

ZMIENIAMY SIĘ
DLA WAS



ZEPAK
Energia dla Ciebie

ZE PAK SA CAPITAL GROUP

**OTHER INFORMATION TO EXTENDED CONSOLIDATED REPORT
FOR 1ST QUARTER OF 2024**

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



28 MAY 2024

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1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Zloty thousand</i> <i>3 months 2024</i> <i>period</i> <i>from 01.01.2024</i> <i>to 31.03.2024</i>	<i>Zloty thousand</i> <i>3 months 2023</i> <i>period</i> <i>from 01.01.2023</i> <i>to 31.03.2023</i>	<i>Euro thousand</i> <i>3 months 2024</i> <i>period</i> <i>from 01.01.2024</i> <i>to 31.03.2024</i>	<i>Euro thousand</i> <i>3 months 2023</i> <i>period</i> <i>from 01.01.2023</i> <i>to 31.03.2023</i>
Sales revenues from continuing operations	519 587	711 359	120 244	151 337
Operating profit / (loss) from continuing operations	23 192	(420 936)	5 367	(89 551)
Gross profit / (loss) from continuing operations	8 416	(424 792)	1 948	(90 372)
Net profit / (loss) from continuing operations	(4 640)	(384 099)	(1 074)	(81 714)
Net profit / (loss) from discontinued operations	-	9 929	-	2 112
Net profit / (loss)	(4 640)	(374 170)	(1 074)	(79 602)
Net profit / (loss) attributable to equity holders of the parent	(4 640)	(384 099)	(1 074)	(81 714)
Total comprehensive income	(3 826)	(373 670)	(885)	(79 496)
Net cash flow from operating activities	104 078	(514 923)	24 086	(109 546)
Net cash flow from investing activities	37 243	(183 957)	8 619	(39 136)
Net cash flow from financing activities	(166)	72 347	(38)	15 391
Net increase / (decrease) in cash and cash equivalents	141 155	(626 533)	32 666	(133 291)
Net profit / (loss) per share from discontinued operations (in zloty/euro per share)	(0.09)	(7.56)	(0.02)	(1.61)
Net profit / (loss) per share (in zloty/euro per share)	(0.09)	(7.39)	(0.02)	(1.57)
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i> <i>31.03.2024</i>	<i>As at</i> <i>31.12.2023</i>	<i>As at</i> <i>31.03.2024</i>	<i>As at</i> <i>31.12.2023</i>
Total assets	3 650 317	3 589 708	848 733	825 600
Fixed assets	1 610 295	1 592 159	374 409	366 182
Current assets	2 040 022	1 997 549	474 324	459 418
Total equity	1 907 662	1 911 513	443 549	439 630
Share capital	101 647	101 647	23 634	23 378
Share capital attributable to equity holders of the parent	1 907 662	1 911 513	443 549	439 630
Total liabilities	1 742 655	1 678 195	405 184	385 969
Long-term liabilities	578 461	579 396	134 498	133 256
Short-term liabilities	1 164 194	1 098 799	270 686	252 714
Book value per share (in zloty/euro per share)	37.54	37.61	8.73	8.65
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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<i>Selected financial data of ZE PAK SA</i>	<i>Zloty thousand</i> <i>3 months 2024</i> <i>period</i> <i>from 01.01.2024</i> <i>to 31.03.2024</i>	<i>Zloty thousand</i> <i>3 months 2023</i> <i>period</i> <i>from 01.01.2023</i> <i>to 31.03.2023</i>	<i>Euro thousand</i> <i>3 months 2024</i> <i>period</i> <i>from 01.01.2024</i> <i>to 31.03.2024</i>	<i>Euro thousand</i> <i>3 months 2023</i> <i>period</i> <i>from 01.01.2023</i> <i>to 31.03.2023</i>
Net revenues from sales of products, goods and materials	510 069	739 180	118 041	157 256
Operating profit/loss	(86 502)	87 949	(20 019)	18 711
Profit/loss before tax	(94 695)	95 704	(21 915)	20 360
Net profit/loss for the period	(100 301)	88 031	(23 212)	18 728
Net cash flow from operating activities	9 047	(677 113)	2 094	(144 051)
Net cash flow from investing activities	37 605	51 358	8 703	10 926
Net cash flow from financing activities	(165)	(211)	(38)	(45)
Net cash flow together	46 487	(625 966)	10 758	(133 170)
Net profit per share (in zloty/euro per share)	(1.97)	1.73	(0.46)	0.37
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at</i> <i>31.03.2024</i>	<i>As at</i> <i>31.12.2023</i>	<i>As at</i> <i>31.03.2024</i>	<i>As at</i> <i>31.12.2023</i>
Total assets	2 886 905	2 842 621	671 233	653 777
Fixed assets	1 919 750	1 883 371	446 360	433 158
Current assets	967 155	959 250	224 873	220 619
Equity	1 892 532	1 992 833	440 032	458 333
Share capital	101 647	101 647	23 634	23 378
Liabilities and provisions for liabilities	994 373	849 788	231 201	195 443
Long-term liabilities	129	129	30	30
Short-term liabilities	147 047	142 809	34 190	32 845
Book value per share (in zloty/euro per share)	37.24	39.21	8.66	9.02
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, 2024 to March 31, 2024, which is 4.3211 EUR/PLN and from January 1, 2023 to March 31, 2023, which is 4.7005 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 29, 2024, i.e. 4.3009 EUR/PLN and as of December 29, 2023, i.e. 4.3480 EUR/PLN.*

2. DESCRIPTION OF THE GROUP

2.1. Basic information

As of March 31, 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 9 subsidiaries, 4 jointly controlled companies and other companies in which ZE PAK SA holds shares and consolidates using the equity method. 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 heat, 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 has been gradually reducing its lignite mining and lignite power generation activities for several years until the ultimate total cessation of these activities. The current baseline scenario projects continue coal-based operation until the end of 2025. The Company has the right to decide on the extension depending on external factors (power system demand, market situation, regulatory environment).

PAK CCGT sp. z o.o., i.e., a company that is a 100% subsidiary of ZE PAK, responsible for preparing and implementing a project covering the construction of a gas unit within the former coal-fired Adamów power plant is one of the prospective assets. The project to build a 600 MW class gas-fired unit in Q4 2023 has entered the implementation phase. The anticipated commissioning date is the end of Q1 2027.

It is also planned to use the assets of the Pątnów Power Plant for the needs of a potential nuclear power plant construction. The project is developed in cooperation with third-parties. The special purpose vehicle set up to implement this project is PGE PAK Energetyka Jądrowa SA, where the Company holds 50% of the shares.

The ZE PAK Group is cooperating with the Polsat Plus Group by jointly developing a structure of PAK Polska Czysta Energia sp. z o.o. ('PAK - PCE') subsidiaries, whose activities focus on renewable energy generation and the production and use of green hydrogen. Cyfrowy Polsat SA holds 50.5% of the shares in PAK – PCE and thus controls the company, while ZE PAK SA is a minority shareholder with 49.5% of the shares in PAK – PCE. PAK – PCE is implementing a wide range of prospective investment projects in the area of renewable energy sources and the production and use of green hydrogen. PAK - PCE's main generating assets in the RES area are two biomass units generating electricity and heat with a total capacity of 110 MW, located at the Konin Power Plant, an 83 MW photovoltaic farm 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 around 270 MW are under development by further SPVs. In the area of hydrogen projects, the concept of building a comprehensive green hydrogen chain from the production of green hydrogen, through the construction of a network of hydrogen filling stations, to manufacturing hydrogen buses is being developed.

In addition to the companies from the main areas of the Group's activities, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trading activities for the purpose of satisfying their own needs as well as providing comprehensive services to the industry.

