

**ZESPÓŁ ELEKTROWNI PAŃNÓW-ADAMÓW-KONIN
CAPITAL GROUP**

**DIRECTORS' REPORT OF THE CAPITAL GROUP
FOR THE FIRST HALF OF 2013.**

(this is a translation of the document issued originally in Polish language)

27th august 2013

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1. Selected Financial Data

Table 1: Selected consolidated financial data

Selected consolidated financial data	PLN thousand		EUR thousand	
	I half of 2013 period from 01.01.2013 to 30.06.2013	I half of 2012 period from 01.01.2012 to 30.06.2012 (restated)	I half of 2013 period from 01.01.2013 to 30.06.2013	I half of 2012 period from 01.01.2012 to 30.06.2012 (restated)
I. Sales revenue	1 327 327	1 275 231	314 980	301 858
II. Operating profit/loss	184 982	238 411	43 897	56 434
III. Profit/Loss before tax	120 420	267 014	28 576	63 205
IV. Net profit/loss for the period	98 688	216 210	23 419	51 179
V. Net profit attributable to equity holders of the parent	95 567	216 196	22 678	51 175
VI. Total comprehensive income	101 697	210 627	24 133	49 857
VII. Net cash flow from operating activities	188 389	403 169	44 706	95 434
VIII. Net cash flow from investing activities	-46 449	-99 664	-11 023	-23 591
IX. Net cash flow from financing activities	-146 948	-118 322	-34 871	-28 008
X. Net increase / (decrease) in cash and cash equivalents	-5 008	185 183	-1 188	43 834
XI. Net profit per share (in PLN/EUR per share)	1,88	4,16	0,46	0,98
XII. Weighted average number of shares	50 823 547	52 026 000	50 823 547	52 026 000
Selected consolidated financial data	PLN thousand		EUR thousand	
	As of 30.06.2013	As of 31.12.2012 (restated)	As of 30.06.2013	As of 31.12.2012 (restated)
XIII. Total assets	6 278 517	6 277 184	1 450 272	1 535 440
XIV. Non-current assets	5 299 470	5 377 684	1 224 122	1 315 416
XV. Current assets	979 047	899 500	226 150	220 023
XVI. Total equity	3 641 654	3 540 029	841 184	865 914
XVII. Share capital	101 647	104 052	23 479	25 452
XVIII. Share capital attributable to equity holders of the parent	3 641 594	3 539 912	841 170	865 885
XIX. Total liabilities	2 636 863	2 737 155	609 088	669 526
XX. Non-current liabilities	1 743 121	1 791 863	402 643	438 301
XXI. Current liabilities	893 742	945 292	206 445	231 224
XXII. Book value per share (in PLN/EUR per share)	71,65	68,17	16,55	16,68
XXIII. Weighted average number of shares	50 823 547	51 925 796	50 823 547	51 925 796

Table 2: Selected financial data of ZE PAK S.A.

Selected ZE PAK S.A. financial data	PLN thousand		EUR thousand	
	I half of 2013 period from 01.01.2013 to 30.06.2013	I half of 2012 period from 01.01.2012 to 30.06.2012	I half of 2013 period from 01.01.2013 to 30.06.2013	I half of 2012 period from 01.01.2012 to 30.06.2012
XXIV. Sales revenues	858 941	953 580	203 830	225 721
XXV. Operating profit/loss	42 031	132 081	9 974	31 265
XXVI. Profit/Loss before tax	159 705	188 034	37 899	44 509
XXVII. Net profit/loss for the period	150 531	158 865	35 722	37 605
XXVIII. Net cash flow on operating activity	-598	164 518	-142	38 943
XXIX. Net cash flow on investment activity	69 481	-80 638	16 488	-19 088
XXX. Net cash flow on financing activity	-14 530	-27 089	-3 448	-6 412
XXXI. Total net cash flow	54 353	56 791	12 898	13 443
XXXII. Net earnings per share (in PLN/EUR per share)	2,96	3,05	0,70	0,72
XXXIII. Weighted average number of shares	50 823 547	52 026 000	50 823 547	52 026 000
Selected ZE PAK S.A. financial data	PLN thousand		EUR thousand	
	As of 30.06.2013	As of 31.12.2012	As of 30.06.2013	As of 31.12.2012
XXXIV. Total assets	3 258 893	3 145 230	752 770	769 343
XXXV. Non-current assets	2 843 437	2 781 453	656 804	680 361
XXXVI. Current assets	415 456	363 777	95 966	88 982
XXXVII. Equity	2 744 552	2 594 021	633 963	634 514
XXXVIII. Share capital	101 647	104 052	23 479	25 452
XXXIX. Liabilities and provisions for liabilities	514 341	551 209	118 807	134 829
XL. Long term liabilities	57 829	75 408	13 358	18 445
XLI. Short term liabilities	245 196	284 538	56 638	69 600
XLII. Book value per share (in PLN/EUR per share)	54,00	49,96	12,47	12,22
XLIII. Weighted average number of shares	50 823 547	51 925 796	50 823 547	51 925 796

Above financial data in tables presented in 1 and 2 were converted into EUR according to the following exchange rates:

- particular items of statement of comprehensive income (Profit & loss account) and statement of cash flows (Cash flow) – according to the exchange rate constituting an arithmetic average of average exchange rates set out by the National Bank of Poland at the end of every month of the reporting period starting from 1st January 2013 to 30th June 2013, which is 4,2140 EUR/PLN and starting from 1st January 2012 to 30th June 2012, which is 4,2246 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 28th June 2013, which is 4,3292 EUR/PLN and as of 31st December 2012, which is 4,0882 EUR/PLN.

2. Description of the Group

2.1. Basic information

As at 30 June 2013 the ZE PAK Capital Group (hereinafter referred to as the "Group" or "ZE PAK Capital Group") is composed of a dominant entity Zespół Elektrowni Pątnów-Adamów-Konin S.A. (hereinafter referred to as the "ZE PAK S.A." or the "Company") and seventeen subsidiaries i.e. Elektrownia Pątnów II Sp. z o.o., PAK Kopalnia Węgla Brunatnego Adamów S.A. (hereinafter referred to as the "PAK KWBA S.A."), PAK Kopalnia Węgla Brunatnego Konin S.A. (hereinafter referred to as the "PAK KWBK S.A."), PAK Serwis Sp. z o.o., EL PAK Sp. z o.o., ASEKURACJA Sp. z o.o., Aquakon Sp. z o.o., Eko-Surowce Sp. z o.o., Energoinwest Serwis Sp. z o.o., KWE Sp. z o.o., Elektrim Volt S.A., PAK CBJ Sp. z o.o., PAK CUI Sp. z o.o., PAK Górnictwo Sp. z o.o., PAK Holdco Sp. z o.o., PAK Infrastruktura Sp. z o.o., Verano Sp. z o.o.. All companies belonging to the Group are seated in Poland. Consolidation covers all the above-mentioned companies and the effect of consolidation of subsidiaries of PAK KWBK S.A. is not significant for the result of the Capital Group.

