

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

**OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR  
I QUARTER 2020**

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

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## 1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>3 months 2020 period from 01.01.2020 to 31.03.2020</i>	<i>3 months 2019 period from 01.01.2019 to 31.03.2019</i>	<i>3 months 2020 period from 01.01.2020 to 31.03.2020</i>	<i>3 months 2019 period from 01.01.2019 to 31.03.2019</i>
Sales revenue	524 074	695 131	119 208	161 741
Operating profit/loss	(23 074)	27 605	(5 249)	6 423
Profit/loss before tax	(5 648)	28 118	(1 285)	6 542
Net profit/loss for the period	(10 915)	12 010	(2 483)	2 794
Net profit attributable to equity holders of the parent	(10 346)	13 280	(2 353)	3 090
Total comprehensive income	(11 002)	11 691	(2 503)	2 720
Net cash flow from operating activities	(184 762)	(31 439)	(42 027)	(7 315)
Net cash flow from investing activities	2 489	3 435	566	799
Net cash flow from financing activities	85 604	(9 867)	19 472	(2 296)
Net increase / (decrease) in cash and cash equivalents	(96 669)	(37 871)	(21 989)	(8 812)
Net profit per share (in zloty/euro per share)	(0,20)	0,26	(0,05)	0,06
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 31.03.2020</i>	<i>As at 31.12.2019</i>	<i>As at 31.03.2020</i>	<i>As at 31.12.2019</i>
Total assets	3 316 790	3 118 246	728 597	732 240
Fixed assets	2 145 660	2 182 031	471 335	512 394
Current assets	1 171 130	936 215	257 261	219 846
Total equity	1 165 467	1 176 468	256 017	276 263
Share capital	101 647	101 647	22 329	23 869
Share capital attributable to equity holders of the parent	1 163 715	1 174 147	255 632	275 718
Total liabilities	2 151 323	1 941 778	472 579	455 977
Long-term liabilities	970 604	988 294	213 212	232 076
Short-term liabilities	1 180 719	953 484	259 368	223 901
Book value per share (in zloty/euro per share)	22,93	23,15	5,04	5,44
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP  
OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR I QUARTER 2020

<i>Selected financial data of ZE PAK SA</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>3 months 2020 period from 01.01.2020 to 31.03.2020</i>	<i>3 months 2019 period from 01.01.2019 to 31.03.2019</i>	<i>3 months 2020 period from 01.01.2020 to 31.03.2020</i>	<i>3 months 2019 period from 01.01.2019 to 31.03.2019</i>
Net revenues from sales of products, goods and materials	267 299	336 104	60 801	78 204
Operating profit/loss	(17 748)	39 956	(4 037)	9 297
Profit/loss before tax	1 709	37 575	389	8 743
Net profit/loss for the period	(3 662)	30 376	(833)	7 068
Net cash flow from operating activities	(198 136)	(122 007)	(45 069)	(28 388)
Net cash flow from investing activities	(1 087)	11 335	(247)	2 637
Net cash flow from financing activities	83 364	22 945	18 962	5 339
Net cash flow together	(115 859)	(87 727)	(26 354)	(20 412)
Net profit per share (in zloty/euro per share)	(0,07)	0,60	(0,02)	0,14
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>31.03.2020</i>	<i>31.12.2019</i>	<i>31.03.2020</i>	<i>31.12.2019</i>
Total assets	2 162 381	1 992 034	475 008	467 778
Fixed assets	1 874 022	1 519 635	411 665	356 847
Current assets	288 359	472 399	63 344	110 931
Equity	1 288 384	1 292 048	283 018	303 404
Share capital	101 647	101 647	22 329	23 869
Liabilities and provisions for liabilities	873 997	699 986	191 990	164 374
Long-term liabilities	2 136	2 291	469	538
Short-term liabilities	169 670	102 825	37 271	24 146
Book value per share (in zloty/euro per share)	25,35	25,42	5,57	5,97
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- *particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2020 to 31 March 2020, which is 4.3963 EUR/PLN and from 1 January 2019 to 31 March 2019, which is 4.2978 EUR/PLN;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 31 March 2020, which is 4.5523 EUR/PLN and as of 31 December 2019, which is 4.2585 EUR/PLN.*

## 2. DESCRIPTION OF THE GROUP

### 2.1. Basic information

As of 31 March 2020, ZE PAK Capital Group (hereinafter referred to as the “Group”, “Capital Group” the “ZE PAK SA Group”) is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as “ZE PAK SA” or “Company”) and nine subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the “PAK KWB Adamów SA”), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the “PAK KWB Konin SA”), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the “PAK SERWIS sp. z o.o.”), PAK Górnictwo sp. z o.o., PAK Infrastruktura sp. z o.o., PAK Adamów sp. z o.o., Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

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

The production facilities of the Group include three lignite-fired power plants located in the central part of Poland in Wielkopolskie voivodship. These are: Pątnów II – equipped with a supercritical power unit, Pątnów I and Konin – equipped additionally with power unit with a boiler dedicated to biomass firing. Total installed gross power output of the production facilities as at the date of this report is 1695 MW.

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

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

The structure of ZE PAK SA Group as at March, 31 2020 is presented at Picture 1.

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

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

## 2.2. Structure

Picture 1: Structure of the Group as of 31 March 2020

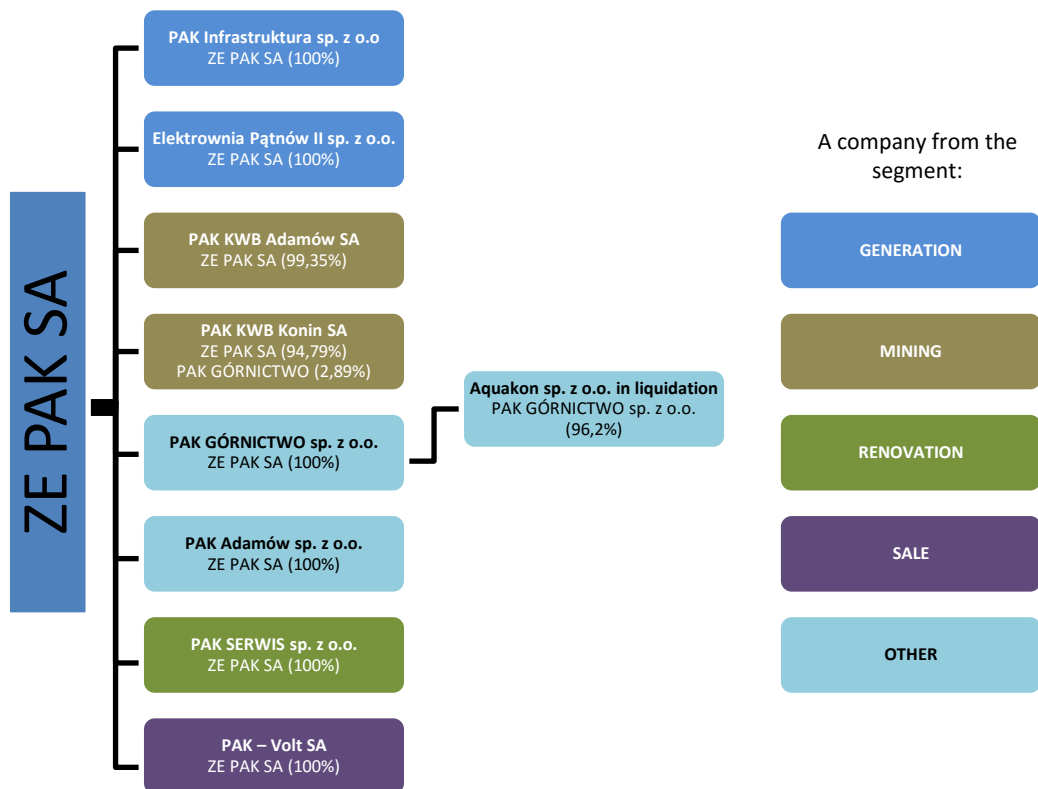


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			31.03.2020	31.12.2019
„Elektrownia Pątnów II” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution	100,00%	100,00%
PAK Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97,68%*	97,68%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%	100,00%
„PAK GÓRNICtwo” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Rail transport services, vulcanization services (conveyor belts), electrical services, drilling, mining, mechanical and reclamation services, repair and assembly services of equipment,	100,00%	100,00%
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK Infrastruktura” sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100,00%	100,00%
PAK Adamów sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100,00%	100,00%
„Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	96,2%*	96,2%*

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

## 2.3. Composition of the Management Board

The Management Board of the Company started 2020 with the following composition:

- 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.

