

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

**OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR
I QUARTER 2021**

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

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1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Złoty thousand</i>	<i>Złoty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>3 months 2021 period from 01.01.2021 to 31.03.2021</i>	<i>3 months 2020 period from 01.01.2020 to 31.03.2020</i>	<i>3 months 2021 period from 01.01.2021 to 31.03.2021</i>	<i>3 months 2020 period from 01.01.2020 to 31.03.2020</i>
Sales revenue	462 414	524 074	101 138	119 208
Operating profit/loss	(8 076)	(4 368)	(1 766)	(994)
Profit/loss before tax	(9 988)	(5 648)	(2 185)	(1 285)
Net profit/loss for the period	(8 007)	(10 915)	(1 751)	(2 483)
Net profit attributable to equity holders of the parent	(7 229)	(10 346)	(1 581)	(2 353)
Total comprehensive income	(8 003)	(11 002)	(1 750)	(2 503)
Net cash flow from operating activities	(430 740)	(184 762)	(94 211)	(42 027)
Net cash flow from investing activities	(107 289)	2 489	(23 466)	566
Net cash flow from financing activities	96 062	85 604	21 010	19 472
Net increase / (decrease) in cash and cash equivalents	(441 967)	(96 669)	(96 666)	(21 989)
Net profit per share (in zloty/euro per share)	(0,14)	(0,20)	(0,03)	(0,05)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 31.03.2021</i>	<i>As at 31.12.2020</i>	<i>As at 31.03.2021</i>	<i>As at 31.12.2020</i>
Total assets	3 004 201	2 878 628	644 637	623 782
Fixed assets	1 913 939	1 857 355	410 690	402 478
Current assets	1 090 262	1 021 273	233 947	221 304
Total equity	941 455	949 463	202 016	205 743
Share capital	101 647	101 647	21 811	22 026
Share capital attributable to equity holders of the parent	943 984	951 214	202 559	206 122
Total liabilities	2 062 746	1 929 165	442 621	418 039
Long-term liabilities	903 759	861 085	193 927	186 592
Short-term liabilities	1 158 987	1 068 080	248 694	231 447
Book value per share (in zloty/euro per share)	18,52	18,68	3,97	4,05
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP
OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR 1 QUARTER 2021

<i>Selected financial data of ZE PAK SA</i>	<i>Złoty thousand</i> <i>3 months 2021</i> <i>period</i> <i>from 01.01.2021</i> <i>to 31.03.2021</i>	<i>Złoty thousand</i> <i>3 months 2020</i> <i>period</i> <i>from 01.01.2020</i> <i>to 31.03.2020</i>	<i>Euro thousand</i> <i>3 months 2021</i> <i>period</i> <i>from 01.01.2021</i> <i>to 31.03.2021</i>	<i>Euro thousand</i> <i>3 months 2020</i> <i>period</i> <i>from 01.01.2020</i> <i>to 31.03.2020</i>
Net revenues from sales of products, goods and materials	425 367	437 910	93 035	99 609
Operating profit/loss	21 483	26 241	4 699	5 969
Profit/loss before tax	22 843	29 161	4 996	6 633
Net profit/loss for the period	27 808	20 709	6 082	4 711
Net cash flow from operating activities	(440 864)	(134 303)	(96 425)	(30 549)
Net cash flow from investing activities	(72 127)	(473)	(15 775)	(108)
Net cash flow from financing activities	66 358	83 364	14 514	18 962
Net cash flow together	(446 633)	(51 412)	(97 687)	(11 694)
Net profit per share (in zloty/euro per share)	0,55	0,41	0,12	0,09
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i> <i>31.03.2021</i>	<i>As at</i> <i>31.12.2020</i>	<i>As at</i> <i>31.03.2021</i>	<i>As at</i> <i>31.12.2020</i>
Total assets	2 579 959	2 451 709	553 604	531 271
Fixed assets	2 149 492	1 497 850	461 235	324 575
Current assets	430 467	953 859	92 369	206 696
Equity	1 304 975	1 277 167	280 020	276 755
Share capital	101 647	101 647	21 811	22 026
Liabilities and provisions for liabilities	1 274 984	1 174 542	273 584	254 516
Long-term liabilities	33 482	2 648	7 185	574
Short-term liabilities	151 247	175 443	32 454	38 017
Book value per share (in zloty/euro per share)	25,68	25,13	5,51	5,45
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

The above financial data has been converted using the following 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 January 1, 2021 to March 31, 2021 which is 4.5721 EUR/PLN and from January 1, 2020 to March 31, 2020 which is 4.3963 EUR/PLN;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 31 March 2021 which is 4.6603 EUR/PLN and as of December 31, 2020 which is 4.6148 EUR/PLN.*

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of 31 March 2021, 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 Pańńów – Adamów – Konin SA (hereinafter referred to as “ZE PAK SA” or “Company”) and thirteen subsidiaries, i.e. PAK Kopalnia Węglu Brunatnego Konin SA (hereinafter referred to as „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 – Volt SA PAK Górnictwo sp. z o.o., PAK Kopalnia Węglu Brunatnego Adamów SA in liquidation (hereinafter referred to as „PAK KWB Adamów SA in liquidation”) and Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

The companies of the biggest importance for the Group due to their current 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.

The Group's generation assets include two lignite-fired power plants located in central Poland, in the Greater Poland Voivodship. Pańńów 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 is exploiting 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 mines in its structure, provides Pańńów 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 (NO_x, 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.

The structure of ZE PAK SA Group as at March 31, 2021 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 1 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.

2.2. Structure

Picture 1: Structure of the Group as of March 31, 2021

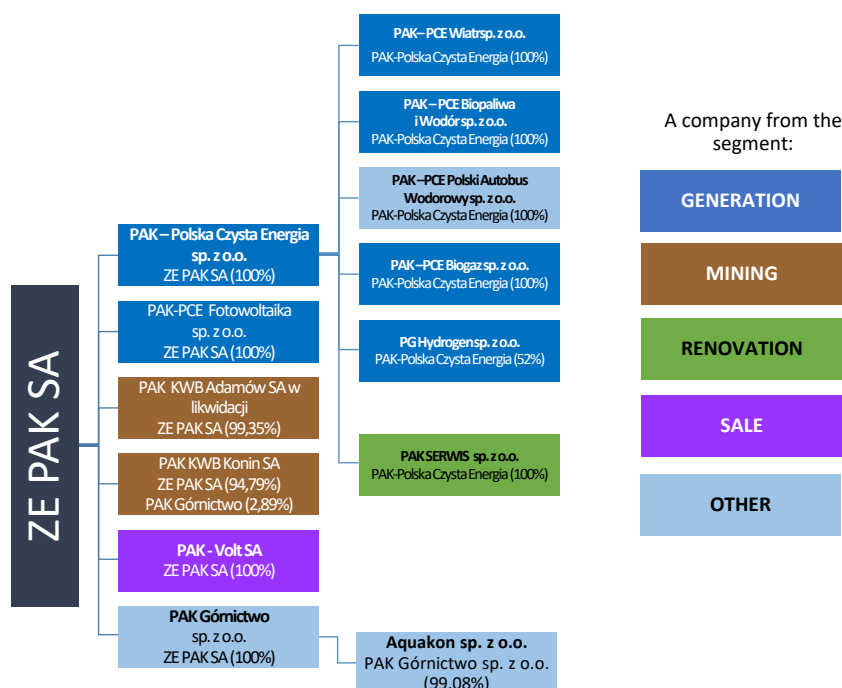


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			As at March 31, 2021	As at December 31, 2020
„PAK Polska Czysta Energia” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of central companies, excluding financial holding companies	100,00%	100,00%
„PAK Kopalnia Węgla Brunatnego Konin” SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	97,68%*	97,68%*
„PAK Górnictwo” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of machines	100,00%	100,00%
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair service	100,00%*	100,00%*
„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%	100,00%
„PAK-PCE Biogaz” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	100,00%*
„PAK-PCE Biopaliwa i Wodór” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	100,00%*	100,00%*
„PAK-PCE Wiatr” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	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%*	52,00%*
„PAK Kopalnia Węgla Brunatnego Adamów” SA in liquidation	62-700 Turek Warenka 23	Lignite mining	99,35%**	99,35%*
„Aquakon” sp. z o.o. in liquidation	In liquidation	In liquidation	99,08%*	96,20%*

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

** As at the date of publication of this report, i.e. on May 28, 2021, the shares of ZE PAK in PAK KWB Adamów SA in liquidation are 100%.

