Letter from the President of the Board of ZE PAK S.A.

Dear Sir or Madame/Dear Shareholders,

I am writing this letter in order to encourage you to acquaint yourselves with the periodical report of ZE PAK SA on the past year published today. There, you will find all the data necessary to assess the current condition of our Capital Group, the Company, as well as certain indications about the future.

Contrary to expectations, 2014 was the year of rapid improvement in the external conditions of the manufacturers of energy sector's operation. Although the downward trend of prices in the wholesale market of electricity reversed, but these levels still were not satisfactory, unlike the ones observed as early as at the turn of 2011 and 2012. In addition, it should be emphasised that, in accordance with market practice, contracting of the sale of electricity for 2014 largely took place in advance as early as in 2013, when the prices were at levels significantly lower than those observed from the second quarter of 2014. The rising costs of CO_2 emission are significant burden, which can be prominently seen comparing the structure of the ZE PAK Group in 2014 in comparison to previous years. Certificates of green energy origin prices are still at very low levels. Despite the above conditions, the ZE PAK Group was still able to generate positive cash flows from operating activities in 2014.

Unfortunately, the influence of single events negatively affected the results achieved by us in the past year. A write-off related to the court decision on the amount of compensation related to PPAs for the Pątnów Power Plant II and change in provisions related to mining activity were of special significance. On the other hand, it should also be noted that the results would be slightly worse if not for a couple of events of a unique character, which had a positive impact on the achieved results. These events were the result of restructuring activities concerning optimisation of the employment structure and changing conditions of the collective labour agreement and the liquidation of the corporate collective labour agreement.

In 2014, net production of electricity in power plants of the ZE PAK Group was 10.09 TWh, which means a decrease by 4.1% in comparison with 2013. Last year, sales of electricity (own production plus re-sale of electricity purchased on the market) increased by 3.2% in comparison to 2013 and was 13.5 TWh. Prices from the sale of electricity achieved last year were lower by 8.1% in comparison to the price level achieved in 2013. The consolidated EBITDA profit of the Group for 2014 was PLN 507.4 million and net profit of PLN 78.5 million.

In August last year, we paid PLN 0.68 per share to our shareholders as a dividend.

The Group did not neglect the investment activities. Last year, we were focused on the process of modernization of two units in the Pątnów Power Plant – works are progressing as planned, and we expect that, by the end of this year, both upgraded and meeting the IED emission conditions units will be put into operation. This means that they will work more efficiently and their operation will be less burdensome for the environment, thanks to the lower emissivity.

This year, we are going to finalise preparations for the commencement of the investment involving the construction of a modern CCPP construction in the Konin Power Plant. Currently, we have launched the tender procedure regarding selection of the turnkey contractor for this investment.

You will be constantly informed about our current and future investment plans.

We are aware of the challenges posed by the next and further years. We are intently observing the changes taking place in the environment of the Group, especially those related to the climate policy and the future shape of legislative and legal solutions for the manufacturers of energy sector. We believe that our strategy is flexible enough to be adapted to changes affecting the sector, in which we operate. We expect – like the entire sector of conventional manufacturers of energy in Poland – that the plants providing predictable, stable energy supplies and ensuring the safety of the national energy system will be able to conduct their activities in a more stable market environment, and the economic efficiency will translate into satisfaction of the shareholders of, among others, our Company.

I would like to thank employees, all shareholders, business partners, and any other people positively involved in the activities of the ZE PAK Group in 2014.

Kind regards,

Katarzyna Muszkat

The President of the Board of ZE PAK S.A.

INDEPENDENT AUDITORS' OPINION

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 2014 of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin, at Kazimierska 45 street, containing the introduction to the financial statements, the balance sheet as at 31 December 2014, the profit and loss account, the statement of changes in equity, the cash flow statement for the period from 1 January 2014 to 31 December 2014 and the additional notes and explanations ('the attached financial statements').

   The form of the attached financial statements for the year ended 31 December 2014 is prescribed by 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 2014.133 with subsequent amendments – 'the Decree on current and periodic information').

2. The truth and fairness[1] 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 (Journal of Laws 2013.330 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 fairly[2] 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 Company's 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.

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[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

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 2014 to 31 December 2014, as well as its financial position[3] as at 31 December 2014;
   - 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.
5. We have read note III.16 of the additional notes and explanations to the attached financial statements, containing selected balance sheet and profit and loss account items, prepared separately for types of activities, as described in art. 44 para 2 of the Energy Law dated 10 April 1997 (Journal of Laws 1997.54 with subsequent amendments – 'the Energy Law'), and the related principles of allocation of assets, liabilities, revenues and costs. We concluded that information included in note III.16 corresponds, in material respects, with requirements of art. 44 para 2 of the Energy Law, and that applied allocation of assets, liabilities, revenues and costs to the types of activities corresponds, in material respects, with the principles of allocation described in that note.
6. We have read the 'Directors' Report for the period from 1 January 2014 to 31 December 2014 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 art. 49 para 2 of the Accounting Act and the Decree on current and periodic information.

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

Key Certified Auditor

Sebastian Łyczba
Certified auditor no. 9946

Warsaw, 19 March 2015

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

ZESPÓŁ ELEKTROWNI
PĄTNÓW – ADAMÓW – KONIN S.A.

LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

(in zlotys)

I. GENERAL NOTES

I. 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 III.18 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2014.

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 2014, the Company's issued share capital amounted to PLN 101,647,094,00. Equity as at that date amounted to PLN 2,995,959,968.75.

In accordance with information in note III.6.e to the attached audited financial statements as at 31 December 2014, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	% of issued share capital	Par value of shares
Zygmunt Solorz – Żak (directly and indirectly) through: Elektrim S.A., Argumenol Investment Company Limited, Embud sp. z o.o.	26.200.867	26.200.867	51,55%	52.401.734
ING Otwarty Fundusz Emerytalny	5.068.410	5.068.410	9,97%	10.136.820
Other	19.554.270	19.554.270	38,48%	39.108.540
Total	50.823.547	50.823.547	100%	101.647.094

(in zlotys)

In accordance with information in note III.6.e to the attached audited financial statements as at 31 December 2013, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	% of issued share capital	Par value of shares
Zygmunt Solorz – Żak (directly and indirectly) through: Elektrim S.A., Argumenol Investment Company Limited, Embud sp. z o.o.	26.200.867	26.200.867	51,55%	52.401.734
ING Otwarty Fundusz Emerytalny	5.069.361	5.069.361	9,97%	10.138.722
Other	19.553.319	19.553.319	38,48%	39.106.638
Total	50.823.547	50.823.547	100%	101.647.094

There were no changes in the ownership structure of the Company's issued share capital between the balance sheet date and 19 March 2015.

As at 19 March 2015, the Company's Management Board was composed of:

Katarzyna Muszkat	- Chairman
Anna Striżyk	- Vice Chairman
Piotr Jarosz	- Vice Chairman
Sławomir Sykucki	- Vice Chairman

During the reporting period as well as from the balance sheet date to the date of the opinion there were changes in the Company's Management Board as described below.

On 2 December 2014 The Board of Directors appointed Mr Sławomir Sykucki to the Management's Board as Vice Chairman.

2. Financial Statements

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. 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. was appointed by the Board of Directors on 1 July 2014 to audit the Company's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. 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 23 July 2014 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2014.

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 19 March 2015, 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 2014 of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ('the Company') located in Konin, at Kazimierska 45 street, containing the introduction to the financial statements, the balance sheet as at 31 December 2014, the profit and loss account, the statement of changes in equity, the cash flow statement for the period from 1 January 2014 to 31 December 2014 and the additional notes and explanations ('the attached financial statements').

   The form of the attached financial statements for the year ended 31 December 2014 is prescribed by 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 2014.133 with subsequent amendments – 'the Decree on current and periodic information').

2. The truth and fairness[1] 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 (Journal of Laws 2013.330 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 fairly[2] 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 Company's 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 2014 to 31 December 2014, as well as its financial position[3] as at 31 December 2014;
   - 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.

5. We have read note III.16 of the additional notes and explanations to the attached financial statements, containing selected balance sheet and profit and loss account items, prepared separately for types of activities, as described in art. 44 para 2 of the Energy Law dated 10 April 1997 (Journal of Laws 1997.54 with subsequent amendments – 'the Energy Law'), and the related principles of allocation of assets, liabilities, revenues and costs. We concluded that information included in note III.16 corresponds, in material respects, with requirements of art. 44 para 2 of the Energy Law, and that applied allocation of assets, liabilities, revenues and costs to the types of activities corresponds, in material respects, with the principles of allocation described in that note.

[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*'

6. We have read the 'Directors' Report for the period from 1 January 2014 to 31 December 2014 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 art. 49 para 2 of the Accounting Act and the Decree on current and periodic information."

We conducted the audit of the Company's financial statements during the period from 16 February 2015 to 19 March 2015. We were present at the Company's head office from 16 February 2015 to 11 March 2015.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] 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 19 March 2015, 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.

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

(in zlotys)

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2013 were audited by Artur Żwak, key certified auditor no. 9894, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2013. The Company's financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on 25 June 2014, and the shareholders resolved to appropriate the 2013 net profit as follows:

Dividends for the shareholders	34.560.011,96
Reserve capital	197.296.786,66
	231.856.798,62

The financial statements for the financial year ended 31 December 2013, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profitand the Directors' Report, were filed on 11 July 2014 with the National Court Register.

The closing balances as at 31 December 2013 were correctly brought forward in the accounts as the opening balances at 1 January 2014.

(in zlotys)

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 2012 – 2014. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2013 and 31 December 2014.

	2014	2013	2012
Total assets	3 950 697 923,20	3 513 120 096,19	3 145 230 373,24
Shareholders' equity	2 995 959 968,75	2 825 877 533,30	2 594 020 734,68
Net profit/ loss	204 642 447,41	231 856 798,62	275 012 750,76
Return on assets (%)	5,2%	6,6%	8,7%
Net profit/ loss x 100% / Total assets			
Return on equity (%)	6,8%	8,2%	10,6%
Net profit/ loss x 100% / Shareholders' equity at the beginning of the period			
Profit margin (%)	12,5%	13,0%	13,6%
Net profit/ loss x 100% / Sales of finished goods, goods for resale and raw materials			
Liquidity I	1,52[1]	1,35[1]	1,27[1]
Current assets / Short-term creditors			
Liquidity III	0,51[1]	0,16[1]	0,77[1]
Cash and cash equivalents / Short-term creditors			
Debtors days	22 days	20 days	22 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			

(in zlotys)

	2014	2013	2012
Creditors days	29 days	22 days	30 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	11 days[2]	10 days[2]	6 days[2]
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	86,9%	85,0%	89,3%
(Equity + long-term provisions and liabilities) x 100% / Total liabilities, provisions and equity			
Debt ratio (%)	24,2%	19,6%	17,5%
(Total liabilities and provisions) x 100% / Total assets			
Rate of inflation:			
Yearly average	0,00%	0,90%	3,70%
December to December	-1,00%	0,70%	2,40%

[1] When calculating the 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 5.2% in 2014 in comparison with 6.6% in 2013 and with 8.7% in 2012.
- Return on equity decreased to 6.8% in 2014 in comparison with 8.2% in 2013 and with 10.6% in 2012.
- Profit margin amounted to 12.5% in 2014 and decreased in comparison with 13.0% in 2012 and with 13.6% in 2012.
- Liquidity I amounted to 1.52 as at 31 December 2014 and was higher in comparison with 1.35 as at 31 December 2013 and with 1.27 as at 31 December 2012.
- Liquidity III amounted to 0.51 as at 31 December 2014 and was higher in comparison with 0.43 as at 31 December 2013 and with 0.16 as at 31 December 2012.

- Debtors days ratio amounted to 22 days in 2014 and increased in comparison with 20 days in 2013 and was at the same level as in 2012.
- Creditors days ratio amounted to 29 days in 2014 and was higher in comparison with 22 days in 2013 and lower in comparison with 30 days in 2012.
- Inventory days ratio amounted to 11 days in 2014 and was higher compared to 10 days in 2013 and higher in comparison with 6 days in 2012.
- Stability of financing ratio amounted to 86,9% as at 31 December 2014 and was higher in comparison with 85.0% as at 31 December 2013 and lower in comparison with 89.3% as at 31 December 2012.
- Debt ratio amounted to 24.2% as at 31 December 2014 and was higher in comparison with 19.6% as at 31 December 2013 and with 17.5% as at 31 December 2012.

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 2014 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In note II.4 of the introduction to the audited financial statements for the year ended 31 December 2014, 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 2014 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 (Journal of Laws 2013.330 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 2014.

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 2014.

3. Notes to the Financial Statements

The introduction to the financial statements and the additional notes and explanations to the financial statements for the year ended 31 December 2014 (jointly 'notes to the financial statements') 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 2014 to 31 December 2014 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 2014.133 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.

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

Key Certified Auditor

Sebastian Łyczba
Certified auditor no. 9946

Warsaw, 19 March 2015

Zespół Elektrowni Pątnów – Adamów – Konin S.A.

Financial statement

For the 12 months period from 01.01.2014 to 31.12.2014

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

I. Financial Statement

1. Balance Sheet as of 31.12.2014

Assets		As of 31.12.2014	As of 31.12.2013
A.	**Non-current assets**	**3 430 880 731,24**	**3 027 338 362,43**
I.	**Intangible assets**	199 866 848,30	149 647 420,01
1.	Development expenses	0,00	0,00
2.	Goodwill	0,00	0,00
3.	Other intangible assets	199 866 848,30	149 647 420,01
4.	Prepayments for intangible assets	0,00	0,00
II.	**Property, plant and equipment**	**1 999 968 603,83**	**1 635 783 773,53**
1.	Tangible fixed assets	1 285 911 188,19	1 371 822 977,10
	a) land (including perpetual usufruct)	1 252 356,48	1 266 720,92
	b) buildings, premises and constructions	589 377 899,76	624 738 054,94
	c) plant and machinery	691 207 646,71	743 320 587,04
	d) motor vehicles	1 790 128,25	977 980,80
	e) other	2 283 156,99	1 519 633,40
2.	Construction in progress	693 395 585,57	220 950 880,04
3.	Prepayments for construction in progress	20 661 830,07	43 009 916,39
III.	**Long-term receivables**	**0,00**	**0,00**
1.	From affiliates	0,00	0,00
2.	From other entities	0,00	0,00
IV.	**Long-term investments**	**1 224 778 825,55**	**1 237 860 646,93**
1.	Property	0,00	0,00
2.	Intangible assets	0,00	0,00
3.	Long-term financial assets	1 224 778 825,55	1 237 860 646,93
	a) in affiliates	1 224 627 624,54	1 237 709 445,92
	- shares	1 147 444 181,00	1 147 444 181,00
	- other securities	0,00	0,00
	- loans granted	77 183 443,54	90 265 264,92
	- other long-term financial assets	0,00	0,00
	b) in other entities	151 201,01	151 201,01
	- shares	151 201,01	151 201,01
	- other securities	0,00	0,00
	- loans granted	0,00	0,00
	- other long-term financial assets	0,00	0,00
4.	Other long-term investments	0,00	0,00
V.	**Long-term prepayments and deferred costs**	**6 266 453,56**	**4 046 521,96**
1.	Deferred tax assets	0,00	0,00
2.	Other prepayments and deferred costs	6 266 453,56	4 046 521,96
B.	**Current assets**	**519 817 191,96**	**485 781 733,76**
I	**Inventories**	**180 518 786,47**	**173 292 637,84**
1.	Raw materials	42 509 365,13	37 394 949,70
2.	Semi-finished goods and work-in-progress	0,00	0,00
3.	Finished goods	0,00	0,00
4.	Goods	135 721 747,73	125 505 760,82
5.	Inventory prepayments	2 287 673,61	10 391 927,32
II.	**Short-term receivables**	**149 294 454,62**	**138 971 169,58**
1.	Receivables from affiliates	45 426 226,91	46 602 601,77
	a)trade receivables, due in:	38 759 543,46	39 290 036,44
	- uo to 12 months	38 759 543,46	39 290 036,44
	- over 12 months	0,00	0,00

	b) other	6 666 683,45	7 312 565,33
2.	Receivables from other entities	103 868 227,71	92 368 567,81
	a)trade receivables, due in:	58 007 406,22	56 655 646,26
	- up to 12 months	58 007 406,22	56 655 646,26
	- over 12 months	0,00	0,00
	b) taxation, subsidy, customs duty, social security, health insurance and other debtors	31 272 462,32	22 029 566,01
	c) other	14 588 359,17	13 683 355,54
	d) submitted to court	0,00	0,00
III.	**Short-term investments**	**189 489 111,37**	**173 149 285,22**
1.	Short-term financial assets	189 489 111,37	173 149 285,22
	a) in affiliates	15 706 612,17	15 386 252,85
	- shares	0,00	0,00
	- other securities	0,00	0,00
	- loans granted	15 706 612,17	15 386 252,85
	- other short-term financial assets	0,00	0,00
	b) in other entities	0,00	0,00
	- shares	0,00	0,00
	- other securities	0,00	0,00
	- loans granted	0,00	0,00
	- other short-term financial assets	0,00	0,00
	c) cash and other monetary assets	173 782 499,20	157 763 032,37
	- cash on hand and cash at bank	173 782 499,20	157 763 032,37
	- other cash and cash equivalents	0,00	0,00
	- other monetary assets	0,00	0,00
2.	Other short-term investments	0,00	0,00
IV.	**Short-term prepayments and deferred costs**	**514 839,50**	**368 641,12**
	Short-term deferred costs	514 839,50	368 641,12
Total assets		**3 950 697 923,20**	**3 513 120 096,19**

Konin, 19 March 2015

Prepared by

Zarząd Zespołu Elektrowni Pątnów-Adamów-Konin S.A.

LIABILITIES AND EQUITY		As of 31.12.2014	As of 31.12.2013
A.	**Equity**	**2 995 959 968,75**	**2 825 877 533,30**
I.	**Share capital**	101 647 094,00	101 647 094,00
II.	**Unpaid share capital (negative value)**	-	-
III.	**Treasury shares (negative value)**	-	-
IV.	**Reserve capital**	2 398 398 988,08	2 200 508 356,85
V.	**Revaluation reserve**	286 228 867,77	286 822 712,34
VI.	**Other reserves**	5 876 837,06	5 876 837,06
VII.	**Accumulated profits (losses) from previous years**	- 834 265,57	- 834 265,57
VIII.	**Net profit (loss) for the period**	204 642 447,41	231 856 798,62
IX.	**Deductions from net profit during the period (negative value)**	-	-
B.	**Liabilities and provisions for liabilities**	**954 737 954,45**	**687 242 562,89**
I.	**Provisions for liabilities**	241 429 171,63	291 285 279,43
1.	Deferred tax liability	71 877 448,18	53 074 535,23
2.	Provision for retirement benefits and similar obligations	27 325 426,56	86 481 954,00
	- long-term	10 969 068,00	79 820 254,00
	- short-term	16 356 358,56	6 661 700,00
3.	Other provisions	142 226 296,89	151 728 790,20
	- long-term	17 141 401,16	21 750 465,32
	- short-term	125 084 895,73	129 978 324,88
II.	**Long-term liabilities**	**338 049 381,17**	**6 301 775,11**
1.	To affiliates	339 178,29	-
2.	To other entities	337 710 202,88	6 301 775,11
	a) loans	325 712 873,53	-
	b) debt securities issued	-	-
	c) other financial liabilities	-	18 091,58
	d) other	11 997 329,35	6 283 683,53
III.	**Short-term liabilities**	**342 104 302,20**	**355 392 510,66**
1.	To affiliates	104 575 724,71	82 886 492,91
	a)trade creditors, payable in:	93 171 649,80	79 093 839,28
	- up to 12 months	93 171 649,80	79 093 839,28
	- over 12 months	-	-
	b) other	11 404 074,91	3 792 653,63
2.	To other entities	232 794 945,80	268 244 556,12
	a) loans	27 920 541,63	90 951 396,82
	b) debt securities issued	-	-
	c) other financial liabilities	18 213,07	31 710,77
	d)trade liabilities payable in:	28 092 145,65	22 371 465,67
	- up to 12 months	28 092 145,65	22 371 465,67
	- over 12 months	-	-
	e) advance payments received	34 570,70	10 240,53
	f) bills of exchange payable	-	-
	g) taxation, customs duty and social security creditors	75 132 592,17	85 980 162,19
	h) payroll	4 036 588,85	3 679 016,28
	i) other	97 560 293,73	65 220 563,86
3.	Special funds	4 733 631,69	4 261 461,63
IV.	**Accruals and deferred income**	**33 155 099,45**	**34 262 997,69**
1.	Negative goodwill	-	-
2.	Other accruals and deferred income	33 155 099,45	34 262 997,69
	- long-term	15 562 070,20	15 707 510,20
	- short-term	17 593 029,25	18 555 487,49
Total equity & liabilities		**3 950 697 923,20**	**3 513 120 096,19**

Konin, 19 March 2015

Prepared by

Zarząd Zespołu Elektrowni Pątnów-Adamów-Konin S.A.

2. Profit and Loss Account for the period 01.01.2014 - 31.12.2014

Profit and loss account	For the current fiscal year	For the prior fiscal year
Net sales of finished goods, goods for resale and raw materials, of which:	**1 631 188 904,41**	**1 776 684 561,16**
-from affiliates	528 811 337,36	574 139 827,46
Net sales of finished goods	1 513 695 166,52	1 692 464 593,99
Net sales of goods for resale and raw materials	117 493 737,89	84 219 967,17
Cost of finished goods, goods for resale and raw materials sold, of which:	**1 528 932 008,75**	**1 656 549 139,05**
-to affiliates	526 507 580,78	537 437 818,19
Cost of finished goods sold	1 418 376 865,24	1 594 929 783,38
Cost of goods for resale and raw materials sold	110 555 143,51	61 619 355,67
Gross profit (loss) on sales	**102 256 895,66**	**120 135 422,11**
Selling expenses	3 437 918,78	2 846 732,91
Administrative expenses	41 862 904,46	39 985 061,74
Profit (loss) on sales	**56 956 072,42**	**77 303 627,46**
Other operating income	**61 625 018,27**	**12 316 924,27**
Gains on the sale of non-financial non-current assets	1 881 925,05	-
Grants	331 998,00	518 556,00
Other	59 411 095,22	11 798 368,27
Other operating expenses	**26 833 736,46**	**11 218 925,28**
Loss on the sale of non-financial non-current assets	-	41 455,70
Impairment of non-financial assets	19 127 566,00	2 216 359,46
Other	7 706 170,46	8 961 110,12
Operating profit (loss)	**91 747 354,23**	**78 401 626,45**
Finance income	**136 633 402,04**	**176 547 055,73**
Dividends and shares in profits, of which:	128 796 474,39	171 114 565,77
- from affiliates	128 695 389,39	171 062 892,77
Interest, of which:	4 265 013,54	4 090 705,72
- from affiliates	1 621 847,21	1 877 105,59
Gains on the sale of investments	-	-
Revaluation of investments	1 702 093,48	951 862,64
Other	1 869 820,63	389 921,60
Finance costs	**5 061 288,33**	**7 875 473,42**
Interest, of which:	2 186 748,01	7 003 983,72
- from affiliates	-	-
Loss on the sale of investments	-	-
Impairment of investments	-	-
Other	2 874 540,32	871 489,70
Gross profit (loss) on ordinary activities	**223 319 467,94**	**247 073 208,76**
Result on extraordinary items		
Extraordinary gains		
Extraordinary losses		
Gross profit (loss)	**223 319 467,94**	**247 073 208,76**
Taxation	**18 677 020,53**	**15 216 410,14**
Corporate profits tax	18 677 020,53	15 216 410,14
Other tax charges		
Net profit (loss)	**204 642 447,41**	**231 856 798,62**

Konin, 19 March 2015

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3. Cash Flow Statement for the period 01.01.2014 - 31.12.2014

Cash flow statement	For the current fiscal year	For the prior fiscal year
A. Cash flow from operating activities		
I. Net profit (loss)	**204 642 447,41**	**231 856 798,62**
II. Adjustments, total	**-139 329 487,03**	**-118 529 106,77**
1. Depreciation	100 218 512,50	89 029 962,70
2. Foreign exchange gains (losses)	-3 676 594,16	-2 266 049,27
3. Interest and shares in profits	-128 298 490,16	-167 005 508,59
4. Profit (loss) on investing activities	-3 513 753,59	-70 401,43
5. Change in provisions	78 209 967,08	141 201 965,40
6. Change in inventories	-7 226 148,63	-21 863 764,20
7. Change in receivables	-10 323 285,04	9 505 220,64
8. Change in short-term liabilities, except for loans and borrowings	12 623 464,42	-20 155 167,80
9. Change in prepayments, accruals and deferred income	-273 790,76	369 530,02
10. Purchase of CO 2 emission allowances	-177 069 368,69	-147 274 894,24
11. Other adjustments		
III. Net cash flow from operating activities (I±II)	**65 312 960,38**	**113 327 691,85**
B. Cash flow from investing activities		
I. Inflows	**148 429 439,90**	**188 912 536,14**
1. Sale of intangible assets and tangible fixed assets	2 146 176,43	191 626,02
2. Sale of investments in property and intangible assets	0,00	0,00
3. From financial assets, of which:	146 283 263,47	188 720 910,12
a) in affiliates	146 122 936,99	188 669 237,12
b) in other entities	160 326,48	51 673,00
- sale of financial assets	0,00	0,00
- dividends and shares in profits	101 085,00	51 673,00
- repayment of long-term loans granted	0,00	0,00
- interest received	59 241,48	0,00
- other	0,00	0,00
4. Other investing inflows	0,00	0,00
II. Outflows	**417 089 566,71**	**154 300 227,33**
1. Purchase of intangible assets and tangible fixed assets	417 089 566,71	144 300 227,33
2. Investments in property and intangible assets		
3. For financial assets, of which:	0,00	10 000 000,00
a) in affiliates	0,00	10 000 000,00
increase the company's capital	0,00	10 000 000,00
b) in other entities	0,00	0,00
- purchase of financial assets	0,00	0,00
- long-term loans granted	0,00	0,00
4. Other investing outflows	0,00	0,00
III. Net cash flow from investing activities (I-II)	**-268 660 126,81**	**34 612 308,81**
C. Cash flow from financing activities		
I. Inflows	**355 000 000,00**	**0,00**
1. Net inflows from issue of shares, issue of other capital instruments and additional payments to capital	0,00	0,00
2. Loans and credits	355 000 000,00	0,00
3. Issue of debt securities	0,00	0,00
4. Other financial inflows	0,00	0,00
II. Outflows	**136 265 722,57**	**38 085 977,39**
1. Re-acquisition of own shares	0,00	0,00
2. Dividends and other payments to shareholders	34 560 011,96	0,00
3. Outflows due to appropriation of profit other than payments to shareholders	0,00	0,00
4. Repayment of loans and borrowings	90 951 396,82	33 584 000,00
5. Redemption of debt securities	0,00	0,00

6. Relating to other financial liabilities	0,00	0,00
7. Finance lease payments	31 589,28	77 709,24
8. Interest paid	10 101 194,42	4 424 268,15
9. Other financing outflows	621 530,09	0,00
III. Net cash flow from financing activities (I-II)	**218 734 277,43**	**-38 085 977,39**
D. Total net cash flow (A.III±B.III±C.III)	**15 387 111,00**	**109 854 023,27**
E. Balance sheet change in cash and cash equivalents, of which:	**16 019 466,83**	**109 911 822,86**
- change in cash and cash equivalents due to foreign exchange gains/losses	632 355,83	57 799,59
F. Cash and cash equivalents at the beginning of the period	**157 852 282,99**	**47 998 259,72**
G. Cash and cash equivalents at the end of the period (F±D), of which:	**173 239 393,99**	**157 852 282,99**
- of restricted use	3 756 475,56	6 494 417,38

Konin, 19 March 2015
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Zarząd Zespołu Elektrowni Pątnów-Adamów-Konin SA

4. Changes in Equity Statement as of 31.12.2014

		Changes in Equity Statement	For the current fiscal year	For the prior fiscal year
I.		**Equity at the beginning of the period (OB)**	**2 825 877 533,30**	**2 594 020 734,68**
		- adjustments of fundamental errors		
I.a.		Equity at the beginning of the period (OB), after adjustments	2 825 877 533,30	2 594 020 734,68
	1.	**Share capital at the beginning of the period**	**101 647 094,00**	**104 052 000,00**
	1.1.	Changes in share capital	0,00	-2 404 906,00
		a) increases		
		b) decreases		2 404 906,00
	1.2.	**Share capital at the end of the period**	**101 647 094,00**	**101 647 094,00**
	2.	**Unpaid share capital at the beginning of the period**		
	2.1	Changes to unpaid share capital		
		a) increases		
		b) decreases		
	2.2.	**Unpaid share capital at the end of the period**		
	3.	**Treasury shares at the beginning of the period**		**-31 279 880,05**
		a) increases		
		b) decreases		31 279 880,05
	3.1.	**Treasury shares at the end of the period**	**0,00**	**0,00**
	4.	**Reserve capital at the beginning of the period**	**2 200 508 356,85**	**1 956 260 916,02**
	4.1.	Changes in reserve capital	197 890 631,23	244 247 440,83
		a) increases (due to)	197 890 631,23	275 527 320,88
		- share premium		
		- statutory profit appropriation		
		- profit appropriation (in excess of statutory amounts)	197 296 786,66	275 012 750,76
		- tangible assets sales and liquidation	593 844,57	514 570,12
		b) decreases		31 279 880,05
	4.2.	**Reserve capital at the end of the period**	**2 398 398 988,08**	**2 200 508 356,85**
	5.	**Revaluation reserve at the beginning of the period**	**286 822 712,34**	**287 337 282,46**
	5.1.	Changes in revaluation reserve	-593 844,57	-514 570,12
		a) increases		
		b) decreases (due to)	593 844,57	514 570,12
		- disposal of tangible fixed assets	593 844,57	514 570,12
		- revaluation adjustment		
	5.2.	**Revaluation reserve at the end of the period**	**286 228 867,77**	**286 822 712,34**
	6.	**Other reserves at the beginning of the period**	**5 876 837,06**	**3 471 931,06**
	6.1.	Changes in other reserves	0,00	2 404 906,00
		a) increases		2 404 906,00
		b) decreases		
	6.2.	**Other reserves at the end of the period**	**5 876 837,06**	**5 876 837,06**
	7.	**Accumulated profits from previous years at the beginning of the period**	**231 856 798,62**	**275 012 750,76**
	7.1.	Accumulated profits from previous years at the beginning of the period	231 856 798,62	275 012 750,76
		- adjustments of fundamental errors		
	7.2.	Accumulated profits from previous years at the beginning of the period, after adjustments	231 856 798,62	275 012 750,76
		a) increases (due to)	0,00	0,00
		- appropriation of profit from previous years		
		b) decreases (due to)	231 856 798,62	275 012 750,76
		- transfer of profit to reserve capital	197 296 786,66	275 012 750,76
		- profit appropriation on Intercompany Social Fund	34 560 011,96	

7.3.	**Accumulated profits from previous years at the end of the period**	**0,00**	**0,00**
7.4	**Accumulated losses from previous years at the beginning of the period**	**-834 265,57**	**-834 265,57**
	- adjustments of fundamental errors		
7.5	Accumulated losses from previous years at the beginning of the period, after adjustments		
	a) increases (due to)		
	- transfer of prior year losses		
	b) decreases		
7.6	**Accumulated losses from previous years at the end of the period**	**-834 265,57**	**-834 265,57**
8.	**Net result**	**204 642 447,41**	**231 856 798,62**
	a) net profit	204 642 447,41	231 856 798,62
	b) net loss		
II.	**Equity at the end of the period (CB)**	**2 995 959 968,75**	**2 825 877 533,30**
III.	**Equity, after proposed appropriation of profits (absorption of losses)**	**2 955 301 131,15**	**2 825 877 533,30**

Konin, 19 March 2015
Prepared by

Zarząd Zespołu Elektrowni Pątnów-Adamów-Konin SA

II. Introduction to the statement

1. General information about the Company

Zespół Elektrowni Pątnów-Adamów-Konin Spółka Akcyjna ("ZE PAK S.A.", "the Company") was established by the Notarial Deed of 29 December 1994. The Company's registered office is in Konin at Kazimierska 45.

The Company is entered into the Register of Entrepreneurs under the KRS number 0000021374 assigned on 21 June 2001.

The Company operated under the NIP number: 665-00-01-645 assigned on 17 September 1993, and the REGON symbol: 310186795.

The duration of the Company is indefinite.

As of the date of development of this financial statement, the Company's shareholder structure is as follows:

Presentation of shareholders	Number of shares	The value of one share in PLN	Percentage share in the share capital	Number of votes	Percentage share in the number of votes
Zygmunt Solorz Żak (indirectly) via: Elektrim S.A., Embud Sp. z o.o., Argumenol Investment Company Limited	26,200,867	2.00	51.55%	26,200,867	51.55%
ING Otwarty Fundusz Emerytalny	5,068,410	2.00	9.97%	5,068,410	9.97%
Other participants	19,554,270	2.00	38.48%	19,554,270	38.48%
Total:	**50,823,547**		**100.0%**	**50,823,547**	**100%**

The Company is the parent company of the Capital Group of Zespół Elektrowni Pątnów – Adamów – Konin.

According to articles of association, the subject of the Company's activities is:

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

2. Composition of the Management Board

In the reporting period, the Company's Management Board composition was as follows:

- Katarzyna Muszkat — President of the Board
- Anna Striżyk — Vice-President of the Board
- Piotr Jarosz — Vice-President of the Board
- Sławomir Sykucki — Vice-President of the Board

Mr. Sławomir Sykucki was appointed to the position of the Vice-President of the Company during the reporting period, i.e. on 2 December 2014.

3. Description and clarification of differences in the disclosed data and significant differences regarding the adopted accounting principles (policy) between the statement and the comparable data as well as the statement and the comparable data developed acc. to the IAS.

The Company is the parent company of the Capital Group, which is obliged to develop a consolidated financial statement in accordance with IFRS standards approved by the EU ("IFRS"). The Company did not prepare and does not prepare an individual financial statement in accordance with IFRS.

The main potential differences between the IFRS and the PRS developed with the assumption of using the IFRS based on the IFRS 1 guidelines and adoption of the financial data resulting from the consolidated financial statement of the ZE PAK Group are presented below. The date of transition of the ZE PAK SA Group to the IFRS is 1 January 2009.

If the financial statement was developed in accordance with the IFRS, the main differences between the accounting principles adopted for the enclosed statement and the IFRS, with the assumption that the date of transition to the IFRS is 1 January 2009, would be especially related to the following aspects:

a) Valuation of the tangible fixed assets

According to the IFRS 1, as of the date of the first application of the IFRS, the body can make a fair value quotation of the fixed assets and recognise their fair value as the assumed cost at this date. The Company established the assumed cost of the selected tangible fixed assets by assignment of the fair value of these assets as of 1 January 2009, i.e. the assumed date of transition to the application of the IFRS.

b) Allotment of renovation components

The International Financial Reporting Standards project the allotment within the scope of fixed assets of components, provided that their use period differs from the use period of a given fixed asset. The components are depreciated during their usability period. According to the IFRS, the specific component consists of renovations and periodical inspections. In relation to the above, the Company has allotted components of values planned to be transferred to the renovation costs, as well as depreciation of the components in the period until the projected commencement of the next renovation. The recognition of this adjustment also resulted in the need to charge the deferred tax.

c) Valuation of land and perpetual usufruct

According to the PRS, the perpetual usufruct of land is subject to depreciation, and the depreciation write-downs are recognised in the income statement in the prime cost item.

For the purpose of the IFRS, due to the unspecified period of economic use of the perpetual usufruct of land, the Company would eliminate the recognised depreciation write-downs.

d) Capitalisation of external financing costs

According to the PRS, the Company recognised in the capital work in progress all the costs of servicing liabilities incurred in order to finance them along with the exchange rate differences that took place.

For the purpose of the IFRS, the Company would make an adjustment of the capitalised exchange rate differences on the liabilities incurred in foreign currencies, consisting in the adaptation of the value of these exchange rate differences to the value, in which they comprise the adjustment of the interest costs.

Furthermore, the Company would execute the capitalisation of external financing costs on the liabilities of general nature, used for the financing of capital work in progress.

Due to the above fact, in the financial statement developed according to the IFRS, the Company would capitalise the external financing costs in the value not higher than the financing costs, which would occur if the liabilities were incurred in the functional currency, i.e. PLN.

The areas of differences between the PRS and the IFRS described below were identified during the process of development of the Group's consolidated financial statement according to the IFRS and do not include the potential adjustments of the IFRS in relation to transactions with affiliated entities, which were eliminated in the scope of the Group's financial statement.

The International Accounting Standards Board (IASB) introduced many changes into the current accounting principles and issued new standards. New standards and changes to the current standards are still in the works. Furthermore, these standards are subject to the approval process by the EU. In relation to the above, it is possible that the standards, according to which the Company will develop its first financial statement compliant with the IFRS, which can include data from the past years, will differ from the standards used for the development of the below explanatory note describing the differences between the IFRS and the Polish accounting standards.

Furthermore, only a complete financial statement embracing the statement on the financial position, total income statement, statement of changes in the equity, as well as the cash flow statement, and the comparative data and explanatory notes can present the full and reliable view of the Company's financial position, the results of its activities and cash flows in accordance with the IFRS.

The presentation of some of the items in the financial statements according to the Polish accounting standards and the IFRS can differ. The differences in the presentation will not affect the equity and the Company's net result.

The components of particular items in the financial statement, as well as the scope of additional information to the financial statement compliant with the Polish accounting standards and the IFRS can differ substantially.

The following table presents the differences as of 31 December 2014

Adjustment as of 31 December 2014	Balance sheet value acc. to the PRS	Balance sheet value acc. to the IFRS	Value adjustment
Tangible fixed assets	1,979,306,773.76	2,398,317,178.08	419,010,404.32
Equity	2,995,959,968.75	3,333,172,769.41	337,212,800.66
Deferred tax provision	71,877,448.18	150,954,727.27	79,077,279.09

Description of the effects of disclosed differences in net profit and equity:

	31 December 2014
PSR net profit	204,642,447.41
Adjustment of the tangible fixed assets	-62,600,404.83
IAS 19 adjustment – Actuarial profits/losses	1,107,376.92

	31 December 2014
PSR capital	2,995,959,968.75
Adjustment of the tangible fixed assets	337,212,800.66
IAS 19 adjustment – Actuarial profits/losses	1,107,376.92

4. Assumption of continuation of economic activity

The financial statement was developed with the assumption of continuing business activity by the Company in the near future, at least 12 months after the balance sheet date, i.e. after 31 December 2014.

As of signature of this financial statement, The Company's Board states that there is no facts and premises, which would affect the opportunity to continue activities by the Company.

5. Merger of commercial companies.

In the reporting period, for which the financial statements was developed, there was no merger pursuant to Article 492, paragraph 1, point 1 of the Code of Commercial Companies with other commercial company.

6. Accepted principles (policy) of accounting

The Company operates on the basis of following legal acts:

1. The Act on accounting of 29 September 1994 (consolidated text Journal of Laws no. 2013, item 330, as amended – hereinafter "UoR", "the Act"),
2. The Corporate Income Tax Law of 15 February 1992 (Journal of Laws of 2000, no. 54, item 654) as amended,
3. The Resolution of the Minister of Finance of 19 February 2009 on the current and periodical information submitted by issuers of stocks, as well as conditions for the recognition as equally important of information required by the regulations of the law of a country not comprising a Member State (Journal of Laws of 2009, no. 33, item 259) as amended,

4. The Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (consolidated text Journal of Laws of 2009 no. 185, item 1439 as amended).

