ENERGA SA Capital Group

Consolidated financial statements compliant with IFRS

for the year ended December 31, 2010

together with independent auditor's opinion

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Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2009	Year ended 31 December 2010
Continuing operations			
Sale of products and goods for resale including excise tax		*5 783 703 340,18*	*6 344 824 948,50*
Excise tax		*(234 260 730,00)*	*(314 475 631,94)*
Sale of products and goods for resale		5 549 442 610,18	6 030 349 316,56
Sale of services		*2 776 289 476,92*	3 021 018 628,75
Rental income		*54 363 900,35*	62 554 558,09
Revenues		**8 380 095 987,45**	**9 113 922 503,40**
Cost of sales	**11.5**	*7 503 726 592,11*	7 697 295 507,45
Profit/loss from sales		**876 369 395,34**	**1 416 626 995,95**
Other operating income	**11.1**	*134 629 875,03*	78 619 230,29
Selling costs		*92 550 813,88*	109 249 130,02
General and administrative expenses		*353 906 686,28*	332 408 343,56
Other operating expenses	**11.2**	*66 269 263,26*	235 948 541,39
Financial Income	**11.3**	*114 933 633,03*	82 486 576,52
Financial costs	**11.4**	*80 701 167,08*	103 714 823,89
Share of profit of an associate		*(1 680 657,39)*	668 319,37
Profit/(loss) before tax		**530 824 315,52**	**797 080 283,27**
Income tax	**12.1, 12.2**	*103 831 115,61*	171 272 254,46
Net profit/(loss) from continuing operations		**426 993 199,90**	**625 808 028,81**
Discontinued operations			
Profit for the year from discontinued operations	**24.2**	*(1 645 352,44)*	(378 008,92)
Net profit/(loss) for the year		**425 347 847,46**	**625 430 019,89**
Attributable to equity holders of the parent		*397 189 015,15*	605 804 674,81
Attributable to non-contolling interests		*28 158 832,31*	19 625 345,09

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2009	Year ended 31 December 2010
Net result	**425 347 847,46**	**625 430 019,89**
Foreign exchange gains / losses arising on translation	(8 687,00)	(98,96)
Total comprehensive income	**425 339 160,46**	**625 429 920,93**
Attributable to equity holders of the parent	397 180 328,15	605 804 575,85
Attributable to non-contolling interests	28 158 832,31	19 625 345,09

Chief Financial Oficer	Head of the Consolidated Accounting Department	Chairman of the Management Board	Vice-Chairman of the Management Board for Financial Issues
Aleksandra Gajda - Gryber	Sebastian Cichowski	Mirosław Bieliński	Roman Szyszko
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(date and signature)	(date and signature)	(date and signature)	(date and signature)

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2009	31 December 2010
ASSETS			
Non - current assets			
Tangible fixed assets	**14**	8 032 048 734,22	8 451 134 128,39
Real estate investments	**16**	26 043 537,30	19 026 164,08
Intangible assets	**18**	212 366 170,75	269 388 658,63
Goodwill	**17**	17 246 353,14	17 246 353,14
Shares in associates and joint ventures valued in accordance with the equity method	**19**	41 827 151,07	41 580 170,75
Other shares		32 857 887,24	32 475 886,41
Deferred tax assets	**12.3**	97 722 813,26	108 182 548,38
Other non - current assets	**23.1**	2 466 578,19	18 271 910,04
		8 462 579 225,17	**8 957 305 819,82**
Current assets			
Inventories	**21**	275 913 756,43	312 992 178,03
Income tax receivables		19 040 182,00	62 929 705,20
Trade and other receivables		1 151 919 283,90	1 454 897 912,04
Other shares		262 200,00	629 436,27
Bonds and other debt securities		-	-
Deposits		-	130 612,56
Other financial assets		-	2 076 116,20
Cash and cash equivalents	**22**	886 816 549,64	1 683 554 915,77
Other current assets	**23.2**	101 846 335,01	157 610 985,10
		2 435 798 306,98	**3 674 821 861,17**
Non - current assets held for sale		35 689 882,09	191 586,09
TOTAL ASSETS		**10 934 067 414,24**	**12 632 319 267,08**

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CTD.)

	Note	31 December 2009	31 December 2010
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
Foreign exchange gains / losses arising on translation		12 542,28	12 443,32
Suplementary capital	**31.2**	141 957 561,67	163 625 681,64
Retained earnings (loss)	**31.3**	1 366 589 091,57	1 922 610 116,03
		6 477 364 563,52	**7 055 053 608,99**
Non-controlling interests		**905 786 648,22**	**891 902 585,26**
Total equity		**7 383 151 211,74**	**7 946 956 194,25**
Non - current liabilities			
Loans and borrowings	**36.4.3.1**	57 012 356,31	1 033 635 983,01
Non - current provisions	**32**	549 977 881,35	558 393 706,12
Deferred tax liability	**12.3**	580 108 659,58	553 507 069,04
Deferred income and non - current goverment grants	**26.1**	470 035 998,01	442 910 451,58
Trade and other non - current liabilities		344 677,26	337 675,38
Lease liabilities		9 669 726,10	1 631 812,30
Other non - current liabilities	**25.1**	194 654,11	126 724,93
		1 667 343 952,72	**2 590 543 422,36**
Current liabilities			
Trade and other liabilities		775 003 487,95	970 432 595,37
Current loans and borrowings	**36.4.3.1, 36.4.3.2, 38.5**	289 416 404,15	42 769 700,85
Income tax liability		120 574 586,00	74 272 835,00
Deferred income and goverment grants	**26.1**	12 206 525,92	21 010 189,32
Accruals	**26.2**	61 498 418,77	85 804 674,74
Provisions	**32**	323 299 113,15	353 998 343,50
Other current liabilities	**25.2**	301 056 522,62	546 529 806,25
		1 883 055 058,56	**2 094 818 145,03**
Liabilities directly associated with the assets held for sale		517 191,22	1 505,45
Total liabilities		**3 550 916 202,50**	**4 685 363 072,84**
TOTAL EQUITY AND LIABILITIES		**10 934 067 414,24**	**12 632 319 267,08**

Chief Financial Oficer	Head of the Consolidated Accounting Department	Chairman of the Management Board	Vice-Chairman of the Management Board for Financial Issues
Aleksandra Gajda - Gryber	Sebastian Cichowski	Mirosław Bieliński	Roman Szyszko
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(date and signature)	(date and signature)	(date and signature)	(date and signature)

under IFRS (in zlotys)

CONSOLIDATED STATEMENT OF EQUITY CHANGES

	Equity attributable to equity holders of the parent company						
	Share capital	Foreign exchange gains / losses arising on translation	Suplementary capital	Retained earnings (loss)	Total	Non-controlling interests	Total equity
1 January 2010	**4 968 805 368,00**	**12 542,28**	**141 957 561,67**	**1 366 589 091,57**	**6 477 364 563,52**	**905 786 648,22**	**7 383 151 211,74**
adjustments due to accoumting principles change	-	-	-	35 871 783,46	**35 871 783,46**	6 330 314,73	**42 202 098,19**
1 January 2010, after adjustments	**4 968 805 368,00**	**12 542,28**	**141 957 561,67**	**1 402 460 875,03**	**6 513 236 346,98**	**912 116 962,95**	**7 425 353 309,93**
Income/expenses recognized in equity	-	(98,96)	-	-	(98,96)	-	(98,96)
Profit (loss) for the year				605 804 674,81	605 804 674,81	19 625 345,09	625 430 019,89
Total income/expenses for the year	**-**	**(98,96)**	**-**	**605 804 674,81**	**605 804 575,85**	**19 625 345,09**	**625 429 920,93**
Previous years' profit distribution	-	-	21 668 119,97	(21 668 119,97)	-	-	-
VAT return	-	-	-	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)
Changes in compostion of Capital Group	-	-	-	25 030 471,52	25 030 471,52	(30 643 604,07)	(5 613 132,55)
							-
31 December 2010	**4 968 805 368,00**	**12 443,32**	**163 625 681,64**	**1 922 610 116,03**	**7 055 053 608,99**	**891 902 585,26**	**7 946 956 194,25**

under IFRS (in zlotys)

	Equity attributable to equity holders of the parent						
	Share capital	**Foreign exchange gains / losses arising on translation**	**Suplementary capital**	**Retained earnings (loss)**	**Total**	**Non-controlling interests**	**Total equity**
1 January 2009	**4 845 866 133,00**	**21 229,28**	**147 707 974,86**	**1 124 961 201,27**	**6 118 556 538,41**	**1 053 750 436,08**	**7 172 306 974,49**
adjustments of the errors	-	-	-	(93 079 678,98)	**(93 079 678,98)**	(16 425 825,70)	**(109 505 504,68)**
1 January 2009, after adjustments	**4 845 866 133,00**	**21 229,28**	**147 707 974,86**	**1 031 881 522,29**	**6 025 476 859,43**	**1 037 324 610,38**	**7 062 801 469,81**
Income/expenses recognized in equity	-	(8 687,00)	-	-	(8 687,00)	-	(8 687,00)
Profit (loss) for the year				397 189 015,15	397 189 015,15	28 158 832,31	425 347 847,46
Total income/expenses for the year	**-**	**(8 687,00)**	**-**	**397 189 015,15**	**397 180 328,15**	**28 158 832,31**	425 339 160,46
Issue of share capital	122 939 235,00	-	-	**-**	122 939 235,00	**-**	122 939 235,00
Previous years' profit distribution	-	-	(5 750 413,19)	5 750 413,19	-	-	-
Settlement of Split Plan	-	-	-	(70 385 370,43)	(70 385 370,43)	(146 950 738,71)	(217 336 109,14)
VAT return	-	-	-	1 011 062,00	1 011 062,00	-	1 011 062,00
Payment for State Treasury	-	-	-	(579 848,00)	(579 848,00)	-	(579 848,00)
Dividends	-	-	-	-	-	(14 031 509,77)	(14 031 509,77)
Purchase of subsidiaries' shares	-	-	-	-	-	3 358 190,68	3 358 190,68
Other changes	-	-	-	1 722 297,37	1 722 297,37	(2 072 736,67)	(350 439,30)
							-
31 December 2009	**4 968 805 368,00**	**12 542,28**	**141 957 561,67**	**1 366 589 091,57**	**6 477 364 563,52**	**905 786 648,22**	**7 383 151 211,74**

Chief Financial Oficer	Head of the Consolidated Accounting Department	Chairman of the Management Board	Vice-Chairman of the Management Board for Financial Issues
Aleksandra Gajda - Gryber	Sebastian Cichowski	Mirosław Bieliński	Roman Szyszko
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Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2009	Year ended 31 December 2010
Cash flows from operating activities		
Net profit (loss)	**530 824 315,52**	**797 080 283,27**
Adjustments:	**341 739 618,84**	**382 153 641,84**
Share of profits of the associates and joint ventures valued in accordance with the equity method	1 680 657,39	(668 319,37)
Foreign exchange gains (losses)	-	(98,96)
Amortisation and depreciation	554 503 003,41	591 418 003,46
Net interest and dividends	10 608 472,51	39 202 325,02
(Profit) loss on investing activities	(4 487 792,21)	64 753 601,18
(Increase) decrease in receivables	(121 482 703,54)	(360 003 333,23)
(Increase) decrease in inventories	(71 395 544,89)	(26 314 451,99)
Increase (decrease) in payables excluding loans and borrowings	(5 182 865,28)	351 354 580,40
Change in prepayments and accruals	47 213 636,47	(25 520 958,67)
Change in provisions	90 677 242,19	32 467 926,24
Income tax paid	(90 028 822,60)	(284 551 390,30)
Other	(70 365 664,61)	15 758,07
Net cash flows from operating activities	**872 563 934,35**	**1 179 233 925,11**
Cash flows from investing activities		
Sale of intangible assets and tangible fixed assets	2 446 306,07	31 764 845,54
Purchase of intangible assets and tangible fixed assets	(808 950 450,77)	(1 072 152 756,49)
Sale of other financial assets	551 400,00	36 365 832,45
Purchase of another financial assets	-	(499 368,50)
Acquisition of subsidiary, net cash acquired	(48 451 696,53)	(5 503 784,03)
Dividends received	495 691,27	1 277 764,41
Interest received	562 000,53	4 233 617,55
Other	21 947 110,31	1 200 000,00
Net cash flows from investing activities	**(831 399 639,12)**	**(1 003 313 849,07)**
Cash flows from financing activities		
Payment of finance lease liabilities	(1 215 559,09)	(9 033 293,16)
Proceeds from loans and borrowings	177 514 892,33	1 048 843 659,35
Repayment of loans and borrowings	(136 698 463,75)	(259 875 056,27)
Dividends paid to equity holders of the parent	(14 031 509,77)	(114 620 053,58)
Interest paid	(11 666 164,31)	(39 454 662,58)
Other	4 909 758,30	(5 307 563,91)
Net cash flows from financing activities	**18 812 953,71**	**620 553 029,85**
Net increase (decrease) in cash and cash equivalents	**59 977 248,94**	**796 473 105,89**
Cash as at the start of period	**804 377 796,25**	**864 355 045,20**
Cash as at the end of period	**864 355 045,20**	**1 660 828 151,09**

Chief Financial Officer	Head of the Consolidated Accounting Department	Chairman of the Management Board	Vice-Chairman of the Management Board for Financial Issues
Aleksandra Gajda - Gryber	*Sebastian Cichowski*	*Mirosław Bieliński*	*Roman Szyszko*
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(date and signature)	(date and signature)	(date and signature)	(date and signature)

ACCOUNTING PRINCIPLES (POLICY) AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group ENERGA S.A. (the „Group") consists of **ENERGA Spółka Akcyjna** (the „parent company", the "Company") and its subsidiary companies (see note 2). Consolidated financial report of the Group covers the year ended December 31, 2010 and includes comparative data for the year 2009 ended December 31, 2009.

The parent company was entered to the Entrepreneurs Register of the National Court Register maintained by the District Court Gdańsk-Północ, VII Commercial Division for the National Court Register under number KRS 0000271591.

The parent company was assigned statistical number REGON 220353024.

The duration of the parent company and the companies belonging to the Capital Group is indefinite.

The subject of the Company's business activity is following:

1. distribution and sales of heat and electricity,
2. electricity and heat generation,
3. electricity trading,
4. street and road lighting.

As of December 31, 2010 the State Treasury is the entity having control over the Company.

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

2. Composition of the Group

The Group is composed of ENERGA Spółka Akcyjna and of the following companies:

a) subsidiary entitles covered by consolidated financial statements:

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of the Capital Group of ENERGA S.A. in the share capital [%]	Share of the Capital Group of ENERGA S.A. in total number of votes [%]
1	ENERGA-OPERATOR SA	Gdańsk	Energy distribution	603 301 400,00	85,06	85,06	85,06
2	ENERGA Elektrownie Ostrołęka S.A.	Ostrołęka	Energy production	223 000 000,00	85,00	85,00	85,00
3	ENERGA Kogeneracja Sp. z o.o.	Elbląg	Energy production	93 465 000,00	100,00	100,00	100,00
4	ENERGA - OBRÓT S.A.	Gdańsk	Electric energy trading	106 631 778,00	100,00	100,00	100,00
5	ENERGA Invest S.A.	Gdańsk	Electric energy turnover / investment projects management	3 250 000,00	100,00	100,00	100,00 [10]
6	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	Customer service	811 000,00	100,00	100,00	100,00
7	ENERGA Centrum Usług Wspólnych Sp. z o.o. (previously Centrum Badawczo – Rozwojowe ENERGA Sp. z o.o.) [2]	Gdańsk	Accounting and payroll services	4 052 000,00	100,00	100,00	100,00
8	ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.) [1].	Straszyn	Energy production	249 067 500,00	100,00	100,00	100,00
9	ENERGA Oświetlenie Sp. z o.o.	Sopot	Maintenance of lighting	191 621 500,00	88,30	98,20	100,00 [10]
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	100,00
12	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	Power network realisation and designing	1 712 000,00	0,00	85,06	100,00 [10]
13	ENERGA – OPERATOR Produkcja Sp. z o.o. (previously Energetyka Kaliska – Liczniki i Instalacje Sp. z o.o.) [3]	Kalisz	Trading	813 000,00	0,00	85,06	100,00 [10]
14	Multiserwis Sp. z o.o.	Kalisz	Transport, managing real estate	914 000,00	0,00	81,90	96,28 [10]
15	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	Power network realisation and designing	27 980 000,00	0,00	85,03	99,97 [10]
16	Zaopatrzenie Energetyki Koszalin Sp. z o.o.	Koszalin	Supply	1 670 000,00	100,00	100,00	100,00
17	Zakład Transportu Energetyki Sp. z o.o.	Koszalin	Rent and servicing of transportation means	2 178 000,00	0,00	85,06	100,00 [10]
18	ENERGA Elektrownie w Koszalinie Sp. z o.o. [1]	Koszalin	Energy production	7 655 000,00	100,00	100,00	100,00
19	ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. (previously „Energo-Konsulting" Sp. z o.o.) [12]	Koszalin	Execution and designing	220 000,00	0,00	85,06	100,00 [10]
20	Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. [4]	Karlino	Lighting services	-	-	-	-
21	ENERGA Elektrownie Łyna S.A.[1]	Olsztyn	Energy production	12 468 000,00	100,00	100,00	100,00
22	Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o.	Sierpc	Energy distribution	757 500,00	0,00	85,06	100,00 [10]
23	Zakład Energetyczny Płock - Dystrybucja Wschód Sp. z o.o.	Ciechanów	Energy distribution	909 500,00	0,00	85,06	100,00 [10]
24	Zakład Energetyczny Płock - Operator Sieci Rozdzielczej Sp. z o.o.	Płock	Energy distribution	701 000,00	0,00	85,06	100,00 [10]
25	ENERGA Bio Sp. z o.o.(previously Zakład Energetyczny Płock - Multienergetyczne Przedsiębiorstwo Sieciowe Sp. z o.o.) [5]	Żychlin	Investment projects managing	3 990 000,00	100,00	100,00	100,00

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of the Capital Group of ENERGA S.A. in the share capital [%]	Share of the Capital Group of ENERGA S.A. in total number of votes [%]
26	Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. 6)	Płock	Tele-informatics	-	-	-	-
27	ZEP-INFO sp. z o.o.	Płock	Tele-informatics	1 463 500,00	100,00	100,00	100,00
28	Zakład Energetyczny Płock - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	Execution and designing	456 500,00	0,00	85,06	100,00 10)
29	ZEP - MOT Sp. z o.o.	Płock	Sale and service of mechanical vehicles	5 292 000,00	100,00	100,00	100,00
30	Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o.	Płock	Supply	738 500,00	100,00	100,00	100,00
31	ENERGA-OPERATOR Projektowanie Sp. z o.o. (previously ZEP-INPRO Sp. z o.o.)13)	Płock	Execution and designing	381 500,00	0,00	85,06	100,00 10)
32	ENERGA - Nieruchomości S.A. w likwidacji	Płock	Managing and valuation of real estate	600 000,00	10,00	91,04	100,00 10)
33	Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL" Sp. z o.o.	Raciąż	Execution and designing	244 000,00	0,00	85,06	100,00 10)
34	KONGRES Sp. z o.o.	Łąck	Hotel and training services	550 000,00	100,00	100,00	100,00
35	ZEP - AUTO Sp. z o.o.	Płock	Sale and service of mechanical vehicles	50 000,00	0,00	100,00	100,00
36	ENERGETYK Sp. z o.o.	Żychlin	Execution and designing	220 000,00	0,00	85,06	100,00 10)
37	ERA-GOST Sp. z o.o. 7)	Gostynin	Production of energy subassemblies	-	-	-	-
38	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	Execution and designing	300 000,00	0,00	85,06	100,00 10)
39	Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o.	Słupsk	Supply	600 000,00	100,00	100,00	100,00
40	ENERGA Elektrownie Wiatrowe Sp. z o.o. (previously ENERGA Elektrownie Słupsk Sp. z o.o.)	Słupsk	Energy production	29 400 000,00	100,00	100,00	100,00
41	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o.	Słupsk	Sale of mechanical vehicles	2 500 000,00	0,00	85,06	100,00 10)
42	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o.	Toruń	Supply	8 010 000,00	100,00	100,00	100,00
43	Elektrownia Wodna we Włocławku Sp. z o.o. 8)	Włocławek	Energy production	425 000,00	70,00	96,47	96,47
44	ELNORD SLOVAKIA s.r.o. 9)	Bratysława	Electric energy trading	39 833,00 EUR 9)	0,00	100,00	100,00
45	ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o. o.	Ostrołęka	Heat energy distribution	13 919 000,00	29,75	76,71	85,00 10)
46	Ekologiczne Materiały Grzewcze Sp. z o.o.	Szepietowo	Biomass production	6 330 000,00	0,00	85,00	100,00 10)
47	Elektrownia Ostrołęka SA	Ostrołęka	Execution and designing	10 100 000,00	100,00	100,00	100,00
48	ENERGA Innowacje Sp. z o.o.	Gdańsk	Innovative projects managing	100 000,00	0,00	100,00	100,00

1) On 1 February 2011, a 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 S.A was registered by the Court. ENERGA Hydro Sp. z o.o. was acquirer and ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna S.A. were acquiree. On the same date change of company name was registered.
2) Starting from 1 July 2010 research and development activity was moved to the parent company. Centrum Badawczo Rozwojowe ENERGA Sp. z o.o. is responsible for organization of Shared Service Centre which will provide accounting and payroll services for all entities of Capital Group. Change of company name was registered on September 23, 2010.

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3) On 19 January 2011, change of company name was registered.
4) On 1 June 2010, a merger of ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. ENERGA Oświetlenie Sp. z o.o. was an acquirer and Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. was an acquiree.
5) On 18 June 2011, change of company name was registered.
6) On April 2010, a merger of ZEP – Info Sp. z o.o. and Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. was registered by the Court. ZEP – Info Sp. z o.o. was acquirer Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. was aquiree.
7) The shares of ERA – GOST Sp. z o.o. were sold on 12 March, 2010.
8) On 1 January 2011 the business of Elektrownia Wodna we Włocławku Sp. z o.o. was sold to ENERGA Hydro Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.). on February 1, 2011 Extraordinary Shareholders' Meeting made a resolution on dissolution of the company.
9) On 24 January 2011, Extraordinary Shareholders' Meeting made a resolution on change of the name of ENERGA Slovakia s.r.o and increase of share capital to the value EUR 339 833.00. To the financial statement date these changes were not registered by Court.
10) Group's share in voting rights is higher than its share in equity due to indirect relations between subsidiaries
11) The change of the company's name was registered on 31 January 2011.
12) The change of the company's name was registered on 3 February 2011.
13) The change of the company's name was registered on 22 March 2011.

b) b) associated entities measured in accordance with 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 the Capital Group of ENERGA S.A. in the share capital [%]	Share of the Capital Group of ENERGA S.A. in 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.	Ostrów Wlk.	Production of energy subassemblies	5 490 000,00	30,60	30,60	30,60
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	0,00	40,90	40,90

c) changes in the Capital Group composition

Mergers of companies

Due to reorganization of the Capital Group in 2010 mergers were proceeded in connection with consolidation of operations in the area of lighting and data communication business..

On 30 April 2010, Registry Court in Warszawa registered merger of ZEP – Info Sp. z o.o. and Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o., under the article 492 § 1 section 1 of Commercial Companies Code, throughout transfer of assets from Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. to ZEP – Info Sp. z o.o.

On 1 June 2010, Registry Court in Gdańsk registered merger of ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o., under the article 492 § 1 section 1 of Commercial Companies Code, throughout transfer of assets from Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. to ENERGA Oświetlenie Sp. z o.o.

Sales of shares

On 27 January 2010, the parent Company concluded an agreement on the sale of the shares of Toruńska Energetyka Cergia S.A. in the number of 9.187.176, that constituted 23,53% of the share capital of Toruńska Energetyka Cergia S.A. The suspensive condition included in the agreement fulfilled on 16 April 2010 therefore the buyer acquired all rights to the shares. The following report comprise part of the income of Toruńska Energetyka Cergia S.A. that was earned in the period from 1 January to 16 April 2010.

On 12 March 2010 subsidiary Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. sold shares of ERA – GOST Sp. z o.o. in the number of 452, that constituted 75,33% of the share capital of ERA – GOST Sp. z o.o. All shares of ERA – GOST Sp. z o.o. owned by the Capital Group were sold. The following report comprise part of the income of ERA – GOST Sp. z o.o earned in the period from January 1 to March 12, 2010.

Formation of a company

On 15 November 2010 ENERGA - OBRÓT SA formed a new company ENERGA Innowacje Sp. z o.o. in organization, acquiring 100% of the company's shares. The share capital of the formed company equals PLN 100 000,00. The company was registered on 2 December 010 under number KRS 0000372150.

Changes after the balance sheet date

After the balance sheet date, on 1 February 2011, Registry Court Gdańsk-Północ in Gdańsk registered merger of ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.), ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA under the article 492 § 1 section 1 of Commercial Companies Code throughout transfer of assets from ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA to ENERGA Hydro Sp. z o.o.

Moreover, on 14 February 2011, ENERGA SA formed a new company ENERGA Serwis Sp. z o.o. as its sole shareholder and on January 28, 2011 the subsidiary ENERGA Bio Sp. z o.o. acquired 90% of shares in the share capital of Esperotia Energy Investments Bobowo Sp. z o.o.

3. Composition of the Management Board of the parent company

The Management Board of the parent company as of the day of preparing these consolidated financial report was composed of:

- Mirosław Kazimierz Bieliński – Chairman of the Management Board,
- Roman Szyszko — Vice-Chairman of the Management Board.

Neither during the reported period nor after the balance sheet day till the day of this financial statement completion there were no changes in the composition of the parent company Management Board.

4. Approval of the Financial Report

The present financial report was approved for publication by the Management Board on 31 March 2011.

5. Basis for preparing the financial report

The consolidated financial statements have been prepared in accordance with historical cost principle except for financial instruments that are measured at their fair value carried to the income statement.

This consolidated financial report is presented in zloty ("PLN"), and all values are given in PLN, unless otherwise indicated.