The vast majority of the sales revenue generated by the Group comes from the sale of electricity. The Group also generates revenues related to the Power Market mechanism, as a result of winning power market auctions (primary market) and by taking over power obligations from other entities (secondary market). This is supplemented by revenues from the sales of heat, as well as construction and renovation contracts. Revenues from the termination of long-term contracts for the sale of electricity are an additional source of sales revenues, depending on the level of generation costs and energy prices in the market and production volumes. The Group, by having lignite mines within its structure, provides the Pątnów power plant with access to continuous supplies of lignite for its house-load generation systems located in the direct vicinity of the mines. The vertically integrated Group allows for optimisation of lignite inventories and supplies while coordinating lignite extraction with its demand for this fuel. Reduced mining operations mean coal supplies from third-party vendors beginning to play an increasingly important role.

Through the person of the main shareholder, the Group is linked to other entities in which Zygmunt Solorz holds a significant interest, directly or indirectly.

The structure of ZE PAK SA Group as at March 31, 2024 is presented at Figure 1.

2.2. Structure

Figure 1: The structure of the Group as at March 31, 2024

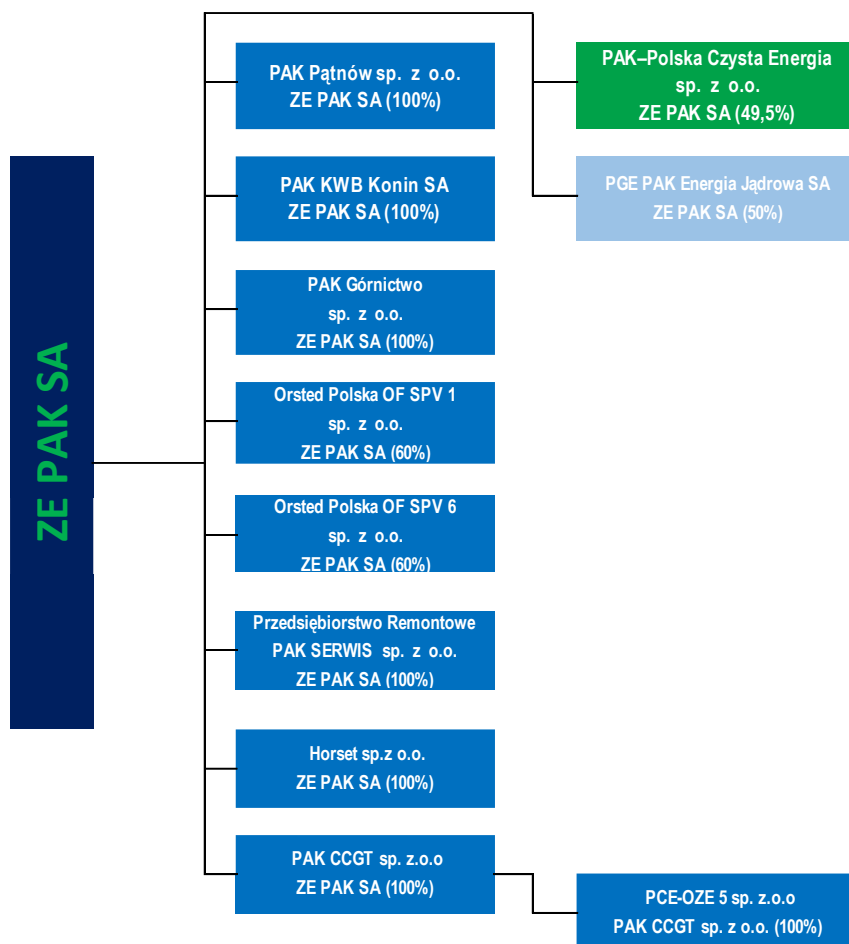


Table 1: Description of the companies in which ZE PAK SA holds shares

Entity	Registered office	Scope of operations	% Group's share in the capital		
			As at the day of publication of the statement	As at 31 March 2024	As at 31 December 2023
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%	100.00%
„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 ul. Kazimierska 45	Generation of electricity	100.00%*	100.00%*	100.00%*
„PAK Państwów” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	100.00%	100.00%

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„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%
„Horset” sp. z o.o.	03057 Kijów/Ukraina ul. Smoleńska 31/33		100.00%	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%	49.50%
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Jointly controlled companies

PGE PAK Energia Jądrowa SA	62-510 Konin ul. Kazimierska 45	Generation of electricity	50.00%	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%

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

** On December 15, 2023, PAK ATOM SA (the company being acquired) merged with ZE PAK SA (the acquiring company).

As at March 31, 2024, 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 first quarter of 2024, there were no changes in the Group's structure.

2.4. Composition of the Management Board

The Company's Management Board started the 2024 fiscal year with the following composition:

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

On 23 January 2024, the Company's Supervisory Board appointed Mr Maciej Koński to the Management Board, entrusting him with the function of Vice-President of the Management Board.

As at the date of signing this statement, the Company’s Management Board is composed 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,
- 6) Maciej Koński – Vice President of the Management Board.

3. SIGNIFICANT EVENTS AFFECTING 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 first quarter of 2024, total sales revenues amounted to PLN 519,587 thousand and decreased by PLN 632,018 thousand, i.e. by 54.88% compared to the first quarter of 2023.

The decrease in total sales revenues in Q1 2024 was mainly due to the decrease in revenues from electricity sales due to both a 38.64% lower price and a 41.86% decrease in total sales volume, both in the volume of sales of own and purchased energy. The decrease in production was primarily due to less favourable conditions on the energy market for the Group. On the other hand, the decrease in the volume of purchased electricity resulted in the lack of electricity volume realized in 2023 in PAK – Volt SA in the part of discontinued operations. The net production volumes of individual power plants of the Group are presented in Chart 3.

In the first quarter of 2024, revenues from the capacity market amounted to PLN 39,261 thousand and increased by PLN 4,611 thousand, i.e. 13.31%, compared to the same period of the previous year. Higher revenues were achieved as a result of a 28.02% higher auction price for 2024.

Revenues from the sale of heat in the first quarter of 2024 amounted to PLN 4,850 thousand and were lower than those obtained in the first quarter of 2023 by PLN 31,989 thousand, i.e. 86.83%. The decrease in revenues, compared to the same period of the previous year, results from the fact that the consolidation of sales carried out by PAK - PCE Biopaliwa i Wodór sp. z o.o. was discontinued, which resulted in a decrease in the volume of heat sold.

Revenues from construction services contracts in the first quarter of 2024 decreased by PLN 6,189 thousand, i.e. by 31.88%, compared to revenues generated in the same period of the previous year. The decrease in revenues in the analysed period was related to the lower implementation of projects by PAK Serwis sp. z o.o. operating in the renovation segment.

In 2023, ZE PAK SA became the sole supplier of biomass to PAK – PCE Biopaliwa i Wodór. Until June 30, 2023, revenues from this source were excluded for the purposes of consolidating the Group's results. Revenues are reported from July 2023, due to the loss of control over PAK – Polska Czysta Energia sp. z o.o. In Q1 2024, they amounted to PLN 80,078 thousand.

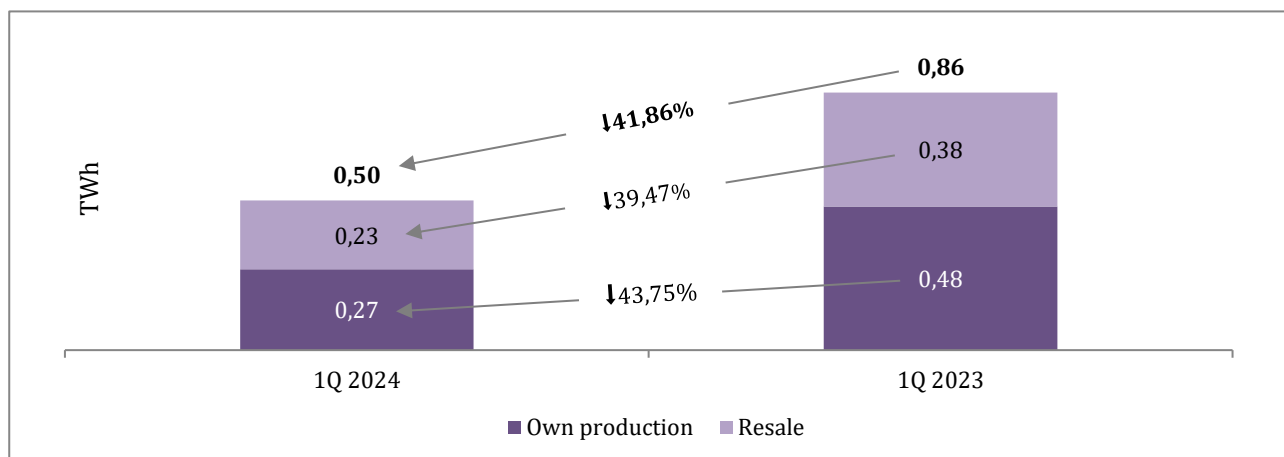
Other sales revenues in the first quarter of 2024 amounted to PLN 16,232 thousand and were lower by PLN 17,667 thousand, i.e. by 52.11%. The decrease was influenced by the lack of revenues from gas sales realized in 2023 in PAK – Volt SA in the part of discontinued operations.