The companies which are of the biggest importance for the Group due to the scale of their operations are: ZE PAK S.A. and Elektrownia Pątnów II Sp. z o.o., dealing with production of electricity and heat, and PAK KWBA S.A. and PAK KWBK S.A., dealing with brown coal mining. Apart from the core business, the Group comprises also other companies which perform e.g. construction and erection works, maintenance works, provide services, deal with production and trade to meet demand from and offer complex services for industry, protection of people and property, chemical analyses and research, IT.

The production facilities of the Group include four brown coal-fired power plants located in the central part of Poland in the Wielkopolskie voivodship. These are the Pątnów II Power Plant which is equipped with a supercritical power unit, Pątnów I Power Plant, Adamów Power Plant and Konin Power Plant equipped additionally with 55 MW power unit with biomass fired boiler. Total achievable gross power output of the production facilities of the Group was 2462 MWe as of 31 March 2013.

Majority of the Group's sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale) and revenue from energy certificates. This is supplemented by revenues from sale of heat and from construction contracts. An additional sales revenue, which depends on the level of electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II Sp. z o.o. ZE PAK S.A., by purchasing lignite mines, provided the Group with an access to continuous supplies of lignite for its own

power plants located in the direct vicinity of mines. The vertically integrated Group allows for optimization of lignite inventories and supplies while coordinating lignite extraction with its requirements for this fuel. The requirements for biomass are satisfied by the supplies of this raw material under the agreements made with producers and intermediaries.

2.2. Structure

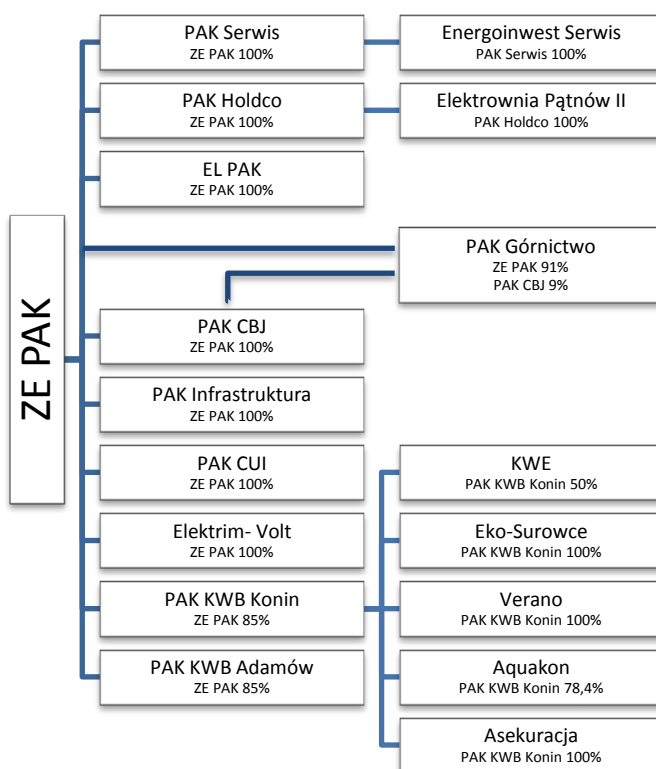


Chart 1: Chart of the Group as of 30 June 2013

Table 3: Listing of the Group companies (without ZE PAK S.A.)

Entity	Registered office	Scope of activities	Percentage of capital held by the Group	
			As at 30 June 2013	As at 31 December 2012
Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.*	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100%	100%
Elektrim-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Sales of electricity	100%	100%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services related to industrial automatics and electric appliances maintenance	100%	100%
Elektrownia Pątnów II Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric energy production and distribution from the new 464 MW power unit	100%**	100%**
PAK-Holdco Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100%	100%
PAK Infrastruktura Sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100%	100%
PAK Centrum Usług Informatycznych Sp. z o.o.	62-510 Konin ul. Kazimierska 45	IT services	100%	100%
PAK Centrum Badań Jakości Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Research and chemical analysis	100%	100%
PAK Górnictwo Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Lignite extraction	100%***	100%***
Energoinwest Serwis Sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Construction and repair services	100%****	99%****
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	85%	85%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite extraction	85%	85%
Ochrona Osób i Mienia ASEKURACJA Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Security guard services relating to people and property	85%*****	85%*****
Aquakon Sp. z o.o.	62-610 Sompolno Police	Production of and trading in mineral waters	66,6%*****	66,6%*****
Eko-Surowce Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Sales of lignite	85%*****	85%*****
KWE Sp. z o.o.	62-540 Kleczew	Wind farms, generation of	42,5%*****	42,5%*****

	ul. 600-lecia 9	electricity		
Centrum Zdrowia i Relaksu Verano Sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Holiday and spa services	85%*****	85%*****

- * The subsidiary – Przedsiębiorstwo Remontowe „PAK SERWIS” sp. z o.o. has a foreign branch in Germany.
 ** indirect interest through „PAK – HOLDCO” sp. z o.o.
 *** indirect interest through „PAK Centrum Badań Jakości” sp. z o.o.: 9% as at 31 December 2012 as well as at 30 June 2013.
 **** indirect interest through Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.
 ***** indirect interest through PAK KWB Konin (indirect interest PAK KWB Konin in „Aquakon” sp. z o.o. is 78,5%, in KWE sp. z o.o. 50%, in other entities 100%).

2.3. Composition of the Management Board of the parent company

The Management Board of ZE PAK S.A. as at the day of submission of the report, included the following members:

- Katarzyna Muszkat President of the Management Board
- Anna Striżyk Vice President of the Management Board
- Piotr Jarosz Vice President of the Management Board

In the first half of 2013 there were no changes in the Management Board of the parent company.

On 27 June 2013, the Supervisory Board adopted a resolution on appointing members of the Management Board for a new term of office. The members of the Management Board did not change; the members who had been performing their functions were appointed for a new term of office.

2.4. Description of changes in the structure of the Group in the period covered by the report

In the first half of 2013, no significant changes were made in the structure of the Group.

For the sake of information, the Company states that on 23 April 2013 between a natural person (shareholder of Energoinwest SERWIS Sp. z o.o.), having one equal and indivisible share of face value of PLN 10 500.00, and Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o., shareholder of Energoinwest SERWIS Sp. z o.o., having ninety-nine equal and indivisible shares with value of PLN 10 500.00 each, Share Sale Contract was concluded. Pursuant to the contract in question, PAK SERWIS Sp. z o.o. purchased from the shareholder, at book value, one share for the amount of PLN 73 558.24. The result of the transaction is PAK SERWIS Sp. z o.o. taking up 100% of the block of shares in Energoinwest SERWIS Sp. z o.o., whose share capital is PLN 1 050 000.00 and is divided into one hundred equal and indivisible shares of face value of PLN 10 500.00 each.

