

ZESPOŁU ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP

OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR III QUARTER OF 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>Złoty thousand</i>	<i>Złoty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>9 months 2020 period from 01.01.2020 to 30.09.2020</i>	<i>9 months 2019 period from 01.01.2019 to 30.09.2019</i>	<i>9 months 2020 period from 01.01.2020 to 30.09.2020</i>	<i>9 months 2019 period from 01.01.2019 to 30.09.2019</i>
Sales revenue	1 605 194	2 157 170	361 367	500 666
Operating profit/loss	(280 480)	128 045	(63 143)	29 718
Profit/loss before tax	(288 375)	120 729	(64 920)	28 020
Net profit/loss for the period	(250 773)	71 739	(56 455)	16 650
Net profit attributable to equity holders of the parent	(247 428)	72 591	(55 702)	16 848
Total comprehensive income	(250 897)	71 056	(56 483)	16 492
Net cash flow from operating activities	81 224	284 423	18 285	66 013
Net cash flow from investing activities	(31 993)	21 438	(7 202)	4 976
Net cash flow from financing activities	(28 465)	(227 250)	(6 408)	(52 743)
Net increase / (decrease) in cash and cash equivalents	20 766	78 611	4 675	18 245
Net profit per share (in zloty/euro per share)	(4,87)	1,43	(1,10)	0,33
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.09.2020</i>	<i>As at 31.12.2019</i>	<i>As at 30.09.2020</i>	<i>As at 31.12.2019</i>
Total assets	2 591 417	3 118 246	572 461	732 240
Fixed assets	1 818 207	2 182 031	401 654	512 394
Current assets	773 210	936 215	170 807	219 846
Total equity	925 572	1 176 468	204 465	276 263
Share capital	101 647	101 647	22 454	23 869
Share capital attributable to equity holders of the parent	926 596	1 174 147	204 691	275 718
Total liabilities	1 665 845	1 941 778	367 996	455 977
Long-term liabilities	895 515	988 294	197 825	232 076
Short-term liabilities	770 330	953 484	170 171	223 901
Book value per share (in zloty/euro per share)	18,21	23,15	4,02	5,44
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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<i>Selected financial data of ZE PAK SA</i>	<i>Złoty thousand</i>	<i>Złoty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>9 months 2020 period from 01.01.2020 to 30.09.2020</i>	<i>9 months 2019 period from 01.01.2019 to 30.09.2019</i>	<i>9 months 2020 period from 01.01.2020 to 30.09.2020</i>	<i>9 months 2019 period from 01.01.2019 to 30.09.2019</i>
Net revenues from sales of products, goods and materials	785 064	1 070 575	176 737	248 474
Operating profit/loss	155 374	64 683	34 978	15 013
Profit/loss before tax	41 815	137 942	9 414	32 016
Net profit/loss for the period	26 338	126 038	5 929	29 253
Net cash flow from operating activities	(48 752)	33 237	(10 975)	7 714
Net cash flow from investing activities	(46 972)	19 664	(10 575)	4 564
Net cash flow from financing activities	(401)	(116 489)	(90)	(27 036)
Net cash flow together	(96 125)	(63 588)	(21 640)	(14 758)
Net profit per share (in zloty/euro per share)	0,52	2,48	0,12	0,58
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.09.2020</i>	<i>As at 31.12.2019</i>	<i>As at 30.09.2020</i>	<i>As at 31.12.2019</i>
Total assets	1 906 805	1 992 034	421 226	467 778
Fixed assets	1 604 011	1 519 635	354 337	356 847
Current assets	302 794	472 399	66 889	110 931
Equity	1 318 385	1 292 048	291 240	303 404
Share capital	101 647	101 647	22 454	23 869
Liabilities and provisions for liabilities	588 420	699 986	129 986	164 374
Long-term liabilities	2 510	2 291	554	538
Short-term liabilities	85 655	102 825	18 922	24 146
Book value per share (in zloty/euro per share)	25,94	25,42	5,73	5,97
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Above financial data has been 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 30 September 2020, which is 4.4420 EUR/PLN and from 1 January 2019 to 30 September 2019, which is 4.3086 EUR/PLN;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 30 September 2020, which is 4.5268 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 30 September 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 ten subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt 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., Polski Autobus Wodorowy Sp. z o.o. and 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 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 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 1 496 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.

For many years, the Group operated on the basis of a business profile focusing on the production of electricity from lignite mined in nearby open-pit mines. However, this business model has limited prospects for future development, given the pressure on high-carbon energy producers. The increasing costs of CO₂ emissions, and the conditions for the emission of other substances (NO_x, SO₂, dust, mercury, etc.) make the Group focus its future activities in the area of renewable energy sources and the use of green hydrogen. Currently, the structure of special purpose vehicles, which are to be responsible for activities in particular renewable energy technologies, is being built. Work is also underway to identify and separate any assets that may be used in the implementation of new directions of the Group's development.

The structure of ZE PAK SA Group as at September 30, 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 30 September 2020

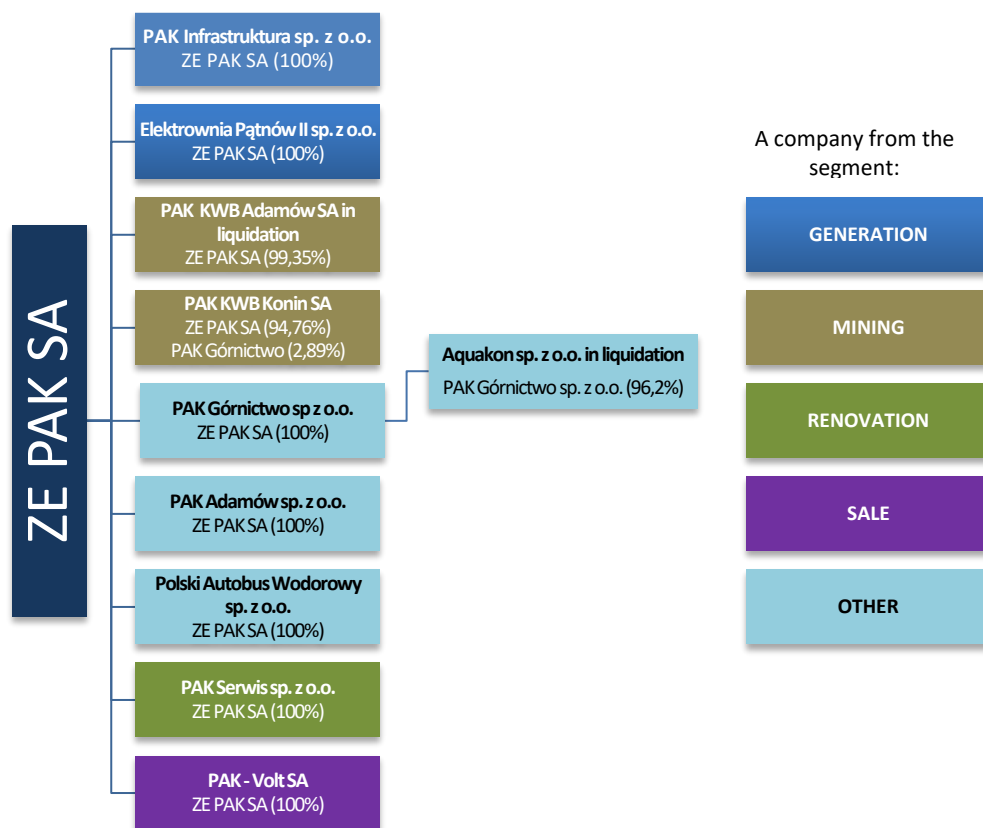


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			30.09.2020	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% *
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%
Polski Autobus Wodorowy sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production of buses	100,00%	-%
PAK Kopalnia Węgla Brunatnego Adamów SA in liquidation	62-700 Turek Warenka 23	Lignite extraction	99,35%	99,35%

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„Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	Production of mineral water	96,2%*	96,2%*
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* Entities with partial or total indirect share via other companies from ZE PAK Group.

On September 23, 2020, the following subsidiaries of ZE PAK SA were established, which were submitted for registration, but as at September 30, 2020, they were not yet disclosed in the National Court Register.

