ENERGA SA Group

Opinion
of the Independent Auditor
of the consolidated financial statements
for the financial year ended
31 December 2012,
31 December 2011 and 31 December 2010

The opinion contains 2 pages
Opinion of the independent auditor
of the consolidated financial statements
for the finacial year ended
31 December 2012, 31 December 2011 and 31 December 2010

OPINION OF THE INDEPENDENT AUDITOR

KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.
Biuro w Gdańsku
al. Zwycięstwa 13a
80-219 Gdańsk
Poland

Telefon +48 58 772 95 00
Fax +48 58 772 95 01
E-mail gdansk@kpmg.pl
Internet www.kpmg.pl

OPINION OF THE INDEPENDENT AUDITOR

To the Management Board of ENERGA SA

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is ENERGA SA with its registered office in Gdańsk, Al. Grunwaldzka 473 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, 31 December 2011 and 31 December 2010, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the years then ended and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. We conducted our audit in accordance with National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of ENERGA SA Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2012, 31 December 2011 and 31 December 2010 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51, 00-867 Warsaw

....

Zbigniew Libera
Key Certified Auditor
Registration No. 90047
Limited Liability Partner with power of attorney

1 March 2013

FINANCIAL STATEMENTS

Energa

ENERGA SA Group

Consolidated financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union for the years 2010 - 2012 ended 31 December

TABLE OF CONTENTS

Pert

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Continuing operations				
Sales of products and goods for resale including excise tax		7 764 430 725,40	7 274 903 397,85	6 698 662 698,73
Excise tax		*(329 637 887,98)*	*(317 737 936,50)*	*(314 475 631,94)*
Sales of products and goods for resale		7 434 792 837,42	6 957 165 461,35	6 384 187 066,79
Sales of services		3 688 457 887,12	3 358 829 507,95	3 021 018 628,75
Rental income		53 548 238,54	52 009 932,78	62 554 558,09
Revenue		**11 176 798 963,08**	**10 368 004 902,08**	**9 467 760 253,63**
Cost of sales	**11.5**	9 532 055 080,98	8 759 054 894,68	8 055 258 102,37
Gross profit		**1 644 743 882,10**	**1 608 950 007,40**	**1 412 502 151,26**
Other operating income	**11.1**	134 921 499,10	154 466 214,02	69 160 920,03
Selling and distribution expenses		247 540 477,90	187 903 647,62	109 249 130,02
General and administrative expenses		375 341 228,01	414 277 517,92	329 753 904,04
Other operating expenses	**11.2**	250 776 913,79	298 319 809,26	226 490 231,13
Financial income	**11.3**	79 196 911,53	207 947 424,45	82 486 576,52
Financial costs	**11.4**	359 085 262,85	172 737 177,51	103 714 823,89
Share of profit (loss) of the associates		214 637,16	1 077 365,06	668 319,37
Profit before tax		**626 333 047,34**	**899 202 858,62**	**795 609 878,10**
Income tax	**12**	166 547 750,65	196 613 309,88	170 992 877,48
Net profit on continuing operations		**459 785 296,69**	**702 589 548,74**	**624 617 000,62**
Discontinued operations & non-current assets classified as held for sale				
Net loss on discontinued operations	**24.1**	(18 306 873,97)	-	(378 008,92)
Net profit on disposal of assets classified as held for sale	**24.2**	14 942 053,87	-	-
Net profit for the financial year		**456 420 476,59**	**702 589 548,74**	**624 238 991,70**
Attributable to:				
Equity holders of the parent company		457 034 675,98	663 933 217,90	604 298 963,82
Non-controlling interests		(614 199,39)	38 656 330,84	19 940 027,88
Earnings per share (in PLN)	**28**			
- basic		**0,09**	**0,13**	**0,12**
- diluted		**0,09**	**0,13**	**0,12**

Pert

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Net profit for the financial year	**456 420 476,59**	**702 589 548,74**	**624 238 991,70**
Corporate income tax refund from Distribution Plan	-	92 257 122,00	-
Actuarial gains and losses on defined benefit plans	37 484 373,75	(48 127 729,77)	4 124 844,69
Foreign exchange gains / (losses) on translation of foreign operations	(236 298,65)	271 023,88	(98,96)
Income tax from defined benefit plans	(7 122 031,01)	9 144 268,66	(783 720,49)
Net other comprehensive income	**30 126 044,09**	**53 544 684,77**	**3 341 025,24**
Total comprehensive income	**486 546 520,68**	**756 134 233,51**	**627 580 016,94**
Attributable to:			
Equity holders of the parent company	487 160 720,07	717 477 902,67	607 639 989,06
Non-controlling interests	(614 199,39)	38 656 330,84	19 940 027,88

Director of the Consolidated Reporting Department *Marek Pertkiewicz*	Director of the Finance Management Center *Aleksandra Gajda – Gryber*	President of the Management Board *Mirosław Bieliński*	Executive Vice-President of the Management Board Chief Financial Officer *Roman Szyszko*	Executive Vice-President of the Management Board Strategy and Investments *Wojciech Topolnicki*
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)
01 MAR. 2013	01 MAR. 2013	01 MAR. 2013	01 MAR. 2013	01 MAR. 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Nota	As at 31 December 2012	As at 31 December 2011 (restaded)	As at 31 December 2010 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	14	10 000 916 278,54	9 150 663 450,42	8 451 134 128,39
Investment property	16	17 059 989,82	24 552 344,90	19 026 164,08
Intangible assets	18	378 562 656,81	312 491 996,36	269 388 658,63
Goodwill	17	28 627 373,91	17 609 509,58	17 246 353,14
Investments in associates and joint ventures accounted for under the equity method	19	2 580 465,79	2 760 087,08	41 580 170,75
Other investments		979 752,87	1 584 532,21	32 475 886,41
Deferred tax assets	12.3	209 870 367,02	171 387 692,61	116 006 703,59
Other non-current assets	23.1	58 799 100,22	32 398 997,55	18 271 910,04
		10 697 395 984,98	**9 713 448 610,71**	**8 965 129 975,03**
Current assets				
Inventory	21	376 927 918,39	395 872 391,88	312 992 178,03
Current tax assets		37 493 479,39	15 466 911,73	62 929 705,20
Trade receivables and other financial receivables	36.4.1	1 524 079 632,97	1 521 375 709,26	1 454 897 912,04
Other shares		11 381 200,00	44 816 077,72	629 436,27
Deposits		26 783 927,04	-	130 612,56
Other financial assets		3 969 018,10	1 839 590,74	2 076 116,20
Cash and cash equivalents	22	2 069 058 235,48	1 777 274 176,69	1 683 554 915,77
Other current assets	23.2	155 515 557,95	210 679 058,28	157 610 985,10
		4 205 208 969,32	**3 967 323 916,30**	**3 674 821 861,17**
Assets classified as held for sale	24.2	10 167 784,37	4 510 472,13	191 586,09
TOTAL ASSETS		**14 912 772 738,67**	**13 685 282 999,14**	**12 640 143 422,29**

The accounting policies and notes to the consolidated financial statements form an integral part thereof.

Pect

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

	Note	As at 31 December 2012	As at 31 December 2011 (restated)	As at 31 December 2010 (restated)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	31.1	4 968 805 368,00	4 968 805 368,00	4 968 805 368,00
Foreign exchange gains / (losses) arising on translation		47 168,55	283 467,20	12 443,32
Reserve capital	31.2	471 235 040,86	362 500 154,89	163 625 681,64
Retained earnings	31.3	2 231 139 472,11	2 494 195 354,73	1 893 679 397,56
Non-controlling interests		**47 295 416,25**	**59 726 065,92**	**887 477 694,68**
Total equity		**7 718 522 465,77**	**7 885 510 410,74**	**7 913 600 585,20**
Non-current liabilities				
Loans and borrowings	36.4.3, 38.5	2 026 137 871,20	1 904 236 242,55	1 033 635 983,01
Bonds issued	36.4.3, 38.5	1 079 219 213,53	-	-
Non-current provisions	32	710 785 797,70	667 261 990,77	599 573 470,38
Deferred tax liabilities	12.3	519 686 227,18	525 581 334,21	553 507 069,04
Deferred income and non-current government grants	26.1	456 009 751,82	465 938 618,59	442 910 451,58
Trade and other non-current financial liabilities	38.5	1 716 671,65	1 642 823,87	337 675,38
Finance lease liabilities	38.5	7 293 035,79	3 570 618,79	1 631 812,30
Other non-current liabilities	25.1	612 677,83	3 469 329,31	126 724,93
		4 801 461 246,70	**3 571 700 958,09**	**2 631 723 186,62**
Current liabilities				
Trade and other financial liabilities	38.5	880 270 916,59	893 550 813,96	970 432 595,37
Current loans and borrowings	36.4.3, 38.5	389 638 937,15	44 964 972,70	42 769 700,85
Income tax liability		34 661 674,59	116 706 955,58	74 272 835,00
Deferred income and government grants	26.1	28 932 720,91	28 118 750,96	21 010 189,32
Accruals	26.2	117 765 024,23	122 751 349,09	85 804 674,74
Provisions	32	555 345 320,17	511 319 448,27	353 998 343,50
Other current liabilities	25.2	386 174 432,56	510 659 339,75	546 529 806,25
		2 392 789 026,20	**2 228 071 630,31**	**2 094 818 145,03**
Liabilities directly associated with assets classified as held for sale		-	-	1 505,44
Total liabilities		**7 194 250 272,90**	**5 799 772 588,40**	**4 726 542 837,09**
TOTAL EQUITY AND LIABILITIES		**14 912 772 738,67**	**13 685 282 999,14**	**12 640 143 422,29**

Director of the Consolidated Reporting Department	Director of the Finance Management Center	President of the Management Board	Executive Vice-President of the Management Board Chief Financial Officer	Executive Vice-President of the Management Board Strategy and Investments
Marek Pertkiewicz	*Aleksandra Gajda – Gryber*	*Mirosław Bieliński*	*Roman Szyszko*	*Wojciech Topolnicki*
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)
01 MAR. 2013	01 MAR. 2013	01 MAR. 2013	01 MAR. 2013	01 MAR. 2013

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Equity attributable to equity holders of the parent company						
	Share capital	Foreign exchange gains / (losses) arising on translation	Reserve capital	Retained earnings	Total	Non-controling interests	Total equity
As at 1 January 2012 (restated)	**4 968 805 368,00**	**283 467,20**	**362 500 154,89**	**2 494 195 354,73**	**7 825 784 344,82**	**59 726 065,92**	**7 885 510 410,74**
Actuarial gains and losses on defined benefit plans	-	-	-	30 362 342,74	30 362 342,74	-	30 362 342,74
Foreign exchange gains / (losses) arising on translation	-	(236 298,65)	-	-	(236 298,65)	-	(236 298,65)
Profit for the financial year	-	-	-	457 034 675,98	457 034 675,98	(614 199,39)	456 420 476,59
Total comprehensive income for the financial year	**-**	**(236 298,65)**	**-**	**487 397 018,72**	**487 160 720,07**	**(614 199,39)**	**486 546 520,68**
Retained earnings distribution	-	-	108 734 885,97	(108 734 885,97)	-	-	-
Dividends	-	-	-	(645 944 697,84)	(645 944 697,84)	(8 183 902,21)	(654 128 600,05)
Purchase of shares in subsidiaries	-	-	-	4 226 682,47	4 226 682,47	(3 632 548,07)	594 134,40
As at 31 December 2012	**4 968 805 368,00**	**47 168,55**	**471 235 040,86**	**2 231 139 472,11**	**7 671 227 049,52**	**47 295 416,25**	**7 718 522 465,77**

Pert

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT.)

for the year ended 31 December 2011

	Equity attributable to equity holders of the parent company						
	Share capital	Foreign exchange gains / (losses) arising on translation	Reserve capital	Retained earnings	Total	Non-controlling interests	Total equity
As at 1 January 2011 (restated)	**4 968 805 368,00**	**12 443,32**	**163 625 681,64**	**1 893 679 397,56**	**7 026 122 890,52**	**887 477 694,68**	**7 913 600 585,20**
Actuarial gains and losses on defined benefit plans	-	-	-	(38 983 461,11)	(38 983 461,11)	-	(38 983 461,11)
Foreign exchange gains / (losses) arising on translation	-	271 023,88	-	-	271 023,88	-	271 023,88
Profit for the financial year	-	-	-	663 933 217,90	663 933 217,90	38 656 330,84	702 589 548,74
Total comprehensive income for the financial year	**-**	**271 023,88**	**-**	**624 949 756,79**	**625 220 780,67**	**38 656 330,84**	**663 877 111,51**
Retained earnings distribution	-	-	198 874 473,25	(198 874 473,25)	-	-	-
Corporate income tax refund on Distribution Plan	-	-	-	91 906 544,94	91 906 544,94	350 577,06	92 257 122,00
Dividends	-	-	-	(149 064 161,04)	(149 064 161,04)	(40 393 603,02)	(189 457 764,06)
Purchase of shares in subsidiaries	-	-	-	231 598 289,73	231 598 289,73	(826 414 036,34)	(594 815 746,61)
Liquidation of subsidiaries	-	-	-	-	-	49 102,70	49 102,70
As at 31 December 2011 (restated)	**4 968 805 368,00**	**283 467,20**	**362 500 154,89**	**2 494 195 354,73**	**7 825 784 344,82**	**59 726 065,92**	**7 885 510 410,74**

Pet

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT.)

for the year ended 31 December 2010

	Equity attributable to equity holders of the parent company					Non-controlling interests	Total equity
	Share capital	Foreign exchange gains / (losses) arising on translation	Reserve capital	Retained earnings	Total		
As at 1 January 2010 (restated)	**4 968 805 368,00**	**12 542,28**	**141 957 561,67**	**1 371 694 743,34**	**6 482 470 215,29**	**907 377 389,58**	**7 389 847 604,87**
Actuarial gains and losses on defined benefit plans	-	-	-	3 341 124,20	3 341 124,20	-	3 341 124,20
Foreign exchange gains / (losses) arising on translation	-	(98,96)	-	-	(98,96)	-	(98,96)
Profit for the financial year	-	-	-	604 298 963,82	604 298 963,82	19 940 027,88	624 238 991,70
Total comprehensive income for the financial year	**-**	**(98,96)**	**-**	**607 640 088,02**	**607 639 989,06**	**19 940 027,88**	**627 580 016,94**
Retained earnings distribution	-	-	21 668 119,97	(21 668 119,97)	-	-	-
VAT Refund	-	-	-	10 358 322,00	10 358 322,00	-	10 358 322,00
Dividends	-	-	-	(99 376 107,36)	(99 376 107,36)	(9 196 118,70)	(108 572 226,06)
Purchase of shares in subsidiaries	-	-	-	25 030 471,53	25 030 471,53	(30 643 604,08)	(5 613 132,55)
As at 31 December 2010 (restated)	**4 968 805 368,00**	**12 443,32**	**163 625 681,64**	**1 893 679 397,56**	**7 026 122 890,52**	**887 477 694,68**	**7 913 600 585,20**

Director of the Consolidated Reporting Department	Director of the Finance Management Center	President of the Management Board	Executive Vice-President of the Management Board Chief Financial Officer	Executive Vice-President of the Management Board Strategy and Investments
Marek Pertkiewicz	*Aleksandra Gajda – Gryber*	*Mirosław Bieliński*	*Roman Szyszko*	*Wojciech Topolnicki*
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)
01 MAR. 2013	01 MAR. 2013	01 MAR. 2013	01 MAR. 2013	01 MAR. 2013

CONSOLIDATED STATEMENT

	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Cash flows from operating activities			
Profit before tax	**626 333 047,34**	**899 202 858,62**	**795 609 878,10**
Adjustments for:	**1 023 331 463,84**	**786 954 932,30**	**668 175 437,31**
Profits from investments in associates and joint ventures accounted for under the equity method	179 621,29	(1 077 365,06)	(668 319,37)
Foreign currency gains/(losses)	(236 298,65)	271 023,88	(98,96)
Amortisation and depreciation	723 238 878,49	656 785 362,99	591 418 003,46
Net interest and dividends	130 727 604,59	73 651 480,03	39 202 325,02
(Profit)/Loss on investing activities	172 359 252,13	(2 060 127,92)	64 753 601,17
Change in receivables	25 064 499,99	(72 655 506,86)	(360 003 333,23)
Change in inventories	19 111 473,24	(83 792 228,28)	(26 314 451,99)
Change in payables excluding loans and borrowings	(168 848 018,99)	(57 438 399,26)	351 354 580,40
Change in prepayments and accruals	5 949 094,85	4 131 675,39	(25 520 958,67)
Change in provisions	87 549 678,83	225 009 625,16	29 813 486,72
Other	28 235 678,07	44 129 392,23	4 140 602,76
Income tax paid	**(314 997 380,75)**	**(204 237 306,02)**	**(284 551 390,30)**
Net cash from operating activities	**1 334 667 130,43**	**1 481 920 484,90**	**1 179 233 925,11**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets	18 353 396,93	13 004 313,12	31 764 845,54
Purchase of property, plant and equipment and intangible assets	(1 817 247 881,96)	(1 469 364 198,17)	(1 072 152 756,49)
Disposal of shares in associates	8 067 360,00	-	-
Disposal of other financial assets	16 344 259,68	58 319 295,69	36 365 832,45
Acquisition of other investments	(26 781 588,81)	(256 300,00)	(499 368,50)
Purchase of real estate	-	(4 053 385,32)	-
Purchase of shares in associates accounted for under the equity method	-	(2 750 363,35)	-
Acquisition of subsidiary, net of cash acquired	(2 779 315,80)	(601 122 184,60)	(5 503 784,03)
Dividends received	78 162,00	1 631 187,44	1 277 764,41
Interest received	823 906,42	909 835,37	4 233 617,55
Other	-	-	1 200 000,00
Net cash used in investing activities	**(1 803 141 701,54)**	**(2 003 681 799,82)**	**(1 003 313 849,07)**
Cash flows from financing activities			
Proceeds from bonds issued	1 066 000 000,00	-	-
Payment of finance lease liabilities	(1 384 556,94)	(8 658 608,31)	(9 033 293,16)
Proceeds from loans and borrowings	738 892 103,23	948 363 723,60	1 048 843 659,35
Repayment of loans and borrowings	(258 288 031,44)	(30 432 838,25)	(259 875 056,27)
Dividends paid	(653 924 155,35)	(189 440 845,08)	(114 620 053,58)
Interest paid	(148 919 574,33)	(99 481 251,17)	(39 454 662,58)
Other	(68 841,10)	(3 875 900,44)	(5 307 563,91)
Net cash from financing activities	**742 306 944,07**	**616 474 280,35**	**620 553 029,85**
Net increase /(decrease) in cash and cash equivalents	**273 832 372,96**	**94 712 965,43**	**796 473 105,89**
Cash and cash equivalentsat the beginning of the period	**1 755 541 116,52**	**1 660 828 151,09**	**864 355 045,20**
Cash and cash equivalents at the end of the period	**2 029 373 489,48**	**1 755 541 116,52**	**1 660 828 151,09**

Director of the Consolidated Reporting Department	Director of the Finance Management Center	President of the Management Board	Executive Vice-President of the Management Board Chief Financial Officer	Executive Vice-President of the Management Board Strategy and Investments
Marek Pertkiewicz	*Aleksandra Gajda – Gryber*	*Mirosław Bieliński*	*Roman Szyszko*	*Wojciech Topolnicki*
(date and signature)	(date and signature)	(date and signature)	(date and signature)	(date and signature)
0 1 MAR. 2013	0 1 MAR. 2013	0 1 MAR. 2013	0 1 MAR. 2013	0 1 MAR. 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

ENERGA SA Group (the "Group") consists of **ENERGA Spółka Akcyjna** (the "Parent Company", the "Company") and its subsidiaries (see Note 2). These consolidated financial statements of the Group are for the years 2010 - 2012 ended 31 December.

The Parent Company was entered in the Enterprise Register of the National Court Register maintained by the District Court of Gdańsk–Północ, VII Commercial Division, under number KRS 0000271591.

The Parent Company's statistical number is REGON 220353024.

The Company as well as other entities included the Group were established for indefinite period.

Core operations of the Group companies are as follows:

1. distribution and sales of electricity and heat,
2. production of electricity and heat,
3. trade in electricity,
4. street and road lighting.

As at 31 December 2012 the Polish State Treasury is the Company's parent.

Peit

2. Entities included in the Group

As at 31 December 2012 the Group consists of ENERGA Spółka Akcyjna and the following companies:

a) Consolidated subsidiaries:

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
1	ENERGA – OPERATOR SA	Gdańsk	energy distribution	603 301 400.00	99.75	99.75	99.75
2	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	energy production	223 000 000.00	89.38	89.38	89.38
3	ENERGA Kogeneracja Sp. z o.o. 1)	Elbląg	energy production	141 977 500.00	78.07	97.67	100.00 18)
4	ENERGA – OBRÓT SA	Gdańsk	electric energy trade	368 160 239.00	100.00	100.00	100.00
5	ENERGA Invest SA	Gdańsk	investment projects management	3 250 000.00	100.00	100.00	100.00
6	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	811 000.00	-	100.00	100.00
7	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting and payroll services	4 052 000.00	100.00	100.00	100.00
8	ENERGA Hydro Sp. z o.o. 2)	Straszyn	energy production	265 039 500.00	100.00	100.00	100.00
9	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	191 621 500.00	-	100.00	100.00
10	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o.	Straszyn	hotel and training services	31 966 000.00	100.00	100.00	100.00
11	ENERGA Elektrociepłownia Kalisz S.A.	Kalisz	energy production	16 456 000.00	-	100.00	100.00
12	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and designing	1 712 000.00	-	99.75	100.00 18)
13	ENERGA – OPERATOR Produkcja Sp. z o.o.	Kalisz	manufacture of power equipment	813 000.00	-	99.75	100.00 18)
14	Multiserwis Sp. z o.o. in liquidation	Kalisz	transport and real estate management	914 000.00	-	96.04	96.28 18)
15	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and designing	27 980 000.00	-	99.75	100.00 18)
16	Zaopatrzenie Energetyki Koszalin Sp. z o.o. 2)	Koszalin	procurement	-	-	-	-
17	Zakład Transportu Energetyki Sp. z o.o. in liquidation	Koszalin	renting and servicing of vehicles	2 178 000.00	-	99.75	100.00 18)
18	ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	220 000.00	-	99.75	100.00 18)
19	Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o. in liquidation	Sierpc	network operation and investment projects	757 500.00	-	99.75	100.00 18)
20	ENERGA - OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.	Płock	network operation and investment projects	909 500.00	-	99.75	100.00 18)
21	Zakład Energetyczny Płock - Operator Sieci Rozdzielczej Sp. z o.o. in liquidation 14)	Płock	power distribution	-	-	-	-
22	ENERGA Bio Sp. z o.o.	Gdańsk	managing investment projects	14 125 000.00	100.00	100.00	100.00
23	Zakład Energetyczny Płock - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and designing	456 500.00	-	99.75	100.00 18)
24	ZEP - MOT Sp. z o.o.	Płock	sale and repair of motor vehicles	5 292 000.00	100.00	100.00	100.00
25	Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o. 2)	Płock	procurement	1 075 500.00	-	99.75	100.00 18)

Pet

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
26	ENERGA – OPERATOR Projektowanie Sp. z o.o.	Płock	construction and design work	381 500.00	-	99.75	100.00 [18)]
27	Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL" Sp. z o.o.	Raciąż	contracting and designing	244 000.00	-	99.75	100.00 [18)]
28	KONGRES Sp. z o.o. in liquidation	Łąck	hotel and training services	550 000.00	100.00	100.00	100.00
29	ZEP - AUTO Sp. z o.o.	Płock	sale and repair of motor vehicles	50 000.00	-	100.00	100.00
30	ENERGETYK Sp. z o.o. in liquidation	Żychlin	contracting and designing	220 000.00	-	99.75	100.00 [18)]
31	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and designing	300 000.00	-	99.75	100.00 [18)]
32	Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. [2)]	Słupsk	procurement	-	-	-	-
33	ENERGA Wind Sp. z o.o. (formerly ENERGA Elektrownie Wiatrowe Sp. z o.o.) [3)]	Słupsk	energy production	-	-	-	-
34	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o. in liquidation	Słupsk	sale of motor vehicles	2 500 000.00	-	99.75	100.00 [18)]
35	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o.	Toruń	procurement	8 010 000.00	-	99.75	100.00 [18)]
36	Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation	Włocławek	energy production	425 000.00	70.00	96.47	96.47
37	ENERGA SLOVAKIA s.r.o.	Bratislava	electricity sales	EUR 339 833.00	-	100.00	100.00
38	ENERGA OPEC Sp. z o.o.	Ostrołęka	heat and energy distribution	13 919 000.00	-	99.91	99.91
39	Ekologiczne Materiały Grzewcze Sp. z o.o.	Szepietowo	biomass production	6 330 000.00	100.00	100.00	100.00
40	Elektrownia Ostrołęka SA [11)]	Ostrołęka	contracting and designing	395 100 000.00	100.00	100.00	100.00
41	ENERGA Innowacje Sp. z o.o. [10)]	Gdańsk	organisation and management of innovative power projects developments	5 002 000.00	0.04	99.88	100.00 [18)]
42	ENERGA Serwis Sp. z o.o. [9)]	Ostrołęka	repairs and maintenance services	14 200 000.00	14.08	94.64	100.00 [18)]
43	Biogazownia Starogard Sp. z o.o.[13)]	Wrocław	energy production	3 170 000.00	-	90.00	90.00
44	ENERGA Informatyka i Technologie Sp. z o.o. [12)]	Gdańsk	ICT	35 343 500.00	100.00	100.00	100.00
45	ENERGA Agregator Sp. z o.o.	Gdańsk	electricity sales	5 000 000.00	-	100.00	100.00
46	ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o. [8)]	Słupsk	network operation and investment projects	6 900 000.00	-	99.75	100.00 [18)]
47	ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o. [4)]	Kalisz	network operation and investment projects	5 600 000.00	-	99.75	100.00 [18)]
48	ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o. [5)]	Toruń	network operation and investment projects	6 100 000.00	-	99.75	100.00 [18)]
49	ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o. [6)]	Gdańsk	network operation and investment projects	50 000,00	-	99.75	100.00 [18)]

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
50	ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o. 7)	Gdańsk	network operation and investment projects	7 100 000.00	-	99.75	100.00 18)
51	AEGIR 1 Sp. z o.o.	Gdańsk	energy production	50 000.00	-	100.00	100.00
52	AEGIR 2 Sp. z o.o.	Gdańsk	energy production	50 000.00	-	100.00	100.00
53	AEGIR 3 Sp. z o.o.	Gdańsk	energy production	50 000.00	-	100.00	100.00
54	AEGIR 4 Sp. z o.o.	Gdańsk	energy production	50 000.00	-	100.00	100.00
55	AEGIR 5 Sp. z o.o.15)	Gdańsk	energy production	7 550 000.00	99.34	100.00	100.00
56	ENERGA Finance AB	Stockholm	financing activities	EUR 65 000.00	100.00	100.00	100.00
57	RGK Sp. z o.o.	Gdańsk	financing activities	5 000.00	100.00	100.00	100.00
58	Breva Sp. z o.o.	Szczecin	energy production	50 000,00	100.00	100.00	100.00
59	Zakład Energetyki Cieplnej w Żychlinie Sp. z o.o.	Żychlin	heat and energy distribution	2 458 300.00	-	100.00	100.00
60	Elektrownia CCGT Gdańsk Sp. z o.o. 16)	Gdańsk	energy production	19 500 000.00	100.00	100.00	100.00
61	Elektrownia CCGT Grudziądz Sp. z o.o. 17)	Grudziądz	energy production	18 000 000.00	100.00	100.00	100.00

1) The share capital increase by PLN 48.5 million, in return for the in-kind contribution in the form of shares in ENERGA Elektrociepłownia Kalisz S.A and ENERGA OPEC Sp. z o.o. and cash contribution by ENERGA SA and ENERGA Elektrownie Ostrołęka SA was not registered in the National Court Register as at the balance sheet date.
2) As at 23 January 2012, a merger of the following supply companies was registered: Zaopatrzenie Energetyki Koszalin Sp. z o.o., Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o., with Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o. as the acquirer, and the remaining entities as the acquirees.
3) On 20 December 2012, a merger of ENERGA Hydro and ENERGA Wind, with ENERGA Hydro as the acquirer, was registered in the National Court Register.
4) On 15 March 2012, a change in the company's registered office to Kalisz was registered in the National Court Register. Further, on 7 August 2012, an increase in its share capital to the amount of PLN 5.6 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
5) On 21 March 2012, a change in the company's registered office to Toruń was registered in the National Court Register. Further, on 9 November 2012, an increase in its share capital to the amount of PLN 6.1 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
6) On 20 March 2012, a change in the company's registered office to Elbląg was registered in the National Court Register. Further, on 12 April 2012, the Extraordinary General Meeting of Shareholders approved an increase in the company's share capital to the amount of PLN 7.9 million. The newly-created shares were assumed by ENERGA-OPERATOR SA. As at the date of these financial statements, the increase has not yet been registered in the National Court Register.
7) On 18 May 2012, an increase in the company's share capital to the amount of PLN 7.1 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
8) On 14 March 2012, a change in the company's registered office to Słupsk was registered in the National Court Register. Further, on 28 June 2012, an increase in its share capital to the amount of PLN 6.9 million was registered in the National Court Register. The newly-created shares were assumed by ENERGA-OPERATOR SA.
9) On 13 June 2012, an increase in the company's share capital to the amount of PLN 14.2 million was registered in the National Court Register. The newly-created shares, with an amount of PLN 7.1 million, were assumed by ENERGA Elektrownie Ostrołęka SA.
10) On 27 April 2012, an increase in the company's share capital to the amount of PLN 5.002 million was registered in the National Court Register. The newly-created shares, with an amount of PLN 2,000, were assumed by ENERGA SA.
7) On 25 May 2012, an increase in the company's share capital to the amount of PLN 395.1 million was registered in the National Court Register. The newly-created shares, with an amount of PLN 185.0 million, were assumed by ENERGA SA.
12) On 9 February 2012, ENERGA SA made an in-kind contribution to ENERGA Informatyka i Technologie Sp. z o.o. Following the transaction, the share capital of ENERGA Informatyka i Technologie Sp. z o.o. was increased to PLN 35.3 million. The capital increase was registered in the National Court Register on 27 February 2012.
13) On 21 February and on 26 March 2012, the share capital increase to the amount of PLN 3.17 million was registered in the National Court Register. The newly-created shares, with a value of PLN 2.77 million, were in 90% assumed by ENERGA BIO Sp. z o.o.
14) On 14 September 2012, the company was deleted from the National Court Register, which completed its liquidation process.
15) As at the balance sheet date the share capital increase by PLN 7.5 m in return for the cash contribution by ENERGA SA was not registered in the National Court Register.
16) The company was registered in the National Court Register on 31 January 2013.
17) The company was registered in the National Court Register on 15 January 2013.
18) The Group's share in total number of votes is greater than its share in equity due to indirect shareholdings.

Pert

b) associated entities accounted for under the equity method

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of ENERGA SA Group in the share capital [%]	Share of ENERGA SA Group in the total number of votes [%]
1	Oświetlenie Uliczne i Drogowe Sp. z o.o.	Kalisz	lighting services	73 010 000.00	42.20	42.20	42.20
2	P.P.S.Ż.W. WIRBET S.A. 1)	Ostrów Wlkp.	production of energy sub-assemblies	5 490 000.00	-	-	-
3	SOEN Sp. z o.o.	Grudziądz	hotel and administration services	1 000 000.00	48.50	48.50	48.50
4	Słupskie Towarzystwo Koszykówki Sportowa S.A.	Słupsk	sports activities	513 500.00	-	40.90	40.90
5	Bio - Power Sp. z o.o.	Międzyrzec Podlaski	energy production	2 139 900.00	-	25.00	25.00

1) See description in point c) below.

c) changes in the composition of the Group in 2010-2012

<u>Mergers</u>

Mergers of Group companies are described in Note 30.

<u>Establishment of companies</u>

On 15 November 2010, ENERGA – OBRÓT SA established ENERGA Innowacje Sp. z o.o., and assumed 100% of its shares. The new entity was established in order to implement innovative solutions in the Energa Group.

On 14 February 2011, the Parent Company established ENERGA Serwis Sp. z o.o. with an objective to provide repairs and maintenance services for the segment of baseload power plants and CHP in the ENERGA Group.

On 29 June 2011, the Parent Company established ENERGA Informatyka i Technologie Sp. z o.o. as its sole stockholder. On 20 October 2011, ENERGA Informatyka i Technologie Sp. z o.o. (the acquirer) merged with ZEP-INFO Sp. z o.o. The merger was executed with a view to creating an entity charged with the implementation of the Group's 2010-2015 IT Strategy. Please refer to Note 42 for additional information on ENERGA Informatyka i Technologie Sp. z o.o.

On 16 November 2011, ENERGA – OBRÓT SA established ENERGA Agregator Sp. z o.o. The new company is engaged in the development of a new area of energy markets, such as the management of energy demand and supply by optimizing energy consumption by end users.

On 14 and 15 December 2011, ENERGA – OPERATOR SA established five operating and investment companies: ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.

On 27 and 28 December 2011, ENERGA Invest SA established five companies (AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o., AEGIR 3 Sp. z o.o., AEGIR 4 Sp. z o.o. and AEGIR 5 Sp. z o.o.), whose objective is the construction or purchase of wind farms.

On 3 October 2012, the Parent Company established RGK Sp. z o.o. with an objective to restructure the Group's financial assets.

Pert

On 3 December 2012, the Parent Company established two new entities: Elektrownia CCGT Gdańsk Sp. z o.o. and Elektrownia CCGT Grudziądz Sp. z o.o., with an objective to build gas power plants.

Acquisitions

On 28 January 2011, the Company's subsidiary, ENERGA BIO Sp. z o.o., acquired 90% of shares in the capital of Esperotia Energy Investments Bobowo Sp. z o.o., with its registered office in Wrocław, which effective from 1 April 2011 changed its name to BIOGAZOWNIA STAROGARD Sp. z o.o.. Please refer to Note 41 for more information on this acquisition.

On 12 August 2011, the Company's subsidiary, ENERGA BIO Sp. z o.o., acquired 24.996% of shares in the capital of Bio-Power Sp. z o.o. with its registered office in Międzyrzec Podlaski. Bio-Power Sp. z o.o. is a special purpose vehicle established for investment in the construction of a 1.2 MW bio-energy plant.

On 24 September 2012, ENERGA SA acquired 100% of shares in Goldcup 7889 AB, and then changed the acquiree's name to ENERGA Finance AB. The company was acquired in connection with the planned issue of eurobonds.

On 27 November 2012, ENERGA Kogeneracja Sp. z o.o. signed an agreement to acquire 100% of shares in Zakład Energetyki Cieplnej w Żychlinie Sp. z o.o., a company distributing heat in the Municipality of Żychlin.

On 21 December 2012, ENERGA SA entered into an agreement to acquire 100% of shares in Breva Sp. z o.o., whose objective will be to build a wind farm.

Liquidations

On 6 June 2011, upon the completion of its liquidation, ENERGA Nieruchomości SA was deleted from the National Court Register.

On 14 September 2012, upon the completion of its liquidation, Zakład Energetyczny Płock – Operator Sieci Rozdzielczej Sp. z o.o. was deleted from the National Court Register.

Disposals of shares

On 27 January 2010, the Parent Company entered into an agreement to sell 9 187 176 shares in Toruńska Energetyka Cergia S.A., representing a 23.53% stake in the entity's capital. The condition precedent contained in the agreement was fulfilled on 16 April 2010, whereby the ownership of all the shares held by the Group was transferred to the buyer. These consolidated financial statements include the Group's share in the company's net result for the period from 1 January to 16 April 2010.

