

ZMIENIAMY SIĘ
DLA WAS



ZEPAK
Energia dla Ciebie

ZE PAK SA CAPITAL GROUP

**OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT
FOR 3RD QUARTER OF 2023**

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



29 NOVEMBER 2023

TABLE OF CONTENTS

1.	SELECTED FINANCIAL DATA	3
2.	DESCRIPTION OF THE GROUP	5
2.1.	Basic information	5
2.2.	Structure	6
2.3.	Description of the changes in the Group's structure.....	8
2.4.	Composition of the Management Board.....	9
3.	SIGNIFICANT EVENTS AFFECTING THE OPERATIONS OF THE COMPANY AND THE GROUP	9
3.1.	Significant achievements and failures during the reporting period	9
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	16
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	17
5.	INFORMATION REGARDING THE SHAREHOLDING STRUCTURE	19
5.1.	Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes.....	19
5.2.	List of the shareholding structure of the management and supervising personnel	19
6.	OPINION OF THE MANAGEMENT BOARD ON THE POSSIBILITY OF EXECUTION OF FINANCIAL FORECASTS PUBLISHED EARLIER	20
7.	INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS.....	20
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.....	20
9.	INFORMATION ON GRANTING BY ZE PAK SA OR ENTITIES CONSOLIDATED UNDER THE GROUP OF SIGNIFICANT GUARANTEES, SURETIES, CREDITS OR LOANS	20
10.	INFORMATION CONCERNING THE ISSUE, REDEMPTION, AND REPAYMENT OF NON-EQUITY AND CAPITAL SECURITIES	20
11.	FACTORS WHICH, IN THE MANAGEMENT BOARD'S OPINION, WILL AFFECT THE COMPANY'S RESULTS IN THE PERSPECTIVE OF AT LEAST ONE QUARTER.....	20
11.1.	Seasonality and weather conditions having a significant impact on the volume of renewable energy generation	21
11.2.	Macro-economic trends in the Polish economy and the demand for electricity	21
11.3.	Electricity prices, their variability and the possibility of negative prices and related emergency measures aimed at limiting the level of electricity prices in response to the energy crisis.....	22
11.4.	Regulatory environment	24
11.5.	Extraction and supply costs of coal and other fuel	25
11.6.	CO ₂ emission allowances costs	26
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.).....	27
11.8.	Investment expenses	27
11.9.	EUR/PLN exchange rate, the level of interest rates	27

1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>9 months 2023 period from 01.01.2023 to 30.09.2023</i>	<i>9 months 2022 period from 01.01.2022 to 30.09.2022</i>	<i>9 months 2023 period from 01.01.2023 to 30.09.2023</i>	<i>9 months 2022 period from 01.01.2022 to 30.09.2022</i>
Sales revenues	2 277 130	3 093 364	497 483	659 847
Operating profit / (loss)	270 184	392 882	59 027	83 806
Gross profit / (loss)	303 822	396 555	66 376	84 589
Net profit / (loss) from continuing operations	248 391	288 208	54 266	61 478
Net profit / (loss) from discontinued operations	(49 192)	-	(10 747)	-
Net profit / (loss)	199 199	288 208	43 519	61 478
Net profit / (loss) attributable to equity holders of the parent	223 199	281 671	48 762	60 083
Total comprehensive income	198 724	288 122	43 415	61 459
Net cash flow from operating activities	(207 551)	(255 353)	(45 344)	(54 469)
Net cash flow from investing activities	80 538	(360 363)	17 595	(76 869)
Net cash flow from financing activities	(1 008)	1 046 404	(220)	223 209
Net increase / (decrease) in cash and cash equivalents	(128 021)	430 688	(27 969)	91 870
Net profit / (loss) per share from continuing operations (in zloty/euro per share)	4.89	5.54	1.07	1.18
Net profit / (loss) per share (in zloty/euro per share)	4.39	5.54	0.96	1.18
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.09.2023</i>	<i>As at 31.12.2022</i>	<i>As at 30.09.2023</i>	<i>As at 31.12.2022</i>
Total assets	3 176 955	4 539 455	685 338	967 921
Fixed assets	994 714	1 978 515	214 581	421 867
Current assets	2 182 241	2 560 940	470 757	546 054
Total equity	1 377 834	1 214 499	297 229	258 961
Share capital	101 647	101 647	21 927	21 674
Share capital attributable to equity holders of the parent	931 031	723 696	200 844	154 309
Total liabilities	1 799 121	3 324 956	388 110	708 961
Long-term liabilities	858 305	1 199 141	185 155	255 686
Short-term liabilities	940 816	2 125 815	202 955	453 275
Book value per share (in zloty/euro per share)	27.11	23.90	5.85	5.10
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

ZE PAK SA CAPITAL GROUP
OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR 3RD QUARTER OF 2023

<i>Selected financial data of ZE PA SA</i>	<i>Zloty thousand</i> <i>9 months 2023</i> <i>period</i> <i>from 01.01.2023</i> <i>to 30.09.2023</i>	<i>Zloty thousand</i> <i>9 months 2022</i> <i>period</i> <i>from 01.01.2022</i> <i>to 30.09.2022</i>	<i>Euro thousand</i> <i>9 months 2023</i> <i>period</i> <i>from 01.01.2023</i> <i>to 30.09.2023</i>	<i>Euro thousand</i> <i>9 months 2022</i> <i>period</i> <i>from 01.01.2022</i> <i>to 30.09.2022</i>
Net revenues from sales of products, goods and materials	2 403 237	2 150 925	525 034	458 815
Operating profit/loss	400 325	637 859	87 459	136 062
Profit/loss before tax	445 529	670 841	97 334	143 097
Net profit/loss for the period	401 570	568 421	87 731	121 250
Net cash flow from operating activities	(227 091)	(34 389)	(49 612)	(7 336)
Net cash flow from investing activities	90 689	406 266	19 813	86 661
Net cash flow from financing activities	(258)	30 140	(56)	6 429
Net cash flow together	(136 660)	402 017	(29 856)	85 754
Net profit per share (in zloty/euro per share)	7.90	11.18	1.73	2.38
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i> <i>30.09.2023</i>	<i>As at</i> <i>31.12.2022</i>	<i>As at</i> <i>30.09.2023</i>	<i>As at</i> <i>31.12.2022</i>
Total assets	2 665 403	2 784 643	574 986	593 753
Fixed assets	792 941	779 112	171 055	166 126
Current assets	1 872 462	2 005 531	403 931	427 628
Equity	1 809 991	1 408 421	390 455	300 309
Share capital	101 647	101 647	21 927	21 674
Liabilities and provisions for liabilities	855 412	1 376 222	184 531	293 444
Long-term liabilities	129	129	28	28
Short-term liabilities	219 957	106 282	47 450	22 662
Book value per share (in zloty/euro per share)	35,61	27,71	7,68	5,91
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, 2023 to September 30, 2023, which is 4.5773 EUR/PLN and from January 1, 2022 to September 30, 2022, which is 4.6880 EUR/PLN;*
- *particular items of the Statement of financial position (Balance sheet) according to average EUR/PLN exchange rate published by the National Bank of Poland as of September 29, 2023, i.e. 4.6356 EUR/PLN and as of December 31, 2022, i.e. 4.6899 EUR/PLN.*

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of September 30, 2023 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 and 10 subsidiaries, 25 companies in which ZE PAK SA holds shares and consolidates using the equity method, and 4 jointly controlled companies. A detailed list of companies included in ZE PAK SA Capital Group, and others in which ZE PAK SA holds shares is presented in Table 1.

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 PAK KWB Konin SA, dealing with the lignite mining. The Group's conventional generation assets include 4 power units with a total capacity of 1,118 MW, powered by lignite and located at Pątnów power plant, in central Poland, in the Greater Poland Voivodeship. The Group's mining assets are concentrated in PAK KWB Konin SA.

The Group intends to conduct lignite mining and production activities no longer than until the end of 2024.

ZE PAK Group cooperates with Cyfrowy Polsat Group, jointly developing the structure of subsidiaries of PAK Polska Czysta Energia sp. z o.o. (“PAK - PCE”), whose activities focus on the production of energy from renewable sources and the production and use of green hydrogen. Until July 3, 2023, the majority of shares in PAK - PCE were held by ZE PAK. After a series of transactions, as a result of the agreement concluded by ZE PAK and Cyfrowy Polsat SA, on July 3, Cyfrowy Polsat SA acquired 50.5% of shares in PAK - PCE, thus taking control of PAK-PCE sp. z o.o. together with its subsidiaries, while ZE PAK is a minority shareholder holding 49.5% of shares in PAK - PCE. The Company has acquired a strong capital partner who 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. The main generation assets in the renewable energy area are two biomass units generating electricity and heat with a total capacity of 110 MW located in Konin power plant, a photovoltaic farm with a capacity of 83 MW located in Brudzew and two wind farms: Kazimierz Biskupi and Miłosław with a total capacity of 27 MW. At the same time, wind projects with a total expected capacity of approximately 270 MW are being developed in subsequent special purpose vehicles. In the area of hydrogen projects, the concept of building a comprehensive green hydrogen chain is being developed, starting from the production of green hydrogen through the construction of a network of hydrogen refuelling stations to the production of hydrogen buses.

In addition to the companies from the above-mentioned main areas of activity, the Group also includes other companies that deal with, among others: construction and assembly works, maintenance works, service, production and commercial activities aimed at meeting the needs and comprehensive service of the industry.

The vast majority of the Group's sales revenue is derived from sale of electricity. The Group also obtains revenues related to the Capacity Market mechanism as a result of winning capacity market auctions (primary market) and by taking over capacity obligations from other entities (secondary market). This is supplemented by revenues from sale of heat, contracts for construction repair services and certificates of energy origin. An additional source of sales revenues, depending on the level of production costs, energy prices on the market and production volume, are revenues from the termination of long-term contracts (Power Purchase Agreements) for the sale of electricity. The Group, having lignite mines in its structure, provides Pątnów power plant with an access to uninterrupted lignite supplies for own production installations located in the immediate vicinity of the mines. The vertically integrated Group enables optimization of coal inventories and supplies by coordinating coal mining with the demand for this fuel. Coal supplies are supplemented with contracts with external suppliers.

