




15 May 2017

Zespół Elektrowni Pątnów-Adamów-Konin SA

1Q 2017 Results

PAK
Energia dla Ciebie

ZE PAK Group – 1Q 2017 summary

Key financial and operational data	1Q 2017		Change y/y
Electricity sale[1]:	2.84	TWh	-15.98%
• Own production[1]:	2.20	TWh	-11.29%
• Resale :	0.64	TWh	-28.89%
ZE PAK share in whole electricity production in Poland[2]:	5.53	%	-0.80p.p.
Achieved average electricity sale price[3]:	176.39	zł/MWh	+1.25%
Sale revenues:	600	m zł	-11.76%
EBITDA:	125	m zł	-28.57%
Net profit:	56	m zł	-25.33%
Capex:	13	m zł	0%
Indebtedness:	904	m zł	-28.54%
Cash[4]:	279	m zł	-22.28%
Net debt / EBITDA:	1.15	x	-31.55%

(1) In 1Q 2016 including sale within the commissioning of units 1 and 2 in Pątnów I power plant (0,04 TWh).

(2) 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 SA website. Gross production in Poland in 1Q 2017 was 44,29 TWh (in 1Q 2016 – 41,99 TWh).

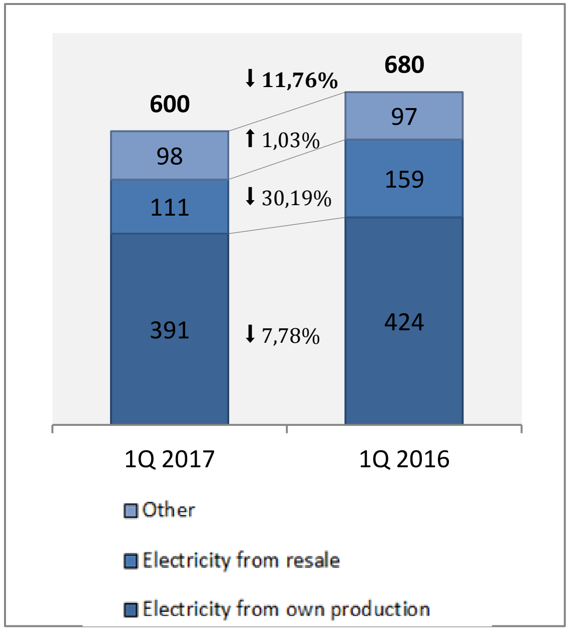
(3) Average price calculated as electricity sales revenues (together with system services) divided by sales volume.

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

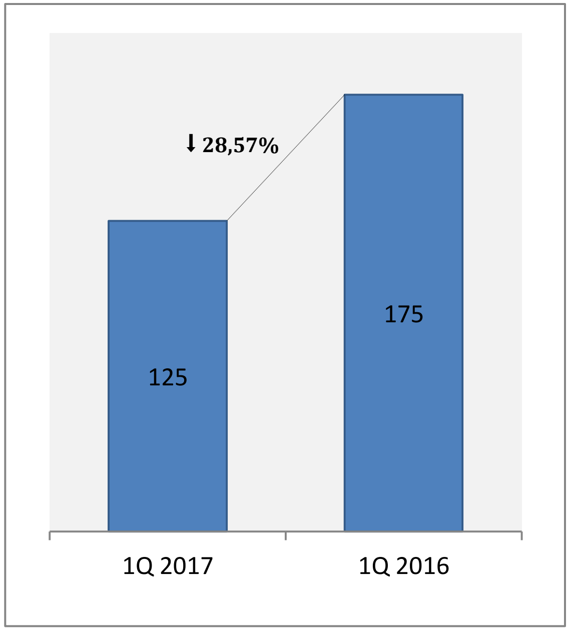
ZE PAK Group – 1Q 2017 Summary

[m PLN]

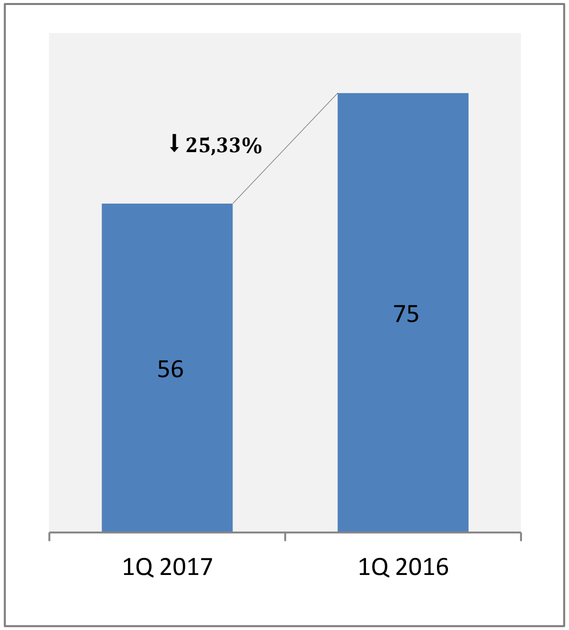
Revenues



EBITDA



Net profit

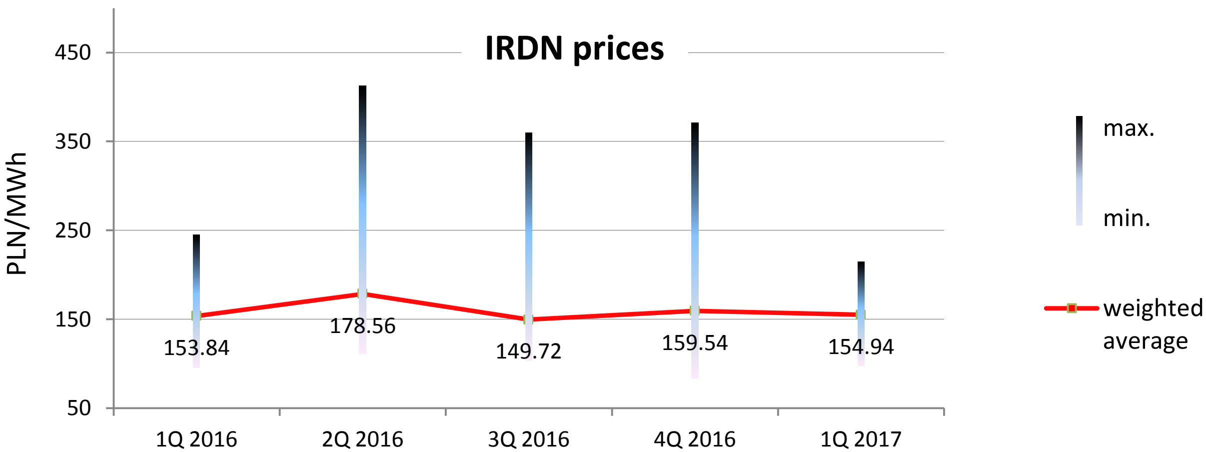


Lower financial results of ZE PAK SA Group in 1Q 2017 according to corresponding period of previous year. Lower results mainly due to lower electricity production volume and higher purchase price of CO_2 emission allowances.

