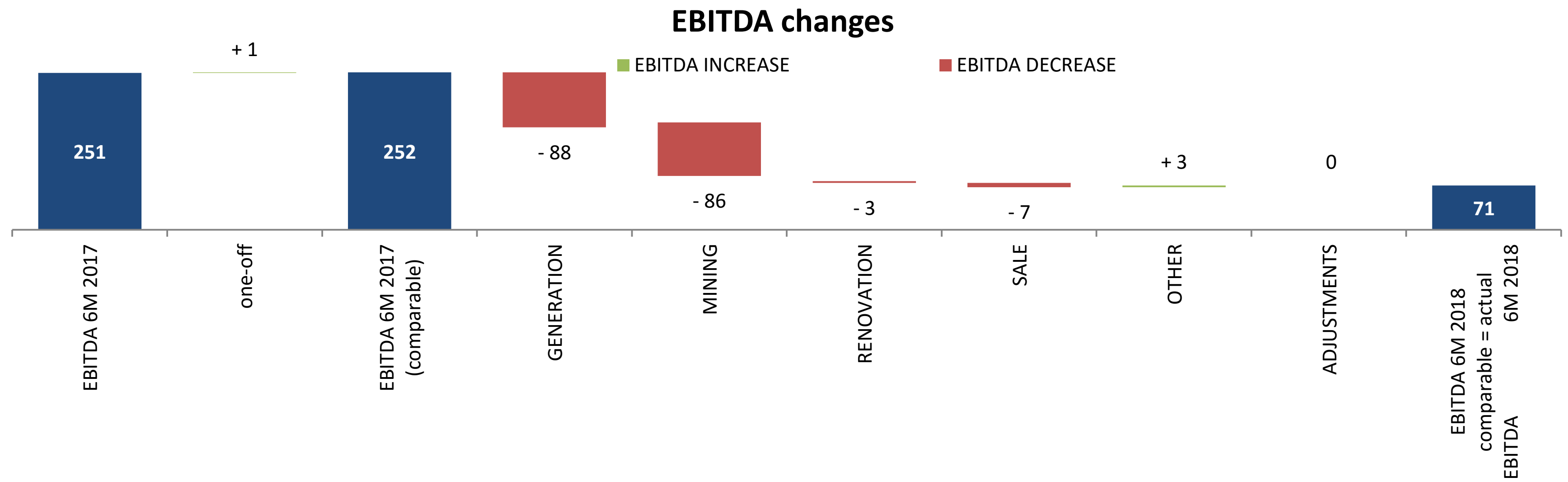
(2) **EBIT** at **(– 25 m)** as compared **to 147 m** for 6M 2017

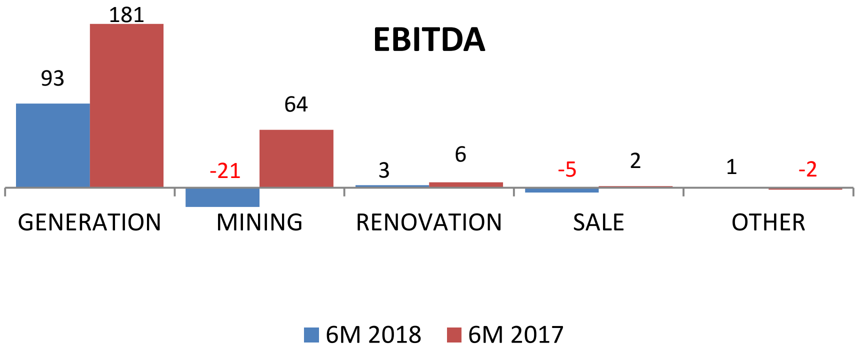
EBITDA changes



EBITDA 6M 2018 by segments

[m PLN]





Main reasons of EBITDA changes in segments :

Generation:

(-205) lower revenues from own-generation electricity, system service and capacity reserve, higher revenues from certificates , lower revenues form LTD, lower revenues from heat sale and higher result on trading;

(+95) lower costs of coal, higher costs of biomass, lower costs of other fuels (mazout, oil, etc.)

