



29 June 2020

Zespół Elektrowni Pątnów-Adamów-Konin SA 1Q 2020 Results



ZE PAK SA Group – 1Q 2020 summary



Key operational and financial data	1Q 2020	Change y/y
Sale of electricity:	1,52 TWh	-34,20%
• Electricity from own production:	1,12 TWh	-3,45%
• Electricity from resale:	0,40 TWh	-65,22%
Achieved average electricity sale price ⁽¹⁾	280,88 PLN/MWh	+4,07%
Average price of CO2 emission allowances purchase	119,24 PLN/EUA	+45,95%
Sale revenues:	524 m PLN	-24,61%
EBITDA:	16 m PLN	-78,87%
Net result:	(11) m PLN	-
CAPEX:	1 m PLN	-87,50%
Indebtedness:	166 m PLN	-60,17%
Cash ⁽²⁾ :	319 m PLN	7,29%
Net debt / EBITDA:	(0,46) x	-

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

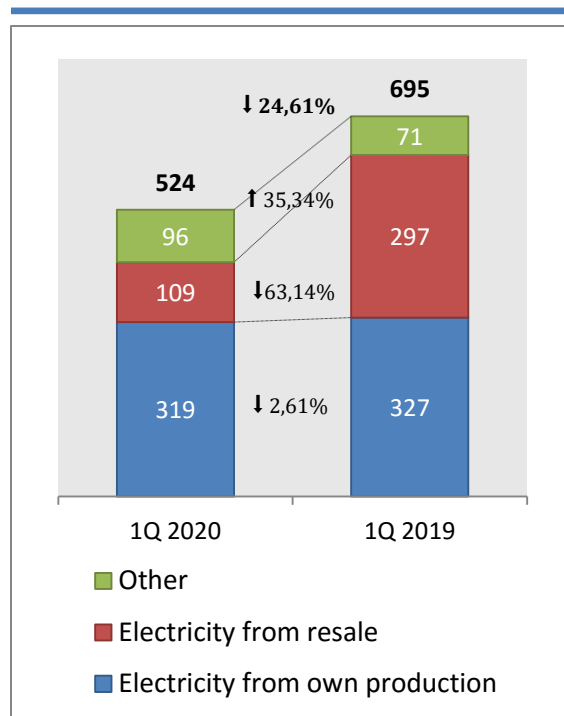
⁽²⁾ Cash and cash equivalents and other financial short-term assets

ZE PAK SA Group – 1Q 2020 summary

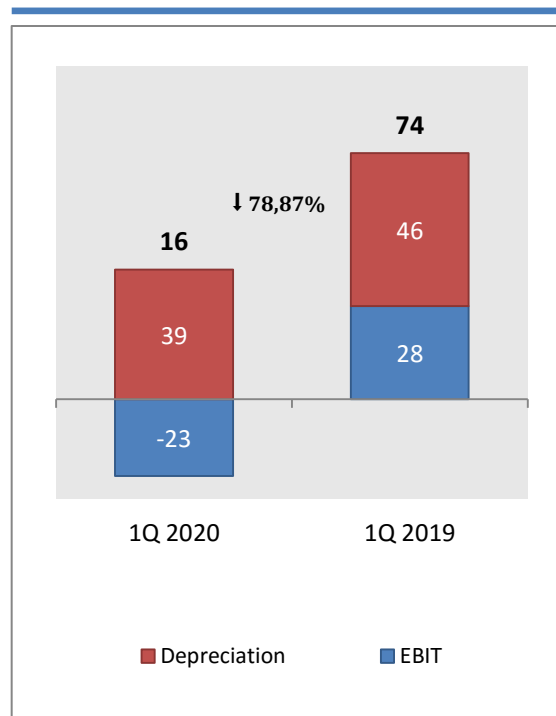
[m PLN]



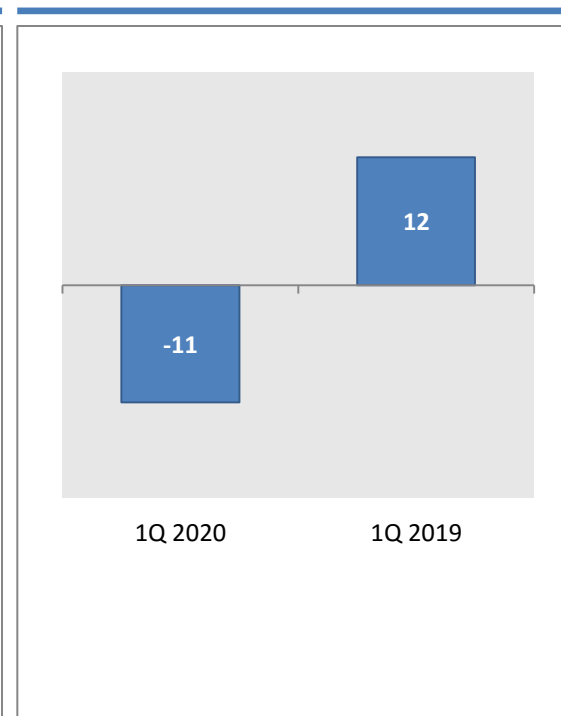
Revenues



EBITDA



Net result

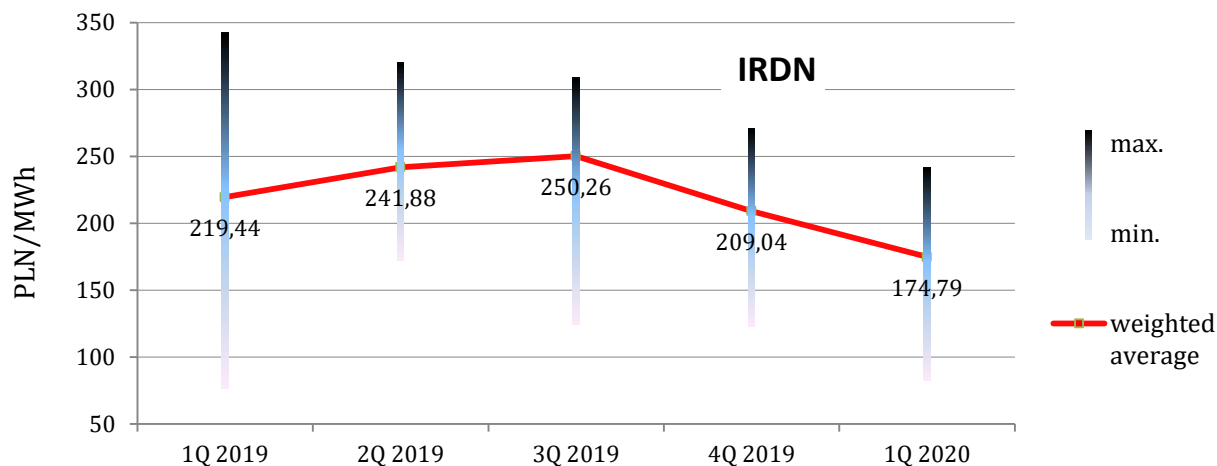


In the first quarter of the year, among others good weather conditions for wind energy and restrictions imposed on the economy resulting from the pandemic caused by COVID-19 disease, as well as deterioration in the relationship between recorded prices of electricity and carbon dioxide emission allowances had a negative effect on the Group's ability to sell electricity. 34.20% of the total decrease in the volume of electricity sales from own production and sales of purchased energy was recorded. However, in the case of sales of electricity from own production, the decrease was only 3.45% and the decrease in sales of purchased energy was as much as 65.22%. The decrease in electricity sales and the lower margins realized had a negative impact on the Group's financial results compared to the results recorded in 2019.

