

**ENERGA SA Capital Group**  
**Consolidated financial statements compliant with IFRS**  
**for the year ended December 31, 2011**  
**together with independent auditor's opinion**

## Capital Group ENERGA SA

Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)

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**Capital Group ENERGA SA**

*Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)*

**CONSOLIDATED INCOME STATEMENT**

	Note	Year ended 31 December 2010	Year ended 31 December 2011
<b>Continuing operations</b>			
<i>Sale of products and goods for resale including excise tax</i>		6 344 824 948,50	7 079 987 709,22
<i>Excise tax</i>		<i>(314 475 631,94)</i>	<i>(317 737 936,50)</i>
Sale of products and goods for resale		<u>6 030 349 316,56</u>	<u>6 762 249 772,72</u>
Sale of services		3 021 018 628,75	3 358 829 507,95
Rental income		62 554 558,09	52 009 932,78
<b>Revenues</b>		<u><b>9 113 922 503,40</b></u>	<u><b>10 173 089 213,45</b></u>
Cost of sales	11.5	7 697 295 507,45	8 612 266 935,82
<b>Profit/ (loss) from sales</b>		<u><b>1 416 626 995,95</b></u>	<u><b>1 560 822 277,63</b></u>
Other operating income	11.1	78 619 230,29	157 628 773,29
Selling costs		109 249 130,02	187 903 647,62
General and administrative expenses		332 408 343,56	416 931 957,44
Other operating expenses	11.2	235 948 541,39	301 482 368,53
Financial Income	11.3	82 486 576,52	207 947 424,45
Financial costs	11.4	103 714 823,89	172 737 177,51
Share of profit of an associate		668 319,37	1 077 365,06
<b>Profit/ (loss) before tax</b>		<u><b>797 080 283,27</b></u>	<u><b>848 420 689,33</b></u>
Income tax	12	171 272 254,46	186 964 697,71
<b>Net profit/ (loss) from continuing operations</b>		<u><b>625 808 028,81</b></u>	<u><b>661 455 991,62</b></u>
<b>Discontinued operations</b>			
Profit/ (loss) for the year from discontinued operations		(378 008,92)	-
<b>Net profit/ (loss) for the year</b>		<u><b>625 430 019,89</b></u>	<u><b>661 455 991,62</b></u>
Attributable to equity holders of the parent		605 804 674,80	623 044 197,93
Attributable to non-controlling interests		19 625 345,09	38 411 793,69

**Capital Group ENERGA SA**

Consolidated Financial Statements for the year ended December 31, 2011  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Year ended 31 December 2010	Year ended 31 December 2011
<b>Net result</b>	<b>625 430 019,89</b>	<b>661 455 991,62</b>
Tax return related to Split Plan	-	92 257 122,00
Foreign exchange gains / (losses) arising on translation	(98,96)	271 023,88
<b>Other net total income</b>	<b>(98,96)</b>	<b>92 528 145,88</b>
<b>Total comprehensive income</b>	<b>625 429 920,93</b>	<b>753 984 137,50</b>
Attributable to equity holders of the parent	605 804 575,84	715 221 766,75
Attributable to non-controlling interests	19 625 345,09	38 762 370,75

acting Director of  
the Consolidated Reporting  
Department  
*Marek Pertkiewicz*

.....  
(date and signature)

Chief Financial Officer  
*Aleksandra Gajda - Gryber*

.....  
(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)

**Capital Group ENERGA SA**

*Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	<b>Note</b>	<b>31 December 2010</b>	<b>31 December 2011</b>
<b>ASSETS</b>			
<b>Non - current assets</b>			
Tangible fixed assets	<b>14</b>	8 451 134 128,39	9 150 663 450,42
Real estate investments	<b>16</b>	19 026 164,08	24 552 344,90
Intangible assets	<b>18</b>	269 388 658,63	312 491 996,36
Goodwill	<b>17</b>	17 246 353,14	17 609 509,58
Shares in associates and joint ventures valued in accordance with the equity method	<b>19</b>	41 580 170,75	2 760 087,08
Other shares		32 475 886,41	1 584 532,21
Deferred tax assets	<b>12.3</b>	108 182 548,38	164 067 880,91
Other non - current assets	<b>23.1</b>	18 271 910,04	32 398 997,55
		<b>8 957 305 819,82</b>	<b>9 706 128 799,01</b>
<b>Current assets</b>			
Inventories	<b>21</b>	312 992 178,03	395 872 391,88
Income tax receivables		62 929 705,20	15 466 911,73
Trade and other financial receivables	<b>36.4.1</b>	1 454 897 912,04	1 521 375 709,26
Other shares		629 436,27	44 816 077,72
Deposits		130 612,56	-
Other financial assets		2 076 116,20	1 839 590,74
Cash and cash equivalents	<b>22</b>	1 683 554 915,77	1 777 274 176,69
Other current assets	<b>23.2</b>	157 610 985,10	210 679 058,28
		<b>3 674 821 861,17</b>	<b>3 967 323 916,30</b>
Non - current assets held for sale		191 586,09	4 510 472,13
<b>TOTAL ASSETS</b>		<b>12 632 319 267,08</b>	<b>13 677 963 187,44</b>

**Capital Group ENERGA SA**

*Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CTD.)**

	Note	31 December 2010	31 December 2011
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	31.1	4 968 805 368,00	4 968 805 368,00
Foreign exchange gains / losses arising on translation		12 443,32	283 467,20
Supplementary capital	31.2	163 625 681,64	362 500 154,89
Retained earnings (loss)	31.3	1 922 610 116,03	2 525 322 190,93
<b>Non-controlling interests</b>		<b>891 902 585,26</b>	<b>59 804 742,75</b>
<b>Total equity</b>		<b>7 946 956 194,25</b>	<b>7 916 715 923,77</b>
<b>Non - current liabilities</b>			
Loans and borrowings	36.4.3, 38.6	1 033 635 983,01	1 904 236 242,55
Non - current provisions	32	558 393 706,12	628 736 666,04
Deferred tax liability	12.3	553 507 069,04	525 581 334,21
Deferred income and non - current government grants	26.1	442 910 451,58	465 938 618,59
Trade and other non - current financial liabilities	38.6	337 675,38	1 642 823,87
Lease liabilities	38.6	1 631 812,30	3 570 618,79
Other non - current liabilities	25.1	126 724,93	3 469 329,31
		<b>2 590 543 422,36</b>	<b>3 533 175 633,36</b>
<b>Current liabilities</b>			
Trade and other financial liabilities	38.6	970 432 595,37	893 550 813,96
Current loans and borrowings	36.4.3, 38.6	42 769 700,85	44 964 972,70
Income tax liability		74 272 835,00	116 706 955,58
Deferred income and government grants	26.1	21 010 189,32	28 118 750,96
Accruals	26.2	85 804 674,74	122 751 349,09
Provisions	32	353 998 343,50	511 319 448,27
Other current liabilities	25.2	546 529 806,25	510 659 339,75
		<b>2 094 818 145,03</b>	<b>2 228 071 630,31</b>
Liabilities directly associated with the assets held for sale		1 505,44	-
<b>Total liabilities</b>		<b>4 685 363 072,83</b>	<b>5 761 247 263,67</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12 632 319 267,08</b>	<b>13 677 963 187,44</b>

acting Director of  
the Consolidated Reporting  
Department  
*Marek Pertkiewicz*

Chief Financial Officer  
  
*Aleksandra Gajda - Gryber*

Chairman  
of the Management Board  
  
*Miroslaw Bieliński*

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

.....  
(date and signature)

.....  
(date and signature)

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(date and signature)

.....  
(date and signature)

**Capital Group ENERGA SA**

*Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)*

**CONSOLIDATED STATEMENT OF EQUITY CHANGES**

	Equity attributable to equity holders of the parent company				Total	Non-controlling interests	Total equity
	Share capital	Foreign exchange gains / (losses) arising on translation	Supplementary capital	Retained earnings/ (losses)			
<b>1 January 2011</b>	<b>4 968 805 368,00</b>	<b>12 443,32</b>	<b>163 625 681,64</b>	<b>1 922 610 116,03</b>	<b>7 055 053 608,99</b>	<b>891 902 585,26</b>	<b>7 946 956 194,25</b>
adjustments due to accounting principles change	-	-	-	-	-	-	-
<b>1 January 2011, after adjustments</b>	<b>4 968 805 368,00</b>	<b>12 443,32</b>	<b>163 625 681,64</b>	<b>1 922 610 116,03</b>	<b>7 055 053 608,99</b>	<b>891 902 585,26</b>	<b>7 946 956 194,25</b>
Income/ (expenses) recognized in equity	-	271 023,88	-	-	271 023,88	-	271 023,88
Profit/ (loss) for the year	-	-	-	623 044 197,93	623 044 197,93	38 411 793,69	661 455 991,62
<b>Total income/ (expenses) for the year</b>	<b>-</b>	<b>271 023,88</b>	<b>-</b>	<b>623 044 197,93</b>	<b>623 315 221,81</b>	<b>38 411 793,69</b>	<b>661 727 015,50</b>
Previous years' profit distribution	-	-	198 874 473,25	(198 874 473,25)	-	-	-
Tax return related to Split Plan	-	-	-	91 906 544,94	91 906 544,94	350 577,06	92 257 122,00
Dividends	-	-	-	(149 064 161,04)	(149 064 161,04)	(40 393 603,02)	(189 457 764,06)
Purchase of subsidiaries' shares	-	-	-	235 699 966,32	235 699 966,32	(830 515 712,94)	(594 815 746,62)
Liquidation of a subsidiary	-	-	-	-	-	49 102,70	49 102,70
<b>31 December 2011</b>	<b>4 968 805 368,00</b>	<b>283 467,20</b>	<b>362 500 154,89</b>	<b>2 525 322 190,93</b>	<b>7 856 911 181,02</b>	<b>59 804 742,75</b>	<b>7 916 715 923,77</b>

**Capital Group ENERGA SA**

*Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)*

**CONSOLIDATED STATEMENT OF EQUITY CHANGES (CTD.)**

	Equity attributable to equity holders of the parent company				Total	Non-controlling interests	Total equity
	Share capital	Foreign exchange gains / (losses) arising on translation	Supplementary capital	Retained earnings/ (losses)			
<b>1 January 2010</b>	<b>4 968 805 368,00</b>	<b>12 542,28</b>	<b>141 957 561,67</b>	<b>1 366 589 091,57</b>	<b>6 477 364 563,52</b>	<b>905 786 648,22</b>	<b>7 383 151 211,74</b>
adjustments due to accounting principles change	-	-	-	35 871 783,46	35 871 783,46	6 330 314,73	<b>42 202 098,19</b>
<b>1 January 2010, after adjustments</b>	<b>4 968 805 368,00</b>	<b>12 542,28</b>	<b>141 957 561,67</b>	<b>1 402 460 875,03</b>	<b>6 513 236 346,98</b>	<b>912 116 962,95</b>	<b>7 425 353 309,93</b>
Income/ (expenses) recognized in equity Profit/ (loss) for the year	-	(98,96)	-	-	(98,96)	-	<b>(98,96)</b>
				605 804 674,80	605 804 674,80	19 625 345,09	<b>625 430 019,89</b>
<b>Total income/ (expenses) for the year</b>	<b>-</b>	<b>(98,96)</b>	<b>-</b>	<b>605 804 674,80</b>	<b>605 804 575,84</b>	<b>19 625 345,09</b>	<b>625 429 920,93</b>
Previous years' profit distribution	-	-	21 668 119,97	(21 668 119,97)	-	-	-
VAT return	-	-	-	10 358 322,00	10 358 322,00	-	<b>10 358 322,00</b>
Dividends	-	-	-	(99 376 107,36)	(99 376 107,36)	(9 196 118,70)	<b>(108 572 226,06)</b>
Changes in composition of Capital Group	-	-	-	25 030 471,53	25 030 471,53	(30 643 604,08)	<b>(5 613 132,55)</b>
<b>31 December 2010</b>	<b>4 968 805 368,00</b>	<b>12 443,32</b>	<b>163 625 681,64</b>	<b>1 922 610 116,03</b>	<b>7 055 053 608,99</b>	<b>891 902 585,26</b>	<b>7 946 956 194,25</b>

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**Capital Group ENERGA SA**

*Consolidated Financial Statements for the year ended December 31, 2011  
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**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year ended 31 December 2010	Year ended 31 December 2011
<b>Cash flows from operating activities</b>		
<b>Net profit (loss)</b>	<b>797 080 283,27</b>	<b>848 420 689,33</b>
<b>Adjustments:</b>	<b>382 153 641,84</b>	<b>633 499 795,57</b>
Share of profits of the associates and joint ventures valued in accordance with the equity method	(668 319,37)	(1 077 365,06)
Foreign currency gains/ (losses)	(98,96)	271 023,88
Amortisation and depreciation	591 418 003,46	656 785 362,99
Net interest and dividends	39 202 325,02	73 651 480,03
(Profit)/ loss on investing activities	64 753 601,17	(2 060 127,92)
(Increase)/ decrease in receivables	(360 003 333,23)	(72 655 506,86)
(Increase)/ decrease in inventories	(26 314 451,99)	(83 792 228,28)
Increase/ (decrease) in payables excluding loans and borrowings	351 354 580,40	(57 438 399,26)
Change in prepayments and accruals	(25 520 958,67)	4 131 675,39
Change in provisions	32 467 926,24	227 664 064,68
Income tax paid	(284 551 390,30)	(204 237 306,02)
Other	15 758,07	92 257 122,00
<b>Net cash flows from operating activities</b>	<b>1 179 233 925,11</b>	<b>1 481 920 484,90</b>
<b>Cash flows from investing activities</b>		
Sale of intangible assets and tangible fixed assets	31 764 845,54	13 004 313,12
Purchase of intangible assets and tangible fixed assets	(1 072 152 756,49)	(1 469 364 198,17)
Sale of other financial assets	36 365 832,45	58 319 295,69
Purchase of another financial assets	(499 368,50)	(256 300,00)
Real estate and intangible assets investments	-	(4 053 385,32)
Acquisition of shares in associates	-	(2 750 363,35)
Acquisition of subsidiary, net cash acquired	(5 503 784,03)	(601 122 184,60)
Dividends received	1 277 764,41	1 631 187,44
Interest received	4 233 617,55	909 835,37
Other	1 200 000,00	-
<b>Net cash flows from investing activities</b>	<b>(1 003 313 849,07)</b>	<b>(2 003 681 799,82)</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(9 033 293,16)	(8 658 608,31)
Proceeds from loans and borrowings	1 048 843 659,35	948 363 723,60
Repayment of loans and borrowings	(259 875 056,27)	(30 432 838,25)
Dividends paid	(114 620 053,58)	(189 440 845,08)
Interest paid	(39 454 662,58)	(99 481 251,17)
Other	(5 307 563,91)	(3 875 900,44)
<b>Net cash flows from financing activities</b>	<b>620 553 029,85</b>	<b>616 474 280,35</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>796 473 105,89</b>	<b>94 712 965,43</b>
<b>Cash as at the start of period</b>	<b>864 355 045,20</b>	<b>1 660 828 151,09</b>
<b>Cash as at the end of period</b>	<b>1 660 828 151,09</b>	<b>1 755 541 116,52</b>

acting Director of  
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(date and signature)

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(date and signature)

## ACCOUNTING PRINCIPLES (POLICY) AND ADDITIONAL EXPLANATORY NOTES

### 1. General information

The Capital Group ENERGA SA (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 31 December 2011 and includes comparative data for the year 2010 ended 31 December 2010.

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 31 December 2011 the State Treasury is the entity having control over the Company.

