



3 April 2020

Zespół Elektrowni Pątnów-Adamów-Konin SA 2019 Results



ZE PAK Group – 2019 summary



Key operational and financial data	2019	Change y/y
Sale of electricity:	9,36 TWh	0,32%
• Electricity from own production:	5,66 TWh	-6,45%
• Electricity from resale:	3,70 TWh	12,80%
Achieved average electricity sale price	269,61 PLN/MWh	27,43%
Sale revenues:	2 878 m PLN	24,86%
EBITDA:	393 m PLN	336,67%
Net result:	-446 m PLN	3,88%
CAPEX:	31 m PLN	-57,53%
Indebtedness:	77 m PLN	-81,84%
Cash ⁽¹⁾ :	415 m PLN	21,70%
Net debt / EBITDA:	-0,72 x	

⁽¹⁾ Cash and cash equivalents and other financial short-term assets

ZE PAK Group – 4Q 2019 summary



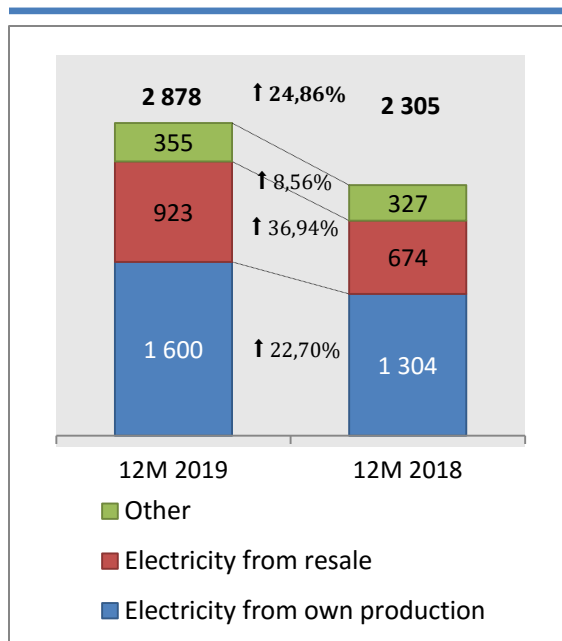
Key operational and financial data	4Q 2019	Change y/y
Sale of electricity:	2,26 TWh	-12,40%
• Electricity from own production:	1,55 TWh	5,44%
• Electricity from resale:	0,71 TWh	-36,04%
Achieved average electricity sale price	262,54 zł/MWh	14,34%
Sale revenues:	721 mln zł	5,87%
EBITDA:	121 mln zł	
Net result:	-518 mln zł	
CAPEX:	11 mln zł	-35,29%

ZE PAK Group – 2019 summary

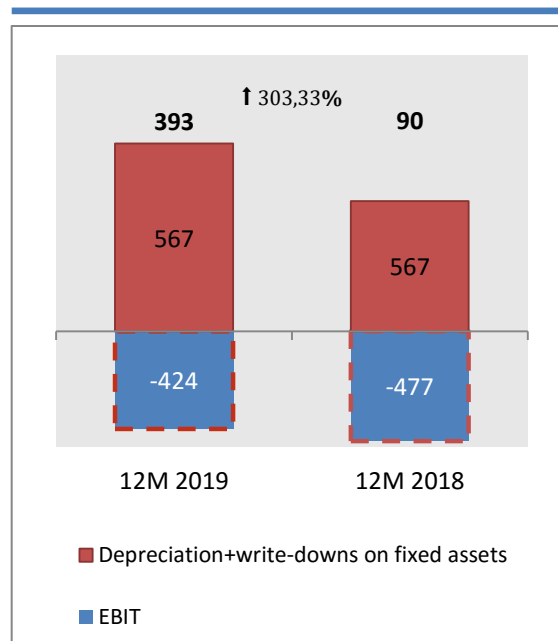
[m PLN]



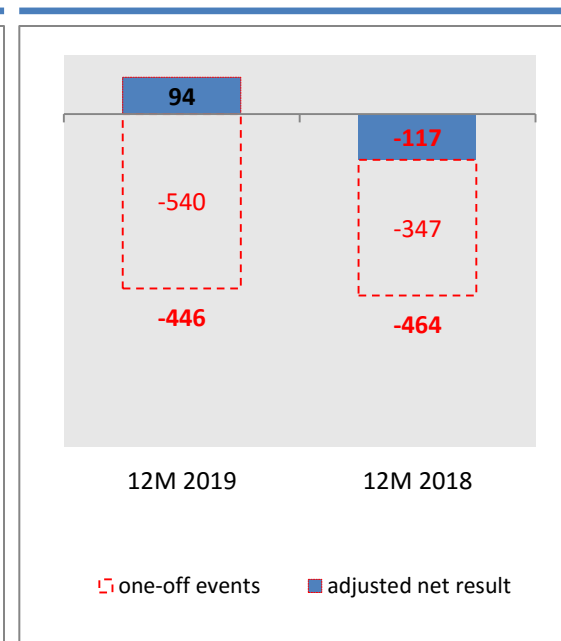
Revenues



EBITDA



Adjusted net result



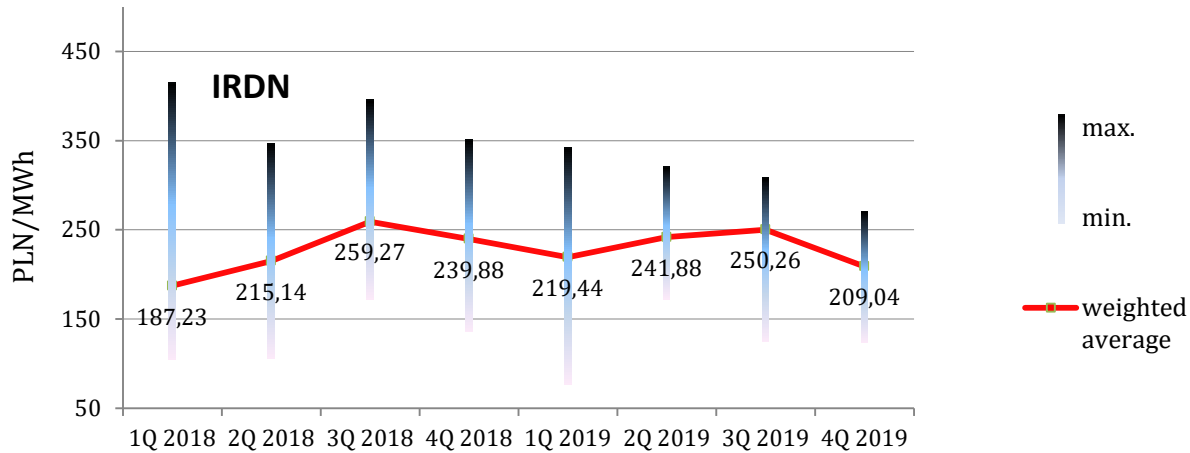
Higher total revenues from the sale of electricity are mainly the result of a higher obtained price. The volume of energy sales was similar in both years, while in 2019 the amount of energy sold from own production decreased and the volume of energy from trade increased.

Write-downs on assets had a significant impact on the net results in both years. The difference in both years is best illustrated by the EBITDA result, which is not affected by write-downs on assets. The improvement of the situation in 2019 was largely determined by a different strategy of hedging energy sale prices and emission allowance purchase prices as well as cost savings. The third chart shows the net result and net result adjusted for one-off events in both years.

