




April 30, 2019

Zespół Elektrowni Pątnów-Adamów-Konin SA

2018 Results

PAK
Energia dla Ciebie

ZE PAK GROUP – 2018 summary

Key operational and financial data	2018		change r/r
Sale of electricity:	9,33	TWh	-20,66%
• Electricity from own production:	6,05	TWh	-27,89%
• Electricity from resale:	3,28	TWh	-2,67%
Achieved average electricity sale price(1):	211,57	zł/MWh	19,01%
Sale revenues:	2 305	mln zł	-5,65%
EBITDA:	90	mln zł	-82,42%
Net result:	-464	mln zł	-352,17%
CAPEX:	73	mln zł	-32,41%
Indebtedness:	424	mln zł	-35,46%
Cash(2):	341	mln zł	-4,75%
Net debt / EBITDA:	0,92	x	57,20%

(1) The average price calculated as revenues from the sale of electricity (together with system services) divided by the sales volume

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

ZE PAK Group – 4Q 2018 summary

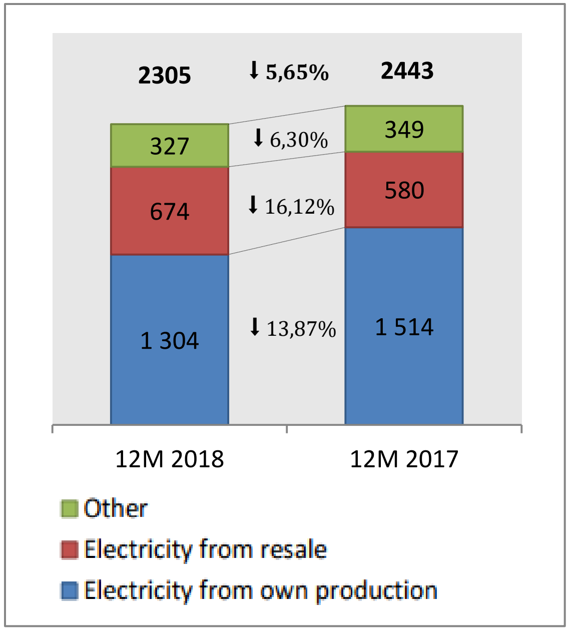
Key operational and financial data	4Q 2018		change r/r
Sale of electricity:	2,58	TWh	-13,42%
• Electricity from own production:	1,47	TWh	-19,23%
• Electricity from resale:	1,11	TWh	-4,31%
Achieved average electricity sale price(1):	229,61	zł/MWh	26,35%
Sale revenues:	681	m zł	8,10%
EBITDA:	-23	m zł	-119,17%
Net result:	-401	m zł	-2964,29%
CAPEX:	17	m zł	-63,04%

(1) The average price calculated as revenues from the sale of electricity (together with system services) divided by the sales volume

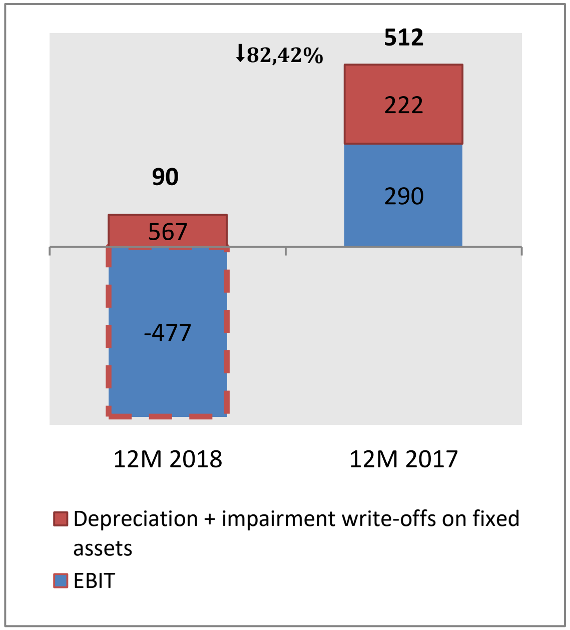
ZE PAK GROUP – 2018 summary

[m PLN]

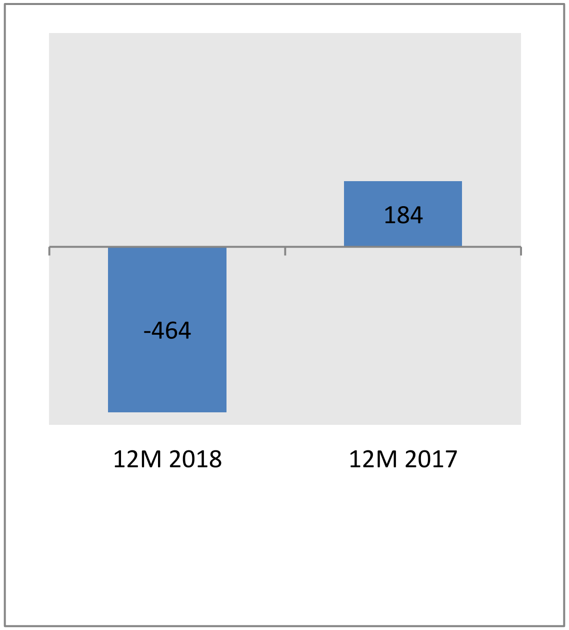
Revenues



EBITDA



Net profit/loss



The Group closed 2018 with a loss. The level of recorded loss was significantly affected by one-off events, including the results of impairment tests on assets. Another factor was the situation on the energy market and CO2 emission allowances. The financial situation in the past year was largely determined by the strategy of securing the prices of sold energy and purchased CO2 emission allowances. In addition, the results deterioration, both in the generation and mining division, was caused by the Group's limited operations due to completion of electricity production by the Adamów Power Plant, at the beginning of 2018, due to the end of the environmental exemption period for five units with a total capacity of 600MW.

ZE PAK GROUP – 2018 summary (the impact of one-off events)

one-off events

EBIT
Net result

- impairment on assets

EBIT
Net result

- write-off on fixed assets under construction

EBIT
EBITDA
Net result

- write-off on inventories

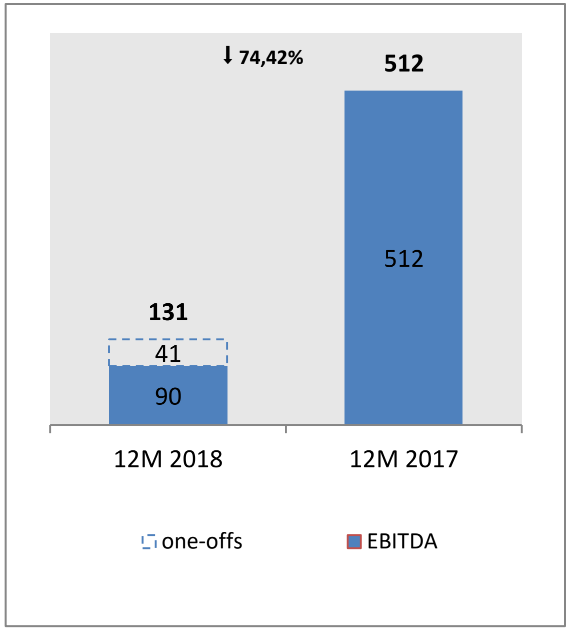
EBIT
EBITDA
Net result

- reserve – return of CO_2

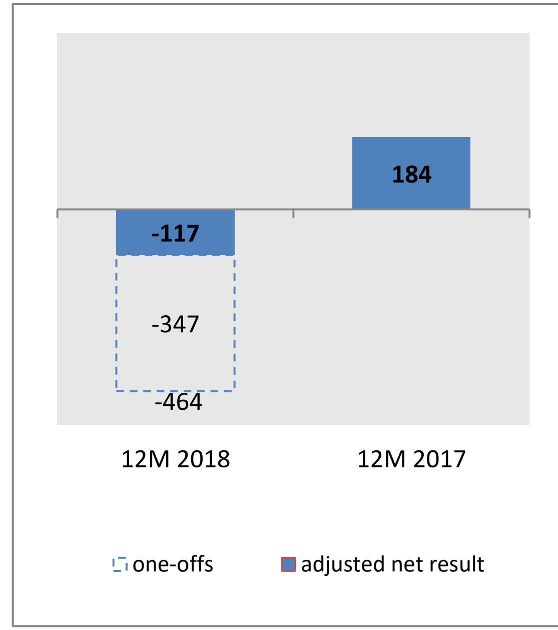
EBIT
EBITDA
Net result

- reserve – landfill reclamation

EBITDA (adjusted by one-off events)



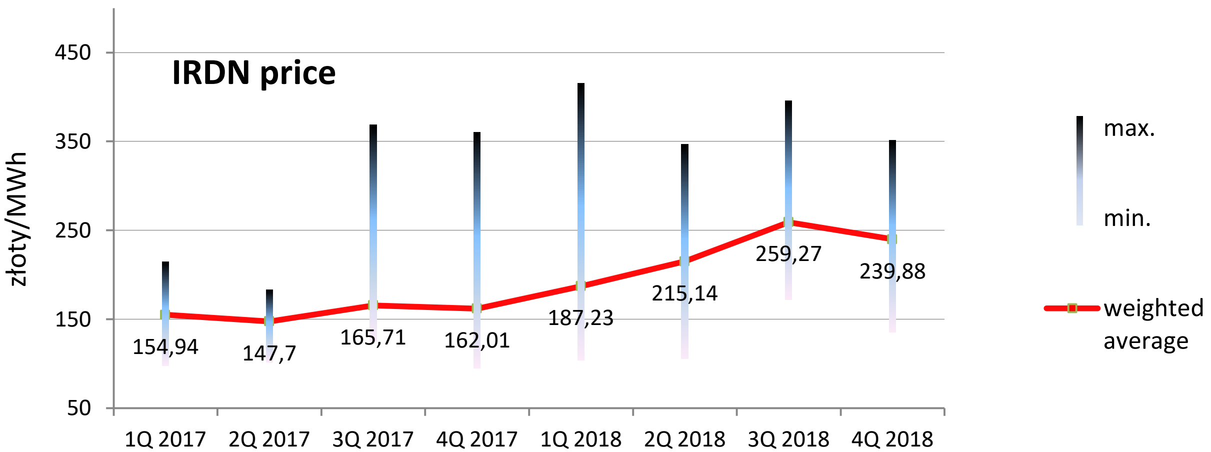
Net profit/loss (adjusted by one-off events)

