

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

**MANAGEMENT BOARD'S REPORT
FROM THE CAPITAL GROUP'S OPERATIONS IN 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>Złoty Thousand 12 months 2019 period from 01.01.2019 to 31.12.2019</i>	<i>Złoty Thousand 12 months 2018 period from 01.01.2018 to 31.12.2018</i>	<i>Euro thousand 12 months 2019 period from 01.01.2019 to 31.12.2019</i>	<i>Euro thousand 12 months 2018 period from 01.01.2018 to 31.12.2018</i>
Sales revenue	2 877 920	2 304 824	669 004	540 164
Operating profit/loss	(423 589)	(477 262)	(98 468)	(111 852)
Profit/loss before tax	(439 892)	(515 448)	(102 258)	(120 802)
Net profit/loss for the period	(446 146)	(463 673)	(103 711)	(108 667)
Net profit/loss attributable to equity holders of the parent	(445 179)	(460 196)	(103 487)	(107 853)
Total comprehensive income	(448 924)	(462 064)	(104 357)	(108 290)
Net cash flow from operating activities	448 037	366 754	104 151	85 953
Net cash flow from investing activities	19 198	(60 703)	4 463	(14 226)
Net cash flow from financing activities	(355 917)	(325 305)	(82 737)	(76 239)
Net increase / (decrease) in cash and cash equivalents	111 318	(19 254)	25 877	(4 512)
Net profit /lossper share (in zloty/euro per share)	(8,76)	(9,05)	(2,04)	(2,12)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As of 31.12.2019</i>	<i>As of 31.12.2018</i>	<i>As of 31.12.2019</i>	<i>As of 31.12.2018</i>
Total assets	3 118 246	3 871 297	732 240	900 302
Fixed assets	2 182 031	2 968 043	512 394	690 243
Current assets	936 215	902 244	219 846	209 824
Total equity	1 176 468	1 687 147	276 263	392 360
Share capital	101 647	101 647	23 869	23 639
Share capital attributable to equity holders of the parent	1 174 147	1 683 859	275 718	391 595
Total liabilities	1 941 778	2 184 150	455 977	507 942
Long-term liabilities	988 294	974 139	232 076	226 544
Short-term liabilities	953 484	1 210 011	223 901	281 398
Book value per share (in zloty/euro per share)	23,15	33,20	5,44	7,72
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:

- data on the statement of comprehensive income and the statement of cash flows according to the arithmetic average of the average NBP exchange rates from each last business day of the month of the financial period from January 1, 2019 to December 31, 2019, which is EUR/PLN 4.3018, and from January 1, 2018 to December 31, 2018, which is EUR/PLN 4.2669.
- data on individual items of the statement of financial position according to the average exchange rate of the EUR/PLN specified by the NBP as at December 31, 2019, i.e. EUR/PLN 4.2585, and as at December 31, 2018, i.e. EUR/PLN 4.3000.

2. DESCRIPTION OF THE COMPANY AND THE CAPITAL GROUP

2.1. Basic information on the Company and the Capital Group

Basic information on the Company

Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as ZE PAK SA or Company) operates in the form of a joint-stock company, pursuant to the regulations of the Code of Commercial Companies as well as other regulations of the generally applicable Polish law. The Company was established as result of transformation of Zespół Elektrowni Pątnów – Adamów – Konin state-owned company with registered office in Konin into a company wholly owned by the State Treasury under the business name of Zespół Elektrowni „Pątnów – Adamów – Konin” Spółka Akcyjna. The deed of transformation was signed on 29 December 1994 in the presence of the notary public Elżbieta Brudnicka from the Notarial Office in Warsaw. On 31 December 1994, the Company was entered into the commercial register section “B” by the District Court in Konin under number RHB 847. Based on the decision of the District Court in Poznań, 22nd Commercial Department of KRS dated 21 June 2011, the Company was entered into the Register of Entrepreneurs. Currently the Company is entered into the Register of Entrepreneurs kept by the District Court Poznań Nowe Miasto i Wilda in Poznań, IX Commercial Department, under the KRS number 0000021374. The Company was established for an unlimited period of time.

Name:	Zespół Elektrowni Pątnów–Adamów–Konin Spółka Akcyjna
Legal status:	stock company
Abbreviated name:	ZE PAK SA
Registered office and address:	45Kazimierska str., 62-510 Konin, Polska
Telephone number:	+48 63 247 30 00
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
Email address:	zepak@zepak.com.pl
KRS number:	0000021374
REGON number:	310186795
NIP number:	665-000-16-45

According to the Company’s Articles of Association, the primary subject of the Company’s operations is the production and sales of electricity as well as the production and sales of heat. The Company produces energy from conventional sources as well as by biomass combustion. The Company can conduct operations within the territory of the Republic of Poland as well as abroad.

The Company’s shares are listed on the regulated market operated by Giełda Papierów Wartościowych SA w Warszawie (Warsaw Stock Exchange). The Company’s shares are dematerialised and marked by Krajowy Depozyt Papierów Wartościowych SA (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2019, the share capital of ZE PAK SA has been not changed. As of 31 December 2019 amounts to zloty 101 647 094.00 and is divided into 50 823 547 bearer shares class A with a face value of zloty 2.00 each, which represent 50 823 547 votes at the Company’s General Meeting, comprising 100% of the total votes at the Company’s General Meeting.

The Company has no branches (establishments).

Basic information on the Capital Group

As of 31 December 2019 the ZE PAK Capital Group (hereinafter referred to as the “Group”, “Capital Group” or “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

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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: Pałnów II – equipped with a supercritical power unit, Pałnów 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 1 695 MW.

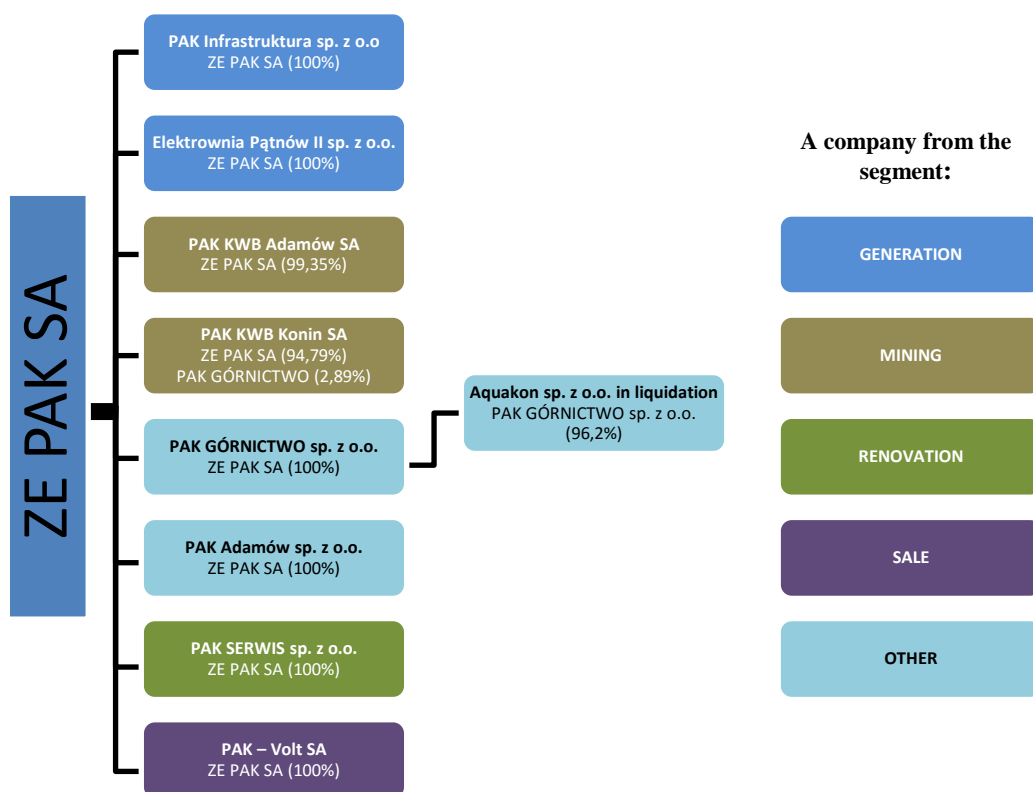
The Group's main mining assets are concentrated in two companies: PAK KWB Konin, which currently operates on Józwin, Tomisławice and Drzewce open casts, PAK KWB Adamów operating on Adamów open cast.

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 Pałnów 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.

Apart from the Capital Group, the Company 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. ZE PAK SA 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.

Structure of the Group as of December 31, 2019



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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 %	
			31.12.2019	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.

2.2. Basic rules and changes to basic rules of ZE PAK SA Capital Group management

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK SA is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, in the organizational structures of the Company there is a Management Board Office directly reporting to the President of the Management Board. Management Board Office in its competences has, among others matters related to ownership supervision. The basic task of the Management Board Office, in the area of corporate governance, is supervision over the operations of ZE PAK SA Capital Group and other companies in which ZE PAK SA holds shares or stocks. This unit coordinates the coherence of activities of all entities belonging to the Group and monitors the compliance of these activities with the applicable law, as well as the interest of the whole Capital Group.

In accordance with the policy implemented in the Group, in key subsidiaries, the functions of members of the management boards of these companies may be performed by members of the Management Board of ZE PAK SA, and in other companies of the Group they are members of the supervisory boards. In addition, in order to ensure the proper functioning of the corporate governance, the Management Board of ZE PAK SA recommends to the Supervisory Board of ZE PAK SA the candidates of the other members of the management and supervisory boards of the Group companies.

The organizational structure of the Company created organizational divisions gathering organizational units of the Company (departments, offices, departments, etc.). Individual organizational divisions are managed by members of the Management Board of ZE PAK SA in accordance with the internal division of powers made by the Company's Supervisory Board. Members of the Board of ZE PAK SA cooperate and agree and coordinate activities in matters of the Company and secure the proper cooperation of the divisions and organizational units they manage. The areas of the Company's operations managed by individual members of the Management Board are defined by the Company's organizational regulations defining the organization of the Company's enterprise.

In 2019, ZE PAK Capital Group carried out extensive restructuring processes in the areas of administration and management by creating shared service centers organized at ZE PAK SA in the following areas:

- legal area, services for the bodies of the Group companies,
- investments,
- accounting, finance and controlling,

- staff and wages,
- environmental Protection,
- logistics and shopping,
- administration.

Shared service centers provide services in the areas specified above on the basis of contracts concluded by ZE PAK SA with the following companies:

- PAK KWB Konin SA,
- PAK KWB Adamów SA,
- PAK SERWIS,
- PAK Górnictwo.

The concentration of competences in individual areas is aimed at improving the quality of services provided and optimizing the operating costs of the ZE PAK Capital Group.

2.3. Description of the structure of major capital deposits or main capital investments made within the Capital Group

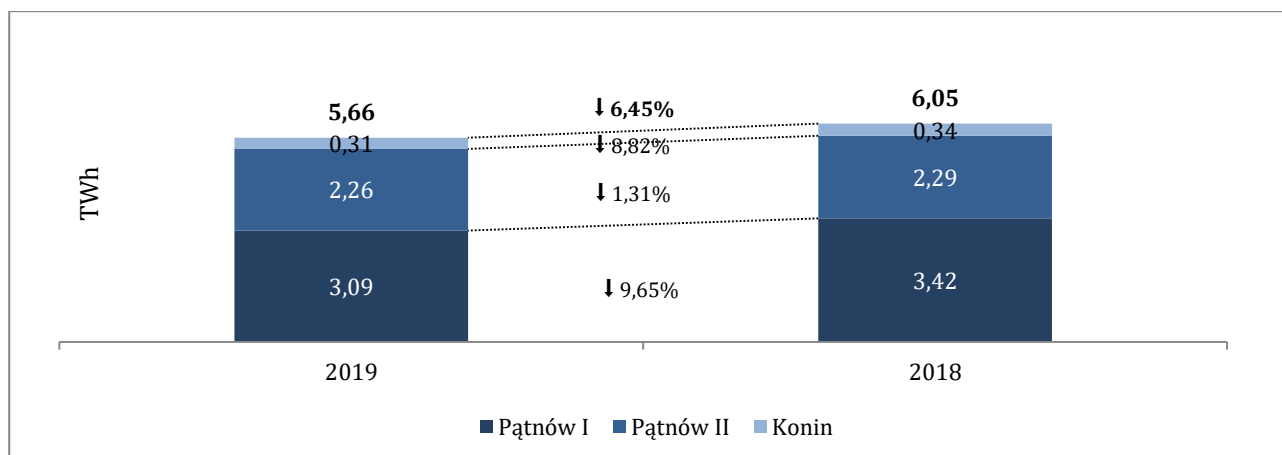
Information on the structure of the ZE PAK SA Capital Group can be found above in point 2.1 of this report. In 2019, no capital investments and investments significant from the point of view of the Group's operations were made within the Capital Group.

2.4. Basic products, goods, services, markets and sources of supply characteristics

The Company's operations are focused in several areas. The main area is doubtlessly generation of electricity, lignite extraction, electricity wholesale trading, which is supplemented by sales of energy certificates, operations undertaken to ensure an adequate amount of CO2 allowances as well as generation and sales of heat. In addition, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trade operations for the purpose of satisfying their own needs as well as providing comprehensive services to the industry. In 2019, the Group mainly conducted its operations in the Polish market. The only exception included operations related to transactions regarding the CO2 allowances, which were executed between ZE PAK and EPII as well as foreign partners.

The Group is the significant largest producer of electricity in Poland and bases its production mainly on lignite. The net electricity production in Pałnów I power plant in 2019 reached 3.09 TWh, in Konin power plant 0.31 TWh and in Pałnów II power plant 2.29 TWh. Total net energy production in all power plants of the Group in 2019 was lower by 6.45% compared to the previous year.

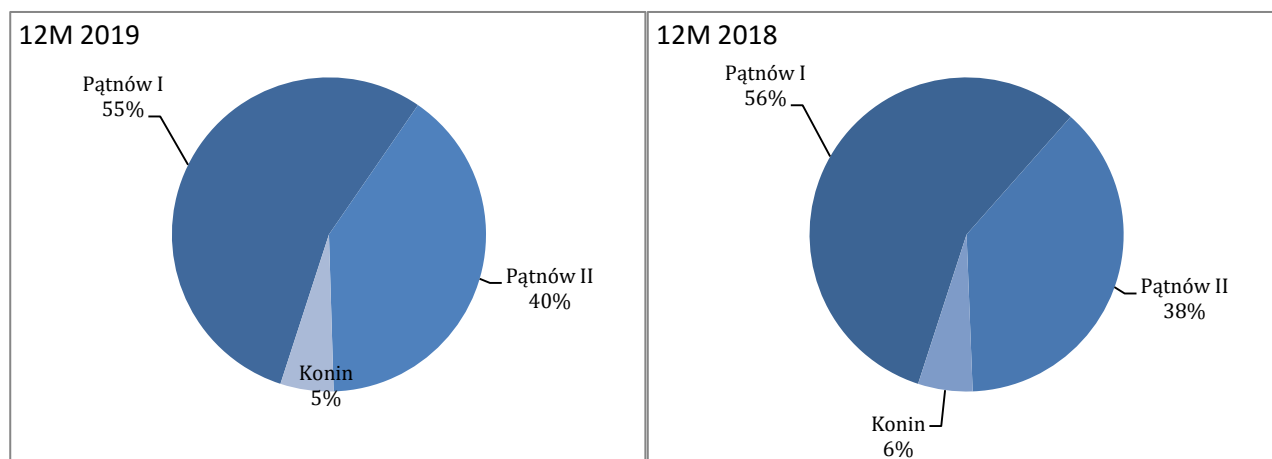
Chart 1: Net electricity production



Source: internal data

The decrease in production concerned mainly Pałnów I power plant and took place especially in the first months of last year, when as a result of higher than average temperatures and better wind conditions (high generation from wind turbines) market relations of energy prices and CO2 prices did not encourage the maximization of production. External factors related to atmospheric conditions (temperatures, wind conditions) in recent years, as well as the dynamically growing energy imports in the past year are increasingly important for the amount of energy generation by domestic producers.

Chart 2: The structure of production divided into individual power plants

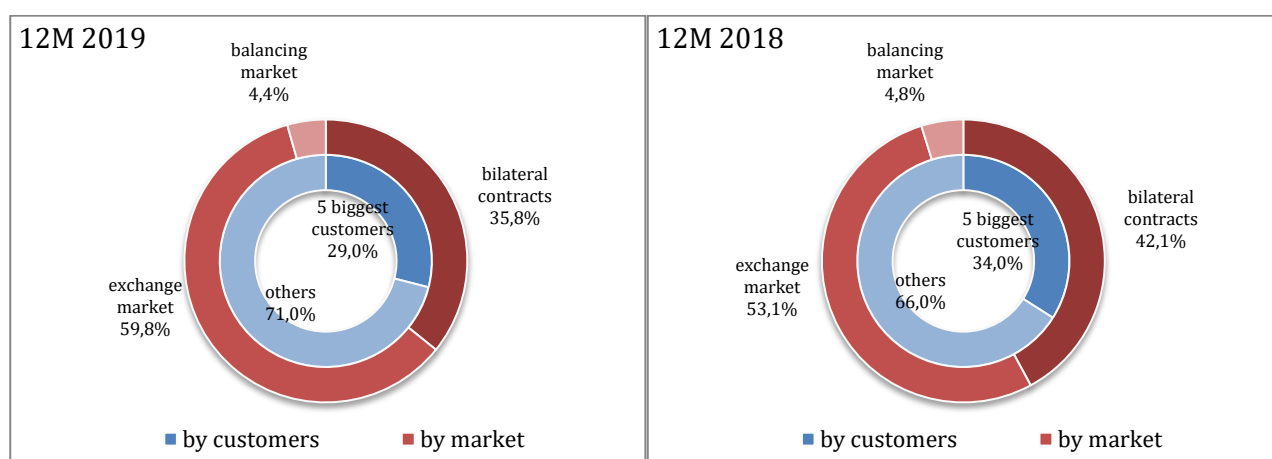


Source: Internal data

In 2019, the Group sold 9.36 TWh of electricity, i.e. slightly (0.21%) more than in 2018.

The main direction of electricity sales in 2019 was sales on the stock market, which accounted for 59.8% of the total volume of energy sold. Under bilateral contracts concluded mainly with electricity trading companies operating on the Polish market, the Group companies sold 35.8% of the annual sales volume of energy realized in 2019. Transactions with final customers accounted for 6.9% of the total electricity sales volume. The sales structure is supplemented by the electricity balancing market, where the Group companies sold 4.4% of the total electricity sales volume last year.

Chart 3: Electricity sale structure by customers (internal ring) and by market (external ring)



Source: internal data

Revenues from the sale of electricity (total - generated and from turnover, reduced by excise duty) accounted for 88.46% of the total revenues from the sale of the Group, while revenues from the received compensations to cover the so-called "Stranded costs" in Elektrownia Pałnów II constituted 4.97% of the Group's sales revenues.

The heat generated in the Group's power plants is sold to local customers. The main recipient is a municipal heat energy enterprise in Konin and local industrial producers. Last year, the Group sold 1,193 TJ of heat. Heat sales accounted for 1.59% of the Group's total sales revenues.

In 2019, revenues from the sale of rights of origin were higher compared to 2018. Growth was determined by both the higher volume and higher market price of "green certificates". The share of revenues from the sale of property rights from energy certificates of origin in 2019 represented 1.88% of the total revenues of the Group.

From significant sources supplementing the revenue structure, it is worth mentioning the activities related to the execution of construction and assembly works. PAK Serwis sp. z o. o., one of the Group's companies, deals with the implementation of such tasks for the needs of the Group and external entities. The main external customers are entities from the industrial construction sector and the electricity generation and distribution sector. Revenues obtained from this service provided to external entities in 2019, accounted for 2.09% of the total revenue of the Group's sales. The remaining activity generated 1.03% of total revenues in the previous year.

The main raw material used by the Group for energy production is lignite. The extracted lignite coal is delivered directly from open pit mines to nearby power plants. For this reason, lignite mining in the ZE PAK SA Group is closely correlated with the amount of electricity generated by power plants located in the vicinity of the mines. Periodic replenishment of deliveries from own opencasts constitute purchases from external suppliers.

Practically, the whole amount of coal mined in both mines is delivered to the power plants of the ZE PAK SA Capital Group; an insignificant amount (less than 1%) is used mainly for the own needs.

In the Group, biomass is also used as a raw material for energy production – it is burned in a boiler dedicated to this purpose and located in Elektrownia Konin. Biomass supply contracts are concluded with external suppliers.

3. DESCRIPTION OF ACTIVITIES

3.1. Significant events in the accounting year as well as events after the balance sheet date affecting the current and future activities

Significant events in the accounting year

In the reported period there were changes in the Supervisory Board and the Management Board of the Company. A description of these changes is provided in section 9.9. "Composition, changes and description of the management and supervisory bodies" of this report.

Decision on Tomisławice open-pit issued by the Local Government Appeal Court in Konin

On January 18th, 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 is still in legal circulation. You can read more about the pending proceedings in point 12.1. "Significant court proceedings" of this report.

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 would 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. On September 27 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 8.1 of this report.

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. In accordance with the decision issued by the Ministry of the Environment, the Company made a refund of PLN 24.3 million.

The Management Board of the Company predicted that there is 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. Along with the return described above, the part of the provision which concerned units 3 and 4 was released. The remaining part of the reserve, which relates to the potential return of previously granted CO2 emission allowances related to the expenditure incurred for the construction of a gas-steam block for the amount of about PLN 6.5 million.

Block 4 with a capacity of 200 MW was decommissioned on December 31, 2019, while block 3 with a capacity of 200 MW is planned to be decommissioned in June 30, 2020.

If the construction of the steam and gas block is not completed, the previously granted rights must be returned.

Power market auctions

In December 2019, a capacity market auction was held for the supply period starting from 2024. The selection of capacity market units that will offer a new service consisting of readiness for energy supply in a given quantity and conditions for an appropriate remuneration was made as a result of Dutch type auctions, i.e. auctions consisting of many rounds with a decreasing price. Capacity market units that were allowed to participate in the auction, after successfully completing the general certification process and then the certification process for the main auction, left the auction when the price of the next round no longer provided their expected remuneration for power. As a result, the auctions won the cheapest offers while maintaining technology neutrality. Companies from the ZE PAK Group also took part in this auction. As a result of the auction, the Group contracted a total of 628 MW (so-called "capacity obligation").

The generating assets of ZE PAK SA Group, participating in the auction as existing generating units, concluded capacity contracts for one year of supplies, thus contracting a total capacity obligation of 588 MW. 40 MW were contracted for the new generation capacity unit for a period of 17 years starting from 2024. The new generating unit is the installation in Konin power plant, which was previously used for burning lignite and will eventually be adapted for biomass burning.

On December 31, 2019, Polskie Sieci Elektroenergetyczne SA announced that the main auction for the year of deliveries 2024 ended in round 5 with a closing price of PLN 259.87 / kW / year.

Shutdown of units 3 and 4 at Pątnów power plant

Power units operating at Pątnów power plant were commissioned in the 70s of the last century. Over the next years of their operation, further modernizations had to be made, allowing the replacement of worn out elements and their adaptation to ever new technical and environmental requirements. The last such thorough modernization concerned blocks 1 and 2 and extended the possibility of their operation until 2030. The initial plans also assumed a thorough modernization of blocks 3 and 4. An investment loan in the amount of PLN 1.2 billion was granted to the Company in 2014 for the modernization of four blocks. However, as a result of changing external conditions, decreasing profitability of energy production from conventional sources (especially the high-emission ones) and the shrinking possibility of acquiring new lignite deposits, it was decided to modernize only two of the four previously planned power units at Pątnów I power plant. The natural consequence of the decision about the withdrawal from modernization of units 3 and

4 at Pałnów I power plant, was a need for orderly decommissioning. The date of decommissioning of the 200 MW block 4 at Pałnów I power plant was set for December 31, 2019. Currently, Pałnów I power plant has 1 and 2 blocks with 222 MW each and blocks 3, 5 and 6 with 200 MW each. The deadline for decommissioning units 3 and 6 at Pałnów I power plant was set for 30 June 2020. It should be emphasized that due to technological conditions (flue gas desulphurization installation) it was not possible to use all power units at Pałnów I power plant at the same time. The production capacity of the remaining units in Pałnów I power plant in 2020 allows for the production of an amount of energy comparable to production in 2019.

The process of extending existing mining licenses

On August 29, 2018, the Act of June 15, 2018 amending the Geological and Mining Law and some other acts came into force. Pursuant to the amendment to the Act of 3 October 2008 on sharing information about the environment and its protection, public participation in environmental protection and on environmental impact assessments, the requirement to obtain a decision on environmental conditions, will not apply in the case of a one-time extension of the concession period for lignite extraction from a deposit, but only if the extension is justified by rational management of the deposit and the scope of the concession itself will not be extended. In the case of lignite mining licenses, the extension of the license period is only possible to 6 years.

In accordance with the above:

- 1) On May 20, 2019, PAK KWB Adamów SA submitted a request to the Minister of the Environment for an extension by six years of the term of the concession for mining lignite and accompanying minerals from Adamów deposit - the Minister of Climate announced by the announcement of January 20, 2020 that the proceedings regarding changes to the above license. By the decision of the Minister of Climate, the license was extended until May 15, 2026.
- 2) On November 29, 2019, PAK KWB Konin SA submitted applications to the Minister of Climate for an extension of the license validity period for lignite and associated minerals from Drzewce deposit by six years - the proceedings are pending.
- 3) On November 29, 2019, PAK KWB Konin SA submitted applications to the Minister of Climate for an extension of the license validity period for lignite mining from Pałnów IV deposit by 6 years - the proceedings are pending.

The process of obtaining formal permits in order to launch Ościsłowo open pit

As part of the activities aimed at ensuring the raw material for the Group's generation assets, project works on prospective lignite deposits are continued. PAK KWB Konin SA carries out the activities aimed at getting all the necessary decisions and documents allowing for obtaining a permit to grant a mining concession to the company. The activities are concentrated on Ościsłowo open pit. The planned open pit is to provide coal necessary for energy generation in Elektrownia Pałnów II and renovated blocks in Elektrownia Pałnów I. Before getting the mining concession a number of formal and legal consents as well as documents specifying the way of conducting the mining operations, its scope and impact on the surroundings of the planned investment must be obtained. An environmental decision is one of them. An institution authorized to issue an environmental decision for the project "Extraction of lignite and associated minerals from the Ościsłowo Open Pit" is Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań"). On 16 September 2015, proceedings against this authority regarding the issue of an environmental decision for Ościsłowo open pit were initiated. As part of the documentation necessary in the proceedings, inter alia, a report on the environmental impact of Ościsłowo open pit and expert opinion on the impact of the designed open-pit on uniform surface and underground waters as well as protected areas were prepared. On March, 10 2017 RDOŚ in Poznań made a decision refusing the establishment of the environmental conditions for the investment. The decision of RDOŚ in Poznań was not final and 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 November 30, 2017, General Director of Environmental Protection 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 the 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, and not referring the matter for reconsideration. The participant in the opposition proceedings to construct the open pit Ościsłowo also appealed to the Provincial Administrative Court. Both objections were dismissed by the WSA. The judgement was issued 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. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw.

On November 21, 2018, RDOŚ in Poznań issued a notice informing the parties of the proceedings that in connection with the final verdict of the Provincial Administrative Court in Warsaw of October 18, 2018, proceedings in the case were not pending before the RDOŚ in Poznań, and the collected evidence was transferred to GDOŚ in Warsaw. On November 22, 2018, GDOŚ in Warsaw issued a notification informing that in connection with the WSA's repeal of the decision of GDOŚ of 30 November 2017 repealing the decision of RDOŚ in Poznań of 10 March 2017 refusing to determine the environmental conditions for the implementation of the project consisting in : Extraction of lignite coal and minerals accompanying from Ościsłowo open pit and remanding the case to the first instance authority - the General Director of Environmental Protection will again appeal against the above decision. On March 6, 2019, GDOŚ called on PAK KWB Konin SA to submit explanations and supplement the evidence. PAK KWB Konin SA applied for extension of the deadline to June 30, 2020 to complete the necessary material. On January 3, 2020, GDOŚ announced that in connection with the above it sets a new deadline for settling the case on June 30, 2020.

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

Another condition necessary for the implementation of the project is the change of the local spatial development plan in the area to be covered by the planned outcrop. Decisions in this respect are taken by the self-governments of the three communes in which the Ościsłowo deposit is planned to be exploited. In December 2016, the Minister of Agriculture issued the approval for dedicating the agricultural lands of Ślesin and Skulsk communes in the area of the construction of the Ościsłowo brown coal open pit for non-agricultural purposes. Also in December 2016, media reports on an archaeological discovery on the part of the land for the planned open pit were published. On September 26, 2017, Wielkopolski Voivodship Monument Conservator initiated administrative proceedings regarding the entry of the archaeological site "Góry stan. 24, AZP area 52-40 / 193 - a multiphase cemetery", i.e. a burial ground of cell-less funerary culture tombs from the Neolithic period and a burial mound of the Lusatian culture from the Bronze Age. On February 9, 2018, Wielkopolska Voivodship Conservator in Poznań issued a decision on the entry of the archaeological site "Góry stan. 24, AZP area 52-40 / 193 - multiphase cemetery" in the village of Góry, gm. Wilczyn area Konin. However, this decision has not become legally binding as a result of appealing to the Minister of Culture and National Heritage by one of the parties to the proceedings. On June 7, 2018, the Minister of Culture and National Heritage issued a resolution which upheld the contested decision. It is worth noting that in the past, on the other open pits exploited by the mines, archaeological and excavation works took place many times. PAK KWB Konin SA cooperated in the past and is going to cooperate in such cases with all relevant institutions.

Significant events after the balance sheet date

Impact of a COVID-19 disease pandemic on the Group's operations

In the first quarter of 2020, cases of COVID-19 disease caused by the active virus previously in Asia intensified in Poland and other European countries. This resulted in a whole range of social and economic consequences. The most important factors that directly affected the companies of the Group include the increased number of employees on holidays, sick leaves and those working remotely. Employee protection is a priority for the Group's companies. Activities undertaken in the Group include, among others, temporary reduction of trips and business meetings, increasing the availability and scope of use of cleaning agents, disinfectants and protective agents, introduction of appropriate work procedures (e.g. shift work), as well as careful monitoring of employees' travel directions (including their families / other household members) for countries at higher risk. The key activities also include adapting the applicable procedures to the requirements of the Act of March 2, 2020 on specific solutions related to the prevention, prevention and eradication of COVID-19, other infectious diseases and the crisis situations caused by them. However, a much greater impact on the Group's operations may have indirect consequences, which are likely to affect the economic situation in Poland and the world. The scale of the reduction in the dynamics of economic growth will certainly affect the demand for electricity in a period when many companies have reduced their scale of activity or completely ceased it. In the period from the beginning of the year to the date of publication of this report, production in the Company's power plants fell by approximately 4% compared to the same period of the previous year, which is not a significant reduction yet, however the next months will be significant. The current situation on financial and commodity markets is also of considerable importance. The increased level of volatility recorded on them means that price relations on individual markets are changing very dynamically (including the electricity market and CO2 emission allowances). The companies apply a strategy of simultaneously hedging electricity prices and purchase prices of emission allowances for future periods, however, dynamic changes in prices of both instruments may affect liquidity and future financial results. Efforts are being made to replace, as far as possible, collateral securing current positions on the energy market and

emission allowances with bank guarantees in order to minimize their impact on liquidity. An additional factor that accelerated the increase in volatility in the first quarter of 2020 was the situation on the main commodity market, i.e. the crude oil market. Changes in prices on the main commodity market have an indirect impact on other goods related to the broadly understood energy sector, e.g. gas, electricity prices and, indirectly, CO₂ emission allowances. The Group is not able to accurately estimate the impact of increased volatility on the energy commodity markets, however, the risk associated with increased volatility should be taken into account in the process of predicting the future potential financial results of the Group and its financial condition.

The Management Board considers the situation described above to be an event without adjustments to the financial statements for 2019, but to be an event after the balance sheet date requiring additional disclosures. Until now, the Management Board has not recorded a noticeably significant impact of the situation on sales or the supply chain. However, the situation in Poland and in the world is constantly changing, so it is impossible to predict the potential effects if the economic situation worsened. The Management Board will continue to monitor the potential impact and will take all possible steps to mitigate any negative effects on the Group. Any impact, if necessary, will be included in the 2020 results.

