



15 May 2018

Zespół Elektrowni Pątnów-Adamów-Konin SA 1Q 2018 results



ZE PAK SA Group – 1Q 2018 Summary



Key operational and financial data	1Q 2018	Change y/y
Sale of electricity ⁽¹⁾ :	2.09 TWh	-26.41%
• Electricity from own production ⁽¹⁾ :	1.39 TWh	-36.82%
• Electricity from resale ⁽¹⁾ :	0.70 TWh	9.38%
Achieved average electricity sale price:	189.60 PLN/MWh	7.49%
Sale revenues:	466 m PLN	-22.33%
EBITDA:	50 m PLN	-60.00%
Net results:	-16 m PLN	-128.57%
CAPEX:	38 m PLN	2.92%
Indebtedness:	613 m PLN	-32.27%
Cash ⁽²⁾ :	277 m PLN	-0.72%
Net debt / EBITDA:	0.77 x	-33.04%

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

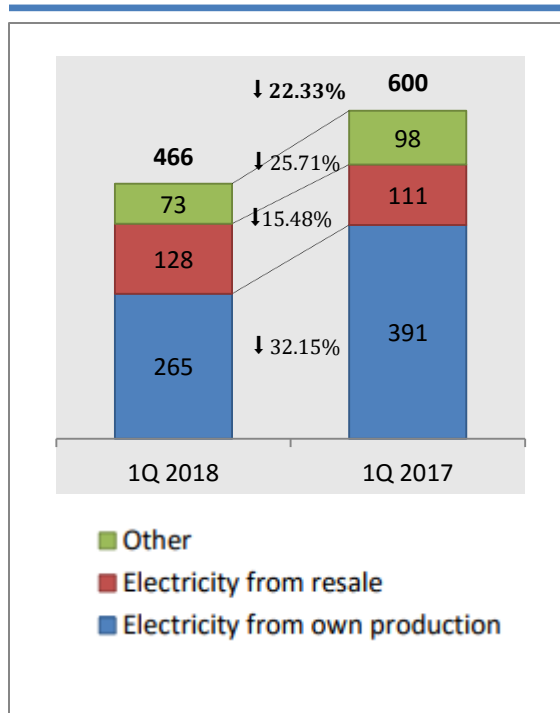
⁽²⁾ Cash and cash equivalents and other financial short-term assets

ZE PAK Group – 1Q 2018 Summary

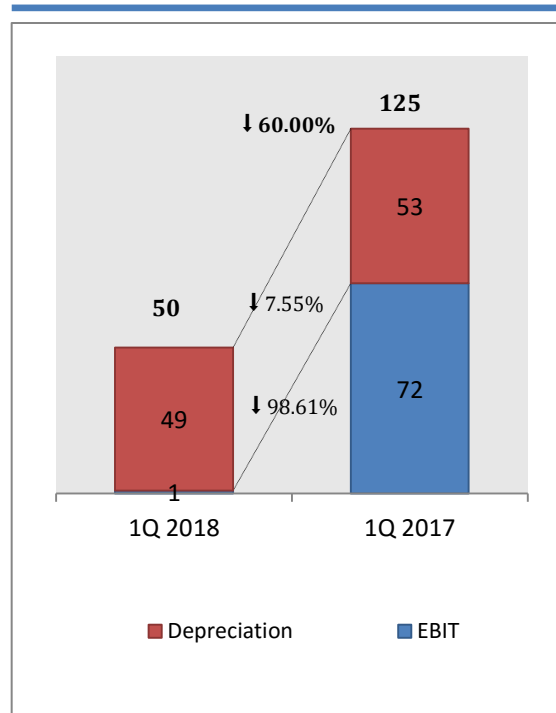
[m PLN]



