I. Introduction to the financial statements

1. General information

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

The Company was entered in the National Court Register, Entry No. KRS 0000021374 on 21 June 2001.

The Company was granted a tax identification number NIP 665-00-01-645 on 17 September 1993 and statistical number REGON: 310186795.

The Company has an unlimited period of operation.

Based on the Company's Articles of Association, the Company is controlled by the Elektrim Capital Group.

The Company is the parent company of the Zespół Elektrowni Pątnów-Adamów-Konin S.A. Capital Group.

According to the Company's Articles of Association, the main area of its business activities includes:

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

2. Identification and explanation of differences in the value of disclosed data and significant differences relating to adopted accounting principles (policy) between the financial statements with comparative data and financial statements with comparative data that would be prepared under IFRS/IAS

The Company is parent company to Capital Group that is required to prepare consolidated financial statements in accordance with IFRS endorsed by the EU ("IFRS"). The Company does not prepare its standalone financial statements in accordance with IFRS.

Values presented below represent potential differences between IFRS and PAS, prepared under an assumption of IFRS adoption based on IFRS 1 D16 guidelines and adoption of financial data resulting from consolidated financial statements of the ZE PAK Group. IFRS transition date for ZE PAK Group is 1 January 2009.

Had the Company prepared its financial statements in accordance with IFRS, main differences between accounting policy adopted for these financial statements and IFRS would refer to following areas:

1. Tangible assets

a) Valuation of tangible assets

According to IFRS 1, on the IFRS transition date the entity may revalue its fixed assets to fair value and applied this fair value as a deemed cost determined as at that date. The Company determined the deemed costs of selected items of property, plant and equipment by valuation to fair value as at 1 January 2009, i.e. assumed date of transition to IFRSs.

b) Identification of overhaul components

IFRSs provide for the requirement to identify separate components within fixed assets provided the component economic useful life is different from that of the asset. Components are depreciated over their useful life period. In accordance with IFRSs, overhauls or periodic maintenance may be treated as separate components. Therefore the Company identified overhaul or periodic maintenance costs components and their amortization over the period to the next planned overhaul or maintenance. Recognition of this adjustment required calculation of deferred tax.

c) Land and perpetual usufruct valuation

According to PAS, perpetual usufruct of land is subject to calculating depreciation charges, which are recognized in the profit and loss account under 'cost of sales'.

For IFRS purposes, due to indefinite economic useful life of perpetual usufruct, the Company would have eliminated recognised depreciation charges.

d) Capitalization of borrowing costs

In accordance with PAS, all borrowing costs relating to servicing liabilities incurred to finance assets under construction, inclusive of FX differences, were capitalised in the cost of assets under construction.

For IFRS purposes, the Company would made an adjustment to capitalised FX differences on foreign currency liabilities which consisted in adjusting the value of FX differences to the value they represent interest cost adjustment.

Moreover, the Company would capitalize external financing costs resulting from liabilities of a general nature used for assets under construction financing purposes.

Given the above, in the IFRS financial statements, the Company would capitalize borrowing costs in the value not higher than the borrowing costs that would originate had the liabilities been denominated in the functional currency, i.e. PLN.

Described below areas of differences between PAS and IFRS were identified during the process of preparation of consolidated financial statements for the Group according to IFRS and do not contain potential IFRS adjustments relating to transactions with affiliates that were eliminated under the Group's consolidated financial statements.

Table below presents differences as at 31 December 2012

Adjustment as at 31 December 2012	Carrying value (PAS)	Carrying value (IFRS)	Adjustment
Tangible assets	1,522,504,580.28	2,117,083,708.55	594,579,128.27
Equity	2,594,020,734.68	3,071,942,908.48	477,922,173.80
Deferred tax provision	36,681,866.71	148,767,230.17	112,085,363.47

Summary of effects of identified differences in the net profit and equity

	31 December 2012
Net profit (PAS)	275,012,750.76
Tangible assets adjustment	(60,936,745.15)
Net profit (IFRS)	214,076,005.61

	31 December 2012
Equity (PAS)	2,594,020,734.69
Tangible assets adjustment	477,922,173.80
Equity (IFRS)	3,071,942,908.48

2. Differences in presentation

Presentation of certain positions in financial statements according to PAS and IFRS may differ. Such differences will not have any effect on equity and net profit of the Company.