In the first quarter of 2024, due to the sale of a controlling stake in PAK – Polska Czysta Energia sp. z o.o. in July 2023, the ZE PAK SA Group will no longer have units from which green certificates are produced and sold.

Revenues from the termination of KDT (termination of a long-term power and electricity sales agreement) in the first quarter of 2024 decreased by PLN 12,812 thousand, i.e. by 40.35% as a result of the reduction in the pool of funds available under the granted aid.

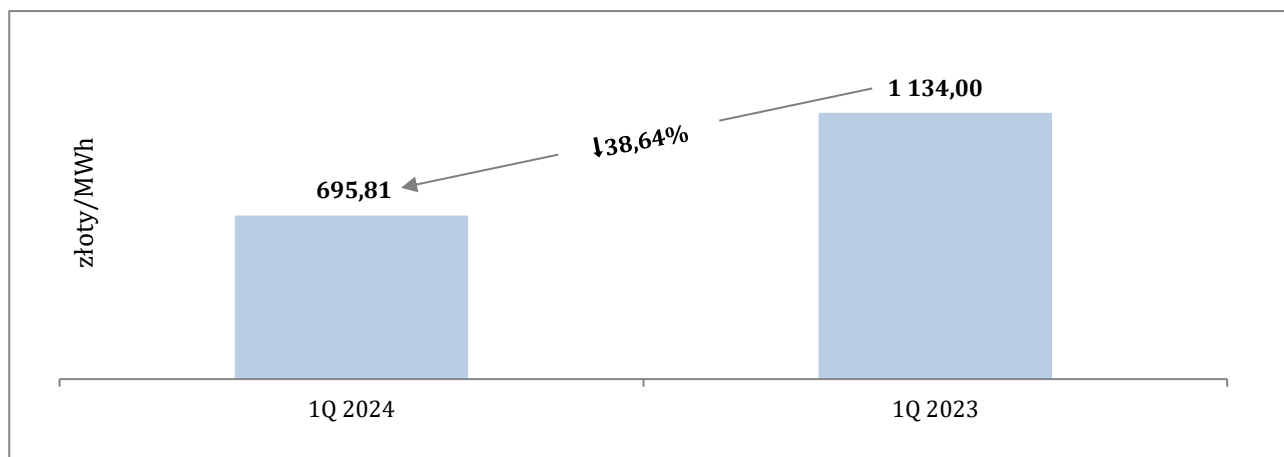
Cost of sales in the first quarter of 2024 amounted to PLN 464,384 thousand and decreased by PLN 726,279 thousand, i.e. by 61.00% compared to the cost incurred in the first quarter of 2023. The decrease in cost of sales was influenced by: the fact that provisions for future reclamation of operated open pits were not updated (they were increased in the first quarter of 2023), lower value of purchased electricity for resale due to the decrease in the volume of energy trading and the decrease in energy prices on the market, reduction in fuel costs (no costs of biomass consumption), lower tax costs due to the lack of a fee for the price difference payment fund in 2024, as well as a decrease in carbon dioxide emission costs as a result of the decrease in the volume of emissions and lower employee benefits costs.

