



25 November 2020

Zespół Elektrowni Pątnów-Adamów-Konin SA

3Q 2020 Results



ZE PAK Group – 9M 2020 summary



Key operational and financial data	9M 2020	Change y/y
Sale of electricity:	4.87 TWh	-31.31%
• Electricity from own production:	3.58 TWh	-12.90%
• Electricity from resale:	1.29 TWh	-56.71%
Achieved average electricity sale price:	275.89 zł/MWh	2.42%
Sale revenues:	1 605 mln zł	-25.59%
EBITDA:	130 mln zł	-52.21%
Net result:	(251) mln zł	-
CAPEX:	25 mln zł	19.05%
Indebtedness:	53 mln zł	-73.89%
Cash ⁽¹⁾ :	436 mln zł	14.14%
Net debt / EBITDA:	-1.53 x	111.94%

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

ZE PAK Group – 3Q 2020 summary



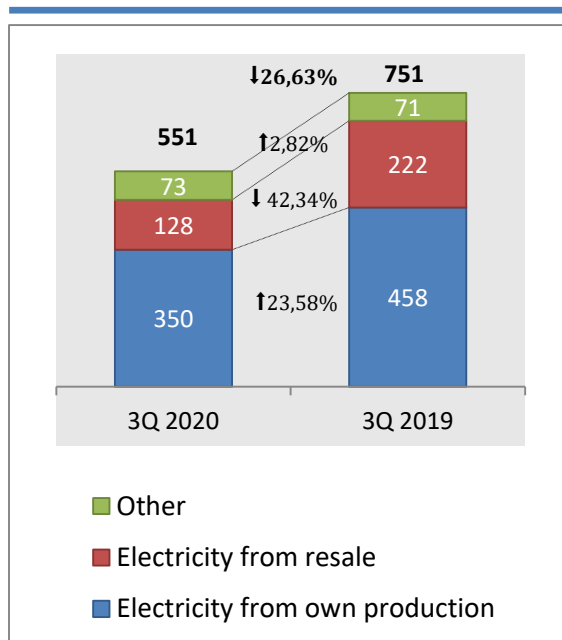
Key operational and financial data	3Q 2020	Change y/y
Sale of electricity:	1.75 TWh	-28.86%
• Electricity from own production:	1.27 TWh	-20.63%
• Electricity from resale:	0.48 TWh	-44.19%
Achieved average electricity sale price:	273.75 zł/MWh	-1.06%
Sale revenues:	555 mln zł	-26.10%
EBITDA:	69 mln zł	-36.70%
Net result:	10 mln zł	-71.43%
CAPEX:	19 mln zł	533.33%

ZE PAK Group – 3Q 2020 summary

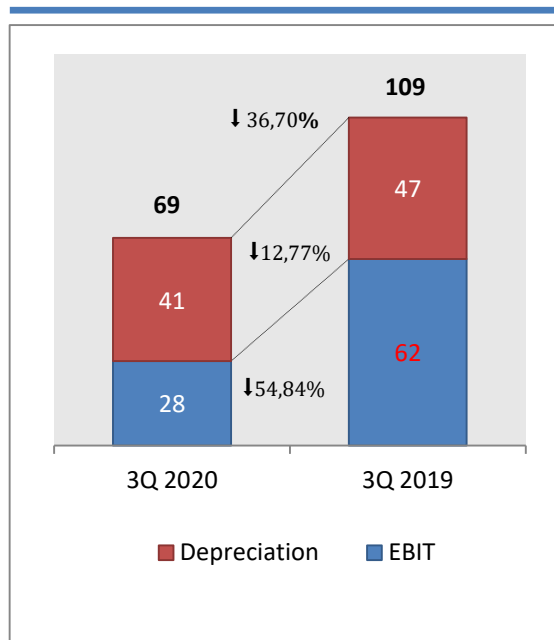
[m PLN]



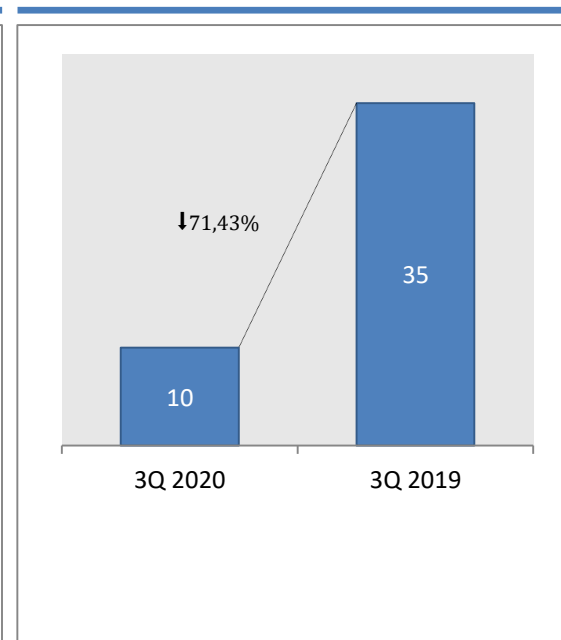
Revenues



EBITDA



Net result

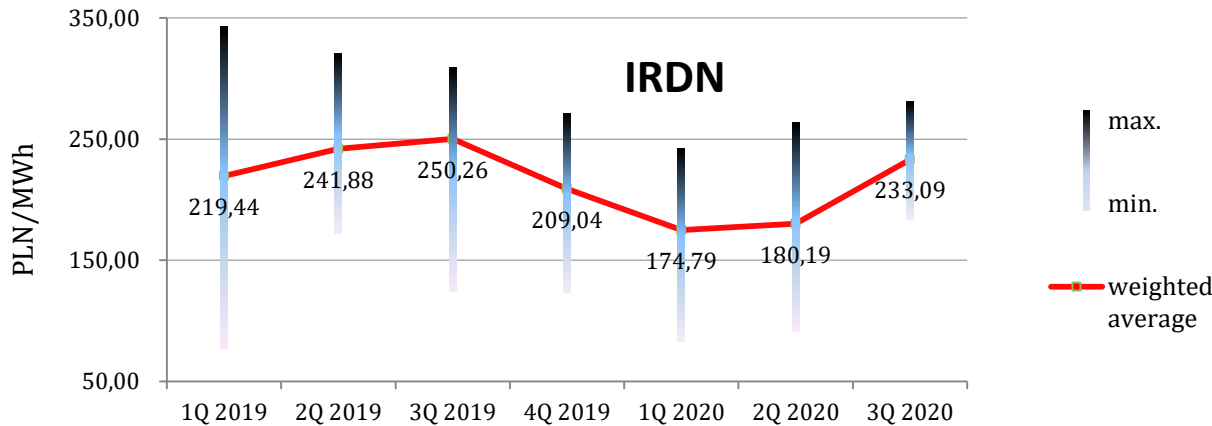


The lower revenues of the ZE PAK SA Group in the third quarter of 2020 compared to the comparable period of the previous year resulted mainly from the decrease in the volume of electricity sales from own production and trade. Similarly to the previous quarters of this year, the financial result was still negatively affected by restrictions imposed on the economy due to the state of the pandemic, as well as worse relations between the quoted prices of electricity and carbon dioxide emission allowances. However, each subsequent quarter of the current year is better than the previous one, both in terms of operation and the recorded financial results, in line with this tendency, the third quarter was the best quarter this year in both categories so far.