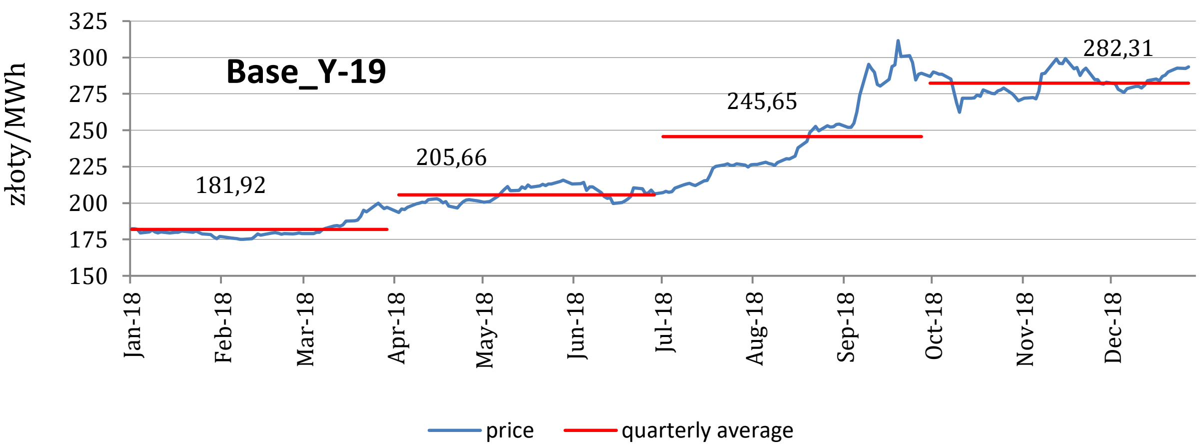


- the total impact of one-off events on the EBITDA result (PLN -41 m)
- total impact of one-off events on the net result (PLN -477 m)

SELECTED ELECTRICITY MARKET DATA

Electricity prices



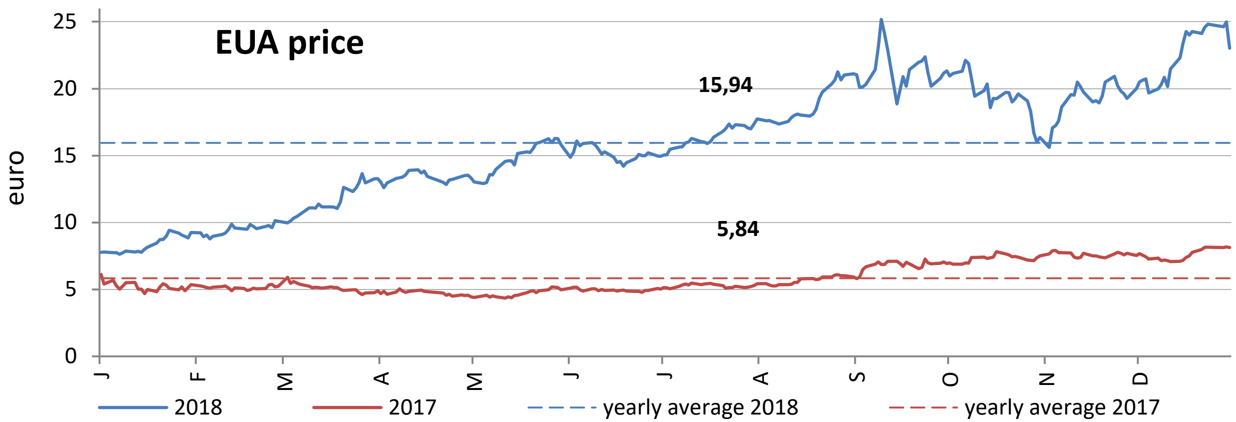


Upward trend in the electricity market. The weighted average of the IRDN (Day-Ahead Market Index) on the Polish Power Exchange (TGE) for 2018 was at the level of PLN 224.71 / MWh, which means an increase in relation to 2017 by PLN 69.15 / MWh, ie by 44.45%.

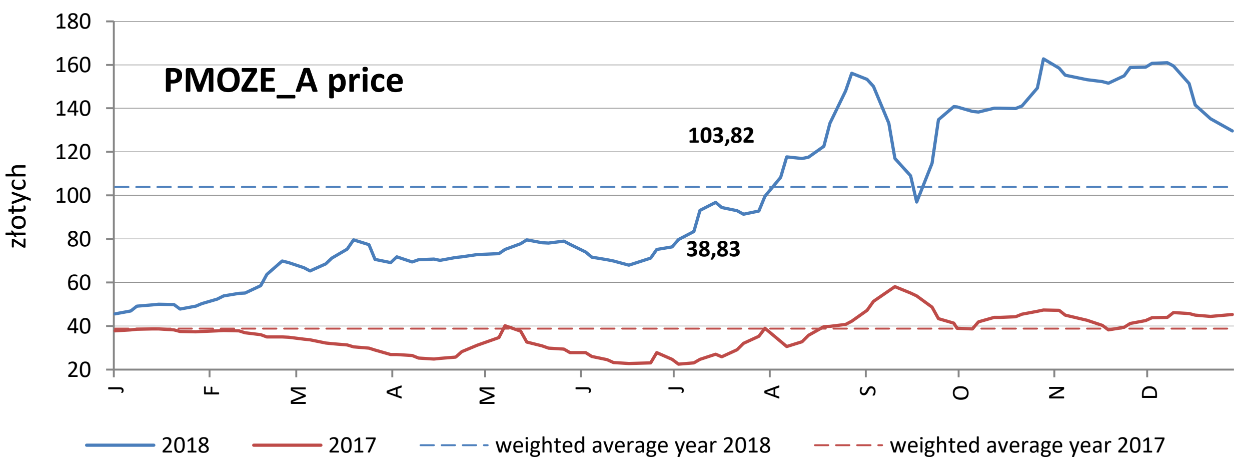
Increased price volatility. The largest impact on the growth of electricity prices in the past year were the rapidly increasing CO2 emission allowances, more expensive hard coal, economic growth dynamics, and thus the increase in electricity demand and relatively low production of wind farms, caused by worse natural conditions.

Upward trend also on the forward electricity market of the Polish Power Exchange. The highest dynamics of growth could be observed at the turn of the third and fourth quarter. The factors determining the increases in the forward market were similar to those on the spot market. Higher and higher quotations of energy commodities, including hard coal and growing emission rights quotations as well as the probability of continuation of these trends in the next year.

EUA and green certificates



A strong upward trend on the CO2 emission allowances market. The reasons for the increases are to be found in two sources. One of them was purely political, namely the changes in the EU ETS CO2 trade system, which, as a consequence, by interfering with the market mechanism and reducing supply, was supposed to increase the price of emission rights. However, the dynamics of increases in 2018 may suggest that financial investors who are focused on the use of high volatility that accompanies the listing of emission rights also play an important role on the market. The arithmetic average of EUA listings in 2018 amounted to EUR 15.94, which means an increase by nearly 173% compared to the analogical average for 2017.



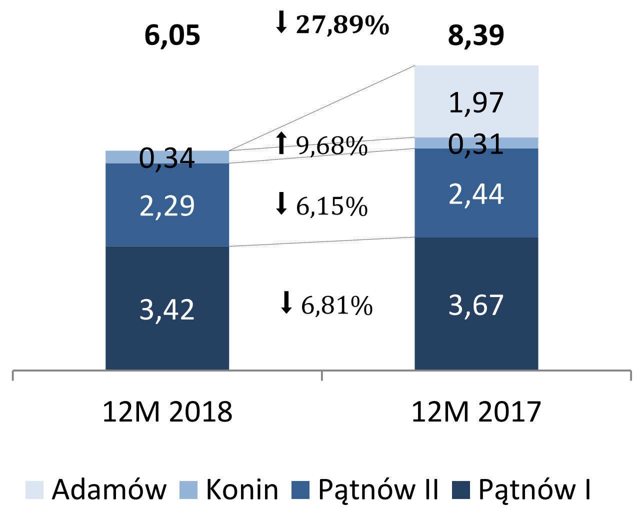
Also on the property rights market (green certificates) there was an upward trend. The dynamics of this growth significantly accelerated in the third quarter of 2018. Among the previously known growth factors can be mentioned: provisions of the Act on renewable energy sources concerning the substitution fee, increase in the obligation to redeem up to 17.5% for energy from all renewable sources except agricultural biogas, and 0.5% for energy coming from agricultural biogas, in 2018 the wind generation was also lower, ie from the main source of green certificates supply. The weighted average price of green certificates in 2018 was at the level of 103.82 PLN / MWh, which means an increase of 64.99 PLN / MWh in relation to the weighted average price for 2017 and, i.e. by over 167%.