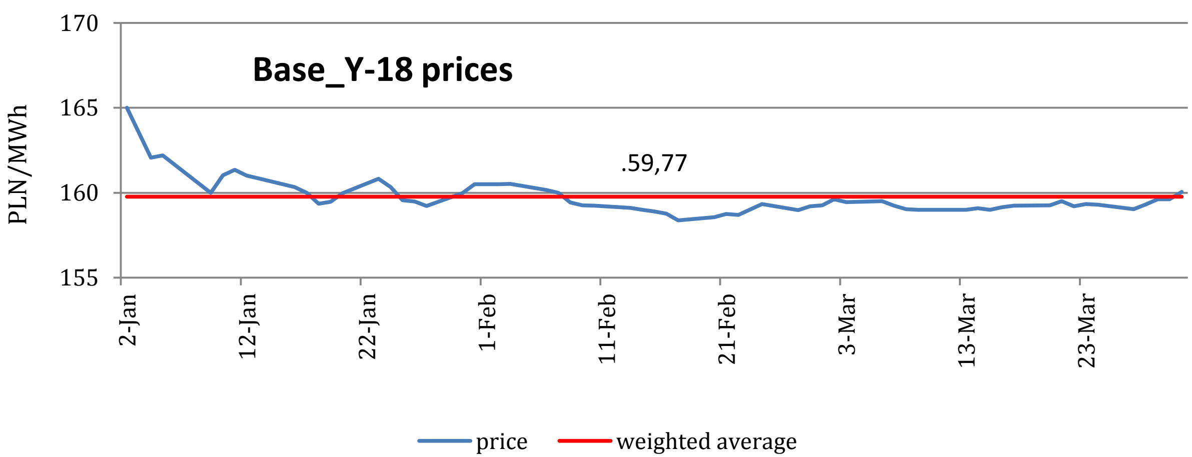
SELECTED ELECTRICITY MARKET DATA

PAK
Energia dla Ciebie

Electricity prices

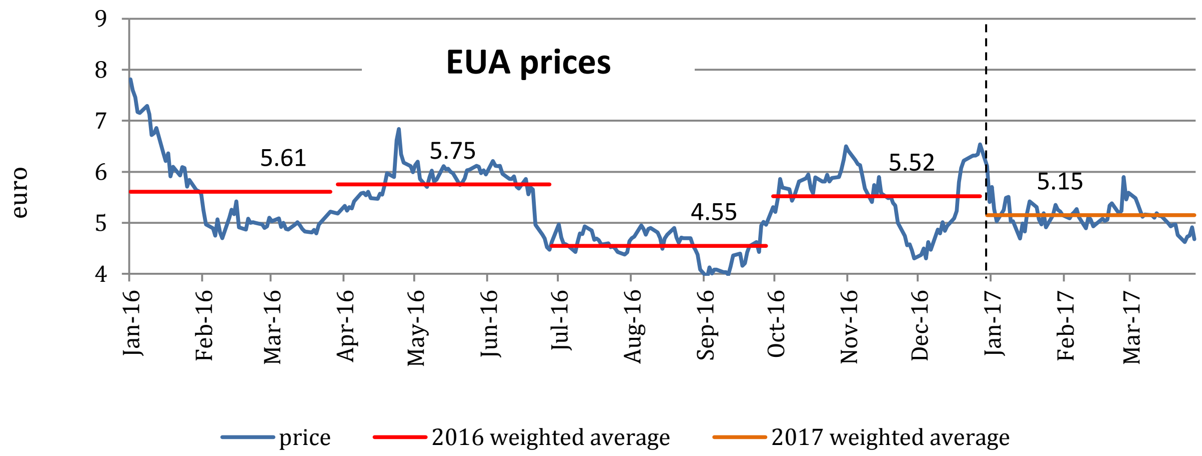


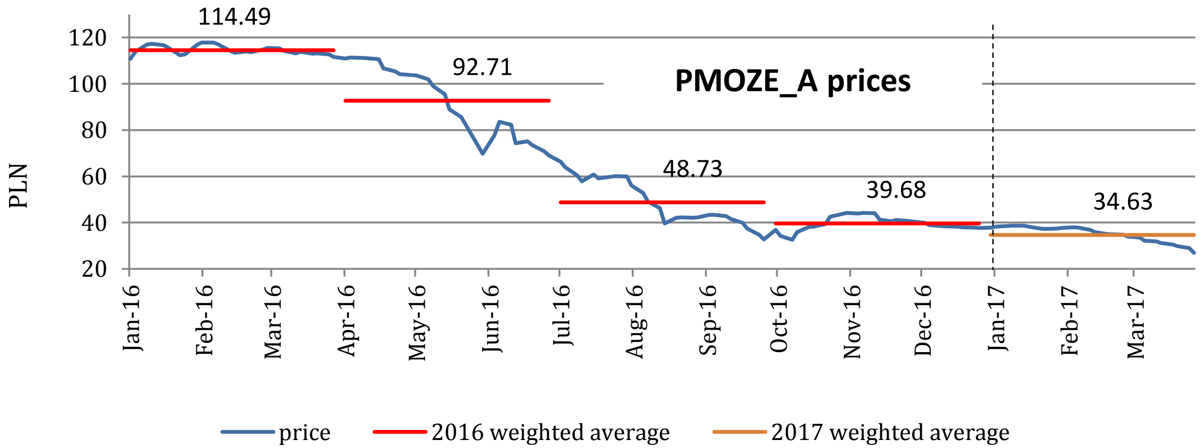
Increase of quarterly weighted average electricity price in 1Q 2017 (Day ahead index on TGE) by 1,1 PLN, i.e.. roughly 0.7% in compare to 1Q 2016. The range of price volatility relatively small compared to recent periods. Electricity prices higher in first half of the quarter. At that time also higher prices on foreign markets (for example France) as reaction for relatively low temperatures, low generation from sources dependent on weather and renovations in nuclear power plants



On the futures market in 1Q 2017 the range of price volatility was relatively small. Only at the beginning of January prices were above 160 PLN/MWh. During the rest of the period prices ware close to the level from previous quarters, close to 160 PLN/MWh (similar to 2Q, 3Q and 4Q 2016).

CO_2 emission allowances (EUA) and green certificates of electricity origin





Prices of CO_2 emission allowances (EUA) in 1Q 2017 lower than in 1Q 2016 and 4Q 2016. The arithmetic average for EUA in 1Q 2017 was 5.15 euro - and was lower by over 8% than in 1Q 2016. The highest prices recorded at the turn of February and March in reaction to the vote of the Council of Europe on actions that would interfere with the market mechanism in order to incur EUA prices. The short-term growth impulse was quickly exhausted because throughout March there was a systematic decrease in price.

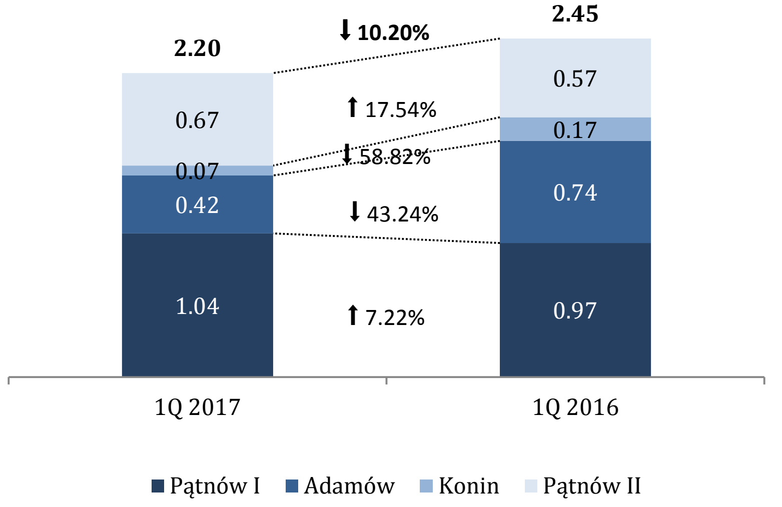
Weighted average price of green certificates in 1Q 2017 at the level of 34.63 PLN, i.e. by 70%, roughly 80 PLN , lower than in 1Q 2016. The great oversupply of certificates creates no incentives to increase of prices. Systematic quotes of lower and lower levels are also a reaction to the announcement expressing aversion to any intervention or action that would interfere with the current situation. The last two years also include a dynamic increase in wind generation and the number of certificates issued for wind power, resulting in even greater supply.

