

ZE PAK SA CAPITAL GROUP

OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR III 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>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>9 months 2021 period from 01.01.2021 to 30.09.2021</i>	<i>9 months 2020 period from 01.01.2020 to 30.09.2020</i>	<i>9 months 2021 period from 01.01.2021 to 30.09.2021</i>	<i>9 months 2020 period from 01.01.2020 to 30.09.2020</i>
Sales revenue	1 604 146	1 605 194	351 902	361 367
Operating profit/loss	83 917	(280 480)	18 409	(63 143)
Profit/loss before tax	77 491	(288 375)	16 999	(64 920)
Net profit/loss for the period	106 210	(250 773)	23 299	(56 455)
Net profit attributable to equity holders of the parent	106 210	(247 428)	23 299	(55 702)
Total comprehensive income	106 214	(250 897)	23 300	(56 483)
Net cash flow from operating activities	(133 850)	81 224	(29 363)	18 285
Net cash flow from investing activities	(359 516)	(31 993)	(78 867)	(7 202)
Net cash flow from financing activities	359 319	(28 465)	78 824	(6 408)
Net increase / (decrease) in cash and cash equivalents	(134 047)	20 766	(29 406)	4 675
Net profit per share (in zloty/euro per share)	2,09	(4,87)	0,46	(1,10)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.09.2021</i>	<i>As at 31.12.2020</i>	<i>As at 30.09.2021</i>	<i>As at 31.12.2020</i>
Total assets	3 187 798	2 878 628	688 078	623 782
Fixed assets	2 059 783	1 857 355	444 599	402 478
Current assets	1 128 015	1 021 273	243 479	221 304
Total equity	1 055 349	949 463	227 794	205 743
Share capital	101 647	101 647	21 940	22 026
Share capital attributable to equity holders of the parent	1 055 337	951 214	227 792	206 122
Total liabilities	2 132 449	1 929 165	460 284	418 039
Long-term liabilities	1 189 224	861 085	256 691	186 592
Short-term liabilities	943 225	1 068 080	203 593	231 447
Book value per share (in zloty/euro per share)	20,76	18,68	4,48	4,05
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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<i>Selected financial data of ZE PAK SA</i>	<i>Zloty thousand</i> <i>9 months 2021</i> <i>period</i> <i>from 01.01.2021</i> <i>to 30.09.2021</i>	<i>Zloty thousand</i> <i>9 months 2020</i> <i>period</i> <i>from 01.01.2020</i> <i>to 30.09.2020</i>	<i>Euro thousand</i> <i>9 months 2021</i> <i>period</i> <i>from 01.01.2021</i> <i>to 30.09.2021</i>	<i>Euro thousand</i> <i>9 months 2020</i> <i>period</i> <i>from 01.01.2020</i> <i>to 30.09.2020</i>
Net revenues from sales of products, goods and materials	1 461 684	1 339 005	320 650	301 442
Operating profit/loss	60 066	(124 474)	13 177	(28 022)
Profit/loss before tax	55 297	(230 438)	12 131	(51 877)
Net profit/loss for the period	92 026	(192 188)	20 188	(43 266)
Net cash flow from operating activities	(161 569)	105 966	(35 443)	23 855
Net cash flow from investing activities	(141 405)	(47 029)	(31 020)	(10 587)
Net cash flow from financing activities	101 060	(400)	22 170	(90)
Net cash flow together	(201 914)	58 537	(44 294)	13 178
Net profit per share (in zloty/euro per share)	1,81	(3,78)	0,40	(0,85)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i> <i>30.09.2021</i>	<i>As at</i> <i>31.12.2020</i>	<i>As at</i> <i>30.09.2021</i>	<i>As at</i> <i>31.12.2020</i>
Total assets	2 537 180	2 451 709	547 644	531 271
Fixed assets	1 531 338	1 497 850	330 536	324 575
Current assets	1 005 842	953 859	217 109	206 696
Equity	1 369 193	1 277 167	295 537	276 755
Share capital	101 647	101 647	21 940	22 026
Liabilities and provisions for liabilities	1 167 987	1 174 542	252 107	254 516
Long-term liabilities	94 068	2 648	20 304	574
Short-term liabilities	329 274	175 443	71 073	38 017
Book value per share (in zloty/euro per share)	26,94	25,13	5,81	5,45
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- *particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from January 1, 2021 till September 30, 2021, which is 4.5585 EUR/PLN and from January 1, 2020 till September 30, 2020, which is 4.4420 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 September 30, 2021, which is 4.6329 EUR/PLN and as of December 31, 2020, 4.6148 EUR/PLN.*

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of September 30, 2021, ZE PAK SA Capital Group (hereinafter referred to as the “Group”, “Capital Group”, “ZE PAK SA Group”) is composed of a dominant entity ZE PAK SA (former Zespół Elektrowni Pątnów – Adamów – Konin SA) and twenty two subsidiaries, i.e. PAK Kopalnia Węgla 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 Fotowoltaika 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., Exion Hydrogen Polskie Elektrolizery sp. z o.o., Farma Wiatrowa Kazimierz Biskupi sp. z o.o., PCE – OZE 1 sp. z o.o., PCE – OZE 2 sp. z o.o., PCE – OZE 3 sp. z o.o., PCE – OZE 4 sp. z o.o., PCE – OZE 5 sp. z o.o., PCE – OZE 6 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., Exion Hydrogen Belgium BV, PAK Kopalnia Węgla Brunatnego Adamów SA in liquidation (hereinafter referred to as “PAK KWB Adamów SA in liquidation”) and Aquakon sp. z o.o. in liquidation.

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. The assets concentrated around PAK PCE sp. z o.o. which concentrates activities related to the generation of electricity from renewable sources, 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. Pątnów Power Plant produces energy using lignite in 4 power units with a total output 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 also includes a photovoltaic farm with an installed capacity of 70 MWp, located in Brudzew commune.

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 and service of capacity market. 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 Pątnów 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 production and use of green hydrogen. Around PAK PCE sp. z o.o. the Group is successively building 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. As part of its transformation activities, the Group is also active in using its assets for the implementation of the SMR (Small Modular Reactor) technology, which is currently in the pre-commercial phase.

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

In addition, the Company also holds shares in Huta Łaziska SA in arrangement bankructy, based in Łaziska Górne, specializing in the production of ferroalloys. These are B series shares - 3,277,025 with a nominal value of PLN 10.00

each and C series shares - 4,307,822 shares with a nominal value of PLN 10.00 each, which in total constitutes 9.64% of the share 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 September 30, 2021

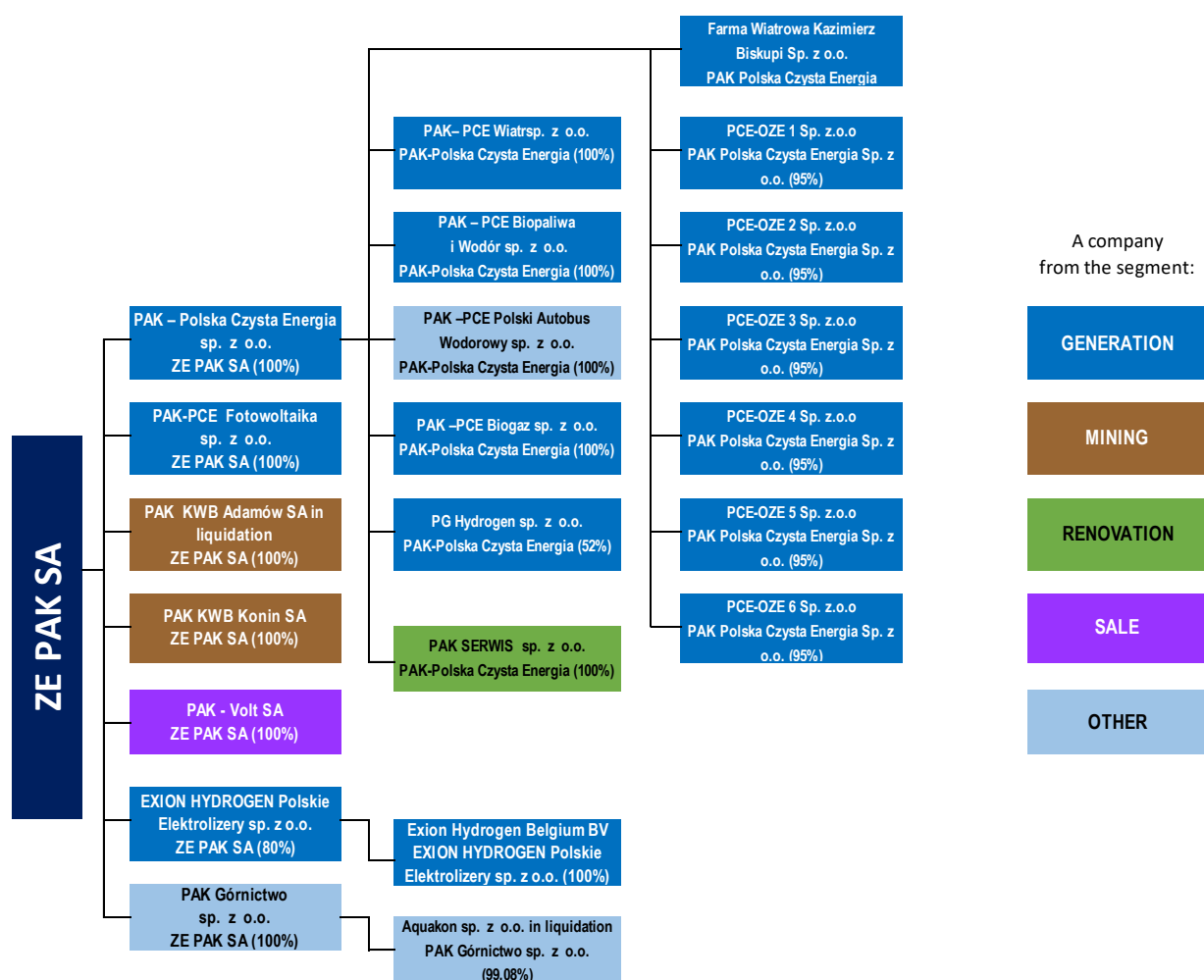


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	% Group's share in the capital	
			As at 30 September 2021	As at 31 December 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	100.00%	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%*