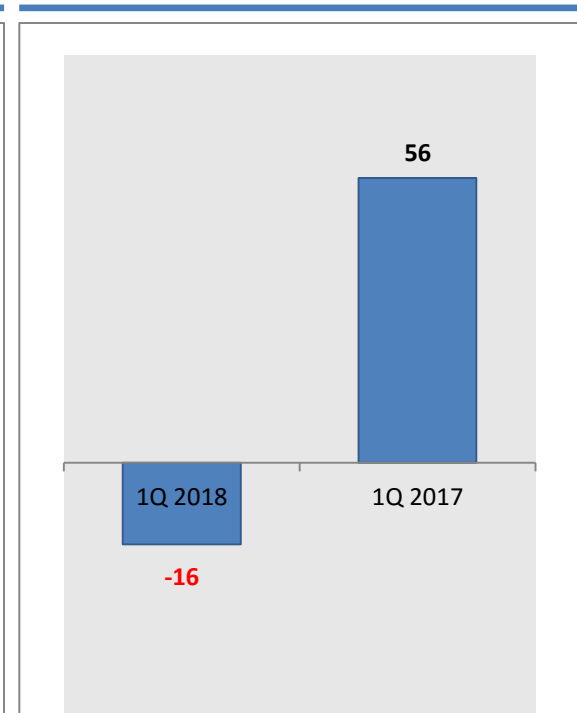
Revenues



EBITDA



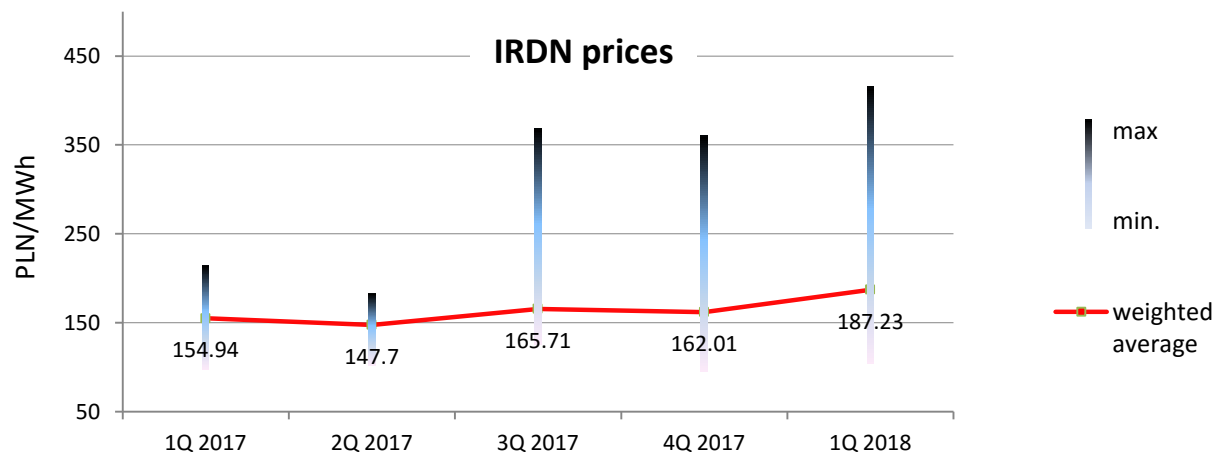
Net result



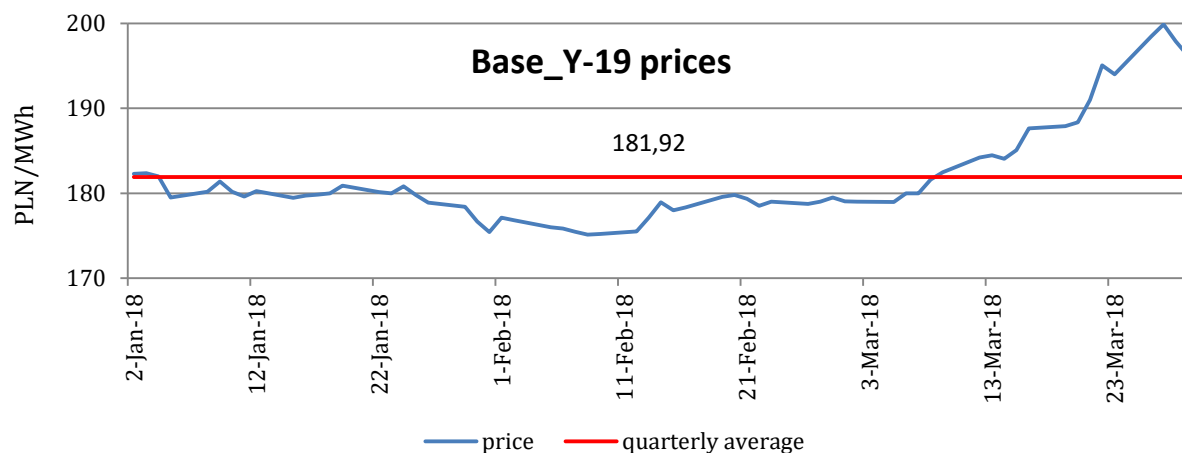
The revenues generated in the first quarter of 2018 were largely determined by the decrease in the volume of electricity produced in relation to the same period of the previous year. The decrease was mainly related to Adamów power plant - its 600MW coal units ended their activities with the beginning of January 2018. The costs incurred in the first quarter of 2018 also fell, however, this decrease was not commensurate with the decline in revenues. In particular, this concerned the mines and mining segment, which until the end of 2017 produced coal for the needs of Adamów power plant. The results of the Group were also adversely affected by the result on financial activity, which was the effect of the appreciation of euro against zloty and the impact on the valuation of the investment loan in euro.

SELECTED ELECTRICITY MARKET DATA



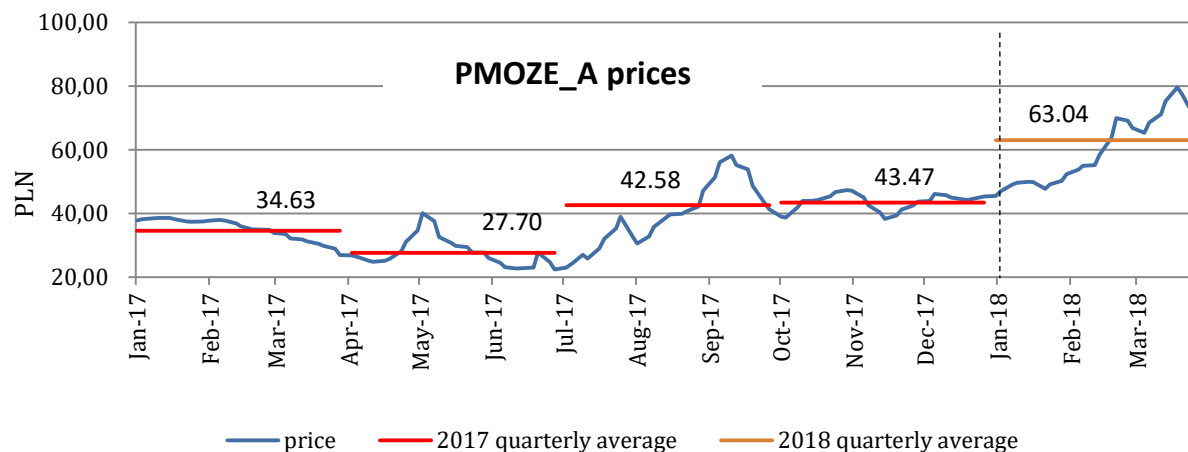
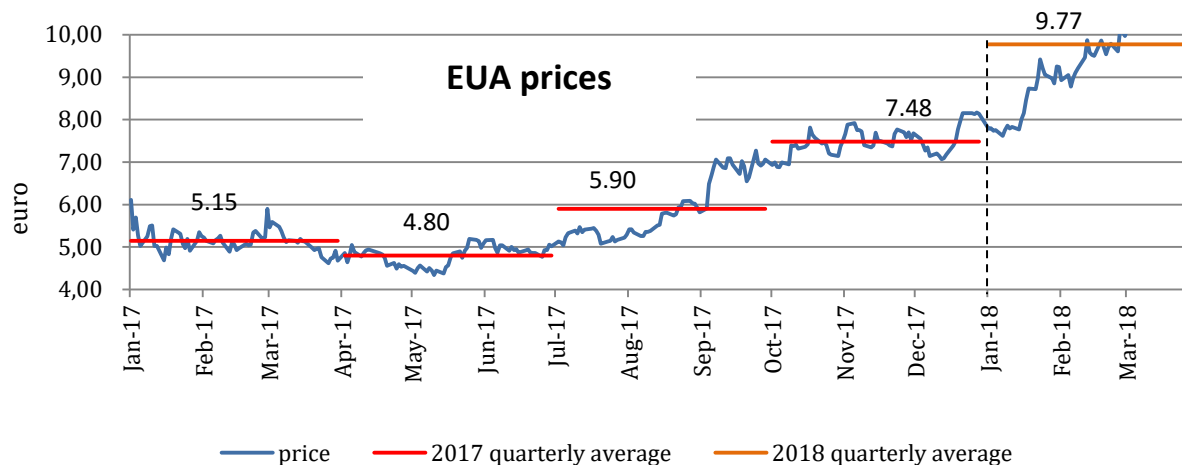


In Q1 2018, the quarterly weighted average of electricity price increased (Day-Ahead Market Index on TGE) by PLN 32.29, i.e. about 20.84% compared to Q1 2017. The quoted prices were characterized by a greater range of volatilities compared to recent periods. Higher energy prices and greater volatility were caused by, among others an increase in domestic electricity consumption and a lower wind generation compared to the same period last year. The higher prices of hard coal and CO2 emission allowances may have also determined higher prices.



In the futures market at the beginning of Q1 2018, the range of price volatility was relatively small. It was not until March that a clear upward trend from the second half of 2017 continued. The annual BASE_Y-19 contract in Q1 2018 was the lowest, close to 175 PLN / MWh, in the first decade of February. At the end of March, the highest daily clearing price was recorded at PLN 199.89 / MWh.

