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Stable sales of Apator Group in H1 2021, strong results in the Water & Heat segment

In the first half of 2021, Apator Group maintains comparable revenues to the previous year, mainly due to high turnover dynamics in the Water & Heat segment.

- **H1 2021 results: comparable sales revenues year to year (PLN 461,9m), with EBITDA of PLN 99,9m (including the effect of the sale of real estate in Poznan PLN +34,1m) and a net profit of PLN 51,2m (result without the sale of real estate: PLN 23,6m).**
- **Strong market recovery in the Water & Heat segment, other segments under pressure from the effects of the pandemic and the current market environment.**
- **Increased export's share in the total turnover of Apator Group compared to H1 2020 by 2.6 pp, to the level of 47.5% of total revenue; main export markets being EU countries (with a dominant market position in: Germany, Belgium, Czech Republic, France) and the United Kingdom.**
- **Maintained safe levels of debt and liquidity, net debt/adjusted LTM EBITDA ratio equaling 0.88x.**
- **Over PLN 39m in profits redistributed to shareholders, out of which 24.6M PLN represented the second tranche of dividends for 2020, paid on August 23, 2021.**

Diversifying activities within three business segments along with a broad product portfolio allows Apator Group to perform well in difficult macroeconomic conditions, including reducing the risks associated with business operations in the face of serious economic instabilities resulting from the current pandemic. In the first half of 2021, Apator Group maintained a stable sales level compared to the corresponding period last year, achieving a turnover of PLN 461,9m, with a comparable year to year adjusted EBITDA, i.e. PLN 66m (including Apator Powogaz SA's sale of real estate in Poznan in H1 2021 in the amount of nearly PLN 100m) and the adjusted net profit of PLN 23.6m (PLN 51.2m in total, including the impact of the aforementioned sale of real estate).

There has been a noticeable market recovery in the water metering industry after the first half of 2021, despite the effects of last year's pandemic resulting from restrictions on the installation of water meters in homes and residential buildings. The Water & Heat segment recorded a significant increase in domestic and export sales (+ 27% YOY), resulting from "revived" investments with housing cooperatives and water utilities. The Electricity and Gas segments, operating on a more centralized market with a sales model mainly based on large public tenders, realized contracts in the first period of the pandemic, which were obtained before the spread of COVID-19. In this case, the lower YOY results in H1 2021 are mainly the consequence of a large sales base in 2020 and the "delayed" effects of the pandemic felt throughout Apator Group, i.e. disruptions in supply chains, especially difficulties in fulfilling orders for key components from Asia (mainly semiconductors).

Poland remains the dominant market for the Group, but for years Apator has been strengthening its position in the EU and Great Britain. After H1 2021, export's share in total sales amounted to 47.5%, with strategic directions being Germany, Great Britain, Belgium, France, and the Czech Republic. Measurement devices from Poland were also delivered to customers in the Ukraine, Russia and Turkey.

The results of individual business segments in the first half of this year are as follows:

- **Electricity segment (EE)** – the decline in domestic sales was partially offset by an increase in export (+18% YOY). Lower domestic turnover mainly concerned the electricity metering line and was related to a smaller backlog (large sales base resulting from last year's deliveries of meters related to the Capacity Market Act) as well as globally limited component availability. At the same time, the second largest EE line - switchgear - recorded an increase in domestic revenues (+15% YOY), while maintaining high export dynamics (+17% YOY). Higher turnover (+22%

YOY) and improved sales dynamics also applied to the control and supervision systems line (with the largest sales increase in hardware and software development). Presently there is a gradual rebuilding of revenue in the ICT line - implementation projects and maintenance services recorded higher YOY sales.

- **Gas segment** – high domestic sales (+14% YOY) mainly thanks to the realization of the tender for PSG, with lower exports (-15% YOY), due to a high sales base in H1 2020. The lower backlog is influenced by the soon-to-be concluded smart gas meter rollout in the Netherlands and a temporary reduction in orders from key partners, mainly on the British market, caused by the pandemic. At the same time, select markets (Hungary, Turkey, Ukraine) have recorded sales increases, with Belgium being one the largest due to the current smart gas meter rollout. Winning another tender on this market would assure stable revenues for the coming years.
- **Water & Heat segment** – higher domestic turnover (+17% YOY) with an equally dynamic increase in export (+36% YOY). This segment has increased orders from major markets (France, Spain, Italy), recording sales above pre-pandemic levels, as well as delivering to new clients (Saudi Arabia and Greece). Additionally, there was an increase in ultrasonic water meter sales, which are strategic for the segment, both in Poland and abroad.

