

**ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA  
CAPITAL GROUP**

**OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR  
III QUARTER 2019**

*(This is a translation of the document issued originally in Polish language.  
The Polish original should be referred to in matters of interpretation.)*

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## 1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>9 months 2019 period from 01.01.2019 to 30.09.2019</i>	<i>9 months 2018 period from 01.01.2018 to 30.09.2018</i>	<i>9 months 2019 period from 01.01.2019 to 30.09.2019</i>	<i>9 months 2018 period from 01.01.2018 to 30.09.2018</i>
Sales revenue	2 157 170	1 623 410	500 666	381 665
Operating profit/loss	128 045	(33 621)	29 718	(7 904)
Profit/loss before tax	120 729	(57 087)	28 020	(13 421)
Net profit/loss for the period	71 739	(62 726)	16 650	(14 747)
Net profit attributable to equity holders of the parent	72 591	(62 087)	16 848	(14 597)
Total comprehensive income	71 056	(62 017)	16 492	(14 580)
Net cash flow from operating activities	284 423	264 888	66 013	62 275
Net cash flow from investing activities	21 438	(50 681)	4 976	(11 915)
Net cash flow from financing activities	(227 250)	(225 213)	(52 743)	(52 948)
Net increase / (decrease) in cash and cash equivalents	78 611	(11 006)	18 245	(2 588)
Net profit per share (in zloty/euro per share)	1,43	(1,22)	0,33	(0,29)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As of 30.09.2019</i>	<i>As of 31.12.2018</i>	<i>As of 30.09.2019</i>	<i>As of 31.12.2018</i>
Total assets	3 667 098	3 871 297	838 462	900 302
Fixed assets	2 861 518	2 968 043	654 271	690 243
Current assets	805 580	902 244	184 192	209 824
Total equity	1 696 448	1 687 147	387 884	392 360
Share capital	101 647	101 647	23 241	23 639
Share capital attributable to equity holders of the parent	1 694 012	1 683 859	387 327	391 595
Total liabilities	1 970 650	2 184 150	450 578	507 942
Long-term liabilities	1 043 470	974 139	238 584	226 544
Short-term liabilities	927 180	1 210 011	211 995	281 398
Book value per share (in zloty/euro per share)	33,38	33,20	7,63	7,72
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR III QUARTER 2019

Selected financial data of ZE PAK SA	Zloty thousand	Zloty thousand	Euro thousand	Euro thousand
	9 months 2019 period from 01.01.2019 to 30.09.2019	9 months 2018 period from 01.01.2018 to 30.09.2018	9 months 2019 period from 01.01.2019 to 30.09.2019	9 months 2018 period from 01.01.2018 to 30.09.2018
Sales revenues	1 070 575	851 632	248 474	200 219
Operating profit/loss	64 683	(73 396)	15 013	(17 255)
Profit/loss before tax	137 942	47 987	32 016	11 282
Net profit/loss for the period	126 038	60 676	29 253	14 265
Net cash flow from operating activities	33 237	98 242	7 714	23 097
Net cash flow from investing activities	19 664	10 466	4 564	2 461
Net cash flow from financing activities	(116 489)	(175 170)	(27 036)	(41 183)
Net increase / (decrease) in cash and cash equivalents	(63 588)	(66 462)	(14 758)	(15 625)
Net profit per share (in zloty/euro per share)	2,48	1,19	0,58	0,28
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As of</i> 30.09.2019	<i>As of</i> 31.12.2018	<i>As of</i> 30.09.2019	<i>As of</i> 31.12.2018
Total assets	2 104 290	2 151 997	481 135	500 464
Fixed assets	1 654 025	1 745 389	378 184	405 904
Current assets	450 265	406 608	102 951	94 560
Total equity	1 464 425	1 338 387	334 833	311 253
Share capital	101 647	101 647	23 241	23 639
Total liabilities	639 865	813 610	146 302	189 212
Long-term liabilities	2 209	61 392	505	14 277
Short-term liabilities	180 048	245 412	41 167	57 073
Book value per share (in zloty/euro per share)	28,81	26,33	6,59	6,12
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Above financial data were converted into EUR according to the following exchange rates:

- particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2019 to 30 September 2019, which is 4.3086 EUR/PLN and from 1 January 2018 to 28 September 2018, which is 4.2535 EUR/PLN;
- particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 30 September 2019, which is 4.3736 EUR/PLN and as of 31 December 2018, which is 4.3000 EUR/PLN.

## 2. DESCRIPTION OF THE GROUP

### 2.1. Basic information

As of 30 September 2019, ZE PAK Capital Group (hereinafter referred to as the “Group”, “Capital Group” the “ZE PAK SA Group”) is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as “ZE PAK SA” or “Company”) and nine subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the “PAK KWB Adamów SA”), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the “PAK KWB Konin SA”), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the “PAK SERWIS sp. z o.o.”), PAK Górnictwo sp. z o.o., PAK Infrastruktura sp. z o.o., PAK Adamów sp. z o.o., Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

The companies of the biggest importance for the Group due to their scale of activity are: ZE PAK SA, dealing with production of electricity and heat, Elektrownia Pątnów II sp. z o.o., dealing with production of electricity, and PAK KWB Adamów SA and PAK KWB Konin SA, dealing with lignite mining. In addition to companies from the aforementioned main areas of activity, the Group also includes other companies that deal, among others, with the execution of construction and assembly works, maintenance works, service, production and trade activities aimed at satisfying the needs and comprehensive industry service.

The production facilities of the Group include three lignite-fired power plants located in the central part of Poland in Wielkopolskie voivodship. These are: Pątnów II – equipped with a supercritical power unit, Pątnów I and Konin – equipped additionally with power unit with a boiler dedicated to biomass firing. Total installed gross power output of the production facilities as at the date of this report is 1896 MW.

The Group’s mining assets are concentrated in two companies: PAK KWB Konin, which currently operates on Józwin, Tomisławice and Drzewce open casts, and PAK KWB Adamów operating on Adamów open cast.

Majority of the Group’s sales revenue is derived from sale of electricity. This is supplemented by revenues from sale of heat, contracts for construction repair services and certificates of Energy origin. An additional source of sales revenues, depending on the level of production costs, energy prices on the market and production volume, are revenues from the termination of long-term contracts (Power Purchase Agreements) for the sale of electricity, generated by Elektrownia Pątnów II sp. z o.o. The Group, having lignite mines in its structure, provides power plants with an access to uninterrupted lignite supplies for own production installations located in the immediate vicinity of the mines. The vertically integrated Group enables optimization of coal inventories and supplies by coordinating coal mining with the demand for this fuel. The demand for biomass is covered on the basis of contracts concluded with suppliers.

The structure of ZE PAK SA Group as at September, 30 2019 is presented at Picture 1.

Apart from the Capital Group, ZE PAK SA owns shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. with headquarters in Gliwice and providing measurement, research and consultancy services regarding, among others power engineering. The Company holds one share in the aforementioned company with the value of PLN 151 201.01, which constitutes 2.81% of the total capital.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz holds substantial direct or indirect share.

## 2.2. Structure

Picture 1: Structure of the Group as of 30 September 2019

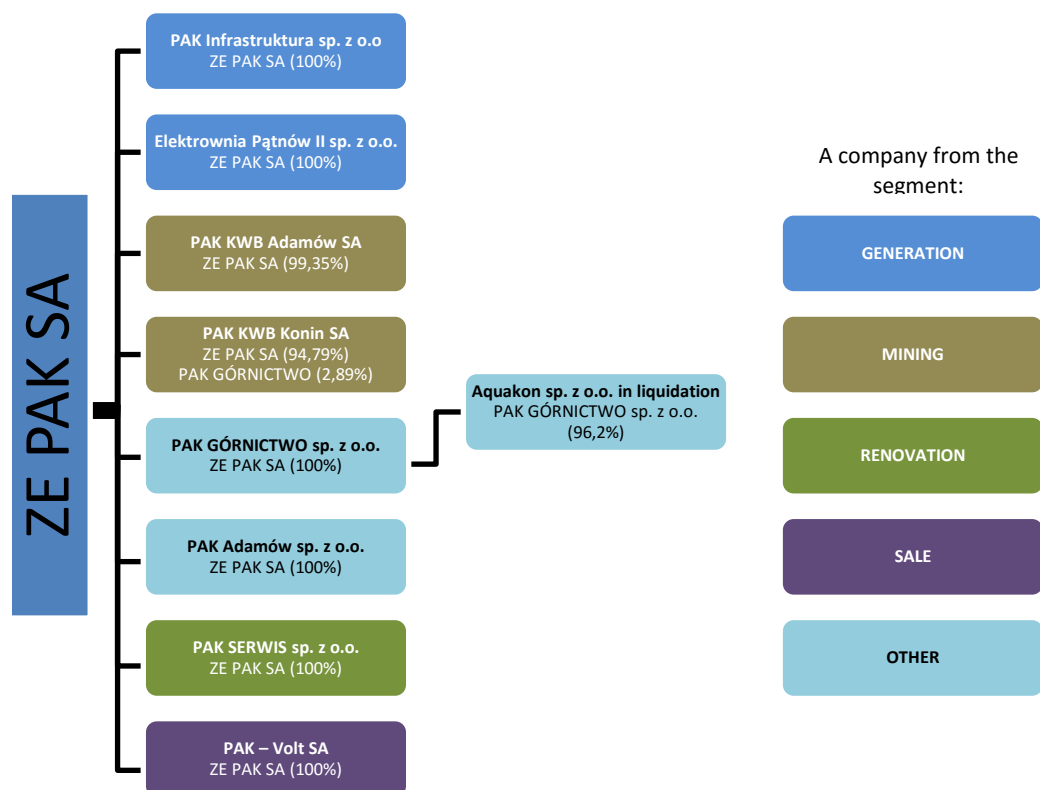


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			30.09.2019	31.12.2018
„Elektrownia Pątnów II” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution	100,00%	100,00%
PAK Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,68%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„PAK GÓRNICTWO” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Rail transport services, vulcanization services (conveyor belts), electrical services, drilling, mining, mechanical and reclamation services, repair and assembly services of equipment,	100,00%	100,00%
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK Infrastruktura” sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
PAK Adamów sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100,00%	100,00%
„Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	96,2%*	96,2%*

\* Entities with partial or total indirect share via other companies from ZE PAK Group

## 2.3. Composition of the Management Board

2019 financial year began in the following composition:

- 1) Adam Kłapszta – President of the Board,
- 2) Aneta Lato-Żuchowska – Vice-President of the Board,
- 3) Zygmunt Artwik – Vice-President of the Board,
- 4) Elżbieta Niebisz – Vice-President of the Board,
- 5) Marcin Ginel – Vice-President of the Board.

