

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

**MANAGEMENT BOARD'S REPORT FROM THE OPERATION OF THE CAPITAL
GROUP IN THE 1ST HALF OF 2020**

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

30 SEPTEMBER 2020

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1. SELECTED FINANCIAL DATA

| <i>Selected consolidated financial data</i> | <i>Złoty thousand</i> | <i>Złoty thousand</i> | <i>Euro thousand</i> | <i>Euro thousand</i> |
|--|---|---|---|---|
| | <i>6 months 2020 period from 01.01.2020 to 30.06.2020</i> | <i>6 months 2019 period from 01.01.2019 to 30.06.2019</i> | <i>6 months 2020 period from 01.01.2020 to 30.06.2020</i> | <i>6 months 2019 period from 01.01.2019 to 30.06.2019</i> |
| Sales revenue | 1 050 461 | 1 406 030 | 236 521 | 327 899 |
| Operating profit/loss | (308 605) | 66 344 | (69 485) | 15 472 |
| Profit/loss before tax | (314 463) | 61 372 | (70 804) | 14 313 |
| Net profit/loss for the period | (260 832) | 36 696 | (58 729) | 8 558 |
| Net profit attributable to equity holders of the parent | (257 514) | 37 911 | (57 982) | 8 841 |
| Total comprehensive income | (260 915) | 36 454 | (58 747) | 8 501 |
| Net cash flow from operating activities | (206 947) | (11 646) | (46 596) | (2 716) |
| Net cash flow from investing activities | (14 598) | 18 194 | (3 287) | 4 243 |
| Net cash flow from financing activities | (4 180) | (179 383) | (941) | (41 834) |
| Net increase / (decrease) in cash and cash equivalents | (225 725) | (172 835) | (50 824) | (40 307) |
| Net profit per share (in zloty/euro per share) | (5,07) | 0,75 | (1,14) | 0,17 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |
| | <i>As at 30.06.2020</i> | <i>As at 31.12.2019</i> | <i>As at 30.06.2020</i> | <i>As at 31.12.2019</i> |
| Total assets | 2 451 598 | 3 118 246 | 548 947 | 732 240 |
| Fixed assets | 1 841 016 | 2 182 031 | 412 229 | 512 394 |
| Current assets | 610 582 | 936 215 | 136 718 | 219 846 |
| Total equity | 915 554 | 1 176 468 | 205 005 | 276 263 |
| Share capital | 101 647 | 101 647 | 22 760 | 23 869 |
| Share capital attributable to equity holders of the parent | 916 551 | 1 174 147 | 205 229 | 275 718 |
| Total liabilities | 1 536 044 | 1 941 778 | 343 941 | 455 977 |
| Long-term liabilities | 908 328 | 988 294 | 203 387 | 232 076 |
| Short-term liabilities | 627 716 | 953 484 | 140 554 | 223 901 |
| Book value per share (in zloty/euro per share) | 18,01 | 23,15 | 4,03 | 5,44 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP
 MANAGEMENT BOARD'S REPORT FROM THE OPERATION OF THE CAPITAL GROUP IN THE 1ST HALF OF 2020

| <i>Selected financial data of ZE PAK SA</i> | <i>Zloty thousand</i> | <i>Zloty thousand</i> | <i>Euro thousand</i> | <i>Euro thousand</i> |
|--|---|---|---|---|
| | <i>6 months 2020 period from 01.01.2020 to 30.06.2020</i> | <i>6 months 2019 period from 01.01.2019 to 30.06.2019</i> | <i>6 months 2020 period from 01.01.2020 to 30.06.2020</i> | <i>6 months 2019 period from 01.01.2019 to 30.06.2019</i> |
| Net revenues from sales of products, goods and materials | 520 601 | 694 488 | 117 218 | 161 961 |
| Operating profit/loss | 157 114 | 32 792 | 35 376 | 7 647 |
| Profit/loss before tax | 39 409 | 29 273 | 8 873 | 6 827 |
| Net profit/loss for the period | 28 960 | 23 958 | 6 521 | 5 587 |
| Net cash flow from operating activities | (143 519) | (84 547) | (32 315) | (19 717) |
| Net cash flow from investing activities | (25 893) | 19 422 | (5 830) | 4 529 |
| Net cash flow from financing activities | (326) | (78 098) | (73) | (18 213) |
| Net cash flow together | (169 738) | (143 223) | (38 218) | (33 401) |
| Net profit per share (in zloty/euro per share) | 0,57 | 0,47 | 0,13 | 0,11 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |
| | <i>As at 30.06.2020</i> | <i>As at 31.12.2019</i> | <i>As at 30.06.2020</i> | <i>As at 31.12.2019</i> |
| Total assets | 1 808 738 | 1 992 034 | 405 001 | 467 778 |
| Fixed assets | 1 588 868 | 1 519 635 | 355 770 | 356 847 |
| Current assets | 219 870 | 472 399 | 49 232 | 110 931 |
| Equity | 1 321 008 | 1 292 048 | 295 792 | 303 404 |
| Share capital | 101 647 | 101 647 | 22 760 | 23 869 |
| Liabilities and provisions for liabilities | 487 730 | 699 986 | 109 210 | 164 374 |
| Long-term liabilities | 2 061 | 2 291 | 461 | 538 |
| Short-term liabilities | 74 966 | 102 825 | 16 786 | 24 146 |
| Book value per share (in zloty/euro per share) | 25,99 | 25,42 | 5,82 | 5,97 |
| Weighted average number of shares | 50 823 547 | 50 823 547 | 50 823 547 | 50 823 547 |

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

- *particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2020 to 30 June 2020, which is 4.4413 EUR/PLN and from 1 January 2019 to 28 June 2019, which is 4.2880 EUR/PLN;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 30 June 2020, which is 4.4660 EUR/PLN and as of 31 December 2019, which is 4.2585 EUR/PLN.*

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of 30 June 2020, ZE PAK Capital Group (hereinafter referred to as the “Group”, “Capital Group” the “ZE PAK SA Group”) is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as “ZE PAK SA” or “Company”) and nine subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the “PAK KWB Adamów SA”), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the “PAK KWB Konin SA”), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the “PAK SERWIS sp. z o.o.”), PAK Górnictwo sp. z o.o., PAK Infrastruktura sp. z o.o., PAK Adamów sp. z o.o., Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

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

The production facilities of the Group include three lignite-fired power plants located in the central part of Poland in Wielkopolskie voivodship. These are: Pątnów II – equipped with a supercritical power unit, Pątnów I and Konin – equipped additionally with power unit with a boiler dedicated to biomass firing. Total installed gross power output of the production facilities as at the date of this report is 1 222 MW.

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

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

The structure of ZE PAK SA Group as at June 30, 2020 is presented at Picture 1.

