

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA

MANAGEMENT BOARD'S REPORT FROM ZE PAK SA 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 financial data</i> | <i>Zloty Thousand 12 months 2019 period from 01.01.2019 to 31.12.2019</i> | <i>Zloty 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> |
|---|---|---|--|--|
| Net revenues from sales of products, goods and materials | 1 429 854 | 1 220 800 | 332 385 | 286 109 |
| Operating profit/loss | (41 585) | (144 645) | (9 667) | (33 899) |
| Profit/loss before tax | 27 227 | (106 192) | 6 329 | (24 887) |
| Net profit/loss for the period | (46 339) | (64 516) | (10 772) | (15 120) |
| Net cash flow from operating activities | 142 588 | 126 332 | 33 146 | 29 607 |
| Net cash flow from investing activities | 135 624 | 95 406 | 31 527 | 22 360 |
| Net cash flow from financing activities | (215 739) | (244 939) | (50 151) | (57 404) |
| Net cash flow together | 62 473 | (23 201) | 14 523 | (5 437) |
| Net profit per share (in zloty/euro per share) | (0,91) | (1,27) | (0,21) | (0,30) |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |
| | <i>stan na 31.12.2019</i> | <i>stan na 31.12.2018</i> | <i>stan na 31.12.2019</i> | <i>stan na 31.12.2018</i> |
| Total assets | 1 992 034 | 2 151 997 | 467 778 | 500 464 |
| Fixed assets | 1 519 635 | 1 745 389 | 356 847 | 405 904 |
| Current assets | 472 399 | 406 608 | 110 931 | 94 560 |
| Equity | 1 292 048 | 1 338 387 | 303 404 | 311 253 |
| Share capital | 101 647 | 101 647 | 23 869 | 23 639 |
| Liabilities and provisions for liabilities | 699 986 | 813 610 | 164 374 | 189 212 |
| Long-term liabilities | 2 291 | 61 392 | 538 | 14 277 |
| Short-term liabilities | 102 825 | 245 412 | 24 146 | 57 073 |
| Book value per share (in zloty/euro per share) | 25,42 | 26,33 | 5,97 | 6,12 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

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

- data concerning the profit and loss account 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 balance sheet items 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

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: Państw II – equipped with a supercritical power unit, Państw 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 Państw 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.

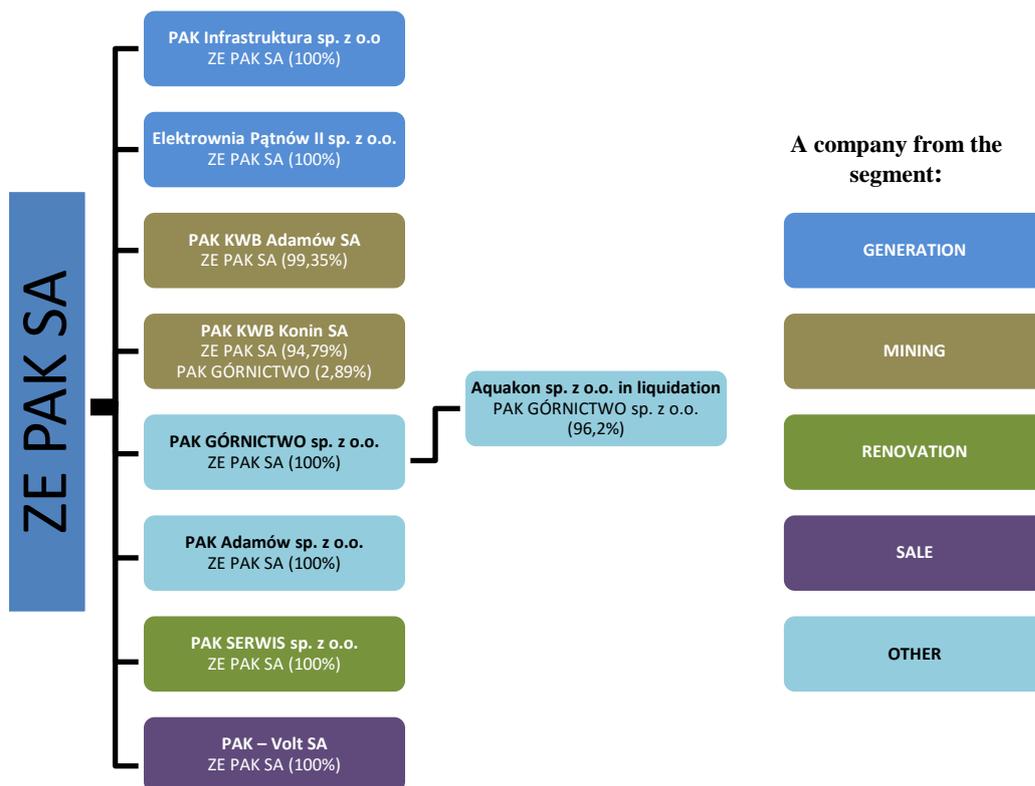
The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz holds substantial direct or indirect share.

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 Państw 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.

Structure of the Group as of December 31, 2019



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.

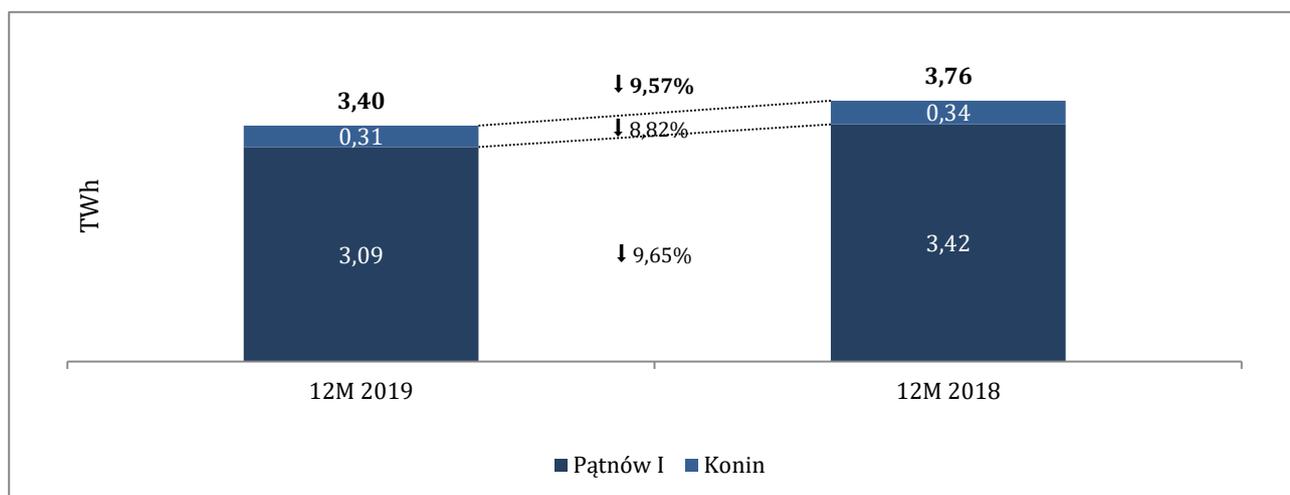
The concentration of competences in individual areas is aimed at improving the quality of services provided and optimizing the operating costs of the ZE PAK Capital Group.

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

ZE PAK SA's operations are focused in several areas. The main area is doubtlessly generation of electricity, 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 2019, the Company 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 foreign partners.

The Company bases its production mainly on lignite. The net electricity production in Pańków I power plant in 2019 reached 3.09 TWh and in Konin power plant 0.31 TWh. Total net energy production in 2019 was lower by 9.57% compared to the previous year.

Chart 1: Net electricity production



Source: internal data

The main direction of electricity sales was sales on the stock market. Transactions with end users constituted only a small share in the total volume of energy sales. The sales structure was supplemented by the electricity balancing market.

Revenues from sales of electricity (generated and purchased) constituted 85.26% of the total net revenues from sales of products, goods and materials at the Company.

Heat generated in the Company's power plants is sold to local customers. The main recipient is Miejskie Przedsiębiorstwo Energetyki Ciepłej in Konin and local industrial producers. In 2019, the Company sold 1,193 TJ of heat. Sales of heat accounted for 3.23% of total net revenues from sales of products, goods and materials.

In 2019, revenues from the sale of rights of origin were higher compared to 2018. The growth was mainly determined by market prices of "green certificates". The share of revenues from the sale of property rights from energy certificates of origin in 2019 represented 3.81% of total net revenues from the sale of products, goods and materials.

Other sales revenues constituted 7.70% of the total net revenues from sales of products, goods and materials obtained by the Company in 2019 and related mainly to services provided to other entities of the Group.

The main raw material used by the Company for energy production is lignite, which is extracted almost exclusively for the needs of the power plant. The lignite extracted is delivered from the opencast mines belonging to PAK KWB Konin SA and PAK KWB Adamów SA directly to the power plant. Therefore, lignite mining at the ZE PAK Group is closely correlated with the amount of electricity generated by power plants located in the vicinity of mines.

In the Company, as a raw material for energy production, biomass is also used, which is burned in a specially dedicated boiler located at the Konin power plant. Contracts for the supply of biomass 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

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

Significant events after the balance sheet date

Impact of a COVID-19 disease pandemic on the Company'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 Company include the increased number of employees on holidays, sick leaves and those working remotely. Employee protection is a priority for the Company. Activities undertaken in the Company 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 Company'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 13% compared to the same period of the previous year, hence the key months for the Company will be. 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 company applies 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 Company 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 Company 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 Company. 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 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 suppliers are subsidiaries of ZE PAK SA. 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 8% 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

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.