2.3. Description of the changes in the Group’s structure

There were no significant changes in the Group's structure in the first quarter of 2021. After the end of the reporting period, on April 23, 2021, the Company acquired 80% of shares in Exion Hydrogen Polskie Elektrolizery sp. z o.o. Currently, the company does not conduct operating activities. The company is going to be intended to start operations in the area of electrolyser design and production.

2.4. Composition of the Management Board

The Management Board of the Company started 2021 with the following composition:

- 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.

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 at 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.

3. SIGNIFICANT EVENTS AFFECTING THE GROUP’S ACTIVITY

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

Short description of the achieved financial results

In the first quarter of 2021, total sales revenues amounted to PLN 462 414 thousand and decreased by PLN 61 660 thousand, i.e. 11.77% compared to the first quarter of 2020.

In the first quarter of 2021, 18.42% of the total decrease in the volume of electricity sales was recorded. However, in the case of the sale of electricity from own production, a decrease was recorded, which amounted to 28.57%, while the sale of purchased energy increased by 10.00% compared to the previous year. The decrease in production was mainly related to 474 MW unit (former Pańków II power plant), which in March was put off for the planned renovation. In addition, in January and at the beginning of February, the extraction of coal in the mines supplying the Company was lower than planned, which prevented the optimal use of production sources. The net production volumes of individual power plants of the Group are presented in Chart 3. Apart from the lower production volume, the decrease in revenues from the sale of electricity was influenced by the decrease in its price by 5.19%.

In the first quarter of 2021, a new category of revenues appeared in the form of revenues from the Capacity Market, the amount of which in the first quarter amounted to PLN 42 830 thousand. The new revenue stream did not fully compensate for losses related to lower production, which resulted in deteriorating results.

In the first quarter of 2021, compared to the first quarter of 2020, revenues from the sale of property rights from energy origin certificates decreased by PLN 2 051 thousand, i.e. by 12.86%. The reason for the decrease in revenues was the lower volume of green energy production and the lower price of the property rights.

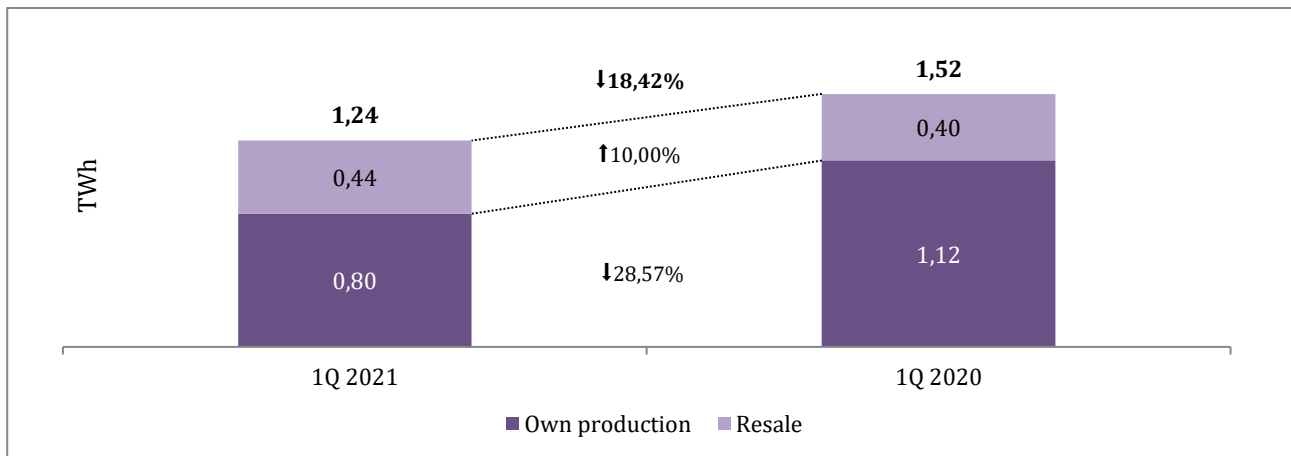
Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in the first quarter of 2021 amounted to PLN 41 187 thousand (including an advance payment of PLN 23 088 thousand and an adjustment of PLN 18 099 thousand), while in the first quarter of 2020 they amounted to PLN 50 087 thousand (including an advance of PLN 24 042 thousand and an adjustment of PLN 26 045 thousand). The decrease in LTC revenues in the first quarter of 2021 is due to a lower adjustment compared to the corresponding period of 2020. The reason for the lower correction is the revenues obtained from the Capacity Market.

Revenue from construction contracts in the first quarter of 2021 decreased by PLN 2,294 thousand, i.e. 35.06%, compared to the revenue earned in the corresponding period of the previous year. The decrease in revenues in the analysed period was related to the implementation of projects with smaller material and financial scope by the company from the renovation segment PAK Serwis sp.z o.o.

Revenues from the sale of heat in the first quarter of 2021 amounted to PLN 18,040 thousand and were higher than in the first quarter of 2020 by PLN 1,719 thousand, i.e. 10.53%. The increase in revenues from the sale of heat was due to a higher sales volume and price compared to the same period of the previous year.

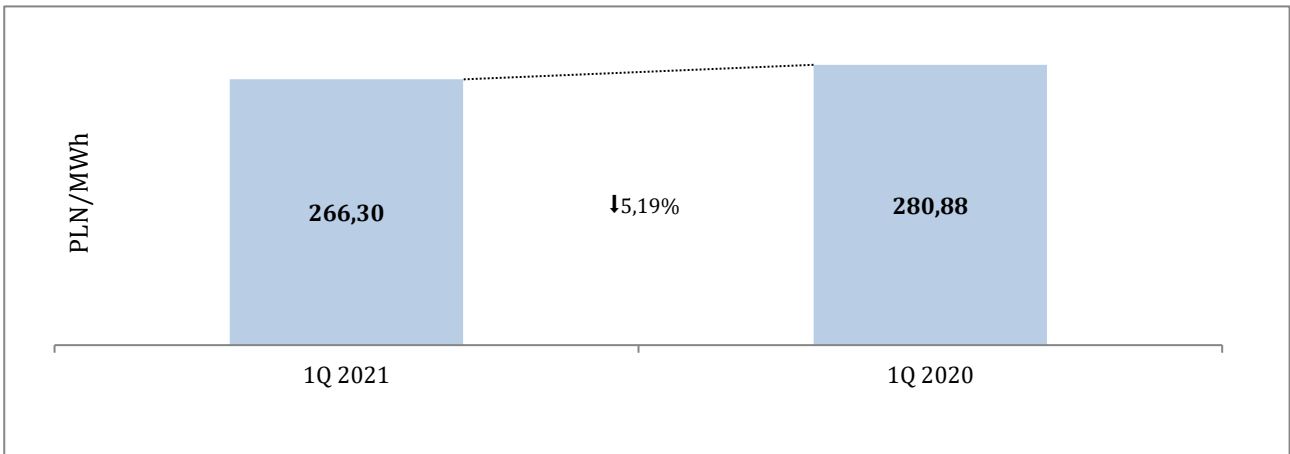
Cost of sales in the first quarter of 2021 amounted to PLN 448 647 thousand and decreased by PLN 73 270 thousand, i.e. 14.04% compared to the first quarter of 2020. The decrease in the cost of sales was mainly due to the reduction of the cost of CO2 emissions by PLN 71,068 thousand, which was the result of both the decrease in electricity production and the lower average EUA price.

