

ZMIENIAMY SIĘ
DLA WAS



ZEPAK
Energia dla Ciebie

ZE PAK SA CAPITAL GROUP

OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR I QUARTER 2022

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



26 MAY 2022

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1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>3 months 2022 period from 01.01.2022 to 31.03.2022</i>	<i>3 months 2021 period from 01.01.2021 to 31.03.2021</i>	<i>3 months 2022 period from 01.01.2022 to 31.03.2022</i>	<i>3 months 2021 period from 01.01.2021 to 31.03.2021</i>
Sales revenue	996 286	462 414	214 384	101 138
Operating profit/loss	118 230	(8 076)	25 441	(1 766)
Profit/loss before tax	126 635	(9 988)	27 250	(2 185)
Net profit/loss for the period	103 482	(8 007)	22 268	(1 751)
Net profit attributable to equity holders of the parent	103 670	(7 229)	22 308	(1 581)
Total comprehensive income	103 333	(8 003)	22 236	(1 750)
Net cash flow from operating activities	(278 851)	(430 740)	(60 004)	(94 211)
Net cash flow from investing activities	(55 418)	(107 289)	(11 925)	(23 466)
Net cash flow from financing activities	149 547	96 062	32 180	21 010
Net increase / (decrease) in cash and cash equivalents	(184 722)	(441 967)	(39 749)	(96 666)
Net profit per share (in zloty/euro per share)	2.04	(0.14)	0.44	(0.03)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 31.03.2022</i>	<i>As at 31.12.2021</i>	<i>As at 31.03.2022</i>	<i>As at 31.12.2021</i>
Total assets	3 789 012	3 311 762	814 403	720 042
Fixed assets	1 328 945	1 273 696	285 641	276 927
Current assets	2 460 067	2 038 066	528 762	443 116
Total equity	627 368	524 232	134 845	113 978
Share capital	101 647	101 647	21 848	22 100
Share capital attributable to equity holders of the parent	627 556	524 627	134 886	114 064
Total liabilities	3 161 644	2 787 530	679 558	606 064
Long-term liabilities	958 682	794 587	206 057	172 759
Short-term liabilities	2 202 962	1 992 943	473 501	433 305
Book value per share (in zloty/euro per share)	12.34	10.31	2.65	2.24
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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Selected financial data of ZE PAK SA	Zloty thousand	Zloty thousand	Euro thousand	Euro thousand
	3 months 2022 period from 01.01.2022 to 31.03.2022	3 months 2021 period from 01.01.2021 to 31.03.2021	3 months 2022 period from 01.01.2022 to 31.03.2022	3 months 2021 period from 01.01.2021 to 31.03.2021
Net revenues from sales of products, goods and materials	714 053	425 367	153 652	93 035
Operating profit/loss	137 573	21 483	29 603	4 699
Profit/loss before tax	149 727	22 843	32 219	4 996
Net profit/loss for the period	126 731	27 808	27 270	6 082
Net cash flow from operating activities	(212 433)	(440 864)	(45 712)	(96 425)
Net cash flow from investing activities	20 808	(72 127)	4 478	(15 775)
Net cash flow from financing activities	15 321	66 358	3 297	14 514
Net cash flow together	(176 304)	(446 633)	(37 938)	(97 687)
Net profit per share (in zloty/euro per share)	2.49	0.55	0.54	0.12
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>31.03.2022</i>	<i>31.12.2021</i>	<i>31.03.2022</i>	<i>31.12.2021</i>
Total assets	3 082 104	2 701 772	662 462	587 418
Fixed assets	2 063 064	842 868	443 431	183 256
Current assets	1 019 040	1 858 904	219 031	404 162
Equity	991 568	864 837	213 126	188 033
Share capital	101 647	101 647	21 848	22 100
Liabilities and provisions for liabilities	2 090 536	1 836 935	449 336	399 386
Long-term liabilities	114 919	107 378	24 700	23 346
Short-term liabilities	332 999	356 335	71 574	77 474
Book value per share (in zloty/euro per share)	19.51	17.02	4.19	3.70
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from January 1, 2022 to March 31, 2022, which is 4.6472 EUR/PLN and from January 1, 2021 to March 31, 2021, which is 4.5721 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 March 31, 2022, i.e. 4.6525 EUR/PLN and as of December 31, 2021, i.e. 4.5994 EUR/PLN.

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of March 31, 2022, ZE PAK SA Capital Group (hereinafter referred to as the „Group”, „Capital Group”, „ZE PAK SA Group”) is composed of a dominant entity ZE PAK SA and thirty five subsidiaries, i.e. PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as „PAK KWB Konin SA”), PAK – Polska Czysta Energia sp. z o.o. (hereinafter referred to as „PAK – PCE sp. z o.o.”), PAK – PCE Fotowoltaika sp. z o.o., PAK – PCE Wiatr sp. z o.o., PAK – PCE Biopaliwa i Wodór sp. z o.o., PAK – PCE Polski Autobus Wodorowy sp. z o.o., PAK – PCE Biogaz sp. z o.o., PG Hydrogen sp. z o.o., Exion Hydrogen Polskie Elektrolizery sp. z o.o., PAK CCGT sp. z o.o., Farma Wiatrowa Kazimierz Biskupi sp. z o.o., PCE – OZE 1 sp. z o.o., PCE – OZE 2 sp. z o.o., PCE – OZE 3 sp. z o.o., PCE – OZE 4 sp. z o.o., PCE – OZE 5 sp. z o.o., PCE – OZE 6 sp. z o.o., MESE sp. z o.o., Park Wiatrowy Pałczyn 1 sp. z o.o., Park Wiatrowy Pałczyn 2 sp. z o.o., Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o. (hereinafter referred to as „PAK Serwis” sp. z o.o.), PAK – Volt SA, PAK Górnictwo sp. z o.o., Exion Hydrogen Belgium BV, PAK Pątnów sp. z o.o., Ørsted Polska OF SPV 1 sp. z o.o., Ørsted Polska OF SPV 2 sp. z o.o., Ørsted Polska OF SPV 3 sp. z o.o., Ørsted Polska OF SPV 4 sp. z o.o., Ørsted Polska OF SPV 5 sp. z o.o., PAK – PCE FW Okonek sp. z o.o., PAK – PCE FW Jastrowie sp. z o.o., Farma Wiatrowa Przyrów sp. z o.o., PAK Kopalnia Węgla Brunatnego Adamów SA in liquidation (hereinafter referred to as „PAK KWB Adamów SA in liquidation”) and Aquakon sp. z o.o. in liquidation.

The companies of the biggest importance for the Group due to their current scale of activity are: ZE PAK SA, dealing with production of electricity and heat and PAK KWB Konin SA, dealing with the lignite mining. The assets concentrated around PAK PCE sp. z o.o. which concentrates activities related to the generation of electricity from renewable sources, become more and more important. In addition to companies from the aforementioned main areas of activity, the Group also includes other companies that deal, among others, with the execution of construction and assembly works, maintenance works, service, production and trade activities aimed at satisfying the needs and comprehensive industry service.

The Group's generation assets include two lignite-fired power plants located in central Poland, in the Greater Poland Voivodship. Pątnów Power Plant produces energy using lignite in 4 power units with a total output capacity of 1,118 MW. Konin Power Plant, a former coal-fired power plant, today mainly uses a block with a boiler dedicated to burning biomass with an installed capacity of 50 MW and produces electricity and heat from biomass. At the end of 2021, the modernization of the second unit, which is also adapted to biomass combustion, was completed at Konin power plant. This unit was put into operation in April 2022. The Group also includes a photovoltaic farm with an installed capacity of 70 MWp, located in Brudzew commune.

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

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

For many years, the Group operated on the basis of a business profile focusing on the production of electricity from lignite mined in nearby open-pit mines. However, this business model has limited chances of development in the future, given the pressure on high-carbon energy producers. Increasingly higher costs of CO₂ emissions and the conditions related to the emission of other substances (NO_x, SO₂, dust, mercury, etc.) make the Group decide to focus its future activities in the area of low-emission and emission neutral energy sources as well as the production and use of green hydrogen.

Around PAK - PCE sp. z o.o. the structure of special purpose vehicles, which are to be responsible for activities in particular renewable energy technologies, is successively being built. Thanks to the planned sale transaction to Cyfrowy Polsat Group of the majority stake in the structure of PAK - PCE sp. z o.o., it is planned to acquire a strong capital partner that will be able to guarantee the implementation of a wide range of prospective investment projects in the area of renewable energy sources and the production and use of “green” Hydrogen.

Special purpose vehicle PAK CCGT sp. z o.o. is to be responsible for the preparation and implementation of the gas unit construction project at the former Adamów coal-fired power plant. The project won the auction and thus received support in the form of a 17-year power contract.

As part of its transformation activities, the Group is also active in the area of offshore wind farm construction projects. It is also planned to use the assets at Państwowy Power Plant for the implementation of the SMR (Small Modular Reactor) technology, which is currently in the pre-commercial phase. Both of the above projects are developed in cooperation with external partners.

Apart from the Capital Group, the Company owns shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. with headquarters in Gliwice and providing measurement, research and consultancy services regarding, among others power engineering. The Company holds 1 share in the aforementioned company with the nominal value of PLN 159 500.07 which constitutes 2.96% of the total capital.

In addition, the Company also holds shares in Huta Łaziska SA in arrangement bankruptcy, based in Łaziska Górne, specializing in the production of ferroalloys. These are B series shares - 3,277,025 with a nominal value of PLN 1.00 each and C series shares - 4,307,822 shares with a nominal value of PLN 1.00 each, which in total constitutes 11.19% of the share capital.

