ZESPÓŁ ELEKTROWNI
PĄTNÓW-ADAMÓW-KONIN S.A.

MANAGEMENT BOARD'S REPORT FROM THE COMPANY OPERATIONS

IN 2013

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

18 March 2014

Table of contents:

1. Selected Standalone Financial Data 4
2. Description of the Company and of the Capital Group 5
2.1. Basic information on the Company and the Capital Group 5
2.2. Basic principles of management of the Company and of the ZE PAK Capital Group as well as changes thereto 10
2.3. Description of main products, goods and services as well as the main markets and sources of supply 11
3. Description of Operations 13
3.1. Significant events in the accounting year as well as events after the balance sheet date affecting the current and future operations 13
3.2. Significant agreements concluded during the accounting year 15
3.3. Implementation of the investment program 19
3.4. Risk management 21
3.5. Description of the utilisation of proceeds from the issue of debentures 23
3.6. Employment 23
4. Main Business Risks 24
5. Description of the financial and economic position 32
5.1. Principles of development of the financial statement 32
5.2. Description of the basic economic and financial values 33
5.3. Description of factors affecting the current and future financial results 40
5.4. Unusual events affecting the obtained financial results 42
6. Financial Asset Management 42
6.1. Evaluation of financial asset management 42
6.2. Evaluation of the implementation of the investment plan 43
7. Significant development factors and perspectives 43
8. Description of the Shareholding Structure 45
8.1. Shareholding structure 45
8.2. Acquisition of own shares 46
8.3. Shares held in the ZE PAK Capital Group companies by management and supervisory personnel 47
8.4. Control of Employee share option plan 48
9. Declaration of Compliance with the Corporate Governance Principles 48
9.1. Set of corporate governance principles applied 48
9.2. Set of corporate governance principles not applied 49
9.3. Description of the main features of the internal control and risk management systems applied with regard to the development of standalone and consolidated financial statements 51
9.4. Shareholders holding significant blocks of shares 55
9.5. Holders of stocks giving special control rights 55
9.6. Restrictions in exercising voting rights 55
9.7. Restrictions regarding the transfer of ownership of stocks 55

9.8. Principles for the appointment and dismissal of management and supervisory personnel 55
9.9. Composition, changes in the composition and description of the activities of management and supervisory bodies 58
9.10. Procedure and basic powers of the General Meeting as well as description of shareholders' rights and their exercise 62
9.11. Principles for amending the Company's Articles of Association 64
9.12. Principles for determining and the amount of remuneration of management and supervisory personnel 64
10. Other Information 65
10.1. Significant court proceedings 65
10.2. Significant achievements in research and development 66
10.3. Environmental issues 67
10.4. Information on the auditing of the financial statement 68
10.5. Financial forecasts 68

1. Selected Standalone Financial Data

Selected Standalone Financial Data		PLN thousand		EUR thousand	
		12 months of 2013 period from 01.01.2013 to 31.12.2013	12 months of 2012 period from 01.01.2012 to 31.12.2012	12 months of 2013 period from 01.01.2013 to 31.12.2013	12 months of 2012 period from 01.01.2012 to 31.12.2012
I.	Sales revenues	1 776 685	2 016 188	421 915	483 081
II.	Profit/loss on operating activities	78 402	254 407	18 618	60 956
III.	Gross profit/loss	247 073	327 732	58 673	78 525
IV.	Net profit/loss for the accounting year	231 857	275 013	55 060	65 893
V.	Net cash on operating activities	113 328	302 371	26 912	72 448
VI.	Net cash on investment activities	34 612	-446 420	8 219	-106 963
VII.	Net cash on financial activities	-38 086	-99 889	-9 044	-23 934
VIII.	Net change in cash and its equivalents	109 854	-243 938	26 087	-58 448
IX.	Net profit per share (in PLN/EUR per share)	4,56	5,30	1,08	1,27
X.	Weighted average number of shares	50 823 547	51 925 796	50 823 547	51 925 796

Selected Standalone Financial Data		PLN thousand		EUR thousand	
		As at 31.12.2013	As at 31.12.2012	As at 31.12.2013	As at 31.12.2012
XI.	Total assets	3 513 120	3 145 230	847 106	769 343
XII.	Fixed assets	3 027 338	2 781 453	729 972	680 361
XIII.	Current assets	485 782	363 777	117 135	88 982
XIV.	Total equity	2 825 878	2 594 021	681 394	634 514
XV.	Issued capital	101 647	104 052	24 510	25 452
XVI.	Total liabilities	687 242	551 209	165 712	134 829
XVII.	Long-term liabilities	6 302	75 408	1 520	18 445
XVIII.	Short-term liabilities	355 393	284 538	85 695	69 600
XIX.	Book value per share (in PLN/EUR per share)	55,60	49,96	13,41	12,22
XX.	X. Weighted average number of shares	50 823 547	51 925 796	50 823 547	51 925 796

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

- data regarding the consolidated profit and loss account, consolidated total income statement as well as the consolidated cash flow statement in accordance with the exchange rate representing the arithmetic mean of the average NBP rates as of the last working day of each month of the accounting period from 1 January 2013 to 31 December

2013, giving EUR/PLN 4.2110 as well as from 1 January 2012 to 31 December 2012, giving EUR/PLN 4.1736.

- data regarding particular items of the report on the financial position in accordance with the average EUR/PLN rate specified by the NBP as of 31 December 2013, i.e. EUR/PLN 4.1472 as well as of 31 December 2012, i.e. EUR/PLN 4.0882.

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 referred to as ZE PAK, ZE PAK S.A. or Company) operates in the form of a joint-stock company, pursuant to the regulations of the Code of Commercial Companies as well as other regulations of the generally applicable Polish law. The Company was established as result of transformation of Zespół Elektrowni Pątnów-Adamów-Konin state-owned company with registered office in Konin into a company wholly owned by the State Treasury under the business name of 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 from the Notarial Office in Warsaw. On 31 December 1994, the Company was entered into the commercial 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 into the Register of Entrepreneurs. Currently the Company is entered into the Register of Entrepreneurs kept by the District Court Poznań Nowe Miasto i Wilda, IX Commercial Department, under the KRS number 0000021374. The Company was established 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
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
E-mail address:	zepak@zepak.com.pl
KRS no.:	0000021374
REGON no.:	310186795
Tax Identification Number (NIP):	665-000-16-45

According to the Company's Articles of Association, the primary subject of the Company's operations is the production and sales of electricity as well as the production and sales of heat. The Company produces energy from conventional sources as well as by biomass combustion. The Company can conduct operations within 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 dematerialised and marked by Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2013, the share capital of ZE PAK S.A. has been decreased.

As of 31 December 2012, the share capital amounted to PLN 104,052,000.00. On 21 February 2013, the Extraordinary General Meeting of ZE PAK S.A. adopted the resolution on the redemption, by way of voluntary redemption, of 1,202,453 of the Company's common bearer shares with a face value of PLN 2.00 each, comprising 2.31% of the Company's share capital, entitling to exercise 1,202,453 votes during the Company's General Meeting and representing 2.31% of the overall number of votes at the Company's General Meeting. The shares being subject to redemption are the Company's own shares that were acquired by it on 4 December 2012 from Credit Suisse Securities (Europe) Limited based on the authorisation included in Resolution no. 6 of the Company's Extraordinary General Meeting of 20 August 2012 authorising the Company's Board to acquire the Company's own shares as part of operations undertaken to stabilise the price of the Company's shares.

As a result of the resolution on the redemption of own shares, the Extraordinary General Meeting held on 21 February 2013 also adopted the resolution on the decrease of the Company's share capital to the amount of PLN 101,647,094.00 and on its division into 50,823,547 bearer shares class A with a face value of PLN 2.00 each. The decrease in the Company's share capital was executed by the passing of the resolution on the redemption of own shares, i.e. adjustment of the Company's share capital to the face value of shares remaining after the redemption of own shares.

On 29 April 2013, the Company received the decision of the District Court of Poznań – Nowe Miasto i Wilda in Poznań, IX Commercial Department of the National Court Register of 23 April 2013 including the certificate on the entry of 24 April 2013 into the Company's Register of Entrepreneurs regarding the registration of the Company's share capital decrease made pursuant to the resolution no. 6 of the Company's Extraordinary General Meeting of 21 February 2013 on the decrease of the Company's share capital in relation to the redemption of the Company's own shares.

Pursuant to Article 360 § 4 of the Code of Commercial Companies, the registration of the decrease of the Company's share capital was related to the redemption of 1,202,453 of the Company's shares representing 1,202,453 votes at the Company's General Meeting.

After the registration by the District Court of the decrease of the Company's share capital, the Company's share capital amounts to PLN 101,647,094,00 and is divided into 50,823,547 bearer shares class A with a face value of PLN 2.00 each, which represent 50,823,547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

The Company has no branches (establishments).

Basic information on the Capital Group

As at 31 December 2013, 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 seventeen subsidiaries, i.e. Elektrownia Pątnów II Sp. z o.o. (hereinafter referred to as the ***EPII***), 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 sp. z o.o.***), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o. (hereinafter also referred to as ***EL PAK sp. z o.o.***), 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 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 companies within the Group have registered offices in Poland. All the Group companies except for the subsidiaries of PAK KWBK S.A. 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 trade operations 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 operations.

The Group's generation assets include four lignite -fired power plants located in the Wielkopolskie Province, in central Poland. These include: the Pątnów II Power Plant, equipped with a supercritical power unit, the Pątnów I Power Plant, Adamów Power Plant as well as the Konin Power Plant, equipped with a 55 MW unit with a dedicated biomass-fired boiler. The total achievable gross generation capacity of the Group's generation assets as of 31 December 2012 was 2,462 MWe.

The Group's mining assets are concentrated in three companies. The PAK KWBK, which currently utilises the Jóźwin, Tomisławice and Drzewce open casts, the PAK KWBA, which utilises the Adamów and Koźmin open casts as well as PAK Górnictwo S.A. which executes works related to search
and identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

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. The Group, by purchasing lignite mines, provided the power plants with access to continuous supplies of lignite for its own production systems located in the direct vicinity of the mines. The vertically integrated Group allows for optimisation of lignite inventories and supplies while coordinating lignite extraction with the demand for this fuel. The demand for biomass is satisfied pursuant to agreements concluded with the supplier.

Presented below is the structure of the ZE PAK Group as of 31 December 2013.

Figure 1: Structure of the Group as of 31 December 2013

In 2013, the following changes were made to the ZE PAK Capital Group's structure:

- In the 2nd quarter of 2012, the liquidation proceedings of PAK Biopaliwa Sp. z o.o., wholly owned by ZE PAK S.A., were commenced based on the decision of the Extraordinary Shareholders' Meeting of PAK Biopaliwa Sp. z o.o. The liquidation process was completed on 23 January 2013 by deleting PAK Biopaliwa Sp. z o.o. from the National Court Register.
- On 23 April 2013, Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. acquired 1 share in Energoinwest Serwis Sp. z o.o. from a second shareholder and thus PAK Serwis Sp. z o.o. became 100% owner of the company.

The Company outside the Capital Group has shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar Sp. z o.o. with registered office in Gliwice, providing measurement, research and consulting services regarding processes, power systems and devices, heating and mechanical devices, power chemistry devices and environmental protection. The aforementioned company also deals with consulting in the management of investment and modernisation processes, including processes related to the construction of new generation units, fulfilment of emission allowances and power efficiency. ZE PAK S.A. has 1 share with a value of PLN 151,201.01 in the aforementioned company, comprising 2.81% of the total capital.

Table 1: Description of the Group's companies as of 31 December 2013 (excluding ZE PAK S.A.)

Entity	**Registered office**	**Scope of operations**	**Group's share in the capital in percent**	
			As of 31 December 2012	**As of 31 December 2013**
Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.*	62-510 Konin ul. Przemysłowa 158	Renovation and construction services	100%	100%
Elektrim-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100%	100%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services in the scope of industrial automation and electrical devices	100%	100%
Elektrownia Pątnów II Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity in the 464 MW unit	100%**	100%**
PAK-Holdco Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding operations	100%	100%
PAK Infrastruktura Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Execution of general construction works in the scope of engineering structures, unclassified 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 testing and analyses	100%	100%
PAK Górnictwo Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal extraction	100%***	100%***
PAK-Biopaliwa Sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 158	Purchase, storage and delivery of biomass	100%	-
Energoinwest Serwis Sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Renovation and construction services	99%****	100%****

PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	85%	85%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite extraction	85%	85%
Ochrona Osób i Mienia ASEKURACJA Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Security of people and property	85%*****	85%*****
Aquakon Sp. z o.o.	62-610 Sompolno Police	Production and trade of mineral waters	66.6%*****	66.6%*****
Eko-Surowce Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Lignite sales	85%*****	85%*****
KWE Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	42.5%*****	42.5%*****
Centrum Zdrowia i Relaksu Verano Sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Services in the scope of vacation and sanatoriums	85%*****	85%*****

* Affiliate – Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o. – with a foreign branch in Germany.

** Indirect share by PAK-Holdco Sp. z o.o.

*** Indirect share by PAK Centrum Badań Jakości Sp. z o.o. 9% as of 31 December 2012 and 31 December 2013. On 20 October 2013, the shareholders of PAK Górnictwo Sp. z o.o. decided to increase the Company's share capital. Changes in the National Court Register were made on 17 February 2014 and currently the structure of shares in the company is as follows: ZE PAK S.A. – 94%, PAK CBJ Sp. z o.o. - 6%.

**** Indirect share by Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o.

***** Indirect share by PAK KWB Konin (the indirect participation of PAK KWB Konin in Aquakon Sp. z o.o. amounts to 78.4%, in KWE Sp. z o.o. 50%, in other companies – 100%).

2.2. Basic principles of management of the Company and of the ZE PAK Capital Group as well as 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 company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, a separate Corporate Governance and Restructuring Department was established within the organisational 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 executed by the Supervisory Councils, the role of which in the system of corporate governance in relation to the above-mentioned companies is defined in a statutory manner. In accordance with the Group's policy, the positions of Presidents of Supervisory Councils in the subsidiaries are held by Members of the Management Board of ZE PAK S.A. Furthermore, to ensure proper functioning of the corporate governance body, the ZE PAK S.A.'s Board recommends other members of the Supervisory Councils 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 ZE PAK S.A.'s Board in January 2012, entitled "Corporate Governance Principles for the ZE PAK S.A. Capital Group", which sets the main principles for the management of the Capital Group. The scope of the tasks and duties of Supervisory Councils in the subsidiaries has been extended in this document. The document also defines the tasks and duties of the Corporate Governance and Restructuring Department, information requirements for subsidiaries' boards as well as the method of fulfilment of specific governance tasks.

During the year of 2013, there were no significant changes in the principles of management of the Company or of the ZE PAK Capital Group.

2.3. Description of main products, goods and services as well as the main markets and sources of supply

The Company's operations are focused in several areas. The primary operation is undoubtedly the production and wholesale of electricity, which is supplemented by the sale of certificates of origin of electricity, activities aiming at guaranteeing the adequate number of CO2 allowances as well as production and sale of heat. In 2013, the Company conducted its operations mainly in the Polish market. Only the operation related to transactions regarding the CO2 allowances were executed between the Company and foreign partners.

The Company is the second largest national producer of electricity generated from lignite. The contribution of all of the Company's power plants in the entirety of electricity produced in Poland amounts to 5,6%[1]. The net electricity production in the Pątnów I Power Plant in 2013 was equal to 4.51 TWh, while in the Adamów Power Plant and Konin Power Plant - 3.03 TWh and 0.53 TWh respectively. In 2013, the Company sold 8.49 TWh of electricity, i.e. nearly 1% more than in 2012. The increase in production is attributable mainly to the Adamów Power Plant and Konin Power Plant (however it is necessary to take into account that only the biomass unit was operational throughout the entire previous year in the Konin Power Plant, whereas in 2012 it was utilised only for 6 months). Electricity production in the Pątnów Power Plant in 2013 decreased.

The main direction of sales of electricity was the sale in the scope of bilateral contracts concluded with electricity turnover companies conducting operations in the Polish market. This form of sales amounts to 61.4% of the electricity sales volume executed by the Company in 2013, including a 32.1% contribution of five of the biggest partners of the Company. The sale to end users did not comprise a substantial element of the Company's operations and amounted to 0.5% of the entire electricity sales volume.

