

**ZESPÓŁ ELEKTROWNI  
PAŃNÓW-ADAMÓW-KONIN S.A. CAPITAL GROUP**

**ADDITIONAL INFORMATION FOR EXPANDED  
CONSOLIDATED REPORT FOR 3rd QUARTER OF 2013**

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

## Table of contents:

1.	Selected Financial Data .....	3
2.	Description of the Group .....	5
2.1.	<i>Basic information</i> .....	5
2.2.	<i>Structure</i> .....	6
2.3.	<i>Composition of the Management Board of the parent company</i> .....	8
2.4.	<i>Description of changes in the structure of the Group in the period covered by the report</i> .....	8
3.	Significant events having impact on activities of the Group .....	8
3.1.	<i>Significant achievements and failures in the period covered by the report</i> .....	8
3.2.	<i>Other significant events of the reporting period and events following the balance sheet date.</i> .....	15
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 .....	17
5.	Information on shareholder structure .....	18
5.1.	<i>Shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes.</i> .....	18
5.2.	<i>Specification of possession of executives and supervisors</i> .....	18
6.	Statement of the Management Board on the possibility of execution of the previously published financial forecasts .....	18
7.	Information on paid or declared dividend .....	19
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 .....	19
9.	Information on significant guarantees, sureties, credits or loans granted by ZE PAK S.A. or entities consolidated under the Group .....	19
10.	Information on issue, redemption and repayment of non-equity and equity securities.....	19
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 .....	20

## 1. Selected Financial Data

Tabela 1: Selected consolidated financial data

Selected consolidated financial data	PLN thousand		EUR thousand	
	9 months of 2013 period from 01.01.2013 to 30.09.2013	9 months of 2012 period from 01.01.2012 to 30.09.2012 (restated)	9 months of 2013 period from 01.01.2013 to 30.09.2013	9 months of 2012 period from 01.01.2012 to 30.09.2012 (restated)
I. Sales revenue	2 016 837	1 988 080	477 573	473 9
II. Operating profit/loss	312 998	355 148	74 116	84 64
III. Profit/Loss before tax	254 222	390 137	60 198	93 05
IV. Net profit/loss for the period	206 085	317 944	48 799	75 795
V. Net profit attributable to equity holders of the parent	198 297	318 215	46 955	75 59
VI. Total comprehensive income	209 626	308 631	49 638	73 575
VII. Net cash flow from operating activities	401 064	554 893	94 969	132 281
VIII. Net cash flow from investing activities	-158 802	-357 161	-37 603	-85 144
IX. Net cash flow from financing activities	-211 697	-187 046	-50 128	-44 590
X. Net increase / (decrease) in cash and cash equivalents	30 565	10 686	7 238	2 547
XI. Net profit per share (in PLN/EUR per share)	3,90	6,11	0,96	1,46
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 at 30.09.2013	As at 31.12.2012 (restated)	As at 30.09.2013	As at 31.12.2012 (restated)
XIII. Total assets	6 302 052	6 256 819	1 494 688	1 530 458
XIV. Non-current assets	5 246 323	5 357 248	1 244 295	1 310 417
XV. Current assets	1 055 729	899 571	250 392	220 1
XVI. Total equity	3 753 883	3 539 587	890 326	865 6
XVII. Share capital	101 647	104 052	24 108	25 52
XVIII. Share capital attributable to equity holders of the parent	3 753 883	3 539 470	890 326	865 7
XIX. Total liabilities	2 548 169	2 717 232	604 361	664 2
XX. Non-current liabilities	1 745 732	1 792 175	414 044	438 8
XXI. Current liabilities	802 437	925 057	190 318	226 275
XXII. Book value per share (in PLN/EUR per share)	73,86	68,17	17,52	16,67
XXIII. Weighted average number of shares	50 823 547	51 925 796	50 823 547	51 925 796

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

Selected financial data of ZE PAK S.A.	PLN thousand		EUR thousand	
	9 months of 2013 period from 01.01.2013 to 30.09.2013	9 months of 2012 period from 01.01.2012 to 30.09.2012	9 months of 2013 period from 01.01.2013 to 30.09.2013	9 months of 2012 period from 01.01.2012 to 30.09.2012
XXIV. Sales revenues	1 308 722	1 485 707	309 896	354 8
XXV. Operating profit/loss	120 901	189 131	28 628	45 87
XXVI. Profit/Loss before tax	234 123	255 336	55 439	60 70
XXVII. Net profit/loss for the period	210 661	215 617	49 883	51 401
XXVIII. Net cash flow on operating activity	26 451	218 231	6 263	52 024
XXIX. Net cash flow on investment activity	17 287	-315 546	4 093	-75 223
XXX. Net cash flow on financing activity	-37 525	-41 521	-8 886	-9 898
XXXI. Total net cash flow	6 213	-138 836	1 471	-33 097
XXXII. Net earnings per share (in PLN/EUR per share)	4,14	4,14	0,98	0,99
XXXIII. Weighted average number of shares	50 823 547	52 026 000	50 823 547	52 026 000
Selected financial data of ZE PAK S.A.	PLN thousand		EUR thousand	
	stan na 30.09.2013	stan na 31.12.2012	stan na 30.09.2013	stan na 31.12.2012
XXXIV. Total assets	3 311 963	3 145 230	785 514	769 3
XXXV. Non-current assets	2 897 734	2 781 453	687 269	680 1
XXXVI. Current assets	414 229	363 777	98 245	88 82
XXXVII. Equity	2 804 682	2 594 021	665 200	634 4
XXXVIII. Share capital	101 647	104 052	24 108	25 452
XXXIX. Liabilities and provisions for liabilities	507 281	551 209	120 314	134 29
XL. Long term liabilities	48 711	75 408	11 553	18 45
XLI. Short term liabilities	230 184	284 538	54 594	69 600
XLII. Book value per share (in PLN/EUR per share)	55,18	49,96	13,09	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

September 2013, which is 4,2231 EUR/PLN and starting from 1st January 2012 to 30th September 2012, which is 4,1948 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 30th September 2013, which is 4,2163 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 September 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.

