



STATEMENT

of operations of the Supervisory Board of Zespół Elektrowni "Pałnów-Adamów-Konin" S.A. in 2012, containing, among others, the report of results of the evaluation of the financial statement for the year 2012, the statement of the Management Board of operations of the Company in 2012 and the request of the Management Board concerning distribution of profit for the year 2012

Konin, May 2013

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I. Information on term of office of the Supervisory Board and its composition

In the financial year 2012, the 5th term of office of the Supervisory Board of Zespół Elektrowni "Pałnów-Adamów-Konin" S.A. (further: **ZE "PAK" S.A.** or **the Company**) expired and the Supervisory Board of the 6th term of office started its operation.

In the reporting period, composition of the Company's Supervisory Board underwent changes.

On 29 June 2012, in connection with approval by the Ordinary General Meeting of ZE "PAK" S.A. of the financial statement of the Company for the financial year 2011, the Company's Supervisory Board of the 5th term of office completed its activities. The financial year 2011 was the last complete year of performing functions by the members of the Supervisory Board of the 5th term of office, which, in accordance with the Articles of Association, lasts 5 years.

In the period from 01 January 2012 to 29 June 2012, the Supervisory Board operated in the following composition:

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

At the session held on 29 June 2012, the Ordinary General Meeting of ZE "PAK" S.A. -in connection with expiry of the 5th term of office of the Supervisory Board - appointed the Supervisory Board of the 6th term of office in the following composition:

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

10) Krzysztof Majewski.

The function of Chairman of the Supervisory Board of the 6th term of office the Ordinary General Meeting entrusted to Mr. Solorz – Żak. M. Eger, T.Klapsa, I.Gołębiak and A.Mazurek were appointed by the Ordinary General Meeting to the Supervisory Board of ZE "PAK" S.A. of the 6th term of office in connection with election to the Supervisory Board by the employees of the Company. The elections were conducted according to the provisions of the Act of 30.08.1996 on commercialization and privatization of state-owned companies (consolidated text: Journal of Laws of 2002 No. 171 item 1397 as amended), the Company's Articles of Association and "the Regulations of Elections of Members of the Supervisory Board Elected by the Employees of Zespół Elektrowni Pątnów-Adamów-Konin S.A."

At the meeting of the Supervisory Board of ZE "PAK" S.A., which was held on 02 August 2012, the Deputy Chairman and the Secretary of the Supervisory Board of 6th term of office were elected. To the position of Deputy Chairman Mr. Henryk Sobierajski was elected and the function of Secretary was entrusted to Mr. Andrzej Mazurek.

On 12 November 2012, Mr. Krzysztof Krajewski resigned from the function of member of the Supervisory Board of ZE "PAK" S.A., as of 13 November 2012.

From 14 November 2012 until the end of the reporting period, the Supervisory Board operated in the following composition:

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

On 21 February 2013, i.e. after the end of the reporting period, the following members resigned from the function of member of the Supervisory Board:

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

On 19 March 2013, the Company received a statement of Mr. Sławomir Sykucki, concerning resignation from the performed function of member of the Supervisory Board as of 20 March 2013,

On 22 March 2013, the second part of the session of the Extraordinary General Meeting of ZE "PAK" S.A., convened at 21 February 2013 was held, during which the shareholders were discussing the issue of determination of a new number of members of the Supervisory Board of the Company for 6th term of office and changes in the Supervisory Board's composition. As a result of the adopted resolutions, the Extraordinary General Meeting determined 7-person Supervisory Board of 6th term of office, and, at the same time, appointed the below listed members:

- 1) Ludwik Sobolewski;
- 2) Wiesław Walendziak;
- 3) Tomasz Zadroga.

Mr. Ludwik Sobolewski and Mr. Wiesław Walendziak were appointed as independent members of the Supervisory Board. According to the requirement resulting from the Company's Articles of Association, Mr. Ludwik Sobolewski and Mr. Wiesław Walendziak submitted to the Company statements on fulfilling the independence criteria for an independent member of the Supervisory Board, as defined by the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC), including the Code of Best Practice of WSE Listed Companies. Mr. Wiesław Walendziak submitted also a statement on fulfilling the terms of independence required for a member of the audit committee referred to in the Act of 7 May 2009 on chartered auditors and their professional organization, entities authorized to audit financial statements and on public supervision (Journal of Laws No. 77 item 649 as amended) and has qualifications in the field of accounting or financial revision.