Conclusion of a contract for the reconstruction of the boiler at Konin power plant

On March 27, 2020, an agreement was concluded with Valmet Technologies, regarding the “turnkey” implementation of a contract for the design and conversion of a K-7 boiler into a fluidized bed boiler operating in BFB technology. The subject of the Agreement is the adaptation of the existing K-7 coal boiler, located at Konin power plant, to a BFB type fluidized bed boiler with stationary, bubble fluid bed, using biomass. The modernized 50 MWe installation will produce electricity and act as a backup for the currently operating biomass block supplying the city of Konin with heat. After the modernization of K-7 boiler, a power generation of approx. 100MWe (2x50MWe) using biomass as the basic fuel will be available at Konin power plant.

Pursuant to the concluded Agreement, the General Contractor's remuneration for performing the subject of the Agreement was set at the net amount of PLN 89.8 million, and the implementation period was set at 18 months from the date of conclusion of the Agreement.

Reconstruction of K-7 boiler is the main element of the entire project consisting in the adaptation of the installation previously used for the production of electricity from lignite for biomass combustion. The total estimated cost of the project is approximately PLN 180 million.

Conclusion of an agreement for opening a guarantee line with Bank Pekao SA

On March 31, 2020, ZE PAK SA signed an agreement to open a guarantee line at Bank Pekao SA for the amount of PLN 50 million. The line allows for issuing bank guarantees in domestic and foreign trade securing proper performance of the contract / payment of the price, including securing transactions concluded on the Polish Power Exchange. The accepted collateral does not differ from the standard for this type of contract.

3.2. Significant agreements concluded in the accounting year

Significant agreements for the Group's activity

Due to the characteristics of the business and the market in which ZE PAK SA Capital Group operates, the basic contracts concluded with major suppliers and customers in the ordinary course of business are standard. Contracts for the supply of the main raw material which is lignite are of a long-term nature and the main suppliers are subsidiaries of ZE PAK SA. Contracts constituting complementary coal supplies and biomass supply contracts concluded with external suppliers. In the area of energy sales, the company is obliged to sell the entire volume of energy produced through the stock market, the exclusion is production from renewable energy sources (in the case of ZE PAK SA it is the volume produced from biomass, i.e. about 5% of the total volume of energy production). Most of the biomass production volume is sold in bilateral contracts through the subsidiary PAK Volt SA. In the area of purchasing CO₂ emission permits, Group companies sign framework agreements with individual contractors defining the basic terms of cooperation. However, the purchase itself is made in separate transactions in relation to specific quantities using current market prices.

Agreements regarding the obtained credits and loans

In 2019, ZE PAK SA Group's companies signed the following agreements regarding credits and loans:

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP
 MANAGEMENT BOARD'S REPORT
 FROM THE CAPITAL GROUP'S OPERATIONS IN 2019

1. ZE PAK SA has signed an agreement with one of the banks for a multi-purpose credit limit - for an overdraft facility and for guarantee products with the original expiry date until November 30, 2019. Available credit limit with a variable limit from 0 to 100,000 PLN. Interest rate on the current account loan according to WIBOR 1M rate plus bank margin. By signing Annexes 1 and 2, ZE PAK SA extended the validity of the contract until November 30, 2020.
2. PAK KWB Konin SA signed a non-renewable loan with one of the banks to finance current operations in the amount of PLN 66,700 thousand. Loan repaid in monthly installments. The final repayment of the loan will take place on December 15, 2021. The loan interest rate according to WIBOR 3M rate plus the bank's margin.
3. PAK KWB Konin SA has signed annex No. 12 with one of the banks extending the repayment date of the loan by 30 June 2020. The available credit limit for financing current business operations is PLN 40 000 thousand. The interest rate is based on the WIBOR 1M rate plus the bank's margin.
4. PAK SERWIS sp. z o.o. has signed annex No. 9 and 10 with one of the banks to a multi-purpose credit limit agreement extending the period of validity of the contract until November 30, 2020. The available multi-purpose credit limit is PLN 20 000 thousand. The interest rate is based on the WIBOR 1M rate plus the bank's margin.
5. PAK SERWIS sp.z o.o. signed with one of the banks Annex No. 2 to the framework agreement for a multi-product line extending the period of validity of the contract until May 29, 2020. The multi-purpose credit limit available is PLN 10,000 thousand. Interest rate according to WIBOR 1M rate plus bank margin.
6. PAK SERWIS sp.z o.o. signed annexes 2 and 3 to the debt limit agreement with one of the banks, changing the period of validity of a part of the agreement for an overdraft until December 31, 2019. The available credit limit is PLN 5,000 thousand. Interest rate according to WIBOR 1M rate plus bank margin.

Agreements regarding the granted loans

1. PAK Infrastruktura sp.z o.o. signed on December 20, 2019, a loan agreement for another company from the Capital Group, i.e. PAK KWB Konin SA. The loan amount is PLN 25,000 thousand. The loan will be repaid once on December 18, 2020. Loan interest rate according to WIBOR 3M rate plus margin.
2. On December 20, 2019, PAK KWB Adamów SA signed a loan agreement for another company from the Capital Group, i.e. PAK KWB Konin SA. The loan amount is PLN 32,500 thousand. The loan will be repaid once on December 18, 2020. Loan interest rate according to WIBOR 3M rate plus margin.

Both of the above agreements were a consequence of the conversion of a previously functioning bond issue program. As part of this program, PAK Infrastruktura sp.z o.o. and PAK Adamów SA purchased PAK KWB Konin SA bonds, which on December 20, 2019 were converted into loan agreements and the bond issue program itself was terminated.

Granted and obtained guaranties and sureties

Table 2: List of guaranties and sureties granted in 2019

	<i>Zloty thousand</i>	<i>Euro thousand</i>
	<i>2019 rok</i>	
Granted guaranties	50 210	2 657
- for companies from the Group	-	-
Granted sureties	136 959	-
- for companies from the Group	120 700	-

Table 3: List of guaranties and sureties obtained in 2019

	<i>Zloty thousand</i>	<i>Euro thousand</i>
	<i>2019 rok</i>	
Obtained guaranties	18 246	-
- from companies from the Group	-	-
Obtained sureties	136 959	-
- from companies from the Group	120 700	-

The agreement concluded between affiliated companies on terms different from market terms

In 2019, in the ZE PAK SA Capital Group, there were no agreements concluded between affiliated companies on terms different from market terms.

3.3. Investment programme execution

In 2019 ZE PAK SA Group did not implement any large investment projects. Investment activity focused primarily on the implementation of the necessary tasks to ensure the maintenance of current efficiency and more efficient use of production and mining assets. Investment expenditures expended in 2019 concerned the preparation and implementation of tasks necessary for the day-to-day operation.

Key investments in the preparatory phase

In 2019, the Company carried out design works related to three new investment projects:

- adaptation of the K-7 coal boiler at Konin power plant to the exclusive biomass combustion together with the necessary technical infrastructure,
- construction of a photovoltaic farm in the reclaimed areas of the Adamów mine, which are located in the area of the Brudzew commune near Janiszew,
- construction of a hydrogen production plant with associated infrastructure at Konin power plant.

Adaptation of the K-7 coal boiler to the exclusive biomass combustion

The task is to adapt the infrastructure previously used for the production of energy and heat from lignite to burn biomass. In this way, a second biomass unit will be created at Konin power plant, which, in addition to energy production for the National Power System, will also be an emergency source for heat production in the event of the withdrawal of a functioning biomass unit. At the turn of 2019 and 2020, as part of this project, four tender contests were launched to select contractors: (1) adaptation of the boiler suitable for biomass combustion, (2) biomass feeding system, (3) ash collection system from under the electrostatic precipitator, and (4) modernization of the G5 generator.

Construction of a photovoltaic farm

The planned nominal power of the farm is 70 MWp. As part of this project, a building permit was obtained (without a power output system) and conditions for connecting the farm to the Operator's power network were obtained. In addition, in 2019, plots (terrain) for solar farm were purchased from PAK KWB Adamów SA located in Brudzew commune in the town of Janiszew. Ultimately, the project will be implemented by a subsidiary of ZE PAK SA.

Construction of a hydrogen production plant

A preliminary concept and business plan was developed for the hydrogen plant, whose target capacity is 20 tons H₂ / day. Hydrogen will be produced in the process of water electrolysis using renewable energy sources. The basic source of primary energy will be biomass, whose conversion into electricity dedicated to this installation will power the electrolysis plant system. Completing this task will allow zero emission production of "Green hydrogen".

PAK KWB Konin SA and PAK KWB Adamów SA

In 2018, PAK KWB Konin SA continued the implementation of investment works on active openings in Józwin, Drzewce and Tomisławice aimed at maintaining production capacities. On the above open pit there were carried out works related to the construction of drainage systems along with power supply and tele technical infrastructure, which resulted from the progress of mining works and the need to prepare the area for future exploitation. The largest expenses were incurred for the purchase of real estate on Józwin and Tomisławice opencast, construction of the power supply system for the basic machinery of Józwin and Drzewce opencast, the coal haulage route on Tomisławice opencast, construction of the drainage system of Tomisławice opencast, and above all for the reconstruction of line objects colliding with Tomisławice opencast, including the line 220kV.

Preparations and design works for new investments related to with drainage and supply infrastructure as well as reconstruction of objects colliding with open-pit mines, including e.g. 220kV line on Adamów open pit.

3.4. Risk management

While conducting its operations, the Group is exposed to a series of risks, occurring actually, potentially or theoretically, existing in the industry as well as on the markets where the Group's companies operate. These are factors having their source within the Group as well as and in its environment. Taking into account the formalization of the risk-related sphere in the Group's operations, a comprehensive document was created, entitled "Risk Management Principles for the ZE PAK SA Capital Group" ("Management Principles"). The principles of Management have been developed and implemented in order to define and determine the risks limits occurring or likely to occur in the ZE PAK SA Capital Group and to determine mechanisms for minimizing risk exposure in the course of conducting operations in the energy and mining sectors and minimizing the effects of risk, which due to the specific nature of the core business of the ZE PAK SA Capital Group, cannot be completely eliminated.

The first stage was to determine the Group companies in which activities can identify risks of material importance for the operation of the entire Group, and then apply the appropriate rules of conduct. The following entities have a significant impact on the Group's core business: ZE PAK SA, Państw II sp. Z o.o., PAK KWB Konin SA, PAK KWB Adamów SA, and PAK - Volt SA. Other Group's companies do not have a direct impact on operational risks.

Business model and strategy of the Capital Group were determined within the principles mention earlier. The leading principle of the business model implemented by the Group in the area of business operations (mining, production and trade) is to maximize production and profit while respecting the principle of risk minimization. In order to achieve the business goals, the Group allows for incurring risk, but only to the extent and on the principles set out in the Management Rules. All kinds of the business risk and the situations resulting in the exposure to the risk are constantly minimized, unless the Management Rules or the Management decisions clearly allow for specific deviations. Relating to the structure of the Capital Group and organizational charts of particular subsidiaries, specific roles and scope of responsibility for decisions and activities connected with the realized strategy and market policy have been determined and extracted. A special role, strictly related to the observance and correct application of the Rules of Management, is performed by a task team, called the "Risk Management Committee", acting as an advisory and consultative body of the Management Board of ZE PAK SA. The team was appointed by the Ordinance of the President of the Management Board. The main tasks of the Risk Management Committee are identification and substantive assessment of all economic risks worth more than PLN 10 million related to the Group's business operations.

As part of risk management, the Group identified certain areas of risks related to the implementation of the assumed business objectives:

- 1) raw material risks;
- 2) production risks;
- 3) market risks and associated financial risks;
- 4) operational risks related to the operation of IT systems;
- 5) risk in the area of information security.

For each area of risk identified above, specific types of risks have been identified for a strictly specific area. The risk type has been described comprehensively, including the theoretical examples of its occurrence in the operational activity of the Group. For each type of risk, specific forms of action were also developed in order to minimize or exclude it; an appropriate measure was also assigned and, where possible, so-called "Key performance indicator", i.e. the minimum level of performance was determined.

The managers and employees of organizational units assigned to particular risk area are the subject to control, in scope of compliance with the Management Principles, in accordance with their scope of activity. The management of organizational units is responsible for correct and compliant with the Management Rules performance of tasks by subordinate units and independent positions. The Management Rules also describe the detailed process of correct reporting on the identified risk as well as how to proceed in case of identifying a violation of the principles described in the document.

According the Management Principles, the compliance with the procedures and ways of proceeding described in the document can be abandoned only after obtaining the written approval of ZE PAK SA Management Board. In such a situation a special procedure, described also in in the Management Principles, is applied.

Information on financial instruments regarding the risk related to: changes in prices, credit, significant distortions of cash flows and loss of financial liquidity is included in Note 40 to the consolidated financial statements, it also contains information on the objectives and methods of financial risk management. Information on transactions for which hedge accounting is applied is included in note 38.3 to the consolidated financial statements.

3.5. Description of use of emission earnings

There was a bond issue program at PAK KWB Konin SA that the company used to finance its operations. In earlier years, the bonds were purchased by other entities of the Group. On December 20, 2019, the issued bonds were converted into loan agreements. Two loan agreements have been signed:

- for the amount of PLN 32.5 million between PAK KWB Konin and PAK KWB Adamów SA, with repayment date till December 18, 2020,
- for the amount of PLN 25 million between PAK KWB Konin SA and PAK Infrastruktura sp. z o.o., with a repayment date till December 18, 2020.

4. MAIN BUSINESS RISKS

The process of forecasting future results of Zespół Elektrowni Państw-Adamów- Konin SA Capital Group must include a wide range of risk factors and threats, actually, potentially, or theoretically, existent in the branch and markets, in which the Group conducts its activities. These are factors which originate both from the inside of the Group as well as from its environment. In the opinion of the Board, they can be divided into factors, which occur constantly in all periods as well as those, which occur incidentally in the period, which is concerned by a given periodical report.

The most important factors with constant impact on the Group's results include the following:

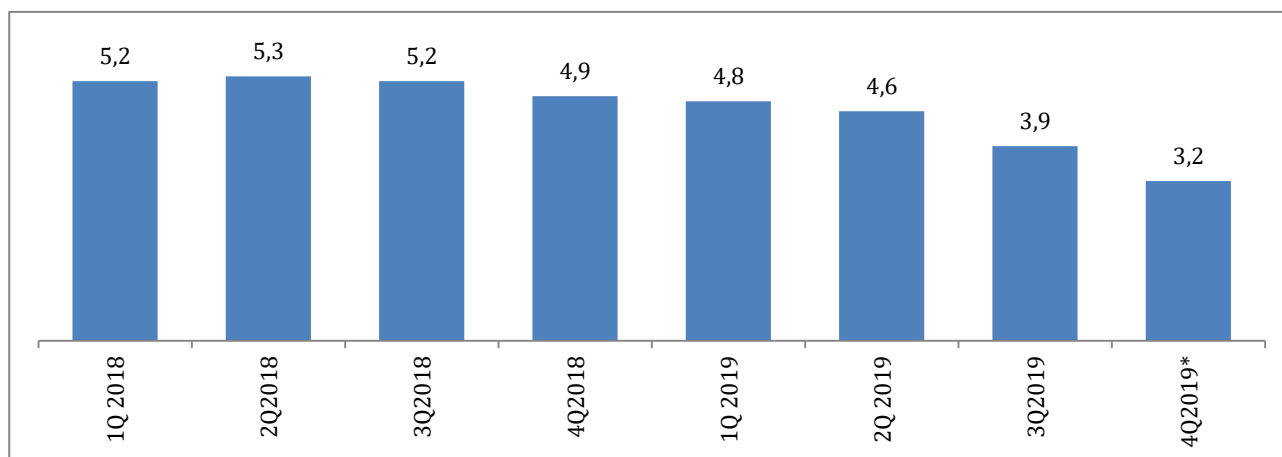
- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- extraction and supply costs of coal and other fuel;
- CO₂ emission allowances costs;
- compensation for the stranded costs related to the termination of PPA in Elektrowni Państw II sp. z o.o.;
- seasonality and meteorological conditions;
- investment expenses;
- EUR/PLN exchange rate and the level of interest rates.

Moreover, important factor that may have a significant impact on the Group's financial results in the coming quarters are the results of the value impairment test of assets. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last tests were carried out on 31 December 2019 and their result justified the change of the asset components value. The used valuation models of assets show sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of unstable operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation models of assets can change, and consequently the value impairment tests results may cause the necessity of verifying the value of the amount of the write-downs against the asset components. Another analysis of the reasons justifying the potential necessity to conduct the value impairment tests of the asset components will be executed at the end of the next reporting period.

Macro-economic trends in the Polish economy and the demand for electricity

While 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 change of the real GDP and industrial production in Poland, the development of the service sector as well as the increase in individual consumption. All the aforementioned factors significantly affect the demand for electricity and its consumption.

Chart 4: GDP dynamics (%) in relations to analogous quarter of the previous year



* The so-called preliminary estimate of gross domestic product in the fourth quarter of 2019, seasonally unadjusted, at constant average annual prices of the previous year.

Source: GUS data

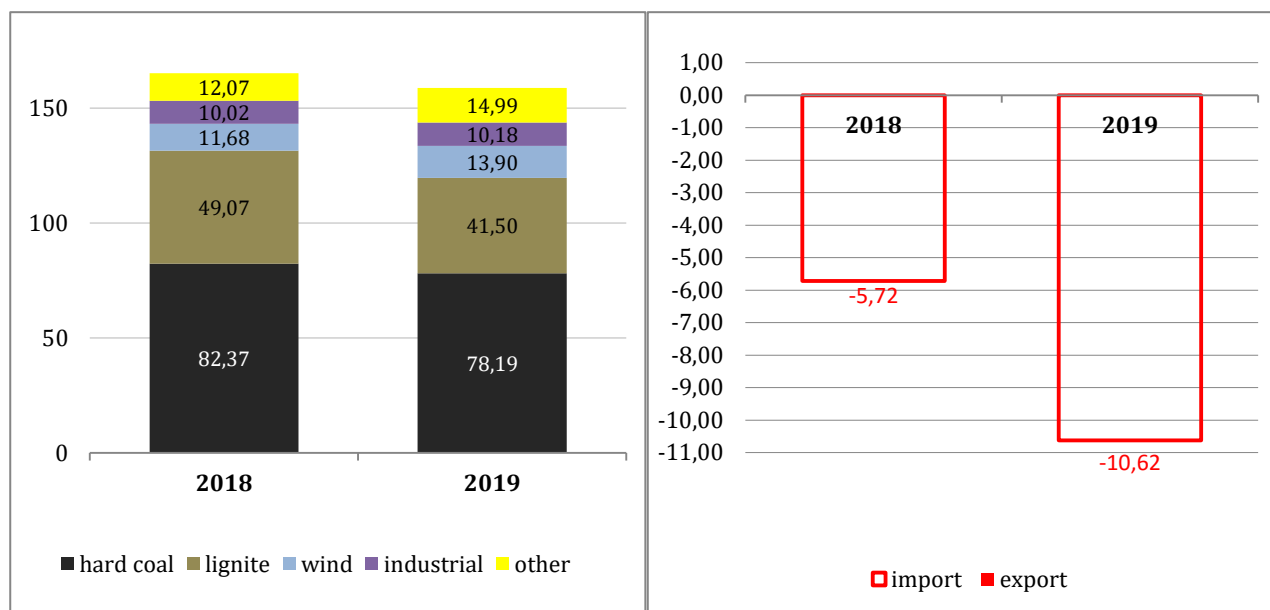
According to GUS data, the dynamics of gross domestic product ("GDP") calculated in constant prices of the previous year fell from 4.8% recorded in the first quarter of 2019 to 3.2% recorded in the fourth quarter of 2019 (data for the fourth quarter based on so-called "preliminary estimate of gross domestic product"). According to preliminary CSO data, Poland's GDP growth in the entire 2019 amounted to 4.0% as compared to the growth of 5.1% recorded in 2018. A steady trend of decline in quarterly GDP growth readings has been visible since Q2 2018.

In the fourth quarter of 2019, the main driver of economic growth was domestic demand, whose increase per year was 2.2%. However, it was lower than the demand recorded in the third quarter of 2019 (increase by 3.3%). It was caused by a decrease in gross accumulation, which amounted to -0.2% (compared to an increase of 0.4% in the third quarter of 2019). Total consumption increased by 3.2% and was lower than recorded in the third quarter of 2019 (increase by 4.0%). Consumption in the households sector increased by 3.3% and was lower than in the third quarter of 2019 (an increase of 3.9%). The growth rate of gross fixed capital formation was higher than in the third quarter of 2019 and amounted to 4.9% (against 4.7%).

Data on the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that gross domestic electricity consumption¹ in 2019 amounted to 169,39 TWh and compared to the previous year it fell by 0.9%. It should be borne in mind, however, that some of the magnitude of the drop has been covered by mass emerging photovoltaic sources producing energy that is directly consumed at the point of delivery (prosumers), which is not recorded by existing measuring systems. In 2019, the decrease in energy production was higher than the decrease in consumption, total electricity production fell by 3.9%. Taking into account the entire balance of the year, a decrease in energy production from the main (in terms of the volume of energy produced) raw material, i.e. hard coal, was recorded by 5.08%. The production of energy from brown coal even more declined, the volume of which decreased by 15.43%. The decline in energy production from the main sources in terms of volume of coal and lignite should be associated with the deteriorating profitability of production from high-emission sources, the competitiveness of other generation sources, warm winter, as well as the following factors such as import of energy from abroad, as well as the increase in production based on for renewable energy sources. Wind power plants produced a relatively large amount, an increase of 19.06% per year. Last year, gas generation increased by over 26%. Electricity produced from hard coal accounted for 49.25% of total electricity production, brown coal energy 26.14% and wind turbines generated 8.76% of total energy. The direction of foreign exchange has not changed. In the past year, Poland was again a net importer of electricity, the surplus of imports over exports was 10.62 TWh, which is an increase of 86% compared to imports in 2018.

¹ On the basis of Table: 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 available on PSE SA website.

Chart 5: Structure of electricity production and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: own development based on PSE data

Regulatory environment

Entities operating on the electricity market operate in a regulatory environment that is subject to constant change, mainly through the impact of EU law on national law. The most important legal regulations to which electricity producers are subject are the Energy Law Act, including provisions on the obligation to sell energy on stock exchange markets, the Act on renewable energy sources ("oze"), defining the principles of support for specific energy generation technologies, the Act on Environmental Protection Law, which defines the principles sustainable use of the environment. The above laws transpose into the Polish legal order directives and regulations of the European Commission as well as international conventions regarding, among others rules for the single wholesale electricity market, environmental protection and climate change (including CO₂ emissions). Tax law, interpretations and recommendations issued in particular by the Energy Regulatory Office should also be taken into account. Any changes in the above-mentioned areas may be of great importance for the Group's operations. Regulatory risk is one of the most significant electricity generators in the industry.

Below there is a list of regulations that significantly changed the regulatory environment in the area of electricity generation in 2019.

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 started to 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 CO₂ 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 CO₂ per kWh and more than 350 kg of CO₂ per year on average for each installed kW of power will be able to participate in these mechanisms until July 1, 2025. Capacity contracts signed within the capacity market by the end of 2019, were 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 in 2019. 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. Renewable energy auctions were conducted in November and December 2019 based on the provisions of the Act.

On August 24, 2019, the amendment to the Act on the greenhouse gas emission allowance trading scheme entered into force, which implemented, among others provisions for the next allocation of CO₂ emission allowances for electricity produced in cogeneration and effective support for low-carbon investments for the emissions trading period 2021-2030.

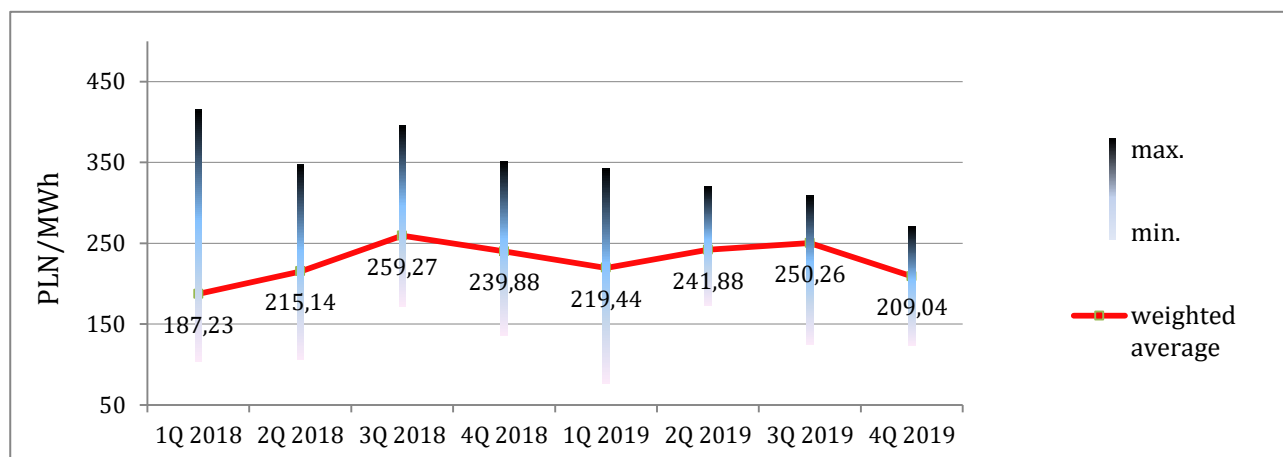
On December 11, 2019, the European Commission announced the assumptions for the functioning of the "European Green Deal", which is supposed to lead to emission neutrality of the European Union in 2050. The postulates of this plan include, among others increasing the EU reduction target for 2030 to 50-55%.

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.

The past year was characterized by relatively high prices of electricity compared to previous years. However, in the fourth quarter a significant drop in prices was recorded, in particular in relation to the preceding third quarter, in which the level of recorded prices was the highest in the last year. At the beginning of 2019, electricity prices were at a much lower level than in the last two quarters of 2018. Important factors that significantly influenced the prices in the first months of the year were higher temperatures compared to the average from previous years and high windiness and the associated high generation of energy from wind turbines. Both factors adversely affected the increase in energy prices. The factor that could also affect price formation in the first and the second quarter of 2019, which is difficult to determine, was the confusion accompanying the introduction of "freezing" energy prices for end users and the lack of implementing acts on this issue. In the third quarter of 2019, electricity prices increased. The high price level in the third quarter (the highest in the previous year) was mainly caused by high air temperatures (higher temperatures in summer affect energy consumption in air conditioning and refrigeration equipment) and relatively low windiness. In addition, the level of prices recorded could have been influenced by the state of work of the National Power System, when many manufacturers moved some of the repair 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. The fourth quarter of 2019 was characterized by the lowest average prices in the past year. At the end of the year, three factors clearly manifested themselves - the first of them was the decreasing energy consumption, perhaps associated with lower economic growth, the second was the dynamically growing energy import and the third was the lower prices of CO₂ emission allowances compared to earlier periods. The weighted average price on the Day-Ahead Market on the Polish Power Exchange (TGE) for 2019 was PLN 229.62 / MWh, which means a slight increase compared to 2018 by PLN 4.91 / MWh, i.e. by about 2.19 %.

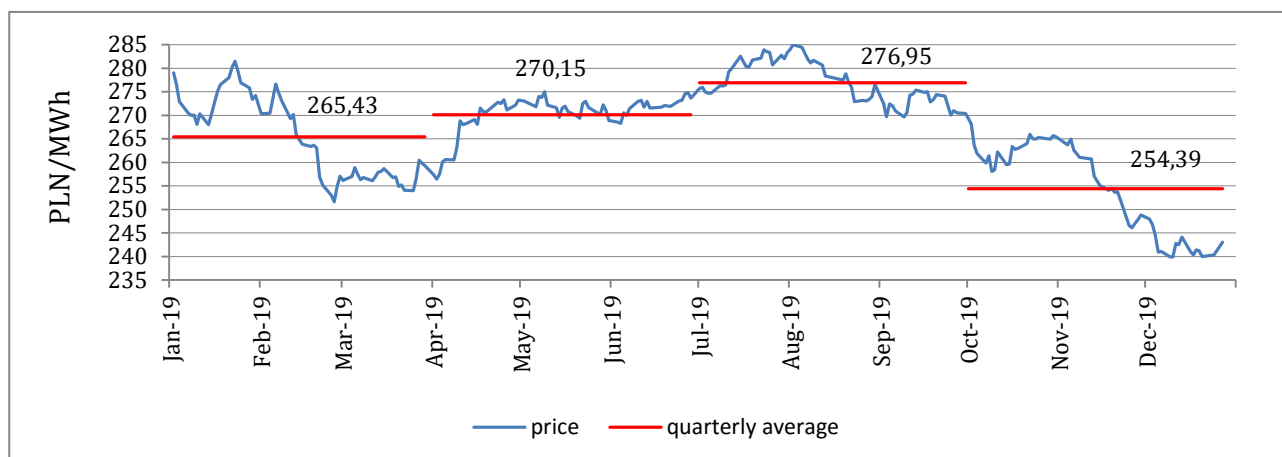
Chart 6: Electricity prices (IRDN)



Source: Own elaboration based on TGE data

On the electricity futures market of the Polish Power Exchange, the most liquid instrument, the BASE_Y-2020 annual contract, showed an irregular trend. After a downward trend in the first quarter of 2019, it recorded an upward trend in the second and third quarters. In the last quarter of 2019, the contract was in a downward trend and reached its minimum in December, falling to PLN 242.14 / MWh. Factors determining the trends on the forward market were similar to those on the spot market (RDN), so high windiness and low demand for production by conventional sources entailed falling prices of the listed contract, while high air temperatures in the third quarter were also reflected in market quotations futures. Higher demand for electricity stimulates an increase in prices of CO₂ emission allowances, which in turn translates into prices of forward products on the electricity market.

Chart 7: The price of the futures contract for the supply of electricity (band) for 2020



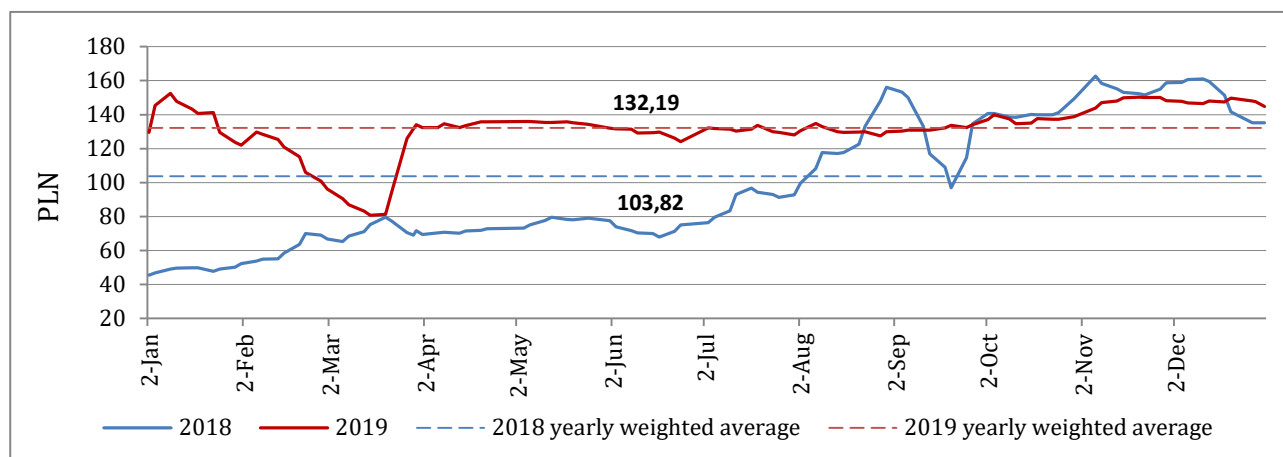
Source: Own elaboration based on TGE data

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.

