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

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
WITH INDEPENDENT AUDITOR'S OPINION

(in PLN thousand)

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2012

	Note	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Continuing operations			
Sales Revenue	*13.1*	**2,723,394**	**2,689,075**
Cost of goods sold	*13.6*	(2,131,132)	(2,122,719)
Gross profit		**592,262**	**566,356**
Other operating income	*13.2*	12,245	10,856
Selling and distribution expenses	*13.6*	(3,437)	(20,218)
Administrative expenses	*13.6*	(133,614)	(79,254)
Other operating expenses	*13.3*	(15,874)	(9,223)
Finance income	*13.4*	83,451	59,049
Finance costs	*13.5*	(70,287)	(135,550)
Profit before tax		**464,746**	**392,016**
Income tax expense	*15.1*	(89,309)	(75,048)
Net profit/ (loss) for the year from continuing operations		**375,437**	**316,968**
Discontinued operations		–	–
Profit/ (loss) after tax for the year from discontinued operations		–	–
Net profit/ (loss) for the year		**375,437**	**316,968**
Net profit/ (loss) attributable to equity holders of the parent		380,769	316,945
Net profit/ (loss) attributable to non-controlling interests		(5,332)	23
Earnings per share (in PLN)			
Basic, for profit for the period attributable to equity holders of the parent	*17*	7.23	6.09
Basic, for profit for the period from continuing operations attributable to equity holders of the parent	*17*	7.23	6.09
Diluted, for profit for the period attributable to equity holders of the parent	*17*	7.23	6.09
Diluted, for profit for the period from continuing operations attributable to equity holders of the parent	*17*	7.23	6.09

(in PLN thousand)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Note	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Net profit for the year		**375,437**	**316,968**
Other comprehensive income			
Cash flow hedges	*14*	(6,049)	(28,911)
Foreign exchange differences on translation of foreign operations	*14*	(575)	4,008
Income tax concerning other comprehensive income	*15.1, 14*	1,149	4,732
Net other comprehensive income	*14*	**(5,475)**	**(20,171)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**369,962**	**296,797**
Total comprehensive income for the period attributable to:			
Equity holders of the parent		375,294	296,774
Non-controlling interests		(5,332)	23
		369,962	296,797

(in PLN thousand)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	Note	*31 December 2012*	*31 December 2011*
ASSETS			
Non-current assets			
Property, plant and equipment	*18*	5,064,960	4,269,937
Investment property		2,252	–
Intangible assets	*20*	6,835	3,754
Loans and receivables		–	–
Assets relating to overburden removal and other long-term mine assets	*21*	126,066	–
Other long-term financial assets	*22.1*	46,398	42,734
Other long-term non-financial assets	*22.2*	4,155	3,235
Amounts due from customers under long-term construction contracts		–	–
Deferred tax assets	*15.3*	120,549	8,081
Total non-current assets		**5,371,215**	**4,327,741**
Current assets			
Intangible assets – short term	*20*	35,368	84,729
Inventories	*24*	188,325	149,426
Trade and other receivables	*25*	220,559	219,367
Current tax assets		12,258	14,840
Short-term derivative financial instruments (assets)		–	–
Other current financial assets	*22.1*	103,697	109,738
Other current non-financial assets	*22.2*	17,230	9,789
Assets relating to overburden removal and other short-term mine assets	*21*	456	–
Amounts due from customers under long-term construction contracts	*13.8*	3,605	25,378
Cash and cash equivalents	*26*	318,002	385,429
Total current assets		**899,500**	**998,696**
Assets classified as held for sale		–	–
TOTAL ASSETS		**6,270,715**	**5,326,437**

(in PLN thousand)