The consolidated financial statements have been prepared on the going concern assumption with respect to the related parties in the foreseeable future except from the company ENERGA Nieruchomości S.A. and Elektrownia Wodna we Włocławku Sp. z o.o., both being in the process of liquidation, Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o., Zakład Transportu Energetyki Sp. z o.o. i Multiserwis Sp. z o.o..

On 16 July 2009 the Extraordinary General Meeting of Shareholders of ENERGA Nieruchomości S.A. set up a decision to stop the company's operations and to start the liquidation process.

On 1 February 2011, the Extraordinary Meeting of Shareholders of Elektrownia Wodna we Włocławku Sp. z o.o. set up a decision to to stop the company's operations and to start the liquidation process.

Moreover in January 2011 the activities aimed at finishing the operations by Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o., Zakład Transportu Energetyki Sp. z o.o. and Multiserwis Sp. z o.o were undertaken.

The Companies are subjects to consolidation. Taking under consideration the condition of assets and liabilities performed in the Company's financial statement it has been assumed that the assets and liabilities values included in the consolidated financial statements of the Capital Group of ENERGA SA do not essentially differ from their retrievable values.

As of the date of the consolidated financial statements' preparation, there are no circumstances pointing out to the going concern risk related to the activities conducted by the remaining companies of the Capital Group ENERGA SA.

All information related to the sales, costs and financial results of the discontinued activity in the accounting period or to be discontinued in the next accounting year are presented in the Note No 24.

5.1. Declaration on compliance

The consolidated financial statements have been prepared in accordance with IFRS standards approved by the European Union and have been accepted by the ENERGA SA Management Board.

As of the day, when the present financial report was approved for publication – bearing in mind the ongoing process of implementation of the IFRS in the EU and the business pursued by the Group – there was no difference between the IFRS, which came into force and the IFRS approved by the European Union in the area of accounting methods applied by the Group.

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

The Management Board of the parent Company used its best knowledge regarding the standards and interpretations application as well as the valuation methods and principles regarding particular positions of the Capital Group ENERGA SA financial statements according to IFRS EU as at December 31, 2010. The data and the explanatory notes were presented with all suitable care and accuracy.

The Group keeps its accounting books in accordance with the accounting principles (policy) set forth by the Accounting Act of September 29, 1994 as amended and the regulations issued on its basis ("Polish accounting standards").

The Group ENERGA S.A. prepares consolidated financial report in accordance with the provisions of the Accounting Act.

This consolidated financial report prepared in accordance with the International Financial Reporting Standards is of an informative nature only, because – according to the balance-sheet law being in force at present - the Group is not entitled to prepare consolidated reports for statutory purposes in accordance with IFRS. This consolidated financial report contains adjustments that are not included in the accounting books of the Group companies, made in order to make the financial reports of these companies compliant with IFRS.

The present consolidated financial statements were subject to audit of an independent auditor.

5.2. Currency of measurement and currency of the financial statements

The currency of measurement of the parent company and other companies included in this consolidated financial report and the reporting currency of this consolidated financial report is Polish zloty (PLN). In case of ELNORD SLOVAKIA s.r.o. , the reporting currency of the individual report is euro. For the purposes of this report, the reporting data of ELNORD SLOVAKIA s.r.o. are converted into Polish zlotys as follows: balance-sheet data, except for capital, at average exchange rate as of the day ending the reporting period, capital – at the exchange rate as of the day of setting up the company, income statement data – at weighted average exchange rate for a given financial period.

6. Important values based on professional judgment and estimates

In view of the issues presented below, apart from accounting estimates, professional judgment of management having impact on the values reported in consolidated financial report, including those reported in additional explanatory notes was of most importance in the process of applying accounting policies. The assumptions of such judgments are based on the best knowledge of the Management Board regarding current and future actions and events in particular areas. Detailed information and the adopted assumptions are presented in the respective notes of these consolidated financial statements.

Basic assumptions concerning the future and other key sources of uncertainty as of the balance-sheet day, to which a risk of substantial adjustment of balance-sheet values of assets and liabilities in the next year is related, are presented below.

Impairment of assets' value

The Group carried out tests for impairment of fixed assets' value. This required the assessment of the value in use of the cash generation unit, which also includes fixed assets. The assessment of the value in use consists in determining the future cash flow generated by the cash generating unit and defining the discount rate to be applied in order to calculate the value of the current cash flow.

Depreciation/amortization rates

The levels of depreciation/amortization rates and allowances are determined on the basis of expected economic useful life of a given tangible fixed asset or intangible fixed asset and estimations relating to residual value of fixed assets. The Group verifies every year the assumed economic useful life periods based on the current estimates.

Measurement of provisions

Provisions for employee benefits (provisions for retirement and disability severance pays, jubilee awards, employee power tariff, additional write-downs for the Company Social Benefit Fund for the former employees of the Group companies are estimated on the basis of actuarial methods. The assumptions adopted for this purpose are presented in note 27.2.

Other provisions are measured in accordance with the most appropriate estimation of expenditures necessary for fulfilling current obligation.

Deferred tax assets item

Deferred tax assets are measured with use of tax rates that will be applied at the time of realization of the asset, on the basis of tax regulations applicable as of the balance-sheet day. The Group recognizes the deferred tax asset item based on the assumption that in the future the Group will achieve a tax profit allowing to use deferred tax assets. Deterioration of the achieved tax results in the future could render this assumption unjustified.

Classification of financial instruments

Pursuant to the directives of IAS 39 with respect to the classification of financial instruments that are not derivative instruments, with fixed maturity or with maturity dates that can be determined, such assets are classified in financial assets held to maturity. In making such judgment, intention and possibility of maintaining such investments to maturity is assessed.

Fair value of financial instruments

Fair value of financial instruments for which there is no active market is measured with use of appropriate measurement techniques. In selecting appropriate methods and assumptions, the Group bases on professional judgment. The method of determination of fair value of particular financial instruments is presented in note 36.3.

Adjustment of revenues from sales of electricity

In most cases, counter readings concerning the amount of electricity sold in retail trade and its invoicing are performed in the periods different than reporting periods. Therefore, the business units belonging to the Group make appropriate sales estimations as of each balance-sheet day, for the period not covered by the reading.

Receivables write-down

As of the balance sheet day, the entity assesses whether there is an objective evidence of the impairment of a receivable or group of receivables. If recoverable value of the asset is lower than its carrying value, the entity makes write-down to the level of current value of projected cash flows.

7. Change of estimations

During the periods covered by consolidated financial report, no changes in the methods of making substantial estimates took place. Changes of estimations resulted from the events that occurred during the reporting periods.

8. New standards and inerpretations

8.1. Standards and interpretations applied in 2010 for the first time

The following changes regarding existing standards published by the International Accounting Standards Board and approved by EU became effective in 2010:

- IFRS 1 (amended) *First-time Adoption of International Financial Reporting Standards,* approved in EU on 25 November 2009 (effective for financial years beginning on or after 1 January 2010),

- IFRS 3 (amended) *Business Combinations,* approved in EU on 3 June 2009 (effective for financial years beginning on or after 1 July 2009),

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters*, approved in EU on 23 June 2010 (effective for financial years beginning on or after 1 January 2010),

- Amendments to IFRS 2 *Share–based Payments – Group Cash-settled Share-based Payment Transactions,* approved in EU on 23 March 2010 (effective for financial years beginning on or after 1 January 2010),

- Amendments to IAS 24 *Related Party Disclosures* – simplification of requirements related to disclosures by entities related to the state and making more precise the definition of related entities, approved in EU on 19 July 2010 (effective for financial years beginning on or after 1 January 2011). The Group applied the possibility of earlier adoption of not disclosing the transactions with entities related to the state,

- Amendments to IAS 27 *Consolidated and Separate Financial Statements,* approved in EU on 3 June 2009 (effective for financial years beginning on or after 1 July 2009),

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items,* approved in EU on 15 September 2009 (effective for financial years beginning on or after 1 July 2009),

- Amendments to various standards and interpretations „Improvements to IFRSs (2009)"- changes of IFRS yearly amendment procedure published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) aimed at solving discrepancies and vocabulary specification, approved in EU on 23 March 2010 (effective for financial years beginning on or after 1 January 2010),

- Interpretation IFRIC 12 *Service Concession Agreements*, approved in EU on 25 March 2009 (effective for financial years beginning on or after 30 March 2009),

- Interpretation IFRIC 15 *Agreements for the Construction of Real Estate*, approved in EU on 22 July 2009 (effective for financial years beginning on or after 1 January 2010),

- Interpretation IFRIC 16 *Hedges of a Net Investment in a Foreign Operation,* approved in EU on 4 June 2009 (effective for financial years beginning on or after 1 July 2009),

- Interpretation IFRIC 17 *Distribution of Non-cash Assets to Owners*, approved in EU on 26 November 2009 (effective for financial years beginning on or after 1 November 2009),

- Interpretation IFRIC 18 *Transfers of Assets from Customers,* approved in EU on 27 November 2009 (effective for financial years beginning on or after 1 November 2009).

8.2. Standards and interpretations that have been published and approved by EU but are not effective yet

Approving of these financial statements the Group did not apply the following standards, standards' amendments and interpretations that have been published and approved in EU but are not effective yet:

- Amendments to IAS 32 *Financial Instruments: Presentation: Classification of Rights Issues,* approved in EU on 23 December 2009 (effective for financial years beginning on or after 1 February 2010),

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7*, approved in EU on 30 June 2010 (effective for financial years beginning on or after 1 July 2010),

- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements*, approved in EU on 19 July 2010 (effective for financial years beginning on or after 1 January 2011),

- Amendments to various standards and interpretations „Improvements to IFRSs (2010)"- changes of IFRS yearly amendment procedure published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13) aimed at solving discrepancies and vocabulary specification, approved in EU on 18 February 2011 (effective for financial years beginning on or after - 1 July 2010 or 1 January 2011 – depending on standard/interpretation),

- Interpretation IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* approved in EU on 23 July 2010 (effective for financial years beginning on or after 1 July 2010).

The entity decided not to use the possibility to apply earlier the mentioned above standards, amendments to standards and interpretations. In the opinion of the Group, the introduction of the above-mentioned standards and interpretations shall not have a substantial impact on the financial statements if applied at the balance sheet date.

8.3. Standards and interpretations that have been issued by the IASB but are not approved EU

IFRS as approved by EU are not substantially different to the ones issued by the International Accounting Standards Board (IASB) except from the following standards, amendments to standards and interpretations that as at the day of approval of these financial statements have not been introduced yet:

- IFRS 9 *Financial instruments* (effective for financial years beginning on or after 1 January 2013),

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Heavy Hiperinflation and Removal of Nonflexible Deadlines for for First-time Adopters* (effective for financial years beginning on or after 1 July 2011),

- Amendments to IFRS 7 *Financial Instruments: Disclosure: Financial Assets Transfers* (effective for financial years beginning on or after 1 July 2011),

- Amendments to IAS 12 *Income tax – Deferred Tax: Recovery of Underlying Assets* (effective for financial years beginning on or after 1 January 2012).

According to the entity assessments, the introduction of the above-mentioned standards, interpretations and amendments to standards shall not have a substantial impact on the financial statements if applied at the balance sheet date.

9. Important accounting principles

The most important accounting principles applied by the Group are presented below.

9.1. Principles of consolidation

This consolidated financial report includes financial report of ENERGA S.A. and financial data of its subsidiaries, prepared in case of each company for the year ended December 31, 2010. Financial reports of subsidiary entities, after adjustments making the financial report compliant with IFRS, are prepared for the same reporting period as the financial report of the parent company, with use of coherent accounting principles, based on uniform accounting principles applied for transactions and business events of similar nature, except for Elektrownia Ostrołeka S.A. that prepared the financial statement for the period from 20 November 2009 to 31 December 2010. The subsidiary Elektrownia Ostrołeka S.A. has not prepared the financial statement as at December 31, 2009 due to the longer accounting period in accordance to the Polish Accounting Standards. The financial information regarding Elektrownia Ostrołęka S.A. as at December 31, 2010 and for the period September from 1 January 2010 to 31 December 2010 was included to the presented consolidated financial statements.

All significant intercompany balances and transactions, including non-realized profits arising from intercompany transactions are fully eliminated. Non-realized losses are eliminated, unless they indicate that an impairment took place.

Subsidiary entities are subject to consolidation during the period from the day on which the Group took over control over them and cease to be consolidated from the day on which the control ceased to be exercised. The entity is controlled by the parent company when it holds, directly or indirectly through its subsidiaries, more than half of the number of votes in a given company, unless it is possible to prove that such ownership is not decisive of exercising the control. Control is also exercised when the Company has a possibility to direct financial and operating policy of a given entity.

In case of purchase or sale of minority interest, when no acquisition or loss of control takes place, such transactions are accounted for with use of the pooling of interests method.

9.2. Investment in associated entities

Investments in associated entities are recognized by equity method. These are the entities, on which the parent company has significant direct or indirect (through its subsidiaries) impact and which are not its subsidiaries, co-subsidiaries or joint ventures. Financial reports of associated entities are the basis for the valuation of interests held by parent company with use of the equity method. In making the valuation with use of equity method, the investment is initially measured at purchase price and its balance sheet value is increased or decreased by the share in the results, determined in accordance with coherent accounting principles of the associated company, obtained after the date of acquisition. Investor's share in the results of the associated entity is carried to the income statement. Payments from profit of the associated entity decrease balance sheet value of the investment. In case of change of the amount of capital of the associated entity, other than those arising from the result obtained by such entity (e.g. change in capital arising from revaluation of fixed assets), investor's share in such changes in comprehensive income is also carried to other comprehensive income. In calculating investor's share in associated entity's profits, only existing voting rights are taken into consideration, and not potential voting rights.

The above principle does not apply to situations, where the investment is recognized as assets held for sale according to IFRS 5 *Non-current assets held for sale and discontinued operation.*

Financial years of associated entities and parent company are the same. Associated entities apply accounting principles contained in the Accounting Act. Prior to calculation of the share in net assets of associated entities, appropriate adjustments are made in order to make financial data of such entities compliant with IFRS applied by the Group.

9.3. Conversion of items expressed in foreign currencies

Transactions made in foreign currencies other than Polish zloty are converted into Polish zloty at the exchange rate valid on the day the conversion was made. As of the balance-sheet day:

- monetary items are converted at closing exchange rate (to be understood as average closing rate fixed for a given currency by the National Bank of Poland for that day),
- non-monetary items measured at historical costs in foreign currency are converted at the exchange rate of the date of original transaction (exchange rate of the bank providing services to the entity), and
- non-monetary items measured at fair value in foreign currency are converted at the exchange rate of the day on which the fair value was determined.

The resulting exchange rate differences are recognized as financial revenues (expenses) or, in cases determined by specific accounting principles (policy), capitalized in the value of assets. Non-cash assets and liabilities measured at their historical costs and expressed in a foreign currency are reported at the historical exchange rate of the transaction date.

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Exchange rate differences arisen on non-monetary items such as capital instruments measured at fair value through profit and loss are recognized as a change in far value.

Exchange rate differences arising from conversion of assets and liabilities of foreign companies are included in other comprehensive income.

The following exchange rates are assumed for the purposes of balance-sheet valuation:

Exchange rate at the end of reporting period		
Currency	**31 December 2009**	**31 December 2010**
EURO	4,1082	3,9603

The functional currency of foreign subsidiary ELNORD SLOVAKIA s.r.o. is euro. As of the balance-sheet day, assets and liabilities of this foreign entity are converted into the presentation currency of the Group at the exchange rate applicable as of the balance-sheet day and its income statements are converted at weighted average exchange rate for a given financial period. The resulting exchange rates are recognized directly in other comprehensive income. At the time of disposal of foreign entity, cumulated deferred exchange rate differences recognized in other comprehensive income, relating to a given foreign entity, are recognized in income statement.

Weighted average exchange rates for particular financial years were as follows:

Average exchange rate in reporting period		
Currency	**2009**	**2010**
EURO	4,3276	4,0044

9.4. Tangible fixed assets

Tangible fixed assets are tangible items:

- that are held for use in the production or supply of goods or services or for administrative purposes; and
- that are expected to be used for a period longer than one year,
- in relation to which it is probable that the entity will obtain future economic benefits related to the asset,
- the purchase price or manufacturing cost of which can be reliably measured.

Fixed assets and fixed assets under construction are measured at purchase price or at cost of manufacturing.

Tangible fixed assets are measured at net value, i.e. initial value (or at costs assumed for fixed assets used before the day of transition into IFRS) less amortization and any accumulated loss arising from their impairment. The initial value of fixed assets includes their purchase price increased by all costs directly attributable to purchasing or adaptation of the fixed assets item to the usable condition. The cost also includes expected cost of disassembly of tangible fixed assets, removal and restoration of the place in which an asset is located, which obligation to be incurred arises at the time of installation of the asset or its use for purposes other than stock production. Capitalization of purchase or manufacturing costs is ceased once the asset is adapted to the place and conditions required for starting its operation.

As of the day of purchase of a tangible fixed asset, all important elements being components of such asset, with different economic useful lives are identified (components). Costs of general overhauls, periodic maintenance, if their value is substantial, and costs of replacement of main components are also components of tangible fixed assets.

Depreciation charges are calculated on the basis of purchase price/cost of manufacturing of a fixed asset less its residual value. Depreciation starts when the asset is available for use. Depreciation of fixed assets is based on the depreciation plan which determines expected useful life of an asset. The depreciation method applied reflects the mode of consuming economic benefits from an asset by the enterprise.

Depreciation is calculated on a straight-line basis throughout the useful life of the asset, which are following for particular groups of fixed assets:

Group of assets	*Depreciation period in years*
Buildings, premises and civil engineering and marine structures	2 -100 years
Machines and technical equipment	2 – 50 years
Means of transport	3 – 14 years
Office equipment	4 - 20 years
Other fixed assets	4 - 20 years

Depreciation method, depreciation rate and residual value of fixed assets are subject to verification at least at the end of each financial year. All changes resulting from the verification are recognized as the change of estimates and the adjustment (if any) of depreciation charges is made in the year in which the verification was carried out and in subsequent periods.

A tangible fixed asset item may be removed from the balance-sheet upon its disposal or in the case where no economic benefits from the further use of such asset are expected. All profits and losses resulting from removal of the given asset item from the balance sheet (calculated as the difference between possible net revenues from sale and the balance sheet value of the given item) are recognized in the income statement in the period of such removal.

Investments in progress relate to fixed assets under construction or assembly and are reported at purchase prices or cost of manufacturing, less accumulated impairment loss (if any). Fixed assets under construction are not subject to depreciation until completion of the construction of a fixed asset and its handing over for use.

9.5. Real estate investments

The Group presents real estate as property investment in case where its treats such property as a source of revenues from rentals or holds it because of increase of its value or obtains both these benefits, provided that such property is not:

- used for production, delivery of goods, providing services or administrative activities, or
- held for sale under ordinary activities of the entity.

In case of property used both for Group’s own needs and in order to obtain economic benefits, the Group classifies separately the part used for its own needs and the investment part, if such parts can be sold separately or can be a subject of the lease. If this is not possible, the whole property is only treated as an investment property when the part used for Group’s own needs is an irrelevant part of such property.

At the time of initial recognition, real estate investments are measured at purchase price or cost of manufacturing, including costs of the transaction carried out. If a real estate investment was acquired, the acquisition price includes its purchase price plus all direct costs related to the purchase transaction such as legal service fees and property purchase tax. Real estate investments produced internally are recognized until the day of completion of the construction as fixed assets under construction in accordance with IAS 16 *Property, plant and equipment (Tangible fixed assets*).

After the initial recognition is made, the Capital Group applies the valuation method based on the purchase price or at costs of manufacturing, i.e applies the methods used for the fixed assets.

Investment properties are removed from balance-sheet in case of their disposal or in case of withdrawal from use of a given investment property when no future economic benefits from its disposal are expected. All profits or losses arising from the removal of the investment property form the balance-sheet are recognized in the income statement during the period in which such removal was made.

Assets are only carried to investment properties when the manner of their use is changed, which is confirmed by the fact that an asset ceased to be used by its owner, entering into operating lease agreement or completion of construction/production of the investment property.

9.6. Intangible assets

The Group classifies into intangible assets non-monetary assets that can be identified and that do not have physical form.

As of the day of initial recognition the intangible asset item is measured at purchase price or cost of manufacturing in case of development works. Purchase price of the intangible asset includes:

- purchase price including import customs duties, non-deductible taxes included in price, less all discounts and rebates granted, and
- expenditures directly related to the preparation of the asset for its planned use, in particular costs of employee benefits, service fees and costs of tests carried out to verify proper operation of the asset.

After initial recognition, intangible assets are reported at purchase price or cost of manufacturing less amortization and any accumulated impairment loss.

Expenditures for intangible assets internally generated by the Group, except activated expenditures for research and development works, are not activated and are recognized as the costs for the period when they were incurred.

The Group makes an assessment as to whether the useful life period of the intangible asset is definite or indefinite and, if it is definite, estimates the length of such period. The useful life period of the intangible asset is assessed as indefinite if – on the basis of the analysis of appropriate factors – no length of the period during which such asset will generate cash flows for the entity can be foreseen.

The value of the intangible asset subject to depreciation with definite useful life period is decreased by its residual value. According to the principle adopted by the Group, residual value of intangible assets is equal to zero, with the exception of the situations when:

- the entity has binding agreement with non-related entity for the disposal of such rights after a fixed period of use – then the residual value is equal to the value determined in the agreement for the disposal of such rights;

- there exists active market for such rights and the value can be determined reasonably and it is highly probable that such market will exist after the useful life period of such asset.

The value subject to depreciation is depreciated during the period corresponding to the estimated economic useful life of the intangible asset. Depreciation starts when the asset is ready for use.

Intangible assets with limited useful life are amortized during their useful life and subjected to testing for impairment each time when there are indications of their impairment. The amortization period and method of intangible assets with limited useful life are verified at least at the end of each financial year. Changes in the expected useful life or expected manner of consuming economic benefits deriving from a given asset are reported through the change of the amortization period or method respectively and are treated as changes in estimated values.

The Group does not hold any intangible assets with indefinite useful life or any intangible assets that are not used.

Summary of the principles applied with respect to intangible assets of the Group:

	Patents and licenses	**Costs of development works**	**Computer software**	**Perpetual usufruct right to land**	**Other**
Useful life	The period determined at the agreement, including additional period for which the use may be extended	5 years	2 years	99 years	5 years
Depreciation method used	Amortized during the term of the agreement (8 years) using straight line method.	5 years with use of straight-line method	2 years with use of straight-line method	99 years with use of straight-line method	5 years with use of straight-line method
Produced internally or purchased	Purchased	Generated internally	Purchased	Purchased	Purchased
Verification with respect to impairment	Annual assessment to assure if there were any indications of impairment	Annual (in case of assets that are not handed over for use yet) and when there is any indication of impairment.	Annual assessment to assure if there were any indications of the impairment	Annual assessment to assure if there were any indications of the impairment	Annual assessment to assure if there were any indications of the impairment

Profits or losses arising from the removal of intangible assets from the balance-sheet are measured at the difference between net sales proceeds and balance-sheet value of a given asset item and are recognized in the income statement upon their removal from balance sheet.

9.6.1 Research and development costs

Research costs are recognized in the income statement when incurred. Expenditures incurred for development works performed as a part of a given project are carried forward to a subsequent period, if they can be considered as recoverable in future. After initial recognition of expenditures for development works, a historical cost model is used, which requires that asset items are recognized at purchase prices/cost of manufacturing, less accumulated depreciation and accumulated impairment loss. All expenditures carried forward to the next period are depreciated during the expected period of obtaining sales revenues from a given project.

Development costs are subject to assessment with respect to possible impairment once a year, if the asset is not handed over for use yet, or more frequently, if during the reporting period an indication of impairment appears as a result of which it cannot be possible to recover their carrying value.

Except for development costs, all intangible assets internally generated by the Group are not recognized as assets and are recognized in the income statement for the period during which costs attributable to them were incurred.

9.6.2 Goodwill

The goodwill arising from the takeover of a business unit is initially recognized at the purchase price being the surplus of the costs of the merger of business units over the share of the acquiring entity in the net fair value of identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is reported at the purchase price less any accumulated impairment loss. The impairment test is carried out once a year or more frequently when necessary. The goodwill is not subject to depreciation.

As at the date of takeover the goodwill is allocated to each of the cash generating units which may benefit from merger synergies. Each center or a group of centers to which the goodwill is assigned:

- corresponds to the lowest level in the Group at which the goodwill is monitored for internal managerial needs, and
- is not larger than one business segment according to the definition of the basic or supplementary financial reporting form set forth under IFRS 8 Segment reporting.

Impairment loss is determined by estimating recoverable value of the cash generating unit to which the goodwill was allocated. In case where the recoverable value of cash generating unit is lower than its balance-sheet value, impairment loss is recognized. In case where the goodwill constitutes a part of the cash generating unit and a part of business conducted within such center is sold, in order to determine profits or losses on sale of such business, goodwill related to the business sold is included in its balance-sheet-value. The goodwill sold in such circumstances is measured on the basis of the relative value of the business sold and the value of the remained part of the cash generating unit.

9.7. Impairment of non-financial fixed assets

As of each balance-sheet day, the Group makes an assessment if there is any indication of the impairment of any non-financial fixed asset. In case it is ascertained that there is such indication or in the event of necessity of carrying out the annual test in order to verify if the impairment occurred, the Group estimates the recoverable value of the asset or the cash generating unit to which the asset belongs.

The recoverable value of an asset item or cash generating unit corresponds to the fair value of the asset item less selling costs of this item or the cash generating unit respectively, or the use value, whichever is higher. The recoverable value is determined for particular assets, unless the given asset does not independently generate cash inflows, which are mostly independent from those generated by other assets or groups of assets. If the balance-sheet value of an asset is higher than its recoverable value, the impairment takes place and then an impairment loss is recognized, reducing the value of an asset to its recoverable value. In estimating the use value, projected cash flows are discounted to their current value with use of the discount rate prior to taking into account taxation effects, which reflects the current market estimation of time value of money and standard risks for such asset. Impairment loss recognized for asset items used on going concern basis are included in the cost categories which correspond to the function of the asset, for which the impairment was ascertained.