[1] Based on the Table: The structure of electricity production in domestic power plants, the values of electricity exchanges with the foreign entities and the domestic energy consumption – monthly values and values since the beginning of the year – gross value available on the PSE S.A. website. The total gross production in Poland in 2013 amounted to 162,501 GWh.

With each year, the role of the exchange market among the directions of energy sales increases. In 2013, the Company executed 29.6% of the entire electricity sales volume in exchange markets, which is a substantial increase in comparison to the previous year.

Furthermore, in 2013, the Company remained in the group of producers who actively participated in the electricity balancing market trade by selling a part of its energy in this market, i.e. 9% of the entire electricity sales volume. The electricity sales revenues comprised 86.8% of the Company's total sales revenues.

The number of green and red certificates obtained by the Company, mainly thanks to the use of the biomass unit, co-combustion as well as high efficiency cogeneration in heat production in 2013, is substantially higher from the number of certificates that the Company is obligated to present to the President of the Energy Regulatory Office (URE) for redemption in order to fulfil the obligations imposed by the current regulations. Due to the above, the excess certificates are sold mainly to Towarowa Giełda Energii (Polish Power Exchange). In 2013, the Company generated 0.35 TWh of green certificates and 0.18 TWh of red certificates. The revenues from sales of certificates comprised 3.2% of the Company's total sales revenues. It is necessary to note that at the end of April 2013, the Company discontinued biomass co-combustion in its power plants, which will be discussed in point 3. Description of Operations.

The heat generated in the Company's power plants is sold to local recipients. The main recipients include local district heating companies as well as local industrial manufacturers. The Company covers almost the entire heat demand of Konin and Turek cities. In 2013, the Company's power plants sold 2,132 TJ of heat. The heat sales comprised 3.5% of the Group's total sales revenues. The rest of the Company's revenues is comprised of services provided mainly for entities within the Group and the share of services in the Company's revenue structure amounts to 6.5%.

The main raw material used by the Company for energy production is lignite. In practice, lignite is extracted only for the purposes of the energy sector. This is due to the fact that the lignite extracted in Poland is soft and its long-distance transport is not cost-effective due to the large content of water. The extracted lignite is delivered directly from open cast mines to the nearby power plants. Therefore, the extraction of lignite in the ZE PAK Group is strictly related to the amounts of electricity produced by the power plants located near the mines.

The Company's power plants also use biomass as raw material to produce energy, which will be co-combusted with conventional fuels in the Pątnów I and Adamów Power Plants until the end of April 2013 or combusted throughout 2013 in a dedicated boiler used in the Konin Power Plant. In 2013, 426,600 tons of biomass were used up in the Company's installations in the process of "green" energy production. Due to its price, it is more cost-effective to combust forest biomass, however energy producers are obligated to use a share of agricultural biomass specified in the regulations of the law. In the previous year, the Company's installations used 68% of forest biomass and 32% of agricultural biomass in the entire biomass pool.

3. Description of Operations

3.1. Significant events in the accounting year as well as events after the balance sheet date affecting the current and future operations

Significant events in the accounting year

Discontinuation of co-combustion of biomass

Currently biomass is combusted only in a special boiler dedicated for biomass combustion in the Konin Power Plant, while co-combusted of biomass with conventional fuels has already ceased completely in the power plants belonging to the ZE PAK Group. The premise for this decision was the present situation on the power market and energy certificates, with persisting downward trends, in particular in the case of "green certificates" they did not ensure profitability of production of energy generated in the process of co- combustion of biomass with lignite, by using owned systems. According to the provisions, the volume of energy produced in the ZE PAK Group's power plants was not decreased as result of discontinuation of biomass co- combustion, because the Company replaced the biomass co- combustion with higher coal production. The volume of "green" energy produced by the Group decreased in 2013 in relation to the production from the previous year by 35.5%, which was mainly due to the discontinuation of biomass co-combustion.

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

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

According to the resolution no. 5 of the Extraordinary Meeting of Partners of ZE PAK S.A. of 21 February 2013, voluntary redemption regarded 1,202,453 of the Company's common bearer shares with a face value of PLN 2 each, comprising 2.31% of the Company's share capital, entitling to exercise 1,202,453 votes during the Company's General Meeting and representing 2.31% of the overall number of votes at the Company's General Meeting, dematerialised and marked by Krajowy Depozyt Papierów Wartościowych S.A. [National Deposit of Securities] with a stock code of PLZEPAK00012. The Company acquired own shares on 4 December 2012 in relation to the share price stabilisation operation in the period directly after the initial public offering of ZE PAK shares in the Warsaw Stock Exchange.

In relation to the above redemption of the own shares, the Company's share capital, pursuant to Resolution no. 6 of the ZE PAK S.A.'s Extraordinary General Meeting of 21 February 2013, was

decreased by the amount equal to the face value of the redeemed shares, i.e. the amount of PLN 2,404,906.00.

On 29 April 2013, the Company received the decision of the District Court of Poznań – Nowe Miasto i Wilda in Poznań, IX Commercial Department of the National Court Register of 23 April 2013 including the certificate on the entry of 24 April 2013 into the Company's Register of Entrepreneurs regarding:

- the registration of the Company's share capital decrease made pursuant to the resolution no. 6 of the Company's Extraordinary General Meeting of 21 February 2013 on the decrease of the Company's share capital in relation to the redemption of the Company's own shares, as well as
- the registration of the amendment of § 5 paragraph 1 of the Company's Articles of Association made pursuant to the resolution no. 7 of the Company's Extraordinary General Meeting of 21 February 2013.

The issue of share redemption and changes in the Company's share capital is discussed in detail in points 2.1 and 8.2 of this report.

Modernisation of the Pątnów I Power Plant

The first half of 2013 featured the completion of execution of the investment task comprising in construction of the system limiting the NO_X emission in the Pątnów Power Plant's boiler K-5. The contractor executed the contractual entries by obtaining the established parameters guaranteed by the agreement. This was confirmed by the warranty measurements executed by an independent entity. The most important contractual element was the reduction of nitrogen oxide emission to 200 mg/Nm^3 using of primary methods (Rofa) and below 180 mg/Nm^3 using secondary methods.

As result of conclusion of the tender proceedings, on 31 July 2013, the two most important agreements regarding the modernisation of units no. 1 and 2 at the Pątnów Power Plant were concluded, i.e.:

- Turnkey modernisation contract regarding Boiler K-1 and Boiler K-2 at the Pątnów Power Plant, including the construction of systems limiting the NO_X emission in these boilers.
- Turnkey modernisation agreement regarding the high-speed and medium-speed parts of the turbine sets with auxiliary devices and pipeline systems in units 1 and 2 of the Pątnów Power Plant.

Significant events after the balance sheet date

Early repayment of the investment credit

On 2 January 2014, the Company made an early repayment of the credit granted in 2006 by PKO BP and PEKAO S.A. banks for the construction of the flue-gas desulphurisation system in the

Pątnów Power Plant ("IOS Credit"). The capital of the repaid credit as of the day of early repayment amounted to PLN 90 million. The Company decided on the early repayment of the IOS Credit due to the intention of refinancing it.

Syndicated credit agreement for the financing of modernisation of the Pątnów I Power Plant

On 13 March 2014, the Company concluded with the consortium of banks comprising of: Bank Gospodarstwa Krajowego, mBANK S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. the credit agreement, pursuant to which the Company obtained the following credits:

1) credit in the amount of PLN 1,110,000,000 for the purpose of modernisation of units 1-4 of the Pątnów Power Plant, including additional tasks, as well as
2) credit in the amount of PLN 90,000,000 for the purpose of refinancing the debt the debt deriving from the credit contracted in 2006 for the construction of the flue-gas desulphurisation system for the Pątnów Power Plant units.

The obtained resources will allow for the financing of up to 61.92% of the costs of the project comprising in the execution of the final stage of modernisation of 4 units in the Pątnów Power Plant and the other part of expenses will be covered by own resources. Pursuant to the credit agreement, the Company can use the resources no later than until 31 December 2016. The use of the credits requires the Company to fulfil the precedent conditions specified in the agreement, which are no different than the conditions commonly used in similar transactions. The granted credits are subject to interest based on the applicable rate of WIBOR, increased by the bank's margin rate. The Company is obligated to repay the credit including the interest and other due amounts pursuant to conditions specified in the agreement. The complete repayment of the credit should take place until 31 December 2023.

3.2. Significant agreements concluded during the accounting year

Significant agreements for the Company's operations

Below we present the description of significant agreements concluded by the Company in 2013, excluding agreements concluded in the course of usual operations, such as electricity sale agreements or raw material supply agreements.

Agreements regarding the modernisation of units 1-4 at the Pątnów I Power Plant

As stated in the above point of this report regarding the most important events, the works related to the final stage of modernisation of the Pątnów Power Plant were continued in 2013. The two most important agreements related to the modernisation of units 1 and 2 at the Pątnów Power Plant were concluded on 31 July 2013:

- Turnkey modernisation contract regarding Boiler K-1 and Boiler K-2 at the Pątnów Power Plant, including the construction of systems limiting the NO_X emission in these

boilers with Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i Przemysłu Remak-Rozruch S.A. and Przedsiębiorstwo Remontowe PAK Serwic Sp. z o.o., acting as a consortium. The subject of the Agreement includes the modernisation of the boiler building, boiler pressure part and auxiliary devices of units 1 and 2 in the Pątnów Power Plant, including the construction of the NO_X emission reducing system using secondary methods, in order to ensure lack of excess beyond 180 mg/m_u^3 (6% oxygen, dry flue-gas) by supplementing the combustion process with a urea solution up to the level of 200 mg/m_u^3 using primary methods in the scope of designing, supplies, installation, services, start-up and commissioning in accordance with the provisions of the agreement. The total net value of the agreements for boiler K-1 and boiler K-2 amounts to PLN 382 million. The parties agreed that the commissioning of boiler K-1 will take place until 31 December 2014, whereas the commissioning of boiler K-2 will take place until 28 February 2015.

- Turnkey modernisation agreement regarding the high-speed and medium-speed parts of the turbine sets with auxiliary devices and pipeline systems in units 1 and 2 of the Pątnów Power Plant with TurboCare Sp. z o.o. The value of the agreement did not exceed 10% of the Company's equities. The schedule projects the completion of turbine modernisation until 10 December 2014 (unit no. 1) and until 10 February 2015 (unit no. 2).

Agreements regarding the obtained credits and loans

In 2013, the Company concluded the following agreements regarding credits and loans:

1. ZE PAK S.A. concluded Annex no. 27 with the BZ WBK S.A. bank extending the deadline for repayment of the overdraft facility until 30 November 2014. The available credit limit amounts to PLN 5,000 thousand, the interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
2. ZE PAK S.A. concluded Annex no. 8 with the PEKAO S.A. bank extending the deadline for repayment of the overdraft facility until 30 September 2014. The available credit limit amounts to PLN 80,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.
3. ZE PAK S.A. concluded Annex no. 14 with the PKO BP S.A. bank extending the deadline for repayment of the overdraft facility until 25 October 2014. The available credit limit amounts to PLN 90,000 thousand. The interest rate according to the WIBOR rate amounts to 1M plus the bank's profit margin.

Agreements regarding the granted loans

Company did not grant any loans in 2013.

Granted and obtained guarantees and sureties

Table 2: List of guarantees and sureties granted by the Company in 2013.

No.	Name of the entity for which the surety was granted	Name of the beneficiary and surety subject	Surety amount in thousands	Date of conclusion of the surety agreement	Surety expiration date
1.	PAK KWB Konin S.A.	BRE Bank S.A. Working capital credit for the amount of PLN 30,000.00. The credit was repaid on 31-12-2013.	18,300	14-02-2013	31-03-2014
2.	PAK KWB Konin S.A.	BRE Bank S.A. Working capital credit for the amount of PLN 10,300.00 thousand	10,300	14-02-2013	30-04-2014
3.	PAK KWB Konin S.A.	BRE Bank S.A. Overdraft facility for the amount of PLN 9,700.00 thousand	9,700	10-05-2013	31-07-2014
4.	PAK KWB Adamów S.A.	BZ WBK S.A. Overdraft facility for the amount of PLN 10,500.00 thousand	10,500	16-05-2013	16-05-2014
5.	PAK KWB Konin S.A.	BZ WBK S.A. Overdraft facility for the amount of PLN 65,000.00 thousand	65,000	31-07-2013	30-06-2014
6.	PAK KWB Konin S.A.	BZ WBK S.A. Investment credit for the amount of PLN 46,463.40 thousand	32,572	31-07-2013	31-12-2016
7.	PAK KWB Konin S.A.	Bank Millennium S.A. Working capital credit for the amount of PLN 76,500.00 thousand	76,500	05-08-2013	31-12-2017

Table 3: List of guarantees and sureties obtained in 2013.

No.	Type	Issuer	Beneficiary	Ordering Party	Amount in thousands	Effective date
1.	Bank Performance Bond	Raiffeisen Bank Polska S.A.	ZE PAK S.A.	Energomar-Nord Sp. z o.o.	28	29-06-2016
2.	Bank Performance Bond	PKO BP	ZE PAK S.A.	Chemar Rurociągi Sp. z o.o.	2,282	15-12-2014
3.	Bank Performance Bond	PKO BP	ZE PAK S.A.	Chemar Rurociągi Sp. z o.o.	2,308	15-02-2015
4.	Bank Advance Payment Refund Guarantee	PKO BP	ZE PAK S.A.	Chemar Rurociągi Sp. z o.o.	2,807	30-11-2014

5.	Bank Advance Payment Refund Guarantee	PKO BP	ZE PAK S.A.	Chemar Rurociągi Sp. z o.o.	2,839	31-01-2015
6.	Bank Advance Payment Refund Guarantee	PEKAO SA	ZE PAK S.A.	Remak-Rozruch SA	28,326	30-09-2015
7.	Bank Advance Payment Refund Guarantee	PEKAO SA	ZE PAK S.A.	Turbo-Care Sp. z o.o.	2,583	30.09.2015
8	Performance Bond for the Quality Guarantee and Warranty period	Siemens Financial Services GmbH	ZE PAK S.A.	Turbo-Care Sp. z o.o.	3,075	10.07.2015
9	Performance Bond	Siemens Financial Services GmbH	ZE PAK S.A.	Turbo-Care Sp. z o.o.	14,742	24-09-2015
10	Performance Bond	Siemens Financial Services GmbH	ZE PAK S.A.	Turbo-Care Sp. z o.o.	15,120	24-11-2015
11	Advanced Payment Refund Guarantee	Siemens Financial Services GmbH	ZE PAK S.A.	Turbo-Care Sp. z o.o.	10,074	14-02-2015
12	Advanced Payment Refund Guarantee	Siemens Financial Services GmbH	ZE PAK S.A.	Turbo-Care Sp. z o.o.	10,332	14-04-2015
13	Defect Liability Guarantee	UNIQA TU S.A.	ZE PAK S.A.	Condix	3,584	10-07-2015

Insurance agreements

Below we present the description of significant insurance agreements concluded by the Company in 2013.

1. Pursuant to the General Complex Insurance Agreement concluded in 2012 by ZE PAK S.A. with the Consortium of Co-insurers comprised of: 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 Insurance Policy Agreements were issued in 2013 for the insurance period of 1 January 2014 to 31 December 2014. The insurance amount for the Pątnów, Adamów and Konin Power Plants amounted to a total of PLN 11,400,000,000. Each power plant obtained Insurance Policy Agreements which include insurance coverage: of property from any risk, loss of profit due to

any risk, machinery and device from damage, loss of profit due to machinery and device failure, electronic equipment from all risk.

The agreements concluded with affiliates on conditions different than market conditions

In 2013, there were no agreements concluded on conditions different than market conditions between the affiliates of the ZE PAK Capital Group.