On January 10<sup>th</sup>, 2019 Mr. Adam Kłapszta resigned from the membership in the Management Board and performing the position of the President of the Management Board. Ms. Elżbieta Niebisz also ceased to be a Member of the Management Board of the Company, who also resigned from the position of Vice President of the Management Board on January 10<sup>th</sup> 2019. In this situation, at the meeting held on January 10<sup>th</sup>, 2019, until the election of the new President of the Company's Management Board, the Supervisory Board entrusted the management of the Company as acting President of the Management Board to Mr. Marcin Ginel - Vice-President of the Management Board. During the same meeting, i.e. January 10, 2019, the Supervisory Board of the Company appointed Mr. Paweł Markowski as the Vice-President of the Management Board.

On April 12<sup>th</sup>, 2019 Mr. Marcin Ginel resigned from the membership in the Management Board and performing the position of the Vice President acting President of the Management Board. The same day the resignation from membership in the Management Board and the function of the Vice President was also submitted by Ms. Aneta Lato-Żuchowska. At the meeting held on April 12, 2019, the Supervisory Board of the Company, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board – Mr. Henryk Sobierajski, for a period of three months to temporarily perform the duties of a Member of the Management Board, entrusting him with the duties of the President of the Management Board.

On May 10, 2019, the Company's Supervisory Board appointed Mr. Paweł Lisowski as the Vice President of the Management Board.

At the meeting on July 2, 2019, the Company's Supervisory Board, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board - Mr. Henryk Sobierajski for a period of up to 3 months, to temporarily perform the duties of a Member of the Company's Management Board, entrusting him with the duties of the President of the Management Board. Also on July 2, 2019, the Company's Supervisory Board appointed Mr. Maciej Nietopiel to the Company's Management Board, entrusting him with the function of the Vice-President of the Management Board.

On October 10, 2019, Mr. Henryk Sobierajski resigned from his position as a member of the Company's Supervisory Board. Also on October 10, 2019, the Supervisory Board appointed Mr. Henryk Sobierajski to the Management Board, entrusting him the function of the President of the Management Board.

As of the date of publication of this report, the composition of the Company's Management Board is as follows:

- 1) Henryk Sobierajski – President of the Management Board,
- 2) Zygmunt Artwik – Vice-President of the Board,
- 3) Paweł Markowski – Vice-President of the Board,
- 4) Paweł Lisowski – Vice-President of the Board,
- 5) Maciej Nietopiel – Vice-President of the Board.

## 2.4. Description of the changes in the Group's structure

In the third quarter of 2019 there were no significant changes in the structure of the Group.

### **3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY**

#### **3.1. Significant achievements and failures during the period covered by the report**

##### **Short description of the achieved financial results**

In the third quarter 2019 total sale revenues amounted to PLN 751 140 thousand and compared to the third quarter 2018 they increased by PLN 110 570 thousand, i.e. by 17.26%.

In the analyzed quarter, compared to the same period last year the Group's electricity sale decreased from 2.48 TWh to 2.46 TWh, i.e. by 0.81%. The decrease in sales occurred despite higher sales of energy from trading by 0.06 TWh, i.e. by 7.50%, which did not offset the decrease by 0.08 TWh, i.e. by 4.76% of sales of energy from own production. The level of production, as in previous quarters of this year, was largely determined by the relationship between the price of energy on the spot market and the price of CO2 emission allowances. The net production volumes of individual Group's power plants are presented in Figure 3. At the same time, in the third quarter of 2019 to 276.67 PLN / MWh, i.e. by 25.91%, the average obtained electricity sale price increased (calculated as the sum of revenues from the sale of electricity and revenues from system services divided by the volume of energy sold). Revenues from the sale of electricity (less excise duty) amounted to PLN 679 700 thousand and compared to the third quarter of 2018 increased by PLN 132,728 thousand, i.e. by 24.27%.

In the third quarter of 2019, revenues from financial compensation in the amount of PLN 757 thousand were recognized in the item of revenues from the price difference and financial compensation, constituting the difference between the revenues for electricity trading for the period from July 1, 2019 to September 30, 2019, implemented by PAK - Volt SA for the final recipients referred to in art. 5 paragraph 1a of the Act of 28 December 2018 amending the Act on excise tax and certain other acts, determined on the basis of the weighted average price of electricity on the wholesale market in force in the supply months, and the volume of revenues resulting from the use of the price of electricity settled in 2018.

In the third quarter of 2019, compared to the third quarter of 2018, revenues from the sale of property rights from certificates of origin for energy decreased by PLN 6,740 thousand, i.e. by 36.47%. The reason for the decrease in revenues was the lower volume of green energy production caused by the shutdown of the biomass block due to the planned renovation.

Revenues from the termination of PPAs (long-term contract for the sale of power and electricity) in the third quarter of 2019 amounted to PLN 29,593 thousand (including advance payment of PLN 24,186 thousand and correction of PLN 5,407 thousand), while in the third quarter of 2018 they amounted to PLN 42,486 thousand (including advance payment of 23,721 thousand and correction of 18,765 thousand PLN). Lower revenues from PPAs in the third quarter of 2019 are caused by a lower adjustment compared to the same period of 2018. This level of adjustment is the result of achieving a higher operating result compared to the third quarter of 2018, mainly due to the higher price of electricity sales and higher profit on electricity trading.

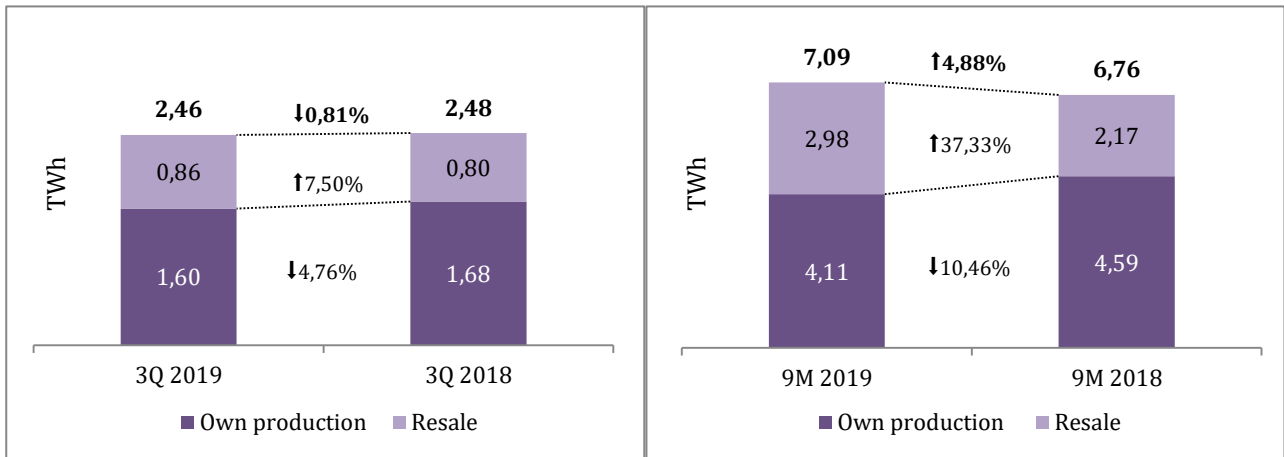
Revenues from construction services contracts in the third quarter of 2019 compared to revenues obtained in the same period of the previous year decreased by PLN 3,757 thousand, i.e. by 18.41%. The decrease in revenues in the analyzed period was associated with the implementation of projects with smaller material and financial ranges for external recipients by a company from the renovation segment PAK Serwis sp.z o.o.

Revenues from the sale of heat in the third quarter of 2019 amounted to PLN 6,876 thousand and were higher than those obtained in the third quarter of 2018 by PLN 1,319 thousand, i.e. 23.74%. The increase in revenues from the sale of heat resulted from a higher sale price compared to the same period of the previous year due to a new heat tariff.

Cost of sales in the third quarter of 2019 amounted to PLN 662,564 thousand and increased by PLN 40,195 thousand, i.e. by 6.46% compared to the cost incurred in the third quarter of 2018. The increase in own costs was mainly due to the increase in the value of goods and materials sold, related to the higher volume of purchased electricity intended for trading, as well as its higher price. In turn, the decrease in the cost of sales was mainly due to lower employee benefits costs associated with a decrease in average employment and lower costs of CO2 emissions. The decrease in CO2 emission costs by PLN 3,480 thousand was the result of a decrease in the volume of emissions, with a simultaneous increase in the price for EUA by PLN 3.27.

