

**ZESPOŁU ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA
CAPITAL GROUP**

**MANAGEMENT BOARD'S REPORT
FROM THE CAPITAL GROUP'S OPERATIONS IN 2018**

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

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1. SELECTED FINANCIAL DATA

<i>Selected consolidated financial data</i>	<i>zloty thousand</i>	<i>zloty thousand</i>	<i>euro thousand</i>	<i>euro thousand</i>
	<i>12 months 2018 period from 01.01.2018 to 31.12.2018</i>	<i>12 months 2017 period from 01.01.2017 to 31.12.2017 (transformed data)</i>	<i>12 months 2018 period from 01.01.2018 to 31.12.2018</i>	<i>12 months 2017 period from 01.01.2017 to 31.12.2017 (transformed data)</i>
Sales revenue	2 304 824	2 443 075	540 164	575 559
Operating profit/loss	(477 262)	290 092	(111 852)	68 342
Profit/loss before tax	(515 448)	258 633	(120 802)	60 931
Net profit/loss for the period	(463 673)	183 544	(108 667)	43 241
Net profit attributable to equity holders of the parent	(460 196)	183 243	(107 853)	43 170
Total comprehensive income	(462 064)	186 204	(108 290)	43 867
Net cash flow from operating activities	366 754	478 798	85 953	112 799
Net cash flow from investing activities	(60 703)	(57 624)	(14 226)	(13 576)
Net cash flow from financing activities	(325 305)	(447 250)	(76 239)	(105 367)
Net increase / (decrease) in cash and cash equivalents	(19 254)	(26 076)	(4 512)	(6 143)
Net profit per share (in zloty/euro per share)	(9.05)	3.61	(2.12)	0.85
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547
	<i>as of 31.12.2018</i>	<i>as of 31.12.2017 (transformed data)</i>	<i>as of 31.12.2018</i>	<i>as of 31.12.2017 (transformed data)</i>
Total assets	3 871 297	4 459 380	900 302	1 069 165
Fixed assets	2 968 043	3 451 444	690 243	827 506
Current assets	902 244	1 006 898	209 824	241 410
Total equity	1 683 581	2 211 047	391 530	530 113
Share capital	101 647	101 647	23 639	24 371
Share capital attributable to equity holders of the parent	1 683 581	2 211 047	391 530	530 113
Total liabilities	2 187 716	2 248 333	508 771	539 052
Long-term liabilities	974 139	1 248 851	226 544	299 420
Short-term liabilities	1 213 577	999 482	282 227	239 632
Book value per share (in zloty/euro per share)	33.13	43.50	7.70	10.43
Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Above financial data were converted into EUR according to the following exchange rates:

- data on the statement of comprehensive income and the statement of cash flows according to the arithmetic average of the average NBP exchange rates from each last business day of the month of the financial period from January 1, 2018 to December 31, 2018, which is EUR/PLN 4.2669, and from January 1, 2017 to December 31, 2017, which is EUR/PLN 4.2447.
- data on individual items of the statement of financial position according to the average exchange rate of the EUR/PLN specified by the NBP as at December 31, 2018, i.e. EUR/PLN 4.3000, and as at December 29, 2017, i.e. EUR/PLN 4.1709.

2. DESCRIPTION OF THE COMPANY AND THE CAPITAL GROUP

2.1. Basic information on the Company and the Capital Group

Basic information on the Company

Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as ZE PAK SA 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 in Poznań, 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:	stock company
Abbreviated name:	ZE PAK SA
Registered office and address:	45Kazimierska str., 62-510 Konin, Polska
Telephone number:	+48 63 247 30 00
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
Email address:	zepak@zepak.com.pl
KRS number:	0000021374
REGON number:	310186795
NIP number:	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 SA w Warszawie (Warsaw Stock Exchange). The Company’s shares are dematerialised and marked by Krajowy Depozyt Papierów Wartościowych SA (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2018, the share capital of ZE PAK SA has been not changed. As of 31 December 2018 amounts to zloty 101 647 094.00 and is divided into 50 823 547 bearer shares class A with a face value of zloty 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 of 31 December 2018 the ZE PAK Capital Group (hereinafter referred to as the “Group”, “Capital Group” or “ZE PAK SA Group”) is composed of a dominant entity Zespół Elektrowni Pątnów – Adamów – Konin SA (hereinafter referred to as “ZE PAK SA” or “Company”) and nine subsidiaries i.e. Elektrownia Pątnów II sp. z o.o., PAK – Volt SA, PAK Kopalnia Węgla Brunatnego Adamów SA (hereinafter referred to as the “PAK KWB Adamów SA”), PAK Kopalnia Węgla Brunatnego Konin SA (hereinafter referred to as the “PAK KWB Konin SA”), Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o. (hereinafter referred to as the “PAK SERWIS sp. z o.o.”), PAK Górnictwo sp. z o.o., PAK Infrastruktura sp. z o.o., PAK Adamów sp. z o.o., Aquakon sp. z o.o. in liquidation. All the above-mentioned companies are consolidated.

The companies of the biggest importance for the Group due to their scale of activity are: ZE PAK SA, dealing with production of electricity and heat, Elektrownia Pątnów II sp. z o.o., dealing with production of electricity, and PAK

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KWB Adamów SA and PAK KWB Konin SA, dealing with lignite mining. In addition to companies from the aforementioned main areas of activity, the Group also includes other companies that deal, among others, with the execution of construction and assembly works, maintenance works, service, production and trade activities aimed at satisfying the needs and comprehensive industry service.

The production facilities of the Group include three lignite-fired power plants located in the central part of Poland in Wielkopolskie voivodship. These are: Pałnów II – equipped with a supercritical power unit, Pałnów I and Konin – equipped additionally with power unit with a boiler dedicated to biomass firing. Total installed gross power output of the production facilities as at the date of this report is 1 896 MW.

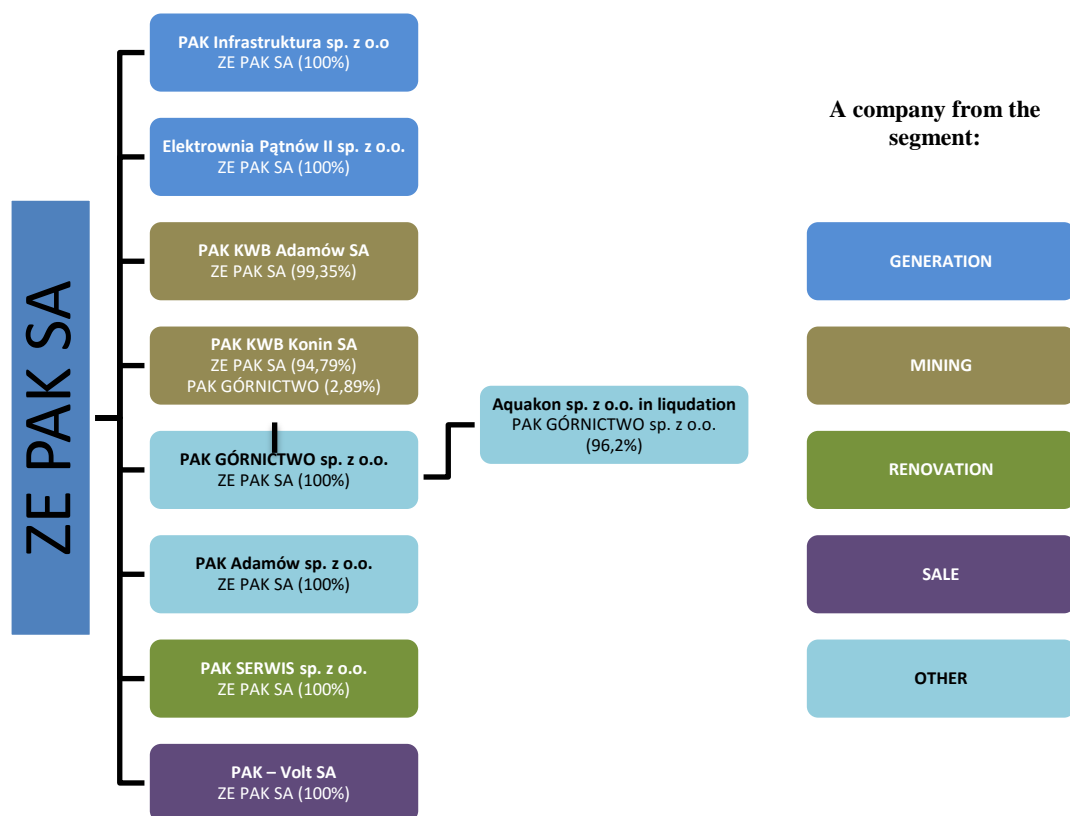
The Group's main mining assets are concentrated in two companies: PAK KWB Konin, which currently operates on Józwin, Tomisławice and Drzewce open casts, PAK KWB Adamów operating on Adamów open cast.

Majority of the Group's sales revenue is derived from sale of electricity. This is supplemented by revenues from sale of heat, contracts for construction repair services and certificates of Energy origin. An additional source of sales revenues, depending on the level of production costs, energy prices on the market and production volume, are revenues from the termination of long-term contracts (Power Purchase Agreements) for the sale of electricity, generated by Elektrownia Pałnów II sp. z o.o. The Group, having lignite mines in its structure, provides power plants with an access to uninterrupted lignite supplies for own production installations located in the immediate vicinity of the mines. The vertically integrated Group enables optimization of coal inventories and supplies by coordinating coal mining with the demand for this fuel. The demand for biomass is covered on the basis of contracts concluded with suppliers.

Apart from the Capital Group, the Company owns shares in Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. with headquarters in Gliwice and providing measurement, research and consultancy services regarding, among others power engineering. ZE PAK SA holds one share in the aforementioned company with the value of PLN 151 201.01, which constitutes 2.81% of the total capital.

The main shareholder makes the Group affiliated with other entities, in which Zygmunt Solorz holds substantial direct or indirect share.

Structure of the Group as of December 31, 2018



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Table 1: Description of the Group's companies (excluding ZE PAK SA)

Entity	Registered office	Scope of operations	Group's share in the capital in %	
			31.12.2018	31.12.2017
Elektrownia Pańków II sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric Energy production and distribution from the 464 MW power unit	100.00%	100.00%*
PAK Kopalnia Węgla Brunatnego Konin SA	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	97.68%*	97.58%*
PAK Kopalnia Węgla Brunatnego Adamów SA	62-700 Turek Warenka 23	Lignite extraction	99.35%	99.26%
Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100.00%	100.00%
PAK GÓRNICtwo sp. z o.o.	62-510 Konin ul. Kazimierska 45	Rail transport services, vulcanization services (conveyor belts), electrical services, drilling, mining, mechanical and reclamation services, repair and assembly services of equipment,	100.00%	100.00%
PAK – Volt SA	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100.00%	100.00%
PAK Infrastruktura sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	100.00%	100.00%
PAK Adamów sp. z o.o.	62-510 Konin ul. Kazimierska 45	Buying and selling real estate	100.00%	100.00%
Aquakon sp. z o.o. in liquidation	62-610 Sompolno Police	In liquidation	96.2%*	96.2%*
PAK – Holdco sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	-	100.00%
Energoinwest Serwis Sp. z o.o. in liquidation	62-510 Konin ul. Spółdzielców 3	In liquidation	-	100.00%*
Eko-Surowce sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	In liquidation	-	100.00%*
EL PAK Serwis sp. z o.o. in liquidation	62-510 Konin ul. Przemysłowa 158	In liquidation	-	100.00%*

* Entities with partial or total indirect share via other companies from ZE PAK Group.

2.2. Basic rules and changes to basic rules of ZE PAK SA Capital Group management

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK SA is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, in the organizational structures of the Company there is a Management Board Office directly reporting to the President of the Management Board, which in its competences has, among others matters related to ownership supervision. The basic task of the Management Board Office, in the area of corporate governance, is supervision over the operations of ZE PAK SA Capital Group and other companies in which ZE PAK SA holds shares or stocks. This unit coordinates the coherence of activities of all entities belonging to the Group and monitors the compliance of these activities with the applicable law, as well as the interest of the whole Capital Group.

According to the policy of the Group, in the key subsidiaries, the members of the Management Boards ZE PAK SA are Members of these companies Management Boards, and in other companies of the Group are members of the Supervisory Boards. In addition, in order to ensure proper functioning of the corporate governance body, the Management Board of ZE PAK SA recommends to the Supervisory Board of ZE PAK SA, the candidature of other Supervisory Board members of the Group companies.

In the organizational structure of the Company, organizational division units that bring together organizational units of the Company (departments, offices, divisions, etc.) managed by individual members of the Management Board of ZE PAK SA are created. The Supervisory Board divides internally the competencies among the members of the Management Board by entrusting a Management Board member with a specific organizational division unit. The members of the Management Board of ZE PAK SA co-operate, agree, and coordinate the actions regarding the Company's matters as well as secure proper co-operation of the organizational division units and units managed by them. The areas of the Company's activity managed by individual members of the Management Board are defined by the Company's organizational regulations specifying the Company's organization of the enterprise.

In the past year the following changes in the Group's structure have been recorded:

- As a result of the repurchase process of a part of shares from eligible employees and the transfer of shares of bought back shares from the State Treasury, the share of companies from ZE PAK SA in PAK KWB Konin SA shareholding increased to 97.68% and in PAK KWB Adamów SA up to 99.35%.

- On July 31, there was a merger of ZE PAK SA and PAK-HOLDCO Sp. z o.o. in the mode of art. 492 § 1 point 1, art. 515 § 1 and art. 516 CCC, i.e.

- 1) by transferring all assets of PAK HOLDCO Sp. z o.o. at ZE PAK SA;
- 2) without increasing the share capital of ZE PAK SA;
- 3) without issuing new shares of ZE PAK SA in exchange for shares of PAK HOLDCO Sp. z o.o.;
- 4) using a simplified connection procedure.

In addition, on August 1, 2018, there was a merger of companies belonging to the Group, also in accordance with art. 492 § 1, art. 515 § 1 and art. 516 § 6 of the Commercial Companies Code. On this day, an entry was made in the National Court Register by merging PAK Górnictwo Sp. z o.o. with EL PAK Serwis Sp. z o.o. in liquidation, Energoinwest Serwis Sp. z o.o. in liquidation and EKO-Surowce Sp. z o.o. in liquidation.

The above changes aimed at simplifying the structure of the Group..

2.3. Description of the structure of major capital deposits or main capital investments made within the Capital Group

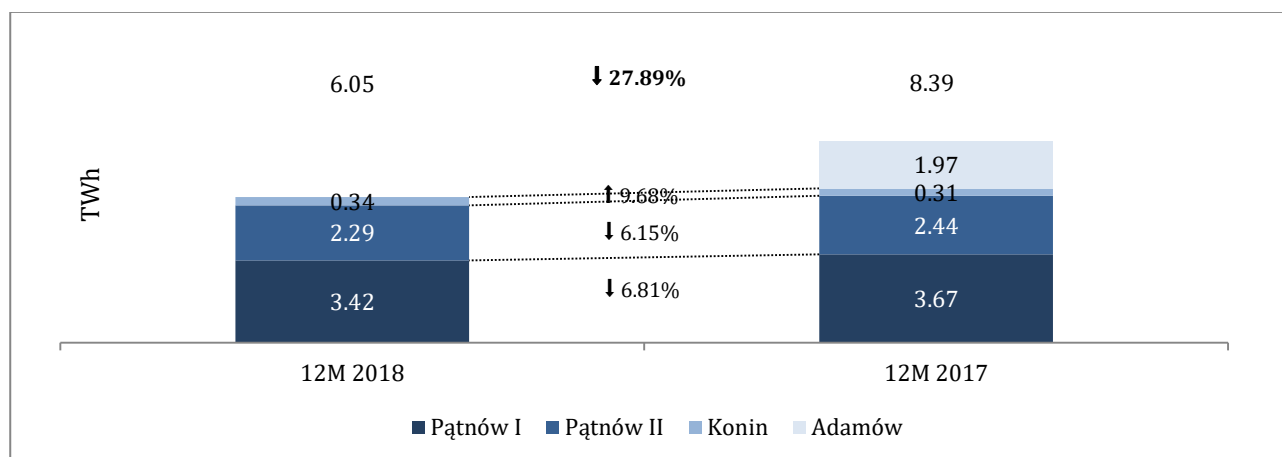
Information on the structure of the ZE PAK SA Capital Group can be found above in point 2.1 of this report. In 2018, no capital investments and investments significant from the point of view of the Group's operations were made within the Capital Group.

2.4. Basic products, goods, services, markets and sources of supply characteristics

The Company's operations are focused in several areas. The main area is doubtlessly generation of electricity, lignite extraction, electricity wholesale trading, which is supplemented by sales of energy certificates, operations undertaken to ensure an adequate amount of CO2 allowances as well as generation and sales of heat. In addition, 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. In 2018, the Group mainly conducted its operations in the Polish market. The only exception included operations related to transactions regarding the CO2 allowances, which were executed between ZE PAK and EPII as well as foreign partners.

The Group is the fourth largest producer of electricity in Poland and bases its production mainly on lignite. The net electricity production in Pałnów I power plant in 2018 reached 3.42 TWh, in Konin power plant 0.34 TWh and in Pałnów II power plant 2.29 TWh. Total net energy production in all power plants of the Group in 2018 was lower by 27.89% compared to the previous year.

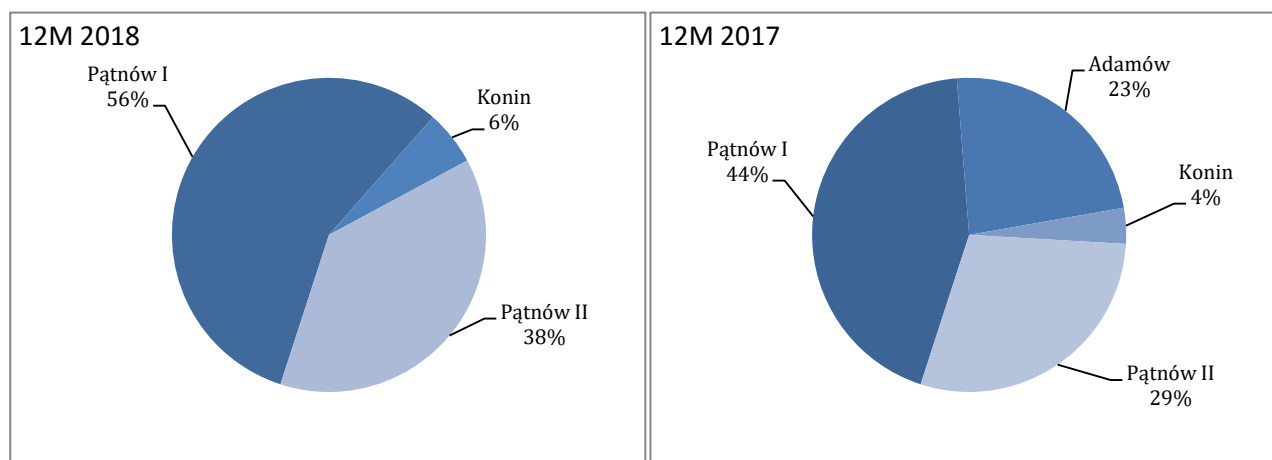
Chart 1: Net electricity production



Source: internal data

The main reason for the decline in production in the past year, compared to 2017, was the lack of generation at Adamów power plant. At the beginning of January 2018, the period of the environmental derogation for five units with a total capacity of 600MW ended at Adamów power plant. The comparable production, excluding Adamów power plant, decreased last year by 5.76%. In ZE PAK SA Group, the distribution of generations in individual power plants is primarily determined by the economics of production, operator requirements and geological conditions in the mines supplying coal to the power plant.

Chart 2: The structure of production divided into individual power plants



Source: Internal data

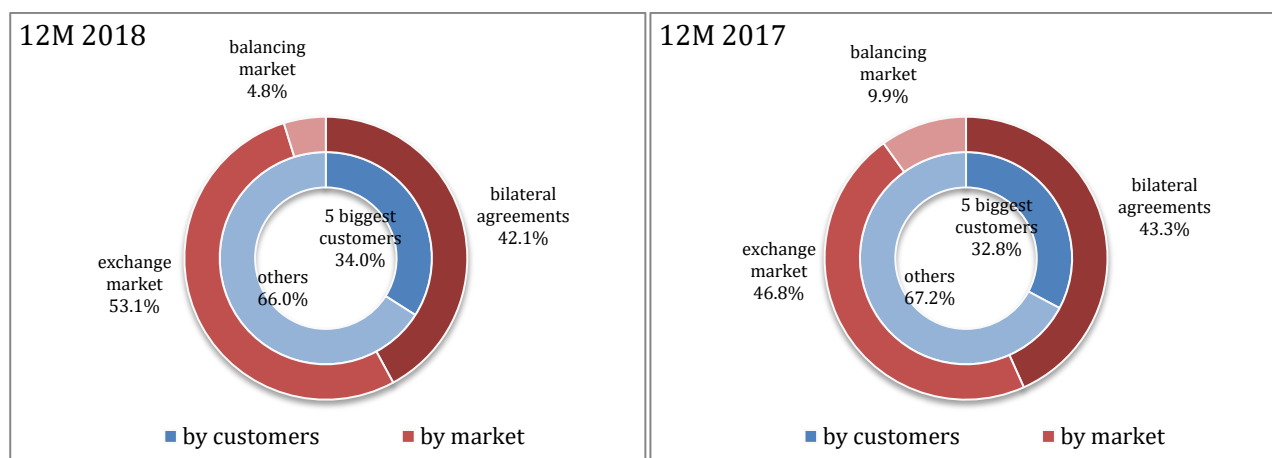
In 2018, the Group sold 9.34 TWh of electricity, i.e. 20.58% less than in 2017.

The main direction of electricity sales in 2018 was sales on the stock market, which accounted for 53.1% of the total volume of energy sold¹. As part of bilateral contracts concluded mainly with electricity trading companies operating on the Polish market, the Group's companies sold 42.1% of the yearly energy sales volume realized in 2018, of which the Group's five largest counterparties accounted for 34.0% of total sales of electricity, while transactions with final

¹ Elektrownia Pałnów II sp. z o. o., as an electricity producer entitled to receive compensations to cover the so-called "stranded costs" under the term of "the Act on the principles of coverage of costs incurred by producers due to early termination of long-term agreements for the sale of power and electricity," in accordance with the provisions of the Energy Law, is obliged to sell the entire generated electricity on the exchange market or by way of an open tender. However, by decision of the President of the Energy Regulatory Office, Elektrownia Pałnów II sp. z o. o. has been exempted from the obligation of public sale in relation to 60% of the net electricity generated by the Pałnów II Power Plant until the end of 2019.

customers accounted for 5.7% of the total volume of electricity sales. The structure of sales is supplemented with the electricity balancing market, where the Group companies sold 4.8% of the total volume of electricity sales last year.

Chart 3: Electricity sale structure by customers (internal ring) and by market (external ring)



Source: internal data

Revenues from the sale of electricity (total - generated and from turnover, reduced by excise duty) accounted for 85.36% of the total revenues from the sale of the Group, while revenues from the received compensations to cover the so-called "Stranded costs" in Elektrownia Pańków II constituted 6.57% of the Group's sales revenues.

The heat generated in the Group's power plants is sold to local customers. The main recipient is a municipal heat energy enterprise in Konin and local industrial producers. Last year, the Group sold 1,270 TJ of heat. Heat sales accounted for 1.59% of the Group's total sales revenues.

In 2018, revenues from the sale of property rights of origin were significantly higher than in 2017. The increase was mainly due to higher energy production from the biomass block and higher market prices of "green certificates". It is the relatively low prices of green certificates, constituting a support system, including for producers of energy from biomass, did not encourage in 2017 to maximize production from this source, in 2018 the market situation has changed, hence the higher production. In 2018, the Group generated 0.33 TWh of green certificates. The amount of revenue from the sale of rights of origin also determines, although to a much lesser extent, the sale of the so-called red certificates related to the production of energy and heat in cogeneration. In 2018, the Group generated 0.07 TWh of red certificates. The share of revenues from the sale of property rights from certificates of origin in 2018 accounted for 2.09% of the total revenue of the Group.

From significant sources supplementing the revenue structure, it is worth mentioning the activities related to the execution of construction and assembly works. PAK Serwis sp. z o. o., one of the Group's companies, deals with the implementation of such tasks for the needs of the Group and external entities. The main external customers are entities from the industrial construction sector and the electricity generation and distribution sector. Revenues obtained from this service provided to external entities in 2018, accounted for 3.08% of the total revenue of the Group's sales. The remaining activity generated 1.31% of total revenues in the previous year.

The main raw material used by the Group for energy production is lignite, which is extracted almost exclusively for the needs of the power plant. This is mainly due to the fact that lignite coal extracted in Poland is soft coal, and its long-distance transport is not viable due to its high water content. The extracted lignite coal is delivered directly from open pit mines to nearby power plants. For this reason, lignite mining in the ZE PAK SA Group is closely correlated with the amount of electricity generated by power plants located in the vicinity of the mines.

Practically, the whole amount of coal mined in both mines is delivered to the power plants of the ZE PAK SA Capital Group; an insignificant amount (less than 1%) is used for the needs of the mines or sold to other recipients.

In the Group, biomass is also used as a raw material for energy production – it is burned in a boiler dedicated to this purpose and located in Elektrownia Konin. Biomass supply contracts are concluded with external suppliers.

3. DESCRIPTION OF ACTIVITIES

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

Significant events in the accounting year

The end of production at Elektrownia Adamów

On January, 1st, 2018, Elektrownia Adamów, being a part of Zespół Elektrowni Pątnów-Adamów-Konin SA, was closed. Five power units with a capacity of 120 MW each were producing electricity for the need of National Power System as well as they were supplying heat to local customers. The power plant stopped the production due to the environmental requirements. The installation in Elektrownia Adamów used derogation from the IED Environmental Directive in the scope of 17.5 thousand working hours, beginning from January 1st, 2016. Efforts were made to extend the operation of the power plant until the depletion of local lignite deposits, nevertheless, the decision of European Commission was negative.

Power Market Auctions

In the 4th quarter of 2018, 3 power market auctions for the 2021, 2022 and 2023 delivery periods were held. Selection of power market units that would offer a new service based on the remuneration, which would be ready for energy supply in a given quantity and conditions, was made as a result of Dutch type auction, i.e., auctions consisting of many rounds with a declining price. Power market units that were allowed to participate in the auction, after successfully completing the general certification process and then the certification process for the main auction, left the auction when the price of the next round did not provide their expected remuneration for the power. As a result, the auctions won the cheapest offers while maintaining technological neutrality. Companies from the ZE PAK Group participated in all three auctions. As a result of the auction, the Group contracted 587 MW ("Power Obligation") for each of the three years, i.e. 2021, 2022 and 2023. The prices obtained as a result of resolving the auction for subsequent years amounted to PLN 240.32 / kW / year respectively, PLN 198.00 / kW / year and PLN 202.99 / kW / year. Power Obligations created as a result of the auction may be subject to further trading on the secondary market. In 2019-2025, one main auction will be organized every year for delivery periods falling respectively for the years 2024 - 2030.

The process of obtaining formal permits in order to launch Ościsłowo open pit

As part of the activities aimed at ensuring the raw material for the Group's generation assets, project works on prospective lignite deposits are continued. PAK KWB Konin SA carries out the activities aimed at getting all the necessary decisions and documents allowing for obtaining a permit to grant a mining concession to the company. The current activities are concentrated on Ościsłowo open pit. The planned open pit is to provide coal necessary for energy generation in Elektrownia Pątnów II and renovated blocks in Elektrownia Pątnów I. Before getting the mining concession a number of formal and legal consents as well as documents specifying the way of conducting the mining operations, its scope and impact on the surroundings of the planned investment must be obtained. An environmental decision is one of them. An institution authorized to issue an environmental decision for the project "Extraction of lignite and associated minerals from the Ościsłowo Open Pit" is Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań"). On 16 September 2015, proceedings against this authority regarding the issue of an environmental decision for Ościsłowo open pit were initiated. As part of the documentation necessary in the proceedings, inter alia, a report on the environmental impact of Ościsłowo open pit and expert opinion on the impact of the designed open-pit on uniform surface and underground waters as well as protected areas were prepared. PAK KWB Konin SA with due diligence provides data and supplements the documentation necessary for the proper conduct of the proceedings. The date of issuing the environmental decision has been postponed several times. On March, 10 2017 RDOŚ in Poznań made a decision refusing the establishment of the environmental conditions for the investment. The decision of RDOŚ in Poznań was not final and PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw within the time allowed by law. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On November 30, 2017, General Director of Environmental Protection has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: "Extraction of lignite and associated minerals from Ościsłowo Open Pit", and forward the case for reconsideration by RDOŚ in Poznań.

PAK KWB Konin SA, by the letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, and not referring the matter for reconsideration. The participant in the opposition proceedings to construct the open pit Ościsłowo also appealed to the Provincial Administrative Court. Both objections were dismissed by the WSA. The judgement was issued on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw.

On November 21, 2018, RDOŚ in Poznań issued a notice informing the parties of the proceedings that in connection with the final verdict of the Provincial Administrative Court in Warsaw of October 18, 2018, proceedings in the case were not pending before the RDOŚ in Poznań, and the collected evidence was transferred to GDOŚ in Warsaw. On November 22, 2018, GDOŚ in Warsaw issued a notification informing that in connection with the WSA's repeal of the decision of GDOŚ of 30 November 2017 repealing the decision of RDOŚ in Poznań of 10 March 2017 refusing to determine the environmental conditions for the implementation of the project consisting in : Extraction of lignite coal and minerals accompanying from Ościsłowo open pit and remanding the case to the first instance authority - the General Director of Environmental Protection will again appeal against the above decision. The deadline for settling the case was set for 17 May 2019.

Another condition necessary for the implementation of the project is the change of the local spatial development plan in the area to be covered by the planned outcrop. Decisions in this respect are taken by the self-governments of the three communes in which the Ościsłowo deposit is planned to be exploited. In December 2016, the Minister of Agriculture issued the approval for dedicating the agricultural lands of Ślesin and Skulsk communes in the area of the construction of the Ościsłowo brown coal open pit for non-agricultural purposes. Also in December 2016, media reports on an archaeological discovery on the part of the land for the planned open pit were published. On September 26, 2017, Wielkopolski Voivodship Monument Conservator initiated administrative proceedings regarding the entry of the archaeological site "Góry stan. 24, AZP area 52-40 / 193 - a multiphase cemetery", i.e. a burial ground of cell-less funerary culture tombs from the Neolithic period and a burial mound of the Lusatian culture from the Bronze Age. On February 9, 2018, Wielkopolska Voivodship Conservator in Poznań issued a decision on the entry of the archaeological site "Góry stan. 24, AZP area 52-40 / 193 - multiphase cemetery" in the village of Góry, gm. Wilczyn area Konin. However, this decision has not become legally binding as a result of appealing to the Minister of Culture and National Heritage by one of the parties to the proceedings. On June 7, 2018, the Minister of Culture and National Heritage issued a resolution which upheld the contested decision. It is worth noting that in the past, on the other open pits exploited by the mines, archaeological and excavation works took place many times. PAK KWB Konin SA cooperated in the past and is going to cooperate in such cases with all relevant institutions.

Significant events after the balance sheet date

In the period after the balance sheet date, changes took place in the Supervisory Board and in the Management Board of the Company. A description of these changes is presented in item 9.9. "Composition, its changes and description of the operation of managing and supervising bodies" of this report.

On January 18th, 2019, the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit. The decision of the Local Government Appeal Court in Konin means that the environmental decision is still in legal circulation. You can read more about the pending proceedings in point 12.1. "Significant court proceedings" of this report.

3.2. Significant agreements concluded in the accounting year

Significant agreements for the Group's activity

Because of the characteristics of the activity and the market, in which the ZE PAK SA Capital Group operates, the basic agreements concluded with main suppliers and recipients in the course of usual activities are of a standard nature. The agreements of the supply of the main raw material, which is brown coal, are of a multiannual nature and the suppliers are subsidiaries of ZE PAK SA. In the area of the electricity sales and purchase of CO₂ emission allowances, the

Group's companies conclude framework agreements with particular counterparts setting out the basic terms and conditions of cooperation. Whereas purchase/sale alone are executed in separate transactions in relation to specific quantities using current market prices.