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

2.2. Structure

Picture 1: Structure of the Group as of March 31, 2022

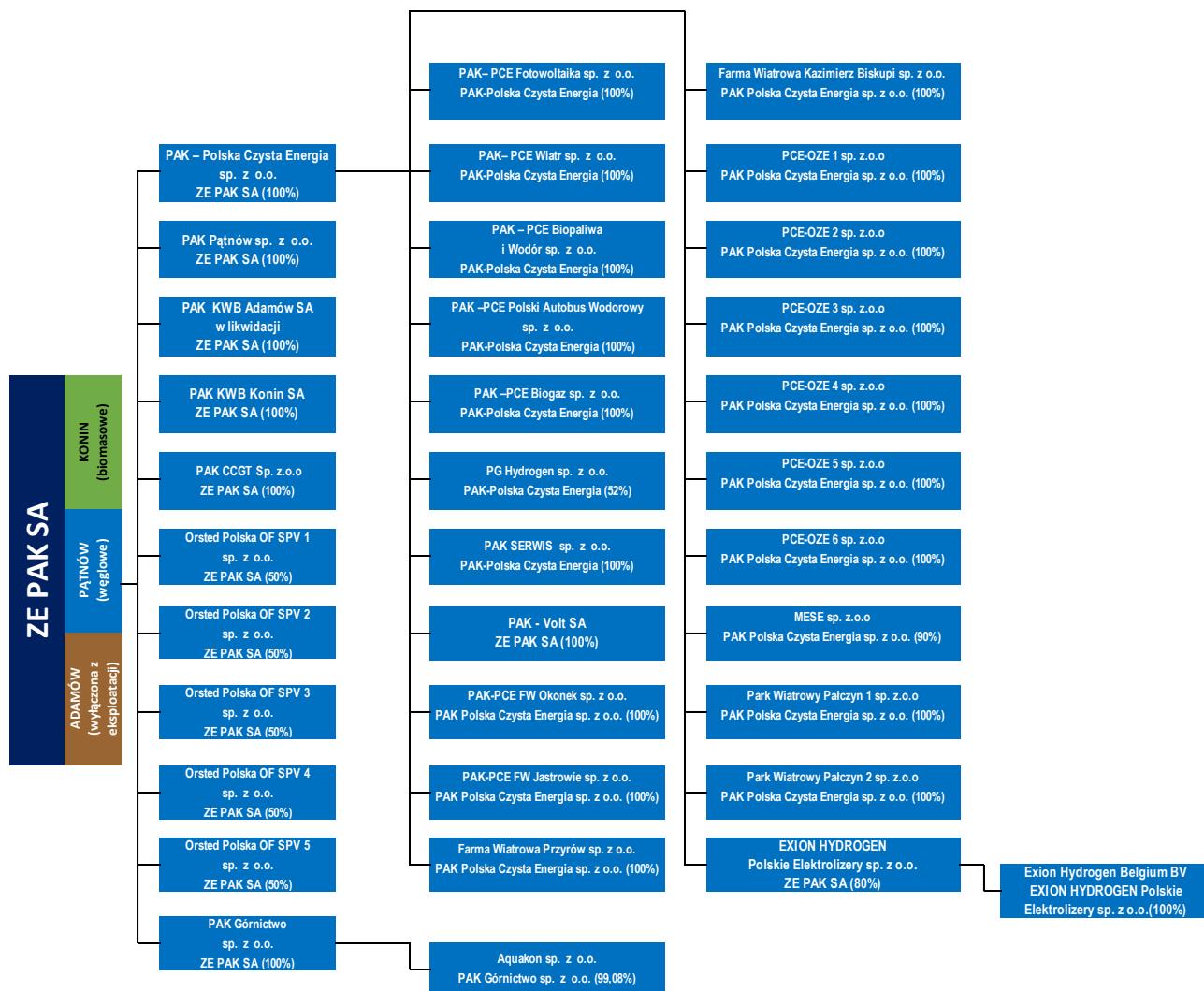


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	% Group's share in the capital	
			As at 31 March 2022	As at 31 December 2021
„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%	100.00%
„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	04-028 Warszawa Al. Stanów Zjednoczonych 61	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%*

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„PAK – PCE Fotowoltaika” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00%
„PAK – PCE Biogaz” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PAK – PCE Biopaliwa i Wodór” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	100.00% *	100.00% *
„PAK – PCE Wiatr” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PG Hydrogen” sp. z o.o.	02-673 Warszawa ul. Konstruktorska 4	Manufacture of engines and turbines, except aircraft, car and motorcycle engines	52.00% *	52.00% *
„Exion Hydrogen Polskie Elektrolizery” sp. z o.o.	80-701 Gdańsk ul. Ku Ujściu 19	Design and production of electrolyzers	80.00% *	80.00%
„Exion Hydrogen Belgium” BV	Slachthuisstraat 120 Bus 12 2300 Turnhout	Design and production of electrolyzers	80.00% *	80.00% *
„Farma Wiatrowa Kazimierz Biskupi” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Design and production of wind farms	100.00% *	100.00% *
„PCE – OZE 1” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PCE – OZE 2” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PCE – OZE 3” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PCE – OZE 4” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PCE – OZE 5” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PCE – OZE 6” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00% *	100.00% *
„PAK CCGT” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	100.00%
„MESE” sp. z o.o.	04-028 Warszawa Al. Stanów Zjednoczonych 61A		90.00% *	90.00% *
„Park Wiatrowy Pałczyn 1” sp. z o.o.	70-419 Szczecin ul. Pl. Rodła 8	Generation of electricity – wind power engineering	100.00% *	100.00% *
„Park Wiatrowy Pałczyn 2” sp. z o.o.	70-419 Szczecin ul. Pl. Rodła 8	Generation of electricity – wind power engineering	100.00% *	100.00% *
„PAK Pątnów” sp. z o.o.**	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	-
„Ørsted Polska OF SPV 1” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	-
„Ørsted Polska OF SPV 2” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	-
„Ørsted Polska OF SPV 3” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	-
„Ørsted Polska OF SPV 4” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	-
„Ørsted Polska OF SPV 5” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	-
„PAK – PCE FW Okonek” sp. z o.o.**	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	100.00% *	-
„PAK – PCE FW Jastrowie” sp. z o.o.**	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	100.00% *	-
„Farma Wiatrowa Przyrów” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	100.00% *	-

„PAK Kopalnia Węgla Brunatnego Adamów” SA in liquidation	62-700 Turek Warenka 23	Lignite mining	100.00%	100.00%
„Aquakon” sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	99.08%*	99.08%*

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

** The change has not yet been disclosed in the National Court Register

As of March 31, 2021, the share in the general number of votes held by the Group in subsidiaries is equal to the Group’s share in capitals of these subsidiaries.

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

Within the first quarter of 2022, the following changes were recorded:

- On February 28, 2022, the Company acquired 100% of shares in PAK Pątnów sp. z o.o. – this change has not yet been disclosed in the National Court Register;
- On February 28, 2022, PAK – PCE sp. z o.o. acquired 100% of shares in the following companies: Farma Wiatrowa Okonek sp. z o.o. and Farma Wiatrowa Jastrowie sp. z o.o. – this change has not yet been disclosed in the National Court Register;
- On February 28, the shares of ZE PAK SA in PAK-Volt SA, PAK – PCE Fotowoltaika sp. z o.o. and Exion Hydrogen Polskie Elektrolizery sp. z o.o. have been transferred to PAK – PCE sp. z o.o.
- On March 3, 2022, PAK – PCE sp. z o.o. acquired 100 % of shares in Farma Wiatrowa Przyrów sp. z o.o.
- On March 8, 2022 the Company acquired the shares in 5 companies - 50% of shares in each of them (these are the companies with the following names: Ørsted Polska OF SPV 1 sp. z o.o., Ørsted Polska OF SPV 2 sp. z o.o., Ørsted Polska OF SPV 3 sp. z o.o., Ørsted Polska OF SPV 4 sp. z o.o. and Ørsted Polska OF SPV 5 sp. z o.o.).

Already after the end of the reporting period, on April 13, 2022 the Company concluded the additional share purchase agreement with Ørsted Wind Power A/S (ORS) concerning the shares in further 5 project companies, as a result of which the Company will acquire 50% of shares from ORS in the share capital of the following companies: Orsted Polska OF SPV 6 sp. z o.o., Orsted Polska OF SPV 7 sp. z o.o., Orsted Polska OF SPV 8 sp. z o.o., Mawzorino Investments sp. z o.o. and Orsted Polska OF SPV 10 sp. z o.o.

2.4. Composition of the Management Board

There have been no changes in the composition of the Management Board since the beginning of 2022. Both in the first quarter and as at the date of publication of this report, the composition of the Company’s Management Board is as follows:

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

3. SIGNIFICANT EVENTS AFFECTING THE GROUP’S ACTIVITY

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

Short description of the achieved financial results

In the first quarter of 2022, total sales revenues amounted to PLN 996 286 thousand and, compared to the first quarter of 2021, increased by PLN 533 872 thousand, i.e. by 115.45%.

In the first quarter of 2022, 27.42% of the total increase in the volume of electricity sales was recorded. In the case of the sale of electricity from own production, this increase amounted to 12.50% and the sale of purchased energy increased by 54.55% compared to the previous year. The increase in energy production related to the production in the most efficient unit, i.e. a unit of 474 MW. Production in less efficient coal units has decreased. Production from biomass was slightly lower. In the first quarter of 2022, the production of electricity from a photovoltaic farm appears for the first time in the entire quarter. The recorded increase in production concerned March 2022, when the market conditions were the most favourable among all the months of the quarter. The net production volumes of individual power plants of the Group are

presented in Chart 3. Apart from higher volumes of energy sales, the increase in sales revenues was significantly influenced by the increase in the average price obtained, which increased by PLN 280.21, i.e. by 105.22%.

In the first quarter of 2022, revenues from the Capacity Market amounted to PLN 43 592 thousand and increased by PLN 762 thousand, i.e. by 1.78% compared to the corresponding period of the previous year.

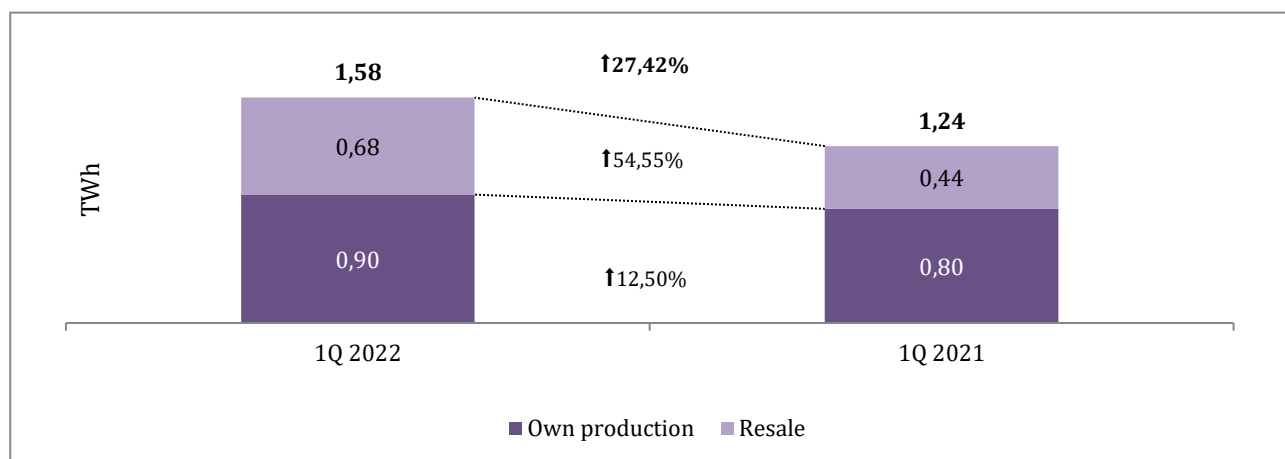
In the first quarter of 2022, compared to the first quarter of 2021, revenues from the sale of property rights from energy origin certificates increased by PLN 6 538 thousand, i.e. by 47.04%, due to the increase in the quotation of rights on the market, which was compensated by decrease in the volume of their production.