3. Significant events having impact on activities of the Group

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

Brief characteristics of the achieved financial results

Sales revenues in the first half of 2013 amounted to PLN 1 327 327 thousand and, as compared to the first half of 2012, increased by PLN 52 096 thousand, i.e. by 4.09%.

The revenues of the Group from sale of electric energy were higher by PLN 583 499 thousand, owing to greater by 0.93 TWh volume of sale of electric energy, which consisted of greater by 0.67 TWh volume of sale of electric energy from turnover (including in the first half of 2013 sale by Elektrim-Volt S.A., whose results have been consolidated since the 4th quarter of 2012), and greater by 0.26 TWh volume of sale of energy from own generation, which consisted of greater volumes of sale of both electric energy generated from lignite (by 0.26 TWh) and from biomass (by 0.06 TWh).

Table 4: The selected items from the profit & loss account and the consolidated comprehensive income statement

REVENUES, COSTS, PROFITS AND LOSSES	I half of 2013	I half of 2012	changes	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Sales revenues	1 327 327	1 275 231	52 096	4,09
Cost of goods sold	-1 056 955	-994 285	-62 670	6,30
Gross profit (loss) on sales	270 372	280 946	-10 574	-3,76
Other operating income	5 973	2 257	3 716	164,64
Selling and distribution expenses	-1 326	-2 058	732	-35,57
Administrative expenses	-84 263	-38 485	-45 778	118,95
Other operating expenses	-5 774	-4 249	-1 525	35,89
Profit (loss) on operating activities*	184 982	238 411	-53 429	-22,41
Finance income	11 436	44 768	-33 332	-74,45
Finance costs	-75 998	-16 165	-59 833	370,14
Gross profit (loss)	120 420	267 014	-146 594	-54,90
Income tax (tax load)	-21 732	-50 804	29 072	-57,22
Net profit (loss)	98 688	216 210	-117 522	-54,36
Net other comprehensive income	3 009	-5 583	8 592	-153,90
COMPREHENSIVE INCOME FOR THE PERIOD	101 697	210 627	-108 930	-51,72
EBITDA*	364 170	361 902	2 268	0,63

* The Company defines and calculates EBITDA as gross profit/(loss) on operating activities (calculated as net profit/(loss) adjusted by (i) income tax (tax load), (ii) financial income and (iii) financial costs) adjusted by depreciation (presented in the income statement) and write-offs of fixed assets, intangible assets and mining assets.

In the first half of 2013, as compared to the first half of 2012, 6.18% growth in revenues from sale of electric energy, in spite of growth in the volume of sale of electric energy by 17.4%, was affected adversely by 9.59% decrease in average electric energy selling price (from PLN 203.17/MWh to PLN 183.69/MWh).

The decrease in electric energy prices in the first half of 2013 was compensated partially by revenue from compensations for termination of KDT, which were greater by PLN 34 140 thousand as compared to the last year.

In the first half of 2013, revenues from sale of energy certificates of origin decreased by PLN 15 414 thousand, namely by 29.95%, as compared to revenues obtained in the same period last year. The main cause of decrease in revenues is the price of green certificates which decreased by 49.0%. The average price at which green certificates were valued in the first half of 2013 amounted to PLN 142.98 PLN, as compared to PLN 280.30 in the first half of 2012. Decrease in revenues from the price of green certificates was compensated partially by their production volume, which was greater by 32.4%.

In the first half of 2013, revenues from contracts for construction services decreased by PLN 30 258 thousand, i.e. by 66.24%, as compared to revenues obtained in the same period last year, mainly owing to a smaller scope of works provided (in the first half of 2012, the companies of the Group provided, among others, construction services related to the construction of the biomass unit in the Konin Power Plant).

In the first half of 2013, revenues from sale of heat increased by PLN 3 208 thousand, namely by 11.19%, due to sales volume which was greater by 3.44% as compared to the same period last year, and obtained average selling price, which was greater by 7.49%.

Table 5: Specification of sales revenues

PRZYCHODY ZE SPRZEDAŻY	I half 2013	I half 2012	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Revenues from sale of electricity (decreased by excise tax)	939 113	994 661	-55 548	-5,58
Revenues from sale of electricity from trade	214 826	92 151	122 675	133,12
Certificates of origin	36 047	51 461	-15 414	-29,95
Revenues from contracts for construction services	15 418	45 676	-30 258	-66,24
Revenues under termination of KDT	71 170	37 030	34 140	92,20
Revenues from sale of heat	31 886	28 678	3 208	11,19
EUA/CER swap	-	14 819	-14 819	-100,00
Other sales revenues	18 867	10 755	8 112	75,43
Total sales revenues	1 327 327	1 275 231	52 096	4,09

Cost of goods sold in the first half of 2013 amounted to PLN 1 056 955 thousand and, as compared to the 1st half of 2012, increased by PLN 62 670 thousand, namely by 6.30%.

A detailed analytical presentation of costs by type is included in table below.

Tabela 6: Koszty rodzajowe

COSTS BY TYPE	I half 2013	I half 2012	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Depreciation and amortization	179 360	123 491	55 869	45,24
Impairment of fixed assets	-172	-	-172	-
Impairment of inventory	162	7 227	-7 065	-97,76
Materials	300 217	563 259	-263 042	-46,70
External services	52 307	70 937	-18 630	-26,26
Taxes and fees excluding excise tax	78 719	45 473	33 246	73,11
Costs of employee benefits	311 862	135 290	176 572	130,51
Other costs by type	23 701	13 492	10 209	75,67
Value of goods and materials sold and of sold energy purchased from trade	206 499	82 194	124 305	151,23
Total costs by type	1 152 655	1 041 363	111 292	10,69

Administrative expenses in the first half of 2013 amounted to PLN 84 263 and were higher than incurred in the first half of 2012 by PLN 45 778 thousand, i.e. by 118.95%. The growth in administrative expenses overheads is the effect of the acquisition of mines that have been subject to consolidation since 19 July 2012.

In the first half of 2013, a positive difference was obtained between other operating revenues and other operating expenses, in the amount of PLN 199 thousand, in contrast to the same period last year, when a negative difference was recorded, in the amount of PLN 1 992 thousand.

The ZE PAK Group earned in the first half of 2013 profit on operating activities in the amount of PLN 184 982 thousand, which is lower than the result achieved in the same period in 2012 by PLN 53 429 thousand, namely by 22.41%.

