




14 November 2018

Zespół Elektrowni Pątnów-Adamów-Konin SA

3Q 2018 results

PAK Energia dla Ciebie

ZE PAK GROUP – 9M 2018 summary

Key operational and financial data	9M 2018		Change y/y
Sale of electricity:	6.76	TWh	-23.01%
• Electricity from own production:	4.59	TWh	-30.14%
• Electricity from resale:	2.17	TWh	-1.81%
Achieved average electricity sale price:	204.69	PLN/MWh	+16.00%
Sale revenues:	1 623	m PLN	-10.48%
EBITDA:	113	m PLN	-71.17%
Net result:	-63	m PLN	-137.06%
CAPEX:	56	m PLN	-9.68%
Indebtedness:	488	m PLN	-34.23%
Cash(1):	324	m PLN	-20.78%
Net debt / EBITDA:	0.70	x	7.69%

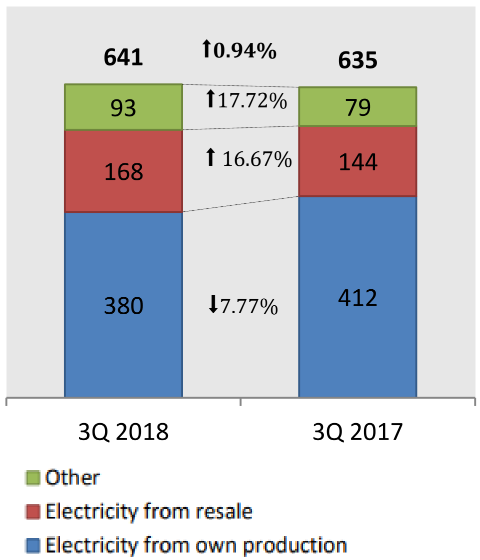
(1) Cash and cash equivalents and other financial short-term assets

ZE PAK Group – 3Q 2018 summary

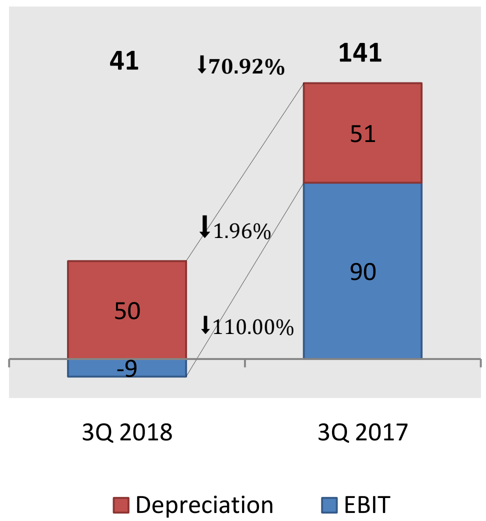
Key operational and financial data	3Q 2018		Change y/y
Sale of electricity:	2.48	TWh	-20.77%
• Electricity from own production:	1.68	TWh	-27.27%
• Electricity from resale:	0.80	TWh	-2.44%
Achieved average electricity sale price:	219.73	PLN/MWh	+23.91%
Sale revenues:	641	m PLN	0.94%
EBITDA:	41	m PLN	-70.92%
Net result:	-11	m PLN	-116.67%
CAPEX:	9	m PLN	-76.92%

ZE PAK Group – 3Q 2018 summary
[m PLN]

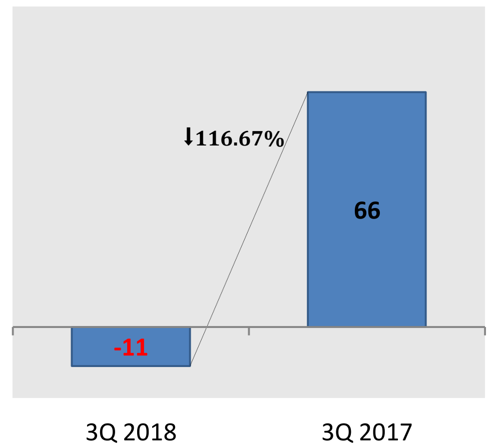
Revenues



EBITDA



Net result

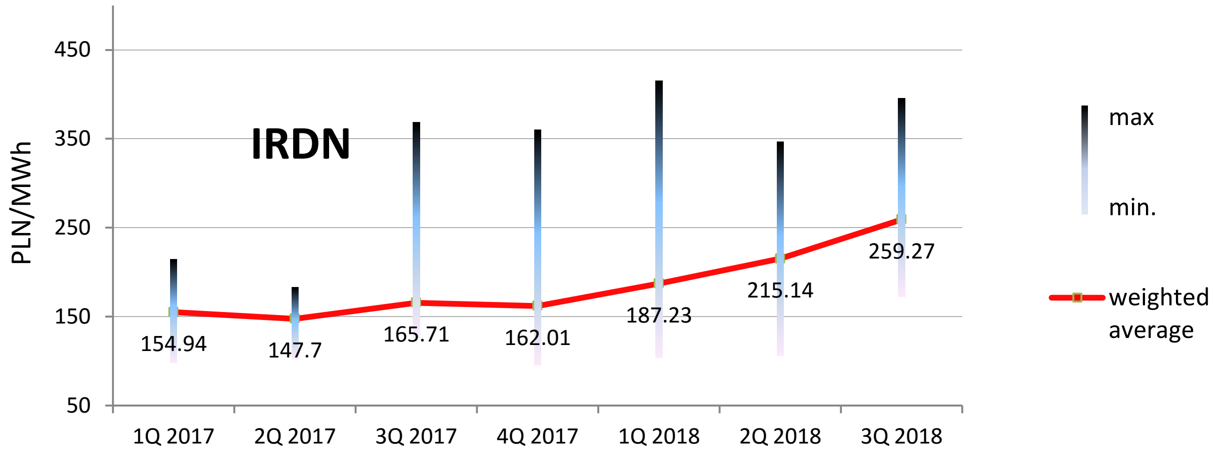


Despite the decline in the volume of electricity and heat production (related to the lack of production at Adamów power plant), the level of sales in Q3'18 remained at a similar level as in Q3'17. The main reason was the increase in the average sale price of electricity.

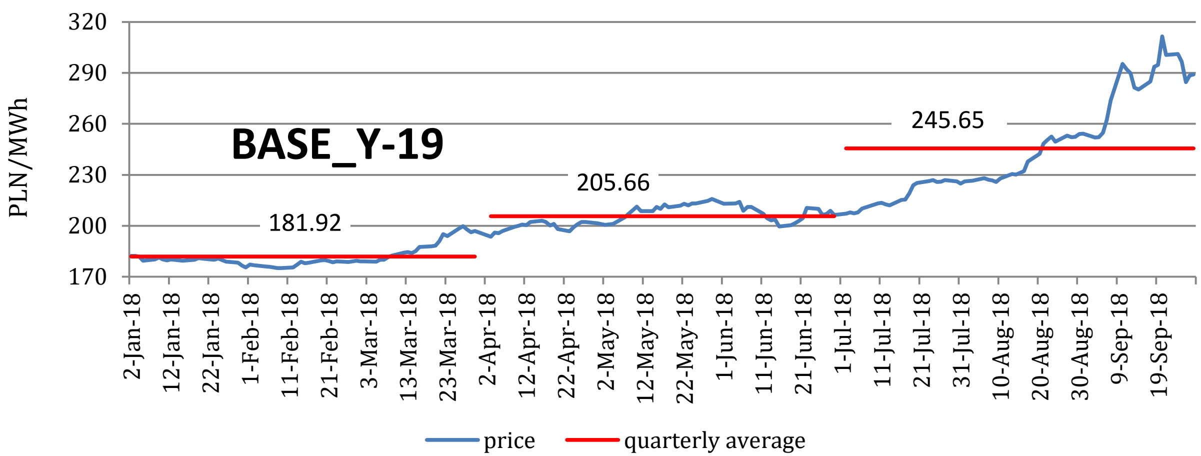
The level of EBITDA and net profit in Q3'18 was still adversely affected (as in the previous quarter) by the high purchase price of CO_2 emission allowances.