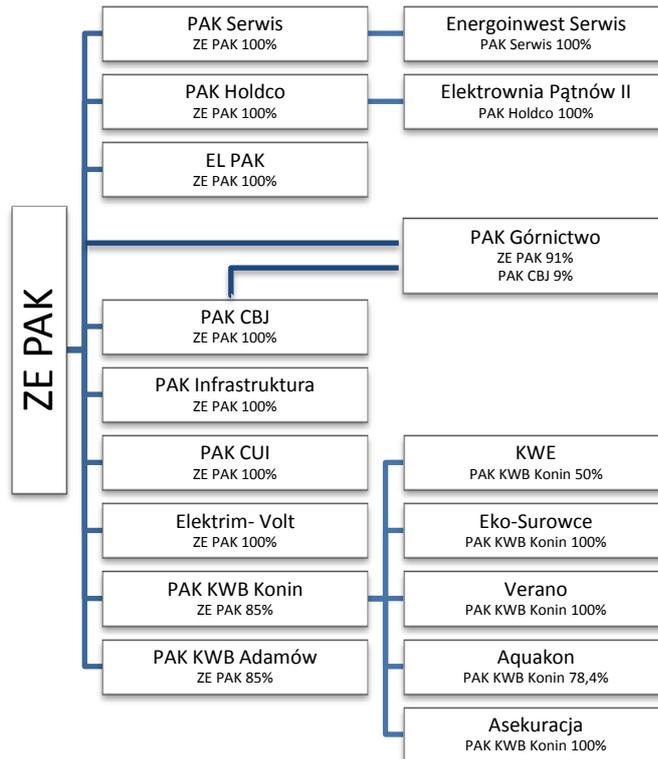
The companies which are of the biggest importance for the Group due to the scale of their operations are: ZE PAK S.A. and Elektrownia Pątnów II Sp. z o.o., dealing with production of electricity and heat, and PAK KWBA S.A. and PAK KWBK S.A., dealing with brown coal mining. Apart from the core business, 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 lignite-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 30 September 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



Rysunek 1: Chart of the Group as of 30 September 2013

Tabela 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 September 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 ul. 600-lecia 9	Wind farms, generation of electricity	42,5%*****	42,5%*****

Centrum Zdrowia i Relaksu Verano Sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Holiday and spa services	85%*****	85%*****
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- \* Subsidiary – Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o. has an establishment in Germany, as defined by the agreement for the avoidance of double taxation.
- \*\* indirect interest through „PAK – HOLDCO” sp. z o.o.
- \*\*\* indirect interest through „PAK Centrum Badań Jakości” sp. z o.o. - 9%.
- \*\*\*\* 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

There were no changes in Management Board in third quarter of 2013.

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

There were no changes in structure of Capital Group in 3rd quarter of 2013.

## **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

In the third quarter of 2013, the revenues of the Group amounted to PLN 689 510 thousand, and, as compared to the 3rd quarter of 2012, decreased by PLN 23 339 thousand, namely by 3.27%, while for the period of 9 months of 2013 they increased by PLN 28 757 thousand, namely by 1.45%, to PLN 2 016 837 thousand, from PLN 1 988 080 thousand.

In the analyzed quarter, as compared to the same quarter of the previous year, the revenues from sale of electric energy increased by PLN 21 647 thousand, namely by 3.67%, through higher energy sales volume by 0.43 TWh (executed fully as higher volume of sales of energy from the market executed by Elektrim-Volt), in spite of the obtained lower average price by 9.68% (decrease from PLN 202.41/MWh to PLN 182.81/MWh).

In the period of 9 months 2013, the revenues from sale of energy increased by PLN 88 774 thousand, namely by 5.3%. Increase in revenues was affected by higher by 1.36 TWh increase in the energy sales volume, including energy from the market increased by 1.13 TWh and energy from own generation increased by 0.23 TWh. Like in the third quarter, growth in sale of electric energy from the market results from sale executed by Elektrim-Volt. Also in the period of 9 months, the amount of revenues was affected negatively by a decrease in the average obtained selling price of electric energy by 9.6% (from PLN 202.90/MWh to PLN 183.38/MWh).

Chart 1: Sale of electric energy and obtained average prices and revenues



Due to a decrease in electric energy prices in 2013, the compensation for termination of PPAs for Pańków II Power Plant was higher in the 3rd quarter of 2013 by PLN 14 161 thousand, namely by 55.63%, as compared to the third quarter of 2012, and in the period of 9 months 2013, by PLN 48 301 thousand, i.e. by 77.30%, as compared to the same period of 2012.

In the 3rd quarter of 2013, the revenues from sale of property rights from energy certificates decreased by PLN 40 045 thousand, namely by 84.97% as compared to the quarter of the previous year. The reasons for slope in revenues was lower by 35.46 price of green certificates, which decreased from PLN 280.50 to PLN 181.05, as well as lower by 74.67% volume of their generation as a result of ceased biomass co-combustion. A decrease in revenues by PLN 55 459 thousand, namely by 56.25%, was recorded also in the period of 9 months of 2013. The main reason for decrease in revenues was also, lower by 47.21, the price of green certificates, which decreased from PLN 280.39 to PLN 148.02. Like in the third quarter, in the period of 9 months, the decrease in revenues from green certificates was affected by their smaller generation by 15.68%.

The revenues under contracts for construction services in the quarter decreased by PLN 9 607 thousand, namely by 43.59%, as compared to revenues obtained in the same quarter of the previous year, mainly owing to a smaller scope of services provided by the Group companies from the repair segment. For the same reason, revenues in the period of 9 months of this year decreased by PLN 39 865 thousand, i.e. by 58.87%, as compared to revenues obtained in the same period of the previous year.

Table 4: The selected items from the income statement and the consolidated comprehensive income statement

REVENUES, COSTS, PROFITS AND LOSSES	9 months of 2013	9 months of 2012	Change	Dynamics
	PLN '000	PLN '000	PLN '000	%
Sales revenues	2 016 837	1 988 080	28 757	1,45
Prime cost	-1 572 547	-1 535 200	-37 347	2,43
Gross profit (loss) on sales	444 290	452 880	-8 590	-1,90
Other operating income	10 898	4 248	6 650	156,54
Selling costs	-2 279	-2 728	449	-16,46
Overheads	-129 669	-89 676	-39 993	44,60
Other operating costs	-10 242	-9 576	-666	6,95
<b>Profit (loss) on operating activities*</b>	<b>312 998</b>	<b>355 148</b>	<b>-42 150</b>	<b>-11,87</b>
Financial revenues	17 574	75 588	-58 014	-76,75
Financial costs	-76 350	-40 599	-35 751	88,06
Gross profit (loss)	254 222	390 137	-135 915	-34,84
Income tax (tax load)	-48 137	-72 193	24 056	-33,32
<b>Net profit (loss) for the financial year</b>	<b>206 085</b>	<b>317 944</b>	<b>-111 859</b>	<b>-35,18</b>
Net other comprehensive income	3 541	-9 313	12 854	-138,02
COMPREHENSIVE INCOME FOR THE PERIOD	209 626	308 631	-99 005	-32,08
<b>EBITDA*</b>	<b>580 204</b>	<b>545 368</b>	<b>34 836</b>	<b>6,39</b>