Apator Group is consistently working on expanding its product portfolio in connection with the digitization of the energy sector and increased customer interest in smart solutions (remote device reading and configuration and development of telemetry devices according to standards that guarantee data transmission security), as well as software that supports the effective management of utility distribution networks. Along with the rising costs of utilities, the pressure associated with the need for energy efficiency and precise measurements of their consumption is also increasing (e.g. ultrasound technology, real-time measurements). The current developments in the RES sector have increased demand for electricity meters with bidirectional measurement functionalities (power consumption and generation), solutions for managing photovoltaic farms (initial installations of our EKTIN-PV system have been completed), and the need for specialized switchgear and protection equipment as well as telemechanics and communication devices that are necessary for the efficient integration of scattered green energy sources into large-scale power networks.

Good prospects for the Water & Heat segment are related, among others, to the amendment to the Energy Efficiency Act introduced in May 2021, which requires the management of multi-unit buildings to install heat and water meters and heat allocators with remote reading capabilities by January 1, 2027. Apator also expects to announce a major tender for the supply of smart devices in connection with the announced smart metering rollout in the electricity sector. The company is operationally prepared and product-ready to supply meters with remote reading capabilities - regardless of the functionalities and communication technologies ultimately specified by distribution operators. On the other hand, the Gas segment has been participating in smart metering rollouts in Europe for the last several years. It has already supplied the British market with its own design of smart gas meters, and from 2023, will begin supplying the next generation of iSMART2 meters as part of a long-term contract in Belgium, acquired in July of this year.

The automation of production processes in Apator Group are progressing, improving the assembly and quality control of manufactured devices. Foremost, these investments concern Apator Powogaz, which in the next 5 years plans to significantly increase production volumes in all product groups (water meters, including ultrasonic, compact heat meters, heat cost allocators and inductive radio modules for meters). Construction, related to the relocation of the Poznan factory planned for the first quarter of 2022 to a modern, automated plant near Poznan, is in progress.

- We are pleased with the changes taking place on the utility metering market – summarizes Mirosław Klepacki, President of the Executive Board of Apator SA. - Our clients have a growing interest in solutions for smart metering and technologies that support renewable energy, energy efficiency, and the effective management of utility consumption. We are increasing the scale of our sales of modern ultrasonic technologies as well as water meters with inductive radio modules. Remote gas measurement technologies, developed in cooperation with our partners, were selected by the Belgian energy operator Fluvius System Operator cv - in one of the largest smart metering tenders in Europe. As a result, gas

meters with the Apator logo, manufactured in Tczew, will be installed in millions of Belgian households, ensuring safe and precise measurements along with several functionalities resulting from remote communication with the operator's systems. Recently we have also informed about the selection of Apator's offer by Energa Operator, for the supply of electricity meters with PLC PRIME communication. We are ready and awaiting further tenders in connection with the planned smart metering rollout in Poland. Thanks to the market-wide introduction of smart meters, it is possible to offer Polish consumers access to modern and dynamic energy tariffs, the greatest advantage of which is the possibility of real energy consumption management, i.e., adjusting the level of energy consumption to current market prices.

The challenge for Apator Group is competition from Asian suppliers, the difficult market situation with component supplies (rising lead times, surging prices of materials and freight), and an increase in labor costs resulting in a decrease in margins and prices - especially noticeable in the EE segment.

- In the current market conditions, we are carefully monitoring Apator Group's debt and liquidity to ensure financial security and business continuity - adds Mirosław Klepacki. - This, in turn, requires us to temporarily increase buffers for strategic materials and components, which translates into greater involvement of net working capital. Apator Group's financial situation remains fully secure, hence the complete payment of the second half of stock dividends, per the will of our shareholders.

Key financial data

in millions of PLN	1H 2021	1H 2020	dynamics
Sales	461,9	461,9	0%
EBITDA	99,9	66,2	+ 51%
EBITDA without profit from sales of real estate	65,8	66,2	- 1%
Net result	51,2	32,4	+ 58%
Net result without profit from sales of real estate	23,6	32,4	- 27%

Revenue by business segment

in millions of PLN	1H 2021	1H 2020	dynamics
Domestic sales	242,3	254,1	- 5%
Export sales	219,6	207,8	+ 6%
Electricity	184,7	203,6	- 9%
Gas	136,0	147,5	- 8%
Water & Heat	141,2	110,8	+ 27%



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Apator Group operates as an international capital group of experienced manufacturers of measuring devices and systems, supplying solutions for the automation of power network operations. Within three specialized business segments (Electricity, Water & Heat, and Gas), the Group implements technologically advanced products and services, including smart meters and systems for the active management of energy distribution networks.

Apator is one of the three largest suppliers operating on the Polish market and a leading, recognized supplier on selected prospective foreign markets. The company has been listed on the Warsaw Stock Exchange since 1997.