Agreements regarding the granted loans

In 2019, no contracts were signed with the subject of granted loans.

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</i> | |
| Granted guaranties | 20 000 | - |
| - for companies from the Group | - | - |
| Granted sureties | 136 959 | - |
| - for companies from the Group | 136 959 | - |

Table 3: List of guaranties and sureties obtained in 2019

| | <i>Zloty thousand</i> | <i>Euro thousand</i> |
|---------------------------------|-----------------------|----------------------|
| | <i>2019</i> | |
| Obtained guaranties | 775 | - |
| - from companies from the Group | - | - |
| Obtained sureties | - | - |
| - from companies from the Group | - | - |

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

Currently ZE PAK SA do not implement any large investment projects. Investment activity focuses primarily on the implementation of the necessary tasks to ensure the maintenance of current efficiency and more efficient use of production mining assets.

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".

3.4. Risk management

While conducting its operations, the Company is exposed to a series of risks, occurring actually, potentially or theoretically, existing in the industry as well as on the markets where the Company operates. These are factors having their source within the Company as well as and in its environment. Taking into account the formalization of the risk-related sphere in the 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, Pańków 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 to 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 the Management Principles, is applied.

3.5. Description of use of emission earnings

In 2019, ZE PAK did not issue or redeem any securities.

4. MAIN BUSINESS RISKS

The process of forecasting future results of Zespół Elektrowni Państw-Adamów- Konin SA must include a wide range of risk factors and threats, actually, potentially, or theoretically, existent in the branch and markets, in which the Company conducts its activities. These are factors which originate both from the inside of the Company 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 Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- extraction and supply costs of coal and other fuel;
- CO₂ emission allowances costs;
- 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 KSR 4, 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 worsening 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..

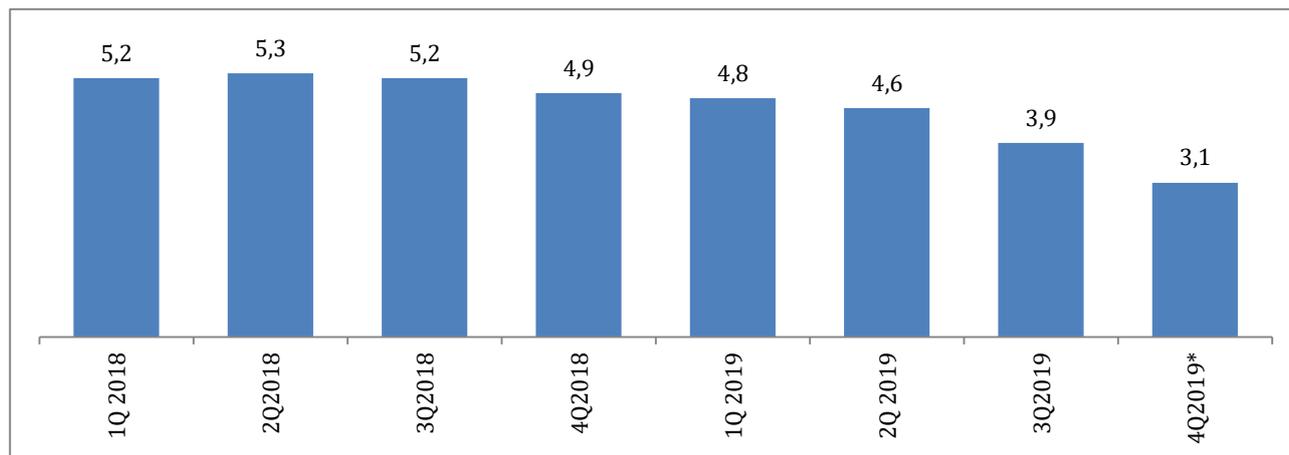
An additional factor of periodic significance, whose impact on the Company's operations cannot be precisely determined today, and which certainly should be taken into account is the impact of increased incidence caused by the

spread of SARS-CoV-2 coronavirus and increased price volatility on commodity and financial markets, especially the CO2 emission allowance market and electricity, which may affect the Company's liquidity position and its financial results.

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

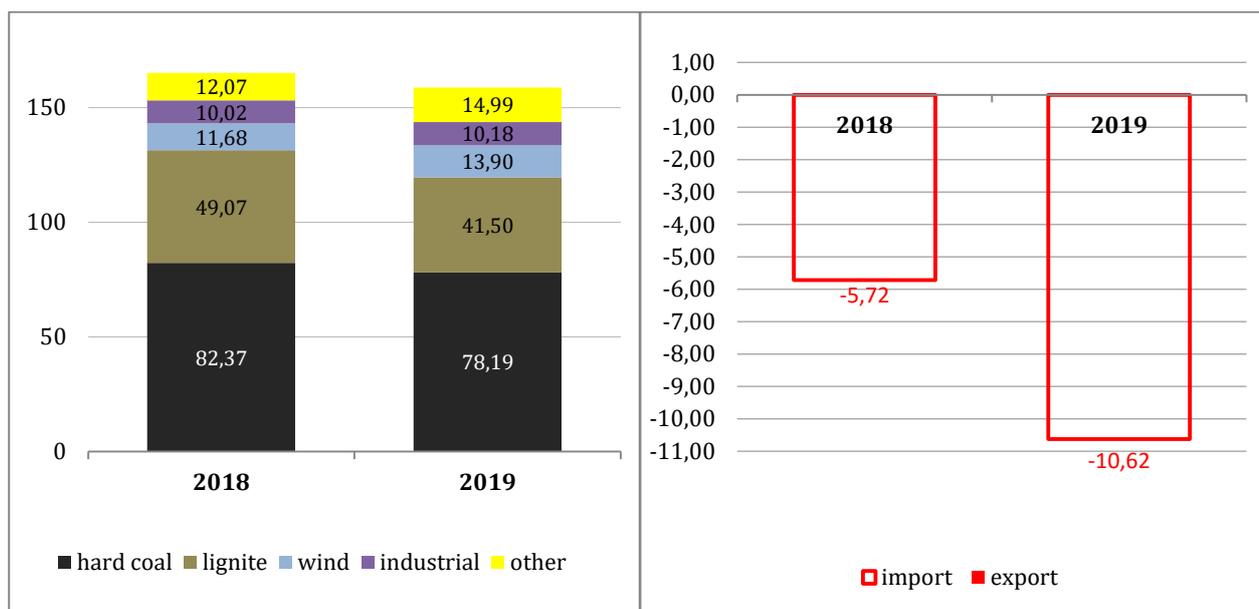


Source: GUS data

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 3.1% recorded in the fourth quarter of 2019 (data for the fourth quarter based on so-called "fast 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%).

Chart 3: Structure of electricity production and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: own development based on PSE data

Data on the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that gross domestic electricity consumption ¹ 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.

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.

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.

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.

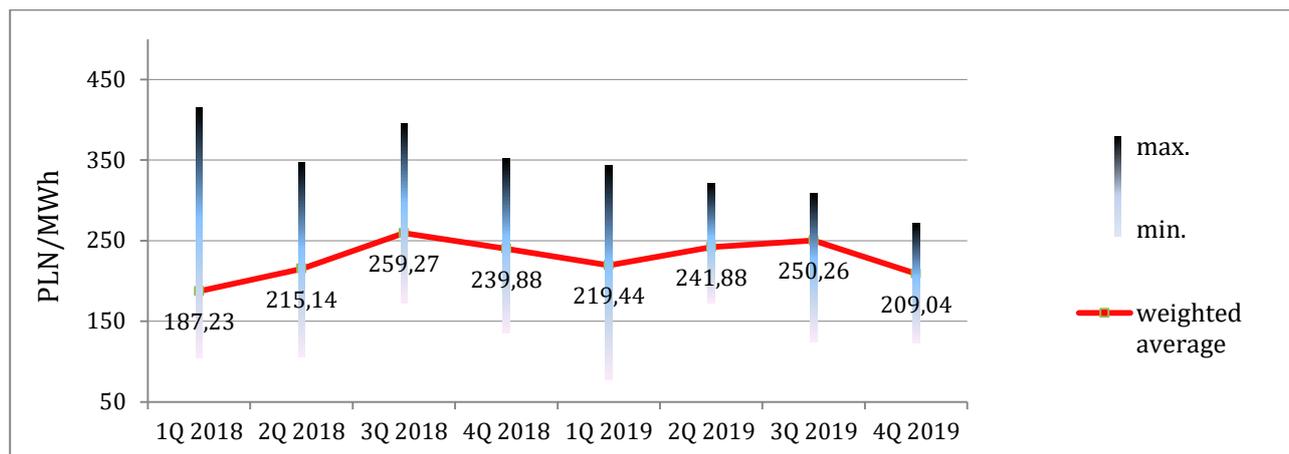
On December 11, 2019, the European Commission announced the assumptions for the functioning of the "European Green Deal", which is supposed to lead to emission neutrality of the European Union in 2050. The postulates of this plan include, among others increasing the EU reduction target for 2030 to 50-55%.

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 %.