Chart 1: Electricity sale



Source: Internal data

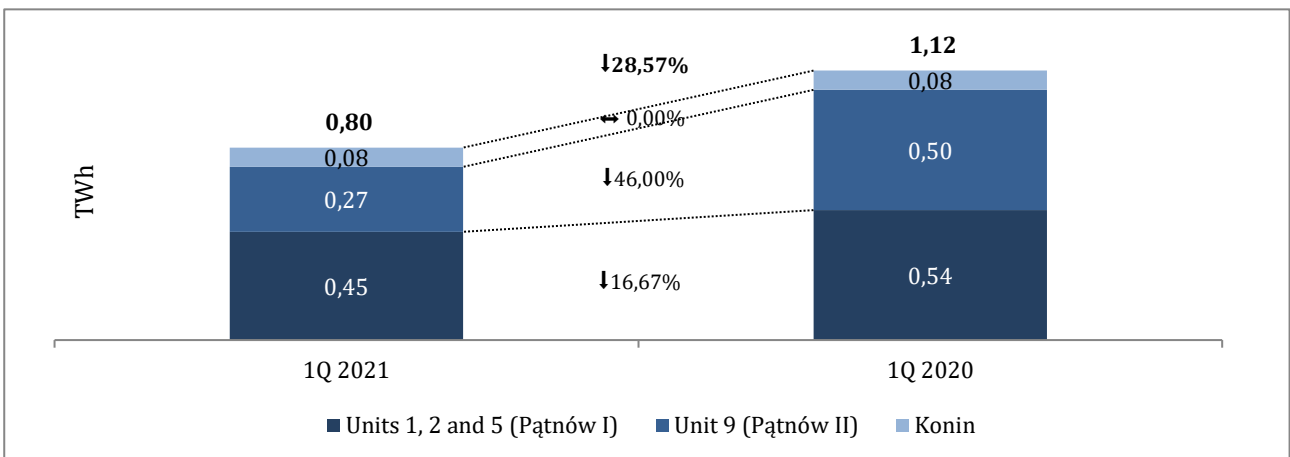
Chart 2: Average electricity prices*



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

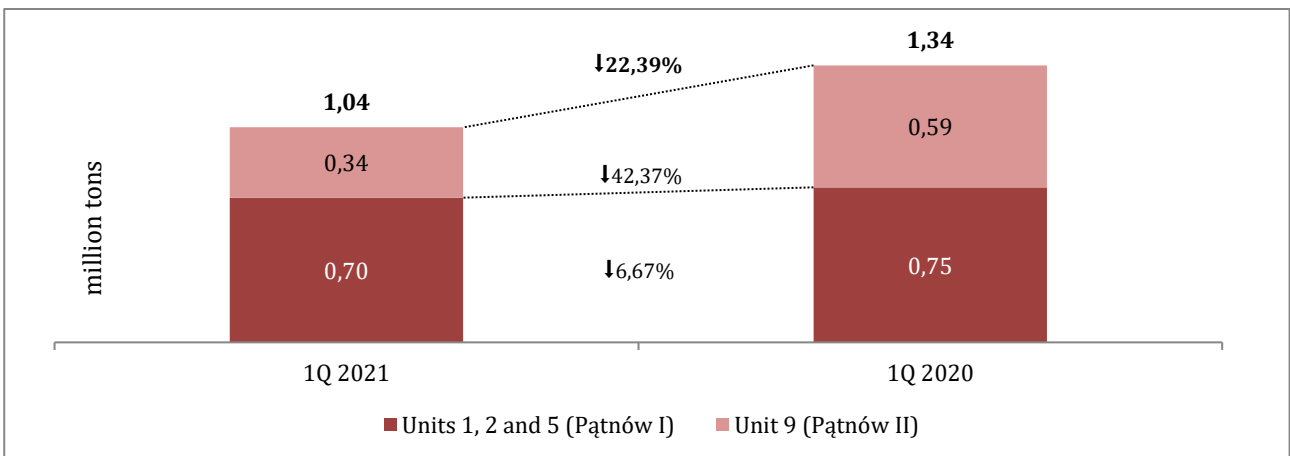
Source: Internal data

Chart 3: Net electricity production



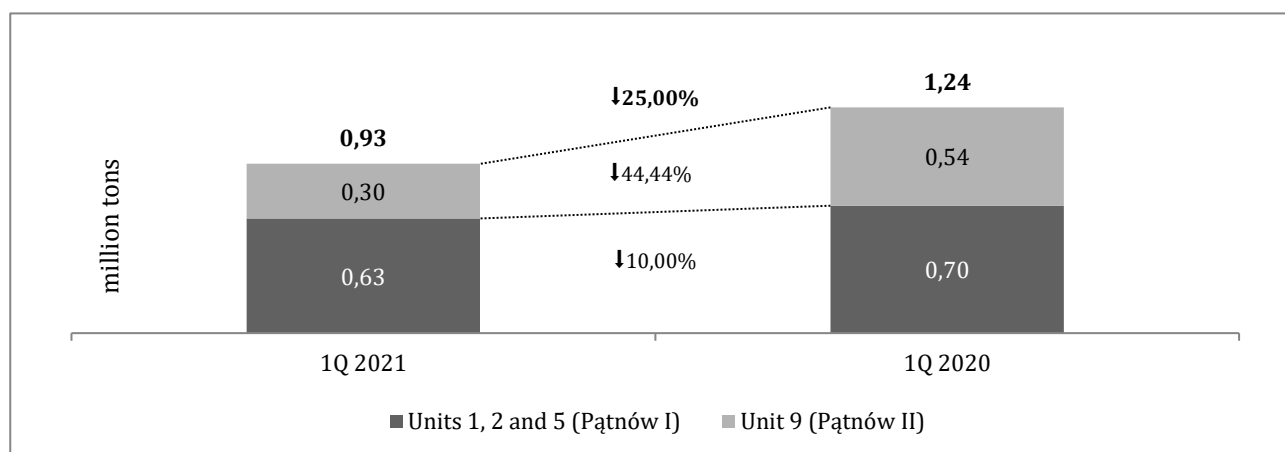
Source: Internal data

Chart 4: Lignite consumption



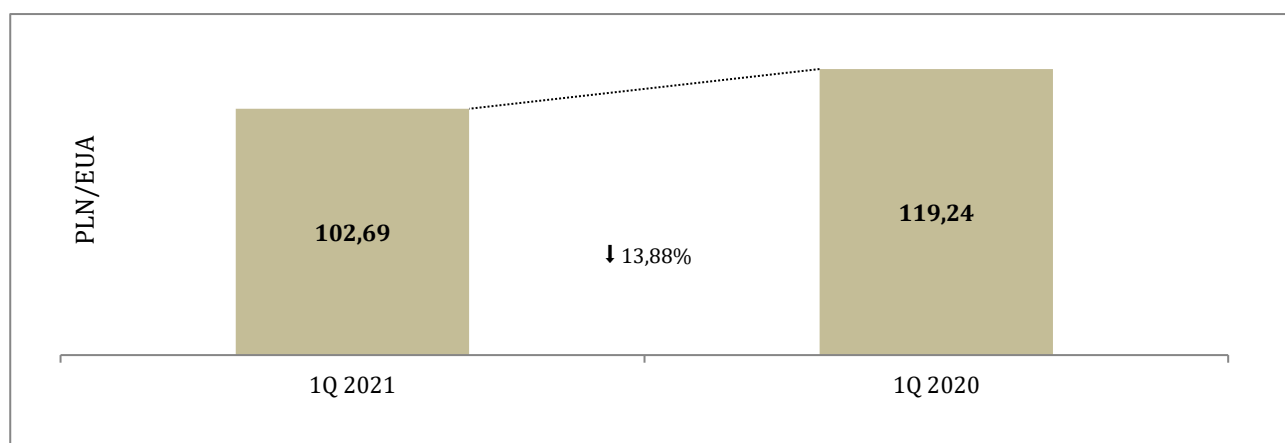
Source: Internal data

Chart 5: CO₂ Emission



Source: Internal data

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



* Average price calculated as the cost of purchased EUA for a period concerned, divided by the volume of CO₂ emission.

Source: Internal data

Table 2: List of consolidated sale revenues

	Złoty thousand 3 months period ended 31 March 2021	Złoty thousand 3 months period ended 31 March 2020	Złoty thousand change	% dynamics
Revenues from the sale of goods, including:	365 005	458 509	(93 504)	(20,39)
– Revenues from the sale of electricity (own)	221 688	319 279	(97 591)	(30,57)
– Revenues from the sale of traded electricity	109 357	109 457	(100)	(0,09)
– Revenues from the sale of heat	18 040	16 321	1 719	10,53
– Other sale revenues	11 671	6 909	4 762	68,92
– Revenues from contracts for construction services	4 249	6 543	(2 294)	(35,06)
Other revenues, including:	97 915	66 036	31 879	48,28
– Property rights on Energy certificates of origin	13 898	15 949	(2 051)	(12,86)
– Compensation for termination of LTC	41 187	50 087	(8 900)	(17,77)
– Revenues from the Capacity Market	42 830	-	42 830	-
Excise	(506)	(471)	(35)	(7,43)
Total sale revenues	462 414	524 074	(61 660)	(11,77)

Table 3: Selected items of the consolidated income statement

	Złoty thousand 3 months period ended 31 March 2021	Złoty thousand 3 months period ended 31 March 2020 (transformed data)	Złoty thousand change	% dynamics
Sales revenues	462 414	524 074	(61 660)	(11,77)
Prime cost	(448 647)	(521 917)	73 270	14,04
Gross sales profit (loss)	13 767	2 157	11 610	538,25
Other operating revenues	7 829	24 818	(16 989)	(68,45)
Cost of sales	(1 706)	(1 112)	(594)	(53,42)
General and administrative expenses	(27 269)	(29 103)	1 834	6,30
Other operating costs	(697)	(1 128)	431	38,21
Profit (loss) from operating activities	(8 076)	(4 368)	(3 708)	(84,89)
Financial revenues	1 654	3 262	(1 608)	(49,29)
Financial costs	(3 566)	(4 542)	976	21,49
Gross profit (loss)	(9 988)	(5 648)	(4 340)	(76,84)
Income tax (tax load)	1 981	(5 267)	7 248	-
Net profit (loss)	(8 007)	(10 915)	2 908	26,64
Net other comprehensive income	4	(87)	91	-
Comprehensive income	(8 003)	(11 002)	2 999	27,26
EBITDA*	25 740	34 402	(8 662)	(25,18)

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

Table 4: Consolidated costs by type

	Złoty thousand 3 months period ended 31 March 2021	Złoty thousand 3 months period ended 31 March 2020 (transformed data)	Złoty thousand change	% dynamics
Depreciation	33 816	38 770	(4 954)	(12,78)
Impairment write-downs on inventory	30	1 596	(1 566)	(98,12)
Consumption of materials	81 777	72 707	9 070	12,47
Outsourcing	16 124	20 376	(4 252)	(20,87)
Taxes and fees excluding excise tax	38 614	41 074	(2 460)	(5,99)
Costs of CO ₂ emissions	95 157	166 225	(71 068)	(42,75)
Costs of employee benefits	91 757	99 218	(7 461)	(7,52)
Other costs by type	5 061	4 418	643	14,55
Value of sold goods and materials and sold traded electricity	123 128	114 520	8 608	7,52
Total costs by type	485 464	558 904	(73 440)	(13,14)