OPERATIONAL DATA

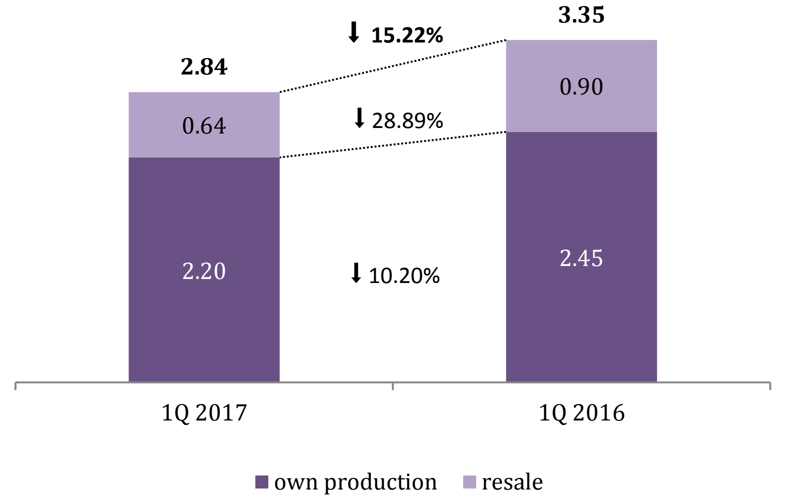
Net production and sale of electricity

[TWh]

NET PRODUCTION(1)



SALE(2)



Decrease in production due to:

- Adamów power plant -> lower lignite extraction in PAK KWB Adamów,
- Konin power plant -> lack of production in biomass unit.

There was increase in production in Pątnów I and Pątnów II power plants but volume was lower than volume decrease in Adamowa and Konina power plants.

(1) Data on chart without investment production. In 1Q 2016 there was investment production in Pątnów I power plant, which was 0,03 TWh. Production Pątnowa I including investment production was 1.00 TWh. Production of the Group including investment production of Pątnowa I in 1Q 2016 was 2,48 TWh. There was no production from biomass unit in Konin power plant in 1Q 2017 (0,10 TWh production from biomass unit in 1Q 2016).

Decrease of sale due to lower own production and lower volume of electricity from resale. Lower scale of trade activity due to specific market condition of given time and strategy of PAK-Volt SA.

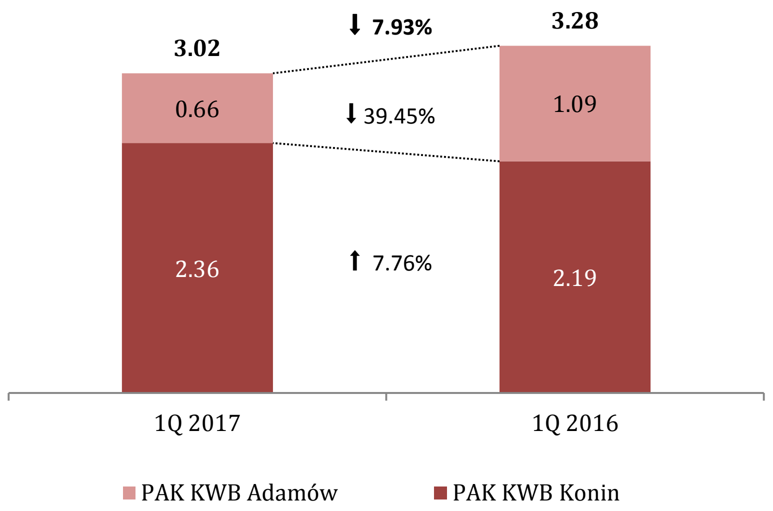
(2) Data excluding investment sale. In 1Q 2016 there was investment sale in Pątnów I power plant, which was 0,04 TWh. Together with investment sale of the Group in 1Q 2016 sale was 3,39 TWh.

Investment production / sale of Pątnów I – production / sale of electricity from units 1 and 2 in Pątnów I power plant before the completion of the modernisation and prior to commissioning of units in 1Q 2016.

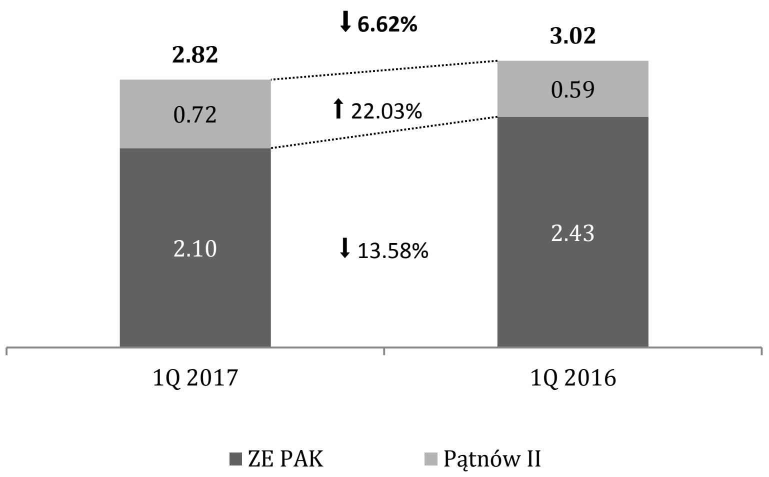
Lignite consumption and CO_2 emission

[million tonns]

LIGNITE CONSUMPTION(1)



EMISSION OF CO_2(2)



Decrease of lignite consumption in 1Q 2017 due to lower extraction in PAK KWB Adamów SA. In 1Q 2017 only one open pit (Adamów) was exploited, in corresponding period of 1Q 2016 two open pits (Adamów and Koźmin) were exploited.

(1) Data on chart without investment consumption. In 1Q 2016 there was investment consumption in Pątnów I power plant due to needs of renovation of units 1 and 2, which was 0.05 m tonns. Lignite consumption from PAK KWB Konin including investment consumption was 2.25 m tonns. Total lignite consumption in 1Q 2016 including investment consumption was 3.33 m tonns.

CO_2 emission linked to electricity generation.
In Pątnów II power plant increase of emission due to increase in generation. In ZE PAK decrease in emission due to decrease in generation in Adamów power plant.