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

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

2.2. Structure

Picture 1: Structure of the Group as of 30 June 2020

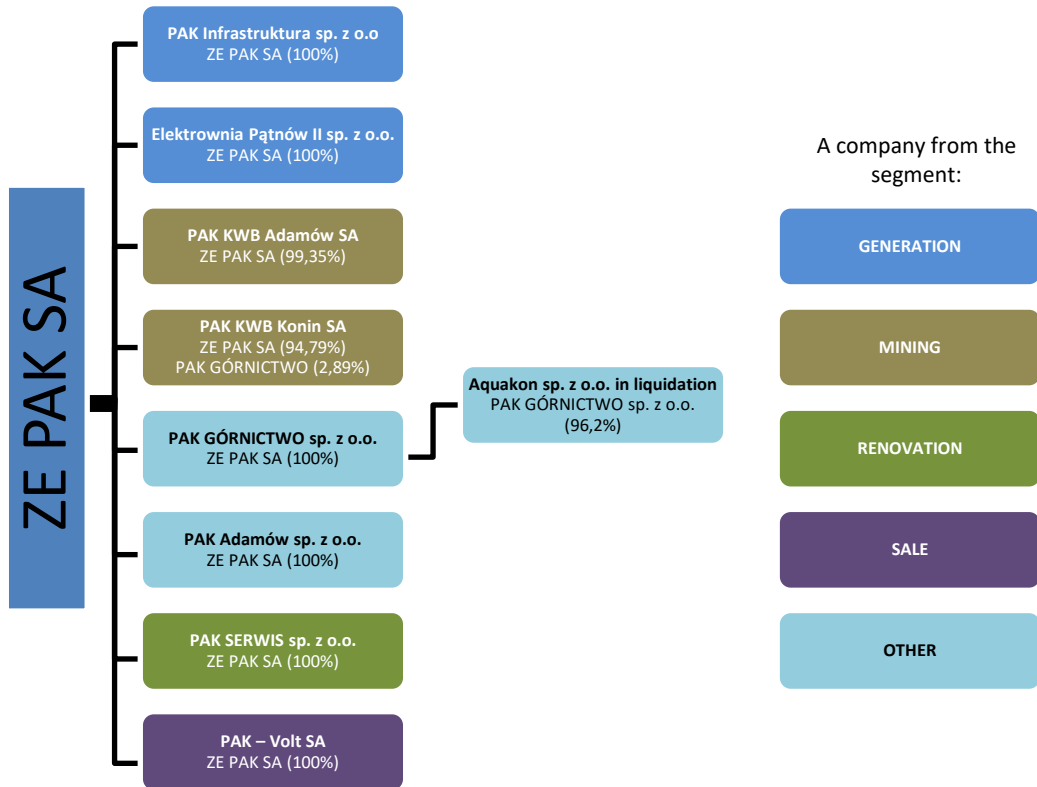


Table 1: Description of the Group's companies (excluding ZE PAK SA)

| Entity | Registered office | Scope of operations | Group's share in the capital in% | |
|--|-------------------------------------|--|----------------------------------|------------|
| | | | 30.06.2020 | 31.12.2019 |
| „Elektrownia Państw II” sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Electric Energy production and distribution | 100,00% | 100,00% |
| PAK Kopalnia Węgla Brunatnego Konin SA | 62-540 Kleczew ul. 600-lecia 9 | Lignite extraction | 97,68%* | 97,68%* |
| PAK Kopalnia Węgla Brunatnego Adamów SA | 62-700 Turek Warenka 23 | Lignite extraction | 99,35% | 99,35% |
| Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o. | 62-510 Konin ul. Przemysłowa 158 | Construction and repair services | 100,00% | 100,00% |
| „PAK GÓRNICTWO” sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Rail transport services, vulcanization services (conveyor belts), electrical services, drilling, mining, mechanical and reclamation services, repair and assembly services of equipment, | 100,00% | 100,00% |
| PAK – Volt SA | 00-834 Warszawa ul. Pańska 77/79 | Trade of electricity | 100,00% | 100,00% |
| „PAK Infrastruktura” sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | General construction of engineering objects, not classified elsewhere | 100,00% | 100,00% |
| PAK Adamów sp. z o.o. | 62-510 Konin ul. Kazimierska 45 | Buying and selling real estate | 100,00% | 100,00% |
| „Aquakon” sp. z o.o. in liquidation | 62-610 Sompolno Police | In liquidation | 96,2%* | 96,2%* |

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

2.3. Composition of the Management Board

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

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

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

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

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

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

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

3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

Short description of the achieved financial results

In the first half of 2020, total sales revenues amounted to PLN 1 050 461 thousand and decreased by PLN 355 569 thousand, i.e. by 25.29% compared to the first half of 2019.

In the first half of the year, good weather conditions for wind energy and restrictions imposed on the economy resulting from the state of the COVID-19 pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances negatively affected the Group's ability to sell electricity. There was a 32.54% decrease in the total volume of electricity sales from own production and sales of purchased energy. In the case of the sale of electricity from own production, the decrease was 8.33% and the decrease in the sale of purchased energy amounted to as much as 61.32%. The net production volumes of the Group's individual power plants are presented in Chart 3. The decrease in electricity sales and the lower margins realized had a negative impact on the Group's financial results compared to the results recorded in 2019.

In the first half of 2020, compared to the first half of 2019, revenues from the sale of property rights from energy certificates of origin decreased by PLN 1,008 thousand, i.e. 3.90%. The reason for the decrease in revenues was the lower volume of green energy production despite the higher price of the property rights.

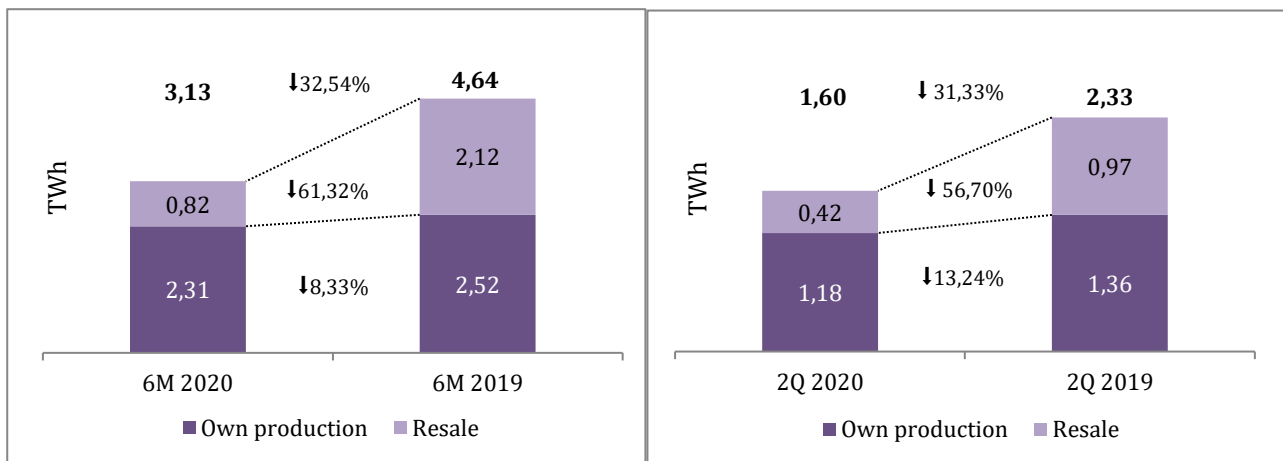
Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in the first half of 2020 amounted to PLN 98 836 thousand (including an advance payment of PLN 48 085 thousand and an adjustment of PLN 50 751 thousand), while in the first half of 2019 they amounted to PLN 61 125 thousand PLN (including advance payment of PLN 48 371 thousand and correction of PLN 12 754 thousand). In both periods, the advances were at a similar level, but there was a difference in the amount of adjustments - the adjustment for the first half of 2020 is much higher than in

the comparable period of 2019. The main reason for the higher adjustment was the implementation by Elektrownia Pańków II sp.z o.o. lower operating result, mainly due to a decrease in the volume of electricity sold and a much lower profit on electricity trading.

Revenues from construction contracts in the first half of 2020, compared to the revenues obtained in the corresponding period of the previous year, decreased by PLN 14,414 thousand, i.e. by 45.70%. The decrease in revenues in the analyzed period was related to the implementation of projects with smaller material and financial scope by a company from the renovation segment PAK Serwis sp.z o.o.

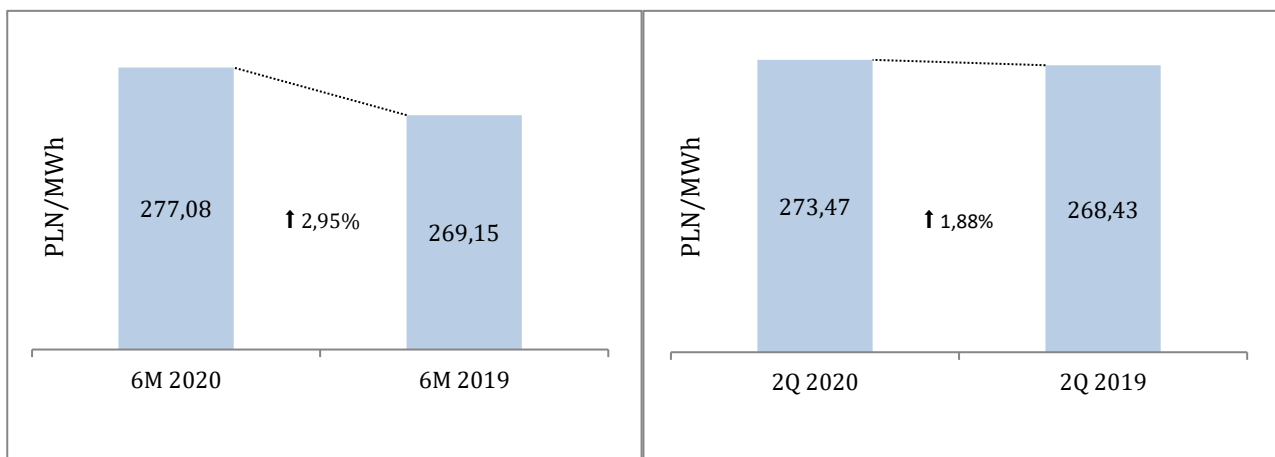
Revenues from the sale of heat in the first half of 2020 amounted to PLN 26 570 thousand and were higher than those obtained in the first half of 2019 by PLN 1,527 thousand, i.e. 6.10%. The increase in revenues from the sale of heat resulted from a higher sales volume and price compared to the same period of the previous year.