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			30.09.2020	31.12.2019
PAK-Polska Czysta Energia sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of head offices, excluding financial holdings	100,00%	-%
PAK-PCE BIOGAZ sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%	-%
PAK-PCE BIOPALIWA I WODÓR sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	100,00%	-%
PAK-PCE Wiatr sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%	-%

On September 29, 2020, it was decided to change the name of the following companies. The changes have been submitted for registration, but as of September 30, 2020, they have not been disclosed to the National Court Register.

Entity	Registered office	Scope of changes	Group's share in the capital in %	
			30.09.2020	31.12.2019
PAK Adamów sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Change the name of the company to Polski Autobus Wodorowy sp. z o.o.	100,00%	-%
Polski Autobus Wodorowy sp. z o.o.	62-510 Konin ul. Kazimierska 45	Change the name of the company to PAK-PCE Fotowoltaika sp. z o.o.	100,00%	-%

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.

On November 3, 2020, Mr. Henryk Sobierajski resigned from being a member of the Management Board of the Company and from acting as the President of the Management Board.

On November 5, 2020, Mr. Paweł Markowski and Mr. Paweł Lisowski resigned from their membership in the Management Board of the Company and from the position of the Vice-President of the Management Board as of November 15, 2020.

At the meeting held on November 5, 2020, the Supervisory Board of the Company appointed Mr. Piotr Woźny to the Management Board, entrusting him with the function of the President of the Management Board as of November 6, 2020. At the same time, the Supervisory Board of the Company appointed Mr. Andrzej Janiszowski to the Management Board of the Company as Vice President of the Management Board as of November 16, 2020.

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

- 1) Piotr Woźny – President of the Management Board,
- 2) Zygmunt Artwik – Vice President of the Management Board,
- 3) Maciej Nietopiel – Vice President of the Management Board,
- 4) Andrzej Janiszowski – Vice President of the Management Board.

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

Due to the Group's development plans in new areas of activity related to the production of energy from renewable sources and the use of hydrogen, there was a need for changes in the Group's structure. The primary goal is to concentrate activities related to the new directions of the Group's development in new special purpose vehicles, whose activities will not be related to the current activities focused on the production of energy from lignite.

For this purpose, on September 23, 2020, the company PAK-Polska Czysta Energia sp.z o.o. was established and submitted for registration, which is to act as a holding company in relation to subsequent established companies, ultimately focused in their activities on individual renewable technologies. The companies established and submitted for registration are: PAK-PCE BIOGAZ sp.z o.o., PAK-PCE BIOPALIWA I WODÓR Sp. z o.o. and PAK-PCE Wiatr sp.z o.o. As at September 30, 2020, the above subsidiaries have not yet been disclosed in the National Court Register.

It is worth adding that on September 29, 2020, a change in the names of two existing subsidiaries was also submitted for registration – PAK Adamów sp.z o.o. will be changed to Polski Autobus Wodorowy sp.z o.o., and Polski Autobus Wodorowy sp.z o.o. will be changed to PAK-PCE Fotowoltaika sp.z o.o. As at September 30, 2020, the above changes have not yet been disclosed in the National Court Register.

On September 17, 2020, the General Meeting of the Company approved the merger of ZE PAK SA with PAK Infrastruktura sp.z o.o. pursuant to art. 492 § 1 point 1) of the Code of Commercial Companies, i.e. by taking over all the assets of PAK Infrastruktura sp.z o.o. by ZE PAK SA. The General Meeting authorized the Management Board of ZE PAK SA to take all actions aimed at merging the companies. The expected date of the merger of the companies is December 1, 2020.

3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

Short description of the achieved financial results

In the third quarter of 2020, total sales revenues amounted to PLN 554 733 thousand and decreased by PLN 196 407 thousand, i.e. by 26.15% compared to the third quarter of 2019.

In the analyzed quarter, as compared to the corresponding period of the previous year, the Group recorded a 28.86% decrease in the total volume of electricity sales from its own production and sales of purchased energy. In the case of the sale of electricity from own production, the decrease was 20.63% and the decrease in the sale of purchased energy was 44.19%. The level of electricity sales, as in the previous quarters of this year, was influenced by higher generation of electricity production as part of renewable 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 electricity and allowance prices to carbon dioxide emissions. The net production volumes of individual power plants of the Group are shown in Chart 3. At the same time, in the third quarter of 2020, the average obtained electricity sales price decreased to PLN 273.75 / MWh, i.e. by 1.06% (calculated as the sum of revenues from the sale of electricity and revenues from system services divided by the volume of energy sold). Revenues from the sale of electricity (less excise tax) amounted to PLN 478 330 thousand and decreased by PLN 201 370 thousand, i.e. 29.63% compared to the third quarter of 2019.

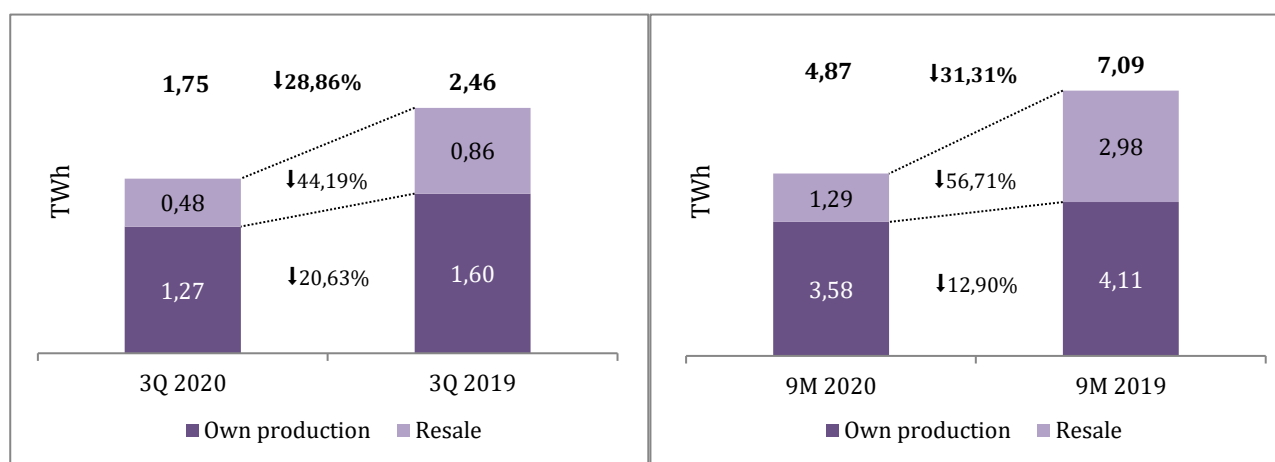
Revenue from construction contracts in the third quarter of 2020 decreased by PLN 11,253 thousand, i.e. 67.58%, compared to the revenue earned in the corresponding period of the previous year. The decrease in revenues in the analyzed

period was related to the implementation of projects with smaller material and financial scope for external recipients by the company from the renovation segment PAK Serwis sp.z o.o.

Revenues from the sale of heat in the third quarter of 2020 amounted to PLN 7,022 thousand and were higher than in the third quarter of 2019 by PLN 146 thousand, i.e. 2.12%. The increase in revenues from the sale of heat took place despite the decrease in the sales volume due to the higher price for heat.

