

ZMIENIAMY SIĘ
DLA WAS



ZEPAK
Energia dla Ciebie

ZE PAK SA CAPITAL GROUP

MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF THE CAPITAL GROUP OF ZE PAK SA IN 1ST HALF 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.)*



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1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>Zloty thousand</i>	<i>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>6 months 2023 period from 01.01.2023 to 30.06.2023</i>	<i>6 months 2022 period from 01.01.2022 to 30.06.2022</i>	<i>6 months 2023 period from 01.01.2023 to 30.06.2023</i>	<i>6 months 2022 period from 01.01.2022 to 30.06.2022</i>
Sales revenues	1 457 212	1 956 363	315 892	421 385
Operating profit / (loss)	(143 163)	176 086	(31 035)	37 927
Gross profit / (loss)	(151 444)	181 182	(32 830)	39 025
Net profit / (loss) from continuing operations	(119 915)	152 579	(25 995)	32 864
Net profit / (loss) from discontinued operations	(55 557)	-	(12 044)	-
Net profit / (loss)	(175 472)	152 579	(38 039)	32 864
Net profit / (loss) attributable to equity holders of the parent	(153 021)	152 579	(33 172)	32 864
Total comprehensive income	(174 769)	152 532	(37 886)	32 854
Net cash flow from operating activities	(405 664)	(434 889)	(87 939)	(93 672)
Net cash flow from investing activities	(481 906)	(190 619)	(104 467)	(41 058)
Net cash flow from financing activities	376 340	1 046 100	81 582	225 321
Net increase / (decrease) in cash and cash equivalents	(511 230)	420 592	(110 824)	90 592
Net profit / (loss) per share from continuing operations (in zloty/euro per share)	(2.36)	3.00	(0.51)	0.65
Net profit / (loss) per share (in zloty/euro per share)	(3.01)	3.00	(0.65)	0.65
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.06.2023</i>	<i>As at 31.12.2022</i>	<i>As at 30.06.2023</i>	<i>As at 31.12.2022</i>
Total assets	4 530 614	4 539 455	1 018 047	967 921
Fixed assets	387 365	1 978 515	87 042	421 867
Current assets	1 216 061	2 560 940	273 254	546 054
Assets classified as held for sale	2 927 188	-	657 751	-
Total equity	1 032 610	1 214 499	232 032	258 961
Share capital	101 647	101 647	22 840	21 674
Share capital attributable to equity holders of the parent	564 258	723 696	126 791	154 309
Total liabilities	3 498 004	3 324 956	786 015	708 961
Long-term liabilities	858 490	1 199 141	192 906	255 686
Short-term liabilities	748 308	2 125 815	168 148	453 275
Liabilities classified as held for sale	1 891 206	-	424 961	-
Book value per share (in zloty/euro per share)	20.32	23.90	4.57	5.10
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>Zloty thousand</i>	<i>Euro thousand</i>	<i>Euro thousand</i>
	<i>6 months 2023 period from 01.01.2023 to 30.06.2023</i>	<i>6 months 2022 period from 01.01.2022 to 30.06.2022</i>	<i>6 months 2023 period from 01.01.2023 to 30.06.2023</i>	<i>6 months 2022 period from 01.01.2022 to 30.06.2022</i>
Net revenues from sales of products, goods and materials	1 569 677	1 410 437	340 272	303 797
Operating profit/loss	219 935	114 991	47 677	24 768
Profit/loss before tax	223 846	133 751	48 525	28 809
Net profit/loss for the period	225 875	107 938	48 965	23 249
Net cash flow from operating activities	(601 481)	193 951	(130 388)	41 775
Net cash flow from investing activities	(32 556)	(19 818)	(7 057)	(4 269)
Net cash flow from financing activities	(242)	30 544	(52)	6 579
Net cash flow together	(634 279)	204 677	(137 498)	44 086
Net profit per share (in zloty/euro per share)	4.44	2.12	0,96	0.46
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>As at 30.06.2023</i>	<i>As at 31.12.2022</i>	<i>As at 30.06.2023</i>	<i>As at 31.12.2022</i>
Total assets	2 266 395	2 784 643	509 268	593 753
Fixed assets	924 096	779 112	207 648	166 126
Current assets	1 342 299	2 005 531	301 620	427 628
Equity	1 634 296	1 408 421	367 233	300 309
Share capital	101 647	101 647	22 840	21 674
Liabilities and provisions for liabilities	632 099	1 376 222	142 035	293 444
Long-term liabilities	129	129	29	28
Short-term liabilities	168 884	106 282	37 949	22 662
Book value per share (in zloty/euro per share)	32.16	27.71	7.23	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 June 30, 2023, which is 4.6130 EUR/PLN and from January 1, 2022 to June 30, 2022, which is 4.6427 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 June 30, 2023, i.e. 4.4503 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 June 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 SA, 35 subsidiaries and 9 jointly controlled companies, i.e. PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as „PAK KWB Konin SA”), PAK – Polska Czysta Energia sp. z o.o. (hereinafter referred to as „PAK – PCE sp. z o.o.”), PAK – PCE Fotowoltaika sp. z o.o., PAK – PCE Wiatr sp. z o.o., PAK – PCE Biopaliwa i Wodór sp. z o.o. (hereinafter referred to as BiW sp. z o.o.), PAK – PCE Polski Autobus Wodorowy sp. z o.o., PAK – PCE Stacje H2 sp. z o.o. (formerly PAK – PCE Biogaz sp. z o.o.), PG Hydrogen sp. z o.o., Exion Hydrogen Polskie Elektrolizery sp. z o.o., PAK CCGT sp. z o.o., Farma Wiatrowa Kazimierz Biskupi sp. z o.o., PCE – OZE 1 sp. z o.o., PCE – OZE 2 sp. z o.o., PCE – OZE 3 sp. z o.o., PCE – OZE 4 sp. z o.o., PCE – OZE 5 sp. z o.o., PCE – OZE 6 sp. z o.o., MESE sp. z o.o., Park Wiatrowy Pałczyn 1 sp. z o.o., Przedsiębiorstwo Remontowe PAK Serwis sp. z o.o. (hereinafter referred to as „PAK Serwis” sp. z o.o.), PAK – Volt SA, PAK Górnictwo sp. z o.o., Exion Hydrogen Belgium BV, PAK Pątnów sp. z o.o., Ørsted Polska OF SPV 1 sp. z o.o., Ørsted Polska OF SPV 2 sp. z o.o., Ørsted Polska OF SPV 3 sp. z o.o., Ørsted Polska OF SPV 4 sp. z o.o., Ørsted Polska OF SPV 5 sp. z o.o., Ørsted Polska OF SPV 6 sp. z o.o., Ørsted Polska OF SPV 7 sp. z o.o., Ørsted Polska OF SPV 8 sp. z o.o., Ørsted Polska OF SPV 9 sp. z o.o. (formerly Mawzorino Investments sp. s o.o.), Ørsted Polska OF SPV 10 sp. z o.o., PAK ATOM SA, PAK – PCE FW Okonek sp. z o.o., PAK – PCE FW Jastrowie sp. z o.o., Farma Wiatrowa Przyrów sp. z o.o., Great Wind sp. z o.o., Eviva Lębork sp. z o.o., Elektrownie Wiatrowe Dobra sp. z o.o., Eviva Drzeżewo sp. z o.o., Horset sp. z o.o. and PGE PAK Energia Jądrowa SA, a detailed list is shown 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, which until June 2023 operated two open pits: Józwin and Tomisławice. Coal mining at Józwin open pit was carried out until June 16, 2023.

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

ZE PAK Group, in cooperation with Cyfrowy Polsat Group, is developing the structure of special purpose companies focused around PAK - PCE sp. z o. o., whose activities are related to the generation of electricity from renewable 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 and photovoltaic projects with a total expected capacity of approximately 260 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. The demand for biomass is covered on the basis of contracts concluded with external suppliers.

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

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

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

As part of its transformation activities, the Group is also active in the area of offshore wind farm construction projects. It is also planned to use the assets at Pałnów Power Plant for the potential construction of a nuclear power plant. Both of the above projects are developed in cooperation with external partners.

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

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

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

The structure of ZE PAK SA Group as at June 30, 2023 is shown in Figure 1.