Chart 1: Electricity sale



Source: Internal data

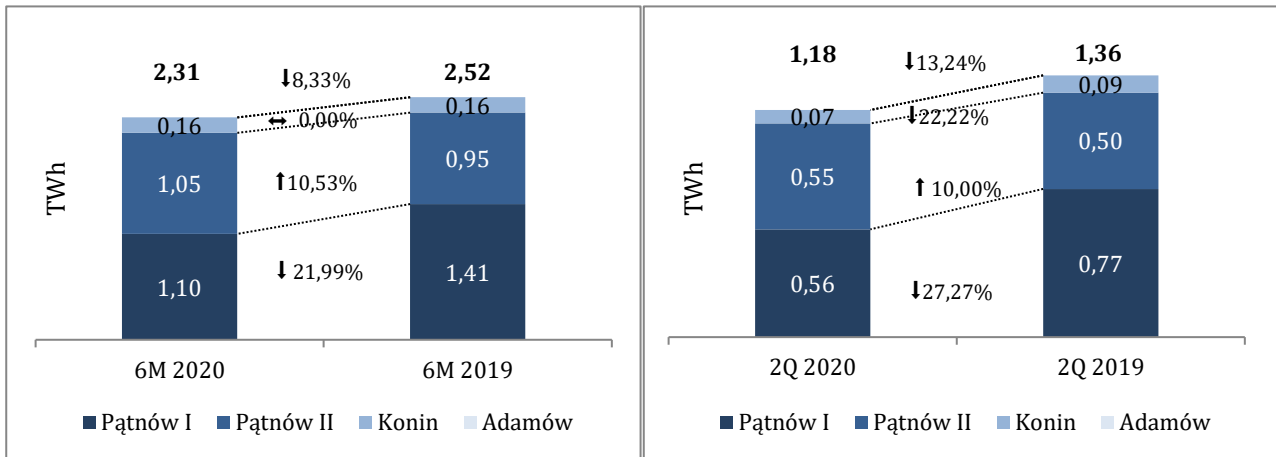
Chart 2: Average electricity prices*



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

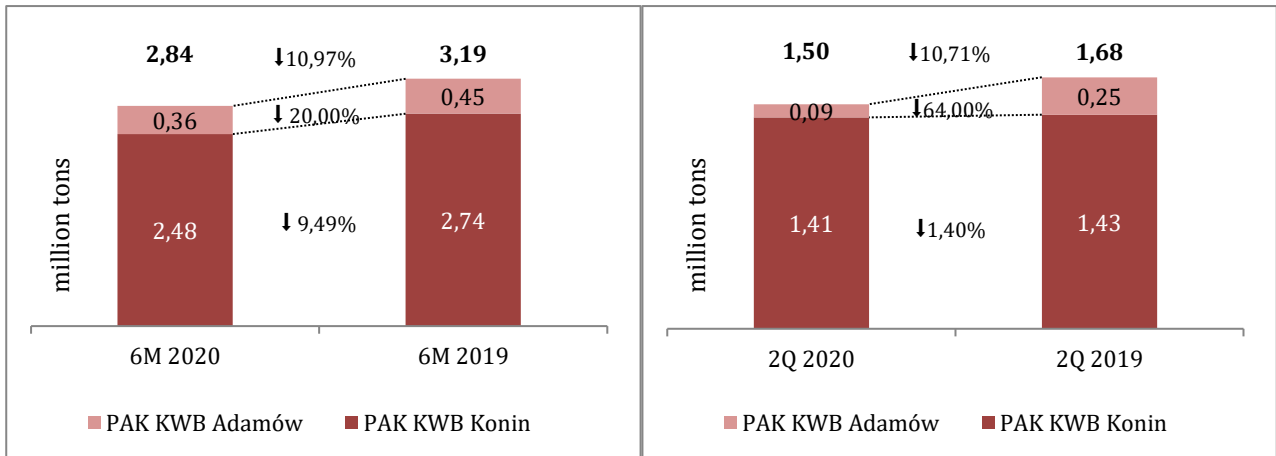
Source: Internal data

Chart 3: Net electricity production



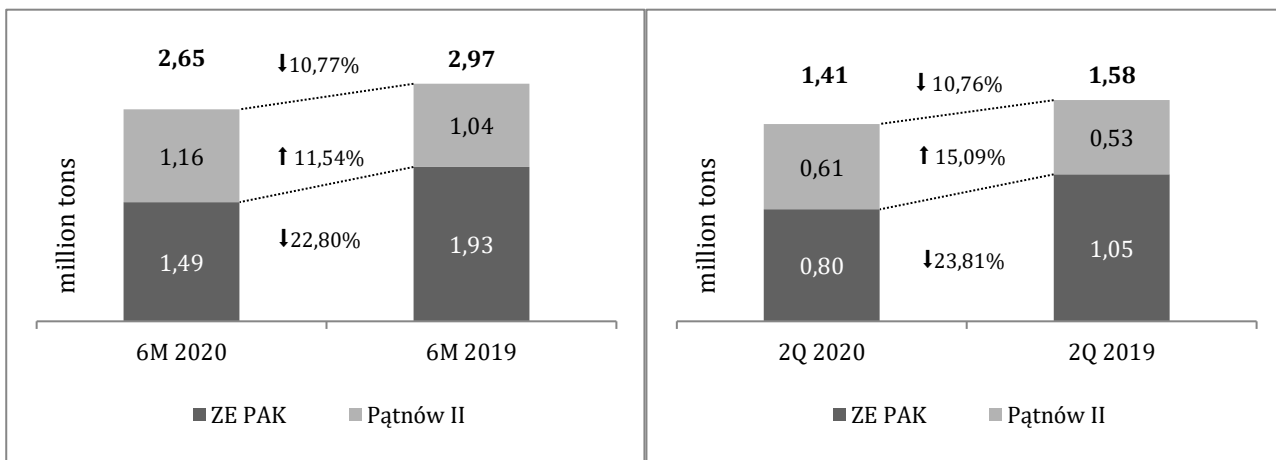
Source: Internal data

Chart 4: Lignite consumption



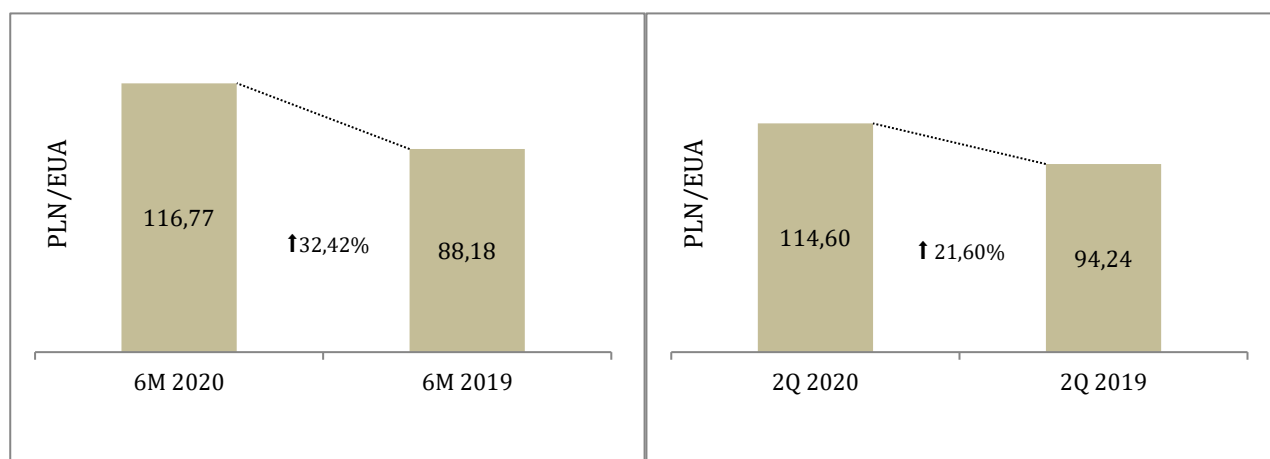
Source: Internal data

Chart 5: CO₂ Emission



Source: Internal data

Chart 6: Average prices of CO₂ emission allowances purchase *(EUA)



* Average price calculated as the costs of purchasing emission allowances incurred to cover emissions for a given period divided by the volume of CO₂ emissions.

