



May 15, 2019

Zespół Elektrowni Pątnów-Adamów-Konin SA 1Q 2019 Results



ZE PAK GROUP – 1Q 2019 summary



Key operational and financial data	1Q 2019	change r/r
Sale of electricity:	2,31 TWh	10,53%
• Electricity from own production:	1,16 TWh	-16,55%
• Electricity from resale:	1,15 TWh	64,29%
Achieved average electricity sale price ⁽¹⁾	269,88 zł/MWh	42,34%
Sale revenues:	695 m zł	49,14%
EBITDA:	74 m zł	48,00%
Net result:	12 m zł	-
CAPEX:	8 m zł	-78,95%
Indebtedness:	417 m zł	-31,97%
Cash ⁽²⁾ :	298 m zł	7,58%
Net debt / EBITDA:	1,04 x	35,06%

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

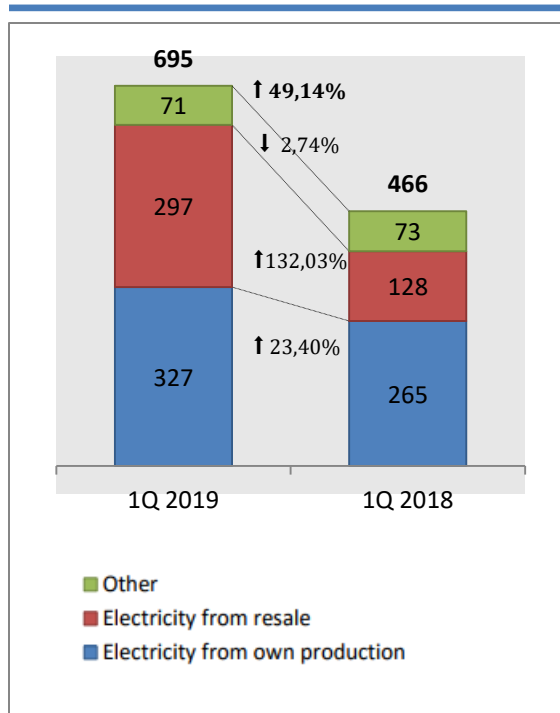
(2) Cash and cash equivalents and other financial short-term assets

ZE PAK GROUP – 1Q 2019 summary

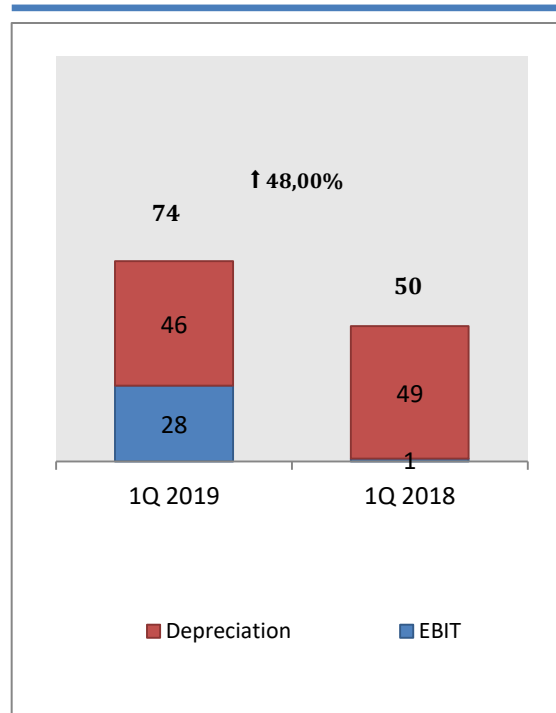
[m PLN]



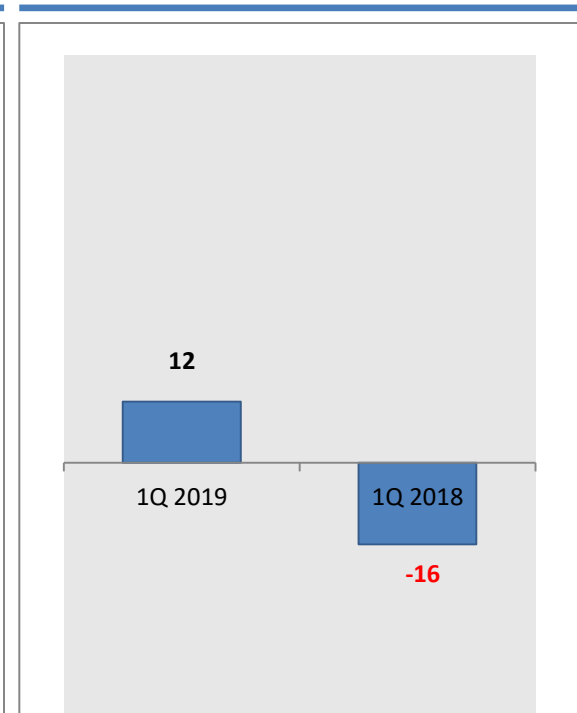
Revenues



EBITDA



Net profit/loss

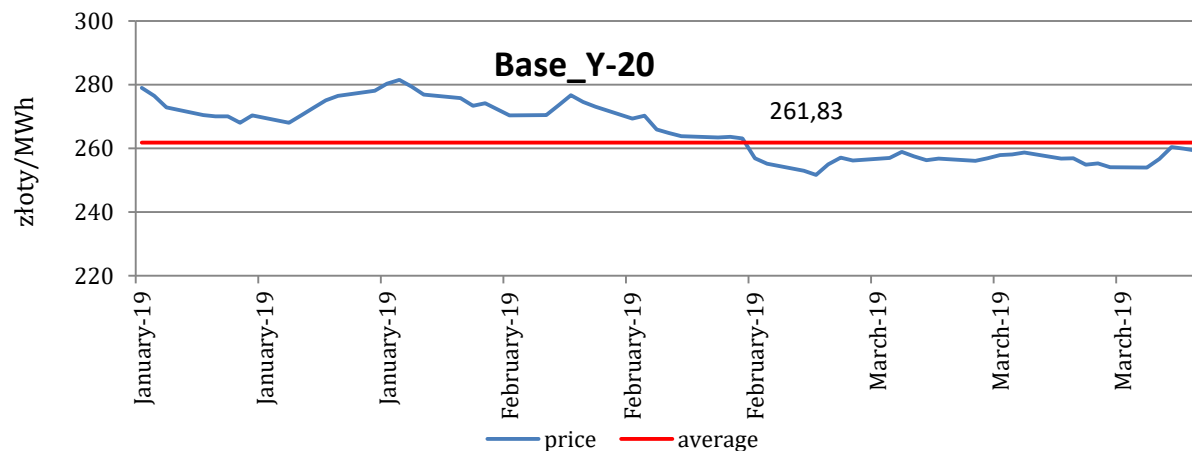
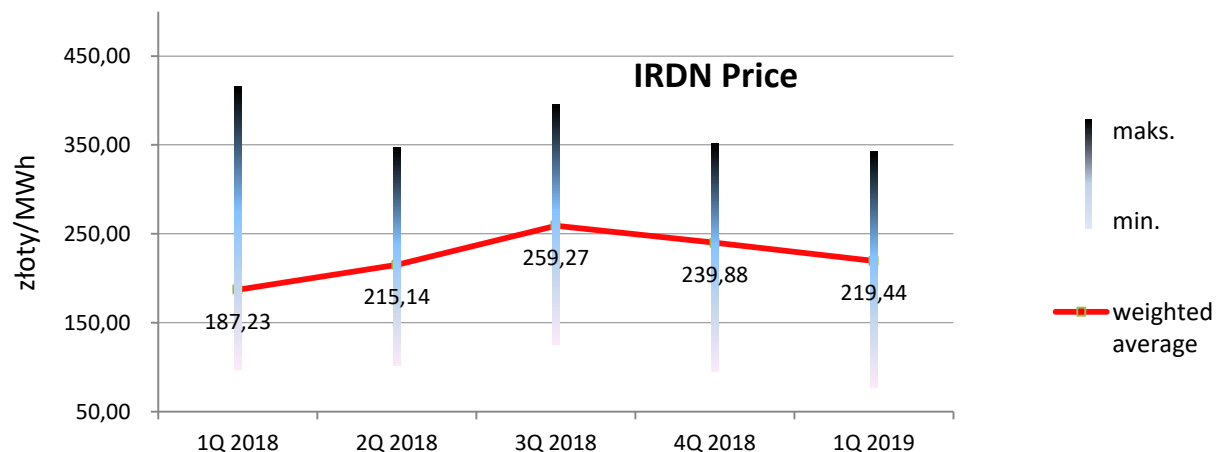