EQUITY AND LIABILITIES	*Note*	*31 December 2012*	*31 December 2011*
Equity			
Issued capital	*27*	104,052	104,052
Treasury shares	*28*	(31,280)	–
Reserve capital	*29*	1,956,261	1,671,610
Revaluation reserve- valuation of hedging instruments		(28,318)	(23,418)
Other reserve capital	*29.1*	3,472	3,472
Retained earnings/ (unabsorbed losses)		1,148,495	1,156,255
Net profit/(loss)		380,769	316,945
Exchange differences on translation of foreign entities		(8)	567
Non-controlling interests	*29.3*	117	90
Total equity		**3,533,560**	**3,229,573**
Non-current liabilities			
Interest-bearing loans and borrowings	*30*	790,385	1,008,118
Long-term employee benefits	*23.1*	264,261	92,255
Trade and other financial liabilities	*33.2*	73,332	979
Long-term derivative financial instruments (liabilities)	*33.4*	26,059	21,696
Long-term grants and deferred income	*33.5*	50,986	52,967
Other long-term provisions and accruals	*31*	320,881	27,082
Amounts due to customers under long-term construction contracts		–	–
Deferred tax liability	*15.3*	265,959	219,785
Total non-current liabilities		**1,791,863**	**1,422,882**
Current liabilities			
Trade and other financial liabilities	*33.1*	188,479	206,582
Current portion of interest-bearing loans and borrowings	*30*	461,924	245,811
Short-term derivative financial instruments (liabilities)	*33.4*	11,144	8,671
Other non-financial liabilities	*33.3*	128,224	67,653
Current tax liability		1,670	3,368
Short-term employee benefits	*23.1*	20,817	9,074
Short-term grants and deferred income	*33.5*	21,914	1,910
Amounts due to customers under long-term construction contracts	*13.8*	3,080	4,920
Other short-term provisions and accruals	*31*	108,040	125,993
Total current liabilities		**945,292**	**673,982**
Liabilities directly associated with assets classified as held for sale		–	–
Total liabilities		**2,737,155**	**2,096,864**
TOTAL EQUITY AND LIABILITIES		**6,270,715**	**5,326,437**

(in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2012

	Note	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Cash flow from operating activities			
Profit/(loss) before taxation		464,746	392,016
Adjustments for:			
Depreciation and amortization	*26*	283,530	268,520
Interests and shares in profits		45,693	39,890
Foreign exchange (gains)/losses		(39,956)	95,611
(Gain)/loss on investing activities		(18,008)	26,671
(Increase)/decrease in receivables	*26*	142,987	8,569
(Increase)/decrease in inventories		(6,292)	(53,350)
Increase/ (decrease) in payables except for loans and borrowings	*26*	(85,209)	10,532
Change in provisions, prepayments, accruals and employee benefits	*26*	36,864	(575)
Income tax paid		(48,641)	(130,272)
Other	*26*	(2,842)	(35,512)
Net cash flow from operating activities		**772,872**	**622,100**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment and intangible assets		5,859	3,654
Purchase of property, plant and equipment and intangible assets		(331,078)	(420,143)
Proceeds and expenses relating to other financial assets		63,957	(28,258)
Purchase of other financial assets		(2,423)	–
Acquisition of subsidiary, net of received cash and cash equivalents	*11*	(244,135)	–
Dividends received		54	1,687
Interests received		(261)	
Other		6,996	(8)
Net cash flow from investing activities		**(501,031)**	**(443,068)**
Cash flow from financing activities			
Proceeds from issuance of shares		–	–
Purchase of treasury shares		(31,280)	
Payment of finance lease liabilities		(14,440)	(755)
Proceeds from loans and borrowings and debt securities		614	343,129
Repayment of loans and borrowings and debt securities		(225,050)	(545,035)
Dividends paid		(17)	–
Interest paid		(62,391)	(56,486)
Other	*26*	664	(13,092)
Net cash flow from financing activities		**(331,900)**	**(272,239)**

Net increase/ (decrease) in cash and cash equivalents		**(60,059)**	**(93,207)**
Cash and cash equivalents at the beginning of the period		**372,998**	**466,205**
Cash and cash equivalents at the end of the period, of which:	*26*	**312,939**	**372,998**
of restricted use		1,074	3,772

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Note	*Issued capital*	*Treasury shares*	*Reserve Capital*	*Revaluation reserve- valuation of hedging instruments*	*Other reserve capital*	*Retained earnings /(Unabsorbed losses)*	*Foreign exchange differences on translation of foreign operations*	*Total*	*Non-controlling interest*	*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		–	–	–	–	–	380,769	–	380,769	(5,332)	375,437
Total other comprehensive income		–	–	–	(4,900)	–	–	(575)	(5,475)	–	(5,475)
Comprehensive income for the period		**–**	**–**	**–**	**(4,900)**	**–**	**380,769**	**(575)**	**375,294**	**(5,332)**	**369,962**
Appropriation of profits from previous years		–	–	283,746	–	–	(283,746)	–	–	–	–
Reconciliation of reserve capital to the statutory data		–	–	905	–	–	(905)	–	–	–	–
Purchase of treasury shares		–	(31,280)	–	–	–	–	–	(31,280)	–	(31,280)
Purchase of Elektrim-Volt S.A.	*11*	–	–	–	–	–	(31,851)	–	(31,851)	–	(31,851)
Purchase of PAK KWB Konin and PAK KWB Adamów	*11*	–	–	–	–	–	–	–	–	34,494	34,494
Share-based payment program		–	–	–	–	–	(5,412)	–	(5,412)	(955)	(6,367)
Recognition of put option	*29.3*	–	–	–	–	–	(2,791)	–	(2,791)	(28,180)	(30,971)
As at 31 December 2012		**104,052**	**(31,280)**	**1,956,261**	**(28,318)**	**3,472**	**1,529,264**	**(8)**	**3,533,443**	**117**	**3,533,560**