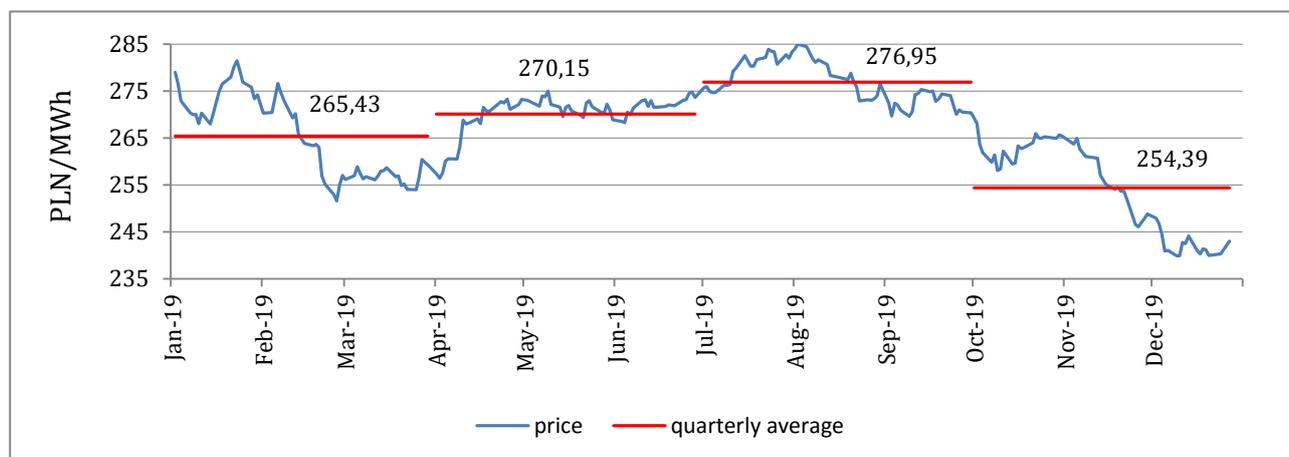
Chart 4: Electricity prices (IRDN)



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



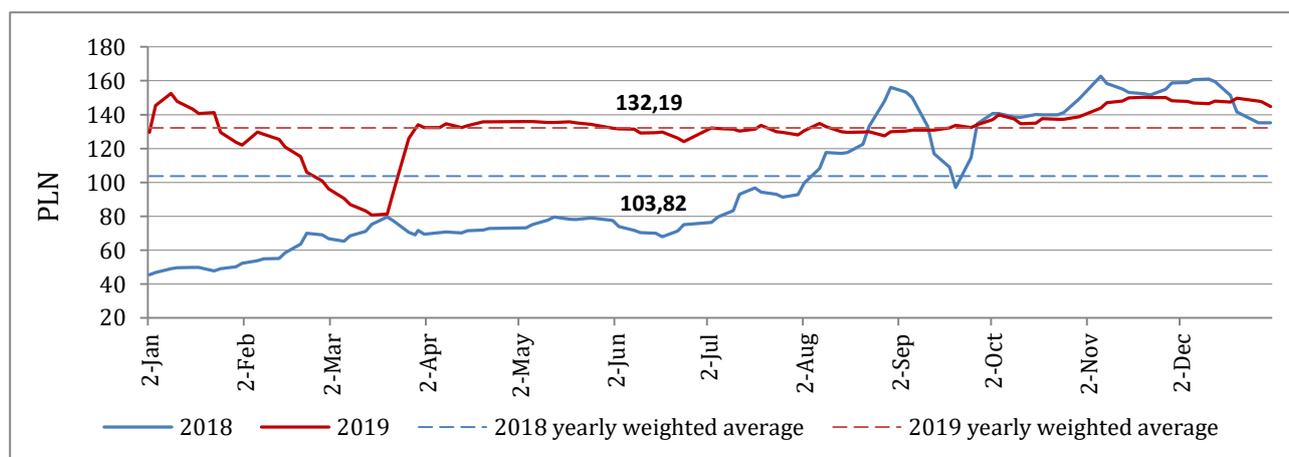
Source: Own elaboration based on TGE data

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 6: 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.

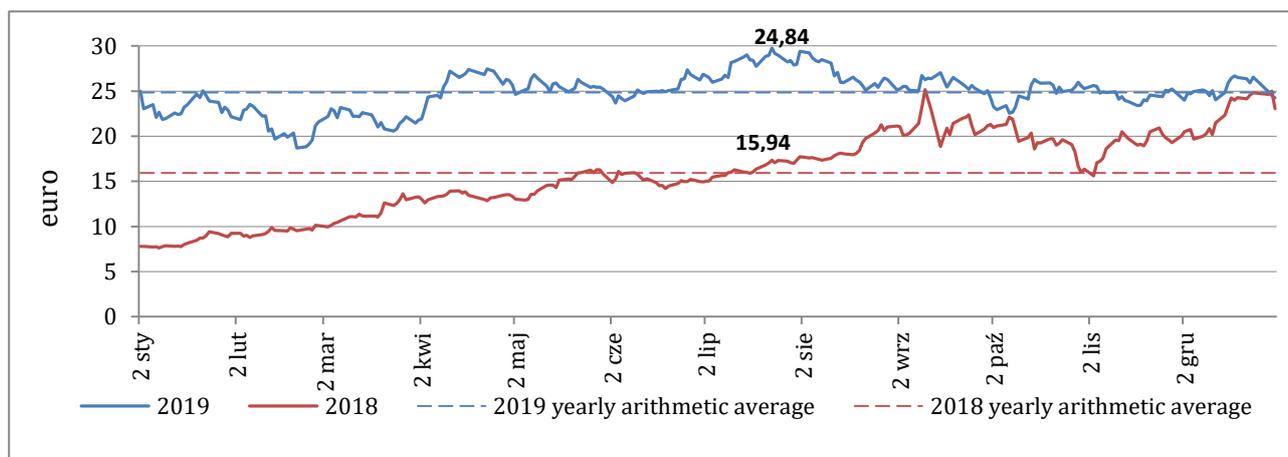
The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, 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 7: The price of a forward contract for the delivery of EUA



Source: Own elaboration based on ICE data

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 Company 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 and EURIBOR interest rates. The most important factors include:

- transactions connected with EUA purchase are settled in EURO,
- The Company uses debt financing based on a variable interest rate.

The Company'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 Company periodically uses 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 Board monitors 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

Zespół Elektrowni Państw – Adamów – Konin SA develops the financial statement on the basis of the Act of Accountancy of 29 September 1994.

The accounting principles (policy) applied to the preparation of the financial statements, are presented in item 6 of the Introduction to the Financial Statements of ZE PAK SA for the period of 12 months ended on 31 December 2019.

5.2. Specification of the basic economic and financial values

Profit and loss account

Net revenues from sales of products, goods and materials in 2019 amounted to PLN 1 429 854 thousand and compared to 2018 increased by PLN 209 054 thousand, i.e. by 17.12%. The increase in revenues from the sale of electricity from own production and turnover in 2019 compared to the previous year amounted to PLN 172,898 thousand. Higher revenues were achieved due to the increase in the energy sale price by 70.36 PLN / MWh, calculated as revenues from the sale of energy (own, from trading and system services) divided by the sales volume. At the same time, the volume

of electricity sales decreased - both sales of electricity from own production decreased by 0.36 TWh to 3.40 TWh, and sales of electricity from trading by 0.24 TWh to 0.84 TWh.

In 2019, higher revenues from the sale of heat energy were achieved by PLN 9,468 thousand. The reason for the increase in revenues was the higher price.

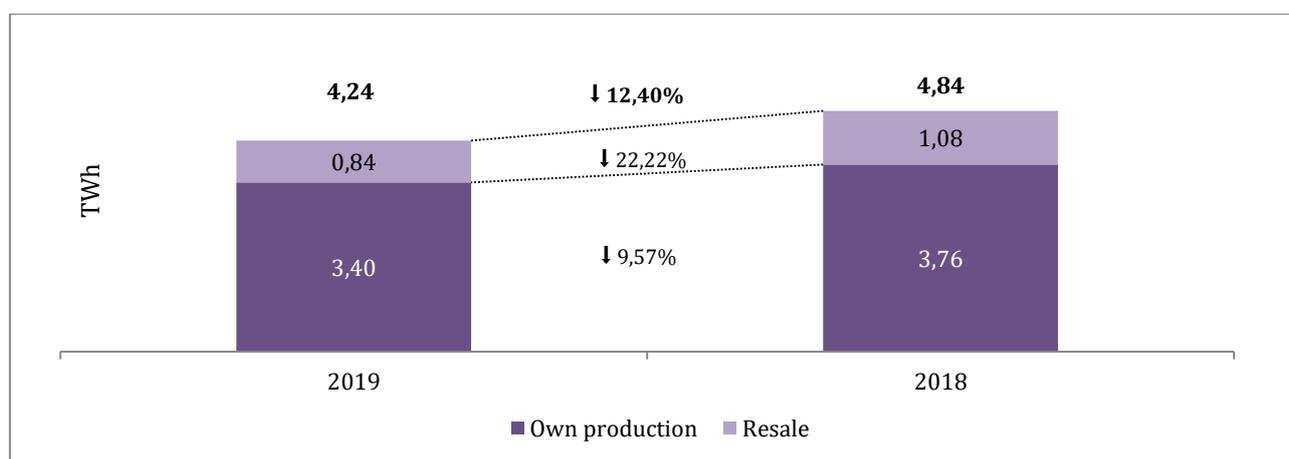
Revenues from the sale of property rights from certificates of origin of energy in 2019 amounted to PLN 54 681 thousand and compared to 2018 increased by PLN 8 698 thousand, i.e. 19.92%. The increase in revenues results from the sale of rights at higher prices than in the previous year.