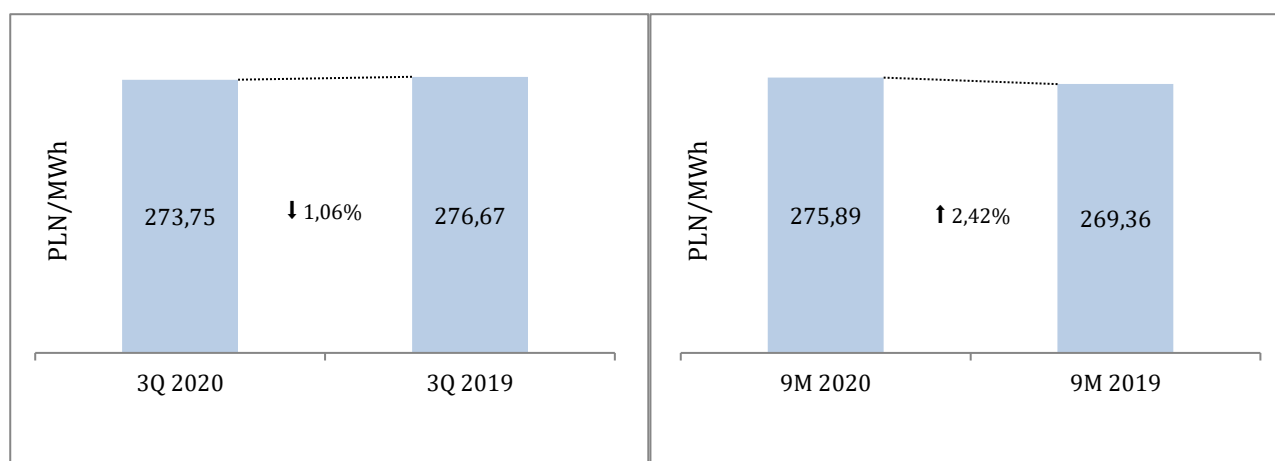
Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in the third quarter of 2020 amounted to PLN 42 634 thousand (including an advance payment of PLN 24 042 thousand and an adjustment of PLN 18 592 thousand), while in the third quarter of 2019 they amounted to PLN 29 593 thousand PLN (including an advance of PLN 24 186 thousand and an adjustment of PLN 5 407 thousand). Higher LTC revenues in Q3 2020 are due to a higher adjustment compared to the corresponding period of 2019. This level of adjustment is the result of a lower operating result compared to the third quarter of 2019, mainly due to the lower selling price of electricity and lower profit on electricity trading.