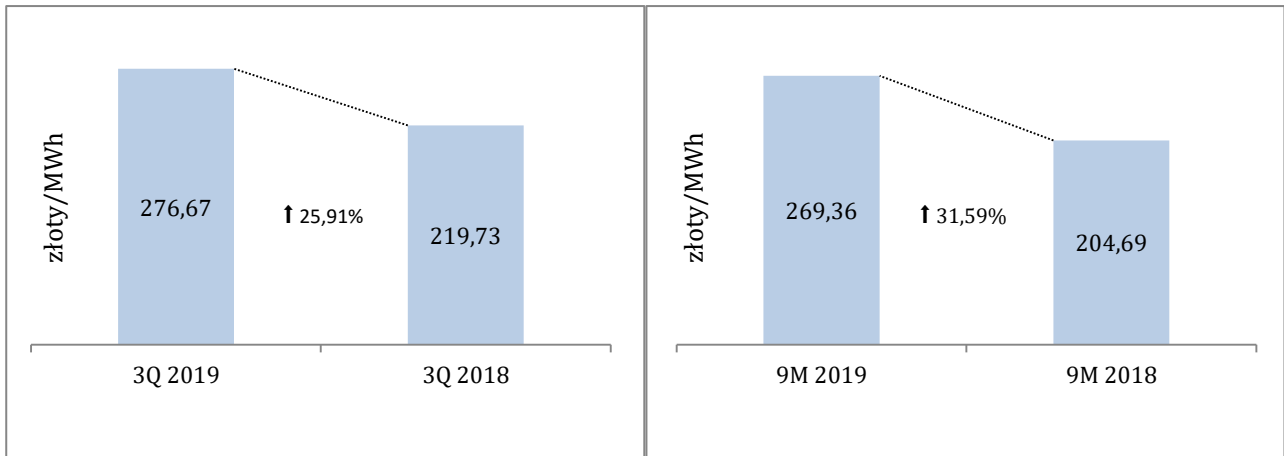


Chart 1: Electricity sale



Source: Internal data

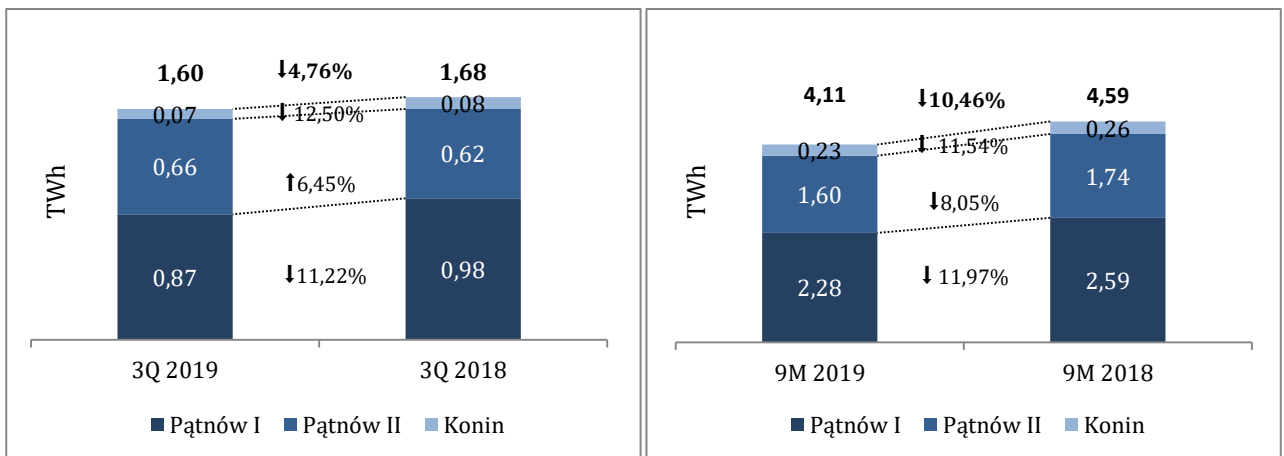
Chart 2: Average electricity prices\*



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

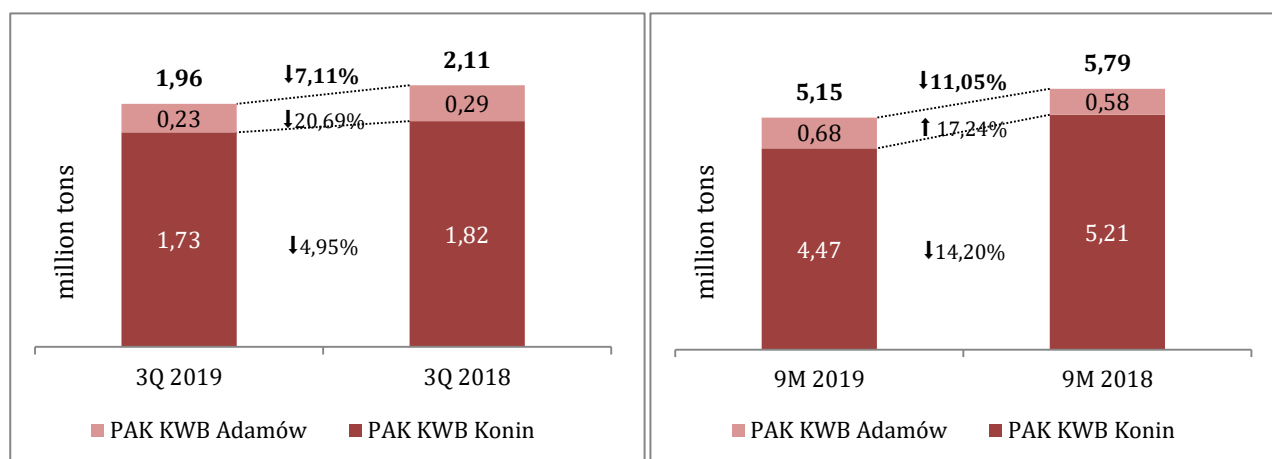
Source: Internal data

Chart 3: Net electricity production



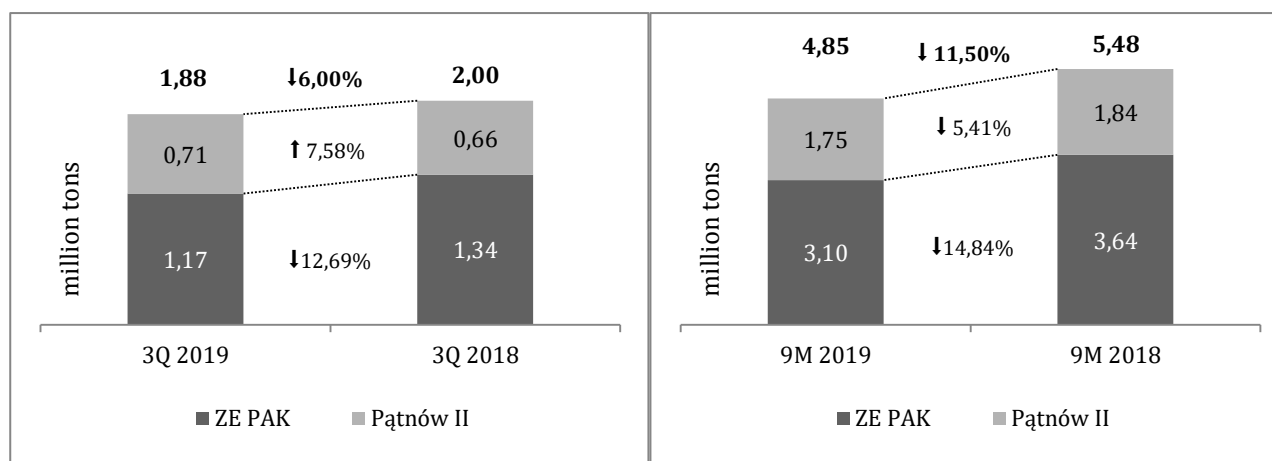
Source: Internal data

Chart 4: Lignite consumption



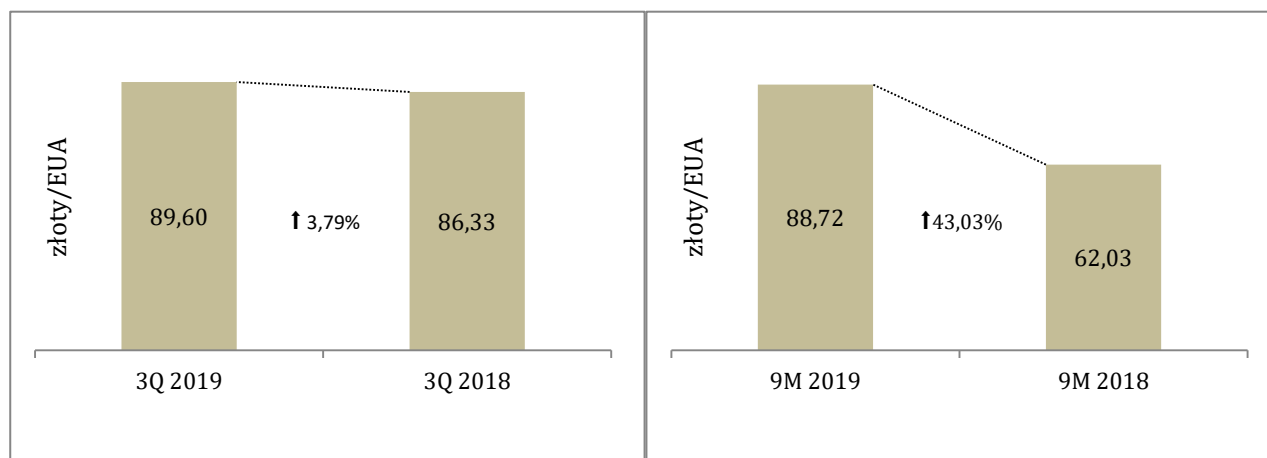
Source: Internal data

Chart 5: CO<sub>2</sub> emission



Source: Internal data

Chart 6: Average prices of CO<sub>2</sub> emission allowances purchase\*(EUA)



\* Average price calculated as the costs of purchasing emission allowances incurred to cover emissions for a given period divided by the volume of CO<sub>2</sub> emissions.

Source: Internal data

Table 2: List of consolidated sale revenues

	Zloty thousand 3 months period ended 30 September 2019	Zloty thousand 3 months period ended 30 September 2018	Zloty thousand change	% dynamics
Revenues from the sales of electricity (reduced by excise duty)	458 158	378 927	79 231	20,91
Revenues from sales of traded electricity	221 542	168 045	53 497	31,83
Revenues from the price difference amount	757	-	757	-
Property rights on energy certificates of origin	11 740	18 480	(6 740)	(36,47)
Revenues from contracts for construction services	16 651	20 408	(3 757)	(18,41)
Compensation for termination of long-term contracts	29 593	42 486	(12 893)	(30,35)
Revenues from sales of heat	6 876	5 557	1 319	23,74
Other sales revenues	5 823	6 667	(844)	(12,66)
<b>Total sales revenues</b>	<b>751 140</b>	<b>640 570</b>	<b>110 570</b>	<b>17,26</b>

	Zloty thousand 9 months period ended 30 September 2019	Zloty thousand 9 months period ended 30 September 2018	Zloty thousand change	% dynamics
Revenues from the sales of electricity (reduced by excise duty)	1 169 289	949 333	219 956	23,17
Revenues from sales of traded electricity	742 110	430 742	311 368	72,29
Revenues from the price difference amount	17 720	-	17 720	-
Property rights on energy certificates of origin	37 560	27 674	9 886	35,72
Revenues from contracts for construction services	48 189	55 808	(7 619)	(13,65)
Compensation for termination of long-term contracts	90 718	114 988	(24 270)	(21,11)
Revenues from sales of heat	31 919	24 384	7 535	30,90
Other sales revenues	19 665	20 481	(816)	(3,98)
<b>Total sales revenues</b>	<b>2 157 170</b>	<b>1 623 410</b>	<b>533 760</b>	<b>32,88</b>

