ZESPÓŁ ELEKTROWNI
PĄTNÓW – ADAMÓW – KONIN S.A. CORPORATE GROUP

CONSOLIDATED FINANCIAL STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013
ALONG WITH THE OPINION OF THE INDEPENDENT STATUTORY AUDITOR

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

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CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2013

	Note	*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Continued activities			
Sales revenues	*14.1*	**2 763 840**	**2 723 394**
Prime cost	*14.6*	(2 254 096)	(2 098 787)
Gross profit/(loss) on sales		**509 744**	**624 607**
Other operating income	*14.2*	25 847	12 224
Selling costs	*14.6*	(2 973)	(3 437)
Overheads	*14.6*	(149 093)	(133 943)
Other operating costs	*14.3*	(24 978)	(15 874)
Gross profit/(loss) on operating activities		**358 547**	**483 577**
Financial revenues	*14.4*	18 834	83 451
Financial costs	*14.5*	(77 626)	(70 287)
Gross profit/(loss)		**299 755**	**496 741**
Income tax (tax load)	*16.1*	(68 249)	(93 965)
Net profit/(loss) on continued activities		**231 506**	**402 776**
Abandoned activities		–	–
Profit/(loss) for the financial year on abandoned activities		–	–
Net profit/(loss) for the financial year		**231 506**	**402 776**
Net profit/(loss) attributable to majority shareholders		216 946	406 495
Net profit/(loss) attributable to minority shareholders		14 560	(3 719)
Earnings per share (in PLN)			
Basic from the profit for the financial year, attributable to shareholders of the parent company	*18*	4.27	7.76
Basic from the profit on continued activities, attributable to shareholders of the parent company	*18*	4.27	7.76
Diluted from the profit for the financial year, attributable to shareholders of the parent company	*18*	4.27	7.76
Diluted from the profit on continued activities, attributable to shareholders of the parent company	*18*	4.27	7.76

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
for the year ended 31 December 2013

	Note	*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Net profit for the period		**231 506**	**402 776**
Other comprehensive income			
Cash flow hedges	*15*	11 712	(6 049)
Exchange rate differences from translation of a foreign entity	*15*	41	(575)
Actuarial profits/(losses) concerning provisions for employee benefits after the period of employment		(364)	(19 042)
Income tax relating to other comprehensive income	*16.1, 15*	(2 156)	4 767
Net other comprehensive income	*15*	**9 233**	**(20 899)**
COMPREHENSIVE INCOME FOR THE PERIOD		**240 739**	**381 877**
Comprehensive income attributable to:			
Majority shareholders		226 179	385 596
Minority shareholders		14 560	(3 719)
		240 739	**381 877**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Note	*31 December 2013*	*31 December 2012 (transformed data)*
ASSETS			
Fixed assets			
Tangible fixed assets	*19*	4 990 212	5 063 560
Investment properties		2 225	2 252
Intangible assets	*21*	31 455	6 835
Loans and receivables		–	–
Stripping assets and other mining assets (long-term)	*22*	138 712	113 083
Other long-term financial assets	*23.1*	25 184	46 398
Other long-term non-financial assets	*23.2*	48 926	4 155
Amounts due from clients under PPAs		–	–
Deferred tax asssets	*16.3*	101 992	123 330
Total fixed assets		**5 338 706**	**5 359 613**
Current assets			
Short-term intangible assets	*21*	151 262	35 368
Inventory	*25*	212 468	188 325
Trade receivables and other receivables	*26*	197 847	220 559
Receivables under income tax		22 049	12 258
Other short-term financial assets	*23.1*	96 340	103 697
Other short-term non-financial assets	*23.2*	7 501	17 230
Stripping assets and other mining assets (short-term)	*22*	556	527
Amounts due from clients under PPAs	*14.8*	13 229	3 605
Cash and cash equivalents	*27*	430 978	318 002
Total current assets		**1 132 230**	**899 571**
Fixed assets classified as intended for sale		–	–
TOTAL ASSETS		**6 470 936**	**6 259 184**

LIABILITIES	*Note*	*31 December 2013*	*31 December 2012 (transformed data)*
Equity			
Initial capital	*28*	101 647	104 052
Own shares	*29*	-	(31 280)
Supplementary capital	*30*	2 200 508	1 956 261
Measurement capital of hedging instruments		(18 831)	(28 318)
Other reserve capitals	*30.1*	5 877	3 472
Retained profits / Uncovered losses		1 276 436	1 131 161
Net profit (loss)		216 946	406 495
Exchange rate differences from translation of a foreign entity		33	(8)
Non-controlling shares	*30.3*	-	117
Total equity		**3 782 616**	**3 541 952**
Long-term liabilities			
Interest-bearing credits and loans	*31*	652 323	790 385
Long-term employee benefits	*24.1*	223 889	264 261
Long-term trade liabilities and other financial liabilities	*34.2*	60 041	73 332
Long-term derivative financial instruments (liabilities)	*34.4*	15 821	26 059
Long-term grants and deferred income	*34.5*	49 286	51 298
Other long-term provisions and accruals	*32*	301 547	320 881
Amounts due to clients under PPAs		–	–
Deferred income tax provision	*16.3*	313 170	265 959
Total long-term liabilities		**1 616 077**	**1 792 175**
Short-term liabilities			
Short-term trade liabilities and other financial liabilities	*34.1*	241 586	188 200
Current part of interest-bearing credits and loans	*31*	405 724	461 924
Short-term derivative financial instruments (liabilities)	*34.4*	9 420	11 144
Other non-financial liabilities	*34.3*	143 931	128 224
Income tax liabilities		1 326	1 670
Short-term employee benefits	*24.1*	22 988	20 817
Short-term grants and deferred income	*34.5*	1 982	1 958
Amounts due to clients under PPAs	*14.8*	8 070	3 080
Other short-term provisions and accruals	*32*	237 216	108 040
Total short-term liabilities		**1 072 243**	**925 057**
Liabilities related directly to fixed assets classified as intended for sale		–	–
Total liabilities		**2 688 320**	**2 717 232**
TOTAL LIABILITIES		**6 470 936**	**6 259 184**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2013

	Note	*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Cash flows from business activities			
Gross profit/(loss)		299 755	496 741
Adjustment by items:			
Depreciation and amortization	*27*	355 855	278 357
Interest and shares in profit		46 564	45 693
Foreign exchange (gain)/loss		18 975	(39 956)
(Profit)/loss on investment activities		(5 580)	(18 008)
(Increase)/decrease in receivables	*27*	19 578	142 987
(Increase)/decrease in inventory	*27*	(24 143)	(6 292)
Increase /(decrease) in liabilities, excluding credits and loans	*27*	29 178	(85 209)
Change in provisions, accruals and employee benefits	*27*	107 008	16 908
Income tax paid		(9 834)	(48 641)
Expenditures on purchase of CO^2 allowances		(176 444)	
Other	*27*	(2 796)	(9 708)
Net cash from operating activities		**658 116**	**772 872**
Cash flows from investment activities			
Disposal of tangible fixed assets and intangible assets		16 084	5 859
Purchase of tangible fixed assets and intangible assets		(311 236)	(331 078)
Inflows and outflows related to other financial assets		30 620	63 957
Purchase of other financial assets		(2 023)	(2 423)
Purchase of a subsidiary after deduction of taken over funds	*12*	–	(244 135)
Received dividends		5 075	54
Interest received		1 000	(261)
Other		-	6 996
Net cash from investment activities		**(260 480)**	**(501 031)**
Cash flows from financial activities			
Inflows from issuance of shares		–	–
Purchase of own shares		–	(31 280)
Repayment of liabilities under financial lease		(18 783)	(14 440)
Inflows from credits, loans and debt securities		80 169	614
Repayment of credits, loans and debt securities		(293 172)	(225 050)
Dividends paid		-	(17)
Interest paid		(46 883)	(62 391)
Other		(589)	664
Net cash from financial activities		**(279 258)**	**(331 900)**
Net increase/(decrease) in cash and its equivalents		**118 378**	**(60 059)**

Accounting principles (policies) and additional explanatory notes to the consolidated financial statement are its integral part.

Opening balance of cash		**312 939**	**372 998**
Closing balance of cash, including	*27*	**431 317**	**312 939**
With limited possibility of disposal		10 208	1 074

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

	Note	*Initial capital*	*Own shares*	*Supplementary capital*	*Capital from measurement of hedging instruments*	*Other reserve capitals*	*Retained profits / Uncovered losses*	*Exchange rate differences from foreign currency translation*	*Total*	*Non-controlling shares*	*Total equity*
As at 01 January 2013		**104 052**	**(31 280)**	**1 956 261**	**(28 318)**	**3 472**	**1 529 264**	**(8)**	**3 533 443**	**117**	**3 533 560**
Change in the accounting policy in connection with the implementation of IFRIC 20 - retrospective recognition		–	–	–	–	–	6 469	–	6 469	–	6 469
Change in connection with the final settlement of the purchase of KWB A and KWB K		–	–	–	–	–	**1 923**		**1 923**		**1 923**
Data transformed as at 1 January 2013		**104 052**	**(31 280)**	**1 956 261**	**(28 318)**	**3 472**	**1 537 656**	**(8)**	**3 541 835**	**117**	**3 541 952**
Net profit for the period		–	–	–	–	–	216 946	–	216 946	14 560	231 506
Total other comprehensive income		–	–	–	9 487	–	(295)	41	9 233	–	9 233
Comprehensive income for the period		–	–	–	**9 487**	–	**216 651**	**41**	**226 179**	**14 560**	**240 739**
Distribution of previous years' profits		–	–	275 527	–	–	(275 527)	–	–	–	–
Redemption of own shares		(2 405)	31 280	(28 875)	–	–	–	–	–	–	–
Establishment of reserve capital from supplementary capital		–	–	(2 405)	–	2 405	–	–	–	–	–
Effect of settlement of put option on non-controlling shares	*30.3*	–	–	–	–	–	14 560	–	14 560	(14 560)	-
Repurchase of non-controlling share of Energoinwest		–	–	–	–	–	–	–		(117)	(117)
Other		–	–	–	–	–	42	–	42	–	42
As at 31 December 2013		**101 647**	–	**2 200 508**	**(18 831)**	**5 877**	**1 493 382**	**33**	**3 782 616**	–	**3 782 616**

Accounting principles (policies) and additional explanatory notes to the consolidated financial statement are its integral part.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012
(transformed data)

	Note	*Initial capital*	*Own shares*	*Supplementary capital*	*Capital from measurement of hedging instruments*	*Other reserve capitals*	*Retained profits / Uncovered losses*	*Exchange rate differences from foreign currency translation*	*Total*	*Non-controlling shares*	*Total equity*
As at 1 January 2012		**104 052**	**–**	**1 671 610**	**(23 418)**	**3 472**	**1 473 200**	**567**	**3 229 483**	**90**	**3 229 573**
Net profit for the period		–	–	–	–	–	406 495	–	406 495	(3 719)	402 776
Total other comprehensive income		–	–	–	(4 900)	–	(15 424)	(575)	(20 899)	–	(20 899)
Comprehensive income for the period		**–**	**–**	**–**	**(4 900)**	**–**	**391 071**	**(575)**	**385 596**	**(3 719)**	**381 877**
Distribution of previous years' profits		–	–	283 746	–	–	(283 746)	–	–	–	–
Agreeing supplementary capital with the statutory data		–	–	905	–	–	(905)	–	–	–	–
Purchase of own shares		–	(31 280)	–	–	–	–	–	(31 280)	–	(31 280)
Purchase of Elektrim-Volt		–	–	–	–	–	(31 851)	–	(31 851)	–	(31 851)
Purchase of PAK KWB Konin and PAK KWB Adamów		–	–	–	–	–	–	–	–	30 971	30 971
Share-based payment program		–	–	–	–	–	(5 412)	–	(5 412)	(955)	(6 367)
Effect of settlement of put option on non-controlling shares	*30.3*	–	–	–	–	–	(4 701)	–	(4 701)	(26 270)	(30 971)
As at 31 December 2012		**104 052**	**(31 280)**	**1 956 261**	**(28 318)**	**3 472**	**1 537 656**	**(8)**	**3 541 835**	**117**	**3 541 952**

ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

1. General

The Zespół Elektrowni Pątnów – Adamów – Konin S.A. Corporate Group ("the Group") consists of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ("the parent company", "the Company", "ZE PAK S.A.") and its subsidiaries (see Note 2). The consolidated financial statement of the Group covers the year ended 31 December 2013 and contains the comparative data for the year ended 31 December 2012. The parent company is entered into the Register of Entrepreneurs of the National Court Register kept by the District Court Poznań – Nowe Miasto and Wilda in Poznań, 9th Commercial Division of the National Court Register, under KRS number 0000021374.

Statistical REGON number assigned to the Entity: 310186795.

Duration of the parent company and of the entities comprising the Corporate Group is indefinite.

The main object of the Group's activities covers:

1. Production and sale of electricity,
2. Production and sale of heat (steam and hot water),
3. Lignite extraction.

2. Composition of the Group

The Group includes Zespół Elektrowni Pątnów – Adamów – Konin S.A. and the following subsidiaries:

Entity	Seat	Scope of activities	Percentage share of the Group in capital	
			As at 31.12.2013	As at 31.12.2012
Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.*	62-510 Konin ul. Przemysłowa 158	Repair and construction services	100%	100%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń Elektrycznych EL PAK sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services with regard to servicing industrial automation systems and electrical equipment	100%	100%
"Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Production and distribution of electricity from the new unit 464 MW	100%**	100%**
"PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activities	100%	100%
"PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction works with regard to engineering structures not elsewhere classified	100%	100%
"PAK Centrum Usług Informatycznych" sp. z o.o.	62-510 Konin ul. Kazimierska 45	IT services	100%	100%
"PAK Centrum Badań Jakości" sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Chemical tests and analyses	100%	100%
"PAK GÓRNICTWO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal mining	100% **	100% **
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Repair and construction services	100%****	99%****
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Lignite mining	85%	85%
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Lignite mining	85%	85%
Ochrona Osob i Mienia "ASEKURACJA" sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Protection of people and property	85%*****	85%*****
"Aquakon" sp. z o.o.	62-610 Sompolno Police	Production and sale of mineral waters	66.6%*****	66.6%*****
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Sale of lignite	85%*****	85%*****
KWE sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, production of electricity	42.5%*****	42.5%*****
Centrum Zdrowia i Relaksu "Verano" sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Vacation and sanatorium services	85%*****	85%*****
Elektrim-Volt S.A.	00-834 Warsaw ul. Pańska 77/79	Sale of electricity	100%	100%

** Subsidiary – Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o. has a foreign branch in Germany*
***indirect share through "PAK – HOLDCO" sp. z o.o.*
**** indirect share through PAK Centrum Badań Jakości Sp. z o.o. 9% as at 31 December 2012 and as at 31 December 2013. On 20 October 2013, the shareholders of PAK Górnictwo Sp. z o.o. decided to increase the Company's initial capital. Changes in KRS were made on 17 February 2014 and since then the shareholding structure in the company has been as following: ZE PAK SA – 94%, PAK CBJ Sp. z o.o. - 6%*
*****indirect share through Przedsiębiorstwo Remontowe PAK SERWIS Sp. z o.o.*
******indirect share through PAK KWB Konin (direct share of PAK KWB Konin "Aquakon" sp. z o.o. is 78.4%, 50% in KWE Sp. z o.o., and 100% in other companies).*

As at 31 December 2013, share in the overall number of votes in the Group's subsidiaries is equal to the Group's share in capitals of these entities.

During the year ended 31 December 2013, the composition of the Corporate Group did not change.

3. Composition of the Management Board of the parent company

At the beginning of the financial year 2013, the Company's Management Board consisted of the following members:

• Katarzyna Muszkat	President of the Management Board
• Anna Striżyk	Vice President of the Management Board
• Piotr Jarosz	Vice President of the Management Board

The composition of the Company's Management Board as at the date of approval of the statement, namely as at 18 March 2014, remained unchanged.

4. Approval of the financial statement

This consolidated financial statement was approved for publication by the Management Board on 18 March 2014.

5. Significant values based on professional judgment and estimates

5.1. Professional judgment

In the process of applying the accounting principles (policy) towards the below issues, the most important, apart from accounting estimates, was professional judgment of the management.

Capitalization of foreign exchange differences

In connection with the implemented investments, the companies of the Group use sources of borrowing costs.

Financing costs, directly attributable to the investments being implemented, are capitalized in fixed assets under construction until transfer of a fixed asset to use.

The companies capitalize foreign exchange differences related to the received credits and loans in a foreign currency to a degree to which they are adjustment of interest costs. The Group applies the cumulative approach with regard to capitalization of borrowing costs. The cumulative approach treats investment as a whole, therefore the amount of foreign exchange differences that can be capitalized as adjustment of external financing costs in the reporting period may be subject to changes along with fluctuations in exchange rates during the investment period.

The activation covers exchange rate gains and losses being adjustment of included interest, being difference between costs of financing the entity would sustain if it contracted credit in the functional currency, and the actually sustained costs of financing under credit contracted in a foreign currency. This method requires determination of theoretical interest that would arise if the entity contracted credit in the functional currency. This amount is a limit up to which it is possible to activate cost of interest and foreign exchange differences contracted in a currency other than the functional currency.

Classification of lease agreements

The Group classifies lease as operational or financial lease, based on assessment of the extent to which risk and profits in respect of having the leased object are attributable to the lessor and to the lessee. This assessment is based on the economic content of each transaction.

Identification of embedded derivatives

As at each reporting date, the management of the Group conducts assessment whether under the concluded agreements there are economic characteristics and risk applicable to the embedded derivative in a foreign currency that would not be closely related to the economic characteristics and the risk applicable to the host agreement.

5.2. Uncertainty of estimates

Below are discussed basic assumptions concerning the future and other key sources of uncertainty as at the reporting date which may involve large risk of a significant adjustment of balance sheet values of assets and liabilities in the next reporting periods.

Impairment of assets

As a result of conducted studies as at 31 December 2013, the Group identified an external factor that could indicate possible impairment of an asset component, which is higher net balance sheet value of the net assets of the Group than the value of their market capitalization. As a result, the Group conducted impairment tests of fixed asset components. The test results are described in note 19.

Valuation of provisions under employee benefits

Provisions under employee benefits were estimated by using actuarial methods. The assumptions adopted for that purpose are presented in note 24.1.

The estimate was prepared on the basis of the following main assumptions:

- discount rate 4.0%
- expected inflation rate 2.5%
- expected remuneration growth rate 3%, in the case of PAK KWB Konin PAK KWB Adamów **0%** in the years 2014 -2015 and **3.0%** annually in 2016 and the subsequent years
- expected energy price growth rate 3%

Changes in financial ratios being the basis for the estimate would result in changing balance of provisions by the amounts presented in the table below.

	(+) increase by 1 p.p.	(-)decrease by 1 p.p.
Discount rate	(22 717)	27 050
Remuneration growth rate	26 856	(21 081)
Energy price growth rate	5 778	(4 803)

Deferred tax asset component

The Group recognizes deferred tax asset component based on the assumption that in the future tax profit will be earned, allowing its using. Deterioration in the obtained tax results in the future could make this assumption unjustified.

Fair value of financial instruments

The fair value of financial instruments for which the active market does not exist will be fixed by using appropriate measurement techniques. When selecting appropriate methods and assumptions, the Group follows professional judgment. The method of determining fair value of particular financial instruments is presented in note 10.16 .

Capitalization of stripping costs in the production phase

In justified cases, as specified in IFRIC 20, the Group capitalizes costs of stripping in the open pit production phase. The basis for capitalization of costs is fulfilment of the following conditions: the Group is likely to obtain future economic benefits related to stripping, the Group is able to identify this part of the coal deposit access to which has been facilitated, and costs related to stripping concerning this part of the deposit may be measured credibly. The Group verifies estimates concerning the aforementioned criteria to ensure correct capitalization of costs.

Period of settlement for stripping assets and other mining assets

The Group verifies periodically the agreed periods of settlement of stripping assets and other mining assets, on the basis of up-to-date forecasts with regard to the period of exploitation of mine pits.

Share-based payments

For the purpose of settlement of employee shares, it was adopted that the date of obtaining rights to shares was the date of commercialization of the Company, and the date of granting rights to shares was the date of the final hanging out lists with the number of shares granted to the employees of PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. The fair value of the program as at the date of taking over control was specified on the basis of fair value of PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. The process of making shares available to the entitled employees began in February 2013 and will last until 20 October 2014. The share redemption price is specified in PAK KWB Konin and PAK KWB Adamów share sale agreements of 28 May 2012 and was determined at the level of the price of purchase of the previously purchased shares in the mine, adjusted by Consumer Price Index.

Compensation related to PPAs termination

The subsidiary "Elektrownia Pątnów II" sp. z o.o. receives compensations to cover stranded costs pursuant to the Act of 29 June 2007 regulating the compensation of power producers' stranded costs resulting from the early termination of long-term power purchase agreements. Revenue under compensations is recognized gradually to the obtained rights to compensations, until the end of the period of their validity. In order to estimate the value of revenue attributable to a given period, the company makes estimates to determine the ratio of the estimated stranded costs to the total amount of received, refunded and expected discounted annual advanced (including so far received advances), annual adjustments and planned final adjustment.

The impact of the change in estimates is described in note 9.

"Elektrownia Pątnów II" sp. z o.o., in accordance with the adopted accounting policy, on the basis of the built financial model, recognized in the years 2013 and 2012 revenues under compensations in the amount of PLN 155 239 thousand and PLN 83 635 thousand, respectively. On the basis of the decision of the President of Urząd Regulacji Energetyki S.A. of 31 July 2009, the company was obliged to refund to the compensation system administrator, Zarządca Rozliczeń S.A., the amount of PLN 52 493 thousand, under adjustment of the stranded costs for the year 2008. The company's Management Board, rejecting the decision of the President of ERO, filed an appeal with the District Court in Warsaw – the Court for Protection of Competition and Consumers ("SOKiK"). On 23 September 2009, the Court ruled on withholding the execution of the respective part of the decision and ordered payment of the amount of PLN 26 493 thousand.

On 1 December 2010, SOKiK pronounced a sentence dismissing the appeal of the company against the decision of the President of ERO and acknowledged the arguments of the President of ERO valid. The Company conducted a detailed legal study of the issue in cooperation with a reputable law office and on 9 February 2011 filed an appeal with the Court of Appeal in the first instance.

As a result of the appeal of Elektrownia Pątnów II sp. z o.o, the Court of Appeal in Warsaw, by way of the sentence of 11 October 2012, changed the unfavourable for the company ruling of SOKiK. The payment request was issued in the total amount of PLN 55 576 thousand. On 22 October 2012, Zarządca Rozliczeń S.A. paid the above amount to the account of the company. The amount of the adjudged adjustment for 2008, in the part that is not entered in revenue under PPAs for 2008 (namely the amount of PLN 11 971 thousand), was entered as other operating income for 2012. The decision of the Court of Appeal confirmed that "Elektrownia Pątnów II" sp. z o.o. had calculated adjustments correctly in each of the previous periods, and consequently the company did not change the principles of determination of revenues under compensations for the year 2012 and for the previous years. The President of ERO filed a cassation appeal against the sentence of the Court of Appeal.

Recognition of revenues

The Group applies the method of percentage progress in works for settlement of PPAs. The use of this method requires the Group to estimate the proportion of the so far completed works to the whole of services to be provided.

At each reporting date, the Group updates estimates of the budgeted comprehensive income and costs arising from the implemented projects. The expected total loss on a PPA is entered into costs of the period when it was recognized, in accordance with IAS 11.

Depreciation rates

Depreciation rates are determined on the basis of the expected period of economic usability of components of tangible fixed assets and intangible assets. The Group conducts annually verification of the adopted periods of economic usability on the basis of current estimates.

Receivables impairment write-downs

At the reporting date, the Group assesses whether there are objective evidence for impairment of a component of receivables or group of receivables. If the recoverable value of an asset component is lower than its recoverable balance sheet value, a given entity makes a write-down to the current level of the planned cash flows.

Provision for liquidation of components of tangible fixed assets

The Group creates a provision for liquidation of components of tangible fixed assets when there is such an obligation or when the management of the Group assumes this obligation. The provision is created in the amount

resulting from the received offers concerning liquidation of fixed asset components. The Group revalues the provision as at each reporting date. The value of the provision under liquidation of components of tangible fixed assets is discounted as at each reporting date. The provision is described in note 32.3.2.

Provision for dismantling of ash storage yards

The Group creates a provision for dismantling of ash storage yards owing to the legal condition resulting from the integrated permits. The basis for estimation of the provision are studies, technical and economic analyses prepared by the Group as well as received external offers for the planned directions of reclamation. At the end of each reporting period, the Group revalues the provision. The provision is described in note 32.3.2.

Reclamation provisions and other provisions related to mining operations

The Group creates a provision both for costs of land reclamation related to current extraction of coal on a given surface mine and costs of reclamation of the final heading. The provision is created on the basis of the estimates of future costs of reclamation as well as of the adopted dates of beginning and completion of reclamation, on the basis of reports of independent experts estimating reclamation costs, prepared to the order of the Management Board, and internal estimates of the Group, and discounted as at each reporting day. Provisions described in note 32.3.3.

Provision for liabilities under greenhouse gas emission and provisions for cancellation of certified emission reduction units (CERs)

The Group recognizes the provision for cancellation of greenhouse gas allowances and certified emission reduction units. In connection with the end of the settlement period of allocation of allowances, KPRU II, and the non-completed process of allocation of free allowances for the next settlement period, the Group created a provision for cancellation of CO2 allowances as at 31 December 2013 in the amount of PLN 150 652 thousand, including PLN 128 066 thousand with regard to ZE PAK S.A. and PLN 22 586 thousand with regard to Elektrownia Pątnów II Sp. z o.o. Since 01 January 2013, a subsequent settlement period 2013 – 2020 of allowances has been binding. The basic assumption of this period is granting for the Group free EUAs resulting from heat production, though the power sector has been covered additionally by the possibility of derogation. The derogation arising out from Article 10c of the ETS Directive consists in granting additional free allowances subject to sustaining capital expenditures on investments included in the National Investment Plan. In December 2013, ZE PAK S.A. submitted to the Ministry of the Environment a material and financial statement of the sustained capital expenditures on the tasks included in KPI, requesting thereby 1 722 084 free EUAs for 2013. Until the date of preparing this statement, the allowances for 2013 have not been allocated.

6. Basis for preparing the consolidated financial statement

This consolidated financial statement has been prepared according to the principle of historical cost, except for derivative financial instruments. The balance sheet value of the recognized hedged assets and liabilities is adjusted by changes in the fair value that can be attributed to risk, against which these assets and liabilities are hedged.

This consolidated financial statement is presented in thousands of zlotys ("PLN"), and all values, unless it has been indicated otherwise, are specified in thousands of PLN.

This consolidated financial statement has been prepared on the going concern basis.

As at the date of approval of the financial statement, there are no circumstances indicating threat to continuation in activities by the companies of the Group.

6.1. Statement on compliance

This consolidated financial statement has been prepared according to International Financial Reporting Standards ("IFRS") approved by EU ("IFRS EU").As at the date of approval of this statement for publication, taking into account pending in the EU process of introducing IFRS and the activities conducted by the Group, in the scope of the accounting principles applied by the Group IFRS differ from IFRS EU. The Company took advantage of the possibility occurring in the case of applying the International Financial Reporting Standards approved by EU, applying IFRS 10, IFRS 11, IFRS 12, amended IAS 27 and IAS 28 only from annual periods beginning on 1 January 2014.

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

The Group's companies keep accounting books in accordance with the accounting policy (principles) as specified by the Accounting Act of 29 September 1994 ("the Act") as amended, and secondary legislation issued on its basis ("Polish accounting standards"). The consolidated financial statement contains adjustments not contained in the accounting books of the Group's entities, introduced for the purpose of compliance of these entities' financial statements with IFRS.

6.2. Functional currency and currency of financial statements

The functional currency of the parent company and of other companies included in this consolidated financial statement and the reporting currency of this consolidated financial statement is Polish zloty, except for the German branch of Przedsiębiorstwo Remontowe "PAK SERWIS" Sp. z o.o. whose functional currency is Euro.

7. Changes in the applied accounting principles and changes in the comparative data

The accounting principles (policies) applied to prepare this consolidated financial statement are consistent with those which were applied when preparing the consolidated financial statement of the Group for the year ended 31 December 2012, except for the application of the following amendments to the standards and new interpretations binding for annual periods beginning on 1 January 2013:

- **Change in the accounting policy in connection with the application of amended IAS 19 *Employee Benefits***

The Group applied amendments to IAS 19 starting from 1 January 2013, with appropriate change in comparable periods ended 31 December 2012.

The amendment to IAS 19 that is the most significant for the Group; it applies to the need to recognize retrospectively actuarial profits and losses in other comprehensive income.

In connection with the above, the Group adjusted the data for the period of 12 months ended 31 December 2012, while making reclassification of the actuarial profits of PLN 15 424 thousand from prime cost to other comprehensive income. Net profit of the Group for the whole year 2012 increased by PLN 15 424 thousand.

The value of provisions for employee benefits did not change.

- **Change in the accounting policy in connection with the application of the interpretation of IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine***

The amendment that is most significant for the Group applies to the need to capitalize stripping costs in the production phase as an asset component.

Before implementation of the regulations resulting from IFRIC 20, total stripping cost in the production phase was recognized directly in the income statement.

In connection with the above, as at 31 December 2012, as compared to the data presented in the approved consolidated financial statement for the year ended 31 December 2012, stripping assets and other mining assets (long-term) increased by the amount of PLN 7 987 thousand and net profits increased by the amount of PLN 6 469 thousand. Adjustment of the deferred income tax caused decrease in deferred tax assets by PLN 1 518 thousand.