On 12 March 2010, the Company's subsidiary, Zakład Energetyczny Płock – Centrum Techniki Energetycznej Sp. z o.o., sold 452 shares in ERA - GOST Sp. z o.o., representing a 75.33% stake in the entity's capital and all the shares in the company held by the Group. These consolidated financial statements include ERA – GOST Sp. z o.o.'s net financial result for the period from 1 January to 12 March 2010.

On 16 February 2012, the Company entered into an agreement to sell all the shares held in its associate, WIRBET SA, to THC Fund Management Ltd.

3. The Company's Management Board

In the years 2010 - 2011, the Company's Management Board comprised:

- Mirosław Bieliński – President of the Management Board,
- Roman Szyszko – Executive Vice-President of the Management Board, Chief Financial Officer.

In the period from 1 January to 28 May 2012, the Company's Management Board comprised:

- Mirosław Bieliński – President of the Management Board,
- Roman Szyszko – Executive Vice-President of the Management Board, Chief Financial Officer.

On 28 May 2012, the Company's Supervisory Board adopted a resolution to appoint for the next term of office the Management Board in the following composition:

- Mirosław Bieliński – President of the Management Board,
- Roman Szyszko – Executive Vice-President of the Management Board, Chief Financial Officer,
- Wojciech Topolnicki – Executive Vice-President of the Management Board, Strategy and Investments.

As at the date of preparation of these consolidated financial statements, the composition of the Management Board remained unchanged.

4. Approval of the financial statements

These consolidated financial statements were authorised for issue by the Company's Management Board on 1 March 2013.

5. Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss.

The consolidated financial statements are presented in zloty ("PLN"), and all amounts are stated in PLN, unless otherwise indicated.

The consolidated financial statements have been prepared on a going concern basis, except for the following companies: Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. in liquidation, Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation, Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o. in liquidation, Multiserwis Sp. z o.o. in liquidation, Zakład Energetyczny Płock – Operator Sieci Rozdzielczej Sp. z o.o. in liquidation (deleted from the National Court Register on 14 September 2012), Zakład Transportu Energetyki Sp. z o.o. in liquidation, Energetyk Sp. z o.o. in liquidation, Kongres Sp. z o.o. in liquidation and Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (put into liquidation in February 2013) – see description in Note 41).

On 29 March 2012, the Extraordinary General Meeting of Shareholders of Multiserwis Sp. z o.o. adopted a resolution to liquidate the company.

On 5 June 2012, the Extraordinary General Meetings of Shareholders of Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o., Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o. and Zakład Transportu Energetyki Sp. z o.o. adopted resolutions to liquidate these respective companies.

On 16 October 2012, the Extraordinary General Meeting of Shareholders of Energetyk Sp. z o.o. adopted a resolution to liquidate the company.

On 19 December 2012, the Extraordinary General Meeting of Shareholders of Kongres Sp. z o.o. adopted a resolution to liquidate the company.

As at the date of approval of these consolidated financial statements, from Group perspective, there is no evidence indicating that the continuation of business activities as a going concern may be at risk.

The information on revenues, expenses and results of operations discontinued during the financial year or expected to be discontinued in the following year has been presented in Note 24.1.

5.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

IFRSs include standards and interpretations approved by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC").

The consolidated financial statements have been prepared by the Management Board of ENERGA SA for inclusion in the offering document of ENERGA SA.

The Company's Management Board applied the standards and interpretations of IFRS EU, as well as related measurement principles, using to the best of its knowledge, as at 31 December 2012. Due diligence was applied in the preparation of the accompanying supplementary information and notes.

On 18 October 2012, the Extraordinary General Meeting of ENERGA SA resolved that the Company would prepare its separate and consolidated statutory financial statements in accordance with IFRS EU starting from the fiscal year ending 31 December 2012.

On 28 November 2012, the Extraordinary General Meeting of ENERGA – OPERATOR SA resolved that the company would prepare its separate and consolidated statutory financial statements in accordance with IFRS EU starting from the fiscal year ending 31 December 2012.

Other Group companies maintain their accounting books in accordance with the accounting principles set forth by the Accounting Act of 29 September 1994, as amended, and the regulations issued on the basis thereof (the "Polish Accounting Standards"). These consolidated financial statements contain adjustments that are not included in the accounting books of the Group, recognised in order to make the financial statements of the Group compliant with IFRS EU.

5.2. Functional and presentation currency

The presentation currency of the consolidated financial statements is the Polish zloty (PLN) as is the functional currency of all Group entities, with the exception of ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB, for which euro is the presentation currency of their individual financial statements. For the purpose of these consolidated financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN at the following rates: assets and liabilities, except equity - exchange rates at the reporting date; income and expenses - average exchange rates for the given financial period.

6. Use of estimates and judgments

The process of applying accounting policies to the areas enumerated below required management to make judgements and estimates which affected the amounts in the consolidated financial statements and the notes thereto. The assumptions used in making these estimates are based on management's best knowledge of current and future activities and events in specific areas. Detailed information about these assumptions has been presented in respective notes.

The following paragraphs present information about critical assumptions used as well as other key sources of uncertainty as at the balance sheet date that involve a risk of material revisions to the carrying amounts of assets and liabilities in the future periods.

Impairment of property, plant and equipment

The Group assessed whether there are any indications that property, plant and equipment may be impaired. If acknowledged that there are actually such indications, the Group performed impairment tests of property, plant and equipment which required making estimates of value in use of the related cash generating units. The assessment of value in use involves estimating future cash flows of the cash generating unit and selecting the appropriate discount rate to be used in the calculation of the present value of those cash flows. Refer to Note 14 for description of the impairment test for property, plant and equipment.

Measurement of provisions

Actuarial methods have been used to calculate the amounts of provisions for employee benefits (provisions for retirement and disability benefits, jubilee awards, employees' energy rate, supplementary social fund charges for the former employees of Group companies). The relevant assumptions used are disclosed in Note 27.2.

Pert

The remaining provisions have been measured based on the best estimate of the outflow of resources required to settle the obligation.

Trend of energy prices

An essential element of the estimates made by the Group for the value in use of cash-generating units in the production and CHP segment and for the provisions against post-employment benefits from employee rates for the energy industry are energy price paths compiled by industry experts. The Group uses such experts' energy price paths, including price projections for the Polish market, considering any expected legal changes.

Deferred tax assets

Deferred tax assets are measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date. Deferred tax assets are recognised to the extent that future taxable profits will be available against which they can be utilised. Deterioration of tax profits in the future may lead to the above assumption being ungrounded. Refer to Note 12 for detailed information on deferred tax assets.

Classification of financial instruments

Based on the provisions of IAS 39 for non-derivative financial instruments, financial assets with fixed or determinable maturities are classified to held-to-maturity category. In making such determination the Group's positive intent and ability to hold these investments to maturity are considered.

Fair value of financial instruments

The fair values of financial instruments for which no active market exists are estimated using appropriate valuation techniques. The Group relies on management judgement in selecting appropriate methods and assumptions. Further information on the methods used in determining fair values of specific financial instruments has been provided in Note 36.3.

Assessment of revenues from electricity sales

In general, the Group determines volumes of electricity sold (based on meter readings) and invoices customers for periods not corresponding to those used for accounting purposes. For that reason, at each reporting date, estimates are made of sales in the periods not yet included in the meter reading.

Impairment of receivables

Receivables and groups of receivables are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. Whenever the asset's carrying amount exceeds its recoverable amount an impairment loss is recognised up to the amount of the present value of the estimated future cash flows from the asset. Further information on the amounts of impairment losses in respect of receivables has been provided in Note 36.4.1.

7. Estimates

During the periods covered by the consolidated financial statements, no changes in the methods used in determining substantial estimates occurred. Changes of estimates resulted from events that occurred during the reporting periods.

8. New standards and interpretations

8.1. Standards and interpretations applied for the first time in 2012

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU become effective in 2012:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets, endorsed by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The introduction of the above-mentioned amendments did not have a material effect on the Group's accounting policies.

8.2. New standards and interpretations already published and endorsed by the EU, but not yet effective

In preparing these financial statements the Group has not applied the following standards, amendments to standards and interpretations that have been published and adopted by the EU but have not yet become effective:

- IFRS 10 "Consolidated Financial Statements", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosure of Interests in Other Entities", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 13 "Fair Value Measurement", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (as amended in 2011) "Separate Financial Statements", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, endorsed by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),

- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", endorsed by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

Management does not expect the amendments to standards and interpretations to have a material impact on the financial statements, had they been applied by the Group as at the reporting date.

8.3. Early adopted standards and interpretations

The Group has elected to early adopt IAS 19 "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (see Note 9.29).

8.4. Standards and Interpretations adopted by the IASB, not yet endorsed by the EU.

IFRSs as adopted by the EU do not differ significantly from the standards issued by the International Accounting Standards Board (IASB) save for the following standards, amendments to standards and interpretations that have not yet been endorsed for use as at the date of approval of these financial statements:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015),

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Government Loans (effective for annual periods beginning on or after 1 January 2013),

- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" - Mandatory Effective Date and Transition Disclosures,

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" - Transition Guidance (effective for annual periods beginning on or after 1 January 2013),

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - Investment Entities (effective for annual periods beginning on or after 1 January 2014),

- Amendments to various standards "Improvements to IFRS (2012)" – amendments made as part of the annual IFRS improvement process, published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), aimed primarily at correcting minor conflicts and clarifying wording (effective for annual periods beginning on or after 1 January 2013).

The Management Board believes that the introduction of the above-mentioned standards and interpretations will not have any substantial impact on the accounting policies applied by the Group, save for the following:

- application of the first phase of IFRS 9 will affect the classification and measurement of the Group's financial assets. The Group will assess this impact in combination with other phases, when published, to present a coherent vision.

9. Significant accounting policies

The most significant accounting policies applied by the Company are presented below.

9.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of ENERGA SA and the financial information of its subsidiaries prepared in each case for the year ended 31 December 2012.

Any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that the Group's control commences until the date the control ceases. Control is presumed to exist if the parent company owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity, unless it can be demonstrated clearly that such ownership does not constitute control. Control also exists if the Company has the power to govern the investee's financial and operating policies.

Changes in the Group's interest in an investee which do not result in the Group obtaining or losing control thereof are accounted for through equity as transactions between owners.

9.2. Investments in associates

Investments in associates are accounted for under the equity method. Associates are those entities in which the parent company has, directly or indirectly through subsidiaries, significant influence and that are not its subsidiaries, jointly controlled entities or joint ventures. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the investor's share in post-acquisition results of the investee based on uniform accounting principles. The investor's share in the results of the associate is recognised in profit or loss. Any dividends received from the associate reduce the carrying amount of the investment. The investor's share in the changes in the net assets of an associate that are recognised directly in the associate's equity (e.g. those resulting from revaluation of property, plant and equipment) is recognised by the investor also in other comprehensive income. Determination of the investor's share in the associate is based on current ownership interests with potential voting rights not taken into consideration.

The above principle does not apply when the investment is classified as held for sale pursuant to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

9.3. Foreign currency

Transactions in currencies other than the Polish zloty are translated to the Polish zloty at exchange rates at the dates of the transactions. At the reporting date:

- monetary assets and liabilities are retranslated at the closing exchange rate at that date (the closing rate shall be the average exchange rate for the given currency as established by the National Bank of Poland for that date)
- non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction (the rate of the entity's bank), and
- non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in finance income (costs) or, where allowed by the accounting principles (policy), capitalised as part of the cost of assets.

Foreign currency differences arising on non-monetary assets and liabilities, such as equity instruments at fair value through profit or loss, are recognised as part of the changes in fair value.

Foreign currency differences arising on retranslation of assets and liabilities of foreign operations are recognised in other comprehensive income.

The following exchange rates were used for retranslation purposes:

Exchange rate on the last day of the period			
Currency	31 December 2012	31 December 2011	31 December 2010
EURO	4,0882	4,4168	3,9603

At the reporting date, the assets and liabilities of these two entities are retranslated to the Group's presentation currency at the exchange rate at that date while their income and expenses are translated at the weighted average exchange rate for the period. Foreign currency differences arising on retranslation are recognized directly in other comprehensive income. When a foreign operation is disposed of, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit and loss.

The weighted average exchange rates for the respective financial years were as follows:

Average exchange rate in the period			
Currency	1 January - 31 December 2012	1 January - 31 December 2011	1 January - 31 December 2010
EURO	4,1736	4,1401	4,0044

9.4. Property, plant and equipment

Property, plant and equipment include the assets:

- held by an entity for use in the production or supply of goods or services, or for administrative purposes, and
- expected to be used for more than one year,
- for which it is probable that future economic benefits associated with them will flow to the entity,
- whose purchase cost or production cost when self-constructed can be reliably determined.

Property, plant and equipment and assets under construction are measured at purchase or production cost.

Items of property, plant and equipment are measured at their net book value, i.e. at their initial cost (or deemed cost for property, plant and equipment used prior to the date of transition into IFRS EU) less accumulated depreciation and any impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price plus any directly attributable costs of bringing the asset to the location and condition necessary for its intended use. The cost also includes the estimated costs of dismantlement, removal and restoration, where an obligation to incur such cost arises at the time of installation of an asset or its use for any purpose other than to produce inventories. Capitalizing the cost of acquisition or production ends when the asset is brought to the location and condition necessary for its functioning.

All material elements of an item of property, plant and equipment, with a varying useful life (components), are identified and recognised as on the date of acquisition of that asset. Costs of major overhauls, periodic reviews, where their value is significant, and the cost of replacing major e, also constitute an element of property, plant and equipment.

The purchase price/production cost of an asset less its residual value is the basis for calculating depreciation write-downs. Depreciation begins when the asset is available for use. Depreciation expense is based on the depreciation schedule specifying the expected useful life of an asset. Depreciation method used shall reflect the pattern of consumption by the entity of economic benefits from the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, being, for individual groups of assets:

Asset type	Period of depreciation in years
Buildings, premises and civil engineering structures	2 – 100 years
Machines and technical equipment	2 – 50 years
Vehicles	3 – 14 years
Office equipment	4 – 20 years
Other property, plant & equipment	4 – 20 years

The method of depreciation, rate of depreciation and residual value of property, plant & equipment are reviewed at least at the end of each financial year. Any changes resulting from such review are recognized as a change in estimates, and any depreciation adjust entry is made in the year in which the review was made, and in subsequent periods.

An item of property, plant and equipment may be removed from the balance sheet upon its disposal or when no economic benefits are expected from the continued use of such asset. Any gain or loss arising on derecognition of the asset from the balance sheet (calculated as the difference between the potential net proceeds from the disposal and the carrying amount of the asset) is recognized in the profit and loss statement in the period when the derecognion was made.

9.5. Investment property

The Group recognises property as investment property where it is treated as a source of rental income or where it keeps it due to an increase in its value, or where it achieves both these benefits, whereby such property is not:

- used for manufacturing, supply of goods, provision of services or administrative activity, or
- designated for sale in the ordinary course of its business.

Where property is used both for the Group's own needs and in order to obtain benefits, the Group classifies the part used for its own needs and the investment part separately, if the parts can be sold separately or be separate subjects of lease. If this is not possible, the entire property is treated as an investment property only if the portion designated for own use is an insignificant portion of that property.

Investment property is initially recognised at purchase price or production cost, including the transaction cost. If an investment property has been purchased, the cost of purchase comprises the purchase price plus any expenses directly related to the purchase, such as legal fees and property transfer tax. Investment properties produced in-house by the end of the construction are recognised as property, plant & equipment under construction.

After initial recognition, the Group uses valuation at purchase price or production cost, i.e. adopts the same rules as for property, plant & equipment.

Investment property is derecognised when it is disposed of or when given investment property is permanently withdrawn from use, when no future economic benefits are expected from its sale. Any gain or loss resulting from derecognition of investment property is recognized in profit or loss in the period in which it was derecognised.

Transfers of assets to investment property will be made when, and only when, there is a change in use, evidenced by discontinued use of the assets by the owner, concluding an operating lease agreement or completing the construction/manufacturing of such investment property.

9.6. Intangible assets

The Group classifies identifiable non-monetary assets without physical substance as intangible assets.

As on the date of initial recognition, intangible assets are measured at cost of purchase or manufacturing. The purchase price of an intangible asset comprises:

- purchase price including import duties, non-deductible taxes included in the price, minus any rebates and discounts granted and
- expenses directly related to preparing the asset for use in accordance with its intended use, in particular the costs of employee benefits, professional fees and the costs of testing whether the asset functions properly.

After initial recognition, intangible assets are recognised at purchase price or production cost less accumulated amortization and impairment write-downs.

Expenditure on intangible assets produced in-house, with the exception of capitalized development costs, are not capitalized and are recognized in the costs of the period in which they were incurred.

The Group assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, it estimates its duration. The useful life of an intangible asset is assessed as indefinite if, based on an analysis of the relevant factors, there is no foreseeable duration of the period in which the asset will generate cash flow for the entity.

Depreciable value of an intangible asset with finite useful life is decreased by the asset's residual value. The Group has adopted the principle that the residual value of intangible assets is zero, except when:

- an entity has a valid agreement with an unrelated party to sell the rights after a determined period of useful life - then the residual value is equal to the value specified in the agreement for the sale of such rights;
- there is an active market for this type of rights and the value can be reasonably determined and it is highly probable that such market will exist at the end of the asset's useful life.

Intangible assets are amortized over their expected economic useful lives. Depreciation begins when the asset is ready for use.

Intangible assets with a finite useful life are amortised over the useful life and tested for impairment each time there are indications of their impairment. Period and method of amortization of intangible assets with finite useful lives are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset are accounted for by changing the amortization period or method, and are treated as changes in accounting estimates.

Summary of the policies applied to the Group's intangible assets:

	Patents and licenses	**Development costs**	**Software**	**Perpetual usufruct of land**	**Other**
Useful life	Period as per the agreement, including additional period for which the use may be extended	5 years	2 years	40 – 99 years	5 years
The depreciation method used	Depreciated over the term of the agreement (8 years) – using the straight-line method	5 years using the straight-line method	2 years using the straight-line method	40 – 99 years using the straight-line method	5 years using the straight-line method
Produced internally or acquired	Acquired	Produced internally	Acquired	Acquired	Acquired

Pert

	Patents and licenses	Development costs	Software	Perpetual usufruct of land	Other
Verification for impairment	Annual evaluation for indications of impairment	Annual (for components not brought to use) and where there is indication of impairment	Annual evaluation for indications of impairment	Annual evaluation for indications of impairment	Annual evaluation for indications of impairment

Gains or losses resulting from derecognition of an intangible asset are valued as the difference between the net proceeds from disposal and the carrying amount of the asset and are recognized in the profit and loss statement when the asset is derecognised.

9.6.1 Cost of research and development work

Cost of research and development work is charged to the profit and loss statement when incurred. Expenditure incurred on development work carried out for a given project is carried forward to the next period, if it is expected that it will be recovered in the future. Following the initial recognition of the development expenditure, the historical cost model is applied requiring the assets to be recognised at purchase price/production cost less any accumulated depreciation and accumulated impairment write-downs. Any expenditure carried forward is depreciated over the expected period of obtaining revenues from the sale of a given undertaking.

Development costs are evaluated for impairment annually - if the asset has not yet been put into operation, or more often - when during the accounting period there is indication of impairment showing that its carrying value may not be recoverable.

With the exception of development costs, all intangible assets produced by the Group are not capitalized and are recognized in the profit and loss statement in the period in which the related costs are incurred.

9.6.2 Goodwill

Goodwill arising on acquisition of a business combination is initially recognised at purchase price being the excess of the price paid for the shares or stocks of the acquired entity, plus the value of non-controlling interests and, where the control was acquired at stages, the current fair value of the existing interest in the acquired entity, over the fair value of net identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is valued at purchase price less any accumulated impairment write-downs. The impairment test is performed annually or more frequently where there are relevant indications. Goodwill is not depreciated.

As at the acquisition date, any goodwill acquired is allocated to each cash generating unit that can benefit from the synergy. Each unit or group of units to which goodwill has been allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and
- is not larger than an operating segment as defined in the basic or supplemental reporting format of the Group determined on the basis of IFRS 8 Operating Segments.

Write-downs for impairment are determined by assessing the recoverable value of the cash generating unit to which goodwill has been allocated. If the recoverable value of the cash generating unit is less than its carrying value, write-down for impairment is posted. Where goodwill forms part of a cash generating unit and a part of the operations within that unit is sold, the goodwill associated with the sold operations is included in their carrying amount when determining the gain or loss from the sale of such operations. In such circumstances, the sold goodwill is determined based on the relative values of the operations disposed of and the value of the retained part of the cash generating unit.

9.7. Impairment of non-financial non-current assets

At each balance sheet date, the Group assesses whether there is any indication of impairment of one of the components of non-financial non-current assets. If any such indication exists, or when annual impairment testing was necessary to check whether the impairment took place, the Group estimates the recoverable amount of an asset or a cash generating unit to which the asset belongs.

The recoverable amount of an asset or a cash generating unit corresponds to the higher of: the fair value less selling cost of the asset or, where appropriate, the cash-generating unit, and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those generated by other assets or groups of assets. If the carrying value of an asset is higher than its recoverable amount, impairment occurs and a write-down is made to the recoverable amount determined. In estimating value in use, cash flow projections are discounted to their current value using a discount rate before tax effects, which reflects the current market estimate of the time value of money and risk typical for each asset. Impairment losses on assets used in continuing operations are recognised in cost categories that correspond to the function of the impaired asset.

At each balance sheet date, the Group assesses whether there is any indication that a write-down for impairment, which was recognized in prior periods for an asset, is no longer necessary or should be decreased. If any such indication exists, the Group estimates the recoverable amount of the asset. A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. In this case, the carrying value of the asset is increased to its recoverable amount. That increased amount must not exceed the carrying value of the asset that would have been determined (net of depreciation), if no write-down for impairment had been recognized in previous years in respect of that asset. Reversal of a write-down for impairment for an asset is recognized immediately as income in the profit and loss statement. Once the write-down for impairment has been reversed, in future periods the depreciation write-down for the asset is adjusted in such a way that its revised carrying value less its exit value will be regularly written down over the remaining useful life of the asset.

9.8. Borrowing costs

Borrowing costs are capitalized as part of the manufacturing cost of property, plant & equipment. Borrowing costs include interest and gains or losses on foreign exchange differences to the extent corresponding to an adjust entry for interest costs.

Capitalisation of financing costs begins once activities necessary to prepare the asset for its intended use have been undertaken, investments are being made for the asset and borrowing costs have been incurred. If investment in an asset is discontinued for an extended period of time, the capitalisation of the borrowing cost is suspended. Capitalisation is suspended if substantially all steps required to prepare an asset for use have been completed.

Current costs of special purpose loans and borrowings, less income from temporary placement of surplus funds, and current costs of general loans and borrowings are capitalised, where expenditure on property, plant & equipment exceeds the value of special purpose loans and borrowings. Borrowing costs are capitalized in the amount being the product of capitalisation rate and the excess of expenditure on property, plant & equipment over the value of special purpose borrowings. The capitalization rate is determined as a weighted average of the borrowing costs relating to borrowings and loans constituting the Group's liabilities other than special purpose loans and borrowings. The amount of the borrowing costs capitalised in the period does not exceed the amount of the borrowing costs incurred during the period.

9.9. Financial assets

Financial assets are categorised as follows:

- Financial assets held to maturity,
- Financial assets fair-valued through profit and loss

- Loans made and receivables,
- Assets available for sale.

Financial assets held to maturity

Assets held to maturity are financial assets with fixed or determinable payments and fixed maturities that the Group has the intent and ability to hold until that date. Financial assets held to maturity are measured at amortised cost using the effective interest method. Financial assets held to maturity are classified as long-term assets if their maturity exceeds 12 months from the balance sheet date.

Financial assets fair-valued through profit and loss

A financial asset measured at fair value through profit or loss is an asset that meets one of the following conditions:

a) is classified as held for trading. Financial assets are classified as held for trading if they are:
   - acquired principally for the purpose of selling in the near term,
   - part of a portfolio of specified financial instruments that are managed jointly and for which there is probability of achieving immediate profit or
   - derivatives, save for derivatives that are part of hedge accounting.

b) was classified in that category at the time of purchase. The financial asset can be classified at the time of purchase as the portfolio valued at fair value with changes recognised in the profit and loss statement (except for equity instruments that do not have quoted prices in an active market and their fair value cannot be reliably determined) if the following criteria are met:
   - such classifications eliminates or significantly reduces the inconsistent treatment, where the valuation and the principles of recognizing profits and losses are subject to different regulations; or
   - the assets are part of a group of financial assets that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or
   - financial assets contain embedded derivatives which should be recognised separately.

The Group must not reclassify financial instruments to and from the portfolio fair-valued through profit or loss.

These instruments are fair-valued at the balance sheet date. Profit or loss on financial assets classified as portfolio fair-valued through profit or loss is recognized in the profit and loss statement.

Loans and receivables

Loans granted and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, where their maturities are not more than 12 months after the balance sheet date. Loans granted and receivables with maturities more than 12 months after the balance sheet date are classified as property, plant & equipment. Loans and receivables are recognised at amortised cost.

Assets available for sale

All other financial assets are available-for-sale assets. Assets available for sale are fair-valued at each balance sheet date. The fair value of investments for which there is no quoted market price is determined by reference to the current market value of another instrument of the same characteristics, or based on the expected cash flows from the asset which is the subject of investments (valuation with the use of discounted cash flow method).

Positive and negative difference between the fair value of assets available for sale (if there is a market price determined on the regulated market or if their fairvalue can be determined in another reliable manner) and their purchase price, net of deferred tax, is recognised in other comprehensive income, except for:

Pest

- impairment losses,
- gains and losses from changes in foreign currency exchange, which arise for monetary assets,
- interest calculated using the effective interest method.

Dividends from equity instruments in the portfolio of assets available for sale are recognized in the profit or loss statement when the entity's right to receive payment is established.

9.10. Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective indication of impairment of a financial asset or a group of financial assets.

Assets measured at amortised cost

If there is objective indication of an impairment loss on loans granted or receivables valued at amortised cost, the amount of the impairment write-down equals the difference between the carrying value of the financial asset and the present value of estimated future cash flows (excluding future losses on irrecoverable receivables that have not been incurred) discounted at the original (i.e. determined at initial recognition) effective interest rate. The carrying value of the asset is reduced by the impairment write-down. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether there is objective indication of impairment of individual financial assets that are individually material, or indication of impairment of financial assets that are not individually material. If the analysis shows that there is no objective indication of impairment of an individually assessed financial asset, regardless of whether it is material or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The assets that are individually assessed for impairment and for which an impairment write-down was posted or it was decided that a previously recognized write-down does not change, are not taken into account in the collective assessment of assets for impairment.

If, in a subsequent period, an impairment write-down decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment write-down is reversed. Subsequent reversals of impairment losses are recognised in profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost as on the date of reversal.

Available-for-sale financial assets

If there is objective indication of an impairment of financial assets available for sale, the amount of the difference between the purchase price of the asset (net of any principal repayment and - in the case of financial assets measured at amortized cost using the effective interest rate method - depreciation) and its current fair value, less any impairment write-downs on that asset previously recognized in profit or loss, is derecognised in equity and transferred to profit or loss. Reversals of impairment write-downs for equity instruments classified as available for sale cannot be recognized in the profit and loss. If, in a subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event occurring after the impairment write-down was recognised in profit and loss, the amount of the reversed impairment write-down is recognized in profit and loss.

9.11. Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Due to that component, some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Group analyses new and existing contracts to identify any embedded derivative.

Embedded derivatives are separated from the host contracts and accounted for as derivatives, if the following conditions are met:

Pet

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- a hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Embedded derivatives are accounted for in a similar way as stand-alone derivatives that are not considered hedge instruments.

The scope in which the economic characteristics and risks of a foreign currency embedded derivative are closely related to those of host contract includes also circumstances, where the currency of the host contract is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place.
"Separated" embedded derivative is recognized in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

The assessment whether an embedded derivative should be separated is made by the Group at initial recognition. In the case of embedded derivatives acquired in a business combination, the Group does not re-assess embedded derivatives as at the date of the merger (since the assessment was made at initial recognition in the acquired entity).

9.12. Inventories

Inventories include:

- assets held for sale in the ordinary course of business,
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are measured at the lower of: purchase price or production cost and net realisable value.

Purchase prices used for measurement at the reporting date may not be higher than the assets' net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The consumption of identical inventories or inventories considered identical due to the similarity of their nature and use to the entity, is measured in the Group in the following way:

- coal - according to the FIFO cost formula,
- materials purchased for specific orders - according to the detailed price identification method,
- other inventories - according to weighted average cost formula.

Certificates of origin

Energy certificates for energy produced in the reporting period are at initial recognition measured at fair value established at the date of recognition of the asset, i.e. the production of energy from renewable sources or in cogeneration. Fair value of the certificate is its price quoted at the Power Exchange on the date of energy production from renewable sources or in cogeneration.

Purchased certificates of origin are measured at purchase price.

At the time of the sale of certificates of origin, the difference between the net sales price and the carrying amount of the previously recognized certificates is recognised in the profit or loss as an adjustment to operating income.

Pert

9.13. Cash and cash equivalents

Cash and cash equivalents include:

- cash on hand and on current bank accounts,
- cash equivalents, including bank deposits with a maturity of no more than three months and ENERGA Trading SFIO investment fund participation units.

The cash and cash equivalents reported in the consolidated statement of cash flows include the above cash and cash equivalents, net of outstanding bank overdrafts.

The Group presents bank deposits with original maturity longer than three months as term deposits and deposits.

Cash is measured at face value. Other monetary assets are measured in accordance with the policies applicable to financial instruments.

The value of participation units in ENERGA Trading SFIO investment fund is measured as the product of their quantity and the value of a single participation unit. Measurement is made by the fund management company in accordance with the Act on investment funds of 27 May 2004. Since the fund is a liquidity fund (Polish monetary instruments fund), the units are recognised as cash equivalents.

ENERGA Trading SFIO was established to manage financial surpluses of the ENERGA Group companies and is an alternative to bank deposits, even the overnight ones. The fund is characterised by high liquidity and low risk. Mechanisms embedded in the settlement system allow for conversion of the participation units into cash within the same working day (for orders placed in the morning) or on the following day (for orders placed in the afternoon). Furthermore, ENERGA Group companies can settle their mutual receivables and payables using fund units.

9.14. Other assets

Prepaid expenses and accrued income are recognised as other assets if the following conditions are met:

- they result from past events - expenditure incurred for the entity's operations,
- their value can be reliably measured,
- they contribute to future economic benefits of the entity,
- they relate to future reporting periods.

Prepaid expenses and accrued income are recognized in the amount of reliably measured incurred expenses that relate to future periods and will result in future economic benefits flowing to the entities.

Prepaid expenses and accrued income are amortised over time or in relation to value of services. The time and manner of settlement depend on the nature of expenses being settled, taking into consideration the prudence principle.

As at the end of the reporting period the Group verifies prepaid expenses and accrued income to determine whether the degree of probability of economic benefits' inflow after the end of the current reporting period is sufficient to recognise a given item as an asset.

Other assets include budgetary receivables (except for the corporate income tax settlements that are presented as a separate line item in the statement of financial position), the excess of the Company Social Benefit Fund assets over liabilities to that fund and the advance payments for future purchases of property, plant and equipment, intangible assets and inventories, as well as biological assets. Advances are presented in line with the nature of the assets they concern - as non-current or current assets, as appropriate. Advance payments as non-monetary assets are not discounted.

Biological assets and agricultural products

Biological assets are plants or living animals that once harvested will become agricultural products. The Group presents biological assets as other assets.

Biological assets are measured on initial recognition and at the end of each reporting period at fair value less estimated costs to sell. When the fair value cannot be reliably measured, biological assets are measured at purchase price or production cost less any accumulated depreciation and accumulated impairment losses.

Agricultural products harvested from biological assets are measured at fair value less estimated costs to sell. The value determined in this way becomes a production cost for the recognition of inventories or other assets.

Fair value is determined by taking into account the present condition of assets and location at the time of measurement, and it is the amount for which an asset could be exchanged, or liability settled, between knowledgeable and willing parties in an arm's length transaction.

Any changes in the fair value of biological assets during the reporting period are recognized in operating expenses.

9.15. Equity

The equity is recognized at nominal value, divided by type and according to the principles laid down by law and the parent's Articles of Association.

Share capital in the consolidated financial statements is presented in the amount specified in the parent's Articles of Association. Declared but unpaid capital contributions are recognized as outstanding contributions to the capital - as a negative value.

The Capital Group's reserve capital is the parent's reserve capital.

9.16. Provisions

The Group creates provisions when the Group has a present obligation (legal or constructive) as a result of a past event, and when it is probable that the fulfilment of this obligation will cause an outflow of economic benefits and the amount of obligation can be reliably estimated. Where the Group expects that the costs covered with the provision will be reimbursed, for example under an insurance agreement, the reimbursement is recognized as a separate asset but only when it is virtually certain that the reimbursement will be received. Costs relating to a given provision are presented in the profit and loss statement net of any reimbursement.
The provisions created are charged to operating expenses, other operating expenses, financial expenses, depending on their related circumstances.

When the effect of change of money value is material, the amount of the provision corresponds to the present value of the expenditures expected to be required to settle the obligation.

The discount rate is determined before tax, that is, it reflects the current market assessments of the money value in time and the risks related to the specific liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted. If the discounting method has been applied , increase in the provision due to the flow of time is recognized as a finance cost.

In particular, the following titles are expected for provisioning:

Provisions for pensions and other post-employment benefits

The amount of provisions for pensions and other post-employment benefits is estimated with the use of actuarial techniques. Provisions are charged to profit or loss (operating expenses or finance costs, as appropriate), except for actuarial gains and losses. Gains and losses from actuarial calculations are recognised entirely in other comprehensive income.

Group establishes provisions for the following post-employment benefits:

a) Retirement and disability payments

In line with the company's remuneration systems and labour law, the Group's employees are entitled to retirement and disability payments. Retirement severance payments are disbursed in a single payment at the time of retirement. The amount of retirement severance payment depends on each employee's years of

Pet

service and average salary. The Group creates a provision for future liabilities in respect of retirement and disability payments in order to allocate costs to the periods to which they relate. Accrued liabilities are equal to the discounted payments that will be made in the future, including staff turnover, and relate to the period up to the end of the accounting period. Demographic information and employee turnover information are based on past data.

b) Provision for cash allowance under employee rates for energy industry employees

Pursuant to the Collective Bargaining Agreement ("CBA"), amended in 2005, the obligation to pay benefits to former employees of the energy industry under the so-called "electricity tariff", was transferred to individual companies, where specific pensioners had been employed. Therefore, since December 2005, the Group has been creating appropriate provisions.

The cost of the provision related to the eligible retirees on the date of entry into force of the Additional Protocol to the CBA was charged in full to the 2005 result. The cost of past employment, relating to companies' employees - future retirees - is recognized on the earlier of the two dates – the date of the amendment or limitation of the defined benefit plans and the date when the entity recognizes the related restructuring costs or benefits due to termination of employment.

c) Provision for the Company Social Benefit Fund and other benefits for retirees and pensioners

The Group's companies post write-downs for Company Social Benefit Funds for retirees and pensioners. The value of the liability to former employees is estimated on the basis of the terms and conditions of the applicable Collective Agreements for the companies or on the basis of other legal regulations. These obligations arise from the rights acquired by the Group companies' employees in the period of employment.

Provision for jubilee bonuses

Pursuant to the in-company reward systems the Group employees are entitled to jubilee bonuses paid after a specified number of years in service. The amount of jubilee bonuses depends on an employee's length of service and average salary. The Group creates a provision for future liabilities in respect of jubilee bonuses in order to allocate costs to the periods to which they relate. The present value of these liabilities is calculated by an actuary at the end of each accounting period. Accrued liabilities are equal to the discounted payments that will be made in the future, including staff turnover, and relate to the period up to the end of the accounting period. Demographic information and employee turnover information are based on past data. Provisions are charged entirely to profit or loss (operating expenses or finance costs, as appropriate).