Source: Internal data

Table 2: List of consolidated sale revenues

| | Złoty thousand 6 months period ended 30 June 2020 | Złoty thousand 6 months period ended 30 June 2019 | Złoty thousand change | % dynamics |
|--|--|--|--------------------------|----------------|
| Revenues from the sale of goods (reduced by excise duty), including: | 909 689 | 1 270 584 | (360 895) | (28,40) |
| – Revenues from the sale of electricity (own) | 646 864 | 711 131 | (64 267) | (9,04) |
| – Revenues from the sale of traded electricity | 219 188 | 520 568 | (301 380) | (57,89) |
| – Revenues from the sale of heat | 26 570 | 25 043 | 1 527 | 6,10 |
| – Other sale revenues | 17 067 | 13 842 | 3 225 | 23,30 |
| Revenues from contracts for construction services | 17 124 | 31 538 | (14 414) | (45,70) |
| Other revenues, including: | 123 648 | 103 908 | 19 740 | 19,00 |
| – Property rights on energy certificates of origin | 24 812 | 25 820 | (1 008) | (3,90) |
| – Compensation for termination of LTC | 98 836 | 61 125 | 37 711 | 61,69 |
| – revenues for the amount of the price difference | - | 16 963 | (16 963) | (100,00) |
| Total sale revenues | 1 050 461 | 1 406 030 | (355 569) | (25,29) |

Cost of sales in the first half of 2020 amounted to PLN 1 305 553 thousand and increased by PLN 17,058 thousand, i.e. by 1.32% compared to the first half of 2019. Apart from the costs of CO₂ emissions higher by PLN 47,534 thousand, the increase of which is a result of the increase in the average price for EUA by almost PLN 29, the increase in the cost of the asset was caused by write-downs on fixed assets in the amount of PLN 289,000 thousand, resulting from the recognized impairment of fixed assets. On the other hand, the decrease in the prime cost was mainly due to the decrease by PLN 262,282 thousand in the value of goods and materials sold, related to the smaller amount of electricity purchased and intended for trading.

Other operating income in the first half of 2020 amounted to PLN 35,973 thousand and was higher by PLN 22,895 thousand than in the corresponding period of the previous year. The increase in revenues is the result of the settlement of forward contracts securing the purchase of forward contracts for the purchase of CO₂ emission allowances for 2019.

Selling costs in the first half of 2020 amounted to PLN 2,007 thousand and were lower by PLN 676 thousand than in the corresponding period of the previous year.

General and administrative expenses in the first half of 2020 amounted to PLN 51 730 thousand and were lower than those incurred in the corresponding half of the previous year by PLN 3,523 thousand, i.e. 6.38%. The decrease was mainly due to lower employee costs.

Other operating expenses in the reporting half-year amounted to PLN 35,749 thousand and increased by PLN 29,416 thousand compared to the first half of the previous year, mainly due to the recognition of PLN 30,045 thousand in costs due to the settlement of term purchases of CO2 emission allowances at a significantly higher NBP exchange rate on the settlement date in relation to the valuation rate as of December 31, 2019.

Table 3: Selected items of the consolidated income statement

| | Złoty thousand 6 months period ended 30 June 2020 | Złoty thousand 6 months period ended 30 June 2019 | Złoty thousand change | % |
|--|--|--|--------------------------|----------------|
| | | | | dynamics |
| Sales revenues | 1 050 461 | 1 406 030 | (355 569) | (25,29) |
| Prime cost | (1 305 553) | (1 288 495) | (17 058) | 1,32 |
| Gross sales profit (loss) | (255 092) | 117 535 | (372 627) | - |
| Other operating revenues | 35 973 | 13 078 | 22 895 | 175,06 |
| Cost of sales | (2 007) | (2 683) | 676 | (25,20) |
| General and administrative expenses | (51 730) | (55 253) | 3 523 | (6,38) |
| Other operating costs | (35 749) | (6 333) | (29 416) | 464,49 |
| Profit (loss) from operating activities | (308 605) | 66 344 | (374 949) | - |
| Financial revenues | 5 682 | 8 058 | (2 376) | (29,49) |
| Financial costs | (11 540) | (13 030) | 1 490 | (11,44) |
| Gross profit (loss) | (314 463) | 61 372 | (375 835) | - |
| Income tax (tax load) | 53 631 | (24 676) | 78 307 | - |
| Net profit (loss) | (260 832) | 36 696 | (297 528) | - |
| Net other comprehensive income | (83) | (242) | 159 | (65,70) |
| Comprehensive income | (260 915) | 36 454 | (297 369) | - |
| EBITDA* | 60 942 | 163 132 | (102 190) | (62,64) |

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

Table 4: Consolidated costs by type

| | Złoty thousand 6 months period ended 30 June 2020 | Złoty thousand 6 months period ended 30 June 2019 | Złoty thousand change | % |
|---|--|--|--------------------------|-------------|
| | | | | dynamics |
| Depreciation | 80 547 | 97 072 | (16 525) | (17,02) |
| Impairment losses on property, plant and equipment | 289 000 | (284) | 289 284 | - |
| Impairment write-downs on inventory | 3 400 | 1 168 | 2 232 | 191,10 |
| Consumption of materials | 136 896 | 152 281 | (15 385) | (10,10) |
| Outsourcing | 41 958 | 43 146 | (1 188) | (2,75) |
| Taxes and fees excluding excise tax | 75 813 | 85 093 | (9 280) | (10,91) |
| Costs of CO2 emissions | 309 089 | 261 555 | 47 534 | 18,17 |
| Costs of employee benefits | 204 624 | 215 282 | (10 658) | (4,95) |
| Other costs by type | 15 758 | 14 273 | 1 485 | 10,40 |
| Value of sold goods and materials and sold traded electricity | 226 773 | 489 055 | (262 282) | (53,63) |
| Total costs by type | 1 383 858 | 1 358 641 | 25 217 | 1,86 |

In the first half of 2020, ZE PAK SA Group realized a loss on operating activities in the amount of PLN 308,605 thousand. One-off events related to the results of impairment tests for assets, which increased the loss by PLN 289,000 thousand, contributed to a significant increase in the operating loss. Without taking into account the results of the tests for

impairment of assets, the operating loss would amount to PLN 19,605 thousand. In the same period of the previous year, the Group generated an operating profit of PLN 66,344 thousand.

In the first half of 2020, the results were negatively affected by the negative result on financial activities in the amount of PLN 5,858 thousand. In the same period of the previous year, the result on financial activities was also negative and amounted to PLN 4,972 thousand.

In the first half of 2020, a loss of PLN 260,832 thousand was realized. One-off events related to the results of impairment tests for assets, which increased the loss by PLN 200 840 thousand, contributed to a significant increase in the net loss. Without taking into account the results of tests for impairment of assets, the net loss would amount to PLN 59,992 thousand. In the same period of the previous year, the Group generated a net profit of PLN 36,696 thousand.