## Capital Group ENERGA SA

Consolidated Financial Statements for the year ended December 31, 2011  
under IFRS (in zlotys)

## 2. Composition of the Group

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

a) subsidiary entities 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 SA in the share capital [%]	Share of the Capital Group of ENERGA SA in total number of votes [%]
1	ENERGA-OPERATOR SA	Gdańsk	energy distribution	603 301 400,00	99,74	99,74	99,74
2	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	energy production	223 000 000,00	89,38	89,38	89,38
3	ENERGA Kogeneracja Sp. z o.o.	Elbląg	energy production	93 465 000,00	100,00	100,00	100,00
4	ENERGA - OBRÓT SA	Gdańsk	electric energy turnover	139 753 239,00	100,00	100,00	100,00
5	ENERGA Invest SA (previously ENERGA Trading SA i ELNORD SA)	Gdańsk	electric energy turnover / investment projects management	3 250 000,00	100,00	100,00	100,00
6	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	811 000,00	-	100,00	100,00
7	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting and HR and payroll services	4 052 000,00	100,00	100,00	100,00
8	ENERGA Elektrownie Straszyn Sp. z o.o. (previously ENERGA Elektrownie Straszyn Sp. z o.o.) <sup>1)</sup>	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	100,00	100,00	100,00
10	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o.	Straszyn	hotel and training services	31 966 000,00	100,00	100,00	100,00
11	ENERGA Elektrociepłownia Kalisz S.A.	Kalisz	energy production	16 456 000,00	100,00	100,00	100,00
12	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and designing	1 712 000,00	-	99,74	100,00 <sup>10)</sup>
13	ENERGA – OPERATOR Produkcja Sp. z o.o. (previously: Energetyka Kaliska – Liczniki i Instalacje Sp. z o.o.) <sup>2)</sup>	Kalisz	manufacture of power equipment	813 000,00	-	99,74	100,00 <sup>10)</sup>
14	Multiserwis Sp. z o.o.	Kalisz	transport and real property management	914 000,00	-	96,03	96,28 <sup>10)</sup>
15	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and designing	27 980 000,00	-	99,74	100,00 <sup>10)</sup>
16	Zaopatrzenie Energetyki Koszalin Sp. z o.o. <sup>12)</sup>	Koszalin	procurement	1 670 000,00	100,00	100,00	100,00
17	Zakład Transportu Energetyki Sp. z o.o.	Koszalin	rental and service of means of transport	2 178 000,00	-	99,74	100,00 <sup>10)</sup>
18	ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. (previously: „Energo-Konsulting” Sp. z o.o.) <sup>9)</sup>	Koszalin	technical customer service	220 000,00	-	99,74	100,00 <sup>10)</sup>
19	Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o. <sup>3)</sup>	Sierpc	network operation and investment projects	757 500,00	-	99,74	100,00 <sup>10)</sup>
20	ENERGA - OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o. (previously: Zakład Energetyczny Płock - Dystrybucja Wschód Sp. z o.o.) <sup>4)</sup>	Płock	network operation and investment projects	909 500,00	-	99,74	100,00 <sup>10)</sup>
21	Zakład Energetyczny Płock - Operator Sieci Rozdzielczej Sp. z o.o. in liquidation	Płock	energy distribution	701 000,00	-	99,74	100,00 <sup>10)</sup>
22	ENERGA Bio Sp. z o.o.	Gdańsk	investment project management	14 125 000,00	100,00	100,00	100,00

## Capital Group ENERGA SA

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No.	Company name	Registered office	Scope of operations	The company's share capital	Share of ENERGA SA	Share of the Capital Group of ENERGA SA	Share of the Capital Group of ENERGA SA
				[PLN]	in the share capital [%]	in the share capital [%]	in total number of votes [%]
23	ZEP-INFO sp. z o.o. <sup>11)</sup>	Płock	ICT	-	-	-	-
24	ENERGA - Nieruchomości S.A. w likwidacji <sup>9)</sup>	Płock	real property management and appraisal	-	-	-	-
25	Zakład Energetyczny Płock - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and designing	456 500,00	-	99,74	100,00 <sup>10)</sup>
26	ZEP - MOT Sp. z o.o.	Płock	sale and repairs of motor vehicles	5 292 000,00	100,00	100,00	100,00
27	Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o. <sup>12)</sup>	Płock	procurement	738 500,00	100,00	100,00	100,00
28	ENERGA-OPERATOR Projektowanie Sp. z o.o. (previously ZEP-INPRO Sp. z o.o.) <sup>5)</sup>	Płock	contracting and designing	381 500,00	-	99,74	100,00 <sup>10)</sup>
29	Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL” Sp. z o.o.	Raciąż	contracting and designing	244 000,00	-	99,74	100,00 <sup>10)</sup>
30	KONGRES Sp. z o.o.	Łąck	hotel and training services	550 000,00	100,00	100,00	100,00
31	ZEP - AUTO Sp. z o.o.	Płock	sale and repairs of motor vehicles	50 000,00	-	100,00	100,00
32	ENERGETYK Sp. z o.o.	Żychlin	contracting and designing	220 000,00	-	99,74	100,00 <sup>10)</sup>
33	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and designing	300 000,00	-	99,74	100,00 <sup>10)</sup>
34	Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. <sup>12)</sup>	Słupsk	procurement	600 000,00	100,00	100,00	100,00
35	ENERGA Elektrownie Wiatrowe Sp. z o.o. (previously ENERGA Elektrownie Słupsk Sp. z o.o.) <sup>8)</sup>	Słupsk	energy production	29 400 000,00	100,00	100,00	100,00
36	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o.	Słupsk	sale of motor vehicles	2 500 000,00	-	99,74	100,00 <sup>10)</sup>
37	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o.	Toruń	procurement	8 010 000,00	100,00	100,00	100,00
38	Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation <sup>1)</sup>	Włocławek	energy production	425 000,00	70,00	96,47	96,47
39	ENERGA SLOVAKIAS.r.o. (previously ELNORD SLOVAKIA s.r.o.) <sup>7)</sup>	Bratysława	electricity sales	339 833,00EUR	-	100,00	100,00
40	ENERGA OPEC Sp. z o.o.	Ostrołęka	heat energy distribution	13 919 000,00	29,75	92,43	99,88 <sup>10)</sup>
41	Ekologiczne Materiały Grzewcze Sp. z o.o.	Szepietowo	biomass production	6 330 000,00	-	89,38	100,00 <sup>10)</sup>
42	Elektrownia Ostrołęka SA	Ostrołęka	contracting and designing	210 100 000,00	100,00	100,00	100,00
43	ENERGA Innowacje Sp. z o.o.	Gdańsk	organization and management of innovative power project development	2 500 000,00	0,00	100,00	100,00
44	ENERGA Serwis Sp. z o.o.	Ostrołęka	repairs and services	7 086 000,00	28,22	94,57	100,00 <sup>10)</sup>
45	Biogazownia Starogard Sp. z o.o.	Wrocław	energy production	400 000,00	-	90,00	90,00
46	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	ICT	16 208 000,00	100,00	100,00	100,00

## Capital Group ENERGA SA

*Consolidated Financial Statements for the year ended December 31, 2011  
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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 SA in the share capital  [%]	Share of the Capital Group of ENERGA SA in total number of votes  [%]
47	Elektrownia Grudziądz Sp. z o.o. w organizacji	Grudziądz	energy production	12 000 000,00	-	50,00	50,00
48	ENERGA Agregator Sp. z o.o.	Gdańsk	electricity sales	5 000 000,00	-	100,00	100,00
49	ENERGA-OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.	Gdańsk <sup>13)</sup>	network operation and investment projects	50 000,00	-	99,74	100,00 <sup>10)</sup>
50	ENERGA-OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.	Gdańsk <sup>13)</sup>	network operation and investment projects	50 000,00	-	99,74	100,00 <sup>10)</sup>
51	ENERGA-OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.	Gdańsk <sup>13)</sup>	network operation and investment projects	50 000,00	-	99,74	100,00 <sup>10)</sup>
52	ENERGA-OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.	Gdańsk <sup>13)</sup>	network operation and investment projects	50 000,00	-	99,74	100,00 <sup>10)</sup>
53	ENERGA-OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.	Gdańsk	network operation and investment projects	50 000,00	-	99,74	100,00 <sup>10)</sup>
54	AE GIR 1 Sp. z o.o.	Gdańsk	energy production	50 000,00	-	100,00	100,00
55	AE GIR 2 Sp. z o.o.	Gdańsk	energy production	50 000,00	-	100,00	100,00
56	AE GIR 3 Sp. z o.o.	Gdańsk	energy production	50 000,00	-	100,00	100,00
57	AE GIR 4 Sp. z o.o.	Gdańsk	energy production	50 000,00	-	100,00	100,00
58	AE GIR 5 Sp. z o.o.	Gdańsk	energy production	50 000,00	-	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 the surviving company and ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA were acquired. On the same date the change of company name was registered.

2) The change of the company's name was registered on 19 January 2011.

3) On 1 August 2011, the business of Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o. was sold to ENERGA - OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o. (previously: Zakład Energetyczny Płock - Dystrybucja Wschód Sp. z o.o.).

4) The change of the company's name was registered on 16 November 2011.

5) The change of the company's name was registered on 22 March 2011.

6) 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 1 February 2011, the Extraordinary Shareholders' Meeting took a resolution on the dissolution of the company.

7) On 24 January 2011, the Extraordinary Shareholders' Meeting made a resolution on the change of the name of ENERGA Slovakia s.r.o and increase of share capital to the value EUR 339 833.00.

8) The change of the company's name was registered on 31 January 2011.

9) On 6 June 2011, following the liquidation process, ENERGA Nieruchomości SA was deleted from KRS.

10) The Group's share in voting rights is higher than its share in equity due to indirect relations between subsidiaries.

11) On 20 October 2011, the company was acquired by ENERGA Informatyka i Technologie Sp. z o.o.

12) On 23 January 2012, the merger of the following procurement companies was registered: Zaopatrzenie Energetyki Koszalin Sp. z o.o., Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o., where Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o. was a surviving company and the other companies were acquired.

13) On 12 March 2012, motions were submitted to KRS for making the entry that changes the seat of the newly established operational and investment companies to Słupsk, Kalisz, Toruń and Elbląg respectively.

## Capital Group ENERGA SA

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### 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 SA in the share capital [%]	Share of the Capital Group of ENERGA SA 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. <sup>1)</sup>	Ostrów Wlk.	Production of energy subassemblies	5 490 000,00	30,60	30,60	30,60
3	Toruńska Energetyka Cergia S.A.	Toruń	Production and distribution of energy	1 000 000,00	48,50	48,50	48,50
4	SOEN Sp. z o.o.	Grudziądz	Hotel and administration services	513 500,00	0,00	40,90	40,90
5	Bio-Power Sp. z o.o.	Międzyrzecz Podlaski	Energy production	2 139 900,00	0,00	25,00	25,00

1) On 16 February 2012, the shares of the company were sold (see the description in note 41).

### c) changes in the Capital Group composition

#### Mergers of companies

Mergers of companies that belong to the Capital Group have been described in note 30.

#### Formation of companies

On 14 February 2011, ENERGA SA established ENERGA Serwis Sp. z o.o. The aim of the newly formed company is to render service and repair services to the segment of the system power plants and CHP in the ENERGA Group.

On 29 June 2011, ENERGA SA established ENERGA Informatyka i Technologie Sp. z o.o. and became its sole shareholder. On 20 October 2011, ENERGA Informatyka i Technologie Sp. z o.o. (the surviving company) merged with ZEP-INFO Sp. z o.o. The aim of establishing the new company and the consolidation was to form an entity that would be responsible for the execution of the IT Strategy of the ENERGA Group for 2010-2015. Additional information on ENERGA Informatyka i Technologie Sp. z o. o. has been presented in note 41.

On 16 November 2011, ENERGA - OBRÓT SA established ENERGA Agregator Sp. z o.o. The Company will be involved in the development of a new area of the power market, namely the management of energy demand and supply through streamlining energy consumption by end users.

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

On 27-28 December 2011, ENERGA Invest SA established five companies (AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o., AEGIR 3 Sp. z o.o., AEGIR 4 Sp. z o.o. and AEGIR 5 Sp. z o.o.). The aim of the companies will be the construction of off-shore wind farms in the Baltic Sea.

#### Acquisition of a company

On 28 January 2011 a subsidiary ENERGA BIO Sp. z o.o. acquired 90% in the share capital of Esperotia Energy Investments Bobowo Sp. z o.o., which on 1 April 2011 changed its name to BIOGAZOWNIA STAROGARD Sp. z o.o. located in Wrocław.

On 12 August 2011 ENERGA BIO Sp. z o.o. acquired 24,996% in the share capital of Bio-Power Sp. z o.o. located in Międzyrzec Podlaski. Bio-Power Sp. z o.o. is an SPV entity established to lead the project of construction of bio-energy plant with a capacity of 1.2 MW.

#### Liquidation of company

On 6 June 2011, after the liquidation process, ENERGA Nieruchomości SA was deleted from KRS.

#### Sale of shares and stocks

There was no sale of shares/stocks in members of the Group in the current year.

### **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 30 March 2012.

### **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 for the companies Elektrownia Wodna we Włocławku Sp. z o.o. in liquidation, Zakład Energetyczny Płock - Operator Sieci Rozdzielczej Sp. z o.o. in liquidation, Zakład Transportu Energetyki Entrans Słupsk Sp. z o.o. and Multiserwis Sp. z o.o.

Due to the consolidation process of energy production, on 1 January 2011 the sale agreement was executed concerning the sale of the business of Elektrownia Wodna we Włocławku Sp. z o.o. to ENERGA Hydro Sp. z o.o. On 1 February 2011, the Extraordinary Shareholders' Meeting of Elektrownia Wodna we Włocławku Sp. z o.o. decided to dissolve the company and open the liquidation proceedings.

Due to the restructuring actions on the level of companies that support the business of the Distribution System Operator (DSO), the business of Zakład Energetyczny Płock – Operator

Sieci Rozdzielczej Sp. z o.o. with regard to the call center was transferred to ENERGA Obsługa i Sprzedaż Sp. z o.o., while the support business of DSO was transferred to ENERGA – OPERATOR SA. The Extraordinary Shareholders' Meeting of Zakład Energetyczny Płock – Operator Sieci Rozdzielczej Sp. z o.o. took a decision to dissolve the company and to open the liquidation proceedings.

Moreover in January 2011 the activities aimed at finishing the operations by Zakład Transportu Energetyki Entrans Słupsk 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 24.2.

## **5.1. Declaration on compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the European Union ("EU") 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 ("IFRS EU") 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 31 December 2011. 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 SA 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 EU. 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 EU.



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

## 5.2. Functional and presentation currency

The functional currency of the parent company and other companies included in this consolidated financial report and the presentation currency of this consolidated financial report is Polish zloty (PLN). In case of ENERGA SLOVAKIA s.r.o. , the presentation currency of the individual report is euro. For the purposes of this report, the reporting data of ENERGA 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 tangible fixed assets' value***

The Group carried out tests for impairment of tangible fixed assets' value. This required the assessment of the value in use of the cash generation unit, which includes these 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. Description of the impairment test performed is presented in note 14.

### ***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 interpretations**

### **8.1. Standards and interpretations applied in 2011 for the first time**

The following changes regarding existing standards published by the International Accounting Standards Board and approved by EU became effective in 2011:

- **Amendments to IAS 24 “Related Party Disclosures”** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),

- **Amendments to IAS 32 “Financial Instruments: Presentation”** – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to various standards and interpretations “Improvements to IFRSs (2010)”** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- **Amendments to IFRIC 14 “IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction”** - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”**, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The above-mentioned interpretations and amendments to the standards had no major impact on the applied accounting policy of the Group.

## 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 IFRS 7 “Financial Instruments: Disclosures”**- Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

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 amendment would 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 annual periods beginning on or after 1 January 2015),
- **IFRS 10 “Consolidated Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 “Joint Arrangements”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 “Disclosures of Involvement with Other Entities”** (effective for annual periods beginning on or after 1 January 2013),

- **IFRS 13 “Fair Value Measurement”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) “Separate Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”** – Mandatory Effective Date and Transition Disclosures,
- **Amendments to IAS 1 “Presentation of financial statements”** -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 “Financial Instruments: Presentation”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”** (effective for annual periods beginning on or after 1 January 2013).

According to the Management Board, the introduction of the above-mentioned standards and interpretations would not have any substantial impact on the accounting rules (policy) applied by the Group, except for the following:

- application of the first phase of IFRS 9, will affect the classification and assessment of the Group’s financial assets. The Group will assess this impact in combination with other phases, when published, to present a coherent vision;
- amendments to IAS 19 regarding recognition of actuarial gains and losses in other comprehensive income. According to accounting principles applied by the Group actuarial gains and losses are currently recognized in income statement. Amendments introduced in IAS 19 require recognition of actuarial gains and losses in other comprehensive income. In case of any substantial changes in assumptions made by the actuary in the future, the amendment might have a material influence on the net results of the Group.

## 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 SA and financial data of its subsidiaries, prepared in case of each company for the year ended 31 December 2011. 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.

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 accounted for using the 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),

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- 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.

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 fair 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 2010	31 December 2011
EURO	3,9603	4,4168

The functional currency of foreign subsidiary ENERGA 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	2010	2011
EURO	4,0044	4,1401

### 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:

<b>Group of assets</b>	<b>Depreciation period in years</b>
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 it 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 from 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.



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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.

Elements of intangible assets are subject to depreciation during the period corresponding to their estimated economic useful life. 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:

	<b>Patents and licenses</b>	<b>Costs of development works</b>	<b>Computer software</b>	<b>Perpetual usufruct right to land</b>	<b>Other</b>
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.

## 9.9. Financial assets

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 are identified in the income statement when the right of an entity to receive the payment is determined.

## 9.10. 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.

### 9.11. 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)

### 9.12. 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.

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 revision of operating income.

## **9.13. Cash, cash equivalents and short-term investments**

Short-term investments include:

- a) securities and other financial assets,
- b) 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,
- shares and stocks planned for sale in a consecutive financial year, except for assets that fulfil the definition of non – current assets held for sale.

Cash and other cash assets include:

- cash in hand and in bank,
- other cash assets, including bank deposits with maturity not exceeding 3 months and participation certificates in the investment fund ENERGA Trading SFIO.