Revenues from the termination of LTCs (termination of long-term power and electricity sales agreement) in the first quarter of 2022 decreased by PLN 23,372 thousand, i.e. by 56.75%, as a result of the higher margin on the production from Unit 9.

Revenue from construction contracts in the first quarter of 2022 increased by PLN 248 thousand, i.e. 5.84%, compared to the same period of the previous year.

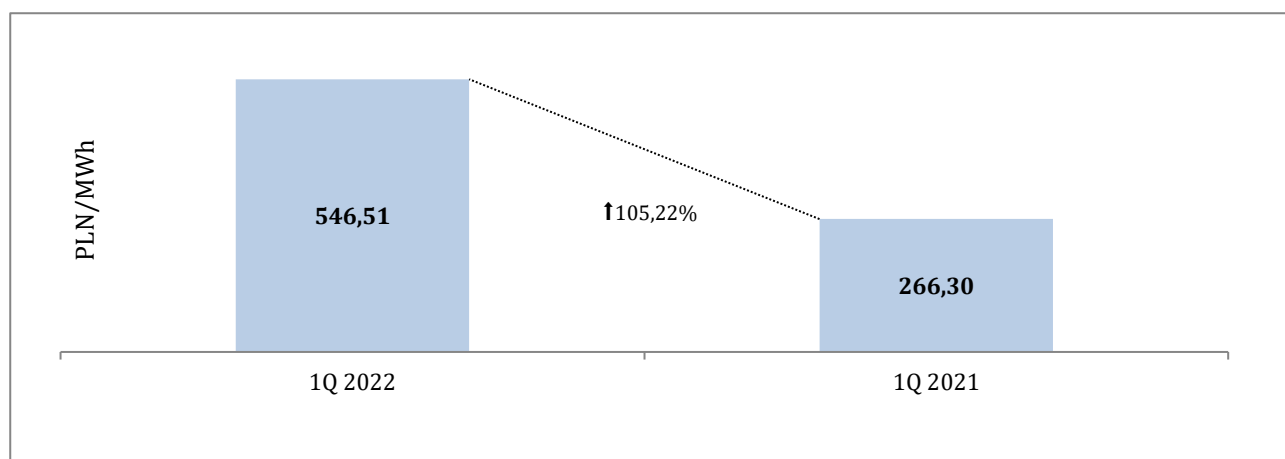
Revenues from the sale of heat in the 1st quarter of 2022 amounted to PLN 18,463 thousand and were higher than those obtained in the 1st quarter of 2021 by PLN 423 thousand, i.e. 2.34%. The increase in revenues from the sale of heat is the result of a higher sales volume and price compared to the same period of the previous year.