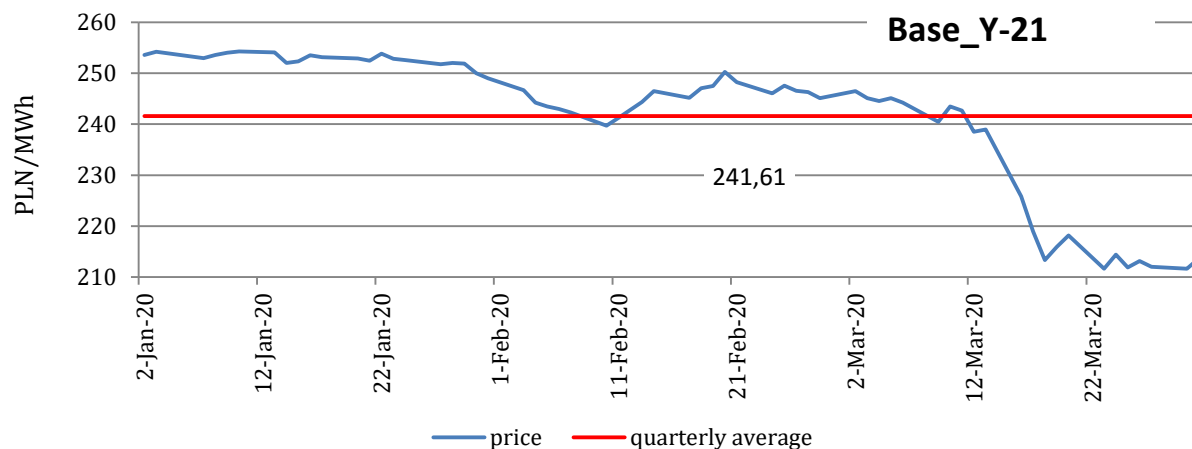
SELECTED ELECTRICITY MARKET DATA



Electricity prices

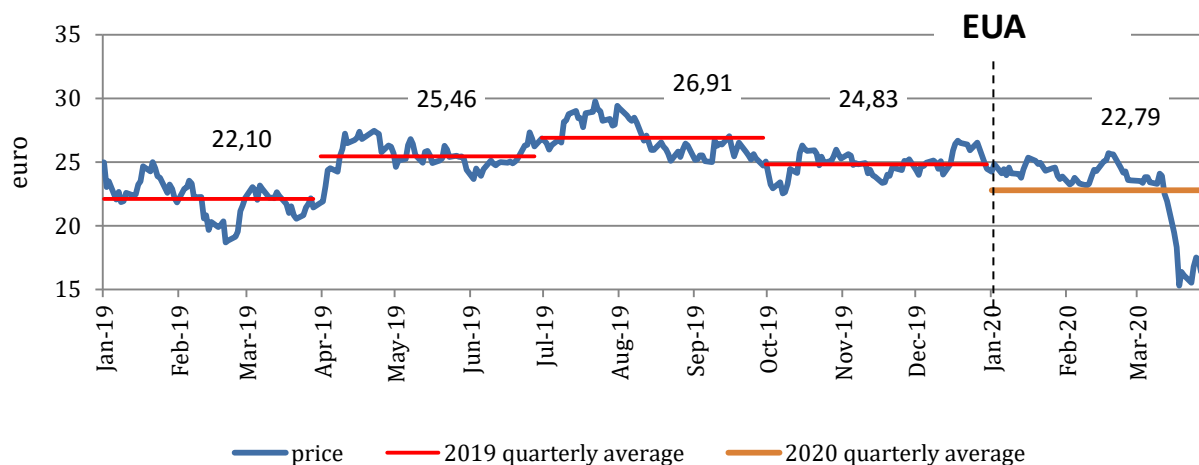


In the first quarter of 2020, electricity market prices continued to fall on the day-ahead market of the Polish Power Exchange. The low price level in the first quarter was mainly due to high air temperatures and relatively high winds. The decline in electricity prices on the next day market of POLPX, observed since the beginning of 2020, has deepened as a result of the COVID-19 pandemic, whose effects in the form of large decreases in listed products have been visible on all commodity and financial markets since March 16, 2020 (including on the electricity and CO2 emission allowance markets). The weighted average price (TGeBASE) in the first quarter of 2020 was PLN 174.79 / MWh, i.e. by PLN 44.65, i.e. 20.35% lower than in the first quarter of 2019.

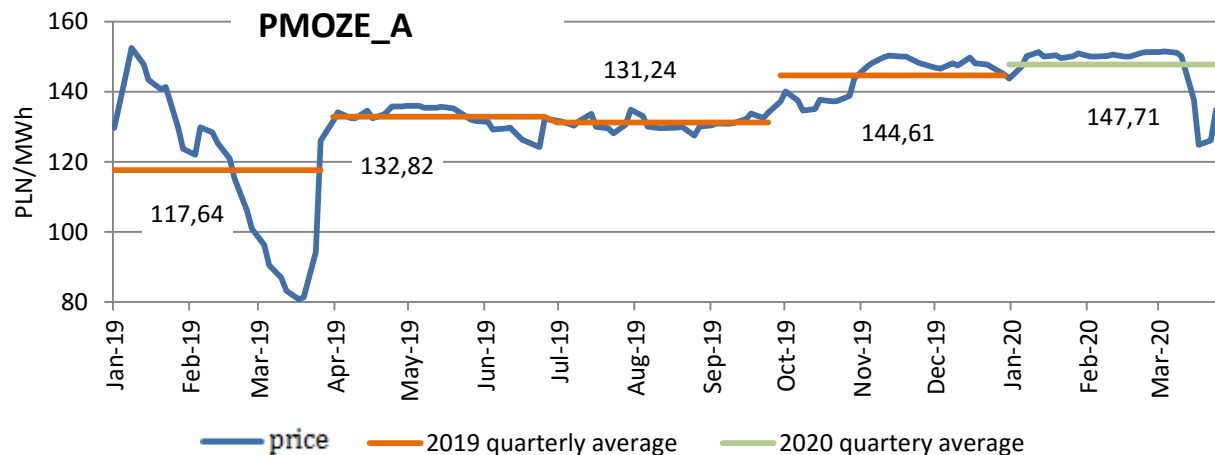


On the electricity forward market of Towarowa Giełda Energii S.A. the level of prices recorded on the BASE_Y-21 reference futures contract was downward. In the last days of the quarter, clear declines in quoted prices, similarly to the day-ahead market, should be associated with the COVID-19 pandemic, as well as a consequence of the pandemic decrease in quoted prices of CO2 emission allowances. The arithmetic average of the daily clearing rates for the BASE_Y-21 contract in the first quarter of the year was 241.61 PLN / MWh.