INFORMACJE OPERACYJNE

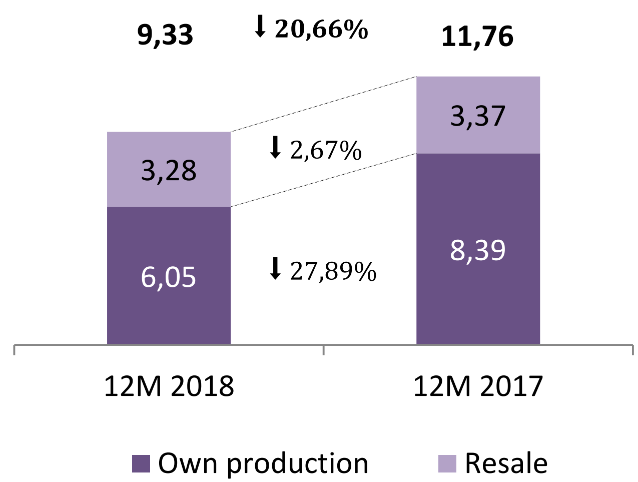
Net production and sale of electricity

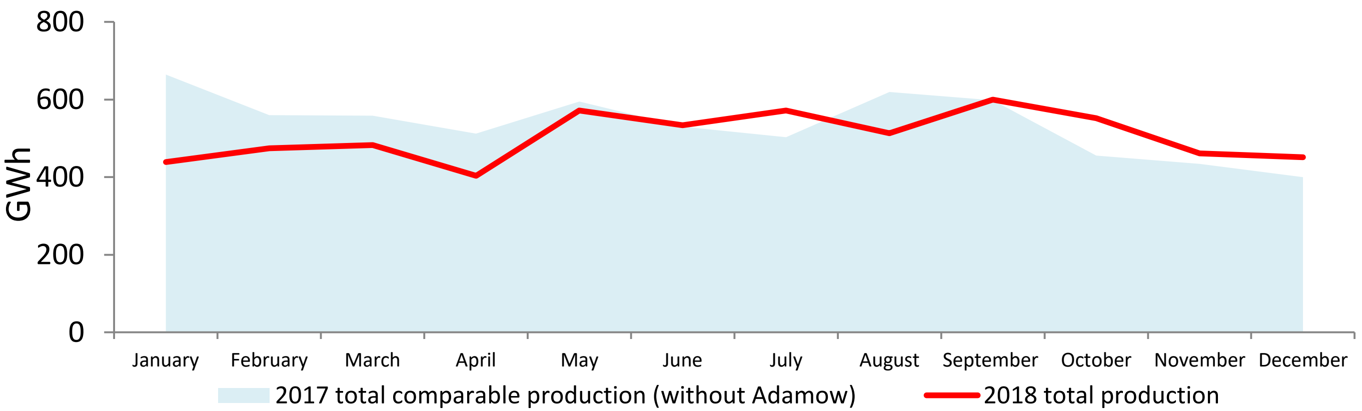
[TWh]

NET PRODUCTION



SALE





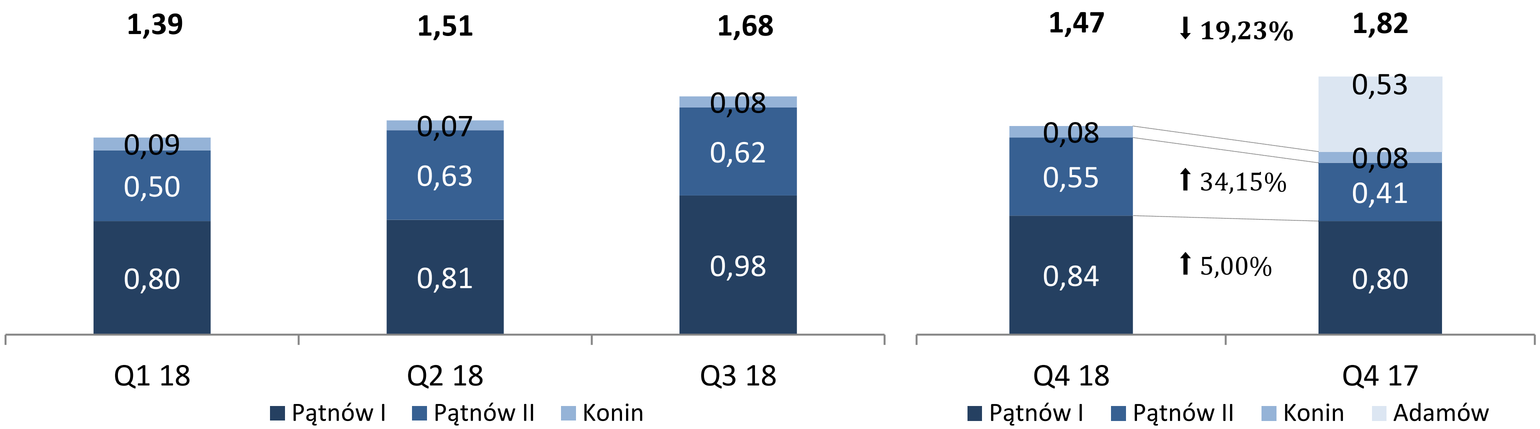
The main reason for the decline in production in the past year, compared to 2017, was the lack of generation at the Adamów power plant. At the beginning of January 2018, the period of the environmental derogation for five units with a total capacity of 600MW ended at the Adamów power plant.

The comparable production, excluding the Adamów power plant, in the past year was 6.42 TWh, which means that in 2018 it decreased by 5.76%.

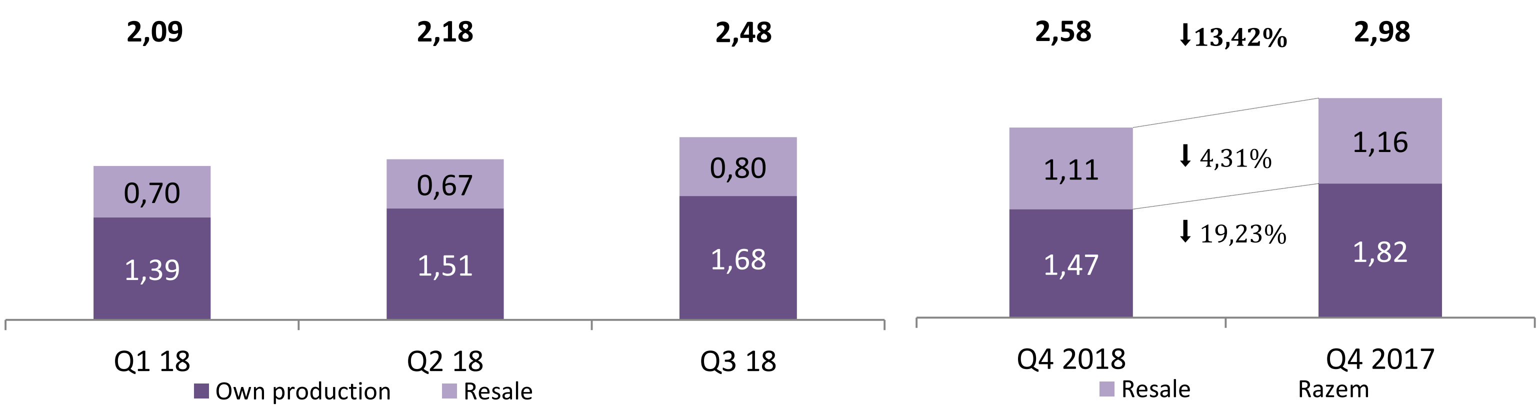
Quarterly net production and sale of electricity

[TWh]

NET PRODUCTION



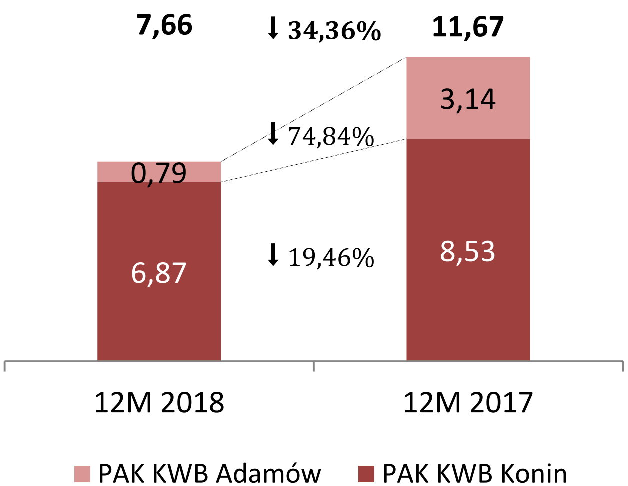
SALE

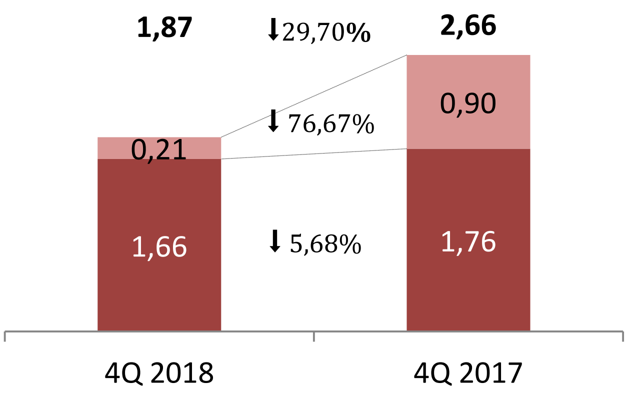


Lignite consumption and CO_2 emission

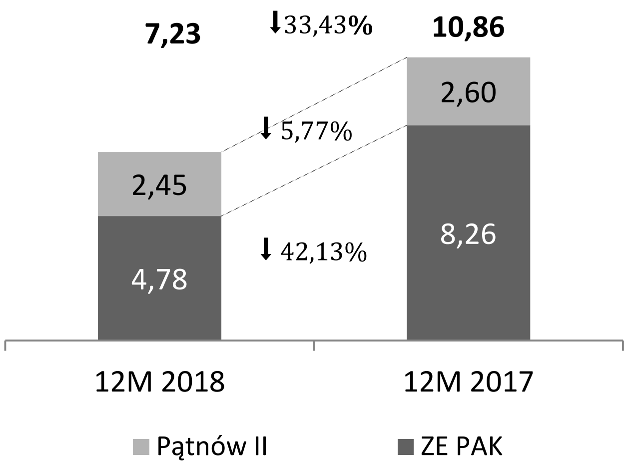
[m ton]

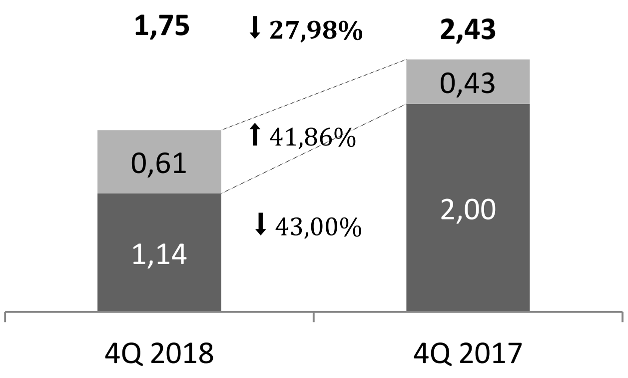
LIGNITE CONSUMPTION





CO_2 emission

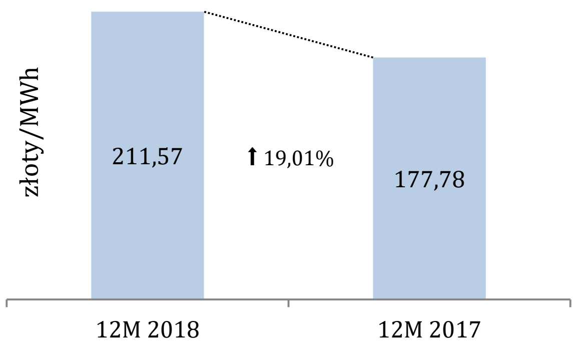


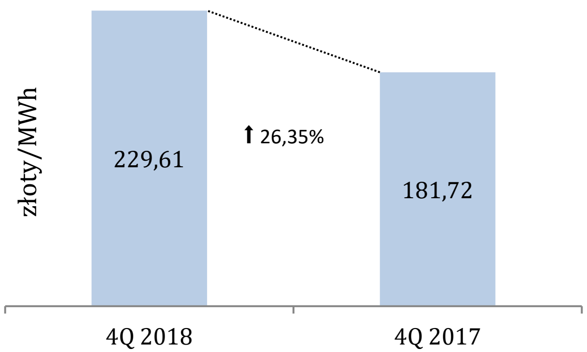


Data on coal consumption and CO2 emissions for 12M 2018 and in 4Q 2018 are derived from the volumes of energy produced. An additional factor determining the amount of coal consumption and CO2 emissions, and therefore the effectiveness of the production process, are the quality parameters of coal and the characteristics of the operation of individual devices.