Chart 1: Electricity sale



Source: Internal data

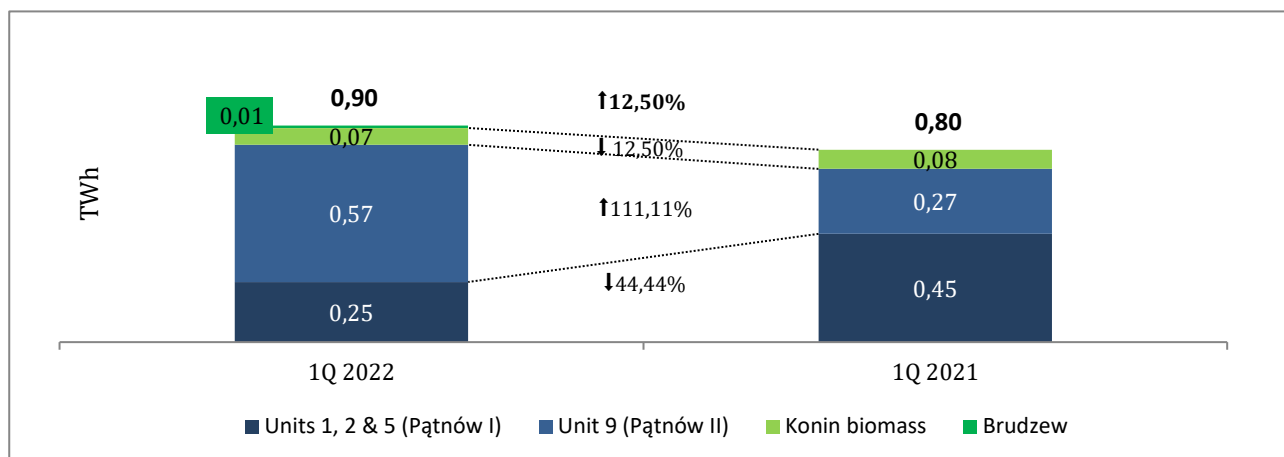
*Chart 2: Average electricity prices**



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

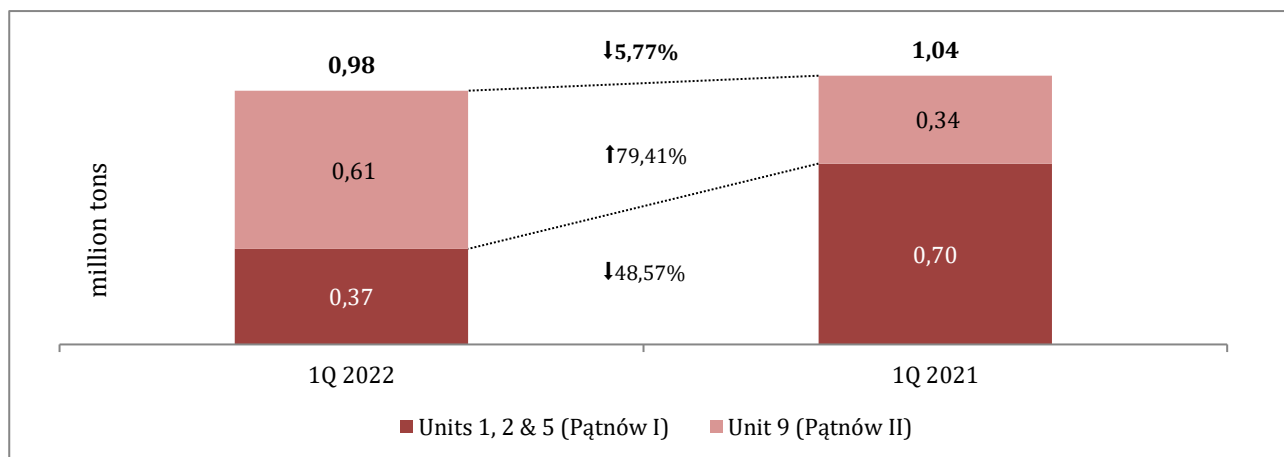
Source: Internal data

Chart 3: Net electricity production



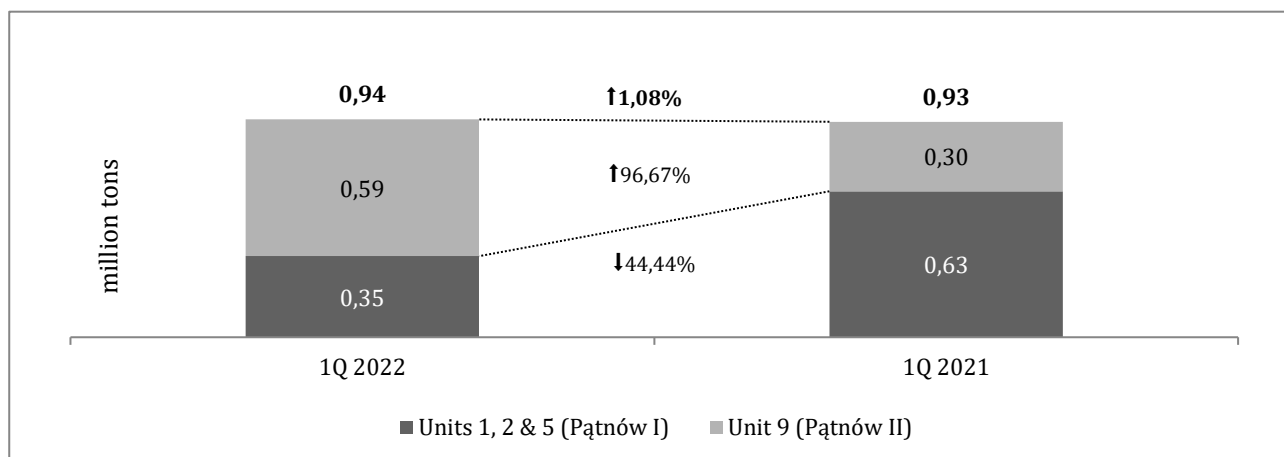
Source: Internal data

Chart 4: Lignite consumption



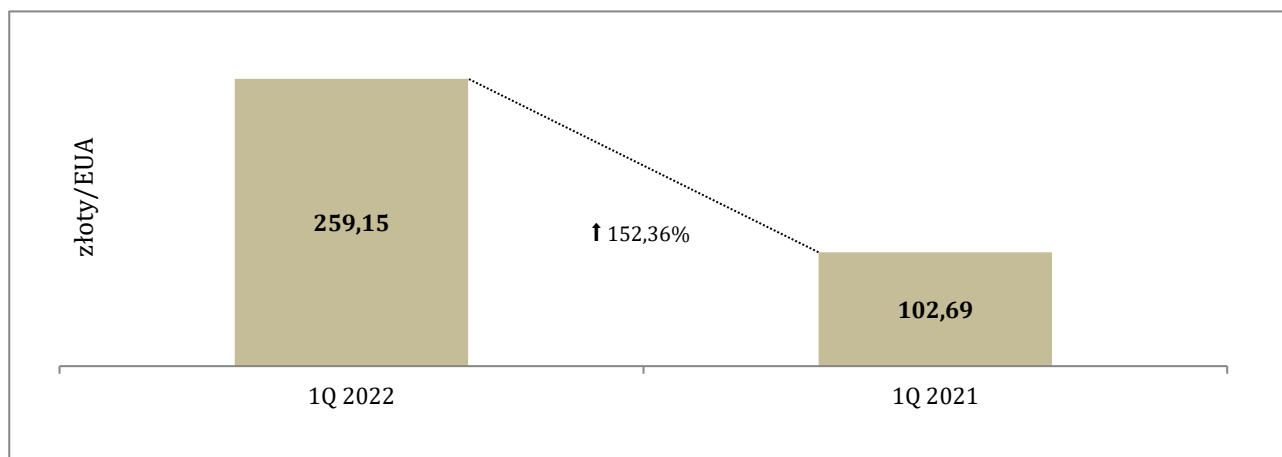
Source: Internal data

Chart 5: CO₂ emission



Source: Internal data

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



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

Source: Internal data

Table 2: List of consolidated sale revenues

	Zloty thousand 3 months period ended 31 March 2022	Zloty thousand 3 months period ended 31 March 2021	Zloty thousand change	%
			dynamics	
Revenues from the sale of goods, including:	959 149	407 835	551 314	135.18
– Revenues from the sale of electricity (own)	482 866	221 688	261 178	117.81
– Revenues from the sale of traded electricity	382 463	109 357	273 106	249.74
– Revenues from the sale of heat	18 463	18 040	423	2.34
– Revenues from the Capacity Market	43 592	42 830	762	1.78
– Other sale revenues	27 268	11 671	15 597	133.64
– Revenues from contracts for construction services	4 497	4 249	248	5.84
Excise	(1 114)	(506)	(608)	(120.16)
Other revenues, including:	38 251	55 085	(16 834)	(30.56)
– Property rights on Energy certificates of origin	20 436	13 898	6 538	47.04
– Compensation for termination of LTC	17 815	41 187	(23 372)	(56.75)
Total sale revenues	996 286	462 414	533 872	115.45

Cost of sales in the first quarter of 2022 amounted to PLN 858 598 thousand and compared to the first quarter of 2021 it increased by PLN 409 951 thousand, i.e. by 91.37%. The increase in the value of purchased electricity on the market and the higher costs of CO₂ emissions, mainly due to the higher average EUA price, contributed to the increase in the prime cost to the greatest extent.

Other operating income in the first quarter of 2022 amounted to PLN 22,243 thousand and was higher by PLN 14,414 thousand than in the corresponding period of the previous year. The high level of revenues is the result of higher revenues from the demolition and sale of recovered materials (scrap), as well as the sale of non-planned fixed assets and redundant inventories.

Selling costs in the first quarter of 2022 amounted to PLN 3,414 thousand and were higher by PLN 1,708 thousand than in the corresponding period of the previous year.

General and administrative expenses in the first quarter of 2022 amounted to PLN 29,832 thousand and were higher than those incurred in the corresponding quarter of the previous year by PLN 2,563 thousand, i.e. by 9.40%.

Table 3: Selected items of the consolidated income statement

	Złoty thousand 3 months period ended 31 March 2022	Złoty thousand 3 months period ended 31 March 2021	Złoty thousand change	%
				dynamics
Sales revenues	996 286	462 414	533 872	115.45
Prime cost	(858 598)	(448 647)	(409 951)	(91.37)
Gross sales profit (loss)	137 688	13 767	123 921	900.13
Other operating revenues	22 243	7 829	14 414	184.11
Cost of sales	(3 414)	(1 706)	(1 708)	(100.12)
General and administrative expenses	(29 832)	(27 269)	(2 563)	(9.40)
Other operating costs	(8 455)	(697)	(7 758)	-
Profit (loss) from operating activities	118 230	(8 076)	126 306	-
Financial revenues	16 733	1 654	15 079	911.67
Financial costs	(8 328)	(3 566)	(4 762)	133.54
Gross profit (loss)	126 635	(9 988)	136 623	-
Income tax (tax load)	(23 153)	1 981	(25 134)	-
Net profit (loss)	103 482	(8 007)	111 489	-
Net other comprehensive income	(149)	4	(153)	-
Comprehensive income	103 333	(8 003)	111 336	-
EBITDA*	128 999	25 740	103 259	401.16

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

Table 4: Consolidated costs by type

	Złoty thousand 3 months period ended 31 March 2022	Złoty thousand 3 months period ended 31 March 2021	Złoty thousand change	%
				dynamics
Depreciation	10769	33 816	(23 047)	(68.15)
Impairment write-down on inventory	3 202	30	3 172	-
Consumption of materials	93 472	81 777	11 695	14.30
Outsourcing	21 087	16 124	4 963	30.78
Taxes and fees excluding excise tax	32 648	38 614	(5 966)	(15.45)
Costs of CO ₂ emissions	243 393	95 157	148 236	155.78
Costs of employee benefits	93 176	91 757	1 419	1.55
Other costs by type	9 775	5 061	4 714	93.14
Value of sold goods and materials and sold traded electricity	391 657	123 128	268 529	218.09
Total costs by type	899 179	485 464	413 715	85.22

Other operating expenses in the reporting quarter amounted to PLN 8,455 thousand and increased by PLN 7,758 thousand compared to the first quarter of the previous year. The costs related to liquidation of fixed assets and donations mainly contributed to the increase in costs.

In the first quarter of 2022, ZE PAK SA Group recorded operating profit in the amount of PLN 118 230 thousand. In the same period of the previous year, a loss of PLN 8,076 thousand was recorded.

In the first quarter of 2022, the achieved results were positively affected by the positive result on financial activities in the amount of PLN 8,405 thousand, largely due to the positive valuation of the interest rate hedge and the higher interest income obtained. In the corresponding period of the previous year, the impact of the financial result was negative and amounted to PLN 1,912 thousand.

In the first quarter of 2022, the Group recorded a gross profit of PLN 126 635 thousand. The net profit amounted to PLN 103,482 thousand.

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

In the first quarter of 2022, 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 quarter of 2022, ZE PAK SA Group continued the implementation of one large project consisting in the adaptation of K-7 coal boiler at Konin power plant for the exclusive combustion of biomass along with the necessary technical infrastructure and started the construction of a wind farm in Kazimierz Biskupi. The 70 MWp photovoltaic farm in Brudzew commune was put into operation at the end of 2021. 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 K-7 boiler in Konin Power Plant to biomass combustion (biomass unit no. 2)

The task was 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 has been 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.

The contractor for the conversion of a coal-fired boiler into a fluidized bed boiler operating in the BFB technology and its adaptation to biomass combustion was Valmet Technologies Oy based in Espoo Finland. As part of the task, the so-called technological islands (TG5 turbine, G5 generator, biomass feeding installation and ash removal installation from under the electrostatic precipitator, electrostatic precipitator, digital unit control system) were also completed.

At the end of 2021, the boiler was fired up and the rated speed of the turbine was achieved, and the biomass unit was synchronized with the National Energy System. The block tests required by PSE were successfully completed. The final stage of acceptance works for the modernized block was a trial run, which also ended with a positive result. During the trial run, measurements were also made to check the achievement of the guaranteed technical parameters by the contractors of the modernization. In April 2022, the unit was put into operation.

Thanks to the modernization of the unit, approximately 100 MWe (2x50 MWe) of power will be available at Konin Power Plant, using biomass as the primary fuel.

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. The general contractor for the contract for the construction and commissioning of a wind farm is PAK Serwis sp. z o.o. and the supplier of the seven wind turbines is Siemens Gamesa Renewables Energy. PAK Serwis sp. z o.o. will be responsible for the scope of works related to the implementation of foundations for wind turbines, construction of target access and temporary roads, construction of the electrical system of connections between windmill switchboards and GPO (Main Acceptance Point), construction of GPO, connection of GPO with 110kV switchgear, enabling power evacuation to the power system and construction of a superior wind farm control system together with the facility technical protection system. On February 22, 2022 the construction site has been handed over to the contractor.

70 MWp Photovoltaic farm in Brudzew

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.

Equipment deliveries as well as construction and assembly works were completed, the control and supervision system for the operation of the photovoltaic farm was launched and consent was obtained for supplying voltage - the so-called EON, followed by a check of the electric systems under voltage and the completion of start-ups of individual systems of the

photovoltaic farm, the first synchronization of the farm with the power grid was carried out. The farm has been commissioned and is already producing electricity.

ZE PAK SA key investments in the preparatory phase

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

- construction of a hydrogen production plant with associated infrastructure at Konin power plant,
- design work on a bus prototype powered by hydrogen fuel cells,
- autonomous supply of electricity and heat to a single-family house, based on its own renewable energy sources using hydrogen as a storage and energy carrier,
- construction of a photovoltaic farm in the area of Przykona commune.

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

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

Hydrogen will be produced in the water electrolysis process using energy from renewable sources. The basic source of primary energy will be biomass and solar energy, their conversion into electricity, in dedicated installations, will power the electrolytic plant system. The implementation of this task will enable to produce the so-called "Green hydrogen".

The first step towards building a hydrogen plant at the Konin Power Plant was the conclusion on April 9, 2020 of a contract with Hydrogenics Europe N.V. Belgium to purchase an electrolyser that will initially produce hydrogen in the amount of 1000 kg H₂ / day. At a later stage, thanks to the modular construction of the hydrogen plant and preparation of the infrastructure, it will be possible to increase production capacity, depending on the demand for hydrogen. The original delivery date of the electrolyser indicated in the contract was in mid-2021, however due to reasons attributable to the supplier, resulting from force majeure, it was extended. Currently, the process of agreeing the provisions and signing a contract for the supply of a second 2.5 MW electrolyser from the HyLYZER 500-30 series is in progress. In Fabryka Transformatorów w Żychlin, 6/10kV transformer has been ordered to supply one of the electrolysers.

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 GmbH Weeze for the supply of a mobile hydrogen storage facility. The delivery of the mobile hydrogen storage facility has been completed. In December 2021, an agreement was also concluded with this company for the supply of two hydrogen cars.