EUA and green certificates



In January 2020, the EUA price was quite stable. It ranged from 23.77 to 24.94 euros. The breakthrough moment for all markets in the world was February 24, when it was already known that coronavirus was spreading outside of China. The prevailing pandemic caused by COVID-19 has indisputably contributed to significant fluctuations in allowance prices on the EUA allowance market in March. It was one of the most volatile months in terms of prices, which ranged between EUR 15.23 and EUR 24.07. On March 18, the value of allowances fell to EUR 15.23, which is the lowest value since July 2018. Nevertheless, the arithmetic average of EUA quotations in the first quarter of 2020 was EUR 22.79, which means an increase by 3.12% compared to the same quarter of 2019.



In the first quarter of 2020, prices of energy certificates of origin (green certificates) remained at a fairly high level compared to previous quarters. In February 2020, the price reached the highest level in over a year, 151.32 PLN / MWh. The weighted average price of green certificates in the first quarter of 2020 was 147.71 PLN / MWh, which means an increase of 30.07 PLN / MWh (25.56%) compared to the first quarter of 2019 when it was at 117.64 PLN / MWh.

OPERATIONAL DATA

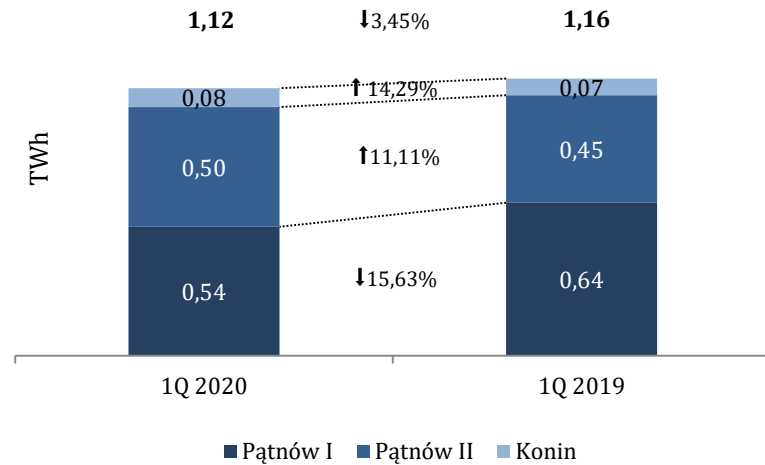


Net production and sale of electricity

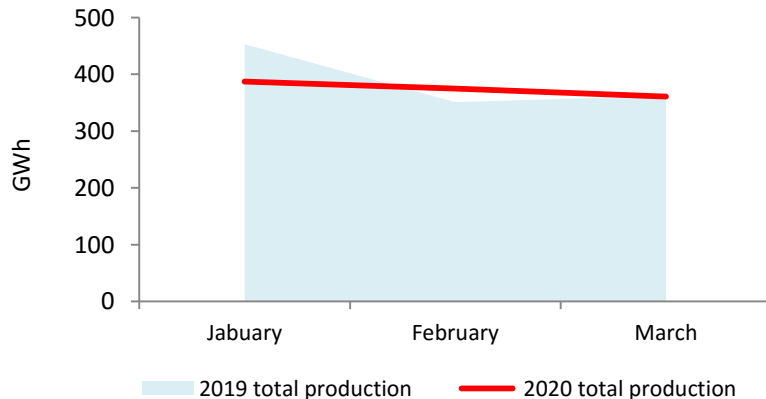
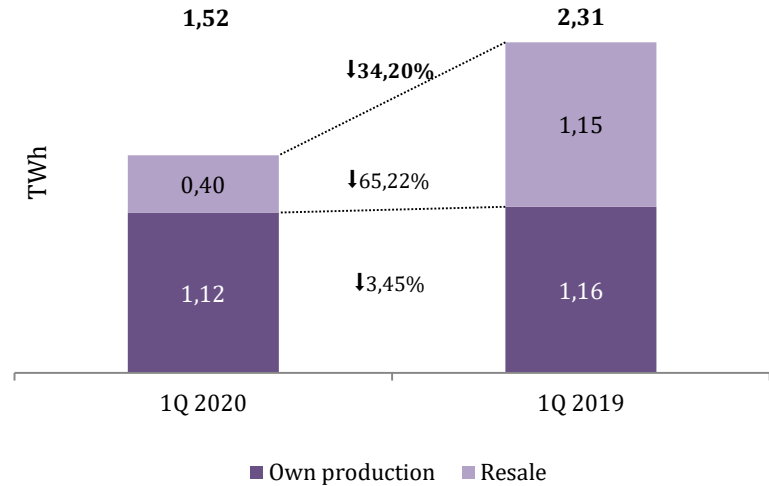
[TWh]



NET PRODUCTION



SALE



The level of production in Q1 2020 in the Group was determined by an increase in electricity generation from wind and a decrease in electricity consumption in Poland, which was caused by the SARS-CoV-2 coronavirus pandemic, as well as the deteriorated relationship between the market price of energy and the price of allowances for CO2 emissions.