Table 3: Selected items of the consolidated income statement

	Zloty thousand 3 months period ended 30 September 2019	Zloty thousand 3 months period ended 30 September 2018	Zloty thousand change	% dynamics
<b>Sales revenues</b>	<b>751 140</b>	<b>640 570</b>	<b>110 570</b>	<b>17,26</b>
Prime cost	(662 564)	(622 369)	40 195	6,46
Gross sales profit (loss)	88 576	18 201	70 375	386,65
Other operating revenues	127	1 724	(1 597)	(92,63)
Cost of sales	(714)	(967)	(253)	(26,16)
General and administrative expenses	(25 749)	(27 376)	(1 627)	(5,94)
Other operating costs	(539)	(566)	(27)	(4,77)
<b>Profit (loss) from operating activities</b>	<b>61 701</b>	<b>(8 984)</b>	<b>70 685</b>	<b>-</b>
Financial revenues	5 105	646	4 459	690,25
Financial costs	(7 449)	(4 154)	3 295	79,32
<b>Gross profit (loss)</b>	<b>59 357</b>	<b>(12 492)</b>	<b>71 849</b>	<b>-</b>
Income tax (tax load)	(24 315)	1 778	(26 093)	-
<b>Net profit (loss)</b>	<b>35 042</b>	<b>(10 714)</b>	<b>45 756</b>	<b>-</b>
Net other comprehensive income	(441)	(136)	305	224,26

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	<b>34 602</b>	<b>(10 850)</b>	<b>45 452</b>	<b>-</b>
<b>EBITDA*</b>	<b>109 050</b>	<b>41 063</b>	<b>67 987</b>	<b>165,57</b>
	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>%</i>
	<i>9 months period</i>	<i>9 months period</i>	<i>change</i>	<i>dynamics</i>
	<i>ended</i>	<i>ended</i>		
	<i>30 September 2019</i>	<i>30 September 2018</i>		
<b>Sales revenues</b>	<b>2 157 170</b>	<b>1 623 410</b>	<b>533 760</b>	<b>32,88</b>
Prime cost	(1 951 059)	(1 564 308)	386 751	24,72
Gross sales profit (loss)	206 111	59 102	147 009	248,74
Other operating revenues	13 205	5 890	7 315	124,19
Cost of sales	(3 397)	(3 009)	388	12,89
General and administrative expenses	(81 002)	(92 168)	(11 166)	(12,11)
Other operating costs	(6 872)	(3 436)	3 436	100,00
<b>Profit (loss) from operating activities</b>	<b>128 045</b>	<b>(33 621)</b>	<b>161 666</b>	<b>-</b>
Financial revenues	13 163	6 176	6 987	113,13
Financial costs	(20 479)	(29 642)	(9 163)	(30,91)
<b>Gross profit (loss)</b>	<b>120 729</b>	<b>(57 087)</b>	<b>177 816</b>	<b>-</b>
Income tax (tax load)	(48 990)	(5 639)	43 351	768,77
<b>Net profit (loss)</b>	<b>71 739</b>	<b>(62 726)</b>	<b>134 465</b>	<b>-</b>
Net other comprehensive income	(683)	709	(1 392)	-
<b>Comprehensive income</b>	<b>71 056</b>	<b>(62 017)</b>	<b>133 073</b>	<b>-</b>
<b>EBITDA*</b>	<b>272 182</b>	<b>112 559</b>	<b>159 623</b>	<b>141,81</b>

\* The Company defines and calculates EBITDA as the profit/(loss) on operating activities (calculated as the net profit/(loss) for the accounting year corrected by the (i) income tax (tax load), (ii) financial revenues, as well as (iii) financial costs) corrected by the depreciation (shown in the income statement), as well as impairment write-downs against tangible assets, intangible assets, and mining assets.

Table 4: Consolidated costs by type

	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>%</i>
	<i>3 months period</i>	<i>3 months period</i>	<i>change</i>	<i>dynamics</i>
	<i>ended</i>	<i>ended</i>		
	<i>30 September 2019</i>	<i>30 September 2018</i>		
Depreciation	47 351	50 050	(2 699)	(5,39)
Impairment losses on property, plant and equipment, intangible assets and mining assets	(2)	(3)	1	(33,33)
Impairment write-downs on inventory	(58)	660	(718)	-
Consumption of materials	80 752	75 336	5 416	7,19
Outsourcing	28 564	29 422	(858)	(2,92)
Taxes and fees excluding excise tax	37 482	38 240	(758)	(1,98)
Costs of CO <sub>2</sub> emissions	168 583	172 063	(3 480)	(2,02)
Costs of employee benefits	95 061	100 741	(5 680)	(5,64)
Other costs by type	14 393	4 711	9 682	205,52
Value of sold goods and materials and sold traded electricity	218 146	184 860	33 286	18,01
<b>Total costs by type</b>	<b>690 272</b>	<b>656 080</b>	<b>34 192</b>	<b>5,21</b>
	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>%</i>
	<i>9 months period</i>	<i>9 months period</i>	<i>change</i>	<i>dynamics</i>
	<i>ended</i>	<i>ended</i>		
	<i>30 September 2019</i>	<i>30 September 2018</i>		
Depreciation	144 423	146 185	(1 762)	(1,21)
Impairment losses on property, plant and	(286)	(5)	(281)	5 620,00

equipment, intangible assets and mining assets				
Impairment write-downs on inventory	1 110	771	339	43,97
Consumption of materials	233 033	214 490	18 543	8,65
Outsourcing	71 710	75 285	(3 575)	(4,75)
Taxes and fees excluding excise tax	122 575	114 605	7 970	6,95
Costs of CO <sub>2</sub> emissions	430 138	338 232	91 906	27,17
Costs of employee benefits	310 343	325 943	(15 600)	(4,79)
Other costs by type	28 666	24 881	3 785	15,21
Value of sold goods and materials and sold traded electricity	707 202	438 178	269 024	61,40
<b>Total costs by type</b>	<b>2 048 914</b>	<b>1 678 565</b>	<b>370 349</b>	<b>22,06</b>

Other operating income in the third quarter of 2019 amounted to PLN 127 thousand and was lower by PLN 1 597 thousand than obtained in the same period last year.

Selling expenses in the third quarter of 2019 amounted to PLN 714 thousand and were lower by PLN 253 thousand than incurred in the same period last year.

General and administrative expenses in the third quarter of 2019 amounted to PLN 25,749 thousand and were lower than those incurred in the same quarter of last year by PLN 1,627 thousand, i.e. by 5.94%. Lower employee costs mainly contributed to the decline.

Other operating expenses in the reporting quarter amounted to PLN 539 thousand and decreased compared to the third quarter of the previous year by PLN 27 thousand.

In the third quarter of 2019, ZE PAK SA Group obtained operating profit of PLN 61,701 thousand. In the same period last year, a loss of PLN 8,984 thousand was recorded.

In the third quarter of 2019, the results achieved were negatively affected by a negative financial result in the amount of PLN 2,344 thousand. The impact of financial activities in the same period last year reduced the result by PLN 3 508 thousand.

Gross profit in the third quarter of 2019 amounted to PLN 59 357 thousand, compared to the gross loss recorded in the third quarter of 2018.

Net profit in the third quarter of 2019 amounted to PLN 35,042 thousand, compared to the net loss for the third quarter of 2018 at PLN 10,714 thousand.

### **The description of factors and events, especially unusual events substantially affecting the assets, liabilities, capital, net financial result or cash flow**

In the third quarter of 2019, no unusual events were noted that had a significant impact on assets, liabilities, equity, net financial result or cash flows.

### **Implementation of investment projects**

In the period from January 1 to September 30, 2019, the Group's capital expenditure was PLN 20 826 thousand.

At present, ZE PAK SA Group does not implement large investment projects. Investment activity in the generation segment focuses on the implementation of the necessary tasks to ensure the maintenance of current efficiency and a more effective use of owned generation assets.

Two of the new major investment projects are currently in a very advanced preparatory phase:

1. Adaptation of the K7 coal boiler at Konin power plant for the exclusive combustion of biomass together with the necessary technical infrastructure.
2. Construction of a solar farm with the capacity of 70 MWp on reclaimed land in the area of Brudzew commune.

The planned adaptation of the K7 boiler for the exclusive combustion of biomass will include the following main systems: the boiler, biomass feeding system, electrostatic precipitator, ash removal and generator. After the reconstruction, the system will produce electricity for the needs of the National Power System and will be a reserve in the event of a breakdown or renovation of the existing biomass unit producing heat for the city of Konin. After K7 boiler has been adapted for biomass combustion, the coal installations at Konin power plant will be completely decommissioned.

As part of the work on the project of adapting the K7 boiler for the exclusive combustion of biomass, in November 2018 an application was submitted for funding the project from the National Fund for Environmental Protection and Water Management and the concept of modernization was developed along with the necessary technical infrastructure. On July 17, 2019, the final environmental decision concerning the implementation of the investment was obtained. At the end of July this year, tender procedures were started for the selection of contractors for individual sub-tasks related to the adaptation of the K7 boiler for the exclusive combustion of biomass. Deadlines for the submission of offers for the adaptation of K-7 boiler, biomass feeding system and ash removal system from under the electrostatic precipitator are scheduled for November this year.

The planned solar farm will be located in the post-mining areas of PAK KWB Adamów located in Brudzew commune. Power output from the solar farm will be implemented through the existing Main Power Point, which will be rebuilt.

As part of the work on the solar farm construction project, in November 2018 an application was submitted for funding the project from the National Fund for Environmental Protection and Water Management and a concept for the construction of a solar farm with a capacity of about 70 MWp was developed. On July 17, 2019, a final environmental decision was obtained regarding the implementation of the project, and on September 24, 2019, a final decision on building and land development conditions was obtained. On September 13, 2019, confirmation was obtained from ENERGA Gdańsk on the acceptance of the application for obtaining conditions for connecting the solar farm to the National Power System. On October 17, 2019, an application was submitted to Starostwo Powiatowe in Turek for obtaining a permit for the construction of a solar farm (without a power outlet system).

In the mining segment, the mines belonging to the Capital Group carried out investment tasks on active opencasts aimed at maintaining production capacity.

### **3.2. Other significant events of the reporting period, events after the balance sheet date and other information which are relevant for the assessment of the human resources, property, financial situation and ability of the Company and the Group to fulfil its obligations**

#### ***Tender Offer for the sale of shares of ZE PAK SA***

On 30 July 2019 Argumenol Investment Company Limited announced a Tender Offer for the sale of ZE PAK SA shares. The subject of the tender offer was 34 823241 ordinary bearer shares of the Company with a nominal value of PLN 2.00 each.