SELECTED ELECTRICITY MARKED DATA

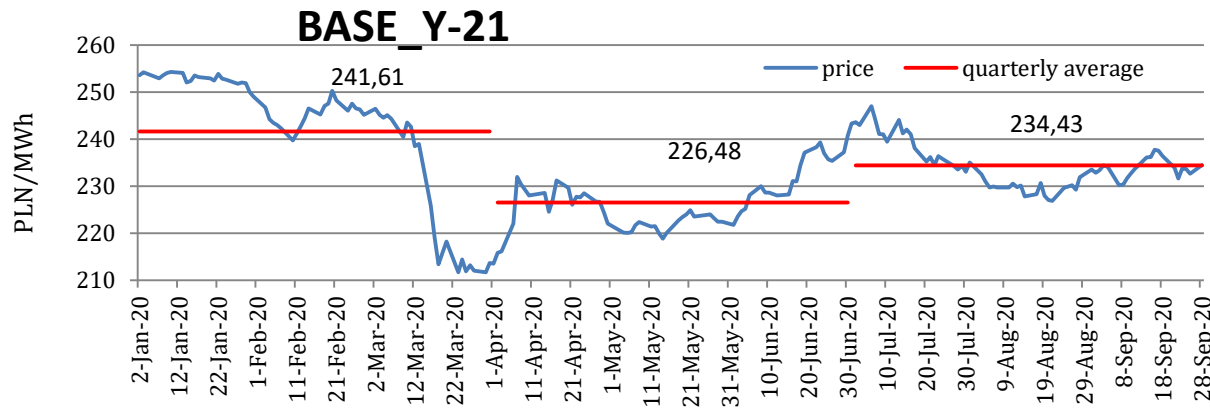


Electricity prices



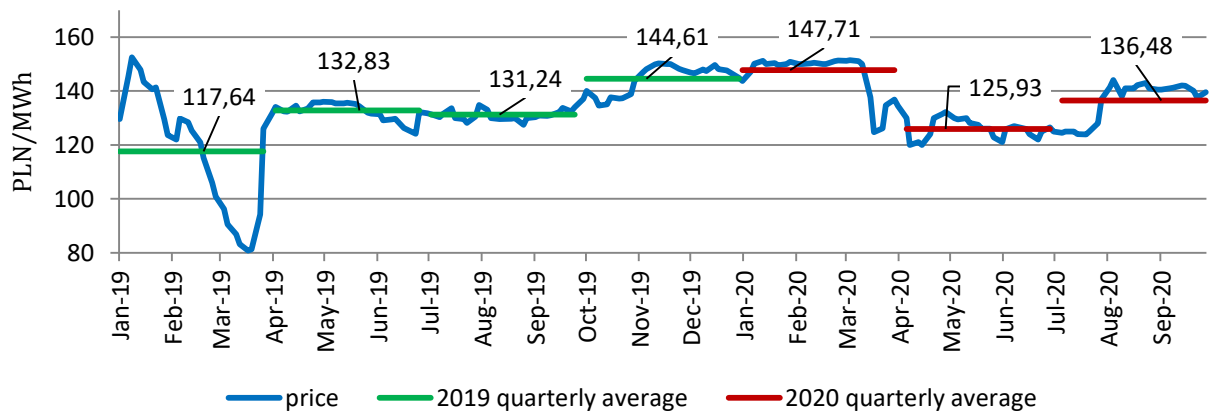
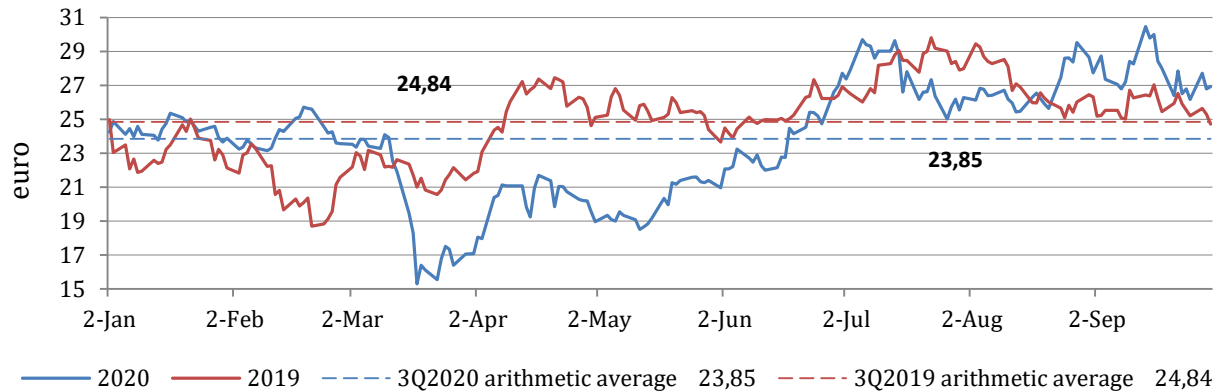
The decline in electricity prices on the TGE SA day-ahead market was deepened as a result of the COVID-19 pandemic, the effects of which were visible on all commodity and financial markets from March 16, 2020 (including electricity markets and CO2 emission allowances markets). The third quarter of 2020 on the day-ahead market of Towarowa Giełda Energii SA was characterized by an upward price trend, which may be associated with the gradual easing of restrictions imposed on the economy, resulting in an improvement in GDP dynamics and energy demand.

The weighted average price (IRDN) in the third quarter of 2020 was PLN 233.09 / MWh, i.e. lower by PLN 17.17, i.e. 6.86% than in the third quarter of 2019.



On the electricity futures market of Towarowa Giełda Energii SA, prices on the BASE_Y-21 reference forward contract decreased dynamically at the end of Q1 2020, which may be related to the COVID19 pandemic. For the better part of the second quarter, changes in contract prices were not significant, only in June a clear upward trend emerged. In turn, the third quarter of 2020 was characterized by a slight decline in July and stabilization in August and September. The arithmetic mean of daily clearing rates for the BASE_Y-21 contract in the nine-month period of 2020 was successively in the first quarter at PLN 241.61 / MWh, in the second quarter PLN 226.48 / MWh, and in the third quarter PLN 234.43 / MWh.

EUA and green certificates



The third quarter of 2020 began with very strong increases in the prices of EUA allowances. The key event for the EUA allowances market in September was the announcement of the new EU reduction target for 2030, amounting to a 55% reduction in emissions compared to 1990. Therefore, the prices of EUA allowances quickly rose from around 27 EUR to record levels - around 30.5 euro. Later, however, as a result of investor profit-taking and fears of a second wave of the pandemic, prices returned to 27 euro. The arithmetic average of the EUA quotations over the nine months of 2020 was EUR 23.85, while in the same nine months of 2019, EUR 24.84, which means a decrease by EUR 0.99.

The drop in the prices of green certificates in the first quarter of 2020 was caused by the reduced activity of the economy and the unstable market caused by the pandemic. During the summer, the economic situation surrounding the pandemic stabilized somewhat and prices started to gradually increase in August. The weighted average price of green certificates in session transactions on TGE SA in the third quarter of 2020 was 136.48 PLN / MWh, which means an increase by 5.24 PLN / MWh, i.e. by 3.99% compared to the third quarter 2019 and an increase compared to the second quarter of 2020. In 2020, the obligation to redeem green certificates increased from 18.5% in 2019 to 19.5% in 2020. According to the draft regulation, this obligation will also remain at the same level in 2021. An additional factor influencing the price level is the continuing huge oversupply, reaching 21.7 TWh at the end of the first half of 2020. In addition, the increase in the prices of green certificates on the Polish Power Exchange may be affected by the inability to fulfill this obligation by the obligated entities through the so-called substitute fee (information from the President of ERO 10/2020).

OPERATIONAL DATA

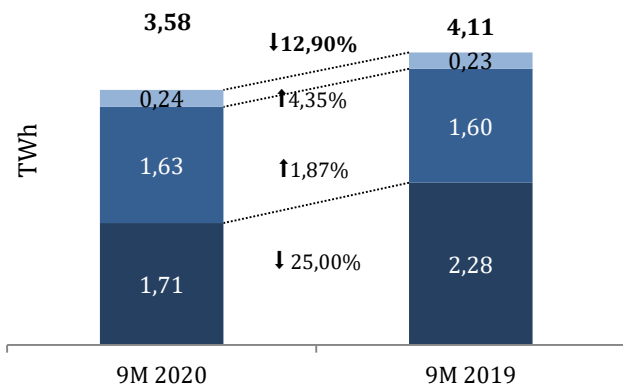


Net production and sale of electricity

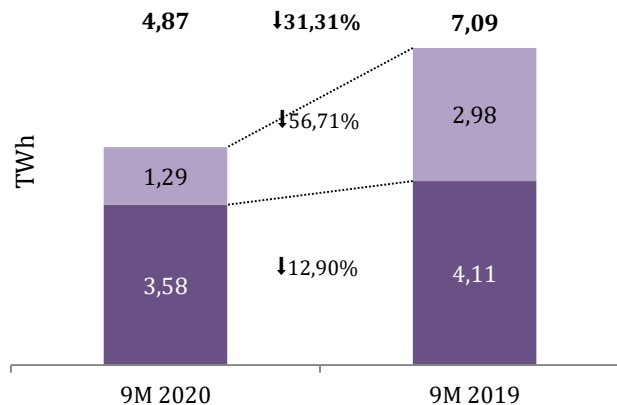
[TWh]