Chart 1: Electricity sales



Source: Internal data

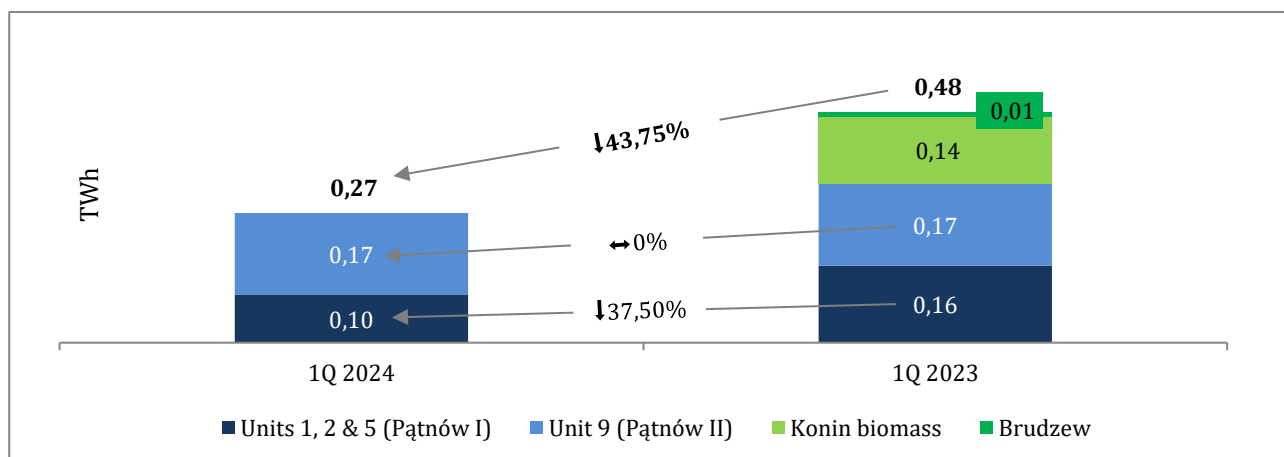
Chart 2: Average electricity prices*



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

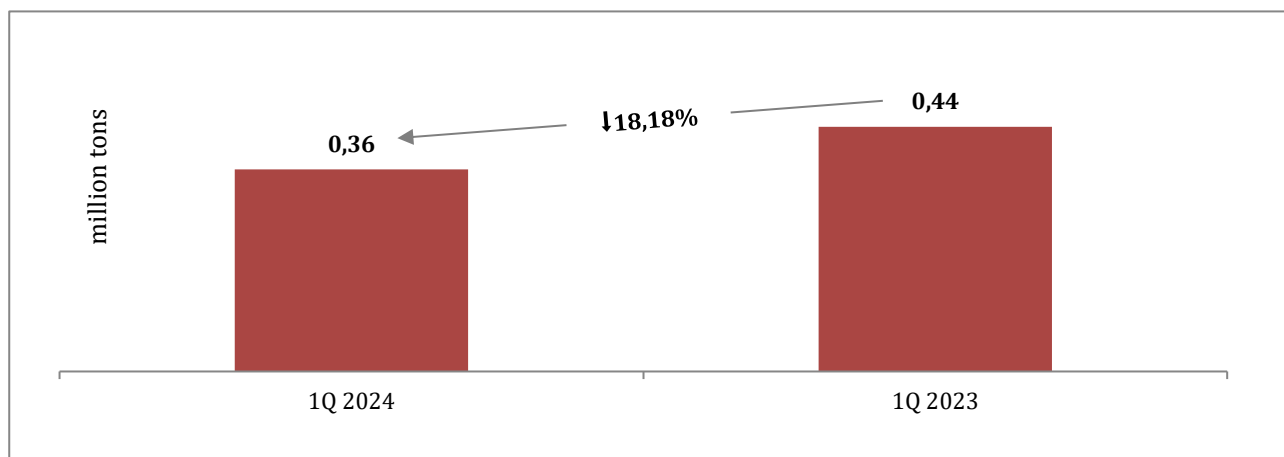
Source: Internal data

Chart 3: Net electricity production



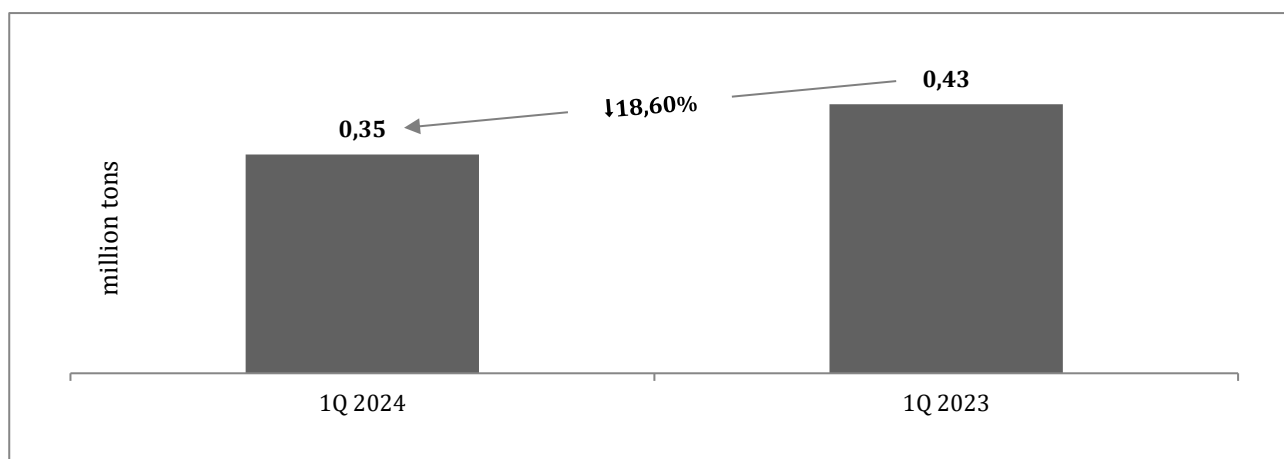
Source: Internal data

Chart 4: Lignite consumption



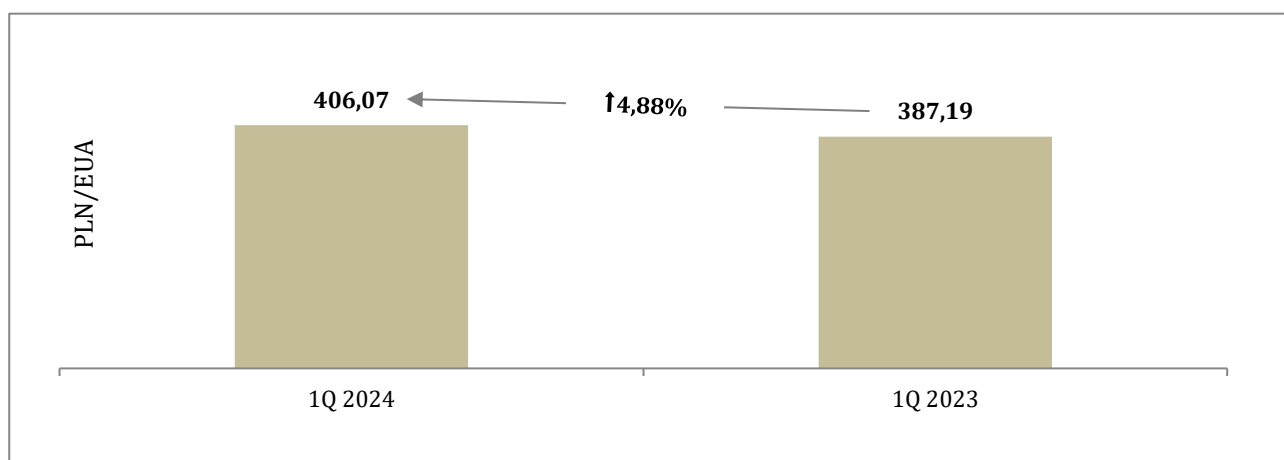
Source: Internal data

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 (total continuing and discontinued operations)

	Zloty thousand 3-month period ended 31 March 2024	Zloty thousand 3-month period ended 31 March 2023	Zloty thousand change	%
				dynamics
Revenues from the sale of goods, including:	500 659	1 096 390	(595 731)	(54.34)
– Revenues from the sale of electricity (own)	205 260	579 278	(374 018)	(64.57)
– Revenues from the sale of traded electricity	141 753	392 310	(250 557)	(63.87)
– Revenues from the Capacity Market	39 261	34 650	4 611	13.31
– Revenues from the sale of heat	4 850	36 839	(31 989)	(86.83)
– Revenues from contracts for construction services	13 225	19 414	(6 189)	(31.88)
– Revenues from the sale of biomass	80 078	-	80 078	-
– Other sale revenues	16 232	33 899	(17 667)	(52.11)
Excise	(9)	(15)	6	(40.00)
Other revenues, including:	18 937	55 230	(36 293)	(65.71)
– Property rights on Energy certificates of origin	-	23 481	(23 481)	(100.00)
– Compensation for termination of LTC	18 937	31 749	(12 812)	(40.35)
Total sale revenues	519 587	1 151 605	(632 018)	(54.88)

Table 3: Selected items of the consolidated income statement (total continuing and discontinued operations)

	Zloty thousand 3-month period ended 31 March 2024	Zloty thousand 3-month period ended 31 March 2023	Zloty thousand change	%
				dynamics
Sales revenues	519 587	1 151 605	(632 018)	(54.88)
Prime cost	(464 384)	(1 190 663)	726 279	(61.00)
Gross sales profit (loss)	55 203	(39 058)	94 261	(241.34)
Other operating revenues	17 672	5 156	12 516	242.75
Cost of sales	(456)	(3 765)	3 309	(87.89)
General and administrative expenses	(29 608)	(53 665)	24 057	(44.83)
Other operating costs	(21 515)	(299 990)	278 475	(92.83)
Share in profit (loss) of associates valued using the equity method	1 896	-	1 896	-
Profit (loss) from operating activities	23 192	(391 322)	414 514	(105.93)
Financial revenues	5 739	11 856	(6 117)	(51.59)
Financial costs	(20 515)	(34 179)	13 664	(39.98)
Gross profit (loss)	8 416	(413 645)	422 061	(102.03)
Income tax (tax load)	(13 056)	39 475	(52 531)	(133.07)
Net profit (loss)	(4 640)	(374 170)	369 530	(98.76)
Net other comprehensive income	815	500	315	63.00
Comprehensive income	(3 825)	(373 670)	369 845	(98.98)
EBITDA*	26 738	(377 990)	404 728	(107.07)

* 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 (total continuing and discontinued operations)

	Zloty thousand 3-month period ended 31 March 2024	Zloty thousand 3-month period ended 31 March 2023	Zloty thousand change	%
			dynamics	
Depreciation	3 545	13 332	(9 787)	(73.41)
Impairment write-down on inventory	-	1 392	(1 392)	(100.00)
Consumption of materials	63 910	190 726	(126 816)	(66.49)
Outsourcing	35 217	32 712	2 505	7.66
Taxes and fees excluding excise tax	33 340	114 986	(81 646)	(71.01)
Costs of CO ₂ emissions	141 301	167 706	(26 405)	(15.74)
Costs of employee benefits	93 406	102 516	(9 110)	(8.89)
Other costs by type	3 998	267 501	(263 503)	(98.51)
Value of sold goods and materials and sold traded electricity	160 880	367 470	(206 590)	(56.22)
Total costs by type	535 597	1 258 341	(722 744)	(57.44)

Other operating income in the first quarter of 2024 amounted to PLN 17,672 thousand, which is an increase of PLN 12,516 thousand, i.e. by 242.75%, compared to the same period of the previous year. The increase in income was due to the reversal of an allowance for receivables and higher income from the sale of decommissioned assets and other materials.