The higher revenues achieved in the first quarter of 2019 were determined by both the higher volume of energy sales and the higher price of energy sales achieved. The increase in the sales volume concerned energy sold from trading, the energy volume from own production decreased. Increase of EBITDA and net profit was determined by better relations between the achieved price of electricity sales and the incurred cost of purchasing CO2 emission allowances as well as savings resulting from the optimization of operation costs.

SELECTED ELECTRICITY MARKET DATA



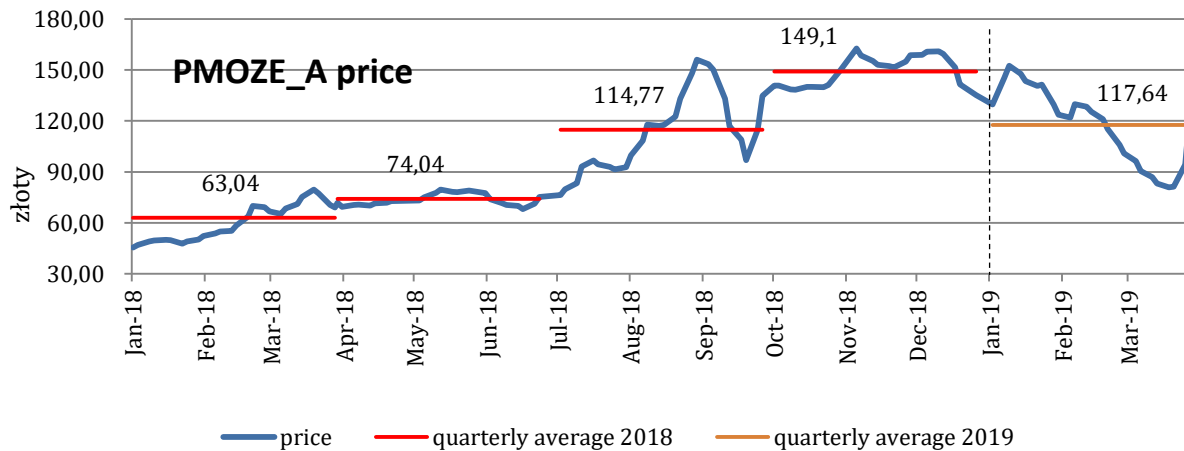
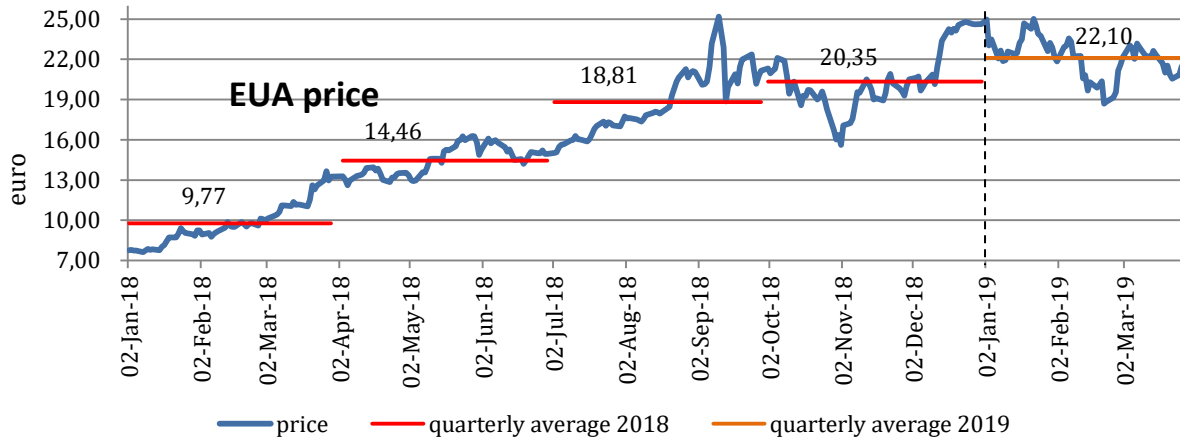
Electricity prices



1Q 2019 on the day ahead market there was a decrease in the weighted average electricity price in relation to the preceding two quarters. Lower domestic electricity consumption by 1.39% compared to the same period last year. A relatively mild winter, with an average temperature higher by 2.9C than in 1Q 2018. High windiness and associated high generation of wind turbines - an increase of over 46% in relation to 1Q 2018, with a small change in installed capacity. The factor that could have also influenced prices, and whose weight was difficult to determine, was the confusion accompanying the introduction of provisions "freezing" energy prices for end consumers. Very fast pace of legislative changes and uncertainty as to the interpretation of the regulations could have influenced the expectations and purchasing strategies of market participants.

However, there are still high CO2 quotations, which did not continue to grow in 1Q 2019 but managed to maintain relatively high levels and high prices of hard coal for domestic customers.

EUA and green certificates



1Q 2019 on the EUA market, like the previous two, was characterized by very high price volatility. The difference between the minimum and the maximum quotations exceeded EUR 6, i.e. around 24% in relation to the price from the end of 2018. Such high and persistent volatility may confirm the interest of financial investors in this market with speculative attitudes. The fundamental factors that shaped the situation on the emission allowance market in 1Q 2019 were: uncertainty about the future of the UK in the EU (and thus in the EU ETS), prices achieved in auctions in the primary market, expectations regarding Germany's resignation from the use of coal in the power industry, weather conditions, energy prices and production from renewable sources.