NET PRODUCTION

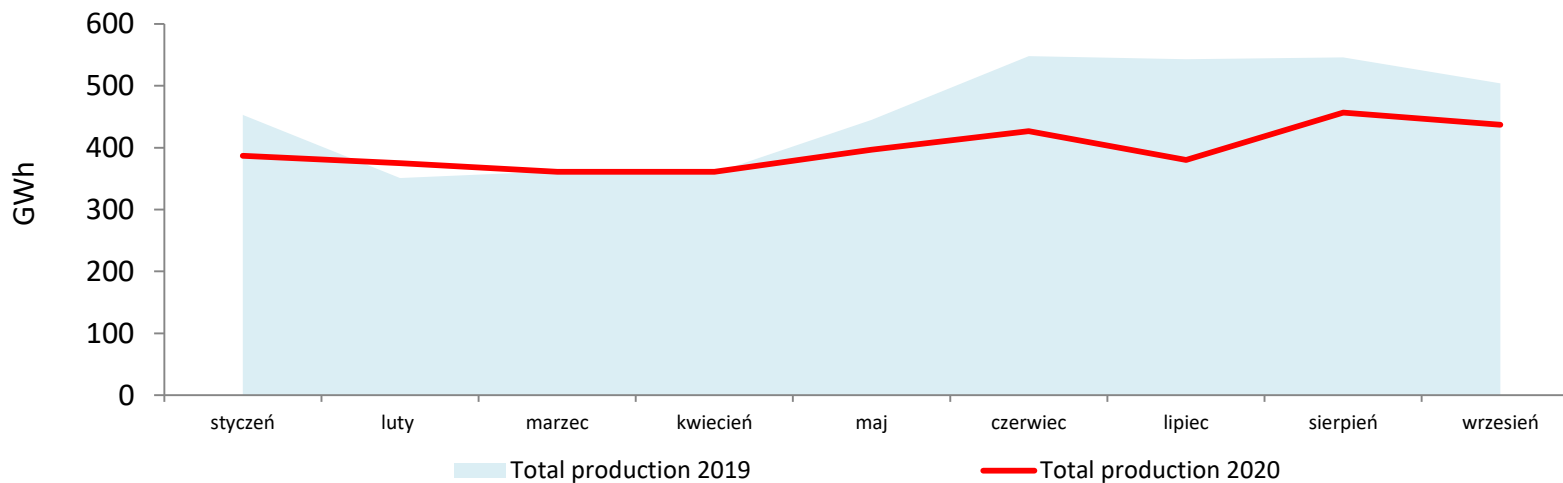


SALE



■ Pałnów I ■ Pałnów II ■ Konin

■ Own production ■ Resale

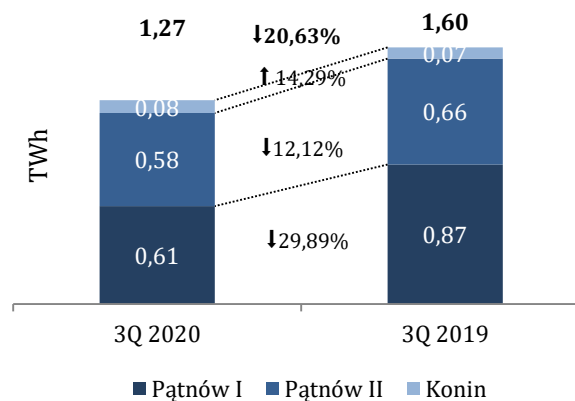
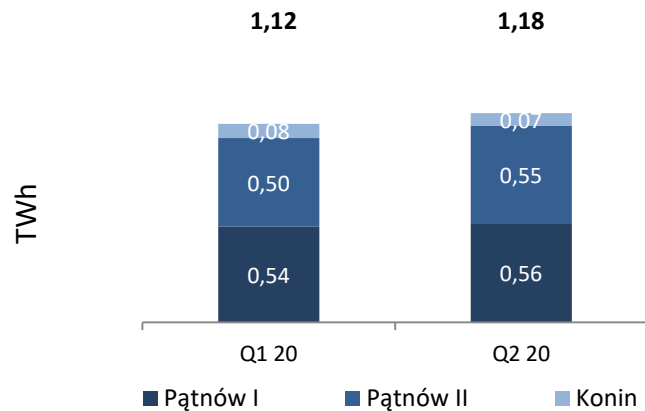


Quarterly net production and sale of electricity

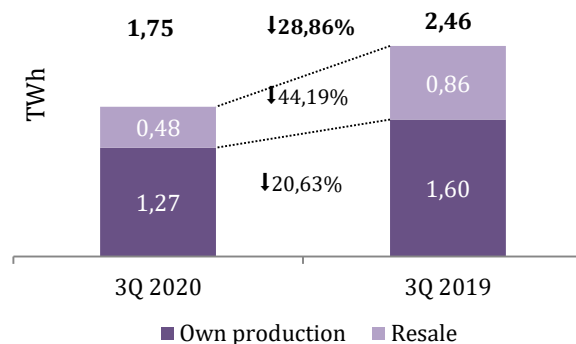
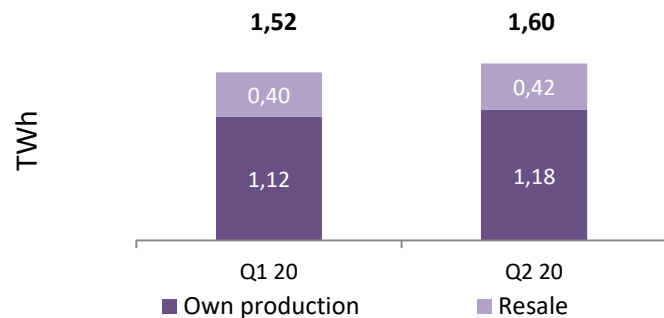
[TWh]



NET PRODUCTION



SALE



Lignite consumption and CO₂ emission

[m tons]

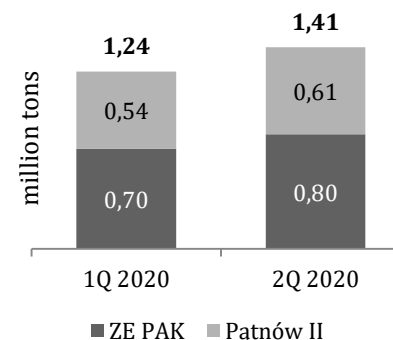
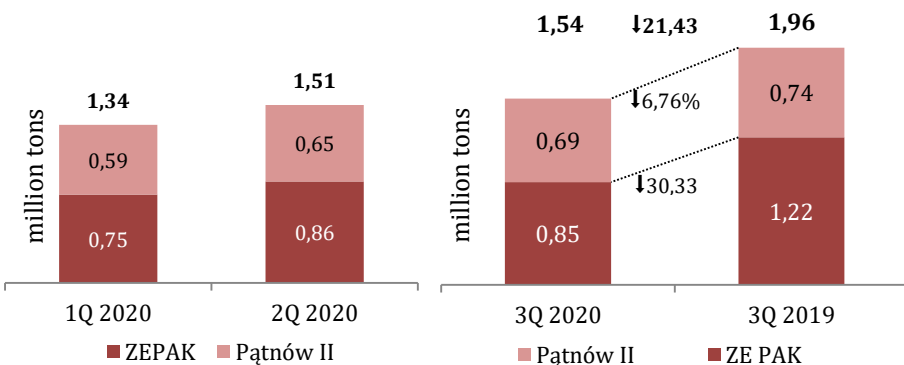
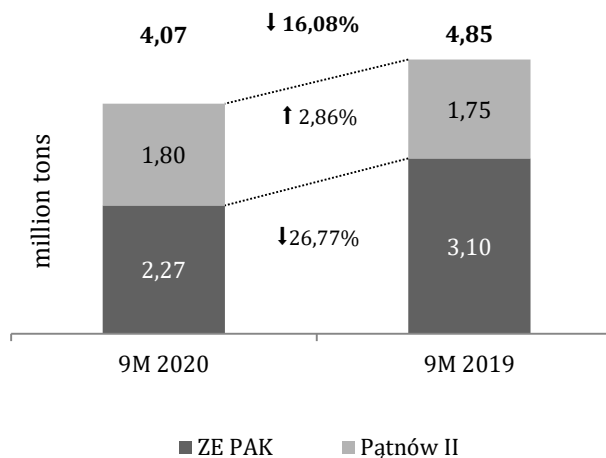
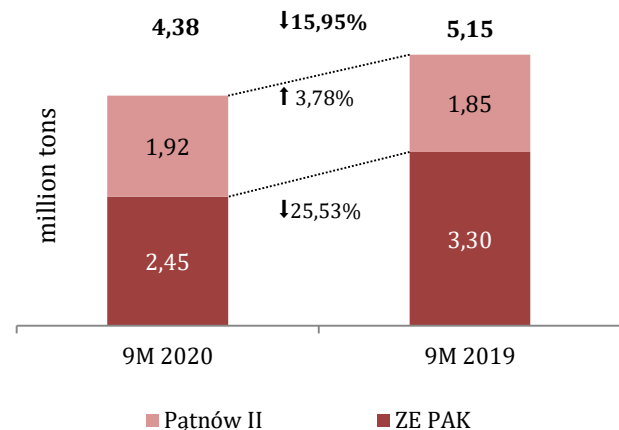


LIGNITE CONSUMPTION

CO₂ EMISION

Data on coal consumption and CO₂ emissions both in the nine months of 2020 and in Q3 2020 alone show a decrease in coal consumption and lower emissions, which results from lower volumes of generated energy compared to the corresponding periods of the previous year.