Selling costs in the first quarter of 2024 amounted to PLN 456 thousand and were lower by PLN 3,309 thousand than those incurred in the same period of the previous year due to the lack of electricity trading in the sales segment in the same period of the previous year.

Other operating costs in the first quarter of 2024 amounted to PLN 21,515 thousand, which is PLN 278,475 thousand, i.e. by 92.83%, lower than those realized in the same period of the previous year. Their value primarily consists of a loss of PLN 17,449 thousand generated on the sale of carbon dioxide emission allowances. On the other hand, the amount of costs in the first quarter of 2023 was mainly due to an increase in the provision for the future reclamation of open pits by PLN 285,569 thousand, where coal mining has ended and there was a higher level of donations.

In Q1 2024, ZE PAK SA Group achieved a profit of PLN 23,192 thousand from operating activities. In the same period of the previous year, a loss of PLN 391,322 thousand was realized.

In Q1 2024, the results achieved were negatively affected by the negative result on financial activities in the amount of PLN 14,776 thousand related to lower interest income and a realized loss on the sale of receivables.

In Q1 2024, the net loss amounted to PLN 4,640 thousand and was lower than the net loss realized in the same period of the previous year by PLN 369,530 thousand.

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 first quarter of 2024, there were no factors or events of an unusual nature that had a significant impact on assets, capital, financial result or cash flows.

Implementation of investment projects

The main project implemented in ZE PAK SA Group is the construction of a 600 MW gas-steam unit on the site of the former Adamów power plant. Design work is also underway to prepare for the implementation of the photovoltaic farm - Przykona with a capacity of approximately 280 MW.

Construction of Adamów CCGT gas and steam unit and Przykona photovoltaic farm

A decision was made in 2022 to develop a project involving the construction of the Adamów CCGT unit with a maximum capacity of 600 MWe. Owing 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 project is being implemented at the site of the former Adamów coal-fired power plant, which is now demolished. In September 2023, a contract was concluded with the construction work general contractor – a consortium between Siemens Energy Global GmbH Co KG, Siemens Energy sp. z o.o. and Mytilineos SA, which is implementing the project on a ‘turnkey’ basis.

On 20 November 2023, the Supervisory Board of PAK CCGT sp. z o.o. agreed to proceed with the EPC Contract ('Notice To Proceed') and for PAK CCGT sp. z o.o. to make an advance payment to the Consortium in the amount of 20% of the EPC Contract price. Also on 20 November 2023, the Supervisory Board of ZE PAK SA approved the Company issuing a surety under the EPC Agreement. The formal approvals granted by the ZE PAK SA and PAK CCGT sp. z o.o. Supervisory Boards were the final formal elements required to commence the EPC Contract.

The planned unit will be designed and constructed by the general contractor as a single-shaft unit: with one SGT4 4000F gas turbine, an SGEN5-3000W generator, a heat recovery boiler steam generator (HRSG), an SST5-5000 condensing steam turbine generator and a wet fan cooling tower. The project will be implemented on a 'turnkey' basis, covering the execution of all work, including design, obtaining selected administrative decisions on behalf of the ordering party, supplies, civil work, installation, staff training, commissioning, trial run, power plant commissioning and provision of warranty services for a period of two years starting from power plant commissioning. Work commenced in December 2023. The project schedule provides for the power plant to be commissioned in Q1 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.

The facility under construction won a power market auction in December 2021, obtaining 17 years of support in the form of payments for the declared capacity, i.e., 493 MW (the available net capacity of the unit planned for construction).

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

Changes in the Management Board of ZE PAK SA

At a meeting of the Company's Supervisory Board on 23 January 2024, the Company's Supervisory Board appointed Mr Maciej Koński to the Management Board, entrusting him with the function of Vice-President of the Management Board. The resolution on the appointment became effective upon its adoption.

Significant events after the balance sheet date

From the balance sheet date ended March 31, 2024 until the date of publication, no significant events occurred.

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 first quarter of 2023 ZE PAK SA and companies consolidated within the Group were not a party in pending court proceedings, a body competent for arbitration proceedings or a public administration body, whose single or total value would exceed 10% of the equity of ZE PAK S.A., except the ones specified below.

Proceedings related to the environmental decision issued with respect to PAK KWB Konin SA concerning the Tomisławice lignite deposit

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 the Wierzbinek commune issued an environmental decision regarding the lignite open pit. On 5 December 2008, this decision was contested by nine natural persons supported by the Greenpeace foundation due to alleged gross infringement of legal regulations. On 25 March 2009, the Self-government Appeal Court dismissed to overrule 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 decided that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, was a gross breach of legal regulations. PAK KWB Konin SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court revoked the contested decision of the Provincial Administrative Court in Poznań and referred the case to judicial review. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision revoking the decision of the Self-

government Appeal Court of 25 March 2009 on dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open cast by PAK KWB Konin S.A. On 7 January 2013, PAK KWB Konin S.A. submitted a cassation appeal against the described judgement.

After examination during a hearing on 7 October 2014, the Supreme Administrative Court dismissed PAK KWB Konin SA's cassation appeal against the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 revoking the decision of the Self-government Appeal Court in Konin of 25 March 2009 dismissing the statement of invalidity of the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open cast.

Dismissal of the cassation appeal by PAK KWB Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding, and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 18 January 2019, the Self-government Appeal Court in Konin issued a decision refusing to deem the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune and associated with the operation of the lignite open pit in Tomisławice as invalid.

On 19 June 2020, the Company was informed that a closed-door hearing at the Provincial Administrative Court in Poznań resulted in a judgement dismissing the appeal against the decision of the Self-government Appeal Court in Konin regarding the refusal to deem the environmental decision issued on 7 August 2007 by the Head of the Wierzbinek Commune and associated with the operation of the lignite open pit in Tomisławice as invalid.

Therefore, the judgement of the Provincial Administrative Court in Poznań, dated 18 June 2020 means that the environmental decision issued by the Head of the Wierzbinek Commune on 7 August 2007 still remains in legal circulation.

The Greenpeace Poland Foundation, based in Warsaw, and Jozef Imbierski filed a cassation appeal with the Supreme Administrative Court against the judgement of the Provincial Administrative Court in Poznań dated 18 June 2020. On 26 October 2020, PAK KWB SA Konin submitted a response to the cassation appeal, filing for dismissal. A hearing date in this case was set as at June 25, 2024.

The Group does not create any provisions because it does not expect a negative outcome of the case.

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

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.

By the decision of December 4, 2023, the Local Government Appeals Board in Konin, after considering TnZ's complaint against the decision of the Mayor of Turku of August 8, 2023, granting immediate enforceability to the environmental decision of August 7, 2023, decided to uphold the contested decision of the first instance body in force.

In an announcement of February 9, 2024, the Local Government Appeals Court in Konin informed that due to the complicated nature of the case as well as the need to analyse extensive evidence, the case would not be resolved within the statutory deadline and set a new deadline for settling the case by April 19, 2024.

By announcement of February 21, 2024, the Local Government Appeals Court in Konin informed the parties to the proceedings about the right to express their opinion within 7 days from the date of receipt of the notification regarding the collected evidence and materials and the requests submitted to the case.

In a letter of March 6, 2024, the Local Government Appeals Board in Konin asked for confirmation of the actions taken so far by the Party.

In a letter addressed to the Local Government Appeals Board in Konin of March 18, 2024, PAK CCGT sp. z o.o. provided a response in which it confirmed the activities undertaken so far by the Party.

On May 9, 2024, PAK CCGT sp. z o.o. received a notification from the Local Government Appeals Board in Konin about the possibility of reviewing the evidence collected in the case in the appeal proceedings against the environmental decision of August 7, 2023 for the project involving the construction of the CCGT unit with accompanying infrastructure at Adamów Power Plant.