The Company introduced following ordinances to be used in the scope of methods of assets and liabilities quotation:

1. The ordinance no 35 of the ZE PAK S.A. in Konin President of 01 July 2003 in case of the management of the physical assets of the fixed asset,

2. The ordinance no 34 of the ZE PAK S.A. in Konin President of 01 July 2003 in case of the Corporate Chart of Accounts for ZE PAK S.A.

The financial statement was developed in accordance with the historical expense convention which was modified in terms of:

- intangible assets,

- tangible assets,

- investments in subsidiary entities and other long-term investments,

- other short-term investments (excluding cash and financial assets),

- financial instruments.

In accordance with the above mentioned regulations, the Company applies the following methods of assets and liabilities quotation and financial result measurement:

Tangible fixed assets

The initial value of fixed assets is recognised in the books of accounts according to purchase prices or costs incurred for their creation, expansion, or modernisation. After the initial recognition, the value of the fixed assets is reduced by redemption and write-downs resulting from permanent loss in value.

During keeping accounts of auxiliary books (analytical accounts) of components of tangible fixed assets, in accordance with article 17 paragraph l point 1 of the Act, the rules arising from the Ordinance no. 35/2003 of the President of the Board, the Chief Executive Officer of the ZE PAK S.A. of 1 July 2003 on the management of the physical assets of the fixed asset should be applied, so:

• Items of a value up to PLN 500 are considered to materials.

• For fixed assets of a value of PLN 500 - 3,500, depreciation writes-downs made once in the month of putting into service was established; in accordance with article 16f p. 3 of the Act on corporate income tax.

• Fixed assets of a value of over PLN 3,500 purchased before 1 January 1997, are depreciated with the straight line method, while fixed assets purchased after 1 January 1997, in accordance with the decision of the Board of the ZE PAK S.A., are depreciated with the declining balance method. The declining balance method applied until the end of 1999. Since 1 January 2000, all newly purchased fixed assets have been depreciated with the straight line method.

• Re-estimation takes place on the basis of separate provisions. The re-estimation result is transferred onto the capital from revaluation. After the sale or liquidation of the fixed asset, the amount remaining in the capital from the revaluation is transferred onto the supplementary capital. The last re-estimation took place on 1 January 1995.

• Since 1 January 2000, for tax purposes, for all newly purchased fixed assets, depreciation rates set forth in the annex to the act of 15 February 1992 on corporate income tax as amended have been adopted. In relation to the fixed assets purchased and entered in the records before 1 January 2000, the rates arising from the resolution of the Minister of Finance of 17 January 1997 on the depreciation of fixed assets and intangible assets are applied.

• The necessity of calculated depreciation adjustment in case of the items' price is higher than PLN 3,500 and the planned period of use is shorter than one year was taken into account. In practice, they will be used longer than 1 year.

• Computers and computer sets are depreciated with the straight line method with the ability of application of the increasing ratio, in accordance with article 16i point 3 of the act on corporate income tax act.

• Since January 2001, the rules of balance sheet depreciation of the fixed assets that were subject to evaluation during the privatisation of the Company have been changed. Since 1 January 2001, the fixed assets have been depreciated with the straight line method, in accordance with the expected period of economic use.

• Estimates concerning the period of economic use and the depreciation method are subject to a review at the end of each financial year in order to verify, whether the used methods and the depreciation period are consistent with the expected term structure of economic benefits provided by this fixed asset.

• Fixed assets under construction are valued at least at the balance sheet date, in the amount of total costs in a direct relationship of their purchase or production, lessened by write-downs resulting from permanent loss in value. Within the capital work in progress, investment materials are recognised as well. The capital work in progress is not depreciated until they are completed and put into service.

• External financing costs of the construction, adjustment, assembly, or improvements of fixed assets or intangible assets, for a period of construction, adjustment, assembly, or improvement, are recognised in the value of these assets if these liabilities were incurred for this purpose. Other external financing costs are recognised in an income statement.

• The act, before amendments, assumed an off balance sheet register of the perpetual usufruct of land. The amended act includes the perpetual usufruct of land in the fixed assets. Pursuant to Art. 2 point 1 of the Act of 29 September 1990 on the amendment of the Act on Land Management and Dispossession (Journal of Laws No. 79, item. 464), the land owned by the State Treasury or a commune that, on 5 December 1990, was managed by state legal persons other than the State Treasury or municipal legal persons became the subject of the perpetual usufruct this day by operation of law. The perpetual usufruct of land acquired in this way was not included in the books, but it is recognised off-balance sheet.

• Pursuant to the Act on accounting, the Company carries out an inventory of the fixed assets every four years. The last inventory of the fixed assets took place in 2010.

• As of the balance sheet date, the Company assesses every time whether the balance sheet value of the recognised assets does not exceed the value of the expected future economic benefits. If there is an indication of such a situation, the balance sheet value of the assets is reduced to net sale price. Write-downs resulting from permanent loss in value are recognised in other operating costs. Write-downs resulting from permanent loss in value concerning the fixed assets, which were re-evaluated on the basis of separate regulations, reduce the differences transferred onto the capital from revaluation, which were caused by revaluation. Possible excess of the write-down over the differences from revaluation is classified as other operating costs.

Intangible assets

Intangible assets are recognized if it is plausible that, in the future, they will cause inflow of economic benefits to the Company that can be directly associated with these assets. The initial recognition of the intangible assets' value takes place according to purchase prices or production cost. After the initial recognition, the intangible assets are valued according to purchase prices or production cost reduced by redemption and write-downs resulting from permanent loss in value. The intangible assets are depreciated with the straight line method in the period corresponding to the estimated period of their economic use. The expected period of economic use is as follows:

- licenses - 5 years,
- software licenses - 2 years,
- other intangible assets - 5 years.

The intangible assets of an initial value of less than PLN 3,500 are depreciated once in the month of putting into service.

Estimates concerning the period of economic use and the depreciation method are subject to a review at the end of each financial year in order to verify, whether the used methods and the depreciation period are consistent with the expected term structure of economic benefits provided by given intangible assets.

As of the balance sheet date, the Company assesses every time whether the balance sheet value of the recognised assets does not exceed the value of the expected future economic benefits. If there is an indication of such a situation, the balance sheet value of the assets is reduced to net sale price. Write-downs resulting from permanent loss in value are recognised in other operating costs.

Long-term receivables

The long-term receivables include, among others:

- receivables due to paid security deposits (e.g. within lease agreements),
- receivables from entities, with whom a bank conciliation or an arrangement was concluded.

The long-term receivables, as well as other receivables, are valued in accordance with Art. 28 of the Act on accounting during the year, which on the day of purchase or creation – according to the face value and as of the balance sheet date – in the amount of required payment, with caution, reduced by the impairment write-downs made in justified cases.

Long-term investments

The long-term investments are property resources controlled by the entity, which will cause inflow of economic benefits to the entity in the future. The investments may be non-financial assets and, then, occur as:

- real estate,

- intangible assets,

or they may be financial assets and, then, occur as:

- shares,
- capital contributions in subsidiaries,
- other securities (long-term bills, government bonds, etc.),
- granted long-term loans,
- other long-term assets (bills of exchange, payable orders, deposits, commercial papers).

As of the balance sheet date, the long-term investments are valued according to purchase price reduced by write-downs resulting from permanent loss in value.

The investments in the subsidiaries that is controlled entities, co-subsidiaries, and associated party entities are valued according to the historical expense reduced by possible loss in value.

Commercial papers not quoted on the market are valued as of the balance sheet date with the straight line method, i.e. in the purchase price enlarged by an appropriate part of the discount, falling on the period until the balance sheet date, taking into account the possible loss in value.

Short-term investments (excluding cash and financial instruments),

The short-term investments, excluding cash and financial instruments, are valued according to the market price (value), and the short-term investments, for which there is no active market, in other way of a determined fair value.

The effects of increase or decrease in the value of the short-term investments valued according to the market price (value) are classified respectively as financial expense or income.

Financial assets

Financial assets, at the time of entry into the books of accounting, are valued according to the cost (purchase price), which is the fair value of the payment. Transaction costs are recognised

in the initial value of these financial instruments. Financial assets are entered into the books of accounting on the transaction date.

After initial recognition, financial assets are classified into one of four categories and valued

in the following way:

	Category	Valuation method
1.	Financial assets maintained to the maturity date	According to the adjusted purchase price (depreciated cost) determined with the effective interest method
2.	Granted loans and receivables	According to the adjusted purchase price (depreciated cost) determined with the effective interest method. Receivables of a short maturity date, for which no interest rate was determined, valued according to the required payment
3.	Financial assets destined for trade	According to the fair value, and profits/losses due to revaluation are recognised in the income statement

4.	Available-for-sale financial assets	According to the fair value, and profits/losses due to revaluation are recognised in the income statement until the investment sale or reduction of its value. At this moment, the total profit or loss due to revaluation is transferred to the income statement

The fair value of financial instruments traded on the active market is determined in relation to the prices quoted on this market as of the balance sheet date. In case of the lack of a quoted market price, the fair value is estimated on the basis of the quoted market price of a similar instrument, or on the basis of expected cash flows.

Permanent loss in value of financial assets

As of each balance sheet date, the Company assesses whether there is objective evidence of permanent loss in value of a component or a group of financial assets. If such evidence exists, the Company estimates the estimated, possible to recover value of the component of assets and makes an impairment write down resulting from the loss in value, in the amount equal to the difference between the value possible to recover and the balance sheet value. Impairment write-downs against the value of a financial asset component or a portfolio of similar financial assets are determined:

1) in case of financial assets valued at the depreciated purchase cost – as the difference between the value of these assets resulting from the books of accounting as of the valuation date and the amount possible to recover. The amount possible to recover is the present value of the future cash flows expected by the entity, discounted with the effective interest rate previously used by the entity, valuing revalued financial assets' component or a portfolio of similar financial assets' components,

2) in case of the financial assets valued at the fair value – as the difference between the purchase price of a assets' component and its fair value determined as of the valuation date. However, the fair value of debt financial instruments as of the valuation date is understood as the present value of expected future cash flows expected by the entity, discounted with a current market interest rate used for similar financial instruments. The loss cumulated to this day recognised in the capital (fund) from revaluation is classified as finance costs

in the amount not lesser than the one indicated in the write-down reduced by the part directly classified as financial costs,

3) in case of other financial assets – as the difference between the value of the assets' component resulting from the books of accounting and the present value of future cash flows expected by the entity, discounted with the current market interest rate used for similar financial instruments.

Lease

The Company is a party of lease agreements, under which it conveys in return for payment to use or taking profits, the foreign fixed assets or intangible assets for an agreed period.

In case of lease agreements, under which there is transfer of, substantially, all the risks and profits resulting from ownership of assets covered by the agreement, the leased assets are recognized as the fixed asset. At the same time, a liability in the amount equal to the current value of minimum lease payments, determined as of the inception the lease date. Lease payments are divided between the financial costs and reduction of balance of the liability in a way allowing to obtain a constant interest rate on the remaining unpaid liability. Financing costs are recognised directly in the income statement.

The fixed assets subject to a financial lease agreement are depreciated in the way specified for own fixed assets. However, if there is uncertainty as transfer of property rights for the subject of the agreement, the fixed assets used under financial lease agreements are then depreciated for the shorter of the two periods: the expected period of use or the lease term. Lease payments under the agreements, which do not meet the conditions of a financial lease agreement, are recognized as costs in the income statement with the straight line methods for the lease term.

If a sale and sale-and-lease-back are a financial lease, then that part of the amount of sales revenue, which exceeds the value recognised in the balance sheet, is deferred in time and depreciated during the period of the lease agreement. If a sale and sale-and-lease-back are operating lease and if the transaction was concluded at prices corresponding to the fair value, any profits and losses arising resulting from that are recognised in the income statement. If the sale price is lower than the fair value, profits and losses resulting from that are recognised in the income statement, except for compensation of the loss with the future lease payments lower than market prices. In such a situation, the loss is deferred in time and settlement in proportion to the lease payments for the period of the expected use of the assets' component. If the sale price exceeds the fair value, the amount exceeding the fair value is deferred in time and settled in revenues for a period of the expected use of the assets' component.

Short- and long-term receivables

Trade receivables are recognised in the required amount reduced by impairment write-downs. The receivables value is adjusted taking into account the probability of their payment with the impairment write down. The impairment write-downs are classified respectively as other operating costs or financial costs – depending on the type of receivable subject to the impairment write-down. The redeemed, expired, or non-collectible receivables reduce previously made impairment write-downs against their value. The redeemed, expired, or non-collectible receivables, for which no impairment write-downs against their value were made, or the write-downs were not made in full, are classified as other operating costs or financial costs.

Inventory

Inventory is valued at the lower of the two values: the purchase price (or production cost) and the net sale price. The particular components of the inventory are valued in the following way:

- production fuel – weighted average method,
- spare parts and other materials – weighted average method.

The net sale price is a sale price possible to achieve as of the balance sheet date without the tax on goods and services and the excise tax, reduced by rebates, discounts, etc. and the costs related to accommodation of the component for sale and making this sale.

The Company makes the impairment write-downs against possessed inventories. The impairment write-downs against inventories increase other operating costs.

In the Company, the constant inventory procedure is applied for material stocks. Because the inventory is located in the guarded area and is in a continuous quantity/quality register, each material item must be counted at least once every two years.

The last inventory of the production fuel took place according to the status as of 31 December 2013.

Certificates of origin of energy acquired free of charge due to the energy production from renewable energy sources, gas, and peak load co-generation are presented according to the fair value on the day, when their granting became certain.

Assets components internally generated

The cost of internal generation of assets includes costs remaining within the direct relationship with a given product and the justified part of costs related indirectly to their production.

Direct costs include:

- the value of used direct materials,
- direct payments,
- wearing out of specialist tools,
- other costs incurred in relation to bringing the product to the form and place, in which it is on the day of valuation.

A reasonable, appropriate to the period of manufacture of the product part of the indirect costs includes variable indirect production costs corresponding to the level of these costs at the normal use of production capacities. The normal level of production capacities use is the average, in line with expectations in typical conditions production volume for a given number of periods, taking into account the scheduled overhauls.

Production costs, which are the basis of assets valuation, do not include general overheads, sale costs, other operating costs, and financial costs of financial operations. The transfer of generation costs to the assets of ZE PAK S.A. takes place no later than on the balance sheet date.

Equities

In the Company, there are the following capitals, which, in the balance sheet, are shown according to the face value, namely:

1. Share capital,
2. Supplementary capital,
3. Capital from revaluation,
4. Other reserve capitals.

The share capital is shown in the amount complying with the Company's Articles of Association and the entry into the National Court Register.

The supplementary capital is created from the profit division, an excess from the sale of shares over their nominal value, from the transfer from the Staff Fund, and from the transfer from the reserve capital from revaluation. The advances for dividends paid during the financial year are recognised in the books of accounts and in the balance sheet as a profit division made during the financial year.

Special funds

In the Company, there are following special funds:

1. The Company Social Insurance Fund

2. The Staff Fund.

The Act of 4 March 1994 (as amended) on the Company Social Insurance Fund states that the Company Social Insurance Fund is formed by employers employing at least 20 employees in full-time job positions. The Company forms such a fund and makes periodical write-offs in the amount agreed with trade unions. According to the agreement signed with the Trade Unions, the Company administers the Intercompany Social Insurance Fund of the Company and subsidiaries. The balance of the Fund is the accumulated income of the Fund decreased by the non-reclaimable expenses of the Fund. The Company recognises separately the Fund's balance and the assets in the balance sheet.

Assets and liabilities denominated in foreign currencies

As of 31 December 2013, the assets and liabilities denominated in currencies other than PLN are converted into PLN using the average exchange rate of the NBP of the balance sheet date. The foreign exchange rate differences arisen from the conversion are respectively recognised in the financial revenues (costs) item, or, in cases specified by the provisions, capitalised in the value of assets.

The following exchange rates were adopted for the purposes of the valuation:

	31 December 2014	31 December 2013
EUR	4.2623	4.1472
USD	3.5072	3.012

The following assets and liabilities components denominated in foreign currencies were valued in exchange rates other than these shown above.

Exchange rate differences

Exchange rate differences concerning settlements denominated in foreign currencies arising on the valuation day and at payment of receivables and liabilities in foreign currencies, are classified appropriately as incomes or costs, and, in duly justified cases, as the production costs of the products or the purchase price of the goods, as well as the purchase price or the production cost of fixed assets, capital work in progress or intangible assets. In the income statement, exchange rate differences are recognised after their compensation.

Cash at bank

Domestic cash are recognised at the nominal value. Cash at bank is confirmed on the basis of a confirmation of balances bank form. The cash item recognised in the cash flow statement consists of cash in hand and bank deposits with a maturity date no longer than 3 months, which were not treated as an investment activity.

Confirmations of balances

The confirmation of receivables and granted loans as of the balance sheet date takes place on the basis of sending written information about balances to all business partners and confirmation of these balances by them.

No written confirmation is required in case of balances referred to in art. 21, paragraph 1, point 3 of the Act, among others:

- disputed and doubtful receivables,
- receivables and liabilities towards employees,
- balances due to liabilities and public-law debts,
- small balances, of which amount does not exceed the posting cost.

Pursuant to the Act materiality principle, if business partners, whose receivable does not exceed 2% of the amount constituting the basis of classification of new assets components as the fixed assets, do not return the confirmation of balance in writing, it is assumed that the balance is satisfactory.

Pursuant to the Act materiality principle, if the receivables balance not exceeding 2% of the amount constituting the basis of classification of the new assets components as the fixed assets shows no change in the last half of the year, they should be credited in other operating costs.

Bank credits and loans

At the moment of initial recognition, bank credits and loans are recognised according to the cost constituting the value of received cash and covering the costs of obtaining the credit/loan. Then, all bank credits and loans, except for liabilities for trade, are valued according to the adjusted purchase price (depreciated cost), using the effective interest rate. Detailed rules for the valuation of certain liabilities denominated in foreign currencies are shown in the introduction to the financial statement.

Liabilities for trade are valued according to the fair value. The profit or loss due to re-evaluation to the fair value are recognised in the income statement of the current period.

Accrual

Loans received for financing environmental investments and then redeemed with granting the grant are recognised as other accruals of incomes and settled in the income statement in subsequent periods, in proportion to the depreciation of the fixed assets purchased or produced within funded investments.

The Company makes accruals of costs aimed at assignment of costs concerning a given period to this period. Active accruals include costs related to periods later than the period, in which they were incurred, among others insurance costs, subscriptions, bills of charge discount.

Active accruals also include the part of the estimated costs of future reclamation of ash dumps used by the Company. These costs are recognised at a discounted value and refer to expenditures that the Company will have to incur until complete filling the ash dump.

Moreover, active accruals include the value of the provision created from liquidation of the Company's assets, remaining to the settlement.

Passive accruals include the value of certificates of origin of energy produced from renewable energy sources, in combination and co-generation using natural gas, which the entity is required to redeem in relation with supply of electricity to final recipients. The provision due to the obligation to present the redemption of certificates of origin of energy produced from renewable energy sources or in peak load co-generation is recognised:

- in a part covered with the certificates of origin held as of the balance sheet date – in the value of the held certificates,

- in a part uncovered with the certificates of origin as of the balance sheet date – at the lower value of the market value of the certificates necessary to fulfil the obligation as of the balance sheet date, and a possible penalty.

Accruals include contractual penalties, compensation from an insurance company, interest exceeding the main receivable, the company's negative value, and subsidies received for production of the fixed assets.

In the accruals item, the Company also presents incomes of the future periods related to the settlement of results on the sale-and-leasebacks.

Replacement proof

Replacement proofs can be used as documents being the basis of the entries in the books of accounts. They also specify the circumstances (an employee declaration), in which confirmation of a business transaction with the replacement proof (Art. 20 paragraph 4).

The replacement proof should include:

- the date of the business transaction, place and date of issue of the proof,

- the subject, quantity, price, and the value of the purchase, goods, services),

- identification of the person ordering and its destiny.

A manager ordering the purchase must approve the replacement proof. The replacement proofs cannot be issued for purchases subject to VAT.

Inventory

The inventory of the Company's assets is conducted pursuant to art. 26 and art. 27 of the Act on accounting. Every year, pursuant to a separate ordinance of the President of ZE PAK S.A. an annual inventory plan is established.

Permanent loss in value of assets

As of each balance sheet date, the Company assesses whether there is objective evidence of permanent loss in value of a component or a group of assets. If such evidence exists, the Company estimates the estimated, possible to recover value of the component of assets and makes an impairment write down resulting from the loss in value, in the amount equal to the difference between the value possible to recover and the balance sheet value. The loss resulting from the loss in value is recognised in the income statement for the current period. In case of the previous re-estimation of assets, the loss reduces the amount of capitals from re-estimation, and then is transferred onto the income statement of the current period.

Revenues of goods, products and services sale, as well as interests and dividends

Sales revenues include due or received amounts from the sale of goods and services (reduced by returns, rebates and discounts). Sales revenues are recognised in the net value, i.e. reduced by the due VAT. Purchased energy sales revenues are recognised as goods sale revenues. The value of purchased energy sale revenues is recognised according to the average price from bilateral agreements.

Sales revenues also include the sales revenues of green and red certificates. At the time of production, the certificates of origin intended for sale are included in the sales revenues, and therefore in order to avoid inflating revenues at the time of selling, the costs of selling certificates are recognised as an adjustment to sales revenues.

Interest revenues are recognised during their calculation (using the effective interest rate), if their receipt is unquestionable.

Due dividends are classified as financial revenues as of the day of the appropriate body of an appropriate company's passing a resolution the division of profit, unless the resolution specifies the othey day of the right for the dividend.

Operating costs

The Company keeps the costs accounting by function and by type and develops a by-function income statement.

General production costs

General production costs are settled statistically on sold electricity and thermal energy, as well as other works and services in proportion to the direct payments burdening sold energy, other works, and services.

Corporate income tax

The gross profit adjusted by permanent and temporary differences between the income determined for tax needs, and a balance sheet financial result is the basis for calculating the income tax. Temporary differences due to income tax are recognised in the balance sheet as provisions for a deferred income tax (a positive difference) or as active accruals (negative differences). Deferred tax assets and provisions for the deferred tax are compensated in the balance sheet.

Provisions

Provisions are recognised when the Group is burdened with the existing obligation (legal or constructive one) resulting from past events, and it is certain or very likely that the fulfilment of this obligation will result in the necessity of the cash outflow, and when the amount of this liability can be reliably estimated. Provisions for the costs of the liquidation of assets are recognised in the amount of forecast liquidation costs in the current value of these costs. These provisions are recognised as accruals and settled in time for the remaining lifetime of the devices intended for liquidation. In case of devices excluded from the operation, the provisions for the costs of their liquidation are created for the burden of other operating costs. In the provisions item, the Company also recognises the provision for future costs of reclamation of the land, where the Company stores wastes.

Deferred income tax

Deferred income tax is determined using the balance liability method in relation to all temporary differences between the tax values of assets and liabilities and their balance sheet value recognised in the financial statement that occur on the balance sheet date. The provision for the deferred income tax is created in relation to all positive temporary differences, unless the provision for the deferred income tax is created as a result of the depreciation of the company's value or the initial recognition of an assets or liabilities component in a transaction, which is not a merger, and, at the time of its conclusion, it does not influence neither the gross financial result, nor the taxable profit, or the tax loss.

The assets component due to the deferred tax is recognised in relation to all negative temporary differences, as well as unused tax losses transferred to the next years, to the extent that it is probable that the taxable income, which will allow to use the above mentioned differences and losses, will be achieved:

In case of negative temporary differences due to the shares in the subsidiaries or associated party entities and shares in co-subsidiaries, the assets' component due to the deferred income tax is recognised in the balance sheet only in the amount that it is probable that, in the predictable future, the above mentioned temporary differences will be reversed, and the taxable income enabling deduction of the negative temporary differences will be achieved.

The balance sheet value of the assets' component due to the deferred income tax is verified on every balance sheet date and reduced to the extent that it is no longer probable that the taxable income sufficient for a partial or complete realisation of the assets' component due to the deferred income tax will be achieved.

The deferred income tax assets and provisions for the deferred income tax are valued using tax rates that, according to the provisions passed by the balance sheet date, will apply in the period, when the assets' component is realised or the provision is redeemed. Deferred tax assets and provisions for the deferred tax are presented in the balance sheet according to the value after compensation.

Provisions for leaves, one-time retirement severance payments, anniversary premiums, and survival severance payments

The employees of the Company are entitled to holiday leaves specified by the provisions of the Labour Code. The Company creates provisions for the cost of unused leaves, for which employees have been entitled until the balance sheet date.

According to the company remuneration system, the employees are entitled to the anniversary premiums after working a certain number of years and for one-time retirement severance payments at the moment of retirement, and survival severance payments. On the basis of independent actuarial calculations in accordance with the International Accounting Standard IAS 19, a provision for severance payments and premiums, which will be paid in the future.

The provision for the cost of the energy reduction is created for the employees and retired people, as well as other authorised groups. The value of the provision is determined on the basis of the calculation of actuarial future liabilities of the Company due to the reduction for electricity. The amount of the costs is estimated annually with individually, for each authorised person separately. The expected cost, which the Company obliges to pay on the basis of the relevant regulations, is the basis for calculation of the provision for an employee. The amount of the provision for a future retired person is the value of the worked part of the benefit.

In accordance with the International Accounting Standard 19, a suitable provision for current employees of the Company, who are the future retired people, will be created through the average vesting period of the current employees of the Company, which was estimated for 20 years.

The estimated amount of the costs incurred for a current pensioner, a retired person, a widow, a widower or an orphan in a given year takes into account the total value of the energy reduction, and the expected increase in its basis, as well as the likelihood that the authorised person will still maintain entitlement to reduction. The amounts calculated in this way, are discounted as of the balance sheet date, and then summed.

CO2 allowances

The obtained free CO2 allowances are presented in the financial statement at the nominal value as the allowances intended for own needs at the zero value within the intangible assets item. The emission allowances and their equivalents purchased by the Company for its own needs are recognised as intangible assets. These allowances are valued at the acquisition cost.

The Company creates the provision for liabilities associated with the CO2 allowances deficit in the period, when the actual emission exceeds allocated allowances. The cost of the created provision is presented in the income statement, in the cost of sales.

The provision is created in the amount of:

– in a part covered by the allowances held at the balance sheet date – in the value of the held allowances, i.e. purchased at the balance sheet value, received in the zero value.

– in a part uncovered by the allowances held at the balance sheet date – at the lower value of the market value of the allowances required to fulfil the obligation at the balance sheet date and a possible penalty.

The Company creates the provision for the redemption of certified emission reductions CERs, at the moment of the exchange transaction of CO2 allowances to CERs in the value, at which CERs will be redeemed for a given year. Firstly, the Company redeems the certified emission reductions – CERs acquired through the exchange of CO2 allowances (EUA), then the allowances acquired free of charge, and, finally, the purchased allowances.

As of each balance sheet date, the Company's management decides, in which part the owned certified emission reductions CERs will be allocated to fulfil the obligation of redemption for a given year.

The Company presents information on the quantity and the market value of the held emission allowances in the additional notes and explanations to the financial statement.

In case of the exchange of allowances for certified emission reductions – CERs (the attributable exchange rate for ZE PAK SA is 1% of the obligation to redeem allowances for a given reporting period), the Company presents the effect of the exchange in the income statement within the operating activity as sales revenues.

The result on the sale of the excess of the allowances acquired free of charge is presented in the income statement in the other operating revenues item. The exchange transactions of EUAs for CERs are presented in the cash flow statement, in the cash flows of the operating activity.

7. Changes in the accounting principles (policy)

The financial statements for the current and preceding period was developed using the identical accounting principles (policy) as well as the methods of presentation of data in the financial statement.

8. Comparability of financial data for the preceding period with the statement for the current period

In the current period, the Company made no changes to the accounting principles or error adjustments, thus it was not obligated to present numerical information ensuring comparability of the financial statement data for the previous year with the statement for the current accounting year.

9. Error adjustment

The current period featured no adjustments of errors, which would affect the comparability of the financial data for the preceding period with the data of the financial statement for the current period.

Konin, 19 March 2015

Management Board of Zespół Elektrowni Pątnów – Adamów – Konin SA

Prepared by:

III. Additional information and clarifications

1. Events of the accounting year not specified in the balance sheet and the income statement

In the reporting period, until the date of development of this financial statement, i.e. until 19 March 2015, there were no events after the balance sheet date, which were not recognised, and should have been recognised, in the books of account and the financial statement for the period concluded on 31 December 2014.

2. Events of previous years recognised in the financial statement

Until the date of development of the financial statement for the period concluded on 30 December 2014, i.e. until 19 March 2015, there were no other significant events regarding the previous years, which should be recognised (but were not recognised) in the financial statement for the accounting year.

3. Significant events of the current period

Until the date of development of the financial statement for the period concluded on 31 December 2014, i.e. until 19 March 2015, there were no other significant events regarding the current period, which would require additional disclosure in this financial statement.

4. Events after the balance sheet date not recognised in the financial statement

Until the date of development of the financial statement for the period concluded on 31 December 2014, i.e. until 19 March 2015, there were no events, which were not recognised in this financial statement.

5. Seasonality of the activities

The Company's activities are not seasonal, therefore the presented results are not subject to substantial fluctuation throughout the year.

6. Balance sheet

a) Fixed assets.

Period ended 31.12.2014

	Land	Buildings	Buildings	Boilers and power machines	Plants, devices and apparatus of general application	Machines, devices and special industry equipment	Technical equipment	Means of transport	Tools, instruments, movables and equipment	Right of perpetual usufruct	Fixed assets under construction	Prepayments for fixed assets under construction	Total
Initial value													0,00
Opening balance	848 797,18	694 578 365,14	598 690 822,18	2 333 088 654,93	214 873 765,79	15 255 546,96	578 275 914,96	3 216 410,43	10 266 182,43	521 776,87	220 950 880,04	43 009 916,39	4 713 577 033,30
Increases, including:	8 000,00	2 894 055,37	412 409,38	545 880,00	5 670 562,63	19 528,72	1 140 313,82	1 188 722,68	1 503 280,28		484 480 111,23	3 908 089,90	501 770 954,01
Purchase		6 980,00	2 108,86		1 757 646,11	11 128,72	85 090,65	6 511,79	321 199,39		484 480 111,23	3 908 089,90	490 578 866,65
Other	8 000,00	887 828,02	327 800,52	76 000,00	8 200,00			230 811,69					1 538 640,23
Adoption from nvestment		1 999 247,35	82 500,00	469 880,00	3 904 716,52	8 400,00	1 055 223,17	951 399,20	1 182 080,89				9 653 447,13
Decreases, including:	17 713,39	2 022 450,29	731 608,42	4 913,00	207 965,96	21 443,22	313 961,19	555 927,60	240 516,87		12 035 405,70	26 256 176,22	42 408 081,86
Liquidation		7 729,90		4 913,00	113 670,72	21 443,22	293 655,32	9 305,87	152 132,10		11 859 405,70	26 256 176,22	38 718 432,05
Sales	17 713,39	2 014 720,39	731 608,42		94 295,24		20 305,87	546 621,73	88 384,77		176 000,00		3 689 649,81
Closing balance	839 083,79	695 449 970,22	598 371 623,14	2 333 629 621,93	220 336 362,46	15 253 632,46	579 102 267,59	3 849 205,51	11 528 945,84	521 776,87	693 395 585,57	20 661 830,07	5 172 939 905,45
Depreciation													
Opening balance	0,00	378 724 006,84	289 296 030,18	2 002 855 978,57	88 081 061,08	14 254 644,03	292 981 611,92	2 238 429,63	8 746 549,03	103 853,13			3 077 282 164,41
Increases, including:		18 748 947,71	19 956 659,51	26 582 645,86	13 037 147,66	154 257,32	19 712 485,30	360 817,93	739 756,69	4 651,05			99 297 369,03
Depreciation period		18 748 947,71	19 956 659,51	26 582 645,86	13 037 147,66	154 257,32	19 712 485,30	360 817,93	739 756,69	4 651,05			99 297 369,03
Other													0,00
Decreases, including:		1 690 429,98	591 520,66	4 913,00	205 756,79	21 443,22	313 481,00	540 170,30	240 516,87	0,00			3 608 231,82
Liquidation		7 729,90			113 670,72	21 443,22	293 655,32	9 305,87	152 132,10				597 937,13
Sales		1 682 700,08	591 520,66	4 913,00	92 086,07		19 825,68	530 864,43	88 384,77				3 010 294,69
Other													0,00
Closing balance	0,00	395 782 524,57	308 661 169,03	2 029 433 711,43	100 912 451,95	14 387 458,13	312 380 616,22	2 059 077,26	9 245 788,85	108 504,18	0,00	0,00	3 172 971 301,62
Opening balance of write-downs			376 017,21	135 078,15									511 095,36
Closing balance of write-downs			0,00	0,00									0,00
Net value													
Opening balance	848 797,18	315 854 358,30	309 018 774,79	330 097 598,21	126 792 704,71	1 000 902,93	285 294 303,04	977 980,80	1 519 633,40	417 923,74	220 950 880,04	43 009 916,39	1 635 783 773,53
Closing balance	839 083,79	299 667 445,65	289 710 454,11	304 195 910,50	119 423 910,51	866 174,33	266 721 651,37	1 790 128,25	2 283 156,99	413 272,69	693 395 585,57	20 661 830,07	1 999 968 603,83

Period ended 31.12.2013

	Land	Buildings	Buildings	Boilers and power machines	Plants, devices and apparatus of general application	Machines, devices and special industry equipment	Technical equipment	Means of transport	Tools, instruments, movables and equipment	Right of perpetual usufruct	Fixed assets under construction	Prepayments for fixed assets under construction	Total
Initial value													
Opening balance	848 797,18	693 687 044,24	591 436 817,23	2 348 381 289,28	212 876 052,17	15 253 764,86	572 250 424,65	2 962 555,93	10 065 201,15	497 050,19	95 781 899,49	3 879 000,00	4 547 919 896,37
Increases, including:	0,00	1 871 886,46	7 483 939,70	14 707 365,65	2 159 185,85	10 337,84	6 145 936,98	343 025,12	294 000,40	24 726,68	158 893 730,53	48 748 224,39	240 682 359,60
Purchase					10 284,86	10 337,84	146 568,85	2 746,34	90 820,40		158 893 730,53		159 154 488,82
Other													0,00
Adoption from investment		1 871 886,46	7 483 939,70	14 707 365,65	2 148 900,99		5 999 368,13	340 278,78	203 180,00	24 726,68		48 748 224,39	81 527 870,78
Decreases, including:		980 565,56	229 934,75	30 000 000,00	161 472,23	8 555,74	120 446,67	89 170,62	93 019,12	0,00	33 724 749,98	9 617 308,00	75 025 222,67
Liquidation		980 565,56	229 934,75	30 000 000,00	161 472,23	8 555,74	120 446,67		74 961,84		33 564 749,98	9 617 308,00	74 757 994,77
Sales								89 170,62	18 057,28		160 000,00		267 227,90
Other													0,00
Closing balance	848 797,18	694 578 365,14	598 690 822,18	2 333 088 654,93	214 873 765,79	15 255 546,96	578 275 914,96	3 216 410,43	10 266 182,43	521 776,87	220 950 880,04	43 009 916,39	4 713 577 033,30
Depreciation													
Opening balance	0,00	361 037 789,51	268 594 194,04	2 015 115 130,54	78 092 611,33	14 002 836,58	273 511 688,08	1 913 393,83	8 536 365,96	99 202,08			3 020 903 211,95
Increases, including:		18 593 701,17	20 931 770,89	17 740 848,03	10 149 921,98	260 363,19	19 590 370,51	414 206,42	303 202,19	4 651,05	0,00	0,00	87 989 035,43
Depreciation period		18 593 701,17	20 931 770,89	17 740 848,03	10 149 921,98	260 363,19	19 590 370,51	414 206,42	303 202,19	4 651,05			87 989 035,43
Other													0,00
Decreases, including:		907 483,84	229 934,75	30 000 000,00	161 472,23	8 555,74	120 446,67	89 170,62	93 019,12	0,00	0,00	0,00	31 610 082,97
Liquidation		907 483,84	229 934,75	30 000 000,00	161 472,23	8 555,74	120 446,67		74 961,84				31 502 855,07
Sales								89 170,62	18 057,28				107 227,90
Closing balance	0,00	378 724 006,84	289 296 030,18	2 002 855 978,57	88 081 061,08	14 254 644,03	292 981 611,92	2 238 429,63	8 746 549,03	103 853,13	0,00	0,00	3 077 282 164,41
Opening balance of write-downs		481 609,77	151 494,37										633 104,14
Closing balance of write-downs		376 017,21	135 078,15										511 095,36
Net value													
Opening balance	848 797,18	332 167 644,96	322 691 128,82	333 266 158,74	134 783 440,84	1 250 928,28	298 738 736,57	1 049 162,10	1 528 835,19	397 848,11	95 781 899,49	3 879 000,00	1 526 383 580,28
Closing balance	848 797,18	315 478 341,09	309 259 713,85	330 232 676,36	126 792 704,71	1 000 902,93	285 294 303,04	977 980,80	1 519 633,40	417 923,74	220 950 880,04	43 009 916,39	1 635 783 773,53

	TANGIBLE FIXED ASSETS	31-12-2014	31-12-2013
a)	tangible assets, including:	1,285,911,188.19	1,371,822,977.10
-	land (including the perpetual usufruct of land)	1,252,356.48	1,266,720.92
-	buildings, premises, and civil engineering works	589,377,899.76	624,738,054.94
-	technical equipment and machinery	691,207,646.71	743,320,587.04
-	transport equipment	1,790,128.25	977,980.80
-	other fixed assets	2,283,156.99	1,519,633.40
b)	capital work in progress	693,395,585.57	220,950,880.04
c)	Advance payments for capital work in progress	20,661,830.07	43,009,916.39
Total tangible fixed assets		**1,999,968,603.83**	**1,635,783,773.53**

	BALANCE SHEET FIXED ASSETS (OWNERSHIP STRUCTURE)	31-12-2014	31-12-2013
a)	proprietary	1,285,649,188.62	1,372,277,568.01
b)	used under a rental, demise or other agreement, including a lease agreement, including:	261,999.57	56,504.45
-	financial lease agreements	261,999.57	56,504.45
-	operating lease, rental, and demise agreements,		
c)	impairment write-downs	0.00	0.00
Total balance sheet fixed assets		**1,285,911,188.19**	**1,372,334,072.46**

FIXED ASSETS RECOGNISED OFF-BALANCE SHEET	31-12-2014	31-12-2013
used under a rental, demise or other agreement, including a lease agreement	51,854.39	1,774,380.15
Total fixed assets recognised off-balance sheet	51,854.39	1,774,380.15

b) Intangible assets

Period ended 31.12.2014

	Wartość początkowa			
	Initial value			
	1 January 2014	Increase	Decrease	31 December 2014
Licenses	28,053,616.39	2,236,356.57	12,457,039.19	17,832,933.77
Software	194,419.21			194,419.21
CO2 allowances	147,274,894.24	177,010,615.96	128,066,159.15	196,219,351.05
TOTAL	**175,522,929.84**	**179,246,972.53**	**140,523,198.34**	**214,246,704.03**

	Redemptions			
	1 January 2014	Increase	Decrease	31 December 2014
Licenses	25,681,090.62	921,143.47	12,416,797.57	14,185,436.52
Software	194,419.21			194,419.21
CO2 allowances				
TOTAL	**25,875,509.83**	**921,143.47**	**12,416,797.57**	**14,379,855.73**

	Net value	
	1 January 2014	31 December 2014
Licenses	2,372,525.77	3,647,497.25
Software	0.00	0.00
Units of certified emission reductions (CER)	147,274,894.24	196,219,351.05
TOTAL	**149,647,420.01**	**199,866,848.30**

Period concluded on 31 December 2013

	Initial value			
	1 January 2013	Increase	Decrease	31 December 2013
Licenses	27,254,493.58	803,022.81	3,900.00	28,053,616.39
Software	194,419.21			194,419.21
CO2 allowances	7,006,183.18	147,274,894.24	7,006,183.18	147,274,894.24
TOTAL	**34,455,095.97**	**148,077,917.05**	**7,010,083.18**	**175,522,929.84**

	Depreciation/Redemption of EUA/CER			
	1 January 2013	Increase	Decrease	31 December 2013
Licenses	24,644,063.35	1,040,927.27	3,900.00	25,681,090.62
Software	194,419.21			194,419.21
CO2 allowances				0.00
TOTAL	**24,838,482.56**	**1,040,927.27**	**3,900.00**	**25,875,509.83**

	Net value	
	1 January 2013	31 December 2013
Licenses	2,610,430.23	2,372,525.77
Software	0.00	0.00
Units of certified emission reductions (CER)	7,006,183.18	147,274,894.24
TOTAL	**9,616,613.41**	**149,647,420.01**

c) Inventory

Specification	31 December 2014	31 December 2013
1. Materials	**42,509,365.13**	**37,394,949.70**
· Production fuel	19,125,953.36	12,219,107.67
· Auxiliary materials	27,215,793.82	29,076,220.22
· Write-down	-3,832,382.05	-3,900,378.19
2. Goods	**135,721,747.73**	**125,505,760.82**
· Green certificates	161,601,158.02	141,970,195.29
· Red certificates	821,237.50	366,079.30
· Write-down	-26,700,647.79	-16,830,513.77
3. Advance payments for deliveries	**2,287,673.61**	**10,391,927.32**
Total:	**180,518,786.47**	**173,292,637.84**

Certificates of origin of energy due to the energy production from renewable energy sources, gas, and peak load co-generation are presented according to fair value on the day, when their granting became certain. As of 31 December 2014, According to entries in the book of accounts, the Company possessed 897.437,4 MWh of ownership units from green certificates produced. However, not all ownership units had approval certificates issued by the Energy Regulatory Office (URE). According to the above, the Company, as of the balance sheet date, was waiting for the issue of approval certificates – the certificates for the production of 2013, and for the fourth quarter of 2014 in the number of 240,695,286 MWh. In September 2014, the Company expended 7,648.797 MWh of pending ownership units produced in 2012 as costs due to lack of opportunity to document origin of biomass. Then, in December 2014, further 12,207.90 MWh being the part of the produced ownership units for the period January – April 2013 period were expended as costs. The total value of the write-offs is PLN 3,123,460.92 thousand. In the current reporting period, the Company was producing energy from renewable energy sources and presenting green certificates at current prices in the balance sheet at the end of every month that is at prices fluctuating between 153.63 – 231.29 PLN/MWh, as appropriate, whereas the highest prices were noted at the beginning of 2014. For the production of the period of 2014 till the balance sheet date of this financial statement, the Company was entitled to the production of 240,805,081 MWh for three quarters of 2014. Then, after the balance sheet date, in January and February 2015, the Company was awarded the approval certificates for the production of 2013 and the production of October and November 2014. Therefore, currently, the Company is waiting only for approval of the production of 38,173,109 MWh of December 2014. The write-down presented in the balance sheet as of 31/12/2014 in the amount of PLN 26.700,6 concerns revaluation of allowances in possession of the Company on 30 September 2014 to the unit price in the amount of 153,63 PLN/MWh.

d) Long-term investments

Entities outside the Capital Group

Period concluded on 31 December 2014

	31 December 2014	31 December 2013
Full name of the entity		
Zakłady Pomiarowo-Badawcze Energetyki "Energopomiar" sp. z o.o., Gliwice	199,962.00	199,962.00
Impairment write-downs		
Zakłady Pomiarowo-Badawcze Energetyki "Energopomiar" sp. z o.o., Gliwice	-48,760.99	-48,760.99
Total long-term	151,201.01	151,201.01

Capital Group entities

Period concluded on 31 December 2014

Full name of the entity, registered office	1 January 2014	Increase	Decrease	31 December 2014	% of the held capital
TOTAL	**1,147,444,181.00**	**0.00**	**0.00**	**1,147,444,181.00**	**-**
Impairment write-downs against the value of financial fixed assets			-	-	-
BALANCE SHEET VALUE	**1,147,444,181.00**	**0.00**	**0.00**	**1,147,444,181.00**	**-**

Period concluded on 31 December 2013

Full name of the entity, registered office	1 January 2013	Increase	Decrease	31 December 2013	% of the held capital
TOTAL	**1,137,444,181.00**	**10,000,000.00**	**0.00**	**1,147,444,181.00**	**-**
Impairment write-downs against the value of financial fixed assets			-	-	-
BALANCE SHEET VALUE	**1,137,444,181.00**	**10,000,000.00**	**0.00**	**1,147,444,181.00**	**-**

e) Share capital

Period concluded on 31 December 2014

Presentation of shareholders	Number of shares	The value of one share in PLN	Percentage share in the share capital	Number of votes	Percentage share in the number of votes
Total:	**50,823,547**		**100.0%**	**50,823,547**	**100%**

According to the Company's knowledge, on the basis of orders submitted by the shareholders.