3. Scope of notes to financial statement

Components of the financial statements, as well as the range of the notes to the financial statements in accordance with Polish accounting principles and IFRS may differ significantly.

Identification of differences and its valuation requires judgments and assumptions that influence the disclosed amounts. Although the accepted assumptions and estimates are based on the best knowledge of the Company, the actual amounts may differ from the forecasted ones. This note identifies the main areas of difference between the Polish Accounting Standards and IFRS and was prepared in accordance with IFRS, which are applicable as at 31 December 2012 and assuming that the date of transition to IFRS is 1 January 2009. Due to the fact that current standards are amended and new ones are developed there is a possibility that standards according to which the Company will prepare its first financial statements in accordance with IFRS will differ from standards applicable to preparation of this note.

Assumption regarding date at which the value of assets and liabilities in Company’s financial statements prepared in accordance with IFRS was determined results from the Management’s opportunity to use exemption resulting from paragraph D16 of IFRS 1, according to which the Company may adopt values presented in consolidated financial statements prepared in accordance with IFRS of the parent company based on transition date for using IFRS of parent i.e. 1 January 2009 however Management of the Company may in every situation change this decision and may adopt its own date of IFRS transition.

Furthermore, according to IFRS, only a complete financial statements containing balance sheet, statement of comprehensive income and/or profit and loss account, statement of changes in equity, statement of cash flow with comparative data and notes to financial statements may present fairly the financial position, results and cash flows in accordance with IFRS.

3. Going concern assumption

Company’s financial statements were prepared on a going concern basis for a foreseeable future i.e. for a period of minimum 12 months after the balance sheet date, i.e. 31 December 2012.

As at the day of signing these financial statements the Management of the Company is not aware of any facts or circumstances that could affect the Company's ability to continue as a going concern. Information about plans and activities of the Management to ensure liquidity of the Company are shown in Note II.8.i. of the notes to the financial statements.

4. Business combination

During the reporting period covered by these financial statements there were no business combinations with other legal entity in accordance with art. 492 § point 1 of the Commercial Code with other legal entity.

5. Adopted accounting principles (policy)

The Company is acting on the basis of following legal acts:

1. The Accounting Act dated 29 September 1994 (consolidated text 2009 Journal of Laws No.152, with subsequent amendments - "the Accounting Act"),
2. Corporate Income Tax Act dated 15 February 1992 (Journal of Laws No. 54/2000, item 654) with subsequent amendments,

the Company applied the following internal regulations related to the method of valuation of its assets and liabilities:

1. Regulation No. 35 of the President of ZE PAK S.A. in Konin dated 1 July 2003 concerning management of property, plant and equipment,
2. Regulation No. 34 of the President of ZE PAK S.A. in Konin dated 1 July 2003 concerning the Company's Chart of Accounts for ZE PAK S.A.

The financial statements were prepared under the historical cost convention, which has been modified in respect of:

- intangible assets (note 5 b)
- tangible fixed assets (note 5a)
- investments in subsidiaries and other long-term investments (note 5 d)
- other short term investments (excluding cash and financial assets) (note 5 e)
- financial instruments (note 5 f, 5 q and 5 cc)

In accordance with the above-mentioned internal regulations, the Company applies the following methods for measurement of assets and liabilities as well as results of its operations:

a) Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost or at cost of production, development or modernisation. The initial cost of property, plant and equipment is decreased by accumulated depreciation and impairment losses.

Pursuant to Article 17 Section 1 Item 1 of the Accounting Act, the following principles resulting from Regulation 35/2003 of the President of the Management Board, General Director of ZE PAK S.A. of 1 July 2003 concerning management of property, plant and equipment in ZE PAK S.A. are applied in the subsidiary ledgers:

- Assets with a value up to PLN 500 are classified as raw materials.
- Fixed assets with a cost of PLN 500 – PLN 3,500 are depreciated in full in the month in which they were made available for use, in accordance with Article 16f item 3 of the Corporate Income Tax Act.
- Fixed assets with an initial cost in excess of PLN 3,500 acquired before 1 January 1997 are depreciated using the straight-line method, and those acquired after 1 January 1997 – in accordance with the decision of the Management Board of ZE PAK S.A. – using the reducing balance method; the reducing balance method was binding until the end of 1999. Since 1 January 2000, the straight-line method is used with respect to all newly purchased fixed assets.

