

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA
MANAGEMENT BOARD’S REPORT FROM ZE PAK SA OPERATIONS IN 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 financial data</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>12 months 2020 period from 01.01.2020 to 31.12.2020</i>	<i>12 months 2019 period from 01.01.2019 to 31.12.2019 (transformed data)</i>	<i>12 months 2020 period from 01.01.2020 to 31.12.2020</i>	<i>12 months 2019 period from 01.01.2019 to 31.12.2019 (transformed data)</i>
Net revenues from sales of products, goods and materials	1 846 683	2 383 635	412 740	554 102
Operating profit/loss	(114 545)	(360 376)	(25 601)	(83 773)
Profit/loss before tax	(255 815)	(371 672)	(57 176)	(86 399)
Net profit/loss for the period	(182 414)	(383 120)	(40 770)	(89 060)
Net cash flow from operating activities	239 424	334 922	53 512	77 856
Net cash flow from investing activities	(117 884)	(23)	(26 348)	(5)
Net cash flow from financing activities	(1 099)	(323 914)	(246)	(75 297)
Net cash flow together	120 441	10 985	26 919	2 554
Net profit per share (in zloty/euro per share)	(3,59)	(7,54)	(0,80)	(1,75)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>stan na 31.12.2020</i>	<i>stan na 31.12.2019</i>	<i>stan na 31.12.2020</i>	<i>stan na 31.12.2019</i>
Total assets	2 451 709	2 580 431	531 271	605 948
Fixed assets	1 497 850	1 833 479	324 575	430 546
Current assets	953 859	746 952	206 696	175 403
Equity	1 277 167	1 459 581	276 755	342 745
Share capital	101 647	101 647	22 026	23 869
Liabilities and provisions for liabilities	1 174 542	1 120 850	254 516	263 203
Long-term liabilities	2 648	2 410	574	566
Short-term liabilities	175 443	111 626	38 017	26 213
Book value per share (in zloty/euro per share)	25,13	28,72	5,45	6,74
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- data concerning the profit and loss account and the statement of cash flows according to the arithmetic average of the average NBP exchange rates from each last business day of the month of the financial period from January 1, 2020 to December 31, 2020 which is EUR/PLN 4.4742, and from January 1, 2019 to December 31, 2019, which is EUR/PLN 4.3018.
- data on individual balance sheet items according to the average exchange rate of the EUR/PLN specified by the NBP as at December 31 2020 i.e. EUR/PLN 4.6148, and as at December 31, 2019, i.e. EUR/PLN 4.2585.

2. DESCRIPTION OF THE COMPANY AND THE CAPITAL GROUP

2.1. Basic information on the Company and the Capital Group

Basic information on the Company

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

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

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

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

In 2020, the share capital of ZE PAK SA has been not changed. As of 31 December 2020 amounts to zloty 101 647 094.00 and is divided into 50 823 547 bearer shares class A with a face value of zloty 2.00 each, which represent 50 823 547 votes at the Company’s General Meeting, comprising 100% of the total votes at the Company’s General Meeting.

The Company has no branches (establishments).

Basic information on the Capital Group

As of 31 December 2020 the ZE PAK Capital Group (hereinafter referred to as the “Group”, “Capital Group” or “ZE PAK SA Group”) is composed of a dominant entity Zespół Elektrowni Państw – Adamów – Konin SA (hereinafter referred to as “ZE PAK SA” or “Company”) and thirteen subsidiaries i.e. PAK Kopalnia Węgla Brunatnego Adamów SA in liquidation (hereinafter referred to as “PAK KWB Adamów SA in liquidation”), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the “PAK KWB Konin SA”), PAK-Polska Czysta Energia sp. z o.o. (hereinafter referred to as „PAK-PCE sp. z o.o.”), PAK-PCE Wiatr sp. z o.o. PAK-PCE Biopaliwa i Wodór sp. z o.o., PAK-PCE Polski Autobus Wodorowy sp. z o.o., PAK-PCE Biogaz sp. z o.o., PG Hydrogen sp. z o.o., PAK-PCE Fotowoltaika sp. z o.o., Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o. (hereinafter referred to as „PAK Serwis sp. z o.o.”), PAK Górnictwo 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 and PAK KWB Konin SA, dealing with the lignite mining. In the future, the assets concentrated around PAK PCE sp.z o.o., which will concentrate activities related to the generation of electricity from renewable sources, will become more and more important. 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..

Państw Power Plant produces energy using lignite in 4 power units with a total capacity of 1,118 MW. Konin Power Plant, a former coal-fired power plant, today mainly uses a block with a boiler dedicated to burning biomass with an installed capacity of 50 MW and produces electricity and heat from biomass. Currently, Konin power plant is modernizing the second unit, which will also be adapted to biomass combustion.

The Group's mining assets are concentrated in PAK KWB Konin SA, which exploits Józwin, Tomisławice and Drzewce open pits.

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. The Group, having lignite mine in its structure, provides Państw power plant 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 chances of development in the future, given the pressure on high-carbon energy producers. Increasingly higher costs of CO2 emissions and the conditions related to the emission of other substances (NOX, SO2, dust, mercury, etc.) make the Group decide to focus its future activities in the area of renewable energy sources and the use of green hydrogen. In 2020, the Group built a structure of special purpose vehicles which are to be responsible for the activities in individual renewable energy technologies. 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.

Apart from the Capital Group, the Company owns shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. with headquarters in Gliwice and providing measurement, research and consultancy services regarding, among others power engineering. ZE PAK SA holds one share in the aforementioned company with the nominal value of PLN 159 500.07, which constitutes 2.96% of the total capital.

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

Picture 1: Structure of the Group as at 31 December 2020

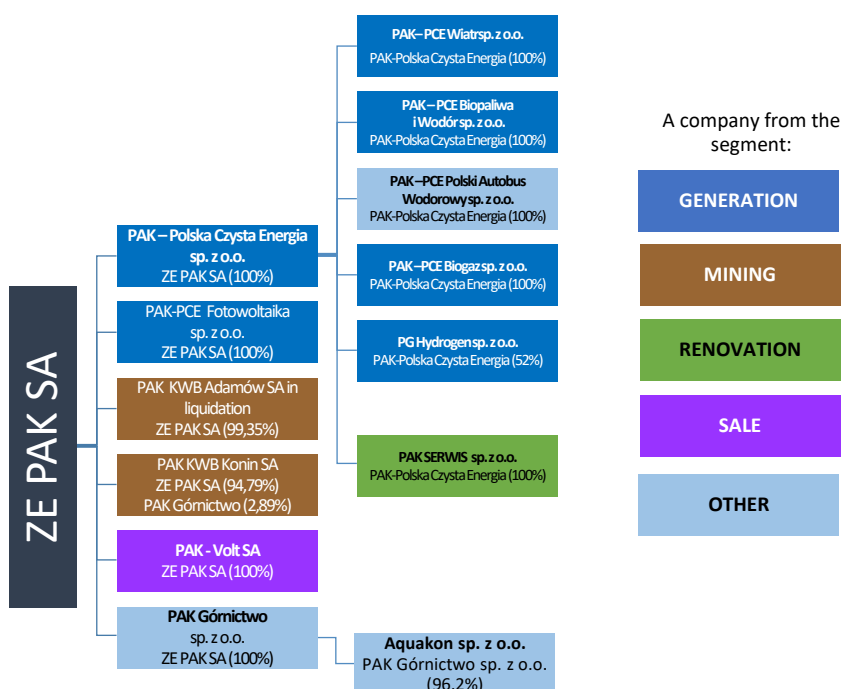


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			31.12.2020	31.12.2019
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100,00%*	100,00%
„Elektrownia Pątnów II” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity from 464 MW power unit	-	100,00%*
„PAK Infrastruktura” sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	-	100,00%
„PAK Górnictwo” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Exploration and recognition of lignite	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin” SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	97,68%*	97,68%
„PAK Kopalnia Węgla Brunatnego Adamów” SA in liquidation	62-700 Turek Warenka 23	In liquidation	99,35%	99,35%
„Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	98,92%*	98,92%*
„PAK-Volt” SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK-PCE Polski Autobus Wodorowy” sp. z o.o.**	62-510 Konin ul. Kazimierska 45	Production of buses	100,00%*	100,00%
„PAK-PCE Fotowoltaika sp. z o.o.***	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%	-
„PAK Polska Czysta Energia” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of central companies, excluding financial holding companies	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%*	-
PG Hydrogen sp. z o.o.	02-673 Warszawa Ul. Konstruktorska 4	Manufacture of engines and turbines, except aircraft, car and motorcycle engines	52,00%*	-

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

** Change of the name, previously PAK Adamów sp. z o.o.

*** Change of the name, previously PAK-PCE Polski Autobus Wodorowy sp. z o.o..

On December 1, 2020, there was a merger of PAK Infrastruktura sp.z o.o. (acquired company) and ZE PAK SA (acquiring company) pursuant to Article 492 § 1 point 1 of the Commercial Companies Code by transferring all assets of PAK Infrastruktura sp.z o.o. for ZE PAK SA.

On December 30, 2020, there was a merger of Elektrownia Pątnów II sp.z o.o. (acquired company) and ZE PAK SA (acquiring company) pursuant to Article 492 § 1 point 1 of the Commercial Companies Code by transferring all the assets of Elektrownia Pątnów II sp.z o.o. for ZE PAK SA.

As of 31 December 2020, the share in the general number of votes held by the Group in subsidiaries is equal to the Group's share in capitals of these subsidiaries.

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

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK SA is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, in the organizational structures of the Company there is a Management Board Office directly reporting to the President of the Management Board. Management Board Office in its competences has, among others matters related to ownership supervision. The basic task of the Management Board Office, in the area of corporate governance, is supervision over the

operations of ZE PAK SA Capital Group and other companies in which ZE PAK SA holds shares or stocks. This unit coordinates the coherence of activities of all entities belonging to the Group and monitors the compliance of these activities with the applicable law, as well as the interest of the whole Capital Group.

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

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

Shared service centres operate in ZE PAK SA Capital Group in the following areas:

- legal area, services for the bodies of the Group companies,
- investments,
- accounting, finance and controlling,
- staff and wages,
- environmental Protection,
- logistics and shopping,
- administration

Shared service centres provide services in the areas specified above on the basis of contracts concluded by ZE PAK SA with the companies from the Group. The concentration of competences in individual areas is aimed at improving the quality of services provided and optimizing the operating costs of the ZE PAK Capital Group.

In the past year, significant changes occurred in the structure of the Group. A number of companies have been registered to develop competences in the areas of production of energy from renewable sources and the use of green hydrogen. PAK Polska Czysta Energia sp.z o.o. is the holding company that will ultimately concentrate assets related to new areas of activity. The following companies will be responsible for the development of projects as part of individual technologies for the production of energy from renewable sources and the production of green hydrogen: PAK-PCE Fotowoltaika sp. z o.o., PAK-PCE Biogaz sp. z o.o., PAK-PCE Biopaliwa i Wodór sp. z o.o., PAK-PCE Wiatr sp. z o.o. PAK PCE Polski Bus Wodorowy sp. z o.o. and PG Hydrogen sp.z o.o. will be responsible for the development of projects related to the use of green hydrogen.

Changes in the area related to energy production in a conventional manner concerned consolidation processes. In December 2020, ZE PAK SA and PAK Infrastruktura sp.z o.o. were merged, and later ZE PAK SA merged with Elektrownia Państw II sp.z o.o. Both mergers were made pursuant to Art. 492 § 1 paragraph 1, art. 515 § 1 and article. 516 of the Commercial Companies Code, i.e.:

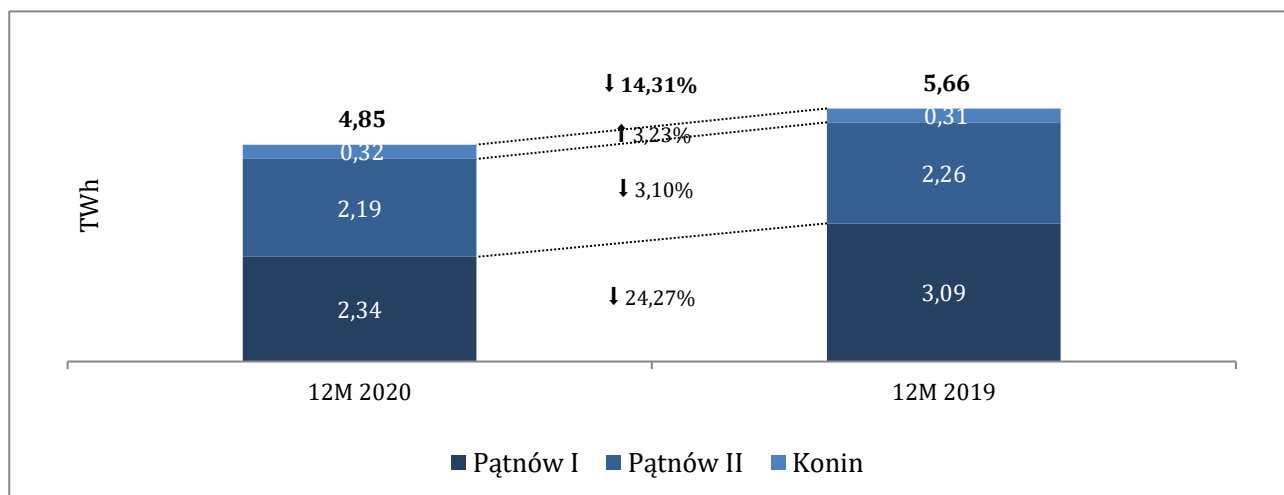
- 1) by transferring all assets of PAK Infrastruktura sp.z o.o. and Elektrownia Państw II sp.z o.o. for ZE PAK SA;
- 2) without increasing the share capital of ZE PAK SA;
- 3) without issuing new shares of ZE PAK SA in exchange for shares in PAK Infrastruktura sp.z o.o. and Elektrownia Państw II sp. z o.o .;
- 4) using a simplified joining procedure.

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

ZE PAK SA's operations are focused in several areas. The main area is doubtlessly generation of electricity, electricity wholesale trading, which is supplemented by sales of energy certificates, operations undertaken to ensure an adequate amount of CO2 allowances as well as generation and sales of heat. In 2020, the Company mainly conducted its operations in the Polish market. The only exception included operations related to transactions regarding the CO2 allowances, which were executed between ZE PAK and foreign partners.

The company's production is mainly based on lignite. Net electricity production at Państw I power plant in 2020 reached 2.34 TWh, at Państw II power plant - 2.19 TWh, and at Konin power plant - 0.32 TWh. Total net energy production in 2020 was lower by 14.31% compared to the previous year.

Chart 1: Net electricity production



Source: Internal data

The main direction of electricity sales was sales on the stock market. Transactions with end users constituted only a small share in the total volume of energy sales. The sales structure was supplemented by the electricity balancing market. Revenues from sales of electricity (generated and purchased) constituted 82.45% of the total net revenues from sales of products, goods and materials at the Company.

Heat generated in the Company's power plants is sold to local customers. The main recipient is Miejskie Przedsiębiorstwo Energetyki Ciepłej in Konin and local industrial producers. In 2020, the Company sold 1,213 TJ of heat. Sales of heat accounted for 2.64% of total net revenues from sales of products, goods and materials.

In 2020, revenues from the sale of rights of origin were slightly higher than in 2019. The increase was mainly determined by the market prices of "green certificates". The share of revenues from the sale of property rights from energy origin certificates in 2020 accounted for 3.01% of total net revenues from the sale of products, goods and materials. In connection with the merger of ZE PAK SA with Elektrownia Pałnów II sp.z o.o. the Company records revenues from compensation for termination of PPAs. Revenues on this account constituted 9.75% of total net revenues from the sale of products, goods and materials.

Other sales revenues constituted 2.15% of the total net revenues from sales of products, goods and materials obtained by the Company in 2020 and related mainly to services provided to other entities of the Group.

The main raw material used by the Group for energy production is lignite. The extracted lignite is delivered directly from open-pit mines to nearby power plants. For this reason, the extraction of lignite in ZE PAK SA Group is closely correlated with the amount of electricity generated by power plants located in the vicinity of the mines. The supplies from our own open pits are supplemented by purchases from external suppliers.

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

3. DESCRIPTION OF ACTIVITIES

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

Significant events in the accounting year

Impact of a COVID-19 disease pandemic on the Company'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. 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 confirmed 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 within the period of months of 2020 decreased by 4.07%, with drops of over even ten percent in individual months, in the first half of the year. The decrease in electricity production from lignite in this period was even greater and amounted to 8.51%. 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 Company, 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 Company's potential future financial results and its financial condition.

Within the period of twelve months, 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 28.54% decrease in the total volume of electricity sales (understood as the sum of energy sales from own production and sales of energy from trading). In the case of the sale of electricity from own production, the decrease was 21.76% and the decrease in the sale of purchased energy was as much as 55.95%. The decrease in electricity sales and the realized lower margins had a negative impact on the financial results achieved in the Group.

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, in 2020 the Company took advantage of the "anti-crisis shield" program in the form of co-financing in the amount of PLN 6.9 million from the Guaranteed Benefits Fund Workers.

When analysing the course of the pandemic in the past year and the negative effects it caused in the economy, it should be noted that each subsequent wave of the increase in the incidence, and thus the return of restrictions affecting economic activity, did not cause such severe economic consequences as in the first phase, i.e. at the turn of the 1st and the second quarter of 2020. This is evidenced by the dynamics of change in electricity demand in Poland, which in the second quarter of 2020 was -8.5%, while e.g. in the fourth quarter it was + 2.4% compared to the comparable quarter of the previous year. It seems that the adaptation processes launched in the economy played a key role. As time passes, more and more people who have already experienced the disease and have acquired immunity, as well as the number of vaccinated people, should have a positive effect on the situation. However, the scenario of a sharp increase in the number of infected people or new virus strains and the return of drastic restrictions on economic activity cannot be definitely rejected. The risk of a negative scenario and its impact on the Group's operations is difficult to estimate.

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.

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 it. It will also be possible to increase production capacity depending on demand and the pace of the economy's evolution towards zero emissions.

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.

Decommissioning of units 3 and 6 at Pątnów Power Plant

On June 30, 2020, two coal blocks at Pątnów power plant with a capacity of 200 MW each were shut down. Blocks 3 and 6 were put into operation in 1968/69 and worked a total of 631 thousand hours. The capacity of Konin power plant also decreased by 93 MW as a result of putting down old coal installations.

Decommissioning of coal blocks in ZE PAK SA is not the first case of this type. Over the past 30 months, 1293 MW of coal capacity has been decommissioned at ZE PAK SA, consisting of 600 MW at Adamów power plant, a total of 600 MW at Pątnów power plant and 93 MW at Konin power plant. The reduction in production potential has turned in recent years into a reduction in both brown coal energy production as well as a reduction in CO₂, SO₂, NO_x and dust emissions.

Signing a contract for the construction of a 70 MWp photovoltaic farm in Brudzew

On 23 September 2020 ZE PAK SA signed a contract with a consortium of companies ESOLEO Sp. z o.o. with its seat in Warsaw and Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o. with its headquarters in Konin regarding the implementation of the "turnkey" investment task under the name "Energy transformation in the region - construction of a photovoltaic farm on the reclaimed areas of Adamów Mine with a capacity of 70 MWp including the necessary technical infrastructure".

The subject of the Contract is the design, assembly and commissioning in accordance with the provisions of the Contract of a 70 MWp photovoltaic farm with the necessary technical infrastructure. The Consortium of Contractors for the subject of the Contract was selected after the Company conducted a tender procedure. The photovoltaic power plant with a capacity of 70 MWp will be built on plots of approx. 100 ha, on reclaimed area that was previously exploited in the process of lignite mining using the opencast method. The area is located within the administrative boundaries of Brudzew commune. The location of the photovoltaic power plant was dictated, among others, by proximity to the existing power evacuation system.

In accordance with the signed Contract, the remuneration of the Consortium of Contractors for the performance of the subject of the Contract was set at PLN 163.8 million net. In the fourth quarter of 2020, the implementation of the farm construction project was transferred to the special purpose vehicle PAK-PCE Fotowoltaika sp.z o.o., which became a party to the contract for the implementation of the farm.

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 older coal-fired units at Państwowe Wodne Wody Polskie 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 in Państwowe Wodne Wody Polskie 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.

