

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

**DIRECTORS' REPORT OF THE COMPANY
FOR THE YEAR 2012**

15 march 2013

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1. Selected statutory financial data

Selected statutory financial data	In PLN thousand		In EUR thousand	
	12-month period ended 31.12.2012	12-month period ended 31.12.2011	12-month period ended 31.12.2012	12-month period ended 31.12.2011
I. Net sales of finished goods, goods for resale and raw materials	2,016,188	2,084,679	483,081	503,533
II. Operating profit/loss	254,407	305,972	60,956	73,904
III. Profit/Loss before tax	327,732	350,693	78,525	84,706
IV. Net profit/loss	275,013	283,746	65,893	68,536
V. Net cash flow from operating activities	302,371	260,278	72,448	62,868
VI. Net cash flow from investing activities	-446,420	198,974	-106,963	48,060
VII. Net cash flow from financing activities	-99,889	-456,597	-23,934	-110,286
VIII. Total net cash flow	-243,938	2,655	-58,448	641
IX. Net profit per share (in PLN/EUR per share)	5.30	5.45	1.27	1.32
X. Weighted average number of shares	51,925,796	52,026,000	51,925,796	52,026,000

Selected statutory financial data	In PLN thousand		In EUR thousand	
	As at 31.12.2012	As at 31.12.2011	As at 31.12.2012	As at 31.12.2011
XI. Total assets	3,145,230	3,036,145	769,343	687,408
XII. Non-current assets	2,781,453	2,414,449	680,361	546,651
XIII. Current assets	363,778	621,696	88,982	140,757
XIV. Total equity	2,594,021	2,350,288	634,514	532,125
XV. Share capital	104,052	104,052	25,452	23,558
XVI. Liabilities and provisions for liabilities	551,210	685,857	134,830	155,284
XVII. Long-term liabilities	75,408	115,323	18,445	26,110
XVIII. Short-term liabilities	284,538	342,921	69,600	77,640
XIX. Book value per share (in PLN/EUR per share)	49.96	45.18	12.22	10.23
XX. Weighted average number of shares	51,925,796	52,026,000	51,925,796	52,026,000

The figures shown in the tables above have been translated using the following exchange rates:

- figures relating to the income statement and statement of cash flows – in accordance with the exchange rate representing the arithmetic mean of average NBP rates as at the last working day of each month of the financial period from 1 January 2012 to 31 December

2012, which gives EUR/PLN 4.1736, and from 1 January 2011 to 31 December 2011, which gives EUR/PLN 4.1401.

- figures relating to the individual items of the Balance sheet – in accordance with the average EUR/PLN rate determined by the NBP as at 31 December 2012, i.e. EUR/PLN 4,0882 and as at 30 December 2011 i.e. EUR/PLN 4.4168.

2. Description of the Company and of the Capital Group

2.1. *Basic information on the Company and the Capital Group*

Basic information on the Company

Zespół Elektrowni Pątnów-Adamów-Konin S.A. (hereinafter also referred to as ZE PAK S.A. or the Company) operates in the form of a joint-stock company, based on the provisions of the Code of Commercial Companies and other provisions of the generally binding Polish law. The Company was set up as a result of transformation of the state enterprise Zespół Elektrowni Pątnów-Adamów-Konin based in Konin into a sole-shareholder State Treasury company named Zespół Elektrowni „Pątnów-Adamów-Konin” Spółka Akcyjna. The deed of transformation was signed on 29 December 1994 in the presence of the Notary Public Elżbieta Brudnicka of the Notarial Practice in Warsaw. On 31 December 1994, the Company was entered in the trade register section “B” by the District Court in Konin under number RHB 847. Based on the decision of the District Court in Poznań, 22nd Commercial Department of KRS dated 21 June 2011, the Company was entered in the Register of Entrepreneurs. Currently the Company is entered in the Register of Entrepreneurs maintained by the District Court Poznań Nowe Miasto i Wilda, 9th Commercial Department, under number KRS 0000021374. The Company was set up for an unlimited period of time.

Name:	Zespół Elektrowni „Pątnów-Adamów-Konin” Spółka Akcyjna
Legal status:	joint-stock company
Abbreviated name:	ZE PAK S.A.
Registered office and address:	ul. Kazimierska 45, 62-510 Konin, Poland
Telephone number:	+48 63 247 30 00
Telefax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
E-mail:	zepak@zepak.com.pl
KRS:	0000021374
REGON:	310186795
NIP:	665-000-16-45

In accordance with the Company's Statutes its principal activities include first of all generation and distribution of electricity and generation and distribution of heat. The Company generates energy using conventional sources as well as combustion and joint combustion of biomass. The Company may operate in the territory of the Republic of Poland as well as abroad.

The Company's shares are listed on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). The Company's shares are dematerialized and designated by Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) with the following securities code: ISIN PLZEPAK00012.

The share capital of ZE PAK S.A. did not change in 2012. The Extraordinary General Meeting held on 20 August 2012 resolved, among others, to decrease the nominal value of the Company's shares class A and B while simultaneously increasing their number on a proportionate basis without any change to the Company's share capital and to amend the Company's Statutes. As a result of the split of shares and registration of amendments to ZE PAK S.A.'s Statutes by the registry court, the Company's share capital was divided into 52,026,000 shares, i.e.:

- 1) 40,020,000 registered shares class A1 with a nominal value of PLN 2.00 each,
- 2) 12,006,000 registered shares class B1 with a nominal value of PLN 2.00 each.

As at 31 December 2012, the share capital amounted to PLN 104,052,000.00.

The Extraordinary General Meeting of ZE PAK S.A. held on 21 February 2013, i.e. after the end of the reporting period, resolved to redeem, by way of voluntary redemption, 1,202,453 of the Company's ordinary bearer shares with a nominal value of PLN 2.00 each, accounting for 2.31% of the Company's share capital, giving rights to 1,202,453 votes at the Company's General Meeting and representing 2.31% of the total number of votes at the Company's General Meeting. The shares being subject to redemption are the Company's treasury shares that were reacquired by it on 4 December 2012 from Credit Suisse Securities (Europe) Limited ("Stabilizing Manager") based on the authorization included in Resolution 6 of the Extraordinary General Meeting of the Company dated 20 August 2012 authorizing the Company's Management Board to reacquire the Company's treasury shares as part of activities undertaken to stabilize the price of the Company's shares. Information on the acquisition of the Company's treasury shares is included in section 7.2 hereof.

As a result of the resolution on the redemption of treasury shares, the Extraordinary General Meeting held on 21 February 2013 also resolved to decrease the Company's share capital to the amount of PLN 101,647,094.00 and to divide it into 50,823,547 bearer shares class A with a nominal value of PLN 2.00 each. The purpose of this decrease is to implement the resolution on the redemption of treasury shares, i.e. to adjust the value of the Company's share capital to the nominal value of the shares remaining after the redemption of treasury shares.

As at the date of this report, the Company has not received the registry court's decision on the registration of the share capital decrease or the related amendments to the Company's Statutes.

The Company has no branches (establishments).

Basic information on the Capital Group

As at 31 December 2012, the ZE PAK Capital Group (hereinafter also referred to as **the Group, the Capital Group, the ZE PAK Group** or the **ZE PAK CG**) is comprised of the parent company: Zespół Elektrowni Pątnów-Adamów-Konin S.A. and eighteen subsidiaries, i.e.: Elektrownia Pątnów II Sp. z o.o., Elektrim Volt S.A., PAK Kopalnia Węgla Brunatnego Adamów S.A. (hereinafter also referred to as **PAK KWBA S.A.**), PAK Kopalnia Węgla Brunatnego Konin S.A. (hereinafter also referred to as **PAK KWBK S.A.**), Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. (hereinafter also referred to as **PAK SERWIS**), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o. (hereinafter also referred to as **EL PAK**), Ochrona Osób i Mienia 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., PAK Biopaliwa w likwidacji Sp. z o.o., PAK Centrum Badań Jakości Sp. z o.o., PAK Centrum Usług Informatycznych Sp. z o.o., PAK Górnictwo Sp. z o.o., PAK Holdco Sp. z o.o., PAK Infrastruktura Sp. z o.o., Centrum Zdrowia i Relaksu Verano Sp. z o.o. All the Group companies have their registered offices in Poland. All the Group companies except for the subsidiaries of PAK KWBK S.A. (i.e. Ochrona Osób i Mienia Asekuracja Sp. z o.o., Aquakon Sp. z o.o., Eko-Surowce Sp. z o.o., Centrum Zdrowia i Relaksu Verano Sp. z o.o., KWE Sp. z o.o.) are included in consolidation.

The companies that are most important for the Group due to the size of their operations include ZE PAK S.A., which deals with generation of electricity and heat, Elektrownia Pątnów II Sp. z o.o., which deals with generation of electricity, and PAK KWBA S.A. and PAK KWBK S.A., which are engaged in the extraction of lignite. In addition to the main areas of the Group's operations, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trading activities for the purpose of satisfying their own needs as well as providing comprehensive services to the industry, security guard services with regard to people and property, performing chemical analyses and examinations, IT activities.

The Group's generation assets include four lignite-fired power plants located in central Poland, in the wielkopolskie voivodship. These are: the Pątnów II Power Plant, equipped with a supercritical power unit, the Konin Power Plant and two power plants additionally equipped with units for joint combustion of biomass: the Pątnów I Power Plant and the Adamów Power Plant. The total achievable gross generation capacity of the Group's generation assets as at 31 December 2012 was 2,462 MWe. In July 2012, a new 55 MW power unit with a biomass boiler was made available for commercial use in the Konin Power Plant.

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 the 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.

Presented below is the structure of the ZE PAK Group as at 31 December 2012.

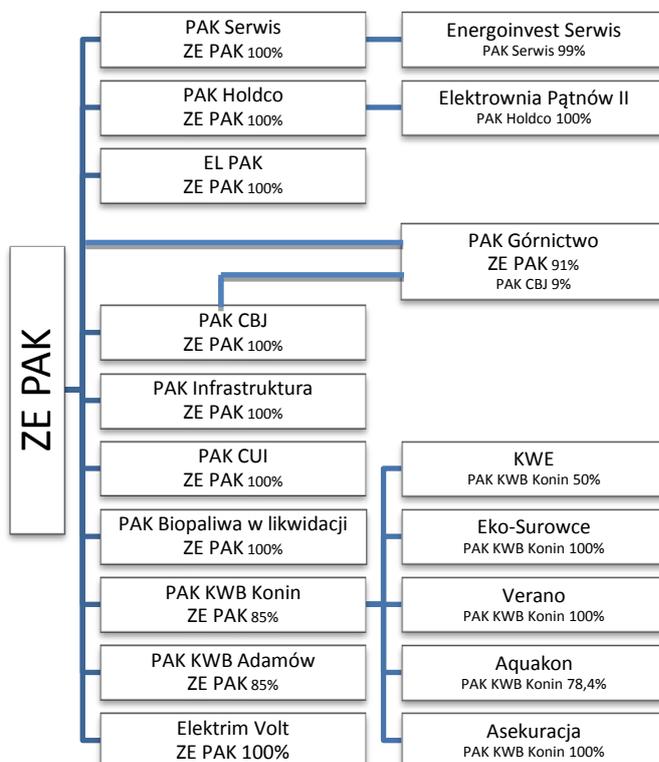


Figure 1: Structure of the Group as at 31 December 2012

During the year under review a number of changes were made to the structure of the ZE PAK Capital Group:

- On 28 May 2012, Share Sale Agreements Nos. MSP/SPA/00194/00/2012 and MSP/SPA/00195/00/2012 were signed between the State Treasury of the Republic of Poland represented by the Minister of Treasury and the Company, under which the Company acquired 20,803,750 registered ordinary shares class A in Kopalnia Węgla Brunatnego Konin S.A. ("KWBK") and 10,200,000 registered ordinary shares class A in Kopalnia Węgla Brunatnego Adamów S.A. ("KWBA"). The acquired blocks of shares represent 85% of the share capital of each mine and account for 85% votes at the General Meetings of the companies. The transfer of shares took place on 18 July 2012.
- In August KWBA S.A. changed its name to PAK Kopalnia Węgla Brunatnego Adamów S.A., and KWBK S.A. changed its name to PAK Kopalnia Węgla Brunatnego Konin S.A.

- On 1 October 2012, a transaction for the sale of shares in Elektrim-Volt S.A. was concluded between the Company and Argumenol Investment Company Limited, through Trigon Dom Maklerski S.A. As a result of this transaction, ZE PAK S.A. acquired 1,500,000 registered shares class A and 1,450,000 registered shares class B, i.e. a total of 2,950,000 shares accounting for 100% of the company's share capital and 100% of votes at the General Meeting.
- Based on the decision of the Extraordinary Shareholders' Meeting of PAK Biopaliwa Sp. z o.o., in the 2nd quarter of 2012 the liquidation procedure of PAK Biopaliwa Sp. z o.o., wholly owned by ZE PAK S.A., was commenced. The liquidation process was completed on 23 January 2012 by deleting PAK Biopaliwa Sp. z o.o. from the National Court Register.

Outside the Capital Group, the Company holds shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar Sp. z o.o. with its registered office in Gliwice, which renders measurement, research and advisory services relating to power engineering, thermal and mechanical, power chemistry and environmental protection processes, systems and devices. It also provides advice in the area of management of investment and modernization processes, including those related to the construction of new generation capacities, compliance with emission caps, and power efficiency. ZE PAK S.A. holds 1 share in the Energopomiar Sp. z o.o. company with a value of PLN 151,201.01, which accounts for 2.81% of its total capital.

On 24 February 2012, the agreement for the sale of shares in Towarowa Giełda Energii S.A., dated 8 November 2011, was fulfilled. Under this agreement, the Company sold the whole block of 157,000 ordinary registered shares in Towarowa Giełda Energii S.A. to Giełda Papierów Wartościowych w Warszawie S.A.

Table 1: Listing of the Group companies as at 31 December 2012 (without ZE PAK S.A.)

Entity	Registered office	Scope of activities	Percentage of capital held by the Group	
			As at 31 December 2012	As at 31 December 2011
Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.*	62-510 Konin ul. Przemysłowa 158	Repair and construction services	100%	100%
Elektrim-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Trading in electricity	100%	-
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Service of electrical and industrial automated devices	100%	100%
Elektrownia Państw II Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Generation and distribution of electricity from the new 464 MW power unit	100%**	100%**
PAK-Holdco Sp. z o.o.	62-510 Konin	Holding activities	100%	100%

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	ul. Kazimierska 45			
PAK Infrastruktura Sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction works related to engineering facilities 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	Chemical examinations and analyses	100%	100%
PAK Górnictwo Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal mining	100%***	100%***
PAK-Biopaliwa Sp. z o.o. w likwidacji	62-510 Konin ul. Przemysłowa 158	Purchase, storage and supply of biomass	100%	100%
Energoinwest Serwis Sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Repair and construction services	99%****	99%****
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Extraction of lignite	85%	-
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Extraction of lignite	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%*****	-
Aquakon Sp. z o.o.	62-610 Sompolno Police	Production of and trading in mineral waters	66,6%*****	-
Eko-Surowce Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Sales of lignite	85%*****	-
KWE Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, generation of electricity	42,5%*****	-
Centrum Zdrowia i Relaksu Verano Sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Holiday and spa services	85%*****	-

* 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 2011 and 30 September 2012.

**** Indirect interest through Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.

***** Indirect interest through PAK KWB Konin (direct interest of PAK KWB Konin in Aquakon Sp. z o.o. amounts to 78.4%, in KWE Sp. z o.o. 50%, and in other companies 100%).