The company generated higher revenues from sales of services by PLN 18,109 thousand, i.e. by 20.27%. The main reason for the increase in revenues was higher revenues related to services rendered to Elektrownia Państw II sp.z o.o. and additional support services provided by the company as part of a shared services center for entities of the Group.

Table 4: Specification of sales revenues

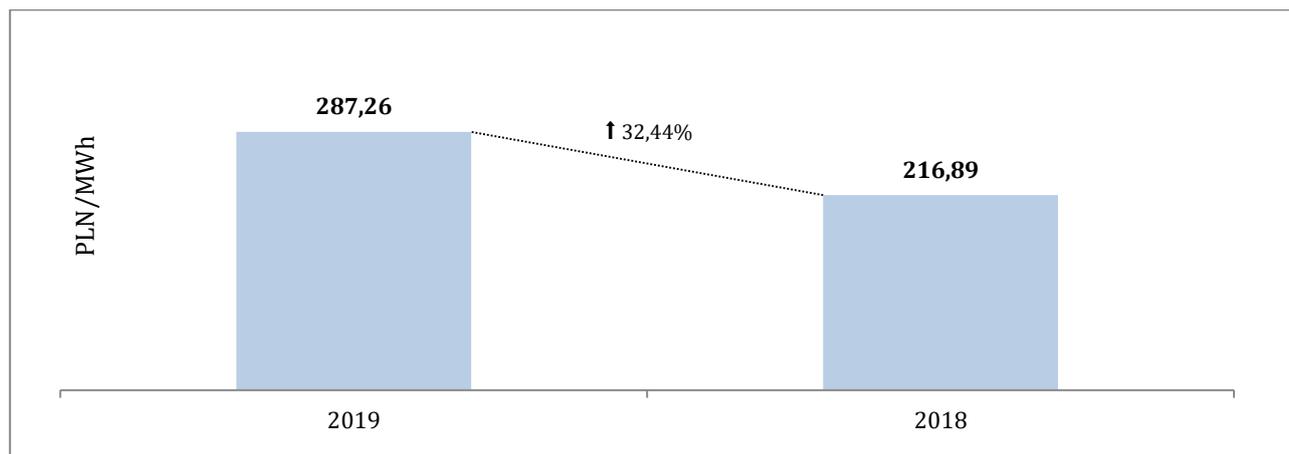
| | zloty thousand 12 months period ended 31 December 2019 | zloty thousand 12 months period ended 31 December 2018 | zloty thousand change | % dynamics |
|--|---|---|--------------------------|---------------|
| Revenues from the sale of products | 1 198 948 | 988 830 | 210 118 | 21,25 |
| Revenues from the sale of goods, including: | 1 091 493 | 899 484 | 192 009 | 21,35 |
| – Electricity | 990 570 | 816 727 | 173 843 | 21,29 |
| – Property rights from certificates of origin of energy | 54 681 | 45 983 | 8 698 | 18,92 |
| – Heat | 46 242 | 36 774 | 9 468 | 25,75 |
| Revenues from the sale of service | 107 455 | 89 346 | 18 109 | 20,27 |
| Revenues from the sale of goods and materials | 230 906 | 231 970 | (1 064) | (0,46) |
| Revenues from the sale of goods (electricity) | 228 489 | 229 434 | (945) | (0,41) |
| Revenues from the sale of materials | 2 417 | 2 536 | (119) | (4,69) |
| Revenues from the sale of products, goods and materials, including: | 1 429 854 | 1 220 800 | 209 054 | 17,12 |
| Electricity (goods and products) | 1 219 059 | 1 046 161 | 172 898 | 16,53 |

Chart 8: Sale of electricity



Source: Internal data

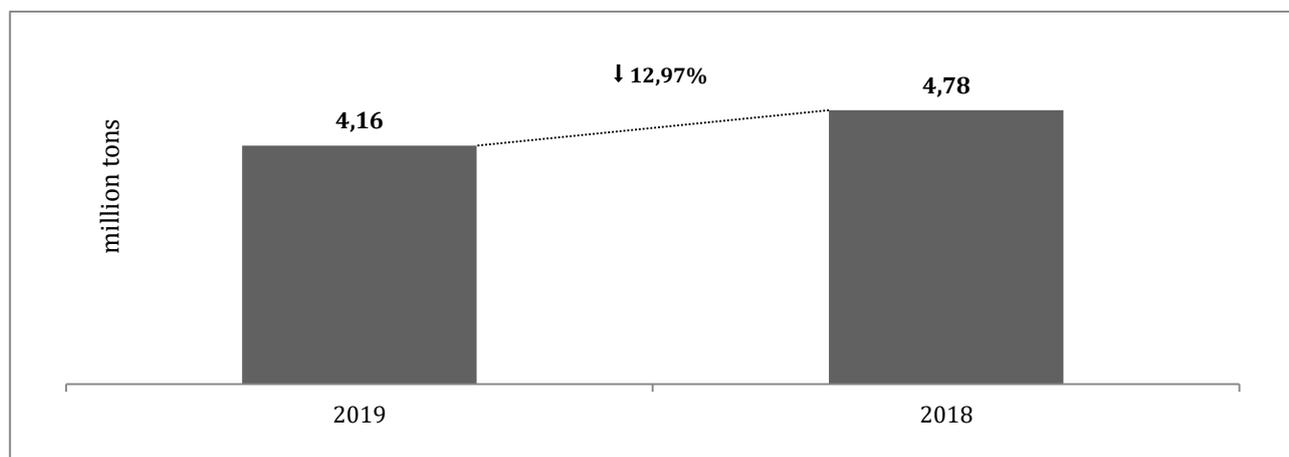
Chart 9: Average electricity prices *



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

Source: Internal data

Chart 10: CO₂ Emission



Source: Internal data

Table 5: Selected items from profit and loss account

| | zloty thousand 12 months period ended 31 December 2019 | zloty thousand 12 months period ended 31 December 2018 | zloty thousand change | % dynamics |
|---|---|---|--------------------------|---------------|
| Net products, goods and materials sales revenues, including: | 1 429 854 | 1 220 800 | 209 054 | 17,12 |
| – Net revenues of the products sales | 1 198 948 | 988 830 | 210 118 | 21,25 |
| – Net revenues resulting from the goods and materials sales | 230 906 | 231 970 | (1 064) | (0,46) |
| Costs of sold products, goods, and materials, including: | 1 292 902 | 1 269 021 | 23 881 | 1,88 |
| – Cost of manufacturing of the sold products | 1 102 335 | 1 063 870 | 38 465 | 3,62 |
| – Value of sold goods and materials | 190 567 | 205 151 | (14 584) | (7,11) |
| Gross profit (loss) on sales | 136 952 | (48 221) | 185 173 | - |
| Selling costs | 1 565 | 1 846 | (281) | (15,22) |
| Administrative costs | 47 887 | 50 112 | (2 225) | (4,44) |
| Sales profit (loss) | 87 500 | (100 179) | 187 679 | - |

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| | | | | |
|--|-----------------|------------------|----------------|----------------|
| Other operating revenues | 3 604 | 3 102 | 502 | 16,18 |
| Other operating costs | 132 689 | 47 568 | 85 121 | 178,95 |
| Profit (loss) on operating activities | (41 585) | (144 645) | 103 060 | (71,25) |
| Financial revenues | 81 963 | 132 976 | (51 013) | (38,36) |
| Financial costs | 13 151 | 94 523 | (81 372) | (86,09) |
| Gross profit (loss) | 27 227 | (106 192) | 133 419 | - |
| Income tax | 73 566 | (41 676) | 115 242 | - |
| Net profit (loss) | (46 339) | (64 516) | 18 177 | (28,17) |

The cost of manufacturing sold products in 2019 amounted to PLN 1 102 335 thousand and compared to 2018 was higher by PLN 38 465 thousand, i.e. by 3.62%. The increase in cost was mainly due to the higher price of CO₂ emission allowances purchased, which resulted in an increase in emission costs by PLN 30 131 thousand, i.e. by 8.99%, despite the decrease in the volume of emissions from 4.78 million tonnes to 4.16 million tonnes, i.e. by 12.97%.

The value of goods and materials sold in 2019 amounted to PLN 190,567 thousand and was lower compared to the previous year by PLN 14,583 thousand, i.e. by 7.11% as a result of a lower volume of energy purchased for resale.

Selling costs in 2019 amounted to PLN 1,565 thousand and were lower compared to the previous year by PLN 281 thousand, i.e. by 15.22%.

General and administrative expenses in 2019 amounted to PLN 47,887 thousand and were lower than those incurred in the previous year by PLN 2,225 thousand, i.e. by 4.44%.

A detailed analytical approach to operating costs is provided in Table 6.

Other operating revenues in 2019 amounted to PLN 3,604 thousand, i.e. at a level comparable with the previous year. However, other operating expenses increased significantly. In 2019, they amounted to PLN 132,689 thousand compared to PLN 47,568 thousand recorded in this item a year earlier. The significant increase in other operating expenses is largely the result of one-off events. They include: impairment loss on property, plant and equipment in the amount of PLN 109,000 thousand and impairment loss on fixed assets under construction in the amount of PLN 16,001 thousand. You can read more about the characteristics of one-off events in section 5.5. "Unusual factors and events affecting the achieved financial results" of this report.

In 2019, an operating loss of PLN 41,585 thousand was recorded.

Financial revenues in 2019 amounted to PLN 81,963 thousand and were lower than those recorded in the previous year by PLN 51,013 thousand, i.e. 38.36%. The main impact on the decrease of financial revenues was lower dividend inflows from subsidiaries.