Two factors affected market of green certificates in 1Q 2019. First was a very high wind generation, wind farms are the largest source of certificate supply on the market. The second factor responsible first for the price reduction and later for their increase were the announcements of the Ministry of Energy suggesting the introduction of a mechanism that makes the future price of certificates dependent on the second component of producers' revenues, that is energy prices. The withdrawal from these announcements contributed to the price increase in March.

INFORMACJE OPERACYJNE

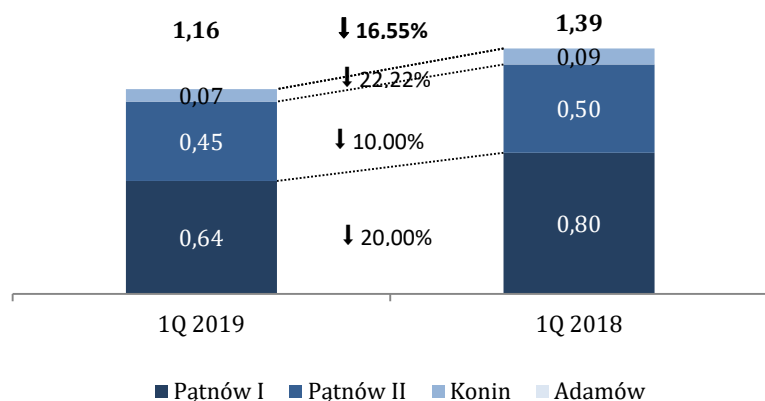


Net production and sale of electricity

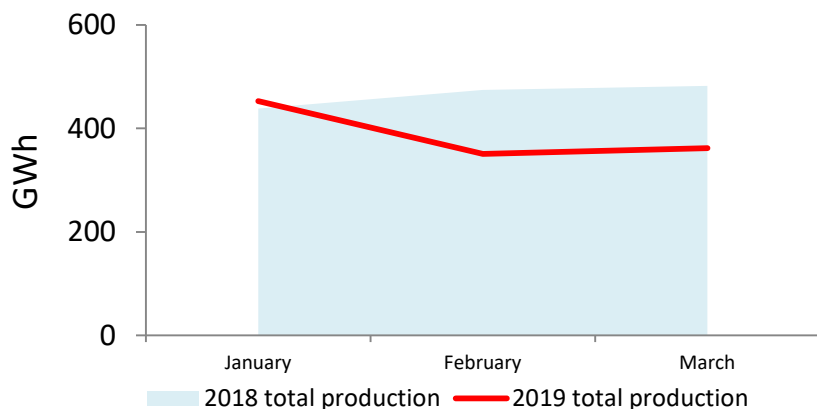
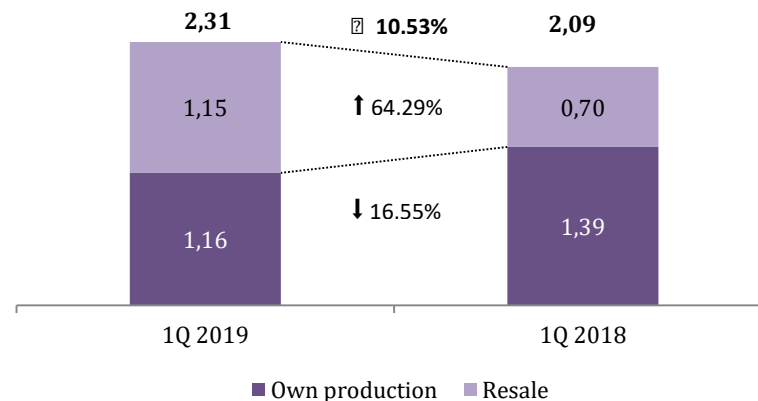
[TWh]



NET PRODUCTION



SALE



The drop in production in 1Q 2019 compared to 1Q 2018 concerned February and March. The level of production was largely determined by the relationship between the market price of energy and the price of CO2 emission allowances. The significant impact on the energy price on the spot market in 1Q 2019 had a relatively large wind generation.

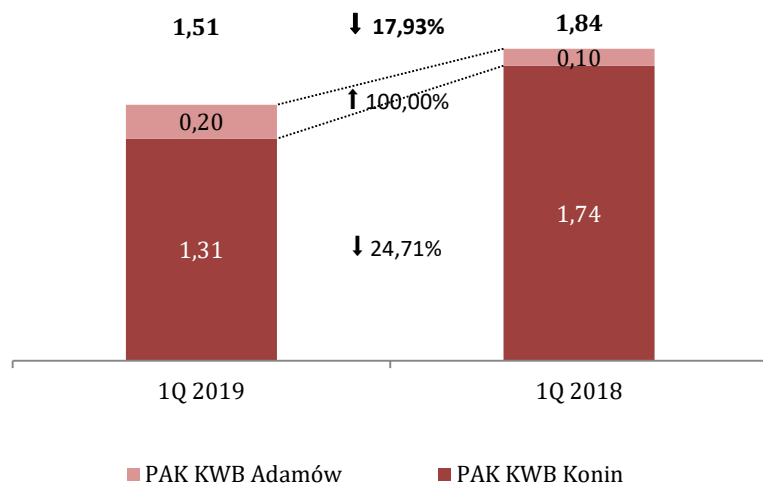
In the case of the volume of energy from trading, market conditions allowed for a significant increase in trade volume.

Lignite consumption and CO₂ emission

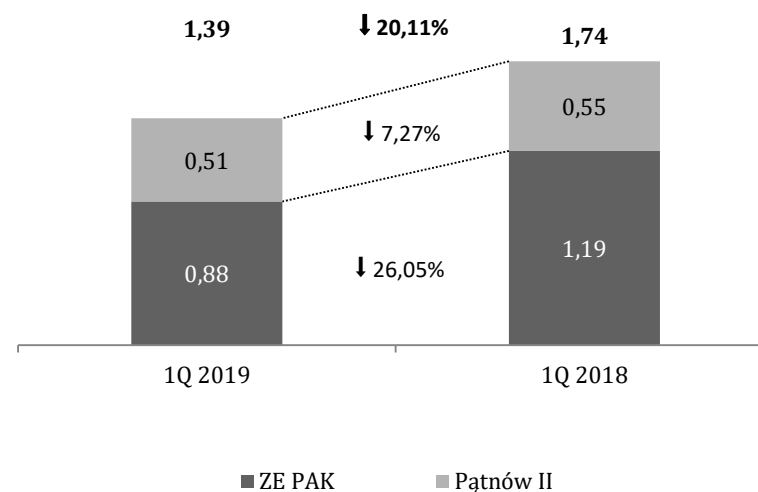
[m ton]