Design work on a bus prototype powered by hydrogen fuel cells and the construction of hydrogen buses factory

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 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 and submitted the application for obtaining a preferential financing.

In October 2021, the construction of the prototype was completed and the bus tests began, and on April 20, 2022, EU approval was obtained for the produced city bus. At the turn of May and June 2022, the official premiere and presentation of the bus is planned.

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

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

A contract with the General Contractor is planned to be signed in May 2022, design documentation will be prepared by the end of July 2022, and the completion of the factory construction is planned for the end of June 2023.

Autonomous supply of electricity and heat to a single-family house

The project involves the development of a concept and technical selection of devices for a self-sufficient autonomous power supply system for electricity, heat, domestic hot water for single-family houses with low energy consumption and passive houses.

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

The equipment necessary to create an autonomous power and heat supply model for a single-family house was purchased - a complete electrolyser system, hydrogen storage tanks, fuel cells, and a home photovoltaic power plant. Currently, the initial operation phase of the assembled autonomous power supply system intended for a single-family house is in progress. The procedure of selecting a designer has started. The designer will develop a demonstrator project for the project "Autonomous power and heat supply of a single-family house, based on own renewable energy sources using hydrogen as a storage and energy carrier". This project will be the basis for building a model of a single-family house in the form of a container building.

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. On January 5, 2022, an environmental decision was obtained, which became final on February 3, 2022. On March 31, 2022, the conditions for connection were obtained together with a gas and steam unit of the 600 MWe class. Another administrative permit that will be required to obtain is a building permit.

Preparation of technical documentation was commissioned with obtaining a permit for the reconstruction of the 110kV line with an increase in its transmission capacity for the connection between GPZ Adamów - Adamów 110 / 220kV station.

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

Decision made by PAK – Polska Czysta Energia sp. z o.o. on taking out a loan and granting loans to project companies in order to implement a wind project „Miłosław”

On February 25, 2022, PAK – Polska Czysta Energia sp. z o.o. decided to (i) conclude a loan agreement between PAK – PCE sp. z o.o. as the borrower and Cyfrowy Polsat SA as the lender, (ii) conclude a loan agreement between PAK – PCE sp. z o.o. as the lender and Park Wiatrowy Pałczyn 1 sp. z o.o. as the borrower, and (iii) conclude a loan agreement between PAK – PCE sp. z o.o. as the lender and Park Wiatrowy Pałczyn 2 sp. z o.o. as the borrower.

The above loans have been concluded in order to enable the financing of an investment project consisting in the implementation of RES installations in the form of four wind farms within the commune of Miłosław, Września country, Wielkopolskie voivodship.

The Loan Agreements provide that loans may be taken out in PLN or EUR by PAK – PCE sp. z o.o., Park Wiatrowy Pałczyn 1 sp. z o.o. and Park Wiatrowy Pałczyn 2 sp. z o.o. respectively, on the terms specified in accordance with the demand resulting from the schedule of the investment loan while at the same time the loan agreements provide borrowers with the possibility to obtain alternative forms of financing the investment project and potential early repayment of loans granted on the basis of the loan agreements. The interest rate on the loans is variable, based on the WIBOR rate.

PAK – Polska Czysta Energia sp. z o.o. acquires a wind project „Przyrów”

On March 4, 2022, PAK – Polska Czysta Energia sp. z o.o. acquired from KI Foundation, a foundation established and operating in accordance with the laws of the Republic of Malta, 200 (two hundred) shares with a nominal value of PLN 50.00 each, representing 100% of the total share capital of Farma Wiatrowa Przyrów sp. z o.o. with its seat in Warsaw.

PAK-PCE acquired the shares from the seller as part of an investment project consisting in the implementation of RES installations by PAK-PCE in the form of a set of 14 (fourteen) wind farms within the commune of Przyrów, Częstochowa county, śląskie voivodship.

The investment project provides for the construction of a wind farm consisting of 14 (fourteen) wind turbines with a total capacity of 42 MW in Przyrów. The wind conditions in this region make it possible to estimate the annual production of the farm at nearly 105.2 GWh. The project has a complete set of administrative and legal permits allowing for the commencement of construction works on wind turbines. The transaction documentation provides for obtaining a set of administrative and legal permits allowing for the completion of construction works and connection of the Farm to the network. The expected date for launching the farm is the third quarter of 2024 at the latest. The total estimated capital expenditure related to the acquisition and implementation of the farm will amount to nearly PLN 342 million.

Acquisition of project companies and conclusion of a partner agreement with Ørsted Wind Power A/S

On March 8, 2022, the Company concluded the share purchase agreement with Ørsted Wind Power A/S based in Fredericia, Denmark (ORS) for 5 project companies, under which the Company acquired from 50% of shares in the share capital of the following companies: Ørsted Polska OF SPV 1 sp. z o.o., Ørsted Polska OF SPV 2 sp. z o.o., Ørsted Polska OF SPV 3 sp. z o.o., Ørsted Polska OF SPV 4 sp. z o.o. and Ørsted Polska OF SPV 5 sp. z o.o. (Joint Venture Companies). The Parties obtained the consent of the President of the Office for Competition and Consumer Protection to implement the concentration, consisting in the creation by ORS and the Company of five joint entrepreneurs on 16 December, 2021.

Also on March 8, 2022 the parties concluded the partnership agreement specifying the principles of *corporate governance* in the Joint Venture Companies and the terms of further cooperation.

The parties plan to jointly submit applications for permit issuance for the construction and use of artificial islands, structures and devices in the maritime areas of the Republic of Poland for offshore wind farm projects in the upcoming deciding proceedings, conducted in accordance with Art. 27d et seq. of the Act of March 21, 1991 on the maritime areas of the Republic of Poland and maritime administration.

Changes in the Supervisory Board

On March 10, 2022, the Extraordinary General Meeting of Shareholders of the Company appointed three new members to the Supervisory Board of the Company: Mr. Jarosław Grzesiak, Mr. Tobiasz Solorz and Mr. Piotr Żak. The appointment resolutions entered into force upon their adoption.

On March 30, 2022, Mr. Leszek Wysłocki resigned from membership in the Supervisory Board of the Company.

On April 13, 2022, the Supervisory Board of the Company adopted a resolution on entrusting the function of Deputy Chairman to Mr. Piotr Żak. On April 22, 2022, the Extraordinary General Meeting of Shareholders of the Company established a new number of members of the Supervisory Board of the Company and dismissed Mr. Grzegorz Krystek from the function of a member of the Supervisory Board.

The consent to the target regulation of an organized part of the enterprise of ZE PAK SA related to the energy activities conducted as part of Elektrownia Pątnów for PAK Pątnów Sp. z o.o., i.e. leasing, and then making an in-kind contribution to PAK Pątnów Sp. z o.o.

On March 10, 2022 the Extraordinary General Meeting of ZE PAK SA adopted a resolution on the consent to the target ordinance of an organized part of the enterprise including a group of property and non-property components and a team of employees necessary to run a business within Pątnów Power Plant, which consists in independent and comprehensive generation of electricity and heat using Pątnów 1 Power Plant (installed capacity of 644 MW) and Pątnów 2 Power Plant (installed capacity of 474 MW), hereinafter referred to as "ZCP Pątnów", which will be sold in two stages - lease of ZCP Pątnów for PAK Pątnów Sp. z o.o. seated in Konin and in-kind contribution of ZCP Pątnów to PAK Pątnów Sp. z o.o. seated in Konin.

The Extraordinary General Meeting of ZE PAK SA authorized the Management Board of the Company to take all steps necessary to implement this Resolution.

Significant Events after the balance sheet date

Acquisition of further project companies from Ørsted Wind Power A/S

On April 13, 2022, the Company concluded the additional share purchase agreement with Ørsted Wind Power A/S based in Fredericia, Denmark (ORS) concerning the shares in the further 5 project companies as a result of which the Company will acquire 50% of shares from ORS in the share capital of the following companies: Ørsted Polska OF SPV 6 sp. z o.o., Ørsted Polska OF SPV 7 sp. z o.o., Ørsted Polska OF SPV 8 sp. z o.o., Mawzorino Investments sp. z o.o. and Ørsted Polska OF SPV 10 sp. z o.o. (Joint Venture Companies) upon entering the sale price of the shares in the ORS bank account. The total price for shares in Joint Venture Companies was EUR 170,000. The parties obtained the consent of the President of the Office of Competition and Consumer Protection to implement a concentration consisting in the creation by ORS and the Company of five joint entrepreneurs on April 7, 2022.

On the date of transferring the title to 50% of shares in the Joint Venture Companies to the Company, the Company and ORS will conclude the Amended Shareholders' Agreement, which will amend the Shareholders' Agreement concluded on March 8, 2021, in order to cover the Joint Venture Companies with the corporate governance rules set out in the Shareholders' Agreement.

The parties plan to jointly submit applications for the issuance of permits for the construction and use of artificial islands, structures and devices in the maritime areas of the Republic of Poland for offshore wind farm projects in the next resolving procedure, conducted in accordance with Art. 27d et seq. the Act of March 21, 1991 on the maritime areas of the Republic of Poland and maritime administration.

The consent to the lease and sale of an organized part of the enterprise of ZE PAK S.A. related to the energy activities carried out as part of the Elektrownia Konin

On April 22, 2022 the Extraordinary General Meeting of ZE PAK SA adopted a resolution on the consent to lease an organized part of the Company's enterprise, which includes in particular: land real estate owned or in perpetual usufruct of the Company, where the production assets, electrical switchboards with transmission infrastructure, workshops, office buildings and others, accompanying infrastructure, contracts and some employees are included, necessary to run a business by the Elektrownia Konin ("ZCP Konin") for the benefit of PAK-PCE Biopaliwa i Wodór Sp. z o.o.

On April 22, 2022 as well the Extraordinary General Meeting of ZE PAK SA adopted a resolution on the consent to the sale of an organized part of the Company's enterprise, which includes in particular: land real estate owned or in perpetual usufruct of the Company, where the production assets, electrical switchboards with transmission infrastructure, workshops, office buildings and others, accompanying infrastructure, contracts and some employees are included, necessary to run a business by Elektrownia Konin ("ZCP Konin") for the benefit of PAK-PCE Biopaliwa i Wodór Sp. z o.o.