On May 4, 2020, Mr. Henryk Sobierajski resigned from the membership in the Management Board of the Company and from the function of the President of the Management Board. On May 7, 2020, the Supervisory Board of ZE PAK SA entrusted Mr. Maciej Nietopiel - Vice President of the Management Board of the Company, with managing the work of the Management Board of the Company as acting President of the Management Board, until the appointment of a new President of the Management Board of ZE PAK SA. On June 22, 2020, the Supervisory Board of the Company appointed Mr. Henryk Sobierajski to the Management Board, entrusting him with the position of the President of the Management Board.

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

- 1) Henryk Sobierajski – President of the Management Board,
- 2) Zygmunt Artwik – Vice President of the 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.

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

In the first quarter of 2020 there were no significant changes in the structure of the Group.

# 3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

### Short description of the achieved financial results

In the first quarter of 2020, total sales revenues amounted to PLN 524 074 thousand and decreased by PLN 171 056 thousand, i.e. by 24.61% compared to the first quarter of 2019.

In the first quarter of the year, good weather conditions for wind energy and restrictions imposed on the economy, resulting from the state of the COVID-19 pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances, adversely affected the Group's ability to sell electricity. There was a 34.20% decrease in the total volume of electricity sales from own production and sales of purchased electricity. In the case of the sale of electricity from own production, the decrease was only 3.45%, and the decrease in the sale of purchased energy was as much as 65.22%. The net production volumes of the Group's individual power plants are presented in Figure 3. The decrease in electricity sales and the lower margins realized contributed to the deterioration of the Group's financial results compared to the results recorded in 2019.

In the first quarter of 2020, compared to the first quarter of 2019, revenues from the sale of property rights from energy origin certificates increased by PLN 4,965 thousand, i.e. 45.20%. The reasons for the increase in revenues were the higher volume of green energy production and the higher price of property rights.

Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in the first quarter of 2020 amounted to PLN 50 087 thousand (including an advance payment of PLN 24 042 thousand and an adjustment of PLN 26 045 thousand), while in the first quarter of 2019 they amounted to PLN 26 508 thousand (including the advance payment of PLN 24 186 thousand and correction of PLN 2 322 thousand). Almost twice the LTC revenue in the first quarter of 2020 is due to a significantly higher adjustment compared to the corresponding period of 2019. The high

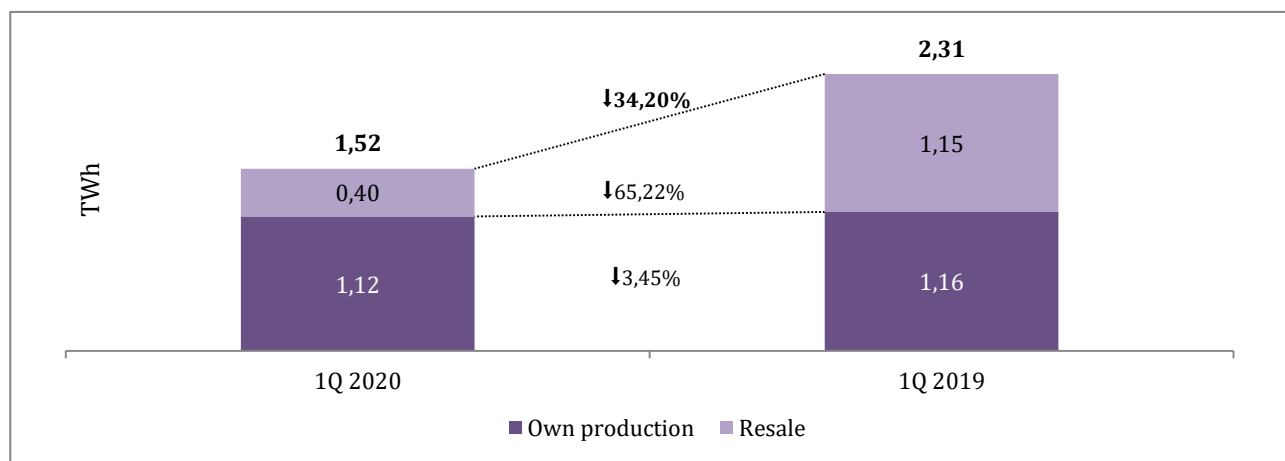
level of the adjustment is the result of a lower operating result compared to the first quarter of 2019 at Elektrownia Pańków II sp. z o.o., resulting from a lower profit on the sale of electricity.

Revenue from construction contracts in the first quarter of 2020 decreased by PLN 5 388 thousand, i.e. 45.16%, compared to the revenue earned in the corresponding period of the previous year. The decrease in revenues in the analyzed period was related to the implementation of projects with smaller material and financial scope by a company from the renovation segment PAK Serwis sp. z o.o.

Revenues from the sale of heat in the first quarter of 2020 amounted to PLN 16 321 thousand and were higher than in the first quarter of 2019 by PLN 480 thousand, i.e. 3.03%. The increase in revenues from the sale of heat resulted from a higher sales volume and price compared to the corresponding period of the previous year.

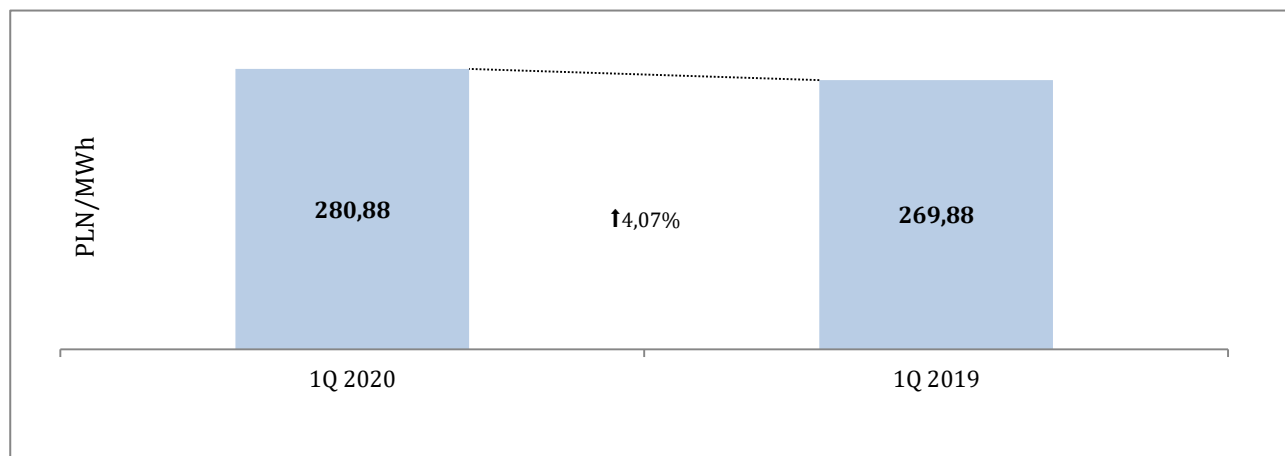
Cost of sales in the first quarter of 2020 amounted to PLN 503 128 thousand and decreased by PLN 136 641 thousand, i.e. by 21.36% compared to the first quarter of 2019. The decrease in the prime cost was mainly due to the decrease by PLN 142 861 thousand in the value of goods and materials sold, related to the smaller amount of electricity purchased and intended for trading. The only significant item that increased was the cost of CO2 emissions, higher by PLN 34 650 thousand, the increase of which is a result of an increase in the average EUA price by almost PLN 38.

Chart 1: Electricity sale



Source: Internal data

Chart 2: Average electricity prices \*

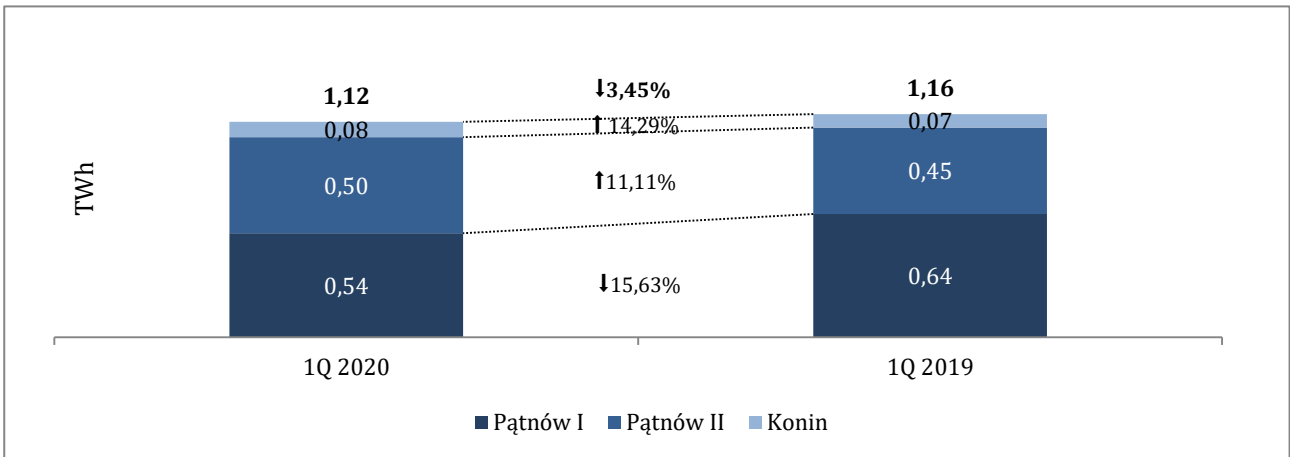


\* Average price, calculated as electricity sales revenues (own production, from resale and system service) divided by sales volume.