In the first half of 2019, prices of energy certificates of origin (green certificates) were highly volatile. The reason for the fluctuations was very high wind generation, wind farms are the largest source of certificate supply on the market. The second factor responsible first for the price reduction and later for their increase were the works on the amendment to the RES Act, where during subsequent versions entries appeared and disappeared trying to make changes in the amount of the substitution fee, however, after abandoning these entries, the level of property rights prices and April to the end of the second quarter prices fluctuated around 130 zlotys. In the third quarter of 2019, the prices of green certificates were also relatively stable. There were no new factors on the market that could significantly affect the price level. In the fourth quarter of 2019, namely in November and December renewable energy auctions took place in the light of the Act on renewable energy sources amended on 19 July 2019. The waiting for the auction results and its final results (the unresolved auction for the largest renewable energy sources based on biomass) contributed to the increase in the level of prices of green certificates in the fourth quarter of 2019. The average quarterly price of green certificates in the fourth quarter of 2019 is PLN 144.61. The weighted average price of green certificates in 2019 was PLN 132.19 / MWh, which means an increase of PLN 28.37 / MWh compared to the weighted average price of 2018, i.e. by 27.33%.

Chart 8: Average price of certificate of origin for RES produced energy



Source: own development based on the TGE data

Fuel costs and supplies, coal extraction costs

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 limit 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.

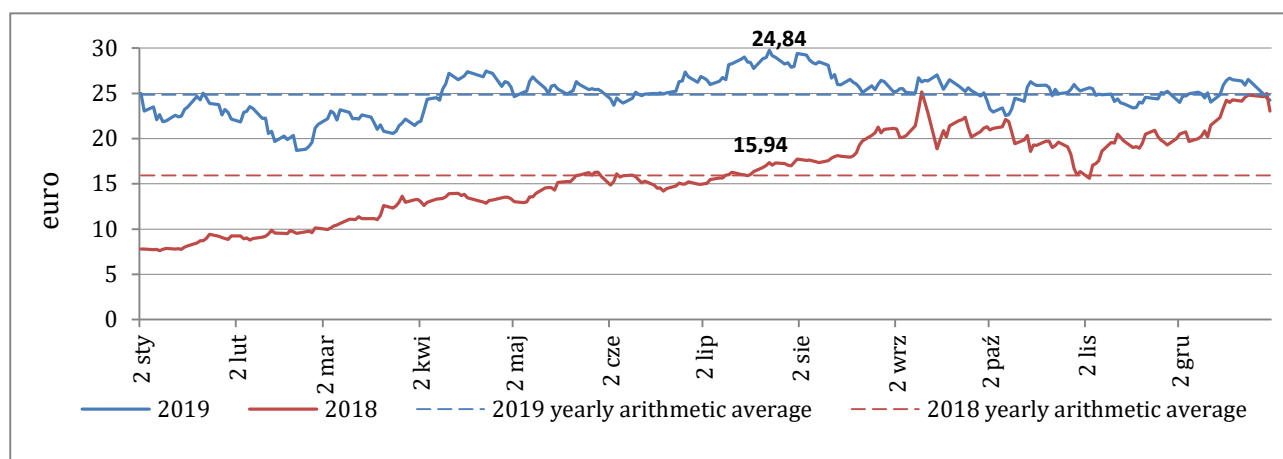
CO₂ emission allowances costs

The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO₂ 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 CO₂ and the risk of price changes of CO₂ emission allowances (EUA) is of great importance to the activities' results. In 2019, the Group received a small amount of free CO₂ emission allowances, i.e. 37 081 EUA, resulting from the allocation for heat generation. Therefore, practically the entire volume of emission allowances needed for the ZE PAK SA Group had to be purchased on the secondary markets.

In 2019, the EUA price was quite stable compared to price volatility in 2018, where price increases exceeding 200% could be observed, which is not often the case not only on the emission allowance market, but also on other commodity markets. At the beginning of 2019, the EUA price was less than EUR 25, and at the end of the year EUR 24.20. In March 2019, EUA prices fell very much to the lowest annual value, i.e. EUR 18.7. The likely reason for more than 9% of price drops over the month of March was the uncertainty of investors in relation to the unresolved issue of Brexit and

the high level of energy production from renewable energy sources. Market experts also pointed to large sales volumes on the futures market realized by only a few investors. This may mean that large financial companies or large electricity producers have decided to change their hedging strategy. In July 2019, the value of allowances systematically increased, reaching price levels not recorded for over 11 years (July 10 - EUR 28, July 15 - EUR 29). The reason for the July increase could have been high energy prices (caused by high temperatures in Europe and suspension of work at some nuclear power plants in France due to persistent high temperatures), gas and fuels, statements by the German Minister of the Environment suggesting readiness to redeem allowances in connection with the closure of power plants in Germany, as well as statements of the then candidate for President of the European Commission (Ursula Von der Leyen) about her plan to increase the EU reduction target for 2030, from the current 40% to 50%. The arithmetic average of the EUA 2019 quotations was EUR 24.84, which means an increase of almost 56% compared to the arithmetic average for 2018.

Chart 9: The price of a forward contract for the delivery of EUA



Source: Own elaboration based on ICE data

Compensation for the stranded costs related to the termination of the „Long-term Contract” („PPA”)

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.

Seasonality and meteorological conditions (including mainly wind 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.

The risk related to seasonality and meteorological conditions is becoming more and more important along with deviations of certain parameters such as e.g. average temperatures, windiness from their long-term average levels for a given period.

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 CO₂ 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.

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 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 CO₂ 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.

5. DESCRIPTION OF THE FINANCIAL AND ECONOMIC SITUATION

5.1. Principles of development of the financial statement

The Group develops the financial statements on the basis of the International Financial Reporting Standards approved by the European Union. The above standards, known collectively as International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The significant principles of accounting used in the Group's Consolidated Financial Statement are discussed in note no. 11 of the Group's Consolidated Financial Statement for 2019.

5.2. Specification of the basic economic and financial values

Consolidated profit and loss account and the consolidated income statement

Sales revenue in 2019 amounted to PLN 2 877 920 thousand and compared to 2018 increased by PLN 573 096 thousand, i.e. 24.87%.

In 2019, compared to the same period last year, the Group slightly increased electricity sales from 9.33 TWh to 9.36 TWh, i.e. by 0.32%. The increase in sales was the result of a 12.80% increase in sales of energy from trading. Sales of energy from own production dropped by 0.39 TWh, i.e. by 6.45%. The level of production was largely determined by

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the relationship between the market price of energy and the price of CO2 emission allowance. The net production volumes of individual Group power plants are presented in Figure 1. At the same time, in 2019, to PLN 269.61 / MWh, i.e. by 27.43%, the average obtained electricity sales price increased. The cumulative impact of both of the above-mentioned factors caused that revenues from the sale of electricity (less excise duty) amounted to PLN 2 522 934 thousand and compared to 2018 increased by PLN 552 634 thousand, i.e. by 28.05%.

In 2019, higher revenues from the sale of heat energy were achieved by PLN 9,460 thousand. The reason for the increase in revenues was the higher realized price.

Revenues from construction services contracts in 2019 compared to revenues obtained in the previous year decreased by PLN 10,544 thousand, i.e. by 14.83%. The decrease in revenues in the analyzed period was associated with the implementation of less cost-intensive project phases for external customers by a company from the renovation segment PAK Serwis sp.z o.o.

Revenues from the sale of property rights from energy origin certificates in 2019 amounted to PLN 54,524 thousand and increased compared to 2018 by PLN 6,303 thousand, i.e. 13.07%. The increase in revenues results from the realization of a larger volume of created rights despite lower prices than in the previous year.

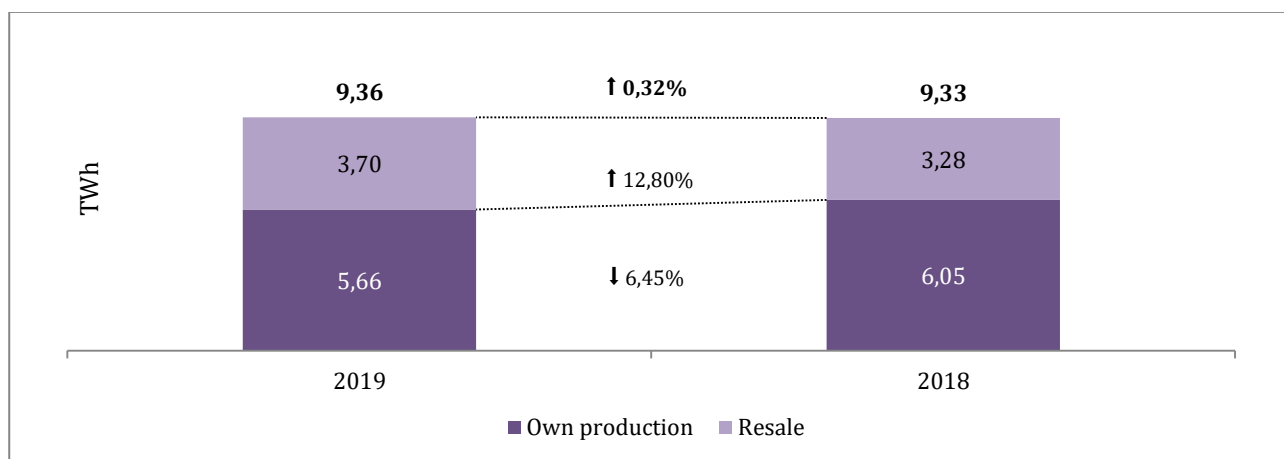
Revenues from the termination of PPAs (long-term contract for the sale of power and electricity) in 2019 amounted to PLN 143,788 thousand (including advance payment PLN 96,742 thousand), while in 2018 amounted to PLN 152,579 thousand (including advance payment PLN 94,885 thousand). In both periods, the advances were at a comparable level, but there was a difference in the amount of adjustments - the adjustment for 2019 is lower by PLN 10,500 thousand compared to the adjustment for 2018. The main reason for the lower correction was the fact that Elektrownia Pątnów II sp.z o.o. higher revenues, for obtaining which the high price of energy sales in 2019 stood compared to 2018.

In 2019, revenue from PAK-Volt SA was recognized as revenue from the amount of the price difference and financial compensation in the amount of PLN 19 377 thousand, constituting compensation obtained from the Settlement Manager for the sale of electricity to final customers referred to in the Act of 28 December 2018 amending the Excise Duty Act and some other acts, using the electricity prices applied in 2018.

Table 4: Specification of consolidated sales revenues

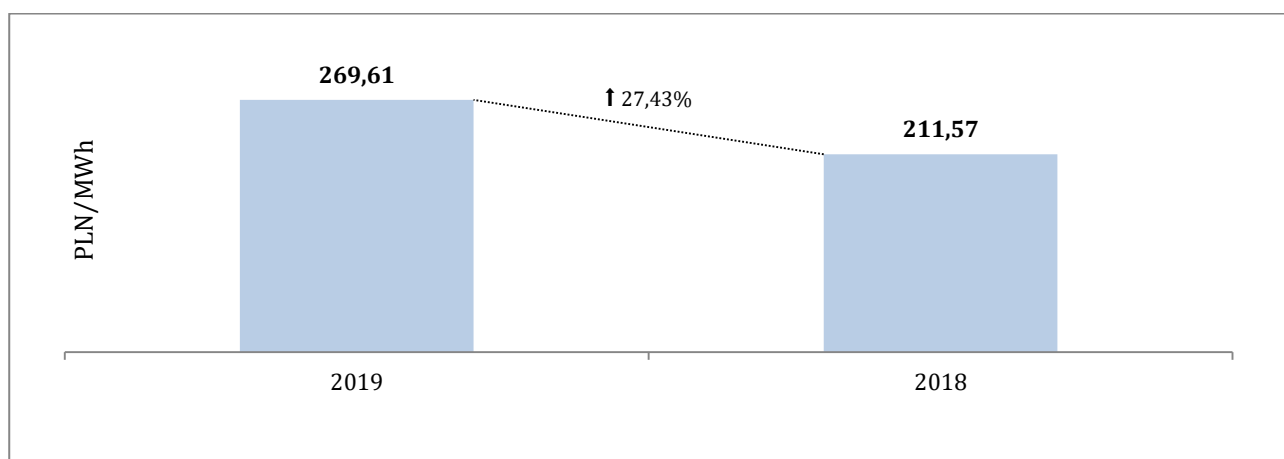
	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2019</i>	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2018</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of goods (reduced excise duty), including:	2 599 656	2 032 905	566 751	27,88
– Revenues from the sale of electricity from own production (reduced by excise duty)	1 600 308	1 296 267	304 041	23,46
– Revenues from the sale of electricity from resale on the market	922 626	674 033	248 593	36,88
– Revenues from the sale of heat	46 205	36 745	9 460	25,74
– Other sale revenues	30 517	25 860	4 657	18,01
Construction agreements	60 575	71 119	(10 544)	(14,83)
Other revenues, including:	217 689	200 800	16 889	8,41
– Property rights from certificates of origin of energy	54 524	48 221	6 303	13,07
– LTC compensations	143 788	152 579	(8 791)	(5,76)
– income from price difference and financial compensation	19 377	-	19 377	-
Total revenues from the sale	2 877 920	2 304 824	573 096	24,87

Chart 10: Sale of electricity



Source: Internal data

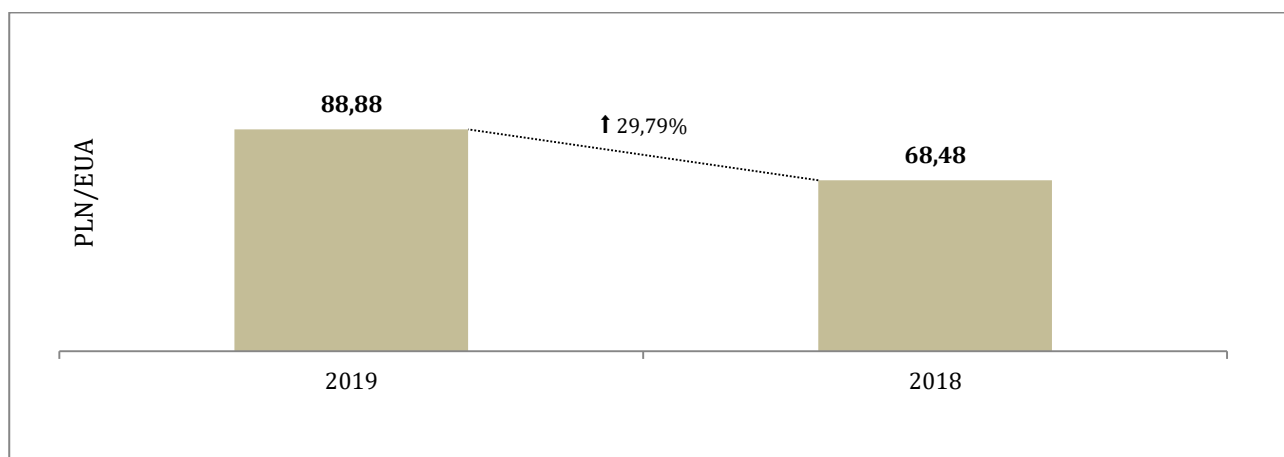
Chart 11: Average electricity prices *



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

Source: Internal data

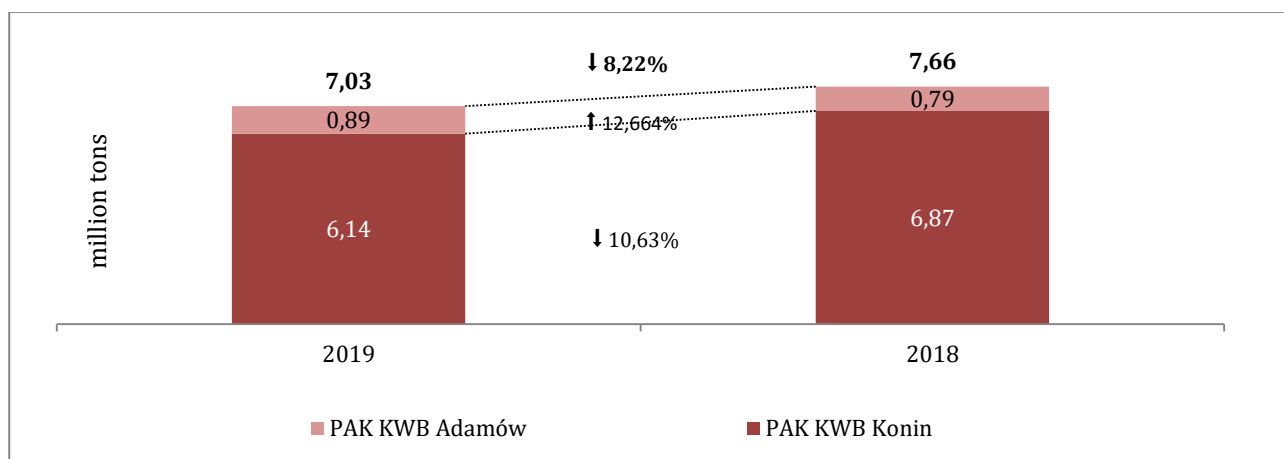
Chart 12: Average prices of CO2 emission allowances purchase *(EUA)



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

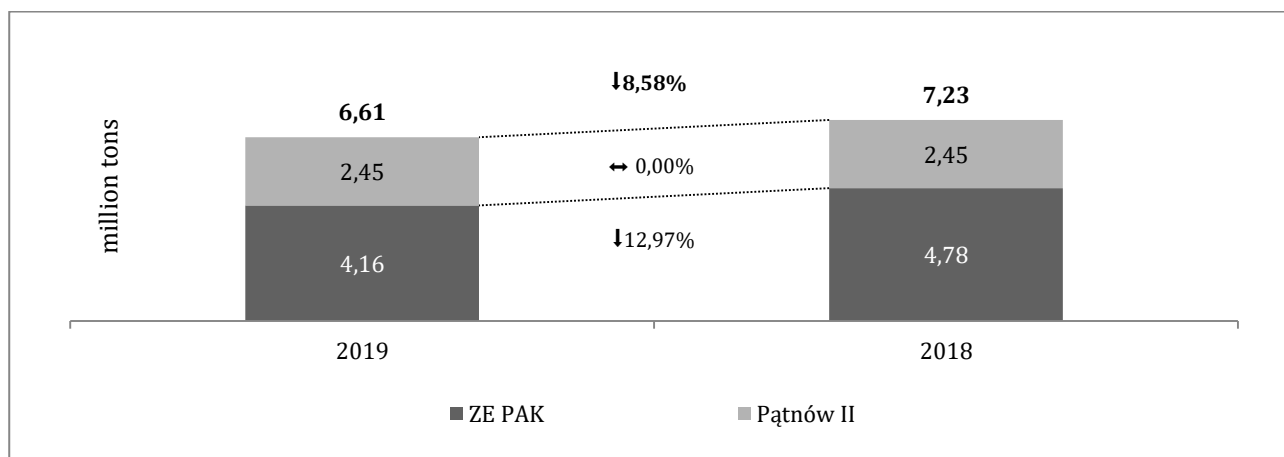
Source: Internal data

Chart 13: Lignite consumption



Source: Internal data

Chart 14: CO₂ Emission



Source: Internal data

Table 5: Selected items of the consolidated income statement

	zloty thousand 12 months period ended 31 December 2019	zloty thousand 12 months period ended 31 December 2018	zloty thousand change	% dynamics
Sales revenues	2 877 920	2 304 824	573 096	24,87
Cost of goods sold	(3 185 762)	(2 627 910)	557 852	21,23
Gross profit (loss) on sales	(307 842)	(323 086)	(15 244)	(4,72)
Other operating revenues	13 089	10 964	2 125	19,38
Selling costs	(4 492)	(4 001)	491	12,27
Administrative expenses	(116 648)	(123 779)	(7 131)	(5,76)
Other operating costs	(7 696)	(37 360)	(29 664)	(79,40)
Profit (loss) on operating activities	(423 589)	(477 262)	(53 673)	(11,25)
Financial revenues	11 341	7 201	4 140	57,49
Financial costs	(27 644)	(45 387)	(17 743)	(39,09)
Gross profit (loss)	(439 892)	(515 448)	(75 556)	(14,66)
Income tax (tax load)	(6 254)	51 775	(58 029)	-
Net profit (loss)	(446 146)	(463 673)	(17 527)	(3,78)
Net other comprehensive income	(2 778)	1 609	(4 387)	-

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Total income for the period	(448 924)	(462 064)	(13 140)	(2,84)
EBITDA*	393 356	89 792	303 564	338,07

* The Company defines and estimates EBITDA as the profit/(loss) on operating activities (estimates 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 as well as mining assets.

The cost of sales in 2019 amounted to PLN 3 185 762 thousand and, compared to the previous year, increased by PLN 557 852 thousand, i.e. by 21.23%.

The item that contributed most to the increase in cost was the write-offs of property, plant and equipment following the consideration of the results of impairment tests in accordance with the requirements of IAS 36. The test results justified the write-off of property, plant and equipment worth PLN 615,300 thousand, i.e. PLN 249 300 thousand more than in 2018, in which year there was also an impairment of fixed assets as a result of tests. In addition, due to the outdated design documentation and the loss of validity of the environmental decision and building permit regarding the investment in the gas-steam block at the Konin power plant, a write-down of the expenditure incurred was made in the amount of PLN 16,001 thousand. The value of electricity purchased for sale from trading also increased as a consequence of higher energy prices on the market and higher trading volume. The year 2019 is another year in which, despite a decrease in the amount of CO₂ emitted due to an increase in the price for emission allowances, emission costs increase by PLN 95,083 thousand. Due to the decrease in employment in 2019, the cost of employee benefits decreased by PLN 17,548 thousand. Cost items related to external services as well as taxes and fees remained at similar levels as in the previous year. A detailed analytical approach to costs by type is provided in Table 6.

Other operating revenues in 2019 amounted to PLN 13,089 thousand and did not differ significantly from those obtained in 2018. Similarly, in the case of selling costs, which in 2019 remained at a similar level as in the previous year. In contrast, other operating costs in 2019 amounted to PLN 7,696 thousand and were lower than last year by PLN 29 664 thousand. The higher level of other operating costs in 2018 was a consequence of the provision for the return of free CO₂ emission permits granted in the amount of PLN 30,640 thousand.

In 2019, the Group recorded a loss on operating activities in the amount of PLN 423 589 thousand.

Financial revenues in 2019 amounted to PLN 11 341 thousand and were higher than those recorded in 2018 by PLN 4140 thousand, i.e. 57.49%. The main reason was the dissolution of the write-off in the amount of PLN 6,765 thousand related to the valuation of futures contracts at PAK-Volt SA created at the end of 2018.

Financial costs in 2019 amounted to PLN 27,644 thousand and decreased compared to the previous year by PLN 17,743 thousand, i.e. 39.09%. The decrease in financial costs was mainly due to lower costs associated with the decreasing debt of the Group, as well as the lack of negative valuations related to futures contracts.

In 2019, the Group recorded a gross loss of PLN 439 892 thousand. At the net level, the loss in 2019 amounted to PLN 446,146 thousand.

Table 6: Consolidated costs by type

	zloty thousand 12 months period ended 31 December 2019	zloty thousand 12 months period ended 31 December 2018	zloty thousand change	% dynamics
Depreciation	184 903	194 514	(9 611)	(4,94)
Fixed assets – write offs	632 042	372 540	259 502	69,66
Inventory – write-offs	1 536	8 890	(7 354)	(82,72)
Materials consumption	314 341	243 126	71 215	29,29
External services	102 558	99 747	2 811	2,82
Taxes and fees excluding excise tax	176 742	173 709	3 033	1,75
CO ₂ allowances costs	587 450	492 367	95 083	19,31
Employee benefits costs	406 080	423 628	(17 548)	(4,14)
Other costs by type	35 111	44 092	(8 981)	(20,37)
Value of sold goods and materials and of sold energy purchased from trade	879 128	743 682	135 446	18,21
Total	3 319 891	2 796 295	523 596	18,72

Consolidated statement of financial position

The balance sheet total as at December 31, 2019 amounted to PLN 3 118 247 thousand and, compared to December 31, 2018, it decreased by PLN 753 050 thousand, i.e. by 19.45%.

Fixed assets as at December 31, 2019 amounted to PLN 2,182,031 thousand. Compared to the last day of 2018, they decreased by PLN 786,012 thousand, i.e. by 26.48%. The largest decrease related to items of property, plant and equipment, which decreased by PLN 831 280 thousand, mainly as a result of an impairment write-down of fixed assets, as well as amortization depreciation with a significant reduction of ongoing investments.

Current assets as at December 31, 2019 amounted to PLN 936 215 thousand. Compared to the last day of 2018, they increased by PLN 33,971 thousand, i.e. 3.77%. At the end of 2019, the biggest change took place in the item of receivables, which decreased by PLN 125,605 thousand, mainly as a result of a decrease in trade receivables and deposits. At the same time, short-term intangible assets increased, which increased due to higher realized expenditure on CO2 emission allowances. Other non-financial assets also increased as a result of an increase in the level of VAT receivables as well as other budget receivables. The decrease in other financial assets by PLN 36,698 thousand relates to the settlement of amounts retained as part of the loan repaid in December 2019 to finance the modernization of Pańków I power plant.

Table 7: Selected items from consolidated assets

	zloty thousand	zloty thousand	zloty thousand	%
	31 December 2019	31 December 2018	change	dynamics
<i>Fixed assets</i>				
Tangible fixed assets	1 959 861	2 791 141	(831 280)	(29,78)
Assets due to the right of use	56 209	-	56 209	-
Investment property	2 172	2 365	(193)	(8,16)
Intangible assets	2 748	3 773	(1 025)	(27,17)
Assets concerning stripping and other mining assets (long-term)	70 620	80 326	(9 706)	(12,08)
Other financial assets	3 220	4 748	(1 528)	(32,18)
Other non-financial assets	2 608	3 873	(1 265)	(32,66)
Deferred tax assets	84 593	81 817	2 776	3,39
Total fixed assets	2 182 031	2 968 043	(786 012)	(26,48)
<i>Current assets</i>				
Short-term intangible assets	93 218	66 817	26 401	39,51
Inventory	104 341	109 239	(4 898)	(4,48)
Deliveries and services receivables and other receivables	228 578	354 183	(125 605)	(35,46)
Income tax receivables	32 782	1 544	31 238	2 023,19
Other financial assets	-	36 698	(36 698)	(100,00)
Other non-financial assets	61 615	24 039	37 576	156,31
Long-term contract receivables due from ordering parties	1 047	5 066	(4 019)	(79,33)
Cash and cash equivalents	414 634	304 658	109 976	36,10
Total current assets	936 215	902 244	33 971	3,77
Fixed assets classified as held for sale	-	1 010	(1 010)	(100,00)
TOTAL ASSETS	3 118 246	3 871 297	(753 051)	(19,45)

Equity as at December 31, 2018 amounted to PLN 1 176 468 thousand, compared to the end of 2018 it decreased by PLN 510 679 thousand, i.e. by 30.27%, which is the result of the net loss for 2019.

Liabilities as at December 31, 2019 amounted to PLN 1 941 778 thousand, which means that during the year they decreased by PLN 242 372 thousand, i.e. by 11.10%. The situation was different in the case of long-term liabilities, which increased by PLN 14 155 thousand. The increase was primarily due to the long-term lease liabilities recognized for the first time in the amount of PLN 55,016 thousand in connection with the entry into force of IFRS 16 "Leasing". Whereas short-term liabilities decreased by PLN 256 527 thousand mainly as a result of a decrease in the level of credit debt by PLN 343 839 thousand, including the current one by PLN 314 188 thousand.

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Table 8: Selected items from consolidated equity & liabilities

	zloty thousand	zloty thousand	zloty thousand	%
	31 December 2019	31 December 2018	change	dynamics
<i>Equity</i>				
Issued capital	101 647	101 647	-	-
Supplementary capital	1 124 376	1 124 376	-	-
Capital from the revaluation of the derivate instrument quotation	-	(460)	460	(100,00)
Other reserve capitals	3 472	3 472	-	-
Retained profits / Uncovered losses	389 831	915 020	(525 189)	(57,40)
Net profit (loss)	(445 179)	(460 196)	15 017	(3,26)
Equity of the majority shareholders	1 174 147	1 683 859	(509 712)	(30,27)
Non-controlling interest	2 321	3 288	(967)	(29,41)
Total equity	1 176 468	1 687 147	(510 679)	(30,27)
<i>Long-term liabilities</i>				
Interest credits and loans	29 773	59 424	(29 651)	(49,90)
Long-term employee benefits	45 505	45 555	(50)	(0,11)
Long-term delivery and service liabilities and other financial liabilities	8 796	11 468	(2 672)	(23,30)
Long-term leasing liabilities	55 016	-	55 016	-
Long-term subsidies	41 793	43 007	(1 214)	(2,82)
Other long-term provision as well as prepayments and accruals	425 129	450 033	(24 904)	(5,53)
Deferred income tax provision	382 282	364 652	17 630	4,83
Total long-term liabilities	988 294	974 139	14 155	1,45
<i>Short-term liabilities</i>				
Short-term delivery and service liabilities and other financial liabilities	108 969	154 890	(45 921)	(29,65)
Current part of interest credits and loans	46 767	360 955	(314 188)	(87,04)
Short-term derivative financial instruments (liabilities)	1 757	921	836	90,77
Other non-financial liabilities	102 932	95 960	6 972	7,27
Income tax liabilities	223	21	202	961,90
Short-term employee benefits	6 897	5 445	1 452	26,67
Short-term subsidies	1 502	1 502	-	-
Long-term contract receivables due to ordering parties	1 730	2 482	(752)	(30,30)
Other short-term provisions as well as prepayments and accruals	682 707	587 835	94 872	16,14
Total short-term liabilities	953 484	1 210 011	(256 527)	(21,20)
Total liabilities	1 941 778	2 184 150	(242 372)	(11,10)
TOTAL equity & liabilities	3 118 246	3 871 297	(753 051)	(19,45)

Consolidated cash flow statement

In 2019, the Group generated a positive balance of cash flows from operating activities in the amount of PLN 448 037 thousand, which compared to the previous year was higher by PLN 81 283 thousand. The increase in net cash from operating activities was mainly due to the realization of a higher result at the EBITDA level.

In 2019, investment activity, unlike last year, generated higher revenues over expenses by PLN 19 198 thousand. On the one hand, the proceeds from the sale of fixed assets increased by PLN 9,689 thousand. On the other hand, investment expenditure amounted to just PLN 2,181 thousand, thus PLN 68,122 thousand, i.e. by 96.90%.

The balance of cash operations as part of financing activities amounted to PLN (355 917) thousand and was higher than that recorded in the previous year by PLN 30 612 thousand. As part of financial inflows and expenses, the largest

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change occurred in the repayment of loans whose repayment increased by PLN 125,855 thousand. In 2019, in connection with the net loss realized in 2018, no dividend was paid at ZEPAK SA.

Cash in 2019 increased by PLN 111,318 thousand and at the end of the year amounted to PLN 414 634 thousand.

Table 9: Selected items from the consolidated cash flow statement

	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2019</i>	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2018</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Cash flows on operating activities				
Gross profit (loss)	(439 892)	(515 448)	75 556	(14,66)
Adjustment for positions:				
Depreciation	183 401	193 012	(9 611)	(4,98)
Interest and shares in profits	3 117	17 158	(14 041)	(81,83)
(Profit)/loss on exchange difference rates	3 083	1 217	1 866	153,33
(Profit)/loss on investing activities	536	(2 497)	3 033	-
(Increase)/decrease in receivables	93 370	(115 290)	208 660	-
(Increase)/decrease in inventory	(8 229)	(11 480)	3 251	(28,32)
Increase / (decrease) in liabilities excluding loans and advances	(29 754)	11 491	(41 245)	-
Change in provisions, accruals and employee benefits	560 482	515 132	45 350	8,80
Income paid tax	(21 933)	(9 604)	(12 329)	128,37
Expenses for the purchase of CO ₂ emission allowances	(530 408)	(93 103)	(437 305)	469,70
Impairment allowance for property, plant and equipment and mining assets	632 042	372 540	259 502	69,66
Others	2 222	3 626	(1 404)	(38,72)
Net cash on operating activities	448 037	366 754	81 283	22,16
Cash flows on investment activities				
Sale of tangible and intangible assets	18 543	8 854	9 689	109,43
Acquisition of tangible and intangible assets	(2 181)	(70 293)	68 112	(96,90)
Expenses and income related to other financial assets	2 793	641	2 152	335,73
Deposit solution for securing debt	-	-	-	-
Received dividends	49	93	(44)	(47,31)
Received interest	9	2	7	350,00
Other	(15)	-	(15)	-
Net cash on investment activities	19 198	(60 703)	79 901	-
Cash flows on financial activities				
Repayment of financial leasing liabilities	(1 421)	(1 571)	150	(9,55)
Credits, loans and debt stocks income	66 688	43 414	23 274	53,61
Repayment of credits, loan and debt stocks	(410 804)	(284 949)	(125 855)	44,17
Paid-out dividends	-	(60 988)	60 988	(100,00)
Paid interest	(10 380)	(21 218)	10 838	(51,08)
Other	-	7	(7)	(100,00)
Net cash on financial activities	(355 917)	(325 305)	(30 612)	9,41
Increase (decrease) in net cash and its equivalents	111 318	(19 254)	130 572	-
Cash opening balance	303 316	322 570	(19 254)	(5,97)
Closing cash balance	414 634	303 316	111 318	36,70

Financial indexes

The net loss recorded in 2019 caused all profitability ratios to have negative values.