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“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%*
“Exion Hydrogen Polskie Elektrolizery” sp. z o.o.	04-028 Warszawa Al. Stanów Zjednoczonych 61	Design and production of electrolyzers	80.00%	-
“Exion Hydrogen Belgium” BV	Slachthuisstraat 120 Bus 12 2300 Turnhout	Design and production of electrolyzers	80.00%*	-
“Farma Wiatrowa Kazimierz Biskupi” sp. z o.o.	00-195 Warszawa ul. Zygmunta Słomińskiego 5	Design and production of wind farms	100.00%*	-
“PCE – OZE 1” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95.00%*	-
“PCE – OZE 2” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95.00%*	-
“PCE – OZE 3” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95.00%*	-
“PCE – OZE 4” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95.00%*	-
“PCE – OZE 5” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95.00%*	-
“PCE – OZE 6” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	95.00%*	-
“PAK Kopalnia Węgla Brunatnego Adamów” SA in liquidation	62-700 Turek Warenka 23	Lignite mining	100.00%	99.35%*
“Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	99.08%*	96.20%*

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

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

On September 10, 2021 the Company acquired 100% of shares in CCGT sp. z o.o. The change has been registered and on October 12, 2021 it was disclosed in the National Register Court.

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 third quarter of 2021, total sales revenues amounted to PLN 618,428 thousand and, compared to the third quarter of 2020, increased by PLN 63,695 thousand, i.e. by 11.48%.

In the third quarter of 2021, a 13.14% decrease in the volume of electricity sales was recorded. In the case of the sale of electricity from own production, a decrease was recorded, which amounted to 3.15%, while the sale of purchased energy decreased by 39.58% compared to the same period of the previous year. The decrease in production concerned the older, less efficient coal-fired units 1,2 and 5 at Pałnów power plant, while the newer, more efficient unit with a capacity of 474 MW produced more electricity. The net production volumes of the Group's individual power plants are presented in Chart 3. At the same time, in the third quarter of 2021, the average obtained price of electricity sales increased to PLN 316.04 /MWh, i.e. by 15.45% (calculated as the sum of revenues from the sale of electricity and revenues from system services, divided by the volume of sold energy). Thanks to the higher price of electricity in the third quarter of 2021, it was possible not only to compensate for the decrease due to the lower sales volume, but also to obtain higher revenues from the sale of electricity in the amount of PLN 3,829 thousand, i.e. by 0.80%.

Revenues from the sale of heat in the third quarter of 2021 amounted to PLN 8,298 thousand and were higher than in the third quarter of 2020 by PLN 1,276 thousand, i.e. 18.17%. The increase in the sales volume and the higher price for heat contributed to the increase in revenues.

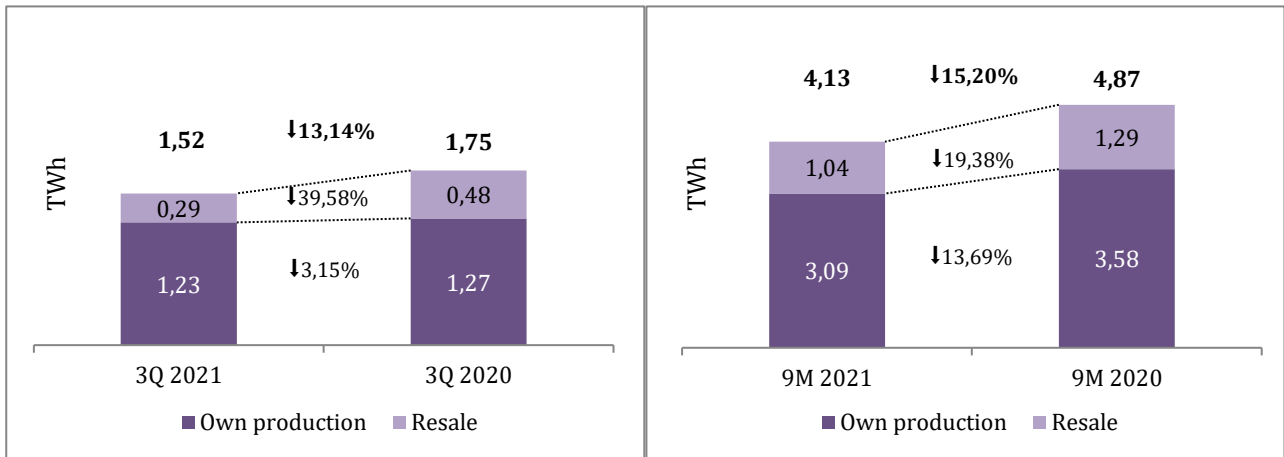
Revenue from construction contracts in the third quarter of 2021 increased by PLN 8,296 thousand, i.e. 153.69%, compared to the same period of the previous year. The increase in revenues in the analysed period was related to the implementation of projects with a higher scope, both material and financial, carried out in Germany and the contract for the modernization of the biomass installation in the Konin power plant, implemented for an external entity by a company from the renovation segment PAK Serwis sp. z o.o.

In the third quarter of 2021, compared to the third quarter of 2020, revenues from the sale of property rights from energy origin certificates increased by PLN 6,395 thousand, i.e. 42.04%, as a result of the higher price of certificates, despite the lower volume of energy production due to the block's renovation shutdown (last year, most of the renovation was carried out in the second quarter).

Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in the third quarter of 2021 amounted to PLN 33,492 thousand (including an advance payment of PLN 23,088 thousand and an adjustment of PLN 10,404 thousand), while in the third quarter of 2020 they amounted to PLN 42,634 thousand (including an advance of PLN 24,042 thousand and an adjustment of PLN 18,592 thousand). Lower LTC revenues in the third quarter of 2021 were caused by a lower adjustment compared to the corresponding period of 2020 (the advance payment was at a similar level). The lower level of the adjustment was the result of the first-time revenue from the provision of power services in 2021 and the achievement, compared to the third quarter of 2020, of a higher operating result, mainly due to the higher energy sales price obtained.

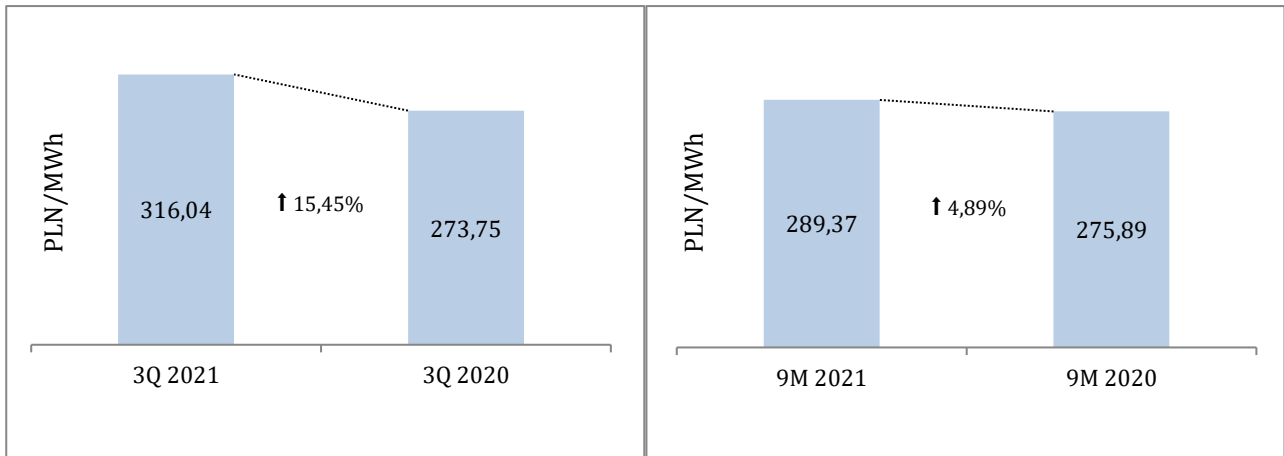
In 2021, a new category of revenues appeared in the form of revenues from the Capacity Market for readiness to supply energy to the grid, the amount of which in the third quarter of 2021 amounted to PLN 48,052 thousand.