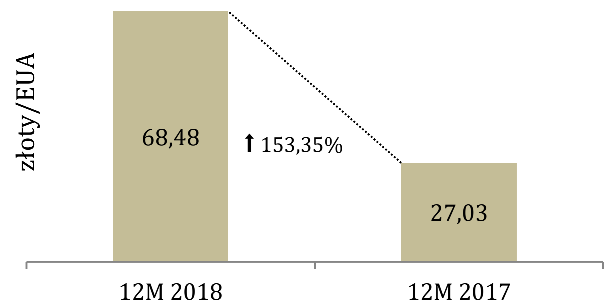
Average prices of electricity and CO_2 emission allowances purchase

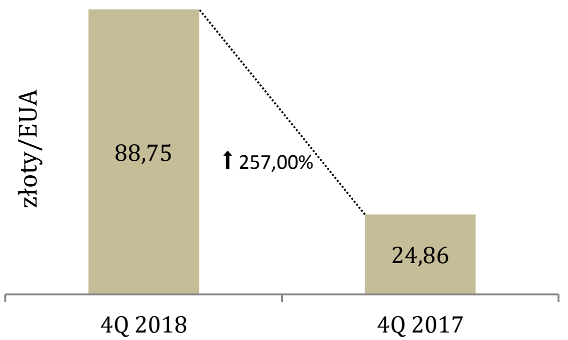
Elecrticity prices [1)]





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





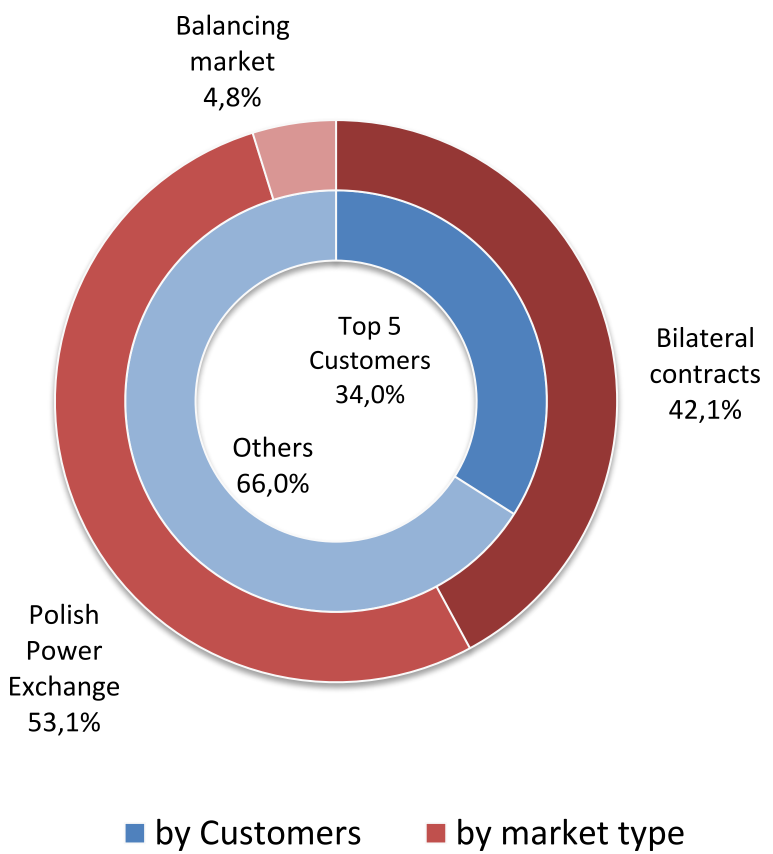
[1)] Average price, calculated as electricity sales revenues (own production, from resale and system service) divided by sales volume.

[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.

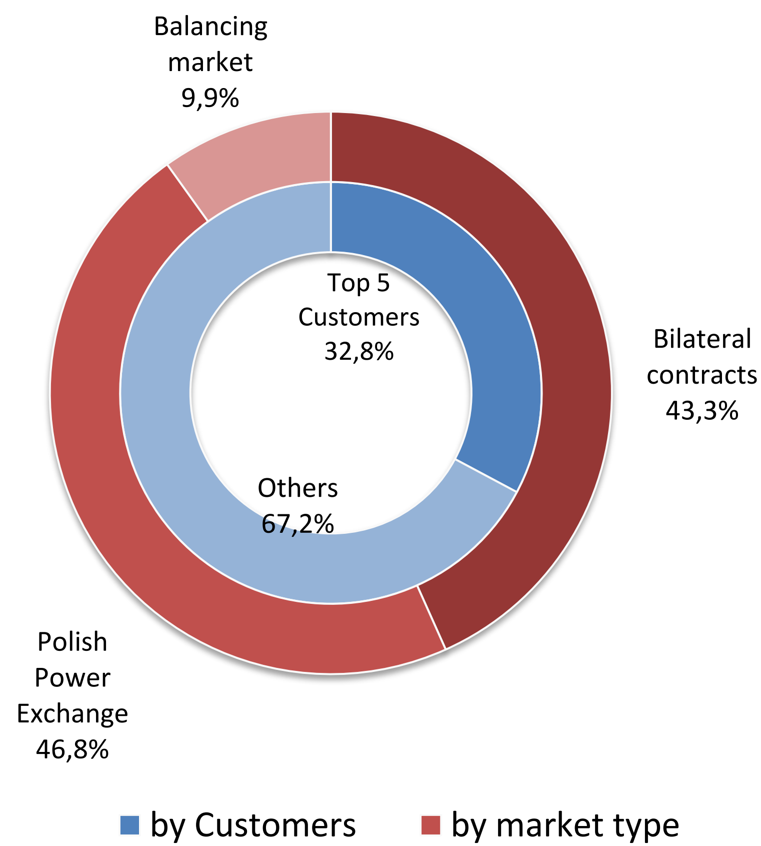
Sale of electricity breakdown

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

12M 2018

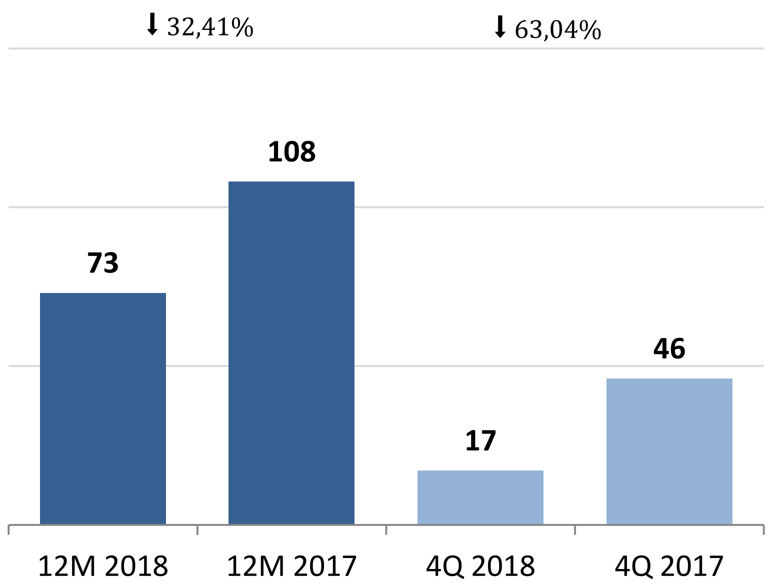


12M 2017

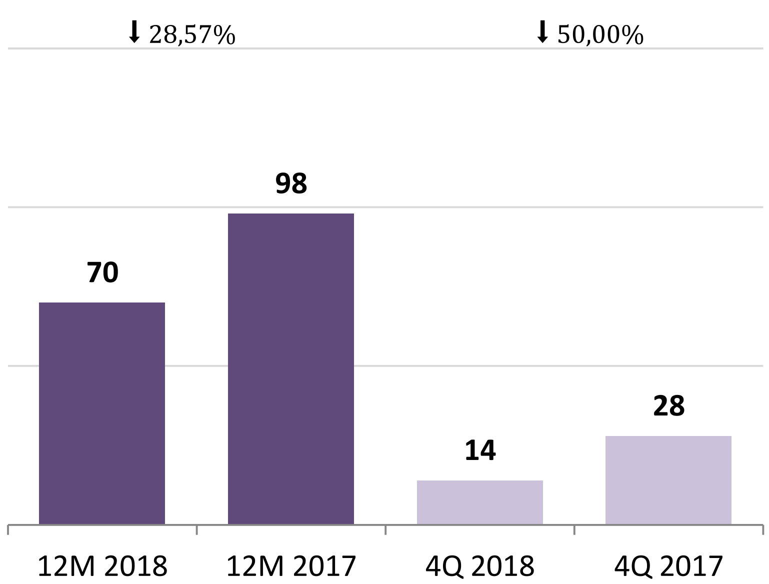


Capex on fixed assets and intangible assets
(excluding CO_2)

CAPEX [m PLN]



