



**Financial results of Apator Capital Group in 1H of  
2017**

Warszawa, August 2017

# Financial results of Apator Capital Group in 1H of 2017



PLN ('000)	1H2017	1H2016	Δ2016	Description:
Sales	460 663	420 321	9,6%	<ul style="list-style-type: none"> <li>▪ They key <b>factors of the growth</b> in revenues from sales :                             <ul style="list-style-type: none"> <li>– Metering segment(+15,9% y/y) – 83% share in sales of GK ASA</li> <li>– Export sales(+23% y/y) – the growth of the share of foreing sales to 58%</li> </ul> </li> </ul>
Gross profit from sales	126 743 27,5%	108 446 25,8%	16,9%	
Profit frm sales	42 791 9,3%	40 164 9,6%	6,5%	<ul style="list-style-type: none"> <li>▪ <b>Significant improvement of profit and gross margin from sales :</b> <ul style="list-style-type: none"> <li>– Improved structure of sales</li> <li>– Optimization of the construction of selected products</li> <li>– The growth in efficiency of production processes</li> <li>– Exchange rate of US\$ below budget rate</li> </ul> </li> </ul>
EBITDA	60 493 13,1%	56 560 13,5%	7,0%	
Net profit	29 360 6,4%	28 389 6,8%	3,4%	<ul style="list-style-type: none"> <li>▪ Improvement of profits and maintaining margins on the remaining levels - effect:                             <ul style="list-style-type: none"> <li>– Operating leverage adjustment by ....</li> <li>– ...one-time increase of cost of sales (commission Ethiopia) and ...</li> <li>– ...a balance of one-off <b>non-cash adjustments</b></li> </ul> </li> </ul>

*Presented results encompass both continuing and discontinued operations*

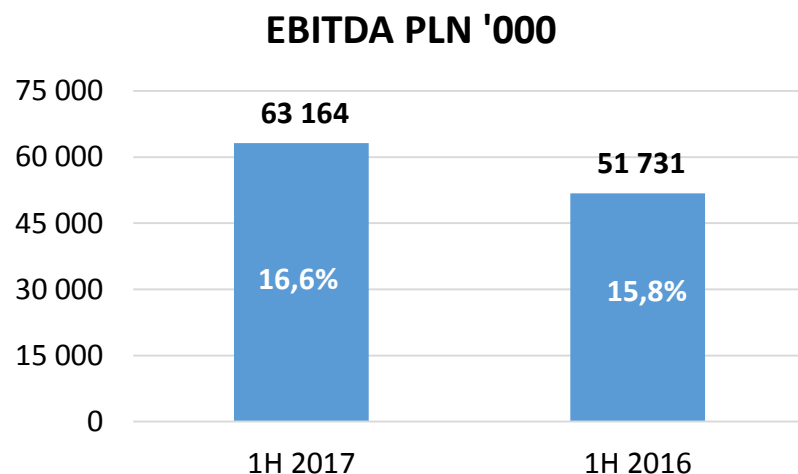
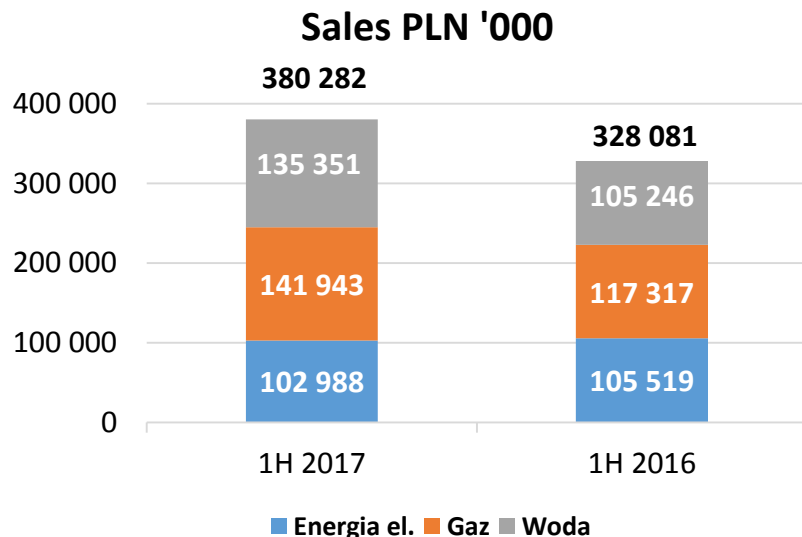
## Influence of one-time adjustments on the results in 1H 2017