EUA and green certificates



Prices of CO2 emission rights (EUA) in Q1 2018 have been maintained in a strong upward trend in relation to the growth rate of previous quarters. The arithmetic average for EUA quotations in 1Q 2018 was at the level of 9.77 EUR and was higher by 89.7% than in 1Q 2017 and by 30.6% in relation to 4Q 2017. The price increase can be partly related to the period of cancellation of emission allowances in April each year. In the face of a strong price increase in the second half of 2017 (caused by changes in the future EU ETS system rules, involving intervention in a market mechanism that would, according to the plan's authors, increase the price of emission rights) some market participants who did not have enough allowances, may have been forced to buy at high levels, raising the price further.

The weighted average price of green certificates in Q1 2018 at 63.04 PLN / MWh, ie by 82% more than in 1Q 2017. Despite the considerable oversupply of renewable energy rights on the market, there are several reasons for the increase in prices, i.e.: provisions of the Act on Renewable Energy Sources that will make it possible to fulfill the obligation this year only with green certificates (and not a substitute fee), increase in the obligation to redeem in 2018 and announcements of migration auctions for sources participating today in the green certificate system.

OPERATIONAL DATA

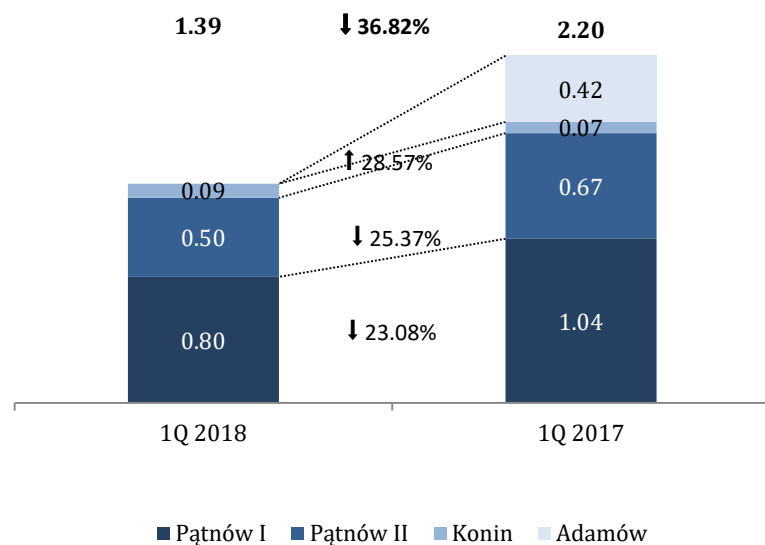


Net production and sale of electricity

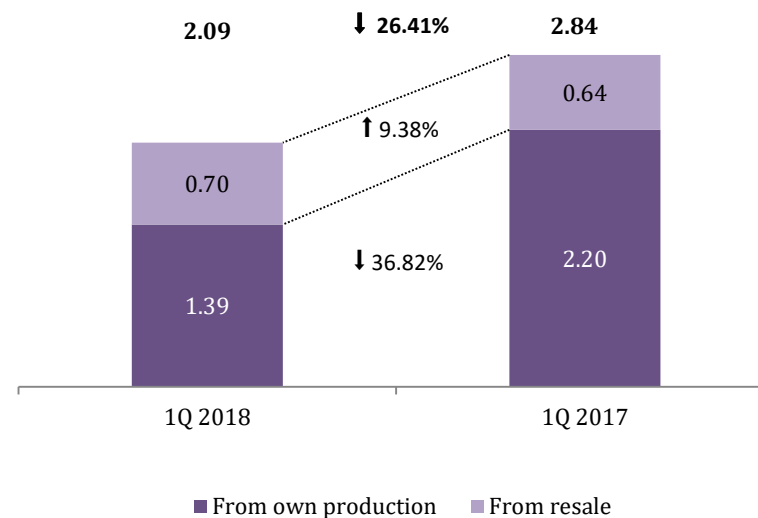
[TWh]



Net production



SALE



The decrease in production was mainly caused by the lack of production from Adamów power plant, where its 600MW coal units ended their activities with the beginning of January 2018.

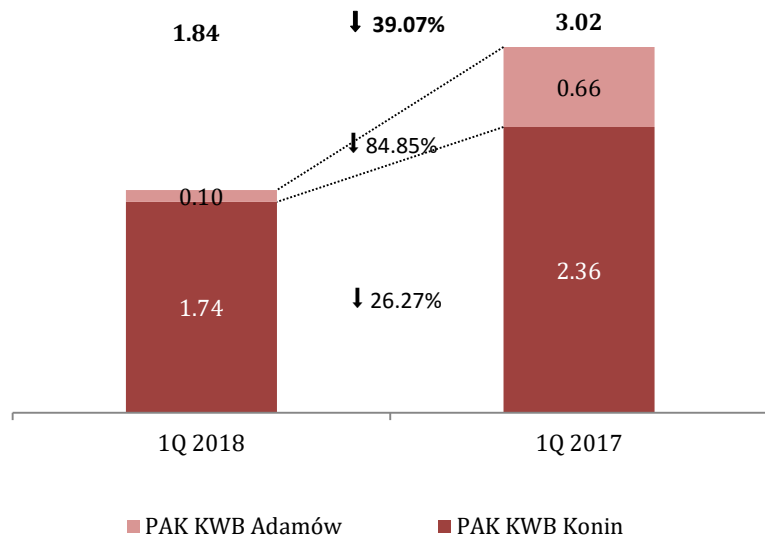
The drop in sales caused by the decrease in the volume of energy from own production

Lignite consumption and CO₂ emission

[m tons]

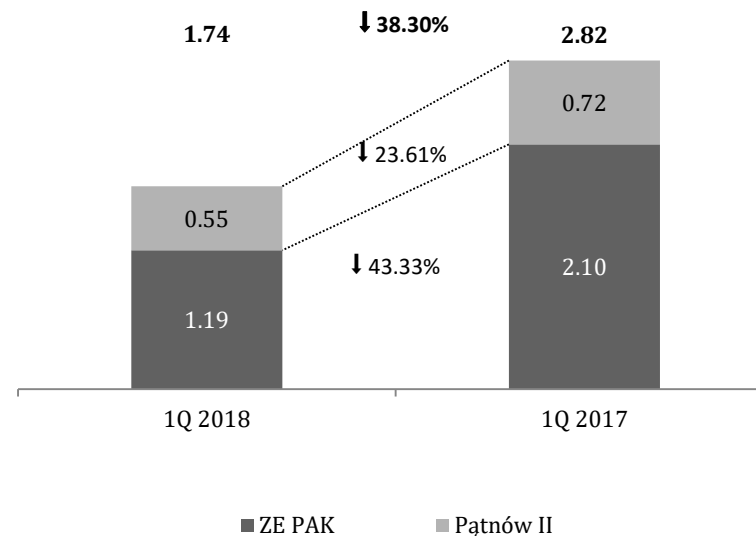


LIGNITE CONSUMPTION



The decrease in coal consumption in Q1 2018 is due to lower production. A noticeable drop in production at PAK KWB Adamów, which so far extracted coal for the needs of Adamów power plant.

