

16 May 2016

# Zespół Elektrowni „Pątnów-Adamów-Konin” S.A.

## 1Q 2016 Results



# ZE PAK Group – 1Q 2016 Summary



| Key operational and financial data                                      | 1Q 2016       | Change r/r |
|---|---------------|------------|
| Sale of electricity <sup>(1)</sup> :                                    | 3,38 TWh      | -5,31%     |
| • electricity from own production <sup>(1)</sup> :                      | 2,48 TWh      | +5,98%     |
| • electricity from resale <sup>(1)</sup> :                              | 0,90 TWh      | -27,42%    |
| ZE PAK share in whole electricity production in Poland <sup>(2)</sup> : | 6,49 %        | +0,29 p.p. |
| Achieved average electricity sale price:                                | 174,21 zł/MWh | -1,26%     |
| Sale revenues:  | PLN 680 m     | -9,93%     |
| EBITDA:   | PLN 175 m     | +34,62%    |
| Net result:   | PLN 75 m      | +120,59%   |
| Capex:  | PLN 13 m      | -86,86%    |
| Indebtedness:   | PLN 1 265 m   | -3,58%     |
| Cash <sup>(3)</sup> :   | PLN 359 m     | +9,79%     |
| Net debt / EBITDA:  | 1,68 x        | -20,00%    |

<sup>(1)</sup> Including sale within the commissioning of units 1 and 2 in EI. Pątnów I (0,04 TWh).

<sup>(2)</sup> Based on Table: Structure of electricity production in domestic power plants, cross-border exchange, and domestic use of electricity – monthly amounts since the beginning of the year – gross amounts, presented at PSE S.A website. Gross production in Poland in 1Q 2016 was 42,0 TWh.

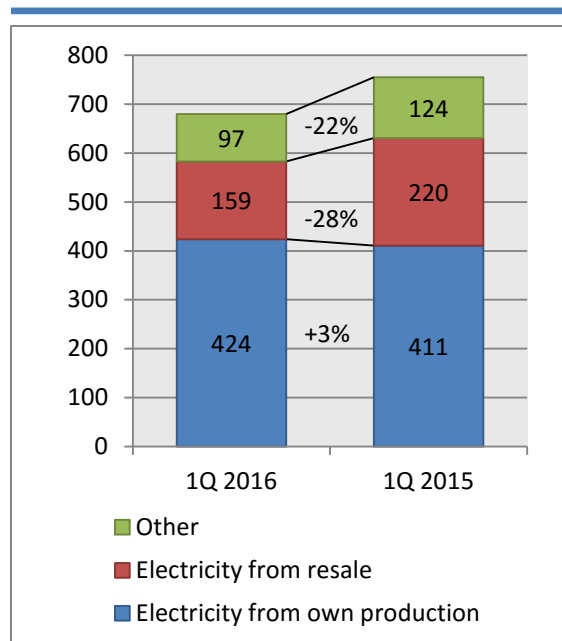
<sup>(3)</sup> Cash and cash equivalents and other financial short-term assets.

# ZE PAK Group – 1Q 2016 Summary

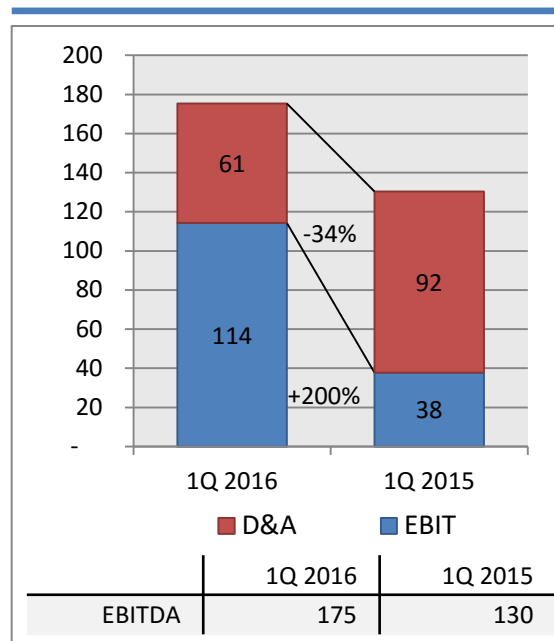
[m PLN]



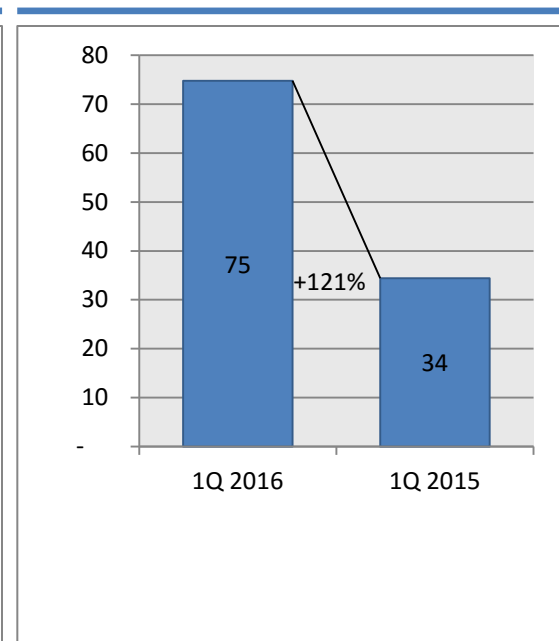
## Revenues



## EBITDA



## Net result



The Group achieved better results at EBITDA level by 34,6% in compare to corresponding period of previous year.

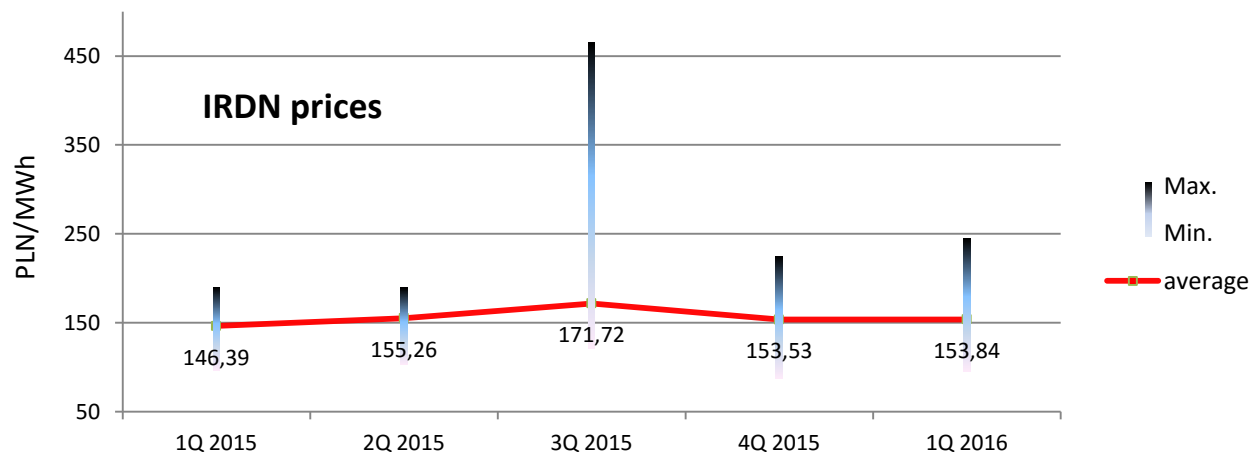
- Factors supporting better results are as follows: higher volume of own production, actions aimed at efficiency improvement in costs of current activities, including costs of maintenance of production assets and lower cost of fuel.
- Further actions aimed at costs limitation are in progress as part of efficiency improvement program.
- Additional factor supporting higher 1Q 2016 net result was lower by 31 m PLN D&A, coming from lower value of assets after impairment made at the end of 2015.