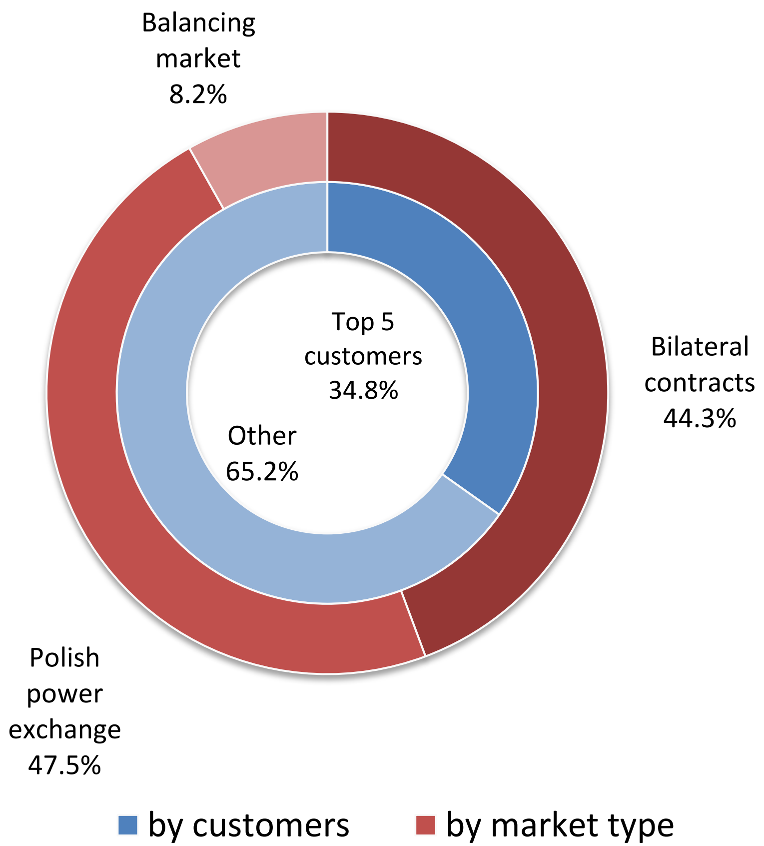
(2) Data on chart without investment emission. In 1Q 2016 there was investment emission in Pątnów I power plant, which was 0.04 m tonns. Including investment emission the total emission of the Group in 1Q 2016 was 3.06 m tonns.

Investment production / sale of Pątnów I – production / sale of electricity from units 1 and 2 in Pątnów I power plant before the completion of the modernisation and prior to commissioning of units in 1Q 2016).

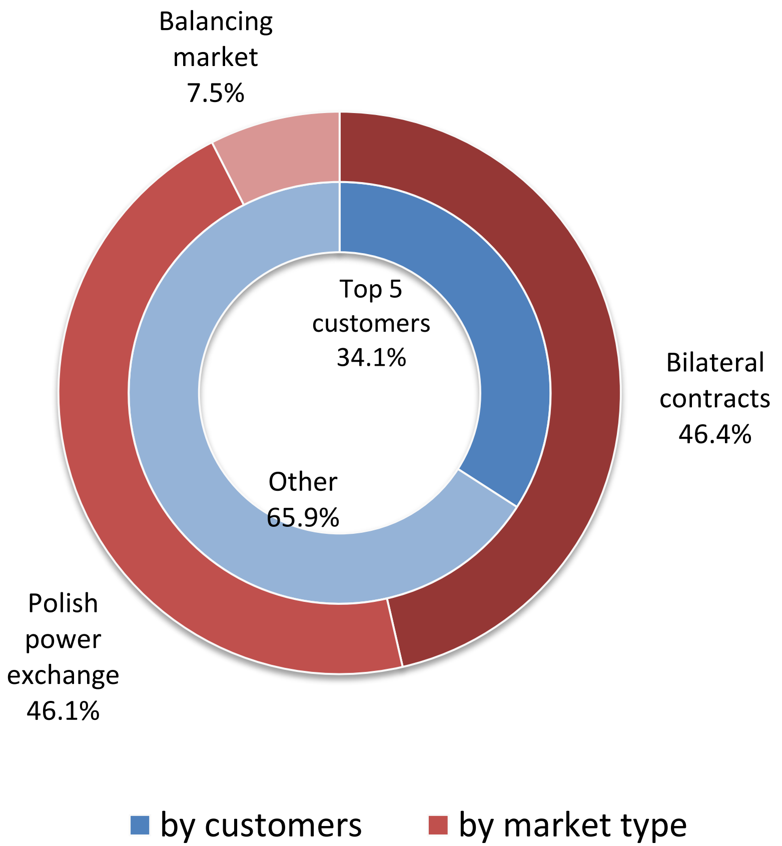
Sale of electricity breakdown

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

1Q 2017



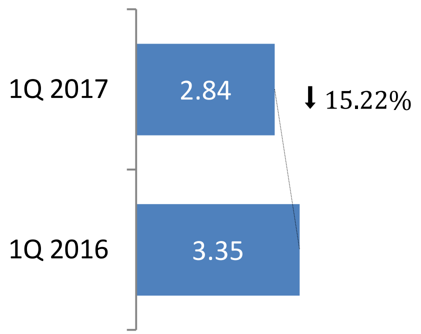
1Q 2016



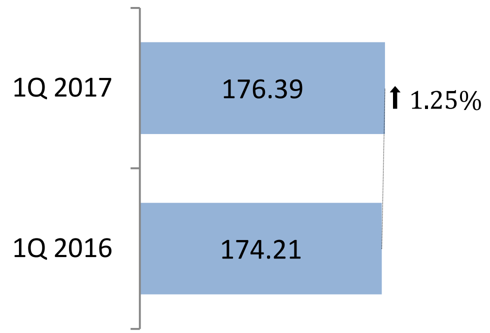
In compared periods sale directions are similar.

Electricity sales(1)

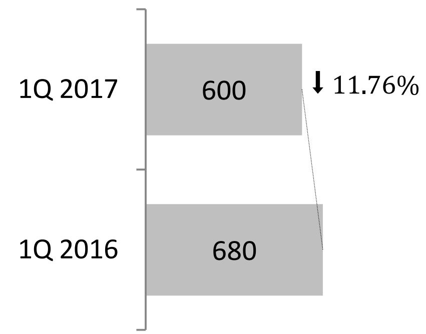
Electricity sale(2)
[TWh]



Average sale prices(3)
[PLN/MWh]



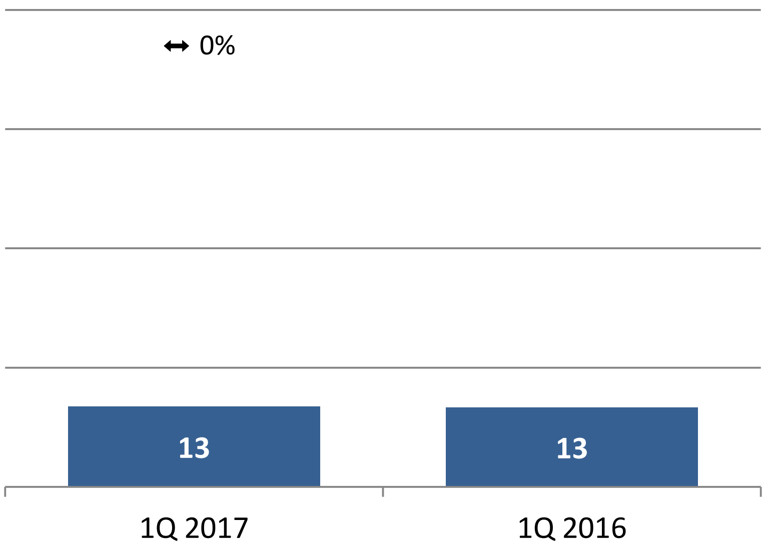
Revenues
[m PLN]



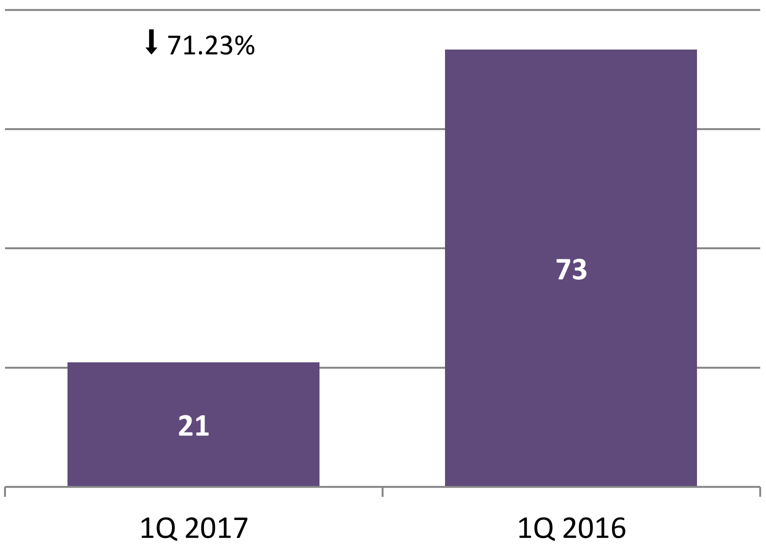
(1) Sales presented in P&L (excluding investment sale).
(2) Sales of electricity from own production and resold on the market.
(3) Average price calculated as electricity sales revenues (together with system services) divided by sales volume.