LIGNITE CONSUMPTION



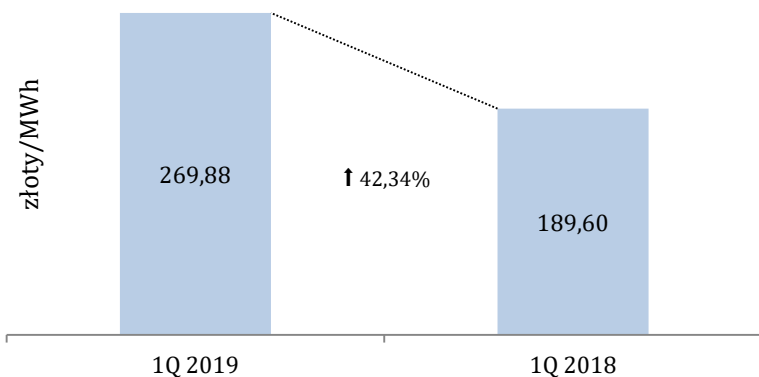
CO₂ emission



Average prices of electricity and CO₂ emission allowances purchase

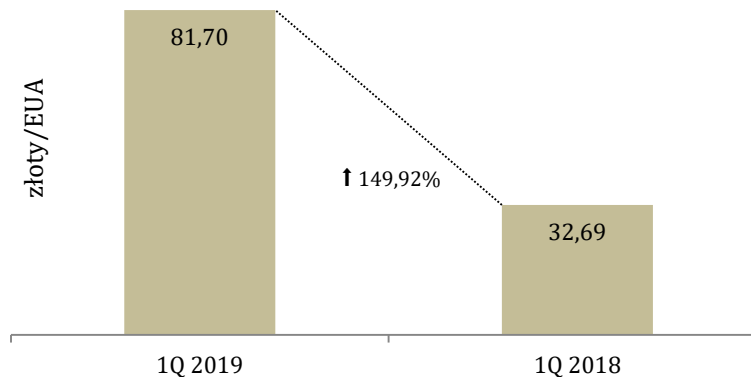


Electricity prices ¹⁾



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

Prices of CO₂ emission allowances purchase (EUA) ²⁾



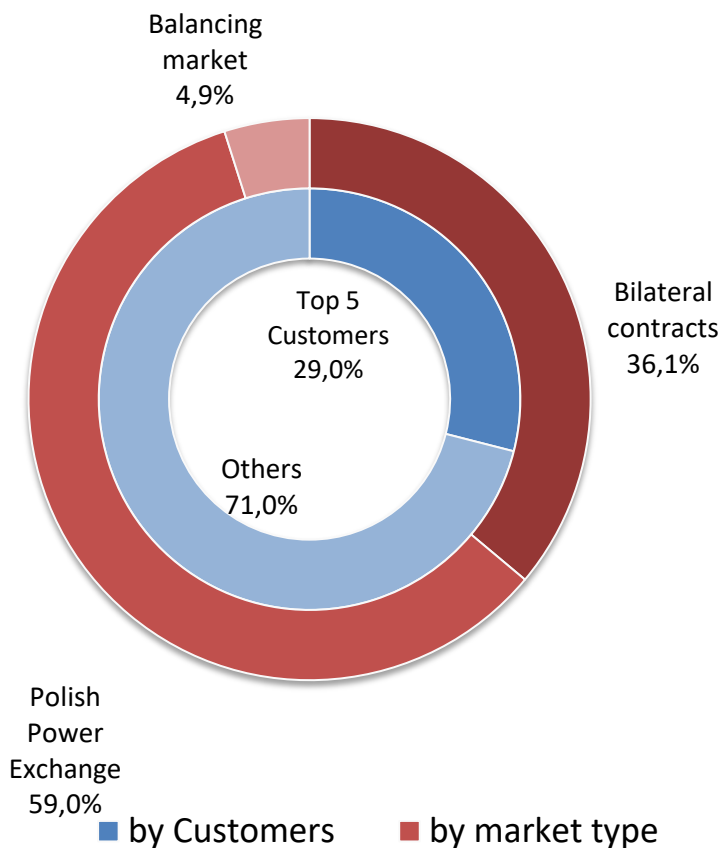
²⁾ Average price is calculated as the purchase cost of emission allowances incurred to cover emission for the period divided by the volume of purchased allowances.

Sale of electricity breakdown

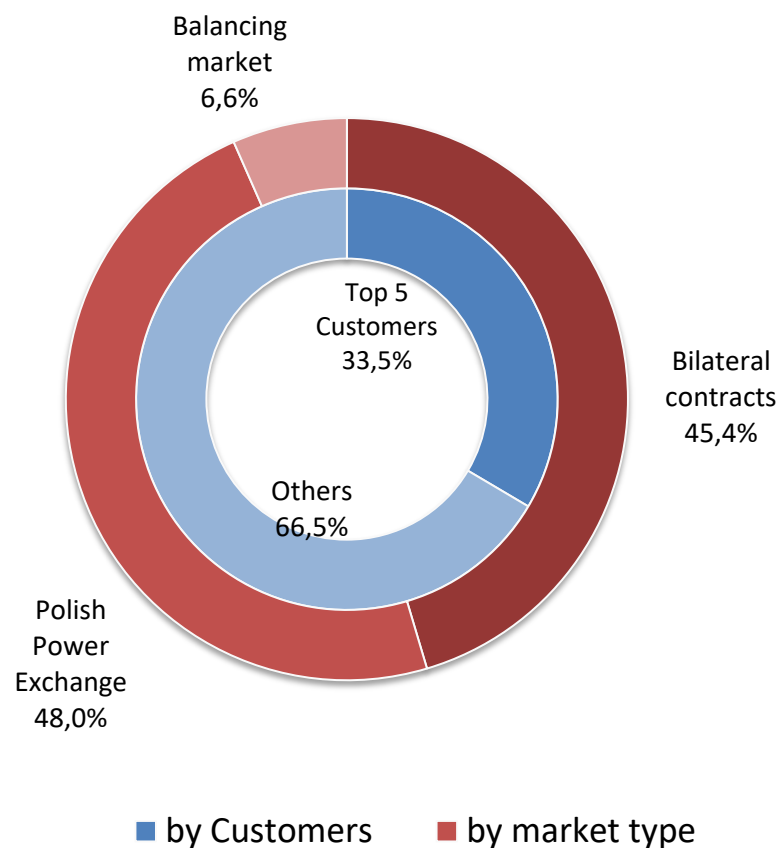
by customers (internal ring) and by the market type (external ring)