Chart 1: Electricity sale



Source: Internal data

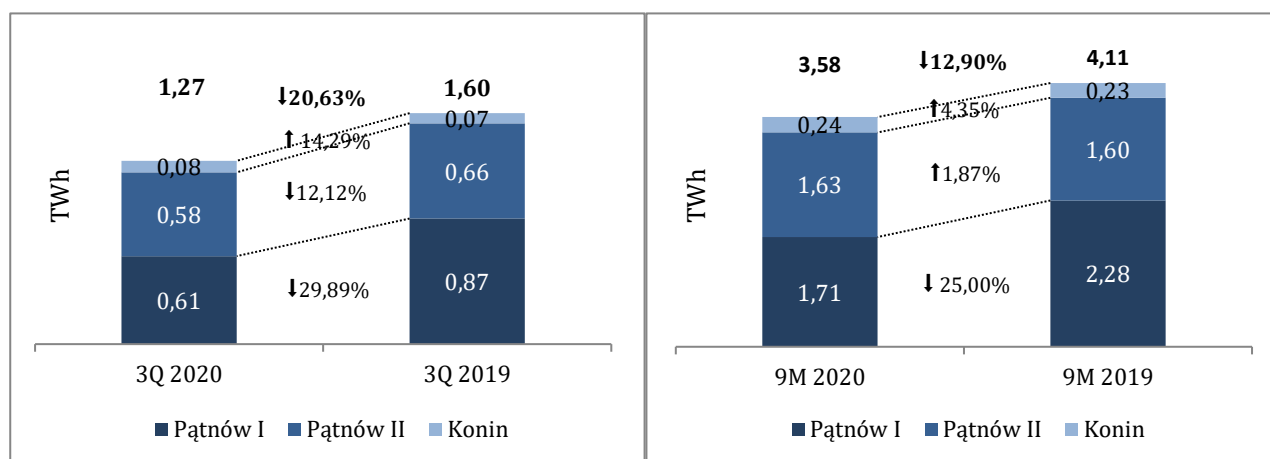
Chart 2: Average electricity prices*



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

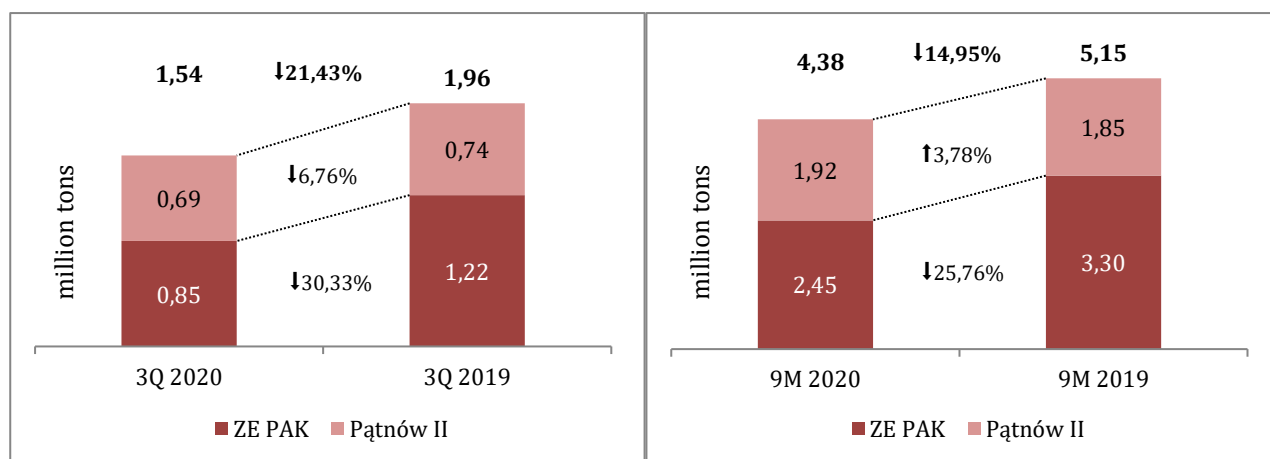
Source: Internal data

Chart 3: Net electricity production



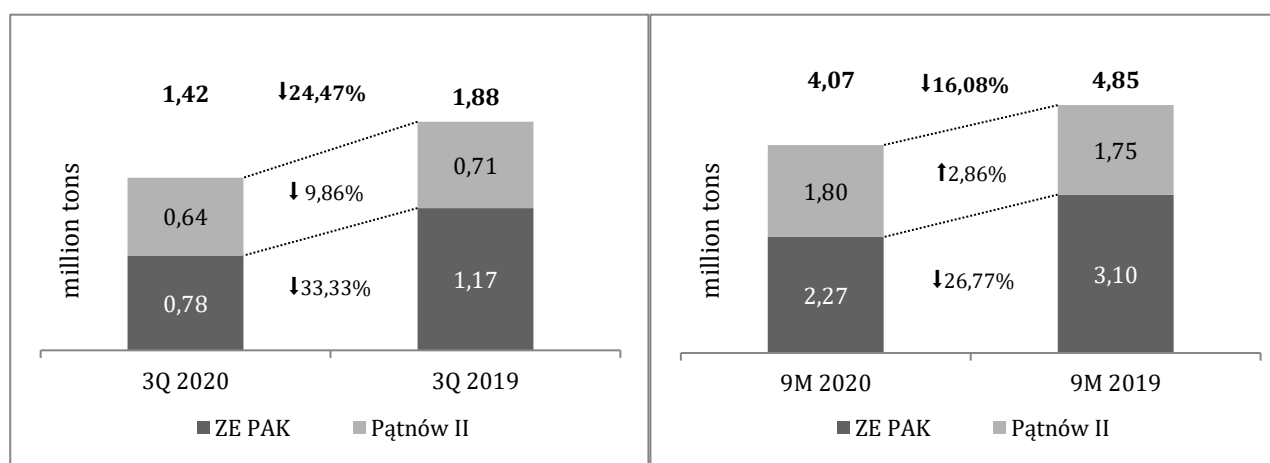
Source: Internal data

Chart 4: Lignite consumption



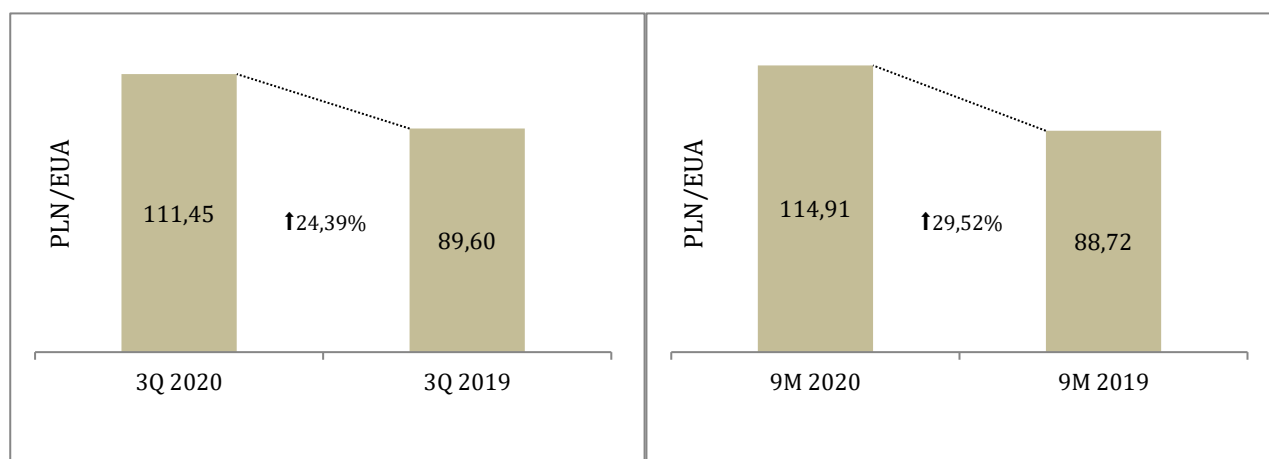
Source: Internal data

Chart 5: CO₂ Emission



Source: Internal data

Chart 6: Average prices of CO₂ 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 CO₂ emissions.

Source: Internal data

In the third quarter of 2020, compared to the third quarter of 2019, revenues from the sale of property rights from energy origin certificates increased by PLN 3,473 thousand, i.e. 9.58%, as a result of a higher volume of green energy production and a higher price certificates.

Cost of sales in the third quarter of 2020 amounted to PLN 519 210 thousand and decreased by PLN 143 354 thousand, i.e. 21.64% compared to the third quarter of 2019. The reduction in the cost of goods and materials was mainly due to the reduction in the value of goods and materials sold, related to the smaller amount of electricity purchased for trading, as well as lower CO₂ emission costs, lower costs of employee benefits related to the decrease in average employment and lower costs of materials consumption. The decrease in the cost of CO₂ emissions by PLN 10,043 thousand was the result of the decrease in the volume of emissions, with the simultaneous increase in the price for EUA by almost PLN 22.

Other operating income in the third quarter of 2020 amounted to PLN 27 157 thousand and was higher by PLN 27 030 thousand than in the corresponding period of the previous year. The increase in revenues is mainly due to the revenues obtained from the anti-crisis shield in the amount of PLN 15,181 thousand and the revenues from the contract for the demolition of Adamów power plant in the amount of PLN 6,800 thousand.

Table 2: List of consolidated sale revenues

	Złoty thousand 3 months period ended 30 September 2020	Złoty thousand 3 months period ended 30 September 2019	Złoty thousand change	% dynamics
Revenues from the sale of goods (reduced by excise duty), including:	491 488	692 399	(200 911)	(29,02)
– Revenues from the sale of electricity (own)	349 836	458 158	(108 322)	(23,64)
– Revenues from the sale of traded electricity	128 494	221 542	(93 048)	(42,00)
– Revenues from the sale of heat	7 022	6 876	146	2,12
– Other sale revenues	6 136	5 823	313	5,38
Revenues from contracts for construction services	5 398	16 651	(11 253)	(67,58)
Other revenues, including:	57 847	42 090	15 757	37,44
– Compensation for termination of LTC	42 634	29 593	13 041	44,07
– Property rights on energy certificates of origin	15 213	11 740	3 473	29,58
– revenues for the amount of the price difference	-	757	(757)	(100,00)
Total sale revenues	554 733	751 140	(196 407)	(26,15)

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	<i>Zloty thousand</i> <i>9 months period ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>9 months period ended</i> <i>30 September</i> <i>2019</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of goods (reduced by excise duty), including:	1 401 177	1 962 983	(561 806)	(28,62)
– Revenues from the sale of electricity (own)	996 700	1 169 289	(172 589)	(14,76)
– Revenues from the sale of traded electricity	347 682	742 110	(394 428)	(53,15)
– Revenues from the sale of heat	33 592	31 919	1 673	5,24
– Other sale revenues	23 203	19 665	3 538	17,99
Revenues from contracts for construction services	22 522	48 189	(25 667)	(53,26)
Other revenues, including:	181 491	145 998	35 493	24,31
– Compensation for termination of LTC	141 470	90 718	50 752	55,94
– Property rights on energy certificates of origin	40 025	37 560	2 465	6,56
– revenues for the amount of the price difference	-	17 720	(17 720)	(100,00)
Total sale revenues	1 605 194	2 157 170	(551 976)	(25,59)

Selling costs in the third quarter of 2020 amounted to PLN 661 thousand and were lower by PLN 53 thousand than in the corresponding period of the previous year.

General and administrative expenses in the third quarter of 2020 amounted to PLN 31,810 thousand and were higher than those incurred in the corresponding quarter of the previous year by PLN 6,061 thousand, i.e. by 23.54%.

Other operating expenses in the reporting quarter amounted to PLN 2,084 thousand and increased compared to the third quarter of the previous year by PLN 1,545 thousand.

In the third quarter of 2020, ZE PAK SA Group realized operating profit in the amount of PLN 28 125 thousand, which compared to the result for the corresponding period of the previous year was lower by PLN 33 576 thousand, i.e. 54.42%.

Table 3: Selected items of the consolidated income statement

	<i>Zloty thousand</i> <i>3 months period ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>3 months period ended</i> <i>30 September</i> <i>2019</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Sales revenues	554 733	751 140	(196 407)	(26,15)
Prime cost	(519 210)	(662 564)	(143 354)	(21,64)
Gross sales profit (loss)	35 523	88 576	(53 053)	(59,90)
Other operating revenues	27 157	127	27 030	21 283,46
Cost of sales	(661)	(714)	(53)	(7,42)
General and administrative expenses	(31 810)	(25 749)	6 061	23,54
Other operating costs	(2 084)	(539)	1 545	286,64
Profit (loss) from operating activities	28 125	61 701	(33 576)	(54,42)
Financial revenues	1 068	5 105	(4 037)	(79,08)
Financial costs	(3 105)	(7 449)	(4 344)	(58,32)
Gross profit (loss)	26 088	59 357	(33 269)	(56,05)
Income tax (tax load)	(16 029)	(24 315)	(8 286)	(34,08)
Net profit (loss)	10 059	35 042	(24 983)	(71,29)
Net other comprehensive income	(41)	(441)	(400)	(90,70)
Comprehensive income	10 018	34 602	(24 584)	(71,05)
EBITDA*	68 898	109 050	(40 152)	(36,82)

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

	<i>Złoty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Złoty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2019</i>	<i>Złoty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Sales revenues	1 605 194	2 157 170	(551 976)	(25,59)
Prime cost	(1 824 763)	(1 951 059)	(126 296)	(6,47)
Gross sales profit (loss)	(219 569)	206 111	(425 680)	-
Other operating revenues	63 130	13 205	49 925	378,08
Cost of sales	(2 668)	(3 397)	(729)	(21,46)
General and administrative expenses	(83 540)	(81 002)	2 538	3,13
Other operating costs	(37 833)	(6 872)	30 961	450,54
Profit (loss) from operating activities	(280 480)	128 045	(408 525)	-
Financial revenues	6 750	13 163	(6 413)	(48,72)
Financial costs	(14 645)	(20 479)	(5 834)	(28,49)
Gross profit (loss)	(288 375)	120 729	(409 104)	-
Income tax (tax load)	37 602	(48 990)	86 592	-
Net profit (loss)	(250 773)	71 739	(322 512)	-
Net other comprehensive income	(124)	(683)	(559)	(81,84)
Comprehensive income	(250 897)	71 056	(321 953)	-
EBITDA*	129 840	272 182	(142 342)	(52,30)

* 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.