Increasing the limit of available financing in the loan agreement concluded by PAK Polska Czysta Energia Sp. z o.o.

On May 23, 2022, PAK – Polska Czysta Energia sp. z o.o. increased the amount of available financing in the Agreement concluded with EFG Bank Ltd. based in Zurich. The amount of the available loan was increased by PLN 125 million, i.e. to PLN 300 million. The funds obtained will be used to finance projects in the field of renewable energy sources and the production and use of green hydrogen, implemented by the Borrower's subsidiaries. The financial terms and other terms of the Loan Agreement do not differ from the market terms.

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

ZE PAK SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the first quarter of 2022, 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 Wierzbiniek Commune issued an environmental

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

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

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

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

The judgment of the Provincial Administrative Court in Poznań, dated June 18, 2020, means that the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune, is still in legal circulation. A hearing date has not yet been set in this case.

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 corresponding</i> <i>number of votes at the General</i> <i>Meeting</i>	<i>%</i> <i>Share in the total</i> <i>number of</i> <i>shares/votes</i>
Zygmunt Solorz (indirectly) through:	33 523 911	65.96
– <i>Argumenol Investment Company Limited</i>	<i>33 523 911</i>	<i>65.96</i>
Nationale – Nederlanden OFE	4 503 242	8.86
OFE PZU „Złota Jesień”	4 635 719	9.12

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

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

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

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

Table 5: Status of the Company's shares held by the 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 Szelaǳ	0	0
Henryk Sobierajski	0	0
Sławomir Zakrzewski	0	0
Maciej Stec	0	0
Alojzy Z. Nowak	0	0
Jarosław Grzesiak	0	0
Tobias Solorz	0	0
Piotr Źak	0	0

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

ZE PAK SA has not published any financial forecasts.

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The Company did not pay or declare dividend payment in the first quarter of 2022.

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

ZE PAK SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the first quarter of 2022.

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

PAK – Polska Czysta Energia sp. z o.o. granted a loan on January 4, 2022 to Park Wiatrowy Pałczyn 2 sp. z o.o. in the amount of PLN 14,000 thousand or its equivalent in EUR, with the repayment date by the end of December 2025. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

On February 21, 2022, ZE PAK SA granted a surety to KWB SIENIAWA sp. z o.o. in the amount of PLN 30,000 thousand for the liabilities of the subsidiary of the Capital Group, i.e. PAK KWB Konin SA. The surety was granted by ZE PAK SA as a security for the contract for the purchase and sale of lignite signed between PAK KWB Konin SA and KWB SIENIAWA sp. z o.o.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on February 28, 2022 to Park Wiatrowy Pałczyn 1 sp. z o.o. in the amount of PLN 59,500 thousand or its equivalent in EUR, with the repayment date by the end of December 2025. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on February 28, 2022 to Park Wiatrowy Pałczyn 2 sp. z o.o. in the amount of PLN 10,100 thousand or its equivalent in EUR, with the repayment date by the end of December 2025. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 4, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 3,053 thousand with the repayment date till November 2022. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 4, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 450 thousand with the repayment date till June 2022. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 4, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 900 thousand with the repayment date till June 2022. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 4, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 260 thousand with the repayment date till June 2022. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 4, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 58 thousand with the repayment date till June 2022. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 4, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 1,063 thousand with the repayment date till July 2022. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

On March 4, 2022, ZE PAK SA granted a surety to KI Foundation in the amount of EUR 2,703 thousand for the liabilities of a subsidiary of the Capital Group, i.e. Farma Wiatrowa Przyrów sp. z o.o. The surety was granted by ZE PAK SA as a security for the contract for the sale of shares in Farma Wiatrowa Przyrów sp. z o.o. signed between PAK - Polska Czysta Energia sp. z o.o. and ZE PAK SA and the KI Foundation.

On March 4, 2022, ZE PAK SA granted a surety to KI Foundation in the amount of EUR 1,350 thousand for the liabilities of a subsidiary of the Capital Group, i.e. Farma Wiatrowa Przyrów sp. z o.o. The surety was granted by ZE PAK SA as a security for the contract for the sale of shares in Farma Wiatrowa Przyrów sp. z o.o. signed between PAK - Polska Czysta Energia sp. z o.o. and ZE PAK SA and the KI Foundation.

On March 4, 2022, ZE PAK SA granted a surety to Conerga sp. z o.o. in the amount of PLN 3,875 thousand for the liabilities of the subsidiary of the Capital Group, i.e. Farma Wiatrowa Przyrów sp. z o.o. The surety was granted by ZE PAK SA as a security for the contract for the sale of shares in Farma Wiatrowa Przyrów sp. z o.o. signed between PAK - Polska Czysta Energia sp. z o.o. and ZE PAK SA and the KI Foundation.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 14, 2022 to PAK – PCE Polski Autobus Wodorowy sp. z o.o. in the amount of PLN 11,500 thousand or its equivalent in EUR, with the repayment date by the end of December

2025. The loan is intended for the implementation of an investment project consisting in investments related to the development and production of hydrogen buses.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 14, 2022 to PAK – PCE Polski Autobus Wodorowy sp. z o.o. in the amount of PLN 34,000 thousand or its equivalent in EUR, with the repayment date by the end of December 2025. The loan is intended for the implementation of an investment project consisting in investments related to the development and production of hydrogen buses.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 18, 2022 to Farma Wiatrowa Przyrów sp. z o.o. in the amount of PLN 7,300 thousand or its equivalent in EUR, with the repayment date by the end of December 2025. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of wind farms.

PAK – Polska Czysta Energia sp. z o.o. granted a loan on March 21, 2022 to PAK – PCE Biogaz sp. z o.o. in the amount of PLN 500 thousand with the repayment date by the end of December 2025. The loan is intended for the financing of the current operational activity.

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

In the first quarter of 2022, the companies of ZE PAK SA Capital Group did not issue or redeem non-equity and equity securities.

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

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

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

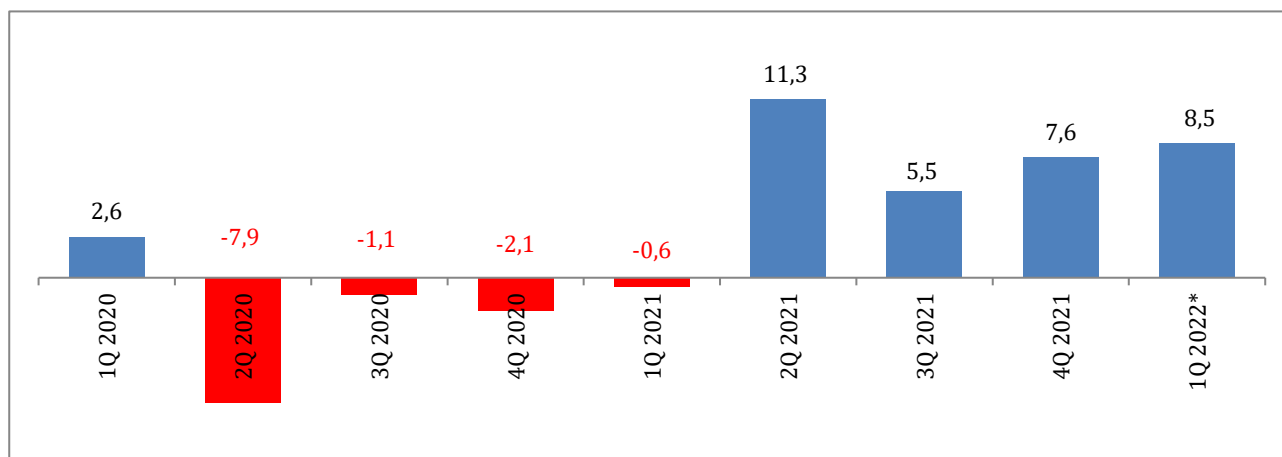
- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO₂ allowances costs;
- compensation for the stranded costs related to the termination of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

Moreover, an important factor that may have a significant impact on the financial results are 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.

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



* The so-called quick estimate of gross domestic product in the first quarter of 2022, seasonally unadjusted, at constant average annual prices of the previous year.

Source: Own elaboration based on CSO data

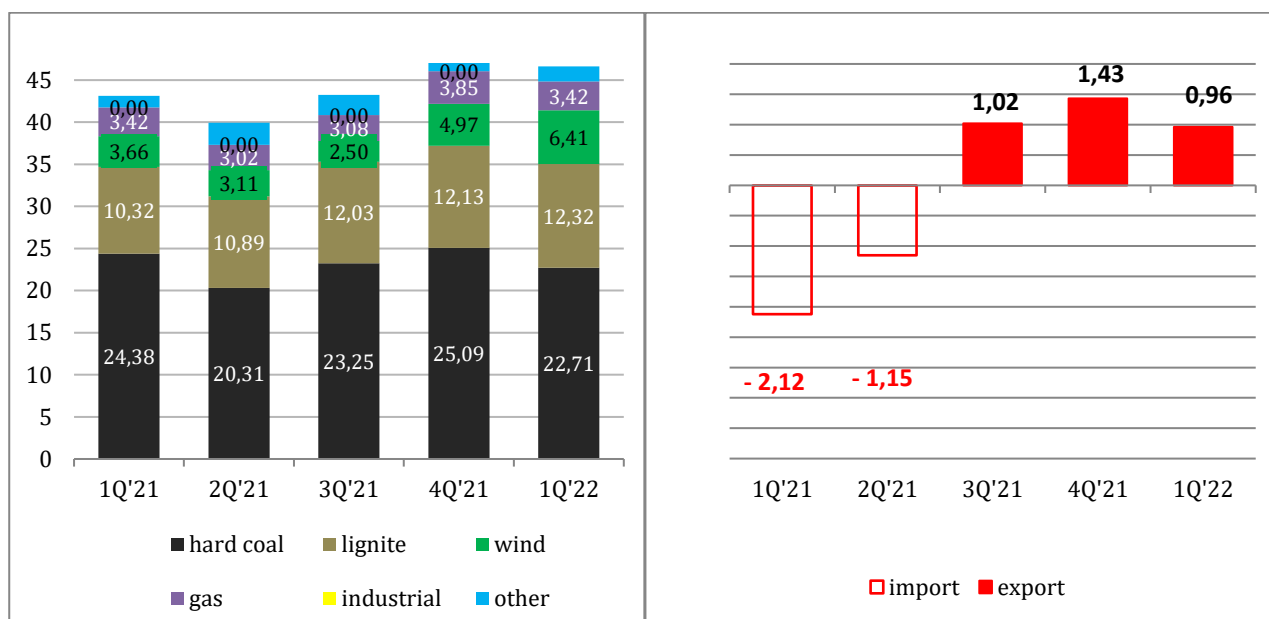
According to a quick estimate, the unadjusted gross domestic product (GDP) in the first quarter of 2022 increased in real terms (i.e. after taking inflation into account) by as much as 8.5% compared to the first quarter of the previous year. It is also the second highest GDP growth since 1995, after the post-Covid rebound in the second quarter of 2021.