Capex on fixed assets and intangible assets
(excluding CO_2)

CAPEX [PLN million]



EXPENDITURES [PLN million]

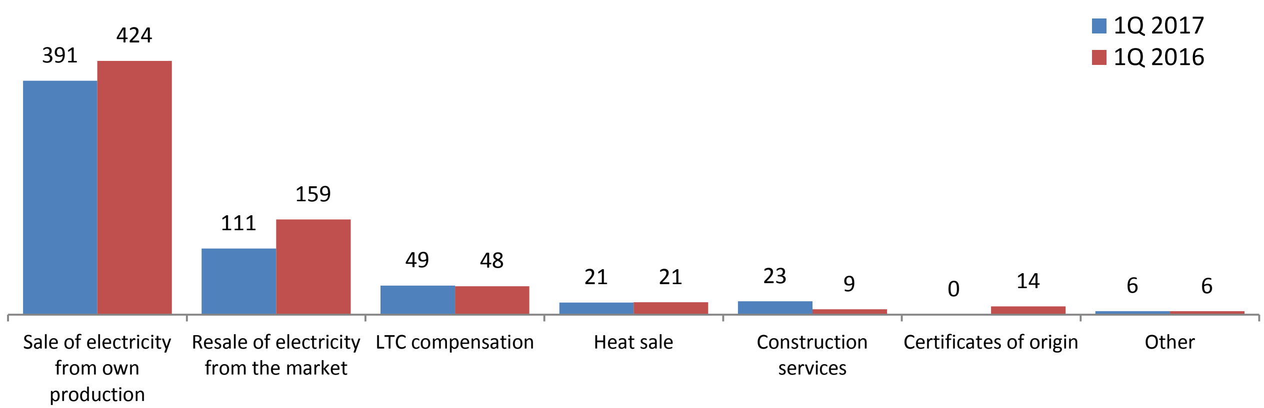


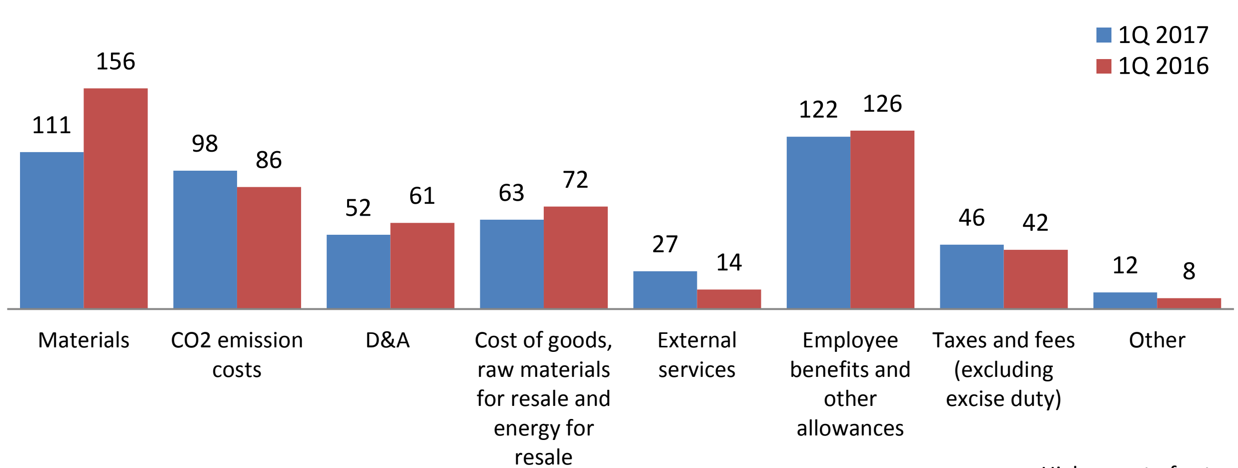
- Low capex in both periods. Lack of big investment projects.

- High level of investment liabilities as the end of 2015, of which the due term was in 1Q 2016 is the reason of higher expenditures than capex. Similar situation on lower scale in 1Q 2017.

FINANCIAL DATA

Revenues
[PLN million]





Revenues

Lower total revenues from electricity sale:
- lower sale volume from own production and from resale,
- higher achieved sale price does not compensate for the decrease in volume.

Increase of revenues from construction contracts as result of engagement of one of the service companies in contracts outside the Group.

Decrease in revenues from electricity certificates of origin:
- lack of production from biomass unit,
- Loss on sale of green certificates at market price lower than price used to quote green certificates at the end of the year.

Costs

Lower value of materials:
- lower volume of electricity (for resale) purchased by PAK-Volt.

Higher costs of CO2 emission due to higher EUA price.

Lower D&A:
- concerning mining segment, lack of amortisation of one open pit (Koźmin) closed in 2016, finish of amortisation of asset of overburden as at the end of March last year.

Lower cost of row materials as a result of lack biomass costs.

Higher cost of external services
- Higher range of construction contracts of one service companies to outside customers -> higher cost of subcontractors.

Lower employee benefits as a result of lower employment.

EBITDA 1Q 2017

[PLN million]

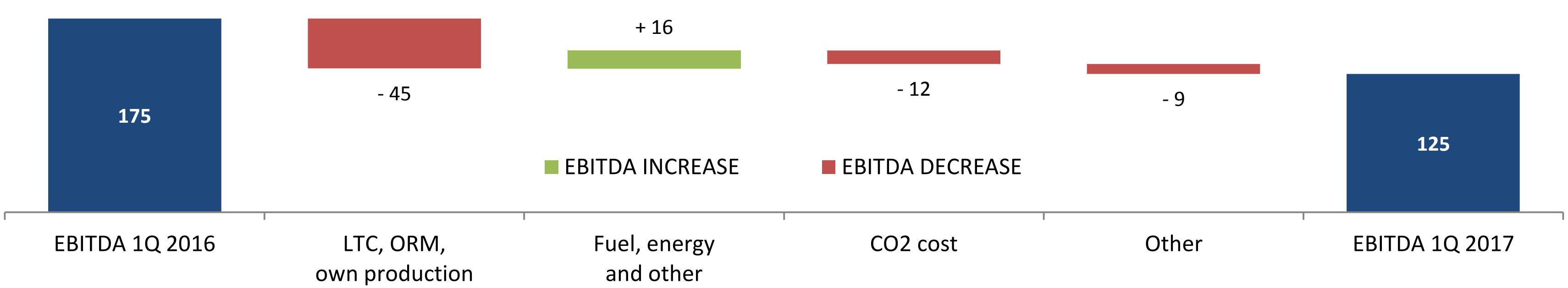
	1Q 2017	1Q 2016
Sales revenue	**600**	**680**
Change %	*-11.76%*	
Cost of goods sold	(499)	(544)
Gross profit	**101**	**136**
Margin %	*16.83%*	*20.00%*
Other operating income	5	7
Selling and distribution expenses	(1)	(1)
Administrative expenses	(31)	(27)
Other operating expenses	(1)	(1)
EBITDA(1)	**125**	**175**
Margin %	*20.83%*	*25.74%*
EBIT(2)	**72**	**114**
Margin %	*12.00%*	*16.76%*