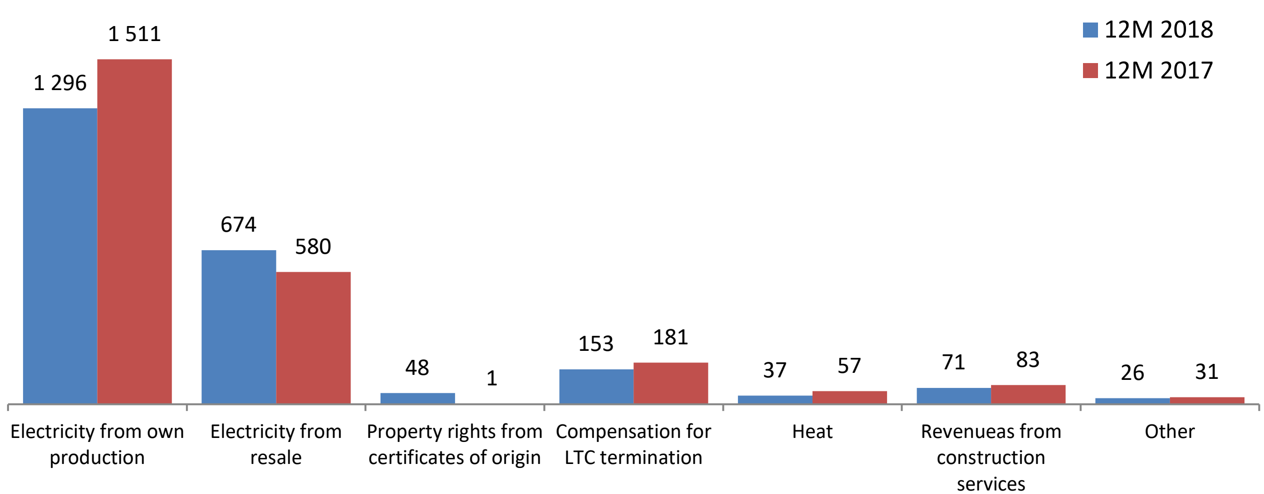
EXPENDITURES [m PLN]

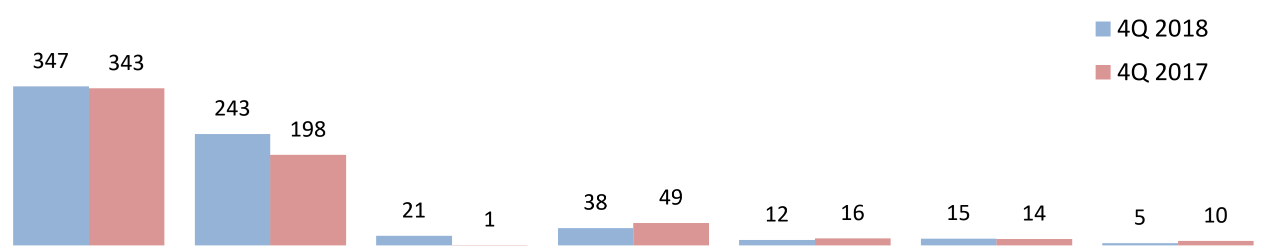


FINANCIAL DATA

Revenues

[m PLN]





Reasons for changes in key positions:

Lower revenues from the sale of electricity from own production. Higher sale price of energy in 2018 and 4Q'18. The higher price did not fully compensate for the drop in production volume in 2018. In 4Q'18 alone, the level of revenues from the sale of own electricity was comparable.

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

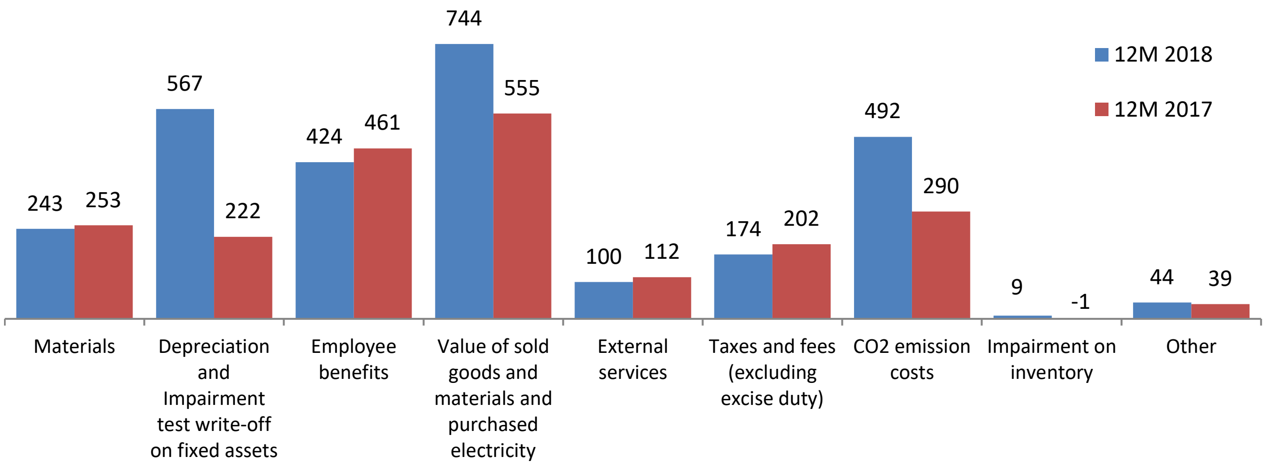
The increase in revenues from property rights from certificates of energy origin is related to the production of a biomass block at the Konin power plant. In 2017, due to unfavorable market conditions, production from this block was stopped.

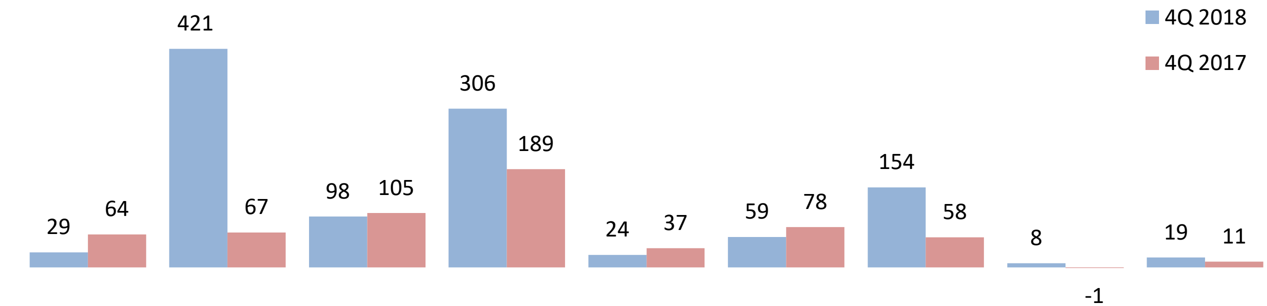
Lower compensation due to LTC dissolution in 2018 due to lower down payment (as a result of the assumptions adopted at the stage of establishing the LTC Resolution Act).

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

Koszty rodzajowe

[mln PLN]





Reasons for changing key positions :

A significant impairment losses on fixed assets in both 2018 and Q4'18 alone compared to the same periods of the previous year.

The costs of CO_2 emissions have clearly increased in both periods presented. It should be taken into account that this happened even in spite of clearly lower emission levels (due to lower production). This means that the unit price paid for emission permits has increased very much. As a consequence, 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.

Lower taxes and fees mainly due to the smaller scale of mining operations.

EBITDA 2018

[m PLN]

	2018	2017
Sale revenues	**2 305**	**2 443**
Change %	*(5,65)%*	*(9,69)%*
Costs of goods sold	(2 628)	(2 035)
Gross profit	**(323)**	**408**
Margin %	*(14,01)%*	*16,70%*
Other operating revenues	11	11
Selling and distribution expenses	(4)	(4)
Administrative expenses	(124)	(119)
Other operating expenses	(37)	(5)
EBITDA[(1)]	**90**	**512**
Margin %	*30,90%*	*20,96%*
EBIT[(2)]	**(477)**	**290**
Margin %	*(20,69)%*	*11,87%*

(1) **EBITDA** lower by 422 m PLN (-82,42%) -> after bringing to comparability lower by **426 m PLN (-76,48%)**

comparable EBITDA 12M 2017 was 557 mln PLN -> value of 512 m PLN as a result of one-off event related to increase of reserve for reclamation (-46) and event related to valuation of material inventories (+1)

comparable EBITDA 12M 2018 was 131 m PLN -> value of 90 m PLN as a result of one-off event related to write-off on inventories (-9), reserve for return of CO_2 (-31) and reserve –for landfill reclamation (-1)

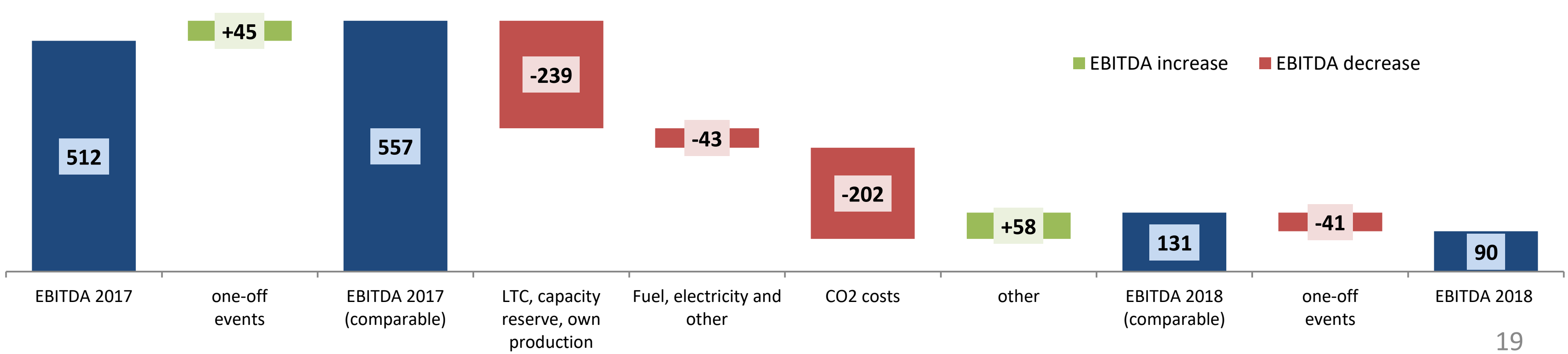
(-239) lower revenues from own electricity production, lower LTC compensation, lower revenues from heat sale, lower revenues from system services and capacity services, higher revenues from certyficates of orygin and lower result on electricity trading

(-43) higher biomass costs, lower cost of electricity (in mines), lower costs of other fuels and materials (heating oil, sorbent) and lower costs of materials maintenance