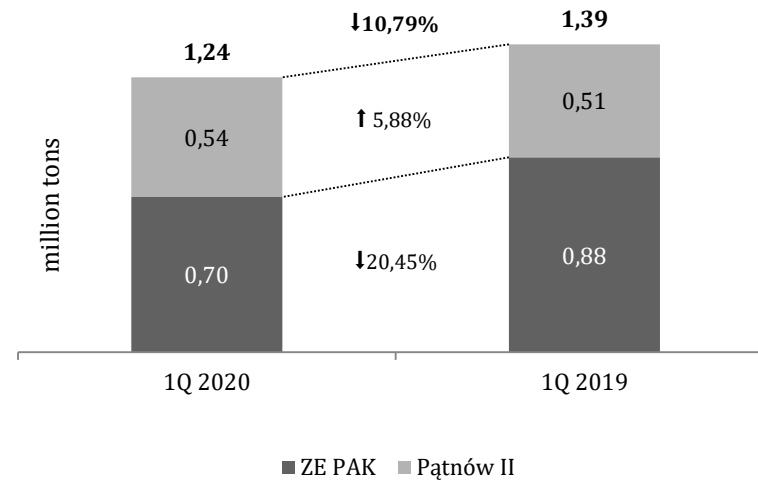
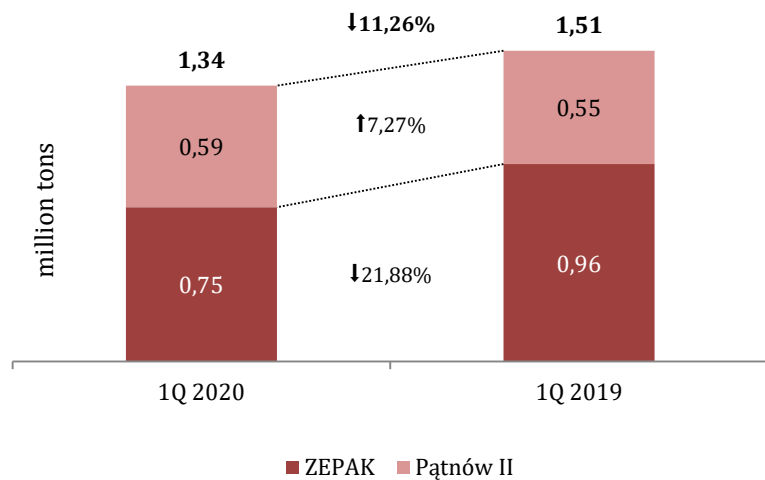
Lignite consumption and CO2 emission

[m ton]



LIGNITE CONSUMPTION

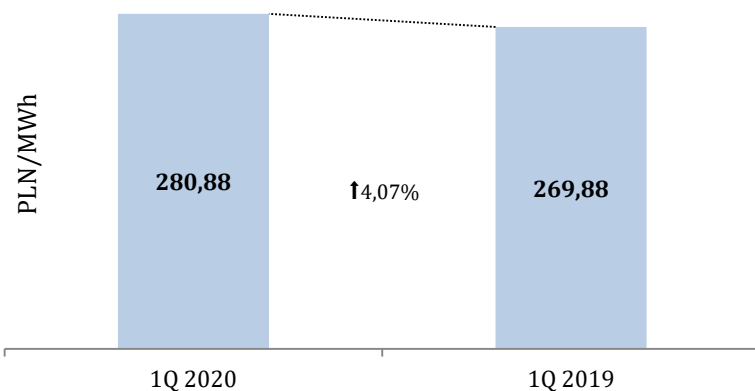
CO₂ EMISSION



Average prices of electricity and CO2 emission allowances purchase

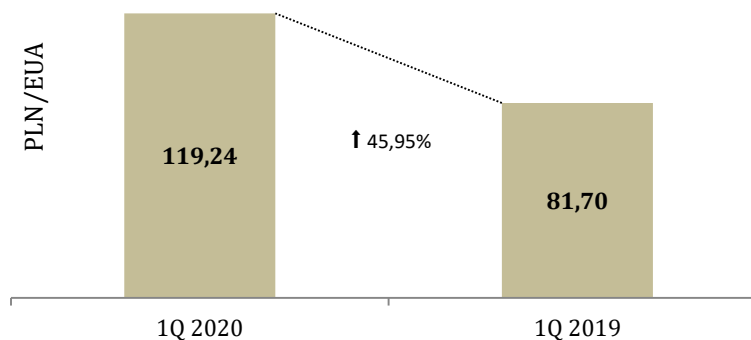


Electricity prices ¹⁾



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⁾

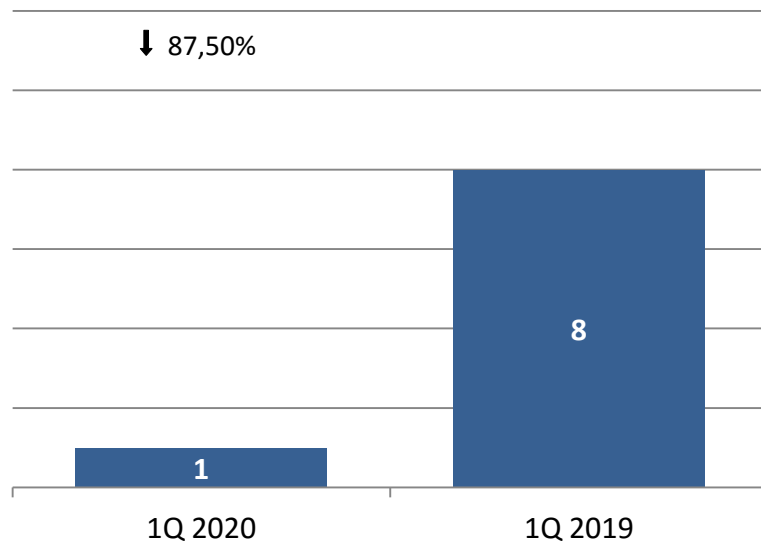


2) Average price is calculated as the purchase cost of emission allowances incurred to cover emission for the period divided by the volume of CO2 emission.

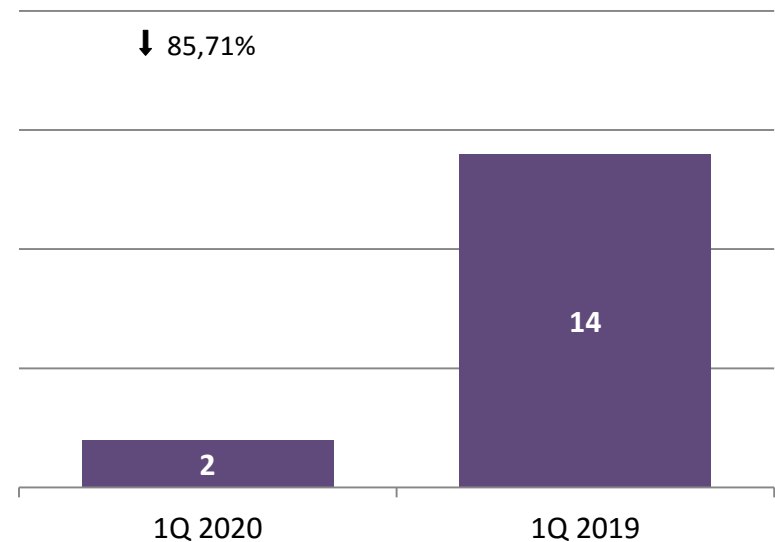
Capex on fixed assets and intangible assets (excluding CO2)



CAPEX [m PLN]



EXPENDITURES [m PLN]



In the first quarter of 2020, the ZE PAK SA Group started the implementation of a large investment project which is the adaptation of the K-7 coal boiler at Konin power plant for exclusive combustion of biomass along with the necessary technical infrastructure. In addition, investment activity also focused on the implementation of the necessary tasks to ensure the maintenance of current efficiency and more efficient use of owned mining and manufacturing assets.