1Q 2019



1Q 2018

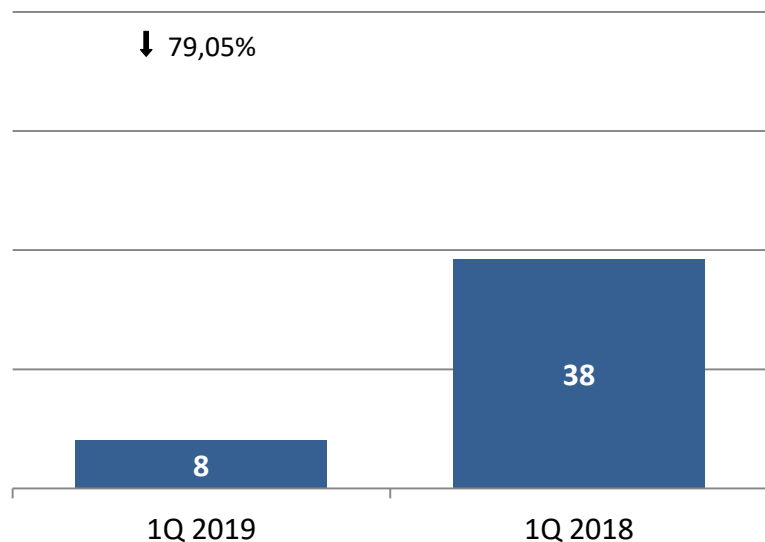


Capex on fixed assets and intangible assets

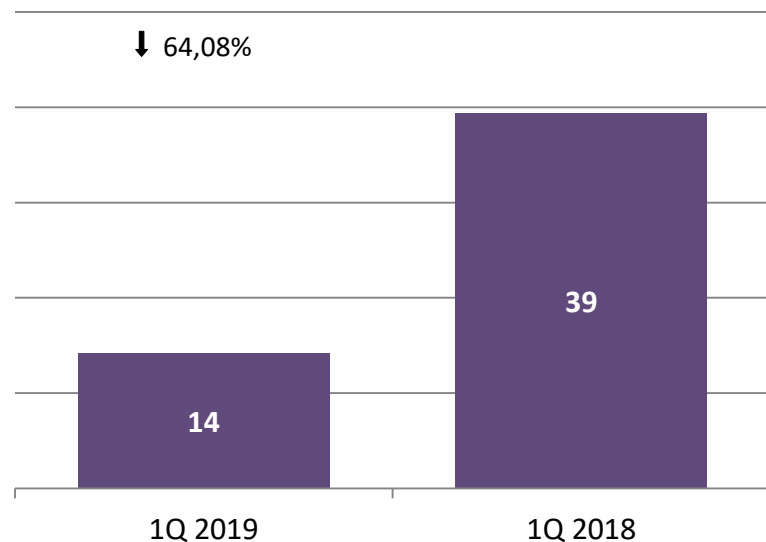
(excluding CO₂)



CAPEX [m PLN]



EXPENDITURES [m PLN]



Currently, the Group does not implement large investment projects. Investment activity focuses on the implementation of the necessary tasks to ensure the maintenance of current efficiency and more reasonable use of assets.

On the other hand, as part of new ventures, at the conceptual stage, a lot of emphasis was put on the preparation of two investment tasks:

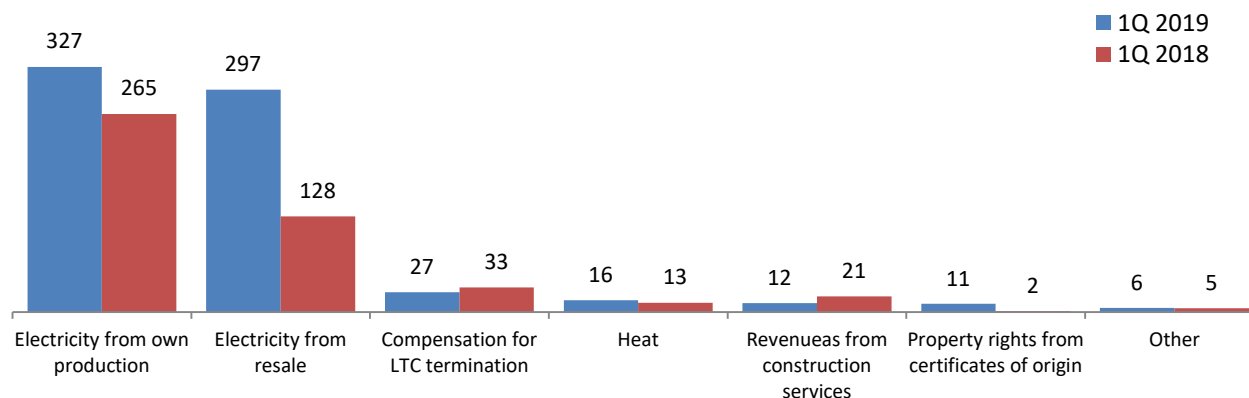
- adaptation of the K-7 coal boiler at the Konin power plant for the exclusive biomass combustion together with the necessary technical infrastructure (50 MW),
- construction of a photovoltaic farm on reclaimed areas (70MW).

FINANCIAL DATA



Revenues and costs by type

[m PLN]



Revenues

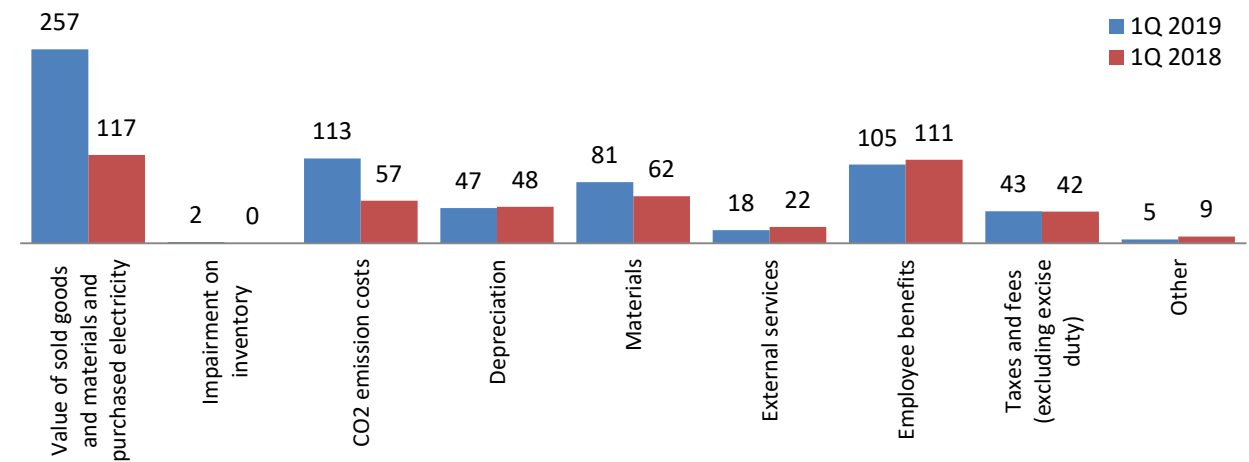
Higher total revenues from the sale of electricity:

- higher volume of electricity sales (increase in the volume of electricity from resale higher than the drop in the volume of electricity from own production,
- higher electricity sales price.

Lower compensation due to LTC solutions due to a lower adjustment (effect of, among others, higher achieved sales prices in the Pątnów II Power Plant).

Increase in revenues from certificates of origin as a result of low base in 1Q 2018 while adapting the biomass unit for heat production.

Increase in revenues from the sale of heat - the effect of a higher price.



Costs

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

Higher value of sold goods and materials as a result of more electricity purchased for trading and its higher price.

Lower costs of employee benefits due to lower average employment.

Higher consumption of materials due to biomass costs - in the comparative period, the costs of biomass were recorded as capital expenditures during the investment consisting in the adaptation of the biomass unit for heat production.