The data is preliminary and may be subject to revision, in line with the revision policy applied in quarterly national accounts, when the first regular GDP estimate for the first quarter of 2022 is prepared, which will be published on May 31, 2022.

Data on the operation of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, indicate that gross domestic electricity consumption in the first quarter of 2022 amounted to 45.68 TWh¹ and increased by 0.94% compared to the first quarter of the previous year. In the first quarter of 2022, gross electricity production amounted to 46.65 TWh, which means an increase by 8.13% 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 22.71 TWh. 12.32 TWh was produced from lignite, which comparing q / q means a decrease in production based on hard coal and an increase in production based on lignite. Wind farms produced 6.41 TWh, which is over 75% more than in the same period last year. Generation from gas-fired power plants fell by 8.26% q / q (production at 3.13 TWh). The balance of foreign exchange in the first quarter of 2022 amounted to 0.96 TWh on the export side, which means that Poland changed its direction in cross-border trade and became an exporter of electricity. Moreover, March 2022 was the eighth consecutive month in which Poland was an exporter of electricity, after many years of being an importer.

¹ Table no. 3. Structure of electricity production in domestic power plants, amounts of electricity exchanged with foreign countries and domestic energy consumption - monthly amounts and from the beginning of the year - gross amounts.

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



Source: Own elaboration based on PSE data

11.2. Regulatory environment

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

Significant factors that may affect the financial results of ZE PAK SA are issues related to the functioning of the capacity market.

On December 16, 2021, as a result of the main auction for the delivery year 2026, carried out according to the parameters specified in *Regulation of the Minister of Climate of August 6, 2022 on parameters of the main auction for the delivery year 2025 and parameters of additional auctions for the delivery year 2022*, PAK CCGT sp. z o.o. concluded a capacity contract for 17 years of supply, contracting 493 MW of the capacity obligation at the base price of PLN 400.39 / kW / year. The value of the concluded capacity contract for the first year of deliveries for 2026 is PLN 197,392,270.00. The provisions of the regulation supplementing Regulation (EU) 2020/832 of the European Parliament and of the Council on the framework for recognizing economic activity as environmentally sustainable by including the transitional activity clause in the production of electricity from fossil gas fuels and nuclear will be important for obtaining financing for this investment. Work on this document was carried out last year, and the draft for further consultations was approved by the European Commission on February 2, 2022. Poland sought recognition of both fuels, as they will play the role of stabilizing the system's operation while abandoning coal.

Bearing in mind the power contract concluded by PAK CCGT sp. z o.o. as well as the validity of capacity contracts concluded by ZE PAK SA Group in previous years, whose performance period has not yet ended, from the point of view of the Group's future financial results, any changes in the operational area of the capacity market may be significant.

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. A significant change introduced by the reform, proceeded in stages, is the change in the rules for determining the settlement price of the deviation of sales and purchase of energy from the balancing market, effective from January 1, 2022, depending on the contracting status of the National Power System, which prevents price arbitrage on the balancing market and on the day ahead market of TGE S.A.

In addition, from the point of view of the Group's financial results, and above all from the point of view of the company's liquidity management in 2022, it is also important to pass in January 2022 an act amending the so-called "Anti-crisis shield", which changed the rules applicable in the system securing the clearing of transactions concluded on the exchange, expanding the range of options for contributing non-cash collateral to the clearing guarantee system, opening for the Company as an entity that performs the obligation referred to in Art. 49a paragraph. 1 of the Act of April 10, 1997. - Energy law, the possibility of submitting a declaration submitted in the form of a notarial deed on submission to enforcement pursuant to Art. 777 § 1 point 5 of the Code of Civil Procedure, which gives the company greater flexibility in financial management.

Among the important issues in the regulatory environment, work on the reform of the ETS system, which is currently underway in the EU bodies, is also important. The discussed changes include scenarios of changes in the functioning of the Market Stability Reserve (IAS) and the possible exclusion of financial institutions from the ETS. Any possible changes to the ETS may affect the trading level of EUA units.

11.3. Electricity prices

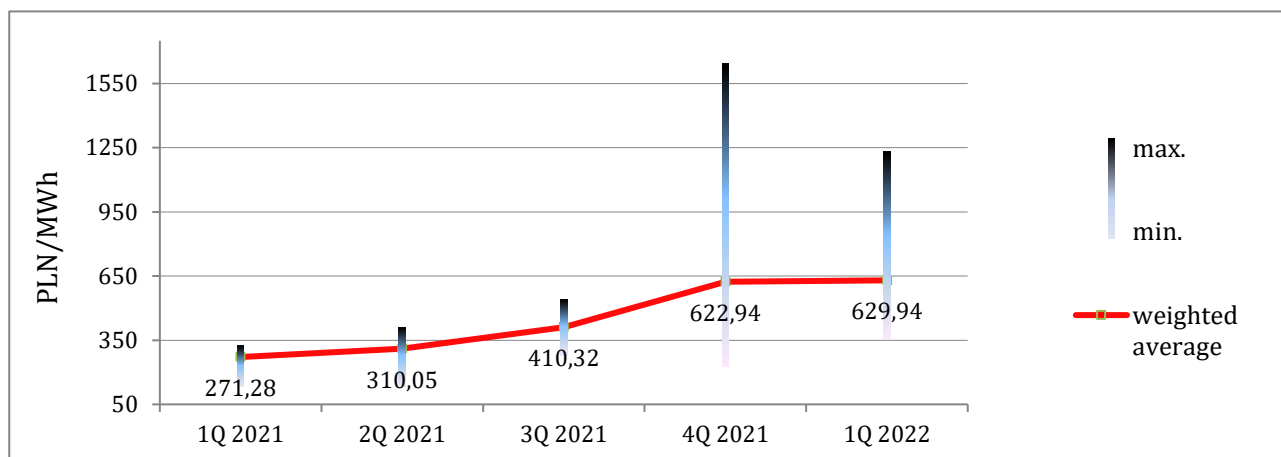
The company generates the vast majority of revenues from the production and sale of electricity, therefore the risk of changing the price at which it sells electricity is of key importance for the level of revenues generated by the Group.

On the day-ahead market on TGE S.A., invariably from the second quarter of 2020, the weighted average price from the TGeBASE indices maintains a strong upward trend. The average for the first quarter of 2022 was higher than the average for the fourth quarter of 2021 by PLN 7.0 / MW, despite the fact that the maximum price in the first quarter of 2022 (PLN 1,233.01 / MWh) was lower than the maximum price achieved in the fourth quarter of 2021. Price increases in the first quarter of 2022 were dictated by the high demand for energy in Poland and Western Europe. The high price levels in the reporting period were still stimulated by the unstable situation related to gas supplies in Europe and the increase in the price of this fuel, as well as the increase in coal prices. Factors related to market volatility have intensified after Russia's aggression against Ukraine. Planned repairs of generating units as well as unplanned shutdowns of power units, caused both by failures of generating units, but also by a deficit in coal supplies, also contributed to the price increases. The direction of cross-border electricity trade also continued to influence the level of prices. Poland was an exporter of energy in the next quarter in a row.

The weighted average BASE price on the Day-Ahead Market on TGE SA for the first quarter of 2022 was at the level of PLN 629.94/MWh, which means an increase compared to the first quarter of 2021 by PLN 358.21 /MWh², i.e. by approximately 132 %.

²source ww.tge.pl

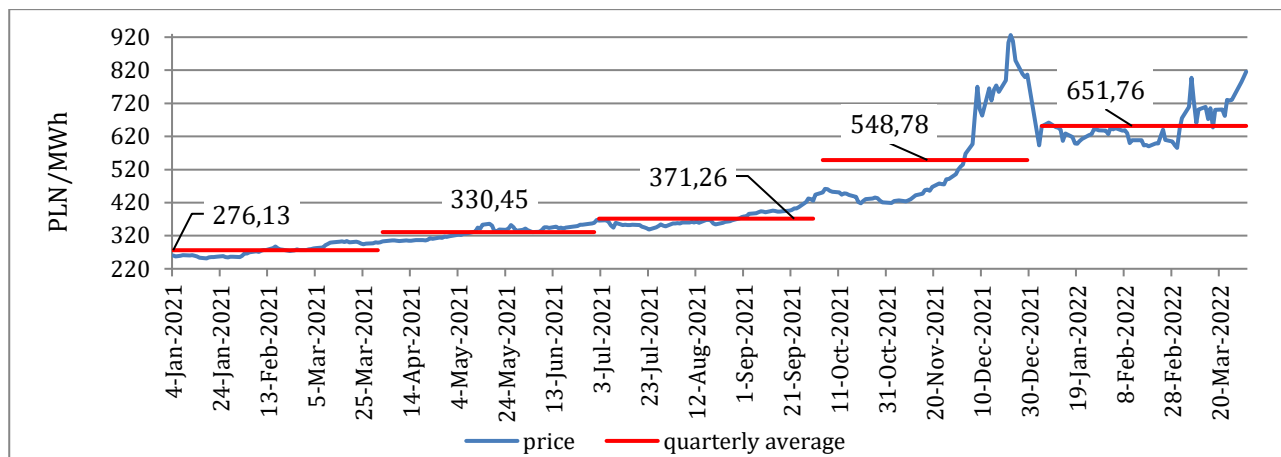
Chart 9: Electricity prices (TGeBASE)³



Source: Own elaboration based on TGE data

The arithmetic mean of the daily clearing rates for the reference futures contract BASE_Y-23 in the 1st quarter of 2022 was at the level of PLN 651.76 / MWh, which means an increase in relation to the BASE_Y-22 futures contract quoted in the 1st quarter of 2021 by PLN 376.63 / MWh, i.e. by approximately 136%. Although the achieved price maximums from the fourth quarter of 2021 were not exceeded, in the first quarter of 2022, the sharp increase in prices took place shortly after the start of Russia's military operations in Ukraine, which began on February 24, 2022. The development of the armed conflict in Ukraine will continue to have a significant impact on the Electricity Futures Markets in Poland and Europe (unstable gas and coal situation in Europe and thus strong price increases on the markets). Moreover, jumps in prices of CO2 emission allowances contributed to jumps in prices on the futures market, as well as on the TGE SA Day-Ahead and Overnight Markets.