In connection with the implementation of IFRIC 20, the Group presents additional accounting policies which were not described in the financial statement for the year ended 31 December 2012.

- **Stripping costs in the production phase**

In the item mining assets the Group presents also capitalized stripping cost in the production phase.

The Group includes an asset component being the result of stripping only if all the following conditions are fulfilled:

(a) the Group is likely to obtain future economic benefits (easier access to coal deposit) related to stripping;

(b) The Group is able to identify this part of the coal deposit access to which has been facilitated; and

(c) costs related to stripping concerning this part of the deposit may be measured credibly.

The Group measures initially an asset component being the result of stripping at the purchase price or at the cost of manufacture, being the sum of costs incurred directly in connection with stripping facilitating access to the identified part of the coal deposits, increased by the assigned, directly related overheads.

After the initial recognition, an asset component being the result of stripping is shown at its purchase price or cost of manufacture, reduced by depreciation and impairment write-downs.

The Group depreciates an asset component being the result of stripping with the application of a method based on the number of manufactured products.

The adopted depreciation periods and depreciation methods are subject to periodical verification, no less frequently than at the end of each reporting financial year. Stripping assets and other mining assets with the period of economic usability below 12 months are classified as short-term assets.

A write-down under settlement of mining asset is shown as operating costs under depreciation costs.

- **Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income – applicable to annual periods beginning on or after 1 July 2013**

Amendments relate to grouping items of other comprehensive income. The items of other comprehensive income subject to the future reclassification to profit or loss are presented separately from items that will not be reclassified to profit or loss.

The Group did not make retrospective changes in the presentation of other comprehensive income presented in the financial statement of the Group.

- **IAS 1 Explanation concerning the comparative data requirement (amendment)**

These amendments explain the difference between the voluntary additional comparative data and minimal comparative data requirements. The Group must show the comparative data in additional explanatory notes when it discloses voluntarily the comparative data for an additional comparative period in relation to the required minimum of one comparative period. The amendments specify more accurately that the consolidated statement of financial position at the beginning of comparative period (as at 1 January 2012 in the case of the Group), presented owing to retrospective transformations or reclassifications of items in the consolidated statement of financial position, do not have to be accompanied by comparative data in additional explanatory notes.

The Group did not make changes having effect on financial data as at 1 January 2012.

- **Amendments to IAS 12 Income Taxes: Asset Tax Realization – applicable to annual periods beginning on or after 1 January 2012 – applicable in the EU at the latest to annual periods beginning on or after 1 January 2013,**

The application of these amendments did not have any impact on the financial position, results on activities of the Group, or on the scope of information presented in the financial statement of the Group.

- **IFRS 13 Fair Value Measurement – applicable to annual periods beginning on or after 1 January 2013,**

IFRS 13 introduces one set of principles concerning the method of determining fair value of financial and non-financial assets and liabilities, when required or permitted by IFRS. IFRS 13 does not change the term when the Group is obliged to conduct fair value measurement. IFRS 13 regulations apply both to initial measurement and measurement after initial recognition.

IFRS 13 requires new disclosures in the area of measurement techniques (methods) and input information/data to determine fair value and impact of certain input information on fair value measurement.

IFRS 13 defines fair value as exit price. As a result of IFRS 13 guidelines, the Group re-assessed its policies concerning fair value measurement, in particular concerning input data, such as risk of default when measuring fair value of liabilities. The application of IFRS 13 has no significant impact on the results of fair value measurements of the Group. Additional disclosures, where required, are included in particular notes relating to assets and liabilities whose fair values were determined. The hierarchy of fair value is presented in note 41.1.

- **Amendments to IFRS 7 Financial Instruments: Information Disclosure: Offsetting Financial Assets and Financial Liabilities - applicable to annual periods beginning on or after 1 January 2013**

The amendments introduce additional quantitative and qualitative disclosures concerning transfers of financial assets, if:

- financial assets are in full derecognized but the entity remains involved in these assets (e.g. by means of options or guarantees concerning transferred assets)
- financial assets are not in full derecognized

The application of these amendments did not have any impact on the financial position or results on activities of the Group.

- The amendments resulting from the review of IFRS (published in May 2012)-applicable to annual periods beginning on or after 1 January 2013 concerning IAS 16 and IAS 32 -the application of these amendments did not have any impact on the financial position, results on activities of the Group, or on the scope of information presented in the financial statement of the Group.
- Amendments to IFRS 1 *First-Time Adopters of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters* – applicable to annual periods beginning on or after 1 July 2012 – applicable in the EU at the latest to annual periods beginning on or after 1 January 2013 and Amendments to IFRS 1 *First-Time Adopters of International Financial Reporting Standards : Government Loans* - applicable to annual periods beginning on or after 1 January 2013,

The amendments to IFRS 1 did not relate to the Group.

The Group did not opt for previous adoption of any other standard, interpretation or amendment which was published but not effective yet, except for:

- **Disclosures concerning recoverable value for non-financial assets - Amendments to IAS 36 Impairment of Assets**

These amendments removed the unintended consequences of IFRS 13 concerning disclosures required in accordance with IAS 36. In addition, these amendments require disclosure of the recoverable value for assets or cash generating units (CGU), for which in a given period impairment was identified or reversed. These amendments are applicable to annual periods beginning on or after 1 January 2014, with the possibility of prior application, subject to the application of IFRS 13.

- **Opening balance adjustment (final settlement of the purchase of mines)**

In the year ended 31 December 2013, the purchase of mines was finally settled. The description of the transaction is included in note 12. The impact of changes on the approved statement of financial position is presented in the table below.

Below is presented the statement of financial position of the ZE PAK Group as at 31 December 2012, transformed in connection with the application of IAS19, IFRIC 20 and in connection with the final settlement of the purchase of KWB K and KWB A.

	31 December 2012 (approved data)	*Change in the accounting policy arising out from the application of the amended IAS 19*	*Change in the accounting policy arising out from the application of IFRIC 20*	*Change in the data associated with the final settlement of the purchase of KWB K and KWB A*	*31 December 2012 (transformed data)*
ASSETS					
Fixed assets					
Tangible fixed assets	5 064 960	–	–	(1 400)	5 063 560
Investment properties	2 252	–	–	–	2 252
Intangible assets	6 835	–	–	–	6 835
Loans and receivables	–	–	–	–	–
Stripping assets and other mining assets (long-term)	126 066	–	7 987	(20 970)	113 083
Other long-term financial assets	46 398	–	–	–	46 398
Other long-term non-financial assets	4 155	–	–	–	4 155
Amounts due from clients under PPAs	–	–	–	–	–
Deferred tax asssets	120 549	–	(1 518)	4 299	123 330
Total fixed assets	**5 371 215**	–	**6 469**	**(18 071)**	**5 359 613**
Current assets					
Short-term intangible assets	35 368	–	–	–	35 368
Inventory	188 325	–	–	–	188 325
Trade receivables and other receivables	220 559	–	–	–	220 559
Receivables under income tax	12 258	–	–	–	12 258
Short-term derivative financial instruments (assets)	–	–	–	–	–
Other short-term financial assets	103 697	–	–	–	103 697
Other short-term non-financial assets	17 230	–	–	–	17 230
Stripping assets and other mining assets (short-term)	456	–	–	71	527
Amounts due from clients under PPAs	3 605	–	–	–	3 605
Cash and cash equivalents	318 002	–	–	–	318 002
Total current assets	**899 500**	–	–	71	**899 571**
Fixed assets classified as intended for sale	–	–	–	–	–
TOTAL ASSETS	**6 270 715**	–	**6 469**	**(18 000)**	**6 259 184**

	31 December 2012 (approved data)	*Change in the accounting policy arising out from the application of the amended IAS 19*	*Change in the accounting policy arising out from the application of IFRIC 20*	*Change in the data associated with the final settlement of the purchase of KWB K and KWB A*	*31 December 2012 (transformed data)*
LIABILITIES					
Equity					
Initial capital	104 052	–	–	–	104 052
Own shares	(31 280)	–	–	–	(31 280)
Supplementary capital	1 956 261	–	–	–	1 956 261
Measurement capital of hedging instruments	(28 318)	–	–	–	(28 318)
Other reserve capitals	3 472	–	–	–	3 472
Retained profits / Uncovered losses	1 148 495	(15 424)	–	(1 910)	1 131 161
Net profit (loss)	380 769	15 424	6 469	3 833	406 495
Exchange rate differences from translation of a foreign entity	(8)	–	–	–	(8)
Non-controlling shares	117	–	–	–	117
Total equity	**3 533 560**	**–**	**6 469**	**1 923**	**3 541 952**
Long-term liabilities					
Interest-bearing bank credits and loans	790 385	–	–	–	790 385
Long-term employee benefits	264 261	–	–	–	264 261
Long-term trade liabilities and other financial liabilities	73 332	–	–	–	73 332
Long-term derivative financial instruments (liabilities)	26 059	–	–	–	26 059
Long-term grants and deferred income	50 986	–	–	312	51 298
Other long-term provisions and accruals	320 881	–	–	–	320 881
Amounts due to clients under PPAs	–	–	–	–	–
Deferred income tax provision	265 959	–	–	–	265 959
Total long-term liabilities	**1 791 863**	**–**	**–**	**312**	**1 792 175**

Short-term liabilities					
Short-term trade liabilities and other financial liabilities	188 479	–	–	(279)	188 200
Current part of interest-bearing credits and loans	461 924	–	–	–	461 924
Short-term derivative financial instruments (liabilities)	11 144	–	–	–	11 144
Other non-financial liabilities	128 224	–	–	–	128 224
Income tax liabilities	1 670	–	–	–	1 670
Short-term employee benefits	20 817	–	–	–	20 817
Short-term grants and deferred income	21 914	–	–	(19 956)	1 958
Amounts due to clients under PPAs	3 080	–	–	–	3 080
Other short-term provisions and accruals	108 040	–	–	–	108 040
Total short-term liabilities	**945 292**	–	–	**(20 235)**	**925 057**
Liabilities related directly to fixed assets classified as intended for sale	–	–	–	–	–
Total liabilities	**2 737 155**	–	–	**(19 923)**	**2 717 232**
TOTAL LIABILITIES	**6 270 715**	–	**6 469**	**(18 000)**	**6 259 184**

Impact of changes on earnings per share:

	Year ended 31 December 2012
Earnings per share before changing the accounting principles	7.23
Earnings per share after changing the accounting principles	7.76
Diluted earnings per share before changing the accounting principles	7.23
Diluted earnings per share after changing the accounting principles	7.76

8. New standards and interpretations, which have been published but have not come into force yet

The following standards and interpretations were issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee, and have not come into force yet:

- The first phase of IFRS 9 *Financial Instruments: Classification and Measurement* as amended - the IFRS Board postponed the effective date without indicating the planned date of approval,
- IFRS 10 *Consolidated Financial Statements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU applicable at the latest to annual periods beginning on or after 1 January 2014. The Company opted to use IFRS for annual periods beginning on 1 January 2014,
- IFRS 11 *Joint Arrangements* – applicable to annual periods beginning on or after 1 January 2013 – in the EU applicable at the latest to annual periods beginning on or after 1 January 2014. The Company opted to use IFRS for annual periods beginning on 1 January 2014,
- IFRS 12 *Disclosure of Interests in Other Entities* - applicable to annual periods beginning on or after 1 January 2013- in the EU applicable at the latest to annual periods beginning on or after 1 January 2014. The Company opted to use IFRS for annual periods beginning on 1 January 2014,
  Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance - applicable to annual periods beginning on or after 1 January 2013- in the EU applicable at the latest to annual periods beginning on or after 1 January 2014,
- IAS 27 *Separate Financial Statements* - applicable to periods beginning on or after 1 January 2013 – in the EU applicable at the latest to annual periods beginning on or after 1 January 2014, the Company opted to use the amendments to IAS for annual periods beginning on 1 January 2014,
- IAS 28 *Investment in Associates and Joint Ventures* - applicable to periods beginning on or after 1 January 2013 – in the EU applicable at the latest to annual periods beginning on or after 1 January 2014. The Company opted to use the amendments to IAS for annual periods beginning on 1 January 2014,
- Amendments to IAS 32 *Financial Instruments: presentation: Offsetting Financial Assets and Financial Liabilities* - applicable to annual periods beginning on or after 1 January 2014,
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* (published on 31 October 2012) – applicable to annual periods beginning on 1 January 2014
- IFRIC 21 *Levies* – applicable to annual periods beginning on or after 1 January 2014 – until the date of approval of this financial statement, non-approved by the EU,
- Amendments to IAS 39 *Novations of Derivatives and Continuation of Hedge Accounting* (published on 27 June 2013) – applicable to annual periods beginning on or after 1 January 2014,
- Amendments to IAS 19 *Employee Benefit Plans (published on 21 November 2013)* – applicable to annual periods beginning on or after 1 July 2014 – until the date of approval of this financial statement, non-approved by the EU,

- *Amendments resulting from reviewing IFRS 2010-2012* – some amendments are applicable to annual periods beginning on or after 1 July 2014, and some are applicable prospectively for transactions concluded on or after 1 July 2014 – until the date of approval of this financial statement, non-approved by the EU,
- *Amendments resulting from reviewing IFRS 2011-2013* - applicable to annual periods beginning on or after 1 July 2014 – until the date of approval of this financial statement, non-approved by the EU,
- IFRS 14 *Regulatory Deferral Accounts* - applicable to annual periods beginning on or after 1 January 2016 – until the date of approval of this statement, non-approved by the EU.

9. Change in estimates

In the period covered by the financial statement, the following changes were made in estimates, affecting the values reported in this financial statement, among others:

- estimates with regard to assumptions for measurement of actuarial provisions,
- estimates with regard to assumptions for measurement of derivatives,
- estimates with regard to assumptions regarding calculation of revenues under compensations,
- estimates with regard to assumptions regarding periods of economic usability of fixed assets,
- estimates concerning realization of deferred tax assets,
- estimates with regard to assumptions for measurement of the provision for reclamation of ash storage yards,
- estimates with regard to assumptions for measurement of the provision for dismantling of tangible fixed asset components,
- estimates with regard to measurement of PPAs,
- estimates with regard to assumptions for measurement of the reclamation provision related to mining activity.

The impact of estimates on the amount of actuarial provisions is presented in note 5.2.

In the case of measurement of derivatives (IRS, options), a change in estimates results from changes in market risk factors on the interbank market, i.e. exchange rate and market interest rates.

With regard to calculation of revenues under compensations, a change in estimates applies, first of all, to changing selling and purchase prices of energy at the Polish Power Exchange and on the balancing market, volume of energy production and energy purchase in order to execute sales plans and interest on 5 – year treasury bonds and deposit rate of the National Bank of Poland, having effect on the update rate. The value of annual adjustment under compensations for the year 2013 is estimated at plus (+) PLN 43 million. When applying the above assumptions from the previous year (January 2013), this value would amount to plus (+) PLN 26.3 million. The main reason for such a significant difference on the adjustment is non-inclusion of full CO2 purchase costs in the assumptions for January 2013- in January 2013 it was assumed that EPII would receive in 2013 part of free allowances from the new settlement period, which, however, did not take place. The period of economic usability of fixed assets is subject to verification at the end of each reporting period on the basis of the anticipated period of functionality of a unit, verified by the plans of the Management Board with regard to modernization, sale and liquidation of main asset components. The effect of changes was included in a year of verification.

With regard to deferred tax assets calculated on tax loss from previous years, shown by the subsidiary – "Elektrownia Pątnów II" sp. z o.o., actions were taken aiming at enabling the realization of a recognized asset. For this purpose, in the year ended 31 December 2010, tax depreciation rates were reduced, which had a positive impact on the planned tax results within the next 5 years. The Company prepares long-term forecasts of tax results on the basis of which it analyzes the possibility of realizing asset for tax losses to be settled in the subsequent years.

10. Material accounting principles

10.1. Principles of consolidation

This consolidated financial statement covers the financial statement of Zespół Elektrowni Pątnów – Adamów – Konin S.A. and the financial statements of its subsidiaries prepared each time for the year ended 31 December 2013. The financial statements of the subsidiaries, taking account of the adjustments ensuring compliance with IFRS, are prepared for the same reporting period as the statement of the parent company, using consistent accounting principles, based on the uniform accounting principles applied for similar transactions and business events. In order to eliminate any discrepancies in the applied accounting principles, adjustments are introduced.

All significant balances and transactions between the Group's entities, including unrealized profits resulting from transactions within the Group, were eliminated completely. Unrealized losses are eliminated, unless they show impairment.

The subsidiaries are consolidated in the period from the date of the Group taking control over them and cease to be consolidated upon the date of ceasing control. The parent company exercises control only when it has, directly or indirectly, through their subsidiaries, more than half of the number of votes in a given company, unless it is possible to prove that such ownership is non-controlling. The control is exercised also when the Company has the possibility to manage the financial and operating policy of a given entity.

Changes in the ownership interest of the parent company that do not result in loss of control over a subsidiary are shown as capital transactions. In such cases, to reflect changes in relative shares in a subsidiary, the Group adjusts the balance sheet value of controlling and non-controlling shares. Any differences between the amount of adjustment of non-controlling shares and the fair value of the amount paid or received are entered in equity and attributed to the parent company's owners.

10.2. Translating items expressed in a foreign currency

Transactions expressed in currencies other than Polish zloty are translated into Polish zloty at the exchange rate valid as of the day of transaction.

As at the reporting date, cash assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using average exchange rate fixed for the particular currency by the National Bank of Poland. Exchange rate differences arising from translation are shown accordingly in finance income (costs) or, in the cases specified by the binding accounting principles (policy), are capitalized in the value of assets.

Non-cash assets and liabilities recognized at their historical cost expressed in a foreign currency are shown at the historical cost as of the day of transaction. Non-cash assets and liabilities shown at fair value expressed in a foreign currency are translated at the exchange rate of the day of fair value measurement.

The following exchange rates were approved for the needs of balance sheet measurement:

	31 December 2013	*31 December 2012*
EUR	4.1472	4.0882
GBP	4.9828	5.0119
USD	3.0120	3.0996

The subsidiary – Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o. has a foreign branch in Germany whose reporting currency is EURO. As at the reporting date, assets and liabilities of the branch are translated into the currency of presentation of the Group at the exchange rate valid as at the reporting date and their comprehensive income statements are translated at the average exchange rate for a given financial period. Exchange rate differences resulting from such a translation are presented in other comprehensive income and accumulated in a separate item of equity. Upon disposal of a foreign entity, deferred exchange rate differences accumulated in equity, concerning a given foreign entity, are recognized in the income statement.

Average weighed exchange rates for particular periods were as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
EUR	4.2110	4.1736

10.3. Tangible fixed assets

Tangible fixed assets are presented at the purchase price/cost of manufacture decreased by depreciation and amortization and impairment write-downs. The initial value of fixed assets includes their purchase price increased by all costs directly related with purchase and adaptation of an asset component to a condition suitable for use. Cost includes also cost of replacement of components of machines and devices upon incurring, if the recognition criteria are fulfilled. Costs incurred after the date of transfer of a fixed asset to use, such as maintenance and repair costs, are charged to profit or loss upon their incurring.

Fixed assets, upon their purchase, are divided into components being items with a significant value, to which a separate economic usability period can be assigned. A constituent part covers also costs of major overhauls.

Depreciation is calculated with the use of the linear method for the estimated period of use of a given asset component, of:

Type	Period
Buildings and structures	2 - 61 years
Technical machines and devices	2 - 61 years
Means of transport	2 - 39 years
Other fixed assets	2 - 26 years

The final value, the period of use and the method of depreciation of asset components are verified on the annual basis, and when necessary – adjusted with the effect from the beginning of the ended financial year. Any changes resulting from the conducted verification are recognized as change in estimates.

A given item of tangible fixed assets may be derecognized after its disposal or if no economic benefits resulting from further use of such an asset component are anticipated. Any profits or losses resulting from derecognition of a given asset component (calculated as a difference between possible net inflows from sale and the balance sheet value of a given item) are presented in the profit or loss for the period when derecognition was conducted.

Investments in progress relate to fixed assets under construction or assembly and are reported at their purchase prices or cost of manufacture decreased by any possible impairment write-downs. Fixed assets under construction are not subject to depreciation until the end of construction and transfer for use. An element of fixed assets under construction are also costs of financing subject to capitalization. The issue of their capitalization is described in more detail in note 10.11.

10.4. Investment properties

Initial recognition of investment property is made at the purchase price or cost of manufacture, including costs of transactions. The balance sheet value of investment property includes cost of replacement of investment property component upon its incurring, subject to the fulfilment of the criteria of presentation and does not include costs of current maintenance of these properties. After initial presentation, the value of investment properties is decreased by depreciation and impairment write-downs.

Investment properties are derecognized in the event of their sale or in the case of permanent withdrawal of a particular investment property from use, when no future benefits from its sale are anticipated. Any profits or losses resulting from derecognition of an investment property are recognized in the income statement in the period in which derecognition was made.

Transfers of assets to investment properties are made only when the method of their use is changed, confirmed by ceased use of an asset component by the owner or conclusion of an operating lease agreement.

The Group presents as investment properties post-mining land for which the reclamation has been completed. These lands, according to the plans of the companies running extraction activities, will be sold in the future.

10.5. Stripping assets and other mining assets

Stripping assets and other mining assets include activated costs incurred in the pre-production phase of a mine, in particular:

- expenses related to making an excavation ensuring access ,

- asset related to creation of provision for reclamation in the part it concerns the stripped overburden during works related to the primary excavation,
- asset related to creation of provisions for substantial, one-time costs associated with land on which open pit works are carried out.

In each case, the Group settles the activated costs linearly in the period of economic usability of particular open pits (the period of operation adopted for different open pits). The adopted depreciation periods and depreciation methods are subject to periodical verification, no less frequently than at the end of each reporting financial year. Stripping assets and other mining assets with the period of economic usability below 12 months are classified as short-term assets.

A write-down under settlement of mining asset is shown as operating costs under depreciation costs.

10.6. Expenses related to exploration and assessment of mineral resources

In the item mining assets, the Group presents also expenses related to exploration and assessment of mineral resources.

The Group activates expenses related to exploration and assessment of mineral resources until the completion of exploration works. The next stage is verification whether the identified resources show technical feasibility and economic grounds for extraction. In the case when extraction is not reasonable, the whole of sustained investment expenses are charged to other operating costs.

Expenses related to exploration and assessment of mineral resources include, among others:

- topographic, geological, geochemical and geophysical analyses,
- drilling,
- open pit works,
- sampling,
- acquisition of extraction licenses.

10.7. Intangible assets

Intangible assets purchased under a separate transaction or manufactured (if they fulfil criteria of recognition for R&D costs) are measured, upon their initial recognition, at purchase price or cost of manufacture, respectively. The purchase price of intangible assets purchased under a transaction of entities' merger is equal to their fair value as at the date of merger. After initial recognition, intangible assets are recognized in purchase price or cost of manufacture, decreased by depreciation and impairment write-downs. The expenses incurred for intangible assets manufactured on their own, except for activated expenses spent on development works are not activated and are shown in the costs of the period in which they were incurred.

The Group determines whether the period of use of intangible assets is definite or indefinite. Intangible assets with a definite period of use are depreciated for the period of use and are subject to impairment tests each time when there are premises indicating their impairment. The period and the method of depreciation of intangible assets with the specific period of use are verified at least at the end of each financial year. Changes in the expected period of use or in the expected method of use of economic benefits arising out from a given asset component are shown by changing the period or method of depreciation, respectively, and treated as changes in estimated values. Depreciation write-downs of components of intangible assets with specified period of use are included in profit or loss in a category that corresponds to the function of a given component of intangible assets.

Intangible assets with indefinite period of use and intangible assets that are not used are subject to annual impairment test with regard to particular assets or at the level of cash generating unit.

The periods of use are subject to annual verification and, when necessary, adjusted with the effect from the beginning of the just ended financial year. Any changes resulting from the conducted verification are recognized as change in estimates.

R&D costs

R&D costs are presented in profit or loss upon incurring. R&D costs under a given project are transferred to the next period, if it can be ascertained that they will be recovered in the future. After initial recognition of R&D costs, the historical cost model is applied, requiring recognition of asset components at purchase prices/costs of

manufacture decreased by accumulated depreciation and accumulated impairment write-downs. Capitalized expenses are depreciated for the expected period of obtaining revenues from disposal of a given project.

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

	Concessions, patents and licenses	*Computer software*	*Other*
Periods of use	5 years	2 years	5 years
Applied depreciation method	Linear method	Linear method	Linear method
Manufactured internally or purchased	Purchased	Purchased	Purchased
Impairment test	Annual assessment for premises showing impairment.	Annual assessment for premises showing impairment.	Annual assessment for premises showing impairment.

Profits or losses resulting from derecognition of intangible assets are measured according to the difference between net inflows from sale and the balance sheet value of a given asset component and are presented in profit or loss at the time of their derecognition.

The Company presents as intangible assets also CO2 allowances received or purchased for internal purposes.

A detailed description of the accounting policy with regard to CO2 allowances is included in note 10.26.

10.8. Lease

The Group as a leaseholder.

Financial lease agreements that transfer on the Group essentially the whole risk and benefits resulting from the possession of the leased object are presented in the statement of financial position as at the date of starting lease at the lower of the following two values: fair value of a fixed asset component being the leased object or current value of minimum lease fees. Lease fees are divided between financial costs and reduction in balance of lease liabilities, in a manner allowing obtaining fixed interest rate on unpaid liability. Financial costs are presented in profit or loss, unless capitalization requirements are fulfilled.

Fixed assets used under financial lease agreements are depreciated for a shorter of two periods: estimated period of use of a fixed asset or lease period.

Lease agreements, under which the lease provider retains essentially the whole risk and profits resulting from possession of the leased object, are classified into operating lease agreements. Lease fees under operating lease and later lease instalments are recognized as operating costs in profit or loss by means of the linear method for the period of lease.

Conditional lease fees are presented as a cost in the period of falling due.

10.9. Fair value measurement

The Group measures financial instruments such as instruments available for sale and derivatives and non - financial assets such as investment property at fair value as at each reporting date. In addition, the fair value of financial instruments measured at depreciated cost is disclosed in note 41.

The fair value is defined as a price that would be received from sale of an asset component or paid to transfer liability in the transaction conducted on normal terms of sale of an asset component between market participants as at the date of measurement in current market conditions. The fair value measurement is based on the assumption that a transaction of sale of an asset component or transfer of liability takes place either:

-on the main market for a given asset component or liability,

- in the case of lack of the main market, on the most beneficial market for a given asset component or liability.

Both the main and the most favourable market must be available for the Company.

The fair value of an asset component or liability is measured with the assumption that the market participants act to their best economic interest when establishing the price of an asset component or liability.

The fair value measurement of a non-financial asset component considers the capacity of a market participant to generate economic benefits through the largest and best use of an asset component or its sale to another market participant which would ensure possibly large and best use of this asset component.

The Group applies measurement techniques that are adequate to circumstances and in the case when sufficient data are available for fair value measurement, with the maximum use of relevant noticeable input data and minimum use of non-noticeable input data.

All assets and liabilities that are measured at fair value or whose fair value is disclosed in the financial statement are classified in the hierarchy of fair value in the manner described below on the basis of the lowest level of input data which is important for fair value measurement treated as a whole:

-Level 1 – Quoted (non-adjusted) market prices on the active market for identical assets or liabilities,

-Level 2 – Measurement techniques for which the lowest level of input data, which is important for fair value measurement as a whole, is noticeable directly or indirectly,

-Level 3 - Measurement techniques for which the lowest level of input data, which is important for fair value measurement as a whole, is noticeable.

As at each reporting date, in the case of assets and liabilities as at particular reporting date in the financial statement, the Company assesses whether transfers between the levels of hierarchy have taken place, re-assessing the classification to particular levels, following materiality of input data from the lowest level that is important for measurement of fair value treated as a whole).

The application of IFRS 13 did not have any impact on the financial position, results on activities, or on the scope of information presented in the financial statement of the Company.

The Management Board determines the principles and the procedures concerning both systematic fair value measurement, e.g. investment property and non-quoted financial assets and one-time measurements, for instance in the case of assets held for sale in abandoned activities.

In order to determine the fair value, independent experts are engaged to carry out measurement of important assets, such as properties or assets available for sale and financial liabilities at fair value.

To conduct the aforementioned measurements, independent experts are engaged, non-related to the Group and with qualifications adequate to conducting such measurements, and with a valid experience in such measurements conducted in the locations of the Group's assets.

For the purpose of disclosure of the fair value measurement, the Company established the classes of assets and liabilities on the basis of type, features and risk associated with particular components of assets and liabilities and the level in hierarchy of fair value, as described above.

10.10. Impairment of non-financial fixed assets

As at each reporting date, the Group assesses whether there are any premises showing impairment of any of non-financial fixed assets component. In the event of observing lack of such premises or in the event of the need to conduct the annual impairment test, the Group estimates the recoverable value of a given asset component or a cash generating unit a given asset component belongs to.

The recoverable value of an asset component or a cash generating unit corresponds to the fair value decreased by costs of bringing to sale of this asset component or, respectively, cash generating unit, or its value in use, whichever is greater. The recoverable value is determined for particular assets, unless a given asset component generates on its own cash inflows that are mostly independent on the ones generated by other assets or groups of assets. If the balance sheet value of an asset component is higher than its recoverable value, its impairment takes place and then impairment write-down is made to the agreed recoverable value.

When estimating the value in use, the forecasted cash flows are discounted to their current value with the use of discount rate before taking into consideration taxation effects reflecting current market estimation of the value of money in time and risk typical of a given asset component. Impairment write-downs against asset components used in continued activities are recognized in the categories of costs that correspond to the function of an asset component, for which impairment was ascertained.