Chart 1: Electricity sale



Source: Internal data

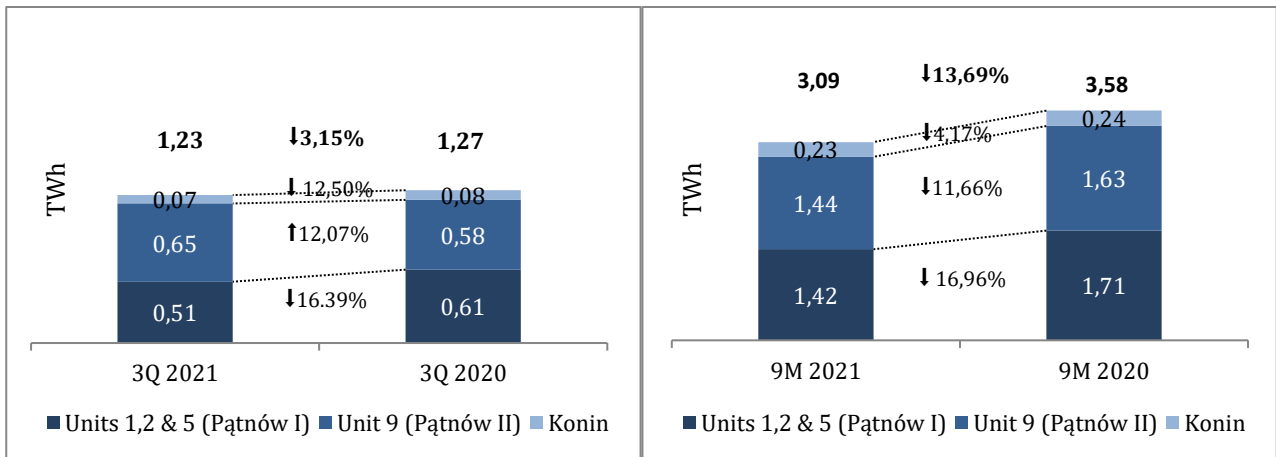
Chart 2: Average electricity prices*



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

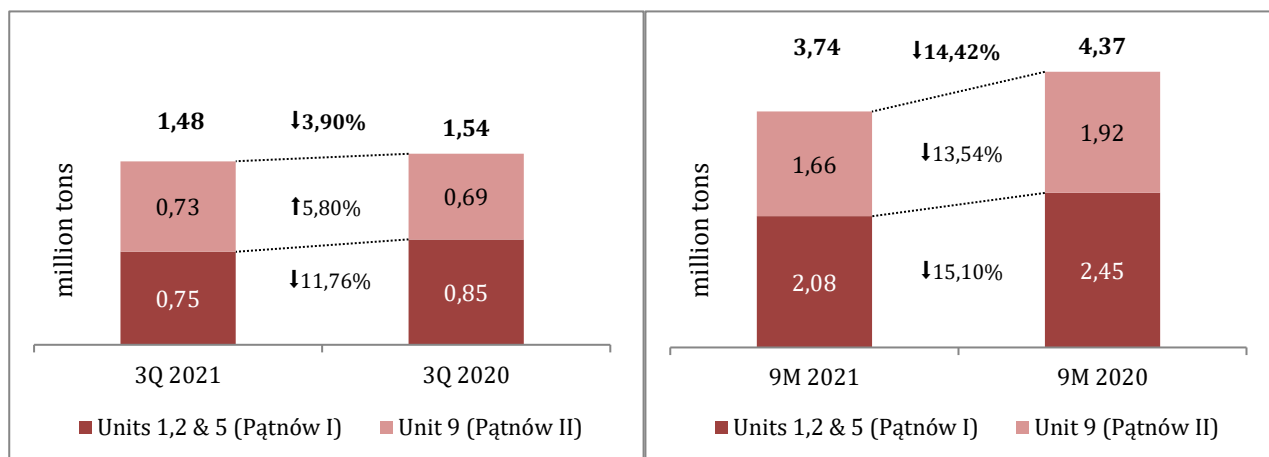
Source: Internal data

Chart 3: Net electricity production



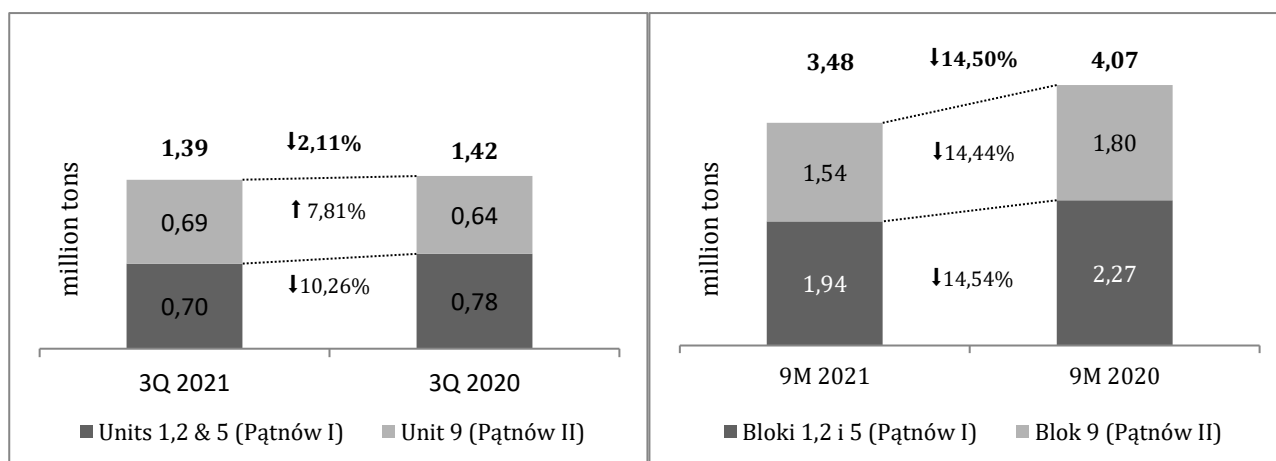
Source: Internal data

Chart 4: Lignite consumption



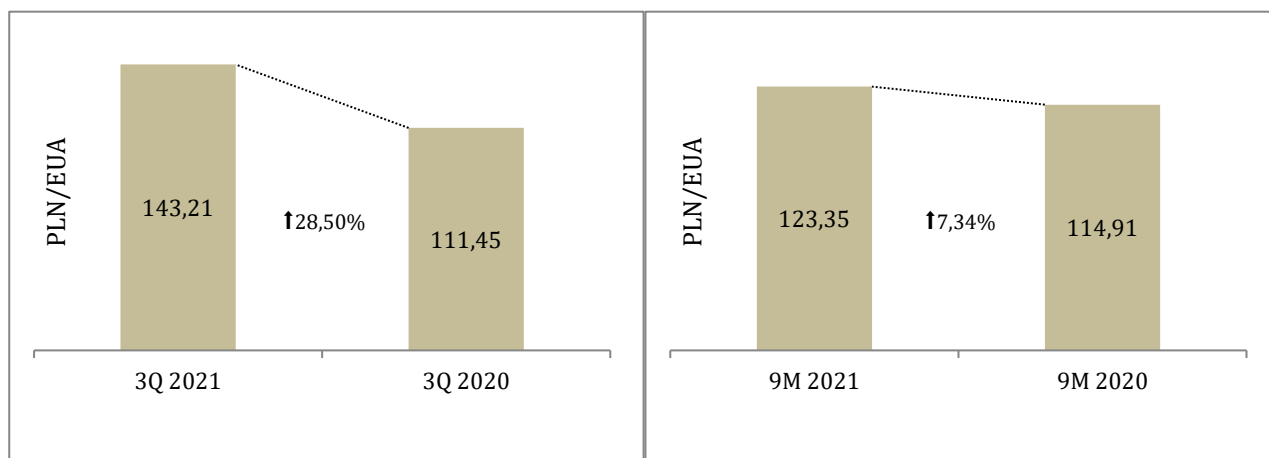
Source: Internal data

Chart 5: CO₂ Emission



Source: Internal data

Chart 6: Average prices of EUA purchase (European Union Allowances – CO₂ emission allowances)*



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

Source: Internal data

Cost of sales in the third quarter of 2021 amounted to PLN 539,230 thousand and increased by PLN 20,020 thousand, i.e. by 3.86%, compared to the third quarter of 2020. The increase in the prime cost was mainly influenced by higher costs of CO2 emissions due to the increase in the price of emission allowances by 28.50%. In addition to the increase in emission costs in the third quarter, the costs of material consumption and the use of external services increased.

The decrease in the prime cost was affected by the decrease in the value of goods and materials sold, related to the smaller amount of electricity purchased for trading, and lower costs of employee benefits.

Other operating income in the third quarter of 2021 amounted to PLN 15,443 thousand and was lower by PLN 11,714 thousand than in the corresponding period of the previous year. The high level of revenues in the same period of last year related to revenues from aid programs related to the pandemic and demolition of the Adamów power plant.

Table 2: List of consolidated sale revenues

	<i>Zloty thousand</i> <i>3 months period</i> <i>ended</i> <i>30 September</i> <i>2021</i>	<i>Zloty thousand</i> <i>3 months</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of goods, including:	515 747	496 845	18 902	3,80
– Revenues from the sale of electricity (own)	397 569	349 795	47 774	13,66
– Revenues from the sale of traded electricity	84 549	128 494	(43 945)	(34,20)
– Revenues from the sale of heat	8 298	7 022	1 276	18,17
– Other sale revenues	11 637	6 136	5 501	89,65
– Revenues from contracts for construction services	13 694	5 398	8 296	153,69
Other revenues, including:	103 152	57 847	45 305	78,32
– Property rights on Energy certificates of origin	21 608	15 213	6 395	42,04
– Compensation for termination of LTC	33 492	42 634	(9 142)	(21,44)
– Revenues from the Capacity Market	48 052	-	48 052	-
Excise	(471)	41	(512)	-
Total sale revenues	618 428	554 733	63 695	11,48

	<i>Zloty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2021</i>	<i>Zloty thousand</i> <i>9 months</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of goods, including:	1 301 217	1 424 508	(123 291)	(8,65)
– Revenues from the sale of electricity (own)	920 891	997 509	(76 618)	(7,68)
– Revenues from the sale of traded electricity	276 050	347 682	(71 632)	(20,60)
– Revenues from the sale of heat	36 970	33 592	3 378	10,06
– Other sale revenues	34 425	23 203	11 222	48,36
– Revenues from contracts for construction services	32 881	22 522	10 359	46,00
Other revenues, including:	304 057	181 495	122 562	67,53
– Property rights on Energy certificates of origin	53 098	40 025	13 073	32,66
– Compensation for termination of LTC	111 104	141 470	(30 366)	(21,46)
– Revenues from the Capacity Market	139 855	-	139 855	-
Excise	(1 128)	(809)	(319)	(39,43)
Total sale revenues	1 604 146	1 605 194	(1 048)	(0,07)

Selling costs in the third quarter of 2021 amounted to PLN 1,040 thousand and were higher by PLN 379 thousand than in the corresponding period of the previous year, mainly due to the introduction of the obligation of the capacity fee for end users, resulting from the act on the capacity market.