EBITDA 1Q 2019

[m PLN]

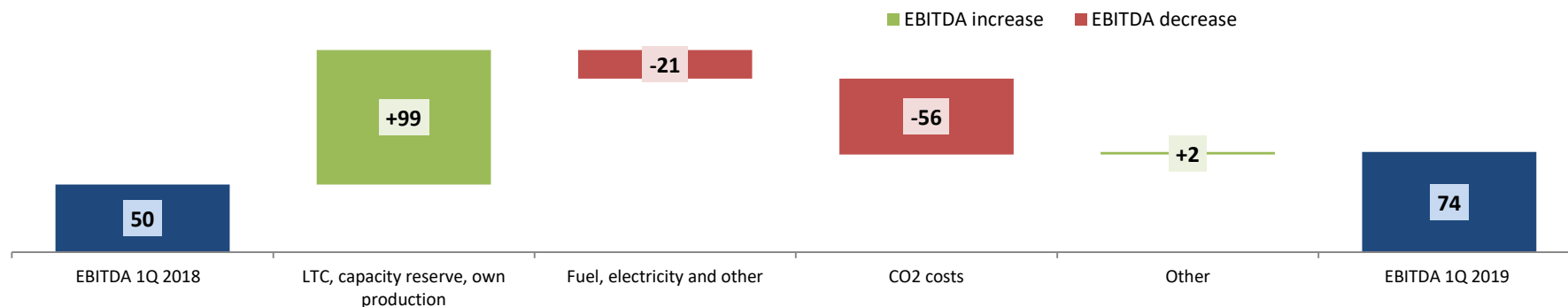


	1Q 2019	1Q 2018
Sale revenues	695	466
<i>Change %</i>	41,42%	-22,33%
Costs of goods sold	(640)	(430)
Gross profit	55	36
<i>Margin %</i>	7,91%	7,72%
Other operating revenues	5	3
Selling and distribution expenses	(2)	(1)
Administrative expenses	(30)	(35)
Other operating expenses	0	(1)
EBITDA⁽¹⁾	74	50
<i>Margin %</i>	10,65%	10,73%
EBIT⁽²⁾	28	1
<i>Margin %</i>	4,03%	0,20%

EBITDA higher by 24 m PLN 48,0%

- (+99) higher revenues from electricity from own production, lower LTC compensation, higher revenues from heat sale, higher revenues from certificates of origin, and higher result on electricity trading
- (-21) higher biomass costs and electricity costs (in mines)
- (-56) higher cost of CO₂
- (+2) lower employee benefits, lower revenues from construction services, lower external services, and others

EBITDA changes

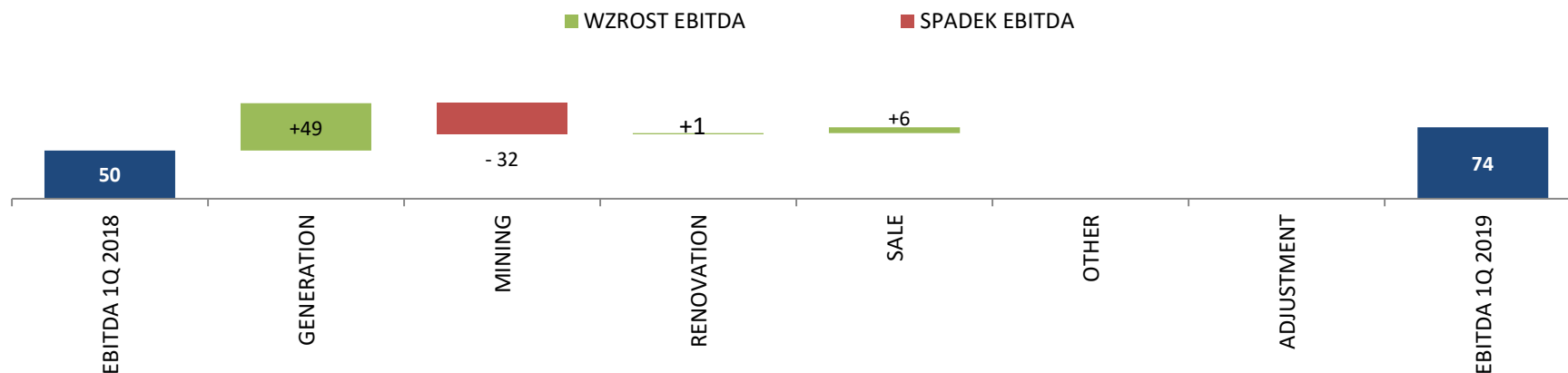


EBITDA 1Q 2019 by segments

[m PLN]



Zmiany EBITDA



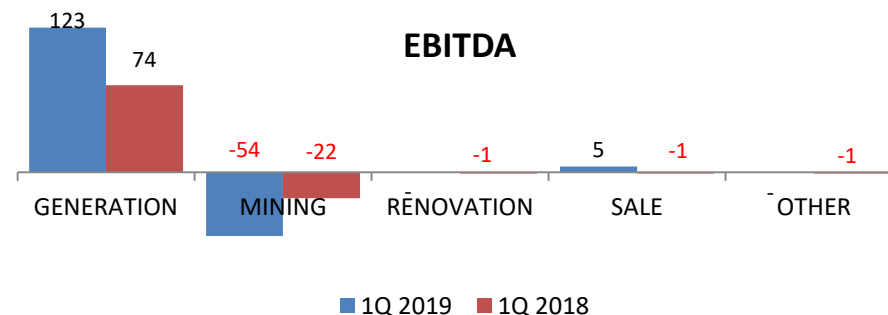
Main reasons of EBITDA changes in generation and mining segments:

Generation:

- higher revenues from own electricity sale, higher revenues from heat sale, lower LTC
- higher result on electricity trading, higher revenues from certificates of origin
- higher cost of CO₂
- lower employee benefits

Mining:

- lower revenues from lignite sale,
- higher cost of electricity.



Consolidated P&L for 1Q 2019 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	492	3	13	186	1	-	695
<i>External sale revenues %</i>	<i>89,45%</i>	<i>2,83%</i>	<i>43,33%</i>	<i>100,00%</i>	<i>1,72%</i>	<i>0,00%</i>	<i>100,00%</i>
Sale revenues between segments	58	104	16	-	57	(235)	-
Sale revenue	550	106	30	186	58	(235)	695
Cost of goods sold	(448)	(163)	(28)	(180)	(58)	237	(640)
Gross profit (loss)	103	(57)	1	7	-	2	55
<i>Margin %</i>	<i>18,73%</i>	<i>(53,77)%</i>	<i>3,33%</i>	<i>3,76%</i>	<i>-</i>	<i>(0,85)%</i>	<i>7,91%</i>
EBITDA	123	(54)	-	5	-	1	74
<i>Margin %</i>	<i>22,36%</i>	<i>(50,94)%</i>	<i>-</i>	<i>2,69%</i>	<i>-</i>	<i>(0,43)%</i>	<i>10,65%</i>
EBIT	92	(68)	(1)	5	(2)	1	28
<i>Margin %</i>	<i>16,73%</i>	<i>(64,15)%</i>	<i>(3,33)%</i>	<i>2,69%</i>	<i>(3,45)%</i>	<i>(0,43)%</i>	<i>4,03%</i>
Net profit (loss)	73	(69)	(1)	10	(2)	1	12
<i>Margin %</i>	<i>13,27%</i>	<i>(65,09)%</i>	<i>(3,33)%</i>	<i>5,38%</i>	<i>(3,45)%</i>	<i>(0,43)%</i>	<i>1,73%</i>