Third party claims and litigation

Provision for third party claims and the effects of pending litigation is created in the amount of the claim in real terms, taking into account possible costs of litigation.

Provision for property, plant and equipment decommissioning cost

Provision for future property, plant and equipment decommissioning costs is created where the law provides for the obligation to dismantle and remove property, plant & equipment when they are no longer used, and to reinstitute the condition of the sites where they were used.

Provision for liabilities arising from gas emission

Where the CO2 emission exceeds the certificates held as at the balance sheet date, a provision is created on the basis of the actual usage rights, based on the market price of the right as at the date of the valuation of the provision.

Provision for obligation to redeem certificates

Where there is shortage of certificates of origin for electricity produced from renewable sources or in co-generation, which has not been covered by the purchase of the certificates in the market or with a replacement fee, a provision is created to cover the shortage.

Peit

Restructuring provision

In 2010-2012, the Group companies launched voluntary redundancy programs ("VRP"). The Group recognizes provisions for employment termination benefits resulting from the VRP based on the number of employees who will benefit from the program, and the estimated value of severance payments.

9.17. Financial liabilities

Financial liabilities are categorised as follows:

- Measured at amortised cost,
- Financial liabilities measured at fair value through profit or loss.

The liabilities measured at amortized cost include mainly payables, bank credits, loans and debt securities. At initial recognition, they are measured at fair value less costs associated with obtaining a credit or a loan. Following initial recognition, they are measured at amortized cost using the effective interest rate method.

Amortised cost includes the cost of obtaining a credit or a loan and discounts and premiums received in connection with the liability.

Revenues and expenses are recognized in profit and loss when the liabilities are derecognised in the balance sheet as well as on their settlement with the use of the effective interest rate method.

Financial liabilities are measured at fair value through profit and loss and include financial liabilities held for trading and financial liabilities initially classified as fair-valued through profit and loss. Financial liabilities are classified as held for sale if they have been acquired principally for the purpose of selling in the near term. Derivatives, including separated embedded instruments, are also classified as held for trading, unless they are classified as effective hedging instruments. Financial liabilities may be classified at initial recognition as fair-valued through profit and loss, if the following criteria are met: (i) such classification eliminates or significantly reduces the inconsistent treatment, where the valuation and the principles of recognizing profits and losses are subject to different regulations; or (ii) the liabilities are part of a group of financial liabilities that are managed and evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that should be recognized separately.

Financial liabilities fair-valued through profit and loss are measured at fair value, taking into account their market value at the balance sheet date, net of transaction costs. Changes in the fair value of these instruments are recognised in profit or loss as financial expenses or revenues.

Other financial liabilities which are not financial instruments fair-valued through profit and loss are valued at amortised cost with the use of the effective interest rate method.

The Group derecognises a financial liability when the liability is extinguished - i.e. when the obligation specified in an agreement has been discharged, cancelled or has expired. Replacement of an existing debt instrument with an instrument with substantially different terms, made between the same entities, is recognized by the Group as an expiry of the original liability and the recognition of a new financial liability. Similarly, significant modifications of terms and conditions of an agreement relating to the existing financial liability are recognized by the Group as an expiry of the original liability and the recognition of a new financial liability. The resulting exchange differences arising from the respective carrying values are recognized in the profit and loss statement.

9.18. Other liabilities

Other non-financial liabilities include, in particular, liabilities towards the tax office for value-added tax, and liabilities relating to received advance payments that will be settled by delivery of goods, services or property, plant & equipment.

Other non-financial liabilities are recognised in the amount due.

Pet

9.19. Accrued expenses and unearned revenue

The Group creates accrued liabilities:

- which are certain or very likely to arise,
- which result from past events and will result in utilising held or future assets of the entity,
- which can be reliably estimated.

Accrued expenses are liabilities payable for goods or services that have been received/rendered, but have not been paid for, invoiced or formally reconciled with a supplier, including amounts due to employees. Although it is sometimes necessary to estimate the amount or date of payment of accrued expenses, the degree of uncertainty is generally much smaller than for provisions.

Accrued expenses in the amount of reliably estimated, probable liabilities attributable to the current accounting period, resulting from services provided to the Group by external contractors, are presented in the statement of financial position as payables.

Unearned revenue is recognised with the observance of the caution principle and the matching of revenues and expenses. The following items are classified as unearned revenue:

- equivalent of amounts received or due from counterparties for benefits to be delivered in future accounting periods,
- cash received to cover the acquisition or manufacturing of property, plant and equipment and development. The settlement is made by a gradual increase of other operating income by the amount equal to the depreciation of these assets in part financed by these funds. This applies in particular to partially redeemed loans and credits and donations for the purchase of a fixed asset,
- property, plant and equipment and intangible assets received gratuitously. These revenues are written down as other operating income, in parallel to the depreciation write-downs for these assets.

9.20. CO2 emission rights

Acquired CO2 emission rights are measured at purchase price and recognised as intangible assets. These values are not depreciated. Acquired emission rights are redeemed when they are used to cover the shortage occurring as at the date of settlement of the annual CO2 emission limit. Redemption of the emission rights is charged to the costs of the period.

Granted emission rights are recognised off-balance. Their use is also recorded off-balance, according to actual emissions.

Fees for the grant of rights are recognised as the costs of the period.

9.21. Leases

The Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased item, are recognised in the balance sheet at the inception of the lease at the lower of: the fair value of the leased property or the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability balance, so as to achieve a fixed rate of interest on the remaining balance of the liability. Finance costs are recognised directly in profit or loss.

Property, plant & equipment used under finance leases are depreciated over the shorter of: the estimated useful life of the asset or the lease term, if there is no reasonable certainty that a lessee will obtain ownership by the end of the lease term.

Rut

Leases where a lessor retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Lease payments under an operating lease and subsequent lease payments are recognized as an expense in the profit and loss statement on a straight-line basis over the lease term.

The Group as lessor

For finance leases the Group recognizes the leased assets in its balance sheet and ledgers as long-term or short-term financial assets from receivables. They are measured at amortized cost using the interest rate of the lease.

The Group divides the basic fee for into the principal portion and the interest portion. The interest portion of the basic amount constitutes finance lease income recognised as finance income.

The principal portion of the lease fee attributable to a given accounting period represents repayment of the receivables from the user. The fee is apportioned using the interest rate applicable to the lease.

The leases under which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as rental income. Contingent lease payments are recognized as revenue in the period in which they are earned.

9.22. Taxes

The income tax recognized in the profit and loss statement includes the actual tax burden for the given accounting period and the change in deferred tax assets and the deferred tax provision not settled in equity or other comprehensive income.

Current tax

The actual tax charge for the given accounting period, determined by the Group companies in accordance with the applicable provisions of the Act on Corporate Income Tax.

On 28 December 2011, Tax Capital Group under the name of PGK ENERGA - OPERATOR ("PGK") was established. PKG's taxable income is the income achieved in fiscal year, representing the excess of all Group companies' total revenue over their total loss. For more information on PGK see Note 34

Deferred tax

As a result of temporary differences between the book value of assets and liabilities and their tax bases and tax loss to be deducted in the future, the entity creates a provision and determines deferred tax asset.

Deferred tax liabilities are established for all taxable temporary differences, except to the extent that the deferred tax liabilities arise from:

- initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and, at the time of the transaction does not affect the gross financial result or the taxable income (tax loss); and
- positive temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, for which it is possible to control the time of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax asset is recognized for all negative temporary differences to the extent that it is probable that the taxable income will be achieved from which temporary negative differences will be deducted, except:

- where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction does not affect the gross financial result or the taxable income (tax loss); and
- negative temporary differences associated with investments in subsidiaries, associated companies and interests in joint ventures, for which deferred tax is recognized only to the extent that it is probable that the

Pek

temporary differences will reverse in the foreseeable future and the taxable income will be available allowing for realising negative temporary differences.

The carrying value of deferred tax asset is reviewed at each balance sheet date. The Company decreases the carrying amount of a deferred tax asset to the extent that a taxable income sufficient to ensure partial or full realisation of the deferred tax asset is not likely to be earned. Unrecognised deferred tax asset is reviewed at each balance sheet date and is recognized to the extent that it becomes probable that future taxable income will allow for their realisation.

Deferred tax assets and liabilities will be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or whose legislative process had been substantially completed by the balance sheet date.

Value-added tax

Income, expenses, assets and liabilities are recognised less the amount of value-added tax, save for:

- the value-added tax paid for purchase of assets or services is not recoverable from the state budget, then it is recognized as part of the purchase price of the asset or as part of a cost item, and
- receivables and payables, which are recognised with the amount of value-added tax.

The net amount of value-added tax recoverable from or payable to the state budget in the next period is recognized in the balance sheet as part of receivables or payables.

9.23. Revenue

Revenue is recognized to the extent that it is probable that the Group will obtain economic benefits from the transaction and when the revenue can be reliably measured. Revenue is recognized net of value-added tax (VAT), excise tax and other sales taxes or fees, and rebates and discounts. The following specific revenue recognition criteria must also be met.

Revenue from sales of goods and products

Revenue is recognized when the significant risks and benefits of ownership of goods and products have passed to the buyer and the amount of revenue can be measured reliably and the costs incurred can be reliably estimated.

Revenue includes:

- amounts receivable from the sale of: electricity to wholesale and retail, heat, certificates of origin for electricity generated from renewable sources, certificates of electricity in co-generation, emission rights, transmission and distribution services and other core business services determined on the basis of the net price after adjustments for granted discounts and rebates and excise tax,
- amounts due from sales of materials and products based on the net price, after adjustments for granted discounts and rebates.

Interest

Revenue from interest is recognized as the interest accrues (using the effective interest rate method, i.e. the discounting rate for future cash receipts through the expected life of the financial instrument) to the net carrying value of the financial asset.

Dividends

Dividends are recognised as at the time the shareholders' right to receive them is established.

Rental revenue and operating lease revenue

Rental and operating lease revenue is recognized with the use of straight-line method over the lease term in relation to existing agreements.

9.24. Costs

Prime cost of sales

Prime cost of sales includes:

- production costs incurred during the accounting period, adjusted for changes in products and adjusted for the cost of production for the company's own needs,
- value of electricity and materials sold at purchase prices,
- write-downs on the value of property, plant and equipment, intangible assets, receivables and provisions,
- all selling costs and administrative expenses (recognised separately in the profit and loss account) incurred in the accounting period.

Production costs that can be directly attributable to revenue recognized by the company, affect the profit or loss for the accounting period in which they were incurred.

Production costs, which can only be indirectly attributable to revenue or other benefits achieved by the company, affect the company's financial result in the part in which they relate to the given accounting period.

9.25. Other operating income and expenses

Other operating income and expenses include in particular items related to:

- sales of property, plant and equipment, intangibles and investment properties;
- creation and termination of provisions, excluding provisions related to financial operations or charged to operating expenses,
- handing over assets or receiving them free of charge, including by way of donation, including cash donation,
- damages, penalties and fines, and other expenses not related to ordinary business.

9.26. Finance income and costs

Finance income and costs cover, in particular, income and costs pertaining to:

- disposing of financial assets,
- revaluation of financial instruments, with the exception of financial assets available for sale, for which the effects of the revaluation are recognized in the revaluation reserve,
- proceeds from participating in the earnings of other entities,
- interest,
- changes in the amount of provisions due to approaching the date of incurring the cost (unwinding of the discount),
- exchange differences resulting from operations during the accounting period and the valuation of balance sheet assets and liabilities at the end of the accounting period, except for exchange differences recognized in the initial value of the asset, to the extent that they are regarded as an adjustment to interest costs and exchange differences arising from the valuation of equity instruments in foreign currency classified as available for sale,
- other items related to finance activity.

Interest income and expenses are recognised as they accrue using the effective interest method with respect to the net carrying amount of a given financial instrument, on the basis of materiality.

Dividends are recognised as at the time the shareholders' right to receive them is established.

9.27. Earnings per share

Net earnings per share for each period is calculated by dividing the net profit attributable to shareholders of the parent for the period by the weighted average number of shares during the accounting period.

On the other hand, diluted earnings per share are calculated by dividing net earnings for the period attributable to ordinary shareholders (minus interest on redeemable preferred shares, convertible to ordinary shares) by the weighted average number of issued ordinary shares in the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible to ordinary shares).

9.28. Statement of cash flows

Cash flow statement was prepared with the use of indirect method.

9.29. Accounting changes and changes to data presentation

In 2012, the Group has decided to use the possibility of an early adoption of the amendments to IAS 19 "Employee Benefits", relating to the post-employment benefits (effective for annual periods beginning on or after 1 January 2013).

In view of the above, the manner of presenting actuarial gains and losses from the valuation of defined benefit plans and past employment costs has changed:

in the preceding periods, the Group

1. recognized actuarial gains and losses from the valuation of defined benefit plans in the profit and loss statement. Currently, the Group recognizes actuarial gains and losses from the valuation of defined benefit plans in other comprehensive income;
2. recognized past employment costs with the use of the straight-line method over the average vesting period for such benefits. Currently the Group recognises the cost of past employment on the earlier of the two dates – the date of the amendment or limitation of the defined benefit plans and the date when the entity recognises the related restructuring costs or benefits due to termination of employment.

The above-described changes apply retrospectively and thus were included in this statement.

Moreover, the Group has reclassified certain revenues and expenses in order to make sure that rules for their presentation are consistent in subsequent reporting periods – which has not affected the net result presented.

The Group transformed comparable data presented in the consolidated statement of financial position, consolidated profit and loss statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement. The information presented in the other notes of the financial statements was transformed accordingly.

Pet

Amounts of the adjust entries for prior periods presented in the statements are shown in the tables below:

Title	As at 31 December 2011	As at 31 December 2010
Deferred tax asstes	7 319 811,70	7 824 155,21
Non-current assets	**7 319 811,70**	**7 824 155,21**
TOTAL ASSETS	**7 319 811,70**	**7 824 155,21**
Retained earnings	(31 126 836,20)	(28 930 718,47)
Non-controlling interests	(78 676,83)	(4 424 890,58)
Total equity	**(31 205 513,03)**	**(33 355 609,05)**
Non-current provisions	38 525 324,73	41 179 764,26
Total liabilities	**38 525 324,73**	**41 179 764,26**
TOTAL LIABILITIES AND EQUITY	**7 319 811,70**	**7 824 155,21**

Title	Year ended 31 December 2011	Year ended 31 grudnia 2010
Sales of products and goods for resale including excise tax	194 915 688,63	353 837 750,23
Cost of sales	146 787 958,86	357 962 594,92
Other operating income	(3 162 559,27)	(9 458 310,26)
General and administrative expenses	(2 654 439,52)	(2 654 439,52)
Other operating expenses	(3 162 559,27)	(9 458 310,26)
Profit/loss before tax	**50 782 169,29**	**(1 470 405,17)**
Income tax	9 648 612,17	(279 376,98)
Net profit/loss for the financial year	**41 133 557,12**	**(1 191 028,19)**
Net other comprehensive income	**(38 983 461,11)**	**3 341 124,20**
Total comprehensive income	**2 150 096,01**	**2 150 096,01**
Attributable to:		
Equity holders of the parent company	1 905 558,86	1 835 413,22
Non-controlling interests	244 537,15	314 682,79
Earnings per share (in PLN)	**0,01**	**(0,00)**

10. Operating segments

The Group's organisation and management are divided into segments, taking into account the nature of the products and services.

According to the division introduced in 2012, the Group distinguishes the following business segments: distribution of electricity, renewable energy sources, baseload power plants, CHP, sales, and other services.

Information presented for each segment accounts for derecognition of inter-company transactions between Group companies operating in the same segment. Eliminations of inter-company transactions between Group companies operating in different segments are presented as derecognitions and consolidation adjustments.

Pert

Electricity distribution segment consists of the business of distribution of electricity by ENERGA – OPERATOR SA (Distribution System Operator), and activities directly related to the distribution activities conducted by other companies.

Renewable energy segment consists of investments in renewable energy sources and production of electricity from renewable sources, including hydro, wind and bio-energy plants.

Baseload power plant segment consists of manufacturing and investment activities in the area of conventional power plants and service and repair activities directly related to the generation of electricity from conventional sources.

CHP (Combined Heat and Power) segment consists of manufacturing activity conducted through power plants and the business of heat distribution.

Sales segment consists of sales activities related to trading in electrical energy and customer service operated by ENERGA – OBRÓT SA and ENERGA Obsługa i Sprzedaż Sp. z o.o. and lighting services provided by the company ENERGA Oświetlenie Sp. z o.o.

Services segment consists of accounting and HR and payroll services, ICT operations, investment project management, procurement, and manufacturing of and trade in biofuels.

Other activities include hotel and training centres and transportation services. The parent company was also classified under other activity.

In the 2011 consolidated financial statements, the data was presented for the following segments: distribution of electricity, trading in energy and customer service, production of energy (including hydropower), and others.

Electricity distribution segment consisted of the business of distribution of electricity by Distribution System Operator – ENERGA – OPERATOR SA, and of activities directly related to the distribution activities conducted by other companies.

Trading in energy and customer service segment consisted of trading in electricity and customer service led by ENERGA – OBRÓT SA and ENERGA Obsługa i Sprzedaż Sp. z o.o.

Power generation segment consisted of manufacturing activity conducted through conventional power plants, hydroelectric power plants and power plants.

Other activities included mainly street lighting, heat distribution, grid construction, procurement, training centres and transport operations and ICT activities. The parent company was also classified under other activity.

The consolidated financial statements for 2010 present information concerning the following segments: electricity and heat distribution, distribution system operator support services, baseload power plants and combined heat and power plants, hydroelectric plants, trading in electricity, customer service, lighting and other.

The assets, liabilities, income and expenses presented for each segment did not account for derecognition of inter-company transactions between Group companies operating in the same segment. All eliminations of inter-company transactions between Group companies were presented as derecognitions and consolidation adjustments.

Other segment information included all eliminations of inter-company transactions between Group companies.

Pd

Distribution segment consisted of the business of distribution of electricity by the Distribution System Operator (DSO) – ENERGA – OPERATOR SA and its supporting companies and distribution of thermal energy by ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.

The trading segment comprised trading in electricity, conducted primarily by ENERGA-OBRÓT SA.

The customer service segment comprised customer service activity conducted by ENERGA Obsługa i Sprzedaż Sp. z o.o.

The generation segment comprised power generation activity conducted via conventional power plants, hydroelectric plants and combined heat and power plants. The generation segment was composed of two subsegments: baseload power plants and combined heat and power plants as well as hydroelectric plants.

The baseload power plant and combined heat and power plant subsegment comprises generation via conventional power plants and combined heat and power plants. The hydroelectric plant subsegment comprises generation via hydroelectric plants.

The lighting segment comprised activity related to lighting of streets, roads and other public areas, distribution and sale of electricity for lighting purposes, as well as construction, maintenance and operation of lighting installations.

Other activity comprised primarily training centres and ICT activity. The parent company was also classified under other activity.

The Group settles transactions between segments as if they related to unassociated entities - using current market prices.

Financial revenue and costs are reported at the level of segments in net figures because so presented, they are analysed by the Management Board.

Financial liabilities include liabilities arising from borrowings and issued bonds.

Investment outlays include purchases of property, plant and equipment, intangible assets and investment property, and expenses associated with the preparation of investments.

The Group does not present information by geographical segments, because its activities for foreign customers have no significant impact on the result of the Group as a whole.

The tables below show revenues and expenses for the period from 1 January to 31 December 2012 and the assets and liabilities as at 31 December 2012 assigned to individual segments, together with comparative data restated according to the new segment division and the principles of presentation of inter-company transaction eliminations:

Pert

31 December 2012	Distribution of electricity	Sales	CHP	System power plants	Renewable energy sources	Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
Revenue										
Sales to external clients	841 792 088,53	9 265 967 389,82	128 545 963,38	641 439 235,02	170 527 343,10	94 956 803,54	33 570 139,69	11 176 798 963,08	-	11 176 798 963,08
Inter-segment sales	2 786 385 670,85	645 717 121,38	29 067 672,37	397 016 295,71	181 063 942,57	557 843 998,12	75 376 657,05	4 672 471 358,05	(4 672 471 358,05)	-
Total segment revenues	**3 628 177 759,38**	**9 911 684 511,20**	**157 613 635,75**	**1 038 455 530,73**	**351 591 285,67**	**652 800 801,66**	**108 946 796,74**	**15 849 270 321,13**	**(4 672 471 358,05)**	**11 176 798 963,08**
EBITDA	1 224 626 186,55	264 467 378,07	4 194 473,92	(107 420 179,34)	261 399 727,04	24 012 341,37	(74 800 476,79)	1 596 479 450,82	32 766 189,18	1 629 245 639,99
Profit/(loss) on continuing operations before tax and finance income/expenses	618 095 981,84	239 905 376,65	(3 941 044,40)	(167 582 753,70)	229 534 528,76	10 463 115,85	(81 799 326,62)	844 675 878,38	61 330 883,12	906 006 761,50
Net finance income/expenses	(212 414 493,96)	8 097 701,23	(930 968,55)	(3 026 848,08)	7 387 003,38	719 645,26	626 453 984,56	426 286 023,84	(706 174 375,16)	(279 888 351,32)
Share of profit/(loss) of the associates	-	-	-	-	-	-	-	-	214 637,16	214 637,16
Profit before tax	**405 681 487,88**	**248 003 077,88**	**(4 872 012,95)**	**(170 609 601,78)**	**236 921 532,14**	**11 182 761,11**	**544 654 657,94**	**1 270 961 902,22**	**(644 628 854,88)**	**626 333 047,34**
Income tax	78 766 832,22	56 231 886,50	(813 933,80)	(8 063 949,35)	46 251 146,66	200 648,21	(5 959 009,66)	166 613 620,78	(65 870,13)	166 547 750,65
Loss on discontinued operations and disposal of assets classified as held for sale	-	-	-	-	-	-	(3 364 820,10)	(3 364 820,10)	-	(3 364 820,10)
Net profit/(loss) for the financial year	**326 914 655,66**	**191 771 191,38**	**(4 058 079,15)**	**(162 545 652,43)**	**190 670 385,48**	**10 982 112,90**	**547 248 847,50**	**1 100 983 461,34**	**(644 562 984,75)**	**456 420 476,59**
Assets and liabilities										
Cash and cash equivalents	702 427 041,75	247 751 029,93	89 104 242,23	61 195 290,40	246 300 074,14	31 891 536,00	690 389 021,03	2 069 058 235,48	-	2 069 058 235,48
Total assets	**11 245 093 616,59**	**2 387 365 718,19**	**446 716 921,97**	**1 016 330 218,03**	**736 446 674,87**	**335 057 535,74**	**9 389 415 280,64**	**25 556 425 966,03**	**(10 643 653 227,36)**	**14 912 772 738,67**
Financial liabilities	3 058 362 720,58	2 365 356,25	143 036 967,09	144 629 859,24	90 500 405,45	1 504 136,21	4 015 479 317,38	7 455 878 762,20	(3 960 882 740,32)	3 494 996 021,88
Total liabilities	**5 524 907 398,53**	**1 358 496 874,32**	**210 940 295,32**	**439 244 590,30**	**158 555 761,18**	**192 131 325,45**	**4 357 225 049,98**	**12 241 501 295,08**	**(5 047 251 022,18)**	**7 194 250 272,90**
Other segment information										
Capital expenditure	1 371 846 515,66	30 406 805,32	135 019 945,36	212 654 436,65	67 009 071,59	51 965 713,35	38 963 152,95	1 907 865 640,88	(59 015 953,72)	1 848 849 687,16
Depreciation	606 530 204,71	24 562 001,42	8 135 518,32	60 162 574,36	31 865 198,28	13 549 225,52	6 998 849,83	751 803 572,44	(28 564 693,95)	723 238 878,49
Impairment loss of property, plant and equipment	282 229,90	(93 678,34)	1 149 509,21	122 582 711,42	-	(167 659,62)	199 160,50	123 952 273,07	(980,90)	123 951 292,17

31 December 2011 (restated)	Distribution of electricity	Sales	CHP	System power plants	Renewable energy sources	Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
Revenue										
Sales to external clients	615 661 679,50	8 721 986 546,31	122 337 266,48	578 685 841,55	187 834 921,11	108 709 446,81	32 789 200,32	10 368 004 902,08	-	10 368 004 902,08
Inter-segment sales	2 684 138 519,30	705 802 508,13	27 202 112,21	639 565 403,44	270 343 059,87	461 296 290,70	87 598 552,30	4 875 946 445,95	(4 875 946 445,95)	-
Total segment revenues	**3 299 800 198,80**	**9 427 789 054,44**	**149 539 378,69**	**1 218 251 244,99**	**458 177 980,98**	**570 005 737,51**	**120 387 752,62**	**15 243 951 348,03**	**(4 875 946 445,95)**	**10 368 004 902,08**
EBITDA	924 192 320,07	167 510 352,87	10 420 281,13	115 984 841,07	372 148 177,77	2 054,26	(41 338 431,37)	1 548 919 595,80	(29 218 986,19)	1 519 700 609,61
Profit/(loss) on continuing operations before tax and finance income/expenses	387 604 894,42	139 825 645,41	3 874 083,78	62 791 702,59	337 566 495,49	(6 343 176,22)	(49 965 706,78)	875 353 938,69	(12 438 692,07)	862 915 246,62
Net finance income/expenses	(33 805 477,46)	26 107 993,03	2 047 499,37	3 343 343,65	11 480 583,16	3 924 528,61	796 186 508,28	809 284 978,64	(774 074 731,70)	35 210 246,94
Share of profit/(loss) of the associates	-	-	-	-	-	-	-	-	1 077 365,06	1 077 365,06
Profit before tax	**353 799 416,96**	**165 933 638,44**	**5 921 583,15**	**66 135 046,24**	**349 047 078,65**	**(2 418 647,61)**	**746 220 801,50**	**1 684 638 917,33**	**(785 436 058,71)**	**899 202 858,62**
Income tax	75 575 723,30	35 543 725,23	1 391 195,62	12 978 018,61	61 015 356,29	3 530 087,21	5 163 089,58	195 197 195,84	1 416 114,04	196 613 309,88
Net profit/(loss) for the financial year	**278 223 693,66**	**130 389 913,21**	**4 530 387,53**	**53 157 027,63**	**288 031 722,36**	**(5 948 734,82)**	**741 057 711,92**	**1 489 441 721,49**	**(786 852 172,75)**	**702 589 548,74**
Assets and liabilities										
Cash and cash equivalents	782 752 365,25	251 361 995,75	32 002 427,44	144 042 709,55	366 025 735,41	55 106 001,22	145 982 942,07	1 777 274 176,69	-	1 777 274 176,69
Total assets	**9 831 512 598,49**	**2 226 594 915,82**	**220 108 622,99**	**1 146 980 287,13**	**838 217 561,27**	**295 075 419,71**	**7 304 540 643,78**	**21 863 030 049,19**	**(8 177 747 050,05)**	**13 685 282 999,14**
Financial liabilities	1 908 664 235,06	4 862 057,80	2 053 807,83	33 699 698,87	70 176 644,74	14 613 860,51	1 893 225 193,31	3 927 295 498,12	(1 978 094 282,87)	1 949 201 215,25
Total liabilities	**4 180 493 909,71**	**1 477 430 153,07**	**75 380 362,10**				**2 134 659 654,02**	**8 656 825 791,06**	**(2 857 053 202,66)**	**5 799 772 588,40**
Capital expenditure	1 218 692 298,21	30 150 845,28	55 878 601,28	92 197 917,68	52 622 625,66	15 449 980,39	67 662 643,88	1 532 654 912,38	(87 152 185,37)	1 445 502 727,01
Depreciation	536 587 425,65	27 684 707,46	6 546 197,35	53 193 138,48	34 581 682,28	6 345 230,48	8 627 275,41	673 565 657,11	(16 780 294,12)	656 785 362,99
Impairment loss of property, plant and equipment	235 451,25	(157 665,41)	671 821,58	-	66 356,00	80 569,04	-	896 532,46	-	896 532,46

Pe/t

31 December 2010 (restated)	Distribution of electricity	Sales	CHP	System power plants	Renewable energy sources	Services	Other	Total	Consolidation eliminations and adjustments	Consolidated total
Revenue										
Sales to external clients	488 320 655,73	7 687 591 390,04	138 627 549,86	685 489 387,56	321 680 577,23	111 795 615,16	34 255 078,05	9 467 760 253,63	-	9 467 760 253,63
Inter-segment sales	2 642 080 067,63	530 875 022,19	28 403 529,43	174 432 290,61	258 558 324,60	346 363 918,33	104 679 202,78	4 085 392 355,57	(4 085 392 355,57)	-
Total segment revenues	**3 130 400 723,36**	**8 218 466 412,23**	**167 031 079,29**	**859 921 678,17**	**580 238 901,83**	**458 159 533,49**	**138 934 280,83**	**13 553 152 609,20**	**(4 085 392 355,57)**	**9 467 760 253,63**
EBITDA	650 793 862,37	242 677 480,37	10 152 175,54	97 214 753,78	483 566 706,92	5 294 401,06	(763 848,41)	1 488 935 531,63	(81 347 722,07)	1 407 587 809,56
Profit/(loss) on continuing operations before tax and finance income/expenses	158 340 826,11	218 435 448,60	2 380 507,14	41 839 369,54	446 736 443,57	(425 634,70)	(20 007 773,52)	847 299 186,74	(31 129 380,64)	816 169 806,10
Net finance income/expenses	(77 045 593,80)	32 098 042,72	1 872 751,23	(3 617 647,47)	13 500 236,89	3 024 987,33	384 857 812,67	354 690 589,57	(375 918 836,94)	(21 228 247,37)
Share of profit/(loss) of the associates	-	-	-	-	-	-	-	-	668 319,37	668 319,37
Profit before tax	**81 295 232,31**	**250 533 491,32**	**4 253 258,37**	**38 221 722,07**	**460 236 680,46**	**2 599 352,63**	**364 850 039,15**	**1 201 989 776,31**	**(406 379 898,21)**	**795 609 878,10**
Income tax	19 999 397,49	51 212 913,16	6 477 440,97	6 545 449,23	87 853 780,84	936 553,54	(2 815 191,00)	170 210 344,23	782 533,25	170 992 877,48
Loss on discontinued operations	-	-	-	-	-	-	(378 008,92)	(378 008,92)	-	(378 008,92)
Net profit/(loss) for the financial year	**61 295 834,82**	**199 320 578,16**	**(2 224 182,60)**	**31 676 272,84**	**372 382 899,62**	**1 662 799,09**	**367 287 221,23**	**1 031 401 423,16**	**(407 162 431,46)**	**624 238 991,70**
Assets and liabilities										
Cash and cash equivalents	235 954 604,30	367 949 844,57	79 302 055,02	128 030 444,52	386 939 364,37	37 796 123,86	447 582 479,13	1 683 554 915,77	-	1 683 554 915,77
Total assets	**8 687 599 771,47**	**2 083 837 038,90**	**204 585 463,59**	**951 863 669,54**	**869 411 961,38**	**250 217 301,73**	**6 877 999 267,38**	**19 925 514 473,99**	**(7 285 371 051,70)**	**12 640 143 422,29**
Financial liabilities	1 092 219 844,99	6 631 999,81	4 676 394,79	40 000 000,00	7 899 995,25	20 516 659,43	998 960 536,37	2 170 905 430,64	(1 094 499 746,78)	1 076 405 683,86
Total liablities	**3 405 820 569,41**	**1 465 239 904,16**	**62 298 252,43**	**363 100 361,78**	**149 461 682,43**	**149 477 686,98**	**1 256 503 134,27**	**6 851 901 591,46**	**(2 125 358 754,37)**	**4 726 542 837,09**
Other segment information										
Capital expenditure	997 131 091,44	20 917 609,62	7 417 311,91	113 726 065,03	57 955 227,40	7 347 728,77	41 060 940,89	1 245 555 975,06	(82 870 920,98)	1 162 685 054,08
Depreciation	492 453 036,26	24 242 031,77	7 771 668,40	55 375 384,24	36 830 263,35	5 720 035,76	19 243 925,11	641 636 344,89	(50 218 341,43)	591 418 003,46
Impairment loss of property, plant and equipment	730 276,20	(419 114,69)	422 552,79	48 268 724,81	7 731 791,63	61 722,22	(37 459,02)	56 758 493,94	(48 692,82)	56 709 801,12

11. Revenues and costs

11.1. Other operating revenues

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Subsidies	6 805 217,65	5 534 647,38	3 726 163,48
Reversal of impairment allowances for other assets	1 384 902,23	1 622 549,81	3 991 491,33
Reversal of provisions (e.g.litigations)	64 990 992,82	48 100 828,79	18 060 779,05
Penalties, compensations and fines received	35 539 782,91	15 763 845,43	18 914 039,22
Tax refund	662 435,04	516 016,85	510 848,33
Refund of litigation expenses	6 087 982,81	4 222 921,40	3 123 517,00
Liabilities written off	-	352 802,93	309 714,93
Revenues from illigal energy consumption	5 296 336,69	3 879 784,63	7 892 544,19
Revenues from the sale of emmision rights	-	-	5 973 051,00
Litigation with PSE SA	-	62 737 569,94	-
Other	14 153 848,95	11 735 246,86	6 658 771,50
Total other operating income	**134 921 499,10**	**154 466 214,02**	**69 160 920,03**

11.2. Other operating expenses

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Loss on disposal/liquidation of property, plant & equipment/intangible assets	16 532 038,84	23 741 062,21	9 007 151,14
Donations	2 417 727,13	4 534 015,38	7 057 860,98
Creation of valuation allowances for other assets	1 841 590,18	4 412 815,34	233 872,46
Creation of provisions	64 945 540,66	61 770 370,50	51 216 691,03
Litigation with PSE SA	62 514 169,94	-	-
Restructuring severance payments	60 428 236,36	129 479 290,21	119 983 340,85
Compensations	2 828 589,33	25 359 217,42	12 579 611,90
Litigation expenses	2 239 189,71	4 483 774,07	3 991 450,64
Ssocial activity expenses	476 895,29	770 422,92	858 989,07
Damages' repairs expenses	23 675 522,02	23 250 743,89	13 870 978,62
Costs of illegal energy consumption	1 915 974,07	1 092 624,53	2 673 892,67
Other	10 961 440,26	19 425 472,79	5 016 391,77
Total other operating expenses	**250 776 913,79**	**298 319 809,26**	**226 490 231,13**

For more information on a dispute between subsidiary ENERGA - OPERATOR SA and PSE SA see Note 42

Pert

11.3. Finance income

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Income on financial instruments, including:	**75 269 074,10**	**199 840 148,27**	**81 771 935,16**
Interest income	74 767 445,38	160 388 362,61	73 230 486,93
Dividend income	78 162,00	828 587,44	362 464,72
Revaluation of financial assets (including reversal of valuation allowances for financial assets)	162 944,98	1 740 460,66	7 933 332,59
Foreign exchange gains	17 927,54	1 200 518,90	245 650,92
Profit on sales of investments	242 594,20	35 682 218,66	-
Other financial income, including:	**3 927 837,43**	**8 107 276,18**	**714 641,36**
Interest on budgetary receivables	31 998,00	697 795,00	36 852,40
Other	3 895 839,43	7 409 481,18	677 788,96
Total	**79 196 911,53**	**207 947 424,45**	**82 486 576,52**

11.4. Finance costs

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Costs of financial instruments, including:	**247 791 929,72**	**111 160 276,34**	**41 714 297,99**
Interest expenses	179 580 903,03	102 473 137,25	41 153 415,49
Revaluation of financial assets (including creation of valuation allowances)	47 724 705,71	4 314 898,49	14 764,56
Foreign exchange losses	1 359 184,14	88 830,78	546 117,94
Loss on disposal of investments	19 127 136,84	4 283 409,82	-
Other financial expenses, including:	**111 293 333,13**	**61 576 901,17**	**62 000 525,90**
Actuarial and other interests	45 469 421,84	53 313 329,36	53 683 796,61
Interest on budget liabilities	414 880,90	454 528,91	1 433 321,35
Litigation with PSE SA	62 986 774,47	-	-
Other	2 422 255,92	7 809 042,90	6 883 407,94
Total	**359 085 262,85**	**172 737 177,51**	**103 714 823,89**

11.5. Expenses by nature

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Expenses by nature			
Depreciation and amortisation expense	723 238 878,49	656 785 362,99	591 418 003,46
Impairment losses on property, plant and equipment and intangible assets	123 951 292,17	896 532,46	56 709 801,12
Materials and energy used	1 016 462 709,81	1 131 184 065,40	1 015 438 615,91
External services	1 218 637 067,31	1 199 382 939,68	1 110 366 079,86
Taxes and fees	277 722 371,76	260 241 620,42	244 269 777,28
Employee benefits expense	999 728 252,34	1 097 035 165,04	1 051 280 094,72
Valuation allowance for inventories	(6 461 553,17)	6 998 379,57	541 926,55
Valuation allowance for trade receivables	66 110 145,00	36 088 007,33	27 844 175,38
Other expenses	83 838 149,54	75 098 580,16	81 005 529,71
Total expenses by nature	**4 503 227 313,25**	**4 463 710 653,05**	**4 178 874 003,99**
Change in inventories, prepayments and accruals	(10 696 690,24)	(20 541 545,71)	(54 306 632,39)
Cost of producing services for own needs (negative figure)	(152 861 595,46)	(244 255 723,25)	(117 334 351,49)
Selling and distribution expenses (negative figure)	(247 540 477,90)	(187 903 647,62)	(109 249 130,02)
General and administrative expenses (negative figure)	(375 341 228,01)	(414 277 517,92)	(329 753 904,04)
Cost of merchandise and raw aterials sold	5 815 267 759,34	5 162 322 676,13	4 487 028 116,32
Cost of sales	**9 532 055 080,98**	**8 759 054 894,68**	**8 055 258 102,37**

As described in Note 9.29 to these financial statements, when preparing the consolidated financial statements for the year ended 31 December 2012, the Group changed its accounting policy for recognizing actuarial gains and losses from the valuation of defined benefit plans and past employment cost, and also changed the presentation of selected revenues and expenses. In order to maintain comparability, relevant items of expenses by nature for the periods ended 31 December 2010 and 31 December 2011 have been restated accordingly.