SELECTED ELECTRICITY MARKET DATA

Electricity prices

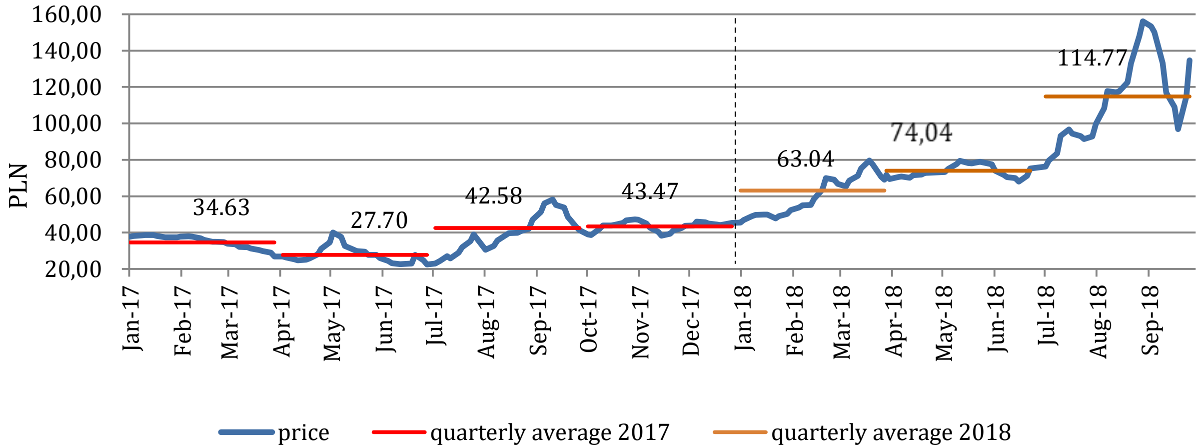


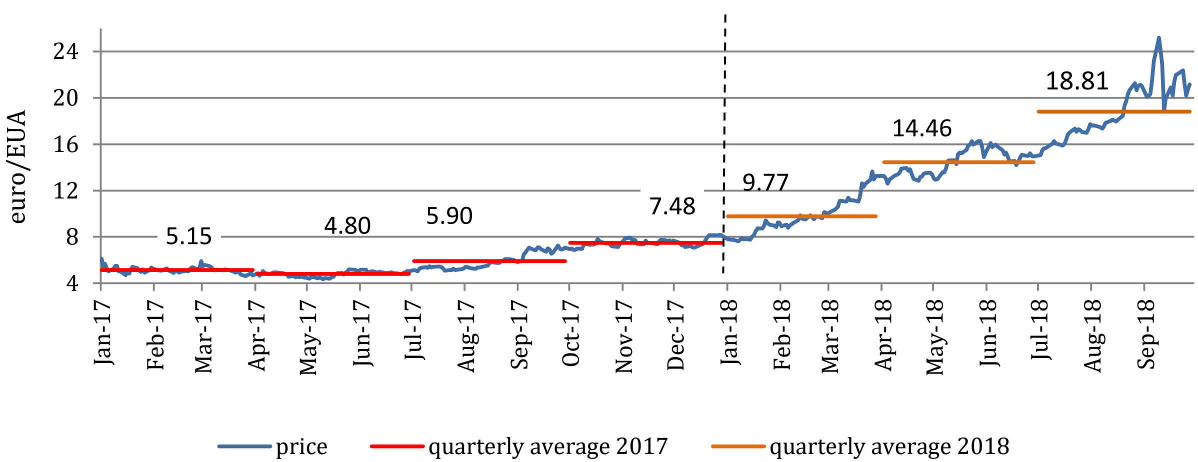
The weighted average price (IRDN) in the third quarter of 2018 amounted to PLN 259.27 / MWh, i.e. up by 20.51% as compared to the second quarter of 2018 and by 56.46% as compared to the third quarter of 2017. A dynamic upward trend in 3Q 2018 was mainly caused by rising prices of CO_2 emission allowances and growing prices of hard coal. Supporting factors were also the increase in domestic electricity consumption and lower wind generation in relation to the same period last year.



On the forward TGE market, the reference BASE_Y-19 forward contract in Q3'18 was characterized by a similar trend as in the spot market. Factors determining increases were also similar. The arithmetic average of the daily settlement rates for the BASE_Y-19 contract in the third quarter of 2018 amounted to PLN 245.65 / MWh.

EUA and green certificates





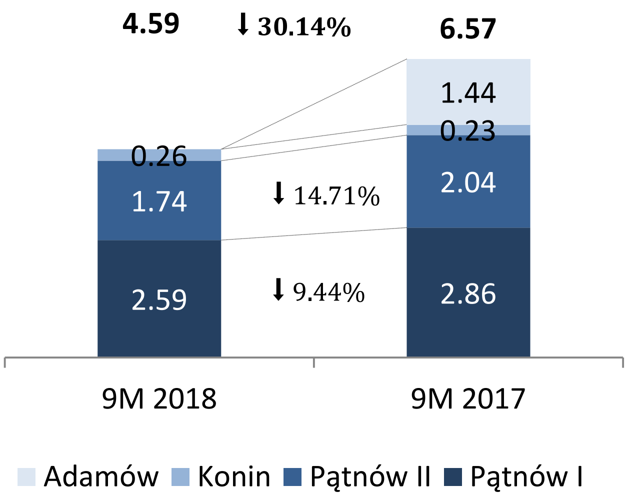
On the market for CO_2 emission rights, a clear upward trend has been maintained since April 2017. At the same time its dynamics increased with the passage of time. In the third quarter of 2018, it was possible to observe an increase exceeding 60%, which is not often the case not only on the market of emission permits but also on other commodity markets. A clear increase in volatility in this market may indicate some turning point in the current trend. The arithmetic average of EUA quotations in the third quarter of 2018 amounted to 18.81 euros, which means an increase of 30.1% compared to the second quarter of 2018 and 218.8% compared to the third quarter of 2017.

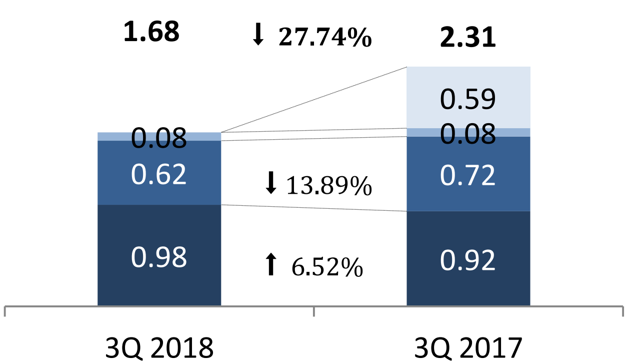
From the beginning of 2018 on the market of property rights resulting from certificates of origin from renewable energy, there was quite a significant increase in prices. The dynamics of this growth accelerated significantly in the third quarter of 2018. Explaining such dynamic increases is not easy because it is still estimated that there is still a significant oversupply of renewable energy rights on the market. On the other hand, market participants on the fundamental side did not learn any new factors in the third quarter that fueled the upward trend. The weighted average price of green certificates in the third quarter of 2018 was at the level of PLN 114.77 / MWh, which means an increase by 55% compared to the weighted average price from the second quarter of 2018 and by 169.5% compared to the third quarter of 2017 .

OPERATIONAL DATA

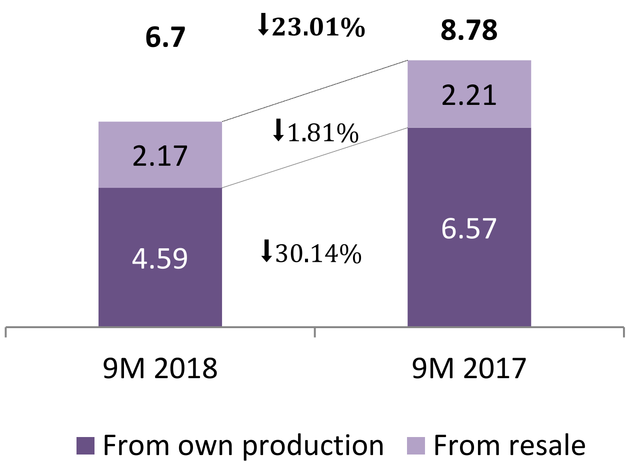
Net production and sale of electricity
[TWh]

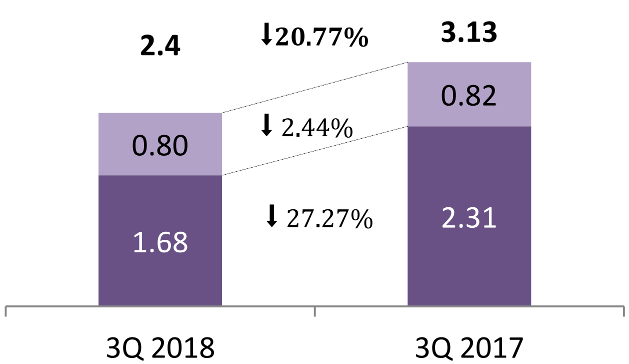
NET PRODUCTION





SALE





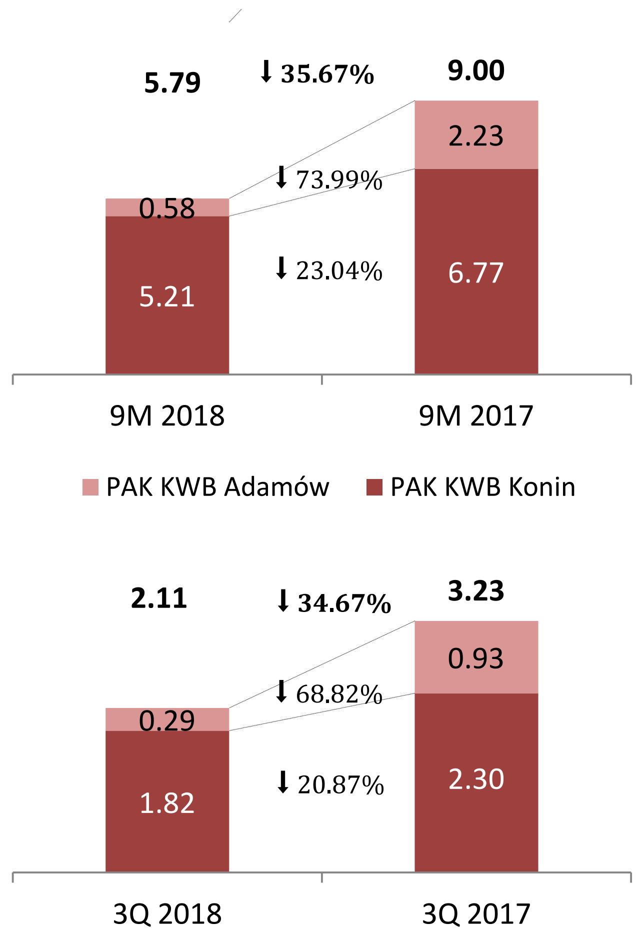
The drop in production took place in both analyzed periods. The main reason was the lack of production at Adamów power plant, which ended with the beginning of January 2018. In the first half of the year, also in Pątnów I and Pątnów II power plants, production was slightly lower than in the comparable period. In Q3'18, production, excluding Adamów, is already at a similar level as in the corresponding quarter of last year.