2.2. Structure

Figure 1: Structure of the Group as of June 30, 2023

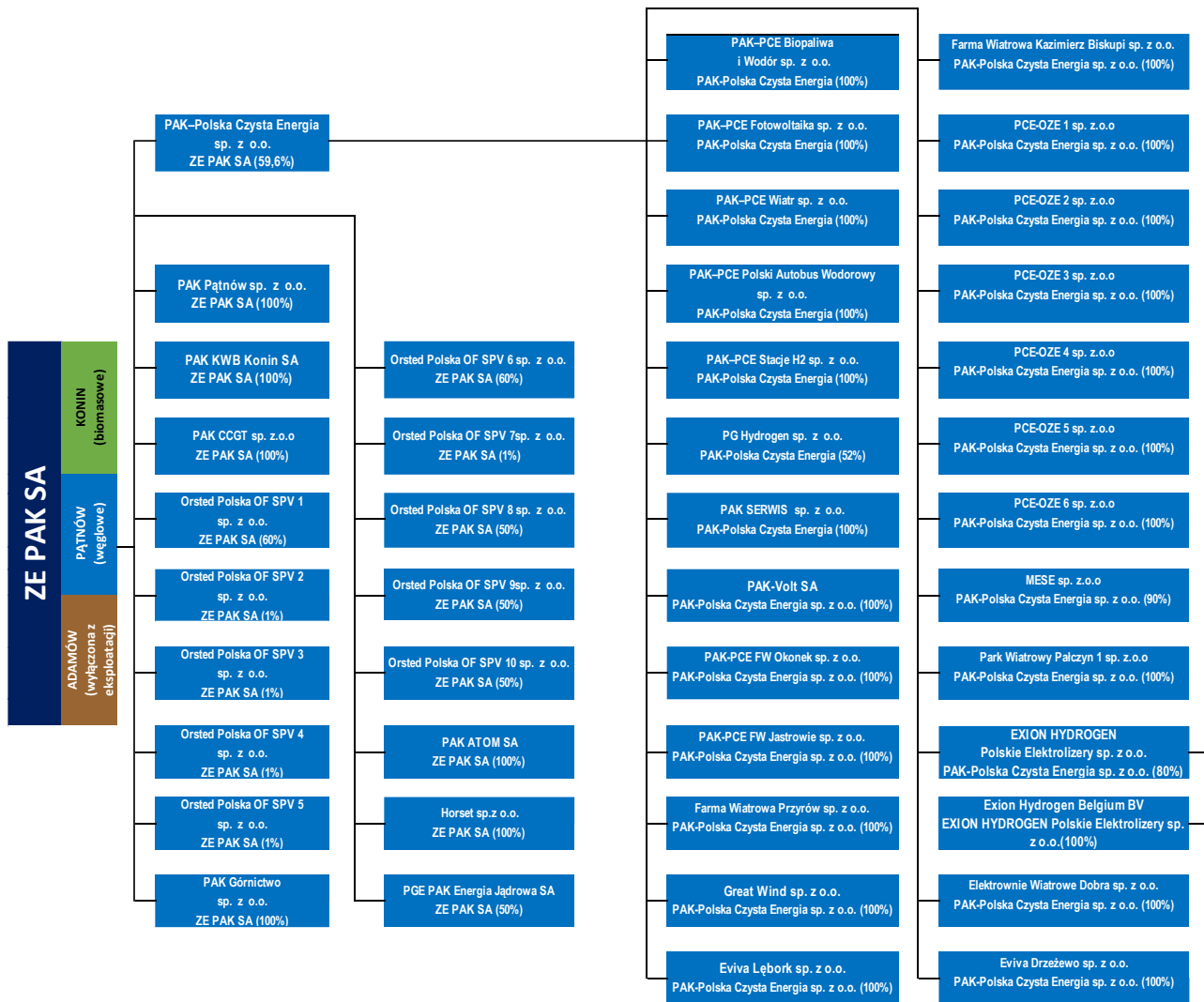


Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	% Group's share in the capital	
			As at 30 June 2023	As at 31 December 2022
Subsidiaries				
„PAK – Polska Czysta Energia” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Activities of central companies, excluding financial holding companies	59.59%	59.59%
„PAK Kopalnia Węgla Brunatnego Konin” SA	62-540 Kleczew ul. 600-lecia 9	Lignite mining	100.00%	100.00%
„PAK Górnictwo” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair and maintenance of machines	100.00%	100.00%
Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair service	59.59%*	59.59%*
„PAK – Volt” SA	04-028 Warszawa Al. Stanów Zjednoczonych 61	Trade of electricity	59.59%*	59.59%*

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„PAK – PCE Polski Autobus Wodorowy” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production of buses	59.59%*	59.59%*
„PAK – PCE Fotowoltaika” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	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	59.59%*	59.59%*
„PAK – PCE Biopaliwa i Wodór” sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Generation of electricity	59.59%*	59.59%*
„PAK – PCE Wiatr” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	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	52.00%*	52.00%*
„Exion Hydrogen Polskie Elektrolizery” sp. z o.o.	80-701 Gdańsk ul. Ku Ujściu 19	Design and production of electrolyzers	47.67%*	47.67%*
„Exion Hydrogen Belgium” BV	Slachthuisstraat 120 Bus 12 2300 Turnhout	Design and production of electrolyzers	47.67%*	47.67%*
„Farma Wiatrowa Kazimierz Biskupi” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Design and production of wind farms	59.59%*	59.59%*
„PCE-OZE 1” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	59.59%*
„PCE-OZE 2” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	59.59%*
„PCE-OZE 3” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	59.59%*
„PCE-OZE 4” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	59.59%*
„PCE-OZE 5” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	59.59%*
„PCE-OZE 6” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	59.59%*	59.59%*
„PAK CCGT” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	100.00%
„MESE” sp. z o.o.	04-028 Warszawa Al. Stanów Zjednoczonych 61A	Generation of electricity	53.63%*	53.63%*
„Park Wiatrowy Pałczyn 1” sp. z o.o.	70-479 Szczecin Al. Wojska Polskiego 68	Generation of electricity – wind power engineering	59.59%*	59.59%*
„PAK Pątnów” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity	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%
„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%
„PAK ATOM” SA	62-510 Konin ul. Kazimierska 45	Generation of electricity	100.00%	100.00%
„PAK – PCE FW Okonek” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	59.59%*	59.59%*
„PAK – PCE FW Jastrowie” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	59.59%*	59.59%*
„Farma Wiatrowa Przyrów” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	59.59%*	59.59%*
„Great Wind” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	59.59%*	59.59%*

„Eviva Lębork” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	59.59%*	59.59%*
„Elektrownie Wiatrowe Dobra” sp. z o.o.	91-862 Łódź ul. Warszawska 70A	Generation of electricity – wind power engineering	59.59%*	59.59%*
„Horset” sp. z o.o.	03057 Kijów/Ukraina ul. Smoleńska 31/33		100%	-
Eviva Drzeżewo” sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation of electricity – wind power engineering	59.59%*	-

Jointly controlled companies

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

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

As at June 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 first half of 2023, the following changes took place in the Group's structure:

- On 25 January 2023, the Company acquired 100% of share in Horset sp. z o.o., a Ukrainian-law company with its seat in Kiev,
- On February 28, 2023, two companies merged: „PAK KWB Konin” SA (acquiring company) and „PAK KWB Adamów” SA (acquired company),
- on 13 April 2023, PGE and ZE PAK signed the articles of association of PGE PAK Energia Jądrowa SA. The company's objective and task will be to participate in the construction of a nuclear plant in Konin/Pątnów in Wielkopolska.
- On 14 April 2023, PAK – PCE Czysta Energia sp. z o.o. acquired 100% of the shares in the share capital of Eviva Drzeżewo sp. z o.o., the task of which involves the construction and operation of a wind farm.

After the end of the reporting period, 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, as at the date of publication of this report, the Company holds approximately 49.5% of shares in PAK – PCE, while CP holds approximately 50.5% of shares in PAK – PCE.

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 first quarter and as at the date of publication of this report, the composition of the Company's Management Board is as follows:

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

3. SIGNIFICANT EVENTS AFFECTING THE 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 half of 2023, total sales revenues (including discontinued operations) amounted to PLN 2,216,420 thousand and compared to the first half of 2022 increased by PLN 260,057 thousand, i.e. by 13.29% (Table 2).

The increase in total sales revenues in the first half of 2023 was mainly influenced by the increase in revenues from the sale of electricity due to a 102.73% higher price. At the same time, a decrease in the total sales volume by 43.73% was recorded, both from the sale of own and purchased energy. The lower amount of coal available for extraction in the mines supplying the Company contributed to the decrease in production. It should be noted that while net production based on coal decreased by 53.25%, net production of RES energy increased by 30.43%, mainly due to the operation of biomass units at Konin power plant. The net production volumes of the Group's individual power plants are presented in Chart 3.

In the first half of 2023, revenues from the capacity market amounted to PLN 82,396 thousand and compared to the same period of the previous year decreased by PLN 1,675 thousand, i.e. by 1.99%. The lower revenues are due to the lower revenues realized on the secondary market.

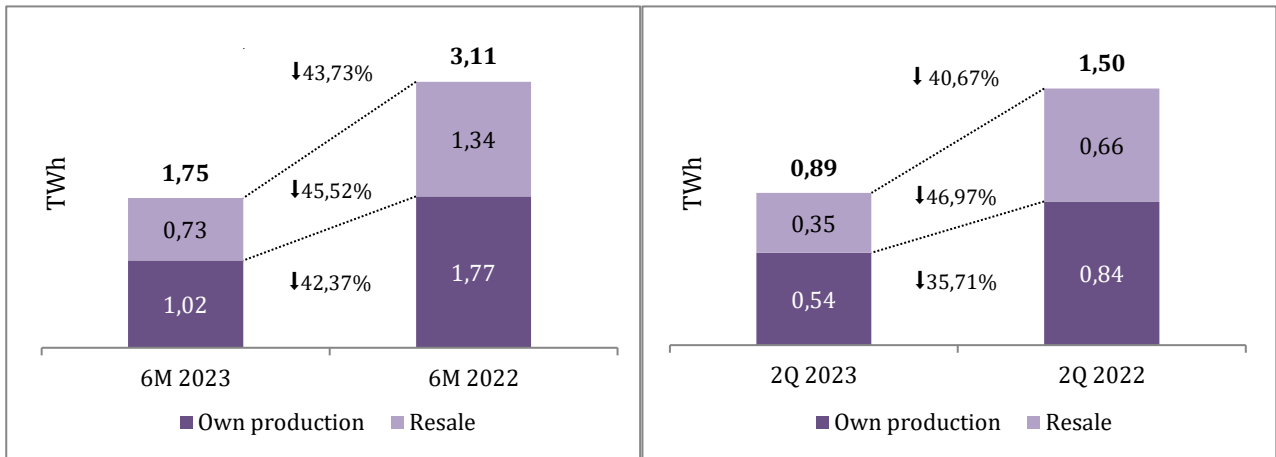
In the first half of 2023, compared to the first half of 2022, revenues from the sale of property rights from energy certificates increased by PLN 8,870 thousand, i.e. by 29.43%. The higher price of certificates is responsible for the increase in revenues.

Revenues from the termination of long-term contracts for the sale of power and electricity in the first half of 2023 decreased by PLN 3,685 thousand, i.e. by 6.97% as a result of a higher margin on production from unit 9.

Revenues from heat sales in the first half of 2023 amounted to PLN 45,929 thousand and were higher than those obtained in the first half of 2022 by PLN 16,003 thousand, i.e. 53.48%. The increase in revenues was driven by a higher price for heat with a slightly lower sales volume.

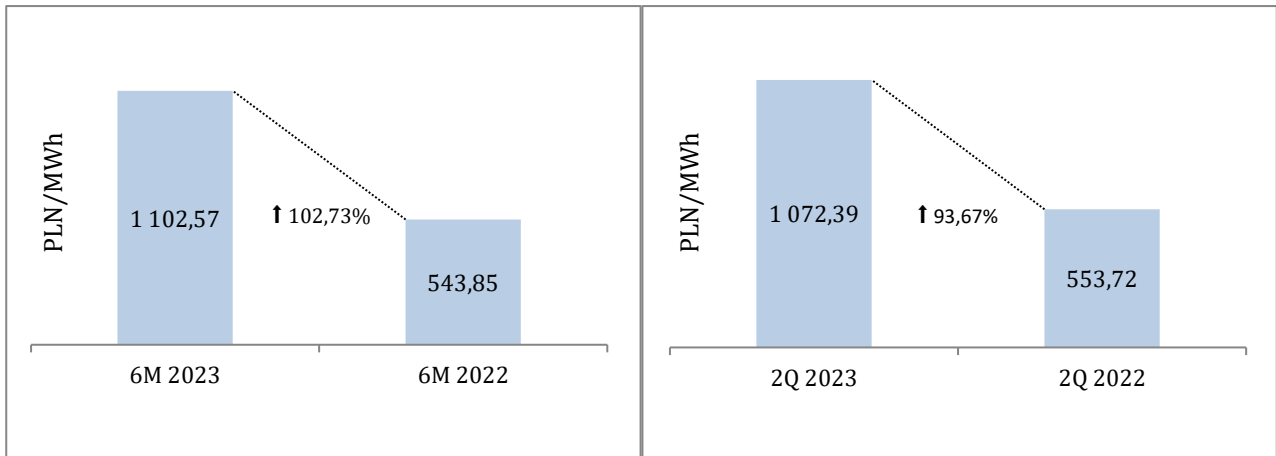
Revenues from construction services contracts in the first half of 2023 compared to the revenues obtained in the same period of the previous year increased by PLN 18,162 thousand, i.e. by 110.62%. The increase in revenues in the analysed period was related to the implementation of projects with higher scope, both material and financial.