As at each balance-sheet day, the Group makes an assessment if there are any prerequisites indicating that the impairment loss recognized in previous periods with respect to a given asset is unnecessary or should be decreased. If there are such prerequisites, the Group estimates the recoverable value of such asset. Previously recognized impairment loss is reversed only when from the time of the last impairment loss the estimated values used to determine recoverable value of the given asset have changed. In such case, the balance-sheet value of the asset is increased to its recoverable value. The increased amount may not exceed the balance sheet value of an asset item which would be determined (less amortization) if in the previous years no impairment loss was recognized for this asset item. Reversal of the impairment loss is recognized immediately as a revenue in the income statement. After the impairment loss reversal is made, the amortization charge relating to a given asset is adjusted during the subsequent periods in a manner allowing making regular write-downs of its verified balance-sheet amount decreased by its residual value.

9.8. Costs of external financing

Costs of external financing are capitalized as a portion of tangible fixed assets manufacturing costs. Costs of external financing include interest and exchange rate gains or losses up to the value corresponding to the adjustment of interest cost.

Capitalization of external financing costs begins after the activities necessary for the asset preparation to its use are in progress and the expenses of the certain asset and the external financing costs are incurred. If the investment in the asset is suspended for the longer time consequently the capitalization of external financing costs is suspended. The capitalization is stopped when generally all activities necessary for the asset preparation to its use are completed.

The current costs of loans for assets financing less interests on temporary surplus of cash deposits are capitalized as well as current costs of operational loans in case when expenses for assets exceed the amount of loans for its financing. Costs of operational loans are capitalized as a product of the capitalization rate and the excess of fixed assets expenses over the amount of loan for its financing. The capitalization rate is set as the weighted average cost of external financing regarding loans constituting Group's liabilities other than loans for assets financing. The amount of capitalized costs of external financing for the period does not exceed the total amount of costs of external financing incurred in the period.
Financial assets are divided into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through financial result,

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

Investments held to maturity

Investments held to maturity are the financial assets with defined or definable payments and fixed maturity date which the Group intends and is able to hold until that time. Financial assets held to maturity are measured at amortized cost with use of the effective interest rate method. Financial assets held to maturity are classified as long-term assets if their maturity is more than 12 months from the balance sheet date.

Financial assets at fair value through financial result

The component of the financial assets at fair value through financial result is a component that meets one of the following conditions:

a) it is classified as tradable. Components of the financial assets are classified as tradable if they are:

- purchased mostly for sale in short-term,
- a part of the portfolio of specific and collectively managed financial instruments on which it is likely to earn profit in short-term; or
- derivatives, excluding derivatives that are hedging instruments.

b) it is classified in this category upon purchase, as per IAS 39. Financial asset covered by IAS 39 may be classified upon purchase to the portfolio measured at fair value, with changes related to the income statement (except capital instruments that are not priced in the active market and therefore their fair value cannot be reliably determined), if the following criteria are met:

- such classification eliminates or significantly reduces incoherence of consideration when both, valuation and profit and loss identification principles, are subject to other regulations; or
- such assets are part of financial assets, which are managed and assessed based on the fair value as per documented risk management strategy; or
- financial assets incorporate derivatives which should be reported separately.

The Group may not reclassify financial instruments to and from FVTPL portfolio.

Such instruments are measured at fair value as of the balance sheet date. Profit or loss on financial assets classified to FVTPL portfolio are identified in the income statement.

Loans and receivables

Loans granted and receivables are financial assets with fixed or possible to be fixed payments that are not considered as derivative instruments; not listed in the active market. These are recognized as current assets if the maturity does not exceed 12 months from the balance sheet date. Loans granted and receivables with the maturity exceeding 12 months from the balance sheet date are recognized as fixed assets. Loans and receivables are measured at amortized cost.

Assets available for sale

All other financial assets are the assets available for sale. Assets available for sale are measured at fair value as of each balance sheet date. Fair value of the investment, for which there is no listed market price, is determined in reference to current market value of an instrument with significantly the same features or based on the expected cash flow on such component of assets being the subject of the investment (valuation by discounted cash flow method).

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

- losses on the impairment,
- exchange gains and losses for cash and cash equivalents,
- interest calculated by an effective interest rate.

Dividends on capital instruments in AFS portfolio should be identified in the income statement when the right of an entity to receive the payment is determined.

9.9. Impairment of financial assets

As of each balance sheet date, the Group makes an assessment whether there are any independent grounds for the impairment of a financial asset or a group of financial assets.

Assets measured at amortized cost

If there are objective indications of the loss incurred due to impairment of loans granted and receivables measured at amortized cost, the amount of the impairment loss is equal to the difference between the balance-sheet value of the financial asset and the current value of estimated future cash flows (excluding future losses on non-collected receivables which have not been incurred yet), discounted with use of the initial effective interest rate (i.e. the interest rate fixed upon initial recognition). Balance sheet value of an asset is reduced by the impairment loss. Loss amount is recognized in the income statement.

The Group assesses first if there are objective indications of the impairment of particular components of financial assets which are significant individually, as well as the indications of impairment of financial assets which are not significant individually. If it results from the performer analysis that there are no objective indications of impairment of the financial asset assessed individually, whether it is significant or not, the Group includes such an asset into the group of financial assets with similar characteristics of credit risk and assesses it entirely with regards to impairment. Assets which are individually assessed in respect of value loss and for which the impairment loss was recognized or recognized as not subject to change, are not taken into account when jointly testing the group of assets with regards to impairment.

If, during the next period, the impairment loss is decreased and the decrease can be objectively linked with the event occurring after the recognition of the loss, the impairment loss recognized previously is reversed. Subsequent reversal of the impairment loss is recognized in the income statement to the extent the balance-sheet value of the asset as at the reversal date does not exceed its amortized cost.

Financial assets available for sale

If there are objective indications of impairment of a financial asset available for sale, the amount being the difference between the purchase price of such asset (less all repayments of capital and, in case of financial assets measured at amortized cost using effective interest rate method, amortization) and its current fair value decreased by any impairment loss recognized previously in the income statement is cancelled in the equity and transferred to the income statement. The income statement should not reflect the reversal of impairment loss for capital instruments classified as available for sale. If in the subsequent period the fair value of the debt instrument available for sale increases, this increase may be objectively connected with the event following the recognition of the impairment loss in the income statement, then the amount of reversed loss is shown in the income statement.

9.10. Embedded derivative instruments

Embedded derivative instrument is a component of a hybrid (collective) instrument that also incorporates underlying agreement, which is not a derivative instrument. Such component causes a conversion of a part of cash flow resulting from the hybrid instrument in a similar manner to the flows resulting from an independent derivative instrument.

The Group reviews executed and binding agreements to identify embedded derivative instruments.

Embedded derivative instruments are separated from the agreements and considered as derivative instruments if they meet the following conditions:

- economic characteristics and risk of the embedded derivative instrument are not strictly connected with economic nature and risk of the agreement in which the agreement is embedded,
- stand-alone instrument with the same realization conditions as those of the embedded instrument would meet the definition of a derivative instrument,
- hybrid (compound) instrument is not shown at fair value and changes of its fair value are not related to the income statement.

Embedded derivative instruments are shown in a similar way as stand-alone derivative instruments that are not recognized as hedging instruments.

The scope in which – according to IAS 39 – economic characteristics and risk specific for the embedded derivative instrument in a foreign currency are strictly related to the economic characteristics and risk specific for the underlying agreement (primary contract) covers also the cases where the currency of the underlying agreement is customary for the contracts for purchase or sale of non-financial items on the market for a given transaction.

“Isolated” embedded derivative instrument is recognized in the balance sheet at fair value and changes to the fair value are recognized in the income statement.

The Group makes an assessment whether to isolate specific embedded derivative instrument when it is initially recognized. For embedded instruments acquired by business combination, the Group reassesses the embedded derivative instruments as at the day of the merger (they are assessed as at the day they were initially recognized in the acquired entity)

9.11. Inventories

Inventories include as follows:

- assets designated for sale under regular commercial operations,
- assets in production for sale, or
- assets in the form of materials and raw materials consumed in the production process or when providing services.

Inventories are measured at the lower of the two values: purchase price/cost of manufacturing or attainable net selling price.

Purchase prices used for the valuation at the balance sheet date may not be higher than net value of such components that is attainable. Net attainable value means the difference between estimated purchase price used in regular commercial operations and estimated costs of finishing and costs required to effectuate the sale.

Value of movements of identical materials or materials nearly identical due to similarities in features and designation is measured by the Group as follows:

- coal, by FIFO method,
- materials purchased for orders, by specific price identification method,
- other inventories, by weighted average method.

Certificates of origin

Certificates of origin concerning energy produced in the financial period are valued as at the balance sheet date in accordance with the fair value as of the date of the asset recognition, that is production of the energy from the renewable sources or in co-generation. The certificate fair value should be understood as the certificate listing on the Polish Energy Exchange as of the date of the energy production from the renewable sources or in co-generation.

The certificates of origin are recognized as goods for resale and as revenues from sales of goods for resale in the income statement, at the moment of generation of energy from renewable sources or in cogeneration.

Purchased certificates of origin are valued at the purchase cost.

As at the moment of the effective sale of the certificates of origin, the difference between the net selling price and the balance sheet value of the previously recognized certificates is disclosed in the result for the period as operating income or cost respectively.

9.12. Cash, cash equivalents and short-term investments

Cash and short-term deposits shown in the balance sheet include cash at bank and in hand, participation units in liquidity funds and short-term deposits with initial maturity period not exceeding three months.

The balance of cash and cash equivalents shown in the cash flow statement consists of cash and cash equivalents specified above, less bank overdrafts.

Short-term investments include:

- securities and other financial assets,
- cash and other cash assets.

Securities and other financial assets include assets with the maturity exceeding three months but not exceeding one year from the balance sheet date, held-for-trading or available for sale; or held to maturity.

Bank deposits with initial maturity period exceeding three months are recognized as deposits.

Financial effects of increase or decrease in the value of short-term investments measured at market prices (values) are considered as financial revenue or cost, respectively.

Cash and other cash equivalents are measured at nominal value. Other cash assets are measured according to the principles applied to financial instruments.

9.13. Other assets, prepayments and accruals

The Group recognizes assets as prepayments and accruals if the following conditions are met:

- they are a result of prior actions - expenses for operating needs of the entities,
- their value can be reliably determined,
- they relate to future reporting periods.

Prepayments and accruals are recognized at the value of incurred and reliably determined costs that concern future periods and will bring about economic benefits for the entities in the future.

Write-downs for prepayments and accruals may be made adequately to the time period passed or amounts of the allowances. Time and manner of accounting depends on the nature of accounted expenses and the accounting is made on prudence basis.

At the end of reporting period, the Group verifies prepayments and accruals in order to check if the confidence level in respect of economic benefits for the entity after the current financial period is sufficient to include such specific item as an asset.

Other assets also include receivables for public and legal levies (except corporate income tax settlements being presented as a separate balance sheet position), surplus of ZFŚS (*Company Social Benefit Fund*) assets vs. liabilities and prepayments for future fixed tangible assets, intangible assets and inventories. Prepayments are presented in line with nature of an asset, to which they relate, either as fixed assets or current assets. Discounting does not apply to the prepayments as they are a non-cash asset.

9.14. Equity

Equity is presented as at nominal value and is split by types and principles specified by the law and parent company’s articles of association.

In consolidated financial statements, share capital is presented at the value specified in the parent company’s articles of association. The capital contributions declared but not paid are recognized as called up share capital, as a negative value.

The Capital Group’s supplementary capital is the supplementary capital of the parent company.

9.15. Provisions

The Group sets up provisions when a (legal or customary) obligation arising from past events is incumbent upon the Group and when the fulfillment of such obligation is likely to result in an outflow of economic benefits, and a reliable estimation of the amount of such obligation can be made. If the Group expects that costs covered by the provision will be reimbursed, for example under an insurance contract, then such reimbursement is recognized as a separate asset, but only when it is practically sure that the reimbursement will be really effected. Costs relating to a given provision are shown in income statement, decreased by all reimbursements.

Provisions created are recognized as operating expenses, other operating expenses or financial expenses depending on the circumstances, to which the future liabilities relate.

If the effect of change of the time value of money is significant, the amount of the provision corresponds to current value of outlays that are expected to be necessary to cover the liability.

Discount rate is determined before tax. This means that it represents current market evaluation in respect of the time value of money and the risk associated with specific item of liabilities. Discount rate is not encumbered with the risk by which future cash flow estimates have been adjusted. If the discounting method is applied, the increase in provision related to passage of time is shown as financial costs.

In particular, the following provisions are provided:

Provision for cash equivalent as per employee tariff for energy sector employees

Pursuant to the Sectoral Collective Labor Agreement (*Ponadzakładowy Układ Zbiorowy Pracy – PUZP*) as amended in 2005, the obligation to pay benefits to former employees of energy sector under so called "energy tariff" was carried forward to the companies from which specific pensioners originate. Due to the above, companies within the Capital Group have been obliged to create the respective provision since December 2005.

The cost of creating the provision for pensioners with the entitlement at the time when additional PUZP protocol entered into force was entirely charged to financial result for 2005. Cost of former employment relating to the employees of the companies and cost of future pensioners is determined using the straight-line method for an average period remaining to such employees' retirement date. Value of the provision is estimated by the actuary. Cost of the provision creation is recognized as operating expenses.

Provision for write-downs for the Company Social Benefit Fund (Zakładowy Fundusz Świadczeń Socjalnych – ZFŚS) and other benefits for pensioners

Value of the liabilities for former employees is estimated based on the conditions included in the Collective Labor Agreements applicable in the companies or other legal regulations. Such liabilities are result of the rights acquired by the employees of the company during the term of employment. The provision is recognized as operating expenses in the amounts corresponding to the acquisition of future rights by current employees.

Retirement severance pays and jubilee rewards

Employees of the companies operating within the Group are entitled to jubilee rewards and retirement severance pays under the company remuneration schemes and the labor code. Jubilee rewards are paid to employees when their work service exceeds specific number of years. Retirement severance pays are paid as one-off benefit upon retirement or leaving the company due to disability. Retirement severance pay and jubilee reward level depends on the length of work service and average salary of the employee. The Group creates provision for future liabilities arising from retirement severance pays and jubilee rewards in order to attribute costs to the periods to which they refer. Under IAS 19, jubilee rewards are considered as other long-term employee benefits, while retirement severance pays are certain benefit schemes after termination of the employment. Current value of such liabilities as of each balance sheet date is calculated by an independent actuary. Calculated liabilities are also discounted payments which will be made in the future, taking into account the employment rotation and apply to the period up to the balance sheet date. Demographic and employment rotation information is based on historical data. Profits and losses from calculations made by an actuary are recognized in the income statement.

Claims by other entities and litigations

Provision for claims by other entities and consequences of litigations in progress is created in the amount of the claim concerned, to include any possible costs of the dispute.

Provisions for fixed assets liquidation

Provision for future costs of fixed assets liquidation is created when there is a statutory requirement to disassemble such assets or remove them having stopped their use and reinstate the place where such assets were located to the initial condition.

Provision for CO2 emission

In the case of a surplus of CO2 emission over the certificates held as at the balance sheet date, a provision is set up on the basis of the actual use of the rights, based on the market price of the right as at the provision valuation date.

Provision regarding obligation of the certificates of origin presentation

In the case of a shortage of the certificates of origin of energy produced from the renewable sources or with co-generation, which was not covered by the purchase of the certificates on the market or a replacement charge, a provision is set up to cover thereof.

9.16. Financial liabilities

Financial liabilities are divided into the following categories:

- Measured at amortized cost,
- Financial instruments measured at fair market value according to financial result.

Liabilities measured at amortized cost include in particular trade and service liabilities, bank loans, borrowings and debt papers. Initially they are recognized at fair value reduced by costs associated with obtaining the loan or borrowing. Thereafter, they are measured at amortized cost by effective interest rate method.

In determining amortized cost, costs related to obtaining a loan or borrowing and discounts or premiums obtained upon settlement of the liability are taken into consideration.

Revenues and costs are recognized in income statement upon removal of the liability from the balance sheet and as a result of calculation using effective interest rate method.

Financial liabilities measured at fair value through financial result include tradable financial liabilities and financial liabilities initially classified as measured at fair value through financial result. Financial liabilities are classified as tradable if they were purchased for resale in the near future. Derivative instruments, including isolated embedded instruments, are also classified as tradable, unless they are considered as effective hedging instruments. Financial assets may be initially classified as measured at fair value through financial result if the following criteria are met: (i) being so classified eliminates or notably reduces incoherence of consideration when both, the valuation and profit or loss identification are governed by different regulations; or (ii) liabilities are part of the group of financial liabilities managed and measured at fair value as per documented risk management strategy; or (iii) financial liabilities incorporate embedded derivative instruments that should be disclosed separately. As of December 31, 2010 the financial assets classified as measured at fair value through financial result amounted to PLN zero (the same as of December 31, 2009).

Financial liabilities measured at fair value through financial result are measured at fair value taking into account their market value as at the balance sheet date and ignoring the costs of the transaction. Changes in the fair value of such instruments are recognized in income statement as financial expenses or revenues.

Financial liabilities not being financial instruments measured at fair value through financial result are measured at amortized cost with use of the effective interest rate method.

Financial liabilities are excluded from the balance sheet by the Group if the liability has expired, that means when the obligation specified in the agreement was fully executed, cancelled or expired. Replacement of an existing debt instrument with an instrument with notably different conditions between the same entities, the Group discloses as the expiry of the initial financial liability and recognition of the new financial liability. In the similar manner, modifications of the conditions of agreement concerning existing financial liability the Group discloses as the expiry of the initial financial liability and recognition of the new financial liability. Differences in the balance sheet values which occurred as the result are recognized in the income statement.

Other non-financial liabilities include in particular, VAT liabilities for the tax authority and prepayments received that will be settled through supply of goods, services or fixed assets. Other non-financial liabilities are measured at amounts payable.

9.17. Accruals and deferred income

The Group creates accruals:

- which are certain or most likely to occur,
- which result from events in the past and result in the use of assets that the Group already has or will have in the future,
- for which reliable estimation of the amount is possible.

Accruals are the liabilities which are payable for goods or services that were received/provided and were not paid for, invoiced or formally agreed with the provider, including amounts payable to employees. Amount or date of payment for accruals is sometimes required to be estimated, however uncertainty level in this case is usually significantly lower than for the provisions.

Deferred income is created in line with the prudence and commensuracy principle. Deferred income includes:

- equivalent of the amounts for the services to be provided in future reporting periods received or due from suppliers,
- amounts (cash or equivalents) received to finance the purchase or production of tangible fixed assets and development works. Settlement is made by a gradual increase of other operating income by the amount corresponding to depreciation charges on such assets in the portion financed by such amounts. In particular, this concerns partly cancelled loans and grants for the purchase of a fixed asset,
- tangible fixed assets and intangibles received free-of-charge. Write-downs of this income are recognized as other operating income at the same time as depreciation charges for these fixed assets.

9.18. Emission rights

The purchased emission rights are valued at a purchase price and reported as intangibles. The value of the rights is not depreciated. The rights are written-off in the case of their use for coverage of the shortage of the value of the certificates held in comparison to the CO_2 emission. The write-offs are recorded as a costs of the accounting period.

The gas emission rights are registered off-balance. The use of these rights on the basis of the actual emission is also reported off-balance.

The charges for the rights allowance are registered as a costs of the accounting period.

In case of a surplus of CO2 emission over the certificates held as at the balance sheet date, a provision is set up on the basis of the actual use of the rights, based on the market price of the right as at the balance sheet date.

The provision is created as operating costs.

9.19. Lease

The Capital Group as lessee

Financial lease agreements which in principle transfer to the Group the whole risk and all benefits resulting from possessing the object of lease are reflected in the balance sheet as at the date of beginning of the lease at the lower of the following two values: fair value of the fixed asset on lease or current value of the minimum lease fees. Leasing fees are distributed between financial expenses and decrease of the balance of leasing liability in a manner allowing obtaining a fixed rate of return on the outstanding amount of the liability. Financial expenses are charged directly to the income statement.

Fixed assets used under financial leasing contracts are amortized over the shorter of the two periods: estimated useful life of the fixed assets or the leasing term, when it is not probable that lessee will acquire ownership title before the end of lease period.

Lease agreements under which the lessee retains substantially all risk and all benefits arising from the possession of the subject of the leasing are classified as operating lease agreements. Operating lease fees and further lease installments are recognized as costs in the income statement, on straight-line basis, throughout the lease term.

The Capital Group as lessor

In the case of financial leasing the company identifies assets specified in leasing agreements in its balance sheet and accounting books as long or short term financial assets from receivables. The assets are valued at amortized cost based on percentage leasing rate.

The company divides the basic charge into a capital and interest component. Interest component of the main charge constitutes income on financial leasing charged to financial income.

The capital component of leasing charges for the reporting period is charged to repayment of receivables by a user. The charges are divided based on percentage leasing rate.

Lease agreements under which the Group retains substantially all risk and all benefits arising from the possession of the subject of the leasing are classified as operating lease agreements. Initial direct costs incurred during negotiations of operating lease agreements are added to the balance sheet value of an asset that is the subject of the lease and are disclosed throughout the lease term on the same grounds as revenues from rent. Conditional lease fees are disclosed as revenue during the period when they are fall due.

9.20. Taxes

Income tax recognized in the income statement includes actual tax charges in the reporting period and change in the amount of deferred tax assets and liabilities that is not covered by the equity.

Current tax

Income tax recognized in the income statement for the reporting period as determined by companies within the Group in line with the applicable regulations on the corporate income tax.

Deferred tax

Due to temporary differences between value of assets and liabilities recorded in accounting books and their value for tax purposes and a tax loss possible to be deducted in the future, the Group recognizes deferred income tax assets and liabilities.

Deferred income tax liability is set up for all taxable temporary differences, except when such liability is a result of:

- initial recognition of the goodwill or an asset or liabilities under a transaction other than merger, and at the time of the transaction it does not affect either, the total financial result or taxable income (tax loss); and
- taxable temporary differences associated with the investment in affiliates, associates and shares in joint ventures, in the case that it is possible to control the time of reversing such temporary differences and it is likely that such differences are not reversed in the expectable future.

Deferred income tax assets are recognized for all deductible temporary differences up to such amount when it is likely that the earned taxable income will allow for deduction of such deductible temporary differences, except:

- the cases, when a deferred income tax asset results from initial recognition of an asset or liabilities under a transaction other than merger, and at the time of the transaction it does not affect either, the total financial result or the taxable income (tax loss); and
- deductible temporary differences associated with the investment in affiliates, associates and shares in joint ventures, in the case that the deferred income tax assets are recognized only to such extent as it is likely that the temporary differences will be reversed in the expectable future and taxable income available will allow for the realization of deductible temporary differences.

Balance sheet value of a deferred income tax asset is verified as at each balance sheet date. The company reduces the balance sheet value of a deferred income tax asset to the extent that it is not likely to earn such taxable income, which will be sufficient for partial or total realization of such deferred income tax asset. Not recognized deferred income tax assets are to be verified as at each balance sheet date and recognized to such extent to make it likely that the future taxable income will allow for their realization.

Deferred income tax assets are determined in the amount provided in the future to be deducted from income tax due to deductible temporary differences, which may result in the reduction of the taxable base in the future and deductible tax loss determined in line with the prudence principle. Deferred income tax assets are only recognized when their realization is likely.

Deferred income tax liability is created in the amount of income tax to be paid in the future due to taxable temporary differences that is such differences, which may result in the increase of the taxable base in the future.

Deferred income tax assets and liabilities are measured at tax rates, which are expected to be applied when an asset will be realized or the liability will be reversed, assuming as the grounds such tax rates (and tax regulations) that were legally in force or for which legislative process was mostly completed as at the balance sheet date.

VAT

Revenues, expenses, assets and liabilities are measured after deducting VAT amount, with the following exceptions:

- when VAT paid upon the purchase of assets or services cannot be recovered from tax authorities, in this case it is recognized respectively as a part of purchase price of the asset or as a part of the cost item, and
- in case of receivables and liabilities that are shown in the amount including VAT.

The net VAT amount returnable from or payable to tax authorities is recognized in the balance sheet as a part of receivables or liabilities.

9.21. Revenues

Revenues are recognized in the amount of economic benefits related to a given transaction the Group expects to obtain and when the revenue amount can be reliably measured. Revenues are identified after being reduced by VAT, excise tax and other sales taxes or charges and rebates and discounts. Also the below presented criteria are used for recognizing the revenues.

Revenues from sales of goods and products

Revenues are recognized if significant risk and benefits arising from the ownership right to goods and products are transferred to the buyer and when the revenue amount can be reliably measured and the costs incurred can be reliably estimated.

Revenues include:

- amounts receivable for the sale of: electricity to wholesale and retail customers, heat, certificates of origin for electricity produced from renewable sources, certificates of origin for electricity produced from cogeneration, emission allowances, distribution and transmission services, and other services provided within core business operations, and determined at net prices, after adjustment by rebates and discounts given and excise tax.
- amounts receivable for materials and goods sold at net prices, after adjustment by rebates and discounts given.

Interest

Interest revenues are recognized successively as they are accrued (taking into consideration the method of effective interest rate being the rate discounting future cash inflows throughout the estimated useful life of financial instruments) in relation to the net balance sheet value of the financial asset.

Dividends

Dividends are recognized upon the determination of shareholders' rights to receive them.

Revenues from rent and from operating lease

Revenues from rent and the lease are recognized on a straight-line basis throughout the lease term in relation to open agreements.

9.22. Costs

Cost of sales

Cost of sales includes:

- product manufacture costs incurred in the specific reporting period, adjusted by the change in product stock (finished goods, semi-finished products and production in progress) and adjusted by the product manufacturing cost for entity's own needs,
- value of sold electricity and materials at purchase prices,
- any impairment loss recognized for tangible fixed assets, intangibles and receivables,
- total costs of sales incurred in the reporting period and general and administrative costs (recognized separately in the income statement).