Significant events after the balance sheet date

Loan agreement for financing an investment project at Konin Power Plant (adaptation to biomass combustion)

On January 29, 2021 the Company concluded a loan agreement with Bank Polska Kasa Opieki SA, on the basis of which the Company will be granted a loan in a total amount of up to PLN 160 million, intended for financing the investment project. The aim of the project is to adapt the existing coal-fired unit located on the premises of Konin power plant to biomass combustion. The modernized 50 MWe installation will produce electricity and act as a backup for the already operating biomass unit, supplying heat to the city of Konin. After the completion of the project, the power generation at Konin Power Plant will be approx. 100MWe (2x50MWe) using biomass as the primary fuel.

Pursuant to the agreement, the loan amount is up to PLN 160 million, and the Company undertook to contribute its own share from its own funds, in the amount of at least 20% of the project costs, but not less than PLN 52.8 million. The loan may be used no later than December 31, 2021. The borrower is obliged to repay the loan with interest and other amounts due under the terms of the agreement, with the full repayment of the loan by December 31, 2030.

In order to secure the repayment of receivables, the Company has established collaterals, i.e. a mortgage on the indicated properties of Konin Power Plant; financial and registration pledge on bank accounts maintained by the Company at Bank Pekao S.A. and power of attorney to each of the above bank accounts; transfer as security under insurance policies of the property of Konin Power Plant and assignment of receivables from heat supply contracts for the city of Konin and the Company's declaration of submission to enforcement pursuant to Art. 777 § 1 point 5 of the Code of Civil Procedure.

Signing a letter of intent with PGW Wody Polskie

In 2020, ZE PAK SA, in cooperation with Państwowe Gospodarstwo Wodne Wody Polskie, began intensive activities aimed at improving water conditions in the area of operation of the mines belonging to the Group. On February 9, 2021, ZE PAK SA and PGW Wody Polskie signed a Letter of Intent regulating the already started activities aimed at increasing retention in Eastern Wielkopolska. ZE PAK SA, together with PGW Wody Polskie, prepared an integrated program for the reconstruction of water relations, covering both post-mining excavations, rivers and canals flowing through the areas in the vicinity of the open-pit mines, as well as wetlands from the nearby Gniezno and Kujawskie Lakelands. Retention is to be increased by finding the most advantageous variants of further shaping the catchment areas of rivers and lakes occurring in the area of operation of mines owned by ZE PAK SA, using post-mining workings to conduct retention and flood management and establishing cooperation in the scope of the possibility of using the considered post-mining workings for the purposes of producing energy from renewable sources.

In total, there are over 30 investment tasks to be implemented under the program, for which investor cost estimates are currently being prepared. The cost of these works is estimated at over PLN 120 million and will be spread over the next 10 years. Some of these investment tasks will be financed as part of the reclamation obligations imposed on companies from the ZE PAK SA Capital Group. The agreement concluded with PGW Wody Polskie also provides for the implementation of a number of investments aimed at improving water relations in Eastern Wielkopolska, the source of financing of which may be the National Reconstruction Plan and the Just Transition Fund. The implementation of the envisaged tasks will significantly shorten the period of improvement of water relations in the region as compared to the current assumptions in this regard.

Conclusion of an electricity sales contract (PPA)

On March 12, 2021 PAK PCE Fotowoltaika Sp. z o.o. concluded an electricity sale contract with Polkomtel Sp. z o.o. The contract concerns the sale of electricity and guarantees of origin of energy produced by a solar farm with a target installed capacity of 70 MWp, located in Brudzew commune, in Turek powiat, in Wielkopolskie voivodship. The farm construction project is currently being carried out by the special purpose vehicle PAK PCE Fotowoltaika Sp. z o.o. and its completion is planned for the fourth quarter of 2021.

The contract for the sale of electricity was signed for a period of 15 years with the possibility of extending it for another 5 years. The total planned volume of electricity sales under the contract applies to the entire volume produced by the farm in this period. The production volume of the farm throughout the entire period of operation will depend mainly on the insolation conditions and the degree of productivity of the installed devices. The estimated production volume of the farm in the first year of operation will amount to approximately 68 thousand MWh. The produced electricity will be sold at a fixed price, indexed from 2023 on the annual inflation rate. The total estimated sum of revenues from the sale of electricity over a period of 15 years will amount to approximately PLN 300 million.

Both parties to the contract have been adequately secured, including in the event of no electricity production by the farm, as well as no payment for the electricity supplied by the farm. The provisions of the contract also comprehensively regulate issues related to, inter alia, electricity production planning and responsibility for the commercial balancing.

Signing a long-term contract for the sale of electricity with a recipient with a stable financial position secures the revenue stream for the implemented project and makes it independent of the current fluctuations on the energy market. Such a solution, similar in its structure to auctions for renewable energy sources, is highly effective in the process of obtaining financing for large-scale renewable energy projects. The developed model of cooperation between the producer of renewable energy and its recipient, and the growing interest of commercial energy consumers in securing its supplies at predictable prices, constitute the potential to be used in the implementation of subsequent projects in the field of energy production from renewable sources.

Conclusion of a loan agreement for financing the project of construction of a photovoltaic farm with an installed capacity of 70MWp in Brudzew

On March 12, 2021, PAK PCE Fotowoltaika Sp. z o.o. concluded a loan agreement with a consortium of banks composed of: PKO BP SA (in the role of the Loan Agent and Security Agent), Bank Pekao SA and mBank SA, under which, a loan will be made available in the total amount of up to PLN 175 million, of which the investment loan is PLN 138 million, and the loan for VAT financing is PLN 37 million, intended for financing the investment project. The aim of the project is to build a photovoltaic farm with a target installed capacity of 70 MWp located in the commune of Brudzew, in the Turek powiat, in Wielkopolskie voivodship. The farm construction project is carried out on areas previously used for mining activities. The contractors of the farm are the consortium of Esoleo Sp. z o.o. and PAK Serwis Sp. z o.o. The completion of the construction of the farm is planned for the fourth quarter of 2021.

Pursuant to the agreement, the borrower undertook to contribute its own share from its own funds, in the amount of not less than PLN 51 million. The borrower is obliged to repay the loan with interest and other amounts due under the terms of the agreement, with the full repayment of the loan by December 31, 2035.

In order to secure the repayment of receivables, collaterals required by the loan agreement were established, i.e. mortgage on the indicated real estate, financial and registered pledge on shares in PAK-PCE Fotowoltaika Sp. z o.o., financial and registration pledge on bank accounts and power of attorney to each of the above-mentioned bank accounts, registered pledge on the company's assets, assignment of contracts constituting essential documentation of the project (general contracting contracts (EPC), service contracts (O&M), contracts for the sale of electricity (PPA)), assignment of insurance policies and the statements of PAK-PCE Fotowoltaika Sp. z o.o. and the Company to submit to enforcement pursuant to Art. 777 § 1 point 5 and 6 of the Code of Civil Procedure.

As part of the structure of the agreements accompanying the loan agreement, there has been signed the so-called support agreement under which ZE PAK SA acts as a guarantor in the event of, inter alia, exceeding the project costs during the construction period, subcontractors' claims, shortage of funds required to service the debt and complete the Project.

Court order on the decision of the Minister of Climate (adjustment to BAT)

On January 20, 2021, the Company received the Order of the Provincial Administrative Court in Warsaw of January 5, 2021 to suspend the execution of the contested decision of the Minister of Climate of August 4, 2020 ("Decision of the Minister of Climate"), upholding the decision of Marshal of Wielkopolska Province on adjusting the integrated permit for 474 MW power unit (former Pańków II sp. z o.o.) to the requirements of BAT conclusions ("Marshal's Decision"). The above-mentioned Decision granted the Company a temporary derogation from the emission limit values specified in the Commission Implementing Decision (EU) 2017/1442 of July 31, 2017, establishing the conclusions on the best available techniques (BAT) for large combustion plants in accordance with the Directive of the European Parliament and the Council 2010/75/EU, with regard to the emission of nitrogen oxides, dust, mercury and sulphur dioxide into the air.

The company filed a complaint against the abovementioned decision to suspend the enforcement. A complaint against the above decision was also submitted by the Minister of Climate.

On March 16, 2021, the Company received another decision of the Provincial Administrative Court in Warsaw of March 12, 2021 to suspend the execution of the above-described decision of the Provincial Administrative Court to suspend the execution of the decision of the Minister of Climate.

The decisions contained in the above-mentioned decisions of the Provincial Administrative Court in Warsaw of January 5, 2021 and of March 12, 2021, expired as a result of the judgment issued by the Provincial Administrative Court in Warsaw on April 9, 2021 in the case.

Judgment of the Provincial Administrative Court in Warsaw regarding the decision of the Minister of Climate (adjustment to BAT)

Provincial Administrative Court in Warsaw, at a closed session, by a judgment of April 9, 2021, file ref. IV SA / Wa 2149/20, repealed the decision of the Minister of Climate of August 4, 2020, challenged by Greenpeace Polska Foundation, on the basis of which the Decision of the Marshal of Wielkopolska Province of April 29, 2020 was upheld. As a result of the above judgment, the decision of the Minister of Climate does not have any legal effects. However, the Provincial Administrative Court in Warsaw did not reverse the decision of the first instance body, i.e. Marshal's Decision.

As at April 15, 2021, the Company had not received the justification for the above-mentioned judgment. The company is waiting for the preparation and delivery of the justification for the above-mentioned judgment by the Provincial Administrative Court..

3.2. Significant agreements concluded in the accounting year

Significant agreements for the Group's activity

Due to the characteristics of the business and the market in which ZE PAK SA operates, the basic contracts concluded with major suppliers and customers in the ordinary course of business are standard. Contracts for the supply of the main raw material which is lignite are of a long-term nature and the suppliers are subsidiaries of ZE PAK SA. Agreements for the supply of biomass are concluded with many external suppliers. In the area of energy sales, the company is obliged to sell the entire volume of energy produced through the stock market, the exclusion is production from renewable energy sources (in the case of ZE PAK SA it is the volume produced from biomass, i.e. 6.40% of the total volume of energy production). Most of the biomass production volume is sold in bilateral contracts through the subsidiary PAK Volt SA. In the area of purchasing CO2 emission permits, Group companies sign framework agreements with individual contractors defining the basic terms of cooperation. However, the purchase itself is made in separate transactions in relation to specific quantities using current market prices.

Agreements regarding the obtained credits and loans

1. ZE PAK SA signed Annex no. 3 and Annex no. 4 with one of the banks to the multi-purpose credit limit agreement. Pursuant to Annex 4, the term of the contract was extended until December 31, 2021. The available multi-purpose credit limit is PLN 100,000 thousand. The interest rate on the overdraft facility according to the WIBOR 1M rate plus the bank's margin.
2. On March 31, 2020, ZE PAK SA signed an agreement with one of the banks to open a guarantee line up to the amount of PLN 50,000 thousand, valid until March 31, 2021. The validity period of the issued cards may not exceed March 31, 2022. As part of the line, ZE PAK SA may order the bank to provide an IRGIT guarantee, proper performance of the contract and payment of the price.
3. Elektrownia Pańków II sp. z o.o. on March 31, 2020, signed an agreement with one of the banks for the opening of a guarantee line up to the amount of PLN 30,000 thousand, valid until March 31, 2021. The validity period of the issued guarantees may not exceed March 31, 2022. As part of the line Elektrownia Pańków II sp.z o.o. could have commissioned the bank to issue an IRGIT guarantee, good performance of the contract and payment of the price. On December 30, 2020, Elektrownia Pańków II sp.z o.o. was merged with ZE PAK SA, as a result of which ZE PAK SA, as the acquiring company, took over the assets of Elektrownia Pańków II sp.z o.o. and on the basis of succession (art.494 of the Commercial Companies Code) assumed all rights and obligations of Elektrownia Pańków II sp.z o.o.

Agreements regarding the granted loans

1. On September 7, 2020, ZE PAK SA signed a loan agreement for other company from the Capital Group, i.e. PG Hydrogen sp.z o.o. The loan amount is PLN 10,000. The loan will be repaid in a single payment on September 6, 2021. The loan interest rate is WIBOR 1Y plus margin.
2. On December 15, 2020, ZE PAK SA signed a loan agreement for other company from the Capital Group, i.e. PAK-VOLT S.A. The loan amount is PLN 13,000 thousand. The loan will be repaid in a single payment on December 17, 2021. The loan interest rate is WIBOR 1Y plus margin.

Granted and obtained guaranties and sureties

Table 2: List of guaranties and sureties granted in 2020

	Zloty thousand 2020	Euro thousand
Granted guaranties	30 000	9 980
- for companies from the Group	-	-
Granted sureties	125 578	-
- for companies from the Group	125 578	-

Table 3: List of guaranties and sureties obtained in 2020

	Zloty thousand 2020	Euro thousand
Obtained guaranties	35 548	2 083
- from companies from the Group	-	-
Obtained sureties	-	-
- from companies from the Group	-	-

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

In 2020, in the ZE PAK SA Capital Group, there were no agreements concluded between affiliated companies on terms different from market terms.

3.3. Implementation of investment projects

In 2020, ZE PAK SA 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 K-7 coal boiler in Konin power plant to the exclusive biomass combustion (construction of biomass unit no. 2)

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 leading 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.

Necessary dismantling works were performed, the boiler pressure part, flue gas recirculation ducts and air ducts were delivered, the left and right as well as front and rear pressure walls of the boiler were assembled. Work is underway on the boiler tight screens, primary and secondary air ducts, and work has commenced on the electrical system.

In addition, as part of the project related to the construction of biomass unit No. 2, further important contracts were concluded, including: the modernization of the G-5 generator with adaptation to air cooling, the construction of a biomass feeding system to the boiler tanks, TG-5 with its heating for the modernization of the electrostatic precipitator, for the installation of ash removal from the electrostatic precipitator and an order was placed for the implementation of a digital DCS control system for the K7-TG5 unit.

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. 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, together with replacement permits 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. On December 22, 2020, an agreement was concluded to transfer the rights and obligations under the contract for the construction and commissioning of a photovoltaic power plant from ZE PAK SA to the special purpose vehicle PAK-PCE Fotowoltaika sp.z o.o. Deliveries of cables have been completed, deliveries of transformer stations and supporting structures for assembly tables are in progress, construction and assembly works have been commenced under the original building permits.

ZE PAK SA key investments in the preparatory phase

In 2020 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 refuelling station in the cities of Warsaw and Konin,
- delivery of a mobile hydrogen storage facility,
- 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 refuelling station in the cities of Warsaw and Konin

In October 2020, an agreement was signed with NEL Hydrogen A / S for the delivery, service and maintenance of two hydrogen refuelling 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.

Delivery of a mobile hydrogen storage facility

In order to enable the supply of hydrogen from the hydrogen plant at Konin Power Plant or from another hydrogen producer to the refuelling station, a mobile hydrogen storage was ordered in December 2020.

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.

In June 2020, an agreement was concluded with the AGH University of Science and Technology in Kraków named after Stanisław Staszic Energetics Centre, to perform the work entitled "Autonomous supply of electricity and heat for a single-family house, based on its own renewable energy sources, using hydrogen as a storage and energy carrier".

3.4. Risk management

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

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

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

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

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

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

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

3.5. Description of use of emission earnings

In 2020, ZE PAK did not issue and did not redeem any securities.

4. MAIN BUSINESS RISKS

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

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

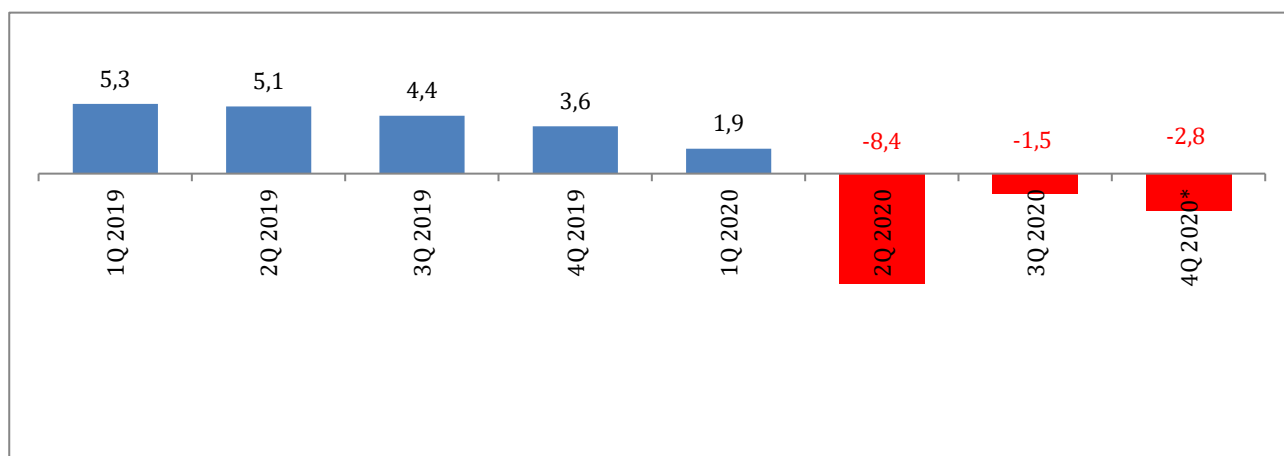
- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- extraction and supply costs of coal and other fuel;
- CO₂ emission allowances costs;
- compensation for the stranded costs related to the termination of PPA for unit 9 in Elektrowni Państw;
- seasonality and meteorological conditions;
- investment expenses;
- EUR/PLN exchange rate and the level of interest rates.

Moreover, important factor that may have a significant impact on the Group's financial results in the coming quarters are the results of the value impairment test of assets. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last tests were carried out on 31 December 2020 and their result did not justify the change of the asset components value. The used valuation models of assets show sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of unstable operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation models of assets can change, and consequently the value impairment tests results may cause the necessity of verifying the value of the amount of the write-downs against the asset components. Another analysis of the reasons justifying the potential necessity to conduct the value impairment tests of the asset components will be executed at the end of the next reporting period.

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

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

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



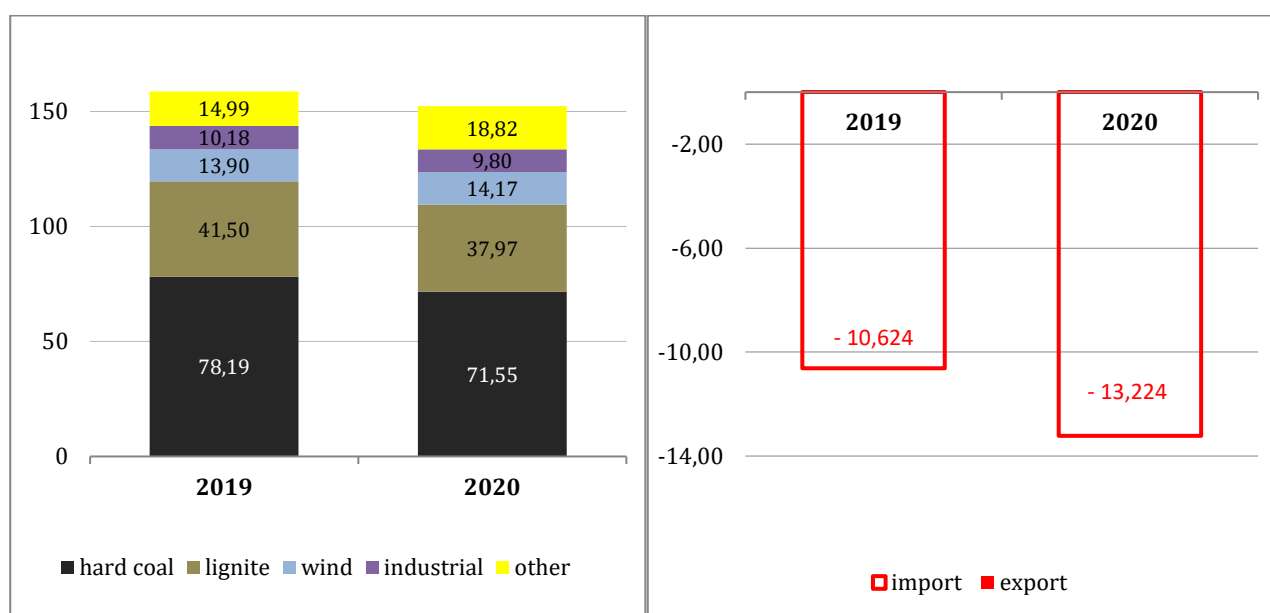
* The so-called preliminary estimate of gross domestic product in the fourth quarter of 2020, seasonally unadjusted, at constant average annual prices of the previous year.