Period concluded on 31 December 2013

Presentation of shareholders	Number of shares	The value of one share in PLN	Percentage share in the share capital	Number of votes	Percentage share in the number of votes
Zygmunt Solorz Żak (indirectly) via: Elektrim S.A., Embud Sp. z o.o., Polsat Media B.V.	26,200,867	2.00	51.55%	26,200,867	51.55%
ING Otwarty Fundusz Emerytalny	5,069,361	2.00	9.97%	5,069,361	9.97%
Other participants	19,553,319	2.00	38.48%	19,553,319	38.48%
Total:	**50,823,547**		**100.0%**	**50,823,547**	**100%**

According to the Company's knowledge, on the basis of orders submitted by the shareholders.

f) Equity

Period concluded on 31 December 2014

Specification	1 January 2014	Disposal of re-estimated fixed assets	Own shares	Creation of the reserve capital	Profit division for 2013	Result for the current year	31 December 2014
1. Issued capital	101,647,094.00						101,647,094.00
2. Own shares	0.00						0.00
3. Supplementary capital	2,200,508,356.85	593,844.57			197,296,786.66		2,398,398,988.08
4. Capital from revaluation	286,822,712.34	-593,844.57					286,228,867.77
5. Other reserve capitals	5,876,837.06						5,876,837.06
6. Profit from previous years	-834,265.57						-834,265.57
7. Net profit	231,856,798.62				-231,856,798.62	204,642,447.41	204,642,447.41
TOTAL	**2,825,877,533.30**	**0.00**	**0.00**	**0.00**	**-34,560,011.96**	**204,642,447.41**	**2,995,959,968.75**

Period concluded on 31 December 2013

Specification	1 January 2013	Disposal of re-estimated fixed assets	Redemption of own shares	Creation of the reserve capital	Profit division for 2012	Result for the current year	31 December 2013
1. Issued capital	104,052,000.00		-2,404,906.00				101,647,094.00
2. Own shares	-31,279,880.05		31,279,880.05				0.00
3. Supplementary capital	1,956,260,916.02	514,570.12	-31,279,880.05		275,012,750.76		2,200,508,356.85
4. Capital from revaluation	287,337,282.46	-514,570.12					286,822,712.34
5. Other reserve capitals (privatisation fund)	3,471,931.06		2,404,906.00				5,876,837.06
6. Profit from previous years	-834,265.57						-834,265.57
7. Net profit	275,012,750.76				-275,012,750.76	231,856,798.62	231,856,798.62
TOTAL	**2,594,020,734.68**	**0.00**	**0.00**	**0.00**	**0.00**	**231,856,798.62**	**2,825,877,533.30**

g) Profit division for the current and for previous years

The financial statement for the year concluded on 31 December 2014 was developed before the profit division for the current financial year. The Board proposes the transfer of the amount of PLN 40,658,837.60 from the profit for 2014 for the payment of the dividend, which means that PLN 0.80 of the dividend will be per one share of the Company. The Board proposes allocation of the remaining amount of the profit for the supplementary capital of the Company.

According to the resolution no. 5 of the Ordinary General Meeting of the Company of 25 June 2014 on the profit division for 2013, the General Meeting decided to allocate the amount of PLN 34,560,011.96 for the payment of dividend to the shareholders of the Company, which means that PLN 0.68 is per one share of the Company. The General Meeting decided to allocate the remaining amount of PLN 197,296,786.66 for the supplementary capital of the Company.

h) Provisions and write-downs

Contents	Status as of 1 January 2014	Increases	Reallocation	Usage	Termination	Status as of 31 December 2014
Deferred tax provision	53,074,535.23	18,802,912.95				71,877,448.18
Anniversary premiums provision	30,809,207.00	15,826,186.56			30,809,207.00	15,826,186.56
Retirement severance pays provision	7,693,665.00	1,252,691.00				8,946,356.00
Death benefits provision	2,311,393.00	241,491.00				2,552,884.00
Employee tariff provision	45,667,689.00				45,667,689.00	0.00
CO_2 allowances provision	128,066,074.88	122,029,895.73		128,066,074.88		122,029,895.73
Asset liquidation provision	17,778,691.98	775,727.71			3,883,036.55	14,671,383.14
Reclamation provision	4,384,023.34			359,005.32		4,025,018.02
Other provisions	1,500,000.00					1,500,000.00
Total balance sheet provisions	**291,285,279.43**	**158,928,904.95**	**0.00**	**128,425,080.20**	**80,359,932.55**	**241,429,171.63**
Write-down against inventory	**20,730,891.96**	**19,127,566.00**		**9,257,431.98**	**67,996.14**	**30,533,029.84**
Revaluation of shares	**48,760.99**					**48,760.99**
Write-downs against receivables	**35,120,821.64**	**8,603.86**		**264.18**	**4,328.13**	**35,124,833.19**
Total write-downs against assets	**55,900,474.59**	**19,136,169.86**	**0.00**	**9,257,696.16**	**72,324.27**	**65,706,624.02**

Granting of free CO2 allowances for the 2013 – 2020 period is conditioned by the fulfilment by an entity receiving emission allowances, a certain level of investment expenses, which were reported to the National Investment Plan (KPI), attached to the derogation application.
Therefore, if the required investments are executed in the 2013 – 2020 period in accordance with the assumptions, in relation to that fact, the allowances for particular years will be granted for the Company in accordance with the level of investment expenses reported to the KPI.

The Company entitled to receive free CO2 allowances under the Directive 2003/87/EC of the European Parliament /"derogation allowances"/ applies for granting derogation allowances in a quantity equivalent to the investment expenses reported to the National Investment Program. Emission in ZE PAK SA in 2014 was 10,085,564 tonnes of CO2 (data verified by an auditor). ZE PAK has entities purchased in 2014 in the number of 1,253,774 for the needs of redemption. In April 2014, the Group obtained free EUA resulting from Article 10a in number of 312,468 EUA, and resulting from Article 10c in number of 1,682,800 EUA. We plan that ZE PAK will obtain free EUA for 2014 from Article 10c in number of 2,241,959 EUA.

Due to the above, in 2014, the Company acquired additional 4,594,903 tonnes of CO2 in order to perform of the obligation to redeem emission for 2014.

As of 31 December 2014, the Company created the provision for allowances in relation to the actual size of emissions for the period between 1 January 2014 and 31 December 2014. The provision for the burden of core operating activities for lacking CO2 allowances, which the Company acquired and is going to present for the redemption for 2014, was created. Upon physical redemption of the allowance, the provision created earlier will be redeemed in correspondence with the intangible assets account – the CO2 allowances.

The allowances acquired in a given balance sheet year as indirect costs are tax costs of the year.

i) Liabilities acc. to items in the balance sheet

LONG-TERM LIABILITIES		31-12-2014	31-12-2013
a)	for related entities	339,178.29	0.00
-	credits and loans	0.00	0.00
-	debt stocks liabilities		
-	other financial liabilities, including:		
-	financial lease agreements	189,323.29	
-	other (by type)	149,855.00	
b)	for other entities	337,710,202.88	6,301,775.11
-	credits and loans	325,712,873.53	0.00
-	debt stocks liabilities		
-	other financial liabilities, including:		
-	financial lease agreements		18,091.58
-	other (by type)	281,643.33	
-	capital work in progress acquisition liabilities	11,715,686.02	6,283,683.53
Total long-term liabilities		**338,049,381.17**	**6,301,775.11**

LONG-TERM LIABILITIES WITH A REPAYMENT PERIOD REMAINING FROM THE BALANCE SHEET DATE		31-12-2014	31-12-2013
a)	over 1 year to 3 years	101,543,972.54	6,301,775.11
b)	over 3 years to 5 years	89,555,936.50	
c)	over 5 years	146,949,472.13	
Total long-term liabilities		338,049,381.17	6,301,775.11

SHORT-TERM LIABILITIES		31-12-2014	31-12-2013
a)	for subsidiaries	93,937,825.00	78,934,473.14
-	credits and loans, including:		
-	of a long-term repayment period		
-	debt stocks liabilities		
-	dividends		
-	other financial liabilities, including:		
-	deliveries and services of the maturity date:		77,333,644.33
-	up to 12 months	87,175,522.36	77,333,644.33
-	over 12 months		
-	advance payments received for deliveries		301,103.72

-	bill of exchange liabilities		
-	other (by type)	6,762,302.64	1,299,725.09
b)	for co-subsidiaries	0.00	0.00
c)	for associates	10,637,899.71	3,952,019.77
-	credits and loans, including:		
-	of a long-term repayment period		
-	debt stocks liabilities		
-	other financial liabilities, including:		
-	deliveries and services of the maturity date:	5,996,127.44	1,760,194.95
-	up to 12 months		
-	over 12 months		
-	advance payments received for deliveries		
-	other	4,641,772.27	2,191,824.82
d)	for a significant investor	0.00	0.00
e)	for a shareholder of the co-subsidiary	0.00	0.00
f)	for a parent company	0.00	0.00
g)	for other entities	232,794,945.80	268,244,556.12
-	credits and loans, including:		
-	of a long-term repayment period	27,920,541.63	90,951,396.82
-	debt stocks liabilities		
-	dividends		
-	other financial liabilities, including:		
-	deliveries and services of the maturity date:	28,092,145.65	22,371,465.67
-	up to 12 months	28,092,145.65	22,371,465.67
-	over 12 months		
-	advance payments received for deliveries	34,570.70	10,240.53
-	bill of exchange liabilities		
-	taxes, duties, insurances and other provisions	75,132,592.17	85,980,162.19
-	remunerations	4,036,588.85	3,679,016.28
-	lease agreement liabilities	18,213.07	31,710.77
-	other	21,102.77	14,117.15
-	capital work in progress acquisition liabilities	93,119,778.11	61,209,520.72
-	the State Fund for Rehabilitation of Disabled Persons (PFRON) liabilities	113,234.00	102,686.00
-	security deposits	144,727.94	128,313.51
-	the Intercompany Social Insurance Fund (MFŚS) liabilities	2,829,541.84	2,518,094.48
-	deductions from the pay roll	1,331,909.07	1,247,832.00
h)	special funds (by title)	4,733,631.69	4,261,461.63
-	the Company Social Fund	4,678,618.33	4,206,448.27
-	the Staff Fund	55,013.36	55,013.36
Total short-term liabilities		**342,104,302.20**	**355,392,510.66**

j) Working capital facilities and investment credits

Overdraft facilities as of 31 December 2014

From	Item	Object of credit	Creditor	(Agreement no.) of	Credit currency	Credit amount	Indebtedness as at 31.12.2013			Repayment date
							Total	long-term	short-term	
Other entities	1.	Overdraft facility	Bank Zachodni WBK S.A.	(1199/108/01) z 10.08.2001	PLN	5 000 000,00	-	-	-	30-11-2015
	2.	Overdraft facility	Bank Pekao SA	(88/2005) z 20.12.2005	PLN	80 000 000,00	-	-	-	30-09-2015
	3.	Overdraft facility	PKO Bank Polski SA	(270-1/10/RB/2006) z 25.08.2006	PLN	90 000 000,00	-	-	-	25-10-2015
	4.	Overdraft facility	ING Bank Śląski SA	z 28.03.2007	PLN	30 000 000,00	-	-	-	28-03-2015
Total						**205 000 000,00**	**-**	**-**	**-**	

	Item	Object of credit	Creditor	(Agreement no.) of	Credit currency	Credit amount			Indebtedness as at 31.12.2013
						Total	long-term	short-term	
Other entities	Loan B	Refinancing of IOS investment facility repayment.	Consortium of banks mBank, BGK, Millennium, PEKAO SA i PKO BP	13.03.2014r.	PLN	89 638 144,76 PLN	79 361 919,39 PLN	10 276 225,37 PLN	20-12-2023
					TOTAL	**89 638 144,76 PLN**	**79 361 919,39 PLN**	**10 276 225,37 PLN**	

Overdraft facilities as of 31 December 2013

Od	Lp.	Object of credit	Creditor	(Agreement no.) of	Credit currency	Credit amount	Indebtedness as at 31.12.2013			Repayment date
							Total	long-term	short-term	
POther entities	1.	Overdraft facility	Bank Zachodni WBK S.A.	(1199/108/01) z 10.08.2001	PLN	5 000 000,00	-	-	-	30-11-2014
	2.	Overdraft facility	Bank Pekao SA	(88/2005) z 20.12.2005	PLN	80 000 000,00	-	-	-	30-09-2014
	3.	Overdraft facility	PKO Bank Polski SA	(270-1/10/RB/2006) z 25.08.2006	PLN	90 000 000,00	-	-	-	25-10-2014
	4.	Overdraft facility	ING Bank Śląski SA	z 28.03.2007	PLN	30 000 000,00	-	-	-	28-03-2014
					Total	**205 000 000,00**	**-**	**-**	**-**	

Investment loans as of 31.12.2014

	Item	Object of credit	Creditor	(Agreement no.) of	Credit currency	Indebtedness as at 31.12.2014			Repayment date
						Total	long-term	short-term	
Other entities	Loan A	Modernization of Units 1-4 in Pątnów I	Konsorcjum banków mBank, BGK, Millennium, PEKAO SA i PKO BP	13.03.2014r.	PLN	263 995 270,40 PLN	246 350 954,14 PLN	17 644 316,26 PLN	20-12-2023
					Total	**263 995 270,40 PLN**	**246 350 954,14 PLN**	**17 644 316,26 PLN**	

Investment loans as of 31.12.2013

	Item	Object of credit	Creditor	(Agreement no.) of	Credit currency	Indebtedness as at 31.12.2013			Repayment date
						Total	long-term	short-term	
Other entities	1.	Construction of IOS for Units 1-4 in Pątnów	Consortium of banks: Banku Pekao S.A. i PKO BP S.A.	30.05.2006 r.	PLN	90.951.396,82 PLN	-	90.951.396,82 PLN	02-01-2014
					Total	**90.951.396,82 PLN**	**-**	**90.951.396,82 PLN**	

k) Granted loans

As of 31.12.2014

	Item.	Object o loan	Loan granted to	Agreement dated	Currency	Loan amount	Assets as of 31-12-2014	including: Long-term	including: Short-term	Repayment date
Affiliates	1.	Construction of 460 MW unit in Pątnów II	Elektrownia Pątnów II Sp. z o.o.	12-11-2002	Amount in PLN equal to EUR			17 049 429,39 EUR	3 409 885,88 EUR	15-10-2020
						34 098 858,79 EUR	20 513 984,45 EUR	+[1] -	+[1] 54 669,18 EUR	
								= 17 049 429,39 EUR	= 3 464 555,06 EUR	
								72 669 782,89 PLN [3]	14 533 956,59 PLN	
						136 163 822,18 PLN [2]	87 436 755,93 PLN [3]	+[1] - [3]	+[1] 233 016,45 PLN [3]	
								= 72 669 782,89 PLN [3]	= 14 766 973,04 PLN [3]	
	2.	Construction of 460 MW unit in Pątnów II	Elektrownia Pątnów II Sp. z o.o.	13-03-2006	PLN			4 513 660,65 PLN	902 731,98 PLN	15-10-2020
						11 064 960,00 PLN	5 453 299,78 PLN	+[1] -	+[1] 36 907,15 PLN	
								= 4 513 660,65 PLN	= 939 639,13 PLN	
								77 183 443,54 PLN	15 436 688,57 PLN	
						Total	**92 890 055,71 PLN**	0,00 PLN	+[1] 269 923,60 PLN	
								77 183 443,54 PLN	= **15 706 612,17 PLN**	

[1]/ Interest accrued as of 31 December 2014

[2]/ Loan value acc. to the exchange rates of the date of granting its instalments and capitalisation.
[3]/ Average EUR/PLN exchange rate according to the table of the National Bank of Poland of 31 December 2014, amounting to 4.2623.

As of 31.12.2013

	Item.	Object o loan	Loan granted to	Agreement dated	Currency	Loan amount	Assets as of 31-12-2013	including: Long-term	including: Short-term	Repayment date
Affiliates	1.	Construction of 460 MW unit in Pątnów II	Elektrownia Pątnów II Sp. z o.o.	12-11-2002	Amount in PLN equal to EUR			20 459 315,27 EUR	3 409 885,88 EUR	15-10-2020
						34 098 858,79 EUR	23 939 108,29 EUR	+[1] -	+[1] 69 907,14 EUR	
								= 20 459 315,27 EUR	= 3 479 793,02 EUR	
								84 848 872,29 PLN [3]	14 141 478,72 PLN	
						136 163 822,18 PLN [2]	99 280 269,90 PLN [3]	+[1] - [3]	+[1] 289 918,89 PLN [3]	
								= 84 848 872,29 PLN [3]	= 14 431 397,61 PLN [3]	
	2.	Construction of 460 MW unit in Pątnów II	Elektrownia Pątnów II Sp. z o.o.	13-03-2006	PLN			5 416 392,63 PLN	902 731,98 PLN	15-10-2020
						11 064 960,00 PLN	6 371 247,87 PLN	+[1] -	+[1] 52 123,26 PLN	
								= 5 416 392,63 PLN	= 954 855,24 PLN	
								90 265 264,92 PLN	15 044 210,70 PLN	
						Total	**105 651 517,77 PLN**	0,00 PLN	+[1] 342 042,15 PLN	
								90 265 264,92 **PLN**	= **15 386 252,85 PLN**	

[1]/ Interest accrued as of 31 December 2013

[2]/ Loan value acc. to the exchange rates of the date of granting its instalments and capitalisation.
[3]/ Average EUR/PLN exchange rate according to the table of the National Bank of Poland of 31 December 2013, amounting to 4.1472.

l) Concluded lease agreements

As of 31.12.2014

	Item.	Object of lease	Financing party	Agreement of:	Lease currency	Indebtedness as at 31.12.2014			Repayment date
						total	long-term	short-term	
Other entities	1.	VOLKSWAGEN PASSAT	Energo-Utech SA	5 maja 2012 r. nr 15/O/ENUT/2012	PLN	7 485,42 PLN	-	7 485,42 PLN	20-04-2015
	2.	VOLKSWAGEN PASSAT	Energo-Utech SA	15 października 2012 r. nr 37/O/ENUT/2012	PLN	10 727,43 PLN	-	10 727,43 PLN	20-09-2015
	3.	AUDI A6	Polkomtel Sp. z o.o.	17 października 2014r.	PLN	230 811,68 PLN	189 323,29 PLN	41 488,39 PLN	02-11-2018
					TOTAL	**249 024,53 PLN**	**189 323,29 PLN**	**59 701,24 PLN**	

Stan na 31.12.2013 roku

	Item.	Object of lease	Financing party	Agreement of:	Lease currency	Indebtedness as at 31.12.2013			Repayment date
						total	long-term	short-term	
Other entities	1.	VOLKSWAGEN PASSAT	Energo-Utech SA	5 maja 2012 r. nr 15/O/ENUT/2012	PLN	25 569,46 PLN	7 353,68 PLN	18 215,78 PLN	20-04-2015
	2.	VOLKSWAGEN PASSAT	Energo-Utech SA	15 października 2012 r. nr 37/O/ENUT/2012	PLN	24 232,89 PLN	10 737,90 PLN	13 494,99 PLN	20-09-2015
					TOTAL	**49 802,35 PLN**	**18 091,58 PLN**	**31 710,77 PLN**	

m) Structure of deliveries, works and services receivables acc. to the date of their formation

SHORT-TERM RECEIVABLES		31-12-2014	31-12-2013
a)	from related entities	45,426,226.91	46,602,601.77
-	deliveries and services of the repayment period:	38,759,543.46	39,290,036.44
-	up to 12 months	38,759,543.46	39,290,036.44
-	over 12 months		
-	claimed at court		
-	other	6,666,683.45	7,312,565.33
b)	receivables from other entities	103,868,227.71	92,368,567.81
-	deliveries and services of the repayment period:	58,007,406.22	56,655,646.26
-	up to 12 months	58,007,406.22	56,655,646.26
	over 12 months		
-	taxes, grants, duties, social and health insurances and other benefits	31,272,462.32	22,029,566.01
-	claimed at court		
-	other	14,588,359.17	13,683,355.54
Total net short-term receivables		149,294,454.62	138,971,169.58
c)	receivables impairment write-downs	35,124,833.19	35,120,821.64
Total gross short-term receivables		184,419,287.81	174,091,991.22

(GROSS) DELIVERIES AND SERVICES RECEIVABLES – OF A REPAYMENT PERIOD REMAINING FROM THE BALANCE SHEET DATE:		31-12-2014	31-12-2013
a)	up to 1 month	96,604,388.18	94,874,579.69
b)	over 1 month to 3 months	-1,405,601.98	267,359.38
c)	over 3 months to 6 months	41,497.11	
d)	over 6 months to 1 year	41,497.17	
e)	over 1 year		
f)	overdue receivables	33,846,431.81	33,159,861.95
Total (gross) deliveries and services receivables		129,128,212.29	128,301,801.02
g)	Impairment write-downs against the deliveries and services receivables value	32,361,262.61	32,357,251.06
Total (net) deliveries and services receivables		**96,766,949.68**	**95,944,549.96**

(GROSS) OVERDUE DELIVERIES AND SERVICESE RECEIVABLES – DIVIDED INTO RECEIVABLES NOT REPAID IN THE PERIOD:		31-12-2014	31-12-2013
a)	up to 1 month	1,238,052.85	792,209.27
b)	over 1 month to 3 months	244,412.43	4,451.04
c)	over 3 months to 6 months	5,374.95	3,895.78
d)	over 6 months to 1 year	6,620.77	5,744.85
e)	over 1 year	32,351,970.81	32,353,561.01
Total (gross) overdue deliveries and services receivables		33,846,431.81	33,159,861.95
f)	overdue impairment write-downs against the deliveries and services receivables value	32,358,591.30	32,353,561.01
Total (net) overdue deliveries and services receivables		**1,487,840.51**	**806,300.94**

n) List of prepayments and accruals as well as revenues in future periods

Item	Specification	Status as of 31 December 2014	Status as of 31 December 2013
I.	**Prepayments**	**6,781,293.06**	**4,415,163.08**
1.1	Magazine subscriptions	12,319.87	7,972.86
1.2.	Property insurance		0.00
1.3.	Contribution to the Company Social Insurance Fund		0.00
1.4.	Ash storage yard reclamation costs	1,394,127.10	1,394,127.10
1.5.	Property liquidation	1,326,197.47	2,906,675.12
1.6.	Financing costs settled over time	3,200,237.46	
1.7.	Other	848,411.16	106,388.00
II	**Accruals**	**33,155,099.45**	**34,262,997.69**
1.	**Accruals**	**17,150,801.72**	**16,619,288.85**
1.1	Annual bonus provision	13,924,501.71	13,898,489.48
1.2	Unused leave provision	1,753,954.88	1,450,025.75
1.3	Current year costs provision	120,000.00	135,200.00
1.4	Obligation of redemption of Property Rights – “green certificates”	851,789.70	925,800.62
1.5	Obligation of redemption of Property Rights – “red certificates”	68,898.91	
1.6	Obligation of redemption of Property Rights – “purple” gas charge	29,678.06	22,920.00
1.7	Obligation of redemption of Property Rights – “yellow” gas charge	121,336.82	
1.8	Obligation of redemption of Property Rights – “white energy” charge	280,641.64	186,853.00
2.	**Revenues in future periods**	**16,004,297.73**	**17,643,708.84**
2.1.	Insurance company compensations	102,007.63	1,409,420.74
2.2	Difference between the net value of assets transferred in the form of contributions in-kind and their fixed prices, specified in the agreement	13,594,457.35	13,594,457.35
2.3	Received subsidies settled over time	2,299,610.85	2,631,608.85
2.4	Other	8,221.90	8,221.90

o) List of groups and liabilities secured on the entity's assets

Item	Secured assets	Status as of 31 December 2014				Status as of 31 December 2013			
		credit/loan amount	security amount	currency	security amount expressed in % of the assets	credit/loan amount	security amount	currency	security amount expressed in % of the assets
1.	**Registered and financial pledge**	**1,200,000,000.00**	**2,040,000,000.00**	**PLN**	**51.64%**	**90,951,396.82**	**240,000,000.00**	**PLN**	**6.83%**
1.1	Registered pledge on the power unit no. 3 at the Pątnów Power Plant[1]								
1.2	Registered pledge on the power unit no. 4 at the Pątnów Power Plant[1]	-	-	-	-	90,951,396.82	240,000,000.00	PLN	6.83%
1.3	Registered and financial pledge on rights and cash from the A and B bank account agreements of ZE PAK in PEKAO S.A. and PKO BP S.A.[1]								
1.4	Registered and financial pledge on rights and cash from the IOS bank account agreements of ZE PAK in PKO BP[1]	-	-	-	-	90,951,396.82	240,000,000.00	PLN	6.83%
1.5	Registered pledge on a set of moveable assets comprising the Fume Desulphurisation System in the Pątnów Power Plant[1]	-	-	-	-	90,951,396.82	240,000,000.00	PLN	6.83%
1.6	Registered pledge on a set of ZE PAK's assets (power units no. 1-4 in the Pątnów Power Plant) for mBank in relation to the credit of PLN 1.2 billion of 13.03.2014[7]	1,200,000,000.00	2,040,000,000.00	PLN	51.64%	-	-	-	-
1.7	Registered pledge on bank accounts of ZE PAK SA for mBank in relation to the credit of PLN 1.2 billion of 13.03.2014[7]	1,200,000,000.00	2,040,000,000.00	PLN	51.64%	-	-	-	-

1.8	Financial pledge on cash on the ZE PAK SA's bank accounts in the following banks: mBank, BGK, PEKAO SA, PKO BP, Millennium in relation to the credit of PLN 1.2 billion of 13.03.20148[7]	1,200,000,000.00	2,040,000,000.00	PLN	51.64%	-	-	-	-
2.	Registered and financial pledge on shares in subsidiaries	145,763,011.92	400,000,000.00	EUR	51.75%[6]	172,813,964.86	400,000,000.00	EUR	56.89%[6]
		15,000,000.00	339,750,000.00	PLN		45,000,000.00	339,750,000.00	PLN	
2.1	Registered and financial pledge on shares of ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. for BRE Bank S.A. (ZE PAK as the guarantor of the "Pątnów II" project)[2]	145,763,011.92	400,000,000.00	EUR	43.15%[3]	172,813,964.86	400,000,000.00	EUR	47.22%[4]
		15,000,000.00	339,750,000.00	PLN	8.60%	45,000,000.00	339,750,000.00	PLN	9.67%
3.	Mortgage	-	-	PLN	-	-	-	PLN	-
3.1	Contractual joint capped rate and ordinary mortgage on lots with the land registry number KW 72269 and KW 72270 in Konin Pątnów and Kamienica in the Kazimierz Biskupi Commune for PEKAO S.A. and PKO BP S.A.[1]	-	-	-	-	90,951,396.82	210,000,000.00	PLN	5.98%[5]
3.2	Contractual joint mortgage established on real estates in Konin, which consist of lots nos. 89/20, 89/53, 89/57, 89/55, 89/56, and 89/21, as well as on real estates in the Kazimierz Biskupi Commune,which consist of lots nos. 148/26, 148/28, and 148/34, for which the District Court in Konin keeps the land registry of the following numbers: KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0, KN1N/00091529/2 for mBank in relation to the credit of PLN 1.2 billion of 13 March 2014[7]	1,200,000,000.00	2,040,000,000.00	PLN	51.64%[8]	-	-	-	-

1/ Security of the syndicated loan of PLN 306 million for PAK Odsiarczanie sp. z o.o. for PKO BP S.A. and PEKAO S.A. On 30 November 2011, as result of a merger between ZE PAK S.A. and PAK Odsiarczanie Sp. z o.o., the loan was taken over by ZE PAK SA. On 2 January 2014, the loan was fully repaid by ZE PAK SA.

2/ Securities of the syndicated loan of EUR 240.00 million and the loan of PLN 226.00 million for Elektrowni Pątnów II sp. z o.o. The syndicated loan was granted by the following banks: PEKAO S.A., BRE BANK S.A. and EBOR. The loan was granted by NFOŚiGW. Pledge on shares of ZE PAK S.A. in PAK Infrastruktura sp. z o.o. and PAK HOLDCO sp. z o.o. for BRE Bank SA

3/ Percentage share in the conversion of EUR 400,000,000.00 into PLN according to the average EUR/PLN exchange rate of 31 December 2014, amounting to 4.2623

4/ Percentage share in the conversion of EUR 400,000,000.00 into PLN according to the average EUR/PLN exchange rate of 31 December 2013, amounting to 4.1472

5/ The amounts of this securities cannot be aggregated, as they regard a single credit, of which the maximum amount of security is PLN 240 million.

