



19 September 2019

Zespół Elektrowni Pątnów-Adamów-Konin SA

2Q 2019 Results



ZE PAK Group – 6M 2019 summary



| Key operational and financial data | 6M 2019 | Change y/y |
|--|----------------|------------|
| Sale of electricity: | 4,64 TWh | +8,66% |
| • Electricity from own production: | 2,52 TWh | -13,10% |
| • Electricity from resale: | 2,12 TWh | +54,57% |
| Achieved average electricity sale price ⁽¹⁾ | 269,15 PLN/MWh | +37,41% |
| Sale revenues: | 1 406 m PLN | 43,03% |
| EBITDA: | 163 m PLN | 129,58% |
| Net result: | 37 m PLN | - |
| CAPEX: | 18 m PLN | -64,00% |
| Indebtedness: | 245 m PLN | -55,86% |
| Cash ⁽²⁾ : | 130 m PLN | -48,41% |
| Net debt / EBITDA: | 0,63 x | -30,83% |

(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 – 2Q 2019 summary



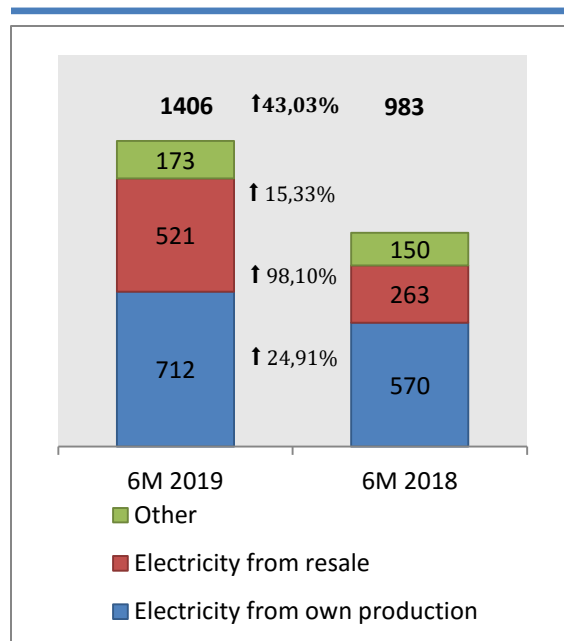
| Key operational and financial data | 2Q 2019 | Change y/y |
|---|----------------|------------|
| Sale of electricity: | 2,33 TWh | 6,42% |
| • Electricity from own production: | 1,36 TWh | -9,93% |
| • Electricity from resale: | 0,97 TWh | +44,78% |
| Achieved average electricity sale price | 268,43 PLN/MWh | +32,99% |
| Sale revenues: | 711 m PLN | 37,52% |
| EBITDA: | 89 m PLN | 304,55% |
| Net result: | 25 m PLN | - |
| CAPEX: | 10 m PLN | -16,67% |

ZE PAK Group – 6M 2019 summary

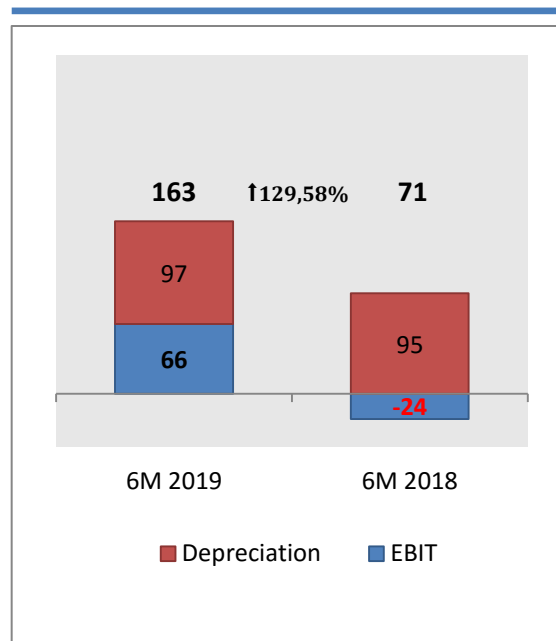
[m PLN]



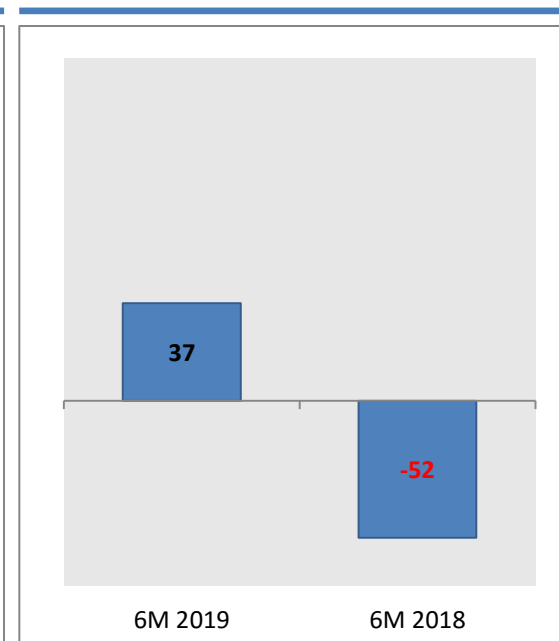
Revenues



EBITDA



Net profit/loss



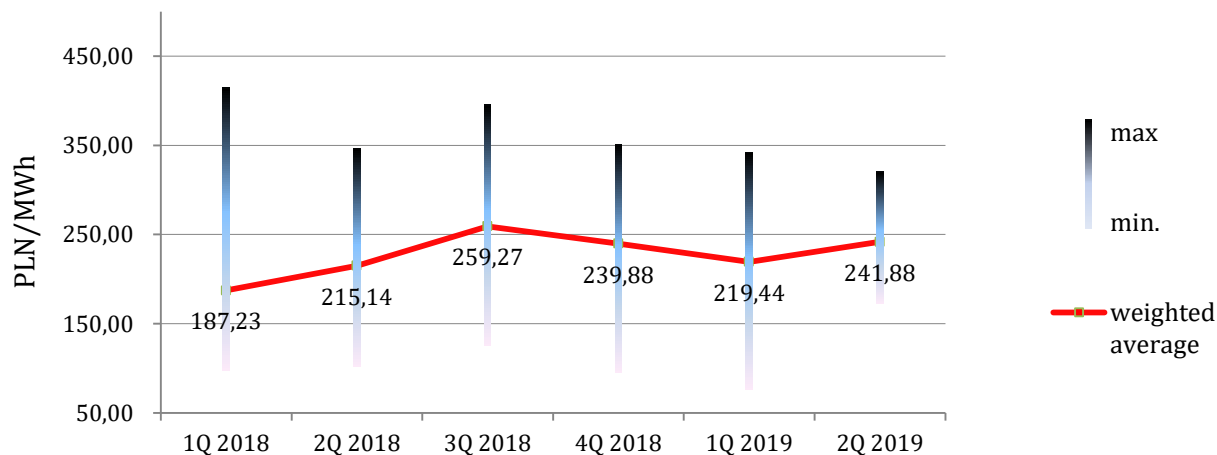
The higher revenues of the ZE PAK SA Group in the first half of 2019 compared to the same period last year were mainly due to an increase in sales of electricity from trading and an increase in the average price of electricity obtained. However, sales of energy from own production dropped. A decrease was recorded in February, March and May, in the remaining months production was at a comparable level.

In addition to the impact of increased sales volume, the better result compared to the same period of the previous year, recorded at the level of EBITDA and net result, was caused by a more favorable relation of the electricity sale price achieved in relation to the costs of purchasing CO2 emission allowances.