PLN ('000)	Reported results			Results free of one-off adjustments		
	1H 2017	1H 2016	Δ 2016	1H 2017	1H 2016	Δ 2016
Sales	460 663	420 321	9,6%	460 663	420 321	9,6%
Gross profit from sales	<b>126 743</b> 27,5%	108 446 25,8%	<b>16,9%</b>	<b>128 962</b> 28,0%	108 446 25,8%	<b>18,9%</b>
Profit from sales	<b>42 791</b> 9,3%	40 164 9,6%	<b>6,5%</b>	<b>47 534</b> 10,3%	40 164 9,6%	<b>18,3%</b>
EBITDA	<b>60 493</b> 13,1%	56 560 13,5%	<b>7,0%</b>	<b>67 175</b> 14,6%	56 560 13,5%	<b>18,8%</b>
Net profit	<b>29 360</b> 6,4%	28 389 6,8%	<b>3,4%</b>	<b>34 677</b> 7,5%	28 389 6,8%	<b>22,1%</b>

*Non-cash one-off adjustments concern a few entities of GK ASA, in particular Apator Elkomtech S.A., and are related to discontinuing some selected R&D projects, to uniformizing the way of recognizing research and development works and to reserves in case of losing value of some inventories as revealed due to the migration of the data to a new system ERP (Apator Elkomtech).*

# Results in metering segment



## Description:

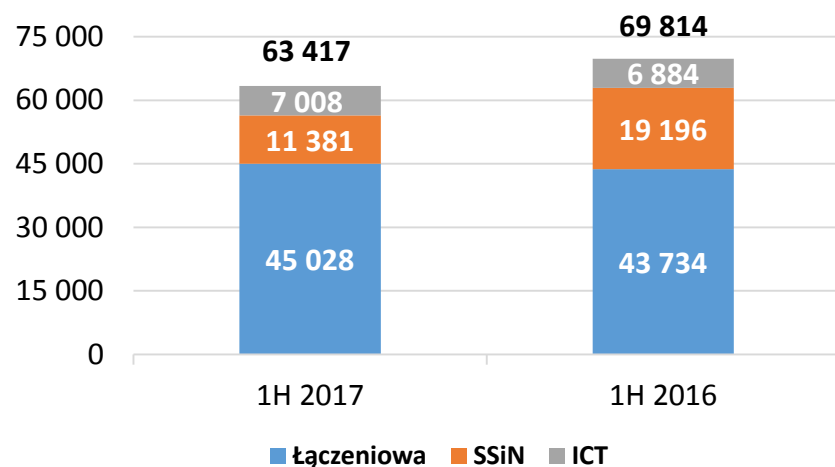
- Dynamic **growth of revenues (+15,9% y/y)** – the key factors of growth:
  - Increase in sales of water metres (+**28,6% y/y**) – among others. The impact of the contract in Ethiopia (PLN 14,8 m)
  - Increase in sales of gas metres(+**21% y/y**) due to deliveries to Great Britain (Secure) and to Holland (Flonidan)
  - Maintaining the level of energy metres sales (above the target assumed)
  - Dynamic growth of export to EU member states;
- Significant **growth of EBITDA (+22% y/y)** and the improvement of the margin:
  - Increase in profits and the improvement of margins in all the lines of metering segment
  - Effect of operating leverage
  - Effect of the initiatives lowering the cost of constructing some chosen products(eg. Norax) and improvement of production efficiency ;