(1) **EBITDA lower by 50 m PLN** (-28.6%)

- (-45) lower revenues from own electricity production, higher revenues from system services and capacity reserve, lower revenues from certificates of origin, lower result on electricity resale and higher LTC compensation,
- (+16) lower costs of fuels (biomass, mazut, heating oil), lower cost of electricity and other materials for production
- (-12) higher cost of emission of CO_2
- (-9) lower cost of employee benefits (lower average employment by 443 full time staff), higher taxes and charges, higher other costs and lower result on other operational activities

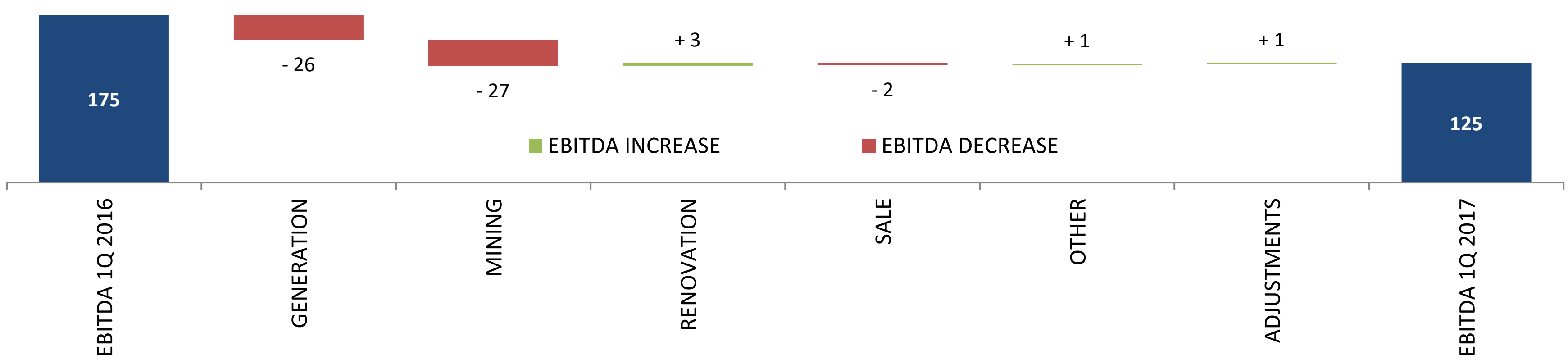
(2) **EBIT lower by 42 m PLN** (-36.8%) -> additional impact supporting EBIT was higher D&A (-8) concerning mining segment due to finish of operation of one open pit in 2016 and finish of amortisation of overburden asset in 1Q 2016

EBITDA changes



EBITDA 1Q 2017 by segments

[PLN million]



Main reasons of EBITDA changes in segments:

Generation:

(-45) lower revenues from own electricity production, higher revenues from system services and capacity reserve, lower revenues from certificates and lower result on resale and higher revenues from LTC,

(+28) lower cost of fuel and other materials for production,

(-12) higher cost of allowances for emission of CO_2,

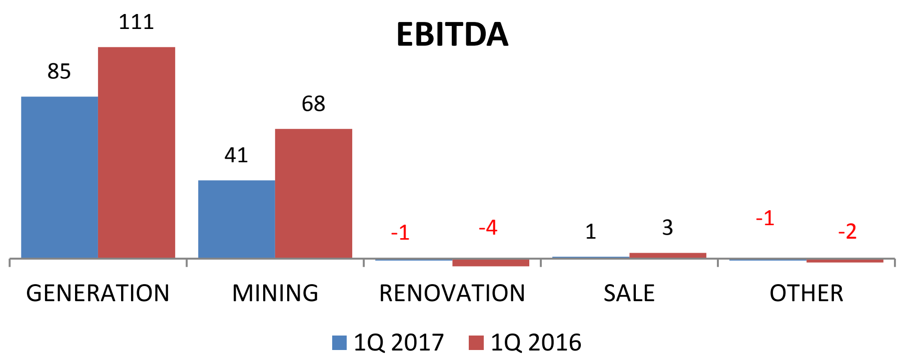
(+3) lower cost of external services, higher cost of employee benefits and lower result on other operational activity.

Mining:

(-12) lower revenues from lignite sale,

(+4) lower cost of electricity,

(-19) lower cost of employee benefits, higher other costs and lower result on other operational activities.



Renovation and Other:

(+4) higher range of construction contracts and margin in compare to 1Q 2016.

Sale:

(-2) lower volume of sale and lower margin.

Consolidated P&L for 1Q 2017 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	428	2	25	144	2	-	600
External sale revenues %	*82.95%*	*0.92%*	*31.25%*	*100.00%*	*8.33%*	*0.00%*	*100.00%*
Sale revenues between segments	88	216	55	-	23	(382)	-
Sale revenues	**516**	**218**	**80**	**144**	**24**	**(382)**	**600**
Cost of goods sold	(452)	(187)	(77)	(142)	(24)	383	(499)
Gross profit (loss)	**64**	**31**	**3**	**2**	**-**	**2**	**101**
Margin %	*12.40%*	*14.22%*	*3.75%*	*1.39%*	-	*(0.52)%*	*16.83%*
EBITDA	**85**	**41**	**(1)**	**1**	**(1)**	**-**	**125**
Margin %	*16.47%*	*18.81%*	*(1.25)%*	*0.69%*	*(4.17)%*	-	*20.83%*
EBIT	**53**	**21**	**(3)**	**1**	**(2)**	**2**	**72**
Margin %	*10.27%*	*9.63%*	*(3.75)%*	*0.69%*	*(8.33)%*	*(0.52)%*	*12.00%*
Net profit (loss)	**39**	**12**	**(2)**	**1**	**(2)**	**8**	**56**
Margin %	*7.56%*	*5.50%*	*(2.50)%*	*0.69%*	*(8.33)%*	*(2.09)%*	*9.33%*

Financial activities, taxation and net profit

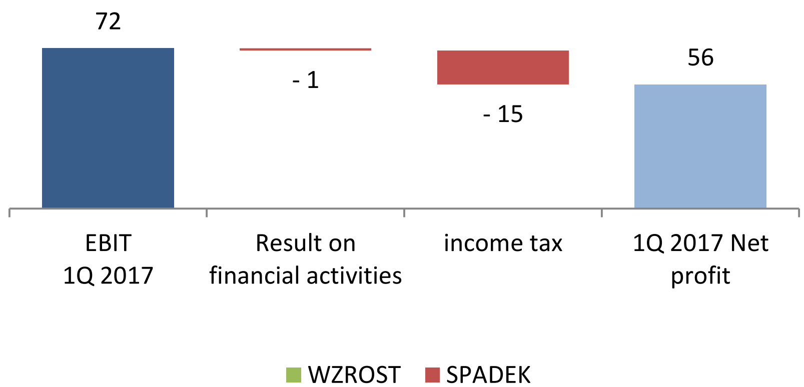
[PLN million]