- Assets are revalued in accordance with separate regulations. The effects of the revaluation are taken to the revaluation reserve. After the fixed asset is sold or liquidated, the amount remaining in the revaluation reserve is transferred to reserve capital. The last revaluation took place on 1 January 1995.
- As of 1 January 2000, for tax purposes, all newly acquired fixed assets are depreciated using the rates set forth in the Appendix to the Corporate Income Tax Act of 15 February 1992, with subsequent amendments. Fixed assets which had been acquired and entered in the books of account before 1 January 2000 are depreciated using the rates specified in the Decree of the Minister of Finance of 17 January 1997 concerning depreciation of tangible fixed assets and amortisation of intangible assets.
- An adjustment is made to fixed assets' depreciation charge where a fixed asset with an initial cost exceeding PLN 3,500 and the planned useful life of less than one year is used for a period longer than one year.
- Computers and computer systems are depreciated using the straight-line method with the possibility of applying an incremental factor, in accordance with Article 16i Section 2 Item 3 of the Corporate Income Tax Act.
- As of 1 January 2001 changes were made to the policy of depreciation of fixed assets that were subject to valuation at the time the Company was privatised. Since 1 January 2001, fixed assets are depreciated according to the straight-line method over their anticipated useful lives.
- Estimates relating to the economic useful lives and method of depreciation are reviewed at the end of each financial year to verify if the depreciation methods and periods applied are consistent with the projected timing of the economic benefits generated by the given asset.
- Assets under construction (construction in progress) are valued at least as at the balance sheet date in the amount of aggregate costs directly attributable to the acquisition or production of such assets, less any impairment losses. Assets under construction include raw materials purchased for construction. Assets under construction are not depreciated until completed and made available for use.
- Borrowing costs relating to the construction, adaptation, assembly or improvement of fixed or intangible assets are capitalised as part of the cost of the asset over the period of construction, adaptation, assembly or improvement, if the borrowings were taken out for this purpose. All other borrowing costs are recorded in the profit and loss account.
- In accordance with the provisions of the Accounting Act before amendments, the perpetual usufruct right to land was classified as an off-balance sheet item. Under the amended Accounting Act, the perpetual usufruct right to land is classified under fixed assets. Pursuant to Article 2 Item 1 of the Act of 29 September 1990 Amending the Act on Management of Land and Expropriation of Real Estate (Journal of Laws No. 79 Item 464), land owned by the State Treasury or by the municipality, which on 5 December 1990 was administered by state legal entities other than the State Treasury or by municipal legal entities, as of that date became, by virtue of law, the subject of perpetual usufruct. The perpetual usufruct of land acquired in that way was not recognised in the Company's books; instead, it was recorded as an off-balance sheet item.
- In accordance with the Accounting Act, a physical count of tangible fixed assets is carried out by the Company every four years. The last physical count of tangible fixed assets was carried out in 2010.
- An assessment is made at each balance sheet date to determine whether the carrying amounts of the assets exceed the anticipated future economic benefits. If there is any evidence indicating that this is the case, the assets are written down to their net realisable values. The resultant impairment write-downs are recorded under other operating expenses. Impairment losses related to assets

revalued in accordance with separate regulations decrease the amounts taken to the revaluation reserve. Any surplus of impairments write-downs over the results of revaluation are recorded under other operating expenses.

b) Intangible assets

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the Company. Initially, intangible assets are recorded at acquisition cost or cost of production. Following the initial recognition, intangible assets are measured at acquisition cost or cost of production, less accumulated amortisation and impairment losses. Intangible assets are amortised using the straight-line method over their estimated useful lives. The expected useful lives are as follows:

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

Intangible assets with an initial cost of less than PLN 3,500 are amortised in full in the month in which they were made available for use.