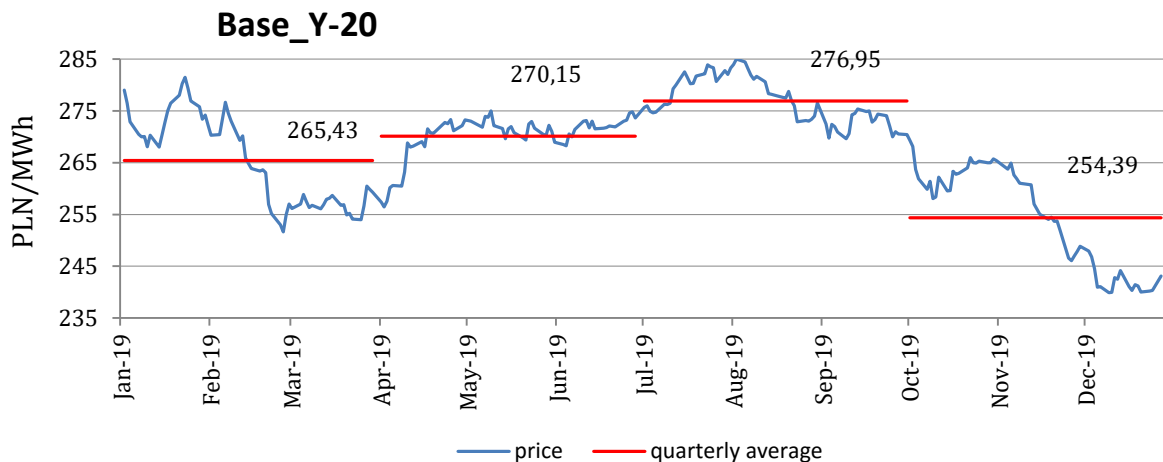
SELECTED ELECTRICITY MARKET DATA



Electricity prices

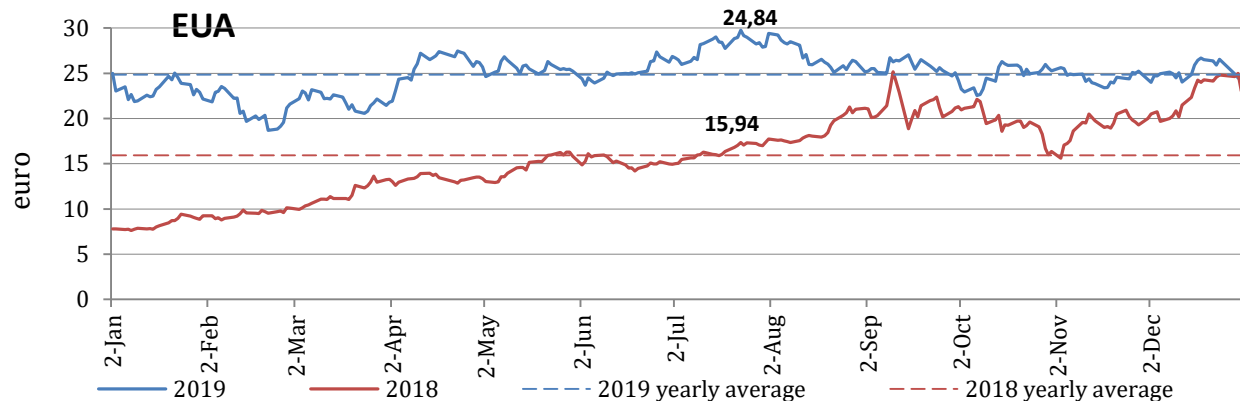


2019 was characterized by higher electricity prices compared to previous years. In relation to individual quarters, as in 2018, the highest prices were recorded in Q3. Important factors that significantly affected prices in the past year were: higher temperatures compared to the average from previous years, high windiness and associated high generation of energy from wind turbines and the confusion accompanying the introduction of "freezing" energy prices for end users and the lack of implementing acts on this issue. IVQ'2019 was characterized by the lowest average prices in the past year. At the end of the year, three factors clearly manifested themselves - decreasing energy consumption associated with lower dynamics of economic growth, growing energy imports and lower prices of CO2 emission allowances compared to earlier periods. The weighted average price on the Day-Ahead Market on the Polish Power Exchange (TGE) for 2019 was PLN 229.62 / MWh, which means a slight increase compared to 2018 by PLN 4.91 / MWh, i.e. by about 2.19 %.

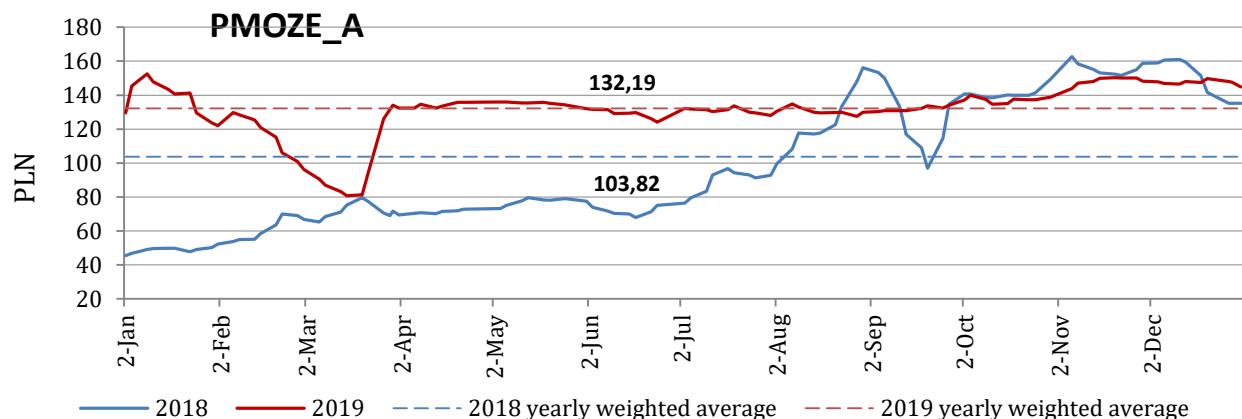


On the futures market, the most liquid instrument, the BASE_Y-2020 annual contract, showed an irregular trend. After a downward trend in the first quarter of 2019, it recorded an upward trend in the second and third quarters. In the last quarter of 2019, the contract was in a downward trend and reached its minimum in December, falling to PLN 242.14 / MWh. Factors determining the trend on the forward market were similar to those on the spot market (RDN), so high windiness and low demand for production by conventional sources entailed falling prices of the listed contract, while high air temperatures in the third quarter were also reflected in market quotations futures.

EUA and green certificates



In 2019, the EUA price was quite stable compared to price volatility in 2018, when price increases exceeding 200% could be observed. At the beginning of 2019, the EUA price was less than EUR 25, and at the end of the year EUR 24.20. In March 2019, EUA prices fell very much to the lowest annual value, i.e. EUR 18.7. The likely reason for more than 9% of price drops over the month of March was the uncertainty of investors in relation to the unresolved issue of Brexit and the high level of energy production from renewable energy sources. In July 2019, the value of allowances systematically increased, reaching price levels not recorded for over 11 years (July 15 - EUR 29). The reason for the July increase could have been high energy prices (caused by high temperatures in Europe and suspension of work at some nuclear power plants in France due to persistent high temperatures), gas and fuels, statements by the German Minister of the Environment suggesting readiness to redeem allowances in connection with the closure of power plants in Germany, as well as the statements of the then candidate for President of the European Commission (Ursula Von der Leyen) about her plan to increase the EU reduction target for 2030, from the current 40% to 50%. The arithmetic average of the EUA 2019 quotations was EUR 24.84, which means an increase of almost 56% compared to the arithmetic average for 2018.



At the beginning of the year, prices of energy certificates of origin (green certificates) were highly volatile. The reason for the fluctuations was the very high wind generation, works on the amendment to the RES Act, where during subsequent versions entries appeared and disappeared trying to make changes in the amount of the substitution fee, however, after abandoning these changes, the level of property rights prices stabilized and from April to the end of the third Quarter prices fluctuated around PLN 130. Renewable energy auctions took place in the fourth quarter in the light of the amended Act on renewable energy sources. The waiting for the auction results and its final results (unresolved auction for the largest renewable energy sources based on biomass) contributed to the increase in the level of prices of green certificates. The weighted average price of green certificates in 2019 was PLN 132.19 / MWh, which means an increase of PLN 28.37 / MWh compared to the weighted average price of 2018, i.e. by 27.33%.

OPERATIONAL DATA

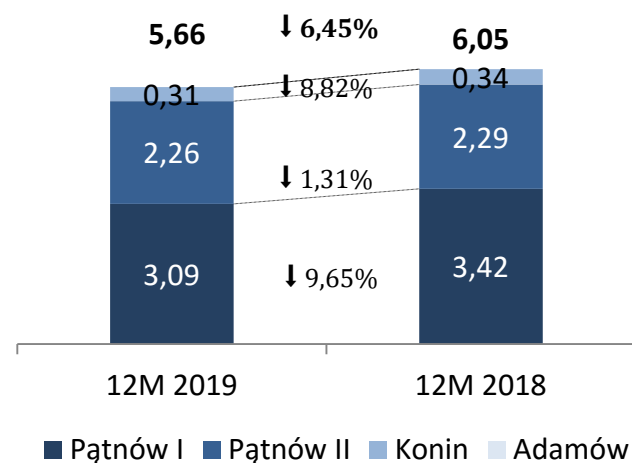


Net production and sale of electricity

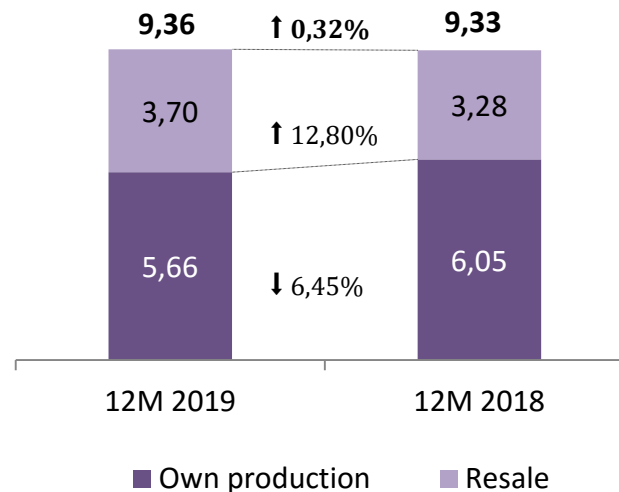
[TWh]