Source: GUS data

According to GUS data, the dynamics of gross domestic product ("GDP") calculated in constant prices of the previous year decreased from 1.9% recorded in the 1st quarter of 2020 to the level of -2.8% recorded in the 4th quarter of 2020 (data for the 4th quarter on the basis of the so-called: "preliminary estimate of gross domestic product"). According to preliminary estimates, the gross domestic product, unadjusted by season, in the fourth quarter of 2020 decreased in real terms by 2.8% year-on-year, compared to an increase of 3.6% in the corresponding period of 2019.

The presented preliminary GDP estimate for the fourth quarter of 2020 takes into account the effects of COVID-19 and the introduction of government measures to counteract the effects of the pandemic. In the fourth quarter of 2020, there was a decrease in GDP, which amounted to 2.8% annually. This was due to a decrease in domestic demand by 3.4% (in the third quarter of 2020, a decrease in domestic demand by 3.2% was recorded). This was due to a decrease in gross accumulation by 8.7% (compared to a decrease in the third quarter of 2020 by 20.2%) and a decrease in total consumption by 1.4% (against an increase in the third quarter of 2020 by 1.0%). Consumption in the household sector decreased by 3.2% (compared to an increase in the third quarter of 2020 by 0.4%). Gross fixed capital formation decreased by 10.9% (compared to a drop in Q3 2020 by 9.0%).

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



Source: Own development based on PSE data

Data on the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that gross domestic electricity consumption¹ in 2020 amounted to 165.53 TWh and compared to the previous year it fell by 2.28%. It should be borne in mind, however, that some of the magnitude of the drop has been covered by mass emerging photovoltaic sources producing energy that is directly consumed at the point of delivery (prosumers), which is not recorded by existing measuring systems. In 2020, the decrease in energy production was higher than the decrease in consumption, total electricity production fell by 4.07%. Taking into account the entire balance of the year, a comparable decrease in energy production from the hard coal and from lignite on the level of 8.5%. The decline in energy production from the main sources in terms of volume of coal and lignite should be associated with the deteriorating profitability of production from high-emission sources, the competitiveness of other generation sources, warm winter, as well as the following factors such as import of energy from abroad, as well as the increase in production based on for renewable energy sources. Gas-generated power plants produced a relatively large amount, an increase of 15.09% per year. On the other hand, wind farms produced a slightly, i.e. 1.95% more electricity than in 2019. Electricity produced from hard coal accounted for 46.98% of total electricity production, lignite energy 24.93% and wind turbines generated 9.31% of total energy. The direction of foreign exchange has not changed. In the past year, Poland was again a net importer of electricity, the surplus of imports over exports was 13.22 TWh, which is an increase of 24% compared to imports in 2019.

¹ On the basis of Table: Structure of electricity production in domestic power plants, the volume of electricity exchange with foreign countries and national energy consumption - monthly values and from the beginning of the year - gross value available on PSE SA website.

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 ("res"), 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 entered 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 is 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 was held on December 14, 2020. 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 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. On December 10-11, 2020, during the European Council summit, the heads of governments of the EU member states approved a new CO₂ reduction target for the European Union for 2030. The Council decided that this target will be at least 55% compared to 1990. Acceptance of such a commitment means that the EU is back on the path to zero emissions in 2050, which was agreed in July 2020 (Poland has not yet confirmed its participation in order to be climate neutral in the EU by 2050).

At the above-mentioned December summit, the European Council concluded an agreement on the EU budget for the next 7 years and the reconstruction fund, which means that Poland will be able to use EU funds to support the transformation of the economy and its recovery after the pandemic.

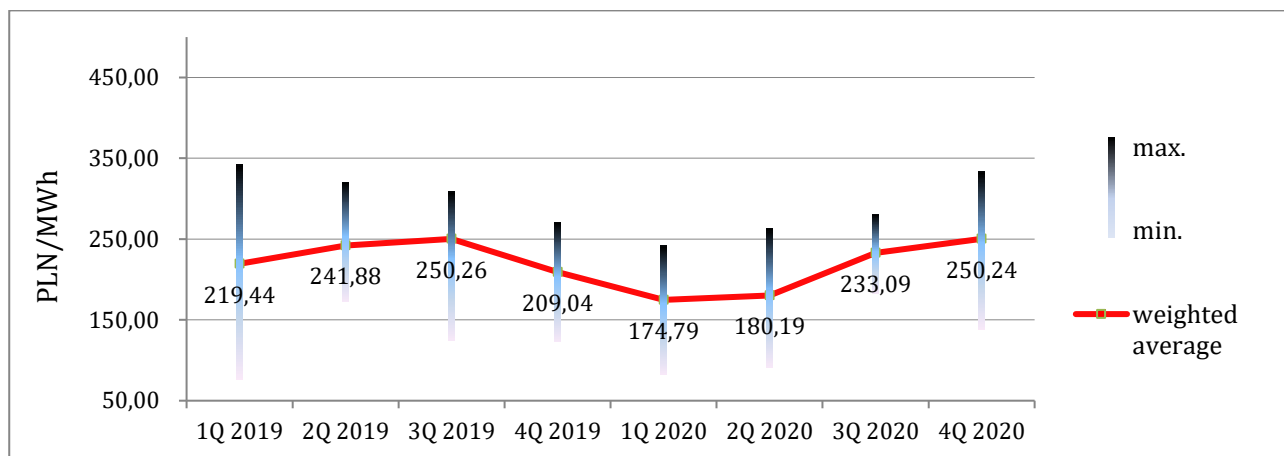
Electricity prices

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

2020 has been an extraordinary year in many ways due to the ongoing pandemic. This aspect was also reflected in the energy market. 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 the third quarter of 2019. The decline in electricity prices on the 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. The third quarter of 2020 started a sharp upward price trend that continued until the end of the fourth quarter. Comparing q / q, the fourth quarter of 2020 was characterized by a much higher level of quoted electricity prices compared to the previous year, which can be explained by the interaction of commodity markets. The quotations on the CO₂ emission allowances market in the last quarter were characterized by significant price increases, even to the level of EUR 30-33 / EUA.

The weighted average BASE price on the Day-Ahead Market on the Polish Power Exchange (TGE) for 2020 was at the level of PLN 210.11 / MWh, which means a decrease compared to 2019 by PLN 19.51 / MWh, i.e. by approx. 8.5 %.

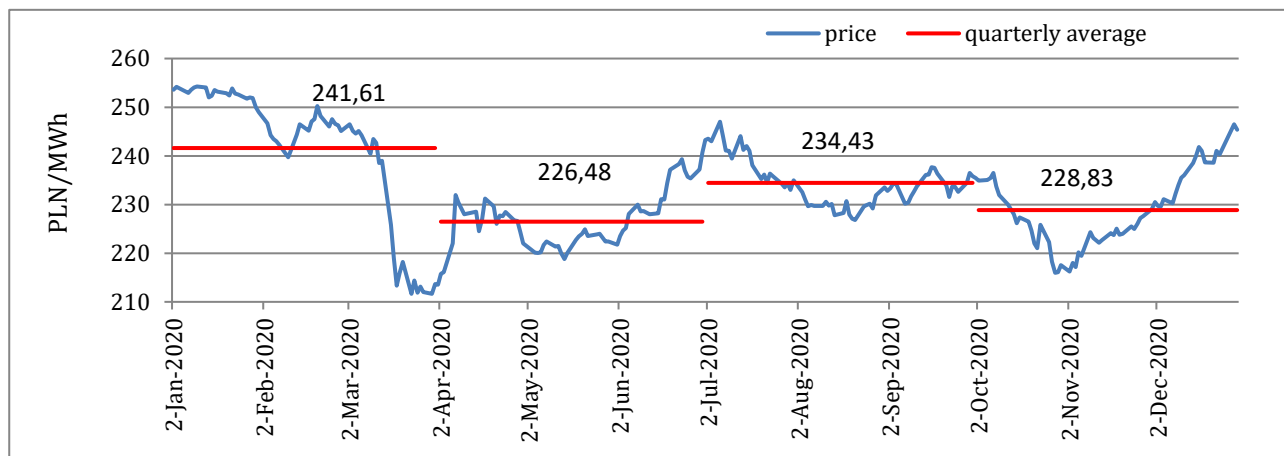
Chart 4: Electricity prices (TGeBASE)²



Source: Own elaboration based on TGE data

On the electricity futures market of Towarowa Gielda Energii SA, the prices on the BASE_Y-21 reference futures contract fell at the end of Q1 2020, which may be related to the COVID-19 pandemic. In the second quarter of 2020, the contract saw further price drops. In the third quarter of 2020, there was a slight price rebound, however, the fourth quarter saw further drops. The price rebound took place only in December 2020, which can be associated with large increases in the prices of EUA units on the carbon market. The arithmetic mean of the daily clearing rates for the BASE_Y-21 contract in 2020 was successively in the 1st quarter at PLN 241.61 / MWh, in the 2nd quarter PLN 226.48 / MWh, in the 3rd quarter PLN 234.43 / MWh, while in the fourth quarter at the level of PLN 228.83 / MWh. The factors determining the trend on the futures market during 2020 were similar to the spot market (DAM & IDM), and therefore the level of quoted prices was strongly influenced by the course of the COVID-19 pandemic, as well as investors' behaviour on the carbon market, which turned into the level of quoted prices EUA units.

Chart 5: The price of the futures contract for the supply of electricity (band) for 2021



Source: Own elaboration based on TGE data

Certificates of origin

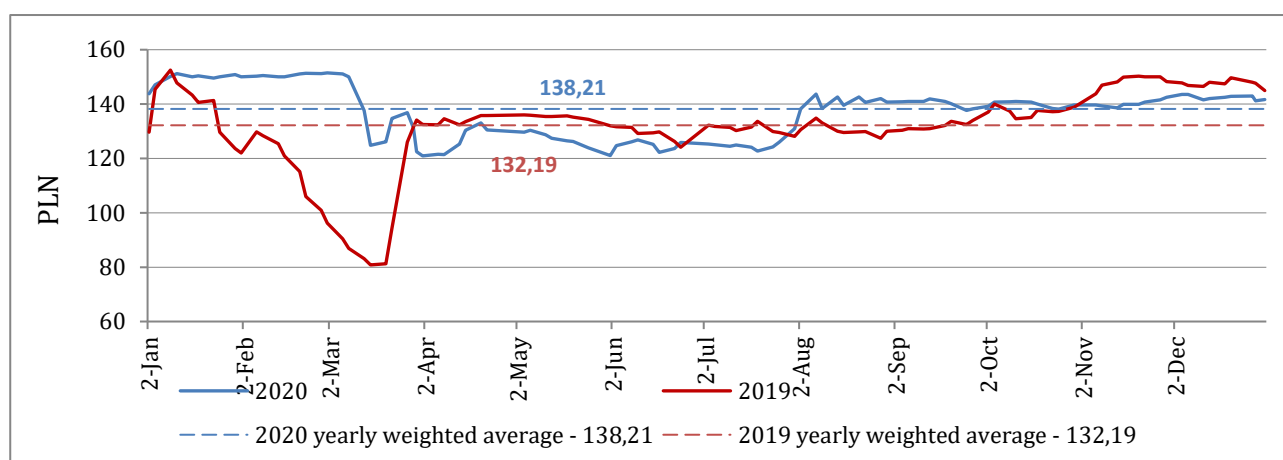
Due to the fact that one of the power units at ZE PAK SA is dedicated to combusting biomass and, a producer is entitled to green certificates. The number of obtained certificates of origin depends on the level of generation from a given sources and is usually higher than the number, which the Company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

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

automatically decreases the amount of generated green certificates. Due to the fact that the level of income generated from the sale of certificates of origin is lower than the level of revenues generated from the sale of electricity, the risk of price changes for certificates of origin also has a smaller impact on results than, for example, the risk of changes in energy prices.

From the fourth quarter of 2019 (weighted average price PLN 144.61 / MWh) to mid-March 2020, the upward trend in the prices of green certificates continued. In the second half of March 2020, the price of green certificates began to decline, reaching the value of PLN 125.93 / MWh at the end of the second quarter of 2020. The fall in prices during this period was caused by 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 gradually increase in August. The weighted average price of green certificates began to increase again from the third quarter of 2020, reaching the level of PLN 141.01 / MWh in the fourth quarter of 2020. Comparing the fourth quarter of 2020 to the fourth quarter of 2019, the price decreased by PLN 3.60 / MWh. However, on an annual basis, the weighted average price increased by PLN 6.02 / MWh. The prices were additionally influenced by an increase in the obligation to redeem green certificates by 1% compared to the previous year. According to the draft regulation published by the Ministry of Climate and Environment, the 19.50% obligation will remain at the same level also in 2021. Raising the so-called RES obligation in 2020 has turned into a reduction in oversupply and stabilization on the market of renewable energy certificates, and maintaining the amount of the obligation in force in 2021 will allow for further stabilization of the situation in the system of certificates of origin. In 2020, some entities ended their participation in the certificate of origin system due to the end of the 15-year support period, and also due to the migration of existing installations to other support systems. Despite the gradual increase in the RES obligation in recent years, and despite the factors indicated by the Ministry of Climate and Environment in the draft regulation, there was still an oversupply of certificates of origin on the market, which in the middle of the year amounted to 21.7 TWh. Unfortunately, the recent exclusion of the possibility of implementing the RES obligation in an alternative way to the purchase and redemption of certificates has not contributed to a clear reduction of the oversupply of green certificates - by contributing the so-called the substitution fee that the entities obliged to demonstrate the minimum share of green energy could transfer to the account of the National Fund for Environmental Protection and Water Management.

Chart 6: Average price of certificate of origin for RES produced energy



Source: own development based on TGE data

Fuel costs and supplies, coal extraction costs

A fuel cost is the important part of the costs related to the electricity and heat generation in companies of ZE PAK SA. 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.

Currently, the main supplier of coal to ZE PAK SA is PAK KWB Konin SA. This is supplemented by deliveries from external entities from outside the Group. There is also an exposure to price fluctuations of other fuels used, mainly biomass, the price of which will become more and more important due to the construction of another biomass unit at Konin Power Plant. The level of costs related to lignite mining is also important for the financial result, which largely depends on factors beyond the Company's direct control, such as e.g. the geological conditions of the deposits in the final stage of their exploitation.

The deposits exploited by the Group's mines have a certain abundance. The possibility of achieving the assumed level of electricity production depends on the extraction capacity and the quality of coal mined in the currently exploited deposits. The current business model assumed also to obtain a concession for the exploitation of the prospective Ościśłowo deposit. However, taking into account the length of the decision-making process on obtaining a concession for Ościśłowo field, the complexity of this process and the uncertainty as to the operating conditions in the long term, in the environment of the tightening European climate policy and increased emission standards for coal sources, it was decided not to take into account this field in the baseline scenario of the operation of coal assets of ZE PAK SA. In the coming years, the company intends to implement the directions of the strategy adopted in 2020, assuming a gradual departure from generating energy from coal and focusing more and more on projects in the field of energy production in renewable sources, production of green hydrogen and its use.

CO₂ emission allowances costs

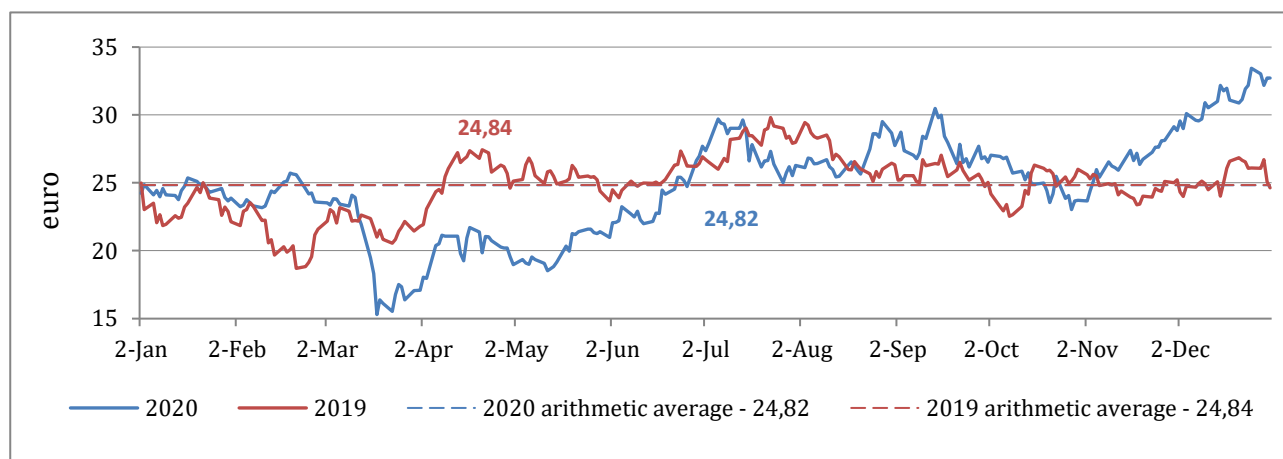
The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO₂ emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact 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 2020, the Company received a small amount of free CO₂ emission allowances, i.e. 29 370 EUA, resulting from the allocation for heat generation. Therefore, practically the entire volume of emission allowances needed for ZE PAK SA had to be purchased on the secondary markets.

In January and February 2020, the EUA price was in the range of EUR 23.30 - EUR 25.70. The prevailing COVID-19 pandemic undoubtedly contributed to a significant drop in the prices 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) was as much as EUR 8.84. From March to July 2020, the EUA price was in an upward trend. The key event for the EUA allowances market in September was the announcement of the new EU reduction target for 2030, amounting to a 55% reduction in emissions compared to 1990. Therefore, the prices of EUA allowances in a short time increased from approx. EUR 27 to record levels - approx. EUR 30.5. October saw significant drops in EUA prices. The prices of EUA throughout the month fell from around EUR 27 to EUR 23.70 (fear of a second wave of the pandemic and the resolution of the Brexit issue in the context of the UK's exit from the EU ETS). The last month of 2020 was exceptional in terms of records on the emission allowance market. With the same high volatility of prices as recorded in the previous months (prices between the minimum and the maximum were close to EUR 4.5), first the limit of EUR 31 (December 15) was exceeded, and then EUR 33 (December 28). Never in the history of the emission allowance market (i.e. since 2005) have higher values been recorded.

Political decisions, including reducing the supply of CO₂ emission allowances by transferring them to the so-called market stability reserves and the decision to increase the target of reducing CO₂ emissions by 2030 to 60% compared to 1990, created conditions for an increase in the prices of allowances in the first quarter of 2021 - EUA prices ranged from EUR 31 to almost EUR 40 in March 2021. Currently, financial institutions play the first fiddle on the CO₂ emission allowance market, and installations having to purchase EUAs will have more and more challenges.

The arithmetic average of the EUA quotations in 2020 was EUR 24.82, while the corresponding average in 2019 was EUR 24.84. The provision for the redemption of CO₂ emission allowances for 2020 amounted to EUR 139 152 thousand.

Chart 7: The price of a forward contract for the delivery of EUA



Source: own elaboration based on ICE data

Seasonality and meteorological conditions (including mainly wind conditions)

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

Irrespective of the factors described above, meteorological conditions are becoming more and more important for ZE PAK SA production level. In the past, the operations of the Company were not subject to significant seasonality of demand, due to low costs, the work of blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of RES in the energy generation segment, including primarily wind sources but also the growing production from photovoltaic sources, weather conditions are becoming more and more important in the estimation of ZE PAK SA production volume, with particular emphasis on wind and sunlight conditions. Statistically, periods of the best wind conditions are the first and the fourth quarter. It should be taken into account that in periods when wind conditions are extremely good and the production of wind turbines is high, the demand for the Company's production may be subject to periodic reductions, similarly in periods of lower wind production can increase. Due to the increase in installed capacity in photovoltaics on wind conditions, solar conditions should be imposed, which are particularly good in the third and fourth quarter.

The risk related to the seasonality and weather conditions in 2020 was not crucial for the Company's financial results.

Investment expenses

Activities in the coal mining and energy production sector require significant investment expenditures. The Company'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 expected increased level of capital expenditure related to the Group's plans to implement projects in the area of energy production from renewable energy sources and the use of hydrogen should be taken into account. The level of investment outlays had a material impact, and, according to expectations, it will 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.

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,
- one of the companies from the renovation segment - PAK Serwis sp.z o.o., carries out a part of its orders outside Poland, settling them in euro,
- the companies in the Group use debt financing based on a variable interest rate.

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

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

5. DESCRIPTION OF THE FINANCIAL AND ECONOMIC SITUATION

5.1. Principles of development of the financial statement

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

The accounting principles (policy) applied to the preparation of the financial statements, are presented in item 6 of the Introduction to the Financial Statements of ZE PAK SA for the period of 12 months ended on 31 December 2020.