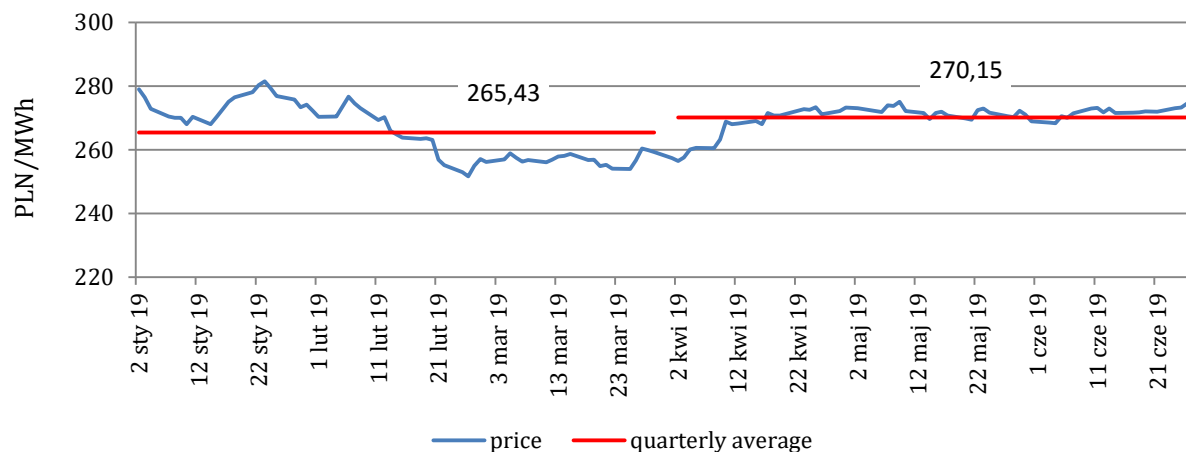
SELECTED ELECTRICITY MARKET DATA



Electricity prices



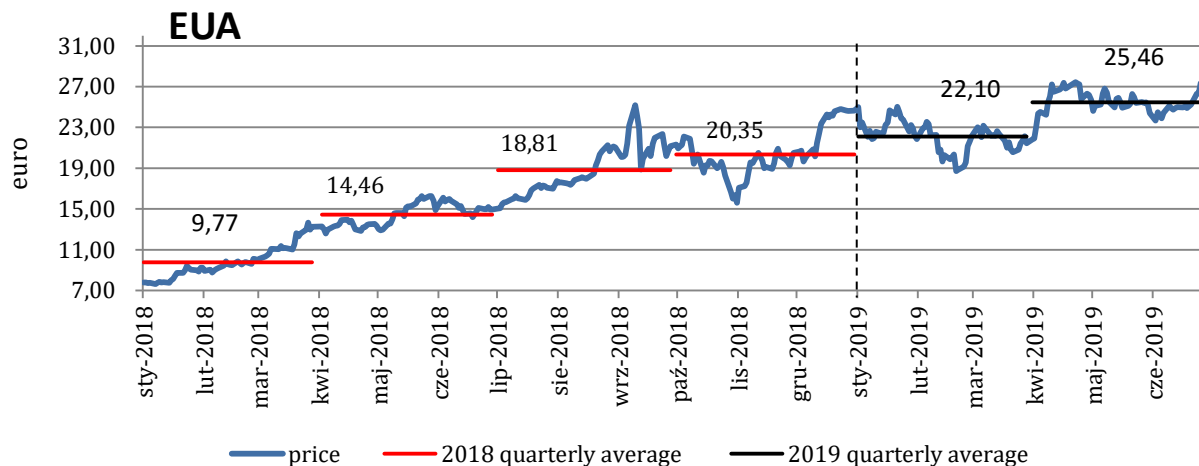
The first half of 2019 was characterized by a decrease in the weighted average energy price compared to the preceding two quarters. The most important factors that had an impact on electricity prices in the first half of 2019 were: lower domestic electricity consumption by 1.39%, very high windiness and associated high generation of wind turbines, confusion accompanying the introduction of "freezing" prices of energy for final recipients and the lack of implementing acts on this subject, as well as the very rapid pace of legislative changes and uncertainty as to the interpretation of the provisions. The weighted average price (IRDN) in the first quarter of 2019 was PLN 219.44 / MWh, i.e. by PLN 32.21, i.e. 17.20% compared to the first quarter of 2018. The weighted average price (IRDN) in the second quarter of 2019 was also higher at PLN 241.88 / MWh, i.e. by PLN 26.74, i.e. 12.43% higher than in the second quarter of the previous year.



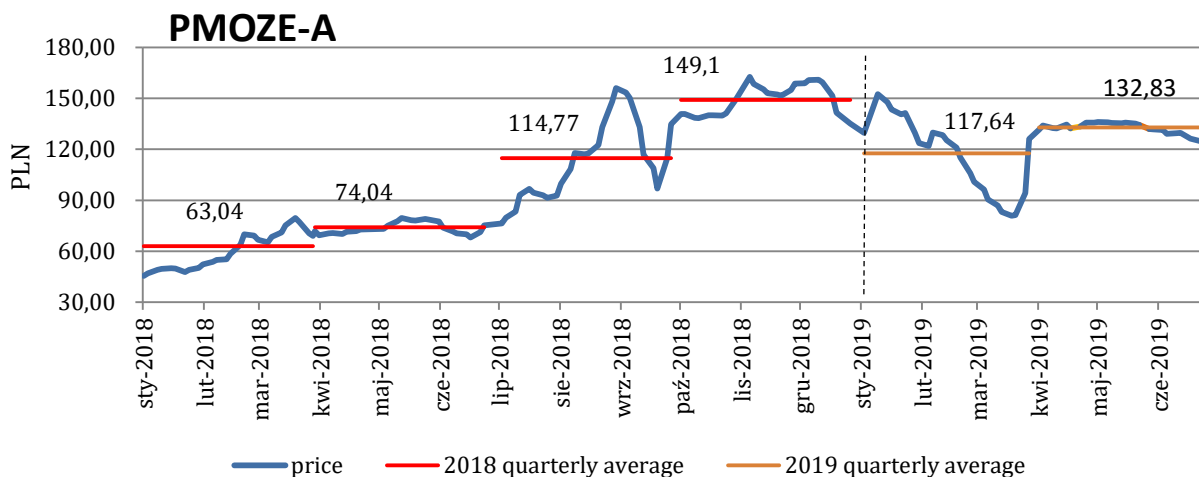
The arithmetic average of the daily clearing rates for the BASE_Y-20 contract in the first half of 2019 was at the level of PLN 267.75 / MWh, while in the first quarter of 2019 it was at the level of PLN 265.43 / MWh, while in the second quarter it increased up to PLN 270.15 / MWh.

Poland was an energy importer in 6M 2019. The foreign exchange balance in the first half of 2019 was 4.59 TWh on the import side, which means an increase compared to the balance of 3.8 TWh in the first half of 2018.

EUA and green certificates



In the first half of 2019, the CO2 emission allowance market was characterized by very high price volatility. The difference between the minimum and maximum quotations was 8.75 euros, i.e. about 35% compared to the price at the end of 2018. The fundamental factors that shaped the situation on the emission allowance market in the first half of 2019 were the uncertainty about the future of Great Britain in the EU (and thus in the EU ETS system), the emission settlement date for 2018 (30 April), prices achieved in auctions on the primary market, expectations regarding Germany's declaration regarding the resignation from the use of coal in the energy sector, weather conditions as well as the prices of energy raw materials and the level of production from renewable sources. The arithmetic average of EUA quotations in the first half of 2019 was EUR 23.78, which means an increase of 96% compared to the first half of 2018.



In the first half of 2019, prices of energy certificates of origin (green certificates) showed high volatility, which was caused first of all by a very high wind generation and secondly by work on the amendment to the RES Act where during subsequent versions provisions appeared and disappeared trying to make changes in the scope of the amount of the substitution fee, however, after abandoning these provisions, the property rights price exchange rate stabilized and from April to the end of the second quarter it fluctuated around PLN 130. The weighted average price of green certificates in the first quarter of 2019 was at the level of 117.64 PLN / MWh, which means an increase by 54.60 PLN / MWh, i.e. by 86.61% compared to the first quarter of 2018. In the second quarter of 2019, the weighted average price of green certificates increased to PLN 132.83 / MWh, which means an increase of 58.79 PLN / MWh, i.e. by 79.40% compared to the weighted average price from the second quarter of 2018.

OPERATIONAL DATA

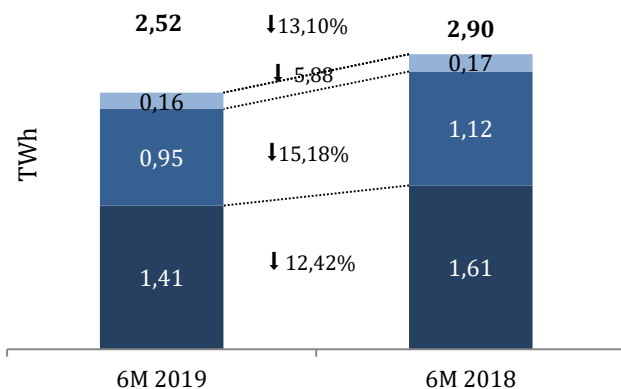


Half-year net production and sale of electricity

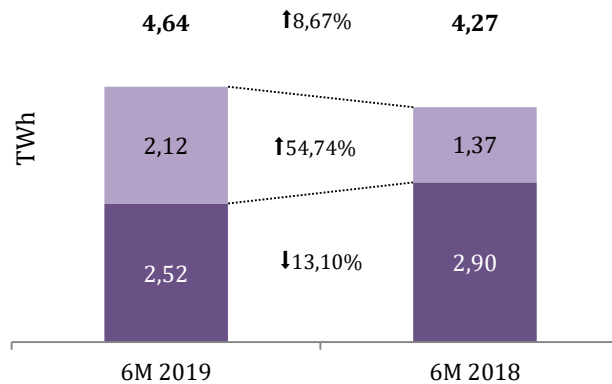
[TWh]