2.2. *Basic principles of management of the Company and of the ZE PAK Capital Group as well as any changes thereto*

In order to provide appropriate solutions for key issues related to management of the Capital Group in which ZE PAK S.A. is the parent, and at the same time the owner of capital who seeks a satisfactory return on the funds engaged, a separate Corporate Governance and Restructuring Department was set up within the organizational structure of the Company. The main task of this Department is supervision over the operations of the ZE PAK Capital Group and other companies in which the Company holds shares. This unit coordinates the consistency of the operations of all entities in the Group and monitors their compliance with the legal regulations in force as well as the interests of the whole Capital Group.

Direct supervision over the operations of the companies in which ZE PAK S.A. holds an interest is also exercised by the Supervisory Boards, whose place in the system of corporate governance in relation to the above-mentioned companies is defined by the statute. In accordance with the Group's policy, the positions of Chairmen of the Supervisory Boards in the subsidiaries are held by Members of the Board of Directors of ZE PAK S.A. In addition, to ensure proper functioning of the corporate governance body, the Board of Directors of ZE PAK S.A. recommends other members of the Supervisory Boards of the Group companies.

Corporate governance in the ZE PAK Capital Group is subject to specific procedures collected in the internal document adopted by the Board of Directors of ZE PAK S.A. in January 2012, entitled "Corporate Governance Rules for the ZE PAK S.A. Capital Group", which sets the main rules for the management of the Capital Group. The scope of the tasks and duties of Supervisory Boards in the subsidiaries has been extended in this document. In addition, the document also defines the tasks and duties of the Corporate Governance and Restructuring Department, information requirements for subsidiaries' managements as well as the method of fulfillment of tasks related to governance.

During the year 2012 there were no significant changes to the principles of management of the Company.

2.3. *Description of main products, goods for resale and services as well as main markets and sources of supplies*

The Company's operations are focused on several areas. The main area is doubtlessly generation of and wholesale trading in electricity, which is supplemented by sales of energy certificates, activities undertaken to ensure an adequate amount of CO₂ allowances as well as generation and sales of heat. In the year 2012 The Company mainly operated on the Polish market. Only the activities related to transactions in CO₂ allowances were conducted by the Company with overseas counterparties. The company is the second biggest national generator of electricity generated using lignite in terms of the volume of generated electricity. The share of the Company in total

electricity generated in Poland is ca. 5.4%¹. Net electricity generated in the Państw I Power Plant for 2012 amounted to 4.57 TWh, in the Adamów Power Plant 2.59 TWh, in the Konin Power Plant 0.42 TWh. In the year 2012 the Company sold 8.41 TWh of electricity which is a decrease in comparison with sales in the year 2011 by 3.7%. Sales of electricity generated by the Company's power plants amounted to 7.58 TWh, while sales of electricity purchased on the balancing and wholesale markets amounted to 0.83 TWh. The main direction of sales of electricity consisted in sales made under bilateral contracts concluded with companies trading in electricity on the Polish market. Such sales account for 71.5% of the total electricity sold. The biggest contractor of the Company in terms of sale of electricity in the year 2012 was Elektrim-Volt S.A. The volume of sales to Elektrim-Volt S.A. in the year 2012 amounted to 2.41 TWh, which stands for 28.5% of total electricity sold. The large part of electricity sold, i.e. 16.4% were sales made on Towarowa Giełda Energii S.A. and on Rynek Towarowy Giełdy Papierów Wartościowych w Warszawie S.A. In the year 2012 the Company remained within the group of generators who actively participated in trading on the electricity balancing market, selling a relatively large part of their electricity on this market, i.e. 12.1%. The sale to end-users did not constitute a significant element of the Company's activities and was 0.5% of the total sales volume.

Revenues from sales of electricity, including power reserves and system services accounted for 84.4% of total revenues from sales of the Company.

The number of green and red certificates acquired by the Company, mainly due to the use in 2012 of joint combustion, highly efficient cogeneration in the production of heat as well as the biomass-fired power unit that was made operational in July 2012, significantly exceeds the number of certificates that the Company is required to submit to the President of URE (Energy Regulatory Office) for redemption, for the purpose of fulfilling the requirements imposed on it by the existing regulations. As a result, surplus energy certificates are sold by the Company, mainly on Towarowa Giełda Energii S.A. (Polish Power Exchange). In 2012, the Company generated 0.57 TWh of green certificates and 0.17 TWh of red certificates. Revenue from sales of certificates accounted for 6.4% of total sales of the Company.

As part of the management of the CO₂ emission allowances cap held by the Company, the Company entered into transactions for the exchange of EUAs for CERs or ERUs. In the second trading period (2008-2012), 10% of emission could be covered with CERs, the value of which on European markets is lower than the value of EUAs. This enabled the Company to obtain additional revenues which accounted for 0.9% of total sales of the Company in 2012. The Company made a full use of the possibility to exchange credits under the 10% cap.

The heat generated by the Company power plants is sold to local recipients. The main recipients are municipal heating companies and local manufacturers. The Company satisfies almost the whole of the heat requirements of the towns of Konin and Turek as well as the other neighboring

¹ According to the Table included in PSE S.A.'s website: The structure of electricity generation in domestic power plants, the amounts of exports of electricity and domestic electricity consumption – monthly and cumulative amounts from the beginning of the year – gross amounts, total gross electricity generation in Poland for 2012 amounted to 159,853 GWh.

towns. In 2012, the Company power plants sold 2,137 TJ of heat. Sales of heat accounted for approx. 2.7% of the total sales of the Company.

The main raw material used by the Company is lignite. The lignite is extracted solely for the power sector. This is mainly due to the fact that the Polish lignite is soft and difficult for transport and storing. The lignite extracted is supplied directly from the open cast mine to the neighboring power plant, which reduces transportation costs. For this reason, extraction of lignite is closely correlated with the amount of electricity generated by the power plant located nearby the mine.

In the year 2012 in Company's Power plants 10.7m tones of lignite were used. The remaining part of extracted lignite in both mines is delivered to Elektrownia Pańków II sp. z o.o., and a small amount (less than 1%) is used for own purposes of the mines or sold to other customers.

Another raw material used by the Company power plants is biomass, which is combusted jointly with conventional fuels in the Pańków I and Adamów Power Plants or in a dedicated biomass boiler which was made operational in the Konin Power Plant in 2012. Due to the existing regulations, as of 2012 agriculture became the main source of biomass for electricity generation purposes, with a simultaneous decrease in the usage of forest biomass. The market of biomass suppliers, unlike that of coal suppliers, is extremely dispersed. Biomass requirements of the Company power plants are satisfied by the supplies of biomass under agreements concluded with numerous producers and intermediaries.

In 2012, the ZE PAK S.A.'s power plants used 572.9 thousand tones of biomass, including 309.7 thousand tones of forest biomass and 263.2 thousand tones of agricultural biomass.

3. Description of Activities.

3.1. Significant events during the year affecting current and future operations

Acquisition of the KWB Konin and KWB Adamów mines from the State Treasury

On 28 May 2012, Share Sale Agreements Nos. MSP/SPA/00194/00/2012 and MSP/SPA/00195/00/2012 were signed between the State Treasury of the Republic of Poland represented by the Minister of Treasury and the Company, under which ZE PAK S.A. acquired 10,200,000 shares in Kopalnia Węgla Brunatnego Adamów S.A. (**KWB S.A.**) accounting for 85% of the share capital of KWBA S.A. and 20,803,750 shares in Kopalnia Węgla Brunatnego Konin S.A. (**KWBK S.A.**) accounting for 85% of the share capital of KWBK S.A. The total purchase price paid for the shares amounted to PLN 175,499,500, of which the purchase price of the KWBA S.A. shares was PLN 67,320,000 and the purchase price of the KWBK S.A. shares was PLN 108,179,500.

Due to the purchase of the mines' shares, generating units in the Company's power plants acquired a raw materials base of their own.

Acquisition of shares in Elektrim-Volt S.A.

On 1 October 2012, ZE PAK S.A. acquired 2,950,000 shares in Elektrim-Volt S.A. representing 100% of the share capital of Elektrim-Volt S.A. and giving rights to 100% of votes at its General Meeting, for the total purchase price of PLN 118,500,000. The aim of the of the acquisition of Elektrim Volt S.A. is to use in the future the Group's potential on the market of electricity supply to final users, including through the utilization of its surplus green and red certificates and the related ability to be flexible in setting prices for final users.

As a result of the acquisition of shares of Elektrim-Volt S.A., the Group's operations have been extended to include the area of trading in electricity, including the acquisition and service of final users as well as entering into other electricity purchase and sale transactions. The acquisition of Elektrim-Volt S.A. has been made in order to use in the future the Group's potential on the market of electricity supply to final users, including through the utilization of surplus green and red certificates held by the Group and the related possibility of flexible setting of prices for final users.

Modernization of the Pałnów I Power Plant

As part of modernization of the Pałnów I Power Plant, on 27 July 2012 the Company entered into an agreement with TurboCare Sp. z o.o. for the replacement of complete flow – through systems of low-pressure parts of condensing turbines in units 1-4, together with the replacement or adjustment of the existing auxiliary systems. Subject to other provisions of the agreement, including those relating to contractual penalties, the amount of the fee payable to TurboCare Sp. z o.o. under this agreement is PLN 85 million. Currently the tender procedure is in progress, aimed at selecting the provider of revitalization services for medium and high-pressure turbines 1 and 2. At the same time for the boiler part of blocks the Company has started a process of selecting the provider of technology for modernization of boilers K-1 and K-2 together with construction of NOx reduction installation.

Commissioning of a biomass unit in the Konin Power Plant

In accordance with the strategy providing for, among others, diversification of fuels using technologies which are both economically effective and optimal in terms of their environmental impact, in July 2012 a new 55 MWe biomass block was made available for use in the Konin Power Plant.

Debut on the Warsaw Stock Exchange

On 30 October 2012, Zespół Elektrowni Pałnów-Adamów-Konin S.A. became a company listed on the Warsaw Stock Exchange for the first time. The Company's entering on the stock exchange market completed the long process of its privatization, which began as early as in 1999.

3.2. Significant agreements concluded during the year

Agreements significant for the Company's operations

Presented below is a description of significant agreements concluded by the Company in 2012, excluding those entered into in the course of their ordinary activities, such as, for example, contracts for sale of electricity or for supplies of raw materials.

Agreement for the acquisition of shares in KWB Konin and KWB Adamów from the State Treasury

On 28 May 2012, an agreement was signed between ZE PAK S.A. and the State Treasury of the Republic of Poland, under which ZE PAK S.A. acquired 10,200,000 shares in Kopalnia Węgla Brunatnego Adamów S.A. with a nominal value of PLN 10.00 each, accounting for 85% of the share capital of KWBA S.A., and 20,803,750 shares in Kopalnia Węgla Brunatnego Konin S.A. with a nominal value of PLN 10.00 each, accounting for 85% of the share capital of KWBK S.A. The total purchase price paid for the shares amounted to PLN 175,499,500.00, of which the purchase price of the KWBA S.A. shares was PLN 67,320,000.00 and the purchase price of the KWBK S.A. shares was PLN 108,179,500.00. The agreement was made conditional on acquiring consent from the President of the Competition and Consumers Protection Office, which was granted on 16 July 2012. The transfer of ownership of the above-mentioned shares of KWBA S.A. and KWBK S.A. took place on 18 July 2012, upon the payment of the total purchase price by ZE PAK S.A.

In accordance with the provisions of the share sale agreements, ZE PAK S.A. committed to incur capital expenditures for the property, plant and equipment of the acquired companies or their subsidiaries as well as their operations related to prospecting, evaluation, extraction of lignite and accompanying minerals, their supply to customers and generation of electricity, for a total amount of PLN 250 million by 31 December 2016. ZE PAK S.A. has committed to retain the ownership of the shares acquired from the State Treasury until that date.

Agreement for acquisition of shares in Elektrim-Volt S.A.

On 1 October 2012, ZE PAK S.A. acquired, through TRIGON Dom Maklerski S.A., 2,950,000 shares in Elektrim-Volt S.A. with a nominal value of PLN 10.00 each, representing 100% of the share capital of Elektrim-Volt S.A. and giving rights to 100% of votes at its General Meeting, for the total purchase price of PLN 118,500,000.

Agreement for modernization of units 1-4 in the Pałnów I Power Plant

On 27 July 2012, the Company entered into an agreement with TurboCare Sp. z o.o. for the replacement of complete flow through systems of low-pressure parts of condensing turbines in systems 1-4, together with the replacement or adjustment of the existing auxiliary units. Subject to other provisions of the agreement, including those relating to contractual penalties, the amount of the fee payable to TurboCare Sp. z o.o. under this agreement is PLN 85,000,000.

Agreements for loans received

In 2012, the Company signed the following loan agreements:

1. As at 16 February 2012 ZE PAK S.A. extended bank overdraft agreement with ING Bank Śląski S.A. until 28 March 2013. The overdraft limit available is PLN 30,000 thousand. The interest rate is WIBOR 1M plus the bank's margin.
2. Annex No. 25 with BZ WBK S.A., which extended the deadline for the repayment of overdraft until 30 November 2013. The overdraft limit available is PLN 5,000 thousand, the interest rate is WIBOR 1M plus the bank's margin. The repayment date is 30 November 2013.
3. Annex No. 7 with PEKAO S.A. extending the deadline for the repayment of overdraft until 30 September 2013 and increasing the available overdraft limit to PLN 80,000 thousand. The interest rate is WIBOR 1M plus the bank's margin. The repayment date is 30 September 2013.
4. Annex No. 12 with PKO BP S.A. extending the deadline for the repayment of overdraft until 25 October 2013 and increasing the available overdraft limit to PLN 90,000 thousand. The interest rate is WIBOR 1M plus the bank's margin. The repayment date is 25 October 2013.

Agreements for loans granted

The Company did not grant any loans in 2012.

Guarantees and suretyships granted and received

The Company did not grant any guarantees or suretyships in 2012.

Table 2: Listing of guarantees and suretyships received by the Company in 2012

No.	Type	Issuer	Beneficiary	Requesting party	Amount in PLN thousand	Valid until
1.	Guarantee of proper performance	ING Bank Śląski S.A.	ZE PAK S.A.	Foster Wheeler Energia Polska Sp. z o.o.	12,669 PLN	15.06.2015
2.	Guarantee of proper performance	ING Bank Śląski S.A.	ZE PAK S.A.	Foster Wheeler Energia Polska Sp. z o.o.	1,053 EUR	15.06.2015
3.	Guarantee of proper performance	Deutsche Bank Polska S.A.	ZE PAK S.A.	Balcke-Durr Polska Sp. z o.o.	141 PLN	8.08.2014
4.	Guarantee of proper performance	Pekao S.A.	ZE PAK S.A.	Turbo Care Sp. z o.o.	3,960 PLN	14.11.2014
5.	Guarantee of proper performance	Pekao S.A.	ZE PAK S.A.	Turbo Care Sp. z o.o.	3,780 PLN	14.02.2015

6.	Guarantee of the refund of an advance	Pekao S.A.	ZE PAK S.A.	Turbo Care Sp. z o.o.	2,706 PLN	30.06.2014
7.	Guarantee of the refund of an advance	Pekao S.A.	ZE PAK S.A.	Turbo Care Sp. z o.o.	2,583 PLN	30.09.2014
8.	Guarantee securing electricity supplies	BRE Bank S.A.	ZE PAK S.A.	Elektrim Volt S.A.	974.7 PLN	25.01.2013

Insurance contracts

Presented below are significant insurance contracts signed by the Company in 2012.

