

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

**AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

I. GENERAL NOTES

1. Background

Zespół Elektrowni Pątnów – Adamów – Konin S.A. (hereinafter 'the 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 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 Company is the holding company of the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes II.5.e, II.8.f and II.8.g of the additional notes and explanations to the audited financial statements for the year ended 31 December 2012.

The principal activities of the Company are as follows:

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

As at 31 December 2012 the Company's issued share capital amounted to PLN 104,052,000.00. Equity as at that date amounted to PLN 2,594,020,734.68.

In accordance with information in note II.5.i to the attached audited financial statements as at 31 December 2012 the ownership structure of the Company's issued share capital was as follows:

| | Number of shares | Number of votes | Nominal value of shares | Percentage share of capital |
|--|---------------------|--------------------|----------------------------|-----------------------------------|
| Zygmunt Solorz - Żak (directly and indirectly) through: Elektrim S.A., Embud sp. z o.o., Polsat Media B.V., ZE PAK S.A. | 27,403,320 | 27,403,320 | 54,806,640 | 52.67% |
| ING Otworthy Fundusz Emerytalny | 5,600,000 | 5,600,000 | 11,200,000 | 10.76% |
| Other | 19,022,680 | 19,022,680 | 38,045,360 | 36.57% |
| | ----- | ----- | ----- | ----- |
| Total | 52,026,000 | 52,026,000 | 104,052,000 | 100.00% |
| | ===== | ===== | ===== | ===== |

In September 2012 the Company has carried out a process of reduction of the nominal value of shares at the same time increasing their proportional amount without changing the share capital of the Company. As a result of this process the nominal value of one share dropped from 12 zlotys to 2 zlotys which led to an increase in number of shares from 8,671,000 to 52,026,000 shares.

On 30 October 2012 State Treasury conducted an initial public offering of Zespół Elektrowni Pątnów – Adamów – Konin S.A.'s shares, resulting in acquisition of 50.00% of Company's shares by individual and institutional investors.

According to information received from the Company, as at 21 February 2012 at the General Shareholder's Meeting ING Otwarty Fundusz Emerytalny informed about an increase in shares owned up to 6,000,000 which stands for 11.53% of share capital and the same percentage share of number of votes.

During the reporting period and during the period from the balance sheet date to the date of the opinion there were no changes in holding company's share capital.

During the year ended 31 December 2012 the Company acquired 1,202,453 treasury shares. On 21 February 2013 Extraordinary Shareholder's Meeting passed a resolution on redemption of purchased treasury shares. To the date of this report redemption of treasury shares was not registered in the National Court Register (KRS).

As at 15 March 2013 the Company's Management Board was composed of:

| | |
|-------------------|-----------------|
| Katarzyna Muszkat | - Chairman |
| Anna Striżyk | - Vice Chairman |
| Piotr Jarosz | - Vice Chairman |

During the reporting period there were following changes in the composition of the Management Board of the Company:

- On 3 August 2012 Mr. Krzysztof Jędraszczyk resigned from his position as a member of the Management Board

2. Financial Statements

2.1 Auditors' opinion and audit of financial statements

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 Audit sp. z o.o. was appointed by the Supervisory Board of the Company on 26 November 2012 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor 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 9 January 2013 with the Company's Management Board we have audited the financial statements for the year ended 31 December 2012.

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

Based on our audit, we issued an auditors' unqualified opinion dated 15 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 financial statements for the year ended 31 December 2012 of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin, Kazimierska 45 street, containing the introduction to the financial statements, the balance sheet as at 31 December 2012, the profit and loss account, the statement of changes in equity, the cash flow statement for the period from 1 January 2012 to 31 December 2012 and the additional notes and explanations ('the attached financial statements').

2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records 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 financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached 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, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached 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 financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2012 to 31 December 2012, as well as its financial position³ as at 31 December 2012;
 - have been prepared in accordance with the required applicable accounting policies of the Accounting Act and regulations issued based on that Act and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company's Articles of Association.

¹ Translation of the following expression in Polish: 'rzetelność i jasność'

² Translation of the following expression in Polish: 'rzetelnie i jasno'

³ Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

5. We have read the 'Directors' Report for the period from 1 January 2012 to 31 December 2012 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree on current and periodic information.'

We conducted the audit of the Company's financial statements during the period from 11 February 2011 to 15 March 2013. We were present at the holding company's head office from 18 February 2013 to 8 March 2013.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 15 March 2013, confirming that:

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

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

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

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2011 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 financial statements for the year ended 31 December 2011. The Company's financial statements for the year ended 31 December 2011 were approved by the General Shareholders' Meeting on 29 June 2012, and the shareholders resolved to transfer the 2011 net profit in the amount of PLN 283,746,144.09 to reserve capital.