# SELECTED ELECTRICITY MARKET DATA

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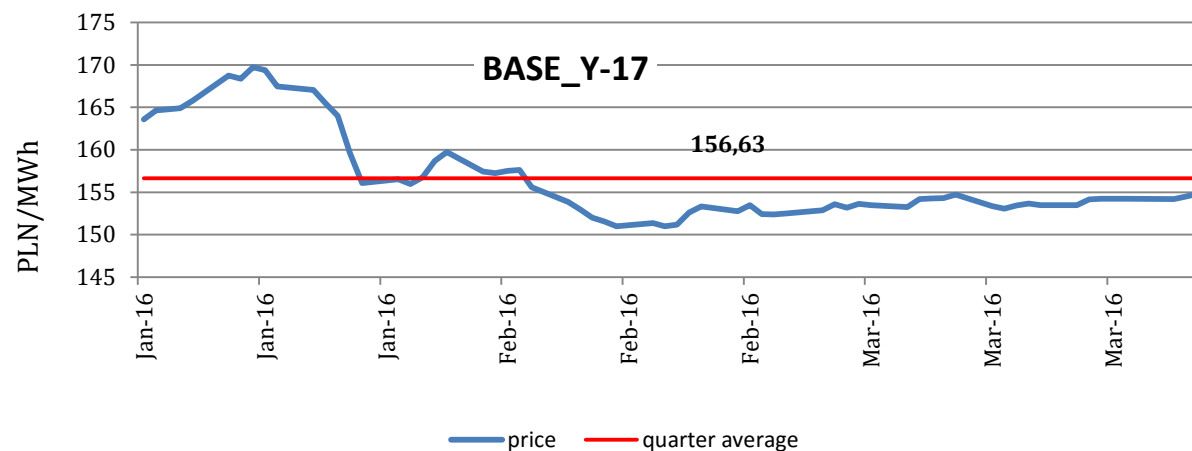


# Electricity prices



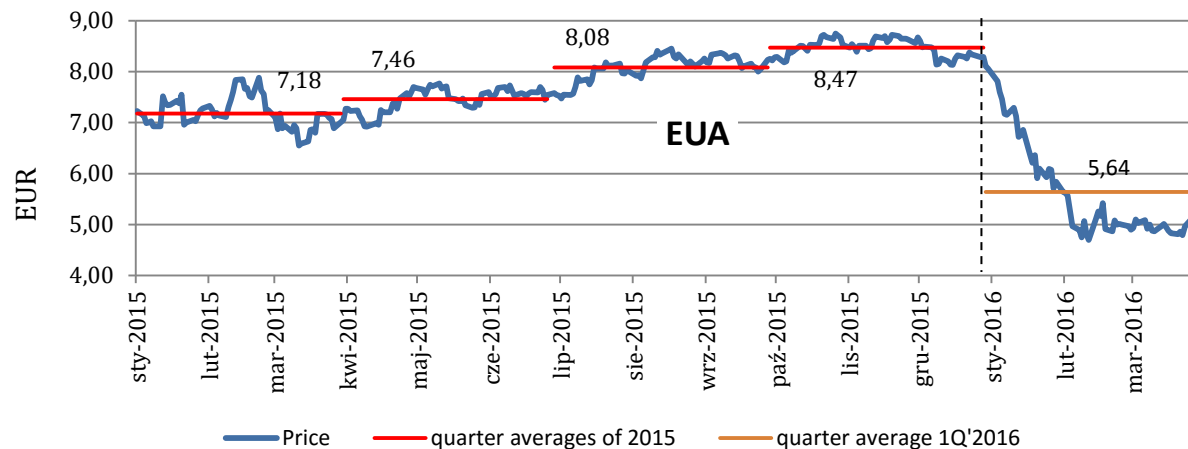
Increase of quarter weighted average price of electricity (Index of the day ahead on TGE) by 7,45 PLN, ie. 5% in compare to 1Q 2015 and almost the same level as in 4Q 2015. Wider range of volatility than in both quarters.

Highest prices (both on IRDN and forward market) in first half of January – lower than average temperatures, worst wind conditions. Better wind conditions in the end of January and in February (February 2016 – wind generation higher by 96% in compare to February 2015).



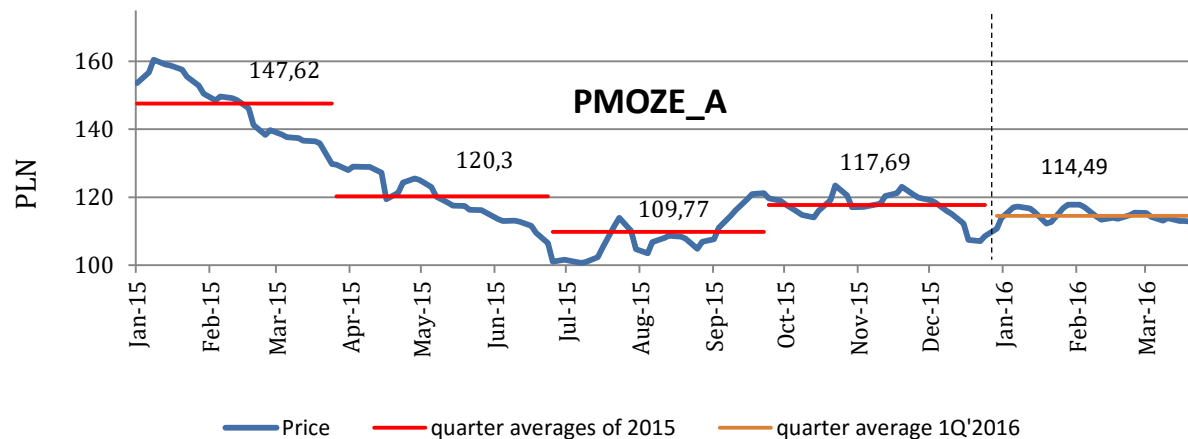
Poland as an importer of electricity in February and March (import in 1Q 2016 more than 0,6 TWh vs. export 0,25 TWh in 1Q 2015). Connector between Lithuania and Sweden – lower prices on Lithuania, reverse of trade direction at LitPol.

# EUA and green certificates



Dynamic and deep decrease in EUA prices in 1Q 2016. Average prices decrease by 2,83 EUR, i.e. 33% in compare to 4Q 2015 and by 21% in compare to 1Q 2015.

EUA Prices in 1Q 2016 – interconnection with energy commodities, lack of new incentives of political nature, fast increase in renewables generation in western Europe. 1Q 2016 period of granting free allowances of EUA and preparation for settlement of previous year emissions in April.



Decrease in weighted average of green certificates price in 1Q 2016 by 3,2 PLN, i.e. by 2,7% in compare to 4Q 2015 and significant decrease by 33,13 PLN, i.e. by 22,4% in compare to 1Q 2015.

Lack of support for „big hydropower” and decrease by the half support for biomass co-combustion since the beginning of 2016.