NET PRODUCTION

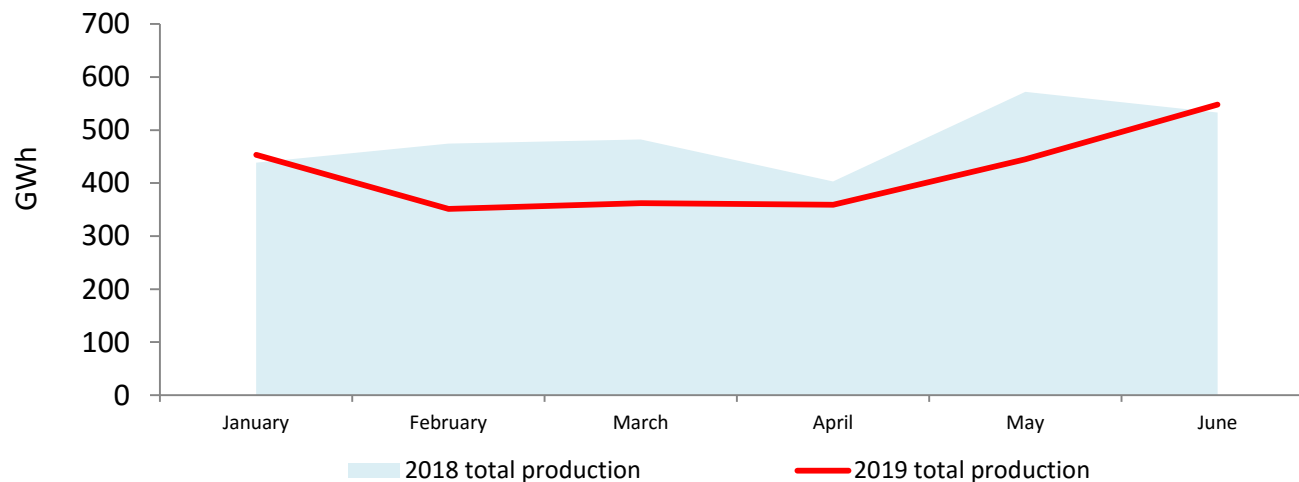


SALE



■ Pałnów I ■ Pałnów II ■ Konin ■ Adamów

■ Own production ■ Resale



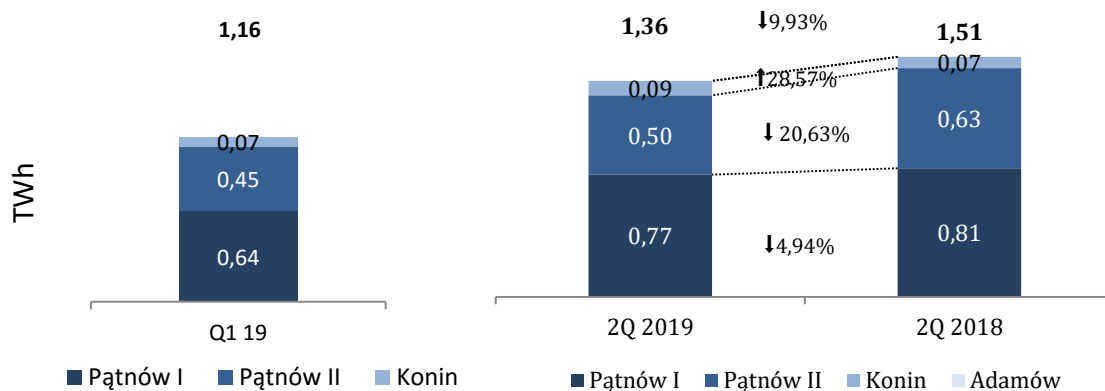
The increase in sales volume was the result of higher sales of electricity from trading.

However, sales of energy from own production dropped. A decrease was recorded in February, March and May, in the remaining months production was at a comparable level.

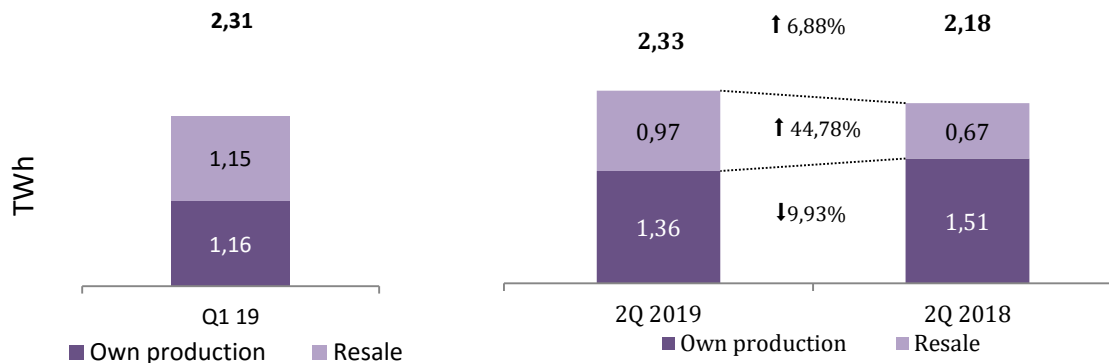
Quarterly net production and sale of electricity [TWh]



NET PRODUCTION



SALE



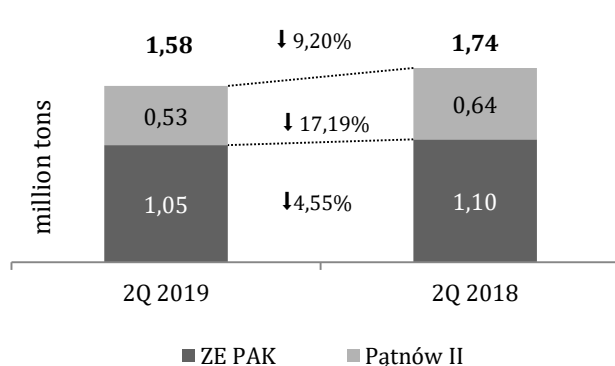
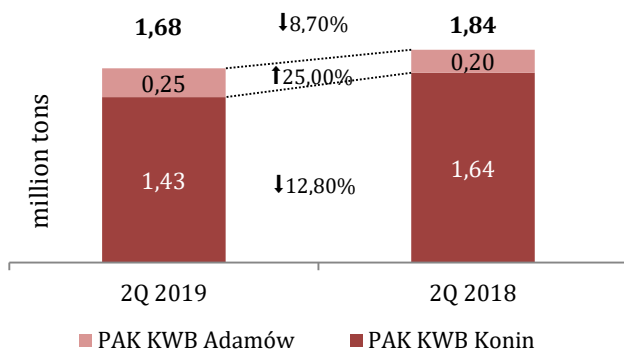
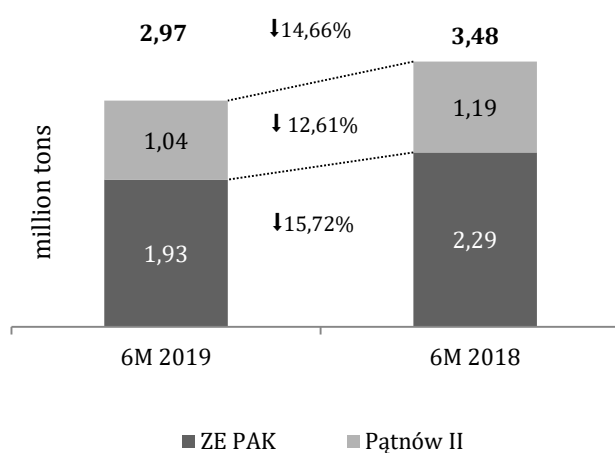
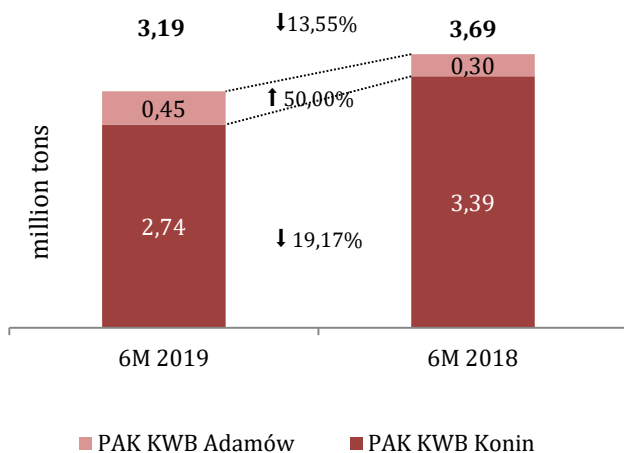
Lignite consumption and CO₂ emission

[mln ton]



LIGNITE CONSUMPTION

CO₂ EMISSION

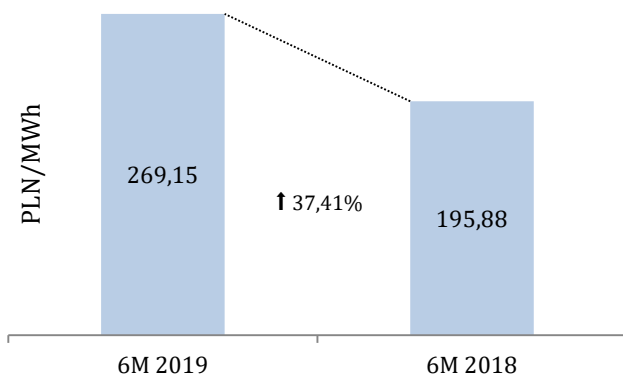


Data on coal consumption and CO₂ emissions in both the first half of 2019 and Q2 2019 alone show a decrease in coal consumption and lower emissions due to lower volumes of energy produced compared to the same periods of the previous year. The Group acquires almost all emission allowances on the market. The amount of free allowances used in both the first half of 2019 and 2018 did not exceed 1% of the total amount of allowances.