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

	Note	*Issued Capital*	*Reserve capital*	*Revaluation reserve- valuation of hedging instruments*	*Other reserve capital*	*Retained earnings /(Unabsorbed losses)*	*Foreign exchange differences on translation of foreign operations*	*Total*	*Non-controlling interests*	*Total Equity*
As at 1 January 2011		**104,052**	**1,370,148**	–	**3,472**	**1,457,717**	**(2,680)**	**2,932,709**	**67**	**2,932,776**
Net profit for the period		–	–	–	–	316,945	–	**316,945**	23	316,968
Total other comprehensive income		–	–	(23,418)	–	–	3,247	**(20,171)**	–	(20,171)
Comprehensive income for the period		–	–	**(23,418)**	–	**316,945**	**3,247**	**296,774**	**23**	**296,797**
Appropriation of profits from previous years		–	232,932	–	–	(232,932)	–	–	–	–
Transfer of reserve capital of PAK Odsiarczanie*		–	65,921	–	–	(65,921)	–	–	–	–
Reconciliation of reserve capital to statutory data		–	2 609	–	–	(2,609)	–	–	–	–
As at 31 December 2011		**104,052**	**1,671,610**	**(23,418)**	**3,472**	**1,473,200**	**567**	**3,229,483**	**90**	**3,229,573**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group („the Group",) consists of Zespół Elektrowni Pątnów – Adamów – Konin S.A. ("parent company", „the Company", "ZE PAK S.A.") and its subsidiaries (see Note 2 for details). The consolidated financial statements of the Group cover the financial year ended 31 December 2012 and contain comparative data for the year ended 31 December 2011. The parent company is registered in the Register of Entrepreneurs of the National Court Register maintained by the District Court in Poznań – Nowe Miasto i Wilda in Poznań, IX Economic Department of the National Court Register, Entry number KRS 0000021374.

The parent company was granted statistical REGON number 310186795.

The parent company and other Group entities have an unlimited period of operation.

The Group's core business activities comprise:

1. Production and distribution of electric energy,
2. Production and distribution of heat (steam and hot water),
3. Mining of lignite.

Notes to consolidated financial statements (in PLN thousand)

2. Composition of the Group

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

Name of the entity	Registered office	Principal business activities	% of issued capital held by the Group	
			Na dzień 31.12.2012	Na dzień 31.12.2011
Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o.*	62-510 Konin ul. Przemysłowa 158	Construction and repair services	100%	100%
Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o.	62-510 Konin ul. Przemysłowa 158	Services related to industrial automatics and electric appliances maintenance	100%	100%
„Elektrownia Pątnów II" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Electric energy production and distribution from the new 464 MW power unit	100%**	100%**
„PAK – HOLDCO" sp. z o.o.	62-510 Konin ul. Kazimierska 45	Holding activity	100%	100%
„PAK Infrastruktura" sp. z o.o.	62-510 Konin ul. Kazimierska 45	General construction of engineering objects, not classified elsewhere	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	Research and chemical analysis	100%	100%
„PAK GÓRNICTWO"sp. z o.o.	62-510 Konin ul. Kazimierska 45	Coal mining	100%***	100%***
„PAK Biopaliwa" sp. z o.o.w likwidacji	62-510 Konin ul. Kazimierska 45	Purchase, warehousing and delivery of biomass	100%	100%
Energoinwest Serwis sp. z o.o.	62-510 Konin ul. Spółdzielców 3	Construction and repair services	99%****	99%****
PAK Kopalnia Węgla Brunatnego Konin S.A.	62-540 Kleczew ul. 600-lecia 9	Extraction of lignite	85%	-
PAK Kopalnia Węgla Brunatnego Adamów S.A.	62-700 Turek ul. Uniejowska 9	Extraction of lignite	85%	-
Ochrona Osob i Mienia „ASEKURACJA" sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Security guard services relating to people and property	85%*****	-
„Aquakon" sp. z o.o.	62-610 Sompolno Police	Production of and trading in mineral waters	66,6%*****	-
Eko-Surowce sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Sales of lignite	85%*****	-
KWE sp. z o.o.	62-540 Kleczew ul. 600-lecia 9	Wind farms, generation of electricity	42,5%*****	-
Centrum Zdrowia i Relaksu „Verano" sp. z o.o.	78-100 Kołobrzeg ul. Sikorskiego 8	Holiday and spa services	85%*****	-
Elektrim-Volt S.A.	00-834 Warszawa ul. Pańska 77/79	Sales of electricity	100%	-