3.3. Implementation of the investment program

Key investments during execution

Pątnów I Power Plant

The most important investments executed in 2013 were the tasks related to the final stages of modernisation of units 1-5. The modernisation works for the existing 200 MW units in the Pątnów I Power Plant were concluded in order to prolong its utilisation by approx. 15 years. The result of the modernisation will be the improvement of safety during utilisation of devices and the effectiveness of electricity production with simultaneous compliance of ecological requirements. The most important tasks executed in 2013 included:

"Construction of the system limiting the NOx emission in the Pątnów Power Plant's boiler K-5"

In 2013, the execution of the task was completed. The modernisation of the pulverised coal-fired boiler was to limit the NOx emission to the level of 200 mg/Nm^3 using finally methods and below 180 mg/Nm^3 using the secondary method by supplementation with a solution of urea. In the I quarter of 2013, the report from warranty measurements after the modernisation of boiler K-5, confirming the compliance with the contractual requirements by the contractor and obtaining the result in the form of limiting NOx emissions in flue-gas was developed by an independent laboratory.

"Modernisation of the fire-fighting water pump station in the Pątnów Power Plant"

The modernised fire-fighting water pump station was completed and commissioned. The execution of the task allowed for the adaptation of the source of fire-fighting water in the Pątnów Power Plant to the current regulations. Modernisation of the pump station is compliant with the requirements of insurance companies, which required guarantee to provide fire-fighting water of the protected structures.

"Modernisation of the TG-1 turbogenerator in the Pątnów Power Plant" as well as "Modernisation of the TG-2 turbogenerator in the Pątnów Power Plant"

In 2013, the execution of tasks was continued. The result of the subject modernisation of all three steam turbine parts, i.e. high-speed (HS), medium-speed (MS) and low-speed (LS) as well s the

mechanical part of the generators, will be the increase in the gross effectiveness of units from 32.9% (data from 2011) to approx. 37.5%, and thus increase in the gross power capacity. The modernised units no. 1 and 2 (turbo-generators) will operate as primary facilities and will be fully compliant with the system requirements of PSE Operator S.A. for the Centrally Dispatched Production Facilities (CDPF) according to the requirements of the Transmission Grid Operation and Maintenance Instructions. The modernisation of TG-1 and TG-2 will allow to produce electricity with higher effectiveness for approx. the next 15 years.

"Modernisation of boiler K-1 Pątnów Power Plant"
and "Modernisation of boiler K-2 Pątnów Power Plant"

The execution of tasks, the basic aim of which was to improve the effectiveness of the combustion process in both economic and environmental emission terms was commenced. Additionally, the technical condition of boilers which were operational for approx. 300,000 hours does guarantee their further proper operation. The agreement with Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i Przemysłu Remak-Rozruch S.A. and Przedsiębiorstwo Remontowe PAK Serwic Sp. z o.o., acting as a consortium for the modernisation in the turnkey system of two boilers (K-1 and K-2), including the assembly of the NOx emission limiting system to 200 mg/Nm3 using the primary methods and below 180 mg/Nm3 additionally using the non-catalytic secondary method (SNCR) was concluded on 31 July 2013. Unit 1 was shut down for modernisation in September 2013, while unit 2 was shut down for modernisation in November 2013.

"Modernisation of the cooling water pump station and collectors in the
Pątnów Power Plant"

The execution of the task, the aim of which was to prolong the life-time of the cooling water pumps and pipelines for approx. the next 15 years, by replacement of the flow systems and modernisation of cooling water pump units, was commenced. An additional aim was the renovation of the cooling water delivery and dumping pipeline allowing for ensuring 100% tightness of the system and the smallest possible narrowing of the internal diameter of pipelines with maintenance of all strength parameters both on the side of water pressure and the ground.

"Migration of the OVATION-SOLARIS system to the OVATION-WINDOWS
standard at the unit no. 3" and "Migration of the OVATION-SOLARIS system
to the OVATION-WINDOWS standard at the unit. no. 4"

The execution of the aforementioned tasks was a form of preparation of the central control system for units no. 3 and no. 4 for the needs of the units' operations after their modernisation. Additionally, the execution of the tasks was to prepare the units for operation in the system according to the new transmission grid operation and maintenance instructions as well as to update the digital control systems for unit no. 3 and no. 4 to the newest version of OVATION-WINDOWS. In 2013, the task at the unit no. 3 was commenced and the unit was commissioned, whereas the completion of the task at the unit no. 4 is planned for 2014.

Key investments during the preparatory stage

Konin Power Plant

In the scope of the investments aiming at the diversification of the fuels used, in 2012, the Company's general design engineer, the Biuro Studiów, Projektów i Realizacji ENERGOPROJEKT-KATOWICE S.A. company (hereinafter referred to as the ENERGOPROJEKT-KATOWICE S.A.) executed the "The program-related and spatial concept of the construction of the steam and gas unit (BGP) in the Konin Power Plant" in order to choose the optimal variant of the designed investment. In 2013, on the basis of the aforementioned document, the following documentation was developed and administrative decisions were obtained:

- Report on the environmental impact of the project titled: "Construction of the steam and gas unit, including the back-up peak load boiler and the associated infrastructure, in the area of the Konin Power Plant".
- On 18 June 2013, the Company applied at Polskie Sieci Elektroenergetyczne S.A. for the specification of the connection conditions for the producer Zespół Elektrowni Pątnów-Adamów-Konin S.A. with the connection capacity of 137 MW to the connection grid.
- On 10 December 2013, PSE S.A. issued the conditions for the connection of the producer, i.e. Zespół Elektrowni Pątnów-Adamów-Konin S.A. with the connection capacity of 137 MW to the connection grid.
- Energoprojekt-Katowice S.A. developed the Terms of Reference for the execution of the task: "Steam and gas unit, including the back-up peak load boiler room in the Konin Power Plant", including the required appendixes as well as the basic designs for the unit's auxiliary management facilities, which require adjustment in order to co-operate with the steam and gas unit.
- Biuro Studiów i Projektów Gazownictwa GAZOPROJEKT S.A. developed and submitted to the Office of communes in which the gas pipeline supplying the unit will be located – the "Project Data Sheet" – the document required for investments affecting the environment in a minor degree.
- After conducting the administrative proceeding, on 11 February 2014, the Mayor of the city of Konin issued the decision on environmental conditions for the project comprising in the construction of the steam and gas unit, including the back-up peak load boiler and the associated infrastructure, in the area of the Konin Power Plant.

3.4. Risk management

While conducting its operations, Company is exposed to a series of risks, occurring actually, potentially or theoretically, present in the industry as well as on the markets on which the Company operates. These are factors which originate both from the inside of the Company as well as from its environment. Taking into account the formalisation of the realm related to the risk in the Group's operations, the complex document titled "Principles of Risk Management for the ZE PAK S.A. Capital Group" ("Management Principles") was developed. The Management Principles were developed and introduced in order to define and specify the limits of risks present

or which can occur in the ZE PAK S.A. Capital Group as well as to specify the mechanisms used to minimise risk exposure in the course of conducting operations in the energy sector and to minimise the effects of the risk, which due to the specificity of the ZE PAK S.A. Capital Group's primary production operations cannot be eliminated in its entirety.

The first stage was to specify the Group's companies, in the operations of which the risk with material significance for the operations of the entire group can be identified and then to use appropriate principles of procedure. The Companies significantly affecting the Group's primary operations are: ZE PAK S.A., EPII, PAK KWBK S.A., PAK KWBA S.A., PAK Centrum Usług Informatycznych Sp. z o.o., Elektrim Volt S.A. Other Companies in the Group do not directly affect the operational risks.

The Capital Group's business model and strategy were established pursuant to the aforementioned principles. The primary principle of the business model executed by the Group in the realm of its business operations: extraction, production and trade is to maximise the production and profit with simultaneous compliance with the risk minimisation principle. In order to achieve its business goals, the Group accepts to incur the risk, but only in the scope and pursuant to principles specified in the Management Principles. All types of business risks and situations resulting in exposure to risk are constantly minimised, provided that the Management Principles or the Board's decisions do not authorise specific deviations. The specific roles and the scope of liability for decisions and actions related to the executed market policy and strategy were distinguished in relation to the Group's capital structure and the organisational chart of particular

companies. A special role, related to the compliance and proper application of the Management Principles, is played by the task team named the Risk Management Committee, which acts as a consultative body for the ZE PAK S.A.'s Board. The body was appointed by the Order of the President of the Company's Board. The main task of the Risk Management Committee is to recognise, identify and evaluate in substantive terms all economic risks with a value exceeding PLN 10 million, related to the business operations conducted by the Group.

The scope of the Group's risk management featured identification of specific areas of risks related to the execution of the established business goals:

1) raw material risks;

2) production risks;

3) market risks and related financial risks;

4) operational risks related to the operation of IT systems;

5) risk in the area of information security.

Each area of risk identified above included the identification of specific types of risks related a specific area. The type of a given risk was thoroughly described with specification of theoretical examples of its occurrence in the Group's operating activities. Each type of risk also features specific forms of action aiming at its minimisation or elimination, a specific benchmark was also

assigned and the so called "key performance indicator", i.e. the minimum performance level, was specified wherever possible.

Directors and employees of organisational units allocated to a given area of risk are subject to inspection in the scope of compliance with the Management Principles, appropriately to their scope of operations. The management of the organisational units is responsible for the proper and compliant with the Management Principles execution of tasks by subordinate organisational units and individual positions. The Management Principles also include an in-depth description of the correct reporting process regarding the identified risk as well as the method of procedure in case of identifying the infringement of the principles described in the document.

According to the Management Principles, the compliance with the procedures and methods of procedure described in the document can be abandoned only in case of obtaining the approval of the ZE PAK S.A.'s Board expressed in writing. In such case a special procedure also described in the Management Principles is applied.

The Company does not use financial instruments in the scope of security of risk of changes in price regarding markets in which it conducts its operations. The credit risk security features instruments in the form of advanced payments, guarantees or sureties. In the case of guarantees and securities, the Company evaluates the creditworthiness of the entity granting the guarantee or sureties on its own. In order to avoid substantial disruptions in the cash flows and loss of financial liquidity, the Company uses revolving credit facilities and the amount of credit limits is adjusted to the Company's scale of activities.

The aim of the Company's use of financial instruments in the scope of securing the financial risk is its minimisation. According to the Management Principles, it is not acceptable to use financial instruments designed for securing financial risk to gain short-term benefits from the differences in the quotation of the given instrument. The Company does not exclude any financial risk management methods and strategies provided that the used method is compliant with the Management Principles. Currently the Company does not use risk management methods which would require hedge accounting, however it does not exclude the use of such methods in the future, especially in the case of defining a huge potential risk in the scope of exchange or interest rate.

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

In 2013, Company did not issue any debenture securities.

3.6. Employment

The below tables present the specification of employment values (as job positions) at the end of 2013 and 2012, as well as the average employment in both years.

The employment in the Company at the end of 2013 amounted to 1,233 job positions, which is a decrease by 41 positions, i.e. 3.2% in relation to employment at the end of 2012. The average employment in 2013 amounted to 1,256 job positions, which is a decrease by 10 positions, i.e. 0.7% in relation to employment at the end of the previous year.

Table 4: Employment

Specification	2013	2012	Change	
	job positions	job positions	job positions	%
Employment acc. to the state at the end of the year	1,233	1,274	-41	-3.2
Average annual employment	1,256	1,266	-10	-0.7

4. Main Business Risks

The process of forecasting future results of the ZE PAK must include a wide range of factors existent in the branch and markets in which the Company conducts its operations. These include both internal factors as well as factors with their source in the environment. In the view of the Board, they can be divided into factors which constantly influence the Company's functioning as well as those which appear incidentally in the period which is embraced by a given periodical report.

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

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO_2 allowances costs;
- compensation for the stranded costs related to the termination of the Pątnów II Power Plant's KDT contract;
- seasonality and meteorological conditions;
- investment expenses;
- EUR/PLN exchange rate.

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

When conducting operations within the territory of Poland and obtaining most revenues from the sale of electricity, it is necessary to take into consideration the macro-economic trends in the Polish economy. A very significant factor is the increase in the real GDP and industrial production in Poland, the development of the service sector as well as the increase in individual consumption.

All of the aforementioned factors significantly impact the demand for electricity and its consumption.

According to the rough estimate of the Central Statistical Office, the gross domestic product ("GDP") in 2013 was higher by 1.6% in comparison to the previous year (in fixed prices from the previous year). When observing the GDP dynamics in subsequent quarters, it is easy to notice that starting from the first quarter of 2012, the increases in GDP with each subsequent quarter (in relation to the analogous quarter of the previous year) were smaller with each month.

Chart 1: GDP dynamics (%) in relation to the analogous quarter of the previous year

* the so called "Quick estimate of the gross domestic product for the IV quarter of 2013"

Source: GUS data

This trend was subject to inversion as late as the second quarter of 2013. According to numerous opinions, this situation suggests that the bottom of the business cycle was achieved in the first quarter of 2013. If we analyse the GDP structure in 2013, it turns out that the increase was mainly influenced by the positive impact of net export and the national consumer demand, with a neutral impact of the investor demand. Only the impact of the first component was visible in the first half of the year, however in the last readings, the impact of the consumer demand was also clearly visible. The following factors, among others, are favourable to consumption: increasing wages, stronger labour market, clear improvement of the consumers' optimism as well as clear decrease in the credit servicing cost load. Such an arrangement of the GDP's increase structure and the decreasing margin of reserve in the production potential also create possibilities for increasing investments in the next quarters. It is worth to mention that the sustaining recovery lacks significant inflation stresses.

Based on the data from the functioning of the Public Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., it is visible that the national electricity consumption in 2013 increased by 0.62% in comparison to the previous year. It is worth to note that when analysing the demand dynamics in subsequent months, the decrease in demand was noted only twice, a slight decrease in May and a substantial decrease in February (the weather conditions in February of the two years were significantly different), whereas cumulatively since half-year we are noting an increasing trend. In the entire 2013, the production of electricity

increased overall by 1.66%. The production of energy in professional power plants using bituminous coal remained at the same level, whereas the production using lignite increased by 2.46%, it is also worth to mention the dynamic increase of energy produced by wind turbines by 47.23%.

Regulatory environment

The entities conducting operations in the electricity market are subject to strict regulation. The Energy Law, Resolutions as well as the Directives of the European Commission and international conventions, regarding, among others, the environmental protection and climactic changes (including CO_2 emissions), obligation of public sales of a part of the produced energy, as well as support of specific energy production technologies. It is also necessary to take into consideration the regulations of the tax law as well as interpretations and recommendations issued by the Energy Regulatory Office.

Several principal changes took place in the widely understood regulatory environment, which is significant for the electricity producers, in the last year. The changes accelerated the works related to the emergence of the so called "power market" in the second half of the year. According to the assessment of the representatives of the Energy Regulatory Office and Polskie Sieci Elektroenergetyczne (PSE), the full implementation of the power market in its target form can take approx. two years, however since the beginning of 2014, certain solutions in the scope of operational power reserves as well as interventional power reserves are mandatory. The operative power reserves mechanism is to ensure the profitability of maintaining the existing production facilities on the market, whereas the interventional cold reserves mechanism relies on maintaining production facilities ready-for-use at the order of the operator during the projected power deficit periods after 2015. Both solutions rely on the introduction of fees for the power made available in the system and according to the assumptions of their creators, they are to prevent any deficits in generated power in case of decreased profitability of investments in the conventional power engineering sector. Similar solutions are discussed or introduced lately in many EU countries, which face similar problems related to the decreased inclination to invest into the conventional power engineering sector.

On 11 September 2013, the "small energy three-pack" came into force, which is a draft amendment of the Energy Law Act, developed by the members of parliament. Among the most important changes, it is worth to mention the gas exchange obligation, partial exemption of the energy-consumption industry from the purchase of colour certificates as well as smaller support for micro-installations. In relation to the introduction of the "small three-pack", the European Commission ("EC") has withdrawn its complaint regarding Poland to the European Court of Justice, related to the unfinished implementation of the European Directive on electricity. According to the assessment of the EC, the changes adopted in the draft amendment fully incorporate the EU regulations for the power engineering sector.