Agreements regarding the obtained credits and loans

In 2018, ZE PAK SA Group's companies signed the following agreements regarding credits and loans:

1. PAK KWB Konin SA has signed annex No. 8 with one of the banks extending the repayment date of the loan - multi-purpose line until 29 May 2019 for credit products and until 29 December 2019 for guarantee products. Available credit limit up to the amount of PLN 76 700 thousand divided into a sublimit for overdraft and sublimit for guarantees. The interest rate on the overdraft facility at the WIBOR 1M rate plus the bank's margin.
2. PAK KWB Konin SA has signed annex No. 11 with one of the banks extending the repayment date of the loan by 30 June 2019. The available credit limit for financing current business operations is PLN 40 000 thousand. The interest rate is based on the WIBOR 1M rate plus the bank's margin.
3. PAK SERWIS sp. z o.o. has signed annex No. 7 and 8 with one of the banks to a multi-purpose credit limit agreement extending the period of validity of the contract until November 30, 2019. The available multi-purpose credit limit is PLN 20 000 thousand. The interest rate is based on the WIBOR 1M rate plus the bank's margin.
4. PAK SERWIS sp. z o.o. has signed a framework agreement for one multi-product line with one of the banks with Annex No. 1 valid until May 31, 2019. The available multi-purpose credit limit is PLN 10 000 thousand. The interest rate is based on the WIBOR 1M rate plus the bank's margin.
5. PAK SERWIS sp. z o.o. signed annex No. 1 to the debt limit agreement with one of the banks, changing the validity period of the contract until July 31, 2019. The available multi-purpose credit limit is PLN 5 000 thousand. The interest rate is based on the WIBOR 1M rate plus the bank's margin.

Agreements regarding the granted loans

1. On October 4, 2018, ZE PAK SA signed two annexes to the loan agreements granted to the company from the ZE PAK SA Capital Group, i.e. Pańków II Sp. z o.o.: Annex No. 9 to the loan agreement for the amount of PLN equivalent to 2 800 thousand EUR dated March 13, 2006 and Annex No. 16 to the loan agreement for the amount of EUR 32 000 thousand dated November 12, 2002. The annexes postpone the repayment date of the capital instalment falling in October 2018 for 2019 and 2020 in such a way that the amount of principal outstanding in 2018 will be divided into two equal parts, each of which will be repaid with principal (principal receivables) due in 2019 respectively 2020.
2. PAK Infrastruktura sp. z o.o., a company from ZE PAK SA Group, on January 10, 2018 signed a loan agreement for another company from the Capital Group, i.e. PAK Górnictwo sp. z o.o. The loan amount is PLN 4 000. The loan will be repaid in 60 instalments, the final repayment date is January 31, 2023. Interest on the loan at WIBOR 1M rate plus margin.

Granted and obtained guaranties and sureties

Table 2: List of guaranties and sureties granted in 2018

	<i>zloty thousand</i>	<i>euro thousand</i>
	<i>2018</i>	
Granted guaranties	23 939	438
- for companies from the Group	-	-
Granted sureties	126 700	-
- for companies from the Group	126 700	-

Table 3: List of guaranties and sureties obtained in 2018

	zloty thousand	euro thousand
	2018	
Obtained guaranties	39 943	18
- from companies from the Group	-	-
Obtained sureties	126 700	-
- from companies from the Group	126 700	-

The agreement concluded between affiliated companies on terms different from market terms

In 2018, in the ZE PAK SA Capital Group, there were no agreements concluded between affiliated companies on terms different from market terms.

3.3. Investment programme execution

Currently, ZE PAK SA Group does not implement any large investment projects. Investment activity focuses primarily on the implementation of the necessary tasks to ensure the maintenance of current efficiency and more efficient use of production and mining assets. Investment expenditures expended in 2017 concerned the preparation and implementation of tasks necessary for the day-to-day operation.

Elektrownia Pańków

Investment expenditures in 2018 were incurred at the end of the task of sealing the wall between the boiler room and the engine room over the modernized blocks 1 and 2. The task was to reduce dust from the boiler room towards the engine room, improve the structural and fire safety of the facilities, improve aspects related to crew safety and hygiene. In 2018 the task of arranging water management in the engine room building of modernized units 1 and 2 was completed. One of the important tasks currently carried out is the modernization of inter-block steam buses in the Pańków power plant, under which the steam collector supplying the gypsum processing plant from the modernized unit No. 2 was started. The commissioning of the second power plant of the gypsum processing plant, i.e. modernized unit No. 1, is planned for the first half of 2019.

Elektrownia Konin

According to the declarations, the Company completed the task, the effect of which is the possibility of producing both electricity and heat from the biomass unit at Konin power plant. Through the so-called “providing heat supply” of TG-6 turbine set, it is possible to heat up the network water supplied to the city of Konin with the steam produced by the biomass block. This block became a source of electricity producing energy for the National Power System and thermal energy for heating the city of Konin.

Key investments in the preparatory phase

In 2018, the Company conducted conceptual analyses and cost-effectiveness related to three new investment projects, about which the Company informed in its current reports:

- construction of a gas connection at Adamów power plant and adjustment of end-of-life coal blocks for natural gas combustion,
- adaptation of the K-7 coal boiler at Konin power plant to the exclusive biomass combustion together with the necessary technical infrastructure,
- construction of a photovoltaic farm in the reclaimed areas of the Adamów mine, which are located in the area of the Brudzew commune near Janiszew.

PAK KWB Konin SA i PAK KWB Adamów SA

In 2018, PAK KWB Konin SA continued the implementation of investment works on active openings in Józwin, Drzewce and Tomisławice aimed at maintaining production capacities. On the above open pit there were carried out works related to the construction of drainage systems along with power supply and tele technical infrastructure, which

resulted from the progress of mining works and the need to prepare the area for future exploitation. The largest expenditures were incurred for the purchase of real estate on Józwin and Tomisławice open pit, construction of a basic power supply system and drainage of Józwin open pit, construction of Drzewce open drainage system, route of coal transport on Tomisławice open pit, construction of the basic machinery supply system and drainage of Tomisławice open pit, transfer and overhaul of the station from Józwin open pit to Tomisławice open pit.

3.4. Risk management

While conducting its operations, the Group is exposed to a series of risks, occurring actually, potentially or theoretically, existing in the industry as well as on the markets where the Group's companies operate. These are factors having their source within the Group as well as and in its environment. Taking into account the formalization of the risk-related sphere in the Group's operations, a comprehensive document was created, entitled "Risk Management Principles for the ZE PAK SA Capital Group" ("Management Principles"). The principles of Management have been developed and implemented in order to define and determine the risks limits occurring or likely to occur in the ZE PAK SA Capital Group and to determine mechanisms for minimizing risk exposure in the course of conducting operations in the energy and mining sectors and minimizing the effects of risk, which due to the specific nature of the core business of the ZE PAK SA Capital Group, cannot be completely eliminated.

The first stage was to determine the Group companies in which activities can identify risks of material importance for the operation of the entire Group, and then apply the appropriate rules of conduct. The following entities have a significant impact on the Group's core business: ZE PAK SA, Państw II sp. Z o.o., PAK KWB Konin SA, PAK KWB Adamów SA, and PAK - Volt SA. Other Group's companies do not have a direct impact on operational risks.

Business model and strategy of the Capital Group were determined within the principles mention earlier. The leading principle of the business model implemented by the Group in the area of business operations (mining, production and trade) is to maximize production and profit while respecting the principle of risk minimization. In order to achieve the business goals, the Group allows for incurring risk, but only to the extent and on the principles set out in the Management Rules. All kinds of the business risk and the situations resulting in the exposure to the risk are constantly minimized, unless the Management Rules or the Management decisions clearly allow for specific deviations. Relating to the structure of the Capital Group and organizational charts of particular subsidiaries, specific roles and scope of responsibility for decisions and activities connected with the realized strategy and market policy have been determined and extracted. A special role, strictly related to the observance and correct application of the Rules of Management, is performed by a task team, called the "Risk Management Committee", acting as an advisory and consultative body of the Management Board of ZE PAK SA. The team was appointed by the Ordinance of the President of the Management Board. The main tasks of the Risk Management Committee are identification and substantive assessment of all economic risks worth more than PLN 10 million related to the Group's business operations.

As part of risk management, the Group identified certain areas of risks related to the implementation of the assumed business objectives:

- 1) raw material risks;
- 2) production risks;
- 3) market risks and associated financial risks;
- 4) operational risks related to the operation of IT systems;
- 5) risk in the area of information security.

For each area of risk identified above, specific types of risks have been identified for a strictly specific area. The risk type has been described comprehensively, including the theoretical examples of its occurrence in the operational activity of the Group. For each type of risk, specific forms of action were also developed in order to minimize or exclude it; an appropriate measure was also assigned and, where possible, so-called "Key performance indicator", i.e. the minimum level of performance was determined.

The managers and employees of organizational units assigned to particular risk area are the subject to control, in scope of compliance with the Management Principles, in accordance with their scope of activity. The management of organizational units is responsible for correct and compliant with the Management Rules performance of tasks by subordinate units and independent positions. The Management Rules also describe the detailed process of correct reporting on the identified risk as well as how to proceed in case of identifying a violation of the principles described in the document.

According the Management Principles, the compliance with the procedures and ways of proceeding described in the document can be abandoned only after obtaining the written approval of ZE PAK SA Management Board. In such a situation a special procedure, described also in in the Management Principles, is applied.

Information on financial instruments regarding the risk related to: changes in prices, credit, significant distortions of cash flows and loss of financial liquidity is included in Note 40 to the consolidated financial statements, it also contains information on the objectives and methods of financial risk management. Information on transactions for which hedge accounting is applied is included in note 41.3 to the consolidated financial statements.

3.5. Description of use of emission earnings

In 2018, PAK KWB Konin SA, a company subject to consolidation within the Capital Group, made one issue of bonds - the total amount of bonds issued in 2018 amounted to PLN 20 000 thousand, the bonds were fully covered by the companies from the Group. The proceeds from the issue of bonds were used to finance the current operations of PAK KWB Konin SA.

The total amount of bonds purchased in 2018 by PAK KWB Konin SA amounted to PLN 27 500 thousand, and the entire purchase covered bonds acquired by the Group companies.

4. MAIN BUSINESS RISKS

The process of forecasting future results of Zespół Elektrowni Państw-Adamów- Konin SA Capital Group must include a wide range of risk factors and threats, actually, potentially, or theoretically, existent in the branch and markets, in which the Group conducts its activities. These are factors which originate both from the inside of the Group as well as from its environment. In the opinion of the Board, they can be divided into factors, which occur constantly in all periods as well as those, which occur incidentally in the period, which is concerned by a given periodical report.

The most important factors with constant impact on the Group's results include the following:

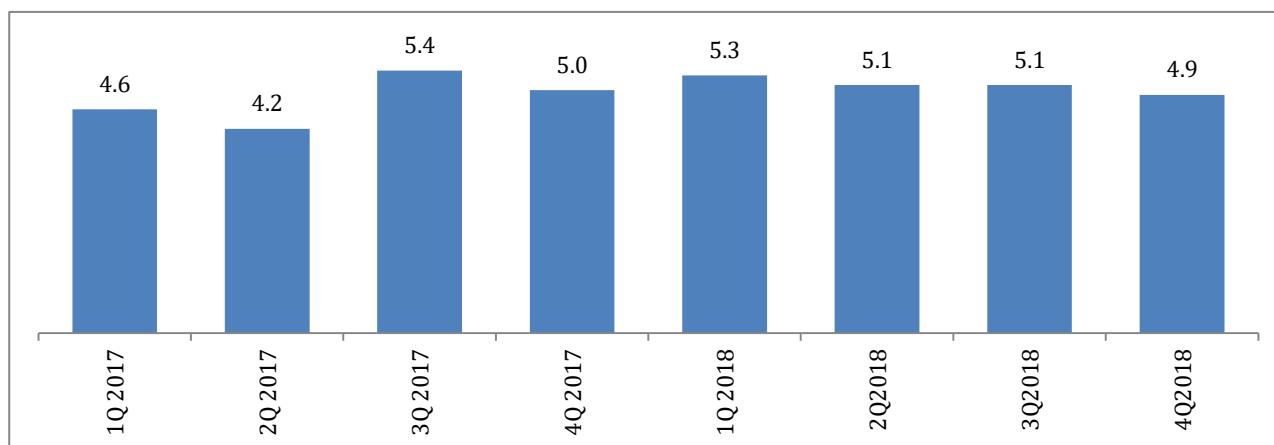
- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- extraction and supply costs of coal and other fuel;
- CO₂ emission allowances costs;
- compensation for the stranded costs related to the termination of PPA in Elektrowni Państw II sp. z o.o.;
- seasonality and meteorological conditions;
- investment expenses; in particular, these entitling to obtain free CO₂ emission allowances;
- EUR/PLN exchange rate and the level of interest rates.

Moreover, important factor that may have a significant impact on the Group's financial results in the coming quarters are the results of the value impairment test of assets. In accordance with IAS 36, the value impairment test of assets is carried out after the occurrence of certain conditions. The last tests were carried out on 31 December 2018 and their result justified the change of the asset components value. The used valuation models of assets show sensitivity to a range of parameters, among others, the ones described in this section. Therefore, in the face of deterioration of the operational perspectives, both the market ones and those having its origin in the legal conditions, the assumptions for the valuation models of assets can change, and consequently the value impairment tests results may cause the necessity of verifying the value of the amount of the write-downs against the asset components. Another analysis of the reasons justifying the potential necessity to conduct the value impairment tests of the asset components will be executed at the end of the next reporting period.

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

While conducting activities 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 the aforementioned factors significantly affect the demand for electricity and its consumption.

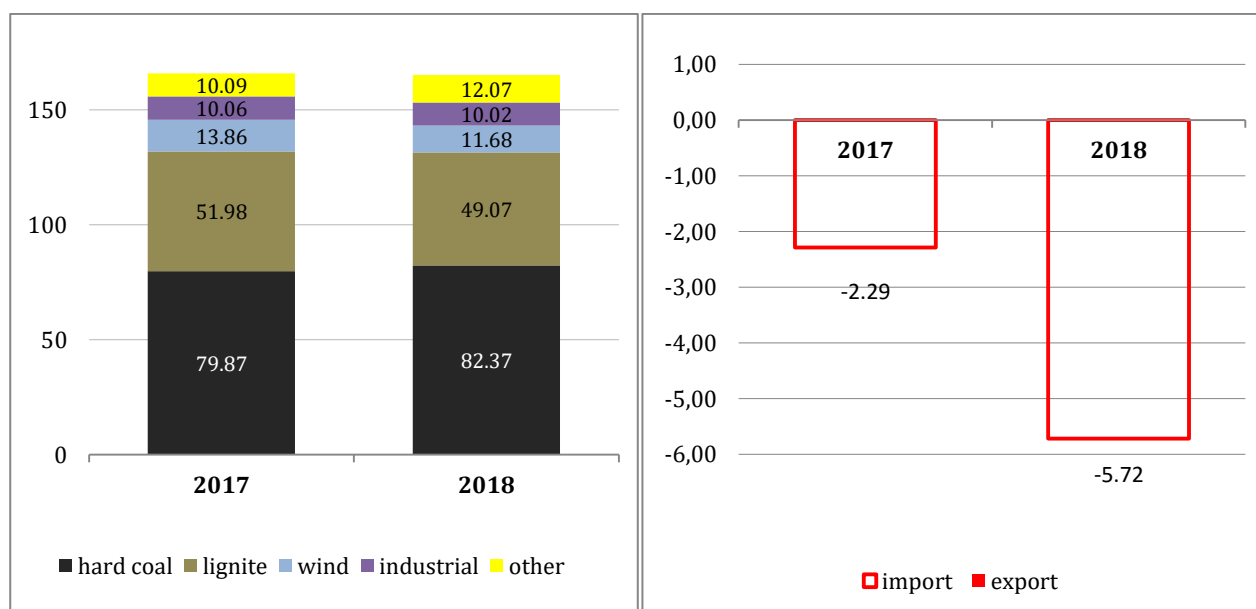
Chart 4: GDP dynamics (%) in relations to analogous quarter of the previous year



Source: GUS data

According to the initial estimation of the Central Statistical Office, gross domestic product ("GDP") calculated in fixed prices of the previous year increased by 5.1% in comparison to 4.8% in 2017. The dynamics of Polish economy growth was the highest since 2007. The achieved result was one of the highest among the European Union countries. Private consumption remained the main driving force of the Polish economy, which in 2018 increased by 4.5% (y / y). The good situation of households is supported mainly by: an increase in average wages (in 2018 the average monthly gross wages and salaries in the enterprise sector increased by 7.1%), low unemployment rate (in December 2018 the registered unemployment rate was 5.8%), relatively low inflation (in 2018, the consumer price index amounted to 1.6%). All of the above-mentioned factors contributed to increasing the purchasing power of Polish consumers. In 2018, the increase in private and public investments was also clearly visible (gross expenditure on fixed assets increased by 8.7%), which may indicate increased activity of enterprises in this area. The impact of trade was rather close to the level of neutrality, although this should be considered a positive factor in the face of the deterioration in the economic condition of the main recipients of Polish exports, mainly in Germany.

Chart 5: Structure of electricity production and the balance of the electricity exchange with foreign countries (gross amounts) – TWh



Source: own development based on PSE data

Data regarding the functioning of the National Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne SA, show that the domestic electricity consumption in 2018 amounted to 170.93 TWh and

increased by 1.66% compared to the previous year. An increase in energy consumption was recorded in all the months of 2018 except for January and April, when slight declines were recorded. The impact on energy consumption in 2018 was to maintain the dynamic pace of economic development, including the dynamics of industrial production growth and atmospheric conditions, especially in the summer months. In turn, in the first quarter of 2018, the record of power demand in the National Power System was again beaten. In 2018 total electricity production fell slightly by 0.39%. Considering the whole balance of the year, there was an increase in energy production from the main (in terms of energy production volume) raw material, i.e. hard coal by 3.1%, the new energy unit in Kozienice power plant with the capacity of 1075MW certainly contributed to the increase in production. Production of energy from lignite decreased by 5.6%, which to some extent may be related to the end of generation in Adamów power plant blocks. The decline in generation from wind sources by 15.7% was relatively high. The installed capacity of wind sources has not changed much over the year, and so the decline was mainly due to worse wind conditions. In the past year, the generation of gas increased by over 33% compared to 2017. Electricity produced from hard coal accounted for 49.9% of total electricity production, energy from brown coal 29.70% and wind turbines generated 7.06% of total energy. The direction of foreign exchange has not changed. Last year Poland was again a net electricity importer, the surplus of imports over exports amounted to 5.72 TWh.

Regulatory environment

Entities operating on the electricity market are subject to strict regulations, such as the Energy Law, the Act on Renewable Energy Sources ("RES"), provisions on the public sale of part of the energy produced, as well as support for specific energy production technologies, as well as regulations and directives of European Commission and international conventions concerning, inter alia, environmental protection and climate change (including CO₂ emissions). Account should also be taken of tax law provisions and interpretations and recommendations issued by the Energy Regulatory Office. Any changes in the described areas may be of great importance for the Group's operations. Any changes in the described areas may be of key importance for the Group's operations. Regulatory risk is one of the most important electricity generators in the industry.

On 27 February 2018, the European Council officially approved the reform of the EU Emissions Trading Scheme (EU ETS) for the period after 2020. In the opinion of their initiators, subsequent reforms of the EU ETS system, through interference with the market system model, contribute to the achievement of the assumed goals of reduction of greenhouse gas emissions by 2030. The most important proposition assumes: the total emissions ceiling is to be reduced every year by 2.2% (linear reduction factor - LRF), moreover the rate of reduction can be increased once again in 2024, after prior examination of the effectiveness of the implemented mechanisms. By the end of 2023, the number of allowances transferred to the market stability reserve (Market Stability Reserve, MSR) is expected to double temporarily, and in 2023 a new mechanism limiting the validity of allowances in the market stability reserve to a certain level will enter into force. After the reform, MSR is to absorb up to 24% of the excess of emission allowances every year for the first four years of the reformed system. The provisions of the new EU ETS Directive are to be regularly reviewed. The Council's decision closes the legislative process on the new EU ETS directive.

On August 24, 2018, the Ministry of Energy published a regulation fulfilling the statutory authorization contained in the Power Market Act. The regulation defines the parameters of three major auctions and additional auctions related to the capacity market. The main auctions concerned delivery periods falling in the years 2021-2023. The parameters of the auction include: quantities determining the demand in the auction, i.e. the demand for power, the price of entering the new generation unit, the coefficient increasing this price, the parameter designating the power below the power demand, for which the price reaches the maximum value and the parameter determining the size above the power demand, for which the price reaches the minimum value. For the periods of deliveries falling in the years 2021-2023, the demand for power in the main auction amounted to 2021 - 22 732 MW, respectively; for 2022 - 23 003 MW, for 2023 - 23 292 MW. Auctions for three consecutive years from 2021 took place on November 15th, December 5th and December 15th, 2018.

In January 2018, the ambassadors of the European Union countries approved in Brussels the agreement of member states with the European Parliament regarding new regulations on the electricity market and the power market. The agreement was concluded on the night of 18 to 19 December 2018. Representatives of the EU member states and the European Parliament decided that installations in which emissions exceed 550 grams of CO₂ per kilowatt hour (kWh), will not be able to benefit from state support in the power market after July 1, 2025. The details of the agreement stipulate that new power plants, which emit more than 550 grams of CO₂ per kWh of electricity and which will start to operate commercially after the entry into force of the regulation, will not be able to participate in the power mechanisms. Therefore, they will not be able to benefit from state support. On the other hand, existing power plants emitting more than 550 grams of CO₂ per kWh and more than 350 kg of CO₂ on an annual basis for each installed kW of power will be able to participate in these mechanisms until July 1, 2025. It's about those blocks that started working before the regulation entered into force. All contracts that will be signed within the power market by the end of 2019 will be taken out from regulatory restrictions. The proposed provisions also indicate that it will be possible to move the

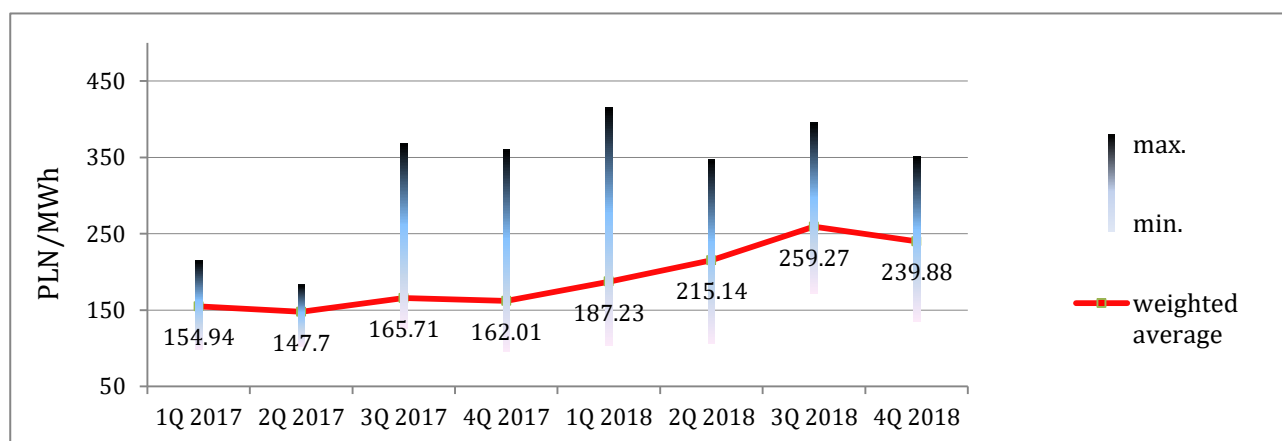
coal blocks to the cold reserve (outside the market), but the maximum annual emission from 1 kW cannot exceed 350 kg. The proposed solution is not binding until approved by the Council of Europe and the European Parliament.

Electricity prices

The Group generates the vast majority of revenues from generation and sale of electricity, therefore the risk of changes in the price for which it sells electricity is of key importance for the level of revenues generated by the Group.

Last year was characterized by a strong upward trend on the electricity market. The weighted average of the IRDN (Day-Ahead Market Index) on the Polish Power Exchange (TGE) for 2018 was at the level of PLN 224.71 / MWh, which means an increase in reference to 2017 by PLN 69.75 / MWh, i.e. by 44.45%. It is characteristic that the weighted average price for each quarter was in 2018 higher than the highest average quarterly in 2017. Last year was also a period of increased volatility. The fastest-growing CO2 emission allowances had the biggest impact on the price growth of electricity in the previous year. Changes in the functioning of the EUETS trade system that took place at the turn of 2017 and 2018 stimulated the increase in allowance prices, however, the dynamics that took place in the past year indicate that financial entities, aimed at profiting from markets characterized by high volatility, also had their share in growth. This may also be proved by the fact that pursuant to MIFID II (EU Directive regulating the financial market), CO2 emission allowances with the beginning of 2018 became a financial instrument. Another factor influencing the dynamic growth of electricity prices in the previous year was the more-expensive hard coal. According to the quotations of the Polish Energy Market Index, in sales to the professional and industrial power industry, the price of hard coal increased from PLN 9.64 / GJ at the end of 2017 to PLN 11.1 / GJ at the end of 2018. Among other factors affecting the increase in energy prices, it is worth mentioning the continuing high dynamics of economic growth in 2018, and thus the increase in electricity demand and relatively low production of wind farms, caused by poorer natural conditions.

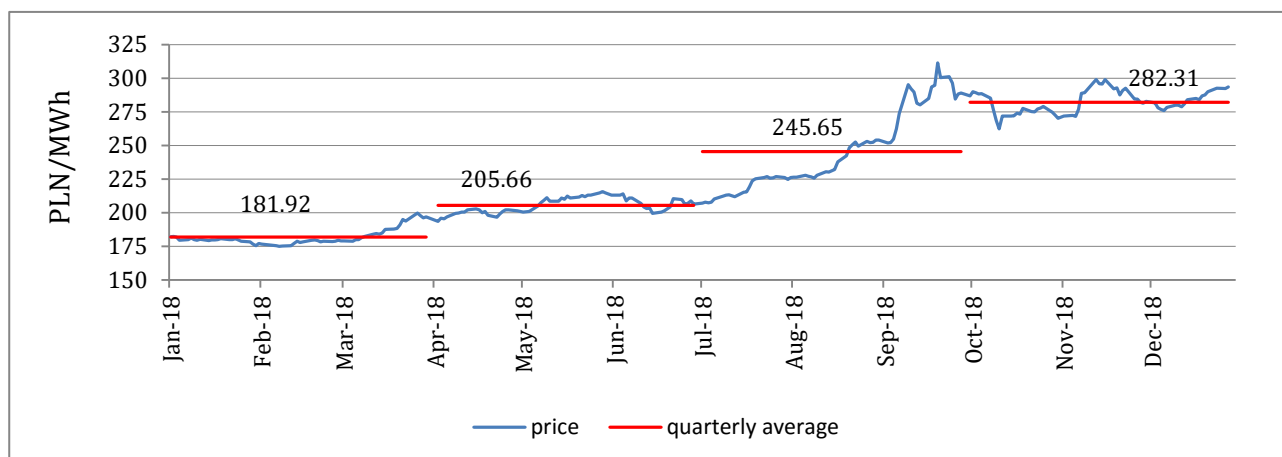
Chart 6: Electricity prices (IRDN)



Source: Own elaboration based on TGE data

On the forward electricity market of the Polish Power Exchange, the most liquid instrument, the annual BASE_Y-19 contract, with time passed was recorded at increasingly higher levels. The highest dynamics of growth could be observed at the turn of the third and fourth quarter. The factors determining the increases on forward electricity market were similar to those on spot market. Higher and higher quotations of energy raw materials, including hard coal, growing quotation of emission allowances and possibility for these trends to continue in the next year.

Chart 7: The price of the futures contract for the supply of electricity (band) for 2019



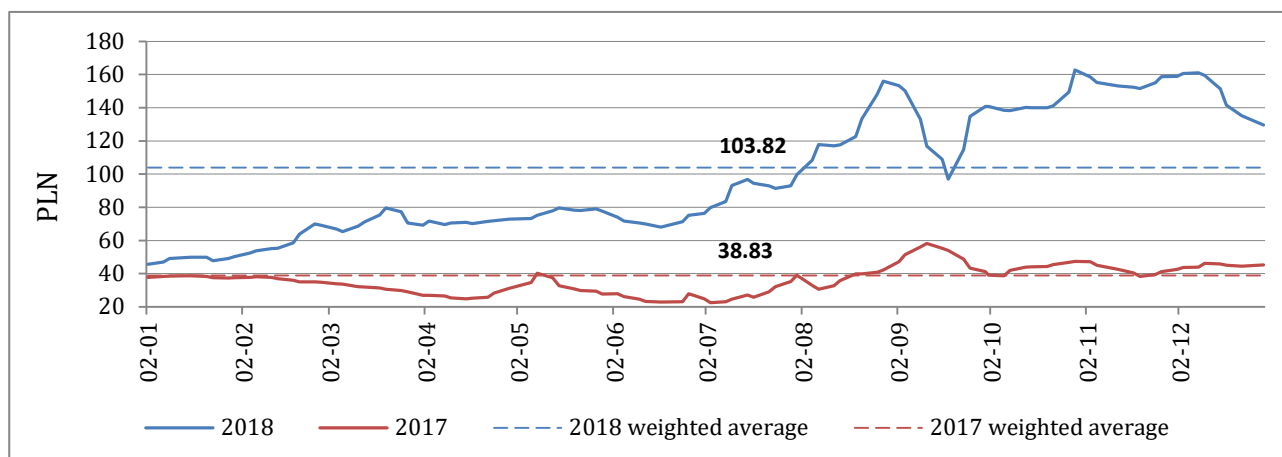
Source: Own elaboration based on TGE data

Certificates of origin

Due to the fact that one of the power units at ZE PAK SA is dedicated to combusting biomass (forest and agricultural), and in addition, the Group utilizes high-efficiency co-generation in order to generate heat, a producer is entitled to green and red certificates, provided certain regulatory requirements are met. The number of obtained certificates of origin depends on the level of generation from a given sources and is usually higher than the number, which the Company is obliged to present for redemption, which in the case of a surplus allows to sell specific volumes to other market participants. However, biomass unit generation largely depends on the green certificates market price levels. During periods, when the total generated biomass energy and green certificate prices do not ensure reaching the assumed financial effect, the generation may be decreased or halted, which also automatically decreases the amount of generated green certificates. Due to the fact that the level of income generated from the sale of certificates of origin is lower than the level of revenues generated from the sale of electricity, the risk of price changes for certificates of origin also has a smaller impact on results than, for example, the risk of changes in energy prices.

From the beginning of 2018 on the market of property rights resulting from certificates of origin from renewable energy, we had to deal with a significant increase in prices. The dynamics of this growth significantly accelerated in the third quarter of 2018. Explaining such dynamic increases is not easy because it is still estimated that there is still a significant oversupply of renewable energy rights on the market. On the other hand, market participants on the fundamental side did not recognize the new factors that fuelled the upward trend over time. Among those already known, you can name a few of the most important ones. First of all, the provisions of the Act on Renewable Energy Sources caused entities obliged to fulfil the redemption obligation to not be able to use it through a substitute fee and must use only green certificates for this purpose. Secondly, in 2018 the coefficient of redundancy increased - 17.5% for energy from all renewable sources except for agricultural biogas, and 0.5% for energy from agricultural biogas. The third factor that may affect the level of green certificates supply in the future are the announcements of migration auctions for sources participating today in the green certificate system. In 2018, the wind generation was also lower, i.e. from the main source of green certificate supply. The weighted average price of green certificates in 2018 was at the level of 103.82 PLN / MWh, which means an increase of 64.99 PLN / MWh in relation to the weighted average price for 2017 and, i.e. by over 167%.

Chart 8: Average price of certificate of origin for RES produced energy



Source: own development based on the TGE data

Fuel costs and supplies, coal extraction costs

A fuel cost is the important part of the costs related to the electricity and heat generation in companies of the ZE PAK SA Group. The prices of fuel largely determine the competitiveness of particular electricity production processes. The ZE PAK SA Group's power plants produce most of their electricity from brown coal, 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 coal mines, PAK KWB Konin SA and PAK KWB Adamów SA, which are the suppliers of lignite coal to ZE PAK SA Group's power plants causes that ZE PAK Group does not rely on external suppliers and eliminates the exposure to potential fluctuations of brown coal 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 brown coal depends on the factors which remain outside the direct control of the Group.