Table 3: Selected items of the consolidated income statement

	<i>Zloty thousand</i> <i>3 months period</i> <i>ended</i> <i>30 September</i> <i>2021</i>	<i>Zloty thousand</i> <i>3 months</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Sales revenues	618 428	554 733	63 695	11,48
Prime cost	(539 230)	(519 210)	(20 020)	(3,86)
Gross sales profit (loss)	79 198	35 523	43 675	122,95
Other operating revenues	15 443	27 157	(11 714)	(43,13)
Cost of sales	(1 040)	(661)	(379)	(57,34)
General and administrative expenses	(24 861)	(31 810)	6 949	21,85
Other operating costs	(423)	(2 084)	1 661	79,70
Profit (loss) from operating activities	68 317	28 125	40 192	142,90
Financial revenues	48 756	1 068	47 688	4 465,17
Financial costs	(50 025)	(3 105)	(46 920)	(1 511,11)
Gross profit (loss)	67 048	26 088	40 960	157,01
Income tax (tax load)	19 173	(16 029)	35 202	-
Net profit (loss)	86 221	10 059	76 162	757,15
Net other comprehensive income	88	(41)	129	-
Comprehensive income	86 309	10 018	76 291	761,54
EBITDA*	102 209	68 898	33 311	48,35

	<i>Zloty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2021</i>	<i>Zloty thousand</i> <i>9 months</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Sales revenues	1 604 146	1 605 194	(1 048)	(0,07)
Prime cost	(1 470 283)	(1 824 763)	354 480	19,43
Gross sales profit (loss)	133 863	(219 569)	353 432	-
Other operating revenues	43 883	63 130	(19 247)	(30,49)
Cost of sales	(3 553)	(2 668)	(885)	(33,17)
General and administrative expenses	(78 352)	(83 540)	5 188	6,21
Other operating costs	(11 924)	(37 833)	25 909	68,48
Profit (loss) from operating activities	83 917	(280 480)	364 397	-
Financial revenues	49 873	6 750	43 123	638,86
Financial costs	(56 299)	(14 645)	(41 654)	(284,42)
Gross profit (loss)	77 491	(288 375)	365 866	-
Income tax (tax load)	28 719	37 602	(8 883)	(23,62)
Net profit (loss)	106 210	(250 773)	356 983	-
Net other comprehensive income	4	(124)	128	-
Comprehensive income	106 214	(250 897)	357 111	-
EBITDA*	185 385	129 840	55 545	42,78

* 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.

General and administrative expenses in the third quarter of 2021 amounted to PLN 24,861 thousand and were lower than those incurred in the corresponding quarter of the previous year by PLN 6,949 thousand, i.e. by 21.85%.

Other operating expenses in the reporting quarter amounted to PLN 423 thousand and decreased compared to the third quarter of the previous year by PLN 1,661 thousand, i.e. 79.70%.

In the third quarter of 2021, ZE PAK SA Group generated operating profit in the amount of PLN 68 317 thousand, which in relation to the result for the corresponding period of the previous year was higher by PLN 40 192 thousand, i.e. 142.90%.

In the third quarter of 2021, the achieved results were adversely affected by the negative result on financial activities in the amount of PLN 1,269 thousand. The impact of financial activities in the corresponding period of the previous year decreased the result by PLN 2,037 thousand.

The net profit in the third quarter of 2021 amounted to PLN 86 221 thousand. Compared to the third quarter of 2020, it is higher by PLN 76 162 thousand, i.e. by 757.15%.

Table 4: Consolidated costs by type

	<i>Zloty thousand</i> <i>3 months period</i> <i>ended</i> <i>30 September</i> <i>2021</i>	<i>Zloty thousand</i> <i>3 months</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	33 892	43 174	(9 282)	(21,50)
Impairment write-down on fixed assets, intangible assets and mining assets	-	(2 401)	2 401	-
Impairment write-down on inventory	-	(540)	540	-
Consumption of materials	79 061	69 931	9 130	13,06
Outsourcing	29 744	23 395	6 349	27,14
Taxes and fees excluding excise tax	38 569	36 829	1 740	4,72
Costs of CO ₂ emissions	198 922	158 540	40 382	25,47
Costs of employee benefits	85 263	89 502	(4 239)	(4,74)
Other costs by type	(658)	1 222	(1 880)	-
Value of sold goods and materials and sold traded electricity	112 994	131 944	(18 950)	(14,36)
Total costs by type	577 787	551 596	26 191	4,75

	<i>Zloty thousand</i> <i>9 months period</i> <i>ended</i> <i>30 September</i> <i>2021</i>	<i>Zloty thousand</i> <i>9 months</i> <i>ended</i> <i>30 September</i> <i>2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	101 468	123 721	(22 253)	(17,99)
Impairment write-down on fixed assets, intangible assets and mining assets	-	286 599	(286 599)	-
Impairment write-down on inventory	-	2 860	(2 860)	-
Consumption of materials	242 548	206 827	35 721	17,27
Outsourcing	70 895	65 353	5 542	8,48
Taxes and fees excluding excise tax	112 319	112 642	(323)	(0,29)
Costs of CO ₂ emissions	429 182	467 629	(38 447)	(8,22)
Costs of employee benefits	273 815	294 126	(20 311)	(6,91)
Other costs by type	17 312	16 980	332	1,96
Value of sold goods and materials and sold traded electricity	333 677	358 717	(25 040)	(6,98)
Total costs by type	1 581 216	1 935 454	(354 238)	(18,30)

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

In the third quarter of 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 the third quarter of 2020, ZE PAK SA Group continued 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 70MWp photovoltaic farm in Brudzew commune. In addition, investment activity focused on launching projects related to the production and distribution of hydrogen, as well as on preparatory work for the implementation of further renewable energy sources and the necessary tasks to ensure the maintenance of current efficiency and more effective use of the mining and generation 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. 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, electrostatic precipitator, digital block control system).

On November 10, 2021, the boiler was fired up and the rated speed of the turbine was achieved. Currently, the biomass block is in the phase of readiness to carry out regulatory traffic. It depends on the possibility of PSE SA connecting the unit to the modernized 110 kV switchgear. According to the connection conditions issued by PSE SA, this is to take place in December 2021.

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.

Construction of photovoltaic farm

The construction of Brudzew photovoltaic farm is an element of ZE PAK SA strategy related to the development of energy generation from renewable sources. The farm's rated power is approximately 70 MWp. The general contractor of the contract for the construction and commissioning of a photovoltaic power plant in the "turnkey" formula is a consortium of Esoleo sp. z o.o. and PAK Serwis sp. z o.o.

Deliveries of equipment as well as construction and assembly works were completed after June 30, 2021, the control and supervision system of the solar farm was launched. On September 15, permission was obtained to apply the voltage - the so-called EON. After the voltage was applied, the live electrical systems were checked and the start-ups of individual systems of the photovoltaic farm were completed. On October 26, 2021, a temporary operating permit for the farm (the so-called ION) was obtained and the first synchronization of the farm with the power grid was carried out. After the synchronization process, the production of electricity from the Brudzew photovoltaic farm began.

ZE PAK SA key investments in the preparatory phase

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

- construction of a hydrogen production plant with associated infrastructure at Konin power plant,
- construction of a wind farm in the area of Kazimierz Biskupi commune,
- construction of a hydrogen refuelling station in the cities of Warsaw and Konin,
- 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 photovoltaic farm in the area of Przykona commune.

Construction of a hydrogen production plant with associated infrastructure at Konin power plant

A program and spatial concept was developed and a decision was obtained establishing the environmental conditions for the implementation of the project.

Hydrogen will be produced in the water electrolysis process using energy from renewable 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. The original delivery date of the electrolyser indicated in the contract was in mid-2021, however due to reasons attributable to the supplier, resulting from force majeure, it was extended. It is currently planned for mid-2022.

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).

In order to enable the supply of hydrogen to the refuelling stations, in December 2020, an agreement was concluded with the company Wystrach for the supply of a mobile hydrogen storage facility. The delivery of the mobile hydrogen storage facility has been completed.

Construction of a wind farm in the area of Kazimierz Biskupi commune

The shares in Farma Wiatrowa Kazimierz Biskupi were purchased together with the wind farm project consisting of 7 turbines with a total capacity of 17.5 MW. On September 16, 2021, an agreement was concluded with Siemens Gamesa Renewable Energy (SGRE) for the supply of seven wind turbines with a unit capacity of 2.5 MW.

Currently, the process of selecting a contractor for construction and assembly works (outside the scope of SGRE), who will be responsible for the scope of works related to the implementation of foundations for wind turbines, construction of target access and temporary roads, construction of the electrical system of connections between windmill switchboards and GPO (Main Acceptance Point), construction of GPO, connection of GPO with 110kV switchgear, enabling power evacuation to the power system and construction of a superior wind farm control system together with the facility technical protection system.

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. 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.

In July 2021, a contract was concluded for design work related to the construction of the station in Warsaw. An application has been submitted to obtain an environmental decision for a station in Warsaw.

Design work on a bus prototype powered by hydrogen fuel cells

The project of the Polish Hydrogen Bus was launched in September 2020. The goal is to develop a new eco-friendly bus powered by hydrogen cells from scratch.

As part of the project, conceptual work and technical analysis of the selection of the main components of the bus (hydrogen cells, cylinders, batteries and drive) were carried out. Calculations were made to ensure the greatest overall energy efficiency in the designed bus. In order to achieve the maximum range, a modular construction of hydrogen cylinders with a pressure of 350 and 700 bar was developed.

As part of the construction work, a new bus design was designed, taking into account trends in ergonomics and modern appearance, dedicated to hydrogen-powered buses. On this basis, a prototype construction documentation of the bus was prepared.