Other operating income in the first quarter of 2021 amounted to PLN 7,829 thousand and was lower by PLN 16,989 thousand than in the corresponding period of the previous year. The high level of revenues in the previous year was the result of the profit from the settlement of forward contracts hedging the euro exchange rate for the purchase of CO₂ emission allowances.

Selling costs in the first quarter of 2021 amounted to PLN 1,706 thousand and were higher by PLN 594 thousand than in the corresponding period of the previous year.

General and administrative expenses in the first quarter of 2021 amounted to PLN 27,269 thousand and were lower than those incurred in the corresponding quarter of the previous year by PLN 1,834 thousand, i.e. by 6.30%. The decrease was mainly due to lower employee costs.

Other operating expenses in the reporting quarter amounted to PLN 697 thousand and decreased compared to the first quarter of the previous year by PLN 431 thousand.

In the first quarter of 2021, ZE PAK SA Group incurred a loss on operating activities in the amount of PLN 8,076 thousand. In the same period of last year, a loss of PLN 4,368 thousand was also recorded.

In the first quarter of 2021, the achieved results were adversely affected by the negative result on financial activities in the amount of PLN 1,912 thousand. In the same period of the previous year, the impact of the financial result was also negative and amounted to PLN 1,280 thousand.

In the first quarter of 2021, the Group incurred a gross loss of PLN 9,988 thousand.

The net loss in the first quarter of 2021 was PLN 8,007 thousand. The net result was positively affected by the reduction of income tax related to the activation of impairment losses on property, plant and equipment at Pańków I power plant.

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

In the first quarter of 2021, no unusual events were noted that had a significant impact on assets, liabilities, equity, net financial result or cash flows.

Implementation of investment projects

In 2020, ZE PAK SA Group started the implementation of two large investment projects, which are (1) the adaptation of K-7 coal boiler at Konin power plant for the exclusive combustion of biomass along with the necessary technical infrastructure and (2) construction of a photovoltaic farm with a rated power of approx. 70MWp in Brudzew commune. Moreover, investment activity also focused on the implementation of the necessary tasks aimed at ensuring the maintenance of current efficiency and more effective use of the mining and production assets held.

ZE PAK SA key investments in the implementation phase

Adaptation of the K-7 coal boiler 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 in the event of the withdrawal of the biomass unit currently operating in Elektrownia Konin.

On March 27, 2020, a leading contract was concluded for the implementation of the subject of the contract in the "turnkey" formula, i.e. the design and conversion of a coal-fired boiler into a fluidized bed boiler operating in the BFB technology. There is an 18-month deadline for implementation. The contractor for the boiler adaptation for biomass combustion is Valmet Technologies Oy with its seat in Espoo Finland. In addition, further major contracts were concluded for the implementation of the so-called technological islands (TG5 turbine, G5 generator, biomass feeding installation and ash removal installation from the electrostatic precipitator).