As at each reporting date, the Group assesses whether there are premises indicating that impairment write-down, which was included in the previous periods with respect to a particular asset component, is unnecessary or should be reduced. If there are such premises, the Group estimates the recoverable value of this asset component. Previously recognized impairment write-down will be reversed only when, from the moment of recognition of the last impairment write-down, the estimated values used for determination of the recoverable value of a given asset component were changed. In this case, the balance sheet value of an asset component is increased up to the amount of its recoverable value. The increased amount cannot exceed the balance sheet value of an asset component that would be fixed (taking account of depreciation), if, in the past years, no impairment write-down was recognized with regard to this asset component. Reversal of impairment loss of an asset component is recognized immediately as revenue. After reversal of impairment write-down, in the subsequent periods, depreciation write-down concerning a given component is adjusted in a manner which makes it possible, in the remaining period of use of this asset component, to deduct systematically its verified balance sheet value decreased by the final value.

10.11. Borrowing costs

Borrowing costs are capitalized as part of the cost of manufacture of fixed assets. The borrowing costs include interest calculated using the effective interest rate method, financial charges under financial lease agreements and exchange rate differences arising in connection with borrowing up to the amount corresponding to the adjustment of interest costs. With regard to foreign exchange differences, the Group applies cumulative approach.

10.12. Financial assets

Financial assets are divided into the following categories:

- Held-to-maturity financial assets,
- Financial assets at fair value through profit and loss,
- Loans and receivables,
- Financial assets available for sale.

Held-to-maturity assets

Held-to-maturity financial assets are financial assets quoted on the active market other than derivatives, with specified or identifiable payments and agreed time of maturity the Group intends to and has the possibility to held until that time, other than:

- designated at the initial recognition as measured at fair value through profit or loss,
- designated as available for sale,
- fulfilling the definition of loans and receivables.

Financial assets held until the term of maturity are measured at depreciated cost using the effective interest rate method. Held-to-maturity financial assets are qualified as long-term assets, if their maturity exceeds 12 months from the reporting date.

Financial assets at fair value through profit and loss

A component of financial assets measured at fair value through profit and loss is a component fulfilling one of the following conditions:

a) is not classified as intended for trade. Components of financial assets are qualified as intended for trade, if they are:
   - purchased mostly for the purpose of sale in a short term,
   - part of the portfolio of specified financial instruments managed together and with regard to which it is likely to obtain profit in a short term,
   - derivatives, excluding derivatives being an element of the hedge accounting and financial guarantee agreements,

b) in accordance with IAS 39, qualified to this category at the time of initial recognition.

Financial assets at fair value through profit and loss are measured at fair value taking account of their market value as at the reporting date, excluding the costs of sales transaction. Changes in value of these financial instruments are shown in the income statement as financial revenues or costs. If a contract contains one or more embedded derivatives, the whole contract can be qualified into the category of financial assets measured at fair value through profit and loss. The above does not apply to cases when the embedded derivative does not affect substantially cash flows from the contract or when it is obvious, without conducting or after a rough analysis, that if a similar hybrid instrument was first examined, then separation of the embedded derivative would be forbidden. Upon initial recognition, financial assets may be qualified to the category of measured at fair value through profit and loss, if the following criteria are fulfilled: (i) this qualification eliminates or reduces significantly inconsistency with regard to recognition and measurement (accounting mismatch); or (ii) assets are a part of the group of financial assets which are managed and assessed on the basis of fair value, in accordance with the documented risk management strategy; or (iii) financial assets contain embedded derivatives which should be presented separately. As at 31 December 2013 or as at 31 December 2012, no financial assets were qualified to the category of measured at fair value through profit and loss.

Loans and receivables

Loans and receivables are excluded from derivatives financial assets with determined or determinable payments, not quoted on active market. They are classified to current assets, unless their maturity term exceeds 12 months from the reporting date. Granted loans and receivables with maturity term exceeding 12 months from the balance sheet are classified to fixed assets.

Assets available for sale

Financial assets available for sale are financial assets other than derivatives which were classified as available for sale or are not part of any of the abovementioned three categories of assets. Financial assets available for sale are recognized at fair value, increased by transaction costs which may be directly assigned to purchase or release of a financial asset component. In the case of no quotations on active market and no possibility of determining reliably their fair value by using alternative methods, financial assets available for sale are measured at their purchase price adjusted by impairment write-down. Positive and negative difference between the fair value of assets available for sale (if there is a market price fixed on active market or whose fair value may be fixed in any other credible manner) and their purchase price after being decreased by deferred tax is recognized in other comprehensive income. Decrease in the value of assets available for sale caused by impairment is recognized as financial cost.

Purchase and sale of financial assets recognized upon the day of transaction. Upon initial recognition, a component of financial assets is measured at fair value, increased, in the case of an asset component not qualified as measured at fair value through profit and loss, by transaction costs which may be directly assigned to purchase.

A financial asset component is derecognized when the Group loses control over the contractual rights comprising a given financial instrument; normally it takes place upon sale of an instrument or when all cash flows assigned to a given instrument are transferred to an independent third party

10.13. Impairment of financial assets

As at each reporting date, the Group assesses whether there are objective premises for impairment of a financial asset component or group of financial assets.

10.13.1. Assets recognized at depreciated cost

If there are objective premises for observing loss under impairment of granted loans and receivables measured at depreciated cost, the amount of impairment write-down equals the difference between the balance sheet value of an financial asset component and the current value of estimated future cash flows (except for future losses under non-collection of receivables, which were not incurred), discounted with the use of primary (i.e. fixed at initial recognition) effective interest rate. The balance sheet value of an asset component is reduced by applying the account of impairment write-downs. The amount of loss is recognized in profit or loss.

The Group assesses first whether there are objective premises for impairment of particular financial assets, which are individually significant, and premises for impairment of financial assets, which are not significant individually. If from the conducted analysis it results that there are no objective premises for impairment of an individually assessed financial asset component, regardless of whether or not it is material, the Group includes this component to a group of financial assets of similar credit risk profile and assesses them together in terms of impairment. Assets that are assessed individually in terms of impairment and for which impairment write-down was included or it was recognized that the previous write-down would not change are not taken into account at the cumulative assessment of a group of assets in terms of impairment.

If in the next period impairment write-down decreased and this decrease may be connected in an objective manner with an event following the recognition of write-down, the previously included write-down is reversed. Later reversal of impairment write-down is included in profit or loss to the extent to which, as at the date of reversal, the balance sheet value of an asset component does not exceed its depreciated cost.

10.13.2. Financial assets recognized at cost

If there are objective premises for impairment of a non-quoted equity instrument which is not recognized at fair value, as its fair value cannot be credibly determined, or a derivative which is linked and must be settled by the delivery of such a non-quoted equity instrument, the amount of impairment write-down will be determined as the difference between the balance sheet value of an asset component as well as the current value of estimated future cash flows, discounted using current market rate of return for similar financial assets.

10.13.3. Financial assets available for sale

If there are objective premises for impairment of a financial asset component available for sale, the amount being a difference between the purchase price of this asset component (reduced by any repayments of capital and depreciation) and its current fair value decreased by any impairment write-downs of this component are included previously in profit or loss, it is derecognized from equity and reclassified to profit or loss. Reversal of impairment write-down of equity instruments qualified as available for sale cannot be included in profit or loss. If in the next period fair value of a debt instrument available for sale increases and this increase may be linked objectively with an event following recognition of impairment write-down in profit or loss, the amount of reversing write-down is recognized in profit or loss.

10.14. Other non-financial assets

The Group includes prepayments to other non - financial assets, if the following conditions are fulfilled:

- they result from past events – incurring expense for operating purpose of entities,
- their amount can be specified credibly,
- will cause in the future inflow of economic benefits to entities,
- they relate to future periods.

|Prepayments write-offs may be introduced pursuant to lapse of time or amounts of benefits. The time and method of settlement are justified by the character of settled costs, following the principle of prudence.

At the end of the reporting period, the Group verifies prepayments to check whether the degree of confidence with regard to achieving economic benefits by the entity after the current period is sufficient to show a given item as an asset component.

Throughout the reporting period, the object of prepayments covers, among others:

- costs of property insurance
- the costs of current fees for perpetual usufruct of land,
- property tax,
- contribution to the social benefits fund,
- subscriptions,
- other costs concerning subsequent reporting periods.

Other non-financial assets include in particular receivables under public settlements (except for settlements under CIT that are presented in a separate item of the statement of financial position) and advances transferred under future purchases of tangible fixed assets, intangible assets and inventory. Advances are presented in accordance with the nature of assets they refer to – as fixed assets or working assets, respectively. As non-cash assets, advances are not subject to discounting.

10.15. Embedded derivatives

Embedded derivatives are separated from agreements and treated as derivatives, if the following conditions are fulfilled:

- economic nature and risk of an embedded instrument are not strictly related to the economic character and the risk of agreement in which a given instrument is embedded;
- an independent instrument with identical terms of exercise as embedded instrument would fulfil the definition of derivative;
- hybrid (complex) instrument is not reported in fair value and changes in its fair value are not presented in profit or loss.

Embedded derivatives are reported in a similar way as self-contained derivatives that are not deemed hedging instruments.

The scope in which, in accordance with IAS 39, economic characteristics and risk adequate to the embedded derivative in a foreign currency are closely related to the economic characteristics and the risk adequate to the base agreement (main contract) includes also situations when the currency of the base agreement is the customary currency for call or put contracts of non-financial positions on the market for a particular transaction.

The Group assesses whether a given embedded derivative is subject to separation upon its initial recognition.

10.16. Derivative financial instruments and hedges

Derivatives used by the Group to hedge against risk associated with the fluctuations in interest rates and currency exchange rates, are, first of all, currency forward contracts and interest rate swaps. This type of derivatives are measured at fair value. Derivatives are presented as assets when their value is positive and as liabilities when their value is negative.

Profits and losses on account of changes in fair value of derivatives which do not fulfil the principles of hedge accounting are entered directly in the net financial result of the financial year.

The fair value of forward contracts is fixed by reference to current *forward* exchange rates occurring in the case of contracts with similar maturity. The fair value of interest rate swaps is fixed by referring to the market value of similar instruments.

In the hedge accounting, hedges are classified as:

- hedge of fair value against the risk of change in fair value of the included asset or liability component, or
- hedge of cash flows against changes in cash flows, hedging against changes in cash flows that may be assigned to a specific kind of risk related to the presented asset component, liability or forecasted transaction, or

- hedge of shares in net assets of a foreign entity.

Hedge against the monetary risk of a reasonably anticipated future liability is settled as hedge of cash flows.

At the time of establishing hedge, the Group formally designates and documents the hedging link as well as the purpose of risk management and the hedge strategy. The documentation contains identification of a hedging instrument, hedged position or transaction, nature of the risk being hedged, and the manner of assessing effectiveness of a hedging instrument in compensating hazard of changes in fair value of the being hedged position or cash flows related to the risk being hedged.

It is expected that the hedge will be highly effective in compensating changes in fair value or cash flows resulting from the risk being hedged. Effectiveness of the hedge is assessed on the current basis to check whether it is highly effective in all periods for which it has been established.

10.16.1. Fair value hedge

Fair value hedge is a hedge against changes in fair value of the included asset component or liability or not included reasonably anticipated future liability, or a separate part of such an asset component, liability or reasonably anticipated future liability that may be assigned to a specific kind of risk and which would affect profit or loss. In the case of fair value hedge, the balance sheet value of the position being hedged is adjusted with profits and/or losses under changes in fair value resulting from the risk being hedged, the hedging instrument is measured at fair value, and profits and losses on account of the hedging instrument and the position being hedged are recognized in profit or loss.

If not recognized reasonably anticipated future liability is determined as the position being hedged, later cumulative changes in the fair value of a reasonably anticipated future liability resulting from the risk being hedged are recognized as an asset component or liability, and created profits or losses are recognized in profit or loss. Changes in fair value of a hedging instrument are also recognized in profit or loss.

The Group ceases applying the hedge accounting principles, if a hedging instrument expires, it is sold, terminated or exercised, if the hedge ceases fulfilling the hedge accounting criteria or when the Group revokes the hedging link. Each adjustment of the balance sheet value of a financial instrument being hedged, to which the effective interest rate method is applied, is subject to depreciation, and write-downs are recognized in profit or loss. Depreciation may begin upon the adjustment, however, no later than at the time of cessation of adjusting the position being hedged by changes in fair value, resulting from risk being hedged.

10.16.2. Cash flow hedge

Cash flow hedge is a hedge against the hazard of fluctuations of cash flows that may be assigned to a specific kind of risk related to a recognized asset component or liability or with a highly probable planned transaction, and which could affect profit or loss. Some profits or losses related to a hedging instrument, which constitute an effective hedge, are recognized in other comprehensive income and the ineffective part is recognized in profit or loss.

If the planned transaction being hedged may lead to recognition of a financial asset component or financial liability, related profits or losses, which were recognized in other comprehensive income and accumulated in equity, are transferred to the income statement in the same period or in the periods when the purchased asset component or taken over liability affect profit or loss.

If a hedge of the planned transaction may lead to recognition of a non-financial asset component or non-financial liability or a planned transaction related to non-financial asset component or non-financial liability becomes a reasonably anticipated future liability to which fair value hedge will be applied, then profits or losses that were recognized in other comprehensive income are excluded from equity and included in the purchase cost or a different balance sheet value of asset component or liability.

Profits or losses resulting from changes in fair value of derivatives which do not fulfil the terms ensuring the application of special hedge accounting principles, are recognized directly in the net profit or loss for the current period.

The Group ceases applying the hedge accounting when a hedging instrument has expired or has been sold or its use has been successfully completed or when it has been exercised, or when the hedge has ceased fulfilling the terms that enabling applying in relation to it special hedge accounting principles. In this case, total profit or loss

on the hedging instrument that were recognized in other comprehensive income and accumulated in equity are still reported in equity, until the moment of the forecasted transaction.

If the Group ceases expecting that the forecasted transaction will be concluded, then accumulated in equity net total profit or loss are charged to the net financial result for the current period.

10.17. Inventory

Inventory is measured at the lower of two values: purchase price/cost of manufacture and attainable net selling price.

Costs incurred to bring each inventory component to its current place and condition – both in terms of current and last year – are presented as follows:

Production fuel	• with the use of the weighted average method;
Spare parts and other materials	• with the use of the weighted average.

The attainable net selling price is the estimated selling price in the course of regular business activities, reduced by costs of finishing and estimated costs necessary for effective sale.

Energy certificates of origin

Energy certificates of origin received free of charge, for production in renewable sources, gas sources and cogeneration, are recognized at fair value of the date when their granting became certain.

10.18. Trade receivables and other receivables

Trade receivables are recognized and shown at originally invoiced amounts, subject to bad debt. Bad debt write-off is estimated when collection of the full amount of receivable has ceased to be likely.

In the event when impact of the value of money in time is significant, the value of receivables is fixed by discounting the forecasted future cash flows to the net present value, using the discount rate reflecting valid market values of money in time. In the case of applying a method consisting in discounting, increase in receivables in connection with the passage of time is recognized as financial revenues.

Other receivables include in particular receivables on account of settlements with employees.

Advances transferred under future purchases of tangible fixed assets, intangible assets and inventory are recognized in the item other non-financial assets. Advances are presented according to the character of assets they refer to – as fixed assets or current assets, respectively. As non-cash assets, advances are not subject to discounting.

Budget receivables are presented in other non-financial assets, except for any amounts due under corporate income tax, which are a separate item in the statement of financial position.

10.19. Cash and cash equivalents

Cash and short-term deposits recognized in the balance sheet include cash in hand and at bank and short-term deposits with the primary maturity term that does not exceed three months.

The balance of cash and its equivalents recognized in the consolidated cash flow statement consists of the stated above cash and its equivalents, reduced by unpaid credits in current accounts.

10.20. Interest-bearing bank credits, loans and debt securities

At the time of initial recognition, all bank credits, loans and debt securities are recognized at fair value, reduced by costs related to contracting a credit or loan.

After initial recognition, interest-bearing credits, loans and debt securities are measured at depreciated cost, using the effective interest rate method, except for liabilities designated to hedged items that are measured in accordance with the hedge accounting principles described in note 10.16.

When determining the depreciated cost, costs related to contracting a credit or loan and discounts or bonuses obtained in connection with liability are taken into consideration.

Revenues and costs are recognized in profit or loss upon derecognition of liability, and as a result of settlement using the effective interest rate method.

10.21. Trade liabilities and other financial liabilities

Short-term trade liabilities are recognized in the amount due for payment.

Financial liabilities measured at fair value through profit or loss include financial liabilities intended for trade and financial liabilities originally qualified into the category of liabilities measured at fair value through profit or loss. Financial liabilities are classified as intended for trade if they were purchased for the purposes of selling in the near future. Derivatives, including separated embedded instruments are also classified as intended for trade, unless they are recognized as effective hedging instruments. Upon initial recognition, financial liabilities may be qualified to the category of liabilities measured at fair value through profit or loss, if the following criteria are fulfilled: (i) such a qualification eliminates or significantly lowers inconsistency of treatment, when both the measurement and the principles of recognition of losses or profits are subject to other regulations; or (ii) liabilities are a part of the group of financial liabilities that are managed and measured on the basis of fair value, in accordance with the documented risk management strategy; or (iii) financial liabilities contain embedded derivatives which should be recognized separately. As at 31 December 2013 or as at 31 December 2012 no financial liabilities were classified to the category of liabilities measured at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss are measured at fair value taking into consideration their market value as at the reporting date, excluding costs of sales transactions. Changes in fair value of these instruments are recognized in profit or loss as financial costs or revenues.

Other financial liabilities, not being financial instruments measured at fair value through profit or loss, are measured at depreciated cost using the effective interest rate method.

The Group derecognizes a financial liability when it has expired – that is when the obligation specified in the contract has been fulfilled, liquidated or expired. Replacing the previous debt instrument with an instrument with essentially different terms between the same entities is included by the Group as expiry of the primary financial liability and recognition of a new financial liability. Similarly, significant modifications of the terms of an agreement concerning the existing financial liability are recognized by the Group as expiry of the primary and recognition of a new financial liability. Differences of relevant balance sheet values arising out of the replacement are recognized in profit or loss.

10.22. Other non-financial liabilities

Other non-financial liabilities include in particular liabilities under Value Added Tax, other statutory charges (except for liabilities under corporate income tax recognized in a separate item of the statement of financial position) and liabilities under received advances which will be settled by the delivery of goods, services or fixed assets. Other non-financial liabilities are recognized in the amount due for payment.

10.23. Profit distribution for employee purposes and special funds

According to the Polish business practice, shareholders of entities can distribute profit for employee purposes in the form of backing-up the social fund and other special funds. In the financial statement consistent with IFRS, this part of profit distribution is classified to operating costs for the period when profit distribution was approved by the Shareholders' Meeting, due to the fact that the Group's Companies do not have any legal or customary obligation to distribute profit.

10.24. Share-based payments

Share-based payment is a transfer of equity instruments of the entity or their equivalents by it or its shareholders to third parties (also employees) who have delivered goods or services to a given company, unless this transfer is made for purpose other than payment for goods and services delivered to the entity.

The Group recognizes goods or services received or purchased under share-based payment transactions settled in equity instruments and corresponding increase in equity at a time when it receives these goods or services. If

goods or services received or purchased under share-based payment transactions are not classified to recognition as assets, the entity recognizes them as cost.

The Group measures the received goods or services and corresponding increase in equity in fair value of the received goods or services, unless it is impossible to estimate their fair value. If the Group may not estimate credibly fair value of the received goods or services, it determines their value and corresponding increase in equity indirectly, by reference to fair value of granted equity instruments.

Share-based payments resulting from the rights of the employees of PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. to purchase, free of charge, shares in the companies on the basis of the Act of 30 August 1996 on commercialization and privatization are recognized according to the above principles. The Group recognizes costs of employee benefits on this account from the date of taking over control over PAK Kopalnia Węgla Brunatnego Konin S.A. and PAK Kopalnia Węgla Brunatnego Adamów S.A. On the other side, the Group recognizes share-based payment programs in profits, allocating also a part to equity of non-controlling shareholders.

10.25. Provisions

Provisions are created when the Group is under an obligation (legal or customary) resulting from past events and when it is likely that the fulfilment of this obligation will result in the need for outflow of economic benefits and it is possible to estimate reliably the amount of this liability. If the Group expects refund of costs covered by a provision, for example under an insurance agreement, then this refund is recognized as a separate asset component, but only when the refund will in fact be made. Costs concerning a given provision are shown in the income statement after decreasing by any refunds.

In the event when the impact of the value of money in time is material, the amount of provision is fixed by discounting the forecasted future cash flows to the net present value, using the discount rate reflecting the valid market values of money in time and possible risk associated with a given liability. If the applied method consists in discounting, increase in provision in connection with passage of time is presented as financial costs.

In particular, the Group creates the following provisions:

- ***provisions for employee benefits after the period of employment and long-service bonuses***
  According to the corporate rewarding systems, the Group's employees are entitled to the following benefits:
  - long-service bonuses, paid to the employees after they have worked a given number of years,
  - retirement and pension severance pays, paid at the time of retiring,
  - bereavements granted to families of the deceased employees,
  - grants to electricity, granted to the present employees and retired persons and pensioners – former employees of the Company,

  The amount of benefits depends on job seniority and average remuneration of employee. The Group creates provisions for the above future liabilities to assign costs to periods they relate to. The current value of those liabilities as at each reporting date is calculated by an independent actuary. The calculated liabilities will be equal to the discounted payments which will be made in the future, including employment turnover, and relate to the period until the reporting date. Demographic information and information about employment turnover is based on historical data. Profits and losses from actuarial calculations are recognized in profit or loss.
- ***provision for liquidation of fixed asset components***
  Provision for liquidation of fixed assets is created in the event of legal obligation or when the Group's management assumes the obligation. The provision is created on the basis of the estimated future costs of liquidation, on the basis of available offers concerning services of liquidation of fixed assets, taking into account the principles stipulated in IFRIC 1. The discount effect is recognized in profit or loss.
  The expected date of decommissioning unit number 6 and unit number 5 in the Pątnów Power Plant is year 2023 and 2025, respectively.
- ***provisions for reclamation of ash storage yards***
  The Group creates a provision for reclamation of ash storage yards owing to the legal obligation resulting from the integrated permits. This provision is created based on estimated future costs of reclamation of storage yards resulting from studies, technical and economic studies, prepared by the Group's management as well as from the received external offers, for the planned directions of reclamation.

- ***provision under presentation of energy certificates of origin for cancellation***
  Provision under the obligation to present for cancellation certificates of origin of electricity generated in renewable energy sources or in highly effective cogeneration are recognized as follows:
  - part covered by certificates of origin possessed as at the reporting date – in the value of owned certificates,
  - part that is not covered by certificates of origin as at the reporting date – in the value lower from the market value of certificates necessary to fulfil the obligation as at the reporting date and possible penalty.

- ***provision for liabilities under greenhouse gas emissions and provisions for cancellation of certified emission reduction units (CERs)***
  Provision for liabilities under gas emission, covered by the Emission Trading Scheme is created only when the actual emission from production shows deficiency of allowances with regard to allowances granted for the whole settlement period.
  The provision is created by using the net liabilities method in the following amount:
  - part covered by allowances held as at the reporting date – in the value of held allowances, i.e. purchased at the balance sheet value, received in zero value.
  - part that is not covered by allowances as at the reporting date – in the value lower from among the market value of allowances necessary to fulfil the obligation and possible penalty.

  The Group creates a provision for cancellation of certified emission reduction units (CERs) upon concluding a transaction of exchange of CO2 allowances for CERs in the value in which CERs will be cancelled for that year.
  The Group cancels in the first place certified emission reduction units (CERs) purchased by way of exchange for CO2 allowances, then allowances received free of charge under the National Allocation Plan for CO2 Emission Allowances and eventually purchased allowances.
  As at each reporting date, the Group's management makes the decision on a part of allocating held certified emission reduction units (CER) for fulfilment of the obligation of cancellation for that year.

Reclamation provisions and other provisions related to mining activities

- ***provision for dismantling of mining structures and reclamation of mining land***

On the basis of the Mining and Geological Law Act, the companies conducting extraction are obliged to conduct reclamation of land where extraction works were carried out. As a result, the Group creates a provision for both the costs of land reclamation related to current extraction of coal in a given open pit, as well as costs of reclamation of the final heading along with progress in extraction of coal in different open pits as at a given reporting date.

Provision for reclamation of the final heading is created in correspondence with asset component (in the part in which it applies to the primary excavation, on the basis of the ratio of volume to the original heading to the volume of the final heading) and in correspondence with the income statement (in the remaining part, taking into consideration the degree of extraction in different open pits as at a given reporting date). In correspondence with asset component the Group creates also provision for reclamation of external dumping ground. Provision for costs of reclamation related to current extraction of coal is created in correspondence with the income statement.

The provision is created on the basis of estimated future costs of reclamation, based on reports of independent experts, estimating costs of reclamation, prepared to the order of management boards of the companies conducting extraction. The estimates concerning the expected reclamation costs are updated periodically, provided that as at each reporting date verification covers the amount of provision in accordance with the current assumptions regarding discount rate, inflation, and extraction volume. A write-off on provision concerning extraction of a given year is charged to operating costs (other costs by type) on the other hand the difference arising out from the discount of provision from previous years is charged to financial costs. The use of provision is settled at the end of each reporting period in correspondence with operating costs. The use of provision in the part regarding taxes and fees is settled as reduction in the costs of taxes and fees incurred in the reporting period, on the other hand the use of provision in the part regarding other costs of liquidation and reclamation is settled as reduction in other costs by type.

- ***provision for costs under preparation of exploitation land***

Conducting its activities, the Group is obliged to restore the initial condition or reconstruct damages caused by mining plant operations. As a result, the Group creates a provision for the expected costs it is obliged to sustain under the concluded agreements. The estimates concerning the expected costs related to mining plant operation are updated as at each reporting date. The creation of provision is recognized on both sides under the item mining assets.

10.26. CO2 allowances

Received free of charge CO2 allowances are presented in the financial statement in the nominal value as allowances intended for the internal purposes in the value of zero in the item intangible assets. Allowances and their equivalents purchased by the Group for own needs are recognized as intangible assets. These allowances are measured at the purchase price. The provision for liabilities under emission of gases covered by the Emission Trading Scheme is created only when the actual production emission shows deficiency of allowances with regard to the allowances granted for a settlement period.

The cost of created provision is presented in the income statement in the prime cost.

The provision is created in the following amount:

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

- part that is not covered by allowances held as at the reporting date – in the value lower from among the market value of rights necessary to fulfil the obligation as at the reporting date and possible penalty.

The Group creates a provision for cancellation of certified emission reduction units (CERs) upon concluding a transaction of exchange of CO2 allowances for CERs in the value in which CERs will be cancelled for that year.

The Group cancels in the first place certified emission reduction units (CERs), purchased by way of exchange for CO2 allowances (EUAs), then allowances received free of charge and eventually purchased allowances.

As at each reporting date, the Group's management makes the decision on a part of allocating held certified emission reduction units (CER) for fulfilment of the obligation of cancellation for that year.

Information about the quantity and market value of owned allowances is presented by the Group in the supplementary notes and explanations to the financial statement.

In the case of exchange of allowances to certified emission reduction units (CERs) (the vested level of exchange is 1% of the obligation to cancel allowances for a given settlement period), the Group presents the effect of exchange in the account of results on operating activities as sales revenues.

The result on sale of surplus of allowances received free of charge is presented in the account of results

in other operating income.

Transactions of exchange of EUAs for CERs are presented in the cash flow statement in cash flows from operating activities.

10.27. Revenues

Revenues are shown in the amount in which it is likely that Group will obtain economic benefits related to a given transaction and when the amount of revenues can be estimated in a credible manner. Revenues are recognized in fair value of the payment received or due after being decreased by Value Added Tax (VAT) and excise duty and rebates. Recognition of revenues is also subject to the below criteria.

10.27.1. Sale of goods and products

Revenues are recognized if material risk and benefits resulting from the ownership right to goods and products are transferred to the buyer and when the amount of revenues can be estimated in a credible manner.

Revenues from sale of products include also revenues from sale of green and red certificates. At the time of production, certificates of origin intended for sale are recognized in sales revenues, and consequently, in order to prevent overestimation of revenues at the time of their sale, the selling costs of certificates are recognized as adjustment of sales revenues.

10.27.2. Provision of services

Revenues from provision of services are recognized on the basis of progress in their provision.

A percentage progress in the service provision is determined as the ratio of costs incurred to estimated costs necessary to fulfil the order.

If the result of the contract cannot be estimated credibly, then revenues obtained under the contract are recognized only up to the amount of incurred costs the Group expects to recover.

10.27.3. Construction contracts

Construction contract is a contract whose subject matter is construction of an asset component or a group of assets which are closely related or mutually dependent in terms of design, technology or owing to their function, final intended use or way of use.

If the result of a construction contract can be credibly estimated, revenues and costs related to a construction contract are recognized as revenues and costs, accordingly to the progress in performance of the contract at the end of the reporting period.

The degree of progress in performance of the contract is defined by fixing participation of the contract costs, incurred under works performed until the day of valuation, in estimated total contract costs.

If the contract result may not be estimated in a credible manner:

a) revenues are recognized only to the amount of incurred contract costs whose refund is probable; and

b) contract costs are recognized as the cost of the period when they were incurred.

If the total contract costs will probably exceed cumulative revenues under the contract, anticipated loss is recognized immediately as cost.

The gross amount due from clients under works resulting from the contract is recognized in the financial statement as assets and the gross amount due to clients under works resulting from the contract is recognized as liabilities.

10.27.4. Revenues from compensations to cover stranded costs

The Group receives compensations to cover stranded costs pursuant to the Act of 29 June 2007 regulating the compensation of power producers' stranded costs resulting from the early termination of long-term power purchase agreements. Revenue under compensations is recognized gradually to the obtained rights to compensations at the end of each financial year, until the end of the period of their validity.