Works on the new act regarding the renewable energy sources ("RES") have commenced in 2013 and are continued today. The principal changes in the approach to supporting RES in the draft include the proposal of a new auction system for producers of electricity from renewable energy

sources. It is planned to maintain the mandatory support system for existing systems. This is to ensure the continuity of existing investments and respect of the rights acquired earlier by the investors. The support period for RES electricity producers will however last for a maximum of 15 years and no longer than until 2035, when the green certificate system is to expire. The new RES Act is to introduce the auction system for new and modernised green energy production systems and the new evaluation criterion in the support system is to be the cost of the investment's execution. The aim of the draft amendment's authors was to create a situation in which various technologies compete with one another for support. The proposed regulations are also intended to cause gradual discontinuation of supporting co- combustion of biomass and coal in large energy blocks, which provided almost half of "green" energy. The support will however be provided to the so called dedicated multi-fuel combustion systems, in which particular fuels are fed by separate lines.

In September, the Ministry of Economy and of Environment published the lists of free emission allowance allocations in the third reporting period (2013-2020) of the EU Emissions Trading System ("EU ETS") for power engineering. The condition for obtaining the allowances is the execution of the investment tasks specified in the National Investment Plan. The free CO_2 allowances are to be given to approx. 150 biggest Polish energy producers. The producers will receive a total of 77,800,000 free EUA's. Polish producers can count on fee allowances, because Poland excluded from the EU law which obligates electricity producers to pay for the entire CO_2 emission. Nevertheless, due to the significantly smaller allocation of allowances in relation to the projected production, the operating costs of Polish producers will probably increase. In February 2014, the website of the Minister of Environment featured the draft of the resolution of the Council of Ministers which included the allocation of allowances for 2013 for each system, respectively. The allocation reflects the level of execution of investments reported to the National Investment Plan for the given period. The Ministry of Environment informed at the end of January 2014 that the application for the allocation of free EUA's for the emission of greenhouse gasses in the industry in 2013 was submitted for approval of the European Commission. This means that Polish companies entitled by the EU ETS to receive free allocations of CO_2 allowances from the government have the chance to receive allowances before April 2014, which is the deadline for settlement on the last year's emissions.

Electricity prices

Company generates most of revenues from the production and sales of electricity, thus the price for which it sells electricity is very important for the results of its operations. In addition, the Company practices the purchase of energy on the market of electricity (including the exchange market and balancing market) and re-sale to recipients.

According to the notifications of URE, the average sale price of electricity on the competitive market in subsequent quarters of 2013 was as follows: 195.52 PLN/MWh in the I quarter, 194.77 PLN/MWh in the II quarter, 196.35 PLN/MWh in the III quarter and 195.84 PLN/MWh in the IV quarter (the average quarterly price of electricity sold pursuant to principles other than those resulting from Article 49a paragraph 1 and 2 of the Energy Law Act). Taking into consideration the

average annual price of electricity sale estimated by the URE pursuant to the same principles for the 2012, the price amounted to 201.36 PLN/MWh.

The electricity quotations in the Polish Power Exchange (IRDN – next day market forecast) nearly throughout the entire 2013 were below their levels from the analogous period of the previous year, a slightly smaller difference can be observed in the second half of the year.

Chart 2: Electricity prices (IRDN)

Source: market data (TGE)

In the first half of 2013, we observed a gradual decrease in prices to the level below PLN 150 per MWh on the futures market (futures contract for the supply of electricity in 2014 – band, i.e. the same amount of energy during each hour of the given year). In the III quarter, after initial stabilisation at the minimum levels, a sudden but short increase took place, which made the price rise to the level of PLN 165. The increase in the price can probably be related to several advantageous circumstances in this period, such as: increase in prices of CO_2 allowances, more and more visible economic recovery signals in Poland and Europe in the form of indicators for the II quarter and leading indicators, increase in the price of oil and other energy raw materials. The upward impulses on the futures market in the III quarter turned out to be dynamic, but unstable and in the IV quarter the contract's price again was consolidated slightly above the level of PLN 150 per MWh. However, such a course of quotations in 2013 lets us believe that the price bottom in the electricity marked was formed half way of 2013 and since then the market starts to rebuild itself, which is also confirmed by the quotations at the beginning of 2014.

Chart 3: The price of the futures contract for the supply of electricity (base) for 2014

Źródło: market data (TGE)

Certificates of origin

Taking into consideration the fact that part of the electricity derives from combustion of biomass (forest and agricultural) and the production of heat includes high-efficiency co-generation, a producer is entitled to green and red certificates, provided that they fulfil specific regulatory requirements. The number of obtained certificates of origin is significantly higher than the number of certificates that the Companies from the ZE PAK CG are obligated to present for redemption, thus it is possible to generate additional revenues from the sale of excess certificates to other market participants. Taking into consideration the fact that the cost related to the production of electricity from the mixture of biomass is significantly higher than the cost of production of electricity from lignite combustion, the Board constantly monitors the applicable economic parameters, including the market price of certificates of origin as well as the relative cost of energy production in order to evaluate the profitability of energy production from the mixture of biomass.

The downward tendency, which began in the second half of 2012 on the market of green certificates escalated in the first quarter of 2013. The constantly increasing dynamics of drops, caused by the oversupply of certificates of origin lead to the situation in which the supply party was forced to accept the price levels which did not guarantee profitability of energy production with the use of most RES production technologies. As it turned out in retrospect, the dynamic drops from January and February 2013 formed the minimum prices at a level of nearly PLN 100 per certificate. Since then, we are observing a gradual upward trend, interrupted with periodical adjustments. The reasons for such a behaviour of prices can be found, among others, in information coming from the biggest electricity producers (ZE PAK as well) notifying about substantial limitation, or total discontinuation of biomass co-combustion, which in consequence causes substantial decrease in the production of green energy and, as result, limits the source of supply of certificates of origin. In the IV quarter of 2013, the prices obtained from the sale of green certificates were at higher levels than the levels quoted in the analogous period of the previous year. However, they were still far from the compensatory fee paid in case of lack of certificate of origin necessary for redemption, which amounted to PLN 297.35 for 2013.

Chart 4: Average price of certificate of origin for RES produced energy

Source: market data (TGE)

In case of certificates of origin from co-generation (red certificates), the support system expired in March 2013. The anticipation for the approval of the European Commission in relation to the draft amendment of the Energy law, among others, presented by the government, which extended the support system until the end of 2015, lasted throughout the entire year of 2013. This approval was needed due to the form of public support of the support system. Ultimately, the Commission informed that it is interested in the evaluation of the entire Polish co-generation support system in operation since 2007, thus it would not examine the project's regulations separately. Due to this decision, on 24 January 2014, the Parliament unanimously adopted the act on extending the support system for the co-generation technology, i.e. simultaneous production of electricity and heat. According to the decision adopted by the parliament, the governmental subsidies are to be maintained until 2018.

Fuel cost, coal extraction cost

The most important element of the costs related to electricity and heat production in the Company is the fuel cost. The prices of fuel largely determine the competitiveness of particular electricity production technologies. The ZE PAK power plants produce most of their electricity from lignite, but they also use forest and agricultural biomass. Furthermore, heavy and light heating oil is used in minimum quantities for heating purposes in the process of electricity production.

Two lignite mines, PAK KWBA S.A. and PAK KWBK S.A., which are the only suppliers of lignite to the ZE PAK CG power plants, satisfy the entire demand of generation assets for this basic fuel. The ZE PAK CG does not rely therefore on external suppliers and eliminates the exposure to potential fluctuations of lignite prices. Nevertheless, the Group is exposed to the fluctuations in prices of other fuels used (mainly biomass) and part of the costs related to the extraction of lignite depends on the factors which remain outside the direct control of the Group.

CO_2 allowances costs

The operations in the scope of production of electricity and heat from conventional sources, and thus the operational results, are largely dependent on the number of free CO_2 allowances granted

in a given period. The CO_2 allowances (EUA) are obtained by way of free allocation in the scope of the National Allocation of CO_2 allowances (KPRU); they can also be bought in the open market. In case of exceeding the limits of the granted free allocation of CO_2 allowances, the Group is obligated to purchase the missing number of additional CO_2 allowances on the primary or secondary market.

The prices of CO_2 allowances throughout the entire 2013 were at substantially lower levels than in the previous year. The highest price in 2013, just above the level of EUR 6 per EUA, was noted at the beginning of January. Latter drops resulted in establishing the price bottom in April, just below the level of EUR 3, from that point the EUA rate increased gradually, however the increases were not as dynamic as earlier decreases.

Chart 5: Price of the futures contract for the supply of EUA in 2012 and 2013

Source: market data (ICE)

It seems that the drops from the first half of the year can be related to the same causes which affected the EUA prices in the second half of 2012, i.e. the substantial oversupply of allowances from European companies. Surely the primary reason for the decreased emission in relation to the forecasts is the lower demand for energy caused by the slower economic growth in Europe. The constantly dropping prices of EUA's in 2013 became a subject of debate regarding the effectiveness of the entire EU ETS system. The system's critics stated that the prices of EUA's were too low to sufficiently encourage companies to invest into low-emission technologies and that the current system requires an intervention. The effect of this criticism is the so called "backloading", which is the EC's plan aiming at reducing the number of EUA's in the market and resulting in the increase in the quotations of allowances and which was approved by the European Parliament. In February 2014, the European Parliament issued the approval for initiation of transfer of 900 million CO_2 allowances from 2014-2016 to the subsequent period of the third settlement stage (2013-2020) of the EU ETS. The increase in the prices of EUA's in the second half of 2013 must be related to the advocated concept of interference in the emission trade system as well as the improvement in the economic indexes.

Seasonality and meteorological conditions

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. In general, the consumption of electricity is higher in the winter (mainly due to low temperatures and shorter days) and lower in the summer (due to higher temperatures and longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused by the rising number of used air conditioners and cooling devices.

Company operations are not however seasonal, therefore the Company results are not subject to substantial fluctuation throughout the year. Due to the low costs, the operation of units is conducted in a continuous manner (at the base) – without shut downs caused by seasonal fluctuation in the demand.

Investment expenses

The operations in the sector coal extraction and energy production requires substantial investment expenses. Company generation assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection as well as to the need to increase the effectiveness of electricity production. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes in the investment program and excess in the budget can severely affect the investment expenses incurred in the future, as well as on the results, financial position and the perspectives for development. The topic of the Company investment plans and the execution of current tasks are more widely discussed in point 3.3 of this report.

5. Description of the financial and economic position

5.1. Principles of development of the financial statement

Zespół Elektrowni Pątnów-Adamów-Konin S.A. develops the standalone financial statements on the basis of Act of Accountancy as of 29 September 1994.

The financial statement was developed with the assumption of continuing business operations by the Company in the foreseeable future. At the date of development of the financial statement there are no reported circumstances indicating any risk to the continuation of the Company's activity.

The accounting principles (policy) used in the development of the financial statement are presented in point 6 of the Introduction to the Financial Statement of ZE PAK S.A. for the year concluded on 31 December 2013.

5.2. Description of the basic economic and financial values

Income statement

The net products, goods and materials sales revenues in 2013 amounted to PLN 1,776,685 thousand and decreased in relation to 2012 by PLN 239,503, i.e. by 11.88%. The following are the main factors which caused the decrease in revenues:

- Decreased revenues from the sales of own and purchased electricity by PLN 65,133 thousand and 87,355 thousand respectively, i.e. by 8.96% in total, due to the decrease in the energy sales prices by 9.81%, despite the sales volume being higher by 0.08 TWh, i.e. by 0.94%.
- Decreased revenues from the sales of ownership units by PLN 74,199 thousand, i.e. by 57.12%, which were mainly caused by a decreased volume of produced green certificates by 0.19 TWh and decreased prices by 33.04%.
- The year 2013 featured no revenues from the exchange of EUAs for CERs as opposed to 2012.

Table 5: Selected items from the income statement

REVENUES, COSTS, PROFITS AND LOSSES	2013	2012	Change	Dynamics
	in thousands of PLN	in thousands of PLN	in thousands of PLN	%
Net products, goods and materials sales revenues, including:	**1,776,685**	**2,016,188**	**-239,503**	**-11.88**
Net products sales revenues,	*1,692,465*	*1,844,304*	*-151,839*	*-8.23*
Net goods and materials sales revenues	*84,220*	*171,884*	*-87,664*	*-51.00*
Costs of the sold products, goods and materials, including:	1,656,549	1,671,181	-14,632	-0.88
Product manufacturing costs	*1,594,930*	*1,517,151*	*77,779*	*5.13*
Value of sold goods and materials	*61,619*	*154,030*	*-92,411*	*-60.00*
Gross profit (loss) on sales	120,135	345,007	-224,872	-65.18
Sales costs	2,847	2,725	122	4.48
Overheads	39,985	49,631	-9,646	-19.44
Sales profit (loss)	77,304	292,651	-215,347	-73.58
Other operating revenues	12,317	12,322	-5	-0.04
Other operating costs	11,219	50,567	-39,348	-77.81
Profit (loss) on operating activities	**78,402**	**254,407**	**-176,005**	**-69.18**
Financial revenues	176,547	88,557	87,990	99.36
Financial costs	7,875	15,232	-7,357	-48.30
Profit (loss) on business activities	247,073	327,732	-80,659	-24.61
Gross profit (loss)	**247,073**	**327,732**	**-80,659**	**-24.61**

Income tax	15,216	52,720	-37,504	-71.14
Net profit (loss)	**231,857**	**275,013**	**-43,156**	**-15.69**

Detailed breakdown of sales revenues was included in the below table.

Table 6: Specification of sales revenues

SALES REVENUES	2013	2012	Change	Dynamics
	in thousands of PLN	in thousands of PLN	in thousands of PLN	%
Product sales revenues	**1,692,465**	**1,844,304**	**-151,839**	**-8.23**
Goods sales revenues	1,583,392	1,737,651	-154,259	-8.88
Electricity	*1,469,230*	*1,534,363*	*-65,133*	*-4.24*
Revenue from energy certificates of origin	*55,697*	*129,896*	*-74,199*	*-57.12*
Exchange of EUAs for CERs	-	*19,137*	*-19,137*	*-100.00*
Thermal energy	*58,465*	*54,255*	*4,210*	*7.76*
Service sales revenues	109,072	106,652	2,420	2.27
Goods and materials sales revenues	**84,220**	**171,884**	**-87,664**	**-51.00**
Goods sales revenues (electricity)	79,442	166,797	-87,355	-52.37
Material sales revenues	4,778	5,087	-309	-6.07
Sales revenues, including:	1,776,685	2,016,188	-239,503	-11.88
Electricity (products and goods)	1,548,672	1,701,160	-152,488	-8.96

Production costs of the products sold in 2013 amounted to PLN 1,594,930 thousand and increased by PLN 77,779 thousand in relation to 2012, i.e. by 5.13%. The main cause of the increase include the CO_2 emission approval costs, which were implemented in 2013 and amounted to PLN 128,066.1 thousand.

Value of goods and materials sold amounted to PLN 61,619 thousand in 2013 and was lower by PLN 92,411 thousand in relation to the previous year due to the lower purchased energy volume for re-sale by 0.41 TWh.

Sales costs amounted to PLN 2,847 thousand in 2013 and increased by PLN 122 thousand, i.e. by 4.48%.

Overheads amounted to PLN 39,985 thousand in 2013 and were lower in relation to the previous year by 19.44%. In 2012, the higher costs were related to the Company's stock exchange debut.

Other operating revenues in 2013 were at a similar level as in the previous year.

Other operating costs amounted to PLN 11,219 thousand in 2013 and were lower in relation to 2012 by PLN 39,348, i.e. by 77.81%. In the previous year, the value of other operating costs was influenced by the inventory value write-down in the amount of PLN 35,051 thousand, which was mainly related to the green certificate inventory revaluation for the amount of PLN 33,838 thousand as result of their market price quotation. At the end of 2013, the green certificate prices reached the level of PLN 194.66 and were higher from the prices obtained during the accounting year, thus there was no need to make write-downs.

In 2013, the Company made operating activity profits in the amount of PLN 78,402 thousand, which were lower in comparison to the result obtained in 2012 by PLN 176,005 thousand, i.e. by 69.18%.

As in the previous year, the obtained results were positively impacted by the positive financial activity result, which increased by PLN 95,347 thousand in comparison to the previous year mainly due to the dividends which were higher by PLN 118,386 thousand, including from affiliates by PLN 118,389 thousand.