After the modernization 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 fired with biomass has had a contract for a 17-year period of participation in the Capacity Market since 2024.

Construction of a 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. All necessary administrative decisions for the construction of the solar farm were obtained. The general contractor of the contract for the construction and commissioning in the "turnkey" formula of a photovoltaic power plant with a rated capacity of approximately 70 MWp is a consortium of Esoleo sp. z o.o. and PAK Serwis sp.z o.o. As part of the implementation of this contract, works related to the organization of the construction back-up facilities were commenced. A connection agreement was also concluded with Energa-Operator SA. In December 2020, an agreement was concluded to transfer the rights and obligations under the contract for the construction and commissioning of a turnkey photovoltaic power plant from ZE PAK SA to the special purpose vehicle PAK-PCE Fotowoltaika sp.z o.o., which was finalized on April 29, 2021.

The construction of the solar farm is already well advanced. The main technological devices were delivered and installed (110/20 / 20kV power output transformer, 20 / 0.8kV transformer stations, MV and LV cabling), GPZ conversion,

installation of photovoltaic modules and inverters, farm control and supervision system, security system technical facilities, earthing and lightning protection and area lighting are underway.

ZE PAK SA key investments in the preparatory phase

The Group 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,
- design work on a bus prototype powered by hydrogen fuel cells,
- 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 with associated infrastructure at Konin power 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 submitted to obtain 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 and solar energy, their conversion into electricity, in dedicated installations, will power the electrolytic plant system. The implementation of this task will enable to produce the so-called "Green hydrogen".

The first step towards building a hydrogen plant at the Konin Power Plant was the conclusion on April 9, 2020 of a contract with Hydrogenics Europe N.V. Belgium to purchase an electrolyser that will initially produce hydrogen in the amount of 1000 kg H₂ / day. At a later stage, thanks to the modular construction of the hydrogen plant and preparation of the infrastructure, it will be possible to increase production capacity, depending on the demand for hydrogen.

In April 2021, an agreement was concluded with Energoprojekt-Katowice for the development of design documentation necessary to obtain a building permit and the construction of a hydrogen plant).

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

In October 2020, an agreement was concluded with NEL Hydrogen A / S for the supply of two hydrogen refuelling stations and their maintenance. The station located in Konin will be launched first. At the stations, it will be possible to refuel passenger cars, buses and trucks as well.

In March 2021, an agreement was concluded with Energoprojekt-Katowice for the development of design documentation necessary to obtain a building permit and the implementation of the construction of a hydrogen refuelling station in Konin, and began to extend it to the scope related to the construction of the station in the city of Warsaw.

Talks are currently underway to locate and build the station.

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 facility was ordered in December 2020. An external transport company will be hired to transport the mobile hydrogen warehouse produced in the hydrogen production plant at Konin Power Plant to the hydrogen refuelling station.

Design work on a bus prototype powered by hydrogen fuel cells

At the end of April 2021, work began on the construction of a bus prototype. The first elements of the skeleton were made. Cooperation was established with suppliers who are leaders in the bus industry, orders were placed for key components.

In the fourth quarter of 2021, it is planned to complete the construction of the prototype and start testing the bus. The next stage will be homologation works allowing to start production of buses.

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".

Procedures related to the purchase of equipment necessary to create an autonomous model of power and heat supply of a single-family house - a complete electrolyser system, hydrogen storage tanks, fuel cells, and a home photovoltaic power plant have been started.

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 during the reporting period

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) and Judgment of the Provincial Administrative Court in Warsaw

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, 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. The 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.

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 and decisions in the above-mentioned provisions have expired. The judgment of the Provincial Administrative Court in Warsaw did not reverse the decision of the first instance body, i.e. the Marshal's Decision. As at 27 May 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.

Significant events after the balance sheet date

Withdrawal from the contract for demolition of facilities at Elektrownia Adamów

On 29 April 2021, the Company withdrew the contract concluded on 6 May 2020 with MK Explosion Sp. z o.o., the subject of which was the demolition of facilities and preparation of the site at Elektrownia Adamów for potential new investments. The basis for submitting a declaration of withdrawal from the agreement by the Company is improper performance of the agreement by the contractor for culpable reasons attributable to the contractor.

The intention of the Company is still to complete the process of demolition of facilities and preparation of the area in Elektrownia Adamów for potential future investments. In the coming weeks, the Company will launch the process of selecting a professional supplier of demolition services, whose task will be to complete the activities carried out at Elektrownia Adamów.

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 Pańców - Adamów - Konin SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the first quarter of 2021, whose single or total value would exceed 10% of ZE PAK SA's equity with the exception of those described below.

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

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

referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from Tomisławice open pit by PAK 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 judgement of the Provincial Administrative Court in Poznań of 6 November 2012 repealing the decision of the Self-government Appeal Court in Konin of 25 March 2009 refusing the annulment of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune related to the extraction of lignite from Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 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.

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 total</i> <i>number of</i> <i>shares/votes</i>
Zygmunt Solorz (indirectly) through:	33 523 911	65,96
– <i>Argumenol Investment Company Limited</i>	<i>33 523 911</i>	<i>65,96</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 quarterly report differs 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 quarter report and as at the day of submitting the previous periodic report (to the best of the Company's knowledge, based on notifications of purchase / sale of shares).

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

Name	ZE PAK SA shares as at the day of submitting this report	ZE PAK SA as at the day of submitting the previous report
Piotr Woźny	0	0
Zygmunt Artwik	0	0
Maciej Nietopiel	0	0
Andrzej Janiszowski	0	0
Katarzyna Sobierajska	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 as at the day of submitting the previous report
Zygmunt Solorz	0	0
Wiesław Walendziak	0	0
Tomasz Szelaż	0	0
Henryk Sobierajski	0	0
Leszek Wysłocki	0	0
Sławomir Zakrzewski	0	0
Grzegorz Krystek	0	0
Maciej Stec	0	0
Alojzy Z. Nowak	0	0

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

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

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The Company did not pay or declare dividend payment in the first quarter of 2020.

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

Zespół Elektrowni Pątnów – Adamów – Konin SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the first quarter of 2021.

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

On March 12, 2021, ZE PAK SA granted a surety for PKO BP SA bank (Security Agent) in the amount of PLN 10 million for the liabilities of a subsidiary of the Capital Group, i.e. PAK-PCE Fotowoltaika sp.z o.o. The surety was granted by

ZE PAK SA as security for a term loan agreement and a VAT loan in the amount of PLN 175 million signed between PAK-PCE Fotowoltaika sp.z o.o. and the consortium of banks PKO BP, Pekao SA and mBank.

On March 19, 2021, ZE PAK SA granted a surety to Esoleo Sp. z o.o. in the amount of PLN 168.7 thousand for the liabilities of a subsidiary of the Capital Group, i.e. PAK Górnictwo sp.z o.o. The surety was granted by ZE PAK SA as a security for the contract for the performance of the road system for Brudzew photovoltaic farm project signed between Esoleo sp.z o.o. and PAK Górnictwo sp.z o.o.

On March 10, 2021, ZE PAK SA granted two loans to PAK-PCE Fotowoltaika sp.z o.o. (a subsidiary of the Capital Group) in the total amount of PLN 6.0 million (twice for PLN 3.0 million) with a repayment date by the end of December 2035. The loans are intended for the fulfilment of the current liabilities of PAK-PCE Fotowoltaika Sp. z o.o. resulting from the investment project under the name "Energy transformation in the region - construction of a photovoltaic farm in the reclaimed areas of Adamów Mine". The repayment of the principal and interest on the loans is assigned to the repayment of the term loan and the VAT loan that PAK-PCE Fotowoltaika signed on March 12, 2021 with the consortium of PKO BO, Pekao SA and mBank banks.