CO₂ EMISSION



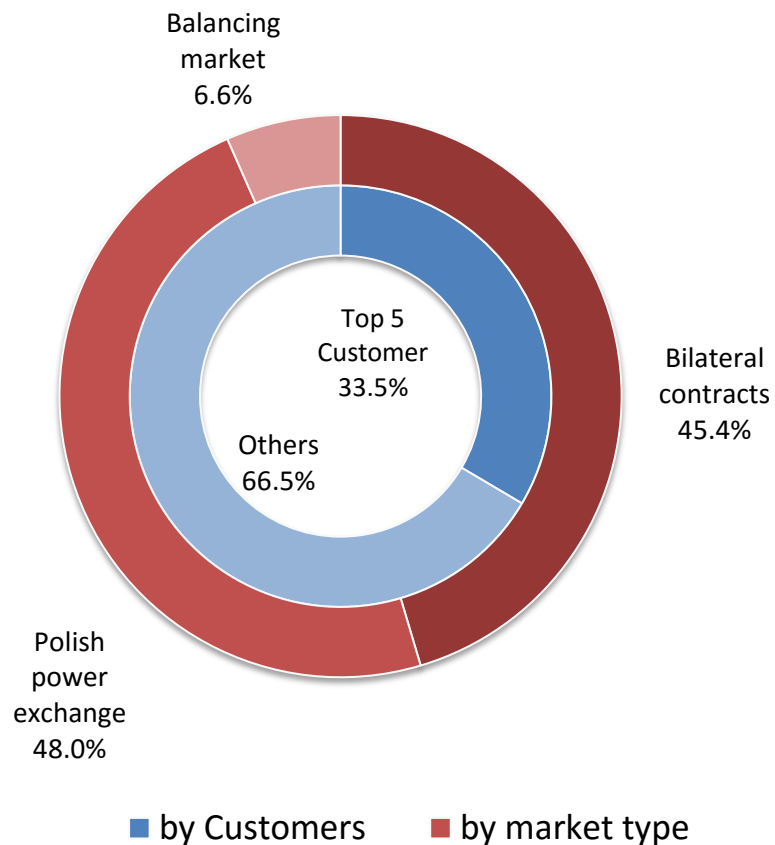
The volume of CO₂ emissions as a derivative of electricity production level.

Sale of electricity breakdown

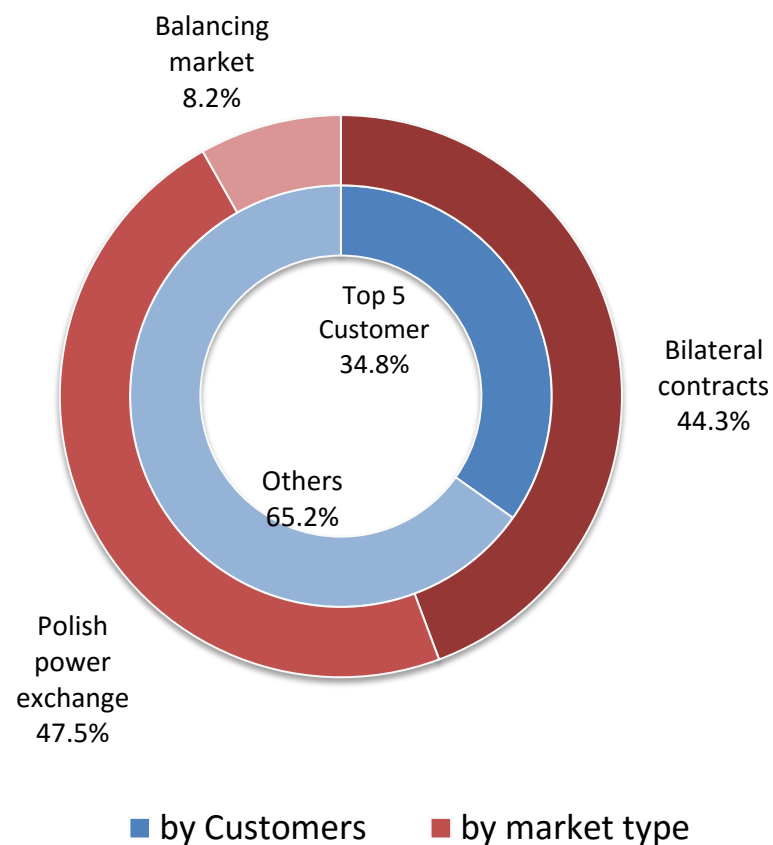
by customers (internal ring) and by the market type (external ring)



1Q 2018



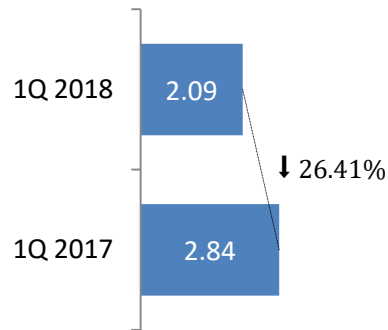
1Q 2017



Sale of electricity



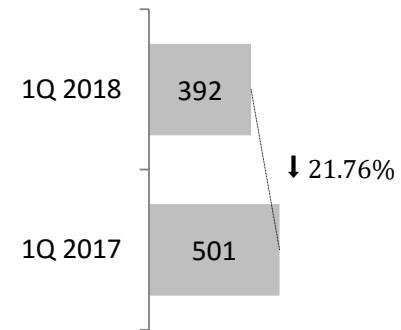
Sale of electricity⁽¹⁾ [TWh]