Manufacture costs that may be directly aligned to revenues earned by the companies contribute to the financial result of these entities for the reporting period when such revenues occurred.

Manufacture costs that may be only indirectly aligned to revenues or other benefits earned by the entities contribute to the financial result of these companies in the portion that they relate to the specific reporting period, thus assuring proportionality to the revenues or other economic benefits, and recognition of fixed assets and inventories valuation methods.

9.23. Other operating revenues and costs

Other operating revenues and costs include in particular items relating to:

- disposal of tangible fixed assets, intangibles and investment real properties,
- set up and reversal of provisions, except the provisions associated with financial operations or recognized as operating expenses,
- free-of-charge transfer or receipt, also by the way of donation, of any assets, including cash and cash equivalents,
- compensations, penalties and fines and other costs not related to regular operations.

9.24. Financial revenues and expenses

Financial revenues and costs include in particular the revenues and costs related to:

- disposal of financial assets,
- revaluation of financial instruments, excluding financial assets available for sale the effects of which are recognized as revaluation capital,
- revenues from share in net profits of other entities,
- interest,
- changes in provisions resulting from approaching the date when the cost is to be incurred (discount reversal effect),
- exchange rate differences resulting from operations performed in the reporting period and valuations of balance sheet assets and liabilities at the end of the reporting period, except the exchange rate differences recognized in the initial value of a fixed asset, to the extent that they are considered adjustment of costs of interest and exchange rate

differences for valuation of capital instruments in a foreign currency, classified to AFS portfolio,

- other items associated with financial operations.

Revenues and costs of interest are recognized gradually as they accrue, including effective interest rate method in respect of the net balance sheet value of a specific financial instrument and taking significance principle into account.

Dividends are recognized upon the determination of shareholders' rights to receive them.

9.25. Net earnings per share

Earnings per share for each period were calculated by dividing net profit for such period by weighted average of shares in the reporting period.

9.26. Cash flow statement

The cash flow statement was prepared in accordance with the indirect method.

10. Information on business activity segments

Main pattern for the split of Group's internal and external reporting is based on industry segments. Enterprise is organized and managed by segments that take into account type of goods and services offered.

The Group usually settles its transactions between segments at current market prices in such manner as if they concerned not related companies – using current market prices.

The Group operates in the following business activity segments: distribution of electricity and heat and distribution support services OSD, power plants and combined heat generation, hydro power plants, trade, customer services, lighting systems, other.

Distribution segment comprises operations being distribution of electricity by ENERGA OPERATOR S.A., a Distribution System Operator (OSD) and companies supporting OSD as well as heat energy distribution by ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.

Trade segment comprises operations associated with electricity trading by ENERGA – OBRÓT S.A.

Customer services refers to all activities regarding customers services carried on by ENERGA Obsługa i Sprzedaż Sp. z o.o.

Production segment comprises production carried out in conventional power plant, hydro plants, and combined heat and power plants. Production segment comprises two sub-segments: system power plants and combined heat and power plants and hydro power plants.

System power plants and combined heat and power plants sub-segment comprises production carried out in conventional power plant and combined heat and power plant. The largest Group subsidiary qualified to this sub-segment is ENERGA Elektrownie Ostrołęka SA.

Hydro plants sub-segment comprises production carried out in hydro plants. The largest Group subsidiary qualified to this sub-segment is ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.)

Lighting systems segment comprises activity regarding street, roads and other public places lighting, distribution and sales electricity for lighting purposes as well as construction maintenance and use of the lighting infrastructure. This activity is carried on by ENERGA Oświetlenie Sp. z o.o.

Other operations include predominantly training centers and data communication services. parent company was also qualified to other operations.

The above segment split was introduced In 2010 and this financial statement is the first one to present the data for the segments defined in such a manner.

In the consolidated financial statement for 2009 the following business activity segments were presented: distribution, trade and customer service, production, other.

Distribution segment comprised operations being distribution of electricity by ENERGA OPERATOR S.A., a Distribution System Operator and heat energy distribution by ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o as well as direct operations associated with distribution carried out by other companies.

Trade segment comprised operations associated with electricity trading and customer services.

Production segment comprised production carried out in conventional power plant, hydro plants, and combined heat and power plants.

Other operations include predominantly street lighting, grid construction, supply, training centers, transport and data communication services as well as parent company.

The Group does not disclose information for geographic segments as it operates in one geographic segment that is in Poland from both, asset location and customers perspective.

Tables below show breakdown of the revenues, costs, assets and liabilities by specific industry segments in 2009-2010:

under IFRS (in zlotys)

31 December 2010	Distribution of electricity and heat, support of distribution services	Trading	Customer services	Production		Lighting systems	Other	Total	Unallocated items and eliminations	Total activity
				Power plants and combined heat generation	Hydro power plants					
Revenues										
Sale to external customers	654 254 320,16	7 620 161 952,73	1 337 269,69	698 248 131,71	51 352 666,95	66 092 167,62	22 475 994,54	9 113 922 503,40	-	9 113 922 503,40
Sale to other segments	3 322 101 575,31	458 776 815,58	209 687 701,44	327 536 343,65	536 862 671,45	1 470 284,66	180 952 090,60	5 037 387 482,69	(5 037 387 482,69)	-
Total revenues	**3 976 355 895,47**	**8 078 938 768,31**	**211 024 971,13**	**1 025 784 475,36**	**588 215 338,40**	**67 562 452,28**	**203 428 085,14**	**14 151 309 986,09**	**(5 037 387 482,69)**	**9 113 922 503,40**
Net profit/loss before income tax and financial income/expense	159 503 758,56	198 878 885,47	11 693 370,81	42 790 456,64	449 107 535,37	7 813 418,52	(21 017 833,46)	848 769 591,91	(31 129 380,64)	817 640 211,27
Net financial income/expense	(75 078 476,27)	33 474 800,44	(2 932 641,14)	(1 009 017,53)	13 422 143,60	1 555 883,42	385 257 897,05	354 690 589,57	(375 918 836,94)	(21 228 247,37)
Share of profit of an associate	-	-	-	-	-	-	-	-	668 319,37	668 319,37
Profit/loss before tax	**84 425 282,29**	**232 353 685,91**	**8 760 729,67**	**41 781 439,11**	**462 529 678,97**	**9 369 301,94**	**364 240 063,59**	**1 203 460 181,48**	**(406 379 898,21)**	**797 080 283,27**
Income tax	20 982 346,89	47 161 887,98	4 629 835,58	12 575 842,20	88 269 043,30	(577 385,72)	(2 551 849,02)	170 489 721,21	782 533,25	171 272 254,46
Profit for the year from discontinued operations	-	-	-	-	-	-	(378 008,92)	(378 008,92)	-	(378 008,92)
Net profit/loss for the year	**63 442 935,40**	**185 191 797,93**	**4 130 894,09**	**29 205 596,91**	**374 260 635,67**	**9 946 687,66**	**366 413 903,69**	**1 032 592 451,35**	**(407 162 431,46)**	**625 430 019,89**
Assets and liabilities										
Segment assets	8 129 027 936,27	1 744 207 305,02	88 140 447,90	1 144 634 667,95	740 992 801,96	226 791 485,10	5 672 304 439,68	17 746 099 083,88	(5 155 359 987,55)	12 590 739 096,33
Share in an associate	-	-	-	-	-	-	47 968 657,95	47 968 657,95	(6 388 487,20)	41 580 170,75
Total assets	**8 129 027 936,27**	**1 744 207 305,02**	**88 140 447,90**	**1 144 634 667,95**	**740 992 801,96**	**226 791 485,10**	**5 720 273 097,63**	**17 794 067 741,83**	**(5 161 748 474,75)**	**12 632 319 267,08**
Total liabilities	**2 161 869 640,18**	**727 256 593,81**	**82 751 988,93**	**420 791 192,73**	**134 922 104,86**	**37 066 364,07**	**1 120 705 188,26**	**4 685 363 072,84**	**-**	**4 685 363 072,84**

31 December 2009	Distribution of electricity and heat, support of distribution services	Trading	Customer services	Production		Lighting systems	Other	Total	Unallocated items and eliminations	Total activity
				Power plants and combined heat generation	Hydro power plants					
Revenues										
Sale to external customers	459 869 302,36	7 207 578 831,91	1 072 549,82	593 676 371,30	31 676 115,92	65 118 046,02	21 104 770,12	8 380 095 987,45	-	8 380 095 987,45
Sale to other segments	3 214 881 656,57	2 128 445 121,09	203 717 034,90	545 738 589,95	360 464 632,83	107 382,87	149 217 572,50	6 602 571 990,71	(6 602 571 990,71)	-
Total revenues	**3 674 750 958,93**	**9 336 023 953,00**	**204 789 584,72**	**1 139 414 961,25**	**392 140 748,75**	**65 225 428,89**	**170 322 342,62**	**14 982 667 978,16**	**(6 602 571 990,71)**	**8 380 095 987,45**
Net profit/loss before income tax and financial income/expense	(10 584 455,25)	105 918 264,80	1 688 607,37	107 410 400,24	302 846 744,52	7 000 125,31	(259 226,30)	514 020 460,69	(15 747 953,74)	498 272 506,95
Net financial income/expense	23 121 937,78	21 509 902,12	(1 257 089,02)	(677 098,72)	14 688 224,41	2 362,00	243 165 874,49	300 554 113,06	(266 321 647,11)	34 232 465,95
Share of profit of an associate	-	-	-	-	-	-	-	-	(1 680 657,39)	(1 680 657,39)
Profit/loss before tax	**12 537 482,53**	**127 428 166,92**	**431 518,35**	**106 733 301,52**	**317 534 968,93**	**7 002 487,31**	**242 906 648,19**	**814 574 573,75**	**(283 750 258,24)**	**530 824 315,51**
Income tax	(1 568 672,39)	22 824 145,55	4 565 436,47	22 698 900,70	69 226 391,44	1 507 067,15	(756 708,35)	118 496 560,57	(14 665 444,96)	103 831 115,61
Profit for the year from discontinued operations	-	-	-	-	-	-	-	-	(1 645 352,44)	(1 645 352,44)
Net profit/loss for the year	**14 106 154,92**	**104 604 021,37**	**(4 133 918,12)**	**84 034 400,82**	**248 308 577,49**	**5 495 420,16**	**243 663 356,54**	**696 078 013,18**	**(270 730 165,72)**	**425 347 847,46**
Assets and liabilities										
Segment assets	7 467 615 271,62	1 298 786 740,64	80 386 921,05	1 058 842 500,98	507 717 719,23	100 559 689,94	5 239 950 703,24	15 753 859 546,70	(4 861 619 283,53)	10 892 240 263,17
Share in an associate	-	-	-	-	-	-	90 277 675,68	90 277 675,68	(48 450 524,61)	41 827 151,07
Total assets	**7 467 615 271,62**	**1 298 786 740,64**	**80 386 921,05**	**1 058 842 500,98**	**507 717 719,23**	**100 559 689,94**	**5 330 228 378,92**	**15 844 137 222,38**	**(4 910 069 808,14)**	**10 934 067 414,24**
Total liabilities	**2 227 602 832,98**	**607 280 095,86**	**73 223 209,64**	**398 736 847,15**	**116 580 005,12**	**17 979 680,42**	**95 411 552,26**	**3 536 814 223,43**	**14 101 979,07**	**3 550 916 202,50**

under IFRS (in zlotys)

31 December 2010	Distribution of electricity and heat, support of distribution services	Trading	Customer services	Production		Lighting systems	Other	Total activity
				Power plants and combined heat generation	Hydro power plants			
Other data concerning segment:								
Investment expenditure:								
- for fixed assets	763 140 674,13	995 785,88	5 171 828,75	213 438 022,14	53 897 863,50	8 619 297,76	22 209 519,14	1 067 472 991,30
- for intangible assets	62 947 545,07	1 075 675,71	4 819 124,22	5 674 559,03	144 910,05	38 500,00	13 345 857,41	88 046 171,49
- for real estate investments	-	-	-	-	-	-	-	-
								-
Depreciation of fixed assets	473 833 172,34	1 085 965,77	2 895 241,18	59 858 297,86	16 551 735,76	6 546 258,72	4 199 269,23	564 969 940,86
Amortisation of intangibles	14 604 862,93	1 215 016,12	1 268 669,02	219 281,20	275 001,68	30 031,54	8 277 094,80	25 889 957,29
Depreciation of real estate investments	191 329,34	-	-	-	-	-	366 775,97	558 105,31
Impairment write - downs for fixed assets	730 276,20	-	(419 114,69)	47 660 135,34	7 683 098,81	-	11 233,80	55 665 629,46
Impairment write - downs for inventories	997 245,93	-	-	1 163 477,78	-	-	-	2 160 723,71
Other write - downs	-	-	-	-	-	-	-	-
Other non - monetary expenses:								
- provision for post - employment benefits	4 540 748,48	(1 255,00)	2 798 077,42	9 985 517,00	3 104 222,00	4 590 760,19	4 328 916,99	29 346 987,08
- jubilee bonuses	4 375 317,37	(780 308,00)	1 850 181,81	(121 447,00)	1 442 602,00	392 667,00	1 365 201,00	8 524 214,18
- other provisions	68 854 830,65	159 189 840,43	776 644,60	39 676 326,22	2 340 381,67	1 625 744,57	1 403 592,47	273 867 360,61

31 December 2009	Distribution of electricity and heat, support of distribution services	Trading	Customer services	Production		Lighting systems	Other	Total activity
				Power plants and combined heat generation	Hydro power plants			
Other data concerning segment:								
Investment expenditure:								
- for fixed assets	644 108 079,31	806 121,42	12 529 436,94	59 434 347,32	64 331 952,72	8 688 464,67	3 302 327,18	793 200 729,56
- for intangible assets	36 214 391,23	2 129 123,53	4 525 797,96	5 656 900,28	149 025,99	50 047,38	8 538 770,61	57 264 056,98
- for real estate investments	-	-	-	-	-	-	-	
								-
Depreciation of fixed assets	454 658 324,67	1 086 321,04	2 089 004,78	58 621 884,84	9 413 640,85	5 518 052,34	2 241 456,87	533 628 685,39
Amortisation of intangibles	14 743 580,71	404 423,47	578 456,55	130 383,60	2 037 656,78	32 364,09	1 154 677,64	19 081 542,84
Depreciation of real estate investments	1 442 401,38	-	-	-	-	-	350 373,80	1 792 775,18
Impairment write - downs for fixed assets	-	-	-	2 169 170,51	-	-	2 499 923,30	4 669 093,81
Impairment write - downs for inventories	1 079 952,70	-	-	596 961,62	-	-	1 016 225,11	2 693 139,43
Other write - downs	-	-	-	-	-	-	83 164,00	83 164,00
Other non - monetary expenses:								
- provision for post - employment benefits	110 461 778,61	146 908,86	9 563 206,88	23 530 534,11	1 232 393,00	465 085,28	9 931 237,65	155 331 144,39
- jubilee bonuses	27 398 423,23	(480 628,27)	5 143 801,00	7 415 151,00	592 078,00	260 311,37	2 631 663,09	42 960 799,42
- other provisions	(2 335 056,02)	196 241 943,08	1 591 186,37	9 301 240,22	(171 978,24)	1 833 800,83	11 631 923,28	218 093 059,52

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

11. Revenues and costs

11.1. Other operating revenues

Item	Year ended 31 December 2009	Year ended 31 December 2010
Gains on disposals of tangible fixed assets and intangible fixed assets	1 382 951,29	9 458 310,26
Grants	434 299,63	3 726 163,48
Reversal of other write - downs for other assets	4 340 012,27	3 991 491,33
Revesal of provisions (fe court proceedings)	35 401 543,65	18 060 779,05
Compensations, penalties and fines received	61 026 129,13	18 914 039,22
Reimbursement of taxes	2 114 867,18	510 848,33
Reimbursement of court expenses	3 141 679,30	3 123 517,00
Redeemed liabilities	296 459,91	309 714,93
Income related to illegal energy consumption	8 071 904,51	7 892 544,19
Income from sale of CO2 emission rights	-	5 973 051,00
Other	18 420 028,16	6 658 771,50
Total other operating income	**134 629 875,03**	**78 619 230,29**

11.2. Other operating costs

Item	Year ended 31 December 2009	Year ended 31 December 2010
Loss on disposals of tangible fixed assets and intangible fixed assets	3 297 612,30	12 202 688,58
Disposals on fixed assets and intangibles	6 813 131,17	6 262 772,82
Donations	3 103 218,59	7 057 860,98
Other write - downs for other assets	3 028 881,34	233 872,46
Provisions set up	19 941 986,97	107 884 819,13
Compensations	1 680 028,60	12 579 611,90
Court expenses	3 861 521,09	3 991 450,64
Social expenses	1 288 530,88	858 989,07
Costs of removing random damages	11 034 324,29	13 870 978,62
Costs related to illegal energy consumption	2 747 505,48	2 673 892,67
Redundancy payments	-	63 315 212,75
Other	9 472 522,55	5 016 391,77
Total other operating expenses	**66 269 263,26**	**235 948 541,39**

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

11.3. Financial revenues

Item	Year ended 31 December 2009	Year ended 31 December 2010
Income from financial instruments:	**102 722 967,91**	**81 771 935,16**
Interest	77 986 146,13	73 230 486,93
Dividends	495 691,27	362 464,72
Reversal of write - downs for financial assets	1 924 119,26	7 083 825,16
Valuation of financial assets	19 806 687,49	849 507,43
Foreign exchange rate differences	1 042 290,91	245 650,92
Gains on disposal of financial instruments	1 468 032,85	-
Other financial income:	**12 210 665,12**	**714 641,36**
Interest on tax liabilities	16 141,05	36 852,40
Other	12 194 524,07	677 788,96
Total	**114 933 633,03**	**82 486 576,52**

11.4. Financial costs

Item	Year ended 31 December 2009	Year ended 31 December 2010
Financial instruments' costs:	**38 323 580,53**	**41 714 297,99**
Interest expenses	15 969 986,10	41 153 415,49
Write - downs set up	1 672 733,19	14 764,56
Valuation of financial assets	19 000 375,53	-
Foreign exchange rate differences	1 266 341,63	546 117,94
Loss on disposal of financial instruments	414 144,08	-
Other financial costs:	**42 377 586,55**	**62 000 525,90**
Interest expenses	30 576 835,27	53 683 796,61
Interest on tax receivables	2 085 363,12	1 433 321,35
Other financial costs	9 715 388,16	6 883 407,94
Total	**80 701 167,08**	**103 714 823,89**

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

11.5. Costs of operations by nature

Item	Year ended 31 December 2009	Year ended 31 December 2010
Expenses by nature		
Amortisation and depreciation	554 503 003,41	591 418 003,46
Write - downs for fixed assets and intangibles	1 412 038,53	56 709 801,12
Raw materials and energy used	706 117 684,04	588 225 142,42
External services	1 186 144 694,99	1 143 654 178,11
Taxes and fees	252 570 382,80	244 269 777,28
Social security and other employees' benefits	1 045 161 704,88	1 049 809 689,55
Write - downs for inventories	1 531 307,88	541 926,55
Write - downs for trade receivables	27 723 758,65	27 844 175,38
Other	68 641 477,55	81 005 529,71
Total expenses by nature	**3 843 806 052,73**	**3 783 478 223,58**
Change in inventories, prepayments and accruals	(7 293 598,28)	(54 306 632,39)
Cost of manufature of products for own needs (negative value)	(45 371 366,13)	(117 334 351,49)
Selling costs (negative value)	(92 550 813,88)	(109 249 130,02)
General and administrative expenses (negative value)	(353 906 686,28)	(332 408 343,56)
Value of sold raw materials and goods for resale	4 159 043 003,95	4 527 115 741,33
Cost of sales	**7 503 726 592,11**	**7 697 295 507,45**

11.6. Depreciation costs and impairment loss recognized in the income statement

Item	Year ended 31 December 2009	Year ended 31 December 2010
Included in cost of sales:	**537 956 672,59**	**624 879 190,92**
Fixed assets' depreciation	521 792 218,63	553 808 884,47
Write - downs for fixed assets	1 407 568,68	56 504 453,42
Intangibles' amortisation	12 964 110,10	14 007 747,72
Depreciation of real estate investments	1 792 775,18	558 105,31
Included in selling costs:	**1 818 430,53**	**2 250 508,51**
Fixed assets' depreciation	1 642 631,36	1 365 328,83
Intangibles' amortisation	175 799,17	885 179,68
Included in general and administrative expenses:	**12 866 586,39**	**20 138 720,64**
Fixed assets' depreciation	7 618 779,53	9 106 473,42
Write - downs for fixed assets	4 469,85	85 347,70
Intangibles' amortisation	5 243 337,01	10 826 899,52
Write - downs for intangibles		120 000,00
Included in change in products' balance	**118 579,38**	**-**
Included in costs of manufacture of goods for own needs	**3 154 773,05**	**1 762 853,74**

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

11.7 Costs of employee benefits

Item	Year ended 31 December 2009	Year ended 31 December 2010
Salaries	693 317 595,53	764 075 083,18
Social security	120 983 419,24	134 392 102,97
Post - employment benefits and jubilee bonuses	135 857 185,04	3 997 200,26
Other employees' benefits expenses	63 096 411,65	147 345 303,14
Employees' benefits expenses	**1 045 161 704,88**	**1 049 809 689,55**

12. Income tax

12.1. *Tax burden*

Major tax items for the year ended on 31 December 2010 are as follows:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Profit and loss statement		
Current income tax charge	145 248 754,84	216 242 538,04
Previous years' adjustments	(3 038 413,14)	1 990 299,68
Deferred tax	(38 379 226,09)	(46 960 583,26)
Tax charge recognized in profit and loss statement	103 831 115,61	171 272 254,46

12.2. *Reconciliation of effective tax rate*

Reconciliation of income tax on gross financial result before taxation at statutory tax rate with income tax calculated at effective tax rate of the Group for the year ended on 31 December 2010 is shown below:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Gross profit (loss) from continuing operations	**530 824 315,52**	**797 080 283,27**
Gross profit (loss) from discontinued operations	(2 415 586,68)	(378 008,92)
Profit / (loss) before tax	**528 408 728,83**	**796 702 274,35**
Tax at Polish statutory rate of 19%	**100 397 658,48**	**151 373 432,13**
Previous years' adjustments	(3 038 413,14)	1 990 299,68
Tax effect on non - deductible items	5 701 636,03	17 908 522,65
Tax at effective tax rate	**103 060 881,37**	**171 272 254,46**
Tax charge recognized in profit and loss statement	103 831 115,61	171 272 254,46
Tax attributable to discontinued operations	(770 234,24)	-

Current tax burden is calculated in line with the applicable tax regulations. Under these regulations a taxable profit (loss) is differentiated from a book profit (loss) as non-taxable revenues and non-deductible costs are excluded as well as cost and revenue items that will never be subject to taxation. Tax burden is calculated based on tax rates applicable in a specific financial year. Tax rate of 19% was applicable in the years 2009 -2010. Current regulations do not provide for tax rate differentiation for future periods.

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The Group is governed by the general regulations in respect of income tax. The Group is not a tax capital group and does not operate in a Special Economic Zone which would differentiate the principles of assessing tax burden vs. general regulations in this respect. Tax year and balance reporting year correspond to a calendar year.

12.3. Deferred income tax

Deferred income tax results from the following items:

	Consolidated balance sheet	
	31 December 2009	31 December 2010
Deferred tax assets related to:	**323 199 701,56**	**356 866 212,55**
difference between carrying value and tax base of fixed assets and intangibles	47 297 963,59	58 873 431,31
difference between caryying value and tax base of inventories	511 696,49	2 152 477,93
power infrastructure granted free of charge and connection charges	85 167 593,69	77 339 951,87
post - employment benefits provisions	68 127 478,15	71 576 790,85
jubilee bonuses provision	39 187 937,57	38 201 517,73
provisions for reclamation of ash storage yard	2 368 046,00	2 498 287,58
provisions for emission rights	536 881,92	1 385 309,88
provisions for certificates of origin	34 318 701,74	25 328 142,46
unpaid salaries and employees' benefits	3 096 492,04	4 389 356,75
other provisions	15 658 731,26	47 291 224,58
accrued expenses	11 684 699,57	11 167 170,42
tax loss	4 421 749,73	4 758 972,05
other	10 821 729,81	11 903 579,14
Write - down	(263 253,46)	(2 970 022,95)
Offsetting	(225 213 634,84)	(245 713 641,22)
Deferred tax assets including write - downs, net	**97 722 813,26**	**108 182 548,38**

	Consolidated balance sheet	
	31 December 2009	31 December 2010
Deferred tax liabilities	**805 322 294,42**	**799 220 710,26**
difference between carrying value and tax base of fixed assets and intangibles	746 920 997,73	738 648 340,82
accrued income	24 739 894,02	30 106 543,54
difference between carrying value and tax base of certificates of origin	17 162 055,35	13 901 411,23
others	16 499 347,32	16 564 414,67
Offsetting	(225 213 634,84)	(245 713 641,22)
Deferred tax liabilities, net	**580 108 659,58**	**553 507 069,04**

Non-recognized deferred tax assets and liabilities relate to valuation of shares in the affiliated companies that are measured by equity method. Amount of temporary differences arising out of this is as follows: taxable difference of PLN 12,381.1 thousand as of 31 December 2010 and taxable difference of PLN 5,472 thousand as of 31 December 2009.