Source: Internal data

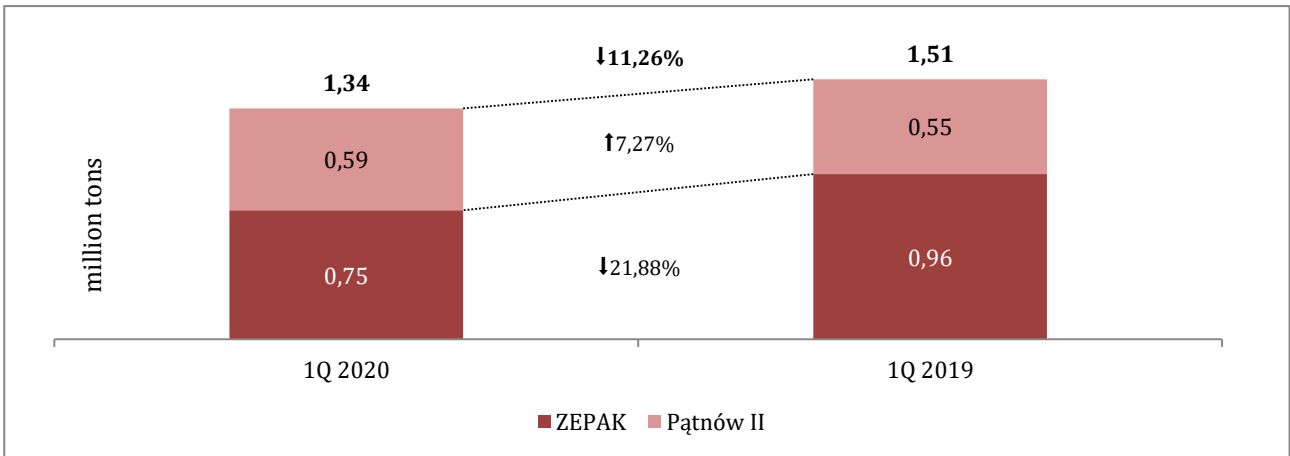


Chart 3: Net electricity production



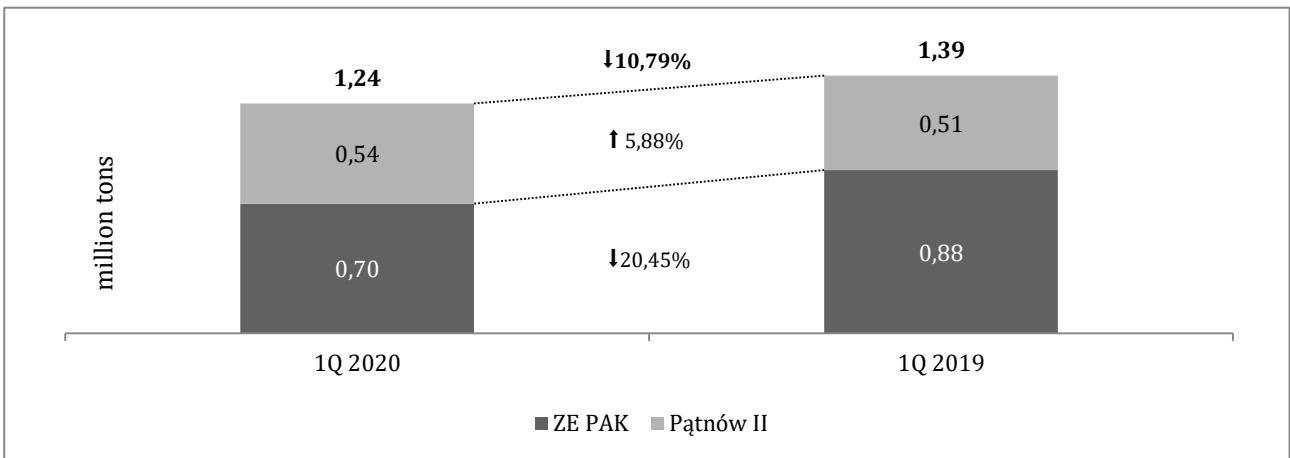
Source: Internal data

Chart 4: Lignite consumption



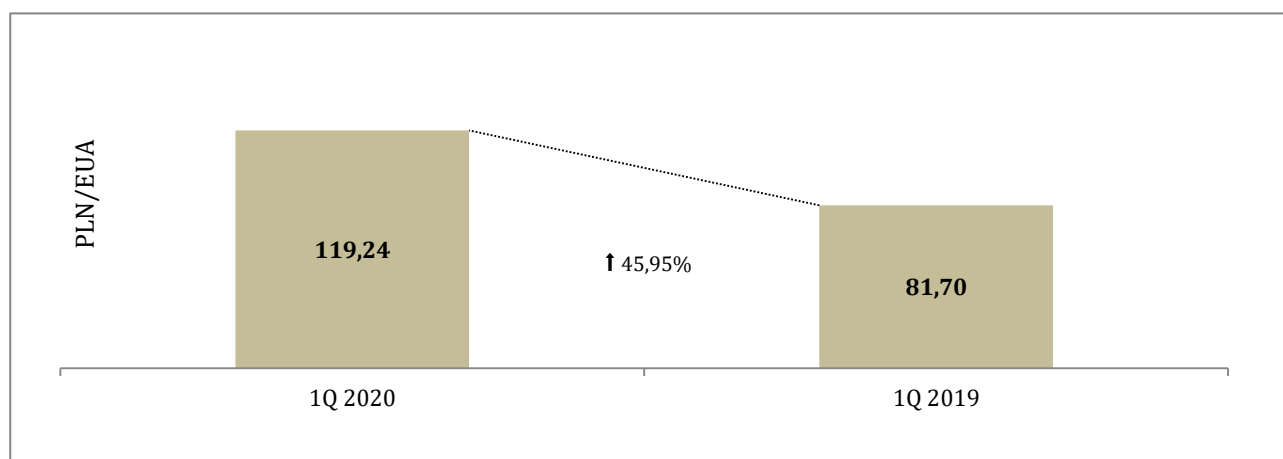
Source: Internal data

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



Source: Internal data

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



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

Source: Internal data

Table 2: List of consolidated sale revenues

	Zloty thousand 3 months period ended 31 March 2020	Zloty thousand 3 months period ended 31 March 2019	Zloty thousand change	% dynamics
Revenues from the sale of goods (reduced by excise duty), including:	451 495	645 708	(194 213)	(30,08)
– Revenues from the sale of electricity (own)	318 808	327 349	(8 541)	(2,61)
– Revenues from the sale of traded electricity	109 457	296 991	(187 534)	(63,14)
– Revenues from the sale of heat	16 321	15 841	480	3,03
– Other sale revenues	6 909	5 527	1 382	25,00
Revenues from contracts for construction services	6 543	11 931	(5 388)	(45,16)
Other revenues, including:	66 036	37 491	28 545	76,14
– Property rights on energy certificates of origin	15 949	10 984	4 965	45,20
– Compensation for termination of LTC	50 087	26 507	23 580	88,96
<b>Total sale revenues</b>	<b>524 074</b>	<b>695 130</b>	<b>(171 056)</b>	<b>(24,61)</b>

Table 3: Selected items of the consolidated income statement

	Zloty thousand 3 months period ended 31 March 2020	Zloty thousand 3 months period ended 31 March 2019	Zloty thousand change	% dynamics
<b>Sales revenues</b>	<b>524 074</b>	<b>695 131</b>	<b>(171 057)</b>	<b>(24,61)</b>
Prime cost	(503 128)	(639 769)	(136 641)	(21,36)
Gross sales profit (loss)	20 946	55 362	(34 416)	(62,17)
Other operating revenues	6 112	4 666	1 446	30,99
Cost of sales	(1 112)	(1 873)	(761)	(40,63)
General and administrative expenses	(29 103)	(30 118)	(1 015)	(3,37)
Other operating costs	(19 917)	(432)	19 485	4 510,42
<b>Profit (loss) from operating activities</b>	<b>(23 074)</b>	<b>27 605</b>	<b>(50 679)</b>	<b>-</b>
Financial revenues	21 968	8 240	13 728	166,60
Financial costs	(4 542)	(7 727)	(3 185)	(41,22)