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

Table 5: Specification of sales revenues

SALES REVENUES	9 months of 2013	9 months of 2012	Change	Dynamics
	PLN '000	PLN '000	PLN '000	%
Revenues from sale of electric energy (decreased by excise tax)	1 403 414	1 552 856	-149 442	-9,62
Revenues from sale of electric energy from trade	362 252	124 036	238 216	192,05
Property rights from energy certificates	43 128	98 587	-55459	-56,25
Revenues from agreements for construction services	27 851	67 716	-39 865	-58,87
Compensations under termination of long-term contracts	110 785	62 484	48 301	77,30
Revenues from sales of heat	41 220	37 021	4 199	11,34
Exchange of EUAs for CERs	-	21 384	-21 384	-100,00

Other sales revenues	28187	23 996	4191	17,47
<b>Total sales revenues</b>	<b>2 016 837</b>	<b>1 988 080</b>	<b>28 757</b>	<b>1,45</b>

The revenues from sale of heat in the analyzed quarter of 2013 were higher than the ones obtained in the 3rd quarter of the previous year by PLN 991 thousand, i.e. by 11.88%. For 9 months of 2013, as compared to 9 months of 2012, they increased by PLN 4 199 thousand, namely by 11.34%. The reasons for the increase in revenues were obtained higher volumes and selling prices.

The prime cost in the 3rd quarter of 2013 amounted to PLN 515 592 thousand and decreased by PLN 25 323 thousand, i.e. by 4.68% as compared to the same quarter of the previous year. On the other hand, in the period of 9 months of 2013, it amounted to PLN 1 572 547 thousand and, as compared to 9 months of the previous year, it increased by PLN 37 347 thousand, namely by 2.43%.

A detailed analytical presentation of costs by type is included in Table 6.

Table 6: Costs by type

COSTS BY TYPE	9 months of 2013	9 months of 2012	Change	Dynamics
	PLN '000	PLN '000	PLN '000	%
Depreciation and amortization	267 298	190 220	77 078	40,52
Impairments write-downs against property, plant and equipment	-92	-	-92	-
Impairment write-downs against inventories	164	20 119	-19 955	-99,18
Materials	408 758	755 882	-347 124	-45,92
External services	93 000	142 735	-49 735	-34,84
Taxes and charges, excluding excise duty	113 670	75 262	38 408	51,03
Employee benefits	469 522	281 041	188 481	67,07
Other costs by type	24 251	40 052	-15 801	-39,45
Costs of goods for resale and raw materials sold and resale of energy from the market	338 326	124 444	213 882	171,87
<b>Total costs by type</b>	<b>1 714 897</b>	<b>1 629 755</b>	<b>85 142</b>	<b>5,22</b>

The overheads in the analyzed quarter amounted to PLN 45 406 thousand, namely decreased by PLN 5 785 thousand as compared to the 3rd quarter of 2012, in spite of the fact that in the 3rd quarter of 2012 no full costs of consolidated mines were recorded. For 9 months of 2013 they amounted to PLN 129 669 thousand and were higher than the ones incurred in the comparable period of 2012 by PLN 39 993 thousand, i.e. by 44.6%. When analyzing both periods, it should be taken into consideration that the last year overheads of mines, due to their acquisition, were consolidated no sooner than on 19 July 2012. In the current period, they have been consolidated since the beginning of the year.

Both in the 3rd quarter and for 9 months of 2013, a positive difference was obtained between other operating income and other operating costs, in the amount of PLN 457 thousand and PLN 656 thousand, respectively, as compared to similar periods of the previous year, when negative differences were recorded, in the amount of PLN 3 336 thousand and PLN 5 328 thousand, respectively.

The ZE PAK Group in the 3rd quarter of 2013 earned profit from operating activities in the amount of PLN 128 016 thousand, and, as compared to the 3rd quarter of 2012, it was higher by PLN 11 279 thousand, namely by 9.7%. On the other hand, for 9 months of 2013, profit from operating activities amounted to PLN 312 998 thousand and was lower than the result achieved in the same period of 2012 by PLN 42 150 thousand, namely by 11.9%.

In the 3rd quarter of 2013, a positive result on financial activities was recorded, in the amount of PLN 5 786 thousand. The main reasons for obtaining a positive result included a reduction in the level of negative exchange rate differences for the previous quarters and received dividends. On the other hand, in the period of 9 months of 2013, a negative result on financial activities was recorded, in the amount of PLN 58 766 thousand. In 2012, financial activities for 9 months were closed with a positive result in the amount of PLN 34 989 thousand.

The gross profit in the 3rd quarter of 2013 amounted to PLN 133 802 thousand. The profit earned for the period of 9 months of 2013 amounted to PLN 254 222 thousand.

The net profit earned by the Group in the 3rd quarter amounted to PLN 107 397 thousand and was 52.11% of the profit for 9 months of 2013, which amounted to PLN 206 085 thousand. As compared to the same period of the previous year, the profit for the 3rd quarter 2013 increased by PLN 5 663 thousand, i.e. by 5.57%, and for 9 months it decreased by PLN 111 859 thousand, i.e. by 35.18%.

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

In the 3rd quarter of 2013, the ZE PAK Corporate Group did not record any 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 September 2013, investment outlays in the ZE PAK Corporate Group, together with repair components, amounted to PLN 141 807 thousand. Investment tasks implemented over this period related, to the greatest extent, to the generation and extraction segment.

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

1. The continued process of the modernization of units 1-4 in the Pańków I Power Plant, covering the modernization of condensation turbines, start-up of the NOX emission control

system (to reduce NOX emissions to the assumed level of 0.74 kg/MWh after 2015), and the replacement or modernization of the elements determining efficiency of the units (including the 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 of CO2 emissions to the assumed level of 1.05 Mg/MWh after 2015.