One of the prospective assets is a 100% subsidiary of ZE PAK, i.e. PAK CCGT sp. z o. o., which is responsible for the preparation and implementation of the project for the construction of a gas unit on the premises of the former Adamów Lignite Power Plant.

It is also planned to use the assets at Pątnów Power Plant for the potential construction of a nuclear power plant. This project is developed in cooperation with external partners.

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

The structure of ZE PAK SA Group as at September 30, 2023 and as at the day of publication of this statement, is shown in Figure 1.

2.2. Structure

Figure 1: The structure of ZE PAK SA subsidiaries as at September 30, 2023 and selected other companies in which ZE PAK SA holds shares and that are important for the Group's operations

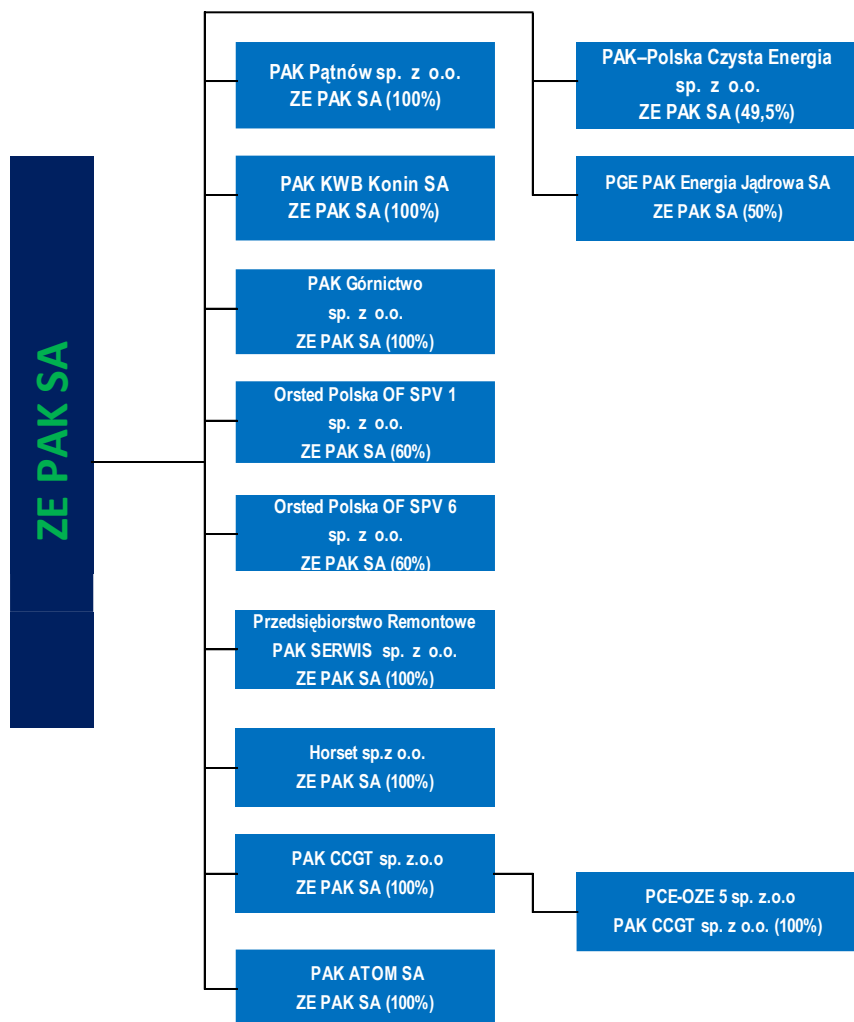


Table 1: Description of the companies in which ZE PAK SA holds shares

Entity	Registered office	Scope of operations	As at the day of publication of the statement	% Group's share in the capital	
				As at 30 September 2023	As at 31 December 2022
ZE PAK SA subsidiaries					
„PAK Kopalnia Węgla Brunatnego Konin” SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	100.00%	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%	100.00%
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair service	100.00%	100.00%	59.59%*
„PAK CCGT” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	100.00%	100.00%
„PCE-OZE 5” sp. z o.o.	62-510 Konin	Generation of electricity	100.00%	100.00%	59.59%*

ZE PAK SA CAPITAL GROUP
OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR 3RD QUARTER OF 2023

	ul. Kazimierska 45				
„PAK Pątnów” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	100.00%	100.00%
„Ørsted Polska OF SPV 1” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	60.00%	60.00%	60.00%
„Ørsted Polska OF SPV 6” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	60.00%	60.00%	60.00%
„PAK ATOM” SA	62-510 Konin ul. Kazimierska 45	Generation of electricity	-	100.00%	100.00%
„Horset” sp. z o.o.	03057 Kijów/Ukraina ul. Smoleńska 31/33		100.00%	100.00%	-
Companies in which ZE PAK SA holds shares and consolidates using equity method					
„PAK – Polska Czysta Energia” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of central companies, excluding financial holding companies	49.50%	49.50%	59.59%
„PAK – Volt” SA	04-028 Warszawa Al. Stanów Zjednoczonych 61	Trade of electricity	49.50%*	49.50%*	59.59%*
„PAK – PCE Polski Autobus Wodorowy” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production of buses	49.50%*	49.50%*	59.59%*
„PAK – PCE Fotowoltaika” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PAK – PCE Stacje H2” sp. z o.o. (formerly „PAK – PCE Biogaz” sp. z o.o.)	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PAK – PCE Biopaliwa i Wodór” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	49.50%*	49.50%*	59.59%*
„PAK – PCE Wiatr” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PG Hydrogen” sp. z o.o.	02-673 Warszawa ul. Konstruktorska 4	Manufacture of engines and turbines, except aircraft, car and motorcycle engines	25.74%*	25.74%*	52.00%*
„Exion Hydrogen Polskie Elektrolizery” sp. z o.o.	80-701 Gdańsk ul. Ku Ujściu 19	Design and production of electrolyzers	39.60%*	39.60%*	47.67%*
„Exion Hydrogen Belgium” BV	Slachthuisstraat 120 Bus 12 2300 Turnhout	Design and production of electrolyzers	39.60%*	39.60%*	47.67%*
„Farma Wiatrowa Kazimierz Biskupi” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Design and production of wind farms	49.50%*	49.50%*	59.59%*
„PCE-OZE 1” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PCE-OZE 2” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PCE-OZE 3” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PCE-OZE 4” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„PCE-OZE 6” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	49.50%*	49.50%*	59.59%*
„MESE” sp. z o.o.	04-028 Warszawa Al. Stanów Zjednoczonych 61A	Generation of electricity	-	44.55%*	53.63%*
„Park Wiatrowy Pałczyn 1” sp. z o.o.	70-479 Szczecin Al. Wojska Polskiego 68	Generation of electricity – wind power engineering	49.50%*	49.50%*	59.59%*

ZE PAK SA CAPITAL GROUP
OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT FOR 3RD QUARTER OF 2023

„PAK – PCE FW Okonek” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	-	49.50%*	59.59%*
„PAK – PCE FW Jastrowie” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	-	49.50%*	59.59%*
„Farma Wiatrowa Przyrów” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	49.50%*	49.50%*	59.59%*
„Great Wind” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	49.50%*	49.50%*	59.59%*
„Eviva Lębork” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	49.50%*	49.50%*	59.59%*
„Elektrownie Wiatrowe Dobra” sp. z o.o.	91-862 Łódź ul. Warszawska 70A	Generation of electricity – wind power engineering	49.50%*	49.50%*	59.59%*
Eviva Drzewo” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	49.50%*	49.50%*	-
Jointly controlled companies					
PGE PAK Energia Jądrowa SA	62-510 Konin ul. Kazimierska 45	Generation of electricity	50.00%	50.00%	-
„Ørsted Polska OF SPV 8” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	50.00%	50.00%
„Ørsted Polska OF SPV 9” sp. z o.o. (formerly „Mawzorino Investments” sp. z o.o.)	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	50.00%	50.00%
„Ørsted Polska OF SPV 10” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	50.00%	50.00%	50.00%
Other companies in which ZE PAK SA holds shares					
„Ørsted Polska OF SPV 2” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	1.00%	1.00%	1.00%
„Ørsted Polska OF SPV 3” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	1.00%	1.00%	1.00%
„Ørsted Polska OF SPV 4” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	1.00%	1.00%	1.00%
„Ørsted Polska OF SPV 5” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	1.00%	1.00%	1.00%
„Ørsted Polska OF SPV 7” sp. z o.o.	00-801 Warszawa ul. Chmielna 73	Generation of electricity – offshore wind engineering	1.00%	1.00%	1.00%
Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o.	44-100 Gliwice ul. Gen. J. Sowińskiego 3	Measurement, research and consultancy services regarding, among others power engineering	2.96%	2.96%	2.96%
Huta Łaziska SA	43-170 Łaziska Górne ul. Cieszyńska 23	Production of ferroalloys	11.19%	11.19%	11.19%

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

As at September 30, 2023 the share in the total number of votes held by the Group in subsidiaries is equal to the Group’s share in the capital of these entities.

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

In the third quarter of 2023, the following changes took place in the Group’s structure:

On July 3, 2023, the Company sold shares representing approximately 10.1% of the share capital of PAK - PCE and approximately 10.1% of votes at the shareholders' meeting of PAK - PCE to Cyfrowy Polsat SA (CP). Before closing the transaction, the shares of Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o. and PCE – OZE 5 sp. z o.o. were transferred to the Company and therefore were not the subject of the transaction. As a result of the transaction, the Company holds approximately 49.5% of shares in PAK – PCE, while CP holds approximately 50.5% of shares in PAK – PCE.

After the end of the reporting period, on November 28, 2023, the Extraordinary General Meeting of ZE PAK SA Shareholders consented to the merger of ZE PAK SA with PAK-ATOM SA acting pursuant to art. 492 § 1 item 1) of the

Code of Commercial Companies, i.e. by transferring all assets of PAK-ATOM SA („Acquired Company”) to ZE PAK SA („Acquiring Company”).