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

In the first quarter of 2021, 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 PPA for unit 9 in Elektrownia Pańców II;
- 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. 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.

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

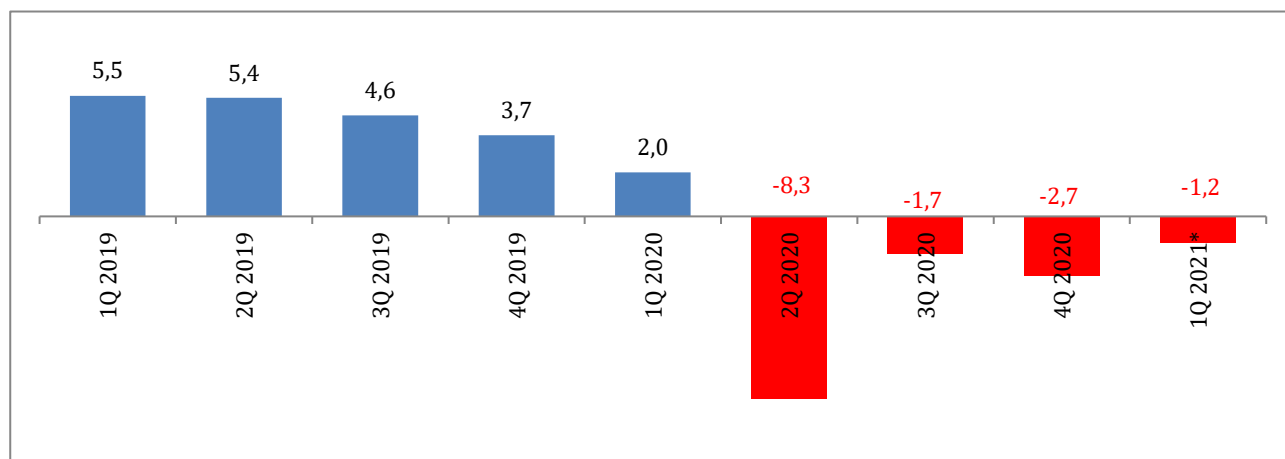
When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, 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 a quick estimate, the gross domestic product (GDP), unadjusted in the first quarter of 2021, decreased in real terms by 1.2% year on year, compared to an increase of 2.0% in the corresponding period of 2020.

The data are preliminary and may be subject to revision, in line with the revision policy applied in quarterly national accounts, when the first regular GDP estimate for Q1 2021 is prepared, which will be published on May 31, 2021.

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



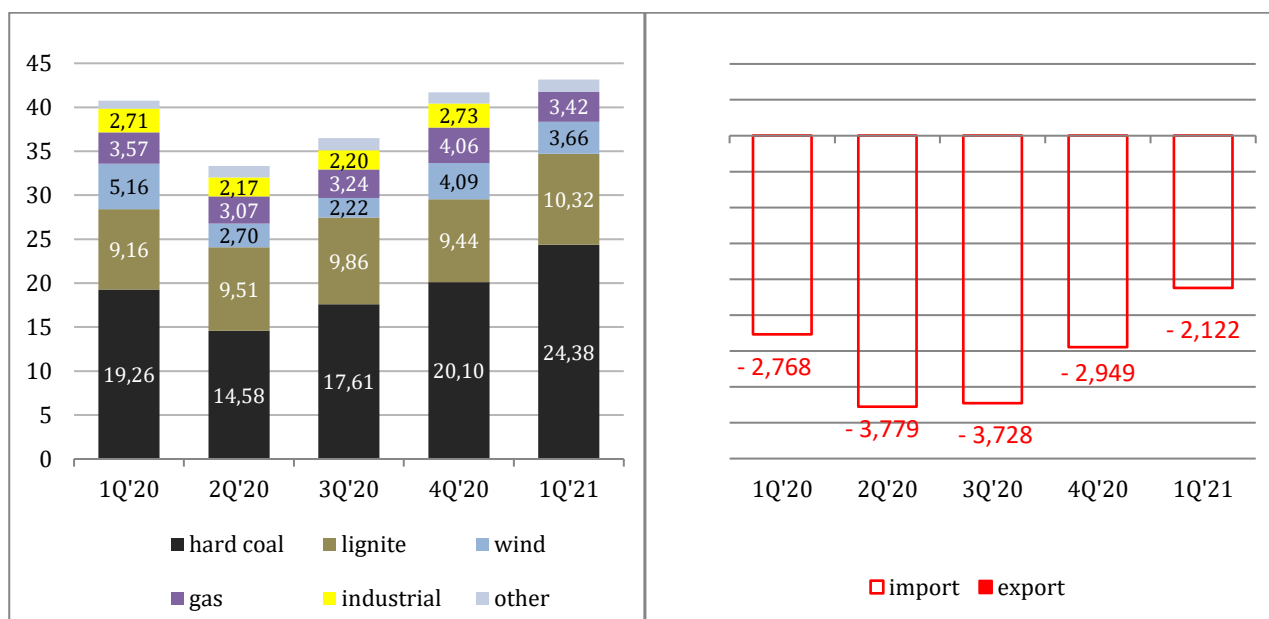
* The so-called quick estimate of gross domestic product in the first quarter of 2021, seasonally unadjusted, at constant average annual prices of the previous year...

Source: Own elaboration based on CSO 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 quarter of 2021 amounted to 45,26 TWh¹ and increased by 3.97% compared to the first quarter of the previous year. In the first quarter of 2021 gross electricity production amounted to 43.14 TWh, which means an increase by 5.8% 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 24.38 TWh. 10.32 TWh was produced from lignite. Wind farms produced 3.66 TWh, i.e. by 29% less than in the corresponding period of the previous year at a comparable installed capacity. The decrease also concerned generation from gas power plants, which produced 3.4 TWh, i.e. a decrease by 4.2%. The balance of foreign exchange in the first quarter of 2021 amounted to 2.12 TWh on the import side, which means that import decreased by 23%.

¹ Table no. 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.

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



Source: Own elaboration based on PSE data

11.2. Regulatory environment

Entities operating on the electricity market operate in a regulatory environment that is subject to constant change, mainly through the impact of EU law on national law. The most important legal regulations to which electricity producers are subject are the Energy Law Act, including provisions on the obligation to sell energy on stock exchange markets, the Act on renewable energy sources, 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 of ZE PAK SA are issues related to the functioning of the capacity market, which entered the implementation phase on January 1, 2021. At the beginning of 2021, the secondary market has also started operating, which enables the Company to take over capacity obligations from other power suppliers in terms of free, uncontracted capacity.

Additionally, in the context of the capacity market, it should be mentioned that the amendment to the Act of April 10, 1997 - Energy Law is currently underway. As a result of the above the Act of December 8, 2017 on the capacity market is also to be amended. Another project amending the Polish capacity market is also being processed independently. Both projects are the result of an analysis of the previous experience in the operation of the capacity market and introduce numerous improvements, clarifications and modifications.