The deposits exploited by the Group's mines have specified richness. The opportunity to achieve the expected level of electricity production in the long term is partially dependent on the ability of extracting from the currently exploited deposits and launching the exploitation of new brown coal deposits, which would be economically viable. As part of activities to ensure the raw material for the Group's generation assets, PAK KWB Konin executed designing works at the perspective brown coal deposits. In order to develop the perspective deposits, it is necessary to obtain all necessary formal approvals and permits, culminated with obtaining a license to extraction. The process of obtaining approvals and permits is a multi-step and stretched in time. In view of the above, there is a risk of delays and postponements in the schedule of developing subsequent deposits which, in turn, may entail risks of interruptions of coal supplies for the Group's generating assets. The opportunity to start the extraction from the prospective coal deposits in the future may be limited by many factors beyond the control of the Group. The main risk factors include: failure to obtain the necessary licenses, adverse settlements of the local government in terms of shaping the special policy, lack of opportunity to obtain adequate financing. The risk related to the cost and quantity of fuel supplies is crucial for the overall level of costs and production volume.

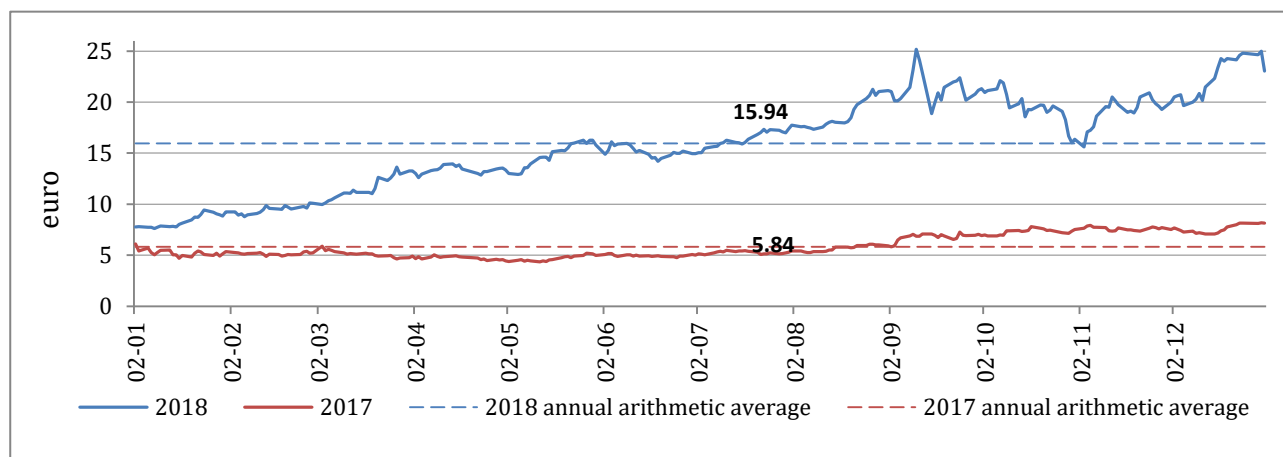
CO₂ emission allowances costs

The activities in the scope of generating electricity and heat from conventional sources are associated with the need to incur the CO₂ emission costs. In view of the fact that these costs represent an important item in the structure of the costs incurred by the producers of energy from lignite, the impact of emitted quantities of CO₂ and the risk of price changes of CO₂ emission allowances (EUA) is of great importance to the activities' results. In 2018, the Group received a small amount of free CO₂ emission allowances, i.e. 69 066 EUA, resulting from the allocation for heat generation. Therefore, practically the entire volume of emission allowances needed for the ZE PAK SA Group had to be purchased on the secondary markets.

The upward trend on the CO₂ emission allowances market began in April 2017. At the same time its dynamics grew with the passage of time. In 2018, it was possible to observe an increase exceeding 200%, which is not often the case not only on the market of emission permits, but also on other commodity markets. The reasons for the increases are to be found in two sources. One of them was purely political, namely the changes in the EU ETS CO₂ trade system, which, as a consequence, by interfering with the market mechanism and reducing supply, was supposed to increase the

price of emission rights. However, the dynamics of growth in 2018 indicates that financial investors focused on the use of high volatility that has been accompanying emission rights for some time now also play an important role on the market. However, what attracts financial institutions is not attractive for market participants obliged to purchase emission allowances, high prices and volatility clearly goes into energy production costs and prices, which is clearly visible not only on the Polish market but also across Europe. The arithmetic average of the EUA 2018 quotations was EUR 15.94, which means an increase of nearly 173% compared to the arithmetic average for 2017.

Chart 9: The price of a forward contract for the delivery of EUA



Source: Own elaboration based on ICE data

Compensation for the stranded costs related to the termination of the „Long-term Contract” („PPA”)

The long-term contract for the sale of power and electricity (PPA) was concluded between Elektrownia Pańków II sp. z o.o. and Polskie Sieci Elektroenergetyczne SA. The contract was a long-term agreement in the scope of supply of electricity according to the established price formula.

Due to the early termination (on 1 April 2008) of PPA, pursuant to the Act of PPA, Elektrownia Pańków II sp. z o.o. is entitled to receive sufficient compensation. The amount of compensation is estimated according to an applicable formula specified in the Act. Elektrownia Pańków II sp. z o.o. is covered by the said act by the end of 2025. The mechanism determining the amount of revenues related to compensation for stranded costs largely functions on the basis of offsetting, therefore the risk related to the level of revenues from this source is to a certain extent dependent on other types of risk affecting the level of costs and revenues, e.g. energy prices or prices of allowances for emissions.

Seasonality and meteorological conditions (including mainly wind conditions)

The demand for electricity and heat, especially among consumers, is subject to season fluctuation. So far, the practice showed that the consumption of electricity was higher in the winter (mainly due to low temperatures and shorter days) and lowered in the summer (due to the summer period, higher ambient temperatures, and a longer day). In the last couple of years, there is an increase in the demand for electricity in the summer, which is caused mostly by the rising number of used cooling devices and air conditioning.

Irrespective of the factors described above, meteorological conditions are becoming more and more important for the Group's production level. In the past, the operations of the Group were not subject to significant seasonality of demand, due to low costs, the work of blocks was carried out continuously (in the basis) for almost a whole year. Currently, taking into account the growing share of RES in the energy generation segment, including primarily wind sources, weather conditions are becoming more and more important in the estimation of the Group's production volume, with particular regard to wind conditions. Statistically, periods of the best wind conditions are the first and the fourth quarter. It should be taken into account that in periods when wind conditions are extremely good and the production of wind turbines is high, the demand for the Group's production may be subject to periodic reductions, similarly in periods of lower wind production can increase.

However, the risk related to seasonality and meteorological conditions is not crucial in the Group's operations.

Investment expenses

Activities in the coal mining and energy production sector require significant investment expenditures. The Group's generation assets require periodic renovations and ongoing modernizations, both due to the tightening of environmental protection requirements and the need to increase the efficiency of electricity production. The level of investment outlays had a material impact, and, according to expectations, it may still have a significant impact on the results of operating activities, the level of indebtedness and cash flow. Delays in implementation, changes in the investment program and exceeding the budget may have a serious impact on future capital expenditures as well as on results, financial situation and development prospects. In addition, some of the investment projects planned by the Group, reported to the National Investment Plan, involve the allocation of free units authorizing to CO₂ emissions, however, if these investments are not implemented, the ability to use the free allocation is also prevented. Also in the case of certain expenditures, the sustaining of which authorized the allocation of free emission rights, when the investment project submitted to KPI was not completed on time, the possibility of returning the received permits should be reckoned in the part in which they were previously granted.

EUR/PLN exchange rate, the level of interest rates

Despite the fact that the Group conducts its activities in Poland, where it incurs costs and gains revenues in zloty, there is a couple of significant factors which make the financial results dependent on the exchange rate of EUR/PLN and the level of WIBOR and EURIBOR interest rates. The most important factors include:

- a part of the debt (that is the corporate credit taken by Elektrownia Państw II sp. z o.o.) is denominated in EUR, which means that the depreciation of the value of zloty in relation to EUR has negative impact on financial results, because it increases the financing costs in zloty related to the foreign currency debt, whereas the depreciation of the value of EUR in relation to zloty has positive impact on financial results, because it decreases the financial costs in zloty related to the debt in foreign currency;
- transactions connected with EUA purchase are settled in EURO;
- The company from the renovation segment periodically provides services to foreign contractors earning revenues in EUR,
- ZE PAK SA and Elektrownia Państw II sp. z o.o. use debt financing based on a variable interest rate.

In 2018, two Group's companies used instruments to limit the risk resulting from changes in foreign exchange rates. ZE PAK SA hedged the euro exchange rate for some of the flows related to the purchase of CO₂ emission allowances. To hedge the exchange, forward transactions were made. Elektrownia Państw II sp. o.o. hedged the euro exchange rate for a part of the flows related to the repayment of the syndicated loan instalment and for the need to purchase CO₂ emission allowance units, also applying a forward transaction. Currency risk in the case of revenues from construction services is partially offset by costs incurred in the same currency with respect to the same contracts. Management Boards monitor the financial situation and market situation on an ongoing basis, and may, if necessary, decide on the necessity of using financial instruments to hedge against exchange rate risk. In accordance with the principles applied in the ZE PAK SA Group, any transactions will be hedging and will be matched to the hedged item in terms of volume and maturity date. The decision on the choice of the hedging instrument will also include: price, market liquidity, product simplicity, ease of valuation and accounting, and flexibility. The Group's exposure to the risk caused by changes in interest rates relates primarily to long-term financial liabilities related to the financing of investments in ZE PAK SA and Elektrownia Państw II sp. Z o.o. The Group has financial liabilities, mainly loans and loans with variable interest. In order to minimize the interest rate risk, the Group has concluded interest rate swaps (interest rate swaps), under which it agrees to exchange, at specified intervals, the difference between the amount of interest accrued at a fixed and variable interest rate on the agreed principal amount. These transactions are aimed at securing the incurred financial liabilities and relate to the syndicated loan of Elektrownia Państw II sp. o.o. based on the variable EURIBOR rate. IRS instruments were used for hedging. Due to the decreasing exposure to the risk of changes in the exchange rate and interest rate, this type of risk is less and less important for financial results.

5. DESCRIPTION OF THE FINANCIAL AND ECONOMIC SITUATION

5.1. Principles of development of the financial statement

The Group develops the financial statements on the basis of the International Financial Reporting Standards approved by the European Union. The above standards, known collectively as International Financial Reporting Standards (IFRS), also include the International Accounting Standards (IAS) and Interpretations issued by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee.

The significant principles of accounting used in the Group's Consolidated Financial Statement are discussed in note no. 10 of the Group's Consolidated Financial Statement for 2018.

5.2. Specification of the basic economic and financial values

Consolidated profit and loss account and the consolidated income statement

Sales revenues in 2018 amounted to PLN 2 304 824 thousand and in comparison to 2017 they decreased by PLN 138 251 thousand, i.e. 5.66%.

The largest drop in revenues in 2018 occurred as part of revenues from the sale of electricity. The drop in revenues from the sale of electricity from own production and from trading (minus excise duty) in 2018 as compared to the previous year amounted to PLN 120 080 thousand, i.e. 5.74%. The lower volume of electricity sales resulted from lower sales of electricity from own production. The main reason for the decline in production in the past year was the lack of generation at Adamów power plant. With the beginning of January 2018, the coal blocks in Adamów power plant ended production due to the end of the environmental derogation for five units with a total capacity of 600MW. The volume of electricity sales from own production decreased by 2.34 TWh to 6.05 TWh, also the energy volume from trading decreased, however here the decline was small and amounted to 0.09 TWh. However, there was an increase in the energy sales price, calculated as revenue from the sale of energy (revenues from own energy sales, turnover and system services) divided by the sales volume, to 211.57 PLN / MWh, i.e. by 19.01%. The higher sale price achieved did not manage to offset the loss of revenues which caused the volume to fall.

Revenue from the LTC solution (long-term sale of power and electricity) in 2018 amounted to PLN 152 579 thousand (including PLN 94 885 thousand in advance), while in 2017 it amounted to PLN 181 335 thousand (including advance payment PLN 123 028 thousand). Adjustments in both years were at a similar level, i.e. PLN 57 694 thousand, PLN 58 307 thousand, hence the difference in the amount of revenue generated is primarily the amount of the advance payment - in line with the LTC Act, the advance payments due to the company have fallen since 2018.

In 2018 lower revenues from sales of thermal energy were realized by PLN 20 430 thousand. The reason for the drop was the lower realized sales volume caused by the lack of heat sales for the city of Turek, due to the lack of production at the Adamów power plant.

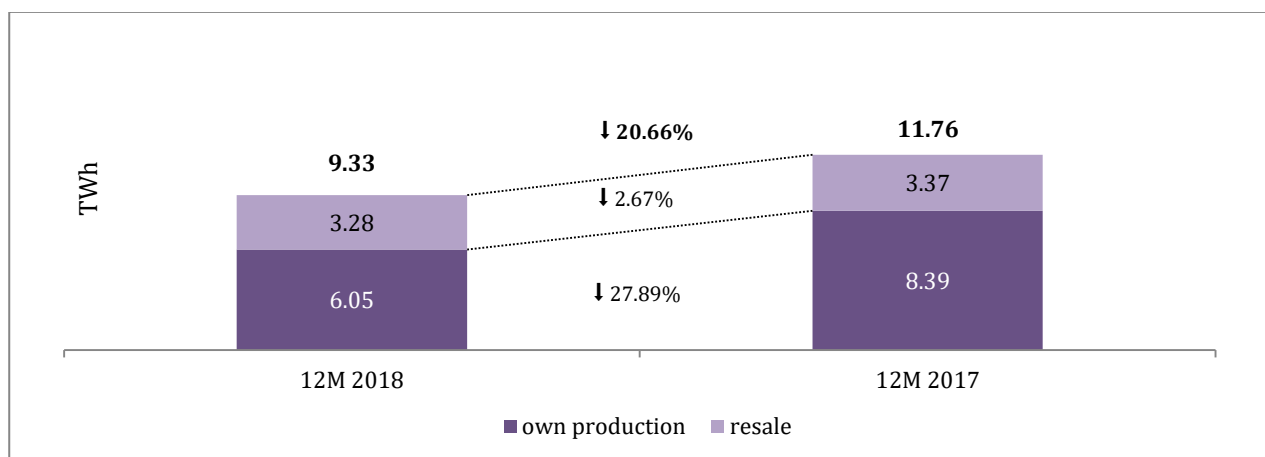
Revenues from the sale of property rights from certificates of origin amounted to PLN 48 221 thousand in 2018. In 2017, PLN 700 thousand was recorded. The increase is the result of production from the biomass block in 2018. In 2017, the Company did not produce energy from biomass, the revenues generated then concerned only red certificates (certificates of origin for energy generated in cogeneration).

Revenues from construction services contracts in 2018 in relation to revenues earned in the previous year decreased by PLN 11 787 thousand, i.e. by 14.22%. The decrease, mainly due to changes in the presentation method related to IFRS 15.

Table 4: Specification of consolidated sales revenues

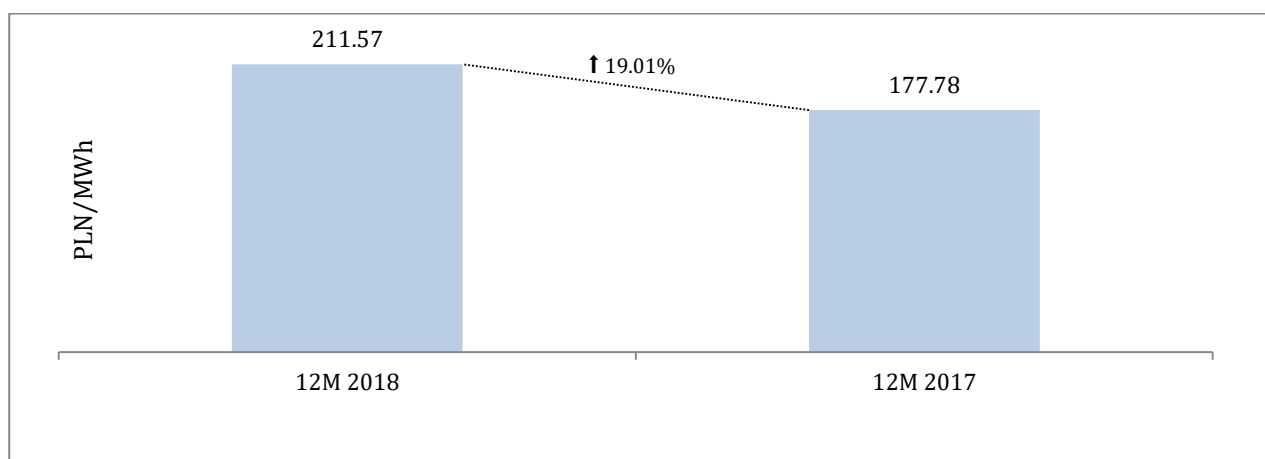
	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2018</i>	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2017</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Revenues from the sale of electricity from own production (reduced by excise duty)	1 296 267	1 510 809	(214 542)	(14.20)
Revenues from the sale of electricity from resale on the market	674 033	579 571	94 462	16.30
LTC compensations	152 579	181 335	(28 756)	(15.86)
Construction agreements	71 119	82 906	(11 787)	(14.22)
Heat	36 745	57 175	(20 430)	(35.73)
Property rights from certificates of origin of energy	48 221	700	47 521	6 788.68
Other revenues	25 860	30 579	(4 719)	(15.43)
Total	2 304 824	2 443 075	(138 251)	(5.66)

Chart 10: Sale of electricity



Source: Internal data

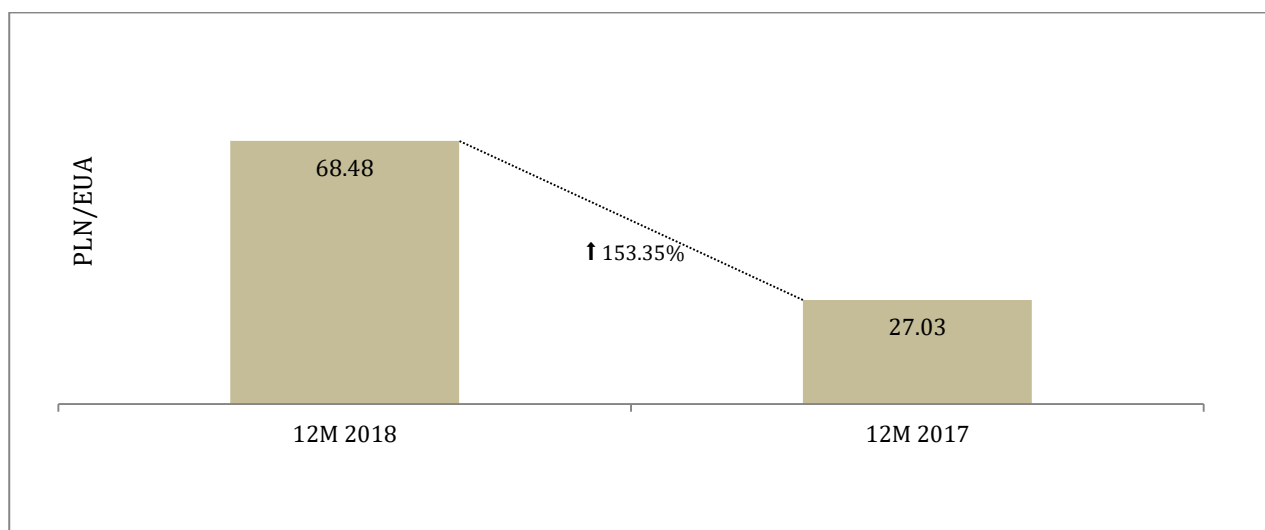
Chart 11: Average electricity prices*



* Average price, calculated as electricity sales revenues (own production with system service as from resale) divided by the sales volume.

Source: Internal data

Chart 12: Average prices of CO2 emission allowances purchase*(EUA)

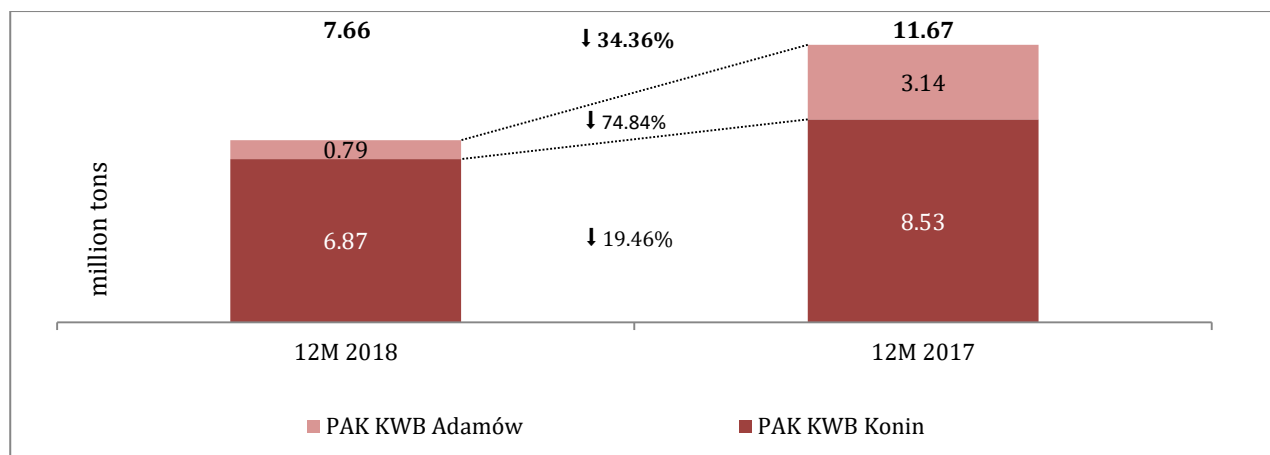


* Average price is calculated as the purchase cost of emission allowances incurred to cover emission for the period divided by the volume of purchased allowances.

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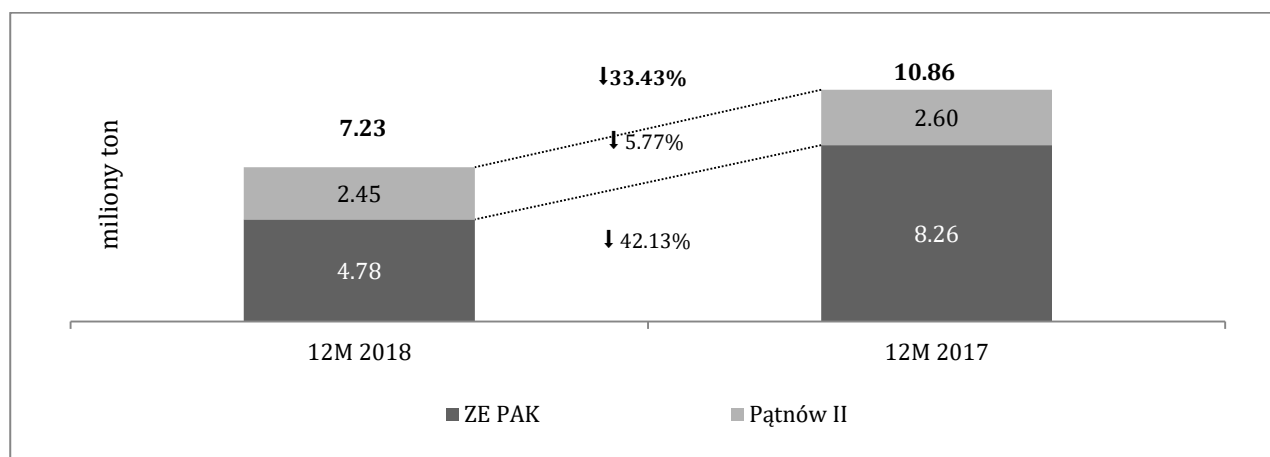
Source: Internal data

Chart 13: Lignite consumption



Source: Internal data

Chart 14: CO₂ emission



Source: Internal data

Table 5: Wybrane pozycje skonsolidowanego rachunku zysków i strat

	zloty thousand 12 months period ended 31 December 2018	zloty thousand 12 months period ended 31 December 2017	zloty thousand change	% dynamics
Sales revenues	2 304 824	2 443 075	(138 251)	(5,66)
Cost of goods sold	(2 627 910)	(2 035 396)	(592 514)	29,11
Gross profit (loss) on sales	(323 086)	407 679	(730 765)	(179,25)
Other operating revenues	10 964	11 324	(360)	(3,18)
Selling costs	(4 001)	(4 258)	257	(6,04)
Administrative expenses	(123 779)	(119 467)	(4 312)	3,61
Other operating costs	(37 360)	(5 186)	(32 174)	620,4
Profit (loss) on operating activities	(477 262)	290 092	(767 354)	(264,52)
Financial revenues	7 201	16 193	(8 992)	(55,53)
Financial costs	(45 387)	(47 652)	2 265	(4,75)
Gross profit (loss)	(515 448)	258 633	(774 081)	(299,30)
Income tax (tax load)	(51 775)	(75 089)	23 314	(31,05)
Net profit (loss)	(463 673)	183 544	(647 217)	(352,62)
Net other comprehensive income	1 609	2 660	(1 051)	(39,51)
Total income for the period	(462 064)	186 204	(648 268)	(348,15)
EBITDA*	89 792	511 905	(422 113)	(82,46)

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* *The Company defines and estimates EBITDA as the profit/(loss) on operating activities (estimates as the net profit/(loss) for the accounting year corrected by the (i) income tax (tax load), (ii) financial revenues as well as (iii) financial costs) corrected by the depreciation (shown in the income statement) as well as impairment write-downs against tangible assets, intangible assets as well as mining assets.*

The cost of sales in 2018 amounted to PLN 2 627 910 thousand and in comparison to the previous year increased by PLN 592 514 thousand, i.e. 29.11%.

The most significant item contributing to the increase in own cost was the write-down of property, plant and equipment, taken as a result of impairment testing of assets in accordance with the requirements of IAS 36. The test results justified writing off property, plant and equipment of PLN 366 000 thousand. In addition, a write-off of fixed assets under construction in the amount of PLN 6,584 thousand was recorded.

At the end of 2018, a write-down was also made for inventories (spare parts in warehouses) for the amount of PLN 9 329 thousand.

In 2018, the costs of CO2 emissions increased significantly. It should be taken into account that the amount of CO2 emitted decreased by 33.43% compared to 2017, as a result of lower production volume. However, the unit price paid for the emission permit rose by over 150%. As a result, the overall costs of CO2 emissions increased by PLN 202 425 thousand. The value of electricity purchased from sales increased as a consequence of higher energy prices on the market. Cost items related to external services as well as taxes and fees decreased due to the reduced scale of operations (lower volume of coal extraction and energy production). The costs of employee benefits decreased by PLN 37 663 thousand due to lower average employment in 2018.

Detailed analytical approach to costs by type is included in Table 6.

Other operating revenues in 2018 amounted to PLN 10 964 thousand and did not differ significantly from those earned in 2017. Similarly, in the case of selling costs, which in 2018 remained at a similar level as in the previous year.

Other operating expenses increased significantly, which in 2018 amounted to PLN 37 360 thousand and in relation to 2017 they increased by PLN 32 174 thousand. The main reason for the recorded increase was the creation of a provision for potential reimbursement of previously granted CO2-free allowances. The provision was established in the amount of PLN 30 640 thousand and related to some of the free allowances that are related to incurred expenditures for the implementation of investments previously reported to the National Investment Plan, whose implementation in the foreseeable time and scope is at risk.

In 2018, the Group recorded a loss from operating activities in the amount of PLN 477 262 thousand.

Financial revenues in 2018 amounted to PLN 7 201 thousand and were lower than those recorded in 2017 by PLN 8 992 thousand, i.e. 55.53%. The main reason was the lack of positive exchange rate differences in 2018 (the valuation of the syndicated loan in EUR in Pańków II Power Plant with o.o.), which was noted in the previous year.

The financial costs in 2018 amounted to PLN 45 387 thousand and, as compared to the previous year, they decreased by PLN 2 265 thousand, i.e. 4.75%. The decrease in financial costs was mainly determined by lower interest expenses related to the Group's diminishing debt.

In 2018, the Company recorded a gross loss of PLN 515 448 thousand, compared to PLN 258 633 thousand of the gross profit recorded a year earlier. At the net level, the loss in 2018 amounted to PLN 463 673 thousand.

Table 6: Consolidated costs by type

	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2018</i>	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2017</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Depreciation	194 514	199 648	(5 719)	(2,57)
Fixed assets – write offs	372 540	22 165	350 375	1 580,76
Inventory – write-offs	8 890	(852)	9 742	(1 143,43)
Materials consumption	243 126	252 602	(9 476)	(3,75)
External services	99 747	112 451	(12 704)	(11,30)
Taxes and fees excluding excise tax	173 709	201 592	(27 883)	(13,83)
CO ₂ allowances costs	492 367	289 942	202 425	69,82
Employee benefits costs	423 628	461 291	(37 663)	(8,16)
Other costs by type	44 092	39 350	4 742	12,05

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Value of sold goods and materials and of sold energy purchased from trade	743 682	555 156	188 526	33,96
Total	2 796 295	2 133 345	662 950	31,08

Consolidated statement of financial position

The balance sheet total as at 31 December 2018 amounted to PLN 3 871 297 thousand and, as compared to the balance as at 31 December 2017, it decreased by 588 083 thousand PLN, i.e. by 13.19%.

Fixed assets as at December 31, 2018 amounted to PLN 2 968 043 thousand. In comparison to the last day of 2017, they decreased by PLN 483 401 thousand, i.e. by 14.01%. The largest decrease concerned the item of property, plant and equipment, which decreased by PLN 493 362 thousand, mainly as a result of a write-off revaluating fixed assets.

Current assets as at December 31, 2018 amounted to PLN 902 244 thousand. In comparison to the last day of 2017, they decreased by PLN 104 654 thousand, i.e. 10.39%. The largest change took place in the item short-term intangible assets, which decreased by PLN 194 837 thousand. The decrease was related to the lower amount of emission allowances physically acquired at the end of the year. On the other hand, receivables from deliveries and services increased by PLN 100 922 thousand in the course of current operations and settlements with customers.

Shareholders' equity as at December 31, 2018 amounted to PLN 1 683 581 thousand, as compared to the end of 2017, they decreased by PLN 527 466 thousand, i.e. by 23.86%, mainly due to the net loss recorded.

Liabilities as at 31 December 2018 amounted to PLN 2 187 716 thousand, which means that during the year they decreased by PLN 60 617 thousand, i.e. by 2.70%. The situation was different in the case of long-term and short-term liabilities. The former decreased by PLN 274 712 thousand, mainly as a result of repayment of liabilities due to loans and advances. On the other hand, short-term liabilities increased by PLN 214 095 thousand mainly as a result of larger commitments due to CO2 emissions in 2018.