(-202) higher costs of CO_2

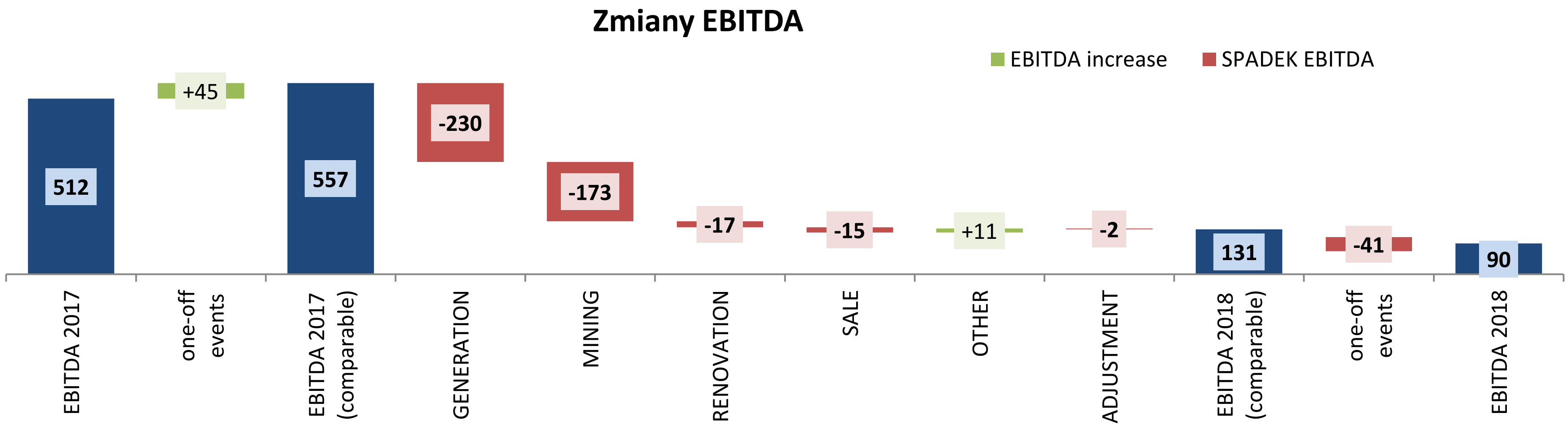
(+58) lower revenues from construction services and others, lower employee benefits, lower taxes, lowr external services, higher other costs of operation

EBITDA changes



EBITDA 2018 by segments

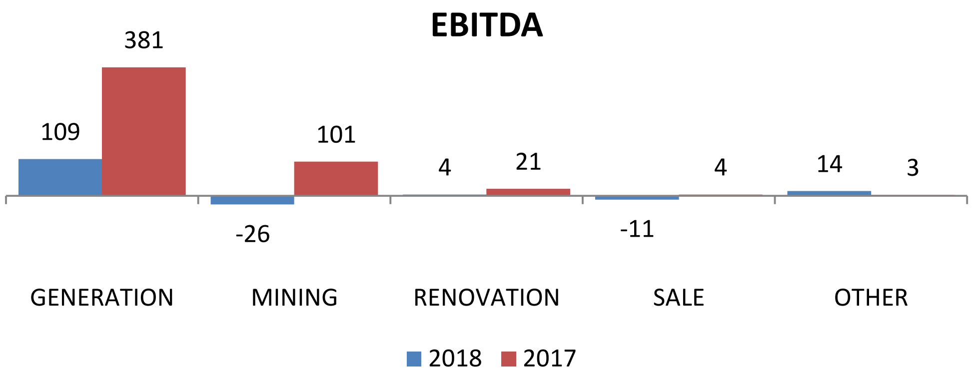
[m PLN]



Main reasons of EBITDA changes in generation and mining segments:

Generation:

- lower revenues from own electricity sale, system services and capacity services, higher revenues from certyficates of orygin, lower LTC compensation, lower revenues from heat sale, and lower result on electricity trading
- lower cost of lignite, higher cost of biomass, lower cost of other fuels
- higher cost of CO_2
- lower employee benefits, lower cost of external services and others



Mining:

- lower revenues from lignite sale
- lower cost of electricity
- lower employee benefits, lower taxes, other materials

Consolidated P&L for 2018 by segments

m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	1 679	6	83	533	4	-	2 305
External sale revenues %	*84,58%*	*1,05%*	*51,55%*	*100,00%*	*1,63%*	*0,00%*	*100,00%*
Sale revenues between segments	306	565	78	-	241	(1 190)	-
Sale revenue	**1 985**	**571**	**161**	**533**	**245**	**(1 190)**	**2 305**
Cost of goods sold	(2 137)	(766)	(149)	(540)	(229)	1 193	(2 628)
Gross profit (loss)	**(152)**	**(196)**	**12**	**(7)**	**17**	**3**	**(323)**
Margin %	*(7,66%)*	*(34,33%)*	*7,45%*	*(1,31%)*	*6,94%*	*(0,25%)*	*(14,01%)*
EBITDA	**109**	**(26)**	**4**	**(11)**	**14**	**-**	**90**
Margin %	*5,49%*	*(4,55%)*	*2,48%*	*(2,06%)*	*5,71%*	*0,00%*	*3,90%*
EBIT	**(238)**	**(239)**	**1**	**(11)**	**8**	**3**	**(477)**
Margin %	*(11,99%)*	*(41,86%)*	*0,62%*	*(2,06%)*	*3,27%*	*(0,25%)*	*(20,69%)*
Net profit (loss)	**(208)**	**(249)**	**(0)**	**(14)**	**6**	**2**	**(464)**
Margin %	*(10,48%)*	*(43,61%)*	*(0,20%)*	*(2,63%)*	*2,45%*	*(0,17%)*	*(20,13%)*

EBITDA 4Q 2018

[m PLN]

	4Q 2018	4Q 2017
Sale revenues	**682**	**630**
Change %	*8,25%*	*(3,23)%*
Costs of goods sold	(1064)	(545)
Gross profit	**(382)**	**85**
Margin %	*(56,01)%*	*13,49%*
Other operating revenues	5	0
Selling and distribution expenses	(1)	(1)
Administrative expenses	(32)	(29)
Other operating expenses	(34)	(2)
EBITDA(1)	**(23)**	**120**
Margin %	*(3,37)%*	*19,05%*
EBIT(2)	**(443)**	**52**
Margin %	*(64,96)%*	*8,25%*

(1) **EBITDA** lower by o 143 m PLN -> after bringing to comparability **lower by 102 m PLN (-82,35%)**

comparable EBITDA 4Q 2017 was 121 m PLN -> value of 120 m PLN as a result of pne-off event related to valuation of material inventories (+1)

comparable EBITDA 4Q 2018 was 18 m PLN -> value of (-23) m PLN as a result of one-off event related to write-off on inventories (-9), reserve for return of CO2 (-31) and reserve –for landfill reclamation (-1)

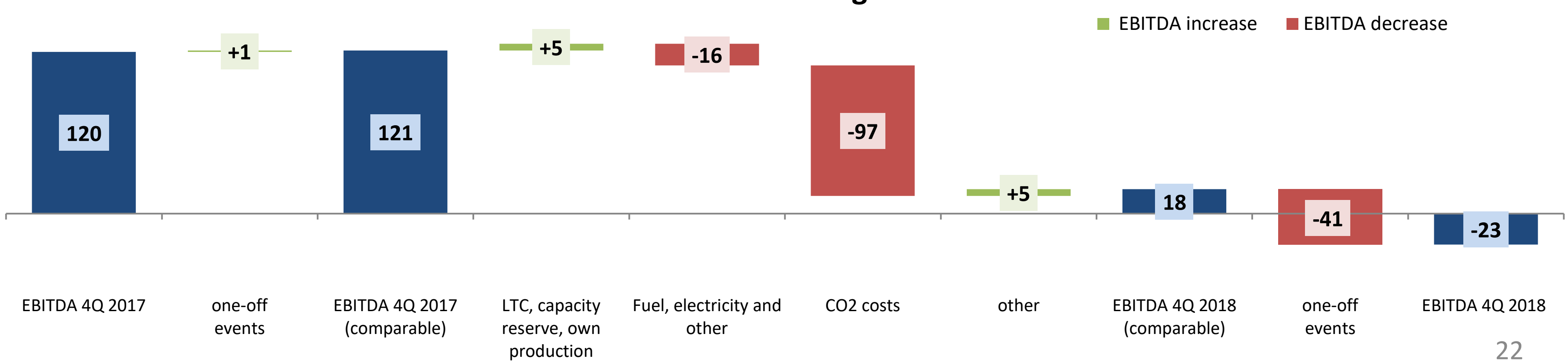
(+5) higher revenues from electricity from own production, lower LTC compensation, lower revenues from heat sale, lower revenues from system services and capacity services, higher revenues from certyficates of orygin and lower result on electricity trading

(-16) higher biomass costs, lower cost of electricity (in mines), lower costs of fuels and other materials (heating oil, sorbent) and lower cost of materials for maintenance

(-97) higher cost of CO_2

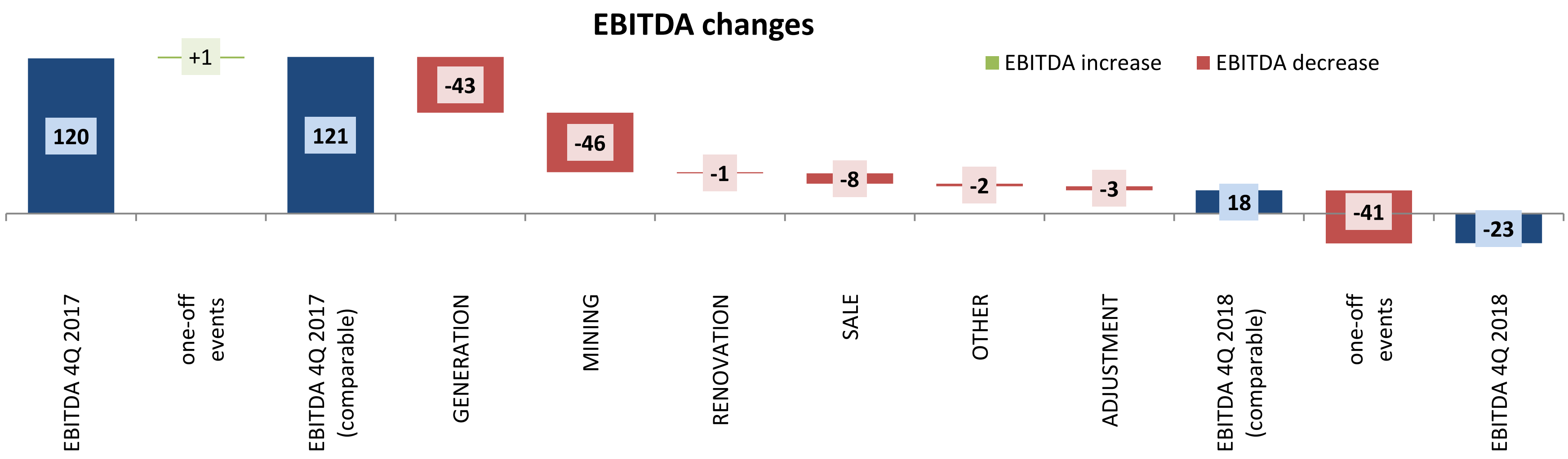
(+5) lower revenues from construction services and others, lower employee benefits, lower taxes, lower external services, higher other costs of operation