As at each moment of recognition of revenue, the company determines the ratio of estimated stranded costs to the total amount of received, refunded and expected discounted annual advances (including so far received advances). The amount of revenue for the financial year is a product of ratio and amounts of so far received advances adjusted by annual adjustments, reduced by revenues from compensations included in the previous years.

The difference between the total amount of the recognized revenue and the total amount of received advances up to the amount of the total amount of stranded costs is recognized by the company as:

- receivables, in the case of negative difference between the total amount of received advances and recognized revenues under compensations,
- liabilities, in the case of positive difference between the total amount of received advances and recognized revenues under compensations.

10.27.5. Government grants

In the case of a justified confidence that a grant is obtained and all related terms are fulfilled, government grants are recognized at their fair value.

If a grant applies to a given cost item, then it is shown as revenue in a manner commensurate to costs this grant is to offset. If grant applies to an asset component, then its fair value is recognized on the account of future periods' revenues and then gradually, by way of annual write-offs, recognized in profit or loss for the estimated period of use of the related asset component.

If the Group receives non-cash grant, both an asset component and grant are recognized in nominal value and gradually, by way of annual write-offs, are recognized in profit or loss for the estimated period of use of the received asset component.

10.28. Costs

Prime cost

Prime cost includes:

- cost of manufacturing products incurred in a given reporting period, adjusted by change in the balance of products (finished products, semi-finished products and work in progress) and adjusted by cost of manufacturing products for internal purposes,
- value of goods and materials sold at purchase prices,
- creation of impairment write-down against tangible fixed assets, intangible assets and inventory,

Costs of manufacture that can be assigned directly to revenues earned by entities affect the financial result of entities for the reporting period when these revenues were earned.

Costs of manufacture that can be assigned only indirectly to revenues or other benefits obtained by entities affect the financial result in some entities in part in which they relate to a given reporting period, providing their commensurability to revenues or other economic benefits including the principles of measurement of fixed assets and inventory.

10.29. Other operating income and costs

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

- disposal of tangible fixed assets, intangible assets,
- creation and termination of provisions, except for any provisions related to financial operations or charged to operating costs,
- transfer or receipt of assets, including cash, free of charge, including by way of donation,
- compensations, penalties and fines and other costs that are not related to regular activities.

10.30. Financial revenues and costs

Financial revenues and costs include in particular revenues and costs concerning:

- disposal of financial assets,
- revaluation of financial instruments, excluding financial assets available for sale whose effects of revaluation are entered to revaluation reserve,
- revenues from share in the profits of other entities,
- interest (including the effect of measurement at depreciated cost),
- changes in provisions resulting from the approximating term of incurring cost (discount reversing effect),
- foreign exchange differences resulting from operations conducted in the reporting period and balance sheet measurements of assets and liabilities at the end of the reporting period, except for foreign exchange differences included in the initial value of fixed asset, to the extent to which they are considered as adjustment of interest costs and foreign exchange differences,
- other items related to financial activities.

The entities present revenues and costs under foreign exchange differences after compensation, the Group presents them separately.

Interest revenues and costs are recognized gradually along their incrementing, taking into consideration the effective interest rate method in relation to the net balance sheet value of a given financial instrument, taking into account the principles of materiality.

Dividends are recognized at the time of determination of the rights of shareholders to their receipt.

10.31. Taxes

10.31.1. Current tax

Liabilities and receivables under current tax for the current period and previous periods are measured at the amounts planned to be paid for tax authorities (subject to refund from tax authorities) with the application of tax rates and tax regulations that were legally or actually binding already as at the reporting date.

10.31.2. Deferred tax

For the purpose of financial reporting, deferred tax is calculated using the method of balance sheet liabilities in relation to temporary differences existing as at the reporting date between the tax value of assets and liabilities and their balance sheet value reported in the financial statement.

A deferred tax provision is recognized in relation to all positive temporary differences:

- except for a situation where the deferred tax provision is created as a result of the initial recognition of goodwill or the initial recognition of an asset component or liability at a transaction other than merger of entities and which, at the time of its conclusion, does not have impact on the gross financial result or on taxable income or tax loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or affiliates and shares in joint ventures – except for a situation where the dates of reversion of temporary differences are subject to control of the investor and when it is likely that in the foreseeable future temporary differences will not be reversed.

Deferred tax assets are recognized in relation to all negative temporary differences as well as unused tax reliefs and unused tax losses transferred for the next years, in the amount of likely taxable income that will enable using the aforementioned differences, assets and losses:

- except for a situation where deferred tax assets concerning negative temporary differences are created as a result of the initial recognition of an asset component or liability at the transaction other than merger of entities and which, at the time of its conclusion, do not have any impact on the gross financial result or on taxable income or tax loss, and
- in the case of negative temporary differences under investments in subsidiaries or affiliates and shares in joint ventures, asset component under deferred tax is recognized in the balance sheet only in the amount in which it is likely that, in the foreseeable future, the aforementioned temporary differences will be reversed and taxable income will be earned, which will enable offsetting negative temporary differences.

The balance sheet value of an asset component under deferred tax is reviewed as at each reporting date and will be reduced accordingly, provided that achieving taxable income sufficient for partial or total execution of asset component under deferred income tax has ceased to be likely.

Non-recognized asset component under deferred income tax is subject to re-assessment as at each reporting date and is recognized up to the amount reflecting the probability of achieving in the future taxable income that will permit recovery of this asset component.

Assets under deferred income tax and provisions for deferred tax are measured with the application of tax rates that, according to predictions, will be valid in the period when an asset component is executed or a provision is terminated, assuming, as the basis, tax rates (and tax regulations) valid as at the reporting date or such whose validity in the future is certain as at the reporting date.

Income tax concerning the items shown beyond profit or loss is recognized beyond profit or loss: in other comprehensive income concerning items recognized in other comprehensive income or directly in equity concerning items included directly in equity.

The Group sets off assets under deferred income tax with provisions under deferred income tax only when it has enforceable legal title to offset the receivables with liabilities under current tax and deferred income tax is related to the same taxpayer and the same tax authority.

10.31.3. Value Added Tax and excise duty

Revenues, costs, assets and liabilities are recognized after being decreased by the value of Value Added Tax, except for the cases when:

- the value added tax paid when purchasing assets or services cannot be recovered from tax authorities; it is recognized respectively as part of the purchase price of an asset component or as part of the cost item and
- of receivables and liabilities that are recognized including the amount of Value Added Tax.

The net amount of Value Added Tax that can be recovered or due for tax authorities is included in the statement of financial position as part of receivables or liabilities.

The net amount of Value Added Tax and the excise duty that can be recovered or due for tax authorities is recognized in the balance sheet as part of receivables or liabilities.

10.32. Net earnings per share

Net earnings per share for each period are calculated by dividing net earnings for a given period by the average number of shares in a particular reporting period.

10.33. Acquisitions under joint control

A situation when a given transaction or business phenomenon requiring recognition in the statement prepared in accordance with IFRS are not regulated by the provisions of particular standards has been regulated by the provisions of IAS, item 8, 10–12. These provisions impose on the entity preparing the statement in accordance with IFRS an obligation to create its own set of accounting principles, indicating characteristics of such accounting principles: faithful presentation of the financial position, results on activities and cash flows, reflection of economic content of transactions, neutrality, prudence and completeness in all aspects.

From the studies conducted by the Company it results that a commonly used method to settle this type of transaction is the share pooling method and this method was applied by the Company. The basis of this method is the assumption that merging entities were both before and after the transaction controlled by the same shareholder and, consequently, the consolidated financial statement reflects the fact of continuity of joint control and does not reflect changes in the net assets' values to fair values (or recognition of new assets) or business valuation, because no of merging entities is purchased. Settlement is made as at the day of merger and the previous data are not adjusted.

10.34. Obligation to purchase non-controlling shares

According to the selected policy, non-controlling shares are allocated with result and other comprehensive income in subsequent reporting periods. At the end of each reporting period, the value of non-controlling shares is adjusted, as if their purchase proceeded with simultaneous recognition of liabilities under share redemption option. The difference between the value of non-controlling shares derecognized as at the reporting day and the recognized financial liability is entered in the item of retained profits.

11. Acquisitions of projects

In the period from 1 January 2013 to 31 December 2013, no new projects were taken over.

12. Final settlement of purchase

As a result of the agreement signed on 28 May 2012 between ZE PAK and the State Treasury, ZE PAK purchased 10 200 000 A series ordinary registered shares in PAK Kopalnia Węgla Brunatnego Adamów S.A. ("PAK KWB Adamów") and 20 803 750 A series ordinary registered shares in PAK Kopalnia Węgla Brunatnego Konin S.A., conferring 85% of votes at General Meetings and 85% of share in the initial capital. The payment for purchased shares and transfer of ownership from these shares to ZE PAK involved the consent of the President of the Office for Protection of Competition and Consumers to making concentration, consisting in ZE PAK taking over control over PAK KWB Adamów and the PAK Kopalnia Węgla Brunatnego Konin S.A. ("PAK KWB Konin") Corporate Group, which took place on 16 July 2012. On 18 July 2012, the Minister of Treasury transferred ownership of a block of 85% of shares in PAK KWB Adamów and of a block of 85% of shares in PAK KWB Konin to ZE PAK. Thus, upon the effective purchase of the shares in question, ZE PAK took over control over PAK KWB Adamów and PAK KWB Konin.

Other 15% of shares in PAK KWB Adamów and PAK KWB Konin will be transferred by the State Treasury to the entitled employees. The shares sale agreement obligates ZE PAK to purchase employee shares after their transfer to employees for the price specified in the agreements, which results in creation of liability under redemption options in the consolidated financial statement of the Group.

The purchase of 85% of shares in PAK KWB Adamów and PAK KWB Konin and the recognition of liability under buyout of employee shares were settled as separate transactions.

The selling price was determined in the amount of PLN 67 320 000 for PAK KWB Adamów and PLN 108 179 500 for PAK KWB Konin. ZE PAK paid the aforementioned amounts on 17 July 2012.

In the financial year ended 31 December 2013, the final settlement of the purchase of PAK KWB Konin and PAK KWB Adamów was conducted.

Fair values of identifiable assets, liabilities and contingent liabilities of PAK KWB Konin and PAK KWB Adamów as at the date of their acquisition are presented in the table below.

Data in PLN '000	**PAK KWB Konin**	**PAK KWB Adamów**
Purchased percentage of shares	85%	85%
Assets		
Tangible fixed assets	660 189	133 319

Investment properties	2 665	817
Intangible assets	1 803	244
Stripping assets and other mining assets	110 967	2 960
Deferred tax assets	80 226	27 059
Inventory	20 252	12 311
Trade receivables and other receivables	1 929	2 531
Receivables under current income tax	375	2 198
Other financial and non-financial assets	31 412	10 394
Cash and cash equivalents	31	9 600
	909 849	**201 433**
Liabilities		
Provisions and accruals	257 941	69 626
Long-term employee benefits	98 296	42 766
Interest-bearing credits and loans	285 492	-
Trade liabilities and other financial liabilities	195 855	20 251
Grants and deferred income	303	
Other non-financial liabilities	27 096	11 380
	864 983	**144 023**
Identifiable net assets	**44 866**	**57 410**

Determination of acquisition price

Data in PLN '000	**PAK KWB Konin**	**PAK KWB Adamów**
Value of transferred cash	108 180	67 320
Amount settling the existing relationship - liabilities of ZE PAK	(82 405)	(21 790)
Acquisition price	**25 775**	**45 530**

Effect of purchase settlement

Determination of goodwill/gain on bargain purchase **Data in PLN '000**	**PAK KWB Konin**	**PAK KWB Adamów**
Acquisition price	25 775	45 530
Non-controlling shares at fair value	19 091	11 880
Total	**44 866**	**57 410**
Goodwill / Profit on bargain purchase	-	-

Outflow of cash under acquisition:

	PAK KWB Konin	**PAK KWB Adamów**		**Total**
Net cash acquired along with subsidiary (recognized as flows from investment activities)	31	9 600	-	9 631
Cash paid (recognized as flows from investment activities)	(108 180)	(67 320)	-	(175 500)
Paid transaction costs (recognized as flows from operating activities)	-	-	(1 759)	(1 759)
Net outflow of cash	**(108 149)**	**(57 720)**	**(1 759)**	**(167 628)**

Under settlement of purchase, assets and liabilities were measured at fair value.

The value of tangible fixed assets was adjusted on the basis of estimated values of equity of the acquired companies, made using the method of discounted cash flows.

For the purposes of calculation of free cash flows, the expected values of operating incomes and expenses and the planned costs of land reclamation were included. The weighted average cost of capital for both taken over entities was estimated as at 18 July 2012 at the level of 9.9%.

As at the day of merger, no significant contingent liabilities were identified that should be considered in the purchase settlement.

Non-controlling shares were measured at fair value.

As a result of conclusion of the agreement with the State Treasury, ZE PAK incurred an obligation to redeem shares of non-controlling shareholders. The recognition of this obligation in the consolidated financial statement required selection of accounting policy for this type of transactions.

According to the selected policy, non-controlling shares receive allocation of result and other comprehensive income in subsequent reporting periods. At the end of each reporting period, the value of non-controlling shares is adjusted, as if their purchase proceeded with simultaneous recognition of liabilities under share redemption option. The difference between the value of non-controlling shares derecognized as at the reporting day and the recognized financial liability is entered in the item of retained profits.

The liability as at the date of purchase of PAK KWB Konin and PAK KWB Adamów was included in the current value.

This liability was presented in the consolidated statement of financial position as long-term liability.

The process of making shares available to the entitled employees began in February 2013 and will last until 20 October 2014. The share redemption price is specified in PAK KWB Konin and PAK KWB Adamów share sale agreements of 28 May 2012 and was determined at the level of the price of purchase of the previously purchased shares in the mine, adjusted by Consumer Price Index.

Owing to the fact that as at the date of preparing the consolidated financial statement for the year ended 31 December 2012, the settlement of purchase was not complete, the final settlement conducted in 2013 was

included retrospectively. As a result, the opening balance was adjusted. Impact of changes has been presented in note no. 7 Changes in the applied accounting principles and the change in comparative data.

13. Operating segments

In connection with the acquisition of PAK KWB Konin and PAK KWB Adamów, the Group verified the information concerning the operating segments. For the purpose of management, the Group was divided into parts on the basis of products and services provided.

The following operating segments were separated:

- The segment Generation, including generation of electricity both in conventional sources (also in cogeneration) and generation of electricity at combustion and co-combustion of biomass (the Group ceased co-combustion at the end of April 2013). Basic fuel used by the segment Generation covers lignite and biomass. The segment Generation includes the following entities:
    - Zespół Elektrowni "Pątnów – Adamów – Konin" S.A.
    - "Elektrownia Pątnów II" sp. z o.o.
    - "PAK – HOLDCO" sp. z o.o.
    - "PAK Infrastruktura" sp. z o.o.
    - "PAK Biopaliwa" sp. z o.o. *
- The segment Mining, covering lignite extraction. In the segment Mining under the ZE PAK S.A. Corporate Group the following entities operate:
    - "PAK GÓRNICTWO" sp. z o.o.
    - "PAK Kopalnia Węgla Brunatnego Konin" S.A. (from the 3rd quarter of 2012)
    - "PAK Kopalnia Węgla Brunatnego Adamów" S.A. (from the 3rd quarter of 2012)
- The segment Renovation, providing services in the area of construction and repair services. The segment includes activities of the following companies:
    - Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o.,
    - Przedsiębiorstwo Serwisu Automatyki i Urządzeń "EL PAK" sp. z o.o. and
    - "Energoinwest Serwis" sp. z o.o.

In connection with achievement of the thresholds specified in IFRS 8 paragraph 13, the ZE PAK Group separated the operating segment Sale of Energy. The above segment includes "Elektrim-Volt".

The ZE PAK S.A. Group conducts also other kinds of activities through "PAK Centrum Usług Informatycznych IT" sp. z o.o. "PAK Centrum Badań Jakości" sp. z o.o. The activities of these companies are aggregated in the column Other.

Transaction prices used in transactions between the operating segments are determined on the market terms like for transactions with unrelated parties.

Revenues from transactions between the segments are eliminated in the process of consolidation.

The Management Board monitors separately operating results of the segments, to make decisions concerning resource allocation, assess effects of this allocation and results on activities. The basis for assessment of results on activities is profit or loss on operating activities and EBITDA.

Below are presented results of the segments for the periods ended 31 December 2013 and 31 December 2012.

** In connection with liquidation of "PAK Biopaliwa" sp. z o.o., it is shown in the segment Generation only in the comparative data for 2012.*

as at 31 December 2013	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Revenues from sale to external clients	1 867 335	13 223	83 723	798 757	802	-	2 763 840
Inter-segment sales revenues	471 787	947 852	137 683	5	21 089	(1 578 416)	-
Sales revenues	**2 339 122**	**961 075**	**221 406**	**798 762**	**21 891**	**(1 578 416)**	**2 763 840**
Prime cost	(2 102 318)	(742 784)	(183 473)	(790 393)	(17 135)	1 582 007	(2 254 096)
Gross profit/(loss) on sale	**236 804**	**218 291**	**37 933**	**8 369**	**4 756**	**3 591**	**509 744**
Other operating income	13 941	12 127	1 019	583	50	(1 873)	25 847
Selling costs	(2 350)	(28)	-	(595)	-	-	(2 973)
Overheads	(47 735)	(78 829)	(16 942)	(4 757)	(2 703)	1 873	(149 093)
Other operating costs	(13 087)	(11 770)	(110)	(1)	(10)	-	(24 978)
Financial revenues	47 800	8 867	1 398	1 865	306	(41 402)	18 834
Financial costs	(50 433)	(27 572)	(98)	(13)	-	490	(77 626)
Gross profit/(loss)	**184 940**	**121 086**	**23 200**	**5 451**	**2 399**	**(37 321)**	**299 755**
Income tax (tax load)	(39 496)	(22 541)	(4 123)	(1 032)	(395)	(662)	(68 249)
Net profit/(loss) on continued activities	**145 444**	**98 545**	**19 077**	**4 419**	**2 004**	**(37 983)**	**231 506**
Gross profit/(loss) on operating activities, without financial operations and income tax	**187 573**	**139 791**	**21 900**	**3 599**	**2 093**	**3 591**	**358 547**
Depreciation and amortization	272 978	81 877	5 141	123	2 183	(4 461)	357 841
Impairment write-down	(341)	(197)					(538)
Result of segment (Ebitda)	**460 210**	**221 471**	**27 041**	**3 722**	**4 276**	**(870)**	**715 850**

As at 31.12.2012

(transformed data)	Generation	Mining	Renovation	Sale	Other	Consolidation adjustments	Total
Revenues from sale to external clients	2 451 195	5 791	100 718	163 726	1 964	-	2 723 394
Inter-segment sales revenues	133 441	430 400	211 315	-	17 037	(792 193)	-
Sales revenues	**2 584 636**	**436 191**	**312 033**	**163 726**	**19 001**	**(792 193)**	**2 723 394**
Prime cost	(2 083 010)	(393 792)	(252 162)	(161 277)	(12 682)	804 136	(2 098 787)
Gross profit/(loss) on sale	**501 626**	**42 399**	**59 871**	**2 449**	**6 319**	**11 943**	**624 607**
Other operating income	14 249	1 494	268	244	57	(4 088)	12 224
Selling costs	(2 820)	(459)	-	(158)	-	-	(3 437)
Overheads	(58 946)	(51 752)	(17 608)	(1 442)	(2 435)	(1 760)	(133 943)
Other operating costs	(14 911)	(4 365)	(487)	(127)	(2)	4 018	(15 874)
Financial revenues	126 346	1 132	1 465	623	97	(46 212)	83 451
Financial costs	(46 869)	(21 632)	(1 764)	(22)	-	-	(70 287)
Gross profit/(loss)	**518 675**	**(33 183)**	**41 745**	**1 567**	**4 035**	**(36 098)**	**496 741**
Income tax (tax load)	(89 575)	7 368	(8 461)	(307)	(558)	(2 432)	(93 965)
Net profit/(loss) on continued activities	**429 100**	**(25 815)**	**33 284**	**1 260**	**3 477**	**(38 530)**	**402 776**
Gross profit/(loss) on operating activities, without financial operations and income tax	**439 198**	**(12 683)**	**42 044**	**966**	**3 938**	**10 114**	**483 577**
Depreciation	245 072	31 672	5 051	39	1 492	(3 023)	280 303
Write-down	(123)	(2)					(125)
Result of segment (Ebitda)	**684 147**	**18 987**	**47 095**	**1 005**	**5 430**	**7 091**	**763 755**

14. Revenues and costs

14.1. Sales revenues

Material structure		*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Revenues from sale of electricity		1 903 212	2 108 465
Revenues under electricity from the market		486 914	205 480
Property rights from energy certificates of origin		55 681	129 896
Revenues from construction contracts	*14.8*	57 411	93 821
Compensation related to PPAs termination		155 239	89 972
Revenues from sale of heat		58 383	54 222
Exchange of EUAs for CERs		-	23 402
Other sales revenues		48 255	18 965
Excise duty		(1 255)	(829)
Total sales revenues		2 763 840	2 723 394

Territorial structure	*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Poland	2 748 970	2 673 896
EU countries	13 417	46 906
Beyond EU	1 453	2 592
Total sales revenues	2 763 840	2 723 394

14.2. Other operating income

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Revenues from sale of CO2 allowances	-	3 185
Revenues under compensations	10 781	1 204
Termination of receivables write-off	622	271
Settlement of grants	1 997	690
Gain on disposal of non-financial fixed assets	3 480	953
Termination of provision for costs and losses and debt write-off	5 155	191
Other	3 812	5 730
Total other operating income	25 847	12 224

In the item Revenues from sale of CO2 allowances the Group presents sale of surplus of the allowances received free of charge under the National Allocation Plan for CO2 Emission Allowances for the Years 2008- 2012.

14.3. Other operating costs

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Loss on disposal of tangible fixed assets	79	942
Creation of provisions	6 532	1 659
Receivables write-off	107	220
Compensations	242	142
Costs of liquidation of fixed assets	2 673	818
Charging of equivalent for electricity for retired persons and former employees	3 137	4 776
Power damages	1 780	763
Costs of maintenance of rest and refreshment facilities	258	237
Transferred donations	628	888
Costs of trade unions	194	193
Costs of shortages and losses	98	42
Other	9 250	5 194
Total other operating costs	24 978	15 874

14.4. Financial revenues

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Revenues under interest	10 834	22 335
Dividends	7 426	54
Foreign exchange gains	–	40 343
Sale of TGE shares	–	20 649
Other	574	70
Total financial revenues	18 834	83 451

On the basis of the agreement concluded with Giełda Papierów Wartościowych w Warszawie S.A., the parent company conducted in 2012 a transaction of sale of 157,000 shares in Towarowa Giełda Energii S.A. The selling price of one share amounted to PLN 154.00. Gain on disposal of shares amounted to PLN 20 649 thousand.

14.5. Financial costs

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Interest	47 570	40 643
Measurement and exercise of derivatives	11 151	10 289
Foreign exchange losses	8 850	2 660
Discount on the provision for reclamation	7 914	10 014
Discount on the provision for dismantling of units	782	1 066
Other	1 359	5 615
Total financial costs	77 626	70 287

14.6. Costs by type

	Note	*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Depreciation and amortization	*14.7*	357 841	280 303
Impairments write-downs against property, plant and equipment	*19, 14.7*	(538)	(125)
Impairment write-downs against inventory		2 255	33 314
Materials		553 324	929 453
External services		122 980	144 463
Taxes and charges, excluding excise duty		216 645	141 932
Costs of CO_2 emission		150 652	
Employee benefits		597 479	420 056
Other costs by type		29 158	78 487
Cost of goods for resale and raw materials sold and resale of electricity from the market		455 765	230 388
Total costs by type		2 485 561	2 258 271
Items included in the prime cost		2 254 096	2 098 787
Items included in the selling costs		2 973	3 437
Items included in the overheads		149 093	133 943
Change in products		35 291	(3 089)
Cost of goods manufactured for company's own purposes		44 108	25 193

14.7. Costs of depreciation and impairment write-downs recognized in profit or loss

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Items included in the cost of manufacture of sold products:		
Fixed assets depreciation	344 058	272 073
Depreciation of mining asset	8 838	3 934
Intangible assets depreciation	1 287	1 296
Impairment of tangible fixed assets	(538)	(125)
Impairment of intangible assets	–	–
	353 645	277 178
Items included in selling costs:		
Fixed assets depreciation	5	8
Intangible assets depreciation	–	–
Impairment of tangible fixed assets	–	–
Impairment of intangible assets	–	–
	5	8
Items included in overheads:		
Fixed assets depreciation	2 901	2 717
Intangible assets depreciation	752	275
Impairment of tangible fixed assets	–	–
Impairment of intangible assets	–	–
	3 653	2 992

14.8. Construction contracts

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Revenues under construction contracts recognized in the period:	57 411	93 821
Revenues invoiced in the period:	52 817	111 605
Balance sheet measurement:	4 594	(17 784)
Costs incurred in the period:	51 230	67 720
Expected losses under agreements recognized in the period:	427	541
Result on fulfilment of agreements recognized in the period:	5 754	25 560

	31 December 2013	*31 December 2012 (transformed data)*
Gross amount due from clients under works resulting from the agreement:	13 229	3 605
Gross amount due to clients under works resulting from the agreement:	8 070	3 080

The companies of the Group - Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. and Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK Sp. z o.o. perform construction contracts.

Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. provides repair and construction services.

Main contracts performed by the company in the periods covered by this statement are listed below:

- complete installation of MD and ND pipelines and components of D and E units in the Power Plant in Westphalia, total value: EUR 13 687 thousand; Ordering Party: BILFINGER PIPING TECHNOLOGIES GmbH
- repair works in the Jänschwalde Power Plant, total value: EUR 620 thousand; Ordering Party: BABCOCK BORSIG STEINMULLER GmbH
- Repair of absorbers in the Weiher Power Plant, total value: EUR 101 thousand; Ordering Party: BABCOCK NOELL GmbH
- turnkey modernization of boilers K-1 and K-2 in the Pątnów Power Plant, total value of the order: PLN 151 708 thousand; contract performed for ZE PAK S.A. within the consortium with REMAK ROZRUCH S.A.
- modernization of auxiliary devices and pipeline installations TG-1 and TG-2, Pątnów Power Plant, total value of the order: PLN 43 500 thousand; Ordering Party: TURBOCARE SP. Z O.O.
- replacement of HP/Wt pipelines connecting the boiler with turbine BL. 1 and 2, Pątnów Power Plant, total value of the order: PLN 14 380 thousand; Ordering Party: CHEMAR RUROCIĄGI SP. Z O.O.
- prefabrication, assembly of silo, absorber and flue gas ducts for waste incinerating plant, total value of the order: PLN 900 thousand; Ordering Party: INTEGRAL ENGINEERING UND UMWELTTECHNIK GmbH
- making of prefabrication of cold air ducts, total value of the order: PLN 380 thousand; Ordering Party: POWER ENGINEERING S.A.

Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK Sp. z o.o. provides services with regard to servicing industrial automation and electrical equipment.