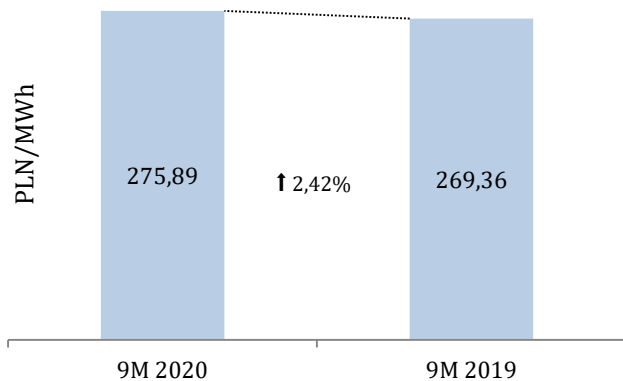
The Group purchases almost all emission allowances on the market. The amount of free allowances used both in Q3 2020 and 2019 did not exceed 1% of the total amount of allowances.



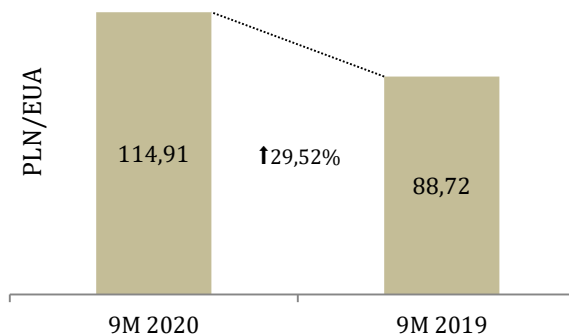
Average prices of electricity and CO₂ emission allowances purchase



Electricity prices¹⁾

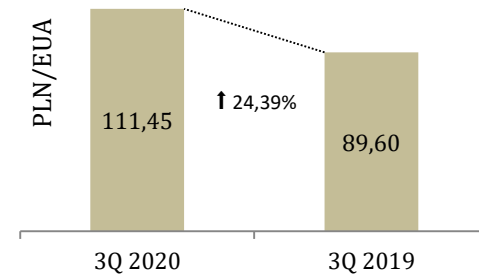
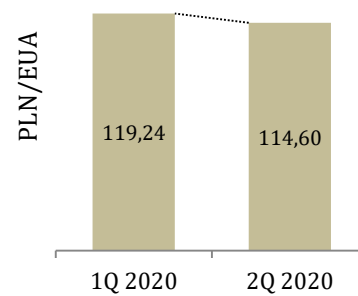
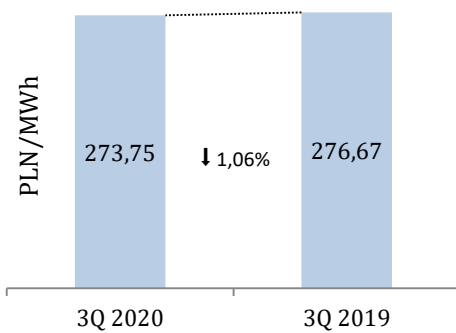
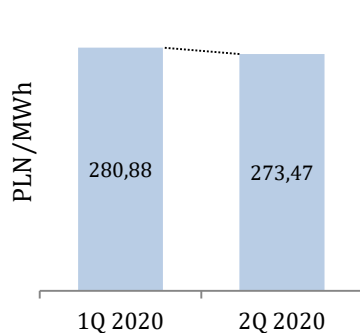


Prices of CO₂ emission allowances purchase (EUA)²⁾



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.

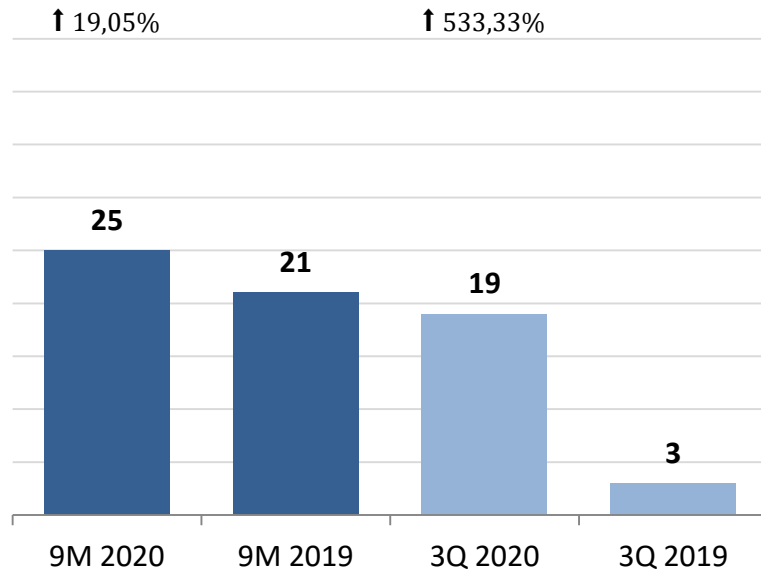


Capex on fixed assets and intangible assets

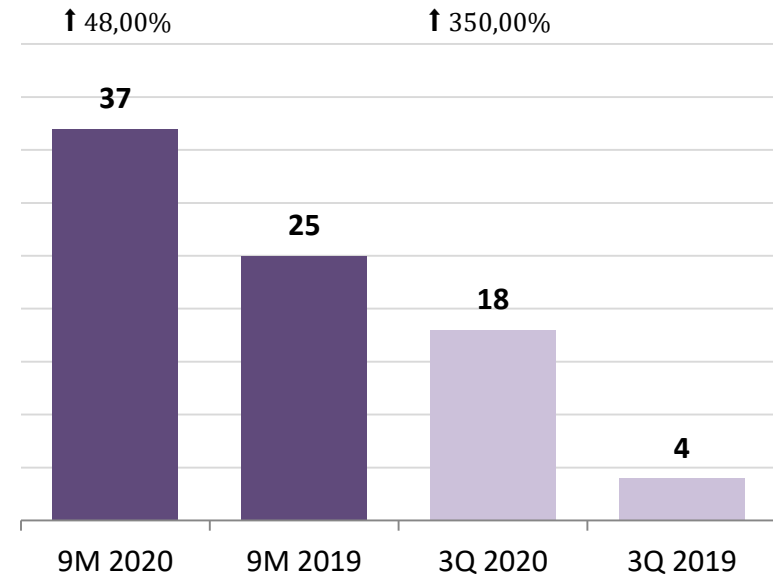
(excluding CO₂)



CAPEX [m PLN]



EXPENDITURES [m PLN]



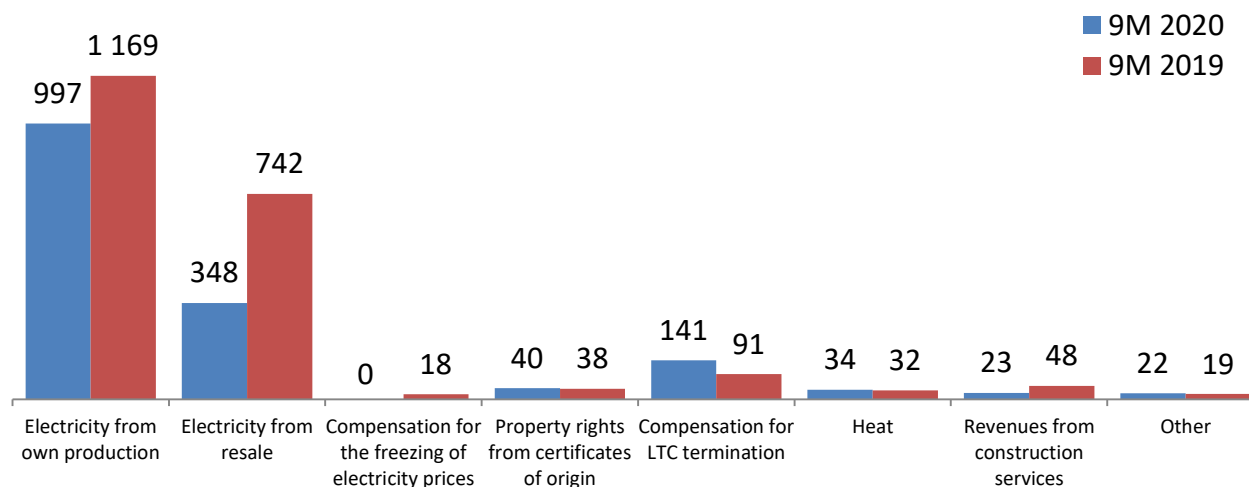
In 2020, ZE PAK SA Group started the implementation of two large investment projects, which are: (1) adaptation of K-7 coal boiler at Konin power plant for the exclusive combustion of biomass with the necessary technical infrastructure and (2) construction of a photovoltaic farm with a rated capacity of approx. 70MWp in Brudzew commune. Moreover, the investment activity also focused on the implementation of the necessary tasks aimed at ensuring the maintenance of current efficiency and more effective use of the mining and generation assets held.