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

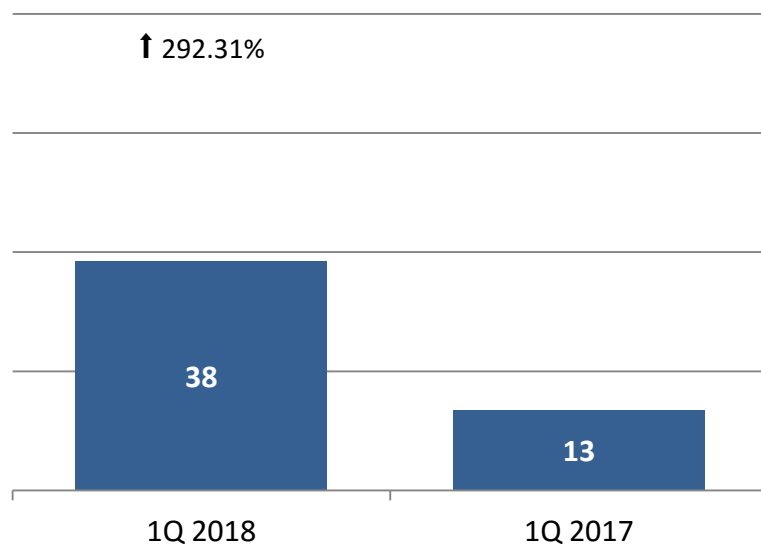
⁽³⁾ Decreased by excise tax

Capex on fixed assets and intangible assets

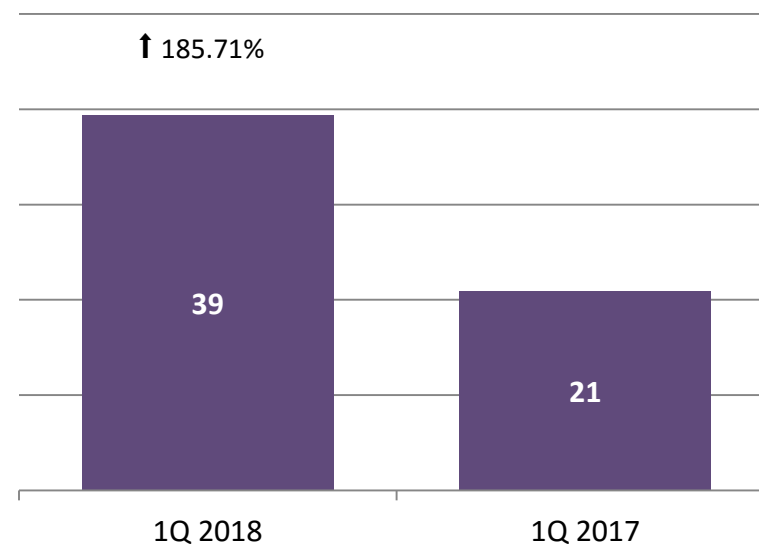
(excluding CO₂)



CAPEX [m PLN]



EXPENDITURES [m PLN]



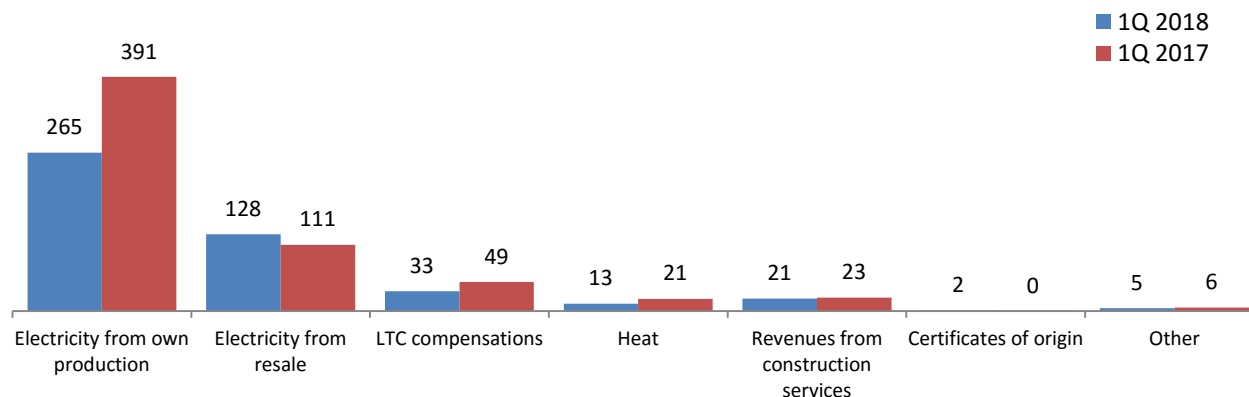
The increase in investment outlays in Q1 2018 in relation to the same period of the previous year in the mining segment was related to a larger scope of land purchase for future mining, whereas in the generation segment expenditures focused mainly on the adaptation of the biomass block for heat supply for Konin.

FINANCIAL DATA



Revenues and costs by type

[m PLN]



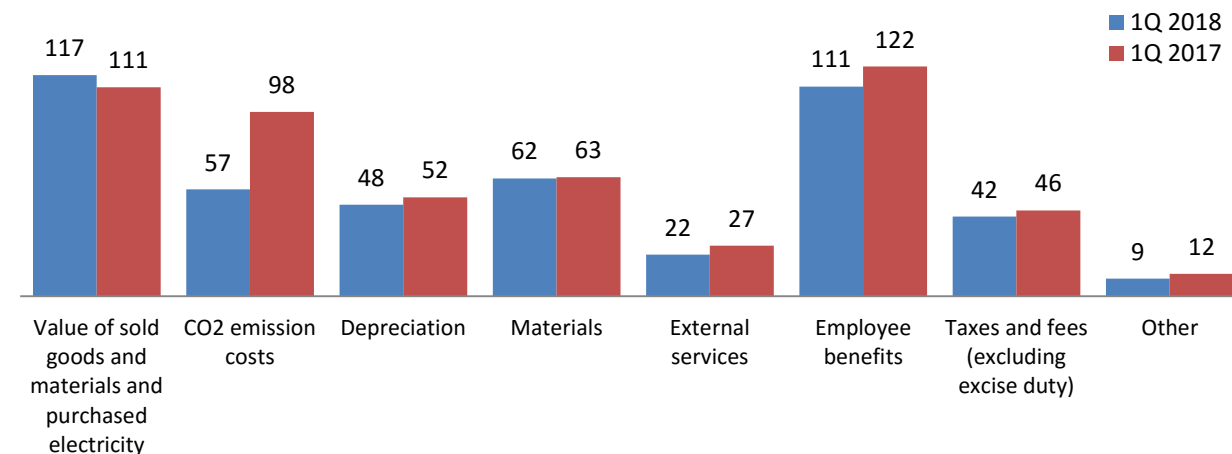
Revenues

Lower total revenues from the sale of electricity:

- lower volume of energy sales - from own production,
- the higher price obtained does not compensate for the drop in volume.

Lower compensation due to LTC termination caused by lower advances (as a result of assumptions adopted at the stage of establishing the Act) and a lower adjustment (effect of, among others, higher achieved sales prices in Państw II Power Plant and lower achieved emission allowances prices).

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



Costs

Lower costs of CO2 emissions as a result of lower production volume and slightly lower achieved purchase price.

Higher value of sold goods and materials:

- Slightly higher volume of purchased electricity in PAK_Volt.

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

Lower costs of employee benefits result from lower employment average.

Lower costs of external service due to lower costs of repair service realized by external entities.

Lower taxes and fees in mining segment caused by lower mining.

