

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

**MANAGEMENT BOARD'S REPORT FROM THE OPERATION OF THE CAPITAL  
GROUP IN THE 1<sup>ST</sup> HALF OF 2021**

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

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## 1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Złoty thousand</i>	<i>Złoty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>6 months 2021 period from 01.01.2021 to 30.06.2021</i>	<i>6 months 2020 period from 01.01.2020 to 30.06.2020</i>	<i>6 months 2021 period from 01.01.2021 to 30.06.2021</i>	<i>6 months 2020 period from 01.01.2020 to 30.06.2020</i>
Sales revenue	985 718	1 050 461	216 775	236 521
Operating profit/loss	15 600	(308 605)	3 431	(69 485)
Profit/loss before tax	10 443	(314 463)	2 297	(70 804)
Net profit/loss for the period	19 989	(260 832)	4 396	(58 729)
Net profit attributable to equity holders of the parent	19 989	(257 514)	4 396	(57 982)
Total comprehensive income	19 905	(260 915)	4 377	(58 747)
Net cash flow from operating activities	(364 131)	(206 947)	(80 078)	(46 596)
Net cash flow from investing activities	(253 756)	(14 598)	(55 805)	(3 287)
Net cash flow from financing activities	205 280	(4 180)	45 144	(941)
Net increase / (decrease) in cash and cash equivalents	(412 607)	(225 725)	(90 739)	(50 824)
Net profit per share (in zloty/euro per share)	0,39	(5,07)	0,09	(1,14)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.06.2021</i>	<i>As at 31.12.2020</i>	<i>As at 30.06.2021</i>	<i>As at 31.12.2020</i>
Total assets	2 802 440	2 878 628	619 899	623 782
Fixed assets	2 000 406	1 857 355	442 489	402 478
Current assets	802 034	1 021 273	177 410	221 304
Total equity	969 359	949 463	214 422	205 743
Share capital	101 647	101 647	22 484	22 026
Share capital attributable to equity holders of the parent	969 359	951 214	214 422	206 122
Total liabilities	1 833 081	1 929 165	405 477	418 039
Long-term liabilities	1 002 272	861 085	221 702	186 592
Short-term liabilities	830 809	1 068 080	183 775	231 447
Book value per share (in zloty/euro per share)	19,07	18,68	4,22	4,05
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP  
MANAGEMENT BOARD'S REPORT FROM THE OPERATION OF THE CAPITAL GROUP IN THE 1<sup>ST</sup> HALF OF 2021

<i>Selected financial data of ZE PAK SA</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>6 months 2021 period from 01.01.2021 to 30.06.2021</i>	<i>6 months 2020 period from 01.01.2020 to 30.06.2020 (transformed data)</i>	<i>6 months 2021 period from 01.01.2021 to 30.06.2021</i>	<i>6 months 2020 period from 01.01.2020 to 30.06.2020</i>
Net revenues from sales of products, goods and materials	898 509	872 411	197 596	196 431
Operating profit/loss	40 255	(128 459)	8 853	(28 924)
Profit/loss before tax	33 901	(247 646)	7 455	(55 760)
Net profit/loss for the period	48 378	(201 391)	10 639	(45 345)
Net cash flow from operating activities	(452 169)	(138 352)	(99 439)	(31 151)
Net cash flow from investing activities	(122 124)	(24 842)	(26 857)	(5 593)
Net cash flow from financing activities	146 762	(326)	32 275	(73)
Net cash flow together	(427 531)	(163 520)	(94 021)	(36 818)
Net profit per share (in zloty/euro per share)	0,95	(3,96)	0,21	(0,89)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.06.2021</i>	<i>As at 31.12.2020</i>	<i>As at 30.06.2021</i>	<i>As at 31.12.2020</i>
Total assets	2 299 404	2 451 709	508 628	531 271
Fixed assets	1 539 709	1 497 850	340 583	324 575
Current assets	759 695	953 859	168 044	206 696
Equity	1 325 545	1 277 167	293 210	276 755
Share capital	101 647	101 647	22 484	22 026
Liabilities and provisions for liabilities	973 859	1 174 542	215 417	254 516
Long-term liabilities	82 423	2 648	18 232	574
Short-term liabilities	324 535	175 443	71 787	38 017
Book value per share (in zloty/euro per share)	26,08	25,13	5,77	5,45
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1 January 2021 to 30 June 2021, which is 4.5472 EUR/PLN and from 1 January 2020 to 30 June 2020, which is 4.4413 EUR/PLN;*
- particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of 30 June 2021, which is 4.5208 EUR/PLN and as of 31 December 2020, which is 4.6148 EUR/PLN.*

## 2. DESCRIPTION OF THE GROUP

### 2.1. Basic information

As of 30 June 2021 ZE PAK SA Capital Group (hereinafter referred to as the „Group”, „Capital Group”, „ZE PAK SA Group”) is composed of a dominant entity Zespół Elektrowni Pańńów – Adamów – Konin SA and fourteen subsidiaries, i.e. PAK Kopalnia Węglu Brunatnego Konin SA (hereinafter referred to as „PAK KWB Konin SA”), PAK-Polska Czysta Energia sp. z o.o. (hereinafter referred to as „PAK-PCE sp. z o.o.”), PAK-PCE 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., Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o. (hereinafter referred to as „PAK Serwis” sp. z o.o.), PAK – Volt SA, PAK Górnictwo sp. z o.o., PAK Kopalnia Węglu Brunatnego Adamów SA in liquidation (hereinafter referred to as „PAK KWB Adamów SA in liquidation ”) and Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

The companies of the biggest importance for the Group due to their current scale of activity are: ZE PAK SA, dealing with production of electricity and heat and PAK KWB Konin SA, dealing with the lignite mining. 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. Pańńów Power Plant produces energy using lignite in 4 power units with a total capacity of 1,118 MW. Konin Power Plant, a former coal-fired power plant, today mainly uses a block with a boiler dedicated to burning biomass with an installed capacity of 50 MW and produces electricity and heat from biomass. Currently, Konin power plant is modernizing the second unit, which will also be adapted to biomass combustion.

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

Majority of the Group's sales revenue is derived from sale of electricity 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 Pańńów power plant with an access to uninterrupted lignite supplies for own production installations located in the immediate vicinity of the mines. The vertically integrated Group enables optimization of coal inventories and supplies by coordinating coal mining with the demand for this fuel. The demand for biomass is covered on the basis of contracts concluded with suppliers.

For many years, the Group operated on the basis of a business profile focusing on the production of electricity from lignite mined in nearby open-pit mines. However, this business model has limited chances of development in the future, given the pressure on high-carbon energy producers. Increasingly higher costs of CO<sub>2</sub> emissions and the conditions related to the emission of other substances (NO<sub>x</sub>, SO<sub>2</sub>, dust, mercury, etc.) make the Group decide to focus its future activities in the area of renewable energy sources and the use of green hydrogen. 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.

The structure of ZE PAK SA Group as at June 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.