Gross profit amounted to PLN 247,073 thousand in 2013. In relation to the previous year, the profit decreased by PLN 80,659 thousand, i.e. by 24.61%.

Net profit amounted to PLN 231,857 thousand in 2013. In comparison to the previous year, the profit decreased by PLN 43,156, i.e. by 15.69%.

Balance sheet

Total balance sheet amounted to PLN 3,513,120 thousand as of 31 December 2013 and increased by PLN 367,890 thousand in comparison with 31 December 2012, i.e. by 11.70%.

Table 7: Selected balance sheet assets

Assets	31.12.2013	31.12.2012	Change	Dynamics
	in thousands of PLN	in thousands of PLN	in thousands of PLN	%
Fixed assets	**3,027,338**	**2,781,453**	**245,885**	**8.84**
Intangible assets	**149,647**	**9,617**	**140,030**	**1,456.07**
Tangible fixed assets, including:	**1,635,784**	**1,526,384**	**109,400**	**7.17**
Tangible assets	1,371,823	1,426,723	-54,900	-3.85
Tangible assets under construction	220,951	95,782	125,169	130.68
Prepayments for tangible assets under construction	43,010	3,879	39,131	1,008.79
Long-term receivables	**0**	**0**	**0**	**-**
Long-term investments	**1,237,861**	**1,241,497**	**-3,636**	**-0.29**
Long-term prepayments and accruals	**4,047**	**3,956**	**91**	**2.30**
Current assets	**485,782**	**363,778**	**122,004**	**33.54**

Inventory, including:	**173,293**	**151,429**	**21,864**	**14.44**
Materials	37,395	43,808	-6,413	-14.64
Goods	125,506	107,620	17,886	16.62
Advanced payments for deliveries	10,392	0	10,392	-
Short-term receivables	**138,971**	**148,476**	**-9,505**	**-6.40**
Short-term investments	**173,149**	**63,133**	**110,016**	**174.26**
Short-term financial assets, including:	173,149	63,133	110,016	174.26
in affiliates	15,386	15,281	105	0.69
in other entities	0	0	0	-
cash and other cash assets	157,763	47,851	109,912	229.70
Other short-term investments	0	0	0	-
Short-term prepayments and accruals	**369**	**740**	**-371**	**-50.14**
Total assets	**3,513,120**	**3,145,230**	**367,890**	**11.70**

In the case of assets, the biggest changes occurred in the items of fixed assets, which increased by PLN 245,885 thousand, i.e. by 8.84%, mainly in the following items:

- intangible assets, which increased by net PLN 140,030 thousand, mainly due to the operations related to the purchase of CO_2 emission approvals;
- tangible fixed assets, which increased by net PLN 109,400, as per account balance, as the difference in the investment expenses and depreciation incurred in 2013.

Current assets increased by PLN 122,004 thousand, i.e. by 33.54 %. The biggest change occurred in the cash and its equivalents item, which increased by PLN 109,912 thousand, by 229.70%. The explanation of cash flows is discussed in the next point regarding the cash flow statement.

Table 8: Selected balance sheet liabilities

LIABILITIES	31.12.2013	31.12.2012	Change	Dynamics
	in thousands of PLN	in thousands of PLN	in thousands of PLN	%
Equity (fund)	**2,825,878**	**2,594,021**	**231,857**	**8.94**
Issued capital (fund)	**101,647**	**104,052**	**-2,405**	**-2.31**
Own shares (negative value)	**0**	**-31,280**	**31,280**	**-100.00**
Supplementary capital (fund)	**2,200,508**	**1,956,261**	**244,247**	**12.49**
Revaluation capital (fund)	**286,823**	**287,337**	**-514**	**-0.18**
Other reserve capitals (funds)	**5,877**	**3,472**	**2,405**	**69.27**
Profit (loss) from previous years	**-834**	**-834**	**0**	**-**
Net profit (loss)	**231,857**	**275,013**	**-43,156**	**-15.69**
Liabilities and provisions for liabilities	**687,243**	**551,209**	**136,034**	**24.68**
Provisions for liabilities	**291,285**	**157,089**	**134,196**	**85.43**
Deferred income tax provision	*53,075*	*36,682*	*16,393*	*44.69*

Pension benefits and similar provisions	*86,482*	*87,871*	*-1,389*	*-1.58*
Other provisions	*151,729*	*32,537*	*119,192*	*366.33*
Long-term liabilities	**6,302**	**75,408**	**-69,106**	**-91.64**
For affiliates	*0*	*0*	*0*	*-*
For other entities, including:	*6,302*	*75,408*	*-69,106*	*-91.64*
credits and loans	*0*	*75,060*	*-75,060*	*-100.00*
other financial liabilities	*18*	*50*	*-32*	*-64.00*
other	*6,284*	*298*	*5,986*	*2,008.72*
Short-term liabilities	**355,393**	**284,538**	**70,855**	**24.90**
For affiliates	*82,886*	*108,163*	*-25,277*	*-23.37*
For other entities, including:	*268,245*	*172,071*	*96,174*	*55.89*
credits and loans	*90,951*	*47,913*	*43,038*	*89.83*
other financial liabilities	*32*	*77*	*-45*	*-58.44*
deliveries and services	*22,371*	*43,504*	*-21,133*	*-48.58*
advanced payments received for deliveries	*10*	*30*	*-20*	*-66.67*
taxes, duties, insurances and other provisions	*85,980*	*62,692*	*23,288*	*37.15*
remunerations	*3,679*	*3,759*	*-80*	*-2.13*
other	*65,221*	*14,094*	*51,127*	*362.76*
Special funds	*4,261*	*4,305*	*-44*	*-1.02*
Prepayments and accruals	**34,263**	**34,174**	**89**	**0.26**
Total liabilities	**3,513,120**	**3,145,230**	**367,890**	**11.70**

In the case of liabilities, the biggest increase in value in the amount of PLN 231,857 thousand, i.e. by 8.94%, occurred in the equity item. The equity flow in 2013 resulted from the following:

- division of profit for 2012, which entirely reinforced the Company's supplementary capital;
- redemption of own shares purchased in 2012 due to the activities stabilising the Company's share rate;
- lower profit in the accounting year in comparison to the previous year.

Level of provisions amounted to PLN 291,285 thousand at the end of 2013 and was higher in comparison to the previous year by PLN 134,196 thousand. Primary changes occurred in the following items:

- deferred income tax provision which increased by PLN 16,393 thousand;
- other provisions which increased by PLN 119,192 thousand, mainly due to the CO_2 emission approval provision, which amounted to PLN 128,066 thousand.

Long-term liabilities decreased by PLN 69,106 thousand, mainly due to the decrease in the credit debt, which decreased by PLN 75,060 (due to the intention of early repayment of credit taken for the construction of the flue-gas desulphurisation installation, the entire long-term debt related to the credit was classified as a short-term debt).

Short-term liabilities increased by PLN 70,855 thousand, mainly due to the following:

- re-classification of liabilities related to the desulphurisation installation credit from long-term to short-term;
- increase in the liabilities related to the executed investment tasks
- increase in the liabilities related to the charges for commercial utilisation of the environment due to the change in the payment period from semi-annual to annual – the end of 2013 featured specification of the annual value of charges in contrast to 2012, which featured the semi-annual value.

Cash flow statement

Table 9: Selected items from the cash flow statement

Specification	2013	2012	Change	Dynamics
	in thousands of PLN	in thousands of PLN	in thousands of PLN	%
Cash flows on operating activities				
Net profit (loss)	**231,857**	**275,013**	**-43,156**	**-15.69**
Total adjustments	**-118,529**	**27,358**	**-145,887**	**-**
Depreciation	*89,030*	*74,773*	*14,257*	*19.07*
Profits (losses) on foreign exchange differences	*-2,266*	*10,193*	*-12,459*	*-*
Interest and shares in profits (dividends)	*-167,006*	*-45,288*	*-121,718*	*268.76*
Profit (loss) on investment activities	*-70*	*-32,041*	*31,971*	*-99.78*
Change in provisions	*141,202*	*15,209*	*125,993*	*828.41*
Change in inventory	*-21,864*	*-6,463*	*-15,401*	*238.29*
Change in receivables	*9,505*	*13,983*	*-4,478*	*-32.02*
Change in short-term liabilities, except loans and credits	*-20,155*	*-3,115*	*-17,040*	*547.03*
Change in prepayments and accruals	*370*	*107*	*263*	*245.79*
Other adjustments	*-147,275*	*0*	*-147,275*	*-*
Net cash flows on operating activities	**113,328**	**302,371**	**-189,043**	**-62.52**
Cash flows on investment activities				
Income	**188,913**	**108,035**	**80,878**	**74.86**
Disposal of intangible and legal assets as well as tangible assets	*192*	*4,567*	*-4,375*	*-95.80*
Financial assets, including:	*188,721*	*103,468*	*85,253*	*82.40*
in affiliates	*188,669*	*79,236*	*109,433*	*138.11*
in other entities	*52*	*24,232*	*-24,180*	*-99.79*
disposition of financial assets	*0*	*24,178*	*-24,178*	*-100.00*
dividends and shares in profits	*52*	*54*	*-2*	*-3.70*
Expenses	**154,300**	**554,454**	**-400,154**	**-72.17**
Acquisition of intangible and legal assets as well as tangible assets	*144,300*	*258,695*	*-114,395*	*-44.22*

Financial assets, including:	*10,000*	*295,759*	*-285,759*	*-96.62*
in affiliates	*10,000*	*295,759*	*-285,759*	*-96.62*
Net cash flows on investment activities	**34,612**	**-446,420**	**481,032**	**-**
Cash flows on financial activities				
Income	**0**	**0**	**0**	**-**
Expenses	**38,086**	**99,889**	**-61,803**	**-61.87**
Acquisition of own shares	*0*	*31,280*	*-31,280*	*-100.00*
Repayment of credits and loans	*33,584*	*57,828*	*-24,244*	*-41.92*
Payments of financial lease agreement liabilities	*78*	*232*	*-154*	*-66.38*
Interest	*4,424*	*10,550*	*-6,126*	*-58.07*
Net cash flows on financial activities	**-38,086**	**-99,889**	**61,803**	**-61.87**
Total net cash flows	**109,854**	**-243,938**	**353,792**	**-**
Cash flow change in the balance sheet, including:	**109,912**	**-244,375**	**354,287**	**-**
cash flow change related to foreign exchange differences	*58*	*-437*	*495*	-
Cash opening balance	**47,998**	**291,937**	**-243,939**	**-83.56**
Closing balance of cash, including:	**157,852**	**47,998**	**109,854**	**228.87**
restricted cash	6,494	3,435	3,059	89.05

In 2013, the Company made a positive cash flow balance resulting on operating activities in the amount of PLN 113,328 thousand.

Cash operation balance on investment activities was positive and amounted to PLN 34,612 thousand. The investment revenues in the amount of PLN 188,913 thousand included PLN 171,063 thousand of dividend revenues from affiliates and the other part comprised of resources deriving from the service of loans granted to Pątnów II Power Plant, which featured the repayment of the capital and interest. The expenses in the amount of PLN 154,300 thousand included expenses for investments into fixed assets and the increase in equity of the PAK Górnictwo affiliate company by PLN 10,000 thousand.

In 2013, the Company has not contracted any new external financing, thus the financial revenues amounted to zero. On the other hand, the financial expenses were related to the service of the Company's existing financial debt. PLN 38,086 thousand was spent for the above purpose.

During 2013, the cash increased by PLN 109,854 and amounted to PLN 157,862 at the end of the year.

Financial indexes

Specification of financial indexes is presented in the below table.

Table 10: Financial indexes

Indexes	Measurement	2013	2012	Change	Dynamics %

	unit				
ROE	%	8.20	10.60	-2.40	-22.64
ROA	%	6.60	8.74	-2.14	-24.49
Net sales profitability (net profit margin)	%	13.05	13.64	-0.59	-4.33
General debt index	x times	0.20	0.18	0.02	11.11
Current liquidity index	x times	1.37	1.28	0.09	7.03

The lower net profit in 2013 resulted in the decrease of all profitability indexes. In terms of value, the biggest decrease regarded the return on equity (ROE) index, which amounted to 8.20% as well as the return on assets (ROA) index, which amounted to 6.60%, as their value was affected by the net profit decrease as well as the increase in equity and in the case of ROA – increase in the liabilities and provisions.

In case of the net sales profitability index (net profit margin), the index decrease was smaller, as it included a decrease in the sales revenues.

The debt index illustrating the ratio of liabilities and total assets amounted to 0.20 at the end of 2013 and was slightly higher than at the end of 2012. The index value indicates a minor degree of the Company's debt in relation to the possessed assets.

The current liquidity index, which informs about the degree of current liability coverage with short-term current assets, was equal to 1.37 at the end of 2013 and confirmed that the Company was in good liquidity condition in 2013.

5.3. Description of factors affecting the current and future financial results

The financial results of the Company, as an entity focused on operations in the scope of electricity production, selling its product in the open wholesale market of electricity, including the Polish Power Exchange, are fully subject to and dependent on the conduct of all participants in the market, whereas this conduct is dependent on the proposed or newly introduced legislation changes affecting the domestic electricity market. The price of electricity in the wholesale market is created by all the entities participating in the market trade and big participants, including the ZE PAK production companies, are not able to make affect its level on their own.

Evaluation on the producer's part and taking into consideration the following:

- high increase in the wind power in Poland in comparison to Europe in 2013
- lower economic growth dynamics than in the previous decade,
- more often autumn and winter seasons with higher average temperatures

than the average temperatures in previous years, leading to the decrease in the demand

for electricity in Poland,

but on the other hand there are lower variable costs of energy production by the Company as well as the geographical location of our power plants; the above factors can only slightly impact the volume of electricity produced by the Company, currently and in the future.

When analysing the market trends, observing the macro-economic situation and taking into consideration the situation in the energy sector, it seems clear that the drop impulses regarding the prices on the markets of electricity, CO2 allowances and RES ownership units are starting to disappear. In case of electricity, it became apparent that factors such as the wind generation rate, Nordpool import transmission capacities or the reserves in the National Power Grid, impact the choice of generating facilities depending on the fuel used for production of electricity.

It also worth to note that regardless of the factors specified above, the Company remains in the group of producers participating in the pricing of electricity on the balancing market.

When taking a look at the factors which stabilise the prices of RES ownership units, in our opinion, the following factors affected the current level of prices recently: decrease in the supply of RES ownership units by discontinuation of co-combustion of biomass by many producers, as well as entries of the resolution on full value wood, which causes a lower number of issued certificates by the URE President. We expect that the pricing of RES ownership units will be influenced even due to the adoption of the long awaited act on RES, the works on which are being accelerated. However, due to the proposed time of entry into force of the most important entries of the act, it can be assume that it won't start functioning until 2016.

When referring to the price of CO2 allowances, it is necessary to note that in 2013 the prices of EUA units, due to many ambiguities related to backloading (i.e. withdrawal of 900 million tons of EUA units from the market), were at a low level. This didn't however significantly affect the price of electricity sold on the wholesale market of electricity. Currently the situation on the carbon market (market of CO2 allowances) is starting to become more dynamic. Near the end of 2013, backloading started to become a widely discussed topic, which can result in substantial fluctuations of prices in 2014. It can be expected that the prices of EUA units will be higher, leading to increases by over a dozen or even several dozen percent in comparison to 2013, which will surely result in the increase of electricity prices on wholesale markets.

The year 2013 was the first year of functioning of the new, third stage of the EU ETS system. The third stage differs substantially from the second phase, during which Polish electricity producers had free EUA units which mostly satisfied their production needs. The year 2013 was also the first year during which producers submitted financial statements confirming the disbursement of expenses on investments included in the National Investment Plan. The first settlement period for financial expenses embraced the period between 25 June 2009 and 30 June 2013. In December 2013, the electricity producers submitted statements, the basis of which, after the approval by the European Commission, will be used by the Polish government to issue free allowances for electricity generation systems in accordance with Article 10c of the so called "derogatory directive". Currently it is hard to specify when this will take place and whether there will be no

delays in this process. The decision of the Commission regarding the approval of the free allowances proposed by particular systems and their issue prior to April 2014 is an important aspect for producers in terms of managing their investment portfolios, mainly due to the ongoing period which can include substantial EUA price fluctuations as result of backloading. The topic of CO2 allowances is very important for the Polish power engineering, in which the level of CO2 allowance prices substantially influences the total cost of produced energy, which then influences the choice of generation facilities to cover the demand with the use of the cheapest technologies.