EBITDA 1Q 2018

[m PLN]



	1Q 2018	1Q 2017
Sales revenue	466	600
<i>Change%</i>	-22.33%	
Costs of goods sold	(430)	(499)
Gross profit	36	101
<i>Margin %</i>	7.72%	16.83%
Other operating costs	3	5
Selling and distribution expenses	(1)	(1)
Administrative expenses	(35)	(31)
Other operating expenses	(1)	(1)
EBITDA⁽¹⁾	50	125
<i>Margin %</i>	10.73%	20.83%
EBIT	1	72
<i>Margin %</i>	0.20%	12.00%

(1) **EBITDA lower by 75 m PLN (-60.0%)**

(-137) lower revenues from own electricity, lower revenues from system services and power reserves, lower revenues from LTCs, lower revenues from heat, higher revenues from certificates, higher result on the market

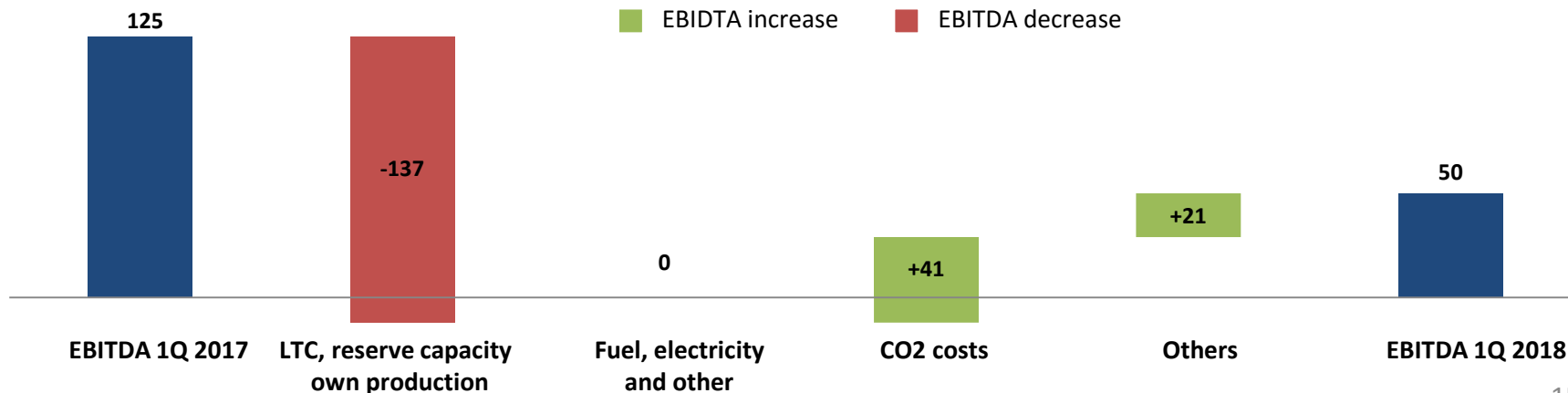
(0) higher fuel costs (biomass), lower costs (mazout, heating oil, others), lower energy costs in mines and other production materials

(+41) lower costs of CO₂ emission

(+21) lower employee benefits costs, lower taxes and fees, lower external services and lower level of provisions to be met in the mining segment and a result on other operating activities

EBITDA changes

■ EBITDA increase ■ EBITDA decrease

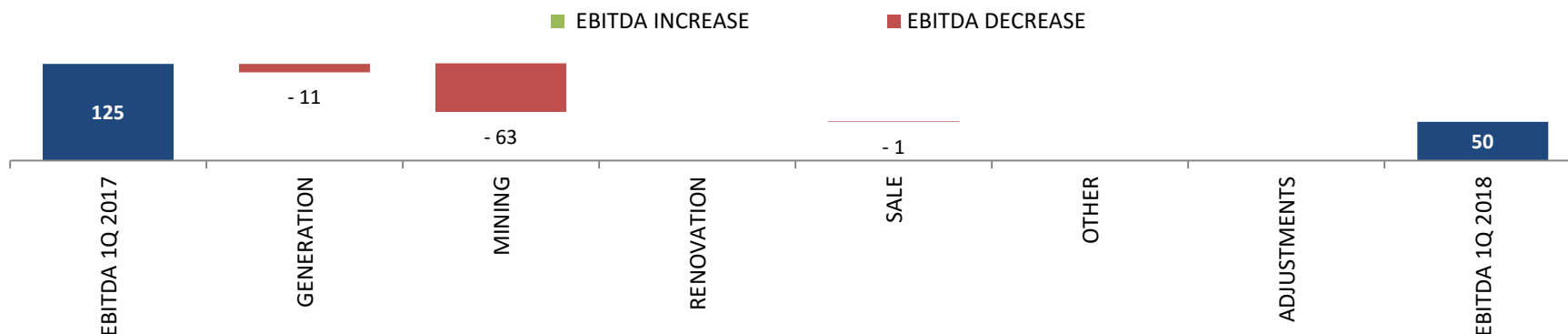


EBITDA 1Q 2018 by segments

[m PLN]



EBITDA Changes



Main reasons of EBITDA changes in generation and mining segments:

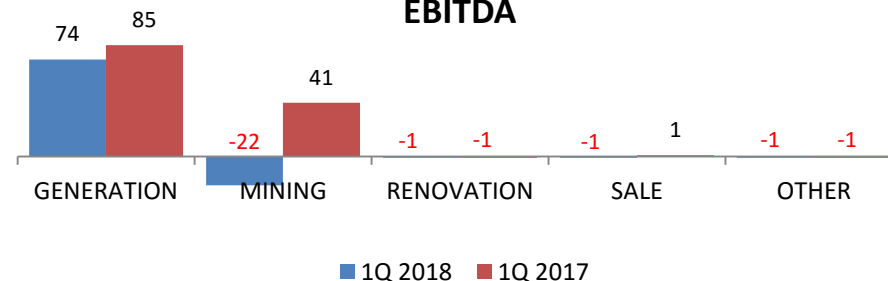
Generation:

- lower revenues from own electricity, lower revenues from system services and power reserves, lower revenues from heat and LTCs, higher result on the market, higher revenues from certificates,
- Lower costs of CO₂ emission allowances
- Lower costs of employee benefits

Mining:

- Lower revenues from sale of coal,
- Lower costs of electricity,
- Lower costs of employee benefits