Estimates relating to the economic useful lives and method of amortisation are reviewed at the end of each financial year to verify if the amortisation methods and periods applied comply with the projected timing of the economic benefits generated by the intangible assets.

An assessment is made at each balance sheet date to determine whether the carrying amounts of intangible assets exceed the anticipated future economic benefits. If there is any evidence indicating that this is the case, the assets are written down to their net realisable values. The resultant impairment write-downs are recorded under other operating expenses.

c) Long-term receivables

Long- term receivables include among others:

- receivables related to deposits (e.g. given under rental agreements);
- receivables from entities with which a bank settlement or an arrangement has been reached.

In accordance with Article 28 of the Accounting Act, as is the case with other receivables, long-term receivables are measured at nominal value during the year i.e. at the date of acquisition or origination, and at the balance sheet date – at the amount due, taking into account the prudence principle, less an allowance for any doubtful and uncollectible amounts.

d) Long-term investments

Long-term investments represent assets controlled by the entity which will bring economic benefits to it in the future. They may include non-financial assets such as:

- investment property,
- intangible assets,

or financial assets in the form of:

- shares,
- additional payments to capital of subsidiaries,
- other securities (long-term notes, treasury bonds etc.),
- long-term loans granted,
- other long-term assets (bills of exchange, cheques, deposits, commercial papers).

At the balance sheet date, long-term investments are measured at acquisition cost less any impairment write-downs.

Investments in subsidiaries i.e. controlled entities, in jointly controlled entities and in associates, are measured at historical cost less any impairment losses.

Unlisted commercial papers are measured at the balance sheet date using the straight-line method i.e. at acquisition cost increased by the relevant portion of the discount for the period up to the balance sheet date, taking into account any impairment losses.

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

Short-term investments, excluding cash and financial instruments, are measured at market value, while short-term investments for which there is no active market are measured at fair value determined using alternative methods.

The effects of a net increase or a net decrease in the carrying amount of short-term investments measured at market value are recorded under finance revenue or costs, as appropriate.

f) Financial assets

Financial assets are initially valued at cost, being the fair value of the consideration given. Transaction costs are included in the initial cost. Financial assets are initially recognized at the transaction date.

After initial recognition, financial assets are classified into one of the following four categories and measured as follows:

	Category	**Method of measurement**
1.	Financial assets held to maturity	Measured at amortised cost calculated using the effective interest rate
2.	Loans and receivables originated by the Company	Measured at amortised cost calculated using the effective interest rate. Short-term receivables for which no interest rate has been set are measured at the amount due.
3.	Financial assets held for trading	Measured at fair value. Any unrealised gains/losses are recognised in the profit and loss account.
4.	Financial assets available for sale	Measured at fair value, with unrealised gains/losses recognised in the profit and loss account until the investment is sold or impaired, at which time the cumulative gain/loss is taken to the profit and loss account.

The fair value of financial instruments traded on an active market is determined with reference to prices quoted on this market at the balance sheet date. Where no quoted market price is available, the fair value is estimated on the basis of the quoted market price of a similar instrument, or on the basis of the expected cash flows.

Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount.

Impairment losses recognised against individual financial assets or a group of similar financial assets are determined as follows:

1) for financial assets measured at amortised cost – as the difference between the value of an asset arising from the books of account at the date of measurement and its recoverable amount. The recoverable amount is the present value of the expected future cash flows discounted using the effective interest rate that has been applied by the entity to date to measure the restated financial asset or a group of similar financial assets,
2) for financial assets measured at fair value - as the difference between the cost of the asset and its fair value determined at the date of measurement (the fair value of debt instruments at the valuation date is the present value of the expected future cash flows discounted using the current market interest rate applied to similar financial instruments). The cumulative loss that had been recognised in the revaluation reserve shall be recognised as financial expense at an amount not less than the amount of the impairment loss, decreased by the portion that had been directly recognised as financial expense,
3) for other financial assets – as the difference between the value of an asset arising from the books of account and the present value of the expected future cash flows discounted using the current market interest rate applied to similar financial instruments.

g) Leases

The Company is party to lease agreements under which it uses third party tangible fixed assets or intangible assets over an agreed period of time, in return for payments.