The financial statements for the financial year ended 31 December 2011 together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 17 July 2012 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2011, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2011 together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published in Monitor Polski B no. 2664.

The closing balances as at 31 December 2011 were correctly brought forward in the accounts as the opening balances at 1 January 2012.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2010 – 2012. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2011 and 31 December 2012.

| | 2012 | 2011 | 2010 |
|--|-------------------|-------------------|-------------------|
| Total assets | 3,145,230,373.24 | 3,036,144,953.86 | 3,254,468,929.55 |
| Shareholders' equity | 2,594,020,734.68 | 2,350,287,863.97 | 2,066,541,719.88 |
| Net profit/ loss | 275,012,750.76 | 283,746,144.09 | 260,643,942.48 |
| Return on assets (%) | 8.7% | 9.3% | 8.0% |
| $\frac{\text{Net profit} \times 100}{\text{Total assets}}$ | | | |
| Return on equity (%) | 10.6% | 12.1% | 12.6% |
| $\frac{\text{Net profit} \times 100}{\text{Shareholders' equity}}$ | | | |
| Profit margin (%) | 13.6% | 13.6% | 14.2% |
| $\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$ | | | |
| Liquidity I | 1.27 ¹ | 1.73 ¹ | 1.72 ¹ |
| $\frac{\text{Current assets}}{\text{Short-term liabilities}}$ | | | |
| Liquidity III | 0.16 ¹ | 0.77 ¹ | 0.54 ¹ |
| $\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$ | | | |
| Debtors days | 22 days | 22 days | 23 days |
| $\frac{\text{Trade debtors} \times 365}{\text{Sales of finished goods, goods for resale and raw materials}}$ | | | |

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(in zlotys)

| | 2012 | 2011 | 2010 |
|---|----------------------|---------------------|---------------------|
| Creditors days | 30 days | 32 days | 32 days |
| <u>Trade creditors x 365</u> | | | |
| Costs of finished goods, goods for resale and raw materials sold | | | |
| Inventory days | 10 days ² | 6 days ² | 3 days ² |
| <u>Inventory x 365</u> | | | |
| Costs of finished goods, goods for resale and raw materials sold | | | |
| Stability of financing (%) | 89.3% | 85.3% | 83.7% |
| <u>(Equity + long-term provisions and liabilities) x 100</u> | | | |
| Total liabilities, provisions and equity | | | |
| Debt ratio (%) | 17.5% | 22.6% | 36.5% |
| <u>(Total liabilities and provisions) x 100</u> | | | |
| Total assets | | | |
| Rate of inflation: | | | |
| Yearly average | 3.7% | 4.3% | 2.6% |
| December to December | 2.4% | 4.6% | 3.1% |

¹ in calculation of liquidity I and III ratios restricted cash, which is further described in additional notes and explanations to audited financial statements, was not included.

² When calculating the inventory days ratio the value of rights granted to the Company in respect of production of energy from renewable sources and cogeneration was deducted.

3.2 Comments

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

- Return on assets decreased to 8.7% in 2012 in comparison with 9.3% in 2011 and increased in comparison with 8.0% in 2010.
- Return on equity decreased to 10.6% in 2012 in comparison with 12.1% in 2011 and with 12.6% in 2010.
- Profit margin amounted to 13.6% in 2012 and remained stable in comparison with 2011 but decreased in comparison with 14.2% in 2010.
- Liquidity I amounted to 1.27 as at 31 December 2012 and was lower in comparison with 1.73 as at 31 December 2011 and with 1.72 as at 31 December 2010.
- Liquidity III amounted to 0.16 as at 31 December 2012 and was lower in comparison with 0.77 as at 31 December 2011 and with 0.54 as at 31 December 2010.
- Debtors days ratio amounted to 22 days in 2012 and remained stable in comparison with 2011 but was lower in comparison with 23 days in 2010.
- Creditors days ratio amounted to 30 days in 2012 and was lower in comparison with 32 days in 2011 and 2010.
- Inventory days ratio amounted to 10 days in 2012 and was higher in comparison with 6 days in 2011 and with 3 days in 2010.
- Stability of financing ratio amounted to 89.3% as at 31 December 2012 and was higher in comparison with 85.3% as at 31 December 2011 and with 83.7% as at 31 December 2010.
- Debt ratio amounted to 17.5% as at 31 December 2012 and was lower in comparison with 22.6% as at 31 December 2011 and with 36.5% as at 31 December 2010.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note I.3 of the introduction to the audited financial statements for the year ended 31 December 2012 the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SAP R/3 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2012.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2012.

3. Notes to the Financial Statements

The introduction to the financial statements and the additional notes and explanations to the audited financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with the requirements of the Accounting Act.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2012 to 31 December 2012 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions 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 No. 33, item 259 with subsequent amendments).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year that which may have influenced the financial statements.

on behalf of:
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, 15 March 2013