In the third quarter of 2020, the achieved results were adversely affected by the negative result on financial activities in the amount of PLN 2 037 thousand. The impact of financial activities in the corresponding period of the previous year decreased the result by PLN 2,344 thousand.

The net profit in the third quarter of 2020 amounted to PLN 10,059 thousand. Compared to the third quarter of 2019, it is lower by PLN 24,983 thousand, i.e. 71.29%.

Table 4: Consolidated costs by type

	<i>Złoty thousand</i> <i>3 months period</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Złoty thousand</i> <i>3 months period</i> <i>ended</i> <i>30 September</i> <i>2019</i>	<i>Złoty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	43 174	47 351	(4 177)	(8,82)
Write-downs of fixed assets, intangible assets and mining assets	(2 401)	(2)	(2 399)	119 950,00
Impairment write-downs on inventory	(540)	(59)	(481)	815,25
Consumption of materials	69 931	80 752	(10 821)	(13,40)
Outsourcing	23 395	28 564	(5 169)	(18,10)
Taxes and fees excluding excise tax	36 829	37 482	(653)	(1,74)
Costs of CO ₂ emissions	158 540	168 583	(10 043)	(5,96)
Costs of employee benefits	89 502	95 061	(5 559)	(5,85)
Other costs by type	1 222	14 393	(13 171)	(91,51)
Value of sold goods and materials and sold traded electricity	131 944	218 146	(86 202)	(39,52)
Total costs by type	551 596	690 272	(138 676)	(20,09)

	<i>Zloty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2019</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	123 721	144 423	(20 702)	(14,33)
Write-downs of fixed assets, intangible assets and mining assets	286 599	(286)	286 885	-
Impairment write-downs on inventory	2 860	1 110	1 750	157,66
Consumption of materials	206 827	233 033	(26 206)	(11,25)
Outsourcing	65 353	71 710	(6 357)	(8,86)
Taxes and fees excluding excise tax	112 642	122 575	(9 933)	(8,10)
Costs of CO ₂ emissions	467 629	430 138	37 491	8,72
Costs of employee benefits	294 126	310 343	(16 217)	(5,23)
Other costs by type	16 980	28 666	(11 686)	(40,77)
Value of sold goods and materials and sold traded electricity	358 717	707 202	(348 485)	(49,28)
Total costs by type	1 935 454	2 048 914	(113 460)	(5,54)

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

In the third quarter of 2020, no one-off events that would have a significant impact on assets, liabilities, equity, financial result or cash flows were recorded.

Implementation of investment projects

In 2020, ZE PAK SA Group started the implementation of two large investment projects, which are (1) the adaptation of K-7 coal boiler at Konin power plant for the exclusive combustion of biomass along with the necessary technical infrastructure and (2) construction of a photovoltaic farm with a rated power of approx. 70MWp in Brudzew commune. 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.

ZE PAK SA key investments in the implementation phase

Adaptation of the K-7 coal boiler in Konin power plant 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 when the biomass unit currently operating at Konin Power Plant is shut down

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. There is an 18-month implementation period. 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. K-7 boiler will operate mainly with a turbine TG-5 for electricity production and production of thermal energy 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.

The dismantling of boiler elements that will not be used for the new technological system related to biomass combustion has been completed. The disassembly of the funnels of the coal bunkers has commenced, to the extent necessary for the foundation of biomass tanks in the boiler room and the supply of the boiler pressure part, exhaust gas recirculation channels and air channels.

In addition, as part of the project related to the adaptation of the K-7 boiler for biomass combustion, further contracts were concluded, including: for the modernization of the G-5 generator with adaptation to air cooling, for the implementation of a biomass feeding system to the boiler tanks, for modernization of the TG-5 turbine and its heating.

Construction of photovoltaic farm

The implementation of the construction of a photovoltaic farm is an element of the ZE PAK SA strategy related to the development of energy generation from renewable sources. The planned rated capacity of the farm is approximately 70 MWp. In 2019, plots of land located in the Brudzew commune, intended for the construction of a photovoltaic power plant, were purchased from PAK KWB Adamów SA. The conditions for connecting the farm to the power grid were obtained, and building permits for the power generation system and for the power evacuation system with cable connections were obtained. On September 23, 2020, an agreement was concluded with a consortium of ESOLEO sp.z o.o. and PAK Serwis sp.z o.o. for the construction and commissioning of a photovoltaic power plant with a rated capacity of approximately 70 MWp in the "turnkey" formula. As part of the implementation of this contract, works related to the organization of construction back-up facilities were started. On November 13, 2020, a connection agreement was concluded with ENERGA-OPERATOR S.A.

ZE PAK SA key investments in the preparatory phase

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

- construction of a hydrogen production plant with associated infrastructure at Konin power plant,
- construction of a hydrogen refueling station in the cities of Warsaw and Konin,
- autonomous supply of electricity and heat to a single-family house, based on its own renewable energy sources using hydrogen as a storage and energy carrier

Construction of a hydrogen production plant

The program and spatial concept as well as the environmental impact report for the project were developed. On October 15, 2020, an application was filed for obtaining an environmental decision.

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 1 ton H₂ / day. At a later stage, thanks to the modular construction of the hydrogen plant and the preparation of infrastructure, it will be possible to increase production capacity, depending on the demand for hydrogen.

Construction of a hydrogen refueling station in the cities of Warsaw and Konin

On October 14, 2020, an agreement was signed with NEL Hydrogen A / S for the delivery of two hydrogen refueling stations. The station located in Konin will be launched first. The delivery date is set at 5 months from the conclusion of the contract for the Konin location and 12 months from the date of the contract for the Warsaw location. At the stations it will be possible to refuel both passenger cars, buses and trucks.

Autonomous supply of electricity and heat to a single-family house

The project involves the development of a concept and technical selection of devices for a self-sufficient autonomous power supply system for electricity, heat, domestic hot water for single-family houses with low energy consumption and passive houses.

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

Significant events of the reporting period

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

In the first months 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. The period of the greatest restrictions was at the end of March, April and May, and the lifting of the restrictions was carried out in stages from mid-June. Nowadays, with the arrival of the fall months and the increase in susceptibility to viral infections, the epidemic situation has worsened again and restrictions have been introduced that affect a wide scale of economic activity.

Successive readings of economic indicators confirm that the effects of the pandemic have a significant impact on the economic situation. Among others, the level of industrial production and investment, contributing to lower domestic electricity consumption, thus reducing its production. According to PSE data, the overall production of electricity in Poland in the first nine months of 2020 decreased by 6.55%, with drops of over even ten percent in individual months. The decrease in electricity production from lignite in this period was even greater and amounted to 10.03%. The increased level of volatility in the financial and commodity markets, including the changing price relationships on individual markets (in particular the prices of electricity and carbon dioxide emission allowances), was also of great importance for the Group, and may have it in the future. Dynamic changes in prices on commodity markets, primarily on the market of major energy resources, 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 nine months of the year, among others, good weather conditions for wind energy (especially in the early months of the year) 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 31.31% 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 12.90% and the decrease in the sale of purchased energy was as much as 56.71%. 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. In order to minimize the impact of establishing collaterals on liquidity situation, 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 terms of the possibility of selling and trading in electricity caused by the effects of the pandemic, and thus the deterioration of the economic conditions of operations, the companies of the Group, whenever possible, use support programs in the form of "anti-crisis shields".

Significant events after the balance sheet date

New directions of ZE PAK SA strategy

In view of the worsening prospects for conventional electricity producers, especially those based on high-emission fuels, ZE PAK SA decided to set new directions for the strategy, according to which the Group will end coal-based energy production at the end of this decade. In the coming years, ZE PAK will generate more and more energy from renewable energy sources, and after the end of coal mining, energy will be produced only from renewable sources. An important direction of the new strategy is also the production and use of hydrogen.

The strategic directions assume that the transformation process of ZE PAK will last for the coming years. During this time, further green energy generation projects will be launched and lignite powers will be gradually decommissioned. The date of ending the production of energy from coal is not accidental, the Company intends to fit into the final dates of production of energy from coal set out in the Paris Agreement.