Table 7: Selected items from consolidated assets

	<i>zloty thousand</i> 31 December 2018	<i>zloty thousand</i> 31 December 2017 (transformed data)	<i>Zloty thousand</i> change	<i>%</i> dynamics
<i>Fixed assets</i>				
Tangible fixed assets	2 791 141	3 284 503	(493 362)	(15,02)
Investment property	2 365	2 365	-	-
Intangible assets	3 773	6 679	(2 906)	(43,51)
Assets concerning stripping and other mining assets (long-term)	80 326	72 536	(7 790)	(10,74)
Other long-term financial assets	4 748	10 311	(5 563)	(53,95)
Other long-term non-financial assets	3 873	2 122	1 751	82,52
Deferred tax assets	81 817	72 928	8 889	12,19
Total fixed assets	2 968 043	3 451 444	(483 401)	(14,01)
<i>Current assets</i>				
Short-term intangible assets	66 817	261 654	(194 837)	(74,46)
Inventory	109 239	97 758	11 481	11,74
Deliveries and services receivables and other receivables	354 183	253 261	100 922	39,85
Income tax receivables	1 544	17 731	(16 187)	(91,29)
Derivative short-term financial instruments	19	-	-	-
Other short-term financial assets	36 679	35 788	891	2,49
Other short-term non-financial assets	24 039	11 425	12 614	110,41
Long-term contract receivables due from ordering parties	5 066	7 080	(2 014)	(28,45)
Cash and cash equivalents	304 658	322 201	(17 543)	(5,44)
Total current assets	902 244	1 006 898	(104 654)	(10,39)
Fixed assets classified as held for sale	1 010	1 038	(28)	(2,70)
TOTAL ASSETS	3 871 297	4 459 380	(588 083)	(13,19)

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Table 8: Selected items from consolidates equity & liabilities

	złoty thousand 31 December 2018	złoty thousand 31 December 2017 (transformed data)	Złoty thousand change	%
				dynamics
<i>Equity</i>				
Issued capital	101 647	101 647	-	-
Supplementary capital	1 124 376	1 094 493	29 883	2,73
Capital from the revaluation of the derivate instrument quotation	(460)	(2 678)	2 218	(82,82)
Other reserve capitals	3 472	3 472	-	-
Retained profits / Uncovered losses	914 742	830 870	83 872	10,09
Net profit (loss)	(460 196)	183 243	(643 439)	(351,14)
Equity of the majority shareholders	1 683 581	2 211 047	(527 466)	(23,86)
Total equity	1 683 581	2 211 047	(527 466)	(23,86)
<i>Long-term liabilities</i>				
Interest credits and loans	59 424	302 465	(243 041)	(80,35)
Long-term employee benefits	45 555	48 166	(2 611)	(5,42)
Long-term delivery and service liabilities and other financial liabilities	11 468	5 146	6 322	122,85
Long-term derivative financial instruments (liabilities)	-	870	(870)	(100,00)
Long-term subsidies	43 007	44 509	(1 502)	(3,37)
Other long-term provision as well as prepayments and accruals	450 033	414 795	35 238	8,50
Deferred income tax provision	364 652	432 900	(68 248)	(15,77)
Total long-term liabilities	974 139	1 248 851	(274 712)	(22,00)
<i>Short-term liabilities</i>				
Short-term delivery and service liabilities and other financial liabilities	158 456	146 416	12 040	8,22
Current part of interest credits and loans	360 955	349 573	11 382	3,26
Short-term derivative financial instruments (liabilities)	921	4 139	(3 218)	(77,75)
Other non-financial liabilities	95 960	107 387	(11 427)	(10,64)
Income tax liabilities	21	1 092	(1 071)	(98,08)
Short-term employee benefits	5 445	5 457	(12)	(0,22)
Short-term subsidies	1 502	1 507	(5)	(0,33)
Long-term contract receivables due to ordering parties	2 482	5 626	(3 144)	(55,88)
Other short-term provisions as well as prepayments and accruals	587 835	378 285	209 550	55,39
Total short-term liabilities	1 213 577	999 482	214 095	21,42
Total liabilities	2 187 716	2 248 333	(60 617)	(2,70)
TOTAL equity & liabilities	3 871 297	4 459 380	(588 083)	(13,19)

Consolidated cash flow statement

In 2018, the Group generated a positive balance of cash flows from operating activities in the amount of PLN 366 754 thousand, which was PLN 112 044 thousand lower than in the previous year. The main reason that affected the lower balance was the gross loss recorded in 2018 and the increase in liabilities. The level of reserves, mainly related to CO2 emission allowances, has significantly increased.

The balance of cash transactions on investing activities amounted to PLN (-60 703) thousand and, as compared to the previous year, it remained at a similar level, the difference amounted to PLN 3 079 thousand. On the one hand, expenditures on the acquisition of property, plant and equipment decreased, on the other hand, there was no impact related to the release of collateral, which was recorded in 2017.

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The balance of cash transactions as part of financing activities amounted to PLN (-325 305) thousand and was PLN 121 945 thousand higher than in the previous year. The difference between the repayment and the impact on loans in both periods determined the difference.

Cash in the course of 2018 decreased by PLN 19 254 thousand and at the end of the year amounted to PLN 303 316 thousand.

Table 9: Selected items from the consolidated cash flow statement

	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2018</i>	<i>zloty thousand</i> <i>12 months period</i> <i>ended</i> <i>31 December 2017</i>	<i>zloty thousand</i> <i>change</i>	<i>%</i> <i>dynamics</i>
Cash flows on operating activities				
Gross profit (loss)	(515 448)	258 633	(774 081)	(299,30)
Adjustment for positions:				
Depreciation	193 012	195 692	(2 680)	(1,37)
Interest and shares in profits	17 158	32 129	(14 971)	(46,60)
(Profit)/loss on exchange difference rates	1 217	(13 801)	15 018	(108,82)
(Profit)/loss on investing activities	(2 497)	2 516	(5 013)	(199,24)
(Increase)/decrease in receivables	(115 290)	11 701	(126 991)	(1085,30)
(Increase)/decrease in inventory	(11 480)	7 537	(19 017)	(252,32)
Increase / (decrease) in liabilities excluding loans and advances	11 491	(99 080)	110 571	(111,60)
Change in provisions, accruals and employee benefits	515 132	328 799	186 333	56,67
Income paid tax	(9 604)	(19 679)	10 075	(51,20)
Expenses for the purchase of CO ₂ emission allowances	(93 103)	(249 437)	156 334	(62,67)
Impairment allowance for property, plant and equipment and mining assets	372 540	22 165	350 375	1580,76
Others	3 626	1 623	2 003	123,41
Net cash on operating activities	366 754	478 798	(112 044)	(23,40)
Cash flows on investment activities				
Sale of tangible and intangible assets	8 854	3 478	5 376	154,57
Acquisition of tangible and intangible assets	(70 293)	(98 272)	27 979	(28,47)
Expenses and income related to other financial assets	641	1 451	(810)	(55,82)
Deposit solution for securing debt	-	35 630	(35 630)	(100,00)
Received dividends	93	208	(115)	(55,29)
Received interest	2	5	(3)	(60,00)
Other	-	(124)	124	(100,00)
Net cash on investment activities	(60 703)	(57 624)	(3 079)	5,34
Cash flows on financial activities				
Repayment of financial leasing liabilities	(1 571)	(7 012)	5 441	(77,60)
Credits, loans and debt stocks income	43 414	-	43 414	-
Repayment of credits, loan and debt stocks	(284 949)	(340 837)	55 888	(16,40)
Paid-out dividends	(60 988)	(65 562)	4 574	(6,98)
Paid interest	(21 218)	(33 373)	12 155	(36,42)
Other	7	(466)	473	(101,50)
Net cash on financial activities	(325 305)	(447 250)	121 945	(27,27)
Increase (decrease) in net cash and its equivalents	(19 254)	(26 076)	6 822	(26,16)
Cash opening balance	322 570	348 646	(26 076)	(7,48)
Closing cash balance	303 316	322 570	(19 254)	(5,97)

Financial indexes

The net loss recorded in 2018 caused all profitability ratios to have negative values.

The overall debt ratio increased slightly. The reason for the increase was a decrease in the total assets higher than the decrease in total liabilities. The net debt / EBITDA ratio increased as a result of falling EBITDA.

The value of the current liquidity ratio, informing about the coverage of current liabilities with short-term current assets, decreased to 0.74, which means that at the end of 2018 the liquidity situation deteriorated compared to the end of 2017.

Table 10: Indexes

		2018	2017	change	% dynamics
ROE	%	(27,54)	8,24	(35,78)	(434,22)
ROA	%	(11,98)	4,12	(16,1)	(390,78)
Net sales profitability	%	(20,12)	7,51	(27,63)	(367,91)
General debt index	x	0,57	0,5	0,07	14,00
Net debt / EBITDA	x	0,92	0,58	0,34	58,62
Current liquidity index	x	0,74	1,01	(0,27)	(26,73)

5.3. Significant off-balance sheet items

The description of significant off-balance sheet items is presented in Note 35.1, 36 and 37 of the consolidated financial statements of the Group for 2018.

5.4. Expected financial situation

The consolidated financial statements of the ZE PAK SA Capital Group have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future. The Group does not publish financial forecasts, therefore it does not present the expected situation in terms of specific values referring to financial results. This report describes factors that will have a determining impact on the future financial position of the Group.

In addition, taking into account the increased reporting standards of public interest entities, the following issues should be noted:

1. The Group closed 2018 with a net loss of PLN (464) million. The level of net loss was influenced by one-off events in the amount of PLN 347 million, including the results of tests for impairment of property, plant and equipment. In addition, the loss suffered affected by the situation on the energy market. Since the beginning of the year, the upward trend of CO2 emission allowances has become visible, which the Group is obliged to purchase for the purpose of submission for redemption. The allowances at the beginning of the year were at the level of about 8 euros, and ended the year at over 24 euros, causing a significant increase in the Group's operating costs in 2018. In addition, the deterioration in the operating result, both in the segment of production and extraction, was also affected by the Group's operations due to the completion, as of 1 January 2018, of electricity production by Adamów Power Plant, due to the end of the environmental exemption period for five units with a total capacity of 600 MW.
2. As at 31 December 2018, short-term liabilities, including bank loans, exceed the current assets of the Group by PLN 311 million.

The circumstances described above may affect the assessment of the Group's operations in the future, including the assessment of the Group's ability to continue as a going concern. Increasing operating costs, significant fluctuations in the level of CO2 emission allowances, the level of short-term indebtedness and uncertainty regarding market regulations determining prices of energy generated and certificates obtained, affect the uncertainty of the implementation of plans adopted by the Management Board. As a consequence, the Management Board draws attention to the existence of significant uncertainty, which may raise doubts as to the Group's ability to continue as a going concern. It should be emphasized, however, that the financial situation in 2018 was largely determined by the strategy of securing the prices of energy sold and purchased allowances for CO2 emissions. The maladjustments in this respect have already been corrected at the stage of contracting energy sales and purchasing allowances for 2019. A number of activities at the operational level aimed at improving the economic situation of the Group were also undertaken.

Currently, the Management Board focuses its activities on improving the liquidity of the Group in the short term. The Management Board made a detailed analysis of cash flow forecasts and confirms that the analysis of cash flows indicates the possibility of generating sufficient positive cash flows at least during the next 12 months from the date of these financial statements. This analysis assumes the renewal of credit limits held for financing current operations of companies in the Group. There are talks with financial institutions aimed at renewing loans. In the opinion of the Management Board, the risk of not renewing credit limits is limited.

As a result, in the opinion of the Management Board, the situation described above will not adversely affect the Group's ability to pay its liabilities, finance necessary investments or cooperate with key clients.

5.5. Specification of factors affecting the current and future financial results

The Group's financial results, as an entity focused on the generation and sale of electricity produced on the open wholesale market, are fully dependent on the behaviour of other market participants who, to a greater or lesser extent, depending on their market share, affect the level of shaped prices. Market behaviours of participants in the wholesale energy market are in turn stimulated by legislative actions in the area of broadly understood energy policy, conducted both at the national and EU level as well as at the level of the global economy.

The energy sector experiences a number of changes, in the near future there is no shortage of announcements that may have a significant impact on the shape and principles of functioning of the broadly understood energy market. In this context, we can mention, for example, the current package of EU regulations, affecting current EU and national legal acts. Energy package known to participants in the energy market under the name "Clean energy for all Europeans" (Winter Package) can fundamentally affect national legislation in the energy sector. The findings related to the shape of these regulations are particularly important from the point of view of the law introducing the power market in Poland, which the Polish parliament adopted in early December 2017. The Polish power market was constructed in such a way that it would be technologically neutral and ensure the participation of domestic generators based on production on every technology, as well as entities offering power demand reduction services, as well as foreign entities. From the point of view of the Group's operations, the power market in its assumptions is a support mechanism primarily for energy companies, designed to stimulate investments in the modernization of existing units and construction of new generation units. In addition, the RES support system operating on the market, whose main beneficiary in Poland is primarily wind farms, displaces the oldest coal blocks from the market, which due to the lack of new investments in generation units centrally disposed by the Transmission System Operator ("TSO"), results in the risk of a power shortage in the National Power System ("NPS").

Therefore, when assessing the market and regulatory environment of the producer and seller of electricity, several phenomena that are particularly important in the last year should be taken into account, the effects of which may also affect the Group's results in the future:

- limitation of power increase in NPS in the wind turbines segment;
- approval by the European Commission of the Polish power market (EC Decision State aid No. SA.46100 (2017/N) - Poland - Planned Polish capacity mechanism);
- amendment to the Act on Renewable Energy Sources, aimed at removing the collision of the previous version of the Act with European law;
- work on Poland's energy policy until 2040 (PEP2040), which sets out the new shape of the target energy mix for Poland, including assumptions for lignite coal mining;
- a new support system for energy production in cogeneration;
- records of the Winter Package, introducing, among others, new restrictions on CO₂ emissions including defining support rules for capacity mechanisms for sources emitting over 550g CO₂ / kWh and assuming an increase in the share of RES in electricity production;
- intensified work on the reform of the CO₂ emission allowance trading system (EU ETS) after 2020 (work on the change of the act of EU ETS);
- Poland's participation in inter-operator projects aimed at building a common European market in the "Price Coupling of Regions" model;
- reform of the balancing market introducing the scarcity pricing mechanism and the possibility of the target implementation of the node pricing model;
- implementation of network codes.

The Group generates the majority of revenues from generation and sale of electricity, therefore the price for which it sells electricity is very important for the results of its operations. Analysing the current market trends in the context of the level of electricity prices on wholesale energy markets, one should take a close look at the prices quoted on

Towarowa Giełda Energii SA ("TGE"). The factors significantly influencing the level of stock exchange quotations on the SPOT market have remained the same for the past years, the most important of them being: the size of wind generation, the state of the reserve in the PPS system, the volume of transmission capacities available for cross-border exchange, and weather conditions. A phenomenon characteristic for the past year, from the point of view of price transparency, is the fact that the volume of trade in electricity on TGE amounted to 226,052,409 MWh in 2018, an increase of 102.5% compared to 2017². The probable reason for the increase in trading volume can be seen in the increase in the exchange obligation from 30% to 100% as binding for energy produced in 2019. In addition, the legal uncertainty of market participants has disappeared as to the formal status of futures contracts concluded on TGE (classification - commodity or financial instrument). After the entry into force of the Act on Trading in Financial Instruments, implementing MIFID II to Polish law, according to its provisions, TGE will be able to operate on unchanged terms for 12 months, during which time efforts will be made to obtain the OTF status (organized trading platform). The weighted average price of BASE on the Day-Ahead Market of TGE was at PLN 224.71 / MWh in 2018, rising by over 44% compared to the corresponding 2017 price. In turn, on RTT, the weighted average price of an annual contract with band delivery in 2019 (BASE_Y-19) amounted to PLN 242.40 / MWh in the whole of 2018, which also means an increase of over 44% compared to the price of BASE_Y-18 contract quotations in 2017. The volume of trade on the above product in 2018 increased by 79 391 880 MWh (171%) to the level of 125 802 360 MWh compared to 2017. The justifications for the increase in the level of electricity prices can be combined with the increase in the prices of CO2 emission allowances on global markets and coal prices.

The price of CO2 emission allowances ("EUA"), which the issuer is obliged to redeem in the amount corresponding to the volume of CO2 emissions to the atmosphere, is one of the factors that determines the competitiveness of an energy company producing lignite based electricity, next to the costs of coal and auxiliary fuels. Currently, the Company receives a very small amount of CO2 emission allowances free of charge, resulting from the allocation for heat production, therefore, virtually the entire number of allowances needed by the Group must be purchased on the primary market (auctions) and secondary (ICE, EEX exchange, and bilateral contracts). The level of prices at which the Group acquires CO2 emission rights in previous years was, and will continue to be of great importance for the future financial results of the Group. The Emission Allowances Market is the market which is currently the most exposed to price changes caused by political decisions resulting from the directions of the debate on the shape of the reform of the European Emissions Trading System (EU ETS) lasting for several years. The main assumptions of the EU ETS reform were set by the European Council in the conclusions of October 2014. On this basis, in July 2015 the European Commission proposed a draft directive, and after a number of legislative actions in February 2018, the European Council officially approved the reform of the EU emissions trading scheme for the period after 2020. It should be emphasized that any changes that are supposed to affect the increase of the cost of CO2 emissions will also have an impact on increasing the cost of energy production. However, not all manufacturers are equally exposed to the impact of this factor. The degree of this impact is determined by the emission factor of a given producer and the possible number of free emission rights, which are granted e.g. in the case of investments declared in the National Investment Plan. Currently, work is underway to amend the Polish Emission Trading Act, which will change the rules of financial support for investments reported to the National Investment Plan.

Another factor that will undoubtedly have an impact on the Group's future financial results is the final determination of the shape of the Polish power market with the European Commission. Adopted, after a long time of hard work and expectations, the Act of 8 December 2017 was officially approved by the EC on February 9, 2018, which in its decision (EC Decision State aid No. SA.46100 (2017 / N) - Poland - Planned Polish capacity mechanism) confirmed that the assumptions of the Polish power market are compliant with EU regulations regarding the principles of granting state aid. In 2018, generation units belonging to the Group took part in three main auctions on the Power Market for the years of supply 2021, 2022, 2023 carried out by Polskie Sieci Elektroenergetyczne SA, in accordance with the rules set out in the Act of 8 December 2017 on the capacity market. As a result of the adjudication of three auctions, ZE PAK SA and Elektrownia Pańków II sp. z o.o. have concluded one-year Power Agreements for the years 2021-2023. In all three auctions, the Group contracted a Power Obligation at 587 MW at the following prices: for 2021 - 240.32 PLN / kW / year, for 2022 -198.00 PLN / kW / year, for 2023-202.99 PLN / kW / year. In the years 2021-2023, the Group will receive payments resulting from the concluded Power Agreements for performance of power obligations as payments for a constant readiness to supply power to the network. The Group did not offer all available power in the main auctions, leaving itself the opportunity to participate in the secondary power market, where it will be able to buy back power obligations contracted through auction by other entities. In addition, the strategy applied by the Group enables to a large extent to reserve performance of power obligations within the Group's generation assets. Revenues from the capacity market for all its participants will start only with the start of the first delivery year on the capacity market, i.e. in 2021. However, it should be remembered that the capacity market is not only additional payments for entities

² TGE message from the website www.tge.pl.

participating in it, but also specified duties and financial penalties, for those who do not perform or do not fully perform contracted power obligations.

In the context of the capacity market, mention should also be made of the provisions of the Winter Package being processed by the European Commission since 2016, which consists of a number of regulations and directives, whose currently consulted provisions provide for, inter alia, introduction of a strict CO₂ emission limit (EPS 550) for publicly funded electricity generators who would operate under capacity markets introduced in individual EU Member States. As a result of a trilogy, the EU Council, the European Parliament, the European Commission, the Winter Package's provisions assume a review of the existing power mechanisms and the requirement to adapt them to the regulations included in the Winter Package, and introduce the principle that installations emitting over 550g CO₂ / kWh of fossil-fuel electricity that started production before the entry into force of the "Market Regulation" (the regulation making up the "Winter Package") from 1 July 2025 will not be able to receive support under the power mechanisms, which means that the main auction on the capacity market, carried out in 2019 for the year of supply 2024, will be the last major auction, under which lignite-fired power plants will be able to obtain support from the power market.

The future shape of Poland's energy mix will be of great significance for the Group's operating framework. At the end of 2018, the Ministry of Energy submitted a draft "Energy Policy of Poland until 2040" for public consultation (PEP2040), which assumes, among others, gradual limitation of electricity production from coal sources. However, the draft of the document assumes the continuation of exploitation of open deposits, and also prospects for the Ościsłowo deposit, for which the Group is currently making efforts. The creation of the PEP2040 document may be of key importance for the Group, due to the prolonging process of obtaining a license for the construction of a new lignite mine on the Ościsłowo deposit.

Among the factors that may affect the future financial results of the Group are also opportunities that will occur before the participants of the wholesale energy market in connection with the development of the single electricity market. The process of combining the European market based on the so-called the "Flow Based Market Coupling" model and the balancing market reform, through the implementation of the scarcity pricing mechanism, aim to strengthen competition on the energy market, which, while the power mechanisms are functioning, should give impetus to investments in new generation capacities.

5.6. Unusual factors and events affecting the financial results

The results achieved by the Group in 2018 were affected by the following one-off events:

- negative result of tests for impairment of assets - in accordance with the requirements of IAS 36 as at 31 December 2018, the recoverable amount of non-current assets was measured. The greatest impact on the results of impairment testing of assets was due to changes related to the arrangements made on the EU internal energy market, which arrangements for generating units that do not meet specific CO₂ emission criteria, which assume the elimination of support in the form of payments from the power market mechanism after July 1, 2025. Another factor that influenced the results of the tests was a change in the recognition of provisions and assets related to mining operations. Taking into account the results of the tests carried out lowered the Group's net financial result by PLN 307,100 thousand. The impairment loss did not affect the value of the EBITDA result. A broader description of the results of impairment tests was presented in the Consolidated Financial Statements of the ZE PAK SA Group for 2018 in Note 19.1
- creation of a provision related to the potential need to return previously issued CO₂-free licenses - as part of projects submitted to the National Investment Plan, the Company was entitled to receive certain quantities of free CO₂ emission allowances in connection with incurring investment expenditures for submitted projects. However, if the implementation of these investments within the assumed scope and time is jeopardized, the potential need to return the previously issued free emission allowances should be reckoned with. Provisioning of the provision decreased the Group's net financial result by PLN 24,818 thousand.
- revaluation of inventories - the update concerned the value of "non-rotating" spare parts and was dictated by the accounting policy principles applied by the Company. It lowered the Group's net financial result by PLN 7,556 thousand.
- revaluation of fixed assets under construction - the update concerned the value of discontinued investments and was dictated by the accounting policy principles applied by the Company. It lowered the Group's net financial result by PLN 5 333 thousand.
- update of the provision for the reclamation of furnace waste landfills - the update was related to the change of waste storage regulations. It lowered the Group's net financial result by PLN 2,423 thousand.

The total impact of the above-described events lowered the Group's EBITDA by PLN 40,553 thousand, while the consolidated net results by PLN 347,230 thousand.

6. MANAGEMENT OF FINANCIAL ASSETS

6.1. Evaluation of financial assets management

Companies in the ZE PAK Capital Group 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. The Group 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, the Group's Companies execute 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 investment plan execution

The Group has its own functioning 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 CG, 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 Group 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 Group does not exclude adjustments or significant changes in the executed strategy.

7. SIGNIFICANT FACTORS AND DEVELOPMENT PROSPECTS

Directional activities designated by the Group's strategy

Directions determined by the strategy of ZE PAK SA Capital Group are determined based on a systematic analysis of a wide range of economic and technological factors, such as: price trends of conventional fuels, prices of CO₂ emission allowances, mechanisms supporting various technologies of electricity and heat generation.

ZE PAK SA Group directs its attention to the regulatory environment and technological progress, for broadly defined areas related to the Group's activities. The aim of such a view is to optimize investment plans, directional - in terms of the diversification of the fuel base and production source technologies, as well as detailed - referring to improvements in existing generating units and adjustment of production equipment work schedules. The Group strives to develop a long-term model of functioning in conditions of visible unfavourable trends for coal energy in adopted policies at the EU level - for example, contained in the Winter Package document, which is reflected in the forecasts of changes in the energy mix recorded among others in the document Energy Policy of Poland until 2040.

The broadly understood legislative framework determined by EU and Polish law directly affects the Group's production potential. The technically exploited production facilities, for which the analyses did not demonstrate the expediency of modernization, in accordance with the decisions taken, will be gradually withdrawn. The way of exploitation during the transitional period must be strictly adjusted to their capabilities, through the selection of a derogation dedicated in environmental law. In addition, the optimal use of the available fuel base will be taken into account.

The company is aware of changes, especially those from the legislative and legal area that take place in the environment. Legal regulations aiming at reduction of CO₂, other gases (SO₂, NO_x) and dust emissions as well as regulations concerning the renewable energy sector are important challenges for the Group companies. Coming into force from 2021, new environmental regulations resulting from the introduction of BAT conclusions (Best Available Technology) expand the catalogue of limited pollutants. The analyses carried out in cooperation with a renowned design office made it possible to assess the need to undertake investment activities to achieve compliance in the requirements and narrow the scope of the required deviations from the emission limit values. ZE PAK SA through investment

activities and proper maintenance management on existing generating units and associated pollution reduction devices successively reduces the emissivity of the electricity produced.

- 1) Elektrownia Adamów - out of service from the beginning of January 2018. Documents required by law were prepared for regulatory authorities and the possibility of auxiliary economies was secured to the extent necessary. Currently, the Company's Management Board is working on a series of scenarios to optimize the use of assets related to Adamów power plant, also to diversify the fuel base by rebuilding five inactivated boilers at Adamów power plant for gas-fired, planned for peak operation.
- 2) Elektrownia Konin - at the end of last year, the notice period for the delivery of heat for the city of Konin was extended for two consecutive years, i.e. until mid-2022. The company has also made the adaptation of the TG6 biomass block as the basic source for heat supply to the city of Konin. In addition to the functioning TG6 unit, a new biomass source will be created with the expected capacity of 50 MW, i.e. a modernized coal boiler No. 7 converted into a biomass dedicated for combustion, ultimately to be a source producing electricity in condensation, protecting heat production in emergency situations.
- 3) Elektrownia Pałnów I and Pałnów II - two 222 MW blocks have been modernized and can function effectively until 2030. The operation of the 474 MW unit at Pałnów II power plant is planned for 2047. However, the period of work of these assets is directly dependent on the coal resources in exploited mines, as well as on potential new deposits for which PAK KWB Konin SA (Ościsłowo deposit) is currently in the process of exploitation. The remaining units of Pałnów I power plant are planned to be phased out in time consistent with the permits allowing their operation.
- 4) Areas of rehabilitated open pitches of KWB Adamów - in line with the objectives of energy and climate policy and with the appropriate potential, the Company has made a guiding decision on investment in photovoltaic technology. The company plans to install 70 MWp in Adamów area. To co-finance the above task, the Company will try to obtain funds from EU funds in targeted competitions announced by NFOŚ. In addition, the Group will want to take advantage of new opportunities opening up in the fourth period of the ETS in the form of derogations for the power industry and the modernization fund.

Regardless of investment plans, one of the areas of implementation of the Group's strategy is progressive integration in particular segments of operating activity. Ultimately, the activities assume the existence of two main segments, i.e. the consolidated mining segment and the generation segment. In the case of ancillary activities, the Group aims at the maximum concentration of competences in order to increase the flexibility of the auxiliary segment and to optimize the management structure and cost structure. The Group strives to achieve maximum benefits through the synergy effect in the entire technological chain.

8. SPECIFICATION OF THE SHAREHOLDING STRUCTURE

8.1. Shareholding structure

As of 31 December 2018, the Company's share capital amounted to PLN 101 647 094.00 and consisted 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 General Meeting of the Company according to information held by the Company based on the notifications of purchase / sale of the Company's shares as at the day of preparation of this report.

*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 the day of this statement**

<i>Shareholder</i>	<i>shares. Number of shares and corresponding number of votes at the General Meeting</i>	<i>% Share [%] in the total number of shares/votes</i>
Zygmunt Solorz (indirectly) through:	26 200 867	51,55
– Elektrim SA	196 560	0,39

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– Embud 2 sp. z o.o. S.K.A.	592 533	1,16
– Trigon XIX Fundusz Inwestycyjny Zamknięty	10 004 001	19,68
– Argumenol Investment Company Limited	15 407 773	30,32
Nationale-Nederlanden OFE	4 503 242	8,86
OFE PZU „Złota Jesień”	4 635 719	9,12

* According to information possessed by the Company based on the delivered notices of purchase / sale of shares.

The company has no knowledge of any agreements that may result in future changes in the proportions of shares held by the current shareholders.

8.2. Acquisition of own shares

The Company did not acquire own shares in 2018.

8.3. Shares of entities from ZE PAK SA Capital Group in the possession of supervising and managing persons

The below table presents the Company's shareholdings (direct and indirect), as well as shareholdings of the management personnel of its affiliates as of 31 December 2018 and as at the date of this report.

Table 12: The ownership of the Company's shares / stocks in entities related to the Company by the management as at December 31, 2018 and as at the date of the report.

Name and surname	ZE PAK SA shares.		Affiliate shares	
	quantity	face value	quantity	face value
Marcin Ginel	0	0	0	0
Aneta Lato-Żuchowska	0	0	0	0
Zygmunt Artwik	0	0	0	0
Paweł Markowski	0	0	0	0
Henryk Sobierajski	0	0	0	0
Adam Kłapsza	0	0	0	0

The below table presents the Company's shareholdings (direct and indirect), as well as shareholdings of the supervising personnel of its affiliates as of 31 December 2018 and as at the date of this report.

Table 13: The ownership of the Company's shares / stocks in entities related to the Company by the supervising personnel as at December 31, 2018 and as at the date of the report.

Name and surname	ZE PAK SA shares.		Affiliate shares	
	quantity	face value	quantity	face value
Wiesław Walendziak	0	0	0	0
Tomasz Szląg	0	0	0	0
Wojciech Piskorz	0	0	0	0
Henryk Sobierajski	0	0	0	0
Leszek Wysłocki	0	0	0	0
Sławomir Sykucki	0	0	0	0
Lesław Podkański	0	0	0	0
Sławomir Zakrzewski	0	0	0	0
Piotr Stępnia	0	0	0	0
Grzegorz Krystek	0	0	0	0

8.4. Control of employee share option plan

The Company does not have an employee share program, therefore there is no control system of the employee share program in the Company.

9. DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RULES

Declaration of compliance with the corporate governance rules is presented in accordance with § 70 item 6 point 5) of the Resolution of the Minister of Finances of March, 29, 2018 on the current and periodical information provided by issuers of stocks as well as conditions for recognizing as equivalent information required by the laws of a non-member state.

9.1. Set of corporate governance rules applied

In 2018, the Company was subject to corporate governance principles contained in the „Best Practice for WSE Listed Companies 2016” (Best Practice) adopted by resolution of the WSE Supervisory Council of October 13, 2015. Best Practice came into force on January 1, 2016.

The Management Board of the Company, within the scope of competences conferred upon it by the Statute and generally binding legal regulations, exercises due diligence in order to ensure the Company's compliance with the widest possible range of Best Practices. The number and scope of principles that the Company has not complied with in 2018 are described in detail in the item below. The Management Board of the Company makes special efforts to ensure that the Company's information policy towards individual as well as institutional investors, being the implementation of the guidelines contained in the Good Practices, was in line with their expectations. Furthermore, for reasons beyond the Company's control, not all rules contained in Good Practices are applied.

The collection of Best Practices is published on the website of the Warsaw Stock Exchange at the following address:

https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf

According to the Best Practice principles the Company published A statement on the company's compliance with the corporate governance recommendations and principles contained in Best Practice at the following address:

http://ri.zepak.com.pl/upload/files/PL_GPW_dobre_praktyki_PAK.pdf.

9.2. Set of rules which Company has not complied with

The following are the corporate governance principles that the Company has not applied with as part of its operations in 2018, with an explanation of the position of the Company in each specified derogation.

Principle I.Z.1.20. Best Practice

A Company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation: an audio or video recording of a general meeting.

Reasons for non-compliance with the principle I.Z.1.20. of Best Practice:

Taking into consideration the Company's experience, according to which most of the Company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the company does not record and broadcast the course of the general meeting. In case of notification about a need of recording general meeting announced by bigger group of shareholders, the company will consider such possibility.

Recommendation IV.R.2. Best Practice

If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

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

Reasons for non-compliance with the recommendation IV.R.2. Best Practice:

According to the Company's assessment, current shareholders structure does not justify real-life broadcast of the general meeting and real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting. Taking into consideration the Company's experience, according to which most of the company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording and broadcasting of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the Company does not record and broadcast the course of the general meeting. So far the Company did not receive shareholder's notifications of general meeting broadcasting. In case of such a notification announced by bigger group of shareholders, the Company will consider recording and broadcasting of general meeting. Exercise of the right to vote during a general meeting either in person or through a plenipotentiary is a usual practice on general meeting of the Company. According to the Company's assessment, not in full use of above mentioned recommendation does not adversely affect the achievement of the objective described in the section IV of the code of best practices.