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 October 2021, the construction of the prototype was completed and the bus tests began. Approval works are planned for the first quarter of 2022.

In May 2021, a project fiche (New Energy Program) was submitted to the National Fund for Environmental Protection and Water Management in order to obtain funding for the project. The fiche was positively assessed by the National Fund for Environmental Protection and Water Management, the company moved to the next stage - submission of the application.

On August 17, 2021, the Company received a positive decision by Agencja Rozwoju Przemysłu SA on support within the EURO-PARK MIELEC Special Economic Zone for the implementation of a new investment.

On September 29, 2021, PAK - PCE Polski Autobus Wodorowy sp. z o.o. purchased land in the Economic Activity Zone in Świdnik for the construction of the future hydrogen bus factory.

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".

The equipment necessary to create an autonomous power and heat supply model for a single-family house was purchased - a complete electrolyser system, hydrogen storage tanks, fuel cells, and a home photovoltaic power plant. Currently, the initial operation phase of the assembled autonomous power supply system intended for a single-family house is in progress.

Construction of a photovoltaic farm in the area of Przykona commune

Design works related to the construction of another photovoltaic farm with a rated power of approximately 180-200 MWp in the area of the Adamów open pit, located in the area of the Przykona commune are underway. On August 23, 2021, the resolution of the Commune Council of Przykona, regarding the Local Spatial Development Plan, entered into force, the adopted plan determines the allocation of the land for the construction of a photovoltaic power plant with accompanying infrastructure. Further administrative permits that will be necessary to obtain are the environmental decision and the conditions for connecting to the power grid.

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

Environmental decision for the hydrogen plant

On July 21, 2021 the Company received a decision on environmental conditions for the project consisting in the construction of a hydrogen production plant with accompanying infrastructure at Konin Power Plant.

The hydrogen production plant at Konin Power Plant is to be built on the basis of electrolysers with an electrolyte-polymer membrane ("PEM" technology). The first electrolyser has already been ordered by the Company and its delivery is expected at the end of the first half of 2022. Electricity used to operate the electrolyser will come 100% from a renewable energy source.

The plant will be constructed in modular (container) technology, which allows for its relatively simple expansion. The ordered electrolyser for the first stage of the task will have a capacity of 2.5 MW, which will allow for the maximum production of 1000 kg of hydrogen per day. In the event of a need for expansion, the granted environmental decision gives the possibility to increase the production of hydrogen to 20,000 kg per day. Water for the production of hydrogen will be supplied from the existing DEMI station in the power plant.

Co-financing from the European Union for the production of green hydrogen

In July 2021, the European Commission announced the results of the first call for proposals for grants awarded under the Innovation Fund. Among the 32 projects selected for co-financing, there was a project for the construction of a green hydrogen production facility submitted by ZE PAK SA. The project will receive a grant of approximately EUR 4.5 million in non-returnable funding. The conclusion of the co-financing agreement is planned in the fourth quarter of 2021.

The project implemented by the Company involves the construction of a system enabling the production and storage of green hydrogen intended for the needs of the transport sector. Hydrogen will be produced by two electrolyte and polymer membrane electrolysers (PEM – Proton Exchange Membrane) with a total capacity of 5MW, in which innovative

solutions will be implemented to increase their efficiency. The electrolyzers will be powered by energy from renewable energy sources, and the system will produce about 710 tons of green hydrogen per year.

It is expected that the project for producing hydrogen and its use in the transport sector will enable to avoid ca. 96 percent of greenhouse gas emissions compared to conventional technology.

Co-financing from the European Union will support ZE PAK SA in the implementation of investments in the production of green hydrogen. Their implementation is possible thanks to the decision on environmental conditions for the project consisting in the construction of a hydrogen production plant with accompanying infrastructure, previously issued for the Company by the President of Konin.

Acquisition of a wind project by PAK Polska Czysta Energia sp. z o.o.

On 18 August 2021 PAK PCE Sp. z o.o. has signed an agreement with KI Foundation, seated in Malta, for the purchase of 100% shares in the special purpose vehicle Farma Wiatrowa Kazimierz Biskupi Sp. z o.o. with its headquarters in Warsaw, which is implementing a project to build a wind farm.

The project provides for the construction of a wind farm consisting of 7 wind turbines with a total capacity of 17.5 MW, in Kazimierz Biskupi, in the immediate vicinity of Pątnów power plant. Favourable wind conditions in this region allow for estimation of the annual production of the farm at nearly 60 GWh. The project has a complete set of administrative and legal permits allowing the commencement of construction works and connection of the Farm to the network. The expected date of launching the Farm is the third quarter of 2023. The total capital expenditure related to the acquisition and implementation of the Farm will amount to nearly PLN 150 million. In 2019, the Farm won an auction for sale of electricity to renewable energy producers.

The acquisition of the Farm is the first step in the implementation of the development strategy of ZE PAK SA Capital Group in the area of wind energy and it contributes to the acquisition of competences in the area of project management in this field. The Company intends to implement wind energy projects on the basis of its own post-mining land resources, but it also does not exclude further acquisitions of external projects.

BAT conclusions enter into force

Commission Implementing Decision (EU) 2017/1442 of July 31, 2017 establishing the conclusions on the best available technology (BAT Conclusions - Best Available Technology) for large combustion plants has been in force since 18 August 2021, in accordance with the Directive of the European Parliament and of the Council 2010/75 / UE. Integrated permits for all currently operated combustion installations of ZE PAK SA have been adapted to the requirements of the BAT Conclusions, taking into account individual deviations from the emission limit values. The company operates in accordance with the permissible emission limits resulting from the IED Directive as well as the BAT Conclusions. Continuous emission monitoring systems, developed in accordance with the requirements of BAT 4, constitute the basis for the verification of compliance with the requirements of the Commission Implementing Decision (EU) 2017/1442 in the field of air pollutant emissions at ZE PAK SA.

Change of the local spatial development plan - Project of Przykona photovoltaic farm

On August 23, 2021, the Resolution No. 0007.272.2021 of the Municipal Council of Przykona on the local spatial development plan comes into force. This Resolution is significant for the Company because it concerns post-mining areas, currently owned by the Company's subsidiary, on which ZE PAK Group intends to build a photovoltaic farm.

The adopted spatial development plan, with regard to the land belonging to ZE PAK Group, determines the allocation of the land for the construction of a photovoltaic power plant together with all the required infrastructure. The available area allows for the construction of a farm with a capacity of approximately 180-200 MWp. The intention of the Company is to implement the project in a separate special purpose vehicle.

The construction project of a photovoltaic farm in Przykona would be another large photovoltaic project implemented by ZE PAK Group. Based on the experience from the implementation of Brudzew project, the company estimates that the construction period for Przykona farm will be around 15 months (from obtaining a complete set of formal and legal approvals), while the capital expenditure for Przykona farm will amount to approximately PLN 500 million.

Conclusion of a cooperation agreement with MS Innovation Impulse GMBH

On August 31, 2021 the Company signed a cooperation agreement with MS Innovation Impulse GMBH with its seat in Vienna, Austria, in the presence and participation of Argumenol Investment Company Limited with its seat in Cyprus and Synthos Green Energy Spółka Akcyjna with its seat in Warsaw (SGE).

On the basis of the Agreement, the Parties intend to undertake mutual cooperation by establishing a joint entrepreneur (SPV), operating in the field of nuclear energy, consisting particularly in the construction of generation sources based on

the SMR (Small Modular Reactor) technology in Pałnów area, where the Company is currently operating its activity in the field of electricity generation from lignite.

The intention of the Parties is the disposal or the contribution of assets to the SPV in the form of an organized part of the enterprise (ZCP) related to the generation of electricity at Pałnów Power Plant, completion of the current activity consisting in the production of energy from lignite (maintaining obligations in this regard), and then developing the project of construction and operation of SMR based on SPV

As a rule, the Parties will finance the activities of the SPV in equal parts, corresponding to the share in the share capital, at every stage of the SPV's activity, i.e. at the stage of conducting and then liquidation of activities based on lignite combustion, at the stage of preparing the land for the investment process, as well as at the stage of the investment process consisting in the construction of SMR units. The parties will also jointly exploit the units.

SGE, as a party to the contract concluded with GE Hitachi Nuclear Energy Americas LLC, based in Wilmington in the USA (GEH) regarding, in particular, the exclusivity of SGE for the implementation of GEH technology in Poland, undertook to provide SPV with the possibility of using the GEH technology, if as part of the project, the Parties decide to use this technology.

Simultaneously, the Parties proceed with the preparation of the final version of the Joint Venture Agreement in order to agree on further details of cooperation and implementation of the joint project.

The transaction related to the establishment of the SPV will be subject to the fulfilment of the following precedent conditions:

- Issuance by the competent authority of unconditional protection of competition, decision granting the Parties with the consent to the transaction or the expiry of the statutory deadline within which the competent competition authority should issue a decision approving the transaction, and after that date, the consent is deemed to have been issued under the law;
- Adoption of a resolution by the Extraordinary General Meeting of the Company on the disposal of ZCP.

Change of the Company's name

On September 30th, 2021 the District Court Poznań - Nowe Miasto and Wilda in Poznań, IX Commercial Division of the National Court Register registered the amendments the Articles of Association adopted by the Ordinary General Meeting of Shareholders of ZE PAK SA on June 28th, 2021, consisting in the amendment of the Company's name from Zespół Elektrowni Pałnów-Adamów-Konin Spółka Akcyjna to ZE PAK Spółka Akcyjna, giving § 1 item 1 of the Company's Articles of Association the following new wording: „The name of the Company is: ZE PAK Spółka Akcyjna”.

The change concerns only the name of the Company, all other data have not changed.

Significant events after the balance sheet date

Conclusion of a Letter of Intent with Orsted Wind Power

On October 14, 2021 the Company signed a Letter of Intent with Orsted Wind Power A/S with its seat in Fredericia, Denmark.