1. The Company has signed a Contract for Insurance of the Konin Power Plant with the Coinsurers' Consortium comprising: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Towarzystwo Ubezpieczeń i Reasekuracji „Warta” S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and Generali Towarzystwo Ubezpieczeń S.A. The sum insured under this contract is PLN 1,652,981 thousand. The contract is valid until 31 December 2013.
2. The Company has signed a Contract for Insurance of the Pątnów I Power Plant with the Coinsurers' Consortium comprising: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Towarzystwo Ubezpieczeń i Reasekuracji „Warta” S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and Generali Towarzystwo Ubezpieczeń S.A. The sum insured under this contract is PLN 6,203,325 thousand. The contract is valid until 31 December 2013.
3. The Company has signed a Contract for Insurance of the Adamów Power Plant with the Coinsurers' Consortium comprising: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and Generali Towarzystwo Ubezpieczeń S.A. The sum insured under this contract is PLN 3,463,339 thousand. The contract is valid until 31 December 2013.

Non-arm's length contracts with related parties

In 2012, the Company did not enter into any non-arm's length contracts with related parties.

3.3. Implementation of investment program

In 2012 investment projects were realized in accordance with the approved investment plan. Capital expenditures amounted to PLN 218.6m, the projects were financed from Company's own funds.

Key investment projects in the implementation phase

The Konin Power Plant

The most important investment projects carried out in 2012 related to construction of a biomass-fired power unit in the Konin Power Plant. On 10 July 2012, the main projects related to the construction of a biomass boiler were made available for use:

“Construction of a boiler for combustion of biomass in the Konin Power Plant”

The biomass boiler constructed minimized environmental burden by generating electricity using renewable sources – i.e. generating “green energy” using biomass. The boiler combusts 100% of biomass in the following proportion: 80% wood biomass and 20% agricultural biomass. The implementation of this project made it possible to achieve the following permitted levels of emission of harmful substances from the boiler: $\text{NO}_x \leq 200\text{mg/ Nm}^3$, $\text{SO}_2 \leq 200\text{mg/ Nm}^3$, $\text{dust} \leq 30\text{mg/ Nm}^3$.

“Reconstruction of the engine room and cooling water system in the Konin Power Plant”

The TG6 turbine works together with the new biomass boiler as a unit system and generates “green energy”. The main aims attained as a result of to this modernization are as follows:

- the turboset’s life cycle has been extended,
- rated power has been maintained at a level of not less than 55 MWe,
- the efficiency ratios of the individual turboset components have been improved and lower levels of unit heat consumption for the turboset working at its nominal power have been achieved,
- operational flexibility of the power „unit” has been increased,
- a high level of operational reliability and high availability ratios at a level > 97% (turbine with auxiliary systems) have been achieved,
- operational facility and safety of work has been improved,
- maximum economic benefits have been achieved through optimization of the scope of modernization and a reasonable use of the existing devices, sub-assemblies and units in relation to the economic results arising from the achievement of the above-mentioned targets (the increase of output power, efficiency, flexibility etc.)

“Construction of a biomass storage yard in the Konin Power Plant”

Due to the construction of a boiler for combustion of biomass it was necessary to ensure fuel supplies for the new boiler. For this reason, a biomass storage yard together with a biomass preparation and transportation system was built.

“Oil management system in the Konin Power Plant”

The aim of the construction of oil management system was to secure furnace oil supplies for the newly constructed biomass boiler in the Konin Power Plant. A number of other projects relating to general management necessary for the operation of a biomass boiler were also being carried out.

The PaŃnów I Power Plant

The most important investment projects carried out in 2012 related to modernization of units 1-4. Modernization activities undertaken with respect to the existing 200 MW power units in the PaŃnów I Power Plant to enable operation of units 1-5 through at least 2025 were continued. They will result in the improvement of the safety of operation of the equipment as well as the efficiency of electricity generation while complying with environmental requirements. These modernization projects include:

“Construction of a unit reducing NOx emission on the K-5 boiler in the PaŃnów Power Plant”

The aim of modernization of the K-5 coal-fired pulverized-fuel boiler is to reduce NOx emission to the level of 200 mg/ Nm³ using primary methods and below 180 mg/ Nm³ using the secondary method involving the use of carbamide. Currently measurements have been made by an independent company and we are waiting for a report on these measurements along with an assessment of the results of modernization of the K-5 boiler.

“A system for emergency ash removal from power units 1-4 in the PaŃnów Power Plant”

This investment project has been completed. Its aim was to enable emergency discharge of ash from electrostatic filters of power units 1-4 to dredge pumping stations through handling containers.

“Modernization of the fire-fighting water pumping station in the PaŃnów Power Plant”

The investment project was continued. Its aim is to adjust the fire-fighting water sources in the PaŃnów Power Plant to current regulations. Modernization of the pumping station will make it possible to comply with the requirements of insurance companies to submitting a guarantee that the insured facilities are provided with fire-fighting water.

“Modernization of the TG-1 turbo generator in the PaŃnów Power Plant” and “Modernization of the TG-2 turbo generator in the PaŃnów Power Plant”

The implementation of these investment projects has been started. Modernization of all three parts of the turbines, i.e. the high-pressure (HP), medium-pressure (MP) and low-pressure (LP) parts as well as the mechanical part of the generators will result in the increase of gross efficiency of the power units from 32.9% (data for 2011) to approx. 37.5%, and consequently in the increase of gross electric power. Modernized units 1 and 2 (turbo generators) will work as primary units and will fully comply with the system requirements set by PSE Operator S.A. for Centrally Dispatched Power Generating Units (CDPGU) in accordance with the requirements of the Instructions for Operation and Use of the Transmission Network. Modernization of TG-1 and TG-2 will enable generation of electricity with an improved efficiency for about another 15 years of their use.

“Construction of coal loading system from unit 9 in the PaŃnów Power Plant”

Permit was obtained for the construction of a coal loading system for units 1-6 from unit 9. It is part of the permit for the construction of power units 1-4. The aim of this project is to ensure a reliable technological system for the supply of primary fuel to the boilers of power units 1-6.

*„Migration of the WDPF system of block 1 to OVATION system in Elektrownia Pątnów” and
„Migration of the WDPF system of block 2 to OVATION system in Elektrownia Pątnów”*

These investment projects have been completed. They were carried out as part of preparation of the system of central control of units 1 and 2 to the planned modernization of these units. In addition, the units had to be prepared for operating in the system according to the new instructions for operation and use of transmission networks.

Key investment projects in the preparation phase

The Konin Power Plant

During the year under review, the Company's Chief Designer, Biuro Studiów, Projektów i Realizacji ENERGOPROJEKT-KATOWICE S.A., prepared the "Programmatic and spatial concept of construction of a gas and steam power unit (GSU) in the Konin Power Plant" for the purpose of selecting the optimal option of modernization including:

- proposed configuration of the gas and steam power unit (GSU)
- power evacuation concepts (subcontractor: Energoprojekt Kraków)
- boiler and heat water preparation systems
- cooling system
- thermal energy evacuation
- general plan (including: fuel supply - Biuro Studiów i Projektów Gazownictwa GAZOPROJEKT S.A.)
- implementation schedule
- capital expenditures
- economic analysis

The Company is continuing work related to preparation of documentation necessary for further stages of the investments realization.

3.4. Risk management

While conducting its business, the Company is exposed to a number of actual, potential or theoretical risks specific to the industry and markets in which the Company operates. These risks arise from sources located both within the Company and in its external environment. They may be divided into risks which exist all the time within each period and those of an incidental nature. In order to identify specific types of risk and develop appropriate procedures, the Company adopted and implemented a comprehensive document called "Risk Management Principles".

As part of these rules, specific roles were defined along with the scope of responsibilities for decisions and activities related to trading strategy and market policy. In order to maintain the integrity of the adopted rules, certain tasks were organized in accordance with the concept of functional division. The Company intends to take market risk to achieve its business goals, however only to the extent allowed by the adopted document.

All types of business risk and the exposure to market risk are being all the time minimized unless explicitly authorized by the adopted rules. The main business goals of the Company have been defined as follows:

- realization of the annual budget plan;
- achieving the highest possible net profit;
- achieving the highest possible profit from generation of electricity using biomass, under the condition that such electricity generation should not be at the expense of overall profitability of the power plant.

Specific risk areas were identified in the Company as part of its risk management:

- price risk – possibility of incurring a loss due to unfavorable changes in market price;
- credit risk / counterparty risk – possibility of incurring a loss due to the counterparty's default or decrease of its credit rating (e.g. loss of liquidity in payments, in particular with respect to long-term contracts and derivative instruments);
- volume-related risk – possibility of incurring a loss due to unplanned or unexpected changes in the volume of goods covered by a transaction;
- market liquidity risk – possibility of incurring a loss due to inability to carry out a transactions at the required amounts and time due to market liquidity;
- basic risk – possibility of incurring a loss due to changes in the value of the risk assumed and not eliminated by simultaneous and opposite changes in the value of hedging instruments;
- financial risk – possibility of incurring a loss due to unpredictable changes in market interest rates and foreign exchange rates.

For each of the risks as identified above, various forms of activity were developed to minimize or eliminate such risk, appropriate risk measures were assigned and, where possible, the so-called key performance ratio i.e. the minimum level of hedging was defined. In accordance with the adopted principles, the Company does not use Delta, MtM (Mark-to Market – analysis of the investment value in relation to the current market value) or VaR techniques to assess each type of risk. Due to the Company's assessment which shows that a number of significant regulatory changes have been made within a short period of time and they are still being made, the immaturity of the Polish electricity market and the considerable impact of the Energy Regulatory Office (Urząd Regulacji Energetyki - URE) on the Polish energy market, we believe that alternative measurements are advisable at the current stage. Under the present circumstances, the best instrument to verify and determine the level of risk is a periodic assessment of risks performed by internal and external experts. The Company actively monitors the market, requests market research together with market assessments and plans to implement further up-to-date quantitative risk assessments once it becomes possible sufficiently rely on market data.

3.5. Description of the utilization of proceeds from the issue of debentures

The Company did not issue any securities/debentures in 2012.

3.6. Employment

The level of employment in the Company as at the year end of 2012 (on a FTE basis) amounted to 1,274.3, which represents an increase by 2.2% in comparison with employment level as at year-end of 2011. The average level of employment in 2012 amounted to 1 265.5 (on a FTE basis), which is an increase by 6.7% in comparison with prior year data.

The main reason for increase in employment level at the year-end of 2012 was the transition of workers of liquidated company PAK Biopaliwa sp. z o.o. to ZE PAK S.A. An increase in the average employment, except for the aforementioned cause, is also related to merger with the Company's subsidiary PAK Odsiarczanie sp. z o.o. Although the combination took place a year ago and the employment level at the end of 2011 already reflects that, however the average level of employment reflects the effect of merger with a 1-year delay.

Table 2: Employment

Details	2012	2011	Change	
	FTEs	FTEs	FTEs	%
Employment at the year-end	1,274.3	1,247.3	27.0	2.2
Average employment for the year	1,266.5	1,183.8	82.7	7.0

4. Main business risks

While operating in market environment the Company is exposed to a number of risks. The most important factors constantly affecting the results of the companies in the ZE PAK Company include:

- macroeconomic trends in Polish economy and demand for electricity;
- regulatory environment;
- prices of electricity;
- energy certificates;
- fuel cost, coal extraction cost;
- CO2 emission allowances;
- seasonality and weather conditions;
- capital expenditures;

Macroeconomic trends in Polish economy and demand for electricity

While operating in Poland and earning majority of revenues from sale of electricity it is necessary to take into consideration macroeconomic trends in Polish economy. Of particular importance is the increase in the GDP in real terms as well as increase of industrial production in Poland, development of the services sector and growth in individual consumption. All the factors mentioned above have a significant impact on the demand for electricity and its consumption.

Regulatory environment

Entities operating on the electricity market and in the mining sector are subject to strict regulations of the Energy Law, Regulations and directives of the European Commission and international conventions relating to, among others, environmental protection and climate changes (including CO₂ emission), the obligation to sell part of generated electricity to the public as well as support for specific electricity generation technologies. The provisions of the tax law and the interpretations and recommendations issued by the Energy Regulatory Office should also be taken into consideration.

Prices of electricity

The Company earns majority of its revenues from generation and sale of electricity; therefore, the price for which electricity is sold is very important for the results of its operations. In addition, the Company purchases energy on the electricity market (including the exchange and balancing market) and sells it to customers.

Energy certificates

Due to the fact that part of electricity generated comes from combustion of a mixture of biomass (both forest and agricultural) and additionally highly efficient cogeneration is used to generate heat, the generator, upon fulfilling specific regulatory requirements, is entitled to green and red certificates. The number of acquired energy certificates is significantly higher than the number of such certificates that must be submitted for redemption by the Company; hence, surplus certificates can be sold to other market participants. Taking into consideration the fact that the cost of generation of electricity using a mixture of biomass is significantly higher than the cost of generation of electricity using lignite, the Management monitors, on an ongoing basis, the relevant economic parameters, including market price of energy certificates and the relative cost of electricity generation, in order to assess the profitability of generation of electricity using a mixture of biomass.

Fuel cost, coal extraction cost

Fuel cost is the most significant part of the costs of generation of electricity and heat in the Company. To a large extent, fuel prices determine the competitiveness of the particular electricity generation technologies. The Company's power plants generate majority of electricity using lignite, but they also use forest and agricultural biomass. In addition, heavy and light furnace oil is also used to a small extent in the process of electricity generation for firing purposes. As a result of acquiring two lignite mines, KWBA S.A. and KWBK S.A., which are the only suppliers of lignite to the Company, the mines owned by the Company cover all of the generation assets' requirements

for this main fuel, which makes Company independent of external suppliers and eliminates its exposure to potential fluctuations in the prices of lignite. Nevertheless, the Company is exposed to fluctuations in the prices of other fuels used by its companies (especially biomass). Moreover, a significant part of the costs of extraction of lignite depends on factors which, to a significant extent, are beyond the direct control of the Company.

CO2 emission allowances

Operations related to generation of electricity and heat using conventional sources, and consequently the results of operations, depend to a significant extent on the amount of free-of-charge CO2 emission allowances granted in a given period. CO2 emission allowances (EUAs) are acquired by way of a free-of-charge allocation under the National Allocation Plan (NAP); they may also be purchased on the market. In the event of exceeding the caps set for free-of-charge CO2 emission allowances caps, the Group is required to purchase the missing number of additional CO2 emission allowances on the market.

Seasonality and weather conditions

The demand for electricity and heat, especially from consumers, is subject to seasonal fluctuations. In general, electricity consumption increases in the wintertime (mainly due to low temperatures and short days) and decreases in the summertime (due to higher temperatures and longer days). Over the recent years, an increase in the demand for electricity in the summertime has systematically been noted due to an increasing use of air conditioning and cooling devices. Likewise, sales of heat are significantly higher during the cold period, which usually lasts from October to March.

However, the Company's operations are not seasonal in nature; therefore, there are no significant fluctuations in its results during the year. Due to low costs, power units are operated on a continuous basis, without any idle times caused by seasonal fluctuations in the demand.

Capital expenditures

Operations related to electricity generation require significant capital expenditures. The Company's generation assets require periodic overhauls and ongoing modernization, both due to the increasing environmental protection requirements as well as the need to increase the efficiency of electricity generation. The level of capital expenditures both had and is still expected to have a significant impact on the results of operating activity, the level of debt and cash flows. Delays in the implementation, changes in the investment program and exceeding of the budget may have a serious effect on the Company's capital expenditures to be incurred in the future as well as on the results, financial position and development perspectives.

5. Description of the financial position.

5.1. Basis of preparation of the financial statements

Zespół Elektrowni Państw-Adamów-Konin S.A. prepares financial statements in accordance with the Accounting Act dated 29 September 1994.