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

The results achieved by the Group in the first half of 2020 were influenced by one-off events related to the results of tests for impairment 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 Państw I, CGU Elektrownia Państw II sp.z o.o. and CGU KWB Konin SA in the total amount of PLN 585,000 thousand. At the same time, it was decided to select a new CGU Konin Power Plant. The separation of the new CGU is 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) is PLN 289,000 thousand. The sum of the above events will not affect the Group's consolidated EBITDA, and in the case of the consolidated net result, it will decrease it by PLN 200,840 thousand.

Implementation of investment projects

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

ZE PAK SA key investments in the implementation phase

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

The task is to adapt the infrastructure previously used for the production of energy and heat from lignite to burn biomass. In this way, a second biomass unit will be created at Konin power plant, which, in addition to energy production for the National Power System, will also be an emergency source for heat production in the event of the withdrawal of the existing biomass unit no. 1.

On March 27, 2020, a contract was concluded for the implementation of the subject of the contract "Design and conversion of K-7 boiler into a fluidized bed boiler operating in the BFB technology" in the "turnkey" formula. 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 amount of about 80MWt (after heating the turbine) in the event of switching off the main heat source, i.e. the existing biomass block. After the conversion of K-7 boiler, approximately 100 MWe (2x50 MWe) of power will be available at Konin Power Plant, using biomass as the primary fuel. This source (K-7 boiler) fired with biomass has had a contract for a 17-year period of participation in the Capacity Market since 2024.

The dismantling of boiler elements that will not be used for the new technological system related to biomass combustion has been completed.

In addition, as part of the project related to the adaptation of the K-7 boiler for biomass combustion, further contracts were concluded:

- on 6 July 2020 with EthosEnergy Poland S.A. Lubliniec for the modernization of the G-5 generator with adaptation to air cooling,
- on 29 July 2020 with OMIS S.A. Ostrołęka for the installation of biomass feeding into the boiler tanks,
- on 1 September 2020 with EthosEnergy sp. z o.o. Wrocław for the modernization of the turbine along with its heating.

ZE PAK SA key investments in the preparatory phase

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

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

Construction of a photovoltaic farm

The planned nominal power of the farm is about 70 MWp. As part of this project, a building permit was obtained (power generation system) and conditions for connecting the farm to the Operator's power network were obtained. In addition, in 2019, plots (terrain) for solar farm were purchased from PAK KWB Adamów SA located in Brudzew commune in the town of Janiszew. A building permit for the power evacuation system with cable connections has been obtained.

Construction of a hydrogen production plant

A program and spatial concept has been developed for the hydrogen production plant. In the next step, an environmental impact report for the project will be prepared and an environmental decision will be obtained.

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

The first step towards building a hydrogen plant at the Konin Power Plant was the conclusion on April 9, 2020 of a contract with Hydrogenics Europe N.V. Belgium to purchase an electrolyser that will initially produce hydrogen in the amount of 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.

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

Significant events of the reporting period

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

In the first months of 2020, the first cases of COVID-19 disease caused by the SAR-CoV-2 virus were reported in many European countries. In Poland, the first case of infection was confirmed on March 4. In connection with the emergence of subsequent infections, in March in Poland a pandemic was declared and strict sanitary rules and restrictions on certain types of economic activity were introduced. At the same time, the Polish government introduced a package of solutions (anti-crisis shield) to protect citizens and entrepreneurs from the effects of the crisis caused by the pandemic. The period of the greatest restrictions was at the end of March, April and May, and the lifting of the restrictions was carried out in stages from mid-June. Currently, more stringent restrictions are introduced in individual regions with high levels of infection. However, it cannot be ruled out that with the arrival of the autumn months and the increase in susceptibility to viral infections, the situation may repeat itself and the restrictions will again affect a large scale of economic activity.

Successive readings of economic indicators confirm that the effects of the pandemic had a significant impact on the economic situation. In the second quarter of 2020, there was a significant decrease in GDP, which amounted to 8.2% annually. Among others, the level of industrial production and investment, contributing to lower domestic electricity consumption, thus reducing its production. According to PSE data, the overall production of electricity in Poland in the first half of 2020 decreased by 7.89%, with drops of over ten percent in April, May and June. The increased level of volatility in the financial and commodity markets, including the changing price relationships on individual markets (in particular the prices of electricity and carbon dioxide emission allowances), was also of great importance for the Group, and may have it in the future. Dynamic changes in prices on commodity markets, primarily on the market of major energy

resources, have an indirect impact on other goods related to the broadly understood energy sector, e.g. gas and electricity prices, and indirectly also carbon dioxide emission allowances. The Group is not able to precisely estimate the impact of increased volatility on the energy commodity markets, however, the risk related to increased volatility should be considered as key in the process of forecasting the Group's potential future financial results and its financial condition.

In the first half of the year, among others, good weather conditions for wind energy and the restrictions imposed on the economy resulting from the pandemic, as well as the deterioration of the relationship between the quoted prices of electricity and carbon dioxide emission allowances adversely affected the Group's ability to sell electricity. There was a 32.54% decrease in the total volume of electricity sales from own production and sales of purchased electricity. In the case of the sale of electricity from own production, the decrease was only 8.33% and the decrease in the sale of purchased energy was as much as 61.32%. The decrease in electricity sales and the realized lower margins had a negative impact on the financial results achieved in the Group. In addition, the increased volatility of prices of carbon dioxide emission allowances resulted in the need for companies in the Group producing electricity to provide additional security for the concluded futures purchase of emission allowances. In order to minimize the impact of establishing collaterals on liquidity situation, efforts are made to replace the deposits securing the current positions with non-cash instruments as far as possible.

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

In view of the deterioration of the situation in the field of sales and trade in electricity caused by the effects of the pandemic, agreements were signed with trade unions on a temporary reduction in working time and a symmetrical reduction of employee benefits by 5% in June, July and August in ZE PAK SA, Elektrownia Pańńów II Sp. z o.o. and PAK-Volt SA. The Group companies, whenever possible, also use support programs in the form of "anti-crisis shields".

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

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

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

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

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

On March 31, 2020, ZE PAK SA and Elektrownia Pańńów II sp. z o.o. signed agreements to open a guarantee line at Bank Pekao SA for the amount of PLN 50 and 30 million respectively. The lines allow for issuing bank guarantees in domestic and foreign trade securing proper performance of the contract / payment of the price, including securing transactions concluded on the Polish Power Exchange. The accepted collateral does not differ from the standard for this type of contract.

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

On April 9, 2020 the Company signed a contract with Hydrogenics Corporation for the purchase of an electrolyser for hydrogen production. The solutions used by Hydrogenics will allow ZE PAK not only to produce "green" hydrogen, but also to store 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.

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

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

Changes in the Supervisory Board

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

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

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

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

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

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.

Significant events after the balance sheet date

Restructuring in the mining segment

Market conditions, currently additionally strengthened by the consequences of the pandemic, have been preventing the Group from selling the assumed volume of energy production for several quarters now. As a result, the potential in the upstream segment is too high in relation to the sales potential on the energy market. The consequence of such a situation is a disproportionately high cost base associated with the need to maintain the oversized potential in the upstream segment. The Group currently operates on four lignite mines, of which the unit costs of coal delivery to the power plant (understood as costs of extraction and transport) are the highest at Adamów open pit. In connection with the above-mentioned situation, it turned out to be necessary to carry out restructuring activities aimed at optimization of the scale and directions of coal supplies from individual open pits to the Group's power plants. On May 18, 2020 and August 11, 2020, the

Company announced in current reports its intention to carry out group layoffs in three subsidiaries: PAK KWB Konin SA, PAK KWB Adamów SA and PAK Górnictwo sp.z o.o. Collective layoffs are to concern a group of no more than 446 employees.

On August 3, 2020, the Management Board of PAK KWB Adamów SA adopted a resolution on the dissolution and liquidation of PAK Kopalnia Węgla Brunatnego Adamów SA. According to the assumptions, at the end of 2020, PAK KWB Adamów SA will end coal mining. On September 14, 2020, the Extraordinary General Meeting of PAK KWB Adamów SA adopted a resolution on the liquidation of the company, thus the liquidation was opened and the liquidation process began. PAK KWB Adamów SA in liquidation, in addition to terminating mining operations, will carry out all activities resulting from geological and mining law (geological documentation, license waiver, operation plan of the decommissioned mining plant, etc.). An important scope of tasks related to the liquidation will be the inventory and preparation for sale of the company's assets. It is assumed that the real estate of PAK KWB Adamów SA can be used to the extent possible for the implementation of projects related to renewable energy sources.