The intention of the Parties is the implementation and development of wind farm projects in the maritime areas of the Republic of Poland. The cooperation will be developed through joint ventures in which both parties will own 50% of shares. The parties plan to jointly prepare and submit applications for the issuance of permits for the construction and use of artificial islands, structures and devices in the maritime areas of the Republic of Poland for offshore wind farm projects in the upcoming deciding procedure, conducted in accordance with Art. 27d et seq. of the Act of March 21, 1991 on the maritime areas of the Republic of Poland and maritime administration.

The parties intend to define the terms of cooperation in the partnership agreement, which is the subject of negotiations, and in other agreements to be negotiated and concluded in the performance of the agreement.

Start-up of the Photovoltaic Farm in Brudzew

On October 27, 2021, a solar farm with a capacity of 70 MWp started operating in the Brudzew commune. The value of the investment was nearly PLN 164 million net.

The farm consists of 155 thousand photovoltaic modules with a capacity of 455 Wp each and covers about 100 ha of land. Until recently, it was an area used by Adamów Lignite Mine for opencast lignite mining. The contractor of the project was a consortium of Esoleo sp. z o.o. and PAK Serwis sp. z o.o. An investment loan agreement was signed to finance the construction of the farm with a consortium of banks composed of: Pekao SA, PKO BP SA and mBank SA. PAK - PCE

Fotowoltaika sp. z o.o., the special purpose vehicle implementing the project has signed a 15-year contract with Polkomtel sp. z o.o. for the sale of the entire volume produced by the farm with the option of extending the contract for another 5 years.

November 10, 2021 PAK-PCE Fotowoltaika sp. z o.o. obtained a license to generate electricity. The license was granted by the President of the ERO for the period from November 10, 2021 to December 31, 2040.

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

ZE PAK SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the third quarter of 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 KWBK 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>	33 523 911	65,96
Nationale – Nederlanden OFE	4 503 242	8,86
OFE PZU „Złota Jesień”	4 635 719	9,12

The structure of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes as at the date of submitting this quarterly report differs from the 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

<i>Name</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting this report</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting the previous report</i>
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

<i>Name</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting this report</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting the previous report</i>
Zygmunt Solorz	0	0
Wiesław Walendziak	0	0
Tomasz Szelaąg	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

ZE PAK 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 third quarter of 2021.

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

ZE PAK SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the third quarter of 2021.

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

On August 5, 2021, ZE PAK SA granted a surety to KI Foundation in the amount of EUR 756 thousand for the liabilities of a subsidiary of the Capital Group, i.e. PAK Polska Czysta Energia sp. z o.o., resulting from the contract for the sale of shares in Farma Wiatrowa Kazimierz Biskupi sp. z o.o., signed on August 5, 2021 between KI Foundation, PAK Polska Czysta Energia sp. z o.o. and ZE PAK SA.

PAK Polska Czysta Energia sp. z o.o. granted the following loans to companies in the Capital Group:

- on August 5, 2021 for Kazimierz Biskupi Wind Farm sp. z o.o. in the amount of PLN 1.4 million with the repayment date on June 1, 2022 (as a result of subrogation in accordance with the Agreement for the sale of shares of August 5, 2021 between KI Foundation, PAK Polska Czysta Energia sp. z o.o. and ZE PAK SA). The loan was intended to finance the current operations of Kazimierz Biskupi Wind Farm sp. z o.o.;
- on August 5, 2021 for Kazimierz Biskupi Wind Farm sp. z o.o. in the amount of PLN 1.344 million with the repayment date on November 28, 2021 (as a result of subrogation in accordance with the Agreement for the sale of shares of August 5, 2021 between KI Foundation, PAK Polska Czysta Energia sp. z o.o. and ZE PAK SA). The loan was intended to finance the current operations of Kazimierz Biskupi Wind Farm sp. z o.o.;
- on August 5, 2021 for Kazimierz Biskupi Wind Farm sp. z o.o. in the amount of PLN 2 million with the repayment date on December 28, 2022 (as a result of subrogation in accordance with the Agreement for the sale of shares of August 5, 2021 between KI Foundation, PAK Polska Czysta Energia sp. z o.o. and ZE PAK SA). The loan was intended to finance the current operations of Kazimierz Biskupi Wind Farm sp. z o.o.;
- on August 5, 2021 for Kazimierz Biskupi Wind Farm sp. z o.o. in the amount of PLN 450 thousand with the repayment date on March 9, 2022 (as a result of subrogation in accordance with the Agreement for the sale of shares of August 5, 2021 between KI Foundation, PAK Polska Czysta Energia sp. z o.o. and ZE PAK SA). The loan was intended to finance the current operations of Kazimierz Biskupi Wind Farm sp. z o.o.;
- on September 14, 2021 for PAK – PCE OZE 1 sp. z o.o. in the amount of PLN 350 thousand with the repayment date on June 30, 2022. The loan was intended to finance the current operations of PAK – PCE OZE 1 sp. z o.o.;
- on September 14, 2021 for PAK – PCE OZE 2 sp. z o.o. in the amount of PLN 640 thousand with the repayment date on June 30, 2022. The loan was intended to finance the current operations of PAK – PCE OZE 2 sp. z o.o.;
- on September 16, 2021 for PAK - PCE Polski Autobus Wodorowy sp. z o.o. in the amount of PLN 14 million with the repayment date on June 30, 2022. The loan was intended to finance the current liabilities of PAK – PCE Polski Autobus Wodorowy sp. z o.o. resulting from the project regarding the design and construction of hydrogen bus;

- on September 16, 2021 for Kazimierz Biskupi Wind Farm sp. z o.o. in the amount of PLN 3.5 million with the repayment date on June 30, 2022. The loan was intended to finance the current operations of Kazimierz Biskupi Wind Farm sp. z o.o.;
- on September 28-30, 2021 for PAK KWB Konin SA in the amount of PLN 85 million with a repayment date on January 31, 2022. The loan was used to finance the current operations of PAK KWB Konin SA. The loan repayment is secured by the contract for the transfer of ownership of PAK KWB Konin real estate, on which the Group's renewable energy investments will be implemented.

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

In the third 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 Pątnów II;
- seasonality and meteorological conditions;
- investment expenses;
- EUR/PLN exchange rate and interest rates level.

Moreover, an important factor that may have a significant impact on the financial results in the coming quarters may be the results of tests for impairment of assets, if there are premises for their performance. 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

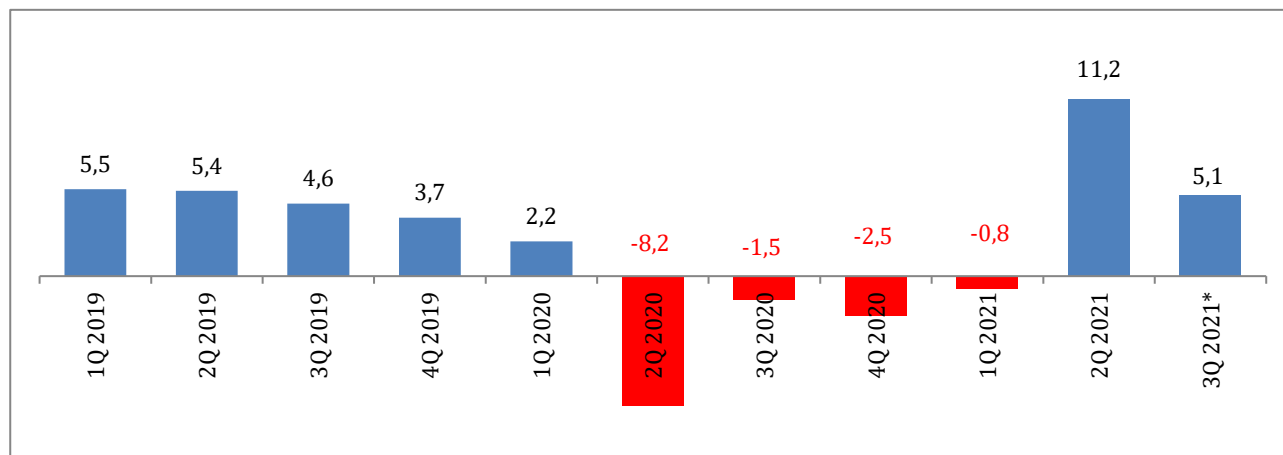
When conducting activities within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, 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 third quarter of 2021, increased in real terms by 5.1% year-on-year, compared to a decrease of 1.5% in the corresponding period of 2020.

In the third quarter of 2021, seasonally adjusted GDP (constant prices at the reference year 2015) increased in real terms by 2.1% compared to the previous quarter and was higher by 5.3% than in the previous year.

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 the third quarter of 2021 is prepared, which will be published on November 30, 2021.