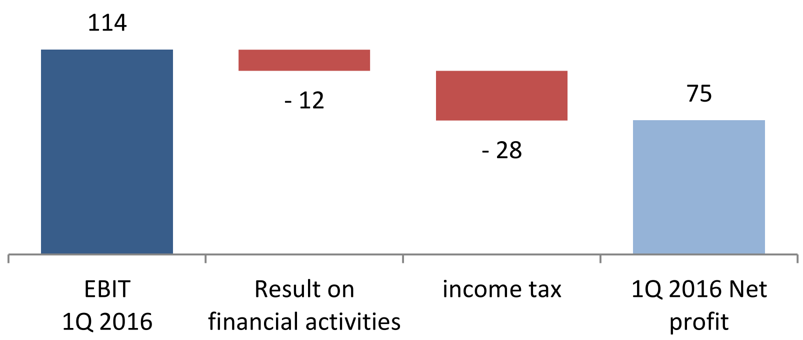
	1Q 2017	1Q 2016
EBIT	**72**	**114**
Financial income[(1)]	12	4
Financial costs[(2)]	(13)	(16)
Gross profit	**71**	**103**
Income tax (taxation)	(15)	(28)
Effective tax rate	*21.13%*	*27.18%*
Net profit (loss) for the period	**56**	**75**
Margin %	*9.33%*	*11.03%*

(1) In 1Q 2017 financial income higher due to lower EUR/PLN exchange rate -> exchange gains (+11)

(2) In 1Q 2016 higher income tax as a result of current income tax adjustment (+8) due to tax loss in previous years

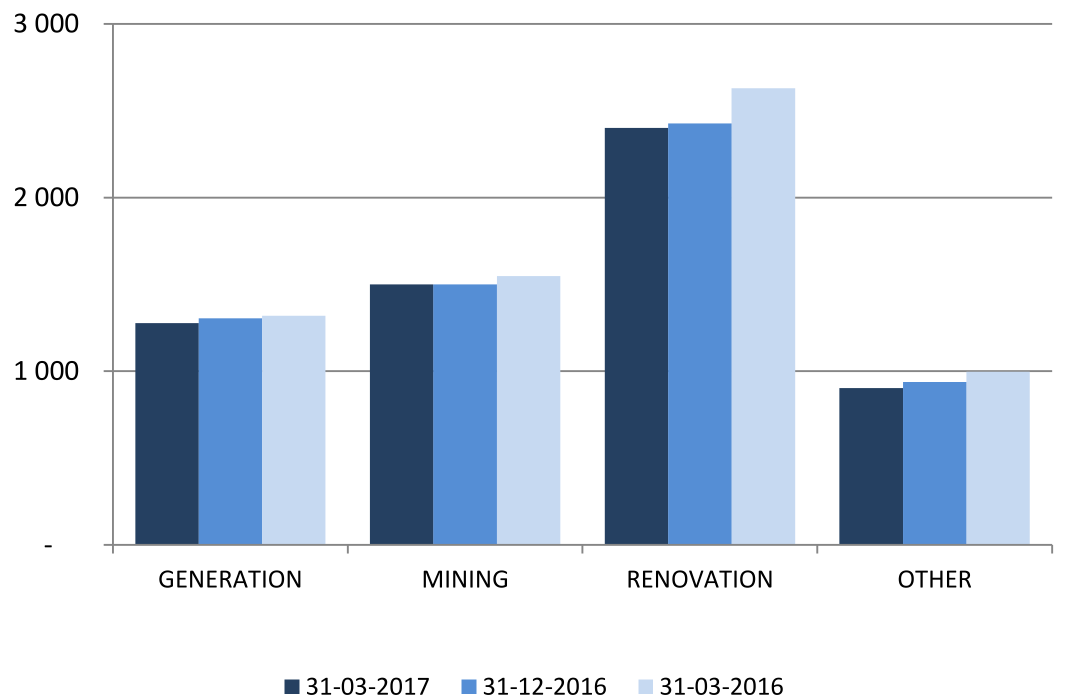
EBIT --> Net profit



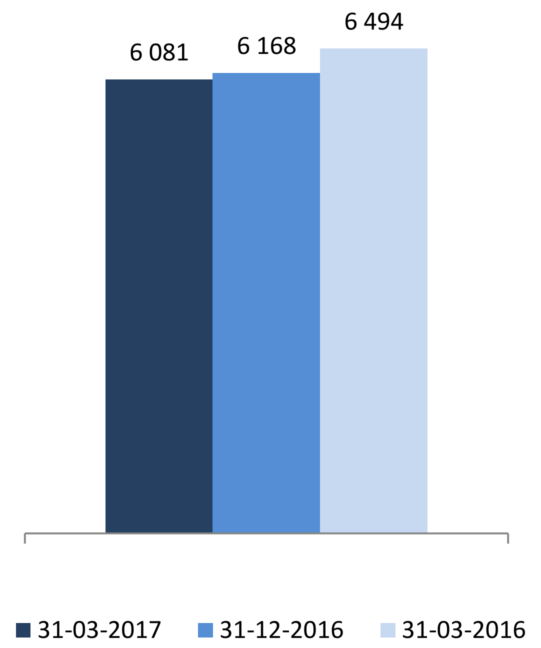


Employment
[full time]

BY SEGMENTS



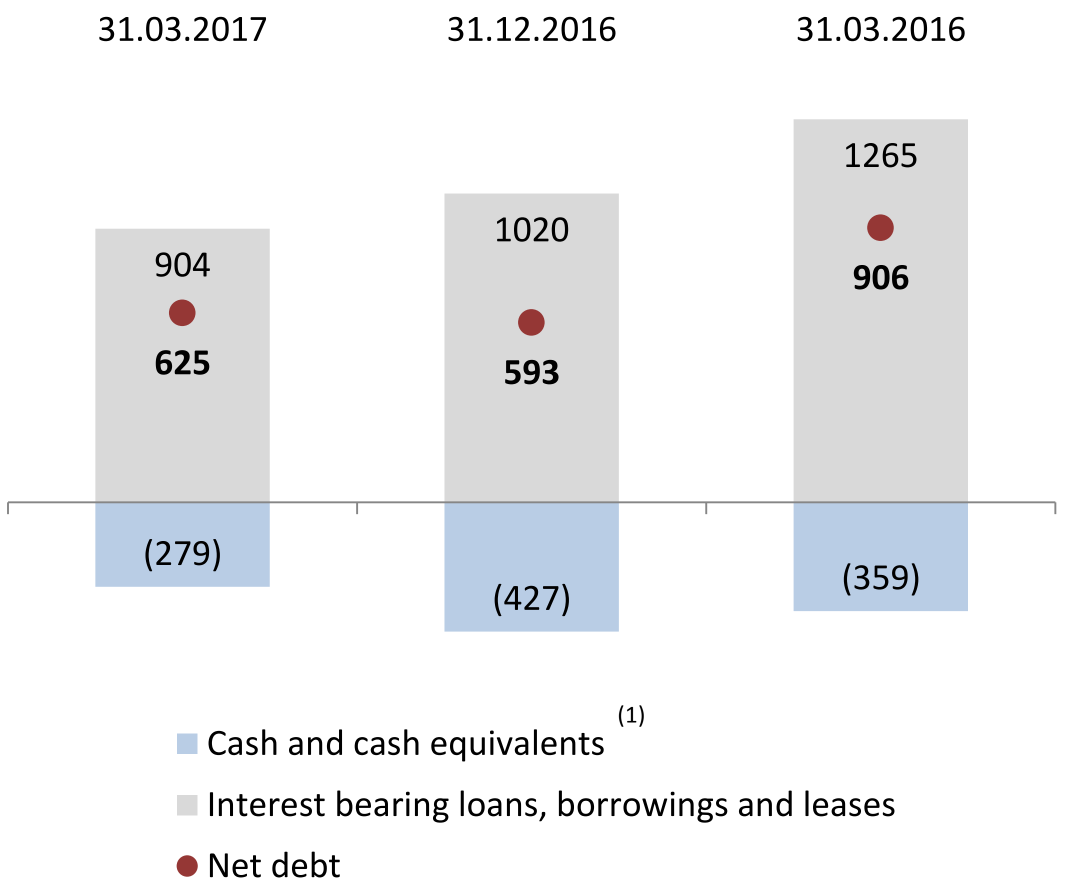
TOTAL



Group’s employment decrease mainly due to pension rights acquisitions of employees and finishing of fixed-term contracts.