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

	Year ended 31 December 2010
Deferred tax assets gross	
Opening balance	**323 199 701,56**
Increase:	88 440 968,88
Charged to profit and loss	88 440 968,88
Charged to equity	-
Decrease:	(54 774 457,89)
Charged to profit and loss	(54 774 457,89)
Charged to equity	-
Closing balance	**356 866 212,55**
Write - downs	-
Opening balance	(263 253,46)
increase:	(3 421 870,77)
decrease	715 101,28
Closing balance	(2 970 022,95)
Offsetting	(245 713 641,22)
Deferred tax assets including write - downs as at the end of period	**108 182 548,38**
Deferred tax liabilities	
Opening balance	**805 322 294,42**
adjustments of the errors	**9 899 257,60**
Opening balance after adjustments	**815 221 552,02**
Increase:	27 476 938,83
Charged to profit and loss	27 476 938,83
Charged to equity	-
Decrease:	(43 477 780,59)
Charged to profit and loss	(43 477 780,59)
Charged to equity	-
Closing balance	799 220 710,26
Offsetting	(245 713 641,22)
Deferred tax liabilities as at the end of period	**553 507 069,04**

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13. Social assets and Company Social Benefit Fund (CSBF) obligations

Pursuant to the Act dated the 4March 1994 on a Company Social Benefit Fund, as amended, provides that a Company Social Benefit Fund is to be created by an employer (company) that employs over 20 full-time employees. Companies operating within the Group create such funds and make periodic charges. The Funds created by companies within the ENERGA S.A. Capital Group do not have any tangible fixed assets. Purpose of the Funds is to subsidize social activities of specific companies within the Group, grant loans to employees and subsidize other social expenses such as for example employee recreation.

Assets of the Funds and liabilities for the Funds were offset at the company level by the companies within the Group as such assets are not separate assets of the Group. Due to the above net balance as of 31 December 2010 is PLN 28 thousand net balance and was presented as other short-term assets, as of 31 December 2009 is PLN 550 thousand and was presented as other short-term liabilities.

The tables below show details of assets, liabilities and expenses of the Fund.

Item	Year ended 31 December 2009	Year ended 31 December 2010
Fixed assets contributed to the fund	-	-
Loans for employees	29 373 785,32	26 664 434,08
Cash	5 165 707,72	5 753 361,13
Other assets	844,31	-
Liabilities	35 090 830,12	32 389 808,57
Net balance	**(550 492,77)**	**27 986,64**
Charges to Social Fund	26 367 602,48	30 774 915,29

under IFRS (in zlotys)

14. Tangible fixed assets

	Land	Buildings, premises and land and water engineering structures	Technical devices and machinery	Vehicles	Other fixed assets	Assets under construction	Total
Gross value							
Opening balance	**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	989 605 211,21	1 067 472 991,30
Sale of a subsidiary	-	-	-	-	-	-	-
Transfer from fixed assets 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	(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)
Transfers between groups	-	(187 545,08)	134 967,29	(16 647,54)	69 225,33	-	-
Donations	-	-	(14 739,03)	(12 600,00)	-	-	(27 339,03)
Disposal	-	(19 173 012,55)	(4 842 205,07)	(3 035 020,71)	(14 754 272,94)	-	(41 804 511,27)
Received free of charge	-	6 310 220,27	44 036,02	-	-	-	6 354 256,29
Transfer to investments	-	-	-	-	-	-	-
Discontinued investments	-	-	-	-	-	(990 729,53)	(990 729,53)
Other	-	1 550 153,01	(12 936,82)	67 315,68	124 580,96	314 037,94	2 043 150,77
Closing balance	**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**
Accumulated depreciation							
Opening balance	**-**	**(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)**
adjustments of the errors	-	-	-	-	-	-	-
Opening balance after adjustments	**-**	**(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 period	-	(365 051 958,41)	(147 301 452,40)	(20 795 611,80)	(31 820 918,25)	-	(564 969 940,86)
Write - downs increase	-	(3 907 114,81)	(51 757 844,59)	(22 061,00)	(26 768,21)	(376 960,45)	(56 090 749,06)
Write - downs decrease	-	-	407 749,48	2 599,96	14 770,16	-	425 119,60
Sale	-	342 861,86	2 391 694,12	6 135 932,52	38 569 258,05	-	47 439 746,55
Transfers between groups	-	45 091,27	(41 222,08)	-	(3 869,19)	-	-
Donations	-	-	9 902,92	12 600,00	-	-	22 502,92
Disposal	-	3 816 749,80	4 838 768,53	3 022 838,27	9 526 266,18	-	21 204 622,78
Transfer to investments	-	-	-	-	-	-	-
Discontinued investments	-	-	-	-	-	-	-
Other	-	(15 660,51)	84 678,90	38,08	661 786,27	-	730 842,74
Closing balance	**-**	**(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 value as at the start of period	**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 value as at the end of period	**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**

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Carrying value of fixed assets in use as of 31 December 2010 under the financial lease and hire purchase agreements is PLN 665 thousand and as of 31 December 2009 is PLN 2,873 thousand.

Carrying value of fixed assets covered by a mortgage established for the purpose of securing loans and liabilities is disclosed in note 36.5.

Value of capitalized costs of external financing in the year ended 31 December 2010 was PLN 4,062 thousand and in the year ended 31 December 2009 was PLN 12 thousand.

Testing for impairment of tangible fixed assets

The Group performed impairment tests for cash generating units (CGUs) within distribution and electricity generation segments by determining the recovered value as of 31 December 2010.

As there are no comparable transactions in the Polish market the recovered value of assets was determined by discounted net financial flows method based on financial projections prepared for the years 2011-2018 for electricity distribution and for the years 2010-2016 for electricity generation and heating distribution.. For distribution the main discount rates in the range 8.5% - 9.9% were applied and for electricity generation the discount rates in the range 8.1% - 14.1% were applied.

Based on these tests the Group recognized impairment loss for tangible fixed assets .

15. Leases

15.1. Liabilities under operating lease with the Group as the lessee

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

	Lease payments to be paid as at 31 December 2009	Lease payments to be paid as at 31 December 2010
Within 1 year	609 084,02	3 324 859,91
1 - 5 years	1 064 630,87	2 069 303,22
More than 5 years	-	-
Total lease payments	**1 673 714,89**	**5 394 163,13**

Moreover, the companies within the Group has the right of perpetual usufruct of the land. The right was granted free-of-charge by the administrative decision and is recognized as operating lease under IAS 17.

The Group considers the right of perpetual usufruct of the land acquired for a fee as operating lease and expenditures made to obtain the right as prepayments for future fees. The rights are written down in line with the lease period and presented in consolidated statement of financial position as intangible assets.

The Group pays annual rent for the perpetual usufruct. Value of these costs in the year ended 31 December 2010 was ca. PLN 1,392 thousand. Planned costs of charges for perpetual usufruct of the land in the next period are ca. PLN 1,280 thousand. Annual amortization charge of the rights amounted to PLN 2,088 thousand in 2010.

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15.2. Receivables from operating lease – The Group as lessor

Future minimum lease payments (receivables) under non-cancellable operating leases are as follows:

	Lease payments to be collected as at 31 December 2009	Lease payments to be collected as at 31 December 2010
Within 1 year	24 361 200,00	22 673 268,90
1 - 5 years	101 546 000,00	103 232 800,00
More than 5 years	42 824 100,00	15 392 500,00
Total lease payments	**168 731 300,00**	**141 298 568,90**

Operating lease concerns facilities of the pumped storage plant Żydowo. This power plant is used to provide emergency services for PSE – Operator S.A. (Transmission System Operator – OSP). Such services are having the power plant available for and the use of the power plant by OSP for emergency balancing of active and wattles power and for the control of power movements in the grid of the National Power System (Krajowy System Elektroenergetyczny). The service includes emergency reserve of active power, and voltage and wattles power adjustment. Assets used to provide the service is exclusively available to OSP which have the right to use generation units comprising the power plant. The agreement under which this service is provided meets the conditions to be recognized as lease as defined in IFRIC4, however does not transfer entire risk and benefits associated with the leased assets to OSP.

Total contingent rents recognised as income in the year 2010 amounts to PLN 35,682,725.24.

15.3. Liabilities under financial lease and hire purchase agreements

Future minimum lease payments under financial lease agreements and their present net are as follows:

	31 December 2009		31 December 2010	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within 1 year	9 594 008,86	9 033 293,16	9 020 239,45	8 658 608,31
1 - 5 years	10 673 089,39	9 669 726,10	1 555 893,19	1 534 691,86
More than 5 years	-	-	101 120,44	97 120,44
Total minimum lease payments	**20 267 098,25**		**10 677 253,08**	
Less financial costs	1 564 078,99		386 832,47	
Present value of lease payments including:	**18 703 019,26**	**18 703 019,26**	**10 290 420,61**	**10 290 420,61**
Short - term		9 033 293,16		8 658 608,31
Long - term		9 669 726,10		1 631 812,30

16. Investment real properties

Investment real properties in the companies within ENERGA Group include lands, buildings and perpetual usufruct rights to land and land located within the site of respective company. The whole or part of such buildings and land are rented to third parties.

The Group measures investment real properties under principles applied for measurement of tangible fixed assets.

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	Year ended 31 December 2009	Year ended 31 December 2010
Net value as at the start of period	**10 811 942,83**	**26 043 537,30**
Increase	17 024 369,65	-
Deprecaiation	(1 792 775,18)	(558 105,31)
Other decrease	-	(6 459 267,91)
Net value as at the end of period	**26 043 537,30**	**19 026 164,08**
Fair value of real property investments	**26 043 537,30**	**19 026 164,08**

Rental income from investment property and direct operating expenses arising from investment property are as follows:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Rental income from real estate investments	1 758 885,56	2 017 713,29
Operating expenses directly attributable to real estate investments which brought rental income in the current period	2 541 158,45	2 516 931,27
Operating expenses directly attributable to real estate investments which did not bring rental income in the current period	535 842,60	1 229,00

17. Change in goodwill of subsidiaries

Item	Year ended 31 December 2010
Gross value opening balance	**17 246 353,14**
Gross value opening balance after adjustments	**17 246 353,14**
Increase:	**-**
Decrease:	**-**
Gross value closing balance	**17 246 353,14**
Write-downs opening balance	**-**
Increase	**-**
Decrease	**-**
Write-downs closing balance	**-**
Net value as at the start of period	**17 246 353,14**
Net value as at the end of period	**17 246 353,14**

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18. Intangible assets

	R&D expenses	Goodwill	Patents and licences		Perpetual usufruct rights to land	Emission rights	Other	Intangibles not put to usage	Total
			Total	Including software					
Gross value									
Opening balance	**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
Transfer from intangibles assets not put to usage	-	-	4 468 713,85	1 175 230,89	728 220,10	-	-	- 5 196 933,95	-
Sale	-	-	- 532 024,71	- 506 800,04	- 201 895,60	-	- 1 825 719,93	-	- 2 559 640,24
Transfers between groups	- 78 710,81	-	674 260,40	674 260,40	-	-	78 710,81	- 674 260,40	-
Disposal	-	-	- 1 901 029,97	- 1 627 061,41	-	-	- 3 053 525,59	-	- 4 954 555,56
Other	- 16 951,55	-	- 297 093,84	- 315 677,25	- 76 312,22	- 3 073 412,16	522 338,79	2 501 393,83	- 440 037,15
Closing balance	**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**
									-
Accumulated amortisation									-
Opening balance	**- 678 328,32**	**-**	**- 63 552 432,53**	**- 21 501 964,67**	**- 7 739 365,62**	**-**	**- 9 008 490,65**	**-**	**- 80 978 617,12**
Amortisation for period	- 48 470,58	-	- 23 098 139,17	- 11 718 712,67	- 2 087 869,10	-	- 655 478,44	-	- 25 889 957,29
Write - downs increase	-	-	-	-	-	-	- 120 000,00	-	- 120 000,00
Write - downs decrease	-	-	-	-	-	-	-	-	-
Sale	-	-	84 455,51	54 153,30	90 897,25	-	226 904,11	-	402 256,87
Transfers between groups	19 677,70	-	- 19 677,70	- 19 677,70	-	-	-	-	-
Donations	-	-	-	-	-	-	-	-	-
Disposal	-	-	1 887 621,80	1 624 658,30	-	-	632 004,73	-	2 519 626,53
Discontinued investments	-	-	-	-	-	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-
Transfer to investments	-	-	-	-	-	-	-	-	-
Other	-	-	- 21 429,38	0,02	- 57 694,35	-	97 746,96	-	18 623,23
Closing balance	**- 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 the start of period	**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 the end of period	**-**	**-**	**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**

Carrying value of software used under financial lease agreements as of 31 December 2010 amounts to PLN 15,917 thousand and as of 31 December 2009 the value amounted to PLN 18.151 thousand.

under IFRS (in zlotys)

19. Investments in associated companies measured under the equity method

The below tables show brief information on the investments in associated companies measured under the equity method:

Associates' name	**SOEN SP. Z O.O.**	**SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A**	**PRZEDSIĘBIORSTWO PRODUKCJI STRUN BETONOWYCH ŻERDZI WIROWANYCH "WIRBET" SA**	**OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.**	**Total**
Share in votes	48,50%	40,90%	30,60%	42,2%	
31 December 2010					
Share in balance sheet values					
Current assets	1 982 695,71	171 794,57	2 513 314,25	7 012 542,81	11 508 552,77
Non - current assets	4 328 435,66	21 827,41	2 631 239,94	34 271 928,20	41 231 603,79
Short - term liabilities	1 537 750,29	429 320,76	1 399 612,04	6 850 579,20	9 787 941,53
Long - term liabilities	399 323,80	-	144 334,48	828 386,00	1 372 044,28
Share in net assets	**4 374 057,27**	**(235 698,77)**	**3 600 607,67**	**33 605 505,81**	**41 580 170,76**
Goodwill	-	-	-	-	-
Impairment write - down	-	-	-	-	-
Shares in associated recognized in consolidated balance sheet	**4 374 057,27**	**-**	**3 600 607,67**	**33 605 505,81**	**41 580 170,76**
Share in contingent liabilities	**-**	**-**	**-**	**-**	**-**
Share in profit (loss)	**214 039,78**	**-**	**701 909,19**	**(247 629,60)**	**668 319,37**

The impairment write – down for shares in Słupskie Towarzystwo Koszykówki Sportowa S.A. has been created in previous years. Its carrying value is zero and the Groups share in profit / loss of the entity is not being recognized in income statement.

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20. Emission rights

On 1 July 2008, the Council of Ministers approved the draft ordinance on the adoption of the National Allocation Plan for carbon dioxide emission allowances for the years 2008-2012 in the European Union Emission Trading System allocating carbon dioxide (CO2) emission limits to specific institutions participating in the emission trading system. The passed ordinance is based on the draft ordinance dated 12 February 2008 and incorporates amendments dated 16 May 2008. Under the regulations by the European Commission, Polish enterprises will be allowed to emit ca. 1 043 tons of CO2 in the next five years. This will be 209 million tons per annum.

The table below summarizes the changes in volume (in thous tones) of emission allowances held by the Group:

	2009 Tons	2010 Tons
Granted under National Allocation Plan	3 160 531,00	3 080 331,00
Purchased on the market	97 183,00	126 718,00
Total	**3 257 714,00**	**3 207 049,00**
Used for own needs	(3 065 496,00)	(3 269 866,00)
Sold	-	(99 950,00)
Surplus (shortage) of rights	192 218,00	(162 767,00)

In 2010, provision for emission allowance shortage was created in the amount of PLN 7,291 thousand.

21. Inventories

	31 December 2010		
	Cost	Write - down	Net realisable value
Raw materials	84 642 044,95	(1 572 130,08)	83 069 914,87
Finished goods	27 295 283,60	(5 257,63)	27 290 025,97
Semi finished goods and work in progress	3 117 630,65	(6 190,81)	3 111 439,84
Goods for resale	29 271 777,19	(577 145,19)	28 694 632,00
Certificates of origin	170 826 165,35	-	170 826 165,35
Total	**315 152 901,74**	**(2 160 723,71)**	**312 992 178,03**

Write - downs on inventories as at 1 January 2009	**(2 693 139,43)**
Set up	(919 918,15)
Reversal	377 991,60
Utilisation	1 074 342,27
Write - downs on inventories as at 31 December 2009	**(2 160 723,71)**

Companies within the Group create inventory write-downs on the base of economic usability that is determined based on inventory arrears, inventory turnover and likely to acquire net selling price. Write-downs are reversed upon the consumption or sale of inventories covered by the write-down.

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22. Cash and cash equivalents

Cash in bank and at hand bear interest at floating interest rates, negotiated with banks, depending on one-day bank deposit interest rate. Short-term deposits are made for various periods – from one day to three months, depending on the current Group's cash needs and bear interest at the rates fixed for them through individual negotiations with banks. Cash and cash equivalents also include participation units in liquidity funds measured at fair value.

Balance of cash and its equivalents presented in the cash flow statement included the following items:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Cash in hand and cash at bank	113 051 165,84	200 873 228,35
Short-term deposits (up to 3 months)	676 972 787,86	572 433 402,57
Participation units in liquidity funds	96 792 595,94	910 248 284,85
Cash and cash equivalents in balance sheet, including:	**886 816 549,64**	**1 683 554 915,77**
Foreign exchange rate differences	-	(12 244 219,22)
Bank overdrafts	(22 461 504,44)	(10 482 545,46)
Cash and cash equivalents in cash flow statement	**864 355 045,20**	**1 660 828 151,09**

23. Other assets

23.1. Other long-term assets

Item	Year ended 31 December 2009	Year ended 31 December 2010
Long - term trade and other receivables	1 221 807,15	3 637 933,08
Prepayments for fixed assets and intangibles	357 125,89	12 810 248,42
Other	887 645,15	1 823 728,54
Total	**2 466 578,19**	**18 271 910,04**

23.2. Other short-term assets

Item	Year ended 31 December 2009	Year ended 31 December 2010
Subscriptions	252 665,95	335 604,41
Insurance	7 540 528,30	8 616 710,32
Membership fees, trainings	29 807,42	38 529,56
IT services	690 480,48	1 739 518,79
Other prepaid expenses	6 168 500,75	21 731 110,00
Prepayments for deliveries	17 407 075,85	12 232 754,21
VAT tax receivables	34 909 547,33	102 246 796,85
Other tax receivables	1 918 386,67	5 175 512,35
Social Funds assets surplus over liabilities	198 885,29	660 661,18
Other	32 730 456,97	3 130 747,43
Total	**101 846 335,01**	**157 610 985,10**

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24. Non – current assets held for sale and discontinued operations

The Group ENERGA SA discontinued activity in area of real properties management and valuation and put into liquidation subsidiary ENERGA Nieruchomości S.A.

Revenues, costs, net result and cash – flows from discontinued operations were as follows:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Revenues	774 041,93	8 279,50
Costs	1 473 482,25	386 288,42
Gross profit/loss	(699 440,32)	(378 008,92)
Tax	12 299,00	-
Net profit/loss	(711 739,32)	(378 008,92)
Cash flows from:	(187 658,11)	111 078,41
operating activities	(252 693,12)	74 070,91
investing activities	65 380,73	37 007,50
financing activities	(345,72)	-

There are no plans for discontinuing any activity in the next year.

25. Other liabilities

25.1. Other long – term liabilities

Item	Year ended 31 December 2009	Year ended 31 December 2010
Tax, customs, salaries, social securities and other liabilities	**-**	**-**
Other non - financial liabilities	**194 654,11**	**126 724,93**
Warranties	179 368,73	126 724,93
Purchase of fixed assets liabilities	-	-
Other non - financial liabilities	15 285,38	-
Total	**194 654,11**	**126 724,93**

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25.2. Other short – term liabilities

Item	Year ended 31 December 2009	Year ended 31 December 2010
Tax, customs, salaries, social securities and other liabilities	**190 389 131,89**	**229 535 396,13**
Excise tax	26 919 508,16	26 866 996,78
VAT tax	79 111 730,79	119 334 911,18
Witholding tax	6 711,00	-
Social security	40 732 138,94	49 589 338,12
Personal income tax	37 612 880,11	26 665 544,68
Environmental fees	5 083 714,97	5 371 534,00
Real estate tax	95 845,88	751 829,44
Others	826 602,04	955 241,93
Other non - financial liabilities	**110 667 390,73**	**316 994 410,12**
Salaries	30 503 534,92	75 955 088,41
Prepayments	70 017 860,48	124 330 314,01
Social Funds liabilities surplus over assets	749 378,06	632 674,54
Substitution fee	-	106 261 987,05
Others	9 396 617,27	9 814 346,11
Total	**301 056 522,62**	**546 529 806,25**

26. Accruals and deferred income

26.1. Deferred income

Item	31 December 2009	31 December 2010
Fixed assets received free of charge	78 426 744,15	60 540 348,10
Grants	27 169 895,84	47 173 461,51
Rental fees	5 782 389,89	5 426 185,66
Connection charges	369 823 828,54	346 512 030,17
Other	1 039 665,51	4 268 615,46
Total, including:	482 242 523,93	463 920 640,90
Long - term	470 035 998,01	442 910 451,58
Short - term	12 206 525,92	21 010 189,32

26.2. Accruals

Item	31 December 2009	31 December 2010
Unused holidays	8 728 490,31	12 003 823,70
Annual bonus	48 793 446,29	69 074 535,51
Management bonuses	1 373 101,92	1 575 220,52
Other	2 603 380,25	3 151 095,01
Total	**61 498 418,77**	**85 804 674,74**

27. Employee benefits

27.1. Employee stock Plan

As a result of commercialization of ENERGA – OPERATOR S.A. that commenced on 12 July 1993 and ended on 16 June 2008, the State Treasury allocated 15% of shares of ENERGA – OPERATOR S.A. to the employees.

As a result of commercialization of ENERGA Elektrownie Ostrołęka S.A. that commenced on 31 August 1998 and ended on 13 May 2008, the State Treasury allocated 15% of shares to ENERGA Elektrownie Ostrołęka S.A. employees.

Fair value of capital instruments provided to employees was recognized in retained earnings.

In the year 2009 the process of share conversion was initiated in ENERGA S.A.. Shares of ENERGA - OPERATOR SA and ENERGA Elektrownie Ostrołęka SA (consolidated companies) were converted into shares of ENERGA S.A. (consolidating company). This was carried out in line with the Act dated 7 September 2007 on the principles of share acquisition from the State Treasury in the process of consolidation of power sector enterprises and the Ordinance of the Minister of the Treasury dated 19 February 2008 on the manner of determining number of shares of consolidating company that are subject to conversion and the manner of converting shares or entitlement to shares of the consolidated company into the shares of consolidating company.

The process was completed on 13 August 2010.

Overall, 15,098 persons were entitled to convert 726,841,669 shares of ENERGA SA of the face value of PLN 1.00 each. The share conversion agreements were executed after 21 September 2009.

By the end of 2010, 13,638 persons decided to convert shares of consolidated companies into the shares of consolidating company. In total, they acquired 668,145,125 shares of ENERGA SA.

Despite the formal completion of the conversion process, instances of converting shares with heirs of entitled persons will appear, if they have applied to court for confirming the rights to inheritance by 13 August 2010.

27.2. Retirement benefis and other post – employment benefits

Retirement severance pays and jubilee rewards

Companies within the Group pay to their employees who retire a retirement severance pay in the amount determined in the Collective Labor Agreement. Jubilee rewards are paid to employees whose work service at the company exceeds specific number of years. For this reason, companies within the Group create a provision for current value of liabilities for retirement severance pay and jubilee rewards. Such provision is created based on the valuation made by an actuary.

Employee Power Tariff

Pursuant to the Sectoral Collective Labor Agreement (Ponadzakładowy Układ Zbiorowy Pracy – PUZP) as amended in 2005, the obligation to pay benefits to former employees of energy sector and other entitled persons under so called “energy tariff” was carried forward to the companies from which specific pensioners originate. Due to the above, companies within the Group create appropriate provision. Value of the provision is estimated by the actuary. Cost of the provision is charged as operating expenses.

Company Social Benefit Fund

Companies of the Group make charges for the Company Social Benefit Funds for their pensioners. Special provisions are created to cover costs of such benefits. Actuarial techniques are used to estimate value of such provisions.

Amounts of such provisions and reconciliation presenting changes in the provisions are shown in the tables below:

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	Provision for retirement and similar benefits	Electricity equivalent	Social Fund	Total
1 January 2010	**94 020 209,30**	**205 650 392,78**	**58 895 072,42**	**358 565 674,50**
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)
Payments	(5 755 085,71)	(3 456 058,24)	(1 981 565,80)	(11 192 709,75)
Past service cost	-	2 675 484,22	-	2 675 484,22
Interest	5 298 643,00	14 157 702,00	3 053 740,00	22 510 085,00
31 December 2010	**103 687 436,04**	**222 773 699,84**	**50 258 815,95**	**376 719 951,83**
Short - term as at 31 December 2010	3 543 264,89	8 122 884,88	2 427 331,60	14 093 481,37
Long - term as at 31 December 2010	100 144 171,15	214 650 814,96	47 831 484,35	362 626 470,46

Major assumptions made by the actuary to calculate the amount of liabilities as of the end of reporting period are as follows:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Discount rate	5,50%	5,50%
Labour turnover ratio	1,00-5,00%	0,00-5,70%
Expected growth rate of salaries	4,50%	4,50%
Expected growth rate of charges for Social Fund	4,50-5,50%	3,70%
Basis for provision for Social Fund	3,00%	3,00%
Expected growth rate of provision for electricity equivalent	*in line with projected price values*	*in line with projected price values*

projected price values were estimated by branch experts

Based on actuarial data the Group estimate, that changes in assumptions for provisions for retirement benefits, jubilee rewards, Company Social Benefits Fund and employee power tariff would have the following effect:

- Taking discount rate higher by 1 percentage point would result in decreasing in provisions by about 10% and taking discount rate lower by 1 percentage point would result in increasing in provisions by about 14%,
- Taking assumed rate of increase in basis higher by 1 percentage point would result in increasing in provisions by about 14% and taking assumed rate of increase in basis lower by 1 percentage point would result in decreasing in provisions by about 10%.

As of 31 December 2010 non-recognized past service costs are PLN 41,179,765.30.

28. Earnings per share (EPS)

Basic earnings per share (EPS) for each period is calculated by dividing net earnings for a period allocated to common shareholders of the parent company by weighted average of issued common shares during the period.

While diluted earnings per share is calculated by dividing net earnings for a period allocated to common shareholders (after deducting interest on redeemable preference shares convertible into common shares) by weighted average of issued common shares during the period (adjusted by the effect of diluting options and redeemable diluting preference shares convertible into common shares).

Figures for earnings and shares that were used to calculate basic EPS are presented below.

