ZESPÓŁ ELEKTROWNI PĄTNÓW – ADAMÓW – KONIN S.A.
CAPITAL GROUP

AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013

I. GENERAL NOTES

1. Background

The holding company of the Capital Group (hereinafter 'the Group' or 'the Capital Group') is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the holding company', 'the Company').
The holding company was incorporated on the basis of a Notarial Deed dated 29 December 1994. The Company's registered office is located in Konin at Kazimierska 45 Street.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000021374 on 21 June 2001.

The Company was issued with tax identification number (NIP): 665-00-01-645 on 17 September 1993 and statistical number (REGON): 310186795 on 14 December 2000.

The principal activities of the holding company are as follows:

- production and distribution of electric energy,
- production and distribution of heat (steam and hot water).

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are similar to this of the holding company and associates include the following activities:

- execution of construction works and installations in the field of engineering,
- property management,
- repair and maintenance of electric appliances,
- research and technical analysis,
- holding activity,
- coal mining,
- purchase and delivery of biomass,
- IT services.

As at 31 December 2013, the Company's issued share capital amounted to 101,647 thousand zlotys. Equity as at that date amounted to 3,782,616 thousand zlotys.

In accordance with information in note 28 of summary of significant accounting policies and other explanatory notes ('the additional notes and explanations') of the attached consolidated financial statements the shareholding structure of the holding company was as follows:

	Number of shares	Number of votes	Par value of shares	Percentage of issued share capital
Zygmunt Solorz - Żak (directly and indirectly) through: Elektrim S.A., Embud sp. z o.o., Polsat Media B.V., ZE PAK S.A.	26.200.867	26.200.867	52.401.734	51,55%
ING Otwarty Fundusz Emerytalny	5.069.361	5.069.361	10.138.722	9,97%
Other	19.553.319	19.553.319	39.106.638	38,48%
Total	50.823.547	50.823.547	101.647.094	100,00%

The following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

	Number of shares	Purchase and redemption of own shares	Purchase / (Sale)	Total
Zygmunt Solorz - Żak (bezpośrednio i pośrednio) poprzez: Elektrim S.A., Embud sp. z o.o., Polsat Media B.V., ZE PAK S.A.	26.200.867	(1.202.453)	-	26.200.867
ING Otwarty Fundusz Emerytalny	5.069.361	-	(530.639)	5.069.361
Pozostali	19.553.319	-	530.639	19.553.319
Razem	50.823.547	(1.202.453)	-	50.823.547

On 21 February 2013 Extraordinary Shareholders' Meeting resolved to redeem purchased own shares. Consequently, the Company redeemed 1,202,453 shares corresponding to 1,202,453 votes on General Shareholders' Meeting which was equivalent to reduction of share capital by PLN 2,404,906.

As at 18 March 2014, the holding company's Management Board was composed of:

Katarzyna Muszkat	Chairman
Anna Striżyk	Vice Chairman
Piotr Jarosz	Vice Chairman

There were no changes in the holding company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion.

2. Group Structure

As at 31 December 2013, the the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group consisted of the following subsidiaries (directly or indirectly):

Entity name	Consolidation method	Type of opinion to the financial statements prepared for the year ended 31 December 2013 in accordance with Polish Accounting Act/IFRS	Name of authorised entity that audited financial statements
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„Elektrownia Pątnów II" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
PAK Kopalnia Węgla Brunatnego Konin S.A.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
PAK Kopalnia Węgla Brunatnego Adamów S.A.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„PAK Infrastruktura" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
Elektrim-Volt S.A.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„PAK – HOLDCO" sp. z o.o.	full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k
„PAK Centrum Usług Informatycznych" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
„PAK Centrum Badań Jakości" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
„PAK GÓRNICTWO" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
Energoinwest Serwis sp. z o.o.	full consolidation	unqualified	Centrum Usług Finansowo – Księgowych „AUDYTOR" sp. z o.o.

Ochrona Osob i Mienia „ASEKURACJA" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
„Aquakon" sp. z o.o.	full consolidation	no requirement to audit financial statements	-
Eko-Surowce sp. z o.o.	full consolidation	no requirement to audit financial statements	-
KWE sp. z o.o.	full consolidation	no requirement to audit financial statements	-
Centrum Zdrowia i Relaksu „Verano" sp. z o.o.	full consolidation	audit in progress	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k

There were no changes to the list of consolidated companies when compared to the prior year.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) was appointed by Supervisory Board of the holding company on 7 May 2013 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.) and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 23 July 2013 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2013.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 18 March 2013, stating the following:

'**To the Supervisory Board and Shareholders' Meeting of Zespół Elektrowni Pątnów – Adamów – Konin S.A.**