** The subsidiary – Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o. has a foreign branch in Germany*
*** indirect interest through „PAK – HOLDCO" sp. z o.o*
**** indirect interest through „PAK Centrum Badań Jakości" sp. z o.o: 9% as at 31.12.2011, 43.9% as at 31.12.2010, 90% as at 31.12.2009 and 01.01.2009. The remaining part of shares is held by the parent company.*
***** indirect interest through Przedsiębiorstwo Remontowe PAK SERWIS sp. z o.o.*

****** indirect interest through PAK KWB Konin (direct interest of PAK KWB Konin in „Aquakon" sp. z o.o. in the amount of 78,5%, in KWE sp. z o.o.in the amount of 50%, in other entities in the amount of100%).*

As at 31 December 2012 the Group's share in the total number of votes in its subsidiary companies equated its share in the equity of those companies.

3. Composition of the parent's Management Board

During the reporting period covered by these consolidated financial statements, the following changes occurred in the composition of the Management Board:

As at 1 January 2011, the Management Board was composed of the following persons:

- Katarzyna Muszkat — President of the Management Board
- Anna Striżyk — Vice-President
- Krzysztof Jędraszczyk — Vice- President
- Piotr Jarosz — Vice- President

On 2 August 2012 Mr. Krzysztof Jędraszczyk resigned from the position of Vice-president with effect from 3 August 2012.

During the period from 4 August 2012 to 31 December 2012 Management Board consisted of:

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

4. Authorisation of consolidated financial statements

These consolidated financial statements were authorized for issue by the Management Board
on 15 March 2012.

5. Significant professional judgment and accounting estimates

5.1. Professional judgement

In the process of applying accounting policies related to the areas listed below the most important factor, apart from accounting estimates, was professional judgement of Group management.

Capitalisation of FX differences

For investment projects under construction, Group companies use foreign financing.

Borrowing costs directly attributable to investment projects in progress are capitalized in the value of assets under construction up to the date the fixed asset is given over for use.

Group companies capitalize foreign exchange differences on foreign currency loans and borrowings to the extent they represent interest cost adjustment. The Group applies cumulative approach to borrowing costs capitalization. The cumulative approach treats the investment project as a whole and for this reason the amount of foreign exchange differences eligible for capitalization in the reporting period can change along with fluctuation in the exchange rates during the term of the investment.

Group companies capitalize positive and negative foreign exchange differences on foreign currency loans and borrowings to the extent they represent interest cost adjustment based on the difference between finance costs that the Group would incur if the liability was incurred in the functional currency. This method implies identification of theoretical borrowing costs from financing based on the total value of interest that would be incurred in connection with incurring liability in the Group functional currency, i.e. PLN. The total amount of capitalized foreign exchange differences and interests from liabilities incurred in other than Group’s functional currency cannot exceed the calculated theoretical borrowing costs.

Classification of lease agreements

The Group classifies lease agreements as finance or operating leases based on the assessment of the extent to which substantially all of the risks and rewards incidental to ownership of an asset were transferred to the lessee. The assessment is based on economic substance of each transaction.

Identification of embedded derivatives

An assessment is made at each reporting date to determine whether the agreements made contain any economic features and risks characteristic of foreign currency embedded derivative that are not closely related to those of the host contract..

5.2. Uncertainty of estimates

Presented below are basic assumptions regarding future and other sources of uncertainty at the reporting date, which may bear the risk of material adjustment to the carrying amount of assets and liabilities in the following financial years.

Impairment of assets

As a result of the analysis conducted as at 31 December 2012, the Group identified an existence of an external factor that could indicate a potential impairment of assets, which consists in the carrying amount of the Company’s net assets exceeding their market capitalization. As a result, the Company analyzed cash flows generated by the particular key operating segments of the Group. However, these cash flows were not found to be lower than the carrying amounts of the particular segments. The Company believes that the results of the above-mentioned analysis show that low market capitalization is not a sufficient basis for conducting detailed impairment tests for all of the Group’s assets. Therefore, at the balance sheet date the Group has not carried out such tests.

Valuation of provision for employee benefits

Provisions for employee benefits were estimated using actuarial methods. Assumptions made for this purpose are presented in note 23.1.

Notes to consolidated financial statements (in PLN thousand)

The estimate was made based on the following basic assumptions:

- discount rate 4,0%
- expected inflation rate 2,5%
- expected rate of salary increase 3%, in case of PAK KWB Konin and PAK KWB Adamów **0%** in years 2013 -2015 and **3,0%** per year in 2016 and following years
- expected rate of increase in energy prices 3%

Any change in the financial ratios underlying the assumptions made would change the balance of the provision by the amounts shown in the table below:

	(+) increase by 1 p.p.	(-) decrease by 1 p.p.
Discount rate	(19,803)	23,326
Salary increase rate	19, 636	(17,172)
Electricity price increase rate	7,659	(6,474)

Deferred tax asset

Deferred tax assets are recognized based on the assumption that taxable profits will be available against which the deferred tax asset can be utilized. Any deterioration of future taxable profits could render this assumption unreasonable.