# OPERATIONAL DATA

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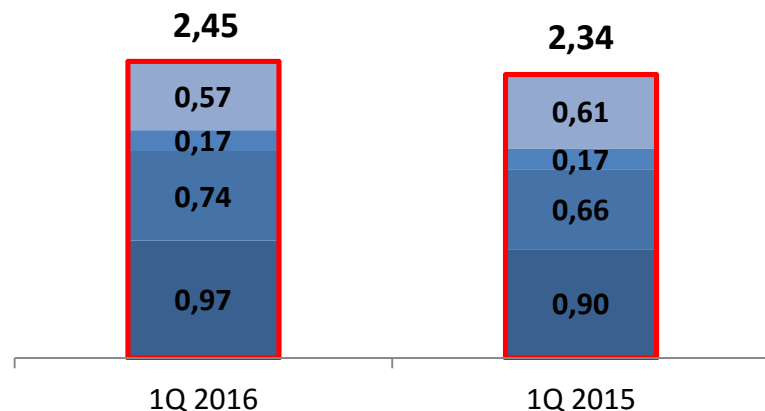


# Net production and sale of electricity

[TWh]



## NET PRODUCTION<sup>(1)</sup>

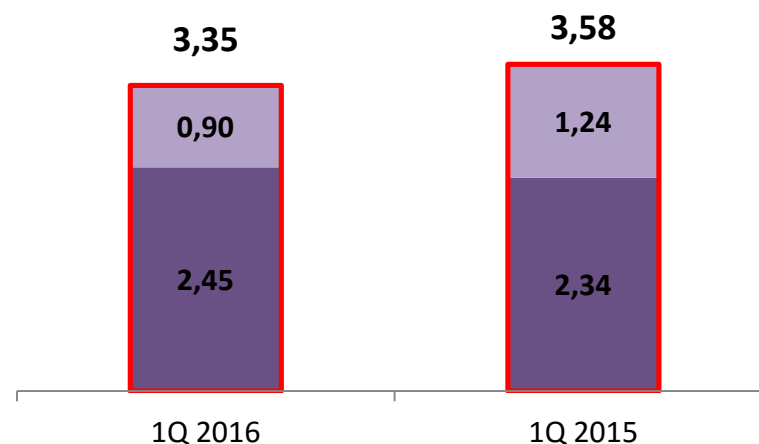


■ Pątnów II ■ Konin ■ Adamów ■ Pątnów I ■ Total

<sup>(1)</sup> Net production in w 1Q 2016 excludes investment production. Investment production in Pątnów I in 1Q 2016 was 0,03 TWh, the total production of Pątnowa I, together with investment production was 1,00 TWh. Total production of the Group, including investment production was 2,48 TWh (increase by 5,98%).

Production of biomass unit in 1Q 2016 was net 0,10 TWh (same as in 1Q 2015).

## SALE<sup>(2)</sup>



■ Own production ■ Resale ■ Total

<sup>(2)</sup> Net Sale in 1Q 2016 electricity from own production excludes investment sale. Investment sale in Pątnów I in 1Q 2016 was 0,04 TWh. Total sale of the Group including investment sale was 3,39 TWh (decrease by 5,31%).

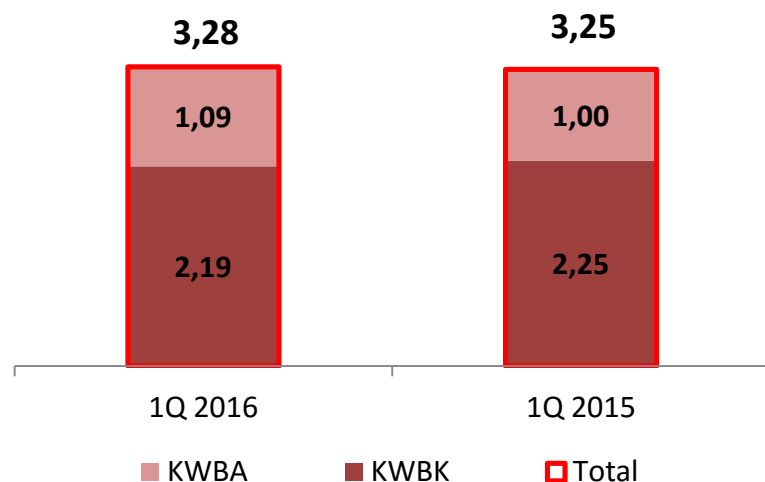


# Lignite consumption and CO2 emission

[m ton]



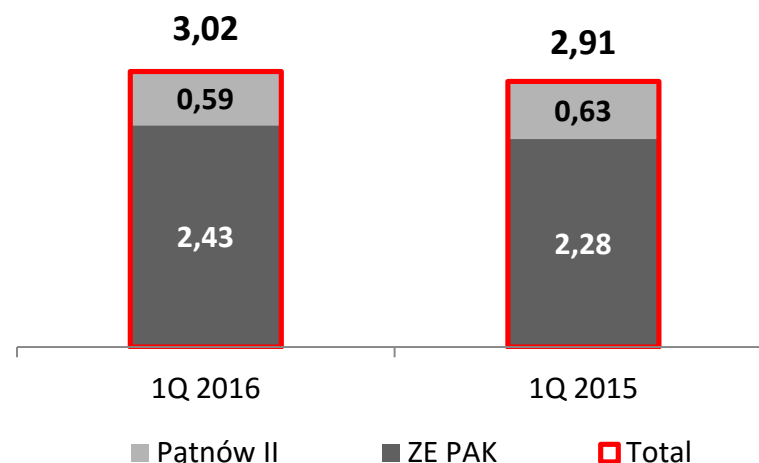
## LIGNITE CONSUMPTION<sup>(1)</sup>



<sup>(1)</sup> Lignite consumption in 1Q 2016 excludes consumption for investment production. Lignite consumption in Pątnów I in 1Q 2016 for the investment production of units 1 and 2 was 0,05 m tons, lignite consumption from KWBK together with lignite used for investment production was 2,25 m tons. Total lignite consumption including investment production of Pątnowa I was 3,33 m tons (increase by 2,46%).

Lower increase of lignite consumption in compare to increase in production comes from better quality factors of lignite in 1Q 2016.

## EMISSION CO<sub>2</sub><sup>(2)</sup>



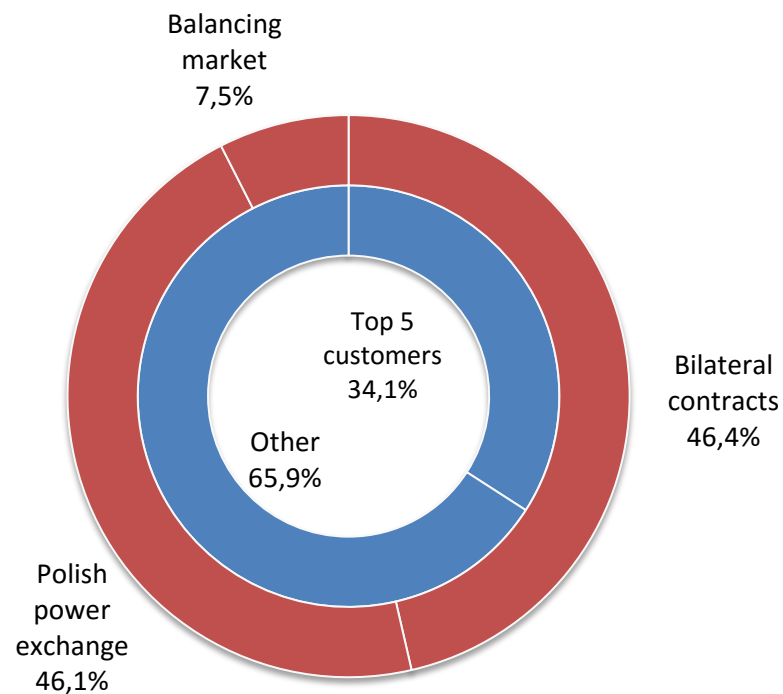
<sup>(2)</sup> Emission of CO2 in 1Q 2016 excludes CO2 emitted from investment production. Emission of CO2 in investment period in Pątnów I in 1Q 2016 was 0,04 m tons. Total Group emission of CO2 including emission in investment period was 3,06 m tons (increase by 5,15%).