FINANCIAL DATA



Revenues

[m PLN]



Lower total revenues from the sale of electricity:

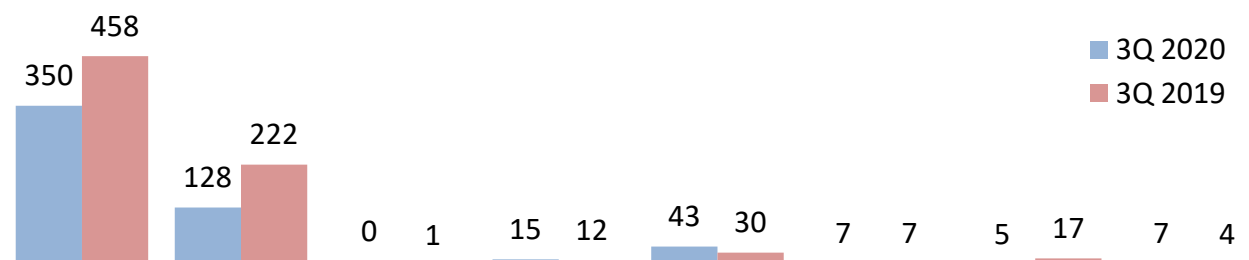
- Lower volume of electricity from own production
- Lower volume of electricity from resale.

Increase in revenues from the sale of property rights from energy origin certificates as a result of the higher green energy production volume and higher certificate prices.

Higher LTC revenues are due to the deterioration of the market situation in terms of the relation between energy prices and emission allowances, and lower profit on electricity trading.

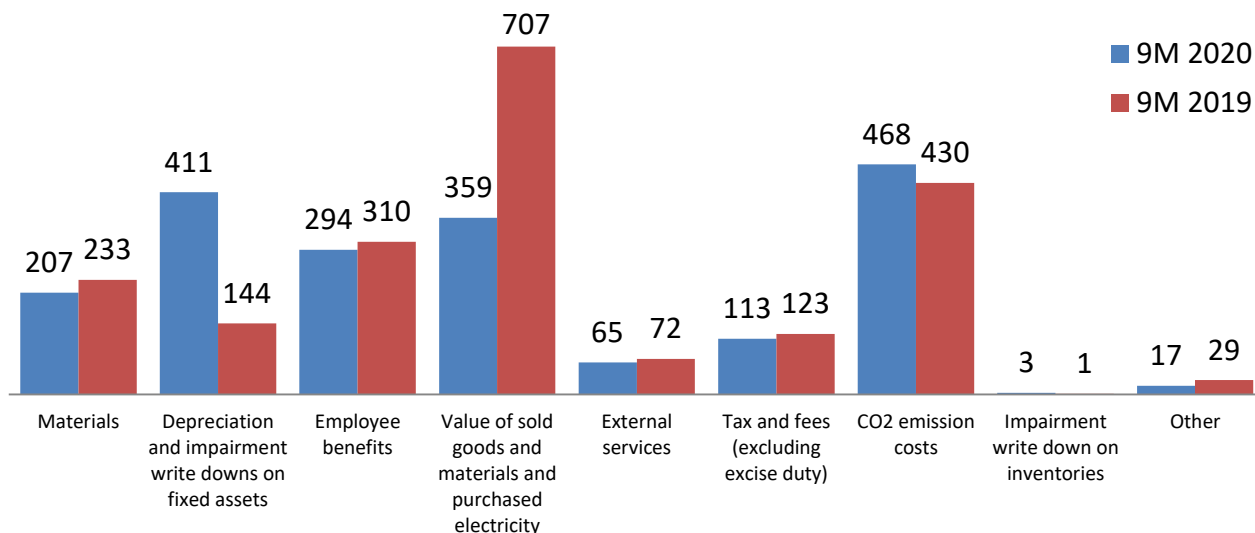
Increase in revenues from the sale of heat despite a decrease in the sales volume due to the higher price for heat.

The decline in revenues from construction contracts in the analyzed period was related to the implementation of projects with smaller material and financial scope for external recipients by a company from the renovation segment.



Costs by type

[m PLN]



Lower consumption costs of materials are the result of a lower volume of own energy sales, and they include lower consumption of materials and fuel used for energy production.

Lower depreciation as a result of the impairment write-offs made at the end of 2019 and mid-2020, plus impairment losses on non-current assets as a result of the tests carried out as at June 30, 2020.

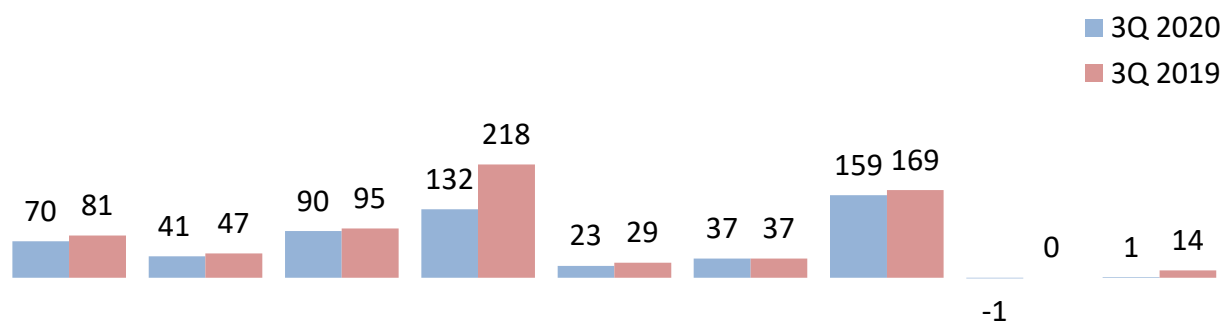
Lower costs of employee benefits as a result of lower average employment.

Lower value of goods and materials sold - caused by a smaller amount of purchased electricity intended for trading.

The lower taxes and fees are mainly the result of lower fees paid in mines for the use of land excluded from agricultural and forestry production.

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

Lower other costs are due to lower payments for mining damage.



EBITDA 9M 2020

[m PLN]



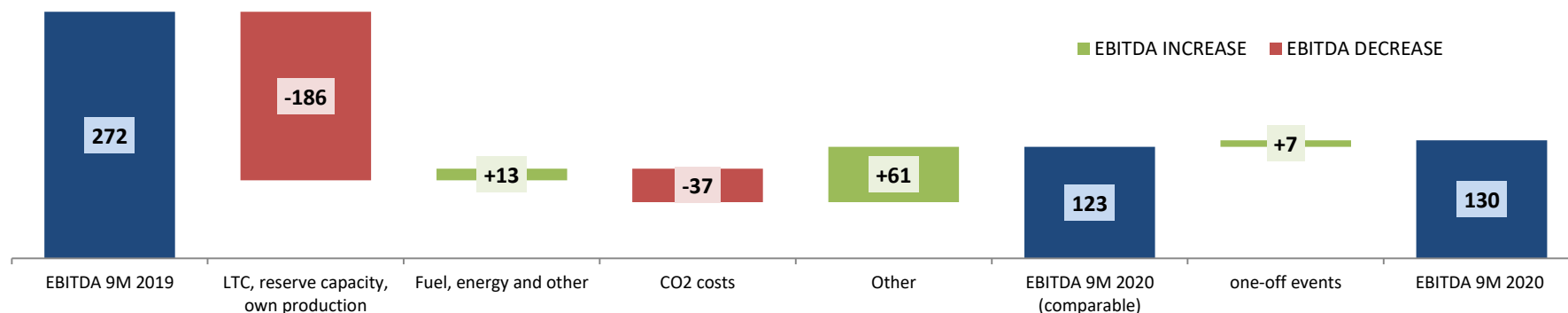
	9M 2020	9M 2019
Sale revenues	1 605	2 157
Change %	(25,59)%	
Costs of goods sold	(1 825)	(1 951)
Gross profit	(220)	206
Margin %	(13,71)%	9,55%
Other operating revenues	63	13
Selling and distribution expenses	(3)	(3)
Administrative expenses	(84)	(81)
Other operating expenses	(38)	(7)
EBITDA⁽¹⁾	130	272
Margin %	8,10%	12,61%
EBIT	(280)	128
Margin %	(17,45)%	5,93%