Fair value of financial instruments

Fair value of financial instruments, for which there is no active market, is determined by using appropriate valuation methods. In selecting valuation methods and assumptions, professional judgment is used. The method of determining the fair value of each financial instrument is presented in note 10.15.

Settlement period for assets subject to removal of overburden and other mine assets

The Group periodically verifies the settlement periods for assets subject to removal of overburden and other mine assets based on the current forecasts for the exploitation of mine pits.

Share-based payment

For the purpose of settlement of share-based payments, it was assumed that the vesting date is the commercialization date, whilst the grant date – the date of the final announcement of a list with the number of shares awarded to individual employees of PAK KWB Konin S.A. and PAK KWB Adamów S.A. The value of the share incentive scheme was determined based on the carrying amount of the fair value of PAK KWB Konin S.A. and PAK KWB Adamów S.A.

Compensations resulting from dissolution of the long – term electric energy and power sales contracts

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 producers in connection with early termination of long-term contracts for sale of power and electricity. Revenue from the received compensations is recognized in proportion to earned rights to compensations until the end of the period to which they apply.

In order to estimate the value of revenue for the period to which the compensations apply, the Company makes estimates to determine the ratio of estimated stranded costs to total received, reimbursed and expected discounted annual advances (including already received advances), annual adjustments and expected final adjustment.

The effect of changes in estimates was described in note 9.

Elektrownia Pątnów II" sp. z o.o., in line with accepted accounting policy, based on adopted financial model recognized in the years 2012 and 2011 revenue from received compensations in the amount of PLN 83.635 thousand and PLN 98.331 thousand. Based on the decision of the President of Energy Regulatory Office ("ERO") dated 31 July 2009, the Company was required to return to the administrator of the compensation system, Zarządca Rozliczeń S.A., the amount of PLN 52,493 thousand as an adjustment to the stranded costs for the year 2008. The Management Board of the Company disagreed with the decision of the ERO's President and filed an appeal with the Regional Court in Warsaw – the Court of Competition and Consumer Protection ("CCCP"). On 23 September 2009, the CCCP ruled to partially cancel the execution of the decision of President of ERO and ordered to pay the amount of PLN 26,493 thousand.

On 1 December 2010, the Court of Competition and Consumer Protection dismissed the Company's appeal against the decision of the President of ERO and considered his arguments as reasonable.

The Company performed detailed legal analysis of the CCCP's decision in co-operation with prestigious law office and on 9 February 2011 filed an appeal with the Court of Appeal challenging the first instance sentence.

As a result of the appeal the Court of Appeal in Warsaw with the judgment dated 11 October 2012 changed the CCCP's adverse judgment. The payment demand was issued for the total amount of PLN 55.576 thousand. On 22 October 2012 Zarządca Rozliczeń S.A. paid the abovementioned amount to the Company's bank account. The awarded adjustment in relation to the year 2008, in the part not recognised in revenue from KDT in the year 2008 (ie. the amount of PLN 11.971 thousand), was accrued as other operating income in the year 2012. The decision of the Court of Appeal confirmed the correctness of calculating adjustments by "Elektrownia Pątnów II" sp. z o.o. in each of the previous periods, therefore, the Company did not change the rules of recognition of revenues from compensations for the year 2012 and for the previous years. The President of Energy Regulatory Office filed a cassation complaint against the judgment of the Court of Appeal.

Revenue recognition

The Group uses the percentage of completion method to account for long-term contracts. Application of this method requires that stage of contract completion is estimated as the proportion of contract costs incurred for the works performed to date to the estimated total contract costs.

At each reporting date, budgets of total revenues and costs of the contracts are updated. The expected total loss on the given contract is recognised in the costs of the period in which the loss was ascertained, in accordance with IAS 11.

Depreciation rates

Depreciation and amortization rates and charges are determined based on the estimated economic useful lives of property, plant and equipment and intangible assets. The economic useful lives are reviewed annually based on current estimates.

Receivables impairment write-downs

At the reporting date, an assessment is made whether there is any objective evidence of impairment of an individual receivable or a group of receivables. Where the recoverable amount of the asset is lower than its carrying amount, an impairment write-down is recognized to bring down the carrying amount to the present value of the expected cash flows.