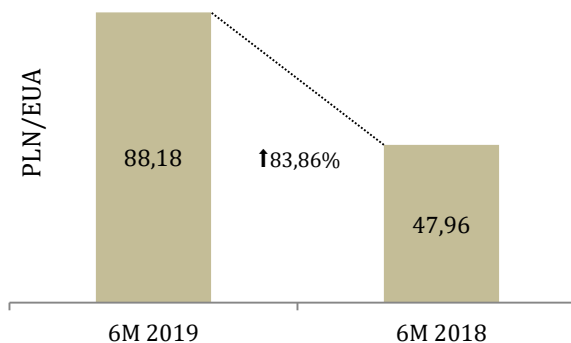
Average prices of electricity and CO₂ emission allowances purchase



Electricity prices¹⁾

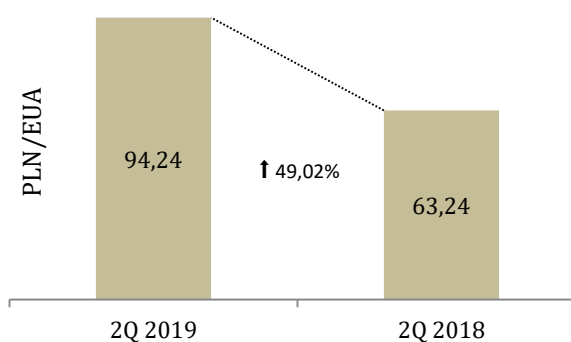
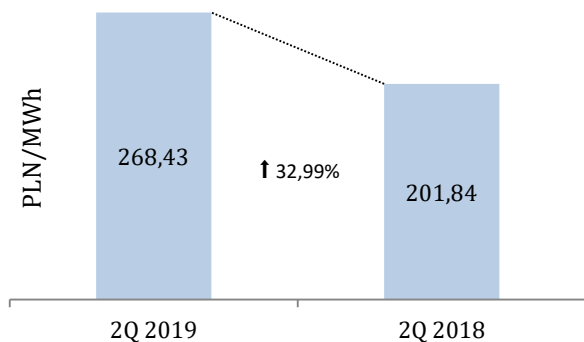


Prices of CO₂ emission allowances purchase (EUA)²⁾



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 CO₂ emission.

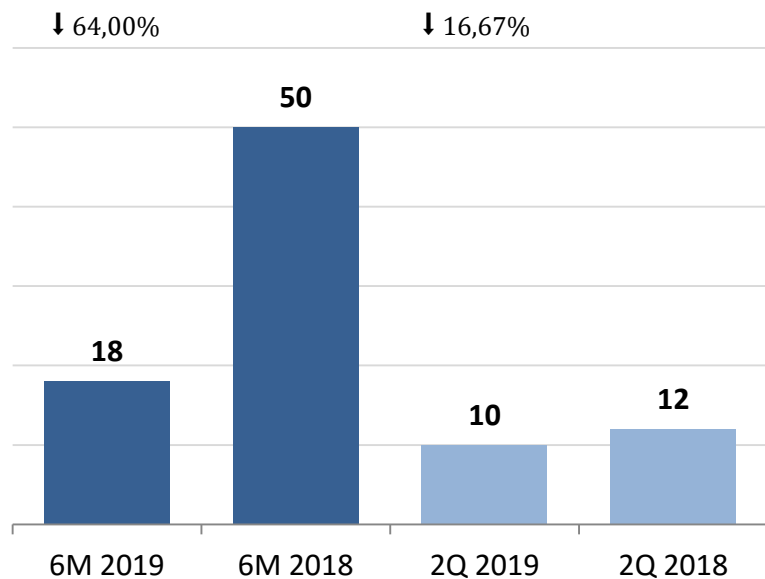


Capex on fixed assets and intangible assets

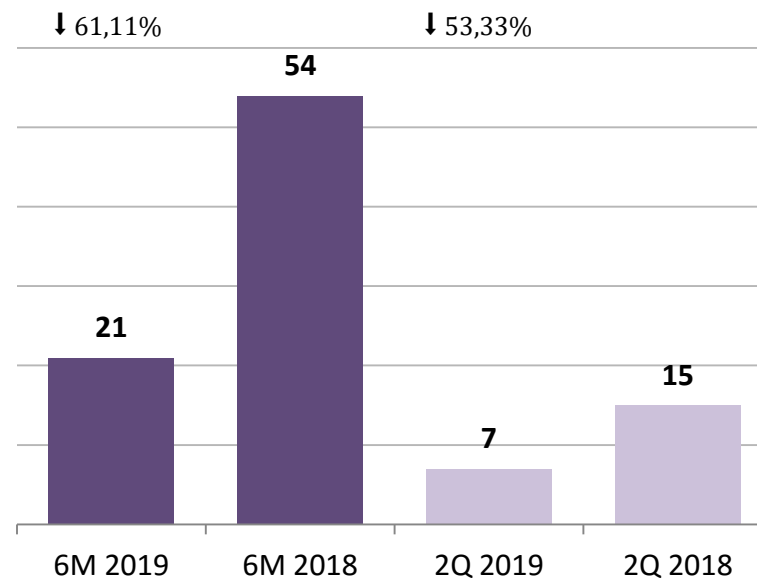
(excluding CO₂)



CAPEX [m PLN]



EXPENDITURES [m PLN]



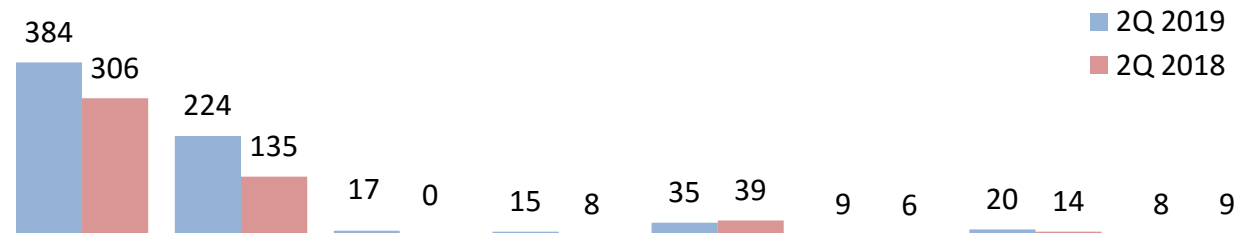
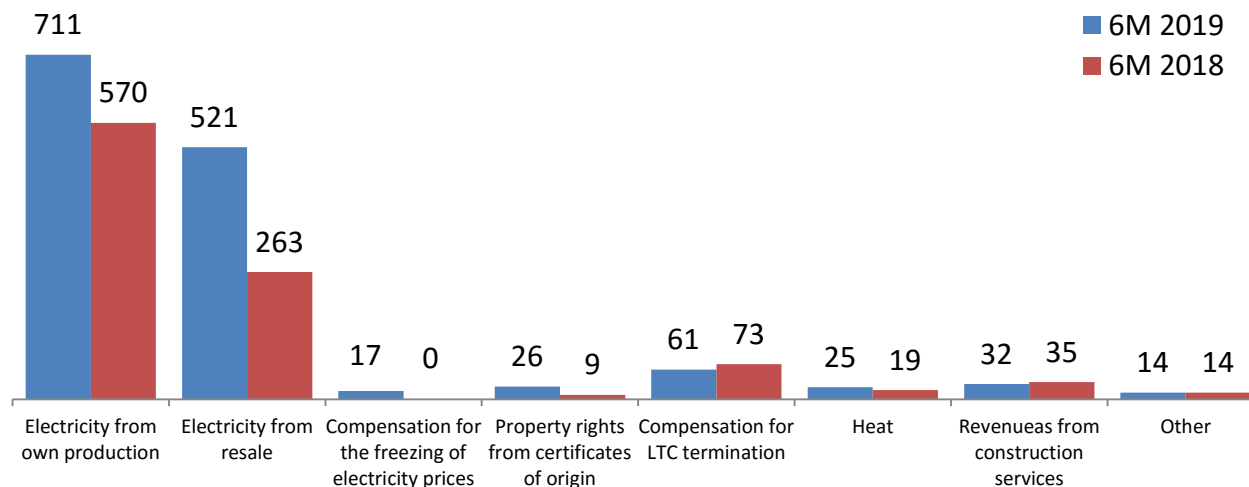
In the area of investment activity, the Group focuses on maintaining its assets and their trouble-free operation.

FINANCIAL DATA



Revenues

[m PLN]



Revenues

Higher total revenues from the sale of electricity:

- lower volume of energy sales from own production,
- higher sales volume from turnover,
- higher obtained electricity sale price.