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Item	Year ended 31 December 2009	Year ended 31 December 2010
Net profit from continuing operations	426 993 199,90	625 808 028,81
Profit for the year from discontinued operations	(1 645 352,44)	(378 008,92)
Net profit for the year	**425 347 847,46**	**625 430 019,89**
Interest on convertible preference shares	-	-
Net profit attributable to ordinary shareholders of Parent Company	**425 347 847,46**	**625 430 019,89**
Number of ordinary shares at year-end	4 968 805 368,00	4 968 805 368,00
Number of ordinary shares used for basic earnings per share calculations	4 927 825 623,00	4 968 805 368,00
Earnings per share	**0,09**	**0,13**

In presented periods there was no dilution effect.

29. Dividends paid and proposed

Item	Year ended 31 December 2009	Year ended 31 December 2010
Declared and paid during the year		
final dividend paid by subsidiaries	8 010 509,77	9 196 118,70
final dividend paid by Parent Company	-	99 376 107,36
payment to State Treasury by Parent Company	84 615,00	-
payment to State Treasury by subsidiaries	495 233,00	-
prepaid dividend paid by subsidiaries	6 021 000,00	-
Total	**14 611 357,77**	**108 572 226,06**

	Year ended 31 December 2009	Year ended 31 December 2010
Dividend per share paid by the Capital Group (PLN)	0,003	0,022

There were no dividend payment restrictions in the reporting period.

Dividends in the form of payment from profit to the State Treasury (statutory payments) were also included to calculate the dividend per share paid by the entities within the Capital Group in addition to final dividend.

While calculating dividends per share paid by the entities of the Group the weighted average number of shares of the holding company in 2009 was applied, as in the case of calculating EPS described in the note 28 of this consolidated financial statement.

30. Business combinations

Due to reorganization of the Capital Group in 2010 mergers were proceeded in connection with consolidation of operations in the area of lighting and data communication businesses.

On 30 April 2010, Registry Court in Warszawa registered merger of ZEP – Info Sp. z o.o. and Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o., under the article 492 § 1 section 1 of Commercial Companies Code, throughout transfer of all assets from Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. to ZEP – Info Sp. z o.o.

On 1 June 2010, Registry Court in Gdańsk registered merger of ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o., under the article 492 § 1 section 1 of Commercial Companies Code, throughout transfer of all assets from Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. to ENERGA Oświetlenie Sp. z o.o.

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As mentioned above mergers concerned companies included in consolidated financial reports, it have no impact on assets, liabilities, revenues, costs and cash flow of the Group in current and previous reporting periods.

After the balance sheet date, on 1 February 2011, Registry Court Gdańsk-Północ in Gdańsk registered merger of ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.), ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA under the article 492 § 1 section 1 of Commercial Companies Code throughout transfer of assets from ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA to ENERGA Hydro Sp. z o.o.

The subject of business acquisitions and combinations is regulated by IFRS 3 "Business combinations". However, this standard does not regulate and excludes transactions between the entities under joint control. The Split of subsidiary ENERGA – OPERATOR S.A., registered and settled in 2010, has not resulted in change in control over any subsidiary. Thus the operation in the judgment of the Company fulfill definition of transaction under joint control and is excluded from the scope of IFRS 3.

If a transaction or economic event required to be recognized in the statements prepared in line with IFRS is not regulated by provisions of any specific standard, then such situation is regulated by IAS 8 item 10-12. IAS 8 requires the company that prepares a statement in line with IFRS to create own set of accounting principles and specify the features of such principles: true and accurate representation of financial standing, results of operations and cash flows, reflecting the substance of an economic transaction, objectiveness, prudence and comprehensive nature in all aspects.

The analyses carried out by the Company imply that in the case of entities with a complex financial information pooling of interest method is a possible solution to reconcile business combinations for entities under joint control.

Polling of interest method is based on the assumption that entities to be combined are both, prior and after the transaction, controlled by the same entity and therefore a consolidated financial reports reflect the continuity of such joint control and does not reflect changes in net assets in respect of fair values (or recognition of new assets) or valuation of the goodwill as none of the businesses combined is not actually purchased. Thus, the statements are prepared in the way as if the businesses combined have been always combined.

31. Share capital and other capitals

31.1. Share capital

Item	Year ended 31 December 2009	Year ended 31 December 2010
"A" series ordinary shares of 1 PLN each	255 000	255 000
"B" series ordinary shares of 1 PLN each	4 845 611 133	4 845 611 133
"C" series ordinary shares of 1 PLN each	122 939 235	122 939 235
Total volume of shares	**4 968 805 368**	**4 968 805 368**

31.1.1 Share nominal value

All shares issued bear nominal value of PLN 4,968,805,368 and has been fully paid up.

Consolidated Financial Statements for the year ended December 31, 2010 under IFRS (in zlotys)

31.1.2 Shareholders' rights

Employee stock plan

Pursuant to the Act dated 30 June 1996 on commercialization and privatization, employees and former employees of the subsidiary companies within ENERGA S.A. Capital Group are entitled to receive stocks in the enterprises, for which they worked at the time that the commercialized state-owned enterprise was deleted from the register. Detailed description is provided in note 27.1.

31.1.3 Major shareholders

Item	Year ended 31 December 2009	Year ended 31 December 2010
State Treasury		
share in equity	89,60%	84,19%
share in voting rights	89,60%	84,19%
Minority shareholders		
share in equity	10,40%	15,81%
share in voting rights	10,40%	15,81%

31.2. Supplementary capital

Supplementary capital was created from distributions from profit generated by the parent company and as of the end of reporting period amounted to PLN 163.625.681,64.

31.3. Retained earnings and limitations in dividend payments

Undistributed profit includes amounts that are not subject to distribution, i.e. that cannot be disbursed as dividends by the parent entity:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Amounts included in Retained Earnings, not subject to distribution of profit by Parent Company		
- Retained Earnings of subsidiaries, attributable to shareholders of Parent Company	1 104 896 324,67	1 522 652 349,68
- difference in the amount of Retained Earnings between statutory and IFRS financial statements of Parent Company	53 370 077,36	52 019 132,06
- 8% of statutory net profit of Parent Company distributed to Supplementary capital, in accordance with Commercial Companies Code	16 665 815,16	27 835 090,74
Retained Earnings of Parent Company subject to distribution of profit	191 656 874,38	320 103 543,55
Total consolidated Retained Earnings attributable to shareholders of Parent Company	**1 366 589 091,57**	**1 922 610 116,03**

Statutory financial reports for all companies within ENERGA S.A. Capital Group are prepared in line with Polish accounting standards. Dividend may be disbursed based on the financial result determined in annual unitary financial reports prepared for statutory purposes.

Pursuant to the Code of Commercial Companies, a parent company and subsidiary companies having legal form of a joint stock company are required to create supplementary capital to cover loss. Supplementary capital is funded from at least 8% of profit that is presented in annual unitary financial reports for a financial year until the value of the capital reaches one third of the basic capital of the entity. General Meeting of Shareholders decides on whether to use supplementary or reserve capital. However, a portion of the supplementary capital in the amount of one third of the share capital may be used only to cover loss presented in financial reports and therefore it is not to be distributed for other purposes.

As of 31 December 2010, the value of share capital of the parent company as presented in statutory financial reports in line with the Accounting Act was PLN 4,968,805,368 and the supplementary capital amounted to PLN 163.625.681,64.

31.4. Non – controlling interests

Changes in non – controlling interests were disclosed in statement of changes in equity. The changes result predominately from the Capital Group restructuring described in Note 42.

under IFRS (in zlotys)

32. Provisions

	Post - employment benefits	Jubilee bonuses	Claims	Court proceedings	Employees' issues	Reclamation of ash storage yard	Provision for emission rights	Provision for certificates of origin	Restructurisation reserve	Provision for estimated energy purchased	Other provisions	TOTAL
1 January 2010	**358 565 674,50**	**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**	**-**	**5 237 925,54**	**42 636 048,19**	**873 276 994,50**
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)
Payments	(11 192 709,75)	(13 715 897,55)	-	-	-	-	-	-	-	-	-	(24 908 607,30)
Past service cost	2 675 484,22	-	-	-	-	-	-	-	-	-	-	2 675 484,22
Interest	22 510 085,00	11 363 916,00	-	-	-	-	-	-	-	-	-	33 874 001,00
Set up in period	-	-	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
Reversal	-	-	(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)
Utilisation	-	-	(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)
Discount rate adjustment	-	-	-	-	-	685 482,00	-	-	-	-	-	685 482,00
Reclassification	-	-	11 344 305,00	8 628 242,09	(2 745 191,92)	-	924 000,00	-	-	-	(18 151 355,17)	-
31 December 2010	**376 719 951,83**	**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**	**912 392 049,62**
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	**362 626 470,46**	**181 970 347,34**	**-**	**250 000,00**	**25 801,64**	**13 148 882,00**	**-**	**-**		**-**	**372 204,68**	**558 393 706,12**

33. Investment liabilities

Purchase of shares in OPEC Sp. z o.o

On 25 February 2009, ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. became a strategic investor of Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o. o. The share purchase agreement provides for the execution of the investment programme within heating network development in the town of Ostrołęka. ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. undertook to invest minimum PLN 320 million in the development of the distribution network and heat production within 10 years. By the end of 2010, investment projects for PLN 6.7 million had been completed.

Distribution System Operator liabilities

ENERGA – OPERATOR SA (Operator Systemu Dystrybucyjnego) operates in compliance with the Act on Energy Law and holds a license. Both documents include obligations within e.g. the requirement to supply electricity in an interrupted and safe manner and to connect new entities to the grid. Moreover, the Act on Energy Law requires enterprises to prepare development plans that determine the material and financial scope of financial outlays. Such plans have to be approved by the President of the Energy Regulatory Office (URE). An approved development plan constitutes an investment liability of ENERGA – OPERATOR SA. The agreed outlays for 2011 amount to PLN 1,180.1 million, while outlays planned in 2012-2015 amount to PLN 5,540.4 million.

The distribution grid modernization and development programme is also an investment liability. It is financed by International Financial Investments. See note No. 44

Intervention work service contract

The development of the wind power sector in the Northern Poland necessitates the growth of new electric power related to the rendition of compliance services.

There are no power plants that might render compliance services in the Northern Poland. Therefore, the importance of power plants that provide such services will grow in the future (especially, in the Northern Poland). The technical facilities used in power plants at present are worn out and cannot be used to provide quality compliance services to PSE – Operator S.A.

The subsidiary company ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.) renders the ‘intervention work’ service to PSE – Operator S.A. The service involves dispatching and using production units of ENERGA Hydro Sp. z o.o. by PSE – Operator SA to intervene by balancing the active and reactive power and controlling the propagation of power in the power grid of Krajowy System Elektroenergetyczny (KSE) (National Power Grid) to provide the current safety of KSE operation.

The service contract provides for the adaptation of production units to ensure correct parameters of services within the modernization carried out according to the timetable.

On 31 March 2009, Annexe No. 4 was signed that amended the provisions concerning work related to the modernization of production units. The amendments resulted from the delayed performance of the investment projects within modernization for reasons that are beyond control of ENERGA Hydro Sp. z o.o., including due to lack of funds required for financing the planned investment projects other than revenues under the contract.

On 28 August 2009, a new contract was signed with PSE Operator SA, which was the basis for terminating and accounting for the previous contract. When preparing to the conclusion of the new contract, the planned modernization was updated and its technical scope was adapted to the limited financial outlays. Finally, the contract provided for the total outlays on the modernization of the Żydowo power plant amounting to PLN 134,252 thousand, including the outlays of PLN 70,511 thousand by 31 December 2010. The outstanding amount, i.e. PLN 63,741 thousand, has been planned in outlays to be incurred in 2011-2012.

The bond issuance programme to obtain external funds for financing the modernization mentioned in Note 43 is also an investment liability.

Agreement with ESBI on construction gas – steam power plant

On June 15, 2010 the subsidiary company ENERGA Invest SA and an Irish power company ESBI signed a partner agreement being the formal extension of the cooperation that started when signing a consortium agreement in September 2009. The aim of the cooperation is to construct and start a new electricity source of the installed capacity of about 860 MWE. Natural gas is the planned base fuel for the plant. This high-efficiency unit (above 57%) is to be constructed in the Northern Poland by middle 2016. The estimated investment outlays are at about PLN 3.5 billion. The Company received the connection terms and conditions from PSE Operator SA in November 2010.

Pursuant to the partner agreement, a special-purpose vehicle is to be established to carry out this project. In December 2010, the partners received consent of the Office of Competition and Consumer Protection to the concentration involving the creation of a joint entrepreneur. ENERGA Invest SA undertook to make the payment to the equity in the SPV amounting to PLN 17.5 million by the end of 2011. In June 2010, ENERGA Invest SA purchased a title to land for the planned power plant in the Pomeranian Special Economic Zone in the city of Grudziądz. The lease contract was concluded for 30 years.

The planned power plant will be the largest source of electricity fed with gas in Poland in terms of installed capacity. The electricity production per year will be in excess of 6 million MWh. The annual consumption of gas required to produce this volume of energy is estimated at about 1.2 billion Nm^3. The technical solutions planned in the power plant with be characterised by low impact on the environment.

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

The programme of issuing bonds for financing investment projects conducted by the subsidiary company ENERGA Kogeneracja Sp. z o.o. is also an investment liability. The programme involves the modernization of boiler through implementation of possibility of biomass co-combustion, construction of straw pallet production plant and the construction of a new electricity unit. The programme of bond issue is aimed at obtaining external funds mentioned in Note No. 43.

34. Tax settlements

34.1. Overall characterictic

Tax obligations and entitlements are specified in the Constitution, Tax Acts and ratified international agreements. In accordance with the Tax Ordinance Act, the tax is defined as regulatory, gratuitous, compulsory and non-refundable cash benefit paid to the State Treasury, province, poviat, municipality or commune, under the Tax Act. Taking into consideration the objective criterion applicable in Poland, taxes may be classified into five groups: income taxation, turnover taxation, property taxation, acts taxation and other charges, not elsewhere classified.

From the perspective of business entities' operations, income taxation (corporate income tax), turnover taxation (VAT goods and services tax, excise tax) and property taxation (property tax and tax on means of transport) are of fundamental importance. One may not disregard other charges and payments which may be classified as quasi-taxes. These include, but are not limited to, social insurance contribution and, in the case of single member company of the State Treasury - payments on profit.

Base tax rates in 2010 were as follows: corporate income tax rate - 19%, VAT tax base rate - 22%, reduced: 7%, 3%, 0%, moreover, some goods and services were exempted from tax. The amount of payment on profit after income tax - 15% (applicable to the period when ENERGA SA was company solely owned by State Treasury).

Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange issues) may be subject to audit by administrative bodies which have the right to impose high penalties and sanctions. As a result of the lack of reference to consolidated legal regulations in Poland, some regulations in force are unclear and incoherent. Often differences in the opinions concerning interpretation of tax regulations between authorities and between authorities and business entities result in conflict and uncertainty areas. Such reasons cause the tax risk in Poland to be significantly higher than the one existing usually in the countries with a more developed tax system.

Tax settlements can undergo inspection within five years of the end of the year when the tax was paid. As a result of the inspections carried out, previous tax settlements of the Group may be increased by additional tax liability. In the opinion of the Group, as of 31 December 2010 probability of such situation is low.

Tax system in Poland is volatile and complicated. There are high potential penalties for the tax evasion or fiscal offences and general pro-fiscal policy of the tax authorities. Tax settlements and other regulated areas of activity (e.g. customs or foreign exchange issues) may be subject to audit by administrative bodies which have the right to impose high penalties and sanctions including penalty interests. Tax settlements can undergo inspection within five years of the end of the year when the tax was due, especially with respect to property tax.

34.2. Excise tax refund

Due to the incompatibility of domestic regulations on excise tax and European Power Directive the subsidiary ENERGA Elektrownie Ostrołęka S.A., ENERGA Kogeneracja Sp. z o.o. and ENERGA Elektrociepłownia Kalisz applied to appropriate duty office in the year 2009 for stating excess payment and refund of excise tax for the years 2006 – 2008 in the amount of PLN 175.4 million. The Subsidiaries, under Excise Tax Act, declared and paid excise tax on sale of electric power for unultimate beneficients in the years 2006 – 2008. Whereas under European regulations electric energy undergo excise tax not earlier than in the moment of supply to the ultimate beneficent.

As at the balance sheet day with respect to the above subsidiaries' applications administration proceedings and court proceedings are in progress.

34.3. Tax investigations

On 31 January 2011, the parent company filed to the Pomeranian Tax Office in Gdańsk an application asking to determine an overpayment of the flat-rate personal income tax for 2009 amounting to PLN 25,100,739.75. Concurrently, the Company filed a revision of the PIT-8AR tax return. The overpayment includes the amount of PLN 23,358,455.00 due to the flat-rate tax paid by the Company and PLN 1,742,284.75 due to interest on overdue tax liabilities. On 31 March 2011both the main amount of overpaid tax and interests on overdue tax liabilities were repaid to ENERGA SA.

On 8 February 2011, the tax investigation was initiated in the parent company to verify the compliance of accounts with the state budget due to the flat-rate income tax on certain revenues for 2009.

On 31 January 2011, the subsidiary company ENERGA – OPERATOR SA filed a revision of its CIT-8 tax return with an application for determining an overpayment of the corporate income tax for 2009 amounting to PLN 91,900,717.00. The main item of the revision was the exclusion from the tax base of the income amounting to PLN 485,563,801.46 due to the transaction of the division of the subsidiary company with a spin-off in March 2009. Pursuant to individual interpretations received on 17 January 2001 from the Minister of Finance, the transferred group of assets related to the owners' supervision and the group of assets related to the Holiday Centre Energetyk Ustka Rowy that were transferred to the acquiring company (ENERGA SA) within the division of the subsidiary company by separating a group of assets related to the data communication business, fulfil the definition of an organised part of an enterprise in the meaning of Article 4(a)(4) of the Act on corporate income tax. Therefore, the spin-off transaction did not result in the origin of taxable income as of the day of spin-off with regard to the transferred groups of assets being organised parts of the enterprise.

On 9 February 2011, the tax investigation was initiated in the subsidiary company to verify the compliance of accounts with the state budget due from corporate income tax for 2009.

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35. Information about related entities

Transactions with related entities are made on the basis of market prices of purchased/delivered goods, products or costs of manufacture of services.

35.1. Transactions with participation of State Treasury companies

The ultimate owner of the Group is the State Treasury, thus, pursuant to IAS 24 *Related Party Disclosures*, other State Treasury companies are treated by the Group as related entities. Companies of ENERGA S.A. Group identify transactions with about 30 State Treasury companies, with which the Group companies generate most turnover. The aggregate value of transactions with those entities is presented in the table below. Transactions were concluded on arm's length terms. They concern, most of all, purchases and sale of distribution services, electric energy sale and coal purchase.

Year	Sales	Purchases	Receivables	Payables
2009	940 764 741,32	2 262 695 968,62	102 181 024,64	171 068 536,06
2010	1 209 357 523,36	1 738 052 726,57	153 015 429,15	144 332 054,80

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35.2. Transactions with associated companies

	Sales to associates	Purchase from associates	Receivables from associates		Liabilities towards associates	
			current	overdue	current	overdue
SOEN SP. Z O.O.	972 537,00	10 751 427,19	30 772,35	17 611,32	1 554 914,41	360,40
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**	**17 611,32**	**1 801 451,57**	**360,40**

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35.3. Loan granted to a Management Board Member

As of the end of the reporting period no loans extended to ENERGA S.A. Management Board Members occurred.

35.4. Other transactions with participation of Management Board Members

In the reporting period no transactions with the participation of ENERGA S.A. Management Board Members occurred.

35.5. Remuneration paid or due to Group Management Board Members and Supervisory Board Members

Item	Year ended 31 December 2009	Year ended 31 December 2010
Management Board of Parent Company	752 926,08	493 314,00
Supervisory Board of Parent Company	278 861,52	290 184,72
Management Boards of subsidiaries	14 903 518,99	15 550 528,23
Supervisory Boards of subsidiaries	4 831 595,09	2 321 037,46
Total	**20 766 901,68**	**18 655 064,41**

35.6. Remuneration paid to the top management (excluding Management and Supervisory Board)

Tytuł	Year ended 31 December 2009	Year ended 31 December 2010
Short term employee benefits (salaries and social security)	30 296 654,28	31 540 358,05
Jubilee bonuses	370 032,05	581 241,64
Post employment benefits	42 723,30	92 166,80
Severance pay	6 262,00	502 554,49
Share based payments	-	-
Total benefits contributed to top management	**30 715 671,63**	**32 716 320,98**

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36. Financial instruments

36.1. Carrying value of categories and classes of financial instruments

Item	Year ended 31 December 2009	Year ended 31 December 2010
Classes of finacial instruments		
Deposits	-	130 612,56
Bonds, treasury bills and other debt securities	-	-
Shares (non- consolidated companies)	33 120 087,24	33 105 322,68
Shares in associate companies	41 827 151,07	41 580 170,75
Trade receivables and other receivables	1 151 647 424,79	1 454 894 542,60
Cash and cash equivalents	790 023 953,70	773 306 630,92
Finance lease receivables	123 332,67	162 305,82
Receivables from sale of tangible and intangible assets	148 526,44	759 097,13
Investment fund units	96 792 595,94	910 248 284,85
Derivatives (assets)	1 104,50	2 076 116,20
Total assets	**2 113 684 176,35**	**3 216 263 083,51**
Preferential loans and borrow ings	48 462 000,00	728 018 257,06
Loans and borrow ings	268 590 613,71	336 234 209,24
Bank overdrafts	22 461 504,45	10 482 545,48
Issued bonds and debt securities	6 914 642,30	1 670 672,08
Trade payables	637 848 851,23	750 914 424,06
Finance lease payables	18 703 019,26	10 290 420,61
Other financial liabilities	20 198 236,27	6 752 799,11
Liabilities from acquisition of tangible and intangible assets	108 267 784,55	204 444 439,27
Derivatives (liabilities)	-	-
Total liabilities	**1 131 446 651,77**	**2 048 807 766,91**
TOTAL	**3 245 130 828,12**	**5 265 070 850,42**
Categories of financial instruments		
Financial assets at fair value through profit or loss	919 937 741,38	1 718 866 967,21
Available-for-sale financial assets	-	-
Held to maturity assets	-	-
Loans and receivables	1 151 795 951,23	1 455 653 639,73
Financial assets out of scope of IAS 39	41 950 483,74	41 742 476,57
Total assets	**2 113 684 176,35**	**3 216 263 083,51**
Financial liabilities at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	1 112 743 632,51	2 038 517 346,30
Loan commitments, factoring and out of scope of IAS 39 liabilities	18 703 019,26	10 290 420,61
Hedging instruments	-	-
Total liabilities	**1 131 446 651,77**	**2 048 807 766,91**

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36.2. Revenues, costs, profits and losses in income statement divided into financial instruments categories

Item	Assets measured at fair value through profit and loss	Derivatives	Loans and receivables	Financial assets excluded from the scope of IAS 39	Financial liabilities measured at amortised cost	Total
Dividends and profits' shares	362 464,72	-	-	-	-	362 464,72
Interest income (expenses)	52 227 193,50	297 700,00	20 705 593,43	-	(41 153 415,49)	32 077 071,44
Foreign exchange rate differences	-	-	(1 156,36)	-	(299 310,66)	(300 467,02)
Reversal of write - downs/ Revaluation increase	849 507,43	-	23 859 216,58	3 000 000,00	-	27 708 724,01
Write - downs set up/ Revaluation decrease	(14 764,56)	-	(51 703 391,96)	-	-	(51 718 156,52)
Gain/ (loss) on disposals of financial assets	-	-	-	-		-
Total net profit (loss)	**53 424 401,09**	**297 700,00**	**-**	**-**	**-**	**8 129 636,63**

36.3. Fair value of financial assets

Carrying value of the following financial assets and liabilities constitutes reasonable approximation of their fair value:

- Receivables and loans granted and other financial liabilities,
- Assets and liabilities held for trading.

The fair values of the Capital group financial instruments not listed on the regulated markets are measured under the valuation models based on the input of exclusively noticeable market data from operating markets, which are obtained from reputable services providing the financial data. For the shares not listed on the stock exchange there is no active market ant there is no possibility of use of the valuation techniques giving the results of reliable value. Therefore the Group is not able to determine the range in which the shares' fair value could be set. These assets are measured at cost less impairment write-downs.

The fair value of derivatives used by the Capital Group concluded on the Polish electricity forward / futures market excluding those concluded on the Polish Energy Exchange is determined on a basis of the MTM (Mark-to-Matket) method, current result of electric power optimization at the current moment..

In case of valuation of the product whose delivery is in progress at the valuation time, MTM is calculated on the basis of the latest settlement price of the product published by the Exchange. In case of valuation of the product whose delivery is not in progress yet, MTM is calculated on the basis of the settlement price of the product published by the Exchange at the valuation day.

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36.4. Description of significant items within particular categories of financial instruments

36.4.1 Loans and receivables

Key item in the category of financial instruments recognized as loans and receivables is trade receivables.