Sales of energy from the market in both periods were at a similar level as in 9M'17 and 3Q'17.

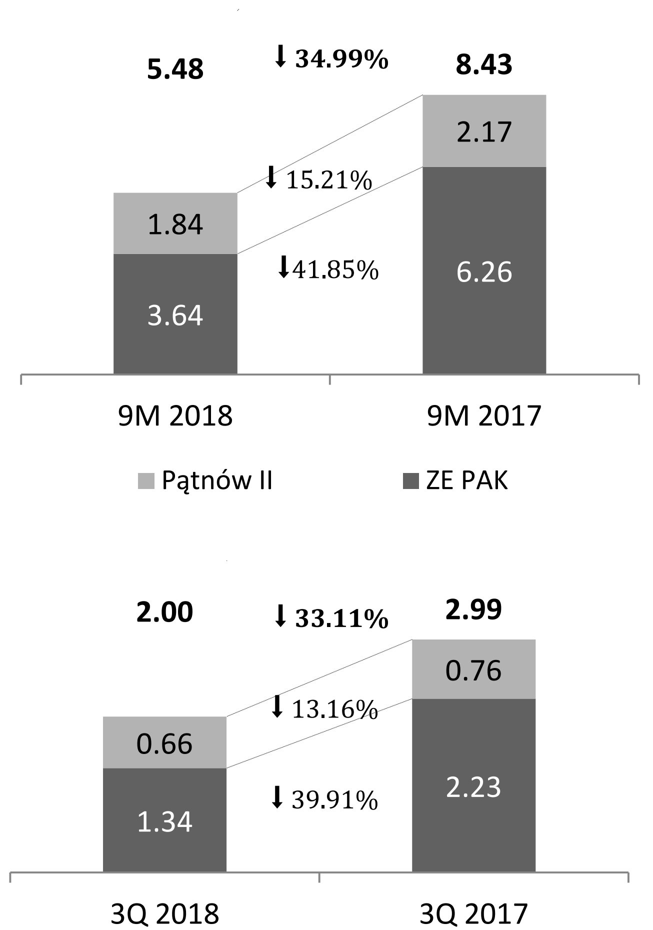
Lignite consumption and CO_2 emission

[m tons]

LIGNITE CONSUMPTION



CO_2 emission

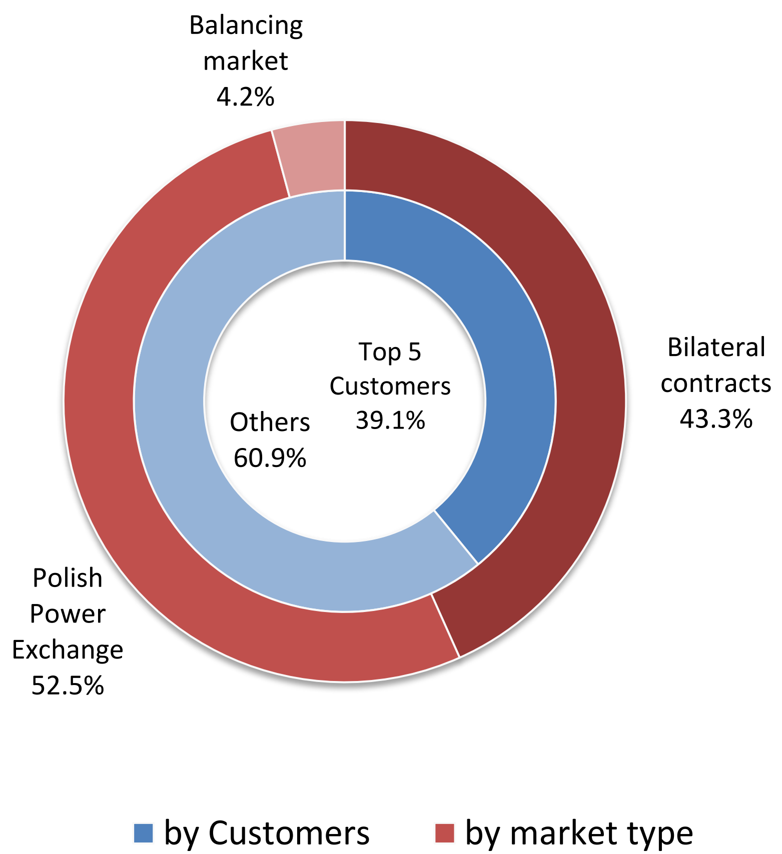


Data on lignite consumption and CO_2 emissions in 9M'18 and Q318 show a decrease in lignite consumption and lower emissions, which results from lower volumes of energy produced in relation to the same periods of the previous year.

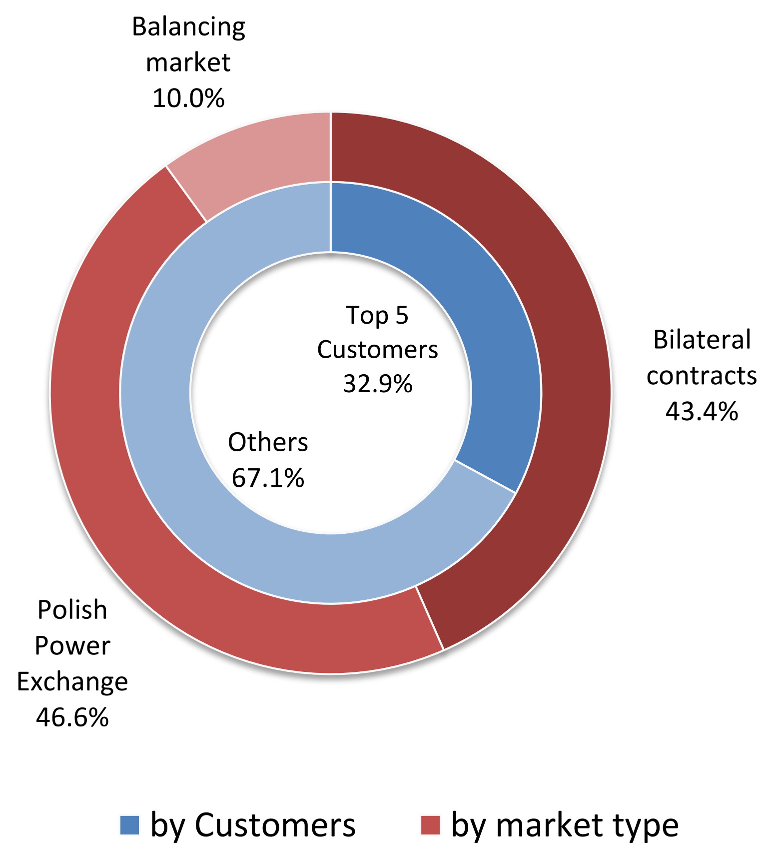
Sale of electricity breakdown

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

9M 2018

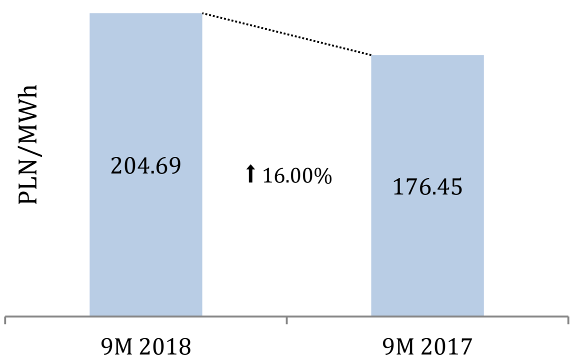


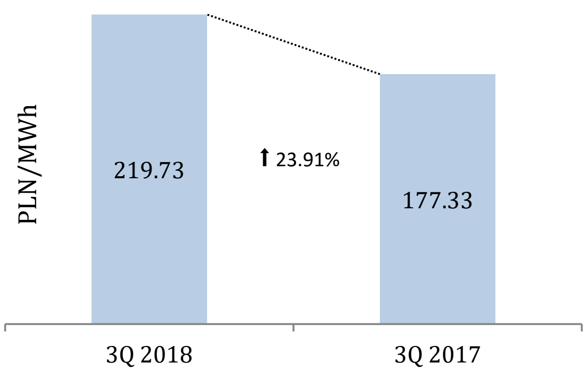
9M 2017



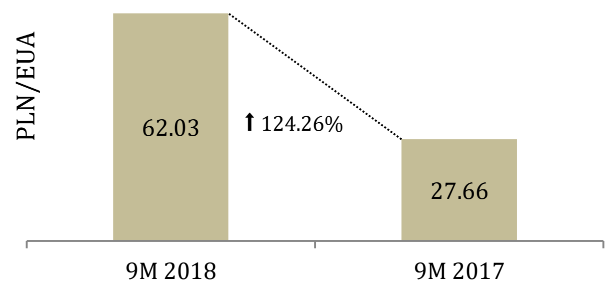
Average prices of electricity and CO_2 emission allowances purchase