The basic model for the operation of the coal segment assumes the use of currently exploited open pits and no new investments in this area. The generation of electricity in coal-fired units at Pańków I power plant will be shortened until the support system is operational, in the form of a capacity market or another, which will ensure the economic effectiveness of such activity. A more modern and efficient unit at Pańków II power plant could operate longer, but here the condition is also the economic efficiency of its use. The assumed end date of electricity production in coal sources of ZE PAK Group is planned not later than at the end of the current decade.

Simultaneously, with the phasing out of coal activities, new areas will be developed in which ZE PAK Group intends to exist.

Changes in the Supervisory Board

On November 4, 2020, Mr. Piotr Woźny resigned from being a member of the Supervisory Board of the Company and from acting as the Chairman of the Supervisory Board of the Company.

At the meeting held on November 5, 2020, the Supervisory Board of the Company appointed Mr. Piotr Woźny to the Management Board, entrusting him with the function of the President of the Management Board as of November 6, 2020.

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

Zespół Elektrowni Pańków - Adamów - Konin SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the third quarter of 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 organization 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 KWBK SA and the Self-government Appeal Court submitted an appeal against this judgment. 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 KWBK SA. On 7 January 2013, PAK KWBK Konin SA submitted a cassation appeal from the described decision.

After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA from the judgment 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 judgment of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court.

On 18th January 2019 the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit. Subsequently, the Government Appeal Court upheld its decision, from which a complaint was filed with Poznań Administrative Court.

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.

The Greenpeace Polska Foundation with its seat in Warsaw and Józef Imbierski submitted a cassation complaint to the Supreme Administrative Court against the judgment of June 18, 2020. On October 26, 2020, PAK KWB Konin responded to the cassation appeal, petitioning for its dismissal.

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

<i>Shareholder</i>	<i>pcs Number of shares and corresponding number of votes at the General Meeting</i>	<i>% Share [%] in the total number of shares/votes</i>
Zygmunt Solorz (indirectly) through Argumenol Investment Company Limited	33 523 911	65,96
Nationale – Nederlanden OFE	4 503 242	8,86
OFE PZU „Złota Jesień”	4 635 719	9,12

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 analogous 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 July 1 to September 28, 2020 as a result of transactions concluded on the regulated market of the Warsaw Stock Exchange for a total of 1,301,007 shares of the Company, representing approximately 2.56% of the share capital of the Company and entitling to 1 301 007 votes at the general meeting of the Company, constituting approximately 2.56% of the total number of votes. In addition, on October 20 and 22, 2020, as part of transactions concluded outside the regulated market, another change in share took place, in connection with the acquisition by Argumenol Investment Company Limited from Embud sp.z o.o. SKA directly 592 533 shares of the Company, representing approx. 1.17% of the share capital of the Company and entitling to 592 533 votes at the general meeting of the Company, representing approx. 1.17% of the total number of votes, and from Elektrim SA directly 196 560 shares of the Company, representing approx. 0.39% of the share capital of the Company and entitling to 196 560 votes at the general meeting of the Company, constituting approx. 0.39% 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 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

<i>Name</i>	<i>ZE PAK SA shares as at the day of submitting this report</i>	<i>ZE PAK SA shares as at the day of submitting the previous report</i>
Piotr Woźny	0	0
Zygmunt Artwik	0	0
Maciej Nietopiel	0	0
Andrzej Janiszowski	0	0

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

<i>Name</i>	<i>ZE PAK SA shares as at the day of submitting this report</i>	<i>ZE PAK SA shares as at the day of submitting the previous report</i>
Wiesław Walendziak	0	0
Tomasz Szelaż	0	0
Leszek Wysłocki	0	0
Sławomir Zakrzewski	0	0
Grzegorz Krystek	0	0
Maciej Stec	0	0
Alojzy Z. Nowak	0	0

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

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

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The Company did not pay or declare dividend payment in the reporting period.

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

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

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

Zespół Elektrowni Pątnów - Adamów - Konin SA and its subsidiaries, consolidated within the Group, did not grant any guarantees or sureties for loans of significant value in the third quarter of 2020.

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

In the third 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;
- CO₂ 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 30 September 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.

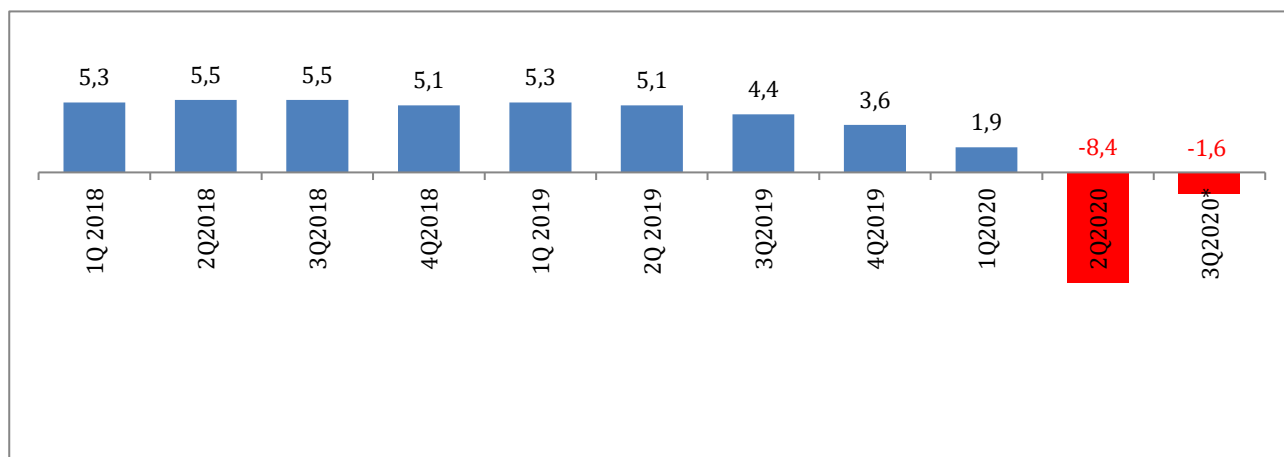
11.1. Macro-economic trends in the Polish economy and the demand for electricity

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.

The dynamics of gross domestic product turned out to be in real terms (according to non-seasonally adjusted data) in the third quarter lower than in the previous year by 1.6%. In the second quarter of 2020, the dynamics was also negative and amounted to -8.4%, while in the first quarter it was positive at 1.9%. The so-called quick estimate of GDP for the third quarter of 2020 takes into account the effects of COVID-19 and the introduction of government measures to counteract the effects of the pandemic. When analyzing the data on the results of the third quarter, it should be taken into account that it was a period of dynamic recovery from the collapse caused by the appearance of the coronavirus, which was particularly felt in the second quarter. The improvement of the situation proceeded much faster than could have been expected a few months ago. The preliminary reading of GDP growth in the third quarter turned out to be close to the market consensus (-1.7%).

More complete data on the third quarter, including their demand and supply structure, will be available on November 30, 2020.