2.4. Composition of the Management Board

There have been no changes in the composition of the Management Board since the beginning of 2023. Both in the third 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 OPERATIONS OF THE COMPANY AND THE GROUP

3.1. Significant achievements and failures during the reporting period

Brief description of the achieved financial results

In the third quarter of 2023, total sales revenues amounted to PLN 819,905 thousand and, compared to the third quarter of 2022, they decreased by PLN 317,096 thousand, i.e. by 27.89%. The decline in revenues was mainly due to the lack of revenues of companies in the field of renewable energy sources from the third quarter of 2023 in connection with the sale of a controlling stake in the company PAK - Polska Czysta Energia sp. z o.o., including revenues from the sale of electricity from trading carried out by PAK – Volt SA, as well as revenues from the sale of heat and green certificates realized by PAK – PCE Biopaliwa i Wodór sp. z o.o.

In the third quarter of 2023, there was a decrease in the total sales volume by 69.13%, both from own and purchased electricity. The decrease in sales of own electricity was caused by a smaller amount of coal available for extraction in the mines supplying the Company, which affected production capacity, while the large drop in sales of purchased electricity in the quarter was caused by the failure to recognize sales previously made by PAK - Volt SA and PAK - PCE Biopaliwa i Wodór sp. z o.o. Decreases in volumes, despite the increase in the price of energy sold, resulted in a decrease in electricity sales in the amount of PLN 372,332 thousand, i.e. by 36.93%.

In the third quarter of 2023, revenues from the capacity market amounted to PLN 47,387 thousand and compared to the same period last year they increased by PLN 9,590 thousand, i.e. by 25.37%. The higher revenues are due to the higher contracted price for 2023 as well as higher revenues realized on the secondary market.

In the third quarter of 2023, in connection with the sale of the controlling stake in PAK - PCE, ZE PAK SA Group no longer produces green certificates and therefore their sale was not carried out.

Revenues from the termination of long-term contracts for the sale of power and electricity in the third quarter of 2023 increased by PLN 13,344 thousand, i.e. by 51.15% as a result of a lower margin on production from unit 9.

Revenues from heat sales in the third quarter of 2023 amounted to PLN 5,938 thousand and were lower than those obtained in the third quarter of 2022 by PLN 6,429 thousand, i.e. 51.99%. The decrease in revenues compared to the same period last year is due to the lower volume of heat sold due to the cessation of consolidation of heat sales by PAK - PCE Biopaliwa i Wodór sp. z o.o.

Revenues from construction services contracts in the third quarter of 2023 compared to the revenues obtained in the corresponding period of the previous year increased by PLN 21,965 thousand, i.e. by 109.14%. The increase in revenues in the analysed period was related to the implementation of projects with higher scopes, both material and financial.

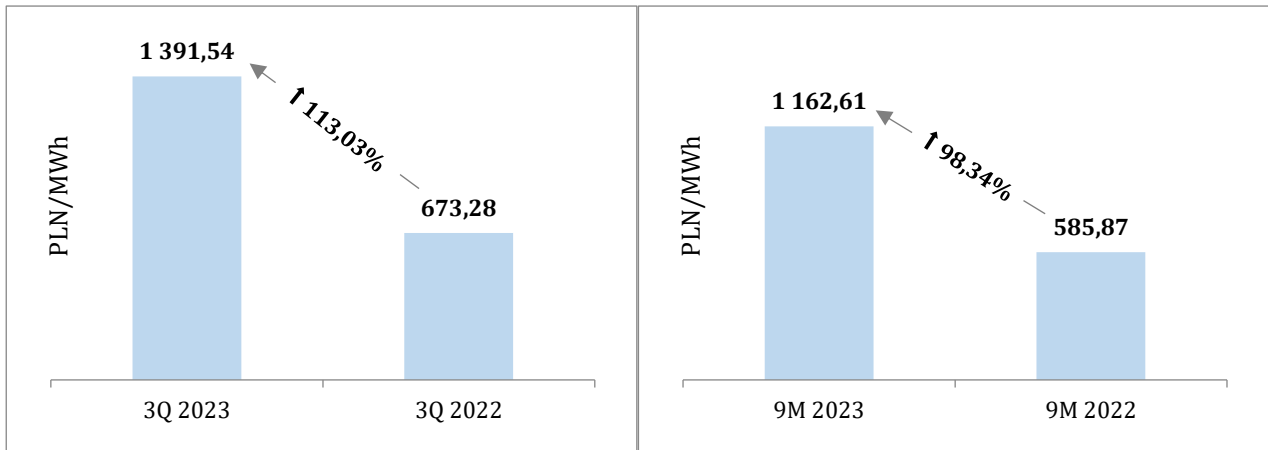
Cost of sales in the third quarter of 2023 amounted to PLN 443,535 thousand and compared to the cost incurred in the third quarter of 2022 decreased by PLN 455,604 thousand, i.e. by 50.67%. The reduction in cost of sales was mainly due to the decrease in the value of goods and materials sold related to the smaller amount of purchased electricity intended for trading, as well as lower costs of carbon dioxide emissions due to the lower volume of emissions as a result of reduced electricity production, as well as lower costs of material consumption and lower employee benefit costs. The increase in the cost of sales was influenced by the fee introduced in 2023 for the price difference payment fund.