After signing two key agreements concerning the modernization of units 1 and 2 in the Państwowy Power Plant in July 2013, i.e.:

- the agreement for the "turnkey" modernization of unit K-1 and modernization of unit K-2 along with construction for these boilers of NOX control systems, with Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i Przemysłu "Remak-Rozruch" S.A. and Przedsiębiorstwo Remontowe "PAK Serwis" Sp. z o.o., operating as consortium;
- agreement 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 Państwowy Power Plant, with TurboCare Sp. z o.o.;

tender procedures concerning other tasks related to the modernization of units 1 and 2 of the Państwowy Power Plant were continued in the 3rd quarter. The result of these procedures was the signing of the following agreements:

- Agreement for the replacement of high-pressure/high-temperature pipelines connecting the boiler with the turbine on unit no. 1 and 2 in the Państwowy Power Plant, with Chemar Rurociągi Sp. z o.o.,
- Agreement for the construction of intra-unit pipeline mains for steam and service water for units 1÷6, with PAK Serwis Sp. z o.o.
- Agreement for the modernization of two cooling water pumps no. 1 and 2, with Grupa Popen - Wafapomp S.A.,
- Agreement for the modernization of two electrostatic precipitators of units no. 1 and 2 with Balcke Durr Polska Sp. z o.o.

In the 3rd quarter, the modernization works on unit no. 1 in the Państwowy Power Plant were commenced; the unit was shut down for modernization purposes on 9 September 2013. First, it was subjected to cleaning and then safe conditions for conducting modernization works were arranged (e.g. protection of functional systems against inadvertent operation). Then, construction sites were handed over to particular contractors (in accordance with building permits issued by administrative authorities). The dismantling works undertaken by the companies are conducted with the observance of the dates assumed in the schedules of works and expenditures, and, in some areas, the works are completed before the deadline. Within the boiler, the casing and setting of the boiler, deslagger, powdered-fuel and start-up burners and water sootblowers were already dismantled. The dismantling process of piping of the boiler, flue gas and air ducts, electric systems and instrumentation and control is in progress. Also, the works which are carried out to protect the load-bearing structure of the boiler, prior to the beginning of replacement and repair of the degraded structure, are taking place. At the same time, detailed designs are prepared and basic devices are manufactured.

2. The continuation of reconnaissance works in the area of the Poniec-Krobia lignite deposit and the Oczkowice lignite deposit under license no. 10/2011/p of 11 May 2011 granted for 5 years.

In the 3rd quarter of 2013, drilling works were continued, in order to explore and examine the Poniec-Krobia lignite deposit and the Oczkowice lignite deposit. In total, in 2013, according to the situation at the end of September, 30 wells (including 9 wells from phase II) and 15 piezometers were completed. Over this period, 521 various analyses were carried out, among others: coal short analyses, coal ratio/advanced analyses, special analyses – radioactivity, special analyses – toxic elements, etc.

Since the very beginning of the license validity, 97 wells and 48 piezometers have been completed.

In the 3rd quarter of this year, the first of four scheduled hydro-nodes was made, and hydro-geological tests of underground waters were carried out. Moreover, the execution of the second hydro-node started.

Actions were continued in order to obtain further consents from real estate owners to complete subsequent wells.

3. The continuation of reconnaissance works carried out at the prospective Dęby Szlacheckie lignite deposit, design works on the Ościsłowo and Piaski deposits and the continuation of overburden for the maintenance of the presently operated Drzewce, Józwin, Tomisławice, Koźmin and Adamów open pits, until depletion of their resources.

In the segment of extraction, in the first 3 quarters of this year, the mines belonging to the Group executed tasks relating to the investments on operative open pits in order to guarantee optimum production capacities. The largest outlays 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 pit, and to start the reconstruction of Excavator: Rs 560/2, aimed to increase coal extraction on the Tomisławice open pit – the planned commissioning of the machine is fixed at the first quarter of 2014. In PAK KWB Adamów S.A. outlays incurred in 2013 related mainly to restoring production capacity of the "Adamów" open pit. Gradually, works are carried out which aim to intensify stripping and coal extraction. The Company purchased, from PAK KWB Konin S.A, SchRs 1200 excavator, which significantly is to increase the generating capacities of the open pit. The complete 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 in the areas intended for extraction operation was carried out on a regular basis.

Under preparatory works with regard to prospective deposits, this year, among others, the following have been executed:

- 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 Deposit in. Cat. C1" was adopted (1st stage of works). In August 2013, the execution of the 2nd stage of geological works (deposit and hydro-

geological works) commenced. The 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.

- Ościstowo lignite deposit

A number of documents necessary for start-up of the open pit were prepared. Among them: "The Ościstowo Open Pit Deposit Development Plan", "The Program and Spatial Concept of the Reconstruction of HV Lines Colliding with the Planned Operation of the Ościstowo Deposit", "The Numerical Model of Hydro-Geological Conditions for the Designed Ościstowo Open Pit", "The Hydro-geological Documentation Determining Hydro-Geological Conditions in Connection with the Intended Drainage for the Purpose of Extraction of Lignite from the Ościstowo Deposit", "Report of Environmental Impact of the Ościstowo Open Pit", "Technical Expert's Opinion on the Impact of the Designed Ościstowo Open Pit on the "Przyjaźń" Pipeline". On 20 September 2013, the Commune Head of Wilczyn received an application for issuing a decision determining environmental conditions for the project consisting in the extraction of lignite and accompanying minerals from the Ościstowo deposit.

- Piaski lignite deposit

Preparation of the final version of "Report of Environmental Impact of the Piaski Open Pit". On 24 October 2013, the Commune Head of Rzgów received an application for issuing a decision determining environmental conditions for the project consisting in the extraction of lignite and accompanying minerals from the Piaski deposit.

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

#### Significant events of the reporting period

##### *Działania restrukturyzacyjne w kopalniach*

In the 3rd quarter 2013 restructuring actions in the Group companies were continued. In the half-year report Company informed about actions in PAK KWBK S.A. and PAK KWBA S.A. aimed at optimize the employment of both companies

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.

Until 30 September 2013, notices were served to 19 employees of mines. On the contrary, 19 subsequent employees decided to terminate employment contract with mutual agreement of the parties.

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 in the reporting period*

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 3rd quarter 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.

Events following the reporting period

During the Extraordinary General Meeting, held on 7 November 2013, the number of members of the Supervisory Board was increased to eight and Mr. Lesław Podkański was appointed to its composition.

#### **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 Pańńów-Adamów-Konin S.A. and the consolidated companies under the Group were not a party in the 3rd quarter 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 report

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	5 600 000	11,02

\* According to the information of the Company, on the basis of served notices about share purchase/sale.