Company's financial statements were prepared on a going concern basis for a foreseeable future. As at the day of preparation of financial statements there are no circumstances that would indicate threats to the Company's continued activity.

Accounting principles (policy) adopted for preparation of financial statements are presented in point no. 5 of additional notes and explanations to financial statements of ZE PAK S.A. for the year ended 31 December 2012.

5.2. Description of basic economic and financial ratios

Profit and loss statement

Table 3: Selected positions of profit and loss statement

REVENUES, COSTS, PROFITS AND LOSSES	2012	2011	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Net revenues from sales of products, goods and materials, including:	2,016,188	2,084,679	-68,491	-3.29
<i>Net revenues from sales of product</i>	<i>1,844,304</i>	<i>1,895,971</i>	<i>-51,667</i>	<i>-2.73</i>
<i>Net revenues from sales of goods and materials</i>	<i>17,884</i>	<i>188,708</i>	<i>-16,824</i>	<i>-8.92</i>
Cost of goods and materials sold, including:	1,671,181	1,676,997	-5,816	-0.35
<i>Cost of finished goods sold</i>	<i>1,517,151</i>	<i>1,500,959</i>	<i>16,192</i>	<i>1.08</i>
<i>Cost of goods for resale and raw materials sold</i>	<i>154,030</i>	<i>176,038</i>	<i>-22,008</i>	<i>-12.50</i>
Gross profit (loss) on sales	345,007	407,682	-62,675	-15.37
Selling expenses	2,725	18,975	-16,250	-85.64
Administrative expenses	49,631	46,789	2,842	6.07
Profit (loss) on sales	292,651	341,918	-49,267	-14.41
Other operating income	12,322	5,574	6,748	121.06
Other operating expenses	50,567	41,520	9,047	21.79
Operating profit (loss)	254,407	305,972	-51,565	-16.85
Finance income	88,557	63,785	24,772	38.84
Finance costs	15,232	19,064	-3,832	-20.10
Profit before tax	327,732	350,693	-22,961	-6.55
Gross profit (loss) on ordinary activities	327,732	350,693	-22,961	-6.55
Corporate profit tax	52,720	66,947	-14,227	-21.25
Net profit/ (loss)	275,013	283,746	-8,733	-3.08

Net revenues from sales of products, goods and materials in 2012 amounted to PLN 2,016,188 thousand and decreased in comparison with 2011 by PLN 68,491 thousand i.e. by 3.29%. The decrease in revenue was mainly caused by:

- Lower revenues from sale of own electricity by PLN 28,011 thousand as a result of lower volume of sales by 0.23 TWh, i.e. by 3%. Lower by 0.36 TWh volume of sales of electricity produced using lignite was partially offset by higher by 0.12 TWh volume of sold electricity produced using biomass. Lower volume of energy produced using lignite was a consequence of restrictions on lignite extraction in KWB Adamów. Half of the decrease due to lower production in Elektrownia Adamów was covered by 6% higher sales in Elektrownia Pałnów.
- Lower revenues from sales of electricity from the market by PLN 15,114 thousand, i.e. by 8.31% which was caused by lower volume of energy purchased for resale by 0.89 TWh despite slightly higher price received by 1.52%
- Lower income from services rendered, mainly in relation to related parties, by PLN 23,298 thousand, i.e. by 17.93%. The main reason was lower revenue from Elektrownia Pałnów II from maintenance services of 460MW block, which was a result of different renovation periods in these years. In 2011 a medium overhaul was carried out which lasted 40 days whereas in 2012 current renovations were carried out that lasted 14 days.

A detailed breakdown of sales is included in the table below.

Table 4: Revenues from sales

Sales Revenues	2012	2011	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Sales of products	1,844,304	1,895,971	-51,667	-2.73
Revenues from sales of goods	1,737,651	1,766,021	-28,370	-1.61
Electricity	1,534,363	1,572,923	-38,560	-2.45
Revenue from origin certificates	129,896	121,407	8,489	6.99
Exchange of EUAs for CERs	19,137	21,873	-2,736	-12.51
Revenue of sale of heat	54,255	49,818	4,437	8.91
Sales of services	106,652	129,950	-23,298	-17.93
Revenue from sales of goods for resale and materials	171,884	188,708	-16,824	-8.92
Revenue from sale of goods for resale (electricity)	166,797	181,911	-15,114	-8.31
Revenue from sale of materials	5,087	6,796	-1,709	-25.15
Sales revenue, including:	2,016,188	2,084,679	-68,491	-3.29
Electricity (products and goods for resale)	1,701,160	1,754,834	-53,674	-3.06

Cost of goods sold in 2012 amounted to PLN 1,517,151 thousand and increased in comparison with 2011 by PLN 16,192 thousand, i.e. by 1.08%. The level of cost was influenced mainly by:

- Higher variable costs by PLN 33,056 thousand mainly due to higher volume of green energy produced by 0.12 TWh and higher biofuel prices by 3.97% as well as increasing statutory requirement to increase the share of agricultural biomass, of which share increased by 15% in comparison with 2011.
- Lower fixed costs by PLN 16,864 thousand, mainly due to maintenance services, which decline was compensated by an increase in depreciation charges by PLN 18,194 thousand, i.e. by 32.16% mainly due to commissioning of new investments and verification of depreciation rates as at the balance sheet date mainly in relation to Desulfurization Installation, which was included in ZE PAK S.A.'s assets at the year-end of 2011.

Cost of goods for resale and materials sold in 2012 amounted to PLN 154,030 thousand and was lower by PLN 22,008 thousand in comparison with prior year due to lower volume of electricity purchased for resale by 0.89 TWh.

Selling and distribution expenses in 2012 amounted to PLN 2,725 thousand and were lower by PLN 16,250 thousand, i.e. by 85.64%. Their significant decrease was mainly caused by the change in the way of the remuneration for electricity brokers were paid (resignation of commission payments).

Administrative expenses in 2012 amounted to PLN 49,631 thousand and were higher in comparison with prior year by 6.1% mainly due to costs related to IPO.

Other operating costs in 2012 amounted to PLN 50,567 thousand and were higher in comparison with 2011 by PLN 9,047 thousand, i.e. by 21.79%. The most significant position among other operating expenses was impairment write-downs against inventories in the amount of LN 35,051 thousand, which was related mainly to green certificates in the amount of PLN 33,838 thousand due to their valuation at market price.

In 2012 ZE PAK S.A.'s operating profit amounted to PLN 254,407 thousand, and was lower in comparison with profits in 2011 by PLN 51,565 thousand, i.e. by 16.85%. Lower operating profit was caused by a decrease in operating revenues in general by PLN 61,743 thousand, while a decrease in operating expenses in general amounted to PLN 10,177 thousand.

A positive results on financing activities positively affected the Company's results in 2012, finance income exceeded finance expenses by PLN 73,325 thousand, mainly due to dividends received in the amount of PLN 52,728 thousand, including dividends from subsidiaries amounting to PLN 52,674 thousand and gain on sale of shares of Towarowa Giełda Energii in the amount of PLN 20,649 thousand.

Gross profit in 2012 amounted to PLN 327,732 thousand, and was lower in comparison with prior year by PLN 22,961 thousand, i.e. by 6.55%.

Taking into account the income tax, net profit for the year 2012 amounted to PLN 275,013 thousand. In comparison with prior year it decreased by PLN 8,733 thousand, i.e. by 3.08%.

Balance sheet

Total assets of the Company as at 31 December 2012 amounted to PLN 3,145,230 thousand, and increased in comparison to 31 December 2011 by PLN 109,085 thousand, i.e. by 3.59%.

Table 5: Selected positions of assets

Assets	2012	2011	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Non-current assets	2,781,453	2,414,449	367,004	15.20
Intangible assets	9,617	60,434	-50,817	-84.09
Property, plant and equipment, of which:	1,526,384	1,380,716	145,668	10.55
Fixed assets	1,426,723	792,228	634,495	80.09
Assets under construction	95,782	586,767	-490,985	-83.68
Long-term investments	1,241,497	968,898	272,599	28.13
Long-term prepayments and deferred costs	3,956	4,400	-444	-10.09
Current assets	363,778	621,696	-257,918	-41.49
Inventories, of which:	151,429	144,966	6,463	4.46
Materials	43,808	27,433	16,375	59.69
Goods for resale	107,620	117,502	-9,882	-8.41
Short-term receivables	148,476	162,459	-13,983	-8.61
Short-term investments	63,133	312,649	-249,516	-79.81
Short-term financial assets, of which:	63,133	312,649	-249,516	-79.81
In affiliates	15,281	16,894	-1,613	-9.55
In other entities, of which:	0	3,529	-3,529	-100.00
cash and other monetary assets	47,851	292,226	-244,375	-83.63
Short-term prepayments and deferred costs	740	1,622	-882	-54.38
Total assets	3,145,230	3,036,145	109,085	3.59

The most significant changes in assets were related to non-current assets which increased by PLN 367,004 thousand, i.e. by 15.20 % mainly in the following positions:

- Intangible assets, which net book value decreased by PLN 50,817 thousand mainly due to the exchange EUAs for CERs and redemption of CER units for the year 2011;
- Property, plant and equipment which net book value increased by PLN 145,668 thousand as a difference between capital expenditures in 2012 and depreciation charges;
- Long-term investments increased by PLN 271,599 thousand as a result of acquisition of mines and Elektrim-Volt S.A. and disposal of shares of Towarowa Giełda Energii.

Current assets decreased by PLN 257,918 thousand, i.e. by 41.49%. The most significant change related to cash and cash equivalents, which decreased by PLN 244,375 thousand, i.e. by 83.63%. The explanation of changes in cash is presented in next chapter related to cash flow statement.

Table 6: Selected positions of liabilities and equity

LIABILITIES AND EQUITY	2012	2011	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Equity	2,594,021	2,350,288	243,733	10.37
Share capital	104,052	104,052	0	0.00
Treasury shares (negative value)	-31,280	0	-31,280	0.00
Reserve capital	1,956,261	1,671,610	284,651	17.03
Revaluation reserve	287,337	288,242	-905	-0.31
Other reserves	3,472	3,472	0	0.00
Accumulated profits (losses) from previous years	-834	-834	0	0.00
Net profit (loss) for the period	275,013	283,746	-8,733	-3.08
Liabilities and provisions for liabilities	551,210	685,857	-134,647	-19.63
Provisions for liabilities	157,089	192,220	-35,131	-18.28
Deferred tax liability	36,682	26,308	10,374	39.43
Provision for retirement benefits and similar obligations	87,871	75,224	12,647	16.81
Other provisions	32,537	90,687	-58,150	-64.12
Long-term liabilities	75,408	115,323	-39,915	-34.61
To affiliates	0	0	0	0.00
To other entities, of which:	75,408	115,323	-39,915	-34.61
Loans	75,060	115,270	-40,210	-34.88
Other financial liabilities	50	49	1	2.04
Other	298	4	294	7,350.00
Short-term liabilities	284,538	342,921	-58,383	-17.03
To affiliates	108,163	86,659	21,504	24.81
To other entities, of which:	172,071	252,021	-79,950	-31.72
Loans	47,913	65,172	-17,259	-26.48
Other financial liabilities	77	219	-142	-64.84
Trade liabilities	43,504	82,030	-38,526	-46.97
Advance payments received	30	335	-305	-91.04
Taxation, customs duty and social security creditors	62,692	52,016	10,676	20.52
Payroll	3,759	3,700	59	1.59
Other	14,094	48,549	-34,455	-70.97
Special funds	4,305	4,241	64	1.51
Accruals and deferred income	34,174	35,394	-1,220	-3.45
Total liabilities and equity	3,145,230	3,036,145	109,085	3.59

The most significant increase in liabilities and equity in the amount of PLN 243,733 thousand, i.e. by 10.37% related to equity. Movements in equity in 2012 were a result of the following facts:

- appropriation of the profit for the year 2011, transferred to reserve capital of the Company,
- purchase of treasury shares in relation to the stabilizing activities of the Company's share price, which was further described in point 9.2 of this report (negative value).

The provisions for liabilities as at the year-end of 2012 amounted to PLN 157,089 thousand and were lower in comparison with prior year by PLN 35,131 thousand. Main changes were related to the following positions:

- deferred tax liability which increased by PLN 10,374 thousand;
- provision for retirement benefits and similar obligations, which increased by PLN 12,647 thousand due to the lower discount rate used for calculation;
- other provisions, which decreased by PLN 58,150 thousand mainly due to CO2 emission rights provision which decreased by PLN 50,340 thousand.

Long-term liabilities decreased by PLN 39,915 thousand mainly as a result of decrease in loans and borrowings, which decreased by PLN 40,210 thousand.

Short-term liabilities decreased by PLN 58,383 thousand mainly due to the decrease in liabilities related to investment projects by PLN 37,574 thousand and level of loan and borrowings which decreased by PLN 17,259 thousand.

Cash flow statement

Table 7: Selected positions of cash flow statement

Item	2012	2011	Change	Dynamics
	in PLN thousand	in PLN thousand	in PLN thousand	%
Cash flow from operating activities				
Net profit (loss)	275,013	283,746	-8,733	-3.08
Adjustments total	27,358	-23,468	50,826	-216.58
Depreciation	74,773	56,579	18,194	32.16
Foreign exchange gains (losses)	10,193	-11,784	21,977	-186.50
Interest and shares in profits (dividends)	-45,288	-6,950	-38,338	551.63
Profit (loss) on investing activities	-32,041	26,673	-58,714	-220.13
Change in provisions	15,209	-2,838	18,047	-635.91
Change in inventories	-6,463	-52,612	46,149	-87.72
Change in receivables	13,983	-28,328	42,311	-149.36
Change in prepayments, accruals and deferred income	107	496	-389	-78.43
Net cash flow from operating activities	302,371	260,278	42,093	16.17

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Cash flow from investing activities				
Inflows	108,035	584,735	-476,700	-81.52
Sale of intangible assets and tangible fixed assets	4,567	3,572	995	27.86
From financial assets, of which:	103,468	561,510	-458,042	-81.57
in affiliates	79,236	559,823	-480,587	-85.85
in other entities	24,232	1,687	22,545	1,336.40
sale of financial assets	24,178	0	24,178	0.00
dividends and shares in profits	54	1,687	-1,633	-96.80
Other investing inflows	0	19,653	-19,653	-100.00
Outflows	554,454	385,761	168,693	43.73
Purchase of intangible assets and tangible fixed assets	258,695	369,259	-110,564	-29.94
For financial assets, of which:	295,759	15,900	279,859	1 760.12
in affiliates	295,759	15,900	279,859	1 760.12
Other investing outflows	0	602	-602	-100.00
Net cash flow from investing activities	-446,420	198,974	-645,394	-324.36
Cash flow from financing activities				
Inflows	0	0	0	0.00
Outflows	99,889	456,597	-356,708	-78.12
Re-acquisition of treasury shares	31,280	0	31,280	0.00
Repayment of loans and borrowings	57,828	422,963	-365,135	-86.33
Finance lease payments	232	4,907	-4,675	-95.27
Interest paid	10,550	28,727	-18,177	-63.27
Net cash flow from financing activities	-99,889	-456,597	356,708	-78.12
Total net cash flow	-243,938	2,655	-246,593	-9,287.87
Balance sheet change in cash and cash equivalents, of which:	-244,375	2,111	-246,486	-11,676.27
change in cash and cash equivalents due to foreign exchange gains/losses	-437	-544	107	-19.67
Cash and cash equivalents at the beginning of the period	291,937	289,282	2,655	0.92
Cash and cash equivalents at the end of the period, of which:	47,998	291,937	-243,939	-83.56
of restricted use	3,435	28,505	-25,433	-89.22

The Company in 2012 generated a positive net cash flow from operating activities in the amount of PLN 302,371 thousand.