Main contracts performed by the company in the periods covered by this statement are listed below:

- UZS/64/2/2013 of 07.02.2013 - TAURON Dystrybucja S.A, "Execution of the Design Along With Modernization of Bay 110kV in the Kuźnia Raciborska Substation for the Needs of Connecting the GAMÓW Wind Farm" - value: PLN 2 572 thousand.
- UZS/169/9/2013 of 19.03.2013 - TAURON Dystrybucja SA "Optimization of the Neutral Point of MV Network, Tychy Substation" value: PLN 1 595 thousand
- UZS/326/19/2013 of 31.05.2013 - TAURON Dystrybucja SA "GPZ Haźlaska - Installation of Follow-up Compensation Systems - value: PLN 987 thousand

- UZS/327/20/2013 of 29.05.2013 -the Port of Gdansk Authority SA, "Modernization of Two Positions of Compensation of MV Network Along With the System of Control and Position of Auxiliaries in the Main Power Supply Point in the Northern Port in Gdańsk- value: PLN 1 219 thousand
- UZS/351/23/2013 of 31.05.2013 - TAURON Dystrybucja SA "Chełmek Main Power Supply Point - Installation of Follow-Up Compensation Systems" - value: PLN 970 thousand
- UZS/363/25/2013 of 27.06.2013 - TAURON Dystrybucja SA "Replacement of the Existing Compensatory Assemblies 20 kV in MPSPR - Bielawa to Compensatory Assemblies with a Follow-up Compensation of Ground-Fault Currents in the Network 20 kV- 2 Sets - Making Along With Execution of Design Documentation (Task 301093)" - value: PLN 1 107 thousand
- UZS/617/40/2013 of 10.09.2013 -ALSTOM Power Sp. z o.o. "Prefabrication of EAZ Cubicles under the Task: "Delivery of Interior, Metal Clad, Three-System and Three-Section 110kV Switchgear for the Needs of the Głogów Copper Works"." - value: PLN 1 320 thousand

15. Components of other comprehensive income

Components of other comprehensive income are as follows:

		Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Cash flow hedges			
Profits (losses) for the period		586	(16 317)
Adjustments resulting from reclassification of profits (losses) included in profit or loss		11 126	10 268
Gross cash flow hedges for the period		**11 712**	**(6 049)**
Income tax concerning cash flow hedges		(2 225)	1 149
Net cash flow hedges for the period		**9 487**	**(4 900)**
Gross profits/(losses) concerning provisions for employee benefits after the period of employment		**(364)**	**(19 042)**
Tax concerning profits/(actuarial losses)		69	3 618
Net actuarial profits/(losses) concerning provisions for employee benefits after the period of employment		**(295)**	**(15 424)**
Gross exchange rate differences from foreign currency translation		**41**	**(575)**
Income tax concerning foreign exchange differences from foreign currency translation		–	–
Gross exchange rate differences from net foreign currency translation		**41**	**(575)**
Gross other comprehensive income		**11 389**	**(25 666)**
Income tax concerning other comprehensive income	**16.1**	**(2 156)**	**4 767**
Net other comprehensive income		**9 233**	**(20 899)**

16. Income tax

16.1. Tax load

Main tax load components for the year ended 31 December 2013 and 31 December 2012 are as follows:

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Recognized in profit or loss		
Current income tax		
Current load under income tax	9 388	53 746
Deferred income tax		
Associated with creation and reversal of temporary differences	66 392	39 931
Other changes	(7 531)	288
Tax load in the consolidated profit or loss	**68 249**	**93 965**
Included in the consolidated statement of comprehensive income		
Tax on net profit/(losses) under revaluation of cash flow hedges	(2 225)	1 149
Tax concerning actuarial profits / losses	69	3 618
Tax benefit/(tax load) included in other comprehensive income	(2 156)	4 767

16.2. Agreeing the effective tax rate

Agreeing income tax on the gross financial result before taxation at the statutory tax rate with the income tax calculated at the effective tax rate of the Group for the year ended 31 December 2013 and 31 December 2012 is presented below:

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Gross profit before taxation on continued activities	**299 755**	**496 741**
Tax at the statutory interest rate	56 953	94 381
Change in the value of non-recognized asset on tax loss in the Pątnów II Power Plant	-	(865)
Change in the value of non-recognized asset on tax loss incurred by the German branch of PAK Serwis – recognition of additional assets	(512)	(103)
Change related to different tax rate in Germany (30%)	311	86
Costs not being tax deductible costs	1 405	466
Non-recognized tax losses	10 786	–
Other	(694)	
Tax at the effective tax rate amounting to in 2013: 22.77%, in 2012: 18.92%	68 249	93 965
Income tax in the income statement	**68 249**	**93 965**

16.3. Deferred income tax

Deferred income tax results from the following items:

			Consolidated income statement for the year ended	
	31 December 2013	*31 December 2012 (transformed data)*	*31 December 2013*	*31 December 2012 (transformed data)*
Deferred tax asset				
Balance sheet provisions	140 439	130 347	10 023	(6 014)
Stripping assets and other mining assets	4 476	9 533	(5 057)	(3 146)
Interest and exchange rate differences	11 243	11 182	61	(22 285)
Hedging instruments	4 796	7 068	(47)	149
Measurement of non-terminated construction contracts	3 685	858	2 827	(7 100)
Tax loss from previous years	47 814	70 135	(22 321)	(11 881)
Impairment write-down against inventory	1 780	1 805	(25)	(100)
Impairment write-down against receivables	6 629	5 451	1 178	(100)
Impairment write-down against property, plant and equipment	–	142	(142)	(2 097)
Settlements with employees	6 302	6 660	(358)	4 480
Other	5 727	2 493	3 234	(238)
Total	**232 891**	**245 674**	**(10 627)**	**(48 332)**
Provision under deferred tax				
Difference between the balance sheet value and the tax value of fixed assets	372 501	357 996	14 505	8 486
Receivables under PPAs	8 215	6 923	1 292	(6 497)
Energy certificates	23 846	20 448	3 398	(1 877)
Interest and exchange rate differences	1 021	1 150	(129)	(2 879)
Measurement of non-terminated construction contracts	3 335	1 134	2 201	(6 224)
Accrued receivables under contractual penalty fees	869	–	869	–
Purchased CO2 allowances	33 404	–	33 404	
Other	877	652	225	590
Total	**444 068**	**388 303**	**55 765**	**(8 401)**

			Consolidated income statement for the year ended	
	31 December 2013	*31 December 2012 (transformed data)*	*31 December 2013*	*31 December 2012 (transformed data)*
After compensating the balances at the level of the Corporate Group's companies, deferred tax is presented as:				
Asset:	**101 992**	**123 330**		
Provision:	**313 170**	**265 959**		
Load under deferred income tax in the consolidated income statement:			**(66 392)**	**(39 931)**
Total loads under deferred income tax:			**(68 548)**	**72 693**
- in correspondence with comprehensive income			(2 156)	4 767
- in correspondence with the financial result			(66 392)	(39 931)
- impact of the purchase of PAK KWB Adamów and PAK KWB Konin			–	107 285
- impact of the purchase of Elektrim-Volt S.A.			–	572

On 31 December 2013, "Elektrownia Pątnów II" sp. z o.o. showed a tax profit in the amount of PLN 68 025.26 thousand, as at 31 December 2012, in the amount of PLN 116 399 thousand.

A year before 2012, the company showed tax losses that are settled with tax revenues starting from 2012.

The accumulated value of tax losses for the years 2008 – 2011, remaining for settlement as at 31 December 2013, amounted to PLN 203 779 thousand and, as at 31 December 2012, it amounted to PLN 271 805 thousand.

As at 31 December 2012, the company recognized in the books asset on losses, non recognized earlier, in the amount of PLN 855 thousand.

As at 31 December 2013, the value of non-recognized deferred tax asset on tax losses from previous years in "Elektrownia Pątnów II" sp. z o.o." amounted to PLN 10 786 thousand.

Tax losses, in accordance with valid Polish tax regulations, may be offset from future taxable income earned by the Company in subsequent five tax years, provided that the amount of reduction in any of these years cannot exceed 50% of the loss amount.

As at each reporting date, the company analyzes the possibility of settling tax losses from future income based on the prepared budgets.

Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. conducts activities on the territory of Germany through a branch.

In the period from 2008 to 2010, the company sustained tax losses. The accumulated value of losses for this period amounted to PLN 24 811 thousand.

Based on the held budgets for the next years, the company analyzed the possibility of settling tax losses. The value of tax losses for the years 2008 – 2009 amounted to PLN 18 087 thousand. Deferred tax asset was not recognized. This value amounted to PLN 5 426 thousand. For the year ended 31 December 2010, the value of the loss sustained by the German branch amounted to PLN 6 732 thousand.

In this regard deferred tax asset was not recognized either – this value amounted to PLN 2 017 thousand.

In the year ended 31 December 2011, the branch earned tax profit. As a result, tax loss from previous years (not covered previously by asset) in the amount of PLN 4 214 thousand was settled.

In the year ended 31 December 2012, the branch earned tax profit. As a result, tax loss from previous years (covered previously by asset up to the amount of EUR 850 thousand) in the amount of PLN 3 586 thousand (EUR equivalent of 859 thousand) was settled.

In the year ended 31 December 2013, the branch earned tax profit in the amount of PLN 1 936 thousand (the EUR equivalent of 459 thousand). As a result, tax loss from previous years (covered previously by asset up to the amount of EUR 84 thousand) was settled up to the amount of earned profit.

In addition, on the basis of the prepared budgets for future years, additionally an asset was recognized on tax loss from previous years, in the amount of PLN 617 thousand (the EUR equivalent of 149 thousand).

As at 31 December 2013, the value of non-recognized deferred tax asset on tax losses from previous years in Przedsiębiorstwo Remontowe "PAK Serwis" amounted to PLN 4 151 thousand.

In the financial year ended 31 December 2012, PAK Kopalnia Węgla Brunatnego Konin S.A. showed a tax loss in the amount of PLN 57 538 thousand.

As at 31 December 2013, tax loss amounted to PLN 17 458 thousand.

PAK Kopalnia Węgla Brunatnego Adamów S.A. sustained tax loss for the financial year ended 31.12.2012 in the amount of PLN 46 780 thousand; it plans to settle it in the next periods.

The long-term plan for the years 2013-2015, adopted by the company, indicates an option of its settlement.

In 2013, from income 50% of loss from 2012 was deducted, that is PLN 23 390 thousand.

17. Social property and MFŚS liabilities

The Act of 4 March 1994 on Plant Social Benefits Fund, as amended, states that the Social Benefits Fund is created by employers hiring more than 20 full-time employees. The Group creates this fund and makes periodical write-offs based on the amounts agreed with trade unions. Additionally, the Group's Companies contribute some social assets to the Fund. The Fund's purpose is to fund social activities, loans granted to its employees and other social costs.

The subsidiaries PAK KWB Konin and PAK KWB Adamów do not belong to the Inter-Company Social Benefits Fund.

The Group set off the Fund's assets with its liabilities towards the Fund since these assets are not separate assets of the Group. In connection with the above, the net balance as at 31 December 2013 amounts to PLN 9 390 thousand (as at 31 December 2012 - PLN 1 120 thousand, respectively).

The tables below present the analytics of assets, liabilities and costs of the Fund.

	31 December 2013	*31 December 2012*
Loans granted to employees	13 688	14 366
Cash	7 522	9 779
Liabilities under the Fund	(11 820)	(23 025)
Balance after compensating	9 390	1 120

	Year ended 31 December 2013	*Year ended 31 December 2012*
Contributions to the Fund in the financial period	14 136	15 969

18. Earnings per share

Basic earnings per share are calculated by dividing net earnings for the period attributable to ordinary shareholders of the parent company by the weighted average number of issued ordinary shares in the period.

Diluted earnings per share are calculated by dividing net earnings for the period attributable to ordinary shareholders by the average weighted number of issued ordinary shares in the period, adjusted by the weighted average of ordinary shares that would be issued under conversion of all diluting potential equity instruments into ordinary shares.

In September 2012, the division of shares in the Company was registered. Before the division transaction, the share capital of the Company was divided into 8 671 000 shares of face value of PLN 12 each. After the division, the share capital of the Company consists of 52 026 000 ordinary shares of face value of PLN 2. Earnings per share for each of the presented periods in this consolidated financial statement were calculated including the fact of increased number of shares.

Additionally, in December 2012, the Company purchased 1 202 453 own shares for redemption. Own shares were excluded from the basis for calculating earnings per share. In April 2013, the Company received a decision of the Court of 23 April 2013, along with the certificate of making, on 24 April 2013, an entry into the Register of Entrepreneurs of the Company, concerning registration of reduction in the Company's initial capital made in connection with redemption of own shares in the Company

Below are presented data concerning earnings and shares that were used to calculate basic and diluted earnings per share:

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Net profit on continued activities attributable to shareholders of the parent company	216 946	406 495
Profit on abandoned activities attributable to shareholders of the parent company	-	-
Net profit attributable to ordinary shareholders, used for calculations of diluted earnings per share	216 946	402 776
The average weighted number of ordinary shares applied to calculate basic and diluted earnings per share	50 823 547	51 925 796

The table below presents earnings per share for the period of 12 months ended 31 December 2013 and 31 December 2012, presented in the income statement.

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
(data in Polish zlotys)		
Basic and diluted earnings from profit for the financial year attributable to shareholders of the parent company	4.27	7.76
Basic and diluted from profit on continued activities attributable to shareholders of the parent company	4.27	7.76

In the period between the reporting date and the day of preparation of this financial statement, there were no other transactions concerning ordinary shares or potential ordinary shares.

19. Tangible fixed assets

Year ended 31 December 2013

	Land and right of perpetual usufruct	*Buildings and structures*	*Technical equipment*	*Means of transport*	*Other fixed assets*	*Fixed assets in construction*	*Total*
Gross value as at 01 January 2013	163 259	1 839 836	3 817 629	72 273	29 050	170 584	6 092 631
Direct purchase	–	18	3 770	1 232	2 585	267 283	274 888
Repairs	–	7 923	5 089	–	–	(3 772)	9 240
Sale and liquidation	(4 988)	(9 897)	(34 970)	(3 183)	(1 877)	(160)	(55 075)
Transfer from fixed assets under construction	30 389	21 021	53 448	650	265	(105 773)	–
Gross value as at 31 December 2013	188 660	1 858 901	3 844 966	70 972	30 023	328 162	6 321 684
Depreciation and impairment write-downs as at 01 January 2013	1 140	284 303	685 108	11 621	16 699	30 200	1 029 071
Depreciation write-down for the period	1 211	84 352	248 499	9 814	3 088	–	346 964
Impairment write-down	–	(148)	(3)	–	(2)	(385)	(538)
Sale and liquidation	(12)	(7 884)	(32 676)	(1 970)	(1 483)	–	(44 025)
Depreciation and impairment write-downs as at 31 December 2013	2 339	360 623	900 928	19 465	18 302	29 815	1 331 472
Net value as at 01 January 2013	162 119	1 555 533	3 132 521	60 652	12 351	140 384	5 063 560
Net value as at 31 December 2013	186 321	1 498 278	2 944 038	51 507	11 721	298 347	4 990 212

Year ended 31 December 2012

(transformed data)

	Land and right of perpetual usufruct	*Buildings and structures*	*Technical equipment*	*Means of transport*	*Other fixed assets*	*Fixed assets in construction*	*Total*
Gross value as at 1 January 2012	37 040	1 522 756	2 805 129	14 104	21 520	659 171	5 059 720
Direct purchase	5 282	417	8 164	1 939	3 048	248 188	267 038
Purchase of PAK KWB Konin and PAK KWB Adamów	119 576	125 027	428 733	55 654	2 474	62 044	793 508
Purchase of Elektrim-Volt S.A.	–	1	64	155	30	–	250
Repairs	–	–	15 802	17	–	–	15 819
Sale and liquidation	(3 883)	(5 054)	(30 999)	(1 345)	(1 100)	(1 323)	(43 704)
Transfer from fixed assets under construction	5 244	196 689	590 736	1 749	3 078	(797 496)	–
Gross value as at 31 December 2012	163 259	1 839 836	3 817 629	72 273	29 050	170 584	6 092 631
Depreciation and impairment write-downs as at 1 January 2012	888	216 362	519 663	7 525	15 054	30 291	789 783
Depreciation write-down for the period	252	70 557	196 198	5 281	2 600	(91)	274 797
Impairment write-down	–	(40)	6	–	–	(91)	(125)
Sale and liquidation	–	(2 576)	(30 759)	(1 185)	(955)	91	(35 384)
Depreciation and impairment write-downs as at 31 December 2012	1 140	284 303	685 108	11 621	16 699	30 200	1 029 071
Net value as at 1 January 2012	36 152	1 306 394	2 285 466	6 579	6 466	628 880	4 269 937
Net value as at 31 December 2012	162 119	1 555 533	3 132 521	60 652	12 351	140 384	5 063 560

The balance sheet value of fixed assets used as at 31 December 2013 under the financial lease agreements is PLN 59 403 thousand (PLN 75 443 thousand as at 31 December 2012, respectively).

Land and buildings with the balance sheet value of PLN 406 321 thousand (PLN 563 380 thousand as at 31 December 2012) are covered by mortgage established to secure bank credits of the Group (note 36).

The value of capitalized borrowing costs in the year ended 31 December 2013 amounted to PLN 13 599 thousand (in the year ended 31 December 2012 it amounted to PLN 200 thousand).

The value of liquidated technical equipment applies, first of all, to fully remitted steam AC turbo-generator TG-2 (gross value: PLN 30 000 thousand). In addition, the Group sold post-mining land with the net value of PLN 4 961 thousand.

Impairment test for assets of the ZE PAK SA Corporate Group

According to IAS 36, at the end of each reporting period, the Management Board of the Group assesses whether there are any premises for impairment of fixed asset components. In the event of observing such premises, the Group estimates recoverable value of asset components. In connection with the above, the Group each time analyzes: premises that may have impact on impairment of any asset components and determination of independent cash flows generating units (CGUs) under the Group's companies.

According to IAS 36, "cash generating units (CGUs) are the smallest identifiable groups of assets generating inflows from the current use that are independent on inflows from other assets or groups of assets. If there are any premises proving that a given asset component could have suffered impairment, the recoverable value of this single asset component is estimated. If the estimation of the recoverable value of a single asset component is not possible, the entity determines the recoverable value of the cash generating unit a given asset component belongs to (cash generating unit of a given asset component)".

When separating CGUs under the Group's companies, first of all, the independence of generating cash flows was to be analyzed in the aspect of functioning of a given Company in the Group.

The parent company in the Group, i.e. ZE PAK SA, apart from generation activities, under which it is responsible for ensuring a specific level of efficiency of generating units and fulfilling production schedules, concentrates also important operational and financial functions at the level of the Group.

Pątnów II Power Plant – second largest producer of electricity in the Group, by virtue of the Act on PPAs termination participates in the program of covering stranded costs until the end of 2025.

The final settlement of this program and, in consequence, receipt of additional funds under of the annual adjustment for the year 2025 and the final adjustment, are planned in 2026.

The "Konin" and Adamów" lignite mines run business activities on several open pits. In these companies, as profit generating units, no smaller groups of assets generating independent cash inflows were separated, as for many reasons inflows generated by particular groups of assets are very strictly related. As a result, the Mine is to deliver to the Power Plant a given volume of lignite, regardless of the open pit. As a result, lignite is supplied to the power plant from several open pits interchangeably. Also the organizational structure and records systems are subject to the production purpose formulated in this way.

The above arguments determined separation under the ZE PAK SA Corporate Group of the following units generating independent cash flows:

- ZE PAK SA
- EL Pątnów II Sp. z o.o
- PAK KWB "Konin" SA
- PAK KWB "Adamów" SA

In addition, other CGUs under segments were separated: Renovation, Sale and Other.

When conducting impairment test for fixed assets, the Group used a financial model reflecting the strategic assumptions of the parent company, ZE PAK SA, for the period 2014-2047.

In ZE PAK S.A. one cash generating unit (CGU) was determined, though under the profit generating unit the following cash inflow generating units were separated:

-Pątnów I Power Plant - time of operation until 31.12.2029

-Adamów Power Plant - time of operation until 31.12.2017

-Konin Power Plant collector - time of operation until 31.12.2017

-Konin Power Plant biomass unit - time of operation until 31.12.2047

For each of the aforementioned units it is possible to identify the stream of cash flows, however, these streams are to some degree dependent on each other, in connection with this, it was necessary to analyze them jointly as one CGU. For the aforementioned CGU, it was possible to estimate EBIT streams by the periods of functioning of particular assemblies. The EBIT stream was increased by depreciation adjusted after 2017 for Adamów and Konin-collector. In order to calculate free cash flows, EBITDA flows were adjusted by capital expenditures.

Capital expenditures are exclusive of expenses on a gas unit in Konin.

In the case of Pątnów II Sp. z o.o., impairment test was abandoned because of the fact that this entity participates in the program of covering stranded costs (PPAs).

The basis for measurement for both lignite mines are long-term financial projections including the periods of operation of both mines and their particular open pits, which were agreed with the assumptions adopted to the model of ZE PAK SA.

The financial projections were built taking into consideration the following parameters:

1. production volume (lignite extraction) and revenues were determined on the basis of the forecasts of the main lignite recipient, i.e. ZE PAK SA and EP II Sp. z o.o. and its planned lignite pricing path,

2. stripping and lignite extraction were prepared according to the schedule of operation of present and forecasted open pits,

3. the adopted level of capital expenditures permits creation of new open pits and maintenance of specified production capacities during their operation,

4. the schedule of employment restructuring processes was adopted,

5. the costs of the following events were included:

- costs of reclamation of open pits

- retirement provisions

- costs of severance pays for group layoffs

- revenue from sale of property after the end of open pit operation.

On the basis of the built model, it was possible to estimate cash flows according to the periods of operation of different open pits.

Every mine was treated as a separate CGU.

Values of revenues, costs, capital expenditures and working capital were introduced to a model, in which the business value was calculated based on its full and best knowledge held as at the date of test. The test was conducted as at 31 December 2013.

On the basis of the conducted tests, it was determined that it was not necessary to examine impairment write-downs against tangible fixed assets.

20. Lease

20.1. Liabilities under financial lease agreements and lease agreement with purchase option

Fixed assets used on the basis of financial lease agreements include mainly cars, bulldozers and caterpillar loaders, tractors and semitrailers.

As at 31 December 2013 and as at 31 December 2012, future minimum lease fees under financial lease agreements and lease agreements with purchase option and current value of minimum net lease fees are as follows:

	As at 31 December 2013		*As at 31 December 2012*	
	Minimum fees	*Current value of fees*	*Minimum fees*	*Current value of fees*
In the period to 1 year	20 540	18 193	22 590	18 952
In the period from 1 to 5 years	24 416	22 476	43 320	39 380
Above 5 years	–	–	–	–
Total minimum lease fees	44 956	40 669	65 910	58 332
Minus financial costs	(4 287)	-	(7 578)	-
Current value of minimum lease fees, including:	44 932	40 669	58 332	58 332
Short-term	20 516	18 193	18 952	18 952
Long-term	24 416	22 476	39 380	39 380

21. Intangible assets

Long-term intangible assets - the year ended 31 December 2013

	R&D costs	*Patents and licenses*	*Computer software*	*Other intangible assets*	*Total*
Gross value as at 01 January 2013	–	32 117	1 624	346	34 087
Increases	–	1 148	331	25 182	26 661
Decreases	–	(34)	(133)	–	(167)
Gross value as at 31 December 2013	–	33 231	1 822	25 528	60 581
Depreciation and impairment write-downs as at 1 January 2013	–	25 949	1 046	257	27 252
Depreciation write-down for the period	–	1 786	242	12	2 040
Impairment write-down	–	–	–	–	–
Decreases	–	(33)	(133)	–	(166)
Depreciation and impairment write-downs as at 31 December 2013	–	27 702	1 155	269	29 126
Net value as at 01 January 2013	–	6 168	578	89	6 835
Net value as at 31 December 2013	–	5 529	667	25 259	31 455

In the item other intangible assets the Group shows mainly purchased CO2 allowances more than the obligation to cancel connected with emission for the year ended 31 December 2013.

Long-term intangible assets - the year ended 31 December 2012

	R&D costs	*Patents and licenses*	*Computer software*	*Other intangible assets*	*Total*
Gross value as at 1 January 2012	–	28 224	1 438	321	29 983
Purchase of PAK KWB Konin and PAK KWB Adamów	–	1 735	244	–	1 979
Purchase of Elektrim-Volt S.A.	–	–	–	–	–
Increases	–	2 595	63	25	2 683
Decreases	–	(437)	(121)	–	(558)
Gross value as at 31 December 2012	–	32 117	1 624	346	34 087
Depreciation and impairment write-downs as at 1 January 2012	–	25 045	939	245	26 229
Depreciation write-down for the period	–	1 341	184	12	1 537
Impairment write-down	–	–	(34)	–	(34)
Decreases	–	(437)	(43)	–	(480)
Depreciation and impairment write-downs as at 31 December 2012	–	25 949	1 046	257	27 252
Net value as at 1 January 2012	–	3 179	499	76	3 754
Net value as at 31 December 2012	–	6 168	578	89	6 835

Short-term intangible assets

	31 December 2013	*31 December 2012*
	Certified emission reduction units (CERs/ERUs)	Certified emission reduction units (CERs/ERUs)
Gross value as at 1 January	35 368	84 729
Purchase	151 262	24 957
CER cancellation	(8 190)	(74 318)
Gross value as at 31 December	178 440	35 368
Exchange (sale)	(27 178)	–
Depreciation and impairment write-downs as at 1 January	–	–
Impairment write-down	–	–
Depreciation and impairment write-downs as at 31 December	–	–
Net value as at 1 January	35 368	84 729
Net value as at 31 December	151 262	35 368

22. Stripping assets and other mining assets

As at 31 December 2013 the item stripping assets and other mining assets includes, among others: expenditures incurred by "PAK Górnictwo" sp. z o.o. related to exploration and assessment of mineral resources, in the amount of PLN 13 238 thousand, and stripping assets and other mining assets in PAK KWB Konin in the amount of PLN 121 023 thousand, and PAK KWB Adamów, in the amount of PLN 5 007 thousand.

	Stripping assets and other mining assets 31 December 2013	*Stripping assets and other mining assets 31 December 2012 (transformed data)*
As at 31 December 2012	113 610	-
Reclassification from the item "other long-term non-financial assets"	-	1104
Purchase of PAK KWB Konin and KWB Adamów		113 927
Increases	34 496	9 980
Decreases	-	(7 466)
Depreciation for the period	(8 838)	(3 935)
As at 31 December 2013	**139 268**	**113 610**
- long-term	138 712	113 083
- short-term	556	527

23. Other assets

23.1. Other financial assets

	31 December 2013	*31 December 2012*
Deposits for handling of costs of indebtedness	90 185	88 154
FLZG (mining plant decommissioning fund) and FRZG (mining plant operation fund) deposits	5 895	15 144
Deposits	5 783	16 513
Shares	12 845	15 588
Other	6 816	14 696
Total other financial assets	121 524	150 095
- short-term	96 340	103 697
- long-term	25 184	46 398

23.2. Other non-financial assets

	31 December 2013	*31 December 2012*
Receivables under VAT	1 352	2 311
Insurance	1 424	367
Other budget receivables	1 428	157
Receivables under tax on civil-law transactions	-	4 022
Other non - financial assets	199	385
Other prepayments	3 253	5 154
Advances for inventory	45	11
Advance payments for intangible asset	65	4
Prepayments for fixed assets under construction	48 653	7 121
Advances for fixed assets – Land	-	1 004
Other	8	849
Total other non-financial assets	56 427	21 385
- short-term	7 501	17 230
- long-term	48 926	4 155

24. Employee benefits

24.1. Retirement benefits and other post-employment benefits

The Group's entities pay to their retiring employees amounts of retirement bonuses and other post-employment benefits in the amount specified by the Plant Collective Agreement. As a result, the Group, on the basis of valuation made by a professional actuarial company, creates a provision for the current value of liability under retirement bonuses and other benefits.

The amount of this provision and an agreement showing changes in the balance within the financial period is presented in the table below:

	Provision for retirement and pension benefits and bereavement	*Extra contributions to electricity /Coal allowances*	*Long-service awards*	*Total*
As at 01 January 2013	**59 675**	**77 406**	**147 997**	**285 078**
Costs of current employment	3 651	682	6 766	11 099
Costs of interest	2 413	3 096	3 557	9 066
Actuarial profits and losses	719	(355)	(27 686)	(27 322)
Paid benefits	(10 651)	(6 415)	(13 978)	(31 044)
Costs of future employment	–	–	–	–
Other	–	–	–	–
As at 31 December 2013	**55 807**	**74 414**	**116 656**	**246 877**
Short-term provisions	4 369	6 612	12 007	22 988
Long-term provisions	51 438	67 802	104 649	223 889

	Provision for retirement and pension benefits and bereavement	*Extra contributions to electricity /Coal allowances*	*Long-service awards*	*Total*
As at 1 January 2012	**12 618**	**44 374**	**44 337**	**101 329**
Purchase of mines	38 471	29 566	72 267	140 304
Costs of current employment	1 923	470	6 982	9 375
Costs of interest	1 653	3 153	4 335	9 141
Actuarial profits and losses	11 022	8 020	29 806	48 848
Paid benefits	(6 012)	(8 177)	(9 730)	(23 919)
Costs of future employment	–	–	–	–
Other	–	–	–	–
As at 31 December 2012	**59 675**	**77 406**	**147 997**	**285 078**
Short-term provisions	2 251	6 727	11 839	20 817
Long-term provisions	57 424	70 679	136 158	264 261

Main assumptions adopted by the actuary as at the reporting date for calculation of the amount of liability are following:

	31 December 2013	*31 December 2012*
Discount rate (%)	4.0%	4.0%
Expected inflation rate (%)	2.5%	2.5%
Employee turnover ratio (%)	3.4%	3.4%
Expected remuneration growth rate (%)	3.0%	3.0%
For PAK KWB Konin and PAK KWB Adamów in the years 2013 – 2015	0.0 %	0.0 %
Expected average energy price growth rate (%)	3.0%	3.0%

25. Inventory

	31 December 2013	*31 December 2012*
Production fuel	14 361	19 243
Spare parts and other materials	68 569	61 339
Energy certificates of origin	129 166	107 620
Goods	372	123
Total inventory at the lower of two values: purchase price (cost of manufacture) and attainable net value	212 468	188 325

In the year ended 31 December 2013, the Group created impairment write-down against inventory in the amount of PLN 2 256 thousand (PLN 33 314 thousand in 2012). In 2013, the created write-down concerned mainly materials in the amount of PLN 1 690 thousand.

As at 31 December 2013, in PAK KWB Konin alienation was established on movable inventory – parts to machines and drums – with the value no lower than PLN 8 000 thousand , located in warehouses.

26. Trade receivables and other receivables

	31 December 2013	*31 December 2012*
Trade receivables	131 344	142 277
Receivables under compensation in connection with PPAs termination	43 238	36 438
Receivables under protection of energy purchases on the balancing market	6 934	5 141
Other receivables	16 331	36 703
Net receivables	197 847	220 559
Receivables write-off	43 374	39 611
Gross receivables	241 221	260 170

In the line other receivables as at 31 December 2013, the Group presents receivables under deposits, in the amount of PLN 3 644 thousand, and Value Added Tax for deduction in future periods, in the amount of PLN 3 058 thousand.

In the line other receivables as at 31 December 2012, the Group presents mainly receivables under sale of shares in ZE PAK S.A. by Elektrim-Volt S.A. to Embud Sp. z o.o. in the amount of PLN 31 104 thousand.

The terms of transactions with related parties are presented in note 38.

Trade receivables are not interest-bearing and have usually 14-day payment term.

The Group has appropriate policy with regard to sale only to verified customers. As a result, in the opinion of management, there is no additional credit risk above the level specified by bad debt provision, relevant for trade receivables of the Group.

As at 31 December 2013, trade receivables and other receivables in the amount of PLN 43 374 thousand (as at 31 December 2012: PLN 39 611 thousand) were covered by a write-off. Changes in receivables write-off were the following:

	2013	*2012*
Write-off as at 1 January	39 611	38 810
Increase	4 784	1 187
Use	(99)	(50)
Termination	(922)	(336)
Write-off as at 31 December	43 374	39 611

Below is presented the analysis of trade receivables and other receivables that as at 31 December 2013 and as at 31 December 2012 were overdue, but not recognized as bad debt and not covered by write-off.