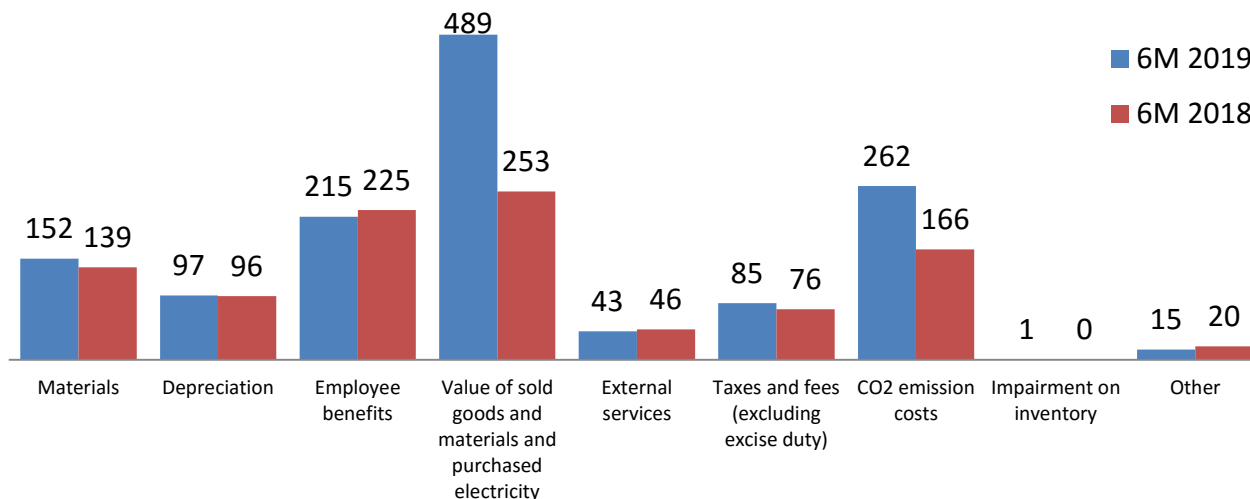
Lower compensation for termination of PPAs. In both periods, the advances were at a comparable level, but there was a difference in the amount of adjustments - the adjustment for the first half of 2019 is much lower compared to the comparable period of 2018. The main reason for the lower adjustment was the achievement of Elektrownia Pątnów II sp.z o.o. higher revenues, for which a constant high price of energy sales in the first half of 2019 was obtained compared to the comparable period of 2018.

Increase in revenues from the sale of heat due to the higher sale price.

The increase in revenues from property rights from certificates of origin of energy results from the continuous production of electricity in the biomass block in 1H'19 as opposed to 1H'18 when for part of the period work was carried out to adapt the block to heat production.

Costs by type

[m PLN]



■ 6M 2019

■ 6M 2018

Reasons of changes in key positions:

Higher material costs result from higher biomass costs.

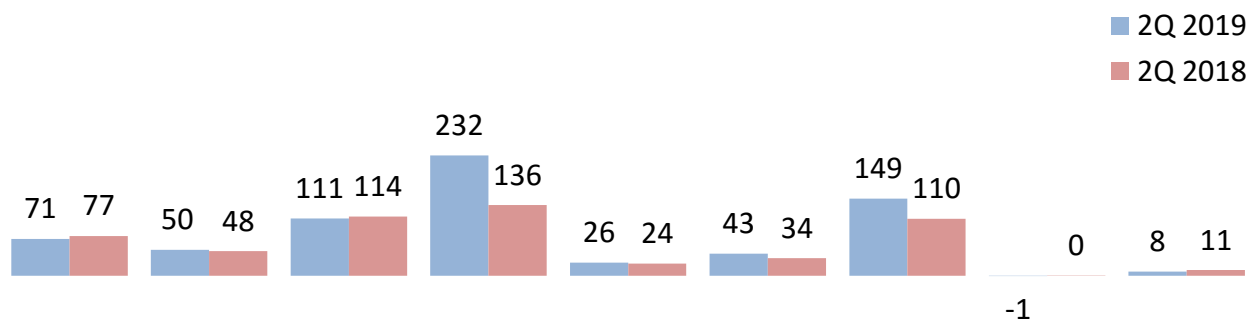
Higher CO₂ emission costs as a result of the higher EUA unit purchase price.

Higher value of goods and materials sold - caused by the higher volume of purchased electricity intended for trading and its higher price.

Lower employee benefits costs as a result of lower average employment.

Lower costs of external services relate to the largest extent to the services of subcontractors ordered by a company from the renovation segment in connection with ongoing orders.

Higher taxes and fees mainly apply to the mining segment and result from higher fees for the use of land excluded from forestry and agricultural production.



■ 2Q 2019

■ 2Q 2018

-1

EBITDA 6M 2019

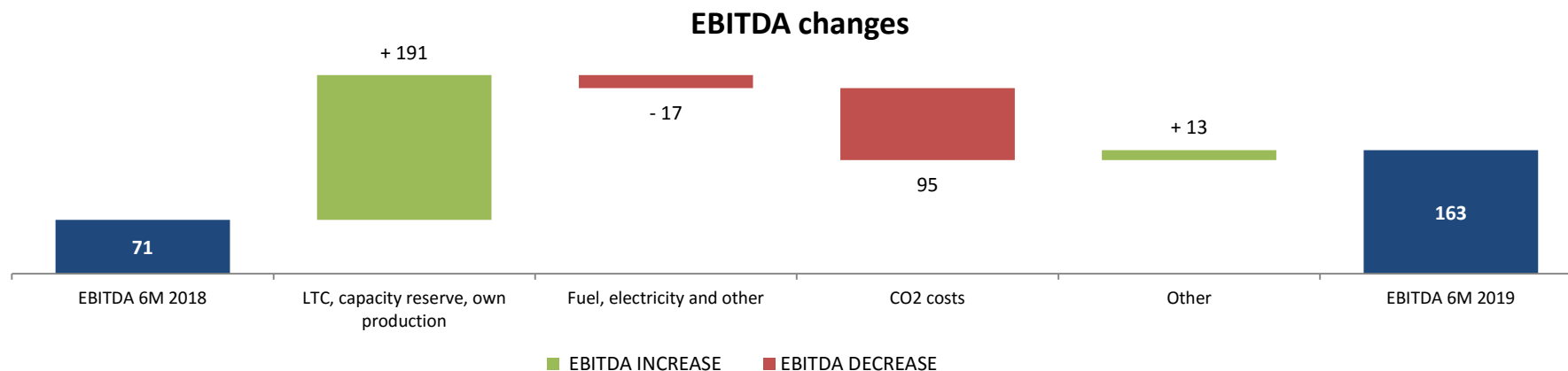
[m PLN]



| | 6M 2019 | 6M 2018 |
|-----------------------------------|---------------|----------------|
| Sale revenues | 1 406 | 983 |
| <i>Change %</i> | <i>43,03%</i> | |
| Costs of goods sold | (1 288) | (942) |
| Gross profit | 118 | 41 |
| <i>Margin %</i> | <i>8,39%</i> | <i>4,17%</i> |
| Other operating revenues | 13 | 4 |
| Selling and distribution expenses | (3) | (2) |
| Administrative expenses | (55) | (65) |
| Other operating expenses | (6) | (3) |
| EBITDA⁽¹⁾ | 163 | 71 |
| <i>Margin %</i> | <i>11,59%</i> | <i>7,22%</i> |
| EBIT | 66 | (25) |
| <i>Margin %</i> | <i>4,69%</i> | <i>(2,54)%</i> |

(1) **EBITDA higher by PLN 92 m (+128,17%), including:**

- (+191) higher revenues from own energy, higher revenues from system services and power reserves, lower revenues from PPAs, higher revenues from heat, higher revenues from certificates, revenues from the amount of the price difference, higher result on the turnover
- (-17) higher biomass costs, lower energy costs (in mines), slightly higher costs of other fuels and materials (mazout, heating oil, sorbent)
- (-95) higher costs of CO₂ emission
- (+13) lower costs of employee benefits, higher taxes and fees, lower costs of external services and a higher result on other operating activities and others