Principle IV.Z.2. Best Practice

If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Reasons for non-compliance with the principle IV.Z.2. Best Practice:

According to the Company's assessment, current shareholders structure does not justify real-life broadcast of the general meeting. Taking into consideration the Company's experience, according to which most of the Company's capital share is represented in the deliberations of the general meeting as well as the fact that the recording and broadcasting of the course of the general meeting could be involved with substantial costs and potential difficulties of organizational, technical and legal nature, the Company does not record and broadcast the course of the general meeting. So far the Company did not receive shareholder's notifications of general meeting broadcasting. In case of such a notification announced by bigger group of shareholders, the Company will consider recording and broadcasting of general meeting.

Recommendation VI.R.1. Best Practice

The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Reasons for non-compliance with the recommendation VI.R.1. Best Practice:

There is no comprehensive, formal remuneration policy in the Company. Remuneration of the members of the supervisory board are established by the general meeting, remuneration of the members of the management board are established by the supervisory board and there is a document in the company describing remuneration rules of the key managers. In any case such factors are taken into consideration: competence, experience, and responsibility of the position and work effects.

Recommendation VI.R.2. Best Practice:

The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

Reasons for non-compliance with the recommendation VI.R.2. Best Practice:

There is no comprehensive, formal remuneration policy in the Company. However link with such factors as short- and long-term goals, long-term interests and results are taken into consideration in establishing remuneration of governing bodies and key managers. The company does not discriminate on whatever ground in process of establishing remuneration on any position.

9.3. Description of the main characteristics of internal control and risk management systems in relation to the process of financial statement and consolidated financial statement development

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, management mechanisms of IT systems used for registration of economic activities and development of financial statements, as well as protection mechanisms of data and systems, principles of supervision over preparation of financial statements, principles of verification and assessment of statements, the internal audit and other control elements.

The development of the Company's financial statements as well as the Group's consolidated financial statements is executed in an orderly manner, pursuant to the organizational structure of the Company and Group. The management accounting tools and IT systems implemented in the Company and Group for the purpose of registration of economic events in books of account provide the basis for the evaluation that the Company's financial statements and the Group's consolidated financial statements reliably and clearly present the Company's and Group's financial and economic situation.

The basic regulations in the scope of development of financial statements include: the Company's accounting policy in accordance with the Accounting Act of 29 September 1994, International Financial Reporting Standards ("IFRS"), approved by the European Union, the procedure of closing the books of account of companies including 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 statement, the Company did not make a decision on keeping the books of account in the Group according to the International Financial Reporting Standards ("IFRS"). Therefore, the process of development of financial statements in the Group takes place in two stages. Firstly, all the companies of the Group develop their own individual statements pursuant to the Polish accounting standards. These statements are studied if they meet the conditions specified in the Accounting Act. Then, the companies transform the individual statements on the basis of the accounting policy, determined for the Group, in accordance with the International Financial Reporting Standards ("IFRS") using the so-called sheets of transition into financial statements in the IFRS standards. Such prepared individual statements are the basis for development of the Group's consolidated financial statement. Only in case of ZE PAK SA, there is an automatic process of importing data from SAP ERP system to SAP BPC consolidation system.

The Group's consolidated statement is developed with the use of SAP BPC IT system. The separated central unit in the parent company (i.e. ZE PAK SA) merged with accounting departments in individual subsidiaries functions within the framework of the system. The consolidation process is started with the central unit opening access for companies to enter data into the system, the subsidiaries have the possibility of access to its back data at any time, but without the possibility of their adjustment. The central unit constantly monitors the entry of data by the companies, and then, after entering individual data, it starts the consolidation process. This process is based on defined business rules, which determine the content of consolidation adjustments. Furthermore, the consolidation process allows for entering manual adjustments by the central unit. The result of the consolidation process completion includes a complete package of the financial statement together with explanatory notes in Excel files, which is then exported to Word file after verification.

The Management 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 Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent to the information required by the law of a non-member state.

The substantive supervision over the process of development of the Company's and Group's financial statements and periodical reports is executed by a member of the Management Board responsible for financial issues. The organisation of works related to the development of financial statements is the responsibility of the Director of Finance who, together with the Principal Accountant, develops the work schedule including in the development of statements.

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 in the development process of financial statements,
- specification of the scope of reporting pursuant to the mandatory provisions of the Accounting Act and International Financial Reporting Standards,
- implementation and execution of supervision over the use by the Capital Group's companies of coherent accounting principles as well as
- semi-annual inspections and annual audits of the financial statements of ZE PAK SA. and Capital Group by an independent statutory auditor.

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

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

The audits of financial statements are carried out:

- in accordance with the provisions of Chapter 7 of the Accounting Act of 29 September 1994,
- in accordance with the National Standards of Auditing within the meaning of the International Standards on Auditing, adopted by the resolution of the National Chamber of Statutory Auditors of 10 February 2015 as amended and the resolution of the KRBR of 7 July 2017.

In particular, the audits include verification of correctness of the accounting rules used by the Company and Group, verification of significant estimates, checking – in a random manner – of accounting evidence and records, which the amounts and information included in the financial statement result from, as well as comprehensive assessment of the financial statement.

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

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

- reliably and clearly presents all information which are significant for the evaluation of the financial and economic situation for a given day, as well as the financial result for a given period,
- was properly developed in all the significant aspects, that is, in accordance with the accounting rules resulting from the International Financial Reporting Standards, as well as the related interpretations published in the form of the European Commission regulations, and according to the requirements of the Accounting Act and executive regulations issued on its basis, as well as on the basis of correctly kept books of account,
- is compliant with the regulations and provisions of the Company's Articles of Association, which affect the financial statement content.

The Company has the documentation, which describes its adopted accounting principles, specified in Article 10 of the Accounting Act. The applied principles of cost accounting, quotation of assets and liabilities as well as determination of the financial result are pursuant to the Accounting Act and the International Financial Reporting Standards.

The Management Board is responsible for the correct keeping of the Company's and Group's accounting. The Company keeps the books of account within the integrated SAP ERP IT system. This system, like the above SAP BPC consolidation system of statements, provides the division of competence, coherence of activity entries in the books, as well as control between the main book of account and the auxiliary books. The conducted registration allows determining the financial result, VAT tax, and other budget liabilities. The account registration ensures correctness and completeness of entries. The chronology of economic events is kept. Entries in the books of account reflect the actual state, and data are entered in a complete and correct manner, on the basis of accounting records qualified for entry. The continuity of entries and correctness of the applied procedures are ensured. The accounting records meet the requirements of the Accounting Act. The books of account are kept in the Company's registered office. There is a possibility to modify the system operation in order to ensure the adequacy of technical solutions to the changing accounting principles and legal standards. The system includes the documentation both in the part related to end users as well as in the technical part. The system's documentation is subject to periodical verification and updating. The Company implemented 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 proper entitlements, which are provided to authorized employees only in the scope of their responsibilities and activities.

The internal audit, the aim of which is to carry out independent and objective assessment of the risk management and internal control systems, functions in the Company. The internal audit is conducted on the basis of the auditing regulations. The audit executes planned and temporary auditing tasks both in the parent company as well as in the Group's companies. The audit plans are developed on the basis of the risk analyses. The audit results are reported to the Company's Management Board. Information on the internal audit activity also constitutes the subject of analyses of the Audit Committee.

As part of the control activity, the periodical management reporting is subject to evaluation in terms of presented information, especially, in the context of the analysis of deviations from the assumptions adopted in the financial plans.

9.4. Shareholders with significant blocks of shares

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

*Table 14: Shareholders owning directly or indirectly significant blocks of shares (over 5 %) in accordance with the information available to the Company based on the notifications of purchase / sale of the Company's shares, as at the date of this report.**

Shareholder	Number of shares	Percentage share in the share capital	Number of votes	Percentage share in the share capital
Zygmunt Solorz (indirectly) through: Elektrim SA, Embud 2 sp. z o.o. S.K.A., Trigon XIX Fundusz Inwestycyjny Zamknięty, Argumenol Investment Company Limited.	26 200 867	51.55%	26 200 867	51.55%
Nationale-Nederlanden Otwarty Fundusz Emerytalny	4 503 242	8.86%	4 503 242	8.86%
OFE PZU „Złota Jesień”	4 635 719	9.12%	4 635 719	9.12%

* according to the Company's knowledge on the basis of notifications submitted by the shareholders.

9.5. Holders of stock giving special control rights

As of 31 December 2018 and as of the date of development of this statement, the Company has not issued stocks giving special control rights.

9.6. Limitations in the execution of the right of ballot

According to the Company's Articles of Association and other internal documents of the Company as of 31 December 2018 and as of the date of development of this report, there are no limitations regarding the execution of the right of ballot.

9.7. Limitations regarding the transfer of right of ownership of stock

As of 31 December 2018 and as of the date of development of this statement, the Company does not include any limitations regarding the transfer of right of ownership to 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 of Board members and their functions 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 ballot. 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 and 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, the value of which exceeds zloty 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 Board.

Supervisory Board

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

The composition of the Board should include two members who fulfil the independence criteria projected for an independent Board 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 Boards in stock exchange listed companies and the (supervisory) Board's committee (2005/16/EC) with consideration of Good Practices of the Warsaw Stock Exchange Listed Companies ("Independent Supervisory Board Members"). A candidate for the Independent Supervisory Board Members provides the Company, prior to his/her appointment as a Board member, with a written declaration on the fulfilment of the independence criteria.

In accordance with the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws, item 1089), the Company has the status of a public interest entity within the meaning of this Act, and therefore it should have an Audit Committee. The audit committee consists of at least 3 members. At least one member of the audit committee has the knowledge and skills in the field of accounting or auditing of financial statements. According to the said Act, the majority of the audit committee members, including its chairman, must meet the criteria of independence from a given public interest entity.

The Board supervises the Company's activities in all areas of its operation.

The Board'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 and 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 ballot,
- 4) suspension in duties due to significant reasons, in a secret ballot, of the Board's President, Vice-Presidents, as well as other Board members, or the entire Management Board,
- 5) delegation of a Board 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 activities 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 paragraph 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 Board'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 activity programs, including the Company's and ZE PAK Capital Group's activity strategies, developed by the Board, and

- 13) approval of the Company's annual activity programs, as well as the Capital Group's annual activity programs, especially including production plans and revenues, type cost plans, unit cost plans, remuneration plans, investment plans, as well as renovation and maintenance service plans.

The Board'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 activities which result in incurring liabilities, except for:
 - a. activities provided in the Company's annual activity program approved by the Board,
 - b. activities resulting in incurring liabilities with a value of up to zloty 1 000 000, including granting sureties or guarantees as well as suretyship,
- 5) acquisition and disposal of property, right of perpetual usufruct or share in property or perpetual usufruct with a value exceeding zloty 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 operational activities,
- 7) designation by the Board of personnel acting 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 ballot execution during the General Meeting or the Meeting of Partners in companies, in relation to which the Company is a parent company or an 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, establishment of a limited property right for them, as well as execution of other activities 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 Board 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, its changes as well as description of the management and supervisory bodies

Management Board

The 2018 financial year began in the following composition:

- 1) Adam Kłapszta – President of the Board,
- 2) Aneta Lato-Żuchowska – Vice-President of the Board,
- 3) Zygmunt Artwik – Vice-President of the Board,
- 4) Elżbieta Niebisz – Vice-President of the Board,

On June 22, 2018, the Management Board was appointed by the resolution of the Company's Supervisory Board for a new term. The Management Board of the 7th term of office appointed 4 people, i.e.:

- 1) Adam Kłapszta - President of the Board,
- 2) Aneta Lato-Żuchowska – Vice-President of the Board,
- 3) Zygmunt Artwik – Vice-President of the Board,

- 4) Elżbieta Niebisz – Vice-President of the Board.

At the meeting on November 13, 2018, the Supervisory Board of the Company appointed Mr. Marcin Ginel as the Vice-President of the Management Board. From November 13, 2018, the Board consisted of 5 members:

- 1) Adam Kłapszta – President of the Board,
- 2) Aneta Lato-Żuchowska – Vice-President of the Board,
- 3) Zygmunt Artwik – Vice-President of the Board,
- 4) Elżbieta Niebisz – Vice-President of the Board,
- 5) Marcin Ginel – Vice-President of the Board.

Already after the end of the reporting period, on January 10th, 2019 Mr. Adam Kłapszta resigned from the membership in the Management Board and performing the position of the President of the Management Board. Ms. Elżbieta Niebisz also ceased to be a Member of the Management Board of the Company, who also resigned from the position of Vice President of the Management Board on January 10th 2019. In this situation, at the meeting held on January 10th, 2019, until the election of the new President of the Company's Management Board, the Supervisory Board entrusted the management of the Company as acting President of the Management Board to Mr. Marcin Ginel - Vice-President of the Management Board. During the same meeting, i.e. January 10, 2019, the Supervisory Board of the Company appointed Mr. Paweł Markowski as the Vice-President of the Management Board.

On April 12th, 2019 Mr. Marcin Ginel resigned from the membership in the Management Board and performing the position of the Vice President acting President of the Management Board. The same day the resignation from membership in the Management Board and the function of the Vice President was also submitted by Ms. Aneta Lato-Żuchowska. At the meeting held on April 12, 2019, the Supervisory Board of the Company, acting pursuant to art. 383 § 1 of the Code of Commercial Companies delegated a member of the Company's Supervisory Board – Mr. Henryk Sobierajski, for a period of three months to temporarily perform the duties of a Member of the Management Board, entrusting him with the duties of the President of the Management Board.

As of the date of publication of this report, the composition of the Company's Management Board is as follows:

- 1) Henryk Sobierajski – Member of the Supervisory Board of ZE PAK SA delegated to temporarily perform the duties of the President of the Management Board,
- 2) Zygmunt Artwik – Vice-President of the Board,
- 3) Paweł Markowski – Vice-President of the Board.

Supervisory Board

In the reporting period, the composition of the Company's Supervisory Board did not change. The Supervisory Board of ZE PAK SA in 2018 met in the following composition:

- 1) Wiesław Walendziak – Chairman,
- 2) Tomasz Szelaąg – Deputy of the Chairman,
- 3) Wojciech Piskorz – Secretary,
- 4) Henryk Sobierajski,
- 5) Leszek Wysłocki,
- 6) Sławomir Zakrzewski,
- 7) Lesław Podkański,
- 8) Sławomir Sykucki.

Already after the end of the reporting period, i.e. on 12 April 2019, Mr. Lesław Podkański resigned from the position of a member of the Supervisory Board. Whereas on April 15, 2019, at the meeting of the Extraordinary General Meeting of the Company, the Supervisory Board of the Company was appointed in a new nine-member composition. Also on April 15, the Supervisory Board appointed from among its members the Chairman of the Supervisory Board, Deputy Chairman and Secretary. As of the date of publication of this report, the composition of the Supervisory Board is as follows:

- 1) Wojciech Piskorz – Chairman,
- 2) Wiesław Walendziak – Deputy of the Chairman,
- 3) Tomasz Szelaąg – Secretary,
- 4) Henryk Sobierajski,
- 5) Sławomir Sykucki,
- 6) Leszek Wysłocki,
- 7) Sławomir Zakrzewski,
- 8) Piotr Stępniaak,
- 9) Grzegorz Krystek,

The members of the Supervisory Board meeting the criteria of the independence are: Sławomir Zakrzewski, Piotr Stępnia and Grzegorz Krystek.

In performing its code and statutory duties, the Supervisory Board held 10 meetings in 2018, adopting a total of 85 resolutions. The Supervisory Board performed the statutory duty to hold a meeting in each quarter.

In the reporting period, the Supervisory Board collectively supervised the Company's activity in all areas of its operation. The Supervisory Board focused on the following issues::

- 1) assessment of reports prepared for the business year 2017,
- 2) changes in the composition of the Management Board of ZE PAK SA,
- 3) internal division of competences between members of the Management Board of the Company,
- 4) expressing consent for the Company to perform actions resulting in incurring liabilities with a value of over PLN 1 million,
- 5) issuing opinions on applications submitted by the Management Board in matters pertaining to the current operations of the Company,
- 6) approving activities related to the restructuring process in the ZE PAK SA Capital Group,
- 7) ongoing discussion of the situation related to obtaining the decision on environmental conditions for the construction of Ościsłowo open-pit,
- 8) granting a written consent for undertaking activities related to the investment consisting in the creation of a second biomass generation unit at Konin power plant on the basis of an existing coal boiler and existing turbine sets,
- 9) granting a written consent for undertaking activities related to the construction of a photovoltaic farm with an estimated capacity of approximately 70 MWp.

Audit Committee

In 2018, the Audit Committee held the following composition:

- 1) Lesław Podkański – Chairman of the Audit Committee,
- 2) Sławomir Zakrzewski,
- 3) Tomasz Szela

Already after the end of 2018, i.e. on 15 April 2019, in connection with the election of a new composition of the Supervisory Board, the composition of the Audit Committee was also changed. As of the date of publication of this report, the composition of the Audit Committee is as follows:

- 1) Sławomir Zakrzewski – Chairman of Audit Committee
- 2) Tomasz Szela
- 3) Piotr Stępnia

A member of the Audit Committee with knowledge and skills in the industry in which ZE PAK SA operates is Mr. Sławomir Zakrzewski, who acquired them through his extensive professional experience, in the construction and energy industries, acquired both at home and abroad. The member of the Audit Committee with knowledge and skills in the field of accounting is Mr. Tomasz Szela, who acquired them thanks to his education and he perfected taking up numerous managerial positions requiring this knowledge and competence. The members of the Audit Committee who meet the independence criterion are Mr. Sławomir Zakrzewski and Mr. Piotr Stępnia.

In 2018, no other services were provided to the Group by the auditing company auditing the financial statements. In 2019, until the date of publication of the report, the auditing company carried out agreed procedures related to the verification of the calculation of the covenants enshrined in the ZE PAK SA credit agreement.

The company developed a policy of selecting an audit firm to conduct the audit and a policy for the audit company conducting the audit, by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services.

The main assumptions of the policy of choosing an audit firm to conduct the study:

1. Pursuant to the Company's Articles of Association, the body selecting the auditing company for the statutory audit is the Supervisory Board of the Company.
2. The remuneration for statutory audit received by the audit firm or its subcontractors may not be conditional on any conditions, including the result of the statutory audit or be shaped or dependent on the provision of additional services that are not statutory audits of the Company or its related companies.
3. The Audit Committee of the Company's Supervisory Board approves the procedure for selecting an audit firm.
4. The Company prepares tender documentation for invited audit firms according to specific criteria.

5. The Company assesses the offers established by the audit firms in accordance with the selection criteria specified in the tender documentation and prepares a report containing the conclusions of the selection procedure and submits them to the Audit Committee.
6. The Audit Committee presents the Supervisory Board with a recommendation to select an audit firm.
7. If the decision of the Company's Supervisory Board regarding the selection of an audit firm deviates from the recommendation of the Audit Committee, the Company's Supervisory Board justifies the reasons for non-compliance with the Audit Committee's recommendation and provides such justification to the General Meeting of Shareholders of the Company.

The main assumptions of the policy of providing the Company with the auditing company conducting the audit by entities related to this auditing company and by a member of the auditing company's network of permitted non-audit services:

1. The Company, realizing the provisions of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision ("UoBR"), does not conclude with the auditing company conducting the audit, with entities related to this auditing company and with the members of the audit company's service contracts prohibited services within the meaning of Article 136 of UROBR;
2. To the extent not related to the Company's tax policy, the Company may commission an audit company or an entity related to that auditing company or a member of the auditing company network, works that are permitted non-audit services;
3. The Audit Committee supervises the compliance with the law of performing the works referred to in point 2. Prior to the commissioning by the Company of the services referred to in point 2, the Audit Committee shall conduct an assessment of the threats and safeguards of independence referred to in art. 69-73 of UoBR;
4. The policy also lists the main types of permitted and prohibited services.

The recommendation regarding the selection of an audit firm to conduct the audit was made following a selection procedure organized by the Company that meets the applicable criteria and this recommendation meets the auditor's product conditions in force at the Company.

In the financial year 2018, the Audit Committee of the Supervisory Board of ZE PAK SA held 2 meetings.

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 and 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 resources. The decision on arranging the General Meeting using 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 SA'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 activities, 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 activities,
- 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 bonds or bonds 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 them,
- 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 this 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 this personnel,
- 16) any provisions regarding claims the remedy of damage done during the Company's establishment or executing management or supervision, and
- 17) use of the share capital.

The active right to participate in the General Meeting is available to persons being the 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 of ballot 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. Description of principles of changes in the Company's statute

Changes to the Company's statute, in accordance with the Code of Commercial Companies and provisions of the Company's Statute, require the General Meeting to pass a suitable resolution and 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 statute, or to introduce editorial changes specified in the General Meeting's resolution. Amendments to the Statute are binding since the moment of entry into the register of entrepreneurs.

9.12. Information on the remuneration system and the amount of management and supervisory staff's remuneration

In Zespół Elektrowni Państw-Adamów-Konin SA, the remuneration system is based on the Corporate Collective Labour Agreement for employees of ZE PAK SA of September 24, 1993 (CCLA). Only members of the Management Board, chief accountant and key managers who have concluded managerial contracts are not subject to the CCLA's provisions.

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The basic components of remuneration for the employees contained in the CCLA include an individual monthly basic salary, a monthly statutory bonus, extra payment for seniority, an annual bonus, a post-employment benefit and allowances. The employees are also entitled to receive awards from the president's fund and social benefits.

The Management Board determines the principles of remuneration of key managers in individual agreements. The basic component of remuneration is the basic salary. The key managers can receive a discretionary award granted by the Management Board's decision. The key managers are also entitled to some components of the CCLA.

The members of the ZE PAK SA Management Board are paid on the basis of the provisions of individual management agreements, the content of which is formed by the Supervisory Board of the Company. There are no other additional regulations or other documents creating the rules of the Management Board's remuneration. The members of the Management Board are entitled to a monthly salary. They can also be granted a discretionary award. In case of dismissal from the Management Board composition, the payment of a severance pay in the amount of a six-month salary is provided. The severance pay is not entitled if the dismissal occurs for reasons concerning the dismissed member of the Management Board, particularly for the reasons set forth in Article 52 of the Labour Code. There are no provisions for compensation in the event of a dismissal following a merger or acquisition.

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

Table 15: Information on the amount of remuneration paid in 2018 by the Company and its subsidiaries to all Management Board members performing their functions in 2018

<i>The Board's member name and surname</i>	<i>zloty thousand</i> <i>Value of (gross) remuneration paid by the Company</i>	<i>zloty thousand</i> <i>Value of (gross) remuneration paid by the Company's subsidiaries</i>	<i>zloty thousand</i> <i>In total: including variable elements of remuneration*</i>	<i>zloty thousand</i>
Marcin Ginel	10.5	2.6	13.1	0.1
Aneta Lato-Żuchowska	560.0	122.4	682.4	200.5
Zygmunt Artwik	782.8	1.1	783.9	150.5
Elżbieta Niebisz	286.0	424.7	710.7	130.5
Adam Kłapszta	660.0	61.6	721.6	300.0
Total	2 299.3	612.4	2 911.7	781.6

* *The variable remuneration components include: awards and bonuses, severance pay for dismissals from the Management Board, holiday equivalents and retirement benefits.*

Table 16: Information on the amount of non-cash benefits in 2018 granted by the Company and its subsidiaries to all Management Board members performing functions in 2018

<i>The Board's member name and surname</i>	<i>zloty thousand</i> <i>Total estimated value of non-cash benefits granted by the Company</i>	<i>zloty thousand</i> <i>Total estimated value of non-cash benefits granted by the Company's subsidiaries</i>	<i>zloty thousand</i> <i>In total:</i>
Marcin Ginel	-	-	-
Aneta Lato-Żuchowska	0.4	-	0.4
Zygmunt Artwik	1.2	-	1.2
Elżbieta Niebisz	1.2	-	1.2
Adam Kłapszta	0.7	-	0.7
Total	3.5	-	3.5

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 subsidiaries of the Company to the Management Board members in 2018 amounted to PLN 2 915.2 thousand. The given amount should be treated as the gross value of remuneration paid or due in the period from 1 January to 31 December 2018.

Members of the Supervisory Board of ZE PAK SA are remunerated on the basis of Resolution No. 32 of the Ordinary General Meeting of June 28, 2017, which fixed the monthly remuneration for the chairman of the Supervisory Board in the amount of PLN 15 000 and for other members in the amount of PLN 10 000.

Table 17: Information on the amount of remuneration paid and the value of non-cash benefits in 2017 by the Company and its subsidiaries, as a member of the Supervisory Board, all members of the Supervisory Board performing their functions in 2018

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<i>Name and surname of Supervisory Board member</i>	<i>zloty thousand</i> <i>Value of (gross) remuneration paid by the Company and the Company's subsidiaries</i>	<i>zloty thousand</i> <i>Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries</i>	<i>zloty thousand</i> <i>In total:</i>
Wiesław Walendziak	182.0	0.0	182.0
Tomasz Szelaǳ	122.0	0.0	122.0
Wojciech Piskorz	121.8	0.0	121.8
Henryk Sobierajski	120.0	0.0	120.0
Leszek Wysłocki	121.8	3.3	125.1
Lesław Podkański	120.0	0.0	120.0
Sławomir Sykucki	120.0	0.0	120.0
Sławomir Zakrzewski	120.0	0.0	120.0
Total	1 027.6	3.3	1 030.9

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 out by the Company and subsidiaries of the Company to the members of the Supervisory Board in 2018 amounted to PLN 1 030.9. The given amount should be treated as the gross value of remuneration paid or due in the period from 1 January to 31 December 2018.

The company has no obligations arising from pensions and similar benefits in relation to former management, supervisory or former members of administrative bodies and liabilities incurred in connection with such pensions.

10. STATEMENT ON THE DIVERSITY POLICY

With reference to §70 paragraph 6 point 5 lit. m of the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information the Company declares that in ZE PAK SA Group and in ZE PAK SA no separate document describing the diversity policy has been adopted. At the same time, management solutions related to the issue of diversity management were adopted.

The objectives related to diversity management, in particular with regard to the age structure of employees, were adopted in the Group together with the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020. The restructuring process, lasting for years, meant that most vacancies were filled on the basis of internal recruitment (as part of transfers between departments and companies). A side effect of actions aimed at reducing redundancies and concentrating in the recruitment process on persons already employed in the Group's companies was the lack of a significant inflow of young employees, and as a result, the average age of employees increased. At some point, this may result in significant retirements and staff shortages. Therefore, ZE PAK SA Group actively monitors changes in the age structure of employees in order not to allow the adverse consequences of losing a large part of experienced employees without proper preparation of their successors.

Simultaneously, the Code of Ethics adopted in the Company includes diversity policy, guaranteeing equal treatment regardless of gender, age, worldview, religion, political views, etc. The document is a tool for reporting potential incidents related to discrimination on any background. It is planned to implement analogous solutions in the subsequent companies of the Group.

As of today, in the Company's opinion such solutions are sufficient.

Numerical data referring to diversity can be found in this report, in the Statement on Non-Financial Information for 2018 in the subsection - "Employee Issues".

11. STATEMENT OF ZESPÓŁ ELEKTROWNI PAŃNÓW-ADAMÓW-KONIN SA CAPITAL GROUP ON NON-FINANCIAL INFORMATION FOR 2018

In the process of preparing an approach to non-financial reporting, including preparation of this statement, ZE PAK SA Group has worked on the basis of the best global practices in this field, for instance using the approach for defining the significant contents, information as well as the indicators suggested, among others, by:

- PN-ISO 26000 standard,
- GRI G4 guidelines / GRI Standards,
- RI G4 Sectoral Supplements in the field corresponding to the mining and power engineering

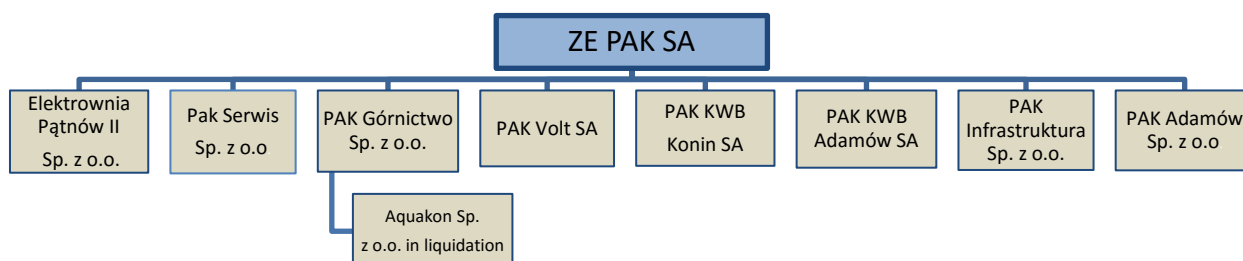
Nevertheless, this statement might not be considered as the one developed in accordance with GRI G4, GRI Standards or any other comprehensive standard.

The reporting process itself was preceded by the development of strategy for Corporate Social Responsibility of ZE PAK SA Group, where the approach suggested by PN-ISO 26000 was maintained, i.e. in the first step of works, during the internal conferences, in which the members of interdisciplinary team appointed by ZE PAK SA Management took part, the significant areas of responsibility and crucial groups of stakeholders were defined. The defined significant areas became appropriately a starting point to determine the crucial aspects to which particular emphasis has been placed in the statement, in the fields of social, employee, environmental protection, human rights and counteracting corruption issues.

11.1. Description of business model

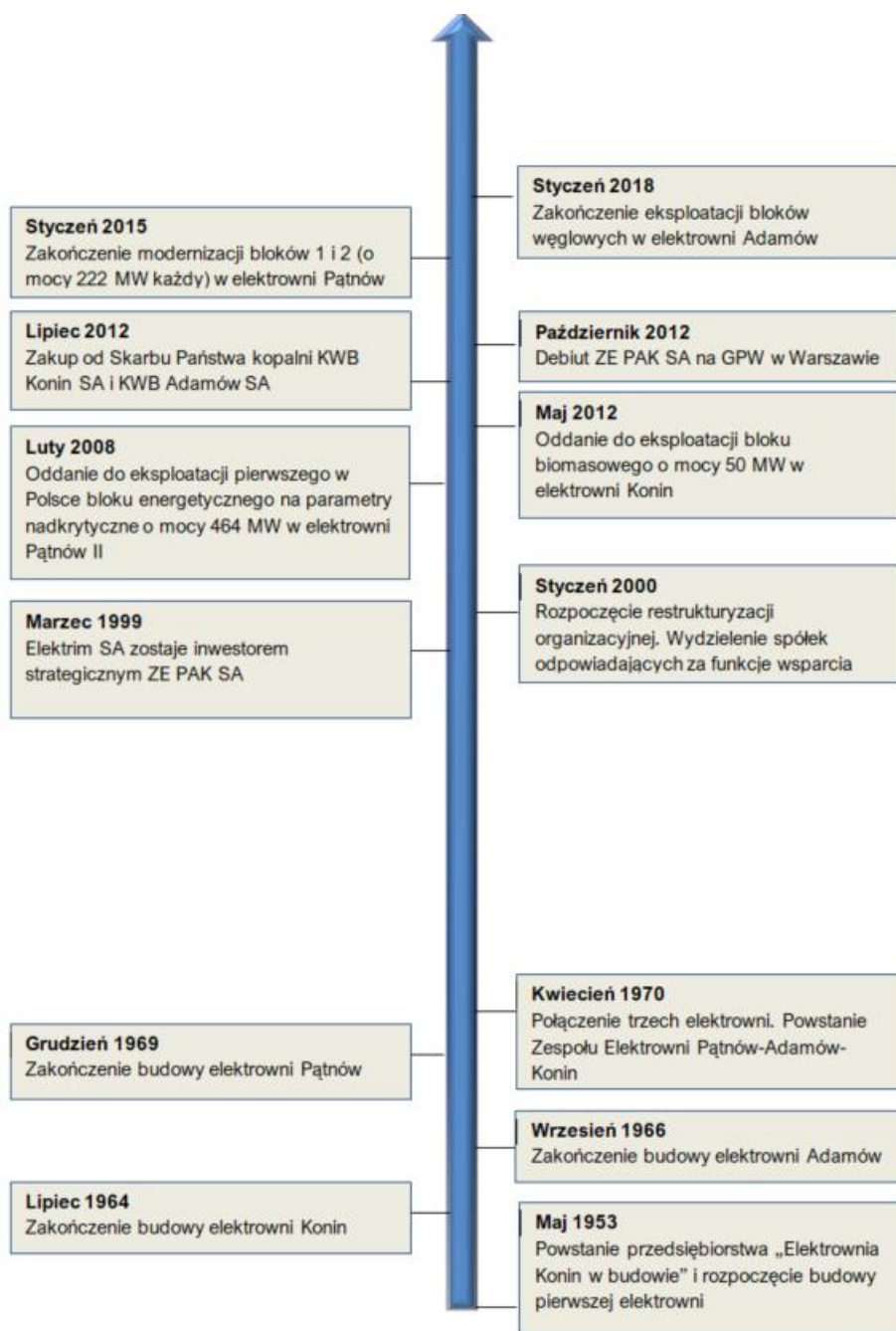
ZE PAK SA Capital Group („ZE PAK SA Group”, „Group”) is a significant producer of energy on the Polish market and an important element of national power engineering system. In terms of the volume of installed capacity and electricity production, ZE PAK SA Group is the largest private (uncontrolled by the Treasury) energy group in Poland consisting of vertically integrated entities operating in the field of lignite mining, energy production from conventional and renewable sources and energy trading. The Group generates the vast majority of revenues from the sale of electricity produced. The integrated business model operates on the basis of lignite mining from own opencast mines, the use of coal and biomass in the production of electricity and heat as well as the sale and trading of electricity on the wholesale market. At the same time, there are units operating within the group, e.g. in the form of separated companies, which are responsible for support functions (e.g. repairs, maintenance works, etc.).