In case of a finance lease agreement, which transfers substantially all of the risks and rewards of the ownership of an asset, the leased asset is capitalised, and a corresponding liability is recognised, at the present value of the minimum lease payments at the inception of the lease term. Lease payments are apportioned between finance charges and reduction of the outstanding lease liability so as to produce a constant rate of interest on the outstanding liability. Finance charges are recorded directly in the profit and loss account.

Assets leased under finance lease are depreciated using the methods used for the Company’s own assets. However, when there is any uncertainty regarding the transfer of the ownership of the asset, such assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Lease payments made under lease agreements which do not meet the criteria for finance leases are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

Where a sale and leaseback transaction represents a finance lease, then any sales revenue in excess of the amount shown in the balance sheet is deferred and recognised in profit and loss account during the lease term.

Where a sale and leaseback transaction represents an operating lease and if it is clear that the transaction was made using prices corresponding to fair values, any related gains and losses are recognised in the profit and loss account. If selling price is below fair value, then any related gains and losses are recognised in the profit and loss account, except where the loss is offset by future lease payments that are below the market price. In such cases, the loss is deferred and recognised in proportion to lease payments over the period of anticipated use of assets. If selling price exceeds fair value, then the excess amount is deferred and recognised as revenue over the period of anticipated use of assets.

h) Short- and long-term receivables

Trade receivables are stated at the amount due, less an allowance (a write-down) for any doubtful and uncollectable amounts.

The value of receivables is adjusted by appropriate write-downs reflecting their recoverability. Write-downs against receivables are recorded under other operating expenses or financial expenses, depending on the type of receivable.

The amounts of forgiven, statute-barred or bad debts reduce the amount of the write-downs that were previously recognised against the account.

The amounts of forgiven, statute-barred or bad debts for which no write-downs or only partial write-downs were made are recorded under other operating expenses or financial expenses, as appropriate.

i) Inventories

Inventories are measured at the lower of acquisition cost or cost of production and net realisable value.

Individual items of inventories are measured in the following manner:

- production fuel – on the “weighted average” basis,
- spare parts and other materials – using the “identifying of the actual costs” method.

Net realisable value is the selling price estimated at the balance sheet date, net of VAT and excise taxes, less any rebates, discounts and other similar items, less the estimated costs to complete and costs to sell.

The Company recognises impairment write-downs against inventories. These write-downs are charged to other operating expenses.

The Company performs continuous stock-takes of its materials. As inventories are stored on a secured site and are recorded on a continuous basis in respect of their quantity and value, a physical count of each item is conducted at least every two years.

The last stock take of production fuel took place as at 31 December 2012.

Certificate of origin granted to the Company free of charge as a result of energy production from renewable sources, gas and co-generation are presented at fair value from the day when granting it became sure.

j) Internally generated assets

The cost of assets generated internally includes all costs directly related to a given asset and an appropriate proportion of indirect overheads.

Direct costs include:

- direct cost of materials,
- direct payroll costs,
- usage of special tools,
- other costs incurred to bring a given product to its condition and place at the date of valuation.

The appropriate proportion of indirect overheads as referred to above includes variable indirect production overheads which reflect the level of those costs based on normal production capacity. The normal level of utilisation of production capacity is the average volume of production for a given number of periods expected to be achieved in standard conditions and taking into account the planned repairs.

Cost of production used for valuation of assets does not include general and administrative expenses, selling expenses, other operating expenses and financial expenses. Costs of production of internally generated assets are capitalised and recorded under the ZE PAK S.A. assets no later than as at the balance sheet date.

k) Equity

The Company's equity consists of the following items, which are stated at nominal value:

1. Share capital,
2. Reserve capital,
3. Revaluation reserve, and
4. Other reserves.

The issued share capital is recorded at the amount stated in the Company's Articles of Association and registered in the National Court Register.