The company carried out design works related to two investment projects:

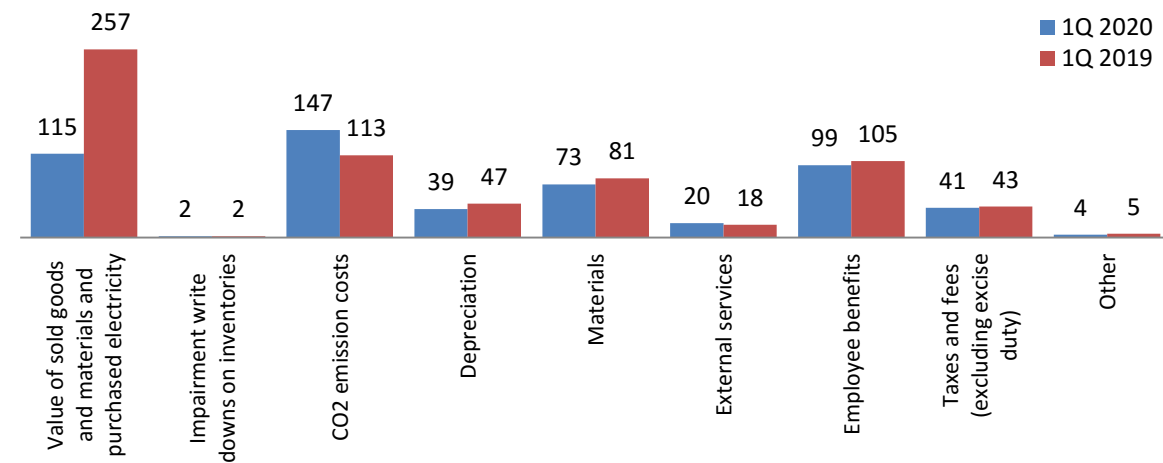
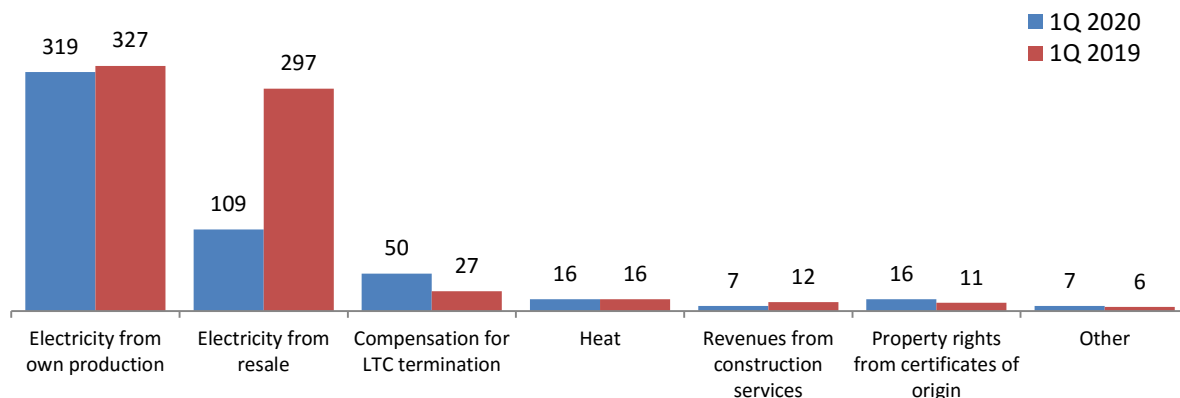
- construction of a photovoltaic farm in the reclaimed areas of Adamów mine, which are located in Brudzew commune in the area of Janiszew,
- construction of a hydrogen production facility with associated infrastructure at Konin power plant.

FINANCIAL DATA



Revenues and costs by type

[m PLN]



Revenues

Lower total revenues from the sale of electricity:

- lower volume of energy sales (decrease in the volume of energy from trading higher than the decrease in the volume of energy from own production,
- higher obtained energy sale price.

The almost double revenue from PPAs in the first quarter of 2020 caused by a significantly higher adjustment compared to the same period of 2019. The high level of adjustment is the result of achieving a lower operating result compared to the first quarter of 2019 at Elektrownia Pątnów II sp. z o.o., which is the result of a lower profit on sales of electricity.

The increase in revenues from energy certificates of origin due to the higher volume of green energy production and the higher price of property rights.

Increase in revenues from the sale of heat as a result of higher volume and sale price compared to the same period of the previous year.

Costs

Higher CO2 costs due to the increase in the average price for EUA.

Lower value of sold goods and materials related to a smaller amount of purchased electricity intended for trading.

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

EBITDA 1Q 2020

[m PLN]

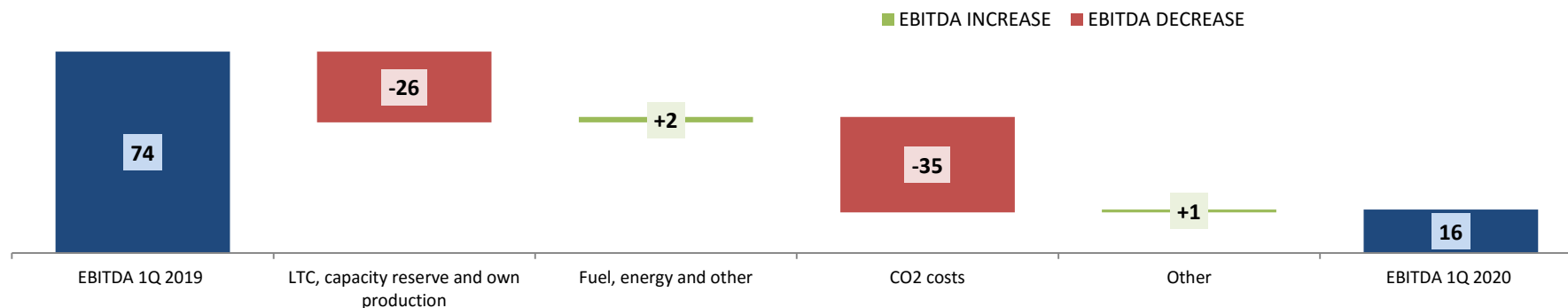


	1Q 2020	1Q 2019
Sale revenues	524	695
<i>Change %</i>	<i>(24,60%)</i>	
Costs of goods sold	(503)	(640)
Gross profit	21	55
<i>Margin %</i>	<i>4,01%</i>	<i>7,91%</i>
Other operating revenues	6	5
Selling and distribution expenses	(1)	(2)
Administrative expenses	(29)	(30)
Other operating expenses	(20)	0
EBITDA⁽¹⁾	16	74
<i>Margin %</i>	<i>3,05%</i>	<i>10,65%</i>
EBIT	(23)	28
<i>Margin %</i>	<i>(4,39%)</i>	<i>4,03%</i>