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 June 30, 2021

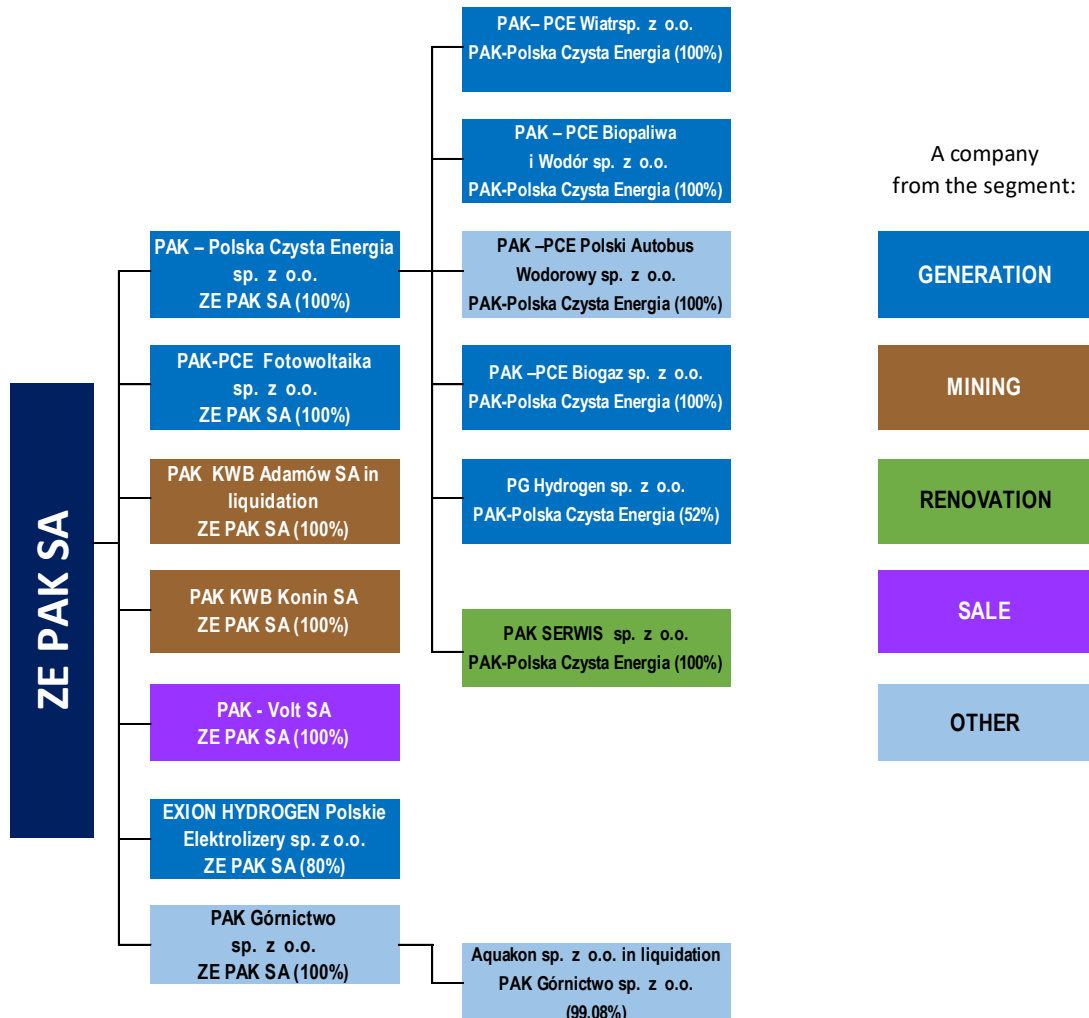


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			As at 30 June 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%*
„PAK-Volt” SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100,00%	100,00%
„PAK-PCE Polski Autobus Wodorowy” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production of buses	100,00%*	100,00%*

„PAK-PCE Fotowoltaika” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%	100,00%
„PAK-PCE Biogaz” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	100,00%*
„PAK-PCE Biopaliwa i Wodór” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	100,00%*	100,00%*
„PAK-PCE Wiatr” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100,00%*	100,00%*
„PG Hydrogen” sp. z o.o.	02-673 Warszawa ul. Konstruktorska 4	Manufacture of engines and turbines, except aircraft, car and motorcycle engines	52,00%*	52,00%*
„PAK Kopalnia Węgla Brunatnego Adamów” SA in liquidation	62-700 Turek Warenka 23	Lignite mining	100,00%	99,35%*
„Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	99,08%*	96,20%*
„Exion Hydrogen Polskie Elektrolizery” sp. z o.o.	04-028 Warszawa Al. Stanów Zjednoczonych 61	Design and production of electrolysers	80,00%	-

\* 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 April 23, 2021, the Company acquired 80% of shares in Exion Hydrogen Polskie Elektrolizery sp. z o.o. The company is going to be intended to start operations in the area of electrolyser design and production.

On August 16, 2021, PAK Polska Czysta Energia sp.z o.o. acquired shares in 6 companies - 95% of shares in each of them (these are companies named 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. and PCE-OZE 6 sp. z o.o.). Ultimately, these companies will carry out investment projects related to renewable energy sources, using the assets currently owned by the Group.

On August 18, 2021, also PAK PCE sp. z o.o. acquired 100% of shares in the special purpose vehicle Farma Wiatrowa Kazimierz Biskupi sp. z o.o., which is implementing a project to build a wind farm in Kazimierz Biskupi.

### 2.4. Composition of the Management Board

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

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

On March 2, 2021, the Supervisory Board of the Company appointed Ms. Katarzyna Sobierajska to the Management Board, entrusting her with the position of the Vice President of the Management Board.

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

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

### 3. SIGNIFICANT EVENTS AFFECTING THE GROUP'S ACTIVITY

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

##### Short description of the achieved financial results

In the first half of 2021, total sales revenues amounted to PLN 985 718 thousand and decreased by PLN 64 743 thousand, i.e. 6.16% compared to the first half of 2020.

In the first half of 2021, a 16.61% decrease in the volume of electricity sales was recorded. In the case of the sale of electricity from own production, a decrease was recorded, it amounted to 19.48%, while the sale of purchased energy decreased by 8.54% compared to the same period of the previous year. The decrease in production was mainly related to the 474 MW unit (former Pańków II power plant), which in March was put off for the planned renovation. The decrease in production was also caused by lower coal extraction in the mines supplying the Company at the beginning of the year, which prevented the optimal use of production sources. The net production volumes of individual power plants of the Group are presented in Figure 3. Apart from the lower production volume, the decrease in revenues from the sale of electricity was influenced by the reduction of its price by 1.19%.

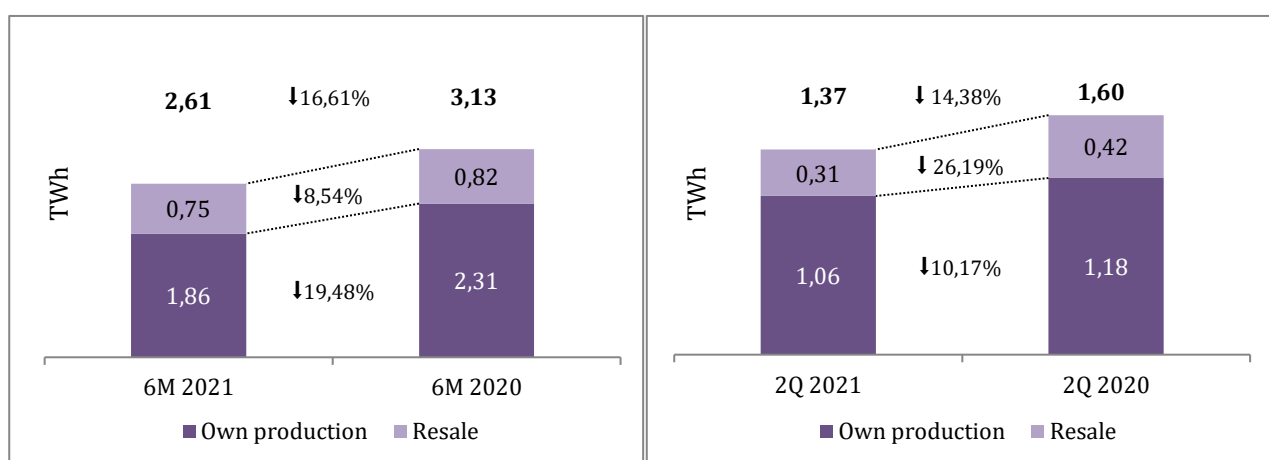
In the first half of 2021, compared to the first half of 2020, revenues from the sale of property rights from energy origin certificates increased by PLN 6 678 thousand, i.e. by 26.91% as a result of a higher green energy production volume and a higher average property rights prices.