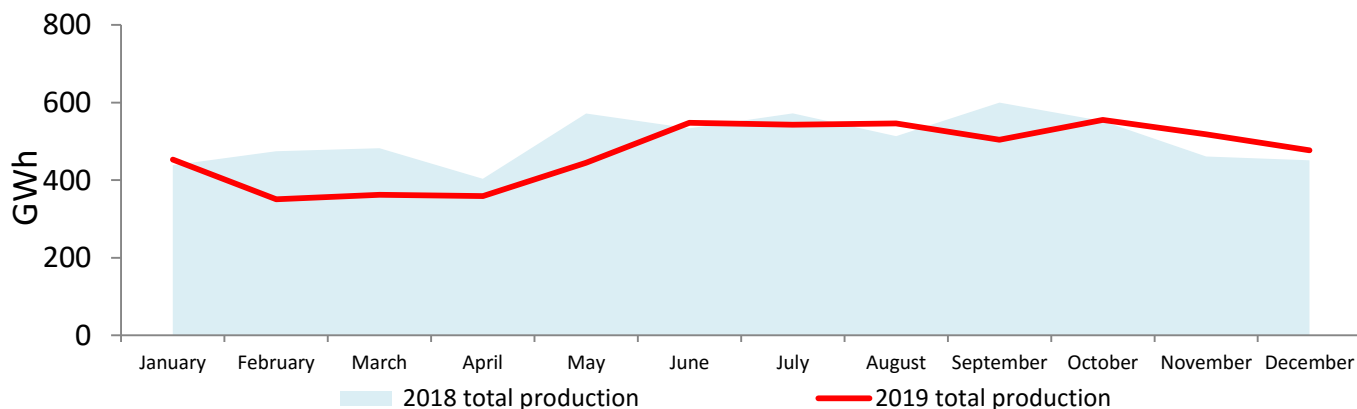
NET PRODUCTION



SALE



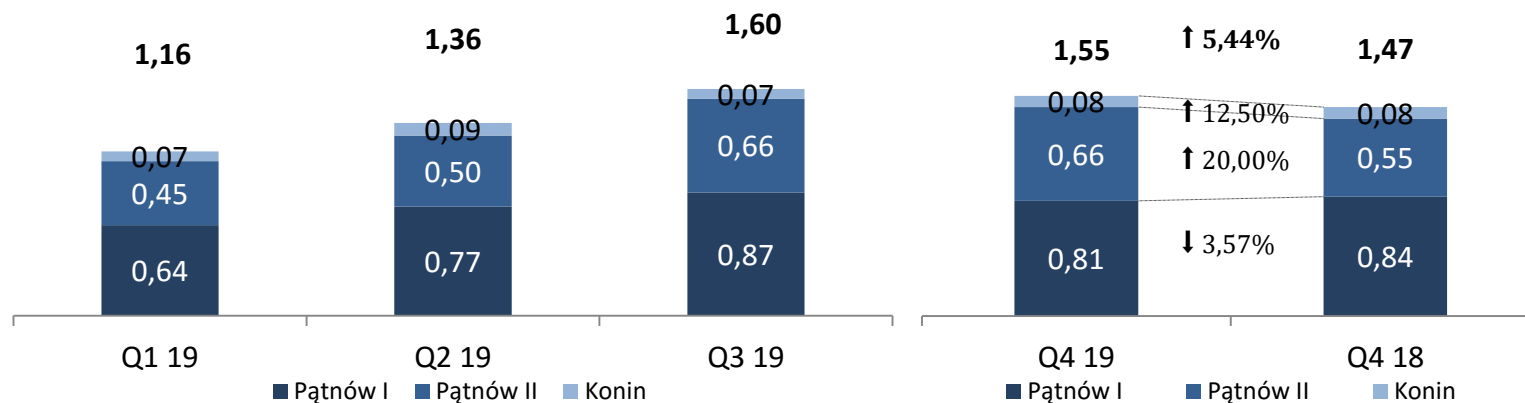
The decrease in production concerned mainly Pątnów I power plant and took place especially in the first months of last year, when as a result of higher than average temperatures and better wind conditions (high generation from wind turbines) market relations of energy prices and CO2 prices did not encourage the maximization of production.



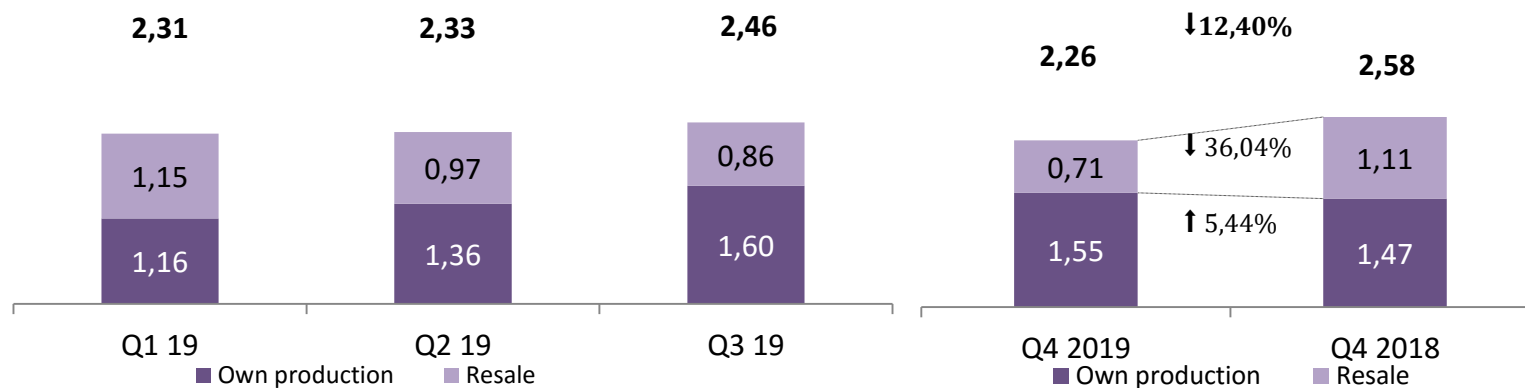
Quarterly net production and sale of electricity [TWh]



NET PRODUCTION



SALE



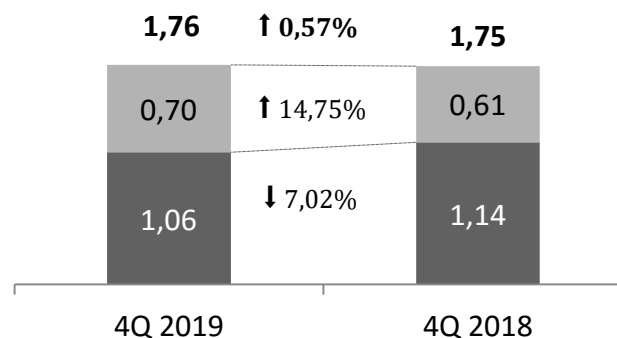
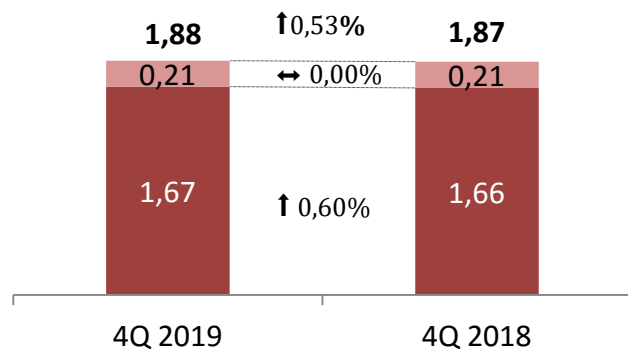
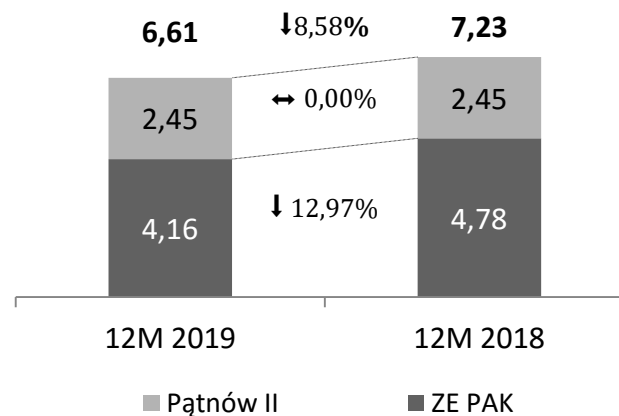
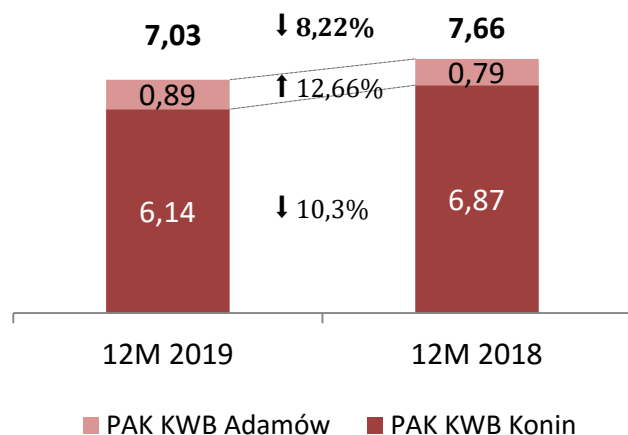
Lignite consumption and CO₂ emission

[m ton]



LIGNITE CONSUMPTION

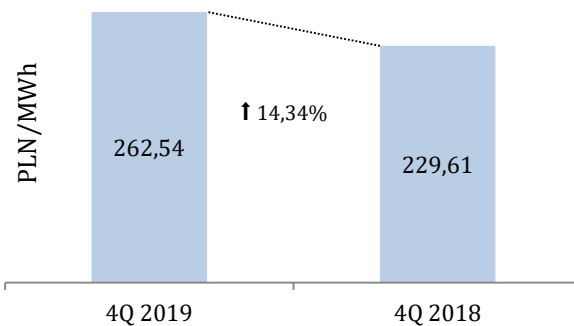
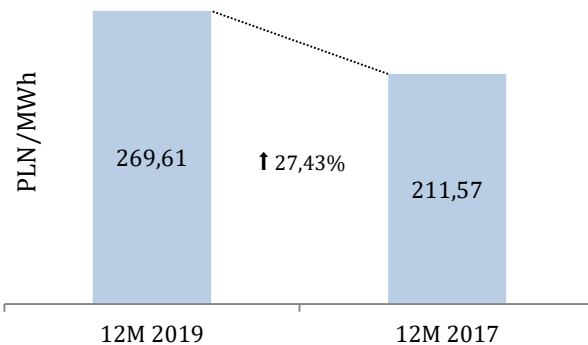
CO₂ EMISSION