(1) **EBITDA lower by PLN 58 m (-78,87%)**

- (-26) lower result realized on purchased energy, lower revenues from own energy, higher revenues from PPAs, higher revenues from certificates, higher revenues from system services and power reserves and higher revenues from heat
- (+2) lower energy costs (in mines), lower costs of other fuels and materials (mazout, heating oil, sorbent), higher biomass costs and higher purchased coal costs
- (-35) higher costs of CO₂ emission
- (+1) lower salary costs, lower other materials, lower taxes and other costs and lower revenues from construction and other services, higher external services and lower result on other operating activities

EBITDA changes

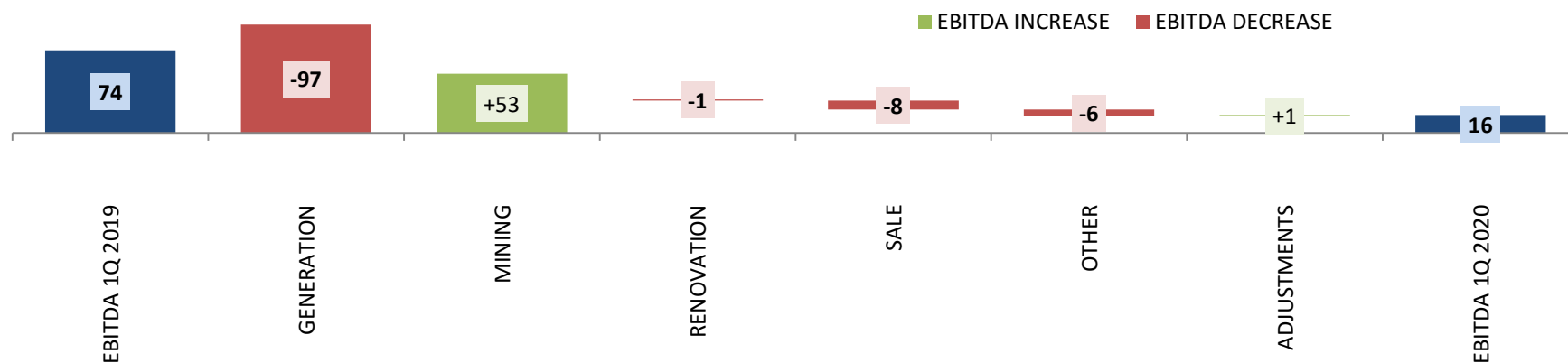


EBITDA 1Q 2020 by segments

[m PLN]



EBITDA changes



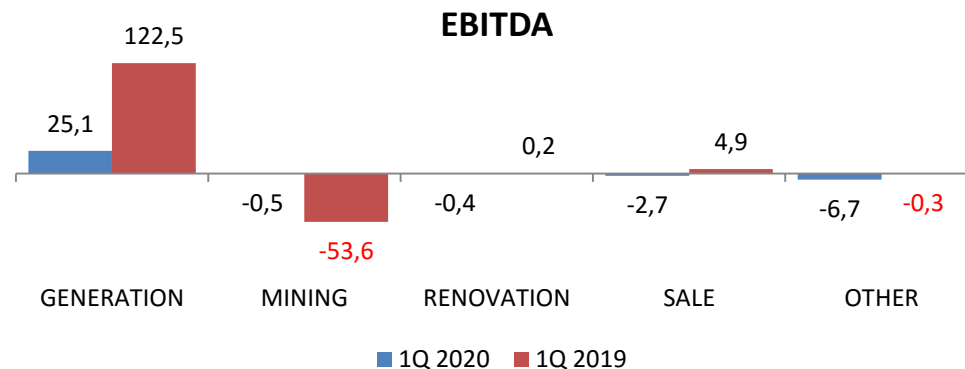
Main reasons of EBITDA changes in segments:

Generation:

- lower result realized on purchased energy and lower revenues from own energy, higher revenues from PPAs, higher revenues from certificates, higher revenues from system services and power reserves and higher revenues from heat
- higher coal costs, higher biomass costs, lower costs of other fuels and materials (mazout, oil, sorbent, etc.)
- higher costs of carbon dioxide emission allowances
- lower costs of employee benefits, materials and other and higher costs of external services and a negative result on other operating activities

Mining:

- higher revenues from the sale of coal, lower costs of employee benefits, lower costs of electricity, lower costs of external services



Consolidated P&L for 1Q 2020 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	414	1	9	99	1		524
<i>External sale revenues %</i>	<i>94,52%</i>	<i>0,82%</i>	<i>29,03%</i>	<i>100,00%</i>	<i>2,33%</i>		<i>100,00%</i>
Sale revenues between segments	23	121	22		42	(208)	
Sale revenue	438	122	31	99	43	(208)	524
Cost of goods sold	(404)	(129)	(30)	(101)	(49)	210	(503)
Gross profit (loss)	33	(7)	1	(2)	(6)	1	21
<i>Margin %</i>	<i>7,53%</i>	<i>(5,74%)</i>	<i>3,23%</i>	<i>(2,02%)</i>	<i>(13,95%)</i>	<i>(0,48%)</i>	<i>4,01%</i>
EBITDA	25	(1)	-	(3)	(7)	1	16
<i>Margin %</i>	<i>5,71%</i>	<i>(0,82%)</i>	<i>0,00%</i>	<i>(3,03%)</i>	<i>(16,28%)</i>	<i>(0,48%)</i>	<i>3,05%</i>
EBIT	1	(13)	(1)	(3)	(8)	1	(23)
<i>Margin %</i>	<i>0,23%</i>	<i>(10,66%)</i>	<i>(3,23%)</i>	<i>(3,03%)</i>	<i>(18,60%)</i>	<i>(0,48%)</i>	<i>(4,39%)</i>
Net profit (loss)	13	(15)	1	(2)	(8)	1	(11)
<i>Margin %</i>	<i>2,97%</i>	<i>(12,30%)</i>	<i>3,23%</i>	<i>(2,02%)</i>	<i>(18,60%)</i>	<i>(0,48%)</i>	<i>(2,10%)</i>