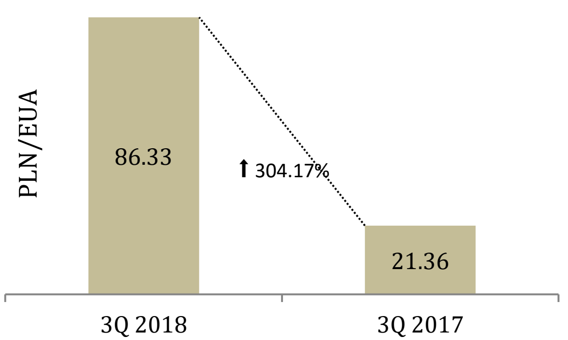
Elecrticity prices [1)]





Prices of CO_2 emission allowances purchase (EUA) [2)]



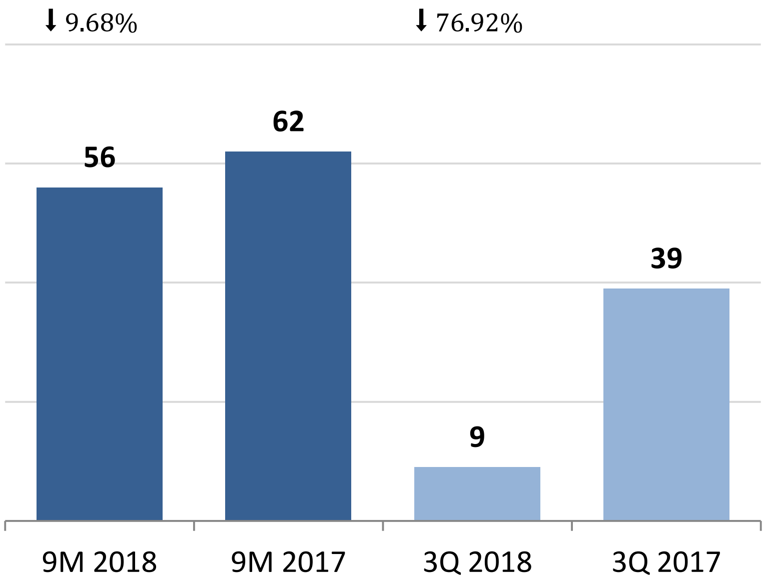


[1)] *Average price, calculated as electricity sales revenues (own production, from resale and system service) divided by sales volume.*

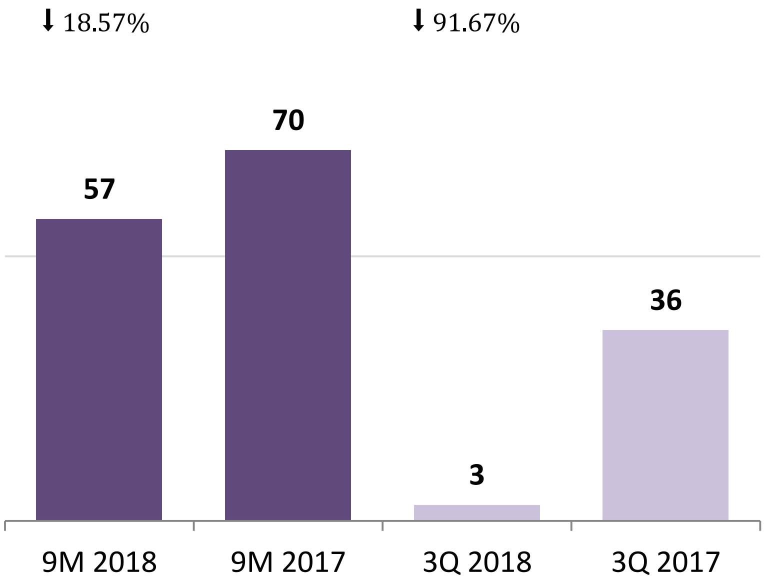
[2)] *Average price is calculated as the purchase cost of emission allowances incurred to cover emission for the period divided by the volume of purchased allowances.*

Capex on fixed assets and intangible assets
(excluding CO_2)

CAPEX [m PLN]



EXPENDITURES [m PLN]

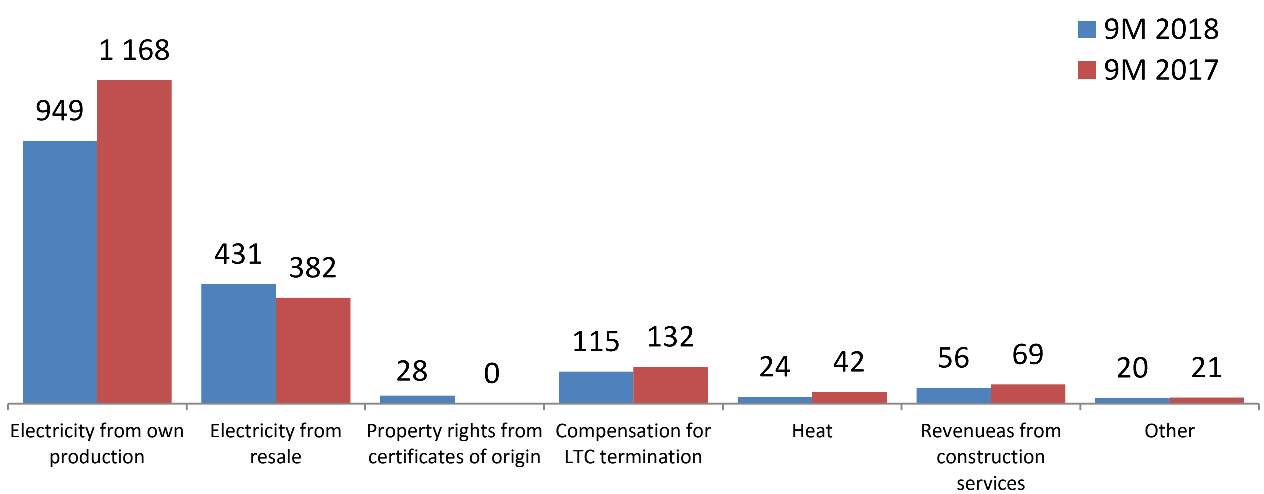


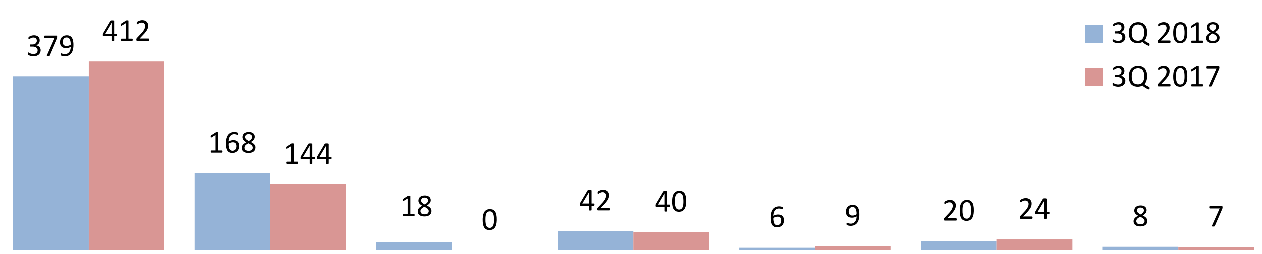
As far as the investment activity is concerned, the Group is not currently carrying out any large projects, it focuses on maintaining the current assets and their trouble-free operation.

FINANCIAL DATA

PAK
Energia dla Ciebie

Revenues
[m PLN]





Reasons for changes in key positions:

Lower revenues from the sale of electricity from own production. The slightly higher price of energy sales in 9M 18 and 3Q 18 did not fully compensate for the drop in the production volume. In Q3'18, a clearer price increase was recorded compared to Q3'17, however, the fall in volume still leads to a decline in revenues from electricity sales from own production.