Chart 1: Electricity sales



Source: Internal data

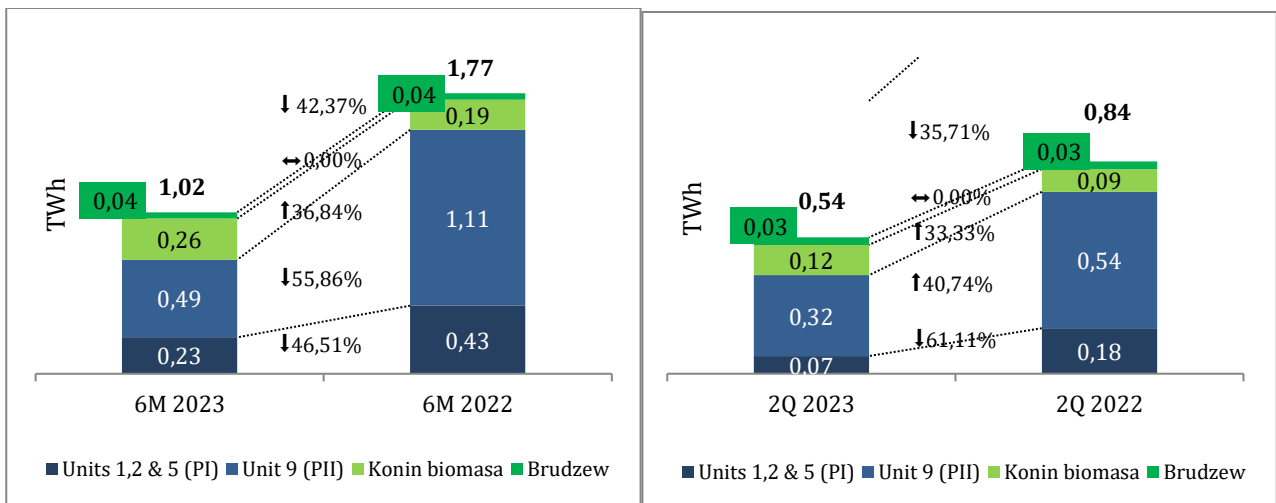
Chart 2: Average electricity prices*



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

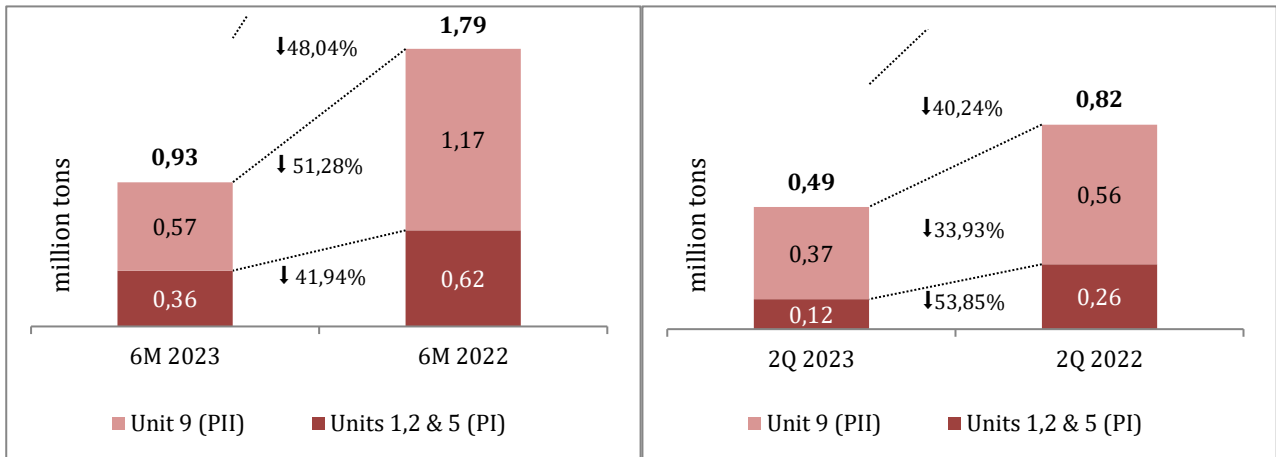
Source: Internal data

Chart 3: Net electricity production



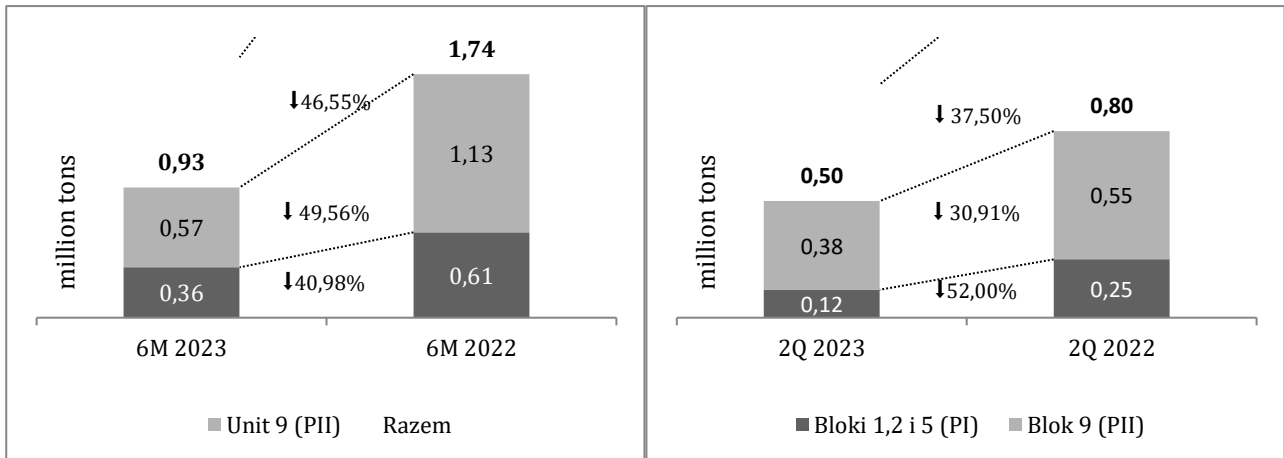
Source: Internal data

Chart 4: Lignite consumption



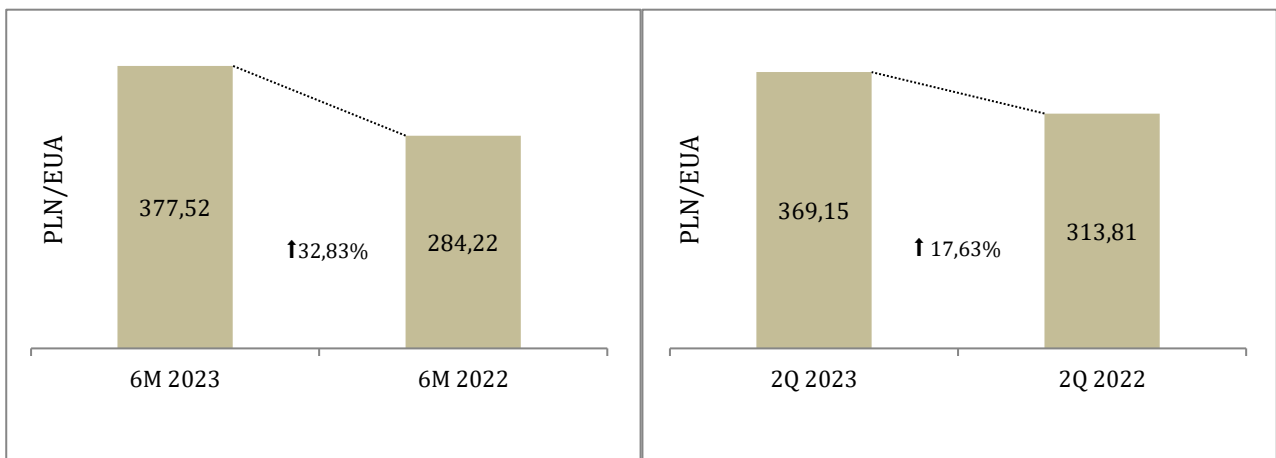
Source: Internal data

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

	Zloty thousand 6-month period ended 30 June 2023	Zloty thousand 6-month period ended 30 June 2022	Zloty thousand change	%
				dynamics
Revenues from the sale of goods, including:	2 128 236	1 875 509	252 727	13.48
– Revenues from the sale of electricity (own)	1 216 094	899 538	316 556	35.19
– Revenues from the sale of traded electricity	711 826	795 309	(83 483)	(10.50)
– Revenues from the Capacity Market	82 396	84 071	(1 675)	(1.99)
– Revenues from the sale of heat	45 929	29 926	16 003	53.48
– Revenues from contracts for construction services	34 581	16 419	18 162	110.62
– Other sale revenues	37 410	50 246	(12 836)	(25.55)
Excise	(28)	(2 173)	2 145	98.71
Other revenues, including:	88 212	83 027	5 185	6.24
– Property rights on Energy certificates of origin	39 010	30 140	8 870	29.43
– Compensation for termination of LTC	49 202	52 887	(3 685)	(6.97)
Total sale revenues	2 216 420	1 956 363	260 057	13.29
Revenues from discontinued operations	(759 208)	-	(759 208)	-
Revenues from continuing operations	1 457 212	1 956 363	(499 151)	(25.51)

Table 3: Selected items of the consolidated income statement

	Zloty thousand 6-month period ended 30 June 2023	Zloty thousand 6-month period ended 30 June 2022	Zloty thousand change	%
				dynamics
Sales revenues	1 457 212	1 956 363	(499 151)	(25.51)
Prime cost	(991 065)	(1 745 874)	754 809	43.23
Gross sales profit (loss)	466 147	210 489	255 658	121.46
Other operating revenues	13 182	40 717	(27 535)	(67.63)
Cost of sales	(709)	(6 192)	5 483	88.55
General and administrative expenses	(56 594)	(61 537)	4 943	8.03
Other operating costs	(565 189)	(7 391)	(557 798)	(7 546.99)
Profit (loss) from operating activities	(143 163)	176 086	(319 249)	-
Financial revenues	11 969	30 387	(18 418)	(60.61)
Financial costs	(20 250)	(25 291)	5 041	19.93
Gross profit (loss)	(151 444)	181 182	(332 626)	-
Income tax (tax load)	31 529	(28 603)	60 132	-
Net profit (loss) from continuing operations	(119 915)	152 579	(272 494)	-
Net profit (loss) from discontinued operations	(55 557)	-	(55 557)	-
Net profit (loss)	(175 472)	152 579	(328 051)	-
Net other comprehensive income	703	(47)	750	-
Comprehensive income	(174 769)	152 532	(327 301)	-
EBITDA* from continuing operations	(113 967)	198 725	(312 692)	-
EBITDA* from discontinued operations	(8 818)	-	(8 818)	-
EBITDA*	(122 785)	198 725	(321 510)	-

* 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.