In addition, the conduct of the Polish production sector in the scope of further operation of generation facilities, the "life-time" of which is near its end, will fundamental impact on ensuring the safe and stable operation of the Public Power System, because these facilities still comprise a regulatory and controllable reserve for the RES units. The year 2013 featured the conclusion of the first tender issued by PSE S.A. for the provision of the so called cold reserve in the period until 2015 and currently another proceeding is pending. Other operations aiming at establishing the power market in the future are also being conducted. The aim of the power market will be provide the producers with stable revenues for the upkeep of their assets as well as to allow the construction of new generation facilities which will replace the shut-down ones in 2015. Introduction of such a mechanism will lead to a change in the market's model from a single commodity market (energy) to a dual commodity market (energy and power, which is very probable to cause price displacements between those two commodities, causing in case of energy the coverage of its short-term variable costs, whereas the price of the second commodity, i.e. power, will cover the costs of maintenance or construction of new assets, including a minimum margin.

5.4. Unusual events affecting the obtained financial results

The ZE PAK encountered no unusual events affecting the assets, liabilities, capital, net financial result or cash flows in 2013.

6. Financial Asset Management

6.1. Evaluation of financial asset management

Company have sufficient cash resources to conduct business operations and constantly execute both all their operational liabilities and liabilities resulting from concluded financial and investment agreements. ZE PAK manages its current financial resources in a flexible manner by using cash liquidity analysis models and planning future cash flows on the basis of short-term and long-term financial forecasts developed periodically. By using the aforementioned tools, Company executes current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits.

6.2. Evaluation of the implementation of the investment plan

Company has its own development strategy and an investment plan adjusted to it. The investment plans take into consideration the current conditions in legislation and law, as well as economy and technology. The adopted manner of execution of the planned investments is mainly based on the use of resources obtained from current operations as well as external financing. During financing planning, the Group's Companies take into consideration a series of existing or future factors which can significantly affect the executed program. The projected financing structure of particular investment plans also takes into consideration the levels of a series of financial indexes, such as the debt or liquidity index, in a way which allows obtaining their optimal levels. In the view of the ZE PAK, the currently adopted investment plans are possible to execute with the use of the possessed and potential resources. It is however necessary to note that the Company is constantly monitoring the factors which have the biggest impact on the executed investment program and in case of substantial changes in either one of several of them, the Company does not exclude adjustments or significant changed in the executed strategy.

7. Significant development factors and perspectives

Directional operations designated by the Company strategy

In the scope of the existing and executed development strategy, Company still looks to focus its operations in the electricity production sector. In the view of the Company, this type of operations is characterised with the highest growth potential in the entire power engineering sector in a long-term perspective.

One of the priority plans executed currently is the proceeding integration of the extraction and production operations, allowing for achieving synergy in the entire technological chain. The essential step in the execution of the adopted strategy was the acquisition in 2012 of two primary coal suppliers, which allowed to optimise the degree of utilisation of fuel resources from the subsidiaries by adapting the supplies of lignite from PAK KWBA S.A. and PAK KWBK S.A. to the needs of power plants, taking into consideration the available and planned structure of production capacities of the power plants in the perspective of up to 2050. Ultimately, in the scope of consolidation of the Group's mining sector operations, it is considered to develop an optimal organisational structure by merging, in legal and organisational terms, of entities in the field of deposit identification and lignite extraction, and in the future, to incorporate the integrated mining company in the structure of ZE PAK S.A., in order to establish a mining and production corporation.

Currently the Company has effective generation assets which are characterised by a high capacity utilisation index, thanks to one of the lowest marginal costs of electricity production in Poland. An additional advantage is the advantageous location of production capacities in the vicinity of the perspective coal deposits, as well as gas pipelines of Yamal and Gustorzyn-Odolanów. The location in central Poland ensures the ability to lead the power into the system and expand the operations

to northern Poland, which is characterised by a substantial power deficit when taking into account the entire country. Simultaneously, the Company is aware of the changes, especially the ones in the legislation and legal area, which are taking place in its surroundings. The legal regulations aiming at reducing emissions of CO_2 and other gases (SO_2, NOx) as well as regulations regarding the renewable energy source sector comprise significant challenges for the companies of the ZE PAK Group. In order to meet the requirements of the current and future legal regulations regarding the widely understood environmental protection, the Company plans to modify its production capacity portfolio. The aim is to execute, in the perspective of the next seven years, an investment program embracing both the modernisation of the possessed production assets, as well as the replacement of the worn out production facilities with facilities based on state-of-the-art technologies in order to maintain the production capacities at the level of at least 2,100 MWe. The execution of the planned investment tasks will allow to limit the technological risk, increase the production effectiveness and, by the diversification of the fuel base, will be a good step for the plans to develop a low-emission economy in Poland.

In the view of the Company, the achievement of the goals specified in the strategy is dependent on the execution of the adopted investment program. The main assumptions of the investment plan are briefly described below.

Key investment projects during execution:

1) Pątnów I Power Plant: The final stage of the modernisation process of units 1-4, which includes the modernisation of condensing steam turbines, start-up of nitrogen oxide (NO_X) emission reduction systems as well as replacement or modernisation of elements crucial for the operation of the units (including, among others, carbonisation and cooling systems) in order to improve the safety and operation of electricity production, and thus decrease the CO_2 emissions as well as ensure the ability to utilise the units for approximately the next 15 years. Modernisation of Pątnów I Power Plant's unit 5 was completed and the projected effects, confirmed by the conducted tests, were obtained. Unit 1 and unit 2 were shut down for modernisation in September and November of the previous year, respectively.

Key investment projects during the preparatory stage:

1) Konin Power Plant: Start-up of a high-efficiency electricity and heat production facility by way of construction of a gas and steam unit with a capacity of approx. 120 MWe and approx. 90 MWt as well as a gas-fired peak load boiler with a capacity of approx. 40 MWt, dedicated to the supply of heat for the city of Konin, the commissioning of which is initially planned for 2018; the execution of this investment would allow to replace the lignite-fire units in the Konin Power Plant and obtaining additional revenues from the sale of yellow certificates. During the previous year, economic analyses were conducted in order to confirm the profitability of the unit's construction with optimisation of its future operation scenarios. In order to adjust the conditions of heat reception to the change in raw material from coal to gas, the Company is negotiating a new long-term agreement with the heat distributor. Deliberations are also conducted with financial institutions in order to ensure external financing for this investment.

2) The strategy of ZE PAK S.A. assuming the construction of a gas and steam unit with a capacity of approx. 400 MWe and approx. 45 MWt in the Adamów Power Plant, taking into consideration the Polish Energy Policy in effect since 2008, was developed in a period which was advantageous for investments into gas-combustion devices. The basis includes the following forecasts: decreasing gas prices, construction of the European gas market, hope for the supply of shale gas, undisputed goals of the climate package, increasing prices of CO_2 allowances, allocation of CO_2 allowances for investments limiting the emissions of this gas (the gas unit of the Adamów Power Plant was included in the National Investment Plan), significant demand for electricity produced by the gas units, satisfactory prices of electricity in the wholesale market. So far, the Polish economy does not create advantageous conditions for the construction of the projected steam and gas unit for the Adamów Power Plant.

According to our policy as well as the market practice adopted other companies in the power sector, more investment projects are analysed and developed than actually executed. Furthermore, we are constantly analysing other investment projects in the scope of construction of new lignite open casts as well as new production facilities, which would ultimately be able to increase our extraction and production capacity and we cannot exclude that in the future we can decide to execute other projects than the projects specified above and included in the documents specifying our strategy.

Strategy execution costs

We estimate that the execution of the final stage of the modernisation project of units 1-4 in the Pątnów I Power Plant will require investment expenses of approx. PLN 1,79 billion, 38% of which is planned to be financed from own resources.

The construction of the steam and gas unit in the Konin Power Plant will require expenses of approx. PLN 720 million (including financing costs), however the above amount will be updated as result of the tenders for the supply of devices. The Company plans to finance the biggest possible part of the investment costs with external resources. Until the execution of tender proceedings regarding the project of investment into new gas capacities as well as until the conclusion of negotiations regarding the conditions of gas supply to the new steam and gas unit, all amounts related to the investment project in the Konin Power Plant are adopted by us at the levels which are typical for this class of devices.

8. Description of the Shareholding Structure

8.1. Shareholding structure

As of 31 December 2013, the Company's share capital amounted to PLN 101,647,094.00 and comprised of 50,823,547 shares with a face value of PLN 2.00 each.

The below table includes the specification of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting according to the Company's knowledge as of 31 December 2013.

Table 11: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of 31 December 2013

Shareholder	Number of shares and corresponding number of votes at the General Meeting	Share [%] in the total number of shares/votes
Zygmunt Solorz-Żak (indirectly) through:	26,200,867	51.55
Elektrim S.A. (directly)	*196,560*	*0.39*
Elektrim S.A. (indirectly through: Embud Sp. z o.o.)	*5,809,231*	*11.43*
Polsat Media B.V.	*20,195,076*	*39.73*
ING OFE	5,069,361	9.97
Other participants	19,553,319	38.48

The structure of the Company's shareholders was presented according to the Company's knowledge on the basis of notifications submitted by the shareholders.

The Company is not aware of any agreements which would result in future changes in the shareholding structure.

8.2. Acquisition of own shares

In 2013, the Company did not acquire own shares.

On 21 February 2013, the Company's Extraordinary General Meeting passed a resolution on the redemption, by way of voluntary redemption, of own shares. This was related to the events of 2012, when the Company acquired its own shares pursuant to an authorisation included in the resolution no. 6 of the Company's Extraordinary General Meeting of 20 August 2012 on the authorisation of the Company's Management Board to acquire the Company's own shares in relation to operations aiming at the stabilisation of the Company's share rate.

In relation to the resolution on the redemption of own shares, the Extraordinary General Meeting held on 21 February 2013 also adopted the resolution on the decrease of the Company's share capital to the amount of PLN 101,647,094.00 and on its division into 50,823,547 bearer shares class A with a face value of PLN 2.00 each. The decrease in the Company's share capital was executed by the passing of the resolution on the redemption of own shares, i.e. adjustment of the Company's share capital to the face value of shares remaining after the redemption of own shares.

On 29 April 2013, the Company received the decision of the District Court of Poznań – Nowe Miasto i Wilda in Poznań, IX Commercial Department of the National Court Register of 23 April 2013 including the certificate on the entry of 24 April 2013 into the Company's Register of Entrepreneurs regarding the registration of the Company's share capital decrease made pursuant to the resolution no. 6 of the Company's Extraordinary General Meeting of 21 February 2013 on the decrease of the Company's share capital in relation to the redemption of the Company's own shares.

Pursuant to Article 360 § 4 of the Code of Commercial Companies, the registration of the decrease of the Company's share capital was related to the redemption of 1,202,453 of the Company's shares representing 1,202,453 votes at the Company's General Meeting.

After the registration by the District Court of the decrease of the Company's share capital, the Company's share capital amounts to PLN 101,647,094,00 and is divided into 50,823,547 bearer shares class A with a face value of PLN 2.00 each, which represent 50,823,547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

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

The below table presents the Company's share holdings (direct and indirect) as well as affiliates' share holdings of management personnel as of 31 December 2013 as well as of the date of development of this report.

Table 12: Company's share holdings as well as affiliates' share holdings by management personnel

Name and surname	ZE PAK S.A. shares		Affiliate shares	
	quantity	face value	quantity	face value
Katarzyna Muszkat	0	0	0	0
Anna Striżyk	0	0	0	0
Piotr Jarosz	0	0	0	0

The below table presents the Company's share holdings (direct and indirect) as well as affiliates' share holdings of supervisory personnel as of 31 December 2013 as well as of the date of development of this report.

Table 13: Company's share holdings as well as affiliates' share holdings by supervisory personnel

Name and surname	ZE PAK S.A. shares		Affiliate shares	
	quantity	face value	quantity	face value
Zygmunt Solorz-Żak	26,200,867	52,401,734	0	0

Henryk Sobierajski	0	0	0	0
Wojciech Piskorz	0	0	0	0
Leszek Wysłocki	0	0	0	0
Wiesław Walendziak	0	0	0	0
Tomasz Zadroga	0	0	0	0
Ludwik Sobolewski	0	0	0	0
Lesław Podkański	0	0	0	0

8.4. Control of Employee share option plan

The Company does not have a system for the control of the employee share option plan.

9. Declaration of Compliance with the Corporate Governance Principles

Declaration of compliance with the corporate governance principles is presented in accordance with § 91 paragraph 5 (4) of the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks as well as conditions for the recognition as equally important of information required by the regulations of the law of a country not comprising a Member State.

9.1. Set of corporate governance principles applied

In 2013, the Company is subject to corporate governance principles 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 Council (WSE Council) of 4 July 2007, subsequently amended by the Resolution no. 17/1249/2010 of the WSE Council of 19 May 2010, Resolution no. 15/1282/2011 of the WSE Council 31 August 2011, Resolution no. 20/1287/2011 of the WSE Council of 19 October 2011 and Resolution no. 19/1307/2012 of the WSE Council of 21 November 2012 (with proviso that the changes introduced in 2012 are applicable from 1 January 2013).

The Company's Management Board, within the competencies granted to it by the Articles of Association and the 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. The number and scope of principles which were not applied in 2013 was subject to decrease in relation to the previous year. The Company's Management Board makes all exceptional efforts in order for the Company's information policy towards investors, both individual and institutional, comprising the execution of guidelines included in the Code of Best Practice, to be compliant with the

expectations. Furthermore, due to reasons beyond the Company's control, not all principles included in the Code of Best Practice are applied.

The Code of Best Practices is published on the website of the Warsaw Stock Exchange at the following address (http://corp-gov.gpw.pl).

9.2. Set of corporate governance principles not applied

Presented below are corporate governance principles which the Company has not complied within its operations in 2013, 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. The Commission Recommendation of 14 December 2004 on 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 Articles of Association, both the remuneration as well as other terms of employment of a given member of the Company's Management Board are determined by the Supervisory Council on an individual basis. The principles regarding the remuneration of Supervisory Council 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.

The Company would like to emphasise that the remuneration of the Company's management and supervisory personnel as well as other benefits granted to such personnel 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 that public companies and their shareholders 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 principle. As of 31 December 2013 and as of the date of this Report, majority of the positions in the Company's Board were held by women (the number of Board members is uneven, thus it is impossible to have full balance), while all of positions in the Supervisory Council were held by men. However, the Company would like to ensure 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.

Principle 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 articles of association and the regulations of the company's bodies.

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

The Company includes its Articles of Association, the Regulations of the Supervisory Council as well as the Board Regulations on its website. The Company declares to include the Regulations of the Shareholders' Meeting as soon as it is developed, thus complying with the above principles in full.

Principle 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 Council.

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

The Company's Supervisory Council, acting pursuant to Article 86 of the Act of 7 May 2009 on statutory auditors and their local government, bodies authorised to audit financial statements as well as public supervision as well as pursuant to § 16 paragraph 6 of the Company's Articles of Association adopted on 5 December 2013 the Resolution no. 634/2013/VI appointing the ZE PAK S.A. Supervisory Council's Auditing Committee comprised of: Mr. Lesław Podkański, Mr. Ludwik Sobolewski oraz Mr. Wojciech Piskorz. Due to the date of the appointment, the ZE PAK S.A. Supervisory Council's Audit Committee did not hold any sessions in 2013.

Recommendation I.12 of the Code of Best Practice:

A company should enable its shareholders to execute the right of vote, whether in person or via a proxy, in a General Meeting using electronic communication means.

Principle II.1.9a) 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: the general meeting deliberation log, in an audio or video form,

Principle IV.10 of the Code of Best Practice:

The Company should guarantee the shareholders the ability to participate in the general meeting using electronic communication means, comprising in:

1) real-time broadcasts from the deliberations of the general meeting,
2) real-time two-way communication, during which the shareholders can express their opinion in the course of the general meeting when being in a different location than the location of the deliberations.