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

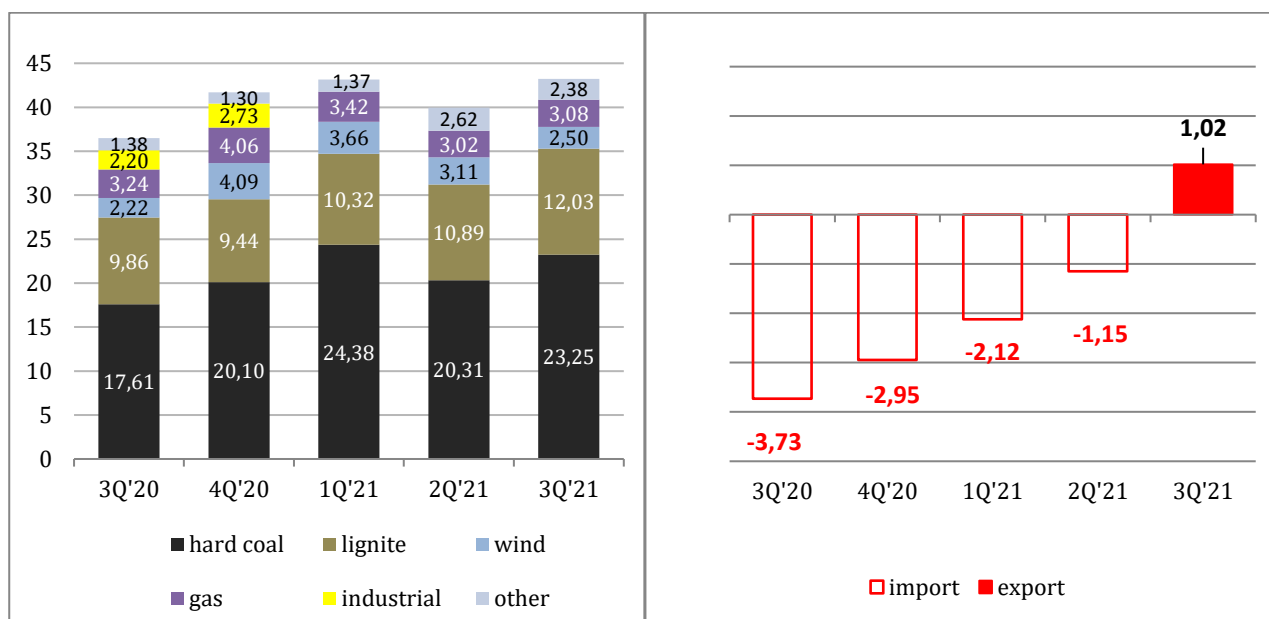


* The so-called quick estimate of gross domestic product in the third quarter of 2021, seasonally unadjusted, at constant average annual prices of the previous year.

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 third quarter of 2021 amounted to 42.22 TWh and increased by 4.95% compared to the third quarter of the previous year. In the third quarter of 2021, gross electricity production amounted to 43.24 TWh, which means an increase by 18.47% 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 23.25 TWh. Compared to the third quarter of 2020, this means an increase by 5.64 TWh, i.e. 32.03%. 12.03 TWh was produced from lignite, which is an increase of 2.17 TWh, or 22.01% compared to the third quarter of the previous year. Production in wind farms was at a comparable level as in the previous year and amounted to 2.50 TWh, i.e. approximately 0.3 TWh less compared to the same period last year. Gas power plants produced 3.08 TWh, i.e. 0.16 TWh, or 4.94% less than in the corresponding period of the previous year. The balance of foreign exchange in the third quarter of 2021 amounted to 1.02 TWh on the export side. This means that in the third quarter of 2021, as part of trade, Poland exported more electricity than it imported, which can be attributed to high energy prices on European markets. The scale of changes that took place this year in cross-border electricity trade is very well shown by data for 9 months of 2021 compared to 9 months of 2020. According to PSE SA data, the balance of foreign exchange in the first 9 months of 2021 amounted to 2.25 TWh on the import side, which means that import decreased by as much as 78.08%. It is worth adding that there was an almost 150% increase in energy produced by renewable sources other than wind energy, mainly by photovoltaic sources.

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.

Among significant factors that may affect the financial results of ZE PAK SA there 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 of the Capacity market has also started operating, which enables the Company to take over capacity obligations from other power suppliers in terms of free, uncontracted capacity. In the context of the capacity market, the legislative events that took place during the second quarter of this year are particularly important. In the previous reporting period, the parliament adopted the amendment to the Energy Law of April 10, 1997, which was processed from December 2020, as a result of which the Act of December 8, 2017 on the capacity market was also amended. In June, another draft amending the Polish capacity market was also being processed independently - the government draft act amending the act on the capacity market and certain other acts. Both amendments are the result of an analysis of the previous experience with the functioning of the capacity market and introduce numerous improvements, clarifications and modifications, and above all, they adjust the capacity market to the provisions of the EU, the so-called market regulation. The most important change introduced by the amendments is the closing of the possibility, starting from 2026, of participation in the capacity market auctions by generating units that do not meet the CO₂ emission limit, the so-called EPS550. Generation units that started commercial operations before July 4, 2019 and do not meet the emission limit will have the opportunity to participate in the secondary market, enabling reservations for long-term contracts concluded by the end of 2019. Among other significant changes from the point of view of the future financial results of ZE PAK SA, there may also be statutory changes in the area of monitoring the implementation of investments for entities with long-term contracts on the capacity market, which may be important from the point of view of investments in the construction of new generating units under contracts on the capacity market. Modifications to the provisions relating to the secondary market may also be important - including the possibility of transferring the capacity obligation to another unit of the capacity supplier and the exclusion from the application of the provisions of the Public Procurement Law to contracts relating to secondary trading in the capacity obligation.

On October 6, 2021, a positive judgment for Poland in the case T-161/19 Tempus Energy vs EC regarding the Polish capacity market was announced, which means that this mechanism will remain an element stabilizing the revenues of producers in accordance with the decision approving the EC C (2018) 601 final on February 7, 2018.

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.

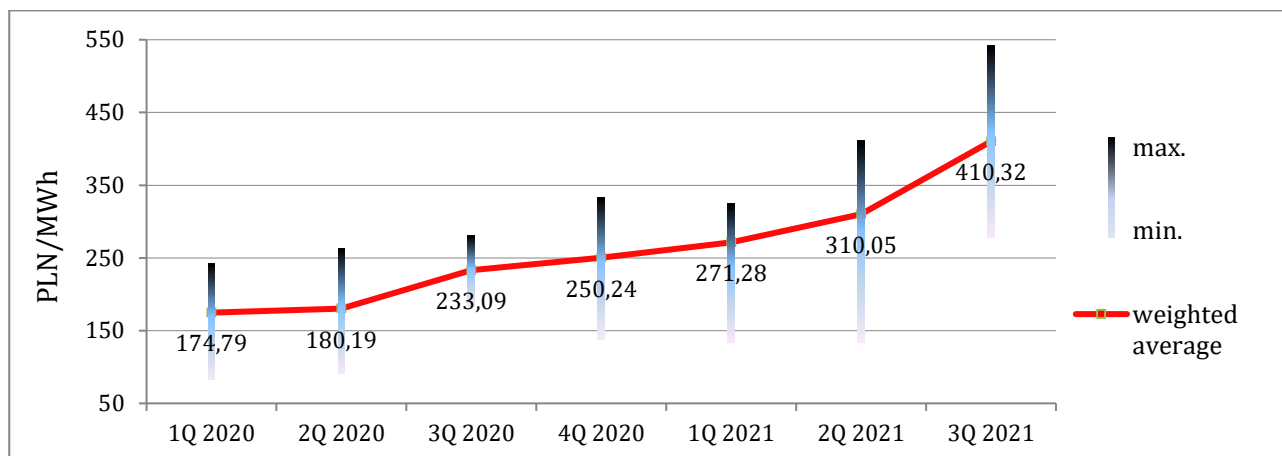
Another important event in the broadly understood regulatory environment, which has a significant impact on energy prices on the day-ahead market at TGE SA, was the launch of the Interim Coupling project on June 17, 2021, which extends the Market Coupling (Poland, Sweden, Lithuania) implemented at TGE SA by new Countries. The Interim Coupling project aims to connect the borders of the participating countries - to connect the Czech, Slovak, Hungarian and Romanian markets with the pan-European Multi-Regional Coupling (MRC) area by introducing an implicit capacity allocation based on net transfer capacity (NTC) at six borders, i.e. Poland-Germany, Poland-Czech Republic, Poland-Slovakia, Czech Republic-Germany, Czech Republic-Austria and Hungary-Austria. The project is a step towards creating one common European market.

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.

On the Day-Ahead Market at TGE S.A. the upward trend that started in the second quarter of 2020 continues. The weighted average from the TGeBASE indices for the third quarter was PLN 410.32 / MWh with a maximum of PLN 541.57 / MWh on September 14, 2021. The price increases were dictated by the high demand for energy. The strong increases at the end of the third quarter of 2021, despite the recorded lower turnover, were influenced by many factors, including: lower than expected production from wind generation, unstable situation related to gas supplies in Europe and an increase in the prices of this fuel, increase in coal prices, dynamic price situation on the market of CO2 emission allowances, ongoing renovation campaign and unplanned shutdowns of power units, as well as exports of electricity by Poland.

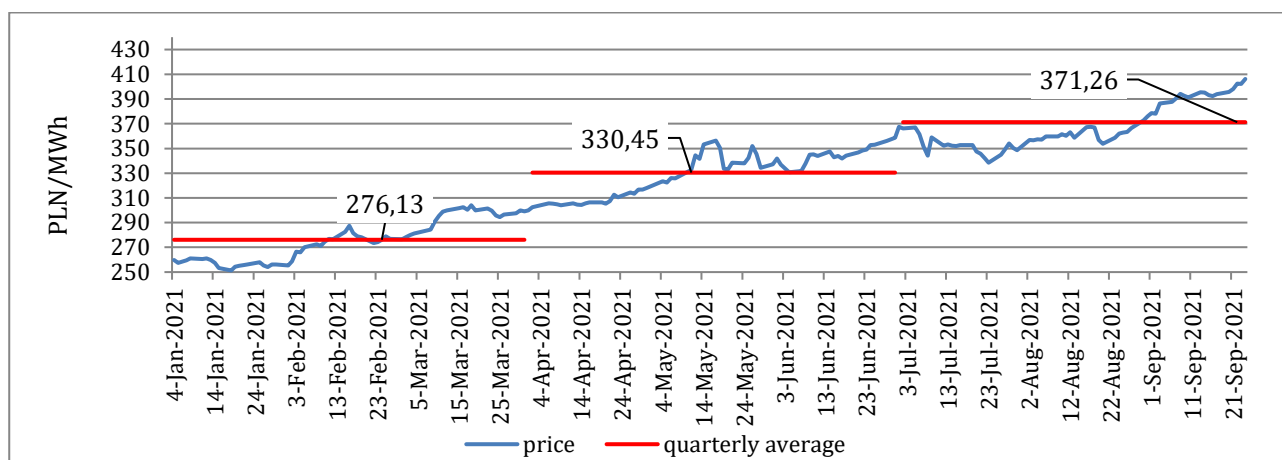
Chart 9: Electricity prices (TGeBASE)¹



Source: Own elaboration based on TGE data

On the electricity futures market at TGE SA, the third quarter of 2021, like the entire first half of 2021, was in a strong upward trend on the BASE_Y-22 product. The arithmetic mean of the daily clearing rates for the reference futures contract BASE_Y-22 was at the level of PLN 371.26 / MWh by the end of the third quarter of 2021 (the highest price was PLN 432.70 / MWh on September 29, 2021). The stronger increases in the third quarter of 2021, not only in the presented annual contract, but also in other forward products on the electricity futures market, were stimulated, among others unstable gas situation in Europe, and thus strong price increases on the gas markets. In addition, the continued surge in CO2 emission allowances contributes to the surge in quotations on the futures market, as well as on the TGE SA Day-Ahead and Intra-Day Market.