Financial costs in 2019 amounted to PLN 13 151 thousand and compared to 2018 decreased by PLN 81 372 thousand, i.e. 86.09%. The reason for such a significant reduction in costs is the lack of one-off events in 2019 compared to 2018, when there was a write-down revaluating the value of shares in PAK KWB Adamów SA in the amount of PLN 79,359 thousand.

In 2019, the Company recorded a net loss of PLN 46,339 thousand.

Table 6: Operational costs

| | <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> |
|----------------------------------|---|---|--|-----------------------------|
| Depreciation | 38 593 | 38 801 | (208) | (0,54) |
| Use of materials and energy | 454 359 | 462 304 | (7 945) | (1,72) |
| External services | 139 907 | 133 780 | 6 127 | 4,58 |
| Taxes and charges, including: | 411 447 | 381 916 | 29 531 | 7,73 |
| – excise tax | 129 | 635 | (506) | (79,69) |
| – CO ₂ emission costs | 365 176 | 335 045 | 30 131 | 8,99 |
| Salaries | 79 679 | 76 313 | 3 366 | 4,41 |

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| | | | | |
|------------------------------------|------------------|------------------|---------------|-------------|
| Social security and other benefits | 19 143 | 18 337 | 806 | 4,40 |
| Other costs by type | 6 125 | 7 208 | (1 083) | (15,02) |
| Total costs by type | 1 149 253 | 1 118 659 | 30 594 | 2,73 |
| Value of sold goods and materials | 190 568 | 205 151 | (14 583) | (7,11) |
| Operational costs | 1 339 821 | 1 323 810 | 16 011 | 1,21 |

Balance sheet

The balance sheet total of the Company as at December 31, 2019 amounted to PLN 1,992,034 thousand, and compared to December 31, 2018, it decreased by PLN 159 963 thousand, i.e. by 7.43%.

Fixed assets decreased by PLN 225,754 thousand, i.e. 12.93%. The biggest changes occurred in the following items:

- intangible assets that decreased net by PLN 42,860 thousand as a result of settlement of CO2 emission allowances and non-acquisition of subsequent ones;
- property, plant and equipment, which decreased net by PLN 158 748 thousand, as a result of a write-off related to impairment of property, plant and equipment in the amount of PLN 109 000 thousand, a revaluation write-off of fixed assets under construction in the amount of PLN 16 001 thousand and a higher level of depreciation in relation to implemented investment outlays;
- long-term investments, which decreased by PLN 23,348 thousand, i.e. by 2.17%, as a result of repayment of a loan granted to a subsidiary.

Current assets increased by PLN 65 791 thousand, i.e. by 16.18%. The main factor in the increase in current assets was the increase in cash. In addition, due to the abandonment of the investment in Pańków power plant, some of the materials previously recognized as fixed assets under construction were reclassified as materials. At the same time, the position of short-term financial assets was reduced as a result of the total repayment of the loan granted to the subsidiary.

Equity as at December 31, 2019 amounted to PLN 1 292 048 thousand, compared to the end of 2018 it decreased by PLN 46 339 thousand, i.e. by 3.46%, which is the result of the net loss for 2019.

The level of provisions at the end of 2019 amounted to PLN 593,521 thousand and was higher than in the previous year by PLN 88 484 thousand. The largest increase took place in the item "deferred income tax provision" and was the result of making adjustments to income tax in accordance with the findings resulting from the report on tax proceedings towards the Company regarding the settlement of corporate income tax for 2014, including transfer prices. The correction caused a shift in the recognition of the tax cost related to the purchase of CO2 emission allowances.

Total liabilities at the end of 2019 compared to the end of 2018 decreased by PLN 201 688 thousand, including long-term liabilities decreased by PLN 59 101 thousand, and short-term liabilities decreased by PLN 142 587 thousand. The largest decrease in liabilities related to the "loans and borrowings" item and was related to the total repayment of the loan to finance the modernization of units at Pańków I Power Plant.

Table 7: Selected items from assets

| | <i>zloty thousand</i> | <i>zloty thousand</i> | <i>zloty thousand</i> | <i>%</i> |
|---|-------------------------|-------------------------|-----------------------|-----------------|
| | <i>31 December 2019</i> | <i>31 December 2018</i> | <i>change</i> | <i>dynamics</i> |
| Fixed assets | 1 519 635 | 1 745 389 | (225 754) | (12,93) |
| Intangible and legal assets | 2 195 | 45 055 | (42 860) | (95,13) |
| Tangible fixed assets, including: | 455 901 | 614 649 | (158 748) | (25,83) |
| 1. Fixed assets | 436 863 | 566 398 | (129 535) | (22,87) |
| 2. Fixed assets under construction | 17 478 | 48 251 | (30 773) | (63,78) |
| 3. Advances on fixed assets in construction | 1 560 | 0 | 1 560 | - |
| Long-term receivables | 0 | 0 | 0 | - |
| Long-term investments | 1 054 533 | 1 077 881 | (23 348) | (2,17) |
| Long-term accruals and prepayments | 7 006 | 7 804 | (798) | (10,23) |
| Current assets | 472 399 | 406 608 | 65 791 | 16,18 |
| Inventory, including: | 77 524 | 56 084 | 21 440 | 38,23 |
| 1. Materials | 52 628 | 35 094 | 17 534 | 49,96 |
| 2. The goods | 24 893 | 20 989 | 3 904 | 18,60 |

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| | | | | |
|--|------------------|------------------|------------------|---------------|
| 3. Advances for deliveries | 3 | 1 | 2 | 200,00 |
| Short-term receivables | 180 680 | 175 393 | 5 287 | 3,01 |
| Short-term investments | 213 818 | 174 807 | 39 011 | 22,32 |
| 1. Short-term financial assets, including: | 213 818 | 174 807 | 39 011 | 22,32 |
| – in the affiliates | 2 000 | 25 438 | (23 438) | (92,14) |
| – in other entities | 0 | 19 | (19) | (100,00) |
| – cash and other monetary assets | 211 818 | 149 350 | 62 468 | 41,83 |
| 2. Other short-term investments | 0 | 0 | 0 | - |
| Short-term accruals and prepayments | 377 | 324 | 53 | 16,36 |
| Unpaid share capital (basic) | 0 | 0 | 0 | - |
| Own shares | 0 | 0 | 0 | - |
| Total assets | 1 992 034 | 2 151 997 | (159 963) | (7,43) |

Table 8: Selected items from liabilities

| | zloty thousand | zloty thousand | zloty thousand | % |
|---|------------------|------------------|------------------|----------------|
| | 31 December 2019 | 31 December 2018 | change | dynamics |
| Equity | 1 292 048 | 1 338 387 | (46 339) | (3,46) |
| Stated capital | 101 647 | 101 647 | 0 | - |
| Supplementary capital | 1 124 377 | 1 124 377 | 0 | - |
| Revaluation capital | 227 466 | 227 466 | 0 | - |
| Other reserve capital | 3 472 | 3 472 | 0 | - |
| Profit (loss) from previous years | (118 575) | (54 059) | (64 516) | 119,34 |
| Net profit (loss) | (46 339) | (64 516) | 18 177 | (28,17) |
| Net write-offs during the financial year (negative value) | 0 | 0 | 0 | - |
| Liabilities and provisions for liabilities | 699 986 | 813 610 | (113 624) | (13,97) |
| Provisions for liabilities | 593 521 | 505 037 | 88 484 | 17,52 |
| 1. Deferred income tax provision | 112 842 | 37 523 | 75 319 | 200,73 |
| 2. Provisions for pensions and similar benefits. | 25 771 | 19 855 | 5 916 | 29,80 |
| 3. Other reserves | 454 908 | 447 659 | 7 249 | 1,62 |
| Long-term liabilities | 2 291 | 61 392 | (59 101) | (96,27) |
| 1. Towards related entities | 0 | 0 | 0 | - |
| 2. Towards other entities of which entity has capital engagement | 0 | 0 | 0 | - |
| 3. Towards other entities | 2 291 | 61 392 | (59 101) | (96,27) |
| – credits and loans | 0 | 58 900 | (58 900) | (100,00) |
| – other financial liabilities | 291 | 492 | (201) | (40,85) |
| – other | 2 000 | 2 000 | 0 | - |
| Short-term liabilities | 102 825 | 245 412 | (142 587) | (58,10) |
| 1. Towards related entities | 20 212 | 11 428 | 8 784 | 76,86 |
| 2. Towards other entities of which entity has capital engagement | 0 | 0 | 0 | - |
| 3. Towards other entities, including: | 78 092 | 229 850 | (151 758) | (66,02) |
| – credits and loans | 0 | 148 773 | (148 773) | (100,00) |
| – other financial liabilities | 1 694 | 364 | 1 330 | 365,38 |
| – due to supplies and services, with a maturity period: | 27 203 | 35 113 | (7 910) | (22,53) |
| on account of taxes, customs, social and health insurance and other public law titles | 41 377 | 38 141 | 3 236 | 8,48 |

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| | | | | |
|--------------------------|------------------|------------------|------------------|---------------|
| – remunerations | 3 905 | 3 299 | 606 | 18,37 |
| – other | 3 913 | 4 160 | (247) | (5,94) |
| 4. Special funds | 4 521 | 4 134 | 387 | 9,36 |
| Accruals and prepayments | 1 349 | 1 769 | (420) | (23,74) |
| Total liabilities | 1 992 034 | 2 151 997 | (159 963) | (7,43) |

Cash flow statement

In 2019, the company generated a positive balance of cash flows from operating activities in the amount of PLN 142 588 thousand. The balance of cash flows from operating activities in 2019 was higher by PLN 16,256 thousand compared to the corresponding balance in 2018.