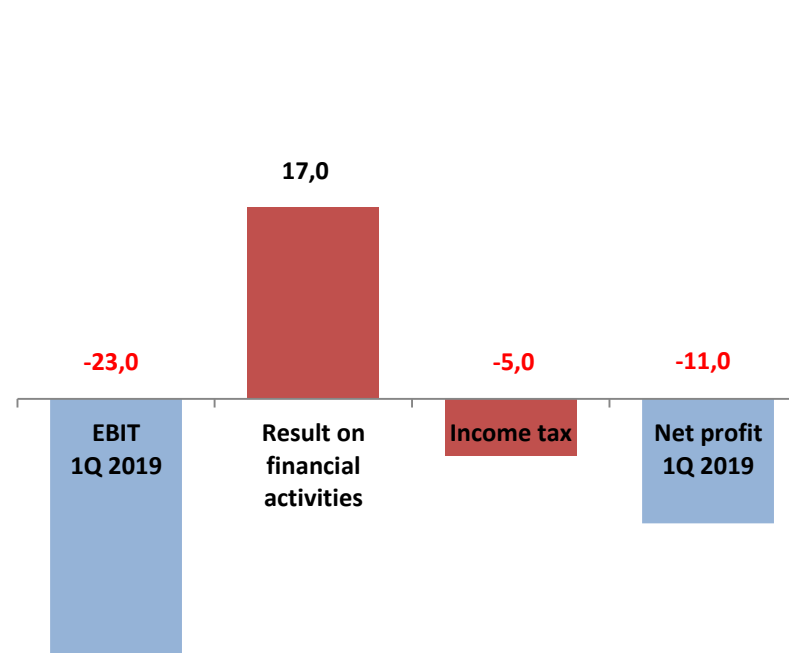
Financial activities, taxation and net profit

[m PLN]



	1Q 2020	1Q 2019
EBIT	(23)	28
Financial income ⁽¹⁾	22	8
Financial costs	(5)	(8)
Gross profit	(6)	28
Income tax (tax overload) ⁽²⁾	(5)	(16)
Net profit for the period	(11)	12
<i>Margin %</i>	<i>(2,10)</i>	<i>1,73</i>

EBIT --> net profit



(1) The positive result on financial activities in the amount of PLN 17 million mainly resulted from positive exchange differences in the amount of PLN 16.6 million on forward contracts for the purchase of euro for the settlement of forward contracts for the purchase of CO2 emission allowances.

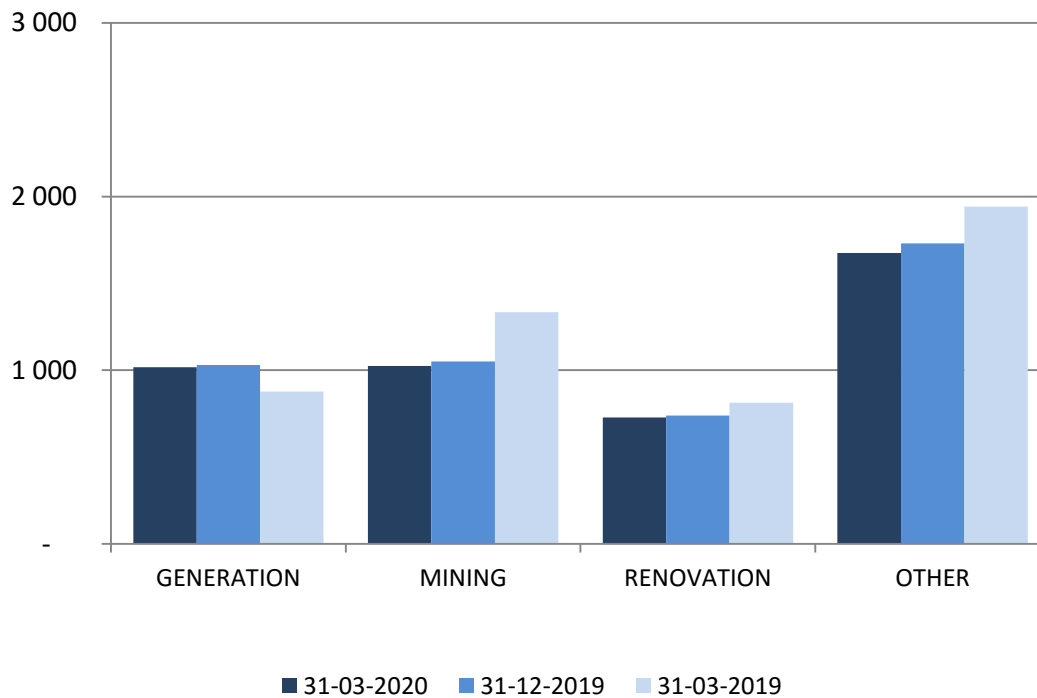
(2) The high tax value is the result of not creating deferred tax assets on tax losses in companies from the generation and extraction segment.

Employment

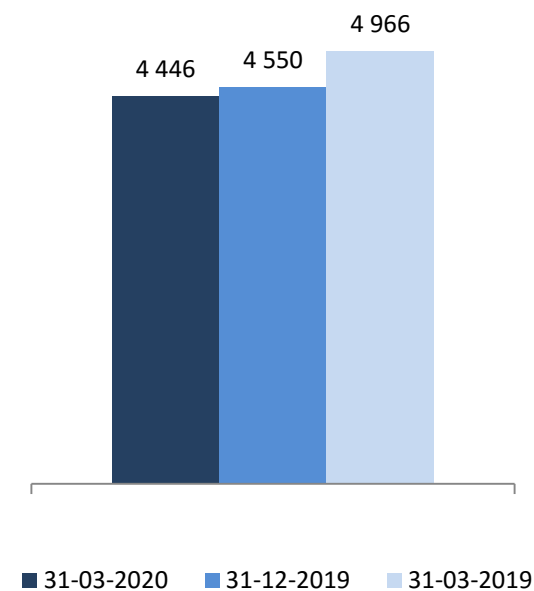
[full time]



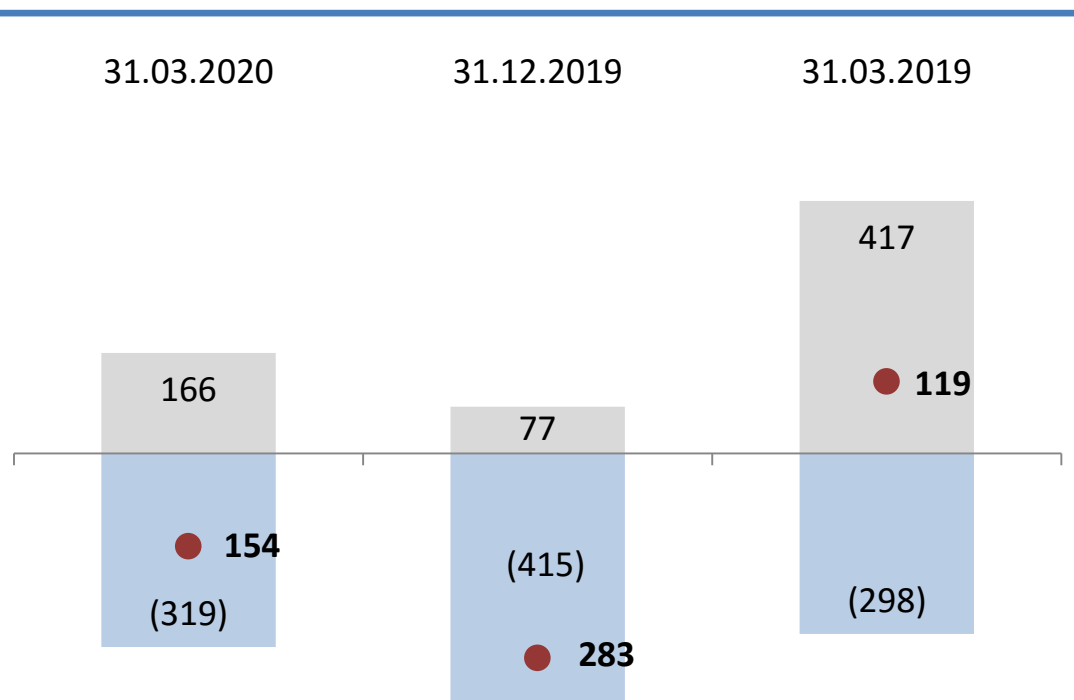
BY SEGMENTS



TOTAL



Net debt [m PLN]