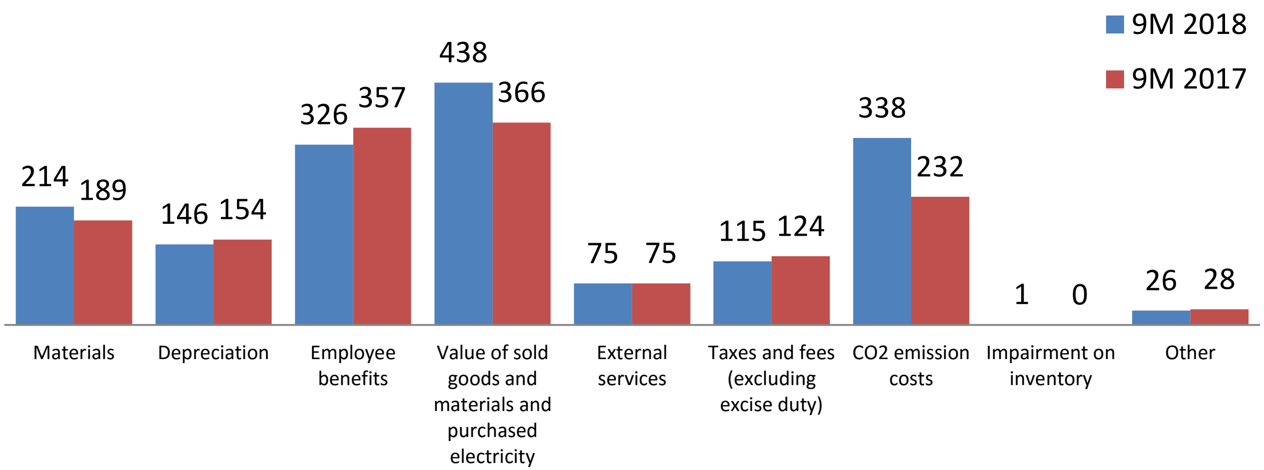
The decrease in revenues from the sale of heat is mainly caused by the lack of heat production at Adamów power plant.

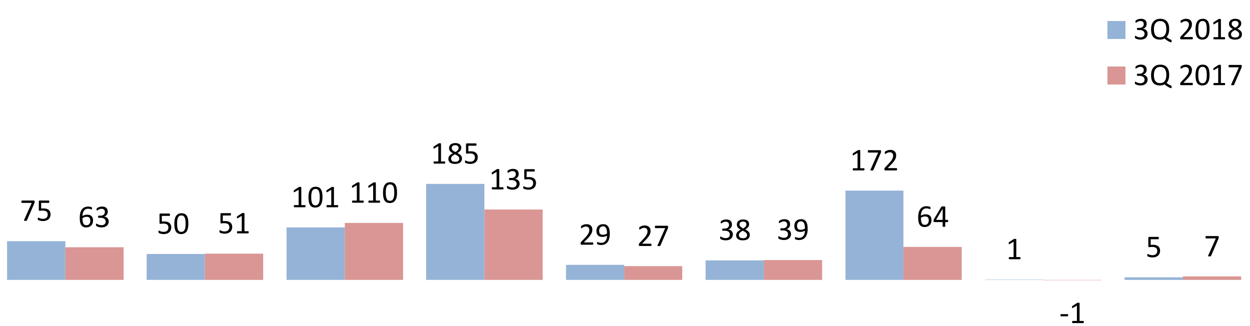
The increase in revenues from property rights from certificates of energy origin is related to the production of a biomass block at Konin power plant, in 2017, due to unfavorable market conditions, production from this unit was stopped.

Lower compensation for LTC termination in 9M 18 due to lower down payment (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 Pątnów II Power Plant). In Q3'18 alone, the adjustment was higher due to higher emission costs.

In the case of revenue from contracts for construction services, the impact of IFRS 15, assuming a similar methodology as last year, the decline in revenues from this title would be much smaller.

Costs by type
[m PLN]





Reasons for changes in key positions:

The costs of CO_2 emissions have clearly increased in both periods presented. It should be taken into account that this has happened despite the clearly lower emission levels (due to lower 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 goods and materials sold related to a higher price of energy purchased for trading.

Lower costs of employee benefits due to lower average employment.

The increase in costs of material consumption due to higher biomass costs (in 2017, the biomass block did not produce energy from biomass).

EBITDA 9M 2018

[m PLN]

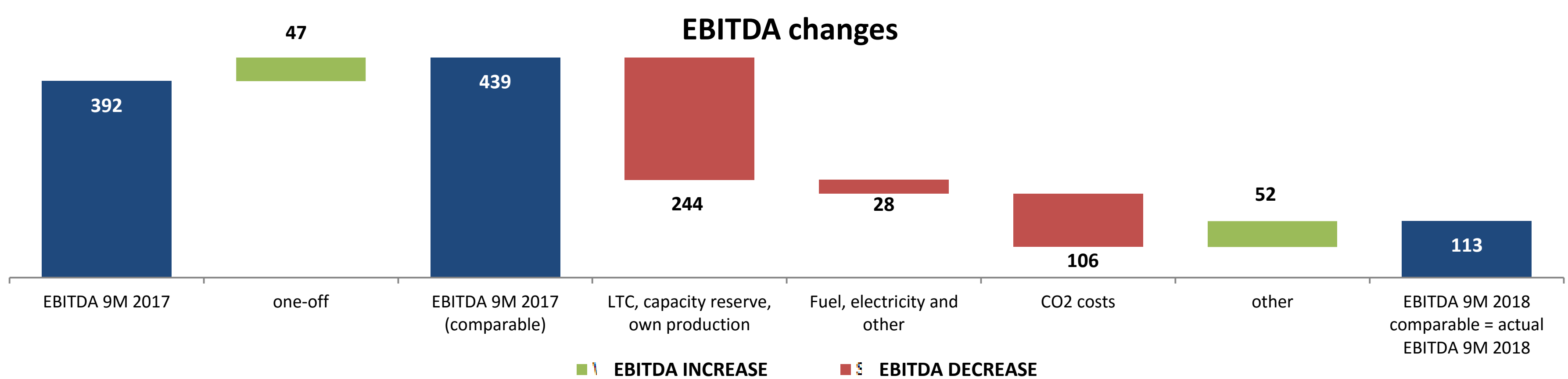
	9M 2018	9M 2017
Sale revenues	**1 623**	**1 813**
Change %	*(10.48)%*	
Costs of goods sold	(1 564)	(1 490)
Gross profit	**59**	**323**
Margin %	*(3.64)%*	*17.81%*
Other operating revenues	6	11
Selling and distribution expenses	(3)	(3)
Administrative expenses	(92)	(90)
Other operating expenses	(4)	(3)
EBITDA(1)	**113**	**392**
Margin %	*6.96%*	*21.62%*
EBIT(2)	**(34)**	**238**
Margin %	*(2.09)%*	*13.13%*

(1) **EBITDA** lower by PLN 279 m (-71.17%) -> after bringing to comparability **lower by PLN 326 m (-74.26%)**

comparable EBITDA for 9M 2017 amounted to PLN 439 m -> value of PLN 392 m is the result of one-off related to the increase of reclamation reserve (-46) and impairment write-down on certificates (-1)

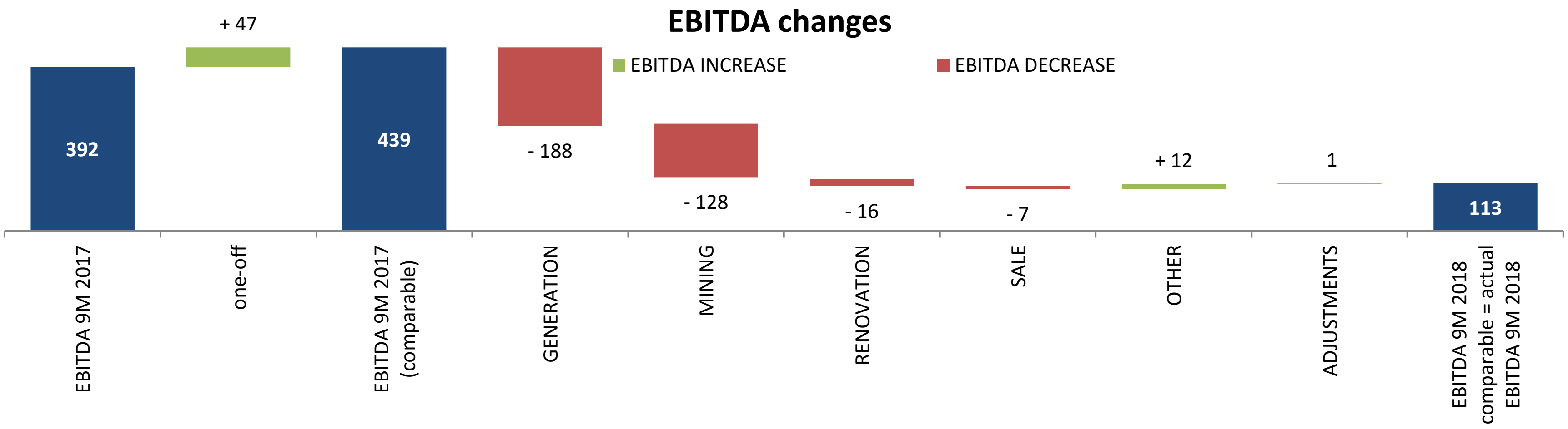
- (-244) lower revenues from own energy, lower revenues from system services and capacity reserves, lower revenue from LTCs, lower revenues from heat, higher revenues from certificates, lower result on sales
- (-28) higher costs of biomass, lower energy costs (in mines), lower costs of other fuels and materials (mazout, heating oil, sorbent)
- (-106) lower costs of CO_2 emission
- (+52) lower costs of employee benefits, lower taxes, fees and others