Pert

11.6. Depreciation and impairment write-downs recognized in the profit and loss statement

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Items included in cost of sales:	**822 124 178,64**	**641 742 223,45**	**624 879 190,92**
Depreciation of property, plant & equipment	645 698 667,92	601 696 499,14	553 808 884,47
Impairment loss on property, plant and equipment	123 936 935,99	638 799,08	56 504 453,42
Amortization of intangible assets	51 536 170,09	38 755 982,14	14 007 747,72
Impairment loss on intangible assets	16 577,27	188 842,39	-
Depreciation of investment property	736 666,87	462 100,70	558 105,31
Impairment loss on investment property	199 160,50	-	-
Items included in costs of sales:	**5 097 907,17**	**2 768 188,89**	**2 250 508,51**
Depreciation of property, plant & equipment	3 291 751,04	1 862 607,73	1 365 328,83
Impairment loss on property, plant and equipment	(2 221,09)	68 890,99	-
Amortization of intangible assets	1 808 377,22	836 690,17	885 179,68
Items included in general and administrative expenses:	**20 167 245,35**	**13 171 483,11**	**20 138 720,64**
Depreciation of property, plant & equipment	16 342 756,50	7 380 194,48	9 106 473,42
Impairment loss on property, plant and equipment	-	-	85 347,70
Amortization of intangible assets	3 811 306,97	5 778 106,75	10 826 899,52
Impairment loss on intangible assets	-	-	120 000,00
Depreciation of investment property	13 181,88	13 181,88	-
Items included in the cost of producing services for own needs	-	-	**1 762 853,74**

11.7 Employee benefit expenses

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Wages and salaries	675 400 897,48	794 356 603,08	764 075 083,18
Social security contributions	102 538 132,02	127 852 768,16	134 392 102,97
Post-employment benefits and jubilee awards	72 860 204,21	30 316 954,72	5 467 605,43
Other costs of employee benefits,including:	148 929 018,63	144 508 839,08	147 345 303,14
Energy tariff – current costs	*11 599 792,35*	*22 260 536,33*	*21 059 562,60*
Company social benefit fund – charges for the current financial year	*48 379 149,87*	*45 324 652,56*	*45 116 089,00*
Employee Pension Plan	*34 051 487,24*	*42 332 073,27*	*35 136 187,25*
Insurance expenses	*1 774 517,71*	*2 242 260,82*	*1 432 342,06*
Employee training	*13 087 570,42*	*11 129 843,20*	*9 326 175,89*
Expenses related to health and safety	*8 786 622,16*	*10 233 336,18*	*8 831 813,06*
Other	*31 249 878,88*	*10 986 136,72*	*26 443 133,28*
Employee benefits expense	**999 728 252,34**	**1 097 035 165,04**	**1 051 280 094,72**

12. Income tax

12.1. Tax expenses

Major components of income tax expense for the year ended 31 December 2012 are as follows:

Rot

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Income statement			
Current income tax expense	223 490 833,98	257 965 303,25	216 242 538,04
Adjustments to income tax for prior years	(5 116 908,85)	9 694 423,87	1 990 299,68
Fixed-rate income tax on dividends received	-	146 015,00	-
Deferred income tax expense	(51 826 174,48)	(71 192 432,24)	(47 239 960,24)
Tax expense recognized in the income statement	**166 547 750,65**	**196 613 309,88**	**170 992 877,48**
Statement of comprehensive income			
Income tax	7 122 031,01	(9 144 268,66)	783 720,49
Tax gain / (expense) recognised in statement of comprehensive income	**7 122 031,01**	**(9 144 268,66)**	**783 720,49**

The Group's income tax in the years 2010 - 2012 was in principle subject to the general rules. With the exception of the Tax Capital Group formed in April 2012 by a subsidiary ENERGA - OPERATOR SA (see the description in Note 34), there were no other cases resulting in different rules for determining the tax charge as compared to the general provisions in this regard.

12.2. Reconciliation of effective tax rate

The reconciliation of the income tax on profit before tax at the statutory tax rate and the income tax calculated at the Group's effective tax rate is as follows:

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Profit before tax on continuing operations	**626 333 047,34**	**899 202 858,62**	**795 609 878,10**
Loss before tax on discontinued operations	(3 372 398,01)	-	(378 008,92)
Profit before tax	**622 960 649,33**	**899 202 858,62**	**795 231 869,18**
Tax at the Poland's statutory tax rate of 19%	**118 362 523,37**	**170 848 543,14**	**151 094 055,14**
Adjustments to income tax for prior years	(5 116 908,85)	9 694 423,87	1 990 299,68
Tax impact of non-taxable income and non tax-deductible expenses	53 294 558,22	16 070 342,87	17 908 522,66
Tax at the effective tax rate	**166 540 172,74**	**196 613 309,88**	**170 992 877,48**
Income tax (charge) as per the income statement	166 547 750,65	196 613 309,88	170 992 877,48
Income tax attributable to discontinued operations and disposal of assets held for sale	(7 577,91)	-	-

The current tax expense is calculated on the basis of applicable tax regulations. The application of these rules differentiates the tax profit (loss) from the net profit (loss), due to the exclusion of non-taxable income and non tax-deductible expenses either temporarily or permanently.. Tax expense is calculated on the basis of the tax rates applicable in a given year. In 2010 – 2012, the rate was 19%. The current regulations do not change the tax rates for future periods.

The tax year and the period for which these financial statements are prepared, correspond to a calendar year.

12.3. Deferred income tax

Deferred tax assets and liabilities are attributable to the following:

Pełt

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Deferred tax assets	**487 329 686,39**	**452 610 928,12**	**382 693 203,27**
on the difference between the tax and carrying value of property, plant & equipment and intangible assets	86 132 885,26	76 497 246,11	58 873 431,31
on the difference between the tax and carrying value of inventories	468 153,66	3 278 062,51	2 152 477,93
on the difference between the tax and carrying value of loans, receivables, financial assets, and liabilities	36 977 180,64	26 388 664,20	20 972 858,46
power infrastructure received free of charge and connection fees received	74 314 800,47	82 386 118,06	77 339 951,87
on post-employment benefits provisions	87 197 067,19	90 266 568,46	79 400 946,06
on provisions for jubilee bonuses	52 327 347,26	40 848 648,24	38 201 517,73
on provisions for reclamation of ash landfills	1 766 819,50	903 328,40	2 498 287,58
on provisions for liabilities for gas emissions obligations	58 235,00	5 892 757,45	1 385 309,88
on provisions for the obligation to present energy certificates of origin	40 096 774,75	51 043 005,27	25 328 142,46
on restructuring provisions	10 813 461,12	12 187 105,15	8 358 621,69
unpaid employee salaries and benefits	5 320 072,46	5 664 054,60	4 389 356,75
on othert provisions	48 362 150,86	22 258 580,68	38 932 602,89
accrued expenses	22 375 354,60	23 322 756,33	11 167 170,42
tax losses	2 551 607,56	4 472 734,64	4 758 972,05
other	18 567 776,06	7 201 298,02	8 933 556,19
Set-off	**(277 459 319,37)**	**(281 223 235,51)**	**(266 686 499,68)**
Deferred tax assets after impairment allowances and set-off	**209 870 367,02**	**171 387 692,61**	**116 006 703,59**

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Deferred tax liabilities	**797 145 546,55**	**806 804 569,72**	**820 193 568,72**
on the difference between the tax and carrying value of property, plant & equipment and intangible assets	739 114 886,08	727 161 246,91	738 648 340,82
accrued revenues	34 223 295,57	34 201 087,62	30 106 543,54
difference between the tax and carrying value of energy certificates of origin	7 825 610,65	17 992 895,30	13 901 411,23
on the difference between the tax and carrying value of loans, receivables, financial assets, and liabilities	15 191 004,22	27 071 026,27	35 987 158,24
other	790 750,03	378 313,62	1 550 114,89
Set-off	**(277 459 319,37)**	**(281 223 235,51)**	**(266 686 499,68)**
Deferred tax liabilities after set-off	**519 686 227,18**	**525 581 334,21**	**553 507 069,04**

Changes in deferred tax asset and liabilities are presented in the table below:

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Deferred tax assets before valuation allowance			
Opening balance:	**452 610 928,12**	**382 693 203,27**	**331 264 946,82**
Increases	184 971 096,34	128 939 199,88	87 936 625,37
recognised in profit or loss	173 160 760,80	119 794 931,22	87 936 625,37
recognised in other comprehensive income	11 810 335,54	9 144 268,66	-
Decreases	(150 252 338,07)	(59 021 475,03)	(36 508 368,92)
recognised in profit or loss	(131 389 649,48)	(59 021 475,03)	(37 292 089,41)
recognised in other comprehensive income	(18 862 688,59)	-	783 720,49
Closing balance	**487 329 686,39**	**452 610 928,12**	**382 693 203,27**
Set-off	**(277 459 319,37)**	**(281 223 235,51)**	**(266 686 499,68)**
Deferred tax assets after valuation allowance at the end of the period	**209 870 367,02**	**171 387 692,61**	**116 006 703,59**
Deferred tax liabilities			
Opening balance:	**806 804 569,72**	**820 193 568,72**	**805 322 294,42**
Adjustment of the opening balance	**-**	**-**	**9 899 257,60**
Opening balance after adjustments	**806 804 569,72**	**820 193 568,72**	**815 221 552,02**
Increases	39 900 452,68	239 567 724,98	48 449 797,29
recognised in profit or loss	39 830 774,72	239 567 724,98	48 449 797,29
recognised in other comprehensive income	69 677,96	-	-
Decreases	(49 559 475,85)	(252 956 723,98)	(43 477 780,59)
recognised in profit or loss	(49 559 475,85)	(252 956 723,98)	(43 477 780,59)
Closing balance	**797 145 546,55**	**806 804 569,72**	**820 193 568,72**
Set-off	**(277 459 319,37)**	**(281 223 235,51)**	**(266 686 499,68)**
Deferred tax liabilities at the end of the period	**519 686 227,18**	**525 581 334,21**	**553 507 069,04**

13. Social assets and liabilities of the Company Social Benefit Fund

The Act of 4 March 1994 on the Company Social Benefit Fund ("CSBF") as amended stipulates that the CSBF is created by employers (companies) employing more than 20 full time employees. Entities belonging to the Group create such funds and make periodic contributions thereto. The funds established in the ENERGA SA Group companies do not include any property, plant and equipment. The objective of the funds is to subsidise social activities of the companies, to provide loans to employees and to subsidise other social expenses such as contributions to costs of employees' holidays.

The Group's entities set off at the level of their individual businesses assets of their funds against their obligations to the fund, since these assets do not constitute separate assets of the Group. The net balance as at 31 December 2012 amounts to PLN 167 thousand presented as part of other short-term assets, as at 31 December 2011 amounted to PLN 440 thousand presented as part of other current liabilities and as at 31 December 2010 amounted to PLN 28 thousand presented as part of other short-term assets.

The table below presents an analysis of assets, liabilities and expenses of the funds.

Title	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Loans granted to employees	18 991 629,35	22 562 055,58	26 664 434,08
Cash and cash equivalents	6 202 308,50	6 797 962,31	5 753 361,13
Fund's liabilities	25 026 668,24	29 800 091,86	32 389 808,57
Balance after set-off	**167 269,61**	**(440 073,97)**	**27 986,64**
Charges to the fund during the period	48 379 149,87	45 324 652,56	45 116 089,00

Pvt

14. Property, plant and equipment

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross book value							
Opening balance as at 1 January 2012	**89 877 929,53**	**8 327 108 630,49**	**2 674 620 157,18**	**208 081 377,74**	**351 129 810,54**	**674 573 366,40**	**12 325 391 271,88**
Direct purchase *	38 045 404,90	6 314 253,28	8 476 643,09	9 127 235,07	3 410 328,10	1 586 286 826,11	1 651 660 690,55
Transfer from property, plant and equipment under construction	4 501 813,09	830 747 090,03	407 445 269,24	32 230 305,79	101 941 243,35	(1 376 865 721,50)	-
Sale, disposal	(379 358,41)	(7 509 605,26)	(8 749 467,43)	(4 689 844,99)	(5 372 160,68)	(126 465,95)	(26 826 902,72)
Scrapping	-	(7 231 496,32)	(9 274 931,84)	(390 589,98)	(11 056 289,16)	(1 099 527,62)	(29 052 834,92)
Donations and gratuitous transfers	-	-	(94 362,14)	(18 062,36)	-	-	(112 424,50)
Reclassification between groups	(14 490 274,81)	(13 157 514,51)	(4 143 890,25)	(728 531,09)	(3 425 855,06)	33 585 147,85	(2 360 917,87)
Gratuitous receipt	-	3 547 289,44	80 700,00	-	-	-	3 627 989,44
Reclassification to investment property	-	-	-	-	-	(411 573,00)	(411 573,00)
Reclassification from investment property	80 891,94	936 168,34	-	-	-	2 936 215,80	3 953 276,08
Capitalized borrowing costs	-	-	-	-	-	18 598 132,85	18 598 132,85
Reclassification to assets held for sale	(1 051 500,00)	(8 249 857,60)	(145 615,00)	-	(81 040,80)	-	(9 528 013,40)
Acquisition/disposal of subsidiary	189 900,00	388 310,54	3 131 830,53	-	658,25	409 553,23	4 120 252,55
Other changes	263 363,89	(242 531,56)	(1 243 910,35)	(101 692,06)	(43 636,93)	(1 698 815,94)	(3 067 222,95)
Closing balance as at 31 December 2012	**117 038 170,13**	**9 132 650 736,87**	**3 070 102 423,03**	**243 510 198,12**	**436 503 057,61**	**936 187 138,23**	**13 935 991 723,99**
Cumulative depreciation and impairment							
Opening balance as at 1 January 2012	-	**(2 170 224 144,49)**	**(782 628 193,81)**	**(82 333 477,42)**	**(138 827 740,83)**	**(714 264,91)**	**(3 174 727 821,46)**
Depreciation for the period	-	(405 226 991,17)	(178 324 476,07)	(34 122 488,73)	(47 659 219,49)	-	(665 333 175,46)
Impairment losses	(395 116,38)	(11 638 467,24)	(1 101 818,01)	(29 320,40)	(118 806,58)	(119 921 000,41)	(133 204 529,02)
Reversal of impairment losses	-	562 103,18	248 067,34	-	30 162,20	66 356,00	906 688,72
Sale, disposal	-	1 416 229,07	6 075 662,48	4 009 387,92	3 779 418,03	-	15 280 697,50
Scrapping	-	3 497 546,30	5 871 620,55	289 644,56	7 324 589,97	-	16 983 401,38
Reclassification to assets held for sale	237 170,69	2 019 975,40	49 356,46	-	26 584,75	-	2 333 087,30
Donations and gratuitous transfers	-	-	94 362,14	18 062,36	-	-	112 424,50
Reclassification between groups	-	11 384 699,88	(8 924 741,50)	(102 211,86)	3 171,35	-	2 360 917,87
Acquisition/disposal of subsidiary	-	-	(185 821,32)	-	-	-	(185 821,32)
Reclassification to investment property	-	(32 931,46)	-	-	-	-	(32 931,46)
Other changes	-	(19 293,34)	335 147,97	101 692,05	14 069,32	-	431 616,00
Closing balance as at 31 December 2012	**(157 945,69)**	**(2 568 261 273,87)**	**(958 490 833,77)**	**(112 168 711,52)**	**(175 427 771,28)**	**(120 568 909,32)**	**(3 935 075 445,45)**
Net book value as at 1 January 2012	**89 877 929,53**	**6 156 884 486,00**	**1 891 991 963,37**	**125 747 900,32**	**212 302 069,71**	**673 859 101,49**	**9 150 663 450,42**
Net book value as at 31 December 2012	**116 880 224,44**	**6 564 389 463,00**	**2 111 611 589,26**	**131 341 486,60**	**261 075 286,33**	**815 618 228,91**	**10 000 916 278,54**

** including self-constructed assets in the amount of 89,274,013.47*

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross book value							
Opening balance as at 1 January 2011	**70 038 338,04**	**7 737 203 457,72**	**2 400 547 041,49**	**172 491 478,23**	**314 048 999,90**	**374 722 907,92**	**11 069 052 223,30**
Direct purchase *	17 860 988,26	5 989 270,71	11 316 569,66	17 413 941,73	1 889 519,95	1 268 563 634,93	1 323 033 925,24
Transfer from property, plant and equipment under construction	2 296 992,84	607 854 705,22	295 088 482,38	29 067 570,33	50 026 772,58	(984 334 523,35)	-
Sale, disposal	(250 215,78)	(13 287 091,28)	(8 093 969,18)	(8 697 249,91)	(3 896 531,15)	(596 156,04)	(34 821 213,34)
Scrapping	-	(4 619 552,59)	(22 896 135,83)	(2 012 639,65)	(11 653 509,89)	(529 981,26)	(41 711 819,22)
Donations and gratuitous transfers	-	-	-	(43 200,00)	-	-	(43 200,00)
Reclassification between groups	-	(6 591 512,72)	(320 651,58)	-	(2 683 068,27)	8 474 774,61	(1 120 457,96)
Gratuitous receipt	-	5 013 486,42	245 632,21	-	-	-	5 259 118,63
Reclassification to investment property	(132 061,94)	(1 792 613,06)	-	-	-	(47 480,00)	(1 972 155,00)
Capitalized borrowing costs	-	-	-	-	-	15 669 854,74	15 669 854,74
Other changes	63 888,11	(2 661 519,93)	(1 266 811,97)	(138 522,99)	3 397 627,42	(7 349 665,15)	(7 955 004,51)
Closing balance as at 31 December 2011	**89 877 929,53**	**8 327 108 630,49**	**2 674 620 157,18**	**208 081 377,74**	**351 129 810,54**	**674 573 366,40**	**12 325 391 271,88**
Cumulative depreciation and impairment							
Opening balance as at 1 January 2011	**-**	**(1 791 698 986,37)**	**(651 281 091,35)**	**(63 643 063,36)**	**(110 768 285,25)**	**(526 668,58)**	**(2 617 918 094,91)**
Depreciation for the period	-	(385 412 807,47)	(157 364 334,49)	(28 381 898,56)	(39 780 260,83)	-	(610 939 301,35)
Impairment losses	-	(658 772,14)	(315 812,24)	(555,23)	(347 220,62)	(187 596,33)	(1 509 956,56)
Reversal of impairment losses	-	327 539,19	267 793,96	4 191,71	202 741,63	-	802 266,49
Sale, disposal	-	1 924 142,30	5 373 825,78	7 474 525,62	2 850 780,96	-	17 623 274,66
Scrapping	-	2 151 589,12	19 453 175,68	1 922 132,84	9 147 498,66	-	32 674 396,30
Donations and gratuitous transfers	-	-	-	43 200,00	-	-	43 200,00
Reclassification between groups	-	1 410 556,31	319 303,82	-	(609 402,17)	-	1 120 457,96
Reclassification to investment property	-	250 682,24	-	-	-	-	250 682,24
Other changes	-	1 481 912,33	918 945,03	247 989,56	476 406,79	-	3 125 253,71
Closing balance as at 31 December 2011	**-**	**(2 170 224 144,49)**	**(782 628 193,81)**	**(82 333 477,42)**	**(138 827 740,83)**	**(714 264,91)**	**(3 174 727 821,46)**
Net book value as at 1 January 2011	**70 038 338,04**	**5 945 504 471,35**	**1 749 265 950,14**	**108 848 414,87**	**203 280 714,65**	**374 196 239,34**	**8 451 134 128,39**
Net book value as at 31 December 2011	**89 877 929,53**	**6 156 884 486,00**	**1 891 991 963,37**	**125 747 900,32**	**212 302 069,71**	**673 859 101,49**	**9 150 663 450,42**

* including self-constructed assets in the amount of PLN 238,470,366.26.

Rt

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross book value							
Opening balance as at 1 January 2010	**48 161 948,74**	**7 267 871 985,52**	**2 138 971 078,89**	**138 206 384,97**	**281 210 633,02**	**224 306 942,66**	**10 098 728 973,80**
Direct purchase	15 125 911,28	13 744 748,85	29 822 827,98	9 781 342,60	9 392 949,38	985 543 211,21	1 063 410 991,30
Transfer from property, plant and equipment under construction	6 806 986,62	472 847 801,17	241 406 422,02	35 761 265,89	81 121 354,32	(837 943 830,02)	-
Sale, disposal	(56 508,60)	(5 760 893,47)	(4 962 409,79)	(8 260 562,66)	(43 115 470,17)	(568 724,34)	(62 724 569,03)
Reclassification between groups	-	(187 545,08)	134 967,29	(16 647,54)	69 225,33	-	-
Donations and gratuitous transfers	-	-	(14 739,03)	(12 600,00)	-	-	(27 339,03)
Scrapping	-	(19 173 012,55)	(4 842 205,07)	(3 035 020,71)	(14 754 272,94)	-	(41 804 511,27)
Gratuitous receipt	-	6 310 220,27	44 036,02	-	-	-	6 354 256,29
Reclassification to assets held for sale	-	-	-	-	-	(990 729,53)	(990 729,53)
Capitalized borrowing costs	-	-	-	-	-	4 062 000,00	4 062 000,00
Other changes	-	1 550 153,01	(12 936,82)	67 315,68	124 580,96	314 037,94	2 043 150,77
Closing balance as at 31 December 2010	**70 038 338,04**	**7 737 203 457,72**	**2 400 547 041,49**	**172 491 478,23**	**314 048 999,90**	**374 722 907,92**	**11 069 052 223,30**
Cumulative depreciation and impairment							
Opening balance as at 1 January 2010	-	**(1 426 928 955,57)**	**(459 913 366,23)**	**(51 999 399,39)**	**(127 688 810,26)**	**(149 708,13)**	**(2 066 680 239,58)**
Depreciation for the period	-	(365 051 958,41)	(147 301 452,40)	(20 795 611,80)	(31 820 918,25)	-	(564 969 940,86)
Impairment losses	-	(3 907 114,81)	(51 757 844,59)	(22 061,00)	(26 768,21)	(376 960,45)	(56 090 749,06)
Reversal of impairment losses	-	-	407 749,48	2 599,96	14 770,16	-	425 119,60
Sale, disposal	-	342 861,86	2 391 694,12	6 135 932,52	38 569 258,05	-	47 439 746,55
Reclassification between groups	-	45 091,27	(41 222,08)	-	(3 869,19)	-	-
Donations and gratuitous transfers	-	-	9 902,92	12 600,00	-	-	22 502,92
Scrapping	-	3 816 749,80	4 838 768,53	3 022 838,27	9 526 266,18	-	21 204 622,78
Other changes	-	(15 660,51)	84 678,90	38,08	661 786,27	-	730 842,74
Closing balance as at 31 December 2010	-	**(1 791 698 986,37)**	**(651 281 091,35)**	**(63 643 063,36)**	**(110 768 285,25)**	**(526 668,58)**	**(2 617 918 094,91)**
Net book value as at 1 January 2010	**48 161 948,74**	**5 840 943 029,95**	**1 679 057 712,66**	**86 206 985,58**	**153 521 822,76**	**224 157 234,53**	**8 032 048 734,22**
Net book value as at 31 December 2010	**70 038 338,04**	**5 945 504 471,35**	**1 749 265 950,14**	**108 848 414,87**	**203 280 714,65**	**374 196 239,34**	**8 451 134 128,39**

* including self-constructed assets in the amount of PLN 95,438,448.23.

Pel

The carrying value of property, plant and equipment in use as at 31 December 2012, 31 December 2011 and 31 December 2010 under finance leases and leases with purchase options amounted respectively to PLN 10.6 m, PLN 4 m and PLN 0.7 m.

The carrying value of property, plant and equipment pledged as a collateral for liabilities is disclosed in Note 36.5.

Expenditures for property, plant and equipment incurred by the Group are funded with earmarked financing for clearly specified investments. Therefore the Group capitalises only earmarked financing costs without capitalising general financing costs.

Impairment tests for property, plant and equipment

The last impairment test for the property, plant and equipment related to electricity distribution activities was carried out by the Group as at 31 December 2011. The analysis did not show the need for an impairment loss of property, plant and equipment. As at 31 December 2012 there were no indicators found which would result in necessity of re-testing for impairment.

The Group performed impairment tests for the other main cash-generating units ("CGU") including heat distribution activities and generation activities by determining their recoverable value as at 31 December 2012.

The recoverable amount of assets was determined using discounted net cash flows based on financial projections for the years 2012 - 2017 for electricity distribution activities, for generation activities and for heat energy distribution activities. For heat distribution activities the discount rate of 7.84% was applied while for the generation activities the discount rate ranging from 8.44% to 11.02% was used.

The tests did not show the need for an impairment loss of property, plant and equipment.

In addition, following the suspension of Ostrołęka C project (see the description in Note 42) non-current assets related to its implementation were tested for impairment.

The analysis covered assets of the subsidiary Elektrownia Ostrołęka SA, established to build and operate a new power unit in Ostrołęka with the capacity of about 850 - 1000 MWe. The recoverable amount of assets was determined at their fair value, corresponding to the market value of marketable property, plant and equipment less their respective costs to sell. As a result of the analysis an impairment loss of the property, plant and equipment was recognised in the amount of PLN 122.6 m.

15. Leases

15.1. Operating lease liabilities – the Group as a lessee

Future minimum lease payments on non-cancellable operating lease agreements are payable as follows:

	Lease payments as at		
	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Within up to 1 year	2 876 054,73	1 843 455,36	3 324 859,91
Within 1 to 5 years	4 682 198,04	2 286 811,28	2 069 303,22
Over 5 years	-	-	-
Total lease payments	**7 558 252,77**	**4 130 266,64**	**5 394 163,13**

In addition, the Group's entities hold land perpetual usufruct rights obtained free of charge by way of an administrative decision, which in accordance with IAS 17 are classified as operating leases.

Land perpetual usufruct rights acquired for a consideration are classified by the Group as operating leases, while any payments incurred for the acquisition of such rights are considered prepayments of future fees, are amortised over the entire lease term and are presented in the statement of financial position as intangible assets.

Pet

The Group pays annual fees for the land perpetual usufruct rights. During the years ended on 31 December 2012, 31 December 2011 and 31 December 2010 such fees amounted to PLN 5.8 m, PLN 5.3 m and PLN 1.4 m respectively.

15.2. Operating lease receivables – the Group as a lessor

Future minimum lease payments under non-cancellable operating lease agreements are receivable as follows:

	Lease receivables as at Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Within up to 1 year	25 188 047,00	21 738 182,00	22 673 268,90
Within 1 to 5 years	142 487 585,81	118 588 133,62	103 232 800,00
Over 5 years	-	-	15 392 500,00
Total leasing fees	**167 675 632,81**	**140 326 315,62**	**141 298 568,90**

Operating leases relate to facilities in the pumped storage power plant Żydowo, through which PSE - Operator S.A. (Transmission System Operator - TSO) is provided with an intervention operation service involving the disposition and use of the power plant by TSO for purposes of intervention balancing of the active and reactive power and of control over power disbursements in the grid of the National Power System. The service includes an intervention reserve of active power and voltage and reactive power control. The assets used to provide the service are at the sole disposition of TSO, which has the right to administer the generation units belonging to the power plant. The agreement under which the service is provided satisfies conditions for its recognition under leases, as defined in IFRIC 4, however it does not transfer the entirety of risks and benefits associated with the leased property to TSO.

Total operating lease payments recognized as revenues in 2012, 2011 and 2010 amounted respectively to PLN 27.0 m, PLN 24.2 m and PLN 35.7 m.

15.3. Liabilities from finance leases and leases with a purchase option

Future minimum lease payments under these agreements and the present value of minimum lease payments are as follows:

	Year ended 31 December 2012		Year ended 31 December 2011		Year ended 31 December 2010	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Within up to 1 year	7 303 309,00	6 555 588,11	1 399 401,63	1 384 556,94	9 020 239,45	8 658 608,31
Within 1 to 5 years	7 643 756,00	7 293 035,79	3 683 136,83	3 570 618,79	1 555 893,19	1 534 691,86
Over 5 years	-	-	-	-	101 120,44	97 120,44
Total minimum lease payments	**14 947 065,00**		**5 082 538,46**		**10 677 253,08**	
Less finance costs	1 098 441,10		127 362,73		386 832,47	
Current value of minimum lease payments, including::	**13 848 623,90**	**13 848 623,90**	**4 955 175,73**	**4 955 175,73**	**10 290 420,61**	**10 290 420,61**
Short-term	6 555 588,11		1 384 556,94		8 658 608,31	
Long-term	7 293 035,79		3 570 618,79		1 631 812,30	

Pert

16. Investment properties

Investment properties of the ENERGA Group's companies include land, land perpetual usufruct rights and buildings, rented to third parties in whole or in part.

The carrying value of investment properties presented in the consolidated statement of financial position is not significantly different from their fair value.