The shares, being the subject of the tender offer jointly represented approx. 68.52% of the share capital of the Company and entitled to 34 823 241 votes at the General Meeting of the Company, which corresponds to approx. 68.52% of votes at the General Meeting of the Company.

The Offeror has not specified the minimum number of shares covered by subscriptions, after reaching which the Offeror will be required to purchase these shares. The shares covered by the Tender Offer were purchased at the price of PLN 7.47 for each of the shares.

Enrollment began on August 20 and ended on September 19, 2019. The transaction acquisition date was set for September 24, and the transaction was settled on September 27. On this day, the Company received a notification on indirect purchase of shares, as a result of which the threshold of 50% of the total number of votes in the Company was exceeded and a notification on the reduction of the share below 5% of the total number of votes, about which the Company informed in current report No. 26/2019 and 27 / 2019. In addition, on October 23, 2019, in report No. 29/2019, the Company submitted a notification on the purchase of shares, which was also the result of the settlement of the transaction on September 27, 2019. For more information on the current shareholding structure, see section 5 of this report.

On August 7, 2019, the Management Board of ZE PAK SA, in current report No. 24/2019, presented its position regarding the announced tender offer for the sale of shares.

The Management Board of the Company expressed the view that, in principle, increasing the involvement of a strategic investor in the Company's shareholding can positively affect its interest by willingness to contribute to its development.

Regarding the price per share of the Company proposed in the tender offer, the Management Board stated that in its opinion the price proposed in the tender offer falls within the estimated range of the fair value of the Company's shares.

### ***Conclusion of an agreement for the supply of heat to the city of Konin***

On September 6, 2019 the Company signed an agreement with Miejskie Przedsiębiorstwo Energetyki Ciepłej - Konin Sp. z o.o. ("MPEC"), the subject of which is the sale of heat to the City of Konin with the commencement of deliveries from July 1, 2022. The agreement has been concluded for a definite period and is valid until June 30, 2032.

Heat, which is the subject of sale to MPEC Konin, is currently, based on an existing contract, generated by ZE PAK SA in a dedicated biomass combustion installation that is a cogeneration unit, which currently has the status of an installation generating heat from renewable energy sources. The heat sale prices used by ZE PAK SA result from the tariff in force for a given year, which is subject to approval by the President of the Energy Regulatory Office.

The agreement is a continuation of existing cooperation in the field of heat supply for the city of Konin.

### ***Return of the allocated CO2 emission allowances in connection with the abandonment of investments in units 3 and 4 at the Pątnów Power Plant and the risk of the refund of the allocated rights related to the investment in the gas and steam block at the Konin Power Plant***

On October 10, 2019, the Supervisory Board decided to discontinue the modernization of units 3 and 4 at Elektrownia Pątnów and agreed to return the equivalent of the emission allowances granted to ZE PAK SA for this investment. In accordance with statutory requirements, ZE PAK SA notified the Ministry of the Environment about this fact. ZE PAK SA is awaiting the decision by the Ministry of the Environment on the amount to be refunded. The estimated return value of EUA granted to ZE PAK SA free of charge is approximately PLN 25 million.

The Company's Management Board had predicted that there was a risk of potential return of CO2 emission allowances granted free of charge related to the investment in units 3 and 4 and the gas-steam block, and in connection with the above, a provision was created in 2018. As at September 30, 2019, it amounts to PLN 30 861 thousand. (including PLN 24,452 thousand for blocks 3 and 4 and PLN 6,409 thousand for gas-steam block).

In the case of the gas-steam block at Konin Power Plant, in October 2019 ZE PAK SA informed the Ministry of the Environment that analyses are still underway to clearly determine the profitability of the investment. If the construction is not completed, the equivalent of emission allowances will be returned at a later date. Most likely, the refund will become due when the Republic of Poland prepares the final report on the implementation of the KPI for the European Commission, which will take place in 2020.

The shutdown of block 4 with a capacity of 200 MW is planned for December 31, 2019, and block 3 with a capacity of 200 MW as of June 30, 2020.

## **4. INFORMATION ON SIGNIFICANT PROCEEDINGS PENDING BEFORE A COURT, A BODY COMPETENT FOR ARBITRATION PROCEEDINGS OR A PUBLIC ADMINISTRATION BODY RELATED TO ZE PAK SA OR SUBSIDIARIES CONSOLIDATED UNDER THE GROUP**

Zespół Elektrowni Pątnów - Adamów - Konin SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the third quarter of 2019, whose single or total value would exceed 10% of ZE PAK SA's equity with the exception of those described below.

### ***Proceedings on the refund of excise duty overpayment***

In light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

As at 1 March 2009, the Act of 6 December 2008 on excise duty entered into force, according to which the sale of electricity to an entity which is not its final customer is not subject to excise duty.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well as January and February 2009 for the total amount of PLN 626 million, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and also the Provincial Administrative Court in Poznań

(„PAC”), as well as the Supreme Administrative Court. Due to the position of judicature presented in the course of court proceedings, the amount of overpayment, the repayment of which the Company submits, has been finally reduced to the amount of damages caused by economic analyses, i.e. up to the amount of approximately PLN 108 million.

Moreover, in association with the rulings of the Administrative Courts regarding other power companies, in the subject of overpaid excise duty and the resolution I GPS 1/11 of the National Administrative Court (“NSA”) of 22 June 2011 (where the NSA ruled that transferring the tax load in price, excludes the possibility to return the overpayment), notwithstanding the ongoing administrative proceedings, on 10 February 2012, the Company initiated a civil-law proceedings, filling an application to summon the State Treasury to a conciliation hearing regarding the amount of PLN 626 406 thousand, to the District Court Warszawa Śródmieście. A conciliatory settlement was not reached since during the hearing of 16 April 2012, the representatives of the Treasury did not agree to settle.

Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted application for overpayment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. Ultimately, all applications were sent to the NSA. As at the date of this report, all cases before both courts and tax authorities have been completed. Further specifying:

- 22 cases for the period January 2006 - November 2007 - at hearings held on April 10 and 11, 2018, the Supreme Administrative Court dismissed the Company's cassation appeals in the abovementioned 22 cases;
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011;
- proceedings for July 2008 - at the hearing on April 29, 2015, the Supreme Administrative Court dismissed the Company's cassation complaint and indicated that it fully shares the position taken by the Provincial Administrative Court in Poznań in its judgment, from which a cassation complaint was filed;
- 14 proceedings for the periods December 2007 - February 2009 - by letters of October 15, 2019, the Company withdrew its cassation appeals in the abovementioned 14 cases, because due to the negative case-law of the Supreme Administrative Court, the Company saw no chance of obtaining a positive decision. Thus, guided by rationality, the Company sent requests to withdraw previously submitted complaints, thus recovering court fees paid in the amount of approx. PLN 200,000.

Notwithstanding the foregoing proceedings, ZE PAK SA lodged a complaint against the actions of the Polish authorities to the European Commission (“EC”), pursuant to art. 258 of the Treaty on the Functioning of the European Union. The opinion issued by the EC may oblige the Polish tax authorities to pass a ruling beneficial to ZE PAK SA. On 21 March 2017, ZE PAK SA received a “pre-closure letter” from the EC, which initially denied the relevance of ZE PAK SA’s position, however, at the same time giving the right to a second comment on the subject, which ZE PAK SA exercised. On 9 June 2017, a letter summarising the reasoning of ZE PAK SA, in terms of the overpaid excise tax. At present, ZE PAK SA is waiting for the final position to be taken by the EC in this case. On March 4, 2019, the European Commission adopted the final position, which showed that it did not find grounds to question the actions of Polish tax authorities and courts.

Thus, the last premise was dropped, which was to contribute to the Company obtaining positive decisions before the Supreme Administrative Court.

In case of the Elektrownia Pańków II sp. z o.o., the proceedings for all periods (one case) were included in the cause lists of the Provincial Administrative Court after a negative decision of the Head of Customs Chamber. The aforementioned company does not have access to comparative analyses of suffering the prejudice. On 4 November 2015, a hearing in the Provincial Administrative Court in Poznań took place. On November 18, 2015, a negative judgment was announced, from which the company on February 8, 2016 filed a cassation complaint to the Supreme Administrative Court. The Supreme Administrative Court dismissed the Company's cassation complaint at the hearing held on April 11, 2018.

#### ***Proceedings on an environmental decision issued to PAK KWB Konin SA concerning lignite deposit in Tomisławice***

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal



Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWBK SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court overturned the contested decision of the Provincial Administrative Court in Poznań and referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWBK SA. On 7 January 2013, PAK KWBK Konin SA submitted a cassation appeal from the described decision.

After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 repealing the decision of the Self-government Appeal Court in Konin of 25 March 2009 refusing the annulment of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune related to the extraction of lignite from Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 18<sup>th</sup> January 2019 the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit.

The decision of the Local Government Appeal Court in Konin, means that the environmental decision issued by the Head of Wierzbinek Commune is still in legal circulation. The decision is not final. The opposite party has submitted an application for reconsideration of the case by the Local Government Appeal Court in Konin.

#### ***Proceedings on an environmental decision on lignite deposit in Ościsłowo***

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 30 November 2017, General Director of Environmental Protection in Warsaw has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: "Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.

PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. This complaint was upheld and the case was re-examined by the Provincial Administrative Court in Warsaw, which in its judgment of 18 October 2018 overruled the decision of GDOŚ, which will again have to hear the appeals lodged in the present case.

Currently, the case is being reconsidered by GDOŚ in Warsaw, which in a letter of 6 March 2019 called on PAK KWB Konin SA to submit explanations and supplement the evidence within two months of receiving the request. By letter of April 12, 2019, PAK KWB Konin SA applied for extension of the deadline to September 30, 2019. On September 27, GDOŚ announced that the evidence had not yet been fully supplemented, and therefore set a new date for settling the case as at December 31, 2019.

The proceedings for issuing the environmental decision were initiated on 16 September 2015.

## **5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE**

Share capital of ZE PAK is represented by 50.823.547 shares. Shares are ordinary. Each share gives right to one vote at General Meeting of Shareholders.