6/ Total share of the amounts of security of EUR 400,000,000.00 and PLN 339,750,000.00

7/ Securities of the syndicated loan of PLN 1.2 billion for ZE PAK SA granted by mBank, BGK, Millennium, PKO BP and PEKAO SA, signed on 13 March 2014

8/ The amounts of this securities cannot be aggregated, as they regard a single credit, of which the maximum amount of security is PLN 2.040 million.

p) Contingent liabilities, including guarantees and sureties granted by the entity

Item	Type of liabilities, guarantees, sureties	Status as of 31 December 2014			Status as of 31 December 2013		
		Amount		% of assets	Amount		% of assets
		PLN	EUR	%	PLN	EUR	%
	1	1	2	3	4	5	6
1.	**Total contingent liabilities, including:**	**4,705,202,050.00**	**-**	**119.10%**	**224,002,050.39**	**-**	**6.38%**
2.	**Sureties**	**184,072,050.00**	**-**	**4.66%**	**222,872,050.39**	**-**	**6.34%**
2.1	Surety on behalf of PAK KWB Konin SA for the working capital facility in BRE Bank	-	-	-	18,300,000.00	-	0.52%
2.2	Surety on behalf of PAK KWB Konin SA for the working capital facility in BRE Bank	-	-	-	10,300,000.00	-	0.29%
2.3	Surety on behalf of PAK KWB Adamów SA for the overdraft facility in BZ WBK	10,000,000.00	-	0.25%	10,500,000.00	-	0.30%
2.4	Surety on behalf of PAK KWB Konin SA for the overdraft facility in BRE Bank	-	-	-	9,700,000.00	-	0.28%
2.5	Surety on behalf of PAK KWB Konin SA for the investment credit in BZ WBK	32,572,050.39	-	0.82%	32,572,050.39	-	0.93%
2.6	Surety on behalf of PAK KWB Konin SA for the working capital facility in Millennium	76,500,000.00	-	1.94%	76,500,000.00	-	2.18%
2.7	Surety on behalf of PAK KWB Konin SA for the overdraft facility in BZ WBK	65,000,000.00	-	1.65%	65,000,000.00	-	1.85%
3.	**Powers of attorney**	**1,280,000,000.00**	**-**	**32.40%**	**-**	**-**	**-**
3.1	Power of attorney for the ZE PAK SA's bank accounts in mBANK, PEKAO SA, BGK, PKO BP, and Millennium in relation to the credit of PLN 1.2 billion of 13 March 2014.	1,200,000,000.00	-	30.37%	-	-	-
3.2	Power of attorney for the ZE PAK SA's bank account in PEKAO SA in relation to the overdraft facility of PLN 80 million of 20 December 2005	80,000,000.00	-	2.02%	-	-	-

4.	**Assignments**	**1,200,000,000.00**	**-**	**30.37%**	**-**	**-**	**-**
4.1	Assignment of the property insurance agreement of the Pątnów Power Plant and the assignment of the insurance of the investment titled "Modernization of units 1-4 in the Pątnów Power Plant" in relation to the credit of PLN 1.2 billion for Bank mBANK of 13 March 2014	1,200,000,000.00	-	30.37%	-	-	-
4.2	Assignment of agreements for the sale of electricity with ENERGA Obrót, Elektrim-Volt, RWE Polska, ENEA, Tauron, and PSE Operator in relation to the credit of PLN 1.2 billion for Bank mBANK of 13 March 2014	1,200,000,000.00	-	30.37%	-	-	-
5.	**Guarantees**	**-**	**-**	**-**	**-**	**-**	**-**
6.	**Other securities**	**2,041,130,000.00**	**-**	**51.67%**	**1,130,000.00**	**-**	**0.03%**
6.1	Declarations on submission to enforcement in relation to the credit of PLN 1.2 billion of 13 March 2014	2,040,000,000.00	-	51.64%	-	-	-
6.2	Liabilities towards employees	1,130,000.00	-	0.03%	1,130,000.00	-	0.03%

q) Contingent receivables including guarantees and sureties granted by the entity

As of 31 December 2014

	Partner	Type of security	Date of issue	Issuer	Term	Amount
1	AGTOS sp. o.o.	Blank bill of exchange agreement and bill of exchange	19 June 2006	AGTOS sp. o.o.	term of an agreement	blank, no higher than PLN 25,000,000
2	ARCELOR sp. z o.o.	Blank bill of exchange agreement and bill of exchange	16 June 2008	ARCELOR sp. z o.o.	term of an agreement	blank
3	MIRANDA sp. z o.o.	Blank bill of exchange agreement and sola bill of exchange granted by EFFECT System SA	16 November 2012	MIRANDA sp. z o.o.	term of agreement no. 35/Miranda Sp. z o.o./PAK/2012	blank, no higher than PLN 2,500,000
4	Foster Wheeler Energia Polska Sp. z o.o.	Performance Bond PLN	16 July 2014	ING Bank Śląski SA	until 10 July 2016	4,222,860.00
5	Foster Wheeler Energia Polska Sp. z o.o.	Performance Bond EUR	16 July 2014	ING Bank Śląski SA	until 10 July 2016	351,000.00
6	Foster Wheeler Energia Polska Sp. z o.o.	Surety of the Parent Company	19 August 2009	Foster Wheeler Energia OY	until the expiry of Foster Weeler Polska S.A.'s obligations arising from the Agreement no. 1/2009 of 30 July 2009	211,143,010.00
						17,550,000.00
7	Turbo Care Sp. z o.o.	Performance Bond	9 August 2012	PEKAO SA	14 September 2015	3,960,000.00
8	Turbo Care Sp. z o.o.	Performance Bond	09 August 2012	PEKAO SA	14 February 2015	3,780,000.00
9	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	9 August 2012	PEKAO SA	31 August 2015	405,900.00
10	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	09 August 2012	PEKAO SA	22 December 2015	387,450.00

11	Chemar Rurociągi Sp. z o.o.	Bank Performance Bond	03-01-2011	PKO BP	15 April 2015	460,000.00
12	Energomar-Nord Sp. z o.o.	Bank Performance Bond	22 July 2013	Raiffeisen Bank Polska S.A.	29 June 2016	28,338.00
13	Chemar Rurociągi Sp. z o.o.	Bank Performance Bond	26 September 2013	PKO BP	15 February 2015	2,308,000.00
14	Chemar Rurociągi Sp. z o.o.	Bank Advance Payment Refund Guarantee	13 September 2013	PKO BP	31 January 2015	2,838,840.00
15	SBB Energy SA	Bank Advance Payment Refund Guarantee	21 August 2013	PEKAO SA	31 January 2016	11,995,299.48
16	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	27 September 2013	PEKAO SA	30 September 2015	2,324,700.00
17	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	14 January 2014	PEKAO SA	30 December 2015	2,583,000.00
18	Ethos Energy Sp. z o.o.	Performance Bond for the Quality Guarantee and Warranty period	01-10-2013	Siemens Financial Services GmbH	10 July 2015	3,075,450.00
19	Turbo Care Sp. z o.o.	Performance Bond	13 August 2013	Siemens Financial Services GmbH	24 September 2015	14,742,000.00
20	Turbo Care Sp. z o.o.	Performance Bond	13 August 2013	Siemens Financial Services GmbH	24 November 2015	15,120,000.00
21	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	13-08-2013	Siemens Financial Services GmbH	14 February 2015	7,051,590.00
22	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	13 August 2013	Siemens Financial Services GmbH	14 April 2015	9,298,800.00
23	Condix	Blank bill of exchange and bill of exchange agreement	20 December 2012	Condix	10 July 2018	908,400.00
24	Condix	Defect Liability Guarantee	10 January 2013	UNIQA TU S.A.	10 July 2015	3,584,285.69

25	Balcke-Durr Polska Sp. z o.o.	Performance Bond	29 January 2014	Deutsche Bank Polska SA	30 January 2015	897,941.00
26	Balcke-Durr Polska Sp. z o.o.	Performance Bond	29 January 2014	Deutsche Bank Polska SA	30 March 2015	881,148.90
27	Balcke-Durr Polska Sp. z o.o.	Advance Payment Refund Guarantee	30-01-2014	Deutsche Bank Polska SA	31 March 2015	1,779,089.90
28	Wafapomp Group	Bank Performance Bond	29 January 2014	ING Bank Śląski SA	05 January 2016	564,601.00
29	EL PAK Sp. z o.o.	Bank Performance Bond	07 March 2014	PKO BP	30 April 2016	470,350.00
30	Cz.P.B.P. Przemysłówka S.A.	Performance Bond	24 September 2014	InterRisk T.U. SA Vienna Insurance Group	22 March 2015	372,415.00
31	Cz.P.B.P. Przemysłówka S.A.	Performance Bond	29-09-2014	InterRisk T.U. SA Vienna Insurance Group	21 January 2016	2,950,770.00

As of 31 December 2013

	Partner	Type of security	Date of issue	Issuer	Term	Amount
1	AGTOS sp. o.o.	Blank bill of exchange agreement and bill of exchange	19 June 2006	AGTOS sp. o.o.	term of an agreement	blank, no higher than PLN 25,000,000
2	Vattenfall Trading Services GmbH	Parent guaranty no. 2005-46	15 December 2005	Vattenfall AB	term of an agreement	5,000,000.00
			12 November 2008			10,000,000.00
3	ARCELOR sp. z o.o.	Blank bill of exchange agreement and bill of exchange	16-06-2008	ARCELOR sp. z o.o.	term of an agreement	blank
4	MIRANDA sp. z o.o.	Blank bill of exchange agreement and sola bill of exchange granted by EFFECT System SA	16-11-2012	MIRANDA sp. z o.o.	term of agreement no. 35/Miranda Sp. z o.o./PAK/2012	blank, no higher than PLN 2.500.000
5	Foster Wheeler Energia Polska Sp. z o.o.	Performance Bond PLN	19-06-2012	ING Bank Śląski SA	until 15 July 2015	8,445,720.00

6	Foster Wheeler Energia Polska Sp. z o.o.	Performance Bond EUR	19-06-2012	ING Bank Śląski SA	until 15 July 2015	702,000.00
7	Balcke-Durr Polska Sp. z o.o.	Performance Bond	16 August 2011	Deutsche Bank Polska SA	until 13 December 2013	139,850.00
8	Balcke-Durr Polska Sp. z o.o.	Performance Bond	14 August 2012	Deutsche Bank Polska SA	until 8 August 2014	141,500.00
9	Foster Wheeler Energia Polska Sp. z o.o.	Surety of the Parent Company	19 August 2009	Foster Wheeler Energia OY	until the expiry of Foster Weeler Polska S.A.'s obligations arising from the Agreement no. 1/2009 of 30 July 2009	211,143,010.00 17,550,000.00
10	Turbo Care Sp. z o.o.	Performance Bond	09 August 2012	PEKAO SA	14 November 2014	3,960,000.00
11	Turbo Care Sp. z o.o.	Performance Bond	09-08-2012	PEKAO SA	14 February 2015	3,780,000.00
12	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	09 August 2012	PEKAO SA	30 June 2014	1,217,700.00
13	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	09 August 2012	PEKAO SA	30 September 2014	1,420,650.00
14	Chemar Rurociągi Sp. z o.o.	Bank Performance Bond	03 January 2011	PKO BP	15 April 2015	460,000.00
15	Energomar-Nord Sp. z o.o.	Bank Performance Bond	22 July 2013	Raiffeisen Bank Polska S.A.	29 June 2016	28,338.00
16	Chemar Rurociągi Sp. z o.o.	Bank Performance Bond	26 September 2013	PKO BP	15 December 2014	2,282,000.00
17	Chemar Rurociągi Sp. z o.o.	Bank Performance Bond	26 September 2013	PKO BP	15 February 2015	2,308,000.00
18	Chemar Rurociągi Sp. z o.o.	Bank Advance Payment Refund Guarantee	13 September 2013	PKO BP	30 November 2014	2,806,860.00
19	Chemar Rurociągi Sp. z o.o.	Bank Advance Payment Refund Guarantee	13 September 2013	PKO BP	31 January 2015	2,838,840.00
20	Remak-Rozruch S.A.	Defect Liability Guarantee	4 July 2012	STU Ergo Hestia	13 July 2014	1,228,770.00

21	Remak-Rozruch S.A.	Bank Advance Payment Refund Guarantee	21 August 2013	PEKAO SA	30 September 2015	28,325,916.00
22	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	27 September 2013	PEKAO SA	30 September 2015	2,583,000.00
23	Turbo Care Sp. z o.o.	Performance Bond for the Quality Guarantee and Warranty period	01-10-2013	Siemens Financial Services GmbH	10 July 2015	3,075,450.00
24	Turbo Care Sp. z o.o.	Performance Bond	13 August 2013	Siemens Financial Services GmbH	24 September 2015	14,742,000.00
25	Turbo Care Sp. z o.o.	Performance Bond	13 August 2013	Siemens Financial Services GmbH	24 November 2015	15,120,000.00
26	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	13 August 2013	Siemens Financial Services GmbH	14 February 2015	10,073,700.00
27	Turbo Care Sp. z o.o.	Advance Payment Refund Guarantee	13 August 2013	Siemens Financial Services GmbH	14 April 2015	10,332,000.00
28	Condix	Blank bill of exchange and bill of exchange agreement	20 December 2012	Condix	Until the expiry of the Construction Bond term and signing of the Final Structure Acceptance Protocol	908,400.00
29	Condix	Defect Liability Guarantee	10 January 2013	UNIQA TU S.A.	10 July 2015	3,584,285.69

r) Legal proceedings

Proceedings due to failure to perform obligation to maintain stocks of fuel

On 17 September 2008 and 29 May 2009, the URE President initiate proceedings due to impose a pecuniary penalty on the ZE PAK SA Company due to failure to perform obligation to maintain stocks of fuel securing continuity of supplies of electricity and heat to recipients on 31 December 2007, 31 March 2008, 1 July 2008, 1 September 2008, 1 October 2008, 1 November 2008, 1 December 2008, 1 January 2009, 1 February 2009, and 01 March 2009.
On the basis of the decision of the President of the Energy Regulatory Office of 28 December 2010, ZE PAK SA was imposed the pecuniary penalty due to failure to perform obligation to maintain stocks of fuel in the quantity securing continuity of supplies of electricity and heat to recipients in 2008 and 2009 in the amount of PLN 1,500 thousand. The Company redeemed the provision to pay the penalty in full. On 17 January 2011, the Company appealed against the URE President before the Regional Court of Warsaw – SOKiK.
On 30 January 2014, the SOKiK decided about a dismissal of the company's appeal against the URE President's decision. After getting acquainted with the justification to the SOKiK's judgement, on 30 April 2014, the Company appealed before the Court of Appeal of Warsaw and waits for setting the hearing date.

Proceedings in case of the excise tax excess payment

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.
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 (Polish Journal of Laws of 1997; Dz. U. no. 137, item 926 as amended), ZE PAK S.A. 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 626,000 thousand, 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 S.A. are not subject to excise tax. Particular applications were recognised at the following levels: Customs Office in Kalisz, Customs Chamber in Poznań and currently the Provincial Administrative Court in Poznań as well as the Supreme Administrative Court.
In relation to the decisions of the Administrative Courts in the cases of other energy companies regarding the overpaid excise tax, ZE PAK S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011 where the Supreme Administrative Court recognised that the pass-through of tax to the price excludes the possibility of refunding the excess payment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK S.A. submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. PLN 626,460 thousand and thus stopped the statute of limitation. The conciliatory settlement was not reached since during the hearing of 16 April 2012, case ref. no. VI Co 311/12, the representatives of the Treasury

did not agree to settle. Simultaneously, on 14 September 2012, while waiting for the results of the tax proceedings regarding the previously submitted applications for excess payment, the Company submitted in writing, to the Customs Chamber in Poznań, additional explanations in the form of results of a detailed economic study, the purpose of which was to demonstrate whether the Company suffered a loss related to the payment of the excise tax, to which it was not obligated. The Company is of the opinion 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) are conducted from the start by the Head of the Customs Office, after they were returned from the Supreme Administrative Court. We included monthly economic analyses of punitive damage. On 18 August 2014, the Company received twenty two decisions of the Head of the Customs Office dismiss the statement of overpayment. On 1 September this year, the Company submitted 22 appeals against decisions of the Head of the Customs Office to Head of the Customs Chamber, and currently, after the negative decision of the Head of the Customs Office, complaints have been filed and we are waiting for the setting date of the hearing before the Provincial Administrative Court in Poznań,
- 14 proceedings for the period of December 2007 - February 2009 (excluding July 2008) is suspended in the Provincial Administrative Court. These proceedings also included economic analysis,
- the proceeding for November 2006 was concluded with a negative result in the Supreme Administrative Court,
- the proceeding for July 2008 is subject to the recognition of our cassation appeal by the Supreme Administrative Court, the hearing date has not been set yet,
The Company will make further actions depending on the provisions of the issued decisions.
In case of EP II, the proceeding for all period (one case) was included in the cause lists of the Provincial Administrative Court after the decision of the Head of Customs Chamber negative for the Company. We do not have analyses because the Company did run activities in 2001 and there is no data.

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

The proceeding due to the Company's failure to perform obligation of sales of electricity on commodity exchanges

The proceeding due to impose a pecuniary penalty on the ZE PAK SA Company due to failure to disclose irregularities based on failure to perform obligations specified in Article 49a paragraph 1 of the Act – Energy Law, that is obligation to sale electricity produced in the period between 01 January 2011 and 31 December 2011 on commodity exchanges.
On 30 June 2014, the President of the Energy Regulatory Office ("the URE President") issued a decision, in which he concluded that the Company failed to perform obligation specified in Article 49a paragraph 1 of the Act – Energy Law that is obligation to sale electricity produced in the period between 01 January 2011 and 31 December 2011 on commodity exchanges and imposed the pecuniary penalty on the Company in the amount of PLN 204,250.
On 21 July 2014, the Company appealed against the URE President before the Regional Court of Warsaw – the Court for Protection of Competition and Consumers.
On 31 December 2014, the URE President, after consideration of the Company's appeal, issued a decision, in which he changed the appealed decision reducing the pecuniary penalty to PLN 10.000 thousand.
On 23 January 2015, the Company paid the pecuniary penalty in the reduced amount and did not appeal against the decision.
The case is completed.

s) Other agreements not recognised in the balance sheet

As of 31 December 2014 and of 31 December 2013, the Company possessed no significant agreements, which were not recognised in the balance sheet.

7. Structure of revenues and costs, corporate income tax

a) Material and territorial structure of product, goods and services sales revenues.

NET PRODUCT SALES REVENUES (MATERIAL STRUCTURE-TYPES OF ACTIVITIES)	31-12-2014	31-12-2013
- Electricity	1,283,062,731.74	1,469,230,045.24
- including: from related entities	416,503,890.09	462,833,376.54
- Certificates of origin of energy	63,326,904.11	55,696,976.57
- including: from related entities		15,800.00
- Exchange of EUAs for CERs		
- Heat energy	58,340,607.11	58,465,147.67
- including: from related entities	64,855.52	82,313.60
- Services	108,964,923.56	109,072,424.51
- including: from related entities	107,373,135.50	106,948,008.42
Total net products sales revenues	**1,513,695,166.52**	**1,692,464,593.99**
- including: from related entities	523,941,881.11	569,879,498.56

NET PRODUCT SALES REVENUES (TERRITORIAL STRUCTURE)	31-12-2014	31-12-2013
a) in country	1,513,695,166.52	1,692,464,593.99
- including: from related entities	523,941,881.11	569,879,498.56
b) export		
Total net products sales revenues	1,513,695,166.52	1,692,464,593.99
- including: from related entities	523,941,881.11	569,879,498.56

NET GOODS AND MATERIALS SALES REVENUES (MATERIAL STRUCTURE-TYPES OF ACTIVITIES)	31-12-2014	31-12-2013
- trade of electricity	111,853,150.87	79,442,006.14
- including: from related entities	0.00	0.00
- Other materials	5,640,587.02	4,777,961.03
- including: from related entities	4,869,456.25	4,260,328.90
-		
Total net goods and materials sales revenues	**117,493,737.89**	**84,219,967.17**
- including: from related entities	4,869,456.25	4,260,328.90

NET GOODS AND MATERIALS SALES REVENUES (TERRITORIAL STRUCTURE)	31-12-2014	31-12-2013
a) in country	117,493,737.89	84,219,967.17

-	including: from related entities	4,869,456.25	4,260,328.90
b)	export		
Total net goods and materials sales revenues		117,493,737.89	84,219,967.17
-	including: from related entities	4,869,456.25	4,260,328.90

b) Information on operations discontinued in the accounting year or to be discontinued in the next year

Zespół Elektrowni Pątnów Adamów Konin S.A. has not discontinued any operations during the accounting year concluded on 31 December 2014.

c) Other operating revenues

	31 December 2014	31 December 2013
Profit from disposal of non-financial fixed assets	1,881,925.05	0.00
Subsidies	331,998.00	518,556.00
Other operating revenues, including:	59,411,095.22	11,798,368.27
- redemption of the write-downs against receivables	1,590.48	41,212.57
- revaluation of the value of real estate and intangible assets included in investments	0.00	0.00
- redemption of the provision	48,307,733.08	1,084,178.00
- received returns of adversarial proceedings costs	2,280,687.00	2,700.00
- inventory differences	1,631,830.54	362,381.52
- compensations and contractual penalties	5,244,665.39	10,134,610.59
- other	1,944,588.73	173,285.59
Total other operating revenues	**61,625,018.27**	**12,316,924.27**

d) Other operating costs

	31 December 2014	31 December 2013
Loss from disposal of non-financial fixed assets		41,455.70
- loss from disposal of fixed assets and intangible assets		41,455.70
- loss from disposal of real estate and intangible assets included in investments		
Revaluation of non-financial assets, including:	19,133,498.55	2,216,359.46
- impairment write-down against inventory	19,127,566.00	2,216,359.46
- receivables impairment write-down	5,932.55	
- revaluation of the value of real estate and intangible assets included in investments		
Other operating costs, including:	7,700,237.91	8,961,110.12
- created asset liquidation provisions		270,788.80
- gifts	292,929.41	372,876.25
- written off receivables		
- fixed assets liquidation costs		
- adversarial proceedings costs	2,744.00	437,866.00
- inventory liquidation costs	3,209,545.19	87,095.78
- losses from equipment failure	603,102.30	1,780,025.29
- created provisions for probable costs and losses		
- energy damage		
- paid compensations and contractual penalties	222,940.00	
- abandoned capital work in progress		
- charges for commercial utilisation of the environment for the previous years		2,357,286.00
- paid equivalent for electricity for retired people and pensioners	3,069,147.00	3,136,635.00
- other	299,830.01	518,537.00
Total other operating costs	**26,833,736.46**	**11,218,925.28**

e) Financial revenues

FINANCIAL REVENUES FROM DIVIDENDS AND SHARES IN PROFITS		31-12-2014	31-12-2013
a)	from related entities, including:	128,695,389.39	171,062,892.77
-	from subsidiaries	128,695,389.39	171,062,892.77
-	from co-subsidiaries		
-	from associates		
-	from a significant investor		
-	from a shareholder of the co-subsidiary		
-	from a parent company		
b)	from other entities	101,085.00	51,673.00
Total financial revenues from dividends and shares in profits		**128,796,474.39**	**171,114,565.77**

FINANCIAL REVENUES FROM INTEREST		in PLN	
		31-12-2014	31-12-2013
a)	from granted loans	1,621,847.21	1,877,105.59
-	from related entities, including:	1,621,847.21	1,877,105.59
-	from subsidiaries	1,621,847.21	1,877,105.59
-	from co-subsidiaries		
-	from associates		
-	from a significant investor		
-	from a shareholder of the co-subsidiary		
-	from a parent company		
-	from other entities		
b)	other interest	2,643,166.33	2,213,600.13
-	from related entities, including:		
-	from subsidiaries		
-	from co-subsidiaries		
-	from associates		
-	from a significant investor		
-	from a shareholder of the co-subsidiary		
-	from a parent company		
-	from other entities	2,643,166.33	2,213,600.13
Total financial revenues from interest		**4,265,013.54**	**4,090,705.72**

OTHER FINANCIAL REVENUES		31-12-2014	31-12-2013
a)	positive exchange rate differences	1,787,541.86	340,818.96
-	realised	1,155,116.76	283,019.37
-	unrealised	632,425.10	57,799.59
b)	redeemed provisions (for)	2,737.65	49,102.64
-	return of a capital contribution		
-	interest for late payments	2,737.65	49,102.64
c)	other, including:	1,781,634.60	951,862.64
-	profit from investment disposal		
-	adjustment of a granted loan	1,702,093.48	951,862.64
-	other	79,541.12	
Total other financial revenues		**3,571,914.11**	**1,341,784.24**

f) Financial costs

FINANCIAL COSTS DUE TO INTEREST		31-12-2014	31-12-2013
a)	on credits and loans	2,176,748.89	5,980,831.09
-	for affiliates, including:		
-	for subsidiaries		
-	for co-subsidiaries		
-	for associates		
-	for a significant investor		
-	for a shareholder of the co-subsidiary		
-	for a parent company		
-	for other entities	2,176,748.89	5,980,831.09
b)	other interest	9,999.12	1,023,152.63
-	for affiliates, including:		
-	for subsidiaries		
-	for co-subsidiaries		
-	for associates		
-	for a significant investor		
-	for a shareholder of the co-subsidiary		
-	for a parent company		
-	for other entities	9,999.12	1,023,152.63
Total financial costs due to interest		**2,186,748.01**	**7,003,983.72**

OTHER FINANCIAL COSTS		31-12-2014	31-12-2013
a)	negative foreign exchange differences, including:	0.00	0.00
-	realised		
-	unrealised		
b)	created provisions (for)	1,045,161.01	781,872.00
-	asset liquidation provision discount	1,045,161.01	781,872.00
c)	other, including:	1,829,379.31	89,617.70
-	receivables impairment write-downs	2,671.31	56,153.49
-	investment revaluation		
-	other	1,826,708.00	33,464.21
Total other financial costs		**2,874,540.32**	**871,489.70**

g) Corporate income tax – current

		31 December 2014	31 December 2013
1)	**Financial result before taxation**	**223,319,467.94**	**247,073,208.76**
2)	**Costs and losses not recognised by the tax laws for the acquisition costs, including the fixed:**	**2,636,130.94**	**4,465,450.18**
	- donations under the income deductions	10,000.00	84,000.00
	- other donations	282,929.41	251,095.00
	- depreciation of fixed assets from subsidies	100,365.02	100,365.27
	- benefits for the Trade Unions	63,125.52	63,125.52
	- the employees assigned to trade unions	186,436.80	194,031.52
	- depreciation write-downs for the use of a car of the value exceeding EUR 20,000	151,640.78	182,025.40
	- Civil Liability and Accident and Theft premiums of the value of a car more than 20,000 ECU	6,983.40	11,220.52
	- paid compensation		
	- representation costs	494,181.63	725,927.43
	- budget interest	7,650.00	1,017,264.00
	- payments for the State Fund for Rehabilitation of Disabled Persons (PFRON)	1,331,093.00	1,253,271.00
	- costs of the Supervisory Board	1,725.38	535,278.59
	- written off receivables + VAT		10,151.65
	- survival benefit		
	- VAT paid in EUR to a domestic supplier		2,694.28
	- non-recoverable VAT		
	- restructuring costs		35,000.00
3)	**Costs and losses not recognised by the tax laws for the acquisition costs, including the time-limited (+):**	**152,414,532.80**	**143,794,673.89**
	- accrued interest on credits and loans	126,336.36	1,562,165.26
	- exchange of EUAs for CERs to be used next year		
	- receivables impairment write-downs		
	- provision for an annual bonus	12,774,046.44	12,746,019.60
	- provision for receivables		
	- difference between tax and balance sheet depreciation	-17,364,491.38	-40,476,142.05
	- accrued costs of the audit	120,000.00	135,200.00
	- provision for leave, anniversary premiums	303,929.13	20,116.13
	- revaluation of materials		1,650,817.39
	- unpaid remuneration related to the contract of mandate	86,896.00	69,542.30
	- social security contributions (ZUS) from remuneration of November and December this year	2,714,500.64	2,479,994.57
	- RMB green certificates	851,789.70	925,800.62
	- RMB red certificates	68,898.91	
	- RMB yellow certificates	121,336.83	
	- RMB purple certificates	29,678.06	22,920.00
	- RMB white energy	280,641.64	186,853.00

	- provision of CO2 emission allowances	122,029,895.73	128,066,074.88
	- sales cost of green certificates	29,225,913.73	35,263,400.77
	- provision for liquidation of assets	1,045,161.01	1,052,660.80
	- valuation of cash and account in foreign currencies		89,250.62
	- unpaid write-off for the Intercompany Social Insurance Fund (MFŚS)		
4)	**Tax costs unrecognised as a result of the financial year (-)**	**455,523.29**	
	- paid commission on the credit settled in time	455,523.29	
5)	**The revenues, which in accordance with tax regulations, are not included in the tax base (-)**	**177,978,974.72**	**235,273,669.51**
	- income from green and red certificates	40,367,701.26	53,914,914.23
	- income in the amount of the depreciation write-down	331,998.00	518,556.00
	- accrued interest on granted loans	267,541.58	343,901.86
	- valuation of the account and settlements	543,174.48	
	- the received dividend	128,796,474.39	171,114,565.77
	- valuation of the loan for Pątnów II - capital	6,296,959.86	4,599,108.11
	- valuation of the loan for Pątnów II - (interest)	2,382.02	-1,859.71
	- accrued RAFAKO contractual penalty		4,721,188.00
	- accrued compensation for damages	1,199,743.48	
	- accrued interest on the account	172,999.65	63,295.25
6)	**Tax revenues unrecognised as a result of the financial year (+)**	**2,555,883.69**	**2,621,383.14**
	- the paid contractual penalty	2,211,981.83	2,191,824.82
	- paid interest on the granted loans accrued in the previous years	343,901.86	429,558.32
	- the sale of test production		
7)	**Other changes in the tax base provided in the tax regulations**	**-250,610,214.54**	**-165,257,392.23**
	- paid remuneration and social security contributions (ZUS) for the previous year	-2,565,990.57	-2,589,253.64
	- redemption of the provision for receivables	-1,590.48	-41,212.57
	- the paid annual bonus	-12,748,034.21	-13,298,088.21
	- the decrease in the impairment write-down of materials	-67,996.14	
	- the reversal of valuation of the loan granted for Pątnów II (interest)	-1,859.71	-1,271.65
	- the reversal of valuation of the loan granted for Pątnów II (capital)	4,599,108.11	3,646,657.41
	- the reversal of cash valuation and settlements	-89,250.62	-147,050.21
	- the redeemed provision for social assets	-511,095.36	-122,008.78
	- interest received on the account, accrued in the previous year	63,295.25	31,350.29
	- payment for the audit	-135,200.00	-255,000.00
	- the redeemed provision for social assets	-59,156,527.44	-1,388,650.00
	- paid interest on the granted credits and loans accrued in the previous years	-951,396.82	-270.64
	- liquidation of fixed assets (tax and balance sheet value)	-483,821.30	-112,514.55
	- yellow certificates purchased to cover the obligation for the previous year		-173,194.49
	- a charge for purple certificates for the previous year	-22,864.26	-14,183.35
	- a charge for white certificates	-186,853.00	
	- the redeemed provision for charges for coloured certificates	-55.74	-4,412.64

	- the incurred costs of liquidation of the fixed assets – the used provision		-2,550,000.00
	- the incurred costs of reclamation – the used provision	-359,005.32	-100,000.00
	- the paid charge for the operating lease	-31,589.28	-77,709.24
	- costs related to the redemption of certified emission reductions (CERs)		-763,675.89
	- the redeemed provision for liquidation of assets	-2,571,992.20	
	- the paid write-off for the Intercompany Social Insurance Fund (MFŚS) for 2012		-22,009.83
	- the purchase of EUAs, CERs, ERUs	-177,010,531.69	-147,274,894.24
	- redemption of the impairment write-down for shares		
	- the accrued MEGADEX contractual penalty	-2,191,824.82	
	- the paid RAFAKO contractual penalty	4,721,188.00	
	- the return of costs previously considered as non-tax-deductible expenses	-906,326.94	
	TOTAL: the result	**-48,118,697.18**	**-2,576,345.77**
7)	**The tax base rounded to full Polish zloty**	**0.00**	**0.00**
	Donations	**0.00**	**0.00**
	The tax base rounded to full Polish zloty	**0.00**	**0.00**
	The income tax according to the CIT-8 declaration	**0.00**	**0.00**
	The adjustment for the previous years	**-145,098.42**	**-1,186,076.38**
	Dividend tax	**19,206.00**	**9,818.00**
8)	**Total income tax – the current part**	**-125,892.42**	**-1,176,258.38**
9)	**Change in the deferred tax**	**18,802,912.95**	**16,392,668.52**
10)	**The income tax within the income statement**	**18,677,020.53**	**15,216,410.14**

h) The asset and deferred tax provision

Status as of 31.12.2014

Item	Title	Asset	Provision
1)	**costs and losses, which will reduce or increase the tax base in the future, including:**		
	- annual bonus	2,645,655.32	
	provision for audit costs	22,800.00	
	provision for anniversary premiums, the energy equivalent, retirement benefits, survival benefits	5,191,831.05	
	provision for leave	333,251.42	
	accrued interest on credits and loans	24,003.91	
	provision for materials	728,152.59	
	RMB green certificates	161,840.04	
	RMB red certificates	13,090.79	
	RMB white energy	53,321.91	
	RMB purple certificates	5,638.83	
	RMB yellow certificates	23,054.00	
	provision for liquidation of assets	2,535,585.28	
	incurred costs of the liquidation of SMT El. Pątnów		
	provision for financial assets	2,220,367.60	
	provision for receivables	4,950,514.97	
	tax and balance sheet depreciation of fixed assets		60,176,294.63
	impairment write-down of the fixed assets		
	valuation of the cash and foreign exchange account, settlements		
	social security contributions (ZUS) from remuneration	515,755.12	
	unpaid remuneration – contracts of mandate	16,510.24	
	costs related to the future sale of assets	3,349.51	
	provision for reclamation	499,869.27	
	The tax and balance sheet subsidy of fixed assets in the sale-and-leaseback.	238,247.72	
	Accrued write-off for MFŚS		
	the Elektrim Megadex contractual penalty	420,276.55	
	provision of CO2 emission allowances	23,185,680.19	
	purchased EUAs, CERs, ERUs		37,281,676.70
	tax loss for 2013.	134,588.07	
	tax loss for this year	9,142,552.47	
2)	**the revenues, which will increase the tax base in the future**		
	accrued interest on the granted loan, deposits		84,155.42
	loan valuation		1,196,422.37
	green and red certificates in stock		25,787,132.07
	accrued RAFAKO contractual penalty		
	accrued compensation for property damages		227,951.26
	paid commission on the credit settled in time		86,549.43
	valuation of the cash and foreign exchange account, settlements		103,203.15
	TOTAL:	**53,065,936.85**	**124,943,385.03**
	The presented amount, deferred income tax		**71,877,448.18**

Status as of 31.12.2013

Item	Title	Asset	Provision
1)	**costs and losses, which will reduce or increase the tax base in the future, including:**		
	annual bonus	2,640,713.00	
	provision for audit costs	25,688.00	
	provision for anniversary premiums, the energy equivalent, retirement benefits, survival benefits	16,431,571.26	
	provision for leave	275,504.89	
	accrued interest on credits and loans	180,765.41	
	provision for materials	741,071.84	
	RMB green certificates	175,902.11	
	RMB red certificates		
	RMB white energy	35,502.07	
	RMB purple certificates	4,354.80	
	provision for liquidation of assets	2,825,683.19	
	incurred costs of the liquidation of SMT El. Pątnów	208,240.00	
	provision for financial assets	2,220,367.60	
	provision for receivables	4,950,762.67	
	tax and balance sheet depreciation of fixed assets		56,785,115.22
	impairment write-down of the fixed assets -	97,108.11	
	valuation of the cash and foreign exchange account, settlements	16,957.62	
	social security contributions (ZUS) from remuneration	471,198.97	
	unpaid remuneration – contracts of mandate	13,213.04	
	costs related to the future sale of assets	3,349.52	
	provision for reclamation	568,080.29	
	the tax and balance sheet subsidy of fixed assets in the sale-and-leaseback.	262,233.79	
	Accrued write-off for MFŚS		
	the Elektrim Megadex contractual penalty	416,446.72	
	provision of CO2 emission allowances	24,332,554.23	
	purchased EUAs, CERs, ERUs		27,982,229.91
	tax loss for 2013.	489,505.70	
2)	**the revenues, which will increase the tax base in the future**		
	accrued interest on the granted loan, deposits		77,014.11
	loan valuation		873,830.54
	green and red certificates in stock		23,846,094.56
	accrued RAFAKO contractual penalty		897,025.72
	valuation of the cash and foreign exchange account, settlements		
	TOTAL:	**57,386,774.83**	**110,461,310.06**
	The presented amount, deferred income tax		**53,074,535.23**

i) Cost data by type

	COSTS BY TYPE	31-12-2014	31-12-2013
a)	depreciation	100,218,512.50	89,029,962.70
b)	materials and energy consumption	823,648,640.98	975,648,508.93
c)	external services	206,834,842.93	221,524,486.92
d)	taxes and charges	205,173,120.16	211,588,914.57
e)	remuneration	98,929,431.80	95,738,126.78
f)	social security and other benefits	29,546,637.63	28,791,763.84
g)	other costs by type (for)	12,400,227.18	15,721,797.20
-	property insurance	11,445,302.58	14,343,472.52
-	business trips	201,282.49	173,355.90
-	representation costs	407,829.79	472,596.24
-	expenses of the Supervisory Board	1,610.61	535,278.59
-	other	344,201.71	197,093.95
Total costs by type		**1,476,751,413.18**	**1,638,043,560.94**
change in inventories, products and prepayments		-12,777,839.38	170,466.99
The cost of manufacturing products for the own needs (negative value)		-295,885.32	-452,449.90
Costs of sales (negative value)		-3,437,918.78	-2,846,732.91
Overheads (negative value)		-41,862,904.46	-39,985,061.74
Cost of manufacturing the sold products		1,418,376,865.24	1,594,929,783.38

j) Information on extraordinary profits and losses

During the financial year, extraordinary profits or losses did not occur.

k) Explanatory notes to the cash flow statement

Law of obligations	31 December 2014	31 December 2013
The balance sheet change in long-term and short-term liabilities	318,459,397.60	1,748,114.68
Change in credits as well as long-term and short-term loans	-262,682,018.34	32,022,105.38
Change in lease liabilities	-199,222.41	77,709.24
Change in liabilities due to the construction in accumulation	-42,954,692.43	-54,003,097.10
Change in liabilities in the cash flows statement	**12,623,464.42**	**-20,155,167.80**

Provisions	31 December 2014	31 December 2013
The balance sheet change in provisions	-49,856,107.80	134,195,782.22

Provision due to the redemption of CERs	128,066,074.88	7,006,183.18
Change in provisions in the cash flows statement	**78,209,967.08**	**141,201,965.40**

Investment activity	31 December 2014	31 December 2013
Profit/loss on disposal of non-financial fixed assets	-1,881,925.05	41,455.70
Profit/loss on disposal of investments		0.00
Investment abandonment		10,151.65
Disclosure of fixed assets	-1,631,828.54	
Revaluation of fixed assets		-122,008.78
Revaluation of shares		0.00
Payment return to the capital		0.00
Profit (loss) on investment activities in the cash flow statement	**-3,513,753.59**	**-70,401.43**

	Cash - the balance sheet	Cash - CF (cash flow)	The value of foreign exchange differences
31.12.2013	157,763,032.37	157,852,282.99	-89,250.62
31.12.2014	173,782,499.20	173,239,393.99	543,105.21
Change of the status	**-16,019,466.83**	**-15,387,111.00**	**-632,355.83**

8. Information about the average employment in the occupational groups

Specification	2014	2013
1. Employees in positions directly related to production	**933.75**	**931.00**
· Operation employees	933.75	931.00
2. Service employees	**283.50**	**258.00**
· Material management employees	19.00	12.00
· Other employees	264.50	246.00
3. Management employees	**72.00**	**67.50**
· Management Board	3.00	3.00
· Management (Proxies)	19.25	19.75
· Managers	49.75	44.75
4. Other employees	**0.00**	**0.00**
TOTAL	**1,289.25**	**1,256.50**

9. Information about the remuneration of the statutory auditor or the entity entitled to audit financial statements

Specification	31 December 2014	31 December 2013
1. Mandatory auditing	195,000.00	337,279.00
2. Other services	244,549.00	403,581.00
Total:	**439,549.00**	**740,860.00**

10. Remuneration, including the remuneration from profits, paid to the members of the Management Board and supervisory bodies of the Company (the Supervisory Board)

Specification	31 December 2014	31 December 2013
1. Remuneration of the Management Board members	2,509,086.93	2,629,918.99
2. Remuneration of the Supervisory Board members	1,020,000.00	1,594,377.64
Total:	**3,529,086.93**	**4,224,296.63**

11. Loans granted to members of the Management Board and supervisory bodies of the Company (the Supervisory Board)

In the financial year and the previous year, any loans were granted to members of the Management Board and supervisory bodies of the Company

12. Transactions with members of the Management Board and supervisory bodies of the Company

In the financial year, the Company did not conduct any significant transactions with members of the Management Board and supervisory bodies as well as their spouses, relatives or relatives by affinity in direct line up to the second degree or persons, who, due to adoption, custody or guardianship, are connected with the managing person, or the one being in the supervisory bodies of the entity, or the companies, in which they are major shareholders (shareholders or partners).

13. Transactions with related Companies that are not recognised by the consolidated financial statement.

Year concluded on 31 December 2014

Entity	*Sale*	*Purchase*	*Receivables*	*Liabilities*
Megadex Serwis Sp. z o.o.	12,701.47	91,486,996.19	231.09	5,815,807.24
Polkomtel sp. z o.o.	1,976,213.14	941,007.64	15,115.72	411,131.89
Laris Investments sp. z o.o.		203,837.08		0.00
Total	**1,988,914.61**	**92,631,840.91**	**15,346.81**	**6,226,939.13**

Year concluded on 31 December 2013

Entity	*Sale*	*Purchase*	*Receivables*	*Liabilities*
Elektrim Magadex S.A.	0.00	0.00	0.00	2,191,824.82
Megadex Serwis Sp. z o.o.	0.00	57,101,040.58	0.00	1,760,194.95
Energia-Nova S.A.	0.00	1,242.00	0.00	0.00
Polkomtel sp. z o.o.	79,867.19	223,743.34	8,431.01	42,650.06
Laris Investments sp. z o.o.	0.00	200,081.08	0.00	364.35
Total	**79,867.19**	**57,526,107.00**	**8,431.01**	**3,995,034.18**

14. Transactions with the capital-related Companies that are recognised by the consolidated financial statement.

31 December 2014	PAK Serwis sp. z o.o.	El PAK sp. z o.o.	Infranstruktura sp. z o.o.	PAK-Holdco sp. z o.o.	Elektrownia Pątnów II sp. z o.o.	PAK Centrum Usług Informatycznych sp. z o.o. in liquidation	PAK Centrum Badań Jakości sp. z o.o. in liquidation	PAK Górnictwo sp. z o.o.	Energoinwest Serwis sp. z o.o.	PAK KWB Konin S.A.	PAK KWB Adamów S.A.	PAK Volt S.A.	EKO-Surowce sp. z o.o	EL PAK Serwis sp. z o.o.	TOTAL
Purchase	97,033,136.42	54,328,688.30	12,377,040.00	0.00	58,312.49	5,962,560.37	5,982,362.14	0.00	2,105,365.60	373,858,484.71	285,929,720.80	2,800.00	844,499.71	0.00	**838,482,970.54**
Sale	7,886,887.34	1,611,859.09	13,871,081.29	59,715.02	84,066,364.07	416,491.16	387,414.86	145,645.13	254,592.43	2,273,082.17	1,239,898.44	415,862,317.32	212,600.20	247,121.30	**528,535,069.82**
Interest - financial costs															**0.00**
Interest - financial income					1,621,847.21										**1,621,847.21**
Received dividends and shares in profits															**0.00**
Foreign exchange rate differences - costs															**0.00**
Foreign exchange rate differences - income					3,044,238.33										**3,044,238.33**
Receivables due to deliveries, works and services	1,226,875.73	131,312.40	1,433,919.86	68,131.54	5,189,063.39	0.00	0.00	14,128.75	119,332.71	943,054.24	248,013.14	28,913,228.89	206,846.06	88,087.58	**38,581,994.29**
Liabilities due to deliveries, works and services	31,339,138.51	9,511,317.69	1,268,646.60	0.00	4,926,938.29	0.00	0.00	0.00	281,470.74	20,719,032.00	18,578,288.19	200,255.20	331,929.96	0.00	**87,157,017.18**
Granted loans					92,890,055.71										**92,890,055.71**
Received loans															**0.00**
Other receivables					6,666,683.45										**6,666,683.45**
Granted advance payments															**0.00**
Other liabilities	685,306.51	5,278,889.40								565,293.22	353,772.12				**6,883,261.25**

15. CO2 allowances

Since 01 January 2013, the next reporting period of 2013 – 2020 concerning CO2 allowances has been applicable. This period's assumption is granting the Company the free EUA allowances resulting from the production of heat. Although, power engineering was additionally covered by the opportunity of derogation. Derogation resulting from Article 10c of the ETS Directive is based on granting additional free allowances, provided that declared investment expenses for investments reported to the National Investment Plan are paid.