The balance of cash operations from investing activities was positive and amounted to PLN 135,624 thousand. Compared to the previous year, it increased by PLN 40,218 thousand, mainly due to the proceeds related to repayment of the loan by the subsidiary Elektrownia Państw II sp.z o.o. and lower investment expenditure.

In 2019, as in 2018, no revenues were obtained in financial activities. Financial expenses amounted to PLN 215,739 thousand and were lower by PLN 29,200 thousand than last year. Higher expenses in 2018 were caused by the payment of dividends from the profit that was realized in 2017.

Cash in 2019 increased by PLN 62,473 thousand and at the end of the year amounted to PLN 211,818 thousand.

Table 9: Selected items of the 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 | | | | |
| Net profit (loss) | (46 339) | (64 516) | 18 177 | (28,17) |
| Total adjustments | 188 927 | 190 848 | (1 921) | (1,01) |
| 1. Depreciation | 38 593 | 38 801 | (208) | (0,54) |
| 2. Profits (losses) on foreign exchange rates | (1 265) | (1 340) | 75 | (5,60) |
| 3. Interest and shares in profits (dividends) | (71 297) | (116 495) | 45 198 | (38,80) |
| 4. Profit (loss) on investment activities | 123 645 | (888) | 124 533 | - |
| 5. Change in provisions | 423 198 | 323 062 | 100 136 | 31,00 |
| 6. Change in inventory | (5 604) | (14 467) | 8 863 | (61,26) |
| 7. Change in receivables | (15 287) | (26 949) | 11 662 | (43,27) |
| 8. Change in short-term liabilities, with the exception of loans and credits | (832) | (27 298) | 26 466 | (96,95) |
| 9. Change in accruals | 711 | 1 279 | (568) | (44,41) |
| 10. Other adjustments | (302 935) | 15 143 | (318 078) | - |
| Net cash flow from operating activities | 142 588 | 126 332 | 16 256 | 12,87 |
| Cash flows on investment activities | | | | |
| Income | 150 588 | 118 281 | 32 307 | 27,31 |
| 1. Disposal of intangible and legal assets as well as tangible assets | 13 324 | 66 | 13 258 | 20 087,88 |
| 2. From financial assets, including: | 137 264 | 118 215 | 19 049 | 16,11 |
| – in the affiliates | 137 226 | 118 133 | 19 093 | 16,16 |
| – in other entities | 38 | 82 | (44) | (53,66) |
| dividends and shares in profits | 38 | 82 | (44) | (53,66) |
| Expenses | 14 964 | 22 875 | (7 911) | (34,58) |
| 1. Acquisition of intangible and legal assets as well as tangible assets | 14 964 | 22 687 | (7 723) | (34,04) |
| 2. For own financial assets, including: | 0 | 188 | (188) | (100,00) |
| – in the affiliates | 0 | 188 | (188) | (100,00) |

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| | | | | |
|--|------------------|------------------|-----------------|----------------|
| Net cash flow from investment activities | 135 624 | 95 406 | 40 218 | 42,15 |
| Cash flows on financial activities | | | | |
| Income | 0 | 0 | 0 | - |
| Expenses | 215 739 | 244 939 | (29 200) | (11,92) |
| 1. Dividends paid and other payments to shareholders | 0 | 85 960 | (85 960) | (100,00) |
| 2. Repayment of credits and loans | 209 717 | 148 544 | 61 173 | 41,18 |
| 3. Payments of financial lease agreement liabilities | 155 | 191 | (36) | (18,85) |
| 4. Interest | 5 867 | 10 244 | (4 377) | (42,73) |
| 5. Other financial expenses | 0 | 0 | 0 | - |
| Net cash flow from financial activities | (215 739) | (244 939) | 29 200 | (11,92) |
| Total cash flow | 62 473 | (23 201) | 85 674 | - |
| Cash flow change in the balance sheet, including: | 62 468 | (23 195) | 85 663 | - |
| cash flow change related to foreign exchange rates | (5) | 5 | (10) | - |
| Cash opening balance | 149 345 | 172 546 | (23 201) | (13,45) |
| Closing balance of cash, including: | 211 818 | 149 345 | 62 473 | 41,83 |
| restricted cash | 8 137 | 2 833 | 5 304 | 187,22 |

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 decreased, which means that the level of reserves and liabilities decreased 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 0.96, which means that at the end of 2019, the liquidity situation improved compared to the end of 2018.

Tabela 10: Wskaźniki

| | | 2019 | 2018 | change | % dynamics |
|-------------------------|---|--------|--------|--------|------------|
| ROE | % | (3,59) | (4,82) | 1,23 | (25,52) |
| ROA | % | (2,33) | (3,00) | 0,67 | (22,33) |
| Net sales profitability | % | (3,24) | (5,28) | 2,04 | (38,64) |
| General debt index | x | 0,35 | 0,38 | (0,03) | (7,89) |
| Current liquidity index | x | 0,96 | 0,75 | 0,21 | 28,00 |

5.3. Significant off-balance sheet items

The description of significant off-balance sheet items is presented in Note 19 and 20 of the financial statements of the Company for 2019.

5.4. Expected financial situation

The financial statements of the ZE PAK SA have been prepared based on the assumption that the Company will continue as a going concern in the foreseeable future. The Company 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 Company.

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

- 1) The Company closed 2019 with a net loss of PLN (46 339) thousand. The amount of net loss was significantly affected by the result of impairment tests of property, plant and equipment in the amount of PLN 109,000 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 122,009 thousand, which means a significant improvement compared to the EBITDA result for 2018, at the level of minus PLN 105,844 thousand.
- 2) As at December 31, 2019, current liabilities, exceed the current assets of the Company by PLN 18,737 thousand, which means an improvement compared to the end of 2018 when the difference was PLN 146,065 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 Company's future functioning, including the assessment of the 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 Company's and other companies in the Group 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 Company'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 Pątnów IV and Drzewce fields. Without their extension, the exploitation period of Pątnów 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 Pątnów power plant – belonging to the Company as well as Pątnów II power plant belonging to the Group - 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 Company and other companies from the Group 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 the Company and other Group's companies.

An important task focusing the Company's attention is to improve the 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 Company 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 Company'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 Company'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 Company 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

² TGE message from the site www.tge.pl

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 Company acquires CO₂ emission allowances had in previous years and will continue to be of great importance for the future financial results of the Company. 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.

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 Company is the share of generating units belonging to the Company 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 Pątnów 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 Company'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 Company 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 Company'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 Company 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 Company 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 Company 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 ZE PAK SA in 2019 were affected by the following one-off events:

- 1) In connection with the results of the asset impairment test carried out in accordance with the requirements of the National Accounting Standard No. 4 "Impairment of assets", the Company decided to make an impairment write-off of property, plant and equipment in the center generating independent cash flows of CGU ZE PAK SA in the amount of 109 000 thousand zlotys. You can read more about the asset impairment test in the Company's financial statements in point 7 of the additional information and explanations to the financial statements.
- 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 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 Company, but it reduced the net result by PLN 125 001 thousand.

6. MANAGEMENT OF FINANCIAL ASSETS

6.1. Evaluation of financial assets management

The Company 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 Company executes 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. Transactions securing electricity sale prices and purchase prices of CO₂ emission allowances hedged for future periods are also important in the context of managing financial resources. Large fluctuations in these markets may necessitate an increase in the level of margins.

6.2. Evaluation of investment plan execution

The Company has its own development 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 Company takes 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 ZE PAK, 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 Company will make certain adjustments or significant changes to the strategy.

7. SIGNIFICANT FACTORS AND DEVELOPMENT PROSPECTS

Directional activities designated by the Company's strategy

Directions determined by the strategy of ZE PAK SA 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.

The Company directs its attention to the regulatory environment and technological progress, for broadly defined areas related to the Company'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 Company 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 Poland.

The broadly understood legislative framework determined by EU and Polish law directly affects the Company'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 Company. Coming into force from 2021, new environmental regulations resulting from the introduction of BAT conclusions (Best Available Technology) expand the catalogue of limited pollutants. The analyses carried out in cooperation with a renowned design office made it possible to assess the need to undertake investment activities to achieve compliance in the requirements and narrow the scope of the required deviations from the emission limit values. ZE PAK SA through investment activities and proper maintenance management on existing generating units and associated pollution reduction devices successively reduces the emissivity of the electricity produced.

Plans for the use of conventional power

1. Państw I Power Plant - two 222 MW power units each have been modernized and can function effectively until 2030. 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 Ościsłowo 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 Państw 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 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 | 3.04.2020 | 31.12.2019 | 3.04.2020 | 31.12.2019 |
| Zygmunt Solorz (inirectly) 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.

| <i>Name and surname</i> | <i>ZE PAK SA shares</i> | | <i>Affiliate shares</i> | |
|-------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | <i>quantity</i> | <i>face value</i> | <i>quantity</i> | <i>Face value</i> |
| 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.

| <i>Name and surname</i> | <i>ZE PAK SA shares</i> | | <i>Affiliate shares</i> | |
|-------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | <i>quantity</i> | <i>face value</i> | <i>quantity</i> | <i>Face value</i> |
| 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 Otworthy 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% |

* 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.