(1) EBITDA lower by 142 m PLN (-52,21%) -> after bringing to comparability lower by **123 m PLN (-54,78%)**

comparable EBITDA for 9M 2020 was PLN 123 m -> the value of PLN 130 m is the effect of events related to the shortening of the operating period of Pątnów I and Pątnów II power plants and coal extraction in PAK KWB Adamów as well as revenues obtained from the shield and demolition of Adamów power plant

- (-186) lower result on the trade, lower revenues from own energy, lower revenues from system services and power reserves, higher revenues from LTCs, higher revenues from certificates, higher revenues from heat
- (+13) lower biomass costs, higher energy costs (in mines), lower costs of other fuels and materials (mazout, heating oil, sorbent), lower costs of substitute coal
- (-37) higher costs of CO₂ emissions
- (+61) lower costs of employee benefits, lower costs of other materials and external services, lower payments for mining damage, lower costs of taxes and fees, lower other costs, lower revenues from construction services, lower result on other operating activities

EBITDA changes

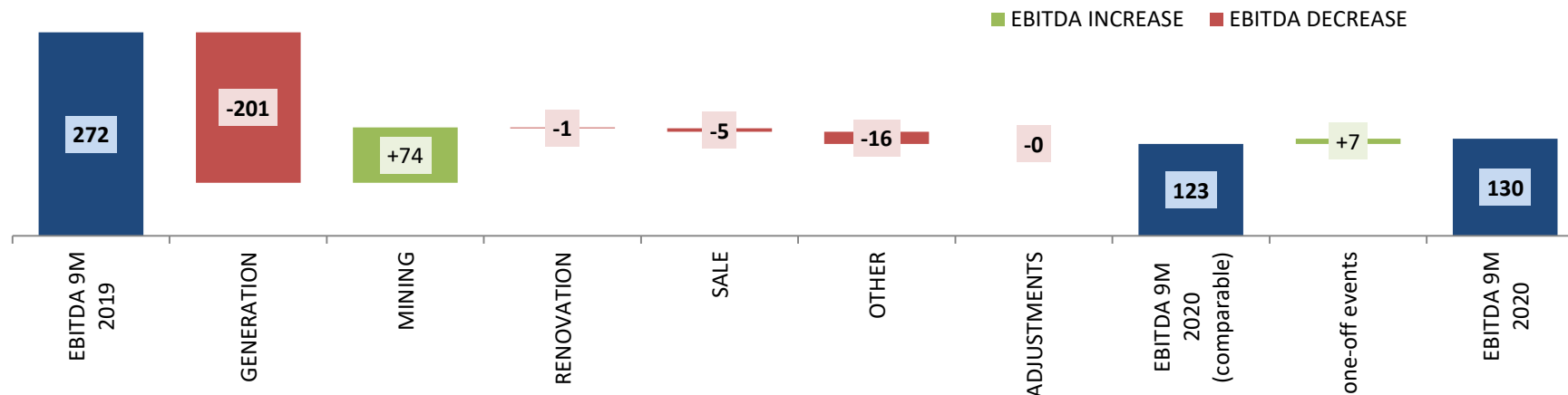


EBITDA 9M 2020 by segments

[m PLN]



EBITDA changes



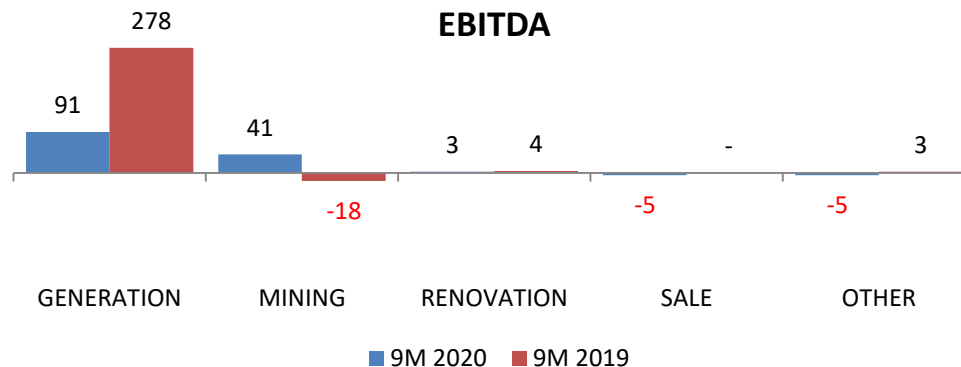
Main reasons for EBITDA changes in segments:

Generation:

- lower result on the trade, lower revenues from own energy, lower revenues from system services and power reserves, higher revenues from LTCs, higher revenues from certificates, higher revenues from heat
- lower costs of coal and biomass, lower costs of other fuels and materials (mazout, heating oil, sorbent)
- higher costs of CO2 emission allowances
- higher result on other operating activities, higher costs of employee benefits, lower costs of other materials and external services, similar costs of taxes and fees

Mining:

- Lower revenues from the sale of coal
- Higher costs of electricity
- lower costs of employee benefits, lower payments for mining damage, lower taxes and fees, lower costs of materials and lower other costs



Consolidated P&L for 9M 2020 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	1 274	4	32	292	3	-	1 605
<i>External sale revenues %</i>	<i>95,29%</i>	<i>1,02%</i>	<i>31,07%</i>	<i>100,00%</i>	<i>2,38%</i>	<i>0,00%</i>	<i>100,00%</i>
Sale revenues between segments	63	390	71	-	123	(647)	-
Sale revenue	1 337	394	103	292	126	(647)	1 605
Cost of goods sold	(1 451)	(496)	(93)	(297)	(137)	650	(1 825)
Gross profit (loss)	(114)	(102)	10	(5)	(12)	3	(220)
<i>Margin %</i>	<i>(8,53)%</i>	<i>(25,89)%</i>	<i>9,71%</i>	<i>(1,71)%</i>	<i>(9,52)%</i>	<i>(0,46)%</i>	<i>(13,71)%</i>
EBITDA	91	41	3	(6)	(5)	5	130
<i>Margin %</i>	<i>6,81%</i>	<i>10,41%</i>	<i>2,91%</i>	<i>(2,05)%</i>	<i>(3,97)%</i>	<i>(0,77)%</i>	<i>8,10%</i>
EBIT	(139)	(131)	1	(6)	(8)	3	(280)
<i>Margin %</i>	<i>(10,40)%</i>	<i>(33,25)%</i>	<i>0,97%</i>	<i>(2,05)%</i>	<i>(6,35)%</i>	<i>(0,46)%</i>	<i>(17,45)%</i>
Net profit (loss)	(99)	(141)	2	(7)	(12)	7	(251)
<i>Margin %</i>	<i>(7,40)%</i>	<i>(35,79)%</i>	<i>1,94%</i>	<i>(2,40)%</i>	<i>(9,52)%</i>	<i>(1,08)%</i>	<i>(15,64)%</i>

EBITDA 3Q 2020

[m PLN]



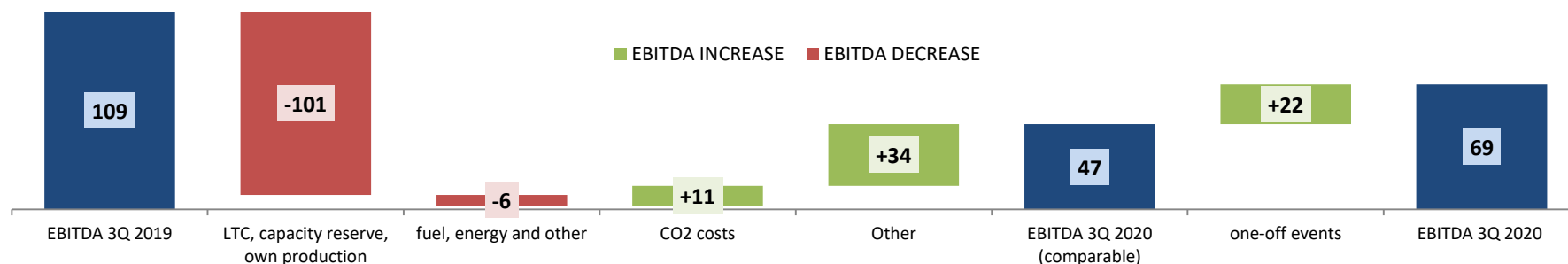
	3Q 2020	3Q 2019
Sale revenues	555	751
<i>Change %</i>	<i>(26,10)%</i>	
Costs of goods sold	(519)	(663)
Gross profit	36	89
<i>Margin %</i>	<i>6,49%</i>	<i>11,85%</i>
Other operating revenues	27	-
Selling and distribution expenses	(1)	(1)
Administrative expenses	(32)	(26)
Other operating expenses	(2)	(1)
EBITDA⁽¹⁾	69	109
<i>Margin %</i>	<i>12,43%</i>	<i>14,51%</i>
EBIT	28	62
<i>Margin %</i>	<i>5,05%</i>	<i>8,26%</i>