The total debt ratio at the end of 2019 increased, which means that the level of reserves and liabilities increased compared to the balance sheet total.

The value of the current liquidity ratio informs about the degree of coverage of current liabilities and provisions, including provisions related to CO2 emission allowances by current assets and the value of acquired CO2 emission allowances. The value of the ratio increased to 0.98, which means that at the end of 2019, the liquidity situation improved compared to the end of 2018.

Table 10: Indexes

		2018	2017	change	% dynamics
ROE	%	(37,92)	(27,54)	(10,38)	37,69
ROA	%	(14,31)	(11,98)	(2,33)	19,45
Net sales profitability	%	(15,50)	(20,12)	4,62	(22,96)
General debt index	<i>x razy</i>	0,62	0,57	0,05	8,77
Current liquidity index	<i>x razy</i>	0,98	0,74	0,24	32,43

5.3. Significant off-balance sheet items

The description of significant off-balance sheet items is presented in Note 33 and 34 of the consolidated financial statements of the Group for 2019.

5.4. Expected financial situation

The consolidated financial statements of the ZE PAK SA Capital Group have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future. The Group does not publish financial forecasts, therefore it does not present the expected situation in terms of specific values referring to financial results. This report describes factors that will have a determining impact on the future financial position of the Group.

In addition, taking into account the increased reporting standards of public interest entities, the following issues should be noted:

- 1) The Group closed 2019 with a net loss of PLN (446,146) thousand. The amount of net loss was significantly affected by the results of impairment tests of property, plant and equipment in the amount of PLN 615,300 thousand. In addition, due to outdated design documentation and the loss of validity of the environmental decision and building permit regarding the gas project at the Konin power plant, a decision was made to write down an item under fixed assets under construction for PLN 16,001 thousand. The EBITDA result at the end of 2019 amounted to PLN 393 356 thousand, which means a significant improvement compared to the EBITDA result for 2018, which was realized at the level of PLN 89 792 thousand.
- 2) As at December 31, 2019, current liabilities, including bank loans, exceed the current assets of the Group by PLN 17,268 thousand, which means an improvement compared to the end of 2018 when the difference was PLN 307,767 thousand.

The improvement in the above-described EBITDA, net profit (adjusted for one-off events) and the difference between short-term liabilities and current assets may arouse optimism. However, it should be remembered that the assessment of the Group's future functioning, including the assessment of the Group's ability to continue as a going concern is influenced by a large number of factors, among which the historical results are not the most important ones.

Companies operating in the coal industry face a whole host of challenges regarding future operations and risks related to, among others with a constantly tightening generally understood climate policy, decreasing scale of operations and fluctuations in the relation between electricity prices and CO2 emission allowance prices. Undoubtedly, the current business model of companies producing electricity from conventional sources will have to be transformed towards low-carbon generation technologies. Only the pace of this process remains unknown. The Management Board, being aware of the challenges related to the current business model, is taking steps to reduce the Group's dependence on high-carbon technologies. However, increasing operating costs, significant fluctuations in the level of CO2 emission allowances, the level of short-term debt and uncertainty regarding market regulations determining the prices of energy produced and certificates obtained affect the uncertainty of the implementation of plans adopted by the Management Board.

An important source of risk in the context of the continuation of the Group's operations and the valuation of its assets remains the balance of planned electricity production with coal supplies from exploited and planned opencasts. Currently, efforts are being made to extend the licenses held on Pańków IV and Drzewce fields. Without their extension, the exploitation period of Pańków IV deposit ends on August 31, 2020 and Drzewce deposit on December 4, 2020. Hopes in this aspect are raised recently by successful efforts to extend the exploitation of Adamów deposit. Another unknown remains the final of efforts to obtain a mining license for Ościsłowo deposit. The process of obtaining environmental decisions for this project has been going on since 2015. The current date for settling the case was set by GDOŚ in Warsaw on June 30, 2020. One should be aware that the current model of the Group's functioning constituting the basis for preparing tests for impairment of assets assumes the extension of the exploitation of currently used deposits, as well as obtaining a license for Ościsłowo deposit. This means that if it is not possible to obtain coal from the currently used deposits or the new Ościsłowo open pit, the service life of the coal blocks at Pańków and Pańków II power plants will be shortened.

As a consequence, the Management Board draws attention to the existence of significant uncertainty which may raise serious doubts as to the Group's ability to continue as a going concern.

It should also be emphasized that the current market situation is also of concern due to uncertainty about the scale of the social and economic consequences of the spread of the global pandemic associated with COVID-19 disease (for a more detailed description in section 3.1 of this report, which refers to events after the balance sheet date). The scale of the dynamics of economic development in Poland and in the world as well as the scale of the decrease in the demand for electricity in the coming months and the future remain unknown. The level of price volatility on commodity markets is also worrying at the moment. Irrespective of the direction of changes in energy prices and emission allowances, special attention should be paid to the level of difference between electricity prices and emission allowances in the context of results, while the dynamics of price changes may affect the level of liquidity. The Management Board would like to emphasize that the Group companies continue their strategy of simultaneously hedging prices of energy sold and CO2 emission allowances purchased. Operations at the operational level are also continuing to improve the efficiency of all Group companies.

An important task focusing the Group's attention is to improve the Group's liquidity in the short term. The Management Board has carried out a detailed analysis of cash flow forecasts and confirms that the analysis of cash flows indicates the possibility of generating sufficient, positive cash flows at least in the next 12 months from the date of these financial statements. This analysis assumes renewal of credit limits held for financing the current operations of the companies in the Group and obtaining financing for new investments. Talks are underway with financial institutions to renew loans and raise new investment funds. In the opinion of the Management Board, the risk of termination of calls failure is limited.

Despite the events described above, after the balance sheet date, the assumptions adopted by the Management Board regarding the estimates, including the impairment test, are current.

5.5. Specification of factors affecting the current and future financial results

The Group's financial results, as an entity focused on the generation and sale of electricity produced on the open wholesale market, are fully dependent on the behaviour of other market participants who, to a greater or lesser extent, depending on their market share, affect the level of shaped prices. Market behaviours of participants in the wholesale energy market are in turn stimulated by legislative actions in the area of broadly understood energy policy, conducted both at the national and EU level as well as at the level of the global economy.

The energy sector is currently experiencing a number of changes, in the near future there are plenty of announcements that could have a significant impact on the shape and functioning of the broadly understood energy market. In this context, mention should be made of the regulatory package adopted in 2019 under the name 'Clean energy for all Europeans' (Winter Package), which fundamentally affect national legislation in the energy sector. The entry into force of these regulations, in particular Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market in electricity (the so-called "Market Regulation") is very important from the point of view of the Polish capacity market, which the shape in the current formula must be changed. The provisions of the above-mentioned Market Regulation exclude from support installations emitting above 550g CO₂ / kWh of electricity from fossil fuels, which started production before the entry into force of the Market Regulation. From 1 July 2025, such installations will not be able to receive support under capacity mechanisms. The regulation, however, allows you to receive support for units that do not meet the 550g CO₂ / kWh limit, but will not emit more than 350kg CO₂ / kWh during the year.

When assessing the market and regulatory environment of the producer and seller of electricity, one should take into account several phenomena particularly significant in the last year, the effects of which may also affect the Group's results in the future:

- limiting the increase of power in the PPS in the onshore wind turbine segment and the increase of photovoltaic installations,
- capacity market auctions for the year 2024 with the possibility of concluding multi-year contracts,
- amendment to the Act on renewable energy sources, which changed the rules of the auction system,
- continuation of work on Poland's energy policy until 2040 (PEP2040), which sets out a new shape for the target energy mix for Poland, including assumptions for lignite mining,
- work on the National Plan for Energy and Climate (KPEiK) until 2030, which assumes increasing the share of the renewable energy target and limiting the share of coal in electricity production,
- work on the amendment to the Act on the capacity market and work on building a secondary market on the capacity market,
- entry into force of the Winter Package, introducing, among others new restrictions on CO₂ emissions, including rules for support for power mechanisms for sources emitting over 550g CO₂ / kWh, and assuming an increase in the share of oze in electricity production,
- amendment to the Act on the EU ETS trading system, the purpose of which was to adapt the Act to new European law provisions that will be in force in the Fourth Stage of the system's operation, ie in the years 2021-2030,
- Poland's participation in inter-operator projects aimed at building a common European electricity market, including Poland's accession to the XBID (SIDC) model and commencement of listing on the Intraday Market in the XBID model by TGE SA on November 19, 2019,
- work on the reform of the Balancing Market, which is to introduce, among others scarcity pricing mechanism as well as major changes in system services and balancing market settlements.

The Group generates the majority of revenues from the production and sale of electricity, therefore the price at which it sells electricity is very important for the results of its operations. When analyzing current market trends in the context of the level of electricity prices on wholesale energy markets, one should first look at the prices listed on the Polish Power Exchange ("POLPX"). Factors significantly affecting the level of stock exchange quotations on the SPOT market have remained the same for years, among them the most important are: the size of wind generation, reserve in the National Power System, the amount of transmission capacity available for cross-border exchange, as well as weather conditions. The volume of electricity trading on TGE in 2019 amounted to 228 905 528 MWh, which means an increase by 1.3% compared to 2018² when the exchange obligation was raised from 30% to 100%. The weighted average price of the BASE contract (the so-called 'band' or the supply of a constant amount of energy in a given unit of time) on the Day-Ahead Market of TGE in 2019 was at the level of PLN 229.62 / MWh, rising by over 2% compared to the corresponding price from 2018. In turn, on the term "RTT", the weighted average price of the annual contract with bandwidth delivery in 2020 (BASE_Y-20) in the entire 2019 amounted to PLN 266.40 / MWh, which means an increase of over 9% compared to the price from the BASE_Y-19 contract quotations in 2018. In the last months of the year, the price of the BASE_Y-20 annual contract fell significantly (December / November by PLN 13.76 / MWh), declines were also recorded on prices of CO₂ emission allowances.

The price of CO₂ emission allowances ("EUA"), which the issuer is obliged to redeem in the amount corresponding to the amount of CO₂ emissions to the atmosphere, is one of the factors that most determines the competitiveness of an energy company dealing in the production of electricity based on brown coal, next to the costs of coal and auxiliary fuels. At present, the Company receives a very small amount of free CO₂ emission allowances resulting from the allocation for heat production, therefore, virtually all of the allowances needed by the Group must be purchased on the market. The level of prices at which the Group acquires CO₂ emission allowances had in previous years and will continue to be of great importance for the future financial results of the Group. The CO₂ Emission Allowances Market is the market that is currently the most exposed to price changes caused by political decisions resulting from the debate on the shape of the reform of the European Emissions Trading System (EU ETS) that has been ongoing for several years. The main assumptions of the EU ETS reform were established by the European Council in its conclusions of October 2014. On this basis, in July 2015, the European Commission proposed a directive, and after a series of legislative actions in February 2018, the European Council officially approved the reform of the EU emissions trading system for the period after 2020. It should be emphasized that any changes that are assumed to increase the cost of CO₂ emissions will also increase the cost of energy production. However, not all manufacturers are equally exposed to this factor. The level of this impact is determined by the emissivity of a given producer and the possible number of free emission rights, which are granted e.g. in the case of the implementation of investments reported to the National Investment Plan.

² TGE message from the site www.tge.pl

On July 4, 2019, an amendment to the Act on the greenhouse gas emission allowance trading scheme was adopted, which entered into force on August 24, 2019. The purpose of the amendment was to adapt the Act to the new provisions of European law that will apply in Phase IV of the system's operation, i.e. in the years 2021-2030.

Another factor that will undoubtedly have an impact on the future financial results of the Group is the share of generating units belonging to the Group in the capacity market. In 2019, the generation units belonging to the Group took part in the main auction on the Power Market for the year of deliveries 2024 carried out by Polskie Sieci Elektroenergetyczne SA, in accordance with the rules set out by the Act of 8 December 2017 on the capacity market. As a result of the auction, ZE PAK SA and Elektrownia Pańków II sp.z o.o. concluded one-year capacity contracts for the year of delivery 2024 for existing (coal) units participating in the auction. The Group's generation assets participating in the auction as existing generating units concluded capacity contracts for one year of supplies, thus contracting a total capacity obligation of 588 MW at a price of PLN 259.87 / kW / year. In addition, as a result of the auction, the Group concluded a capacity contract for 17 years of supply at the abovementioned price, contracting a 40 MW capacity obligation for a new generation capacity unit, i.e. the biomass combustion plant modernized at Konin power plant, which had previously been used for energy production using lignite. In auctions carried out in previous years, the Group contracted a capacity obligation of 587 MW at the following prices: for 2021 - 240.32 PLN / kW / year, for 2022 - 198.00 PLN / kW / year, for 2023-202, 99 PLN / kW / year. Revenue from the capacity market for all its participants will only start when the first year of supply on the capacity market begins, i.e. in 2021. It should be noted, however, that the capacity market is not only additional payments for entities participating in it, but also specific obligations and financial penalties, for those who fail or do not properly perform the capacity obligation contracted in the contract. This year, intensified legislative work will be carried out to develop solutions aimed at enabling the functioning of the secondary market on the capacity market.

The future shape of the Polish energy mix will be of great importance for the framework of the Group's operations. At the end of 2018, the Ministry of Energy submitted for public consultation a draft "Polish Energy Policy until 2040" (PEP2040), which assumes, inter alia, gradual reduction of electricity production from coal sources. The draft document assumes, however, that Ościsłowo deposit, for which the Group is currently making efforts, is considered as prospective for the exploitation of open deposits. The creation of the PEP2040 document may be of key importance for the Group due to the prolonged process of obtaining a license for the construction of a new brown coal mine on Ościsłowo deposit. In 2019, work continued on the PEP2040 project and as part of the national public consultation, the second iteration of the draft document took place, which maintained the records on Ościsłów as a prospective deposit. Referring the influenza's manufacturing activity to opportunities and threats to financial results in the context of ongoing work on PEP2040, as well as work on the document "National Plan for Energy and Climate" (KPEiK) until 2030, which documents assume increasing the share of renewable energy sources and limiting the share of coal in electricity production, it is worth mentioning the investment of ZE PAK SA in Konin power plant, where a second biomass block will be launched next to the existing one, which will produce electricity and heat 100% from renewable energy sources. Among the factors that may affect the future financial results of the Group are also the opportunities that will appear before the participants of the wholesale energy market in connection with the development of the single electricity market. The launch on November 19, 2019 by TGE SA of the Intraday Market in the XBID model gives participants of the wholesale electricity market, including Group companies, new trading opportunities for the sale of produced electricity volumes. It is worth emphasizing that the intra-day market turnover in the XBID (SIDC - Single Intraday Coupling) model is much higher than it was when quotations on this market were conducted only in the domestic formula.

In November 2019, Polskie Sieci Elektroenergetyczne SA (PSE SA) began consultations as part of the balancing market reform, which envisages introducing changes in the principles of functioning of this market at the beginning of 2021. On November 7, 2019, PSE SA presented the document "Concept of changes in the principles of functioning of the Balancing Market", which includes solutions resulting from new legal regulations at European level, i.e. the Market Regulation, Commission Regulation (EU) 2017/2195 of November 23, 2017, establishing guidelines for balancing, as well as Poland's obligations arising from the process of notification by the European Commission of the implementation of the capacity market. The provisions of the concept will then be transferred to the Transmission Network Code and the Balancing Conditions and subject to further public consultation. The process of connecting the European market based on the so-called the "Flow Based Market Coupling" model, as well as the current reform of the Balancing Market, are aimed at strengthening competition in the energy market, which, together with the capacity mechanisms, should give impetus to investment in new generation capacity.

5.6. Unusual factors and events affecting the financial results

The results achieved by the Group in 2019 were affected by the following one-off events:

- 1) In connection with the results of impairment tests of assets carried out in accordance with the requirements of International Accounting Standard 36 "Impairment of assets", the Group has recognized the need to make write-downs on property, plant and equipment in the following centers generating independent cash flows CGU ZE PAK SA, CGU Elektrownia Pątnów II sp. Z oo, CGU KWB Konin SA and CGU KWB Adamów SA in the total amount of PLN 615,300 thousand. You can read more about asset impairment tests in the consolidated financial statements of ZE PAK SA Group in point 19.1.
- 2) In connection with the outdated design documentation and the loss of validity of the environmental decision and building permit regarding the investment task entitled The construction of the gas-steam block at the Konin power plant was decided to make a revaluation write-off for fixed assets under construction in the amount of PLN 16,001 thousand.

The total impact of all of the above events did not affect the EBITDA result in the Group, but it reduced the net result by PLN 540 101 thousand.

6. MANAGEMENT OF FINANCIAL ASSETS

6.1. Evaluation of financial assets management

The Group manages its current financial resources in a flexible manner by using cash liquidity analysis models and planning future cash flows on the basis of short-term and long-term financial forecasts developed periodically. By using the aforementioned tools, the Group's Companies execute current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits.

6.2. Evaluation of investment plan execution

The Group has its own functioning strategy and an investment plan adjusted to it. The investment plans take into consideration the current conditions in legislation and law, as well as economy and technology. The adopted manner of execution of the planned investments is mainly based on the use of resources obtained from current operations as well as external financing. During financing planning, the Group's Companies take into consideration a series of existing or future factors which can significantly affect the executed program. The projected financing structure of particular investment plans also takes into consideration the levels of a series of financial indexes, such as the debt or liquidity index, in a way which allows obtaining their optimal levels. In the view of the ZE PAK CG, the currently adopted investment plans are possible to execute with the use of the possessed and potential resources. It is however necessary to note that the Group is constantly monitoring the factors which have the biggest impact on the executed investment program and in case of substantial changes in either one of several of them, the Group does not exclude adjustments or significant changes in the executed strategy.

7. SIGNIFICANT FACTORS AND DEVELOPMENT PROSPECTS

Directional activities designated by the Group's strategy

Directions determined by the strategy of ZE PAK SA Capital Group are determined based on a systematic analysis of a wide range of economic and technological factors, such as: price trends of conventional fuels, prices of CO2 emission allowances, mechanisms supporting various technologies of electricity and heat generation.

ZE PAK SA Group directs its attention to the regulatory environment and technological progress, for broadly defined areas related to the Group's activities. The aim of such a view is to optimize investment plans, directional - in terms of the diversification of the fuel base and production source technologies, as well as detailed - referring to improvements in existing generating units and adjustment of production equipment work schedules. The Group strives to develop a long-term model of functioning in conditions of visible unfavourable trends for coal energy in adopted policies at the EU level, which is also reflected in the forecasts of changes in the energy mix of Poland.

The broadly understood legislative framework determined by EU and Polish law directly affects the Group's production potential. The technically exploited production facilities, for which the analyses do not demonstrate the expediency of modernization, in accordance with the decisions taken, will be gradually withdrawn. The way of exploitation during the transitional period must be strictly adjusted to their capabilities, through the selection of a derogation dedicated in environmental law. In addition, the optimal use of the available fuel base will be taken into account.

The company is aware of changes, especially those from the legislative and legal area that take place in the environment. Legal regulations aiming at reduction of CO₂, other gases (SO₂, NO_X) and dust emissions as well as regulations concerning the renewable energy sector are important challenges for the Group companies. Coming into force from 2021, new environmental regulations resulting from the introduction of BAT conclusions (Best Available Technology) expand the catalogue of limited pollutants. It is noteworthy that through investment activities and proper renovation management on existing generating units and associated equipment, the reduction of pollution successively reduces the emission of produced electricity.

Plans for the use of conventional power

1. Pałnów I and Pałnów II Power Plants - two 222 MW power units each have been modernized and can function effectively until 2030. The work of the 474 MW block at Pałnów II power plant is planned until 2036. However, the period of operation of these assets is directly dependent on the coal resources in the exploited opencasts, as well as on the potential new Ościślowo deposit, the operation of which is currently being sought by PAK KWB Konin SA. In addition, the condition for continuing work for the above-mentioned generating units is the extension of the licenses for the production of electricity. The Company plans to withdraw the remaining blocks of Pałnów I power plant in time in accordance with the permits held, enabling their operation.
2. Elektrownia Adamów - out of service from the beginning of January 2018. Documents required by law were prepared for regulatory authorities and the possibility of auxiliary economies was secured to the extent necessary. Currently, the Company's Management Board is working on a series of scenarios to optimize the use of assets related to Adamów power plant, also to diversify the fuel base. One of the concepts under consideration was the reconstruction of five inactivated boilers at the Adamów power plant to be gas-fired and dedicated to peak operation. The company is also considering scenarios for the use of available connection capacity to develop generation based on renewable energy sources.

Plans related to the development of renewable energy sources

1. Konin Power Plant - In September 2019, the Company signed a contract for heat supplies to the city of Konin from Konin power plant. The contract has been concluded for a definite period and is valid until the end of June 2032. The TG6 biomass block is the primary source for heat supply for the city. In addition to the functioning TG6 50 MW unit, a new biomass source with an estimated 50 MW capacity will be created, i.e. a modernized coal boiler rebuilt into a dedicated biomass combustion plant, to ultimately constitute a source producing electricity and protecting heat production in emergency situations. As a result of this year's capacity auction, the Company contracted a capacity obligation for this generation asset for 17 years, starting in 2024. After the implementation of the described modernization, Konin power plant will become the first power plant in the country whose coal power source was changed to biomass. The technical capabilities of Konin power plant allow the modernization of further units (2 further 50 MW units), but such an investment would involve the necessity of incurring higher expenses related to the development of the logistics infrastructure for biomass supply. The Company makes the possible decision regarding the modernization of two further units dependent on securing a higher volume of biomass supplies.
2. Areas of reclaimed opencasts PAK KWB Adamów and PAK KWB Konin - in line with the objectives of energy and climate policy and having the appropriate potential, the Company made a directional decision to use the areas previously used in mining activities to prepare them for investments in photovoltaic and wind technology. The first solar farm to be implemented by the target company will be a 70 MWp installation in Adamów region. Further projects will be developed after obtaining all formal, legal and environmental approvals. The development of wind projects will largely depend on potential changes regarding the existing restrictions on the location of wind turbines, i.e. their distance from residential buildings. Using various support mechanisms for this type of investment available in the broadly understood regulatory environment, the Company will seek to obtain preferential financing in order to increase the economic efficiency of the planned investment.
3. Use of renewable energy sources in hydrogen production - hydrogen production will be a completely new field of the Company's activity. Hydrogen will be produced in the process of electrolysis, using electricity produced from renewable energy sources. The first stage will be the purchase of an electrolyser in PEM technology, which along with the necessary infrastructure will be located at the Konin power plant and will use electricity from the biomass unit in the production of hydrogen. In the Company's opinion, the importance of hydrogen in the low-carbon

economy model will increase. An area that has significant potential is e.g. public transport, the Company intends to cooperate with partners interested in the use of hydrogen in this area.

The scope and pace of implementation of the plans described above will largely depend on the pace of changes in the economic model towards emission neutrality. In the case of faster reduction of the economy's dependence on fossil fuels, opportunities for market exploitation of the potential of planned projects should appear faster. In the case of a slower decarbonisation path, the pace of investment intentions may depend on the availability of support mechanisms and preferential financing.

8. SPECIFICATION OF THE SHAREHOLDING STRUCTURE

8.1. Shareholding structure

As of 31 December 2019, the Company's share capital amounted to PLN 101 647 094.00 and consisted of 50 823 547 shares with a face value of PLN 2.00 each.

The below table includes the specification of shareholders holding either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company according to information held by the Company based on the notifications of purchase / sale of the Company's shares as at the day of preparation of this report and as at 31 December 2019 and 31 December 2018.

*Table 11: Description 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 day of this statement**

Shareholder	shares.			%		
	Number of shares and corresponding number of votes at the General Meeting			in the total number of shares/votes		
	3.04.2020	31.12.2019	31.12.2018	3.04.2020	31.12.2019	31.12.2018
Zygmunt Solorz (indirectly) through:	31 156 914	29 592 734	26 200 867	61,30	58,23	51,55
– Elektrim SA	196 560	196 560	196 560	0,39	0,39	0,39
– Embud 2 sp. z o.o. S.K.A.	592 533	592 533	592 533	1,16	1,16	1,16
– Argumenol Investment Company Limited	30 367 821	28 803 641	15 407 773	59,75	56,68	30,32
Nationale-Nederlanden OFE	4 503 242	4 503 242	4 503 242	8,86	8,86	8,86
OFE PZU „Złota Jesień”	4 635 719	4 635 719	4 635 719	9,12	9,12	9,12

* According to information possessed by the Company based on the delivered notices of purchase / sale of shares

The structure of shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes as at the date of submitting this annual report for 2019 differs from the corresponding list of the periodic report for 2018. This difference results from the settlement of the transaction resulting from the tender's offer to sell the Company's shares announced July 30, 2019 by Argumenol Investment Company Limited (more information on the tender's offer and settlement of the transaction is provided in section 3.1 of this report). In addition, on March 23, 2020, March 31, 2020 and April 1, 2020, the Company received notifications informing about a change in share in connection with the acquisition by Argumenol Investment Company Limited as part of transactions concluded on the regulated market of the Warsaw Stock Exchange in total. 1 564 180 shares of the Company, representing approximately 3.07% of the share capital of the Company and entitling to 1 564 180 votes at the General Meeting of the Company, representing approximately 3.07% of the total number of votes.

The company has no knowledge of any agreements that may result in future changes in the proportions of shares held by the current shareholders.

8.2. Acquisition of own shares

The Company did not acquire own shares in 2019.

8.3. Shares of entities from ZE PAK SA Capital Group in the possession of supervising and managing persons

The below table presents the Company's shareholdings (direct and indirect), as well as shareholdings of the management personnel of its affiliates as of 31 December 2019 and as at the date of this report.

Table 12: The ownership of the Company's shares / stocks in entities related to the Company by the management as at December 31, 2019 and as at the date of the report.

Name and surname	ZE PAK SA shares		Affiliate shares	
	quantity	face value	quantity	Face value
Zygmunt Artwik	0	0	0	0
Paweł Markowski	0	0	0	0
Henryk Sobierajski	0	0	0	0
Paweł Lisowski	0	0	0	0
Maciej Nietopiel	0	0	0	0

The below table presents the Company's shareholdings (direct and indirect), as well as shareholdings of the supervising personnel of its affiliates as of 31 December 2019 and as at the date of this report.

Table 13: The ownership of the Company's shares / stocks in entities related to the Company by the supervising personnel as at December 31, 2019 and as at the date of the report.

Name and surname	ZE PAK SA shares		Affiliate shares	
	quantity	Face value	quantity	Face value
Wiesław Walendziak	0	0	0	0
Tomasz Szelaąg	0	0	0	0
Wojciech Piskorz	0	0	0	0
Leszek Wysłocki	0	0	0	0
Sławomir Sykucki	0	0	0	0
Sławomir Zakrzewski	0	0	0	0
Piotr Stępniaak	0	0	0	0
Grzegorz Krystek	0	0	0	0

8.4. Control of employee share option plan

The Company does not have an employee share program, therefore there is no control system of the employee share program in the Company.

9. DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RULES

Declaration of compliance with the corporate governance rules is presented in accordance with § 70 item 6 point 5) of the Resolution of the Minister of Finances of March, 29, 2018 on the current and periodical information provided by issuers of stocks as well as conditions for recognizing as equivalent information required by the laws of a non-member state.

9.1. Set of corporate governance rules applied

In 2019, the Company was subject to corporate governance principles contained in the „Best Practice for WSE Listed Companies 2016” (Best Practice) adopted by resolution of the WSE Supervisory Council of October 13, 2015. Best Practice came into force on January 1, 2016.

The Management Board of the Company, within the scope of competences conferred upon it by the Statute and generally binding legal regulations, exercises due diligence in order to ensure the Company's compliance with the widest possible range of Best Practices. The number and scope of principles that the Company has not complied with in 2019 are described in detail in the item below. The Management Board of the Company makes special efforts to ensure that the Company's information policy towards individual as well as institutional investors, being the implementation of

the guidelines contained in the Good Practices, was in line with their expectations. Furthermore, for reasons beyond the Company's control, not all rules contained in Good Practices are applied.

The collection of Best Practices is published on the website of the Warsaw Stock Exchange at the following address:

https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

According to the Best Practice principles the Company published A statement on the company's compliance with the corporate governance recommendations and principles contained in Best Practice at the following address:

(http://ri.zepak.com.pl/upload/files/PL_GPW_dobre_praktyki_PAK.pdf).

9.2. Set of rules which Company has not complied with

The following are the corporate governance principles that the Company has not applied with as part of its operations in 2019, with an explanation of the position of the Company in each specified derogation.

Principle I.Z.1.20. Best Practice

A Company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: an audio or video recording of a general meeting.

Reasons for non-compliance with the principle I.Z.1.20. of Best Practice:

Taking into consideration the Company's experience, according to which most of the Company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the company does not record and broadcast the course of the general meeting. In case of notification about a need of recording general meeting announced by bigger group of shareholders, the company will consider such possibility.

Recommendation IV.R.2. Best Practice

If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
- 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Reasons for non-compliance with the recommendation IV.R.2. Best Practice:

According to the Company's assessment, current shareholders structure does not justify real-life broadcast of the general meeting and real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting. Taking into consideration the Company's experience, according to which most of the company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording and broadcasting of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the Company does not record and broadcast the course of the general meeting. So far the Company did not receive shareholder's notifications of general meeting broadcasting. In case of such a notification announced by bigger group of shareholders, the Company will consider recording and broadcasting of general meeting. Exercise of the right to vote during a general meeting either in person or through a plenipotentiary is a usual practice on general meeting of the Company. According to the Company's assessment, not in full use of above mentioned recommendation does not adversely affect the achievement of the objective described in the section IV of the code of best practices.

Principle IV.Z.2. Best Practice

If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Reasons for non-compliance with the principle IV.Z.2. Best Practice:

According to the Company's assessment, current shareholders structure does not justify real-life broadcast of the general meeting. Taking into consideration the Company's experience, according to which most of the Company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording and broadcasting of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the Company does not record and broadcast the course of the general meeting. So far the Company did not receive shareholder's notifications of general meeting broadcasting. In case of such a notification announced by bigger group of shareholders, the Company will consider recording and broadcasting of general meeting.

Recommendation VI.R.1. Best Practice

The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Reasons for non-compliance with the recommendation VI.R.1. Best Practice:

There is no comprehensive, formal remuneration policy in the Company. Remuneration of the members of the supervisory board are established by the general meeting, remuneration of the members of the management board are established by the supervisory board and there is a document in the company describing remuneration rules of the key managers. In any case such factors are taken into consideration: competence, experience, and responsibility of the position and work effects.

Pursuant to the provisions of the amended Act on Public Offering (Journal of Laws of 2019, item 2217), the remuneration policy is being developed and will be adopted at the General Meeting by June 30, 2020.

Recommendation VI.R.2. Best Practice:

The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

Reasons for non-compliance with the recommendation VI.R.2. Best Practice:

There is no comprehensive, formal remuneration policy in the Company. However link with such factors as short- and long-term goals, long-term interests and results are taken into consideration in establishing remuneration of governing bodies and key managers. The company does not discriminate on whatever ground in process of establishing remuneration on any position.