II. Scope of the Supervisory Board's activities

In the reporting period, the Supervisory Board operated and fulfilled its obligations on the basis of the Code of Commercial Companies, the Articles of Association of ZE "PAK" S.A., and "the Regulations of the Supervisory Board of ZE "PAK S.A." The Supervisory Board exercised collectively constant supervision over the Company's activities in all the areas of its activities.

In 2012, the Supervisory Board was focused mainly on the following issues:

- 1) the initial public offering of the Company's shares and floating of the Company's shares on the regulated market conducted by the Warsaw Stock Exchange (further: **WSE**);
- 2) assessing statements prepared for the financial year 2011,
- 3) determining the organizational structure of the Company,
- 4) approving the budget of the Company for the year 2012 and control of its execution,
- 5) purchasing from the Treasury the Konin Brown Coal Mine in Kleczew (further: **KWB Konin**) and shares in the Adamów Brown Coal Mine (further: **KWB Adamów**);
- 6) purchasing shares in Elektrim Volt SA;

- 7) starting the process of registration of winding up of PAK Biopaliwa Sp. z o.o.;
- 8) giving opinions and examining requests submitted by the Management Board in cases concerning current activities of the Company.

The main forms of the Supervisory Board's execution of supervision in all the areas of the Company's activities were:

- 1) meetings of the Supervisory Board,
- 2) meetings with the Management Board and managers and advisors of the Company,
- 3) meetings with chartered auditor carrying out audit of the statements prepared by the Company for the financial year 2011.

When fulfilling its code and statutory obligations, the Supervisory Board held in the reporting period 8 meetings, fulfilling statutory obligation to hold a meeting in each quarter.

In 2012, the Supervisory Board adopted total 37 resolutions. The Board took also stands on cases covered by the agenda of held meetings.

In the reporting period, the Supervisory Board did not exercise its rights resulting from Article 383 of the Code of Commercial Companies, i.e. it did not suspend, for important reasons, in activities particular or all members of the Management Board and did not delegate members of the Supervisory Board to temporary performance of activities of members of the Management Board who were dismissed, resigned or could not perform their activities.

The reporting period was dominated, first of all, by works related to the debut of the Company on the Warsaw Stock Exchange, which took place on 30 October 2012. Most activities and decisions of the Supervisory Board undertaken in 2012 related to the conduct of the process of the initial public offering of the Company's shares. The Supervisory Board remained in constant contact with the Company's Management Board, supervising the process of preparations for IPO on a regular basis. In this area, the Supervisory Board, when fulfilling its statutory competences and obligations, as a result of examination of the requests submitted by the Company's Management Board, adopted the resolutions on:

- 1) approval of the terms, the structure and dates of the initial public offering for sale of shares in the Company, under which the Treasury of the Republic of Poland sold all held shares in the Company;
- 2) giving consent to incurring by the Company obligations related to entering into a contract intended to secure successful sale of shares in the Company in the initial public offering, including the contract for sub-issue of shares as defined by the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies;

- 3) giving consent to incurring by the Company obligations related to purchase of own shares in the Company in connection with activities stabilizing the price of shares in the Company on the regulated market conducted by the Warsaw Stock Exchange, including obligations related to conclusion of a stabilization contract.

In its activities in 2012 the Supervisory Board focused also on participation of the Company in the privatization process of KWB Adamów and KWB Konin that is conducted by the Ministry of Treasury. On 08 May 2012, as a consequence of examination of the request of the Company's Management Board, having read the justification presented by the Management Board, the Supervisory Board expressed its consent to purchasing by the Company from the Treasury 85% of the shares in both mines, giving, at the same time, consent to purchasing also other shares in mines. Through the purchase of shares in KWB Konin and KWB Adamów the Company provided raw material base to its manufacturing plants.