Revenues from the termination of LTCs (long-term contract for the sale of power and electricity) in the first half of 2021 amounted to PLN 77,612 thousand (including an advance payment of PLN 46,176 thousand and an adjustment of PLN 31,435 thousand), while in the first half of 2020 they amounted to PLN 98,836 thousand (including an advance of PLN 48,085 thousand and an adjustment of PLN 50,751 thousand). The decrease in LTC revenues in the first half of 2021 by 21.47% was mainly due to a 38% lower adjustment and a 4% lower advance payment compared to the corresponding period of 2020. This level of adjustment is the result of a higher operating result compared to the first half of 2020, mainly due to revenues from the provision of power services on the primary and secondary markets for the first time in 2021, lower operating costs as a result of producing a lower energy volume due to 40-day medium repair. On the other hand, the level of the advance payment results directly from the LTC Act and in 2021 it is assumed to decrease slightly compared to 2020.

Revenue from construction contracts in the first half of 2021 increased by PLN 2,063 thousand, i.e. by 12.05%, compared to the revenue earned in the corresponding period of the previous year.

Revenues from the sale of heat in the first half of 2021 amounted to PLN 28,672 thousand and were higher than in the first half of 2020 by PLN 2,102 thousand, i.e. 7.91%. The increase in revenues from the sale of heat resulted from a higher sales volume and price compared to the same period of the previous year.