Total costs by type (including discontinued operations) in the first half of 2023 amounted to PLN 1,875,040 thousand and, compared to those incurred in the first half of 2022, increased by PLN 30,542 thousand, i.e. by 1.66%. The increase in costs by type was influenced by higher fuel costs, the cost of the fee for the fund to pay the price difference introduced

as a result of the package of regulations protecting consumers against excessive increases in energy prices in 2023, and an increase in the reserve for the future recultivation of exploited open pits. The reduction in costs by type was mainly due to the reduction in CO₂ emission costs resulting from reduced energy production and the lower value of purchased electricity for resale.

Table 4: Consolidated costs by type

	<i>Zloty thousand</i> <i>6-month period ended</i> <i>30 June 2023</i>	<i>Zloty thousand</i> <i>6-month period ended</i> <i>30 June 2022</i>	<i>Zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	29 196	22 639	6 557	28.96
Impairment write-down on inventory	4 124	5 554	(1 430)	(25.75)
Consumption of materials	311 910	199 575	112 335	56.29
Outsourcing	47 523	52 834	(5 311)	(10.05)
Taxes and fees excluding excise tax	167 589	65 157	102 432	157.21
Costs of CO ₂ emissions	352 300	495 243	(142 943)	(28.86)
Costs of employee benefits	208 915	195 931	12 984	6.63
Other costs by type	17 975	45 047	(27 072)	(60.10)
Value of sold goods and materials and sold traded electricity	735 508	762 518	(27 010)	(3.54)
Total costs by type	1 875 040	1 844 498	30 542	1.66
Costs by type from discontinued operations	(758 342)	-	(758 342)	-
Costs by type from continuing operations	1 116 698	1 844 498	(727 800)	(39.46)

Total other operating revenues (including discontinued operations) in the first half of 2023 amounted to PLN 13,314 thousand and were PLN 27,403 thousand lower than those obtained in the same period last year. The decline in revenues is due to lower revenues from demolition and sale of scrap and lower revenues from the sale of non-financial fixed assets.

Sales costs (including discontinued operations) in the first half of 2023 amounted to PLN 7,347 thousand and were PLN 1,155 thousand higher than those incurred in the same period last year as a result of costs related to organizing the delivery and sale of hydrogen.

General and administrative expenses (including discontinued operations) in the first half of 2023 amounted to PLN 89,932 thousand and were higher than those incurred in the corresponding half of last year by PLN 28,395 thousand, i.e. 46.14%.

Total other operating costs (including discontinued operations) in the first half of 2023 amounted to PLN 575,005 thousand and increased compared to the first half of the previous year by PLN 567,614 thousand, i.e. 7,679.80%. The increase is primarily due to an increase of PLN 553,832 thousand in the provision for future recultivation of open pits in the planned period after the end of coal mining.

In the first half of 2023, the ZE PAK SA Group generated an operating loss of PLN 143,163 thousand from continuing operations. In the same period last year, a profit of PLN 176,086 thousand was realized.

In the first half of 2023, the results achieved were negatively affected by the negative result on financial activities in total (including discontinued operations) in the amount of PLN 64,238 thousand, related to higher costs of servicing the increasing debt, realized negative exchange rate differences and negative valuations of transactions hedging the price of energy and interest rate in renewable energy projects.

The net loss in the first half of 2023 amounted to PLN 175,472 thousand compared to the net profit of PLN 152,579 thousand achieved in the first half of last year.

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 2023, the recultivation provision was increased. The provision related to the mining segment and was related to the exploitation of lignite open pits and the estimated cost of recultivation of areas covered by mining activities after their completion. The basis for increasing the provision was a report on the costs of recultivation and development of excavations and post-mining areas, prepared by an independent advisor. The preparation of the documentation was commissioned due to the approaching date of the complete termination of mining operations and the need to update the assumptions taken into account when estimating the costs of recultivation of the land in use. The costs to which the provision relates are incurred by PAK Kopalnia Węgla Brunatnego Konin SA (a subsidiary of the Company)

after the completion of the exploitation of opencast areas (both those whose exploitation has already been completed and reclamation is in progress, and those currently exploited).

The establishment of the provision did not affect the standalone financial results of ZE PAK SA.

In the second quarter of 2023, one-off events affecting the results of ZE PAK SA Capital Group were recognized.

The events concern subsidiaries of PAK–Polska Czysta Energia sp. z o.o. (PAK - PCE) and result from: (1) including in the costs of the second quarter of 2023 one-off adjustments in relation to settlements for the sale of electricity and heat and (2) recognition of valuations of concluded PPA (Power Purchase Agreement) contracts for the sale of energy between PAK-PCE's subsidiaries and Cyfrowy Polsat SA (CP).

The factors listed above had a non-cash, negative impact on the results, and their total estimated impact on EBITDA amounts to PLN 56,361 thousand.

It should be noted that after July 3, 2023, i.e. after CP takes over control of PAK-PCE, the Company will consolidate the result of PAK-PCE according to its share in the structure.

Implementation of investment projects

In the first half 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.

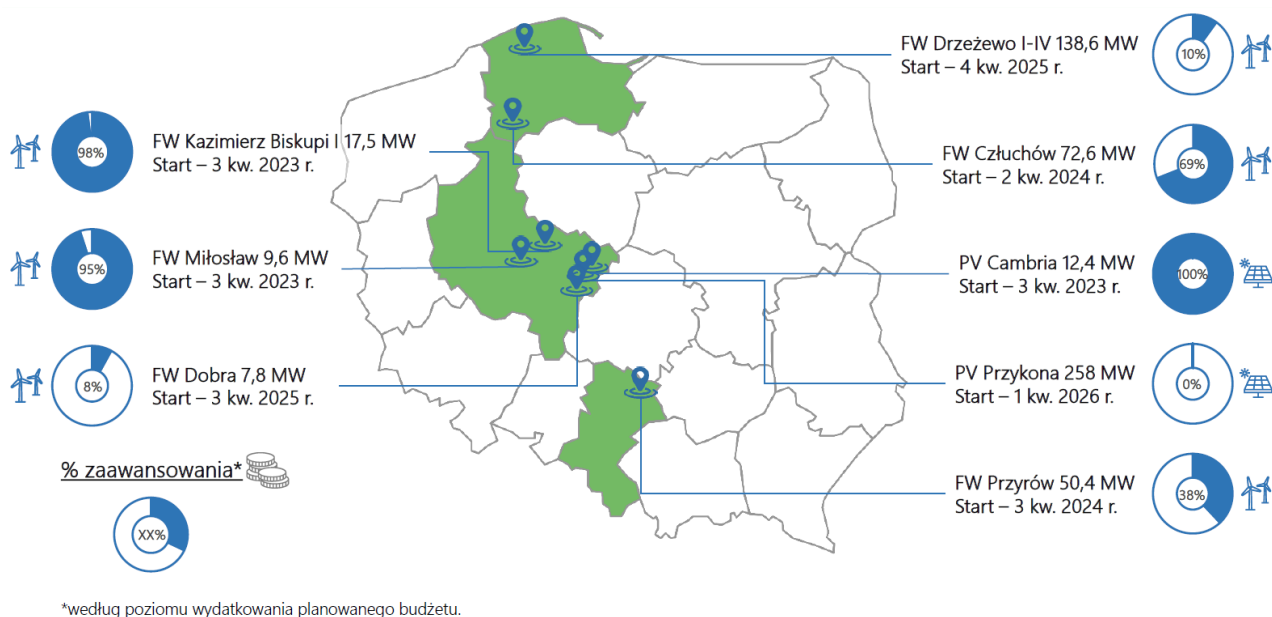
Wind and PV farms

Currently, 6 onshore wind farm projects and two photovoltaic projects are being implemented. The total installed capacity of wind projects, after completion of all planned wind investments, will be close to 300 MW. These are wind farms in Miłosław (9.6 MW), Kazimierz Biskupi (17.5 MW), Przyrów (50.4 MW), Człuchów (72.6 MW), Drzeżewo (138.6 MW) and in Dobra (7.8 MW). The construction of wind farms in Kazimierz Biskupi and Miłosław is already in its final phase, which means that technical commissioning has been completed and both farms have already started producing electricity. Completion of work on the farm projects in Człuchów and Przyrów is planned for the second and third quarter of 2024, respectively, while Drzeżewo and Dobra projects are scheduled for 2025.

Photovoltaic projects currently being implemented include a 12.4 MW expansion of the existing photovoltaic farm in Brudzew, which already produces electricity, and Przykona project with a capacity of 258 MW. For the expansion of Brudzew farm, the necessary permits have already been obtained to start operation, the final occupancy permit (FON) is being obtained and the farm started producing energy in September 2023. Przykona project is at the stage of obtaining a set of construction permits, the planned completion of the farm construction and energy production is the first quarter of 2026. The total installed capacity of planned photovoltaic projects in 2026 will exceed 340 MW.

The location and advancement status of wind and photovoltaic projects are shown in Figure 2.

Figure 2. Location and advancement status of wind and photovoltaic projects



Hydrogen projects

The hydrogen bus factory, a project implemented by PAK - PCE Polski Autobus Wodorowy, located in Świdnik, is at the final stage of advancement. Construction works have been completed, the facility has received an occupancy permit and the relocation of production from previous locations has begun. In March 2023, PAK – PCE Polski Autobus Wodorowy sp. z o.o. concluded the first contract with Rybnik City Hall for the manufacture and delivery of 20 hydrogen buses with a completion date up to 240 days from signing the contract.

In September 2023, an agreement was signed with Gdańskie Autobusy i Tramwaje sp. z o.o. for a ten-year lease of 10 standard low-floor hydrogen-powered buses along with full service and fuel supply for their operation.