At the meeting on 2.08.2012, the Supervisory Board, at the request of the Management Board, having read the justification of the Management Board, adopted a resolution expressing consent to entering into the transaction of purchase of 100% of the shares in Elektrim Volt S.A., broadening activities of the ZE "PAK" SA Group to cover the area of trade in electric energy, covering acquisition and service of final customers and conclusion of other transactions of purchase and sale of electric power.

The Supervisory Board, at its first meeting in 2012, having analyzed presented by the Management Board of ZE "PAK" SA budget of the Company for the year 2012 that included, among others, plan of electric energy production and sale, investment plan and plan of overhauls and servicing, adopted a resolution approving prepared by the Management Board budget of the Company for the year 2012.

In the reporting period, the Supervisory Board, at the request of the Company's Management Board, expressed its opinion on the process of winding up of PAK Biopaliwa Sp. z o.o. conducting activities with regard to supplying biomass to ZE "PAK" S.A. plants. As a result of the issued decisions, the organization of biomass purchase for the purposes of ZE "PAK" S.A. was relocated to the Company's organizational structure. The process of winding up of PAK Biopaliwa Sp. z o.o. was completed on 23 January 2013, when the company was crossed out from the National Court Register.

In addition, the Supervisory Board of the Company, during the financial year 2012, when fulfilling its statutory competences made, among others, decisions in the following areas:

- approval of new "Regulations of the Management Board of ZE "PAK S.A.",

- evaluation of the financial statement of the Company for the financial year 2011, evaluation of the statement of the Management Board of operations of the Company in the financial year 2011 and a proposal of distribution of profit for the financial year 2011,
- evaluation of the financial statement of the ZE "PAK" S.A. Group and of the statement of the Management Board of operations of the Group,
- consent to members of the Management Board of ZE "PAK" S.A. sitting on supervisory boards of subsidiaries and related parties,
- selecting Ernst & Young Audit Sp. z o.o. as the chartered auditor to audit the financial statement of ZE "PAK" SA and of the consolidated financial statement of the ZE "PAK" SA Group prepared for 2012.

Owing to the fact that the Company had its debut on the Warsaw Stock Exchange on 30 October 2012 and that independent members of the Supervisory Board were appointed into the Supervisory Board after the end of the reporting period, namely on 22 March 2013, in 2012 at the Supervisory Board no committees operated.

III. Information on results of the evaluation of the financial statement of the Company for 2012, the statement of the Management Board of operations of the Company in 2012 and the request of the Management Board concerning distribution of profit for the year 2012.

The Supervisory Board, fulfilling its code and statutory obligations, evaluated the financial statement of ZE "PAK" SA for the year ending on 31.12.2012, which consisted of:

- 1) introduction to the financial statement and additional information and explanations;
- 2) balance sheet drawn up as at 31 December 2012, which presents the total balance of assets, equity and liabilities in the amount of PLN 3,145,230,373.24 (in words: three billion one hundred forty-five million two hundred thirty thousand three hundred and seventy-three Polish zloty 24/100);
- 3) income statement for the period from 01 January 2012 to 31 December 2012, which reports net profit in the amount of PLN 275,012,750.76 (in words: two hundred seventy-five million twelve thousand seven hundred and fifty Polish zloty 76/100);
- 4) statement of changes in equity for the period from 01 January 2012 to 31 December 2012, which reports increase in equity by the amount of PLN 243,732,870.71 (in words: two hundred forty-three million seven hundred thirty-two thousand eight hundred and seventy Polish zloty 71/100 PLN);
- 5) cash flow statement for the period from 01 January 2012 to 31 December 2012, which reports decrease in cash during the financial year by the net amount of PLN 243,938,356.22 (in words: two hundred forty-three million nine hundred thirty eight thousand three hundred and fifty-six Polish zloty 22/100).