(+2) lower costs of CO_2 emission allowances

(+20) lower costs of employee benefits, lower costs of external services and others

Mining:

(-116) lower revenues from lignite sate

(+8) lower costs of electricity

(+22) lower taxes and fees, lower costs of employee benefits, lower costs of other materials and other costs

Renovation:

Lower share of sale to external customers

Sale:

Negative impact of valuation of concluded trade contracts

Consolidated P&L for 6M 2018 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	684	4.00	40	252	2		983
External sale revenues %	*82.11%*	*1.47%*	*49.38%*	*100.00%*	*1.65%*	*0.00%*	*100.00%*
Sale revenues between segments	149	269	40	0	118	(577)	
Sale revenues	**833**	**273.00**	**81**	**252**	**121**	**(577)**	**983**
Cost of goods sold	(770)	(305)	(75)	(255)	(116)	579	(942)
Gross profit (loss)	**63**	**(32)**	**6**	**(2)**	**4**	**2**	**41**
Margin %	*7.56%*	*(11.72%)*	*7.41%*	*(0.79%)*	*3.31%*	*(0.35%)*	*4.17%*
EBITDA	93	(21)	3	(5)	1	0	71
Margin %	*11.16%*	*(7.69%)*	*3.70%*	*(1.98%)*	*0.83%*	*0.00%*	*7.22%*
EBIT	**34**	**(54)**	**(1)**	**(5)**	**(1)**	**2**	**(25)**
Margin %	*4.08%*	*(19.78%)*	*(1.23%)*	*(1.98%)*	*(0.83%)*	*(0.35%)*	*(2.54%)*
Net profit (loss)	**16**	**(63)**	**(1)**	**(4)**	**(1)**	**1**	**(52)**
Margin %	1.92%	(23.08%)	(1.23%)	(1.59%)	(0.83%)	(0.17%)	(5.29%)

EBITDA 2Q 2018

[m PLN]

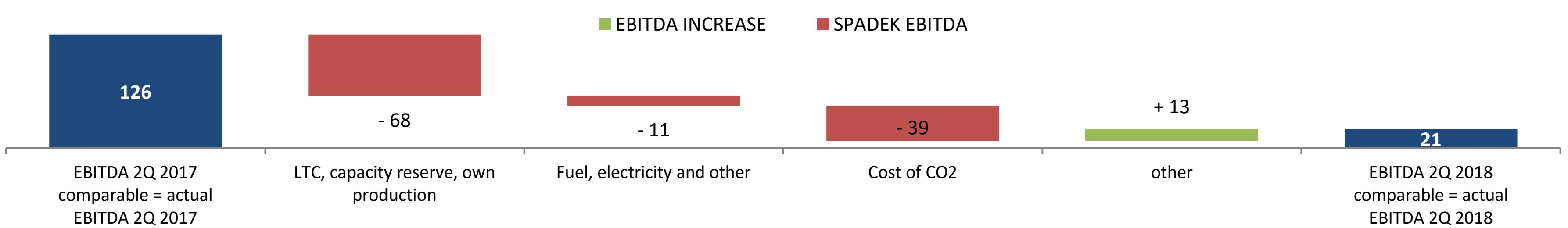
	2Q 2018	2Q 2017
Sale revenues	**517**	**578**
Change %	*(10.55)%*	
Cost of goods sold	(512)	(480)
Gross profit	**6**	**98**
Margin %	*1.16%*	*16.96%*
Other operating income	1	4
Selling and distribution expenses	(1)	(1)
Administrative expenses	(30)	(25)
Other operating expenses	(2)	(1)
EBITDA(1)	**21**	**126**
Margin %	*4.06%*	*21.80%*
EBIT(2)	**(26)**	**75**
Margin %		*12.98%*

(1) **EBITDA** lower by PLN 105 m (-83.33%)