In 26 September 2013, the Ministry of Economy, in consultation with the Ministry of Environment, submitted a list of installations producing electricity, which are covered by the EU ETS system with free allowances for carbon dioxide emissions in the reporting period 2013-2020. The presented list is consistent with the Polish Application on the transitional allocation of free allowances for the modernization of electricity generation based on Article 10c paragraph 5 of Directive 2003/87/EC of the European Parliament and of the Council (the so-called derogation application) that meets the requirements of the Commission Decision of 13 July 2012 C (2012) 4609.

The following table shows the obtainable quantities of free CO2 allowances for the installation of the Company generating electricity.

Operator	Installation code according to KPRU III	2013 (in tonnes)	2014 (in tonnes)	2015 (in tonnes)	2016 (in tonnes)	2017 (in tonnes)	2018 (in tonnes)	2019 (in tonnes)	2020* (in tonnes)
Pątnów I Power Plant	PL-0021-05	3,624,320	3,350,223	2,912,158	2,216,534	1,677,877	1,337,214	994,681	2,445
Adamów Power Plant	PL-0023-05	2,176,736	2,010,426	1,748,088	1,334,657	1,014,045	810,985	607,774	22,270
Konin Power Plant	PL-0022-05	1,300,056	1,194,104	1,035,587	793,852	604,769	482,922	363,442	30,999
Total		7,101,112	6,554,753	5,695,833	4,345,043	3,296,691	2,631,121	1,965,897	55,714

*In 2020, the complete liquidation of free allocation of CO2 allowances, granted under the derogation for electricity generators, will take place. As a result, in 2020, the Group will be entitled only to significantly lower limits of free allowances granted in connection with the heat production.

Granting of free CO2 emission allowances for the 2013 – 2020 period, in accordance with Article 10c of the ETS Directive, is conditioned by the fulfilment by an entity receiving emission allowances, a certain level of investment expenses, which were reported to the National Investment Plan (KPI), attached to the derogation application.

In 2013, the ZE PAK SA Company purchasing allowances for needs of 2013, due to the attractive price, purchased more EUA allowances than it resulted from the needs to cover redemption in 2013 and the excess of these units was moved to 2014 in the number of about 1.25 million tonnes of EUAs, including about 0.29 million CERs and ERUs.

In December 2013, the Ministry of Environment issued a sample of the material and financial statement, which was sent by the Company to the Ministry of Environment in the scope of incurred expenses for investment tasks reported to the National Investment Plan in order to use derogation for power engineering within Article 10c of the ETS Directive. The Company submitted the material and financial statement and, at the same time, applied for nearly 1.7 million of free EUA units for 2013.

On 03 April 2014, the resolution of the Council of Ministers of 31 March 2014 on the list of systems other than producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them was issued. Thus, on 8 April this

year, ZE PAK obtained free CO2 allowances for 2013 and 2014 resulting from the production of the electricity in the number of 312,468 EUAs.
Then, on 10 April 2014, the resolution of the Council of Ministers of 8 April 2014 on the list of systems producing electricity included in the system of greenhouse gases allowances trade in the reporting period commencing on 1 January 2013 and the number of allowances granted to them was issued. As a result, on 12 April this year, The Company obtained free CO2 allowances resulting from Article 10c (derogations) in the number of 1,682,800 EUAs
After introduction of opportunity to exchange ERUs and CERs for equivalent EUAs into the EU ETS register, on 31 March this year, the Company exchanged ERUs into EUAs in the number of c. 0.44 million, remaining CERs in the number about 0.15 million for exchange into EUAs later.

On 14 April 2014, the allowances in the number of 10,596,756 tonnes for 2013 were redeemed.

In the four-quarter period of 2014, the Company purchased nearly 7.2 million EUAs (of which 2.9 million EUAs for 2015) and 0.29 million ERUs. Purchasing ERUs, the Company used the opportunity to purchase 11% EUAs in order to exchange them for cheaper CERs or ERUs (10% from the 2008-2012 period, and 1% from the 2013-2020 period) and, in the same time, finished exchange of EUA/CER units or ERUs in the 2013-2020 period. In the fourth quarter of 2014, the Company purchased about 1.7 million EUAs.
In December 2014, the Company exchanged 0.15 million CERs (146,070 CERs) for EUAs.
After these operations, as of 31 December 2014 (taking into account free allocation obtained in April 2014, resulting from the heat production and derogation for power engineering, purchased excesses from 2013, and purchases in 2014), balance of the EUAs of the Company was 10.7 million of tonnes of EUAs.

In September 2014, the Company submitted the material and financial statement for the period between 01 July 2013 and 30 June 2014 on realisation of investment expenses incurred for tasks reported to the National Investment Plan and, at the same time, applied for 2,241,959 free EUAs.
In tables presented below, carbon dioxide allowances granted to the Company in the scope of the National Allocation, purchased on the secondary market including with division into the part used for their own purposes, and the one sold in period concluded on 31 December 2014 and 31 December 2013.

In tables presented below, carbon dioxide allowances granted in the scope of the National Allocation, purchased on the secondary market including with division into the part used for their own purposes, and the one sold in period concluded on 31 December 2014 and 31 December 2013.

Carbon dioxiode allowances in the year concluded on 31 December 2014

(in tonnes)		*Zespół Elektrowni Pątnów – Adamów – Konin S.A.*
	CO2 emission*	10,085,564
EUAs	Balance as of 01.01.2014	11,558,393
	Acquired	7,156,233
	Redemption**	(10,596,759)
	Sale	–
	ERUs/EUAs exchange	438,207
	CERs/EUAs exchange	146,070
	Free received EUAs Article 10a and 10c	1,995,268
	Balance as of 31.12.2014	10,697,412
CERs	Balance as of 01.01.2014	146,070
	Acquired	–
	Redemption**	–
	Sale	–

	CERs/EUAs exchange	(146,070)
	Balance as of 31.12.2014	0
ERUs	Balance as of 01.01.2014	146,070
	Acquired	292,137
	Redemption**	–
	Sale	–
	ERUs/EUAs exchange	(438,207)
	Balance as of 31.12.2014	0

*Emission for the 12-month period (verified data).

***Physical redemption of the allowances for a given year takes place in the first months of the next year.*

Carbon dioxide allowances in the year concluded on 31 December 2013

(in tonnes)		***Zespół Elektrowni Pątnów – Adamów – Konin S.A.***
	CO2 emission*	10,596,756
EUAs	Balance as of 01.01.2013	12,883,785
	Acquired	8,035,261
	Redemption**	(9,360,653)
	Sale	–
	Exchange	–
	Balance as of 31.12.2014	11,558,393
CERs	Balance as of 01.01.2013	4,528
	Acquired	146,070
	Redemption**	(4,528)
	Sale	–
	Exchange	–
	Balance as of 31.12.2014	146,070
ERUs	Balance as of 01.01.2013	493,967
	Acquired	146,070
	Redemption**	(493,967)
	Sale	–
	Exchange	–
	Balance as of 31.12.2014	146,070

*Emission for the 12-month period (verified data).

***Physical redemption of the allowances for a given year takes place in the first months of the next year.*

16. Information on fulfilment of the reporting requirements of Article 44 of the Energy Law

Starting from the financial statements for the year concluded on 31 December 2014, new reporting requirements related to energy companies have been in force.

Article 44 of the Energy Law Act, which obliges energy companies (referring to the Accounting Act) to draw up and disclose the financial statements that comprise the balance sheet and income statement by conducted activities, was amended.

With a view to the purpose aspect of the provisions of the Act, i.e. striving to ensure equal treatment of the customers and the elimination of cross-subsidies, as well as disclosure obligations with respect to the market regulator, the Company's business is divided into the three following segments: "Electricity", "Heat", "Other activities."

Income statement:

The Company drew up the Income Statement in accordance with the Accounting Act provisions and it keeps a register of expenses based on their nature.

The revenues from the sale of electricity, revenues from the sale of property rights and revenues from system services are presented in the income statement in the activity of "Electricity". The revenues from the heat sale was shown in the activity of "Heat". The revenues from sales of other services were presented as "Other activities"

The ZE PAK SA company keeps a register of prime costs by their nature and recognises the costs incurred during the reporting period and of this period within the framework of the costs of the conducted business. Prime costs are divided into variable costs and fixed costs.

Variable costs depend on the extent of production of electricity and heat, and these are the costs of the consumption of coal, biomass, auxiliary liquid fuels, such as heavy fuel oil or heating oil and limestone flour, costs of consumption of chemicals for technological purposes, charges for the economic use of the environment in terms of water, post-production waste and volatile pollutant emissions into the air, and costs of CO2 allowances. The costs depended on the extent of production also include costs related to the sale of energy: excise tax, statutory charges related to certification and participation in open energy markets.

The other costs are fixed costs.

The costs are recorded at the Cost Centre (the place where a cost is created)

The distribution keys, on the basis of which the prime costs, at the expense of own production of electricity and heat and the remaining service activity called "Works and services", are a basis for the settlement of costs for each activity.

The variable costs are settled using "the physical cost sharing method" in the combined economy based on the efficiency of boilers and heat exchangers. Using this method, the distribution of chemical energy from fuels to produce heat and electricity is made. Allocating the cost of fuel for electricity generating units is made by the ECT method used in the energy sector. Other variable costs of production, which depend on the production extent, are allocated with the use of a key of "the chemical energy from fuels," however the costs related to the energy sale are divided using the amount of the sold electricity of a given generating unit.

Fixed costs are settled by a key of the maximum capacity of electricity and heat. The distribution key of fixed costs was based on "Industry cost statement for energy sector."

The costs of electricity used to produce heat are settled using the unit cost of the first degree electricity production, both from the group of variable and fixed costs.

Separation of costs for "Works and services" is conducted with a contribution key of individual organisational units in the service and providing services for recipients.

The short statement of results for individual activities for 2013 and 2014 is presented below.

2014

Year concluded on 31 December 2014	Total	Electricity	Heat	Other activities	Unassigned items
Sales revenues	**1,631,188,904.41**	**1,457,413,577.64**	**59,169,816.19**	**114,605,510.58**	**0.00**
Costs of sold goods and materials	**1,528,932,008.75**	**1,383,892,084.61**	**51,259,206.46**	**93,780,717.68**	**0.00**
Selling costs	3,437,918.78	3,395,849.65	0.00	42,069.13	0.00
Costs of the Management Board	41,862,904.46	0.00	0.00	0.00	41,862,904.46
Other operating revenues	61,625,018.27	0.00	0.00	0.00	61,625,018.27
Other operating costs	26,833,736.46	22,251,026.92	0.00	0.00	4,582,709.54
Operating profit	**91,747,354.23**	**47,874,616.46**	**7,910,609.73**	**20,782,723.77**	**15,179,404.27**
Financial revenues	136,633,402.04	0.00	0.00	0.00	136,633,402.04
including dividends	128,796,474.00	0.00	0.00	0.00	128,796,474.00
Financial costs	5,061,288.33	0.00	0.00	0.00	5,061,288.33
Gross profit	**223,319,467.94**	**47,874,616.46**	**7,910,609.73**	**20,782,723.77**	**146,751,517.98**
Income tax	18,677,020.50	0.00	0.00	0.00	18,677,020.50
Net profit	**204,642,447.44**	**47,874,616.46**	**7,910,609.73**	**20,782,723.77**	**128,074,497.48**

2013

Year concluded on 31 December 2013	Total	Electricity	Heat	Other activities	Unassigned items
Sales revenues	**1,776,684,561.16**	**1,604,118,818.39**	**58,715,357.23**	**113,850,385.54**	**0.00**
Costs of sold goods and materials	**1,656,549,139.05**	**1,516,232,910.77**	**55,464,217.22**	**84,852,011.06**	**0.00**
Selling costs	2,846,732.91	2,764,715.91	0.00	82,017.00	0.00
Costs of the Management Board	39,985,061.74	0.00	0.00	0.00	39,985,061.74
Other operating revenues	12,316,924.27	0.00	0.00	0.00	12,316,924.27

Other operating costs	11,218,925.28	2,216,359.46	0.00	0.00	9,002,565.82
Operating profit	**78,401,626.45**	**82,904,832.25**	**3,251,140.01**	**28,916,357.48**	**-36,670,703.29**
Financial revenues	176,547,055.73	0.00	0.00	0.00	176,547,055.73
including dividends	171,114,565.77	0.00	0.00	0.00	171,114,565.77
Financial costs	7,875,473.42	0.00	0.00	0.00	7,875,473.42
Gross profit	**247,073,208.76**	**82,904,832.25**	**3,251,140.01**	**28,916,357.48**	**132,000,879.02**
Income tax	15,216,410.14	0.00	0.00	0.00	15,216,410.14
Net profit	**231,856,798.62**	**82,904,832.25**	**3,251,140.01**	**28,916,357.48**	**116,784,468.88**

Balance sheet:

In the balance sheet, the selected items, for which figures can be reliably presented, were shown.

Intangible assets are divided on the basis of a detailed analysis of the economic content of entries in the book of accounts of individual accounts included in a given item of the balance sheet in order to establish a direct relationship with a specific separate activity of the Company.

Tangible fixed assets were divided according to the depreciation key registered on individual cost positions including the division into electricity, heat and other activities.

CO2 allowances – were allocated according to the key resulting from accrued costs on the individual cost positions including the division into electricity and heat.

The capital work in progress as well as advance payments for capital work in progress were allocated on the basis of a detailed analysis of the economic content of individual entries in the book of accounts and balances of individual accounts being part of a given item of the balance sheet.

Inventories were allocated on the basis of the following distribution keys:

Materials – production fuel, according to a contribution key of the cost of fuel consumption registered on the cost positions including the division into electricity and heat.

Other materials were divided on the basis of the structure of revenues by type of activities.

Certificates of origin of the Renewable Energy Sources (RES) – are assigned as follows:

- green certificates – in their entirety to electricity

- red certificates – in their entirety to heat.

Short-term receivables represent only trade receivables, and were divided on the basis of the revenues registered on the analytic accounts, which are appropriate for given types of activities.

Short-term liabilities include only trade liabilities, and they were allocated by the cost key in relation to the costs registered on the individual items relevant to a particular segment of activity.

The item of provisions and prepayments is limited to the provision for the cost of purchasing emission allowances, and it was allocated on the basis of the key resulting from registered costs on different cost positions including the division into electricity and heat.

Selected items of the balance sheet in the division into the types of activities

2014

ASSETS	Total	Electricity	Heat	Other
OTHER INTANGIBLE ASSETS	**199,866,848.30**	**191,870,711.79**	**5,683,404.13**	**2,312,732.38**
a) Intangible assets - CO2 allowances	196,219,351.05	190,535,946.92	5,683,404.13	0.00
b) other	3,647,497.25	1,334,764.87		2,312,732.38
TANGIBLE FIXED ASSETS	**1,999,968,603.83**	**1,935,294,412.77**	**52,034,380.38**	**12,639,810.68**
1. Fixed assets	**1,285,911,188.19**	**1,221,236,997.13**	**52,034,380.38**	**12,639,810.68**
a) Lands (including the perpetual usufruct of land)	1,252,356.48	1,210,064.74	16,875.10	25,416.64
b) Buildings, premises, as well as civil engineering facilities	589,377,899.76	557,905,360.28	23,446,005.51	8,026,533.98
c) Technical equipment and machinery	691,207,646.71	658,346,528.86	28,328,025.98	4,533,091.86
d) Transport equipment	1,790,128.25	1,713,343.81	44,154.71	32,629.72
e) Other fixed assets	2,283,156.99	2,061,699.44	199,319.07	22,138.48
2. Capital work in progress	**693,395,585.57**	**693,395,585.57**		
3. Advance payments for capital work in progress	**20,661,830.07**	**20,661,830.07**		
INVENTORIES	**180,518,786.47**	**176,642,596.53**	**2,233,297.69**	**1,642,892.25**
1. Materials	**42,509,365.13**	**39,497,381.39**	**1,369,091.49**	**1,642,892.25**
a) production fuel	19,125,953.36	18,605,072.52	520,880.84	0.00
b) other	23,383,411.77	20,892,308.87	848,210.65	1,642,892.25
2. Property rights	**135,721,747.73**	**134,900,510.23**	**821,237.50**	**0.00**
a) green certificates	134,900,510.23	134,900,510.23		0.00
b) red certificates	821,237.50		821,237.50	0.00
3. Advanced payments for deliveries	**2,287,673.61**	**2,244,704.91**	**42,968.70**	**0.00**

TRADE RECIVABLES	**96,766,949.68**	**76,407,393.52**	**10,133,293.81**	**10,226,262.35**

LIABILITIES -	**Total**	**Electricity**	**Heat**	**Other**
PROVISIONS FOR LIABILITIES - CO2 EMISSION	**122,029,895.73**	**118,495,355.38**	**3,534,540.35**	**0.00**
SHORT-TERM TADE RECIVABLES	**121,263,795.45**	**109,979,064.73**	**4,057,514.88**	**7,227,215.84**

2013

ASSETS	**Total**	**Electricity**	**Heat**	**Other**
OTHER INTANGIBLE ASSETS	**149,647,420.01**	**146,563,418.46**	**1,668,522.30**	**1,415,479.25**
a) Intangible assets - CO2 allowances	147,274,894.24	145,606,371.94	1,668,522.30	0.00
b) other	2,372,525.77	957,046.52		1,415,479.25
TANGIBLE FIXED ASSETS	**1,635,783,773.53**	**1,564,804,598.39**	**57,732,295.15**	**13,246,879.98**
1. Fixed assets	**1,371,822,977.10**	**1,300,843,801.96**	**57,732,295.15**	**13,246,879.98**
a) Lands (including the perpetual usufruct of land)	1,266,720.92	1,222,366.50	18,903.03	25,451.39
b) Buildings, premises as well as civil engineering facilities	624,738,054.94	591,154,102.59	25,211,424.05	8,372,528.30
c) Technical equipment and machinery	743,320,587.04	706,104,076.85	32,407,275.77	4,809,234.42
d) Transport equipment	977,980.80	950,712.70	8,733.80	18,534.30
e) Other fixed assets	1,519,633.40	1,412,543.31	85,958.52	21,131.57
2. Capital work in progress	**220,950,880.04**	**220,950,880.04**		
3. Advance payments for capital work in progress	**43,009,916.39**	**43,009,916.39**		
INVENTORIES	**173,292,637.84**	**170,205,863.62**	**1,473,501.20**	**1,613,273.02**

1. Materials	**37,394,949.70**	**34,603,004.37**	**1,178,672.32**	**1,613,273.02**
a) production fuel	12,219,107.67	11,872,439.93	346,667.74	0.00
b) other	25,175,842.03	22,730,564.43	832,004.58	1,613,273.02
2. Property rights	**125,505,760.82**	**125,505,760.82**	**0.00**	**0.00**
a) green certificates	125,505,760.82	125,505,760.82	0.00	0.00
b) red certificates	0.00		0.00	
3. Advance payments for deliveries	**10,391,927.32**	**10,097,098.43**	**294,828.89**	**0.00**
TRADE RECIVABLES	**95,945,682.70**	**74,643,008.89**	**8,560,113.74**	**12,742,560.07**
LIABILITIES -	**Total**	**Electricity**	**Heat**	**Other**
PROVISIONS FOR LIABILITIES - CO2 EMISSION	**128,066,074.88**	**126,615,175.16**	**1,450,899.72**	**0.00**
SHORT-TERM TRADE RECIVABLES	**101,465,304.95**	**92,995,609.76**	**3,398,516.71**	**5,071,178.48**

17. Disbursement of dividend

According to the resolution of the General Meeting of the Company of 25 June 2014 on the profit division for 2013, the General Meeting decided to allocate the amount of PLN 34,560,011.96 for the payment of dividend to the shareholders of the Company, and the remaining amount of PLN 197,296,786.66 to support the Company's supplementary capital. The dividend paid per share was PLN 0.68.

18. Consolidated financial statement

The ZE PAK SA Capital Group, where the Company is the parent company, will draw up the consolidated financial statement for 31 December 2014, including statements of the following companies:

Item	Name	Registered office	Activity profile	Commitment
1.	PAK SERWIS sp. z o.o.	Konin	construction and installation services and repair	100% of shares
2.	EL PAK sp. z o.o.	Konin	repair services of electrical devices and automation	100% of shares
3.	PAK GÓRNICTWO sp. z o.o.	Konin	coal extraction	100% of shares, 9% of which held the indirect share through PAK Centrum Badań Jakości
4.	"Elektrownia Pątnów II" sp. z o.o.	Konin	construction of the 464 MW power unit	100% of shares the indirect share through PAK HOLDCO
5.	PAK HOLDCO sp. z o.o.	Konin	exercising the rights of the held shares of Elektrownia Pątnów II	100% of shares
6.	PAK INFRASTRUKTURA sp. z o.o.	Konin	services of the energy installations management	100% of shares
7.	ENERGOINWEST SERWIS sp. z o.o.	Konin	construction and installation services and repair	100% of shares of PAK SERWIS
8.	CENTRUM USŁUG INFORMATYCZNYCH sp. z o.o. in liquidation	Konin	comprehensive IT services	100 % of shares
9	PAK Centrum Badań Jakości sp. z o.o. in liquidation	Konin	tests, measurement and chemical analyses	100 % of shares
10.	PAK KWB KONIN S.A.	Konin	coal extraction	85% of shares
11.	PAK KWB ADAMÓW	Adamów	coal extraction	85% of shares
12.	PAK VOLT S.A.	Warszawa	electricity sales	100% of shares
13.	EL PAK Serwis sp. z o.o.	Konin	repair services of electrical devices and automation	100% of shares
14.	EKO Surowce sp. z o.o.	Konin	Rail transport of coal, vulcanisation services, the sale of coal	100% of shares

Konin on 19 March 2015

Zarząd Zespołu Elektrowni Pątnów – Adamów-Konin SA

Prepared by:

ZESPÓŁ ELEKTROWNI
PĄTNÓW-ADAMÓW-KONIN S.A.

MANAGEMENT BOARD'S REPORT FROM THE COMPANY OPERATIONS IN 2014

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

19 March 2015

Table of contents:

1. Selected Standalone Financial Data

Selected standalone financial data		in thousands of PLN		in thousands of EUR	
		12-month period concluded on 31.12.2014	12-month period concluded on 31.12.2013	12-month period concluded on 31.12.2014	12-month period concluded on 31.12.2013
I.	Sales revenues	1 631 189	1 776 685	389 370	421 915
II.	Profit/loss on operating activities	91 747	78 402	21 900	18 618
III.	Gross profit/loss	223 319	247 073	53 307	58 673
IV.	Net profit/loss for the period	204 642	231 857	48 849	55 060
V.	Net cash on operating activities	65 313	113 328	15 590	26 912
VI.	Net cash on investment activities	-268 660	34 612	-64 130	8 219
VII.	Net cash on financial activities	218 734	-38 086	52 213	-9 044
VIII.	Net change in cash and its equivalents	15 387	109 854	3 673	26 087
IX.	Net profit per share (in PLN/EUR per share)	4,03	4,56	0,96	1,08
X.	Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

Selected standalone financial data		in thousands of PLN		in thousands of EUR	
		as of 31.12.2014	as of 31.12.2013	as of 31.12.2014	as of 31.12.2013
XI.	Total assets	3 950 698	3 513 120	926 893	847 106
XII.	Fixed assets	3 430 881	3 027 338	804 937	729 972
XIII.	Current assets	519 817	485 782	121 957	117 135
XIV.	Total equity	2 995 960	2 825 878	702 897	681 394
XV.	Issued capital	101 647	101 647	23 848	24 510
XVI.	Total liabilities	954 738	687 243	223 996	165 713
XVII.	Long-term liabilities	338 049	6 302	79 311	1 520
XVIII.	Short-term liabilities	342 104	355 393	80 263	85 695
XIX.	Book value per share (in PLN/EUR per share)	58,95	55,60	13,83	13,41
XX.	Weighted average number of shares	50 823 547	50 823 547	50 823 547	50 823 547

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

- data regarding the consolidated profit and loss account, consolidated total income statement as well as the consolidated cash flow statement in accordance with the exchange rate representing the arithmetic mean of the average NBP rates as of the last working day of each month of the accounting period from 1 January 2014 to 31 December 2014, giving EUR/PLN 4,1893 as well as from 1 January 2013 to 31 December 2013, giving EUR/PLN 4,2110.

- data regarding particular items of the report on the financial position in accordance with the average EUR/PLN rate specified by the NBP as of 31 December 2014, i.e. EUR/PLN 4,2623 as well as of 31 December 2013, i.e. EUR/PLN 4,1472.

2. Description of the Company and of the Capital Group

2.1. Basic information on the Company and the Capital Group

Basic information on the Company

Zespół Elektrowni Pątnów-Adamów-Konin S.A. (hereinafter referred to as ZE PAK, *ZE PAK S.A.* or *Company*) operates in the form of a joint-stock company, pursuant to the regulations of the Code of Commercial Companies as well as other regulations of the generally applicable Polish law. The Company was established as result of transformation of Zespół Elektrowni Pątnów-Adamów-Konin state-owned company with registered office in Konin into a company wholly owned by the State Treasury under the business name of Zespół Elektrowni „Pątnów-Adamów-Konin" Spółka Akcyjna. The deed of transformation was signed on 29 December 1994 in the presence of the notary public Elżbieta Brudnicka from the Notarial Office in Warsaw. On 31 December 1994, the Company was entered into the commercial register section "B" by the District Court in Konin under number RHB 847. Based on the decision of the District Court in Poznań, 22nd Commercial Department of KRS dated 21 June 2011, the Company was entered into the Register of Entrepreneurs. Currently the Company is entered into the Register of Entrepreneurs kept by the District Court Poznań Nowe Miasto i Wilda, IX Commercial Department, under the KRS number 0000021374. The Company was established for an unlimited period of time.

Name:	Zespół Elektrowni „Pątnów-Adamów-Konin" Spółka Akcyjna
Legal status:	joint-stock company
Abbreviated name:	ZE PAK S.A.
Registered office and address:	ul. Kazimierska 45, 62-510 Konin, Poland
Telephone number:	+48 63 247 30 00
Fax number:	+48 63 247 30 30
Website:	www.zepak.com.pl
E-mail address:	zepak@zepak.com.pl
KRS no.:	0000021374
REGON no.:	310186795
Tax Identification Number (NIP):	665-000-16-45

According to the Company's Articles of Association, the primary subject of the Company's operations is the production and sales of electricity as well as the production and sales of heat. The Company produces energy from conventional sources as well as by biomass combustion. The Company can conduct operations within the territory of the Republic of Poland as well as abroad.

The Company's shares are listed on the regulated market operated by Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange). The Company's shares are dematerialised and marked by Krajowy Depozyt Papierów Wartościowych S.A. (National Depository for Securities) with the following stocks code: ISIN PLZEPAK00012.

In 2014, the share capital of ZE PAK S.A. has been not changed. As of 31 December 2014 amounts to PLN 101,647,094,00 and is divided into 50,823,547 bearer shares class A with a face value of PLN 2.00 each, which represent 50,823,547 votes at the Company's General Meeting, comprising 100% of the total votes at the Company's General Meeting.

The Company has no branches (establishments).

Basic information on the Capital Group

As at 31 December 2014, the ZE PAK Capital Group (hereinafter also referred to as the Group, the Capital Group, the ZE PAK Group or the ZE PAK CG) is comprised of the parent company: Zespół Elektrowni Pątnów-Adamów-Konin S.A. and seventeen subsidiaries, i.e. Elektrownia Pątnów II Sp. z o.o. (hereinafter referred to as the EPII), PAK Volt S.A., PAK Kopalnia Węgla Brunatnego Adamów S.A. (hereinafter also referred to as PAK KWBA S.A.), PAK Kopalnia Węgla Brunatnego Konin S.A. (hereinafter also referred to as PAK KWBK S.A.), Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. (hereinafter also referred to as PAK SERWIS sp. z o.o.), Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o. (hereinafter also referred to as EL PAK sp. z o.o.), Ochrona Osób i Mienia Asekuracja Sp. z o.o. in liquidation, Aquakon Sp. z o.o., Eko-Surowce Sp. z o.o., Energoinwest Serwis Sp. z o.o., KWE Sp. z o.o. in liquidation, PAK Centrum Badań Jakości Sp. z o.o. in liquidation, PAK Centrum Usług Informatycznych Sp. z o.o. in liquidation, PAK Górnictwo Sp. z o.o., PAK Holdco Sp. z o.o., PAK Infrastruktura Sp. z o.o., Centrum Zdrowia i Relaksu Verano Sp. z o.o. All the above mentioned companies are subject of consolidation, with the regard that consolidation of three subsidiaries of PAK KWBK (ie. Ochrona Osób i Mienia Asekuracja Sp. z o.o. in liquidation, Aquakon Sp. z o.o., KWE Sp. z o.o. in liquidation) is not relevant to the outcome of the Group.

The companies that are most important for the Group due to the size of their operations include ZE PAK S.A., which deals with generation of electricity and heat, Elektrownia Pątnów II Sp. z o.o., which deals with generation of electricity, and PAK KWBA S.A. and PAK KWBK S.A., which are engaged in the extraction of lignite. In addition to the main areas of the Group's operations, the Group also includes other companies, which are engaged, among others, in: carrying out construction and assembly works, maintenance works, services, production and trade operations for the purpose of satisfying their own needs as well as providing comprehensive services to the industry.

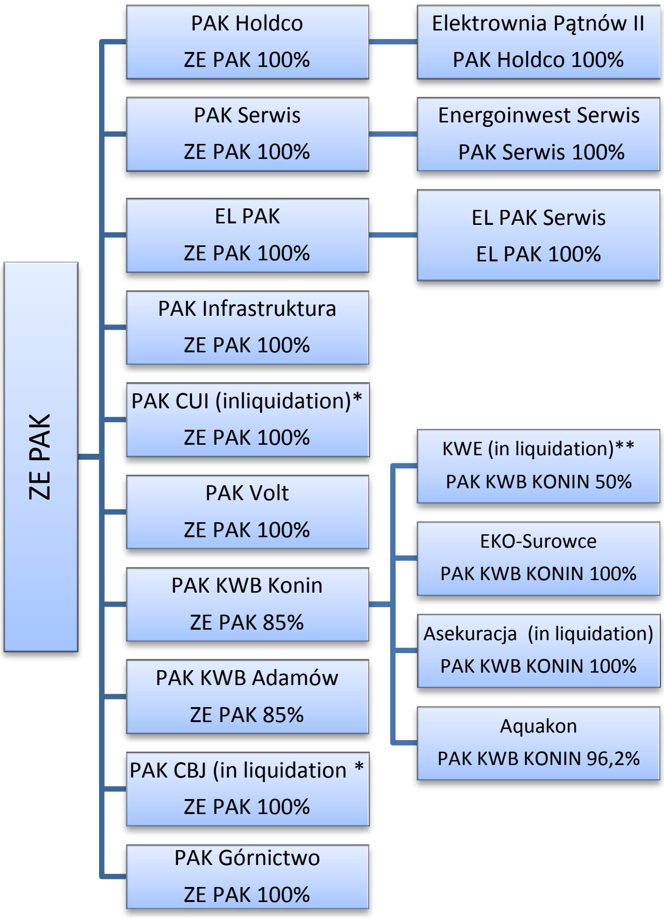
The Group's generation assets include four lignite -fired power plants located in the Wielkopolskie Province, in central Poland. These include: the Pątnów II Power Plant, equipped with a supercritical power unit, the Pątnów I Power Plant, Adamów Power Plant as well as the Konin Power Plant, equipped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

The Group's mining assets are concentrated in three companies. (1) PAK KWBK, which currently utilises the Jóźwin, Tomisławice and Drzewce open casts, (2) PAK KWBA, which utilises the Adamów and Koźmin open casts as well as (3) PAK Górnictwo S.A. which executes works related to search and identification of lignite deposits in the areas of Poniec-Krobia and Oczkowice in the southern Wielkopolskie Province.

Majority of the Group's sales revenue is derived from sale of electricity (both generated within the Group and purchased for resale) and revenue from energy certificates. This is supplemented by revenues from sale of heat and from construction contracts. An additional sales revenue, which depends on the level of electricity prices on the market as well as the volume of generated electricity, is revenue from termination of long-term contracts for sale of electricity (Power Purchase Agreements), generated by Elektrownia Pątnów II Sp. z o.o. The Group, by purchasing lignite mines, provided the power plants with access to continuous supplies of lignite for its own production systems located in the direct vicinity of the mines. The vertically integrated Group allows for optimisation of lignite inventories and supplies while coordinating lignite extraction with the demand for this fuel. The demand for biomass is satisfied pursuant to agreements concluded with the supplier.

Presented below is the structure of the ZE PAK Group as of 31 December 2014.

Draw 1: Diagram of the Group as at 31 December 2014



* as of the day of presentation of this report the process of liquidation in PAK CUI Sp. z o.o. and PAK CBJ Sp. z o.o. is finished.

** as of the day of presentation of this report PAK KWB Konin S.A. disposed all shares in KWE Sp. z o.o. in liquidation

In 2014, the following changes were made to the ZE PAK Capital Group's structure:

- On 26 March 2014, EL PAK Sp. z o.o. and Energoinwest Serwis Sp. z o.o. established a new company named EL PAK Serwis Sp. z o.o. with the share capital of PLN 500,000.00. EL PAK Sp. z o.o. had 99.98% of the shares, whereas Energoinwest Serwis Sp. z o.o. – 0.02%. On 26 June 2014, EL PAK Sp. z o.o., as result of acquisition of a single share from Energoinwest Serwis Sp. z o.o., became the holder of 100% shares in the company. The company was established in order to concentrate specific activities of the Group. In June 2014, services in the electric and power engineering field were separated from the structures of mines and their provision was transferred to the newly established company. The transfer of the specified groups of services to the specialised company was followed by the transfer of employees dealing with particular tasks in PAK KWBA S.A. and PAK KWBK S.A. to the established company. The reason for such activities is the employment cost optimisation process conducted by the Group.

- On 26 May 2014, the new name of Elektrim-Volt S.A. was registered in the National Court Register. From that day, the company conducts its activities under the name of PAK-VOLT S.A.
- On 20 May 2014, the shares of PAK Górnictwo Sp. z o.o. held by PAK Centrum Badań Jakości Sp. z o.o. were redeemed. From that day, ZE PAK S.A. is the only shareholder in PAK Górnictwo Sp. z o.o.
- The Extraordinary General Meeting of PAK Centrum Usług Informatycznych Sp. z o.o. decided on dissolving and liquidating the company pursuant to the resolution of 1 June 2014. The liquidation process was concluded on 29 January 2015 with the approval of the liquidation report by the Extraordinary General Meeting. The company was erased from the National Court Register as of the date of submission of this report. PAK CUI Sp. z o.o. dealt with the provision of IT services and the company's employees were transferred to ZE PAK S.A pursuant to § 231 of the Code of Labour.
- The Extraordinary General Meeting of PAK Centrum Badań Jakości Sp. z o.o. decided on dissolving and liquidating the company pursuant to the resolution of 1 June 2014. The liquidation process was concluded on 29 January 2015 with the approval of the liquidation report by the Extraordinary General Meeting. The company was erased from the National Court Register as of the date of submission of this report. PAK CBJ Sp. z o.o. dealt with the provision of services in the scope of physical and chemical measurements, tests and analyses and the company's employees were transferred to ZE PAK S.A pursuant to § 231 of the Code of Labour.
- On 1 September 2014, the Ochrona Osób Mienia Asekuracja Sp. z o.o. company, an indirect subsidiary of ZE PAK S.A. (via PAK KWB Konin S.A.), was put into liquidation. The company dealt with the protection of persons and property in relation to PAK Kopalnia Węgla Brunatnego S.A. The reason for the company's liquidation was entrusting the protection of PAK KWB Konin S.A. to a third party entity.
- On 15 October 2014, the company KWE Sp. z o.o., an indirect subsidiary of ZE PAK S.A. (via PAK KWB Konin S.A.), was put into liquidation. The company was founded in cooperation with PAK KWB Konin S.A. in the period preceding the purchase of the mine's shares by ZE PAK S.A. The purpose of establishing KWE Sp. z o.o. was the execution of the joint venture project involving the construction of a wind farm with the use of, among others, the excavated areas intended for reclamation. The justification of this decision were, among others, the planned changes in the economic and legal circumstances related to, in particular, the principles of support for renewable energy. The prepared changes in the support system made the economic efficiency of the project different than expected at the time of founding of KWE Sp. z o.o. As result, PAK Kopalnia Węgla Brunatnego Konin S.A. decided to withdraw from the execution of the project regarding the construction of wind farms, initiated in KWE Sp. z o.o. On 29 January 2015, PAK KWBK S.A. disposed of all shares in KWE Sp. z o.o. in liquidation for the benefit of a third party entity.
- On 20 October 2014, the agreement for the sale of 75% of shares in Centrum Zdrowia i Relaksu Verano Sp. z o.o. was concluded. The buyer of the shares was an entity from the property development industry. Centrum Zdrowia i Relaksu Verano Sp. z o.o. provides services in the broadly understood industry of recreation and leisure and the

company's main asset is a health resort in Kołobrzeg. The process of searching for the company's buyer has been initiated as early as in 2010, and thus before the acquisition of control over PAK KWB Konin S.A. by ZE PAK S.A., which was then the only shareholder of Centrum Zdrowia i Relaksu Verano Sp. z o.o. After the sale, PAK KWB Konin S.A. controls 25% of shares in Centrum Zdrowia i Relaksu Verano Sp. z o.o.

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

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

Table 1: Description of the Group's companies as of 31 December 2014 and 2013 (excluding ZE PAK S.A.)

Entity	**Registered office**	**Scope of operations**	**Group's share in the capital in percent**	
			As of 31 December 2014	**As of 31 December 2013**
Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o. *	62-510 Konin ul. Przemysłowa 158	Renovation and construction services	100%	100%
PAK-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Trade of electricity	100%	100%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services in the scope of industrial automation and electrical devices	100%	100%
EL PAK-Serwis Sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Repair of electric devices, repair of machinery.	100%**	-
Elektrownia Pątnów II Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity in the 464 MW unit	100%**	100%**
PAK-Holdco Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding operations	100%	100%
PAK Infrastruktura Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Execution of general construction works in the scope of engineering structures, unclassified elsewhere	100%	100%
PAK Centrum Usług Informatycznych Sp. z o.o. in liquidation***	62-510 Konin ul. Kazimierska 45	IT services	100%	100%

PAK Centrum Badań Jakości Sp. z o.o. in liquidation***	62-510 Konin ul. Przemysłowa 158	Chemical testing and analyses	100%	100%
PAK Górnictwo Sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal extraction	100%	100%**
Energoinwest Serwis Sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Renovation and construction services	100%**	100%**
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite extraction	85%	85%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite extraction	85%	85%
Ochrona Osób i Mienia Asekuracja Sp. z o.o. in liquidation	62-540 Kleczew ul. 600-lecia 9	Security of people and property	85%**	85%**
Aquakon Sp. z o.o.	62-610 Sompolno Police	Production and trade of mineral waters	81,8%**	66,6%**
Eko-Surowce Sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Lignite sales	85%**	85%**
KWE Sp. z o.o. ****	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	42,5%**	42,5%**
Centrum Zdrowia i Relaksu Verano Sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Services in the scope of vacation and sanatoriums	21,25%**	85%**

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

** Indirect share by the companies of the ZE PAK Group.

*** The liquidation process of PAK CUI Sp. z o.o. and PAK CBJ Sp. z o.o. has been concluded as of the date of submission of this report.