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

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

As at the end of the reporting period (month), The Group measures the value of the portfolio as a product of the number of units held in an investment fund ENERGA Trading SFIO and the valuation of single units. The valuation is carried out by the fund management company, in accordance with the Act on Investment Funds of 27 May 2004. Due to the liquidity nature of the fund (the fund of Polish monetary instruments), units are presented as other monetary assets. The fund was established to manage the financial surpluses of the companies from the ENERGA Group and it constitutes an alternative for bank deposits, also overnight deposits. The fund is characterized by a high degree of liquidity and low risk. Mechanisms built into the settlement system allows conversion of fund's units into cash within one working day (applies to orders placed in the morning) or on the following day (applies to orders placed in the afternoon). Moreover, the companies in the ENERGA Group may settle mutual receivables and liabilities using the fund's units. ENERGA Trading SFIO invests 100% of its

assets in monetary financial instruments, Treasury bonds, corporate and mortgage bonds, deposit certificates and other domestic debt instruments of high liquidity and high security level determined through an investment-level rating granted externally or internally by the management company. The selection of debt instruments is made on the basis of current market situation, macroeconomic forecasts and the issuer's credit rating performed by the fund management company. 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.

#### **9.14. 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 ZFSS (*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.

#### **9.15. 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.

#### **9.16. Provisions**

The Group sets up provisions when a (legal or customary) obligation arising from past events is incumbent upon the Group and when the fulfilment 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 Labour 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 Labour 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 labour 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 most probable 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.

## **9.17. 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.

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.

## 9.18. 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.

## 9.19. CO2 emission rights

The purchased CO2 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 CO2 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.

## **9.20. 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 instalments 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.

## **9.21. 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.

## **9.22. 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.

## 9.23. 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.

## 9.24. 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.

## 9.25. 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.

## 9.26. Net earnings per share

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

While diluted earnings per share is calculated by dividing net earnings for the period attributable to ordinary shareholders (after deducting interest on redeemable preferred shares convertible into ordinary shares) by the weighted average number of ordinary shares outstanding during the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible into ordinary shares).

## 9.27. Cash flow statement

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

## 10. Information on business activity segments

The 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 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, energy trade and customer service, energy production (including in hydro power plants) and other.

Data presented for individual segments take account of the exclusions of mutual transactions among the companies of the Group operating within a single segment. The elimination of mutual transactions among the companies of the Group operating in different segments is presented as consolidation exclusions and revisions.

The electricity distribution segment comprises operations being distribution of electricity by ENERGA - OPERATOR SA (DSO), as well as the business of other companies related directly to the distribution activity.

The trade and customer services segment comprises operations associated with electricity trading and customer service carried on by ENERGA - OBRÓT SA and ENERGA Obsługa i Sprzedaż Sp. z o.o.

The production segment comprises production carried out in conventional power plants, hydro plants, and combined heat and power plants.

Other operations include predominantly street lighting, heat distribution, network contracting, procurement, training centers, transport activity and ITC services. The parent company was also qualified to other operations.

The above segment split was introduced in 2011 and this financial statement is the first one to present the data for the segments defined in such a manner.



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In the consolidated financial statement for 2010 the following business activity segments were presented: electricity and heat distribution and services supporting the Distribution System Operator, system power plants and combined heat and power plants, hydro plants, energy trade, customer service, lighting and other.

The assets, liabilities, incomes and costs presented for specific segments did not take account of the exclusion of mutual transactions among the companies of the Group operating within a single segment. All exclusions of mutual transactions among the companies of the Group were presented as consolidation exclusions and revisions.

Other information concerning the segments took account of all excluded mutual transactions among the companies of the Group.

The distribution segment comprised operations being distribution of electricity by ENERGA OPERATOR SA, a Distribution System Operator, companies that support the Operator, and heat energy distribution by ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.

The trade segment comprised the business related to the sale of electricity, mostly by ENERGA – OBRÓT SA.

The customer service segment comprised the operations related to customer service by ENERGA Obsługa i Sprzedaż Sp. z o.o.

The production segment comprised production carried out in conventional power plants, hydro plants, and combined heat and power plants. The production segment consisted of two sub-segments of system power plants and combined heat and power plants (1) and hydro plants (2).

The sub-segment of system power plants and combined heat and power plants comprised the production business of conventional power plants and combined heat and power plants. The sub-segment of hydro plants involved the production by hydro plants.

The lighting segment comprised the business within lighting of streets, roads and other public areas, distribution and sale of electricity for lighting purposes as well as the construction, maintenance and operation of lighting equipment.

Other operations included predominantly training centers and ITC services as well as a 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.

The tables below show the breakdown of the revenues and costs attributed to individual segments for the period from 1 January to 31 December 2011 and assets and liabilities as of 31 December 2011, together with comparative data, adjusted to the new allocation to segments:

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Year ended 31 December 2011	Distribution of electricity	Trading and customer services	Production		Other	Total	Eliminations and consolidation adjustments	Total activity
			Total	Hydro power plants				
<b>Revenues</b>								
Sale to external customers	615 661 679,50	8 626 741 077,78	645 895 752,43	22 518 924,39	284 790 703,74	10 173 089 213,45	-	10 173 089 213,45
Sale to other segments	2 684 138 519,30	738 494 620,42	1 142 560 085,24	434 092 050,39	531 891 597,01	5 097 084 821,97	(5 097 084 821,97)	-
<b>Total revenues</b>	<b>3 299 800 198,80</b>	<b>9 365 235 698,20</b>	<b>1 788 455 837,67</b>	<b>456 610 974,78</b>	<b>816 682 300,75</b>	<b>15 270 174 035,42</b>	<b>(5 097 084 821,97)</b>	<b>10 173 089 213,45</b>
Net profit/ (loss) before income tax and financial income/ expense	336 891 889,36	141 181 706,62	395 222 528,74	342 502 968,65	(55 537 655,48)	817 758 469,24	(5 625 391,91)	812 133 077,33
Net financial income/ (expense)	(33 805 477,46)	26 196 377,26	19 104 652,70	9 467 937,19	798 023 785,58	809 519 338,08	(774 309 091,14)	35 210 246,94
Share of profit of an associate	-	-	-	-	-	-	1 077 365,06	1 077 365,06
<b>Profit/ (loss) before tax</b>	<b>303 086 411,90</b>	<b>167 378 083,88</b>	<b>414 327 181,44</b>	<b>351 970 905,84</b>	<b>742 486 130,10</b>	<b>1 627 277 807,32</b>	<b>(778 857 117,99)</b>	<b>848 420 689,33</b>
Income tax	65 940 252,34	35 837 182,75	74 917 747,45	61 447 695,12	8 139 191,13	184 834 373,67	2 130 324,04	186 964 697,71
Profit/ (loss) for the year from discontinued operations	-	-	-	-	-	-	-	-
<b>Net profit/ (loss) for the year</b>	<b>237 146 159,56</b>	<b>131 540 901,13</b>	<b>339 409 433,99</b>	<b>290 523 210,72</b>	<b>734 346 938,97</b>	<b>1 442 443 433,65</b>	<b>(780 987 442,03)</b>	<b>661 455 991,62</b>
<b>Assets and liabilities</b>								
Segment assets	9 825 110 945,78	1 996 420 123,85	2 190 005 367,55	784 487 934,35	7 764 207 618,93	21 775 744 056,11	(8 141 313 987,91)	13 634 430 068,20
Share in an associate	-	-	-	-	43 533 119,24	43 533 119,24	-	43 533 119,24
<b>Total assets</b>	<b>9 825 110 945,78</b>	<b>1 996 420 123,85</b>	<b>2 190 005 367,55</b>	<b>784 487 934,35</b>	<b>7 807 740 738,17</b>	<b>21 819 277 175,35</b>	<b>(8 141 313 987,91)</b>	<b>13 677 963 187,44</b>
<b>Total liabilities</b>	<b>4 146 801 000,69</b>	<b>1 436 810 241,58</b>	<b>649 846 474,89</b>	<b>161 238 448,93</b>	<b>2 365 946 290,32</b>	<b>8 599 404 007,48</b>	<b>(2 838 156 743,81)</b>	<b>5 761 247 263,67</b>

  

Year ended 31 December 2010	Distribution of electricity	Trading and customer services	Production		Other	Total	Eliminations and consolidation adjustments	Total activity
			Total	Hydro power plants				
<b>Revenues</b>								
Sale to external customers	488 320 655,73	7 621 499 222,42	749 595 406,95	51 352 666,95	254 507 218,30	9 113 922 503,40	-	9 113 922 503,40
Sale to other segments	3 076 440 983,74	668 464 517,02	822 403 893,46	536 862 671,45	470 078 088,47	5 037 387 482,69	(5 037 387 482,69)	-
<b>Total revenues</b>	<b>3 564 761 639,47</b>	<b>8 289 963 739,44</b>	<b>1 571 999 300,41</b>	<b>588 215 338,40</b>	<b>724 585 306,77</b>	<b>14 151 309 986,09</b>	<b>(5 037 387 482,69)</b>	<b>9 113 922 503,40</b>
Net profit/ (loss) before income tax and financial income/ expense	160 142 203,51	210 572 256,28	490 757 312,57	449 107 535,37	(12 702 180,45)	848 769 591,91	(31 129 380,64)	817 640 211,27
Net financial income/ (expense)	(77 045 593,80)	30 542 159,30	13 510 225,78	13 422 143,60	387 683 798,29	354 690 589,57	(375 918 836,94)	(21 228 247,37)
Share of profit of an associate	-	-	-	-	-	-	668 319,37	668 319,37
<b>Profit/ (loss) before tax</b>	<b>83 096 609,71</b>	<b>241 114 415,58</b>	<b>504 267 538,35</b>	<b>462 529 678,97</b>	<b>374 981 617,84</b>	<b>1 203 460 181,48</b>	<b>(406 379 898,21)</b>	<b>797 080 283,27</b>
Income tax	20 341 659,20	51 791 723,56	101 317 216,53	88 269 043,30	(2 960 878,08)	170 489 721,21	782 533,25	171 272 254,46
Profit/ (loss) for the year from discontinued operations	-	-	-	-	(378 008,92)	(378 008,92)	-	(378 008,92)
<b>Net profit/ (loss) for the year</b>	<b>62 754 950,51</b>	<b>189 322 692,02</b>	<b>402 950 321,82</b>	<b>374 260 635,67</b>	<b>377 564 487,00</b>	<b>1 032 592 451,35</b>	<b>(407 162 431,46)</b>	<b>625 430 019,89</b>
<b>Assets and liabilities</b>								
Segment assets	8 884 077 342,07	1 872 338 230,01	2 061 545 369,37	903 363 048,75	7 321 232 653,13	20 139 193 594,58	(7 548 454 498,25)	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
<b>Total assets</b>	<b>8 884 077 342,07</b>	<b>1 872 338 230,01</b>	<b>2 061 545 369,37</b>	<b>903 363 048,75</b>	<b>7 369 201 311,08</b>	<b>20 187 162 252,53</b>	<b>(7 554 842 985,45)</b>	<b>12 632 319 267,08</b>
<b>Total liabilities</b>	<b>3 481 472 299,81</b>	<b>1 442 677 898,97</b>	<b>595 296 573,09</b>	<b>187 782 675,31</b>	<b>1 464 354 603,90</b>	<b>6 983 801 375,77</b>	<b>(2 298 438 302,94)</b>	<b>4 685 363 072,83</b>

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Year ended 31 December 2011	Distribution of electricity	Trading and customer services	Production		Other	Total	Eliminations and consolidation adjustments	Total activity
			Total	Hydro power plants				
<b>Other data concerning segment:</b>								
<b>Investment expenditure:</b>								
- for fixed assets	1 114 031 886,77	8 572 889,08	195 518 926,63	49 522 658,42	52 625 561,52	1 370 749 264,00	(32 045 484,02)	1 338 703 779,98
- for intangible assets	104 660 411,44	8 510 483,52	956 673,61	303 491,34	29 716 369,01	143 843 937,58	(47 918 512,87)	95 925 424,71
- for real estate investments	-	-	3 941 072,57	-	5 160 227,48	9 101 300,05	(5 047 914,73)	4 053 385,32
Depreciation of fixed assets	501 536 058,97	5 974 959,50	90 471 650,41	33 767 095,22	26 084 814,58	624 067 483,46	(13 128 182,11)	610 939 301,35
Amortisation of intangibles	35 025 168,36	8 288 399,14	1 102 691,38	297 878,96	4 176 661,27	48 592 920,15	(3 222 141,09)	45 370 779,06
Depreciation of real estate investments	26 198,32	-	13 181,88	-	865 873,30	905 253,50	(429 970,92)	475 282,58
Impairment write - downs for fixed assets	235 451,25	(157 665,41)	738 177,58	66 356,00	80 569,04	896 532,46	-	896 532,46
Other write - downs	5 281 147,56	40 347 484,50	898 819,03	-	14 591 570,72	61 119 021,81	-	61 119 021,81
<b>Other non - monetary expenses:</b>								
- provision for post - employment benefits	81 344 115,45	(2 653 380,94)	3 604 422,97	126 726,26	2 617 522,21	84 912 679,69	-	84 912 679,69
- jubilee bonuses	26 915 769,28	(2 739 187,64)	2 880 616,00	(98 317,00)	4 086 057,74	31 143 255,38	-	31 143 255,38
- other provisions	56 382 599,41	838 486 871,07	44 281 400,18	(599 356,16)	7 768 136,84	946 919 007,50	(129 151 846,84)	817 767 160,66

Year ended 31 December 2010	Distribution of electricity	Trading and customer services	Production		Other	Total	Eliminations and consolidation adjustments	Total activity
			Total	Hydro power plants				
<b>Other data concerning segment:</b>								
<b>Investment expenditure:</b>								
- for fixed assets	834 483 466,44	6 214 410,31	270 551 273,83	56 790 812,50	34 777 243,55	1 146 026 394,13	(78 553 402,83)	1 067 472 991,30
- for intangible assets	64 654 418,15	5 975 961,93	6 821 105,29	1 144 584,05	14 912 204,27	92 363 689,64	(4 317 518,15)	88 046 171,49
- for real estate investments	-	-	-	-	-	-	-	-
Depreciation of fixed assets	475 917 545,38	7 145 357,88	95 870 260,31	36 470 789,77	20 042 187,82	598 975 351,39	(34 005 410,53)	564 969 940,86
Amortisation of intangibles	16 344 161,54	10 465 011,47	768 672,55	297 751,40	14 525 042,63	42 102 888,19	(16 212 930,90)	25 889 957,29
Depreciation of real estate investments	191 329,34	-	-	-	366 775,97	558 105,31	-	558 105,31
Impairment write - downs for fixed assets	730 276,20	(419 114,69)	55 330 204,75	7 683 098,81	(24 429,62)	55 616 936,64	48 692,82	55 665 629,46
Other write - downs	2 564 283,72	39 483 535,80	1 121 712,35	-	(1 479 295,92)	41 690 235,95	(24 793,07)	41 665 442,88
<b>Other non - monetary expenses:</b>								
- provision for post - employment benefits	2 975 620,54	2 796 822,42	13 089 739,00	3 104 222,00	10 484 805,12	29 346 987,08	-	29 346 987,08
- jubilee bonuses	4 174 148,56	1 069 873,81	1 321 155,00	1 442 602,00	1 959 036,81	8 524 214,18	-	8 524 214,18
- other provisions	64 066 739,60	277 857 269,06	42 595 317,63	2 340 381,67	7 238 818,35	391 758 144,64	(117 890 784,03)	273 867 360,61

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### 11. Revenues and costs

#### 11.1. Other operating revenues

Item	Year ended	Year ended
	31 December 2010	31 December 2011
Gains on disposals of tangible fixed assets and intangible fixed assets	9 458 310,26	3 162 559,27
Grants	3 726 163,48	5 534 647,38
Reversal of other write - downs for other assets	3 991 491,33	1 622 549,81
Revesal of provisions (e.g. court proceedings)	18 060 779,05	48 100 828,79
Compensations, penalties and fines received	18 914 039,22	15 763 845,43
Reimbursement of taxes	510 848,33	516 016,85
Reimbursement of court expenses	3 123 517,00	4 222 921,40
Redeemed liabilities	309 714,93	352 802,93
Income related to illegal energy consumption	7 892 544,19	3 879 784,63
Income from sale of CO2 emission rights	5 973 051,00	-
Dispute with PSE Operator SA	-	62 741 170,64
Other	6 658 771,50	11 731 646,16
<b>Total other operating income</b>	<b>78 619 230,29</b>	<b>157 628 773,29</b>

#### 11.2. Other operating costs

Item	Year ended	Year ended
	31 December 2010	31 December 2011
Loss on disposals of tangible fixed assets and intangible fixed assets	18 465 461,40	26 903 621,48
Donations	7 057 860,98	4 534 015,38
Other write - downs for other assets	233 872,46	4 412 815,34
Provisions set up (including restructuring reserve)	107 884 819,13	155 970 370,50
Compensations	12 579 611,90	25 359 217,42
Court expenses	3 991 450,64	4 483 774,07
Social expenses	858 989,07	770 422,92
Costs of removing random damages	13 870 978,62	23 250 743,89
Costs related to illegal energy consumption	2 673 892,67	1 092 624,53
Redundancy payments	63 315 212,75	35 279 290,21
Other	5 016 391,77	19 425 472,79
<b>Total other operating expenses</b>	<b>235 948 541,39</b>	<b>301 482 368,53</b>

Provisions set up costs for the year ended 31 December 2011 include, in particular, restructuring reserve in the amount of PLN 94.2 million and the reserve for claims due to power infrastructure located on a private land in the amount of PLN 56.8 million.