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Opening balance (net)	**24 552 344,90**	**19 026 164,08**	**26 043 537,30**
Increases	515 222,31	6 249 496,07	-
Depreciation	(749 848,75)	(475 282,58)	(558 105,31)
Reclassification to assets classified as held for sale	(2 306 329,20)	-	-
Decreases	(4 951 399,44)	(248 032,67)	(6 459 267,91)
Closing balance (net)	**17 059 989,82**	**24 552 344,90**	**19 026 164,08**

Rental revenues and direct operating expenses for the investment properties were as follows:

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Rental income from investment property	1 566 090,86	1 934 996,67	2 017 713,29
Direct operating expenses related to investment property, which generated rental income in the period	848 426,28	1 148 250,07	2 516 931,27
Direct operating expenses related to investment property, which did not generate rental income in the period	62 596,88	352 692,90	1 229,00

17. Goodwill

	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Gross value at the beginning of the period	**17 609 509,58**	**17 246 353,14**	**17 246 353,14**
Total increases, of which:	**11 017 864,33**	**363 156,44**	-
acquisition of the entity's shares	11 017 864,33	363 156,44	
Total decreases	-	-	-
Gross value at the end of the period	**28 627 373,91**	**17 609 509,58**	**17 246 353,14**
Impairment at the beginning of the period	-	-	-
increase	-	-	-
decrease	-	-	-
Impairment at the end of the period	-	-	-
Net value at the beginning of the period	**17 609 509,58**	**17 246 353,14**	**17 246 353,14**
Net value at the end of the period	**28 627 373,91**	**17 609 509,58**	**17 246 353,14**

18. Intangible assets

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
Gross value								
Opening balance as at 1 January 2012	**707 121,20**	**190 472 906,67**	**104 873 691,59**	**84 919 347,69**	**489 331,92**	**48 769 059,44**	**128 193 211,14**	**453 550 978,06**
Direct purchase	-	3 506 644,48	2 029 904,94	3 950 590,90	34 754 336,49	7 712 584,79	116 439 792,17	166 363 948,83
Settlement of intangible assets not in use	-	173 587 553,09	131 051 809,87	-	-	37 430 246,29	(211 017 799,38)	-
Sale, disposal	-	(1 979 795,95)	(1 979 795,95)	(675 474,06)	-	(5 872 626,69)	-	(8 527 896,70)
Scrapping	(63 480,89)	(1 918 686,04)	(1 276 523,47)	(33 175,41)	-	(1 562 562,45)	-	(3 577 904,79)
Donations and gratuitous transfers	-	-	-	(6 408,64)	-	-	-	(6 408,64)
Reclassification between groups	-	(7 124 384,36)	(271 978,79)	-	-	(9 455 564,46)	16 579 948,82	-
Capitalized borrowing costs	-	-	-	-	-	-	2 230 008,12	2 230 008,12
Reclassification from investment assets	-	-	-	12 227,64	-	-	-	12 227,64
Reclassification to assets classified as held for sale	-	-	-	(886 646,36)	-	-	-	(886 646,36)
Redemption of emmision rights	-	-	-	-	(35 243 668,41)	-	-	(35 243 668,41)
Other changes	-	142 348,09	142 108,11	(294 961,39)	-	-	26 815,17	(125 798,13)
Closing balance as at 31 December 2012	**643 640,31**	**356 686 585,98**	**234 569 216,30**	**86 985 500,37**	**0,00**	**77 021 136,92**	**52 451 976,04**	**573 788 839,62**
Cumulative amortization (depreciation) and impairment								
Opening balance as at 1 January 2012	**(707 121,20)**	**(110 305 747,18)**	**(47 340 897,85)**	**(12 640 874,84)**	**-**	**(17 405 238,48)**	**-**	**(141 058 981,70)**
Depreciation for the period	-	(38 810 591,15)	(25 840 488,63)	(2 209 711,45)	-	(16 135 551,68)	-	(57 155 854,28)
Increase in impairment allowance	-	(30 191,64)	(30 191,64)	(731 539,86)	-	(1 404,24)	-	(763 135,74)
Sale, disposal	-	29 397,08	29 397,08	97 363,63	-	210 631,98	-	337 392,69
Scrapping	63 480,89	1 775 686,62	1 133 856,81	4 776,63	-	1 447 224,95	-	3 291 169,09
Donations and gratuitous transfers	-	-	-	367,67	-	-	-	367,67
Reclassification between groups	-	3 016 512,10	712 696,38	-	-	(3 016 512,10)	-	-
Reclassification to assets classified as held for sale	-	-	-	220 117,29	-	-	-	220 117,29
Other changes	-	(91 525,49)	(91 525,49)	(5 732,34)	-	-	-	(97 257,83)
Closing balance as at 31 December 2012	**(643 640,31)**	**(144 416 459,66)**	**(71 427 153,34)**	**(15 265 233,27)**	**-**	**(34 900 849,57)**	**-**	**(195 226 182,81)**
Net value as at 1 January 2012	**-**	**80 167 159,49**	**57 532 793,74**	**72 278 472,85**	**489 331,92**	**31 363 820,96**	**128 193 211,14**	**312 491 996,36**
Net value as at 31 December 2012	**-**	**212 270 126,32**	**163 142 062,96**	**71 720 267,10**	**0,00**	**42 120 287,35**	**52 451 976,04**	**378 562 656,81**

Pet

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
Gross value								
Opening balance as at 1 January 2011	**707 121,20**	**161 638 780,22**	**72 479 249,81**	**85 464 911,71**	**6 528 934,23**	**90 151 770,35**	**28 945 208,70**	**373 436 726,41**
Direct purchase	-	1 103 350,33	590 619,38	641 866,59	-	2 877 953,62	87 654 503,16	92 277 673,70
Settlement of intangible assets not in use	-	52 323 165,12	33 866 174,98	-	-	24 890 617,46	(77 213 782,58)	-
Sale, disposal	-	(526 034,44)	(140 059,34)	(479 493,39)	-	(727 735,27)	(36 346,16)	(1 769 609,26)
Scrapping	-	(2 610 173,86)	(2 584 479,08)	(16 507,54)	-	(801 578,57)	(4 552 024,00)	(7 980 283,97)
Reclassification between groups	-	(21 805 666,90)	306 568,45	198 393,70	-	(67 615 137,24)	89 222 410,44	-
Capitalized borrowing costs	-	-	-	-	-	-	3 647 751,01	3 647 751,01
Gratuitous receipt	-	-	-	1 390,00	-	-	-	1 390,00
Reclassification to investment assets	-	-	-	(510 645,02)	-	-	-	(510 645,02)
Redemption of emmision rights	-	-	-	-	(6 039 602,31)	-	-	(6 039 602,31)
Other changes	-	349 486,20	355 617,39	(380 568,36)	-	(6 830,91)	525 490,57	487 577,50
Closing balance as at 31 December 2011	**707 121,20**	**190 472 906,67**	**104 873 691,59**	**84 919 347,69**	**489 331,92**	**48 769 059,44**	**128 193 211,14**	**453 550 978,06**
								-
Cumulative amortization (depreciation) and impairment								-
Opening balance as at 1 January 2011	**(707 121,20)**	**(84 719 601,47)**	**(31 561 543,42)**	**(9 794 031,82)**	**-**	**(8 827 313,29)**	**-**	**(104 048 067,78)**
Depreciation for the period	-	(32 720 833,46)	(18 791 785,41)	(2 161 970,86)	-	(10 487 974,74)	-	(45 370 779,06)
Increase in impairment allowance	-	(308 842,39)	(308 842,39)	-	-	-	(120 000,00)	(428 842,39)
Decrease in impairment allowance	-	-	-	-	-	120 000,00	120 000,00	240 000,00
Sale, disposal	-	163 175,54	134 319,12	79 654,02	-	112 439,31	-	355 268,87
Scrapping	-	2 335 404,35	2 246 421,89	2 569,55	-	521 254,38	-	2 859 228,28
Reclassification between groups	-	4 871 365,91	926 478,13	-	-	(4 871 365,91)	-	-
Reclassification to investment assets	-	-	-	36 007,03	-	-	-	36 007,03
Other changes	-	73 584,34	14 054,23	(803 102,76)	-	6 027 721,77	-	5 298 203,35
Closing balance as at 31 December 2011	**(707 121,20)**	**(110 305 747,18)**	**(47 340 897,85)**	**(12 640 874,84)**	**-**	**(17 405 238,48)**	**-**	**(141 058 981,70)**
Net value as at 1 January 2011	-	76 919 178,75	40 917 706,39	75 670 879,89	6 528 934,23	81 324 457,06	28 945 208,70	269 388 658,63
Net value as at 31 December 2011	**-**	**80 167 159,49**	**57 532 793,74**	**72 278 472,85**	**489 331,92**	**31 363 820,96**	**128 193 211,14**	**312 491 996,36**

Pert

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
Gross value								
Opening balance as at 1 January 2010	**802 783,56**	**132 732 717,45**	**48 019 313,46**	**83 916 827,00**	**5 378 444,39**	**52 448 659,84**	**18 065 355,63**	**293 344 787,87**
Direct purchase	-	26 493 237,04	25 059 983,76	1 098 072,43	4 223 902,00	41 981 306,43	14 249 653,59	88 046 171,49
Settlement of intangible assets not in use	-	4 468 713,85	1 175 230,89	728 220,10	-	-	(5 196 933,95)	-
Sale, disposal	-	(532 024,71)	(506 800,04)	(201 895,60)	-	(1 825 719,93)	-	(2 559 640,24)
Reclassification between groups	(78 710,81)	674 260,40	674 260,40	-	-	78 710,81	(674 260,40)	-
Scrapping	-	(1 901 029,97)	(1 627 061,41)	-	-	(3 053 525,59)	-	(4 954 555,56)
Redemption of emmision rights	-	-	-	-	(3 073 412,16)	-	-	(3 073 412,16)
Other changes	(16 951,55)	(297 093,84)	(315 677,25)	(76 312,22)	-	522 338,79	2 501 393,83	2 633 375,01
Closing balance as at 31 December 2010	**707 121,20**	**161 638 780,22**	**72 479 249,81**	**85 464 911,71**	**6 528 934,23**	**90 151 770,35**	**28 945 208,70**	**373 436 726,41**
								-
Cumulative amortization (depreciation) and impairment								-
Opening balance as at 1 January 2010	**(678 328,32)**	**(63 552 432,53)**	**(21 501 964,67)**	**(7 739 365,62)**	-	**(9 008 490,65)**	-	**(80 978 617,12)**
Depreciation for the period	(48 470,58)	(23 098 139,17)	(11 718 712,67)	(2 087 869,10)	-	(655 478,44)	-	(25 889 957,29)
Increase in impairment allowance	-	-	-	-	-	(120 000,00)	-	(120 000,00)
Sale, disposal	-	84 455,51	54 153,30	90 897,25	-	226 904,11	-	402 256,87
Reclassification between groups	19 677,70	(19 677,70)	(19 677,70)	-	-	-	-	-
Scrapping	-	1 887 621,80	1 624 658,30	-	-	632 004,73	-	2 519 626,53
Other changes	-	(21 429,38)	0,02	(57 694,35)	-	97 746,96	-	18 623,23
Closing balance as at 31 December 2010	**(707 121,20)**	**(84 719 601,47)**	**(31 561 543,42)**	**(9 794 031,82)**	-	**(8 827 313,29)**	-	**(104 048 067,78)**
Net value as at 1 January 2010	**124 455,24**	**69 180 284,92**	**26 517 348,79**	**76 177 461,38**	**5 378 444,39**	**43 440 169,19**	**18 065 355,63**	**212 366 170,75**
Net value as at 31 December 2010	-	**76 919 178,75**	**40 917 706,39**	**75 670 879,89**	**6 528 934,23**	**81 324 457,06**	**28 945 208,70**	**269 388 658,63**

As at 31 December 2012, the carrying value of software used under financial leases amounted to PLN 9.5 m. As at 31 December 2011, the Group did not use any software under finance leases. As at 31 December 2010, the carrying value of the software used under finance leases amounted to PLN 15.9 m.

Pełt

19. Investments in associated entities valued using the equity method

The tables below provide summary information on investments in associated entities valued using the equity method:

Name of associate	SOEN SP. Z O.O.	SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*	OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.	BIO-POWER SP. Z O.O.	TOTAL
Share in the votes of the associate	48,5%	40,9%	42,2%	25,0%	
Year ended 31 December 2012					
Share in the balance sheet of the associate:					
Current (short-term) assets	1 614 927,59	323 563,07	6 545 009,00	54 312,99	
Non-current (long-term) assets	4 487 718,86	31 546,08	33 422 568,80	4 861 365,00	
Short-term liabilities	1 657 029,41	582 339,97	4 935 585,40	2 386 296,46	
Long-term liabilities	251 443,07	-	474 328,00	1 250 000,00	
Share in net assets	**4 194 173,97**	**(227 230,82)**	**34 557 664,40**	**1 279 381,53**	
Goodwill		-		1 301 084,26	
Impairment of investments in associates	(3 194 173,97)	-	(26 027 664,40)	-	
Shares and interests in associates presented in statement of financial position, of which:	**1 000 000,00**	**-**	**8 530 000,00**	**2 580 465,79**	**12 110 465,79**
- non-current assets	**-**	**-**	**-**	**2 580 465,79**	**2 580 465,79**
- current assets*	**1 000 000,00**	**-**	**8 530 000,00**	**-**	**9 530 000,00**
Share in contingent liabilities	**-**	**-**	**-**	**-**	**-**
Share in the profit (loss) of the associated entity:	**(80 346,05)**	**-**	**474 604,50**	**(179 621,29)**	**214 637,16**

* The value of the shares of Słupskie Towarzystwo Koszykówki Sportowa S.A. was in the preceding years covered by an impairment loss. Their carrying amount is zero and the share in profit/loss is not recognised in the Group's profit or loss.
** Current assets include investments in associates that the Group intends to sell. These investments are covered by impairment loss to the value corresponding to their deemed net sale price.

Pe/t

Name of associate	SOEN SP. Z O.O.	SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*	PRZEDSIĘBIORSTWO PRODUKCJI STRUNEBETONOWYCH ŻERDZI WIROWANYCH "WIRBET" SA	OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.	BIO-POWER SP. Z O.O.	TOTAL
Share in the votes of the associate	48,5%	40,9%	30,6%	42,2%	25,0%	
Year ended 31 December 2011						
Share in the balance sheet of the associate:						
Current (short-term) assets	1 592 351,98	214 682,45	2 575 437,75	9 755 881,03	998 236,33	
Non-current (long-term) assets	4 578 253,20	15 278,85	2 930 030,23	33 692 093,96	4 746 984,47	
Short-term liabilities	1 623 256,82	512 266,08	1 793 003,70	8 099 725,77	1 161 217,98	
Long-term liabilities	272 828,34	-	224 832,12	1 265 189,32	3 125 000,00	
Share in net assets	**4 274 520,02**	**(282 304,78)**	**3 487 632,16**	**34 083 059,90**	**1 459 002,82**	
Goodwill	-	-	-	-	1 301 084,26	
Impairment of investments in associates	(689 120,02)	-	-	(383 059,90)	-	
Shares and interests in associates presented in statement of financial position, of which:	**3 585 400,00**	**-**	**3 487 632,16**	**33 700 000,00**	**2 760 087,08**	**43 533 119,24**
- non-current assets	**-**	**-**	**-**	**-**	**2 760 087,08**	**2 760 087,08**
- current assets*	**3 585 400,00**	**-**	**-**	**33 700 000,00**	**-**	**37 285 400,00**
- non-current assets classified as held for sale**			**3 487 632,16**			**3 487 632,16**
Share in contingent liabilities	**-**	**-**	**-**	**-**		**-**
Share in the profit (loss) of the associated entity:	**(2 537,25)**	**-**	**592 624,48**	**477 554,10**	**9 723,73**	**1 077 365,06**

* The value of the shares of Słupskie Towarzystwo Koszykówki Sportowa S.A. was in the preceding years covered by an impairment loss. Their carrying amount is zero and the share in profit/loss is not recognised in the Group's profit or loss.
** Current assets include investments in associates that the Group intends to sell. These investments are covered by impairment loss to the value corresponding to their deemed net sale price.
*** As at 31 December 2011 the shares in Wirbet SA satisfied conditions of the definition of non-current assets classified as held for sale.

Pest

Name of associate	SOEN SP. Z O.O.	SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*	PRZEDSIĘBIORSTWO PRODUKCJI STRUNEBETONOWYCH ŻERDZI WIROWANYCH "WIRBET" SA	OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.	TOTAL
Share in the votes of the associate	48,50%	40,90%	30,60%	42,2%	
Year ended 31 December 2010					
Share in the balance sheet of the associate:					
Current (short-term) assets	1 982 695,71	171 794,57	2 513 314,25	7 012 542,81	
Non-current (long-term) assets	4 328 435,66	21 827,41	2 631 239,94	34 271 928,20	
Short-term liabilities	1 537 750,29	429 320,76	1 399 612,06	6 850 579,20	
Long-term liabilities	399 323,80	-	144 334,48	828 386,00	
Share in net assets	**4 374 057,29**	**(235 698,79)**	**3 600 607,65**	**33 605 505,81**	
Goodwill	-	-	-	-	
Impairment of investments in associates	-	-	-	-	
Shares and interests in associates presented in statement of financial position, of which:	**4 374 057,29**	**-**	**3 600 607,65**	**33 605 505,81**	**41 580 170,75**
Share in contingent liabilities	**-**	**-**	**-**	**-**	**-**
Share in the profit (loss) of the associated entity:	**214 039,78**	**-**	**701 909,19**	**(247 629,60)**	**668 319,37**

* The value of the shares of Słupskie Towarzystwo Koszykówki Sportowa S.A. was in the preceding years covered by an impairment loss. Their carrying amount is zero and the share in profit/loss is not recognised in the Group's profit or loss.

20. Emission rights

Changes in the volume (in thousand tons) of emission rights allocated under the National Allocation Plan as well as acquired by the Group in the secondary market were as follows:

Title	2012 Number	2011 Number	2010 Number
Granted under the National Allocation Plan	3 080 376	3 080 376	3 080 331
Acquired on the secondary market	1 862 000	1 000 000	126 718
Total	**4 942 376**	**4 080 376**	**3 207 049**
Used for own needs	(3 067 749)	(3 536 991)	(3 269 866)
Sold	(2 411 744)	(500 000)	(99 950)
Unused rights/(Shortfall)	**(537 117)**	**43 385**	**(162 767)**

As at 31 December 2012, a provision for the shortfall in emission rights in the amount of PLN 0.3 m was recognised.

21. Inventory

Title	31 December 2012 Historical cost	Impairment charge	Carrying value
Materials	123 527 964,63	(827 442,40)	122 700 522,23
Finished products	514 651,10	-	514 651,10
Semi-finished products and production in progress	26 379 715,49	-	26 379 715,49
Merchandise	26 585 199,51	(1 720 834,90)	24 864 364,61
Energy certificates of origin	202 468 664,96	-	202 468 664,96
Total	**379 476 195,69**	**(2 548 277,30)**	**376 927 918,39**

Impairment of inventories as at 31 December 2011	**(9 009 830,47)**
Impairment raised	(1 150 969,58)
Impairment reversed	7 612 522,75
Impairment used	
Impairment of inventories as at 31 December 2012	**(2 548 277,30)**

Title	31 December 2011 Historical cost	Impairment charge	Carrying value
Materials	118 869 580,00	(1 741 177,68)	117 128 402,32
Finished products	1 017 850,63	(937,55)	1 016 913,08
Semi-finished products and production in progress	28 458 034,93	-	28 458 034,93
Merchandise	29 086 721,09	(543 643,49)	28 543 077,60
Energy certificates of origin	227 450 035,70	(6 724 071,75)	220 725 963,95
Total	**404 882 222,35**	**(9 009 830,47)**	**395 872 391,88**

Impairment of inventories as at 31 December 2010	**(2 160 723,71)**
Impairment raised	(7 802 181,99)
Impairment reversed	803 802,42
Impairment used	149 272,81
Impairment of inventories as at 31 December 2011	**(9 009 830,47)**

Pert

Title	31 December 2010 Historical cost	Impairment charge	Carrying value
Materials	84 642 044,95	(1 572 130,08)	83 069 914,87
Finished products	27 295 283,60	(5 257,63)	27 290 025,97
Semi-finished products and production in progress	3 117 630,65	(6 190,81)	3 111 439,84
Merchandise	29 271 777,19	(577 145,19)	28 694 632,00
Energy certificates of origin	170 826 165,35	-	170 826 165,35
Total	**315 152 901,74**	**(2 160 723,71)**	**312 992 178,03**

Impairment of inventories as at 31 December 2009	**(2 693 139,43)**
Impairment raised	(919 918,15)
Impairment reversed	377 991,60
Impairment used	1 074 342,27
Impairment of inventories as at 31 December 2010	**(2 160 723,71)**

Group companies recognise write-downs of inventories taking into account economic impairment determined on the basis of ageing and turnover and realisable net selling price. Write-downs are released when the written-down inventory is consumed or sold.

22. Cash and cash equivalents

Cash at bank bears interest based on variable interest rates negotiated with the banks and depends on applicable interest rates for one-day bank deposits. Short-term deposits are made for varying periods ranging from one day to three months depending on the Group's current need for cash and earn interest based on interest rates determined during individual negotiations with the banks. Cash and cash equivalents include also units in the ENERGA Trading SFIO fund measured at fair value (valuation method as described in Note 9.13).

The balance of cash and cash equivalents presented in the cash flow statement are made up of the following items:

Title	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Cash at bank and in hand	390 197 826,60	152 164 830,19	200 873 228,35
Short term deposits up to 3 months	972 731 706,21	429 921 501,67	572 433 402,57
Participation units in liquidity funds	705 911 173,67	1 193 958 370,87	910 248 284,85
Other	217 529,00	1 229 473,96	-
Total cash and cash equivalents presented in the statement of financial position	**2 069 058 235,48**	**1 777 274 176,69**	**1 683 554 915,77**
Unrealised exchange differences and interest	(13 654 636,68)	(14 099 878,41)	(12 244 219,22)
Current account overdraft	(26 030 109,32)	(7 633 181,76)	(10 482 545,46)
Total cash and cash equivalents presented in the cash flow statement	**2 029 373 489,48**	**1 755 541 116,52**	**1 660 828 151,09**

23. Other assets

23.1. Other long-term assets

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Trade receivables and other long-term receivables	217 564,50	499 670,59	3 637 933,08
Advances for property, plant & equipment under construction and intangible assets	8 706 702,11	28 700 254,61	12 810 248,42
Bonds, treasury bills and debt securities	27 107 314,83	-	-
Long-term prepayments and accrued expenses	21 194 172,81	2 005 969,95	1 757 357,15
Other	1 573 345,97	1 193 102,40	66 371,39
TOTAL	**58 799 100,22**	**32 398 997,55**	**18 271 910,04**

Pert

23.2. Other short-term assets

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Subscription	202 630,93	363 803,10	335 604,41
Property, casualty and transport insurance	14 776 584,50	14 336 859,45	8 616 710,32
Membership fees, training	8 770,88	456,00	38 529,56
IT services	675 667,74	885 159,14	1 739 518,79
Other deferred costs	15 572 089,25	43 227 226,72	21 731 110,00
Advance payments towards trade payables	7 058 738,27	7 225 738,02	12 232 754,21
VAT receivable	93 687 221,80	109 276 923,50	102 246 796,85
Other tax receivables	12 188 504,70	15 565 241,70	6 878 552,35
Net Company Social Benefit Fund asset	603 430,25	616 718,27	660 661,18
Other short-term assets	10 741 919,63	19 180 932,38	3 130 747,43
TOTAL	**155 515 557,95**	**210 679 058,28**	**157 610 985,10**

24. Discontinued operations and assets classified as held for sale

24.1. Discontinued operations

In 2012, the Group decided to discontinue operations in the hotel industry. As at the date of these financial statements the subsidiaries, Kongres Sp. z o.o. and Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o., were placed into liquidation. The financial results of these companies (including write-downs created for non-current assets) are presented in the consolidated income statement as the result of discontinued operations.

In 2009, the Group discontinued its property management and property valuation businesses, and therefore the subsidiary ENERGA Nieruchomości S.A. was placed into liquidation. The company was finally liquidated in 2011.

The results of the discontinued operations for 2012 and comparative data for 2010 – 2011 are presented below:

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Revenue	6 576 301,67	6 800 338,34	6 126 168,12
Costs	24 670 587,55	11 505 345,28	9 790 136,56
Loss before tax	(18 094 285,88)	(4 705 006,94)	(3 663 968,44)
Tax expense	212 588,09	105 003,83	(90 863,10)
Net loss	**(18 306 873,97)**	**(4 810 010,77)**	**(3 573 105,34)**
Cash flows, of which:	**(8 868 543,92)**	**(4 104 611,96)**	**(855 974,13)**
from operating activities	(4 516 572,47)	(810 933,02)	(145 959,81)
from investing activities	398 335,61	258 166,09	(935 594,30)
from financing activities	(4 750 307,06)	(3 551 845,03)	225 579,98
Earnings per share from discontinued operations (ordinary and diluted)	**(0,00)**	**(0,00)**	**(0,00)**

The aggregate net result of discontinued operations in the years 2010 – 2012 is attributable to equity holders of the parent.

24.2. Assets classified as held for sale

Following the discontinuation of the hotel business in 2012, the Group took steps aimed at selling a part of the assets of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (see the description in Note 41).

Currently, a search is in progress for prospective buyers for the hotel and leisure facilities. The Group expects that the process of selling those facilities will be completed in the next 12 months.

The Group recognised shares in the associate Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET SA and Towarowa Giełda Energii S.A. as assets classified as held for sale as at 31 December 2011.

Pert

The profit on disposal of assets classified as held for sale presented in the consolidated income statement for 2012 represents the profit on disposal of shares in Towarowa Giełda Energii S.A. and in the associate Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET SA.

25. Other liabilities

25.1. Other long-term liabilities

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Other non-financial liabilities	**612 677,83**	**3 469 329,31**	**126 724,93**
Security for the proper performance of an agreement, guarantees	-	184 666,36	126 724,93
Liabilities to employees on account of restructuring severance pay	385 052,59	3 068 373,57	-
Other	227 625,24	216 289,38	-
Total	**612 677,83**	**3 469 329,31**	**126 724,93**

25.2. Other short-term liabilities

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Liabilities on account of taxes, customs duties, social security, salaries and others	**187 426 400,69**	**257 150 370,85**	**229 535 396,13**
Excise tax	31 959 451,93	25 476 255,50	26 866 996,78
VAT	85 234 399,38	153 213 234,72	119 334 911,18
Liabilities on social security insurance	45 154 894,22	47 438 968,62	49 589 338,12
Personal income tax	16 652 347,20	22 339 982,18	26 665 544,68
Environmental fees	6 566 054,00	6 971 314,41	5 371 534,00
Property tax	2 262,25	812 321,71	751 829,44
Other	1 856 991,71	898 293,71	955 241,93
Other non-financial liabilities	**198 748 031,87**	**253 508 968,90**	**316 994 410,12**
Payroll liabilities	32 574 557,57	49 458 249,20	75 955 088,41
Liabilities to employees on account of restructuring severance pay	7 280 543,00	21 716 295,72	-
Deferred counterparty payments and advances received	153 410 926,47	142 206 105,72	124 330 314,01
Net Company Social Benefit Fund liability	436 160,64	1 056 792,24	632 674,54
Liabilities on account of the substitution fee	-	29 106 838,68	106 261 987,05
Other	5 045 844,19	9 964 687,34	9 814 346,11
Total	**386 174 432,56**	**510 659 339,75**	**546 529 806,25**

26. Deferred income and accruals

26.1. Deferred income

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Property, plant & equipment acquired free of charge	63 056 581,26	64 100 144,77	60 540 348,10
Subsidies received	96 026 848,07	87 792 959,98	47 173 461,51
Lease revenues	20 625,00	1 673,36	5 426 185,66
Connection fees	320 143 667,32	333 210 585,58	346 512 030,17
Other deferred income	5 694 751,08	8 952 005,86	4 268 615,46
TOTAL, including:	**484 942 472,73**	**494 057 369,55**	**463 920 640,90**
Long-term	456 009 751,82	465 938 618,59	442 910 451,58
Short-term	28 932 720,91	28 118 750,96	21 010 189,32

The subsidies disclosed by the Group arise mainly from the valuation of the preferential loan from the European Investment Bank (see description in Note 42). As at 31 December 2012, 2011 and 2010 the balance of subsidies recognised thereunder amounted respectively to PLN 74 m, PLN 80 m and PLN 42 m.

26.2. Accruals

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Accruals for unused holiday leave pay	20 824 593,48	14 445 286,40	12 003 823,70
Accruals for annual bonus and other employee bonuses	91 745 298,61	97 666 543,63	69 074 535,51
Management Board bonuses	3 358 670,12	1 902 470,74	1 575 220,52
Other accruals	1 836 462,02	8 737 048,32	3 151 095,01
TOTAL	**117 765 024,23**	**122 751 349,09**	**85 804 674,74**

27. Employee benefits

27.1. Employee stock plans

As a result of the commercialisation of ENERGA - OPERATOR SA, initiated on 12 July 1993 and completed on 16 June 2008, the State Treasury assigned to employees 15% of shares in ENERGA - OPERATOR SA.

As a result of the commercialisation of ENERGA Elektrownie Ostrołęka SA, initiated on 31 August 1998 and completed on 13 May 2008, the State Treasury assigned to employees 15% of shares in ENERGA Elektrownie Ostrołęka SA.

The fair value of equity instruments issued to employees was recognized in previous years' earnings.

In 2009, ENERGA SA started the process of conversion of ENERGA – OPERATOR SA and ENERGA Elektrownie Ostrołęka SA shares (consolidated companies) into shares of ENERGA SA (consolidating company) pursuant to the Act dated 7 September 2007 on the principles of acquisition of shares from the State Treasury in the process of consolidation of power sector companies and the Decree of the Minister of Treasury dated 19 February 2008 on the method for determination of the number of shares of the consolidating company subject to conversion and the method of conversion of shares or rights to shares of the consolidated company into shares of the consolidating company.

This process completed on 13 August 2010.

A total of 15,098 persons were eligible for the share swap, who were entitled to 726,841,669 shares of ENERGA SA, with a nominal value of PLN 1 each. Share swap agreements were realised from 21 September 2009.

On completion, 13,643 persons agreed to swap their shares of the consolidated companies for the shares of the consolidating company by the end of 2011, and they jointly subscribed for 668,408,326 shares of ENERGA SA.

Despite the conversion being formally completed, there will still be instances of share swaps effected with the heirs of the eligible persons who had filed motions to declare vesting of inheritance before 13 August 2010.

27.2. Retirement benefits and other post-employment benefits

Retirement and disability pension awards, jubilee awards

The Group pays retirement or disability pension awards in the amounts specified by the Collective Bargaining Agreements to employees leaving on retirement or disability. Employees reaching a specified number of years in service are paid jubilee awards. The Group therefore raises a provision for the present value of their liability for retirement and disability pension awards and jubilee awards, based on a valuation by an actuary.

Employee's Energy Tariff

Pursuant to the Collective Bargaining Agreement, as amended in 2005, the liability for payment of benefits under the so-called "Employee's energy tariff" for former employees of the energy industry and other entitled persons was transferred to individual companies from which such entitled persons originate. The Group therefore raised an appropriate provision for that purpose. The amount of the provision is estimated by an actuary. The provision raised is charged against operating expenses.

Company Social Benefit Fund

The Group's entities make contributions to their Company Social Benefit Funds for retired and disabled employees. Provisions are raised to cover the cost of these benefits, which are estimated using actuarial methods.

The amounts of such provisions and a reconciliation of changes in the balances are presented in the following tables:

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
Opening balance as at 1 January 2012 (restated)	**96 376 373,01**	**306 272 254,92**	**72 438 574,49**	**475 087 202,42**
Current service cost	5 363 166,51	1 864 273,20	2 066 332,44	9 293 772,15
Actuarial gains and losses	8 366 552,63	(50 204 724,23)	4 374 744,24	(37 463 427,36)
Benefits paid	(2 081 615,82)	(9 007 223,91)	(2 336 455,92)	(13 425 295,65)
Past service cost	(482 790,00)	-	-	(482 790,00)
Interest cost	5 850 088,00	15 811 437,00	4 260 946,00	25 922 471,00
Closing balance as at 31 December 2012	**113 391 774,33**	**264 736 016,98**	**80 804 141,25**	**458 931 932,56**
Short-term as at 31 December 2012	**2 476 433,54**	**9 928 071,44**	**2 683 925,72**	**15 088 430,70**
Long-term as at 31 December 2012	**110 915 340,79**	**254 807 945,54**	**78 120 215,53**	**443 843 501,86**

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2011 (restated)	**103 687 436,04**	**263 953 464,10**	**50 258 815,95**	**417 899 716,09**
Current service cost	2 989 348,97	2 510 023,44	2 120 444,90	7 619 817,31
Actuarial gains and losses	(654 998,95)	29 630 806,72	19 151 922,00	48 127 729,77
Benefits paid	(14 780 415,55)	(5 133 443,28)	(2 364 896,26)	(22 278 755,09)
Interest cost	5 135 002,50	15 311 403,94	3 272 287,90	23 718 694,34
As at 31 December 2011 (restated)	**96 376 373,01**	**306 272 254,92**	**72 438 574,49**	**475 087 202,42**
Short-term as at 31 December 2011	**3 349 140,25**	**9 922 972,07**	**2 733 480,78**	**16 005 593,10**
Long-term as at 31 December 2011 (restated)	**93 027 232,76**	**296 349 282,85**	**69 705 093,71**	**459 081 609,32**

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2010 (restated)	**94 020 209,30**	**249 505 641,26**	**58 895 072,42**	**402 420 922,98**
Current service cost	8 093 695,94	(649 320,33)	841 886,94	8 286 262,55
Actuarial gains and losses	2 029 973,51	4 395 499,41	(10 550 317,61)	(4 124 844,69)
Benefits paid	(5 755 085,71)	(3 456 058,24)	(1 981 565,80)	(11 192 709,75)
Interest cost	5 298 643,00	14 157 702,00	3 053 740,00	22 510 085,00
As at 31 December 2010 (restated), of which:	**103 687 436,04**	**263 953 464,10**	**50 258 815,95**	**417 899 716,09**
Short-term as at 31 December 2011	**3 543 264,89**	**8 122 884,88**	**2 427 331,60**	**14 093 481,37**
Long-term as at 31 December 2011 (restated)	**100 144 171,15**	**255 830 579,22**	**47 831 484,35**	**403 806 234,72**

The principal assumptions made by the actuary as on the balance sheet date in calculating the amount of liability are as follows:

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Discount rate	3,80%	5,55%	5,50%
Employee turnover rate	0,00-8,50%	0,00-8,90%	0,00-5,70%
Expected salary increase rate	4,50%	4,50%	4,50%
Expected Company Social Benefit Fund charge increase rate	5,70%	5,80%	3,70%
Expected energy tariff increase rate	*by price trend**	*by price trend**	*by price trend**

* the trend of energy prices was determined on the basis of industry experts' analyses

Based on data received from the actuary, the Group estimates that the impact of changes in assumptions on the amount of the provision for retirement and disability awards, jubilee awards, company social fund and energy tariff benefits would be as follows:

- Adopting a discount rate 1 percentage point higher would decrease the amount of the provisions for years 2012, 2011 and 2010 respectively by approximately 11%, 12% and 10%, and adopting a discount rate 1 percentage point lower would increase the provision by approximately 14%, 13% and 14%, respectively.
- Adopting forecasted salary growth rates 1 percentage point higher would increase the provisions in 2012, 2011 and 2010 by approximately 14%, 13% and 14%, respectively and adopting forecasted salary growth rates 1 percentage point lower would decrease the provision by approximately 11%, 12% and 10%, respectively.

28. Earnings per share

Basic earnings per share are calculated by dividing net earnings for a given period attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding in such period.

On the other hand, diluted earnings per share are calculated by dividing net earnings for the period attributable to ordinary shareholders (minus interest on redeemable preferred shares, convertible to ordinary shares) by the weighted average number of issued ordinary shares in the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible to ordinary shares).

The earnings and share information presented below were used to calculate basic and diluted earnings per share:

Title	Year ended 31 December 2012	Year ended 31 December 2011 (restated)	Year ended 31 December 2010 (restated)
Net profit on continued operations attributable to the ordinary shareholders of the parent company	475 341 549,95	663 933 217,90	604 676 972,74
Net profit on discontinued operations attributable to the ordinary shareholders of the parent company	(18 306 873,97)	-	(378 008,92)
Net profit attributable to the ordinary shareholders of the parent company	**457 034 675,98**	**663 933 217,90**	**604 298 963,82**
Number of ordinary shares at the end of the financial period	4 968 805 368,00	4 968 805 368,00	4 968 805 368,00
Number of issued common shares used to calculate basic earnings per share	4 968 805 368,00	4 968 805 368,00	4 968 805 368,00
Earnings per share from continued operations (ordinary and diluted)	**0,09**	**0,13**	**0,12**
Earnings per share from discontinued operations (ordinary and diluted)	**(0,00)**	**-**	**(0,00)**

In the presented periods no dilution effect occurred.

29. Dividends paid and proposed for payment

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Dividends declared in the period			
dividend declared by subsidiaries to non-controlling interests	8 183 902,21	40 393 603,02	9 196 118,70
dividend declared by the parent	645 944 697,84	149 064 161,04	99 376 107,36
Total	**654 128 600,05**	**189 457 764,06**	**108 572 226,06**
Dividends paid in the period			
dividend paid in the period	653 924 155,35	189 440 845,08	114 620 053,58
dividend per share paid by the Group	0,13	0,04	0,02

When calculating the dividend per share paid by the Group, the weighted average number of shares of the parent was determined in the same manner as in the calculation of earnings per share, as described in Note 28 of the consolidated financial statements.

30. Business combinations

In connection with the restructuring of the Group in the years 2010 - 2012 the following mergers of the companies associated with the consolidation of sourcing, energy generation from renewable sources, lighting and telecommunication and IT businesses were carried out:

- On 30 April 2010 the District Court for the capital city of Warsaw in Warsaw issued the decision on the registration of the merger of ZEP – Info Sp. z o.o. and Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. by way of a transfer of the entire assets of Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. to ZEP – Info Sp. z o. o.
- On 1 June 2010 the District Court Gdańsk – Północ in Gdańsk issued the decision on the registration of the merger of ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. by way of a transfer of the entire assets of Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. to ENERGA Oświetlenie Sp. z o.o.;
- On 1 February 2011 the District Court Gdańsk – Północ in Gdańsk issued the decision on the registration of the merger of ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.), ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA by way of a tranfer of the entire assets of ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA to ENERGA Hydro Sp. z o.o;
- On 20 October 2011 the District Court Gdańsk – Północ in Gdańsk issued the decision on the registration of the merger of ENERGA Informatyka i Technologie Sp. z o.o. (acquiring company) and ZEP - Info Sp. z o.o. (acquired company);
- On 23 January 2012 the District Court for the capital city of Warsaw in Warsaw issued the decision on the registration of the merger of Zaopatrzenie Energetyki Koszalin Sp. z o.o., Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o. by way of a transfer of the entire assets of Zaopatrzenie Energetyki Koszalin Sp. z o.o. and Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. to Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o.;
- On 20 December 2012 the District Court Gdańsk – Północ in Gdańsk issued the decision on registration of the merger of ENERGA Hydro Sp. z o.o. (acquiring company) and ENERGA Wind Sp. z o.o. (acquired company).

As the above mentioned mergers related to entities covered by the consolidated financial statements, they did not affect the Group's assets, liabilities, revenues, expenses and cash flows presented in the respective years. The mergers that took place in 2010 - 2012 did not result in change of control over any of the Group's companies, and therefore in the Group's opinion the transactions satisfied the definition of transactions under common control.

The situation in which a transaction or economic process requiring recognition in the statements prepared in accordance with IFRS is not regulated by the provisions of individual standards, is governed by the provisions of IAS 8 point 10-12. Those provisions require the entity preparing the statements in accordance with IFRS to create its own set of accounting principles indicating the specific characteristics of such accounting principles: fair representation of the financial position, results of operations and cash flows, reflection of the economic nature of transactions, impartiality, prudence and completeness in all respects.