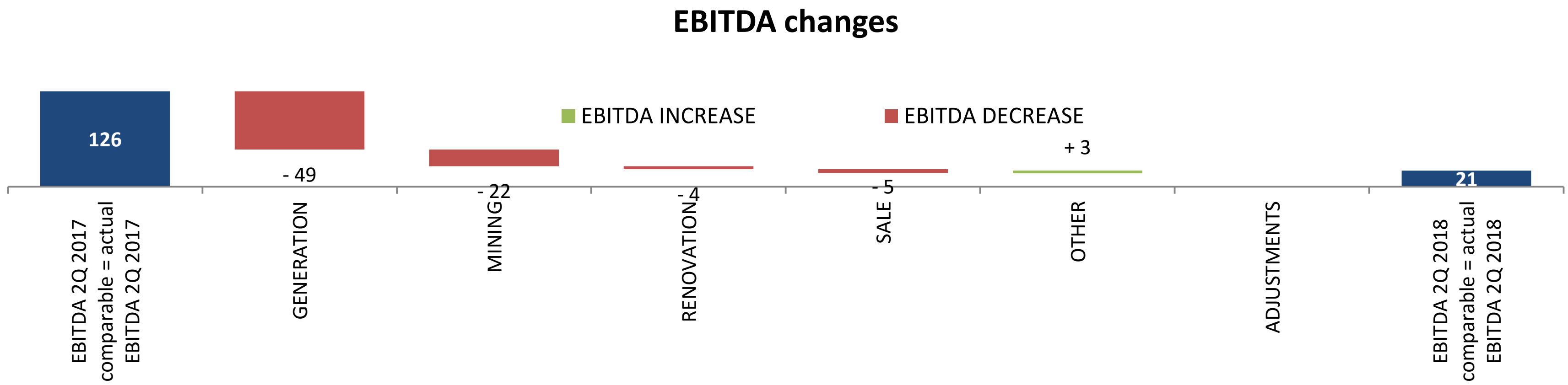
- (-68) lower revenues from own-generation, lower revenues from system service and capacity reserve , lower revenues from LTD, lower revenues fro heat sale
- (-11) higher cost of biomass, lower cost of other fuels (mazout, heating oil), lower costs of electricity (in mines) and other production materials
- (-39) higher costs of CO_2 emission
- (+13) lower costs of employee benefits, lower taxes and fees and other

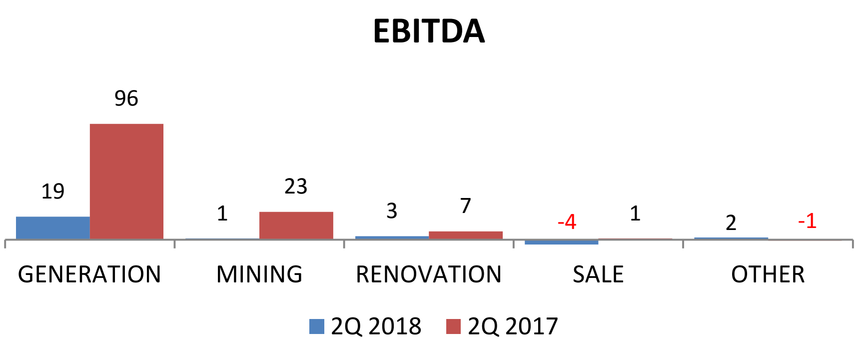
(2) **EBIT** at **(- 26 m PLN)** as compared to **75 m PLN** for 2Q 2017

EBITDA changes



EBITDA 2Q 2018 by segments
[m PLN]





Sale:

- impact of valuation of concluded trade contracts

Main reasons of EBITDA changes in segments:

Generation:

- Lower revenues from own-generation, lower revenues from system service and capacity reserve, lower revenues from heat sale and LTD
- Higher revenues fro certificates
- Higher costs of CO_2 emission allowances
- Lower costs of employee benefits

Mining:

– Lower revenues from lignite sale,
– Lower costs of electricity,
– Lower taxes and fees
– Lower costs of employee benefits

Consolidated P&L for 2Q 2018 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustment	Total
Sale revenues from external customers	356	2	19	139	1	0	517
External sale revenues %	*82.22%*	*1.37%*	*44.19%*	*100.00%*	*1.64%*	*0.00%*	*100.00%*
Sale revenues between segments	77	143	23	0	60	(304)	
Sale revenues	**433**	**146**	**43**	**139**	**61**	**(304)**	**517**
Cost of goods sold	(430)	(150)	(38)	(142)	(57)	305	(512)
Gross profit (loss)	**3**	**(4)**	**5**	**(2)**	**4**	**1**	**6**
Margin %	*0.69%*	*(2.74%)*	*11.63%*	*(1.44%)*	*6.56%*	*(0.33%)*	*1.16%*
EBITDA	**19**	**1**	**4**	**(4)**	**2**	**0**	**21**
Margin %	*4.39%*	*0.68%*	*9.30%*	*(2.88%)*	*3.28%*	*0.00%*	*4.06%*
EBIT	**(10)**	**(15)**	**1**	**(4)**	**0**	**1**	**(26)**
Margin %	*(2.31%)*	*(10.27%)*	*2.33%*	*(2.88%)*	*0.00%*	*(0.33%)*	*(5.03%)*
Net profit (loss)	**(15)**	**(19)**	**1**	**(3)**	**1**	**0**	**(36)**
Margin %	*(3.46%)*	*(13.01%)*	*2.33%*	*(2.16%)*	*1.64%*	*0.00%*	*(6.96%)*