The level of results was also affected by negative result on financial activities, in the amount of PLN 64 562 thousand, as opposed to the 1st half of 2012, which was closed with positive result in the amount of PLN 28 603 thousand. Negative deviation on financial activities between the 1st half of 2012 and the 1st half of 2013 amounted to PLN 93 165 thousand. Main causes:

- change in the sign of foreign exchange differences, from positive in the first half of 2012 to negative in the first half of 2013 (impact PLN -46 437 thousand);
- no one-time events, such as sale of shares on the Polish Power Exchange, which took place in the 1st quarter of 2012 (reduction in financial income by PLN 20 697 thousand)

- higher interest costs in the first half of 2013, as a result of increasing debt of the Group in consequence of considering financial indebtedness of PAK KWB Konin S.A (impact PLN - 15 300 thousand);
- lower interest revenues in the first half of 2013, owing to a lower average balance of cash (among others, after the first half of 2012, the Company purchased 2 mines and Elektrim-Volt) and lower interest rates (reduction in financial revenues by PLN 8 013 thousand).

Gross profit in the first half of 2013 amounted to PLN 120 420 and was lower by PLN 146 594 thousand, i.e. by 54.90% than the revenue earned in the 1st half of 2012.

After taking account of income tax, net profit earned by the Group in the first half of 2013 amounted to PLN 98 688 thousand. As compared to the same period last year, it decreased by PLN 117 522 thousand, i.e. by 54.36%.

Description of factors and events, particularly non-standard, having a substantial impact on assets, liabilities, capital, net financial result or cash flows

The ZE PAK Group did not record in the first half of 2013 non-standard events having a substantial impact on assets, liabilities, capital, net financial result or cash flows.

Execution of the investment program

From 1 January to 30 June 2013, capital expenditures in the ZE PAK Group along with repair components amounted to PLN 88 372 thousand. Investment tasks implemented in the first half-year related, to the greatest extent, to the segment of generation and extraction.

The largest expenditures in the segment of generation include: construction of NO_x reduction system at K-5 in the Pątnów Power Plant, modernization of turbine generators TG1 and TG2 in the Pątnów Power Plant, modernization of the heating station in the Pątnów Power Plant, modernization of the fire fighting pumping station in the Pątnów Power Plant. In addition, expenditures were incurred for the preparation of the documentation for the next stages of the modernization of units 1-4 in the Pątnów Power Plant and the as-built documentation for the completed construction of the boiler dedicated for biomass combustion in the Konin Power Plant.

In the segment of extraction, the mines belonging to the Group executed tasks relating to active investments on open cast mines in order to guarantee optimum production capacities. The largest expenditures were incurred to complete the reconstruction of Excavator SRs1200/6, aimed to improve technological parameters, which is to result in intensified stripping on the Drzewce open cast mine, and to start the reconstruction of Excavator Rs 560/2, aimed to increase coal extraction on the Tomisławice open cast mine - the planned commissioning of the machine is fixed at the first quarter of 2014. In PAK KWB Adamów S.A outlays incurred in the first half of 2013 related mainly to restoring production capacity of the "Adamów" open cast mine. Works are executed gradually, aimed to eliminate the problems with stripping of the overburden and coal extraction, experienced by the mine in the previous year. The Company purchased from PAK KWB Konin S.A excavator SchRs 1200, which is to increase significantly generating capacities of the open cast

mine. Full start-up of the excavator, after its prior modernization, is expected in the 1st quarter of 2015. In both mines the buyout of land and real estate on the areas intended for extraction operation was carried out on a regular basis.

Currently, the Group implements and plans investment tasks focused on three most significant areas:

1. Continued process of modernization of units 1-4 and of limited modernization of unit 5 in the Pątnów I Power Plant, covering the modernization of condensation turbines, start-up of NO_x reduction system (to reduce NO_x emission to the assumed level of 0.74 kg/MWh after 2015) and replacement or modernization of the elements determining efficiency of units (including coal handling and cooling systems) in order to improve safety and efficiency of electric energy generation to the assumed level of 37.5% after 2015, reduction in emission of CO₂ to the assumed level of 1.05 Mg/MWh after 2015.

In the first half of 2013, the investment task consisting in construction of NO_x reduction system at K-5 in the Pątnów Power Plant was completed. This task consisted in the implementation of SNCR method of NO_x reduction. The Contractor of the investment project was the consortium of companies Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i Przemysłu Remak-Rozruch S.A., seated in Opole, Nalco Mobotec Inc. and Nalco Mobotec Polska Sp. z o.o. The consortium fulfilled the contractual provisions and obtained the assumed parameters as guaranteed by the contract, which was confirmed by guarantee measurements carried out by an independent entity. The most important contractual element was reduction in emissions of nitrogen oxides to 200 mg/Nm³, by using primary methods (Rofa), and to the level below 180 mg/Nm³, by using secondary methods (Rotamix).

As part of the process of modernization of units 1-4 in the Pątnów Power Plant, in the first half of 2013, a tender procedure was conducted, to select contractors for the following projects:

- modernization of high-pressure and medium-pressure parts of turbines 1 and 2
- construction of coal handling systems for units 1-4
- construction of light oil management systems at units 1-5
- modernization of boilers 1 and 2 along with construction of systems reducing nitrogen oxides emission for these boilers
- replacement of pipelines connecting the boiler with the turbine at units 1 and 2
- construction of intra-unit pipeline mains of steam and service water
- modernization of electrostatic precipitators of units no. 1 and 2.

The result of the aforementioned activities was signing, on 31 July 2013, of two most important contracts concerning the modernization of units No. 1 and 2 in the Pątnów Power Plant, i.e.:

- The Contract for "turnkey" modernization of Boiler K-1 and the modernization of Boiler K-2 in the Pątnów Power Plant, along with the construction of NO_x reduction system for these boilers, together with Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i

Przemysłu "Remak-Rozruch" S.A. and Przedsiębiorstwo Remontowe "PAK Serwis" Sp. z o.o., operating as consortium. The subject matter of the Contract is the modernization of the boiler room building, the boiler pressure part and auxiliary devices of units 1 and 2 in the Pątnów Power Plant, along with the construction of NO_x reduction system by using non-catalytic methods, so that it would not exceed 180 mg/mu³ (6% of oxygen, dry flue gases) by adding to the combustion process urea solution, and to the level of 200 mg/mu³ by using primary methods, with regard to design, delivery, assembly, service, start-up and commissioning according to the contractual provisions. The total net contract value for boiler K-1 and boiler K-2 is PLN 382 million.

The Parties agreed that boiler K-1 would be commissioned until 31 December 2014, while boiler K-2 would be commissioned until 28 February 2015.

- The contracts for "turnkey" modernization of high-pressure and medium-pressure section of turbine sets with auxiliary devices and pipeline systems of units 1 and 2 in the Pątnów Power Plant, with TurboCare Sp. z o.o. The Contract value does not exceed 10% of the value of the Company's equity. According to the schedule, the modernization of the turbines will be completed until 10 December 2014 (unit No. 1) and until 10 February 2015 (unit No. 2). Other tender procedures are in the final stage. It is planned that contracts will be concluded in the second half of this year.