**** PAK KWB Konin S.A. has disposed of all shares in KWE Sp. z o.o. in liquidation as of the date of submission of this report.

2.2. Basic principles of management of the Company and of the ZE PAK Capital Group as well as changes thereto

In order to provide appropriate solutions for key issues related to management of the Capital Group, in which ZE PAK S.A. is the parent company and, at the same time, the owner of capital, seeking a satisfactory return on the funds engaged, a separate Corporate Governance and Restructuring Department was established within the organisational structure of the Company. The main task of this Department is supervision over the operations of the ZE PAK Capital Group and other companies in which the Company holds shares. This unit coordinates the consistency of the operations of all entities in the Group and monitors their compliance with the legal regulations in force as well as the interests of the whole Capital Group.

Direct supervision over the operations of the companies in which ZE PAK S.A. holds an interest is also executed by the Supervisory Councils, the role of which in the system of corporate governance in relation to the above-mentioned companies is defined in a statutory manner. In accordance with the Group's policy, the positions of Presidents of Supervisory Councils in the subsidiaries are held by Members of the Management Board of ZE PAK S.A. Furthermore, to ensure proper functioning of the corporate governance body, the ZE PAK S.A.'s Board recommends other members of the Supervisory Councils of the Group companies.

Corporate governance in the ZE PAK Capital Group is subject to specific procedures collected in the internal document adopted by the ZE PAK S.A.'s Board in January 2012, entitled "Corporate Governance Principles for the ZE PAK S.A. Capital Group", which sets the main principles for the management of the Capital Group. The scope of the tasks and duties of Supervisory Councils in the subsidiaries has been extended in this document. The document also defines the tasks and duties of the Corporate Governance and Restructuring Department, information requirements for subsidiaries' boards as well as the method of fulfilment of specific governance tasks.

During the year of 2014, there were no significant changes in the principles of management of the Company or of the ZE PAK Capital Group.

2.3. Description of main products, goods for resale and services as well as main markets and sources of supplies

The Company's activities are focused in several areas. The primary activity is, undoubtedly, the production of electricity and wholesale trade of electricity, which is supplemented by the sale of certificates of origin of electric power, activities aiming at guaranteeing the adequate number CO2 allowances, as well as production and sale of heat. In 2014, the Company conducted its activities mainly on the Polish market. The only exception were activities related to transactions regarding the CO2 allowances executed between ZE PAK and foreign partners.

The Company is the second largest national producer of electricity generated from lignite. The contribution of all of the Company's power plants in the entirety of electricity produced in Poland amounts to 5.5% . The net electricity production in the Pątnów I Power Plant in 2014 was equal to 4.01 TWh, while in the Adamów Power Plant and the Konin Power Plant – 3.10 TWh and 0.61 TWh respectively. Total energy production in all the Company's power plants in 2014 was less by about 4.31% compared to the previous year. Reduction of the production concerned the Pątnów I Power Plant was caused by sending two units to modernisation works, and in Adamów and Konin Power Plants, a slight increase in production in comparison to the previous year was noted. In 2014, the Company sold 8.39 TWh of electricity, i.e. nearly 1.21% less than in 2013.

The main direction of sales of electricity was the sale in the scope of bilateral contracts concluded with electricity trade companies conducting activities in the Polish market. This form of sales amounts to 69.00% of the electricity sales volume executed by the Company in 2014. Transactions with final recipients amounted to only 0.51% of the entire volume of electricity sales.

In 2014, the Company executed 24.13% of the entire electricity sales volume in exchange markets, which is an insignificant decrease in comparison to the previous year.

In 2014, the Company remained in the group of producers who actively participated in the electricity balancing market trade by selling a part of its energy in this market that is 6.36% of the entire electricity sales volume. Electricity sales revenues (in total – produced and traded) comprised 85.52% of the Company's total sales revenues. The number of green and red certificates obtained by the Company, thanks to the use of the biomass unit, as well as high efficiency cogeneration in heat production in 2014, is substantially higher from the number of certificates that the Company is obligated to present to the President of the Energy Regulatory Office (URE) for redemption in order to fulfil the obligations imposed by the current regulations. Due to the above, the excess certificates are sold mainly to Towarowa Giełda Energii (the Polish Power Exchange). In 2014, the Company generated 0.32 TWh of green certificates and 0.08 TWh of red certificates. The revenues from sales of certificates comprised 3.88% of the Company's total sales revenues.

The heat generated in the Company's power plants is sold to local recipients. The main recipients include local heat power engineering companies as well as local industrial manufacturers. The Company covers almost the entire heat demand of Konin and Turek cities. In 2014, the Company's power plants sold 1,979 TJ of heat. The heat sales comprised c. 3.58% of the Company's total sales revenues. Other activities generated 7.03% of the total revenues in the previous year.

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

The Konin Power Plant also use biomass as raw material to produce energy, which is combusted in a boiler specially dedicated for this purpose. In 2014, 359.6 tonnes of biomass were used up in the process of "green" energy production. Due to its price, it is more cost-effective to combust forest biomass; however, energy producers are obliged to use a share of agricultural biomass specified in the regulations of the law. In the previous year, the entire biomass pool consisted of 79.75% of forest biomass and remaining 20.25% of agricultural biomass.

3. Description of Operations

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

Significant events in the accounting year

Early repayment of the investment credit

On 2 January 2014, the Company made an early repayment of the credit granted in 2006 by PKO BP and PEKAO S.A. banks for the construction of the flue-gas desulphurisation system in the Pątnów Power Plant ("IOS Credit"). The capital of the repaid credit as of the day of early repayment amounted to PLN 90 million. The company decided on the early repayment of the IOS Credit due to the intention of refinancing it.

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

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

1) credit in the amount of PLN 1.11 billion for the purpose of modernisation of units 1-4 in the Pątnów Power Plant, including additional tasks, and
2) credit in the amount of PLN 0.09 billion for the purpose of refinancing the debt deriving from the credit contracted in 2006 for the construction of the flue-gas desulphurisation system for the Pątnów Power Plant units.

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

Significant events after the balance sheet date

Redemption of employee shares in PAK KWBK S.A. and PAK KWBA S.A.

According to the provisions of the agreement for the purchase from the State Treasury of 85% of shares in PAK KWBK S.A. and PAK KWBA S.A. of 2012, the Company was obligated to redeem the other 15% of the shares available to the authorised employees of both companies according to the Act on commercialisation and privatisation. On 18 March 2015, the Company launched the program for the redemption of employee shares of both mines. The assumed deadline for redemption conclusion is 30 June 2015.

3.2. Significant agreements concluded during the accounting year

Significant agreements for the Company's activities

Below, we present the description of significant agreements concluded by the Company in 2014, excluding agreements concluded in the course of usual activities, such as electricity sale agreements or raw material supply agreements.

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

The two most important agreements related to the modernisation of units 1 and 2 at the Pątnów Power Plant were concluded in 2013. In 2014, the Company concluded two annexes to the agreement for the turnkey modernisation of Boiler K1 and Boiler K2 at the Pątnów Power Plant, including the construction of the NO_X emission reduction systems for these boilers. The annexes were concluded between the Company and Przedsiębiorstwo Inwestycyjno-Remontowe Energetyki i Przemysłu Remak-Rozruch S.A. as well as Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o., acting as a consortium. According to the provisions of the concluded annexes, the scope of subject works on the K1 and K2 boilers was subject to extension. The extension of the scope features completion of additional works, the execution of which is necessary after the boiler's disassembly stage. Due to the extension of the scope of works, the net value of the agreement was also increased by PLN 68.9 million. The net value of the agreement is currently as follows:

- for boiler K1 – PLN 224,430,000.00,
- for boiler K2 – PLN 226,470,000.00,

The total net value of the agreement for boiler K-1 and boiler K-2 amounts to PLN 450,900,000.00.

The provisions of both annexes also resulted in the extension of the commissioning date of both units. The dates of commissioning are currently as follows:

- for Unit no. 1 – 31 August 2015;
- for Unit no. 2 – 22 December 2015.

Agreements regarding the obtained credits and loans

In 2014, the Company concluded the following agreements regarding credits and loans:

1. On 13 March 2014, ZE PAK S.A. concluded with the consortium of the following banks: mBank, Bank Millennium, BGK, PKO BP and PEKAO S.A., the investment credit agreement for the amount of PLN 1,200,000 thousand. The credit was divided into two parts: Credit A – credit amount of PLN 1,110,000 for the purpose of financing the modernisation of units 1-4 in the Pątnów Power Plant, Credit B – credit amount of PLN 90,000 thousand as refinancing of the credit for the construction of the Flue-gas Desulphurisation System (IOS) in the Pątnów Power Plant. The interest rate according to the WIBOR 3M rate plus the bank's profit margin. The repayment of credit will be made quarterly from June 2015 to December 2023.
2. ZE PAK S.A. concluded Annex no. 17 with the PKO BP S.A. bank extending the deadline for repayment of the overdraft facility until 25 October 2015. The available credit limit amounts to PLN 90,000 thousand. The interest rate according to the WIBOR 1M rate plus the bank's profit margin.
3. ZE PAK S.A. concluded Annex no. 9 with the PEKAO S.A. bank extending the deadline for repayment of the overdraft facility until 30 September 2015. The available credit limit amounts to PLN 80,000 thousand. The interest rate according to the WIBOR 1M rate plus the bank's profit margin.

4. ZE PAK S.A. concluded Annex no. 29 with the BZ WBK S.A. bank extending the deadline for repayment of the overdraft facility until 30 November 2015. The available credit limit amounts to PLN 5,000 thousand, the interest rate according to the WIBOR 1M rate plus the bank's profit margin.

Agreements regarding the granted loans

The ZE PAK did not grant any loans in 2014.

Granted and obtained guarantees and sureties

Information on the granted and obtained guarantees and sureties was presented in points III.6.p) and III.6.q) of the Company's financial statement for 2014 year.

Insurance agreements

Below we present the description of significant insurance agreements concluded by the Company in 2014.

1. On 31 March 2014, the Group concluded the General Agreement for the Complex Insurance of the PAK Group's Companies (i.e. ZE PAK S.A., PAK KWBK S.A. and PAK KWBA S.A.) for the period between 1 April 2014 and 31 March 2017 with the Consortium of Co-insurers consisting of: Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A., Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A., Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska S.A. and UNIQA Towarzystwo Ubezpieczeń S.A. The General Agreement was divided into three 12-month periods for which separate policies will be issued for particular ZE PAK Power Plants. The first insurance period starts on 1 April 2014 and ends on 31 March 2015. The estimated sum of insurance of the fixed assets amounted to a total of PLN 11.4 billion. The policies feature insurance coverage of property from any risk, loss of profit due to any risk, of machinery and device from damage, loss of profit due to machinery and device failure, of electronic equipment from all risk and of machinery and device from electrical damage.
2. The Insurance Agreement Against Construction and Assembly Risk for the "Modernisation of Units 1-4 in the Pątnów Power Plant" Investment was concluded on 31 December 2014. The agreement features an insurance period from 1 January 2015 up to the planned completion of the subject investment, i.e. until 31 December 2016. The estimated sum of insurance of the fixed assets amounted to a total of PLN 1.7 billion. The policies features insurance of the modernisation works, civil liability insurance in relation to the subject investment, insurance of ZE PAK from loss of profit due to delays in the execution of the investment as result of damage.

Agreements concluded with affiliates on conditions different than market conditions

In 2014, no agreements were concluded between the affiliates of the ZE PAK Capital Group on conditions different than market conditions.

3.3. Execution of the investment program

Key ongoing investments

Pątnów I Power Plant

The main purpose of investment expenditures in 2014 was the financing of the final stage of modernisation of power units 1 and 2 in the Pątnów Power Plant, as well as preparation for the final stage of modernisation of units no. 3 and 4.

The executed investment tasks include the modernisation of condensing steam turbines, start-up of the nitrogen oxide (NO_X) emission reduction system (in order to reduce the NO_X emission from 1.37 kg/MWh prior to the modernisation to the assumed level of 0.74 kg/MWh), as well as replacement or modernisation of elements crucial for the operation of the units in order to improve the performance of electricity production (from 32.9% to the assumed level of 37.5%). The executed modernisation is also to decrease the CO_2 emissions (from 1.17 Mg/MWh to the assumed level of 1.05 Mg/MWh), as well as ensure the operation of the Pątnów Power Plant's units for at least 15 years, provided that the operation of these units is profitable based on the local lignite deposits. The result of the modernisation will be the improvement of the safety of device operation and the effectiveness of electricity production in compliance with the environmental requirements.

The works at unit no. 1 and 2 were executed according to the signed schedules and the annexes to contracts, which specified the key dates of execution of units no. 1 and 2 as follows:

1) Unit no. 1 (unit commissioning) - 31.08.2015;
2) Unit no. 2 (unit commissioning) - 22.12.2015.

Key investments during the preparatory stage

Konin Power Plant

In 2014, outside of the subject investments, design works related to the construction of the steam and gas unit in the Konin Power Plant, which is an investment aiming at the diversification of fuel sources used for production in the Group, were continued. The project features the start-up of the peak load device generating electricity and heat within the scope of construction of the steam and gas unit with a capacity of approx. 120 MWe and approx. 90 MWt, as well as an additional gas-fired peak load boiler with a capacity of approx. 40 MWt (dedicated for the supply of heat for the city of Konin), the commissioning of which is initially planned for 2018. The execution of this investment will allow replacing the lignite-fire units in the Konin Power Plant. The scope of preparations for the execution of the subject investment featured further economic analyses aiming at confirming the profitability of the unit's construction with optimisation of its future operation scenarios. The documentation necessary to use all necessary administrative and legal permits related to the projected investment is also being compiled. In order to adjust the conditions of heat reception to the change in raw material from coal to gas, a new long-term agreement with the heat distributor was being negotiated. After conducting the administrative proceeding, on 11 February 2014, the Mayor of the city of Konin issued the decision on environmental conditions for the investment comprising in the construction of the steam and gas unit, including the back-up peak load boiler and the associated infrastructure in the area of the Konin Power Plant. Deliberations with financial institutions were also conducted in order to ensure external financing for this investment. Furthermore, based on own study of the market of manufacturers of the type of devices comprising the project's subject, the Company selected a series of entities with suitable experience, qualification, facilities and competences in the execution of similar investments. The selected entities were provided with enquiries about the interest in being the contractor in the planned project. Five entities were selected in 2015 after pre-qualification and the entities were provided with a tender enquiry in the form of "Terms of Reference". The Company expects to receive responses from the contractors interested in the project within the first half of 2015.

3.4. Risk management

While conducting its operations, the Company is exposed to a series of risks, occurring actually, potentially or theoretically, present in the industry as well as on the markets on which the Company operates. These are factors which originate both from the inside of the Company as well as from its environment. Taking into account the formalisation of the realm related to the risk in the Company's operations, the complex document titled "Principles of Risk Management for the ZE PAK S.A. Capital Group" ("Management Principles") was developed. The Management Principles were developed and introduced in order to define and specify the limits of risks present or which can occur in the ZE PAK S.A. Company as well as to specify the mechanisms used to minimise risk exposure in the course of conducting operations in the energy sector and to minimise the effects of the risk, which due to the specificity of the ZE PAK S.A. Capital Group's primary production operations cannot be eliminated in its entirety.

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

The Capital Group's business model and strategy were established pursuant to the aforementioned principles. The primary principle of the business model executed by the Group in the realm of its business operations: extraction, production and trade is to maximise the production and profit with simultaneous compliance with the risk minimisation principle. In order to achieve its business goals, the Group accepts to incur the risk, but only in the scope and pursuant to principles specified in the Management Principles. All types of business risks and situations resulting in exposure to risk are constantly minimised, provided that the Management Principles or the Board's decisions do not authorise specific deviations. The specific roles and the scope of liability for decisions and actions related to the executed market policy and strategy were distinguished in relation to the Group's capital structure and the organisational chart of particular companies. A special role, related to the compliance and proper application of the Management Principles, is played by the task team named the Risk Management Committee, which acts as a consultative body for the ZE PAK S.A.'s Board. The body was appointed by the Order of the President of the Company's Board. The main task of the Risk Management Committee is to recognise, identify and evaluate in substantive terms all economic risks with a value exceeding PLN 10 million, related to the business operations conducted by the Group.

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

1) raw material risks;

2) production risks;

3) market risks and related financial risks;

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

5) risk in the area of information security.

Each area of risk identified above included the identification of specific types of risks related a specific area. The type of a given risk was thoroughly described with specification of theoretical examples of its occurrence in the Group's operating activities. Each type of risk also features specific forms of action aiming at its minimisation or elimination, a specific benchmark was also assigned and the so called "key performance indicator", i.e. the minimum performance level, was specified wherever possible.

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

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

The Group's risk management principles were not subject to change in 2014.

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

In 2014, the Company did not made any issuance of debentures.

4. Main Business Risks

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

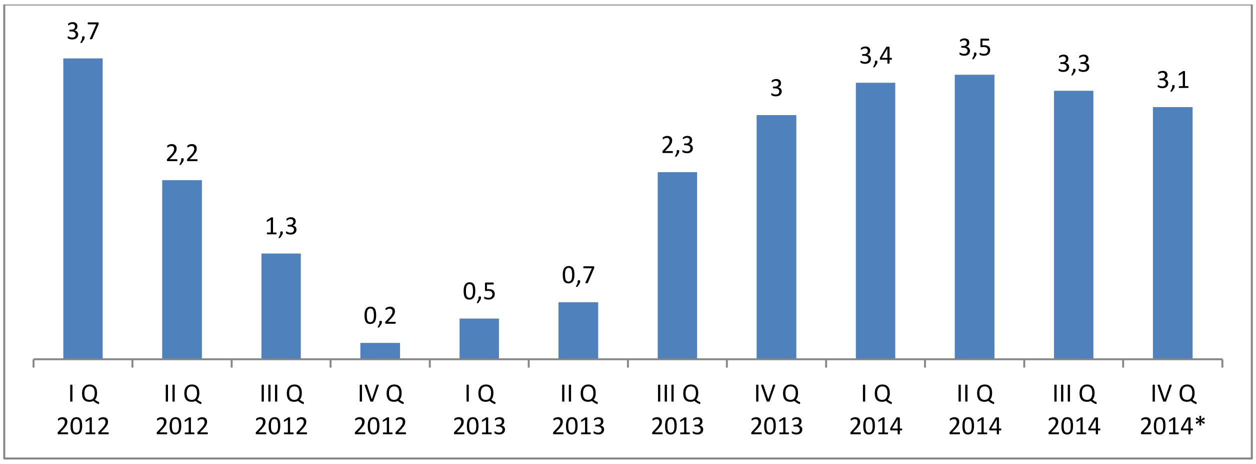
The most important factors which constantly affect the Company's results include the following:

- macro-economic trends in the Polish economy and the demand for electricity;
- regulatory environment;
- electricity prices;
- prices and supply of certificates of origin;
- fuel costs, coal extraction costs;
- CO_2 allowances costs;
- seasonality and meteorological conditions;
- investment expenses, in particular those privileged to obtain CO2 emission allowances free of charge;

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

When 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 substantial factor is the increase in the real GDP and industrial production in Poland, the development of the sector of services as well as the increase in individual consumption. All of the aforementioned factors significantly affect the demand for electricity and its consumption.

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



* the so called "Quick estimate of the gross domestic product for the IV quarter of 2014"

Source: GUS data

According to the rough estimate of the Central Statistical Office, the gross domestic product ("GDP") in the IV quarter of 2014 was higher by 3.1% in comparison to the year before (in fixed prices from the year before). Despite the fact that the result was lower in comparison to the fourth quarter of 2013, the year 2014 must be deemed as good. The GDP dynamics was above 3% throughout all quarters. This type of situation last occurred in 2011. Increasing trends were prevalent in all fields in the previous year. As result, the GDP increased to 3.3%, whereas the average increase in the EU states amounted to 1.3%. Poland was one of three EU states that developed the fastest. The main factor affecting the GDP dynamics in Poland was the domestic demand, both the investment and consumption demand, and not the net export, as was the case in the previous years. The level of expenses for fixed assets increased by 9.4% in 2014, which was significant in comparison to the increase by mere 0.9% in 2013. The main reason for the increased investment activities was the acceleration of company investments. Companies reported an increase in expenses for buildings, machinery, technical devices, tools and transport means. The increase regarded companies announcing the commencement of new investments, as well as expansion of the scope of earlier projects. The increased inclination to invest was associated by increasing use of production capacities and successive improvement in the financial condition of companies, which favoured financing investments from own resources. A slightly worst image is shown by the investment activities of households, where the level was worse in comparison to the level achieved in 2013. The main reason was the decrease of expenses for private residence buildings. The recovery of the national economic activity positively affected the labour market. The unemployment rate decreased to 11.5%, i.e. to the lowest level since 2008. Simultaneously, the average real wages in the sector of companies increased by 3.7% and the purchase power of retirement and pension benefits increased by 3.7% in comparison to the year before. The demand for consumer credits also increased, which was favoured by the record low interest rates and maybe better financial perspectives of households. In the view of this data, the increase in the consumption of the household sector by 3.0% is not surprising. The increase in consumption in 2013 amounted to 1.1%. 2014 featured a negative balance of foreign exchange in the conditions of prolonged recession in the world economic situation and thus decreased demand for Polish products abroad. In 2014, export, estimated in EUR, increased by 5.2%, while import increased by 5.5%. The negative balance was higher by 23% than in 2013. It is necessary to note the deteriorating structure of commercial turnover in Central and East Europe, which is related to the increasingly difficult economic situation in Russia and Ukraine, as well as the military conflict between those countries. Positive information is the negative value in the "inventory change" item in 2014, because an increasing contribution of inventory in the GDP structure is usually a sign of the approaching peak in the economic cycle. It is necessary to note that this quite positive image of the Polish economy in 2014 developed despite one of the lowest real interest rates in Europe. The current situation lacks significant inflation stresses.

Based on the data from the functioning of the Public Power System and the Balancing Market, presented by Polskie Sieci Elektroenergetyczne S.A., it is visible that the national electricity consumption in 2014, in comparison to the analogous period of the year before, increased by 0.49%. The production of electricity decreased overall by 3.65% in the previous year. In 2014, for the first time in many years, a positive balance of foreign exchange (more energy was provided to the Polish system than extracted) was recorded, which was surely affected by the differences in prices on the wholesale market of Poland and the neighbouring countries. The production of energy in professional power plants using bituminous coal decreased by 5.06% and a similar decrease, i.e. by 4.82%, was recorded in production using lignite. The increase in wind capacities in the previous year is estimated at around 450 MW in comparison to the increase of approx. 900 MW in 2013. However, despite the lower increase rate of new wind capacities, the atmospheric conditions in 2014 allowed to increase the production from wind capacities by 23.4% in comparison to 2013.

Regulatory environment

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

In recent times, several principal changes took place in the widely understood regulatory environment, which is significant for the electricity producers. After several years of work, the Act on renewable energy sources (RES) was adopted during the meeting of parliament on 20 February 2015. The most important entries feature maintenance of the existing support system based on the certificates of origin of RES energy (green certificates) for the existing RES systems. The auction system is to start operation in 2016 and the current RES producers will have the choice whether to take part in it or to remain in the current system of certificates. In the auction system, it is the government that will decide on the quantity of renewable energy it needs and prepare auctions for its delivery for particular technologies and quantities of sources. The auction will be won by the producer who proposes the lowest price. In return, the producer will be warranted support. The scope of the cost optimisation will include lowering the support for the so called multi-fuel (co-combustion) combustion systems. The regulations also feature elimination of support mechanisms for water turbine plants with the installed capacity of above 5 MW, which produced electricity for the first time before the entry of the act into force. The act also includes regulations regarding prosumers (simultaneous energy producers and consumers) of RES energy production in micro- and small systems. These energy producers will be able to sell the produced excess energy, which is not used for their own purposes, at fixed prices in the period of 15 years.

On 7 April 2014, President Bronisław Komorowski signed the draft amendment to the Energy Law, prolonging until the end of 2018 the support system for energy production in peak load co-generation systems, i.e. simultaneously producing electricity and heat. The support system for the gas or coal co-generation systems or systems with a capacity below 1 MW expired at the beginning of 2013. Due to the above, the government presented a draft amendment, among others, to the Energy Law a year ago, which prolonged the support system until the end of 2015. However, it almost took the entire year of 2013 to receive the approval of the European Commission for such a form of public help. In the end, the Commission informed that it is interested in the evaluation of the entire Polish co-generation support system in operation since 2007, therefore it would not examine the project's regulations separately. Due to this delay, the parliament commissions started to examine the project as late as December 2013 and during the works in the parliament, corrections prolonging the system's operation until the end of 2018 for gas and coal systems. This proposal found its way to the final form of the act.

In October 2014, the leaders of European countries reached a compromise on the objectives intended to be applied in the new term of the European Union climate policy. According to the new arrangements, to the end of the next decade, the European Union countries committed to reduce greenhouse gas emissions by at least 40% compared to the level of 1990, and to increase the share of renewable energy sources in the energy mix and the increase of the energy efficiency by 27%. The objective of increasing the use of green power engineering will be binding in the entire EU and not in particular countries. The assumption of increasing energy efficiency will not be legally binding either on the level of the European Union or individual member states. It was also agreed on the need to take into account the so-called interconnectors, which are the connections between electricity systems of each country with other systems at the level of at least 10% of energy capacities. During the talks in Brussels, Poland negotiated the support mechanisms to help Polish high carbon energy sector to cope with the costs of new climate targets. It includes, among others, allocations of CO_2 allowances, which is to be granted to producers of energy, as well as resources from the special provision created from 2% of emission allowances, which are to be shared by the least wealthy countries. At the current stage, the details concerning the complete structure of support for the energy sector as well as conditions, according to which the individual producers will possibly be able to take advantage of negotiated concessions, are not known yet.

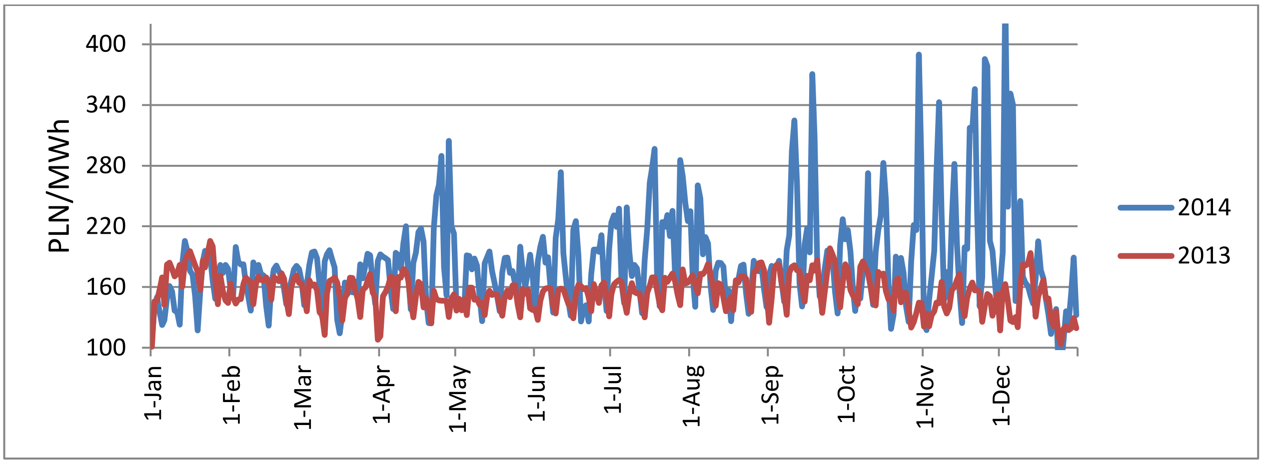
Electricity prices

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

According to the notifications of URE, the average sale price of electricity on the competitive market in subsequent quarters of 2014 was as follows: 158.14 PLN/MWh in the I quarter, 164.70 PLN/MWh in the II quarter, 167.92 PLN/MWh in the III quarter and 167.97 PLN/MWh in the IV quarter (the average quarterly price of electricity sold pursuant to principles other than those resulting from Article 49a paragraph 1 and 2 of the Energy Law Act).

In 2014, electricity quotations in the Polish Power Exchange (IRDN – next day market forecast) were higher than the levels in 2013. The average price on RDN in 2014 amounted to 179.86 PLN/MWh, which is an increase of nearly 17% in comparison to the RDN average price in 2013. Substantially higher prices were visible especially from the second quarter of 2014 and the biggest differences in prices when comparing both years occurred in the fourth quarter, except for the last decade of December.

Chart 2: Electricity prices (IRDN)

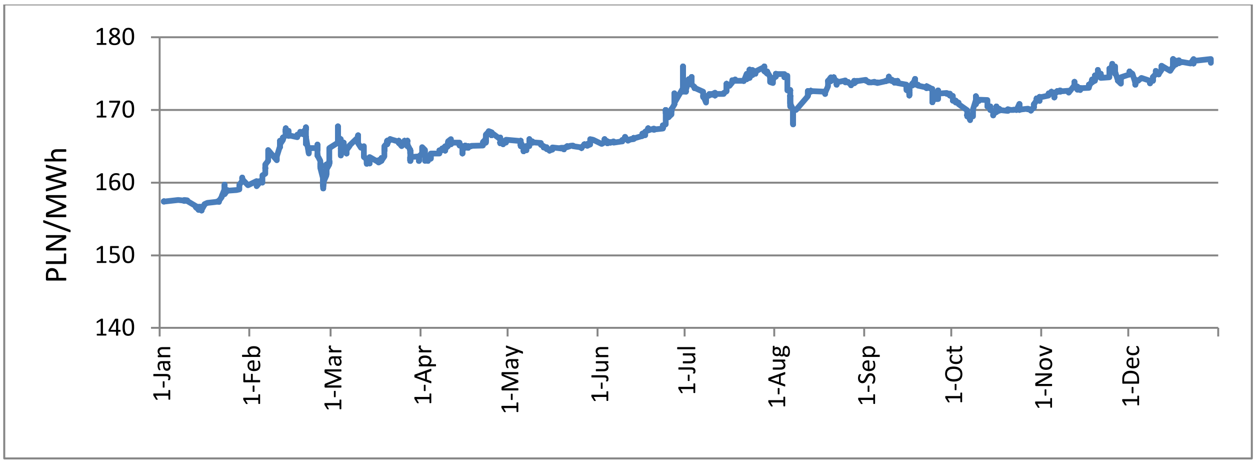


Source: market data (TGE)

The previous year features several factors which favoured the increases in energy prices. Among the most important factors, it is necessary to mention the implementation of the mechanism of the operating capacity reserve (ORM). The ORM mechanism, according to the declarations of the operation, is to be a temporary solutions until incorporating a full capacity market in the future. The basic principles of the mechanism is to offer specific payment to production entities in return for the declared readiness to work in the determined time. The principles of the introduced solutions made all producers to include the ORM principles in their calculation when offering prices on the wholesale market. Another factor translating into the trend of increasing energy prices were the higher costs of CO_2 allowances. 2014 was another year when the industrial CO_2 emitting entities in Poland were forced to purchase additional allowances in quantities exceeding the free allowances granted due to derogation. The significance of this factor will increase in the coming years, because the pool of free CO_2 allowances will be reduced in the next years until 2020. This is the reason why all the attempts to interfere with the market mechanism, the purpose of which is to cause an increase in the price of CO_2 allowances, can probably translate into a long-term increase in energy prices. In the previous year, the energy market featured relatively high prices, especially during peak hours. This is partially the effect of introducing the ORM, however the second factor is the high number of planned and emergency shutdowns of production units. The increasing failures in units can be related to their age and the degree of their exploitation, as this causes decreases in the power system reserves and the necessity to use high cost units to fulfil the demand for energy during peak hours. The domestic electricity consumption increased in 2014 by 0.5%, whereas the production decreased by 3.6%. It is worth to note that the prices on the Polish Power Exchange in 2014 were substantially higher in comparison to the prices on electricity markets, e.g. the German market. In the previous years, the differences in energy prices on the Polish and German markets were not substantial and even if such was the case, Poland was usually the exporter of cheaper electricity. From this year, Poland became an importer of electricity. It is necessary to note however that the transmission capabilities between the Polish electricity system and the systems of neighbouring countries are small enough to prevent any substantial impact on the possibilities of price equalisation on the comparable markets. It is necessary to emphasise that both the production structure on the comparable markets and the regulatory form of financing differ. The Polish system is different from the widely understood method of financing the system on the German market. Energy prices on both markets do not take into account, for example, the difference in the costs of support for the RES renewable energy sources segment, which in Germany consumes resources incomparable with the Polish support system, which is not included in the price on the wholesale market of energy.

In the first half of 2014, we observed a gradual increase in prices on the futures market to the level of PLN 175 per MWh at the beginning of the III quarter (futures contract for the supply of electricity in 2015 – band, that is the same amount of energy during each hour of the given year). During several consecutive months, the prices fluctuated within the range of 168 and 175 PLN/MWh. The reason for such fluctuation was probably the uncertainty regarding the principles of functioning of the ORM mechanism in 2015. However, the market started to return to its earlier peaks along with the decreasing number of uncertainties in the above topic and ended the year at 177 PLN/MWh.

Chart 3: The price of the futures contract for the supply of electricity (base) for 2015



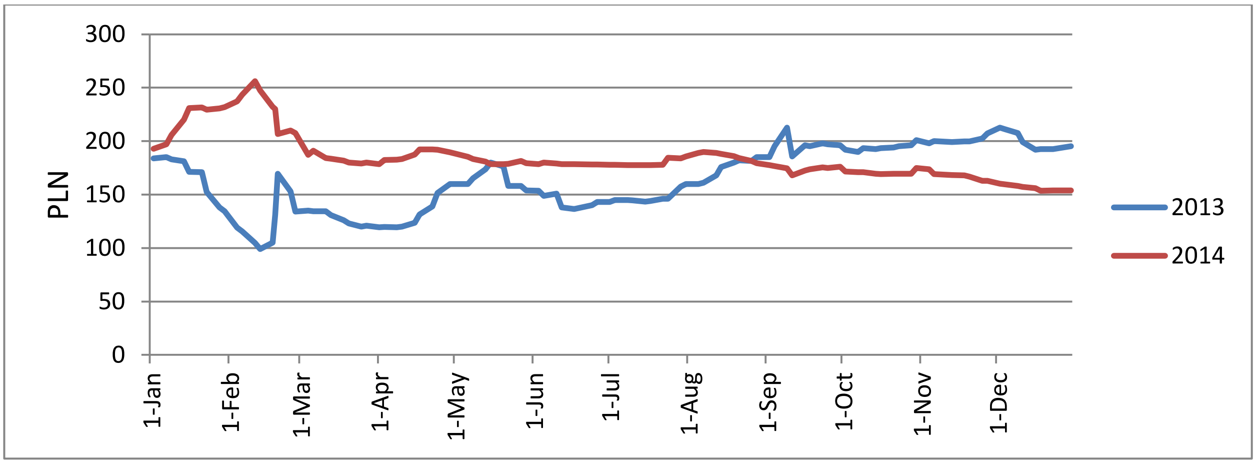
Source: market data (TGE)

Certificates of origin

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

The beginning of 2014 featured a continuation of the increasing trend that started as early as mid-2013. In February 2014, the prices of green certificates reached their yearly maximum at the level of above 250 PLN per certificate. The next month featured a similarly dynamic decreasing trend, which made the prices go down to the level of 180 PLN. The next months have brought fluctuations in the range from 172 to 192 PLN. From September 2014, the market was dominated by sellers who brought the prices down to the yearly minimum at around 155 PLN per certificate, obtained near the end of the year. The quotations of green certificates were far from the compensatory fee paid in 2014 in case of lack of a certificate of origin necessary for redemption, which amounted to PLN 300.03. The substantial difference between the prices of certificates and the compensatory fee, occurring second year in a row, is caused by the significant oversupply of these units. The periodical increases in prices are partially related to the hopes of introducing legal regulations which allow balancing of the green certificate market, however no solution has yet been reached, which would allow effective reduction of their numbers on the market. The new RES act, the entries of which reduce the support for co-combustion technologies and reduce the supports for large hydro power plants, with simultaneous increase of the level of fulfilment of the obligation to redeem the green certificates, can lower the supply of green certificates in the future, however the effect of its entries on the market may be perceivable only in the long term.

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



Source: market data (TGE)

<u>Fuel cost, coal extraction cost</u>

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

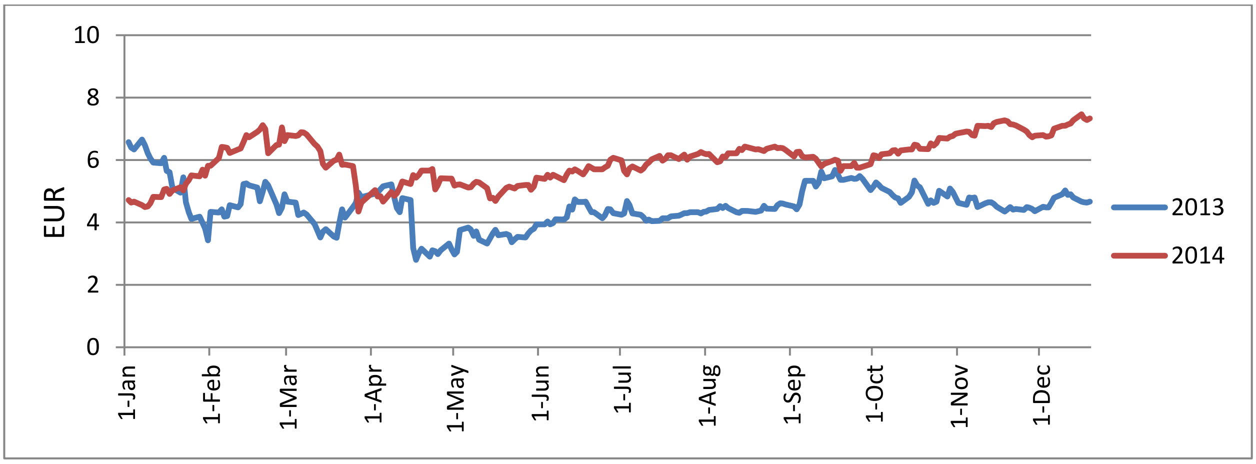
Two lignite mines, PAK KWBA S.A. and PAK KWBK S.A., which are the only suppliers of lignite to the ZE PAK power plants, satisfy the entire demand of generation assets for this basic fuel. The ZE PAK does not rely therefore on external suppliers and eliminates the exposure to potential fluctuations of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

CO2 allowances costs

The activities in the scope of production of electricity and heat from conventional sources, and thus the operational results, are largely dependent on the number of free CO_2 allowances granted in the given period. The CO_2 allowances (EUA) are obtained by way of free allocation in the scope of the National Allocation of Allowances (KPRU); they can also be bought in the open market. The Group is obligated to purchase the missing number of additional CO_2 allowances on the primary or secondary market.