Merger of ZE PAK SA with PAK Infrastruktura sp. z o.o.

On September 17, 2020, the Extraordinary General Meeting of ZE PAK SA approved the merger of ZE PAK SA with PAK Infrastruktura sp.z o.o. pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies ("CCC"), i.e. by taking over all the assets of PAK Infrastruktura sp. z o.o. ("Acquired Company") by ZE PAK SA ("Acquiring Company") on the terms specified in the Merger Plan, approved by the Supervisory Board of the Company.

Due to the fact that ZE PAK SA holds all shares in PAK Infrastruktura sp.z o.o., the merger will be made taking into account the provisions of art. 515 § 1 and article. 516 § 6 of the Commercial Companies Code, i.e. in particular without the audit of the Merger Plan by an expert, without increasing the share capital of ZE PAK SA and without exchanging the shares of PAK Infrastruktura sp. z o.o. as the Acquired Company for shares in the share capital of ZE PAK SA, as of the Acquiring Company.

The Extraordinary General Meeting authorized the Management Board of ZE PAK SA to take all steps to merge the companies.

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, and the date of commissioning for initial operation was set for August 2021. The total limit of all contractual penalties for any reason is a maximum of 25% of the net Contract price.

The remaining provisions of the Contract do not differ materially from those applied in this type of agreements.

For the Contract to come into force, the consent of the Supervisory Board of the Company is still required.

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

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

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

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organization due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWBK SA and the Self-government Appeal Court submitted an appeal against this judgment. On 21 March 2012, the Supreme Administrative Court overturned the contested decision of the Provincial Administrative Court in Poznań and referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from Tomisławice open pit by PAK KWBK SA. On 7 January 2013, PAK KWBK Konin SA submitted a cassation appeal from the described decision.

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

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

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

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

5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

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

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

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

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

The structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at the date of submitting this half-year report does not differ from the corresponding list as at the date of submitting the last periodic report.

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

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

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

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

| <i>Name</i> | <i>ZE PAK SA shares as at the day of submitting this</i> <i>report</i> | <i>ZE PAK SA shares as at the day of submitting the</i> <i>previous report</i> |
|--------------------|---|---|
| Henryk Sobierajski | 0 | 0 |
| Paweł Markowski | 0 | 0 |
| Zygmunt Artwik | 0 | 0 |
| Paweł Lisowski | 0 | 0 |
| Maciej Nietopiel | 0 | 0 |

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

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

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

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

7. INFORMATION REGARDING THE PAID OD DECLARED DIVIDENDS

The company did not pay or declare dividend payment in the first half of 2020.

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

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

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

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

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

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

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

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

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

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

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO₂ allowances costs;
- compensation for the stranded costs related to the termination of Elektrownia Państw II's LTC contract;
- seasonality and meteorological conditions;
- investment expenses;
- EUR/PLN exchange rate and interest rates level.

Furthermore, an important factor that could have a significant impact on the Company's financial results in the further quarters includes the value impairment test result. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last such a test was carried out on 30 June 2020, and its result justified the write-down for asset components. It should be noted that the valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future. Another analysis of the reasons justifying the potential necessity to conduct the value impairment test of the Company's asset components will be executed at the end of the next reporting period.

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

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

According to preliminary estimates, the gross domestic product (GDP), unadjusted in the second quarter of 2020, decreased in real terms by 8.2% year on year, compared to an increase by 4.6% in the corresponding period of 2019.

The presented preliminary GDP estimate for the second quarter of 2020 takes into account the effects of COVID-19 and the introduction of government measures to counteract the effects of the epidemic. The methods and data sources used to estimate GDP have not changed. In terms of data sources, steps have been taken to ensure their completeness and comparability.

In the second quarter of 2020, there was a significant decrease in GDP, which amounted to 8.2% annually. This was due to a strong decline in domestic demand by 9.5% per annum (in Q1 2020 an increase in domestic demand by 1.7% was recorded). This was due to a decline in gross accumulation by 18.7% (compared to an increase in the first quarter of 2020 by 0.7%) and consumption in total by 7.3% (against an increase in the first quarter of 2020 by 1.8%). Consumption in the household sector decreased by 10.9% (compared to an increase in Q1 2020 by 1.2%). Gross fixed capital formation also decreased by 10.9% (compared to an increase in the first quarter of 2020 by 0.9%).

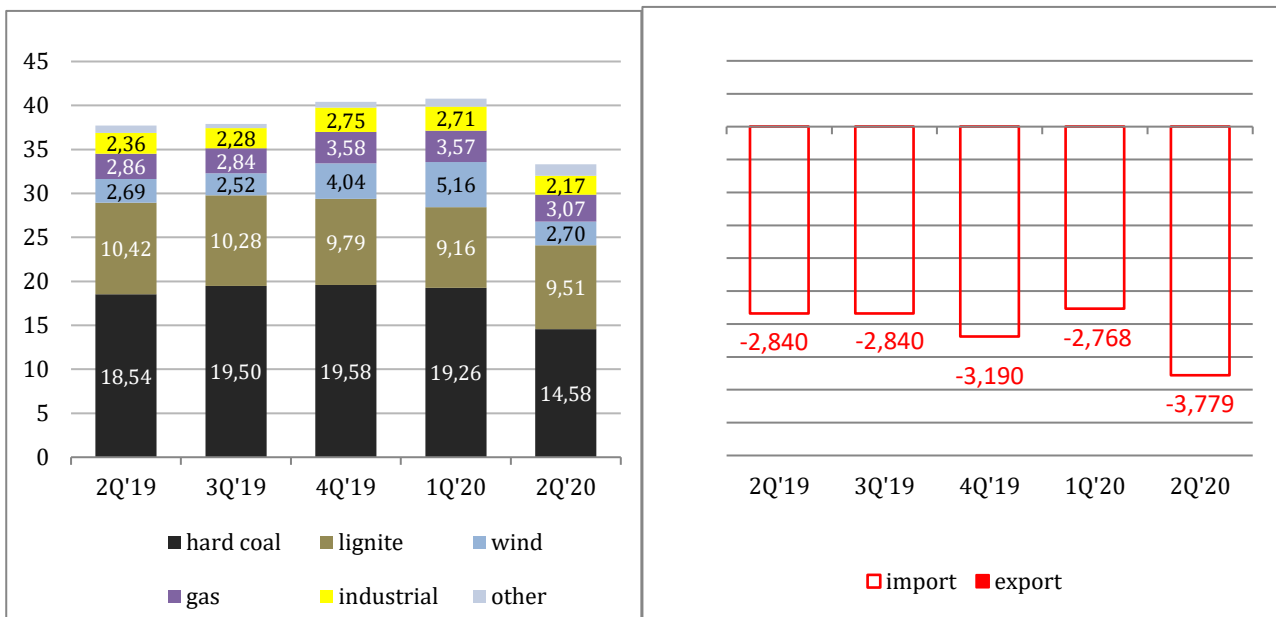
Chart 7: GDP dynamics (%) in relation to the analogous quarter of the previous year (yearly average fixed prices)



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

Source: Own elaboration based on CSO Data

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



Source: Own elaboration based on PSE data

Data on the operation of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, indicate that gross domestic electricity consumption in the first half of 2020 amounted to 80.64 TWh¹ and decreased by 5.16% compared to the first half of the previous year. In the first half of 2020, gross electricity production amounted to 74.09 TWh, which means a decrease of 7.89% compared to the corresponding period of the previous year. Hard coal-fired power plants had the largest share in the production structure, production from hard coal amounted to 33.84 TWh. 18.67 TWh was produced from lignite. The production in wind farms was growing, which produced 7.86 TWh, ie 0.52 TWh more compared to the same period last year. A significant increase in production also concerned generation from gas power plants, which produced 6.63 TWh, i.e. 0.96 TWh more y / y. In the generation

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

based on lignite, a large decrease in production was recorded, i.e. by 2.76 TWh, which means an almost 13% decrease (production based on hard coal recorded a similar decrease in percentage). The balance of foreign exchange in the first half of 2020 was 6.55 TWh on the import side. This means an over 40% increase in the import balance compared to the year.