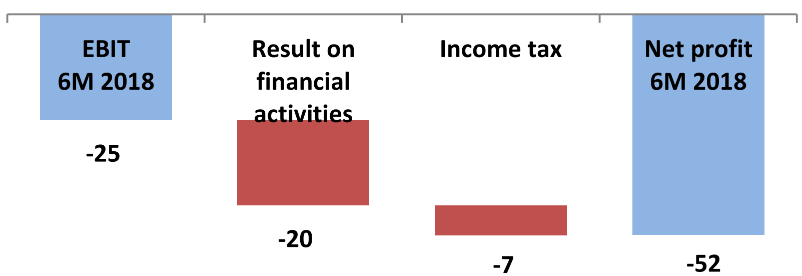
Financial activities, taxation and net profit

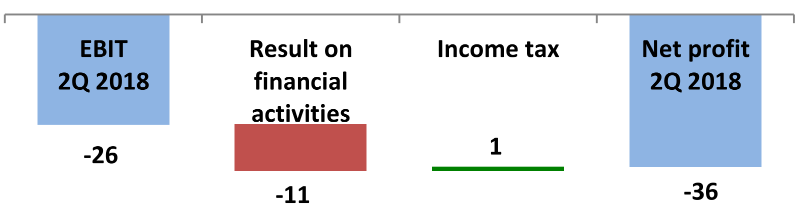
[m PLN]

	6M 2018	6M 2017	2Q 2018	2Q 2017
EBIT	**(25)**	**147**	**(26)**	**75**
Financial income[1]	5	13	3	1
Financial costs	(25)	(26)	(14)	(13)
Gross profit	**(45)**	**134**	**(37)**	**63**
Income tax (taxation)	(7)	(30)	1	(15)
Effective tax rate	-	*22.39%*	-	*23.81%*
Net profit (loss) for the period	**(52)**	**104**	**(36)**	**48**
Margin %	-	*8.83%*	-	*8.30%*

(1) In 6M 2018 lower financial revenues than in 6M 2017 - effect of the valuation of Pątnów II power plant loan caused by the appreciation of EURO against ZŁOTY.