9.3. Description of the main characteristics of internal control and risk management systems in relation to the process of financial statement and consolidated financial statement development

The process of development of the Company's financial statements as well as the Capital Group's consolidated financial statements takes place with the use of internal control and risk management mechanisms, such as: Company's internal procedures, management mechanisms of IT systems used for registration of economic activities and development of financial statements, as well as protection mechanisms of data and systems, principles of supervision over preparation of financial statements, principles of verification and assessment of statements, the internal audit and other control elements.

The development of the Company's financial statements as well as the Group's consolidated financial statements is executed in an orderly manner, pursuant to the organizational structure of the Company and Group. The management accounting tools and IT systems implemented in the Company and Group for the purpose of registration of economic events in books of account provide the basis for the evaluation that the Company's financial statements and the Group's consolidated financial statements reliably and clearly present the Company's and Group's financial and economic situation.

The basic regulations in the scope of development of financial statements include: the Company's accounting policy in accordance with the Accounting Act of 29 September 1994, International Financial Reporting Standards ("IFRS"), approved by the European Union, the procedure of closing the books of account of companies including the Capital Group, as well as the financial statement and consolidated financial statement development requirements imposed by the Warsaw Stock Exchange.

As of the date of development of this statement, the Company did not make a decision on keeping the books of account in the Group according to the International Financial Reporting Standards (“IFRS”). Therefore, the process of development of financial statements in the Group takes place in two stages. Firstly, all the companies of the Group develop their own individual statements pursuant to the Polish accounting standards. These statements are studied if they meet the conditions specified in the Accounting Act. Then, the companies transform the individual statements on the basis of the accounting policy, determined for the Group, in accordance with the International Financial Reporting Standards (“IFRS”) using the so-called sheets of transition into financial statements in the IFRS standards. Such prepared individual statements are the basis for development of the Group’s consolidated financial statement. Only in case of ZE PAK SA, there is an automatic process of importing data from SAP ERP system to SAP BPC consolidation system.

The Group’s consolidated statement is developed with the use of SAP BPC IT system. The separated central unit in the parent company (i.e. ZE PAK SA) merged with accounting departments in individual subsidiaries functions within the framework of the system. The consolidation process is started with the central unit opening access for companies to enter data into the system, the subsidiaries have the possibility of access to its back data at any time, but without the possibility of their adjustment. The central unit constantly monitors the entry of data by the companies, and then, after entering individual data, it starts the consolidation process. This process is based on defined business rules, which determine the content of consolidation adjustments. Furthermore, the consolidation process allows for entering manual adjustments by the central unit. The result of the consolidation process completion includes a complete package of the financial statement together with explanatory notes in Excel files, which is then exported to Word file after verification.

The Management Board is responsible for the Company’s internal control system and for its effectiveness in the process of development of financial statements and periodical reports developed and published in accordance with the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent to the information required by the law of a non-member state.

The substantive supervision over the process of development of the Company’s and Group’s financial statements and periodical reports is executed by a member of the Management Board responsible for financial issues. The organisation of works related to the development of financial statements is the responsibility of the Director of Finance who, together with the Principal Accountant, develops the work schedule including in the development of statements.

The Company’s effective internal control and risk management systems related to the process of financial reporting is ensured thanks to the following aspects:

- development of procedures specifying the principles and division of responsibility in the development process of financial statements,
- specification of the scope of reporting pursuant to the mandatory provisions of the Accounting Act and International Financial Reporting Standards,
- implementation and execution of supervision over the use by the Capital Group’s companies of coherent accounting principles as well as
- semi-annual inspections and annual audits of the financial statements of ZE PAK SA. and Capital Group by an independent statutory auditor.

The annual and semi-annual financial statements are subject to the independent auditing and inspection by the independent statutory auditor, who gives an opinion on the reliability and clarity of such a statement as well as correctness of books of account comprising the basis for the statement development.

The choice of a statutory auditor is made by the Supervisory Board, from a group of reputable auditing companies, which guarantee high service standards and the required independence.

The audits of financial statements are carried out:

- in accordance with the provisions of Chapter 7 of the Accounting Act of 29 September 1994,
- in accordance with the National Standards of Auditing within the meaning of the International Standards on Auditing, adopted by the resolution of the National Chamber of Statutory Auditors of 10 February 2015 as amended and the resolution of the KRBR of 7 July 2017.

In particular, the audits include verification of correctness of the accounting rules used by the Company and Group, verification of significant estimates, checking – in a random manner – of accounting evidence and records, which the amounts and information included in the financial statement result from, as well as comprehensive assessment of the financial statement.

The Company’s and Group’s financial results are regularly monitored during the financial year and are subject to periodical evaluation made by the Supervisory Board. During regular sessions of the Supervisory Board, the

Company's Management Board provides information regarding the current financial situation of the Company and ZE PAK SA Group.

The Company's and Group's task is to develop a financial statement, including numerical data and wordy clarifications, which:

- reliably and clearly presents all information which are significant for the evaluation of the financial and economic situation for a given day, as well as the financial result for a given period,
- was properly developed in all the significant aspects, that is, in accordance with the accounting rules resulting from the International Financial Reporting Standards, as well as the related interpretations published in the form of the European Commission regulations, and according to the requirements of the Accounting Act and executive regulations issued on its basis, as well as on the basis of correctly kept books of account,
- is compliant with the regulations and provisions of the Company's Articles of Association, which affect the financial statement content.

The Company has the documentation, which describes its adopted accounting principles, specified in Article 10 of the Accounting Act. The applied principles of cost accounting, quotation of assets and liabilities as well as determination of the financial result are pursuant to the Accounting Act and the International Financial Reporting Standards.

The Management Board is responsible for the correct keeping of the Company's and Group's accounting. The Company keeps the books of account within the integrated SAP ERP IT system. This system, like the above SAP BPC consolidation system of statements, provides the division of competence, coherence of activity entries in the books, as well as control between the main book of account and the auxiliary books. The conducted registration allows determining the financial result, VAT tax, and other budget liabilities. The account registration ensures correctness and completeness of entries. The chronology of economic events is kept. Entries in the books of account reflect the actual state, and data are entered in a complete and correct manner, on the basis of accounting records qualified for entry. The continuity of entries and correctness of the applied procedures are ensured. The accounting records meet the requirements of the Accounting Act. The books of account are kept in the Company's registered office. There is a possibility to modify the system operation in order to ensure the adequacy of technical solutions to the changing accounting principles and legal standards. The system includes the documentation both in the part related to end users as well as in the technical part. The system's documentation is subject to periodical verification and updating. The Company implemented organisational and system solutions in the scope of ensuring proper use and protection of data access protection systems as well as hardware. The access to the financial registration system resources is limited with proper entitlements, which are provided to authorized employees only in the scope of their responsibilities and activities.

The internal audit, the aim of which is to carry out independent and objective assessment of the risk management and internal control systems, functions in the Company. The internal audit is conducted on the basis of the auditing regulations. The audit executes planned and temporary auditing tasks both in the parent company as well as in the Group's companies. The audit plans are developed on the basis of the risk analyses. The audit results are reported to the Company's Management Board. Information on the internal audit activity also constitutes the subject of analyses of the Audit Committee.

As part of the control activity, the periodical management reporting is subject to evaluation in terms of presented information, especially, in the context of the analysis of deviations from the assumptions adopted in the financial plans.

9.4. Shareholders with significant blocks of shares

The below table presents the shareholders with significant blocks of shares, in accordance with the Company's knowledge, based on the notifications submitted to the Company.

*Table 14: Shareholders owning directly or indirectly significant blocks of shares (over 5 %) in accordance with the information available to the Company based on the notifications of purchase / sale of the Company's shares, as at the date of this report.**

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage share in the share capital</i>	<i>Number of votes</i>	<i>Percentage share in the share capital</i>
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud 2 sp. z o.o. S.K.A., Argumenol Investment Company Limited.	31 156 914	61,30%	31 156 914	61,30%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	4 503 242	8,86%	4 503 242	8,86%

OFE PZU „Złota Jesień”	4 635 719	9,12%	4 635 719	9,12%
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* according to the Company's knowledge on the basis of notifications submitted by the shareholders.

9.5. Holders of stock giving special control rights

As of 31 December 2019 and as of the date of development of this statement, the Company has not issued stocks giving special control rights.

9.6. Limitations in the execution of the right of ballot

According to the Company's Articles of Association and other internal documents of the Company as of 31 December 2019 and as of the date of development of this report, there are no limitations regarding the execution of the right of ballot.

9.7. Limitations regarding the transfer of right of ownership of stock

As of 31 December 2019 and as of the date of development of this statement, the Company does not include any limitations regarding the transfer of right of ownership to Company's stocks..

9.8. Principles for the appointment and dismissal of management and supervisory personnel

Management Board

The Management Board is comprised of 3 to 6 members appointed for joint term. The composition of the Management Board includes: President of the Board, Vice-Presidents, as well as other members of the Board. The number of Board members and their functions are specified by the Supervisory Council. The Management Board's term is five years. The Board's President, Vice-Presidents, as well as other members are appointed and dismissed by the Supervisory Council during a secret ballot. The Board's President, Vice-Presidents, as well as other members can also be dismissed or suspended in duties during the General Meeting.

The Board administers the Company's cases and represents the Company. The Board acts pursuant to the Board's Regulations which specifically determine the Board's action mode. The Regulations are established by the Board and approved by the Supervisory Council by way of a resolution.

The Board's resolutions are required for cases exceeding common management, which especially include:

- 1) resolution and changes in the organisational regulations which specify the organisation of the Company's entrepreneurship,
- 2) contracting credits and loans,
- 3) proxy establishment,
- 4) granting credit guarantees and sureties,
- 5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct.
- 6) decisions in cases, the value of which exceeds zloty 500 000.00. The value of transactions expressed in foreign currencies is subject to conversion according to the average exchange rate of the National Bank of Poland (NBP) of the date of resolution passing.

The Board's resolutions are also required for cases in which the Board addresses the General Meeting and the Supervisory Board.

Supervisory Board

The Supervisory Board is comprised of 5 to 14 members appointed for joint term. The Board's term is five years. The members of the Supervisory Board are appointed and dismissed during the General Meeting. The General Meeting, prior to the appointment of the Board's members for a new term, specifies the number of members of the Board. The Board appoints the President, Secretary, Vice-President or, if deemed reasonable, two Vice-Presidents, among its members in a secret ballot.

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The composition of the Board should include two members who fulfil the independence criteria projected for an independent Board member within the meaning of the Commission's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors acting as members of supervisory Boards in stock exchange listed companies and the (supervisory) Board's committee (2005/16/EC) with consideration of Good Practices of the Warsaw Stock Exchange Listed Companies ("Independent Supervisory Board Members"). A candidate for the Independent Supervisory Board Members provides the Company, prior to his/her appointment as a Board member, with a written declaration on the fulfilment of the independence criteria.

In accordance with the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws, item 1089), the Company has the status of a public interest entity within the meaning of this Act, and therefore it should have an Audit Committee. The audit committee consists of at least 3 members. At least one member of the audit committee has the knowledge and skills in the field of accounting or auditing of financial statements. According to the said Act, the majority of the audit committee members, including its chairman, must meet the criteria of independence from a given public interest entity.

The Board supervises the Company's activities in all areas of its operation.

The Board's rights especially include:

- 1) approval of the Board's Regulations and giving opinion on the organisational regulations, which specify the organisation of the Company's entrepreneurship,
- 2) conclusion, termination, and amending agreements with the Board members, as well as establishment of the Board's remuneration principles and the remuneration amounts for the Company's Board members,
- 3) appointment and dismissal of the Board's President, Vice-Presidents, as well as other Board members in a secret ballot,
- 4) suspension in duties due to significant reasons, in a secret ballot, of the Board's President, Vice-Presidents, as well as other Board members, or the entire Management Board,
- 5) delegation of a Board member or members for temporary execution of Board member activities in case of suspension of Board members or the entire Management Board,
- 6) selection of the entity authorised to audit the Company's financial statements,
- 7) evaluation of the Board's report from the Company's activities or financial statement for the previous accounting year,
- 8) evaluation of the Board's conclusion regarding the division of profit or loss coverage,
- 9) submission to the General Meeting of the written annual report on the results of evaluations specified in paragraph 7 and 8,
- 10) submission to the General Meeting of the annual brief evaluation of the Company's situation, as well as the annual report on the Board's work,
- 11) giving opinion on cases submitted by the Board and comprising the subject of the General Meeting's resolutions,
- 12) approval of the Company's and ZE PAK Capital Group's perennial activity programs, including the Company's and ZE PAK Capital Group's activity strategies, developed by the Board, and
- 13) approval of the Company's annual activity programs, as well as the Capital Group's annual activity programs, especially including production plans and revenues, type cost plans, unit cost plans, remuneration plans, investment plans, as well as renovation and maintenance service plans.

The Board's competencies also include giving the Board an approval:

- 1) to participate in other companies and disposal of shares in other companies,
- 2) to establish foreign branches,
- 3) to make advanced payments for dividends,
- 4) for the Company to execute activities which result in incurring liabilities, except for:
 - a. activities provided in the Company's annual activity program approved by the Board,
 - b. activities resulting in incurring liabilities with a value of up to zloty 1 000 000, including granting sureties or guarantees as well as suretyship,

- 5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct with a value exceeding zloty 1 000 000,
- 6) conclusion by the Company and an affiliate of a major agreement within the meaning of the regulations regarding the current and periodical information provided by issuers of stocks accepted for trade in a regulated market, excluding typical agreements concluded by the Company pursuant to market conditions, within the conducted operational activities,
- 7) designation by the Board of personnel acting in the bodies of companies or other entities in which the Company has a direct or indirect share, as well as
- 8) establishment by the Board of the manner of ballot execution during the General Meeting or the Meeting of Partners in companies, in relation to which the Company is a parent company or an affiliate within the meaning of the Code of Commercial Companies, in the following cases:
 - a. disposition and lease of the company's entrepreneurship or its organised part, establishment of a limited property right for them, as well as execution of other activities related to the acquisition or administration of the company's asset components which comprise the subject of the General Meeting's or Meeting of Partners' deliberations,
 - b. company's termination or liquidation,
 - c. amendment of the company's articles of association or deed
 - d. company's merger, division or transformation, as well as
 - e. increase or decrease in the company's share capital.

Pursuant to the Board's application, the Supervisory Board grants Board members the approval to take positions in the bodies of companies, in which the Company holds shares, as well as for the collection of remuneration for acting in these positions.

9.9. Composition, its changes as well as description of the management and supervisory bodies

Management Board

The 2019 financial year began in the following composition:

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

On January 10th, 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 10th 2019. In this situation, at the meeting held on January 10th, 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 12th, 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.

At the meeting of the Company's Supervisory Board 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 the day of the report publication, ZE PAK SA Management Board is composed of the following members:

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

Supervisory Board

The financial year ZE PAK SA Supervisory Board started in the following composition:

- 1) Wiesław Walendziak – Chairman,
- 2) Tomasz Szela – Deputy of the Chairman,
- 3) Wojciech Piskorz – Secretary,
- 4) Henryk Sobierajski,
- 5) Leszek Wysłocki,
- 6) Sławomir Zakrzewski,
- 7) Lesław Podkański,
- 8) Sławomir Sykucki.

On 12 April 2019, Mr. Lesław Podkański resigned from the position of a member of the Supervisory Board. Whereas on April 15, 2019, at the meeting of the Extraordinary General Meeting of the Company, the Supervisory Board of the Company was appointed in a new nine-member composition. Also on April 15, the Supervisory Board appointed from among its members the Chairman of the Supervisory Board, Deputy Chairman and Secretary. Considering the above, as at April 15, 2019, the composition of the Supervisory Board was as follows:

- 1) Wojciech Piskorz – Chairman,
- 2) Wiesław Walendziak – Deputy of the Chairman,
- 3) Tomasz Szela – Secretary,
- 4) Henryk Sobierajski,
- 5) Sławomir Sykucki,
- 6) Leszek Wysłocki,
- 7) Sławomir Zakrzewski,
- 8) Piotr Stępnik,
- 9) Grzegorz Krystek,

On October 10, 2019, Mr. Henryk Sobierajski resigned from his position as a member of the Company's Supervisory Board. As at the date of publication of this Report, the composition of the Supervisory Board of ZE PAK SA is as follows:

- 1) Wojciech Piskorz – Chairman,
- 2) Wiesław Walendziak – Deputy of the Chairman,
- 3) Tomasz Szela – Secretary,
- 4) Sławomir Sykucki,
- 5) Leszek Wysłocki,
- 6) Sławomir Zakrzewski,
- 7) Piotr Stępnik,
- 8) Grzegorz Krystek.

The members of the Supervisory Board meeting the criteria of the independence are: Sławomir Zakrzewski, Piotr Stępnik and Grzegorz Krystek.

In performing its code and statutory duties, the Supervisory Board held 9 meetings in 2019, adopting a total of 94 resolutions. The Supervisory Board performed the statutory duty to hold a meeting in each quarter.

In the reporting period, the Supervisory Board collectively supervised the Company's activity in all areas of its operation. The Supervisory Board focused on the following issues:

- 1) assessment of reports prepared for the business year 2019,
- 2) changes in the composition of the Management Board of ZE PAK SA,
- 3) internal division of competences between members of the Management Board of the Company,
- 4) expressing consent for the Company to perform actions resulting in incurring liabilities with a value of over PLN 1 million,
- 5) issuing opinions on applications submitted by the Management Board in matters pertaining to the current operations of the Company,
- 6) approving activities related to the restructuring process in the ZE PAK SA Capital Group,
- 7) ongoing discussion of the situation related to obtaining the decision on environmental conditions for the construction of Ościsłowo open-pit,
- 8) discussing the current activities undertaken by the Company in the area related to the investment consisting in the creation of a second biomass generating unit at the Konin power plant based on the existing coal boiler and existing turbine sets,
- 9) discussing the current activities undertaken by the Company in the area related to the investment consisting in the construction of a solar farm with an estimated capacity of about 70 MWp.

Audit Committee

2019, the Audit Committee began to meet in the following composition:

- 1) Lesław Podkański – Chairman of the Audit Committee,
- 2) Sławomir Zakrzewski,
- 3) Tomasz Szelağ.

on 15 April 2019, in connection with the election of a new composition of the Supervisory Board, the composition of the Audit Committee was also changed. As of the date of publication of this report, the composition of the Audit Committee is as follows:

- 1) Sławomir Zakrzewski – Chairman of the Audit Committee
- 2) Tomasz Szelağ
- 3) Piotr Stępniaik

A member of the Audit Committee with knowledge and skills in the industry in which ZE PAK SA operates is Mr. Sławomir Zakrzewski, who acquired them through his extensive professional experience, in the construction and energy industries, acquired both at home and abroad. The member of the Audit Committee with knowledge and skills in the field of accounting is Mr. Tomasz Szelağ, who acquired them thanks to his education and he perfected taking up numerous managerial positions requiring this knowledge and competence. The members of the Audit Committee who meet the independence criterion are Mr. Sławomir Zakrzewski and Mr. Piotr Stępniaik.

In 2019 the auditing company carried out agreed procedures related to the verification of the calculation of the covenants enshrined in the ZE PAK SA credit agreement.

The company developed a policy of selecting an audit firm to conduct the audit and a policy for the audit company conducting the audit, by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services.

The main assumptions of the policy of choosing an audit firm to conduct the study:

1. Pursuant to the Company's Articles of Association, the body selecting the auditing company for the statutory audit is the Supervisory Board of the Company.
2. The remuneration for statutory audit received by the audit firm or its subcontractors may not be conditional on any conditions, including the result of the statutory audit or be shaped or dependent on the provision of additional services that are not statutory audits of the Company or its related companies.
3. The Audit Committee of the Company's Supervisory Board approves the procedure for selecting an audit firm.
4. The Company prepares tender documentation for invited audit firms according to specific criteria.
5. The Company assesses the offers established by the audit firms in accordance with the selection criteria specified in the tender documentation and prepares a report containing the conclusions of the selection procedure and submits them to the Audit Committee.
6. The Audit Committee presents the Supervisory Board with a recommendation to select an audit firm.

7. If the decision of the Company's Supervisory Board regarding the selection of an audit firm deviates from the recommendation of the Audit Committee, the Company's Supervisory Board justifies the reasons for non-compliance with the Audit Committee's recommendation and provides such justification to the General Meeting of Shareholders of the Company.

The main assumptions of the policy of providing the Company with the auditing company conducting the audit by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services:

1. The Company, realizing the provisions of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision ("UoBR"), does not conclude with the auditing company conducting the audit, with entities related to this auditing company and with the members of the audit company's service contracts prohibited services within the meaning of Article 136 of UROBR;
2. To the extent not related to the Company's tax policy, the Company may commission an audit company or an entity related to that auditing company or a member of the auditing company network, works that are permitted non-audit services;
3. The Audit Committee supervises the compliance with the law of performing the works referred to in point 2. Prior to the commissioning by the Company of the services referred to in point 2, the Audit Committee shall conduct an assessment of the threats and safeguards of independence referred to in art. 69-73 of UoBR;
4. The policy also lists the main types of permitted and prohibited services.

The recommendation regarding the selection of an audit firm to conduct the audit was made following a selection procedure organized by the Company that meets the applicable criteria and this recommendation meets the auditor's product conditions in force at the Company.

In the financial year 2019, the Audit Committee of the Supervisory Board of ZE PAK SA held 3 meetings.

9.10. Procedure and basic powers of the General Meeting as well as description of shareholders' rights and their exercise

General Meeting

The General Meeting is held in cases specified in the Code of Commercial Companies and in the Company's Articles of Association. The General Meeting is held in principle by the Company's Board and deliberates, and an ordinary or extraordinary meeting. In case of summoning the General Meeting by an entity or body other than the Company's Board, the Board is obligated to cooperate with the entity or body in order to execute any activities specified by the law as necessary to summon, organise, and execute the General Meeting. Since the first day of listing of the Company's shares in the regulated market of the Warsaw Stock Exchange Joint-stock Company, the General Meetings can take place with the use of electronic communication resources. The decision on arranging the General Meeting using electronic communication devices is made by the Company's Supervisory Council.

The General Meeting takes place in Warsaw or in the Company's registered office.

The ZE PAK SA's General Meeting is summoned by notification placed on the Company's website and in a manner specified for provision of current information in accordance with the regulations on public bidding and conditions for introducing financial instruments to the organised trade system and on public companies.

The materials made available to shareholders in relation to the General Meeting, including drafts of resolutions proposed for passing, as well as other important materials are made available by the Company on the <http://ri.zepak.com.pl/> website.

The basic competencies of the General Meeting include:

- 1) examination and approval of the Board's report on the Company's activities, as well as the financial statement for the previous accounting year, as well as acknowledgement of the fulfilment of duties by the Company's body members,
- 2) division of profit and loss coverage,
- 3) change in the subject of the Company's activities,
- 4) amendments to the Company's Articles of Association,
- 5) increase or decrease in the share capital,
- 6) authorisation of the Board to acquire own shares for the purpose of redemption,
- 7) appointment and dismissal of Council members,
- 8) establishment of the remuneration of Council members,

- 9) Company merging, division and transformation,
- 10) Company termination and liquidation,
- 11) emission of convertible bonds or bonds with right of priority and subscription warrants,
- 12) sale or lease of the company or its organised part as well as establishment of a limited property right for them,
- 13) establishment and cancellation of the Company's capitals and funds,
- 14) conclusion by the Company of a credit, loan, surety agreement, or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
- 15) conclusion by an affiliate of a credit, loan, surety agreement or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator, or for any of this personnel,
- 16) any provisions regarding claims the remedy of damage done during the Company's establishment or executing management or supervision, and
- 17) use of the share capital.

The active right to participate in the General Meeting is available to persons being the shareholders, 16 days prior to the General Meeting. The condition of admitting a shareholder to participate in the General Meeting is the submission of a registered certificate regarding the right to participate in the General Meeting, which is issued by the entity that keeps the stocks account.

The shareholder participates in the General Meeting's deliberations and executes the right of ballot in person or via an authorised representative.

The shareholder who represents at least 1/20 of the Company's share capital is entitled to request specific cases to be included in the Company's General Meeting agenda. The request should be reported to the Company's Board no later than 21 days prior to the Company's General Meeting.

The shareholder, who requests to include specific cases in the General Meeting's agenda, should demonstrate the possession of the proper number of shares at the date of request submission, including a deposit certificate to the request, issued by the entity keeping the stocks account.

The shareholder representing at least 1/20 of the Company's share capital can submit resolution drafts regarding the cases introduced into the General Meeting's agenda, or cases, which are to be introduced into the agenda in a written or electronic form prior to the date of the General Meeting.

Each of the shareholders authorised to participate in a general meeting can provide the resolution drafts regarding the cases introduced into the agenda during the Company's General Meeting.

The General Meeting's resolutions are passed with a majority of 75% votes, provided that the Code of Commercial Companies does not specify otherwise. Each Company's share entitles to a single vote at the General Meeting.

9.11. Description of principles of changes in the Company's statute

Changes to the Company's statute, in accordance with the Code of Commercial Companies and provisions of the Company's Statute, require the General Meeting to pass a suitable resolution and an entry into the register of entrepreneurs. The General Meeting can authorise the Company's Supervisory Council to develop a uniform text of the amended statute, or to introduce editorial changes specified in the General Meeting's resolution. Amendments to the Statute are binding since the moment of entry into the register of entrepreneurs.

9.12. Information on the remuneration system and the amount of management and supervisory staff's remuneration

In Zespół Elektrowni Pańńów-Adamów-Konin SA, the remuneration system is based on the Corporate Collective Labour Agreement for employees of ZE PAK SA of September 24, 1993 (CCLA). Only members of the Management Board, chief accountant and key managers who have concluded managerial contracts. On September 25, 2018, the Company terminated CCLA and in accordance with the notice procedure, the terms of employment contracts were effective until December 31, 2019. In July 2019, the Company submitted a draft of a new collective labor agreement to the social side. As at the date of this report, negotiations on a new collective agreement are underway.

The basic components of remuneration for the employees contained in the CCLA include an individual monthly basic salary, a monthly statutory bonus, extra payment for seniority, an annual bonus, a post-employment benefit and allowances. The employees are also entitled to receive awards from the president's fund and social benefits.

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The Management Board determines the principles of remuneration of key managers in individual agreements. The basic component of remuneration is the basic salary. The key managers can receive a discretionary award granted by the Management Board's decision. The key managers are also entitled to some components of the CCLA.

The members of the ZE PAK SA Management Board are paid on the basis of the provisions of individual management agreements, the content of which is formed by the Supervisory Board of the Company. There are no other additional regulations or other documents creating the rules of the Management Board's remuneration. The members of the Management Board are entitled to a monthly salary. They can also be granted a discretionary award. In case of dismissal from the Management Board composition, the payment of a severance pay in the amount of a six-month salary is provided. The severance pay is not entitled if the dismissal occurs for reasons concerning the dismissed member of the Management Board, particularly for the reasons set forth in Article 52 of the Labour Code. There are no provisions for compensation in the event of a dismissal following a merger or acquisition.

The Company does not have a motivational or bonus program based on the Company's capital.

Table 15: Information on the amount of remuneration paid in 2019 by the Company and its subsidiaries to all Management Board members performing their functions in 2019

<i>The Board's member name and surname</i>	<i>zloty thousand</i>	<i>zloty thousand</i>	<i>zloty thousand</i>	<i>zloty thousand</i>
	<i>Value of (gross) remuneration paid by the Company</i>	<i>Value of (gross) remuneration paid by the Company's subsidiaries</i>	<i>In total:</i>	<i>including variable elements of remuneration*</i>
Marcin Ginel	74,3	0,6	74,9	7,2
Aneta Lato-Żuchowska	183,3	1,9	185,2	49,0
Zygmunt Artwik	636,0	1,0	637,0	0,0
Elżbieta Niebisz	18,4	0,0	18,4	1,2
Adam Kłapszta	39,5	0,0	39,5	0,0
Paweł Markowski	483,9	1,2	485,1	0,0
Paweł Lisowski	306,4	0,9	307,3	0,0
Henryk Sobierajski	303,1	0,4	303,5	180,0
Maciej Nietopiel	149,2	0,3	149,5	0,0
Total	2 194,1	6,3	2 200,4	237,4

* *The variable remuneration components include: awards and bonuses, severance pay for dismissals from the Management Board, holiday equivalents and retirement benefits.*

Table 16: Information on the amount of non-cash benefits in 2019 granted by the Company and its subsidiaries to all Management Board members performing functions in 2019

<i>The Board's member name and surname</i>	<i>zloty thousand</i>	<i>zloty thousand</i>	<i>zloty thousand</i>
	<i>Total estimated value of non- cash benefits granted by the Company</i>	<i>Total estimated value of non- cash benefits granted by the Company's subsidiaries</i>	<i>In total</i>
Marcin Ginel	0,2	-	0,2
Aneta Lato-Żuchowska	0,0	-	0,0
Zygmunt Artwik	15,4	-	15,4
Elżbieta Niebisz	0,0	-	0,0
Adam Kłapszta	0,0	-	0,0
Paweł Markowski	0,7	-	0,7
Paweł Lisowski	0,6	-	0,6
Henryk Sobierajski	0,2	-	0,2
Maciej Nietopiel	0,4	-	0,4
Total	17,5	-	17,5

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and subsidiaries of the Company to the Management Board members in 2019 amounted to PLN 2 217.9 thousand. The given amount should be treated as the gross value of remuneration paid or due in the period from 1 January to 31 December 2019.

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Until April 14, 2019, members of the Supervisory Board of ZE PAK SA were remunerated on the basis of Resolution No. 32 of the Ordinary General Meeting of June 28, 2018, which set the monthly remuneration for the chairman of the Supervisory Board in the amount of PLN 15 thousand, and for other members in the amount of PLN 10 thousand, whereas, from April 15, 2019, they are remunerated pursuant to Resolution No. 12 of the Extraordinary General Meeting of April 15, 2019, which set the monthly remuneration for the chairman of the Supervisory Board in the amount of PLN 15 thousand, the deputy chairman of the Supervisory Board in the amount of PLN 12 thousand and for other members in the amount of PLN 10 thousand.

Table 17: Information on the amount of remuneration paid and the value of non-cash benefits in 2019 by the Company and its subsidiaries, as a member of the Supervisory Board, all members of the Supervisory Board performing their functions in 2019

<i>Name and surname of Supervisory Board member</i>	<i>zloty thousand</i> <i>Value of (gross) remuneration paid by the Company and the Company's subsidiaries</i>	<i>zloty thousand</i> <i>Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries</i>	<i>zloty thousand</i> <i>In total</i>
Wiesław Walendziak	157,4	0,0	157,4
Tomasz Szląg	120,0	0,0	120,0
Wojciech Piskorz	157,6	0,0	157,6
Henryk Sobierajski	44,8	0,1	44,9
Leszek Wysłocki	120,0	0,0	120,0
Lesław Podkański	45,3	0,0	45,3
Sławomir Sykucki	120,0	0,0	120,0
Sławomir Zakrzewski	120,0	0,0	120,0
Piotr Stępiak	75,2	0,0	75,2
Grzegorz Krystek	75,2	0,0	75,2
Total	1 035,5	0,1	1 035,6

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid out by the Company and subsidiaries of the Company to the members of the Supervisory Board in 2019 amounted to PLN 1 035.6. The given amount should be treated as the gross value of remuneration paid or due in the period from 1 January to 31 December 2019.

The company has no obligations arising from pensions and similar benefits in relation to former management, supervisory or former members of administrative bodies and liabilities incurred in connection with such pensions.

10. STATEMENT ON THE DIVERSITY POLICY

With reference to §70 paragraph 6 point 5 lit. m of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information the Company declares that in ZE PAK SA Group and in ZE PAK SA no separate document describing the diversity policy has been adopted. At the same time, management solutions related to the issue of diversity management were adopted.

The objectives related to diversity management, in particular with regard to the age structure of employees, were adopted in the Group together with the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020. The restructuring process, lasting for years, meant that most vacancies were filled on the basis of internal recruitment (as part of transfers between departments and companies). A side effect of actions aimed at reducing redundancies and concentrating in the recruitment process on persons already employed in the Group's companies was the lack of a significant inflow of young employees, and as a result, the average age of employees increased. At some point, this may result in significant retirements and staff shortages. Therefore, ZE PAK SA Group actively monitors changes in the age structure of employees in order not to allow the adverse consequences of losing a large part of experienced employees without proper preparation of their successors.