<b>Gross profit (loss)</b>	<b>(5 648)</b>	<b>28 118</b>	<b>(33 766)</b>	<b>-</b>
Income tax (tax load)	(5 267)	(16 108)	(10 841)	(67,30)
<b>Net profit (loss)</b>	<b>(10 915)</b>	<b>12 010</b>	<b>(22 925)</b>	<b>-</b>
Net other comprehensive income	(87)	(319)	(232)	(72,73)
<b>Comprehensive income</b>	<b>(11 002)</b>	<b>11 691</b>	<b>(22 693)</b>	<b>-</b>
<b>EBITDA*</b>	<b>15 696</b>	<b>74 294</b>	<b>(58 598)</b>	<b>(78,87)</b>

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

Table 4: Consolidated costs by type

	Złoty thousand 3 months period ended 31 March 2020	Złoty thousand 3 months period ended 31 March 2019	Złoty thousand change	% dynamics
Depreciation	38 770	46 922	(8 152)	(17,37)
Impairment losses on property, plant and equipment, intangible assets and mining assets	-	(233)	233	-
Impairment write-downs on inventory	1 596	1 858	(262)	(14,10)
Consumption of materials	72 707	81 134	(8 427)	(10,39)
Outsourcing	20 376	17 599	2 777	15,78
Taxes and fees excluding excise tax	41 074	42 582	(1 508)	(3,54)
Costs of CO <sub>2</sub> emissions	147 436	112 786	34 650	30,72
Costs of employee benefits	99 218	104 650	(5 432)	(5,19)
Other costs by type	4 418	5 461	(1 043)	(19,10)
Value of sold goods and materials and sold traded electricity	114 520	257 381	(142 861)	(55,51)
<b>Total costs by type</b>	<b>540 115</b>	<b>670 140</b>	<b>(130 025)</b>	<b>(19,40)</b>

Other operating income in the first quarter of 2020 amounted to PLN 6 112 thousand and was higher by PLN 1 446 thousand than in the corresponding period of the previous year.

Selling costs in the first quarter of 2020 amounted to PLN 1,112 thousand and were lower by PLN 761 thousand than in the corresponding period of the previous year.

General and administrative expenses in the first quarter of 2020 amounted to PLN 29 103 thousand and were lower than incurred in the same quarter of the previous year by PLN 1 015 thousand, i.e. 3.37%. The decrease was mainly due to lower employee costs.

Other operating expenses in the reporting quarter amounted to PLN 19 917 thousand and increased by PLN 19 485 thousand compared to the first quarter of the previous year, mainly due to the recognition of PLN 18 789 thousand in costs due to the settlement of term purchases of CO<sub>2</sub> emission allowances at a significantly higher NBP exchange rate on the settlement date in relation to the valuation rate as of December 31, 2019.

In the first quarter of 2020, ZE PAK SA Group incurred an operating loss of PLN 23 074 thousand. In the same period of last year, a profit of PLN 27 605 thousand was recorded.

In the first quarter of 2020, the achieved results were positively affected by the positive result on financial activities in the amount of PLN 17 426 thousand, which was mainly due to positive exchange differences in the amount of PLN 16 586 thousand on forward contracts for the purchase of euro against the settlement of forward contracts for the purchase of CO<sub>2</sub> emission allowances. In the same period of last year, the impact of the financial result increased the result by only PLN 513 thousand.

The high result on financial activities did not compensate for the loss on operating activities, and as a result, the Group incurred a gross loss of PLN (5 648) thousand in the first quarter of 2020, compared to the gross profit recorded in the first quarter of 2019.

The net loss in the first quarter of 2020 amounted to PLN 10 915 thousand, compared to the net profit for the first quarter of 2019 of PLN 12 010 thousand.

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

In the first quarter of 2020, no unusual events were noted that had a significant impact on assets, liabilities, equity, net financial result or cash flows.

### **Implementation of investment projects**

In the first quarter of 2020, ZE PAK SA Group started the implementation of a large investment project, which is the adaptation of K-7 coal boiler at Konin power plant for the exclusive combustion of biomass along with the necessary technical infrastructure. Moreover, investment activity also focused on the implementation of the necessary tasks aimed at ensuring the maintenance of current efficiency and more effective use of the mining and production assets held. The capital expenditure spent in the first quarter of 2020 related to the preparation and implementation of tasks necessary for the current operation.

#### ***ZE PAK SA key investments in the implementation phase***

##### 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 the existing biomass unit no. 1.

On March 27, 2020, a contract was concluded for the implementation of the subject of the contract "Design and conversion of K-7 boiler into a fluidized bed boiler operating in the BFB technology" in the "turnkey" formula as part of the project entitled "Adaptation of K-7 coal boiler at Konin Power Plant for the exclusive combustion of biomass with the necessary technical infrastructure" with an 18-month deadline. The contractor for the adaptation of K7 boiler for biomass combustion is Valmet Technologies Oy based in Espoo Finland.

The contracted scope of work includes adaptation of the existing single-pipe, pulverized coal, coal-fired boiler No. K-7, located on the premises of Konin power plant, to a fluidized bed boiler of the BFB type with a stationary, bubble fluidized bed. It is assumed that K-7 boiler will operate mainly with a condensing turbine TG-5 for electricity production and with a heat turbine TG-4 in the event of switching off the main heat source, i.e. the existing biomass block. After the conversion of K-7 boiler, approximately 100 MWe (2x50 MWe) of power will be available at Konin Power Plant, using biomass as the primary fuel. This source (K-7 boiler) fired with biomass has had a contract for a 17-year period of participation in the Capacity Market since 2024.

An agreement was concluded with PAK Serwis Konin and the dismantling of boiler elements that will not be used for the new technological system related to biomass combustion has started.

#### ***ZE PAK SA key investments in the preparatory phase***

the Company carried out design works related to two new investment projects:

- construction of a photovoltaic farm in the reclaimed areas of Adamów mine, which are located in the area of Brudzew commune near Janiszew,
- construction of a hydrogen production plant with associated infrastructure at Konin power plant.

##### 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 (power generation 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. An application has also been filed to obtain a building permit for the power evacuation system with cable connections.

### Construction of a hydrogen production plant

At present, a program and spatial concept has been developed for the hydrogen production plant, the target capacity of which is to be 20 tons of H<sub>2</sub> / day. In the next step, an environmental impact report for the project will be prepared and an environmental decision will be obtained.

Hydrogen will be produced in the water electrolysis process using renewable energy sources. The basic source of primary energy will be biomass, the transformation of which into electricity, in a dedicated installation, will power the electrolysis plant. The implementation of this task will allow for zero-emission production of the so-called "Green hydrogen".

The first step towards building a hydrogen plant at the Konin Power Plant was the conclusion on April 9, 2020 of a contract with Hydrogenics Europe N.V. Belgium to purchase an electrolyser that will initially produce hydrogen in the amount of 1000 kg H<sub>2</sub> / day. At a later stage, thanks to the modular construction of the hydrogen plant and preparation of infrastructure for target production, it is planned to expand the installation to the target production volume, i.e. 20 tons of H<sub>2</sub> / day.

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

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

In the first quarter of 2020, the first cases of COVID-19 disease caused by the SAR-CoV-2 virus were reported in many European countries. In Poland, the first case of infection was confirmed on March 4. In connection with the emergence of subsequent infections, in March in Poland a pandemic was declared and strict sanitary rules and restrictions on certain types of economic activity were introduced. At the same time, the Polish government introduced a package of solutions (anti-crisis shield) to protect citizens and entrepreneurs from the effects of the crisis caused by the pandemic. Currently in Poland the process of lifting the introduced restrictions is being carried out in stages. However, there are still outbreaks of infections, hence the further development of the situation is difficult to predict.

It should be expected that the effects of the pandemic and the measures taken to counteract it will have a significant impact on the economic situation in Poland and will lower GDP growth, as well as the level of industrial production and investments, contributing to a reduction in domestic electricity consumption, and thus influencing the reduction of its production. The increased level of volatility in the financial and commodity markets, including the changing price relationships on individual markets (in particular electricity prices and carbon dioxide emission allowances), is also of great importance for the Group. Dynamic changes in prices on commodity markets, primarily on the main market, which is the crude oil market, have an indirect impact on other goods related to the broadly understood energy sector, e.g. gas and electricity prices, and indirectly also carbon dioxide emission allowances. The Group is not able to precisely estimate the impact of increased volatility on the energy commodity markets, however, the risk related to increased volatility should be considered as key in the process of forecasting the Group's potential future financial results and its financial condition.