EBITDA changes



EBITDA 4Q 2018 by segments

[m PLN]



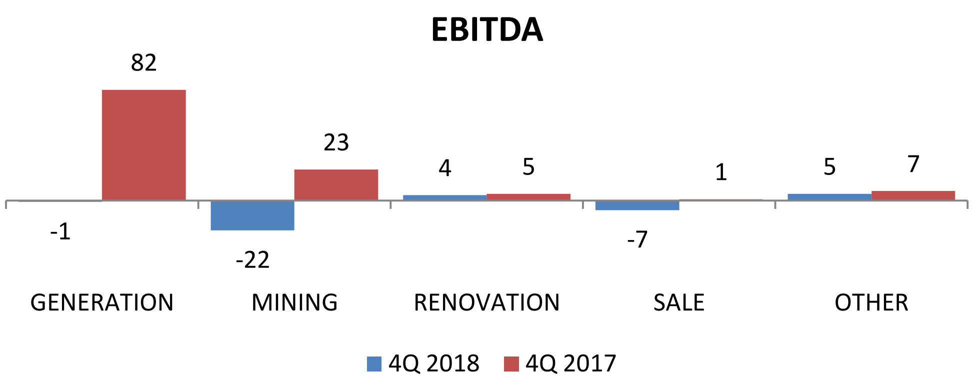
Main reasons of EBITDA changes in generation and mining segments:

Generation:

- higher cost of CO_2
- lower revenues from system services and capacity services, lower revenues from heat sale
- higher revenues from certyficates of orygin
- lower employee benefits

Mining:

- lower revenues from lignite sale,
- lower cost of electricity,
- lower taxes,
- lower employee benefits



Consolidated P&L for 4Q 2018 by segments

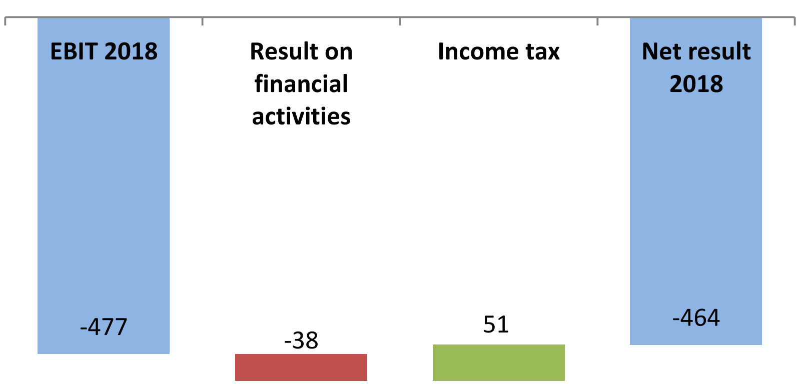
m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	521	0	20	140	0	0	682
External sale revenues %	*87,12%*	*0,00%*	*47,62%*	*100,00%*	*0,00%*	*0,00%*	*100,00%*
Sale revenues between segments	77	138	22	-	62	(359)	
Sale revenue	**598**	**138**	**42**	**140**	**62**	**(299)**	**682**
Cost of goods sold	(811)	(312)	(36)	(146)	(57)	298	(1 064)
Gross profit (loss)	**(212)**	**(175)**	**6**	**(6)**	**5**	**0**	**(382)**
Margin %	*(35,45%)*	*(126,81%)*	*14,29%*	*(4,29%)*	*8,06%*	*0,00%*	*(56,01%)*
EBITDA	**(2)**	**(22)**	**4**	**(7)**	**5**	**-**	**(23)**
Margin %	*(0,33%)*	*(15,94%)*	*9,52%*	*(5,00%)*	*8,06%*	*0,00%*	*(3,37%)*
EBIT	**(258)**	**(185)**	**4**	**(7)**	**3**	**-**	**(443)**
Margin %	*(43,14%)*	*(134,06%)*	*9,52%*	*(5,00%)*	*4,84%*	*0,00%*	*(64,96%)*
Net profit (loss)	**(213)**	**(182)**	**3**	**(11)**	**2**	**-**	**(401)**
Margin %	*(35,62%)*	*(131,88%)*	*6,38%*	*(7,86%)*	*3,23%*	*0,00%*	*(58,80%)*

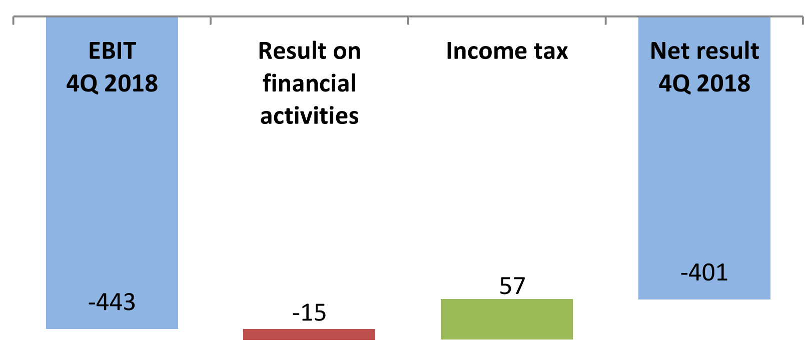
Financial activities, taxation and net profit
[m PLN]

	12M 2018	12M 2017	4Q 2018	4Q 2017
EBIT	**(477)**	**290**	**(443)**	**52**
Financial income	7	16	1	5
Financial costs	(45)	(48)	(16)	(12)
Gross profit	**(515)**	**258**	**(458)**	**45**
Income tax (taxation)	51	(74)	57	(31)
Effective tax rate		*28,57%*		*69,57%*
Net profit for the period	**(464)**	**184**	**(401)**	**14**
Margin %	*(20,13)%*	*7,53%*	*(58,80)%*	*2,22%*

(1) It results from temporary differences. Established and released provisions and impairment write-downs on assets.

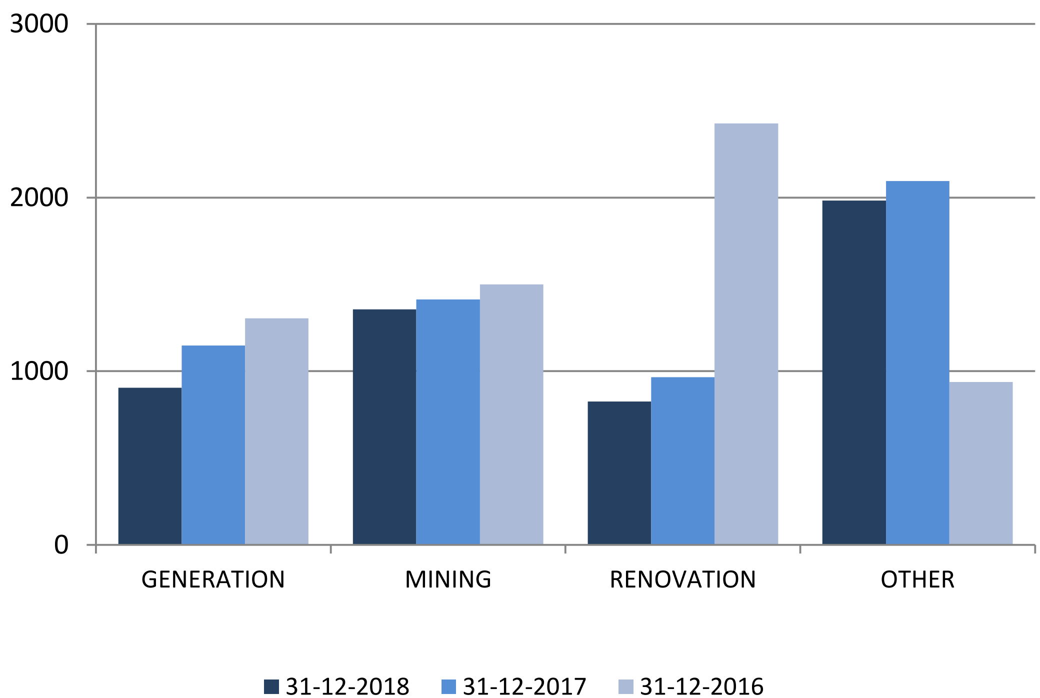
EBIT --> net profit



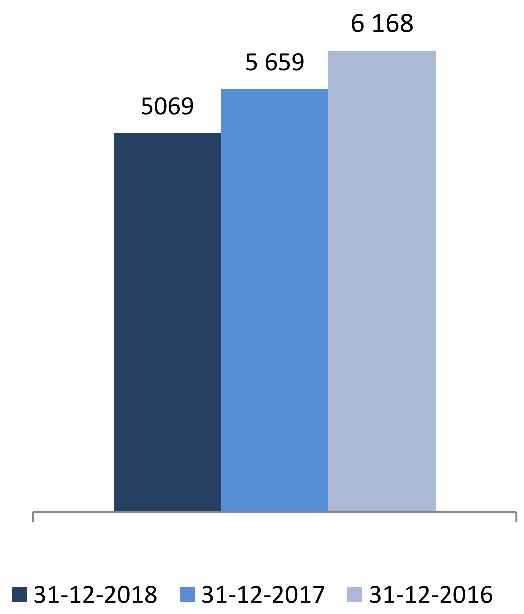


Employment
[full time]