EBITDA



Consolidated profit and loss account for 1Q 2018 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	328	2	21	113	1	-	466
<i>External sale revenues %</i>	<i>82.00%</i>	<i>1.57%</i>	<i>55.26%</i>	<i>100.00%</i>	<i>1.67%</i>	<i>0.00%</i>	<i>100.00%</i>
Sale revenues between segments	72	126	17	-	58	(273)	-
Sale revenues	400	127	38	113	60	(273)	466
Cost of goods sold	(340)	(155)	(37)	(113)	(59)	274	(430)
Gross profit (loss)	60	(28)	1	-	-	1	35
<i>Margin %</i>	<i>15.00%</i>	<i>(22.05)%</i>	<i>2.63%</i>	<i>-</i>	<i>-</i>	<i>(0.37)%</i>	<i>7.51%</i>
EBITDA	74	(22)	(1)	(1)	(1)	-	50
<i>Margin %</i>	<i>18.50%</i>	<i>(17.32)%</i>	<i>(2.63)%</i>	<i>(0.88)%</i>	<i>(1.67)%</i>	<i>-</i>	<i>10.73%</i>
EBIT	44	(39)	(2)	(1)	(1)	1	1
<i>Margin %</i>	<i>11.00%</i>	<i>(30.71)%</i>	<i>(5.26)%</i>	<i>(0.88)%</i>	<i>(1.67)%</i>	<i>(0.37)%</i>	<i>0.21%</i>
Net profit (loss)	31	(44)	(2)	(1)	(2)	1	(16)
<i>Margin %</i>	<i>7.75%</i>	<i>(34.65)%</i>	<i>(5.26)%</i>	<i>(0.88)%</i>	<i>(3.33)%</i>	<i>(0.37)%</i>	<i>(3.43)%</i>

Financial activities, taxation and net profit

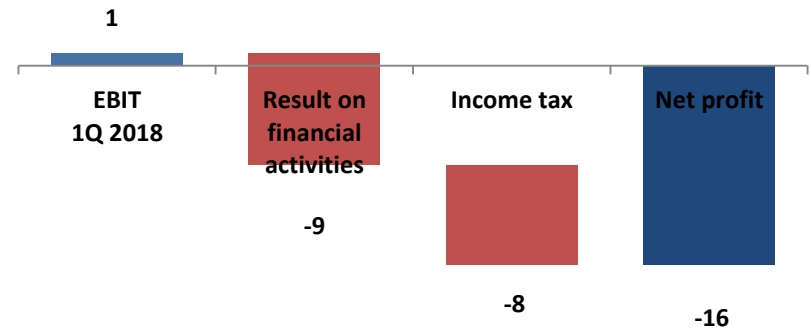
[m PLN]



	1Q 2018	1Q 2017
EBIT	1	72
Financial income ⁽¹⁾	2	12
Financial costs	(11)	(13)
Gross profit	(8)	71
Income tax (taxation)	(8)	(15)
<i>Effective tax rate</i>	-	21.13%
Net profit (loss) for the period	(16)	56
<i>Margin %</i>	-	9.33%

⁽¹⁾ In Q1 2018, lower financial revenues than in 1Q 2017 - effect of the valuation of Pątnów II power plant loan caused by the appreciation of euro in relation to zloty

EBIT --> net profit

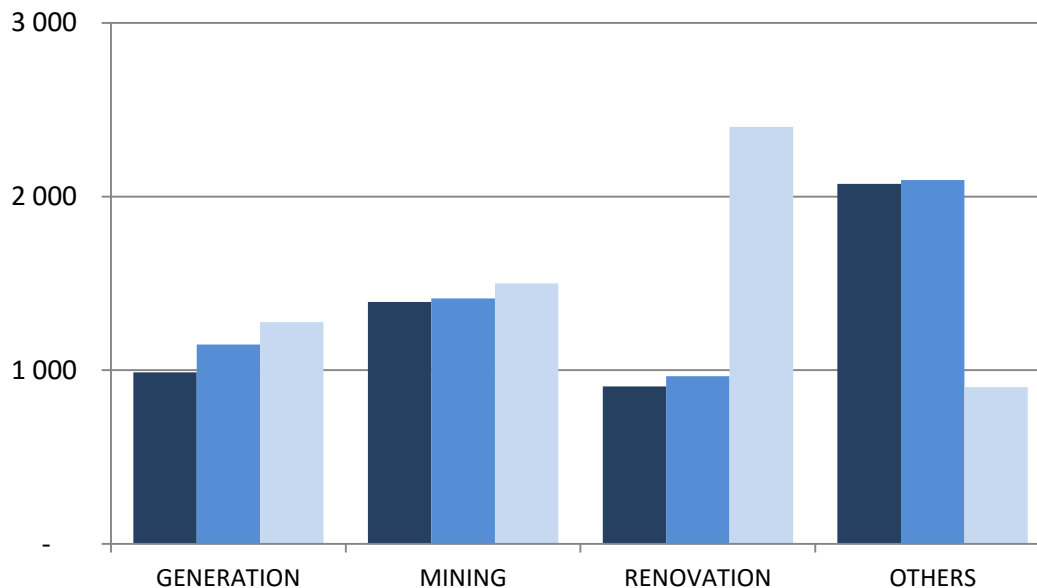


Employment

[full time]