In the first quarter of the year, incl. Good weather conditions for wind energy and the restrictions imposed on the economy resulting from the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was a 34.20% decrease in the total volume of electricity sales from own production and sales of purchased electricity. In the case of the sale of electricity from own production, the decrease was only 3.45% and the decrease in the sale of purchased energy was as much as 65.22%. The decrease in electricity sales and the realized lower margins had a negative impact on the financial results achieved in the Group. In addition, the increased volatility of prices of carbon dioxide emission allowances resulted in the need for companies in the Group producing electricity to provide additional security for the concluded futures purchase of emission allowances, which may affect the liquidity situation. In order to minimize the impact of establishing collaterals on liquidity, efforts are made to replace the deposits securing the current positions with non-cash instruments as far as possible.

In connection with COVID-19, the Management Board appointed a team to monitor the situation and prevent the negative effects of the pandemic. The team's tasks include proposing organizational changes to protect employees and at the same time guarantee the continuity of production.

In view of the deterioration of the situation in the field of sales and trade in electricity caused by the effects of the pandemic, agreements were signed with trade unions on a temporary reduction in working time and a symmetrical

reduction of employee benefits by 5% in June, July and August in ZE PAK SA, Elektrownia Pątnów II Sp. z o.o. and PAK-Volt SA.

### ***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 and Elektrownia Pątnów II sp. z o.o. signed agreements to open a guarantee line at Bank Pekao SA for the amount of PLN 50 and 30 million respectively. The lines allow 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.

### ***Contract for the purchase of an electrolyser for the production of "green" hydrogen***

On April 9, 2020 the Company signed a contract with Hydrogenics Corporation for the purchase of an electrolyser for hydrogen production. The solutions used by Hydrogenics will allow ZE PAK not only to produce "green" hydrogen, but also to store and increase its production by simply "adding" more electrolysers - depending on the demand and the rate of evolution of the economy towards low-carbon.

### ***Contract regarding the dismantling of facilities at Adamów Power Plant***

On May 6, 2020 there was signed a contract with MK Explosion Sp. z o.o., the subject of which is the dismantling of facilities and preparation of the site at Adamów Power Plant for potential new investments.

Pursuant to the concluded Contract, a lump-sum remuneration in cash, in the amount of PLN 57.5 million, payable by MK Explosion Sp. z o.o. to ZE PAK SA, was established for performing the entire subject of the Contract. Settlement of the implementation of the subject of the Contract will be carried out by revenues from the sale of scrap metal, debris and other materials and equipment from dismantling. The deadline was set at 21 months from the day of handing over the dismantling area.

### ***Obtaining a derogation from the emission limit values for Pątnów II Power Plant***

On May 11, 2020 Elektrownia Pątnów II Sp. z o.o., operating a fuel combustion installation, received from Marshal of Wielkopolska Province a decision on the adaptation of the integrated permit to the requirements of the BAT conclusions, granting derogations from the emission limits specified in the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 laying down conclusions on best available techniques (BAT) for large combustion plants, in accordance with Directive 2010/75 / EU of the European Parliament and of the Council, in the field of emissions of nitrogen oxides, dust, mercury and sulfur dioxide into the air, from August 18, 2021 to August 17, 2024. The authority made the decision immediately enforceable.

### ***Changes in the Supervisory Board***

Already after the end of the first quarter of 2020, there were changes to the Supervisory Board and the Management Board of the Company. A description of changes in the Management Board can be found in point 2.3. of this report. In the Supervisory Board, however, as of May 25, 2020, the current Chairman, Mr. Wojciech Piskorz, resigned from the Supervisory Board.

The company also received the resignation of Mr. Piotr Stępiak and Mr. Sławomir Sykucki from acting as a Member of the Supervisory Board of ZE PAK SA with effect as of the date of the Ordinary General Meeting of Shareholders for the financial year 2019, i.e. 19 June 2020.

On June 19, 2020, three new members of the Supervisory Board were appointed at the Ordinary General Meeting of the Company. On June 22, the Supervisory Board appointed the Chairman of the Supervisory Board from among its members.

As at the date of publication of this report, the composition of the Supervisory Board is as follows:

- 1) Piotr Woźny – Chairman of the Supervisory Board,
- 2) Wiesław Walendziak – Vice Chairman of the Supervisory Board,
- 3) Tomasz Szeląg – Secretary of the Supervisory Board,
- 4) Leszek Wysocki,
- 5) Sławomir Zakrzewski,
- 6) Grzegorz Krystek,
- 7) Maciej Stec,
- 8) Alojzy Z. Nowak.

#### ***Situation in PAK KWB Adamów SA***

The market situation for a long time, now additionally strengthened by the consequences of the pandemic, does not allow the Group to sell the assumed volume of energy production. As a result, the potential in the upstream segment is too high in relation to the sales potential on the energy market. The consequence of such a situation is a disproportionately high cost base associated with the need to maintain the oversized potential in the upstream segment. The Group currently operates on four lignite mines, of which the unit costs of coal delivery to the power plant (understood as costs of extraction and transport) are the highest at Adamów open pit. In connection with the above-mentioned situation, it turned out to be necessary to carry out restructuring activities aimed at optimization of the scale and directions of coal supplies from individual open pits to the Group's power plants. On May 18, 2020, the Company announced in a current report its intention to carry out group layoffs in two subsidiaries: PAK KWB Adamów SA and PAK Górnictwo sp. z o.o. Collective layoffs are to affect 237 employees in total. The current plans provide for the removal of the overburden on Adamów open pit by the end of July 2020, which will enable an uninterrupted supply of coal from this open pit until the end of 2020. The future exploitation of this open pit will be determined by market factors, including, to the greatest extent, the possibility of selling the assumed energy volume at prices that guarantee the economic efficiency of maintaining the potential of Adamów open pit.

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

Zespół Elektrowni Pątnów - Adamów - Konin SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the first quarter of 2020, whose single or total value would exceed 10% of ZE PAK SA's equity with the exception of those described below.

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

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at Tomisławice deposit was granted, infringes the regulations of the law in a major manner.

PAK KWB SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court overturned the contested decision of the Provincial Administrative Court in Poznań and referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from Tomisławice open pit by PAK KWB SA. On 7 January 2013, PAK KWB Konin SA submitted a cassation appeal from the described decision.

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

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

The decision of the Local Government Appeal Court in Konin, means that the environmental decision issued by the Head of Wierzbinek Commune is still in legal circulation. The decision is not final. The parties have the right to submit an application for reconsideration of the case by the Local Government Appeal Court in Konin.

On June 19, 2020 the Company received information on the issuance, in closed session by the Provincial Administrative Court in Poznań, of a judgment dismissing the complaint against the decision of the Local Government Appeals Board in Konin regarding refusal to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune associated with the exploitation of the lignite mine Tomisławice.

The judgment of the Provincial Administrative Court in Poznań, dated June 18, 2020, means that the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune, is still in legal circulation. PAK KWB Konin SA is awaiting delivery of the judgment together with the justification. The parties have the right to lodge a cassation complaint to the Supreme Administrative Court.

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

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

PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration.

On November 21, 2018, RDOŚ in Poznań issued a notice in which it informed the parties to the proceedings that due to the final verdict of the Provincial Administrative Court in Warsaw of October 18, 2018, no proceedings were pending before RDOŚ in Poznań, and the evidence was collected GDOŚ in Warsaw. On November 22, 2018, GDOŚ in Warsaw issued a notice in which it announced that in connection with the repeal of the GDOŚ decision of November 30, 2017 by the Provincial Administrative Court in Warsaw repealing the decision of RDOŚ in Poznań of March 10, 2017



refusing to specify the environmental conditions for the implementation of the project consisting in: Lignite mining and accompanying minerals from Ościsłowo open pit and referring the case for reconsideration to the authority of first instance - the General Director for Environmental Protection again conducts an appeal against the above decision. On January 3, 2020, GDOŚ in Warsaw set the deadline for settling the matter for June 30, 2020. On June 26, 2020, PAK KWB Konin SA applied for an extension of the deadline for the preparation of answers to questions submitted by GDOŚ in Warsaw until December 31, 2020. PAK KWB Konin SA justified its request with the consequences of the regulations announced in March following the pandemic, introducing a number of bans and restrictions, including restrictions on transport, which made it difficult to prepare supplements and clarifications to the questions of GDOŚ in Warsaw.

## 5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

Share capital of ZE PAK is represented by 50 823 547 shares. Shares are ordinary. Each share gives right to one vote at General Meeting of Shareholders.