BY SEGMENTS



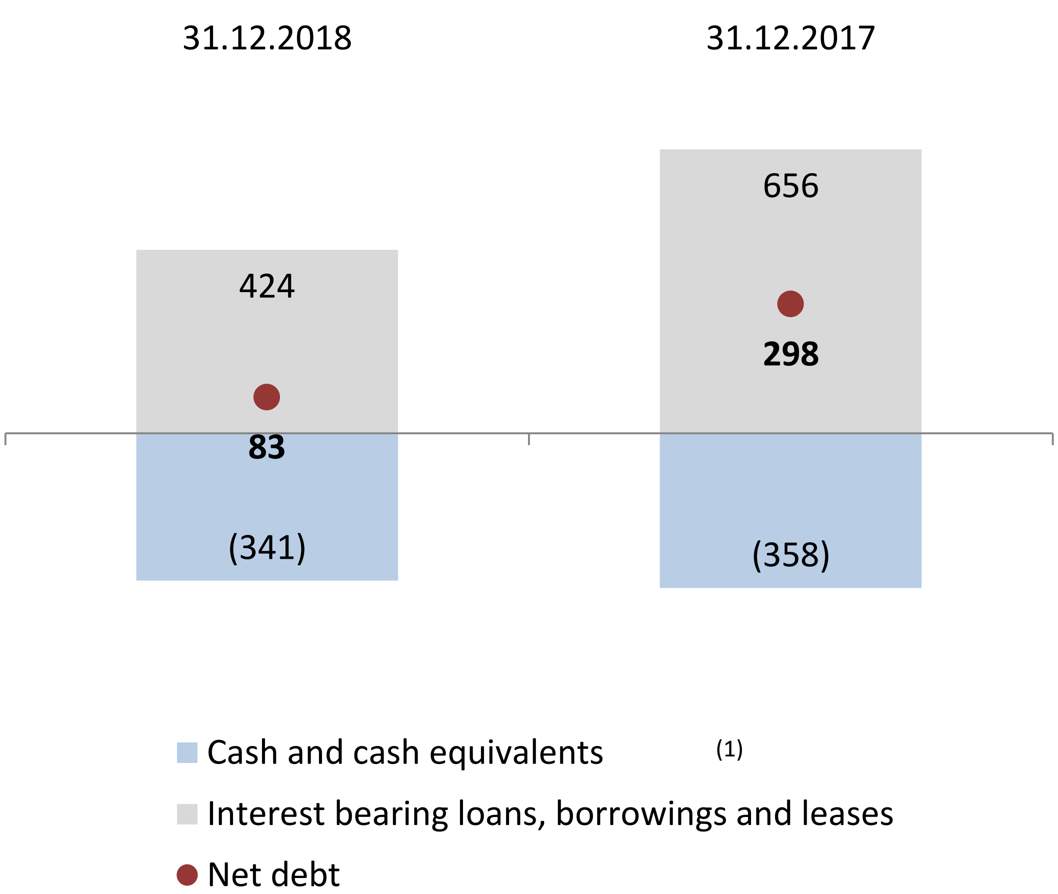
TOTAL



The employment level in the Group is still decreasing. Employment declines in the second half of the year are largely due to the adjustment of the employment structure to reduce the scale of operations in 2018, with the end of the power plant operation in Adamów. The structure of the Group has been simplified and the "auxiliary" activity was concentrated in one company which took over employees of four other companies in liquidation.

Financial indebtedness

Net debt [m PLN]

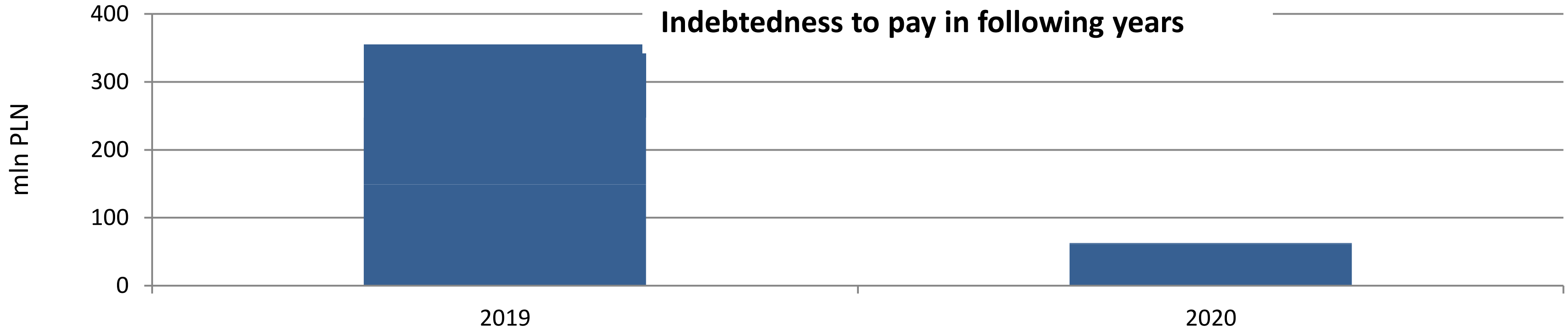


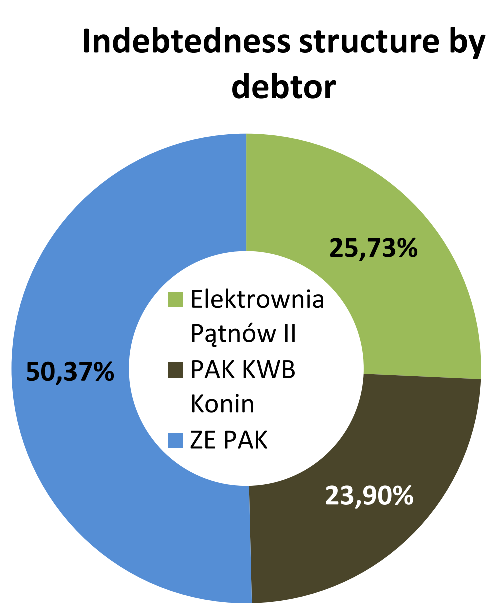
Net debt / EBITDA

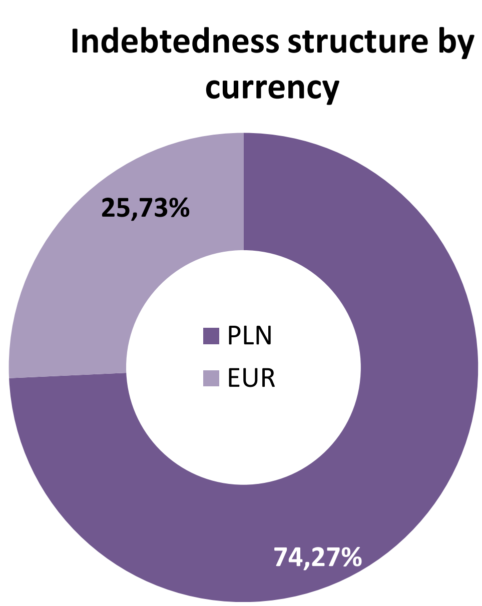
31.12.2018	0,92
31.12.2017	0,58

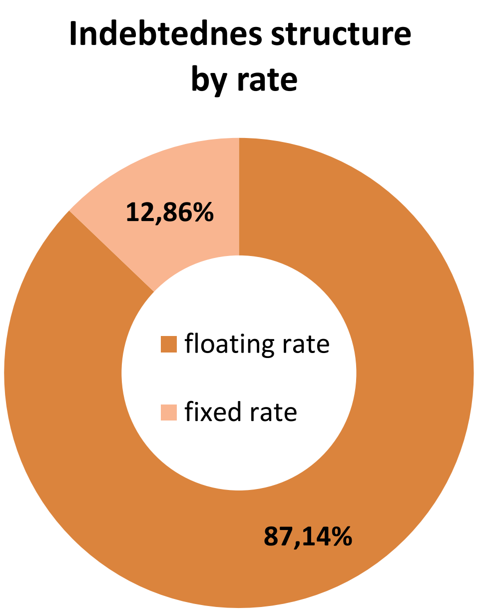
(1) Cash and cash equivalents from consolidated statement of financial position and other short-term financial assets

Financial indebtedness structure (1)









(1) Indebtedness of main Group companies, excluding PLN 5 million indebtedness of other Group's companies. Indebtedness in EUR calculated using NBP average exchange rate as of 31.12.2018

Consolidated cash flow

[m PLN]

	12M 2018	12M 2017	4Q 2018	4Q 2017
Gross profit (loss)	**(515)**	**259**	**(458)**	**46**
Depreciation and amortisation	193	196	48	45
Profit/loss on investing and financial activities	16	21	4	7
Changes in working capital(1)	400	249	203	76
Income tax	(10)	(20)	(13)	(12)
Purchase of EUA(2)	(93)	(249)	(56)	(118)
other(3)	373	23	373	25
Net cash flow from operational activities	**367**	**479**	**102**	**69**
(inflows/outflows) of investments in property, plant and equipment and intangible assets	(70)	(98)	(14)	(28)
Other	10	40	4	1
Net cash flow from investing activities	**(61)**	**(58)**	**(10)**	**(27)**
Inflows of credits, loans, leases and securities(4)	43	-	8	-
Payment of credits, loans, leases and securities	(286)	(348)	(72)	(78)
Interest paid	(21)	(33)	(5)	(11)
Dividends paid	(61)	(66)	(30)	-
other	-	-	-	-
Net cash flow from financial activities	**(325)**	**(447)**	**(101)**	**(89)**
Change in cash and cash equivalents	(19)	(26)	(8)	(46)
Cash and cash equivalents at the beginning of the period	323	349	312	369
Cash and cash equivalents at the end of the period	**303**	**323**	**303**	**323**

(1) A significant increase in the provision for the purchase of CO2 emission rights (EUA) is the reason for significantly higher change in working capital in both the fourth quarter and the entire 2018. In this item in 4Q18 and 2018 there are also included: provision for the return of CO2, write-down on inventories and a reserve for landfill.

(2) In 2018, the lower level of expenses related to the direct purchase of CO2 emission allowances (higher share of futures).

(3) In 2018, in 4Q'18, impairment losses related to impairment of fixed assets were recognized in this item

(4) Drawing of a overdraft facility.

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