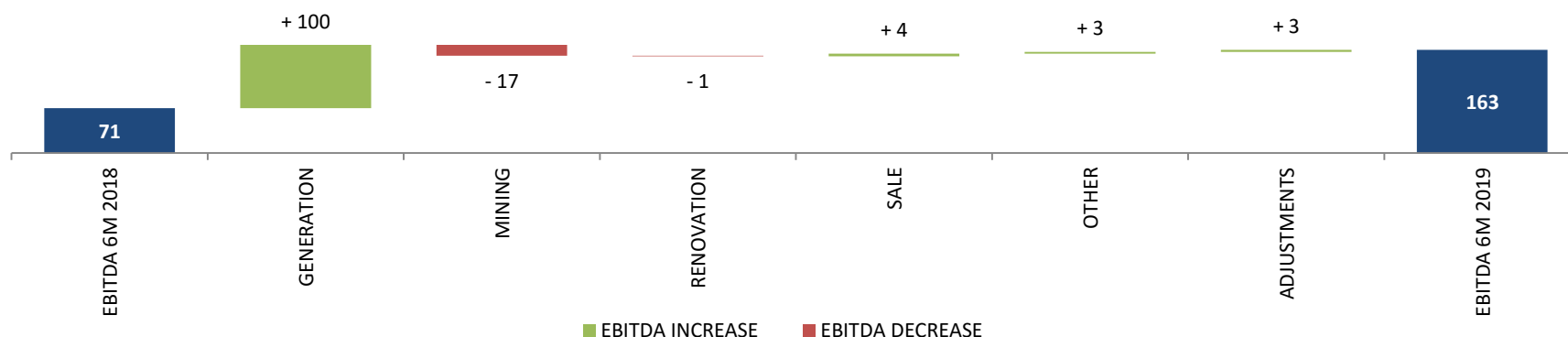


EBITDA 6M 2019 by segments

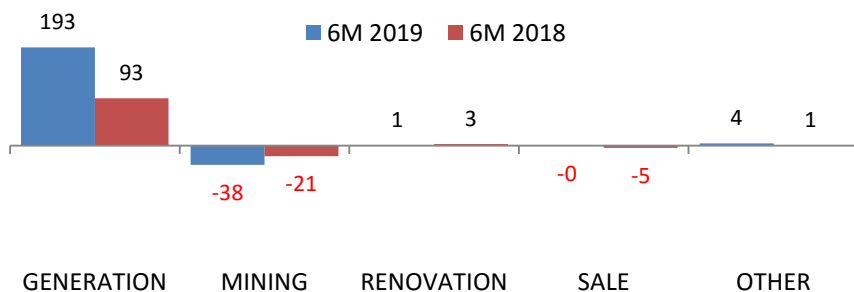
[m PLN]



EBITDA changes



EBITDA



Main reasons of EBITDA changes in segments:

Generation:

- higher revenues from own energy, higher revenues from system services and capacity reserves, lower revenues from PPAs, higher revenues from heat, higher revenues from certificates, additional amount of the price difference, higher result on the turnover
- lower coal costs, higher biomass costs, higher costs of other fuels (mazout, oil, etc.)
- higher costs of CO₂ emission allowances
- lower costs of employee benefits, higher taxes and fees, lower costs of external services and a lower result on other operating activities

Mining:

- lower revenues from coal sales
- lower costs of electricity
- higher taxes and fees, higher costs of other materials and other costs

Consolidated P&L for 6M 2019 by segments



| m PLN | Generation | Mining | Renovation | Sale | Other | Consolidation adjustment | Total |
|---------------------------------------|---------------|-----------------|----------------|----------------|--------------|--------------------------|----------------|
| Sale revenues from external customers | 1 031 | 5 | 37 | 332 | 1 | - | 1 406 |
| <i>External sale revenues %</i> | <i>89,89%</i> | <i>1,98%</i> | <i>52,11%</i> | <i>100,00%</i> | <i>0,87%</i> | <i>0,00%</i> | <i>100,00%</i> |
| Sale revenues between segments | 116 | 248 | 34 | - | 114 | (513) | - |
| Sale revenue | 1 147 | 253 | 71 | 332 | 115 | (513) | 1 406 |
| Cost of goods sold | (993) | (309) | (65) | (334) | (111) | 524 | (1 288) |
| Gross profit (loss) | 154 | (56) | 6 | (2) | 4 | 11 | 118 |
| <i>Margin %</i> | <i>13,43%</i> | <i>(22,13)%</i> | <i>8,45%</i> | <i>(0,60)%</i> | <i>3,48%</i> | <i>(2,14)%</i> | <i>8,39%</i> |
| EBITDA | 193 | (38) | 1 | - | 4 | 3 | 163 |
| <i>Margin %</i> | <i>16,83%</i> | <i>(15,02)%</i> | <i>1,41%</i> | <i>-</i> | <i>3,48%</i> | <i>(0,58)%</i> | <i>11,59%</i> |
| EBIT | 132 | (68) | (1) | - | 1 | 1 | 66 |
| <i>Margin %</i> | <i>11,51%</i> | <i>(26,88)%</i> | <i>(1,41)%</i> | <i>-</i> | <i>0,87%</i> | <i>(0,19)%</i> | <i>4,69%</i> |
| Net profit (loss) | 106 | (74) | (1) | 5 | 1 | 1 | 37 |
| <i>Margin %</i> | <i>9,24%</i> | <i>(29,25)%</i> | <i>(1,41)%</i> | <i>1,51%</i> | <i>0,87%</i> | <i>(0,19)%</i> | <i>2,63%</i> |

EBITDA 2Q 2019

[m PLN]

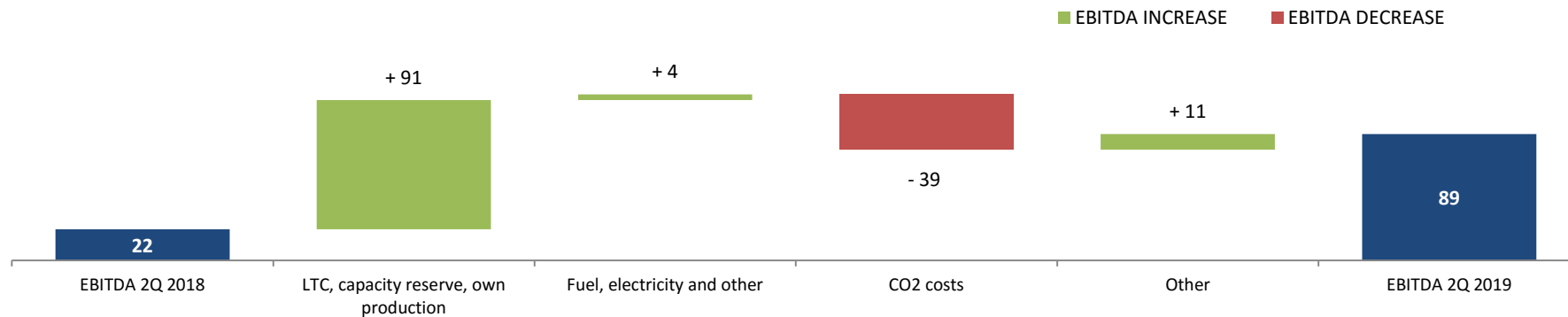


| | 2Q 2019 | 2Q 2018 |
|-----------------------------------|------------|-------------|
| Sale revenues | 711 | 517 |
| <i>Change %</i> | 37,52% | |
| Costs of goods sold | (649) | (512) |
| Gross profit | 62 | 5 |
| <i>Margin %</i> | 8,72% | 0,97% |
| Other operating revenues | 8 | 1 |
| Selling and distribution expenses | (1) | (1) |
| Administrative expenses | (25) | (30) |
| Other operating expenses | (6) | (2) |
| EBITDA⁽¹⁾ | 89 | 22 |
| <i>Margin %</i> | 12,52% | 4,26% |
| EBIT⁽²⁾ | 39 | (26) |
| <i>Margin %</i> | 5,49% | (5,03)% |

(1) **EBITDA higher by PLN 67 m (+309,43%), including:**

- (+91) higher revenues from own energy, higher revenues from system services and capacity reserves, lower revenues from PPAs, higher revenues from heat, higher revenues from certificates, revenues from the amount of the difference in price, lower result on turnover
- (+4) higher biomass costs, lower energy costs (in mines), higher costs of other fuels and materials (mazout, heating oil, sorbent)
- (-39) higher costs of CO₂ emission
- (+11) lower costs of employee benefits, higher taxes and fees, higher costs of external services higher result on other operating activities and others

EBITDA changes

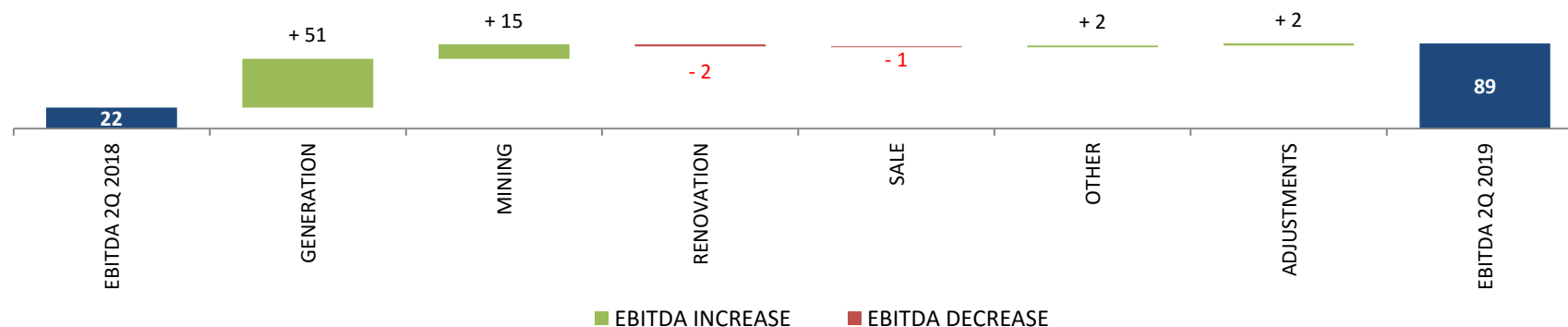


EBITDA 2Q 2019 by segments

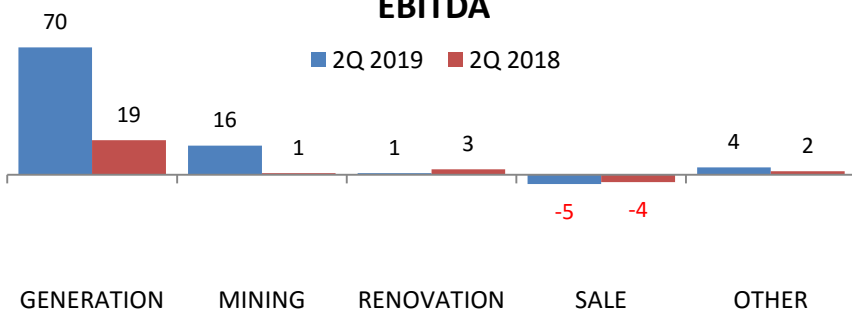
[m PLN]