The companies of the greatest importance to the ZE PAK SA Group due to their scale of operations are: Zespół Elektrowni Państw-Adamów-Konin SA ("ZE PAK SA") - dealing with the production of electricity and heat, Elektrownia Państw II sp. z o.o. - dealing with the production of electricity, and PAK KWB Konin SA and PAK KWB Adamów SA dealing with lignite mining. Beside the companies from the main areas of activity, there are also other companies that, among others, are dealing with implementation of construction and assembly works, maintenance, service, production and trade activities aimed at satisfying the needs and comprehensive industry service.



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The origins of the ZE PAK SA power plant date back to the 1950s. The most important dates from the history of the Group's operations are presented below.



In 2018 generation assets of the Group included three power plants located in the centre of Poland, in Wielkopolska voivodship. There are: Pątnów II - equipped with the power unit of supercritical parameters, Pątnów I and Konin – equipped with the biomass-fired boiler unit. Adamów Power Plant was closed in January 2018. The Group's basic production assets are concentrated in two companies: PAK KWB Konin SA, which currently operates in Józwin, Tomisławice and Drzewce opencast mines, and PAK KWB Adamów SA exploiting Adamów opencast mine.

A few numbers for ZE PAK SA Group in 2018:



11.2. Social issues

Management approach

The policy and management approach of the ZE PAK SA Group to social issues were set out in the Strategy for Corporate Social Responsibility of the ZE PAK SA Capital Group for 2017-2020. Simultaneously, the approach presented in the Strategy is reflected in other internal regulations. The management approach is also determined in administrative decisions that allow conducting the mining and generating operations in the units that belong to ZE PAK SA Group and dependent on the specifics of the particular object. Each time, the Group is trying to work out the optimal solutions in this respect, based on social consultations as well as in accordance with the applicable law.

The Group's management approach to social issues is conditioned by the nature of its companies' influence on the environment. Particularly in the areas where the influence is or might be negative and can be associated with specific burdens for people, the management approach aims at eliminating, limiting or compensating for these burdens, and consequently limiting the exposure of the Group to the risk.

The Group's influence on the environment is multidimensional. From the point of view of general public, ZE PAK SA Group is an important supplier of energy for the Polish economy and Polish society. Nevertheless, the final customers are not the main clients of the Group but the trading companies operating on the wholesale electricity market. For this reason, the ZE PAK SA Group aims at ensuring stable electricity supply at a competitive price to other technologies. The ZE PAK SA Group has a much wider range of impact on the environment from the point of view of the local community, i.e. understood as a community living in the immediate neighbourhood of the Group's plants, where the production of electricity and heat and lignite coal mining is conducted. The exploitation of lignite deposit and production of energy have the great impact on the natural environment (see: Environmental issues), and consequently social environment too.

Dealing with the negative influence on the natural as well as social environment, it is necessary to mention, first of all, about the danger and burdens associated with:

- an influence on the land surface (opencast mining of minerals results from the transformation of the land surface; in the place of the originally used land, spatial field forms (excavation, heap) and accompanying infrastructure are created (conveyors, transport routes, facilities),
- an influence on the surface water (inter alia reducing the flow in watercourses under the influence of the mine and increasing the flow in the watercourses due to discharging water from underground drainage and surface pits),
- an influence on the groundwater (formation of the so-called depression funnel due to the drainage of open-cast mines),
- noise emission (basic machines related to the operation of the overburden and its dumping, basic machines mining coal, coal and overburden conveyors, road transport),
- an impact of mine objects on atmospheric air (dust emission: technological (mechanical), i.e. associated with mechanical mining and transport of the raw material with conveyor belts; climatological, i.e. related to wind erosion of vegetation-free areas; organized emissions of pollutants into the air from the boiler room providing heat for social facilities mine),
- an influence on valuable natural area (in case when the valuable natural area is located in the zone of influence),
- hazards associated with electromagnetic fields.

It is worth mentioning here, that the above mentioned influence is not only negative. Konin energy basin has a unique, cooling system, based on water cycle. A common name of “jeziora ślesińskie” includes the following lakes: Gosławskie, Państwskie, Wąsowsko-Mikorzyńskie, Licheńskie and Ślesińskie, which are included in the cooling circulation of Państw, Państw II and Konin power plants. All the lakes are connected by a channel system of total length of about 26 km and they are forming a closed circulation where the water flow is regulated by culverts and pumping stations. The discharge of waste heat to nearby lakes obviously influenced their ecosystems, but also made these reservoirs especially valuable for fishing and fish farming. Higher temperature of water and its large flow in the channels and lakes caused that in the area of cooling system the breeding fish ponds were located there. Fishing farms operating here are not only the largest producers of sturgeon fish in Poland (Siberian sturgeon, Russian sturgeon, sterlet), but also other species of fish such as European catfish, rainbow trout, amur, silver carp, catfish, carp or ornamental fish. By the use of waters with increased thermic for reproduction, breeding and breeding of thermophilic fish, they are an important producer of fry in the domestic market. The cooperation with ZE PAK SA Group makes the warm water to flow directly through the ponds providing optimal conditions for development of fry and adult fish. One of the farms is taking the water for breeding from Elektrownia Konin precooling water tank and the production is strictly dependent on the conditions made by the power plant, water temperature and its cleanliness, etc. For this reason there is a constant communication and information flow between the fish farms and the power plants. In addition to some of the largest fishing farms in Poland, these areas are known among anglers. Supporting such economic activities, as well as all other forms of social involvement allows compensating partially to social environment the burdens related to the activities of ZE PAK SA Group.

ZE PAK SA Group may also be a welcome member of the community, due to significant direct and indirect economic impact. Regardless of the large diversity of entities operating in the industrial sector, Konin sub region is associated primarily with the mining and energy industries and ZE PAK SA Capital Group companies, which have been the driving force of this region for years. Money transfers in the form of taxes and para-taxes (license fees, concessions, etc.) to a large extent feed budgets of local governments. For example, in 2018, the Group's companies paid over PLN 243.3 million (PLN 247.9 million in 2017), of which PLN 160.4 million (in 2017 it was over PLN 170.6 million) were the fees for local governments. These means allow e.g. the communities to realize investment projects, finance health care and education, etc. Simultaneously, thanks to the salaries of employees who are mostly recruited from local communities, the so-called multiplier effects are started and the local economy is stimulated, including sectors not directly related to lignite mining and energy (the Group's companies allocated employee benefits to PLN 424 million in 2018 and PLN 461 million in 2017).

The management approach of ZE PAK SA Group concentrates mainly on ensuring the safety for natural and consequently social environment while ensuring production continuity and stability at the same time. Such management approach was set out in the Strategy for Corporate Social Responsibility for 2017-2020 and it assumes providing effective mechanisms reducing to minimum the threat of anomalies and gaps occurring resulting in over-normative impact on the environment in the mining or manufacturing process. ZE PAK SA Group assumes that the implementation of the assumed approach eliminating to a minimum the negative impact on the environment also changes into a stable operation of the plants, which is not disturbed by interruptions in production or extraction that

would be caused by social factors. These aspects also relate to policies accompanying management systems and internal regulations that ensure compliance with laws and administrative permits related to specific manufacturing facilities and installations.

The other dimension of impact on social environment is connected with the economical use of waste heat, which accompanies the electricity production. A part of heat has been used for years for heating purposes, inter alia by Miejskie Przedsiębiorstwo Energetyki Ciepłej in Konin. Such approach is extremely rational from the social as well as environmental point of view. Nevertheless, due to restructuring of power plants, the heat production from the source used from many years based on the lignite from Konin power plant, will not be possible in the future because of the environmental requirements. ZE PAK SA Group, wishing to remain a heat supplier for the local community, has launched a new heat source based on a biomass block for this purpose. The current solution, using a renewable energy source, on the one hand eliminates the risk of non-compliance with stricter environmental standards, but also has a higher tariff for heat supplied. The Group is interested in developing the solutions satisfying for the parties and economically viable, that would ensure safe heat supply for Konin residents. Nevertheless, as noted, the solutions must be profitable at the same time, in order to protect the obvious interest of the residents, as well as the shareholders'.

The management approach and, consequently, the implemented activities directly or indirectly address the risks associated with the loss of favour of the local community, and thus contribute to the prevention of events that could disrupt the stable operation of mining and manufacturing plants. When it comes to aspects of influence on the natural environment, which at the same time are the source of potential burdens for the local society, they were widely described in the further part of the report (see: Social issues). They constitute the element of environmental management, having parallel consequences for local society. The approach to them was also described in other internal regulations as well as in the administrative decisions regulating the environmental issues. This description is limited to the characteristic of the Group's approach to these aspects that directly affect people. Though, all of them focus on the activities which aim at monitoring and reducing the negative influence.

For instance, in the areas that are to be under extraction, as well as directly adjacent with the area designed for extraction, real estate buyouts are made. Most often they are agricultural lands but also the buildings or constructions. Assessments of the influence, i.e. whether the real estate adjacent to the opencast mine is going to be the subject to buyout, are set individually. The individual approach is justified by the fact that in such aspect the significant roles are played by emotional factors, for instance, associated with getting used to this place. In addition to those who may be reluctant to resell the property, there are also those who would like to sell it, although in the opinion of the investor's experts, the scale of impact will not be sufficient to justify the necessity of buying. In extreme cases, there may be disputes that eventually find their final in the court. Nevertheless, the Group's intention is to carry out the described processes in a way reducing the negative emotions, because it may influence subsequent projects of this type.

Lignite deposits in the operation area of the Group have their specific characteristics and wealth. The company does not use one deposit, but over the years it is forced to launch further opencast mines. Therefore, at the same time a process of reclamation of previously exploited pits, exploitation of current outcrops and preparatory processes for the next ones take place. Currently, PAK KWB Konin SA is applying for a mining concession for Ościsłowo open pit. The coal supplied from this outcrop is to secure supplies for the modernized blocks at Pątnów I and Pątnów II power plants. These are the most efficient generation assets of the Group for modernization of which, significant expenditures have already been incurred. The process of launching a new lignite mine is a multi-stage process and its implementation requires special care. It should be borne in mind that in processes related to obtaining formal consents before public administration authorities, there are usually various associations and organizations that aim to fight specific types of activities (e.g. they deny the use of lignite as a rule, and thus, the operation of opencast mining). In the current pending proceedings concerning the determination of environmental conditions for the project entitled: "Extraction of lignite coal and accompanying minerals from Ościsłowo open-pit" the parties also have several organizations opposed to the location of new lignite opencast mine. It is worth mentioning that, on the other hand, the trade unions or some local opinion leaders pay a lot of attention to the supporters.

As already mentioned, as a result of conducted mining operations, there may occur socially adverse phenomena, such as lowering the level of groundwater in areas adjacent to mines. However, drainage of water from the outcrop to watercourses can lead, for example, to raising their level. Water shortage as well as its excess can mean adverse effects, e.g. on agricultural production, which ZE PAK SA Group tries to compensate for, by paying reasonable compensation in justified cases.

Mining damage can be divided into direct and indirect. Direct damage is usually associated with mining plant operations and the progress of exploitation fronts. They include reconstruction and construction of new roads, power lines, water supply networks and other technical infrastructure as well as road repairs, on which the mine transport moves and in particular cases the transfer of sacral culture objects, e.g. chapels, churches, cemeteries. Due to direct damage, the companies from the Group's mining segment in 2018 paid PLN 16 237 thousand, while in 2017 it was PLN 8 855 thousand, respectively. It is worth noting that in each case the payment of compensation for direct damages

occurred by way of a settlement or agreement. Apart from direct damage, there is also indirect damage associated with the dehydration of the deposit, which has an impact on the lowering of groundwater level in the areas adjacent to the mines. The effect of lowering groundwater levels may be a partial degradation of soil productivity, tree drying, periodic drying of farm wells and ponds, damage to buildings, impact on the performance of deep-water intake wells and others. On the other hand, drainage of waters from drainage of outcrops with surface watercourses can cause periodic flooding of adjacent areas. In order to minimize this damage, systematic conservation of these watercourses is carried out as part of their own or financial participation in the cost of living. Due to indirect damage, the companies from the Group's mining segment paid out PLN 1 747.2 thousand in 2018, while in 2017 it was PLN 2 188.7 thousand, respectively. Due to the nature of indirect damage, financial compensation is usually of one-off nature. The Group tries to compensate adverse impact by paying reasonable compensation in justified cases. Owners of compensated land receive written notifications with a proposal for the amount of compensation due to the mine's impact. In the case of acceptance, an out-of-court settlement is signed with the owner, with a waiver of claims after payment of compensation - compensations are paid on the basis of previously agreed settlements or agreements. Only a few cases of mining damage are subject to resolution by common courts. In 2017, only PLN 52.37 thousand (about 0.5% of total compensation paid for indirect and direct damage) were paid based on court verdicts, and in 2018 - PLN 353.70 thousand (less than 2% of the total compensation paid for indirect and direct damage). The low share of damages paid on the basis of court judgments shows the conciliatory attitude of the Company, which prefers to agree possible amounts of compensation in the negotiation process, seeking agreement with the other party.

In case of other periodical burdens, for example intensified noise associated with the renovation or modernization works on the generating objects (such works give rise to the necessity of blowing the boiler's installation under very high pressure, in order to remove even the filings from the installation, which could damage it, and that is quite loud), the Group informs local society, through mass media, about such burdens by giving the information to local media or local offices. The same happens with any other burdens (e.g. in road traffic connected with the transport of oversized equipment, the intensification of dusting or dew from chimneys. Consequently, they do not arouse controversy, and the plant can count on the forbearance of the inhabitants of the immediate area. Within the education activities directed to external society, the Group's PR department performs press articles explaining the rules of exploitation of lignite open mines and reclamation of post-mining sites. As mentioned earlier, the inhabitants of the nearest neighbourhood of the plant are often the Group's employees. Thus, although the external communication is described here, the appropriate internal communication is significant and the employees themselves are the ambassadors of ZE PAK SA Group. In case of communication activities, in situations like those described above, an equally important role can be played here by internal communication. Here, however, a wider spectrum of information transfer is possible: some activities can be better and more precisely explained, using e.g. "Kontakt" - a monthly e-magazine of the Capital Group.

The Group also declares its support for local initiatives, although due to the savings program it has been less recently than in previous years. ZE PAK SA Group aims at supporting local society by social commitment, so as to compensate the burdens associated with the operation of the plant, in a part which cannot be eliminated or limited.

The aim of the Group is not to engage in spectacular ventures to gain publicity but to reach the nearest municipalities and independent organizations from the region. For example, PAK KWB Konin SA in the previous year donated a number of donations, largely property-related, including, for example, land and sand worth several dozen thousand zlotys for the municipalities of Ślesin, Wilczyn and Skulsk in order to develop beaches and bathing areas in these communes. There were also frequent donations in the form of stones and erratic boulders, the largest one - over 20 tonnes was donated to the Great Orchestra of Christmas Charity for the purpose of bidding. Another, 5-ton boulder stood in the Park of Recreation and Physical Activity in Kleczew to commemorate the place where the skeleton of a forest elephant was found (the discovery took place in 1984, when it was the excavation site of the Józwin open pit). The mine's employees also helped in marking the bicycle route "The Black Forest Elephant Trail" and participated in the opening of this route. The mine also donated stones and boulders, along with transport and unloading, to commemorate honourable events and figures, among others Agricultural School Complex in Kościelec, Provincial Integrated Hospital in Konin, "Kazimierzanie" Association from Kazimierz Biskupi, Ślesin commune and Kazimierz Biskupi commune. In favor of the Roman Catholic parish in Racięcice, the ownership right of the agricultural property with the roadside chapel was transferred, the chapel was previously built by the mine as part of the repair of mining damage. For the Regional Museum in Konin, a complete conveyor belt was handed over along with loading and transport for the purpose of expanding the existing open-air museum of mining facilities at this institution. Several m³ of clay, including loading, were allocated to the State High School of Fine Arts in Kościelec with the purpose of conducting classes of sculpture. A belt used in conveyors for the purpose of protecting the floor in the school gym was handed over to the High School in Koło. There were also made cash donations, among others to the Municipal Office in Osiek Mały for the purpose of organizing the Harvest Festival, to the Municipal and Communal Cultural Center in Kleczew, intended for organizing commemorative harvest festivals, to the Mining and Energy School Complex in Konin with the purpose of organizing the 60th anniversary of the school, to the Club of "Górnik" Association of Honorary Blood Donors of the Republic of Poland. PAK KWB Adamów SA funded prizes for the winners of the 10th Art Contest organized in the School Complex in Przykona, the equipment of the Chess Club operating in Turku was

also transferred free of charge. In the past year, PAK KWB Konin SA financed two scientific conferences. The first of them is the sixth edition of the Opencast Mining School organized by the AGH University of Science and Technology in Krakow; the conference took place on September 9-12 in Kościelisko, the second event was the conference "Groundwaterflow Modeling 2018", organized by the University of Adam Mickiewicz in Poznan on October 16-19. One of the interesting initiatives was also an outdoor photography - at the end of September, a group of 10 participants from the nationwide outdoor photography "(Post) industrial spaces" organized by the Center for Culture and Art and Koniński Klub Fotograficzny was staying at Józwin open-pit. The object of artists' interest was the industrial heritage of the region and the human involvement in the development of area. Photographs taken during this project were presented in November at the open-air exhibition in the gallery "Za progiem" of CKiS in Konin. Before Christmas, a collection of money for the Children's and Youth Home in Nowy Swiat was carried out among the mine employees - sports equipment was purchased for the collected funds, and they completed the equipment of the exercise room that the home pupils had at their disposal. On the occasion of Barbórka, mines, like every year, donate, among others, to Sailing Club operating at PAK KWB Konin for the organization of the Winter Regatta of Barbórka and the Runner Club "Aktywni Konin", organizer of the Run for the Miners' Lamp. There are the meetings organized in educational institutions, the miners meet children in schools and kindergartens, the company's employees perform presentations about mine work, mining traditions. Also the brass bands operating at both mines organize musical meetings with children from schools and kindergartens - the prepared program concerns the history of the mine, mining traditions and work of the orchestra, and it is combined with the presentation of musical instruments and a short concert. Such meetings are free and they are very popular within educational institutions. The bands participate in state and church celebrations. Simultaneously, thanks to the support of the mines, PAK KWB Konin teams took part in: XVII Indoor Football Tournament Old boys by Władysław Egiert in Kleczew, Indoor Football Tournament by Jan Kmieczyński in Golina, Polish National Football Tournament of Non-attached Members for the Cup of Director PGE GiEK S.A. in Bełchatów, Football Tournament for the Cup of the Marshal of Mazowieckie Voivodship in Baboszewo, the Second National Old boys Football Tournament in Konin, the Santa Claus Indoor Football Tournament in Baboszewo. PAK KWB Adamów also takes part in the "All of Poland reads to children" campaign, as part of this project a meeting was organized in the Educational Institution in Stemplewo - a text read by a miner in gala uniformed. Every year before Christmas the mines' employees take part in Christmas Eve in orphanage in Nowy Swiat and Educational Institution in Stemplewo, the company gives the children gifts and sweets. Tour groups from different regions of Poland are admitted all year round: from schools, workplaces and associations. Visiting the mine is free. ZE PAK SA also carried out pro-social activities in the past year. In 2018, the company financially supported the 39th International Children's Song and Dance Festival in Konin and the organization of the Sailing Regatta for the President's Cup of ZE PAK SA. A donation was also made to the Camaldolese Hermit Congregation of the Crown Mountain - the Five Martyrs hermitage in Bieniszew. Traditionally, ZE PAK SA supports Polsat Foundation activities, one of the biggest non-governmental organizations operating in the area of Poland, which for over twenty years has been directing its help to sick children and their parents.

The significant role in the life of local society is played by Konin lakes mentioned earlier, which are on one hand the source of revenue for unique (on national scale) fish farms, and on the other hand they attract a number of amateur anglers. For this reason, the contribution of ZE PAK SA employees who are privately engaged in the life of the fishing community is worth mentioning here. In addition to other fishing clubs of Polish Angling Associations operating in this area, there are two in ZE PAK power plants associating their employees. The members of one of them are taking care of the mentioned earlier precooling tank of Elektrownia Konin - they organize annual spring action of cleaning the edge of the water reservoir and restocking with various fish species. There are also season fishing competitions with youths' participation organized by the anglers from PAA clubs. It aims at promoting fishing sport among young residents of the region and it helps acquiring new members to fishing clubs, as well as it builds a positive attitude among the participants of mentioned sport, cultural and social events towards the activity of the Group.

Associated business risk

Business risk that may have negative influence on the Group's results and development, and being associated with the area of social influence, results directly from the character of its influence (e.g. disturbing the hydrology balance or noise mentioned earlier). They constitute inconvenience and may also be a source of material damage of the third parties. This can lead to disputes with the society and thus loss of its positive attitude for present and further projects, including so-called social licence to operate. It can cause the increase of complaints directed by the society to administration bodies, initiating the proceedings against the plants and legal and financial sanctions, in case of confirming the allegations. Ineffective dialogue, for example on damages or land purchase, may also mean civil proceedings for damages. A particular threat is the loss of public trust and a negative opinion about the plant as an unreliable investor, which can definitely hinder the acquisition of further permits and concessions (e.g. for lignite mining in new areas). This, in turn, may cause a greater risk associated with the new investment and less favour of investors and lenders, and thus difficulties in raising capital.

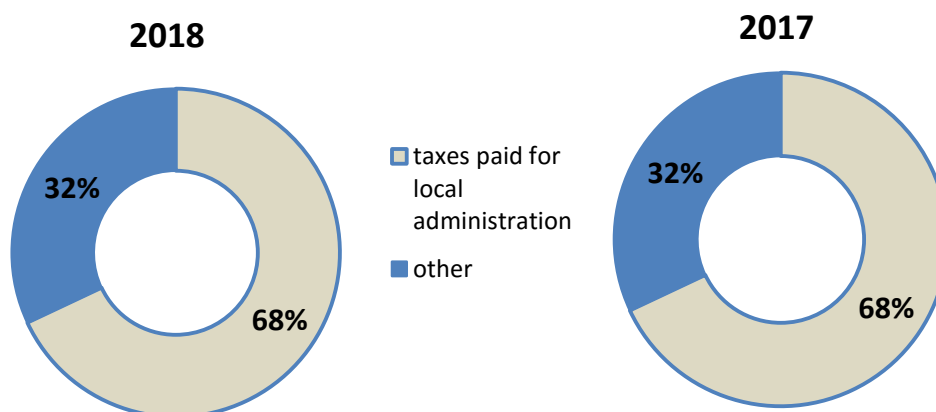
It is worth mentioning here that the employees of the plants are recruiting from local communities. As a consequence, these groups are not separate and any possible animosities with the local community related to, for example, inconvenience, will indirectly affect the culture of the organization and the work atmosphere, and vice versa: all important incidents on the employer-employee line may result and are resulting in specific consequences in relations with local community. The same person may appear in several roles, i.e. an employee, a resident of a local community adjacent to a plant, which is exposed to nuisance related to noise for example, as well as being the owner of a real estate that is seeking compensation or redemption.

Key indicators

Table 18: Key indicators in the area of social impact

	2018	2017
Number of environmental failures resulting in serious contamination	0	0
The amount of damages paid as a result of court verdict in relation to the amount of damages paid out by the Group as a result of a settlement or agreement	2.0%	0.5%
Total amount of taxes and para-taxes paid - altogether	PLN 243.3 m	PLN 247.9 m
Total amount of taxes and para-taxes paid – for local administration	PLN 160.4 m	PLN 170.6 m

Chart 15: Percentage share of taxes and para-taxes paid to the local administration in relation to the total amount of paid taxes and para-taxes



11.3. Employee issues

Management approach

In the area of human resources management, the ZE PAK SA Group has formal solutions defining the relationships between the employer and employees, resulting from the Polish law, inter alia work regulation resulting from the Labour Code, corporate collective labour agreement resulting from the Labour Code, Company Social Benefits Fund resulting from the act of Social Benefits Funds, in the companies not covered by the provisions of CSBF the remuneration regulations are obligatory. The companies meeting the statutory criteria have their own Staff Councils. The Unions are also operating in ZE PAK SA Group. In the matters specified by the law the management of ZE PAK SA and other companies inform and consult the decisions with the employee representatives.

Simultaneously, apart from formalized solutions resulting from specific legal provisions or adopted voluntarily (e.g. recruitment procedure), current operational activity is based on a series of solutions and customary forms of behaviour that do not require rigid formalization in the managers' opinion, and at the same time they guarantee the management that is effective and consistent with legal norms and standards of social coexistence. The Group's companies comply

with the labour law and they require proper behaviour in relations between the employees as well as between the employees and their superiors.

Corporate collective labour agreements, obligatory in ZE PAK SA Groups in the reporting period, contain the principles of employment and remuneration of the employees. On the other hand, the regulations of the Company Social Benefits Fund define the rules of using and financing of social activity and housing for the benefits of the employees and their family members. The records in both documents are implemented by the managing units although at the same time there are collective disputes concerning the employee remuneration.

Meanwhile, in companies such as PAK –Volt SA (trading in electricity, office work) significant from the point of view of the generated revenues, but with very little employment and work specificity without any significant health and safety risk, formalization of labour relations and related procedures are minimal and limited to legal requirements.

Basic aspects associated with the human resources management have been determined in the Strategy for Corporate Social Responsibility of the ZE PAK SA Capital Group for 2017-2020.

Health and safety at work

Similarly to earlier areas, the most significant ways of activities associated with the health and safety risk management have been described in the Strategy for Corporate Social Responsibility of ZE PAK SA Capital Group for 2017-2020. Simultaneously, it is important to remember about the obligatory certified management systems covering the issues of security management, including:

- the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements (ZE PAK SA – according to PN-N 18001, OHSAS 18001),
- works in scope of installations, renovations and service of power engineering and industry equipment, industry construction services, management of investments in power engineering and industry, as well as modernization and maintenance of automation and electrical systems in power engineering (Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. – according to PN-N 18001, OHSAS 18001).

Their goal and the objective of the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020 is to minimize the level of accidents, with particular emphasis on the elimination of events with severe and fatal consequences and undertaking organizational and technical measures aimed at eliminating or reducing the exposure of workers to harmful factors occurring in the work environment like noise and pollution to a level compliant with the standard. Simultaneously, selected management aspects, falling within a broader scope of environmental management, are regulated by internal principles and ordinances.

Mining

The mining part is the only one from three main areas where certified management system according with PN-N 18001 and OHSAS 18001 was not implemented. The management of health and safety risk works on the basis of Ordinances of the President and Ordinances of Manager of mining plant. The regulations apply to all areas that involve the possibility of threats to proper and safe fulfilment of their duties by employees. Examples of issues covered by the ordinances include: occupational risk related to work performed, list of works requiring special psychophysical predispositions, safety of exploitation of used equipment, medical assistance, periodic and control tests, medical examinations and many others.

Typical threats accompanying opencast lignite coal mining should be divided into natural and traumatic hazards. The last ones, potentially connected with the machines work, particularly their rotating elements, dangerous in consequences but they happen very rarely, mostly due to the activities of health and safety service and the employees' awareness. In recent years, in practice, if there were accidents, these were light accidents: dislocations, sprains and occasional fractures. As for the natural hazards, they can be divided into landslide (scarp escaping), methane (emergence of gas in drainage wells), fire and water (associated with: atmospheric precipitation, neighbourhood of natural reservoirs and watercourses or watercourses in the excavation).

Regarding the activities carried out in 2018 to improve the health and safety conditions in the area of extraction, in accordance with the adopted annual plan in PAK KWB Konin SA and PAK KWB Adamów SA, the renovation of cabin in operators of basic machines such as excavators, stackers were made (e.g. window glazing, window frames, radiators, replacement of locks, air-conditioning repair), which allowed reducing the noise level in the cabins. The change of seats for basic machine operators allowed reducing the level of exposure to vibrations.

Comfort of work was also improved by purchase of rain clothes, shoe protectors, replacement of flashlights, as well as purchase of new equipment and power tools (equipped with hammers, drills, grinders, impact wrenches, etc.) in order to eliminate hard physical work and improve technical production equipment, fire protection equipment for basic machines and self-braking devices to secure working at heights. External cameras were installed for observation of

excavator vehicles. Residual beams were prepared for the stacker cable trolley. In order to improve the safety of working conditions in winter and the elimination of hard manual work, a snow blower was purchased.

Generation

In the generation area of ZE PAK SA, as mentioned earlier, the management of health and safety work is based on the integrated management system compliant with PN-N 18001 and OHSAS 18001. Simultaneously, the activities in the area of health and safety are regulated by the President's Ordinances, referring to wider aspects but covering health and safety matters as well.

Significant documents and procedures are here: Exploitation Manuals of Power Devices (they are the elementary documents on the basis of which the safe operation of devices is carried out) and business orders of the power plant's director

Identification of threats at workplaces is the element of ZE PAK SA operation in reference to products and services that may affect the working environment. The threats identification results are included in the process of planning by establishing the particular purposes with reference to health and safety at work. In order to define the ZE PAK SA affection to working environment the following activities are carried out at workplaces: initial health and safety review, recognition of the source of the threat, identification of threat, controlling of defined workplaces. Occupational risk that includes typical operating conditions, retention and start-up, as well as potential and significant influences accompanying justified emergency situations is assessed. The scope of tests and measurements at workplaces is determined and the measurement results are analysed.

Annual analysis show that repairs and renovations carried out over the years, and most of all decommissioning of old and construction of new devices and installation, including generation units, in addition to improvement of production efficiency and reduction of negative influence on natural environment, undoubtedly contribute improvement of employees working conditions and technical safety at work through elimination or reduction of danger to health and life of the employees.

Regarding the occupational risk assessment, the factor causing noise pollution above the maximum permissible intensities are the elements such as gears, motors, clutches, etc. The maximum permissible dust concentrations, on the other hand, are exceeded in the case of lignite transporting devices. Another group of threats are dangerous factors, and their influence on the employee may cause injuries or even death. The most important factors of this group are: high temperature, high pressure, electric current, explosive atmosphere and machines' movable components. The factors related to the nuisance of work include excessive physical load, insufficient lighting and night employment.

The controls of working conditions as well as compliance with health and safety rules and regulations are carried out systematically by Health and safety service, and the recommendations are issued for these controls.

In 2018, several investment tasks were implemented to increase the level of occupational health and safety. Sealing the walls between the boiler room and the engine room of units 1-2 in Pańków Power Plant was aimed at reducing dust entering the boiler room towards the engine room, improving the structural and fire safety of the facilities and improving the aspects related to the safety and health of the crew. The modernization of the guaranteed voltage supply system of the switching station for the flue gas desulfurization installation at Pańków power plant reduced the risk of possible events related to electric shock, while the extension of the CCTV system at Pańków power plant increased the possibilities of analysing the situation at the moment of threat. As part of the review of the conditions carried out in 2018, corrective actions were taken to improve working conditions and increase the level of occupational health and safety, consisting among others in removing faults in hygienic and sanitary rooms in the block movement unit, ensuring adequate ventilation in the change manager's premises and " silent booths ", building protective barriers along the escarpment along the communication route at Pańków power plant, marking the explosion hazard zone in the light oil pump room and light oil discharge front in the fuel management department and renewing paint coatings and removing faults affecting the safety of service in the pumping station.