5.2. Specification of the basic economic and financial values

Profit and loss account

Net revenues from the sale of products, goods and materials in 2020 amounted to PLN 1,846,683 thousand and decreased by PLN 536,952 thousand, i.e. 22.53% compared to 2019. The decrease in revenues from the sale of electricity from own production and turnover in 2020 compared to the previous year amounted to PLN 591,436 thousand. The reason for the decrease in revenues was a decrease in the sales volume - both sales of electricity from own production decreased by 0.81 TWh to 4.85 TWh and sales of electricity from trading by 1.30 TWh to 0.62 TWh.

Revenues from the sale of heat in 2020 amounted to PLN 48 835 thousand and were higher than in 2019 by PLN 2 593 thousand, i.e. 5.61%. The increase in revenues from the sale of heat was influenced by both the higher sales volume and the higher price for heat.

In 2020, compared to 2019, revenues from the sale of property rights from energy origin certificates increased by PLN 1,262 thousand, i.e. by 2.32%. The increase in revenues, contrary to the last year, is due to the realization of a higher price with a smaller volume.

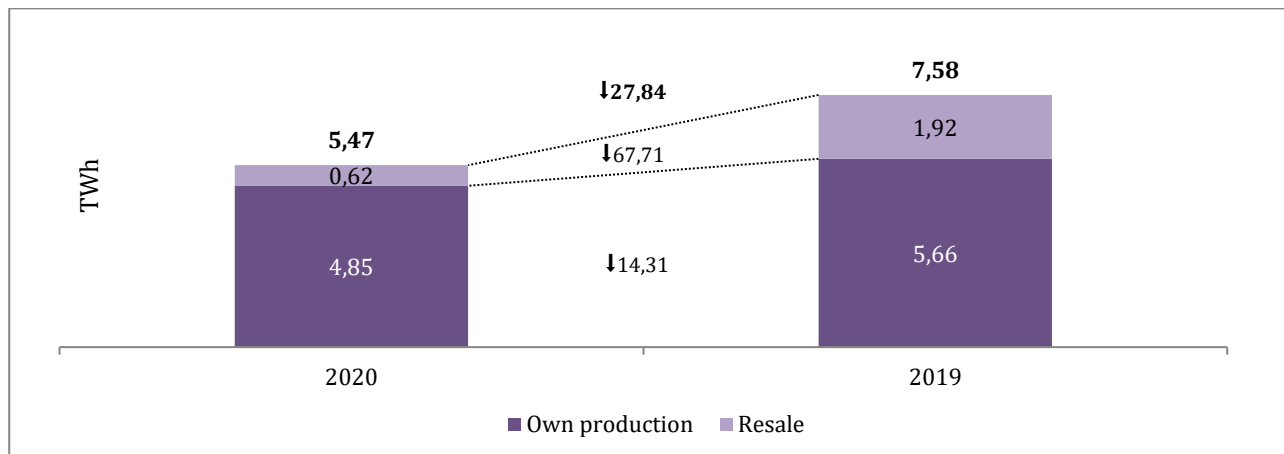
Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in 2020 amounted to PLN 180,073 thousand (including an advance of PLN 96,169 thousand), while in 2019 they amounted to PLN 143,788 thousand (including an advance of PLN 96,742 thousand). In both periods, the advance payments were at a similar level, but there was a difference in the amount of the adjustments - the adjustment for 2020 is higher by PLN 36 862 thousand compared to the adjustment for 2019. The main reason for the higher correction on the revenue side was the lower revenue and lower profit on energy trading in 2020 compared to 2019. On the cost side, on the other hand, higher costs mainly due to the increase in prices of carbon dioxide emission allowances with lower production..

The company generated higher revenues from the sale of services by PLN 9,415 thousand, i.e. by 39.98%. The main reason for the increase in revenues were additional support services provided by the company as part of the shared services center for the Group's entities.

Table 4: Specification of sales revenues

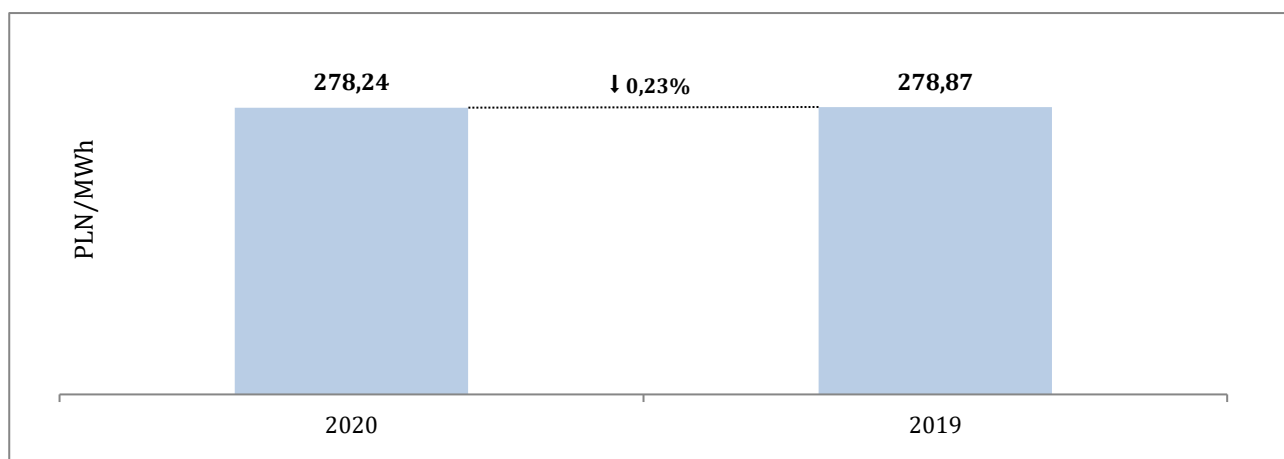
	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2020</i>	<i>zloty thousand</i> <i>12months period</i> <i>ended</i> <i>31 December 2019</i> <i>(transformed data)</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of products	1 674 435	1 871 013	(196 578)	(10,51)
Revenues from the sale of goods, including:	1 461 400	1 703 678	(242 278)	(14,22)
– Electricity	1 356 856	1 602 989	(246 133)	(15,35)
– Property rights from certificates of origin of energy	55 709	54 447	1 262	2,32
– Heat	48 835	46 242	2 593	5,61
Revenues from LTC termination	180 073	143 788	36 285	25,24
Revenues from the sale of service	32 962	23 547	9 415	39,98
Revenues from the sale of goods and materials	172 248	512 622	(340 374)	(66,40)
Revenues from the sale of goods (electricity)	165 776	511 079	(345 303)	(67,56)
Revenues from the sale of materials	6 472	1 543	4 929	319,44
Revenues from the sale of products, goods and materials, including:	1 846 683	2 383 635	(536 952)	(22,53)
Electricity (goods and products)	1 522 632	2 114 068	(591 436)	(27,98)

Chart 8: Sale of electricity



Source: Internal data

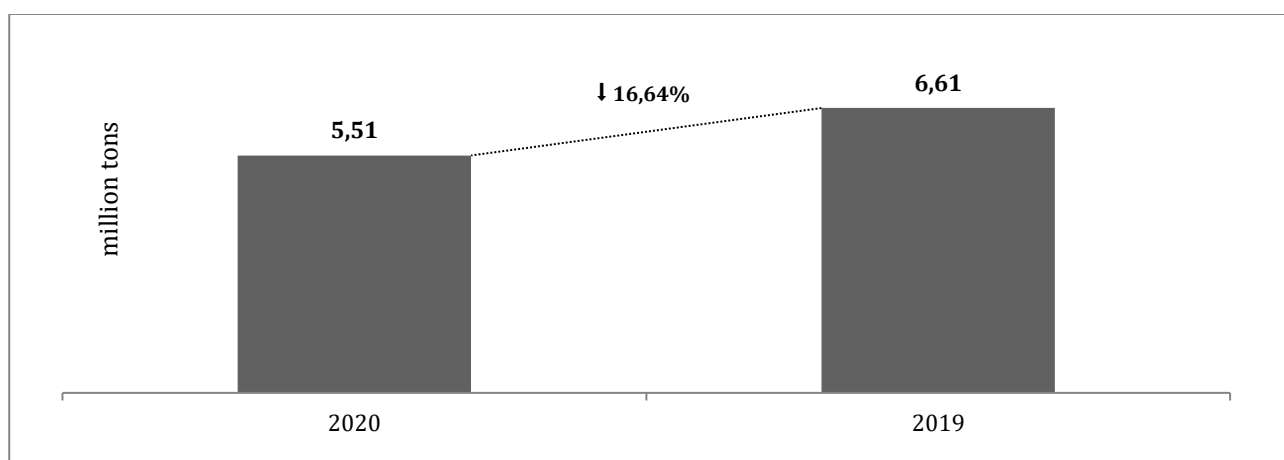
Chart 9: Average electricity prices*



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

Source: Internal data

Chart 10: CO₂ Emission



Source: Internal data

Table 5: Selected items from profit and loss account

	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2020</i>	<i>zloty thousand</i> <i>12months period</i> <i>ended</i> <i>31 December 2019</i> <i>(transformed data)</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Net products, goods and materials sales revenues, including:	1 846 683	2 383 635	(536 952)	(22,53)
– Net revenues of the products sales	1 674 435	1 871 013	(196 578)	(10,51)
– Net revenues resulting from the goods and materials sales	172 248	512 622	(340 374)	(66,40)
Costs of sold products, goods, and materials, including:	1 822 441	2 097 412	(274 971)	(13,11)
– Cost of manufacturing of the sold products	1 675 706	1 690 494	(14 788)	(0,87)
– Value of sold goods and materials	146 735	406 918	(260 183)	(63,94)
Gross profit (loss) on sales	24 242	286 223	(261 981)	(91,53)
Selling costs	1 670	2 042	(372)	(18,22)
Administrative costs	47 401	54 415	(7 014)	(12,89)
Sales profit (loss)	(24 829)	229 766	(254 595)	-
Other operating revenues	69 297	3 604	65 693	1 822,78
Other operating costs	159 013	593 746	(434 733)	(73,22)
Profit (loss) on operating activities	(114 545)	(360 376)	245 831	68,22
Financial revenues	9 171	4 888	4 283	87,62
Financial costs	150 441	16 184	134 257	829,57
Gross profit (loss)	(255 815)	(371 672)	115 857	31,17
Income tax	(73 401)	11 448	(84 849)	-
Net profit (loss)	(182 414)	(383 120)	200 706	52,39

The production cost of the products sold in 2019 amounted to PLN 1,675,706 thousand and was lower by PLN 14,788 thousand, i.e. 0.87% compared to 2019. The reduction of the cost was mainly due to lower costs of coal consumption related to the reduction of electricity production.

The value of goods and materials sold in 2020 amounted to PLN 146 735 thousand and was lower than in the previous year by PLN 260 183 thousand, i.e. by 63.94%, as a result of a lower volume of energy purchased for resale.

Selling costs in 2020 amounted to PLN 1,670 thousand and were lower than in the previous year by PLN 372 thousand, i.e. by 18.22%.

General and administrative expenses in 2020 amounted to PLN 47 401 thousand and were lower than in the previous year by PLN 7 014 thousand, i.e. by 12.89%.

Detailed analytical treatment of operating costs is presented in Table 6.

Other operating income in 2020 amounted to PLN 69 297 thousand, i.e. it increased by PLN 65 693 thousand compared to the previous year. The main components of their growth were: profit on forward transactions for the purchase of CO2 allowances, revenues related to the demolition of Adamów power plant, settlement of the contribution in kind related to the merger with PAK Infrastruktura and revenues obtained from FGŚP in connection with COVID-19.

In 2020, other operating costs decreased by PLN 434,733 thousand. The significant decline in other operating expenses is largely the result of a lower level of impairment losses on fixed assets by a total of PLN 445,001 thousand compared to those recorded in the previous year.

In 2020, an operating loss of PLN 114,545 thousand was recorded.

Financial revenues in 2020 amounted to PLN 9 171 thousand and were higher than those recorded in the previous year by PLN 4 283 thousand, i.e. 87.62%. The realized positive exchange differences and received dividends had the main influence on the increase of financial revenues.

Financial costs in 2020 amounted to PLN 150,441 thousand and increased by PLN 134,257 thousand, i.e. 829.57% compared to 2019. The reason for such a significant increase in costs are one-off events constituting write-offs of the value of shares in PAK KWB Konin SA and PAK-Volt SA in the amount of PLN 148,441 thousand.

In 2020, the Company recorded a net loss of PLN 182,414 thousand.

Table 6: Operational costs

	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2020</i>	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2019</i> <i>(transformed data)</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	93 358	95 473	(2 115)	(2,22)
Use of materials and energy	648 046	771 924	(123 878)	(16,05)
External services	140 439	125 358	15 081	12,03
Taxes and charges, including:	720 068	642 131	77 937	12,14
– excise tax	104	131	(27)	(20,61)
– CO ₂ emission costs	671 041	587 450	83 591	14,23
Salaries	93 239	80 777	12 462	15,43
Social security and other benefits	21 335	19 310	2 025	10,49
Other costs by type	10 161	9 283	878	9,46
Total costs by type	1 726 646	1 744 256	(17 610)	(1,01)
Value of sold goods and materials	146 735	406 918	(260 183)	(63,94)
Operational costs	1 873 381	2 151 174	(277 793)	(12,91)

Balance sheet

As at December 31, 2020, the Company's balance sheet total was PLN 2,451,709 thousand and decreased by PLN 128,722 thousand, i.e. 4.99% compared to December 31, 2019.

Fixed assets decreased by PLN 335 629 thousand, i.e. 18.31%. The biggest changes occurred in the following items:

- intangible assets, which decreased by PLN 89,382 thousand net, due to lower expenses for the purchase of CO₂ emission allowances compared to the previous year;
- property, plant and equipment, which decreased by PLN 156,224 thousand net, as a result of an impairment charge of PLN 141,000 thousand and a higher level of depreciation compared to realized capital expenditure;
- long-term investments, which decreased by PLN 88 633 thousand, i.e. by 35.98%, including the decrease due to impairment losses on shares in PAK KWB Konin SA and PAK-Volt SA, and the increase was due to shares acquired during the year in new companies implementing the green transformation of the Group.

Current assets increased by PLN 206,907 thousand, i.e. by 27.70%. The main factor behind the increase in current assets was the increase in cash and receivables.

Equity as at 31 December 2020 amounted to PLN 1,277,167 thousand, compared to the end of 2019 decreased by PLN 182,414 thousand, i.e. by 12.50%, which is a result of the net loss for 2020.

The level of provisions at the end of 2020 amounted to PLN 994 741 thousand and was lower than in the previous year by PLN 10 543 thousand. The largest decrease occurred in the item "deferred income tax provision". On the other hand, during the year, the provision for redemption of CO₂ emission allowances increased significantly.

Total liabilities at the end of 2020 increased by PLN 64,055 thousand compared to the end of 2019, of which long-term liabilities remained at a similar level, and short-term liabilities increased by PLN 63,817 thousand. The largest increase in liabilities concerned the item "investment liabilities" and trade liabilities.

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Table 7: Selected items from assets

	Zloty thousand 31 December 2020	Zloty thousand 31 December 2019 <i>(transformed data)</i>	Zloty thousand Change	% Dynamics
Fixed assets	1 497 850	1 833 479	(335 629)	(18,31)
Intangible and legal assets	5 944	95 326	(89 382)	(93,76)
Tangible fixed assets, including:	1 328 583	1 484 807	(156 224)	(10,52)
1. Fixed assets	1 236 329	1 464 889	(228 560)	(15,60)
2. Fixed assets under construction	65 303	18 358	46 945	255,72
3. Advances on fixed assets in construction	26 951	1 560	25 391	1 627,63
Long-term receivables	0	0	0	-
Long-term investments	157 707	246 340	(88 633)	(35,98)
Long-term accruals and prepayments	5 616	7 006	(1 390)	(19,84)
Current assets	953 859	746 952	206 907	27,70
Inventory, including:	71 865	80 073	(8 208)	(10,25)
1. Materials	49 175	55 177	(6 002)	(10,88)
2. The goods	22 690	24 893	(2 203)	(8,85)
3. Advances for deliveries	0	3	(3)	100,00
Short-term receivables	378 705	307 852	70 853	23,02
Short-term investments	502 636	358 125	144 511	40,35
1. Short-term financial assets, including:	502 636	358 125	144 511	40,35
– in the affiliates	46 419	28 429	17 990	63,28
– in other entities	6 550	0	6 550	-
– cash and other monetary assets	449 667	329 696	119 971	36,39
2. Other short-term investments	0	0	0	-
Short-term accruals and prepayments	653	902	(249)	(27,61)
Unpaid share capital (basic)	0	0	0	-
Own shares	0	0	0	-
Total assets	2 451 709	2 580 431	(128 722)	(4,99)

Table 8: Selected items from liabilities

	Zloty thousand 31 December 2020	Zloty thousand 31 December 2019 <i>(transformed data)</i>	Zloty thousand Change	% Dynamics
Equity	1 277 167	1 459 581	(182 414)	(12,50)
Stated capital	101 647	101 647	0	-
Supplementary capital	1 658 391	1 658 391	0	-
Revaluation capital	227 466	227 466	0	-
Other reserve capital	3 472	3 472	0	-
Profit (loss) from previous years	(531 395)	(148 275)	(383 120)	(258,38)
Net profit (loss)	(182 414)	(383 120)	200 706	52,39
Net write-offs during the financial year (negative value)	0	0	0	-
Liabilities and provisions for liabilities	1 174 542	1 120 850	53 692	4,79
Provisions for liabilities	994 741	1 005 284	(10 543)	(1,05)
1. Deferred income tax provision	235 935	302 258	(66 323)	(21,94)
2. Provisions for pensions and similar benefits.	24 302	25 801	(1 499)	(5,81)

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3. Other reserves	734 504	677 225	57 279	8,46
Long-term liabilities	2 648	2 410	238	9,88
1. Towards related entities	0	0	0	-
2. Towards other entities of which entity has capital engagement	0	0	0	-
3. Towards other entities	2 648	2 410	238	9,88
– credits and loans	0	0	0	-
– other financial liabilities	449	291	158	54,30
– other	2 199	2 119	80	3,78
Short-term liabilities	175 443	111 626	63 817	57,17
1. Towards related entities	11 583	19 120	(7 537)	(39,42)
2. Towards other entities of which entity has capital engagement	0	0	0	-
3. Towards other entities, including:	159 013	87 985	71 028	80,73
– credits and loans	0	0	0	-
– other financial liabilities	294	1 900	(1 606)	(84,53)
– due to supplies and services, with a maturity period:	46 438	30 433	16 005	52,59
- on account of taxes, customs, social and health insurance and other public law titles	39 547	46 151	(6 604)	(14,31)
– remunerations	5 334	3 957	1 377	34,80
– other	67 400	5 544	61 856	1 115,73
4. Special funds	4 847	4 521	326	7,21
Accruals and prepayments	1 710	1 530	180	11,76
Total liabilities	2 451 709	2 580 431	(128 722)	(4,99)

Cash flow statement

In 2020, the company generated a positive balance of cash flows from operating activities in the amount of PLN 239,424 thousand. The balance of cash flows from operating activities in 2020 was lower by PLN 95,498 thousand compared to the corresponding balance in 2019.

The balance of cash operations from investing activities was negative and amounted to PLN 117,884 thousand, which was due to capital expenditure higher by PLN 107,188 thousand, mainly related to the conversion of a coal-fired boiler into a biomass-fired boiler at Konin power plant, as well as expenditure related to increasing the capital of newly established companies implementing "green" investments in the Group.

In 2020, as in 2019, no proceeds were obtained from financial activities. The financial expenses amounted to only PLN 1,099 thousand and mainly related to interest on the used overdraft facility.

During 2020, cash increased by PLN 120,441 thousand and amounted to PLN 450,137 thousand at the end of the year.