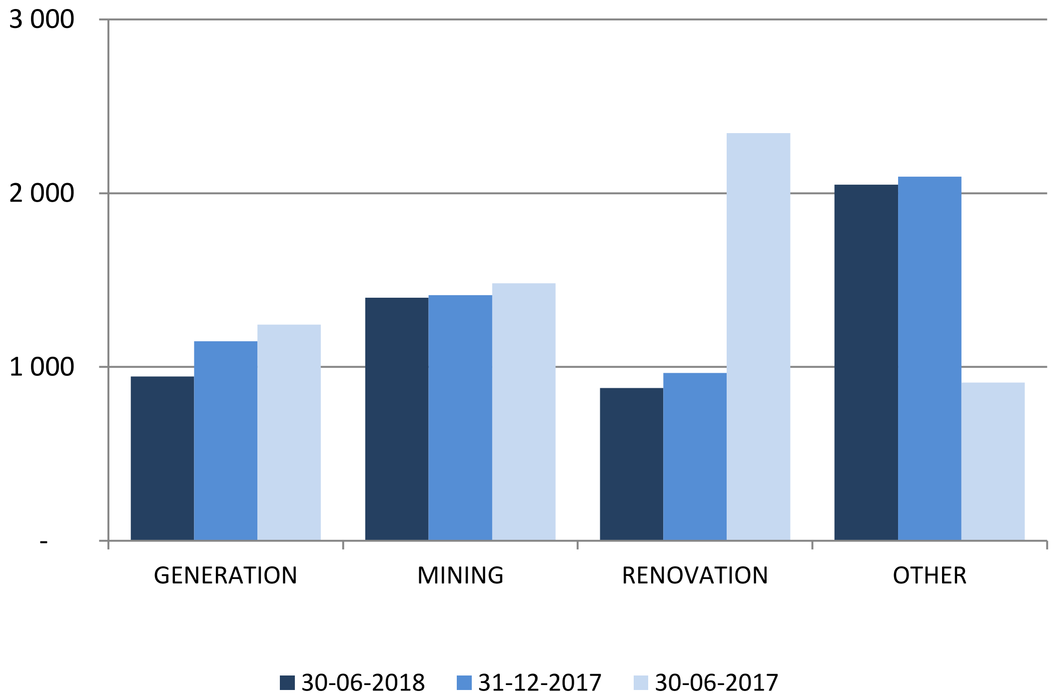
EBIT --> net profit



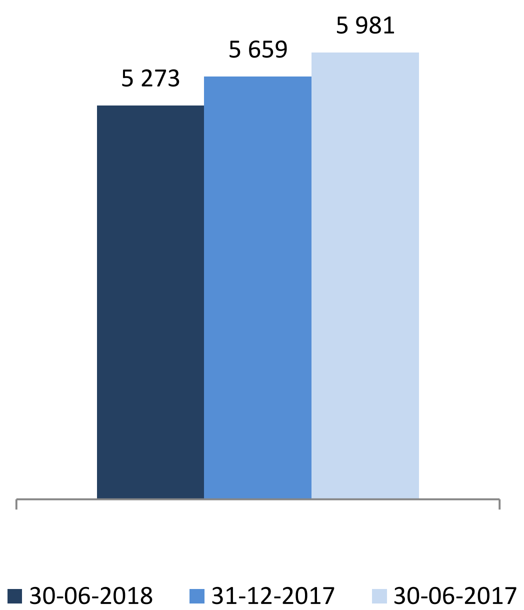


Employment
[full time]