An important event for the financial results of the Company in the regulatory environment is the reform of the balancing market, which has been underway since 2019, when intensive work began to adapt the balancing market to the requirements of European law. In May 2020, the document Polish Plan for the Implementation of Reforms in the Balancing Market was adopted, which was a milestone in works on the reform of the balancing market. As a result of adopting the provisions of the plan, the balancing market reform will be carried out in two stages, and ultimately it is to introduce, among others, scarcity pricing mechanism, as well as major changes in system services and settlements on the balancing market. With the implementation of the first stage of the reform, on January 1, 2021, the so-called system regulation, which introduced a new methodology for determining forced electricity supply settlement price (CWD) and forced electricity supply settlement price (CWO), which regulates the variable cost for lignite-fired units in a different way than in previous years. As a consequence, the so-called forced reductions, producers who do not have their own fuel in the technological process are often forced to buy energy from the balancing market at prices higher than the contracts concluded on Towarowa Gielda Energii S.A.

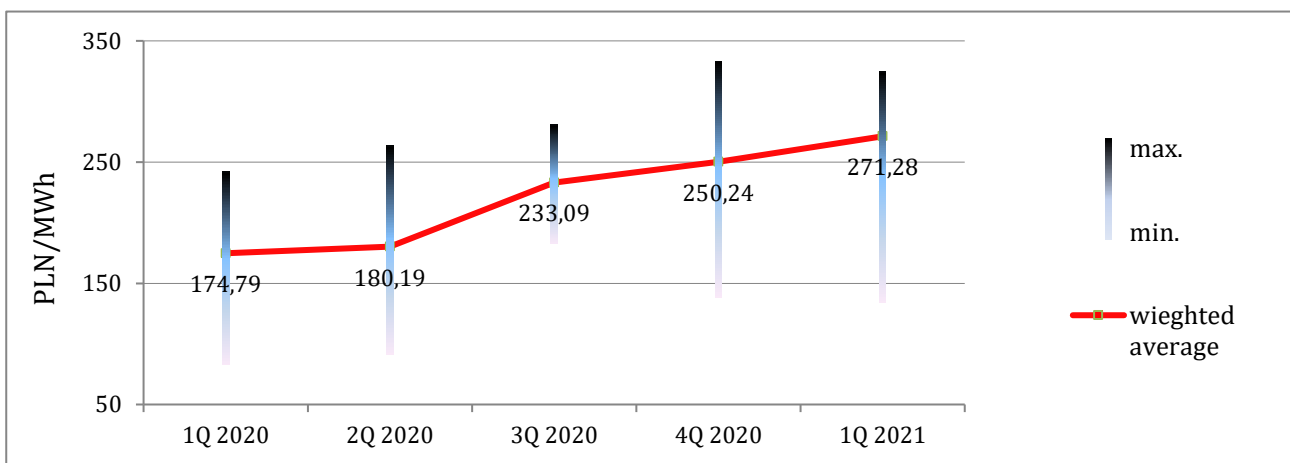
11.3. Electricity prices

The company generates the vast majority of revenues from the production and sale of electricity, therefore the risk of changing the price at which it sells electricity is of key importance for the level of revenues generated by the Group.

In the first quarter of 2021, on the day-ahead market of Towarowa Giełda Energii S.A. (TGE S.A.), the price of electricity is in an upward trend that started in the second quarter of 2020. The high price level in the first quarter of this year was caused by the prolonged winter and low air temperatures in February throughout Europe. It should also be noted that the process of creating a common pan-European electricity market, within which the Polish energy market is also combined, both within the day-ahead and intraday markets, causes that the energy price on TGE S.A. it is susceptible to changes in import capacity and the price of energy in the neighbouring markets. Moreover, the factor contributing to the increase in energy prices in the first quarter of 2021 was also the strong increases in the prices of CO₂ emission allowances.

Weighted average price (TGeBASE) in the first quarter of 2021 was at the level of PLN 271.28 /MWh, which means an increase in the correspondence to the first quarter of 2020 by PLN 96.49/MWh (i.e. by 55.20%).

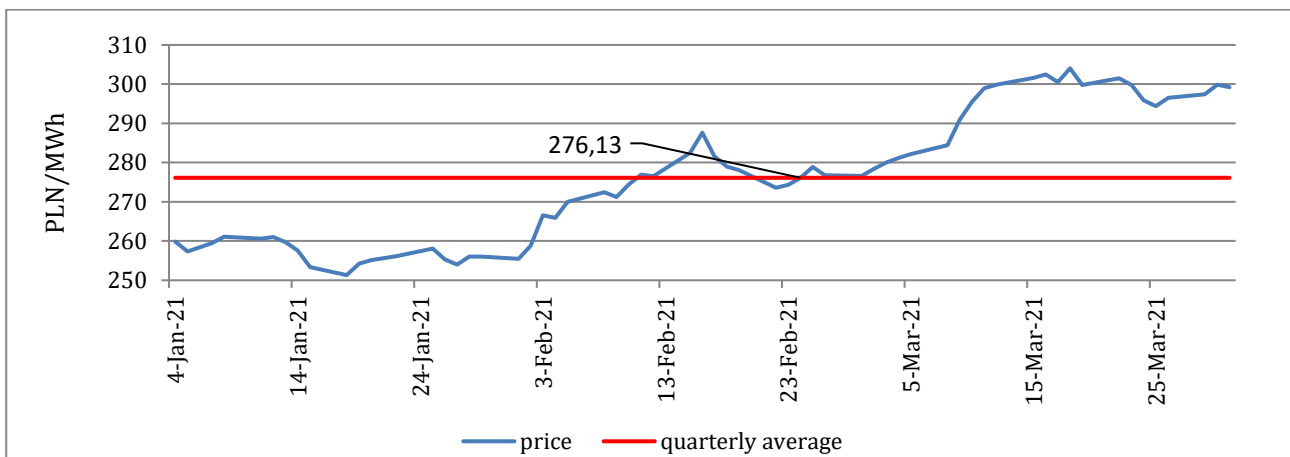
Chart 9: Electricity price (TGeBASE)²



Source: Own elaboration based on TGE data

The first quarter of 2021 on the electricity futures market of Towarowa Giełda Energii S.A., like energy on the day-ahead market, was characterized by an upward trend. The arithmetic mean of the daily clearing prices for the reference futures contract BASE_Y-22 was PLN 276.13 / MWh (the highest price was PLN 304.03 / MWh on March 18, 2021). The factors determining the level of prices quoted on the futures market, as in the case of the price on the TGE's Day-Ahead and Intra-Day Market, were primarily strong increases in the prices of CO₂ emission allowances.