Chart 1: Electricity sales



Source: Internal data

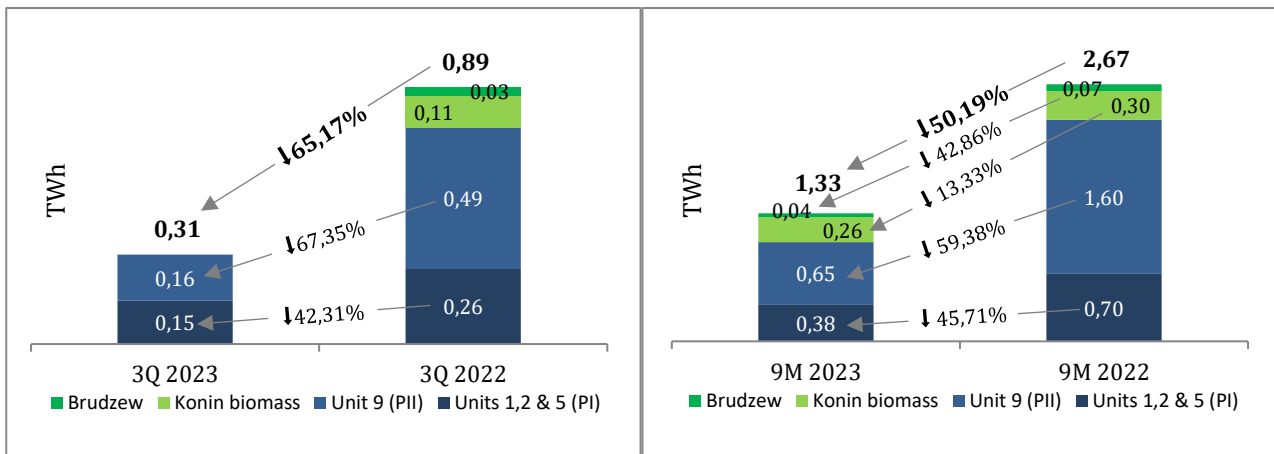
Chart 2: Average electricity prices*



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

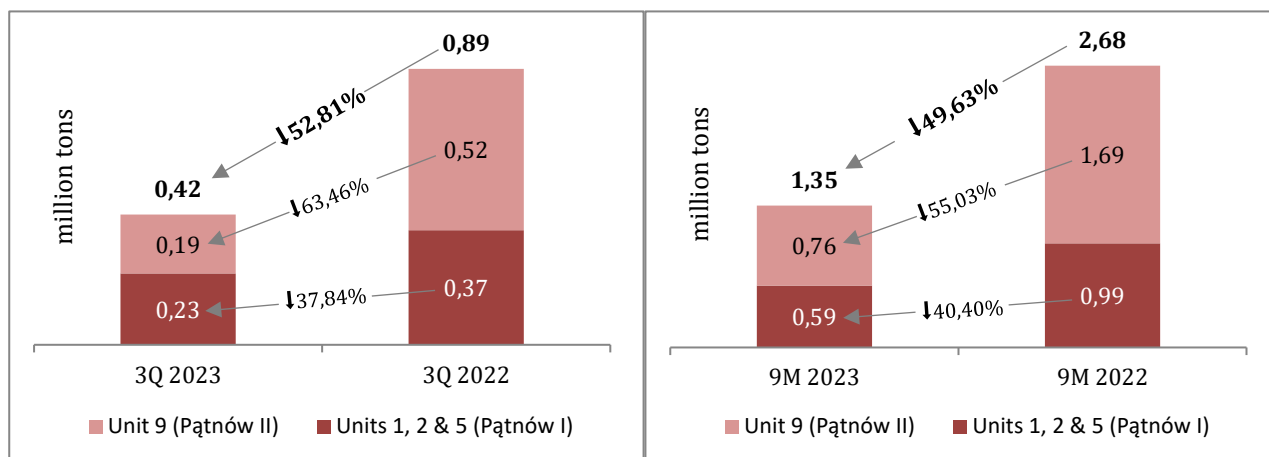
Source: Internal data

Chart 3: Net electricity production



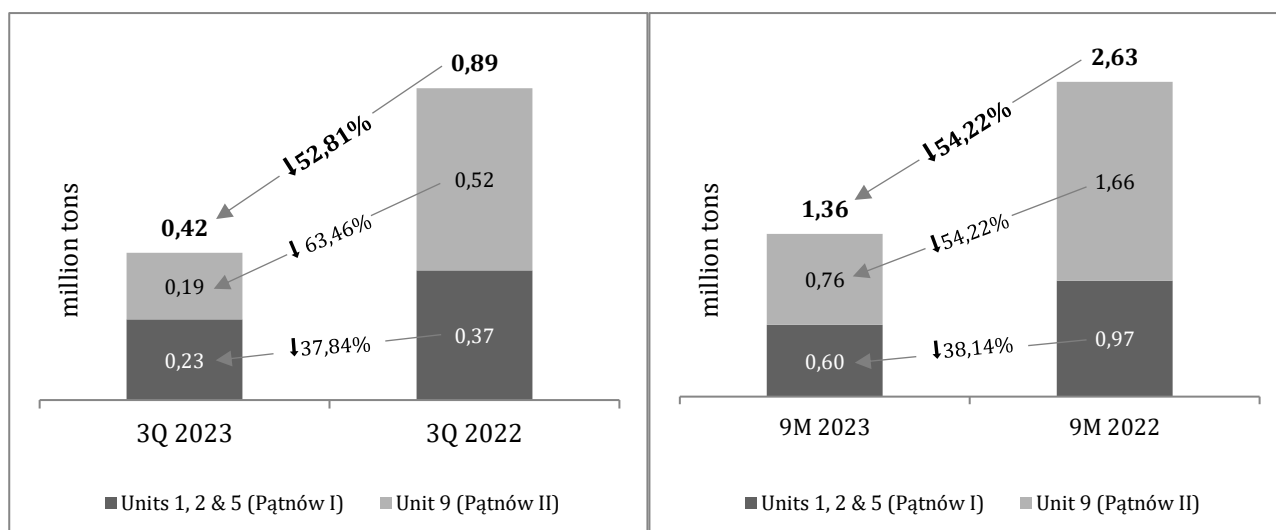
Source: Internal data

Chart 4: Lignite consumption



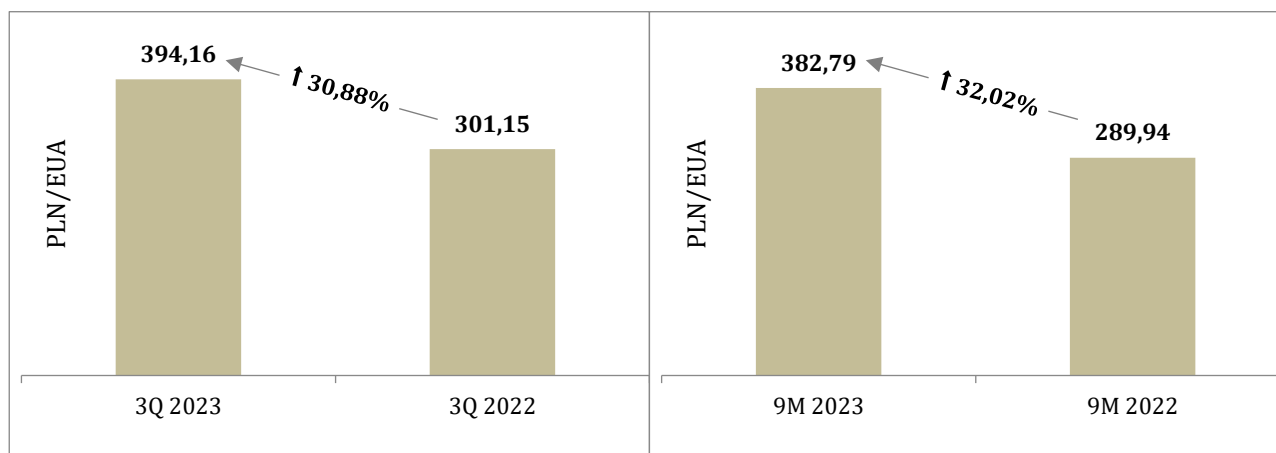
Source: Internal data

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

	<i>Zloty thousand</i> <i>3-month period</i> <i>ended</i> <i>30 September</i> <i>2023</i>	<i>Zloty thousand</i> <i>3-month period</i> <i>ended</i> <i>30 September</i> <i>2022</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of goods, including:	780 481	1 099 981	(319 500)	(29.05)
– Revenues from the sale of electricity (own)	436 399	497 638	(61 239)	(12.31)
– Revenues from the sale of traded electricity	199 376	510 469	(311 093)	(60.94)
– Revenues from the Capacity Market	47 387	37 797	9 590	25.37
– Revenues from the sale of heat	5 938	12 367	(6 429)	(51.99)
– Revenues from contracts for construction services	38 289	16 325	21 964	134.54
– Other sale revenues	53 092	25 385	27 707	109.15
Excise	(10)	(650)	640	(98.46)
Other revenues, including:	39 433	37 670	1 763	4.68
– Property rights on Energy certificates of origin	-	11 580	(11 580)	(100.00)
– Compensation for termination of LTC	39 434	26 090	13 343	51.15
Total sale revenues, incl.:	819 905	1 137 001	(317 096)	(27.89)
Revenues from discontinued sales	(13)	-	(13)	-
Revenues from continuing sales	819 918	1 137 001	(317 083)	(27.89)

	<i>Zloty thousand</i> <i>9-month period</i> <i>ended</i> <i>30 September</i> <i>2023</i>	<i>Zloty thousand</i> <i>9-month period</i> <i>ended</i> <i>30 September</i> <i>2022</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of goods, including:	2 908 717	2 975 490	(66 773)	(2.24)
– Revenues from the sale of electricity (own)	1 652 493	1 397 176	255 317	18.27
– Revenues from the sale of traded electricity	911 202	1 305 778	(394 576)	(30.22)
– Revenues from the Capacity Market	129 783	121 868	7 915	6.49
– Revenues from the sale of heat	51 867	42 293	9 574	22.64
– Revenues from contracts for construction services	72 870	32 744	40 126	122.54
– Other sale revenues	90 502	75 631	14 871	19.66
Excise	(38)	(2 823)	2 785	(98.65)
Other revenues, including:	127 645	120 697	6 948	5.76
– Property rights on Energy certificates of origin	39 010	41 720	(2 710)	(6.50)
– Compensation for termination of LTC	88 635	78 977	9 658	12.23
Total sale revenues, incl.:	3 036 324	3 093 364	(57 040)	(1.84)
Revenues from discontinued sales	759 194	-	759 194	-
Revenues from continuing sales	2 277 130	3 093 364	(816 234)	(26.39)

Total other operating revenues (from continuing and discontinued operations) in the third quarter of 2023 amounted to PLN 88,249 thousand and were higher by PLN 59,219 thousand than those obtained in the corresponding period of last year. The increase in revenues was mainly due to the profit realized on the sale of non-financial fixed assets.

Sales costs in the third quarter of 2023 amounted to PLN 151 thousand and were lower by PLN 4,367 thousand than those incurred in the corresponding period of last year as a result of the lack of electricity trade in the sales segment in the current quarter.

Table 3: Selected items of the consolidated income statement

	Zloty thousand 3-month period ended 30 September 2023	Zloty thousand 3-month period ended 30 September 2022	Zloty thousand change	%
				dynamics
Sales revenues	819 918	1 137 001	(317 083)	(27.89)
Prime cost	(443 535)	(899 139)	455 604	(50.67)
Gross sales profit (loss)	376 383	237 862	138 521	58.24
Other operating revenues	88 242	29 030	59 212	203.97
Cost of sales	(151)	(4 518)	4 367	(96.66)
General and administrative expenses	(30 688)	(35 872)	5 184	(14.45)
Other operating costs	(20 439)	(9 706)	(10 733)	110.58
Profit (loss) from operating activities	413 347	216 796	196 551	90.66
Financial revenues	28 226	34 126	(5 900)	(17.29)
Financial costs	13 693	(35 549)	49 242	(138.52)
Gross profit (loss)	455 266	215 373	239 893	111.38
Income tax (tax load)	(86 960)	(79 744)	(7 216)	9.05
Net profit (loss) from continuing operations	368 306	135 629	232 677	171.55
Net profit (loss) from discontinued operations	6 365	-	6 365	-
Net profit (loss)	374 671	135 629	239 042	176.25
Net other comprehensive income	(1 178)	(39)	(1 139)	2 920.51
Comprehensive income	373 493	135 590	237 903	175.46
EBITDA*	425 431	226 705	198 726	87.66

	Zloty thousand 9-month period ended 30 September 2023	Zloty thousand 9-month period ended 30 September 2022	Zloty thousand change	%
				dynamics
Sales revenues	2 277 130	3 093 364	(816 234)	(26.39)
Prime cost	(1 434 600)	(2 645 013)	1 210 413	(45.76)
Gross sales profit (loss)	842 530	448 351	394 179	87.92
Other operating revenues	101 424	69 747	31 677	45.42
Cost of sales	(860)	(10 710)	9 850	(91.97)
General and administrative expenses	(87 282)	(97 409)	10 127	(10.40)
Other operating costs	(585 628)	(17 097)	(568 531)	3 325.33
Profit (loss) from operating activities	270 184	392 882	(122 698)	(31.23)
Financial revenues	40 195	64 513	(24 318)	(37.69)
Financial costs	(6 557)	(60 840)	54 283	(89.22)
Gross profit (loss)	303 822	396 555	(92 733)	(23.38)
Income tax (tax load)	(55 431)	(108 347)	52 916	(48.84)
Net profit (loss) from continuing operations	248 391	288 208	(39 817)	(13.82)
Net profit (loss) from discontinued operations	(49 192)	-	(49 192)	-
Net profit (loss)	199 199	288 208	(89 009)	(30.88)
Net other comprehensive income	(475)	(86)	(389)	452.33
Comprehensive income	198 724	288 122	(89 398)	(31.03)
EBITDA*	302 646	425 430	(122 784)	(28.86)

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

Table 4: Consolidated costs by type

	<i>Zloty thousand</i> <i>3-month period</i> <i>ended</i> <i>30 September</i> <i>2023</i>	<i>Zloty thousand</i> <i>3-month period</i> <i>ended</i> <i>30 September</i> <i>2022</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	4 339	9 907	(5 568)	(56.20)
Impairment write-down on inventory	13	1 316	(1 303)	(99.01)
Consumption of materials	95 707	132 342	(36 635)	(27.68)
Outsourcing	5 843	33 476	(27 633)	(82.55)
Taxes and fees excluding excise tax	43 740	32 998	10 742	32.55
Costs of CO ₂ emissions	166 319	267 564	(101 245)	(37.84)
Costs of employee benefits	85 254	103 977	(18 723)	(18.01)
Other costs by type	14 166	(25 281)	39 447	(156.03)
Value of sold goods and materials and sold traded electricity	151 430	395 964	(244 534)	(61.76)
Total costs by type, incl.:	566 811	952 263	(385 452)	(40.48)
Costs by type from discontinued operations	(39 896)	-	(39 896)	-
Costs by type from continuing operations	606 707	952 263	(345 556)	(36.29)

	<i>Zloty thousand</i> <i>9-month period</i> <i>ended</i> <i>30 September</i> <i>2023</i>	<i>Zloty thousand</i> <i>9-month period</i> <i>ended</i> <i>30 September</i> <i>2022</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	33 535	32 548	987	3.03
Impairment write-down on inventory	4 137	6 870	(2 733)	(39.78)
Consumption of materials	407 617	331 917	75 700	22.81
Outsourcing	53 366	86 310	(32 944)	(38.17)
Taxes and fees excluding excise tax	211 329	98 155	113 174	115.30
Costs of CO ₂ emissions	518 619	762 807	(244 188)	(32.01)
Costs of employee benefits	294 169	299 908	(5 739)	(1.91)
Other costs by type	32 141	19 766	12 375	62.61
Value of sold goods and materials and sold traded electricity	886 938	1 158 482	(271 544)	(23.44)
Total costs by type, incl.:	2 441 851	2 796 763	(354 912)	(12.69)
Costs by type from discontinued operations	718 446	-	718 446	-
Costs by type from continuing operations	1 723 405	2 796 763	(1 073 358)	(38.38)

General and administrative expenses in the third quarter of 2023 amounted to PLN 30,688 thousand and were lower than those incurred in the corresponding quarter of last year by PLN 5,184 thousand, i.e. by 14.45%. The decrease in management costs resulted from the lack of activities in the third quarter of 2023 that were previously conducted in the area of renewable energy sources.