Reserve capital is created from appropriated profits, share premium, amounts transferred from the Employees' Fund and amounts transferred from revaluation reserve. Advance dividend payments made during the financial year are recorded in the books of account and in the balance sheet as appropriation of profit during the year.

l) Special funds

There are the following special funds in the Company:

1. Social Fund,
2. Employees' Fund.

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have at least 20 employees (counted on a full time basis) to establish and run a Social Fund. The Company operates such Funds and makes periodic contributions to it based on the amount agreed with labour unions. In accordance with the agreement signed with trade unions the Company manages the Intercompany Social Fund of the Company and subsidiaries. The Social Fund liability is made up of accumulated income of the Social Fund less non-refundable expenditure by the Fund.

The Company presents the Fund's assets and liabilities separately in the balance sheet.

m) Assets and liabilities in foreign currencies

As at the 31 December 2012 assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP rate prevailing for the given currency at the year-end. Exchange differences resulting from translation are recorded under financial revenue or expenses, or – in cases defined in regulations – are capitalised in the cost of the assets.

The following exchange rates were used for valuation purposes:

	31 December 2012	31 December 2011
EUR	4.0882	4.4168
USD	3.0996	3.4174

The following positions of assets and liabilities and equity denominated in external currencies have been valued at other than the abovementioned exchange rates:

n) Foreign exchange differences

Foreign exchange differences relating to settlements in foreign currencies and arising as at the date of their valuation and upon payment of receivables and payables in foreign currencies, are posted to financial revenue or financial expenses, as appropriate, and, in justified cases, are capitalised in the cost of production of finished goods or in the acquisition cost of goods for resale, as well as the acquisition cost or cost of production of fixed assets, assets under construction or intangible assets. Foreign exchange differences are offset and presented at net value in the profit and loss account.

o) Cash at bank

Cash in Polish currency is stated at nominal value. Balances of cash held in bank accounts are reconciled using bank confirmation forms. Cash and cash equivalents shown in the cash flow statement comprise cash on hand and bank deposits with a maturity period of 3 months or less that were not included under investing activities.

p) Circularisation of debtors and creditors (confirmation of balances)

Year-end balances of receivables and loans granted are confirmed by way of circularisation of debtors' balances with all counterparties.

No written confirmation is required for balances specified in Article 26 Section 1 Item 3 of the Accounting Act, including, among others, the following items:

- disputed and doubtful debts;
- receivables from and liabilities to employees;
- balances concerning liabilities to and receivables from the state budget;
- small balances the amounts of which do not exceed postage costs.

According to the materiality concept under the provisions of the Accounting Act, if a counterparty a receivable from which does not exceed 2% of the amount providing the basis for classifying a new asset under fixed assets does not confirm the correctness of its balance in writing, it is assumed that such balance raises no doubts.

Similarly, where a given balance that does not exceed 2% of the amount providing the basis for classifying a new asset under fixed assets does not show any movement during a period of six months, it should be written off to other operating expenses in full.

q) Bank loans and borrowings

All loans and borrowings are initially recognised at cost, being the value of the funds received and including acquisition costs associated with the borrowing/loan. Following initial recognition, all interest-bearing loans and borrowings, other than liabilities held for trading, are subsequently measured at amortised cost, using the effective interest rate method.

Detailed principles used for measurement of certain liabilities denominated in foreign currencies are stated in paragraph 4.m. of the Introduction to the financial statements.

Liabilities which are held for trading are stated at fair value. Any gain/loss from re-measurement to fair value is recognised in profit or loss for the period.

r) Prepaid and accrued expenses

Loans received for financing environmental projects, and subsequently forgiven by way of granting a subsidy, are recognised as deferred income and amortised to the profit and loss account in subsequent periods, in proportion to depreciation of the fixed assets purchased or manufactured as part of the funded investment project.

Accruals are recognised for costs relating to the current reporting period. The Company recognises prepayments if the costs incurred relate to future reporting periods, e.g. insurance costs, subscriptions or discount of bills of exchange.

Prepayments also include a portion of the estimated reclamation costs relating to the cinder storage areas used by the Company. These costs are recognised at discounted amount and relate to expenditures which the Company will have to incur until the cinder storage area is filled in full.

Prepayments also include the unamortised portion of the provision for decommissioning of the Company's assets.

Accruals include the cost of certificates of energy generated using renewable sources and cogeneration, which the Company is required to surrender for cancellation due to sale of electricity to final users.