(1) EBITDA lower by PLN 40 m (-36.70%) -> after bringing to comparability lower by **PLN 62 m (-56.88%)**

comparable EBITDA for 3Q 2020 was PLN 47 m -> the amount of PLN 69 m is the effect of revenues obtained from the shield and demolition of Adamów power plant

- (-101) higher revenues from LTCs, higher revenues from certificates, higher revenues from heat, lower revenues from own energy, lower revenues from system services and power reserves, and lower result achieved on trade
- (-6) higher biomass costs, higher energy costs (in mines), lower costs of other fuels and materials (mazout, heating oil, sorbent), lower costs of substitute coal
- (+11) lower costs of CO₂ emission
- (+34) lower costs of employee benefits, lower external services and other materials, lower payments for mining damage, lower costs of taxes and fees, lower revenues from construction services and other, positive result on other operating activities

EBITDA changes

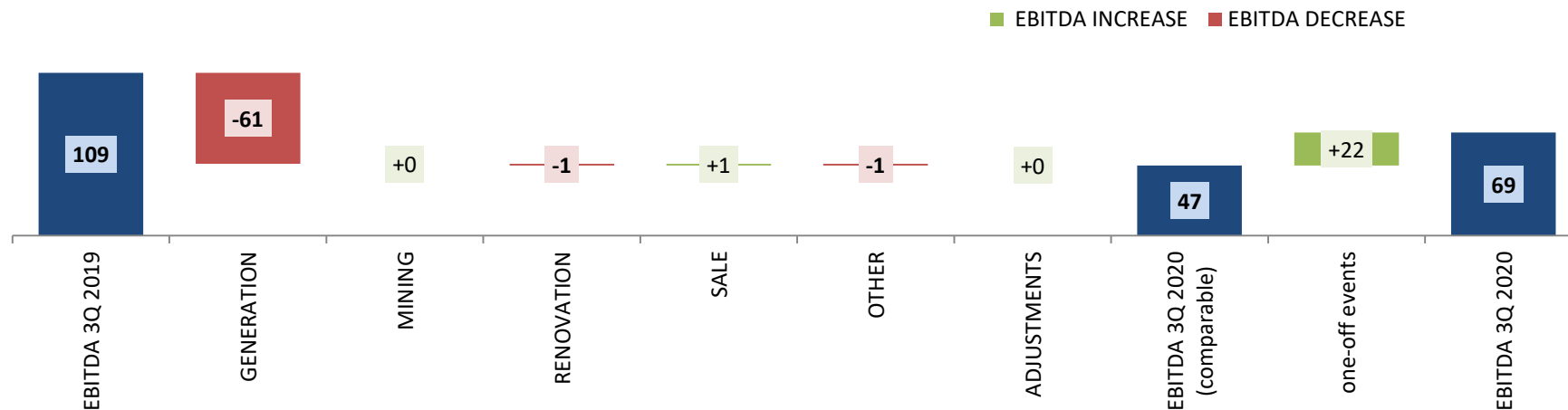


EBITDA 3Q 2020 by segments

[m PLN]



EBITDA changes



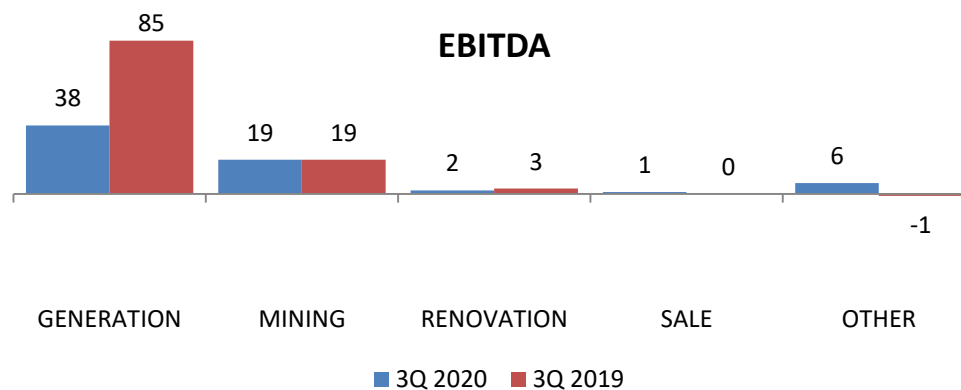
Main reasons of EBITDA changes in segments:

Generation:

- lower revenues from own energy, lower revenues from system services and power reserves, lower sales result, higher revenues from LTCs, higher revenues from certificates and higher revenues from heat
- lower costs of coal, lower costs of other fuels and materials (mazout, heating oil, sorbent), higher costs of biomass
- Lower costs of CO₂ emission allowances
- similar costs of employee benefits, similar costs of taxes and fees, higher external services

Mining:

- Lower revenues from the sale of coal
- Higher costs of electricity
- lower costs of employee benefits, lower payments for mining damages, lower taxes and fees, similar costs of other materials



Consolidated P&L for 3Q 2020 by segments



m PLN	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Sale revenues from external customers	445	1	8	100	1	-	555
<i>External sale revenues %</i>	<i>95,70%</i>	<i>0,72%</i>	<i>24,24%</i>	<i>100,00%</i>	<i>2,44%</i>	<i>0,00%</i>	<i>100,00%</i>
Sale revenues between segments	20	137	26	-	40	(223)	-
Sale revenue	465	138	33	100	41	(223)	555
Cost of goods sold	(458)	(114)	(28)	(101)	(42)	224	(519)
Gross profit (loss)	7	24	5	(1)	(1)	2	36
<i>Margin %</i>	<i>1,51%</i>	<i>17,39%</i>	<i>15,15%</i>	<i>(1,00)%</i>	<i>(2,44)%</i>	<i>(0,90)%</i>	<i>6,49%</i>
EBITDA	38	19	2	1	6	2	69
<i>Margin %</i>	<i>8,17%</i>	<i>13,77%</i>	<i>6,06%</i>	<i>1,00%</i>	<i>14,63%</i>	<i>(0,90)%</i>	<i>12,43%</i>
EBIT	9	10	2	1	5	2	28
<i>Margin %</i>	<i>1,94%</i>	<i>7,25%</i>	<i>6,06%</i>	<i>1,00%</i>	<i>12,20%</i>	<i>(0,90)%</i>	<i>5,05%</i>
Net profit (loss)	2	3	1	(2)	1	5	10
<i>Margin %</i>	<i>0,43%</i>	<i>2,17%</i>	<i>3,03%</i>	<i>(2,00)%</i>	<i>2,44%</i>	<i>(2,24)%</i>	<i>1,80%</i>

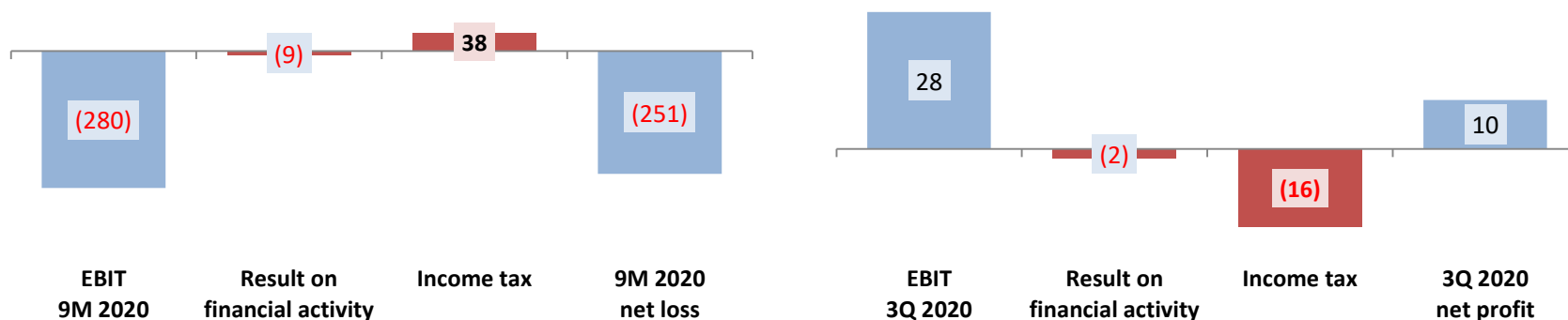
Financial activities, taxation and net profit