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### 11.3. Financial revenues

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Income from financial instruments:</b>	<b>81 771 935,16</b>	<b>199 840 148,27</b>
Interest	73 230 486,93	160 388 362,61
Dividends	362 464,72	828 587,44
Valuation of financial assets (including reversal of write - downs for financial assets)	7 933 332,59	1 740 460,66
Foreign exchange rate differences	245 650,92	1 200 518,90
Gains on disposal of financial instruments	-	35 682 218,66
<b>Other financial income:</b>	<b>714 641,36</b>	<b>8 107 276,18</b>
Interest on tax receivables	36 852,40	697 795,00
Other	677 788,96	7 409 481,18
<b>Total</b>	<b>82 486 576,52</b>	<b>207 947 424,45</b>

### 11.4. Financial costs

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Financial instruments' costs:</b>	<b>41 714 297,99</b>	<b>111 160 276,34</b>
Interest expenses	41 153 415,49	102 473 137,25
Valuation of financial assets (including write - downs set up)	14 764,56	4 314 898,49
Foreign exchange rate differences	546 117,94	88 830,78
Loss on disposal of financial instruments	-	4 283 409,82
<b>Other financial costs:</b>	<b>62 000 525,90</b>	<b>61 576 901,17</b>
Interest expenses	53 683 796,61	53 313 329,36
Interest on tax liabilities	1 433 321,35	454 528,91
Other	6 883 407,94	7 809 042,90
<b>Total</b>	<b>103 714 823,89</b>	<b>172 737 177,51</b>

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## 11.5. Costs of operations by nature

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Expenses by nature</b>		
Amortisation and depreciation	591 418 003,46	656 785 362,99
Write - downs for fixed assets and intangibles	56 709 801,12	896 532,46
Raw materials and energy used	588 225 142,42	582 432 093,41
External services	1 143 654 178,11	968 885 716,90
Taxes and fees	244 269 777,28	285 474 452,42
Social security and other employees' benefits	1 049 809 689,55	1 147 892 626,05
Write - downs for inventories	541 926,55	6 998 379,57
Write - downs for trade receivables	27 844 175,38	36 088 007,33
Other	81 005 529,71	74 089 237,60
<b>Total expenses by nature</b>	<b>3 783 478 223,58</b>	<b>3 759 542 408,73</b>
Change in inventories, prepayments and accruals	(54 306 632,39)	(20 541 545,71)
Cost of manufacture of products for own needs (negative value)	(117 334 351,49)	(244 255 723,25)
Selling costs (negative value)	(109 249 130,02)	(187 903 647,62)
General and administrative expenses (negative value)	(332 408 343,56)	(416 931 957,44)
Value of sold raw materials and goods for resale	4 527 115 741,33	5 722 357 401,11
<b>Cost of sales</b>	<b>7 697 295 507,45</b>	<b>8 612 266 935,82</b>

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

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Included in cost of sales:</b>	<b>624 879 190,92</b>	<b>641 742 223,45</b>
Fixed assets' depreciation	553 808 884,47	601 696 499,14
Write - downs for fixed assets	56 504 453,42	638 799,08
Intangibles' amortisation	14 007 747,72	38 755 982,14
Write - downs for intangible assets	-	188 842,39
Depreciation of real estate investments	558 105,31	462 100,70
<b>Included in selling costs:</b>	<b>2 250 508,51</b>	<b>2 768 188,89</b>
Fixed assets' depreciation	1 365 328,83	1 862 607,73
Write - downs for fixed assets	-	68 890,99
Intangibles' amortisation	885 179,68	836 690,17
<b>Included in general and administrative expenses:</b>	<b>20 138 720,64</b>	<b>13 171 483,11</b>
Fixed assets' depreciation	9 106 473,42	7 380 194,48
Write - downs for fixed assets	85 347,70	-
Intangibles' amortisation	10 826 899,52	5 778 106,75
Write - downs for intangible assets	120 000,00	-
Depreciation of real estate investments	-	13 181,88
<b>Included in change in products' balance</b>	<b>-</b>	<b>-</b>
<b>Included in costs of manufacture of goods for own needs</b>	<b>1 762 853,74</b>	<b>-</b>

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### 11.7. Costs of employee benefits

Item	Year ended 31 December 2010	Year ended 31 December 2011
Salaries	764 075 083,18	794 356 603,08
Social security costs	134 392 102,97	127 852 768,16
Post - employment benefits and jubilee bonuses	3 997 200,26	81 099 124,01
Other employee benefits expenses:	147 345 303,14	144 584 130,80
<i>Employee power tariff - current costs</i>	21 059 562,60	22 260 536,33
<i>Charges to Social Fund for the current year</i>	45 116 089,00	45 324 652,56
<i>Employee Retirement Programme</i>	35 136 187,25	42 332 073,27
<i>Additional insurance for employees</i>	1 432 342,06	2 242 260,82
<i>Employee training</i>	9 326 175,89	11 205 134,92
<i>Expenses related to health and safety</i>	8 831 813,06	10 233 336,18
<i>Other</i>	26 443 133,28	10 986 136,72
<b>Employee benefits expenses</b>	<b>1 049 809 689,55</b>	<b>1 147 892 626,05</b>

### 12. Income tax

#### 12.1. Tax burden

Major tax items for the year ended on 31 December 2011 are as follows:

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Profit and loss statement</b>		
Current income tax charge	216 242 538,04	257 965 303,25
Previous years' adjustments	1 990 299,68	9 694 423,87
Flat-rate income tax on dividends received	-	146 015,00
Deferred tax	(46 960 583,26)	(80 841 044,41)
<b>Tax charge recognized in profit and loss statement</b>	<b>171 272 254,46</b>	<b>186 964 697,71</b>

#### 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 is shown below:

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Gross profit/ (loss) from continuing operations</b>	<b>797 080 283,27</b>	<b>848 420 689,33</b>
Gross profit/ (loss) from discontinued operations	(378 008,92)	-
<b>Profit/ (loss) before tax</b>	<b>796 702 274,35</b>	<b>848 420 689,33</b>
<b>Tax at Polish statutory rate of 19%</b>	<b>151 373 432,13</b>	<b>161 199 930,97</b>
Previous years' adjustments	1 990 299,68	9 694 423,87
Tax effect on non-deductible items	17 908 522,65	16 070 342,87
<b>Tax at effective tax rate</b>	<b>171 272 254,46</b>	<b>186 964 697,71</b>
Tax charge recognized in profit and loss statement	171 272 254,46	186 964 697,71
Tax attributable to discontinued operations	-	-

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

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a specific financial year. Tax rate of 19% was applicable in the years 2010 -2011. Current regulations do not provide for tax rate differentiation for future periods.

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:

Item	Year ended	
	31 December 2010	31 December 2011
<b>Deferred tax assets related to:</b>	<b>356 866 212,55</b>	<b>435 613 664,28</b>
difference between carrying value and tax base of fixed assets and intangibles	58 873 431,31	76 497 246,11
difference between carrying value and tax base of inventories	2 152 477,93	3 278 062,51
power infrastructure granted free of charge and connection charges	77 339 951,87	98 744 513,12
post - employment benefits provisions	71 576 790,85	83 477 236,52
jubilee bonuses provision	38 201 517,73	40 848 648,24
provisions for reclamation of ash storage yard	2 498 287,58	903 328,40
provisions for emission rights	1 385 309,88	5 892 757,45
provisions for certificates of origin	25 328 142,46	51 043 005,27
provisions for restructuring	8 358 621,69	12 187 105,15
unpaid salaries and employees' benefits	4 389 356,75	5 664 054,60
other provisions	38 932 602,89	22 258 580,68
accrued expenses	11 167 170,42	23 322 756,33
tax loss	4 758 972,05	4 472 734,64
other	11 903 579,14	7 023 635,26
<b>Write - down</b>	<b>(2 970 022,95)</b>	<b>(352 817,00)</b>
<b>Offsetting</b>	<b>(245 713 641,22)</b>	<b>(271 192 966,37)</b>
<b>Deferred tax assets including write - downs, net</b>	<b>108 182 548,38</b>	<b>164 067 880,91</b>

Item	Year ended	
	31 December 2010	31 December 2011
<b>Deferred tax liabilities</b>	<b>799 220 710,26</b>	<b>796 774 300,58</b>
difference between carrying value and tax base of fixed assets and intangibles	738 648 340,82	727 161 246,91
accrued income	30 106 543,54	34 201 087,62
difference between carrying value and tax base of certificates of origin	13 901 411,23	17 992 895,30
other	16 564 414,67	17 419 070,75
<b>Offsetting</b>	<b>(245 713 641,22)</b>	<b>(271 192 966,37)</b>
<b>Deferred tax liabilities, net</b>	<b>553 507 069,04</b>	<b>525 581 334,21</b>



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

Item	Year ended 31 December 2011
<b>Deferred tax assets gross</b>	
<b>Opening balance</b>	<b>356 866 212,55</b>
<i>Increase:</i>	
Charged to profit and loss	129 443 543,39
Charged to equity	-
<i>Decrease:</i>	
Charged to profit and loss	(50 696 091,66)
Charged to equity	-
<b>Closing balance</b>	<b>435 613 664,28</b>
<b>Write - downs</b>	-
<b>Opening balance</b>	<b>(2 970 022,95)</b>
Increase	(352 817,00)
Decrease	2 970 022,95
<b>Closing balance</b>	<b>(352 817,00)</b>
<b>Offsetting</b>	<b>(271 192 966,37)</b>
<b>Deferred tax assets including write - downs as at the end of period</b>	<b>164 067 880,91</b>
<b>Deferred tax liabilities</b>	
<b>Opening balance</b>	<b>799 220 710,26</b>
<b>Adjustments of the errors</b>	-
<b>Opening balance after adjustments</b>	<b>799 220 710,26</b>
<i>Increase:</i>	
Charged to profit and loss	250 510 314,30
Charged to equity	-
<i>Decrease:</i>	
Charged to profit and loss	(252 956 723,98)
Charged to equity	-
<b>Closing balance</b>	<b>796 774 300,58</b>
<b>Offsetting</b>	<b>(271 192 966,37)</b>
<b>Deferred tax liabilities as at the end of period</b>	<b>525 581 334,21</b>

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

Pursuant to the Act dated the 4 March 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 SA 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 2011 is PLN 440 thousand net balance and was presented as other short-term liabilities, and as of 31 December 2010 it amounted to PLN 28 thousand and was presented as other short-term assets.

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

Item	31 December 2010	31 December 2011
Loans to employees	26 664 434,08	22 562 055,58
Cash	5 753 361,13	6 797 962,31
Fund liabilities	32 389 808,57	29 800 091,86
<b>Net balance</b>	<b>27 986,64</b>	<b>(440 073,97)</b>
Charges to Social Fund	45 116 089,00	45 324 652,56

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## 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
<b>Gross value</b>							
<b>Opening balance</b>	<b>70 038 338,04</b>	<b>7 737 203 457,72</b>	<b>2 400 547 041,49</b>	<b>172 491 478,23</b>	<b>314 048 999,90</b>	<b>374 722 907,92</b>	<b>11 069 052 223,30</b>
Direct purchase *	17 860 988,26	5 989 270,71	11 316 569,66	17 413 941,73	1 889 519,95	1 268 563 634,93	1 323 033 925,24
Transfer from fixed assets under construction	2 296 992,84	607 854 705,22	295 088 482,38	29 067 570,33	50 026 772,58	(984 334 523,35)	-
Sale	(250 215,78)	(13 287 091,28)	(8 093 969,18)	(8 697 249,91)	(3 896 531,15)	(596 156,04)	(34 821 213,34)
Disposal	-	(4 619 552,59)	(22 896 135,83)	(2 012 639,65)	(11 653 509,89)	(529 981,26)	(41 711 819,22)
Donations	-	-	-	(43 200,00)	-	-	(43 200,00)
Transfer between groups	-	285 250,52	266 931,68	-	(2 683 068,27)	2 130 886,07	-
Received free of charge	-	5 013 486,42	245 632,21	-	-	-	5 259 118,63
Transfer to investments	(132 061,94)	(1 792 613,06)	-	-	-	(47 480,00)	(1 972 155,00)
Capitalised borrowing costs	-	-	-	-	-	15 669 854,74	15 669 854,74
Other	63 888,11	(9 538 283,17)	(1 854 395,23)	(138 522,99)	3 397 627,42	(1 005 776,61)	(9 075 462,47)
<b>Closing balance</b>	<b>89 877 929,53</b>	<b>8 327 108 630,49</b>	<b>2 674 620 157,18</b>	<b>208 081 377,74</b>	<b>351 129 810,54</b>	<b>674 573 366,40</b>	<b>12 325 391 271,88</b>
<b>Accumulated depreciation</b>							
<b>Opening balance</b>	-	<b>(1 791 698 986,37)</b>	<b>(651 281 091,35)</b>	<b>(63 643 063,36)</b>	<b>(110 768 285,25)</b>	<b>(526 668,58)</b>	<b>(2 617 918 094,91)</b>
Depreciation for period	-	(385 412 807,47)	(157 364 334,49)	(28 381 898,56)	(39 780 260,83)	-	(610 939 301,35)
Write - downs increase	-	(658 772,14)	(315 812,24)	(555,23)	(347 220,62)	(187 596,33)	(1 509 956,56)
Write - downs decrease	-	327 539,19	267 793,96	4 191,71	202 741,63	-	802 266,49
Sale	-	1 924 142,30	5 373 825,78	7 474 525,62	2 850 780,96	-	17 623 274,66
Disposal	-	2 151 589,12	19 453 175,68	1 922 132,84	9 147 498,66	-	32 674 396,30
Donations	-	-	-	43 200,00	-	-	43 200,00
Transfer between groups	-	371 728,34	237 673,83	-	(609 402,17)	-	-
Transfer to investments	-	250 682,24	-	-	-	-	250 682,24
Other	-	2 520 740,30	1 000 575,02	247 989,56	476 406,79	-	4 245 711,67
<b>Closing balance</b>	-	<b>(2 170 224 144,49)</b>	<b>(782 628 193,81)</b>	<b>(82 333 477,42)</b>	<b>(138 827 740,83)</b>	<b>(714 264,91)</b>	<b>(3 174 727 821,46)</b>
<b>Net value as at the start of period</b>	<b>70 038 338,04</b>	<b>5 945 504 471,35</b>	<b>1 749 265 950,14</b>	<b>108 848 414,87</b>	<b>203 280 714,65</b>	<b>374 196 239,34</b>	<b>8 451 134 128,39</b>
<b>Net value as at the end of period</b>	<b>89 877 929,53</b>	<b>6 156 884 486,00</b>	<b>1 891 991 963,37</b>	<b>125 747 900,32</b>	<b>212 302 069,71</b>	<b>673 859 101,49</b>	<b>9 150 663 450,42</b>

\* including self-constructed assets in the amount of PLN 238 470 366,26

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Carrying value of fixed assets in use as of 31 December 2011 under the financial lease and hire purchase agreements is PLN 3.2 million and as of 31 December 2010 is PLN 665 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.

### **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 2011.

The recoverable value of assets was determined by discounted net financial flows method based on financial projections prepared for the years 2012-2017 for electricity distribution for electricity generation and heating distribution. For distribution the main discount rates in the range 8.5% - 9.6% were applied and for electricity generation the discount rates in the range 10.9% - 12.4% were applied.

The conducted tests showed no need to recognize the 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 2010	Lease payments to be paid as at 31 December 2011
Within 1 year	3 324 859,91	1 843 455,36
1 - 5 years	2 069 303,22	2 286 811,28
More than 5 years	-	-
<b>Total lease payments</b>	<b>5 394 163,13</b>	<b>4 130 266,64</b>

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 2011 was PLN 5.3 million. Annual amortization charge of the rights amounted to PLN 2.2 million in 2011.

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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 2010	Lease payments to be collected as at 31 December 2011
Within 1 year	22 673 268,90	21 738 182,00
1 - 5 years	103 232 800,00	118 588 133,62
More than 5 years	15 392 500,00	-
<b>Total lease payments</b>	<b>141 298 568,90</b>	<b>140 326 315,62</b>

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 rents recognized as income in the year 2011 amounts to PLN 24.2 million.