Provision for the obligation to surrender renewable energy certificates or high-efficiency cogeneration certificates for redemption is recorded as follows:

- in the part covered by origin certificates held at the reporting date – at the cost of held certificates,
- in that part not covered by origin certificates held at the reporting date – at the lower of market value of certificates earmarked for redemption at year-end and the amount of potential fine.

Deferred income includes contractual penalties, indemnities received from the insurance company, interest in excess of the principal amount of a receivable, negative goodwill and subsidies obtained for the manufacturing of fixed assets.

Accruals also include deferred income resulting from settlement of leaseback transactions.

s) Substitute evidence

Substitute evidence may be used as a basis for accounting entries. Among others, such substitute evidence specifies the circumstances (employee's statement) in which a business transaction may be confirmed by substitute evidence (Article 20 Section 4).

Substitute evidence should include the following:

- date of the business transaction, place and date of the issuance of such evidence;
- subject, quantity, price and value of purchase of goods or services; and
- details of the individual authorising the issuance of substitute evidence and the purpose of substitute evidence.

Substitute evidence should be approved by the manager requesting the purchase. Substitute evidence cannot be issued for purchases which are subject to VAT.

t) Physical count

Physical counts of the Company's assets are performed in accordance with Articles 26 and 27 of the Accounting Act. Plans of annual physical counts are prepared each year on the basis of Regulation of the President of the Management Board of ZE PAK S.A.

u) Impairment of assets

An assessment is made at each balance sheet date to determine whether there is any objective evidence that an asset or a group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recorded in the profit and loss account for the current period, except where they reverse a previous revaluation, where they are debited against the revaluation reserve and are subsequently taken to the profit and loss account for the period.

v) Revenue from sale of finished goods, goods for resale and services, interest revenue and dividends

Sales revenues comprise amounts receivable or received from sale of goods for resale and provision of services (decreased by returns, rebates and discounts). Sales revenues are stated at the net amount i.e. decreased by output VAT. Sales of purchased energy are recognised under sales of goods for resale. Revenue from sale of purchased energy is recognised using the average price achieved from bilateral contracts.

Revenues from sale of energy also comprise revenue from the sale of green and red certificates. At the moment of their production, certificates of origin that are held for sale are recorded under sales revenues, therefore, in order to prevent an overstatement of revenues at the moment of sale of energy certificates, the Company has adopted a rule that costs of certificates sold are recorded as an adjustment to sales revenue.

Interest income is recognised as the interest accrues (using the effective interest rate method), unless collectability is in doubt.

Dividends are recognised as financial revenue at the date on which a resolution is adopted on the appropriation of profit by the appropriate governing body of a given company, unless the resolution specifies a different date for the right to receive the dividend.

w) Operating expenses

The Company maintains a record of costs by nature and function and prepares a profit and loss account in the “by function” (cost of sales) format.

x) Production overheads

Production overheads are allocated statistically to units of electricity and heat sold and other activities and services, in proportion to direct payroll costs charged to energy sold, other activities and services.

y) Corporate income tax

Income tax is calculated on the basis of gross profit adjusted for permanent and timing differences between taxable profit and accounting profit/loss for the period. Taxable temporary differences give rise to deferred tax liabilities (recorded under provisions), while deductible temporary differences give rise to deferred tax assets (recorded under prepayments). At the balance sheet date, deferred tax liabilities and deferred tax assets are netted off.

z) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits is certain or highly probable to be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for the costs of decommissioning of assets are recognised at the present value of the expected costs of liquidation of such assets. Such provisions are recorded in correspondence with prepayments and are amortised over the remaining period of use of the asset (equipment) that is designated for liquidation. In the case of assets (equipment) excluded from use, provisions for costs of their liquidation are recognised against other operating expenses.

Provisions also include a provision for future costs of reclamation of the land used by the Company for waste storage.

aa) Deferred income tax

Deferred tax is calculated using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and does not have any impact on the accounting profit or taxable profit or loss at the time of the transaction.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

For deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax laws that have been enacted at the balance sheet date. Deferred tax liabilities and deferred tax assets are netted off for financial reporting purposes.

bb) Accruals for unused annual leave, provisions for jubilee bonuses, retirement and death benefits

In accordance with the provisions of the Labour Code, all employees of the Company are entitled to paid annual leave. The Company recognizes accruals for all vested annual leave days unused at the balance sheet date.