			Overdue, but collectible				
	Total without write-off	*Not overdue*	*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*> 120 days*
31 December 2013	197 847	193 095	4 443	34	67	76	132
31 December 2012	220 559	203 894	15 130	95	687	352	401

27. Cash and cash equivalents

Cash at bank bears interest at variable interest rates whose percentage depends on the interest rate for one-day bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on to up-to-date demand of the Group for cash and bears interest at the interest rates specified for them. The fair value of cash and its equivalents as at 31 December 2013 is PLN 430 978 thousand (as at 31 December 2012: PLN 318 002 thousand).

The balance of cash and its equivalents reported in the consolidated cash flow statement consisted of the following items:

	31 December 2013	*31 December 2012 (transformed data)*
Cash in hand and at bank	193 363	17 217
Short-term deposits	237 615	300 785
Total balance of cash and cash equivalents reported in the balance sheet:	430 978	318 002
Exchange rate differences	339	(5 063)
Total balance of cash and cash equivalents reported in the cash flow statement:	431 317	312 939

Comments to the cash flow statement

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Depreciation:		
Depreciation shown in the income statement	357 841	280 303
Settlement of grants	(1 986)	(1 946)
Depreciation shown in the cash flow statement	**355 855**	**278 357**

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Receivables:		
Balance sheet change in trade receivables and other receivables	22 712	(1 192)
Balance sheet change in other long and short-term non-financial assets	(35 042)	(8 361)
Balance sheet change in amounts due from clients under PPAs	(9 624)	21 773
Change in advances for fixed assets under construction	41 532	5 113
Effect of the purchase of the mines and Elektrim-Volt S.A.	–	125 654
Other changes	–	–
Change in receivables shown in the cash flow statement	**19 578**	**142 987**

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Liabilities:		
Balance sheet change in long and short-term trade liabilities and other financial liabilities	40 095	54 250
Balance sheet change in other non-financial liabilities	15 707	60 571
Balance sheet change in amounts due to clients under PPAs	4 990	(1 840)
Change in liabilities under investment settlements	(50 397)	44 781
Repayment of lease liabilities	18 783	14 010
Effect of the purchase of the mines and Elektrim-Volt S.A.	–	(256 981)
Other changes	–	–
Change in liabilities shown in the cash flow statement	**29 178**	**(85 209)**

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Inventory:		
Balance sheet change in inventory	(24 143)	(38 899)
Effect of the purchase of PAK KWB Konin and PAK KWB Adamów and Elektrim Volt	–	32 563
Other changes	–	44
Change in inventory shown in the cash flow statement	**(24 144)**	**(6 292)**

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Change in provisions, prepayments and accruals and employee benefits:		
Change in provisions, and prepayments and accruals	109 841	255 890
Change in long and short-term employee benefits	(38 202)	183 749
Change in provision under CER cancellation	35 369	49 360
Load under deferred income tax shown in other comprehensive income	–	(1 578)
Effect of the purchase of the mines and Elektrim-Volt S.A.	–	(469 382)
Other changes	–	(1 131)
Change in provisions, accruals and employee benefits	**107 008**	**16 908**

Other:

The item other adjustments from operating activities both in the year ended 31 December 2013 and 31 December 2012 contains mainly measurement of derivatives.

The item outflows and inflows related to other financial assets includes inflows and outflows related to cash meant for handling of costs of indebtedness and received guarantees.

The item cash of limited range of disposal includes mainly automatically blocked cash for the needs of stock exchange transactions made by Izba Rozliczeniowa Giełd Towarowych S.A. (IRGIT).

28. Share capital and supplementary/reserve capitals

28.1. Share capital

Share capital	*31 December 2013*	*31 December 2012*
50 823 547 shares of face value of PLN 2 each	101 647	104 052
	101 647	104 052

28.1.1. Face value of shares

All issued shares have the face value equal to PLN 2 and were fully paid.

28.1.2. Shareholders' rights

All series shares are equally privileged as to dividend and return on equity.

28.1.3. Shareholders with significant share

	31 December 2013	*31 December 2012*
Elektrim S.A.		
share in capital	0.39%	0.38%
share in votes	0.39%	0.38%
EMBUD Sp. z o.o.		
share in capital	11.43%	11.16%
share in votes	11.43%	11.16%
Polsat Media B.V.		
share in capital	39.73%	38.82%
share in votes	39.73%	38.82%
ING OFE		
share in capital	9.97%	10.76%
share in votes	9.97%	10.76%
ZE "PAK" S.A.		
share in capital	–	2.31%
share in votes	–	2.31%
Other		
share in capital	38.48%	36.57%
share in votes	38.48%	36.57%
Total	100%	100%

To the best knowledge of the Company, on the basis of notices transferred by shareholders.

29. Own shares

On 29 April 2013, the Company received the decision of the District Court Poznań – Nowe Miasto and Wilda in Poznań 9th Commercial Division of the National Court Register of 23 April 2013 along with the certificate of making, on 24 April 2013, entry into the Register of Entrepreneurs of the Company, concerning registration of reduction in the Company's initial capital on the basis of resolution no. 6 of the Extraordinary General Meeting of 21 February 2013 on reduction in the Company's initial capital in connection with redemption of the Company's own shares.

Pursuant to the content of Article 360 § 4 of the Code of Commercial Companies, upon registration of reduction in the Company's initial capital, 1.202.453 of the Company's shares were redeemed, corresponding to 1.202.453 votes at the General Meeting.

When the registration court registered reduction in the amount of the Company's initial capital, the Company's initial capital will amount to PLN 101,647,094 and will be divided into 50,823,547 A series bearer shares with the face value of 2 PLN each, which confer 50,823,547 votes at General Meeting, which is 100% of the total number of votes at General Meeting.

30. Supplementary capital

Supplementary capital in the amount of PLN 2 200 508 thousand was created from write-offs on profits generated in the previous financial years, in accordance with Polish accounting principles.

30.1. Other reserve capitals

The Company ZE PAK S.A. was created as a result of commercialization of Przedsiębiorstwo Państwowe Zespół Elektrowni PAK made on the basis of the Act of 13 July 1990 on the privatization of state-owned companies. Shown in the balance sheet of the Company under reserve capital – the so-called Privatization Fund was created by Przedsiębiorstwo Państwowe Zespół Elektrowni PAK on the basis of the Act of 31 January 1989 on the finance economy of state-owned companies.

The value of reserve capital consists of the Privatization Fund in the amount of PLN 3 472 thousand that was created from the profit for 1994 based on a resolution of the Extraordinary General Meeting of the newly created Company and additional transfer from the supplementary capital in the amount of PLN 2 405 thousand. The total value of other reserve capitals as at 31 December 2013 is PLN 5 877 thousand.

Funds collected on this fund were to be allocated for the employees purchasing shares from the State Treasury, after transformation of the company and its privatization (purchase up to 10% of shares for half price). Effective since 1996 Act of 30 August 1996 on commercialization and privatization of state-owned companies granted to employees the right to purchase, free of charge, 15% of the company's shares belonging to the State Treasury, and consequently goals the Privatization Fund was supposed to serve ceased to exist, however, capital remained in the company's liabilities.

30.2. Undistributed financial result and restrictions in dividend payment

The undistributed profit includes also amounts that are not subject to distribution, that is cannot be paid in the form of dividend. These are:

- Retained profits/losses of subsidiaries, attributable to shareholders of the parent company,
- differences in the value of retained profits between the statutory statement and the IFRS statement of the parent company,
- the equivalent of 8% of the statutory write-off on profit to capital and other write-offs on the basis of the binding provisions in deeds of subsidiaries.

In the Group, as at 31 December 2013, full amount of the undistributed financial result (including the equivalent of supplementary and reserve capitals created under distribution of profits in the previous years) is covered by restriction in dividend payment. The basis for acceptance of such an assumption includes the following conditions:

- Statutory financial statements of all companies comprising the ZE PAK S.A. Corporate Group are prepared in accordance with the Polish accounting standards. Dividend may be paid based on the financial result determined in a separate annual financial statement prepared for the statutory purposes.
- According to the requirements of the Code of Commercial Companies, the parent company is obliged to create supplementary capital to cover loss. To this category of capital at least 8% of profit for a given financial year reported in the separate statement is transferred, as long as this capital reaches at least one third of the share capital of the entity. The decision on using supplementary and reserve capital is made by General Meeting; however, part of the supplementary capital in the amount of a third of the initial capital can be used only to cover loss indicated in a separate financial statement of the parent company and is not subject to distribution for other purposes.

As at 31 December 2013, there are no other restrictions in dividend payment.

30.3. Non-controlling shares

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Opening balance	117	90
Purchase of mines	30 971	30 971
Put option recognition	(44 576)	(26 270)
Employee shares program	(955)	(955)
Dividends paid by subsidiaries	–	–
Participation in change in the value of financial instruments	–	–
Purchase of minority shares by the Group	(117)	–
Share in the result of subsidiaries	14 560	(3 719)
	-	117

Allocation of the result for non-controlling shares

In the consolidated financial statement 15% of the result of PAK KWB Adamów and 15% of the result of PAK KWB Konin for the period from 19 July 2012 to 31 December 2012 and for the period from 1 January to 31 December 2013 were allocated as profit attributable to non-controlling shareholders.

Recognition of the obligation of ZE PAK to redeem employee shares

ZE PAK is obliged to redeem employee shares in accordance with the provisions of the PAK KWB Konin and PAK KWB Adamów shares sale agreement, in the event when the employees report their will to resell. The terms of the agreement define the price and the redemption deadline.

According to IFRS, ZE PAK examined as at the date of taking over control an obligation to redeem shares owned by non-controlling shares. Based on the selected accounting policy, ZE PAK presented in the consolidated financial statement a financial liability of PLN 11 880 thousand in the case of PAK KWB Adamów and of PLN 19 091 thousand in the case of PAK KWB Konin. The difference between the value of non-controlling shares derecognized as at the reporting date and the recognized financial liability was entered to retained profits.

31. Interest-bearing bank credits and loans

Short-term	*Term of repayment*	*31 December 2013*	*31 December 2012 (transformed data)*
Bank (consortium) credit, received in the amount of EUR 240 000 thousand, bearing interest at the rate EURIBOR3M+bank mark-up	20.07.2019	131 497	128 409
Credit bank in Bank Pocztowy S.A., received in the amount of PLN 15 000 thousand, bearing interest at the rate WIBOR3M+bank mark-up	28.06.2013	-	1 500
Bank credit in Pekao S.A., received in the amount of PLN 12 000 thousand, bearing interest at the rate WIBOR3M+bank mark-up	30.12.2013	-	2 084
Loan in the National Fund for Environmental Protection and Water Management, received in the amount of PLN 226 000 thousand, bearing interest at the rate of 0.5 bill re-discount rate	23.06.2015	29 127	29 883
Bank (consortium), credit received in the amount of PLN 291 000 thousand, bearing interest at the rate WIBOR3M+bank mark-up	02.01.2014	90 951	44 329
Credit in current account in BRE Bank, in the amount of PLN 9 700 thousand, bearing interest at the rate WIBOR 1M + bank mark-up	27.04.2014	9 343	9 545
Credit in current account in BZ WBK, in the amount of PLN 65 000 thousand, bearing interest at the rate WIBOR 1M + bank mark-up	31.07.2013	63 308	64 737
Investment credit in BZ WBK S.A., in the amount of PLN 46 463.4 thousand, bearing interest at the rate WIBOR 1M + bank mark-up	31.12.2016	31 786	33 359
Service provision agreement, BRE Bank S.A. (bill credit) to the amount of PLN 61 590 000 thousand - bill discount	30.06.2016	19 768	26 976
Agreement for organization, running and service of the issuance of PKO BP S.A., bonds for the amount of PLN 135 000 thousand bearing interest at the rate WIBOR 3M + bank mark-up	31.12.2016	-	90 802
BRE Bank S.A. -revolving credit facility agreement in the amount of PLN 30 000.0 thousand bearing interest at the rate WIBOR 1M + bank mark-up	31.12.2013	-	20 000
BRE Bank S.A. -revolving credit facility agreement in the amount of PLN 10 300.0 thousand bearing interest at the rate WIBOR 1M + bank mark-up	24.01.2014	10 300	10 300
Revolving credit facility agreement in the amount of PLN 76 500 thousand in Bank Millenium bearing interest at the rate WIBOR 3M+bank mark-up	31.12.2017	15 975	-
Bank BPH SA - revolving credit facility agreement in the amount of PLN 9 000 thousand, bearing interest at the rate 1M WIBOR + bank mark-up	31.10.2014	3 669	-
Total		**405 724**	**461 924**

Long-term	*Term of repayment*	*31 December 2013*	*31 December 2012 (transformed data)*
Loan in the National Fund for Environmental Protection and Water Management, received in the amount of PLN 226 000 thousand, bearing interest at the rate of 0.5 bill re-discount rate	23.06.2015	13 731	39 790
Bank (consortium), credit received in the amount of PLN 291 000 thousand, bearing interest at the rate WIBOR3M+bank mark-up	31.12.2015	-	75 060
Bank (consortium) credit, received in the amount of EUR 240 000 thousand, bearing interest at the rate EURIBOR3M+bank mark-up	20.07.2019	578 667	675 535
Revolving credit facility agreement, in the amount of PLN 76 500 thousand, in Bank Millenium Interest at the rate WIBOR 3M+bank mark-up	31.12.2017	59 925	-
Total		**652 323**	**790 385**

As at 31 December 2013, PAK KWB Konin SA defaulted on the terms of the credit facility agreements concluded before 01.01.2013 (financial ratios) with regard to payment of financial liabilities. In connection with the above, in accordance with the requirements of IFRS, they were presented in full as short-term liabilities. At the same time, the Group received guarantees from crediting banks, on the lack of maturity of the credits in question and on the lack of their termination. The defaulted financial ratios relate to the following items of bank loans /credits:

- Credit in current account in BRE Bank, in the amount of PLN 9 700 thousand, bearing interest at the rate WIBOR 1M + bank mark-up with the value of PLN 9 343 thousand.
- Service provision agreement, BRE Bank S.A. (bill credit) to the amount of PLN 61 590 000 thousand - bill discount with the value of PLN 19 768 thousand.
- BRE Bank S.A. -revolving credit facility agreement in the amount of PLN 10 300.0 thousand bearing interest at the rate WIBOR 1M + bank mark-up) with the value of PLN 10 300 thousand.
- Investment credit in BZ WBK S.A. in the amount of PLN 46 463.4 thousand, bearing interest at the rate WIBOR 1M + bank mark-up with the value of PLN 31 786 thousand.
- Credit in current account in BZ WBK, in the amount of PLN 65 000 thousand, bearing interest at the rate WIBOR 1M + bank mark-up with the value of PLN 63 308 thousand.

Any case of breach of credit terms by PAK KWB Konin does not affect maturity of other liabilities of the ZE PAK Corporate Group.

On 09.08.2013, finance liability under the issuance of bonds was repaid in the amount of PLN 76 500 thousand. For this purpose, revolving credit was contracted in the amount of PLN 76 500 thousand in Bank Millennium S.A. Additionally, on 20.11.2013, with Bank Przemysłowo-Handlowy S.A. in Warsaw an agreement was signed for start-up of revolving credit in the amount of PLN 9 000 thousand.

In the year ended 31 December 2013, the Group repaid credits along with interest in the amount of PLN 306 021 thousand, including:

- repayment of investment credit in Bank PEKAO by ZE PAK S.A. in the amount of PLN 2 137 thousand (principal amount with interest),
- repayment of investment credit in Bank Pocztowy SA in the amount of PLN 1 527 thousand (principal amount with interest),
- repayment of consortium credit in PEKAO and PKO BP by ZE PAK S.A. in the amount of PLN 34 144 thousand (principal amount with interest),
- repayment of consortium credit by EP II in the amount of PLN 134 228 thousand (principal amount with interest),
- repayment of other credits by PAK KWB Konin in the amount of PLN 133 985 thousand (principal amount with interest).

In the year ended 31 December 2013, Przedsiębiorstwo Remontowe PAK Serwis Sp. z o.o. signed an Agreement for multi-purpose credit limit with PEKAO S.A. The available limit is PLN 30 000 thousand, interest at the rate WIBOR 1M plus bank mark-up. Date of repayment: 30 September 2014

32. Provisions and accruals

32.1. Accruals

	31 December 2013	*31 December 2012*
Provision for bonus and vacation leaves	33 860	34 461
Compensation from insurance company	1 409	328
Audit of the financial statement	319	671
Other	23	97
Total	35 611	35 557
Long-term	–	–
Short-term	35 611	35 557

32.2. Change in the balance of provisions

	Provision for CER cancellation	*Provision for costs of dismantling of fixed assets*	*Provision for reclamation of ash storage yards*	*Provision for loss on PPA*	*Provision for cancellation of certificates of energy origin*	*Provision for reclamation of mining land*	*Other*	*Total*
as at 01.01.2013	35 369	19 547	4 484	551	958	303 517	28 938	393 364
Increases	150 652	782	–	–	1 801	29 474	34 393	217 102
Decreases	(35 369)	(2 550)	(100)	(418)	(958)	(35 286)	(32 633)	(107 314)
as at 31.12.2013	150 652	17 779	4 384	133	1 801	297 705	30 698	503 152
including:								
long-term	–	17 709	4 042	–	–	275 562	4 234	301 547
Short-term	150 652	70	342	133	1 801	22 143	26 464	201 605
as at 01.01.2012	84 729	21 710	6 114	687	1 505	–	6 813	121 558
Purchase of KWB A and KWB K 18.07.2012	–	–	–	–	–	272 712	27 297	300 009
Purchase of Elektrim Volt 01.10.2012	–	–	–	–	–	–	113	113
Increases	24 958	1 238	–	380	958	43 240	4 422	75 196
Decreases	(74 318)	(3 401)	(1 630)	(516)	(1 505)	(12 435)	(9 707)	(103 512)
as at 31.12.2012	35 369	19 547	4 484	551	958	303 517	28 938	393 364
including:								
long-term	–	16 927	4 294	–	–	279 828	19 832	320 881
Short-term	35 369	2 620	190	551	958	23 689	9 106	72 483

32.3. Description of significant titles of provisions

32.3.1. Provision for liabilities under greenhouse gas emission and provisions for cancellation of certified emission reduction units (CERs)

The Group creates a provision for liabilities under greenhouse gas emissions and provision for cancellation of certified emission reduction units (CERs).

The accounting principles related to creating these provisions are presented in note 10.25 of this consolidated financial statement.

On 31 December 2012, the financial period KPRUII was completed. Since 01 January 2013 a subsequent settlement period 2013 – 2020 concerning allowances has been valid. The basic assumption of this period is granting for the Group free EUAs resulting from heat production, though the power sector has been covered additionally by the possibility of derogation. The derogation arising out from Article 10c of the ETS Directive consists in granting additional free allowances subject to sustaining capital expenditures on investments included in the National Investment Plan.

ZE PAK S.A., in December 2013 submitted with the Ministry of Environment the material and financial statement of the sustained capital expenditures on tasks submitted to KPI requesting thereby 1 722 084 free EUAs for 2013. As at the date of approval of the financial statement, the date of starting allowances resulting from Article 10c is not known, owing to inquiries sent in this case by the EC to Poland with a request for explanations of the calculations contained in the material and financial statements of part of systems.

In connection with the above, the Group created a provision for cancellation of CO2 allowances as at 31 December 2013 in the amount of PLN 150 652 thousand , including PLN 128 066 thousand with regard to ZE PAK S.A. and PLN 22 586 thousand with regard to Elektrownia Pątnów II Sp. z o.o.

32.3.2. Provision for reclamation of ash storage yards and costs of liquidation of fixed assets

The Group creates a provision for future costs of land reclamation based on the legal obligation resulting from "Integrated permits". The basis for estimation of the amount of provisions are specialist studies and technological and economic experts' studies, prepared by internal services or external experts. The value of the provision is estimated and verified as at each reporting date on the basis of current estimates of costs and discount. As at 31 December 2013, the created provision amounted to PLN 4 384 thousand.

Owing to the presence of the legal obligation to dismantle fixed assets after their period of use, the Group creates a provision for the expected future costs which will be incurred to fulfil this obligation. As at 31 December 2013, the provision on this account amounted to PLN 17 779 thousand.

32.3.3. Reclamation provisions and other provisions related to mining activities

PAK KWB Konin and PAK KWB Adamów are obliged, by virtue of the Mining and Geological Law Act, to conduct reclamation of land where mining works were carried out. As a result, the Group creates a provision both for costs of land reclamation related to current extraction of coal in a given surface mine, as well as costs of reclamation of the final heading, progress in extraction of coal in different open pit mines as at a given reporting date.

The provision is established on the basis of estimated future costs of reclamation, based on reports of independent experts, estimating costs of reclamation, prepared to the order of the Management Board. The estimates concerning expected reclamation costs are updated periodically, provided that as at each reporting date verification covers the amount of the provision in accordance with the current assumptions regarding discount rate, inflation rate as well as extraction volume.

PAK KWB Konin and PAK KWB Adamów, under the conducted activities, are obliged to restore the initial condition or reconstruct damages caused by mining plant operations. As a result, the Group creates a provision for the expected costs it is obliged to incur on the basis of the concluded agreements. The estimates concerning the expected costs related to mining plant operation are updated as at each reporting date.

The provision for dismantling of structures and reclamation of mining land and under preparation of exploitation land in PAK KWB Konin and PAK KWB Adamów as at 31 December 2013 was PLN 297 705 thousand and decreased as compared to the year ended 31 December 2012 by PLN 5 812 thousand. When calculating the

provision, the Group accepted the following assumptions: discount rate of 4%, inflation of 2.5 %. Changes in the provision result also from changes in estimated costs of reclamation and liquidation, on the basis of data from the report of independent experts, and percentage coal extraction, as well as on the basis of the report of the environmental protection section.

32.3.4. Provision for cancellation of energy certificates

In connection with sale of electricity to final recipients, the Group is under the obligation to cancel a given number of energy certificates of origin from renewable energy sources, gas and cogeneration. As at 31 December 2013, the created provision on this account amounted to PLN 1 801 thousand.

32.3.5. Other provisions

The main items of other provisions as at 31 December 2013 are provision for mining damages of PLN 16 083 thousand, provisions for pending court proceedings in PAK KWBK of PLN 2 190 thousand, provisions for property tax and other of PLN 5 211 thousand in PAK KWBK, provisions for court cases and other in PAK KWBA of PLN 1 188 thousand, provisions for guarantee repairs in El PAK and PAK SERWIS, in the total amount of PLN 2 037 thousand.

33. CO2 allowances

Since 1 January 2013, a subsequent settlement period 2013 – 2020 concerning CO2 allowances has been binding. The basic aim of this period is to grant the Corporate Group free allowances (EUAs) resulting from heat production, though the power sector was covered additionally by the possibility of derogation. The derogation arising out from Article 10c of the ETS Directive consists in granting additional free allowances subject to sustaining capital expenditures on investments included in the National Investment Plan.

On 26 September 2013, the Ministry of Economy, in consultation with the Ministry of Environment, presented a list of systems generating electricity that are covered by the EU ETS along with free carbon dioxide allowances in the settlement period 2013 – 2020 The presented list is consistent with the Poland's Application for temporary allocation of free allowances for modernization of electricity generation, on this basis of Article 10c section 5 of Directive 2003/87/EC of the European Parliament and Council (the so-called derogation application) that complies with the requirements of the Commission Decision of 13 July 2012 C (2012) 4609.

The table below presents the volumes of free CO2 allowances that can be granted for systems of the ZE PAK Corporate Group that generate electricity.

Operator	System code according to KPRU III	2013 (in tons)	2014 (in tons)	2015 (in tons)	2016 (in tons)	2017 (in tons)	2018 in tons)	2019 (in tons)	2020* (in tons)
Pątnów I Power Plant	PL-0021-05	3 624 320	3 350 223	2 912 158	2 216 534	1 677 877	1 337 214	994 681	2 445
Adamów Power Plant	PL-0023-05	2 176 736	2 010 426	1 748 088	1 334 657	1 014 045	810 985	607 774	22 270
Pątnów II Power Plant	PL-0957-08	1 444 341	1 335 145	1 160 489	883 005	668 189	532 417	395 900	0
Konin Power Plant	PL-0022-05	1 300 056	1 194 104	1 035 587	793 852	604 769	482 922	363 442	30 999
Group (total)		8 545 453	7 889 898	6 856 322	5 228 048	3 964 880	3 163 538	2 361 797	55 714

* In 2020 free allocation of CO2 allowances granted under derogation for electricity generators will be liquidated. In consequence, the Group will be entitled only to substantially lower limits of free allowances granted in connection with heat generation.

In December 2013, the Ministry of Environment published the model material and financial statement that was filled in by the ZE PAK Corporate Group with regard to the sustained expenditures on investment tasks included in KPI, for the purpose of using derogation for the power sector under Article 10c of the EU ETS Directive. The

PAK Corporate Group submitted the material and financial statement requesting thereby for 1.7 million free of charge EUAs for 2013. According to current information it is possible to obtain the requested number of allowances until the end of April 2014, however, it depends mainly on the European Commission's decision.

In 2013, the PAK Corporate Group had surplus of EUAs of 4.8 million tons from the period KPRUII. During 2013, taking account of transferred from 2012 units and bearing in mind low price, the PAK Group purchased in 2013 9.59 million EUAs and 0.36 million CERs and ERUs under the possibility of 1% exchange of EUAs for CERs or ERUs or from the pool of units received in KPRUII. After cancellation of the emitted CO2 in 2013 roughly 1.62 million tons will remain on accounts which will be used for production for 2014.

CO2 allowances in the year ended 31 December 2013

(in tons)		***Zespół Elektrowni Pątnów – Adamów – Konin S.A.***	***Elektrownia Pątnów II sp. z o.o.***
	CO2 emission*	10 596 756	2 532 137
EUA	Balance as at 1.01.2013	12 883 785	3 275 356
	Purchased	8 035 261	1 551 872
	Cancellation **	(9 360 653)	(1 994 755)
	Sale	–	–
	Exchange	–	–
	Balance as at 31.12.2013	11 558 393	2 832 473
CER	Balance as at 1.01.2013	4 528	10 000
	Purchased	146 070	34 500
	Cancellation **	(4 528)	(10 000)
	Sale	–	–
	Exchange	–	–
	Balance as at 31.12.2013	146 070	34 500
ERU	Balance as at 1.01.2013	493 967	718 000
	Purchased	146 070	34 500
	Cancellation **	(493 967)	(718 000)
	Sale	–	–
	Exchange	–	–
	Balance as at 31.12.2013	146 070	34 500

CO2 allowances in the year ended 31 December 2012

(in tons)		***Zespół Elektrowni Pątnów – Adamów – Konin S.A.***	***Elektrownia Pątnów II sp. z o.o.***
	CO2 emission*	9 859 148	2 722 755
EUA	Balance as at 1.01.2012	22 134 186	5 733 116
	Purchased	–	–
	Cancellation **	(7 981 849)	(2 181 760)
	Sale	(100 000)	–
	Exchange	(1 168 552)	(276 000)
	Balance as at 31.12.2012	12 883 785	3 275 356
CER	Balance as at 1.01.2012	1 752 829	452 000
	Purchased	–	–

	Cancellation **	(2 422 886)	–
	Sale	–	–
	Exchange	674 585	(442 000)
	Balance as at 31.12.2012	4 528	10 000
ERU	Balance as at 1.01.2012	–	100 000
	Purchased	–	–
	Cancellation **	–	(100 000)
	Sale	–	–
	Exchange	493 967	718 000
	Balance as at 31.12.2012	493 967	718 000

** Emission for the period of 12 months (verified data).*

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

Granting free of charge CO2 allowances for the period 2013 – 2020 is determined by fulfilment by the entity that receives the allowances of a specified level of capital expenditures, as declared in the National Investment Plan (KPI), attached to the derogation application. In the PAK Corporate Group for the system Elektrownia Pątnów II Sp. z o.o. a certain pool of CO2 allowances was allocated, however for this system no investment projects are included in the National Investment Plan (KPI) that would cover the amount for free CO2 allowances, so granting EUAs for this system is subject to incurring expenses on tasks conducted for the systems belonging to ZE PAK SA.

34. Trade liabilities, other liabilities and accruals

34.1. Trade liabilities and other financial liabilities (short-term)

	31 December 2013	*31 December 2012 (transformed data)*
Trade liabilities:	118 479	131 330
Financial liabilities	160	630
Other liabilities:		
Investment liabilities	70 900	14 220
Liabilities towards employees under payroll	20 524	21 420
Other liabilities	31 523	20 600
Total	241 586	188 200

In the line other liabilities, as at 31 December 2013, the Group presents mainly liabilities under financial lease of PLN 18 033 thousand, as at 31 December 2012 liabilities under financial lease in the item other liabilities amounted to PLN 19 800 thousand. The remaining amount in the item other liabilities as at 31 December 2013 covers mostly settlements with employees and deductions from payroll, in the amount of PLN 4 757 thousand, and settlements under bond in the amount of PLN 2 329 thousand.

Principles and terms of payment of the above financial liabilities:

The terms of transactions with related parties are presented in note 38 of the additional information and explanations.

Trade liabilities are interest-free and are usually settled within 14 or 30-day terms.

Liabilities under interest are usually settled in monthly or quarterly periods, throughout the whole year.

34.2. Trade liabilities and other financial liabilities (long-term)

	31 December 2013	*31 December 2012 (transformed data)*
Liabilities under financial lease	22 367	41 361
Liabilities under put options	30 971	30 971
Short-term trade liabilities towards other entities - above 12 months	211	605
Other financial liabilities	108	85
Other	6 384	310
Total	60 041	73 332

In the item other as at 31 December 2013 the Group presents above all investment commitments of PLN 6 284 thousand.