The Group does not create any provisions because it does not expect a negative outcome of the 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>%</i>
	<i>Number of shares and corresponding number of votes at the General Meeting</i>	<i>Share in the total number of 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 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
Maciej Koński	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 of submitting this report</i>	<i>ZE PAK SA shares as at the day of submitting the previous report</i>
Zygmunt Solorz	0	0
Tobias Solorz	0	0
Piotr Żak	0	0
Wiesław Walendziak	0	0
Tomasz Szeląg	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 first quarter of 2024.

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 2024.

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

On March 28, 2024, PAK KWB Konin SA granted a surety for ZE PAK SA towards PGE Polska Grupa Energetyczna SA in the amount of PLN 19,124 thousand in connection with the shareholders' agreement of August 11, 2023 concluded between ZE PAK SA/PGE Polska Grupa Energetyczna SA/PGE PAK Energia Jądrowa SA regarding the principles of corporate governance and activities of PGE PAK Energia Jądrowa SA.

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

In the first quarter of 2024, 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.

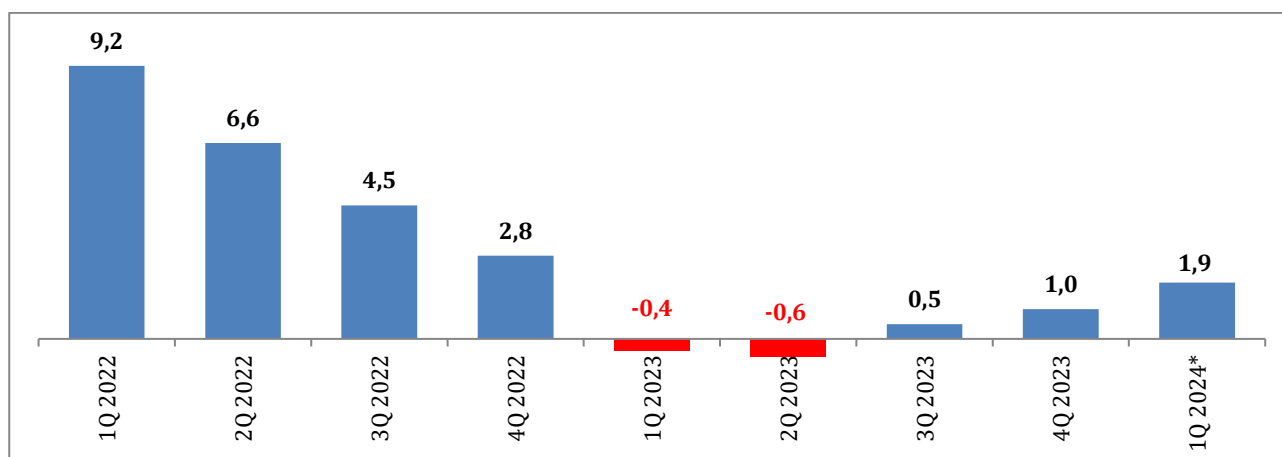
The most important factors which constantly affect the Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- 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;
- seasonality and weather conditions;
- investment expenses;
- EUR/PLN exchange rate and interest rates level.

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)



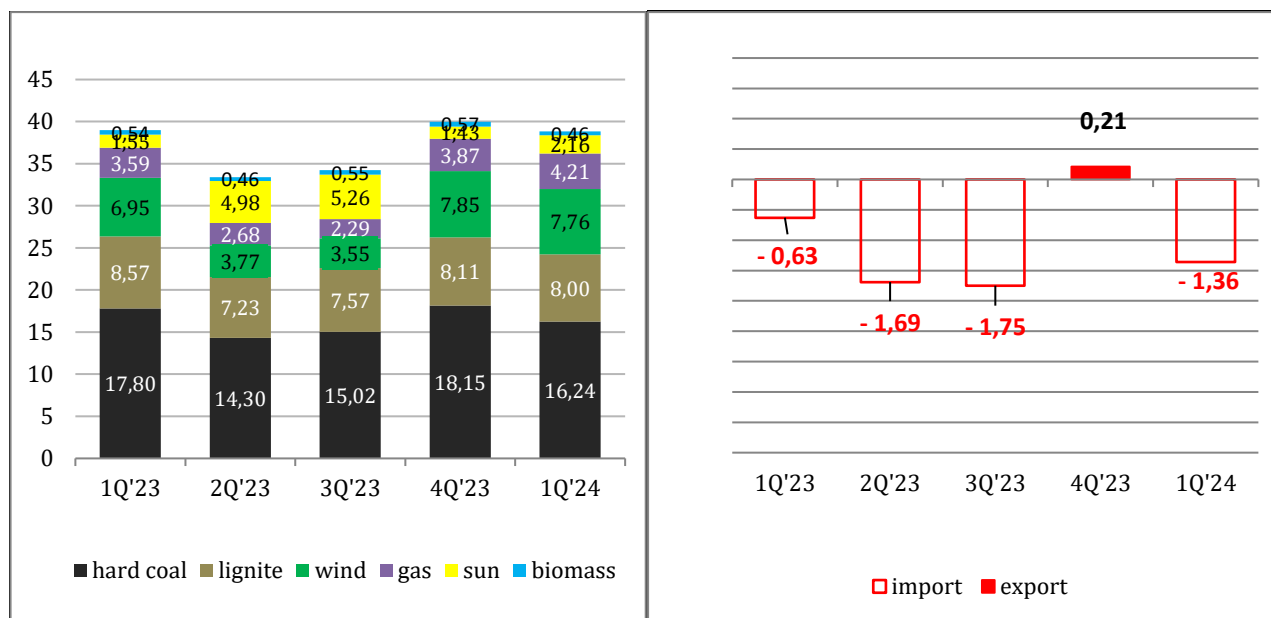
* The so-called quick estimate of gross domestic product in the first quarter of 2024, seasonally unadjusted, at constant average annual prices of the previous year.

Source: Own elaboration based on CSO data

According to the quick estimate, gross domestic product (GDP) not seasonally adjusted in the first quarter of 2024 increased in real terms by 1.9% year-on-year, compared with a decline of 0.4% in the same period of 2023.

The data is preliminary and may be subject to revision, in accordance with the revision policy applied to quarterly national accounts, at the time of the preparation of the first regular estimate of GDP for the first quarter of 2024, which will be published on 3 June 2024.

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 and ENTSO-E data

According to data presented on the ENTSO-E Transparency Platform (net volume), in the first quarter of 2024, gross electricity production amounted to 40.93 TWh¹, which means a slight increase by 0.27% 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 16.24 TWh. 8.00 TWh was produced from lignite. Comparing q/q, there was a decrease in production based on both hard coal (by 8.76%) and lignite – o 6.65%. It is worth emphasizing that the largest increases were recorded in the production of energy from the sun, as much as 39.35% compared to the first quarter of the previous year. However, gas, biomass and wind power plants also recorded growth. Generation from gas power plants amounted to 4.21 TWh and increased by 17.27% compared to the same period in 2023. Biomass-fired power plants generated 0.46 TWh, i.e. 14.81% more than in the previous year. Wind power plants produced 11.65% 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 first quarter of 2024 amounted to 1.36 TWh on the import side, which means that Poland was an importer of electricity.

Polskie Sieci Elektroenergetyczne SA that the gross domestic consumption of electricity in the first quarter of 2024 amounted to 45.27 TWh² and compared to the first quarter of the previous year it increased by 2.65%.

¹ On the basis of Entsoe Transparency Platform
<https://transparency.entsoe.eu/generation/r2/actualGenerationPerProductionType/show>

² On the basis of Table 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 – available on PSE SA website.

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, 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.

According to the current regulations, coal-fired units can receive support under the Capacity Market until the end of H1 2025. Since 2022, Poland has been making efforts to extend the capacity market until the end of 2028. On 17 October, EU energy ministers reached a compromise on support for coal-fired power plants until 2028. The legislative process is currently in its final stages. On 21 May 2024, the Council of the European Union adopted a reform of the EU electricity market, including, among other things, an extension of the derogation period for supporting coal-fired units under capacity mechanisms until the end of 2028. These regulations may affect the financial results of the ZE PAK SA Group's coal assets in 2025.