As for the **construction of a hydrogen plant** with accompanying infrastructure at Konin power plant, in which hydrogen will be produced in the process of water electrolysis using energy from a renewable source, assembly works were completed and the so-called "cold start" of the electrolyser was carried out. Work is currently underway to launch the installation, the date of commissioning is being discussed with the contractor. To start commercial hydrogen production, it will also be necessary to carry out the process of integrating basic devices in the master control system and carrying out acceptance tests by UDT, TDT, PSP, Sanitary and Epidemiological Station and PINB. In order to enable the supply of hydrogen to hydrogen refuelling stations, a number of agreements were concluded and mobile hydrogen storage units (hydrogen trucks) were delivered.

The entity dedicated to the **construction of publicly available hydrogen refuelling stations** is PAK - PCE Stacje H2. The basic goal of this project is to build a network of publicly available hydrogen refuelling stations in the following locations: Warsaw, Gdańsk, Gdynia, Wrocław, Lublin, Rybnik. The construction of the station in Warsaw has been completed, the official opening took place on September 11, 2023. In February 2023, the construction of the station in Rybnik also began, and the station is scheduled to be put into operation in this location in October 2023.

Construction works have started in Gdańsk and Gdynia, and preparations are underway for construction in Lublin and Wrocław. Completion of works for these stations is planned in 2024.

In 2022, the Company also ordered 4 mobile hydrogen refuelling stations, mainly intended for buses. The first of them was accepted in the first quarter of 2023, the next three will be accepted with a delay until the end of the first quarter of 2024.

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 project is implemented at the site of the former Adamów coal-fired power plant, which has been cleared and prepared for the construction of the new gas-steam unit. Preliminary bids for construction and maintenance contracts were received in November 2022 and are expected to be concluded in Q3 2023. Administrative approvals needed to commence construction are currently being obtained. In 2022, the unit won a capacity market auction, offering 493 MW of availability for a period of 17 years as of 2026.

Stand-alone energy supply for a single-family house

The project involves developing a concept and technical selection of equipment for a self-sufficient stand-alone system supplying electricity, heat, domestic hot water to single-family houses with low energy consumption and passive houses.

A contract with the Energy Centre at the Stanisław Staszic AGH University of Science and Technology in Kraków was concluded in June 2020. The contract covers a project entitled “Stand-alone single-family supply with electricity and heat, based on own renewable energy sources, using hydrogen as an energy carrier and storage”.

The equipment required to create a stand-alone model for the supply of energy and heat to a single-family house was purchased – a complete electrolyser assembly, hydrogen storage tanks, fuel cells, and a household PV power plant. The initial operation phase of the assembled stand-alone power system designed for a single-family house is currently in progress. In June 2022, Energoprojekt-Katowice was commissioned with developing a demonstrator design for the project “Stand-alone single-family supply with electricity and heat, based on own renewable energy sources, using hydrogen as an energy carrier and storage”. This project will constitute ground for the construction of a single-family dwelling model in the form of a container building, which can be moved to different locations to demonstrate the stand-alone supply system for a single-family house. A demonstrator concept and multi-discipline technical designs have been developed. The next step will involve selecting a vendor for a demonstrator container and trailer, together with the designed demonstrator.

3.2. Other significant events of the reporting period, events after the balance sheet date and other information which are relevant for the assessment of the human resources, property, financial situation and ability of the Company and the Group to fulfil its obligations

Significant events during the reporting period

Signing of a letter of intent regarding cooperation in the field of investment aimed at improving water retention and the development of renewable and nuclear energy

On 26 January 2023, ZE PAK SA, the Poznań University of Life Sciences and Polish Waters concluded in Poznań a letter of intent related to establishing cooperation with regards to conducting environmental research and analyses, as well as technical solutions aimed at improving the environmental condition in the region of the Konin-Turek energy basin, with particular focus of new investments by ZE PAK S.A. in renewable and nuclear energy.

The agreement concluded in Poznań is aimed at establishing cooperation with relation to the ongoing energy transition at ZE PAK S.A., using the substantive and technical potential of the letter’s signatories in relation to environmental and technical studies covering planned investment projects. In particular, the joint actions are to be undertaken in the field of assessing the nuclear power plant site, reconstructing water resources in Eastern Wielkopolska, and the ongoing revitalization of mining and industrial areas. The area of cooperation will involve, among others, joint actions towards:

- shaping new ecosystems within degraded and devastated areas;
- reconstructing water resources in Eastern Wielkopolska and incorporating ZE PAK S.A.’s post-mining sites to the existing hydrographic network, which will contribute to improve water relations in the region and provide a new function (retention and anti-flood) for created post-mining reservoirs;
- assessing the potential nuclear power plant site in Pątnów;
- using post-mining areas for producing energy from renewable sources.

The implementation of the presented objectives is to bring benefits for the widest possible group of stakeholders, with particular focus on water and energy security of Poland. The actions taken fall in line with the objectives and recommendations in terms of limiting the adverse environmental impact, development of alternative fuels and energy efficiency improvement, set out in documents at national and EU levels.

Conclusion of a contract by PAK – PCE Polski Autobus Wodorowy sp. z o.o. for the manufacture and delivery of hydrogen-powered electric buses

On 3 February 2023, PAK – PCE Polski Autobus Wodorowy sp. z o.o. received information from the Rybnik City Hall regarding the results of the public procurement procedure for the “Purchase of 20 hydrogen-powered electric buses”, in which the ordering party announced the selection of the bid by PAK – PCE Polski Autobus Wodorowy sp. z o.o. as the most advantageous contractor for the above-mentioned task.

The contract for the construction and delivery of hydrogen buses was concluded with the City of Rybnik on 28 March 2023.

According to the provisions of the contract, the remuneration for the performance of the contract subject was set at PLN 66.1 million gross and will be settled for each bus separately, after signing the final acceptance protocol - delivery of the bus.

The order completion date is set at 240 days from concluding the contract. The warranty of good performance pursuant to the contract will be granted for 73 months.

Reliable and timely performance of the contract subject is secured by liquidated damages.

Other contractual provisions do not significantly deviate from these traditionally used in such contracts.

PAK-PCE Stacje H2 sp. z o.o. concluding a co-financing contract for a subsidy with the National Fund for Environmental Protection and Water Management

On 21 February 2023, PAK – PCE Stacje H2 sp. z o.o. concluded a contract for co-financing in the form of a subsidy with the National Fund for Environmental Protection and Water Management ("NFOŚiGW"), under which the company will receive a subsidy of PLN 20 million, to be allocated to build a network of publicly accessible hydrogen refuelling stations in five Polish cities. The subsidy was provided under the NFOŚiGW priority programme “Support for electric vehicle charging and hydrogen refuelling infrastructure”, which aims to develop infrastructure reducing the number of polluting vehicles and thus improving air quality.

The stations are to be built by 30 June 2024. Their construction is to enable refuelling hydrogen-fuelled vehicles. Thus, hydrogen is becoming an alternative to traditional, emission-intensive fossil fuels used in transport. The planned total project implementation costs are PLN 57.4 MM.

Conclusion of an agreement and the establishment of a new joint company PGE PAK Energia Jądrowa - construction of a nuclear power plant in Konin/Pątnów in Wielkopolska

On 7 March 2023, the Company and PGE Polska Grupa Energetyczna S.A. with its seat in Lublin concluded a preliminary agreement on the establishment of a joint special-purpose company in the form of a joint-stock company with its seat in Konin, to commence direct cooperation with regards to the construction of a nuclear power plant based on the Korean APR1400 technology.

Following the concluded agreement, PGE and ZE PAK signed the Articles of Association of PGE PAK Energia Jądrowa SA on 13 April 2023. PGE and ZE PAK will each hold 50% of the shares in PGE PAK Energia Jądrowa. The objective and task of the company will be to participate in the planned construction of the nuclear power plant in Konin/Pątnów in Wielkopolska. The power plant is treated as a joint venture between PGE PAK Energia Jądrowa SA and the Korean KHNP. The investment project will be implemented based on a safe and proven technology of ARP 1400 reactors.

The task of PGE PAK Energia Jądrowa is to develop three investment project elements, namely, the feasibility study, site and land survey, and an environmental impact assessment for the purposes of the planned nuclear power plant construction.

According to the assumptions, PGE PAK Energia Jądrowa S.A. will represent Poland at all project stages, including the implementation of site and environmental studies, funding acquisition and the development, jointly with the Korean side, of a detailed project schedule, as well as at subsequent stages of obtaining permits and administrative decisions.

Change in the composition of the Supervisory Board of ZE PAK SA

On April 13, 2023, Mr. Maciej Stec submitted a statement of resignation from the function of a Member of the Supervisory Board of ZE PAK SA. The reason for his resignation was the planned appointment to the Management Board of PGE PAK Energia Jądrowa S.A. based in Konin.

Acquisition of a wind project and conclusion of a loan agreement by PAK – Polska Czysta Energia sp. z o.o.

On 14 April 2023, PAK – Polska Czysta Energia sp. z o.o. purchased from Polish Wind Holdings B.V., a company established and operating under the laws of the Kingdom of the Netherlands, 100% shares in the share capital of the Eviva Lębork sp. z o.o. project company with its seat in Słupsk.

PAK – PCE sp. z o.o. acquired project company shares from the seller as part of an investment project that involves executing an RES system within the Główny, Damnica and Potęgowo communes, Słupsk district, Pomorskie province.

The investment projects involve the construction of a wind farm complex with an effective capacity of 88 MW. Wind conditions in this region enable estimating annual farm output at approx. 240 GWh. The project has already been granted a set of administrative permits that enable commencing construction work on the wind turbines. The planned investment project commissioning date is Q4 2025. The total estimated investment expenditure associated with the acquisition and implementation of the investment project will amount to PLN 920 MM.

In the light of acquiring the project company, PAK – PCE sp. z o.o. concluded a loan agreement with Cyfrowy Polsat S.A., with its seat in Warsaw. Under the agreement, PAK – PCE sp. z o.o. was granted a loan of up to PLN 99 MM, to be paid in Polish zloty or Euros, on terms specified therein. Pursuant to the provisions of the agreement, the loan repayment date has been set at 31 December 2025. The financial terms and other terms of the Agreement do not deviate from market terms.

Park Wiatrowy Pałczyn 1 sp. z o.o. concluding a loan agreement with BANK POLSKA KASA OPIEKI SA

On 20 April 2023, Park Wiatrowy Pałczyn 1 sp. z o.o. (Pałczyn 1) concluded a loan agreement with BANK POLSKA KASA OPIEKI, pursuant to which the bank granted Pałczyn 1 an investment loan of up to PLN 95.5 MM and a VAT loan of up to PLN 5 MM. Loans are intended to finance and refinance the construction costs of a wind farm with a combined installed capacity of 9.6 MW, located in Miłosław commune in the Wielkopolskie province.