Reasons for non-compliance with recommendation I.12, principle II.1.9a and principle IV.10 of the Code of Good Practices:

Taking into consideration the Company's experience, according to which most of the Company's shareholders directly participate in the deliberations of the General Meeting as well as the fact that the logging of the course of the general meeting and guaranteeing the ability to participate in the General Meeting with the use of electronic communication means could be involved with substantial costs and potential difficulties of organisational and technical nature, the Company does not log and broadcast the course of the general meeting. An additional factors determining incorporation by the Company of the discussed principles will the practice and experience of other companies listed in the WSE related to their application, which in the Company's opinion can allow to avoid the current doubts and complications of actual and legal nature, related to the application of such principles.

The Company's Articles of Association provides the ability to exercise the right of vote personally or via a proxy in the course of the General Meeting, outside its location, with the use of electronic communication means. The Supervisory Council decides to conduct the General Meeting with the use of electronic communication means.

In the view of the Company, the decision about the use of electronic communication means during the General Meeting depends on the notification about such need by a bigger group of the Company's shareholders. In case of such a need, the Company will consider all possibilities and available solutions, on the basis of, among others, the market practice.

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

The process of development of the Company's financial statements as well as the Capital Group's consolidated financial statements takes place with the use of internal control and risk management mechanisms, such as: Company's internal procedures, mechanisms introduced for

management of the IT systems used for registration and development of statements as well as protection mechanisms, principles of supervision over the financial statement development, principles of verification and evaluation of statements, internal auditing as well as other control elements.

The development of the Company's financial statements as well as Capital Group's consolidated financial statements is executed in an orderly manner, pursuant to the organisational structure of the Company and Group. The management accounting tools and IT systems introduced in the Company and Group for the purpose of registration of economic events in books of account provide the basis for the evaluation whether the Company's financial statements and the Group's consolidated financial statements are developed in a reliable manner as well as whether they include all significant data which are necessary for the determination of the Company's and Group's financial and economic situation.

The primary regulations in the scope of financial statement development include: the International Financial Reporting Standards (MSSF) approved by the European Union, accounting policy in accordance with the ZE PAK Capital Group's MSSF, the Accounting Act of 29 September 1994, procedure of closure of books of account in the Capital Group as well as the financial statement and consolidated financial statement development requirements imposed by the Warsaw Stock Exchange.

As of the date of development of this report, the Company did not make a decision on the keeping of books of account in the Group pursuant to the MSSF standards. Therefore, the process of financial statement development in the Group takes place in two stages. First, all the companies in the Group develop their own individual statements pursuant to the Polish accounting standards. These statements are approved by the boards of the companies provided that they fulfil the conditions for the audit. Next, the companies transform their individual statements for the purpose of the Group's consolidation, pursuant to the accounting policy agreed for the Group in accordance with the MSSF standards, by using the so called sheets of transition into statements which are in accordance to the MSSF standards. Such statements are then submitted to the Company's Accounting and Reporting Department, where the Group's consolidated statement is developed.

The Board is responsible for the Company's internal control system and for its effectiveness in the process of development of financial statements and periodical reports developed and published in accordance with the Resolution of the Minister of Finances of 19 February 2009 on the current and periodical information submitted by issuers of stocks as well as conditions for the recognition as equally important of information required by the regulations of the law of a country not comprising a Member State.

The technical supervision over the process of development of the Company's and Group's financial statements and periodical reports is executed by the Vice-President of the Board, who is responsible for financial issues. The organisation of works related to the development of financial statements is the responsibility of the Company's Principal Accountant, who manages the

Accounting and Reporting Department and who reports directly to the Vice-President of the Company's Board.

The Company's effective internal control and risk management systems related to the process of financial reporting is ensured thanks to the following aspects:

- development of procedures specifying the principles and division of responsibility for the development of financial statements,
- specification of the scope of reporting pursuant to the mandatory International Financial Reporting Standards as well as International Accounting Standards,
- development, introduction and execution of supervision over the use by the Capital Group's companies of coherent principles of accounting as well as
- semi-annual inspections and annual studies of the published financial statements of ZE PAK S.A. and Capital Group by an independent auditor.

Annual and semi-annual financial statements are subject to independent auditing and inspection by external statutory auditors who give an opinion on the reliability, correctness and clarity of such a statement as well as correctness of books of account comprising the basis for the development of such a statement.

The choice of the statutory auditor is made by the Supervisory Council pursuant to the Board's request, from a group of reputable auditing companies, which guarantee high service standards and the required independence.

The studies are conducted in accordance with the following provisions:

- chapter 7 of the Act of 29 September 1994 on Accounting,
- standards related to the practice of the profession of statutory auditor, issued by the National Chamber of Statutory Auditors.

The studies especially include the verification of the correctness of the accounting and significant estimates principles used by the Company and the Group, verification – in a random manner – of accounting records and entries, which provide the numbers and information included in the financial statement, as well as the overall evaluation of the financial statement.

The Company's and Group's financial results are regularly monitored during the accounting year and are subject to periodical evaluation made by the Supervisory Council. During regular sessions of the Council, the Company's Board provides information regarding the current financial position of the Company and the ZE PAK Group.

The Company's and Group's task is to develop the financial statement, including numerical data and wordy clarifications which:

- reliably and clearly present all information which are significant for the evaluation of the financial and economic situation for the given day, as well as the financial result for the given period,
- were developed correctly in all significant aspects, i.e. in accordance with the accounting principles, resulting from the International Accounting Standards,

International Financial Reporting Standards as well as the interpretations related to them and published in the form of European Commission resolutions as well as according to the requirements of the Accounting Act and executive regulations issued on the basis of that Act, as well as on the basis of correctly kept books of account,

- are compliant with the regulations of law and provisions of the Company deed, which affect the contents of the financial statement.

The Company and the Group has documentation which describes the accounting principles adopted by them, specified in Article 10 of the Accounting Act. The applied principles of cost accounting, assets and liabilities quotation as well as determination of the financial result are in accordance with the International Accounting Standards as well as the regulations of the Accounting Act.

The Board is responsible for the correct keeping of the Company's accounting. The Company keeps books of account within an integrated IT system. The system guarantees the division of competencies, coherence of operation entries in the books as well as the control between the main book of account and the auxiliary books. The conducted registration allows the determination of the financial result, VAT tax as well as other budget liabilities. The account registration ensures the correctness and completeness of entries. The chronology of economic events is kept. Entries in the books of account reflect the actual state of affairs. Data is entered in a complete and correct manner, on the basis of accounting records qualified for entry. The continuity of entries and the correctness of the applied procedures are ensured. The accounting records fulfil the requirements of the Act on accounting. The books of account are kept in the Company's registered office. There is a possibility to modify the operation of the system in order to ensure the adequacy of technical solutions to the changing accounting principles and legal standards. The system includes documentation regarding the end users as well as the technical part. The system's documentation is subject to periodical verification and updating. The Company introduced organisational and system solutions in the scope of ensuring proper use and protection of data access protection systems as well as hardware. The access to the financial registration system resources is limited with the use of proper enhancements which are provided to authorised employees only in the scope of their responsibilities and activities.

The Company also features internal auditing, the aim of which is to execute independent and objective evaluation of the risk management and internal control systems. The internal auditing is conducted on the basis of the auditing regulations. The auditing executes planned and temporary auditing tasks both in the parent company as well as in the Group's companies. The auditing plans are developed on the basis of the risk analyses. The audit results are reported to the Company's Board.

As part of the control operations, the periodical management reporting is subject to evaluation in terms of rationality of information included in it, especially in terms of the analysis of deviations from provisions adopted in the financial plans.

9.4. *Shareholders holding significant blocks of shares*

The below table presents the shareholders holding significant blocks of shares, in accordance with the Company's knowledge, based on the notifications submitted to the Company.

Table 14: Shareholders holding, either directly or indirectly, significant blocks of shares in accordance with the Company's knowledge as of 31 December 2013

Shareholder	Number of shares	Percentage share in the share capital	Number of votes	Percentage share in the share capital
Zygmunt Solorz-Żak*(indirectly) through: Elektrim S.A., Embud Sp. z o.o., Polsat Media B.V.	26,200,867	51.55%	26,200,867	51.55%
ING Otwarty Fundusz Emerytalny**	5,069,361	9.97%	5,069,361	9.97%

* In accordance with the notification of 7 May 2013.

** In accordance with the notification of 11 December 2013.

9.5. *Holders of stocks giving special control rights*

As of 31 December 2013 and as of the date of development of this report, the Company has not issued stocks giving special control rights.

9.6. *Restrictions in exercising voting rights*

According to the Company's Articles of Association as well as other internal documents of the Company as of 31 December 2013 and as of the date of development of this report, there are no restrictions regarding the execution of the voting rights.

9.7. *Restrictions regarding the transfer of ownership of stocks*

As of 31 December 2013 and as of the date of development of this report, the Company does not include any restrictions regarding the transfer of ownership of the Company's stocks.

9.8. *Principles for the appointment and dismissal of management and supervisory personnel*

Management Board

The Management Board is comprised of 3 to 6 members appointed for joint term. The composition of the Management Board includes: President of the Board, Vice-Presidents as well as

other members of the Board. The number and positions of Board members are specified by the Supervisory Council. The Management Board's term is five years. The Board's President, Vice-Presidents as well as other members are appointed and dismissed by the Supervisory Council during a secret voting. The Board's President, Vice-Presidents as well as other members can also be dismissed or suspended in duties during the General Meeting.

The Board administers the Company's cases as well as represents the Company. The Board acts pursuant to the Board's Regulations which specifically determine the Board's action mode. The Regulations are established by the Board and approved by the Supervisory Council by way of a resolution.

The Board's resolutions are required for cases exceeding common management, which especially include:

1) resolution and changes in the organisational regulations which specify the organisation of the Company's entrepreneurship,
2) contracting credits and loans,
3) proxy establishment,
4) granting credit guarantees and sureties,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct.
6) decisions in cases with a value exceeding PLN 500,000.00. The value of transactions expressed in foreign currencies is subject to conversion according to the average exchange rate of the National Bank of Poland (NBP) of the date of resolution passing.

The Board's resolutions are also required for cases in which the Board addresses the General Meeting and the Supervisory Council.

Supervisory Council

The Supervisory Council is comprised of 5 to 14 members appointed for joint term. The Council's term is five years. The members of the Supervisory Council are appointed and dismissed during the General Meeting. The General Meeting, prior to the appointment of the Council's members for a new term, specifies the number of members of the Council. The Council appoints the President, Secretary, Vice-President or, if deemed reasonable, two Vice-Presidents, among its members in a secret voting.

The composition of the Council should include two members who fulfil the independence criteria projected for an independent Council member within the meaning of the Commission's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors acting as members of supervisory councils in stock exchange listed companies and the (supervisory) council's committee (2005/16/EC) with consideration of Good Practices of the Warsaw Stock Exchange Listed Companies ("Independent Supervisory Council Members"). A candidate for the Independent Supervisory Council Members provides the Company, prior to

his/her appointment as a Council member, with a written declaration on the fulfilment of the independence criteria.

The Council supervises the Company's operations in all areas of its operation.

The Council's rights especially include:

1) approval of the Board's Regulations and giving opinion on the organisational regulations which specify the organisation of the Company's entrepreneurship,
2) conclusion, termination and amending agreements with the Board members as well as establishment of the Board's remuneration principles as well as the remuneration amounts for the Company's Board members,
3) appointment and dismissal of the Board's President, Vice-Presidents as well as other Board members in a secret voting,
4) suspension in duties due to significant reasons, in a secret voting, of the Board's President, Vice-Presidents as well as other Board members or the entire Management Board,
5) delegation of a Council member or members for temporary execution of Board member activities in case of suspension of Board members or the entire Management Board,
6) selection of the entity authorised to audit the Company's financial statements,
7) evaluation of the Board's report from the Company's operations or financial statement for the previous accounting year,
8) evaluation of the Board's conclusion regarding the division of profit or loss coverage,
9) submission to the General Meeting of the written annual report on the results of evaluations specified in point 7 and 8,
10) submission to the General Meeting of the annual brief evaluation of the Company's situation as well as the annual report on the Council's work,
11) giving opinion on cases submitted by the Board and comprising the subject of the General Meeting's resolutions,
12) approval of the Company's and ZE PAK Capital Group's perennial operation programs, including the Company's and ZE PAK Capital Group's operation strategies, developed by the Board, as well as
13) approval of the Company's annual operation programs as well as the Capital Group's annual operation programs, especially including production plans as well as revenues, type cost plans, unit cost plans, remuneration plans, investment plans as well as renovation and maintenance service plans.

The Council's competencies also include giving the Board an approval:

1) to participate in other companies and disposal of shares in other companies,
2) to establish foreign branches,
3) to make advanced payments for dividends,
4) for the Company to execute operations which result in incurring liabilities, except:
    a) operations specified in the Company's annual operation program approved by the Council,

   b) operations resulting in incurring liabilities with a value of up to PLN 1,000,000, including granting sureties or guarantees as well as issuing or guarantee of bills of exchange,
5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct with a value exceeding PLN 1,000,000,
6) conclusion by the Company and an affiliate of a major agreement within the meaning of the regulations regarding the current and periodical information provided by issuers of stocks accepted for trade in a regulated market, excluding typical agreements concluded by the Company pursuant to market conditions, within the conducted operating activities,
7) designation by the Board of personnel for the roles in the bodies of companies or other entities in which the Company has a direct or indirect share, as well as
8) establishment by the Board of the manner of vote execution during the General Meeting or the Meeting of Partners in companies, in relation to which the Company is a parent company or affiliate within the meaning of the Code of Commercial Companies, in the following cases:
   a) disposition and lease of the company's entrepreneurship or its organised part as well as establishment of a limited property right for it, as well as execution of other operations related to the acquisition or administration of the company's asset components which comprise the subject of the General Meeting's or Meeting of Partners' deliberations,
   b) company's termination or liquidation,
   c) amendment of the company's articles of association or deed
   d) company's merger, division or transformation, as well as
   e) increase or decrease in the company's share capital.

Pursuant to the Board's application, the Supervisory Council grants Board members the approval to take positions in the bodies of companies, in which the Company holds shares as well as for the collection of remuneration for acting in these positions.

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

Management Board

The Company's Board composition was as follows at the beginning of the accounting year of 2013:

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

As of 26 June 2013, in relation to the ZE PAK S.A. Extraordinary General Meeting's approval of the financial statement for the period between 1 January 2012 and 31 December 2012, the ZE PAK S.A.'s V term Board has concluded its work. The accounting year of 2012 was the last full

accounting year of operations of the Board members during the V term. Until 26 June 2013, the ZE PAK S.A.'s Board operated in the above mentioned composition.

The VI term Board commenced its operations on 27 June 2013 and the ZE PAK S.A's Supervisory Council appointed the following personnel for the following roles in the Management Board:

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

The Company's Management Board acts pursuant to the Act of 15 September 2000 of the Code of Commercial Companies as well as other regulations of the law, the provisions of the Company's Articles of Association as well as the ZE PAK S.A.'s Regulations of the Board.

in 2013, the ZE PAK S.A.'s Board held 48 sessions, during which it passed a series of decisions documented in protocols. The Board passed a total of 436 resolutions during the reporting period. All resolutions and recommendations of the ZE PAK S.A.'s Board have been executed or are undergoing execution by the appropriate organisational units of the Company.

Supervisory Council

The Company's Supervisory Council composition was subject to changes during the reporting period. The ZE PAK S.A. Supervisory Council's composition at the beginning of the accounting year of 2013 was as follows:

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

On 21 February 2013, the following gentlemen: Marian Eger, Andrzej Mazurek, Tomasz Klapsa as well as Ireneusz Gołębiak resigned from the positions of the Company's Supervisory Council members. On 22 February 2013, the Supervisory Council commenced its operations in the following composition:

1) Zygmunt Solorz-Żak – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz,
4) Leszek Wysłocki,
5) Sławomir Sykucki.

Mr. Sławomir Sykucki resigned from the position of the Company's Supervisory Council member on 19 March 2013 with effect on 20 March 2013.