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 Szelaąg – Deputy of the Chairman,
- 3) Wojciech Piskorz – Secretary,
- 4) Henryk Sobierajski,
- 5) Leszek Wysocki,
- 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 Szelaĝ – Secretary,
- 4) Henryk Sobierajski,
- 5) Sławomir Sykucki,
- 6) Leszek Wysłocki,
- 7) Sławomir Zakrzewski,
- 8) Piotr Stępiak,
- 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 Szelaĝ – Secretary,
- 4) Sławomir Sykucki,
- 5) Leszek Wysłocki,
- 6) Sławomir Zakrzewski,
- 7) Piotr Stępiak,
- 8) Grzegorz Krystek.

The members of the Supervisory Board meeting the criteria of the independence are: Sławomir Zakrzewski, Piotr Stępiak 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 Szelaĝ.

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 Szelaĝ
- 3) Piotr Stępiak

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 Szelaĝ, 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 Stępniaĳ.

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.

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 Value of (gross) remuneration paid by the Company</i> | <i>zloty thousand Value of (gross) remuneration paid by the Company's subsidiaries</i> | <i>zloty thousand In total:</i> | <i>zloty thousand 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 Klapszta | 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>Total estimated value of non-cash benefits granted by the Company</i> | <i>zloty thousand</i> <i>Total estimated value of non-cash benefits granted by the Company's subsidiaries</i> | <i>zloty thousand</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.

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 Szelaąg | 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.

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 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 is a producer of electricity operating on the Polish market and an important element of national power engineering system. In accordance with the Company's Articles of Association, the Company's primary business is the generation and sale of electricity as well as the production and sale of heat. The company generates electricity from conventional sources and by burning biomass. The company operates mainly on the territory of the Republic of Poland. ZE PAK SA is operating on the basis of the integrated business model. With its own coal lignite mines, it extracts it and using mainly this fuel it is generating electricity and heat in power plants in the immediate vicinity of the mines.

The production assets of ZE PAK SA in 2019 included two power plants located in central Poland, in Wielkopolskie voivodship. These are Pątnów I and Konin power plants - equipped, among others in a block with a dedicated biomass fired boiler.

11.2. Social issues

Management approach

The policy and management approach of ZE PAK SA 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 generating operations in the units that belong to ZE PAK SA and dependent on the specifics of the particular object. Each time, the Company 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 Company's management approach to social issues is conditioned by the nature of its 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 to the risk (also understood as reputational or image risk).

The Company's influence on the environment is multidimensional. From the point of view of general public, ZE PAK SA is an important supplier of energy for the Polish economy and Polish society. Nevertheless, the final customers are not the main clients, the Company sells the vast majority of produced electricity on the wholesale stock market. For this reason, the ZE PAK SA aims at ensuring stable electricity supply at a competitive price. ZE PAK SA 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 Company's plants, where the production of electricity and heat is conducted. The production of electricity has an 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:

- emissions of compounds accompanying the combustion of coal, e.g. CO₂, SO₂, NO_x,
- dust emission,
- noise generation (e.g. due to the operation of power block turbines),
- waste generation (in the process of lignite combustion and flue gas cleaning),
- possible leaks of oil, mazout, acids, 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.

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 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.

ZE PAK SA may also be a welcome member of the community, due to significant direct and indirect economic impact. 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 Company paid over PLN 74.1 million (PLN 67.3 million in 2018), of which PLN 45.4 million (in 2018 it was over PLN 66.2 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 Company allocated remuneration and employee benefits to PLN 98.8 million in 2019 and PLN 94.6 million in 2018).

The management approach of ZE PAK SA concentrates mainly on ensuring production continuity and stability while ensuring at the same time the safety for natural and consequently social environment. 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 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, 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 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 Company'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

As an example, there can be given the periodical burdens, i.e. 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 Company 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 PR department performs press articles explaining the rules of exploitation of lignite open mines and reclamation of post-mining sites. The inhabitants of the nearest neighbourhood of the plant are often the Company'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.

ZE PAK SA 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 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 Company's goal is not to engage in spectacular projects to gain publicity, but to reach the nearest municipalities and non-governmental organizations from the region. 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 Pańków - 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 Pańków 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.

Associated business risk

Business risk that may have negative influence on the Company'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 |
| Total amount of taxes and para-taxes paid - altogether | PLN 74.1 m | PLN 67.3 m |
| Total amount of taxes and para-taxes paid – for local administration | PLN 45.4 m | PLN 66.2 m |

11.3. Employee issues

Management approach

In the area of human resources management, ZE PAK SA 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; Staff Council is also operating. The Unions are also operating in ZE PAK SA. In the matters specified by the law the management of ZE PAK SA informs and consults 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 Company complies with the labour law and requires proper behaviour in relations between the employees as well as between the employees and their superiors.

Corporate collective labour agreement, obligatory in ZE PAK SA in the reporting period, contains 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.

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 (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.

In 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, 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.

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 ZE PAK SA operates.

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 | 262 | 759 | 1021 | 157 | 739 | 896 |
| Work contract for an definite period | 3 | 1 | 4 | 2 | 2 | 4 |
| Work contract for a trial period | 0 | 0 | 0 | 0 | 0 | 0 |
| Civil-law agreement | 0 | 13 | 13 | 2 | 15 | 17 |

Chart 11: Percentage share of individual forms of employment by type of contracts

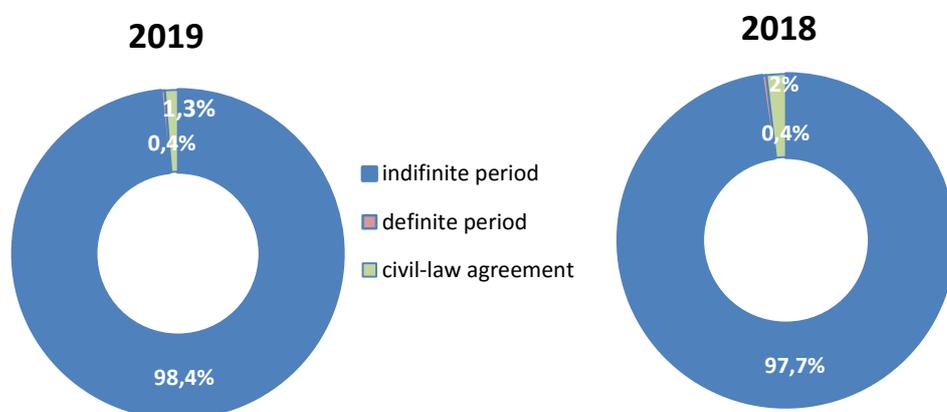


Table 20: Employment structure at the end of the year by type of position, education and age (in persons at the end of subsequent periods). The structure does not include the civil law agreement employees.

| | 2019 | | | 2018 | | |
|--|-------|-----|-------|-------|-----|-------|
| | women | men | total | women | men | total |
| <i>By type of position</i> | | | | | | |
| Managerial position | 30 | 63 | 93 | 20 | 43 | 63 |
| Non-managerial position | 235 | 697 | 932 | 139 | 698 | 837 |
| <i>By education</i> | | | | | | |
| Higher (bachelor, master, postgraduate, doctorate, professor) | 162 | 312 | 474 | 109 | 279 | 388 |
| Medium (high school, technical college, college, post-secondary) | 96 | 267 | 363 | 47 | 275 | 322 |
| Professional (basic, learning a profession) | 5 | 138 | 143 | 2 | 143 | 145 |
| Basic (elementary, junior high) | 2 | 43 | 45 | 1 | 44 | 45 |

| <i>By age</i> | | | | | | |
|--------------------|-----|-----|-------|-----|-----|-----|
| Up to 30 years old | 7 | 14 | 21 | 4 | 18 | 22 |
| 31 to 40 years old | 43 | 85 | 128 | 33 | 85 | 118 |
| 41 to 50 years old | 73 | 235 | 308 | 40 | 235 | 275 |
| Over 50 years old | 142 | 426 | 568 | 82 | 403 | 485 |
| Total | 265 | 760 | 1 025 | 159 | 741 | 900 |

Chart 12: Percentage share of particular age groups in the employment structure

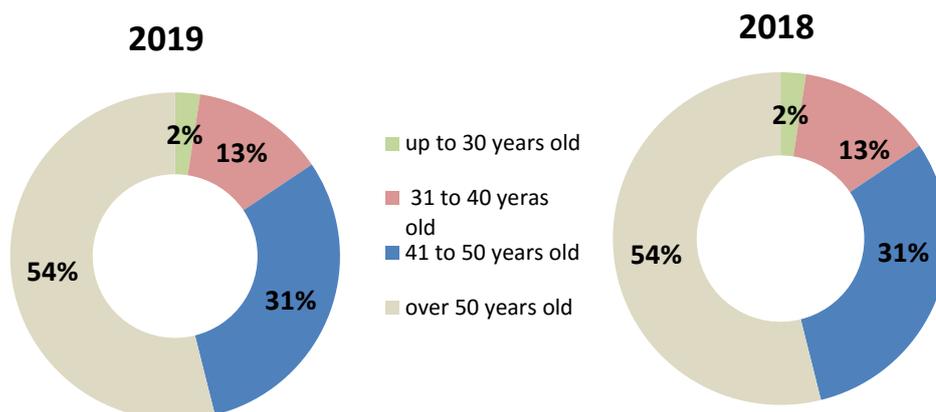


Table 21: Newly employed during the year (in persons in the given period)

| | 2019 | | | 2018 | | |
|--------------------|-------|-----|-------|-------|-----|-------|
| | women | men | total | women | men | total |
| Up to 30 years old | 4 | 3 | 7 | 1 | 1 | 2 |
| 31 to 40 years old | 17 | 8 | 25 | 5 | 1 | 6 |
| 41 to 50 years old | 37 | 34 | 71 | 1 | 0 | 1 |
| Over 50 years old | 82 | 57 | 139 | 0 | 3 | 3 |
| Total | 140 | 102 | 242 | 7 | 5 | 12 |