*Investment production / sale in Pątnów I  
– production / sale of electricity from units 1 and 2 in  
Pątnów I before finish of modernization and  
commissioning of units 1 and 2.*

# Sale of electricity breakdown

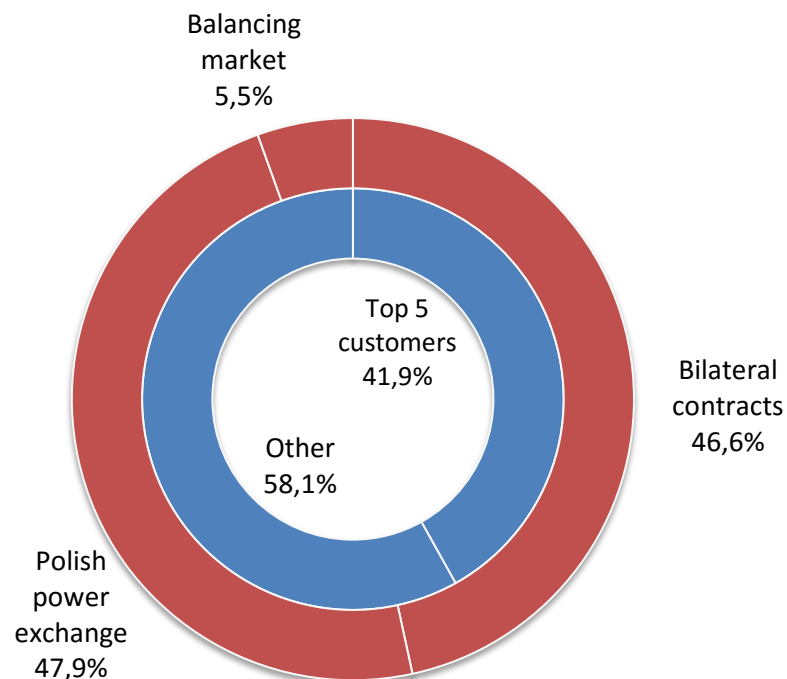
by customers (internal ring) and by the market type (external ring)

## 1Q 2016



■ by customers ■ by market type

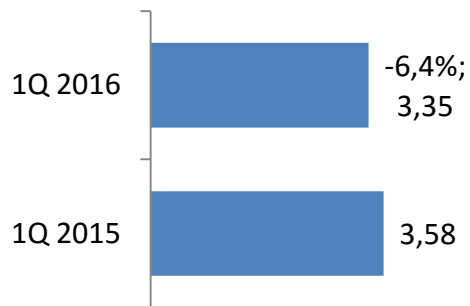
## 1Q 2015



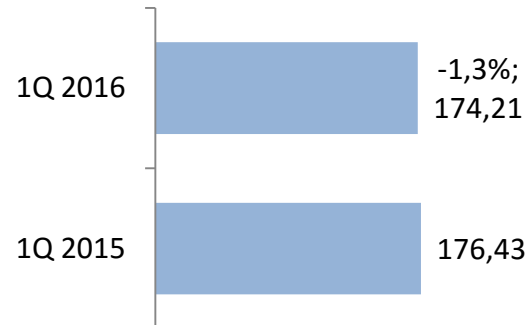
■ by customers ■ by market type

# Electricity sales

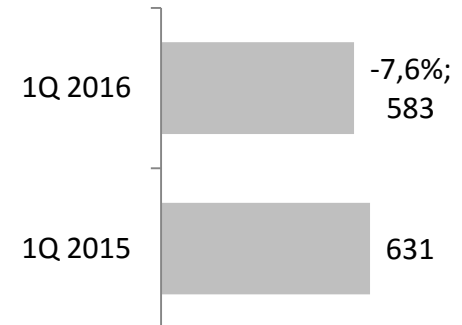
## Electricity sales<sup>(1)</sup> [TWh]



## Average sale prices<sup>(2)</sup> [PLN/MWh]



## Revenues [m PLN]



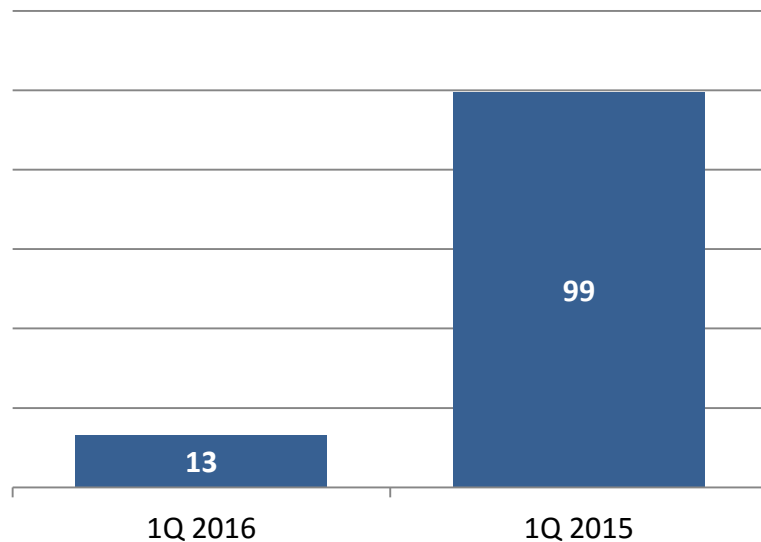
<sup>(1)</sup> Sales of electricity from own production and resold on the market.

<sup>(2)</sup> Average price calculated as sales revenues divided by sales volume.

# Capex on fixed assets and intangible assets (excluding CO<sub>2</sub>)

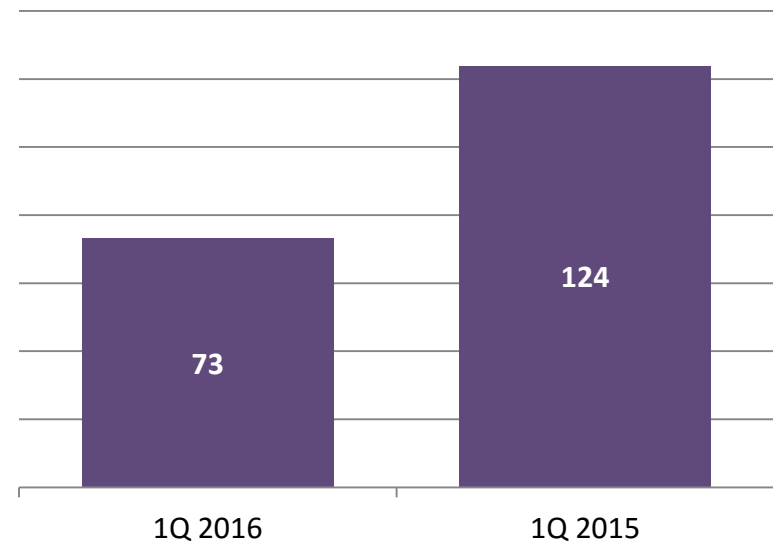


## CAPEX [m PLN]



- 1Q 2016 – limitation in capex.
- Key investment project in 1Q 2015 was modernization of units 1 and 2 in Pątnów I.