Table 9: Selected items of the cash flow statement

	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2020</i>	<i>zloty thousand</i> <i>12months period</i> <i>ended</i> <i>31 December 2019</i> <i>(transformed data)</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Cash flows on operating activities				
Net profit (loss)	(182 414)	(383 120)	200 706	52,39
Total adjustments	421 838	718 042	(296 204)	(41,25)
1. Depreciation	93 358	95 473	(2 115)	(2,22)
2. Profits (losses) on foreign exchange rates	470	380	90	23,68
3. Interest and shares in profits (dividends)	(2 992)	7 839	(10 831)	-
4. Profit (loss) on investment activities	292 322	584 645	(292 323)	(50,00)

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5. Change in provisions	607 548	589 981	17 567	2,98
6. Change in inventory	8 208	(6 172)	14 380	-
7. Change in receivables	(70 853)	(685)	(70 168)	(10 343,50)
8. Change in short-term liabilities, with the exception of loans and credits	25 718	(25 955)	51 673	-
9. Change in accruals	2 145	1 632	513	31,43
10. Other adjustments	(534 086)	(529 096)	(4 990)	(0,94)
Net cash flow from operating activities	239 424	334 922	(95 498)	(28,51)
Cash flows on investment activities				
Income	5 271	15 944	(10 673)	(66,94)
1. Disposal of intangible and legal assets as well as tangible assets	0	13 324	(13 324)	100,00
2. From financial assets, including:	5 271	2 620	2 651	101,18
– in the affiliates	5 213	2 582	2 631	101,90
– in other entities	58	38	20	52,63
dividends and shares in profits	58	38	20	52,63
Expenses	123 155	15 967	107 188	671,31
1. Acquisition of intangible and legal assets as well as tangible assets	55 445	15 967	39 478	247,25
2. For own financial assets, including:	67 710	0	67 710	-
– in the affiliates	67 710	0	67 710	-
Net cash flow from investment activities	(117 884)	(23)	(117 861)	(512 439,13)
Cash flows on financial activities				
Income	0	0	0	-
Expenses	1 099	323 914	(322 815)	(99,66)
1. Repayment of credits and loans	0	316 279	(316 279)	100,00
2. Payments of financial lease agreement liabilities	123	155	(32)	(20,65)
3. Interest	976	7 094	(6 118)	(86,24)
4. Other financial expenses	0	386	(386)	100,00
Net cash flow from financial activities	(1 099)	(323 914)	322 815	99,66
Total cash flow	120 441	10 985	109 456	996,41
Cash flow change in the balance sheet, including:	119 971	9 646	110 325	1 143,74
cash flow change related to foreign exchange rates	(470)	(1 339)	869	64,90
Cash opening balance	329 696	318 711	10 985	3,45
Closing balance of cash, including:	450 137	329 696	120 441	36,53
restricted cash	9 181	9 127	54	0,59

Financial indexes

The net loss recorded in 2020 meant that all profitability ratios recorded negative values.

The overall debt ratio at the end of 2020 increased, which means that the level of provisions and liabilities increased compared to the balance sheet total.

The value of the current liquidity ratio informs about the degree of coverage of short-term liabilities and provisions, including provisions related to CO2 emission allowances by current assets and the value of acquired CO2 emission allowances. The value of the ratio decreased to the level of 1.14. The value of the ratio at the end of 2020 above 1 means that the current assets are higher than the current liabilities and the Company's liquidity position is stable.

Table 10: Ratios

		2020	2019 (transformed data)	Change	% Dynamics
ROE	%	(14,28)	(26,25)	11,97	(45,60)
ROA	%	(7,44)	(14,85)	7,41	(49,90)
Net sales profitability	%	(9,88)	(16,07)	6,19	(38,52)
General debt index	x	0,48	0,43	0,05	11,63
Current liquidity index	x	1,14	1,16	(0,02)	(1,72)

5.3. Significant off-balance sheet items

The description of significant off-balance sheet items is presented in Note 19 and 20 of the financial statements of the Company for 2020.

5.4. Expected financial situation

The financial statements of ZE PAK SA have been prepared on the assumption that the Company will continue as a going concern in the foreseeable future. Taking into account, in particular, the increased reporting standards of public interest entities and the protection of stakeholders, the Management Board of ZE PAK SA ("Management Board") notes that in 2020 the Company incurred a net loss of PLN 182,414 thousand. The amount of the loss in the amount of PLN 151,108 thousand was significantly affected by write-downs on non-financial assets as well as impairment losses on shares and interests in subsidiaries in the amount of PLN 148,441 thousand. The write-offs were non-cash. On the other hand, the result at the EBITDA level in 2020 amounted to PLN 119 813 thousand.

The amount of one-off events in the form of write-downs on assets and inventories was influenced by decisions taken by the Management Board in 2020 in the context of the planned period of exploitation of mining assets and the activity of coal-based generation assets. Resignation from efforts to launch the Ościsłowo field and shortening the expected period of operation of coal-fired power units means that in the scenario under consideration, due to the abundance of deposits, the operation period of coal-fired units 1, 2 and 5 at the Pańków power plant would be reduced by 2024, while a block with a capacity of 474 MW (former Pańków II Power Plant) could operate no longer than until 2030. Shortening the operating period means, on the one hand, the need to make accounting write-offs, reducing the current financial results due to the lower recoverable value of assets, but on the other hand, in the opinion of the Company, it reduces the exposure to various types of risk, increasingly associated with high-emission activities, especially in the long term.

In 2020, incl. Good weather conditions for wind energy (especially in the early months of the year) and restrictions imposed on the economy resulting from the state of the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Company's ability to sell electricity. There was a 27.84% decrease in the total volume of electricity sales from own production and sales of purchased energy. In the case of sales of electricity from own production, the decrease was 14.31% and the decrease in sales of purchased energy was 67.71%. When analyzing the impact of restrictions imposed on the economy during consecutive periods of increasing number of cases, it can be seen that each successive wave of the pandemic caused a smaller impact on energy demand. A negative scenario cannot be clearly ruled out, however, taking into account the adaptation processes that took place in the economy in the past year and the progressive vaccination campaign, it can be assumed that the economic situation in the current year (and thus the situation on the energy market) should not be so vulnerable to the impact of a pandemic.

As at December 31, 2020, the current assets and the value of acquired CO2 emission allowances exceed the value of short-term liabilities and provisions, including provisions related to CO2 emission allowances, by PLN 118,259 thousand. The Management Board has also made a detailed analysis of the cash flow forecast and confirms that the cash flow analysis indicates the possibility of generating sufficient positive cash flows for at least the next 12 months from the date of these financial statements. This analysis assumes the renewal of the existing credit lines relating to the financing of the Company's current operations and the gradual acquisition of financing for new investments. According to the assumptions, in the first quarter of 2021, financing was obtained for the biomass project at the Konin Power Plant in the amount of PLN 160 million (more about it in point 3.1).

Despite the above-described circumstances that may pose a risk to the continued operations of the Company, the Management Board does not identify any significant uncertainty as to the continuation of the Company's operations.

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

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

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

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

- the course of the COVID-19 pandemic, the pace of development of which affected all commodity and financial markets around the world,
- announcement of a new EU reduction target for 2030 in the amount of 55% reduction in emissions compared to 1990,
- increase in power in the NPS in the RES segment, in particular an intensive increase in photovoltaic installations,
- capacity market auctions for the supply year 2025 with the possibility of concluding long-term contracts, which were carried out in accordance with the provisions of the amended Capacity Market Regulations, the provisions of which were adapted to the Market Regulation, introducing, inter alia, new restrictions on CO₂ emissions, including the rules of support for capacity mechanisms for sources emitting over 550g CO₂ / kWh,
- continuation of work on Poland's energy policy until 2040 (PEP2040), which is to define a new shape of the target energy mix for Poland,
- works on the amendment to the Act on the capacity market and works on the construction and development of the secondary market on the capacity market,
- announcements of the amendment to the Act of May 20, 2016 on investments in wind farms (the so-called Distance Act),
- Poland's participation in interconnection projects aimed at building a common European electricity market,
- Polish Plan for the Implementation of Reforms on the Balancing Market, which are to be introduced, inter alia, by the "scarcity pricing" mechanism as well as major changes in system services and settlements on the balancing market,
- implementation works on the 1st stage of the balancing market reform, which came into force on 1 January 2021.

ZE PAK SA generates most of its revenues from the production and sale of electricity, therefore the price for which it sells electricity is very important for the results of its operations. When analysing the current market trends in the context of the level of electricity prices on wholesale energy markets, one should first of all look at the prices quoted on the Polish Power Exchange (TGE). The factors significantly affecting the level of stock exchange quotations on the SPOT market have remained the same for years, among them the most important are: the size of wind generation, the state of the reserve in the PPS system, the amount of transmission capacity made available for cross-border exchange. In the following years, another factor will become more important, namely solar conditions, which, due to the significant and dynamic increase in the installed capacity in photovoltaic technology, may affect energy prices, especially in the summer. The volume of electricity trading on POLPX in 2020 amounted to 243,174,442 MWh, which means an increase by 6.2% compared to 2019, according to TGE S.A. it is the best result in the history of trading this commodity on TGE³. The weighted average price of the "BASE" contract (the so-called "band", i.e. the delivery of a fixed amount of energy in a specific time unit) on the TGE's Day-Ahead Market was in 2020 at the level of PLN 210.11 / MWh, which means a decrease by almost PLN 20 / MWh, i.e. by 8.5% compared to the corresponding price in 2019. In turn, on the "RTT" futures market, the weighted average price of an annual contract with band delivery in 2021 (BASE_Y-21) was PLN 231.87 / MWh throughout 2020,

³ TGE message from the site www.tge.pl

which means a decrease by 13% compared to the price of the BASE_Y-20 contract in 2019. The significant decrease in the average annual price of the BASE_Y-21 annual contract can be related to the COVID19 pandemic, which last year had a strong impact on price behaviour in all commodity and financial markets, including electricity and CO₂ emission allowances markets.

The price of CO₂ emission allowances ("EUA"), which the issuer is obliged to redeem in the amount corresponding to the amount of CO₂ emissions to the atmosphere, is one of the factors that most determines the competitiveness of an energy company dealing in the production of electricity based on brown coal, next to the costs of coal and auxiliary fuels. At present, the Company receives a very small amount of free CO₂ emission allowances resulting from the allocation for heat production, therefore, virtually all of the allowances needed by the Company must be purchased on the market. The level of prices at which the Company acquires CO₂ emission allowances had in previous years and will continue to be of great importance for the future financial results of the Company. The CO₂ emission allowances market is the market that is currently most exposed to price changes caused by political decisions resulting from the directions of the debate on the shape of the reform of the European Emissions Trading System (EU ETS), which has been going on for several years, as well as the ongoing transformation of the economy. A factor stimulating a further increase in prices on the carbon market may be the new EU reduction target for 2030 announced in 2020, amounting to a 55% reduction in emissions compared to 1990, as well as the long-term concept of an EU zero-emission economy by 2050. It should be emphasized that 2020 was a very unpredictable year for EUA prices. The prevailing COVID-19 pandemic contributed to significant fluctuations in the price of allowances in the EUA allowances market, which fell sharply with the onset of the pandemic in Europe, and then followed an upward trend, exceeding the historic EUR 33 / tonne mark in December. Currently, in the regulatory environment, there are no signals of stabilization and lowering of EUA prices. Any changes in the regulatory environment, which are assumed to increase the cost of CO₂ emissions, will increase the cost of energy production by coal generating units owned by ZE PAK SA. Due to the high level of variable costs of the operation of coal units, mainly caused by the costs of CO₂ emissions, the revenues generated by the coal units do not cover their costs, which in turn results in periods in which production is carried out with financial loss.

Another factor that will undoubtedly have an impact on the Company's future financial results is the share of the Company's generation units in the capacity market. In 2018 and 2019, the generation units belonging to the Company participated in the main auctions on the Capacity Market conducted by Polskie Sieci Elektroenergetyczne SA, in accordance with the rules set out in the Act of December 8, 2017 on the capacity market, concluding power contracts for the supply years 2021- 2024. As a result of the auction, the Company concluded one-year capacity agreements for the years 2021-2024 for existing coal-fired units participating in the auction. Moreover, as a result of the auction conducted in 2019, ZE PAK SA concluded a capacity contract for 17 years of supply, contracting 40 MW of the capacity obligation at a price of PLN 259.87 / kW / year for a new unit of the generation capacity market, i.e. a modernized biomass combustion installation in Konin power plant, which was previously used to produce energy with the use of lignite. In auctions held in previous years, ZE PAK SA contracted the capacity obligation in one-year contracts at the level of 587 MW for 2021 - at a price of PLN 240.32 / kW / year, 587 MW for 2022 - at a price of PLN 198.00 / kW / year , 587 MW for 2023 - at a price of PLN 202.99 / kW / year, 588 MW for 2024 at a price of PLN 259.87 / kW / year. In addition to the planned revenues from the capacity contracted on the primary auction market, the Company has the possibility to generate additional revenues from transactions concluded on the secondary capacity market. At the beginning of 2021, when the capacity market entered the operational phase, the secondary market was launched in practice, which enables the Company to take over capacity obligations from other entities in terms of free, uncontracted capacity. Due to the functioning of the regulations that make up the so-called Winter Package, in particular for subscriptions to the so-called "Market Regulation", introducing, inter alia, new restrictions on CO₂ emissions, including the rules of support for capacity mechanisms for sources emitting over 550g CO₂ / kWh, coal units of ZE PAK SA did not contract capacity obligations in the capacity auctions for 2025. However, the Company's coal-fired generation assets were certified to participate in the secondary capacity market. With regard to issues related to the capacity market, it should also be noted that the capacity market is not only additional payments for entities participating in it, but also specific obligations and financial penalties for those who fail to perform or improperly perform the contracted capacity obligation in the contract.

A recently raised topic that may have a significant impact on the revenues, and thus the financial result of the Company, is the subject of appealing by a company operating in the DSR area, called Tempus, of the EC's decision to approve the Capacity Market in Poland. The European Commission, when working on the opinion reconciling the capacity markets in the Member States, did not fully comply with formal procedures. The decision reconciling the Polish capacity market has also been appealed, there is a risk that it may be annulled, and until a new decision is issued, the capacity market or only payments to producers would be suspended.

The announced future shape of Poland's energy mix is of great importance to the framework of the Company's operations. In 2018, the Ministry of Energy started legislative work on the draft "Poland's Energy Policy until 2040" (PEP2040), which provides, inter alia, gradual reduction of electricity production from coal sources. In 2019 and 2020, work continued on the PEP2040 project. Finally, PEP2040 was approved on February 2, 2021. It should be mentioned that during the work on PEP2040, there was carried out the work on the National Energy and Climate Plan (NECP) until 2030, which

Poland submitted to the European Commission on December 30, 2019. This document provides for an increase in the target for the share of renewable energy sources and a reduction in the share of coal in electricity production. Bearing in mind the current "green" directions of European policy, and in particular the decision of the EU Member States to increase the emission reduction target by 2030 from 40% to 55% and taking into account the background of the events of 2020, including the COVID19 pandemics and work on the Reconstruction Fund after the pandemic, it should be expected that the provisions of the NECP will require revision. Relating the production activity of the Group to the opportunities and threats to financial results in the context of the provisions of PEP2040 and NECP until 2030, which documents assume an increase in the share of renewable energy sources and a reduction in the share of coal in electricity production, it should be mentioned that in October 2020 ZE PAK SA announced new directions of the strategy that correspond to the directions set at the national and EU level.

An important impulse for the Company's investment decisions will be the possible, announced amendment to the so-called the "distance act", the adoption of which in recent years has largely limited the development of new wind farm projects. The announcements of changes suggest that decisions regarding the location of wind farms will depend to a greater extent on the decisions of the authorities and local communities.

Among the factors that may have an impact on the future financial results of ZE PAK SA, there are also opportunities that have arisen for the participants of the wholesale energy market in connection with the development of the single electricity market. The launch on November 19, 2019 by TGE SA of quotations on the Intra-Day Market in the XBID model gave participants of the wholesale electricity market new commercial opportunities for the sale of the generated volumes of electricity. It is worth emphasizing that the turnover on the intraday market in the XBID model (SIDC - Single Intraday Coupling) is much higher than it was when the quotations on this market were conducted only in the domestic formula. Thanks to this mechanism, the Company can sell electricity that has not been purchased before, two hours before delivery, which will increase its production and revenues.

Since 2019, intensive work has been underway on the reform of the balancing market, adjusting the market to the requirements of European law. In May 2020, the document Polish Plan for the Implementation of Reforms on the Balancing Market was adopted, which was a milestone in the work on the reform of the balancing market, which, as a result of adopting the provisions of the plan, will be carried out in two stages, and ultimately is to introduce, inter alia, scarcity pricing mechanism as well as major changes in system services and settlements on the balancing market. The changes introduced on the balancing market as part of the first stage include enabling active participation in the balancing market for DSR and units other than JWCD, including wind farms and PV, as well as the share of storage facilities / pumped storage power plants (ESP) in the balancing market. The reform also enabled market participants to update their intraday balancing offers from January 1, 2021, which allows the company to participate more actively in the technical market. At the present moment, it is difficult to determine the degree of impact of the changes introduced in the first stage of the market reform balancing the future financial results of the Company. However, the impact of the implementation of the reforms announced under Stage II, i.e. the introduction of the scarcity pricing mechanism, changes in system services and significant changes in settlements in the balancing market, may turn out to be particularly important for the Company's financial results, which should help alleviate the problem of "missing money" for coal blocks of ZE PAK SA. However, due to a number of external factors, the implementation schedule of the second stage of the reform, which was initially to be implemented for operational use as of January 1, 2022, will be postponed by a year and the estimated implementation may not take place until January 2023.

An important topic for the Company along with the implementation of the first stage of RB changes was the implementation of the so-called The systemic regulation, which introduced a new methodology for determining the CWD and CWO prices, which regulates the variable cost issue for lignite-fired units in a different way than before, which in consequence of the so-called forced reductions forces the Company to buy energy from the Balancing Market at prices higher than the contracts concluded on TGE - it is related to the CO2 valuation. Such a settlement in the event of a significant number of contract reductions by the TSO adversely affects the Company's result.

The process of connecting the European market based on the so-called the "Flow Based Market Coupling" model, the currently implemented reform of the balancing market, expanding the number of participants to the RES segment that can actively participate in the balancing of the National Power System, aim to strengthen competition on the energy market, which, with the simultaneous functioning of capacity mechanisms, should continue to stimulate investments in new production capacities.

5.6. Unusual factors and events affecting the financial results

One-off events which had a negative impact on the results achieved by the Company in 2020 were disclosed in the semi-annual results. These were one-off events related to the results of impairment tests of assets carried out in accordance with the requirements of the International Accounting Standard 36 "Impairment of Assets". As a result of the tests performed, the Group recognized the need to make revaluation write-offs for tangible fixed assets in the following centers

generating independent cash flows: CGU Elektrownia Pańków I and CGU Elektrownia Pańków II sp.z o.o. in the total amount of PLN 437,000 thousand. At the same time, it was decided to select a new CGU Konin Power Plant. The separation of the new CGU was dictated by the different characteristics of Konin Power Plant operations, which currently focuses on the production of electricity from biomass, as opposed to the production based on lignite in other power plants of the Group. The separation of the new CGU allowed for the reversal of the impairment loss on assets related to the production at Konin power plant in the amount of PLN 296,000 thousand. The total net amount of write-offs (i.e. the surplus of created write-offs over their reversals) amounted to PLN 141,000 thousand. In addition, in the half-year results and in the result at the end of the year, there were one-off events related to the results of impairment tests for shares in subsidiaries, i.e. impairment of shares held in PAK KWB Konin SA in the amount of PLN 121 691 thousand and shares in PAK-Volt SA were recognized in the amount of PLN 26 750 thousand.

6. MANAGEMENT OF FINANCIAL ASSETS

6.1. Evaluation of financial assets management

The Company manages its current financial resources in a flexible manner by using cash liquidity analysis models and planning future cash flows on the basis of short-term and long-term financial forecasts developed periodically. By using the aforementioned tools, the Company executes current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits. Transactions securing electricity sale prices and purchase prices of CO₂ emission allowances hedged for future periods are also important in the context of managing financial resources. Large fluctuations in these markets may necessitate an increase in the level of margins.

6.2. Evaluation of investment plan execution

The Company has its own functioning strategy and an investment plan adjusted to it. The investment plans take into consideration the current conditions in legislation and law, as well as economy and technology. The adopted manner of execution of the planned investments is mainly based on the use of resources obtained from current operations as well as external financing. During financing planning, the Company takes into consideration a series of existing or future factors which can significantly affect the executed program. The projected financing structure of particular investment plans also takes into consideration the levels of a series of financial indexes, such as the debt or liquidity index, in a way which allows obtaining their optimal levels. In the view of ZE PAK, the currently adopted investment plans are possible to execute with the use of the possessed and potential resources. It is however necessary to note that the Company is constantly monitoring the factors which have the biggest impact on the executed investment program and in case of substantial changes in either one of several of them, the company will make specific adjustments or significant changes to the implemented strategy.