11.2. Regulatory environment

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

On June 5, 2019, the European Parliament and the Council of the European Union adopted a regulation on the internal market in electricity (No. 2019/943), which started to apply from January 1, 2020. The provisions of this regulation introduce rules regarding the design of capacity mechanisms. Article 22 (4) includes provisions stating that new installations where emissions exceed 550 grams CO₂ per kilowatt hour (kWh) from fossil fuels will not be able to benefit from state support within the capacity market after July 1, 2025. On the other hand, existing power plants emitting more than 550 grams of CO₂ per kWh and more than 350 kg of CO₂ per year on average for each installed kW of power will be able to participate in these mechanisms until July 1, 2025. Capacity contracts signed within the capacity market by the end of 2019, were removed from the regulatory restrictions.

Amendments to the Capacity Market Act and the Capacity Market Regulations are required, taking into account the impact of the above-mentioned regulation on the existing mechanism, in particular on the organization of the main auction for the breakthrough year 2025. One of the most important issues regarding participation of units in this mechanism, which must be resolved before this year's auction, there is a procedure for calculating the permissible CO₂ emissions and the method of their certification. In July 2020, PSE SA submitted to the President of the ERO for approval an update of the provisions of the Capacity Market Regulations, which includes the changes necessary to conduct this year's capacity auction.

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

This year's main auction will be held on December 14. Therefore, on August 6, 2020, the Ordinance of the Minister of Climate was published on the parameters of the main auction for the year of deliveries 2025 and the parameters of additional auctions for the year of deliveries 2022. The threshold values of the parameters contained therein were determined based on an assessment aimed at eliminating possible disruptions in the functioning of electricity market.

In September 2020, the European Commission presented a new target to reduce CO₂ emissions by 2030. According to the proposal presented by the head of the European Commission, Ursula von der Leyen, the goal of reducing carbon dioxide harmful to the climate is to be increased from the currently planned 40% to 55%.

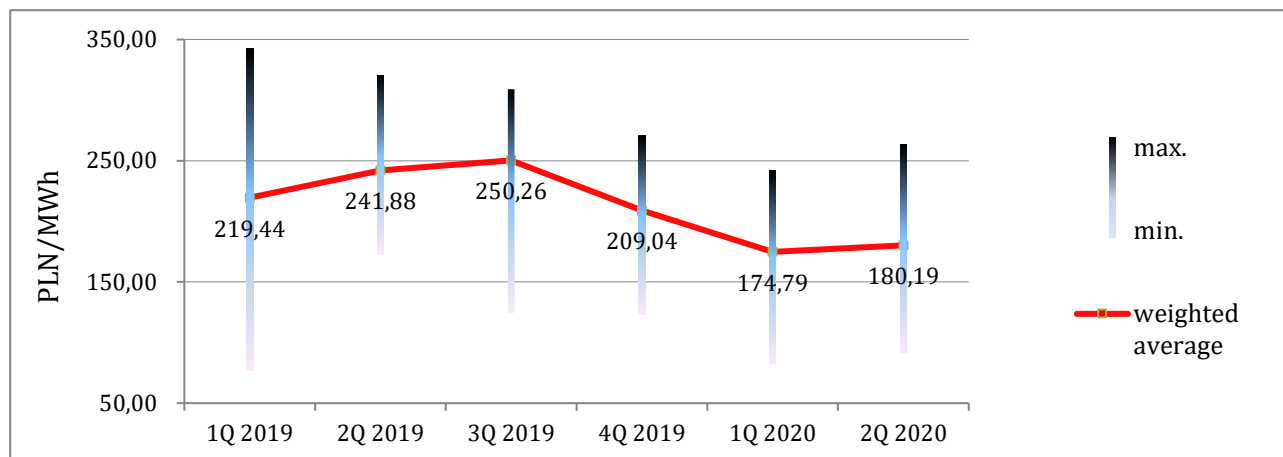
11.3. Electricity prices

In the first quarter of 2020, on the day-ahead market of Towarowa Gielda Energii SA, electricity prices continued to decline as a continuation of the downward trend initiated on the market in the third quarter of 2019. The low price level in the first quarter was mainly due to high air temperatures and relatively high wind conditions. The decline in electricity prices on TGE SA day-ahead market observed from the beginning of 2020 was deepened as a result of the COVID-19 pandemic, the effects of which in the form of large drops in quotations were visible on all commodity and financial markets from March 16, 2020 (including electricity and CO₂ emission allowance markets).

The weighted average price (TGeBASE) in the first quarter of 2020 was PLN 174.79 / MWh, i.e. by PLN 44.65, i.e. 20.35% lower than in the first quarter of 2019. The weighted average price (TGeBASE) in the second quarter of 2020 was also at a lower level of PLN 180.19 / MWh, i.e. by PLN 61.69, i.e. 25.50% lower than in the second quarter of the previous year.

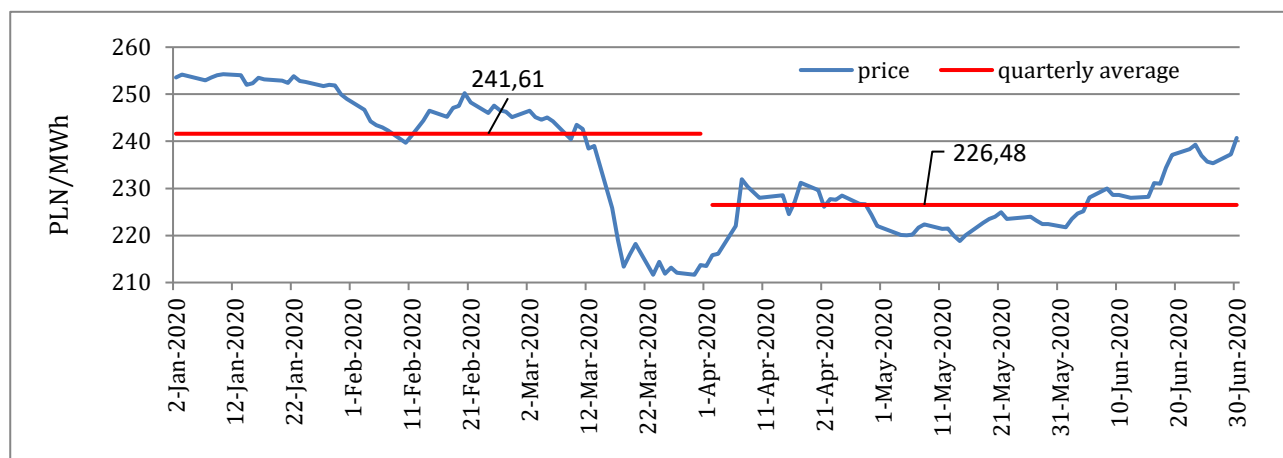
On the electricity futures market of Towarowa Giełda Energii SA, the level of prices quoted on the BASE_Y-21 reference futures contract showed a downward trend. In the last days of the first quarter of 2020, clear drops in recorded prices, continued in the following months, similarly to the day-ahead market, should be associated with the COVID-19 pandemic, as well as a consequence of the pandemic drops in the prices of CO2 emission allowances. The arithmetic average of the daily clearing rates for the BASE_Y-21 contract in the first half of 2020 was at the level of PLN 234.11 /MWh, while in the first quarter of the year it was at the level of PLN 241.61 / MWh, and in the second quarter it decreased to 226.48 PLN / MWh.