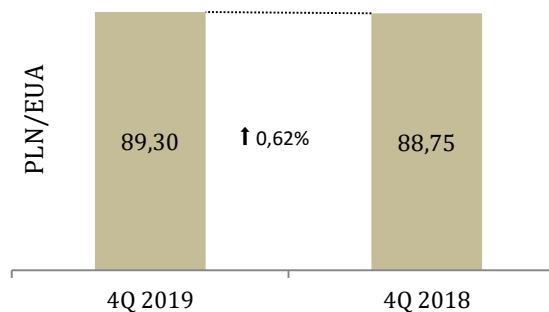
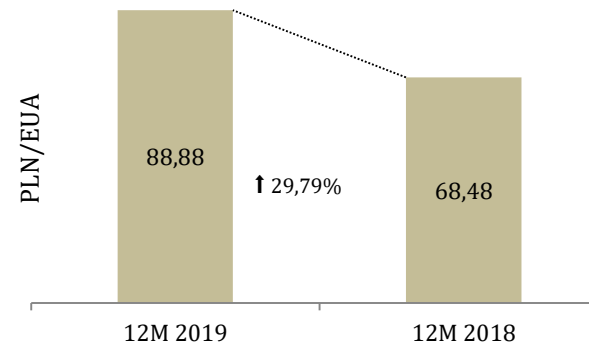
Data on coal consumption and CO₂ emissions for 12M 2019 and in 4Q 2019 are derived from the volumes of energy produced. An additional factor determining the volume of coal consumption and CO₂ emissions, and thus the efficiency of the production process, are the quality parameters of coal and the performance characteristics of individual devices.

Average prices of electricity and CO₂ emission allowances purchase

Electricity prices ¹⁾



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.

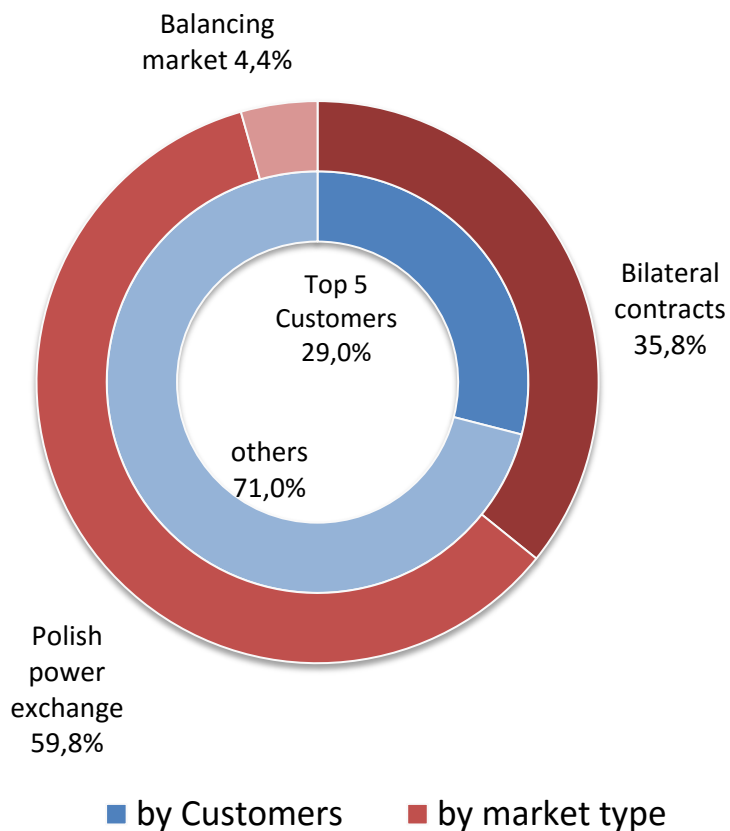
²⁾ Average price is calculated as the purchase cost of emission allowances incurred to cover emission for the period divided by the volume of CO₂ emission.

Sale of electricity breakdown

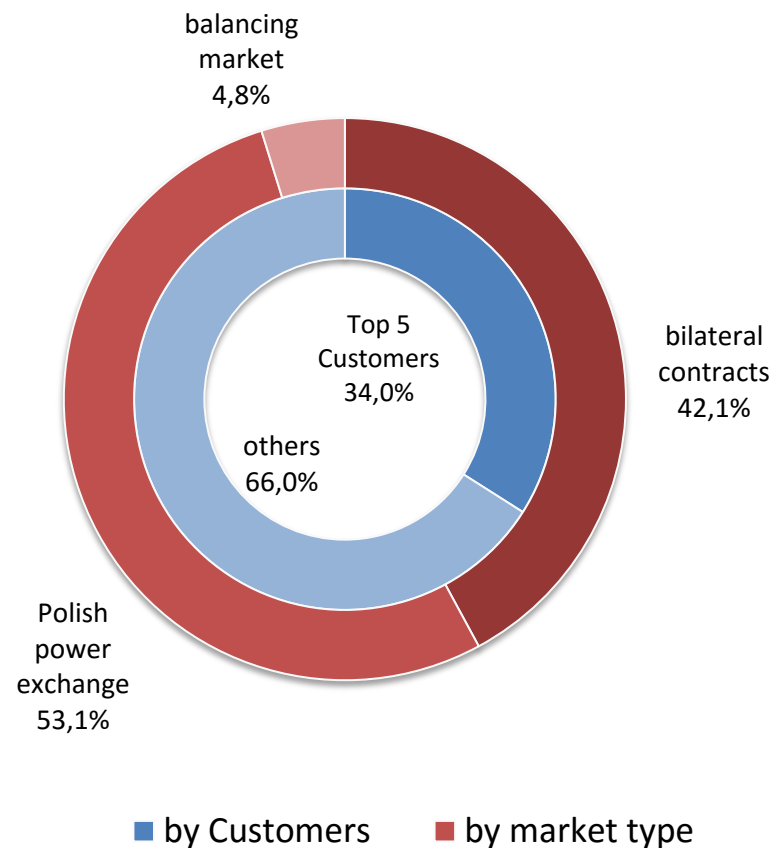
by customers (internal ring) and by the market type (external ring)



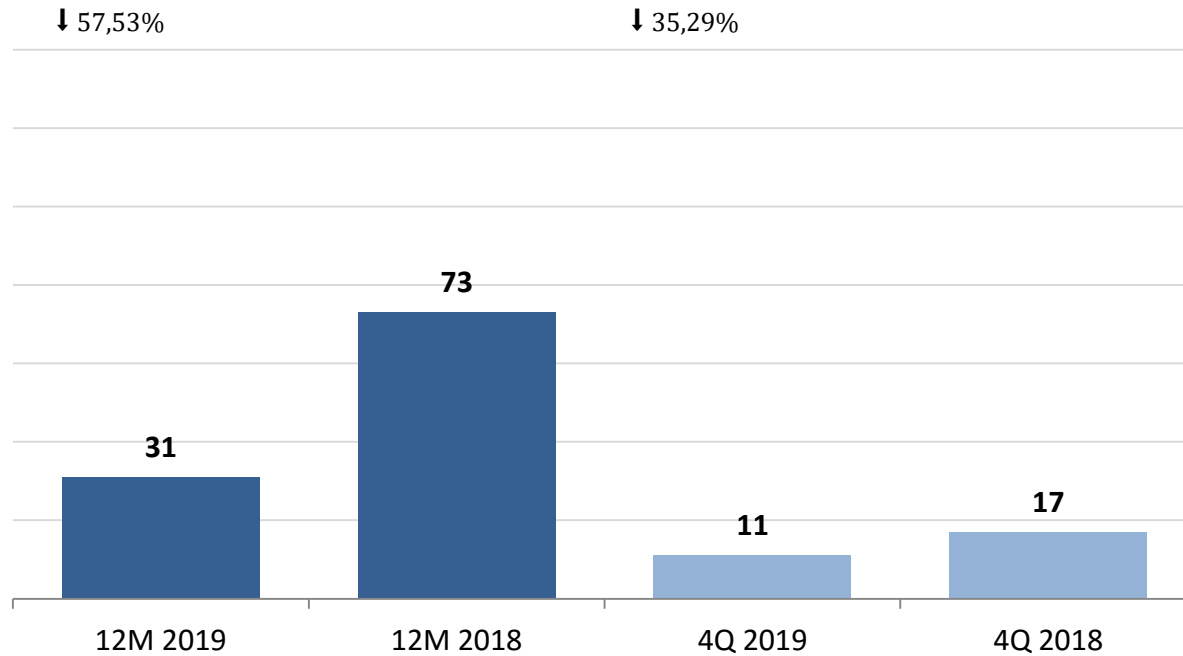
12M 2019



12M 2018



Capex on fixed assets and intangible assets (excluding CO2)