7. SIGNIFICANT FACTORS AND DEVELOPMENT PROSPECTS

Directional activities designated by the Group's strategy

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

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

The broadly understood legislative framework determined by EU and Polish law directly affects the Company's production potential. The technically exploited production facilities, for which the analyses do not demonstrate the expediency of modernization, in accordance with the decisions taken, will be gradually withdrawn. The way of exploitation during the transitional period must be strictly adjusted to their capabilities, through the selection of a

derogation dedicated in environmental law. In addition, the optimal use of the available fuel base will be taken into account.

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

Last year, the Company announced new directions of its strategy. The intentions of the Company should be analysed in two dimensions, the first are plans to gradually reduce energy production in the lignite combustion process until its final completion, the second are plans related to projects in the field of energy production from renewable sources, production of "green" hydrogen and its use.

Plans for the use of conventional power

The basic model of the coal segment operation assumes the use of currently exploited open pits and the lack of new investments in this area. This means that out of the 3 currently exploited deposits, Józwin open pit will end its activity at the end of 2021, Drzewce open pit will end its activity by the end of 2022 at the latest, while in the following years only Tomisławice open pit will be exploited.

Currently, Pałnów Power Plant operates two modernized units 1 and 2 with a capacity of 222 MW each, a partially modernized unit 5 with a capacity of 200 MW and a modern unit 9 with supercritical parameters with a capacity of 474 MW (former Pałnów II power plant). The generation of energy in older coal-fired units at Pałnów power plant will be shortened until the support system in the form of a capacity market or another, which will ensure the economic effectiveness of such activity, is in operation. A more modern and efficient unit with a capacity of 474 MW (former Pałnów II power plant) could operate longer, but here also the economic efficiency of its use is a prerequisite. The assumed end date of energy production in coal sources of the ZE PAK SA Group is planned not later than at the end of the current decade. The remaining blocks of Pałnów power plant were decommissioned - unit 4 with a capacity of 200 MW was shut down at the end of 2019, while units 3 and 6 with a capacity of 200 MW each were shut down at the end of June 2020.

Adamów Power Plant was shut down at the beginning of January 2018. Currently, demolition works are underway on its premises and the area is being prepared for possible new investments. Documents required by law were prepared for regulatory authorities and the possibility of the functioning of auxiliary economies to the necessary extent was secured. Currently, the Management Board of the Company is working on a scenario for the optimal use of assets related to Adamów power plant, also in order to diversify the fuel base. One of the concepts under consideration is the possibility of building a gas unit at this site. The decision to be made will be preceded by a series of analyses and security in the form of a support mechanism, e.g. in the form of a capacity contract.

Plans related to the development of renewable energy sources

Konin Power Plant currently produces electricity and heat using a 50 MW biomass-fired unit. An investment project is being implemented at Konin Power Plant, the purpose of which is to adapt coal-fired installations for biomass combustion. As a result, a new biomass source will be created with the expected power of 50 MW, i.e. a modernized coal-fired boiler converted into a boiler dedicated to biomass combustion, in order to ultimately be a source producing electricity and securing heat production in emergency situations. As a result of the capacity auction organized in 2020, the Company contracted a capacity obligation for this generating asset for 17 years, starting from 2024. After the implementation of the described modernization, the available capacity will increase to 100 MW and Konin Power Plant will become the first power plant in the country whose power source has been changed from coal to biomass.

Areas of reclaimed opencasts PAK KWB Adamów and PAK KWB Konin - in line with the objectives of energy and climate policy and having the appropriate potential, the Company made a directional decision to use the areas previously used in mining activities to prepare them for investments in photovoltaic and wind technology. In the Adamów region, in the reclaimed areas where lignite was once mined, the first 70 MWp solar farm is being built, implemented by a special purpose vehicle. Further projects will be developed after obtaining all formal, legal and environmental approvals. The development of wind projects will largely depend on potential changes regarding the existing restrictions on the location of wind turbines, i.e. their distance from residential buildings. Using various support mechanisms for this type of investment available in the broadly understood regulatory environment, the Company will seek to obtain preferential financing in order to increase the economic efficiency of the planned investment.

The use of renewable energy sources in the production of hydrogen as a new field of the Company's activity. Hydrogen will be produced in the electrolysis process, using electricity produced from renewable energy sources. In the first stage,

the primary source of primary energy will be biomass, the transformation of which into electricity, in a dedicated installation, will supply the electrolysis plant. The implementation of this task will allow the production of the so-called "Green hydrogen". The first step towards building a hydrogen plant was the conclusion of a contract for the purchase of an electrolyser in the PEM technology, which, along with the necessary infrastructure, will be located on the premises of Konin power plant. In the opinion of the Company, the importance of hydrogen in the low-emission economy model will increase. An area with significant potential is, for example, public transport, the Company is currently working with partners interested in using hydrogen in this area. In 2020, the Company signed a contract for the supply of two hydrogen refuelling stations as well as service and maintenance. At the stations that will be launched in Konin and in Warsaw, it will be possible to refuel passenger cars, buses and trucks. In order to enable the supply of hydrogen from the hydrogen plant at the Konin Power Plant or from another hydrogen producer to the refuelling station, a mobile hydrogen storage facility was ordered.

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

8. SPECIFICATION OF THE SHAREHOLDING STRUCTURE

8.1. Shareholding structure

As of 31 December 2020, the Company's share capital amounted to PLN 101 647 094.00 and consisted of 50 823 547 shares with a face value of PLN 2.00 each.

The below table includes the specification of shareholders holding either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of the Company according to information held by the Company based on the notifications of purchase / sale of the Company's shares as at the day of preparation of this report and as at 31 December 2020 and 31 December 2019.

*Table 11: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of the day of this statement**

Shareholder	shares.			%		
	Number of shares and corresponding number of votes at the General Meeting			in the total number of shares/votes		
	19.04.2021	31.12.2020	31.12.2019	19.04.2021	31.12.2020	31.12.2019
Zygmunt Solorz (indirectly) through:	33 523 911	33 523 911	29 592 734	65,96	65,96	58,23
– Elektrim SA	-	-	196 560	-	-	0,39
– Embud 2 sp. z o.o. S.K.A.	-	-	592 533	-	-	1,16
– Argumenol Investment Company Limited	33 523 911	33 523 911	28 803 641	65,96	65,96	56,68
Nationale-Nederlanden OFE	4 503 242	4 503 242	4 503 242	8,86	8,86	8,86
OFE PZU „Złota Jesień”	4 635 719	4 635 719	4 635 719	9,12	9,12	9,12

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

The structure of shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes as at the date of submitting this annual report for 2020 differs from the corresponding list of the periodic report for 2019. This difference results from the change in the share of Argumenol Investment Company Limited in the period from March 4 to September 28, 2020 as a result of transactions concluded on the regulated market of the Warsaw Stock Exchange, for a total of 3,931,177 shares of the Company, representing approximately 7.73% of the share capital of the Company and entitling to 3,931,177 votes at the Company's general meeting, representing approximately 7.73% 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 approximately 1.17% of the share capital of the Company and entitling to 592 533 votes at the general meeting of the Company, representing approximately 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.

8.2. Acquisition of own shares

The Company did not acquire own shares in 2020.

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

The below table presents the Company's shareholdings (direct and indirect), as well as shareholdings of the management personnel of its affiliates as of 31 December 2020 and as at the date of this report.

Table 12: The ownership of the Company's shares / stocks in entities related to the Company by the management as at December 31, 2020 and as at the date of the report.

Name and surname	ZE PAK SA shares		ZE PAK SA affiliate shares	
	quantity	Nominal value	quantity	Nominal value
Piotr Woźny	0	0	0	0
Zygmunt Artwik	0	0	0	0
Maciej Nietopiel	0	0	0	0
Andrzej Janiszowski	0	0	0	0
Katarzyna Sobierajska	0	0	0	0

The below table presents the Company's shareholdings (direct and indirect), as well as shareholdings of the supervising personnel of its affiliates as of 31 December 2020 and as at the date of this report.

Table 13: The ownership of the Company's shares / stocks in entities related to the Company by the supervising personnel as at December 31, 2020 and as at the date of the report.

Name and surname	ZE PAK SA shares		ZE PAK SA affiliate shares	
	quantity	Nominal value	quantity	Nominal value
Zygmunt Solorz	0	0	0	0
Wiesław Walendziak	0	0	0	0
Tomasz Szelaż	0	0	0	0
Henryk Sobierajski	0	0	0	0
Leszek Wysłocki	0	0	0	0
Sławomir Zakrzewski	0	0	0	0
Grzegorz Krystek	0	0	0	0
Maciej Stec	0	0	0	0
Alojzy Z. Nowak	0	0	0	0

8.4. Control of employee share option plan

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

9. DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RULES

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

9.1. Set of corporate governance rules applied

In 2020, the Company was subject to corporate governance principles contained in the „Best Practice for WSE Listed Companies 2016” (Best Practice) adopted by resolution of the WSE Supervisory Council of October 13, 2015. Best Practice came into force on January 1, 2016.

The Management Board of the Company, within the scope of competences conferred upon it by the Statute and generally binding legal regulations, exercises due diligence in order to ensure the Company's compliance with the widest possible range of Best Practices. The number and scope of principles that the Company has not complied with in 2020 are described in detail in the item below. The Management Board of the Company makes special efforts to ensure that the Company's information policy towards individual as well as institutional investors, being the implementation of the guidelines contained in the Good Practices, was in line with their expectations. Furthermore, for reasons beyond the Company's control, not all rules contained in Good Practices are applied.

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

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

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

(https://ri.zepak.com.pl/upload/files/PL_GPW_dobre_praktyki_ZE_PAK.pdf).

9.2. Set of rules which Company has not complied with

The following are the corporate governance principles that the Company has not applied with as part of its operations in 2020, with an explanation of the position of the Company in each specified derogation.

Recommendation IV.R.2. Best Practice

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

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

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

The company provides real-time broadcast of the general meeting, however according to the Company's assessment, current shareholders structure does not justify real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting. Exercise of the right to vote during a general meeting either in person or through a plenipotentiary is a usual practice on general meeting of the Company. According to the Company's assessment, not in full use of above mentioned recommendation does not adversely affect the achievement of the objective described in the section IV of the code of best practices.

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

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

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

consolidated financial statements reliably and clearly present the Company's and Group's financial and economic situation.

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

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

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

The Management Board is responsible for the Company's internal control system and for its effectiveness in the process of development of financial statements and periodical reports developed and published in accordance with the Regulation of the Minister of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent to the information required by the law of a non-member state.

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

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

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

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

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

The audits of financial statements are carried out:

- in accordance with the provisions of Chapter 7 of the Accounting Act of 29 September 1994,

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

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

The Company's and Group's financial results are regularly monitored during the financial year and are subject to periodical evaluation made by the Supervisory Board. During regular sessions of the Supervisory Board, the Company's Management Board provides information regarding the current financial situation of the Company and ZE PAK SA Group.

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

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

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

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

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

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

9.4. Shareholders with significant blocks of shares

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

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

<i>Shareholder</i>	<i>Number of shares</i>	<i>Percentage share in the share capital</i>	<i>Number of votes</i>	<i>Percentage share in the share capital</i>
Zygmunt Solorz (indirectly) through: Argumenol Investment Company Limited.	33 523 911	65,96%	33 523 911	65,96%
Nationale-Nederlanden Otworthy Fundusz Emerytalny	4 503 242	8,86%	4 503 242	8,86%
OFE PZU „Złota Jesień”	4 635 719	9,12%	4 635 719	9,12%

* according to the Company's knowledge on the basis of notifications submitted by the shareholders.

9.5. Holders of stock giving special control rights

As of 31 December 2020 and as of the date of development of this statement, the Company has not issued stocks giving special control rights.

9.6. Limitations in the execution of the right of ballot

According to the Company's Articles of Association and other internal documents of the Company as of 31 December 2020 and as of the date of development of this report, there are no limitations regarding the execution of the right of ballot.

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

As of 31 December 2020 and as of the date of development of this statement, the Company does not include any limitations regarding the transfer of right of ownership to Company's stocks.

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

Management Board

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

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

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

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

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

Supervisory Board

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

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

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

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

The Board's rights especially include:

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

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

- 1) to participate in other companies and disposal of shares in other companies,
- 2) to establish foreign branches,
- 3) to make advanced payments for dividends,

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

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

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

Management Board

The financial year 2020 began in 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 position 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 November 3, 2020, Mr. Henryk Sobierajski resigned from the membership in the Management Board of the Company and from the position of the President of the Management Board.

On November 5, 2020, Mr. Paweł Markowski and Mr. Paweł Lisowski resigned from the membership in the Management Board of the Company and from the position of 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.

Already after the end of the reporting period, on March 2, 2021, the Supervisory Board of the Company appointed Ms. Katarzyna Sobierajska to the Management Board, entrusting her with the position of the Vice President of the Management Board.

As the day of the report publication, ZE PAK SA Management Board is composed of the following members:

- 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,
- 5) Katarzyna Sobierajska – Vice President of the Management Board.

Supervisory Board

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

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

On May 25, 2020, the 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 Annual General Meeting of Shareholders for the financial year 2019, i.e. on June 19, 2020.

On June 19, 2020, at the meeting of the Ordinary General Meeting of the Company, three new members of the Supervisory Board were appointed - Mr. Maciej Stec, Mr. Piotr Woźny and Mr. Alojzy Z. Nowak. On June 22, 2020, the Supervisory Board elected Mr. Piotr Woźny as the Chairman of the Supervisory Board.

On December 1, 2020, the Extraordinary General Meeting of Shareholders of the Company appointed Mr. Zygmunt Solorz and Mr. Henryk Sobierajski to the Supervisory Board of the Company.

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 position of the President of the Management Board as of November 6, 2020.

At the meeting held on December 11, 2020, the Supervisory Board of the Company, acting pursuant to § 17 section 1 of the Articles of Association and § 5 section 2 of the Regulations of the Supervisory Board of the Company, adopted a resolution on the election of Mr. Zygmunt Solorz as Chairman of the Supervisory Board of the Company.

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

- 1) Zygmunt Solorz – Chairman of the Supervisory Board,
- 2) Wiesław Walendziak – Deputy of the Chairman of the Supervisory Board,
- 3) Tomasz Szelaąg – Secretary,
- 4) Henryk Sobierajski,
- 5) Leszek Wysłocki,
- 6) Sławomir Zakrzewski,
- 7) Grzegorz Krystek,
- 8) Maciej Stec,
- 9) Alojzy Z. Nowak.

The members of the Supervisory Board meeting the criteria of the independence are: Sławomir Zakrzewski, Alojzy Z. Nowak and Grzegorz Krystek.

In performing its code and statutory duties, the Supervisory Board held 8 meetings in 2020 adopting a total of 120 resolutions. The Supervisory Board performed the statutory duty to hold a meeting in each quarter.

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

- 1) assessment of reports prepared for the business year 2020,
- 2) changes in the composition of the Management Board of ZE PAK SA,
- 3) internal division of competences between members of the Management Board of the Company,
- 4) expressing consent for the Company to perform actions resulting in incurring liabilities with a value of over PLN 1 million,
- 5) issuing opinions on applications submitted by the Management Board in matters pertaining to the current operations of the Company,
- 6) approving activities related to the restructuring process in the ZE PAK SA Capital Group,
- 7) ongoing discussion of the situation related to obtaining the decision on environmental conditions for the construction of Ościsłowo open-pit,
- 8) discussing the current activities undertaken by the Company in the area related to the investment consisting in the creation of a second biomass generating unit at the Konin power plant based on the existing coal boiler and existing turbine sets,
- 9) discussing the current activities undertaken by the Company in the area related to the investment consisting in the construction of a solar farm with an estimated capacity of about 70 MWp.

Audit Committee

2020 the Audit Committee began to meet in the following composition:

- 1) Sławomir Zakrzewski – Chairman of the Audit Committee
- 2) Tomasz Szeląg
- 3) Piotr Stępniaak.

In connection with the resignation of Mr. Piotr Stępniaak from the membership in the Supervisory Board and the appointment of new members to the Supervisory Board, on June 22, 2020, the composition of the Audit Committee also changed. As at the date of publication of this report, the composition of the Audit Committee is as follows:

- 1) Sławomir Zakrzewski – Chairman of the Audit Committee
- 2) Tomasz Szeląg
- 3) Alojzy Z. Nowak

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

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

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

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

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

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

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

In 2020, the Audit Committee of the Supervisory Board of ZE PAK SA adopted a Resolution on the recommendation of the Audit Committee for the Supervisory Board of the Company regarding the selection of an audit company to conduct statutory audits and reviews of the consolidated and separate financial statements of ZE PAK SA and separate financial statements of companies belonging to ZE PAK SA Capital Group, prepared for the years 2020-2022.

In the financial year 2020 the Audit Committee of the Supervisory Board of ZE PAK SA held 4 meetings..

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

General Meeting

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

The General Meeting takes place in Warsaw or in the Company's registered office. Broadcast of the General Meeting is carried out in real time, after the session is finished, a link to the video transmission of the General Meeting is available on the Company's website.

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

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

The basic competencies of the General Meeting include:

- 1) examination and approval of the Board's report on the Company's activities, as well as the financial statement for the previous accounting year, as well as acknowledgement of the fulfilment of duties by the Company's body members,
- 2) division of profit and loss coverage,
- 3) change in the subject of the Company's activities,
- 4) amendments to the Company's Articles of Association,
- 5) increase or decrease in the share capital,

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

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

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

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

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

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

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

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

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

Changes to the Company's statute, in accordance with the Code of Commercial Companies and provisions of the Company's Statute, require the General Meeting to pass a suitable resolution and an entry into the register of entrepreneurs. The General Meeting can authorise the Company's Supervisory Council to develop a uniform text of the amended statute, or to introduce editorial changes specified in the General Meeting's resolution. Amendments to the Statute are binding since the moment of entry into the register of entrepreneurs. In 2020, two changes were made to the Articles of Association of the Company regarding the extension of the subject of the Company's activities, therefore a uniform text was adopted, which was made available on the Company's website.

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

In Zespół Elektrowni Państw-Adamów-Konin SA, the remuneration system is based on the Corporate Collective Labour Agreement for employees of ZE PAK SA of September 24, 1993 (CCLA). Only members of the Management Board,

chief accountant and key managers who have concluded managerial contracts. On September 25, 2018, the Company terminated CCLA and in accordance with the notice procedure, the terms of employment contracts were effective until December 31, 2019. In July 2019, the Company submitted a draft of a new collective labour agreement to the social side. As at the date of this report, negotiations on a new collective agreement are underway.

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

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

The members of the ZE PAK SA Management Board are paid on the basis of the provisions of individual management agreements, the content of which is formed by the Supervisory Board of the Company. On June 19, 2020, the Ordinary General Meeting of the Company adopted the "Policy of remuneration of members of the Management Board and Supervisory Board of ZE PAK SA". The policy aims to ensure a sustained increase in the value of the Company, the implementation of which by the Management Board and the Supervisory Board requires, inter alia, shaping the structure of remuneration of the members of the Management Board and Supervisory Board for the entirety of their duties. This is achieved by limiting the remuneration of these people to a fixed part, allowing them to perform their duties regarding the entirety of the Company's operations without limiting themselves to achieving only selected goals. The volatility of the market, social and economic situation, as well as the need to flexibly respond to emerging risks and business opportunities, do not justify the rigid setting of such goals. The need to flexibly respond to changes in this situation and the emerging challenges is ensured - in the case of members of the Management Board - by the possibility of awarding them bonuses. This ensures flexibility in ensuring the stable existence of the Company and its long-term interests. Members of the Management Board are entitled to monthly remuneration. They may also be awarded a discretionary award. In the event of dismissal from the Management Board, severance pay is not provided. There are no provisions for compensation in the event of dismissal following a merger or acquisition.