31. Share capital and other components of equity

31.1. Share capital

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
A series registered shares with a par value of PLN 1 each	255 000,00	255 000,00	255 000,00
B series registered shares with a par value of PLN 1 each	4 845 611 133,00	4 845 611 133,00	4 845 611 133,00
C series registered shares with a par value of PLN 1 each	122 939 235,00	122 939 235,00	122 939 235,00
Total number of shares	**4 968 805 368,00**	**4 968 805 368,00**	**4 968 805 368,00**

The outstanding shares have a aggregate nominal value of PLN 4,968.8 m and are fully paid up.

31.1.1 Shareholders' rights

Employee stock plan

Pursuant to the Act on Commercialisation and Privatisation dated 30 June 1996, employees and former employees of the subsidiaries of ENERGA SA Group are entitled to receive shares of the entities where they were employed as at the date of the derecognition of the given commercialised state owned enterprise from the applicable register (see the description in Note 27.1).

31.1.2 Significant shareholders

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
State Treasury			
share in capital	84,18%	84,18%	84,19%
share in voting rights	84,18%	84,18%	84,19%
Minority shareholders			
share in capital	15,82%	15,82%	15,81%
share in voting rights	15,82%	15,82%	15,81%

31.2. Reserve capital

The reserve capital was created from profit generated by the parent. As at 31 December 2012, 31 December 2011 and 31 December 2010, the reserve capital amounted to PLN 471.2 m, PLN 362.5 m and PLN 163.6 m, respectively.

31.3. Retained earnings and dividend restrictions

Retained earnings include amounts that are not subject to distribution, that is, may not be paid as dividends by the parent.

The statutory financial statements of all ENERGA companies for 2010 and 2011 were prepared in accordance with Polish accounting regulations. Statutory financial statements of ENERGA SA and ENERGA - OPERATOR SA for 2012 were prepared in accordance with IFRS-EU. The statutory financial statements of other ENERGA SA Group companies for 2012 were prepared in accordance with the Accounting Act.

In accordance with the requirements of the Code of Commercial Companies, the parent and its joint – stock subsidiary companies are required to create reserve capital to cover losses. At least 8% of the profit for the financial year reported in the company's separate financial statements is allocated to reserve capital until it reaches an amount of at least one third of the share capital. The decision to draw from reserve capital is made by the General Meeting; however the part of the reserve capital that represents one third of the share capital may only be used to cover losses reported in the separate financial statements and may not be allocated for any other purposes.

32. Provisions

	Post-employment benefits	Jubilee awards	Claims by counterparties	Legal claims	Employee matters	For reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Restructuring provision	Other provisions	Total
As at 1 January 2012 (restated)	**475 087 202,42**	**217 784 884,20**	**6 161,09**	**76 764 633,28**	**3 115 187,49**	**4 754 360,00**	**31 014 512,89**	**268 647 396,17**	**64 142 658,71**	**37 264 442,79**	**1 178 581 439,04**
Current service cost	9 293 772,15	15 001 912,92	-	-	-	-	-	-	-	-	24 295 685,07
Actuarial gains and losses	(37 463 427,36)	50 738 355,14	-	-	-	-	-	-	-	-	13 274 927,78
Benefits paid	(13 425 295,65)	(20 159 235,42)	-	-	-	-	-	-	-	-	(33 584 531,07)
Past service cost	(482 790,00)	(1 691 046,00)	-	-	-	-	-	-	-	-	(2 173 836,00)
Interest cost	25 922 471,00	13 732 220,00	-	-	-	4 544 690,00	-	-	-	-	44 199 381,00
Raised during the financial year	-	-	393 750,00	188 288 694,44	2 160 775,96	-	16 500,00	211 035 656,60	63 379 011,47	43 030 073,20	508 304 461,67
Released	-	-	-	(65 299 226,42)	(1 110 931,82)	-	(44 858,41)	(1 793 853,83)	(8 127 542,79)	(120 000,00)	(76 496 413,27)
Used	-	-	(6 161,09)	(1 055 989,46)	(659 326,21)	-	(30 679 654,48)	(266 853 542,34)	(62 481 174,12)	(28 534 148,65)	(390 269 996,35)
As at 31 December 2012 (restated)	**458 931 932,56**	**275 407 090,84**	**393 750,00**	**198 698 111,84**	**3 505 705,42**	**9 299 050,00**	**306 500,00**	**211 035 656,60**	**56 912 953,27**	**51 640 367,34**	**1 266 131 117,87**
Short-term as at 31 December 2012	**15 088 430,70**	**18 650 984,26**	**393 750,00**	**198 698 111,84**	**3 478 393,10**	**-**	**306 500,00**	**211 035 656,60**	**56 082 663,58**	**51 610 830,09**	**555 345 320,17**
Long-term as at 31 December 2012	**443 843 501,86**	**256 756 106,58**	**-**	**-**	**27 312,32**	**9 299 050,00**	**-**	**-**	**830 289,69**	**29 537,25**	**710 785 797,70**

	Post-employment benefits	Jubilee awards	Claims by counterparties	Legal claims	Employee matters	For reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Restructuring provision	Other provisions	Total
As at 1 January 2011 (restated)	**417 899 716,09**	**201 060 619,63**	**13 344 538,02**	**70 311 313,28**	**6 279 834,96**	**13 148 882,00**	**7 291 104,65**	**133 306 012,96**	**43 992 745,74**	**46 937 046,55**	**953 571 813,88**
Current service cost	7 619 817,31	24 016 186,40	-	-	-	-	-	-	-	-	31 636 003,71
Actuarial gains and losses	48 127 729,77	(1 319 049,00)	-	-	-	-	-	-	-	-	46 808 680,77
Benefits paid	(22 278 755,09)	(17 210 989,55)	-	-	-	-	-	-	-	-	(39 489 744,64)
Interest cost	23 718 694,34	11 238 116,72	-	-	-	(8 394 522,00)	-	-	-	-	26 562 289,06
Raised during the financial year	-	-	6 161,09	65 706 389,48	3 115 187,48	-	30 272 051,77	646 463 550,47	94 246 554,44	40 165 926,98	879 975 821,71
Released	-	-	(2 036 382,09)	(33 674 505,43)	(6 204 634,60)	-	(1 049 548,54)	(717 460,50)	-	(10 131 607,89)	(53 814 139,05)
Used	-	-	(11 308 155,93)	(25 578 564,05)	(75 200,35)	-	(5 499 094,99)	(510 404 706,76)	(74 096 641,47)	(39 706 922,85)	(666 669 286,40)
As at 31 December 2011 (restated)	**475 087 202,42**	**217 784 884,20**	**6 161,09**	**76 764 633,28**	**3 115 187,49**	**4 754 360,00**	**31 014 512,89**	**268 647 396,17**	**64 142 658,71**	**37 264 442,79**	**1 178 581 439,04**
Short-term as at 31 December 2011	**16 005 593,10**	**17 935 548,75**	**6 161,09**	**76 764 633,28**	**3 115 187,49**	**-**	**31 014 512,89**	**268 647 396,17**	**60 581 839,71**	**37 248 575,79**	**511 319 448,27**
Long-term as at 31 December 2011 (restated)	**459 081 609,32**	**199 849 335,45**	**-**	**-**	**-**	**4 754 360,00**	**-**	**-**	**3 560 819,00**	**15 867,00**	**667 261 990,77**

Ped

	Post-employment benefits	Jubilee awards	Claims by counterparties	Legal claims	Employee matters	For reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Restructuring provision	Provision for purchased energy estimates	Other provisions	Total
As at 1 January 2010 (restated)	**402 420 922,98**	**206 252 303,00**	**4 342 429,95**	**47 864 220,24**	**12 464 552,81**	**12 463 400,00**	**2 825 694,29**	**180 624 745,98**	**-**	**5 268 433,64**	**42 636 048,19**	**917 162 751,08**
Current service cost	8 286 262,55	7 701 767,22	-	-	-	-	-	-	-	-	-	15 988 029,77
Actuarial gains and losses	(4 124 844,69)	(10 541 469,04)	-	-	-	-	-	-	-	-	-	(14 666 313,73)
Benefits paid	(11 192 709,75)	(13 715 897,55)	-	-	-	-	-	-	-	-	-	(24 908 607,30)
Past service cost	-	-	-	-	-	-	-	-	-	-	-	-
Interest cost	22 510 085,00	11 363 916,00	-	-	-	685 482,00	-	-	-	-	-	34 559 483,00
Raised during the financial year	-	-	5 422 410,97	55 129 323,12	7 138 090,74	-	6 367 104,65	133 306 012,96	44 103 377,84	-	72 044 942,79	323 511 263,07
Released	-	-	(4 889 787,15)	(14 789 944,77)	(7 522 436,98)	-	-	(2 732 199,02)	(8 552,80)	(2 831 638,92)	(17 554 824,82)	(50 329 384,46)
Used	-	-	(2 874 820,75)	(26 520 527,40)	(3 055 179,69)	-	(2 825 694,29)	(177 892 546,96)	(102 079,30)	(2 436 794,72)	(32 037 764,44)	(247 745 407,55)
Reclassification	-	-	11 344 305,00	8 628 242,09	(2 745 191,92)	-	924 000,00	-	-	-	(18 151 355,17)	-
As at 31 December 2010 (restated)	**417 899 716,09**	**201 060 619,63**	**13 344 538,02**	**70 311 313,28**	**6 279 834,96**	**13 148 882,00**	**7 291 104,65**	**133 306 012,96**	**43 992 745,74**	**-**	**46 937 046,55**	**953 571 813,88**
Short-term as at 31 December 2010	**14 093 481,37**	**19 090 272,29**	**13 344 538,02**	**70 061 313,28**	**6 254 033,32**	**-**	**7 291 104,65**	**133 306 012,96**	**43 992 745,74**	**-**	**46 564 841,87**	**353 998 343,50**
Long-term as at 31 December 2010 (restated)	**403 806 234,72**	**181 970 347,34**	**-**	**250 000,00**	**25 801,64**	**13 148 882,00**	**-**	**-**	**-**	**-**	**372 204,68**	**599 573 470,38**

Pelt

33. Investment obligations

Acquisition of shares in OPEC Sp. z o.o.

On 25 February 2009 ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. jointly became a strategic investor in Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o. The respective share purchase agreement provides for implementation of an investment program for the development of district heating in the area of the city of Ostrołęka. ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. undertook to invest at least PLN 320 m in the development of the distribution grid and in heat energy generation within 10 years. As at the end of 2012, investments of PLN 51 m had been made.

Redevelopment of the heating network of ENERGA OPEC Sp. z o.o.

On 12 September 2011 the subsidiary ENERGA OPEC Sp. z o.o. entered into an agreement with the National Environment Protection and Water Management Fund in Warsaw for subsidising the project „Redevelopment of the heating network in ENERGA OPEC Sp. z o.o. in Ostrołęka in order to reduce transmission losses". The project was scheduled for 2011 - 2013 and its budgeted total cost is PLN 33.8 m. The subsidy for the company will will amount to 85% of eligible expenses which are capped at PLN 18.7 m. As at the end of 2012, the company incurred expenditures of PLN 9.5 m on the project.

Liabilities of the Distribution System Operator

ENERGA - OPERATOR SA (Distribution System Operator) operates pursuant to the - Energy Laws Act and and on the basis of a granted concession. Both documents stipulate obligations including, but not limited to, the requirement for safe, secure and continuous supply of electricity and to connect new entities to the grid. The Energy Laws Act also requires the company to prepare development plans defining the scope of physical and financial investments which plans are then subject to agreement with the President of the Energy Regulatory Office. It may, therefore,be concluded that the development plan, once agreed, becomes a form of investment obligation of ENERGA - OPERATOR SA. The agreed expenditures for 2012 amount to PLN 1,264.4 m.

Planned expenditures for the 2013 - 2015 are as follows: 2013 – PLN 1,209.8 m, 2014 – PLN 1,135.6 , 2015 – PLN 1,109.1 m (at 2010 nominal prices).

The program for modernisation and redevelopment of the distribution grid, funded by international financing institutions is also a form of investment obligation (see Note 42).

Agreement for „intervention operation" services

The subsidiary ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.) provides PSE – Operator S.A. with „intervention operation" services. Under the agreement, generating units of ENERGA Hydro Sp. z o.o. are made available to and are used by PSE - Operator SA for the intervention balancing of the active and reactive power and for control over power disbursements in the electricity grid of the National Power System (NPS) in order to ensure the current security of NPS operations.

The respective service agreement requires the modification of generating units in order to ensure proper operating parameters of the services delivered, in terms of a modernisation program pursued in accordance with the contractual schedule.

,Annex 4 to the agreement, concluded on 31 March 2009, amended the terms related to the modernisation of generating units. Such changes were required due to a delay of the modernisation investments for reasons

Ped

independent of ENERGA Hydro Sp. z o.o., including the failure to obtain necessary funding in addition to revenues from the Agreement, to finance the planned investments.

On 28 August 2009 a new agreement was concluded with PSE Operator SA under which the previous agreement was terminated and settled. In preparation for the execution of the new agreement, the modernisation program was updated in order to modify the technical scope to the limited financial expenditures. Finally it was agreed that the total expenditures for the modernisation of the Żydowo power plant would amount to PLN 134.3 m of which investments for PLN 125.3 m were carried out till 31 December 2012.

The external financing obtained through the bond issue program to fund the modernisation , as described in Note 42, is also a form of investment obligation.

Investment program of ENERGA Kogeneracja Sp. z o.o.

The bond issue program for funding the investments carried out by the subsidiary ENERGA Kogeneracja Sp. z o.o., covering the construction of a new power unit and the modernisation of the boiler through implementing a biomass joint combustion option is also an investment obligation. The aggregate planned capital expenditures amount to PLN 224.5 m of which investments for PLN 149.1 m were made till 31 December 2012. The bond issue program is connected with the external financing obtained, as described in Note 42.

34. Tax settlements

34.1. Overview

Tax-related obligations and rights are set out in the Constitution, tax laws and ratified international agreements. Pursuant to the tax ordinance, taxes are defined as any public law, free of charge, compulsory and non-refundable cash payments to the State, province, county or municipality treasuries resulting from the tax law. According to objective criteria applicable taxes in Poland can be grouped into five categories: income taxes, turnover taxes, property taxes, transaction taxes, and other charges, not classified elsewhere.

In the context of business activities, income taxes (corporate income tax), turnover taxes (value added tax, excise tax) and property taxes (real estate tax and vehicle tax) are of significant importance. However other charges and payments that could be treated as quasi-taxes should not overlooked. They include but are not limited to social security contributions and with respect to companies wholly owned by the State Treasury, contributions from profit.

The principal tax rates applicable in 2012 were as follows: corporate income tax rate – 19%, basic VAT rate – 23%, reduced VAT rates: 8%, 5%, 0%, in addition the supply of certain goods and services were subject to tax exemption.

Tax settlements and other areas of regulated operations (such as customs or foreign exchange matters) may be subject to controls carried out by administrative authorities which are authorised to impose significant penalties and sanctions. The lack of reference to long-established legal regulations in Poland results in the lack of clarity and consistency in the applicable regulations. Frequent differences of opinion as to how to interpret tax regulations, both internally within state authorities and between state authorities and businesses, create areas of uncertainty and conflict. Therefore tax related risk in Poland is significantly higher than is usually the case in countries with more developed tax systems.

Tax settlements are subject to inspection for 5 years beginning from the end of the year in which a tax payment was made. As a result of inspections, the tax settlements made by the Group to date may be increased by additional tax liabilities. The Group considers this to be remote as at 31 December 2012.

Poland's tax system is characterised by high volatility of tax regulations, high level of complexity, high potential penalties for fiscal crimes and offences and an overall pro-fiscal approach of the tax authorities. Tax settlements and other regulated areas (customs or foreign exchange) may be inspected by the relevant authorities which are authorised to impose fines and sanctions together with penalty interest. Inspections may cover tax returns for the period of 5 years from the end of the calendar year in which the tax was due, especially in the area of real estate tax.

34.2. ENERGA – OPERATOR Tax Group

On 28 December 2011 the subsidiary ENERGA – OPERATOR SA together with related entities:

- ENERGA–OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.,
- ENERGA–OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.,
- ENERGA–OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.,
- ENERGA–OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.,
- ENERGA–OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.,
- ENERGA–OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.,
- ENERGA–OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.

entered into a Tax Group Agreement under the name of PGK ENERGA – OPERATOR ("PGK"). ENERGA – OPERATOR SA was designated as the company representing PGK in relation to the obligations under the Corporate Income Tax Act and under provisions of the Tax Ordinance Act.

The PGK agreement became effective on 1 April 2012 and will remain in force for a period of 3 fiscal years.

The agreement was registered by the tax authorities on 30 January 2012 based on a decision of the Head of the Pomeranian Tax Office. In accordance with its provisions, the first fiscal year of PGK covered the period from 1 April 2012 to 31 December 2012.

Income taxes are imposed on the income of PGK, being the surplus of the aggregate income of all the companies making up PGK in excess of aggregate losses.

In terms of the Resolution No. 428/VII dated 6 March 2012, the Management Board of ENERGA – OPERATOR SA agreed, pursuant to Article 25 sec. 1b of the Corporate Income Tax Act, on the application by PGK of quarterly advances with respect to corporate income tax for its first fiscal year. Therefore, tax payments are made in the form of quarterly advances.

34.3. Reimbursement of the excise tax

Due to the inconsistency of the domestic excise tax laws with the provisions of the Energy Directive, during 2009, the subsidiaries ENERGA Elektrownie Ostrołęka SA, ENERGA Kogeneracja Sp. z o.o. and ENERGA Elektrociepłownia Kalisz S.A. applied to the competent customs authorities for recognition and reimbursement of the overpaid excise tax for 2006 – 2008 in the amount of PLN 175.4 m. The subsidiaries, in accordance with the Excise Tax Act, declared and paid excise tax on energy sold to non-end users in 2006 - 2008, while according to the laws in force in the European Union, electricity is subject to tax no earlier than upon delivery to the end user.

As at reporting date, proceedings were pending before the competent tax authorities and administrative courts in relation to the applications submitted by the subsidiaries.

34.4. Tax inspections

On 31 January 2011 the Parent Company applied to the Pomeranian Tax Office in Gdańsk for recognition of an overpayment in flat rate personal income tax for 2009 in the amount of PLN 25.1 m. At the same time the Company revised to its PIT-8AR return. The overpayment consisted of PLN 23.4 m of the flat rate tax paid by the company and PLN 1.7 m in penalty interest on the tax arrears. On 31 March 2011, the principal of the recognised overpayment together with accrued interest was reimbursed to ENERGA SA.

On 31 January 2011 a subsidiary, ENERGA – OPERATOR SA, filed a revised CIT-8 return for 2009 together with the motion for the recognition of an overpayment. The underlying basis for revising the tax return was a favourable individual tax interpretations of the Minister of Finance obtained in relation to taxation of spin-off transactions. In the revised return the amount of income tax of PLN 24.8 m was reported, whereas the company applied for recognition of an overpayment equal to PLN 91.9 m. As a result of the application filed by the company, proceedings for the recognition of the overpayment were initiated.

On 21 June 2011 the decision determining the amount of corporate income tax liability for the fiscal year from 1 January to 31 December 2009 at PLN 24.8 m was issued, which is consistent with the findings during the tax inspection. The overpayment of corporate income tax acknowledged by that decision, in the amount of PLN 91.9 m, was reimbursed by the Pomeranian Tax Office in Gdańsk on 22 June 2011.

35. Information on related entities

Transactions with related entities are concluded based on market prices of goods, products or services delivered.

35.1. Transactions involving state-owned companies

The Group's ultimate parent is the State Treasury, therefore other state-owned companies are treated as related entities by the Group. ENERGA SA Group companies identify transactions with approximately 30 related entities of the State Treasury with which trading activities of Group companies are the most significant. The total value of transactions with these entities is presented in the table below. The transactions were carried on market related conditions. They mainly concern the purchase and sale of distribution services, sales of electricity and purchases of coal.

As at	Receivables	Liabilities
31 December 2012	146 539 832,34	39 188 891,50
31 December 2011	117 021 111,49	63 850 236,47
31 December 2010	153 015 429,15	144 332 054,80

Period	Sale	Purchase
12-month period ended 31 December 2012	1 110 605 779,41	1 112 542 457,70
12-month period ended 31 December 2011	911 503 531,42	1 459 970 970,39
12-month period ended 31 December 2010	1 209 357 523,36	1 738 052 726,57

35.2. Transactions with associates

Year ended 31 December 2012	Sales	Purchases	Receivables	Liabilities
Soen Sp. z o.o.	1 150 635,84	4 708 220,67	34 481,04	951 884,71
Przedsiębiorstwo Produkcji Strunebetonowych Żerdzi Wirowanych "Wirbet" SA *	220 626,49	351 137,18	-	-
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna	12 655,47	1 930 000,00	177,64	3 346,54
Oświetlenie Uliczne i Drogowe Sp. z o.o.	24 230 229,78	47 918,63	3 347 092,87	58 939,92
Total	**25 614 147,58**	**7 037 276,48**	**3 381 751,55**	**1 014 171,17**

* The transactions relate to the period from 1 January until the date the shares in WIRBET SA were sold, i.e. until 16 February 2012.

Year ended 31 December 2011	Sales	Purchases	Receivables	Liabilities
Soen Sp. z o.o.	1 240 856,27	5 484 050,03	36 047,32	803 517,65
Przedsiębiorstwo Produkcji Strunebetonowych Żerdzi Wirowanych "Wirbet" SA	2 080 330,60	1 871 974,85	141 829,73	424 045,55
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna	-	2 333 000,00	-	20 659,85
Oświetlenie Uliczne i Drogowe Sp. z o.o.	20 892 820,34	14,21	4 158 647,42	25 144,89
Total	**24 214 007,21**	**9 689 039,09**	**4 336 524,47**	**1 273 367,94**

Year ended 31 December 2010	Sales	Purchases	Receivables	Liabilities
Soen Sp. z o.o.	972 537,00	10 751 427,19	30 772,35	1 554 914,41
Przedsiębiorstwo Produkcji Strunebetonowych Żerdzi Wirowanych "Wirbet" SA	1 970 085,24	3 972 589,67	165 698,90	246 537,16
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna	-	1 802 720,40	-	-
Oświetlenie Uliczne i Drogowe Sp. z o.o.	35 047 421,24	-	2 850 070,12	-
Total	**37 990 043,48**	**16 526 737,26**	**3 046 541,37**	**1 801 451,57**

As at the end of the reporting period there were no overdue receivables or liabilities with respect to transactions with associates.

35.3. Loans to management board members

As at the end of the accounting period there were no loans granted to members of the Management Board of ENERGA SA.

35.4. Other transactions involving management board members

During the accounting period there were no transactions with the participation of members of the Management Board of ENERGA SA.

35.5. Remuneration paid or payable to members of the Management Board and members of the Supervisory Board of the Group

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Management Board of the parent company	1 213 119,03	616 642,50	493 314,00
Supervisory Board of the parent company	279 985,48	290 184,72	290 184,72
Management Boards of subsidiaries	22 714 502,60	15 699 938,75	15 550 528,23
Supervisory Board of subsidiaries	2 620 741,76	2 351 231,50	2 321 037,46
Total	**26 828 348,87**	**18 957 997,47**	**18 655 064,41**

Pat

35.6. Remuneration paid to key management personnel (excluding members of the Management Boards and the Supervisory Boards)

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Short-term employee benefits (salaries and salary related costs)	46 720 589,08	40 588 523,74	31 540 358,05
Jubilee awards	902 874,80	827 863,73	581 241,64
Post-employment benefits	81 160,00	43 515,25	92 166,80
Termination benefits	304 299,69	887 181,41	502 554,49
Total amount of remuneration paid to senior management (except for Management Boards and Supervisory Boards members)	**48 008 923,57**	**42 347 084,13**	**32 716 320,98**

36. Financial instruments

36.1. Carrying value of financial instruments by category and class

Title	As at 31 December 2012	As at 31 December 2011 (restated)	As at 31 December 2010 (restated)
Classes of financial instruments			
Deposits	26 783 927,04	143 390,14	130 612,56
Bonds, treasury bills and other debt instruments	27 107 314,83	-	-
(Non-consolidated) shareholdings	2 830 952,87	10 138 049,90	33 105 322,68
Trade and other receivables	1 521 621 657,06	1 519 992 847,68	1 454 894 542,60
Cash and cash equivalents, including:	2 069 058 235,48	1 777 274 176,69	1 683 554 915,77
Units of participation in the ENERGA Trading SFIO fund	705 911 173,67	1 193 958 370,87	910 248 284,85
Receivables from sale of property, plant & equipment, intangible assets	2 515 934,75	1 758 911,08	759 097,13
Other financial assets	3 969 018,10	-	-
Derivative instruments (assets)	-	1 696 200,60	2 076 116,20
Total assets	**3 653 887 040,13**	**3 311 003 576,09**	**3 174 520 606,94**
Preferential loans and borrowings	996 129 192,30	1 003 929 250,73	728 018 257,06
Loans and borrowings	1 393 617 506,73	937 638 782,76	336 234 209,26
Overdrafts	26 030 109,32	7 633 181,76	10 482 545,46
Bonds issued	1 079 219 213,53	-	1 670 672,08
Trade and other liabilities	717 100 810,70	720 610 158,00	750 914 424,06
Other financial liabilities	19 297 226,38	6 676 374,45	6 752 799,11
Liabilities from purchase of proprty, plant & equipment and intangible assets	139 033 963,05	166 281 846,24	204 444 439,27
Derivative instruments (liabilities)	-	240 702,20	-
Total liabilities	**4 370 428 022,01**	**2 843 010 296,14**	**2 038 517 346,30**
Categories of financial instruments			
Financial assets measured at fair value through profit or loss	2 075 858 206,45	1 789 251 817,33	1 718 866 967,21
Investments held to maturity	53 891 241,87	-	-
Loans and receivables	1 524 137 591,81	1 521 751 758,76	1 455 653 639,73
Total assets	**3 653 887 040,13**	**3 311 003 576,09**	**3 174 520 606,94**
Financial liabilities measured at fair value through profit or loss	-	240 702,20	-
Financial liabilities measured at amortised cost	4 370 428 022,01	2 842 769 593,94	2 038 517 346,30
Total liabilities	**4 370 428 022,01**	**2 843 010 296,14**	**2 038 517 346,30**

36.2. Items of revenue, expenses, profits and losses recognised in the profit and loss account by category of financial instruments

Year ended 31 December 2012	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Total
Dividends and profit-sharing	78 162,00	-	-	-	**78 162,00**
Interest income/(cost)	45 476 888,12	683 337,00	28 584 766,42	(179 558 449,18)	**(104 813 457,64)**
Foreign exchange gains and losses	-	-	(1 327 280,13)	(13 976,47)	**(1 341 256,60)**
Reversal of impairment allowances / increase of value	162 944,98	-	56 745 973,93	-	**56 908 918,91**
Creation of Impairment allowances / decrease of value	(19 575 047,26)	-	(122 856 118,93)	-	**(142 431 166,19)**
Profit/(loss) on sale of investments	(18 884 542,64)			-	**(18 884 542,64)**
Total net profit/(loss)	**7 258 405,20**	**683 337,00**	**(38 852 658,71)**	**(179 572 425,65)**	**(210 483 342,16)**

Year ended 31 December 2011	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Total
Dividends and profit-sharing	828 587,44	-	-	-	**828 587,44**
Interest income/(cost)	64 335 930,48	96 036,38	95 956 395,75	(102 473 137,25)	**57 915 225,36**
Foreign exchange gains and losses	-	-	1 563 929,37	(452 241,25)	**1 111 688,12**
Reversal of impairment allowances / increase of value	1 740 460,66	-	31 305 024,18	-	**33 045 484,84**
Creation of Impairment allowances / decrease of value	(4 309 386,69)	-	(67 398 543,31)	-	**(71 707 930,00)**
Profit/(loss) on sale of investments	31 255 210,84	143 598,00	-	-	**31 398 808,84**
Total net profit/(loss)	**93 850 802,73**	**239 634,38**	**61 426 805,99**	**(102 925 378,50)**	**52 591 864,60**

Year ended 31 December 2010	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Total
Dividends and profit-sharing	362 464,72	-	-	-	**362 464,72**
Interest income/(cost)	52 227 193,50	297 700,00	20 705 593,43	(41 153 415,49)	**32 077 071,44**
Foreign exchange gains and losses	-	-	(1 156,36)	(299 310,66)	**(300 467,02)**
Reversal of impairment allowances / increase of value	849 507,43	-	23 859 216,58	-	**24 708 724,01**
Creation of Impairment allowances / decrease of value	(14 764,56)	-	(51 703 391,96)	-	**(51 718 156,52)**
Total net profit/(loss)	**53 424 401,09**	**297 700,00**	**(7 139 738,31)**	**(41 452 726,15)**	**5 129 636,63**

36.3. Fair value of financial instruments

The book value of the following financial assets and liabilities is a reasonable approximation of their fair value:

- loans granted, receivables and other financial liabilities,
- financial assets and liabilities at fair value through profit or loss.

The fair value of derivatives used by the Group, contracted on the Polish forward energy market excluding transactions made through Towarowa Giełda Energii, is determined using the MTM (Mark-to-Market) method, the current result of the power optimisation at any given time.

For the valuation of a product which is being delivered during the time of the valuation, MTM is calculated on the basis of the last settlement price published by the exchange for the product in question. For the valuation of a product which is not yet started to be delivered, MTM is calculated on the basis of the settlement price published by the exchange as at the valuation date.

This methodology applies when determining the fair value of derivatives based on commodities and carbon dioxide emission rights, quoted on foreign markets and for property rights to co-generated energy and foreign exchange CFD contracts.

For non-listed units there is no active market and it not either possible to apply to them any other valuation techniques providing reasonable output values, so the Group is not able to determine the range of their possible fair values. These assets are measured at cost less impairment losses.

36.4. Description of significant items in the various categories of financial instruments

36.4.1 Loans and receivables

Trade receivables are a key item in the category of financial instruments accounted for as loans and receivables.

As at 31/12/2012

Trade receivables and other financial receivables	Not overdue	Overdue < 30 days	30–90 days	90 - 180 days	180 - 360 days	>360 days	Total
Before impairment allowances	1 273 723 839,78	170 332 206,58	105 835 933,19	25 921 654,75	16 506 379,29	127 224 741,84	1 719 544 755,43
Impairment allowances determined individually	-	(1 122 013,93)	(5 611 640,54)	(2 615 372,01)	(2 850 523,95)	(1 921 269,63)	(14 120 820,06)
General impairment allowances	(33 470 960,55)	(4 269 442,93)	(3 497 038,26)	(4 699 238,04)	(10 317 137,93)	(125 032 525,85)	(181 286 343,56)
Total impairment allowances	(33 470 960,55)	(5 391 456,86)	(9 108 678,80)	(7 314 610,05)	(13 167 661,88)	(126 953 795,48)	(195 407 163,62)
After impairment allowances	**1 240 252 879,23**	**164 940 749,72**	**96 727 254,39**	**18 607 044,70**	**3 338 717,41**	**270 946,36**	**1 524 137 591,81**

As at 31/12/2011

Trade receivables and other financial receivables	Not overdue	Overdue < 30 days	30–90 days	90 - 180 days	180 - 360 days	>360 days	Total
Before impairment allowances	1 286 950 546,25	166 358 730,88	73 644 355,98	20 946 250,58	17 096 357,13	98 561 273,59	1 663 557 514,41
Impairment allowances determined individually	(16 023 742,57)	(1 080 339,10)	(4 273 225,59)	(4 531 929,31)	(5 607 205,17)	(1 513 420,23)	(33 029 861,97)
General impairment allowances	-	-	(194 073,25)	(244 519,28)	(11 289 447,79)	(97 047 853,36)	(108 775 893,68)
Total impairment allowances	(16 023 742,57)	(1 080 339,10)	(4 467 298,84)	(4 776 448,59)	(16 896 652,96)	(98 561 273,59)	(141 805 755,65)
After impairment allowances	**1 270 926 803,68**	**165 278 391,78**	**69 177 057,14**	**16 169 801,99**	**199 704,17**	**-**	**1 521 751 758,76**

As at 31/12/2010

Trade receivables and other financial receivables	Not overdue	Overdue < 30 days	30–90 days	90 - 180 days	180 - 360 days	>360 days	Total
Before impairment allowances	1 241 722 015,87	147 618 542,25	60 295 711,35	19 653 347,52	17 332 056,38	85 574 012,09	1 572 195 685,46
Impairment allowances determined individually	(2 189 412,32)	(4 725 190,11)	(1 753 939,57)	(1 388 430,94)	(1 540 857,31)	(9 625 084,46)	(21 222 914,71)
General impairment allowances	-	-	(8 808 738,50)	(3 191 140,32)	(8 807 122,33)	(74 512 129,87)	(95 319 131,02)
Total impairment allowances	(2 189 412,32)	(4 725 190,11)	(10 562 678,07)	(4 579 571,26)	(10 347 979,64)	(84 137 214,33)	(116 542 045,73)
After impairment allowances	**1 239 532 603,55**	**142 893 352,14**	**49 733 033,28**	**15 073 776,26**	**6 984 076,74**	**1 436 797,76**	**1 455 653 639,73**

Pe.t

36.4.2 Write-downs of financial assets

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
Impairment allowances as at 1 January 2012	**141 805 755,65**	**-**	**2 780 214,31**
Impairment allowances created	122 856 118,93	18 071 543,22	91 276,69
Impairment allowances used	(12 508 737,03)	-	-
Impairment allowances reversed	(56 745 973,93)	-	-
Impairment allowances as at 31 December 2012	**195 407 163,62**	**18 071 543,22**	**2 871 491,00**

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
Impairment allowances as at 1 January 2011	**116 542 045,73**	**-**	**216 537,85**
Impairment allowances created	67 393 031,51	-	2 563 676,46
Impairment allowances used	(10 824 297,41)	-	-
Impairment allowances reversed	(31 305 024,18)	-	-
Impairment allowances as at 31 December 2011	**141 805 755,65**	**-**	**2 780 214,31**

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
Impairment allowances as at 1 January 2010	**108 001 498,50**	**-**	**201 773,29**
Impairment allowances created	51 703 391,96	-	14 764,56
Impairment allowances used	(19 303 628,15)	-	-
Impairment allowances reversed	(23 859 216,58)	-	-
Impairment allowances as at 31 December 2010	**116 542 045,73**	**-**	**216 537,85**

36.4.3 Financial liabilities measured at amortised cost

36.4.3.1 Loans and borrowings

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Currency	PLN	PLN	PLN
Reference Rate	WIBOR, Rediscount rate	WIBOR, Rediscount rate	WIBOR, Rediscount rate
Value of the loan/borrowing	**2 415 776 808,35**	**1 949 201 215,25**	**1 074 735 011,78**
Of which, repayable:			
up to 1 year (short-term)	389 638 937,15	44 964 972,70	41 099 028,77
1 to 2 years	275 676 042,74	185 478 381,11	24 099 919,19
2 to 3 years	371 394 171,43	215 123 603,18	115 131 612,27
3 to 5 years	440 623 971,04	436 280 739,02	213 527 800,36
over 5 years	938 443 685,99	1 067 353 519,24	680 876 651,19

Detailed information on loans and borrowings is set out in Note 42.

36.4.3.2 Liabilities under notes issued

	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Currency	PLN	-	PLN
Reference Rate	WIBOR	-	WIBOR
Value of the issue	**1 079 219 213,53**	-	**1 670 672,08**
of which, repayable:			
up to 1 year (short-term)	-	-	1 670 672,08
1 to 2 years	7 340 062,54	-	-
2 to 3 years	7 390 623,35	-	-
3 to 5 years	14 995 575,98	-	-
over 5 years	1 049 492 951,66	-	-

Detailed information on issued notes is set out in Note 42.

36.4.3.3 Overdrafts

As at 31 December 2012, 2011 and 2010 the value of overdrafts available to the Group amounted respectively to PLN 3,492 m, PLN 3,064 m and PLN 2,504 m.