### 5.2. Specification of possession of executives and supervisors

Table 8: List of executives and supervisors holding, as of the date of this 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. Statement 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**

General Meeting of the Company, with votes of the majority of shareholders, decided to allocate net profit of the Company for 2012 for supplementary capital. Therefore, the Company did 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 3rd quarter 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 3rd quarter of 2013 guarantees, sureties for credits or loans whose value would be separately or jointly 10% of the equity of ZE PAK S.A. There are information about guarantees and sureties which value is lower than 10% of the equity of ZE PAK S.A. on page 17 of this report.

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

In the 3rd quarter 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 26 August 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 February 2014. The issue served redemption of bonds whose redemption date was fixed at 26 August 2013; (issuance inside the Group)
- On 4 July 2013, bonds were redeemed for the total amount of PLN 2 000 000.00;
- On 9 August 2013, bonds were redeemed for the total amount of PLN 76 500 000,00;

## **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 the process of forecasting future results of Zespół Elektrowni Państw-Adamów-Konin S.A., it is required to take into account a number of actual, potential or theoretical factors, present in the industry and on the markets where the Company operates. These are the factors having its source both inside the Company and in its environment. In the opinion of the Board of Directors, they can be divided into occurring on an ongoing basis and incidental in the period covered by a given periodical report.

The most important factors with a permanent impact on the results of the Company surely include:

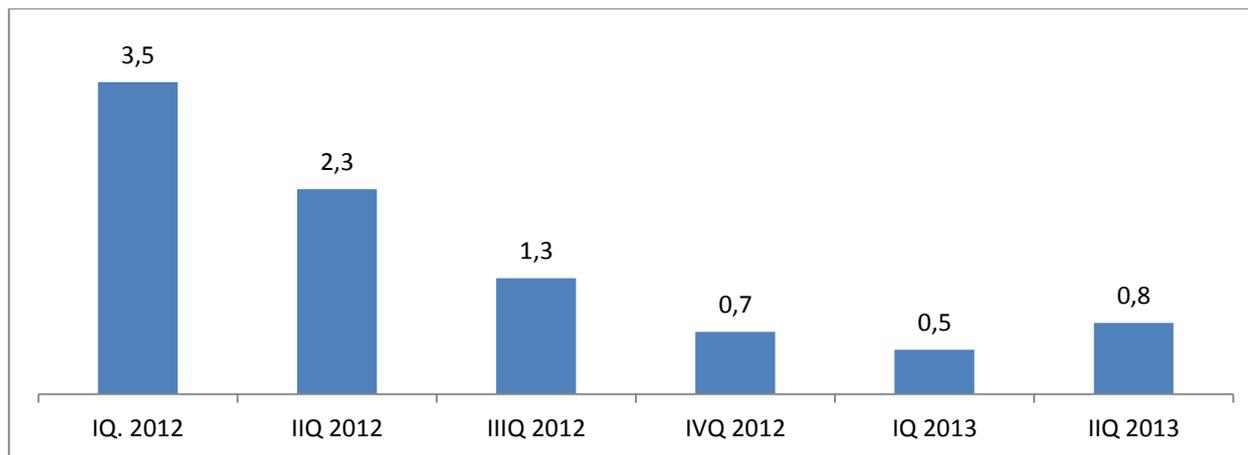
- macroeconomic trends in the Polish economy and demand for electric energy;
- regulatory environment;
- electric energy prices;
- prices and supply of certificates of origin;
- costs of fuels, cost of coal extraction;
- CO<sub>2</sub> emission allowances;
- compensations under stranded costs related to the termination of PPAs of the Państw II Power Plant;
- seasonality and meteorological conditions;
- investment outlays;
- EUR/PLN exchange rate.

### **Macroeconomic trends in the Polish economy and demand for electric energy**

When running activities on the territory of Poland, reaching substantial majority of revenues from sale of electric energy, macroeconomic trends in the Polish economy are to be taken into account. The growth in real GDP and industrial production in Poland, development of the service sector and increase in individual consumption are of particular importance. All the listed factors affect significantly the demand for electric energy and its consumption.

When observing the dynamics of Gross Domestic Product ("GDP") in subsequent quarters, it can be seen easily that starting from the first quarter of 2012 GDP growths in each subsequent quarter were smaller (as compared to the same quarter of the previous year).

Chart 2: GDP dynamics (%) as compared to the same quarter of the previous year



Source: data of the Central Statistical Office (GUS)

This trend was reversed no sooner than in the second quarter of 2013, on the basis of the communicated, by the Central Statistical Office (GUS), growth in GDP in the second quarter of 2013, at the level of 0.8%. According to numerous forecasts and more and more common belief, the situation is to improve in subsequent quarters, which would suggest that the bottom of the business cycle was reached in the 1st quarter of 2013. If we analyze the structure of GDP growth, it turns out that in the second quarter the positive net balance export with still falling investment expenditures and slightly increasing private consumption were of the greatest importance. The growing GDP dynamics in the third quarter can be confirmed by data concerning the dynamics of industrial production from subsequent months of the third quarter of 2013, i.e.: 6.3% in July, 2.2% in August, and 6.2% in September, as compared to similar months of the previous year. Growths in industrial production at such levels (the highest from the beginning of 2012), along with improving data concerning September growth in sale at the level of 3.9%, may confirm the growing GDP dynamics in the third quarter of 2013, when probably the economic growth will no longer be determined only by export.

On the basis of the data from the operation of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., we can notice that the national consumption of electric energy within three quarters of 2013 increased by 0.43% as compared to the same period of the previous year. It is worth emphasizing that when analyzing the dynamics of demand in particular months incrementally we can note a persistent upward trend. In the same period, the production of electric energy increased by 1.44%, and the production from black coal increased by 1.33%, and from lignite by 0.65%; the dynamic growth of energy produced by wind turbines by 26.78% is also worth noting.

### Regulatory environment

The entities operating on the market of electric energy are subject to strict regulations. The Energy Law, Commission Regulations and Directives and international conventions, concerning among others, environmental protection, climate changes (including CO<sub>2</sub> emissions), the obligation to sell parts of generated energy to the public, as well as to support specific energy generation

technologies. It is also required to take into account the regulations of tax law and interpretations and recommendations issued by the Energy Regulatory Office.

Recently, in the broadly understood regulatory environment, important for electric energy generators, several significant changes have taken place. On 11 September 2013, the so-called "Small Energy Tri Pack", that is a draft amendment to the Act - Energy Law, became effective. From among the most important changes introduced by it, it is worth mentioning the exchange circulation of gas, the exemption of the energy-consuming industry from purchase of colour certificates and lower support for micro systems. From press reports, it seems that in connection with the introduction of "the Small Tri Pack, "the European Commission ("EC") withdrew the complaint against Poland, filed with the European Court of Justice on 26 June 2012, connected with an incomplete implementation of the EU Electricity Directive. In the opinion of EC, the amendments approved in the revision fully implement EU regulations for the power sector.