The final repayment date for the investment loan is 20 December 2038, while the final repayment date for the VAT loan is 31 December 2023. The interest rate applicable to each loan use is equal to the annual interest rate, which is the total of the margin set out in the agreement and an appropriate WIBOR rate. The bank shall be entitled to commissions on behalf of granting the loans, the amount of which has been set at a level not different than market rates.

Other obligations of the debtor under the agreement do not differ from these commonly applied within similar loan transactions, in terms of maintaining selected financial indices at a level specified by the contract in particular.

The contract entailed establishing securities in the form of a financial and registered pledge on shares in Park Wiatrowy Pałczyn 1 sp. z o.o., a financial and registered pledge on bank accounts and a power of attorney to each of the said bank accounts, a registered pledge on company's assets, assignment under contracts constituting material project documentation, assignments under insurance policies and declarations by Park Wiatrowy Pałczyn 1 sp. z o.o. on submission to the writ of execution pursuant to Art. 777 (1) cl. 5 and 6 of the Code of Civil Procedure.

Integrated permits – repeal of the appealed decision of the Minister of Climate and Environment and dismissal of Greenpeace Polska's complaint against the decision of the Minister of Climate and Environment

Following the judgment of the Provincial Administrative Court in Warsaw (WSA) of May 22, 2023, repealing the decision of the Minister of Climate of November 21, 2022 (DIŚ-III.415.63.2021) challenged by the Greenpeace Polska Foundation - ref. no. IV SA/Wa 167/23 (Pałtnów Power Plant and Konin Power Plant) and after the judgment of May 24, 2023 dismissing the complaint filed by the Greenpeace Polska Foundation against the decision of the Minister of Climate and Environment of November 21, 2022, reference number: DIŚ-III.435.12.2020.AŻ.1. Sign. file: IV SA/Wa 166/23 (Pałtnów II Power Plant), the Company may still benefit from the granted derogations from the emission limits and operate generation assets in all the above-mentioned power plants.

Against the judgment of the Provincial Administrative Court of May 22, 2023, the Company filed a cassation appeal on August 2, 2023 to the Supreme Administrative Court on August 2, 2023, and against the judgment of the Provincial Administrative Court of May 24, 2023, the Greenpeace Polska Foundation filed a cassation appeal to the Supreme Administrative Court on August 2, 2023.

Loan agreement between PAK – Polska Czysta Energia sp. z o.o. and Cyfrowy Polsat SA in order to finance the wind farm construction project

In order to finance the construction and operation of a renewable energy installation in the form of a set of 33 wind turbines within Człuchów commune, Człuchów powiat, Pomorskie Voivodeship, with the potential to build a photovoltaic farm as part of the obtained connection capacity of the project, on June 14, 2023, the governing bodies of PAK - PCE and Great Wind companies decided to conclude another loan agreement between Cyfrowy Polsat SA (CP) as the lender and PAK – PCE as the borrower, which provides for CP to grant a loan to PAK – PCE up to an amount not exceeding PLN 175,000,000.00 and to conclude another loan agreement between PAK – PCE as the lender and Great Wind as the borrower, which provides for PAK – PCE to grant a loan to Great Wind up to an amount not exceeding PLN 175,000,000.00.

Both loan agreements were concluded in order to finance subsequent payments to be made by Great Wind i.a. based on contracts with suppliers and contractors including contract for the supply and installation of wind turbines.

The loan agreements stipulate that the loans may be taken out in PLN or EUR. At the same time the loan agreements provide for the possibility for PAK – PCE and Great Wind to obtain alternative forms of financing the investment project

as well as the potential early repayment of the loan granted under the loan agreements. The interest rate on the loan is variable, based on WIBOR or EURIBOR, respectively. The financial conditions and other conditions of the loan agreement do not differ from market conditions. The loan repayment date was set at 31 December 2025.

Significant events after the balance sheet date

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 January 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.

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

ZE PAK SA and the companies consolidated within the Group were not a party in proceedings pending before court, competent arbitration authority or public administration authority in the first half of 2023, whose single or total value would exceed 10% of ZE PAK SA's equity with the exception of those described below.

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

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomislawice. 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 Tomislawice 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.

5. INFORMATION REGARDING THE SHAREHOLDING STRUCTURE

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

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

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

<i>Shareholder</i>	<i>Pcs</i> <i>Number of shares and</i> <i>corresponding number of</i> <i>votes</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 semi-annual 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 semi-annual report and as at the day of submitting the previous periodic report (to the best of the Company's knowledge, based on notifications of purchase / sale of shares).

Table 5: Status of the Company's shares held by the managing persons

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

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

<i>Name</i>	<i>ZE PAK SA shares as at the day of submitting this report</i>	<i>ZE PAK SA shares as at the day of submitting the previous report</i>
Zygmunt Solorz	0	0
Tobias Solorz	0	0
Piotr Żak	0	0
Wiesław Walendziak	0	0
Tomasz Szelaąg	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 half 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 first half of 2023.

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

On February 28, 2023, a company from the ZE PAK SA Group granted a promissory note guarantee in the amount of PLN 20,000 thousand to the National Fund for Environmental Protection and Water Management for PAK-PCE Stacje H2 sp. z o.o. in connection with the subsidy received from the National Fund for Environmental Protection and Water Management by PAK-PCE Stacje H2 in the amount of PLN 20,000 thousand for the investment in the hydrogen project.

A Group company, PAK-Polska Czysta Energia sp. z o.o. granted on January 31, 2023 a loan to PAK PCE Fotowoltaika sp. z o.o. in the amount of PLN 11,000 thousand, repayable by the end of March 2036. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of a photovoltaic power plant.

ZE PAK SA granted on 18 April 2023 a loan to PAK CCGT sp. z o.o. in the amount of PLN 7,000 thousand repayable by the end of June 2026. The loan is intended to meet the current liabilities of PAK CCGT.

A Group company, PAK – Polska Czysta Energia sp. z o.o. granted a loan on May 11, 2023 to Great Wind sp. z o.o. in the amount of PLN 90,000 thousand with a repayment date by the end of December 2025. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of a wind farm.

A Group company, PAK – Polska Czysta Energia sp. z o.o. granted a loan on May 31, 2023 to Eviva Drzeżewo sp. z o.o. in the amount of PLN 10,000 thousand with a repayment date by the end of December 2025. The loan is intended for the implementation of an investment project in renewable energy sources (RES) in the form of a wind farm.

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

In the first half 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 renewable energy 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;
- prices and supply of certificates of origin;
- 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.

Moreover, an important factor that may have a significant impact on the financial results are the results of tests for impairment of assets, if there are premises for their performance. The used valuation model of the Company's assets shows sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation model of the Company's assets can change, and consequently the value impairment test result may cause the necessity of verifying the value of the write-downs against the asset components in the future.

11.1. 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. In the past, the operations of the Group were not subject to significant seasonality of demand, due to low costs, the work of blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of RES in the segment of energy producers, including primarily wind 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.

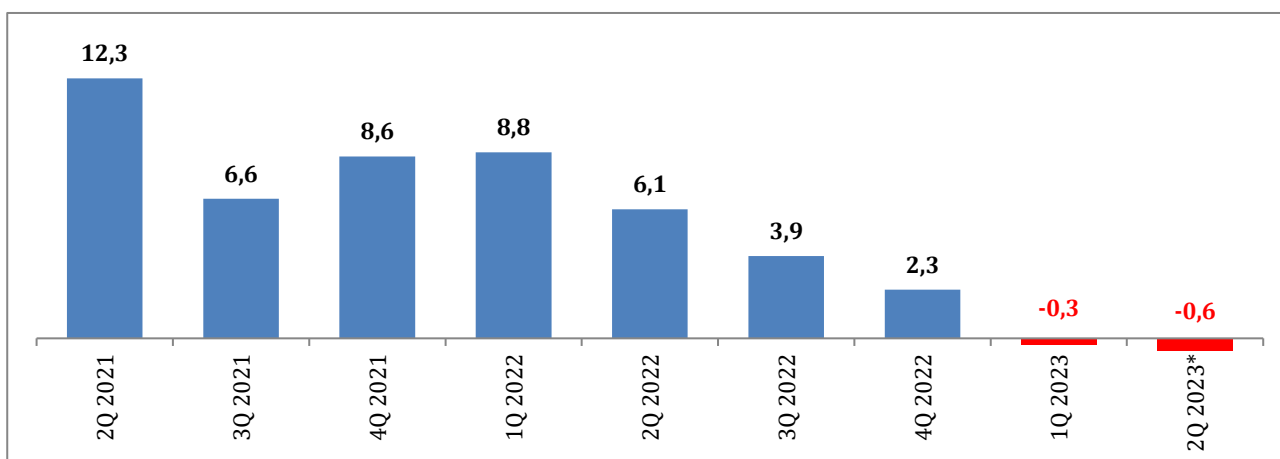
11.2. Macro-economic trends in the Polish economy and the demand for electricity

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 preliminary estimate, the seasonally unadjusted gross domestic product (GDP) in the second quarter of 2023 decreased in real terms by 0.6% year-on-year compared to an increase of 6.1% in the corresponding period of 2022.

The real GDP dynamics in the second quarter of 2023, according to the preliminary estimate, was 99.4.