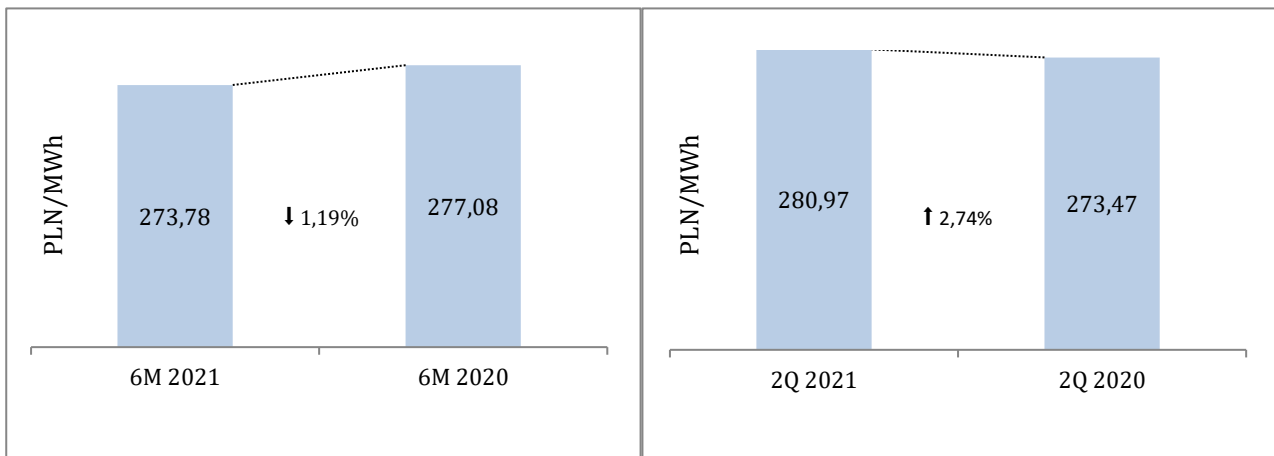
Chart 1: Electricity sale



Source: Internal data



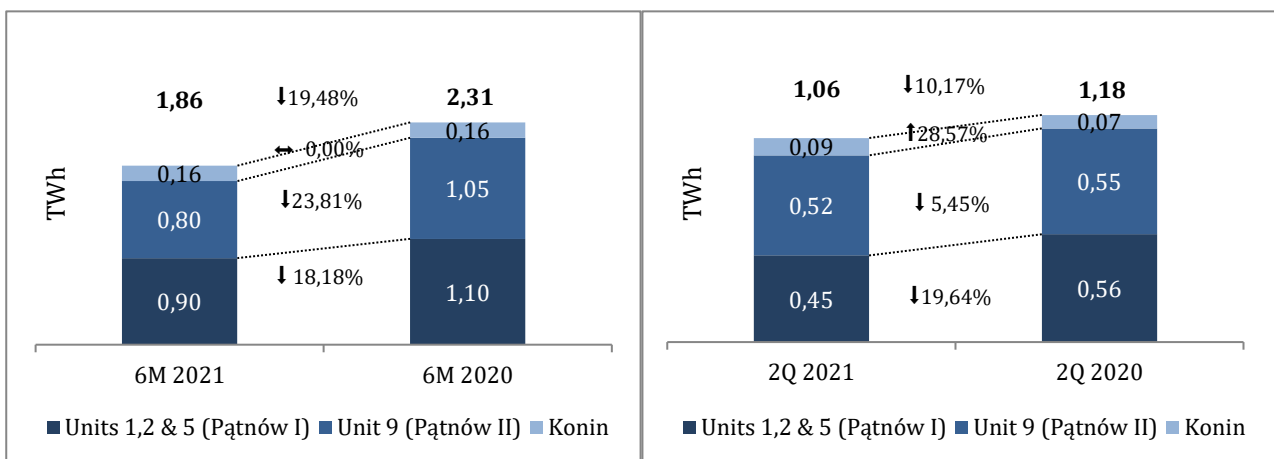
Chart 2: Average electricity prices\*



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

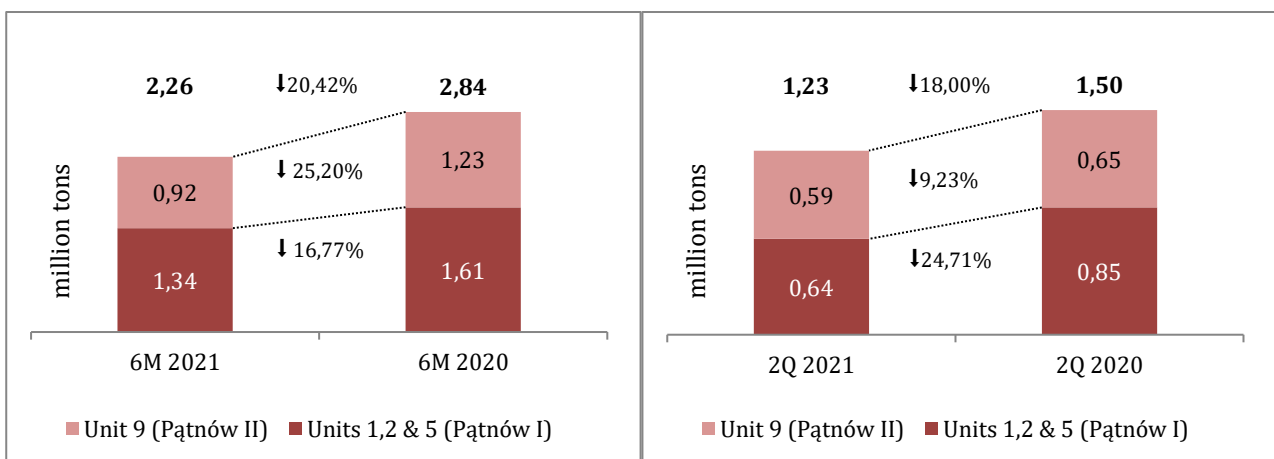
Source: Internal data

Chart 3: Net electricity production



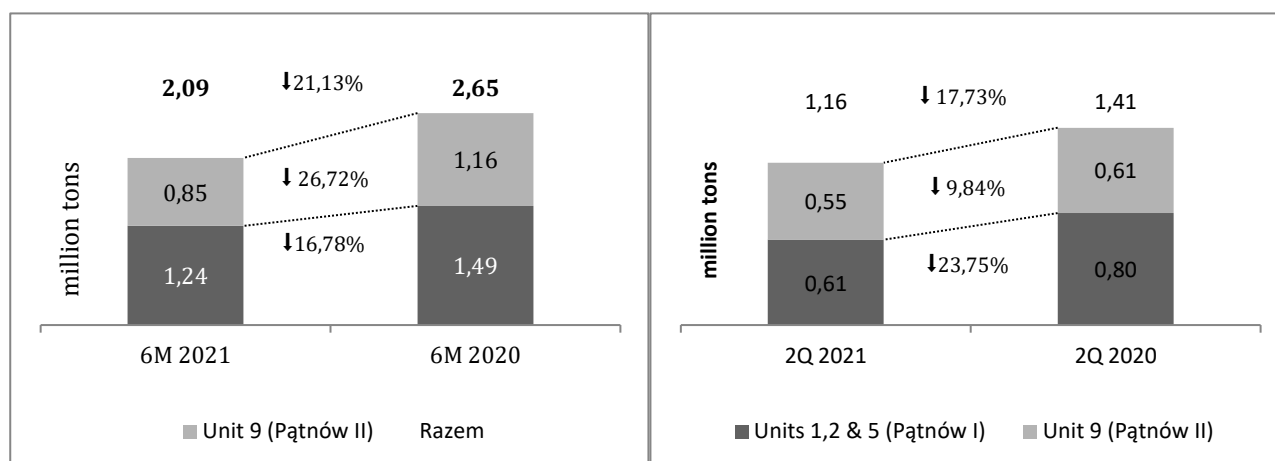
Source: Internal data

Chart 4: Lignite consumption



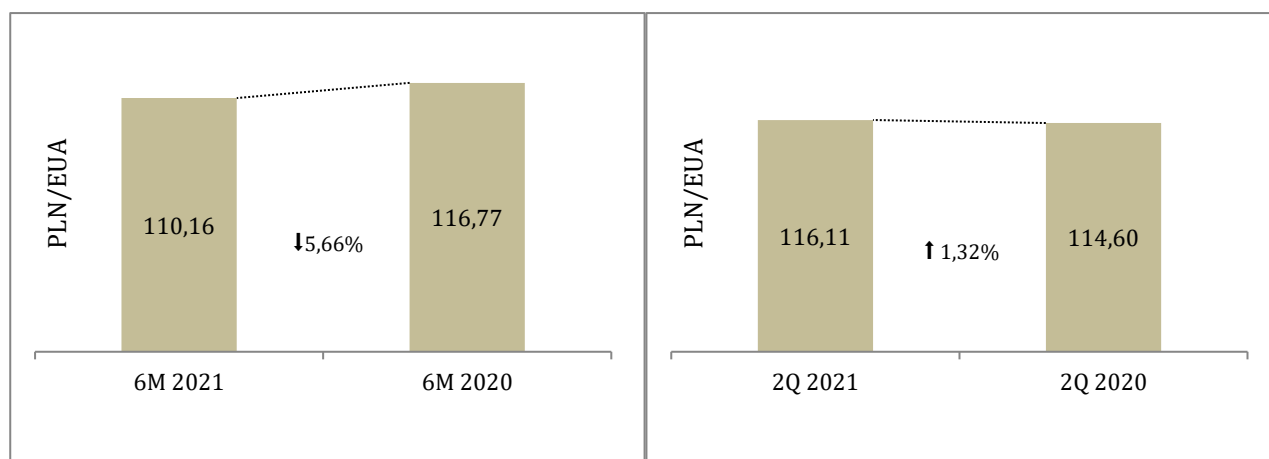
Source: Internal data

Chart 5: CO<sub>2</sub> Emission



Source: Internal data

Chart 6: Average prices of CO<sub>2</sub> emission allowances purchase \*(EUA)



\* Average price calculated as the cost of purchased EUA for a period concerned, divided by the volume of CO<sub>2</sub> emission.

Source: Internal data

Table 2: List of consolidated sale revenues

	Złoty thousand 6 months period ended 30 June 2021	Złoty thousand 6 months period ended 30 June 2020	Złoty thousand change	% dynamics
Revenues from the sale of goods, including:	785 470	927 663	(142 193)	(15,33)
– Revenues from the sale of electricity (own)	523 322	647 714	(124 392)	(19,20)
– Revenues from the sale of traded electricity	191 501	219 188	(27 687)	(12,63)
– Revenues from the sale of heat	28 672	26 570	2 102	7,91
– Other sale revenues	22 788	17 067	5 721	33,52
– Revenues from contracts for construction services	19 187	17 124	2 063	12,05
Other revenues, including:	200 905	123 648	77 257	62,48
– Property rights on Energy certificates of origin	31 490	24 812	6 678	26,91
– Compensation for termination of LTC	77 612	98 836	(21 224)	(21,47)
– Revenues from the Capacity Market	91 803	-	91 803	-
Excise	(657)	(850)	193	22,71

<b>Total sale revenues</b>	<b>985 718</b>	<b>1 050 461</b>	<b>(60 743)</b>	<b>(6,16)</b>
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Cost of sales in the first half of 2021 amounted to PLN 931,053 thousand and decreased by PLN 374,500 thousand, i.e. by 28.69% compared to the first half of 2020. Apart from the lack of impairment losses on fixed assets, which in the first half of 2020 amounted to PLN 289,000 thousand net as a result of recognition of impairment of fixed assets, the greatest impact on the reduction of the cost of CO2 emissions by PLN 78,829 thousand was due to the decrease in electricity production as well as a lower average EUA price and lower costs of employee benefits. On the other hand, only an increase in the cost of materials consumption by PLN 26,591 thousand contributed to the increase in the cost of the product.

Other operating income in the first half of 2021 amounted to PLN 28,440 thousand and was lower by PLN 7,533 thousand than in the corresponding period of the previous year. The high level of revenues last year was the result of the profit from the settlement of forward contracts hedging the euro exchange rate for the purchase of CO2 emission allowances.

Selling costs in the first half of 2021 amounted to PLN 2,513 thousand and were higher by PLN 506 thousand than in the corresponding period of the previous year.

General and administrative expenses in the first half of 2021 amounted to PLN 53,491 thousand and were higher than those incurred in the corresponding half of the previous year by PLN 1,761 thousand, i.e. 3.40%.

Other operating expenses in the first half of the year amounted to PLN 11,501 thousand and decreased compared to the first half of the previous year by PLN 24,248 thousand. Last year's high costs were related to the recognition of PLN 30,045 thousand in costs for the settlement of timely purchases of CO2 emission allowances at a significantly higher exchange rate of the National Bank of Poland as at the settlement date, compared to the valuation rate as at December 31, 2019.

*Table 3: Selected items of the consolidated income statement*

	<i>Zloty thousand</i> <i>6 months period</i> <i>ended</i> <i>30 June 2021</i>	<i>Zloty thousand</i> <i>6 months period</i> <i>ended</i> <i>30 June 2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
<b>Sales revenues</b>	<b>985 718</b>	<b>1 050 461</b>	<b>(64 743)</b>	<b>(6,16)</b>
Prime cost	(931 053)	(1 305 553)	374 500	(28,69)
Gross sales profit (loss)	54 665	(255 092)	309 757	-
Other operating revenues	28 440	35 973	(7 533)	(20,94)
Cost of sales	(2 513)	(2 007)	(506)	25,21
General and administrative expenses	(53 491)	(51 730)	(1 761)	3,40
Other operating costs	(11 501)	(35 749)	24 248	(67,83)
<b>Profit (loss) from operating activities</b>	<b>15 600</b>	<b>(308 605)</b>	<b>324 205</b>	<b>-</b>
Financial revenues	1 117	5 682	(4 565)	(80,34)
Financial costs	(6 274)	(11 540)	5 266	(45,63)
<b>Gross profit (loss)</b>	<b>10 443</b>	<b>(314 463)</b>	<b>324 906</b>	<b>-</b>
Income tax (tax load)	9 546	53 631	(44 085)	(82,20)
<b>Net profit (loss)</b>	<b>19 989</b>	<b>(260 832)</b>	<b>280 821</b>	<b>-</b>
Net other comprehensive income	(84)	(83)	(1)	(1,20)
<b>Comprehensive income</b>	<b>19 905</b>	<b>(260 915)</b>	<b>280 820</b>	<b>-</b>
<b>EBITDA*</b>	<b>83 176</b>	<b>60 942</b>	<b>22 234</b>	<b>36,48</b>