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 | 0 | 0 | 0 | 3 | 40 | 43 |
| 31 to 40 years old | 2 | 4 | 6 | 2 | 36 | 38 |
| 41 to 50 years old | 4 | 12 | 16 | 7 | 48 | 55 |
| Over 50 years old | 28 | 67 | 95 | 22 | 133 | 155 |
| Total | 34 | 83 | 117 | 34 | 257 | 291 |

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: | 1 | 2 |
| – Light | 1 | 2 |
| – Serious | - | - |
| – fatal | - | - |
| Number of lost days | 40 | 33 |
| Frequency ratio of injured in total accidents (per 1000 insured) | 1,6 | 2,0 |
| Frequency ratio of injured in serious and fatal accidents (per 1000 insured) | 0 | 0,246 |

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 | 49 | 43 |
| Dust | - | 59 |
| Insufficient lighting | 146 | 174 |
| Energy expenditure | - | - |
| Nuisance at work – night shift work | 477 | 537 |

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 system covering the environmental issues, relating to the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements and containing the environmental policies with particular procedures periodically reviewed and optimized. Certified management system as well as Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020 aims at providing stable and safe electricity production 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).

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. In case of producing electricity 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.

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 in recent years, the efficiency of generation (and thus the efficiency of fuel use) increased on this plant, and on the other hand, the emissivity decreased, including CO₂ mass per unit of electricity produced. Such approach also allowed reducing 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.

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.

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 Pańków 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 Pańków 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, Nox and dust emissions, the past year was quite specific for the Company. 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 - Mikołczyńskie). 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

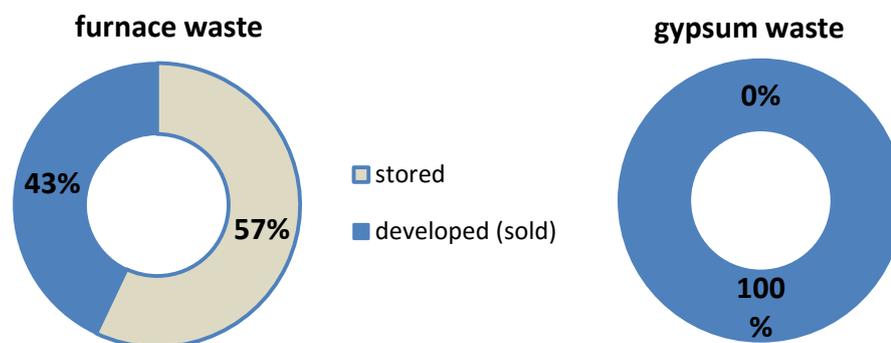
Wastewater generated in power plants is treated in factory sewage treatment plants and after obtaining parameters compliant with applicable regulations, it is discharged to the receivers. However, for many years, preventing lake water pollution, the power plants have been taking actions aiming at using 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 13: 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, Pałnów 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 Pałnów 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 Pałnów II sp. Z o.o. in 2019 noise measurements were taken from the area of Konin power plant and Pałnów 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 Pałnów 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: Pałnów I and Pałnów 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 Pałnów I is in the group of plants where increased risk of major industrial accidents may occur.

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 on the environment, it is important that the directions of the strategy implemented by the Company 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 per production unit | 1,07 | 1,11 |

Chart 14: CO₂ emission in ZE PAK SA Group per production unit (m of tons/TWh)

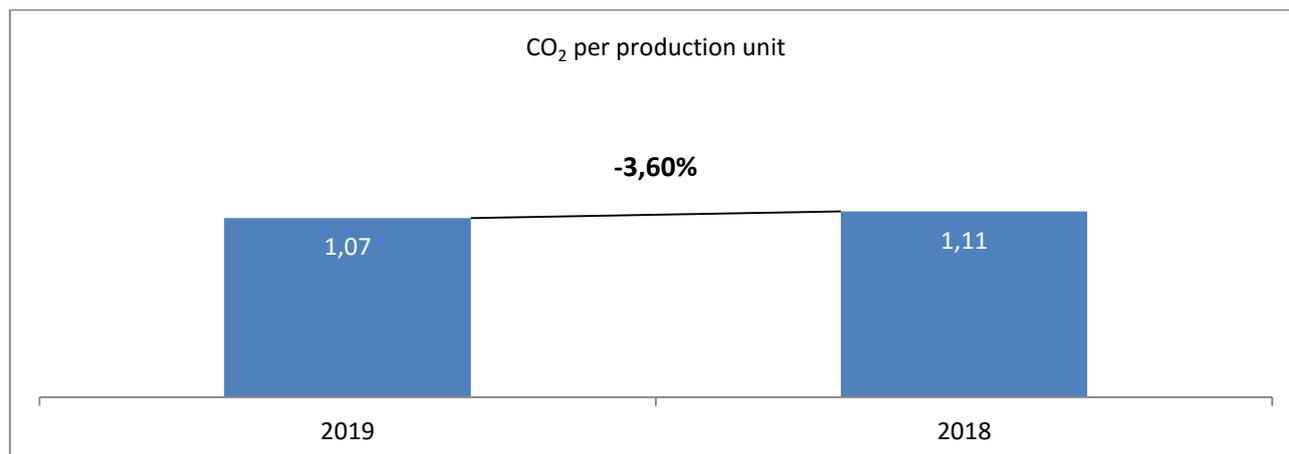


Table 27: SO₂, NO_x and dust emission to atmosphere (thousands of tons/TWh)

| | 2019 | 2018 |
|---|------|------|
| SO ₂ emission in ZE PAK SA per production unit | 0,82 | 0,92 |
| NO _x emission in ZE PAK SA per production unit | 1,34 | 1,46 |
| Dust emission in ZE PAK SA per production unit | 0,16 | 0,16 |

Chart 15: SO₂, NO_x and dust emission to the atmosphere per production unit (thousands of tons/TWh)

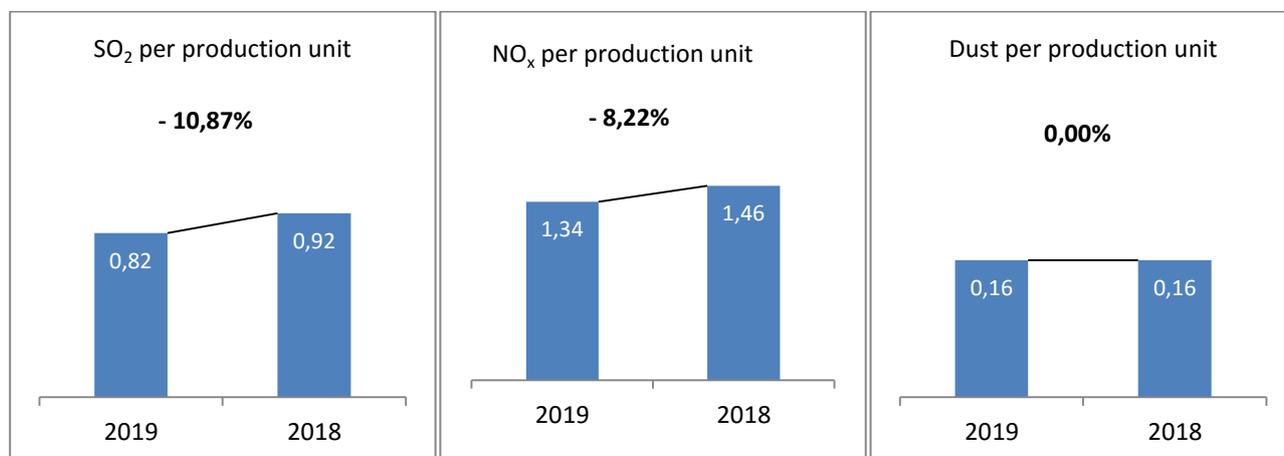


Table 28: Violation of environmental standards (%)

| Emitted amount resulting from exceeding the standards in relation to the total amount of emissions | 2019 | 2018 |
|--|------|------|
| SO ₂ | 0,00 | 0,00 |
| NO _x | 0,00 | 0,00 |
| Pyły | 0,00 | 0,00 |

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 Company, there is operating the Employees' Council selected on the basis of applicable regulations. There are also a number of trade union organizations operating under the Trade Unions Act. The Management Board of the Company informs and consults 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), in 2017 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 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 Company but also the national energy system.

Regarding the risk of disrespect for individual rights, such cases can not only expose ZE PAK SA 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 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 29: 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 | 2 |
| Unionization ratio | 56,29% | 55,78% |
| Number of collective disputes | 3 | 2 |
| 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 adopted in 2017 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 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.

Another aspect, worth attention while analysing the system of counteracting corruption is the internal system of inspection. "Rules of Internal Audit of Zespół Elektrowni Pańńów-Adamów-Konin SA" determines 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 ZE PAK SA 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 ZE PAK SA also regulate the issues of supplier selection. 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. 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.

The purchasing area is a 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, 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 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 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 30: 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 judiciary 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.

12.2. Significant achievements in the field of research and development

During the past year, the Company did not make significant financial expenditures on research and development works.

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 financial statements of the ZE PAK SA for 2019.

12.5. Financial forecasts

The Company 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.

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