34.3. Other non-financial liabilities

	31 December 2013	*31 December 2012 (transformed data)*
Liabilities under VAT	20 272	31 421
Liabilities under environmental fees	65 902	28 586
Liabilities under excise duty	234	185
Liabilities under social insurance	32 236	35 527
Personal income tax	8 877	9 288
Other budget liabilities	40	1 918
Advances for inventory	385	9 217
Operational fee	12 739	11 609
Other	3 246	473
Total	143 931	128 224

Liabilities under environmental fees relate to fees for contamination of air, storage of waste and consumption of water and drainage of sewage. These fees are paid every six months.

Liabilities under operating fees relate to fees under the extracted mineral, resulting from the Geological and Mining Law. Settlement period is half-year.

In the item other as at 31 December 2013 the Group presents above all the fee for mining use for the benefit of the State Treasury of PLN 2 280 thousand and corporate income tax of PLN 625 thousand.

34.4. Derivative financial instruments

	31 December 2013	*31 December 2012 (transformed data)*
Instruments hedging interest rate risk (SWAP)	25 241	37 203
Other currency options	–	–
Total	25 241	37 203
including:		
Long-term	15 821	26 059
Short-term	9 420	11 144

34.5. Grants and deferred income

	31 December 2013	*31 December 2012 (transformed data)*
Short-term grants and deferred income	1 982	1 958
Long-term grants and deferred income	49 286	51 298
Total	51 268	53 256

Grants presented as at 31 December 2013 of PLN 48 326 thousand (as at 31 December 2012, PLN 49 781 thousand) resulting from measurement of a loan received from the National Fund for Environmental Protection and Water Management as if it was granted on market terms. The grant is settled in accordance with the economic usability period of fixed assets comprising unit 464 MW in the Pątnów II Power Plant.

Grants of PLN 2 632 thousand as at 31 December 2013 (as at 31 December 2012, PLN 3 150 thousand) resulting from remission, by granting grants, of loans received for financing environmentally friendly investment projects by the National Fund for Environmental Protection and Water Management. The grant is settled in accordance with the economic usability period of fixed assets purchased or financed under investment.

Settlement of grants is presented in item other operating income.

35. Contingent liabilities as well as description of significant legal proceedings

Apart from liabilities described in the note below, the Company, as at 31 December 2013, did not have other contingent liabilities, granted guarantees and sureties.

35.1. Legal proceedings

Compensations for termination of long-term contracts for sale of power and electricity

The subsidiary "Elektrownia Pątnów II" sp. z o.o. receives compensations to cover stranded costs in accordance with Act of 29 June 2007 on the principles of covering costs incurred by energy producers resulting from the early termination of long-term power and electricity sales contracts. Revenue under compensations is shown gradually to the obtained rights to compensations, until the end of the period of their validity. In order to estimate the value of revenue attributable to a given period, the company makes estimates to determine the ratio of the estimated stranded costs to the total amount of received, refunded and expected discounted annual advance payments (including so far received advance payments), annual adjustments and planned final adjustment.

"Elektrownia Pątnów II" sp. z o.o., in accordance with the adopted accounting policy, on the basis of the built financial model, recognized in the years 2013 and 2012 revenues under compensations in the amount of PLN 155 239 thousand and PLN 89 972 thousand, respectively. On the basis of the issued decision of the President of the Energy Regulatory Office ("the President of ERO") of 31 July 2009, the company was obliged to refund to the compensation system administrator, Zarządca Rozliczeń S.A., the amount of PLN 52 493 thousand, under the adjustments of the stranded costs for the year 2008. The company's Management Board, rejecting the decision of the President of ERO, filed an appeal with the District Court in Warsaw – Court for Protection of Competition and Consumers ("SOKiK"). On 23 September 2009, the Court ruled on the withheld execution of the respective part of the decision and ordered payment of the amount of PLN 26 493 thousand.

On 1 December 2010, SOKiK pronounced a sentence in which it dismissed the appeal of the company against the decision of the President of ERO, recognizing his arguments as right.

The Company conducted a detailed legal analysis of the issue in cooperation with a reputable law office and on 9 February 2011 filed an appeal with the Court of Appeal in Warsaw against the sentence of the Court of First Instance.

On 11 October 2012, the Court of Appeal pronounced a favourable sentence for the company, changing the sentence of the Court of First Instance and the decision of the President of ERO of 31 July 2009, which determined the amount of the annual adjustment of stranded costs for 2008 that the Zarządca Rozliczeń S.A. is obliged to pay to "Elektrownia Pątnów II" sp. z o.o.in the amount plus PLN 29 082 thousand. The sentence of the Court of Appeal is final and binding. In connection with the above, on 17 October 2012, "Elektrownia Pątnów II" sp. z o.o called Zarządca Rozliczeń S.A. to pay the adjudged amount of the 2008 year adjustment and reimburse the amount paid by "Elektrownia Pątnów II" of PLN 26 493 thousand, as partial execution of the decision of the President of ERO, in accordance with the decision of SOKiK of 23 September 2009. The payment request was issued in the total amount of PLN 55 576 thousand. On 22 October 2012, Zarządca Rozliczeń S.A. paid the above amount to the account of the company.

The decision of the Court of Appeal confirmed the correct calculation of the adjustments by "Elektrownia Pątnów II" sp. z o.o. in each of the previous periods, and as a result of that the company did not change the principles of determination of revenues under compensations for the year 2013 and for the previous years. The President of ERO filed a cassation appeal against the sentence of the Court of Appeal.

Proceedings relating to the non-compliance with the obligation to maintain stocks of fuel

On 17 September 2008 and 29 May 2009, the President of ERO initiated the proceedings concerning imposing fine on the Company in connection with default on the obligation to keep fuel reserve ensuring continuous supplies of electricity and heat to recipients as at 31 December 2007, 31 March 2008, 1 July 2008, 1 September 2008, 1 October 2008, 1 November 2008, 1 December 2008, 1 January 2009, 1 February 2009, and 1 March 2009.

By the decision of the President of the Energy Regulatory Office of 28 December 2010, ZE PAK S.A. was charged with a fine for default on the obligation to maintain stocks of fuel in the quantity ensuring continuous supplies of heat to recipients in 2008 and 2009, in the amount of PLN 1 500 thousand. The Company created in 2010 provision for the cost of the penalty in the full amount. On 17 January 2011, the Company filed an appeal against the decision of the President of ERO with the Regional Court in Warsaw – SOKiK.

On 30 January 2014, SOKiK pronounced a ruling dismissing the appeal of the Company against the decision of the President of ERO. So far, the Company has not received the ruling of SOKiK along with substantiation. The Company will take decisions with regard to appealing against the sentence after its receipt and reading its substantiation.

Proceedings concerning refund of excise duty overpayment

According to the regulations binding within the European Union, in particular the provisions of Article 21 section 5 of the Energy Directive, in connection with Article 6 section 1 of the Horizontal Directive, after 1 January 2006, the object of excise duty is sale of energy at the last stage of trade, i.e. sale by the distributor to the final recipient (consumer). Taxation with this tax does not cover an earlier stage of trade, e.g.between the producer of electricity and its distributor. In this case, the tax obligation arises at the time of supply of electricity to the consumer.

In connection with the above, ZE PAK S.A., on the basis of Article 75 § 1, in connection with Article 75 § 2 of the Act of 29 August 1997- Tax Code (Journal of Laws of 1997 no. 137 item 926, as amended) submitted applications for ascertaining overpayment of excise duty for the years 2006, 2007, 2008 and January and February 2009 for the total amount of approx. PLN 626 000 thousand, justifying this with the fact that on the basis of the provisions of the law binding in the European Union and jurisdiction of the Provincial Administrative Courts, the activities carried out by ZE PAK S.A are not subject to excise duty. Particular applications were examined at the levels of: the Customs Office in Kalisz, the Customs Chamber in Poznań, and currently the Provincial Administrative Court in Poznań, and the Supreme Administrative Court.

In connection with the rulings of the Administrative Courts in cases of other power companies concerning overpaid excise duty, ZE PAK S.A., in cooperation with a tax advisor, analyzed resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011 where the Supreme Administrative Court recognized that the transfer of tax in the price excludes the possibility of refunding overpayment. From the substantiation of this resolution a risk arises that the tax authorities will refuse to refund overpayments, indicating that the tax proceedings is not relevant for this type of claims. Then it will be possible to seek them under civil law, which makes the prescription a very important issue (on the grounds of civil law, this term is 3 years). In connection with the above, on 10 February 2012 ZE PAK S.A. filled with the District Court Warsaw Śródmieście a summons for the State Treasury to conciliatory hearing, for the amount of PLN 626 406 thousand PLN, thereby stopped the period of prescription. The conciliatory settlement was not reached since, at the hearing on 16 April 2012 case ref. no. VI Co 311/12, the representatives of the State Treasury did not agree to settlement. Simultaneously, the Company, waiting for the results of the tax proceedings concerning the previously submitted applications for overpayment, submitted in writing, on 14 September in 2012, with the Customs Chamber in Poznań additional explanations in the form of results of a detailed economic analysis, whose purpose was to demonstrate whether the Company suffered loss related with payment of the excise duty to which it was not obliged. The Company is of the opinion that the submitted document applies to the overpayment applications from the whole period covered by the proceedings, i.e. January 2006 – February 2009. Eventually, all the applications came to trials in the Provincial Administrative Court or in the Supreme Administrative Court. The proceedings concerning overpayment before the Provincial Administrative Court in Poznań, with fixed dates for

trails at 27 and 28 November 2013, were suspended upon request of the Court. The reason for the suspension is a resolution of 7 judges of the Supreme Administrative Court, which was supposed to be adopted at the request of the President of the Supreme Administrative Court, at the beginning of December 2013 and was finally adopted. This resolution applies to the tax authorities' possibility of ruling on overpayment issues without prior adjudication by a decision of the amount of tax liability in right amount. As a consequence of this resolution, the Customs Office will most likely initiate examination proceedings for the applications not covered by prescription, i.e. December 2008 – February 2009. The Company will take further actions depending on the provisions of the made decisions.

On 1 March 2009, the Act of 6 December 2008 on excise duty came into effect; pursuant to it, the sale of electricity to an entity which is not its final recipient is not subject to excise duty.

Demand for payment of penalty for non-compliance with availability parameters of desulfurization installation in Pątnów I Power Plant

On 28 October 2005, between PAK Odsiarczanie (whose legal successor is ZE PAK) and RAFAKO S.A.an agreement was concluded for design and turnkey construction of two flue gas desulfurization systems for units no. 1-4 in the Pątnów I Power Plant. On 12 August 2008, the Parties signed a certificate of preliminary acceptance of two flue gas desulfurization systems, and on 29 December 2009 a fan in one of these systems failed, as a result of which ZE PAK sustained losses in connection with emergency standstills of the system. On 2 September 2011, the parties prepared the final report of the meeting of the team for calculations of emergency standstills and parameters of availability. From the calculations contained in the report, it can be concluded that ZE PAK, pursuant to the provisions of the abovementioned agreement, is vested towards RAFAKO S.A in a claim for payment of contractual penalty fee in the total amount of PLN 21,700 000. On 3 August 2012, ZE PAK called RAFAKO S.A. to pay voluntarily contractual penalty fee under default on the parameters of availability of the flue gas desulfurization system delivered by RAFAKO S.A., and on 10 August 2012 submitted with the District Court in Racibórz a summons to conciliatory hearing. In connection with changes in the composition of the Management Board of RAFAKO, in November and December 2012, i.e. at the time when the District Court in Racibórz was examining the application of ZE PAK for a summons to conciliatory hearing, RAFAKO did not agree to any settlement. In connection with the above, on 21 December 2012 at the hearing, the District Court in Racibórz stated that the settlement had not been concluded and closed the proceedings. In the opinion of the Company, it should be emphasized that the Parties were aiming to begin outside-court negotiations for the purpose of conciliatory solution of the dispute. The Parties signed the Final Conciliatory Agreement on 17 December 2013. Under the signed Agreement, RAFAKO SA accepted used previously by FOR PAK SA bank performance bond in the amount of PLN 3 629 thousand, and additionally undertook to pay, in three instalments, the amount of PLN 7 221 thousand as complete satisfaction of the ordering party's claims. The first instalment of PLN 2 500 thousand was paid by RAFAKO SA on 17 December 2013, the dates of outstanding instalments are 28 February 2014 - PLN 2 500 thousand, and the instalment was also paid until the day of approval of the consolidated financial statement, and 30 April 2014 - PLN 2 221 thousand. Hence, the total value of contractual penalty fee was PLN 10 850 thousand. At the same time, RAFAKO SA submitted voluntarily to enforcement up to the amount being the sum of last two instalments in the form of a notarial deed. Then the case was completed. The Company included the abovementioned amount in other operating income – details in note 14.2.

Dispute between PAK KWB Konin S.A and FUGO S.A. concerning contractual penalty fees and unjust enrichment

On 26.06.2008, the Mine and the consortium FUGO S.A. (the leader) and SKW Biuro Projektowo-Techniczne Sapkowski, Kanczewski, Wocka Spółka Jawna, following the procedure of the Act - Public Procurement Law, concluded an Agreement for "Dismantling, Transport, Assembly of Two Bucket Wheel SRs 1800 Excavators From the Liquidated Mine "As Pontes" Endesa Generacion S.A. (Spain)".

The delivery date of the agreement with regard to the 1st excavator - 31.10.2009, and with regard to the 2nd excavator – 31.01.2010, was changed by annex of 16.02.2009: with regard to the 1st excavator-31.05.2010, and with regard to the 2nd excavator – 31.08.2010.

Upon the call of the Mine of 29.07.2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., on the basis of item 5 of the Insurance Performance Bond for contract no. 3018763/8402 of 23.11.2009, paid for the benefit of the Mine the amount of PLN 762 thousand in connection with that fact that the obliged FUGO S.A. -the Leader of the Consortium comprised of: FUGO S.A. and SKW Biuro Projektowo - Technical Sapkowski, Kanczewski, Wocka Spółka Jawna, had defaulted on the Agreement of 26.06.2008 covered by the bond - with regard to the 1st excavator.

Additionally, upon the call of the Mine of 20.10.2010, the Guarantor, HDI-Gerling Polska Towarzystwo Ubezpieczeń S.A., paid the Mine the amount of PLN 2 349 thousand as contractual penalty fee for the period from 16 September 2010 to 25 October 2010, in connection with the delayed performance by the obliged FUGO S.A. - the Leader of the Consortium comprised of: FUGO S.A. and SKW Biuro Projektowo - Technical Sapkowski, Kanczewski, Wocka Spółka Jawna, of the Agreement of 26.06.2008 covered by the bond – with regard to the 2nd excavator.

Then, the Mine, on the basis of a debit note of 26.05.2011 in the amount of PLN 2 762 thousand charged FUGO S.A. with the remaining contractual penalty fee under the Agreement of 26.06.2008. Owing to the lack of payment of the aforementioned amounts due, the Mine made offsets from remuneration payable to FUGO S.A. under performance of the agreement.

It is indisputable that the Agreement of 26.06.2008 was performed with delay.

On 14.05.2012, FUGO S.A. submitted with the District Court in Konin a summons to conciliatory hearing, in the amount of PLN 12 896 thousand. The amount includes the following claims:

- PLN 5 872 thousand under unjust enrichment,

-PLN 7 024 thousand under remuneration for performance of the increased scope of works related the aforementioned agreement.

The Management Board of PAK Kopalnia Węgla Brunatnego Konin S.A. refused to enter into a settlement recognizing claims groundless. In this situation, the proceedings from the summons were completed by the Court stating that was the Settlement was not concluded and closing the proceedings on 26.09.2012.

As at the day of preparation of this financial statement, the Company may not exclude that FUGO S.A. will file with a common court action for payment of the designated amounts. Presently no formal court dispute is pending. FUGO S.A. made only a cost-free attempt to enter into the settlement before court, which made it possible to stop the period of subscription for reported claims, and further steps depend on the abovementioned Company's assessment regarding the possibility to obtain a specific benefit in the process.

The dispute with FUGO S.A. was not reflected in the accounting books of the Company.

Proceedings concerning the licence issued by the Minister of Environment for PAK KWB Konin SA concerning the Tomisławice open pit

PAK KWBK S.A. was notified in the letter of 9 July 2013 that the Minister of Environment had initiated the proceedings concerning invalidity of the license issued by the Minister of Environment of 6 February 2008 no. 2/2008 concerning the Tomisławice open pit. The proceedings were initiated as a result of the application submitted by two natural persons.

Having examined the case documents and the arguments raised by the appellants in the application for ascertaining invalidity of the license, PAK KWBK S.A. presented its written position on the application in question to the Minister of Environment, applying for issuing a decision on refusal to ascertain invalidity of the license. In the document to the Minister of Environment PAK KWBK S.A. referred to a number of legal and factual arguments supporting rejection of the application.

On 29 January 2014, the company obtained information that the Minister of Environment had issued a decision on refusal to ascertain invalidity of the license in question granted for PAK Kopalnia Węgla Brunatnego Konin S.A. for extraction of lignite and minerals from the Tomisławice deposit. In the substantiation of the issued decision, the Minister of Environment stated that the arguments raised by the appellants in the application for ascertaining invalidity could not lead to ascertaining invalidity of license no. 2/2008. The Minister of Environment pointed out that the concessive body could not be accused of breaching the provisions of material law or civil law that could justify different settlement of the case. In the substantiation it was emphasized that in that care there were also no other premises for ascertaining invalidity.

The party dissatisfied with the issued decision was entitled to apply to the Minister of Environment for re-examining the case, within 14 days from the date of receipt of the decision. The applicants used the right in question applying for re-examining the case. The Ministry of Environment notified PAK KWBK S.A. of initiating the proceedings for re-examining the case, completed by the decision of the Minister of Environment of 17 January 2014. PAK KWBK S.A. upholds its opinion that there are no premises for ascertaining invalidity of the licence.

The proceedings did not have any impact on exploitation works on the Tomisławice open pit. PAK KWBK S.A. has any required by law decisions enabling exploitation of the Tomisławice open pit and on their basis the mine continues extracting lignite from this open pit.

Proceedings concerning the environmental decision issued for PAK KWB Konin SA, concerning the lignite deposit in Tomisławice

PAK KWBK S.A. is a party in the administrative proceedings concerning the environmental decision related to the lignite deposit in Tomisławice. On 7 August 2007, the commune head of Wierzbinek issued the environmental decision concerning the lignite open pit. On 5 December 2008, this decision was appealed against by nine natural persons supported by Greenpeace, due to alleged gross violation of the provisions of law. On 25 March 2009, the Local Government Court of Appeals refused to reverse the environmental decision. The plaintiffs submitted an application for re-examining the case. On 4 May 2009, after re-examining the case, the Local Government Court of Appeals upheld their previous decision. The plaintiffs re-submitted appeal against the environmental decision. On 5 May 2010, the Provincial Administrative Court in Poznań ruled that the environmental decision, under which the license for mining lignite from the Tomisławice deposit had been granted, violated grossly the provisions of law. PAK KWBK S.A. and the Local Government Court of Appeals submitted the appeal against that ruling. On 21 March 2012, the Supreme Administrative Court repealed the appealed against ruling of the Provincial Administrative Court in Poznań and referred the case for re-examination. On 6 November 2012, the Provincial Administrative Court in Poznań pronounced a sentence repealing the decision of the Local Government Court of Appeals of 25 March 2009, refusing ascertaining invalidity of the environmental decision issued on 7 August 2007 by the Wierzbinek Commune Head related to exploitation by PAK KWBK S.A. of the Tomisławice lignite open pit. The ruling of the Provincial Administrative Court in Poznań of 6 November 2012 is not final and binding. In the case when the described ruling became final and binding, the Local Government Court of Appeals will re-examine the case concerning ascertaining the environmental decision, issued by the Wierzbinek Commune Head. The ruling of the Provincial Administrative Court in Poznań of 6 November 2012 does not deprive the environmental decision issued by the Wierzbinek Commune Head of validity and does not inhibit exploitation and exploitation works on the Tomisławice open pit. On 7 January 2013, PAK KWBK S.A. submitted cassation appeal against the described ruling.

Proceedings concerning determination of the amount of annual adjustment of stranded costs for the year 2012

On 31 July 2013, the President of the Energy Regulatory Office (ERO) issued the decision with regard to determination of the annual adjustment of stranded costs for 2012 for Elektrownia Pątnów II Sp. z o.o. In accordance with the decision, the adjustment value amounted to PLN 20 689 thousand. This value does not vary substantially from estimates of the Company included in the consolidated statement of the Group for the year ended 31 December 2012.

In addition, on 19 August 2013, the company submitted appeal against the decision of the President of ERO to the District Court in Warsaw, Division Court for Protection of Competition and Consumers, in the amount of ca. PLN 1 500 thousand.

The object of the appeal is the methodology of determining the value of tax depreciation costs, taking into account in calculation of annual adjustments, and of final adjustment under stranded costs.

As at the date of preparing this financial statement, the appeal has not been examined.

35.2. Tax settlements

Tax settlements and other areas of activities subject to regulations (for example customs or foreign exchange cases) may be the object of control of administrative bodies that are authorized to impose severe penalties and sanctions. No reference to fixed legal regulations in Poland causes vagueness and inconsistencies in binding regulations. Often occurring differences in opinions as to legal interpretation of tax regulations, both inside the state authorities and between the state authorities and companies, cause formation of areas of uncertainty and conflicts. These phenomena make tax risk in Poland significantly higher than the one usually existing in the countries with more developed tax system.

Tax settlements may be the object of control for a period of five years, starting from the end of a year when the tax was paid. As a result of conducted controls, the previous tax settlements of the Company may be increased by additional tax liabilities. In the opinion of the Company, as at 31 December 2013 and as at 31 December 2012, appropriate provisions were established for recognized and countable tax risk.

36. Liability repayment securities

In order to secure liability repayment, the Group applies many forms of security. The most common of them include mortgages and registration pledges.

In the year ended 31 December 2012, the agreement was concluded for transfer of rights and claims granted to "Elektrownia Pątnów II" sp. z o.o. under sales transaction at the Polish Power Exchange. As a result, the agreements for assignment of liabilities under sales agreements concluded by "Elektrownia Pątnów II" sp. z o.o. with trading companies expired.

As at 31 December 2013, the Group had the following liabilities secured on its property and other liability repayment securities:

Liabilities secured on the entity's property

		31 December 2013		*31 December 2012*	
No.	*Type of security*	*amount of security*	*currency*	*amount of security*	*currency*
ZE PAK S.A.					
1	Registered pledge and financial pledge				
1.1	Registered pledge on set of movables of ZE PAK (power units no. 3 and 4 in the Pątnów Power Plant)	240 000	PLN	460 000	PLN
1.2	Registered pledge and financial pledge having rights and cash from agreements of bank account of IOS ZE PAK in PKO BP	240 000	PLN	240 000	PLN
1.3	Registered pledge and financial pledge on rights and cash under agreements of bank accounts of A and B ZE PAK in PKO BP and PEKAO	240 000	PLN	460 000	PLN
1.4	Registered pledge on set of movables comprising the Flue Gas Desulfurization System in the Pątnów Power Plant	240 000	PLN	240 000	PLN
2	Registered pledge and financial pledge on shares in subsidiaries				
2.1	Registered pledge and financial pledge on shares of ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO Sp. z o.o. for BRE Bank S.A. (ZE PAK as guarantor of the project "Pątnów II")	400 000 339 750	EUR PLN	400 000 339 750	EUR PLN

		31 December 2013		*31 December 2012*	
No.	*Type of security*	*amount of security*	*currency*	*amount of security*	*currency*
3	Mortgage				
3.1	Contractual joint ordinary mortgage and contractual joint capped rate mortgage on plots and mortgage registers number KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 for PEKAO S.A.	70 000	PLN	145 500	PLN
3.2	Contractual joint ordinary mortgage and contractual joint capped rate mortgage on plots and mortgage registers number KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 for PEKAO S.A.	35 000	PLN	73 000	PLN
3.3	Contractual joint ordinary mortgage and contractual joint capped rate mortgage on plots and mortgage registers number KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 for PKO BP S.A.	70 000	PLN	145 500	PLN
3.4	Contractual joint ordinary mortgage and contractual joint capped rate mortgage on plots and mortgage registers number KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 for PEKAO S.A.	35 000	PLN	73 000	PLN
PAK Serwis Spółka z o.o.					
1	Registered pledge				
1.1	Registered pledge on set of movables of PAK Serwis in DZ Bank	4 187	PLN	2 521	PLN
EL PAK sp. z o.o.					
1	Bank deposit up to the amount of the guarantee sum				
1.1	Bank performance bonds	1 012	PLN	1 012	PLN
2	Bank deposit above the amount of the guarantee sum				
2.1	Bank performance bond	1 470	PLN	2 090	PLN
3	Cash – transfer				
3.1.	Payment of bid bond	20	PLN	47	PLN
Elektrownia Pątnów II sp. z o.o.					
1	Registered pledge and financial pledge				
1.1	Registered pledge and financial pledge on rights under agreements of bank accounts of Elektrownia Pątnów II Sp. z o.o. in PEKAO and BRE Bank	339 750 400 000	PLN EUR	339 750 400 000	PLN EUR
1.2	Registered pledge and financial pledge on rights under agreements of bank accounts of Elektrownia Pątnów II Sp. z o.o. in BOŚ SA	339 750 400 000	PLN EUR	339 750 400 000	PLN EUR
1.3	Registered pledge on set of movables and rights of Elektrownia Pątnów II Sp. z o.o.	339 750 400 000	PLN EUR	339 750 400 000	PLN EUR

		31 December 2013		*31 December 2012*	
No.	*Type of security*	*amount of security*	*currency*	*amount of security*	*currency*
2	Mortgage				
2.1	Contractual joined capped rate mortgage established by Elektrownia Pątnów II Sp. z o.o. and PAK Infrastruktura Sp. z o.o. on the plots and mortgage registers number KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for BRE Bank S.A.	400 000	EUR	400 000	EUR
2.2	Contractual joint capped rate mortgage established by Elektrownia Pątnów II Sp. z o.o. and PAK Infrastruktura Sp. z o.o. on the plots and mortgage registers number KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2, KN1N/00071136/4 for BRE Bank S.A.	339 750	PLN	339 750	PLN
PAK Holdco sp. z o.o.					
1	Registered pledge and financial pledge				
1.1	Registered pledge and financial pledge on shares owned by PAK Holdco in Elektrownia Pątnów II Sp. z o.o. for BRE Bank S.A.	339 750 400 000	PLN EUR	339 750 400 000	PLN EUR
1.2	Registered pledge on set of movables and rights of PAK Holdco Sp. z o.o.	339 750 400 000	PLN EUR	339 750 400 000	PLN EUR
PAK Infrastruktura sp. z o.o.					
1	Registered pledge and financial pledge				
1.1	Registered pledge on set of movables and rights of PAK Infrastruktura Sp. z o.o.	339 750 400 000	PLN EUR	339 750 400 000	PLN EUR
PAK KWB Konin					
1	Mortgage				
1.1	Mortgage on the right of perpetual usufruct in land and mortgage registers no. : 53149, 55458, 55457, 554534, KN1N/00080827/1, KN1N/00075017/2, KN1N/00080824/0, KN1N/00080825/7 for Bank: BZ WBK	90 000	PLN	90 000	PLN
2	Registered pledge and financial pledge				
2.1	Transfer of title to two excavators and five driving stations along with assignment of insurance policy	86 590	PLN	86 590	PLN
2.2	Registered pledge on liabilities under agreements for sale of coal to Elektrownia Pątnów II – PKO BP	76 500	PLN	270 000	PLN
2.3	Agreement for granting guarantee no. 2110-52346- alienation on movable inventory – parts to machines and located in warehouses: along with assignment of insurance policy –BANK POCZTOWY	8 000	PLN	8 000	PLN

Other liability repayment securities

		31 December 2013		*31 December 2012*	
No.	*Type of security*	*amount of security*	*currency*	*amount of security*	*currency*
ZE PAK S.A.					
1	Guarantees and sureties				
1.1	Surety of ZE PAK for PAK KWB Konin under revolving credit in BRE Bank in the amount of PLN 18,300 thousand	18 300	PLN	–	–
1.2	Surety of ZE PAK for PAK KWB Konin under revolving credit in BRE Bank in the amount of PLN 10,300 thousand	10 300	PLN	–	–
1.3	Surety of ZE PAK for PAK KWB Adamów under credit in current account in BZ WBK in the amount of PLN 10,000 thousand	10 500	PLN	–	–
1.4	Surety of ZE PAK for PAK KWB Konin under credit in current account in BRE Bank of PLN 9,700 thousand	9 700	PLN	–	–
1.5	Surety of ZE PAK for PAK KWB Konin under investment credit in BZ WBK in the amount of PLN 32,572 thousand	34 885	PLN	–	–
1.6	Surety of ZE PAK for PAK KWB Konin under credit in current account in BZ WBK in the amount of PLN 65,000 thousand	65 000	PLN	–	–
1.7	Surety of ZE PAK for PAK KWB Konin under revolving credit in Millennium in the amount of PLN 76,500 thousand	76 500	PLN	–	–
1.8	Surety and agreement for the transfer of rights and obligations for ALPIQ	–	–	1 000	PLN
EL PAK sp. z o.o.					
1	Bills of exchange				
1.1	Insurance performance bonds	3 103	PLN	4 296	PLN
1.2	Insurance bid bond guarantees	290	PLN	220	PLN
1.3	Liabilities under lease agreement	–	PLN	7	PLN
Elektrownia Pątnów II sp. z o.o.					
1	Assignments of liabilities				
1.1	Assignment of liabilities from the Transaction Agreement for sale of electricity with Inter Energy SA	133 261	PLN	–	–
1.2	Assignment of liabilities from the Agreement for sale of electricity with TAURON Polska Energia SA.	9 078	PLN	–	–
PAK Serwis sp. z o.o.					
1.	Bills of exchange	–		3 043	PLN
2.	Guarantees				
2.1	Performance bonds	578	EUR	385	EUR
2.3	Retention bond	3 672	PLN	4 438	PLN
2.4	Retention bond	923	EUR	941	EUR
2.5	Bid bond guarantee	340	PLN	–	–
3.	Sureties				
3.1	Surety of Pak Serwis for Energoinwest credit facility	1 125	PLN	–	–

	agreement in Bank Millenium				
3.2	Surety of Pak Serwis for Energoinwest agreement of multi-product limit in Bank BGŻ for Energoinwest	1 500	PLN	–	–
Elektrim Volt					
1.	Security of electricity supply in 2014 for Alpiq Energy SE	18 551	PLN	–	–
PAK KWB Konin					
1.	Surety				
1.1	Department of Health Care and Occupational Medicine "MED- ALKO	800	PLN	800	PLN
2.	Guarantees				
2.1	Guarantee no. 2110-52346 Bank Pocztowy	-	PLN	4 000	PLN
2.1	Guarantee of Bank BPH	4 000	PLN	-	PLN
2.2	BRE BANK no. 40014KPA11	4 800	PLN	4 800	PLN

37. Received guarantees and sureties

		As at 31 December 2013		*As at 31 December 2012*	
Item	*Type of guarantees, sureties*	*received in PLN*	*received in EUR*	*received in PLN*	*received in EUR*
	ZE PAK S.A.				
1		27 500	908	27 500	
	Bills of exchange				908
2	Payment guarantees	-	15 000	975	15 000
3	Performance bonds	59 296	702	27 301	1 053
4	Retained amount guarantees	–	–	–	–
5	Advance payment guarantee	59 599	–	5 289	–
6	Sureties	211 143*	17 550	211 143*	17 550
	EL PAK sp. z o.o.				
1	Guarantees				
1.1	Performance bonds and retention bonds (cash payment)	116	–	84	–
1.2	Performance bonds and retention bonds	2 933	–	2 474	–
	PAK Serwis sp. z o.o.				
1	Guarantees	1 136	40	1 144	61
2	Bills of exchange	31	56	171	56
	Elektrownia Pątnów II sp. z o.o				
	Payment guarantee	1 492	–	–	–
	Performance bond	6 338	–	6 338	–
	Advance payment guarantees	4 678	–	4 678	–

	Energoinwest Serwis				
1.	Sureties				
1.1	Surety for the credit facility agreement in Bank Millenium from Pak Serwis	1 125	PLN	1 125	PLN
1.2	Surety for the agreement of multi-product limit in Bank BGŻ from Pak Serwis	1 500	PLN	–	–
2.	Guarantees				
2.1	Insurance performance bonds and retention bonds	567	PLN	–	–
	PAK KWB Konin.				
1	Guarantees and sureties				
1.1	Surety under revolving credit in BRE Bank of PLN 18,300 thousand from ZE PAK	18 300	PLN	–	–
1.2	Surety under revolving credit in BRE Bank of PLN 10,300 thousand from ZE PAK	10 300	PLN	–	–
1.3	Surety under credit in current account in BRE Bank of PLN 9,700 thousand from ZE PAK	9 700	PLN	–	–
1.4	Surety under investment credit in BZ WBK of PLN 32,572 from ZE PAK	34 885	PLN	–	–
1.5	Surety under credit in current account in BZ WBK of PLN 65,000 thousand from ZE PAK	65 000	PLN	–	–
1.6	Surety under revolving credit in Millennium of PLN 76,500 thousand from ZE PAK	76 500	PLN	–	–
	PAK KWB Adamów				
1	Guarantees and sureties				
1.1	Surety under credit in current account in BZ WBK of PLN 10,000 thousand from ZE PAK	10 500	PLN	–	–

* sureties in the amount of PLN 211 143 thousand relate to agreement no. 1/2009 of 30 July 2009 with Foster Wheeler Energia Polska Sp. z o.o.