## EXPENDITURES [m PLN]



- High level of investment liabilities at the end of 2015, which were due in 1Q 2016 caused, that investment expenditures in 1Q 2016 were much higher than capex in that period.

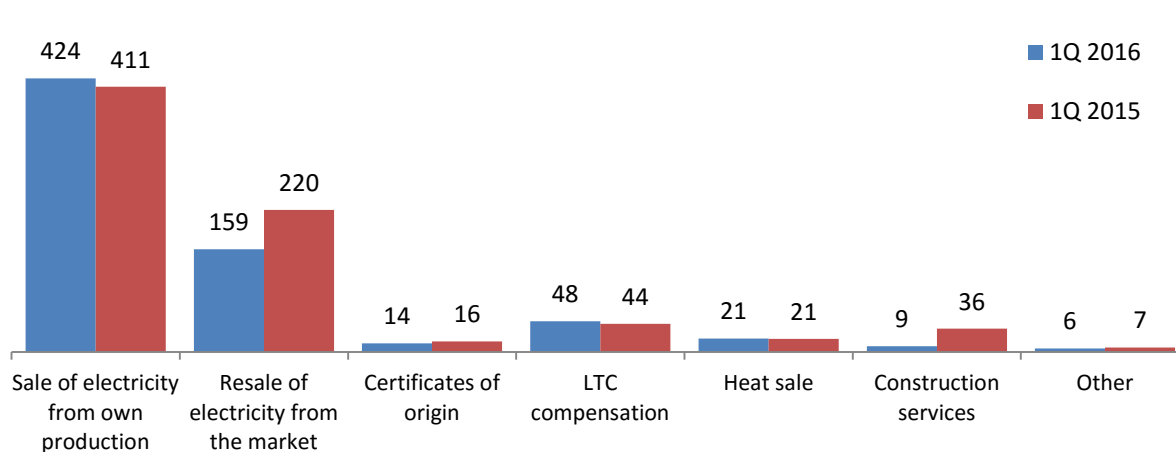
# FINANCIAL DATA

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# Revenues and costs by type

[m PLN]



Lower total revenues from sale of electricity:

- lower sale volume
- lower price

Lower revenues from certificates of origin:

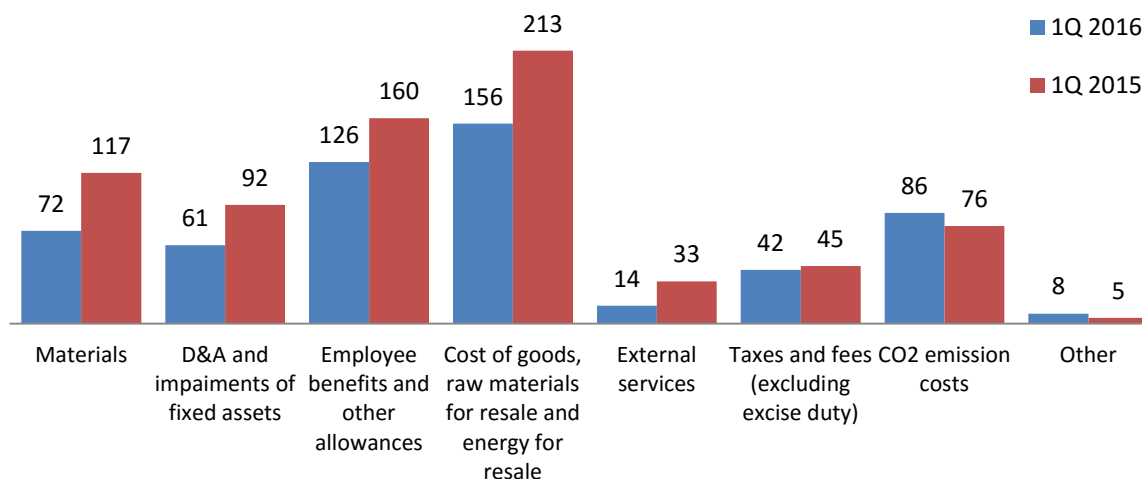
- decrease of market price of green certificates.

Higher LTC compensation:

- lower volume of production
- lower electricity price
- capital renovation of unit

Decrease of revenues from construction services:

- lower scope of construction services



Lower material costs and external services:

- lower scope of construction services in renovation segment companies
- improvement of efficiency in current activities
- lower cost of fuel, lower cost of energy and other materials

Lower D&A:

- impairment as of 31 December 2015 -> decrease of assets value

Lower employee benefits:

- higher base in 1Q 2015 -> jubilee benefits payment as one-off
- decrease in average employment by more than 600 employees (y/y) and change in conditions of remuneration

Lower value of sold goods and materials:

- lower volume of electricity bought by PAK-Volt

Higher costs of CO<sub>2</sub> emission:

- higher volume of EUA bought
- higher price of EUR and higher EUR/PLN exchange rate

# EBITDA 1Q 2016

[m PLN]



|                                   | 1Q 2016    | 1Q 2015    |
|-----------------------------------|------------|------------|
| <b>Sales revenue</b>              | <b>680</b> | <b>755</b> |
| Change %                          | -9,93%     |            |
| Cost of goods sold                | -544       | -690       |
| <b>Gross profit</b>               | <b>136</b> | <b>65</b>  |
| Margin %                          | 20,00%     | 8,61%      |
| Other operating income            | 7          | 6          |
| Selling and distribution expenses | -1         | -1         |
| Administrative expenses           | -27        | -30        |
| Other operating expenses          | -1         | -2         |
| <b>EBITDA<sup>(1)</sup></b>       | <b>175</b> | <b>130</b> |
| Margin %                          | 25,74%     | 17,22%     |
| <b>EBIT<sup>(2)</sup></b>         | <b>114</b> | <b>38</b>  |
| Margin %                          | 16,76%     | 5,03%      |

(1) **EBITDA** higher by PLN 45 m (+34,6%) -> after bringing to comparability higher by **PLN 58 m (+49,6%)**

*comparable EBITDA in 1Q 2015 was PLN 117 m -> value of PLN 130 m is the result of positive one-off in mining segment for PLN 13 m as release of provisions due to transfer of 600 employees to other segments*

(+10) higher LTC compensation, revenue from own production and lower revenue from green certificates and revenue from electricity resale and lower value of electricity bought for resale

(+19) lower cost of fuel (biomass, fuel oil, heating oil), electricity (in mines) and other row materials,

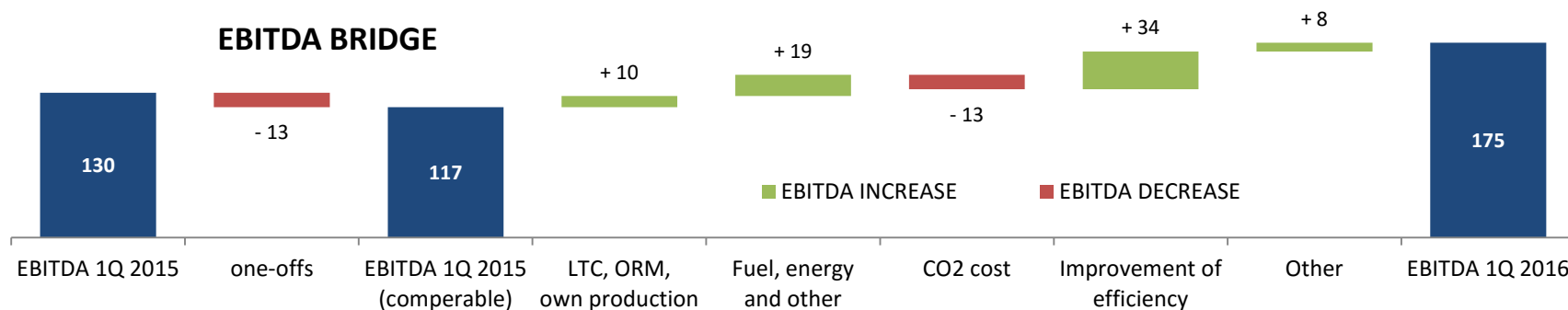
(-13) higher cost of CO<sub>2</sub>

(+34) improvement of efficiency in operation activities, including maintenance of working assets, increase in productivity (decrease in employment by 600 people) and change of remuneration conditions