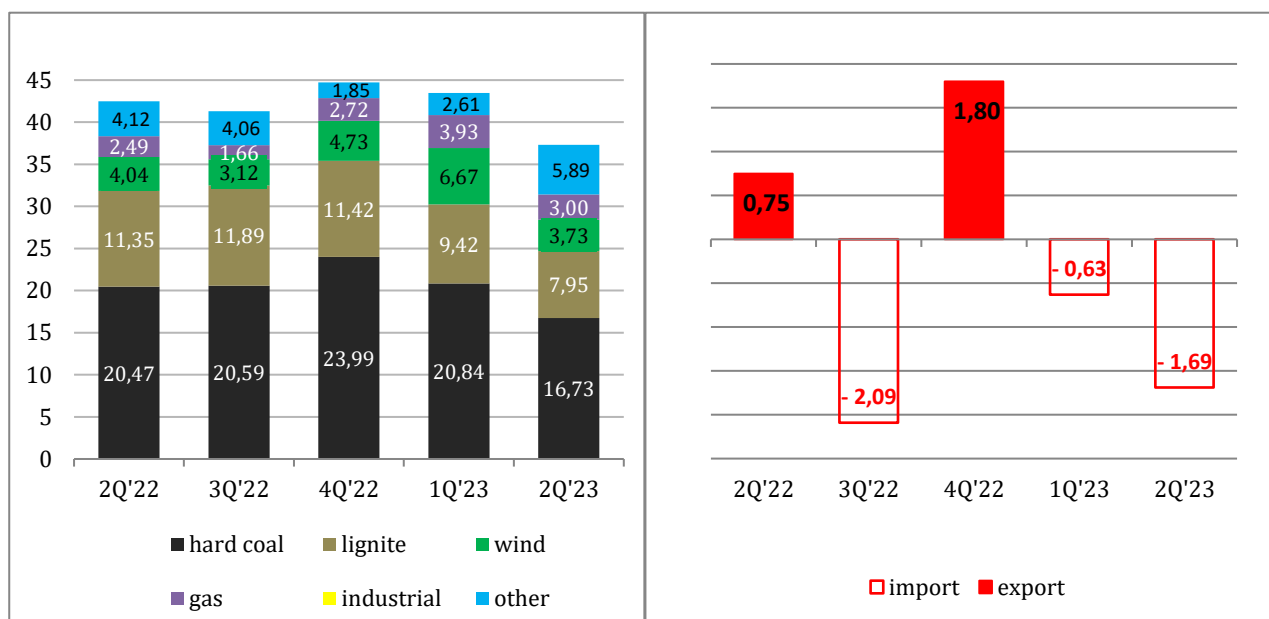
Chart 7: GDP dynamics [%] in relations to analogous quarter of the previous year (yearly average fixed prices)



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

Source: Own elaboration based on CSO data

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



Source: Own elaboration based on PSE data

Data on the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, indicate that gross domestic electricity consumption in the first half of 2023 amounted to 83,12¹ TWh and decreased by 4.91% compared to the first half of the previous year. In the first half of 2023, gross electricity production amounted to 80.77 TWh, which means a decrease of 9.36% 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 37.51 TWh. 17.37 TWh was produced from lignite. Comparing h/h, there was a decrease in production based on both hard coal (by 12.98%) and lignite - by 26.61%. Wind power plants produced 10.40 TWh, which is almost the same value as in the same period last year (minimum decrease of 0.51%). Generation from gas power plants increased by 23.32% compared to the same period in 2022, where production was recorded at 6.93 TWh. The foreign exchange balance in the first half of 2023 amounted to 2.35 TWh on the import side, which means that Poland was an importer of electricity in the first half of the year.

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, including lignite-based sources, biomass, photovoltaic and wind sources, and the Company generates the vast majority of revenues from the generation and sale of electricity produced by these installations. Bearing in mind that the Group companies - ZE PAK SA, and PAK - PCE Biopaliwa i Wodór sp. z o.o. – are active members of the Polish Power Exchange (TGE SA), where they contract part of their production, and also sell energy on the OTC market (Over the Counter Market) as well as on the Balancing Market, the risk of changes in the price at which the Group sells electricity, is of key importance for the level of its revenues.

Since a large part of the Group's contracting is carried out on TGE SA, the information presented below is based on quotations from TGE SA.

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. The average on the Day-Ahead Market on TGE SA for the second quarter of 2023 was PLN 527.16/MWh, which means a decrease compared to the second quarter of 2022 by PLN 175.31/MWh, i.e. by approximately 25%. However, the turnover in the second quarter of 2023 (approximately 13.35 TWh) was higher by over 74% compared to the same period in 2022 (7.78 TWh).

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.

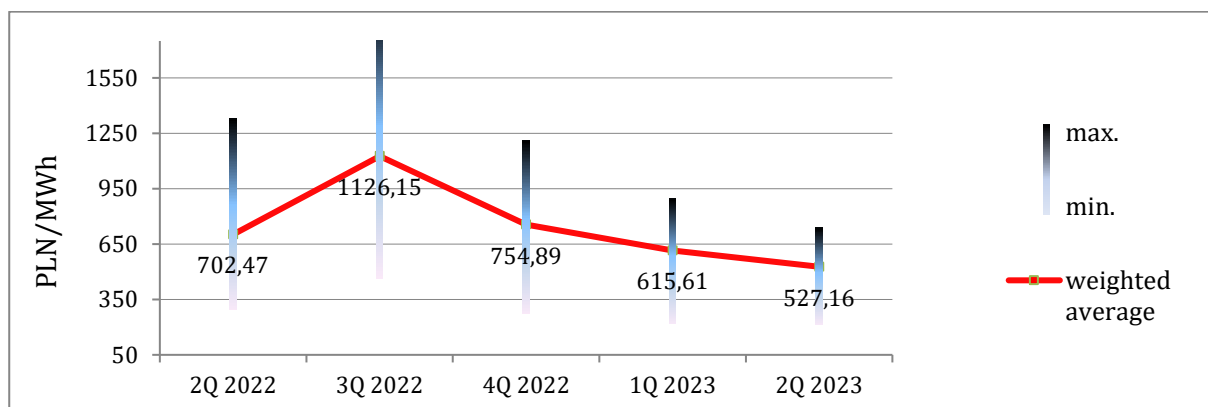
Price drops in the second quarter of 2023 are still the result of the intervention of the EU Council regarding high energy prices on energy markets in the European Union², which resulted in the introduction of a regulation of the Minister of Economy, which specifies the mechanism for energy producers to apply maximum prices (MaxCO) in the 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 on May 10 this year - 13.85 GW according to the data of the National Power System (including 5,575 MW from wind farms and 8,273 MW from photovoltaic farms) and single production records from wind farms in the second quarter - 6,138 MW on April 2, 2023 (historical record from February 20, 2023 - 7,832.8 MW) and photovoltaic farms - 8,821 MW on June 3, 2023.

The arithmetic average of daily settlement prices for the BASE_Y-24 reference futures contract in the second quarter of 2023 was PLN 708.66/MWh, which means a decrease of PLN 291.03 compared to the BASE_Y-23 futures contract quoted in the second quarter of 2022 PLN/MWh, i.e. by approximately 29%, 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 in an upward trend. In the second quarter of 2023, the turnover amounted to 7.40 TWh, which, compared to the first quarter of 2023, means an increase in the trading volume by 3.38 TWh, i.e. by 84%.

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)³



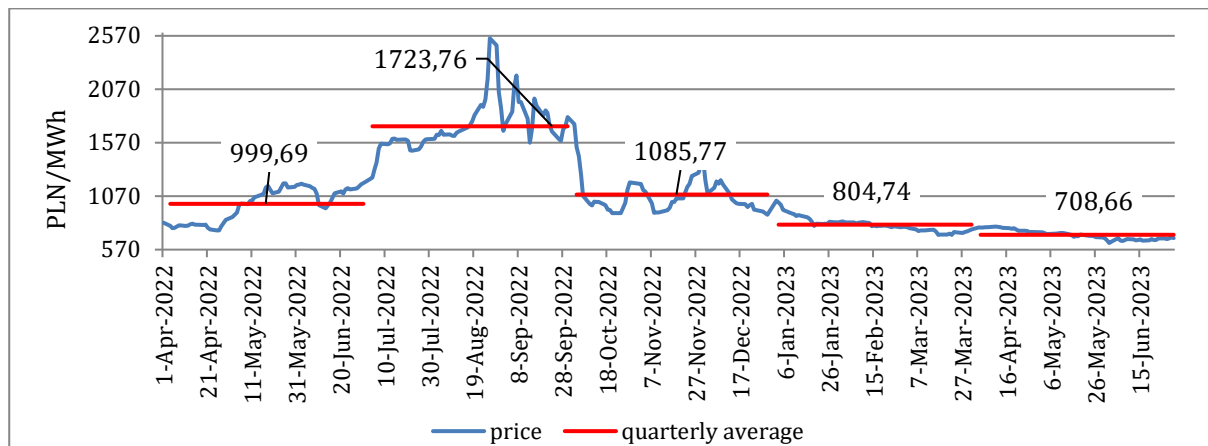
Source: Own elaboration based on TGE data

Starting from the next quarter, taking into account the changes in the ownership structure that took place in ZE PAK Group, a description of the factors affecting the level of revenues generated from the production and sale of electricity produced by two biomass units (each with a capacity of 50 MW) belonging to the company from the ZE PAK Group - i.e. PAK - PCE Biopaliwa i Wodór sp. z o. o., will be discussed in the report of Polsat Plus Group.

² Council Regulation (EU) 2022/1854 of 6 October 2022 on emergency intervention to address high energy prices (EU OJ L 261, 07/10/2022, p. 1)

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

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.

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. In the first quarter of 2023, Polskie Sieci Elektroenergetyczne SA, acting as the Power Transmission System Operator (TSO) in the territory of the Republic of Poland, started the process of social consultations on the draft of new Balancing Conditions, based on: Commission Regulation (EU) 2017/2195 of November 23, 2017 establishing the balancing guidelines, lasting from February 22, 2023 to May 5, 2023. The implementation of complex changes will be a very complicated process, requiring the work of the entire sector, including companies providing IT solutions. Implementation of new rules to the market will require in-depth knowledge and implementation of new solutions in the Company. The implemented changes include a huge reform of the balancing market, which will introduce e.g. new market architecture, as well as new market-based rules for selling balancing capacity, new scarcity pricing rules, new RB settlement rules and other start-up payment rules (which disappear as a separate settlement item). The planned date of entry into force of these changes is the date indicated by the President of the Energy Regulatory Office after their approval, it is estimated that it may be June 2024. 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 first 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. For the results of the ZE PAK SA Group, the provisions regarding the Price Difference Fund are particularly important, which obliged the Group companies generating and/or trading energy, starting from December 1, 2022 to the end of 2023, to make write-offs to the Price Difference Fund, the amount of which is all revenues resulting from concluded contracts for the sale of electricity above the price limit, determined in accordance with the principles set out in the above-mentioned regulation. The amendment to this Act, which has been pending in recent months, introduces provisions providing for the settlement of receivables under the Act until April 2025, in the scope of amounts for which payment was made after December 31, 2023. The regulation package is the result of extraordinary legislative work aimed at limiting the "excessive", as defined by the legislator, revenues of companies in the power sector. Due to the fact that the electricity prices at which the Group sells its production are the most important factors indicated by the Company as having an impact on its financial results, the extraordinary legislative solutions adopted by the Polish legislator, which are and, as practice shows, will be subject to further revisions of the legislator, will undoubtedly affect the financial results of the ZE PAK SA Capital Group. Subsequent amendments to this Act and the Executive Order extend the scope of write-offs. The amendment to the Act of February 8, 2023 extended the scope of the write-down to include revenues from guarantees of origin within the meaning of the Act of February 20, 2015 on renewable energy sources and for settlements related to the sale of electricity, including in particular financial instruments, while the amendment to the Act, which has been processed in recent months, introduces, as of September this year, provisions clarifying the February changes, obliging producers and trading companies to transfer 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 the guarantee of origin system, which is an instrument that promotes the production and consumption of renewable electricity, and the system of PPA contracts, which are also a mechanism for supporting renewable energy, enabling the sale of renewable energy at a fixed price in a long period of time.