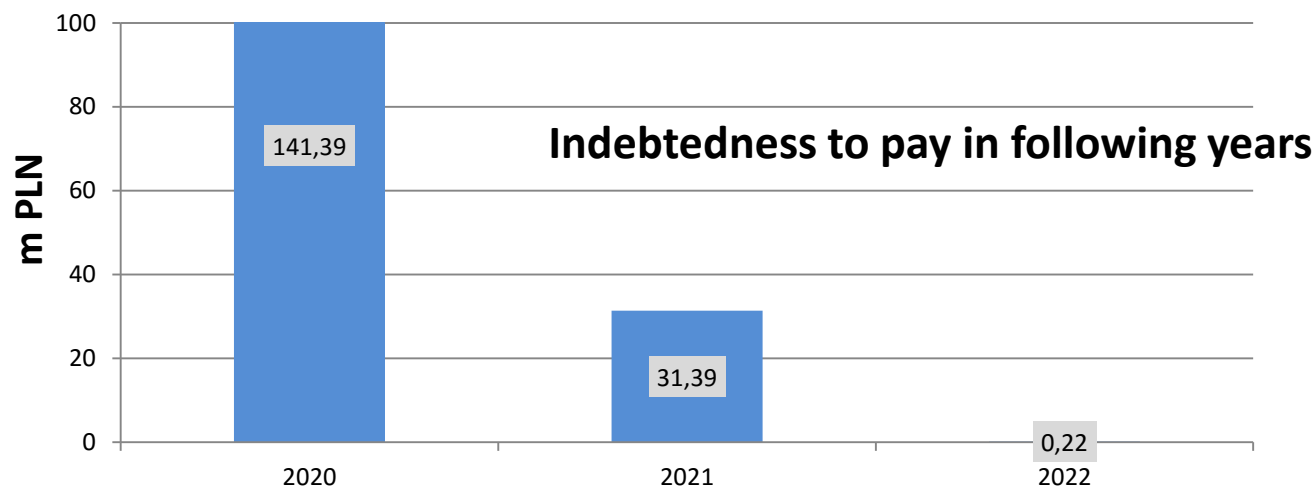
- Cash and cash equivalents⁽¹⁾
- Interest bearing loans, borrowings and leases
- Net debt

Net debt / EBITDA

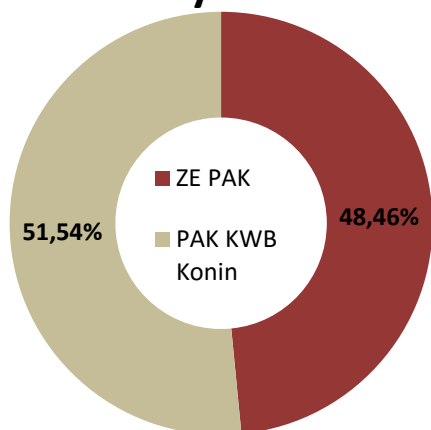
31.03.2020	(0,46)
31.12.2019	(0,86)
31.03.2019	1,04

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

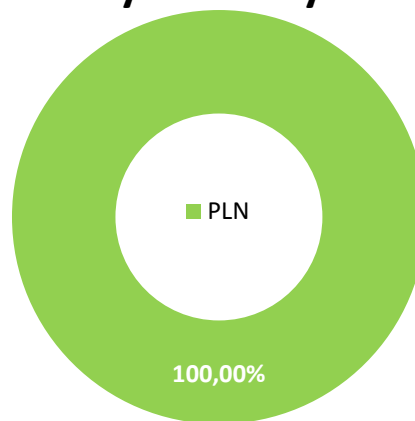
Financial indebtedness structure (1)



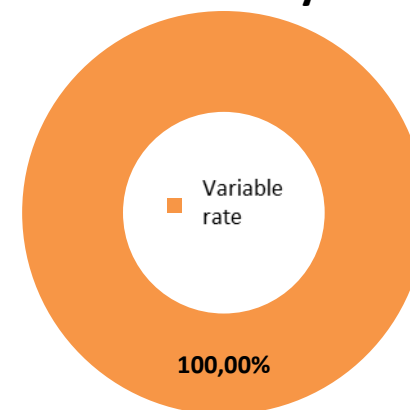
Indebtedness structure by debtor



Indebtedness structure by currency



Indebtedness structure by rate



Consolidated cash flow

[m PLN]



	1Q 2020	1Q 2019	
Gross profit (loss)	(6)	28	(1) Lower depreciation as a result of impairment losses on property, plant and equipment made at the end of 2019
Depreciation and amortisation ⁽¹⁾	37	47	
Profit/loss on investing and financial activities	4	1	
Changes in working capital	139	158	(2) Increase in deferred tax as a result of not creating an asset for tax losses
Income tax ⁽²⁾	23	(6)	
Purchase of EUA ⁽³⁾	(372)	(260)	(3) Higher expenses related to the settlement of forward transactions for the purchase of CO2 emission allowances as a result of higher emission costs in 2019 compared to 2018
other	(2)	0	
Net cash flow from operational activities	(185)	(31)	
(inflows/outflows) of investments in property, plant and equipment and intangible assets	(2)	(14)	(4) Loan inflows relate entirely to revolving working capital loans to finance current liquidity needs
Other inflows and expenses	4	18	
Net cash flow from investing activities	2	3	(5) Small loan installments are the result of paying off all investment loans in 2019
Inflows of credits, loans, leases and securities ⁽⁴⁾	94	71	
Payment of credits, loans, leases and securities ⁽⁵⁾	(8)	(77)	
Interest paid	(1)	(4)	
Other	(0)	(0)	
Net cash flow from financial activities	86	(10)	
Change in cash and cash equivalents	(97)	(38)	
Change in cash and cash equivalents	415	303	
Cash and cash equivalents at the end of the period	318	265	

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