2. Continuing reconnaissance works in the area of the Poniec-Krobia and Oczkowice lignite deposits under license No. 10/2011/p of 11 May 2011, granted for 5 years. The estimated completion of the aforementioned reconnaissance works involves capital expenditures of ca. PLN 40 000 000. The whole of these works is to be funded from own funds.

In the first half of 2013, drilling works of the Poniec-Krobia and Oczkowice lignite deposits were continued. Total, in the first half of 2013, 18 wells and 10 piezometers were made. Moreover, 476 various analyses were carried out, among others: shortened coal analysis, index/extended coal analysis, special analyses – radioactivity, special analyses – toxic and other elements.

To achieve proper reconnaissance of the deposit in the area of Poniec-Krobia and Oczkowice, the second drilling phase was initiated along with parallel continuation of the first phase.

In the 2nd quarter of this year, POLTEGOR PROJEKT prepared for PAK Górnictwo Sp. z o.o. an analysis entitled: "A Lignite Open Cast Mine for Part of the Poniec-Krobia and Oczkowice Deposits, 1st Stage - Analysis of Environmental Conditions." The analysis in question is the 1st stage of works on the environmental impact report.

Actions were continued in order to obtain further consents from real estate owners, in order to make wells.

3. The continuation of reconnaissance works carried out on perspective Piaski, Ościslów and Dęby Szlacheckie deposits and the continuation of expenditures on maintenance of the

presently operated Drzewce, Józwin, Tomisławice, Koźmin and Adamów open cast mines until depletion of their resources.

As part of preparatory works, with regard to prospective deposits in the first half of 2013, among others, the following actions were carried out:

- Dęby Szlacheckie lignite deposit

According to the license for reconnaissance of the lignite deposit, "The Report on Geological and Reconnaissance Works of the Dęby Szlacheckie Lignite Deposits in C1 Cat." was adopted (1st stage of works).

In August 2013, the implementation of the 2nd stage of geological works (deposit and hydro-geological) was initiated. Field works will be carried out until the end of the current year, while the geological documentation is to be prepared until 30 August 2014.

- Ościsłowo lignite deposit

Preparation of a number of documents necessary for start-up of the open cast mine. Among them: "The Ościsłowo Open Cast Mine Deposit Development Plan", "Program and Spatial Concept of the Reconstruction of HV Lines Colliding with the Planned Operation of the Ościsłowo Deposit", "Numerical Model of Hydro-Geological Conditions for the Designed Ościsłowo Open Cast Mine", "Hydro-Geological Documentation Defining Hydro-geological Conditions in Connection with the Intended Drainage for the Purpose of Extraction of Lignite from the Ościsłowo Deposit", "Report of Environmental Impact of the Ościsłowo Open Cast Mine", "Technical Expert's Opinion on the Impact of the Designed Ościsłowo Open Cast Mine on the "Przyjaźń" Pipeline".

- Piaski lignite deposit

Preparation of the final version of the "Report of Environmental Impact of the Piaski Open Cast Mine".

3.2. Other significant events of the reporting period and events following the balance sheet date.

Significant events of the reporting period

Changes in the Supervisory Board

As of 21 February 2013, from their functions in the Supervisory Board the following resigned: Mr. Andrzej Mazurek, Mr. Marian Eger, Mr. Ireneusz Gołębiak and Mr. Tomasz Klapsa. As the reason for their decision, the above listed people indicated changes in the Company's shareholder structure. Another person who resigned from the membership in the Supervisory Board was Mr. Sławomir Sykucki. He resigned from the performed function on 20 March 2013. Mr. Sławomir Sykucki did not indicate reasons for his resignation.

The composition of the Supervisory Board was supplemented during the Extraordinary General Meeting on 22 March 2013. To the Supervisory Board of ZE PAK S.A. the following were appointed: Mr. Ludwik Sobolewski, Mr. Wiesław Walendziak and Mr. Tomasz Zadroga. The Extraordinary General Meeting adopted also a Resolution determining 7-person Supervisory Board of the Company for the 6th term of office.

Mr. Ludwik Sobolewski and Mr. Wiesław Walendziak submitted to the Company statements of fulfilling the criteria of independence as defined by the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and of the committees of the (supervisory) board (2005/162/EC) including the Code of Best Practice for WSE Listed Companies. Mr. Wiesław Walendziak submitted also a statement of fulfilling the terms of independence required for a member of the audit committee referred to in the Act of 7 May 2009 on certified auditors and their self-government, entities authorized to audit financial statements and public supervision.

As at the day of presentation of this report, the Supervisory Board of the Company consisted of the following members:

- Zygmunt Solorz-Żak – Chairman of the Supervisory Board
- Henryk Sobierajski – Deputy Chairman of the Supervisory Board
- Wojciech Piskorz – Secretary of the Supervisory Board
- Leszek Wysłocki – Member of the Supervisory Board
- Ludwik Sobolewski – Member of the Supervisory Board
- Wiesław Walendziak – Member of the Supervisory Board
- Tomasz Zadroga – Member of the Supervisory Board

Redemption of own shares, reduction in the share capital, changes in the Company's Articles of Association

According to the resolution No. 5 of the Extraordinary General Meeting of ZE PAK S.A. of 21 February 2013, the voluntary redemption covered 1 202 453 Company's ordinary bearer shares of face value of PLN 2 each, constituting 2.31% of the Company's share capital, corresponding to 1 202 453 votes at the General Meeting of the Company and representing 2.31% of the total number of votes at the General Meeting of the Company, uncertified and marked by Krajowy Depozyt Papierów Wartościowych (Polish National Depository for Securities) S.A. with security code ISIN PLZEPAK00012 ("Own Shares"). The Company purchased Own Shares on 4 December 2012 from Credit Suisse Securities (Europe) Limited ("Stabilization Manager") on the basis of an authorization contained in resolution No. 6 of the Extraordinary General Meeting of 20 August in 2012 on authorization of the Company's Board of Directors to purchase the Company's Own Shares in connection with activities stabilizing the price of shares in the Company, and in exercising the stabilization option granted to the Stabilization Manager under provisions of the stabilization contract, concluded between the Company and the Stabilization Manager on 22 October 2012. Own Shares were purchased for PLN 25.99 per each share in the Company, i.e. for total remuneration of PLN 31 251 753.47.

In connection with the above redemption of the Own Shares, the share capital of the Company, under Resolution No. 6 of the Extraordinary General Meeting of ZE PAK S.A. of 21 February 2013, was reduced by the amount equal to the total face value of the redeemed shares, i.e. by the amount of PLN 2 404 906.00. The decrease in the Company's share capital took place by way of changes in the Company's Articles of Association through redemption of the Company's Own Shares.