## 5.1. Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes

Table 4: List of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of the date of submission of this report. The list made according to the information available to the Company on the basis of the submission of notifications on the acquisition / disposal of shares

Shareholder	pcs Number of shares and corresponding number of votes at the General Meeting	% Share [%] in the total number of shares/votes
<b>Zygmunt Solorz (indirectly) through:</b>	<b>29 592 734</b>	<b>58,23</b>
– Elektrim SA	196 560	0,39
– Embud 2 sp. z o.o. S.K.A.	592 533	1,17
– Argumenol Investment Company Limited	28 803 641	56,67
<b>Nationale – Nederlanden OFE</b>	<b>4 503 242</b>	<b>8,86</b>
<b>OFE PZU „Złota Jesień”</b>	<b>4 635 719</b>	<b>9,12</b>

The list of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the date of this quarterly report differs from the analogous list as of the date of publication of the latest periodic report. This difference results from the settlement of the transaction, resulting from the tender's offer of the Company's shares, announced on July 30, 2019 by Argumenol Investment Company Limited. More information on the tender offer and settlement of transactions is provided in section 3.2 of this report.

## 5.2. List of the shareholding structure of the management and supervising personnel

Below there is the status of the Company's shares held by managing and supervising persons as at the date of submitting this quarter report and as at the day of submitting the previous periodic report (to the best of the Company's knowledge, based on notifications of purchase / sale of shares).

Table 5: Status of the Company's shares held by managing persons

Name	ZE PAK SA shares as at the day of submitting this report	ZE PAK SA shares as at the day of submitting the previous report
Henryk Sobierajski	0	0
Paweł Markowski	0	0
Zygmunt Artwik	0	0
Paweł Lisowski	0	0
Maciej Nietopiel	0	0

Table 6: Status of the Company's shares held by supervising persons

Name	ZE PAK SA shares as at the day of submitting this report	ZE PAK SA shares as at the day of submitting the previous report
Wojciech Piskorz	0	0
Wiesław Walendziak	0	0
Tomasz Szelaǳ	0	0
Henryk Sobierajski	0	0
Leszek Wysłocki	0	0
Sławomir Sykucki	0	0
Sławomir Zakrzewski	0	0
Piotr Stępniaǳ	0	0
Grzegorz Krystek	0	0

## 6. OPINION OF THE MANAGEMENT BOARD ON THE POSSIBILITY OF EXECUTION OF FINANCIAL FORECASTS PUBLISHED EARLIER

Zespół Elektrowni Pątnów – Adamów – Konin SA has not published any financial forecasts.

## 7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The company did not pay or declare dividend payment in the period of nine months of 2019.

## 8. INFORMATION ON THE CONCLUSION BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT TRANSACTIONS WITH ENTITIES AFFILIATED PURSUANT TO CONDITIONS OTHER THAN MARKET CONDITIONS

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the third quarter of 2019.

## 9. INFORMATION ON GRANTING BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT GUARANTEES, SURETIES, CREDITS OR LOANS

On August 30, 2019, Zespół Elektrownia Pątnów - Adamów - Konin SA granted a surety for Polskie Sieci Elektroenergetyczne SA in the amount of PLN 16.3 million for the obligations of a subsidiary of the Capital Group, i.e. PAK KWB Konin SA.

## 10. INFORMATION CONCERNING THE ISSUE, REDEMPTION, AND REPAYMENT OF NON-EQUITY AND CAPITAL SECURITIES

On September 27, 2019, a company from the ZE PAK SA Capital Group - PAK KWB Konin SA made an early redemption of a part of corporate bonds held by another company from the Capital Group, i.e. PAK KWB Adamów SA in the amount of PLN 10 million.

## **11. FACTORS WHICH, IN THE MANAGEMENT BOARD'S OPINION, WILL AFFECT THE COMPANY'S RESULTS IN THE PERSPECTIVE OF AT LEAST ONE QUARTER**

The process of forecasting future results of the ZE PAK Capital Group must include a wide range of factors occurring actually, potentially or theoretically, existent in the branch and markets in which the Company conducts its operations. These include both internal factors as well as factors with their source in the environment. In the view of the Board, they can be divided into factors which constantly influence the Group's functioning as well as those which appear incidentally in the period which is embraced by a given periodical report.

The most important factors which constantly affect the Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO<sub>2</sub> allowances costs;
- compensation for the stranded costs related to the termination of Elektrownia Państw II's LTC contract;
- seasonality and meteorological conditions;
- investment expenses, in particular those privileged to obtain CO<sub>2</sub> emission allowances free of charge;
- EUR/PLN exchange rate and interest rates level.

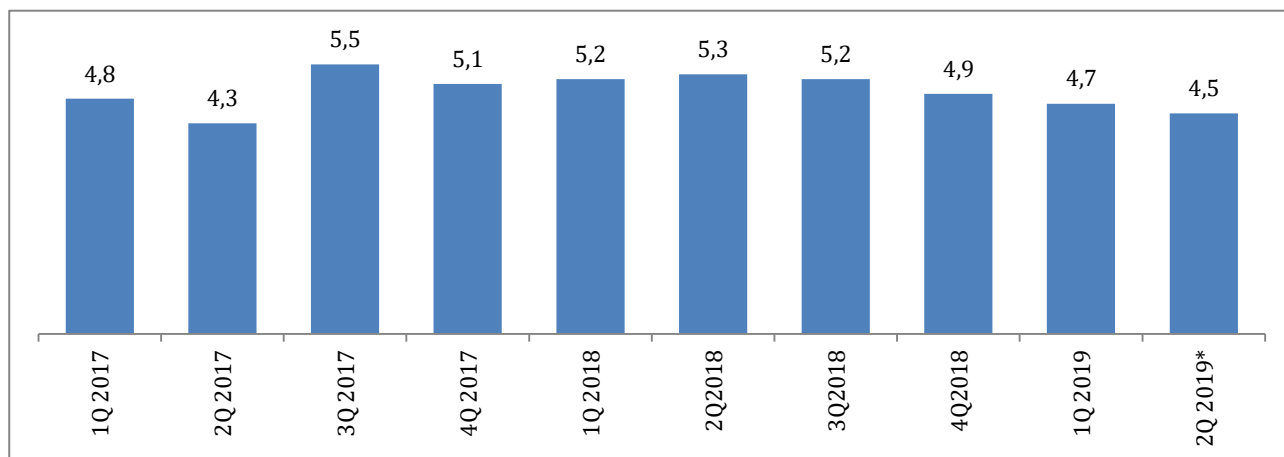
Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 30 September 2019, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

### **11.1. Macro-economic trends in the Polish economy and the demand for electricity**

When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, the development of the service sector as well as the increase in individual consumption. All of the aforementioned factors significantly affect the demand for electricity and its consumption.

A quick estimate of the Central Statistical Office of Poland regarding the growth of gross domestic product ("GDP") of Poland in the third quarter of 2019 will be announced on November 14, 2019. The chart below illustrates the quarterly dynamics of GDP growth over the last 2.5 years.

Chart 7: GDP dynamics (%) in relation to the analogous quarter of the previous year (yearly average fixed prices)

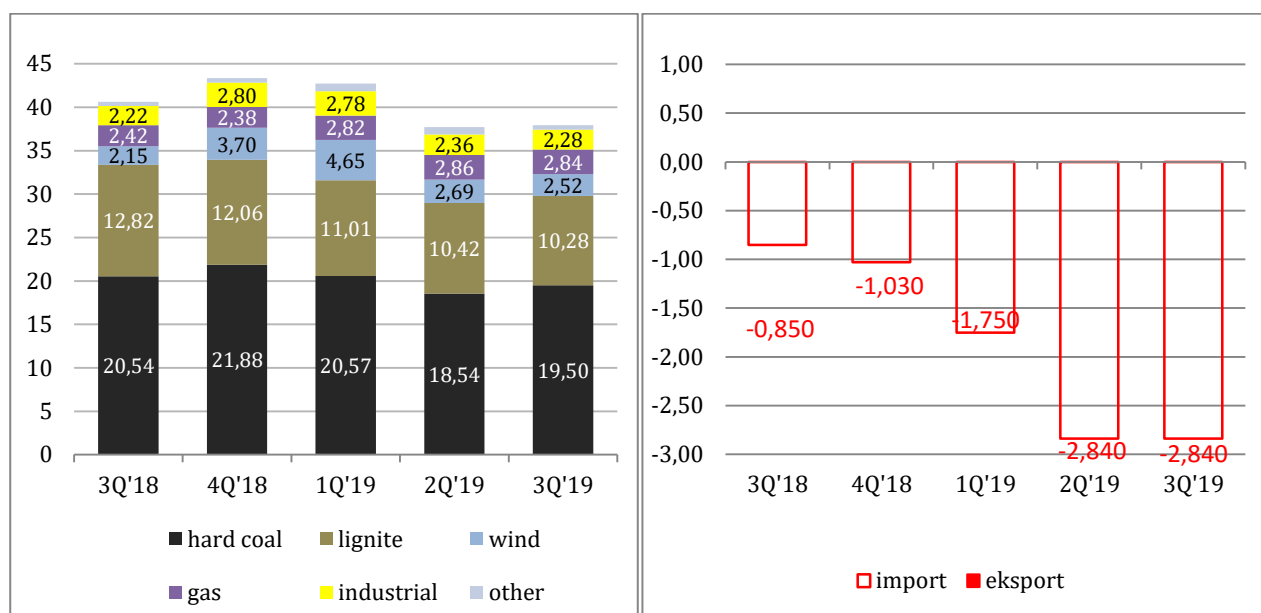


\* The so-called preliminary estimate of gross domestic product in the second quarter of 2018, seasonally unadjusted, at constant average annual prices of the previous year.

Source: Own elaboration based on CSO Data

Based on previously announced monthly partial data on the volume of sold production, industrial production or consumption indicators, it can be assumed that the GDP growth rate in the third quarter will again decrease compared to the previous quarters. The deteriorating economic situation in the economies that are Poland's main trading partners means pressure on sectors dependent on external demand and with a certain delay turns into economic results in Poland. According to forecasts, the economic slowdown in the third quarter may continue, but it should be expected to be milder compared to Western European countries. In the entire third quarter, the industrial production dynamics was, according to estimates, around 3.4% y / y, i.e. less compared to an increase of 4.2% y / y in the second quarter and an increase of 6.1% y / y in the first quarter of 2019. The main factor, which positively influences the dynamics of GDP, is still consumption of households whose wealth has increased, among others in connection with the favorable labor market situation and social programs launched.