The net cash flow from investing activities was negative and amounted to PLN 446,420 thousand. Investing inflows, which amounted to PLN 108,035 thousand mainly related to inflows from dividends, repayment of borrowings granted to related parties and from sale of shares of

Towarowa Giełda Energii. Outflows in the amount of PLN 554,454 thousand mainly comprised outflows for purchases of tangible and intangible assets as well as outflows related to purchase of mines and Elektrim-Volt S.A.

In 2012 there were no inflows from financing activities. However, financing outflows mainly related to finance debt service – the outflows for this purpose amounted to PLN 68,610 thousand, and for purchase of treasury shares in the process of stabilizing the share price – the outflows for this purpose amounted to PLN 31,280 thousand.

Cash and cash equivalents in 2012 decreased by PLN 243,939 thousand, and as at year-end amounted to PLN 47,998 thousand.

Financial Ratios

Financial ratios are presented in the following table.

Table 8: Financial ratios

Ratio	unit	2012	2011	Change	Dynamics %
ROE	%	10.60	12.07	-1.47	-12.2
ROA	%	8.74	9.35	-0.60	-6.4
Return on sales (net profit margin)	%	13.64	13.61	0.03	0.2
Total debt ratio	x times	0.18	0.23	-0.05	-21.7
Liquidity I	x times	1.28	1.81	-0.53	-29.3

The return on equity ratio (ROE) for the year 2012 decreased in comparison with prior year by 12.2% reaching level of 10.6. The reason for this is an increase in Company's equity related to prior year's net profit and at the same time minimal drop of net profit for the year 2012 in comparison to net profit for the year 2011. The similar mechanism triggered in relation to ROA (return on assets) ratio, however the increase in equity was partially compensated by a decrease in liabilities and provisions for liabilities. ROA reached a level of 8.74 which means 6.4% decrease in comparison with value noted in the year 2011.

In relation to return on sales ratio (net profit margin) there were no significant changes. Both revenues and net profit in 2012 did not differ significantly from the values recorded in the previous year. As a result, return on sales ratio at the end of the year 2012 reached a level of 13.64 in comparison with 13.61 in prior year.

Debt ratio which shows the ratio of liabilities to total assets as at the year-end of 2012 reached a level of 0.18 which means a decrease in comparison with 0.23 as at year-end of 2011. The high level of safety of the debt ratio in both 2012 and 2011 should be noted.

The Liquidity I ratio, which indicates the level of coverage of liabilities with current assets, as at year-end 2012 amounted to 1.28. Although the significant decrease of this ratio in comparison with level recorded in 2011 the Company did not have any problems with settlement of its liabilities on time. Lower level of the ratio is mainly the effect of large acquisition expenses and investing outflows recorded in 2012.

5.3. Description of factors affecting current and future results of operations

The results of the Company as a generator of electricity and which sells its product on the wholesale electricity market, including the Polish Power Exchange, are fully governed by and dependent on the behavior of all market participants. The price of electricity on the wholesale market is created by all entities participating in the trading on this market and one of its participants, even if relatively big, such as ZE PAK Company, is able to have an individual influence on its level. From the production perspective, in turn, the decreasing dynamics of the economic growth, leading to a decrease in the demand for electricity in Poland, does not represent a significant threat for the volume of energy generated by the Company due to low variable costs of generation of electricity by the Company as well as the Company's geographical location.

Taking into account current market trends, observations of macroeconomic conditions and the position of the power generation sector, a decrease can be noted in the prices of both electricity as well as the most popular energy certificates and CO2 emission allowances. The decrease in the prices has an impact on both the current and future results of the ZE PAK Company; however, due to the specific nature of the Group, whose main revenue is derived from generation and sale of electricity generated using lignite, the amount of electricity generated is not currently under a threat. The Company has maintained its position as one of the generators creating the price of electricity on the balancing market. Certain circumstances currently indicate that the prices have been achieving their minima and lignite-fired power plants actually determine the prices for covering electricity demand in Poland.

The main factor affecting future prices of electricity, energy certificates and CO2 emission allowances is the legislative and political situation in both Poland and the European Union. The so-called "Small Energy Tri-pack" and "Energy Tri-pack" are very important legislative documents awaited by the industry. The provisions that will be incorporated in these documents will have an impact, among others, on further development of the Renewable Energy Sources ("RES") sector, which currently has a significant influence on the prices of electricity in Poland. In addition, pending discussions and activities undertaken by the European Commission with respect to the decrease of supply on the CO2 market in 2013-2020 will be of significant importance for the Polish power industry, where the level of the CO2 prices has an impact on the total cost of energy generated, which will, in turn, result in the selection of generating units to satisfy power requirements based on the criterion of the cheapest technologies.

In addition to the main issues that must be finally resolved in relation to the Tri-pack and the CO2 emission allowances market, the regulations in the area of environmental protection, bringing the power generation industry to compliance with environmental requirements, the obligation to sell part of generated electricity to the public, as well as the interpretations and recommendations issued by the Energy Regulatory Office and the Polish Financial Supervision Authority already now play a very important role in shaping the prices of electricity. The stability of the above-mentioned regulations and interpretations will have the most significant effect on the current and future results of the Company.

In addition, the behavior of the power generation industry in Poland with regard to further operation of generating units whose lifecycle is coming to an end will have an extremely important impact on ensuring safe and stable operations of the National Energy System, as these generating units still represent a regulatory and controllable reserve for RES units. The current legal status arising from derogation regulations and the National Transition Plan allows for extending the operations of old and used up generation units for another couple of years. The low price of electricity on the wholesale market that can be observed today, and the resulting lack of funds in power companies' budgets for the construction of new generation capacities, may lead to a situation where part of such companies will make use of the legal solutions allowing for the extension of the operations of used up generating units, which may result in stagnation of the market prices of electricity. Permanent withdrawal of old generating units could, in turn, cause a rise in wholesale prices of electricity, due to the fact that generation of electricity using non-controllable RES would have to be secured, unlike it is today, by selecting generating units with higher variable costs.

The introduction, in addition to the existing energy market, of a second market consisting in the power market, is awaited by the power generation industry which perceives it as a system-wide solution that could resolve the issue of acquiring funds for the development of controllable and stable generation sources. This topic is currently being discussed by a number of EU states and the first effects and proposals for the functioning of such solution may possibly be seen in the near future.

5.4. *Unusual events affecting the results of operations*

No unusual events having a significant effect on the Company's assets, liabilities, equity, net result or cash flows were noted in the Company in 2012.

6. Financial Resources Management

6.1. *Evaluation of financial resources management*

The Company has sufficient cash to conduct business activities, and pays all of its liabilities arising from both its operating activities as well as signed financial and investment agreements on an ongoing basis. ZE PAK S.A. manages its current financial resources in a flexible manner, using cash liquidity analysis models and planning its future cash flows based on periodic short-term and long-term financial forecasts. Using these tools, the Company monitors and analyzes maturities of their receivables and payables on a day-to-day basis and match payment deadlines and bank account balances with the amounts of their cash flows. Surplus cash is invested in safe financial instruments, mainly bank deposits.

6.2. *Evaluation of feasibility of investment plans*

The Company has a development strategy as well as an investment plan which complies with this strategy. Its investment plans take into account the existing legal, economic and technological conditions. The adopted method of implementation of the planned investment projects is mainly based on the use of funds earned in the course of current activities as well as external borrowings. In planning their funding, the Company takes into consideration a number of factors that currently exist or may occur in the future and have a significant effect on the program being implemented. The anticipated structure of funding for specific investment plans also takes into account the level of a number of financial ratios such as, for example, debt ratios or liquidity, so as to ensure their optimal levels. In the opinion of the Company, the implementation of the current investment targets using both existing and potential resources is feasible. It must be, however, emphasized that the Company all the time monitors the factors that have the most significant impact on the investment program being implemented, and does not exclude making adjustments or significant changes to its strategy in the event of any significant changes in one or several such factors.

7. Significant development factors and perspectives

Main activities arising from the Company's Strategy

Under its existing and implemented development strategy, the Company still intends to focus its operations on the electricity generation segment. In the opinion of the Company, these activities are characterized by the highest potential for growth in the power industry in a long-term horizon.

The increasing integration of mining and generation activities, which gives rise to synergy effects within the entire technological chain, is a step towards the implementation of these plans. The acquisition of the two main coal suppliers in the most recent year will make it possible to increase the utilization of the subsidiaries' fuel resources by aligning lignite supplies of lignite from PAK KWBA S.A. and PAK KWBK S.A. to the power plants' requirements, taking into account the their available generation capacities throughout the year 2050. As part of consolidation of the Group's mining sector, the Company plans to create an optimal organizational structure by combining, in legal and organizational terms, entities from the areas of evaluation of lignite deposits and extraction of lignite, and, in a longer perspective, incorporating the integrated mining company in the structure of ZE PAK S.A. in order to create a mining and power generation concern.

Currently the Company has efficient generation assets characterized by a high power utilization ratio, thanks to some of the lowest marginal costs of electricity generation in Poland. An additional strength is the favorable location of generation capacities in the vicinity of promising lignite deposits as well as the Yamal and Gustorzyn-Odolanów pipelines. Location in central Poland enables evacuation of power to the system as well as extension of the activities to Northern Poland, which is characterized by a significant power deficit compared with other regions. At the same time, the Company is aware of the changes occurring in its environment, especially those in the legislative and legal area. Legal regulations aiming at the reduction of emission of CO₂ and

other gases (SO₂, NO_x) as well as regulations relating to the renewable energy sources sector represent significant challenges for the ZE PAK Group companies. In order to face the requirements arising from current and future legal regulations related to widely defined environmental protection, the Company plans to modify the portfolio of its generation capacities. Its aim is to implement, within the next seven years, an investment program that will include both modernization of the existing generation assets as well as the replacement of used up power generating units by new ones using modern technologies, in order to retain generation capacities at the level of not less than approx. 2,100 MWe. The implementation of these investment projects will make it possible to reduce technological risk, improve power generation efficiency, and through the diversification of the fuel base will fit in well with the planned efforts to achieve low-emission economy in Poland.

In the Company's opinion, the achievement of the goals set in the strategy is dependent on the realization of the adopted investment program. Presented below is a summary of the main assumptions of the investment plan.

The key investment projects in the implementation phase are as follows:

- 1) In the Pałnów I Power Plant: Continuation of modernization of units 1-4 and limited modernization of unit 5 in the Pałnów I Power Plant, including modernization of condensing turbines, commissioning of the NO_x emission reduction system and the replacement or modernization of the parts critical for power units' efficiency (including, among others, coal loading and cooling systems), in order to improve safety and efficiency of electricity generation and consequently to reduce the level of CO₂ emission and enable operation of units 1-5 at least throughout 2026 or 2030. Modernization of unit 5 in the Pałnów I Power Plant has been completed and modernization of units 1-4 is planned to be carried out starting from 2013 to mid 2016.

Key investment projects in the preparation phase in 2013-2019:

- 1) In the Konin Power Plant: Commissioning of a high efficiency electricity and heat generation unit by way of constructing a gas and steam power unit with a capacity of approx. 120 MWe and approx. 90 MWt as well as an additional gas-fired peak load boiler with a capacity of approx. 40 MWt, dedicated to supply heat to the city of Konin, which are initially planned to be made operational in 2016. The implementation of this investment project would make it possible to replace the lignite-fired power units in the Konin Power Plant and acquire additional revenue from sale of yellow certificates.
- 2) In the Adamów Power Plant: Commissioning of a high efficiency electricity and heat generation unit by way of constructing a gas and steam power unit with a capacity of approx. 400 MWe and approx. 45 MWt as well as an additional gas-fired peak load boiler with a capacity of approx. 45 MWt, dedicated to supply heat to the city of Turek, which are initially planned to be made operational at the end of 2017. The implementation of this investment project would enable the Adamów Power Plant to smoothly maintain the level of power supplied by units 1-5 which are planned to be turned off by 31 December 2017

due to the lapse of the granted derogation period for NOx emission as well as to acquire additional revenue from sale of yellow certificates.

The decision to implement the investment project related to new gas capacities in the Adamów Power Plant will be taken in the second half of 2013 based on the results of the assessment of its economic profitability, including an analysis of current and forecasted changes on the gas market, such as the planned commissioning of the LNG terminal in Świnoujście, anticipated changes in legal regulations relating to gas such as elimination of tariffs for industrial customers or introduction of partial trading in natural gas through commodity exchange markets or on the regulated market, and utilization of shale gas deposits in Poland to an extent allowing for diversification of gas supplies. Taking into account the location of the planned gas and steam power unit in the Adamów Power Plant, gas supplies to this power unit could be secured by the Yamal pipeline joining Russia with Germany as well as using the existing Gustorzyn – Odolanów pipeline which is located nearby the Adamów Power Plant.

In accordance with our policy and market practices applied by other companies in the power industry, the number of investment projects that are analyzed and prepared is greater than the number of projects actually implemented. In addition, we also constantly analyze other investment projects relating to construction of new lignite opencasts and new power generation units which could ultimately increase our mining and generation capacities and it cannot be precluded that we may decide in the future to carry out other projects than those listed above and anticipated in the documents defining our strategy.

Strategy implementation costs

We estimate that the implementation of the project of modernization of units 1-5 in the Pańków I Power Plant will require capital expenditures of PLN 1.6 billion, 50% of which are planned to be covered using our own funds.

The construction of two gas and steam power units in 2013-2017 will require incurring costs of PLN 2.8 billion (including borrowing costs); however, this amount will be updated as a result of tenders held for supplies of equipment. Approximately 40-50% of the costs of this investment project are planned to be covered using our own funds, while the remaining 50-60% using external sources, including loans or issued debt securities. We estimate that the costs of investment projects related to new gas capacities will be settled within 4-year investment cycles assuming payment of advances in the first stage and accumulation of expenditures within the final two years of the project. Until such time as tender proceedings for the investment projects related to new gas capacities have been completed and the conditions for the supply of gas to the new gas-fired power units have been negotiated, all of the amounts describing the investment projects in the Konin and Adamów Power Plants are adopted at the levels typical of that class of equipment.

8. Description of Shareholding Structure.

8.1. Shareholding structure

As at 31 December 2012, the Company's share capital amounted to PLN 104,052,000.00 and was divided into 52,026,000 shares with a nominal value of PLN 2.00 each.

It should be noted that as at 31 December 2012 the Company held 1,202,453 treasury shares, which it acquired for redemption purposes (as discussed in detail in section 7.2 hereof "Acquisition of treasury shares").

Table 9: List of shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as at 31 December 2012

Shareholder	Number of shares and the corresponding number of votes at the General Meeting	Percentage of the total number of shares/votes
Zygmunt Solorz-Żak (indirectly) through:	27,403,320	52.67
<i>Elektrim S.A. (directly)</i>	196,560	0.38
<i>Elektrim S.A. (indirectly through: Embud Sp. z o.o.)</i>	5,808,231	11.16
<i>Polsat Media B.V.</i>	20,195,076	38.82
<i>ZE PAK S.A.</i>	1,202,453	2.31
ING OFE	5,600,000	10.76
Others	19,022,680	36.57

* In accordance with Article 364 §2 of the Code of Commercial Companies, ZE PAK S.A. cannot exercise the participation rights attached to its treasury shares (including the voting right), except for the right to dispose of such shares or to perform actions aimed at preserving such rights.