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

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

Shareholder	pcs Number of shares and corresponding number of votes at the General Meeting	% Share [%] in the total number of shares/votes
<b>Zygmunt Solorz (indirectly) through:</b>	<b>32 222 904</b>	<b>63,40</b>
– Elektrim SA	196 560	0,39
– Embud 2 sp. z o.o. S.K.A.	592 533	1,16
– Argumenol Investment Company Limited	31 433 811	61,85
<b>Nationale – Nederlanden OFE</b>	<b>4 503 242</b>	<b>8,86</b>
<b>OFE PZU „Złota Jesień”</b>	<b>4 635 719</b>	<b>9,12</b>

The 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 quarterly report differs from the corresponding list as at the date of submitting the last periodic report. This difference results from the change in the share of Argumenol Investment Company Limited in the period from March 30 to June 17, 2020 as part of transactions concluded on the regulated market of the Warsaw Stock Exchange, in total 1 065 990 shares of the Company, representing approximately 2.09% of the share capital of the Company and entitling to 1 065 990 votes at the general meeting of the Company, constituting approx. 2.09% 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.

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

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

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

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

Paweł Lisowski	0	0
Maciej Nietopiel	0	0

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

Name	ZE PAK SA shares as at the day of submitting this report	ZE PAK SA shares as at the day of submitting the previous report
Wiesław Walendziak	0	0
Tomasz Szelaǳ	0	0
Leszek Wysłocki	0	0
Sławomir Zakrzewski	0	0
Grzegorz Krystek	0	0
Piotr Woźny	0	-
Maciej Stec	0	-
Alojzy Z. Nowak	0	-

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

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

## 7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The company did not pay or declare dividend payment in the period of three months of 2020.

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

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the first quarter of 2020.

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

On March 31, 2020, Zespół Elektrowni Pątnów - Adamów - Konin SA granted a surety for the bank PEKAO SA in the amount of PLN 36 million for the liabilities of a subsidiary of the Capital Group, i.e. Elektrownia Pątnów II sp.z o.o. The surety was granted by ZE PAK SA as a security for the agreement to open a guarantee line in the amount of PLN 30 million, signed between bank PEKAO SA and Elektrownia Pątnów II sp.z o.o.

Elektrownia Pątnów II sp.z o.o. on March 31, 2020, issued a surety for bank PEKAO SA in the amount of PLN 60 million for the liabilities of Zespół Elektrowni Pątnów-Adamów-Konin SA. The surety was issued by Elektrownia Pątnów II sp.z o.o. as security for an agreement to open a guarantee line in the amount of PLN 50 million signed between PEKAO SA and ZE PAK SA.

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

In the first quarter of 2020, the companies of ZE PAK SA Capital Group did not issue or redeem non-equity and equity securities.

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

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

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

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

Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 31 March 2020, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

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

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

Seasonally unadjusted gross domestic product (GDP) in the first quarter of 2020 was higher by 2.0% year on year, compared to 4.8% in the corresponding quarter of 2019 (constant average prices of the previous year). The presented preliminary GDP estimate for the first quarter of 2020 takes into account the first effects of COVID-19 and the introduction of government measures to counteract the effects of the epidemic.

In the first quarter of 2020, the main driver of economic growth was domestic demand, which increased by 1.7% annually. It was higher than the demand recorded in the fourth quarter of 2019 (an increase by 1.3%). This was due to the increase in gross capital formation, which amounted to 0.7% (compared to a decrease in the fourth quarter of 2019 by -3.6%). Total consumption increased by 1.8% and was lower than in the fourth quarter of 2019 (an increase by 3.2%). Consumption in the household sector increased by 1.2% and was lower than in the fourth quarter of 2019 (an increase of 3.3%). The growth rate of gross fixed capital formation was lower than in the fourth quarter of 2019 and amounted to 0.9% (compared to 6.1%).

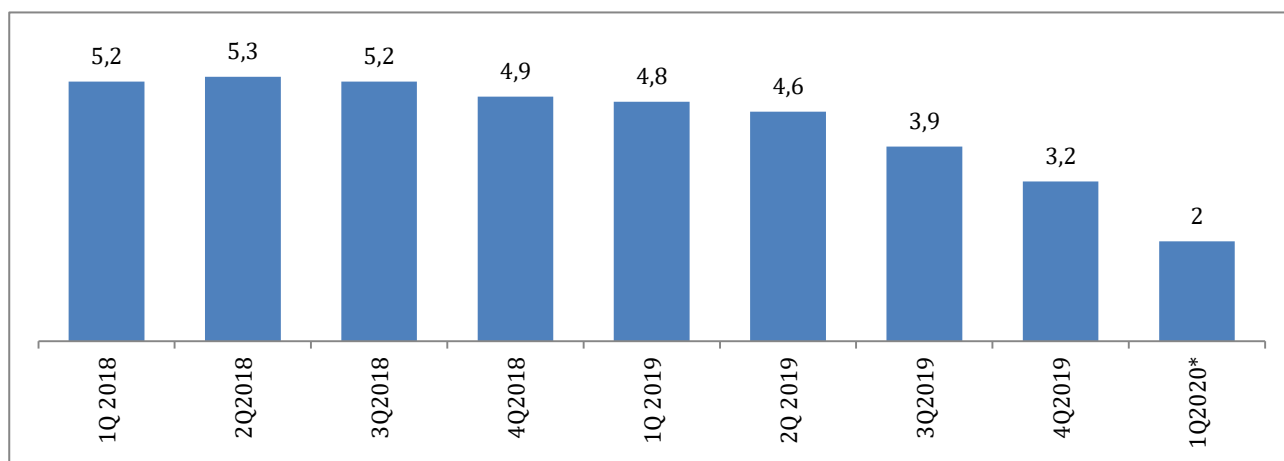
Data on the operation of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, indicate that gross domestic electricity consumption in the first quarter of 2020 amounted to 43,53 TWh<sup>1</sup> and decreased by 2.09% compared to the first quarter of the previous year.

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

In the first quarter of 2020, gross electricity production amounted to 40.76 TWh, which means a decrease by 4.6% compared to the corresponding period of the previous year. Hard coal-fired power plants had the largest share in the production structure, production from hard coal amounted to 19.26 TWh. 9.16 TWh was produced from lignite. Wind farms produced 5.16 TWh, i.e. 0.51 TWh more than in the corresponding period of the previous year at a comparable installed capacity. A similar significant increase was recorded in generation from gas power plants, which amounted to 0.75 TWh. On the other hand, the largest decrease, i.e. by 1.85 TWh, was recorded in the generation based on lignite. The balance of foreign exchange in the first quarter of 2020 amounted to 2.77 TWh on the import side.

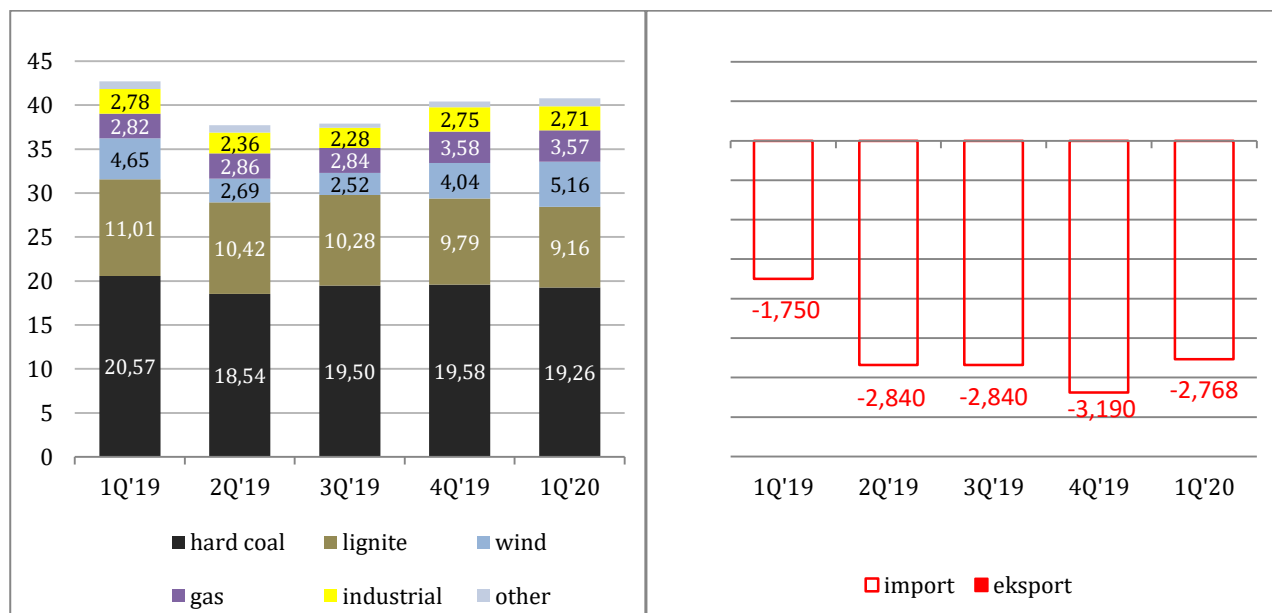
Chart 7: GDP dynamics (%) in relation to the analogous quarter of the previous year (yearly average fixed prices)



\* The so-called preliminary estimate of gross domestic product in the first quarter of 2020, seasonally unadjusted, at constant average annual prices of the previous year.