Chart 9: Electricity prices (TGeBASE)²



Source: Own elaboration based on TGE data

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



Source: Own elaboration based on TGE data

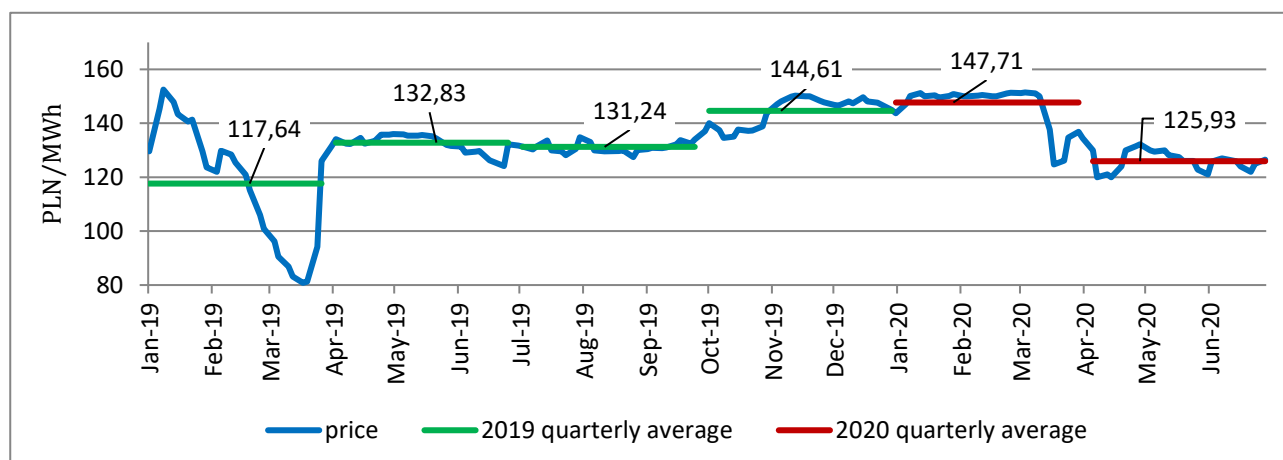
11.4. Prices supply of certificates of origin

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

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

than the level of revenues generated from the sale of electricity, the risk of changes in the prices of certificates of origin also has a smaller impact on the results than, for example, the risk of changes in the energy price

Chart 11: Price of RES Energy certificate of origin



Source: Own elaboration based on TGE data

In the first half of 2019, the prices of energy origin certificates (green certificates) began to decline. The downward trend continued until the end of March 2019, after which the price began to increase, until mid-March 2020, reaching the highest level in over a year, PLN 151.47 / MWh. In the second half of March, the price began to decline again, reaching the value of PLN 125.33 / MWh at the end of the first half 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. The weighted average price of green certificates in session transactions on TGE SA in the first half of 2020 was PLN 137.79 / MWh, which means an increase by PLN 11.39 / MWh compared to the first half of 2019, when it was PLN 126.40 / MWh (in Q2 2020 the weighted average was PLN 125.93 / MWh, which means a decrease of PLN 6.90 / MWh, i.e. 5.19% compared to the weighted average price from Q2 2019). In 2020, the obligation to redeem green certificates increased from 18.5% in 2019 to 19.5% in 2020. An additional factor influencing the price level is the continuing huge oversupply, reaching as much as 21.7 TWh at the end of the first half of 2020. An additional factor that may affect the increase in the prices of green certificates on the Polish Power Exchange, in addition to the higher this year's RES obligation, may be the maintenance of the inability to meet this obligation by the obliged entities through so-called substitute fee (information from the President of ERO 10/2020).

11.5. Extraction and supply costs of coal and other fuels

A fuel cost is the important part of the costs related to the electricity and heat generation in companies of the ZE PAK SA Group. The prices of fuel largely determine the competitiveness of particular electricity production processes. 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, two lignite mines, PAK KWB Konin SA and PAK KWB Adamów SA, are the main suppliers of lignite to the power plants of the ZE PAK SA Group (supplies from external entities are supplemented) and make the Group independent of external suppliers and limit its exposure to potential fluctuations in lignite prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of brown coal depends on the factors which remain outside the direct control of the Group.

The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is mainly dependent on the ability of extracting from the currently exploited deposits.

11.6. CO₂ emission allowances costs

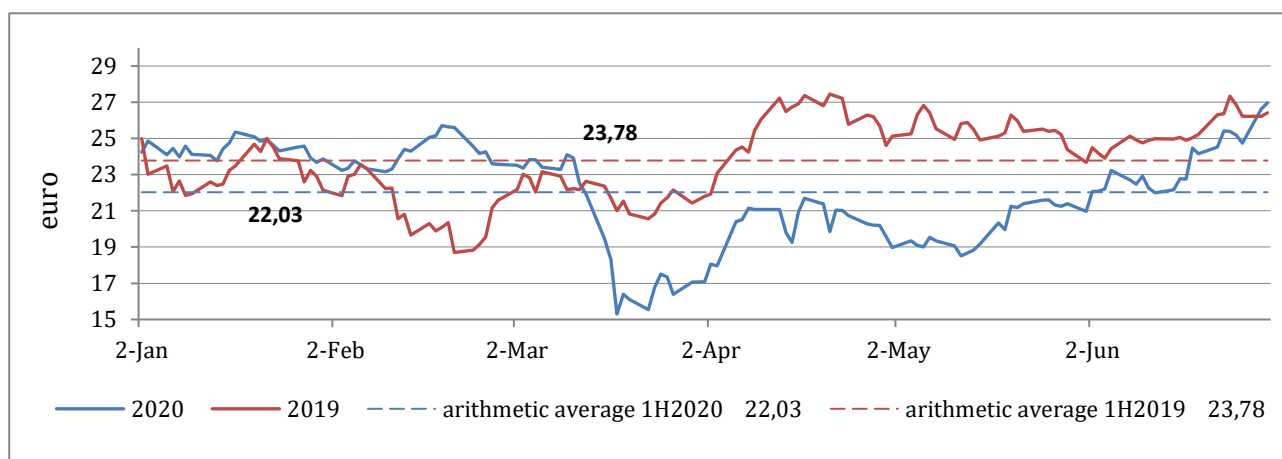
The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO₂ emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO₂ and the risk of price changes of CO₂ emission allowances (EUA) is of great importance to the activities' results. In 2019, the Group received a small

amount of free CO2 emission allowances, i.e. 37 081 EUA, resulting from the allocation for heat generation. Therefore, practically the entire volume of emission allowances needed for the ZE PAK SA Group had to be purchased on the secondary markets.

In January 2020, the EUA price was quite stable. It fluctuated in the range of EUR 23.77 - EUR 24.94. The first two weeks of January were marked by systematic drops in EUA allowances prices - on January 14, their value reached EUR 23.77. The turning point for all markets in the world came on February 24, when it was already known that the coronavirus was spreading outside of China. The prevailing COVID-19 pandemic undoubtedly contributed to the significant volatility in the price of allowances in the EUA allowances market in March. It was one of the most volatile months in terms of prices - the range between the minimum (EUR 15.23) and the maximum (EUR 24.07) in prices amounted to EUR 8.84 and was 4 times higher than in February (EUR 2.55).

At the end of the month, allowances recovered some losses and increased to around 17.50 euro. April was characterized by high volatility of prices on the EUA allowances market, but not as much as in March. The range between the April minimum (EUR 16.95) and the maximum price (EUR 21.62) was EUR 4.67. The second half of April was characterized by a systematic decline in the prices of EUA allowances to EUR 19.50 on April 30 this year. In this case, it was influenced by a strong correlation with financial markets in Europe and fuel markets, which were able to achieve even negative values. In May, EUA prices ranged between EUR 18.44 and EUR 21.52. June was the second record month this year in terms of volatility of EUA allowances prices - the range of the June minimum (EUR 20.89) and maximum (EUR 26.90) was EUR 6.01. The arithmetic average of the EUA quotations in the first half of 2020 was EUR 22.03, while in the first half of 2019, EUR 23.78 was similar, which means a decrease by EUR 1.75.

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



Source: Own elaboration based on ICE data

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

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

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

11.8. Seasonality and meteorological conditions

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple

of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

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

11.9. Investment expenses

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

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

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

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

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

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

Konin, 30 September 2020

SIGNATURES:

Henryk Sobierajski
President of the Management Board

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Zygmunt Artwik
Vice President of the Management Board

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Paweł Markowski
Vice President of the Management Board

.....

Paweł Lisowski
Vice President of the Management Board

Maciej Nietopiel
Vice President of the Management Board