36.5. Security for the repayment of liabilities

As at the balance sheet date assets of the following carrying value constituted securities for the repayment of actual or contingent liabilities:

Group of assets on which security was established	31 December 2012	31 December 2011	31 December 2010
Property, plant and equipment	78 417 217,14	92 753 136,13	117 776 150,52
Receivables	300 000,00	3 841 771,23	20 741 068,46
Inventory	25 302 771,93	32 037 633,92	42 734 190,79
Cash resources	130 438 152,99	195 328 061,67	202 363 631,74
Total assets securing repayment of financial liabilities	**234 458 142,06**	**323 960 602,95**	**383 615 041,51**

Presented securities refer mainly to the loan granted to ENERGA SA Capital Group's companies by the National Environment Protection and Water Management Fund as well as loans and guarantees granted by the banks Pekao SA, Deutsche Bank Polska SA, ING Bank Śląski SA, Nordea Bank Polska S.A. and Bank PKO BP S.A.

36.6. Conditions / issues related to financial instruments not existing in the Group

During the accounting period ended on 31 December 2012, 2011 and 2010 none of the following economic events and conditions requiring disclosure existed in the Group:

- by the balance sheet date, the Group did not exercise the option to designate a financial instrument on its initial recognition as measured at fair value through profit or loss (IFRS 7, par. 9, 10, 11),
- no reclassification of financial assets was made which would change a method applicable for the valuation of such assets (IFRS 7, par. 12),
- no securities on any of the categories of assets were established in favour of the Group which would improve lending conditions (IFRS 7, par. 15) and the Group did not take over any assets as part of the recovery against securities established in its favour (IFRS 7, par.38),
- the Group did not issue any instruments including both liability and equity components (IFRS 7, par. 17),
- the Capital Group did not breach any loan agreements (IFRS 7, par. 18),
- the Group does not apply hedge accounting principles,
- no financial assets were acquired at a price materially different than their fair value (IFRS 7, par. 28).

37. Contingent assets and liabilities

37.1. Contingent liabilities and other security

Contingent liabilities and other security as at the balance sheet date are presented in the table below:

Liabilities arising from	31 December 2012	31 December 2011	31 December 2010
guarantees	476 787 827,79	498 799 625,58	702 964 817,46
bills of exchange	78 815 097,09	94 630 540,04	30 732 524,81
legal claims	144 065 627,81	62 038 518,31	18 093 958,54
other	13 440 666,74	2 725 556,14	128 750,74
Total	713 109 219,43	658 194 240,07	751 920 051,55

Guarantees

The Group reports mainly the following items as guarantees:

1. guarantees issued by the banks acting on behalf of ENERGA – OBRÓT SA for business partners to cover liabilities under contracted trade agreements, including:
   - Nordea Bank Polska S.A., Nordea Bank Finland Plc – Master Agreement for Bank Guarantees of 27 November 2008 valid until 26 October 2013. Bank guarantee limit as at 31 December 2012, 2011 and 2010 amounted respectively to PLN 120 m, PLN 120 m and PLN 400 m;
   - PEKAO SA - Master Agreement of 18 February 2010 valid until 31 January 2013. Guarantee limit as at 31 December 2012, 2011 and 2010 amounted respectively to PLN 150 m, PLN 200 m and PLN 200 m;
   - Deutsche Bank Polska SA - Credit Agreement of 19 May 2009 valid until 16 May 2013. As at 31 December 2012 agreement amounted to PLN 130 m (PLN 100 m as at 31 December 2011 and 2010) which may be used as an overdraft up to PLN 100 m (PLN 50 m as at 31 December 2011 and 2010) or bank guarantees up to PLN 130 m (PLN 100 m as at 31 December 2011 and 2010);
   - ING Bank Śląski SA – Master Guarantee Line Agreement of 18 November 2011 valid until 30 June 2013 with the extension option by subsequent 12 months. Bank guarantee limit amounted up to PLN 50 m as at 31 December 2012, 2011 and 2010.
2. as at 31 December 2012 and 2011 - guarantees issued by NORDEA BANK POLSKA SA on behalf of ENERGA – OPERATOR SA constitute a due security for the agreement entered into with Warmia and Mazury province with the registered office in Olsztyn – PLN 17.7 m.

Promissory notes

The Group reports mainly the following items as promissory notes:

- as at 31 December 2012, 2011 and 2010 - promissory note for PLN 30 m issued by ENERGA – OBRÓT SA on 22 January 2008, submitted to PSE S.A. to secure the agreement for transmission services;
- as at 31 December 2012 and 2011 - blank promissory notes for PLN 14.8 m issued by ENERGA – OPERATOR SA, constitutes a performance bond for the agreement on subsidising the project from the funds of the European Regional Development Funds as part of the Regional Operating Program Warmia and Mazury 2007-2013;
- as at 31 December 2012 and 2011 - blank promissory note for PLN 8.8 m issued by ENERGA – OPERATOR SA, constituting a security for the reimbursement of funds paid out by the National Environment Protection and Water Management Fund („NEPWMF") under the agreement on subsidising the project "Reduction of power losses in the grid in the area of ENERGA – OPERATOR SA operations";
  - as at 31 December 2012 and 2011 – blank promissory note for PLN 15.9 m issued by ENERGA OPEC Sp. z o.o., constituting a security for the reimbursement of funds paid out by the National Environment

Protection and Water Management Fund („NEPWMF") under the agreement on subsidising the project "„Redevelopment of the heating network in ENERGA OPEC Sp. z o.o. in Ostrołęka in order to reduce transmission losses";

- as at 31 December 2012 and 2011 - blank promissory note for PLN 3.5 mln issued by ENERGA – OPERATOR SA, as a security for payments for the energy on the balancing market under the Power Transmission Agreement entered into by and between ENERGA – OPERATOR SA and Polskie Sieci Elektroenergetyczne Operator SA.

Actions against the Group

As actions against related entities the Group discloses contingent liabilities under contentious actions against ENERGA Group's companies for which the probability of the companies prevailing is rather high and for such actions an appropriate provision is created.

The Group recognizes under this item mainly contingent liabilities for contentious actions associated with the power facilities of ENERGA - OPERATOR SA located on private lands (see the description in Note 42). As at 31 December 2012 and 2011 the estimated value of such claims amounted respectively to PLN 144.1 m and PLN 62 m.

37.2. Contingent assets

In 2011, the Group recognised a contingent asset in the amount of PLN 32.2 m from statutory interest accrued by the subsidiary ENERGA - OPERATOR on the amount of PLN 123 m awarded by the Appeal Court in Warsaw I Civil Department Division in the case brought by PSE Operator SA against ENERGA - OPERATOR SA (see Note 42). As at 31 December 2012, the Group adjusted the value of such asset to PLN 27.9 m following new developments in the case.

As at 31 December 2012, 2011 and 2010, the Group did not recognize any other significant contingent assets.

38. Objectives and principles of financial risk management

Key financial instruments used by the Group include bank loans, bonds, cash, short-term deposits and units in liquidity funds. The main purpose of such financial instruments is their use as a measure to finance the Group's activities.

The Group enters into derivative transactions too. The purpose of these transactions is to manage the risk arising in the course of the Group's business activities.

The main risks arising from the Group's financial instruments include:

- market risk,
- liquidity risk and
- credit risk.

The Management Board reviews and adopts applicable rules for managing each such risk - those rules are summarised below. The Group also monitors market price risk relating to all of the financial instruments it possesses.

The Group identifies the following main types of market risk to which it is exposed:

- interest rate risk,
- foreign currency risk,
- risk of price changes on the wholesale electricity market.

For purposes of the analysis of sensitivity to changes in market risk factors ENERGA SA Capital Group uses a scenario-based analysis method. The Group uses experts' scenarios reflecting a subjective opinion of the Group on future developments in individual market risk factors.

Scenario analyses presented in this section are aimed at analysing the impact of changes in market risk factors on the financial results of the Group. The analyses cover only the items which satisfy conditions of the definition of financial instruments.

In its analyses of sensitivity to the interest rate risk the Group applies a parallel shift of the interest rate curve by a potential possible change in the reference interest rates during the next year. Average benchmark interest rates in a given year were used to analyse sensitivity to interest rate changes. The extent of potential changes in interest rates was estimated based on the implied volatility of ATMF options (at-the-money-forward) for interest rates quoted on the interbank market for currencies in which the Group holds exposure to the interest rate risk as at the balance sheet date.

Potential possible changes in exchange rates were calculated on the basis of annual implied volatilities of currency options quoted on the interbank market for a particular currency pair as at the balance sheet date or in the absence of available market quotations based on historical volatilities for the period of one year before the balance sheet date.

For purposes of the analysis of sensitivity to changes in interest rates, the effect of changes in risk factors was referred to the value of interest revenues/ expenses for financial instruments measured at amortised cost and to the fair value at the balance sheet date of financial instruments measured at fair value.

Below there is a sensitivity analysis for each type of market risk to which the Company is exposed as at the balance sheet date showing the impact on gross profit which would result from be possible changes in the risk factors by class of financial assets and liabilities.

38.1. Interest rate risk

The Group identifies exposure to changes in WIBOR interest rates. The following table shows the sensitivity of the gross financial result to reasonably possible changes in interest rates assuming that other risk factors are constant for such classes of financial instruments which are exposed to the interest rate risk:

Financial Assets and Liabilities	31 December 2012		Interest rate risk sensitivity analysis as at 31 December 2012 WIBOR Gross financial result	
	Carrying value	Value exposed to the risk		
	PLN	PLN	*WIBOR + 110 bp*	*WIBOR -110 bp*
Deposits	26 783 927,04	26 783 927,04	2 946 231,97	(2 946 231,97)
Cash and cash equivalents	2 069 058 235,48	1 363 147 061,81	149 946 176,80	(149 946 176,80)
Preferential loans and borrowings	996 129 192,30	996 129 192,30	(109 574 211,15)	109 574 211,15
Loans and borrowings	1 393 617 506,73	1 393 617 506,73	(153 297 925,74)	153 297 925,74
Bonds issued	1 079 219 213,53	1 079 219 213,53	(118 714 113,49)	118 714 113,49
Current account overdraft	26 030 109,32	26 030 109,32	(2 863 312,03)	2 863 312,03
Change of gross profit			**(231 557 153,63)**	**231 557 153,63**

Financial Assets and Liabilities	31 December 2011		Interest rate risk sensitivity analysis as at 31 December 2011 WIBOR Gross financial result	
	Carrying value	Value exposed to the risk		
	PLN	PLN	*WIBOR + 84 bp*	*WIBOR -84 bp*
Deposits	143 390,14	143 390,14	1 204,48	(1 204,48)
Cash and cash equivalents	1 777 274 176,69	583 315 805,82	4 899 852,77	(4 899 852,77)
Preferential loans and borrowings	1 003 929 250,73	1 003 929 250,73	(8 433 005,71)	8 433 005,71
Loans and borrowings	937 638 782,76	937 638 782,76	(7 876 165,78)	7 876 165,78
Current account overdraft	7 633 181,76	7 633 181,76	(64 118,73)	64 118,73
Change of gross profit			**(11 472 232,97)**	**11 472 232,97**

Financial Assets and Liabilities	31 December 2010 Carrying value PLN	Value exposed to the risk PLN	Interest rate risk sensitivity analysis as at 31 December 2010 WIBOR Gross financial result *WIBOR + 42 bp*	*WIBOR -42 bp*
Deposits	130 612,56	130 612,56	548,57	(548,57)
Cash and cash equivalents	1 683 554 915,77	773 306 630,92	3 247 887,85	(3 247 887,85)
Preferential loans and borrowings	728 018 257,06	728 018 257,06	(3 057 676,68)	3 057 676,68
Loans and borrowings	336 234 209,26	336 234 209,26	(1 412 183,68)	1 412 183,68
Bonds issued	10 482 545,46	10 482 545,46	(44 026,69)	44 026,69
Current account overdraft	1 670 672,08	1 670 672,08	(7 016,82)	7 016,82
Change of gross profit			**(1 272 467,45)**	**1 272 467,45**

Changes in interest rates do not have a direct impact on the value of the Group's equity.

38.2. Currency risk

The Group is exposed to foreign exchange risk on its transactions. Such risk appears in the event when an the Group's companies carry out sales or purchases in currencies other than their measurement currency.

The Group identifies exposure to the risk of changes to EUR/PLN exchange rates. The following table shows the sensitivity of the gross financial result to reasonably possible changes in foreign exchange rates assuming that other risk factors are constant for such classes of financial instruments which are exposed to the risk of changes in foreign exchange rates:

Financial Assets and Liabilities	31 December 2012 Carrying value *PLN*	Value exposed to the risk *PLN*	Foreign exchange risk sensitivity analysis as at 31 December 2012 EUR/PLN Gross financial result *EUR/PLN rate + 8.65%*	*EUR/PLN rate -8.65%*
Trade receivables	1 521 621 657,06	250 008,56	21 625,74	(21 625,74)
Cash and cash equivalents	2 069 058 235,48	5 267 805,26	455 665,16	(455 665,16)
Trade liabilities	717 100 810,70	1 756 562,62	(151 942,67)	151 942,67
Change of gross profit			**325 348,23**	**(325 348,23)**

Financial Assets and Liabilities	31 December 2011 Carrying value *PLN*	Value exposed to the risk *PLN*	Foreign exchange risk sensitivity analysis as at 31 December 2011 EUR/PLN Gross financial result *EUR/PLN rate + 14,1%*	*EUR/PLN rate -14,1%*
Trade receivables	1 519 992 847,68	2 039 049,91	286 486,51	(286 486,51)
Cash and cash equivalents	1 777 274 176,69	6 528 817,03	917 298,79	(917 298,79)
Trade liabilities	720 610 158,00	1 059 445,14	(148 852,04)	148 852,04
Change of gross profit			**1 054 933,26**	**(1 054 933,26)**

Financial Assets and Liabilities	31 December 2010 Carrying value *PLN*	Value exposed to the risk *PLN*	Foreign exchange risk sensitivity analysis as at 31 December 2010 EUR/PLN Gross financial result *EUR/PLN rate + 12,3%*	*EUR/PLN rate -12,3%*
Trade receivables	1 454 894 542,60	2 169 234,13	266 815,80	(266 815,80)
Cash and cash equivalents	1 683 554 915,77	670 646,03	82 489,46	(82 489,46)
Trade liabilities	750 914 424,06	328 538,73	(40 410,26)	40 410,26
Change of gross profit			**308 895,00**	**(308 895,00)**

At present, the Group is not significantly exposed to the risks associated with foreign exchange rates because cash settlements of the Group are carried out mainly in the domestic currency.

The projected medium-term Eurobond issue as part of the EMTN Bond Program (see the description in Note 42) may expose the Group to risks associated with foreign exchange rates as these bonds will be issued in EUR. In order to minimise currency risk, the company plans to adopt a hedging strategy. As a result of adopting this strategy, currency forwards as well as interest rate and currency swaps will be concluded to mitigate the Company's exposure to these risks.

38.3. Price of goods risk

The main areas of ENERGA Group's activities subject to the price risk are: coal supply for power plants and heat and power plants and the risk of exchange prices when trading in energy, property rights and carbon dioxide emission rights.

The most significant risk refers to changes in purchase prices of electricity and property rights in the wholesale market for long-, medium- and short-term contracts on the Polish market and financial instruments in foreign markets such as futures / forward contracts for electricity, CO2 emissions and selected commodities.

In order to mitigate the risk associated with the volatility of purchase prices in the wholesale market the Group takes steps protecting against sudden price changes by optimising the contracting process through entering into respective contracts in certain proportions and for a variety of products. In addition, the purchase process is spread over time so that the average price of the Group's portfolio better aligns with the average purchase price of the annual volume determined as a target on the basis of market prices.

At the same time the mechanism was implemented in order to reduce the wholesale and retail trading risk through the coordination, optimisation and synchronisation of any purchases and sales processes. As part of the process contracts entered into on the wholesale and retail markets are monitored and reported together with the analysis of assumed and accepted threshold parameters.

In order to reduce the risks associated with trading in financial instruments appropriate trading limits are fixed and the value at risk is monitored on a daily basis. In addition, the Group implemented certain rules for determining Stop Loss and Take Profit levels which are monitored on a current basis.

38.4. Credit risk

The Group's credit risk is defined as the probability of the counterparty failing to satisfy its financial obligations. The credit risk is minimised through actions aimed at the value-based assessment of risk, monitoring of the financial condition of counterparties and securing the trade credit using any available tools such as bank guarantees, sureties, etc.

The credit risk is mitigated for counterparties with the largest turnovers or for the portfolio of wholesale accounts and the portfolio of strategic accounts. The following are of particular importance in this regard: analysis of creditworthiness, trading limits, certain provisions in agreements with counterparties and obtaining securities from customers with low credibility.

The Group implemented appropriate procedures to minimise the risk of default of counterparties. For the wholesale energy market respective procedures determine the limits of possible sales of electricity without requiring securities. For any transactions in excess of the above limit securities such as a bank guarantee are required.

When selling to strategic and business accounts respective procedures impose the obligation to assess the customers' reliability. For customers with low credibility a pre-condition for the sale is to obtain a security accepted by the Seller.

In addition, thanks to ongoing monitoring of the state of receivables, the Group's exposure to the risk of uncollectible receivables is insignificant.

With regard to other financial assets of the Group such as cash and cash equivalents and certain derivatives, the credit risk of the Group arises when the other party to an agreement cannot make payments, and the maximum exposure to that risk is equal to the carrying value of those instruments.

Credit risk also applies to funds committed to the fund units of ENERGA Trading SFIO. According to the adopted investment policy the fund invests in assets such as cash financial instruments, government bonds and corporate mortgage bonds, certificates of deposit and other domestic debt instruments with high liquidity and a high level of security. The credit risk associated with investments in treasury bills and bonds is related to the risk of insolvency of the State Treasury. Larger doubts may concern the credit risk of investments in commercial debt instruments which is mitigated by an appropriately formulated investment policy of the fund. This is due to the fact that the fund may only invest in assets with an investment rating given by rating agencies or internally, by the fund management company.

There are no concentrations of credit risk within the Group.

38.5. Liquidity risk

The Group monitors the risk of a lack of funds using a tool for periodically planning liquidity. That tool takes into account maturities/due dates of both financial liabilities and assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity and flexibility of financing by using different sources of financing such as overdrafts, bank credits, bonds and financial leases.

A detailed description of the main titles of the external funding sourced by the Group was presented in Note 42.1

The table below shows the Group's financial liabilities by contractual amortisation schedule.

31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	180 926 488,27	208 712 448,88	1 087 694 185,21	938 443 685,99	**2 415 776 808,35**
Bonds issued	-	-	29 726 261,87	1 049 492 951,66	**1 079 219 213,53**
Trade and other liabilities	868 275 503,31	5 394 033,25	1 762 463,58	-	**875 432 000,14**
Total financial liabilities	**1 049 201 991,58**	**214 106 482,13**	**1 119 182 910,66**	**1 987 936 637,65**	**4 370 428 022,02**

31 December 2011 (restated)	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	2 158 993,87	42 805 978,83	836 882 723,31	1 067 353 519,24	**1 949 201 215,25**
Trade and other liabilities	889 985 206,74	2 105 679,19	1 718 194,95	-	**893 809 080,88**
Total financial liabilities	**892 144 200,61**	**44 911 658,02**	**838 600 918,26**	**1 067 353 519,24**	**2 843 010 296,13**

The Group's financial assets are highly liquid. They mainly include cash and cash equivalents as well as trade receivables. The structure of cash and cash equivalents is presented in Note 22. The aging analysis of trade receivables is reported under Note 36.4.1.

31 December 2010 (restated)	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	1 411 620,25	39 687 408,52	352 759 331,82	680 876 651,19	**1 074 735 011,78**
Bonds issued	1 670 672,08	-	-	-	**1 670 672,08**
Trade and other liabilities	939 162 765,69	22 611 221,37	310 775,38	26 900,00	**962 111 662,44**
Total financial liabilities	**942 245 058,02**	**62 298 629,89**	**353 070 107,20**	**680 903 551,19**	**2 038 517 346,30**

ENERGA Group's financial policy effective as of the date of these financial statements requires that the maximum debt of ENERGA Group, measured by the ratio of net debt to EBITDA (in consolidated figures) should not exceed 3.0. For the purposes of its long-term strategic investment plan ENERGA Group adopted an even more restrictive level of this ratio, i.e. 2.5.

39. Capital management

The main objective of the Group's capital management is to maintain its investment grade credit rating and healthy capital ratios which would be supportive for the Group's operations and would allow to maximise value for its shareholders.

The Group manages its shareholding structure and changes it as economic conditions change. In order to maintain or adjust its shareholding structure, the Group may change dividends paid to shareholders, return the capital to shareholders or issue new shares. In 2012 there were no changes to the objectives, principles and processes applicable in this area.

The Group monitors the state of capital using the leverage ratio, counted as the relation of net debt to total capital increased by net debt. The Group's net debt includes interest-bearing loans and credits, issued bonds and debt securities, trade liabilities and other financial liabilities less cash and cash equivalents. The capital comprises convertible preferred shares and equity belonging to shareholders of the parent reduced by reserve capital from unrealised net profit.

Title	As at 31 December 2012	As at 31 December 2011 (restated)	As at 31 December 2010 (restated)
Interest-bearing loans and borrowings	2 415 776 808,35	1 949 201 215,25	1 074 735 011,78
Bonds issued	1 079 219 213,53	-	1 670 672,08
Trade liabilities and other financial liabilities	875 432 000,13	893 809 080,89	962 111 662,44
Less cash and cash equivalents	(2 069 058 235,48)	(1 777 274 176,69)	(1 683 554 915,77)
Net debt	**2 301 369 786,53**	**1 065 736 119,45**	**354 962 430,53**
Equity	**7 718 522 465,77**	**7 885 510 410,74**	**7 913 600 585,20**
Capital and net debt	10 019 892 252,30	8 951 246 530,19	8 268 563 015,73
Leverage ratio	0,23	0,12	0,04

40. Employment structure

Average employees in the Group was as follows:

Title	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Blue collar employees	6 640	6 671	7 320
Non-blue collar employees	4 409	4 969	12 350
Total	**11 049**	**11 640**	**12 350**

41. Information on significant events having taken place after the balance sheet date of the consolidated financial statements

41.1. Capital Group restructuring

On 4 January 2013 ENERGA BIO Sp. z o.o. signed the sale agreement for all its shares (90% of the share capital) in Biogazownia Starogard Sp. z o.o. for the price of PLN 1.45 m.

Following the decision to discontinue the Group's activities in the area of hotel services on 1 February 2013 the subsidiary Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. was placed into liquidation.

On 27 February 2013, following the completion of the liquidation proceedings Elektrownia Wodna we Włocławku Sp. z o.o. was deleted from the National Court Register.

41.2. Acquisitions

On 19 February 2013 ENERGA Hydro Sp. z o.o. signed the purchase agreement for up to 100% of shares in the Companies making up on-shore wind assets of Dong Energy Wind Power A/S in Poland as part of the consortium with the partner: PGE Polska Grupa Energetyczna SA with the registered office in Warsaw. Subject to the approval of the concentration by way of the decision of the President of the Office for Competition and Consumer Protection („OCCP") ENERGA Hydro Sp. z o.o. will become the owner of:

- 100% of shares of Dong Energy Karcino Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Tuszyny Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Pancerzyn Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Gąsiorowo Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy 3 Sp. z o.o. with the registered office in Warsaw,
- 100% of shares of Dong Energy Olecko Sp. z o.o. with the registered office in Warsaw.

After the acquisition of the foregoing entities ENERGA Capital Group will hold one active 51 MW wind farm and the portfolio of wind projects on different stages of progress with the aggregate capacity of over 200 MW.

Moreover, on 26 February 2013 ENERGA Hydro Sp. z o.o. signed the purchase agreement for shares in Iberdrola Renewables Polska Sp. z o.o. acting in the consortium with the partner PGE Polska Grupa Energetyczna SA with the registered office in Warsaw. As a result of the transaction, subject to the approval of the concentration by OCCP ENERGA Hydro Sp. z o.o. will hold 67.3% of the shares in the acquired company. As part of the transaction ENERGA Capital Group will take over two active 114 MW wind farms and the portfolio of wind projects on different stages of progress with the aggregate capacity of over 1,186 MW.

41.3. Dispute between PSE SA and PKN ORLEN SA

On 11 January 2013 there was a hearing before the Supreme Court as part of the dispute between ENERGA - OPERATOR SA and PSE SA and PKN ORLEN SA (see the description in Note 42).

42. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group

42.1. External funding

Loans to finance the investment program at ENERGA – OPERATOR SA

In the years 2009 – 2010 ENERGA SA together with its subsidiary ENERGA – OPERATOR SA entered into loan agreements aimed at financing the investment program of ENERGA – OPERATOR SA for the period 2009 - 2012[1]associated with the redevelopment and modernisation of the distribution grid:

1. agreement with the European Investment Bank ("EIB") with the limit of up to PLN 1,050 m, concluded on 16 December 2009;
2. agreement with the European Bank for Reconstruction and Development ("EBRD") with the limit of up to PLN 800 m, concluded on 29 April 2010;
3. agreement with the Nordic Investment Bank ("NIB") with the limit of up to PLN 200 m, concluded on 30 April 2010.

The total amount of financing mobilised is PLN 2,050 m.

[1] Originally the investment period was supposed to include the years 2009-2011. As it was impossible to reach the budgeted level of capital expenditures within the structure and in the period initially fixed a part of the capital expenditures was shifted to 2012.

The loan agreements signed are long-term investment obligations – debts are repayable by 2025. The loan agreements are not secured on the borrowers' assets and are mainly based on financial covenants.

As part of these agreements tranches in the following amounts were drawn:

a) in 2010:
- PLN 630 m – under the agreement with EIB,
- PLN 300 m – under the agreement with EBRD,
- PLN 100 m – under the agreement with NIB.

b) In 2011:
- PLN 420 m – under the agreement with EIB (full use of the funding),
- PLN 350 m – under the agreement with EBRD (the last tranche equal to PLN 150.0 m was drawn on 21 February 2012),
- PLN 100 m – under the agreement with NIB (full use of the funding).

c) In 2012:
- PLN 150 m – under the agreement with EBRD (full use of the funding).

Currently, the Group holds talks with EBRD and EIB concerning a long-term financing for its investments in the redevelopment and modernisation of the distribution networks, including Smart Grid, carried out by ENERGA – OPERATOR SA in the years 2012-2015. The Company's defined investment program amounts to PLN 5.2 bn. Arrangements with the banks are based on the assumption that PLN 800 m would be contracted from EBRD and PLN 1,000 m from EIB.

On 26 February 2013 the Management Committee of EIB approved a loan proposal for ENERGA SA based on the following assumptions:

- Borrower: ENERGA SA
- Final Beneficiary / Joint Borrower: ENERGA-OPERATOR SA
- Amount: up to PLN 1,000 m,
- Term: up to 15 years

Thanks to the decision of the Management Committee the final approval of the loan by the Board of Directors may be possibly obtained on 14 March 2013.

The Group expects respective agreements with the aforementioned institutions to be signed in the first half of 2013.

Loans in NORDEA Bank Polska SA

In the years 2010-2011 ENERGA SA entered into the following loan agreements with NORDEA Bank Polska SA:

1. investment loan agreement of 8 September 2010 for PLN 100 m for the purchase of bonds issued by ENERGA Hydro Sp. z o.o. in connection with the investments carried out in the modernisation of the pumped-storage power plant in Żydowo. The final repayment date was set at 7 September 2015. As at 31 December 2012, the loan was utilised in full.
2. investment loan agreement for PLN 160 m of 17 December 2010 for the purchase of bonds issued by ENERGA Kogeneracja Sp. z o.o. in connection with the investments carried out in the modernisation of the boiler including the implementation of the biomass joint combustion option, in the construction of a straw-based palette production unit and in the construction of a new power unit. The final repayment date was set at 16 December 2015. The aggregate use of the loan as at 31 December 2012 reached PLN 134.7 m.

3. agreement for arranging loans for ENERGA Group's companies of 24 June 2010 with the total limit of up to PLN 75 m. Under the agreement ENERGA SA as well as ENERGA Group's companies are authorised to contract working capital overdraft loans and renewable loans with maturities up to 12 months and investment loans with maturities going beyond the validity of the credit limit, i.e. 29 June 2015. As at 31 December 2012 financing for PLN 45.1 m was committed of which PLN 12.7 m was actually used.
4. master agreement for bank guarantees for ENERGA Group's companies of 8 September 2010 with the total limit of up to PLN 5 m. As at 31 December 2012 the limit was used in the amount of PLN 4.2 m.
5. agreement for arranging loans for ENERGA SA of 12 October 2011 with the total limit of up to PLN 300 m. Funds available under the agreement may be used to finance current operations or for capital investments. The credit limit expires on 11 October 2016. In 2012 the current account financing was drawn for the amount of PLN 150 m and financing in the form of a revolving working capital loan for another PLN 150 m. As at 31 December 2012 the loans were not used.

All the above mentioned agreements are secured by financial covenants and for master agreements by a joint and several liability of ENERGA SA for liabilities of ENERGA Group's companies established through the accession to debt.

Loans in PKO Bank Polski SA

In the years 2011-2012, ENERGA SA concluded the following loan agreements with PKO Bank Polski SA:

1. a master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries, of 30 August 2011 with the total limit up to PLN 150 m. Under the agreement ENERGA SA as well as ENERGA Group's companies are authorised to contract working capital overdraft loans, renewable and non-renewable ones with maturities up to 36 months, investment loans with maturities up to 15 years and bank guarantees for up to 60 months. The loan agreement is unsecured. Repayment of the obligations of the subsidiaries is subject to joint and several liability of ENERGA SA established on the basis of accession to debt. As at 31 December 2012 the financing limit for PLN 149.2 m was committed of which PLN 26.8 m was actually used;
2. a master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries, of 20 September 2012 with the total limit up to PLN 200 m. Under the agreement ENERGA SA as well as ENERGA Group's companies are authorised to contract working capital overdraft loans, renewable and with maturities up to 12 months, investment loans with maturities up to 15 years and bank guarantees for up to 60 months. The agreement is secured with financial covenants. Repayment of the obligations of the subsidiaries is subject to joint and several liability of ENERGA SA established on the basis of accession to debt. As at 31 December 2012 the financing limit was committed for the total amount of PLN 10 m.

Loans in Pekao SA

In the years 2011-2012, ENERGA SA concluded the following loan agreements with Pekao SA:

1. loan agreement of 13 October 2011, with the total limit up to PLN 200 m designated for financing current operations or capital investments. The overdraft limit is effective until 12 October 2016. The agreement is secured with financial covenants. As at 31 December 2012 the loan was used in the amount of PLN 123.6 m;
2. loan agreement of 30 May 2012, in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company (see above). The final maturity date of the loan agreement is 29 May 2022. The agreement is

secured with financial covenants. ENERGA SA used the first tranche of the loan as part of the financing committed in the amount of PLN 33 m on 9 July 2012.

Domestic bond issue

On 21 September 2012 ENERGA SA entered with the banks Pekao SA and BRE Bank SA into the issue agreement establishing the domestic bond issue program for up to PLN 4 bn. The first bond issue under the program for PLN 1,000 m was made on 19 October 2012 with the maturity date of 18 October 2019. The issue was addressed to Polish institutional investors. The issue structure with respect to the investor base is as follows: open-ended pension funds 82%, insurance companies 6% and investment fund companies 12%. On 19 November 2012 the issued bonds were introduced into trading on one of Catalyst markets – Alternatywny System Obrotu (ASO) platform operated by BondSpot SA.

Eurobond issue process

On 15 November 2012 the EMTN medium-term Eurobond issue program for the maximum amount of EUR 1,000 m was established. As part of the EMTN Bond Program the special purpose vehicle Energa Finance AB (publ) registered under the laws of Sweden and operating as the 100% subsidiary of ENERGA SA is authorised to issue Eurobonds with maturities ranging from one year to ten years based on the following agreements of 15 November 2012:

- agency agreement entered into by and between Energa Finance AB (publ) as the issuer, ENERGA SA as the guarantor and BNP Paribas Securities Services, branch in Luxembourg, as the payment agent and the transfer agent,
- dealer agreement entered into by and between Energa Finance AB (publ) as the issuer, ENERGA SA as the guarantor and BNP Paribas, HSBC Bank Plc and Merrill Lynch International as the arrangers and dealers,
- surety agreement under which ENERGA SA undertook to unconditionally and irrevocably provide a surety for the liabilities of Energa Finance AB (publ) arising from the Eurobonds up to EUR 1,250 m valid until and including 31 December 2024; and
- payment agreement under which Energa Finance AB (publ) as the issuer and ENERGA SA as the guarantor undertook to satisfy certain liabilities under the bonds directly to their holders.

The above agreements and bonds issued under the EMTN Bond Program are governed by the laws of England. The bonds issued under the EMTN Bond Program may be introduced into trading on the regulated market in Luxembourg based on a prospectus approved by the Polish Financial Supervision Authority in Luxembourg on 15 November 2012.

As at 31 December 2012, no notes were issued under the EMTN Programme.

42.2. Suspension of the project Ostrołęka C

Due to material changes on the Polish energy market, deterioration of the environment for financing investments and cancelling the sale of a block of shares of ENERGA SA concluded between the State Treasury and PGE S.A., the Management Board of ENERGA SA revised the Group's strategic investment plan. In line with the strategy, the ENERGA Group has set the following goals for the project:

1. keeping the investment risk low (net debt/EBITDA not greater than 2.5, and expenditures on a single project not exceeding the annual EBITDA of the Group),
2. realise the rate of return on invested capital above the weighted average cost of capital,
3. cover more than 50 percent of the portfolio with own energy output,

4. reduction in the average unit CO emission rate$_2$ below 0.4 Mg/MWh,
5. diversify the investment portfolio (focus on mid-size projects and high-efficiency, low-emission power generation technologies).

Therefore, the Management Board of ENERGA SA resolved to suspend preparations for the construction of a coal unit in Ostrołęka. The reasons for withholding the project are among others difficulties in obtaining funding under the Project Finance formula and adverse conditions on the market of construction companies. Currently, the Group is looking for a partner interested in a joint implementation of the project or in a purchase thereof.

ENERGA SA estimated that the suspension of the project might constitute an indication for its impairment. Therefore, as at 31 December 2012 tests were carried out for the impairment of assets associated with the implementation of the project (see description in Note 14).

42.3. Capital Group restructuring

Distribution segment

In the years 2011 - 2012 a number of steps were taken in connection with the restructuring and reorganisation of the distribution segment at the Distribution System Operator (DSO) – subsidiary ENERGA – OPERATOR SA and the companies supporting the DSO activities.