### 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 2010		31 December 2011	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within 1 year	9 020 239,45	8 658 608,31	1 399 401,63	1 384 556,94
1 - 5 years	1 555 893,19	1 534 691,86	3 683 136,83	3 570 618,79
More than 5 years	101 120,44	97 120,44	-	-
<b>Total minimum lease payments</b>	<b>10 677 253,08</b>		<b>5 082 538,46</b>	
Less financial costs	386 832,47		127 362,73	
<b>Present value of lease payments including:</b>	<b>10 290 420,61</b>	<b>10 290 420,61</b>	<b>4 955 175,73</b>	<b>4 955 175,73</b>
Short - term	8 658 608,31		1 384 556,94	
Long - term	1 631 812,30		3 570 618,79	

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### 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. The value of investment real properties indicated in the consolidated statements according to the financial standing do not differ materially from their fair value.

	Year ended 31 December 2010	Year ended 31 December 2011
<b>Net value as at the start of period</b>	<b>26 043 537,30</b>	<b>19 026 164,08</b>
Increase	-	6 249 496,07
Depreciation	(558 105,31)	(475 282,58)
Other decrease	(6 459 267,91)	(248 032,67)
<b>Net value as at the end of period</b>	<b>19 026 164,08</b>	<b>24 552 344,90</b>

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

Item	Year ended 31 December 2010	Year ended 31 December 2011
Rental income from real estate investments	2 017 713,29	1 934 996,67
Operating expenses directly attributable to real estate investments which brought rental income in the current period	2 516 931,27	1 148 250,07
Operating expenses directly attributable to real estate investments which did not bring rental income in the current period	1 229,00	352 692,90

### 17. Change in goodwill of subsidiaries

	Year ended 31 December 2011
<b>Gross value opening balance</b>	<b>17 246 353,14</b>
<b>Increase:</b>	<b>363 156,44</b>
Purchase of subsidiaries' shares	363 156,44
<b>Decrease:</b>	-
<b>Gross value closing balance</b>	<b>17 609 509,58</b>
<b>Write-downs opening balance</b>	-
Increase	-
Decrease	-
<b>Write-downs closing balance</b>	-
<b>Net value as at the start of period</b>	<b>17 246 353,14</b>
<b>Net value as at the end of period</b>	<b>17 609 509,58</b>

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**18. Intangible assets**

	R&D expenses	Goodwill	Patents and licences		Perpetual usufruct rights to land	Emission rights	Other	Intangible assets not yet available for use	Total
			Total	Including software					
<b>Gross value</b>									
<b>Opening balance</b>	<b>707 121,20</b>	-	<b>161 638 780,22</b>	<b>72 479 249,81</b>	<b>85 464 911,71</b>	<b>6 528 934,23</b>	<b>90 151 770,35</b>	<b>28 945 208,70</b>	<b>373 436 726,41</b>
Direct purchase	-	-	1 103 350,33	590 619,38	641 866,59	-	2 877 953,62	87 654 503,16	92 277 673,70
Transfer from intangible assets not yet available for use	-	-	52 323 165,12	33 866 174,98	-	-	24 890 617,46	(77 213 782,58)	-
Sale	-	-	(526 034,44)	(140 059,34)	(479 493,39)	-	(727 735,27)	(36 346,16)	(1 769 609,26)
Disposal	-	-	(2 610 173,86)	(2 584 479,08)	(16 507,54)	-	(801 578,57)	(4 552 024,00)	(7 980 283,97)
Transfer between groups	-	-	(21 805 666,90)	306 568,45	198 393,70	-	(67 615 137,24)	89 222 410,44	0,00
Capitalised borrowing costs	-	-	-	-	-	-	-	3 647 751,01	3 647 751,01
Donations	-	-	-	-	1 390,00	-	-	-	1 390,00
Transfer to investments	-	-	-	-	(510 645,02)	-	-	-	(510 645,02)
Other	-	-	349 486,20	355 617,39	(380 568,36)	(6 039 602,31)	(6 830,91)	525 490,57	(5 552 024,81)
<b>Closing balance</b>	<b>707 121,20</b>	-	<b>190 472 906,67</b>	<b>104 873 691,59</b>	<b>84 919 347,69</b>	<b>489 331,92</b>	<b>48 769 059,44</b>	<b>128 193 211,14</b>	<b>453 550 978,06</b>
<b>Accumulated amortisation</b>									
<b>Opening balance</b>	<b>(707 121,20)</b>	-	<b>(84 719 601,47)</b>	<b>(31 561 543,42)</b>	<b>(9 794 031,82)</b>	-	<b>(8 827 313,29)</b>	-	<b>(104 048 067,78)</b>
Amortisation for period	-	-	(32 720 833,46)	(18 791 785,41)	(2 161 970,86)	-	(10 487 974,74)	-	(45 370 779,06)
Write - downs increase	-	-	(308 842,39)	(308 842,39)	-	-	-	(120 000,00)	(428 842,39)
Write - downs decrease	-	-	-	-	-	-	120 000,00	120 000,00	240 000,00
Sale	-	-	163 175,54	134 319,12	79 654,02	-	112 439,31	-	355 268,87
Disposal	-	-	2 335 404,35	2 246 421,89	2 569,55	-	521 254,38	-	2 859 228,28
Transfer between groups	-	-	4 871 365,91	926 478,13	-	-	(4 871 365,91)	-	-
Transfer to investments	-	-	-	-	36 007,03	-	-	-	36 007,03
Other	-	-	73 584,34	14 054,23	(803 102,76)	-	6 027 721,77	-	5 298 203,35
<b>Closing balance</b>	<b>(707 121,20)</b>	-	<b>(110 305 747,18)</b>	<b>(47 340 897,85)</b>	<b>(12 640 874,84)</b>	-	<b>(17 405 238,48)</b>	-	<b>(141 058 981,70)</b>
<b>Net value as at the start of period</b>	-	-	<b>76 919 178,75</b>	<b>40 917 706,39</b>	<b>75 670 879,89</b>	<b>6 528 934,23</b>	<b>81 324 457,06</b>	<b>28 945 208,70</b>	<b>269 388 658,63</b>
<b>Net value as at the end of period</b>	-	-	<b>80 167 159,49</b>	<b>57 532 793,74</b>	<b>72 278 472,85</b>	<b>489 331,92</b>	<b>31 363 820,96</b>	<b>128 193 211,14</b>	<b>312 491 996,36</b>

As of 31 December 2011, the Group does not use any software under financial lease agreements. As of 31 December 2010, the carrying value of software used under financial lease agreements amounted to PLN 15.9 million.

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## 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.	SŁUPSKE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A.*	PRZEDSIĘBIORSTW O PRODUKCJI STRUNEKONOWY CH ŻERDZI WIROWANYCH "WIRBET" SA	OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.	BIO-POWER SP. Z O.O.	Total
Share in votes	48,5%	40,9%	30,6%	42,2%	25,0%	
<b>31 December 2011</b>						
<i>Share in balance sheet values</i>						
Current assets	1 592 351,98	214 682,45	2 575 437,75	9 755 881,03	998 236,33	15 136 589,54
Non - current assets	4 578 253,20	15 278,85	2 930 030,23	33 692 093,96	4 746 984,47	45 962 640,71
Short - term liabilities	1 623 256,82	512 266,08	1 793 003,70	8 099 725,77	1 161 217,98	13 189 470,35
Long - term liabilities	272 828,34	-	224 832,12	1 265 189,32	3 125 000,00	4 887 849,78
<b>Share in net assets</b>	<b>4 274 520,02</b>	<b>(282 304,78)</b>	<b>3 487 632,16</b>	<b>34 083 059,90</b>	<b>1 459 002,82</b>	<b>43 021 910,12</b>
Goodwill	-	-	-	-	1 301 084,26	1 301 084,26
Impairment write - down	(689 120,02)	-	-	(383 059,90)	-	(1 072 179,92)
<b>Shares in associated recognized in consolidated balance sheet</b>	<b>3 585 400,00</b>	<b>-</b>	<b>3 487 632,16</b>	<b>33 700 000,00</b>	<b>2 760 087,08</b>	<b>43 533 119,24</b>
<i>- Non - current assets</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>2 760 087,08</i>	<i>2 760 087,08</i>
<i>- Current assets**</i>	<i>3 585 400,00</i>	<i>-</i>	<i>-</i>	<i>33 700 000,00</i>	<i>-</i>	<i>37 285 400,00</i>
<i>- Non - current assets held for sale***</i>	<i>-</i>	<i>-</i>	<i>3 487 632,16</i>	<i>-</i>	<i>-</i>	<i>3 487 632,16</i>
<b>Share in contingent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Share in profit/ (loss)</b>	<b>(2 537,25)</b>	<b>-</b>	<b>592 624,48</b>	<b>477 554,10</b>	<b>9 723,73</b>	<b>1 077 365,06</b>

\* 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 Group's share in profit / loss of the entity is not being recognized in income statement.

\*\* The current assets include the shares in associated entities, which the Group is planning to sell in 2012. The shares are covered by the impairment write-down to the value equal to the anticipated net sale price.

\*\*\* As of the balance sheet date, the shares in WIRBET SA fulfil the definition of non – current assets held for sale.



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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 (CO<sub>2</sub>) 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 CO<sub>2</sub> 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:

Item	2010 Tons	2011 Tons
Granted under National Allocation Plan	3 080 331	3 080 376
Purchased on the market	126 718	1 000 000
<b>Total</b>	<b>3 207 049</b>	<b>4 080 376</b>
Used for own needs	(3 269 866)	(3 536 991)
Sold	(99 950)	(500 000)
<b>Surplus/ (shortage) of rights</b>	<b>(162 767)</b>	<b>43 385</b>

As of 31 December 2011, provision for emission allowance shortage was created in the amount of PLN 31.0 million.

### 21. Inventories

Item	Cost	31 December 2011	
		Write - down	Net realisable value
Raw materials	118 869 580,00	(1 741 177,68)	117 128 402,32
Finished goods	1 017 850,63	(937,55)	1 016 913,08
Semi finished goods and work in progress	28 458 034,93	-	28 458 034,93
Goods for resale	29 086 721,09	(543 643,49)	28 543 077,60
Certificates of origin	227 450 035,70	(6 724 071,75)	220 725 963,95
<b>Total</b>	<b>404 882 222,35</b>	<b>(9 009 830,47)</b>	<b>395 872 391,88</b>
<b>Write - downs on inventories as at 31 December 2010</b>			<b>(2 160 723,71)</b>
Set up			(7 802 181,99)
Reversal			803 802,42
Utilisation			149 272,81
<b>Write - downs on inventories as at 31 December 2011</b>			<b>(9 009 830,47)</b>

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 ENERGA Trading SFIO fund measured at fair value.

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

Item	31 December 2010	31 December 2011
Cash in hand and cash at bank	200 873 228,35	152 164 830,19
Short-term deposits (up to 3 months)	572 433 402,57	429 921 501,67
Participation units in liquidity funds	910 248 284,85	1 193 958 370,87
Other	-	1 229 473,96
<b>Cash and cash equivalents in balance sheet, including:</b>	<b>1 683 554 915,77</b>	<b>1 777 274 176,69</b>
Foreign exchange rate differences	(12 244 219,22)	(14 099 878,41)
Bank overdrafts	(10 482 545,46)	(7 633 181,76)
<b>Cash and cash equivalents in cash flow statement</b>	<b>1 660 828 151,09</b>	<b>1 755 541 116,52</b>

### 23. Other assets

#### 23.1. Other long-term assets

Item	Year ended 31 December 2010	Year ended 31 December 2011
Long - term trade and other receivables	3 637 933,08	499 670,59
Prepayments for fixed assets and intangibles	12 810 248,42	28 700 254,61
Other	1 823 728,54	3 199 072,35
<b>Total</b>	<b>18 271 910,04</b>	<b>32 398 997,55</b>

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### 23.2. Other short-term assets

Item	Year ended	Year ended
	31 December 2010	31 December 2011
Subscriptions	335 604,41	363 803,10
Insurance	8 616 710,32	14 336 859,45
Membership fees, trainings	38 529,56	456,00
IT services	1 739 518,79	885 159,14
Other prepaid expenses	21 731 110,00	43 227 226,72
Prepayments for deliveries	12 232 754,21	7 225 738,02
VAT tax receivables	102 246 796,85	109 276 923,50
Other tax receivables	6 878 552,35	15 565 241,70
Social Funds assets surplus over liabilities	660 661,18	616 718,27
Other	3 130 747,43	19 180 932,38
<b>Total</b>	<b>157 610 985,10</b>	<b>210 679 058,28</b>

As at 31 December 2011 other short-term prepayments include, in particular, capitalized costs for the following projects implemented by the Group (see note 42):

- Project Wisła – PLN 14.4 million;
- Project PROGAZ – PLN 11.4 million;
- Project Ostrołęka C – PLN 6.5 million;
- Project ENERGA IMP – PLN 2.1 million.

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

#### 24.1. Non – current assets held for sale

As non-current assets held for sale as at 31 December 2011, the Group classified the shares of an associate company Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET SA (see note 41) and shares of Towarowa Giełda Energii S.A. held by ENERGA SA.

Shares of Towarowa Giełda Energii S.A. were sold on 24 February 2012 at a price of PLN 11.2 million.

#### 24.2. Discontinued operations

The Group ENERGA SA did not discontinue any activities in the current year.

There are no plans for discontinuing any activity of the Group in the following year either.

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## 25. Other liabilities

### 25.1. Other long – term liabilities

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Tax, customs, salaries, social securities and other liabilities</b>	-	-
<b>Other non - financial liabilities</b>	<b>126 724,93</b>	<b>3 469 329,31</b>
Warranties	126 724,93	184 666,36
Liabilities to employees due to restructuring severances	-	3 068 373,57
Other	-	216 289,38
<b>Total</b>	<b>126 724,93</b>	<b>3 469 329,31</b>

### 25.2. Other short – term liabilities

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Tax, customs, salaries, social securities and other liabilities</b>	<b>229 535 396,13</b>	<b>257 150 370,85</b>
Excise tax	26 866 996,78	25 476 255,50
VAT tax	119 334 911,18	153 213 234,72
Social security	49 589 338,12	47 438 968,62
Personal income tax	26 665 544,68	22 339 982,18
Environmental fees	5 371 534,00	6 971 314,41
Real estate tax	751 829,44	812 321,71
Other	955 241,93	898 293,71
<b>Other non - financial liabilities</b>	<b>316 994 410,12</b>	<b>253 508 968,90</b>
Salaries	75 955 088,41	49 458 249,20
Liabilities to employees due to restructuring severances	-	21 716 295,72
Prepayments	124 330 314,01	142 206 105,72
Social Funds liabilities surplus over assets	632 674,54	1 056 792,24
Substitution fee	106 261 987,05	29 106 838,68
Other	9 814 346,11	9 964 687,34
<b>Total</b>	<b>546 529 806,25</b>	<b>510 659 339,75</b>

## 26. Accruals and deferred income

### 26.1. Deferred income

Item	Year ended 31 December 2010	Year ended 31 December 2011
Fixed assets received free of charge	60 540 348,10	64 100 144,77
Grants	47 173 461,51	87 792 959,98
Rental fees	5 426 185,66	1 673,36
Connection charges	346 512 030,17	333 210 585,58
Other	4 268 615,46	8 952 005,86
<b>Total, including:</b>	<b>463 920 640,90</b>	<b>494 057 369,55</b>
Long - term	442 910 451,58	465 938 618,59
Short - term	21 010 189,32	28 118 750,96

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### 26.2. Accruals

Item	Year ended	Year ended
	31 December 2010	31 December 2011
Unused holidays	12 003 823,70	14 445 286,40
Annual bonus and other employee bonuses	69 074 535,51	97 666 543,63
Management bonuses	1 575 220,52	1 902 470,74
Other	3 151 095,01	8 737 048,32
<b>Total</b>	<b>85 804 674,74</b>	<b>122 751 349,09</b>

### 27. Employee benefits

#### 27.1. Employee stock Plan

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

As a result of commercialization of ENERGA Elektrownie Ostrołęka SA that commenced on 31 August 1998 and ended on 13 May 2008, the State Treasury allocated 15% of shares to ENERGA Elektrownie Ostrołęka SA 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 SA. Shares of ENERGA - OPERATOR SA and ENERGA Elektrownie Ostrołęka SA (consolidated companies) were converted into shares of ENERGA SA (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 2011, 13,643 persons decided finally to convert shares of consolidated companies into the shares of consolidating company. In total, they acquired 668,408,326 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 benefits 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 Labour 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

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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 Labour 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:

	Provision for retirement and similar benefits	Electricity equivalent	Social Fund	Total
<b>1 January 2011</b>	<b>103 687 436,04</b>	<b>222 773 699,84</b>	<b>50 258 815,95</b>	<b>376 719 951,83</b>
Current service cost	6 442 033,71	2 510 023,44	1 459 758,90	10 411 816,05
Actuarial gains and losses	(654 998,95)	29 630 806,72	19 151 922,00	48 127 729,77
Payments	(14 780 415,55)	(5 133 443,28)	(2 364 896,26)	(22 278 755,09)
Past service cost	-	2 654 439,53	-	2 654 439,53
Interest	5 135 002,50	15 311 403,94	3 272 287,90	23 718 694,34
<b>31 December 2011</b>	<b>99 829 057,75</b>	<b>267 746 930,19</b>	<b>71 777 888,49</b>	<b>439 353 876,43</b>
<b>Short - term as at 31 December 2011</b>	<b>3 349 140,25</b>	<b>9 922 972,07</b>	<b>2 733 480,78</b>	<b>16 005 593,10</b>
<b>Long - term as at 31 December 2011</b>	<b>96 479 917,50</b>	<b>257 823 958,12</b>	<b>69 044 407,71</b>	<b>423 348 283,33</b>

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 2010	Year ended 31 December 2011
Discount rate	5,50%	5,55%
Labour turnover ratio	0,00-5,70%	0,00-8,90%
Expected growth rate of salaries	4,50%	4,50%
Expected growth rate of charges to Social Fund	3,70%	5,80%
Expected growth rate of provision for electricity equivalent	<i>in line with projected price values*</i>	<i>in line with projected price values*</i>

*\*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 12% and taking discount rate lower by 1 percentage point would result in increasing in provisions by about 13%,

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- Taking assumed rate of increase in basis higher by 1 percentage point would result in increasing in provisions by about 13% and taking assumed rate of increase in basis lower by 1 percentage point would result in decreasing in provisions by about 12%.