Service

In the renovation segment (PAK Serwis Sp. z o.o.) the risk assessment includes all the workplaces, stationary as well as extramural ones. The risk assessment is carried out once for three years and each time, in case of any changes, reported at workplaces or after an accident. Health and safety department keeps a register of all the workplaces being the subject to occupational risk assessment.

The so-called last minute risk analysis is carried out as well - before the work starts the employees identify the potential threats at their workplaces and assess the degree of risk. In this way the works and areas of operation associated with the significant threats are being identified. For each and every significant threat the way of procedure and supervising is determined, providing compatibility with legal and other regulations of health and safety.

Due to the current health and safety management the following procedures are of the special importance:

- „Training in scope of health and safety and environment protection”,
- „Identification of threats and occupational risk assessment”,
- „Health and safety and environment monitoring”,
- „Serious failures”,
- „Organization of works of significant threats”,
- „Accidents and occupational disease investigation”.

Annual analyses show that most of the accidents in service work result from the improper behaviour of the employees, i.e. by failure to exercise due caution and concentration on the performed activity. The most common cause of potentially accidental events, on the other hand, is the failure to carry out the risk assessment before the task starts (LMRA – last minute risk analysis). The noise and industrial dust are the basic factors associated with the work environment, and the factor related to the nuisance of work is a forced body position. Within post-accidental prophylaxis the employees are acknowledged with the circumstances and reasons of the accidents, additional instructions are given, and the information on accidents are provided to the services of ZE PAK SA (in these cases where the cause related to energy devices was found). Sometimes, it is also possible to impose administrative fines on the person supervised, in relation to whom non-compliance with health and safety regulations was proven, in connection with the accident. Likewise, after finding non-compliance with the instructions regarding the organization of work on energy equipment and installations, persons who do not comply with the rules are directed to examination boards for re-examining energy qualifications "E" and "D". In the past period, a lot of work was devoted to the preparation of the manual for safe execution of works at energy equipment and installations. The employees of the Health and safety Office carry out inspections in the scope of compliance with health and safety rules and regulations, as a result of which, in the most common cases, the so-called non-compliance card and applications for imposing a penalty are given out. In the prepared business notes or protocols after the inspections carried out, the most common recommendations regarding disorder at the workplace and improper technical condition of the work means are registered. Also the duty to perform inspections of workplaces is carried out by supervisory employees (senior masters and managers), which is documented by checklists.

Ancillary activity - Maintenance and service

PAK Górnictwo sp. z o.o. deals with maintenance and repair service of PAK KWB Konin and PAK KWB Adamów, as well as industrial cleaning in the area of ZE PAK. Water production and waste management are additional activities. As part of the capital group, the company conducts waste collection, which it then transfers to authorized entities for utilization. In addition, it monitors the company's activities in the field of environmental protection and prevention of threats resulting from this activity. The company employs approximately 2,000 employees, many of whom work in the Mining Plant Movement. About 33 employees perform work on industrial cleaning at Pańków and Konin Power Plants. The Health and Safety Service conducts post-accident proceedings in respect of any work-related accident that occurs in the areas of the company's operations. For each accident at work, an accident order is made on the basis of which the employees are familiarized with the circumstances of accidents and indicates the reasons that affect the occurrence of an accident, provides information on accidents to the services of ZE PAK SA, PAK KWB Konin and PAK KWB Adamów. An occupational risk assessment has been prepared for all positions in accordance with the Polish Standard PN-N-18002 on a five-point scale. Measurements of harmful factors in the work environment are carried out on a regular basis based on the instruction of supervision over measurements of factors in the work environment. The basic harmful factors in the work environment are noise, dust and, to a lesser extent, chemical factors, and the night-time factor is a factor related to the nuisance. The results of measurements and registers are placed in the office of health and safety and environmental protection. Ongoing inspections are carried out in the area of compliance with health and safety rules and regulations. A report is made out of each inspection. Post-control recommendations recorded in the reports are carried out by the management. On the basis of service orders, work conditions are also reviewed. Recommendations from such a review are sent to the company's Management Board. Recommendations not requiring financial expenditures were carried out immediately. However, the Management Board of the Company decides whether to implement the conclusions of the review requiring financial expenditures. Based on the conclusions from the review of working conditions, a schedule for the implementation of these applications was prepared by each director of the division. In 2018 as part of the schedule to improve working conditions, among others, the following were carried out: replacement of panels in the bath, painting of office rooms, repair of window frames, replacement of furniture in social rooms (chairs, tables), repair of sanitary facilities and replacement of damaged central heating radiators. As part of the improvement of working conditions, repairs of damaged air conditioners in machine cabins are carried out on an ongoing basis, repair of damaged lighting at workplaces. Hearing protectors have been purchased for stands exposed to noise. Internal legal acts such as ordinances and orders regarding organizational arrangements are also prepared on a regular basis, which, directly or indirectly, relate to the issues of health and safety and ergonomics, i.e. affecting the assurance of safe and healthy working conditions in the company. Instructions regarding the performance of works and the operation of machines, devices and tools, methods of dealing with chemical substances and their mixtures or hazardous materials together with hazards that may arise in the work process and ways to avoid them or limit their effects are prepared and updated.

Associated business risk

Among the risks associated with the employee issues there are several categories to be distinguished. In all the areas of functioning of ZE PAK SA Group it is necessary to guarantee the employment at an appropriate level, by positioning the Group's companies as attractive employers in the region. An attractive remuneration level compared to those offered by other local employers has allowed, on the one hand acquiring new people, and on the other, to connect them with the company, preventing the outflow of qualified employees. Simultaneously, the restructuring process that has been going on for many years caused that most vacancies were filled on the basis of the internal recruitment (shifts between departments and subsidiaries). However, such solutions have some disadvantages, i.e. no significant inflow of young employees from outside. Concentration on the people employed in the Group's companies, in the restructuring process, causes that the age average of the employees is increasing. Aging of the crew will then lead to an increase the number of people retiring.

The prolonged collective disputes regarding the principles of remunerating employees may consequently cause social unrest and strengthened relations with trade unions, which is another risk factor. Therefore, a dialogue with representatives of the crew allows for identification of potential sources of problems and, on the other hand, it gives an opportunity for a reliable and comprehensive presentation of restrictions under which companies from the ZE PAK SA Group operate.

Another dimension of risk associated with the employees is the one of health and safety aspect. It is strongly dependent on the threats on particular workplaces and all the activities in the area of health and safety management concentrate on eliminating and reducing the threats and minimisation of accidents' consequences, if there are any.

Key indicators

Table 19: Employment structure at the end of the year by type of contract (in persons at the end of subsequent periods)

	2018			2017		
	women	men	total	women	men	total
<i>By type of contract</i>						
Work contract for an indefinite period	462	4279	4741	495	4640	5135
Work contract for a definite period	8	337	346	25	472	497
Work contract for a trial period	0	9	9	0	15	15
Civil-law agreement	15	134	149	12	117	129

Chart 16: Percentage share of individual forms of employment by type of contracts

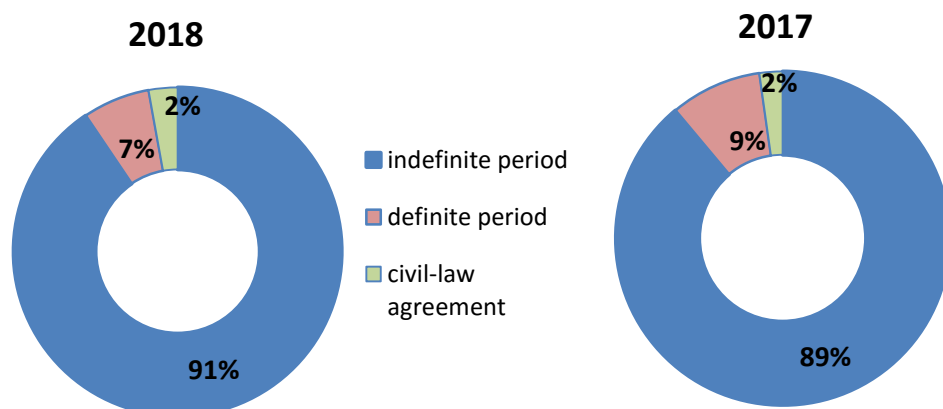


Table 20: Employment structure at the end of the year by type of position, education and age (in persons at the end of subsequent periods). The structure does not include the civil law agreement employees.

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	2018			2017		
	women	men	total	women	men	total
<i>By type of position</i>						
Managerial position	45	198	243	53	244	297
Non-managerial position	425	4 427	4 852	467	4 883	5 350
<i>By education</i>						
Higher (bachelor, master, postgraduate, doctorate, professor)	281	1 041	1 322	298	1 129	1 427
Medium (high school, technical college, college, post-secondary)	156	1 748	1 04	186	1 919	2 105
Professional (basic, learning a profession)	24	1 556	1 580	26	1 756	1 782
Basic (elementary, junior high)	9	280	289	10	323	333
<i>By age</i>						
Up to 30 years old	26	429	455	31	521	552
31 to 40 years old	69	778	847	73	851	924
41 to 50 years old	133	1 988	2 121	146	2 242	2 388
Over 50 years old	242	1 430	1 672	270	1 513	1 783
Total	470	4 625	5 095	520	5 127	5 647

Chart 17: Percentage share of particular age groups in the employment structure

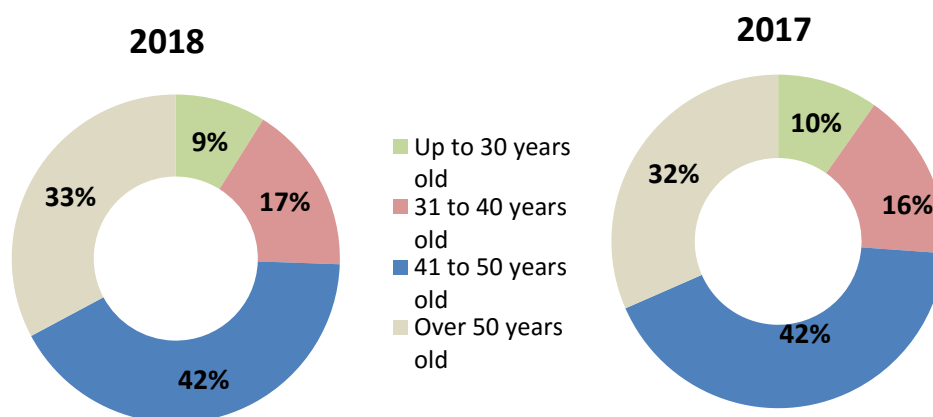


Table 21: Newly employed during the year (in persons in the given period)

	2018			2017		
	women	men	total	women	men	total
Up to 30 years old	5	111	116	1	36	37
31 to 40 years old	7	45	52	2	32	34
41 to 50 years old	2	41	43	2	38	40
Over 50 years old	0	27	27	5	9	14
Total	14	224	238	10	115	125

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 FROM THE CAPITAL GROUP'S OPERATIONS IN 2018

Table 22: Leaving work during the year (in persons in the given period)

	2018			2017		
	women	men	total	women	men	total
Up to 30 years old	5	111	116	3	73	76
31 to 40 years old	9	109	118	7	80	87
41 to 50 years old	11	192	203	6	145	151
Over 50 years old	39	294	333	40	154	194
Total	64	706	770	56	452	508

Table 23: Diversity in the boards of the Company (in persons at the end of subsequent periods)

Amount	2018	2017
<i>Management of ZE PAK SA:</i>		
– Total	5	4
– Women	2	2
– Men	3	2
<i>Supervisory Board of ZE PAK SA:</i>		
– Total	8	8
– Women	0	0
– Men	8	8

Table 24: Accidents at work

	2018	2017
Total number of accidents (injured), including:	53	62
– Light	49	62
– Serious	3	-
– fatal	1	-
Number of lost days	3 912	4 573
Frequency ratio of injured in total accidents (per 1000 insured)	9.6	9.6
Frequency ratio of injured in serious and fatal accidents (per 1000 insured)	0.339	-

Table 25: Number of employees exposed to health harmful factors and those connected with the work burdens (in persons at the end of subsequent periods)

	2018	2017
Noise	199	286
Dust	85	67
Insufficient lighting	174	324
Energy expenditure	822	1 358
Nuisance at work – night shift work	2 087	3 387

11.4. Environmental issues

Management approach

Similarly to other areas, the foundation of policies and ZE PAK SA management's approach to environmental issues were defined in the Strategy for Corporate Social Responsibility of ZE PAK SA Capital Group for 2017-2020. Simultaneously, it is important to remember about the obligatory certified management systems covering the environmental issues, including:

- the process of electricity and heat production with all the auxiliaries, identified environmental aspects, threats, legal and other requirements (ZE PAK SA),
- works in scope of installations, renovations and service of power engineering and industry equipment, industry construction services, management of investments in power engineering and industry, as well as modernization and maintenance of automation and electrical systems in power engineering (Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o.).

They contain the environmental policies of selected companies with particular procedures periodically reviewed and optimized. Their goal and the objective of the Corporate Social Responsibility Strategy of ZE PAK SA Capital Group for the years 2017-2020 is to provide stable and safe lignite mining, energy production and service and modernization work for the environment.

Simultaneously, selected management aspects, falling within a broader scope of environmental management, are regulated by internal principles and ordinances. They often reflect the legal provisions obligatory not only in the country, but also relating to a specific project, object or installation. The latter, i.e. environmental impact reports, and their detailed description of the foreseen activities of the planned project on the environment, constitute in itself an obligatory reference point for the managers of particular facilities and installations. This approach is extremely important. It should be realized that not universal management systems, but environmental impact reports, on the one hand refer to the specificity of the conditions of a given investment, and on the other, unlike many other procedural solutions, they are created through dialogue and open consultations with the environment. Therefore, solutions minimizing the impact on the natural environment are developed with the participation of stakeholders (local government, administration, local community, environmental organizations). They also recognize the unique specificity of each place, which is important, for example, in the case of opencast mines because even if they are located close to each other, the prevailing conditions (e.g. geological, hydrological, location of human settlements) will be at most similar but not identical. Therefore, the approach to environmental management and limiting the negative impact on the natural environment may also be similar, but not identical.

The starting point for policy and procedures based on it is the nature of the impact of business operations on the natural environment. It is associated with identified risks, to which specific and constantly improved procedures and technological solutions correspond. Defining briefly the nature of the impact on the environment, they should be divided into the impact associated with mining (lignite mining) and energy production.

In case of open pit mines, basic aspects of influence on natural environment are the following:

- impact on the surface area (opencast mining of minerals consists in the transformation of the land surface, instead of the land that was originally used, spatial terrain forms (excavation, heap) and accompanying infrastructure (conveyors, transport routes, facilities),
- impact on surface waters (including reduction of flow in watercourses under the influence of the mine's operation and increase of flow in watercourses due to discharge of water coming from underground drainage and surface opencast),
- impact on groundwater (formation of the so-called depression funnel due to the drainage of open-cast mines),
- noise emission (basic machines related to the operation of the overburden and its dumping, basic machines mining coal, coal and overburden conveyors, road transport),
- influence of mining objects on the atmospheric air:
 - dust emission: technological (mechanical), i.e. associated with mechanical mining and transport of the raw material with conveyor belts; climatological, i.e. related to wind erosion of vegetation-free areas;
 - organized emissions of pollutants into the air from the boiler room providing heat for social facilities mine,
- an influence on valuable natural area (in case when the valuable natural area is located in the zone of influence),
- hazards associated with electromagnetic fields.

In case of producing energy in conventional lignite power plants the following aspects of influence on the environment are to be distinguished:

- emissions of compounds accompanying coal combustion, e.g. CO₂, SO₂, NO_x
- dust emissions,
- noise generation (e.g. due to the operation of power unit turbines),
- waste generation (in the process of lignite combustion and flue gas cleaning),
- possible oil leaks, mazout and acids spills, resulting in local contamination of the ground and water environment,
- heating of surface waters, lakes (due to the use of lake surface waters in the cooling process),
- leakage of ash pulp or supernatant water to the soil and water environment,
- emission of industrial wastewater,
- emission of electromagnetic fields,
- terrorist threat that may result in environmental contamination.

In the mining area, the majority of the key activities, aiming at preventing, limiting or compensating nature of negative environmental impact, are initially planned at the stage of environmental analyses and creating a report of influence on the environment. In addition to technical and engineering solutions (appropriate formation of the dump, planning solutions to minimize the effects of disruption of water relations due to the drainage of opencasts, etc.), impact norms are defined in specific environmental aspects and environmental monitoring is carried out throughout the entire life cycle of the opencast mine. The monitoring of the level of water in wells, watercourses and water reservoirs, the quantity and quality of water discharged to receivers (water and ground), the extent of the depression funnel, dust emissions, noise level etc., is carried out as well.

From the procedural side, the situation in the manufacturing area looks quite similar. On the one hand, the existing production installations, which have been in operation for many years, have been modernized and retrofitted with technological solutions connected, above all, with adjusting them to the increasingly tightening environmental standards. As a result of the modernization of two blocks at Pańków power plant and the construction of the third one (Pańków II power plant) in recent years, the efficiency of generation (and thus the efficiency of fuel use) increased on those plants, and on the other hand, the emissivity decreased, including CO₂ mass per unit of electricity produced. Such approach also allowed reducing radically the emission of harmful nitrogen, sulphur oxides and dust to the atmosphere. At the beginning of 2018, Adamów power plant finished its work. The power plant has previously used derogation from the IED Environmental Directive in the scope of 17.5 thousand working hours, i.e. during the derogation period it was applicable to the size of the permissible emission of pollutants to the air, which were defined in the integrated permit as binding on 31 December 2015. In practice, this should result in a decrease in the average level of emissions per unit of electricity produced by the Group.

Similarly to the mining area, key environmental impact parameters during electricity production are monitored, often in a continuous mode. The cases of reports about potential irregularities are checked in a similar manner.

Mining area

In the last year, opencast mines managed by PAK KWB Adamów SA and PAK KWB Konin SA carried out:

- quantity and quality monitoring of groundwater and surface water,
- nature monitoring, particularly valuable areas,
- technical and biological reclamation,
- investments, primarily related to hydro-technical constructions, in accordance with the administrative decisions obtained.

At PAK KWB Adamów SA in 2017, the following were made, among others: groundwater monitoring (in piezometers, farm and drainage wells), surface water monitoring (flow tests in river channels in the area of impact) and monitoring of vegetation in Warta River interval (determining the impact of Koźmin opencast on the variability of water conditions and vegetation of "Natura 2000" area), as part of the re-naturalization of Warta river embankment, the area of "the island" was mowed in the fork of Warta and Ner rivers.

In turn, in PAK KWB Konin SA monitoring of the aquatic environment was performed for the outlets of Tomisławice, Józwin, Drzewce and open pit areas where the exploitation, i.e. Kazimierz and Lubstów, was already completed. The monitoring of breeding birds in the area of the Ostoja Nadgoplańska, monitoring of natural habitats and plant species was carried out on Tomisławice outcrop. As part of corrective measures, meadows were mowed in Ostoja Nadgoplańska area to restore, preserve or improve the condition of habitats with species of protected plants and create favourable conditions for living birds and insects. Bird monitoring was carried out on Drzewce open-pit, monitoring of

the impact of Drzewce open-pit on water-mud birds being the subject of protection of the Central Warta Valley protection area and 15 artificial floating platforms for the black tern on the oxbow river in Central Warta valley (Drzewce open-pit).

Area covered by technical and biological reclamation

2018



1 641 hectare

2017



973 hectare

In the areas where the exploitation of fields has already been completed, technical reclamation and biological reclamation are carried out in the following directions: water, forest, agricultural, recreational and other. For example, in 2018 a technical reclamation was carried out for 245 ha, biological reclamation for 1396 ha. As part of the biological reclamation, over 578,000 trees and shrubs were planted. In PAK KWB Adamów SA, among other things, work was completed on clopping the Koźmin final tank and a decision was made to complete the reclamation in the agricultural direction on an area of about 25 ha. In PAK KWB Konin SA, among other things, a decision was made to terminate recreational reclamation on the internal dumping ground of Józwin II B open pit with an area of about 21 ha and the flooded part of Kleczew water reservoir in the excavation pit of Kazimierz Północ with an area of 177 ha.

The number of plantings of trees and shrubs

2018



578 thousand pcs

2017



373 thousand pcs

The mines were also inspected by the Voivodship Inspectorate for Environmental Protection (environmental compliance control regarding Adamów, Drzewce and Tomisławice open pits), District Mining Office in Poznań (control of reclamation performance control over the use of the Mine Liquidation Fund) and the Powiat Eldership in Turek (control of the obligation to reclaim). The inspection bodies did not identify any deficiencies, therefore no post-inspection orders were issued and no fines were imposed.

Pursuant to the new Water Law, in 2018, the Regional Water Management Board of the State Water Farm Polish Water carried out controls of Adamów water management, the Koźmin powiat, Władysławów mine, Drzewce and Józwin open pit, and the Regional Water Management in Bydgoszcz the control of the open water management Tomisławice - in order to charge for water services.

Waste

In KWB Adamów and KWB Konin, the main stream of waste generated is: iron scrap, steel and other metal alloys, as well as slag and bottom ash from the boiler room. Additionally, in KWB Adamów waste and concrete from debris of building objects are generated in significant quantities. In total, in 2018, 3806.1 Mg of waste were produced, including 56.772 Mg of hazardous waste. The waste produced was transferred to companies with appropriate permits: for waste collection, treatment, i.e. recovery or disposal (apart from ash and slag waste from on-site boiler houses, which were used to harden the area, construction of internal roads and squares).

Generation area

In the generation area in 2018 the activities were concentrated traditionally on the aspects associated with air protection (emissions, nuisance), water and wastewater management (lakes monitoring, sewage and groundwater management), waste management, noise emission to the environment.

Air protection: emissions and nuisance

During the year the quantities of pollution emissions in particular power plants were monitored in terms of meeting obligatory emission standards. The correct operation of continuous measurement systems were supervised, functioning of procedures was coordinated (QAL3 – quality assurance procedures during the exploitation of exhaust emission monitoring system in ZE PAK SA in accordance with PN-EN 14181). Emission limits of particular contamination such as SO₂, NO_x and dust for Państw I and Konin power plants covered by TNK (Transitional National Plan) derogation were monitored, calculated and reported. Monitoring of the conditions determined in natural derogation of 17 500h for Elektrownia Adamów were completed. The correct operations of protective devices reducing emission of pollutants into the air were supervised. The production process in aspect of meeting air pollution emissions' standards and limits was coordinated (optimization of combustion process in Państw II Power Plant). The tasks were realized under PRTR (National Register of Pollution Release and Transfer) by pollution measurements and reporting as well as by paying the fees. Financial commitments were made for the emission of pollutants into the air as part of its operations, i.e. environmental and penalty fees as well as in the scope of reporting pollutant emissions to the air.

Due to the emission influence on the immediate surroundings, the purity of the atmospheric air in the area of operations of the Groups power plants is also monitored. In 2018 no significant differences between the levels of substances tested and those measured by the stations of Voivode Inspectorate of Environment Protection were found.

In the context of SO₂, Nox and dust emissions, the past year was quite specific for the Group. At the beginning of January, the coal blocks of Adamów power plant were completed. Due to the fact that the power plant was covered by the environmental derogation, its emission parameters were worse than the other installations of the Group. As a result of the end of production at Adamów power plant in the past year, there has been a significant improvement in SO₂, Nox and dust emissions per unit of electricity produced. A comparison of the relevant indicators can be found at the end of this chapter. Irrespective of the above-described reduction in emission rates per unit of production, it is also important that the installations used in Państw I, Konin and Państw II power plants did not exceed the admissible emission levels once in the past year. In this context, we should rather talk about large reserves. The chart below shows the actual emission figures in relation to the limits that individual installations are entitled to. On the chart, Państw I power plant and Konin power plant are included together due to the common integrated environmental permit covering both installations.

Lakes monitoring

Anthropogenic activities contributed to the creation of an aquatic ecosystem characteristic only for heated lakes in the area of Konin (Gosławskie, Państwskie, Ślesińskie, Licheńskie, Wąsowsko - Mikozyńskie). However, Konin power plants do not treat lakes only as an available source of water intake for cooling and a receiver of heated water, but they take measures to improve their purity and therefore carry out continuous monitoring.

Cooling system of Państw I, Państw II and Konin power plants works in the conditions changing during the year. The following parameters are changeable:

- the amount of circulating water,
- the temperature of drop water,
- the levels of water in the lakes,
- use the lakes for cooling (only „close” or “distant” circulation).

All the above mentioned parameters are covered by a constant monitoring. Systematic control of thermic conditions in the lakes and in the channels of cooling circuit of Pańków I, Pańków II and Konin power plants is run by ZE PAK SA on the principles determined in the integrated permit. This control includes:

- temperature measurements of Surface water in 24 points important for protection of lakes and operation of cooling circuit; the measurements are taken at least once a month (in the cold period) and more often (even every day) in the summer period (depending on the temperature of the air),
- continuous, automatic temperature measurement on the lakes' shots – Pańkowskie and Gosławskie,
- continuous, automatic temperature measurement of water on power plant discharges.

All the objects of cooling system are equipped with the network of control and measurement benchmarks. Measurements of water levels and flows are carried out in order to control the proper functioning of the entire cooling circuit. They are, among others, water level gauges, mounted on water intake and discharge ditches and on lakes. Fluctuations in water levels in lakes depend on a number of factors, mainly of natural character. However, the possibility of using water to cool the working blocks depends on its quantity and temperature. In all the lakes and channels included in the cooling circuit, physicochemical monitoring of water is also performed once a month.

Sewage management

Wastewater generated in power plants is treated in factory sewage treatment plants and after obtaining parameters compliant with applicable regulations, it is discharged to the receivers. However, for many years, in order to prevent lake water pollution, the power plants have been taking actions aiming at using the sewage in internal systems. Thus, wastewater from exhaust gas treatment installations, oily sewage from cleaning industrial floor and filter wastewater from a drinking water treatment plant are used for the production of ash and slag pulp, and therefore there is no need to use lake water as a transport medium for this purpose. Additionally, the lakes are not polluted with chemical substances.

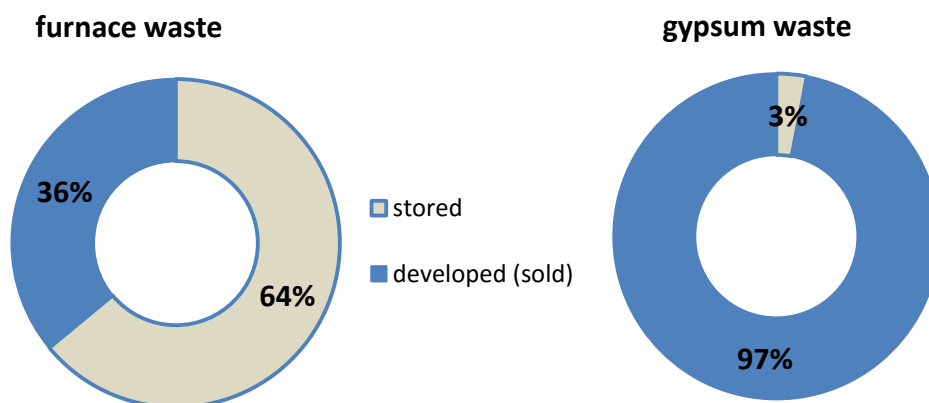
Economical groundwater management

Technologies used to build the Group's power plants allowed for the use of deep water for technological purposes. On the basis of such technology, the station of demineralization water production in Pańków I power plant was operating for many years. The plant was taking huge amounts of groundwater in order to produce demineralization water necessary for production of electricity. The current environmental regulations require such practices to be stopped in order not to diminish the aquifer. Therefore, Pańków I power plant undertook to bring and use demineralised water produced in a modern, membrane-based treatment station. This station is supplied with surface water from Gosławskie Lake. This contributed to significant savings in groundwater intakes. Sewage from this station does not go into the environment, but is used in the internal system.

Wastes

In ZE PAK SA, the main stream of generated waste is furnace waste (ashes) and solid waste from calcium methods of flue gas desulphurization (gypsum). Waste generated in the first place is managed by external companies as part of waste recovery. On the basis of the volatile ash produced, mixtures for road foundations and road binders are mainly made. On the other hand, waste from flue gas desulfurization is directed mainly to the production of gypsum products, drywall and cement plants. In 2018, around 925.2 thousand tons of furnace waste were generated (of which over 334.3 thousand tons were sold) and approx. 227.4 thousand tons of waste from calcium flue gas desulfurization methods (220.6 thousand tons have been sold). The remaining quantities of waste generated are directed to landfills belonging to the Company. The furnace waste and waste from flue gas desulphurisation produced in ZE PAK SA meet the requirements of environmental protection and do not threaten human life and health, which was confirmed by research in the field of physicochemical, toxicological and Eco toxicological properties performed for the registration of substances in accordance with REACH requirements.

Chart 18: Percentage share of waste management generated in the Company in 2018



At landfills managed by ZE PAK SA in 2018, monitoring of the quality of groundwater and surface water as well as supernatant water was carried out, with the frequency specified in the integrated permits and instructions for running landfills, i.e. once a quarter. Currently, ZE PAK SA has 4 landfills and all of them were exploited in 2018 on the following:

- solid waste landfill, Pątnów opencast (landfill for inert waste),
- landfill site for Zachodnia opencast with a vaporizer - so-called Wschodnia outcrop and landfill site (landfill for non-hazardous and inert waste),
- northern landfill site for Pątnów open pit (landfill for non-hazardous and inert waste),
- landfill of furnace waste in Gosławice open pit along with Linowiec vaporizer (landfill for non-hazardous and inert waste).
-

Monitoring was carried out in the primary and supplementary monitoring networks. Monitoring of groundwater quality is performed in a network of piezo metric wells located in the vicinity of landfills. The quality of the groundwater tested in piezometers and deep wells in 2018 fluctuated in classes from I to V. Supernatant waters occurring in landfills (used for hydro transport of furnace wastes) were characterized by high mineralization, high electrolytic conductivity, high pH and total hardness. In addition, as a part of the monitoring of landfills, an annual assessment of slope stability and subsidence is also carried out. Most of the monitored slopes surveyed in 2018 proved to be stable.

ZE PAK SA also conducts reclamation of unused parts of landfills on an ongoing basis. In 2018, the reclamation of the closed part of the furnace waste yard of the Gosławice open pit was continued. The total area in which reclamation works were carried out last year amounted to over 30.8 ha.

As part of the protection of the earth's surface, ground and soil studies were also carried out. In 2018, samples were taken from various depth intervals and the content of heavy and petroleum metals was determined at Pątnów II and Konin power plant. Sampling sites were selected in locations where there is the highest risk of soil and water contamination, i.e. near storage and use of environmental hazardous substances.

Noise

As part of the obligation to monitor noise emitted to the environment imposed by integrated permits for the fuel combustion installations of ZE PAK SA and Elektrownia Pątnów II sp. Z o.o. in 2018 noise measurements were taken from the area of Adamów power plant and Pątnów I power plant. The results from the conducted tests did not show any exceedances of limit values set in the permits. The noise measurements were not carried out from Konin power plant site and the Pątnów II power plant, and the results from 2017 are still valid.

Inspections

In 2018, the Provincial Inspectorate for Environmental Protection in Poznań, Delegatura in Konin, carried out three inspections of PAK Capital Group Power Plant: Pątnów I, Adamów and Konin. The scope of all controls included verification of compliance with environmental regulations and administrative decisions. As a result, no irregularities were found.

Programs for the prevention of major industrial accidents

In 2018, programs for the prevention of major industrial accidents were updated in terms of type, amount and hazardous substances location as well as description of technological installations in the power plants. On the base of performed update of hazardous substances quantity, only Elektrownia Pańków I is in the group of plants where increased risk of major industrial accidents may occur.

Other

In PAK Górnictwo sp. z o.o. due to the implemented activity, administrative decisions regarding, among others, water collection and waste collection and production are of crucial meaning. The issue of water abstraction is connected with the takeover of the activity previously carried out by Aquakon Sp. z o.o. and the collection of groundwater from chalk deposits from two deep wells (production of mineral water). Another important aspect of the environmental impact is the collection and production of waste. It is mainly about waste generated in service and repair workshops and maintenance workshops, a conveyor belt regeneration hall, a repairs hall, and a bottling plant.