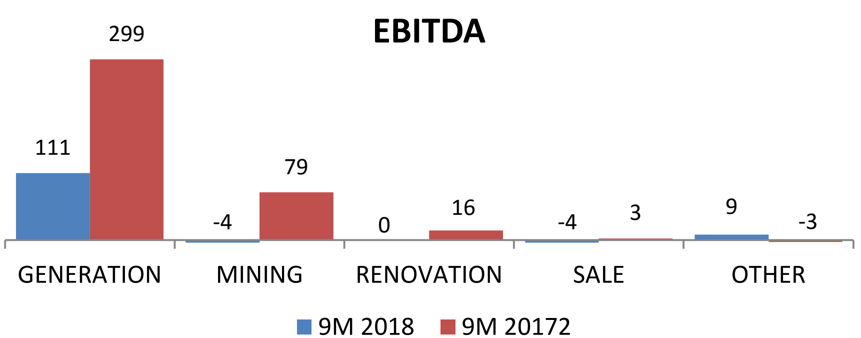
(2) **EBIT** at PLN**(34) m** as compared to PLN **238 m for** 9M 2017



EBITDA 9M 2018 by segments

[m PLN]





Renovation:

- smaller share of intra-group sales

Main reasons of EBITDA changes in segments:

Generation:

- lower revenues from own energy, system services and capacity reserves, higher revenues from certificates, lower revenues from LTCs, lower revenues from heat, and lower result on sales
- lower costs of coal, higher costs of biomass, lower costs of other fuels (mazout, oil, etc.)
- Higher costs of CO_2 emission allowances
- Lower costs of employee benefits, lower costs of external services and others

Mining:

- Lower revenues from sale of coal
- Lower costs of electricity
- lower employee benefits costs, lower taxes and fees, lower costs of other materials and other costs

Consolidated P&L for 9M 2018 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	1 158	6	63	392	4		1 623
External sale revenues %	*83.55%*	*1.39%*	*52.94%*	*99.75%*	*2.19%*	*0.00%*	*100.00%*
Sale revenues between segments	**229**	**427**	**56**	**-**	**179**	**(891)**	**-**
Sale revenue	**1 386**	**433**	**119**	**393**	**183**	**(891)**	**1 623**
Cost of goods sold	**(1 326)**	**(454)**	**(113)**	**(394)**	**(171)**	**894**	**1 564**
Gross profit (loss)	**60**	**(21)**	**6**	**(1)**	**12**	**3**	**59**
Margin %	*4.33%*	*(4.85)%*	*5.04%*	*(0.25)%*	*6.56%*	*(0.34)%*	*3.64%*
EBITDA	**111**	**(3)**	**-**	**(4)**	**9**	**-**	**113**
Margin %	*8.01%*	*(0.69)%*	*0.00%*	*(1.02)%*	*4.92%*	*0.00%*	*6.96%*
EBIT	**20**	**(54)**	**(3)**	**(4)**	**5**	**3**	**(34)**
Margin %	*1.43%*	*(12.48)%*	*(2.63)%*	*(0.98)%*	*2.70%*	*(0.30)%*	*(2.09)%*
Net profit (loss)	**4**	**(67)**	**(3)**	**(3)**	**4**	**2**	**(63)**
Margin %	*0.29%*	*(15.47)%*	*(2.52)%*	*(0.76)%*	*2.19%*	*(0.22)%*	*(3.88)%*

EBITDA 3Q 2018

[m PLN]

	3Q 2018	3Q 2017
Sale revenues	**641**	**635**
Change %	*0.94%*	
Cost of goods sold	(622)	(511)
Gross profit	**18**	**124**
Margin %	*2.81%*	*19.53%*
Other operating revenues	2	2
Selling and distribution expenses	(1)	(1)
Administrative expenses	(27)	(34)
Other operating expenses	(1)	(1)
EBITDA(1)	**41**	**141**
Margin %	*6.40%*	*22.20%*
EBIT(2)	**(9)**	**90**
Margin %	*(1.40)%*	*14.17%*

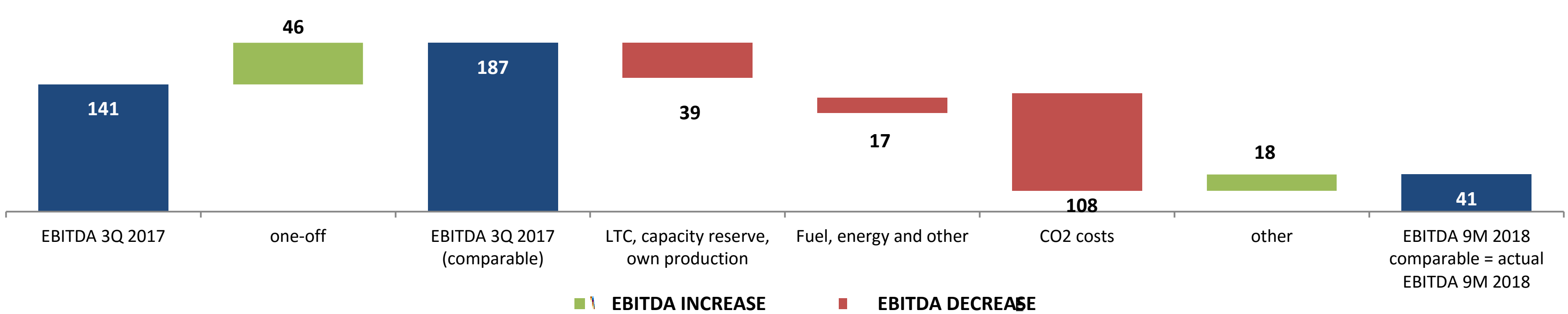
(1) **EBITDA** lower by PLN 100 m (-70.92%) -> after bringing to comparability lower by **PLN 146 m (-78.07%)**

comparable EBITDA for 3Q 2017 amounted to PLN 187 m -> value at PLN 141 m is the result of one-off related to increase of reclamation reserve (-46)

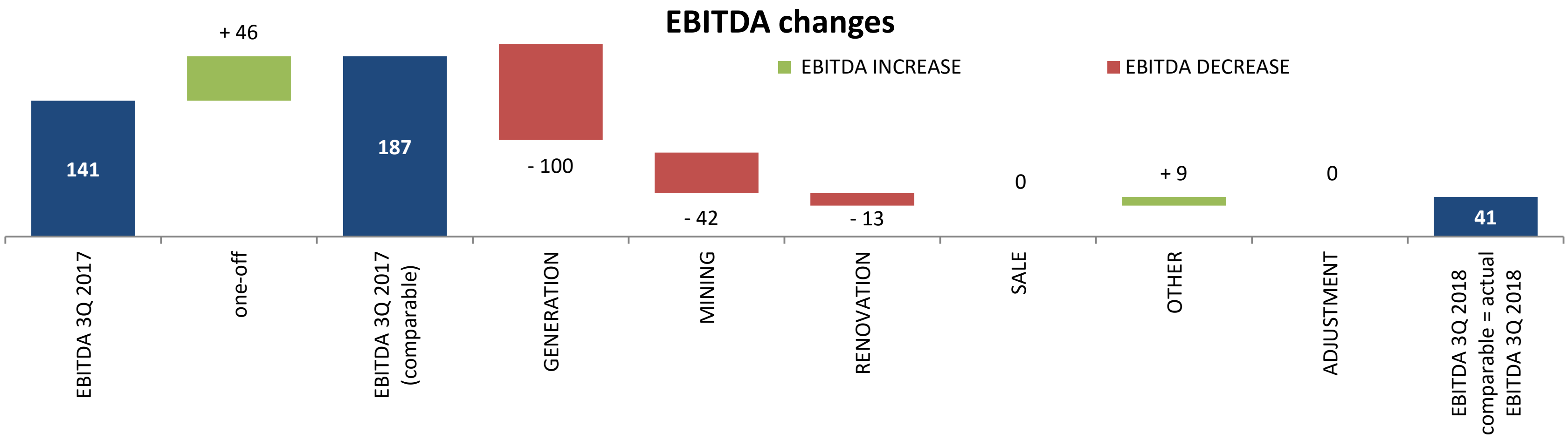
- (-39) lower revenues from own energy, lower revenues from system services and capacity reserves, higher revenues from LTCs, lower revenues from heat, higher revenues from certificates, lower result on sales
- (-17) higher costs of biomass, lower energy costs (in mines), lower costs of other fuels and materials (mazout, heating oil, sorbent)
- (-108) lower costs of CO_2 emission
- (+18) lower employee benefits costs, lower taxes and fees, higher other costs of current operations and external services, and lower result on other operating activities

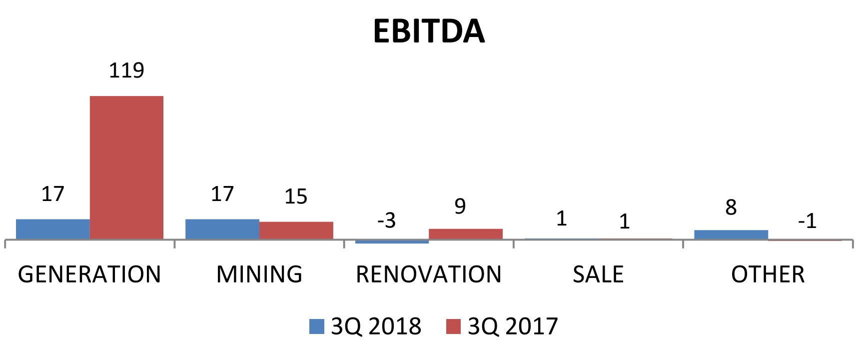
(2) **EBIT** at PLN **(9) m as compared to PLN 90 m for** 2Q 2017

EBITDA changes



EBITDA 3Q 2018 by segments
[m PLN]





Main reasons of EBITDA changes in segments:

Generation:

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

Mining:

- Lower revenues from coal sale,
- Lower costs of electricity,
- Lower taxes and fees,
- Lower costs of employee benefits.