At the same time, the Company informs that, according to its knowledge, at the Extraordinary General Meeting of the Company held on 21 February 2013, ING Otwarty Fundusz Emerytalny [ING Open-end Pension Fund] held 6,000,000 shares in the Company, which accounts for 11.53% of its share capital and the same percentage of total vote. According to the list of shareholders registered at the Extraordinary General Meeting, the number of shares controlled indirectly by Mr. Zygmunt Solorz-Żak did not change.

As of the date of registration of the share capital decrease resolved by the Extraordinary General Meeting of ZE PAK S.A. on 21 February 2013 with the registry court, the percentage of share capital and total vote held by the shareholders indicated in the table above will change as appropriate.

The Company is unaware of any agreements that could lead in the future to any changes in the proportion of shares held by the existing shareholders.

8.2. Acquisition of treasury shares

On 4 December 2012, the Company acquired from Credit Suisse Securities (Europe) Limited 1,202,453 ordinary bearer shares of the Company with a nominal value of PLN 2.00 each, representing 2.31% of the Company's share capital, giving rights to 1,202,453 votes at the Company's General Meeting and accounting for 2.31% of the total vote at the Company's General Meeting, dematerialized and marked by Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) with the securities code ISIN PLZEPAK00012 (**Treasury Shares**). The acquisition of treasury shares was made based on the authorization included in Resolution 6 of the Company's Extraordinary General Meeting dated 20 August 2012 authorizing the Company's Board of Directors to acquire the Company's treasury shares for the purpose of stabilizing the price of the Company's shares and as part of the implementation of the stabilizing option granted to the Stabilizing Manager under the stabilizing agreement concluded between the Company and the Stabilizing Manager on 22 October 2012. The stabilizing agreement was concluded under the conditions described in the Company's prospectus approved by the Polish Financial Supervision Authority on 8 October 2012.

Treasury Shares were acquired by the Company at the price of PLN 25.99 per share. Total consideration, including transaction costs, amounted to PLN 31,251,753.47. Consideration for Treasury Shares was paid solely from the amount which, in accordance with Article 348 § 1 of the Code of Commercial Companies, may be allocated for distribution. Payment of the consideration was made in accordance with the authorization included in the above-mentioned Resolution 6 of the Company's Extraordinary General Meeting dated 20 August 2012 authorizing the Company's Board of Directors to acquire the Company's treasury shares for the purpose of stabilizing the price of the Company's shares.

On 21 February 2013, i.e. after the end of the reporting period, an Extraordinary General Meeting of ZE PAK S.A. was held which resolved to redeem Treasury Shares by way of voluntary redemption.

As a result of adopting the resolution on the redemption of Treasury Shares, the Extraordinary General Meeting held on 21 February 2013 also resolved to decrease the Company's share capital to the amount of PLN 101,647,094 and to divide it into 50,823,547 bearer shares Class A with a nominal value of PLN 2.00 each. The aim of the decrease of the Company's share capital is to implement the resolution on the redemption of treasury shares i.e. to adjust the amount of the Company's share capital to the nominal value of the shares outstanding after the redemption of Treasury Shares.

The legal effect in the form of redemption of Treasury Shares will take place upon the entry of the decrease in the Company's share capital to the Register of Entrepreneurs of the National Court Register.

As at the date of this report, the Company has not received any decision from its registry court on the registration of the share capital decrease or the related amendments to the Company's Statutes.

8.3. Shares held in the ZE PAK Capital Group companies by supervisory and management personnel

The table below presents the number of shares held (directly and indirectly) in the Company and in the Company's affiliates by management personnel as at 31 December 2012 and as at the date of this report.

Table 10: Number of shares held in the Company and in the Company's affiliates by management personnel

Name and surname	Shares in ZE PAK S.A.		Shares in the affiliates of ZE PAK S.A.	
	Number	Nominal value	Number	Nominal value
Katarzyna Muszkat	0	0	0	0
Anna Striżyk	0	0	0	0
Piotr Jarosz	0	0	0	0

The table below presents the number of shares held (directly and indirectly) in the Company and in the Company's affiliates by supervisory personnel as at 31 December 2012 and as at the date of this report.

Table 11: Number of shares held in the Company and in the Company's affiliates by supervisory personnel

Name and surname	Shares in ZE PAK S.A.		Shares in the affiliates of ZE PAK S.A.	
	Number	Nominal value	Number	Nominal value
Zygmunt Solorz-Żak	27,403,320	52,806,640	0	0
Henryk Sobierajski	0	0	0	0
Wojciech Piskorz	0	0	0	0
Sławomir Sykucki	0	0	0	0
Leszek Wysocki	0	0	0	0
Tomasz Klapsa*	708	1,416	0	0
Andrzej Mazurek*	0	0	0	0
Marian Eger*	0	0	0	0
Ireneusz Gołębiak*	0	0	0	0

* As a result of resignations submitted on 21 February 2013, Mr. Tomasz Klapsa, Andrzej Mazurek, Marian Eger and Ireneusz Gołębiak are no longer Supervisory Board members as at the date of this report. Accordingly, the table above shows the number of shares held by these persons as at 31 December 2012 only.

8.4. Control of the employee share option plan

The Company has no system for control of the employee share option plan.

9. Declaration of Compliance with Corporate Governance Rules

9.1. Set of corporate governance rules applied

As of 26 October 2012 i.e. the date on which the Company's shares were admitted to public trading, the Company is subject to corporate governance rules as described in the "Code of Best Practice for WSE Listed Companies" (Code of Best Practice) adopted by Resolution No. 12/1170/2007 of the WSE Supervisory Board (WSE Board) dated 4 July 2007, subsequently amended by Resolution No. 17/1249/2010 of the WSE Board dated 19 May 2010, Resolution No. 15/1282/2011 of the WSE Board dated 31 August 2011, Resolution No. 20/1287/2011 of the WSE Board dated 19 October 2011 and Resolution No. 19/1307/2012 of the WSE Board dated 21 November 2012 (with proviso that changes introduced in the year 2012 are applicable from 1 January 2013).

The Company's Board of Directors, within the competencies granted to it by the Statutes and generally binding legal regulations, exercises due care in order to ensure the Company's compliance with the Code of Best Practice to the greatest extent possible. Due to the Company's debut on the Warsaw Stock Exchange in the 4th quarter of 2012, as at the date of this report the Company is in the course of developing solutions for the implementation of appropriate processes to ensure full compliance with part of the Code of Best Practice. Specifically, the Board of Directors is taking all steps to ensure that the Company's information policy towards its investors, both individual and institutional, which represents an implementation of the guidelines included in the Code of Best Practice, is in accordance with their expectations. In addition, not all of the rules included in the Code of Best Practice are actually applied due to reasons beyond the Company's control.

However, not all of the rules included in the Code of Best Practice are applied, which is independent of the Company / beyond the Company's control.

The text of the Code of Best Practice is published on the website of Giełda Papierów Wartościowych w Warszawie S.A. under the following address: (<http://corp-gov.gpw.pl>).

9.2. Set of corporate governance rules not applied

Presented below are corporate governance rules which the Company has not complied with in its operations in the period from 26 October 2012 i.e. the date on which the Company's shares were admitted to public trading, together with an explanation of the Company's position for each specific departure.

Recommendation I.5 of the Code of Best Practice

A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.

Reasons for non-compliance with recommendation I.5 of the Code of Best Practice:

The Company has not applied the above-mentioned recommendation with respect to members of management and supervisory bodies. In accordance with the Company's Statutes, both the remuneration as well as other terms of employment of a given member of the Company's Board of Directors is determined by the Supervisory Board on an individual basis. The rules for remunerating Supervisory Board members are determined by the Company's General Shareholders' Meeting in the form of resolutions. The main criteria for determining the remuneration of members of management and supervisory bodies include their competencies, skills and responsibilities. In addition, the remuneration of the existing members of the Company's management and supervisory bodies was determined in the period preceding the Company's debut on the WSE i.e. in the period preceding the Company's adoption of the Code of Best Practice.

The Company would like to emphasize that the details of remuneration of the Company's management and supervisory personnel as well as other benefits granted to such persons during the financial year are published by the Company in the annual report.

The Company believes that it applies a transparent remuneration policy.

Recommendation I.9 of the Code of Best Practice

The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' business.

Reasons for non-compliance with recommendation I.9 of the Code of Best Practice:

The Company has not fully complied with the above-mentioned rule. As at 31 December 2012 and at the date of this Report, majority of positions in the Company's Board of Directors were held by women, while all of positions in the Supervisory Board were held by men.

However, the Company would like to present that such objective criteria as: knowledge, experience, competencies and skills required for a given position are critical in the selection of its management and supervisory personnel. These criteria ensure an effective and efficient functioning of the Company and implementation of the adopted strategy to the greatest extent possible.

Recommendation I.12 of the Code of Best Practice:

A company should enable its shareholders to participate in a General Meeting using electronic communication means through:

- 1) real-life broadcast of General Meetings,
- 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting,
- 3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary.

Reasons for non-compliance with recommendation I.12 of the Code of Best Practice:

Having in mind the Company's experience which shows that the definite majority of the Company's shareholders participate in General Meetings directly as well as the fact that enabling participation in General Meetings using electronic communication means could entail significant costs and potential organizational and technological difficulties, the Company does not comply with this rule. The practice and experiences of other WSE listed companies in the application of this rule will be an additional factor determining its application. In the Company's opinion, this may enable it to avoid any doubts as well as any factual and legal complications arising from the application of this rule.

The Company's Statutes provide for the possibility of exercising the right to vote during a General Meeting either in person or through a plenipotentiary, outside the venue location of the General Meeting, using electronic communication means. The Supervisory Board decides on whether or not to hold a General Meeting using electronic communication means.

The Company's position is that the decision on the use of electronic communications means during a General Meeting depends on the communication of such a need by a greater number of the Company's shareholders. If such a need does arise, the Company will consider all the possibilities and solutions available, taking into account, among others, market practice.

Rule II.1.1) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: basic corporate regulations, in particular the statutes and internal regulations of its governing bodies.

Reasons for non-compliance with recommendation II.1.1) of the Code of Best Practice:

The Company includes its Statutes on its corporate website. Due to the need to adjust the contents of the regulations of the Company's governing bodies to the standards applicable to public companies, these documents are not currently published on the website. However, the Company assures that they will be included on the website as soon as their final wording is ready.

Rule II.1.2a) of the Code of Best Practice

A company shall operate a corporate website and publish on it, in addition to information required by legal regulations: on an annual basis, in the fourth quarter – information about the participation of women and men respectively in the Management Board and in the Supervisory Board of the company in the last two years.

Reasons for non-compliance with recommendation II.1.2a) of the Code of Best Practice:

Due to the Company's short presence on the WSE and the successive implementation of the guidelines included in the Code of Best Practice, the Company did not publish the above-mentioned information in the fourth quarter of the last year. However, as part of the implementation of the Board of Directors' policy to ensure the Company's compliance with the Code of Best Practice to the greatest extent possible, in the first quarter of the current year the Company supplemented the information published on its corporate website with the details of the number of women and men participating in the Company's Board of Directors and Supervisory Board.

Rule II.1.2a) of the Code of Best Practice

A company shall operate a corporate website and publish on it, in addition to information required by legal regulations: information about the content of the company's internal rule for changing the entity authorized to audit financial statements or information about the absence of such rule.

Reasons for non-compliance with recommendation II.1.2a) of the Code of Best Practice:

Due to the Company's short presence on the WSE and the successive implementation of the guidelines included in the Code of Best Practice, the Company did not publish the above-mentioned information in 2012; however, such information was published in the first quarter of the current year. Both the decision on the selection and on the change of the entity authorized to audit financial statements is up to the Supervisory Board. The Company did not implement any specific rule for changing the entity authorized to audit financial statements; in this respect the Company applies the applicable provisions of law.

Rule III.6 of the Code of Best Practice

At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or its subsidiary or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.

Reasons for non-compliance with rule III.6 of the Code of Best Practice:

In 2012 and as at the date of this Report, none of the members of the Company's Supervisory Board met all the independence criteria defined in the Code of Best Practice.

The Company's Board of Directors convened an Extraordinary General Meeting at 21 February 2013 with an agenda including, among others, making changes to the Company's Supervisory Board in order to enable appointment of Supervisory Board members meeting the independence criteria defined in the Code of Best Practice and in the 'Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board'.

The second part of the Extraordinary General Meeting, which will discuss the issue of determining a new number of members of the Supervisory Board of the 6th term as well as making changes to the Supervisory Board was set at 22 March 2013. Adjournment of General Meeting was dictated by the need to provide additional time to present and consider possible candidates for members of the Supervisory Board that meet the criteria of independence.

Rule III.8 of the Code of Best Practice

Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors (...) should apply to the tasks and the operation of the committees of the Supervisory Board.

Reasons for non-compliance with rule III.8 of the Code of Best Practice:

Despite the fact that the Company's Statutes provide for the appointment of committees, including an audit committee, from among Supervisory Board members, none of the committees specified in Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board was set up in either 2012 or at the date of this Report. The Company's Board of Directors assumes that, after the resolution on making changes to the Supervisory Board and appointing persons meeting independence criteria, including a person holding accounting or audit qualifications, is taken by the Extraordinary General Meeting of 22 March 2013, the Company's Supervisory Board will appoint an audit committee and remuneration committee from among its members.

9.3. Description of the main features of the internal control and risk management systems applied with regard to preparation of standalone and consolidated financial statements

The process of preparation of the financial statements of the Company and of the Capital Group takes place using internal control and risk management mechanisms such as: the Company's internal procedures, mechanisms of management of IT systems used for keeping accounting records and preparing financial statements as well as mechanisms of their protection, rules for the supervision of preparation of financial statements, rules for performing reviews and evaluations of financial statements, internal audit as well as other controls.

The Company's financial statements are prepared in an orderly manner, based on the Company's organizational structure. The management accounting tools implemented in the Company and the IT systems used for entering business transactions in the accounting records provide grounds for concluding that the Company's financial statements are prepared fairly and include all the significant data necessary for determining the Company's financial position.

Basic regulations governing preparation of financial statements include: International Financial Reporting Standards endorsed by the European Union, the accounting policy of the ZE PAK Capital Group compliant with IFRSs, the Accounting Act of 29 September 1994, the procedure for closing the books of account in the Capital Group and the requirements for preparation of separate financial statements and consolidated financial statements imposed by the Warsaw Stock Exchange.

As at the date of this report, the Company has not yet decided to keep the books of account in the Group in accordance with IFRSs. For this reason, the process of preparing financial statements in the Group takes place in two stages. First, all of the Group companies prepare their separate financial statements in accordance with Polish Accounting Standards. These financial statements are authorized by the companies' management boards and are subjected to an audit if they meet the relevant criteria. Then the companies, for consolidation purposes, convert their separate financial statements into IFRS financial statements based on the IFRS accounting policy of the Group using the so-called IFRS transition spreadsheets. Such financial statements are then provided to the Company's Accounting and Reporting Department, where consolidated financial statements of the Group are prepared.

The Board of Directors is responsible for the Company's internal control system and its effectiveness in the process of preparing financial statements and periodic reports prepared and published in accordance with the Minister of Finance's Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognizing the information required by the laws of a non-EU member State as equivalent thereto.

Technical supervision over the process of preparation of the Company's financial statements and periodic reports is exercised by the Vice President of the Board of Directors responsible for financial matters. The Company's Chief Accountant, who is in charge of the Accounting and

Reporting Department and reports directly to the Vice President of the Company's Board of Directors, is responsible for organization of work related to preparation of financial statements.

An effective system of internal control and risk management in the Company's financial reporting process is secured by way of:

- preparing procedures defining the principles and segregation of responsibilities for preparation of financial statements,
- defining the scope of reporting under the existing International Accounting Standards and International Financial Reporting Standards,
- developing, implementing and exercising supervision over application of consistent accounting policies by the companies in the Capital Group, and
- half year reviews and annual audits of published financial statements of ZE PAK SA and of the Capital Group, performed by independent auditors.