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

*Table 4: Consolidated costs by type*

	<i>Zloty thousand</i> <i>6 months period</i> <i>ended</i> <i>30 June 2021</i>	<i>Zloty thousand</i> <i>6 months period</i> <i>ended</i> <i>30 June 2020</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	67 576	80 547	(12 971)	(16,10)
Impairment write-down on fixed assets	0	289 000	(289 000)	-

Impairment write-down on inventory	0	3 400	(3 400)	-
Consumption of materials	163 487	136 896	26 591	19,42
Outsourcing	41 151	41 958	(807)	(1,92)
Taxes and fees excluding excise tax	73 750	75 813	(2 063)	(2,72)
Costs of CO <sub>2</sub> emissions	230 260	309 089	(78 829)	(25,20)
Costs of employee benefits	188 552	204 624	(16 072)	(7,85)
Other costs by type	17 970	15 758	2 212	14,04
Value of sold goods and materials and sold traded electricity	220 683	226 773	(6 090)	(2,69)
<b>Total costs by type</b>	1 003 429	1 383 858	(380 429)	<b>(27,49)</b>

In the first half of 2021, ZE PAK SA Group realized operating profit in the amount of PLN 15,600 thousand. In the same period of last year, the Group incurred an operating loss of PLN 308,605 thousand, which was significantly increased due to one-off events relating to the results of impairment tests, which increased the loss by PLN 289,000 thousand. Even without taking into account the results of the tests for impairment of assets in the first half of 2020, the Company would incur an operating loss of PLN 19,605 thousand.

In the first half of 2021, the achieved results were adversely affected by the negative result on financial activities in the amount of PLN 5 157 thousand. In the same period of the previous year, the result on financial activities was also negative and amounted to PLN 5,858 thousand.

In the first half of 2021, the Group realized a gross profit of PLN 10,443 thousand. The net profit in the first half of 2021 amounted to PLN 19,989 thousand. The net result was positively affected by the reduction of income tax related to the activation of impairment losses on property, plant and equipment at Pańków I power plant.

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

In the first half 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 first half 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. There is an 18-month deadline for implementation. The contractor for the boiler adaptation for biomass combustion is Valmet Technologies Oy with its seat in Espoo Finland. In addition, further major contracts were concluded for the implementation of the so-called technological islands (TG5 turbine, G5 generator, biomass feeding installation and ash removal installation from the electrostatic precipitator, electrostatic precipitator, digital block control system).

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 a 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 devices as well as construction and assembly works were completed after June 30, 2021, the commissioning of the solar farm control and supervision system is in the final stage. At the end of September, it is planned to supply the farm with voltage from the power system - the so-called EON. After the voltage is applied, the live electrical systems will be checked and the start-up of individual systems of the photovoltaic farm will begin. In October, the first synchronization of the power generation module with the power system is planned. After the synchronization process, electricity production from Brudzew photovoltaic farm will start.

### ***ZE PAK SA key investments in the preparatory phase***

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

- construction of a hydrogen production plant with associated infrastructure at Konin power plant,
- construction of a 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 H<sub>2</sub> / day. At a later stage, thanks to the modular construction of the hydrogen plant and preparation of the infrastructure, it will be possible to increase production capacity, depending on the demand for hydrogen.

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

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. Currently, the process of concluding a contract with the turbine supplier is underway and the process of selecting a contractor for the implementation of the farm has begun.

#### 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, it is planned to complete the construction of the prototype and start testing the bus. The approval works will be completed in March 2022, which will allow the production of buses to be launched.

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.

#### 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 installation of the photovoltaic installation is underway at the AGH University of Science and Technology in Krakow.

#### 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**

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

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

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

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

### ***Signing a letter of intent with PGW Wody Polskie***

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

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

### ***Conclusion of an electricity sales contract (PPA)***

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

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

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

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

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

On March 12, 2021, PAK PCE Fotowoltaika Sp. z o.o. concluded a loan agreement with a consortium of banks composed of: PKO BP SA (in the role of the Loan Agent and Security Agent), Bank Pekao SA and mBank SA, under which, a loan will be made available in the total amount of up to PLN 175 million, of which the investment loan is PLN 138 million, and the loan for VAT financing is PLN 37 million, intended for financing the investment project. The aim of the project

is to build a photovoltaic farm with a target installed capacity of 70 MWp located in the commune of Brudzew, in the Turek powiat, in Wielkopolskie voivodship. The farm construction project is carried out on areas previously used for mining activities. The contractors of the farm are the consortium of Esoleo Sp. z o.o. and PAK Serwis Sp. z o.o. The completion of the construction of the farm is planned for the fourth quarter of 2021.

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

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

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

#### ***Provisions on the decision of the Minister of Climate (adjustment to the kBAT) and the judgment of the Provincial Administrative Court in Warsaw***

In reference to the published current reports No. 46/2020 of October 2, 2020 and 20/2021 of July 15, 2021, the Company presents below the current legal status in relation to proceedings regarding derogation from the emission limit values (adjustment to kBAT) for Pałnów power plant and Konin power plant.

Marshal of Wielkopolska Region, by the decision of October 2, 2020, reference number: DSR-II-1.7222.89.2019, changed the integrated permit for the operation of the Fuel Combustion Installation at Pałnów Power Plant and Konin Power Plant in terms of adapting to the requirements of BAT conclusions and granting partial derogation from the emission limit values specified in BAT conclusions based on Art. 204 paragraph 2 of the Environmental Protection Law. This decision was immediately enforceable due to the important social interest and the extremely important interest of the Company, and is binding, it is in legal circulation. Due to the ongoing appeal proceedings, its finality will only be confirmed when the Minister of Climate issues a decision in the case sustaining the above-mentioned decisions.

The legal situation is similar with regard to the integrated permit for the operation of the Fuel Combustion Installation at Pałnów II Power Plant, which by the decision of the Marshal of the Wielkopolska Province of April 29, 2020, DSR-II-1.7222.83.2019, was changed in terms of adapting to the requirements of BAT conclusions and granting a derogation from the emission limit values set out in BAT conclusions on the basis of Art. 204 paragraph 2 of the Environmental Protection Law, and this decision was corrected by the decision of the Marshal of Wielkopolska Province of February 17, 2021, reference number: DSR-II-1.7222.11.2021.

#### ***Withdrawal from the contract for demolition of facilities at Elektrownia Adamów***

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

The intention of the Company is still to complete the process of demolition of facilities and preparation of the area in Elektrownia Adamów for potential future investments.

#### ***Conclusion of a loan agreement by PAK Polska Czysta Energia sp. z o.o.***

On June 23, 2021 PAK Polska Czysta Energia sp. z o.o. signed a loan agreement with EFG Bank Ltd. Based in Zurich, under which the borrower will be granted a loan in the amount up to PLN 175 million. The obtained funds will be used to financially secure the potential for the implementation of projects in the field of renewable energy sources. Pursuant to the provisions of the Agreement, the Loan repayment date has been set by December 31, 2022. The financial terms and other terms of the Loan Agreement do not differ from the market terms.



## **Significant events after the balance sheet date**

### ***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 electrolyzers with an electrolyte-polymer membrane ("PEM" technology). The first electrolyser has already been ordered by the Company and its delivery is expected at the turn of 2021/2022. 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 electrolyzers (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 Pańków 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.

### ***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, currently the construction project of 70 MWp Brudzew photovoltaic farm is in the final stage of implementation. 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 Pątnów 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 Pątnów 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.