Important issues in the regulatory environment that may affect the Group's financial results include issues related to the Fit for 55 Package. In the first half of 2023, the Council adopted key legal acts, i.e. review of the ETS directive, amendment to the regulation on monitoring, reporting and verification emissions from maritime transport, review of the ETS directive in agriculture, regulation establishing the Social Climate Fund, regulation establishing CBAM. The new provisions of the ETS Directive increase from 55% to 62% the reduction of CO₂ emissions for 2030 in the sectors covered by the system, compared to 2005 levels. The changes include changes in the functioning of the Market Stability Reserve (MSR) - in March 2023, the EU Council adopted a separate decision extending the higher annual allowance consumption rate (24%) for the period after 2023. Any possible changes to the ETS may affect the level of quotations of EUA units. On the national basis, latest version of the Act on the greenhouse gas emission allowance trading system has been in force since March 18, 2023.

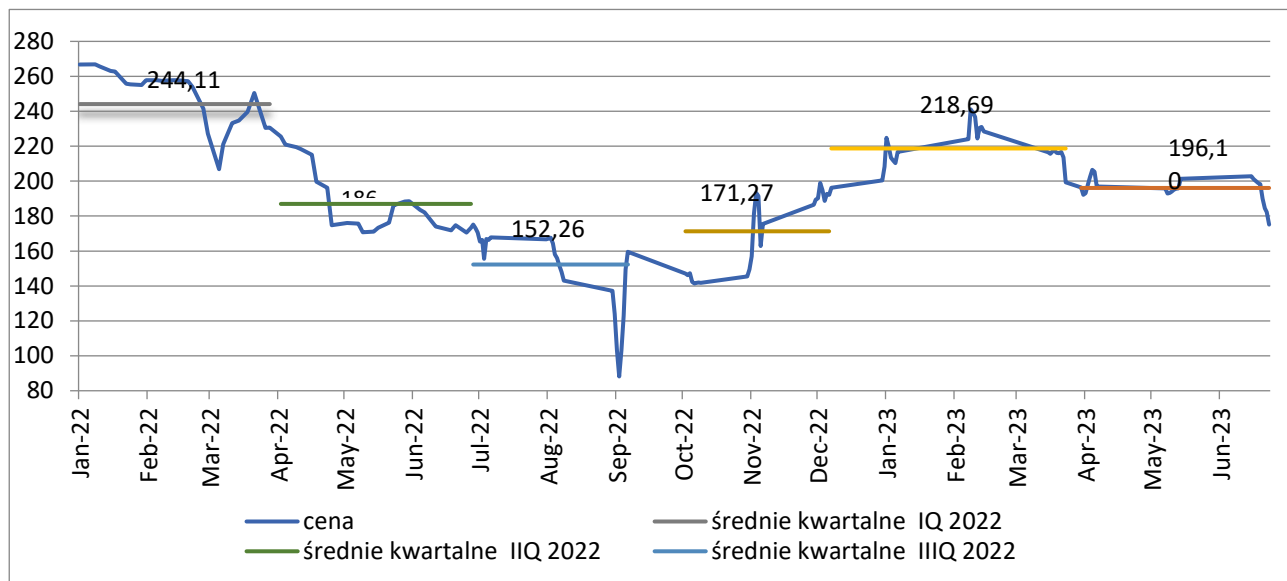
11.5. Prices and supply of certificates of origin

One of the power units of the ZE PAK SA Group dedicated to biomass combustion is entitled to green certificates. The number of obtained certificates of origin depends on the level of generation from a given source and is significantly higher than the number that the Group is obliged to present for redemption, therefore the Group sells most of these certificates to other market participants. However, biomass unit generation largely depends on the green certificates market price levels. During periods, when the total generated biomass energy and green certificate prices do not ensure reaching the assumed financial effect, the generation may be decreased or halted, which also automatically decreases the amount of generated green certificates. Due to the fact that the level of income generated from the sale of certificates of origin is lower than the level of revenues generated from the sale of electricity, the risk of price changes for certificates of origin also has a smaller impact on results than, for example, the risk of changes in energy prices.

Since the beginning of the first half of 2023, the price of PMOZE_A certificates of origin has been in an upward trend. In January 2023, the average price weighted by the trading volume on the Property Rights Market (RPM) sessions was PLN 211.51/MWh for the PMOZE_A instrument, which means an increase of PLN 20.21/MWh compared to December 2022. In February, the price increased by another PLN 20.86/MWh. In March, a downward trend began and lasted until the end of the first half of 2023. This month the price dropped by PLN 17.78/MWh. In April 2023, the average price weighted by the trading volume at RPM sessions was PLN 198.86/MWh for the PMOZE_A instrument, which means a decrease of PLN 15.73/MWh compared to March 2023. In May, there was another drop of PLN 1.95/MWh. The last

session in June closed with a price of PLN 175.17/MWh, and the weighted average price from June was PLN 192.57/MWh. Despite the price drop in the second quarter of 2023, the weighted average price increased by PLN 9.14/MWh compared to the corresponding second quarter of 2022.

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



Source: Own elaboration based on TGE data

Starting from the next quarter, taking into account the changes in the ownership structure that took place in ZE PAK Group, a description of factors affecting the level of revenues generated from the sale of green certificates for the production of electricity by PAK - PCE Biopaliwa i Wodór sp. z o.o., will be discussed in Polsat Plus Group report.

11.6. 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.

By ending exploitation in open pits, the Group is gradually moving away from generating energy from coal and focusing on projects in the field of energy production from low-emission and emission-neutral sources.

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.

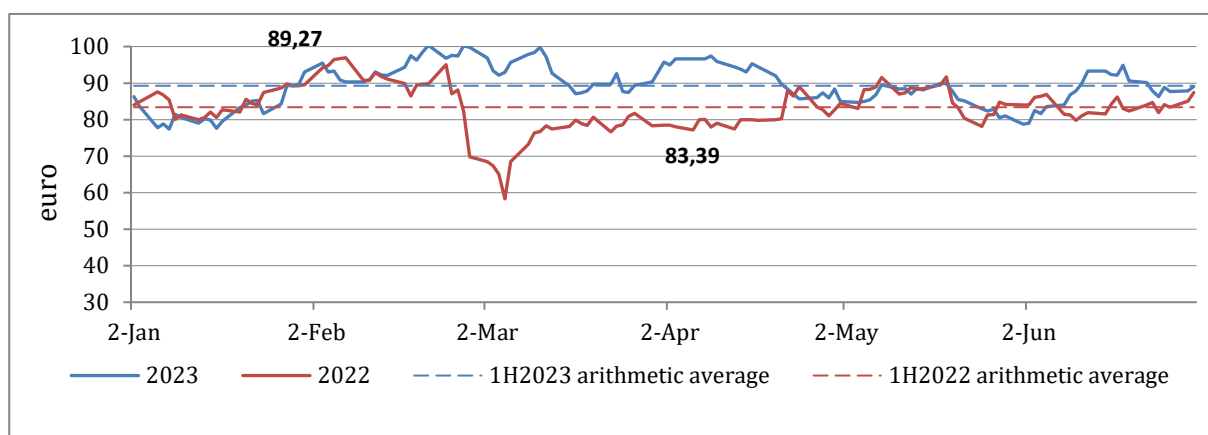
11.7. CO₂ emission allowances costs

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 first quarter of 2023, the EUA price ranged from EUR 77 to EUR 100. In the first half of January 2023, the average EUA price was EUR 80/EUA, while in the second half it increased by EUR 6 on average to EUR 86/EUA. The increase in EUA prices was probably dictated by the information about the delay in the process of issuing free allowances for 2023. In February 2023, the price of emission allowances continued to increase, reaching the price of EUR 100 on February 21, 2023 - for the first time in history, the price of CO₂ emission allowances exceeded the level of 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 first half of March 2023, the price remained at a high level of EUR 95/EUA, and then fell to around EUR 90. In the first three weeks of April 2023, the CO₂ price increased to EUR 95.00, which was related to the obligation to redeem CO₂ emission allowances for 2022 by the end of April 2023 and the withdrawal of EUA units to the MSR reserve. The CO₂ price dropped to EUR 89.00 at the end of April. In May, the average CO₂ price was EUR 86.18. The price drop, by an average of EUR 9 compared to the highest price in April, could be caused by lower demand for EUA units by electricity producers. June showed that it was only a short-term drop in market prices, as in the first half of June the price rose again to EUR 95 due to the high interest in EUA purchase transactions, only to fall again to EUR 89 at the end of the month.

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



Source: Own elaboration based on ICE data

11.8. 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.

11.9. 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 energy from lignite, the expected increased level of investment outlays related to the Group's plans to implement projects in the area of energy production from low-emission and emission-neutral sources should be taken into account when estimating the Group's financial results, and also the production and use of "green" hydrogen.

The level of capital expenditure will still have a significant impact and is expected to continue to have a significant effect on operating results, debt levels and cash flow. Delays in implementation, changes to the investment program and budget overruns can have a serious impact on future capital expenditures, as well as on results, financial standing and development prospects.

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

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

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

The Group has financial liabilities, mainly credits and loans with variable interest rates. The Group's exposure to the risk of changes in interest rates relates mainly to long-term financial liabilities related to the financing of investments in ZE PAK SA and PAK – PCE Fotowoltaika sp. z o.o. In order to minimize the interest rate risk, the Group has entered into interest rate swaps (interest rate swaps) under which it agrees to exchange, at specified intervals, the difference between the amount of fixed and floating interest rates on the agreed principal amount. These transactions are intended to secure contracted financial liabilities and concern 50% of the syndicated loan PAK – PCE Fotowoltaika sp. z o.o. for the construction of Brudzew photovoltaic farm and a 50% of the investment loan from ZE PAK SA for the modernization of K7 boiler in Elektrownia Konin (from July 1, 2022, the contract was transferred to PAK PCE Biopaliwa i Wodór), based on the variable WIBOR rate. IRS instruments were used to hedge.

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

Konin, 28 September 2023

SIGNATURES:

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Vice President of the Management Board

Maciej Nietopiel
Vice President of the Management Board

Andrzej Janiszowski
Vice President of the Management Board

Katarzyna Sobierajska
Vice President of the Management Board