Annual and half year financial statements are subject to independent audits and reviews performed by statutory auditors who express their opinion on the truth and fairness of the financial statements as well as proper maintenance of the accounting records that form the basis for their preparation.

The auditor is selected by the Supervisory Board on the motion of the Board of Directors, from among renowned auditing companies which guarantee high standards of service and the required independence.

Audits are performed in accordance with:

- chapter 7 of the Accounting Act of 29 September 1994,
- national auditing standards issued by the National Council of Statutory Auditors.

In particular, audits include examining the correctness of the accounting principles applied and significant estimates made by the Company and by the Group, examining, to a large extent on a test basis, accounting entries and evidence supporting the amounts and disclosures in the financial statements as well as evaluating the overall presentation of the financial statements.

The Company's results are monitored on an ongoing basis during the financial year and are periodically evaluated by the Supervisory Board. At each meeting of the Supervisory Board, the Company's Board of Directors submits information on the Company's current financial position.

The objective of the Company and of the Group is to prepare financial statements, including figures and narrative explanations, which:

- present truly and fairly all information material for the assessment of the financial position as at a given date as well as results of its operations for the given period,
- have been prepared, in all material respects, correctly, that is in accordance with the accounting policies arising from International Accounting Standards, International Financial Reporting Standards and the related interpretations issued in the form of European Commission regulations as well as in accordance with the Accounting Act and executive

regulations issued based on that Act, and based on properly maintained accounting records,

- are respect of the content, in accordance with legal regulations and the Company's Articles of Association affecting their contents.

The Company and the Group have a documentation which describes the adopted accounting policies, as defined in Article 10 of the Accounting Act. The rules for cost accounting, valuation of assets and liabilities and determining the result of operations are consistent with International Accounting Standards and the provisions of the Accounting Act.

The Board of Directors is responsible for proper maintenance of the Company's accounts. The Company keeps its books of account using an integrated IT system. This system enables segregation of competencies, consistent entering of transactions in the books of account as well as control between the general ledger and subsidiary ledgers. The accounting records enable determination of the result of operations, VAT and other liabilities to the state budget. They ensure the accuracy and completeness of entries. The chronology of business transactions is observed. The accounting entries reflect the actual state of affairs, data is entered in a complete and accurate manner, based on accounting evidence approved and classified for entering in the records. Consistency of accounting entries and proper functioning of the procedures applied are ensured. Accounting evidence meets the requirements of the Accounting Act. The books of account are retained at the Company's head office. System functionalities can be modified to ensure adequacy of technical solutions for changing accounting principles and legal regulations. Documentation is kept for the system both in relation to end users as well as technical aspects. System documentation is periodically reviewed and updated. The Company implemented organizational and system solutions to ensure proper use and protection of the systems securing access to data and computer hardware. The access to the financial recording system is limited by appropriate authorizations which are assigned to authorized employees only to the extent of the duties and activities performed by them.

The Company has an internal audit function which is designed to enable independent and objective evaluation of risk management and internal control systems. The internal audit is operating based on audit regulations and carries out both planned and ad hoc audit activities in the parent company and in other Group companies. Audit plans are developed on the basis of risk analyses. Audit results are reported to the Company's Board of Directors.

As part of controlling activities, periodic management reporting is assessed for reasonableness of the information contained therein, in particular in the context of analysis of any deviations from the assumptions adopted in financial plans.

9.4. *Shareholders holding significant blocks of shares*

As of the date on which the Company's shares were introduced to trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A., i.e. as of 30 October 2012, based on the provisions of the Company's Statutes amended on 20 August 2012, the specific rights granted in the Company's Statutes to Elektrim S.A. with respect to appointing and dismissing members of the Company's Board of Directors and Supervisory Board ceased to be in force. As a result of expiration of the above-mentioned individual rights of Elektrim S.A. and the acquisition of 443,101 of the Company's shares in their first public offering by Embud Sp. z o.o., a company indirectly controlled by Mr. Zygmunt Solorz-Żak, Mr. Zygmunt Solorz-Żak acquired capital control over the Company.

Table 12: Shareholders holding directly or indirectly significant blocks of shares as at 31 December 2012

Shareholder	Number of shares held	Percentage of share capital	Number of votes held	Percentage of the total vote
Zygmunt Solorz-Żak*(indirectly) through: Elektrim S.A., Embud Sp. z o.o., Polsat Media B.V., ZE PAK S.A.	27 403 320	52,67%	27 403 320	52,67%
ING Otwarty Fundusz Emerytalny**	5 600 000	10,76%	5 600 000	10,76%

* According to the notification of 6 December 2012.

** According to the notification of 2 November 2012.

At the same time, the Company informs in accordance with its knowledge that, at the Extraordinary General Meeting held on 21 February 2013, ING Otwarty Fundusz Emerytalny held 6,000,000 of the Company's shares, which accounts for 11.53% of the share capital and the same percentage of the total vote. According to the list of shareholders registered for the Extraordinary General Meeting, the number of shares controlled indirectly by Mr. Zygmunt Solorz-Żak did not change.

As of the date of registration of the share capital decrease resolved by the Extraordinary General Meeting of ZE PAK S.A. on 21 February 2013 with the registry court, the percentage of share capital and total vote held by the shareholders indicated in the table above will change as appropriate.

9.5. *Holders of securities giving special control rights*

The Company did not issue any securities giving special control rights either as at 31 December 2012 or as at the date of this Report.

9.6. Restrictions in exercising voting rights

According to the Company's Statutes as well as other internal documents, there were no restrictions in exercising voting rights either as at 31 December 2012 or as at the date of this Report.

9.7. Restrictions for the transfer of ownership of securities

There were no restrictions for the transfer of ownership of the Company's securities either as at 31 December 2012 or as at the date of this Report.

9.8. Rules for appointing and dismissing management and supervisory personnel

Board of Directors

The Company's Board of Directors consists of 3 to 6 members appointed for a joint term of office. The Board of Directors is composed of: President, Vice Presidents and other Board members. The number of members of the Board of Directors and their roles are determined by the Supervisory Board. The Board of Directors' term of office is five years. President, Vice Presidents and other members of the Board of Directors are appointed and dismissed by the Supervisory Board in a secret ballot. President, Vice Presidents and other members of the Board of Directors may be also dismissed or suspended by the General Meeting.

The Board of Directors conducts the Company's affairs and represents the Company. It acts based on the Board of Directors' Regulations which set out in detail the procedure for the Board of Directors. These Regulations are determined by the Board of Directors and are approved by a resolution of the Supervisory Board.

A resolution of the Board of Directors is required for matters that go beyond the scope of ordinary management, including in particular:

- 1) enacting and amending organizational regulations determining the organization of the Company's business,
- 2) taking up loans,
- 3) granting commercial power of attorney,
- 4) granting loan guarantees and suretyships,
- 5) acquiring and disposing of real estate, perpetual usufruct or an interest in real estate or perpetual usufruct,
- 6) taking decisions on matters with a value exceeding PLN 500,000.00. The value of transactions denominated in foreign currencies is translated using the average NBP rate for a given currency as at the date of the resolution.

Resolution of the Board of Directors is also required for matters addressed by the Board of Directors to the General Meeting and Supervisory Board.

Supervisory Board

The Company's Supervisory Board consists of 5-14 members appointed for a joint term of office. The Supervisory Board's term of office is five years. Members of the Supervisory Board are appointed and dismissed by the General Meeting. Before selecting Supervisory Board members for a new term of office, the General Meeting determines the number of such members. The Supervisory Board elects the Chairman, Secretary, Vice Chairman or two Vice Chairmen if considered appropriate, from among its members in a secret ballot.

The Supervisory Board should include two members who meet the independence criteria provided for an independent Supervisory Board member in the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), taking into account the Code of Best Practice for Companies Listed on the Warsaw Stock Exchange ("Independent Supervisory Board Members"). A candidate for an Independent Supervisory Board Member submits written representation on the fulfillment of independence criteria prior to his or her appointment for this position in the Supervisory Board.

The Supervisory Board exercises permanent supervision over the Company's activities in all aspects of its business.

The Supervisory Board's powers include in particular:

- 1) approving the Company's Board of Directors' Regulations and opining on organizational regulations determining organization of the Company's business,
- 2) concluding, terminating and amending contracts with members of the Board of Directors as well as determining remuneration rules for the Board of Directors and the amount of remuneration for members of the Company's Board of Directors,
- 3) appointing and dismissing the President, Vice Presidents and other members of the Board of Directors in a secret ballot,
- 4) suspending, for important reasons, the President, Vice Presidents and other members of the Board of Directors or the whole Board of Directors in a secret ballot,
- 5) delegating a Supervisory Board member or members to acting temporarily as member of the Company's Board of Directors in the event of suspending members of the Board of Directors or the whole Board of Directors,
- 6) selection of an entity authorized to audit the Company's financial statements,
- 7) evaluation of the Directors' Report and the financial statements for the most recent financial year,
- 8) evaluation of the Board of Directors' proposals for appropriation of profit or absorption of loss,
- 9) submitting annual written reports to the General Meeting on the evaluations referred to in items 7 and 8,
- 10) submitting annual brief evaluations of the Company's position as well as annual reports on the activities of the Supervisory Board to the General Meeting,

- 11) opining on the matters put forward by the Board of Directors to be resolved by the General Meeting,
- 12) approving multi-year programs for the activities of the Company and of the ZE PAK Capital Group, including the operating strategy of the Company and of the ZE PAK Capital Group, as developed by the Board of Directors, and
- 13) approving annual programs for the Company's activities as well as annual programs for the activities of the Capital Group, including in particular planned production and revenues, planned expenses by nature, planned unit costs, planned wages and salaries, investment plans as well as overhaul and servicing plans.

The competencies of the Supervisory Board also include granting consents to the Board of Directors for:

- 1) participation in other companies and disposal of shares in other companies,
- 2) setting up branches abroad,
- 3) payment of interim dividends,
- 4) the Company's undertaking of activities resulting in incurring a liability, except for:
 - a) activities provided for in the annual program of the Company's activities approved by the Supervisory Board, or
 - b) an activity resulting in incurring a liability up to PLN 1,000,000, including granting suretyships or guarantees and issuing or guaranteeing promissory notes/bills of exchange,
- 5) acquisition and disposal of real estate, perpetual usufruct or an interest in real estate or perpetual usufruct with a value exceeding PLN 1,000,000,
- 6) the Company's entering into a significant agreement with its related party as defined by the regulations governing current and periodic information provided by issuers of securities admitted to trading on a regulated market, excluding regular agreements concluded by the Company at an arm's length in the course of its operating activities,
- 7) designation by the Board of Directors of persons to hold positions in the governing bodies of the companies and other entities in which the Company participates either directly or indirectly, and
- 8) determining by the Board of Directors the method for exercising voting rights at the General Meeting or at General Meetings of the companies for which the Company is a parent or an affiliate in the meaning of the provisions of the Code of Commercial Companies, in the following matters:
 - a) disposal and lease of the company's estate or its organized part and establishing a limited real right thereon as well as performing other activities relating to the acquisition or disposal of the company's assets, which are discussed during a General Meeting or a Shareholders' Meeting,
 - b) dissolution and liquidation of the company,
 - c) amendments to the company's Statutes or Articles of Association,
 - d) merger, division or transformation of the company, and
 - e) increase or decrease of the company's share capital.

On the motion of the Board of Directors, the Supervisory Board grants permission to a member of the Board of Directors for holding positions in the governing bodies of the companies in which the Company holds shares and for receiving compensation in this respect.

9.9. Composition, changes in the composition and description of the activities of management and supervisory bodies

Management Board

The Company's Board of Directors was composed of the following persons at the beginning of the year 2012:

- 1) Katarzyna Muszkat – President,
- 2) Anna Striżyk – Vice President for Finance,
- 3) Piotr Jarosz – Vice President,
- 4) Krzysztof Jędraszczyk – Vice President for Social and Administrative Affairs.

At the meeting of 14 February 2012, the Supervisory Board of the Company, acting on the motion of the ZE PAK S.A. Board of Directors due to the development of new organizational regulations of ZE PAK S.A., resolved to change the names of the Board of Directors positions held at that time by Anna Striżyk and Krzysztof Jędraszczyk and appointed them Vice Presidents of the Board of Directors. During the session held on 14 February 2012, the Supervisory Board, having considered the motion proposed by the Board of Directors, also decided to entrust certain Board members with management of organizational divisions created within the Company's organizational structure implemented by the new organizational regulations, i.e.:

- 1) Katarzyna Muszkat was entrusted with management of the President of the Board's Division,
- 2) Anna Striżyk was entrusted with management of the Finance and Commercial Division,
- 3) Piotr Jarosz was entrusted with management of the Logistics and Organizational Affairs Division,
- 4) Krzysztof Jędraszczyk was entrusted with management of the Production Division.

Due to Mr. Krzysztof Jędraszczyk's resignation as of 3 August 2012 from the position of a Board member, beginning from 4 August 2012 the Company's Board of Directors was composed of the following three persons:

- 1) Katarzyna Muszkat – President,
- 2) Anna Striżyk – Vice President,
- 3) Piotr Jarosz – Vice President.

On 4 September 2012, the Company's Board of Directors appointed Mr. Karol Sobczak as commercial proxy acting jointly with a Member of the Board of Directors. Furthermore, the Board of Directors of ZE PAK S.A. also entrusted Mr. Karol Sobczak with management of all the matters and duties that were allocated in the "Organizational Regulations of ZE PAK S.A." within the scope

of tasks and competencies of the organizational units and independent positions included in the Production Division as well as with the responsibility for all matters relating to generation of electricity and heat as well as fulfillment of the adopted plans for generation of electricity and heat and repair and servicing of equipment.

In 2012, the Board of Directors of ZE PAK S.A. held 57 meetings during which it took a number of decisions documented in the minutes. During the reporting period, the Board of Directors adopted altogether 516 resolutions. All resolutions and instructions of ZE PAK S.A.'s Board of Directors have been implemented or are in the course of implementation by the Company's appropriate organizational units.

Supervisory Board

During the reporting period, changes were also made to the composition of the Company's Supervisory Board. In the period from 1 January 2012 to 29 June 2012, the Supervisory Board was composed of the following persons:

- 1) Zygmunt Solorz-Żak – Chairman,
- 2) Henryk Sobierajski – Vice Chairman,
- 3) Andrzej Mazurek – Secretary,
- 4) Marian Eger,
- 5) Tomasz Klapsa,
- 6) Wojciech Piskorz,
- 7) Sławomir Sykucki,
- 8) Leszek Wysocki,
- 9) Ireneusz Gołębiak,
- 10) Krzysztof Majewski.

At the meeting held on 29 June 2012, the Ordinary General Meeting of ZE PAK S.A. – due to the expiration of the 5th term of office of the Supervisory Board – appointed the Supervisory Board of the 6th term of office composed of:

- 1) Zygmunt Solorz-Żak,
- 2) Henryk Sobierajski,
- 3) Andrzej Mazurek,
- 4) Marian Eger,
- 5) Tomasz Klapsa,
- 6) Wojciech Piskorz,
- 7) Sławomir Sykucki,
- 8) Leszek Wysocki,
- 9) Ireneusz Gołębiak,
- 10) Krzysztof Majewski,

and at the same time appointed Mr. Zygmunt Solorz-Żak to the position of Chairman of the Supervisory Board. Messrs. Marian Eger, Tomasz Klapsa, Ireneusz Gołębiak and Andrzej Mazurek were appointed by the Ordinary General Meeting to ZE PAK S.A.'s Supervisory Board of the 6th

term as a result of their election to the Supervisory Board by the Company's employees. The elections were held in accordance with the provisions of the Act of 30 August 1996 on commercialization and privatization of state-owned enterprises, the Company's Statutes and Regulations for the election of Supervisory Board members by the employees of Zespół Elektrowni Pątnów-Adamów Konin S.A.