Chart 10: The price of the futures contract for the supply of electricity (band) for 2023



Source: Own elaboration based on TGE data

11.4. Prices supply of certificates of origin

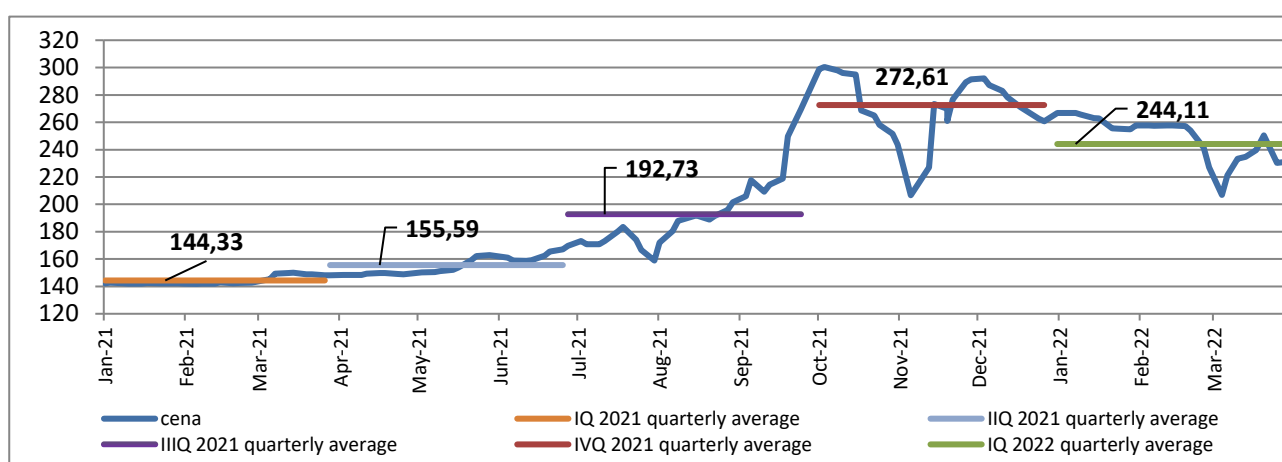
Due to the fact that one of the power units at ZE PAK SA is dedicated to combusting biomass and, a producer is entitled to green certificates. The number of obtained certificates of origin depends on the level of generation from a given sources and is significantly higher than the number, which the Company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

³ In June 2019, TGE SA liquidated the IRDN index, currently the base reference index is the TGeBase index

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

The end of the fourth quarter of 2021 started a decline in the prices of green certificates, which continued throughout the first quarter of 2022. In January 2022, the volume-weighted average price at the sessions of the Property Rights Market for the PMOZE_A instrument was PLN 261.66 / MWh, which means a decrease by PLN 15.52 / MWh compared to December 2021. In February and March there were further price drops. In the first quarter of 2022, the average quarterly price of certificates of origin of energy produced from RES was PLN 244.11 / MWh and compared to the same quarter of the previous year this price increased by 69.13%. Compared to the fourth quarter, however, taking into account the increase in prices throughout 2021, which was caused by the stabilization of the economic situation related to the pandemic, in the first quarter of 2022 the price of certificates decreased by PLN 28.5 / MWh, i.e. by 10.45%. Such a large drop in prices can be associated with the proposal of the Ministry of Climate and Environment, which plans in 2023 to significantly reduce the obligation to share green energy from redeemed certificates of origin, the so-called green certificates. This argues that the burden on end users is too high. The proposal of the Ministry of Climate and Environment reduces the quantitative share of the sum of electricity resulting from redeemed certificates of origin from 18.5% in 2022 to only 10% in 2023.

Chart 11: Average price of certificates of origin for RES produced electricity



Source: Own elaboration based on TGE data

11.5. Extraction and supply costs of coal and other fuel

A fuel cost is the important part of the costs related to the electricity and heat generation in ZE PAK SA Group's companies. The prices of fuel largely determine the competitiveness of particular electricity production processes. ZE PAK SA 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 ongoing technological commissioning of the new 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. Currently, no significant investments are made in the coal mining segment that would lead to an increase in production, and in the coming years a significant decline in coal volumes should be expected due to the end of operation of two out of three currently operated lignite open-pit mines. The company intends to gradually move away from coal-based power generation and focus more and more on low-carbon and carbon neutral electricity generation projects. The implementation of the project to build a gas and steam unit at Adamów Power Plant, which was the subject of the capacity market auction won in December 2021, will mean an increase in the importance of gaseous fuel in the balance of energy supplies for the Group in the future.

11.6. CO₂ emission allowances costs

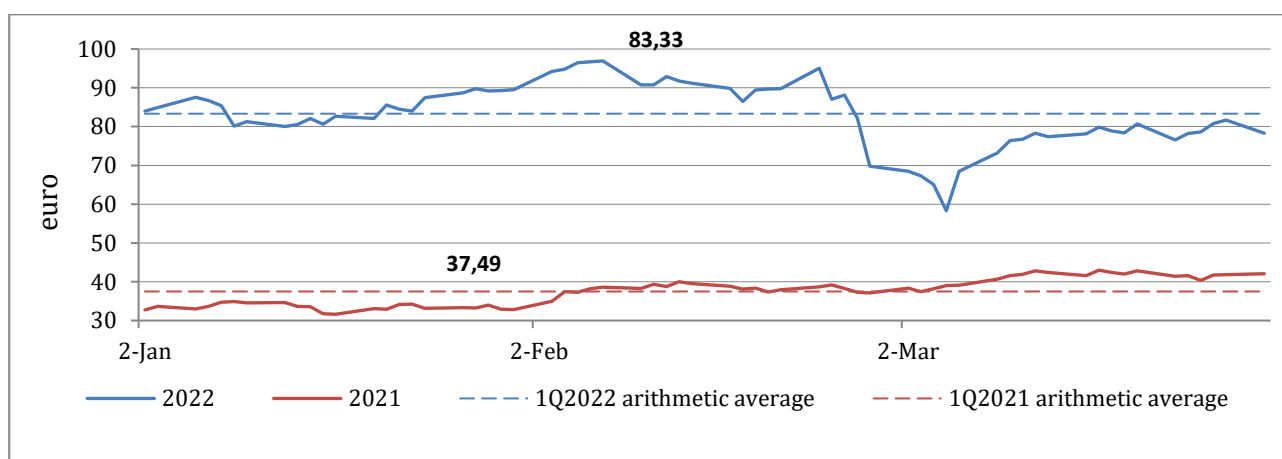
The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO₂ emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact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

In 2022, the Group will receive a negligible amount of free CO₂ emission allowances, i.e. 11,825 EUA, resulting from allocation to heat production. Therefore, practically the entire amount of emission allowances needed by the ZE PAK SA Group must be purchased on the secondary market.

In January 2022, EUA allowances increased to approximately EUR 87.00, from approximately EUR 80.00 at the end of 2021, due to the limited supply of allowances on the market resulting from the later date of the auction. The prices of EUA allowances on the spot market of the ICE and EEX exchanges in January 2022 increased from 79.96 to 88.80 EUR / EUA. February saw large fluctuations in EUA prices due to Russia's aggression towards Ukraine on February 24 this year. By that date, allowance prices had risen to a historic level of around € 96.50. After February 24, 2022, CO₂ prices began to decline due to the systematic sale of allowances, qualifying EUA allowances as high-risk assets. The prices of EUA allowances on the spot market of the ICE and EEX exchanges in February 2022 fell from EUR 88.80 to EUR 81.81 / EUA. The downward trend which started at the end of February lowered the EUA prices in March to the level of EUR 58.00 / EUA. This means that during the month, counting from the record high of EUR 96.38 / EUA, established on February 8, 2022, to March 7, 2022, the prices of allowances fell by as much as 40%. After the sharp drops in the prices of allowances, there was a characteristic for the market in such situations - an equally rapid rebound, as a result of which allowances recovered most of the losses in a few days and increased by 37%, to the level of approx. EUR 79.5 on March 17, 2022. All in all, March closed at EUR 76.48 / EUA. The Committee on Industry, Research and Energy (ITRE) of the European Parliament adopted in a vote on April 20, 2022, an amendment to exclude financial institutions from the CO₂ emissions trading system (EU ETS), arguing that it was necessary to limit access to the ETS system only to those entities that need entitlements to own production needs. This proposal will still be voted on in the plenary session of the European Parliament, and will continue to be an element of negotiations between the European Commission and the Council on the reform of the entire system. Possible changes to the ETS may affect the trading level of EUA units.

The arithmetic mean of the EUA quotations in the first quarter of 2022 was EUR 83.33, while the corresponding figure in 2020 was EUR 37.49, which means an increase by EUR 45.84, i.e. 122% q / q.

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



Source: Own elaboration based on ICE data

11.7. Compensation for the stranded costs related to the termination of the „long-term Contract” („PPA”) for unit 9 in Elektrownia Pątnów (former Elektrownia Pątnów II sp. z o.o.)

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

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

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

11.8. Seasonality and meteorological conditions

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

Irrespective of the factors described above, meteorological conditions are becoming more and more important for ZE PAK Group 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 as well as increasing photovoltaic production, 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 weather conditions are favourable for RES production, the demand for the production from ZE PAK conventional power plants may periodically decrease, similarly in the periods of lower RES production, it may increase.

The risk related to seasonality and meteorological conditions in the first quarter of 2022 was not a key factor in the Company's activity.

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. The expected increased level of capital expenditure related to the Group's plans to implement projects in the area of energy production from low-emission and carbon-neutral sources as well as the production and use of "green" hydrogen should be taken into account. The level of capital expenditure will still have a significant impact and is expected to continue to have a significant effect on operating results, debt levels and cash flow. Delays in implementation, changes to the investment program and budget overruns can have a serious impact on future capital expenditures, as well as on results, financial standing and development prospects.

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

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

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

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

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

Konin, May 26, 2022

SIGNATURES:

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Vice President of the Management Board

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