2014 was full of variables, but ultimately it was ended with increases in the CO_2 allowances costs. Nearly throughout the entire 2014, except for January, the prices of EUA units were higher than in the analogous period of the year before. The dynamic increases from the beginning of the year resulted in quotations of EUR 7.12 at the end of February. The next month featured a similarly dynamic decreasing trend, which resulted in reaching the minimum price in 2014 at the level of EUR 4.35 at the end of March. The next months featured a constant increasing trend, with minor corrections, which made the EUA quotations reach the level of EUR 7.5 per EUA near the end of the year.

Chart 5: Price of the futures contract for the supply of EUA in 2013 and 2014



Source: market data (ICE)

The increases at the beginning of 2014 resulted from the speculation related to the so called "backloading", which is the EC's plan aiming at reducing the number of EUA's on the market and resulting in the increase in their quotations, which was approved by the European Parliament. In February 2014, the European Parliament issued the approval for initiation of transfer of 900 million CO_2 allowances from 2014-2016 to the subsequent period of the third settlement stage (2013-2020) of the EU ETS. It quickly turned out that the artificial interference in the market mechanism isn't able to decrease the EUA unit supply in order to equalise the lesser demand caused by the low level of economic development in the prevailing area of the EU and the stagnation (or even drop) in the use of electricity in many European economies. It was probably this belief that lead to the decreases in March 2014. However the increasingly active rhetoric regarding the climactic policy and the persistent promotion of mechanisms, such as the "stabilisation provision" (MSR) favoured increases in allowance prices in the subsequent months. MSR is a proposal of the European Commission, which assumes top-down regulation of the number of CO_2 allowances available on the market depending on the market prices. At first, this proposal assumed the creation of a provision, the main aim of which was to increase the EUA prices, in 2021. However some members states, Great Britain and Germany among others, are trying to force the implementation of the mechanism as early as in 2017. On the other hand, economies largely dependent on the high-emission fuels, e.g. Poland, are against interfering in the EU ETS market.

Seasonality and meteorological conditions

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

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

Investment expenses

The activities in the coal extraction and energy production sector requires substantial investment expenses. The Companys's production assets require periodical renovations and on-going modernisation, both due to the increasing strictness of requirements in the scope of environmental protection and the need to increase the effectiveness of electricity production. The level of investment expenses had major impact, and according to expectations will still have major impact, on the results of the operating activities, level of debt and cash flows. Delays in execution, changes in the investment program and excess in the budget can have severe impact on the investment expenses incurred in the future, as well as on the results, financial position and the development prospects. The topic of the Companys's investment plans and the execution of current tasks is more widely discussed in paragraph 4.3 and paragraph 8 of this statement.

5. Description of the financial and economic situation

5.1. Principles of development of the financial statement

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

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

The accounting principles (policy) used in the development of the financial statement are presented in point II.6 of the Introduction to the Financial Statement of ZE PAK S.A. for the year concluded on 31 December 2014.

5.2. *Specification of the basic economic and financial values*

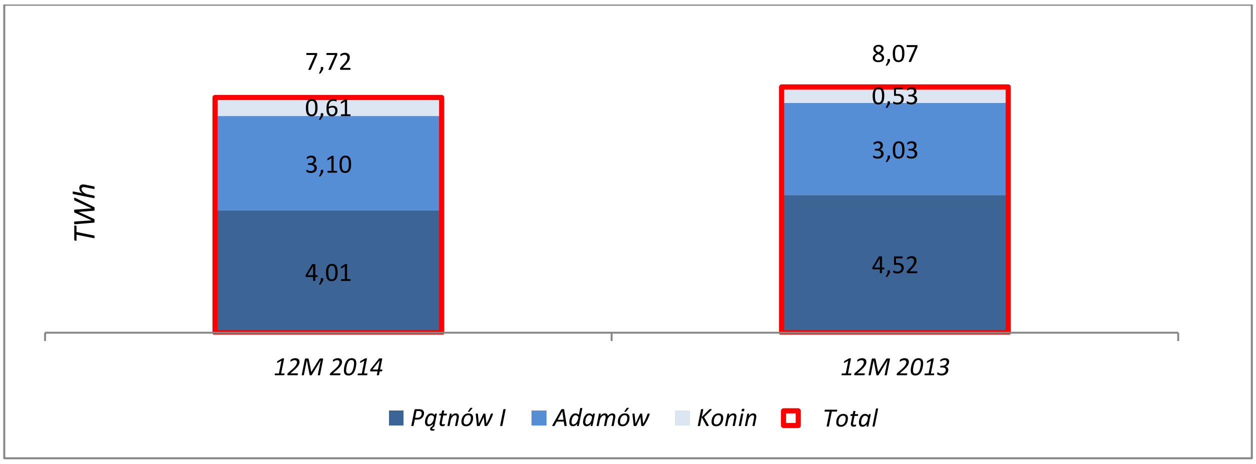
Income statement

In 2014, net income from sales of products, goods and materials amounted to PLN 1,631,189 thousand and, compared to 2013, decreased by PLN 145,496 thousand i.e. by 8.19%. Above all, the revenues caused the decrease in revenues from the sales in electricity lower by PLN 153,756 thousand, i.e. by 9.93%, due to a decrease in the average price from the sale of electricity by PLN 18.87 PLN per MWh, i.e. by 10.35%, and in the volume by 0.10 TWh, i.e. by 1.21%.

Table 2: Specification of sales revenues

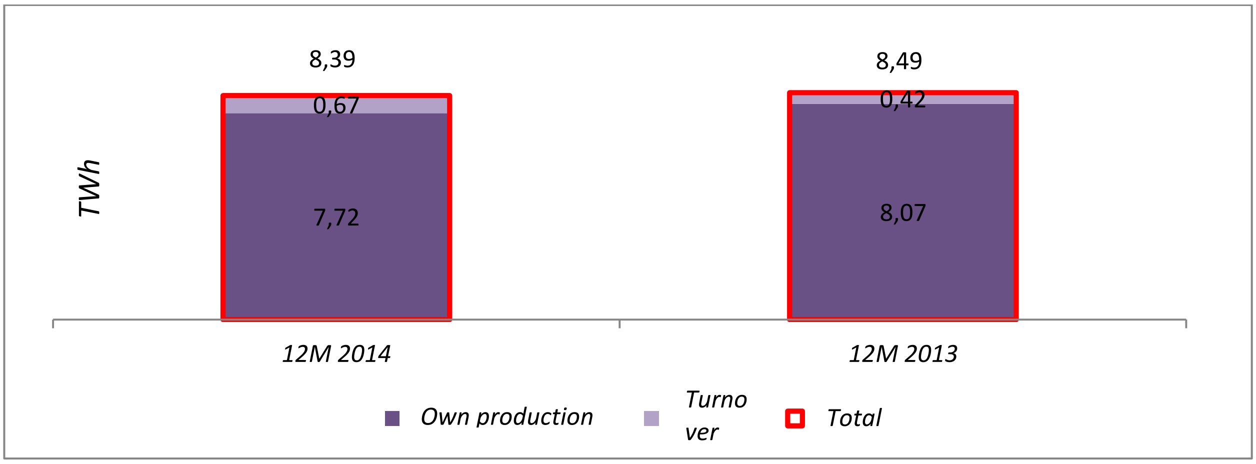
SALES REVENUES	2014	2013	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Product sales revenues	**1,513,695**	**1,692,465**	**-178,770**	**-10.56**
Goods sales revenues	1,404,730	1,583,392	-178,662	-11.28
Electricity	1,283,063	1,469,230	-186,167	-12.67
Property rights on energy certificates of origin	63,327	55,697	7,630	13.70
Heat energy	58,341	58,465	-124	-0.21
Service sales revenues	108,965	109,072	-107	-0.10
Goods and materials sales revenues	**117,494**	**84,220**	**33,274**	**39.51**
Goods sales revenues (electricity)	111,853	79,442	32,411	40.80
Material sales revenues	5,641	4,778	863	18.06
Sales revenues, including:	**1,631,189**	**1,776,685**	**-145,496**	**-8.19**
Electricity (products and goods)	1,394,916	1,548,672	-153,756	-9.93

Chart 6: Net electricity production



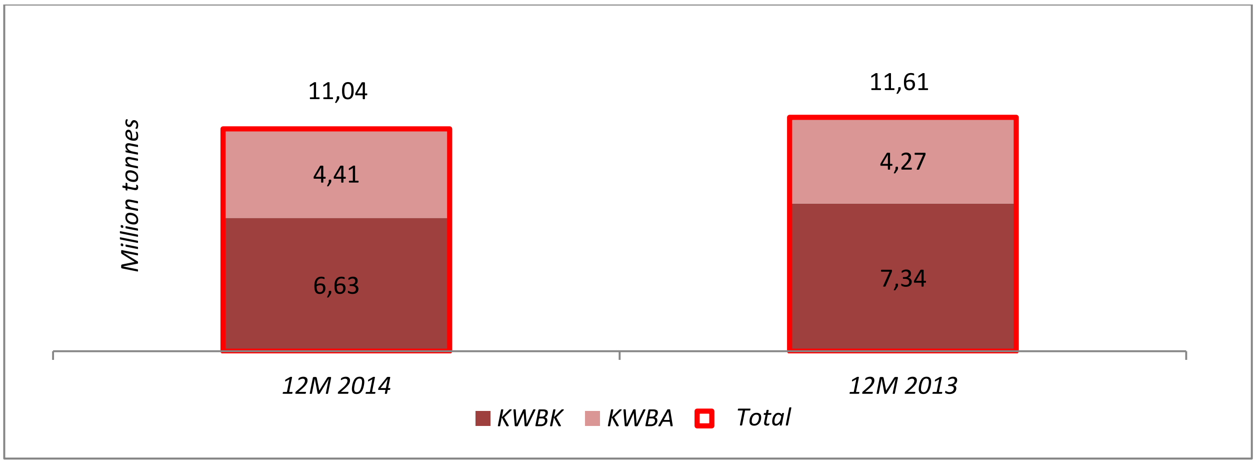
Source: internal data

Chart 7: Electricity sales



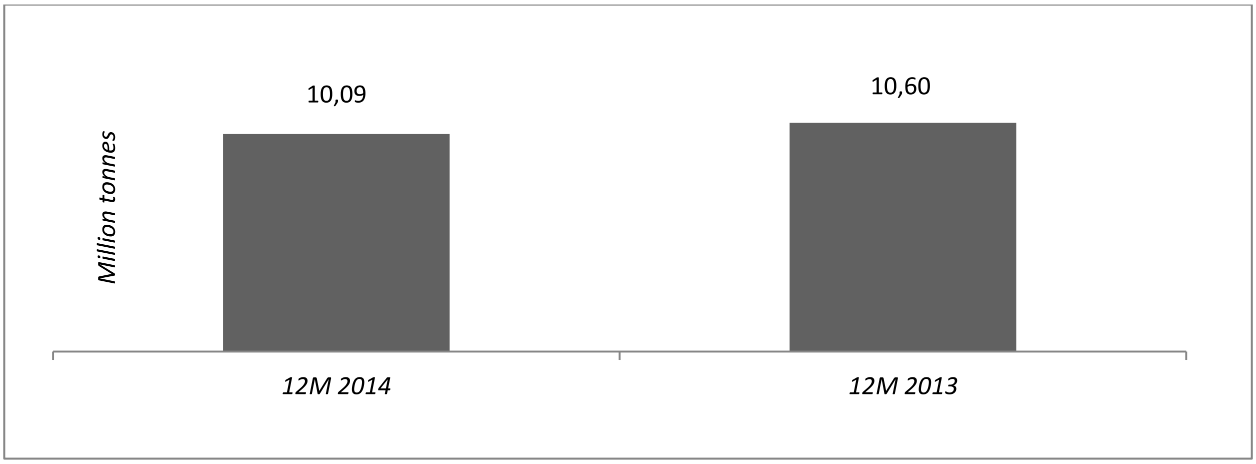
Source: internal data

Chart 8: Lignite consumption



Source: internal data

Chart 9: CO_2 emission



Source: internal data

Table 3: Selected items from the income statement

REVENUES, COSTS, PROFITS AND LOSSES	2014	2013	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Net products, goods and materials sales revenues, including:	1,631,189	1,776,685	-145,496	-8.19
Net products sales revenues	1,513,695	1,692,465	-178,770	-10.56
Net goods and materials sales revenues	117,494	84,220	33,274	39.51
Costs of sold products, goods, and materials, including:	1,528,932	1,656,549	-127,617	-7.70
Cost of manufacturing the sold products	1,418,377	1,594,930	-176,553	-11.07
Value of sold goods and materials	110,555	61,619	48,936	79.42
Gross profit (loss) on sales	102,257	120,135	-17,878	-14.88
Sale costs	3,438	2,847	591	20.76
Overheads	41,863	39,985	1,878	4.70
Sales profit (loss)	56,956	77,304	-20,348	-26.32
Other operating revenues	61,625	12,317	49,308	400.32
Other operating costs	26,834	11,219	15,615	139.18
Profit (loss) on operating activities	91,747	78,402	13,345	17.02
Financial revenues	136,633	176,547	-39,914	-22.61
Financial costs	5,061	7,875	-2,814	-35.73
Profit (loss) on business activities	223,319	247,073	-23,754	-9.61
Gross profit (loss)	223,319	247,073	-23,754	-9.61
Income tax	18,677	15,216	3,461	22.75
Net profit (loss)	204,642	231,857	-27,215	-11.74

Production costs of the products sold in 2014 amounted to PLN 1,418,377 thousand and, compared to 2013, decreased by PLN 145,496 thousand, i.e. by 11.07%. Costs reduction was mainly caused by the lower variable costs, including consumptions of coal and biomass due to the lower volume of electricity production. In 2014, in comparison with the previous year, costs of CO_2 emission were lower by PLN 6,036 thousand.

Value of goods and materials sold in 2014 amounted to PLN 110,555 thousand and was higher in comparison with the previous year by PLN 48,936 thousand, i.e. by 79.42%, as a result of a higher volume of acquired electricity for re-sale by 0.25 TWh.

Sales costs in 2014 amounted to PLN 3,438 thousand and they were higher by PLN 591 thousand, i.e. by 20.76%, mainly due to mandatory charges incurred for participation in the energy exchange.

Overheads in 2014 amounted to PLN 41,863 thousand, and they were higher than the ones incurred in the precious year by PLN 1,878 thousand, i.e. by 4.70%.

Other operating revenues in 2014 amounted to PLN 61,625 thousand. In comparison with the previous year, they increased by PLN 49 308 thousand, i.e. by 400.32%. The significant increase in revenues was influenced by the liquidation of the provision for the energy equivalent for the retired people and pensioners in the amount of PLN 45,667 thousand, about which was written more in point 5.4.

Other operating costs in 2014 amounted to PLN 26,834 thousand, and they were higher in relation to 2013 by PLN 15,615 thousand, i.e. by 139.18%. The higher value of other operating costs was caused by an impairment write-down against the value of green certificate inventories in the amount of PLN 19 128 thousand as result of their revaluation to the market price.

Profit on operating activities in 2014 amounted to PLN 91,747 thousand. It was higher than the one achieved in 2013 by PLN 13,345 thousand, i.e. by 17.02%.

Like in the previous year, the level of positive achieved results was influenced by a positive financial activities result, which amounted to PLN 131,572 thousand and was, largely, the result of dividends received from subsidiaries in the amount of PLN 128,695 thousand.

Gross profit in 2014 amounted to PLN 223,319 thousand. In relation to the one achieved in the previous year, it decreased by PLN 23,754 thousand, i.e. by 9.61%.

Net profit earned by the Company in 2014 amounted to PLN 204,642 thousand. In relation to the previous year, it decreased by PLN 27,215 thousand, i.e. by 11.74%.

Balance sheet

Total balance sheet amounted to PLN 3,950,698 thousand as of 31 December 2014 and, in comparison with the status as of 31 December 2013, it increased by PLN 437,578 thousand, i.e. by 12.46%.

In the case of assets, the biggest changes occurred in the items of fixed assets, which increased by PLN 403,543 thousand, i.e. by 13.33%, mainly in the following items:

- intangible assets, which increased by PLN 50,220 thousand net, mainly as a result of operations related to acquisition of CO_2 emission allowances;
- tangible fixed assets, which increased by PLN 364,185 thousand net, per the balance as the difference of investment expenses incurred in 2014 (associated mainly with the modernisation og the Pątnów I Power Plant) and depreciation.

Current assets increased by PLN 34,035 thousand, i.e. by 7.01%.

Table 4: Selected balance sheet assets

Assets	31 December 2014	31 December 2013	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Fixed assets	**3,430,881**	**3,027,338**	**403,543**	**13.33**
Intangible assets	**199,867**	**149,647**	**50,220**	**33.56**
Tangible fixed assets, including:	**1,999,969**	**1,635,784**	**364,185**	**22.26**

Fixed assets	1,285,911	1,371,823	-85,912	-6.26
Capital work in progress	693,396	220,951	472,445	213.82
Advance payments for capital work in progress	20,662	43,010	-22,348	-51.96
Long-term receivables	**0**	**0**	**0**	**-**
Long-term investments	**1,224,779**	**1,237,861**	**-13,082**	**-1.06**
Long-term prepayments and accruals	**6,266**	**4,047**	**2,219**	**54.83**
Current assets	**519,817**	**485,782**	**34,035**	**7.01**
Inventory, including:	**180,519**	**173,293**	**7,226**	**4.17**
Materials	42,509	37,395	5,114	13.68
Goods	135,722	125,506	10,216	8.14
Advanced payments for deliveries	2,288	10,392	-8,104	-77.98
Short-term receivables	**149,294**	**138,971**	**10,323**	**7.43**
Short-term investments	**189,489**	**173,149**	**16,340**	**9.44**
Short-term financial assets, including:	189,489	173,149	16,340	9.44
in affiliates	15,707	15,386	321	2.09
in other entities	0	0	0	-
cash and other cash assets	173,782	157,763	16,019	10.15
Other short-term investments	0	0	0	-
Short-term prepayments and accruals	**515**	**369**	**146**	**39.57**
Total assets	**3,950,698**	**3,513,120**	**437,578**	**12.46**

Equities amounted to PLN 2,995,960 thousand as of 31 December 2014, which means that they increased by PLN 170,082 thousand, i.e. by 6.02%. The change in the equities was influenced by:

- division of the profit for 2013, which, after the payment of the dividend in the amount of EUR 34,560 thousand, in the remaining amount, increased the supplementary capital;
- lower profit in the accounting year in comparison to the previous year.

Level of provisions at the end of 2014 amounted to PLN 241,429 thousand, and it was lower in comparison with the status of the pravious year by PLN 49,856 thousand. Primary changes occurred in the following items:

- deferred income tax provision, which increased by PLN 18,802 thousand;
- other provisions, which decreased by PLN 68,660 thousand, mainly due to a reduction in provisions for pension benefits and similar in the amount of PLN 59,157 thousand and the provision for CO_2 emission allowances by PLN 6,036 thousand.

Table 5: Selected balance sheet liabilities

LIABILITIES	31 December 2014	31 December 2013	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Equity (fund)	**2,995,960**	**2,825,878**	**170,082**	**6.02**
Issued capital (fund)	**101,647**	**101,647**	**0**	**0.00**
Own shares (negative value)	**0**	**0**	**0**	**-**

Supplementary capital (fund)	**2,398,399**	**2,200,508**	**197,891**	**8.99**
Revaluation capital (fund)	**286,229**	**286,823**	**-594**	**-0.21**
Other reserve capitals (funds)	**5,877**	**5,877**	**0**	**0.00**
Profit (loss) from previous years	**-834**	**-834**	**0**	**0.00**
Net profit (loss)	**204,642**	**231,857**	**-27,215**	**-11.74**
Liabilities and provisions for liabilities	**954,738**	**687,243**	**267,495**	**38.92**
Provisions for liabilities	**241,429**	**291,285**	**-49,856**	**-17.12**
Deferred income tax provision	71,877	53,075	18,802	35.43
Pension benefits and similar provisions	27,325	86,482	-59,157	-68.40
Other provisions	142,226	151,729	-9,503	-6.26
Long-term liabilities	**338,049**	**6,302**	**331,747**	**5,264.15**
For affiliates	339	0	339	-
For other entities, including:	337,710	6,302	331,408	5,258.77
credits and loans	325,713	0	325,713	-
other financial liabilities	0	18	-18	-100.00
other	11,997	6,284	5,713	90.91
Short-term liabilities	**342,104**	**355,393**	**-13,289**	**-3.74**
For affiliates	104,576	82,886	21,690	26.17
For other entities, including:	232,795	268,245	-35,450	-13.22
credits and loans	27,921	90,951	-63,030	-69.30
other financial liabilities	18	32	-14	-43.75
deliveries and services	28,092	22,371	5,721	25.57
advanced payments received for deliveries	35	10	25	250.00
taxes, duties, insurances and other provisions	75,133	85,980	-10,847	-12.62
remunerations	4,037	3,679	358	9.73
other	97,560	65,221	32,339	49.58
Special funds	4,734	4,261	473	11.10
Accrual	**33,155**	**34,263**	**-1,108**	**-3.23**
Total liabilities and equity	**3,950,698**	**3,513,120**	**437,578**	**12.46**

Long-term liabilities increased by PLN 331,747 thousand, mainly due to the increase in credit debt by PLN 325,713 thousand associated with initiation of the bank financing of the modernisation of units 1-4 in the Pątnów I Power Plant.

Throughout 2014, short-term liabilities decreased by PLN 13,289 thousand. The balance was influenced by mainly the level of liabilities related to the investment conducted in the modernisation of the Pątnów I Power Plant and a reduction in short-term credit debt.

Cash flow statement

In 2014, the Company made a positive cash flow balance resulting on operating activities in the amount of PLN 65,313 thousand.

The cash operation balance on investment activities was negative and amounted to PLN 268,660 thousand. The following had the greatest impact on the level of investment flows:

- income from dividends from subsidiaries in the amount of PLN 128,695 thousand;
- income from loans granted to the Pątnów II Power Plant, which consisted of repayment of the capital and interests in the amount of PLN 17,428 thousand;
- expenses on investments in fixed assets in the amount of PLN 417,090 thousand, which consisted of mainly expenditures on modernisation of the Pątnów I Power Plant.

In 2014, the Company signed a credit agreement concerning financing the modernisation of units 1-4 and re-financing the credit for the desulphurisation system in the Pątnów I Power Plant and in the amount of PLN 1,200,000 thousand and, for these purposes, during the year, initiated funding in the amount of PLN 355,000 thousand. On the other hand, the financial expenses were related to the service of the company's existing financial debt and the payment of the dividend to the shareholders.

Throughout 2014, cash increased by PLN 15,387 thousand, and, at the end of the year, amounted to PLN 173,239 thousand.

Table 6: Selected items from the cash flow statement

Specification	2014	2013	Change	Dynamics
	PLN thousand	PLN thousand	PLN thousand	%
Cash flows on operating activities				
Net profit (loss)	**204,642**	**231,857**	**-27,215**	**-11.74**
Total adjustments	**-139,329**	**-118,529**	**-20,800**	**17.55**
Depreciation	100,219	89,030	11,189	12.57
Profits (losses) on foreign exchange differences	-3,677	-2,266	-1,411	62.27
Interest and shares in profits (dividends)	-128,298	-167,006	38,708	-23.18
Profit (loss) on investment activities	-3,514	-70	-3,444	4,920.00
Change in provisions	78,210	141,202	-62,992	-44.61
Change in inventory	-7,226	-21,864	14,638	-66.95
Change in receivables	-10,323	9,505	-19,828	-
Change in short-term liabilities, with the exception of loans and credits	12,623	-20,155	32,778	-
Change in prepayments and accruals	-274	370	-644	-
Other adjustments	-177,069	-147,275	-29,794	20.23
Net cash flows on operating activities	**65,313**	**113,328**	**-48,015**	**-42.37**
Cash flows on investment activities				
Income	**148,429**	**188,913**	**-40,484**	**-21.43**
Disposal of intangible and legal assets as well as tangible assets	2,146	192	1,954	1,017.71
Financial assets, including:	146,283	188,721	-42,438	-22.49
in affiliates	146,123	188,669	-42,546	-22.55
in other entities	160	52	108	207.69

dividends and shares in profits	101	52	49	94.23
interest	59	0	59	-
Expenses	**417,090**	**154,300**	**262,790**	**170.31**
Acquisition of intangible and legal assets as well as tangible assets	417,090	144,300	272,790	189.04
Financial assets, including:	0	10,000	-10,000	-100.00
in affiliates	0	10,000	-10,000	-100.00
Net cash flows on investment activities	**-268,660**	**34,612**	**-303,272**	**0.00**
Cash flows on financial activities				
Income	**355,000**	**0**	**355,000**	**0.00**
Credits and loans	355,000	0	355,000	-
Expenses	**136,266**	**38,086**	**98,180**	**257.79**
Dividends paid and other payments to shareholders	34,560	0	34,560	-
Repayment of credits and loans	90,951	33,584	57,367	170,82
Payments of financial lease agreement liabilities	32	78	-46	-58.97
Interest	10,101	4,424	5,677	128,32
Other financial expenses	622	0	622	-
Net cash flows on financial activities	**218,734**	**-38,086**	**256,820**	**0.00**
Total net cash flows	**15,387**	**109,854**	**-94,467**	**-85.99**
Cash flow change in the balance sheet, including:	**16,019**	**109,912**	**-93,893**	**-85.43**
cash flow change related to foreign exchange differences	632	58	574	989.66
Cash opening balance	**157,852**	**47,998**	**109,854**	**228.87**
Closing balance of cash, including:	**173,239**	**157,852**	**15,387**	**9.75**
restricted cash	3,756	6,494	-2,738	-42.16

Financial indexes

Specification of financial indexes is presented in the below table.

Table 7: Financial indexes

Indexes	Measurement unit	2014	2013	Change	Dynamics %
ROE	%	6.83	8.20	-1.37	-16.71
ROA	%	5.18	6.60	-1.42	-21.52
Net sales profitability (net profit margin)	%	12.55	13.05	-0.50	-3.83
General debt index	x times	0.24	0.20	0.04	20.00
Current liquidity index	x times	1.52	1.37	0.15	10.95

The lower net profit in 2014 resulted in the decrease of all profitability indexes. In terms of value, the biggest decrease regarded the return on equity (ROE) index, which amounted to 6.83% as well as the return on assets (ROA) index, which amounted to 5.18%, as their value was affected by the net profit decrease as well as the increase in equity and in the case of ROA – increase in the liabilities and provisions.

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

The debt index illustrating the ratio of liabilities and total assets amounted to 0.24 at the end of 2014 and was slightly higher than at the end of 2013. The index value indicates a minor degree of the Company's debt in relation to the possessed assets.

The liquidity index, which informs about the degree of current liability coverage with short-term current assets, was equal to 1.52 at the end of 2014, confirming good liquidity condition in the company.

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

The financial results of the Company, as an entity focused on activities in the scope of electricity production, selling its product in the open wholesale market of electricity, including the Polish Power Exchange, are fully subject to and dependent on the conduct of all participants in the market, whereas this conduct is mainly dependent on the proposed or newly introduced legislation changes affecting the domestic electricity market. The price of electricity in the wholesale market is created by all the entities participating in the market trade, while a single participant, even with relatively high participation, is not able to affect its level on its own.

When making an evaluation on the producer side, it is necessary to take into consideration some phenomena, which were particularly important in the previous year:

- the constant increase in capacity in the Polish wind power engineering,
- the dynamics of economic growth that is slightly lower than the average of the previous decade,
- more often autumn and winter seasons with higher average temperatures than the average temperatures in previous years, leading to the decrease in the demand of electricity in these periods,
- often changes in the legal environmental, not only domestic but also in the EU and changes in the international conventions.

On the other hand, relatively lower variable costs of energy production by the Company, as well as the geographical location of our power plants still make the above factors only slightly effective in affecting the volume of electricity produced by the Company, currently and in the future.

The Company generates most of its revenues from the production and sales of electricity, therefore the price for which it sells electricity is very important for the results of its activities. When analysing the current markets trends in terms of electricity prices on wholesale energy markets, despite the gradual increase in prices recorded in 2014, in relation to the trend of decreases observed since 2012, we can see that the prices of electricity is relatively low. These prices are mainly dependent on the exchange quotations, which being the most transparent, are the basis for shaping the prices in contracts concluded on the bilateral trade market. The level of exchange quotations depends substantially on the wind generation rate, Nordpool import transmission capacities, condition of reserves in the Polish Power System (KSE), as well as weather conditions. The deceleration of the trend of electricity prices increases, observed in the recent time, between January and February 2015, does not mean that the prices won't increase in the period of the renovation campaign of production units and the summer period, as in 2014. In the last years, we are observing an increase in the demand for electricity in the summer period due to the operation of air-conditioners, which usually translates into decreases in the KSE reserves, related to the aforementioned renovation campaign. It also worth noting that regardless of the factors specified above, the Company's power plants remain in the group of producers participating in the covering the demand and balancing the KSE.

When looking at the factors shaping the prices of property rights, it is necessary to focus on the changes in the regulatory environment. On 30 April 2014, the draft amendment to the Energy Law, prolonging the support system for energy production until the end of 2018, in peak load co-generation systems, i.e. simultaneously producing electricity and heat, came into force. Thus, after over a yearly break and lack of a law regulating the support for co-generation, the system that expired in 2012 has been resumed. However, the European Commission's directive terminating in a complex manner the support program after 2018 has yet to be implemented. The "red certificates" for co-generation production, obtained by ZE PAK S.A. after the entry of the act into force, due to the lack of possibility to transfer them between the settlement periods ("bankability"), are regularly sold for the exchange price, which fluctuates around the level of the compensatory fee after the system was resumed.

The broadly understood formal and legal environment which affects the prices of RES (green certificates) certificates of origin also featured substantial changes which may affect the position of domestic electricity producers authorised to receive such certificates of origin. In the current situation, we are observing substantial oversupply of green certificates on the market. The oversupply is probably the result of, among others, delays in their issue by the URE President. Currently, the prices of green certificates are relatively low at around 160 PLN/MWh, in comparison to the compensatory fee of 300.03 PLN/MWh. At the beginning of 2015, the legislation works on the Act on renewable energy sources (RES), which after very many critical opinions of past proposals is still based on the so called auction form of contracting renewable energy production, have been concluded. On 20 February 2015, by way of a parliament vote, the new act was adopted and signed by the President on 11 March 2015. This act changes today's basic system of support via certificates to support via an auction system – the beneficiaries of this solutions will be the producers of renewable energy, who will offer the lowest price on the auction and the so called "prosumers" (simultaneous energy producers and consumers) are to receive fixed tariffs for the sale of energy exceeding their own needs. The act maintains the support in the form of certificates and compensatory fee at least until 2018 and guarantees the maintenance of this type of support for the existing sources for the period of 15 from the moment of commissioning of the source. The new act will also raise the level of fulfilment of the obligation to redeem green certificates from 2016 from the current 14% to 20%, which will probably allow to ease the oversupply in the period of around 2 years and result in the increase of green certificate prices to an acceptable level which covers the production costs. The act also enables the Minister of Economy to determine the obligation threshold, which will affect the level of certificate prices after 2018.

When referring to the prices of CO_2 allowances, it is necessary to note the activities in the EU legislation, which is aimed at reforming the EU ETS system by introducing the mechanism of the stability reserve (Market Stability Reserve – MSR). Adoption of the MSR, which is to enter into force in 2021 (according to the first proposals of the European Commission) as a mechanism regulating the oversupply of allowances, thanks to which the allowances available on the market can be withdrawn into the reserve or released from the reserve, will be an administrative mechanism of shaping their supply and thus affecting their prices. Such a solution adopted in practice can lead to a situation where the price on the market will be dependent on the current priorities of the European Commission's policy. Some forecasts on the carbon market predict that in the case of earlier entry into force of the MSR, while the current ideas implicate the year 2018 as the beginning of validity of this mechanism, it can be assumed that the increase in prices in 2020 will reach the level of approx. EUR 15 per EUA, whereas the current level is around EUR 7 per EUA. If we leave the predictions of legislative changes behind and refer to the current law and the short-term perspective, it can assumed that the full allocation of free allowances for power plants embraced by the system will allow the use of received units by the emitters for settling emissions of 2014 and this can lead to a decrease in demand and ultimately a short-term decrease in the prices of CO_2 allowances. In 2015, ZE PAK S.A. can expect receiving approx. 540,000 EUA units, whereas the other quantity will be purchased on the primary market (auctions) and secondary market (ICE exchange and bilateral contracts). This value substantially differs from the quantity of free units received in the previous years, therefore the topic of CO_2 allowances is of crucial importance for the projected financial results of the Company in the coming years. The lower expected quantity of free emission units must be related to the delay in commencement of one of the investments (steam and water unit in the Konin Power Plant), which was included in the National Investment Plan and thus the expenses incurred in relation to it are an entitlement to receive the EUA units. It is also necessary to note that these units will be received by the Company in the coming years, provided that the investment is executed.

Another factor affecting the situation of the energy production sector in Poland is the "ageing" of the currently operational production units. The installed capacity, age and technical condition of units will have fundamental impact on ensuring safe and stable functioning of the National Power System, because these units still comprise a regulative and controllable reserve for RES units. Activities aiming at the launching of the capacity market around 2020 are still underway. The purpose of this market is to prevent the currently visible effects of "missing money" (lack of coverage in the energy price of the fixed cost for some units), as well as "missing capacity" (lack of sufficient capacity in the system). Obtaining stable revenues from this market will allow the producers to maintain their existing assets and will justify the construction of new production capacities for replacing the decommissioned ones after 2015. The most important aim of the introduction of this mechanism will however be ensuring the safety of energy supply and stable functioning of the KSE. As result, incorporation of the power market will lead to a change in the market's model from a single commodity market (energy) to a dual commodity market (energy and capacity), which is very probable to cause price displacements between those two commodities, causing in case of energy the coverage of its short-term variable costs, whereas the price of the second commodity, i.e. capacity, will cover the costs of maintenance or construction of new assets, including a minimum margin.

5.4. Unusual events affecting the obtained financial results

Due to abandoning the use of the general collective labour agreement, the provision for the energy equivalent for ZE PAK S.A.'s retired persons and pensioners was terminated. The general agreement, in Appendix no. 6, currently specified the right of retired person and pensioners (as well as other persons who are not employees of ZE PAK S.A.) to receive a cash equivalent in return for reduced payment for electricity. This equivalent was paid by ZE PAK S.A. from 2006 every year in two instalments (in May and November). Due to the non-application of the regulations of the General Agreement, ZE PAK S.A. does not pay the equivalent from 1 January 2015. The liquidation of the aforementioned provision resulted in the increase of the operating result by PLN 45.7 million.

Furthermore, as result of concluding settlements to the corporate collective labour agreement (ZUZP) in relation to the liquidation of the anniversary premium in ZUZP, the anniversary premiums for the employees of the above companies have been liquidated. The decrease in the aforementioned provision resulted in the increase of the operating result by PLN 15.0 million.

6. Management of financial assets

6.1. Evaluation of financial assets management

ZE PAK has 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 Company 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 Company executes current monitoring and analyses of the maturity dates of receivables and liabilities as well as adjust the deadlines and bank account balances to the amounts of cash flows. The excess cash is managed by investing in safe instruments of the financial market, which mainly include bank deposits.

6.2. Evaluation of investment plan execution

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

7. Significant factors and development prospects

Directional activities designated by the Company's strategy

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

One of the priority plans executed currently is the proceeding integration of the extraction and production activities, allowing for achieving synergy in the entire process chain. Adoption in 2012 of two primary coal suppliers allows for increase in the level of use by subsidiaries of fuel resources by adapting lignite supplies from PAK KWBA S.A. and PAK KWBK S.A. to the needs of power plants, taking into consideration the available production capacities of the power plants until 2050. The optimisation of the organisational structure in the mines has been commenced.

Currently the Company has effective generation assets, which are characterised by a high capacity utilisation index, thanks to one of the lowest marginal costs of electricity production in Poland. An additional advantage is the advantageous location of production capacities near the coal deposits, as well as gas pipelines of Yamal and Gustorzyn-Odolanów. The location in central Poland ensures the ability to lead the power into the system and expand the activities to northern Poland, which is characterised by a substantial power deficit when taking into account the entire country. Simultaneously, the Company is aware of the changes, especially the ones in the legislation and legal area, which are taking place in its surroundings. The legal regulations aiming at reducing emissions of CO_2 and other gases (SO_2, NOx) as well as regulations regarding the renewable energy source sector comprise significant challenges for the Company. In order to meet the requirements of the current and future legal regulations regarding the widely understood environmental protection, the Company plans to modify its production capacity portfolio. The aim is to execute, in the perspective of the next seven years, an investment program embracing both the modernisation of the possessed production assets, as well as the replacement of the worn out production facilities with facilities based on state-of-the-art processes.

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

Key investment projects during execution:

Pątnów I Power Plant: The continuation of the modernisation process of units 1-4 in the Pątnów I Power Plant including the modernisation of condensing steam turbines, start-up of nitrogen oxide (NO_X) emission reducing systems, as well as replacement or modernisation of elements crucial for the operation of the units (including, among others, carbonisation and cooling systems) in order to improve the safety and operation of electricity production, and thus decrease the CO_2 emissions as well as ensure the ability to utilise the units 1-5 for until, at least, 2026 or 2030. Modernisation of Pątnów I Power Plant's unit 5 was completed and the projected in the contract effects, confirmed by the conducted tests, were obtained. The final stage of modernisation of units nos. 1 and 2 is underway.

Key investment projects during the preparatory stage in 2013-2019:

Konin Power Plant: Start-up of a high-efficiency electricity and heat production facility by way of construction of a gas and steam unit with a capacity of approx. 120 MWe and approx. 90 MWt, as well as a gas-fired peak load boiler with a capacity of approx. 40 MWt, dedicated to the supply of heat for the city of Konin. Its commissioning is initially planned for 2018. The execution of this investment would allow replacing the lignite-fire units in the Konin Power Plant and obtaining additional revenues from the sale of yellow certificates. During the previous year, further economic analyses were conducted in order to confirm the profitability of the unit's construction, including changed assumptions regarding the prices of electricity and CO_2, as result of the EC's adoption of further reduction goals in the ETS system after 2020. In order to adjust the conditions of heat reception to the change in raw material from coal to gas, a new long-term agreement with the heat distributor was initially negotiated. In February 2015, tender enquiries were sent to potential contractors of the planned unit.

In the Adamów Power Plant: Start-up of a high-efficiency electricity and heat production facility by way of construction of a gas and steam unit with a capacity of approx. 400 MWe and approx. 45 MWt, as well as a gas-fired peak load boiler with a capacity of approx. 45 MWt. The strategic investment program for ZE PAK S.A., which takes into consideration the Polish Energy Policy in effect since 2008, was developed in a period, which was advantageous for investments in gas-fired devices. The basis includes the following forecasts: decreasing gas pries, construction of the European gas market, hope for the supply of shale gas, undisputed goals of the climate package, increasing prices of CO_2 allowances, allocation of CO_2 allowances for investments limiting the emissions of this gas (the gas unit of the Adamów Power Plant was included in the National

Investment Plan), significant demand for electricity produced by the gas units, and satisfactory prices of electricity in the wholesale market. So far, the Polish economy has not created advantageous conditions for the construction of the projected steam and gas unit for the Adamów Power Plant. ZE PAK S.A., in close co-operation with the General Design Engineer – Energoprojekt Katowice, using professional tools, has conducted tests and analyses of the volume of energy production in the new unit in particular years, after commissioning of the coal and gas units in the country, for which the decisions on construction were already made. The results of these tests confirm that the acceptable demand for energy from the designed steam and gas unit in the Adamów Power Plant will occur as late as after 2020. In this situation, ZE PAK S.A. suspends the decision on the development of this project. If the EU obligations to substantially reduce the CO_2 emissions are reflected in the Polish Energy Policy up to 2050, and there is a withdrawal from coal investments, and if the capacity market mechanism is introduced in a satisfying form, ZE PAK S.A. will then repeatedly verify its position on the construction of the unit in the Adamów Power Plant.