As of 31 December 2011, non-recognized past service costs are PLN 38.5 million.

### 28. Earnings per share (EPS)

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

While diluted earnings per share is calculated by dividing net earnings for the period attributable to ordinary shareholders (after deducting interest on redeemable preferred shares convertible into ordinary shares) by the weighted average number of ordinary shares outstanding during the period (adjusted for the effect of dilutive options and dilutive redeemable preferred shares convertible into ordinary shares).

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

Item	Year ended 31 December 2010	Year ended 31 December 2011
Net profit from continuing operations	625 808 028,81	661 455 991,62
Profit for the year from discontinued operations	(378 008,92)	-
<b>Net profit for the year</b>	<b>625 430 019,89</b>	<b>661 455 991,62</b>
Interest on convertible preference shares	-	-
<b>Net profit attributable to ordinary shareholders of Parent Company</b>	<b>625 430 019,89</b>	<b>661 455 991,62</b>
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	4 968 805 368,00	4 968 805 368,00
<b>Earnings per share</b>	<b>0,13</b>	<b>0,13</b>

In presented periods there was no dilution effect.

### 29. Dividends paid and proposed

Item	Year ended 31 December 2010	Year ended 31 December 2011
<b>Declared during the year</b>		
Dividend declared by subsidiaries	9 196 118,70	40 393 603,02
Dividend declared by Parent Company	99 376 107,36	149 064 161,04
<b>Total</b>	<b>108 572 226,06</b>	<b>189 457 764,06</b>

Item	Year ended 31 December 2010	Year ended 31 December 2011
Dividend paid during the year	114 620 053,58	189 440 845,08
Dividend per share paid by the Capital Group (PLN)	0,02	0,04

There were no dividend payment restrictions in the reporting period.

While calculating dividends per share paid by the entities of the Group the weighted average number of shares of the holding company 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 2011 mergers were proceeded in connection with consolidation of operations in the area of ICT businesses and the business of energy production from renewable sources.

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. (previously: ENERGA Elektrownie Straszyn Sp. z o.o.), ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA, by transferring all assets of ENERGA Elektrownie w Koszalinie Sp. z o.o. and ENERGA Elektrownie Łyna SA to ENERGA Hydro Sp. z o.o.

On 20 October 2011, the District Court Gdańsk-Północ in Gdańsk issued a decision on registering the merger of ENERGA Informatyka i Technologie Sp. z o.o. (acquiring company) and ZEP-INFO Sp. z o.o. (acquired).

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

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 SA, registered and settled in 2011, has not resulted in change in control over any subsidiary. Thus the operation in the judgment of the Company fulfils the 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.

Pooling 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 2010	Year ended 31 December 2011
"A" series ordinary shares of 1 PLN each	255 000,00	255 000,00
"B" series ordinary shares of 1 PLN each	4 845 611 133,00	4 845 611 133,00
"C" series ordinary shares of 1 PLN each	122 939 235,00	122 939 235,00
<b>Total volume of shares</b>	<b>4 968 805 368,00</b>	<b>4 968 805 368,00</b>



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### 31.1.1 Share nominal value

All shares issued bear total nominal value of PLN 4 968.8 million and has been fully paid up.

### 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 SA 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 2010	Year ended 31 December 2011
<b>State Treasury</b>		
share in equity	84,19%	84,18%
share in voting rights	84,19%	84,18%
<b>Minority shareholders</b>		
share in equity	15,81%	15,82%
share in voting rights	15,81%	15,82%

## 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 362.5 million.

## 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 2010	Year ended 31 December 2011
Amounts included in Retained Earnings, not subject to distribution of profit by Parent Company:		
- Retained Earnings of subsidiaries, attributable to shareholders of Parent Company	1 522 652 349,68	1 724 700 095,32
- difference in the amount of Retained Earnings between statutory and IFRS financial statements of Parent Company	52 019 132,06	-
- 8% of statutory net profit of Parent Company distributed to Supplementary capital, in accordance with Commercial Companies Code	27 835 090,74	60 374 366,66
Retained Earnings of Parent Company subject to distribution of profit	320 103 543,55	740 247 728,95
<b>Total consolidated Retained Earnings attributable to shareholders of Parent Company</b>	<b>1 922 610 116,03</b>	<b>2 525 322 190,93</b>

Statutory financial reports for all companies within ENERGA SA 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

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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 2011, the value of share capital of the parent company as presented in statutory financial reports in line with the Accounting Act was PLN 4 968.8 million and the supplementary capital amounted to PLN 362.5 million.

### **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 42.2.

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## 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	Restructuring reserve	Other provisions	TOTAL
<b>1 January 2011</b>	<b>376 719 951,83</b>	<b>201 060 619,63</b>	<b>13 344 538,02</b>	<b>70 311 313,28</b>	<b>6 279 834,96</b>	<b>13 148 882,00</b>	<b>7 291 104,65</b>	<b>133 306 012,96</b>	<b>43 992 745,74</b>	<b>46 937 046,55</b>	<b>912 392 049,62</b>
Current service cost	10 411 816,05	21 224 187,66	-	-	-	-	-	-	-	-	31 636 003,71
Actuarial gains and losses	48 127 729,77	(1 319 049,00)	-	-	-	-	-	-	-	-	46 808 680,77
Payments	(22 278 755,09)	(17 210 989,55)	-	-	-	-	-	-	-	-	(39 489 744,64)
Past service cost	2 654 439,53	-	-	-	-	-	-	-	-	-	2 654 439,53
Interest	23 718 694,34	11 238 116,72	-	-	-	-	-	-	-	-	34 956 811,06
Set up in the period	-	-	6 161,09	65 706 389,48	3 115 187,48	-	30 272 051,77	646 463 550,47	94 246 554,44	40 165 926,98	879 975 821,71
Reversal	-	-	(2 036 382,09)	(33 674 505,43)	(6 204 634,60)	-	(1 049 548,54)	(717 460,50)	-	(10 131 607,89)	(53 814 139,05)
Utilisation	-	-	(11 308 155,93)	(25 578 564,05)	(75 200,35)	-	(5 499 094,99)	(510 404 706,76)	(74 096 641,47)	(39 706 922,85)	(666 669 286,40)
Discount	-	-	-	-	-	(8 394 522,00)	-	-	-	-	(8 394 522,00)
<b>31 December 2011</b>	<b>439 353 876,43</b>	<b>214 992 885,46</b>	<b>6 161,09</b>	<b>76 764 633,28</b>	<b>3 115 187,49</b>	<b>4 754 360,00</b>	<b>31 014 512,89</b>	<b>268 647 396,17</b>	<b>64 142 658,71</b>	<b>37 264 442,79</b>	<b>1 140 056 114,31</b>
<b>Short - term as at 31 December 2011</b>	<b>16 005 593,10</b>	<b>17 935 548,75</b>	<b>6 161,09</b>	<b>76 764 633,28</b>	<b>3 115 187,49</b>	<b>-</b>	<b>31 014 512,89</b>	<b>268 647 396,17</b>	<b>60 581 839,71</b>	<b>37 248 575,79</b>	<b>511 319 448,27</b>
<b>Long - term as at 31 December 2011</b>	<b>423 348 283,33</b>	<b>197 057 336,71</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 754 360,00</b>	<b>-</b>	<b>-</b>	<b>3 560 819,00</b>	<b>15 867,00</b>	<b>628 736 666,04</b>

### 33. Investment liabilities

#### Purchase of shares in OPEC Sp. z o.o

On 25 February 2009, ENERGA SA and ENERGA Elektrownie Ostrołęka SA became a strategic investor of Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej 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 SA 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 10.4 million had been completed.

#### Reconstruction of the heating network of ENERGA OPEC Sp. z o.o.

On 12 September 2011, the subsidiary ENERGA OPEC Sp. z o.o. concluded the co-financing agreement with the National Fund for Environmental Protection and Water Management in Warsaw for the project 'Reconstruction of the heating network of ENERGA OPEC Sp. z o.o. in Ostrołęka'. The aim of the project is to reduce transmission losses. The execution of the project is planned in 2011-2013 and its total cost will be at PLN 33.8. The co-financing obtained by the Company will amount to 85% of eligible costs and their maximum level is at PLN 18.7 million. By the end of 2011, the Company incurred the outlays of PLN 1.1 million within this project.

#### 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 planned outlays in 2012-2015 (in current prices, taking account of the planned inflation) amount to: 2012 – PLN 1,428 million, 2013 – PLN 1,439 million, 2014 – PLN 1,356 million, and PLN 1,365 million. In 2011, the investment outlays amounting to PLN 1,253 will be incurred.

The distribution grid modernization and development programme is also an investment liability financed by International Financial Institutions (see note 42.1).

#### Intervention work service contract

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 134.3 million, including the outlays of PLN 86.9 million by 31 December 2011. The outstanding amount is at PLN 47.4 million.

The bond issuance programme to obtain external funds for financing the modernization mentioned in note 42.1 is also an investment liability.

### **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 construction of a new power unit and the modernization of a boiler through the introduction of biomass co-combustion option. The total planned investment outlays amount to PLN 224.5 million, including PLN 39.4 million incurred until 31 December 2011. The programme of bond issue is aimed at obtaining external funds mentioned in note 42.1.

## **34. Tax settlements**

### **34.1. Overall characteristics**

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, powiat, 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 2011 were as follows: corporate income tax rate - 19%, VAT tax base rate - 23%, reduced: 8%, 5%, 0%, moreover, some goods and services were exempted from tax.

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 2011 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 SA, 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 ultimate beneficiaries 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. Personal income tax refund**

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 25.1 million. Concurrently, the Company filed a revision of the PIT-8AR tax return. The overpayment includes the amount of PLN 23.3 million due to the flat-rate tax paid by the Company and PLN 1.7 million due to interest on overdue tax liabilities. On 31 March 2011 both the main amount of overpaid tax and interests on overdue tax liabilities were repaid to ENERGA SA.

### **34.4 Corporate income tax refund**

On 31 January 2011, the subsidiary ENERGA – OPERATOR SA submitted a revision of its CIT-8 tax return for 2009 together with the application for the overpayment confirmation. The main basis for revising the tax return was the receipt of individual interpretations from the Minister of Finance that were favourable for the company and concerned the tax on division by allotment. In the revising return, the income tax of PLN 24.8 million was indicated, and in the remaining part the company requested the confirmation of overpayment amounting to PLN 92 million. Following the application by the company, the proceedings were initiated to confirm the overpayment. In the tax audit report submitted to the attorney of the company on 20 May 2011, the auditors revealed certain minor irregularities concerning the revised items, which increased the amount of the CIT overpayment for 2009 by PLN 6.5 thousand. However with regard to the legitimacy of the revisions made by the company and concerning the exclusion from the income tax base due to the separation of assets related to the registration of the division plan, the auditing authority concluded based on the documents collected during the control that there were no discrepancies between the factual status and the status described in the application for granting the written interpretation of the tax law regulations. Thus, the overpaid CIT amount on the division amounting to PLN 92 million was not questioned. The Company has not used its right to revise its tax return; therefore, the Head of the Pomeranian Treasury Office (PUS) in Gdańsk initiated the tax proceedings ex officio.

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On 21 June 2011, a decision was issued that determined the value of the liability due to the corporate income tax for the fiscal year from 1 January to 31 December 2009 amounting to PLN 24.8 million, which complies with the findings of the tax audit. The CIT overpayment resulting from this decision and amounting to PLN 92 million was reimbursed on 22 June 2011.

### 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 SA Group identify transactions with about 30 State Treasury related 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.

As at	Receivables	Payables
31 December 2011	117 021 111,49	63 850 236,47
31 December 2010	153 015 429,15	144 332 054,80

  

Period	Sales	Purchases
Year ended 31 December 2011	911 503 531,42	1 459 970 970,39
Year ended 31 December 2010	1 209 357 523,36	1 738 052 726,57

#### 35.2. Transactions with associated companies

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

At the end of the reporting period, there were no overdue receivables or liabilities in transactions with associated companies.

#### 35.3. Loan granted to a Management Board Member

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

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

Item	Year ended 31 December 2010	Year ended 31 December 2011
Management Board of Parent Company	493 314,00	616 642,50
Supervisory Board of Parent Company	290 184,72	290 184,72
Management Boards of subsidiaries	15 550 528,23	15 699 938,75
Supervisory Boards of subsidiaries	2 321 037,46	2 351 231,50
<b>Total</b>	<b>18 655 064,41</b>	<b>18 957 997,47</b>

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

Item	Year ended 31 December 2010	Year ended 31 December 2011
Short term employee benefits (salaries and social security)	31 540 358,05	40 588 523,74
Jubilee bonuses	581 241,64	827 863,73
Post employment benefits	92 166,80	43 515,25
Severance pay	502 554,49	887 181,41
<b>Total benefits contributed to top management</b>	<b>32 716 320,98</b>	<b>42 347 084,13</b>



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## 36. Financial instruments

### 36.1. Carrying value of categories and classes of financial instruments

Item	31 December 2010	31 December 2011
<b>Classes of financial instruments</b>		
Deposits	130 612,56	143 390,14
Bonds, treasury bills and other debt securities	-	-
Shares (non- consolidated companies)	33 105 322,68	10 138 049,90
Shares in associates	41 580 170,75	43 533 119,24
Trade receivables and other receivables	1 454 894 542,60	1 519 992 847,68
Cash and cash equivalents, including:	1 683 554 915,77	1 777 274 176,69
ENERGA Trading SFIO investment fund units	910 248 284,85	1 193 958 370,87
Finance lease receivables	162 305,82	123 621,09
Receivables from sale of tangible and intangible assets	759 097,13	1 758 911,08
Derivatives (assets)	2 076 116,20	1 696 200,60
<b>Total assets</b>	<b>3 216 263 083,51</b>	<b>3 354 660 316,42</b>
Preferential loans and borrowings	728 018 257,06	1 003 929 250,73
Loans and borrowings	336 234 209,24	937 638 782,76
Bank overdrafts	10 482 545,48	7 633 181,76
Issued bonds and debt securities	1 670 672,08	-
Trade payables	750 914 424,06	720 610 158,00
Finance lease payables	10 290 420,61	4 955 175,73
Other financial liabilities	6 752 799,11	6 676 374,45
Liabilities from acquisition of tangible and intangible assets	204 444 439,27	166 281 846,24
Derivatives (liabilities)	-	240 702,20
Other financial instruments	-	-
<b>Total liabilities</b>	<b>2 048 807 766,91</b>	<b>2 847 965 471,87</b>
<b>TOTAL</b>	<b>5 265 070 850,42</b>	<b>6 202 625 788,29</b>
<b>Categories of financial instruments</b>		
Financial assets at fair value through profit or loss	1 718 866 967,21	1 789 251 817,33
Available-for-sale financial assets	-	-
Held to maturity assets	-	-
Loans and receivables	1 455 653 639,73	1 521 751 758,76
Financial assets out of scope of IAS 39	41 742 476,57	43 656 740,33
<b>Total assets</b>	<b>3 216 263 083,51</b>	<b>3 354 660 316,42</b>
Financial liabilities at fair value through profit or loss	-	240 702,20
Financial liabilities measured at amortised cost	2 038 517 346,30	2 842 769 593,94
Loan commitments, factoring and out of scope of IAS 39 liabilities	10 290 420,61	4 955 175,73
<b>Total liabilities</b>	<b>2 048 807 766,91</b>	<b>2 847 965 471,87</b>

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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	Held to maturity assets	Loans and receivables	Financial liabilities measured at amortised cost	Total
Dividends and profits' shares	828 587,44	-	-	-	828 587,44
Interest income (expenses)	64 335 930,48	96 036,38	95 956 395,75	(102 473 137,25)	57 915 225,36
Foreign exchange rate differences	-	-	1 563 929,37	(452 241,25)	1 111 688,12
Reversal of write - downs/ Revaluation increase	1 740 460,66	-	(31 305 024,18)	-	(29 564 563,52)
Write - downs set up/ Revaluation decrease	(4 309 386,69)	-	67 387 519,71	-	63 078 133,02
Gain/ (loss) on disposals of financial assets	31 255 210,84	143 598,00	-	-	31 398 808,84
<b>Total net profit/ (loss)</b>	<b>93 850 802,73</b>	<b>239 634,38</b>	<b>133 602 820,65</b>	<b>(102 925 378,50)</b>	<b>124 767 879,26</b>

### 36.3. Fair value of financial instruments

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 and 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-Market) 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.