Renovation:

- smaller share of intra-group sales

Consolidated P&L for 3Q 2018 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	474	2	23	140	2	0	641
External sale revenues %	*85.71%*	*1.25%*	*60.53%*	*99.29%*	*3.23%*	*0.00%*	*100.00%*
Sale revenues between segments	**80**	**158**	**16**	**-**	**61**	**(314)**	
Sale revenues	**553**	**160**	**38**	**141**	**62**	**(314)**	**641**
Cost of goods sold	**(556)**	**(149)**	**(38)**	**(139)**	**(55)**	**315**	**(622)**
Gross profit (loss)	**(3)**	**11**	**0**	**1**	**8**	**1**	**18**
Margin %	*(0.54)%*	*6.88%*	*0.00%*	*0.71%*	*12.90%*	*(0.32)%*	*2.81%*
EBITDA	**18**	**18**	**(3)**	**1**	**8**	**-**	**41**
Margin %	*3.25%*	*11.25%*	*(7.89)%*	*0.71%*	*12.90%*	*0.00%*	*6.40%*
EBIT	**(14)**	**-**	**(2)**	**1**	**6**	**1**	**(9)**
Margin %	*(2.53)%*	*0.00%*	*(5.26)%*	*0.71%*	*9.68%*	*(0.32)%*	*(1.40)%*
Net profit (loss)	**(12)**	**(4)**	**(2)**	**1**	**5**	**1**	**(11)**
Margin %	*(2.17)%*	*(2.50)%*	*(5.26)%*	*0.71%*	*8.06%*	*(0.32)%*	*(1.72)%*

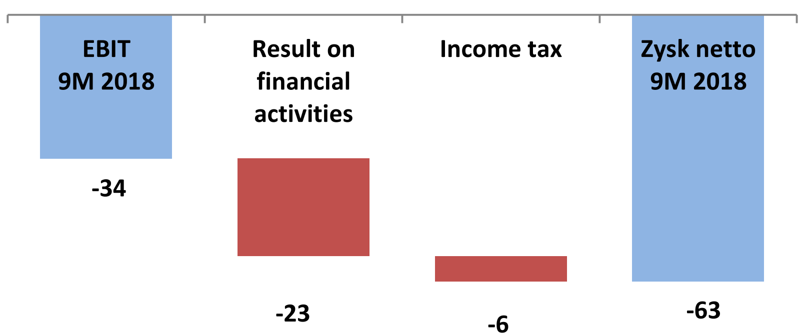
Financial activities, taxation and net profit
[m PLN]

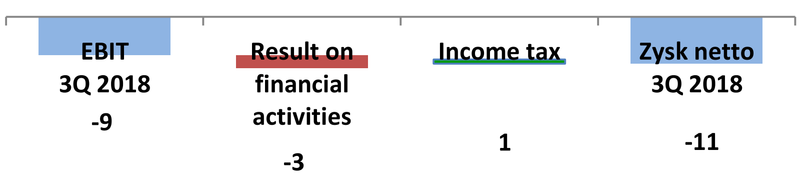
	9M 2018	9M 2017	3Q 2018	3Q 2017
EBIT	**(34)**	**238**	**(9)**	**90**
Financial income	6	11	1	(3)
Financial costs	(29)	(36)	(4)	(9)
Gross profit	**(57)**	**213**	**(12)**	**78**
Income tax (taxation)	(6)	(43)	1	(12)
Effective tax rate		*20.19%*	*16.67%*	*15.38%*
Net profit for the period	**(63)**	**170**	**(11)**	**66**
Margin %	*(3.88)*	*9.38%*	*(1.72)%*	*10.39%*

The better result on financial activities, both in the 9M 18 and 3Q 18, compared to the corresponding periods of the previous year, was affected by issues related to the EUR / PLN exchange rate, which changed into the valuation of the syndicated loan in EUR.

It is also noticeable that the impact of interest and commission on financial costs is decreasing as a result of declining interest-bearing debt.

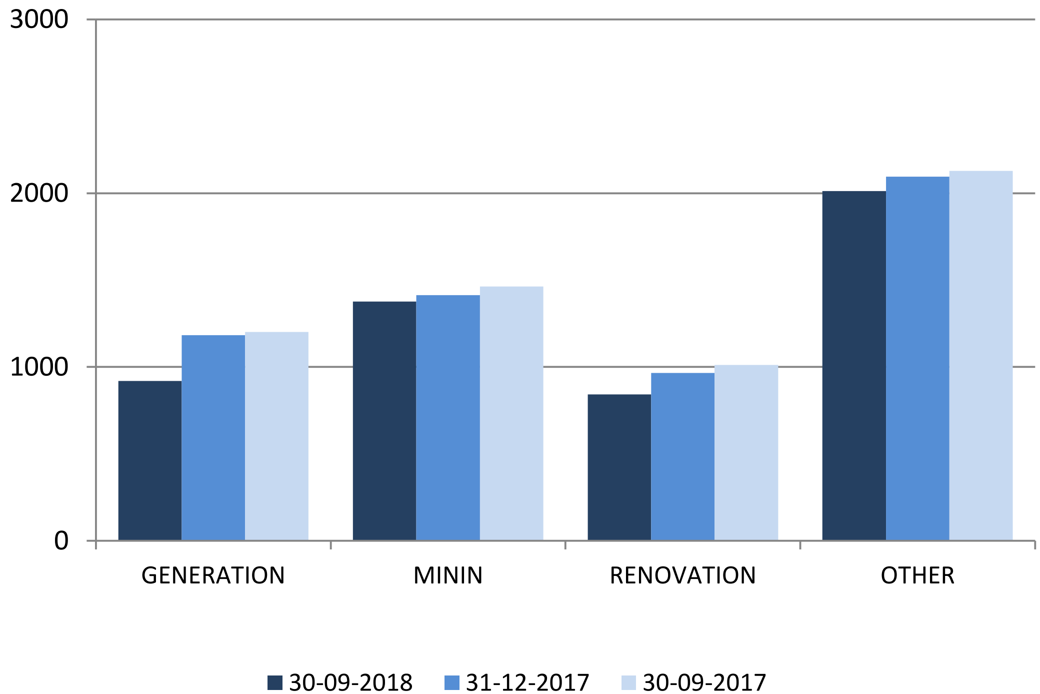
EBIT --> zysk netto



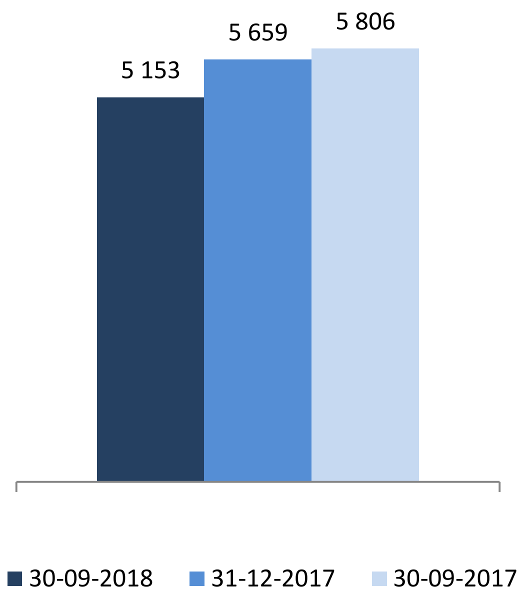


Employment
[full time]