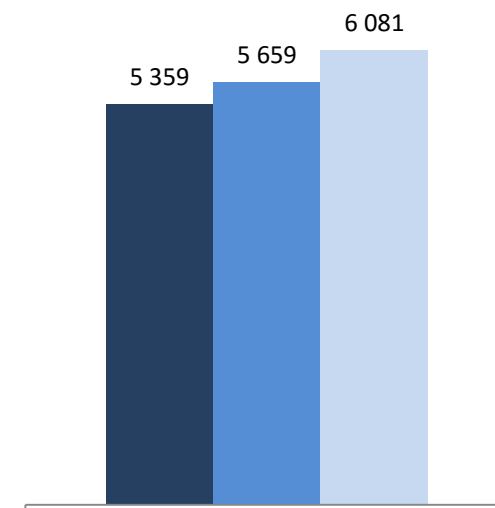


BY SEGMENTS



■ 31-03-2018 ■ 31-12-2017 ■ 31-03-2017

TOTAL



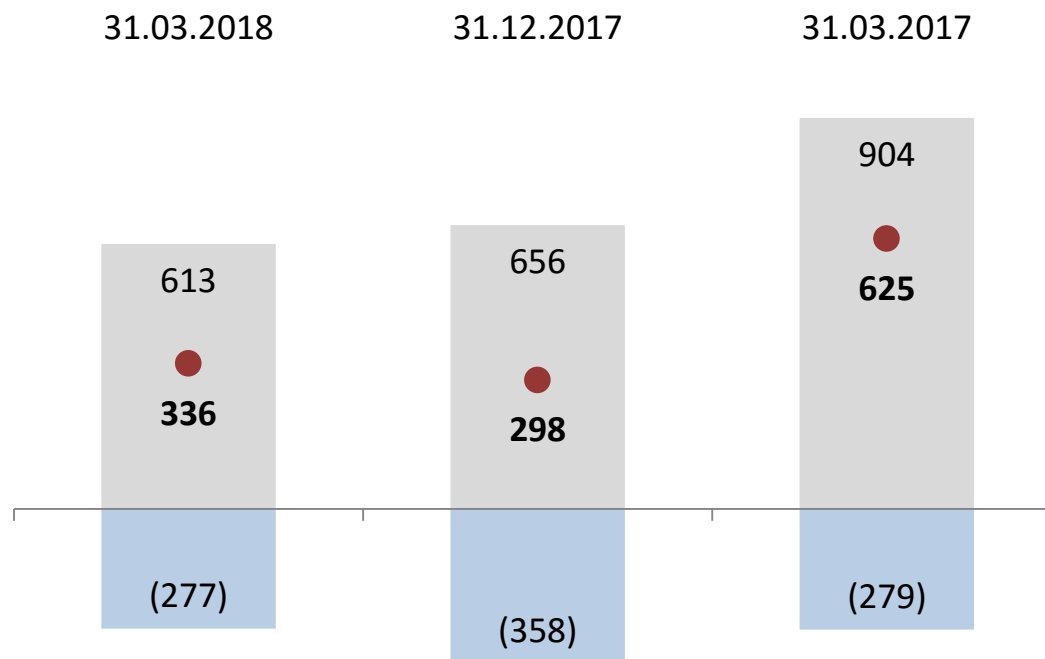
■ 31-03-2018 ■ 31-12-2017 ■ 31-03-2017

The decline in employment in 1Q 2018 was mainly caused by the exclusion of power units from operation in Adamów Power Plant.

Financial indebtedness



Net debt [m PLN]



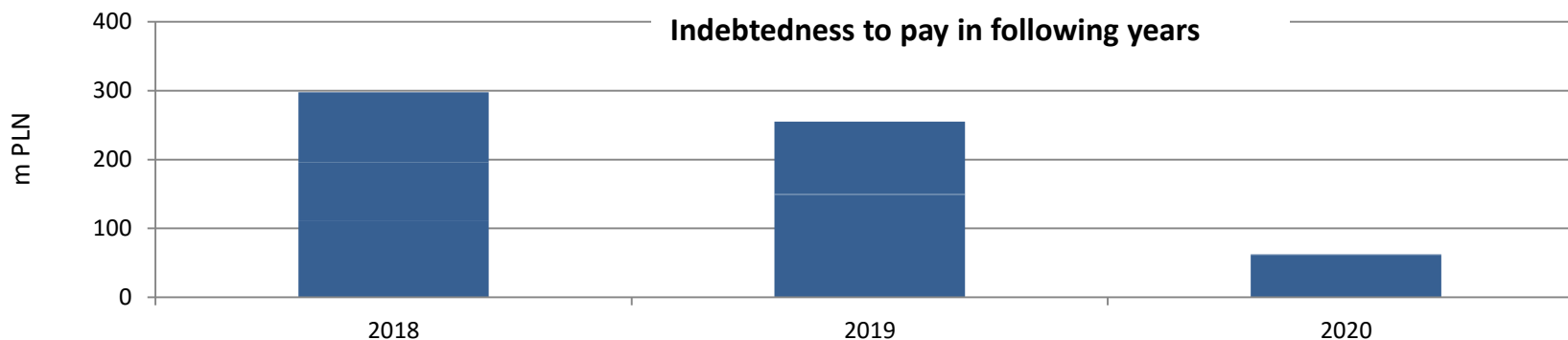
- Interest bearing loans
- Cash and cash equivalents ⁽¹⁾
- Net debt

Net debt / EBITDA

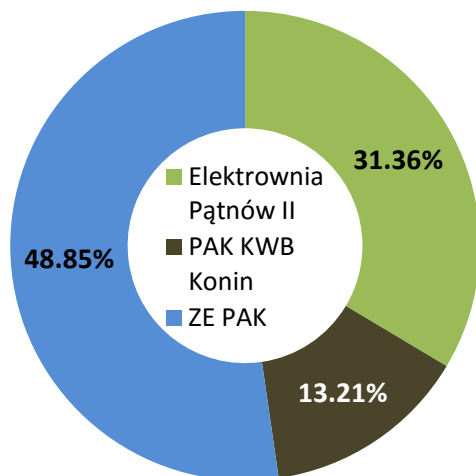
31.03.2018	0.77
31.12.2017	0.58
31.03.2017	1.15

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

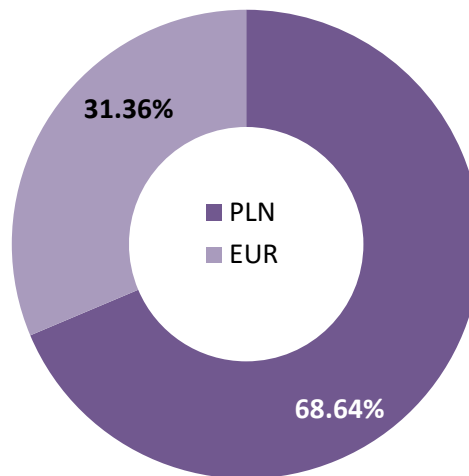
Financial indebtedness structure (1)



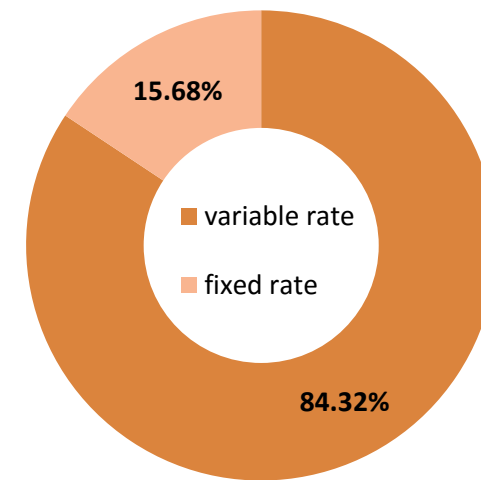
Indebtedness structure by debtor



Indebtedness structure by currency



Indebtedness structure by interest rate



(1) Indebtedness of main Group companies, excluding PLN 0.68 million indebtedness of other Group's companies. Indebtedness in EUR calculated using NBP average exchange rate as of 30.03.2018

Consolidated cash flow

[m PLN]



	1Q 2018	1Q 2017
Gross profit (loss)	(8)	71
Depreciation	48	49
Profit/loss on investing and financial activities	4	(1)
Changes in working capital	20	(31)
Income tax	(2)	6
Purchase of EUA ⁽¹⁾	(32)	(107)
Net cash flow from operational activities	32	(12)
Investment expenditures in tangible and intangible fixed assets ⁽²⁾	(39)	(21)
Other	3	(1)
Net cash flow from investing activities	(37)	(22)
Inflows / payment of credits, loans, leases and securities	(46)	(100)
Interest paid	(6)	(10)
Other	(0)	(0)
Net cash flow from financial activities	(52)	(110)
Change in cash and cash equivalents	(57)	(144)
Cash and cash equivalents at the beginning of the period	323	349
Cash and cash equivalents at the end of the period	265	205

(1) The lower volume of acquired and contracted emission allowances caused a major change in the level of CO₂-related flows

(2) Higher level of investment outlays in the mining segment due to acquisition of land, in the generation segment in connection with the adaptation of the biomass block for heat production

Questions and answers



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