Provision for fixed asset dismantling

Dismantling provision is recognized when the Group has a legal obligation to dismantle a fixed asset or constructive obligation resulting from management intention. The provision is recorded in the amount resulting from the received offers for asset liquidation. The value of the provision is verified at the end of each reporting period. The value of fixed assets dismantling provision is discounted at the end of each reporting period. The details are described in note 31.3.1.

Provision for reclamation cost of ash storage yard

Provision for reclamation cost of ash storage yard is created due to legal obligation arising from integrated licenses granted. Technical and economic analyses are the basis for provision estimation as well as external offers for planned direction of land reclamation. The value of the provision for reclamation costs is reviewed at the end of each reporting period. The provision is described in note 31.3.1.

Reclamation provision and other provisions related to mining activities

Group recognizes a provision for both the cost of restoration of land associated with current mining activities on the given open-pit and the cost of restoration of the final excavation site Provision calculation is made based on external estimates of future restoration costs as well on expected reclamation starting and ending date presented in the reports of independent experts commissioned by the Company's Management Board and on internal Company estimates, and is subject to discounting on each reporting date. The provision is described in note 31.3.2.

6. Basis of preparation of consolidated financial statements

The attached consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments.

The carrying amount of hedged assets and liabilities is adjusted by changes in their fair value that are attributable to risks that those assets and liabilities are hedged against.

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

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concerns in the foreseeable future.

At the date of authorization of these consolidated financial statements, no circumstances were identified that would indicate a threat to the continued activity of the Group companies.

6.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the IFRSs endorsed by the European Union. At the date of authorization of these consolidated financial statements for publication, in light of the current process of IFRS endorsement in the European Union and the nature of the Group's activities, there is no difference between the IFRSs applied by the Group and the IFRSs endorsed by the EU

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

The Group companies keep their books of account in accordance with the accounting policies set forth in the Accounting Act dated 29 September 1994 (the "Accounting Act") with further changes and other provisions issued based on that Act ("Polish Accounting Standards" or "PAS"). These consolidated financial statements contain adjustments which are not included in the books of account of Group companies and which were made in order to bring those financial statements into line with IFRSs.

6.2. Functional and presentation currency

Polish zloty is the functional currency of the parent and other entities included in these consolidated financial statements, as well as the currency of those consolidated financial statements, except for the German branch of Przedsiębiorstwo Remontowe "PAK SERWIS" sp. z o.o. for which the functional currency is euro.

7. Changes in accounting policies

The accounting Policies applied during preparation of these consolidated financial statements are consistent with those applied in preparing the consolidated financial statements of the Group for the year ended 31 December 2011 except for the following amendments and new interpretations to standards effective for the periods beginning on 1 January 2012:

- Changes to IFRS 7 Financial instruments: disclosures: transfer of financial assets – effective for annual periods beginning on or after 1 July 2011. The application of these changes had no impact on the financial position, Group's results or the scope of the information presented in the Group's consolidated financial statements

8. New standards and interpretations that were issued but are not yet effective

The following standards and interpretations were issued by the IASB or IFRIC but have not yet become effective:

- The first phase of IFRS 9 Financial Instruments: Classification and Measurement – effective for financial years beginning on or after 1 January 2015 – not endorsed by EU till the date of approval of these financial statements. In subsequent phases, the IASB will address hedge accounting and impairment. The application of the first phase of IFRS 9 will have impact on classification and measurement of the financial assets of the Group. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture,
- Amendments to IAS 19 Employee Benefits - effective for financial years beginning on or after 1 January 2013. If the Group has applied the revised IAS 19 in the year ended 31 December 2012, the Group's net profit would have been higher by PLN 15,424 thousand,
- Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income - effective for financial years beginning on or after 1 July 2012,
- Amendments to IAS 12 Income Taxes: Deferred Tax: Recovery of Underlying Assets – effective for financial years beginning on or after 1 January 2012 – in EU effective at the latest for financial years beginning on or after 1 January 2013,
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First–time Adopters – effective for financial years beginning on or after 1 July 2011 – in EU effective at the latest for financial years beginning on or after 1 January 2013,
- IFRS 10 Consolidated Financial Statements – effective for financial years beginning on or after 1 January 2013, – in EU effective at the latest for financial years beginning on or after 1 January 2014. The Group plans to implement IFRS 10 from the annual period beginning on 1 January 2014,
- IFRS 11 Joint Arrangements – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014. The Group plans to implement IFRS 11 from the annual period beginning on 1 January 2014,
- IFRS 12 Disclosure of Interests in Other Entities – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014. The Group plans to implement IFRS 12 from the annual period beginning on 1 January 2014,
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Transition Guidance - effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,
- IFRS 13 Fair Value Measurement - effective for financial years beginning on or after 1 January 2013,
- IAS 27 Separate Financial Statements – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014,
- IAS 28 Investments in Associates and Joint Ventures – effective for financial years beginning on or after 1 January 2013 – in EU effective at the latest for financial years beginning on or after 1 January 2014,
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for financial years beginning on or after 1 January 2013,
- Amendments to IFRS 7 Financial Instruments – Disclosures: Offsetting Financial Assets and Financial Liabilities - effective for financial years beginning on or after 1 January 2013,
- Amendments to IAS 32 Financial Instruments – Presentation: Offsetting Financial Assets and Financial Liabilities- effective for financial years beginning on or after 1 January 2014,
- Amendments to IFRS 1 First–time Adoption of International Financial Reporting Standards: Government Loans – effective for financial years beginning on or after 1 January 2013,
- Improvements to IFRSs (issued in May 2012) – effective for financial years beginning on or after 1 January 2013 – not endorsed by EU till the date of approval of these financial statements,

- Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31 October 2012) – effective for financial years beginning on or after 1 January 2014 – not endorsed by EU till the date of approval of these financial statements.

The Group did not decide to early adopt any standards or interpretation, which were issued, but have not yet become effective. Due to the planned implementation of IFRS 10, IFRS 11 and IFRS 12 from the annual period beginning on 1 January 2014, as at the date of authorization for issue of these consolidated financial statements the Company is currently analyzing the impact of the mentioned IFRS on accounting policies applied by the Group.

The Group is currently analysing the impact of IFRIC 20 on the results reported in the future, ie. from 1 January 2013. The estimated impact in IFRS 19 was described above. The Management Board believes that the impact of changes in other standards will not have a material effect on the Group's accounting policies.

9. Changes in estimates

In the reporting period covered by these consolidated financial statements the following changes in estimates were made, which had impact on the reported values:

- estimates concerning assumptions for measurement of actuarial provisions,
- estimates concerning assumptions for derivatives valuation,
- estimates concerning assumptions for calculation of revenues from compensations,
- estimates concerning assumptions for fixed assets economic useful life,
- estimates concerning deferred tax asset realizability,
- estimates concerning assumptions for measurement of provision for reclamation costs of ash storage yards,
- estimates concerning assumptions for measurement of provision for dismantling costs of fixed assets,
- estimates concerning long-term construction contracts measurement,
- estimates concerning assumptions for measurement of reclamation provision related to mining activity.

The effect of changes in estimates in the value of actuarial provisions is presented in note 5.1.

In the case of derivatives (IRSs, options) valuation, change in estimates results from fluctuations in market risk factors on interbank market, i.e. exchange rate and market interest rates.

Changes in estimates of revenue from compensations relate mainly to changes in energy selling and buying prices on the Polish Power Exchange and the balancing market, energy production and purchase volume as well as the interest rate of 5 - year treasury bonds and NBP deposit rate, which affect discount rates. In addition, the assumptions about base price of coal (increase) for the period after July 2013 have changed.

The value of annual adjustment relating to compensations for the year 2012 amounted to PLN (+) 20.7 m. the assumptions applied in the prior year (January 2012) , this value would amount to PLN (+) 17,3 m. Economic useful life of fixed assets is verified at the end of each reporting period on the basis of expected economic useful life of power unit adjusted by management plan of modernization, sale and liquidation of major assets components. The results of those changes were recorded in the year of verification.

With regard to deferred tax asset calculated on prior year tax losses of the subsidiary company, "Elektrownia Pątnów II sp. z o.o." steps were undertaken to enable realisability of recognized deferred tax asset. To this end, in the year ended 31 December 2010, tax depreciation rates were reduced, which had positive effect on budgeted taxable profits in the next 5 years. Further optimization of tax losses is planned to be undertaken in the next years.

Notes to consolidated financial statements (in PLN thousand)

10. Summary of significant accounting policies

10.1. Consolidation policy

The attached consolidated financial statements comprise the financial statements of Zespół Elektrowni Pątnów – Adamów – Konin S.A. and the financial statements of its subsidiaries prepared in each case for the year ended 31 December 2012.

The financial statements of subsidiaries, after considering the adjustments made to achieve conformity with IFRSs, were prepared for the same reporting period as those of the parent company, using consistent accounting policies to similar business transactions and events. Adjustments were made to bring into line any dissimilar accounting policies that may exist.

All significant intercompany balances and transactions, including unrealised gains arising from intra-Group transactions, have been eliminated in full. Unrealized losses are eliminated, unless they indicate impairment.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which such control ends. An entity is controlled by the parent when the parent has, either directly or indirectly through its subsidiaries, more than half of the votes at the shareholders' meeting of that entity, unless it is possible to prove that such holding does not represent control. Control is also exercised if the Company has the power to govern the financial or operating policy of an enterprise.