An important event in the regulatory environment for the Company's financial results is the reform of the balancing market, which has been proceeded since 2019, when intensive work commenced to adapt the balancing market to the requirements of European law. By the decisions of 27 September 2023 and 23 January 2024, the President of the Energy Regulatory Office approved the document "Balancing Terms based on the Commission Regulation (EU) 2017/2195 of 23 November 2017 laying down balancing guidelines", developed and submitted by Polskie Sieci Elektroenergetyczne SA, acting in the territory of the Republic of Poland as the Power Transmission System Operator (TSO), setting the date of entry into force of the document at 14 June 2024. Implementing adopted changes is a very complex process, which requires the effort of the entire sector, including IT solution providers. Implementing new rules into the market requires an in-depth understanding and introducing new solutions within the Company. The changes being implemented mean a huge reform of the balancing market, which introduces, among other things, a new market architecture, as well as new market-based rules for the sale of balancing capacities, new rules of scarcity pricing, new settlement rules on the Balancing Market and different rules for payments for commissioning (which are disappearing as a separate settlement item). It is very difficult to assess the impact of the pending changes on the Group's future financial performance at this stage.

In 2023, a number of regulations were in force, introduced in the fourth quarter of 2022, aimed at influencing the reduction of energy prices. On 7 December 2023, the newly elected Sejm adopted the Act on Amending the laws to Support Consumers of Electricity, Gaseous Fuels and Heat, which extends until mid-2024 the application of maximum energy prices for households and certain entities, such as local governments or public utilities or small- and medium-sized enterprises, among others, but changes the way the 'price freeze' is financed. The Act did not extend funding, as in 2023, from contributions to the Generators and Electricity Trading Companies Fund, introducing a gas deduction, paid by natural gas extraction companies over the 2022 period, which will be one of the Act-funding sources. The price-freezing act in force in 2024 is likely to have no impact on ZE PAK's financial results.

11.3. Electricity prices

The Company generates the vast majority of its revenues from the generation and sales of electricity, so the risk of a change in the electricity sales price is critical to the level of its revenues.

The information disclosed below is based on quotes from the Polish Power Exchange (TGE SA), where the Group sells its generated electricity.

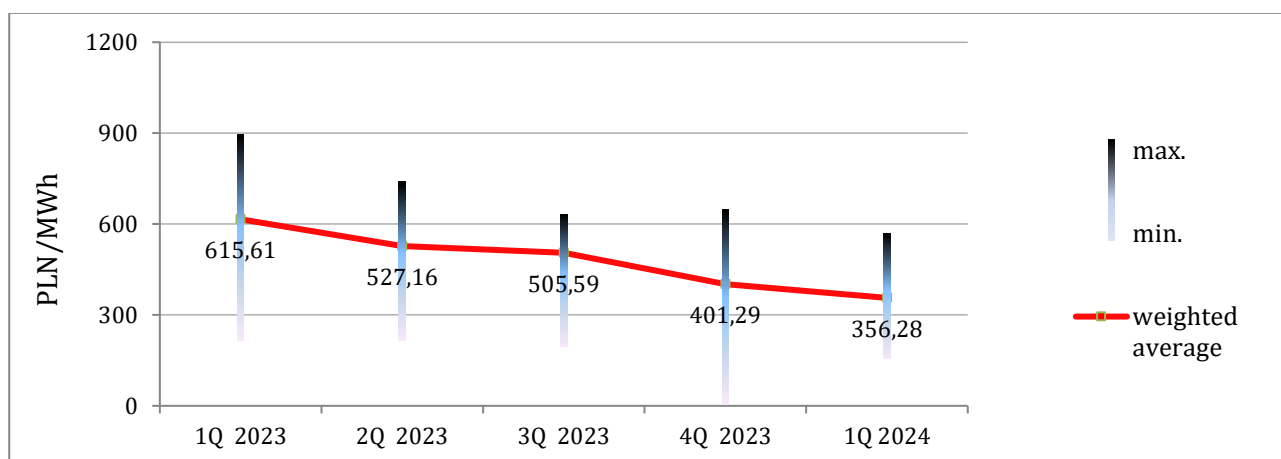
On the day-ahead market of RTG on TGE SA, starting from the fourth quarter of 2022, the average price from TGeBase indices continues to be in a downward trend. Despite the slowdown in the third quarter of 2023, the average of indices on TGeBase on RTG continues to decline and for the first quarter of 2024 the average was PLN 356.28/MWh, which means

a decrease in the average of indices in relation to the fourth quarter of 2023 by PLN 45.01/MWh, i.e. by approximately 11.2%.

Comparing the same periods of 2024 and 2023, the average of the indices in the first quarter was lower by as much as PLN 259.33/MWh in relation to the first quarter of 2023, i.e. by approximately 42.13%, while the trading volume for the above-mentioned periods was lower in the first quarter of 2024 by 1.59 TWh, i.e. by approximately 11.49%.

The situation of persistently lower prices is invariably caused by increased generation of renewable energy from wind and photovoltaic sources with a total record (also historical) production on March 29, 2024 - 15.85 GWh (according to data from the National Power System), which consists of generation from wind sources in the amount of 5,436 MWh and photovoltaic sources in the amount of 10,416 MWh. Historical production records for individual renewable energy technologies are for wind sources 8,492.8 MWh recorded on February 3, 2024 and for photovoltaic sources - a historical record of 10,416 MWh recorded on March 29, 2024.

Chart 9: Electricity prices (TGeBASE)



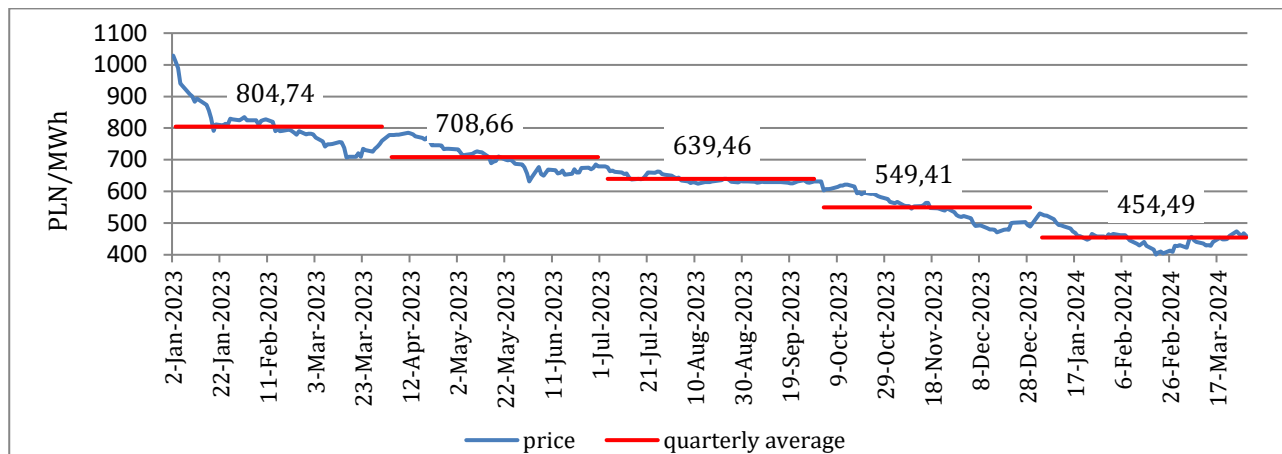
Source: Own elaboration based on TGE data

The arithmetic average of the daily settlement rates (DKR) for the reference BASE_Y-24 futures contract in Q1 2024 was PLN 454.49/MWh, which means a decrease in relation to the BASE_Y-23 futures contract quoted in Q4 2023 by PLN 94.92/MWh, i.e. by approximately 17.28%, 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 continues to be in a downward trend. In Q1 2024, the turnover amounted to 8.13 TWh, which in relation to Q4 2023 means a decrease in the trading volume by 3.32 TWh, i.e. by 29%.