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

Zespół Elektrowni Pątnów - Adamów - Konin SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the first half of 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 18<sup>th</sup> 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>
<b>Zygmunt Solorz (indirectly) through:</b>	<b>33 523 911</b>	<b>65,96</b>
– <i>Argumenol Investment Company Limited</i>	<i>33 523 911</i>	<i>65,96</i>
<b>Nationale – Nederlanden OFE</b>	<b>4 503 242</b>	<b>8,86</b>
<b>OFE PZU „Złota Jesień”</b>	<b>4 635 719</b>	<b>9,12</b>

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

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

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

## 7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

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

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

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

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

On March 12, 2021, ZE PAK SA granted a surety for PKO BP SA bank (Security Agent) in the amount of PLN 10 million for the liabilities of a subsidiary of the Capital Group, i.e. PAK-PCE Fotowoltaika sp.z o.o. The surety was granted by ZE PAK SA as security for a term loan agreement and a VAT loan in the amount of PLN 175 million signed between PAK-PCE Fotowoltaika sp.z o.o. and the consortium of banks PKO BP, Pekao SA and mBank.

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

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

On April 27, 2021, PAK Serwis sp. z o.o. granted a loan to ZE PAK SA in the amount of PLN 15 million with the repayment date on August 20, 2021. The loan was used to finance the current operations of ZE PAK SA.

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

In the first half 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;
- CO<sub>2</sub> 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

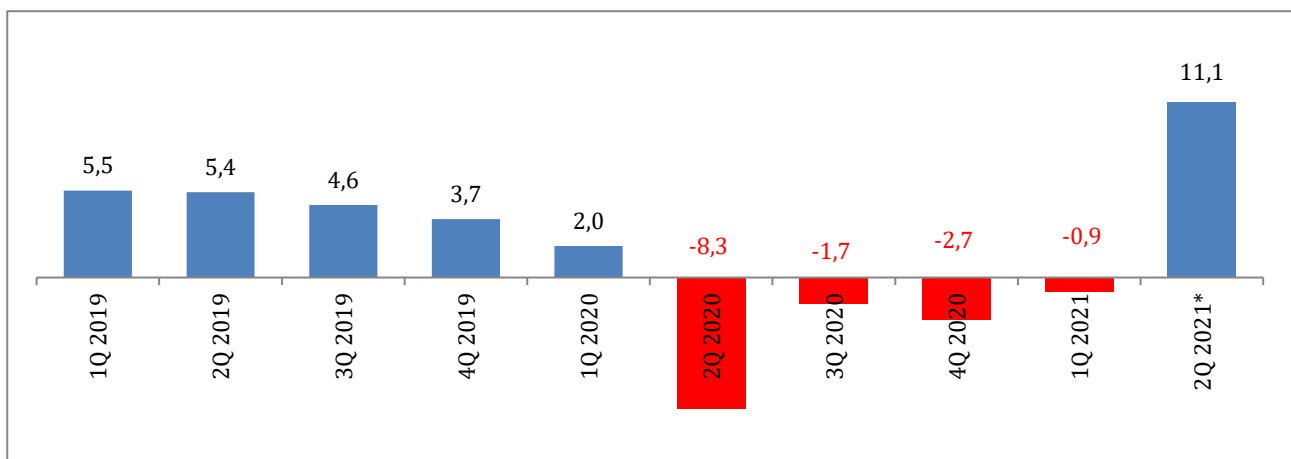
consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future.

### 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 preliminary estimates, the gross domestic product (GDP), unadjusted in the second quarter of 2021, increased in real terms by 11.1% year-on-year, compared to a decrease of 8.3% in the corresponding quarter of 2020. It was the first positive reading of this indicator after four negative quarters preceding it. Such a high rate is obviously due to a base effect and a rebound in the economy after a period marked by the impact of COVID-19.

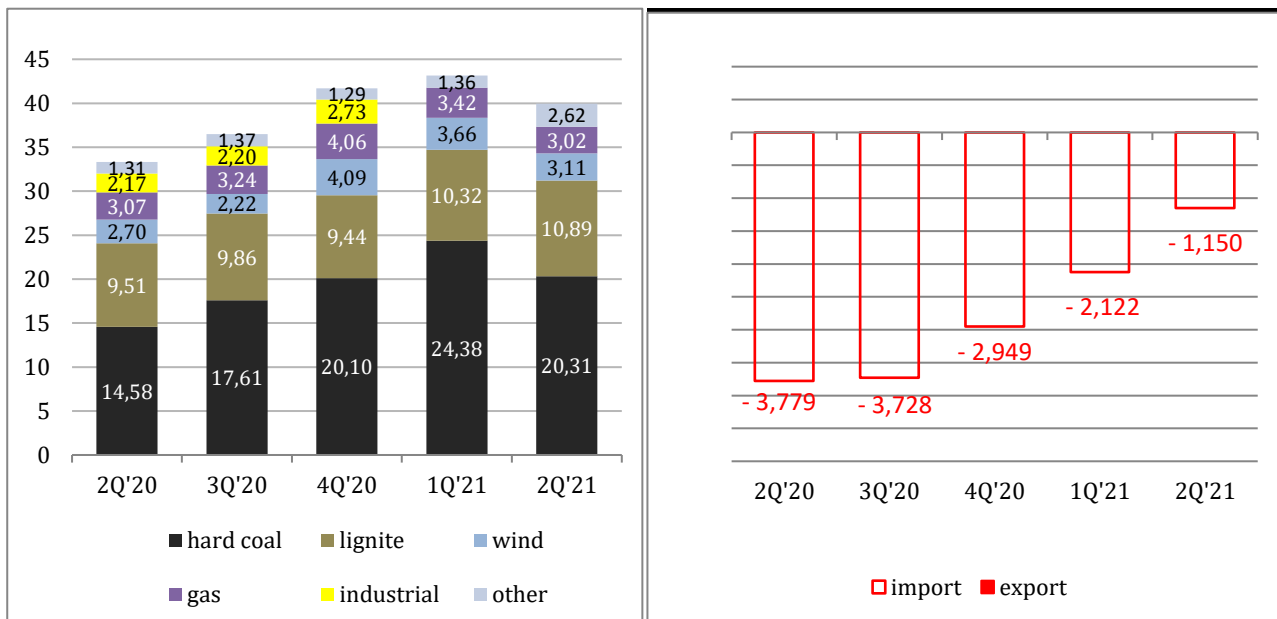
Chart 7: GDP dynamics [%] in relations to analogous quarter of the previous year (yearly average fixed prices)



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

Source: Own elaboration based on CSO data

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



Source: Own elaboration based on PSE data

Data on the operation of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, indicate that gross domestic electricity consumption in the first half of 2021 amounted to 86.37 TWh<sup>1</sup> and comparing to the first half of 2020 it increased by 7.10%. In the first half of 2021, gross electricity production amounted to 83.09 TWh, which means an increase by 12.15% 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 44.70 TWh, which means an increase by 32.1% compared to the first half of 2020. 21.21 TWh was produced from lignite, i.e. by 13, 61% more than in the first half of 2020. Wind farms produced 6.76 TWh, i.e. 1.10 TWh, or 13.95% less than in the same period last year. The decrease in production also concerned generation from gas power plants, which produced 6.44 TWh, i.e. 2.95% less y / y. The balance of foreign exchange in the first half of 2021 amounted to 3.27 TWh on the import side, which means that import decreased by as much as 50.02%. It is worth adding that there was an almost 190% increase in electricity produced by renewable sources other than wind energy, mainly by photovoltaic sources.

## 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 CO<sub>2</sub> emissions). Tax law, interpretations and recommendations issued in particular by the Energy Regulatory Office should also be taken into account. Any changes in the above-mentioned areas may be of great importance for the Group's operations. Regulatory risk is one of the most significant electricity generators in the industry.

Significant factors that may affect the financial results of ZE PAK SA are issues related to the functioning of the capacity market, which entered the implementation phase on January 1, 2021. At the beginning of 2021, the secondary market has also started operating, which enables the Company to take over capacity obligations from other power suppliers in terms of free, uncontracted capacity.