Total other operating costs (from continuing and discontinued operations) in the reporting quarter amounted to PLN 12,803 thousand and increased compared to the third quarter of the previous year by PLN 3,097 thousand, i.e. 31.91%. The main factor influencing the increase in costs was the increase in the provision for recultivation.

In the third quarter of 2023, the results achieved were positively influenced by the positive result on financial activities in total in the amount of PLN 41,974 thousand, which was achieved thanks to higher interest income and a positive result on exchange rate differences. The impact of financial activities in the corresponding period of last year decreased the result by PLN 1,423 thousand.

Net profit in the third quarter of 2023 amounted to PLN 374,671 thousand. Compared to the third quarter of 2022, it is higher by PLN 239,042 thousand, i.e. by 176.25%.

Description of factors and events, particularly of an unusual nature, that have a significant impact on assets, liabilities, equity, net profit or loss or cash flows

In the third quarter of 2023, in connection with the transaction of sale of shares of PAK – Polska Czysta Energia sp. z o.o. the realized margin on the sale of fixed assets in the amount of PLN 79,497 thousand was recognized in other operating expenses, in the item of profit on the sale of non-financial fixed assets (previously it was eliminated as a margin on sales between companies of the ZE PAK SA Capital Group).

Implementation of investment projects

In the third quarter of 2023, ZE PAK Group, in cooperation with Cyfrowy Polsat Group, continued the implementation of renewable energy investment projects, including the construction of wind farms, photovoltaic farms as well as projects related to the production and use of green hydrogen.

ZE PAK Group is also preparing to implement a project to build a gas and steam unit with a capacity of up to 600 MWe on the site of the former Adamów Power Plant.

Construction of the Adamów CCGT gas and steam unit

A decision about the preparation of project consisting in the construction of Adamów gas and steam unit with a capacity of up to 600 MWe was made in 2022. Thanks to gas fuel, the new power plant will be characterised by the lowest emissions among conventional energy sources, and its high operational availability and flexibility will enable effective stabilisation of electricity production from renewable sources and the Polish power system. The operation of the power plant unit will be adapted to cooperate with the Przykona photovoltaic farm. The cooperation of both units will be planned so that the total output capacity never exceeds 600 MWe. The investment is being carried out on the site of the former Adamów lignite power plant, now demolished. In September 2023, an agreement was concluded with the general contractor of construction works - a consortium of Siemens Energy Global GmbH Co KG, Siemens Energy sp. z o.o. and Mytilineos S.A., which will implement the project on a turnkey basis.

On November 20, 2023, the Supervisory Board of PAK CCGT sp. z o.o. gave a consent to conduct the procedure of the contract launch (“Notice to Proceed”) and to pay Consortium an advance payment of 20% of EPC Agreement by PAK CCGT sp. z o.o. Additionally, on November 20, 2023 the Supervisory Board of ZE PAK SA gave the consent to the Company to issue a surety resulting from EPC Agreement. Formal consents issued by the Supervisory Boards of ZE PAK SA and PAK CCGT sp. z o.o. are the last formal elements enabling the commencement of the implementation of the EPC Agreement.

The planned unit will be designed and constructed by the General Contractor as a single-shaft unit: with one SGT4 4000F gas turbine, SGEN5-3000W generator, recovery boiler (HRSG), SST5-5000 condensing steam turbine set and a wet fan cooling tower. The project will be implemented on a turnkey basis, covering all works, including: design, obtaining selected administrative decisions on behalf of the ordering party, deliveries, construction works, assembly, staff training, commissioning, test run, putting the power plant into operation and providing warranty services within 2 years of putting the power plant into operation. The project implementation schedule assumes the commencement of construction works in December 2023, and the power plant will be put into operation at the turn of 2026/2027.

In September 2023 a long-term service agreement was also concluded with Siemens Energy sp. z o.o. for a period of 12 years from the date of commissioning of the CCGT unit.

In December 2021 the implemented investment won a capacity market auction, obtaining a 17-year support in the form of payment for the reported capacity, i.e. 493 MW (available net capacity of the planned power unit).

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 reported period

Conclusion of Annex No. 5 to the preliminary share purchase agreement for the sale of shares in PAK-Polska Czysta Energia sp. z o.o. and the sale of shares in PAK-Polska Czysta Energia sp. z o.o.

On 3 July 2023, the Company and Cyfrowy Polsat SA (CP) concluded annex 5 to the preliminary share purchase agreement that concerned the sale to CP 2,390,600 shares in PAK – PCE, representing approx. 10.1% of PAK-PCE's share capital and approx. 10.1% of the votes at PAK-PCE's shareholders' meeting.

The conclusion of annex 5 was in particular related to new arrangements between ZE PAK and CP concerning, inter alia, the number of shares in PAK-PCE to be sold by the Company. Pursuant to annex 5, the parties agreed that the subject matter of the final agreement would be 2,390,600 shares in PAK-PCE, representing approx. 10.1% of the share capital of PAK-PCE and approx. 10.1% of the votes at the PAK-PCE's shareholders' meeting.

In addition, the Company and CP have agreed that prior to the closing of the transaction, the companies: (i) Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. and (ii) PCE-OZE 5 sp. z o.o. which are subsidiaries of PAK-PCE group, will be transferred to the Company and will therefore not be the subject of the transaction.

Due to the reduction in the number of PAK-PCE Shares disposed of by the Company, the base price for the PAK-PCE shares has also changed and will amount to PLN 115,149,802.00. The base price will be: (i) reduced by the amount of any non-permitted leakage specified in the agreement; (ii) increased by interest accrued for the period commencing on the Locked Box date and ending on the date of the cash contribution made by the CP on account of the share capital increase in PAK-PCE Biopaliwa i Wodór sp. z o.o., i.e. until 13 May 2022, at the average interest rate for deposits with banks keeping current bank accounts for the Company, for the period the best approximating the specified period; (iii) increased by the amount resulting from the parties' transactions concerning all power sector activities of Konin Power Plant, including, in particular, the biomass-generated electricity business, in the form of an organized part of the enterprise, and (iv) decreased by the amount resulting from the settlement related to the sale by PAK-PCE of 100% of shares in Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. to the Company.

In addition, on July 3, 2023 the parties entered into the final agreement, under which the Company sold the PAK-PCE shares to CP. The final price for the 2,390,600 shares in PAK-PCE, representing approx. 10.1% of PAK-PCE's share capital and approx. 10.1% of the votes at PAK-PCE's shareholders' meeting, after all adjustments referred to above amounted to PLN 117,025,256.00.

Following the transaction, the Company holds approx. 49.5% of the PAK-PCE shares, while CP holds approx. 50.5% of the PAK-PCE shares.

Contract for the construction of CCGT unit

On September 1, 2023 PAK CCGT sp. z o.o. concluded an agreement with a consortium composed of Siemens Energy Global GmbH&Co. KG based in Germany (Consortium Leader), Siemens Energy sp. z o.o. based in Warsaw and Mytilineos S.A. based in Greece (together „General Contractor”) for "Construction of a 600 MWe class CCGT unit with associated infrastructure at Adamów power plant" ("EPC Agreement") for the estimated amount of approx. PLN 2.3 billion and a long-term LTSA service agreement for the 600 Mwe class CCGT unit ("LTSA Agreement") concluded with Siemens Energy sp. z o. o. for a period of 12 years from the date of commissioning of the CCGT unit

Significant events after the balance sheet date

Consents of the supervisory bodies regarding the construction of CCGT unit in Adamów

On November 20, 2023, the Supervisory Board of PAK CCGT sp. z o.o. gave a consent to conduct the procedure of the contract launch ("Notice to Proceed") and to pay Consortium an advance payment of 20% of EPC Agreement by PAK CCGT sp. z o.o. At the same time, also on November 20, 2023, the Supervisory Board of ZE PAK SA granted consent to increase the share capital and supplementary capital of PAK CCGT sp. z o. o., by a total of PLN 408.1 million, and to grant a loan to this company by ZE PAK SA in the amount up to PLN 280 million. Additionally, on November 20, 2023

the Supervisory Board of ZE PAK SA gave the consent to the Company to issue a surety resulting from EPC Agreement. Formal consents issued by the Supervisory Boards of ZE PAK SA and PAK CCGT sp. z o.o. are the last formal elements enabling the commencement of the implementation of the EPC Agreement.

"Principal Decision" regarding the construction of a nuclear power plant

On November 24, 2023, PGE PAK Energia Jądrowa sp. z o.o. received the principal decision issued by the Ministry of Climate and Environment regarding the construction of a nuclear power plant in place of the currently operating coal power plant in Konin region. It allows for initiating works in the indicated location. It confirms the compliance of the planned investment with the goals of Poland's energy policy.