Comparing the same periods of 2024 and 2023, the average DKR in the first quarter was lower by as much as PLN 350.25/MWh compared to the first quarter of 2023, i.e. by approximately 43.52%, while the trading volume for the above-mentioned periods was higher in the first quarter of 2024 by as much as 4.11 TWh, i.e. by over 102%.

The reasons for the increase in the volume of transactions concluded can be seen in the stabilization of prices on the electricity futures markets, which could be observed at the beginning and end of the first quarter of 2024.

Chart 10: Price of an electricity supply futures contract (band) for the coming year



Source: Own elaboration based on TGE data

11.4. Extraction and supply costs of coal and other fuel

A fuel cost is the important part of the costs related to the electricity 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 currently electricity from lignite. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

Suppliers of lignite to ZE PAK SA is PAK KWB Konin SA. Also important for the financial result is the level of costs associated with lignite extraction, which largely depends on factors that are beyond the direct control of the Company, such as, e.g., the geological conditions of the deposits at the final stage of their exploitation.

Currently, the Company is operating only the Tomislawice open pit. The deposit exploited by PAK KWB Konin SA has a specific resource reserve. The possibility of achieving the assumed level of electricity generation depends on the mining capacity and quality of the coal mined from currently operated deposit.

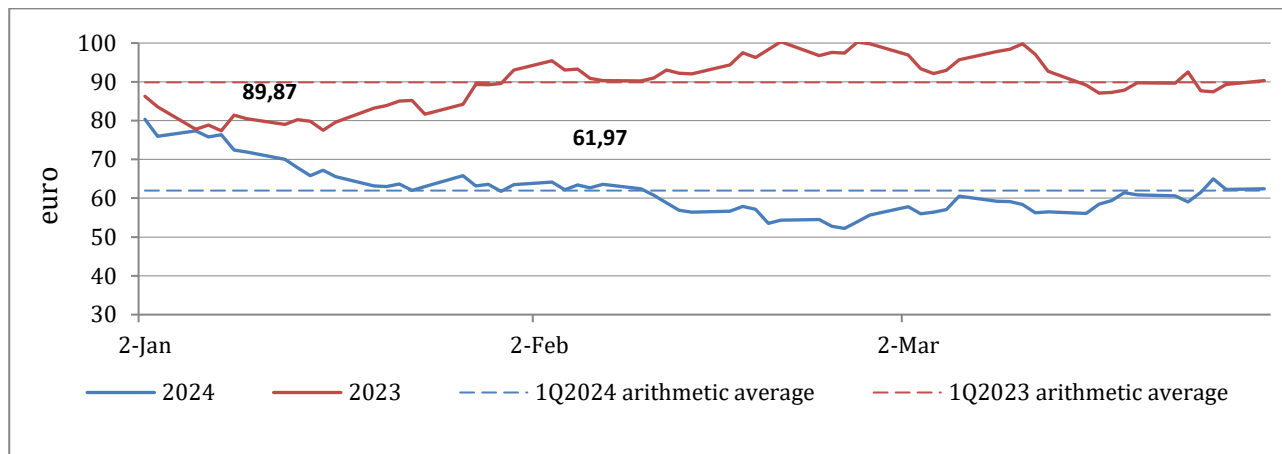
11.5. CO₂ emission allowances costs

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.

The entire amount of emission allowances required by the ZE PAK SA Group in 2023 had to be purchased on the secondary market.

In the first quarter of 2024, the EUA price ranged from EUR 53 to EUR 80. In the first quarter of 2024, the EUA price ranged from EUR 53 to EUR 80. In January and February, we observed a downward trend in EUA unit prices. At the beginning of the year, the EUA price was EUR 80. Due to the higher planned number of allowances to be offered at EUA auctions in 2024 vs. 2023, a decrease in CO₂ emissions in the energy and industry sector due to the slow transition from fossil fuels to renewable energy sources, and a change in the statutory deadline for the redemption of EUA units from April to September, the price of CO₂ emission allowances fell to EUR 53 at the end of February 2024. In March, the price of CO₂ emission allowances rebounded to EUR 63. The arithmetic average of EUA quotations in the first quarter of 2024 was EUR 61.97, while in 2023 it was EUR 89.87, which means a decrease of EUR 27.9, i.e. 31.04%, on a q/q basis.

Chart 11: Price of the futures contracts for the supply of EUA



Source: Own elaboration based on ICE data

11.6. 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.

11.7. Seasonality and meteorological conditions

The demand for electricity, among consumers in particular, is subject to seasonal fluctuations. The practice so far has shown that electricity consumption was higher in the winter (mainly due to low temperatures and shorter days) and lower in the summer (due to the holiday period, higher ambient temperatures, and a longer day). A systematic increase in the demand for electricity in the summer has been recorded in the last years, which is mainly due to the rising number of operated air conditioners and cooling devices.

Regardless of the aforementioned factors, meteorological conditions are becoming increasingly important for the Group's production volume. In previous years, the Group's activity was not subject to significant demand seasonality, and was continuous (basically) all-year-round, owing to low unit operating costs. Currently, given the increasing share of RES in the segment of energy producers, mainly wind as well as increasing photovoltaic production sources, when estimating the output volume by ZE PAK SA, weather conditions, with particular regard to wind and insolation conditions, become increasingly important.

Please bear in mind that in periods when weather conditions favour production from RES sources, the demand for the power from the ZE PAK's conventional power plants may be periodically reduced. And similarly, it may increase during periods of lower RES production.

Seasonality and meteorological risks are becoming more important every year due to the increasing installed capacity of weather-dependent sources in the National Energy System.

11.8. Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Group's conventional generation assets require periodical renovations and ongoing modernisation, both due to the increasing strictness of requirements in terms of environmental protection, as well as the need for improvement of electricity generation effectiveness. The Group's coal-fired generating units are still needed within the National Power System to stabilise the production of RES sources. To reduce mercury and dust emissions in the boiler flue gases of unit No. 9 at the Pątnów Power Plant to the levels required according to the BAT conclusions, the Company has so far spent approximately PLN 2 MM, while the entire investment will amount to ca. PLN 18 MM.

Given the Group's strategy of phasing-out lignite-based electricity generation, the anticipated increased level of capital expenditure associated with the Group's plans to build a CCGT unit at the Adamów Power Plant should be taken into account. The scale of the project and the anticipated level of capital expenditure are significant in the light of the ability to generate cash flow based on current operations. The level of capital expenditure had a major impact, and according to expectations will still have a major impact on the results of operating activities, debt level and cash flows. Execution delays, investment programme changes and exceeding budget thresholds can have a severe impact on future capital expenditure, as well as on the results, financial standing and development perspectives.

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 Polish zloty, there is a couple of significant factors which make the financial results dependent on the EUR/PLN exchange rate. The most important factors include:

- transactions related to EUA purchase settled in EUR,
- one of the companies from the renovation segment, PAK Serwis sp. z o.o. is handling its orders outside of Poland, settling them in EUR.

The Group's companies apply instruments aimed at limiting the risk related to exchange rate changes, e.g., for a part of the flows associated with the purchase of CO₂ emission allowances. Forward transactions are used to secure the exchange rate. Management Boards are constantly monitoring the financial position and market situation and can make the decision to use financial instruments limiting the exchange rate risk, if needed. According to the principles applicable at ZE PAK SA Group, potential transactions will have the form of security and will be adapted to the secured item in terms of volume and maturity date. The decision on the choice of the security instrument will also include the following: price, market liquidity, product simplicity, easiness of quotation and accounting as well as flexibility.

As at 31 March 2024, the Group had no long-term financial liabilities with variable interest rates (loans, borrowings).

Konin, 28 May 2024

SIGNATURES:

Piotr Woźny
President of the Management Board

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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

Maciej Koński
Vice President of the Management Board