Simultaneously, the Code of Ethics adopted in the Company includes diversity policy, guaranteeing equal treatment regardless of gender, age, worldview, religion, political views, etc. The document is a tool for reporting potential incidents related to discrimination on any background. In 2020, the Code of Ethics was also implemented in other companies belonging to the Capital Group.

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In 2019, the Company also adopted the procedure for anonymous reporting of violations of the provisions of the Act on public offering and conditions for introducing financial instruments to organized trading, and on public companies, Regulation 2017/1129 and ethical procedures and standards.

As of today, in the Company's opinion such solutions are sufficient.

Numerical data referring to diversity can be found in this report, in the Statement on Non-Financial Information for 2019 in the subsection - "Employee Issues".

11. STATEMENT OF ZESPÓŁ ELEKTROWNI PAŃNÓW-ADAMÓW-KONIN SA CAPITAL GROUP ON NON-FINANCIAL INFORMATION FOR 2019

In the process of preparing an approach to non-financial reporting, including preparation of this statement, ZE PAK SA Group has worked on the basis of the best global practices in this field, for instance using the approach for defining the significant contents, information as well as the indicators suggested, among others, by:

- PN-ISO 26000 standard,
- GRI G4 guidelines / GRI Standards,
- RI G4 Sectoral Supplements in the field corresponding to the mining and power engineering

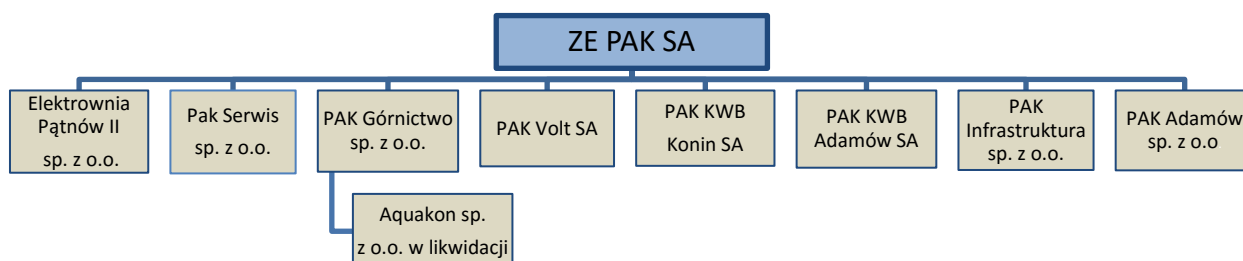
Nevertheless, this statement might not be considered as the one developed in accordance with GRI G4, GRI Standards or any other comprehensive standard.

The reporting process itself was preceded by the development of strategy for Corporate Social Responsibility of ZE PAK SA Group, where the approach suggested by PN-ISO 26000 was maintained, i.e. in the first step of works, during the internal conferences, in which the members of interdisciplinary team appointed by ZE PAK SA Management took part, the significant areas of responsibility and crucial groups of stakeholders were defined. The defined significant areas became appropriately a starting point to determine the crucial aspects to which particular emphasis has been placed in the statement, in the fields of social, employee, environmental protection, human rights and counteracting corruption issues.

11.1. Description of business model

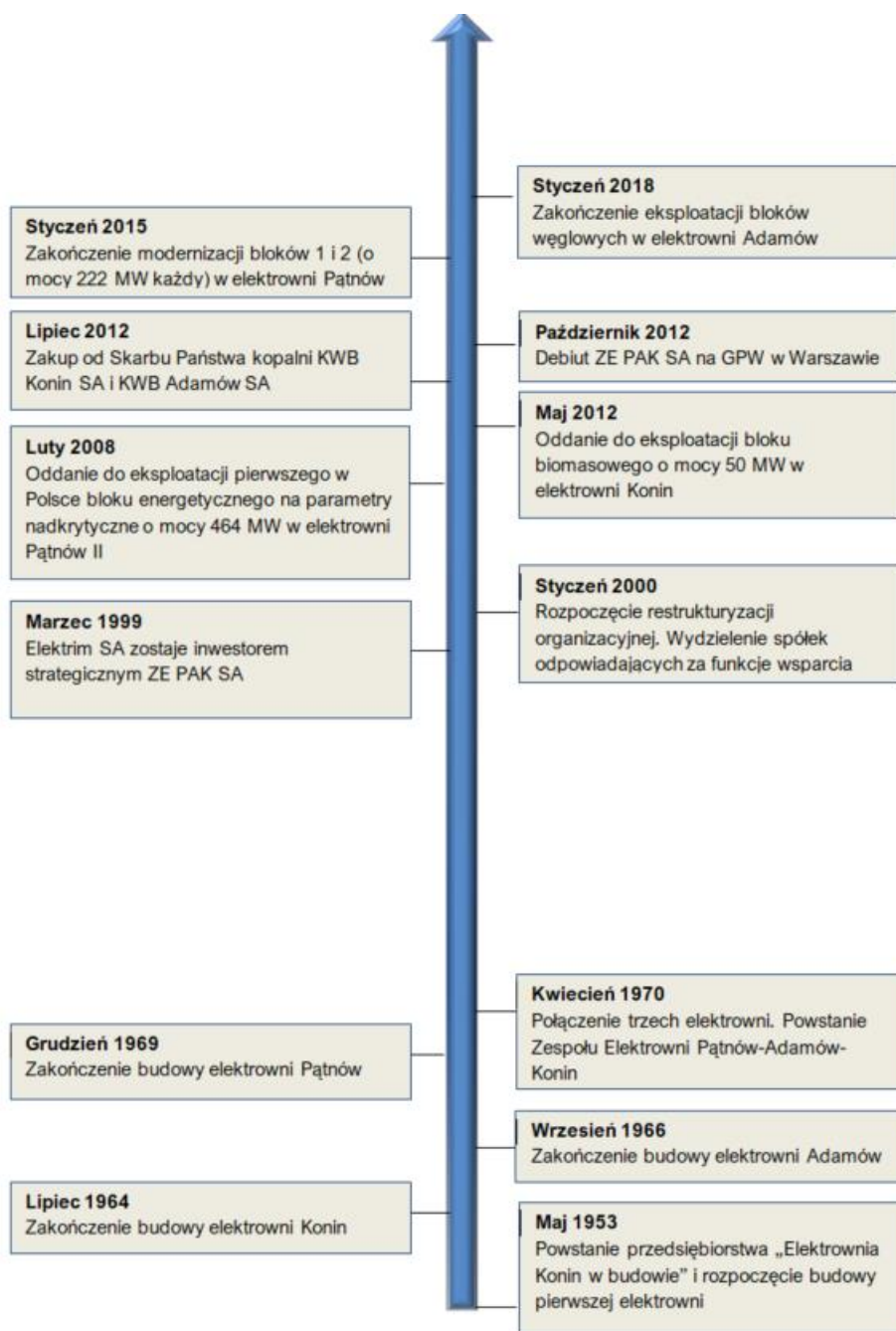
ZE PAK SA Capital Group („ZE PAK SA Group”, „Group”) is a significant producer of energy on the Polish market and an important element of national power engineering system. In terms of the volume of installed capacity and electricity production, ZE PAK SA Group is the largest private (uncontrolled by the Treasury) energy group in Poland consisting of vertically integrated entities operating in the field of lignite mining, energy production from conventional and renewable sources and energy trading. The Group generates the vast majority of revenues from the sale of electricity produced. The integrated business model operates on the basis of lignite mining from own opencast mines, the use of coal and biomass in the production of electricity and heat as well as the sale and trading of electricity on the wholesale market. At the same time, there are units operating within the group, e.g. in the form of separated companies, which are responsible for support functions (e.g. repairs, maintenance works, etc.).

The companies of the greatest importance to the ZE PAK SA Group due to their scale of operations are: Zespół Elektrowni Pańńów-Adamów-Konin SA ("ZE PAK SA") - dealing with the production of electricity and heat, Elektrownia Pańńów II sp. z o.o. - dealing with the production of electricity, and PAK KWB Konin SA and PAK KWB Adamów SA dealing with lignite mining. Beside the companies from the main areas of activity, there are also other companies that, among others, are dealing with implementation of construction and assembly works, maintenance, service, production and trade activities aimed at satisfying the needs and comprehensive industry service.



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The origins of the ZE PAK SA power plant date back to the 1950s. The most important dates from the history of the Group's operations are presented below.



In 2019 generation assets of the Group included three power plants located in the centre of Poland, in Wielkopolska voivodship. There are: Pątnów II - equipped with the power unit of supercritical parameters, Pątnów I and Konin – equipped with the biomass-fired boiler unit. The Group's basic production assets are concentrated in two companies: PAK KWB Konin SA, which currently operates in Józwin, Tomisławice and Drzewce opencast mines, and PAK KWB Adamów SA exploiting Adamów opencast mine.

A few numbers for ZE PAK SA Group in 2019:



11.2. Social issues

Management approach

The policy and management approach of the ZE PAK SA Group to social issues were set out in the Strategy for Corporate Social Responsibility of the ZE PAK SA Capital Group for 2017-2020. Simultaneously, the approach presented in the Strategy is reflected in other internal regulations. The management approach is also determined in administrative decisions that allow conducting the mining and generating operations in the units that belong to ZE PAK SA Group and dependent on the specifics of the particular object. Each time, the Group is trying to work out the optimal solutions in this respect, based on social consultations as well as in accordance with the applicable law.

The Group's management approach to social issues is conditioned by the nature of its companies' influence on the environment. Particularly in the areas where the influence is or might be negative and can be associated with specific burdens for people, the management approach aims at eliminating, limiting or compensating for these burdens, and consequently limiting the exposure of the Group to the risk (also understood as reputational or image risk).

The Group's influence on the environment is multidimensional. From the point of view of general public, ZE PAK SA Group is an important supplier of energy for the Polish economy and Polish society. Nevertheless, the final customers are not the main clients of the Group. The Group sells the vast majority of energy produced on the wholesale market. For this reason, the ZE PAK SA Group aims at ensuring stable electricity supply at a competitive price to other technologies. The ZE PAK SA Group has a much wider range of impact on the environment from the point of view of the local community, i.e. understood as a community living in the immediate neighbourhood of the Group's plants, where the production of electricity and heat and lignite coal mining is conducted. The exploitation of lignite deposit and production of energy have the great impact on the natural environment (see: Environmental issues), and consequently social environment too.

Dealing with the negative influence on the natural as well as social environment, it is necessary to mention, first of all, about the danger and burdens associated with:

- an influence on the land surface (opencast mining of minerals results from the transformation of the land surface; in the place of the originally used land, spatial field forms (excavation, heap) and accompanying infrastructure are created (conveyors, transport routes, facilities),

- an influence on the surface water (inter alia reducing the flow in watercourses under the influence of the mine and increasing the flow in the watercourses due to discharging water from underground drainage and surface pits),
- an influence on the groundwater (formation of the so-called depression funnel due to the drainage of open-cast mines),
- noise emission (basic machines related to the operation of the overburden and its dumping, basic machines mining coal, coal and overburden conveyors, road transport),
- an impact of mine objects on atmospheric air (dust emission: technological (mechanical), i.e. associated with mechanical mining and transport of the raw material with conveyor belts; climatological, i.e. related to wind erosion of vegetation-free areas; organized emissions of pollutants into the air from the boiler room providing heat for social facilities mine),
- an influence on valuable natural area (in case when the valuable natural area is located in the zone of influence),
- hazards associated with electromagnetic fields.

It is worth mentioning here, that the above mentioned influence is not only negative. Konin energy basin has a unique, cooling system, based on water cycle. A common name of “jeziora ślesińskie” includes the following lakes: Gosławskie, Pątnowskie, Wąsowsko-Mikorzyńskie, Licheńskie and Ślesińskie, which are included in the cooling circulation of Pątnów, Pątnów II and Konin power plants. All the lakes are connected by a channel system of total length of about 26 km and they are forming a closed circulation where the water flow is regulated by culverts and pumping stations. The discharge of waste heat to nearby lakes obviously influenced their ecosystems, but also made these reservoirs especially valuable for fishing and fish farming. Higher temperature of water and its large flow in the channels and lakes caused that in the area of cooling system the breeding fish ponds were located there. Fishing farms operating here are not only the largest producers of sturgeon fish in Poland (Siberian sturgeon, Russian sturgeon, sterlet), but also other species of fish such as European catfish, rainbow trout, amur, silver carp, catfish, carp or ornamental fish. By the use of waters with increased thermic for reproduction, breeding and breeding of thermophilic fish, they are an important producer of fry in the domestic market. The cooperation with ZE PAK SA Group makes the warm water to flow directly through the ponds providing optimal conditions for development of fry and adult fish. One of the farms is taking the water for breeding from Elektrownia Konin precooling water tank and the production is strictly dependent on the conditions made by the power plant, water temperature and its cleanliness, etc. For this reason there is a constant communication and information flow between the fish farms and the power plants. In addition to some of the largest fishing farms in Poland, these areas are known among anglers. Supporting such economic activities, as well as all other forms of social involvement allows compensating partially to social environment the burdens related to the activities of ZE PAK SA Group.

ZE PAK SA Group may also be a welcome member of the community, due to significant direct and indirect economic impact. Regardless of the large diversity of entities operating in the industrial sector, Konin sub region is associated primarily with the mining and energy industries and ZE PAK SA Capital Group companies, which have been the driving force of this region for years. Money transfers in the form of taxes and para-taxes (license fees, concessions, etc.) to a large extent feed budgets of local governments. For example, in 2019, the Group's companies paid over PLN 291 million (PLN 243.3 million in 2018), of which PLN 139.5 million (in 2018 it was over PLN 160.4 million) were the fees for local governments. These means allow e.g. the communities to realize investment projects, finance health care and education, etc. Simultaneously, thanks to the salaries of employees who are mostly recruited from local communities, the so-called multiplier effects are started and the local economy is stimulated, including sectors not directly related to lignite mining and energy (the Group's companies allocated employee benefits to PLN 441 million in 2019 and PLN 468 million in 2018).

The management approach of ZE PAK SA Group concentrates mainly on ensuring the safety for natural and consequently social environment while ensuring production continuity and stability at the same time. Such management approach was set out in the Strategy for Corporate Social Responsibility for 2017-2020 and it assumes providing effective mechanisms reducing to minimum the threat of anomalies and gaps occurring resulting in over-normative impact on the environment in the mining or manufacturing process. ZE PAK SA Group assumes that the implementation of the assumed approach eliminating to a minimum the negative impact on the environment also changes into a stable operation of the plants, which is not disturbed by interruptions in production or extraction that would be caused by social factors. These aspects also relate to policies accompanying management systems and internal regulations that ensure compliance with laws and administrative permits related to specific manufacturing facilities and installations.

The other dimension of impact on social environment is connected with the economical use of waste heat, which accompanies the electricity production. A part of heat has been used for years for heating purposes, inter alia by Miejskie Przedsiębiorstwo Energetyki Ciepłej in Konin. Such approach is extremely rational from the social as well as environmental point of view. Nevertheless, due to restructuring of power plants, the heat production from the source used from many years based on the lignite from Konin power plant, will not be possible in the future because of the environmental requirements. ZE PAK SA Group, wishing to remain a heat supplier for the local community, has launched a new heat source based on a biomass block for this purpose. The current solution, using a renewable energy source, on the one hand eliminates the risk of non-compliance with stricter environmental standards, but also has a higher tariff for heat supplied. On September 6, 2019, the Company signed a contract with Miejskie Przedsiębiorstwo Energetyki Ciepłej - Konin sp.z o.o., the subject of which is the sale of heat for the city of Konin with the commencement of deliveries from July 1, 2022. The contract has been concluded for a definite period and is valid until June 30, 2032. Both parties to the contract managed to develop a satisfying and economically viable solution that will ensure secure heat supply for the residents of Konin.

The management approach and, consequently, the implemented activities directly or indirectly address the risks associated with the loss of favour of the local community, and thus contribute to the prevention of events that could disrupt the stable operation of mining and manufacturing plants. When it comes to aspects of influence on the natural environment, which at the same time are the source of potential burdens for the local society, they were widely described in the further part of the report (see: Social issues). They constitute the element of environmental management, having parallel consequences for local society. The approach to them was also described in other internal regulations as well as in the administrative decisions regulating the environmental issues. This description is limited to the characteristic of the Group's approach to these aspects that directly affect people. Though, all of them focus on the activities which aim at monitoring and reducing the negative influence.

For instance, in the areas that are to be under extraction, as well as directly adjacent with the area designed for extraction, real estate buyouts are made. Most often they are agricultural lands but also the buildings or constructions. Assessments of the influence, i.e. whether the real estate adjacent to the opencast mine is going to be the subject to buyout, are set individually. The individual approach is justified by the fact that in such aspect the significant roles are played by emotional factors, for instance, associated with getting used to this place. In addition to those who may be reluctant to resell the property, there are also those who would like to sell it, although in the opinion of the investor's experts, the scale of impact will not be sufficient to justify the necessity of buying. In extreme cases, there may be disputes that eventually find their final in the court. Nevertheless, the Group's intention is to carry out the described processes in a way reducing the negative emotions, because it may influence subsequent projects of this type.

Lignite deposits in the operation area of the Group have their specific characteristics and wealth. The company does not use one deposit, but over the years it is forced to launch further opencast mines. Therefore, at the same time a process of reclamation of previously exploited pits, exploitation of current outcrops and preparatory processes for the next ones take place. Currently, PAK KWB Konin SA is applying for a mining concession for Ościsłowo open pit. The coal supplied from this outcrop is to secure supplies for the modernized blocks at Pątnów I and Pątnów II power plants. These are the most efficient generation assets of the Group for modernization of which, significant expenditures have already been incurred. The process of launching a new lignite mine is a multi-stage process and its implementation requires special care. It should be borne in mind that in processes related to obtaining formal consents before public administration authorities, there are usually various associations and organizations that aim to fight specific types of activities (e.g. they deny the use of lignite as a rule, and thus, the operation of opencast mining). In the current pending proceedings concerning the determination of environmental conditions for the project entitled: "Extraction of lignite coal and accompanying minerals from Ościsłowo open-pit" the parties also have several organizations opposed to the location of new lignite opencast mine. It is worth mentioning that, on the other hand, the trade unions or some local opinion leaders pay a lot of attention to the supporters.

As already mentioned, as a result of conducted mining operations, there may occur socially adverse phenomena, such as lowering the level of groundwater in areas adjacent to mines. However, drainage of water from the outcrop to watercourses can lead, for example, to raising their level. Water shortage as well as its excess can mean adverse effects, e.g. on agricultural production, which ZE PAK SA Group tries to compensate for, by paying reasonable compensation in justified cases.

Mining damage can be divided into direct and indirect. Direct damage is usually associated with mining plant operations and the progress of exploitation fronts. They include reconstruction and construction of new roads, power lines, water supply networks and other technical infrastructure as well as road repairs, on which the mine transport moves and in particular cases the transfer of sacral culture objects, e.g. chapels, churches, cemeteries. Due to direct damage, the companies from the Group's mining segment in 2019 paid PLN 18 001,4 thousand, while in 2018 it was PLN 16 237 thousand, respectively. It is worth noting that in each case the payment of compensation for direct damages occurred by way of a settlement or agreement. Apart from direct damage, there is also indirect damage associated with the dehydration of the deposit, which has an impact on the lowering of groundwater level in the areas adjacent to the

mines. The effect of lowering groundwater levels may be a partial degradation of soil productivity, tree drying, periodic drying of farm wells and ponds, damage to buildings, impact on the performance of deep-water intake wells and others. On the other hand, drainage of waters from drainage of outcrops with surface watercourses can cause periodic flooding of adjacent areas. In order to minimize this damage, systematic conservation of these watercourses is carried out as part of their own or financial participation in the cost of living. Due to indirect damage, the companies from the Group's mining segment paid out PLN 1 641.1 thousand in 2019, while in 2018 it was PLN 1 747.2 thousand, respectively. Due to the nature of indirect damage, financial compensation is usually of one-off nature. The Group tries to compensate adverse impact by paying reasonable compensation in justified cases. Owners of compensated land receive written notifications with a proposal for the amount of compensation due to the mine's impact. In the case of acceptance, an out-of-court settlement is signed with the owner, with a waiver of claims after payment of compensation - compensations are paid on the basis of previously agreed settlements or agreements. Only a few cases of mining damage are subject to resolution by common courts. In 2018 PLN 353.70 thousand were paid based on court verdicts, and (less than 2% of the total compensation paid for indirect and direct damage) and in 2019 – PLN 175.4 thousand (less than 1% of the total compensation paid for indirect and direct damage). The low share of damages paid on the basis of court judgments shows the conciliatory attitude of the Company, which prefers to agree possible amounts of compensation in the negotiation process, seeking agreement with the other party.

In case of other periodical burdens, for example intensified noise associated with the renovation or modernization works on the generating objects (such works give rise to the necessity of blowing the boiler's installation under very high pressure, in order to remove even the filings from the installation, which could damage it, and that is quite loud), the Group informs local society, through mass media, about such burdens by giving the information to local media or local offices. The same happens with any other burdens (e.g. in road traffic connected with the transport of oversized equipment, the intensification of dusting or dew from chimneys). Consequently, they do not arouse controversy, and the plant can count on the forbearance of the inhabitants of the immediate area. Within the education activities directed to external society, the Group's PR department performs press articles explaining the rules of exploitation of lignite open mines and reclamation of post-mining sites. As mentioned earlier, the inhabitants of the nearest neighbourhood of the plant are often the Group's employees. Thus, although the external communication is described here, the appropriate internal communication is significant and the employees themselves are the ambassadors of ZE PAK SA Group. In case of communication activities, in situations like those described above, an equally important role can be played here by internal communication. Here, however, a wider spectrum of information transfer is possible: some activities can be better and more precisely explained, using e.g. "Kontakt" - a monthly e-magazine of the Capital Group.

The Group also declares its support for local initiatives, although due to the savings program it has been less recently than in previous years. ZE PAK SA Group aims at supporting local society by social commitment, so as to compensate the burdens associated with the operation of the plant, in a part which cannot be eliminated or limited.

The Group's goal is not to engage in spectacular projects to gain publicity, but to reach the nearest municipalities and independent organizations from the region.

PAK KWB Konin SA in the past year made a number of donations, largely in kind, for example in the form of sand with loading for the commune of Ślesin, for the commune of Wilczyn and for the commune of Skulsk. The donation in the form of land for Wierzbiniek commune and the Camaldolese Monastery in Kazimierz Biskupi had a similar character. PAK KWB Konin also granted donations in the form of field stones and erratic boulders. Larger boulders, with a total weight of over 30 tons, were transferred to "Michałki" Association in Słupca. Another boulder along with loading and transport was received by the Roman Catholic Parish. St. Nicholas in Sadlno and Kleczew commune received a field stone. 20 tons of brown coal were transferred to the Family House Association "Przystań" in Tuliszków, while the ownership of built-up land with gravel surface of 2.6 ha was transferred to Koło powiat. Last year, the Konin Mine also provided a number of donations in cash. Their recipients were: the Commune Office in Osiek Mały, the Communal Culture Center in Kramsko, the Roman Catholic Parish St. Wojciech in Konin and the Volunteer Fire Brigade in Sompolno. Special Educational Center Janusz Korczak in Konin received 18 Christmas and New Year packages.

On the occasion of Barbórka PAK KWB Konin SA, as in previous years, sponsored two national sports events. The Sailing Club operating at Konin Mine received a financial donation and the service of launching yachts with a mobile crane, intended for the organization of the 25th Winter Barbary Regatta, the only competition of this type in Poland closing the sailing season. 43 crews from all over the country took part in the regatta, including the youngest sailing adepts competing in the Optimist class. As part of the event, the School Shekel's vocal competition for primary school students was held for the third time; the laureates performed during the Golden Shekel concert, which has been accompanying winter regattas for years. The Runner's club "Active Konin" received financial support in order to carry out the XXVIII Mining Lamp Run. Last year's street race was attended by nearly 400 competitors, not only residents of Konin and the surrounding area, but also other regions of Poland.

Every year, Miner's Day is an opportunity to organize meetings in educational institutions of Konin and Turek poviats. Current and retired employees of both companies and representatives of the mining orchestra are preparing presentations on the work of the open-cast mine, mining traditions and the celebration of Barbórka. Last year, representatives of PAK KWB Konin took part in meetings in 27 schools and kindergartens, and employees of PAK KWB Adamów participated in meetings in 22 educational institutions.

Throughout the year, the orchestras of both mines provide musical setting for state and church celebrations. In addition, in June the Brass Band PAK KWB Konin performed at the concert "On the river full of music". This outdoor event, organized jointly with Konin authorities on Warta boulevards, aroused great interest of the city's inhabitants.

Thanks to the support of the mine, PAK KWB Konin SA sports teams took part in the 18th Oldboy Indoor Football Tournament Władysław Egiert in Kleczew and in the National Indoor Football Tournament of Non-attached Teams for the cup of the director of PGE GiEK S.A. in Bełchatów.

PAK KWB Adamów SA in 2019 provided financial assistance to the Roman Catholic Parish St. Barbara in Turek and the Factory Volunteer Fire Brigade in KWB Adamów. 15 holiday packages were handed over to the House for Children and Youth in Kaczki Średnie.

PAK KWB Adamów continues its participation in the "All Poland Reads to Children" campaign, and as part of this project a meeting was organized in the Complex of Educational, Rehabilitation and Rehabilitation Institutions in Stemplewo - the text prepared by the tutors was read by a miner in a gala uniform. A meeting with employees of the mine on the occasion of Miner's Day was also organized in this facility. Throughout the year, the company accepts tour groups from various regions of Poland: from schools, workplaces and associations. Visiting the mine is free. For years, the company has been financially supporting the activities of the Club of the Association of Honorary Blood Donors of the Republic of Poland "Górnik".

Last year, PAK KWB Adamów established closer cooperation with the communes of Przykona and Brudzew, regarding the development of the region and the development of post-mining areas in the context of new projects planned by ZE PAK; several meetings were held with representatives of the management board and management of the mine with the authorities of both municipalities concerned. The management of PAK KWB Adamów also agreed that the commune of Turek would build a water supply for the village of Warenka, the route of which runs through the mine.

ZE PAK SA also carried out pro-social activities last year. In 2019, the Company financially supported the 40th International Children's Song and Dance Festival in Konin and the organization of Sailing Regatta for the Cup of the President of ZE PAK SA. A donation was also made to the Camaldolese Hermit Congregation of the Crown Mountain - the Hermitage of the Five Martyrs in Bieniszew. ZE PAK SA has for years been supporting the activities of the "Inter-Enterprise Club of Honorary Blood Donors PCK Pańców - Konin Capital Group ZE PAK". Last year, the Company provided additional funds to organize the celebration of the 50th anniversary of the Club. In August each year, ZE PAK S.A. invites residents of the region and tourists to visit the Pańców and Konin Power Plants all day on the occasion of the annual Energetyk Day. Traditionally, ZE PAK SA is also involved in supporting the activities of Polsat Foundation, one of the largest non-governmental organizations operating in Poland, which has been directing its help to sick children and their parents for over twenty years. Last summer, a therapeutic complex was opened in Janusz Korczak Specialist Educational Center in Konin, together with a gym, which, together with Polsat Foundation, was financially supported by ZE PAK SA.

The significant role in the life of local society is played by Konin lakes mentioned earlier, which are on one hand the source of revenue for unique (on national scale) fish farms, and on the other hand they attract a number of amateur anglers. For this reason, the contribution of ZE PAK SA employees who are privately engaged in the life of the fishing community is worth mentioning here. In addition to other fishing clubs of Polish Angling Associations operating in this area, there are two in ZE PAK power plants associating their employees. The members of one of them are taking care of the mentioned earlier precooling tank of Elektrownia Konin - they organize annual spring action of cleaning the edge of the water reservoir and restocking with various fish species. There are also season fishing competitions with youths' participation organized by the anglers from PAA clubs. It aims at promoting fishing sport among young residents of the region and it helps acquiring new members to fishing clubs, as well as it builds a positive attitude among the participants of mentioned sport, cultural and social events towards the activity of the Group.

Associated business risk

Business risk that may have negative influence on the Group's results and development, and being associated with the area of social influence, results directly from the character of its influence (e.g. disturbing the hydrology balance or noise mentioned earlier). They constitute inconvenience and may also be a source of material damage of the third parties. This can lead to disputes with the society and thus loss of its positive attitude for present and further projects, including so-called social licence to operate. It can cause the increase of complaints directed by the society to

administration bodies, initiating the proceedings against the plants and legal and financial sanctions, in case of confirming the allegations. Ineffective dialogue, for example on damages or land purchase, may also mean civil proceedings for damages. A particular threat is the loss of public trust and a negative opinion about the plant as an unreliable investor, which can definitely hinder the acquisition of further permits and concessions (e.g. for lignite mining in new areas but also in the case of using existing infrastructure to implement investments in the field of renewable energy sources). This, in turn, may cause a greater risk associated with the new investment and less favour of investors and lenders, and thus difficulties in raising capital.

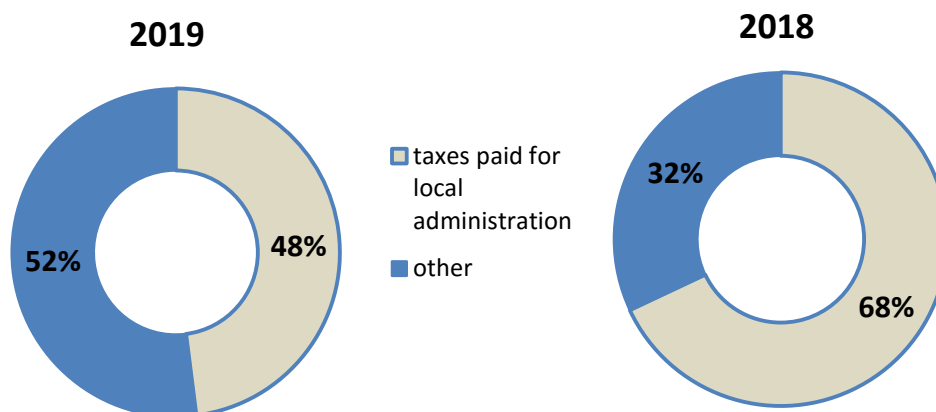
It is worth mentioning here that the employees of the plants are recruiting from local communities. As a consequence, these groups are not separate and any possible animosities with the local community related to, for example, inconvenience, will indirectly affect the culture of the organization and the work atmosphere, and vice versa: all important incidents on the employer-employee line may result and are resulting in specific consequences in relations with local community. The same person may appear in several roles, i.e. an employee, a resident of a local community adjacent to a plant, which is exposed to nuisance related to noise for example, as well as being the owner of a real estate that is seeking compensation or redemption.

Key indicators

Table 18: Key indicators in the area of social impact

	2019	2018
Number of environmental failures resulting in serious contamination	0	0
The amount of damages paid as a result of court verdict in relation to the amount of damages paid out by the Group as a result of a settlement or agreement	1.0%	2.0%
Total amount of taxes and para-taxes paid - altogether	PLN 291 m	PLN 243.3 m
Total amount of taxes and para-taxes paid – for local administration	PLN 139.5 m	PLN 160.4 m

Chart 15: Percentage share of taxes and para-taxes paid to the local administration in relation to the total amount of paid taxes and para-taxes



11.3. Employee issues

Management approach

In the area of human resources management, the ZE PAK SA Group has formal solutions defining the relationships between the employer and employees, resulting from the Polish law, inter alia work regulation resulting from the Labour Code, corporate collective labour agreement resulting from the Labour Code, Company Social Benefits Fund resulting from the act of Social Benefits Funds, in the companies not covered by the provisions of CSBF the remuneration regulations are obligatory. The companies meeting the statutory criteria have their own Staff Councils.

The Unions are also operating in ZE PAK SA Group. In the matters specified by the law the management of ZE PAK SA and other companies inform and consult the decisions with the employee representatives.