Trade receivables	Not overdue	Overdue < 30 days	30 – 90 days	90 - 180 days	180 - 360 days	>360 days	Total
Before impairment write downs	1 264 321 373,74	147 618 542,25	60 295 711,35	19 653 347,52	17 332 056,38	85 574 012,09	1 594 795 043,33
Indyvidual impairment	(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)
Overall impairment	-	-	(8 808 738,50)	(3 191 140,32)	(8 807 122,33)	(74 512 129,87)	(95 319 131,02)
Total impairment write downs	(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 write downs	1 262 131 961,42	142 893 352,14	49 733 033,28	15 073 776,26	6 984 076,74	1 436 797,76	1 478 252 997,60

Loans granted - entities excluded from consolidation	Not overdue	Overdue < 30 days	30 – 90 days	90 - 180 days	180 - 360 days	>360 days	Total
Before impairment write downs	-	-	-	-	-	-	-
Indyvidual impairment	-	-	-	-	-	-	-
Overall impairment	-	-	-	-	-	-	-
Total impairment write downs	-	-	-	-	-	-	-
After impairment write downs	-	-	-	-	-	-	-

36.4.2 Impairment loss recognized for financial assets

	Accumulated impairment losses on trade receivables	Accumulated impairment losses on receivables from sale of tangible and intangible assets	Accumulated impairment losses on shares
1 January 2010	108 001 498,50	-	201 773,29
Charge for the year	51 703 391,96	-	14 764,56
Utilised	(19 303 628,15)	-	-
Unused amounts reversed	(23 859 216,58)	-	-
Change in Capital Group composition (consolidated entities)	-	-	-
31 December 2010	116 542 045,73	-	216 537,85

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36.4.3 Financial liabilities valuated at amortized cost

36.4.3.1 Loans and borrowings

Loans and borrowings received as of 31 December 2010

Currency	Reference rate	Value as at 31.12.2010		With repayment date:				
		actual currency	PLN	Within 12 months	After a year but not more than 2	After 2 years but not more than 3	After 3 years but not more than 5	More than 5 years
PLN	Variable	1 074 735 011,78	1 074 735 011,78	41 099 028,77	24 099 919,19	115 131 612,27	213 527 800,36	680 876 651,19
Total loans and borrowings		**1 074 735 011,78**	**1 074 735 011,78**	**41 099 028,77**	**24 099 919,19**	**115 131 612,27**	**213 527 800,36**	**680 876 651,19**

36.4.3.2 Liabilities from bonds issued

Bonds issued as of 31 December 2010

Currency	Reference rate	Value as at 31.12.2010		Repayable within 12 months
		actual currency	PLN	
PLN	Variable	1 670 672,08	1 670 672,08	1 670 672,08
Total bonds		**1 670 672,08**	**1 670 672,08**	**1 670 672,08**

36.4.3.3 Credit limits

As of 31 December 2010 credit limits received by the Group entities amounts to PLN 2.503.953,1 thousand.

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36.5. Liabilities repayment collaterals

As at the balance sheet date assets of the following values constituted collaterals for repayment of liabilities or contingent liabilities:

Group of assets	Balance sheet value of assets	Type of secured liability	Balance sheet value of secured laiability	Limit of secured liability
Real estate	111 992 535,69	loans and borrowings	42 243 652,06	69 751 652,06
Other fixed assets	5 783 614,83	loans and borrowings	3 395 783,38	3 948 743,77
Receivables	20 741 068,46	loans and borrowings	11 572 720,70	21 057 515,38
Cash	199 944 512,37	securing contracts	-	702 300 000,00
Cash	2 290 000,00	loans and borrowings	1 628 993,34	2 700 000,00
Cash	129 119,37	other liabilities	11 141,38	129 119,37
Inventories	32 480 000,00	securing contracts	-	22 099 200,00
Inventories	10 254 190,79	loans and borrowings	497 039,61	6 700 000,00
Total	**383 615 041,51**		**59 349 330,47**	**828 686 230,58**

The provided collaterals predominately concern loans and guarantees granted to Capital Group ENERGA S.A. companies by Nordea Bank Polska S.A., Bank Pekao S.A., Deutsche Bank Polska S.A., Bank PKO BP S.A. and the borrowing granted by The National Fund for Environmental Protection.

Besides the presented collaterals the Group companies issued also bills of exchange in blank as collateral for loan and lease agreements and for securing the debt.

36.6. Situations/issues related to financial instruments that do not occur in the Group

In the Group in the reporting period ended on 31 December 2010 none of the following commercial events or situations requiring to be disclosed occurred:

- by the balance sheet date, the Group failed to use the possibility of designating a financial instrument valued at a fair value through income statement at the time of initial recognition (IFRS 7, paragraphs 9, 10, 11),
- financial assets were not reclassified, which would result in the change in valuation of such assets (IFRS 7, paragraph 12),
- no collaterals were established for the Group on any category of assets which would result in the improvement of lending terms (IFRS 7 paragraph 15), the Group did not assume any assets within the course of recovery of collaterals established for it (IFRS 7, paragraph 38),
- the Group did not issue any instrument containing component of liability and asset (IFRS 7, paragraph 17),
- the Capital Group did not violate any provisions of credit agreements (IFRS 7 paragraph 18),
- the Group does not apply the principles of hedge accounting,
- the Group did not purchase any financial assets at a price considerably different from their fair value (IFRS 7, paragraph 28)

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37. Contingent assets and liabilities

37.1. Contingent liabilities

Contingent liabilities as of the end of reporting period are presented in the table below:

Liabilities arising from	As at 31.12.2009	As at 31.12.2010
guarantees	502 000 000,00	702 964 817,46
warranties	6 177 373,85	-
bills of exchange	49 879 425,10	30 732 524,81
patronage statements	700 000,00	-
cases against the related parties	11 257 384,24	18 093 958,54
other	29 548 784,58	16 511 950,74
Total	**599 562 967,77**	**768 303 251,55**

37.2. Contingent assets

As of 31 December 2010 the Group recognized contingent asset related to corporate income tax for 2009 overpaid by subsidiary ENERGA – OPERATOR S.A. amounted to PLN 91.9 million. See Note 34.3.

As at 31 December 2010 the Group did not recognize any other material contingent assets.

38. Objectives and rules of financial risk management

The main financial instruments used by the Capital Group belong bank loans, bonds, cash, short-term deposits, and the participation units in liquidity funds. The main purpose of these instruments is obtaining the source of finance necessary for the Group business activity.

The Group executes also transactions including derivatives. The main purpose of these transactions is risk management regarding the Group activity.

The main risk group resulting from the financial instruments relate to market risk, liquidity risk and credit risk. The Management Board verifies and approves the principles of management of each of the risk listed above. The principles are described below. The Group monitors also the risk of market prices regarding all possessed financial instruments.

The following main market risks which the Group is exposed to are identified:

- interest risk.
- foreign exchange rate risk,
- market prices change risk regarding the electric power purchase on the wholesale markets.

For the purpose of analysis of vulnerability to market risk factors, the Capital Group ENERGA S.A. uses the scenario based analysis method. The Group uses experts' scenarios that reflect the subjective view of the Group regarding future development of individual market risk factors.

The scenario based analyses presented herein aim at the analysis of the impact of changes in market risk on the financial results of the Group. The object of the analysis includes only such items which fall within the definition of financial instruments.

Possible changes of currency exchange rates were determined based on annual implied volatility for currency options quoted on interbank market for a given pair of currency as of the balance sheet date or if markets quotes were not available on the basis of historic volatility for the period of one year before the end of reporting period.

Potential possible changes of purchase/sale transactions of electric power on Polish forward / futures market were calculated on the basis of closing rates volatility for last 30 quotations of particular forward / futures contracts.

To the analysis of vulnerability to interest rate risk the Group also applies shifting the yield curve by possible change in reference interest rates in the following year. For the purposes of the analysis of vulnerability to interest rate risk average levels of reference interest rates in a given year were applied. The scale of possible changes of interest rates was estimated on the basis of implied ATMF option volatilities for interest rate quoted on interbank market for currencies to which the Group is exposed as regards interest rate risk as of the end of reporting period.

In the case of analysis of vulnerability to changes of interest rates the effect of changes of risk factors was referred to the value of interest income/costs for financial instruments measured at amortized cost and to fair value as of the end of reporting period of financial instruments measured to fair value.

The analysis herein below presents the vulnerability of each type of market risk to which the Group is exposed as of the end of reporting period, showing the influence the possible changes of particular risk factors could have on the gross financial result, divided into classes of financial assets and liabilities.

under IFRS (in zlotys)

38.1. Interest rate risk

The Group identifies the exposure to interest rate risk of WIBOR and EURIBOR. The table herein below presents the vulnerability of the gross financial result on reasonably possible changes of interest rates, assuming that other risk factors for those classes of financial instruments which are exposed to the interest rate risk remain unchanged:

Financial assets and liabilities	31 December 2010		The analysis of vulnerability to interest rate risk as of 31 December 2010			
			WIBOR net financial result		EURIBOR net financial result	
	Balance sheet value	Value exposed to risk	*WIBOR + 42 pb*	*WIBOR - 42 pb*	*EURIBOR + 33 pb*	*EURIBOR - 33 pb*
Deposits	130 612,56	130 612,56	548,57	(548,57)	-	
Cash and cash equivalents	1 683 554 915,77	1 454 310 202,47	6 105 286,14	(6 105 286,14)	2 213,13	(2 213,13)
Preferential loans and borrowings	728 018 257,06	728 018 257,07	(3 057 676,68)	3 057 676,68	-	-
Loans and borrowings granted on market conditions	336 234 209,24	336 234 209,24	(1 412 183,68)	1 412 183,68	-	-
Current account overdraft facility	10 482 545,48	10 482 545,48	(44 026,69)	44 026,69	-	-
Bonds and debt securities issued	1 670 672,08	1 670 672,08	(7 016,82)	7 016,82	-	-
Change in gross profit			**1 584 382,26**	**- 1 584 382,26**	**2 213,13**	**- 2 213,13**

Changes of interest rates do not directly affect the value of the Group's equity.

under IFRS (in zlotys)

38.2. Foreign currency risk

The Group is exposed to foreign currency risk in connection with concluded transactions. Such risk arises as a result of sale or purchase by an operating entity in currencies other than the currency of valuation.

The Group identifies the exposure to foreign currency risk EUR/PLN. The table herein below presents the vulnerability of the gross financial result on reasonably possible changes of foreign currency rates, assuming that other risk factors for those classes of financial instruments which are exposed to the foreign currency risk remain unchanged:

Classes of financial instruments	31 December 2010		The analysis of vulnerability to foreign currency risk as of 31 December 2010 EUR/PLN net financial result	
	Balance sheet value	Value exposed to risk	*EUR/PLN currency + 12,3%*	*EUR/PLN currency - 12,3%*
Trade receivables	1 478 252 997,60	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 in gross profit			**308 895,00**	**- 308 895,00**

38.3. Electricity prices on the wholesale market change risk

The Group identifies the exposure to the risk of electricity prices change on Polish forward / futures market. The table herein below presents of the vulnerability of the gross financial result on reasonably possible changes of electricity prices on Polish forward / futures market, assuming that other risk factors for those classes of financial instruments which are exposed to the change of electricity prices risk remain unchanged:

Assets adn financial liabilities	31 December 2010		The analysis of vulnerability to electricity prices at wholesale market as of 31 December 2010 net financial result	
	Balance sheet value	Value exposed to risk		
	000 PLN	*000 PLN*	*price + 35,25%*	*price - 35,2%*
Derivatives (assets)	2 076 116,20	734 312,70	258 126,86	**(258 126,86)**
Change in gross profit			**258 126,86**	**(258 126,86)**

The exposure to the risk as at 31 December 2010 is representative for the Group exposure to the risk during the preceding this date yearly periods. Changes of future rates do not directly affect the value of the Group's equity.

38.4. Goods price risk

The main areas of Capital Group ENERGA S.A. activity the price risk concerns are: supplying coal to power plant and combined heat and power plant as well as the exchange price risk in energy trade, trade in rights to cogenerated energy and trade in rights of carbon dioxide emission.

The risk regards the change of the purchase price of electric power on the wholesale markets with respect to contracts concluded on long- medium- and short-term horizon on Polish market and financial instruments on foreign markets such as futures / forward contracts of electric power, emission of CO2 and chosen raw materials.

To limit the risk of change of the purchase prices regarding wholesale market ENERGA SA Group undertakes precautions against intense prices changes through optimization of contracting process consisting in concluding contracts in set proportions and with respect to variety of products. Additionally, the purchase process is spread in time in such a manner to allow the average price of the Group portfolio to match better the average purchase price of the yearly volume set as a target on the basis of market prices.

To minimize the risk connected to the financial instruments trade the trade limits are set and the threatened value is daily monitored. Moreover, there are principles in the Group regarding setting of Stop Loss and Take Profit levels permanently monitored.

38.5. Credit risk

The credit risk is defined in the Group as a probability of the contractors' failure to fulfill his financial liabilities. Mitigating the credit risk is obtained by the activities aimed at the value assessment of the risk, monitoring of the contractors' financial standing and securing trade loans using the available tools such as bank guarantees etc.

The limitation of the credit risks relates to the contractors of the largest turnover i.e. the portfolio of the wholesalers and the portfolio of the strategic clients. The main factors here are: the examination of the creditworthiness, credit limits and particular regulations included in the contracts.

The appropriate procedures mitigating the insolvency risk were established in the Capital Group. As regards the wholesale market, the procedures determine limits of acceptable volume of energy sale without necessity of securing. The transactions exceeding the limits of volume of energy require securing, for instance bank guarantees.

As regards the sale to the strategic clients, the procedures demand client monitoring and determining recommended for them sales limits. The monitoring of credit risks is carried out upon regular basis and the limits are updated depending on the clients financial standing as well as the standing of its economic environment.

Moreover, owing to the current monitoring of receivables' balances, the Group's exposure to the risk of the non-collectible receivables is insignificant.

As regards the other Groups' financial assets such as cash and its equivalents, financial assets available for sale and some derivatives, the Group credit risk arises as a result of the situation in which the contractor is not able to pay and the maximum exposure of such risk equals the book value of such instruments.

There are no significant concentrations of credit risk in the Capital Group.

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38.6. Liquidity risk

The Group monitors the risk of lack of funds using the periodical liquidity planning tool. The tool takes into account maturity dates both for investments and financial assets (e.g. accounts receivable, other financial assets) and forecast cash flows from operating activities.

The aim of the Group is to maintain balance between the continuity and flexibility of financing through the use of various financing sources such as overdraft facilities, bank loans, bonds, financial lease agreements and lease agreements with purchase option.

As at the balance sheet date the main external source of financing were long-term bank loans in European Investment Bank, European Bank for Reconstruction and Development and Nordic Investment Bank (see note 44). The loans are not secured by assets and base mainly on operational and financial covenants. Financial covenants are calculated based on the figures included in the Capital Group ENERGA SA's consolidated financial statement prepared according to IFRS. The Company carries out current covenants' monitoring.

The table below presents the Group's financial liabilities according to maturity dates on the basis of contractual non-discounted payments:

31 December 2010	Within 3 months	After 3 months but not more than a year	After a year but not more than 5 years	More than 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	1 670 672,08	-	-	-	**1 670 672,08**
Trade and other payables	946 800 772,43	23 631 822,94	1 942 587,68	26 900,00	**972 402 083,05**
Total	**949 883 064,76**	**63 319 231,46**	**354 701 919,50**	**680 903 551,19**	**2 048 807 766,91**

39. Capital management

The main aim of the Group's capital management process is to retain the good credit rating and safe equity ratios which would support the Group's operating activity and increase shareholder value.

The Group manages the capital structure and, as a result of changes in economic conditions, amends it. To retain or adjust the capital structure, the Group may change the payment of dividend to shareholders, return the capital to shareholders or issue new shares. In the year 2010 no changes were introduced in the objectives, principles and processes in this area.

The Group monitors equity capital using the leverage ratio which is the proportion of net debt to total equity capital increased with net debt. The Group's net debt includes interest-bearing loans and borrowings, trade and other liabilities, less cash and cash equivalents. Equity comprises convertible preference shares, equity capital for shareholders of the parent entity less capital reserves for unrealised net profits.

Item	As at 31.12.2009	As at 31.12.2010
Interest-bearing loans and borrowings	346 428 760,46	1 076 405 683,86
Trade and other payables	785 017 891,31	972 402 083,05
Less cash and cash equivalents	(886 816 549,64)	(1 683 554 915,77)
Net borrowings	**244 630 102,13**	**365 252 851,14**
Equity	**7 383 151 211,74**	**7 946 956 194,25**
Equity and net borrowings	7 627 781 313,87	8 312 209 045,39
Levarage	0,03	0,04

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40. Employment structure

Average employment in the Group was as follows:

Item	Year ended 31 December 2009	Year ended 31 December 2010
Management board of Parent Company	2	2
Management boards of subsidiaries	51	46
Administration	2 476	1 855
Production Department	7 382	7 320
Other	2 707	3 127
Total employees	**12 618**	**12 350**

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41. Comparative Data

	current year	statements for the previous year	comparative data for the previous year	Change - valuation of fixed assets
ASSETS				
Non - current assets				
Tangible fixed assets	8 451 134 128,39	8 032 048 734,22	8 032 048 734,22	-
Real estate investments	19 026 164,08	26 043 537,30	26 043 537,30	-
Intangible assets	269 388 658,63	212 366 170,75	212 366 170,75	-
Goodwill	17 246 353,14	17 246 353,14	17 246 353,14	-
Shares in associates and joint ventures valued in accordance with the equity method	41 580 170,75	41 827 151,07	41 827 151,07	-
Other shares	32 475 886,41	32 857 887,24	32 857 887,24	-
Deferred tax assets	108 182 548,38	97 722 813,26	97 722 813,26	-
Other non - current assets	18 271 910,04	2 466 578,19	2 466 578,19	-
	8 957 305 819,82	**8 462 579 225,17**	**8 462 579 225,17**	**-**
Current assets				
Inventories	312 992 178,03	275 913 756,43	275 913 756,43	-
Income tax receivables	62 929 705,20	19 040 182,00	19 040 182,00	-
Trade and other receivables	1 454 897 912,04	1 151 919 283,90	1 151 919 283,90	-
Other shares	629 436,27	262 200,00	262 200,00	-
Bonds and other debt securities	-	-	-	-
Deposits	130 612,56	-	-	-
Other financial assets	2 076 116,20	-	-	-
Cash and cash equivalents	1 683 554 915,77	886 816 549,64	886 816 549,64	-
Other current assets	157 610 985,10	101 846 335,01	101 846 335,01	-
	3 674 821 861,17	**2 435 798 306,98**	**2 435 798 306,98**	**-**
Non - current assets held for sale	191 586,09	35 689 882,09	35 689 882,09	
TOTAL ASSETS	**12 632 319 267,08**	**10 934 067 414,24**	**10 934 067 414,24**	**-**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				-
Share capital	4 968 805 368,00	4 968 805 368,00	4 968 805 368,00	-
Foreign exchange gains / losses arising on translation	12 443,32	12 542,28	12 542,28	-
Suplementary capital	163 625 681,64	141 957 561,67	141 957 561,67	-
Retained earnings (loss)	1 922 610 116,03	1 366 589 091,57	1 402 460 875,03	35 871 783,46
Non-controlling interests	**891 902 585,26**	**905 786 648,22**	**912 116 962,95**	**6 330 314,73**
Total equity	**7 946 956 194,25**	**7 383 151 211,74**	**7 425 353 309,93**	**42 202 098,19**
Non - current liabilities				
Loans and borrowings	1 033 635 983,01	57 012 356,31	57 012 356,31	-
Non - current provisions	558 393 706,12	549 977 881,35	549 977 881,35	-
Deferred tax liability	553 507 069,04	580 108 659,58	590 007 917,18	9 899 257,60
Deferred income and non - current goverment grants	442 910 451,58	470 035 998,01	417 934 642,22	(52 101 355,79)
Trade and other non - current liabilities	337 675,38	344 677,26	344 677,26	-
Lease liabilities	1 631 812,30	9 669 726,10	9 669 726,10	-
Other non - current liabilities	126 724,93	194 654,11	194 654,11	-
	2 590 543 422,36	**1 667 343 952,72**	**1 625 141 854,53**	**(42 202 098,19)**
Current liabilities				
Trade and other liabilities	970 432 595,37	775 003 487,95	775 003 487,95	-
Current loans and borrowings	42 769 700,85	289 416 404,15	289 416 404,15	-
Income tax liability	74 272 835,00	120 574 586,00	120 574 586,00	-
Deferred income and goverment grants	21 010 189,32	12 206 525,92	12 206 525,92	-
Accruals	85 804 674,74	61 498 418,77	61 498 418,77	-
Provisions	353 998 343,50	323 299 113,15	323 299 113,15	-
Other current liabilities	546 529 806,25	301 056 522,62	301 056 522,62	-
	2 094 818 145,03	**1 883 055 058,56**	**1 883 055 058,56**	**-**
Liabilities directly associated with the assets held for sale	1 505,45	517 191,22	517 191,22	
Total liabilities	**4 685 363 072,84**	**3 550 916 202,50**	**3 508 714 104,31**	**(42 202 098,19)**
TOTAL EQUITY AND LIABILITIES	**12 632 319 267,08**	**10 934 067 414,24**	**10 934 067 414,24**	**-**

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INCOME STATEMENT	**current year**	**statements for the previous year**	**comparative data for the previous year**	**Change - valuation of fixed assets**
Continuing operations				
Sale of products and goods for resale including excise tax	*6 344 824 948,50*	*5 783 703 340,18*	*5 835 804 695,97*	*52 101 355,79*
Excise tax	*(314 475 631,94)*	*(234 260 730,00)*	*(234 260 730,00)*	-
Sale of products and goods for resale	6 030 349 316,56	5 549 442 610,18	5 601 543 965,97	52 101 355,79
Sale of services	3 021 018 628,75	2 776 289 476,92	2 776 289 476,92	-
Rental income	62 554 558,09	54 363 900,35	54 363 900,35	-
				-
Revenues	**9 113 922 503,40**	**8 380 095 987,45**	**8 432 197 343,24**	**52 101 355,79**
				-
Cost of sales	7 697 295 507,45	7 503 726 592,11	7 503 726 592,11	-
				-
Profit/loss from sales	**1 416 626 995,95**	**876 369 395,34**	**928 470 751,13**	**52 101 355,79**
				-
Other operating income	78 619 230,29	134 629 875,03	134 629 875,03	-
Selling costs	109 249 130,02	92 550 813,88	92 550 813,88	-
General and administrative expenses	332 408 343,56	353 906 686,28	353 906 686,28	-
Other operating expenses	235 948 541,39	66 269 263,26	66 269 263,26	-
Financial Income	82 486 576,52	114 933 633,03	114 933 633,03	-
Financial costs	103 714 823,89	80 701 167,08	80 701 167,08	-
Share of profit of an associate	668 319,37	(1 680 657,39)	(1 680 657,39)	-
				-
Profit/(loss) before tax	**797 080 283,27**	**530 824 315,52**	**582 925 671,31**	**52 101 355,79**
				-
Income tax	171 272 254,46	103 831 115,61	113 730 373,21	9 899 257,60
				-
Net profit/(loss) from continuing operations	**625 808 028,81**	**426 993 199,90**	**469 195 298,09**	**42 202 098,19**
				-
Discontinued operations				-
				-
Profit for the year from discontinued operations	(378 008,92)	(1 645 352,44)	(1 645 352,44)	-
				-
Net profit/(loss) for the year	**625 430 019,89**	**425 347 847,46**	**467 549 945,65**	**42 202 098,19**
				-
Attributable to equity holders of the parent	605 804 674,81	397 189 015,15	433 060 798,61	35 871 783,46
Attributable to non-contolling interests	19 625 345,09	28 158 832,31	34 489 147,04	6 330 314,73

In previous years the Group recognized the value of charges for connection to the grid as deferred income in the liabilities side of consolidated statement of financial position. The amounts were subsequently charged to income proportionally to amortization of related assets.

At present, according to Interpretation IFRIC 18 Transfers of Assets from Customers, the Group recognizes the charges for connection to the grid as income at the moment when they are obtained.

The Group accordingly transformed its consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income for the year ended 31 December 2009 since the Interpretation refers to the charges for connection to the grid recognition and the assets obtained from customers from 1 July 2009 and was approved to execution for financial years beginning after 31 October 2009.

42. Information concerning significant events which occurred after the end of reporting period of the consolidated financial statements

42.1. Restructuring of the Capital Group

The restructuring process of the Capital Group was continued after the balance sheet day.

Due to the process of consolidating energy production by power plants, on 1 January 2011 a contract was executed concerning the sale of Elektrownia Wodna we Włocławku Sp. z o.o. to ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.). On 1 February

2011, the District Court Gdańsk – Północ in Gdańsk issued a decision on registering the merger of ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.), ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna S.A. pursuant to Article 492(1)(1) of the Code of Commercial Companies, by transferring all assets of ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna S.A. to ENERGA Hydro Sp. z o.o.

Moreover, after the balance sheet date measures were taken with regard to restructuring and reorganising Operator Systemu Dystrybucyjnego (OSD) (Distribution System Operator), the subsidiary company ENERGA – OPERATOR SA, and companies that support the operation of OSD.

On 1 January 2011, new Organizational Regulations were introduced in the subsidiary company ENERGA-OPERATOR SA that include a standardised organizational structure of Branches and Regions based on common business processes and organizational relationships. The main aim is to make the tasks of OSD, which are specified in the Energy Law and in a single license that is binding for the whole Company, be fulfilled in a uniform and comparable manner based on the best practices in the Company and in the sector.

The most important organizational changes related to the new organizational structure include:

- separating grid assets management from work carried out on assets (operation, wiremen services) in the organization;
- the vertical division of operational services (wiremen) on the Branch level; as a result, operational tasks will be fulfilled by a ‘branch structure’; however, the personnel of such services will generally not change their workplaces;
- the vertical division of medium-voltage and low-voltage operational management services on the Branch level – preparing the organization to start the Regional Dispatch Centres to take over the medium-voltage and low-voltage operation in the whole Branch;
- transferring some of the functions from the Branches to the Headquarters, provided that the employees executing such tasks do not change their workplace:
  - safety and defence,
  - audit and control, and
  - internal communication;
- the transfer of the customer technical service management function to the Branch level; employees fulfilling such duties in the Distribution Regions so far will not change their workplaces;
- the transfer of all support functions from the Distribution Regions to Branches, provided that the employees keep their present workplaces.