Also in September, the Ministry of Economy presented proposals of a new auction system for producers of electric energy from renewable energy sources. As it seems from the published document entitled "The Scheme of Optimized Support Mechanisms for Producers of Electric Energy from Renewable Energy Sources", the currently binding system of support for the existing systems will be maintained. This is to guarantee continuity of the existing investments and respect rights acquired earlier by investors. However, the period of support for producers of electric energy from RES will be maximum 15 years, no longer, however, than until the end of 2021, when the system of green certificates expires. The new Act on RES is to introduce the system of auction for new and modernized systems generating green energy; the main criterion of evaluation in the support system presented by the Ministry is to be the investment implementation cost. The Ministry of Economy is expected to transfer soon the new draft Act on RES to inter-departmental agreements.

The Ministries of Economy and Environment in September published a list of allocation of free emission allowances in the third settlement period (the years 2013-2020) of EU ETS for the power industry. To receive units, it will be necessary to carry out investment tasks described in the National Investment Plan and use outlays for their implementation, to settle the granted allowances. Free units authorizing to CO<sub>2</sub> emission will be transferred to ca. 150 largest Polish energy generators. Altogether, they will receive 77.8 million free EUA. Polish generators may count on free allowances since Poland has been excluded from the EU law that imposes an obligation on electric energy generators to pay for the whole CO<sub>2</sub> emissions. However, due to a significantly lower allocation of units in relation to the planned production, the operating costs of Polish generators will probably grow.

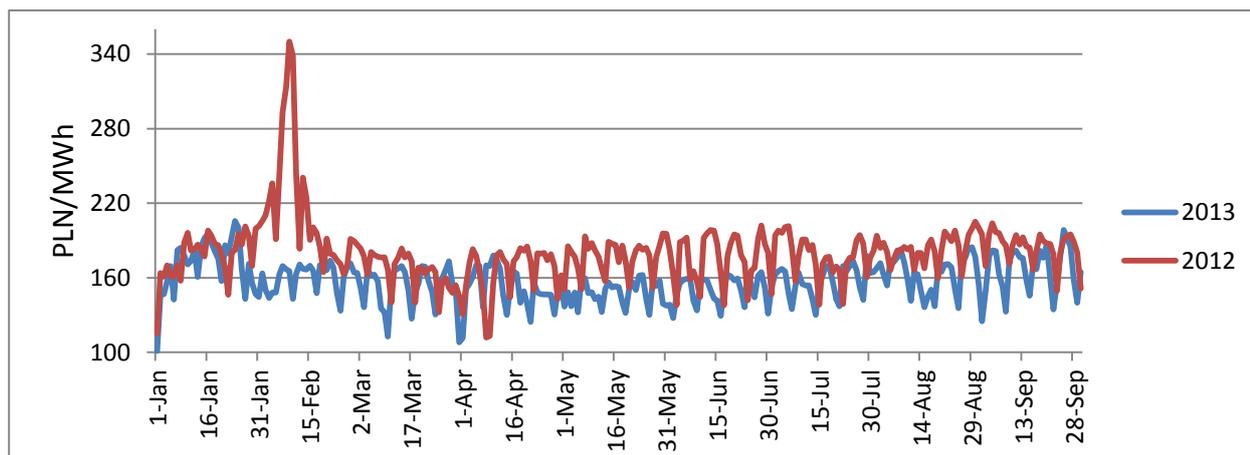
### Electric energy prices

The Company generates most revenues from the generation and sale of electric energy, therefore the price for which it sells electric energy is crucial for the results on its activities. Additionally, the Company purchases energy on the electric energy market (including on the exchange market and the balancing market) and resells it to its consumers.

According to the message of the Energy Regulatory Office, the average selling price of electric energy on the competitive market in the 3rd quarter of 2013 amounted to PLN 196.35/MWh, as compared to PLN 194.77/MWh in the 2nd quarter (average quarterly price of electric energy sold on the terms other than resulting from Article 49a sections 1 and 2 of the Act – Energy Law).

The quotations of electric energy prices at the Polish Power Exchange (Next Day Market Index) in the third quarter were below their levels from the same period of the previous year, however, the difference was not as significant as in the previous two quarters.

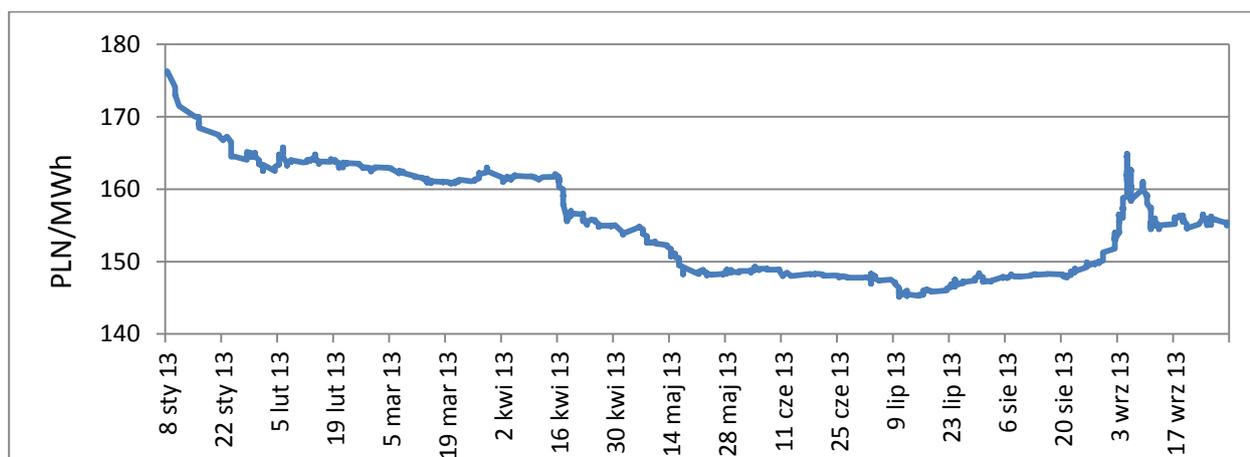
Chart 3: Energy prices (Next Day Market Index)



Source: market data (Polish Power Exchange)

The growth stimuli in the 3rd quarter of 2013 can be clearly seen on the forward market where, after the period of continuous decreases from the beginning of this year, prices increased dynamically at the turn of August and September. Currently, the price of a forward contract for the supply of electric energy (band) for the year 2014 is approximately PLN 150/MWh.