38. Information on related parties

The following table presents cumulative amounts of transactions concluded with related parties for the current and the previous years:

Related party		*Sale for the benefit of related parties*	*Purchases from related parties*	*Receivables from related parties*	*Liabilities towards related parties*
Elektrim S.A.	*2013*	1	91	–	–
	2012	1	130	2 988	–
Elektrim Magadex S.A.	*2013*	–	938	–	–
	2012	–	–	10	–
Elektrim Volt S.A.:	*2013*	–	–	–	–
	*2012**	367 790	–	–	–
Magadex Serwis Sp. z o.o.	*2013*	–	57 101	–	1 760
	2012	3	55 665	–	6 419
Energia-Nova S.A.	*2013*	–	1	–	–
	2012	–	3 673	–	–
Polkomtel	*2013*	6 711	443	1 246	62
	2012	94	255	22	42
Centernet	*2013*	–	–	–	–
	2012	–	22	–	–
WKS Śląsk Wrocław	*2013*	–	–	–	–
	2012	–	2 000	–	–
Laris Investments sp. z o.o.	*2013*	3	959	171	–
	2012	–	903	171	–
Embud sp. z o.o.	*2013*	–	–	–	–
	2012	–	–	31 104	–
Total	*2013*	6 715	59 533	1 417	1 822
	2012	367 888	62 648	34 295	6 461

* data for the period ended 30 September 2012; at the time shares in Elektrim-Volt S.A. were purchased by ZE PAK S.A. Throughout 2013 the data of Elektrim Volt are subject to consolidation.

Sale for the benefit of Elektrim Volt S.A. applies to revenues from sale of electricity. Purchases of Elektrim Volt S.A. relate to a commission for the intermediation service provided for the benefit of the Group in sale of electricity in accordance with the agency Agreement of 22 December 2006.

38.1. Loan granted to a member of the Management Board

Both in the financial year ended 31 December 2013 and in the year ended 31 December 2012, the parent company did not grant to the persons being members of executive and supervisory boards any loans and similar benefits.

38.2. Other transactions involving members of the Management Board

Both in the financial year ended 31 December 2013 and in the year ended 31 December 2012, no transactions involving members of executive and supervisory boards were concluded.

38.3. Remuneration of chief executive staff of the Group

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

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Management Board of the parent company		
Short-term employee benefits	3 034	4 290
Long-service bonuses	–	78
Post-employment benefits	–	–
Benefits for termination of the contract of employment,	–	167
Supervisory Council of the parent company		
Short-term employee benefits	1 595	516
Long-service bonuses	–	–
Post-employment benefits	–	–
Benefits for termination of the contract of employment,	–	–
Management Boards of subsidiaries		
Short-term employee benefits	6 531	6 385
Long-service bonuses	48	–
Post-employment benefits	148	96
Benefits for termination of the contract of employment,	248	218
Share-based employee benefits	–	–
Supervisory Council of subsidiaries		
Short-term employee benefits	–	134
Long-service bonuses	–	–
Post-employment benefits	–	–
Benefits for termination of the contract of employment,	–	–
Total	11 604	11 884

38.3.2. Remuneration paid or payable to other members of the chief executive staff

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data)*
Short-term employee benefits	16 117	13 766
Long-service bonuses	601	275
Post-employment benefits	71	22
Benefits for termination of the contract of employment,	877	–
Share-based employee benefits	–	–
Total amount of remuneration paid to the chief executive staff (except for members of the Management Board and the Supervisory Council)	17 666	14 063

39. Information about remuneration of statutory auditor or entity authorized to audit financial statements

The table below presents remuneration of the entity authorized to audit financial statements paid or payable for the year ended 31 December 2013 and 31 December 2012 with breakdown into types of services:

Type of service	*Year ended 31 December 2013*	*Year ended 31 December 2012 (transformed data)*
Mandatory audit of financial statement	195	210
Other certifying services	–	–
Tax consulting services	–	–
Other services	102	153
Total	297	363

The entity auditing the consolidated financial statements in 2013 and in 2012 was Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. (formerly: Ernst & Young Audit sp. z o.o.).

The remuneration covers audit of the separate and consolidated financial statement of ZE PAK S.A. and does not include services provided for other Group's companies.

40. Objectives and principles of financial risk management

Apart from derivatives, major financial instruments used by the Group include bank credits, loans obtained from related parties and other institutions, cash and short-term deposits. The primary purpose of these financial instruments is to obtain funds for the Group's activities. The Group has also other financial instruments such as trade receivables and liabilities that are created directly in the course of its activities.

The Group concludes also transactions involving derivatives, first of all, interest rate swaps. The purpose of these transactions is management of interest rate risk created in the course of activities of the Group and resulting from used sources of financing.

The principle applied by the Group, currently and throughout the whole period covered by the statement, is of no trade in financial instruments.

Main types of risk resulting from financial instruments of the Group include interest rate risk, liquidity risk, currency risk and credit risk. The Management Board verifies and agrees on the principles of management of each type of risk – those principles have been briefly discussed below. The Group monitors also risk of market prices concerning all held financial instruments.

40.1. Interest rate risk

Exposure of the Group to the interest rate risk applies, first of all, to long-term financial liabilities.

The Group uses financial liabilities, mainly credits and loans, with variable interest.

To minimize the interest rate risk, the Group concludes interest rate swaps, under which it agrees to swap, at the specified time intervals, a difference between the amount of interest calculated at fixed and variable interest on the agreed principal amount. These transactions are intended to hedge contracted financial liabilities.

Interest rate risk – sensitivity to changes

In the analysis of sensitivity to the interest rate risk, the Group applies parallel shift of the interest rate curve by a potentially possible change in reference interest rates during the nearest year. For the purpose of the analysis of sensitivity to the interest rate risk, average levels of reference interest rates in a given year were used. The scale of potential fluctuations in interest rates was estimated on the basis of ATMF implied volatility of interest rate

options quoted on the interbank market for the currencies for which the Group has exposure to the interest rate risk as at the reporting date.

	31 December 2013		**Analysis of sensitivity to interest rate risk as at 31 December 2013**							
			WIBOR				***EURIBOR***			
	Balance sheet value	***Value exposed to risk***	***WIBOR + 70 base points***		***WIBOR - 70 base points***		***EURIBOR + 23 base points***		***EURIBOR - 23 base points***	
Classes of financial instruments	***in PLN '000***	***in PLN '000***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	121 524	121 524	333	-	(333)	-	170	-	(170)	-
Trade receivables and other receivables	197 847	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	430 978	430 978	2 575	-	(2 575)	-	145	-	(145)	-
Interest-bearing credits and loans	(1 058 047)	(1 058 047)	(2 435)	-	2 435	-	(1 633)	-	1 633	-
Trade liabilities and other financial liabilities	(301 627)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(25 241)	(25 241)	-	-	-	-	-	2 444	-	(2 444)
Total			**473**	**-**	**(473)**	**-**	**(1 318)**	**2 444**	**1 318**	**(2 444)**

	31 December 2012 (transformed data)		**Analysis of sensitivity to interest rate risk as at 31 December 2012**							
			WIBOR				***EURIBOR***			
	Balance sheet value	***Value exposed to risk***	***WIBOR + 113 base points***		***WIBOR - 113 base points***		***EURIBOR + 107 base points***		***EURIBOR - 107 base points***	
Classes of financial instruments	***in PLN '000***	***in PLN '000***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	150 095	138 489	746	-	(746)	-	775	-	(775)	-
Trade receivables and other receivables	220 559	-	-	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	318 002	318 002	2 422	-	(2 422)	-	1 109	-	(1 109)	-
Interest-bearing credits and loans	(1 252 309)	(1 252 309)	(5 066)	-	5 066	-	(8 602)	-	8 602	-
Trade liabilities and other financial liabilities	(261 532)	-	-	-	-	-	-	-	-	-
Derivative financial instruments	(37 203)	(37 203)	-	-	-	-	-	15 589	-	(15 589)
Total			**(1 898)**	**-**	**1 898**	**-**	**(6 718)**	**15 589**	**6 718**	**(15 589)**

40.2. Currency risk

The Group is exposed to foreign exchange risk under concluded transactions. This risk applies to liabilities under credits and loans. The Group does not use derivatives hedging exchange rate change.

Potential possible changes in exchange rates were calculated on the basis of annual volatilities implied for currency options quoted on the interbank market for the particular pairs of currencies as at the reporting date.

The Group identifies exposure to the EUR/PLN exchange rate risk. The table below presents sensitivity of the gross financial result to rational possible exchange rate fluctuations, assuming invariability of other risk factors for these financial instrument classes that are exposed to the exchange rate risk.

	31 December 2013		***Analysis of sensitivity to currency risk as at* 31 December 2013**			
			EUR/PLN			
Classes of financial instruments	***Balance sheet value***	***Value exposed to risk***	***EUR/PLN exchange rate + 7.75%***		***EUR/PLN exchange rate - 7.75%***	
			4.4686		***3.8258***	
	in PLN '000	***in PLN '000***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***
Other financial assets	121 524	73 972	5 733	-	(5 733)	-
Trade receivables and other receivables	197 847	1 053	82	-	(82)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	430 978	63 172	4 896	-	(4 896)	-
Interest-bearing credits and loans	(1 058 047)	(710 164)	(55 038)	-	55 038	-
Trade liabilities and other financial liabilities	(301 627)	(2 264)	(175)	-	175	-
Derivative financial instruments	(25 241)	-	-	-	-	-
Total	**(634 566)**	**(574 231)**	**(44 502)**	**-**	**44 502**	**-**

Classes of financial instruments	**31 December 2012 (transformed data)**		***Analysis of sensitivity to currency risk as at 31 December 2012***			
	Balance sheet value	***Value exposed to risk***	***EUR/PLN***			
			EUR/PLN exchange rate + 8.65%		***EUR/PLN exchange rate - 8.65%***	
			4.4418		***3.7346***	
	in PLN '000	***in PLN '000***	***Profit/Loss***	***Other comprehensive income***	***Profit/Loss***	***Other comprehensive income***
Other financial assets	150 095	72 468	6 268	-	(6 268)	-
Trade receivables and other receivables	220 559	2 866	248	-	(248)	-
Derivative financial instruments	-	-	-	-	-	-
Cash and cash equivalents	318 002	103 669	8 967	-	(8 967)	-
Interest-bearing credits and loans	(1 252 309)	(803 944)	(69 541)	-	69 541	-
Trade liabilities and other financial liabilities	(261 532)	(795)	(68)	-	68	-
Derivative financial instruments	(37 203)	-	-	-	-	-
Total	**(862 382)**	**(625 736)**	**(54 126)**	**-**	**54 126**	**-**

40.3. Risk of prices of raw materials

The Company is exposed to operation and negative impact of risk factors related to variability of cash flows as well as the financial result on account of changes in prices of raw materials. The exposition of raw materials' prices to the currency risk reflects the volume of purchase of basic raw materials which include mainly timber and agricultural biomass.

Volume and costs of consumption of major raw materials are presented in the table below:

	2013		2012	
	Volume (tons)	*Costs of consumption (in PLN '000)*	*Volume (tons)*	*Costs of consumption (in PLN '000)*
Fuel:				
Lignite	14 399 109	941 237	13 699 953	910 935
Wood biomass	297 869	57 957	310 660	72 600
Agricultural biomass	133 991	53 667	259 902	114 208
Fuel oil	1 623	5 590	838	2 956
Sorbent	262 696	21 603	314 842	23 496

40.4. Credit risk

The credit risk is a potential credit event that may manifest itself as the following factors: contractor's insolvency, partial repayment of receivables, significant delay in repayment of receivables or other, unforeseen deviations from contract terms.

The Group concludes transactions only with reputable companies with good creditworthiness. All the customers who want to use trade credits are subject to pre-verification procedures. In addition, thanks to a current monitoring of receivables, exposure of the Group to the bad debt risk is insignificant.

The main recipients of electricity are large power groups, such as ENERGA OBRÓT S.A., ENEA S.A, ALPIQ ENERGY, MERCURIA ENERGY, ENEA S.A, TAURON S.A. Transactions concluded on the stock exchange are settled in the day mode by Towarowa Giełda Energii S.A., which minimizes the credit risk.

With regard to other financial assets of the Group, such as cash and cash equivalents, financial assets available for sale and some derivatives, the credit risk of the Group is created as a result of inability to pay by the other party to the agreement, and the maximum exposure to this risk is equal to the balance sheet value of these derivatives.

40.5. Liquidity risk

The Group monitors the risk of lack of funds using a periodical tool of liquidity planning. This tool considers maturity of both investments and financial assets (e.g. accounts of receivables, other financial assets) and forecasted cash flows from operating activities.

The purpose of the Group is to maintain balance between continuity and flexibility of funding, by using various sources of financing, such as credits in the current account, bank credits, bonds, privileged shares, financial lease agreements and agreements for lease with purchase option.

The table below presents the financial liabilities of the Group as at 31 December 2013 and 31 December 2012 by maturity, on the basis of contractual non-discounted payments.

31 December 2013	*Below 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Above 5 years*	*Total*
Interest-bearing credits and loans	266 961	142 250	622 643	105 765	1 137 619
Trade liabilities and other financial liabilities	235 856	43 259	22 430	82	301 627
Derivative financial instruments	2 756	7 629	23 317	807	34 509
	505 573	**193 138**	**668 390**	**106 654**	**1 473 755**

31 December 2012	*Below 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Above 5 years*	*Total*
Interest-bearing credits and loans	290 272	177 056	665 204	241 355	1 373 887
Trade liabilities and other financial liabilities	179 273	15 833	72 756	-	267 862
Derivative financial instruments	3 124	8 767	30 347	3 671	45 909
	472 669	**201 656**	**768 307**	**245 026**	**1 687 658**

The derivatives indicated in the above tables have been presented in gross values of non-discounted payments. However, these agreements can be settled in gross values or in net amounts. The tables below present reconciliation of these values with balance sheet values of derivatives:

31 December 2013	*Upon request*	*Below 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Above 5 years*	*Total*
Inflows	-	201	752	8 096	-	9 049
Withdrawals	-	2 756	7 629	24 124	-	34 509
Net amounts	-	(2 555)	(6 877)	(16 028)	-	(25 460)
Discounted with the use of relevant inter-bank rates	**-**	**(2 555)**	**(6 866)**	**(15 820)**	**-**	**(25 241)**

31 December 2012	*Upon request*	*Below 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Above 5 years*	*Total*
Inflows	-	209	530	5 668	2 018	8 425
Withdrawals	-	3 124	8 767	30 347	3 671	45 909
Net amounts	-	(2 915)	(8 237)	(24 679)	(1 653)	(37 484)
Discounted with the use of relevant inter-bank rates	**-**	**(2 915)**	**(8 229)**	**(24 471)**	**(1 588)**	**(37 203)**

41. Financial instruments

41.1. Fair values of different financial instrument classes

The table below presents a comparison of balance sheet values and fair values of all financial instruments of the Group, with breakdown into different classes and categories of assets and liabilities.

		Balance sheet value		*Fair value*		*Level of the hierarchy of fair value for the needs of disclosures*
Financial assets	*Category in accordance with IAS 39*	*31 December 2013*	*31 December 2012 (transformed data)*	*31 December 2013*	*31 December 2012 (transformed data)*	
Other financial assets	PiN	121 524	150 095	121 524	150 095	Level 2
Trade receivables and other receivables	PiN	197 847	220 559	197 847	220 559	Level 2
Derivative financial instruments	WwWGpWF	-	-	-	-	Level 2
Cash and cash equivalents		430 978	318 002	430 978	318 002	Level 1,2
Financial liabilities						
Interest-bearing bank credits and loans, including:		1 058 047	1 252 309	1 058 047	1 252 309	Level 3
- long-term interest by variable interest rate	PZFwgZK	652 323	790 385	652 323	790 385	
-short-term interest by variable interest rate	PZFwgZK	405 724	461 924	405 724	461 924	
Trade liabilities and other financial liabilities	PZFwgZK	301 627	261 532	301 627	261 532	Level 2
Derivative financial instruments	WwWGpWF	25 241	37 203	25 241	37 203	Level 2

Used abbreviations:

UdtW	– Held-to-maturity financial assets,
WwWGpWF	- Financial assets/liabilities measures at fair value through profit or loss,
PiN	- Loans and receivables,
DDS	- Financial assets available for sale,
PZFwgZK	- Other financial liabilities measured at depreciated cost.

Fair value of financial assets and liabilities measured at fair value by the Company only for the purposes of disclosures was determined on the basis of valuation techniques as a discounted value of future cash flows from financial instrument using market data observed at the moment of measurement.

As at 31 December 2013 and as at 31 December 2012, the Group had the following financial instruments measured at fair value:

	31 December 2013	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	25 241	-

	31 December 2012	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	-	-	-	-
Derivatives hedging liabilities	-	-	37 203	-

In the period ended 31 December 2013 and in the year ended 31 December 2012, there were no shifts between level 1 and level 2 of the fair value hierarchy, and none of instruments was shifted to level 3 of the fair value hierarchy.

41.2. The items of revenues, costs, profits and losses are included in the income statement with breakdown into categories of financial instruments

Year ended 31 December 2013

	Revenues /(costs) under interest (including the impact of measurement depreciated by cost)	*Exchange rate gains/(losses)*	*Termination/(creation) of impairment write-downs*	*Profits /(losses) under derivatives*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	9 406	5 261	–	–	–	14 667
Other short-term financial assets	37	9	525	–	(33)	538
Trade receivables	280	(55)	(7)	–	–	218
Other receivables	1 111	–	–	–	–	1 111
Derivatives	–	–	–	–	–	–
Financial liabilities						
Liabilities under credits and loans (long and short-term)	(39 838)	(9 087)	–	–	(1 203)	(50 128)
Trade liabilities	(2 986)	(4 978)	–	–	–	(7 964)
Other financial liabilities (without instruments)	(3 445)	–	–	–	–	(3 445)
Derivatives	–	–	–	(11 151)	–	(11 151)
Other liabilities	(8 383)	–	–	–	(68)	(8 451)
Total	(43 818)	(8 850)	518	(11 151)	(1 304)	(64 605)

Year ended 31 December 2012

	Revenues /(costs) under interest (including the impact of measurement depreciated by cost)	*Exchange rate gains/(losses)*	*Termination/(creation) of impairment write-downs*	*Profits /(losses) under derivatives*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	21 717	(7 533)	–	–	–	14 184
Other short-term financial assets	1 755	(10 360)	(1 140)	–	20 295	10 550
Trade receivables	28	(1 734)	32	–	–	(1 674)
Other receivables	(1 209)	(40)	(5)	–	–	(1 254)
Derivatives	–	–	–	–	–	–
Financial liabilities						
Liabilities under credits and loans (long and short-term)	(40 514)	57 201	1 167	–	(4 108)	13 746
Trade liabilities	(30)	(43)	–	–	(289)	(362)
Other financial liabilities (without instruments)	(23)	(12)	–	–	–	(35)
Derivatives	–	–	–	(10 289)	–	(10 289)
Other liabilities	(33)	205	–	–	(793)	(621)
Total	(18 309)	37 684	54	(10 289)	15 105	24 245

In the item other revenues from other short-term financial assets the Group presented result on sale of shares in the Polish Power Exchange in the amount of PLN 20 000 thousand.

41.3. Interest rate risk

The table below presents an interest rate gap, being the exposition of the Group to the interest rate risk and concentration of this risk with breakdown into currencies and type of interest, including the effect of Interest Rate Swaps, swapping the stream of interest payment on the basis of variable EURIBOR rate to fixed rate in EUR.

		Type of interest	Balance sheet value as at 31 December 2013	Balance sheet value as at 31 December 2012
Financial assets exposed to interest rate risk	PLN	Fixed	-	-
		Variable	417 057	280 354
	Other currencies	Fixed	-	-
		Variable	137 144	176 137
Financial liabilities exposed to interest rate risk	PLN	Fixed	-	-
		Variable	347 883	448 365
	Other currencies	Fixed	356 051	403 604
		Variable	354 113	400 340
Net exposure	**PLN**	**Fixed**	**-**	**-**
		Variable	**69 174**	**(168 011)**
	Other currencies	**Fixed**	**(356 051)**	**(403 604)**
		Variable	**(216 969)**	**(224 203)**

Interest on financial instruments with a variable interest is updated in the periods below one year. Interest on financial instruments with fixed interest rate is constant throughout the whole period, until maturity of these instruments. Other financial instruments of the Group, which were not included in the aforementioned tables, are not interest-bearing and consequently are not subject to the interest rate risk.

41.3.1. Hedges

The Group hedges interest rate risk related to the contracted consortium credit denominated in EUR with a variable interest on the basis of reference EURIBOR 3M rate using derivative transactions. The instrument that hedges the exposure to interest rate risk is the transaction of Interest Rate Swap type, through which the Group swaps the stream of interest payments based on variable interest EURIBOR 3M rate to payments of fixed interest rate in the amount of 3.1050%. The Group designates derivative instruments as hedging instruments in the cash flow hedge model and includes them in accordance with the hedge accounting principles.

In the tables below are presented basic parameters of derivative transactions designated to hedging instruments, including periods of cash flows under cash flow hedges and in which they will affect the financial result and their fair value in Polish zlotys as at 31 December 2013 and as at 31 December 2012.

Instrument type	Nominal value in the currency of transaction [EUR]*	Fair value in PLN	Expected period of exercising the hedged position

	31 December 2013	31 December 2013	31 December 2013
IRS transaction	85 853	(25 241)	in quarterly periods, in January, April, July and October each year until the date of maturity of IRS transaction, i.e. July 2019

*) denomination depreciated according to the credit repayment schedule

Instrument type	Nominal value in the currency of transaction [EUR]*	Fair value in PLN	Expected period of exercising the hedged position
	31 December 2012	31 December 2012	31 December 2012
IRS transaction	98 724	(37 203)	in quarterly periods, in January, April, July and October each year until the date of maturity of IRS transaction, i.e. July 2019

*) denomination depreciated according to the credit repayment schedule

Change in fair value of cash flow hedges charged to equity is presented below:

	Year ended 31 December 2013	*Year ended 31 December 2012*
Opening balance	(34 960)	(28 911)
Effective part of profits / losses on hedging instrument	586	(16 317)
Amounts charged to the income statement, including:	(11 126)	(10 268)
-adjustment of costs of interest	(11 126)	(10268)
-adjustment under ineffective hedging	–	–
Closing balance	(23 248)	(34 960)
Deferred tax assets - recognized in the revaluation reserve	4 417	6 642
Closing balance including deferred tax	(18 831)	(28 318)

42. Capital management

The primary objective of capital management of the Group is to maintain good credit rating and safe capital ratios that would support operating activities of the Group and increase the value for its shareholders.

The Group manages the capital structure and due to changes in economic conditions introduces changes to it. In the period ended 31 December 2013 and 31 December 2012, no changes were introduced to purposes, principles and processes binding in this area.

The Group monitors the balance of capitals using leverage ratio, calculated as debt to total capitals ratio increased by net debt. According to the principles of the Group, this ratio should range from 20% to 60%. The Group includes in the net debt interest-bearing credits and loans, trade liabilities and other liabilities, decreased by cash and cash equivalents. Capital includes equity less reserve capitals under unrealized net profits.

	31 December 2013	*31 December 2012 (transformed data)*
Interest-bearing credits and loans	1 058 047	1 252 309
Derivative financial instruments (liabilities)	25 241	37 203
Trade liabilities and other financial liabilities	301 627	261 532
Minus cash and its equivalents	430 978	318 002

Net debt	953 938	1 233 042
Equity	3 782 616	3 541 952
Capitals from revaluation of hedging instruments	(18 831)	(28 318)
Total capital	3 801 447	3 570 270
Net capital and debt	4 755 385	4 803 312
Leverage ratio	20%	26%

43. Employment structure

The average employment in the Group in the period ended on 31 December 2013 and 31 December 2012 was as follows:

	Year ended 31 December 2013	*Year ended 31 December 2012 (transformed data*
Management Board of the parent company	3	3
Management Boards of the Group's entities	24	26
Administration	558	581
Sales Department	51	52
Production division	6 521	6 976
Other	837	671
Total	7 994	8 309

44. Events following the reporting date

Early investment credit repayment

On 2 January 2014, the Company repaid earlier a credit granted in 2006 by the banks PKO BP and PEKAO SA for the construction of a flue gas desulfurization systems in the Pątnów I Power Plant ("IOS Credit"). The capital of the repaid credit as at the day of early repayment amounted to PLN 90 951 thousand. The Company made a decision on early repayment of the IOS Credit in order to release securities established in connection therewith. The Company intends to refinance the repaid credit.

Consortium credit facility agreement for financing the modernization of the Pątnów I Power Plant

On 13 March 2014, the Company concluded with the consortium of banks: Bank Gospodarstwa Krajowego, mBANK S.A., Bank Millennium S.A, Bank Polska Kasa Opieki S.A. and Powszechna Kasa Oszczędności Bank Polski S.A. a credit facility agreement, under which the following credits will be made available to the Company:

1) credit in the total amount of PLN 1.11 billion , designed for the modernization of units 1-4 in the Pątnów Power Plant along with additional tasks and (Credit A),
2) credit in the total amount of PLN 0.09 billion, designed for the re-financing of debt under the credit contracted in 2006 for construction of the flue gas desulfurization system for units of the Pątnów Power Plant (Credit B).

Credit A will enable financing max. 61.92% of the costs of the project consisting in the modernization of 4 units in the Pątnów Power Plant, other expenditures will be paid with own funds. According to the content of the credit agreement, the Company may use the credit no later than until 31 December 2016. The use of the credit requires the Company to fulfil the credit use terms as defined in the agreement, which do not differ from the terms commonly used in similar transactions. The granted credit bears interest based on appropriate WIBOR rate plus the bank margin. The Company is obliged to repay the credit along with interest and other due amounts, on the terms specified in the Agreement; total repayment of the credit should be completed until 31 December 2023.