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

Table 15: Information on the amount of remuneration paid in 2020 by the Company and its subsidiaries to all Management Board members performing their functions in 2020

<i>The Board's member name and surname</i>	<i>Zloty thousand Value of (gross) remuneration paid by the Company</i>	<i>Zloty thousand including variable elements of remuneration *</i>	<i>Zloty thousand Value of (gross) remuneration paid by the Company's subsidiaries</i>	<i>Zloty thousand Total:</i>
Piotr Woźny	52,00	0,00	0,50	52,50
Zygmunt Artwik	878,97	250,00	0,10	879,07
Paweł Markowski	711,02	223,57	67,08	778,10
Paweł Lisowski	724,22	215,00	71,25	795,47
Maciej Nietopiel	540,02	151,57	0,70	540,72
Henryk Sobierajski	564,55	301,33	-	564,55
Andrzej Janiszowski	16,50	0,00	-	16,50
Total	3 487,28	1 141,47	1,30	3 626,91

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

Table 16: Information on the amount of non-cash benefits in 2020 granted by the Company and its subsidiaries to all Management Board members performing functions in 2020

<i>The Board's member name and surname</i>	<i>zloty thousand Total estimated value of non- cash benefits granted by the Company</i>	<i>zloty thousand Total estimated value of non- cash benefits granted by the Company's subsidiaries</i>	<i>zloty thousand In total</i>
Piotr Woźny	0,0	-	0,0
Zygmunt Artwik	0,58	-	0,58
Paweł Markowski	0,12	-	0,12

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Paweł Lisowski	0,44	-	0,44
Maciej Nietopiel	8,24	-	8,24
Henryk Sobierajski	0,38	-	0,38
Andrzej Janiszowski	0,0	-	0,0
Total	9,76	-	9,76

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and subsidiaries of the Company to the Management Board members in 2020 amounted to PLN 3 636.67 thousand. The given amount should be treated as the gross value of remuneration paid or due in the period from 1 January to 31 December 2020.

The Members of the Supervisory Board of ZE PAK SA are remunerated pursuant to Resolution No. 12 of the Extraordinary General Meeting of April 15, 2019, which set the monthly remuneration for the chairman of the Supervisory Board in the amount of PLN 15 thousand, the deputy chairman of the Supervisory Board in the amount of PLN 12 thousand and for other members in the amount of PLN 10 thousand.

Table 17: Information on the amount of remuneration paid and the value of non-cash benefits in 2020 by the Company and its subsidiaries, as a member of the Supervisory Board, all members of the Supervisory Board performing their functions in 2020

<i>Name and surname of Supervisory Board member</i>	<i>zloty thousand</i> <i>Value of (gross) remuneration paid by the Company and the Company's subsidiaries</i>	<i>zloty thousand</i> <i>Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries</i>	<i>zloty thousand</i> <i>In total</i>
Wiesław Walendziak	144,80	0,0	144,80
Tomasz Szląg	121,20	0,0	121,20
Wojciech Piskorz	87,20	0,0	87,20
Leszek Wysłocki	121,00	0,0	121,00
Sławomir Sykucki	66,33	0,0	66,33
Sławomir Zakrzewski	120,00	0,0	120,00
Piotr Woźny	69,00	0,0	69,00
Alojzy Z. Nowak	54,00	0,0	54,00
Maciej Stec	54,00	0,0	54,00
Piotr Stępiak	66,33	0,0	66,33
Grzegorz Krystek	120,00	1,8	121,80
Henryk Sobierajski	0,00	0,0	0,0
Zygmunt Solorz	0,00	0,0	0,0
Total	1 023,86	1,8	1 025,66

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid out by the Company and subsidiaries of the Company to the members of the Supervisory Board in 2020 amounted to PLN 1 025.66 thousand. The given amount should be treated as the gross value of remuneration paid or due in the period from 1 January to 31 December 2020.

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

10. STATEMENT ON THE DIVERSITY POLICY

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

The objectives related to diversity management, in particular with regard to the age structure of employees, were adopted in the Group together with the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020. The restructuring process, lasting for years, meant that most vacancies were filled on the basis of internal recruitment (as part of transfers between departments and companies). A side effect of actions aimed at reducing redundancies and concentrating in the recruitment process on persons already employed in the Group's companies was

the lack of a significant inflow of young employees, and as a result, the average age of employees increased. At some point, this may result in significant retirements and staff shortages. Therefore, ZE PAK SA Group actively monitors changes in the age structure of employees in order not to allow the adverse consequences of losing a large part of experienced employees without proper preparation of their successors.

Simultaneously, the Code of Ethics adopted in the Company includes diversity policy, guaranteeing equal treatment regardless of gender, age, worldview, religion, political views, etc. The document is a tool for reporting potential incidents related to discrimination on any background. It defines the desired and undesirable behaviour in the organization, and at the same time constitutes its ethical policy. Due to its nature, it also includes elements of anti-discrimination and anti-corruption policies as well as procedures for reporting violations and irregularities, non-compliance with legal obligations, threats to health and safety at work and health, environmental safety, unfair competition practices and attempts to conceal any of the above. It applies to all employees, regardless of their position or length of service. In 2020, the Code of Ethics was also implemented in other companies belonging to the Capital Group.

The Company also adopted the procedure for anonymous reporting of violations of the provisions of the Act on public offering and conditions for introducing financial instruments to organized trading, and on public companies, Regulation 2017/1129 and ethical procedures and standards, which enables employees to easily and safely report inappropriate, unsafe or unethical behaviour by their employers, and provides full protection to reporting persons.

Both the Code of Ethics and the Anonymous Reporting Procedure are available on the Company's intranet.

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

Numerical data referring to diversity can be found in this report, in the Statement on Non-Financial Information for 2020 in the subsection - "Employee Issues".

11. STATEMENT OF ZESPÓŁ ELEKTROWNI PAŃNÓW-ADAMÓW-KONIN SA ON NON-FINANCIAL INFORMATION FOR 2020

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

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

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

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

11.1. Description of business model

ZE PAK SA is a producer of electricity operating on the Polish market and an important element of national power engineering system. In accordance with the Company's Articles of Association, the Company's primary business is the generation and sale of electricity as well as the production and sale of heat. The company generates electricity from conventional sources and by burning biomass. The company operates mainly on the territory of the Republic of Poland. ZE PAK SA is operating on the basis of the integrated business model. With its own coal lignite mines, it extracts it and using mainly this fuel it is generating electricity and heat in power plants in the immediate vicinity of the mines. Although the activity of ZE PAK SA focuses mainly on the segment of conventional electricity generation in the process of lignite combustion, the Company is aware of the challenges that await the industry in the near future. Changing legal and environmental conditions, rising prices of CO₂ emission allowances, tightening of emission standards for other substances. For several years now, the Company has been significantly reducing its carbon footprint. It also decided to adopt the directions of the strategy, according to which in the coming years in ZE PAK SA investments in the area of renewable energy sources, production of "green" hydrogen and its use will become more and more important. As part of

the Group's structure, companies were established to focus on activities in new areas of activity, thus separating the existing activities related to the production of energy from coal

The Company's generation assets include two lignite-fired power plants located in central Poland, in the Greater Poland Voivodship. Pałnów Power Plant produces energy using lignite in 4 power units with a total capacity of 1,118 MW. Konin Power Plant, a former coal-fired power plant, today mainly uses a block with a boiler dedicated to burning biomass with an installed capacity of 50 MW and produces electricity and heat from biomass. Currently, Konin power plant is modernizing the second unit, which will also be adapted to biomass combustion.

11.2. Social issues

Management approach

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

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

The Company's influence on the environment is multidimensional. From the point of view of general public, ZE PAK SA is an important supplier of energy for the Polish economy and Polish society. Nevertheless, the final customers are not the main clients, the Company sells the vast majority of produced electricity on the wholesale stock market. For this reason, the ZE PAK SA aims at ensuring stable electricity supply at a competitive price. ZE PAK SA has a much wider range of impact on the environment from the point of view of the local community, i.e. understood as a community living in the immediate neighbourhood of the Company's plants, where the production of electricity and heat is conducted. The production of electricity has an impact on the natural environment (see: Environmental issues), and consequently social environment too. Dealing with the negative influence on the natural as well as social environment, it is necessary to mention, first of all, about the danger and burdens associated with:

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

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

known among anglers. Supporting such economic activities, as well as all other forms of social involvement allows compensating partially to social environment the burdens related to the activities of ZE PAK SA.

ZE PAK SA may also be a welcome member of the community, due to significant direct and indirect economic impact. Money transfers in the form of taxes and para-taxes (license fees, concessions, etc.) to a large extent feed budgets of local governments. For example, in 2020, the Company paid over PLN 67.2 million (PLN 74.1 million in 2019), of which PLN 66.2 million (in 2019 it was over PLN 45.4 million) were the fees for local governments. These means allow e.g. the communities to realize investment projects, finance health care and education, etc. Simultaneously, thanks to the salaries of employees who are mostly recruited from local communities, the so-called multiplier effects are started and the local economy is stimulated, including sectors not directly related to lignite mining and energy (the Company allocated remuneration and employee benefits to PLN 114.6 million in 2020 and PLN 100.1 million in 2019).

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

The other dimension of impact on social environment is connected with the economical use of waste heat, which accompanies the electricity production. A part of heat has been used for years for heating purposes, inter alia by Miejskie Przedsiębiorstwo Energetyki Ciepłej in Konin. Such approach is extremely rational from the social as well as environmental point of view. Nevertheless, due to restructuring of power plants, the heat production from the source used from many years based on the lignite from Konin power plant, will not be possible in the future because of the environmental requirements. ZE PAK SA, wishing to remain a heat supplier for the local community, has launched a new heat source based on a biomass block for this purpose. The current solution, using a renewable energy source, on the one hand eliminates the risk of non-compliance with stricter environmental standards, but also has a higher tariff for heat supplied.

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

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

ZE PAK SA also declares its support for local initiatives, although due to the savings program and the COVID-19 pandemic and related restrictions in the economic and social life, it has recently been lower than in previous years. The goal of the ZE PAK SA is to support the local community through social involvement, so as to compensate it as much as possible for these inconveniences related to the operation of plants, in the part where it is impossible to eliminate or reduce

them. Understanding the importance of the natural environment for each of us, the Company also supports projects aimed at promoting renewable energy sources.

The Group's goal is not to engage in spectacular projects to gain publicity, but to reach the nearest municipalities and non-governmental organizations from the region. The Company carried out pro-social activities last year, however the COVID-19 pandemic has significantly limited the possibility of organizing socio-cultural events, which significantly influenced the number of donations made in this area. Moreover, there were no annual celebrations of the Power Engineer's Day and the related sponsored and subsidized events.

Despite the difficult situation, in 2020 the Company financially supported the organization of the Sailing Regatta for the Cup of the President of ZE PAK SA. A donation was also made to the Congregation of Camaldolese Hermitage of Góra Koronna - the Hermitage of Five Martyrs in Bieniszew.

For years ZE PAK SA has been supporting the activities of the "Inter-Enterprise Club of Honorary Blood Donors PCK Pańńów - Konin Capital Group ZE PAK". Traditionally, ZE PAK SA is also involved in supporting the activities of Polsat Foundation, one of the largest non-governmental organizations operating in Poland, which has been directing its help to sick children and their parents for over twenty years. Specialized Educational Centre the name of Janusz Korczak in Konin received the necessary equipment for the children rehabilitation centre.

In November 2020, the "Active" Runner Club in Konin also received financial support. The idea behind the run in which the Company participated was to promote sport and physical activity in harmony with nature and with respect for the natural environment.

Associated business risk

Business risk that may have negative influence on the Group's results and development, and being associated with the area of social influence, results directly from the character of its influence (e.g. disturbing the hydrology balance or noise mentioned earlier). They constitute inconvenience and may also be a source of material damage of the third parties. This can lead to disputes with the society and thus loss of its positive attitude for present and further projects, including so-called social licence to operate. It can cause the increase of complaints directed by the society to administration bodies, initiating the proceedings against the plants and legal and financial sanctions, in case of confirming the allegations. Ineffective dialogue, for example on damages or land purchase, may also mean civil proceedings for damages. A particular threat is the loss of public trust and a negative opinion about the plant as an unreliable investor, which can definitely hinder the acquisition of further permits and concessions (e.g. in the case of using existing infrastructure to implement investments in the field of renewable energy sources). This, in turn, may cause a greater risk associated with the new investment and less favour of investors and lenders, and thus difficulties in raising capital.

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

Key indicators

Table 18: Key indicators in the area of social impact

	2020	2019
Number of environmental failures resulting in serious contamination	0	0
Total amount of taxes and para-taxes paid - altogether	67,2 mln zł	74,1 mln zł
Total amount of taxes and para-taxes paid – for local administration	66,2 mln zł	45,4 mln zł

11.3. Employee issues

Management approach

In the area of human resources management, ZE PAK SA has formal solutions defining the relationships between the employer and employees, resulting from the Polish law, inter alia work regulation resulting from the Labour Code,

corporate collective labour agreement resulting from the Labour Code, Company Social Benefits Fund resulting from the act of Social Benefits Funds; Staff Council is also operating. The Unions are also operating in ZE PAK SA. In the matters specified by the law the management of ZE PAK SA informs and consults the decisions with the employee representatives.

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

Corporate collective labour agreement, obligatory in ZE PAK SA in the reporting period, contains the principles of employment and remuneration of the employees. On the other hand, the regulations of the Company Social Benefits Fund define the rules of using and financing of social activity and housing for the benefits of the employees and their family members. The records in both documents are implemented by the managing units although at the same time there are collective disputes, which are subject to dissolution in accordance with applicable law. In the reporting period, we have three collective disputes in ZE PAK SA, which concern an increase in wages and the restoration of the provisions of the terminated collective agreement. The collective dispute in ZE PAK SA is in the mediation phase with the participation of an external mediator. In the reporting period, negotiations with trade unions were initiated on the conclusion of a new collective labor agreement at ZE PAK SA.

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

Health and safety at work

Similarly to earlier areas, the most significant ways of activities associated with the health and safety risk management have been described in the Strategy for Corporate Social Responsibility of ZE PAK SA Capital Group for 2017-2020. Simultaneously, it is important to remember about the obligatory certified management systems covering the issues of security management, including the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements (according to PN-ISO 45001:2018).

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

In ZE PAK SA, as already mentioned, occupational health and safety management is carried out on the basis of the Integrated Management System procedures in accordance with the PN-ISO 45001: 2018 standard. At the same time, activities in the area of health and safety are regulated by the orders of the President of the Management Board and the Vice President managing the production division, relating to broader aspects, but also covering health and safety issues.

The key documents defining the procedures for the safe operation of energy equipment include, in particular, the Instructions for the Operation of Electricity Equipment, the Instructions for the organization of safe work with energy equipment at ZE PAK SA and the official instructions of the Vice President managing the production division and the Director of Pańnów-Adamów-Konin Power Plant.

Based on the identification of hazards at workplaces, the employer assesses and documents the occupational risk related to the work performed and applies the necessary preventive measures to reduce this risk. Documented occupational risk assessment is a tool that allows the people managing employees to optimally and effectively use technical and organizational measures aimed at eliminating or minimizing the level of risk related to hazards that may be a source of an accident at work or an occupational disease. If the applied technical and organizational protection measures are insufficient, the assessment shall specify the individual protection measures necessary for the application. The procedure for carrying out the risk assessment and the templates of the documents used are specified in the procedures of the Integrated Quality, Safety and Environmental Management System. Informing employees about occupational risks and the principles of protection against threats takes place each time after updating, and in addition, as part of the implementation of training programs in the field of occupational health and safety, the knowledge of the risks associated with the work and methods of protection against these threats is updated and supplemented.

Annual analysis show that repairs and renovations carried out over the years, and most of all decommissioning of old and construction of new devices and installation, including generation units (boiler 7 in Konin power plant), in addition to improvement of production efficiency and reduction of negative influence on natural environment, undoubtedly

contribute improvement of employees working conditions and technical safety at work through elimination or reduction of danger to health and life of the employees.

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

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

At ZE PAK SA, there are also factors and work processes that pose a particular threat to health or life. These include: chemical, carcinogenic and biological factors. With regard to chemical agents, the hazard identification and occupational risk assessment performed showed the use of chemical agents belonging to the group of corrosive agents, as well as irritating and sensitizing agents. Managers of organizational units have lists of used hazardous chemical substances and data sheets of these substances. Employees confirm in writing that they have read the safety data sheets and the occupational risk assessment. The health and safety service prepares registers and data required by law, which are transferred to the competent state provincial sanitary inspector and the competent district labour inspector, as well as to the basic unit of the occupational medicine service for the purposes of health prevention. In contact with biological agents, employees are employed, whose duties include the operation of biomass transport equipment (contact with fungi) and the operation of sewage treatment plants and chemical analyses of domestic sewage (contact with pathogens occurring in domestic sewage and sewage sludge). On the basis of the occupational risk assessment, the presence of biological agents belonging to group 2 of the hazard was identified, that is: factors that can cause diseases in humans, may be dangerous to workers, but their spread in the human population is unlikely. There are usually effective methods of prevention or treatment for them". Workers professionally exposed to biological agents were offered available vaccinations against these threats. Vaccinations, for which the majority of employees have agreed, are performed as part of preventive healthcare.

In 2020, several investment tasks were implemented to increase the level of occupational health and safety, such as: Modernization of the Lignite Crushing System (UKL) dedusting system at Pańków Power Plant, Construction of video monitoring of waste storage and storage sites at ZE PAK SA and Construction of fire separation walls in waste warehouses at the Pańków and Konin Power Plants.

Due to the epidemiological situation caused by the spread of the SARS-CoV-2 coronavirus, ZE PAK SA appointed a team by order of the President of the Management Board to assess the risk of coronavirus infection and introduced procedures to minimize health hazards and minimize the risk of coronavirus infection. The OHS service in the sanitary regime carried out inspections of workstations and compliance with health and safety regulations and rules. Due to the pandemic, the review of working conditions was carried out using remote communication techniques (email, telephone). After consultations carried out by the OHS Committee with the use of remote communication techniques, inspection reports were sent to the Director of Pańków-Adamów-Konin Power Plant, who issued official orders regarding the deadlines for implementing the conclusions of the inspection and the persons responsible for their implementation..

Associated business risks

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

The prolonged collective disputes regarding the principles of remunerating employees may consequently cause social unrest and strengthened relations with trade unions, which is another risk factor. Therefore, a dialogue with representatives

of the crew allows for identification of potential sources of problems and, on the other hand, it gives an opportunity for a reliable and comprehensive presentation of restrictions under which companies from the ZE PAK SA Group operate.

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

One of the most important challenges that companies operating in the broadly understood energy sector based on fossil fuels will have to face is the energy transformation, the direction of which is determined by the energy and climate policy of Poland and the EU. This transformation will be multidimensional, in addition to technological or economic dimensions, it will also have specific social effects. Regions in which the mining and energy industry based on fossil fuels play a significant role will have to face the adverse consequences of reducing the role of fossil fuels in the economy. This is important because it is these specific regions that will experience the cumulative effects of the whole process that is to affect the entire economy. In this context, the term "just transformation", which has been around for some time, has been associated with energy transformation themes. This term is supposed to define the way of abandoning fossil fuels so that it does not burden the communities associated with e.g. mining regions at the same time. Eastern Greater Poland is such a region. The company actively joined the work of the "coal platform", i.e. a structure at EU level, which is to prepare a framework for financial and organizational support programs for regions related to coal mining in Europe. As part of the contribution, the Company has developed a number of investment projects in the field of renewable energy production, energy storage and hydrogen production, which it wants to implement using its potential and infrastructure. For this purpose, the Company has decided to adopt the directions of the strategy according to which the last electricity produced from coal will flow at the end of this decade. In the coming years, ZE PAK SA will generate more and more energy from renewable energy sources, and after the end of coal mining, only green energy will be produced. An important direction of the new ZA PAK strategy is the production and use of hydrogen. The strategic directions assume that the transformation process of ZE PAK SA will last for the coming years. During this time, further green energy generation projects will be launched and lignite powers will be gradually phased out. The date of ending the production of electricity 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. Such action of ZE PAK SA will significantly contribute to the climate neutrality of Wielkopolska. The implementation of these projects, with the support of preferential measures, would certainly contribute to some extent to offsetting the negative social and economic effects of the energy transformation for the region.

Key indicators

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

	2020			2019		
	women	men	total	women	men	total
<i>By type of contract</i>						
Work contract for an indefinite period	245	739	984	262	759	1021
Work contract for an definite period	3	0	3	3	1	4
Work contract for a trial period	0	0	0	0	0	0
Civil-law agreement	5	18	23	0	13	13

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

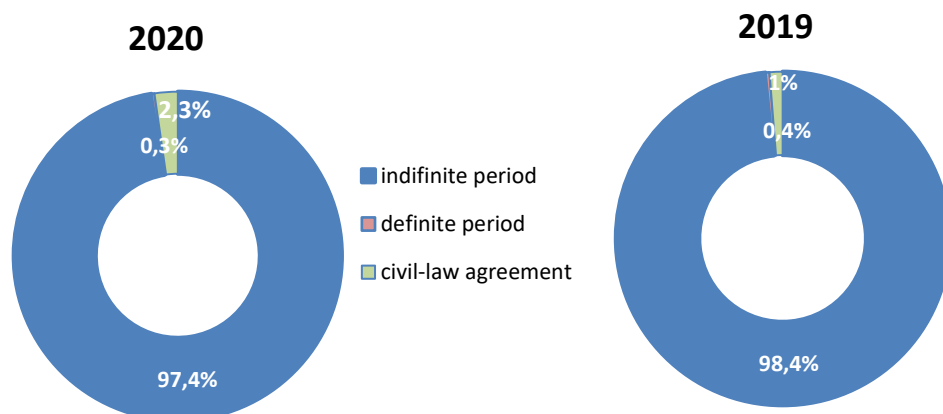


Table 20: Employment structure at the end of the year by type of position, education and age (in persons at the end of subsequent periods). The structure does not include the civil law agreement employees.