<sup>1</sup> Table no. 3. Structure of electricity production in domestic power plants, the volume of electricity exchange with foreign countries and national energy consumption - monthly values and from the beginning of the year - gross value.

In the context of the capacity market, it should be mentioned that in the second quarter of the year, the parliament adopted the amendment to the Energy Law of April 10, 1997, 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 CO<sub>2</sub> 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. 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.

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 Giełda Energii S.A.

An important event in the broadly understood regulatory environment, affecting 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.

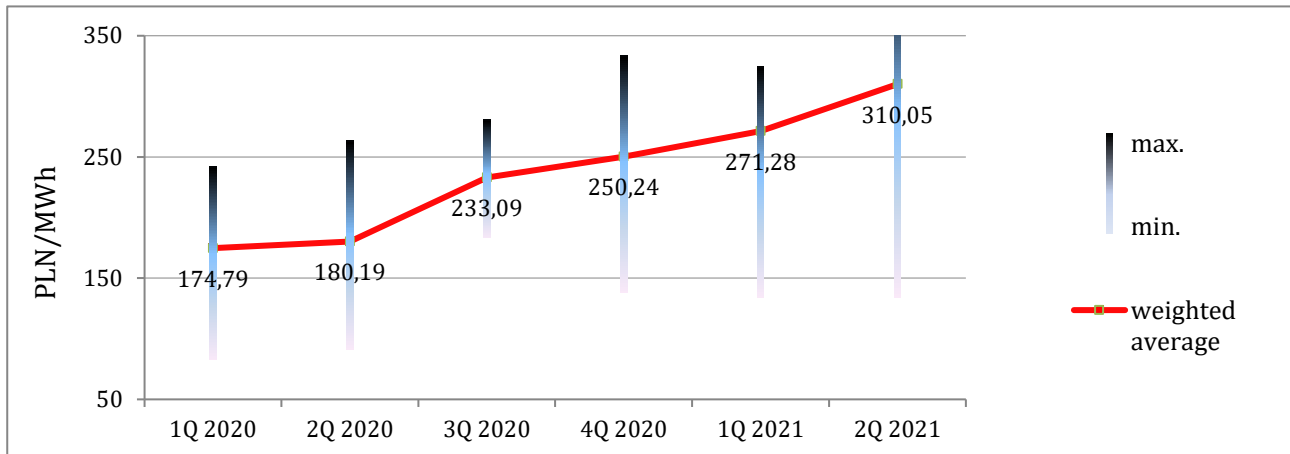
In the first half of 2021, the upward trend in energy quotations, which started in the second quarter of 2020, continued on the day-ahead market of Towarowa Giełda Energii SA (TGE SA). The factors currently influencing the increase in energy prices are primarily: a large increase in energy demand on the domestic and other European markets, rising CO<sub>2</sub> prices, dynamically growing prices of energy resources (coal, gas). In addition, the process of creating a common pan-European electricity market, within which the Polish energy market is also combined, both within the day-ahead and intraday markets, makes the price of energy on TGE SA susceptible to changes in import capacity and the price of energy at neighbouring markets. Rising prices of CO<sub>2</sub> emission allowances result in into an increase in the costs of electricity production by all emission generating units, and as a result, prices increase not only in Poland, but also throughout Europe.

Moreover, it should be added that due to the growing share of photovoltaic sources in the capacity installed in the NPS, both on TGE SA and on the technical balancing market, night energy is becoming more and more expensive, which has an impact on the higher price of the entire spectrum (BASE).

The weighted average price (TGeBase) in the second quarter of 2021 was PLN 310.05 / MWh, which means an increase compared to the second quarter of 2020 by PLN 129.86 / MWh (i.e. by 72.07%).



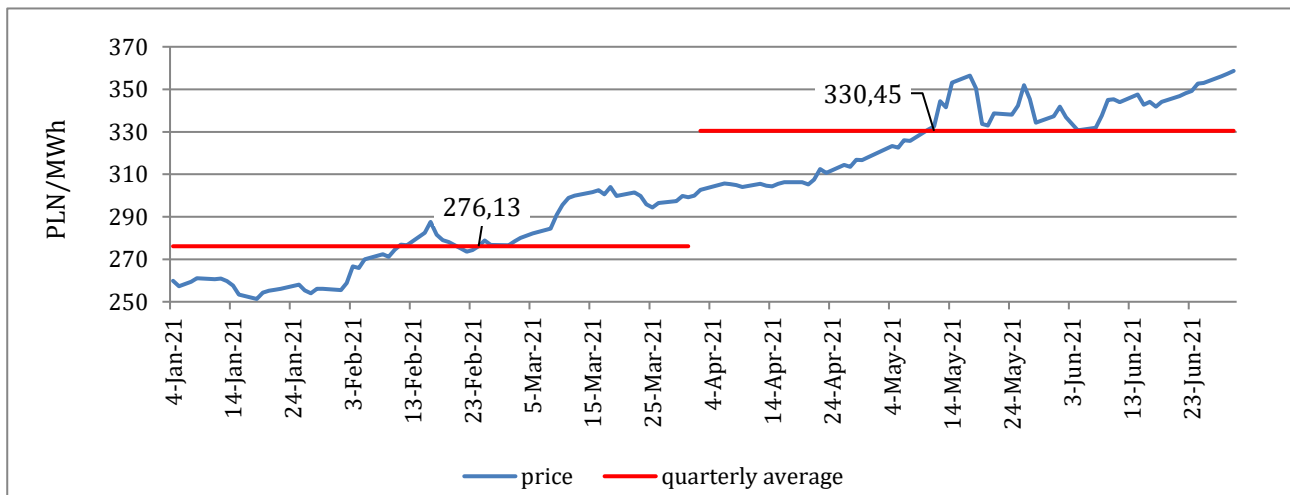
Chart 9: Electricity prices (TGeBase)<sup>2</sup>



Source: Own elaboration based on TGE data

On the electricity futures market on the Polish Power Exchange, in the second quarter of 2021, as in the first quarter, the level of prices quoted on the BASE-Y22 contract was still in an upward trend. The arithmetic mean of the daily clearing rates for the reference futures contract BASE\_Y-22 was PLN 330.45 / MWh (the highest price was PLN 358.65 / MWh on June 30, 2021). The continued rapid increases in CO<sub>2</sub> emission allowances contribute to the rapid increases in quotations on the futures market, as well as on the TGE SA Day-Ahead and Overnight Market.

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



Source: Own elaboration based on TGE data

#### 11.4. Prices supply of certificates of origin

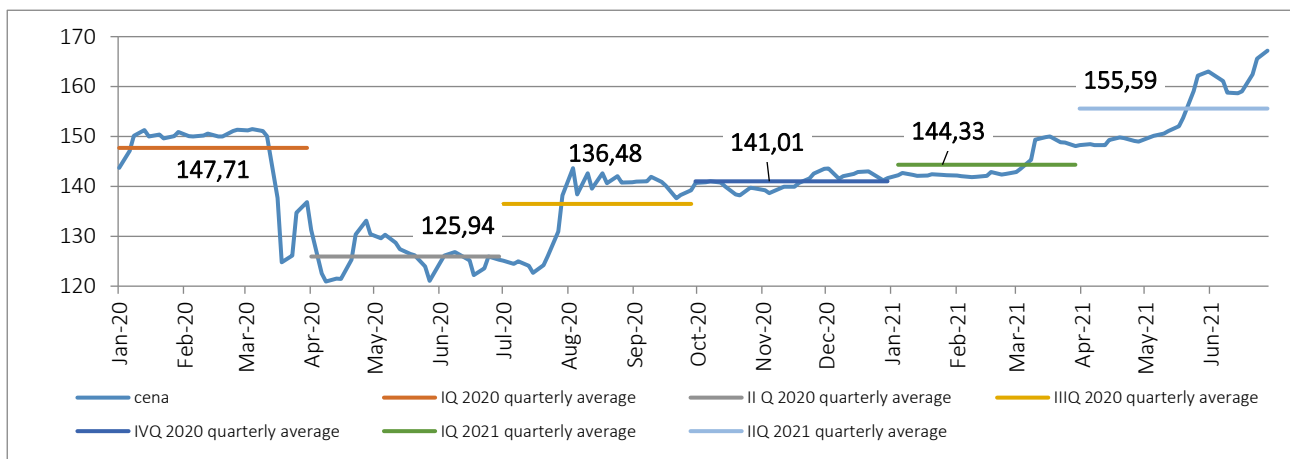
Due to the fact that one of the power units of ZE PAK SA is dedicated to biomass combustion, the producer is entitled to green certificates. The number of certificates of origin obtained depends on the level of production from a given source and is significantly higher than the number that the Company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