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

As of the balance sheet date there were no loans granted by the ENERGA Group companies.

#### 36.4.2 Impairment loss recognized for financial assets

	<b>Accumulated impairment losses on trade receivables</b>	<b>Accumulated impairment losses on receivables from sale of tangible and intangible assets</b>	<b>Accumulated impairment losses on shares</b>
<b>1 January 2011</b>	<b>116 542 045,73</b>	-	<b>216 537,85</b>
Charge for the year	67 393 031,51	-	2 563 676,46
Utilised	(10 824 297,41)	-	-
Unused amounts reversed	(31 305 024,18)	-	-
Change in Capital Group composition (consolidated entities)	-	-	-
<b>31 December 2011</b>	<b>141 805 755,65</b>	-	<b>2 780 214,31</b>

### 36.4.3 Financial liabilities measured at amortized cost

#### 36.4.3.1 Loans and borrowings

##### Loans and borrowings received as of 31 December 2011

		Loans and borrowings
<b>Currency</b>		PLN
<b>Reference rate</b>		Variable
<b>Value as of 31 December 2011</b>		
actual currency		1 949 201 215,25
PLN		1 949 201 215,25
<b>With repayment date:</b>		
Within 12 months		44 964 972,70
After a year but not more than 2 years		185 478 381,11
After 2 years but not more than 3 years		215 123 603,18
After 3 years but not more than 5 years		436 280 739,02
More than 5 years		1 067 353 519,24

#### 36.4.3.2 Liabilities from bonds issued

As of 31 December 2011, the Group had no issued bonds.

#### 36.4.3.3 Credit limits

As of 31 December 2011, credit limits received by the Group amounted to PLN 3 064 million.

### 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 liability	Limit of secured liability
Real estate	92 753 136,13	loans and borrowings	33 463 861,00	65 236 861,00
Receivables	3 841 771,23	loans and borrowings	4 642 586,80	23 561 176,03
Cash	195 328 061,67	securing contracts	141 119,37	478 737 847,87
Inventories	32 037 633,92	securing contracts	-	7 088 000,00
<b>Total</b>	<b>323 960 602,95</b>		<b>38 247 567,17</b>	<b>574 623 884,90</b>

The provided collaterals predominately concern a loan granted to Capital Group ENERGA SA companies by the National Fund for Environmental Protection (NFOŚ) as well as credits and guarantees granted by Pekao S.A., Deutsche Bank Polska S.A., ING Bank Śląski, Nordea Bank Polski S.A. and Bank PKO BP S.A.

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 2011 none of the following commercial events or situations requiring to be disclosed occurred:

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- 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)

### 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	31 December 2010	31 December 2011
guarantees	702 964 817,46	498 799 625,58
warranties	30 732 524,81	94 630 540,04
cases against the related parties	18 093 958,54	62 038 518,31
other	16 511 950,74	19 708 756,14
<b>Total</b>	<b>768 303 251,55</b>	<b>675 177 440,07</b>

#### 37.2. Contingent assets

The Group recognized contingent asset of PLN 32.2 million, which concerns the statutory interest charged by subsidiary ENERGA – OPERATOR SA on the amount of PLN 123.00 million adjudged by the Appellant Court in Warsaw, 1st Civil Department, in the case following the action by PSE Operator SA against ENERGA OPERATOR SA (see note 42.18).

As of 31 December 2011, 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.

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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 SA 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.

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.

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.

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.

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### 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 2011		The analysis of vulnerability to interest rate risk as of 31 December 2011			
	Balance sheet value	Value exposed to risk	WIBOR		EURIBOR	
			gross financial result		gross financial result	
	PLN	PLN	WIBOR + 84 pb	WIBOR -84 pb	EURIBOR + 72 pb	EURIBOR -72 pb
Deposits	143 390,14	143 390,14	1 204,48	(1 204,48)	-	-
Cash and cash equivalents	1 777 274 176,69	1 388 383 490,45	11 607 579,26	(11 607 579,26)	47 007,48	(47 007,48)
Preferential loans and borrowings	1 003 929 250,73	1 003 929 250,73	(8 433 005,71)	8 433 005,71	-	-
Loans and borrowings granted on market conditions	937 638 782,76	937 638 782,76	(7 876 165,78)	7 876 165,78	-	-
Current account overdraft facility	7 633 181,76	7 633 181,76	(64 118,73)	64 118,73	-	-
<b>Change in gross profit</b>			<b>(4 765 710,96)</b>	<b>4 765 710,96</b>	<b>47 007,48</b>	<b>(47 007,48)</b>

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

### 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 2011		The analysis of vulnerability to foreign currency risk as of 31 December 2011	
	Balance sheet value	Value exposed to risk	EUR/PLN	
			gross financial result	
	PLN	PLN	EUR/PLN + 14,05%	EUR/PLN -14,05%
Trade receivables	1 519 992 847,68	2 039 049,91	286 486,51	(286 486,51)
Cash and cash equivalents	1 777 274 176,69	6 528 817,03	917 298,79	(917 298,79)
Trade liabilities	720 610 158,00	1 059 445,14	(148 852,04)	148 852,04
<b>Change in gross profit</b>			<b>1 054 933,26</b>	<b>(1 054 933,26)</b>

### 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:

Financial assets and liabilities	31 December 2011		The analysis of vulnerability to electricity prices at wholesale market as of 31 December 2011	
	Balance sheet value	Value exposed to risk	gross financial result	
	PLN	PLN	price + 24,16%	price - 24,16%
Derivatives (assets)	1 696 200,60	1 006 569,60	243 225,25	(243 225,25)
Derivatives (liabilities)	240 702,20	233 833,20	(56 502,94)	56 502,94
	<b>Change in gross profit</b>		<b>186 722,31</b>	<b>(186 722,31)</b>

### 38.4. Goods price risk

The main areas of Capital Group ENERGA SA 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 CO<sub>2</sub> 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 fulfil 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



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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 is also credit risk in case of funds invested in participation units of the ENERGA Trading SFIO fund. According to the adopted investment policy of the fund, its resources are invested in assets such as bonds and government bonds and commercial debt instruments. The credit risk related to investments in bonds and government bonds is referred to the risk of the Treasury solvency. Greater concerns can arise due to the credit risk related to investments in commercial debt instruments, which is managed through the suitable investment policy of the fund. The fund can invest its resources only in assets that are characterized by the investment rating given by a rating agency or given internally by a society that manages the fund.

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

### 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 42.1). 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 2011	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	2 158 993,87	42 805 978,83	836 882 723,31	1 067 353 519,24	1 949 201 215,25
Trade and other payables	889 985 206,75	3 490 236,13	5 288 813,74	-	898 764 256,62
<b>Total</b>	<b>892 144 200,62</b>	<b>46 296 214,96</b>	<b>842 171 537,05</b>	<b>1 067 353 519,24</b>	<b>2 847 965 471,87</b>

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### 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 2011, 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 preferred shares, equity capital for shareholders of the parent entity less capital reserves for unrealised net profits.

Item	31 December 2010	31 December 2011
Interest-bearing loans and borrowings	1 076 405 683,86	1 949 201 215,25
Trade and other payables	972 402 083,05	898 764 256,61
Less cash and cash equivalents	(1 683 554 915,77)	(1 777 274 176,69)
<b>Net borrowings</b>	<b>365 252 851,14</b>	<b>1 070 691 295,17</b>
<b>Equity</b>	<b>7 946 956 194,25</b>	<b>7 916 715 923,77</b>
<b>Equity and net borrowings</b>	<b>8 312 209 045,39</b>	<b>8 987 407 218,94</b>
Leverage	0,04	0,12

### 40. Employment structure

Average employment in the Group was as follows:

Item	Year ended 31 December 2010	Year ended 31 December 2011
Management board of Parent Company	2	2
Management boards of subsidiaries	46	66
Administration	1 855	1 085
Production Department	7 320	6 671
Other	3 127	3 816
<b>Total employees</b>	<b>12 350</b>	<b>11 640</b>

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

### **Restructuring of the Capital Group**

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

On 23 January 2012, the merger of the following procurement companies was registered: Zaopatrzenie Energetyki Koszalin Sp. z o.o., Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o. and Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o., with Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o., which acted as the surviving company, while the former companies were acquired entities.

On 24 January 2012, the increase of the authorised capital of subsidiary ENERGA Innowacje Sp. z o.o. was registered to the amount of PLN 2.5 million. The new shares were acquired by ENERGA – OPERATOR SA, which obtained, as a result, 50% in the authorised capital in ENERGA Innowacje Sp. z o.o.

Due to the consolidation of IT processes in the newly established company ENERGA Informatyka i Technologie Sp. z o.o., the following events occurred:

- on 8 December 2011, the contribution agreement was signed between ENERGA SA and ENERGA Informatyka i Technologie Sp. z o.o.; according to its provisions, the basic capital of ENERGA Informatyka i Technologie Sp. z o.o. was raised by PLN 19.1 million. The contribution in-kind, i.e. assets of ENERGA SA including hardware, copies of software and IT documentation and carriers, were transferred to the company on 9 February 2012 and registered in the National Court Register (KRS) on 27 February 2012.
- As of 1 January 2012, the selected IT processes together with their personnel were transferred from the subsidiary ENERGA – OPERATOR SA to ENERGA Informatyka i Technologie Sp. z o.o. Processes of production system support remained in ENERGA - OPERATOR SA, while ENERGA Informatyka i Technologie Sp. z o.o. took over the process of local user support and all support processes for the central systems used by the companies of the Group.

### **Disposal of shares in an associated entity, WIRBET SA**

On 19 September 2011, the cooperation agreement was signed by ENERGA SA, TAURON Dystrybucja SA, PGE Obrót SA and ENEA SA concerning the process of selling shares in Przedsiębiorstwo Produkcji Strunobetonowych Żerdzi Wirowanych WIRBET SA. The aim of the agreement was to determine the joint disposal of all shares held in WIRBET SA. Pursuant to this Agreement, ENEA SA received the power of attorney to represent the parties.

On 16 February 2012, the share purchase agreement concerning WIRBET SA was signed with THC Fund Management Ltd. The sale price was set at PLN 48.02 per share. In return for its 168 000 shares, ENERGA SA received PLN 8.1 million.

## 42. Other information of significant impact on the assessment of assets, financial standing and profits of the Group

### 42.1. External financing

#### Loans for financing the investment programme of ENERGA-OPERATOR SA

In 2009-2010, ENERGA SA and its subsidiary, ENERGA-OPERATOR SA concluded the following loan facility agreements for financing the investment programme of ENERGA-OPERATOR SA in 2009 -2012<sup>1</sup>, related to the development and modernization of the distribution network:

1. a loan facility agreement with the European Investment Bank with a limit of PLN 1,050.0 million made on 16 December 2009;
2. a loan facility agreement with the European Bank for Reconstruction and Development with a limit of PLN 800.0 million made on 29 April 2010; and
3. a loan facility agreement with the Nordic Investment Bank with a limit of PLN 200.0 million, made on 30 April 2010.

In total, the funding of PLN 2 050 million was obtained.

The signed loan facility agreements are long-term investment liabilities — the debt can be repaid up to year 2025. The loan agreements are not secured against the assets of borrowers and are based mostly on financial covenants.

Within the above-mentioned agreements, the following tranches were drawn:

- a) in 2010:
  - 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.
- b) In 2011:
  - PLN 420 million under the agreement with the European Investment Bank (the funding used completely),
  - PLN 350.0 million under the agreement with the European Bank for Reconstruction and Development (the last tranche of PLN 150.0 was drawn on 21 February 2012), and
  - PLN 100.0 million under the agreement with the Nordic Investment Bank (the funding used completely).
- c) In 2012:
  - PLN 150.0 million under the agreement with the European Bank for Reconstruction and Development (the funding used completely).

#### Credits from NORDEA Bank Polska SA

In 2010-2011, ENERGA SA concluded the following loan facility agreements with NORDEA Bank Polska SA:

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<sup>1</sup> The original investment period encompassed 2009-2011. As it was not feasible to achieve the planned level of investment outlays in the initially anticipated structure and periods, some of the investment outlays were postponed to 2012.

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1. An investment loan agreement of 8 September 2010 for PLN 100.0 million to be used for the purchase of bonds issued by ENERGA Hydro Sp. z o.o. due to the investment project executed by this entity involving the modernization of the pump-storage power plant in Żydowo. The deadline for the repayment of this liability is on 7 September 2015. In 2011, the 1st tranche of this funding was drawn amounting to PLN 70.0 million.
2. An investment loan agreement of 17 December 2010 for PLN 160.0 million to be used for the purchase of bonds issued by ENERGA Kogeneracja Sp. z o.o. due to the investment project executed by this entity involving the modernization of the boiler by introducing the biomass co-combustion option and a construction of a new power unit. The deadline for the repayment of this liability is on 16 December 2015. This loan was not used as of 31 December 2011. The 1st tranche of this funding amounting to PLN 25.2 million was drawn on 6 March 2012.
3. A loan arrangement agreement for companies of the ENERGA Group of 24 June 2010 with the total limit of PLN 75.0 million. Under this agreement, ENERGA SA and companies of the ENERGA Group can take working loan facilities on the current account and revolving loan facilities with maturity up to 12 months as well as investment loans with maturity up to the deadline of the line, i.e. 29 June 2015. As of 31 December 2011, the funding of PLN 51.4 million was drawn, including PLN 27.3 million used.
4. The framework agreement for granting bank guarantees to companies of the ENERGA Group of 8 September 2010, with the total limit of PLN 5.0 million. As of 31 December 2011, the limit of PLN 2.7 million was used.
5. The loan arrangement agreement for ENERGA SA of 12 October 2011 with the limit of PLN 300.0 million. The funding under this agreement can be used to finance the current business and capital investments. The loan limit term is until 11 October 2011. As of the balance date, i.e. 31 December 2011, the loan was not used.

The securities for all the above-mentioned agreements are financial covenants and, with regard to the framework agreements, the joint and severe liability of ENERGA SA for the liabilities of the companies of the ENERGA Group established as the assumption of liabilities.

### Loan from PKO Bank Polski SA

On 30 August 2011, ENERGA SA concluded a framework agreement with PKO Bank Polski SA for granting a loan facility to ENERGA SA and its subsidiaries with the total limit of PLN 150.0 million. Under this agreement, ENERGA SA and companies of the ENERGA Group can take working loan facilities on the current account, either renewable or non-renewable, with the maturity period of 36 months, investment loans for up to 15 years and bank guarantees for up to 60 months. The loan agreement is not secured. The repayment of liabilities of the subsidiaries is based on the joint and severe liability of ENERGA SA established as the assumption of liabilities. In 2011, executive agreements were signed within the framework agreement for the total amount of PLN 119.0 million, which were not used as of 31 December 2011.

### Loan from Pekao SA

On 13 October 2011, ENERGA SA concluded a loan facility agreement with Pekao SA with the limit of PLN 200.0 million. The funds within this agreement can be used to finance the ongoing business or capital investments. The maturity of the credit limit is on 12 October 2016. The agreement is secured with financial covenants. As of the balance day of 31 December 2011, the loan was not used.

### Eurobond issue process

To secure financing for the investment outlays in 2012, the launch of the Eurobond programme has been planned. ENERGA SA has commenced the process of preparing the bond programme for the amount of EUR 1,000 million. If favourable conditions prevail on the international capital market, the programme should generate PLN 500 million within the first issue by the end of June 2012. If the market situation is less favourable, the first issue should be placed on the market before the end of 2012. The issuer of the Eurobonds will be a special purpose vehicle of the ENERGA Group, with its registered office in Sweden, while ENERGA SA will act as the guarantor of the issue.

## **42.2. Restructuring of the Group**

### Restructuring and reorganization of the distribution segment

In 2011, measures were taken with regard to restructuring and reorganizing Operator Systemu Dystrybucyjnego (DSO) (Distribution System Operator), the subsidiary company ENERGA – OPERATOR SA, and companies that support the operation of DSO.