The planned project envisages the construction of at least two units with a total capacity of 2,800 MW using the APR1400 technology, developed by the Korean company KHNP. PGE PAK Energia Jądrowa sp. z o.o. is an entity where ZE PAK SA and PGE Polska Grupa Energetyczna SA each hold 50% of the shares. PGE PAK Energia Jądrowa SA represents the Polish side in all stages of the project, including carrying out location and environmental studies, obtaining financing and preparing a detailed investment schedule together with the Korean side, as well as obtaining permits and administrative decisions in subsequent stages.

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

In the third quarter of 2023, ZE PAK SA and the companies consolidated within the Group were not a party to any proceedings pending before a court, a body competent for arbitration proceedings or a public administration body that would be significant from the point of view of the value of the subject of the dispute or the prospects for the operation of the Capital Group, with the exception of described below.

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

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

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

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 18th January 2019 the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental

decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit. Subsequently, the Government Appeal Court upheld its decision, from which a complaint was filed with Poznań Administrative Court.

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

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.

Against the judgment of the Provincial Administrative Court in Poznań of June 18, 2020, the Greenpeace Polska Foundation with its registered office in Warsaw and Józef Imbierski filed a cassation complaint to the Supreme Administrative Court. On October 26, 2020, PAK KWB Konin filed a response to the cassation complaint, requesting its dismissal. A hearing date has not yet been set in this case.

Proceedings regarding formal decisions related to the construction of the CCGT unit at Adamów Power Plant

1. Decision on environmental conditions

By decision of August 7, 2023, the Mayor of Turek determined, at the request of PAK CCGT sp. z o.o. environmental conditions for the project called "Construction of a 600 MW class CCGT unit with accompanying infrastructure on the premises of the Adamów Power Plant" (DEC – Decision on environmental Conditions). By resolution of August 8, 2023, the Mayor granted DEC - pursuant to Art. 108 § 1 of the Act of June 14, 1960, Code of Administrative Procedure (Journal of Laws of 2023, item 775, as amended) - immediate enforceability, indicating that "The implementation of this investment is of particular importance for ensuring Poland's energy security, preventing losses for the national economy that could arise in situations of power shortages, as well as the important social interest of ensuring stable electricity supplies for households". On August 28, 2023, the Earth Society (ES) filed an appeal against the decision. On September 14, 2023, ES supplemented the complaint by indicating arguments which, in its opinion, prove the lack of legal grounds for issuing the decision.

On September 4, 2023, ES filed an appeal against DEC, attaching a study regarding the impact of the planned project on surface waters to it. During further appeal proceedings, ES submitted further letters attaching additional studies.

In a letter of October 9, 2023, the Local Government Appeals Board in Konin summoned PAK CCGT sp. z o.o. to provide explanations by responding to the allegations in the complaint, Es's appeal, as well as the submitted studies.

By letter of November 6, 2023, PAK CCGT sp. z o.o. requested to change the deadline for presenting a position on the matter to February 9, 2024, indicating that the company should commission an expert opinion relating to the allegations contained in both the letters and studies submitted by ES.

In a letter addressed to the Local Government Appeals Board in Konin of November 21, 2023, PAK CCGT sp. z o.o. presented its position on the complaint, in particular referring to the allegations raised by ES.

2. Construction permit

By decision No. 483/23 of October 24, 2023, the Mayor of Turek approved the land development design and the architectural and construction design and granted PAK CCGT sp. z o.o. permit for the construction of the block part as part of the task "Construction of the 600 MW CCGT Unit with accompanying infrastructure at Adamów Power Plant".

As a result of considering the application of PAK CCGT sp. z o.o., in a decision of October 31, 2023, the Mayor of Turek granted the construction permit immediate enforceability.

In a letter of October 31, 2023, the authorized natural person appealed against the building permit. The appeal together with the case files were forwarded by the Mayor of Turek to the Wielkopolska Voivodeship Office and registered.

According to the knowledge obtained by the Company, the authorized natural person submitted a declaration of withdrawal of the appeal.

5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

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

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

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

<i>Shareholder</i>	<i>Pcs</i> <i>Number of shares and</i> <i>corresponding number of votes</i> <i>at the General Meeting</i>	<i>%</i> <i>Share in the total</i> <i>number of</i> <i>votes/shares</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
PTE Allianz Polska SA	3 491 456	6.87

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 quarterly 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</i> <i>of submitting this report</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting the previous report</i>
Piotr Woźny	0	0
Zygmunt Artwik	0	0
Maciej Nietopiel	0	0
Andrzej Janiszowski	0	0
Katarzyna Sobierajska	0	0

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

<i>Name</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting this report</i>	<i>ZE PAK SA shares as at the day</i> <i>of submitting the previous report</i>
Zygmunt Solorz	0	0
Tobias Solorz	0	0
Piotr Żak	0	0
Wiesław Walendziak	0	0
Tomasz Szelaż	0	0
Henryk Sobierajski	0	0
Sławomir Zakrzewski	0	0
Alojzy Z. Nowak	0	0
Jarosław Grzesiak	0	0

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

ZE PAK SA has not published any financial forecasts.

7. INFORMATION REGARDING THE PAID OR DECLARED DIVIDENDS

The Company did not pay or declare dividend payment in the third quarter of 2023.

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

ZE PAK SA and companies consolidated under the Group have not concluded transactions with entities affiliated pursuant to conditions other than market conditions in the third quarter of 2023.

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

In the third quarter of 2023, the companies of ZE PAK SA Group did not grant any significant sureties, credits or loans or guarantees.

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

In the third quarter of 2023, 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:

- seasonality and weather conditions having a significant impact on the volume of electricity generation;
- macro-economic trends in the Polish economy and the demand for electricity;
- electricity prices, their variability and the possibility of negative prices and related emergency measures aimed at limiting the level of electricity prices in response to the energy crisis;
- regulatory environment;
- fuel costs, coal and other extraction costs;
- CO₂ allowances costs;
- compensation for the stranded costs related to the termination of PPA for unit 9 in Elektrownia Pątnów II;
- investment expenses;
- EUR/PLN exchange rate and interest rates level.

11.1. Seasonality and weather conditions having a significant impact on the volume of renewable energy generation

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. Taking into account the growing share of RES in the segment of energy producers, including primarily wind and photovoltaic sources when estimating the volume of production of ZE PAK SA, 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.

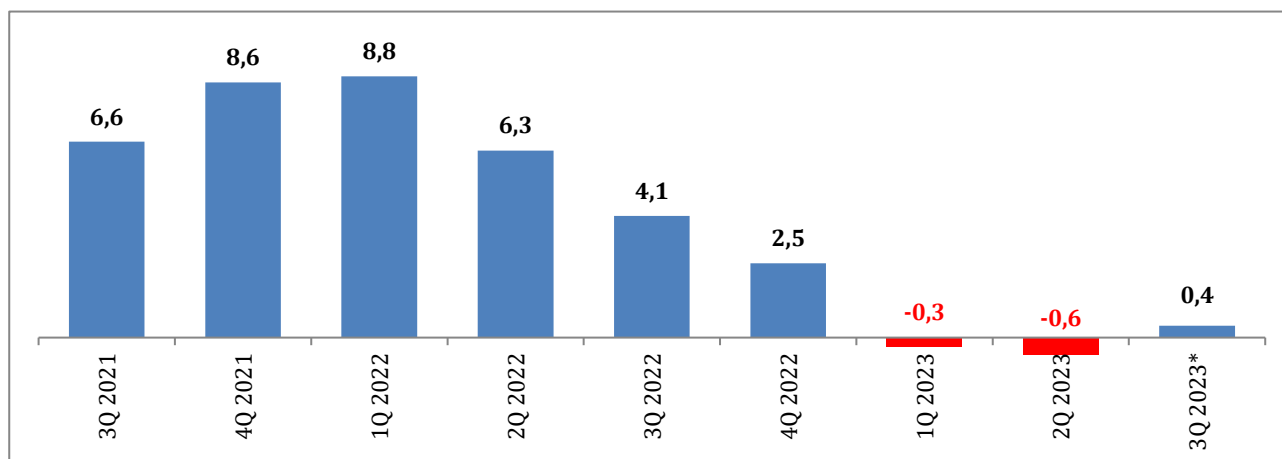
11.2. Macro-economic trends in the Polish economy and the demand for electricity

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

According to the quick estimate, the seasonally unadjusted gross domestic product (GDP) in the third quarter of 2023 increased in real terms by 0.4% year-on-year compared to an increase of 4.1% in the corresponding period of 2022.

The data are preliminary and may be subject to revision, in accordance with the revision policy applied in quarterly national accounts, at the time of preparation of the first regular estimate of GDP for the third quarter of 2023, which will be published on November 30, 2023.

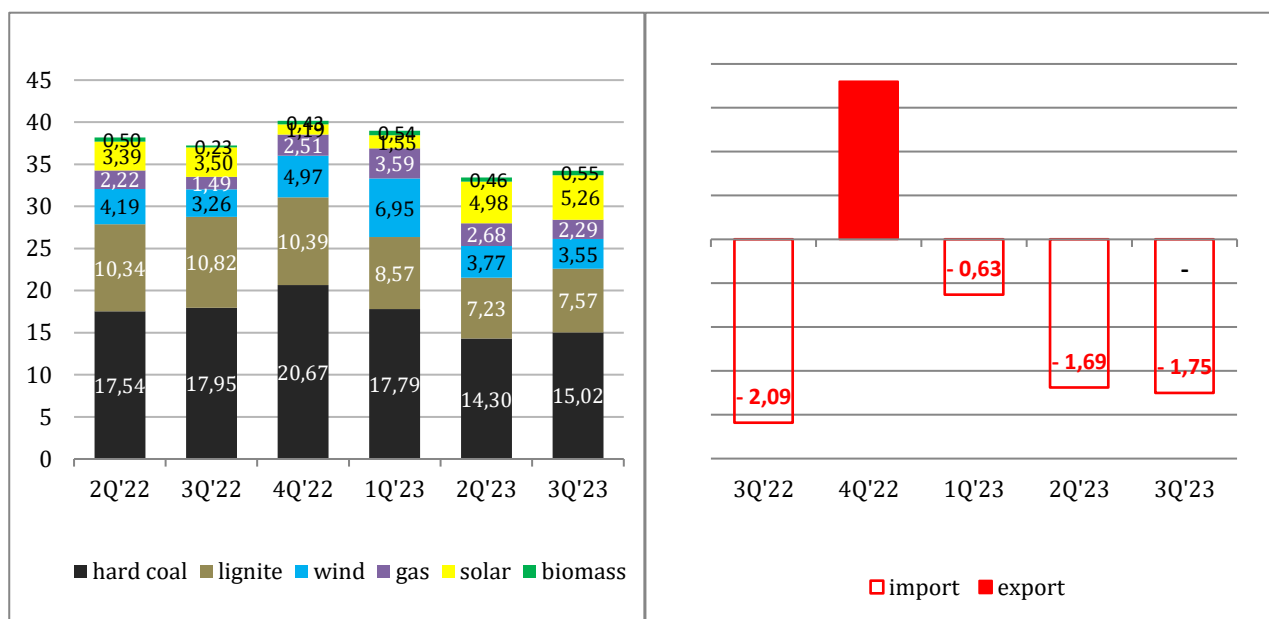
Chart 7: GDP dynamics [%] in relations to analogous quarter of the previous year (yearly average fixed prices)



* The so-called quick estimate of gross domestic product in the third quarter of 2023, seasonally unadjusted, at constant average annual prices of the previous year.