Due to restructuring on the level of companies that support the operation of OSD, the following measures were taken after the Balance Sheet date:

- the operation of the subsidiary companies Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. was transferred to another subsidiary company ENERGA – OPERATOR SA., with regard to managing the process of grid connections, grid operation, investment projects and grid asset records;

- the rights and obligations under contracts concluded by the subsidiaries Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. concerning the lighting operation were transferred to another subsidiary company ENERGA Oświetlenie Sp. z o.o.,
- the operation of the subsidiary company Zakład Energetyczny Płock – Operator Sieci Rozdzielczej Sp. z o.o. within the call centre was transferred to the subsidiary company ENERGA Obsługa i Sprzedaż Sp. z o.o., and the OSD support operation was transferred to another subsidiary company ENERGA – OPERATOR SA,
- the executive operation conducted by the subsidiary company ZET Energohandel Sp. z o.o. was transferred to another subsidiary, Energetyka Kaliska – Usługi Techniczne Sp. z o.o.,
- the design operation conducted by subsidiaries, Multiserwis Sp. z o.o., Energo – Konsulting Sp. z o.o. (at present ENERGA OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.) and ZET Energohandel Sp. z o.o., was transferred to another subsidiary company ZEP – Inpro Sp. z o.o., and
- the production operation of the subsidiary company Zakład Budownictwa Energetycznego Sp. z o.o. was transferred to another subsidiary company Energetyka Kaliska Liczniki i Instalacje Sp. z o.o. (at present ENERGA – Operator Produkcja Sp. z o.o.).

42.2. Changes of the Group composition

In addition to the changes of the Group composition resulting from the above-mentioned restructuring measures, on 14 February 2011 ENERGA SA established ENERGA Serwis Sp. z o.o. and became its sole shareholder. Moreover, on 28 January 2011, the subsidiary company ENERGA Bio Sp. z o.o. purchased 90% of shares in the authorised capital of Esperotia Energy Investments Bobowo Sp. z o.o.

43. Other information of a significant influence on the Company's financial position and its result of operations

43.1. Consortium of ENERGA SA and Kopalnia Adamów

On 7 January 2010, a consortium agreement was signed between Kopalnia Węgla Brunatnego 'Adamów' ('Adamów' Lignite Mine) and ENERGA SA Group for the construction and operation of wind power plants. The project will be executed according to the project finance formula by an established special purpose vehicle, wherein the two partners will hold half of shares each. Moreover, the agreement establishes a Steering Committee comprising representatives of both parties. Its tasks will be to prepare the documentation necessary for the start of the investment project.

The wind farm will be located on decommissioned areas of the mine in Przykona Gmina. The 'Adamów' Mine has about 600 ha of such land available at present; however, the size of available land may increase even three-fold in the future, as the Company reclaims about

100 ha of land annually. The planned design power of the Przykona Wind Farm will be 80 MW. It is possible to construct other farms on other strip mines of the Adamów Mine.

43.2. Contract with Grupa Lotos S.A. for the construction of a power plant supplied with synthesis gas

On 28 April 2010, the subsidiary company ENERGA Invest SA and Grupa LOTOS S.A. signed a consortium agreement wherein the partners declared to prepare a joint execution of constructing a power plant fed with synthesis gas originating from the Residuum Oil Supercritical Extraction (ROSE). The plant will have the installed capacity of about 200 MWE and 165 MWT. The initially agreed shares of partners in the project are 50% ENERGA Invest and 50% Grupa LOTOS S.A. The project will be executed with an SPV. The start of the commercial operation of the plant has been planned at the end of 2015.

43.3. ENERGA Wisła Programme

On 9 March 2010, ENERGA SA and Ove Arup&Partners International Limited Sp. z o.o. concluded a contract for preparing the 'Documentation required for the construction of a dam and a power plant on the Vistula River downstream Włocławek'.

The aim of the contract is to provide complete documentation necessary to commence the construction of a dam and a power plant on the Vistula River, as required for obtaining a decision on environmental conditions for the investment project issued by the Regional Directorate of Environmental Protection and a positive decision of the European Commission (if required).

The ENERGA Wisła Programme concerns the construction of a second stage of fall on the Vistula in Włocławek. According to initial premises, the planned power of the plant may achieve the level from 60 to 100 MW and its average production would exceed 500 thousand MW per year. The deadline for completing this investment project is about 7 years (the start-up in middle 2016) and its value is estimated at PLN 2.5 billion.

43.4. Obtaining external financing

Agreements for financing the investment programme of ENERGA-OPERATOR S.A.

In April 2010, ENERGA SA and its subsidiary company ENERGA-OPERATOR S.A. concluded two loan facility agreements:

- 29 April 2010 – a loan facility agreement with the European Bank for Reconstruction and Development with a limit of PLN 800 million;
- 30 April 2010 – an agreement with the Nordic Investment Bank with a limit of PLN 200 million.

The above-mentioned agreements as well as the agreement concluded with the European Investment Bank in 2009 should provide funding for the investment programme of ENERGA-OPERATOR SA in 2009-2011 related to the development and modernization of the distribution network. The total amount of gained financing is PLN 2,050 million.

The signed loan facility agreements are long-term investment liabilities. The debt may be repaid in 12 years. The loan facility agreements are not secured against assets of the borrowers and are based mostly on financial covenants.

In 2010, the following loan advances will be paid under the above-mentioned agreements:

- PLN 630 million under the agreement with the European Investment Bank,

- PLN 300 million under the agreement with the European Bank for Reconstruction and Development, and
- PLN 100 million under the agreement with the Nordic Investment Bank.

After the balance sheet date, i.e. in March 2011, the loan advance of PLN 420 million was paid under the agreement with the European Investment Bank. Thus, the total limit of the loan facility was used.

<u>Loans with NORDEA Bank Polska SA</u>

In 2010, ENERGA SA concluded the following loan facility agreements with NORDEA Bank Polska SA:

- On 24 June 2010, an agreement for the provision of loans to companies from the ENERGA Group with the total limit of PLN 75 million. Under the agreement, ENERGA SA and companies from the ENERGA Group can take working loan facilities on the current account and revolving loan facilities with the repayment term of 12 months as well as investment credits with the repayment deadline not exceeding the deadline of the loan limit, i.e. 29 June 2015. In 2010, the revolving and investment financing provided under this agreement totalled at PLN 45,350,000.00.
- On 8 September 2010, an investment credit agreement for PLN 100 million to be used for the procurement of bonds issued by ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.) due to the execution of the investment project involving the modernization of the peak-pump power station in Żydowo. The deadline of this liability was set on 7 September 2015. As of the balance sheet date, i.e. 31 December 2010, the credit was not used.
- On 8 September 2010, a framework agreement for granting bank guarantees to companies of the ENERGA Group with the total limit of PLN 5.0 million. Under the agreement, ENERGA SA and companies of the ENERGA Group may apply for bank guarantees with the maximum term of 60 months. The guarantee limit is for the period till 7 September 2011. In 2011, one bank guarantee for PLN 1,000,000.00 was given under this agreement.
- On 17 December 2010, an investment credit agreement for PLN 160 million to be spent on the purchase of bonds issued by ENERGA Kogeneracja Sp. z o.o. due to the execution of an investment project involving the modernization of a boiler by introducing the option of biomass co-combustion, the construction of a pellet production plant and the construction of a new energy unit. The deadline for the repayment of this liability is on 16 December 2015. As of the Balance Sheet date, i.e. 31 December 2010, the credit was not used.

The securities for all the above-mentioned agreements are financial covenants and as regards the framework agreement it is the joint and severe liability of ENERGA SA for the liabilities of companies from the ENERGA Group provided as the assumption of liabilities.

43.5. Capital Group Restructuring

In 2010, due to the restructuring of the Capital Group, measures were taken to consolidate the operation within energy production by water power plants as well as in the lighting and data communication businesses.

The company that consolidates the business in energy production by water power plants is ENERGA Hydro Sp. z o.o. (former ENERGA Elektrownie Straszyn Sp. z o.o.). Due to the consolidation process, the Company purchased organised parts of enterprises involved in electricity production by small water power plants in 2010 from the following companies:

- ENERGA Kogeneracja Sp. z o.o. (in October 2010), and
- ENERGA Elektrownie Wiatrowe Sp. z o.o. (former ENERGA Elektrownie Słupsk) (in December 2010).

Moreover, in December 2010 the Company concluded a contract for the purchase of the enterprise owned by Elektrownia Wodna we Włocławku Sp. z o.o. The contract was executed after the balance sheet date, in January 2011.

In November 2010, a plan of merging the following companies: ENERGA Elektrownie Straszyn Sp. z o.o., ENERGA Elektrownie Łyna SA and ENERGA Elektrownie w Koszalinie Sp. z o.o., was filed at the District Court Gdańsk – Północ in Gdańsk, involving the transfer of all assets from ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA to ENERGA Elektrownie Straszyn Sp. z o.o. The merger was registered on 1 February 2011.

The consolidating company within the lighting business is ENERGA Oświetlenie Sp. z o.o. Due to the consolidation process, on 1 June 2010 the District Court Gdańsk – Północ in Gdańsk issued a decision on registering the merger of ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. pursuant to Article 492(1)(1) of the Code of Commercial Companies, by transferring all assets of Zakład Oświetlenia Drogowego „PÓŁNOC" Sp. z o.o. to ENERGA Oświetlenie Sp. z o.o.

Moreover, in November 2010 the subsidiary company ENERGA – OPERATOR SA made a contribution in-kind to ENERGA Oświetlenie Sp. z o.o., namely an organised part of an enterprise encompassing the lighting business. The transaction was registered by the District Court Gdańsk – Północ in Gdańsk on 30 November 2010.

Due to the consolidation of the data transmission business, the District Court for the Capital City of Warsaw in Warsaw issued a decision on 30 April 2010 on registering the merger of ZEP – Info Sp. z o.o. and Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. companies pursuant to Article 492(1)(1) of the Code of Commercial Companies, by transferring all assets of Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o. to ZEP – Info Sp. z o.o.

In 2010, measures were also taken aimed at simplifying the structure of the Capital Group involving the purchase of minority packages of shares and stocks in companies of the ENERGA Group by ENERGA SA from other companies of the ENERGA Group.

43.6. Privatization process

On 17 July 2009, a decision was taken by the Ministry of the Treasury to privatise the ENERGA Group. The public call for tenders was announced in April 2010. From June to September, the due diligence continued, when all the potential investors had an opportunity to audit selected documents and visit some facilities of the Group. Moreover, they were able to meet the Management Board and have operational meetings with question and answer sessions.

On 29 September 2010, the Ministry of Treasury and PGE S.A. signed a sales agreement for 84.19% of shares in ENERGA SA.

On 14 January 2011, the President of the Office of Consumer and Competition Protection issued a decision that prohibited the acquisition of control by Polska Grupa Energetyczna S.A. over ENERGA SA. Therefore, the State Treasury and PGE S.A. signed an annexe to the sales agreement for the shares of ENERGA S.A. Pursuant to the agreement, the Ministry and PGE S.A. determined the term of the agreement to be 12 months and decided to suspend the termination of the agreement till the final resolution of court proceedings involving the appeal against the decision of the Office of Consumer and Competition Protection.

43.7. ENERGA Trading SFIO investment fund

31 December 2010 was the first anniversary of the sub-fund ENERGA Trading 1 established by ENERGA S.A. and managed by Union Investment TFI SA. During the year, 19 companies of the Group joined the fund, of which 14 may execute coupled orders. As of the end of 2010, assets collected in the sub-fund ENERGA Trading 1 amounted to PLN 913 million.

The sub-fund ENERGA Trading 1 is dedicated only to companies of the ENERGA Group and its key premises are the safety of managed assets, the diversification of financial risk, a satisfying return on investment and high liquidity of entities, which complies with the Financial Policy of the ENERGA Capital Group adopted by the Management Board of ENERGA SA.

Summing up the first year of the sub-fund, it is worth mentioning that having the liquidity comparable to overnight deposits, it generated the profit at 5.69%, which was 2.34% higher than the benchmark, i.e. WIBID 1M reduced by the costs of obligatory provisions.

43.8. Social Agreement concluded in the process of consolidation and restructuring

On 19 July 2007, the Social Agreement – No. 1/1 – GK ENERGA/2007 was concluded. It protects the rights and interests of the employees in the process of consolidation and restructuring of the ENERGA Capital Group. The Contract was concluded under Article 9 of the Labour Code and Article 26 of the Act of 23 May 1991 on trade unions. It develops and details the provisions of the agreement concerning the rights of social partners in the process of vertical consolidation and the rules of cooperation in the restructuring process signed on 7 March 2007 and the agreement in G8 3/1- Consolidation and restructuring – G8/2004.

The social contract came into force on 1 August 2007.

Provisions of the contract include obligations towards employees due to:

1. a guarantee with regard to restructuring terms and conditions,
2. a special bonus related to the consolidation for distribution companies and subsidiaries,
3. employment guarantee,
4. remuneration guarantee,
5. social and health protection guarantees,
6. securing the right to the employees' shares.

The employment guarantee period for the employees of the Capital Group ENERGA SA amounts to 120 months after the social agreement came into force.

The obligations due to social guarantees are the continuation of previous obligations towards employees, their families and former (retired) employees, including the annual contribution to the plant social benefit fund of the double value of the contribution pursuant to the Act on plant social benefit fund in 2007. Since 2009, the contribution has amounted to three-fold value of the basic contribution.

Moreover, on 1 August 2007, a social contract was concluded between Zespół Elektrowni Ostrołęka S.A. (at present ENERGA Elektrownie Ostrołęka SA) and trade unions concerning the security of employee rights at Zespół Elektrowni Ostrołęka S.A. in the process of consolidation and privatization of the power sector. According to the concluded contract, the employer undertakes to provide employment guarantees for 10 years since the conclusion of the contract and the guarantee of labour and salary in specific positions on the level not less favourable than on the day of concluding the contract.

43.9. Conversion of employees' shares

The process of converting shares was carried out pursuant to the Act of 7 September 2007 on the rules of purchasing shares from the State Treasury in the process of consolidating companies of the power sector. The Act applied to ENERGA SA as a consolidating company and ENERGA OPERATOR SA and ENERGA Elektrownie Ostrołęka SA as consolidated companies.

The process was completed on 13 August 2010.

Overall, 15,098 persons were entitled to convert 726,841,669 shares of ENERGA SA of the face value of PLN 1.00 each. The share conversion agreements were executed after 21 September 2009.

By the end of 2010, 13,638 persons decided to convert shares of consolidated companies into the shares of consolidating company. In total, they acquired 668,145,125 shares of ENERGA SA.

Despite the formal completion of the conversion process, instances of converting shares with heirs of entitled persons will appear, if they have applied to court for confirming the rights to inheritance by 13 August 2010.

43.10. Power infrastructure located on private land

Following the political system changes in the 1990s, serious legal and economic problems raised with regard to transmission equipment erected in the previous legal regime on private real properties without obtaining legal titles thereto. In 2009-2010, a growing number of cases in terms of their value and number were recorded against the subsidiary company ENERGA-OPERATOR SA due to the erection of power equipment.

The Capital Group has created reserves for the above-mentioned claims for which court proceedings are pending, totalling at PLN 31,061.7 thousand. The value of the reserves does not equal the value of filed claims, however it amounts to the most probable amount that will be paid due to such disputes.

43.11. Claims of Państwowe Gospodarstwo Leśne Lasy Państwowe (State Forests)

Under the previous legal regime grid operators, being State Owned enterprises, were able to construct the grid on land owned by the State Treasury, e.g. on the land currently owned by Państwowe Gospodarstwo Leśne Lasy Państwowe. Under the current legal regime the entity, which acts for the State Treasury, sues grid operators for remuneration for the use of land occupied by transmission equipment without a binding agreement.

On 25 October 2010, a Framework Agreement was concluded between subsidiary company ENERGA-OPERATOR SA and the State Treasury – Państwowe Gospodarstwo Leśne Lasy Państwowe (hereinafter referred to as PGL LP) to determine the rules and conditions of cooperation within the operation of grid lines erected on forest land. By the end of November 2010, 109 executive agreements were signed with 109 Forest District Offices (Nadleśnictwo) pursuant to the framework agreement.

Claims filed by individual Forest District Offices located in the operating area of the subsidiary company ENERGA-OPERATOR SA due to the use of land by operating transmission equipment without a legal title and the refusal to provide access to the land by

PGL Lasy Państwowe where equipment was to be erected in the future constituted a material business hazard to the Group. Such claims burdened the subsidiary company with the payments of compensation for equipment erected in the past and paralysed the execution of investment objectives planned by the Group. The failure to receive consent to enter land prevented any actions related to maintenance, planned repairs of equipment or cutting down trees and bushes that grew near the lines.

Before making the decision to negotiate with the General Directorate of Lasy Państwowe concerning the agreement, the subsidiary company ENERGA-OPERATOR SA tried to resolve the question of the title to land on forest areas in court. Unfortunately, the judicature in this regard proved unfavourable to grid operators. The Supreme Court concluded in the verdict No. IV CSK 505/08 that the power distributor was a holder of land easement in bad faith and therefore the State Treasury – Lasy Państwowe should receive compensation due to the non-contractual use of real properties equal to at least the value of property tax. The sentence affected other verdicts pronounced in cases against the subsidiary company ENERGA -OPERATOR SA. As the adjudged amounts were many times higher than the value of taxes paid factually by PGL LP on the real property under the power lines, it was advisable to commence negotiations.

Pursuant to the Framework Agreement and the ‘Executive Contracts’ conclude to perform it, Lasy Państwowe granted to the subsidiary company ENERGA-OPERATOR SA the right to perform the following actions:

- enter the land covered by this agreement and carry any necessary equipment,
- repair any failures of the power lines,
- carry out operation and modernization work of the power lines, and
- cut down and trim trees or bushes as necessary for the maintenance of power lines in a proper condition on inventoried land zones.

Pursuant to the contractual provisions, within 60 days since the agreement became effective (i.e. at the latest on 24 December 2010) any pending court cases or court cases not finished with a valid judgement were discontinued due to court arrangements concluded between the subsidiary company ENERGA-OPERATOR SA and Państwowe Gospodarstwo Leśne Lasy Państwowe. Any valid sentences issued in cases completed before the Framework Agreement came into force were executed according to their provisions.

As regards cases initiated upon applications of ENERGA-OPERATOR SA for establishing transmission line easement, ENERGA-OPERATOR SA withdrew such applications within 14 days since the Framework Agreement came into force, i.e. by 9 November 2010.

The agreement signed with the State Treasury – Państwowe Gospodarstwo Leśne Lasy Państwowe exhausts any claims of the State Treasury – Państwowe Gospodarstwo Leśne Lasy Państwowe for previous years related to the location, maintenance and operation of power lines owned by the subsidiary company ENERGA-OPERATOR SA as regards historical disputes.

43.12. Dispute concerning PSE SA and PKN ORLEN SA

In July 2003 PSE SA brought an action to the Regional Court in Warsaw against Zakład Energetyczny Płock SA (hereinafter referred to as ZEP SA, at present ENERGA-OPERATOR SA) concerning payment of the amount of PLN 62 514 169.94, constituting a difference in the paid thereto transmission charge. ZEP SA instituted third party proceedings against PKN ORLEN SA. Regardless thereof, on the basis of a motion dated 26 September

2003 ZEP SA called PKN ORLEN SA to try to solve the issue amicably before the District Court in Płock in the scope of its compensation claims relating to non-performance by PKN ORLEN SA of an energy sale agreement via refusal to provide information about the size of the energy produced in own sources. In relation to the refusal by PKN ORLEN SA to participate in the settlement proceedings, on 30 June 2004 ZEP SA filed a petition to the Regional Court in Warsaw against the company for payment of PLN 46 232 530.31 arising from the system charge assigned to the auto-producer under the § 36 of the Regulation dated 14 December 2000, however applying to calculation thereof also the plan data. On the basis of the decision dated 2 June 2005, the court officially suspended the proceedings until completion of the legal proceedings with PSE S.A., acknowledging that settlement of the issue depends on the result of the case with PSE SA. In both the cases there also occurs the issue of compliance of the provisions of the mentioned regulation with the Republic of Poland Constitution, which is reflected in the motions of ZEP S.A. and PKN ORLEN S.A. requesting the court to lodge an appropriate legal inquiry to the Constitutional Tribunal.

On the basis of the verdict dated 25 October 2006 the Constitutional Tribunal adjudged that Art. 46 of the Act Energy Law, indicated in the court decision, is compliant with the Constitution, whereas as far as § 36 of the Regulation indicated above is concerned, it discontinued the proceedings due to the bar of adjudging.

In the justification of the judgment, the Tribunal pointed out that the norm § 36 is a disposition regulation, and not an unconditionally binding one (*iuris cogentis*), which means that its application in the relations between the operator of the distributive system and auto-producer depends on the will of the parties. The above judgment resulted in the Appellate Court in Warsaw, on the basis of a decision dated 19 December 2007, after examination of the complaint of PKN ORLEN S.A. deciding to go back to the suspended proceeding in the case brought by ZEP SA against PKN ORLEN S.A., acknowledging that the clarification of the Tribunal allows for continuing of the lawsuit without waiting for the result of the lawsuit brought by PSE S.A. against ENERGA - OPERATOR SA On 25 June 2008 a verdict was pronounced in the case dismissing the petition of ZEP S.A. The Court decided that on the basis of the evidence the amount of the electric energy used in the period under dispute may not be determined by PKN ORLEN SA, and this does not allow for calculation of the remuneration for ZEP S.A. On 2 September 2008 ENERGA - OPERATOR SA appealed against the verdict to the Appellate Court in Warsaw. The Appellate Court changed the appealed judgment by the ruling of 10 September 2009, case I ACa 1062/08, and order payment of PLN 46,232,530.31 and statutory interest accrued from 30 June 2004 and reimbursement of the legal fees of PLN 253,915.00 by PKN ORLEN SA to ENERGA – OPERATOR SA, Oddział w Płocku. On 30 September 2009 PKN ORLEN SA aid all the awarded amount including interest, i.e. PLN 75,625,019.79 and reimbursed the legal fees. PKN ORLEN SA appealed against the verdict to the Supreme Court.

On 28 January 2011, the trial was held before the Supreme Tribunal upon an appeal filed by PKN Orlen SA in the case brought by ENERGA-OPERATOR SA vs. PKN Orlen SA for damages due to the transmission charge. The Supreme Court revoked the decision of the Appellate Court of 10 September 2009 and returned the case for the repeated review. The decision was revoked, according to the oral justification given, due to the necessity found by the Supreme Court to clarify the verdict in judicial terms. The following issues require explanation:

- the nature of the legal relationship between the parties from 1 January 2002 to 30 June 2002; no written agreement applied between the parties in that period,
- the capitalised interest as an element of damage; the damage comprises the main liabilities, which PKN should pay as an auto-producer, and interest accrued on every

such liability for the consecutive months of the disputed period (5 July 2001 – 30 June 2002), and

- the legal nature of the claim, i.e. if this is a claim for damages or remuneration.

On the other hand, the Supreme Court resolved the question of preclusion raised by PKN Orlen, by indicating in the justification that no preclusion occurs in this case. Therefore, all evidence filed in the case would be valid, including the report G.10.3.

To summarise, the outcome of the lawsuit is generally positive for ENERGA-OPERATOR SA, however the value of the claim adjudged so far may change, if the Appellate Court decides that the capitalised interest should not belong to the damage. Considering the potential versions of the verdict to be given by the Appellate Court, a reserve of PLN 34,922,996.48 has been created.

On the other hand, in the lawsuit brought by PSE S.A. against ENERGA - OPERATOR SA the defendant filed a repeated motion for repeated directing of the issue to the Constitutional Tribunal with an inquiry whether § 36 of the said regulation is also a disposition norm in the relations between the transmission system operator (PSE S.A.) and the distribution system operator (ENERGA - OPERATOR SA). The Court issued a negative decision with respect to the motion, and on 25 March 2008 pronounced a verdict, adjudging to PSE SA the entire amount of the claim that is PLN 62,514,169.94. In the justification the Court emphasized that in its opinion, a transmission agreement was concluded between the parties on 9 August 2001 and the same PSE S.A. was entitled to use in the settlements with ZEP S.A. the replacement amounts. On 10 June 2008, ENERGA - OPERATOR SA appealed against the verdict to the Appellate Court in Warsaw. On 19 March 2009 the Appellate Court in Warsaw discharged the appellation of ENERGA - OPERATOR SA in the subject issue.

On 30 July 2009, ENERGA - OPERATOR S.A. brought appeal against this sentence to the Supreme Court. Following the examination of the appeal during the trial on 25 March 2010, the Supreme Court pronounced the verdict on 26 March that revoked the decision of the Appellate Court, by returning this case to the repeated examination. On 2 September 2010, the hearing was held before the Appellate Court in Warsaw, which was adjourned ex officio. The hearing was adjourned because the court had to study the files of the case that had been held before the Supreme Court upon action brought by ENERGA – OPERATOR SA vs. PKN ORLEN SA due to the appeal brought against the sentence by PKN ORLEN SA. No date of the consecutive hearing before the Appellate Court has been set as of the day of preparing this information.

On 6 April 2009, ENERGA - OPERATOR SA received from PSE Operator SA a call for payment of the system charge amounting to PLN 62,514,169.94 together with the due statutory interest, legal costs amounting to PLN 100,000.00 and the costs of the representation in court amounting to PLN 48,400.00.

Legal costs and costs of the representation amounting to PLN 148,400.00 were paid on 16 April 2009. Following negotiations, an agreement between PSE Operator SA and ENERGA - OPERATOR SA was signed on 5 May 2009 under which a time schedule for the repayment of debt in 10 monthly instalments starting from 15 May 2009 was agreed.

The total amount of the liability of PLN 120,955,323.83 as of 5 May 2009 was determined taking into account decreasing balance of the main liability and the total repayment date of 15 February 2010, assuming that the payable amount could change in the event of amendment of applicable statutory interest. Under the agreement it is also possible to set-off liabilities of PSE Operator SA payable to ENERGA - OPERATOR SA.

On 15 February 2010, ENERGA-OPERATOR SA fulfilled the provisions of the agreement of 5 May 2009, i.e. the liability with interest was repaid in full to PSE Operator SA.

Chief Financial Officer
Aleksandra Gajda - Gryber

…………………
(date and signature)

Head of the Consolidated Accounting Department
Sebastian Cichowski

…………………
(date and signature)

Chairman of the Management Board

Mirosław Bieliński

…………………
(date and signature)

Vice-Chairman of the Management Board
for Financial Issues
Roman Szyszko

…………………
(date and signature)

The above consolidated financial statement is a translation from the original Polish version, which was audited. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.