Chart 10: The price of the futures contract for the supply of electricity (band) for 2022



Source: Own elaboration based on TGE data

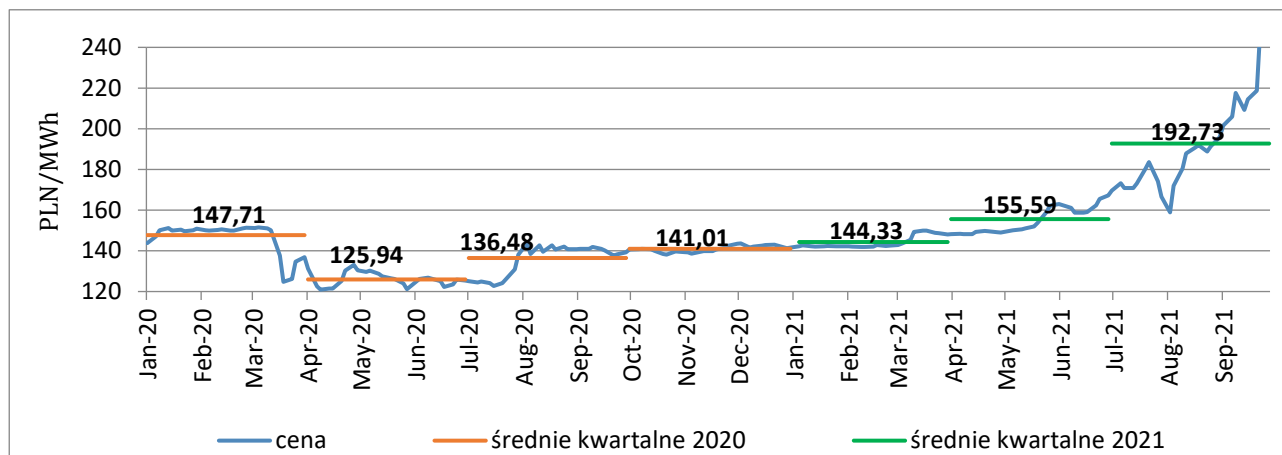
11.4. Prices supply of certificates of origin

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 allows to sale certain amounts 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

¹ In June 2019, TGE SA liquidated the IRDN index, currently the base reference index is the TGeBase index

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

From the beginning of 2021, an upward price trend has been observed on the Property Rights Market. The highest price increase occurred in the third quarter of 2021. The weighted average price of green certificates in session transactions on TGE SA for three quarters of 2021 was PLN 164.43 / MWh, which means an increase by PLN 26.22 / MWh compared to the price for three quarters of 2020, i.e. PLN 138.21 / MWh (144.33 PLN / MWh weighted average price in the first quarter of this year and 155.59 PLN / MWh weighted average price in the second quarter of this year and 192.73 PLN / MWh weighted average price in the third quarter of this year). In the first month of this year, the average price of green certificates in session trading was still PLN 142.28 / MWh and was lower than the price at the end of the third quarter by PLN 84.25 / MWh (the weighted average price in September 2021 was PLN 226.53 / MWh). The price increases were probably due to the decrease in their supply on the market, as in 2020 some entities ended 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 emergence of a draft regulation setting the RES obligation for 2022 at an unchanged level of 19.5% additionally contributed to the increase in prices. This obligation is of key importance for shaping the demand for green certificates, which constitute one of the two sources of income - apart from electricity sales - affecting the profitability of investments in renewable energy implemented in the system of certificates of origin. Ultimately, however, after consulting this proposal, the Ministry of Climate and Environment decided to reduce the RES obligation for 2022 to 18.5%. Another factor that may affect the increase in the prices of green certificates may be the inability to meet this obligation by the obliged entities through the so-called substitute fee (information from the President of ERO 5/2021 and 45/2021).

11.5. Extraction and supply costs of coal and other fuel

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 specific abundance, which is estimated on the basis of research, and the estimates are updated along with the progress of extraction and knowledge of the deposit structure. The possibility of achieving the assumed level of electricity production depends on the extraction capacity and the quality of coal mined in

the deposits currently in operation. It should be taken into account that the estimated abundance of deposits, especially those in the final stage of their exploitation, may differ from their actual abundance.

In the coming years, the company intends to gradually reduce its sensitivity to the costs of extraction and the abundance of coal deposits by implementing the directions of the strategy assuming abandoning energy generation 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.

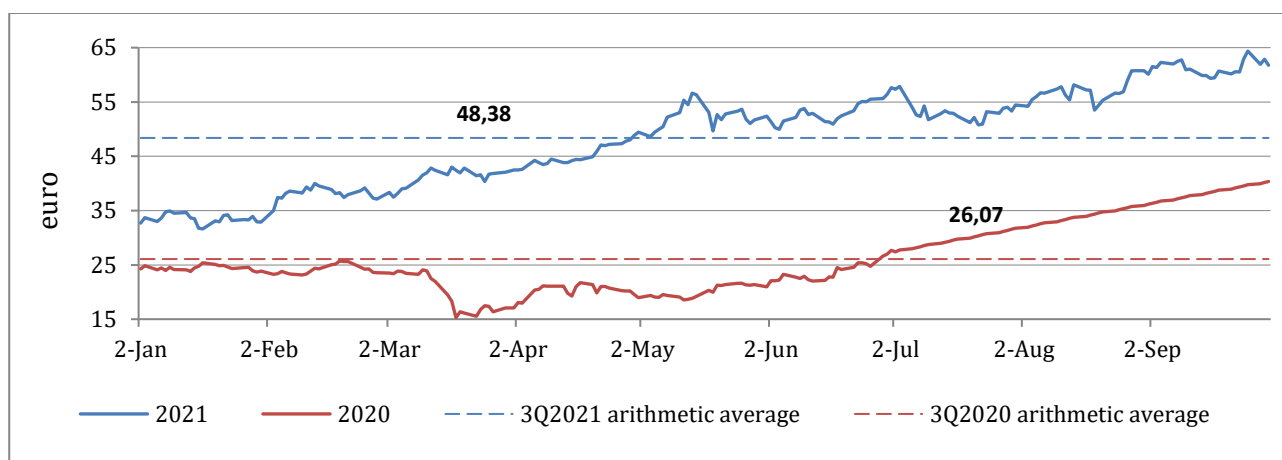
11.6. CO₂ emission allowances costs

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 received a small 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 have been purchased on the secondary market.

The third quarter of 2021 began with strong increases in the prices of CO₂ emission allowances. EUA prices approached EUR 58.00, setting new value records. The price increase was stimulated by rising gas prices on exchanges and expectations regarding the publication of the "Fit for 55" package (EP document updating the European Green Deal, the main assumption is to reduce emissions by 55% compared to 1990). In August, the amount of EUA allowances was 50% lower due to the holiday period. EUA prices in August ranged from EUR 53 to EUR 60. The growth in EUA prices was supported by dynamic increases in the markets of energy resources: gas, coal and electricity. September was a continuation of the upward trend in the prices of CO₂ emission allowances. The prices were in the range of 59.00-65.00 EUR / EUA. The arithmetic mean of the EUA quotations during the nine months of 2021 was EUR 43.38, while in the same nine months of 2020 - EUR 26.07, which means an increase by EUR 17.31 (more than 66% increase).

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 Pątnów (former Elektrownia Pątnów II sp. z o.o.)

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Pątnów 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 Pątnów 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 third quarter of 2021 was not a key factor in the Group's operations.

11.9. Investment expenses

Activities in the mining and electricity generating sectors 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, production and use of hydrogen as well as other potential investments, 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 has financial liabilities, mainly credits and loans with variable interest rates. The Group's exposure to the risk of changes in interest rates relates mainly to long-term financial liabilities related to the financing of investments in ZE PAK SA and PAK - PCE Fotowoltaika sp. z o.o. In order to minimize the interest rate risk, the Group has entered into interest rate swaps (interest rate swaps) under which it agrees to exchange, at specified intervals, the difference between the amount of fixed and floating interest rates on the agreed principal amount. These transactions are intended to secure contracted financial liabilities and concern 50% of the syndicated loan PAK - PCE Fotowoltaika sp. z o.o. for the construction of Brudzew photovoltaic farm and a 50% investment loan from ZE PAK SA for the modernization of the K7 boiler at Konin Power Plant, based on the variable WIBOR rate. IRS instruments were used to hedge.

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, 26 November 2021

SIGNATURES:

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Vice President of the Management Board

Maciej Nietopiel
Vice President of the Management Board

Andrzej Janiszowski
Vice President of the Management Board

Katarzyna Sobierajska
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