BY SEGMENTS



TOTAL

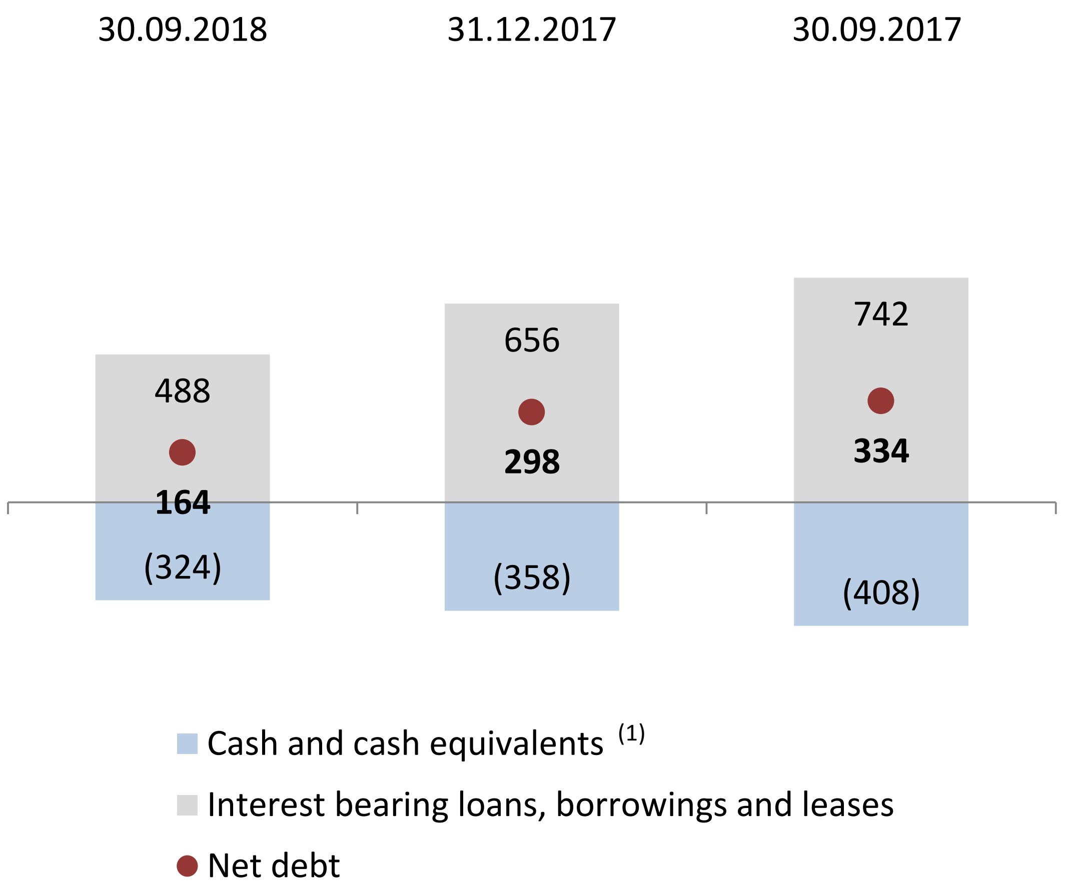


The employment level in the Group is systematically reduced. To a large extent, this is a derivative of adjusting the employment structure to reduce the scale of operations in 2018 (ending the operation of Adamów power plant and the smaller production volume in Adamów mine).

In subsequent periods, the effect of changes consisting in simplifying the Group's structure can be seen.

Financial indebtedness

Net debt [m PLN]

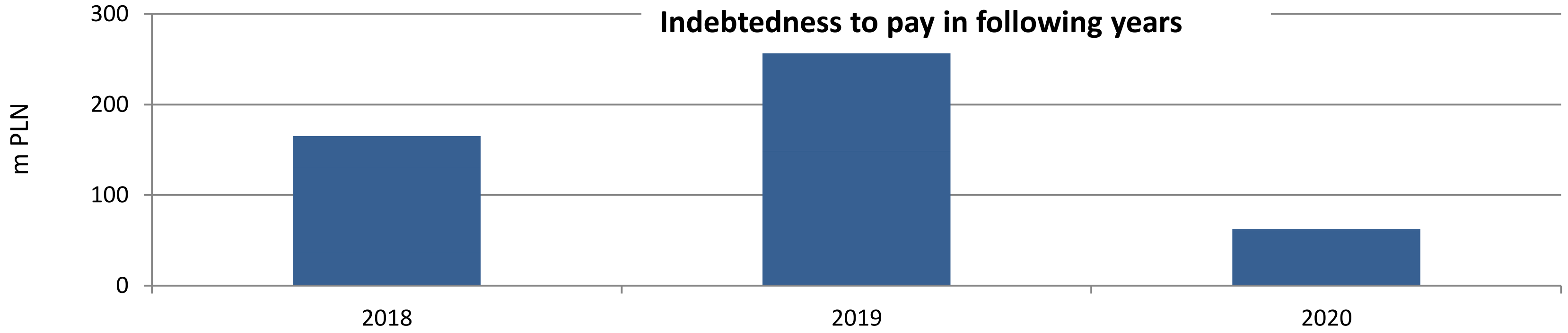


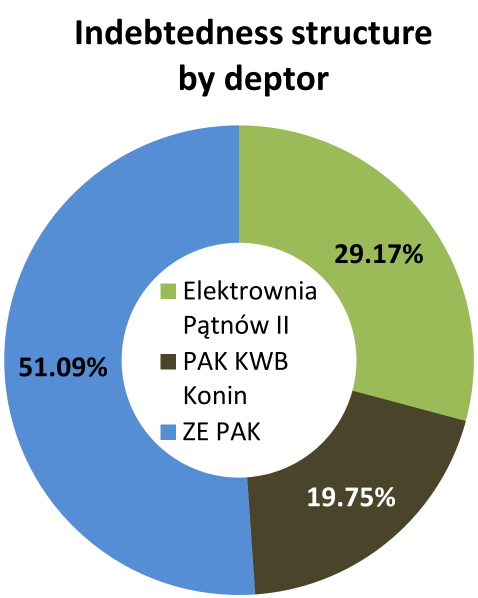
Net debt / EBITDA

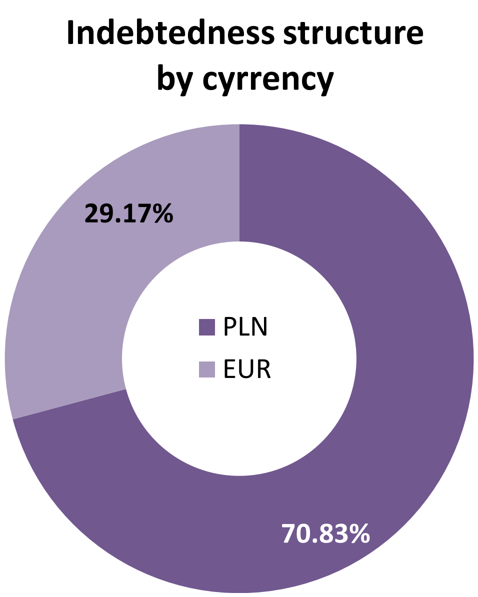
30.09.2017	0,70
31.12.2017	0,58
30.09.2017	0,65

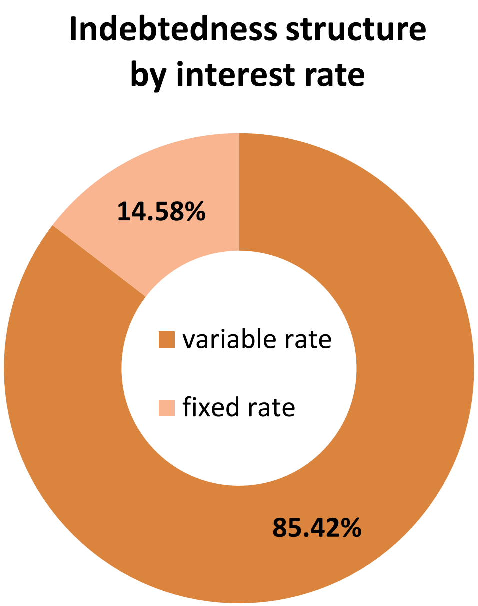
(1) Cash and cash equivalents from consolidated statement of financial position and other short-term financial assets

Financial indebtedness structure (1)









(1) Indebtedness of main Group companies, excluding PLN 1.9 million indebtedness of other Group's companies. Indebtedness in EUR calculated using NBP average exchange rate as of 28.09.2018.

Consolidated cash flow
[m PLN]

	9M 2018	9M 2017	3Q 2018	3Q 2017
Gross profit (loss)	**(57)**	**213**	**(12)**	**78**
Depreciation and amortisation	145	151	50	53
Profit/loss on investing and financial activities	11	14	(3)	5
Changes in working capital	197	173	139	160
Income tax	4	(8)	(5)	(12)
Purchase of EUA(1)	(37)	(131)	-	-
Other	2	(1)	2	1
Net cash flow from operational activities	**265**	**410**	**171**	**286**
(inflows/outflows) of investments in property, plant and equipment and intangible assets	(57)	(70)	(3)	(36)
Other	6	39	2	35
Net cash flow from investing activities	**(51)**	**(31)**	**(1)**	**(1)**
Inflows of credits, loans, leases and securities	36	9	(1)	-
Payment of credits, loans, leases and securities	(214)	(279)	(62)	(102)
Interest paid	(17)	(22)	(5)	(4)
Dividends paid(2)	(30)	(66)	(30)	(66)
Other	(0)	(0)	(0)	(0)
Net cash flow from financial activities	**(225)**	**(359)**	**(98)**	**(171)**
Change in cash and cash equivalents	(11)	20	72	114
Cash and cash equivalents at the beginning of the period	323	349	240	255
Cash and cash equivalents at the end of the period	**312**	**369**	**312**	**369**

(1) In Q3 2018 (as in Q3 2017), the Group did not spend cash on CO_2 purchases .

(2) In August 2018, the Company paid the 1st installment of the dividend in the amount of 0.60 PLN / share. The 2nd tranche of the dividend in the amount of PLN 0.60 / share was paid in October 2018.

Questions and answers

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