According to the executed policy as well as the market practice adopted other companies in the power sector, more investment projects are analysed and developed than actually executed. Furthermore, other investment projects in the scope of construction of new generating units are constantly being analysed, which would ultimately be able to increase production capacity, and we cannot exclude that, in the future, decisions to execute other projects than the ones specified above and included in the documents specifying the Company's strategy may be made.

Strategy execution costs

We estimate that the execution of the final stage of the modernisation project of units 1-4 in the Pątnów I Power Plant will require investment expenses of approx. PLN 1,79 billion, 1.11% of which is planned to be financed with the contracted investment credit in order to execute the task and the rest will come from own resources.

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

8. Specification of the shareholding structure.

8.1. Shareholding structure

As of 31 December 2014, 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 Company's General Meeting according to the Company's knowledge as of 31 December 2014.

Table 8: Description of shareholders holding, either directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Company's General Meeting as of 31 December 2014

Shareholder	Number of shares and corresponding number of votes at the General Meeting	Share [%] in the total number of shares/votes
Zygmunt Solorz-Żak (indirectly) through:	26 200 867	51,55
Elektrim S.A. (directly)	*196 560*	*0,39*
Embud Sp. z o.o.	*592 533*	*1,16*
Argumenol Investment Company Limited	*25 411 774*	*50,00*
ING OFE	5 068 410	9,97
Other	19 554 270	38,48

The structure of the Company's shareholders was presented according to the Company's knowledge on the basis of notifications submitted by the shareholders. As of the date of submission of this statement, the shareholding structure according to the specified criterion, according to the Company's knowledge, was not subject to change.

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

8.2. Acquisition of own shares

The Company did not acquire own shares in 2014.

8.3. Shares of the ZE PAK Capital Group entities belonging to the supervising and managing persons

The below table presents the Company's share holdings (direct and indirect), as well as affiliates' share holdings of management personnel as of 31 December 2014 and as of the date of development of this statement.

Table 9: Company's share holdings as well as affiliates' share holdings by management personnel

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

The below table presents the Company's share holdings (direct and indirect), as well as affiliates' share holdings of supervising personnel as of 31 December 2014 and as of the date of development of this statement.

Table 10: Company's share holdings as well as affiliates' share holdings by supervisory personnel

Name and surname	ZE PAK S.A. shares		Affiliate shares	
	quantity	face value	quantity	face value
Zygmunt Solorz-Żak	26 200 867	52 401 734	0	0
Henryk Sobierajski	0	0	0	0
Wojciech Piskorz	0	0	0	0
Leszek Wysłocki	0	0	0	0
Wiesław Walendziak	0	0	0	0
Tomasz Zadroga	0	0	0	0
Ludwik Sobolewski	0	0	0	0
Lesław Podkański	0	0	0	0

8.4. Control of employee share option plan

The Company does not have an employee share option plan, therefore it does not include a system for the control of the employee share option plan.

9. Declaration of compliance with the corporate governance rules

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

9.1. Set of corporate governance rules applied

In 2014, the Company is subject to corporate governance rules described in the "Code of Best Practice for WSE Listed Companies" (***Code of Best Practice***) adopted by Resolution no. 12/1170/2007 of the WSE Supervisory Council (***WSE Council***) of 4 July 2007, subsequently amended by the Resolution no. 17/1249/2010 of the WSE Council of 19 May 2010, Resolution no. 15/1282/2011 of the WSE Council of 31 August 2011, Resolution no. 20/1287/2011 of the WSE Council of 19 October 2011 and Resolution no. 19/1307/2012 of the WSE Council of 21 November 2012 (with proviso that the changes introduced in 2012 are applicable from 1 January 2013).

The Company's Management Board, within the competencies granted to it by the Articles of Association and the generally binding legal regulations, exercises due care in order to ensure the Company's compliance with the Code of Best Practice to the greatest extent possible. The number and scope of principles, which were not applied in 2014, was subject to decrease in relation to the previous year. The Company's Management Board makes all exceptional efforts in order for the Company's information policy towards investors, both individual and institutional, comprising the execution of guidelines included in the Code of Best Practice, to be compliant with the expectations. Furthermore, due to reasons beyond the Company's control, not all principles included in the Code of Best Practice are applied.

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

9.2. Set of corporate governance rules not applied

Presented below are corporate governance rules, which the Company has not complied with in its activities in 2014, together with an explanation of the Company's position for each specific departure.

Recommendation I.5 of the Code of Best Practice

A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. The Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.

Reasons for non-compliance with recommendation I.5 of the Code of Best Practice:

The Company has not applied the above-mentioned recommendation with respect to members of management and supervisory bodies. In accordance with the Company's Articles of Association, both the remuneration as well as other terms of employment of a given member of the Company's Management Board are determined by the Supervisory Council on an individual basis. The principles regarding the remuneration of Supervisory Council members are determined by the Company's General Shareholders' Meeting in the form of resolutions. The main criteria for determining the remuneration of members of management and supervisory bodies include their competencies, skills and responsibilities.

The Company would like to emphasise that the remuneration of the Company's management and supervisory personnel as well as other benefits granted to such personnel during the financial year are published by the Company in the annual report.

The Company believes that it applies a transparent remuneration policy.

Recommendation I.9 of the Code of Best Practice

The WSE recommends that public companies and their shareholders ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' business.

Reasons for non-compliance with recommendation I.9 of the Code of Best Practice:

The Company has not fully complied with the above-mentioned principle. Until 2 December 2014, majority of positions in the Company's Board were held by women (whereas the number of Board members is uneven, thus it is impossible to have full balance). As of 31 December 2014 and as of the date of development of this Statement, the Company's Board features balance in terms of gender. The Supervisory Council on the other hand features only men. However, the Company would like to ensure that such objective criteria as: knowledge, experience, competencies, and skills required for a given position are critical in the selection of its management and supervisory personnel. These criteria ensure an effective and efficient functioning of the Company and implementation of the adopted strategy to the greatest extent possible.

Principle II.1.1) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: basic corporate regulations, in particular the articles of association and the regulations of the company's bodies.

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

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

Recommendation I.12 of the Code of Best Practice:

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

Principle II.1.9a) of the Code of Best Practice

A company should operate a corporate website and publish on it, in addition to information required by legal regulations: the general meeting deliberation log, in an audio or video form.

Principle IV.10 of the Code of Best Practice:

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

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

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

Taking into consideration the Company's experience, according to which most of the Company's shareholders directly participate in the deliberations of the General Meeting as well as the fact that the recording of the course of the general meeting and guaranteeing the ability to participate in the General Meeting with the use of electronic communication means could be involved with substantial costs and potential difficulties of organisational and technical nature, the Company does not log and broadcast the course of the general meeting.

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

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

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

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

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

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

The Group's consolidated statement is developed on the basis of the SAP BPC IT system. The system includes a separate central unit in the parent company, connected with accounting departments in particular subsidiaries. The consolidation process is commenced by the central unit by enabling companies to enter data into the system and the subsidiaries are obviously able to access their historic data at any moment, however without the ability to correct them. The central unit constantly monitors the entry of data by the companies. After entering individual data, the central unit commences the consolidation process. This process is based on defined business principles which determine the contents of consolidation adjustments. Additionally, the consolidation process enables entry of manual adjustments by the central unit, if necessary. The effect of completion of the consolidation process is a complete financial statement package including explanatory notes in Excel files, which are exported to a Word file after verification.

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

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

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

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

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

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

The audits are conducted in accordance with the following provisions:

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

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

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

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

- reliably and clearly present all information which are significant for the evaluation of the financial and economic position for the given day, as well as the financial result for the given period,
- were developed correctly in all significant aspects, i.e. in accordance with the accounting principles, resulting from the International Accounting Standards, International Financial Reporting Standards, as well as the interpretations related to them and published in the form of European Commission resolutions, as well as according to the requirements of the Accounting Act and executive regulations issued on the basis of that Act, as well as on the basis of correctly kept books of account,
- are compliant with the regulations of law and provisions of the Company's articles of association, which affect the contents of the financial statement.

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

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

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

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

9.4. Shareholders 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 11: Shareholders holding, either directly or indirectly, significant blocks of shares in accordance with the Company's knowledge as of 31 December 2014

Shareholder	Number of shares	Percentage share in the share capital	Number of votes	Percentage share in the share capital
Zygmunt Solorz-Żak*(indirectly) through: Elektrim S.A., Embud Sp. z o.o., Argumenol Investment Company Limited.	26 200 867	51,55%	26 200 867	51,55%
ING Otwarty Fundusz Emerytalny**	5 068 410	9,97%	5 068 410	9,97%

* In accordance with the notification of 7 January 2015.

** In accordance with the notification of 6 November 2014.

9.5. Holders of stocks giving special control rights

As of 31 December 2014 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 2014 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 to stocks*

As of 31 December 2014 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 PLN 500,000.00. The value of transactions expressed in foreign currencies is subject to conversion according to the average exchange rate of the National Bank of Poland (NBP) of the date of resolution passing.

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

Supervisory Council

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

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

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

The Council's rights especially include:

1) approval of the Board's Regulations and giving opinion on the organisational regulations, which specify the organisation of the Company's entrepreneurship,
2) conclusion, termination, and amending agreements with the Board members, as well as establishment of the Board's remuneration principles 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 Council member or members for temporary execution of Board member activities in case of suspension of Board members or the entire Management Board,
6) selection of the entity authorised to audit the Company's financial statements,
7) evaluation of the Board's report from the Company's 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 Council's work,
11) giving opinion on cases submitted by the Board and comprising the subject of the General Meeting's resolutions,
12) approval of the Company's and ZE PAK Capital Group's perennial 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 Council's competencies also include giving the Board an approval:

1) to participate in other companies and disposal of shares in other companies,
2) to establish foreign branches,
3) to make advanced payments for dividends,
4) for the Company to execute activities which result in incurring liabilities, except for:
    a) activities provided in the Company's annual activity program approved by the Council,
    b) activities resulting in incurring liabilities with a value of up to PLN 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 PLN 1,000,000,
6) conclusion by the Company and an affiliate of a major agreement within the meaning of the regulations regarding the current and periodical information provided by issuers of stocks accepted for trade in a regulated market, excluding typical agreements concluded by the Company pursuant to market conditions, within the conducted 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 Council grants Board members the approval to take positions in the bodies of companies, in which the Company holds shares, as well as for the collection of remuneration for acting in these positions.

9.9. Composition, its changes as well as description of the management and supervisory bodies

Management Board

The Company's Board composition was as follows at the beginning of the accounting year of 2014:

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

On 2 December 2014, the ZE PAK S.A.'s Council passed the Resolution on appointing Mr Sławomir Sykucki as a member of the Company's Board, and entrust him with the function of the Vice-President of the Board, as well as management of the owner's supervision, restructuring and environmental protection in the Company.

Since 2 December 2014, the Company's Board has acted in the following composition of four persons:

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

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

In 2014, the ZE PAK S.A.'s Board held 44 sessions, during which it passed a series of decisions documented in protocols. During the reporting period, the Board passed a total of 407 resolutions. All resolutions and recommendations of the ZE PAK S.A.'s Board have been executed or are undergoing execution by the appropriate organisational units of the Company.

Supervisory Council

The Company's Supervisory Council did not include any changes during the reporting period. The ZE PAK S.A.'s Supervisory Council composition was as follows at the beginning and end of the accounting year of 2014:

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

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

In the sequence of their code and statutory obligations, the Council held five sessions and passed a total of 32 resolutions. The Council executed its statutory obligation of holding a session in each quarter.

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

1) evaluation of statements developed for the accounting year of 2013,
2) giving an opinion on the Company's new organisational structure,
3) approval of the Company's budget for 2014 and control over its execution, especially the conditions in the scope of energy production and results obtained by the Company from own and foreign electricity sale, including electricity produced from renewable energy sources,
4) giving an opinion on the applications submitted by the Board in regard to cases related to the Company's current activities;
5) appointing a new member of the Board of ZE PAK S.A.

6) project of construction of the steam and gas unit in the Konin Power Plant

In the accounting year of 2014, ZE PAK S.A.'s Supervisory Council Audit Committee held three sessions and passed a total of 3 resolutions. During the conducted sessions, ZE PAK S.A.'s Supervisory Council Audit Committee discussed with the statutory auditor, among others, the results of the audit of the financial statement for 2013, and inspection of interim financial statements for 2014. The Audit Committee also dealt with the case of selection of the entity authorised to audit financial statements developed for 2014 and issues related to risk management and functioning of internal auditing in the Company.

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

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

The basic competencies of the General Meeting include:

1) examination and approval of the Board's report on the Company's 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 the amendments to the Company's Articles of Association

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

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

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

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Board members amounted to PLN 3,116,626.36 in 2014. The amount given must be treated as the gross value of remuneration paid, or to be paid in the period between January and December 2014.

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

Table 12: Information on the value of remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Board members in 2014

Name and surname of the Board member	Value of (gross) remuneration paid by the Company and the Company's subsidiaries in PLN in 2014	Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries in 2014 (mostly employee pension fund) in PLN
Katarzyna Muszkat	1 018 422,62	74 780,62
Anna Striżyk	796 094,33*	57 359,80
Piotr Jarosz	781 512,53**	51 799,19
Sławomir Sykucki	336 657,27***	

* including PLN 15,000.00 for being a member in the subsidiary's Board

** including PLN 71,942.55 for being a member in the subsidiary's Board

*** entirety for being a member in the subsidiary's Board

Table 13: Information on the value of remuneration as well as the value of non-cash benefits paid by the Company as well as the Company's subsidiaries to all acting Supervisory Board members in 2014

Name and surname of the Supervisory Board member	Value of (gross) remuneration paid by the Company and the Company's subsidiaries in PLN in 2014	Total estimated value of non-cash benefits granted by the Company and the Company's subsidiaries in PLN in 2014
Zygmunt Solorz-Żak	180 000,00	0
Henryk Sobierajski	120 000,00	0
Wojciech Piskorz	120 000,00	0
Leszek Wysłocki	120 000,00	0
Lesław Podkański	120 000,00	0
Wiesław Walendziak	120 000,00	0
Tomasz Zadroga	120 000,00	0
Ludwik Sobolewski	120 000,00	0

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

Agreements concluded between the Company and the management personnel include severance payments in the amount equal to 6-months gross remuneration in case of dismissal of a person from the Company's board. The severance payment is not applicable in case the dismissal from the board takes place due to reasons applicable to the dismissed persons, especially due to reasons specified in the regulation of Article 52 of the Code of Labour.

The total amount of remuneration, understood as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form, paid by the Company and the Company's subsidiaries to the Council members amounted to PLN 1,020,000.00 in 2014. The amount given must be treated as the gross value of remuneration paid or to be paid in the period between January and December 2014.

10. Company's social responsibility

10.1. Involvement in environmental issues

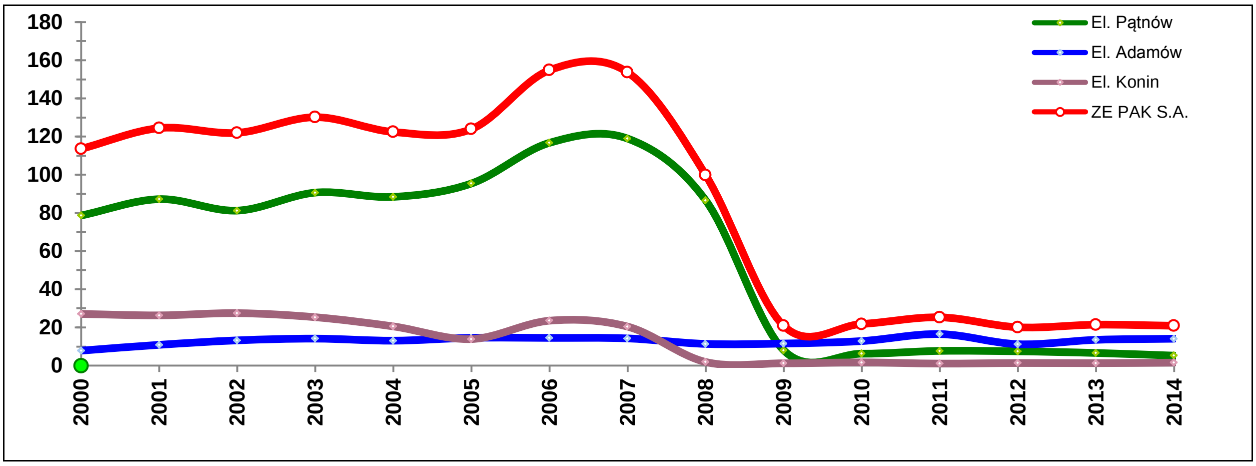
Production of electricity from lignite is inevitably related to interference in the natural environment. On the other hand, one of the main goals of the ZE PAK is the minimisation or prevention, if possible, of negative effects on the environment. The activities conducted by the Company affect the natural environment, especially by the emission of contaminants into the air, production and processing of wastes, utilisation of waters, and introduction of sewage wastes into waters or the soil. This impact is regulated by the current regulations on environmental protection. In relation to the conducted activities, the ZE PAK has a series of environmental approvals, including integrated approvals which regulate the operational and environmental aspects of the main and auxiliary systems. Furthermore, the Company has approvals for the utilisation of systems which are not embraced by the integrated approvals, including approvals subject to the Water Act Law and approvals for the production and processing of wastes. Company fulfils the obligations in the scope of reporting to applicable offices, as well as make timely charges relating to the economical use of the environment.

Protection of air

In 2014, the general annual and monthly values of the emission of main contaminants into the air: SO_2, NO_X, CO, CO_2, and dust from the fuel-firing systems in ZE PAK S.A. did not exceed the acceptable levels specified in the Integrated Approvals, except for the average monthly dust concentrations in October and November at the Adamów Power Plant. The breach of the dust emission standard at the Adamów Power Plant were caused by the firing of low quality lignite in terms of the content of dust and sand. The electrostatic precipitators installed at the Adamów Power Plant, according to the design assumptions, should ensure de-dusting of the fumes from the firing of lignite with dust and sand at a specific level. The parameters of coal delivered to the Adamów Power Plant from the Adamów and Koźmin open pits deviated from the assumptions in both aforementioned months.

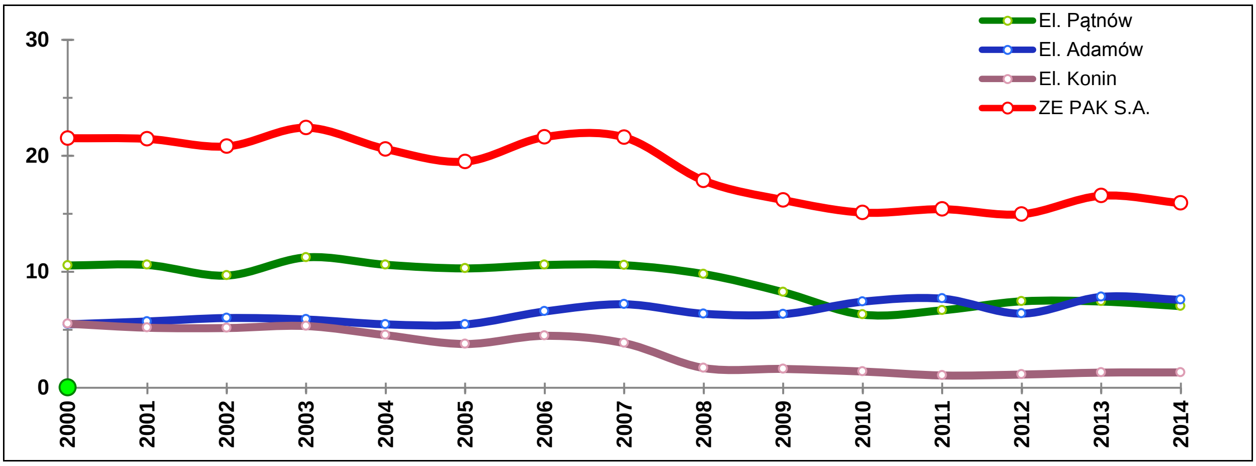
The annual emissions of contaminants into the air in the years from 2000 to 2014 are presented in the enclosed charts.

Chart 10: Emission of SO_2 in years 2000-2014 (thousand tons/year)



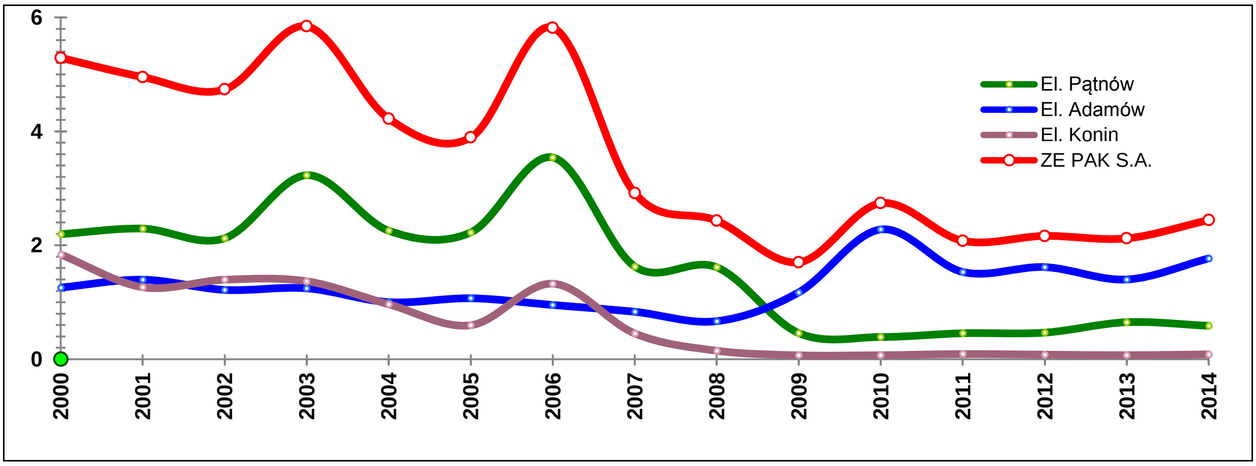
Source: own data

Chart 11: Emission of NO_X in years 2000-2014 (thousand tons/year)



Source: own data

Chart 12: Emission of dust in years 2000-2014 (thousand tons/year)



Source: own data

The fulfilment of obligatory reporting responsibilities featured timely submission by the Company's power plants to the National Centre for Emission Balancing and Management of annual emission reports for 2014 from four fuel-firing systems. The reports on the release and transfer of contaminants into the environment (PRTR) from all power plants of the Company are submitted to the Main Inspectorate of Environmental Protection. As part of the reporting of the Central Statistical Office, the GUS reporting site includes generated reports for 2014 for particular power plants. Fee lists, submitted to the Wielkopolskie Marshal's Office for 2014, were extended with the list of additional contaminants emitted from the stacks of systems, determined as a result of special tests conducted in 2010-2013.

We are also conducting monitoring of the emissions of contaminants into the air within the area of impact of the Company's power plants. The monitoring is conducted via measurements in two automatic measurement stations located in the vicinity of the Pątnów, Konin, and Adamów Power Plants. In 2014, we reported no substantial excess in the acceptable values of the tested factors. Comparisons of the condition of atmospheric air around the Company's power plants and the level of air contamination in the areas monitored by the stations of the Wielkopolskie Inspectorate of Environmental Protection do not indicate deviations from the normal condition.

The stacks of all fuel-firing systems include installed constant monitoring systems for dust and gas contaminants. Based on the annual settlements on the compliance with the emission standards, it is necessary to state that:

- the Pątnów I Power Plant featured no excesses in the acceptable values of SO_2, NO_X, and dust concentrations (with operation of two fume-gas desulphurisation systems),
- the Adamów Power Plant featured excesses in the acceptable values of 48-hour dust concentrations (34 times) and average monthly concentrations in October and November,
- the Pątnów I Power Plant featured no excesses in the acceptable values of SO_2, NO_X, and dust concentrations (with operation of two fume-gas desulphurisation systems),

Waste management

The Pątnów and Konin Power Plants use a system of natural post-glacial lakes, connected with channels and pump stations, as their cooling system. Due to the lack of natural water reservoirs, the Adamów Power Plant is equipped with cooling towers. The Konin lakes are a group of water reservoirs consisting of the following lakes: Gosławskie, Pątnowskie, Wąsowsko-Mikorzyńskie, Ślesińskie, and Licheńskie. These lakes are examples of many human impacts. Aside from power engineering, the lakes are subject to the impact of open-pit mining, fishery, and tourism. ZE PAK S.A. conducts regular monitoring of the Konin lakes' waters and, if necessary, takes action to prevent negative impact of its own activities based on tests. The monitoring, conducted for many years now, also enables precise observation of the changes undergoing in the observed environment. The areas of each power plant include deep-water wells, which supply the crew with potable water. Until 2014, the Pątnów Power Plant also used underground water for process purposes – production of demineralised water. Starting from 2015, demineralised water is produced in a state-of-the-art demineralisation station located in the Pątnów II Power Plant, where the surface water is used as raw material. The station's efficiency allows to satisfy the needs of both the Pątnów II and Pątnów I Power Plants. This is of crucial significance when taking into consideration economic management of the underground water resources. Each ZE PAK S.A.'s power plant also features its own treatment plant of domestic and industrial wastes. In 2014, there were no reported excesses in the acceptable parameters of the discharged treated wastes. Used-up process waters, which are difficult to treat in treatment plants, are used in the internal system of the power plants, among others, for the production of dust suspension. Mutual neutralisation then takes place without a negative impact on the environment.

The legislator, via legal acts and the standards specified in them, affects the form of activities of an enterprise by specifying the acceptable concentration and values of contaminating substances and introducing charges for using the environment under the principle of "polluter has to pay". Taking into consideration the above and promoting high level of ecological awareness, the Company takes preventive action to limit to a minimum the negative impact on the water and ground environment.

Wastes

The ZE PAK features an integrated waste management system, which includes:

- requirements related to the prevention or limitation of the quantity of generated wastes,
- selective collection of the generated wastes, as well as waste management methods that are safe for people and the environment,
- transfer of wastes for further management to other economic entities with legal permits and suitable technical equipment and organisational capabilities for conducting waste management.

The source of waste generation in the Company's power plants are the technological processes (fuel-firing processes, flue gas treatment and water treatment). Furthermore, the plant's area also features irregular generation of minor quantities of other wastes, which are not directly related to the production process, but to the executed renovation and modernisation works – operation and maintenance wastes. The Company uses a part of the generated wastes in waste recycling processes (e.g. for surface hardening, reclamation of enclosed parts of waste storage areas), and the other part is disposed of at own waste storage areas:

- combustion waste storage area at the Gosławice open pit, including the Linowiec vaporiser,
- northern combustion waste storage area at the Pątnów open pit,
- combustion and solid waste storage area at the Zachodnia open pit,
- solid waste storage area at the Pątnów open pit,

Part of the furnace and fume gas desulphurisation wastes is also sold to external recipients for utilisation in civil engineering and road engineering. ZE PAK S.A. conducts several tests of the furnace and fume gas desulphurisation wastes generated by the company in order to find new ways of their application and acquire the largest possible number of recipients. The furnace and fume gas desulphurisation wastes generated by ZE PAK S.A. fulfil the requirements on environmental protection and are not hazardous to human life or health, which is confirmed by tests in the scope of physical and chemical, toxicity and eco-toxicity properties, conducted for the purpose of substance registration in accordance with the requirements of the REACH resolution.

In 2014, the Company sold over 127 thousand tons of furnace wastes and over 239 thousand tons of synthetic gypsum (fume gas desulphurisation wastes). The waste storage areas managed by ZE PAK S.A. in 2014 included monitoring of the quality of ground and surface waters, as well as supernatant water at a frequency specified in the integrated approvals. Monitoring was conducted in the network of basic and supplementary monitoring. The scope of the conducted monitoring of waste storage areas also included annual evaluation of the stability of embankments and the value of subsidence. Most of the monitored embankments turned out to be stable. In 2014, ZE PAK S.A. also concluded the reclamation of the enclosed part of the furnace and solid waste storage area at the Zachodnia open pit and the supernatant water vaporiser at the Wschodnia open pit. The total area that underwent reclamation amounted to 61.62 hectares. We adopted a different reclamation direction than agricultural reclamation.

Noise

The scope of the obligation to conduct monitoring of the noise emitted into the environment, imposed by the integrated approvals for the fuel-firing systems in the Company's power plants in 2014 included measurements of the noise in the area of the Pątnów and Konin Power Plants. No measurements were conducted in the area of the Adamów Power Plant. The measurements from 2013 are applicable. The conducted measurements did not demonstrate excess of the acceptable values of noise level in the environment, specified in the integrated approval, both during day-time and night-time.

Inspections, verification of integrated approvals and new legal requirements

In 2014, the Provincial Inspectorate of Environmental Protection in Poznań – Konin Branch (WIOŚP) conducted 5 inspections in the Group's power plants, whereas the State District Sanitary Inspector in Konin conducted 3 inspections. No penalties were imposed on ZE PAK S.A. as result of these inspections. The post-inspection recommendations have been applied.

In the previous year, the Wielkopolskie Marshal's Office conducted verification of the Integrated Approvals for the fuel-firing system in ZE PAK S.A. The verification was related to the implementation of the amendment in the environmental protection law, according to which an integrated approval specifies the requirements ensuring the protection of soil, ground and ground waters, including measures aiming at prevention of emissions into the soil, ground and ground waters, and the method of their systematic supervision. Furthermore, the duration of the Integrated Approvals was also changed ex officio to undetermined.

In 2014, we executed works which included inventory of the potential sources of contaminants which may affect the ground and water environment, including specification of the possible indications of contaminants projected for tracking in the ground and water environment for particular power plants and waste storage areas of ZE PAK S.A. The necessity to execute the works results from the amendment in the Environmental Protection Law Act, according to which any amendment in an integrated approval (after conclusion of verification of integrated approvals conducted ex officio) requires submission to the Marshal's Office of an initial report which will include information regarding the contamination of soil, ground and ground waters, or an analysis on the lack of necessity to develop such a report. This requirement also regarded the new system, for which it is necessary to obtain an integrated approval.

In 2014, the European Chemicals Agency, pursuant to the REACH resolution, continued the process of verification of the registration documentation submitted by ZE PAK S.A., regarding the generated dust and gypsum. The scope of the conducted verification did not include additional tests for the registered substances.

Environment management system – ISO 14001

In the scope of its activities, the ZE PAK takes action to comply with the highest standards, also in terms of environmental protection. Any tools supporting the actions in this scope undergo inspection and verification in terms of the obtained results. In the opinion of the Company's Board, one of the most important elements of the quality control system are the standards incorporated for over 80% of the systems used by the Company in accordance with the requirements of the environmental standard ISO 140001.

10.2. Employment and employee issues

The below table presents the specification of employment values (as job positions) at the end of 2014 and 2013, as well as the average employment in both years.

Table 14: Specification of employment values (as job positions) and the average employment in 2013-2014.

Specification	2014	2013	Change	
	job positions	job positions	job positions	%
Employment acc. to the state at the end of the year	1,344	1,233	+111	+9.0
Average annual employment	1,289	1,256	+33	+2.6

Source: internal data

The employment in the Company at the end of both compared periods increased by 111 job positions, i.e. by approx. 9.0%. The average employment increased in 2014 by 33 job positions, which is an increase by 2.6%. The increase in employment in the Company must be explained by liquidation of two subsidiaries, i.e. PAK CUI Sp. z o.o. and PAK CBJ Sp. z o.o., as well as taking over the employees of both companies by ZE PAK S.A.

In terms of education, the largest group among employees are persons with secondary education.

Table 15: Structure of education of the Company's employees (in persons), status at the end of 2014.

Level of education	No. of persons
Higher education (Bachelor of Arts, Master of Arts, post-diploma, Ph.D., Professor)	482
Secondary education (high school, technical school, community college, post-secondary college)	521
Vocational education (basic, occupational education)	249
Elementary education elementary school, junior high school	93
Total:	**1,345**

Source: internal data

Table 16: Structure of sex and age of the Company's employees (in persons), status at the end of 2014.

Age	Women	Men
under 30	18	92
31-40	37	156
41-45	13	191
46-50	33	262
51-55	64	230
56-60	45	168
over 60	4	32
Total	**214**	**1,131**

Source: internal data

The biggest group of employees are persons aged 40-50. Women comprise nearly 16% of the Company's crew. The structure is largely determined by the type of activities it executes. The extraction and energy production sectors are fields requiring high input of heavy physical labour.

Due to the specificity of the fields, in which the Company operates, special attention is paid to notions regarding the Occupational Health & Safety. We take care to employ persons with proper qualifications for the execution of tasks entrusted to them. The Company provides its employees with equipment and machines of proper parameters and attestation, allowing for effective and safe execution of their responsibilities. The number of persons injured during work in 2014 increased from 4 to 7 in relation to 2013.

10.3. Involvement in social issues

The ZE PAK does not limit the employee rights related to the free ability to form organisations. The number of enterprise and inter-enterprise trade unions is 7 and they associate a total of 694 members.

One of the areas of the Company's interest is care for the development and improvement of the employee staff. The on-going process of competence development features sending employees to various types of trainings, among others, including: mandatory, specialist, industry conferences and various types of meetings allowing for acquisition and exchange of knowledge used in every-day work. In 2014, the demand for these trainings resulted, among others, from the current circumstances, e.g. changes in the legal regulations or organisational changes. The trainings conducted in the ZE PAK mainly regarded the energy law, environmental protection and included trainings for engineers, as well as staff and financial trainings.

The ZE PAK views its functioning in its environment with consideration of all standards and expectations that are material for its employees, the local community, as well as other groups of stakeholders. The principles used in the Company strictly exclude any forms of mobbing, forced labour, or employment of juveniles. We take good care to prevent any possible types of corruption or, for example, unequal treatment of the Company's partners. The internal regulations and the adopted standards prevent the execution of activities commonly viewed as unethical in this scope.

The Company takes steps to support initiatives and undertakings which have a positive effect on the local community or in a wider range, in the scope of development of proper relations with the outside environment and considering the financial and organisational capabilities. In 2014, the Company supported two domestic and international undertakings. These include: Konin Branch of Wielka Orkiestra Świątecznej Pomocy [the Great Orchestra of Christmas Charity] (ZE PAK S.A. annually participates in the auctions of the Charity's golden hears) and Międzynarodowy Dziecięcy Festiwal Piosenki i Tańca [International Children's Festival of Music and Dancing] in Konin (the Company takes part in the financing of awards for the Festival's participants).

11. Other information

11.1. Significant court proceedings

In 2014, Zespół Elektrowni Pątnów-Adamów-Konin S.A. was not a party in any proceedings pending before a court, a body competent for arbitration proceedings or a public administration body, whose single or total value would exceed 10% of equity of ZE PAK S.A, except for those specified below.

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.

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 (Polish Journal of Laws of 1997; Dz.U. no. 137, item 926, as amended), ZE PAK S.A. 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 626,000 thousand, 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 S.A. 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, as well as the Supreme Administrative Court.

In relation to the decisions of the Administrative Courts in the cases of other energy companies in the subject of the overpaid excise tax, ZE PAK S.A., in cooperation with a tax advisor, analysed the resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, where the Supreme Administrative Court recognised that the pass-through of the tax load to the price excludes the possibility of refunding the overpayment. The justification of the resolution allows for the assumption of the risk that tax authorities will dismiss any claims regarding the refunding of overpayments indicating that the tax proceeding is not appropriate for such type of claims. In such case, it is possible to seek them under civil law, as a result of which expiration (on the grounds of civil law this term is 3 years) becomes a significant issue. In relation to the above fact, on 10 February 2012, ZE PAK S.A. submitted to the District Court of Warszawa Śródmieście a summons for the State Treasury for a conciliatory hearing for the amount of approx. PLN 626,406 thousand and thus stopped the statute of limitation. 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: 22 cases for the period January 2006 – November 2007 (excluding November 2006) are conducted from the beginning by the Head of the Customs Office, when cases were referred from the Supreme Administrative Court. On 18 August 2014, the Company received 22 decisions of the Head of the Customs Office refusing ascertaining overpayment. On 1 September, the Company submitted 22 appeals from the decision of the Head of the Customs Office to the Director of the Customs Chamber, and, currently, after receiving negative decisions of the Head of the Customs Office, appeals have been submitted, and the Company awaits for the specification of the date of hearing in the Provincial Administrative Court in Poznań. 14 proceedings for the period December 2007 – February 2009 (excluding July 2008) are suspended in the Provincial Administrative Court. These proceedings also included the presentation of annual economic analyses, whereas the proceeding for November 2006 was concluded with a negative result in the Supreme Administrative Court, and the proceeding for July 2008 is subject to the recognition of our cassation appeal by the Supreme Administrative Court, and the date of the hearing has not yet been specified. The Company will make further actions depending on the provisions of the issued decisions. In the case of EPII, the proceeding for all periods (one case) was included in the cause list of the Provincial Administrative Court after the negative decision of the Head of the Customs Office. We do not possess economic analyses as the Company was not operational in 2001 and there is no comparative data. On 1 March 2009, the Act of 6 December 2008 on excise tax came into effect and, pursuant to the act, sale of electric energy to an entity which is not its final recipient is not subject to the excise tax.

Other judicial cases are presented in paragraph III.6.r of the Company's financial statement.

11.2. Significant achievements in the field of research and development

As of the date of this report, the ZE PAK does not conduct research and development works, which would have material relevance for the Company. Furthermore, the Company has not assigned major financial expenses for research and development works.

11.3. Information on the auditing of the financial statement

The agreement regarding the auditing of the Group's consolidated financial statement with the entity authorised to audit financial statements, i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. [Ernst & Young Audit Poland Limited Liability Company, Limited Company] with registered office in Warsaw, Rondo ONZ 1, was concluded on 23 July 2014.

Information regarding the remuneration of the entity authorised to audit financial statements was presented in paragraph III.9 of the Company's financial statement for 2014.

11.4. Financial forecasts

The Company has not published the financial forecasts. The Company does not intend to present forecasts for 2015.

12. Representations of the Management Board

12.1. Representation on the reliability of development of the financial statement

The Board of Zespół Elektrowni Pątnów-Adamów-Konin S.A. hereby declares that, according to its best knowledge, the ZE PAK S.A.'s financial statement for the year concluded on 31 December 2014 and the comparative data were developed in accordance with the current principles of accounting, and that they realistically and reliably reflect the property and financial position, as well as the financial result of ZE PAK S.A. Furthermore, we declare that the Board's Report on the activities of ZE PAK S.A. for the accounting year of 2014 includes the real representation of the development, achievements, and the position of the Company, including the description of basic risks and hazards.

12.2. Representation on the appointment of the entity authorised to audit the financial statement

The Board of Zespół Elektrowni Pątnów-Adamów-Konin S.A. hereby declares that the entity authorised to audit financial statements, conducting the audit of the ZE PAK S.A.'s Financial Statement for the accounting year concluded on 31 December 2014, was chosen in accordance with the regulations of the law, and that this entity and the statutory auditors conducting this audit complied with the conditions to express an unbiased and independent opinion on the audited annual financial statement, in accordance with the current regulations and occupational standards.