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

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

From August 2020, the prices of green certificates on TGE SA are in a constant, slightly upward price trend. In the first half of 2021, the upward price trend also continued. The weighted average price of green certificates in session transactions on TGE SA in the first half of 2021 was PLN 150.22 / MWh, which means an increase by PLN 12.42 / MWh compared to the price in the first half of 2020, i.e. 137.79 PLN / 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). 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 first half of the year by PLN 19.63 / MWh (the weighted average price in June 2021 was PLN 161.91 / MWh). The fact that their supply on the market has probably contributed to the price increases, as in 2020 some entities terminated their participation in the system of certificates of origin due to the end of the 15-year support period, while some installations, as a result of winning migration auctions, resigned from applying for green certificates. In addition, the stable, slow upward price trend is supported by the maintenance of the redemption obligation of 19.5% in 2021 (the same level was in force in 2020). Another factor that may affect the increase in the prices of green certificates may be the maintenance of the inability to meet this obligation by the obliged entities through the so-called substitute fee (information from the President of ERO 10/2020).

Chart 11: Price of RES Energy certificate of origin



Source: Own elaboration based on TGE data

## 11.5. Extraction and supply costs of coal and other fuels

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

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

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

In the coming years, the company intends to implement the directions of the strategy adopted in 2020, assuming a withdrawal from generating energy from coal and focusing more and more on projects in the field of energy production in renewable sources, production of green hydrogen and its use.

## 11.6. CO<sub>2</sub> emission allowances costs

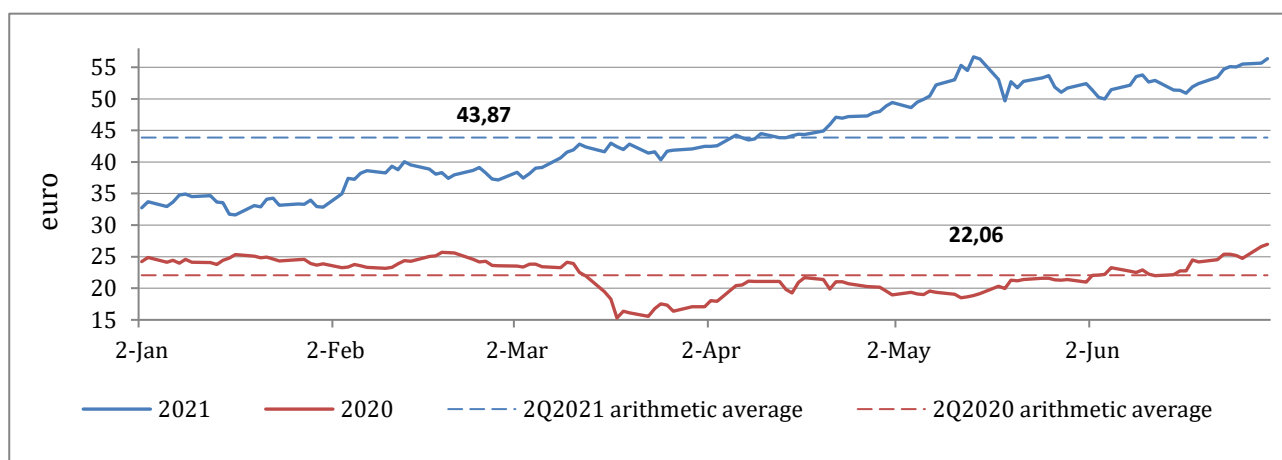
The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO<sub>2</sub> emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO<sub>2</sub> and the risk of price changes of CO<sub>2</sub> emission allowances (EUA) is of great importance to the activities' results.

In 2021, the Group will receive a negligible amount of free CO<sub>2</sub> emission allowances, i.e. 12,138 EUA, resulting from allocation to heat production. Therefore, practically the entire amount of emission allowances needed by ZE PAK SA Group must be purchased on the secondary market.

The first half of 2021 was characterized by high volatility in the prices of CO<sub>2</sub> emission allowances. In January 2021, the allowances were valued at approximately EUR 31, while in April they approached EUR 49 - an increase of approximately 60%. In February 2021, the volatility of prices reached a value of approximately EUR 6 (EUR 6.36 in April). For comparison, the volatility on the EUA allowances market in March 2020, when the COVID-19 pandemic began in Europe, which resulted in a short-term, drastic drop in the price of EUA allowances, was slightly higher (approx. EUR 8.8). In April this year, the prices of EUA allowances grew and approached the level of 49 euro. The demand for EUA units was supported mainly by EU ETS installations obliged to settle their emissions for 2020, high prices achieved at auctions, the continued boom in the stock and commodity markets, or by changes in the regulatory environment, including the adoption of the European climate law by the European Parliament and the Council, which will result in an increase in the reduction target in the EU to a 55% reduction in emissions in 2030 compared to 1990. In May, the prices of EUA allowances broke the psychological level of EUR 50 and reached a record EUR 56.5. In this case, prices were "helped" by speculative purchases and statements that were reluctant to intervene in the market to lower the price of allowances. EUA allowances in June 2021 gained about 9%. From May 31 to June 30, 2021, the prices of EUA allowances on the spot market of THE ICE and EEX exchanges (average) increased from EUR 51.62 to EUR 56.25.

The arithmetic average of the EUA in the second quarter of 2021 amounted to EUR 43.87, while in 2020 it was EUR 22.06.

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

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

Due to the early termination (on 1 April 2008) of PPA, pursuant to the Act of PPA, the Company is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. The Company is covered by the said act by the end of 2025. The mechanism determining the amount of revenues related to compensation for stranded costs largely functions on the basis of offsetting, therefore the risk related to the

level of revenues from this source is to a certain extent dependent on other types of risk affecting the level of costs and revenues, e.g. energy prices or prices of allowances for emissions.

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

## 11.8. Seasonality and meteorological conditions

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

Irrespective of the factors described above, meteorological conditions are becoming more and more important for the Group's production level. In the past, the operations of the Group were not subject to significant seasonality of demand, due to low costs, the work of blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of RES in the segment of energy producers, including primarily wind sources and photovoltaics, when estimating the Group's production volume, weather conditions are becoming more and more important, with particular emphasis on wind and solar conditions. It should be taken into account that in the periods when the wind conditions are exceptionally good and the production of wind turbines is high, the demand for the production of ZE PAK SA may periodically decrease, similarly in the periods of lower wind conditions, production may increase.

The risk related to seasonality and meteorological conditions in the first half 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's exposure to risk caused by changes in interest rates relates primarily to financial liabilities. The Group has financial liabilities, mainly working capital loans with variable interest rates.

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

Konin, 24 September 2021

## **SIGNATURES:**

Piotr Woźny  
President of the Management Board .....

Zygmunt Artwik  
Vice President of the Management Board .....

Maciej Nietopiel  
Vice President of the Management Board .....

Andrzej Janiszowski  
Vice President of the Management Board .....

Katarzyna Sobierajska  
Vice President of the Management Board .....