In 2011:

1. at ENERGA – OPERATOR SA new Organisational Regulations were put in place, including the consolidated organisational structure of branches and divisions on the basis of common business processes and organisational solutions. The key objective of such implementation was to make sure that DSO tasks, stipulated in the Energy Law and in the single license granted to the entire company, are carried out on a consistent and comparable basis in line with the best company's and industry practice. The most important organisational changes associated with the new organisational structure include:
   - organisational separation of the network asset management from operations on such assets (use, works of electric installation teams);
   - vertical organisation of implementation (electric installation) services on the level of the Company's branches – that means that maintenance tasks will be carried out by the "branch structure", however as the rule employees of such services will not change a physical location where their work is delivered;
   - vertical organisation of medium-voltage and low-voltage traffic management at the level of Branches - organisational preparation to launch Regional Power Dispatch Centres which will ultimately take over medium-voltage and low-voltage traffic management duties in the entire Branch;
   - transfer of a part of the functions from the branches to the headquarters on the assumption that persons performing these tasks will not change their place of work:
     - tasks directly associated with security and defense,
     - tasks directly associated with audit and control,
     - internal communication-related tasks;
   - transfer of the function for management of technical services for customers to the level of the Branch, employees carrying out those duties so far in the Distribution Areas will not change a physical place of their work;
   - transfer of all support functions from the Distribution Areas to Branches assuming that the hitherto existing places where employees work are unchanged;

2. in connection with the restructuring activities on the level of DSO supporting companies the following activities were conducted:
   - ENERGA – OPERATOR SA took over the activities of the companies Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (currently ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. in the area of the management of grid connection processes, grid maintenance, investments and registers of grid assets,
   - rights and obligations arising from agreements entered into by the companies Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (currently ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. in the area of lighting operations were transferred to ENERGA Oświetlenie Sp. z o.o.,
   - execution activities carried out by ZET Energohandel Sp. z o.o. were transferred to Energetyka Kaliska – Usługi Techniczne Sp. z o.o.
   - designing activities carried out by the companies Multiserwis Sp. z o.o., Energo – Konsulting Sp. z o.o. (currently ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.) and ZET Energohandel Sp. z o.o. were transferred to ZEP-INPRO Sp. z o.o. (currently ENERGA – OPERATOR Projektowanie Sp. z o.o.),
   - production activities carried out by the subsidiary Zakład Budownictwa Energetycznego Sp. z o.o. were transferred to the subsidiary Energetyka Kaliska Liczniki i Instalacje Sp. z o.o. (currently ENERGA – OPERATOR Produkcja Sp. z o.o.).
   - Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (currently ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) acquired the business of Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. thus taking over its operations.
   - ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. took over from ENERGA – OPERATOR SA, Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (currently ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. the processes of technical services for customers (including installation and maintenance of metering systems, meter readouts) together with a part of the employees.

In 2012:

1. employees and assets connected with the grid and investment services carried out in the regions of Gdańsk, Elbląg – Olsztyn, Słupsk – Koszalin, Kalisz and Toruń were transferred to grid operating companies, established in December 2011:
   - ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.,
   - ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.,
   - ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.,
   - ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.,
   - ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o;
2. in ENERGA Informatyka i Technologie Sp. z o.o. assets associated with power activities were separated together with the employees supporting such functions and transferred to ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o;
3. ENERGA – OPERATOR SA transferred its processes, assets and employees from the maintenance and investment areas to newly founded companies ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o. and ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.;

Pek

4. Management Boards of the subsidiaries of ENERGA – OPERATOR SA, namely:
   - ENERGA–OPERATOR Projektowanie Sp. z o.o.,
   - Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.
   - Zakład Budownictwa Energetycznego Sp. z o.o.
   - ENERGA–OPERATOR Produkcja Sp. z o.o.
   - Przedsiębiorstwo Wielobranżowe Energetyki ELEKTROINSTAL Sp. z o.o.

   initiated works on the development of the strategy for sale of shares in those companies. The resulting recommendations are expected to be presented by the end of the first quarter 2013.

Model for sales and services in ENERGA Capital Group

On 25 February 2011 the project titled „Implementation of an effective model for sales and services in ENERGA Capital Group" was initiated; its objective is to fully use the revenue potential of the Group in the area of customer sales and services, to comprehensively manage the level of total satisfaction of the Group's customers and to improve cost efficiency in the area of sales activities.

Following the implementation of tasks defined under the project ENERGA Obsługa i Sprzedaż Sp. z o.o.:

- transferred to ENERGA – OPERATOR SA activities and resources associated with the handling of connection processes, illegal consumption and non-power services,
- transferred to ENERGA – OBRÓT SA activities and resources associated with the handling of sales processes to business customers as well as of management and sales support processes.

In December 2011 the share capital of the subsidiary ENERGA – OBRÓT SA was raised by PLN 33.1 m. The increased share capital was subscribed for by ENERGA SA and covered in full by shares in ENERGA Obsługa i Sprzedaż Sp. z o.o. After the transaction ENERGA – OBRÓT SA became the only shareholder of ENERGA Obsługa i Sprzedaż Sp. z o.o.

Following the foregoing transformations ENERGA Obsługa i Sprzedaż Sp. z o.o. pursues strategic objectives of ENERGA – OBRÓT SA in the area of mass customer services and is currently focused on:

- efficient and effective implementation of the key optimisation objective, i.e. reduction of service costs, and in particular costs of handling contacts and settlements with individual customers, assuring a smooth implementation and maintenance of the customer service standards which would guarantee rising levels of customer satisfaction from the services.

Model for investments in ENERGA Capital Group

Pursuant to the resolution of the Management Board of ENERGA SA of 29 February 2012 the subsidiary ENERGA Invest SA was appointed to play the role of the Substitute Investor in ENERGA Group. The company, being an entity specialised in the preparation and implementation of investment projects in the area of generation (construction of gas and water plants, co-generation plants, wind farms, photovoltaic installations) employs services carrying out new investment projects and makes early research into and preparation of investment initiatives.

Currently, the company continues preparations for the construction of two gas power plants in Grudziądz and Gdańsk as well as works over Wisła project and plays the role of the Contract Engineer in Żychlin where a pilot co-generation system is supposed to be developed.

Consolidation of the operations in the segment of energy generation from renewable sources

The company consolidating the operations in the area of energy generation from renewable sources is ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.).

In the years 2010 – 2012 the following activities aimed at the consolidation of the operations in that segment took place:

- 2010 acquisition by ENERGA Hydro Sp. z o.o. of organised parts of the businesses, including energy generation in small hydro power plants, from ENERGA Kogeneracja Sp. z o.o. and ENERGA Wind Sp. z o.o. (previously ENERGA Elektrownie Wiatrowe Sp. z o.o. / ENERGA Elektrownie Słupsk Sp. z o.o.);
- 2010 acquisition of the business of Elektrownia Wodna we Włocławku Sp. z o.o. by ENERGA Hydro Sp. z o.o. (purchase agreement actually closed in January 2011).
- business combinations in the years 2011 and 2012 (see description in Note 30);

Consolidation of CHP segment operations

The company consolidating CHP segment operations is ENERGA Kogeneracja Sp. z o.o.

In 2012 the following activities aimed at the consolidation of the operations in that segment took place:

- ENERGA SA transferred as a contribution in kind the shares in ENERGA Elektrociepłownia Kalisz S.A. to ENERGA Kogeneracja Sp. z o.o.;
- ENERGA SA and ENERGA Elektrownie Ostrołęka SA transferred as a contribution in kind the shares in ENERGA OPEC Sp. z o.o. to ENERGA Kogeneracja Sp. z o.o.;
- ENERGA Kogeneracja Sp. z o.o. acquired shares in Zakład Energetyki Cieplnej w Żychlinie Sp. z o.o. (see description in Note 2).

Consolidation of the lighting operations

The company consolidating the lighting operations is ENERGA Oświetlenie Sp. z o.o.

In the years 2010 - 2012 the following activities aimed at the consolidation of the lighting operations took place:

- business combinations in 2010 (see description in Note 30);
- 2010 contribution in kind by ENERGA – OPERATOR SA to ENERGA Oświetlenie Sp. z o.o. in the form of an organised part of the business, including lighting operations.

Consolidation of IT area operations

The company consolidating IT area operations is, since its foundation in 2011, ENERGA Informatyka i Technologie Sp. z o.o. (see description in Note 2).

In the years 2010 - 2012 the following activities aimed at the consolidation of IT area operations took place:

- business combinations in the years 2010 and 2011 (see description in Note 30);
- contribution in kind agreement entered into in December 2011 by and between ENERGA SA and ENERGA Informatyka i Technologie Sp. z o.o. under which the share capital of ENERGA Informatyka i Technologie Sp. z o.o. was increased by PLN 19.1 m. Non-cash contribution in the form of ENERGA SA assets including computer equipment, computer software and computer IT documentation and computer carriers was made to the company and registered in the National Court Register in February 2012;
- 2012 transfer from the subsidiary ENERGA – OPERATOR SA of selected IT processes together with employees handling such processes to ENERGA Informatyka i Technologie Sp. z o.o. ENERGA – OPERATOR SA kept technological systems support processes, while ENERGA Informatyka i Technologie Sp. z o.o. took over local user support processes and the entirety of support processes for central systems used by the Group's companies.

Consolidation of maintenance and overhaul services

The company consolidating operations in the area of maintenance and overhaul services for the segment of system power plants and CHP in the Group is ENERGA Serwis Sp. z o.o. established in 2011.

As part of the consolidation of maintenance and overhaul services in ENERGA Serwis Sp. z o.o. the company's share capital was raised by PLN 7.1 m. New shares were subscribed for in their entirety by the subsidiary ENERGA Elektrownie Ostrołęka SA in exchange for a cash and non-cash contribution. The capital increase in the company was registered in the National Court Register on 13 June 2012.

Reorganisation of the shareholding structure in ENERGA Group

In the years 2010 – 2012 a number of actions were taken to appropriately organise the shareholding structure in the Group.

In 2010 there were activities taking place in order to simplify the Capital Group's structure, including the acquisition by ENERGA SA of minority shareholdings in ENERGA Group's companies held by other companies from the Group.

In 2011:

- ENERGA SA acquired from the State Treasury minority stakes in ENERGA – OPERATOR SA and ENERGA Elektrownie Ostrołęka SA for the total consideration of PLN 585.6 m. In addition, the program for involuntary repurchase of shares from the shareholders of ENERGA – OPERATOR SA was pursued. Following such transactions the share of ENERGA SA in the capital of ENERGA – OPERATOR SA and ENERGA Elektrownie Ostrołęka SA as at 31 December 2011 rose respectively to 99.74% and 89.38% as compared to 85.06% and 85.00% as at 31 December 2010;
- ENERGA SA made purchases of minority blocks of shares in ENERGA Group's companies held by other companies from the Group;
- ENERGA SA acquired from ENERGA – OPERATOR SA and Zakład Budownictwa Energetycznego Sp. z o. o. their shares in ENERGA Oświetlenie Sp. z o.o. thus becoming the only shareholder in the company.

In 2012:

- the program for involuntary repurchase of shares from the shareholders of ENERGA – OPERATOR SA was pursued. As a result of those transactions the share of ENERGA SA in the capital of ENERGA – OPERATOR SA as at 31 December 2012 equalled respectively 99.75% as compared to 99.74% as at 31 December 2011; ENERGA SA sold to ENERGA – OPERATOR SA its shares in the companies: Zakład Energetyczny Płock – Centrum Handlowe Sp. z o. o. and Zakład Energetyczny Toruń „ENERGOHANDEL" Sp. z o. o.;
- ENERGA Elektrownie Ostrołęka SA sold shares in Ekologiczne Materiały Grzewcze Sp. z o. o. to ENERGA SA;
- ENERGA SA transferred as a contribution in kind to ENERGA – OBRÓT SA, in exchange for a corresponding share capital increase and subscription for newly created shares, shares in ENERGA Oświetlenie Sp. z o. o.;
- on 24 January 2012 the share capital increase in the subsidiary ENERGA Innowacje Sp. z o. o. by PLN 2.5 m was registered. The newly created shares were subscribed for by ENERGA – OPERATOR SA which thus reached the 50% share in the capital of ENERGA Innowacje Sp. z o. o. ;
- as part of the consolidation of OZE Segment in ENERGA Capital Group in September 2012 ENERGA Wind Sp. z o.o. acquired from ENERGA Invest its shares in AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o. o., AEGIR 3 Sp. z o. o., AEGIR 4 Sp. z o. o. and AEGIR 5 Sp. z o. o.

Other changes in ENERGA Group were described in Note 2 „Composition of the Group" and Note 30 „Business combinations" in these consolidated financial statements.

Pert

Reorganisation of the structure of ENERGA SA

In 2012 ENERGA SA started actions aimed at the reorganisation of the company's operations by improving its management efficiency and specialisation in the purely business area guaranteeing at the same time that expectations of its stakeholders are satisfied.

Analyses covered especially the processes supporting business areas and were concluded by indications showing that they might be carried out by dedicated service companies. Such processes as: legal services, HR, organisational services, procurement services, real estate management, IT process support services, were transferred to other companies from the Group.

The implementation of the changes resulted in the reduction in the number of organisational units and simplification of the management levels in ENERGA SA.

42.4. Privatisation process

On 17 July 2009 the Ministry of Treasury made the decision on privatisation of ENERGA Group. A public invitation to negotiations was announced in April 2010. In the period from June to September due diligence process were carried out during which prospective investors had the opportunity to review selected documents, visit selected facilities of the Group, have meetings with the Management Board and operating meetings with Q&A sessions.

On 29 September 2010 the Ministry of Treasury („MST") and Polska Grupa Energetyczna S.A. („PGE") signed the agreement for sale of 84.19% of shares in ENERGA SA.

On 13 January 2011 the President of the Office for Competition and Consumer Protection („OCCP") issued the decision prohibiting PGE to take over control of ENERGA SA. Following that decision the State Treasury and PGE signed an annex to the agreement for sale of shares in ENERGA SA. MST and PGE mutually agreed on the term of the agreement equal to 12 months and agreed to suspend the course of the term until when court proceedings for the appeal against the decision of OCCP are finally closed.

On 28 January 2011 PGE appealed against the decision of OCCP to the Regional Court in Warsaw - Court for Competition and Consumer Protection („CCCP").

On 14 May 2012 there was a hearing before CCCP closed with a judgment dismissing the appeal of PGE against the decision of the President of OCCP prohibiting the concentration, including the take-over of control over ENERGA SA by PGE. According to the notice published in the current report of 5 June 2012 the management board of PGE decided not to appeal against the judgment of CCCP which thus became final on 12 June 2012.

Therefore the agreement for sale of shares in ENERGA SA entered into on 29 September 2010 by and between PGE and the State Treasury was terminated.

In January 2013 the process for privatisation of ENERGA SA was resumed. The Minister of Treasury (the "MST") resolved to relaunch the privatisation of ENERGA SA. The intention of MST is to sell a minority stake in ENERGA SA on the Warsaw Stock Exchange („WSE") under an IPO-type transaction (Initial Public Offering). ENERGA SA floating on WSE is expected by the end of the first half this year.

42.5. Project titled "Environment Management System and Sustained Development Mechanisms"

The project titled „Environment Management System and Sustained Development Mechanisms" was launched in September 2011 in order to implement conditions required by EMAS regulation in the most important companies of ENERGA Group.

Pert

Project works include environment audits in the companies, training for members of management boards, officers and internal auditors and the preparation of common system procedures (in accordance with ISO14001 requirements).

As part of the sustained development initiatives in October 2012 the Group released the first Responsible Business Report for 2011. The report concerns aspects of the Group's operations associated with social & employee, business and environment issues. Meets the framework Global Reporting Initiative guidelines recognised worldwide and used by organisations of all sizes, sectors and locations. In preparing the report, the policies on defining both the contents and the quality of the report were taken into account. To ensure that the report covers key issues for the company and the industry, it was based on the strategy and values of the ENERGA Group. When defining its contents, analyses covered global, industry sustained development reports as well as other publications and reports describing challenges for sustained development essential for the power sector.

The implementation of the project „Environment Management System and Sustained Development Mechanisms" creates the possibility to use investment funding sources offered by international institutions and at the same time marks compliance with provisions and covenants regulated in the agreements with EIB, EBRD and NIB.

42.6. Construction of gas - steam power plants in Grudziądz and Gdańsk

On 19 April 2011 ENERGA Invest SA and Electricity Supply Board International Investments B.V. (ESBI) founded the subsidiary Elektrownia Grudziądz sp. z o.o. in organisation with the registered office in Grudziądz and the share capital of PLN 12 m. Each of the shareholders was supposed to subscribe for 50% of shares in the capital covering the same by a cash contribution.

However due to differences of opinion as to the methods for implementing the project ENERGA Invest SA unilaterally terminated the shareholders' agreement. On 20 November 2012 the parties signed the agreement for settlement of their mutual cooperation thus terminating collaboration under which ENERGA Invest SA took over all rights to the project and received the other shareholder's authorisation to liquidate the special purpose vehicle in organisation established for joint implementation of the project.

ENERGA Group will continue investments in Grudziądz without participation of the business partner. The investments will be carried out by a special purpose vehicle Elektrownia CCGT Grudziądz Sp. z o.o. established in 2012. The power plant is expected to have the capacity of ca. 900 -1 200 MWe.

On 2 October 2012 the agreement was entered into with PSE Operator SA to connect to the power transmission grid. Currently tender proceedings are in progress in order to select the General Designer and the General Contractor for the first stage of the power plant including one gas - steam unit with the capacity of 420-600 MWe. The tender for selection of the contractor for the construction of the unit is expected to be completed in 2014. Funding for the project will be searched for on subsequent stages of its implementation. For the moment it is assumed that the project will be carried out based on balance sheet financing organised by ENERGA SA. Funds will be transferred from ENERGA SA to a special purpose vehicle through a bond issue program.

Besides investments in Grudziądz, it is also planned to start a gas - steam power plant in the area of Gdańsk with the total planned capacity of 400-600 MWe. For purposes of this venture the special purpose vehicle Elektrownia CCGT Gdańsk Sp. z o.o. was established in December 2012 by ENERGA SA. The investments in Gdańsk are expected to be completed in 2020.

42.7. Consortium of ENERGA SA Group and Kopalnia Adamów

On 7 January 2010 the consortium agreement was signed between PAK KWB Adamów SA (previously Kopalnia Węgla Brunatnego "Adamów") and ENERGA SA Group for the construction and commissioning of the complex of wind power plants in the post-mining areas belonging to PAK KWB Adamów SA and located in Przykona

Pet

commune. Under the project, carried out by a special purpose vehicle, a wind farm with the capacity of up to 40 MW is going to be built.

Currently works are in progress to establish the special purpose vehicle and to obtain all the corporate authorisations in PAK KWB Adamów SA. Concurrently there were works carried out on the project documentation concerning technical and environment areas. The project gained approval from the President of OCCP for the business concentration. The investments are expected to be completed in 2016.

42.8. ENERGA Wisła Programme

The goal of the Wisła Programme, carried out by the ENERGA Group, is to build a weir together with a hydroelectric plant on the Vistula river south of Włocławek. Preliminary assumptions indicate that the proposed plant capacity may range from 60 to 100 MW, and its average output would amount to more than 500,000 MWh per year. The term of the investment is estimated at around 7 years (it is likely to be launched in 2017), and its value at about PLN 2.5 bn.

On 9 March 2010 ENERGA SA and Ove Arup&Partners International Limited Sp. z o.o. entered into the agreement for development of the „Documentation necessary for the construction of a dam and power plant on Vistula downstream from Włocławek".

The key objective of the agreement is to provide complete documents necessary to start construction of the dam and power plant on Vistula, required to obtain an environmental decision for the investment issued by the Regional Directorate for Environmental Protection and a favourable opinion of the European Commission (if necessary).

Work is under way on drafting a Location Study, Feasibility Study and Environmental Impact Assessment. This will help determine detailed technical and location data for the project and apply for an environmental permit enabling implementation of the project in areas protected under Natura 2000.

42.9. Social contracts executed in the course of the consolidation and restructuring processes

On 19 July 2007 the Social Contract No. 1/1 – GK ENERGA/2007 securing employees' rights and interests in the process of consolidation and restructuring of ENERGA Capital Group was signed. The agreement was entered into pursuant to Article 9 of the Labour Code, Art. 26 of the Act of 23 May 1991 on trade unions and constitutes an extension and clarification of provisions of the agreement on rights of social partners in the process of vertical consolidation and terms and conditions of cooperation in the process of restructuring concluded on 7 March 2007 and the agreement G8 3/1- Consolidation and restructuring – G8/2004.

The Social Contract became effective on 1 August 2007.

The provisions of the agreement concern obligations towards employees with respect to:

- employee guarantees in the case of restructuring activities,
- related bonus in connection with the consolidation for distribution companies and subsidiaries,
- employment guarantees,
- pay guarantees,
- social and health protection guarantees,
- ensuring their right to employee shares.

The term of the employment guarantee for employees of ENERGA SA Capital Group was fixed at 120 months from the effective date of the social contract.

Liabilities from social guarantees are the continuation of the hitherto existing liabilities to employees, their families and former employees (pension and disability pension), taking into account annual contribution to the social fund

Pell

by applying a double contribution rate stipulated in the Act on Social Fund in 2007. Since 2009 the contribution has been three times as much as the statutory contribution.

In addition, on 1 August 2007 the Social Contract was signed between Zespół Elektrowni Ostrołęka S.A. (currently ENERGA Elektrownie Ostrołęka SA) and trade union organisations to secure rights of employees of Zespół Elektrowni Ostrołęka S.A. in the process of consolidation and privatisation of the power sector. Under the Contract the employer agreed to give employment guarantees for the period of 10 years from the date of the Contract and to guarantee individual posts and pays on the level at least as favourable as the ones at the date of the Contract.

42.10. Power facilities located on private lands

As a result of system changes in in the nineties of the last century in the current legal and economic reality there are serious problems with transmission devices built under the previous legal system on private properties without obtaining any legal title thereto.

As at 31 December 2012 the value of resulting disputes reaches PLN 159 m and is based on the estimates taking into account the most probable amount of potential claims (of which PLN 61.9 m is reported under provisions and PLN 97.1 m under contingent liabilities – see Notes 32 and 37).

42.11. Claims of Państwowe Gospodarstwo Leśne Lasy Państwowe

To finally regulate the legal status of properties developed with power facilities on properties of the State Treasury being under the management of Państwowe Gospodarstwo Leśne Lasy Państwowe („LP") is one of the most important issues associated with the regulation of the legal status of power facilities erected on third party's properties. The task is supervised and managed directly by the Management Board of the Company. It was completed in two stages.

Stage 1

On 25 October 2010 ENERGA – OPERATOR SA entered into the cooperation agreement with Lasy Państwowe ("LP"). Under this agreement:

- power lines in the area of all the forest districts were recorded and counted;
- ENERGA – OPERATOR SA obtained the right to use the properties developed with power facilities and to access or enter the lands together with any necessary equipment, to remove failures of power lines, to carry out power line maintenance or modernisation activities, the right to cut trees or bushes or trim them to the extent required to maintain power lines in a proper condition on recorded strips of the land;
- ENERGA – OPERATOR SA comprehensively settled all the arrears, i.e. paid for non-contractual use of the properties retroactively for 10 years. The consideration paid for that period was determined by the parties at the amount of taxes for the years 2006 – 2009, while for the year 2010 at the amount of taxes and additional charges and payments for cable lines;
- the issue of charges for any future use of properties developed with power facilities was regulated;
- LP undertook not to hinder investment processes of ENERGA – OPERATOR running through LP areas;
- LP withdrew all the court actions against ENERGA – OPERATOR;
- LP granted, free of charge, authorisations to ENERGA – OPERATOR to cut and trim trees and bushes under the amount of the general consideration;
- LP agreed to start talks aimed at a permanent regulation through establishing easements of transmission, as defined in Article 3052 §1 of the Civil Code, after amendments to appropriate provisions of the Act on Forests.

Pert

Stage 2

In March 2011 the legislator introduced Article 39a to the Act on Forests of 28 September 1991 (consolidated text Journal of Laws of 2011 No. 12, item 59, as amended). Under such article forest district managers, with the consent of the regional management of Lasy Państwowe, obtained the rights to establish, against payment, easements of transmission. That was the statutory provision the lack of which previously prevented establishing of the easements of transmission on LP properties as Lasy defended themselves explaining that there was no statutory authorisation to encumber properties of the State Treasury with easements of transmission in favour of transmission companies.

Therefore on 5 December 2011 ENERGA – OPERATOR SA and the State Treasury - Państwowe Gospodarstwo Leśne Lasy Państwowe signed the Agreement on terms and conditions for establishing easements of transmission.

It should be noted that on the basis of the currently effective regulations it is the first agreement in Poland between DSO and Lasy Państwowe, being a breakthrough leading to the so called permanent regulation of the legal status of properties developed with power facilities, i.e. through establishing limited rights in rem in the form of easements of transmission under notarial deeds and with the registration of respective rights of the transmission companies in the land and mortgage registers:

- the agreement was signed with 10 Regional Districts of Lasy Państwowe in the area of ENERGA – OPERATOR SA operations;
- the agreement covers 113 forest districts;
- representatives of Lasy Państwowe (forest district managers) enter into transmission easement agreements;
- as at 31 December 2012 the agreements which in 93.34% regulate the status of power facilities on properties of Państwowe Gospodarstwo Leśne Lasy Państwowe were executed;
- in performance of the Agreement easements of transmission were established on over 13,000 plots of land covered by over 3,600 land and mortgage registers;
- over 1,000 notarial deeds were delivered.

42.12. Dispute with PSE SA and PKN ORLEN SA

In July 2003 PSE SA (previously PSE – Operator SA, hereinafter referred to as „PSE") filed in the Regional Court in Warsaw action against Zakład Energetyczny Płock SA (hereinafter referred to as „ZEP SA", currently ENERGA – OPERATOR SA, hereinafter referred to as „EOP") for the payment of PLN 62.5 m, constituting the shortage in the transmission charges paid for its benefit. When responding to the action ZEP SA sued PKN ORLEN SA too. Nonetheless, earlier, with the letter of 26 September 2003 ZEP SA called PKN ORLEN SA to attempt to reach an amicable agreement before the District Court in Płock as to its compensation claims resulting from non-performance by PKN ORLEN SA of the energy sales agreement by refusal to provide information on the volume of energy generated in its own sources.

As PKN ORLEN SA refused to take part in such mediation proceedings, on 30 June 2004 ZEP SA filed in the Regional Court in Warsaw an action against that company for the payment of PLN 46.2 m as the system fee attributable to the auto-producer pursuant to § 36 of the Ordinance of 14 December 2000, using for purposes of its calculation, data on the plan of electricity production previously received from PKN ORLEN SA. On the hearing on 2 June 2005 the Court withheld the proceedings ex officio until the settlement of the action instituted by PSE acknowledging that the settlement in the case depended on the outcome of the dispute with PSE. In both cases there is the issue of consistency of provisions of the aforementioned Ordinance with the Constitution of the Republic of Poland which is expressed in motions filed by ZEP SA and PKN ORLEN SA requesting the Court to apply with a respective legal question to the Constitutional Tribunal.

In the judgment of 25 October 2006 the Constitutional Tribunal (CT) decided that Article 46 of the Act - Energy Law, referred to in the decision of the Court, was consistent with the Constitution, while to the extent concerning §

Pert

36 of the foregoing Ordinance discontinued the proceeds due to inadmissibility of adjudication. In the justification to the judgment CT indicated that § 36 is a dispositive, and not a mandatory provision of law which means that its application in relations between the distribution system operator and the autoproducer depends on the intentions of the parties.

Because of that judgment the Court of Appeal in Warsaw in its decision of 19 December 2007, after examining the complaint of PKN ORLEN SA, decided to resume the suspended proceedings based on the action of ZEP SA against PKN ORLEN SA considering that the interpretation of CT allowed to continue the proceedings without the need to await the outcome of the action filed by PSE against EOP. On 25 June 2008 the judgment dismissing the action of EOP was pronounced. The Court decided that on the basis of evidence collected it was not possible to determine the volume of electricity used in the contentious period by PKN ORLEN SA, which did not in turn permit to calculate the consideration for EOP.

On 2 September 2008 EOP appealed against the judgment to the Court of Appeal in Warsaw. On 10 September 2009 the Court of Appeal in the judgment, ref. No. I ACa 1062/08, modified the appealed judgment so that the amount of PLN 46.2 m was awarded from PKN ORLEN SA to EOP together with statutory interest accrued from 30 June 2004 and awarded the reimbursement of the costs of proceedings in the amount of PLN 254,000. On 30 September 2009 PKN ORLEN SA paid the entire awarded amount including interest, i.e. PLN 75.6 m and reimbursed the costs of proceedings. However against that judgment PKN ORLEN SA filed a cassation appeal to the Supreme Court („SC").

On 28 January 2011 there was a hearing before SC under the cassation appeal filed by PKN ORLEN SA w the action filed by EOP against PKN ORLEN SA for the compensation due to the system charges. The Court repealed the judgment of the Court of Appeal of 10 September 2009 and returned the case to that court for re-examination. A reason for repealing the judgment, as reflected in the oral justification thereof, is the need, according to SC, to juridically structure the judgment.

However SC resolved the preclusion issue raised by PKN ORLEN SA indicating in the justification that in that case there was no preclusion so all the evidence used so far in the case would be appropriately considered, including G.10.3 reports.

To recapitulate it should be noted that the hitherto existing amount of the awarded claim does not necessarily have to be maintained as the Court of Appeal may conclude that capitalised interest should not be a part of the damage. In EOP books a provision in the amount of PLN 34.9 m was created as at 31 December 2010.

In March 2011 EOP paid PLN 30.1 m to PKN ORLEN SA and used the provision created for that purpose.

After re-examining the case the Court of Appeal in the judgment of 4 August 2011 repealed the judgment of the Regional Court dismissing the action of EOP and returned the case to that court for re-examination. As part of such re-examination on 30 April 2012 there was the first hearing before the Regional Court in Warsaw. The Court admitted evidence motions of EOP and allowed evidence from the expert's opinion concerning correctness of calculations of the damage by the plaintiff.

The hearing fixed at 1 October 2012 did not take place because of the expert's request for an extension of the term for preparation of the opinion due to the complex facts of the case. Finally the expert presented the opinion on 15 October 2012. The hearing was held on 28 November 2012. As a result the expert was obliged by the Court to provide a supplementary opinion in which the volumes of electric energy being the basis for the calculation of the amount of EOP's claim and reflected on the invoices attached to files of the case should be produced. These volumes are consistent with those shown by PKN ORLEN SA in G.10.3 reports but the Court decided to check them. A subsequent date of the hearing in this case will be determined by the Court ex officio after the expert provides the supplementary opinion.

Following the judgment of the Court of Appeal of 4 August 2011 on 25 August 2011 EOP received the call for payment from PKN ORLEN SA for PLN 45.5 m (principal amount) and PLN 254,000 (costs of proceedings in the first and second instance) including interest accrued from 18 February 2011 until the date of payment as a reimbursement of the amount awarded by the repealed judgment of the Court of Appeal of 10 September 2009 which PKN ORLEN SA paid to EOP. The liability was settled by the company on 28 November 2011, while the amount of interest was disclosed as the provision for PLN 144,700.

In the action filed by PSE against EOP after the judgment of CT the Regional Court in Warsaw resumed the proceedings withheld for the time of the proceedings before CT and by the judgment of 25 March 2008 awarded from EOP to PSE the amount of PLN 62.5 m together with due interest.

The judgment was appealed against by EOP but the appeal was dismissed by the Court of Appeal in the judgment of 19 March 2009. Against that judgment on 30 July 2009 EOP filed a cassation appeal to SC. Following its examination on 25 March 2010 SC in the judgment of 26 March 2010 repealed the appealed judgment of the Court of Appeal and returned the case for re-examination. On 21 September 2011 the Court of Appeal, after re-examining the case and considering guidelines of SC, changed the judgment of the Regional Court of 25 March 2008 and dismissed the action of PSE in its entirety.

The foregoing judgment of the Court of Appeal of 21 September 2011 was appealed against by cassation appeals filed by both parties. The appeal of EOP (filed on 27 March 2012) refers only to the lack of resolution in the judgment of the Court of Appeal of interest from when EOP satisfied the liability awarded by the preceding judgment of the Court of Appeal until the date of the current judgment of the Court of Appeal though a motion to that respect was included in the restitutive clause in the cassation appeal, reiterated in the proceedings before the Court of Appeal.

On the same date (27 March 2012) its cassation appeal against the judgment of the Court of Appeal was filed by PSE too. In general, charges raised in the appeal refer to breaches of process rules, and in particular Article 381 of the Code of Administrative Procedure. The concept of the process, since the very beginning of the proceedings, adopted by PSE was based on the recognition that the parties were bound by the transmission agreement entered into on 9 August 2001 also to the extent of the so called substitute values, based on the forecast of energy production by the autoproducer, i.e. PKN ORLEN. EOP challenged such approach arguing that such values were not actually agreed and thus there were no bases to calculate the system fees on the basis of such values. As result of the cassation appeal of EOP SC shared that view and therefore repealed the first verdict of the Court of Appeal returning the case for re-examination. During the re-examination of the case before that court, the plaintiff, after realising that its hitherto existing concept was not shared by the court, requested for admitting evidence showing the actual volumes of electric energy produced by PKN ORLEN SA which were in files of the case instituted by EOP against PKN ORLEN SA arguing that they were new facts in the case, previously unknown to the plaintiff. The Court of Appeal did not accept such statements acknowledging that the aforementioned circumstances and requested evidence were no novelty and changed the judgment of the Regional Court dismissing the action by PSE.

As stated above, EOP after the judgment of the Court of Appeal of 19 March 2009 paid to PSE the entire awarded sum including interest in the aggregate amount of PLN 123 m. Then the repealing of the judgment by SC and then dismissing the action of PSE by the Court of Appeal in the judgment of 21 September 2011 resulted in the reimbursement of that entire amount to EOP by the plaintiff. The reimbursement was made without due interest for the period when the basis for such payment to PSE was challenged. That is the subject of the cassation appeal by EOP.

In the case of both cassation appeal, after their filing to the Court, the parties drafted a couple of process letters, including mainly responses to the appeal and replies to the position represented by the opponent. By the decision of 22 November 2012 the Supreme Court accepted both the appeals for examination.

On 11 January 2013 there was a hearing before the Supreme Court when the Court examined the appeals. As a result of the hearing the Supreme Court:

- dismissed the appeal by EOP,
- admitted the appeal by PSE and repealed the judgment of the Court of Appeal of 21 September 2011 and returned the case to that court for re-examination. The primary reason why the judgment of the Court of Appeal was repealed, in the opinion of the Supreme Court, was a breach by the Court of Appeal of Article 381 of the Code of Administrative Procedure by not admitting new evidence requested by PSE.

The judgment of the Supreme Court returned the case to its status after the judgment in the first instance of 25 March 2008 and the appeal filed by EOP against that judgment. Following the re-examination the Court of Appeal may:

- dismiss the appeal by EOP which will lead to the judgment of the Regional Court in Warsaw of 25 March 2008 becoming final and the need to comply again with the judgment,
- admit the appeal by EOP and dismiss the action by PSE as it was the case in the judgment of 21 September 2011,
- change the appealed judgment as to its essence and award to PSE any amount other than the one covered by the action.

Considering the oral justification for the judgment of the Supreme Court of 11 January 2013 it might be accepted that on the side of EOP there is a risk of adverse judgment of the Court of Appeal. As previously noted, the claim of PSE was based on substitute values which had been, by the previous judgment of the Supreme Court, considered not agreed upon. That was the reason for dismissing the action of PSE by the repealed judgment of the Court of Appeal of 11 September 2011. The Court of Appeal acknowledged at the same time that evidence submitted by PSE in the appeal proceedings as to actual data were late in the light of provisions of Article 381 of the Code of Administrative Procedure. But the Supreme Court stated that there was no delay so the respective provisions were breached. The Court of Appeal, when re-examining the case, is bound by the guidelines of the Supreme Court, so the foregoing evidence will be admitted for examination by the court in those proceedings. The examination of such evidence makes probable to a significant extent a judgment of the Court of Appeal not favourable for ENERGA – OPERATOR SA. That would mean dismissing the appeal by EOP which would result in the judgment of the Regional Court in Warsaw of 25 March 2008 becoming final and the need to comply with the judgment by the payment to PSE of the amount of PLN 62.5 m including due interest accrued from payment dates stated on the invoices which as at the date of the agreement on 5 May 2009 added up to PLN 123 m.

Director of the Consolidated Reporting Department
Marek Pertkiewicz
....
(date and signature)
01 MAR. 2013

Director of the Finance Management Center
Aleksandra Gajda – Gryber
....
(date and signature)
01 MAR. 2013

President of the Management Board
Mirosław Bieliński
....
(date and signature)
01 MAR. 2013

Vice-President of the Management Board
Chief Financial Officer
Roman Szyszko
....
(date and signature)
01 MAR. 2013

Vice-President of the Management Board
Strategy and Investments
Wojciech Topolnicki
....
(date and signature)
01 MAR. 2013