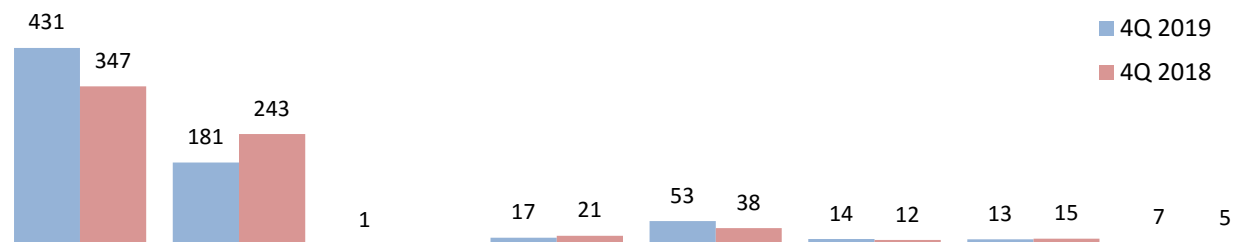
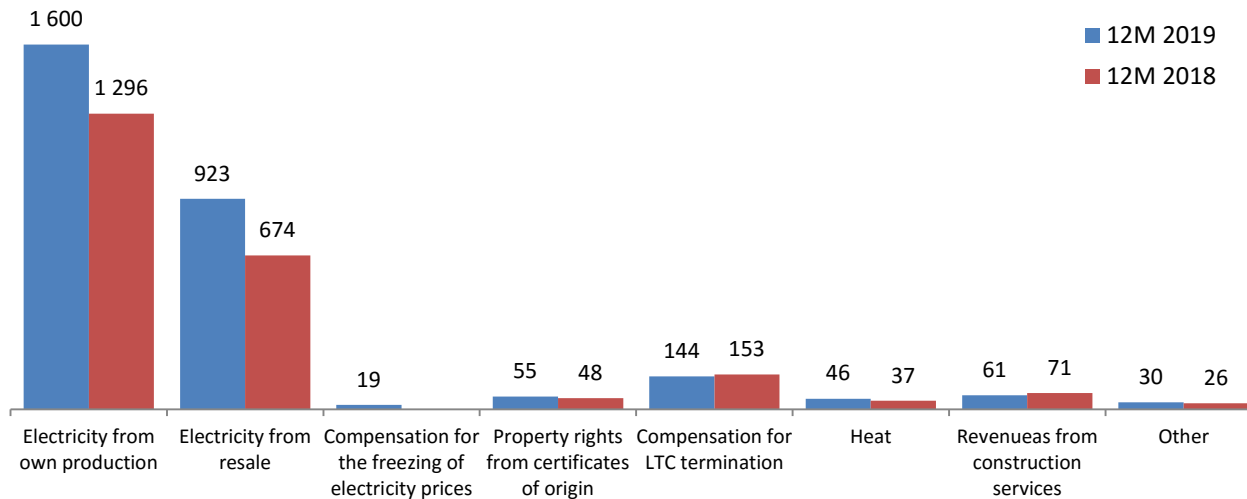


FINANCIAL DATA



Revenues

[m PLN]



Reasons for changes in key positions:

Higher total revenues from the sale of electricity:

- Lower volume of electricity sales from own production
- Higher volume of electricity sales from trade
- Higher sales price of electricity

The increase in revenues from the sale of property rights from energy certificates of origin is due to the realization of a larger volume of rights created despite lower prices than in the previous year.

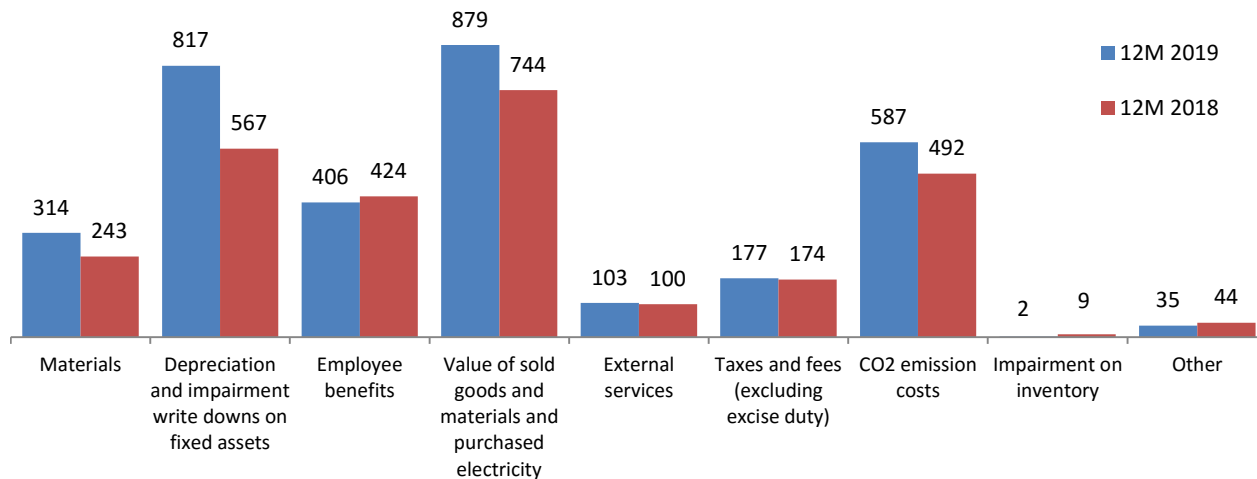
Revenues from the termination of PPAs - in both periods, the advance payments were at a comparable level, there was a difference in the amount of corrections, in 2019 it was lower, which was due to the fact that Elektrownia Pątnów II sp. z o.o. higher revenues, which resulted in a high energy sale price in 2019.

Higher revenues from the sale of heat due to a higher realized price.

Lower revenues from contracts for construction services were associated with the implementation of less costly project phases for external customers by a company from the renovation segment.

Costs by type

[m PLN]



Reasons for changes in key positions:

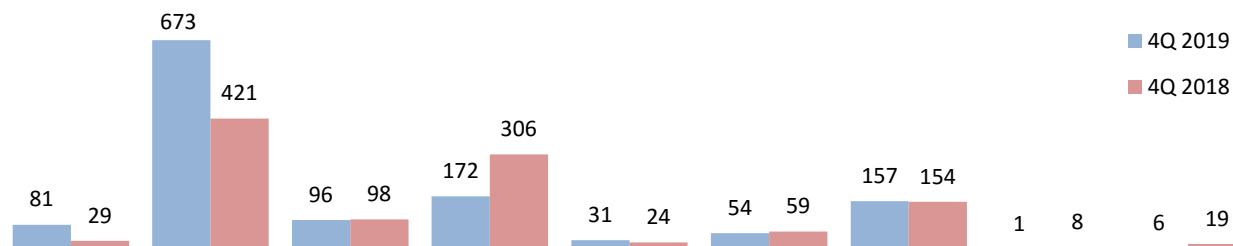
A significant share of write-downs on property, plant and equipment in the cost structure - following the results of impairment tests in accordance with the requirements of IAS 36. In addition, in connection with the outdated design documentation and the loss of validity of the environmental decision and building permit regarding the investment in the gas block steam plant at Konin power plant, a write-down of expenditure of PLN 16 million was made.

The value of electricity purchased for sale from trading increased as a consequence of higher energy prices on the market and higher trading volume.

Due to the reduction of employment in 2019, the costs of employee benefits decreased.

CO2 emission costs have increased due to higher prices of emission allowances.

Cost items related to external services as well as taxes and fees remained at similar levels as in the previous year.



EBITDA 2019

[m PLN]



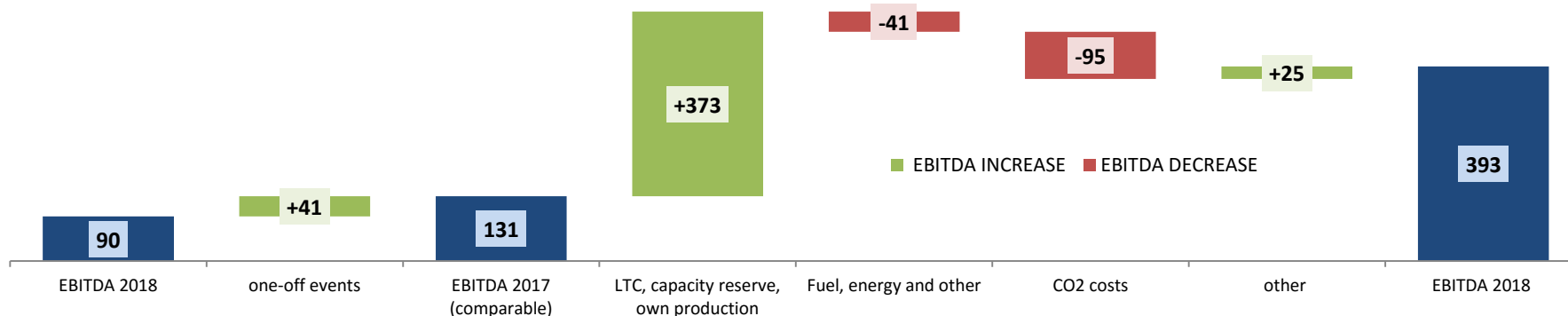
	2019	2018
Sale revenues	2 878	2 305
Change %	24,86%	
Costs of goods sold	(3 186)	(2 628)
Gross profit	(308)	(323)
Margin %	(10,70)%	(14,01)%
Other operating revenues	13	11
Selling and distribution expenses	(4)	(4)
Administrative expenses	(117)	(124)
Other operating expenses	(8)	(37)
EBITDA⁽¹⁾	393	90
Margin %	13,66%	30,90%
EBIT	(424)	(477)
Margin %	(14,73)%	(20,69)%