EBITDA changes



EBITDA



Main reasons of EBITDA changes in segments:

Generation:

- higher revenues from own energy, higher revenues from system services and capacity reserves, lower revenues from PPAs, higher revenues from heat, higher revenues from certificates, revenues from the amount of the difference in price, lower result on turnover
- lower coal costs, higher biomass costs, lower energy costs (in mines), higher costs of other fuels and materials
- higher costs of CO₂ emission allowances
- lower costs of employee benefits, higher taxes and fees, lower costs of external services, lower result on other operating activities

Mining:

- lower revenues from coal sales
- Lower costs of electricity
- lower costs of other materials and higher taxes and fees as well as other costs

Consolidated P&L for 2Q 2019 by segments



| m PLN | Generation | Mining | Renovation | Sale | Other | Consolidation adjustment | Total |
|---------------------------------------|---------------|----------------|----------------|----------------|--------------|--------------------------|----------------|
| Sale revenues from external customers | 539 | 2 | 24 | 145 | 1 | - | 711 |
| <i>External sale revenues %</i> | <i>90,28%</i> | <i>1,36%</i> | <i>57,14%</i> | <i>100,00%</i> | <i>1,75%</i> | <i>0,00%</i> | <i>100,00%</i> |
| Sale revenues between segments | 58 | 145 | 18 | - | 57 | (278) | - |
| Sale revenue | 597 | 147 | 42 | 145 | 57 | (278) | 711 |
| Cost of goods sold | (546) | (146) | (37) | (154) | (53) | 287 | (649) |
| Gross profit (loss) | 51 | 1 | 4 | (9) | 4 | 10 | 62 |
| <i>Margin %</i> | <i>8,54%</i> | <i>0,68%</i> | <i>9,52%</i> | <i>(6,21)%</i> | <i>7,02%</i> | <i>(3,60)%</i> | <i>8,72%</i> |
| EBITDA | 70 | 16 | 1 | (5) | 4 | 3 | 89 |
| <i>Margin %</i> | <i>11,73%</i> | <i>10,88%</i> | <i>2,38%</i> | <i>(3,45)%</i> | <i>7,02%</i> | <i>(1,08)%</i> | <i>12,52%</i> |
| EBIT | 40 | 1 | - | (5) | 3 | - | 39 |
| <i>Margin %</i> | <i>6,70%</i> | <i>0,68%</i> | <i>-</i> | <i>(3,45)%</i> | <i>5,26%</i> | <i>-</i> | <i>5,49%</i> |
| Net profit (loss) | 33 | (5) | (1) | (5) | 2 | - | 25 |
| <i>Margin %</i> | <i>5,53%</i> | <i>(3,40)%</i> | <i>(2,38)%</i> | <i>(3,45)%</i> | <i>3,51%</i> | <i>-</i> | <i>3,52%</i> |

Financial activities, taxation and net profit

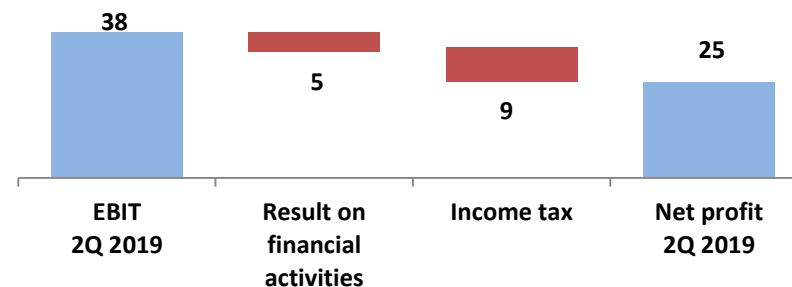
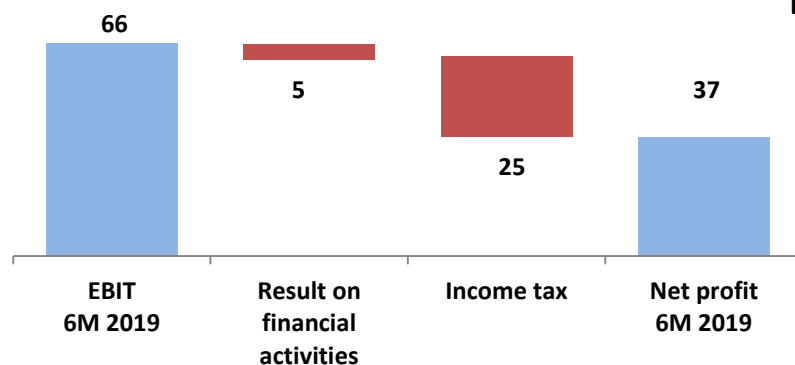
[m PLN]



| | 6M 2019 | 6M 2018 | 2Q 2019 | 2Q 2018 |
|----------------------------------|-----------|-------------|-----------|-------------|
| EBIT | 66 | (25) | 38 | (26) |
| Financial income | 8 | 5 | - | 3 |
| Financial costs | (13) | (25) | (5) | (14) |
| Gross profit | 61 | (45) | 33 | (37) |
| Income tax (taxation) | (25) | (7) | (9) | 1 |
| <i>Effective tax rate</i> | 40,98% | - | 27,27% | - |
| Net profit for the period | 37 | (52) | 25 | (36) |
| <i>Margin %</i> | 2,63% | - | 3,52% | - |

(1) In 6M 2019 and 2Q 2019 alone, clearly lower financial costs due to low debt and related interest costs

EBIT --> net profit

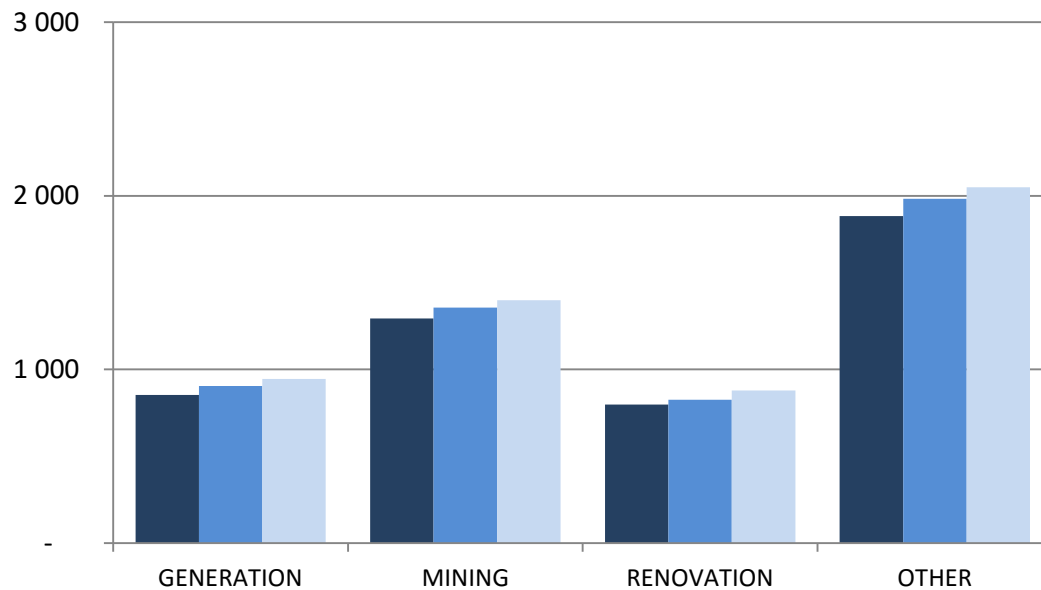


Employment

[full time]