Chart 4: The price of a forward contract for supply of electric energy (base) for the year 2014 rok



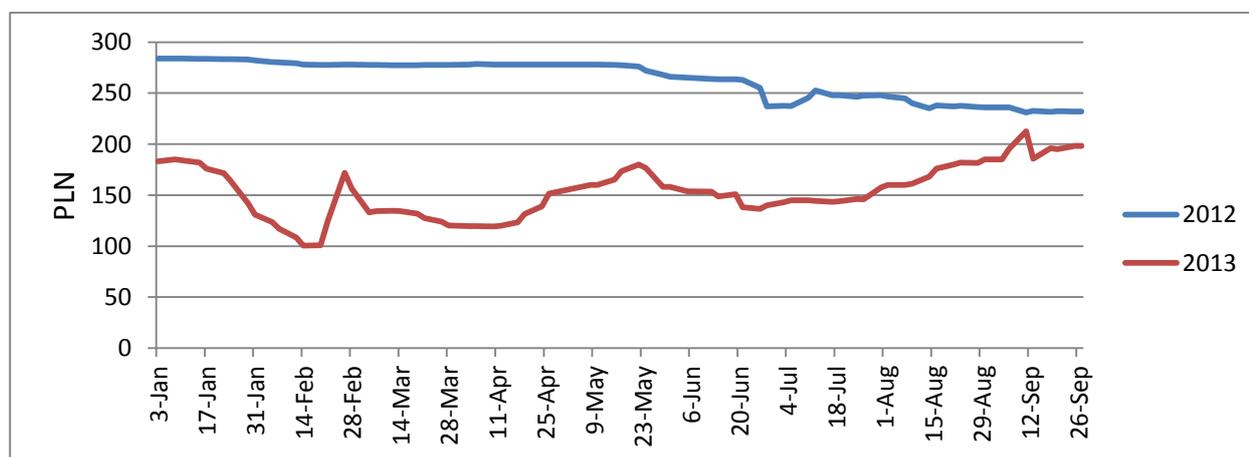
Source: market data (Polish Power Exchange)

## Prices and supply of certificates of origin

Since part of the generated electric energy comes from combustion of biomass mix (forest and agricultural biomass) and since high-efficiency cogeneration is also used for the purpose of generating heat, when fulfilling specific regulatory requirements, the generator will be entitled to green and red certificates. The number of obtained certificates of origin is considerably higher than the number the Companies of the ZE PAK Corporate Group are obliged to present for cancellation, which allows selling their surpluses for the benefit of other market participants. Considering the fact that the cost related to the generation of electric energy from biomass mix is significantly higher than the cost of generation of energy from the lignite combustion, the Board of Directors monitors, on an on-going basis, relevant economic parameters, including the market price of certificates of origin and relative cost of energy generation, in order to assess profitability of generation of electric energy from biomass mix.

In the 3rd quarter of 2013, on the market of green certificates we witnessed a significant increase in the price obtained from sale. The market has been recovering slowly after the prior period when, as a result of excessive supply of certificates of origin, their prices decreased drastically, reaching the bottom in the half of the first quarter in 2013, at the level of approximately PLN 100. Since then, we have been observing an upward trend. The reasons for such price fluctuations should be sought in the information coming from the largest electric energy generators (including ZE PAK), informing about an important limitation or total resignation from co-combustion of biomass, which, in consequence, causes significant reduction in generation of green energy and thereby will reduce the source of supply of certificates of origin.

Chart 5: Average selling price of certificates of energy generated from RES



Source: market data (Polish Power Exchange)

In the case of certificates of origin from cogeneration (red certificates), the situation still has not been explained. The cogeneration support system expired in March 2013. Currently, changes in Polish law, aiming at resuming the issuance of certificates of origin for electric energy generated in systems using cogeneration, await approval by EC. Chances to resume the system of support for cogeneration until the end of the current year are only theoretical. If it is possible to restore

support in the form of yellow and red certificates, it is known that it will be valid only over ten months. The notified act provides for its extension only until March 2015.

### Costs of fuels, cost of coal extraction

The most important element of costs related to generating electric energy and heat in the companies of the ZE PAK Corporate Group is the cost of fuel. Fuel prices determine, to a great extent, the competitiveness of particular electric energy generation technologies. The power plants of the ZE PAK Corporate Group generate a significant majority of electric energy from lignite, but they also use forest and agricultural biomass. In addition, the electric energy generation process involves the use, for firing purposes, on a very small scale, heavy and light fuel oil.

Two lignite mines, PAK KWBAS.A. and PAK KWBK S.A., being the only suppliers of lignite to the power plants of the ZE PAK Corporate Group, satisfy the total demand of generating assets for this basic fuel, which eliminates independence of the ZE PAK Corporate Group on external suppliers and eliminates its exposure to potential fluctuations in lignite prices. However, there is exposure to fluctuations in prices of other used fuels (first of all, biomass) and some costs related to extraction of lignite depend on the factors that remain beyond direct control.

### CO2 emission allowances

Activities in the field of generation from conventional electric energy and heat sources, and hence the results on operating activities, are largely dependent on the quantity of free CO2 emission allowances granted in a given period. CO2 (EUA) emission allowances are acquired by way of a free allocation under the National Emission Allowance Allocation Plan (KPRU); they can be also bought on the free market. In the case of exceeded limits of granted free CO2 emission allowances, the Group is obliged to purchase the missing number of additional CO2 emission allowances on the free market.

The prices of CO2 emission allowances in the period of 9 months of 2013 were running at levels expressly lower than in the same period of the previous year. The 3rd quarter of 2013 alone was characterized by an upward trend, under which the price of EUA increased to approximately 6 EUR, however, it did not exceed the levels from the beginning of the year.

Chart 6: The price of a forward contract for supply of EUA in 2012 and of 2013



Source: market data (ICE)

The topic that recently might have been or may be translated into the prices of CO2 emission allowances is the so-called "backloading", namely a plan aiming at reduction in the number of EUAs on the market, whose assumption is to cause growth in quotations of allowances whose price is, in the opinion of its authors, too low to encourage investment in low-emission technologies. A factor withholding the introduction of "backloading" was the lack of the official position of several states. Germany was one of a few last states that did not present the official position on the case of "backloading", while their support will enable, with high probability, the EU Council to accept the plan of change in a pool of units on the CO2 market. Having won the elections to the German Bundestag, Angela Merkel, the chancellor of Germany, expressed her support for the "backloading" plan, that is a shift of 900 million CO2 emission allowances from 2013-2015 to the future period of the third settlement phase (2013-2020) of the European Emission Trading System. In the opinion of the authors of this plan, this operation is also to stimulate growth in quotations of CO2 emission allowances and, as a consequence, contribute to the improvement of the situation of gas power plants that are currently losing with coal-fired competitors. Presently, energy generated from coal is cheap in the EU member states due to low prices of raw material and CO2 emission allowances.