[m PLN]



	9M 2020	9M 2019	3Q 2020	3Q 2019
EBIT	(280)	128	28	62
Financial income	7	13	1	5
Financial costs	(15)	(20)	(3)	(7)
Gross profit (loss)	(288)	121	26	59
Income tax (tax overload)	38	(49)	(16)	(24)
<i>Effective tax rate</i>	<i>13,19%</i>	<i>40,50%</i>	<i>61,54%</i>	<i>40,68%</i>
Net profit (loss) for the period	(251)	72	10	35
<i>Margin %</i>	<i>-15,64%</i>	<i>3,34%</i>	<i>1,80%</i>	<i>4,66%</i>

EBIT --> net profit

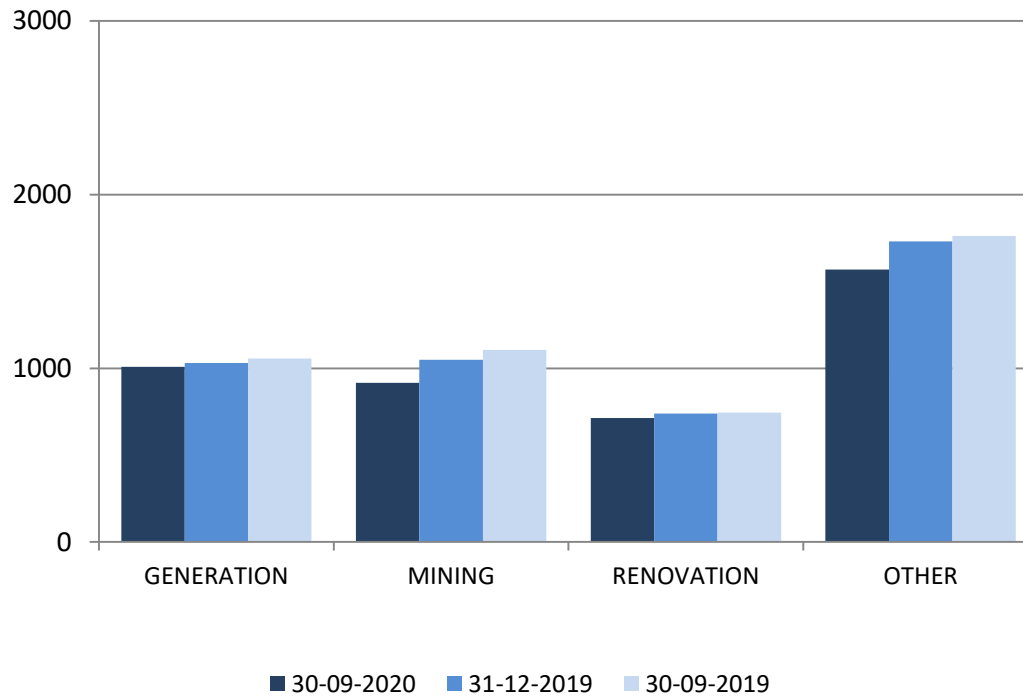


Employment

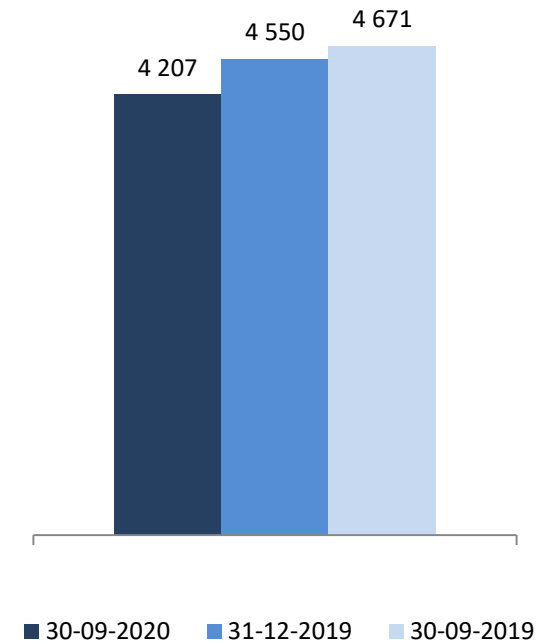
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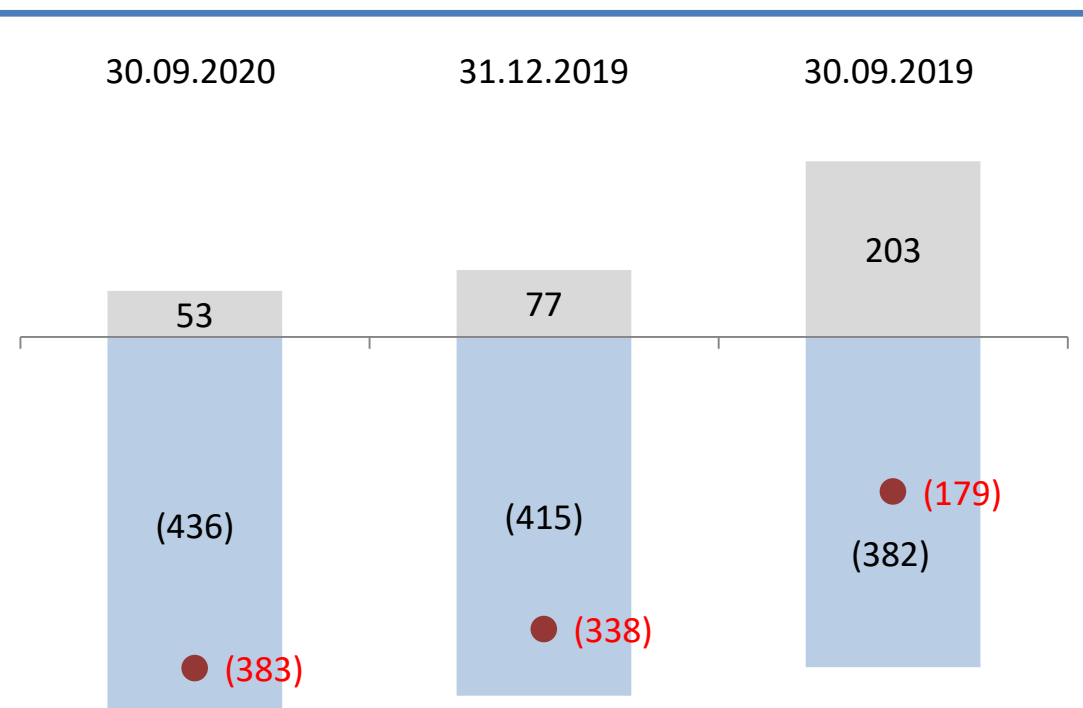
BY SEGMENTS



TOTAL



Net debt [m PLN]



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

Net debt/ EBITDA

30.09.2020	-1,53
31.12.2019	-0,86
30.09.2019	-0,72

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

Consolidated cash flow

[mIn PLN]



	9M 2020	9M 2019	3Q 2020	3Q 2019
Gross profit (loss)	(288)	121	26	59
Depreciation and amortisation ⁽¹⁾	121	143	42	47
Profit/loss on investing and financial activities	(2)	5	3	4
Changes in working capital	462	470	225	203
Income tax ⁽²⁾	31	(12)	(2)	(3)
Purchase of EUA	(526)	(444)	-	(12)
impairment loss on property, plant and equipment and mining assets ⁽³⁾	287	0	(2)	0
Other	(4)	0	(4)	(3)
Net cash flow from operational activities	81	284	288	296
(inflows/outflows) of investments in property, plant and equipment and intangible assets	(37)	(25)	(18)	(4)
Other inflows and expenses	5	46	1	7
Net cash flow from investing activities	(32)	21	(17)	3
Inflows of credits, loans, leases and securities	-	5	(13)	(7)
Payment of credits, loans, leases and securities ⁽⁴⁾	(27)	(223)	(11)	(35)
Interest paid	(2)	(9)	(0)	(6)
Net cash flow from financial activities	(28)	(227)	(24)	(48)
Change in cash and cash equivalents	21	79	246	251
Cash and cash equivalents at the beginning of the period	415	303	189	130
Cash and cash equivalents at the end of the period	435	382	435	382

- (1) Lower depreciation as a result of impairment write-offs made at the end of 2019 and mid-2020
- (2) The increase in deferred tax as a result of not creating a tax loss asset
- (3) Adjustment of the non-cash net amount of an impairment loss on tangible assets as a result of tests as at June 30, 2020
- (4) Small loan installments are the result of the repayment of all investment loans in 2019

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