(1) **EBITDA higher by PLN 303 m (+336,67%) -> after bringing to comparability higher by PLN 262 m (+200,00%)**

comparable EBITDA for 2018 amounted to PLN 131 million -> PLN 90 million is the result of events related to inventory write-down (-9), provision for the return of carbon dioxide emission allowances received free of charge (-31) and provision for landfill remediation (- 1)

- (+373) higher revenues from own energy, higher revenues from system services and power reserves, higher revenues from heat, higher revenues from certificates, additional revenues due to the amount of the price difference and financial compensation, higher result on the turnover and lower revenues from PPAs
- (-41) higher costs of purchased fuel, lower energy costs (in mines), lower costs of other fuels and materials
- (-95) higher costs of carbon dioxide emission allowances
- (+25) higher costs of other external materials and services, higher costs of mining damage, higher taxes and fees, lower construction revenues, lower costs of employee benefits, higher balance of other revenues and costs and a better result on other operating activities

EBITDA changes

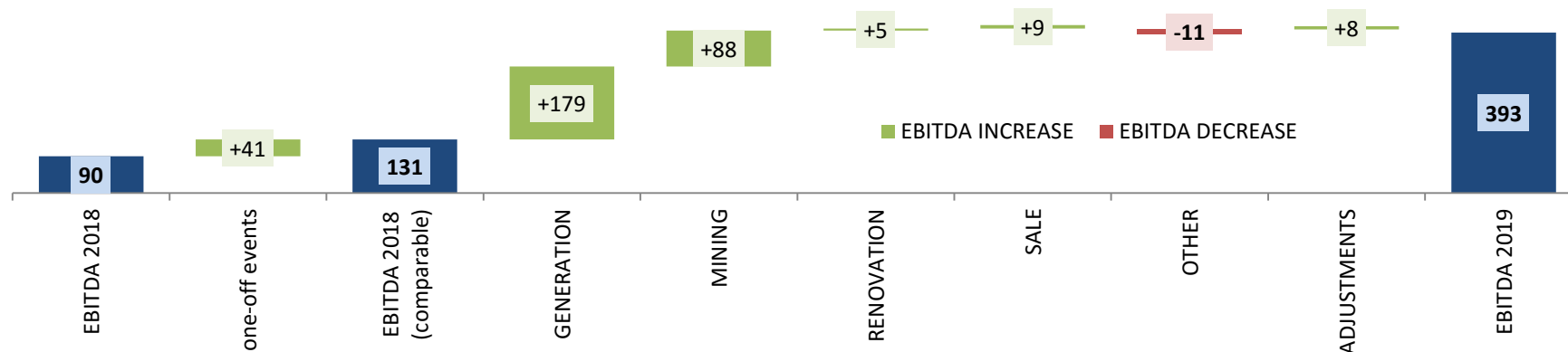


EBITDA 2019 by segments

[m PLN]



EBITDA changes



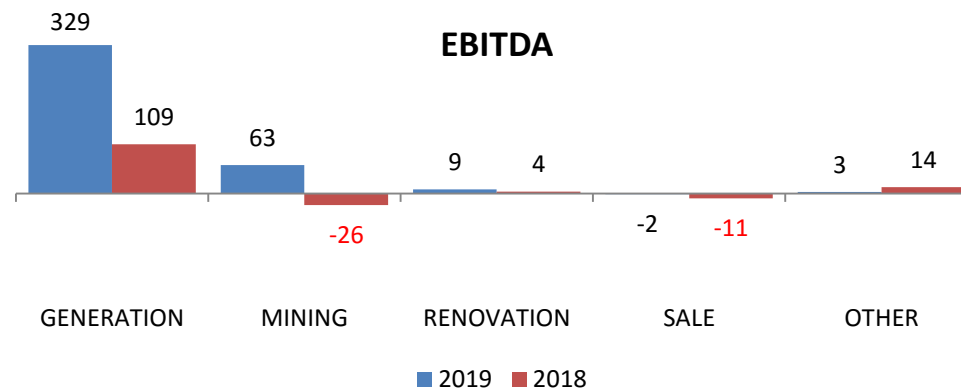
Main reasons of EBITDA changes in segments:

Generation:

- higher revenues from own energy, higher revenues from system services and power reserves, higher revenues from heat, higher revenues from certificates, additional revenues due to the amount of the price difference and financial compensation, higher result on the turnover and lower revenues from PPAs
- higher coal costs, higher biomass costs, lower costs of other fuels and materials (mazout, oil, sorbent, etc.)
- higher costs of carbon dioxide emission allowances
- higher costs of employee benefits, higher costs of external services and others

Mining:

- higher revenues from the sale of coal, lower costs of external services, lower costs of employee benefits, lower costs of electricity,
- higher costs of mining damage, higher taxes and fees, higher costs of other materials and higher other costs



Consolidated P&L for 2019 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	2 140	10	75	651	2	-	2 878
<i>External sale revenues %</i>	<i>89,80%</i>	<i>1,57%</i>	<i>49,67%</i>	<i>100,00%</i>	<i>0,94%</i>	<i>0,00%</i>	<i>100,00%</i>
Sale revenues between segments	243	626	76	-	211	(1 156)	-
Sale revenue	2 383	636	151	651	213	(1 156)	2 878
Cost of goods sold	(2 722)	(631)	(136)	(649)	(208)	1 160	(3 186)
Gross profit (loss)	(338)	5	16	1	4	4	(308)
<i>Margin %</i>	<i>(14,18)%</i>	<i>0,79%</i>	<i>10,60%</i>	<i>0,15%</i>	<i>1,88%</i>	<i>(0,35)%</i>	<i>(10,70)%</i>
EBITDA	330	63	9	(2)	3	(9)	393
<i>Margin %</i>	<i>13,85%</i>	<i>9,91%</i>	<i>5,96%</i>	<i>(0,31)%</i>	<i>1,41%</i>	<i>0,78%</i>	<i>13,66%</i>
EBIT	(388)	(24)	6	(2)	(3)	(12)	(424)
<i>Margin %</i>	<i>(16,28)%</i>	<i>(3,77)%</i>	<i>3,97%</i>	<i>(0,31)%</i>	<i>(1,41)%</i>	<i>1,04%</i>	<i>(14,73)%</i>
Net profit (loss)	(407)	(34)	4	3	(3)	(10)	(446)
<i>Margin %</i>	<i>(17,08)%</i>	<i>(5,35)%</i>	<i>2,65%</i>	<i>0,46%</i>	<i>(1,41)%</i>	<i>0,87%</i>	<i>(15,50)%</i>

EBITDA 4Q 2019

[m PLN]



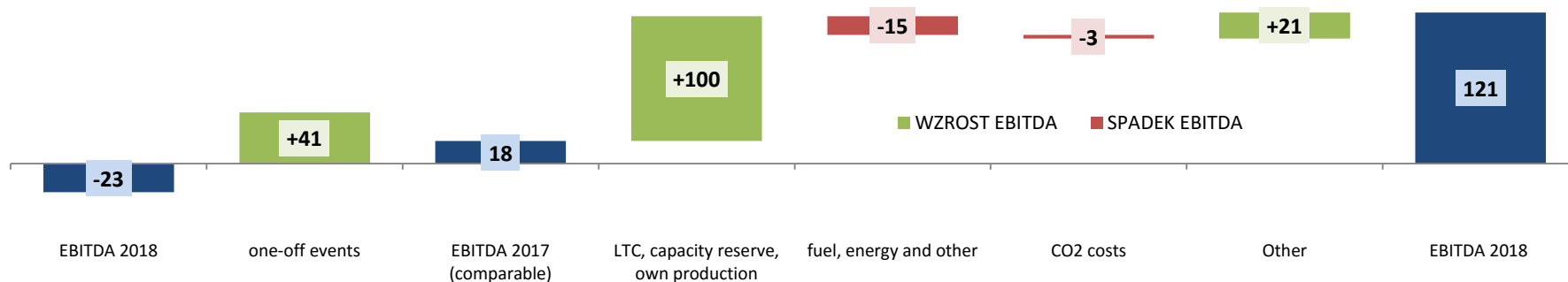
	4Q 2019	4Q 2018
Sale revenues	721	682
Change %	5,72%	
Costs of goods sold	(1 235)	(1 064)
Gross profit	(514)	(382)
Margin %	(71,29)%	(56,01)%
Other operating revenues	0	5
Selling and distribution expenses	(1)	(1)
Administrative expenses	(36)	(32)
Other operating expenses	(1)	(34)
EBITDA⁽¹⁾	121	(23)
Margin %	(16,78)%	(3,37)%
EBIT	(552)	(443)
Margin %	(76,56)%	(64,96)%

(1) **EBITDA higher by PLN 144 m -> after bringing to comparability higher by PLN 103 m (+572,22%)**

comparable EBITDA for 4Q 2018 amounted to PLN 18 million -> value of PLN (23) million is the effect of events related to inventory write-down (-9), provision for the return of carbon dioxide emission allowances received free of charge (-31) and provision for remediation landfills (-1)

- (+100) higher revenues from own energy, lower revenues from system services and power reserves, higher revenues from PPAs, higher revenues from heat, lower revenues from certificates, additional revenues due to the amount of price difference and financial compensation, higher result on turnover
- (-15) higher costs of purchased fuel, higher energy costs (in mines), similar costs of other fuels and materials
- (-3) higher costs of carbon dioxide emission allowances
- (+21) higher costs of other external materials and services, lower construction revenues, lower taxes and fees, lower mining damage costs, lower employee benefits costs, higher balance of other revenues and costs and a better result on other operating activities