The correctness and reliability of the financial statement for 2012 was audited by chartered auditors from Ernst & Young Audit Sp. z o.o., seated in Warsaw, selected as chartered auditor by the Supervisory Board. The Supervisory Board read the opinion and report of the chartered auditor of the audit of the financial statement. Based on this, the Supervisory Board declares that the Company's financial statement for the year 2012 was prepared in all material aspects on the basis of correctly kept accounting books, in accordance with the binding accounting principles (policy) , resulting from the Act on Accounting of 29 September 1994 (consolidated text: Journal of Laws of 2009 No. 152 item 1223 as amended) and regulations issued on its basis.

From the opinion of the chartered auditor it results that the financial statement presents, in all material aspects, reliably and clearly all information essential for assessment of the financial result on business activities for the period from 1 January 2012 to 31 December 2012, and for assessment of economic and financial position of the Company as of 31 December 2012.

The Supervisory Board confirms that the Company's financial statement for 2012 is compliant with books and documents of the Company and current state. The financial statement was signed by all members of the Management Board of ZE "PAK" SA.

The Supervisory Board points out to the shareholders that in the opinion on audit of the financial statement for 2012 the chartered auditor did not include any reservations.

Bearing in mind the above, the Supervisory Board recommends to the General Meeting of ZE "PAK" SA to adopt a resolution on approval of the financial statement of the Company for the year ending on 31 December 2012.

Fulfilling its statutory obligations, the Supervisory Board assessed also the statement of the Management Board of operations of the Company in 2012, which was read also by the chartered auditor and the chartered auditor did not report any comments. The Supervisory Board emphasizes that the statement in question was prepared in accordance with valid regulations and contains any necessary information. The statement presented for evaluation includes, among others, information on significant events affecting current and future activities of the Company, as well as description of the financial – economic position of the Company which presents characteristics of basic economic – financial figures for the year 2012 and factors having effect on current and future financial results of the Company. The Supervisory Board states that the statement of the Management Board of operations of the Company in 2012 complies with books and documents of the Company and current state. In connection with the above, the Supervisory Board recommends to the General Meeting of ZE "PAK" SA adoption of a resolution on approval of the statement of the Management Board of operations of the Company in 2012.

The Supervisory Board read also the request of the Management Board concerning distribution of profit of the Company for 2012 in the amount of PLN 275,012,750.76 net. The Management Board,

taking into account investment needs of the Company, opportunities and cost incurred by the Company to obtain external funding and the current situation on the electric energy market, proposed allocation of 20% of net profit for 2012 for payment of dividend, and allocation of the remaining part profit for supplementary capital of the Company. The Supervisory Board expressed a positive opinion on the request of the Management Board and recommends to the shareholders of the Company adoption of a resolution on distribution of profit for 2012 in accordance with the proposal presented by the Board.

The Supervisory Board informs that the Company prepared also the consolidated financial statement of the ZE "PAK" SA Group for the year 2012, accompanied by the statement of the Management Board of ZE "PAK" SA of operations of the Group in 2012. The consolidated financial statement, like the separate financial statement, was audited by Ernst & Young Audit Sp. z o.o., which was selected as chartered auditor by the Supervisory Board. The Supervisory Board read the opinion and the report presented by the chartered auditor of the completed activities. In the issued opinion, the chartered auditor ascertained that the consolidated financial statement of the ZE "PAK" SA Group for the year 2012 had been prepared according to International Accounting Standards Financial approved by EU, was compliant with regard to form and content with the binding regulations and in all material aspects presented reliably and clearly any information important for assessment of the financial result of the Group for the year 2012 and for assessment of the economic and financial position of the Group as of 31 December 2012. The chartered auditor did not report comments to the statement of the Management Board of ZE "PAK" SA of operations of the Group in 2012. The Supervisory Board, having read the opinion and report of the chartered auditor, recommends to the General Meeting of ZE "PAK" SA adoption of a resolution on approval of the consolidated financial statement of the ZE "PAK" SA Group for the year 2012 and the statement of the Management Board of ZE "PAK" SA of operations of the Group in 2012.