A consequence of redemption of shares and reduction in Company's share capital was change in § 5 section 1 of the Company's Articles of Association which reads:

„The Company's share capital is PLN 101 647 094.00 (in words: one hundred one million six hundred forty-seven thousand and ninety-four Polish zlotys) and is divided into 50 823 547 (in words: fifty million eight hundred and twenty-three thousand five hundred and forty-seven) A series bearer shares with the face value of PLN 2.00 (in words: two zloty) each.”

On 29 April 2013, the Company received the decision of the District Court Poznań – Nowe Miasto and Wilda in Poznań, 9th Commercial Division of the National Court Register of 23 April 2013, along with the certificate of making, on 24 April 2013, an entry into the Register of Entrepreneurs of the Company concerning:

- registration of reduction in the Company's share capital on the basis of resolution No. 6 of the Extraordinary General Meeting of 21 February 2013 on reduction in the Company's share capital in connection with redemption of the Company's own shares and
- registration of a change in § 5 section 1 of the Company's Articles of Association made on the basis of resolution No. 7 of the Extraordinary General Meeting of 21 February 2013.

License of Elektrim Volt for trade in gaseous fuels

On 4 March 2013, Elektrim Volt SA received a licence for trading in gaseous fuels for a period from 1 July 2013 to 31 December 2030. The Company obtained the license by virtue of the decision of the President of the Energy Regulatory Office. This is a license for trade in gaseous fuels for the purposes of domestic recipients. The Company must not conclude contracts for sale of gaseous fuels with entrepreneurs conducting business activities in the field of warehousing, liquefaction of natural gas and regasification of liquefied natural gas, transmission, distribution or trade in gaseous fuels, if they do not have the license, in the cases when such license is required by the provision of the Act - Energy Law. In the case when the Company does not take the activities covered by the license within 6 months from its receipt, it is obliged to notify the President of URE, specifying the reasons for which it has not taken these activities. The Decision of the President of URE sets forth specific conditions for conduct of the activities covered by the license owing to proper handling of recipients as well as the conditions for cessation of the activities after the expiry of the license or its revoking, and information obligations related to the activities covered by the license.

Resignation from co-combustion of biomass

At the beginning of May 2013, in the Pątnów I and Adamów Power Plants a decision was made to resign from co-combustion of biomass (in the Konin Power Plant biomass co-combustion had ceased earlier). Therefore, presently, biomass is combusted only in a special boiler dedicated for biomass combustion in the Konin Power Plant, while co-combustion of biomass with conventional fuels has already ceased completely in the power plants of the ZE PAK Capital Group. The premise for this decision was the present situation on the power market and certificates of origin, where persisting downward trends, in particular in the case of "green certificates" did not ensure the profitability of production of energy generated in the process of co-combustion of biomass with lignite, using owned systems. According to the assumptions, the volume of energy produced in the power plants of the ZE PAK Capital Group did not decrease as a result of ceased co-combustion, because the Company replaced the co-combustion of biomass with greater production from coal. The volume of "green" energy produced by the Company should not lower in the current year as compared to production from the previous year, taking into account year-long production from the biomass boiler in the Konin Power Plant, which was commissioned no sooner than in the half of the last year.

The Management Board monitors on an on-going basis the appropriate economic parameters, including the market price of energy certificates and relative cost of energy generation, in order to assess profitability of production of electric energy in the process of biomass co-combustion; in the event of permanent change in the present trend, it will consider return to the biomass co-combustion in the energy production process.

Events following the balance sheet date

Restructuring actions in mines

In the first half of 2013, restructuring actions in the Group companies were continued. The steps taken in PAK KWBK S.A. and PAK KWBA S.A., aiming at optimized employment in both companies, were of the greatest importance. From 28 May 2012, i.e. from the day of signing the contract for the purchase of the shares in both mines until the first half of this year, employment in them was reduced by more than 500 full-time positions, and, in the vast majority of the cases, it related to people with previously acquired retirement rights. The next step of the employment optimization process covers the procedures of group layoffs, being implemented presently by new boards of both mines.

In both companies, owing to no possibility of concluding an agreement between administrations and union trades, regulations of group layoffs were adopted according to the legal requirements valid in such cases.

The regulations of group layoffs stipulate that employment will be decreased by fifty-five employees in PAK KWBA S.A. and by two hundred and seventy-four employees in PAK KWBK S.A. Group layoffs are to be conducted from 1 September 2013 to 30 April 2014. In connection with termination of employment relationship under group layoffs, the employees will be entitled to cash severance pay provided for by law in such cases (dependent upon job seniority). In addition,

the employee appointed for group layoff may receive an additional compensation for termination of employment relationship in the amount of two monthly remunerations (agreed according to the principles valid for calculating money equivalent for vacation), if he or she accepts the employer's offer to terminate the contract of employment by way of mutual agreement of the parties until 31 December 2013. Group layoffs do not apply to employees working directly on production posts at coal extraction, including employees supervising this group and protected on the basis of guaranteed employment, stipulated in the contracts of acquisition of mines from the State Treasury. The other provisions of regulations do not deviate from standard practices in this respect.

The expected costs of severance pays and compensations under group layoffs in both mines are estimated at about PLN 7.6 million, while the anticipated estimated economic effect under adjustment of employment should be on average ca. PLN 21.5 million annually.

Initiation of the proceedings concerning stating invalidity of the license issued by the Minister of the Environment for PAK KWB Konin SA concerning the Tomisławice open cast mine

PAK KWBK S.A., by the letter of 9 July 2013, was notified of the Minister of the Environment initiating the proceedings concerning stating invalidity of the license issued by the Minister of Environment of 6 February 2008 No. 2/2008 concerning the Tomisławice open cast mine. The proceedings were initiated as a result of the application submitted by two natural persons.

PAK KWBK S.A. read the documents of the case and the arguments raised by the appellants in the application for stating invalidity of the license. PAK KWBK S.A. presented its written position on the issue of the application to the Minister of Environment, applying for issuing the decision on refusal to state invalidity of the license. In the document to the Minister of the Environment PAK KWBK S.A. referred to a number of legal and factual arguments supporting the rejection of the application. PAK KWBK S.A. is of the opinion that the applicants did not indicate factual and legal premises justifying invalidity of the license. In the opinion of PAK KWBK S.A., the charges raised by the applicants should not be taken into consideration and cannot be the ground for stating invalidity of the license. PAK KWBK S.A., referring to the charges formulated by the applicants, pointed out that the appellants had not demonstrated in any way breaches of law referring directly to the license issued and justifying stating its invalidity. The charges included in the application refer to the environmental decision concerning the Tomisławice open cast mine, which, in the light of law, is a separate and independent decision. The correctness of the environmental decision is the object of judiciary control, which has not been completed yet, however, from the sentences issued at the present stage, it cannot be concluded in any way that the environmental decision is burdened with legal defects, which would justify its revoking (description of the dispute concerning the environmental decision is included by the Company in the annual statement for 2012). PAK KWBK S.A. is of the opinion that the charges concerning the environmental decision which has not been eliminated from legal transactions and whose effectiveness has not been revoked may not be substantiation to observe invalidity of the license. Referring to the conclusions formulated by the appellants, PAK KWBK S.A. applied also for issuing

a decision refusing to withhold enforceability of the license owing to the lack of legal and factual grounds supporting this decision.