BY SEGMENTS



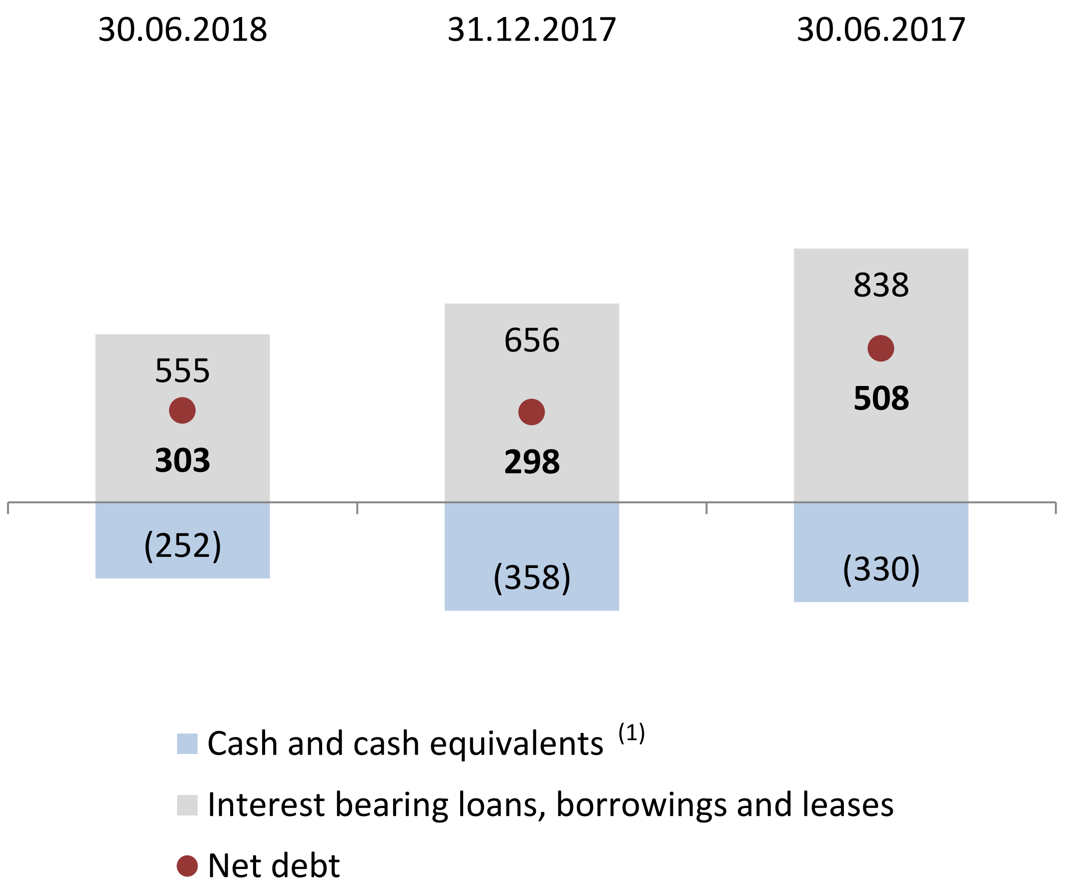
TOTAL



Trends in employment levels have not changed. The company adjusts the employment structure to reduce the scale of operations in 2018, with the end of operation of Adamów power plant. Changes in the structure between the „renovation" segment and the "other" segment result from the takeover of the activities of several liquidated companies by PAK Górnictwo Sp. z o.o., included in the "other" segment.

Financial indebtedness

Net debt [m PLN]