EBITDA changes

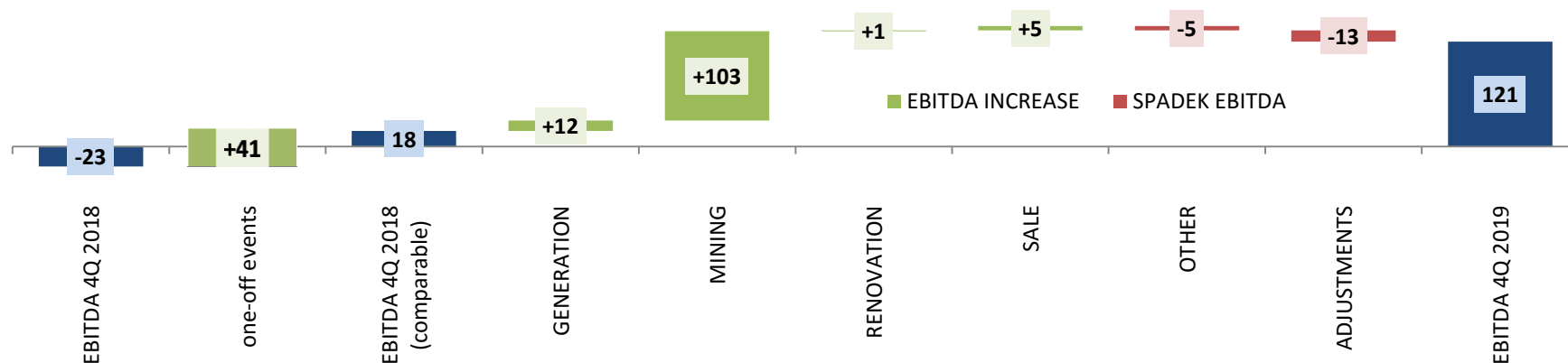


EBITDA 4Q 2019 by segments

[m PLN]



EBITDA changes



Main reasons of EBITDA changes in segments:

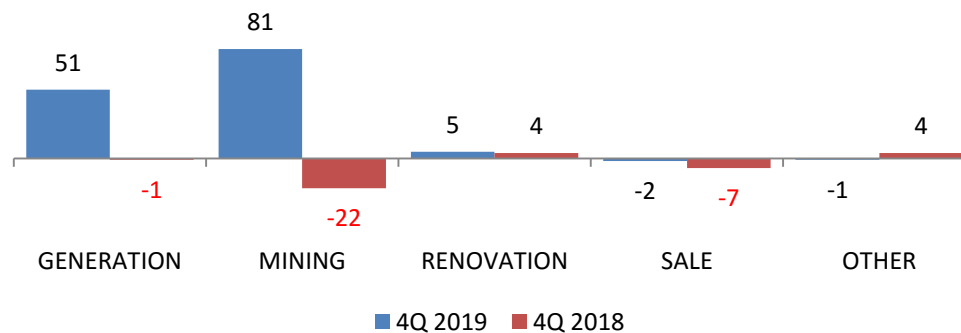
Generation:

- higher revenues from own energy, higher revenues from PPAs, higher heat revenues, additional revenues from the amount of price difference and financial compensation, higher result on turnover, lower revenues from system services and power reserves, lower revenues from certificates
- higher coal costs, higher biomass costs, similar costs of other fuels and materials (mazout, oil, sorbent, etc.)
- higher costs of carbon dioxide emission allowances
- higher costs of employee benefits, higher costs of external services and others

Mining:

- higher revenues from the sale of coal, lower costs of external services, lower costs of employee benefits, lower costs of electricity,
- higher costs of mining damage, higher taxes and fees, higher costs of other materials and higher other costs

EBITDA



Consolidated P&L for 4Q 2019 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	542	3	18	157	1	-	721
<i>External sale revenues %</i>	<i>89,74%</i>	<i>1,38%</i>	<i>46,15%</i>	<i>100,00%</i>	<i>0,00%</i>	<i>0,00%</i>	<i>100,00%</i>
Sale revenues between segments	62	214	21	-	49	(346)	-
Sale revenue	604	217	39	157	50	(346)	721
Cost of goods sold	(1 167)	(170)	(33)	(155)	(50)	338	(1 237)
Gross profit (loss)	(563)	47	6	2	-	(8)	(516)
<i>Margin %</i>	<i>(93,21%)</i>	<i>21,66%</i>	<i>15,38%</i>	<i>1,27%</i>	<i>0,00%</i>	<i>2,31%</i>	<i>(71,57%)</i>
EBITDA	51	81	5	(2)	(1)	(13)	121
<i>Margin %</i>	<i>8,44%</i>	<i>37,33%</i>	<i>12,82%</i>	<i>(1,27%)</i>	<i>(2,00%)</i>	<i>3,76%</i>	<i>16,78%</i>
EBIT	(577)	38	4	(2)	(2)	(13)	(552)
<i>Margin %</i>	<i>(95,53%)</i>	<i>17,51%</i>	<i>10,26%</i>	<i>(1,27%)</i>	<i>(4,00%)</i>	<i>3,76%</i>	<i>(76,56%)</i>
Net profit (loss)	(533)	27	4	(2)	(2)	(11)	(518)
<i>Margin %</i>	<i>(88,25%)</i>	<i>12,44%</i>	<i>10,26%</i>	<i>(1,27%)</i>	<i>(4,00%)</i>	<i>3,18%</i>	<i>(71,84%)</i>

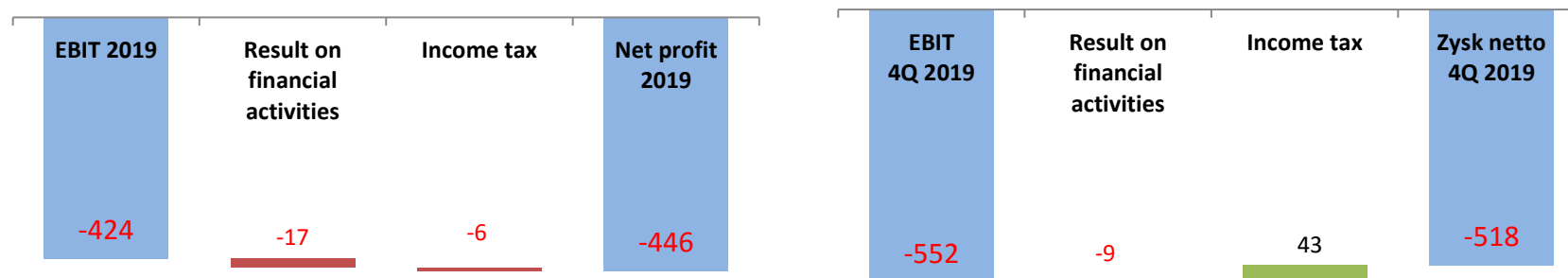
Financial activities, taxation and net profit

[m PLN]



	12M 2019	12M 2018	4Q 2019	4Q 2018
EBIT	(424)	(477)	(552)	(443)
Financial income	11	7	(2)	1
Financial costs	(28)	(45)	(7)	(16)
Gross profit (loss)	(440)	(515)	(561)	(458)
Income tax (tax overload)	(6)	51	43	57
Net profit (loss) for the period	(446)	(464)	(518)	(401)

EBIT --> net profit



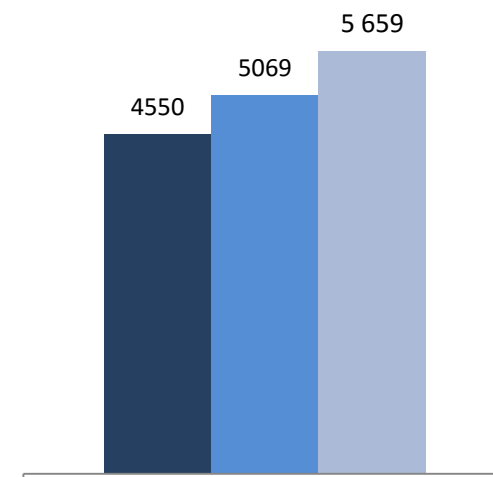
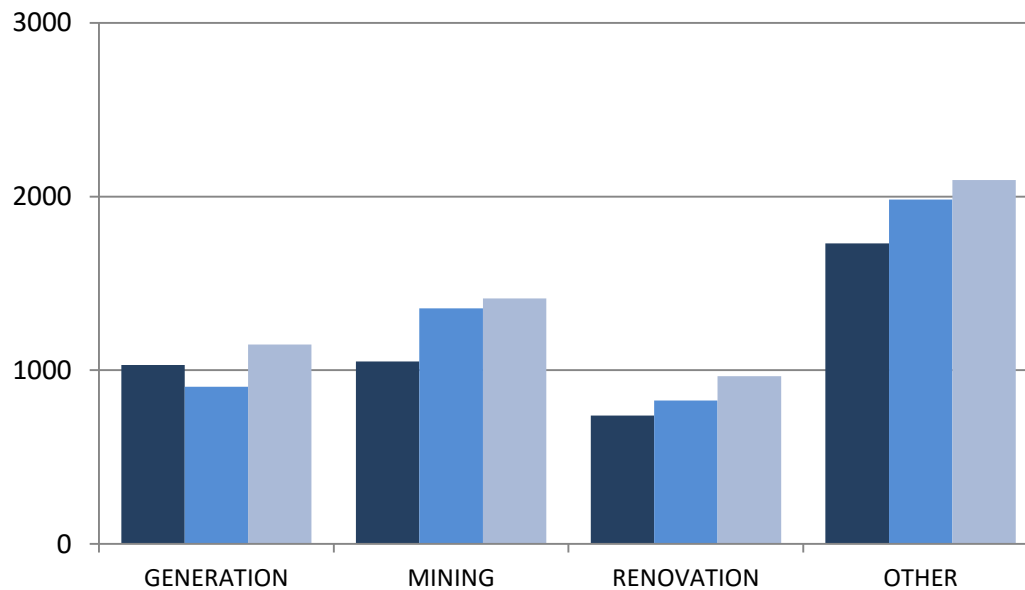
Employment