At the meeting of ZE PAK S.A.'s Supervisory Board held on 2 August 2012, Vice Chairman of the Supervisory Board and Secretary were selected. Mr. Henryk Sobierajski was appointed Vice Chairman, and Mr. Andrzej Mazurek Secretary of the Supervisory Board.

On 12 November 2012, Mr. Krzysztof Majewski submitted his resignation from the position of member of ZE PAK S.A.'s Supervisory Board as of 13 November 2012.

Beginning from 14 November 2012, the Supervisory Board was composed of:

- 1) Zygmunt Solorz-Żak – Chairman,
- 2) Henryk Sobierajski – Vice Chairman,
- 3) Andrzej Mazurek – Secretary,
- 4) Marian Eger,
- 5) Tomasz Klapsa,
- 6) Wojciech Piskorz,
- 7) Sławomir Sykucki,
- 8) Leszek Wystocki,
- 9) Ireneusz Gołębiak.

On 21 February 2013, i.e. after the end of the reporting period, the following persons submitted their resignations from the positions of Supervisory Board members:

- 1) Marian Eger,
- 2) Tomasz Klapsa,
- 3) Ireneusz Gołębiak,
- 4) Andrzej Mazurek.

The second part of the Extraordinary General Meeting convened at 21 February 2013, which is to discuss the issue of determining a new number of members of the Supervisory Board of the 6th term as well as making changes to the Supervisory Board, was set to take place at 22 March 2013.

In 2012, in performing its duties arising from the Code of Commercial Companies and the Company's Statutes, the Supervisory Board held eight meetings and adopted altogether 37 resolutions. The Supervisory Board fulfilled its obligation to hold a meeting each quarter, as required by the Company's Statutes.

During the reporting period, the Supervisory Board exercised, on a collective basis, permanent supervision over the Company's activities in all aspects of its business. The Supervisory Board focused primarily on the following issues:

- 1) the Company's initial public offering and introduction of the Company's shares to trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A.;
- 2) evaluation of the financial statements for the year 2011,
- 3) establishing organizational structure of the Company,
- 4) approving the Company's budget for 2012 and control of its realization, in particular conditions related to electricity generation and the results achieved by the Company from the sale of internally generated and third party electricity, including electricity generated using RES,
- 5) acquisition of shares in Kopalnia Węgla Brunatnego Konin w Kleczewie S.A. and Kopalnia Węgla Brunatnego Adamów S.A. from the State Treasury;
- 6) acquisition of shares in Elektrim-Volt S.A.;
- 7) beginning the process of liquidation of PAK Biopaliwa Sp. z o.o.;
- 8) opining on motions proposed by the Board of Directors in matters concerning the Company's day-to-day operations.

9.10. Procedure and basic powers of the General Meeting; shareholders' rights and their exercise

Rules of conduct of General Meeting are set out in Code of Commercial Companies and in the Articles of Association of the Company. Until the date of this report the General Meeting did not adopt any rules, which additionally would regulate issues connected with functioning of this body of the Company.

General Meeting

General Meetings are convened in the circumstances indicated in the Code of Commercial Companies and in the Company's Statutes. In principle, a General Meeting is convened by the Company's Board of Directors and is held as an Ordinary or Extraordinary General Meeting. Where a General Meeting is convened by an entity or body other than the Company's Board of Directors, the Board of Directors is obliged to cooperate with this entity or body in order to perform all the activities required by law that are necessary to convene, organize and hold a General Meeting. From the date of the first quotation of the Company's shares on the regulated market operated by the Giełda Papierów Wartościowych w Warszawie S.A., General Meetings may be convened using electronic communication means. The Company's Supervisory Board decides on whether or not to hold a General Meeting using electronic communication means.

General Meetings are held in Warsaw or in the Company's head office.

General Meetings of ZE PAK S.A. are convened by way of placing an announcement on the Company's website or in the manner specified for providing current information in accordance with the regulations on public offer and the conditions for introducing financial instruments to an organized system of trading and on public companies.

The materials made available to the shareholders in connection with a General Meeting, including draft resolutions proposed for adoption as well as any other important materials are made available by the Company on its corporate website www.zepak.com.pl.

The main competencies of a General Meeting include:

- 1) considering and approving the Directors' Report on the Company's activities and the financial statements for the most recent financial year as well as accepting performance of members of the Company's governing bodies,
- 2) appropriation of profit or absorption of losses,
- 3) amending the scope of the Company's principal activities,
- 4) amending the Company's Statutes,
- 5) increasing or decreasing share capital,
- 6) authorizing the Board of Directors to acquire the Company's treasury shares for redemption,
- 7) appointing and dismissing members of the Supervisory Board,
- 8) determining the amount of remuneration for members of the Supervisory Board,
- 9) merger, division and transformation of the Company,
- 10) dissolution and liquidation of the Company,
- 11) issue of convertible debentures or debentures with a pre-emptive right and subscription warrants,
- 12) disposal and lease of the enterprise or an organized part thereof as well as establishing a limited real right thereon,
- 13) setting up and cancelling the Company's reserves and funds,
- 14) the Company's entering into a loan, suretyship or other similar agreement with a member of the Company's Board of Directors, Supervisory Board, commercial proxy or liquidator or for the benefit of any such persons,
- 15) the subsidiary's entering into a loan, suretyship or other similar agreement with a member of the Company's Board of Directors, Supervisory Board, commercial proxy or liquidator or for the benefit of any such persons,
- 16) any and all provisions relating to claims to remedy damages caused during the Company's incorporation or exercise of management or supervision, and
- 17) use of share capital.

Individuals who have had a shareholder status 16 days before the date of a General Meeting are entitled to participate in the General Meeting. A shareholder is allowed to participate in a General Meeting upon presentation of a personal certificate confirming his or her right to participate in the General Meeting, issued by an entity running a securities' account.

A shareholder participates in the General Meeting and exercises his or her voting right either in person or by proxy.

A shareholder representing at least one twentieth of the Company's share capital is entitled to request that certain specific matters be included on the agenda of the Company's General

Meeting. Such a request should be submitted to the Company's Board of Directors no later than 21 days before the date of the Company's General Meeting.

A shareholder requesting that certain specific matters be included on the agenda of a General Meeting should prove that he or she holds an adequate number of shares at the date of submitting the request, by enclosing a deposit certificate issued by an entity running a securities' account.

A shareholder who represents at least one twentieth of the Company's share capital may submit to the Company, before the date of the General Meeting, draft resolutions concerning the matters included or to be included on the General Meeting agenda, either in writing or using electronic communications means.

Each of the shareholders entitled to participate in the General Meeting may submit to the Company, during the General Meeting, draft resolutions concerning the matters included on the agenda.

Resolutions of the General Meeting are adopted by a majority of 75% of votes cast, unless otherwise provided by the Code of Commercial Companies. One share in the Company gives right to one vote at the General Meeting.

9.11. Rules for amending the Company's Statutes

Amendments to the Company's Statutes, pursuant to the provisions of the Code of Commercial Companies and of the Company's Statutes, require a relevant resolution of the General Meeting and an entry to the Register of Entrepreneurs. The General Meeting may authorize the Company's Supervisory Board to determine the consolidated text of the amended Statutes or to make editorial amendments specified in a resolution of the General Meeting. Any amendments to the Statutes become effective as of the date of their entry to the Register of Entrepreneurs.

9.12. Rules for determining and the amount of compensation for management and supervisory personnel

The Supervisory Board of ZE PAK S.A. determines the rules for remunerating members of the Company's Board of Directors by referring to regulations included in the Code of Commercial Companies and in the Company's Statutes.

The total amount of remuneration, defined as the amount of compensation, awards and benefits received in cash, in kind or in any other form, paid by the Company to members of the Board of Directors for the year 2012, amounted to PLN 3,777,397.34. This amount should be treated as gross remuneration paid or payable in the period from January to December 2012.

The Company has no equity-based incentive or bonus scheme.

Table 13: Information on the amount of remuneration paid and the value of non-monetary benefits granted in 2012 by the Company and the Company's subsidiaries to all members of the Board of Directors holding positions in 2012

Name and surname of member of the Board of Directors	Amount of (gross) remuneration paid by the Company and by the Company's subsidiaries in 2012 in PLN	Total estimated value of non-monetary benefits granted by the Company and by the Company's subsidiaries in 2012 (including staff pension scheme, housing, insurance) in PLN
Katarzyna Muszkat	1,089,575.85	148,035.59
Anna Striżyk	917,494.12	130,315.73
Piotr Jarosz	727,437.76*	124,555.98**
Krzysztof Jędraszczyk	546,327.51	93,654.80

* of which 27,619.76 paid by subsidiary

** of which 2,709.12 paid by subsidiary

In accordance with the provisions of the Code of Commercial Companies and the Company's Statutes, the remuneration of members of ZE PAK S.A.'s Supervisory Board is determined by a resolution of the General Meeting.

The total amount of remuneration, defined as the amount of compensation, awards and benefits received in cash, in kind or in any other form, paid by the Company to members of the Supervisory Board for the year 2012, amounted to PLN 519,622.72 thousand. This amount should be treated as gross remuneration paid or payable in the period from January to December 2012.

Table 14: Information on the amount of remuneration paid and the value of non-monetary benefits granted in 2012 by the Company and the Company's subsidiaries to all members of the Supervisory Board holding positions in 2012

Name and surname of member of the Supervisory Board	Amount of (gross) remuneration paid by the Company and by the Company's subsidiaries in 2012 in PLN	Total estimated value of non-monetary benefits granted by the Company and by the Company's subsidiaries in 2012 in PLN
Zygmunt Solorz-Żak	63,679.21	0
Henryk Sobierajski	54,188.85	0
Andrzej Mazurek	54,188.85	0
Marian Eger	50,033.68	0
Tomasz Klapsa	50,033.68	0
Wojciech Piskorz	50,033.68	0
Sławomir Sykucki	50,033.68	0
Leszek Wystocki	50,033.68	0
Ireneusz Gołębiak	50,033.68	0

Krzysztof Majewski	47,363.73	0
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10. Other information

10.1. Significant court proceedings

As at 31 December 2012, Zespół Elektrowni Pątnów-Adamów-Konin S.A. is not party to any proceedings conducted before a court, an arbitration or public administration authority, with an individual or aggregate value exceeding 10% of ZE PAK S.A.'s equity, except for the proceedings described below. The Company filed a request to declare an overpayment of excise for the years 2006, 2007, 2008 and for January and February 2009, for a total amount of PLN 626 million

The Company believes that, in the light of regulations in force in the European Union, and in particular the provisions of Article 21 Section 5 of the Energy Directive, in conjunction with Article 6 Section 1 of the Horizontal Directive, since 1 January 2006 the sale of energy at the final stage of trading i.e. sale by the distributor to the final recipient (consumer) is taxable with excise. The sale of energy at earlier stages of trading, e.g. from electricity generator to the distributor, is not subject to excise. In this case, tax obligation arises at the moment of supply of electricity to the consumer.

In connection with judgments of Administrative Courts in the matter of excise tax overpaid by other energy companies, ZE PAK S.A., together with its tax advisor, analyzed resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, in which the Supreme Administrative Court concluded that the transfer of the tax burden in the price precludes the possibility of a refund of an overpayment. Based on the rationale for this resolution it can be expected that there is a risk that the tax authorities will refuse to refund overpayments on the grounds that tax proceedings are not appropriate at all for claims of this type. Such claims could then be asserted under civil law, as a result of which a significant issue will arise due to the statute of limitations (under civil law, the limitation period is 3 years). Therefore, on 10 February 2012 ZE PAK S.A. filed a petition with the District Court Warszawa Śródmieście for sending a summons to the State Treasury to enter into a settlement in respect of the Company's claim amounting to PLN 626.4 thousand and thus interrupted the running of the period of limitations. No settlement was made, as during the hearing held on 16 April 2012 the representatives of the State Treasury did not agree to enter into a settlement. At the same time, on 14 September 2012, the Company, while waiting for the outcome of tax proceedings relating to its previous requests for declaration of overpayment, provided the Customs Chamber in Poznań with additional explanations in the form of the results of a detailed economic analysis aiming to prove that the Company incurred a loss due to the payment of excise that it was not liable to pay. The proceedings that are currently at the stage of the Customs Chamber in Poznań relate to the period of December 2006 – September 2008. However, the Company is of the opinion that the document submitted also applies to other requests for overpayment from the whole period of January 2006 – February 2009.

As of 1 March 2009, the Excise Act of 6 December 2008 came into force, according to which the sale of electricity to an entity which is not a final user is not subject to excise.

10.2. Significant achievements in research and development

As at the date of this report, the ZE PAK Capital Group companies do not conduct any research or development activities which are of significant importance for the Group. In addition, during the year under review the Group did not incur any significant expenditure for research and development work.

10.3. Environmental issues

The activities of the Company have a significant impact on the natural environment, in particular due to the emission of pollutants into the air, generation of waste, use of water and discharge of wastewater to the aquatic bodies or to land. This impact is governed by environmental protection regulations. Due to the nature of its activities, the Company holds a number of permits, including integrated permits, governing operational and environmental aspects of primary and auxiliary systems. In addition, the Company holds permits for the use of systems that are not covered by integrated permits, including permits required by water law and waste generation permits. ZE PAK S.A. fulfills its obligations in respect of reporting to relevant offices and makes appropriate payments for the economic use of the environment.

The ZE PAK S.A.'s Management Board pays huge attention to systematic reduction of the adverse impact of its activities on the natural environment

The Company continuously monitors air using two high quality automated measurement stations within the area of the Adamów, Pańków and Konin Power Plants as well as the surface waters of Konin lakes which are used in the operation of the power plants' open-end cooling circuit. This enables permanent oversight of the state of the environment as well as taking immediate action in the event of an environmental threat.

In 2012, the Voivodship Inspectorate for Environmental Protection carried out planned inspections in the Company – mainly with respect to the implementation of the provisions of integrated permits. These inspections related to the improvement of the safety of operation of plants which are a potential source of serious emergencies, improvement of the environment and of the protection of human health against the impact of industrial facilities, and inspection of the solid waste landfill. They were followed by post-inspection recommendations, which have been implemented. No financial penalties were imposed on the Company as a result of these inspections.

In February 2012, the reports on the CO₂ emission from the Company's power plants for 2011 were positively verified by an independent auditing company and were sent to the National Administrator of the System of Trading in Emission Allowances

During the year under review, further steps were being taken to use, in accordance with law, the ash and slag generated by the Company's power plants, to restore waste dumps and other degraded areas as well as other areas of activities, such as highway engineering. The sale of ashes brings tangible effects, for example in the form of savings in environmental fees.

The Company fully complied with the obligation to pay the fees for the economic use of the environment for 2012 in the total amount of PLN 52.4m.

10.4. Information on the audit of financial statements

The contract for the audit of the Financial Statements of the Company with an entity authorized to audit Financial Statements i.e. Ernst & Young Audit Sp. z o. o. with its registered office in Warsaw, Rondo ONZ 1, was concluded on 9 January 2013.

The details of the remuneration of the entity authorized to audit financial statements are presented in Note 8b of the ZE PAK S.A.'s Financial Statements for 2012

10.5. Financial forecasts

Zespół Elektrowni Pątnów – Adamów – Konin S.A. did not publish any financial forecasts. Neither does the Company intend to present a financial forecast for 2013.