### Compensations under stranded costs related to the termination of PPA of the Pałnów II Power Plant

The long-term Power Purchase Agreement (PPA) was concluded between Elektrownia Pałnów II Sp. z o.o. and PSE S.A. It was a long-term agreement in the scope of supplying electric energy at the agreed pricing formula. In connection with early termination (on 1 April 2008) of PPA of the Pałnów II Power Plant, under the Act of 29 June 2007 regulating the compensation of power producers' stranded costs resulting from the early termination of long-term power purchase agreements, the company is entitled to relevant compensation. The amount of compensation is calculated according to a respective formula included in the Act. The Pałnów II Power Plant is entitled to receive the described compensations until the end of 2025.

## Seasonality and meteorological conditions

The demand for electric energy and heat, especially among consumers, is subject to seasonal fluctuations. On the whole, the consumption of electric energy increases in the winter (mainly due to low temperatures and shorter day) and drops in the summer period (in connection with higher temperatures and longer day). In the last years, an increase in the demand for electric energy in the summer has been recorded systematically, which is caused by a growing number of used air conditioners and cooling equipment. Similarly, the sale of heat is significantly higher in the cold period, and generally lasts from October to March.

However, the Group's activities are not seasonal, therefore, the Group's results do not show significant fluctuations during the year. Owing to low costs, the operation of units is continuous (in the base) – without standstills caused by demand fluctuations.

## Capital expenditure

Activities in the sector of coal extraction and energy production require substantial capital expenditure. Generating assets of the Group require periodical repairs and current modernization, regarding both sharpening requirements in the field of environmental protection and the need to increase efficiency of electric energy production. The level of capital expenditures has had, and, according to expectations, will still have a significant impact on the results of operating activities, the level of debt and cash flows. Delays in the implementation, changes in the investment program and exceeded budget may have a serious impact on investment outlays sustained in the future, as well as on results, financial position and growth prospects.

## EUR/PLN exchange rate

Despite the fact that the Group has been conducting its operations on the territory of Poland where it incurs costs and earns revenues PLN, there are several significant factors making financial results dependent on EUR/PLN exchange rate. The most important include:

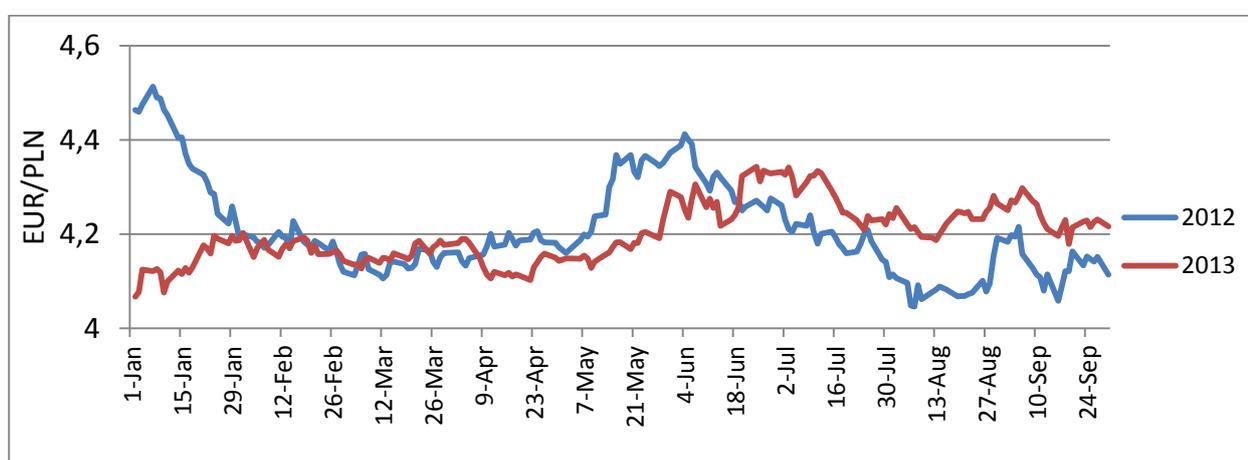
- A significant part of the debt (i.e. Syndicated Loans contracted by the PaŃnów II Power Plant) is denominated in EUR, due to which depreciation of PLN in relation to EUR has a negative impact on financial results, because it increases costs of financing in PLN related to the debt in a foreign currency, while depreciation of EUR in relation to PLN has a positive effect on the financial results because it reduces the costs of financing in PLN related to debt in a foreign currency.
- PAK Serwis Sp. z o.o., a subsidiary covered by consolidation, has its establishment, as defined by the agreement for the avoidance of double taxation, in Germany, where it conducts part of its activities and EUR is a functional currency of this establishment.

Currently, the companies of the ZE PAK Corporate Group do not use instruments used to limit risk resulting from exchange rate fluctuations. The Boards of Directors, on a regular basis, monitor the financial and market situation and, if necessary, they can make decisions relating to the need to use financial instruments hedging exchange rate risks. According to the principles of market risk management, adopted in the ZE PAK Corporate Group, any possible transactions will be hedges

and will be adjusted to the hedged position in terms of volume and maturity date. The decision on the selection of hedging instrument will consider also: price, market liquidity, product simplicity, easy valuation and booking, and flexibility.

EUR/PLN exchange rate for the first half of the year was running at levels similar or below the levels in the same period of the previous year. We witnessed change in this situation in the 3rd quarter of 2013. In both years, at the end of the 3rd quarter, the exchange rate was running at a level lower as compared to the end of the preceding quarter, and in 2012 this trend was slightly clearer. Basic interest rates, both in Poland and in the Euro Area, after the last reduction, are currently at the lowest levels in history. In the present situation, we should not rather assume a sudden change in the monetary policy executed by the European Central Bank and the Monetary Policy Council. It seems that the data concerning economies of the Euro Area and Poland will in near future have determining importance for the exchange parity of both currencies.

Chart 7: Average EUR/PLN exchange rate



Source: tables of average exchange rates of the National Bank of Poland