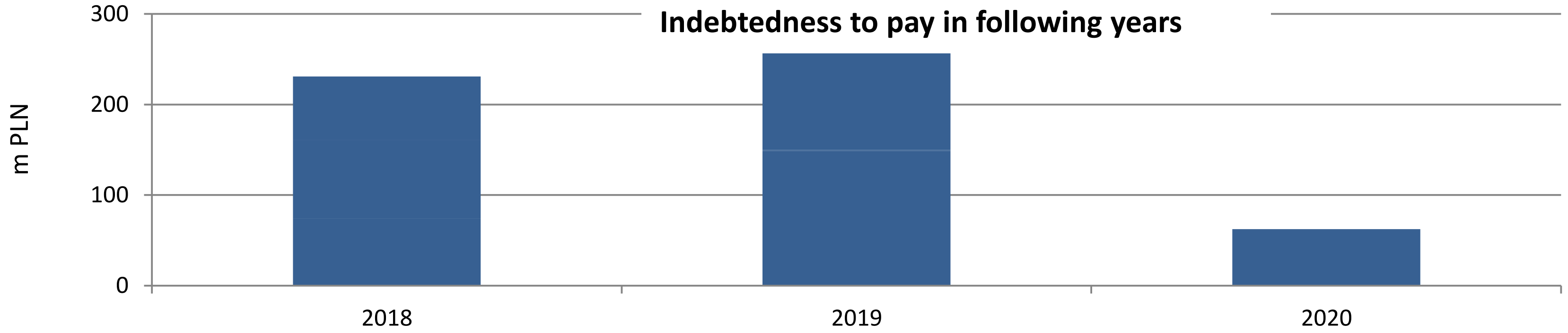


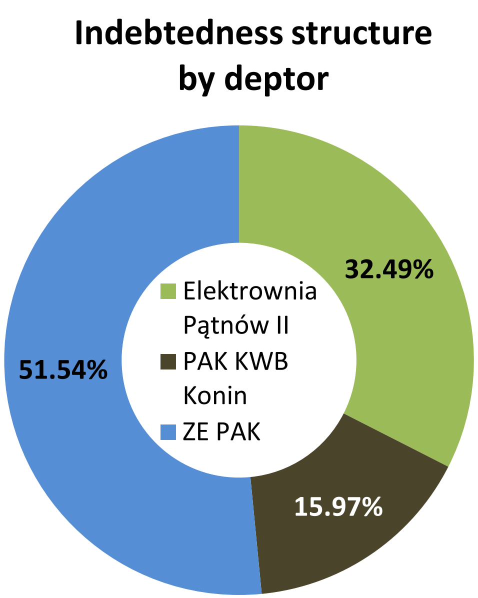
Net debt / EBITDA

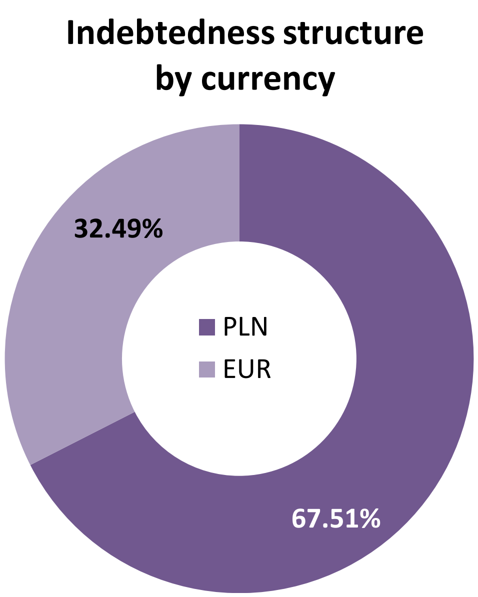
30.06.2018	0.91
31.12.2017	0.58
30.06.2017	0.99

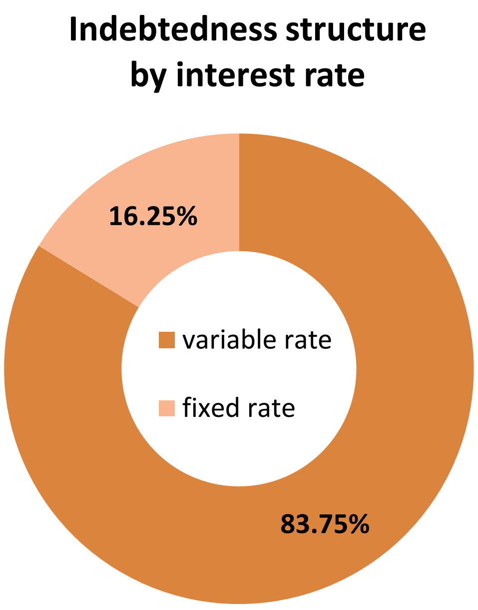
(1) Cash and cash equivalents from consolidated statement of financial position and other short-term financial assets

Financial indebtedness structure (1)









(1) Indebtedness of main Group companies, excluding PLN 0.69 million indebtedness of other Group's companies. Indebtedness in EUR calculated using NBP average exchange rate as of 30.06.2018

Consolidated cash flow
[m PLN]

	6M 2018	6M 2017	2Q 2018	2Q 2017
Gross profit (loss)	**(45)**	**134**	**(37)**	**63**
Depreciation and amortization	95	98	47	49
Profit/loss on investing and financial activities	14	8	10	9
Changes in working capital	58	13	37	44
Income tax	9	4	11	(2)
Purchase of EUA[1]	(37)	(131)	(5)	(24)
other	(1)	(2)	(1)	(3)
Net cash flow from operational activities	**94**	**124**	**62**	**136**
(inflows/outflows) of investments in property, plant and equipment and intangible assets	(54)	(34)	(14)	(13)
other	4	4	2	5
Net cash flow from investing activities	**(50)**	**(30)**	**(13)**	**(8)**
Inflows of credits, loans, leases and securities	37	9	(1)	9
Payment of credits, loans, leases and securities	(152)	(177)	(68)	(78)
Interest paid	(12)	(19)	(6)	(9)
Net cash flow from financial activities	**(127)**	**(187)**	**(74)**	**(77)**
Change in cash and cash equivalents	(83)	(93)	(25)	51
Cash and cash equivalents at the beginning of the period	323	349	265	205
Cash and cash equivalents at the end of the period	**240**	**255**	**240**	**255**

(1) Lower payments for 6M 2018 are caused by the lower amount of allowances purchased in this period.

Questions and answers

PAK
Energia dla Ciebie

Disclaimer

This presentation ("Presentation") is prepared for information purposes only and should not be treated as investment advice.

This presentation has been prepared by Zespół Elektrowni Pątnów-Adamów-Konin S.A. (“the Company”).

Presentation Recipients are solely responsible for their own analysis and evaluation of the market and the Company's market situation and potential future results, based on the information contained in the Presentation.

Neither the Company nor any of its subsidiaries are responsible for the consequences of decisions made on the basis of the information contained in the Presentation.

Neither the Company nor any of its subsidiaries are required to make any updates or changes to the information, data or statements contained in the Presentation.

The Company draws the attention of the persons getting acquainted with the Presentation, that the only reliable source of data concerning the Company's financial results, forecasts, events and indicators related to them are the current and periodic reports submitted by the Company under the information obligations of the public company.