Source: Own elaboration based on CSO Data

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



Source: Own elaboration based on PSE data

## 11.2. 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 CO<sub>2</sub> 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.

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 CO<sub>2</sub> per kilowatt hour (kWh) from fossil fuels will not be able to benefit from state support within the capacity market after July 1, 2025. On the other hand, existing power plants emitting more than 550 grams of CO<sub>2</sub> per kWh and more than 350 kg of CO<sub>2</sub> per year on average for each installed kW of power will be able to participate in these mechanisms until July 1, 2025. Capacity contracts signed within the capacity market by the end of 2019, were removed from the regulatory restrictions.

Amendments to the Capacity Market Act and the Capacity Market Regulations are required, taking into account the impact of the above-mentioned regulation on the existing mechanism, in particular on the organization of the main auction for the breakthrough year 2025. One of the most important issues regarding participation of units in this mechanism, which must be resolved before this year's auction, there is a procedure for calculating the permissible CO<sub>2</sub> emissions.

Another issue related to the functioning of the capacity market is the process of organizing the secondary market for trading in capacity obligations, under which each capacity provider will be able to transfer future obligations in order to protect itself against penalties for failure to perform capacity contracts. Pursuant to the statutory provisions, this process could only begin after the additional auctions for 2021, which took place in March this year.

This year's main auction will be held on December 14. Therefore, no later than in August this year. a regulation of the Minister of Energy will be published on the parameters of the main auction for the year of deliveries 2025 and the parameters of additional auctions for the year of deliveries 2022. The threshold values of the parameters included therein will be determined based on an assessment aimed at eliminating possible disturbances in the operation of the electricity market.

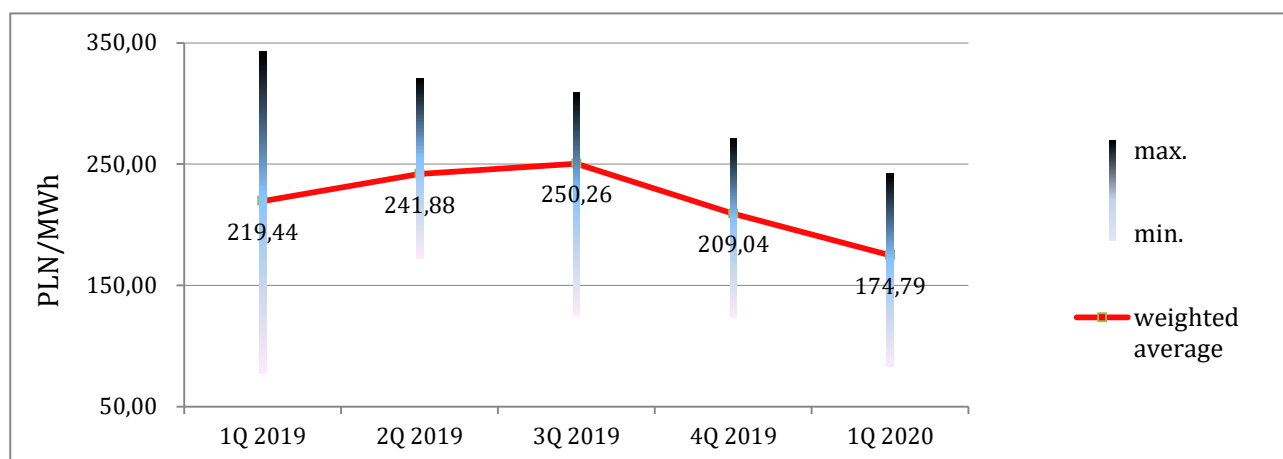
### **11.3. Electricity prices**

In the first quarter of 2020, on the day-ahead market of Towarowa Gielda Energii SA, electricity prices continued to decline as a continuation of the downward trend initiated on the market in the third quarter of 2019. The low price level in the first quarter was mainly due to high air temperatures and relatively high wind conditions. The decline in electricity prices on TGE SA day-ahead market observed from the beginning of 2020 was deepened as a result of the COVID-19 pandemic, the effects of which in the form of large drops in quotations were visible on all commodity and financial markets from March 16, 2020 (including electricity and CO<sub>2</sub> emission allowance markets).

The weighted average price (TGeBASE) in the first quarter of 2020 was PLN 174.79 / MWh, i.e. by PLN 44.65, i.e. 20.35% lower than in the first quarter of 2019.

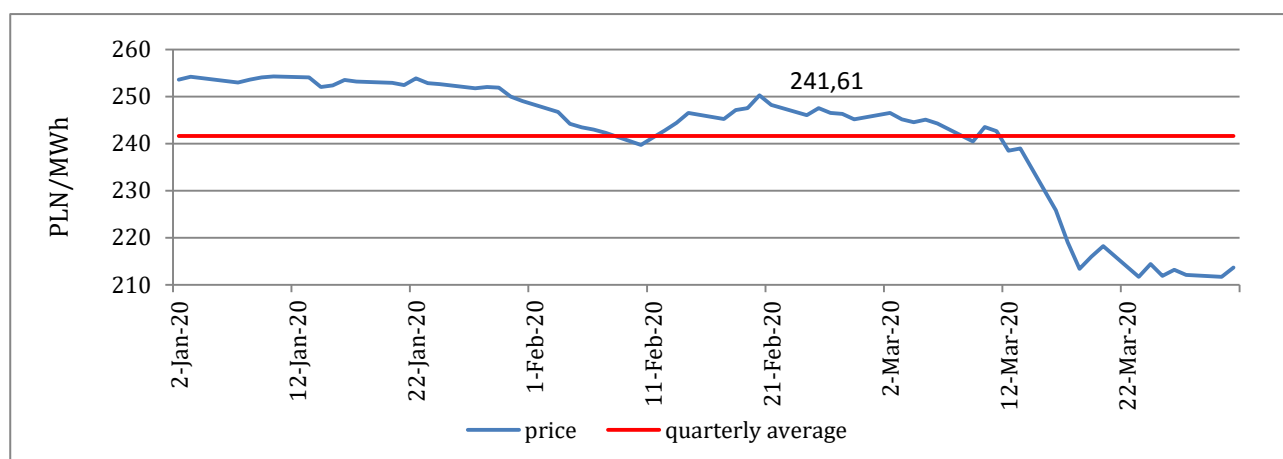
On the electricity futures market of Towarowa Gielda Energii SA, the level of prices quoted on the BASE\_Y-21 reference futures contract showed a downward trend. In the last days of the quarter, clear drops in recorded prices, similarly to the day-ahead market, should be associated with the COVID-19 pandemic, as well as a consequence of the pandemic drops in the prices of CO<sub>2</sub> emission allowances. The arithmetic average of the daily clearing rates for the BASE\_Y-21 contract in the first quarter of the year was at the level of PLN 241.61 / MWh.

Chart 9: Electricity prices (TGeBASE)<sup>2</sup>



Source: Own elaboration based on TGE data

Chart 10: The price of the futures contract for the supply of electricity (band) for 2021



Source: Own elaboration based on TGE data

## 11.4. Prices supply of certificates of origin

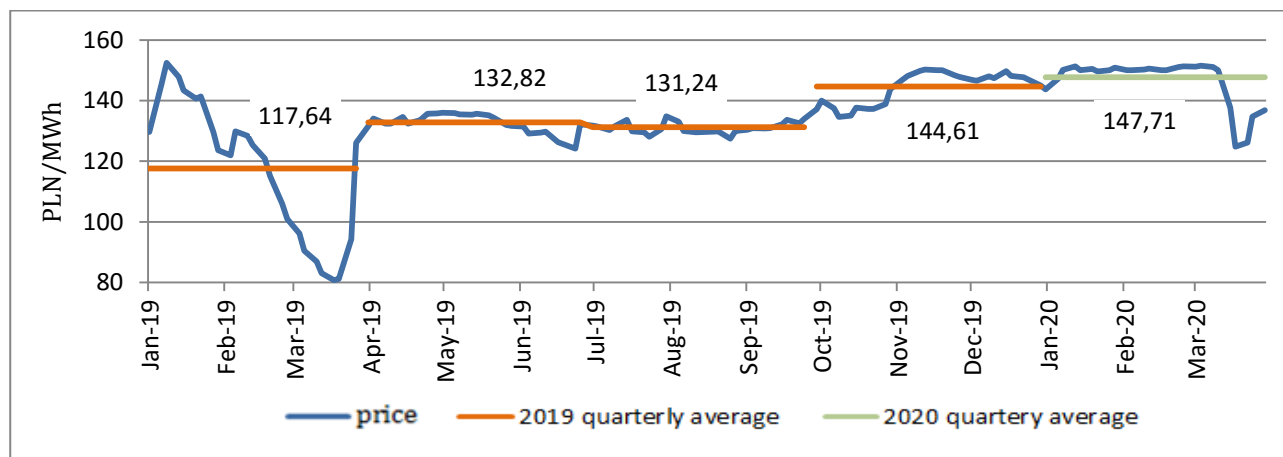
Due to the fact that one of the power units of ZE PAK SA is dedicated to biomass combustion, the producer is entitled to green certificates. The number of certificates of origin obtained depends on the level of production from a given source and is significantly higher than the number that the Company is obliged to submit for redemption, which, in the event of a surplus, makes it possible to sell certain quantities to other market participants. However, production, especially from a biomass block, largely depends on the level of market prices for green certificates. In the periods when the sum of the price of energy produced from biomass and the price of the green certificate does not ensure the achievement of the assumed financial effect, production may be reduced or stopped, which automatically reduces the number of green certificates generated. Due to the fact that the level of revenues generated from the sale of certificates of origin is lower than the level of revenues generated from the sale of electricity, the risk of changes in the prices of certificates of origin also has a smaller impact on the results than, for example, the risk of changes in the energy price.