**Management Board expects the above trends to be maintained in IH 2017**

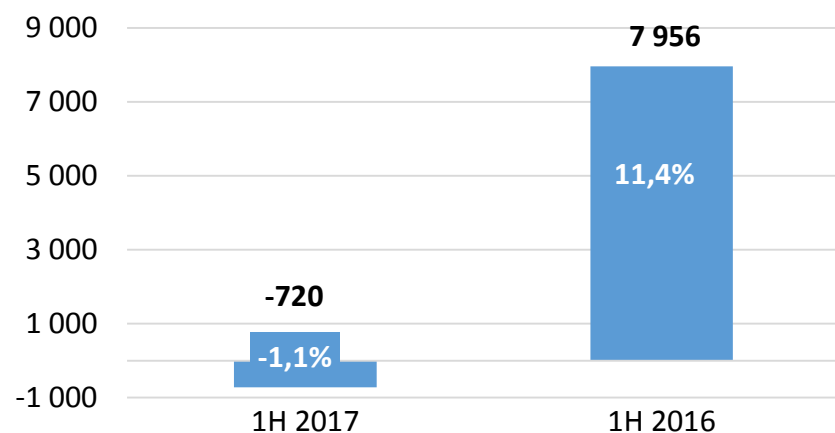
# Results in power grid automation segment



Sales in PLN '000



EBITDA PLN '000



## Description:

- **Decrease of revenues** of this segment by **9,2% y/y**:
  - Sales of switchgear according to the target – among others – due to good export sales
  - Sales in ICT line (Apator Rector) in accordance with the expectations
  - Significant decrease of sales in Apator Elkomtech (-41% y/y) due to a considerable change in market conditions (since 2016), to increased competitiveness and lower prices;
  
- **EBITDA of this segment close to zero**:
  - High and as-expected profitability of switchgear sales
  - Improved results in Apator Rector y/y
  - Worse results in Apator Elkomtech stemming from the change in market conditions and from non-cash one-off adjustments (PLN 5,5 m in IIQ.);

**Possible improvement in the results of this segment in IIH 2017**

## Power grid automation segment (cont.)

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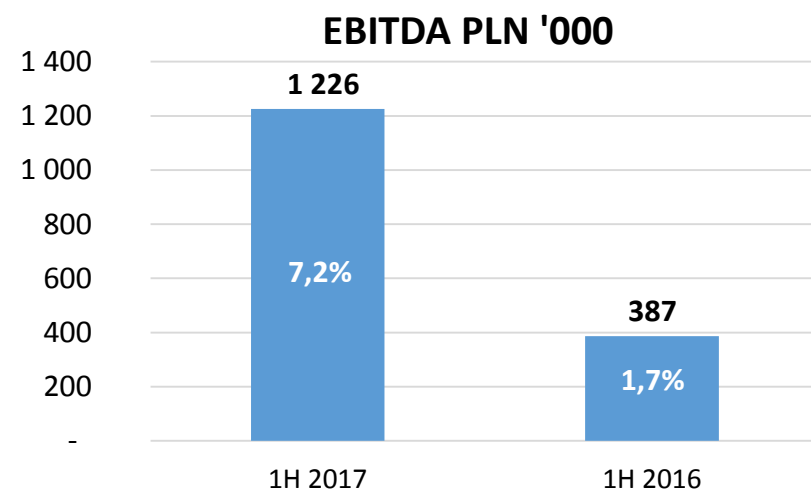
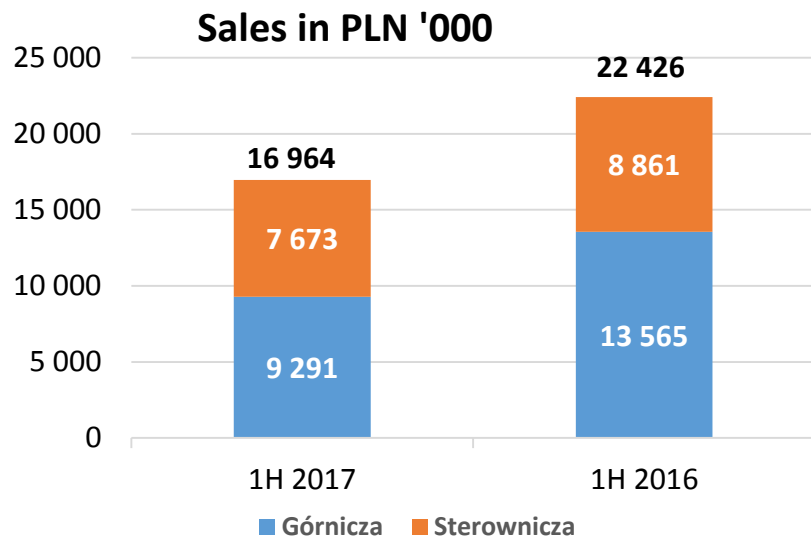
### Apator Rector:

- 27<sup>th</sup> July 2017 what was signed was an **Agreement with Energa Operator** related to concluding and ultimately settling the SID project lasting since 2010. The provisions of the Agreement confirm the appropriateness of the reserves created at 31.12.2016.
- Negotiations as to settling the content of the analogous **Agreement with Tauron Dystrybucja** are still in process.
- In the case of both of these projects, implementation works are virtually finished. There are works still in process, the works being related to improving quality and efficiency; also, new R&D-related orders started to be realized.
- The company undertakes the actions aimed to rebuilding and diversifying the portfolio of orders.

### Apator Elkomtech:

- What was worked out is the plan aimed at adjusting the operations of the company to new market conditions.
- What was adjusted was price policy in order to improve competitiveness of the company's offer.
- What is launched is the initiatives related to a significant reduction of production cost (products and processes) as well as the entire organization.
- What was conducted is the verification of the portfolio of R%D projects.

# The result on the remaining operations



## Description:

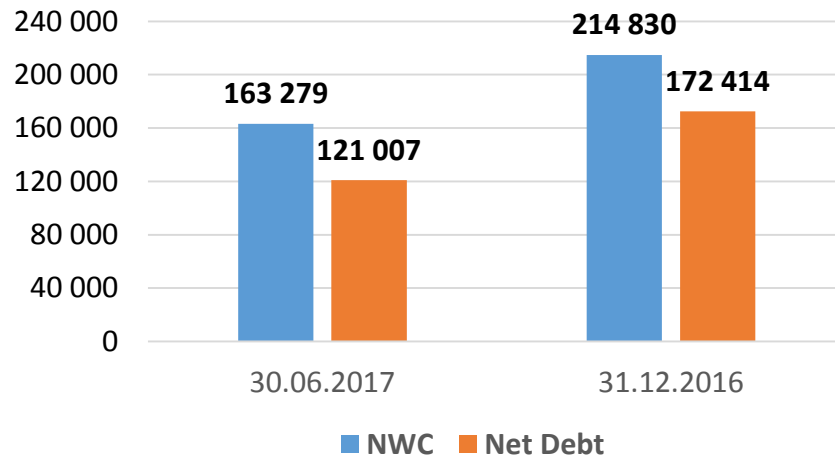
- The decrease in sales in both lines due to the lower number of orders in mining and heavy industry lines
- Improved EBITDA, mainly due to the other operating activity (reserve accruals for the receivables in Apator Control PLN 0,6 m).

***The operations of Apator Mining will be phased out within forthcoming 12 months, among others, through selling assets and withdrawing means from the current capital. Those actions will have a neutral impact on the results, but they will allow for freeing additional cash.***

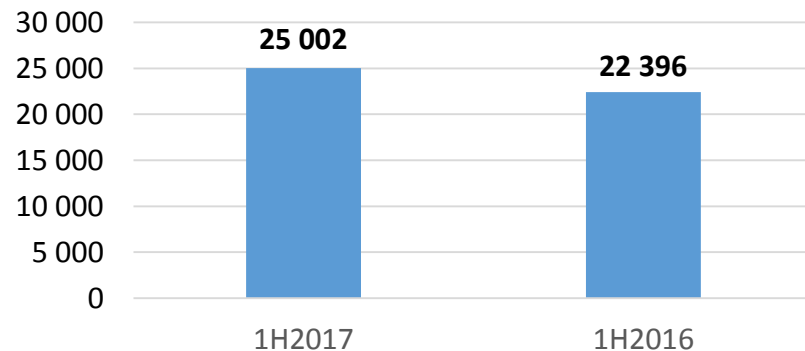
***Apator Mining will remain in GK Apator performing a role of the investment entity, in which the only asset will be a packet of own shares of Apator.***