(+8) lower other costs and result on other operating activities

(2) **EBIT** higher by **PLN 76 m (+200,0%)** -> additional factor supporting EBIT increase was lower D&A (-31) which is due to impairment made on assets at the end of 2015

## EBITDA BRIDGE



# EBITDA 1Q 2016 by segments

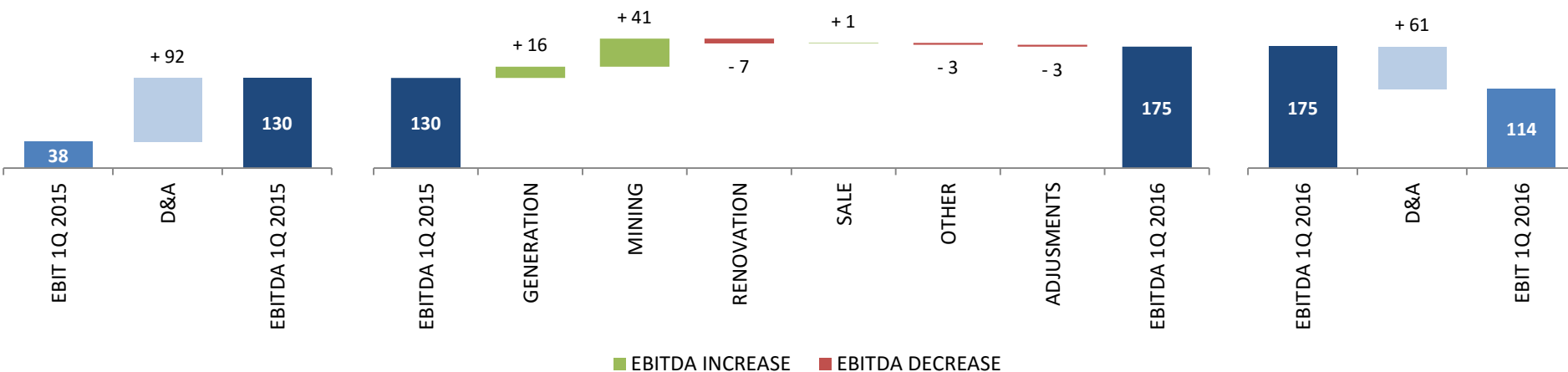
[m PLN]



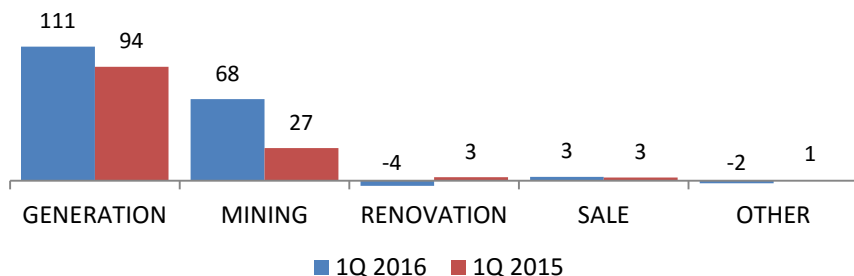
## EBIT -> EBITDA

## EBITDA BRIDGE

## EBITDA <- EBIT



## EBITDA



Main reasons of EBITDA changes in segments:

Generation:

- (+17) higher revenues from own generation, higher LTC compensation
- (-18) lower revenues from green certificates, lower revenues from resale
- (-16) higher cost of fuel and raw materials and allowances for emission of CO<sub>2</sub>
- (+30) lower value of electricity bought for resale, lower employee benefits and lower cost of other materials and external services
- (+3) result on other operating activities

Mining:

- (+18) higher revenues from lignite sale
- (+7) lower cost of electricity
- (+14) lower cost of other materials
- (+11) lower cost of external services
- (-13) one-off in 1Q 2015 (higher comparable base)

Renovation and other:

- (-7) lower contraction in compare to 1Q 2015 -> higher decrease in revenue s in compare to costs



# Consolidated P&L for the 1Q 2016 by segments



| m PLN                                 | Generation    | Mining        | Renovation    | Sale           | Other          | Consolidation adjustments | Total          |
|---------------------------------------|---------------|---------------|---------------|----------------|----------------|---------------------------|----------------|
| Sale revenues from external customers | 447           | 3             | 10            | 219            | 2              | -                         | 680            |
| <i>External sale revenues %</i>       | <i>80,69%</i> | <i>1,29%</i>  | <i>15,38%</i> | <i>100,00%</i> | <i>8,00%</i>   | <i>0,00%</i>              | <i>100,00%</i> |
| Sale revenues between segments        | 107           | 230           | 55            | -              | 23             | (415)                     | -              |
| <b>Sale revenues</b>                  | <b>554</b>    | <b>232</b>    | <b>65</b>     | <b>219</b>     | <b>25</b>      | <b>(415)</b>              | <b>680</b>     |
| Cost of goods sold                    | (466)         | (188)         | (65)          | (215)          | (26)           | 416                       | (544)          |
| <b>Gross profit (loss)</b>            | <b>88</b>     | <b>44</b>     | <b>-</b>      | <b>5</b>       | <b>(1)</b>     | <b>1</b>                  | <b>136</b>     |
| <i>Margin %</i>                       | <i>15,88%</i> | <i>18,97%</i> | <i>0,00%</i>  | <i>2,28%</i>   | <i>-4,00%</i>  | <i>-0,24%</i>             | <i>20,00%</i>  |
| <b>EBITDA</b>                         | <b>111</b>    | <b>68</b>     | <b>(4)</b>    | <b>3</b>       | <b>(2)</b>     | <b>-</b>                  | <b>175</b>     |
| <i>Margin %</i>                       | <i>20,04%</i> | <i>29,31%</i> | <i>-6,15%</i> | <i>1,37%</i>   | <i>-8,00%</i>  | <i>0,00%</i>              | <i>25,74%</i>  |
| <b>EBIT</b>                           | <b>80</b>     | <b>38</b>     | <b>(6)</b>    | <b>3</b>       | <b>(3)</b>     | <b>1</b>                  | <b>114</b>     |
| <i>Margin %</i>                       | <i>14,44%</i> | <i>16,38%</i> | <i>-9,23%</i> | <i>1,37%</i>   | <i>-12,00%</i> | <i>-0,24%</i>             | <i>16,76%</i>  |
| <b>Net profit (loss)</b>              | <b>50</b>     | <b>30</b>     | <b>(5)</b>    | <b>3</b>       | <b>(3)</b>     | <b>1</b>                  | <b>75</b>      |
| <i>Margin %</i>                       | <i>9,03%</i>  | <i>12,93%</i> | <i>-7,69%</i> | <i>1,37%</i>   | <i>-12,00%</i> | <i>-0,24%</i>             | <i>11,03%</i>  |