The second part of the ZE PAK S.A.'s Extraordinary General Meeting convened for 21 February 2013 was designated for 22 March 2013. The General Meeting passed resolutions appointing the following gentlemen as members of the Company's Supervisory Council: Tomasz Zadroga, Wiesław Walendziak and Ludwik Sobolewski. Mr. Ludwik Sobolewski and Mr. Wiesław Walendziak provided the Company with declarations on the fulfilment of independence criteria projected for an independent Council member within the meaning of the Commission's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors acting as members of supervisory councils in stock exchange listed companies and the (supervisory) council's committee (2005/16/EC) with consideration of Good Practices of the Companies Listed in the Warsaw Stock Exchange Joint-stock Company. Mr. Wiesław Walendziak also submitted a declaration that he fulfils the independence criteria required for the audit committee member, specified in the Act of 7 May 2009 on the statutory auditors and their self-government, entities entitled to audit financial statements as well as public supervision and that he is qualified in the field of accounting and financial auditing.

Due to the changes in the composition of the Supervisory Council described above, the body acted in the following composition since 22 March 2013:

1) Zygmunt Solorz-Żak – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz,
4) Leszek Wysłocki,
5) Wiesław Walendziak,
6) Tomasz Zadroga,
7) Ludwik Sobolewski.

During the session of 7 May 2013, the ZE PAK S.A.'s Council passed the resolution regarding the appointment of the Council's Secretary. Mr. Wojciech Piskorz was appointed as the Secretary.

On 30 September 2013, the Company received the declaration of Mr. Wiesław Walendziak which included the information that he ceased to fulfil the criteria of independence projected for an independent member of the supervisory council within the meaning of the Committee's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors which are members of supervisory councils in stock-listed companies and council committees (2005/162/EC) with consideration of Good Practices of Companies Listed in the Warsaw Stock Exchange Joint-stock Company.

On 7 November 2013, the ZE PAK S.A.'s Extraordinary General Meeting took place and appointed Mr. Lesław Podkański as a member of the Company's Supervisory Council. Mr. Lesław Podkański submitted to ZE PAK S.A. the declaration on the fulfilment of the criteria of independence projected for an independent member of the supervisory council within the meaning of the

Committee's Recommendation of 15 February 2005 regarding the role of non-executive directors or directors which are members of supervisory councils in stock-listed companies and council committees (2005/162/EC) with consideration of Good Practices of Companies Listed in the Warsaw Stock Exchange Joint-stock Company. Mr. Lesław Podkański also submitted a declaration that he fulfils the independence criteria required for the audit committee member, specified in the Act of 7 May 2009 on the statutory auditors and their self-government, entities entitled to audit financial statements as well as public supervision and that he is qualified in the field of accounting and financial auditing.

The ZE PAK S.A.'s Supervisory Council operated in the following composition since 7 November 2013:

1) Zygmunt Solorz-Żak – President,
2) Henryk Sobierajski – Vice-President,
3) Wojciech Piskorz - Secretary,
4) Leszek Wysłocki,
5) Wiesław Walendziak,
6) Tomasz Zadroga,
7) Ludwik Sobolewski,
8) Lesław Podkański.

The Council members that fulfil the independence criteria are Mr. Ludwik Sobolewski and Mr. Lesław Podkański.

In the sequence of their code and statutory obligations, the Council held six sessions and passed a total of 48 resolutions. The Council executed its statutory obligation of holding a session in each quarter.

In the reporting period, the Council jointly executed constant supervision over the Company's activities in all fields of operation. The Council focused on the following issues:

1) evaluation of statements developed for the accounting year of 2012,
2) giving an opinion on the Company's new organisational structure,
3) approval for the Company's budget for 2013 and control over its execution, especially the conditions in the scope of energy production and results obtained by the Company from own and foreign electricity sale, including electricity produced from renewable energy sources,
4) giving an opinion on the applications submitted by the Board in regard to cases related to the Company's current operations;
5) passing of the new "ZE PAK S.A.'s Supervisory Council Regulations";
6) appointment of the ZE PAK S.A.'s Supervisory Council Audit Committee;
7) approval for the Company to incur liabilities related to the granting of credit allocated to the financing of the next stage of the Pątnów I Power Plant modernisation;
8) appointment of the Company's VI term Board.

On 5 December 2013, the ZE PAK S.A.'s Council passed the Resolution no. 634/2013/VI regarding the appointment of the ZE PAK S.A.'s Supervisory Council Audit Committee. The following personnel were appointed to act in the Committee: Mr. Lesław Podkański, Mr. Ludwik Sobolewski and Mr. Wojciech Piskorz. Due to the date of the appointment, the ZE PAK S.A.'s Supervisory Council Audit Committee did not hold any sessions in 2013.

9.10. Procedure and basic powers of the General Meeting as well as description of shareholders' rights and their exercise

General Meeting

The General Meeting is held in cases specified in the Code of Commercial Companies as well as in the Company's Articles of Association. The General Meeting is held in principle by the Company's Board and deliberates and an ordinary or extraordinary meeting. In case of summoning the General Meeting by an entity or body other than the Company's Board, the Board is obligated to cooperate with the entity or body in order to execute any activities specified by the law as necessary to summon, organise and execute the General Meeting. Since the first day of listing of the Company's shares in the regulated market of the Warsaw Stock Exchange Joint-stock Company, the General Meetings can take place with the use of electronic communication devices. The decision on executing the General Meeting with the use of electronic communication devices is made by the Company's Supervisory Council.

The General Meeting takes place in Warsaw or in the Company's registered office.

The ZE PAK S.A.'s General Meeting is summoned by notification placed on the Company's website and in a manner specified for provision of current information in accordance with the regulations on public bidding and conditions for introducing financial instruments to the organised trade system and on public companies.

The materials made available to shareholders in relation to the General Meeting, including drafts of resolutions proposed for passing, as well as other important materials are made available by the Company on the http://ri.zepak.com.pl/ website.

The basic competencies of the General Meeting include:

1) examination and approval of the Board's report on the Company's operations as well as the financial statement for the previous accounting year as well as acknowledgement of the fulfilment of duties by the Company's body members,
2) division of profit and loss coverage,
3) change in the subject of the Company's operations,
4) amendments to the Company's Articles of Association,
5) increase or decrease in the share capital,
6) authorisation of the Board to acquire own shares for the purpose of redemption,
7) appointment and dismissal of Council members,
8) establishment of the remuneration of Council members,
9) Company merging, division and transformation,

10) Company termination and liquidation,
11) emission of convertible debentures or debentures with right of priority and subscription warrants,
12) sale or lease of the company or its organised part as well as establishment of a limited property right for it,
13) establishment and cancellation of the Company's capitals and funds,
14) conclusion by the Company of a credit, loan, surety agreement or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator or for any of such personnel,
15) conclusion by an affiliate of a credit, loan, surety agreement or a similar agreement with a member of the Company's Board, Supervisory Council, proxy or liquidator or for any of such personnel,
16) any provisions regarding claims the remedy of damage done during the Company's establishment or executing management or supervision, as well as
17) utilisation of the share capital.

The right to participate in the General Meeting is available to personnel comprising shareholders 16 days prior to the General Meeting. The condition of admitting a shareholder to participate in the General Meeting is the submission of a registered certificate regarding the right to participate in the General Meeting, which is issued by the entity that keeps the stocks account.

The shareholder participates in the General Meeting's deliberations and executes the right to vote in person or via an authorised representative.

The shareholder who represents at least 1/20 of the Company's share capital is entitled to request specific cases to be included in the Company's General Meeting agenda. The request should be reported to the Company's Board no later than 21 days prior to the Company's General Meeting.

The shareholder who requests to include specific cases in the General Meeting's agenda should demonstrate the possession of the proper number of shares at the date of request submission, including a deposit certificate to the request, issued by the entity keeping the stocks account.

The shareholder representing at least 1/20 of the Company's share capital can submit resolution drafts regarding the cases introduced into the General Meeting's agenda or cases which are to be introduced into the agenda in a written or electronic form prior to the date of the General Meeting.

Each of the shareholders authorised to participate in a general meeting can provide the resolution drafts regarding the cases introduced into the agenda during the Company's General Meeting.

The General Meeting's resolutions are passed with a majority of 75% votes, provided that the Code of Commercial Companies does not specify otherwise. Each Company's share entitles to a single vote at the General Meeting.

9.11. Principles for amending the Company's Articles of Association

Amendments to the Company's Articles of Association, in accordance with the Code of Commercial Companies and provisions of the Company's Articles of Association, require the General Meeting to pass a suitable resolution as well as an entry into the register of entrepreneurs. The General Meeting can authorise the Company's Supervisory Council to develop a uniform text of the amended articles of association or to introduce editorial changes specified in the General Meeting's resolution. The amendments to the Articles of Association are binding from the moment of their entry into the register of entrepreneurs.

9.12. Principles for determining and the amount of remuneration of management and supervisory personnel

The ZE PAK S.A.'s Supervisory Council determines the principles of remuneration of the Company's Board members pursuant to the regulations of the Code of Commercial Companies and the Company's Articles of Association.

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Board members amounted to PLN 2,894,873.46 in 2013. The amount given must be treated as the gross value of remuneration paid or to be paid in the period between January and December 2013.

The Company does not have a motivational or bonus program based on the Company's capital.

Table 15: : Information on the value of remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Board members in 2013

Name and surname of the Board member	Value of (gross) remuneration paid by the Company and the Company's subsidiaries in PLN in 2013	Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries in 2013 (among others, the employee pension fund, accommodation, insurance policy) in PLN
Katarzyna Muszkat	1,055,043.00	100,353.94
Anna Striżyk	823,110.00	94,199.92
Piotr Jarosz	743,765.99	78,400.61

The remuneration of the ZE PAK S.A.'s Supervisory Council members is established by the General Meeting by way of a resolution in accordance with the regulations of the Code of Commercial Companies and the Company's Articles of Association.

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Council members amounted to PLN 1,547,242.36 in 2013. The amount given

must be treated as the gross value of remuneration paid or to be paid in the period between January and December 2013.

Table 16: Information on the value of remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Council members in 2013

Name and surname of the Supervisory Council member	Value of (gross) remuneration paid by the Company and the Company's subsidiaries in PLN in 2013	Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries in PLN in 2013
Zygmunt Solorz-Żak	154,383.01	0
Henryk Sobierajski	105,756.86	0
Andrzej Mazurek	163,256.86	0
Marian Eger	162,193.78	0
Tomasz Klapsa	162,193.78	0
Wojciech Piskorz	104,693.78	0
Sławomir Sykucki	170,884.26	0
Leszek Wysłocki	104,693.78	0
Ireneusz Gołębiak	162,193.78	0
Lesław Podkański	8,421.05	0
Wiesław Walendziak	82,857.14	0
Tomasz Zadroga	82,857.14	0
Ludwik Sobolewski	82,857.14	0

10. Other Information

10.1. Significant court proceedings

As of 31 December 2013, Zespół Elektrowni Pątnów-Adamów-Konin S.A. and the consolidated companies under the Group were not a party in any proceedings pending before a court, an body competent for arbitration proceedings or a public administration body, whose single or total value would exceed 10% of equity of ZE PAK S.A., except the proceedings specified below.

The Company submitted an application for recognition of the excise tax excess payment for the years of 2006, 2007, 2008 as well as for January and February of 2009 for a total amount of approx. PLN 626,000,000.

The Company's opinion is that in light of the regulations mandatory within the European Union, especially regulations of Article 21 paragraph 5 of the Energy Directive, in relation to Article 6 paragraph 1 of the Horizontal Directive, after 1 January 2006, the object of excise tax is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g. between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

In relation to the decisions of the Administrative Courts in the cases of other energy companies regarding the overpaid excise tax, ZE PAK S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011 where the Supreme Administrative Court recognised that the pass-through of tax to the price excludes the possibility of refunding the excess payment. The justification of this resolution demonstrates the risk that tax bodies will dismiss any claims regarding excess payment refunding indicating that the tax proceeding is not at all applicable for these types of claims. In such a case, it will be possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above, ZE PAK S.A., on 10 February 2012, submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing, in the amount of approx. PLN 626,400,000.00 and, at the same time, stopped the statute of limitation. The conciliatory settlement was not reached since at the hearing on 16 April 2012, case ref. no. VI Co 311/12, the representatives of the Treasury did not agree to settle. Simultaneously, the Company, waiting for the results of the tax proceedings regarding the previously submitted applications for excess payment, submitted in writing, on 14 September 2012, in the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic analysis, the purpose of which was to demonstrate whether the Company suffered loss related to the payment of excise tax to which it was not obliged. The proceedings conducted currently in the Customs Chamber in Poznań, regard the period between December 2006 and September 2008. Nonetheless, the Company is of the opinion that the submitted document also applies to other excess payment applications from the entire period between January 2006 and February 2009.

On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect and pursuant to which sale of electric energy to an entity which is not its final recipient is not subject to excise tax.

10.2. Significant achievements in research and development

As of the date of this report, the ZE PAK Capital Group Companies do not conduct research and development works, which would have a significant relevance for the Group. Furthermore, the Group has not assigned major financial expenses for research & development works.

10.3. Environmental issues

Production of electricity is inevitably related to the interference with the natural environment. On the other hand, one of the main goals of the ZE PAK is the minimisation or prevention, if possible, of negative effects on the environment. The operations conducted by the Company affect the natural environment, especially by the emission of pollutants into the air, production and processing of wastes, utilisation of waters and introduction of sewage wastes into waters or the soil. This impact is regulated by the mandatory regulation on environmental protection. In relation to the conducted operations, the ZE PAK have a series of environmental approvals, including integrated approvals which regulate the operational and environmental aspects of the main and auxiliary systems. Furthermore, Company has approvals for the utilisation of systems which are not embraced by the integrated approvals, including approvals subject to the Water Act Law and approvals

for the production and processing of wastes. Company fulfills the obligations in the scope of reporting to applicable offices as well as make timely charges relating to the economical use of the environment.

In order to ensure constant limitation of the negative impact of operations on the natural environment, Company conducts constant monitoring of the air with the use of two high-grade automatic measurement stations in the vicinity of the Adamów, Pątnów and Konin Power Plants. In order to limit the gas and dust emissions into the air, the vicinity of particular power plants features the use of methods and technologies which are safe for the environment and which include the fulfilment of air quality standards and which are adapted to the system's operation.

Furthermore, the lakes in the immediate vicinity of the Pątnów and Konin power plants feature constant monitoring of their surface waters. The water from the lakes is used

in the operation of the open cooling circuit for both power plants. Reasonable use and recycling of water resources is a very important factor for the existing professional power plants. Furthermore, Company also conducts monitoring of the quality of surface and ground waters

in the area of waste storage areas administered by the Company as well as the monitoring of sewage wastes discharged from the plants into the environment.

Constant monitoring allows for regular supervision over the state of the environment and allows immediate actions to be taken in case of an ecological risk.

In 2013, the Provincial Inspectorate of Environmental Protection conducted planned inspection in the Group's power plants - mainly in terms of execution of the integrated approval entries. These entries were related to the improvement of safe operation of plants being potential causes of serious failures, improvement in the state of the environment as well as improvements in health protection against effects of industrial plants. These inspections resulted in the formation of post-inspection recommendations which were executed.

In February 2014, the reports on CO2 allowances from Company systems for 2013 were positively verified by an independent auditing company and submitted to the National Administrator of the Emission Trade Scheme.

In the previous year, further actions were taken in order to utilise – in accordance with the law – combustion wastes and flue-gas (gypsum) desulphurisation wastes produced in specific systems of Company, among others, for recultivation of waste storage areas and the degraded areas as well as other fields of operations, such as construction and road engineering. The sale of the aforementioned types of wastes give concrete results, e.g. in the form of savings in environmental charges.

10.4. Information on the auditing of the financial statement

The agreement regarding the auditing of the Group's consolidated financial statement with the entity authorised to audit financial statements, i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. with registered office in Warsaw, Rondo ONZ 1, was concluded on 23 July 2013.

Information regarding the remuneration of the entity authorised to audit financial statements was presented in point 39 of the Group's consolidated financial report for 2013.

10.5. Financial forecasts

ZE PAK SA has not published the financial forecasts. Company does not intend to present forecasts for 2014.