In the first quarter of 2019, the prices of energy origin certificates (green certificates) started to decline. The downward trend continued until the end of the first quarter of 2019, after which the price began to gradually increase until the end of the first quarter of 2020. In February 2020, the price reached the highest level in over a year at PLN 151.32 / MWh. The weighted average price of green certificates in the first quarter of 2020 was PLN 147.71 / MWh, which means an increase by PLN 30.07 / MWh (25.56%) compared to the first quarter of 2019, when it was at the level of PLN 117.64 / MWh. The increase in prices is related to the decrease in supply caused by the closure of the certification system for

<sup>2</sup> In June 2019, TGE SA liquidated the IRDN index, currently the base reference index is the TGeBase index

new units and the approaching end of the 15-year support period for the first installations that entered the system in 2005. In addition, the obligation to redeem green certificates increased from 18.5% in 2019 to 19.5% in 2020, which resulted in an increase in demand for certificates of origin and thus a price increase. Furthermore, an additional factor that may affect the increase in the prices of green certificates on the Polish Power Exchange, in addition to the higher this year's RES obligation, may be the maintenance of the inability to meet this obligation by the obliged entities through the so-called substitute fee (information from the President of ERO 10/2020).

Chart 11: Price of RES Energy certificate of origin



Source: Own elaboration based on TGE data

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

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

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

The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, which would be economically viable. As part of the activities aimed at ensuring the raw material for the Group's production assets, PAK KWB Konin SA is making efforts to obtain approvals for the construction of prospective lignite deposits. 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, lack of assumed financial effectiveness of new projects. The risk related to the cost and quantity of fuel supplies is crucial for the overall level of costs and production volume.

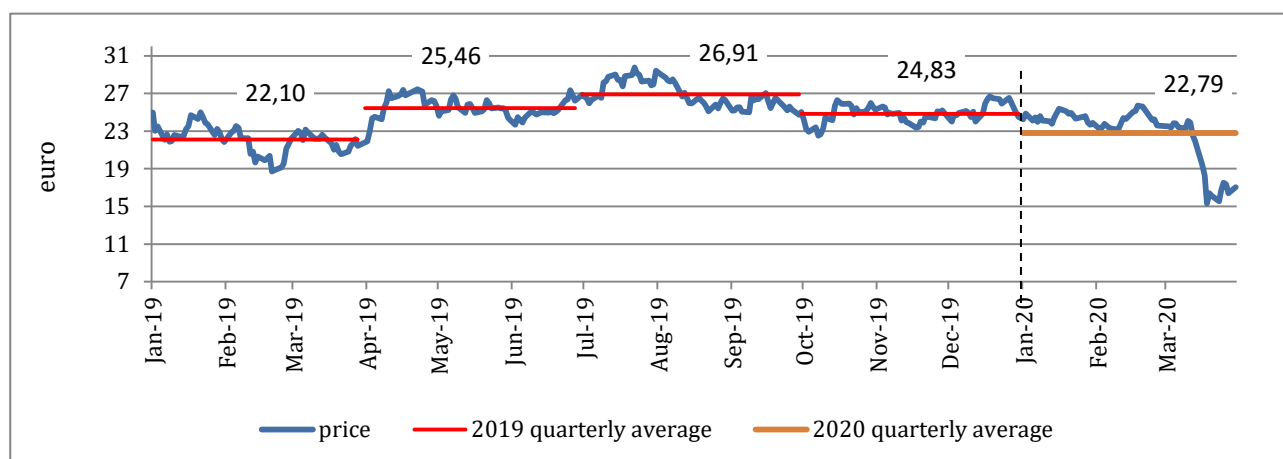
## 11.6. CO<sub>2</sub> emission allowances costs

The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO<sub>2</sub> emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO<sub>2</sub> and the risk of price changes of CO<sub>2</sub> emission allowances (EUA) is of great importance to the activities' results. In 2019, the Group received a small amount of free CO<sub>2</sub> 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 January 2020, the EUA price was quite stable. It fluctuated in the range of EUR 23.77 - EUR 24.94. The first two weeks of January were marked by systematic drops in EUA allowances prices - on January 14, their value reached EUR 23.77. The price reduction could have resulted from breaking the psychological barrier of EUR 25 for investors at the end of December 2019. In the second half of January, the EUA allowance prices recovered and even exceeded the EUR 25 level. This happened after the European Parliament (EP) adopted the resolution on the European Green Deal (and the proposal to raise the reduction target for the EU by 2030 even to 55%) and after the German government and four federal states reached an agreement on the plan to close the power plant lignite. The turning point for all markets in the world came on February 24, when it was already known that the coronavirus was spreading outside of China. The prevailing COVID-19 pandemic undoubtedly contributed to the significant volatility in the price of allowances in the EUA allowances market in March. It was one of the most volatile months in terms of prices - the range between the minimum (EUR 15.23) and the maximum (EUR 24.07) in prices amounted to EUR 8.84 and was 4 times higher than in February (EUR 2.55). Until March 11, EUA allowance prices seemed immune to the coronavirus and strong declines in other markets, as they remained high at EUR 23-24. In the following days, panic broke out among investors and a very sharp sale of allowances took place, supported by a very high trading volume. As a result, the value of allowances fell to EUR 15.23 on March 18, which is the lowest value since July 2018. At the same time, there were deep declines in all financial markets in the world and in the markets of other commodities (mainly oil). At the end of the month, the allowances recovered some losses and increased to around EUR 17.50, due to the euphoria in other markets caused by the introduced economic stimulus packages (e.g. in the US). The arithmetic mean of the EUA quotes in the first quarter of 2020 was EUR 22.79, while in the first quarter of 2019 it was EUR 22.10.

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



Source: Own elaboration based on ICE data

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

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

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

### 11.8. Seasonality and meteorological conditions

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days)



and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

Irrespective of the factors described above, meteorological conditions are becoming more and more important for the Group's production level. In the past, the operations of the Group were not subject to significant seasonality of demand, due to low costs, the work of blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of RES in the segment of energy producers, including primarily wind sources and photovoltaics, when estimating the Group's production volume, weather conditions are becoming more and more important, with particular emphasis on wind conditions in I and IV quarter and solar conditions in II and III quarter. However, the risk related to the seasonality and meteorological conditions is not crucial for the Group's operations.

## 11.9. Investment expenses

Activities in the coal mining and energy production sector require significant investment expenditures. The Group's generation assets require periodic renovations and ongoing modernizations, both due to the tightening of environmental protection requirements and the need to increase the efficiency of electricity production. The level of investment outlays had a material impact, and, according to expectations, it may still have a significant impact on the results of operating activities, the level of indebtedness and cash flow. Delays in implementation, changes in the investment program and exceeding the budget may have a serious impact on future capital expenditures as well as on results, financial situation and development prospects.

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

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

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

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

The Group companies periodically use instruments to limit the risk arising from exchange rate fluctuations, e.g. for part of the flows related to the purchase of CO2 emission allowances. Forwards are used to hedge the exchange rate. Management Boards monitor the financial and market situation on an ongoing basis, and if necessary, they may decide on the need to use financial instruments to hedge against currency risk. In accordance with the principles applied in ZE PAK SA Group, any transactions will be collateral and will be matched to the hedged item in terms of volume and maturity. The decision to choose a hedging instrument will also take into account: price, market liquidity, product simplicity, ease of valuation and accounting, and flexibility.

Konin, 29 June 2020

## 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 .....