Simultaneously, apart from formalized solutions resulting from specific legal provisions or adopted voluntarily (e.g. recruitment procedure), current operational activity is based on a series of solutions and customary forms of behaviour that do not require rigid formalization in the managers' opinion, and at the same time they guarantee the management that is effective and consistent with legal norms and standards of social coexistence. The Group's companies comply with the labour law and they require proper behaviour in relations between the employees as well as between the employees and their superiors.

Corporate collective labour agreements, obligatory in ZE PAK SA Groups in the reporting period, contain the principles of employment and remuneration of the employees. On the other hand, the regulations of the Company Social Benefits Fund define the rules of using and financing of social activity and housing for the benefits of the employees and their family members. The records in both documents are implemented by the managing units although at the same time there are collective disputes concerning the employee remuneration. In the reporting period, negotiations were started with trade unions on the conclusion of new collective labor agreements for companies from the ZE PAK SA Group.

Meanwhile, in companies such as PAK –Volt SA (trading in electricity, office work) significant from the point of view of the generated revenues, but with very little employment and work specificity without any significant health and safety risk, formalization of labour relations and related procedures are minimal and limited to legal requirements.

Basic aspects associated with the human resources management have been determined in the Strategy for Corporate Social Responsibility of the ZE PAK SA Capital Group for 2017-2020.

Health and safety at work

Similarly to earlier areas, the most significant ways of activities associated with the health and safety risk management have been described in the Strategy for Corporate Social Responsibility of ZE PAK SA Capital Group for 2017-2020. Simultaneously, it is important to remember about the obligatory certified management systems covering the issues of security management, including:

- the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements (ZE PAK SA – according to PN-N 18001, OHSAS 18001),
- works in scope of installations, renovations and service of power engineering and industry equipment, industry construction services, management of investments in power engineering and industry, as well as modernization and maintenance of automation and electrical systems in power engineering (Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. – according to PN-N 18001, OHSAS 18001).

Their goal and the objective of the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020 is to minimize the level of accidents, with particular emphasis on the elimination of events with severe and fatal consequences and undertaking organizational and technical measures aimed at eliminating or reducing the exposure of workers to harmful factors occurring in the work environment like noise and pollution to a level compliant with the standard. Simultaneously, selected management aspects, falling within a broader scope of environmental management, are regulated by internal principles and ordinances.

Mining

The mining part is the only one from three main areas where certified management system according with PN-N 18001 and OHSAS 18001 was not implemented. The management of health and safety risk works on the basis of Ordinances of the President and Ordinances of Manager of mining plant. The regulations apply to all areas that involve the possibility of threats to proper and safe fulfilment of their duties by employees. Examples of issues covered by the ordinances include: occupational risk related to work performed, list of works requiring special psychophysical predispositions, safety of exploitation of used equipment, medical assistance, periodic and control tests, medical examinations and many others.

Typical threats accompanying opencast lignite coal mining should be divided into natural and traumatic hazards. The last ones, potentially connected with the machines work, particularly their rotating elements, dangerous in consequences but they happen very rarely, mostly due to the activities of health and safety service and the employees' awareness. In recent years, in practice, if there were accidents, these were light accidents: dislocations, sprains and occasional fractures. As for the natural hazards, they can be divided into landslide (scarp escaping), methane (emergence of gas in drainage wells), fire and water (associated with: atmospheric precipitation, neighbourhood of natural reservoirs and watercourses or watercourses in the excavation).

Regarding the activities carried out in 2018 to improve the health and safety conditions in the area of extraction, in accordance with the adopted annual plan in PAK KWB Konin SA and PAK KWB Adamów SA, the renovation of cabin

in operators of basic machines such as excavators, stackers were made (e.g. window glazing, window frames, radiators, replacement of locks, air-conditioning repair), which allowed reducing the noise level in the cabins. In order to reduce the noise exposure of workers performing welding work, inverter rotary welders are successively replaced. The change of seats for basic machine operators allowed reducing the level of exposure to vibrations.

Comfort of work and elimination of harmful factors were also improved by purchase of rain clothes and shoe protectors. Flashlights have been replaced and new equipment and power tools have been purchased (equipped with hammers, drills, grinders, impact wrenches, etc.) in order to eliminate hard physical work and improve technical production equipment, fire protection equipment for basic machines and self-braking devices to secure working at heights. External cameras were installed for observation of excavator vehicles. Residual beams were prepared for the stacker cable trolley. In order to improve the safety of working conditions in winter and the elimination of hard manual work, a snow blower was purchased. To eliminate the dangers of electric shock, battery power tools were purchased.

Along the in-house technology road, where trucks transporting coal move, a concrete pedestrian pavement was built, thus eliminating the possibility of traffic accidents involving pedestrians.

Generation

In the generation area of ZE PAK SA, as mentioned earlier, the management of health and safety work is based on the integrated management system compliant with PN-N 18001 and OHSAS 18001. Simultaneously, the activities in the area of health and safety are regulated by the President's Ordinances and the Vice president managing production department, referring to wider aspects but covering health and safety matters as well.

Significant documents and procedures are here: Exploitation Manuals of Power Devices and Instructions for the organization of operational work on energy devices at ZE PAK SA creating the possibility of a particular threat to human health and life (they are the elementary documents on the basis of which the safe operation of devices is carried out) and business orders of the power plant's director.

Identification of threats at workplaces is the element of ZE PAK SA operation in reference to products and services that may affect the working environment. The threats identification results are included in the process of planning by establishing the particular purposes with reference to health and safety at work. In order to define the ZE PAK SA affection to working environment the following activities are carried out at workplaces: initial health and safety review, recognition of the source of the threat, identification of threat, controlling of defined workplaces. Occupational risk that includes typical operating conditions, retention and start-up, as well as potential and significant influences accompanying justified emergency situations is assessed. The scope of tests and measurements at workplaces is determined and the measurement results are analysed.

Annual analysis show that repairs and renovations carried out over the years, and most of all decommissioning of old and construction of new devices and installation, including generation units, in addition to improvement of production efficiency and reduction of negative influence on natural environment, undoubtedly contribute improvement of employees working conditions and technical safety at work through elimination or reduction of danger to health and life of the employees.

When it comes to occupational risk assessment, factors such as boilers, turbines, pumps, fans, conveyors, transmission gears, engines, clutches, etc. are the risk factor for noise above the maximum allowable levels. The number of people exposed to this harmful factor is systematically limited by taking action organizational and technical. Thanks to the effectiveness of the implemented corrective actions and through the proper organization of work, the exceedances of the highest allowable concentrations of harmful agents in the work environment, which are dust and hydrazine, have been eliminated. Another group of hazards are dangerous factors, whose impact on the employee can lead to injury or death. These include, in particular, particularly hazardous works and works that create the possibility of a particular threat to human health or life. The most important factors in this group are: high temperature, high pressure, electric current, explosive atmosphere and moving machine parts.

The factors associated with the arduousness of work include insufficient lighting and employment at night. The number of those exposed to these nuisance factors is systematically reduced by undertaking organizational and technical measures (modernization of lighting of the coal yard at Pańków Power Plant, switching off worn out production equipment).

In 2019, several investment tasks were implemented to increase the level of occupational health and safety. The installation of central vacuum cleaning of blocks No. 1-2 in El. Pańków, which was aimed at maintaining cleanliness and increasing fire safety as well as reducing the risks associated with an explosive atmosphere during the performance of maintenance, repair and maintenance works. The modernization of the lighting of the coal yard at Pańków Power Plant was aimed at improving aspects related to occupational health and safety consisting in eliminating the arduousness of work caused by failure to meet the lighting parameters of workplaces.

The Occupational Safety and Health Service carries out systematic inspections of work stations and compliance with OHS rules and principles and takes part in the review of working conditions as part of the OHS Committee ZE PAK SA. After the review of the working conditions carried out in 2019, corrective actions were taken to improve working conditions and increase the level of occupational health and safety, including, among others, renovation of the DIR room, installation of protective barriers at the slope along the communication route between buildings, cutting off direct water level gauges drums on boilers 5-6, conducting functional tests of the acoustic and light warning signaling systems at the carburizing process lines and acceptance of the investment task as well as other activities listed in the power plant Director's order issued after the review of the working conditions, in which the deadlines for their implementation and the persons were specified responsible for implementation.

Service

In the renovation segment (PAK Serwis Sp. z o.o.) the risk assessment includes all the workplaces, stationary as well as extramural ones. The risk assessment is carried out once for three years and each time, in case of any changes, reported at workplaces or after an accident. Health and safety department keeps a register of all the workplaces being the subject to occupational risk assessment.

The so-called last minute risk analysis is carried out as well - before the work starts the employees identify the potential threats at their workplaces and assess the degree of risk. In this way the works and areas of operation associated with the significant threats are being identified. For each and every significant threat the way of procedure and supervising is determined, providing compatibility with legal and other regulations of health and safety.

Due to the current health and safety management the following procedures are of the special importance:

- „Training in scope of health and safety and environment protection”,
- „Identification of threats and occupational risk assessment”,
- „Health and safety and environment monitoring”,
- „Serious failures”,
- „Organization of works of significant threats”,
- „Accidents and occupational disease investigation”.

Annual analyses show that most of the accidents in service work result from the improper behaviour of the employees, i.e. by failure to exercise due caution and concentration on the performed activity. The most common cause of potentially accidental events, on the other hand, is the failure to carry out the risk assessment before the task starts (LMRA – last minute risk analysis). The noise, optical radiation (UV and IR) and dust are the basic factors associated with the work environment, and the factor related to the nuisance of work is a forced body position. Within post-accidental prophylaxis the employees are acknowledged with the circumstances and reasons of the accidents, additional instructions are given, and the information on accidents are provided to the services of ZE PAK SA (in these cases where the cause related to energy devices was found). Sometimes, it is also possible to impose administrative fines on the person supervised, in relation to whom non-compliance with health and safety regulations was proven, in connection with the accident. Likewise, after finding non-compliance with the instructions regarding the organization of work on energy equipment and installations, persons who do not comply with the rules are directed to examination boards for re-examining energy qualifications "E" and "D". In the past period, a lot of work was devoted to the preparation of the manual for safe execution of works at energy equipment and installations. The employees of the Health and safety Office carry out inspections in the scope of compliance with health and safety rules and regulations, as a result of which, in the most common cases, the so-called non-compliance card and applications for imposing a penalty are given out. In the prepared business notes or protocols after the inspections carried out, the most common recommendations regarding disorder at the workplace and improper technical condition of the work means are registered. Also the duty to perform inspections of workplaces is carried out by supervisory employees (senior masters and managers), which is documented by checklists.

Ancillary activity - Maintenance and service

PAK Górnictwo sp. z o.o. deals with maintenance and repair service of PAK KWB Konin and PAK KWB Adamów, as well as industrial cleaning in the area of ZE PAK. Water production and waste management are additional activities. As part of the capital group, the company conducts waste collection, which it then transfers to authorized entities for utilization. The company employs approximately 1,800 employees, many of whom work in the Mining Plant Movement. About 33 employees perform work on industrial cleaning at Pańków and Konin Power Plants. The Health and Safety Service conducts post-accident proceedings in respect of any work-related accident that occurs in the areas of the company's operations. For each accident at work, an accident order is made on the basis of which the employees are familiarized with the circumstances of accidents and indicates the reasons that affect the occurrence of an accident, provides information on accidents to the services of ZE PAK SA, PAK KWB Konin and PAK KWB Adamów. An occupational risk assessment has been prepared for all positions in accordance with the Polish Standard PN-N-18002 on a five-point scale. Measurements of harmful factors in the work environment are carried out on a regular basis based on

the instruction of supervision over measurements of factors in the work environment. The basic harmful factors in the work environment are noise, vibration, dust and, to a lesser extent, chemical factors, and the night-time factor is a factor related to the nuisance. The measurement results and registers are in the OHS office. On the basis of factor studies in the work environment, organizational and technical programs are prepared to reduce exposure to their negative impact. Ongoing inspections are carried out in the area of compliance with health and safety rules and regulations. A report is made out of each inspection. Post-control recommendations recorded in the reports are carried out by the management. On the basis of service orders, work conditions are also reviewed. Recommendations from such a review are sent to the company's Management Board. Recommendations not requiring financial expenditures are carried out immediately. However, the Management Board of the Company decides whether to implement the conclusions of the review requiring financial expenditures. Based on the conclusions from the review of working conditions, a schedule for the implementation of these applications was prepared by each director of the division. In 2019, the company regulated in particular the list of persons involved in the operation of installations and networks. In addition, the company has introduced instructions for power equipment, such as: compressed air and technical gas installations, heat devices together with networks, vulcanizing presses, floor and pumping stations, electrotraction devices, as well as operation and safe work on pumping equipment. In the last quarter of 2019, a review of working conditions was carried out from which recommendations will be forwarded to the Health and Safety Committee. Based on the conclusions of the review of working conditions, a schedule for the implementation of these applications will be developed by each division director. Internal legal acts are also prepared on an ongoing basis, such as ordinances, instructions regarding organizational arrangements, which directly or indirectly relate to health and safety issues and ergonomics, i.e. those which have an impact on ensuring safe and hygienic working conditions in the company. Instructions are drawn up and updated regarding the performance of work and the operation of machinery, equipment and tools, methods of dealing with chemical substances and mixtures thereof, and hazardous materials together with hazards that may appear in the work process as well as ways to avoid them or limit their effects.

Associated business risk

Among the risks associated with the employee issues there are several categories to be distinguished. In all the areas of functioning of ZE PAK SA Group it is necessary to guarantee the employment at an appropriate level, by positioning the Group's companies as attractive employers in the region. An attractive remuneration level compared to those offered by other local employers has allowed, on the one hand acquiring new people, and on the other, to connect them with the company, preventing the outflow of qualified employees. Simultaneously, the restructuring process that has been going on for many years caused that most vacancies were filled on the basis of the internal recruitment (shifts between departments and subsidiaries). However, such solutions have some disadvantages, i.e. no significant inflow of young employees from outside. Concentration on the people employed in the Group's companies, in the restructuring process, causes that the age average of the employees is increasing. Aging of the crew will then lead to an increase the number of people retiring.

The prolonged collective disputes regarding the principles of remunerating employees may consequently cause social unrest and strengthened relations with trade unions, which is another risk factor. Therefore, a dialogue with representatives of the crew allows for identification of potential sources of problems and, on the other hand, it gives an opportunity for a reliable and comprehensive presentation of restrictions under which companies from the ZE PAK SA Group operate.

Another dimension of risk associated with the employees is the one of health and safety aspect. It is strongly dependent on the threats on particular workplaces and all the activities in the area of health and safety management concentrate on eliminating and reducing the threats and minimisation of accidents' consequences, if there are any.

One of the most important challenges that companies operating in the broadly understood energy sector based on fossil fuels will have to face is the energy transformation, the direction of which is determined by the energy and climate policy of Poland and the EU. This transformation will be multidimensional, in addition to technological or economic dimensions, it will also have specific social effects. Regions in which the mining and energy industry based on fossil fuels play a significant role will have to face the adverse consequences of reducing the role of fossil fuels in the economy. This is important because it is these specific regions that will experience the cumulative effects of the whole process that is to affect the entire economy. In this context, the term "just transformation", which has only been around for some time, has been associated with energy transformation themes. This term is supposed to define the way of abandoning fossil fuels so that it does not burden the communities associated with e.g. mining regions at the same time. Eastern Greater Poland is such a region. The company actively joined the work of The "coal platform", i.e. a structure at EU level, which is to prepare a framework for financial and organizational support programs for regions related to coal mining in Europe. As part of the contribution, the Company has developed a number of investment projects in the field of renewable energy production, energy storage and hydrogen production, which it wants to implement using its potential and infrastructure. The implementation of these projects, with the support of preferential measures, would

certainly contribute to some extent to offsetting the negative social and economic effects of the energy transformation for the region.

Key indicators

Table 19: Employment structure at the end of the year by type of contract (in persons at the end of subsequent periods)

	2019			2018		
	women	men	total	women	men	total
<i>By type of contract</i>						
Work contract for an indefinite period	407	3 955	4 362	462	4279	4741
Work contract for a definite period	7	181	188	8	337	346
Work contract for a trial period	0	17	17	0	9	9
Civil-law agreement	12	87	99	15	134	149

Chart 16: Percentage share of individual forms of employment by type of contracts

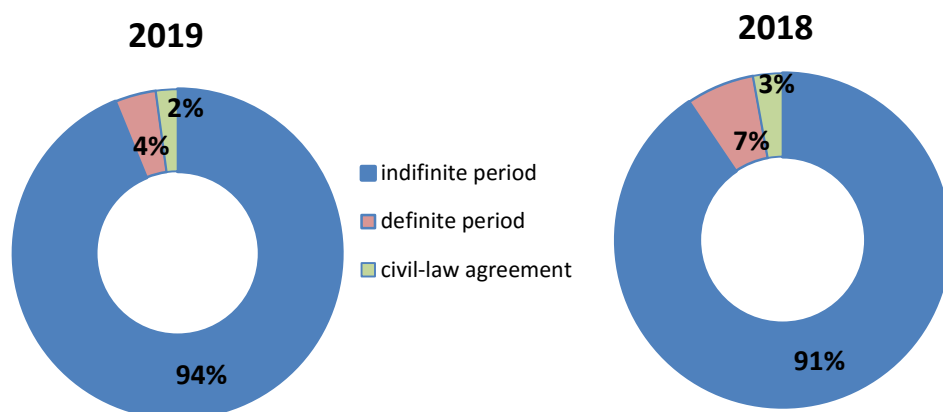


Table 20: Employment structure at the end of the year by type of position, education and age (in persons at the end of subsequent periods). The structure does not include the civil law agreement employees.

	2019			2018		
	women	men	total	women	men	total
<i>By type of position</i>						
Managerial position	37	181	218	45	198	243
Non-managerial position	376	3 973	4 349	425	4 427	4 852
<i>By education</i>						
Higher (bachelor, master, postgraduate, doctorate, professor)	223	883	1 106	281	1 041	1 322
Medium (high school, technical college, college, post-secondary)	164	1 591	1 755	156	1 748	1 04
Professional (basic, learning a profession)	19	1 423	1 442	24	1 556	1 580

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Basic (elementary, junior high)	8	256	264	9	280	289
<i>By age</i>						
Up to 30 years old	15	289	304	26	429	455
31 to 40 years old	61	715	776	69	778	847
41 to 50 years old	116	1 714	1 830	133	1 988	2 121
Over 50 years old	222	1 435	1 657	242	1 430	1 672
Total	414	4 153	4 567	470	4 625	5 095

Chart 17: Percentage share of particular age groups in the employment structure

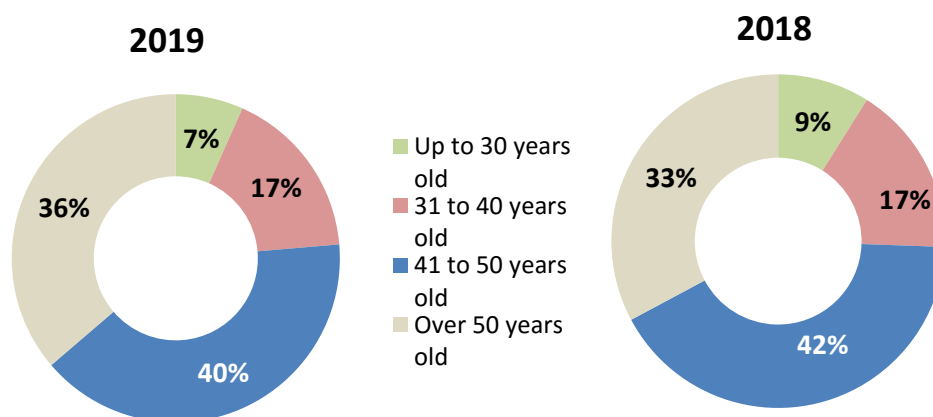


Table 21: Newly employed during the year (in persons in the given period)

	2019			2018		
	women	men	total	women	men	total
Up to 30 years old	4	23	27	5	111	116
31 to 40 years old	18	28	46	7	45	52
41 to 50 years old	37	55	92	2	41	43
Over 50 years old	83	74	157	0	27	27
Total	142	180	322	14	224	238

Table 22: Leaving work during the year (in persons in the given period)

	2019			2018		
	women	men	total	women	men	total
Up to 30 years old	8	87	95	5	111	116
31 to 40 years old	22	85	107	9	109	118
41 to 50 years old	44	197	241	11	192	203
Over 50 years old	124	283	407	39	294	333
Total	198	652	850	64	706	770

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FROM THE CAPITAL GROUP'S OPERATIONS IN 2019

Table 23: Diversity in the boards of the Company (in persons at the end of subsequent periods)

Amount	2019	2018
<i>Management of ZE PAK SA:</i>		
– Total	5	5
– Women	0	2
– Men	5	3
<i>Supervisory Board of ZE PAK SA:</i>		
– Total	8	8
– Women	0	0
– Men	8	8

Table 24: Accidents at work

	2019	2018
Total number of accidents (injured), including:	42	53
– Light	42	49
– Serious	0	3
– fatal	0	1
Number of lost days	2 079	3 912
Frequency ratio of injured in total accidents (per 1000 insured)	9,7	9,6
Frequency ratio of injured in serious and fatal accidents (per 1000 insured)	0,293	0,339

Table 25: Number of employees exposed to health harmful factors and those connected with the work burdens (in persons at the end of subsequent periods)

	2019	2018
Noise	197	199
Dust	0	85
Insufficient lighting	146	174
Energy expenditure	740	822
Nuisance at work – night shift work	1 816	2 087

11.4. Environmental issues

Management approach

Similarly to other areas, the foundation of policies and ZE PAK SA management's approach to environmental issues were defined in the Strategy for Corporate Social Responsibility of ZE PAK SA Capital Group for 2017-2020. Simultaneously, it is important to remember about the obligatory certified management systems covering the environmental issues, including:

- the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements (ZE PAK SA),
- works in scope of installations, renovations and service of power engineering and industry equipment, industry construction services, management of investments in power engineering and industry, as well as modernization

and maintenance of automation and electrical systems in power engineering (Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o.).

They contain the environmental policies of selected companies with particular procedures periodically reviewed and optimized. Their goal and the objective of the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020 is to provide stable and safe lignite mining, energy production and service and modernization work for the environment.

Simultaneously, selected management aspects, falling within a broader scope of environmental management, are regulated by internal principles and ordinances. They often reflect the legal provisions obligatory not only in the country, but also relating to a specific project, object or installation. The latter, i.e. environmental impact reports, and their detailed description of the foreseen activities of the planned project on the environment, constitute in itself an obligatory reference point for the managers of particular facilities and installations. This approach is extremely important. It should be realized that not universal management systems, but environmental impact reports, on the one hand refer to the specificity of the conditions of a given investment, and on the other, unlike many other procedural solutions, they are created through dialogue and open consultations with the environment. Therefore, solutions minimizing the impact on the natural environment are developed with the participation of stakeholders (local government, administration, local community, environmental organizations). They also recognize the unique specificity of each place, which is important, for example, in the case of opencast mines because even if they are located close to each other, the prevailing conditions (e.g. geological, hydrological, location of human settlements) will be at most similar but not identical. Therefore, the approach to environmental management and limiting the negative impact on the natural environment may also be similar, but not identical.

The starting point for policy and procedures based on it is the nature of the impact of business operations on the natural environment. It is associated with identified risks, to which specific and constantly improved procedures and technological solutions correspond. Defining briefly the nature of the impact on the environment, they should be divided into the impact associated with mining (lignite mining) and energy production.

In case of open pit mines, basic aspects of influence on natural environment are the following:

- impact on the surface area (opencast mining of minerals consists in the transformation of the land surface, instead of the land that was originally used, spatial terrain forms (excavation, heap) and accompanying infrastructure (conveyors, transport routes, facilities),
- impact on surface waters (including reduction of flow in watercourses under the influence of the mine's operation and increase of flow in watercourses due to discharge of water coming from underground drainage and surface opencast),
- impact on groundwater (formation of the so-called depression funnel due to the drainage of open-cast mines),
- noise emission (basic machines related to the operation of the overburden and its dumping, basic machines mining coal, coal and overburden conveyors, road transport),
- influence of mining objects on the atmospheric air:
 - dust emission: technological (mechanical), i.e. associated with mechanical mining and transport of the raw material with conveyor belts; climatological, i.e. related to wind erosion of vegetation-free areas;
 - organized emissions of pollutants into the air from the boiler room providing heat for social facilities mine,
- an influence on valuable natural area (in case when the valuable natural area is located in the zone of influence),
- hazards associated with electromagnetic fields.

In case of producing energy in conventional lignite power plants the following aspects of influence on the environment are to be distinguished:

- emissions of compounds accompanying coal combustion, e.g. CO₂, SO₂, NO_x
- dust emissions,
- noise generation (e.g. due to the operation of power unit turbines),
- waste generation (in the process of lignite combustion and flue gas cleaning),
- possible oil leaks, mazout and acids spills, resulting in local contamination of the ground and water environment,
- heating of surface waters, lakes (due to the use of lake surface waters in the cooling process),
- leakage of ash pulp or supernatant water to the soil and water environment,
- emission of industrial wastewater,
- emission of electromagnetic fields,
- terrorist threat that may result in environmental contamination.

In the mining area, the majority of the key activities, aiming at preventing, limiting or compensating nature of negative environmental impact, are initially planned at the stage of environmental analyses and creating a report of influence on the environment. In addition to technical and engineering solutions (appropriate formation of the dump, planning solutions to minimize the effects of disruption of water relations due to the drainage of opencasts, etc.), impact norms are defined in specific environmental aspects and environmental monitoring is carried out throughout the entire life cycle of the opencast mine. The monitoring of the level of water in wells, watercourses and water reservoirs, the quantity and quality of water discharged to receivers (water and ground), the extent of the depression funnel, dust emissions, noise level etc., is carried out as well.

From the procedural side, the situation in the manufacturing area looks quite similar. On the one hand, the existing production installations, which have been in operation for many years, have been modernized and retrofitted with technological solutions connected, above all, with adjusting them to the increasingly tightening environmental standards. As a result of the modernization of two blocks at Pańków power plant and the construction of the third one (Pańków II power plant) in recent years, the efficiency of generation (and thus the efficiency of fuel use) increased on those plants, and on the other hand, the emissivity decreased, including CO₂ mass per unit of electricity produced. Such approach also allowed reducing radically the emission of harmful nitrogen, sulphur oxides and dust to the atmosphere. However, one should be aware that the subsequent tightening of standards eliminating emissions or increasing the associated fees is reflected in the economic efficiency of the process of generating energy in a conventional manner, using fossil fuels. Adaptation of generating equipment to stringent standards and incurring costs related to the emission of e.g. CO₂ may simply not be rational for economic reasons, then decisions on decommissioning specific installations should be taken. In 2018, the 600 MW power plant in Adamów was decommissioned, at the end of 2019 the 200 MW block at Pańków power plant was shut down, and another two 200 MW each are planned to be shut down in mid-2020. In its activities, the company takes into account the economic calculation, but is also guided by signals from the environment. The direction in which Poland's and the EU's energy policy is shaped is aimed at reducing the role of fossil fuels in the energy generation sector. Along with the decreasing scale of operations, the company's environmental impact is also decreasing.

Similarly to the mining area, key environmental impact parameters during electricity production are monitored, often in a continuous mode. The cases of reports about potential irregularities are checked in a similar manner.

Mining area

In the last year in PAK KWB Adamów SA and PAK KWB Konin SA carried out:

- quantity and quality monitoring of groundwater and surface water,
- nature monitoring, particularly valuable areas,
- technical and biological reclamation,

At PAK KWB Adamów SA, the following were made: groundwater monitoring (in piezometers, farm and drainage wells), surface water monitoring (including flow tests in river channels in the area of impact) and monitoring of vegetation in Warta River interval (determining the impact of Koźmin opencast on the variability of water conditions and vegetation of "Natura 2000" area). As part of nature compensation for the re-naturalization of the Warta river embankment, the "island" area was mowed at the fork of the Warta and Neru rivers.

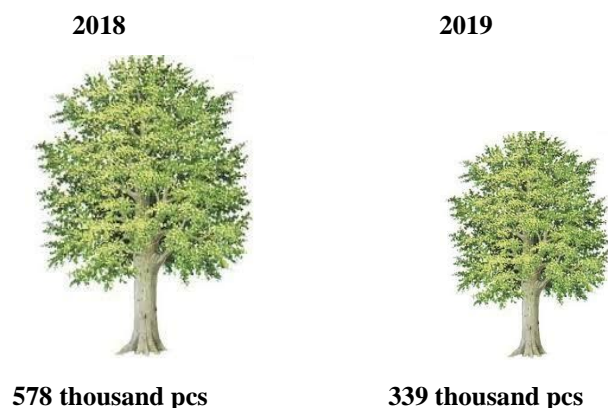
In PAK KWB Konin SA monitoring of the aquatic environment was performed for the outlets of Tomisławice, Józwin, Drzewce and open pit areas where the exploitation, i.e. Kazimierz and Lubstów. In accordance with the provisions of the environmental decision of August 7, 2007, a post-implementation analysis was carried out for the project entitled "Lignite extraction from the Tomisławice deposit" for the period 2014-2018. The monitoring of breeding birds in the area of the Ostoja Nadgoplańska, monitoring of natural habitats and plant species was carried out on Tomisławice outcrop. As part of corrective measures, meadows were mowed in Ostoja Nadgoplańska area to restore, preserve or improve the condition of habitats with species of protected plants and create favourable conditions for living birds and insects. Bird monitoring was carried out on Drzewce open-pit, monitoring of the impact of Drzewce open-pit on water-mud birds being the subject of protection of the Central Warta Valley protection area. As part of natural compensations aimed at restoring natural habitats, 15 artificial floating platforms for black tern were installed on the oxbow lake and culverts were made under dirt roads and ditches enabling reconstruction of the water flow in the Central Warta Valley.

Area covered by technical and biological reclamation



In areas where mining has already been completed, technical and biological reclamation is carried out in the following directions: water, forest, agricultural, recreational and other. For example, in 2019 technical reclamation was carried out on 170 ha, biological reclamation on 1781 ha. As part of biological reclamation, about 339 thousand trees and shrubs were planted. At PAK KWB Adamów SA, among others, works were carried out on the cutting of the Adamów intermediate reservoir and the process of obtaining a decision on completing the reclamation in the direction of water and forest was started on an area of approx. 158 ha. In PAK KWB Konin SA, among others, a decision was made to end the reclamation in the water direction of the flooded part of the water reservoir in the Lubstów open pit excavation with an area of approx. 28.7 ha and the process of receiving and obtaining a decision to end the reclamation in the water direction of the flooded part of the Kleczew water reservoir the Kazimierz Północ open pit excavation with an area of approx. 242 ha.

The number of plantings of trees and shrubs



The mines were also subject to control by the District Mining Office in Poznań (control of reclamation performance and control of the use of the Liquidation Fund of the Mining Plant in PAK KWB Konin SA and PAK KWB Adamów SA). The control authorities did not find any deficiencies, therefore no post-control orders were issued and no financial penalties were imposed.

Waste

In KWB Adamów and KWB Konin, the main stream of waste generated is: iron scrap and steel, as well as slag and bottom ash from the factory boiler room. Additionally, in KWB Adamów waste and concrete from debris of building objects are generated in significant quantities. In total, in 2019, 4 937.874 Mg of waste were produced, including 274.29 Mg of hazardous waste. The waste produced was transferred to companies with appropriate permits: for waste collection, treatment, i.e. recovery or disposal (apart from ash and slag waste from on-site boiler houses, which were used to harden the area, construction of internal roads and squares).

Generation area

In the generation area in 2019 the activities were concentrated traditionally on the aspects associated with air protection (emissions, nuisance), water and wastewater management (lakes monitoring, sewage and groundwater management), waste management, noise emission to the environment.

Air protection: emissions and nuisance

During the year the quantities of pollution emissions in particular power plants were monitored in terms of meeting obligatory emission standards. The correct operation of continuous measurement systems were supervised, functioning of procedures was coordinated (QAL3 – quality assurance procedures during the exploitation of exhaust emission monitoring system in ZE PAK SA in accordance with PN-EN 14181). Emission limits of particular contamination such as SO₂, NO_x and dust for Pątnów I and Konin power plants covered by TNK (Transitional National Plan) derogation were monitored, calculated and reported. The correct operations of protective devices reducing emission of pollutants into the air were supervised. The production process in aspect of meeting air pollution emissions' standards and limits was coordinated (optimization of combustion process in Pątnów II Power Plant). The tasks were realized under PRTR (National Register of Pollution Release and Transfer) by pollution measurements and reporting as well as by paying the fees. Financial commitments were made for the emission of pollutants into the air as part of its operations, i.e. environmental and penalty fees as well as in the scope of reporting pollutant emissions to the air.