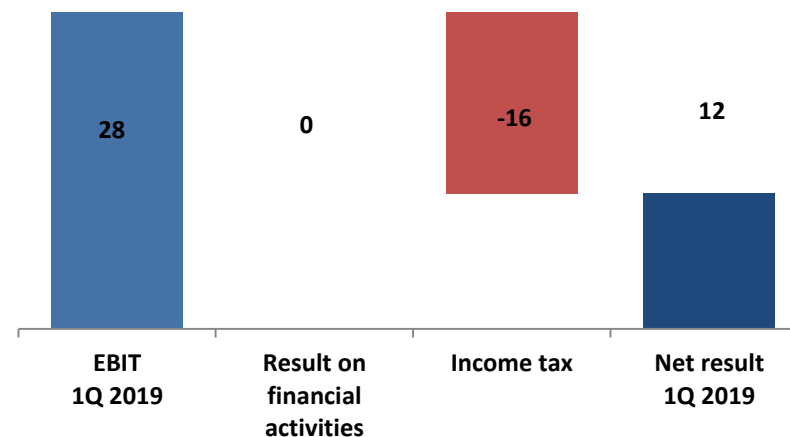
Financial activities, taxation and net profit

[m PLN]



	1Q 2019	1Q 2018
EBIT	28	1
Financial income	8	2
Financial costs	(8)	(11)
Gross profit	28	(8)
Income tax (taxation)	(16) ⁽¹⁾	(8)
<i>Effective tax rate</i>	-	-
Net profit for the period	12	(16)
<i>Margin %</i>	1,73	-

EBIT --> net profit



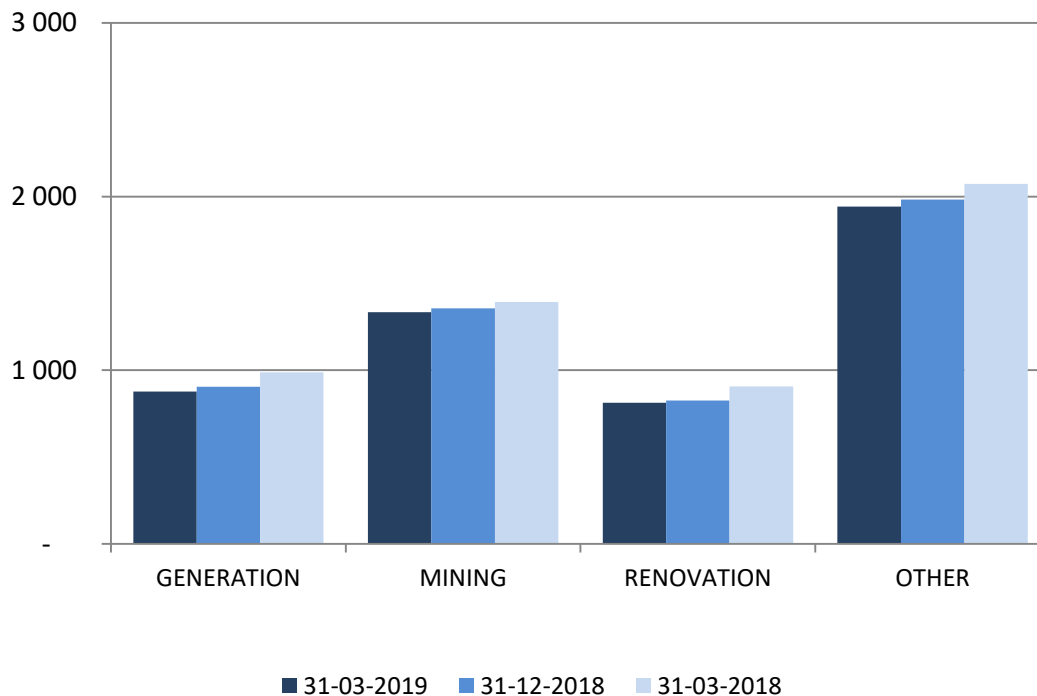
⁽¹⁾ The effect of the conservative approach to the creation of a tax asset in connection with the loss incurred in some of the Group's companies.

Employment

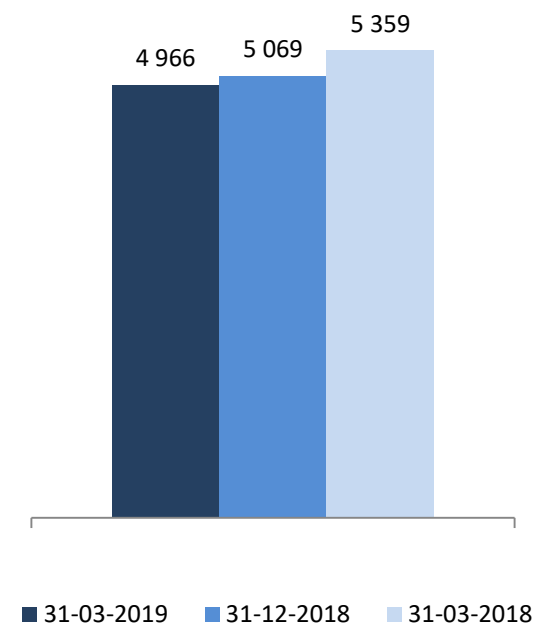
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BY SEGMENTS



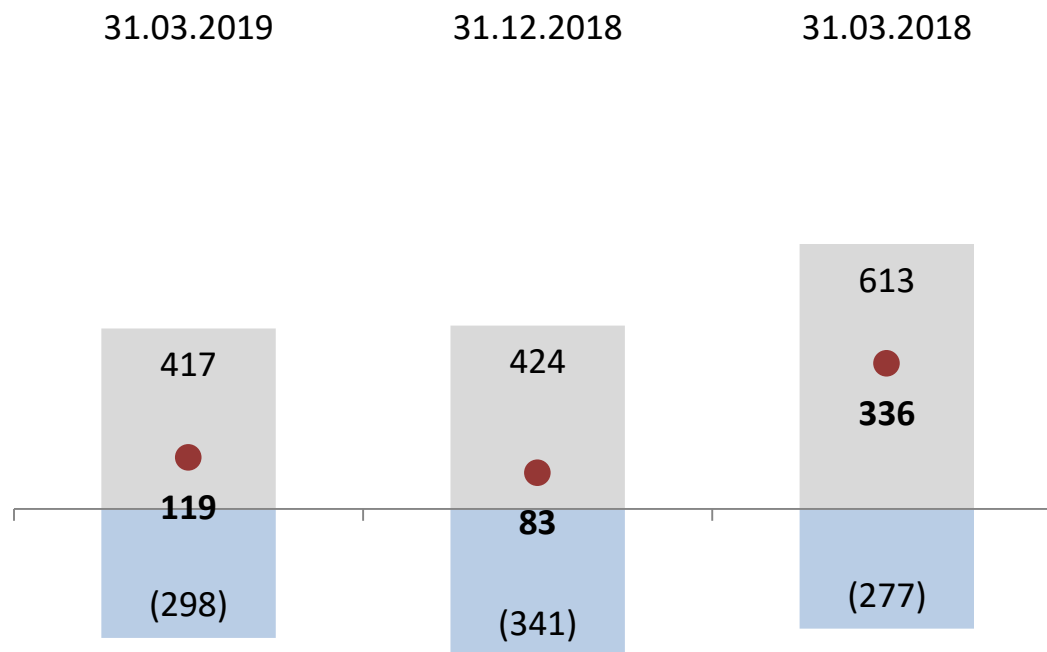
TOTAL



The decline in employment in 1Q 2018 was largely due to the end of production of coal units at the Adamów power plant.