# Investments and debt

Current capital and net debt PLN '000



Capex PLN '000

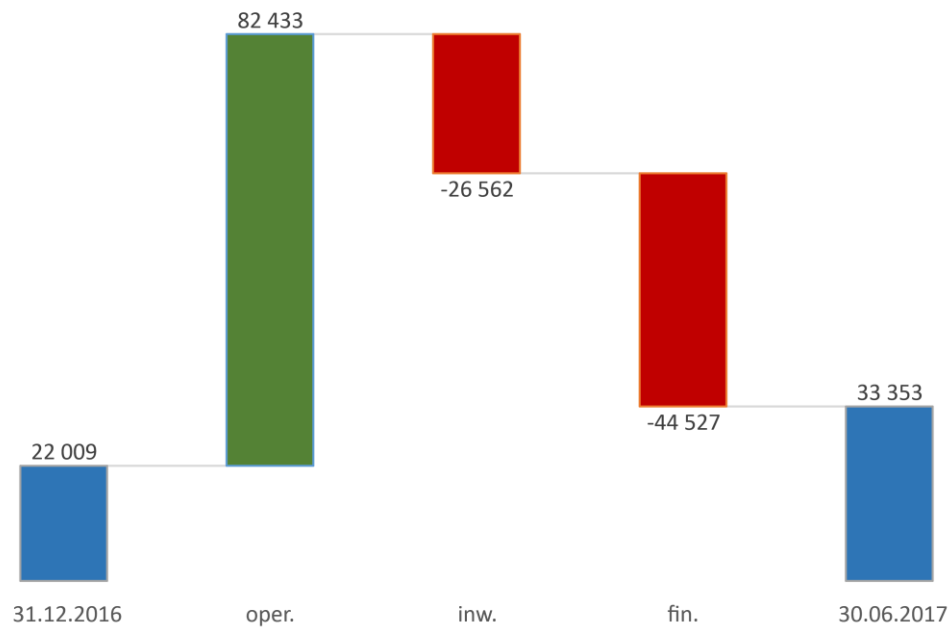


## Description:

- Decrease in investments into current capital net despite the growth in sales :
  - Continuation of the initiatives related to the reduction of current capital in main companies
  - Realization of inventories created due to the deliveries to Ethiopia
- Reduction of debt– **net debt at the level of 1xLTM EBITDA** (repayment of a part of revolving and investment loans)
- Investments dedicated to:
  - Automation and increasing the capacity in operatin centres Ostaszewo and Tczew
  - New products and technologies
  - Replacement investments.



# Cash Flow



## Description:

- Operating flows: the reduction of current capital – the high level of conversion of EBITDA into cash (inflow of receivables, increase of liabilities)
- Investment flows: expenditures on investments, mainly on automation of production process
- Cash flows: debt servicing (PLN 39,4 m).

***Silny cash flow - OCF higher by 23% than the level of EBITDA profit free of one-off events***

## Summary

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- **Growth in consolidated revenues** from sales by **9,6%**
- Significant **increase in gross profit** from sales by **16,9%**
- **Increase** in profits and improvement or maintaining of EBIT, EBITDA margins and of net profit
- Less financial means involved in supporting current capital net despite the increase in revenues
- **Strong cash flow** – high level of conversion of EBITDA into cash
- **The decrease of net debt** to the level of 1xLTM EBITDA
- **Performance of the forecast financial results for 2017 :**
  - 51% in case of consolidated revenues from sales
  - 39% in case of reported consolidated net profit
  - 46% in case of consolidated net profit free of one-off events

***The performance of the results free of one-off events is in accordance with the expectations and market consensus.***