Initiation by the Minister of the Environment of the described proceedings does not inhibit mining works at the Tomisławice open cast mine. As of the date of publication of this report, PAK KWBK S.A. has any required by law decisions enabling the operation of the Tomisławice open cast mine and on their basis the mine continues the extraction of lignite from this open cast mine.

Significant credit contacts and surety contracts concluded after the balance sheet date

On 5 August 2013, the subsidiary PAK KWBK S.A. concluded an operating credit contract with Millennium Bank S.A. for the amount of PLN 76 500 000.00. The credit was allocated in whole for repayment of the whole indebtedness under issuing corporate bonds taken up by PKO Bank Polski S.A.

In addition, in the period between the balance sheet date and the date of the approval of this balance sheet, ZE PAK S.A. granted the following sureties for credits contracted by PAK KWBK S.A.:

- surety of 5 August 2013 – operating credit in Bank Millennium S.A. for the amount of PLN 76 500 000.00;
- surety of 31 July 2013 – credit in the current account in Bank BZ WBK for the amount of PLN 65 000 000.00;
- surety of 31 July 2013 – investment credit in Bank BZ WBK for the amount of PLN 32 572 050.39.

4. Information on significant pending proceedings before a court, an authority competent for arbitration proceedings or a public administration authority concerning ZE PAK S.A. or subsidiaries consolidated under the Group

Zespół Elektrowni Pątnów-Adamów-Konin S.A. and the consolidated companies under the Group were not a party in the first half of 2013 in the proceedings pending before a court, an authority competent for arbitration proceedings or a public administration authority whose single or total value would exceed 10% of the equity of ZE PAK S.A.

5. Information on shareholder structure

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

Table 7: List of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting as of the date of this semi-annual report (according to the information held by the Company)

Shareholder	Number of shares and corresponding number of votes at the General Meeting	Share [%] in the total number of shares/votes
Zygmunt Solorz-Żak (indirectly) through:	26 200 867	51,55
<i>Elektrim S.A. (directly)</i>	196 560	0,39
<i>Elektrim S.A. (indirectly through: Embud Sp. z o.o.)</i>	5 809 231	11,43
<i>Polsat Media B.V.</i>	20 195 076	39,73
ING OFE	6 000 000	11,81

5.2. Specification of possession of executives and supervisors

Table 8: List of executives and supervisors holding, as of the date of this semi-annual report, shares in ZE PAK S.A. and the number of held shares

Shareholder	Function in the bodies of the Company	Number of shares and corresponding number of votes at the General Meeting	Share [%] in the total number of shares/votes
Zygmunt Solorz-Żak (indirectly) through:	Chairman of the Supervisory Board of the Company	26 200 867	51,55
<i>Elektrim S.A. (directly)</i>		196 560	0,39
<i>Elektrim S.A. (indirectly through: Embud Sp. z o.o.)</i>		5 809 231	11,43
<i>Polsat Media B.V.</i>		20 195 076	39,73

6. Stance of the Management Board on the possibility of execution of the previously published financial forecasts

Zespół Elektrowni Pątnów-Adamów-Konin S.A. did not publish financial forecasts.

7. Information on paid or declared dividend

The Company's Management Board at the session of the Ordinary General Meeting on 26 June 2013 recommended shareholders to adopt a resolution on payout, in the form of dividend, of 20% of the net profit for the year 2012. The proposal of the Management Board obtained a positive opinion of the Supervisory Board. The proposal of the Management Board was consistent with the dividend policy declared by the Company in the Prospectus, assuming throughout the period of implementation of key investment projects, payout, in the form of dividend, of up to 30% of the Company's profit shown in a separate financial statement of the Company.

Finally, the General Meeting, with votes of the majority of shareholders, decided to allocate net profit of the Company for 2012 for supplementary capital. Therefore, the Company will not pay dividend from profit for 2012.

8. Information on significant transactions concluded by ZE PAK S.A. or entities consolidated under the Group with related parties on the terms other than market terms

Zespół Elektrowni Pątnów-Adamów-Konin S.A. and the entities consolidated under the Group did not include in the first half of 2013 transactions with related parties on terms other than market terms.

9. Information on significant guarantees, sureties, credits or loans granted by ZE PAK S.A. or entities consolidated under the Group

Zespół Elektrowni Pątnów-Adamów-Konin S.A. and the entities consolidated under the Group did not grant in the first half of 2013 guarantees, sureties for credits or loans whose value would be separately or jointly 10% of the equity of ZE PAK S.A.

10. Information on issue, redemption and repayment of non-equity and equity securities

In the first half of 2013, PAK KWBK S.A., the company, subject to consolidation under the ZE PAK Capital Group, conducted the following issues and redemptions of bonds:

- On 4 January 2013, PAK KWBK S.A. issued bonds in the number of 200 pieces, of face value of PLN 10 000.00, which gives the total amount of PLN 2 000 000.00, with the redemption date fixed at 26 February 2013. The issue served redemption of bonds whose redemption date was fixed at 4 January 2013;

- On 26 February 2013, PAK KWBK S.A. issued bonds in the number of 4 000 pieces, of face value of PLN 1 000.00, which gives the total amount of PLN 4 000 000.00, with the redemption date fixed at 26 August 2013. The issue served redemption of bonds whose redemption date was fixed at 26 February 2013 (the issue under the Group);
- On 5 April 2013, PAK KWBK S.A. issued bonds in the number of 1 000 pieces with face value of PLN 1 000.00, which gives the total amount of PLN 1 000 000.00, with the redemption date fixed at 4 October 2013 (the issue under the Group);
- On June 28 2013, PAK KWBK S.A. issued bonds in the number of 15 000 pieces with face value of PLN 1 000.00, which gives the total amount of PLN 15 000 000.00, with the redemption date fixed at 27 December 2013 (the issue under the Group);
- On 15 March 2013, bonds were redeemed for the total amount of PLN 1 750 000.00;
- On 4 April 2013, bonds were redeemed for the total amount of PLN 2 000 000.00;
- On 23 May 2013, bonds were redeemed for the total amount of PLN 2 000 000.00;
- On 13 June 2013, bonds were redeemed for the total amount of PLN 1 750 000.00;
- On June 28 2013, bonds were redeemed for the total amount of PLN 15 000 000.00 (redemption under the Group).