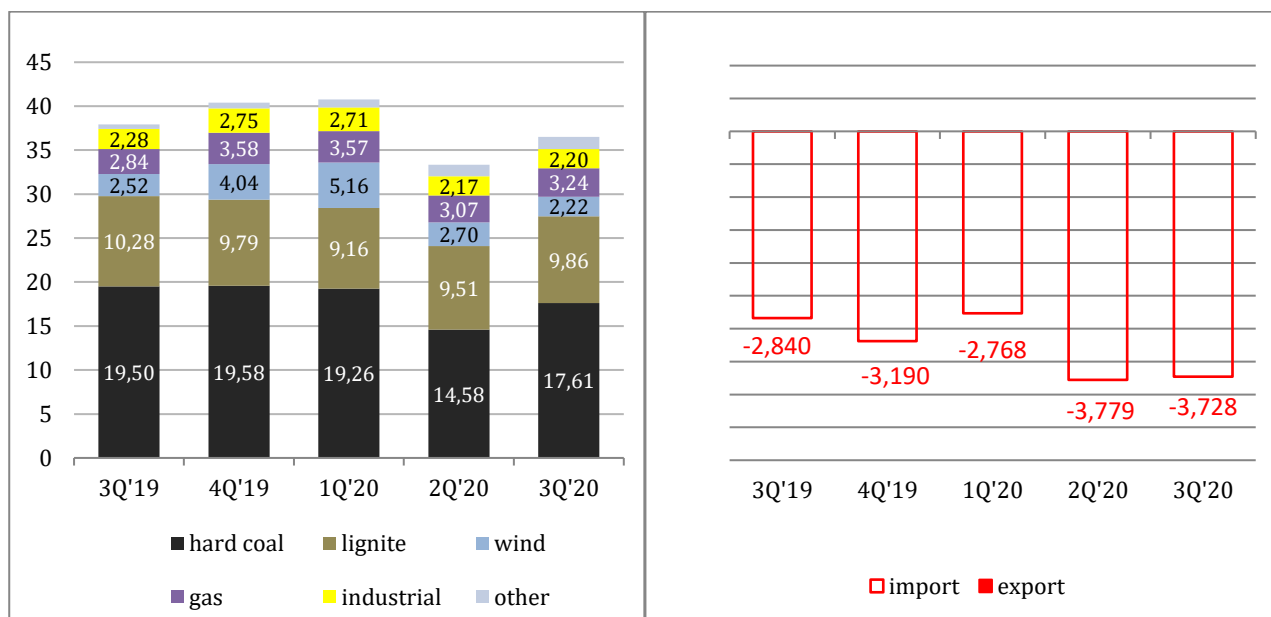
Chart 7: GDP dynamics (%) in relation to the analogous quarter of the previous year (yearly average fixed prices)



* The so-called quick estimate of gross domestic product in the third 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

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 third quarter of 2020 amounted to 40.23 TWh¹ and decreased by 1.29% compared to the third quarter of the previous year. In the third quarter of 2020, gross electricity production amounted to 36.50 TWh, which means a decrease of 3.73% 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 17.61 TWh. 9.86 TWh was produced from lignite. Production in wind farms was at a comparable level as in the previous year and amounted to 2.22 TWh, i.e. approximately 0.3 TWh less compared to the same period last year. The production of gas power plants increased, which produced 3.24 TWh, i.e. 0.39 TWh more y / y. In the generation based on lignite, a decrease in production by 0.42 TWh was recorded, which means a decrease by 4.04%. Production

¹ 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.

based on hard coal recorded a similar percentage decrease. The balance of foreign exchange in the third quarter of 2020 amounted to 3.73 TWh on the import side. This means over 31% increase in the balance on the import side, comparing the quarter to the quarter of the previous year.

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, 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.

Significant factors that may affect the financial results are issues related to the functioning of the capacity market, which enters the implementation phase on 1 January 2021. Particularly important is the process of organizing the secondary market for trading in capacity obligations, under which each capacity supplier will be able to transfer future obligations in order to protect against penalties for failure to perform capacity contracts. In addition, the main auction for the delivery year 2025 will be held on December 14, 2020. In connection with the planned auction, on August 6, 2020, the Minister of Climate issued an ordinance on the parameters of the main auction for the delivery year 2025 and the parameters of additional auctions for the delivery year 2022. Values threshold parameters included in it were determined on the basis of an assessment aimed at eliminating possible disturbances in the functioning of the electricity market.

In September 2020, the European Commission presented a proposal for a new target to reduce CO₂ emissions by 2030. According to the proposal presented by the head of the European Commission, the goal of reducing carbon dioxide emissions is to be increased from the currently planned 40% to 55%. In October, the European Parliament amended the European Commission's proposals and voted to raise the reduction target to 60% compared to 1990 emissions. Subsequently, the 2030 emissions reduction target enters the negotiation phase with the Council of the European Union. It is also worth emphasizing that the European Parliament is calling for the Member States to achieve climate neutrality by 2050.

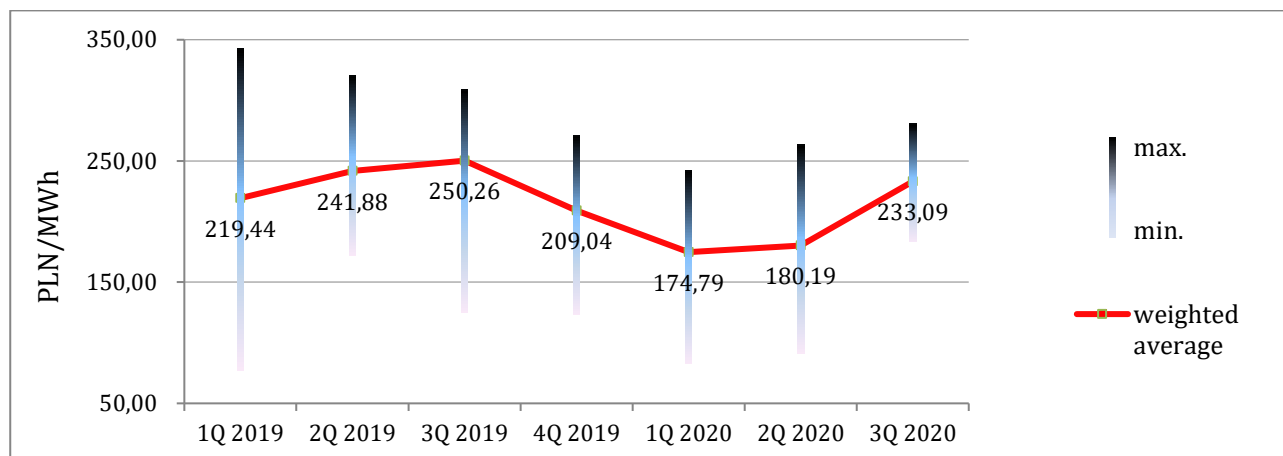
11.3. Electricity prices

In the first quarter of 2020, on the day-ahead market of Towarowa Giełda Energii SA, electricity prices continued to decline as a continuation of the downward trend initiated on the market in 2019. 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 CO₂ emission allowance markets). The third quarter of 2020 on the day-ahead market of Towarowa Giełda Energii SA was characterized by an upward price trend, which may be associated with the gradual easing of restrictions imposed on the economy, resulting in an improvement in GDP dynamics and energy demand.

The weighted average price (IRDN) in the third quarter of 2020 was PLN 233.09 / MWh, i.e. PLN 17.17, i.e. 6.86% lower than in the third quarter of 2019.

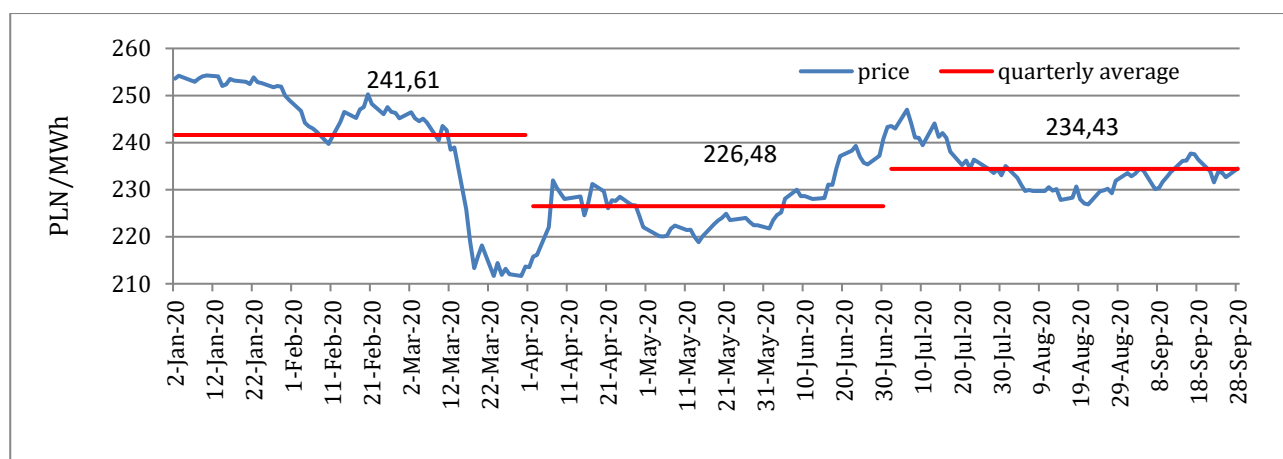
On the electricity futures market of Towarowa Giełda Energii SA, the prices on the BASE_Y-21 reference forward contract fell at the end of Q1 2020, which may be related to the COVID19 pandemic. For the better part of the second quarter, changes in contract prices were not significant, and only in June a clear upward trend emerged. In turn, the third quarter of 2020 was characterized by a slight decline in July and stabilization in August and September. The arithmetic average of daily clearing rates for the BASE_Y-21 contract in the nine-month period of 2020 was successively in the first quarter at PLN 241.61 / MWh, in the second quarter PLN 226.48 / MWh, and in the third quarter PLN 234.43 / MWh.