	2020			2019		
	women	men	total	women	men	total
<i>By type of position</i>						
Managerial position	32	68	100	30	63	93
Non-managerial position	216	671	887	235	697	932
<i>By education</i>						
Higher (bachelor, master, postgraduate, doctorate, professor)	164	301	465	162	312	474
Medium (high school, technical college, college, post-secondary)	79	262	341	96	267	363
Professional (basic, learning a profession)	4	134	138	5	138	143
Basic (elementary, junior high)	1	42	43	2	43	45
<i>By age</i>						
Up to 30 years old	8	10	18	7	14	21
31 to 40 years old	41	77	118	43	85	128
41 to 50 years old	71	226	297	73	235	308
Over 50 years old	128	426	554	142	426	568
Total	248	739	987	265	760	1 025

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

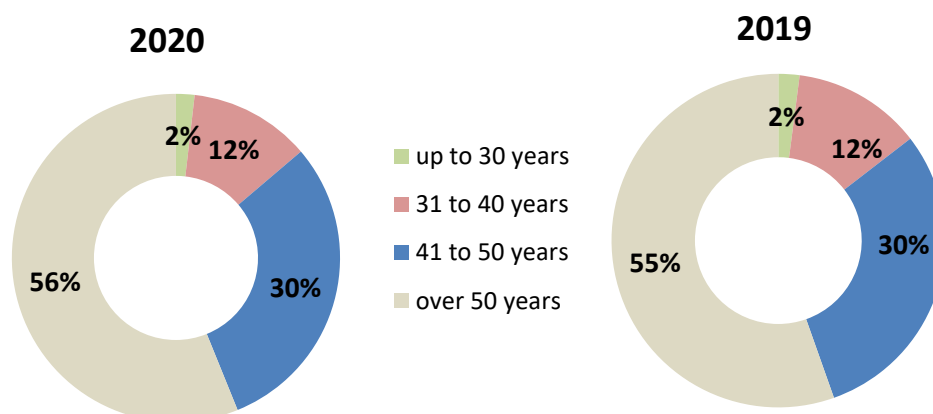


Table 21: Newly employed during the year (in persons in the given period)

	2020			2019		
	women	men	total	women	men	total
Up to 30 years old	1	1	2	4	3	7
31 to 40 years old	2	2	4	17	8	25
41 to 50 years old	5	12	17	37	34	71
Over 50 years old	9	15	24	82	57	139
Total	17	30	47	140	102	242

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

	2020			2019		
	women	men	total	women	men	total
Up to 30 years old	0	0	0	0	0	0
31 to 40 years old	2	3	5	2	4	6
41 to 50 years old	3	1	4	4	12	16
Over 50 years old	29	47	76	28	67	95
Total	34	51	85	34	83	117

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

Amount	2020	2019
<i>Management of ZE PAK SA:</i>		
– Total	5	5
– Women	0	0
– Men	5	5
<i>Supervisory Board of ZE PAK SA:</i>		
– Total	9	8

– Women	0	0
– Men	9	8

Table 24: Accidents at work

	2020	2019
Total number of accidents (injured), including:	0	1
– Light	0	1
– Serious	0	-
– fatal	0	-
Number of lost days	0	40
Frequency ratio of injured in total accidents (per 1000 insured)	1	1,6
Frequency ratio of injured in serious and fatal accidents (per 1000 insured)	0	0

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

	2020	2019
Noise	47	49
Dust	-	-
Insufficient lighting	130	146
Energy expenditure	-	-
Nuisance at work – night shift work	445	477

11.4. Environmental issues

Management approach

Similarly to other areas, the foundation of policies and ZE PAK SA management's approach to environmental issues were defined in the Strategy for Corporate Social Responsibility of ZE PAK SA Capital Group for 2017-2020. Simultaneously, it is important to remember about the obligatory certified management system covering the environmental issues, relating to the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements and containing the environmental policies with particular procedures periodically reviewed and optimized. Certified management system as well as Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020 aims at providing stable and safe electricity production for the environment.

Simultaneously, selected management aspects, falling within a broader scope of environmental management, are regulated by internal principles and ordinances. They often reflect the legal provisions obligatory not only in the country, but also relating to a specific project, object or installation. The latter, i.e. environmental impact reports, and their detailed description of the foreseen activities of the planned project on the environment, constitute in itself an obligatory reference point for the managers of particular facilities and installations. This approach is extremely important. It should be realized that not universal management systems, but environmental impact reports, on the one hand refer to the specificity of the conditions of a given investment, and on the other, unlike many other procedural solutions, they are created through dialogue and open consultations with the environment. Therefore, solutions minimizing the impact on the natural environment are developed with the participation of stakeholders (local government, administration, local community, environmental organizations).

The starting point for policy and procedures based on it is the nature of the impact of business operations on the natural environment. It is associated with identified risks, to which specific and constantly improved procedures and technological solutions correspond. In case of producing electricity in conventional lignite power plants the following aspects of influence on the environment are to be distinguished:

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

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

Key environmental impact parameters during electricity production are monitored, often in a continuous mode. The cases of reports about potential irregularities are checked in a similar manner.

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

Air protection: emissions and nuisance

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

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

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

Lakes monitoring

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

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

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

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

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

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

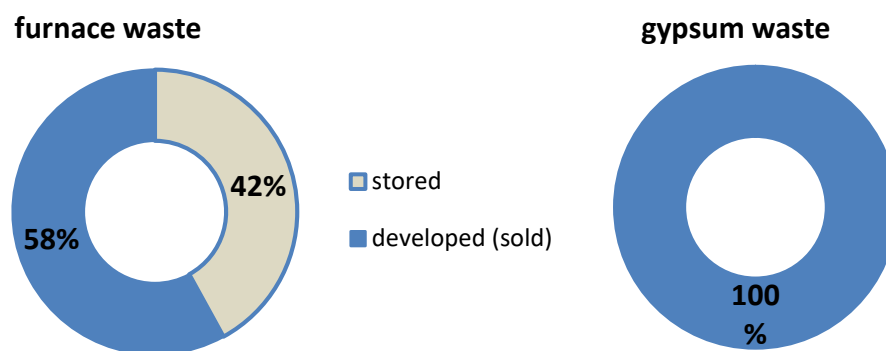
Sewage management

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

Wastes

In ZE PAK SA, the main stream of generated waste is furnace waste (ashes) and solid waste from calcium methods of flue gas desulphurization (gypsum). Waste generated in the first place is managed by external companies as part of waste recovery. On the basis of the volatile ash produced, mixtures for road foundations and road binders are mainly made. On the other hand, waste from flue gas desulfurization is directed mainly to the production of gypsum products, drywall and cement plants. In 2020, around 806 thousand tons of furnace waste were generated (of which over 468 thousand tons were sold) and approx. 135 thousand tons of waste from calcium flue gas desulfurization methods (135 thousand tons have been sold). The remaining quantities of waste generated are directed to landfills belonging to the Company. The furnace waste and waste from flue gas desulphurisation produced in ZE PAK SA meet the requirements of environmental protection and do not threaten human life and health, which was confirmed by research in the field of physicochemical, toxicological and Eco toxicological properties performed for the registration of substances in accordance with REACH requirements.

Chart 13: Percentage share of waste management generated in the Company in 2020



At landfills managed by ZE PAK SA in 2020, monitoring of the quality of groundwater and surface water as well as supernatant water was carried out, with the frequency specified in the integrated permits and instructions for running landfills, i.e. once a quarter. Currently, ZE PAK SA has 4 landfills and all of them were exploited in 2020 on the following:

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

Monitoring was carried out in the primary and supplementary monitoring networks. Monitoring of groundwater quality is performed in a network of piezo metric wells located in the vicinity of landfills. The quality of the groundwater tested in piezometers and deep wells in 2020 fluctuated in classes from I to V. Supernatant waters occurring in landfills (used for hydro transport of furnace wastes) were characterized by high mineralization, high electrolytic conductivity, high pH and total hardness. In addition, as a part of the monitoring of landfills, an annual assessment of slope stability and subsidence is also carried out. Most of the monitored slopes surveyed in 2020 proved to be stable.

ZE PAK SA also conducts reclamation of unused parts of landfills on an ongoing basis.

Noise

As part of the obligation to monitor noise emitted to the environment imposed by integrated permits for the fuel combustion installations of ZE PAK SA and Elektrownia Pałnów II sp. Z o.o. in 2020 noise measurements were taken from the area of Adamów power plant and Pałnów power plant. The results from the conducted tests did not show any exceedances of limit values set in the permits. The noise measurements were not carried out from Konin power plant site and Pałnów II power plant, and the results from 2019 are still valid.

Inspections

In 2020, the Provincial Inspectorate for Environmental Protection in Poznań, Delegatura in Konin, carried out three inspections of PAK Capital Group Power Plant: Pałnów, Adamów and Konin. The scope of all controls included verification of compliance with environmental regulations and administrative decisions.

Programs for the prevention of major industrial accidents

In 2020, programs for the prevention of major industrial accidents were updated in terms of type, amount and hazardous substances location as well as description of technological installations in the power plants. On the base of performed update of hazardous substances quantity, only Elektrownia Pałnów I is in the group of plants where increased risk of major industrial accidents may occur.

Associated business risk

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

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

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

It is worth mentioning, however, that environmental conditions imposed on conventional manufacturers are increasingly stringent and one should expect this trend to continue. In this context, it is necessary to mention BAT conclusions (Best Available Technology), which for conventional energy sector are to be effective from August 18, 2021. The BAT regulations tighten the limits for emissions of nitrogen oxides, sulphur oxides and dust, which until now were regulated by the Industrial Emissions Directive (IED). The catalogue of these standards also includes limits for chlorine, fluorine and heavy metal compounds, including for mercury. Before generators from the conventional energy sector, this poses major organizational and capital challenges related to adapting to the new regulations. However, it is also necessary to take into account certain derogations and derogations that will be available to the manufacturer under certain conditions (e.g. in relation to the remaining relatively short exploitation period not justifying the incurring of disproportionate expenditure)

In the context of the environmental impact of the activities carried out by the companies of ZE PAK SA, it is important that in 2020 the directions of the green strategy implemented by the Company were adopted, which assume the process of transforming the profile of energy production from conventional sources towards renewable energy sources. This process will continue in the coming years, which means that at ZE PAK SA more and more energy will be produced from renewable energy sources. The investment projects carried out at the moment (construction of a photovoltaic farm in Brudzew) use the potential of reclaimed land, previously used for mining activities, in the direction of preparing them for location for solar and wind farms. At Konin Power Plant, the implementation of a task aimed at adapting the infrastructure previously used for the production of energy and heat from lignite for biomass combustion has started. In this way, a second biomass unit will be created, which, in addition to producing energy for the National Power System, will also be a backup source for heat production in the event of shutting down the biomass unit currently operating at Konin Power Plant. An important direction of the new strategy of ZE PAK SA are also investment projects, so far still in the preparatory phase related to the production and use of hydrogen. Such a targeted strategy and activities of the Company will significantly contribute to the climate neutrality of Wielkopolska and minimizing the risks resulting from the impact of the current operations on the environment.

Key indicators

Table 26: CO₂ emission (m tons/TWh)

	2020	2019
CO ₂ emission in ZE PAK SA per production unit	1,01	1,07

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

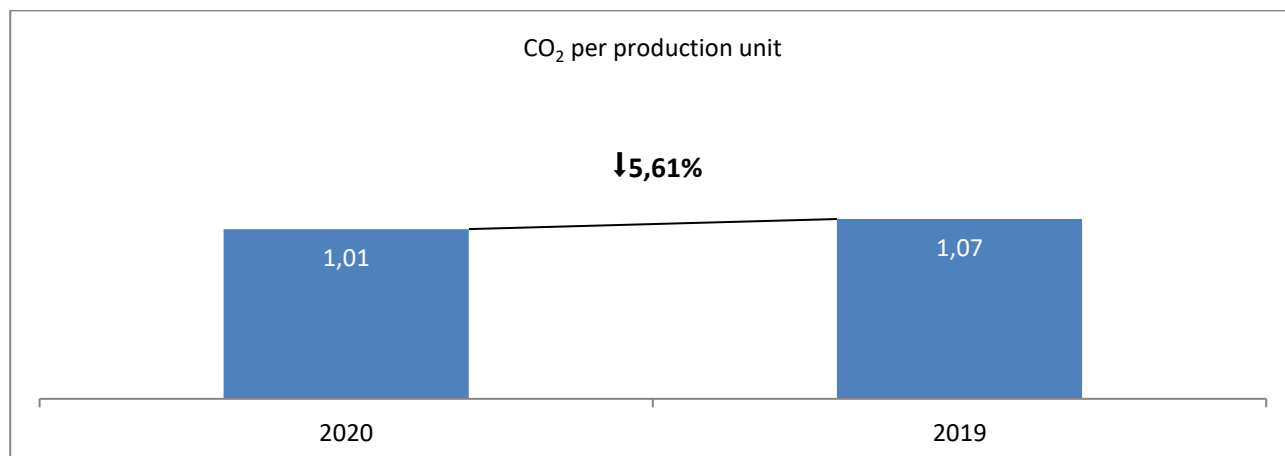


Table 27: SO₂, NO_x and dust emission to the atmosphere (thousand tons/TWh)

	2020	2019
SO ₂ emission in ZE PAK SA per production unit	0,67	0,82
NO _x emission in ZE PAK SA per production unit	1,09	1,34
Dust emission in ZE PAK SA per production unit	0,17	0,16

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

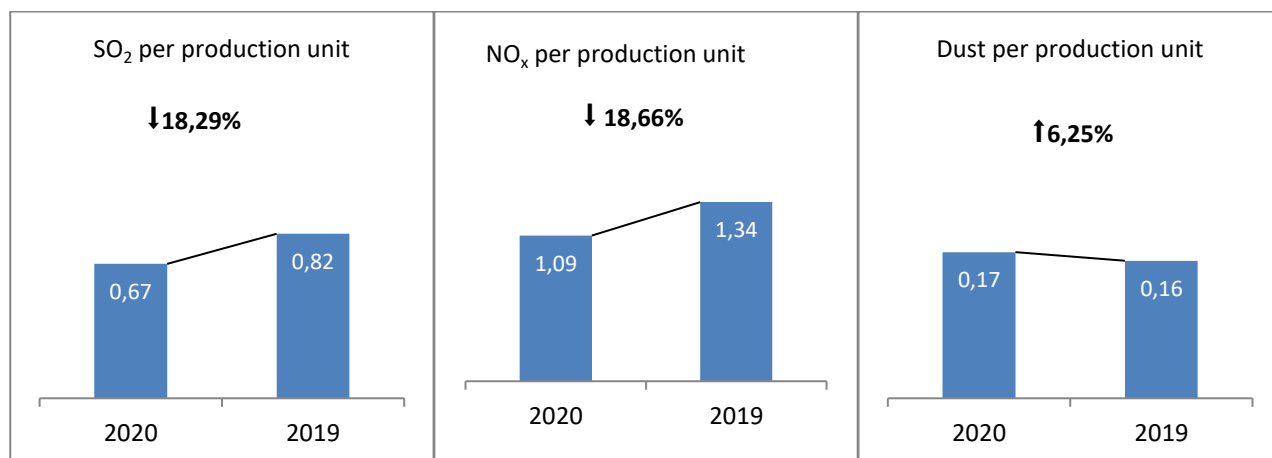


Table 28: Violation of environmental standards (%)

Emitted amount resulting from exceeding the standards in relation to the total amount of emissions	2020	2019
SO ₂	0,00	0,00
NO _x	0,00	0,00
Pyły	0,00	0,00

11.5. Issues of respect for human rights

Management approach

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

As already mentioned earlier, in the Company, there is operating the Employees' Council selected on the basis of applicable regulations. There are also a number of trade union organizations operating under the Trade Unions Act. The Management Board of the Company informs and consults all the decisions in matters specified by the law with employees' representatives (Employees' Council, trade unions). In the opinion of managers, freedom of association in trade unions and related rights are assured.

In the aspect referring to an individual and ensuring its respect, which means the respect for variety and simultaneous lack of any form of discrimination, beside the respect and enforcement of legal regulations that guarantee such a respect (e.g. Labour Code), in 2017 ZE PAK adopted The Code of Ethics. Not only does it guarantee the aforementioned rights of an individual, but it is also a tool in itself that allows for the resolution of potential conflicts of interest. It contains a mechanism for both resolving doubts as well as reporting suspicions about potential behaviour that violates the provisions of the Code. It is worth mentioning that the Code of Ethics also condemns other behaviours that violate human rights, such as child labour, forced labour or slave labour.

Associated business risk

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

Regarding the risk of disrespect for individual rights, such cases can not only expose ZE PAK SA to litigations and necessity to pay compensations, but they are primarily a real threat for organisation culture, work atmosphere and the same its effectiveness. They are also associated with the risk of losing valuable employees or, through discrimination, the impossibility of making full use of their potential (e.g. promotion of people with lower competences, while inhibiting the promotion of discriminated people).

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

Key indicators

Table 29: Key indicators in the area of human rights' respect

	2020	2019
The number of cases of reporting suspicion of unethical behaviour under the mechanisms provided for by the Code of Ethics for violation of individual rights	0	0
Unionization ratio	52,79%	56,29%
Number of collective disputes	3	3
Number of work days lost due to strike actions	0	0

11.6. Issues related to counteracting corruption

Management approach

One of the purposes of ZE PAK SA Capital Group Strategy for Corporate Social Responsibility adopted in 2017 is providing high quality and constantly improved management system that in the process of taking decisions would include

the social and environmental aspects. One of many solutions of such management system is counteracting potential corruption and other unacceptable unethical phenomena. The threat of such phenomena depends, among others, on the exposure to the risk of corruption behaviour (e.g. a range of realized investments and projects), organizational culture and ethical values as well as the effectiveness of inspecting system.

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

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

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

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

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

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

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

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

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

Associated business risk

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

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

Key indicators

Table 30: Key indicators in the area related to counteracting corruption

	2020	2019
Number of suspicions of corrupt behaviour reported to law enforcement authorities	0	0
Number of people convicted by a valid sentence for a corruption offense	0	0

12. OTHER INFORMATION

12.1. Significant court proceedings

Zespół Elektrowni Pątnów - Adamów - Konin SA was 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.

12.2. Significant achievements in the field of research and development

As part of the consortium established, Elektrownia Pątnów II sp.z o.o. (after the merger with ZE PAK SA from December 30, 2020 already as ZE PAK SA) together with SBB ENERGY SA and a partner, INBRAS undertook further research and development (R&D) activities in terms of testing a new technology in the field of mercury emission reduction. As part of the project "Composite adsorber to reduce mercury emissions in waste gases" (POIR.01.01.01-00-1119 / 17), tests of a new Polish technology assuming the reduction of heavy metal pollutants into the atmosphere using polymer modules were carried out. These activities are aimed at the environmentally sustainable production of electricity from lignite until the final operation of Block 9.

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

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

12.4. Information on the auditing of the financial statement

The auditing company auditing the financial statements and the consolidated financial statements is PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością. Audyt sp.k. The agreement regarding the audit of the Company's financial statements and the consolidated financial statements of the Group was concluded on August 10, 2020 for a period of 3 years. In 2020 PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt sp.k. did not provide the Company with other services apart from audit services.

Information on the remuneration of the audit firm is presented in point 35 of the financial statements of the ZE PAK SA for 2020.

12.5. Financial forecasts

The Company did not publish financial forecasts for 2020 and it will not present the forecast for 2021.

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

Konin, 19 April 2021

SIGNATURES:

Piotr Woźny
President of the Management Board

Zygmunt Artwik
Vice President of the Management Board

Andrzej Janiszowski
Vice President of the Management Board

Maciej Nietopiel
Vice President of the Management Board

Katarzyna Sobierajska
Vice President of the Management Board