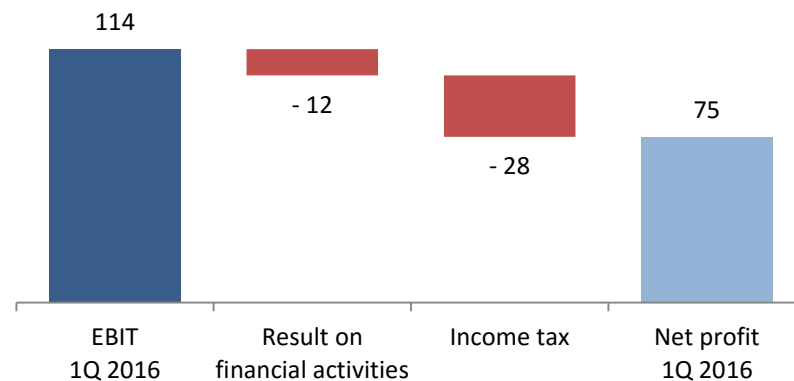
# Financial activities, taxation and net result

[m PLN]

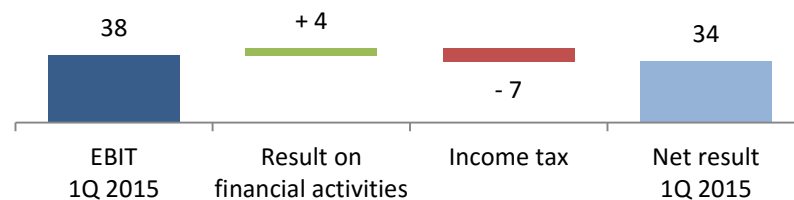
|                                      | 1Q 2016       | 1Q 2015       |
|--------------------------------------|---------------|---------------|
| <b>EBIT</b>                          | <b>114</b>    | <b>38</b>     |
| Financial income <sup>(1)</sup>      | 4             | 20            |
| Financial costs                      | (16)          | (16)          |
| <b>Gross profit</b>                  | <b>103</b>    | <b>42</b>     |
| Income tax (taxation) <sup>(2)</sup> | (28)          | (7)           |
| <i>Effective tax rate</i>            | <i>27,18%</i> | <i>16,67%</i> |
| <b>Net profit for the period</b>     | <b>75</b>     | <b>34</b>     |
| <i>Margin %</i>                      | <i>11,03%</i> | <i>4,50%</i>  |

- (1) In 1Q 2015 financial income higher due to lower EUR/PLN exchange rate -> exchange gains (+19)
- (2) Higher income tax as a result of current income tax correction (+8) tax loss from previous years

## EBIT --> net profit



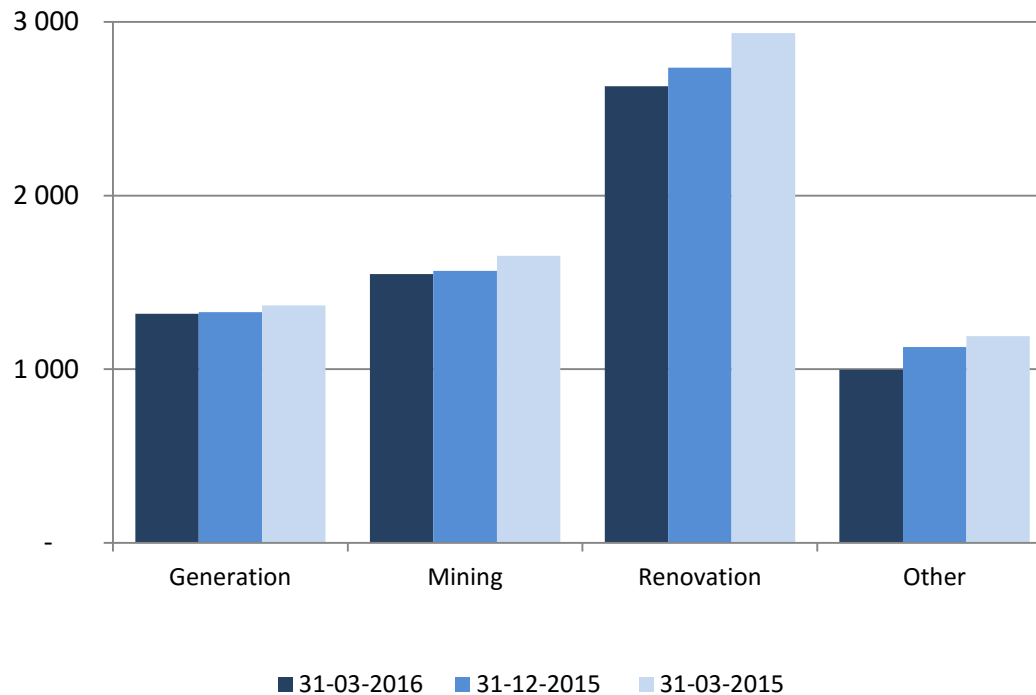
■ INCREASE ■ DECREASE



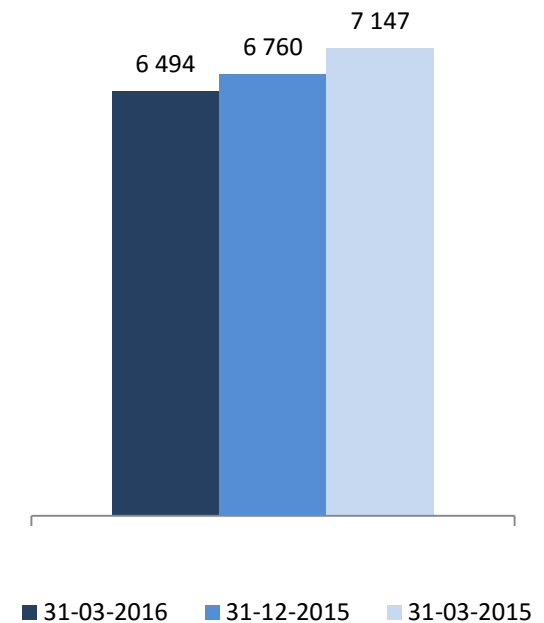
# Employment

[full time]

## BY SEGMENTS



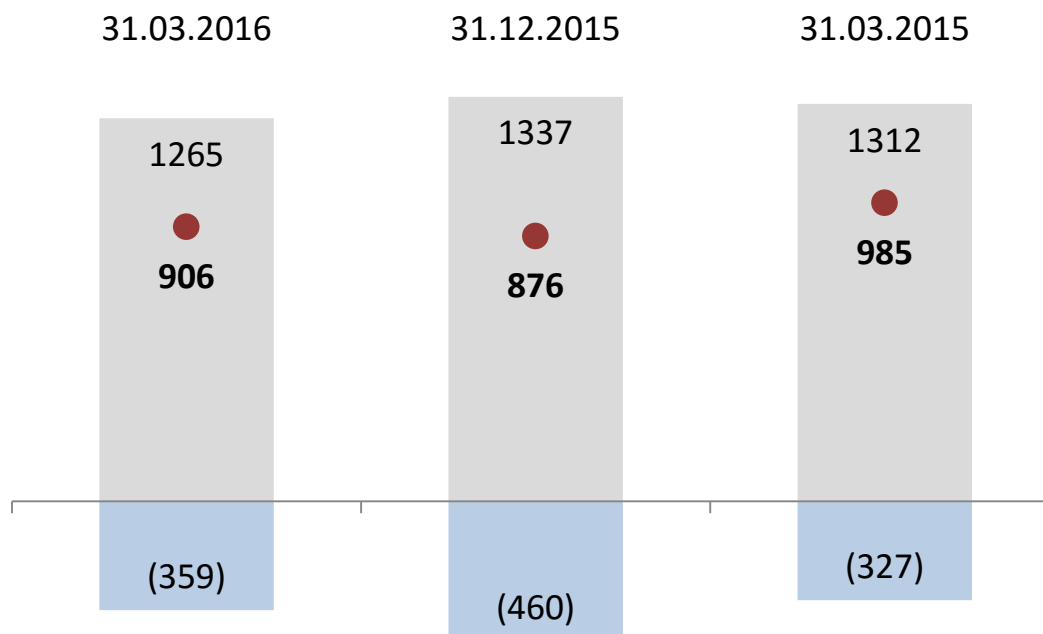
## TOTAL



Group's employment decrease comes mainly from pension rights acquisitions of employees and finishing of fixed-term contracts.