Due to the emission of pollution influence on the immediate surroundings, the purity of the atmospheric air in the area of operations of the Groups power plants is also monitored (immision of air pollution). In 2019 no significant differences between the levels of substances tested and their counterparts measured by the stations of Voivode Inspectorate of Environment Protection were found.

In the context of SO₂, No_x and dust emissions, the past year was correct for the Group. A comparison of the relevant indicators can be found at the end of this chapter. Irrespective of the above-described reduction in emission rates per unit of production, it is also important that the installations used in Pątnów I, Konin and Pątnów II power plants did not exceed the admissible emission levels once in the past year. In this context, we should rather talk about large reserves.

Lakes monitoring

Anthropogenic activities contributed to the creation of an aquatic ecosystem characteristic only for heated lakes in the area of Konin (Gosławskie, Pątnowskie, Ślesieńskie, Licheńskie, Wąsowsko - Mikozyńskie). However, Konin power plants do not treat lakes only as an available source of water intake for cooling and a receiver of heated water, but they take measures to improve their purity and therefore carry out continuous monitoring.

Cooling system of Pątnów I, Pątnów II and Konin power plants works in the conditions changing during the year. The following parameters are changeable:

- the amount of circulating water,
- the temperature of drop water,
- the levels of water in the lakes,
- use the lakes for cooling (only „close” or “distant” circulation).

All the above mentioned parameters are covered by a constant monitoring. Systematic control of thermic conditions in the lakes and in the channels of cooling circuit of Pątnów I, Pątnów II and Konin power plants is run by ZE PAK SA on the principles determined in the integrated permit. This control includes:

- temperature measurements of Surface water in 24 points important for protection of lakes and operation of cooling circuit; the measurements are taken at least once a month (in the cold period) and more often (even every day) in the summer period (depending on the temperature of the air),
- continuous, automatic temperature measurement on the lakes' shots – Pątnowskie and Gosławskie,
- continuous, automatic temperature measurement of water on power plant discharges.

All the objects of cooling system are equipped with the network of control and measurement benchmarks. Measurements of water levels and flows are carried out in order to control the proper functioning of the entire cooling circuit. They are, among others, water level gauges, mounted on water intake and discharge ditches and on lakes. Fluctuations in water levels in lakes depend on a number of factors, mainly of natural character. However, the possibility of using water to cool the working blocks depends on its quantity and temperature. In all the lakes and channels included in the cooling circuit, physicochemical monitoring of water is also performed once a month.

Sewage management

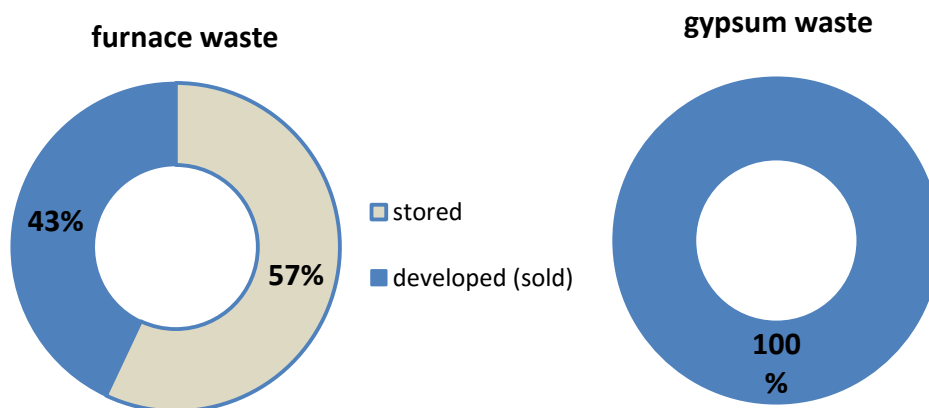
Wastewater generated in power plants is treated in factory sewage treatment plants and after obtaining parameters compliant with applicable regulations, it is discharged to the receivers. However, for many years, preventing lake water pollution, the power plants have been taking actions aiming at using the sewage in internal systems. Thus, wastewater from exhaust gas treatment installations, oily sewage from cleaning industrial floor and filter wastewater from a drinking water treatment plant are used for the production of ash and slag pulp, and therefore there is no need to use lake water as a transport medium for this purpose. Additionally, the lakes are not polluted with chemical substances.

Moreover, wastewater from a modern water demineralization station is used in the flue gas desulphurization plant to produce lime milk.

Wastes

In ZE PAK SA, the main stream of generated waste is furnace waste (ashes) and solid waste from calcium methods of flue gas desulphurization (gypsum). Waste generated in the first place is managed by external companies as part of waste recovery. On the basis of the volatile ash produced, mixtures for road foundations and road binders are mainly made. On the other hand, waste from flue gas desulfurization is directed mainly to the production of gypsum products, drywall and cement plants. In 2019, around 519 thousand tons of furnace waste were generated (of which over 225.2 thousand tons were sold) and approx. 202 thousand tons of waste from calcium flue gas desulfurization methods (202 thousand tons have been sold). The remaining quantities of waste generated are directed to landfills belonging to the Company. The furnace waste and waste from flue gas desulphurisation produced in ZE PAK SA meet the requirements of environmental protection and do not threaten human life and health, which was confirmed by research in the field of physicochemical, toxicological and Eco toxicological properties performed for the registration of substances in accordance with REACH requirements.

Chart 18: Percentage share of waste management generated in the Company in 2019



At landfills managed by ZE PAK SA in 2019, monitoring of the quality of groundwater and surface water as well as supernatant water was carried out, with the frequency specified in the integrated permits and instructions for running landfills, i.e. once a quarter. Currently, ZE PAK SA has 4 landfills and all of them were exploited in 2019 on the following:

- solid waste landfill, Pańków opencast (landfill for inert waste),
- landfill site for Zachodnia opencast with a vaporizer - so-called Wschodnia outcrop and landfill site (landfill for non-hazardous and inert waste),
- northern landfill site for Pańków open pit (landfill for non-hazardous and inert waste),
- landfill of furnace waste in Gosławice open pit along with Linowiec vaporizer (landfill for non-hazardous and inert waste).

Monitoring was carried out in the primary and supplementary monitoring networks. Monitoring of groundwater quality is performed in a network of piezo metric wells located in the vicinity of landfills. The quality of the groundwater tested in piezometers and deep wells in 2019 fluctuated in classes from I to V. Supernatant waters occurring in landfills (used for hydro transport of furnace wastes) were characterized by high mineralization, high electrolytic conductivity, high pH and total hardness. In addition, as a part of the monitoring of landfills, an annual assessment of slope stability and subsidence is also carried out. Most of the monitored slopes surveyed in 2019 proved to be stable.

ZE PAK SA also conducts reclamation of unused parts of landfills on an ongoing basis. In 2019, the reclamation of the closed part of the furnace waste yard of the Gosławice open pit was finished. The total reclaimed area amounted to over 30.8 ha.

Noise

As part of the obligation to monitor noise emitted to the environment imposed by integrated permits for the fuel combustion installations of ZE PAK SA and Elektrownia Pańków II sp. z o.o. in 2019 noise measurements were taken from the area of Konin power plant and Pańków II power plant. The results from the conducted tests did not show any exceedances of limit values set in the permits. The noise measurements were not carried out from Adamów power plant site and the Pańków I power plant, and the results from 2018 are still valid.

Inspections

In 2019, the Provincial Inspectorate for Environmental Protection in Poznań, Delegatura in Konin, carried out two inspections of PAK Capital Group Power Plant: Pańków I and Pańków II. The scope of all controls included verification of compliance with environmental regulations and administrative decisions.

Programs for the prevention of major industrial accidents

In 2019, programs for the prevention of major industrial accidents were updated in terms of type, amount and hazardous substances location as well as description of technological installations in the power plants. On the base of performed update of hazardous substances quantity, only Elektrownia Pańków I is in the group of plants where increased risk of major industrial accidents may occur.

Other

In PAK Górnictwo sp. z o.o. due to the implemented activity, administrative decisions regarding, among others, water collection and waste collection and production are of crucial meaning. The issue of water abstraction is connected with the takeover of the activity previously carried out by Aquakon Sp. z o.o. and the collection of groundwater from chalk deposits from two deep wells (production of mineral water). Another important aspect of the environmental impact is the collection and production of waste. It is mainly about waste generated in service and repair workshops and maintenance workshops, a conveyor belt regeneration hall, a repairs hall, and a bottling plant.

On the other hand, **PAK - Volt SA** (electricity trading, office work) a company significant in terms of generated revenues, should be considered irrelevant as regards the impact of the entire Group on the natural environment.

Associated business risk

The particular aspects of influence on the natural environment, described above, give rise to specific threats to business, reducing environmental resources at the same time. Each of the aspect described above, in certain situations (e.g. breakdown resulting in contamination or over-normative emissions), can cause image losses, social conflicts and loss of social allowance for operation, legal sanctions, imposing of penalty or other decisions resulting in reducing the profits, or finally incurring additional costs for environment protection. As a consequence, it may cause, for example, the disturbance in production stability (the need to temporarily shut down some part of the production installation), decrease of revenues (decrease in production) or increase of costs (e.g. the need to remove the consequences of a failure, but also additional fees and penalties related to emissions to the environment, including greenhouse gas emissions).

For this reason, as it was adopted in the Strategy for Corporate Social Responsibility of the ZE PAK SA Capital Group for 2017-2020, the policy and the procedures accepted by the Group, focus on:

- providing effective mechanisms reducing to minimum the threat of anomalies and gaps occurring resulting in over-normative impact on the environment in the mining or manufacturing process.
- reducing the emission to atmosphere to minimum by optimal shaping of the use of generation capacities existing in ZE PAK and ensuring the minimization of the risk of exceeding emissions of gaseous pollutants into the atmosphere.

It is worth mentioning, however, that environmental conditions imposed on conventional manufacturers are increasingly stringent and one should expect this trend to continue. In this context, it is necessary to mention BAT conclusions (Best Available Technology), which are to be effective from 2021. The BAT regulations tighten the limits for emissions of nitrogen oxides, sulphur oxides and suspended particulates, which until now were regulated by the Industrial Emissions Directive (IED). The catalogue of these standards also includes limits for chlorine and heavy metal compounds, including for mercury. Before generators from the conventional energy sector, this poses major organizational and capital challenges related to adapting to the new regulations. However, it is also necessary to take into account certain derogations and derogations that will be available to the manufacturer under certain conditions (e.g. in relation to the remaining relatively short exploitation period not justifying the incurring of disproportionate expenditure).

In the context of the impact of the activities of ZE PAK SA Group companies on the environment, it is important that the directions of the strategy implemented by the Group assume the process of transforming the profile of energy production from conventional sources towards renewable energy sources. The investment projects currently being prepared assume the use of the potential of reclaimed land, previously used in mining operations, in the direction of preparing them for location for photovoltaic and wind farms. Such a focused strategy will significantly contribute to minimizing the risks arising from the impact of current operations on the environment in the future.

Key indicators

Table 26: CO₂ emission (m of tons/TWh)

	2019	2018
CO ₂ emission in ZE PAK SA Group per production unit	1,04	1,07

Chart 19: CO₂ emission in ZE PAK SA Group per production unit (m of tons/TWh)

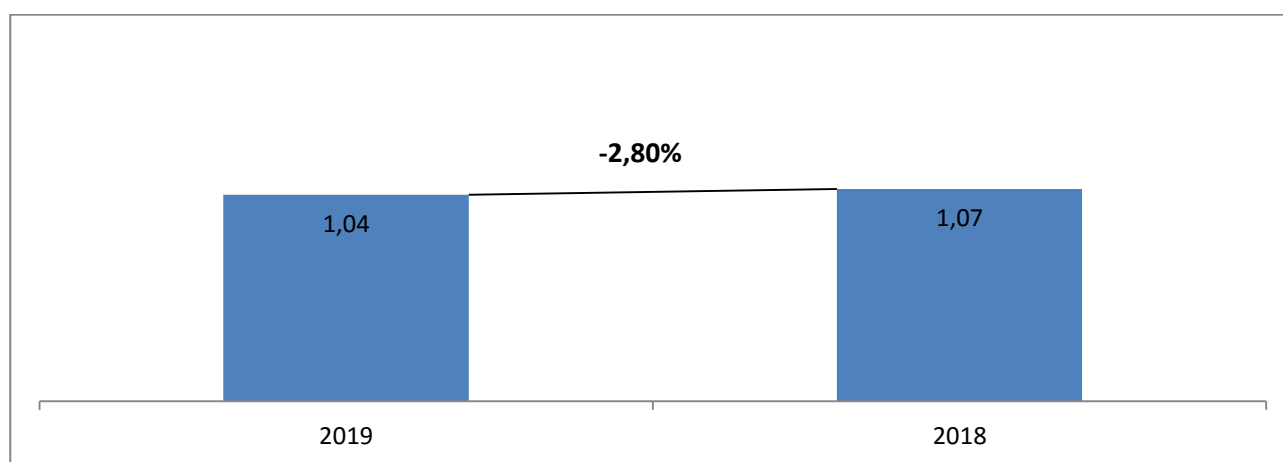


Table 27: SO₂, NO_x and dust emission to atmosphere (thousands of tons/TWh)

	2019	2018
SO ₂ emission in ZE PAK SA Group per production unit	0,64	0,71
NO _x emission in ZE PAK SA Group per production unit	1,12	1,20
Dust emission in ZE PAK SA Group per production unit	0,11	0,11

Chart 20: SO₂, NO_x and dust emission to the atmosphere per production unit (thousands of tons/TWh)

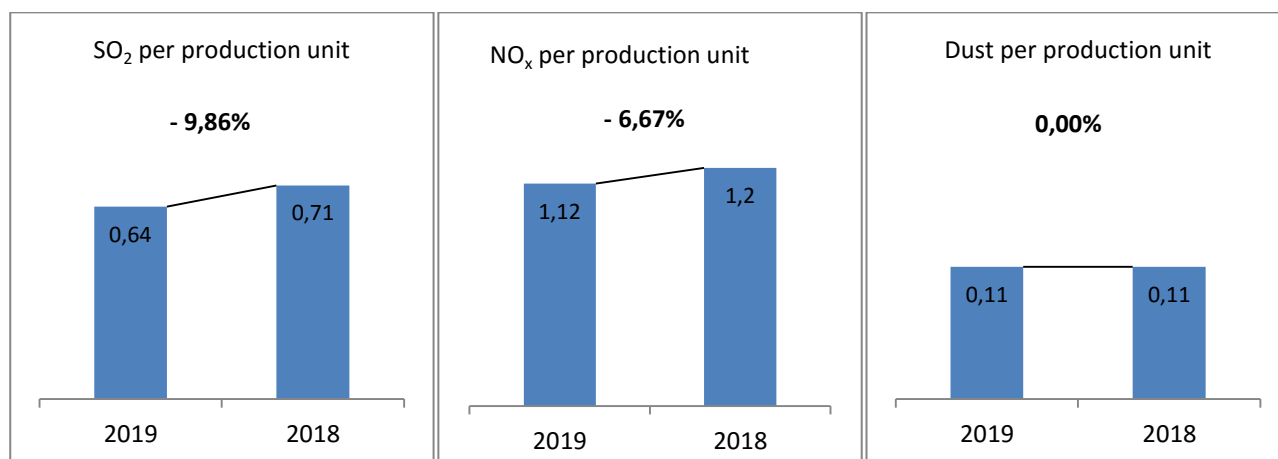


Table 28: Violation of environmental standards (%)

<i>Emitted amount resulting from exceeding the standards in relation to the total amount of emissions</i>		
	2019	2018
SO ₂	0,00	0,00
NO _x	0,00	0,00
Pyły	0,00	0,00

Table 29: Summary of the data on the size of the areas where the technical reclamation was carried out and areas where biological reclamation and seeding are still being carried out, as well as the areas for which the decision on the properly completed reclamation have been made (hectares)

	2019	2018
Technical reclamation	170	245
Biological reclamation (in progress)	1 781	1 396
Biological reclamation (completed)	32,2	59

Table 30: Share of land for which decisions on completion of reclamation were made for land excluded from agricultural and forestry production in mines (%)

	2019	2018
	40	60

11.5. Issues of respect for human rights

Management approach

While analysing the issues associated with the respect for human rights, there are two significant aspects that are to be distinguished: the right to associate and strike as well as the respect for the inalienable rights of the individual.

As already mentioned earlier, in the Group's companies meeting the statutory criteria, there are operating the Employees' Councils selected on the basis of applicable regulations. There are also a number of trade union organizations operating under the Trade Unions Act. The Management Boards of the Group's companies inform and consult all the decisions in matters specified by the law with employees' representatives (Employees' Council, trade unions). In the opinion of managers, freedom of association in trade unions and related rights are assured.

In the aspect referring to an individual and ensuring its respect, which means the respect for variety and simultaneous lack of any form of discrimination, beside the respect and enforcement of legal regulations that guarantee such a respect (e.g. Labour Code), ZE PAK adopted The Code of Ethics. Not only does it guarantee the aforementioned rights of an individual, but it is also a tool in itself that allows for the resolution of potential conflicts of interest. It contains a mechanism for both resolving doubts as well as reporting suspicions about potential behaviour that violates the provisions of the Code. It is worth mentioning that the Code of Ethics also condemns other behaviours that violate human rights, such as child labour, forced labour or slave labour.

Associated business risk

The disrespect for human rights, including aforementioned right to associate and strike, would mean not only the breach of national law (and sanctions in consequence), but also could lead to unnecessary escalation of conflicts on the employer-employees line. Despite the existing differences of opinion, manifesting, for example, with a collective dispute, the managers of ZE PAK SA Group appreciate the role of trade unions. Theoretical tightening of disputes, while not having a dialogue, can lead to strike actions and threaten the stability of production. Trade unions and the management, despite disputes and different assessment of the situation (e.g. in terms of short and long-term approach), are constructively oriented and aware of the economic consequences of a possible imbalance in the stability of energy supplies. Such consequences could concern not only the Group but also the national energy system.

Regarding the risk of disrespect for individual rights, such cases can not only expose ZE PAK SA Group to litigations and necessity to pay compensations, but they are primarily a real threat for organisation culture, work atmosphere and

the same its effectiveness. They are also associated with the risk of losing valuable employees or, through discrimination, the impossibility of making full use of their potential (e.g. promotion of people with lower competences, while inhibiting the promotion of discriminated people).

All the cases of disrespect for human rights in ZE PAK SA Group also mean a measurable reputational risk, and then, with the escalation of this type of phenomena it can affect the loss of social consent for acting.

Key indicators

Table 31: Key indicators in the area of human rights' respect

	2019	2018
The number of cases of reporting suspicion of unethical behaviour under the mechanisms provided for by the Code of Ethics for violation of individual rights	0	0
Unionization ratio	47,05%	47,11%
Number of collective disputes	6	3
Number of work days lost due to strike actions	0	0

11.6. Issues related to counteracting corruption

Management approach

One of the purposes of ZE PAK SA Capital Group Strategy for Corporate Social Responsibility is providing high quality and constantly improved management system that in the process of taking decisions would include the social and environmental aspects. One of many solutions of such management system is counteracting potential corruption and other unacceptable unethical phenomena. The threat of such phenomena depends, among others, on the exposure to the risk of corruption behaviour (e.g. a range of realized investments and projects), organizational culture and ethical values as well as the effectiveness of inspecting system.

The range of contracts concluded and investments undertaken depends on the factors other than the threat of corruption phenomena. It is frequently a consequence of adopted strategy of development, and therefore from the managing point of view in terms of counteracting corruption, it should be treated as an independent factor. The other thing is the way of realizing contracts, including for instance the way of choice, evaluation and selection of suppliers and subcontractors. Regarding the choice, this issue is regulated in ZE PAK SA Groups by the procedures of management systems.

The factor influencing the degree of danger of such type phenomena is a proper organizational culture, i.e. the culture based on ethical values and such institutional solutions that provide the employees with the implements enabling them to determine and distinguish the behaviours within the company that are right and the ones that are not. The promotion of ethical values allows resolving potential conflicts of interest or doubts in this regard, as well as reporting suspicions about potential unaccepted behaviours, including those of bearing the signs of corruption. For this reason, while implementing the provisions of the Strategy for Corporate Social Responsibility for years 2017-2020, the Management of ZE PAK SA decided to adopt the Code of Ethics in 2017. The same Code of Ethics was also adopted by other companies from the capital group in 2020.

Another aspect, worth attention while analysing the system of counteracting corruption is the internal system of inspection. "Rules of Internal Audit of Zespół Elektrowni Pątnów-Adamów-Konin SA" and "Rules of Internal Supervision of PAK KWB Konin SA" determine the rules of organizing and functioning of internal audit that provides the systematic and methodological approach to evaluation and improvement of the effectiveness of supervision as well as management of risk and organization processes. They include the research and evaluation of activities of organizational units and the Group's subsidiaries in terms of thriftiness, legality, advisability, reliability and transparency of documentation (processes). The inspection activities aim at disclosure of unused business provisions, detection of irregularities and abuse in the operations of organizational units, determination of causes and effects of irregularities found and persons responsible for them, as well as elaboration of conclusions and post-audit recommendations. Among the irregularities and abuse there are also all activities that may be characterized by bribery and corruption.

The internal inspection system includes: self-control of the correctness of work performance, functional and institutional control (implemented by the internal audit unit). As part of the institutional control, the internal audit unit

checks the activity of the organization as a whole, responding to the needs reported by the Management Board and the Supervisory Board in accordance with the audit regulations (among others, evaluates the coordination of activities between workstations and organizational units, evaluation of the creation system and documentation flow and information, etc.) with a frequency depending on the identified risk areas and the level of risk significance, as well as the role of control in its reduction. In this context, the activities of the internal control unit supplement the basic control and ongoing supervision and are aimed at revealing weaknesses or gaps in the organization and functioning of the internal control system. Controls are planned (in accordance with the annual plan approved by the Management Board), ad hoc (at the request of the Management Board or the Supervisory Board) and the one of checking nature.

The purchasing procedures described in the management systems applicable in the companies of the ZE PAK SA Group also regulate the issues of supplier selection. In the case of generation area, ZE PAK SA has implemented the Integrated Management System, under which in Sector 5.3 "Product / service support" applies, among others two procedures 5.3 - 01 "Supplier assessment" and 5.3 - 02 "Identification and traceability". The basic condition in the selection of suppliers is that they should be specialist suppliers, meeting agreed technical and commercial conditions and guaranteeing 100% reliability of deliveries. In addition, suppliers whose products decide directly on the quality of electricity and heat are subject to qualifications based on ongoing cooperation with suppliers, delivery control and periodic evaluation, among others, through their auditing as well as updates of the list of qualified suppliers. The management system also introduces "Supplier assessment sheets". In addition to the obvious factors such as the quality of deliveries, the level and stability of prices and payment conditions, for example, timeliness, or the fact that suppliers have certified management systems are taken into account.

ZE PAK SA is responsible for making purchases in the area of electricity generation and in the mining area for PAK KWB Konin and PAK KWB Adamów. The purchase process itself has been defined in ZE PAK SA by the "Rules of Supplier Selection". The process is supported by the electronic purchase platform which eliminates some of the threats, for instance, it prevents from getting acquainted with offers submitted before the deadline. Thus, it eliminates the risk that dishonest employee could provide the information of competitive bids to the supplier who is still working on the offer. It is worth mentioning here, that the purchase process is based on the electronic auction option, which is carried out in real time, and this limits the possibility of unethical contact with a potential supplier. Moreover, until the auction closes, employees are not able to observe its progress, i.e. offers submitted by individual tenderers. They can read them only after the auction process is closed. ZE PAK SA makes purchases in the area of generating electricity.

PAK Górnictwo sp.z o.o. and PAK Serwis make purchases for the service area based on their own regulations, similar to each other in terms of the shape of the process itself. They use the same tools, including the same electronic purchase platform. Approximately, the purchase procedure is initiated by a substantive unit that reports a specific purchase need. After obtaining relevant approvals justifying the future purchase, a commission which defines the purchase criteria is appointed. The commission makes an assessment of the collected offers and points out the recommended supplier. In the next step, negotiations are conducted, and finally the accepted offer is directed to implementation. From the perspective of transparency, the important thing is that the information on planned purchases (i.e. request for quotations and tender inquiries) is published on the electronic purchase platform as well as on the website, and the purchases themselves are usually open tenders.

Simultaneously, all areas, including the aforementioned purchasing area, are subject to be controlled by internal audit staff, also in terms of the potential occurrence of corruption-related phenomena. Controls may be planned as well as ad hoc inspections. The employees of the internal audit unit have an access to all information and reports necessary to perform the control activities in a reliable and objective way. Auditors are therefore obliged to inform the auditing manager on an ongoing basis about the course of the audit and the difficulties encountered in the implementation of the audit tasks. Auditing manager presents an assessment of the implementation of the audit's objective to the Management or the Supervisory Board. The auditors are authorized to: enter all the objects and rooms of the audited unit; inspect all recording devices, plans, reports, protocols and business memos or correspondence as well as other documents and materials associated with the controlled unit operation; periodical assisting at all activities of controlled unit; request for clarification and any information (oral or written) related to the subject of the control, from the manager and other employees of the controlled unit; requesting the head of the audited entity to perform partial or complete inventory of certain assets at the indicated date and to commission calculations, draw up lists, analytical statements, copies, extracts, etc.; receiving declarations from employees and other persons in matters related to the activity of the controlled entity; determine the real states by means of measurements, situational sketches as well as photo and recordings etc.; take necessary actions to secure evidence and property in case of irregularities; request the management of the audit with an application for the appointment of experts, in case of a justified need to make an expert report; ask the head of the controlled entity to provide all means necessary for a smooth inspection and for the effective implementation of conclusions resulting from the audit findings; performing control activities at the time selected by the inspector and extending the subject of controls in justified cases without obtaining additional consent of the manager of the control. The manager of the controlled unit is obliged to provide the auditor with the appropriate working conditions and technical assistance necessary for the efficient control.

If there are any circumstances threatening for human health or life, or any other resulting in the loss of goods due to the mismanagement, negligence, prodigality or an offense found during the inspection, the auditor makes a written request to a manager of the controlled unit, obliging him to take immediate action in order to eliminate such incidents. The auditor informs immediately audit management unit and secures the evidence documents and items of mismanagement or an offense. Then, after receiving the legal advice, a person managing the audit takes a decision to inform law enforcement authorities.

Simultaneously, each employee of ZE PAK SA Group, in the case of suspicion of any unethical behaviour, including those of bearing the marks of corruption, has not only the possibility but obligation as well to report information using the mechanisms provided by the Code of Ethics and the procedure for reporting violations implemented at ZE PAK in December 2019. For this purpose, the employee can contact the superior or the person indicated by the Management and acting as Ethics Spokesman. Such a notification is analysed, and an employee who has reported the information cannot be in danger of any consequences and will be protected from any retaliation, even if the information was not confirmed but was reported in good faith.

Associated business risk

The risk of corruption behaviours accompanies every enterprise, and the cases of making decisions by corrupt employees lead, among others, to suboptimal choices in purchasing processes, in terms of price increase, as well as, for example, improper quality of products or services, untimely delivery or performance of services, or the consent of a corrupt employee to other, inappropriate contractor behaviour (e.g. breaking regulations, failure to carry out warranty repairs, etc.). Undoubtedly, the corruption and bribery can take a number of other forms, and may be connected with giving benefits by the employees to officials for issuing favourable decisions, etc. As a consequence, the organization may be exposed to threats related to unjustified increase of costs as well as, for example, huge image losses.

Simultaneously, in terms of assessing the exposure of ZE PAK SA Group to the risk of corruption, a relatively small scale of high-value orders is important. Unlike many other electricity generators, the business model of the ZE PAK SA Group is based on a strongly integrated value chain, i.e. energy production is based on its own raw material resources. Thus, the supply of raw materials takes place inside the organization (understood as a capital group), and not from external entities. Service work is also performed in many cases by entities from the ZE PAK SA Group. As a consequence, purchases of products and services from the outside are limited to minimum, and that contributes to the reduction of risk, although it does not eliminate it. The risk of corruption may increase in the case of significant investments (e.g. construction or modernization of power units or opencast mines). However, in 2019 no large investments or upgrades were made.

Key indicators

Table 32: Key indicators in the area related to counteracting corruption

	2019	2018
Number of suspicions of corrupt behaviour reported to law enforcement authorities	0	0
Number of people convicted by a valid sentence for a corruption offense	0	0

12. OTHER INFORMATION

12.1. Significant court proceedings

In 2019 Zespół Elektrowni Pątnów - Adamów - Konin SA and companies consolidated within the Group were not a party in significant proceedings pending before court, competent arbitration authority or public administration authority, except as 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 Pątnów 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 KWB 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 KWB SA. On 7 January 2013, PAK KWB 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 18th 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. Subsequently, the Government Appeal Court upheld its decision, from which a complaint was filed with Poznań Administrative Court.

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 parties have the right to submit 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. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration.

On November 21, 2018, RDOŚ in Poznań issued a notice in which it informed the parties to the proceedings that due to the final verdict of the Provincial Administrative Court in Warsaw of October 18, 2018, no proceedings were pending before RDOŚ in Poznań, and the evidence was collected GDOŚ in Warsaw. On November 22, 2018, GDOŚ in Warsaw issued a notice in which it announced that in connection with the repeal of the GDOŚ decision of November 30, 2017 by the Provincial Administrative Court in Warsaw repealing the decision of RDOŚ in Poznań of March 10, 2017 refusing to specify the environmental conditions for the implementation of the project consisting in: Lignite mining and accompanying minerals from Ościsłowo open pit and referring the case for reconsideration to the authority of first instance - the General Director for Environmental Protection again conducts an appeal against the above decision. On March 6, 2019, GDOŚ called on PAK KWB Konin SA to submit explanations and supplement the evidence within two months of receiving the summons. By letter of December 6, 2019, PAK KWB Konin SA requested an extension of the deadline until June 30, 2020. On January 3, 2020, GDOŚ announced that in connection with the above it sets a new deadline for settling the case on June 30, 2020.

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

Other court cases are described in the consolidated financial statements of the Group in point 34.2.

12.2. Significant achievements in the field of research and development

As at the date of this report, the companies from the ZE PAK SA Capital Group do not carry out research and development works which would be of significant importance to the Group. In addition, over the past year, the Group did not make significant financial expenditure on research and development.

12.3. Information on the selection of the audit firm conducting the audit of the annual consolidated financial statements

According to the statement of the Supervisory Board, the selection of the auditing company conducting the audit of the annual consolidated financial statements was made in accordance with the regulations, including the selection and procedure of selecting an audit firm. The auditing company and the members of the audit team meet the conditions for the preparation of an impartial and independent audit report on the annual consolidated financial statements in accordance with applicable regulations, professional standards and professional ethics. The applicable regulations related to the rotation of the auditing company and the key statutory auditor as well as mandatory grace periods are complied with. The company has a policy regarding the selection of an audit firm and a policy for providing the issuer by an auditing company, an entity related to an auditing company or a member of its network of additional non-audit services, including conditionally exempt services from an audit firm.

12.4. Information on the auditing of the financial statement

The auditing company auditing the financial statements and the consolidated financial statements is PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością. Audyt sp.k. The agreement regarding the audit of the Company's financial statements and the consolidated financial statements of the Group was concluded on August 28, 2018 for a period of two years.

In 2019, until the date of publication of the report, the auditing company carried out agreed procedures related to the verification of the calculation of the covenants enshrined in the ZE PAK SA credit agreement.

Information on the remuneration of the audit firm is presented in point 38 of the consolidated financial statements of the Group for 2019.

12.5. Financial forecasts

The Capital Group did not publish financial forecasts for 2019 and it will not present the forecast for 2020.

All other information required to be disclosed by law and not disclosed in this management report on operations does not apply to the Group.

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP
MANAGEMENT BOARD'S REPORT
FROM THE CAPITAL GROUP'S OPERATIONS IN 2019

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