1. We have audited the attached consolidated financial statements of the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group ('the Group'), for which the holding company is Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin at Kazimierska 45 street, for the year ended 31 December 2013 containing the consolidated income statement, the consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, the consolidated statement of financial position as at 31 December 2013, the consolidated cash flow statement, the consolidated statement of changes in equity for the period from 1 January 2013 to 31 December 2013 and the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. In addition, the Company's Management Board and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act,
   - national auditing standards issued by the National Council of Statutory Auditors,

   in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2013 to 31 December 2013, as well as its financial position[3] as at 31 December 2013;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report for the period from 1 January 2013 to 31 December 2013 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2009.33.259 with subsequent amendments)'

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelne i jasne*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

We conducted the audit of the consolidated financial statements during the period from 4 August 2013 to 18 March 2014. We were present at the holding company's head office from 4 August 2013 to 14 August 2013 and from 17 February 2014 to 28 February 2014.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 18 March 2014 from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2012 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audit sp. z o.o with its registered office in Warsaw, at Rondo ONZ 1, Reg. No 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2012. The consolidated financial statements for the year ended 31 December 2012 were approved by the General Shareholders' Meeting on 26 June 2013.

The consolidated financial statements of the Group for the financial year ended 31 December 2012, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 5 July 2013 with the National Court Register.

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2011 – 2013. The ratios for the year 2012 – 2013 were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2013. Ratios for the year ended 31 December 2011 were calculated on the basis of financial data included in the financial statements for the year ended 31 December 2012, without taking into consideration changes in accounting policy implemented during the current financial year.

	2013	**2012**	**2011**
Total assets	6,470,936	6,259,184	5,326,437
Shareholders' equity	3,782,616	3,541,952	3,229,573
Net profit/ loss	231,506	402,776	316,968
Return on assets (%)	3.58%	6.43%	5.95%
Net profit x 100 / Total assets			
Return on equity (%)	6.12%	11.37%	9.81%
Net profit x 100 / Shareholders' equity at the beginning of the period			
Profit margin (%)	8.38%	14.79%	11.79%
Net profit x 100 / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1.06	0.97	1.48
Current assets / Short-term creditors			
Liquidity III	0.40	0.34	0.57
Cash and cash equivalents / Short-term creditors			

Debtors days Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials	17 days	19 days	19 days
Creditors days Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold	19 days	23 days	23 days
Inventory days Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold	34 days	33 days	26 days
Stability of financing (%) (Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity	83.43%	85.22%	87.35%
Debt ratio (%) (Total liabilities and provisions) x 100 / Total assets	41.54%	43.41%	39.37%
Rate of inflation:			
Yearly average	0.90%	3.70%	4.30%
December to December	0.70%	2.40%	4.60%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets decreased to 3.58% in 2013 in comparison with 6.43%% in 2012 and with 5.95% in 2011.
- Return on equity decreased to 6.12% in 2013 in comparison with 11.37% in 2012 and with 9.81% in 2011.
- Profit margin decreased to 8.38% in 2013 in comparison with 14.79% in 2012 and with 11.79% in 2011.
- Liquidity I amounted to 1.06 as at 31 December 2013 and was higher in comparison with 0.97 as at 31 December 2012 and lower in comparison with 1.48 as at 31 December 2011.
- Liquidity III amounted to 0.40 as at 31 December 2013 and was higher in comparison with 0.34 as at 31 December 2012 and lower in comparison with 0.57 as at 31 December 2011.

- Debtors days ratio amounted to 17 days in 2013 and decreased in comparison with 19 days in 2012 and 2011.
- Creditors days ratio amounted to 19 days in 2013 and decreased in comparison with 23 days in 2012 and 2011.
- Inventory days ratio amounted to 34 days in 2013 and was higher in comparison with 33 days in 2012 and with 26 days in 2011.
- Stability of financing ratio amounted to 83.43% as at 31 December 2013 and was lower in comparison with 85.22% as at 31 December 2012 and with 87.35% as at 31 December 2011.
- Debt ratio amounted to 41.54% as at 31 December 2013 and was lower in comparison with 43.41% as at 31 December 2012 and higher in comparison with 39.37% as at 31 December 2011.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2013 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 6 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2013, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2013 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 10 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2013.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2013.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

In the audited consolidated financial statements for the year ended 31 December 2013 there was no goodwill.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 0 thousand zlotys as at 31 December 2013. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 28, 29 and 30 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2013 and include the financial data for the period from 1 January 2013 to 31 December 2013.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2013.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2013 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2013 to 31 December 2013 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws 2009.33.259 with subsequent amendments).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

on behalf of:
Ernst & Young Audyt Polska
spółka z ograniczoną odpowiedzialnością sp. k.
(formerly: Ernst & Young Audit sp. z o.o.)
Rondo ONZ 1,
00-124 Warsaw
Reg. No 130

Key certified auditor

Artur Żwak
Certified auditor no. 9894

Warsaw, 18 March 2014