[full time]



BY SEGMENTS

TOTAL

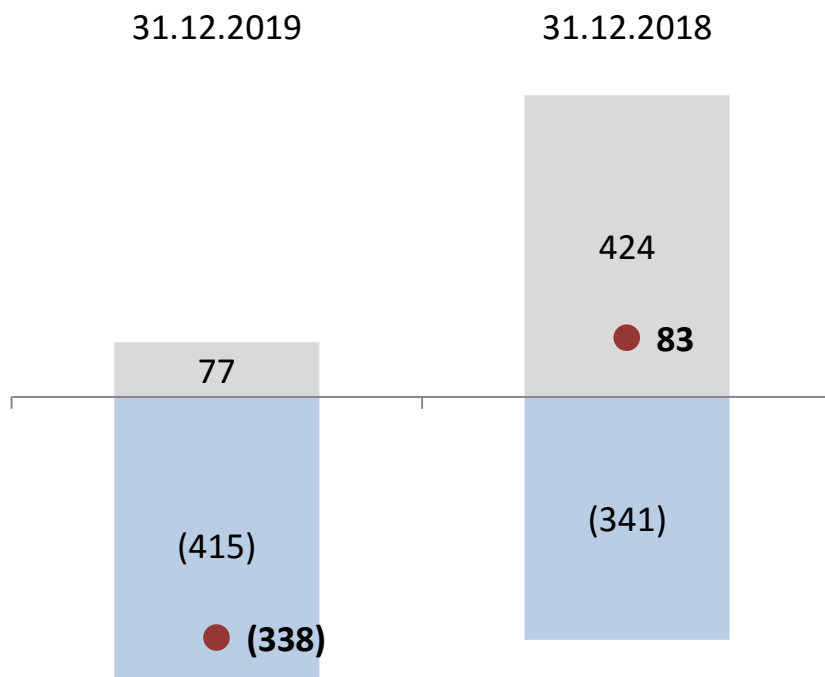


■ 31-12-2019 ■ 31-12-2018 ■ 31-12-2017

■ 31-12-2019 ■ 31-12-2018 ■ 31-12-2017

Financial indebtedness

Net debt [m PLN]



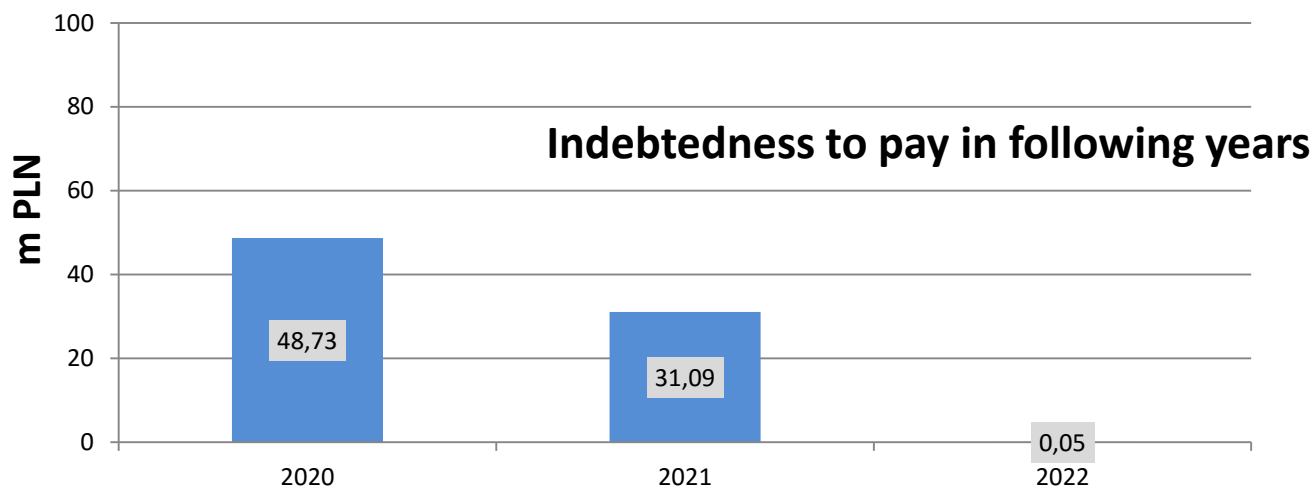
- Cash and cash equivalents ⁽¹⁾
- Interest bearing loans, borrowings and leases
- Net debt

Net debt / EBITDA

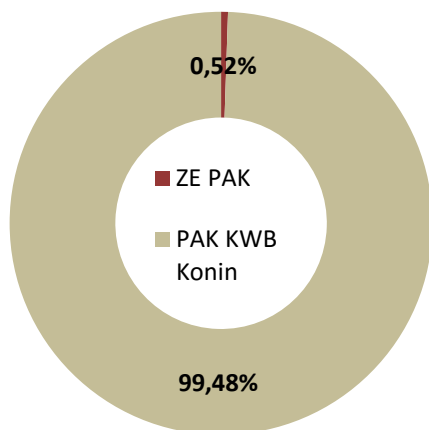
31.12.2019	(0,86)
31.12.2018	0,92

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

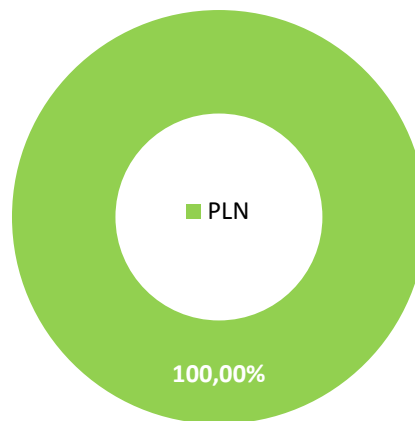
Financial indebtedness structure (1)



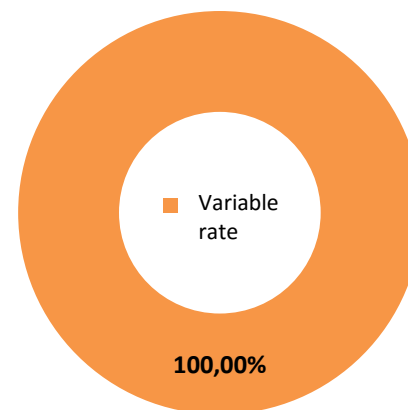
Indebtedness structure by debtor



Indebtedness structure by currency



Indebtedness structure by rate



(1) Indebtedness of main Group companies

Consolidated cash flow

[m PLN]



	2019	2018	4Q 2019	4Q 2018
Gross profit (loss)	(440)	(515)	(561)	(458)
• Depreciation and amortisation	183	193	40	48
• Profit/loss on investing and financial activities	7	16	2	4
• Changes in working capital ⁽¹⁾	616	400	146	203
• Income tax	(22)	(10)	(10)	(13)
• Purchase of EUA ⁽²⁾	(530)	(93)	(87)	(56)
• impairment loss on property, plant and equipment and mining assets ⁽³⁾	632	373	632	373
• other	2	4	2	2
Net cash flow from operational activities	448	367	164	102
• (inflows/outflows) of investments in property, plant and equipment and intangible assets	(2)	(70)	23	(14)
• other	21	10	(25)	4
Net cash flow from investing activities	19	(61)	(2)	(10)
• Inflows of credits, loans, leases and securities	67	43	62	8
• Payment of credits, loans, leases and securities ⁽⁴⁾	(412)	(286)	(189)	(73)
• Interest paid	(10)	(21)	(2)	(5)
• Dividends paid	-	(61)	-	(30)
Net cash flow from financial activities ⁽⁴⁾	(356)	(325)	(129)	(100)
Change in cash and cash equivalents	111	(19)	33	(8)
Change in cash and cash equivalents	303	323	382	312
Cash and cash equivalents at the end of the period	415	303	415	303

(1) A significant increase in the provision for the purchase of carbon dioxide emission allowances resulted in a significantly higher change in working capital in both Q4 2019 and the entire 2019. In addition, the increase in this item was influenced by a decrease in the level of receivables from margins securing transactions on TGE due to lower market volatility.

(2) In 2019, the higher level of expenditure is associated with the final settlement in March-April of futures contracts for the purchase of carbon dioxide emission allowances for 2018; in Q4 2019 and Q4 2018, partial settlement of forward contracts for 2019 and 2018 took place, respectively

(3) In 2019 (and in Q4 2019), impairment losses on property, plant and equipment in ZE PAK, Pątnów II Power Plant and PAK KWB Konin were recognized in this item.

(4) Higher loan repayments in Q4 2019, as well as throughout 2019 are a consequence of early repayment of the loan for the modernization of blocks 3 and 4 at Pątnów power plant (repayment of the installment in December 2019, whose contractual payment date was in March 2020).

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