Source: Own elaboration based on CSO data

Chart 8: Structure of net electricity generation and the balance of the electricity exchange with foreign countries – TWh



Source: Own elaboration based on PSE and ENTSO-E data

According to data presented on the ENTSO-E Transparency Platform (net volume), in the third quarter of 2023, gross electricity production amounted to 35.67 TWh, which means a decrease of 7.04% compared to the same period of the previous year. Hard coal power plants had the largest share in the production structure; hard coal production amounted to 15.02 TWh. 7.57 TWh was produced from lignite. Comparing q/q, there was a decrease in production based on both hard coal (by 16.32%) and lignite - by 30.04%. It is worth emphasizing that the largest increases were recorded in the production of energy from the sun, gas and biomass. In the case of solar electricity production, in the third quarter of 2023, 5.26 TWh was recorded, i.e. an increase of 50.29% compared to the third quarter of the previous year. Generation from gas power plants increased by as much as 53.69% compared to the same period in 2022, where production was recorded at 1.49 TWh. Biomass-fired power plants generated 0.55 TWh, which is as much as 139.13% more than in the third quarter of the previous year. Wind power plants produced 8.9% more electricity than in the same period last year.

According to data on the operation of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, the foreign exchange balance in the third quarter of 2023 amounted to 1.75 TWh on the import side, which means that Poland was an importer of electricity.

Polskie Sieci Elektroenergetyczne SA indicates that the gross domestic consumption of electricity in the third quarter of 2023 amounted to 39.89 TWh¹ and compared to the third quarter of the previous year it increased by 3.96%.

11.3. Electricity prices, their variability and the possibility of negative prices and related emergency measures aimed at limiting the level of electricity prices in response to the energy crisis

The Group's portfolio includes various generation installations and the Company generates the vast majority of revenues from the generation and sale of electricity, therefore the risk of changing the price at which the Group sells electricity is of key importance for the level of its revenues.

The information presented below is based on quotations from the Polish Power Exchange (TGE SA), where the Group sells the produced electricity.

Although on the day-ahead market on TGE SA, starting from the fourth quarter of 2022, the average price of the TGeBASE indices remains in a downward trend, a clear deceleration of the downward trend can be observed in the third quarter of 2023 and stabilization of the average of the TGeBase indices on the Day-Ahead Market on TGE SA for the

¹ Table nr 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.

third quarter of 2023 to the level of PLN 505.59/MWh. This means a decrease in the average of the Indices in relation to the corresponding third quarter of 2022 by PLN 620.56/MWh², i.e. by approximately 55%. However, the turnover in the third quarter of 2023 (approximately 14.47 TWh) was higher by over 108.7% compared to the same period in 2022 (6.93 TWh).

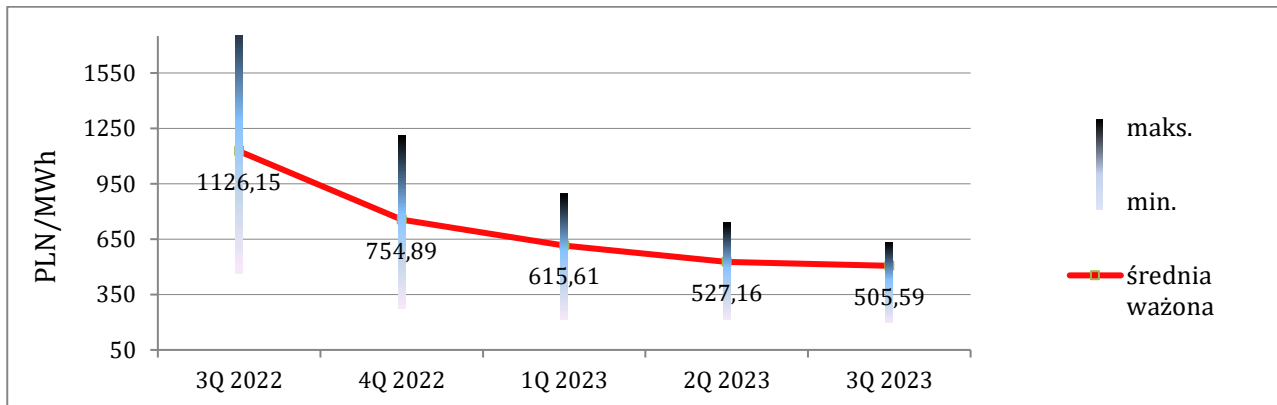
The current price levels in the third quarter of 2023 are still the result of the intervention of the EU Council regarding high energy prices on energy markets in the European Union³, which resulted in the introduction of a regulation of the Minister of Economy, which specifies the mechanism for the application of maximum prices (MaxCO) by energy producers in submitted balancing offers, as well as the adoption of a number of other legislative documents, including: the Act on emergency measures aimed at limiting the level of electricity prices and support for certain consumers in 2023.

Additionally, the situation of continued lower prices was caused by the increased generation of renewable energy sources with a total production record in the third quarter - 12.80 TWh on July 4, 2023 (historical record from May 10 this year of 13.85 GW according to the data of the National Power System), including wind farms - 4,987 MW and photovoltaic farms 7,811 MW and single production records from wind farms in the third quarter - 6,995 MW on August 8, 2023 (historical record from February 20 this year - 7,832.8 MW) and photovoltaic farms - 9,275 MW on September 6, 2023.

The arithmetic average of daily settlement prices for the BASE_Y-24 reference futures contract in the third quarter of 2023 was PLN 639.46 /MWh, which means a decrease of PLN 1084.30/MWh compared to the BASE_Y-23 futures contract quoted in the third quarter of 2022, i.e. by approximately 62.9%, which gives a similar trend as in the case of the spot market (RDNiB). The volume of transactions concluded on TGE SA on the BASE-Y-24 futures product is still in an upward trend. In the third quarter of 2023 the turnover amounted to 10.52 TWh, which compared to the first quarter of 2023 means an increase in trading volume by 6.50 TWh, i.e. by 161.57%, and an increase in trading volume by 3.12 TWh, i.e. by 42.3%, compared to the second quarter of 2023. However, the trading volume in the third quarter of 2023 was lower than the volume in the corresponding third quarter of 2022 by 7.36 TWh, i.e. by 69.9%.

The reasons for the drop in prices and the increase in the volume of concluded transactions can be seen in the offered price of energy, which remains at a much lower level than observed in the previous quarters in the quotations on TGE SA, the decline in energy prices on wholesale European markets (caused by the stabilization of prices and gas supplies, which influenced increasing raw material stocks in warehouses) and a decline in prices of CO2 emission allowances on European stock exchanges.

Chart 9: Electricity prices (TGeBase)

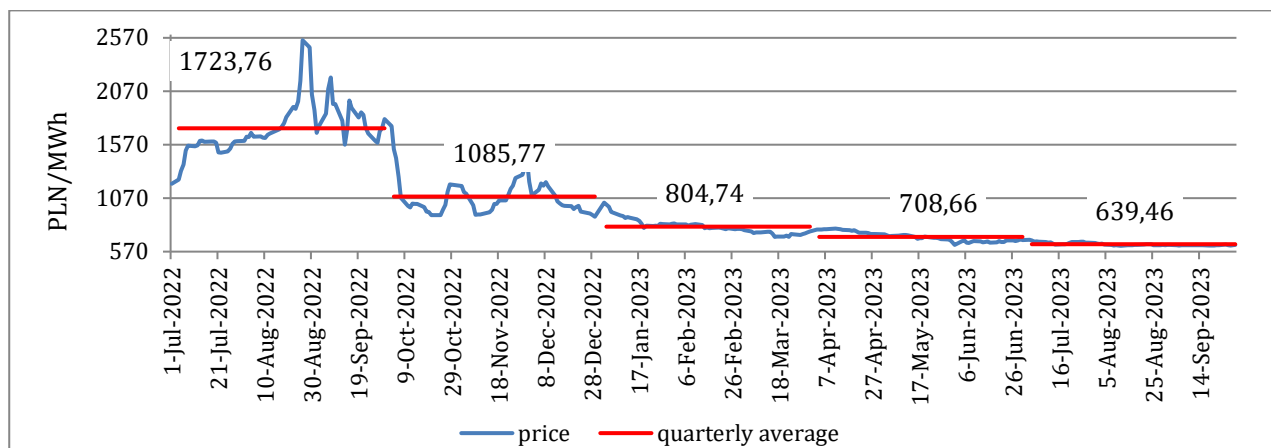


Source: Own elaboration based on TGE data

² Source www.tge.pl

³ Council Regulation (UE) 2022/1854 of 6 October 2022 on emergency intervention to address high Energy prices (UE LI 261, 07.10.2022, p. 1)

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. 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, Act on emergency measures aimed at limiting electricity prices and supporting certain consumers, 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, the Group's company PAK CCGT sp. z o.o. concluded a capacity agreement for 17 years of supply, contracting 493 MW of capacity obligation at a 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. Currently, from the point of view of the Group's future financial results, it will be important to obtain financing for this investment. This process should be supported by regulations adopted at the EU level adding nuclear and gas power plants to the set of "taxonomy" rules from 2023.