Chart 9: Electricity prices (TGeBASE)²



Source: Own elaboration based on TGE data

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



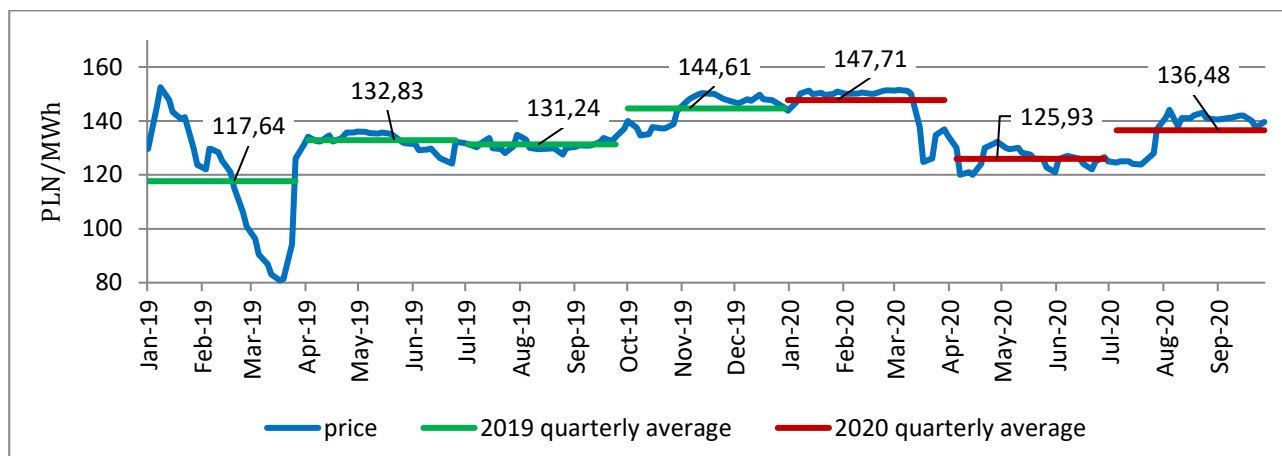
Source: Own elaboration based on TGE data

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 usually 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.

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

Chart 11: Price of RES Energy certificate of origin



Source: Own elaboration based on TGE data

From the beginning of 2020, the upward trend continued from the fourth quarter of 2019. In the second half of March 2020, the price of green certificates began to decline, reaching the value of PLN 125.33 / MWh at the end of the second quarter of 2020 (quotations from June 30, 2020). The fall in prices during this period was due to the decreased activity of the economy and the unstable market caused by the pandemic. During the summer, the economic situation surrounding the pandemic stabilized somewhat and prices started to increase gradually from August onwards. The weighted average price of green certificates in session transactions on TGE SA in the third quarter of 2020 was 136.48 PLN / MWh, which means an increase by 5.24 PLN / MWh, i.e. 3.99% compared to the third quarter 2019 and an increase compared to the second quarter of 2020. In 2020, the obligation to redeem green certificates increased from 18.5% in 2019 to 19.5% in 2020. According to the draft regulation, this obligation will also remain at the same level in 2021. An additional factor influencing the price level is the continuing huge oversupply, reaching 21.7 TWh at the end of the first half of 2020. In addition, the increase in the prices of green certificates on the Polish Power Exchange may be affected by the inability to fulfill this obligation by the obliged entities through the so-called substitute fee (information from the President of ERO 10/2020).

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. 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.

Currently, two lignite mines, PAK KWB Konin SA and PAK KWB Adamów SA, are the main suppliers of lignite to the power plants of the ZE PAK SA Group (supplies from external entities are supplemented) and make the Group independent of external suppliers and limit its exposure to potential fluctuations in lignite 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.

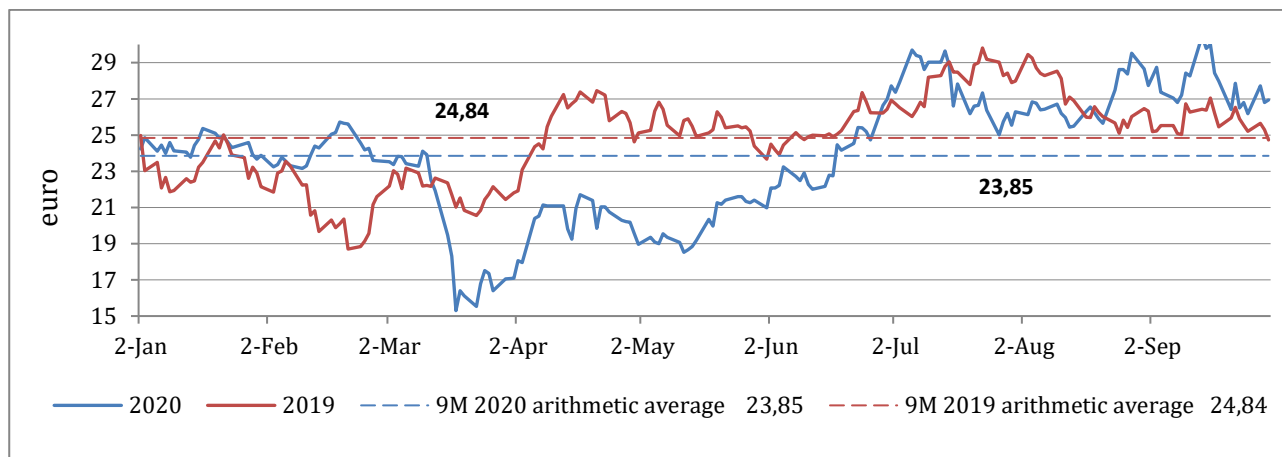
The deposits exploited by the Group's mines have specified richness. The possibility of achieving the assumed level of electricity production depends on the extraction capacity and the quality of coal mined in the deposits currently in operation.

11.6. 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.

The third quarter of 2020 began with very strong increases in the prices of CO2 emission allowances. The publication by the European Commission of the updated auction calendar, which announced the sale (from 16 July) of additional 50 million EUA allowances under the so-called monetization (monetization) of the Innovation Fund (FI) did not shake the market and did not reduce the price increase. August was another month in a row characterized by very high volatility of EUA allowance prices. Their range in August was EUR 4.12, with a minimum of EUR 25.37 recorded on August 13, 2020 and a maximum of EUR 29.49 on August 28, 2020. The key event for the EUA allowances market in mid-September was the announcement by the European Commission of the new EU reduction target for 2030, amounting to a 55% reduction in emissions compared to 1990. Therefore, the prices of EUA allowances quickly rose from approx. EUR 27 to record levels - around 30.5 euro. Later, however, as a result of investor profit-taking and fears of a second wave of the pandemic, prices returned to € 27. The arithmetic average of the EUA quotations over the nine months of 2020 was EUR 23.85, while in the same nine months of 2019, EUR 24.84, which means a decrease by EUR 0.99.

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 Pańńów II sp. z o.o.

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Pańńów 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 Pańńów 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 Pańńów 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. Projects in the area of renewable energy sources and the production and use of hydrogen that the Group intends to implement are also capital-intensive. 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.

SIGNATURES:

Piotr Woźny
President of the Management Board

Zygmunt Artwik
Vice President of the Management Board

Maciej Nietopiel
Vice President of the Management Board

Andrzej Janiszowski
Vice President of the Management Board