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



Source: Own elaboration based on TGE data

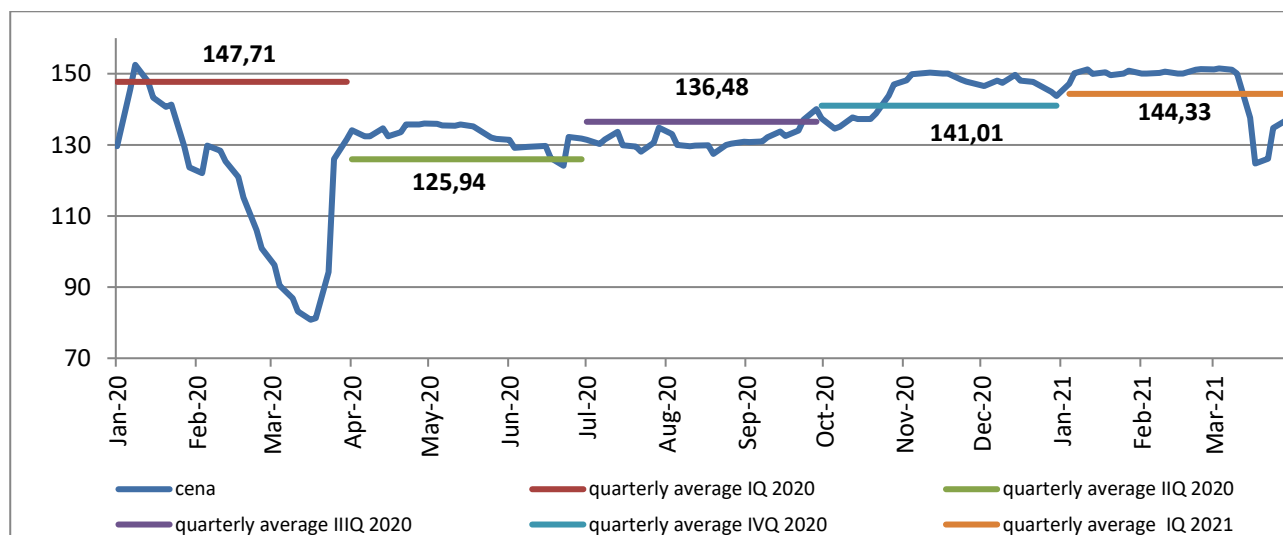
² In June 2019, TGE SA liquidated the IRDN index, currently the base reference index is the TGeBase index

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, therefore, the Company sells most of these certificates to other market participants. However, production, especially from a biomass block, largely depends on the level of market prices for green certificates. In the periods when the sum of the price of energy produced from biomass and the price of the green certificate does not ensure the achievement of the assumed financial effect, production may be reduced or stopped, which automatically reduces the number of green certificates generated. Due to the fact that the level of revenues generated from the sale of certificates of origin is lower than the level of revenues generated from the sale of electricity, the risk of changes in the prices of certificates of origin also has a smaller impact on the results than, for example, the risk of changes in the energy price.

From August 2020, the prices of green certificates are in a constant, slightly rising price trend. In the first quarter of 2021, the trend started last year continued. In March 2021, the price reached PLN 149.99 / MWh. The weighted average price of green certificates in the first quarter of 2021 was PLN 144.33 / MWh and was lower than the average for the first quarter of 2020 by PLN 3.38 / MWh (i.e. 2.29%). Price increases are probably due to the fact that their supply on the market has decreased, as in 2020 some entities terminated their participation in the system of certificates of origin due to the end of the 15-year support period, while some installations, as a result of winning migration auctions, resigned from applying for green certificates. In addition, the steady, slow upward price trend is supported by the maintenance of the redemption obligation of 19.5% in 2021 (the same level as in 2020).

Chart 11: Price of RES Energy certificate of origin



Source: Own elaboration based on TGE data

11.5. Extraction and supply costs of coal and other fuels

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

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 Group'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.

In the coming years, the company intends to implement the directions of the strategy adopted in 2020, assuming a withdrawal 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.

11.6. CO₂ emission allowances costs

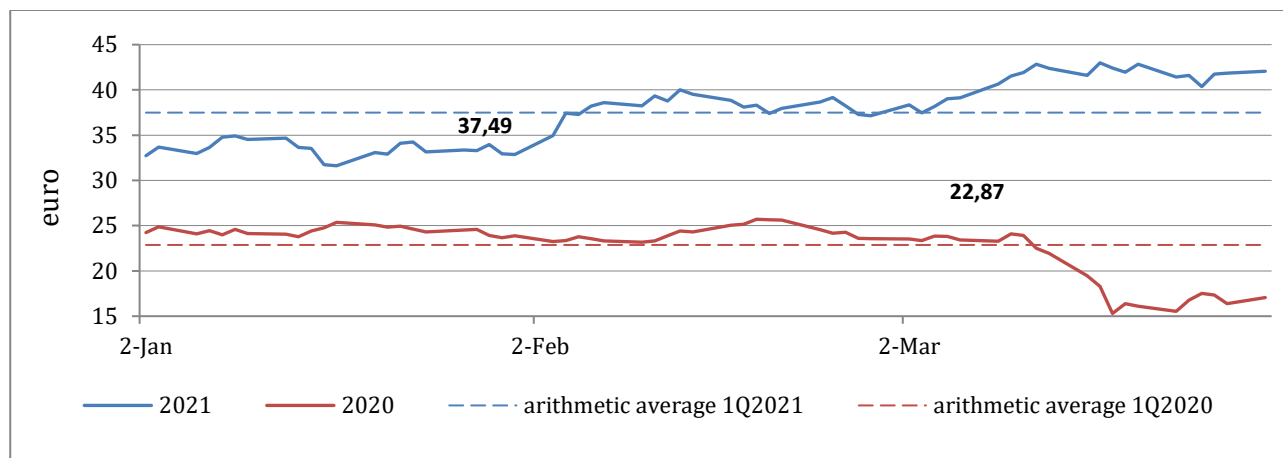
The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO₂ emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact 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 2021, the Group will receive a negligible amount of free CO₂ emission allowances, i.e. 12,138 EUA, resulting from allocation to heat production. Therefore, practically the entire amount of emission allowances needed by ZE PAK SA Group must be purchased on the secondary market.

The upward trend in CO₂ emission allowances, which started in November 2020, continued with minor price adjustments throughout the first quarter. January 2021 was marked by the next EUA price records, initiated in December 2020. The prices of EUA units in January reached a value close to the psychological level of 35 euros. In February, EUA prices exceeded EUR 40. The market was dominated by extremely high volatility in the range above EUR 7, which can only be compared to last year's March, when the COVID-19 pandemic started. The direction of quotation of emission allowance prices in February was determined, inter alia, by information on the increased activity of financial investors, gas prices, forecasts of low temperatures and moods in the global stock markets. In March, the prices of allowances permanently exceeded the psychological level of EUR 40, reaching values close to EUR 43. The increase in demand was driven by the approaching 2020 annual issue settlement date expiring on April 30 this year and an increase in the activity of financial investors, which, according to ICE data, tripled the size of the net position for allowances in March (from November 2020). Currently, in the regulatory environment there are no signals of stabilization and lowering of EUA prices.

The arithmetic mean of the EUA quotations in the first quarter of 2021 was EUR 37.49, while in 2020 it was EUR 22.87...

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”) for unit 9 in Elektrownia Państw (former 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, the Company is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. The Company 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.

On December 30, 2020, Elektrownia Pańków II sp.z o.o. was incorporated into ZE PAK SA by way of general succession. The merger of the companies does not affect the right of ZE PAK SA to apply for compensation for stranded costs.

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 and solar conditions. It should be taken into account that in the periods when the wind conditions are exceptionally good and the production of wind turbines is high, the demand for the production of ZE PAK SA may periodically decrease, similarly in the periods of lower wind conditions, production may increase.

The risk related to seasonality and meteorological conditions in the first quarter of 2021 was not a key factor in the Group's operations.

11.9. Investment expenses

Activities in the sectors in which the Group operates require significant capital expenditure. The Group's generation assets require periodic repairs and ongoing modernization, 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, which the Group intends to implement, are also capital-intensive. The level of capital expenditure has had a significant impact and is expected to continue to have a significant effect on operating results, debt levels and cash flow. Delays in implementation, changes to the investment program and budget overruns can have a serious impact on future capital expenditures, as well as on results, financial standing 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,
- 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.

SIGNATURES:

Piotr Woźny
President of the Management Board

.....

Zygmunt Artwik
Vice president of the Management Board

.....

Maciej Nietopiel
Vice President of the Management Board

.....

Andrzej Janiszowski
Vice President of the Management Board

.....

Katarzyna Sobierajska
Vice President of the Management Board

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