Financial indebtedness

Net debt [m PLN]



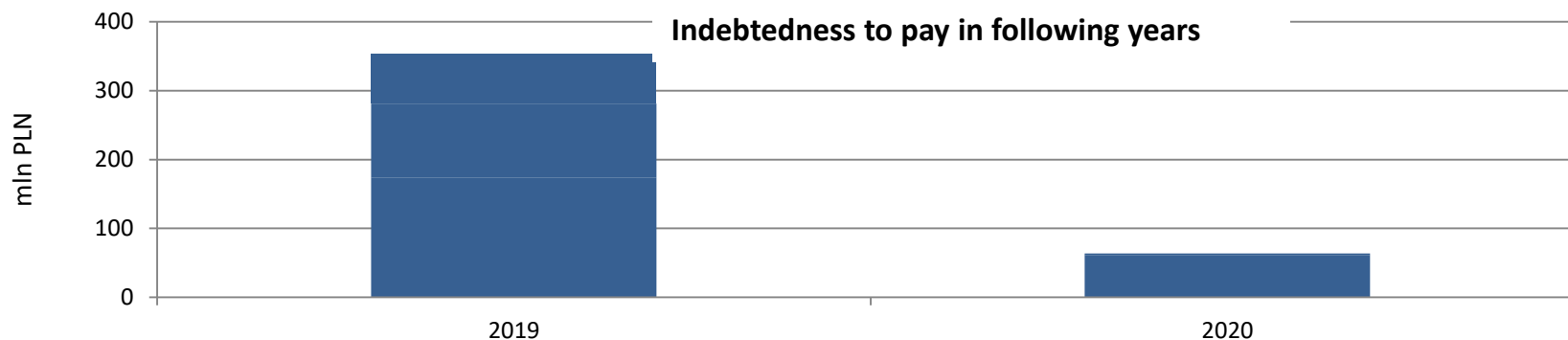
- Cash and cash equivalents ⁽¹⁾
- Interest bearing loans, borrowings and leases
- Net debt

Net debt / EBITDA

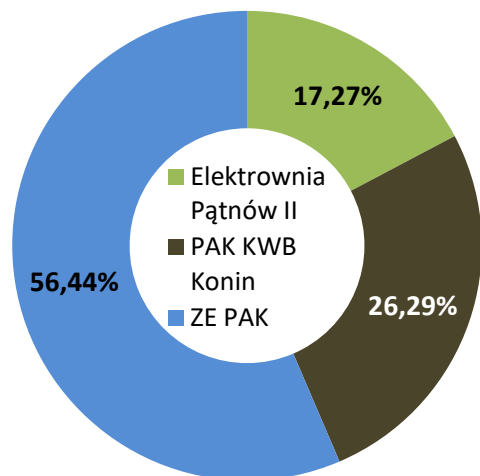
31.03.2019	1,04
31.12.2018	0,92
31.03.2018	0,77

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

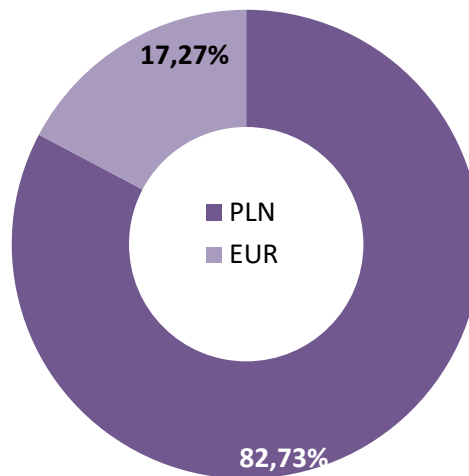
Financial indebtedness structure (1)



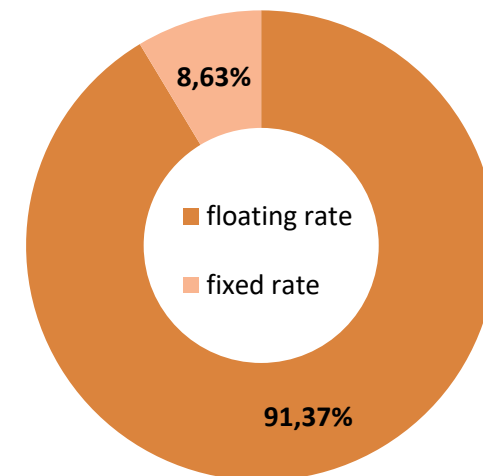
Indebtedness structure by debtor



Indebtedness structure by currency



Indebtedness structure by rate



(1) Indebtedness of main Group companies, excluding PLN 0,4 million indebtedness of other Group's companies. Indebtedness in EUR calculated using NBP average exchange rate as of 31.03.2019

Consolidated cash flow

[m PLN]



	1Q 2019	1Q 2018
Gross profit (loss)	28	(8)
Depreciation and amortisation	47	48
Profit/loss on investing and financial activities	1	4
Changes in working capital ⁽¹⁾	158	20
Income tax	(6)	(2)
Purchase of EUA ⁽²⁾	(260)	(32)
Net cash flow from operational activities	(31)	32
(inflows/outflows) of investments in property, plant and equipment and intangible assets	(14)	(39)
Other	18	3
Net cash flow from investing activities	3	(37)
Inflows of credits, loans, leases and securities ⁽³⁾	71	38
Payment of credits, loans, leases and securities	(77)	(84)
Interest paid	(4)	(6)
other	(0)	(0)
Net cash flow from financial activities	(10)	(52)
Change in cash and cash equivalents	(38)	(57)
Cash and cash equivalents at the beginning of the period	303	323
Cash and cash equivalents at the end of the period	265	265

(1) Replacement of bank guarantees instead of cash for the part of deposits related to exchange electricity contracts and an increase in the provision for covering CO2 emissions in connection with a significant rise in EUA price.

(2) Higher expenses related to the settlement of futures transactions for the purchase of emission rights due to a large change in the level of CO2-related flows.

(3) Increase in debt under the existing overdraft facilities regarding the current operations of the Group companies

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