In accordance with the Company's Remuneration Regulations, employees are entitled to receive jubilee bonuses upon completion of a specified number of years at the Company and to retirement benefits upon retirement, and their families – to death benefits. In accordance with International Accounting Standard 19, provisions are created for future payments of jubilee bonuses and retirement benefits, on the basis of independent actuarial calculations.

Provisions for costs of energy allowances are recognised with respect to the Company's current and retired employees as well as other entitled groups. The amount of these provisions is determined based on actuarial calculations of the Company's future liabilities in respect of energy allowances. The amount of such costs is estimated each year separately for each entitled person. Provision for each employee is calculated based on the estimated cost that the Company is committed to incur in accordance with relevant regulations. The amount of the provision recognised for a prospective retired employee is equal to the portion of the benefit that has been earned by the employee.

In accordance with IAS 19, an appropriate provision will be recognised for the Company's current employees who will retire in the future over the average vesting period estimated for these employees, which is 20 years.

The estimated amount of costs incurred for a pensioner, widow, widower or orphan during a given year includes the total amount of the energy allowance and the estimated increase in its base, as well as the probability that the entitled person will retain his or her rights to this allowance. The resulting amounts are then discounted at the balance sheet date, and are subsequently summed up.

cc) CO2 emission allowances

In accordance with NAP II, the CO2 emission limit for Zespół Elektrowni Pątnów- Adamów- Konin S.A. for the period 2008-2012 is 11,685,526 tonnes per year.

CO2 emission allowances received free of charge under the National Allocation Plan are presented in the financial statements under intangible assets as rights designated for internal purposes, at nominal value equal to zero. Emission allowances and their equivalents purchased by the Company for internal purposes are presented as intangible assets and are recognised at acquisition cost.

The Company settles emission allowances with respect to the whole emission trading period (five years). A provision for liabilities due to deficits in CO2 emission allowances is recognised in the period in which the quantity of actual emission exceeds allocated allowances. The cost of the provision is recorded in the profit and loss account under the cost of goods sold.

The provision is recognised at the following amount:

– in the portion covered by the emission allowances held at the balance sheet date – at the value of the allowances held i.e. purchased – at carrying amount, received – at zero value,

– in the portion not covered by the emission allowances held at the balance sheet date – at the lower of the market value of the allowances required to fulfil the obligation at the balance sheet date and the amount of the potential penalty.

The Company recognizes provision for redemption of certified emission reduction units CER, at the moment of transaction of the Exchange of CO2 emission rights for CERs in the value of the CERs that will be redeemed for the given year.

The Company first redeems CERs that were acquired as a result of exchange CO2 emission rights for EUAs, then emission allowances received under the National Allocation Plan and lastly emission rights that were purchased. At each balance sheet date the management of the Company decides how to allocate received emission reduction units CER to fulfil the obligation of redemption.

Details of the quantity and market value of emission allowances held by the Company are presented in the Additional Notes and Explanations to the financial statements.

The effect of the exchange of CO2 emission allowances for Certified Emission Reductions – "CERs" (the acceptable ceiling equals 10% of the obligation to surrender allowances for cancellation for a given emission trading period) is presented in the profit and loss account within the Company's operating activity as sales revenue.

Gains realised on the sale of excess allowances acquired free of charge are presented in the profit and loss account under other operating income.

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

dd) Changes in accounting policies made during the year

The financial statements for both the current and previous reporting period were prepared using the same accounting principles (policies) and data presentation methods.

ee) Comparability of prior year financial statements with current year financial statements

The financial statements for the current and previous reporting period were prepared using the same accounting policies and data presentation methods.

ff) Correction of fundamental error

During the reporting period covered by these financial statements, the Company did not make any changes to the Company's accounting policies nor any adjustments were recorded, therefore was not required to present numerical information to ensure the comparability of the financial statements for the prior year with current year's financial statements.

Konin, 15 March 2013

Prepared by:

Management Board of
Zespół Elektrowni
Pątnów – Adamów – Konin S.A.