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 DSO, 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 DSO, the following measures were taken:

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- the operation of the subsidiary companies Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (at present: ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. was transferred to 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 Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (at present: ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. concerning the lighting operation were transferred to ENERGA Oświetlenie Sp. z o.o.,
- the executive operations conducted by ZET Energohandel Sp. z o.o. was transferred to Energetyka Kaliska – Usługi Techniczne Sp. z o.o.,
- the design operations conducted by 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 ZEP – Inpro Sp. z o.o. (at present: ENERGA – OPERATOR Projektowanie Sp. z o.o.),
- the production operations of the subsidiary company Zakład Budownictwa Energetycznego Sp. z o.o. was transferred to Energetyka Kaliska Liczniki i Instalacje Sp. z o.o. (at present ENERGA – Operator Produkcja Sp. z o.o.),
- Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (at present: ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) acquired the business of Zakład Energetyczny Płock – Dystrybucja – Dystrybucja Zachód Sp. z o.o., thus taking over its operations, and
- ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o. took over the processes involved in the technical services of customers (including the installation and operation of measuring systems, and meter read-outs) together with some of their personnel from ENERGA – OPERATOR SA, Zakład Energetyczny Płock – Dystrybucja Wschód Sp. z o.o. (at present: ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.) and Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o.

### Model of sale and services in the ENERGA Group

On 25 February 2011, the project entitled 'Implementation of the effective model of sale and service in GK ENERGA' was initiated, aimed at using the complete income potential of the Group within sale and customer service, the comprehensive management of the Group's customer satisfaction and the improvement of cost efficiency of sale activity services.

As a part of the project, ENERGA Obsługa i Sprzedaż Sp. z o.o.:

- transferred to ENERGA - OPERATOR SA the operations and resources related to the processes of connections, illegal power consumption and non-energy services, and
- transferred to ENERGA - OBRÓT SA the operations and resources related to the sale processes to corporate clients and sale executive and support processes.

In December 2011, the basic capital of the subsidiary ENERGA - OBRÓT SA was increased by PLN 33.1 million. The increased capital was acquired by ENERGA SA and covered entirely with the shares in ENERGA Obsługa i Sprzedaż Sp. z o.o. After this transaction, ENERGA - OBRÓT SA became the sole shareholder of ENERGA Obsługa i Sprzedaż Sp. z o.o.

As a result of the above-mentioned transformation, ENERGA Obsługa i Sprzedaż Sp. z o.o. has become responsible for the strategic aims of ENERGA - OBRÓT SA within retail customer service and is focusing at present on:

- fulfilling effectively and efficiently the main optimization objective, i.e. the reduction of service costs, in particular contact costs and billing retail customers, and
- providing the effective implementation and maintenance of customer service standards to guarantee the increase of customer satisfaction with the services.

#### Ordering the ownership structure in the Group

As a part of ordering the ownership structure in the Group, the following transactions were carried out in 2011:

- ENERGA SA acquired from the State Treasury the minority package in ENERGA – OPERATOR SA and ENERGA Elektrownie Ostrołęka SA for the total amount of PLN 585.6 million. Moreover, the programme of obligatory redemption of shares in ENERGA – OPERATOR SA was conducted. As a result of these transactions, the share of ENERGA SA in the authorised capital of ENERGA - OPERATOR SA and ENERGA Elektrownie Ostrołęka SA as of 31 December 2011 amounted to 99.74% and 89.38% respectively, compared to 85.06% and 85.00% as of 31 December 2010;
- ENERGA SA acquired from Energetyka Kaliska - Liczniki i Instalacje Sp. z o.o., ENERGA Oświetlenie Sp. z o.o. and ZEP - Dystrybucja Zachód Sp. z o.o. shares in ENERGA Invest SA. As a result of this transactions ENERGA SA became a sole shareholder in ENERGA Invest SA;
- ENERGA SA acquired from ZEP - Dystrybucja Wschód Sp. z o.o. (at present: ENERGA OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.), ZEP - Dystrybucja Zachód Sp. z o.o. and ZEP - Operator Sieci Rozdzielczej Sp. z o.o. shares in ZEP - INFO Sp. z o.o. As a result, ENERGA SA became a sole shareholder in this company; and
- ENERGA SA acquired from ENERGA – OPERATOR SA and Zakład Budownictwa Energetycznego Sp. z o.o. shares in ENERGA Oświetlenie Sp. z o.o., thus becoming the sole shareholder in this company.

Other changes in the ENERGA Group have been described in note 2 'Group Composition' and note 30 'Mergers of businesses' of these consolidated financial statements.

### **42.3. 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 13 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 SA 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.

Until signing these financial statements, no valid decisions have been taken in this regard. The first hearing at the Court of Consumer and Competition Protection has been scheduled on 14 May 2012.

#### **42.4. Tax group ENERGA – OPERATOR**

On 28 December 2011, subsidiary ENERGA – OPERATOR SA and its associated entities:

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

concluded the agreement of the Tax Capital Group under the name PGK ENERGA–OPERATOR (PGK). The agreement has been concluded for 3-year term. The parent company that represents the Group is ENERGA–OPERATOR SA. PGK will start to operate on 1 April 2012.

#### **42.5. Construction of the combined cycle power plant in Grudziądz**

Subsidiary Elektrownia Grudziądz sp. z o.o. w organizacji with its registered office in Grudziądz was established on 19 April 2011 by ENERGA Invest SA and Electricity Supply Board International Investments B.V. (ESBI) with the authorised capital of PLN 12 million. Each of the shareholders was to acquire 50% of shares by covering them with a contribution in cash.

Due to differences in the formula of the project execution, the partners did not pay the whole amount for the authorised capital. Therefore, the District Court in Toruń rejected the application for registering this entity. As it was not possible to reapply and the statutory deadline for the registration of the company had expired (6 months since the conclusion of the articles of association), the partners started discussions on closing the entity formally.

The ENERGA Group will continue this investment project without a partner. At present, the project is at the stage of awarding a building design contract and the final phase of important negotiations concerning the grid connection agreements with PSE Operator and GAZ-SYSTEM. The agreements are to be signed in the first half of 2012.

#### **42.6. Consortium of ENERGA SA and Instytut Maszyn Przepływowych im. Roberta Szewalskiego Polskiej Akademii Nauk (Institute of Fluid-Flow Machinery PAS)**

In 2010, ENERGA SA and Institute of Fluid-Flow Machinery PAS established the Research-Industry Consortium.

As of the day of preparing these financial statements, the following research and implementation tasks had been completed:

- developing the technology of electricity and heat production with biomass and waste, in particular using the gassing method and pyrolysis, biological conversion and fuel cells;
- developing an effective method of liquid fuel production from biomass and waste to produce energy and heat;
- the analysis of potential integration of developed technologies through their connection with mass, heat and energy streams; and
- the implementation profitability assessment for the developed technologies.

The technologies and concepts developed in the project will be based on renewable energy sources (biomass and waste) and will be a part of the dispersed energy system. The provided technological solutions will increase the share in electricity production from renewable energy sources by the ENERGA Group and will enable it to sell rights to the production technologies of dispersed renewable energy sources.

#### **42.7. 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 (FW Przykona).

In 2011, the work of the Consortium to develop the wind power sector in the decommissioned area of Kopalnia Węgla Brunatnego 'Adamów' SA focused on the 1st stage of the project, namely the preparatory stage for FW Przykona of the installed power up to 36 MWe. The priority was given to the organization of the project through the preparation and consultation with the partner of any documents necessary for establishing a special purpose vehicle dedicated to the project execution. In parallel, work was conducted in the technical and environmental areas, i.e. the preliminary geotechnical tests, monitoring of land sedimentation in the dumping ground of the mine and the preliminary environmental monitoring. The wind measurements from the meteo mast installed at the mine are still being analysed.

#### **42.8. Strategic alliance with Philips Lighting Poland**

On 30 June 2011, a letter of intent was signed concerning a strategic alliance between the ENERGA Group and Philips Lighting Poland. The planned effects of the cooperation include the implementation of modern and energy-saving lighting technologies for local communities and industry, the improvement of lighting quality and the development of new services. The document provides a catalogue of common tasks that should result in the success of the alliance. The parties undertook to determine an action plan focused on the cooperation within the implementation of new lighting technologies, the joint execution of lighting projects, the development of businesses on the domestic lighting market and marketing activities. The first step in this cooperation was the test illumination in the LED technology prepared by subsidiary Energa Oświetlenie Sp. z o.o. (the company responsible for the execution of the alliance) with Philips Lighting Poland.

## **42.9. ENERGA Wisła Programme**

The Wisła Programme executed by the ENERGA Group is aimed at the construction of a dam with a hydro plant in the Vistula River downstream 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 probably in 2017) and its value is estimated at about PLN 2 500 million.

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).

At present, work is being conducted on the Location Study, Feasibility Study and the Environmental Impact Assessment. As a result, it will be possible to detail the technical and location data for the investment project and to apply for an environmental decision that will make it possible to carry out the investment project at Nature 2000 sites.

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

On 28 April 2010, the subsidiary ENERGA Invest SA and Grupa LOTOS S.A. signed a consortium agreement wherein the partners declared to prepare a joint execution of a power plant construction to be fed with synthesis gas.

Within the preparation of the project, the partners have started their cooperation aimed at preparing a model of economic efficiency of the project, making environmental consultation and the selection of an optimum technology. As a result, the 'Final report on the preparation phase for the COWAT project – September 2011' was drawn up, including conclusions and recommendations concerning the project. The detailed analyses carried out by representatives of both partners showed that there were no grounds for any further cooperation in respect of this project.

## **42.11. 'Environmental Management System and Sustainability Mechanisms' Project**

The project entitled 'Environmental Management System and Sustainability Mechanisms' was established in September 2011 to implement the most important requirements of the EMAS Eco-Management and Audit Scheme. The accomplishment of the project is planned in 2012-2013. The tasks within this project include environmental reviews of the companies, trainings for the management boards, managers and internal auditors as well as the preparation of joint system procedures (according to the requirements of ISO 14001). Moreover, measures were taken to determine the sustainability indices and the publication of the Corporate Social Responsibility report.

## **42.12. ENERGA Trading SFIO investment fund**

31 December 2011 was the second anniversary of the sub-fund ENERGA Trading 1 established by ENERGA SA and managed by Union Investment TFI SA. During the year,

8 companies of the Group joined the fund, increasing the number of participants to 25, of which 22 may execute coupled orders. As of the end of 2011, assets collected in the sub-fund ENERGA Trading 1 amounted to PLN 1 194 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.

### **42.13. Social Agreements 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:

- a guarantee with regard to restructuring terms and conditions,
- a special bonus related to the consolidation for distribution companies and subsidiaries,
- employment guarantee,
- remuneration guarantee,
- social and health protection guarantees,
- 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.

#### **42.14. 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 formally 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 2011, 13,643 persons decided to convert shares of consolidated companies into the shares of consolidating company. In total, they acquired 668,408,326 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.

#### **42.15. 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 2009-2011, a growing number of cases in terms of their value and number were recorded against ENERGA-OPERATOR SA.

The amount of the recognized provision due to such claims amounted to PLN 60.7 million as of 31 December 2011, while the conditional liabilities were at PLN 62.0 million.

#### **42.16. Claims of Państwowe Gospodarstwo Leśne Lasy Państwowe (State Forests)**

On 5 December 2011, the Agreement was signed concerning the rules of establishing transmission line easement between subsidiary ENERGA – OPERATOR SA and the State Treasury – Państwowe Gospodarstwo Leśne Lasy Państwowe (State Forests), resulting in the regulations of rights to the power equipment on real properties of the State Forests, in the form of transmission line easement contracts certified by a notary public. The Agreement will result in establishing the transmission line easement on real properties that cover more than 20 thousand plots of land entered in 2 thousand land and mortgage registers.

The solutions adopted in the transmission line easement contracts will be used by other distribution and transmission entities as the model of specific legal regulations that sanction the condition of grid equipment.

The question of remuneration is of special importance. It has been determined according to the value of taxes and fees incurred by the State Forests on the part of real properties where the use is limited by the transmission line easement. On the other hand, as regards farming land, the area for which remuneration for establishing the transmission line easement is due has been adopted as 40 m<sup>2</sup> per one kilometre of a line.

As a result of the signed Agreement, transmission line easement agreements will be executed, which will be used by ENERGA–OPERATOR SA to govern the legal status of about:

- 320 km of 110 kV lines, i.e. about 5% of the total length of HV lines of the Company,

- 2300 km of 20 kV and 15 kV lines, i.e. about 3.5% of the total length of MV lines of the Company,
- 800 km of 0.4 kV lines, i.e. less than 1% of the total length of LV lines of the Company,
- 200 km cable lines (underground), i.e. about 0.5% of the total length of cable lines of the Company, and
- 3.1 thousand ha of real properties developed with overhead and cable power lines.

The above-mentioned event is the 2nd stage, i.e. the continuation of the Framework Agreement made on 25 October 2010 between ENERGA-OPERATOR SA and the State Treasury – Państwowe Gospodarstwo Leśne Lasy Państwowe, to determine the rules and conditions of cooperation within the operation of grid lines erected on forest land.

#### **42.17. Property tax**

In previous years, some of the transformer stations were reclassified from structures into buildings. As a result of this change, the subsidiary, ENERGA – OPERATOR SA applied to municipalities (gminas) for confirming the overpayment due to property tax. This position is supported by e.g. the letter of the Director of Tax and Local Charges Department of 31 January 2007 concerning property tax on telecommunication and power network structures, as well as the sentence of the Supreme Court of Administration of 24 August 2008, ref. No. II FSK 418/08, and opinions of experts held by the Group. Some of the tax authorities have not granted the submitted applications, resulting in disputes with thirteen municipalities.

At the end of 2011, positive opinions were issued concerning Gruta Gmina and Kowalewo Pomorskie. The tax authority wanted to add into the calculation the value of switching stations, stations, transformers, remote radio switches, transformers, batteries, condensers, fencing of the Main Power Supply Points, etc. The appeal to the Local Government Appellant Tribunal (SKO) revoked the decision of the Voigt of Gruta Gmina and the Mayor of Kowalewo Pomorskie, recognising the arguments of ENERGA – OPERATOR SA. As a result, the overpayment of tax for 2003-2008 amounted to PLN 468 thousand.

Due to the risk of unfavourable resolutions of disputes with tax authorities, as of 31 December 2011 the provision due to property tax amounted to PLN 883 thousand, while the interest provision was at PLN 266 thousand.

Moreover, in the subsidiary ENERGA – OPERATOR SA the control proceedings are pending with regard to the method of determining the so-called 'structure' in case of grid structures as well as the taxation of transformers in pole transformer stations and switches controlled by radio.

#### **42.18. Dispute concerning PSE SA and PKN ORLEN SA**

In July 2003 PSE SA (at present: PSE – Operator, hereinafter: PSE) 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 62.5 million, 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 46.2 million 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. At the hearing on 2 June 2005, the court officially suspended the proceedings until completion of the legal proceedings with PSE SA, 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 SA and PKN ORLEN SA 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, 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 ENERGA OPERATOR. 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 ENERGA OPERATOR SA.

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 46.2 million and statutory interest accrued from 30 June 2004 and reimbursement of the legal fees of PLN 254 thousand by PKN ORLEN SA to ENERGA – OPERATOR SA. On 30 September 2009 PKN ORLEN SA aid all the awarded amount including interest, i.e. PLN 75.6 million 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 capitalized interest as an element of damage; the damage comprises the main liabilities, which PKN should pay as an auto-producer, and interest accrued for the consecutive months of the disputed period (from 5 July 2001 to 30 June 2002), and

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- 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 SA, 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 summarize, the value of the claim adjudged so far may change, if the Appellate Court decides that the capitalized interest should not belong to the damage. Therefore, the provision of PLN 34.9 million has been created in the books of ENERGA OPERATOR SA as of 31 December 2010.

In March 2011, ENERGA OPERATOR SA paid PKN Orlen SA the amount of PLN 30.1 and used the created provision.

On 4 August 2011, the Appellate Court in Warsaw took a decision to repeat the proceedings in this case in a lower instance. On 25 August, ENERGA-OPERATOR SA received a request for payment of PLN 45.4 million from PKN Orlen SA (main liability) and PLN 254 thousand (costs of proceedings in the first and second instance) with interest from 18 February 2011 to the date of payment. The liability was paid on 28 November 2011, and the interest was booked as a provision in the amount of PLN 145 thousand.

Next, the Appellate Court, having heard the case again upon the action by PSE and considering the instructions of the Supreme Court, in the sentence of 21 September 2011 changed the sentence of the District Court of 25 March 2008 and dismissed the action of PSE in whole.

On 30 September 2011, ENERGA – OPERATOR SA received the adjudged amount of PLN 123 million.

acting Director of the  
Consolidated Reporting Department  
*Marek Pertkiewicz*

.....  
(date and signature)

Chairman  
of the Management Board

*Miroslaw Bieliński*

.....  
(date and signature)

Chief Financial Officer

*Aleksandra Gajda - Gryber*

.....  
(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.**