11. Factors which, in the opinion of the Management Board, will contribute to the results obtained by the Group in the prospect of at least one quarter

In process of predicting future results of Zespół Elektrowni Pątnów-Adamów-Konin S.A. it is necessary to take into consideration important factors, existing, potential, or theoretical, appropriate for the industry and markets of Group activity. Those factors comes from both inside and outside the Company. In consideration of Management Board's opinion it might be divided into permanent factors and disposable, concerning only reported period.

Among the most important permanent factors affecting Group results should be listed:

- macroeconomic trends in the Polish economy and demand for electricity;
- regulatory framework;
- price of electricity;
- certificates of origin;
- fuel cost and cost of lignite extraction;
- CO₂ emissions allowances;
- compensation for stranded costs following the termination of the PPAs of Elektrownia Pątnów II;
- seasonality and weather conditions;
- capital expenditures;
- the EUR/PLN exchange rate

Macroeconomic trends in the Polish economy and demand for electricity

Operation based exclusively in Poland and generation significant majority of revenues from the sale of electricity is connected with macroeconomic trends in the Polish economy. Polish real GDP growth, industrial production in Poland, service sector growth and personal consumption have historically had and, we expect, will continue to have an impact on our business and results of operations.

Regulatory framework

Power production business highly-regulated. Group operations are affected by, among other things, the provisions of the Energy Law, EU regulations and international conventions, such as those relating to environmental protection and climate change (including in respect of CO₂ emissions) and the obligation to publicly sell part of produced electricity, as well as the support afforded to certain generation technologies, including electricity generation from RES and high-efficiency cogeneration. In addition, in the past Group has been and, we expect, will continue to be affected by tax regulations and interpretations.

Price of electricity

Company generates a significant majority of revenues from the generation and sale of electricity and, consequently, the price at which the Company is able to sell electricity is critical to the results of operations. In addition, Company purchases electricity from the market (including from power exchanges and the balancing market) and re-sell it to other customers.

Certificates of origin

Since a portion of electricity is generated from a biomass fuel mix (comprising wood and agricultural biomass) and Company also employs high-efficiency cogeneration for heat production, subject to meeting certain regulatory requirements, we are eligible for green and red certificates. The number of received certificates of origin is significantly higher than the number of certificates which are required to present for redemption and, consequently, we are able to sell the surplus to other market participants. However, the cost associated with the production of electricity from the biomass fuel mix is significantly higher than the cost of production of electricity from lignite. Consequently, the Management regularly evaluates the relevant economic parameters, including the market price of energy certificates and the relative cost of electricity production, in order to evaluate the economic viability of producing electricity from the biomass fuel mix.

Fuel cost and cost of lignite extraction

The most significant cost associated with Group’s electricity and heat production is the cost of fuel. To a large extent, fuel prices determine the competitiveness of individual technologies of electricity generation. Group power plants generate a significant majority of electricity from lignite, but also utilize agricultural biomass. In addition, in the process of generating electricity, we also utilize, to a very limited extent, heavy fuel oil and light fuel oil. As a result of acquiring two lignite mines, KWBA and KWBK, exclusive lignite suppliers, Group’s proprietary mines fully cover the demand of generation assets for the basic fuel. This gives independence from external

suppliers and eliminates exposure to lignite price fluctuations. Nevertheless, it remains exposure to fluctuations in prices of other fuels used by Group's plants (mainly biomass), and due to the fact that the costs associated with lignite extraction depend on factors which are, to a great extent beyond our control.

CO₂ emissions allowances

Electricity and heat generation from lignite and other fuels business and, consequently, results of operations are largely dependent on the level of free CO₂ emissions allowances (EUA) allocated for a given period. CO₂ emissions allowances may be either obtained through free allocation under the NAP or purchased in the open market. If Group's emissions exceed such free amount of allowances, we will have to purchase emissions allowances in the open market.

Compensation for stranded costs following the termination of the PPAs of Elektrownia Pątnów II

Power Purchase Agreement (PPA) was made between Elektrownia Pątnów II Sp. z o.o. and Polskie Sieciami Elektroenergetyczne S.A. It was a long term agreement early terminated (on April 1, 2008) under the Act dated 29 June 2007 rules of covering costs arose from early termination of PPA. Pursuant to the PPA Act, throughout the periods under review, Elektrownia Pątnów II received, and continue to receive, compensation for stranded costs. We are entitled to receive such compensation until December 31, 2025.

Seasonality and weather conditions

Electricity and heat consumption, primarily among consumers but also other customers, fluctuates seasonally which has an impact on demand for electricity and heat generated. In general, consumption of electricity increases during the winter (primarily because of low temperatures and a low number of daylight hours) and declines during the summer (as the temperature rises and the number of daylight hours increase), although recently the demand for electricity in the summer has increased as a result of increased use of air conditioning and cooling units. Similarly, sales of heat are generally significantly higher in the cold weather season, which normally runs from October to March. However operation activity of a Group has no seasonal nature, financial results are stable during the year. Group's power plants produce as base load generators considering low costs of production comparing to other producers.

Capital expenditures

Power generation and lignite extraction requires significant capital expenditures, most of which are related to electricity generation business. Group's generating assets require periodic overhauls and ongoing upgrades, both due to the increasingly stringent environmental protection regulations and the need to improve the efficiency of electricity generation. The level of capital expenditures has had and, as expected, will continue to have a significant impact on our business, the level of indebtedness and cash flow. Delays in the implementation of, or changes to investment program, or budget overruns, can therefore have a significant impact on expected capital expenditures, and also business, results of operations, financial condition and prospects.

EUR/PLN exchange rate

Despite the fact that Group operates at the polish market, generate costs and revenues in PLN, there are some significant factors in connection with EUR/PLN exchange rate. The most important are:

- Significant portion of indebtedness (including, in particular, the Syndicated Loan of Elektrownia Pątnów II) is denominated in EUR and, consequently, the depreciation in the value of PLN against EUR has a negative impact on results of operations by increasing the cost of financing in PLN relating to such indebtedness. Conversely, the depreciation in the value of EUR against PLN has a positive impact on results of operations by decreasing the cost of financing in PLN.
- PAK Serwis, has a branch in Germany where a significant portion of its operations are based (consisting principally of acting as a subcontractor in construction projects), and EUR is the functional currency of the German branch.

Currently Group does not use any derivative instruments for limitation of risk related to changes in exchange rates. The Management Boards of Group's companies monitors financial situation and the market situation. In case of necessity it is possible to take decision about usage of financial instruments to protect the position against exchange rate. Any derivative transactions will be hedging tailored in terms of volume and maturity date. The choice of hedging instrument will also include: cost, market liquidity, product simplicity, easiness of valuation and accounting and it's flexibility.