IV. Assessment of cooperation with the Management Board

Cooperation of the Supervisory Board with the Management Board of the Company in 2012 was based on the terms consistent with the Articles of Association of the Company and the Code of Commercial Companies. The Supervisory Board contacted on a regular basis the Management Board to exchange information and obtain explanations regarding matters covered by the agenda of the Supervisory Board's meetings as well as in cases crucial for the Company's operation. All meetings of the Supervisory Board were attended by the members of the Management Board of ZE "PAK" SA, who provided, on a regular basis, information and explanations in cases covered by the agenda.

The Supervisory Board, taking into account results of the Company for the reporting year, applies to the General Meeting for granting the vote of approval to all the members of the Management Board fulfilling their obligations during the year 2012.

V. Assessment of the internal control system and significant business risk management system

In the Company the internal control system as well as a risk management system operate, whose effectiveness is responsibility of the Management Board. The main task of these systems is to ensure achievement of the major business goals of the Company.

The internal control system includes main processes in the Company's operations where there is a need to establish control mechanisms used for monitoring and limiting risks significant for the Company.

In order to identify the specific types of risk and develop methods of relevant conduct to limit their impact on activities and position of the Company, a complex document was adopted and implemented for use, which describes the principles of market risk management in the Company. Under the above principles, particular roles are separated and the scope of responsibility for decisions and activities associated with commercial strategy and market policy are identified. The Company has also binding organizational regulations specifying business organization, which defines the scope of tasks and responsibilities of different organizational departments and key positions, which additionally allows leveling significant risks related to the conduct of activities. The Company's Management Board updates, on a regular basis, the organizational structure, adapting it to the changing current needs and position of the Company and of the group.

In the opinion of the Supervisory Board, the internal control system and the significant business risk management system operate at satisfactory level.

VI. Brief assessment of the Company's position

The Supervisory Board assesses the present position of the Company as satisfactory.

The year 2012 was another year of consistently implemented strategy of the Company, focused, among others, on growth in effectiveness, ensuring fuel base for the Company and further development of basic segments of activities. In the opinion of the Supervisory Board, from the financial statement for the financial year 2012 and the statement of the Management Board of operations of the Company in 2012 it can be concluded that the achievement by the Company of the assumed goals for last year brought successful results. According to the strategy of the Company assuming, among others, diversification of fuels based on economically effective and environmentally optimal technologies, in July 2012 the Company completed construction and commissioned in the Konin Power Plant a new unit fired with biomass, capacity: 55 MWe, along with any necessary accompanying infrastructure. The Company achieved also a goal assumed for the year 2012, in the form of concluding a transaction of purchase from the Treasury of shares in KWB Konin and KWB Adamów, ensuring in this way raw material base to

its manufacturing units. The year 2012 is also the year of the Company's debut on the stock exchange, which completed a long-term process of the Company's privatization, started as early as in 1999.

In 2012, the Company, in spite of deteriorating macroeconomic situation and difficult situation on the electric power market due to decrease in energy prices, earned gross profit at the level above PLN 327 million. After offset of taxes, net result of the Company for 2012 amounted to more than PLN 275 million. The Company started the year 2013 with safe financial and liquidity position, which is confirmed by financial ratios of the Company for the last year when they were running at satisfactory level.

The Supervisory Board points out that the Company generates most revenues from generation and sale of electric energy, therefore the price for which the Company sells electric energy is very important for its financial results. Particular importance in the case of the Company's position and earned revenues can be attained to growth in real GDP and industrial production in Poland, development of the service sector and increase in individual consumption. All the listed factors have a significant effect on demand for electric energy and its consumption and, as a result, energy price obtained by producers. Currently, we are observing on the market decrease in prices of electric energy and RES certificates which, in connection with reduction in demand for energy, influences up-to-date results of the Company and in the event when this trend persists in subsequent periods, may have influence on future financial results of the Company and deterioration of financial ratios. Owing to low variable costs of generation of electric energy from lignite, decrease in demand for energy should not pose a significant threat to volume of energy production in the Company.

Signatures of members of the Supervisory Board

Zygmunt Solorz - Żak _____..

Ludwik Sobolewski _____..

Wiesław Walendziak _____..

Tomasz Zadroga _____...

Henryk Sobierajski _____..

Leszek Wysłocki _____..

Wojciech Piskorz _____..

Konin, May 2013