According to the currently applicable regulations, coal units may receive support under the Capacity Market until the end of mid-2025. From 2022, Poland is making efforts to extend the capacity market until the end of 2028. On October 17, EU energy ministers reached a compromise regarding support for coal-fired power plants until 2028. The agreement reached is not yet the end of the legislative process, now the proposal must find support in the trialogue between the EU Council, the European Parliament and the European Commission. Decisions related to the extension of support for coal assets and their final financial dimension may affect a potential change in the base operating scenario of ZE PAK Group's coal assets, which currently assumes the end of their operation at the end of 2024.

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. On September 27, 2023, the President of the Energy Regulatory Office partially approved the document (without the Operating Reserve valuation model, i.e. scarcity pricing) of the Balancing Conditions pursuant to Commission Regulation (EU) 2017/2195 of November 23, 2017 establishing guidelines for balancing, developed and

submitted by Polskie Sieci Elektroenergetyczne SA, acting as the Power Transmission System Operator (TSO) in the territory of the Republic of Poland, setting the date of entry into force of the document on June 14, 2024. Implementing the adopted changes is a very complicated process, requiring the work of the entire sector, including companies providing IT solutions. Implementing new rules into the market requires in-depth knowledge and implementation of new solutions in the Company. The changes being implemented include a huge reform of the balancing market, which introduces, among others, new market architecture, as well as new market rules for selling balancing capacity, new rules for settlements on the Current Market and other rules for payments for activations (which disappear as a separate settlement item). At this stage, it is very difficult to assess the impact of the changes being carried out on the future financial results of the Group.

In the third quarter of 2023, a number of regulations are still in force aimed at reducing energy prices, including the regulation of the Minister of Climate and Environment of September 27, 2022 amending the regulation on detailed conditions for the operation of the power system, which as of October 1, 2022, introduced changes to the rules for offering electricity on the Balancing Market operated by PSE SA by establishing the rules for bidding on the Balancing Market with regard to the maximum price resulting from variable generation costs (MaxCO). As a result of the introduced regulation, prices on the balancing market, and thus prices on the Polish Power Exchange, were adjusted downwards and prices are still at a lower level than in the previous year. Until the end of 2023, the Act of October 27, 2022 on extraordinary measures aimed at limiting electricity prices and support for certain consumers in 2023 and the implementing regulation to this act - Regulation of November 8, 2022 on the method of calculating the limit prices. Particularly important for the results of the ZE PAK SA Group are the provisions of the Act of October 27, 2022 on emergency measures aimed at limiting the level of electricity prices and support for certain consumers in 2023 and the implementing regulation to this Act - Regulation of November 8, 2022 on method of calculating the price limit, regarding the Price Difference Fund, which obliged the Group companies generating and/or trading in energy, from December 1, 2022 until the end of 2023, to make write-offs to the Price Difference Fund, the amount of which constitutes all revenues resulting from concluded contracts for the sale of electricity above the price limit determined according to the principles indicated in the above-mentioned regulation. As a result of the amendment to this Act carried out in the second quarter of 2023, provisions were introduced taking into account the settlement of receivables under the Act until April 2025, in the scope of amounts for which payment was made after December 31, 2023. According to the legal status in force at the time of publication of the report, it is known that these regulations will be in force until the end of 2023, however, now, after the parliamentary elections, there are declarations by the Coalition to extend the Act for the first half of the year and by PiS even for the entire duration of next year. Due to the fact that the electricity prices at which the Group sells its production are the most important factor indicated by the Company as affecting its financial results, the extraordinary legislative solutions adopted by the Polish legislator are subject to and, according to announcements, will be subject to further revisions of legislators, will undoubtedly have an impact on the financial results of the ZE PAK SA Group. Each of the Amendments to this Act and the Implementing Regulation carried out in 2023 expanded the scope of deductions made. The amendment to the Act of February 8, 2023 extended the scope of the deduction to include revenues from guarantees of origin within the meaning of the Act of February 20, 2015 on renewable energy sources and settlements related to the sale of electricity, including in particular financial instruments, while the August amendment obliged generators and trading companies to donate to the Fund 97% of revenues from the sale of guarantees of origin and 97% of revenues from contracts related to the sale of electricity, including financial instruments, which undermines the sense of the existence of both a system of guarantees of origin, which is an instrument that promotes the production and consumption of renewable electricity, but also the system of PPA contracts, which are also a mechanism for supporting renewable energy sources, enabling the sale of energy from renewable energy sources at a fixed price in a long period of time.

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. The power plants possessed by ZE PAK SA Group produce most of their electricity from lignite and agricultural biomass. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

The supplier of lignite for the Group is a company from the Group - PAK KWB Konin SA, which also supplements its resources with supplies from an external supplier. The level of costs related to lignite mining is also important for the financial result, which largely depends on factors beyond the Company's direct control, such as e.g. the geological conditions of the deposits in the final stage of their exploitation.

Currently, the Company only exploits Tomisławice deposit. The deposit exploited by the Company's mine has specific resources. The possibility of achieving the assumed level of electricity production depends on the mining capacity and quality of coal mined in the currently exploited Tomisławice deposit. With decreasing coal resources from the exploited open pit, coal supplies from external entities, mainly from KWB Sieniawa, are becoming increasingly important.

It should be added that the implementation of the project to build a gas and steam unit at Adamów Power Plant, which concerns the winning capacity market auction in December 2021, will mean an increase in the importance of gas fuel in the balance of energy raw material 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.

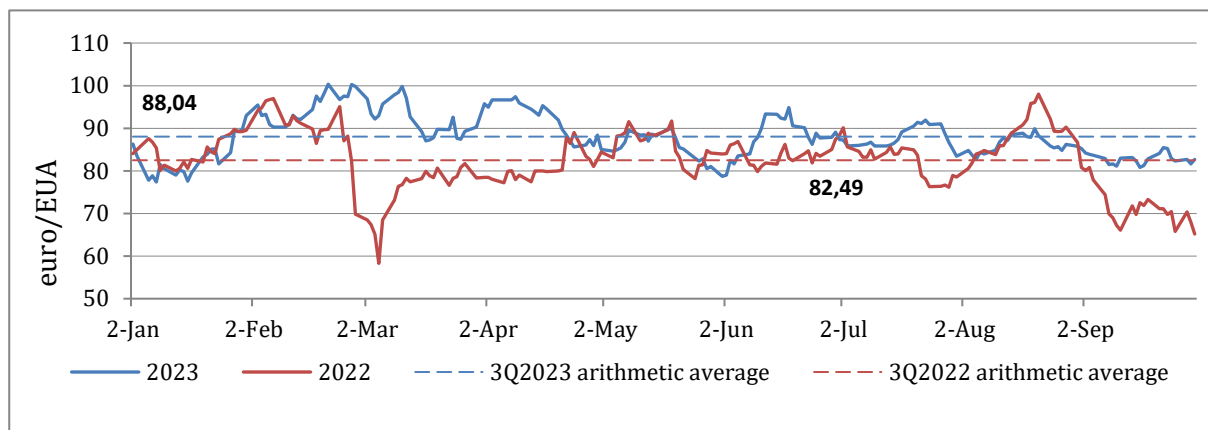
In 2023, the Group will receive the minimum amount of free CO₂ emission allowances in relation to the demand, i.e. 13,476 EUAs, resulting from the allocation for heat production. Therefore, virtually the entire amount of emission allowances needed by the ZE PAK SA Group must be purchased on the secondary market.

In the three quarters of 2023, the EUA price ranged from EUR 77 to EUR 100. In the first quarter (on February 21, 2023), for the first time in history the price of CO₂ emission allowances exceeded EUR 100. On February 9, 2023, the Council of the European Union reached an agreement on the establishment of a carbon tax under the Fit for 55 program, which had a direct impact on the increase in EUA prices. In the second quarter, prices of EUA units ranged between EUR 85-95.

In the third quarter of 2023, the EUA price ranged from EUR 80 to EUR 90. The first half of July 2023 was stable, the price was around EUR 85/EUA. In the second half of July, prices of CO₂ emission allowances increased to EUR 91. The higher prices may have been influenced by seasonally lower volumes of allowances available at auctions in August 2023 and a reduction of approximately 91 million from September to December this year in the volumes available at auctions due to the operation of the MSR reserve. Additionally, lower energy production from renewable energy sources could have contributed to price increases. At the beginning of August 2023, EUA prices returned to the level of EUR 85, only to drop by EUR 5 in September to approximately EUR 80. The reason for the drop in prices of EUA units could be a decrease in emissions of the energy sector in 2023 by approximately 100 million tons and a decrease in energy production from fossil fuels by 29% compared to 2022. From October 1, 2023, the carbon border tax (CBAM) will come into force in the European Union, initially for importers of products such as iron, steel, cement, aluminium, fertilizers, electricity and hydrogen. In the first transitional period from October 1, 2023 to December 31, 2025, the importer will be forced to report the actual total amount of embedded emissions. In the second period, from January 1, 2026, importers will be obliged to redeem certificates as a form of carbon tax payment and submit annual reports in this regard.

The arithmetic average in the third quarter was EUR 88.04, while in the third quarter of 2022 it was EUR 82.49.

Chart 11: 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. Investment expenses

Activities in the energy production sector require significant investment outlays. The Group's conventional generation assets require periodic renovations and ongoing modernizations, both due to tightening environmental protection requirements and for operational reasons. The Group's coal-fired generating units are still needed in the National Power System to stabilize the production of renewable energy sources.

Due to the Group's strategy of gradually moving away from generating electricity from lignite, the expected increased level of capital expenditure related to the Group's plans to build a CCGT unit at Adamów Power Plant should be taken into account. The scale of the project and the expected level of capital expenditure are significant in the context of the possibility of generating cash flows from current operations. The work currently underway to close the financing of the investment is becoming of key importance.

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.

11.9. 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. 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 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.

As at September 30, 2023, the Group had no long-term financial liabilities with variable interest rates (credits, loans).

Konin, 29 November 2023

SIGNATURES:

Piotr Woźny
President of the Management Board

Zygmunt Artwik
Vice President of the Management Board

Maciej Nietopiel
Vice President of the Management Board

Andrzej Janiszowski
Vice President of the Management Board

Katarzyna Sobierajska
Vice President of the Management Board