On the other hand, **PAK - Volt SA** (electricity trading, office work) a company significant in terms of generated revenues, should be considered irrelevant as regards the impact of the entire Group on the natural environment.

Associated business risk

The particular aspects of influence on the natural environment, described above, give rise to specific threats to business, reducing environmental resources at the same time. Each of the aspect described above, in certain situations (e.g. breakdown resulting in contamination or over-normative emissions), can cause image losses, social conflicts and loss of social allowance for operation, legal sanctions, imposing of penalty or other decisions resulting in reducing the profits, or finally incurring additional costs for environment protection. As a consequence, it may cause, for example, the disturbance in production stability (the need to temporarily shut down some part of the production installation), decrease of revenues (decrease in production) or increase of costs (e.g. the need to remove the consequences of a failure, but also additional fees and penalties related to emissions to the environment, including greenhouse gas emissions).

For this reason, as it was adopted in the Strategy for Corporate Social Responsibility of the ZE PAK SA Capital Group for 2017-2020, the policy and the procedures accepted by the Group, focus on:

- providing effective mechanisms reducing to minimum the threat of anomalies and gaps occurring resulting in over-normative impact on the environment in the mining or manufacturing process.
- reducing the emission to atmosphere to minimum by optimal shaping of the use of generation capacities existing in ZE PAK and ensuring the minimization of the risk of exceeding emissions of gaseous pollutants into the atmosphere.

It is worth mentioning, however, that environmental conditions imposed on conventional manufacturers are increasingly stringent and one should expect this trend to continue. In this context, it is necessary to mention BAT conclusions (Best Available Technology), which are to be effective from 2021. The BAT regulations tighten the limits for emissions of nitrogen oxides, sulphur oxides and suspended particulates, which until now were regulated by the Industrial Emissions Directive (IED). The catalogue of these standards also includes limits for chlorine and heavy metal compounds, including for mercury. Before generators from the conventional energy sector, this poses major organizational and capital challenges related to adapting to the new regulations. However, it is also necessary to take into account certain derogations and derogations that will be available to the manufacturer under certain conditions (e.g. in relation to the remaining relatively short exploitation period not justifying the incurring of disproportionate expenditure).

Key indicators

Due to the fact that at the beginning of 2018 Adamów power plant ceased its operations, apart from cumulative data for the Group, data excluding the impact of Adamów power plant are also presented (columns marked '*'). Due to the fact that the termination of Adamów power plant operation does not significantly affect the ratios in other areas described in this statement, only in the case of indicators related to the issue, this solution was used for purposes of maintaining comparability in subsequent periods.

Table 26: CO₂ emission (m of tons/TWh)

	2018	2017	2017*
CO ₂ emission in ZE PAK SA Group per production unit	1.07	1.16	1.12

* excluding elektrownia Adamów

Chart 19: CO₂ emission in ZE PAK SA Group per production unit (m of tons/TWh)

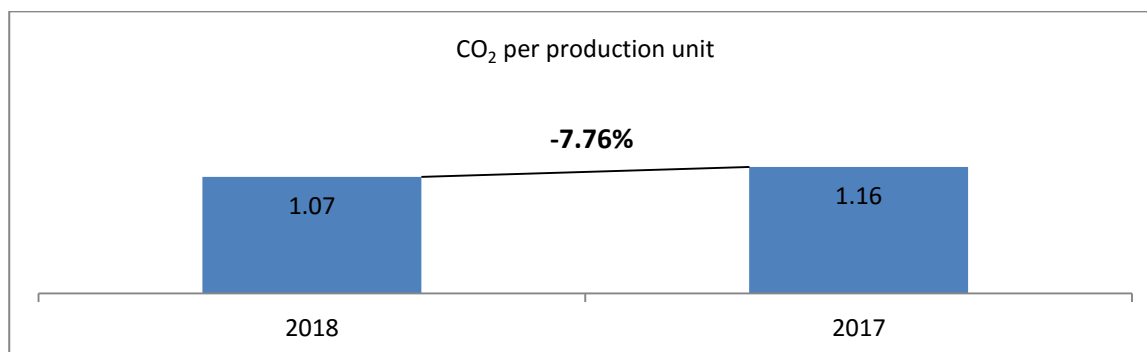


Table 27: SO₂, NO_x and dust emission to atmosphere (thousands of tons/TWh)

	2018	2017	2017*
SO ₂ emission in ZE PAK SA Group per production unit	0.71	2.03	0.86
NO _x emission in ZE PAK SA Group per production unit	1.20	1.53	1.22
Dust emission in ZE PAK SA Group per production unit	0.11	0.27	0.09

* excluding elektrownia Adamów

Chart 20: SO₂, NO_x and dust emission to the atmosphere per production unit (thousands of tons/TWh)

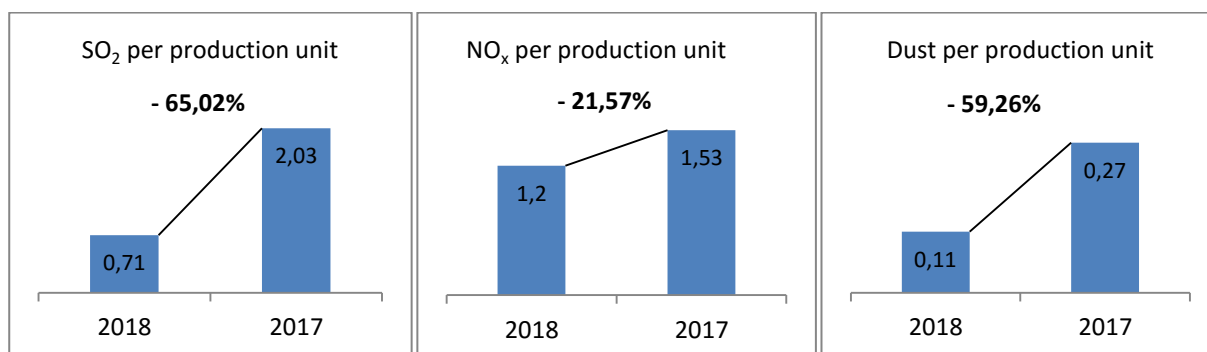


Table 28: Violation of environmental standards (%)

Emitted amount resulting from exceeding the standards in relation to the total amount of emissions

	2018	2017	2017*
SO ₂	0,00	5,41	0,06
NO _x	0,00	0,00	0,00

Dust	0,00	15,59	0,00
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* *excluding elektrownia Adamów*

Table 29: Summary of the data on the size of the areas where the technical reclamation was carried out and areas where biological reclamation and seeding are still being carried out, as well as the areas for which the decision on the properly completed reclamation have been made (hectares)

	2018	2017
Technical reclamation	245	223
Biological reclamation (in progress)	1 396	750
Biological reclamation (completed)	59	90

Table 30: Share of land for which decisions on completion of reclamation were made for land excluded from agricultural and forestry production in mines (%)

	2018	2017
	60	148

11.5. Issues of respect for human rights

Management approach

While analysing the issues associated with the respect for human rights, there are two significant aspects that are to be distinguished: the right to associate and strike as well as the respect for the inalienable rights of the individual.

As already mentioned earlier, in the Group's companies meeting the statutory criteria, there are operating the Employees' Councils selected on the basis of applicable regulations. There are also a number of trade union organizations operating under the Trade Unions Act. The Management Boards of the Group's companies inform and consult all the decisions in matters specified by the law with employees' representatives (Employees' Council, trade unions). In the opinion of managers, freedom of association in trade unions and related rights are assured.

In the aspect referring to an individual and ensuring its respect, which means the respect for variety and simultaneous lack of any form of discrimination, beside the respect and enforcement of legal regulations that guarantee such a respect (e.g. Labour Code), ZE PAK³ adopted The Code of Ethics. Not only does it guarantee the aforementioned rights of an individual, but it is also a tool in itself that allows for the resolution of potential conflicts of interest. It contains a mechanism for both resolving doubts as well as reporting suspicions about potential behaviour that violates the provisions of the Code. It is worth mentioning that the Code of Ethics also condemns other behaviours that violate human rights, such as child labour, forced labour or slave labour.

Associated business risk

The disrespect for human rights, including aforementioned right to associate and strike, would mean not only the breach of national law (and sanctions in consequence), but also could lead to unnecessary escalation of conflicts on the employer-employees line. Despite the existing differences of opinion, manifesting, for example, with a collective dispute, the managers of ZE PAK SA Group appreciate the role of trade unions. Theoretical tightening of disputes, while not having a dialogue, can lead to strike actions and threaten the stability of production. Trade unions and the management, despite disputes and different assessment of the situation (e.g. in terms of short and long-term approach), are constructively oriented and aware of the economic consequences of a possible imbalance in the stability of energy supplies. Such consequences could concern not only the Group but also the national energy system.

Regarding the risk of disrespect for individual rights, such cases can not only expose ZE PAK SA Group to litigations and necessity to pay compensations, but they are primarily a real threat for organisation culture, work atmosphere and the same its effectiveness. They are also associated with the risk of losing valuable employees or, through discrimination, the impossibility of making full use of their potential (e.g. promotion of people with lower competences, while inhibiting the promotion of discriminated people).

³ It is planned to implement analogous solutions in subsequent companies of the Capital Group.

All the cases of disrespect for human rights in ZE PAK SA Group also mean a measurable reputational risk, and then, with the escalation of this type of phenomena it can affect the loss of social consent for acting.

Key indicators

Table 31: Key indicators in the area of human rights' respect

	2018	2017
The number of cases of reporting suspicion of unethical behaviour under the mechanisms provided for by the Code of Ethics for violation of individual rights	0	2
Unionization ratio	47,11%	47,74%
Number of collective disputes	3	3
Number of work days lost due to strike actions	0	0

11.6. Issues related to counteracting corruption

Management approach

One of the purposes of ZE PAK SA Capital Group Strategy for Corporate Social Responsibility is providing high quality and constantly improved management system that in the process of taking decisions would include the social and environmental aspects. One of many solutions of such management system is counteracting potential corruption and other unacceptable unethical phenomena. The threat of such phenomena depends, among others, on the exposure to the risk of corruption behaviour (e.g. a range of realized investments and projects), organizational culture and ethical values as well as the effectiveness of inspecting system.

The range of contracts concluded and investments undertaken depends on the factors other than the threat of corruption phenomena. It is frequently a consequence of adopted strategy of development, and therefore from the managing point of view in terms of counteracting corruption, it should be treated as an independent factor. The other thing is the way of realizing contracts, including for instance the way of choice, evaluation and selection of suppliers and subcontractors. Regarding the choice, this issue is regulated in ZE PAK SA Groups by the procedures of management systems.

The factor influencing the degree of danger of such type phenomena is a proper organizational culture, i.e. the culture based on ethical values and such institutional solutions that provide the employees with the implements enabling them to determine and distinguish the behaviours within the company that are right and the ones that are not. The promotion of ethical values allows resolving potential conflicts of interest or doubts in this regard, as well as reporting suspicions about potential unaccepted behaviours, including those of bearing the signs of corruption. For this reason, while implementing the provisions of the Strategy for Corporate Social Responsibility for years 2017-2020, the Management of ZE PAK SA decided to adopt the Code of Ethics in 2017.

Another aspect, worth attention while analysing the system of counteracting corruption is the internal system of inspection. "Rules of Internal Audit of Zespół Elektrowni Państw-Adamów-Konin SA" and "Rules of Internal Supervision of PAK KWB Konin SA" determine the rules of organizing and functioning of internal audit that provides the systematic and methodological approach to evaluation and improvement of the effectiveness of supervision as well as management of risk and organization processes. They include the research and evaluation of activities of organizational units and the Group's subsidiaries in terms of thriftiness, legality, advisability, reliability and transparency of documentation (processes). The inspection activities aim at disclosure of unused business provisions, detection of irregularities and abuse in the operations of organizational units, determination of causes and effects of irregularities found and persons responsible for them, as well as elaboration of conclusions and post-audit recommendations. Among the irregularities and abuse there are also all activities that may be characterized by bribery and corruption.

The internal inspection system includes: self-control of the correctness of work performance, functional and institutional control (implemented by the internal audit unit). As part of the institutional control, the internal audit unit checks the activity of the organization as a whole, responding to the needs reported by the Management Board and the Supervisory Board in accordance with the audit regulations (among others, evaluates the coordination of activities between workstations and organizational units, evaluation of the creation system and documentation flow and information, etc.) with a frequency depending on the identified risk areas and the level of risk significance, as well as the role of control in its reduction. In this context, the activities of the internal control unit supplement the basic control and ongoing supervision and are aimed at revealing weaknesses or gaps in the organization and functioning of the

internal control system. Controls are planned (in accordance with the annual plan approved by the Management Board), ad hoc (at the request of the Management Board or the Supervisory Board) and the one of checking nature.

The purchasing procedures described in the management systems applicable in the companies of the ZE PAK SA Group also regulate the issues of supplier selection. In the case of generation area, ZE PAK SA has implemented the Integrated Management System, under which in Sector 5.3 "Product / service support" applies, among others two procedures 5.3 - 01 "Supplier assessment" and 5.3 - 02 "Identification and traceability". The basic condition in the selection of suppliers is that they should be specialist suppliers, meeting agreed technical and commercial conditions and guaranteeing 100% reliability of deliveries. In addition, suppliers whose products decide directly on the quality of electricity and heat are subject to qualifications based on ongoing cooperation with suppliers, delivery control and periodic evaluation, among others, through their auditing as well as updates of the list of qualified suppliers. The management system also introduces "Supplier assessment sheets". In addition to the obvious factors such as the quality of deliveries, the level and stability of prices and payment conditions, for example, timeliness, or the fact that suppliers have certified management systems are taken into account.

ZE PAK SA is responsible for making purchases in the area of electricity generation. The purchase process itself has been defined in ZE PAK SA by the "Rules of Supplier Selection". The process is supported by the electronic purchase platform which eliminates some of the threats, for instance, it prevents from getting acquainted with offers submitted before the deadline. Thus, it eliminates the risk that dishonest employee could provide the information of competitive bids to the supplier who is still working on the offer. It is worth mentioning here, that the purchase process is based on the electronic auction option, which is carried out in real time, and this limits the possibility of unethical contact with a potential supplier. Moreover, until the auction closes, employees are not able to observe its progress, i.e. offers submitted by individual tenderers. They can read them only after the auction process is closed. ZE PAK SA makes purchases in the area of generating electricity.

The purchase for mining area are made by PAK KWB Konin (and the purchase for PAK Górnictwo Sp. z o.o.) and by PAK Serwis Sp. z o.o. for service area. Nevertheless, although each of the areas makes purchases on the basis of their own regulations, they are very similar to each other as to the shape of the process itself. They use the same tools, including the same electronic purchase platform. Approximately, the purchase procedure is initiated by a substantive unit that reports a specific purchase need. After obtaining relevant approvals justifying the future purchase, a commission which defines the purchase criteria is appointed⁴. The commission makes an assessment of the collected offers and points out the recommended supplier. In the next step, negotiations are conducted, and finally the accepted offer is directed to implementation. From the perspective of transparency, the important thing is that the information on planned purchases (i.e. request for quotations and tender inquiries) is published on the electronic purchase platform as well as on the website, and the purchases themselves are usually open tenders. Simultaneously, all areas, including the aforementioned purchasing area, are subject to be controlled by internal audit staff, also in terms of the potential occurrence of corruption-related phenomena. Controls may be planned as well as ad hoc inspections. The employees of the internal audit unit have an access to all information and reports necessary to perform the control activities in a reliable and objective way. Auditors are therefore obliged to inform the auditing manager on an ongoing basis about the course of the audit and the difficulties encountered in the implementation of the audit tasks. Auditing manager presents an assessment of the implementation of the audit's objective to the Management or the Supervisory Board. The auditors are authorized to: enter all the objects and rooms of the audited unit; inspect all recording devices, plans, reports, protocols and business memos or correspondence as well as other documents and materials associated with the controlled unit operation; periodical assisting at all activities of controlled unit; request for clarification and any information (oral or written) related to the subject of the control, from the manager and other employees of the controlled unit; requesting the head of the audited entity to perform partial or complete inventory of certain assets at the indicated date and to commission calculations, draw up lists, analytical statements, copies, extracts, etc.; receiving declarations from employees and other persons in matters related to the activity of the controlled entity; determine the real states by means of measurements, situational sketches as well as photo and recordings etc.; take necessary actions to secure evidence and property in case of irregularities; request the management of the audit with an application for the appointment of experts, in case of a justified need to make an expert report; ask the head of the controlled entity to provide all means necessary for a smooth inspection and for the effective implementation of conclusions resulting from the audit findings; performing control activities at the time selected by the inspector and extending the subject of controls in justified cases without obtaining additional consent of the manager of the control. The manager of the controlled unit is obliged to provide the auditor with the appropriate working conditions and technical assistance necessary for the efficient control.

If there are any circumstances threatening for human health or life, or any other resulting in the loss of goods due to the mismanagement, negligence, prodigality or an offense found during the inspection, the auditor makes a written request

⁴ In case of mining area the members of commission are appointed right after the collection of the bids.

to a manager of the controlled unit, obliging him to take immediate action in order to eliminate such incidents. The auditor informs immediately audit management unit and secures the evidence documents and items of mismanagement or an offense. Then, after receiving the legal advice, a person managing the audit takes a decision to inform law enforcement authorities.

Simultaneously, each employee of ZE PAK SA Group, in the case of suspicion of any unethical behaviour, including those of bearing the marks of corruption, has not only the possibility but obligation as well to report information using the mechanisms provided by the Code of Ethics. For this purpose, the employee can contact the superior or the person indicated by the Management and acting as Ethics Spokesman. Such a notification is analysed, and an employee who has reported the information cannot be in danger of any consequences and will be protected from any retaliation, even if the information was not confirmed but was reported in good faith.

Associated business risk

The risk of corruption behaviours accompanies every enterprise, and the cases of making decisions by corrupt employees lead, among others, to suboptimal choices in purchasing processes, in terms of price increase, as well as, for example, improper quality of products or services, untimely delivery or performance of services, or the consent of a corrupt employee to other, inappropriate contractor behaviour (e.g. breaking regulations, failure to carry out warranty repairs, etc.). Undoubtedly, the corruption and bribery can take a number of other forms, and may be connected with giving benefits by the employees to officials for issuing favourable decisions, etc. As a consequence, the organization may be exposed to threats related to unjustified increase of costs as well as, for example, huge image losses.

Simultaneously, in terms of assessing the exposure of ZE PAK SA Group to the risk of corruption, a relatively small scale of high-value orders is important. Unlike many other electricity generators, the business model of the ZE PAK SA Group is based on a strongly integrated value chain, i.e. energy production is based on its own raw material resources. Thus, the supply of raw materials takes place inside the organization (understood as a capital group), and not from external entities. Service work is also performed in many cases by entities from the ZE PAK SA Group. As a consequence, purchases of products and services from the outside are limited to minimum, and that contributes to the reduction of risk, although it does not eliminate it. The risk of corruption may increase in the case of significant investments (e.g. construction or modernization of power units or opencast mines). However, in 2017 no large investments or upgrades were made.

Key indicators

Table 32: Key indicators in the area related to counteracting corruption

	2018	2017
Number of suspicions of corrupt behaviour reported to law enforcement authorities	0	0
Number of people convicted by a valid sentence for a corruption offense	0	0

12. OTHER INFORMATION

12.1. Significant court proceedings

In 2018 Zespół Elektrowni Pątnów - Adamów - Konin SA and companies consolidated within the Group were not a party in significant proceedings pending before court, competent arbitration authority or public administration authority, except as described below.

Proceedings on refund of excise duty overpayment

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.

As at 1 March 2009, the Act of 6 December 2008 on excise duty entered into force, according to which the sale of electricity to an entity which is not its final customer is not subject to excise duty.

Due to the above fact, pursuant to Article 75 § 1, in relation to Article 75 § 2 of the Act of 29 August 1997 – Tax Ordinance, ZE PAK SA submitted applications for stating overpayment of the excise tax for 2006, 2007, 2008, as well

as January and February 2009 for the total amount of PLN 626 million, with the justification that pursuant to the regulations of the EU law and the judicial decisions of the Provincial Administrative Courts, the activities executed by ZE PAK SA are not subject to the excise tax. Particular applications were recognised at the following levels: the Customs Office in Kalisz, the Customs Chamber in Poznań, and, currently, the Provincial Administrative Court in Poznań („PAC”), as well as the Supreme Administrative Court. Due to the position of judicature presented in the course of court proceedings, the amount of overpayment, the repayment of which the Company submits, has been reduced to the amount of damages caused by economic analyses, i.e. currently up to the amount of approximately PLN 108 million.

Moreover, in association with the rulings of the Administrative Courts regarding other power companies, in the subject of overpaid excise duty and the resolution I GPS 1/11 of the National Administrative Court (“NSA”) of 22 June 2011 (where the NSA ruled that transferring the tax load in price, excludes the possibility to return the overpayment), notwithstanding the ongoing administrative proceedings, on 10 February 2012, the Company initiated a civil-law proceedings, filling an application to summon the State Treasury to a conciliation hearing regarding the amount of PLN 626 406 thousand, to the District Court Warszawa Śródmieście. A conciliatory settlement was not reached since during the hearing of 16 April 2012, 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 application for overpayment, 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 Company’s opinion is that the submitted document also applies to other overpayment applications from the entire period embraced by the proceedings, i.e. between January 2006 and February 2009. Ultimately, all applications were included in the cause lists of the Provincial Administrative Court (WSA) and the Supreme Administrative Court (NSA). As of the date of development of this statement, the status of the proceeding is as follows:

- Twenty two cases for the period of January 2006 – November 2007 (excluding November 2006) were conducted again from the start by the Head of the Customs Office, after the cases returned from the Supreme Administrative Court. The Company submitted monthly economic analyses of suffering the prejudice. After the negative decisions of the Head of the Customs Office and then of the Head of Customs Chamber, complaints were submitted to the Provincial Administrative Court in Poznań, Hearings before the Provincial Administrative Court in Poznań took place on 4 and 18 November 2015. In all cases, negative judgements for the Company were issued. In February 2016, the Company submitted cassation appeals to the Supreme Administrative Court. Currently, the Company is expecting the determination of hearing dates before the Supreme Administrative Court, The Supreme Administrative Court dismissed the Company's cassation appeals in the abovementioned 22 cases at the hearings held on April 10 and 11, 2018.
- 14 proceedings for the period of December 2007 – February 2009 (excluding July 2008) on 26 January 2017, hearings took place before the Provincial Administrative Court in Poznań. In all the cases, the Company’s appeals against the Customs Chamber in Poznań were dismissed. The Company submitted applications for a written justification of the judgement, which were obtained on 7 March 2017, to the Provincial Administrative Court. Currently, the Company analyses justifications and prepares the applications of cassation appeals to the Supreme Administrative Court,
- the proceeding for November 2006 was concluded with a negative judgement of the Supreme Administrative Court of 8 December 2011,
- the proceeding for July 2008 reached the recognition of our cassation appeal by the Supreme Administrative Court. On the hearing on 29 April 2015, the Supreme Administrative Court dismissed the Company’s cassation appeal and pointed out that it fully agrees with the Provincial Administrative Court in Poznań in the judgement, against which the cassation appeal was submitted.

Notwithstanding the foregoing proceedings, ZE PAK SA lodged a complaint against the actions of the Polish authorities to the European Commission (“EC”), pursuant to art. 258 of the Treaty on the Functioning of the European Union. The opinion issued by the EC may oblige the Polish tax authorities to pass a ruling beneficial to ZE PAK SA. On 21 March 2017, ZE PAK SA received a “pre-closure letter” from the EC, which initially denied the relevance of ZE PAK SA’s position, however, at the same time giving the right to a second comment on the subject, which ZE PAK SA exercised. On 9 June 2017, a letter summarising the reasoning of ZE PAK SA, in terms of the overpaid excise tax. Currently, ZE PAK SA is awaiting the EC to take the final position on the case in question.

In case of the Elektrownia Pątnów II sp. z o.o., the proceedings for all periods (one case) were included in the cause lists of the Provincial Administrative Court after a negative decision of the Head of Customs Chamber. The aforementioned company does not have access to comparative analyses of suffering the prejudice. On 4 November 2015, a hearing in the Provincial Administrative Court in Poznań took place. On November 18, 2015, a negative verdict

was announced, from which on 8 February 2016 the company filed a cassation complaint with the Supreme Administrative Court. Currently, Elektrownia Pańków II sp. z o.o. is awaiting the setting of a hearing before the Supreme Administrative Court. The Supreme Administrative Court dismissed the Company's cassation complaint at the hearing held on April 11, 2018.

Proceedings on an environmental decision issued to PAK KWB Konin SA concerning lignite deposit in Tomisławice

PAK KWB Konin SA is a party in the administrative proceedings related to the environmental decision regarding the lignite deposit in Tomisławice. On 7 August 2007, the Head of Wierzbinek Commune issued an environmental decision regarding the lignite open cast. On 5 December 2008, this decision was contested by nine physical persons supported by the Greenpeace organisation due to alleged major infringement of the regulations of the law. On 25 March 2009, the Self-government Appeal Court dismissed the application to reverse the environmental decision. The plaintiffs applied for the judicial review. On 4 May 2009, after the judicial review, the Self-government Appeal Court sustained its previous decision. The plaintiffs again appealed against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, pursuant to which the license for the extraction of lignite at the Tomisławice deposit was granted, infringes the regulations of the law in a major manner. PAK KWB SA and the Self-government Appeal Court submitted an appeal against this judgement. On 21 March 2012, the Supreme Administrative Court overturned the contested decision of the Provincial Administrative Court in Poznań and referred the matter for reconsideration. On 6 November 2012, the Provincial Administrative Court in Poznań announced the decision repealing the decision of the Self-government Appeal Court of 25 March 2009 refusing to declare the invalidity of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune, related to the extraction of lignite from the Tomisławice open pit by PAK KWB SA. On 7 January 2013, PAK KWB Konin SA submitted a cassation appeal from the described decision.

After the review on the hearing on 7 October 2014, the Supreme Administrative Court dismissed the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA from the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 repealing the decision of the Self-government Appeal Court in Konin of 25 March 2009 refusing the annulment of the environmental decision issued on 7 August 2007 by the Head of Wierzbinek Commune related to the extraction of lignite from Tomisławice open pit.

Dismissal of the cassation appeal of PAK Kopalnia Węgla Brunatnego Konin SA means that the judgement of the Provincial Administrative Court in Poznań of 6 November 2012 became legally binding and the case regarding the statement of invalidity of the environmental decision will be examined again by the Self-government Appeal Court. On 18th January 2019 the Local Government Appeal Court in Konin issued a decision refusing to annul the environmental decision issued on August 7, 2007 by the Head of Wierzbinek Commune related to the exploitation of Tomisławice lignite open pit.

The decision of the Local Government Appeal Court in Konin, means that the environmental decision issued by the Head of Wierzbinek Commune is still in legal circulation. The decision is not final. The parties have the right to submit an application for reconsideration of the case by the Local Government Appeal Court in Konin.

Proceedings on an environmental decision on lignite deposit in Ościsłowo

On 13 March 2017, PAK KWB Konin SA received the decision of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") of 10 March 2017, refusing the establishment of the environmental conditions for the investment titled: "Extraction of lignite and associated minerals from the Ościsłowo Open Pit." The decision of RDOŚ in Poznań is not final. PAK KWB Konin SA appealed accordingly to the General Directorate for Environmental Protection in Warsaw. The appeal included a request to revoke the appealed ruling in its entirety and determine the environmental conditions for the execution of the above-mentioned project. On 30 November 2017, General Director of Environmental Protection in Warsaw has decided to repeal a decision in its entirety (contested by PAK KWB Konin SA - a subsidiary of the Company) of the Regional Director for Environmental Protection in Poznań ("RDOŚ in Poznań") dated March 10, 2017, refusing to specify environmental conditions for the project entitled: "Extraction of lignite and associated minerals from Ościsłowo Open Pit" and forward the case for reconsideration by RDOŚ in Poznań.

PAK KWB Konin SA, by letter of December 18, 2017 filed an objection against the abovementioned decision of GDOŚ in Warsaw to the Provincial Administrative Court in Warsaw (WSA). In the opinion of PAK KWB Konin S.A. there were grounds for issuing a reformatory decision by GDOŚ in Warsaw, i.e. amending the contested decision of RDOŚ in Poznań and substantive decision in this matter, not referring the matter for reconsideration. The other party also opposed the WSA. Both objections were dismissed by the WSA. The verdict was passed on March 1, 2018. On April 12, 2018, PAK KWB Konin SA filed a cassation complaint with the Supreme Administrative Court in Warsaw against the verdict of the WSA in Warsaw of 1 March 2018. The Supreme Administrative Court in Warsaw, by a judgment of September 25, 2018, repealed the appealed judgment and forwarded the case to the Provincial Administrative Court in

Warsaw for reconsideration. The Provincial Administrative Court by judgment of 18 October 2018 annulled the contested decision of 30 November 2017 issued by GDOŚ in Warsaw. At present, the matter is being reviewed by GDOŚ in Warsaw and the announced date of settling the case was scheduled for May 17, 2019.

The proceedings for issuing the environmental decision were initiated on 16 September 2015.

Other court cases are described in the consolidated financial statements of the Group in point 34.2.

12.2. Significant achievements in the field of research and development

As part of the consortium created Elektrownia Pańków II sp. z o.o. together with SBB ENERGY SA, they continued the pilot research and development project called "Hybrid adsorptive systems for reducing mercury emissions using highly effective polymer components". The aim of the project was to develop a hybrid mercury emission reduction technology based on polymer modules in combination with other available technologies, including:

- dosing of activated carbon and other sorbents for combustion gases,
- adding of various salts to coal,
- adding additives to the suspension in the absorber to prevent mercury re-emission.

The assumption of the research was to reduce Hg emissions to below $7\mu\text{g} / \text{m}^3$ usr and to reduce SO₂ emissions below 130 mg/m³usr.

The results of the research will provide knowledge on the effectiveness of individual technologies in the field of mercury and SO₂ emission reduction, which will be used when making decisions in the selection of technologies to meet the requirements of BAT conclusions.

12.3. Information on the selection of the audit firm conducting the audit of the annual consolidated financial statements

According to the statement of the Supervisory Board, the selection of the auditing company conducting the audit of the annual consolidated financial statements was made in accordance with the regulations, including the selection and procedure of selecting an audit firm. The auditing company and the members of the audit team meet the conditions for the preparation of an impartial and independent audit report on the annual consolidated financial statements in accordance with applicable regulations, professional standards and professional ethics. The applicable regulations related to the rotation of the auditing company and the key statutory auditor as well as mandatory grace periods are complied with. The company has a policy regarding the selection of an audit firm and a policy for providing the issuer by an auditing company, an entity related to an auditing company or a member of its network of additional non-audit services, including conditionally exempt services from an audit firm.

12.4. Information on the auditing of the financial statement

The auditing company auditing the financial statements and the consolidated financial statements is PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością. Audyt sp.k. The agreement regarding the audit of the Company's financial statements and the consolidated financial statements of the Group was concluded on August 28, 2018 for a period of two years. The company for the first time uses the services of a selected auditing company.

In 2018, no other services were provided to the Group by the auditing company auditing the financial statements. In 2019, until the date of publication of the report, the auditing company carried out agreed procedures related to the verification of the calculation of the covenants enshrined in the ZE PAK SA credit agreement.

Information on the remuneration of the audit firm is presented in point 38 of the consolidated financial statements of the Group for 2018.

12.5. Financial forecasts

The Capital Group did not publish financial forecasts for 2018 and it will not present the forecast for 2019.

ZESPÓŁ ELEKTROWNI PAŃNÓW – ADAMÓW – KONIN SA CAPITAL GROUP
MANAGEMENT BOARD'S REPORT
FROM THE CAPITAL GROUP'S OPERATIONS IN 2018

Konin, 30 April 2019

Henryk Sobierajski

*Member of the Supervisory Board
of ZE PAK SA delegated to
temporarily perform the duties of
the President of the Management
Board*

Zygmunt Artwik

Vice President of the Board

Pawel Markowski

Vice President of the Board