Chart 8: Structure of electricity generation and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: Own elaboration based on PSE data

Data on the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that gross domestic electricity consumption in the third quarter of 2019 amounted to 40.76 TWh<sup>1</sup> and, compared to the third quarter of the previous year, it fell symbolically by 1.8%. In the third quarter of 2019, gross electricity production amounted to 37.92 TWh, which means a decrease by 6.6% compared to the same period of the previous year. Coal-fired power plants had the largest share in the production structure, production from hard coal amounted to 19.50 TWh. 10.28 TWh was produced from lignite. Wind farms produced 2.52 TWh. The foreign exchange balance in the third quarter of 2019 amounted to 2.84 TWh on the import side.

## 11.2. Regulatory environment

Entities operating on the electricity market are subject to strict regulations, such as the Energy Law, the Act on Renewable Energy Sources ("RES"), provisions on the public sale of part of the energy produced, as well as support for specific energy production technologies, as well as regulations and directives of European Commission and international conventions concerning, inter alia, environmental protection and climate change (including CO<sub>2</sub> emissions). Account should also be taken of tax law provisions and interpretations and recommendations issued by the Energy Regulatory Office. Any changes in the described areas may be of great importance for the Group's operations. Any changes in the described areas may be of key importance for the Group's operations. Regulatory risk is one of the most important electricity generators in the industry.

On June 5, 2019, the European Parliament and the Council of the European Union adopted a regulation on the internal market in electricity (No. 2019/943), which will apply from January 1, 2020. The provisions of this regulation introduce rules regarding the design of capacity mechanisms. Article 22 (4) includes provisions stating that new installations where emissions exceed 550 grams CO<sub>2</sub> per kilowatt hour (kWh) from fossil fuels will not be able to benefit from state support within the capacity market after July 1, 2025. On the other hand, existing power plants emitting more than 550 grams of CO<sub>2</sub> per kWh and more than 350 kg of CO<sub>2</sub> per year on average for each installed kW of power will be able to participate in these mechanisms until July 1, 2025. Capacity contracts, which will be signed within the capacity market by the end of 2019, will be removed from the regulatory restrictions.

On August 2, 2019, the ordinance of the Minister of Energy on the parameters of the main auction for the year of delivery 2024 and the parameters of additional auctions for the year of delivery 2021 (item 1457), specifying the conditions of participation in the main auction for 2024 and additional auctions for 2021, was published. This regulation lowered the investment expenditure threshold required to conclude a multi-year contract and maximum prices for existing, new and modernized entities.

On August 14, 2019, in the Journal of Laws under item 1524 an act was amended to amend the act on renewable energy sources and certain other acts, which contained the amount of energy and value intended for sale at auction this year. The amended act also extended the periods required for generation for the first time after the auction of solar energy from 18 to 24 months, and from wind from 24 to 33 months.

## 11.3. Electricity prices

The Group generates the vast majority of revenues from generation and sale of electricity, therefore the risk of changes in the price for which it sells electricity is of key importance for the level of revenues generated by the Group.

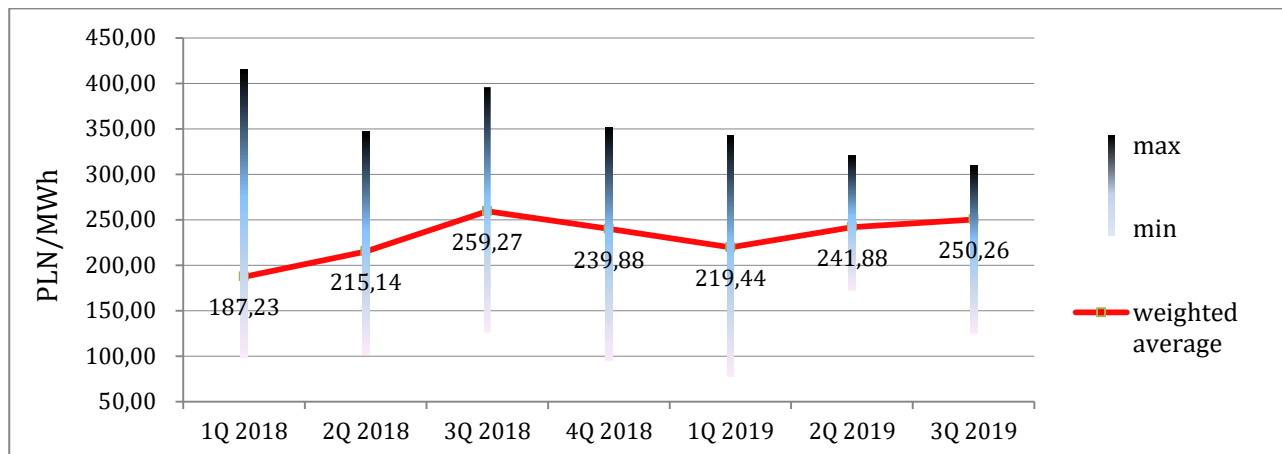
In the third quarter of 2019, the next day market of Towarowa Giełda Energii SA recorded increases in electricity prices compared to prices recorded in the previous two quarters of this year. For most days of the third quarter, electricity was valued at TGE SA at a level above the quarterly average of the first and second quarters. The most expensive month in the third quarter was August, in which electricity prices on the next day market were at the highest average daily level in the analyzed period, reaching even PLN 309 / MWh (IRDN Index on August 30, 2019). The high price level in the third quarter was mainly due to high air temperatures and relatively low windiness. In addition, given the state of work of the National Power System, many manufacturers moved some of the renovation campaigns usually carried out in the second quarter to the third quarter, which probably, in addition to weather conditions, contributed to the increase in electricity prices. However, comparing year to year, the market valued the third quarter of this year at a lower level than it was last year.

The weighted average price (IRDN) in the third quarter of 2019 was at the level of PLN 250.26 / MWh, which is lower by PLN 9.01, i.e. 3.48% compared to the third quarter of 2018.

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<sup>1</sup> Table 3. Structure of electricity production in domestic power plants, the volume of electricity exchange with foreign countries and national energy consumption - monthly values and from the beginning of the year - gross value.

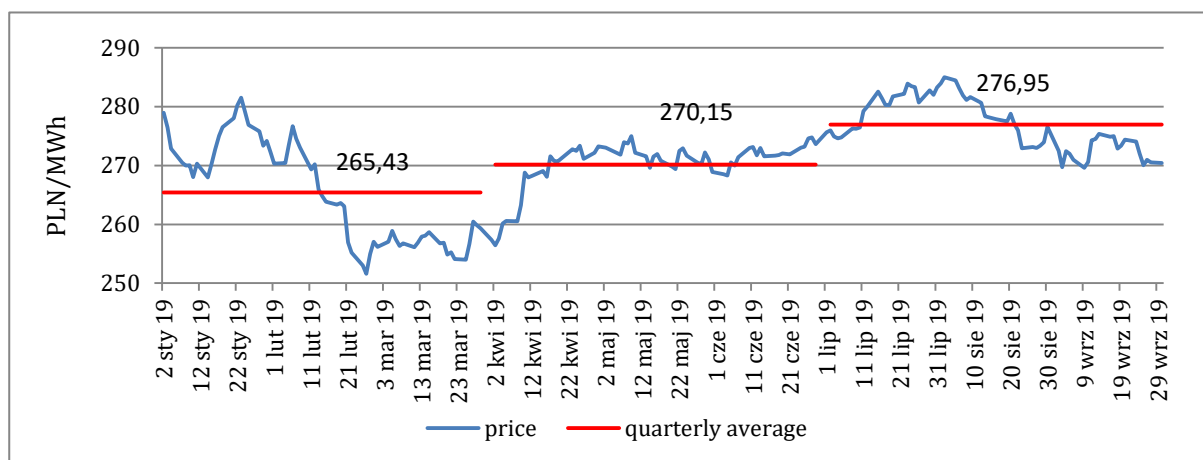
Chart 9: Energy prices (IRDN - Instruments of the Day Ahead Market)



Source: Own elaboration based on TGE data

On the electricity forward market of Towarowa Giełda Energii S.A. the level of prices quoted on the BASE\_Y-20 futures reference contract was characterized by an upward trend. The price increase on the futures market was a consequence of growing current energy prices on the spot market. Nevertheless, the factors shaping prices on the forward market remain unchanged, and they can be associated with high levels of steam coal prices for domestic customers and with high levels of prices of CO<sub>2</sub> emission allowances, which in the third quarter of this year also showed a systematic upward trend in monthly average. The arithmetic average of the daily clearing rates for the BASE\_Y-20 contract during the nine months of the year was successively in the first quarter of 2019 at the level of PLN 265.43 / MWh, in the second quarter PLN 270.15 / MWh, in the third quarter 276.95 PLN / MWh.

Chart 10: The price of the futures contract for the supply of electricity (band) for 2020

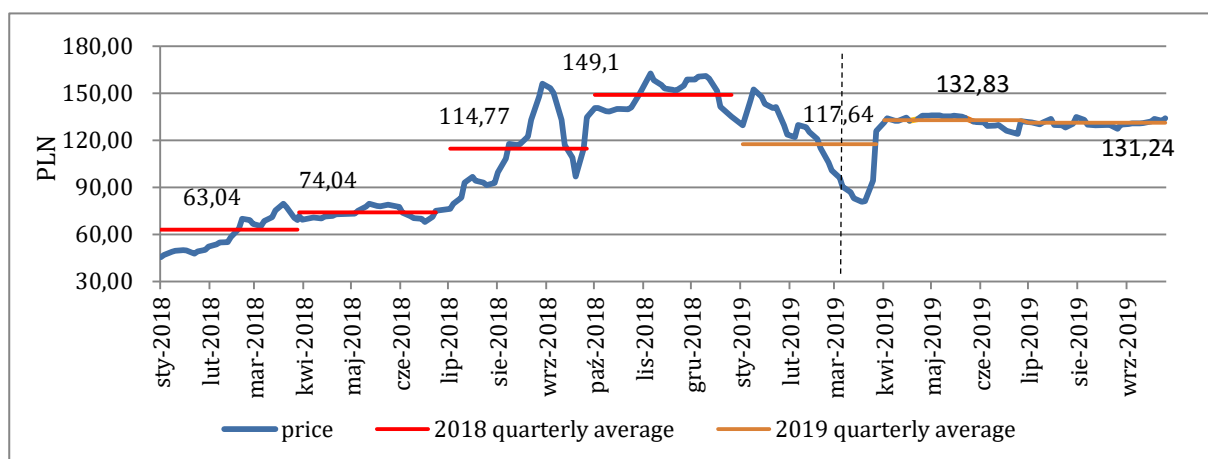


Source: Own elaboration based on TGE data

#### 11.4. Prices supply of certificates of origin

Due to the fact that one of the power units at ZE PAK SA is dedicated to combusting biomass and, a producer is entitled to green certificates. The number of obtained certificates of origin depends on the level of generation from a given sources and is usually higher than the number, which the Company is obliged to present for redemption, which in the case of a surplus allows to sell specific volumes to other market participants. However, biomass unit generation largely depends on the green certificates market price levels. During periods, when the total generated biomass energy and green certificate prices do not ensure reaching the assumed financial effect, the generation may be decreased or halted, which also automatically decreases the amount of generated green certificates. Due to the fact that the level of income generated from the sale of certificates of origin is lower than the level of revenues generated from the sale of electricity, the risk of price changes for certificates of origin also has a smaller impact on results than, for example, the risk of changes in energy prices.