# Financial indebtedness

## Net debt [m PLN]



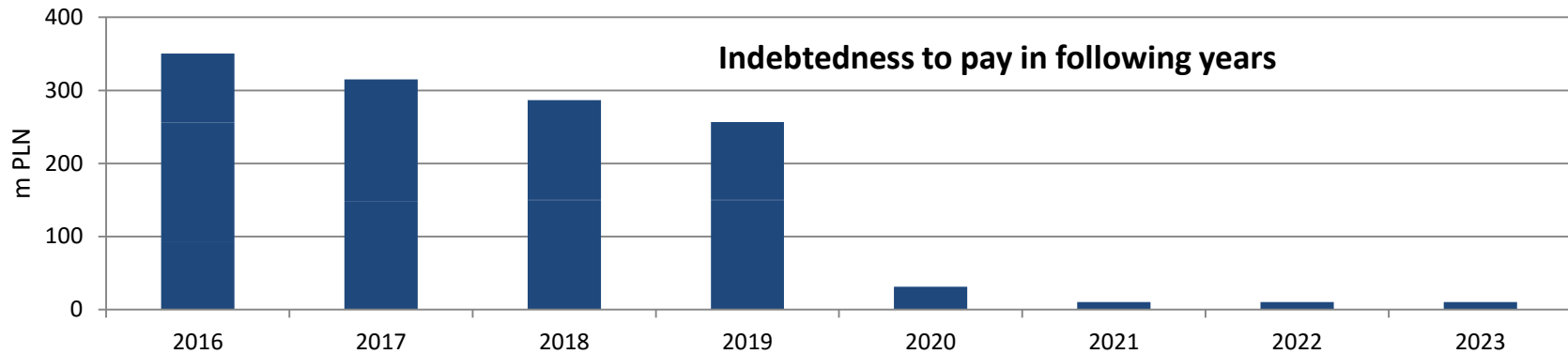
- Cash and cash equivalents<sup>(1)</sup>
- interest bearing loans, credits and leases
- Net debt

## Net debt / EBITDA

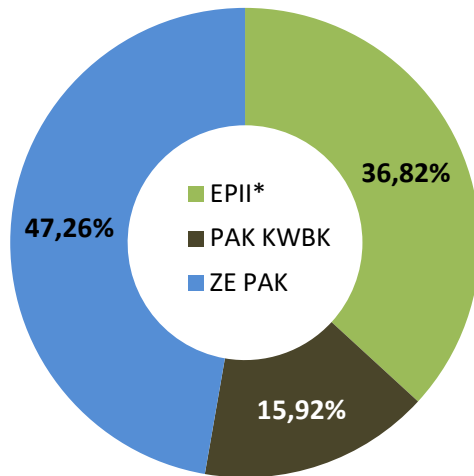
|            |      |
|------------|------|
| 31.03.2016 | 1,68 |
| 31.12.2015 | 1,77 |
| 31.03.2015 | 2,10 |

<sup>(1)</sup> Cash and cash equivalents from Consolidated statement of financial position and other short-term financial assets

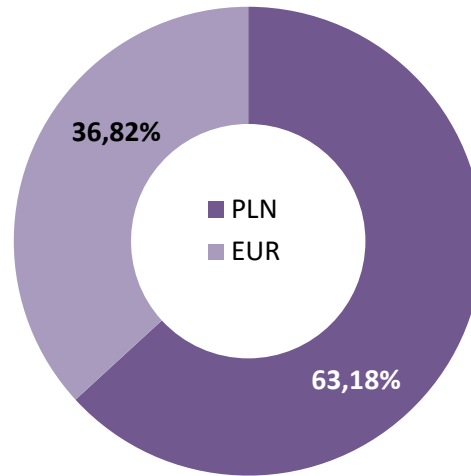
# Financial indebtedness structure



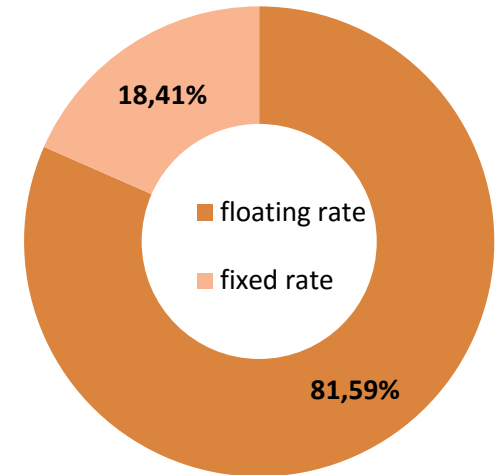
**Indebtedness structure by debtor**



**Indebtedness structure by currency**



**Indebtedness structure by interest rate**



\* EUR indebtedness calculated by NBP exchange rate as of 31.03.2016

# Consolidated cash flow

[m PLN]



|   | 1Q 2016     | 1Q 2015      |
|---|-------------|--------------|
| <b>Gross profit (loss)</b>  | <b>103</b>  | <b>42</b>    |
| depreciation and amortization <sup>(1)</sup>  | 58          | 92           |
| profit/loss on investing and financial activities   | 9           | (7)          |
| changes in working capital  | 37          | (110)        |
| income tax  | (9)         | 1            |
| purchase of EUA <sup>(2)</sup>  | (142)       | (90)         |
| other   | 0           | (1)          |
| <b>Net cash flow from operational activities</b>  | <b>56</b>   | <b>(75)</b>  |
| (inflows/outflows) of investments in property, plant and equipment and intangible assets <sup>(3)</sup> | (73)        | (124)        |
| other   | 6           | (1)          |
| <b>Net cash flow from investing activities</b>  | <b>(68)</b> | <b>(125)</b> |
| inflows of credits, loans, leases and securities  | 0           | 145          |
| payment of credits, loans, leases and securities <sup>(4)</sup>   | (77)        | (52)         |
| interest paid   | (13)        | (13)         |
| dividend paid   | -           | -            |
| other   | (1)         | (3)          |
| <b>Net cash flow from financial activities</b>  | <b>(90)</b> | <b>77</b>    |
| change in cash and cash equivalents   | (102)       | (123)        |
| cash and cash equivalents at the beginning of the period  | 383         | 355          |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>282</b>  | <b>232</b>   |

(1) Lower amortization and depreciation in 1Q 2016 as a result of impairment on assets made as of 31 December 2015

(2) Group purchased in 1Q 2016 more EUA in compare to emitted in 1Q CO<sub>2</sub> (PLN 51 m for following periods).

(3) Outflows in 1Q 2016 connected mainly with modernization of units 1-2 in Pątnów I.

(4) Payments in 1Q 2016 including payments of the loan for modernization of Pątnów I – payments in amount of PLN 19 m.

# Questions and answers

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# Disclaimer

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