Financial indebtedness

Net debt [m PLN]

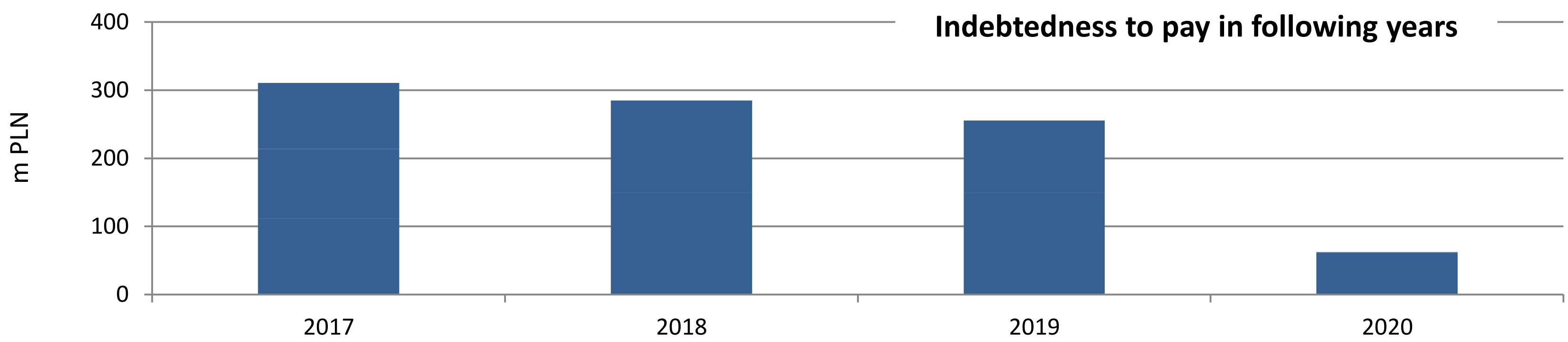


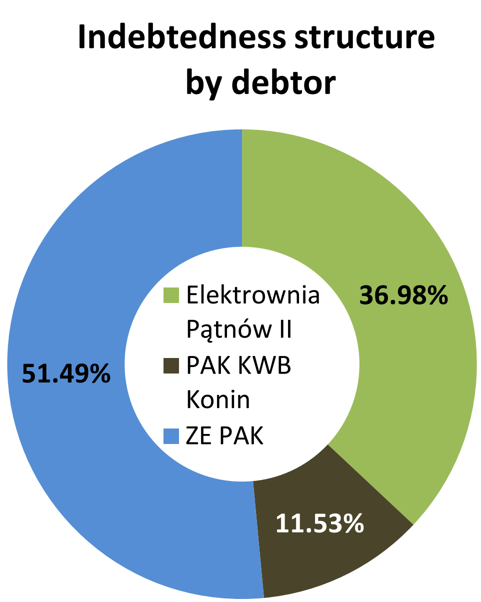
Net debt/EBITDA

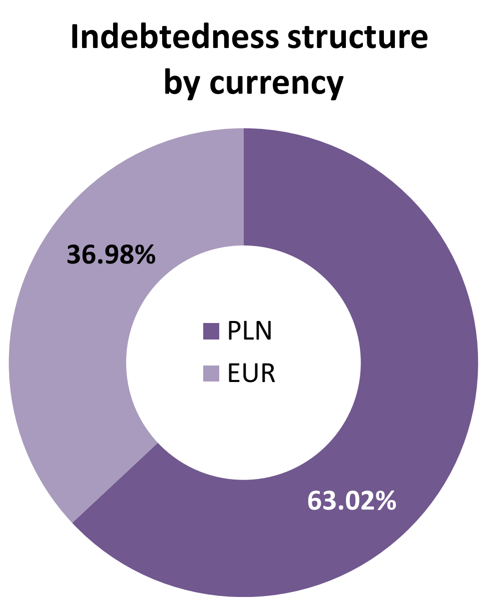
31.03.2017	1.15
31.12.2016	1.00
31.03.2016	1.68

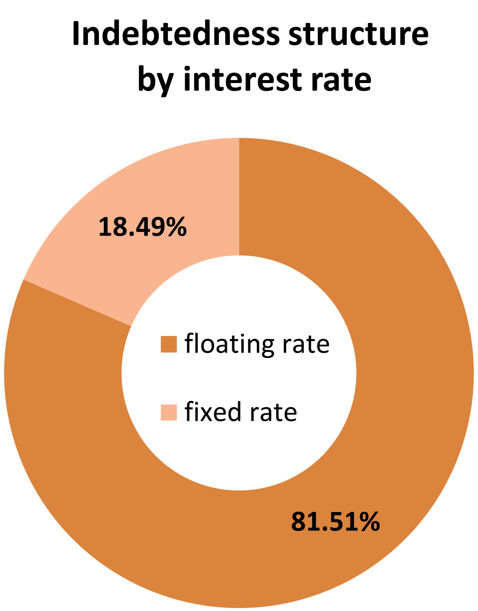
(1) Cash and cash equivalents from consolidated statement of financial position and other short-term financial assets

Financial indebtedness structure (1)









(1) Financial indebtedness main Group companies, excluding 0.96 m indebtedness of other Group companies. Indebtedness in EUR calculated with average NBP exchange rate as of 31.03.2017.

Consolidated cash flow

[PLN million]

	1Q 2017	1Q 2016
Gross profit (loss)	**71**	**103**
depreciation and amortization[(1)]	49	58
profit/loss on investing and financial activities	(1)	9
changes in working capital	(31)	37
income tax	6	(9)
purchase of EUA[(2)]	(107)	(142)
Net cash flow from operational activities	**(12)**	**56**
(inflows/outflows) of investments in property, plant and equipment and intangible assets[(3)]	(21)	(73)
other	(1)	6
Net cash flow from investing activities	**(22)**	**(68)**
payment of credits, loans, leases and securities[(4]	(100)	(77)
interest paid	(10)	(13)
Other	(0)	(1)
Net cash flow from financial activities	**(110)**	**(90)**
change in cash and cash equivalents	(144)	(102)
cash and cash equivalents at the beginning of the period	349	383
Cash and cash equivalents at the end of the period	**205**	**282**

(1) Lower amortisation in 1Q 2017 concerns mining segment due to only one open pit exploit in 2017 and finish of overburden asset amortisation as at the end of 1Q 2016.

(2) In 1Q 2016 the Group purchased higher volume of emission allowances than really emitted (purchase for future periods was 51 m PLN).

(3) In 1Q 2017 there was no big investment projects. Capex in 1Q 2016 mainly for renovation of units 1-2 in Pątnów I power plant.

Questions & Answers

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