Chart 11: Price of RES Energy certificate of origin



Source: Own elaboration based on TGE data

In the third quarter of 2019, prices of energy certificates of origin (green certificates) were characterized by relative stagnation. There were no new factors on the market that could significantly affect the price level. The weighted average price of green certificates in the third quarter of 2019 was PLN 131.24 / MWh, which means an increase of PLN 16.47 / MWh, i.e. by 14.35% compared to the third quarter of 2018.

## 11.5. Extraction and supply costs of coal and other fuels

A fuel cost is the important part of the costs related to the electricity and heat generation in companies of the ZE PAK SA Group. The prices of fuel largely determine the competitiveness of particular electricity production processes. The ZE PAK SA Group's power plants produce most of their electricity from brown coal, but they also use forest and agricultural biomass. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

Two lignite coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, which are the suppliers of lignite coal to ZE PAK SA Group's power plants causes that ZE PAK Group does not rely on external suppliers and limits the exposure to potential fluctuations of brown coal prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of brown coal depends on the factors which remain outside the direct control of the Group.

The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, which would be economically viable. As part of activities to ensure the raw material for the Group's generation assets, PAK KWB Konin executed designing works at the perspective brown coal deposits. In order to develop the perspective deposits, it is necessary to obtain all necessary formal approvals and permits, culminated with obtaining a license to extraction. The process of obtaining approvals and permits is a multi-step and stretched in time. In view of the above, there is a risk of delays and postponements in the schedule of developing subsequent deposits which, in turn, may entail risks of interruptions of coal supplies for the Group's generating assets. The opportunity to start the extraction from the prospective coal deposits in the future may be limited by many factors beyond the control of the Group. The main risk factors include: failure to obtain the necessary licenses, adverse settlements of the local government in terms of shaping the special policy, lack of opportunity to obtain adequate financing. The risk related to the cost and quantity of fuel supplies is crucial for the overall level of costs and production volume.

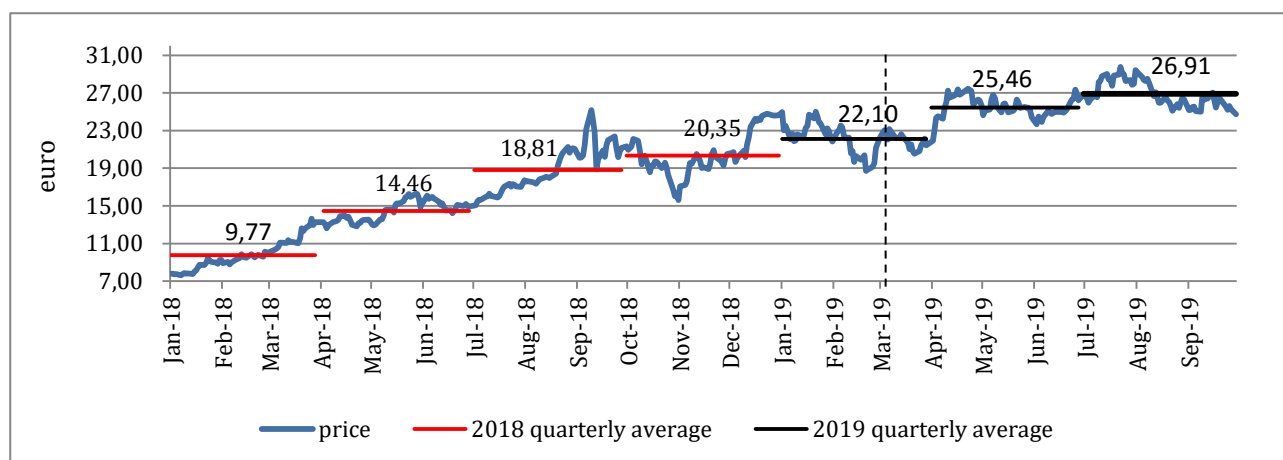
## 11.6. CO<sub>2</sub> emission allowances costs

The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO<sub>2</sub> emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO<sub>2</sub> and the risk of price changes of CO<sub>2</sub> emission allowances (EUA) is of great importance to the activities' results.



The third quarter of 2019 was characterized by high price volatility - the range between a minimum of EUR 24.72 and a maximum of EUR 29.77 was EUR 5.05. In July 2019, the EUA price was steadily rising, reaching price levels not recorded for over 11 years (end of July - 29.15 EUA at closing). The increase could have been caused by 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 in rivers), gas and fuels. August was a month of falling EUA prices - the range between a minimum of 25.09 EUR and a maximum of 29.42 EUR was 4.33 EUR. Prices were falling despite lower auctioning volumes. In addition, the way Britain left the EU under the so-called Brexit still remained uncertain (the scenario of non-contractual Brexit and concerns about the start of the sale of allowances by British entities are becoming more likely). The most important information for the market in September was the restoration of sales of normal EUA volumes at auctions compared to August. The arithmetic average of EUA quotations in the third quarter of 2019 was EUR 26.91, which means an increase of 43% compared to the third quarter of 2018, and the arithmetic average of the EUA quotations in three quarters of 2019 was EUR 23.78, which means an increase by 73% compared to the three quarters of 2018.

Chart 12: Price of the futures contract for the supply of EUA



Source: Own elaboration based on ICE data

### 11.7. Compensation for the stranded costs related to the termination of the „Long-term Contract” („PPA”) Elektrownia Państw II sp. z o.o.

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Państw II sp. z o.o. and Polskie Sieci Elektroenergetyczne SA. The contract was a long-term agreement in the scope of supply of electricity according to the established price formula.

Due to the early termination (on 1 April 2008) of PPA, pursuant to the Act of PPA, Elektrownia Państw II sp. z o.o. is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. Elektrownia Państw II sp. z o.o. is covered by the said act by the end of 2025. The mechanism determining the amount of revenues related to compensation for stranded costs largely functions on the basis of offsetting, therefore the risk related to the level of revenues from this source is to a certain extent dependent on other types of risk affecting the level of costs and revenues, e.g. energy prices or prices of allowances for emissions.

### 11.8. Seasonality and meteorological conditions

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

Irrespective of the factors described above, meteorological conditions are becoming more and more important for the Group's production level. In the past, the operations of the Group were not subject to significant seasonality of demand, due to low costs, the work of blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of RES in the energy generation segment, including primarily wind sources, weather conditions are becoming more and more important in the estimation of the Group's production volume, with

particular regard to wind conditions. Statistically, periods of the best wind conditions are the first and the fourth quarter. It should be taken into account that in periods when wind conditions are extremely good and the production of wind turbines is high, the demand for the Group's production may be subject to periodic reductions, similarly in periods of lower wind production can increase.

However, the risk related to seasonality and meteorological conditions is not crucial in the Group's operations.

## 11.9. Investment expenses

Activities in the coal mining and energy production sector require significant investment expenditures. The Group's generation assets require periodic renovations and ongoing modernizations, both due to the tightening of environmental protection requirements and the need to increase the efficiency of electricity production. The level of investment outlays had a material impact, and, according to expectations, it may still have a significant impact on the results of operating activities, the level of indebtedness and cash flow. Delays in implementation, changes in the investment program and exceeding the budget may have a serious impact on future capital expenditures as well as on results, financial situation and development prospects. In addition, some of the investment projects planned by the Group, reported to the National Investment Plan, involve the allocation of free units authorizing to CO<sub>2</sub> emissions, however, if these investments are not implemented, the ability to use the free allocation is also prevented. Also in the case of certain expenditures, the sustaining of which authorized the allocation of free emission rights, when the investment project submitted to KPI was not completed on time, the possibility of returning the received permits should be reckoned in the part in which they were previously granted. Due to the above, on October 10, 2019, the Supervisory Board decided to discontinue the modernization of units 3 and 4 at Pałnów Power Plant and agreed to return the equivalent of free EUA allocated to ZE PAK SA for the modernization of units 3 and 4 at Pałnów Power Plant and in accordance with statutory requirements, ZE PAK SA notified the Ministry of the Environment about this fact. ZE PAK SA is waiting for a decision to be issued by the Ministry of the Environment on the amount to be refunded. More information on the return of free EUAs is provided in section 3.2. of this report.

## 11.10. EUR/PLN exchange rate, the level of interest rates

Despite the fact that the Group conducts its activities in Poland, where it incurs costs and gains revenues in zloty, there is a couple of significant factors which make the financial results dependent on the exchange rate of EUR/PLN and the level of WIBOR interest rates. The most important factors include:

- transactions connected with EUA purchase are settled in EURO,
- The companies in the Group use debt financing based on a variable interest rate.

The Group's exposure to risk caused by changes in interest rates relates primarily to financial liabilities. The Group has financial liabilities, mainly investment and working capital loans with variable interest rates.

The Group companies periodically use instruments to limit the risk arising from exchange rate fluctuations, e.g. for part of the flows related to the purchase of CO<sub>2</sub> emission allowances. Forwards are used to hedge the exchange rate. Management Boards monitor the financial and market situation on an ongoing basis, and if necessary, they may decide on the need to use financial instruments to hedge against currency risk. In accordance with the principles applied in ZE PAK SA Group, any transactions will be collateral and will be matched to the hedged item in terms of volume and maturity. The decision to choose a hedging instrument will also take into account: price, market liquidity, product simplicity, ease of valuation and accounting, and flexibility.

## SIGNATURES:

Henryk Sobierajski  
President of the Management Board

.....

Zygmunt Artwik  
Vice President of the Management Board

.....

Paweł Markowski  
Vice President of the Management Board .....

Paweł Lisowski  
Vice President of the Management Board .....

Maciej Nietopiel  
Vice President of the Management Board .....