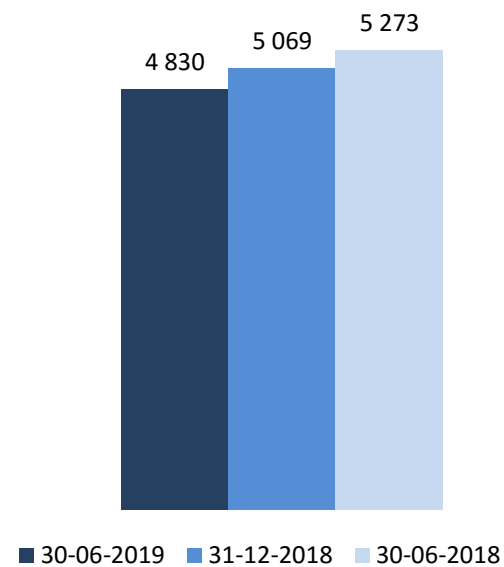


BY SEGMENTS



■ 30-06-2019 ■ 31-12-2018 ■ 30-06-2018

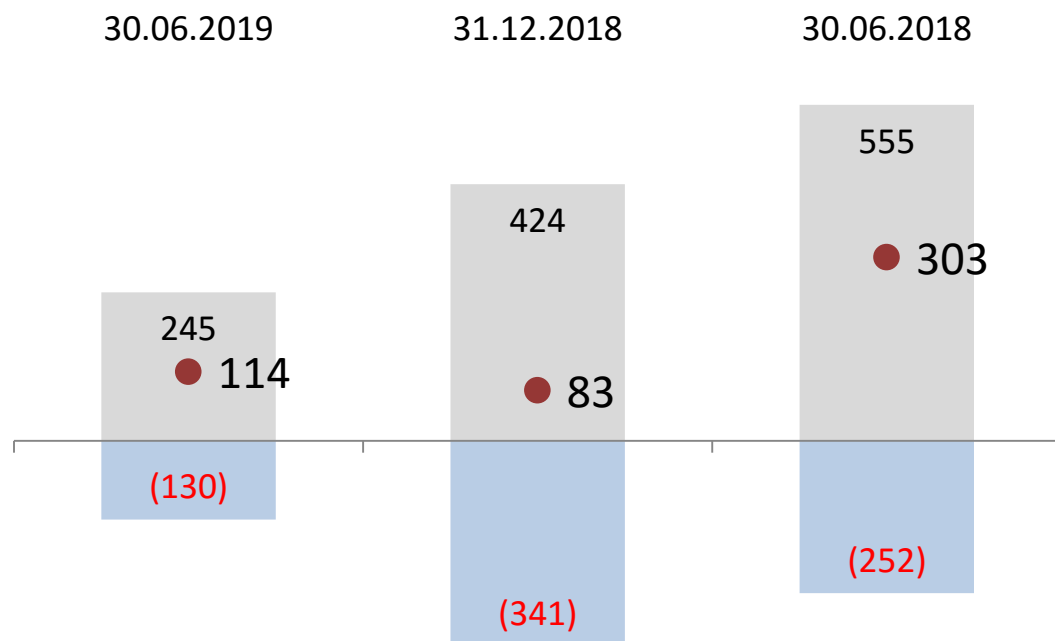
TOTAL



Financial indebtedness



Net debt [m PLN]



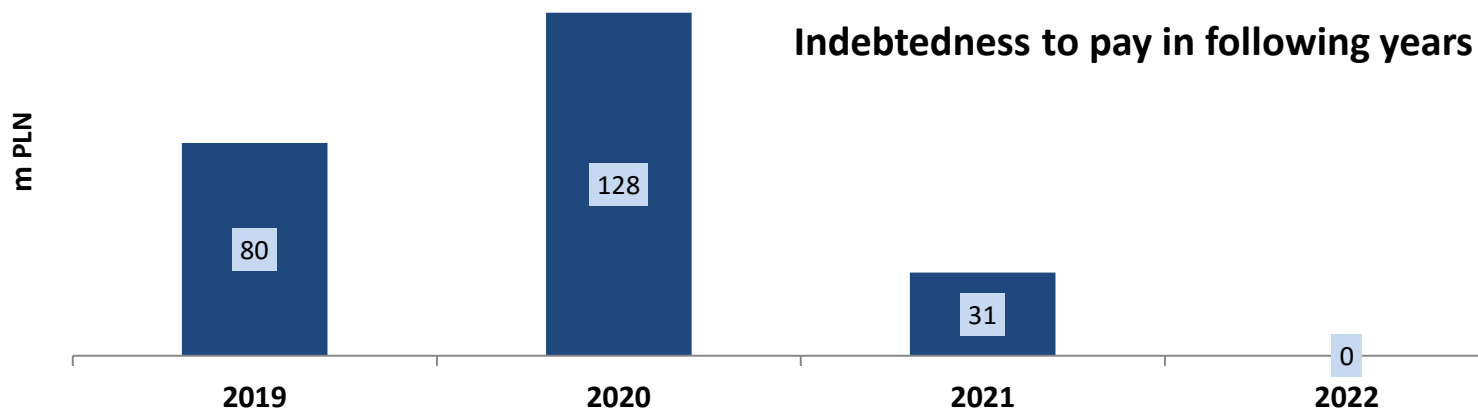
- Cash and cash equivalents ⁽¹⁾
- Interest bearing loans, borrowings and leases
- Net debt

Net debt / EBITDA

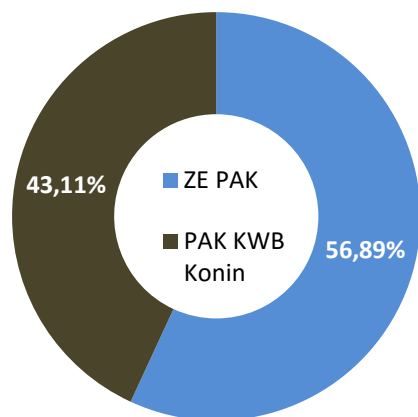
| | |
|------------|------|
| 30.06.2019 | 0,63 |
| 31.12.2018 | 0,92 |
| 30.06.2018 | 0,91 |

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

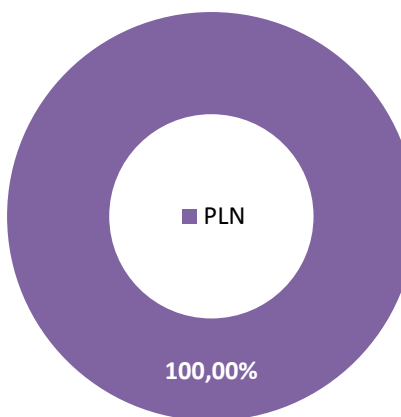
Financial indebtedness structure (1)



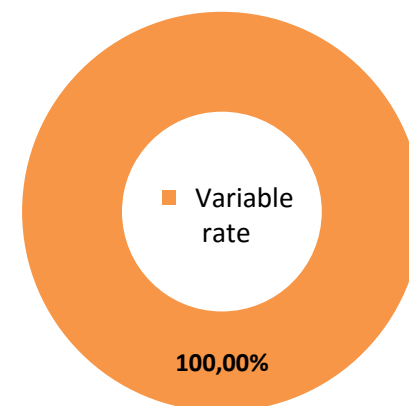
Indebtedness structure by debtor



Indebtedness structure by currency



Indebtedness structure by rate



(1) Indebtedness of main Group companies, excluding PLN 7,8 million indebtedness of other Group's companies.

Consolidated cash flow

[m PLN]



| | 6M 2019 | 6M 2018 | 2Q 2019 | 2Q 2018 |
|--|--------------|--------------|--------------|-------------|
| Gross profit (loss) | 61 | (45) | 33 | (37) |
| Depreciation and amortisation | 96 | 95 | 50 | 47 |
| Profit/loss on investing and financial activities | 2 | (76) | - | (80) |
| Changes in working capital ⁽¹⁾ | 267 | 148 | 108 | 127 |
| Income tax | (9) | 9 | (3) | 11 |
| Purchase of EUA ⁽²⁾ | (432) | (37) | (172) | (5) |
| Other | 3 | (1) | 3 | (1) |
| Net cash flow from operational activities | (12) | 94 | 20 | 62 |
| (inflows/outflows) of investments in property, plant and equipment and intangible assets | (21) | (54) | (7) | (14) |
| Other | 40 | 4 | 22 | 2 |
| Net cash flow from investing activities | 18 | (50) | 15 | (13) |
| Inflows of credits, loans, leases and securities ⁽³⁾ | 12 | 37 | (59) | (1) |
| Payment of credits, loans, leases and securities | (189) | (152) | (111) | (68) |
| Interest paid | (3) | (12) | 1 | (6) |
| Net cash flow from financial activities | (179) | (127) | (170) | (74) |
| Change in cash and cash equivalents | (173) | (83) | (135) | (25) |
| Cash and cash equivalents at the beginning of the period | 303 | 323 | 265 | 265 |
| Cash and cash equivalents at the end of the period | 130 | 240 | 130 | 240 |

- (1) Changes in working capital to (+) mainly due to a decrease in the level of CO₂ emission reserves due to the redemption of allowances for the previous financial year and a decrease in the level of receivables due to a decrease in the level of stock exchange deposits, and (-) a decrease in liabilities.
- (2) In Q1 and Q2 2019, there were large expenses related to the purchase of forwards regarding CO₂ emission allowances.

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