Changes in the shareholding structure of the parent which do not result in the loss of control over subsidiary are recorded as equity transactions. In such cases, to reflect changes in its relative interests in the subsidiary, the Group makes an adjustment to the carrying amounts of controlling and non-controlling interests. Any difference between the amount of the adjustment to non-controlling interests and fair value of the consideration paid or received are recorded in equity and are attributed to the owners of the parent.

10.2. Foreign currency translation

Transactions denominated in currencies other than Polish zloty are translated into Polish zloty at the foreign exchange rate prevailing at the transaction date.

At the reporting date, assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zloty using the average NBP exchange rate prevailing for the given currency at year-end. Foreign exchange rates differences resulting from translation are recorded as finance income or finance costs, or – in cases defined in accounting policies – are capitalised in the cost of the assets.

Non-financial foreign currency assets and liabilities stated at historical cost are translated at the historical foreign exchange rate prevailing on the transaction date. Non-financial foreign currency assets and liabilities recognised at fair value are translated into Polish zloty using the rate of exchange binding at the date of re-measurement to fair value.

The following exchange rates were used for valuation purposes::

	31 December 2012	*31 December 2011*
EUR	4.0882	4.4168
GBP	5.0119	5.2691
USD	3.0996	3.4174

The subsidiary company, Przedsiębiorstwo Remontowe „PAK SERWIS" sp. z o.o., has a branch in Germany whose functional currency is Euro. At the reporting date, assets and liabilities of that branch are translated into Group presentation currency at the exchange rate prevailing at year-end, and its statement of comprehensive income is translated at the weighted average rate of exchange for the given reporting period. Any resultant exchange differences are recognized under other comprehensive income and accumulated under separate item of shareholder's equity (Cumulative translation differences). On disposal, deferred foreign exchange differences accumulated in shareholders' equity are taken to the profit or loss.

Weighted average exchange rates for below reporting periods are as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
EUR	4.1736	4.1401

10.3. Property, plant and equipment

Property, plant and equipment are stated at acquisition cost or cost of development less accumulated depreciation and impairment losses. The initial cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Cost also comprises the cost of replacement of fixed asset components when incurred, if the recognition criteria are met. Subsequent expenditures, such as repair or maintenance costs, are expensed in the reporting period in which they were incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value that can be allocated a separate useful life. Overhauls also represent asset component.

Property, plant and equipment are depreciated using the straight-line method over their estimated useful lives:

Type	**Period**
Buildings and structures	2 - 49 years
Plant and machinery	2 - 43 years
Motor vehicles	2 - 34 years
Other fixed assets	2 - 26 years

Residual values, useful lives and depreciation methods of property, plant and equipment are reviewed annually and, if necessary, adjusted retrospectively i.e. with effect from the beginning of the financial year that has just ended. Any changes resulting from the review are recognized as changes in estimates.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its further use. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement for the period in which derecognition took place.

Assets under construction (construction in progress) include assets in the course of construction or assembly and are recognized at acquisition cost or cost of construction less any impairment losses. Assets under construction are not depreciated until completed and brought into use. Included in the value of assets under construction are also capitalized borrowing costs. The issue of capitalization was described in detail in note 10.10.

10.4. Investment property

Investment property is initially stated at acquisition cost which includes transaction costs. The carrying amount of investment property includes the replacement cost of the part of investment property at the time the cost is incurred, if the recognition criteria are met, and does not include the cost of ongoing maintenance of the property.

After initial recognition, investment property is stated at cost of acquisition or production cost, including transaction costs, less accumulated depreciation and impairment losses.

Investment properties are derecognized when they are disposed, permanently withdrawn from use or when no future economic benefits are expected from their disposal. Any gains or losses arising from derecognition of an investment property are recorded in the income statement for the period in which such derecognition took place.

Transfers of assets to investment property shall be made only when there is a change in assets' use, evidenced by end of their use by owner or by entering into operating lease contract.

Post-mining land, for which restoration process has been completed, is presented by the Group as investment property. According to the plans of Group entities operating mining activities, this land will be sold in the future.

10.5. Assets for overburden removal and other mine assets

Assets relating to overburden removal and other mine- assets comprise capitalized costs incurred in the pre-production phase of the mine, in particular:

- costs related to initial excavation works,
- asset relating to recultivation provision in the part the provision relates to removed overburden during initial excavation works,

- asset relating to recognition of provision for significant, one-off costs related to the area on which mining activities are conducted (open pits).

In each case, the Group amortizes capitalized costs using the straight-line method over estimated useful life i.e. the exploitation period of individual open pits (strip pits). The economic useful lives and amortization methods are reviewed on a periodic basis, however not less frequently than at each reporting date.

The depreciation charge on a mine asset is recognised as operating expense under other costs by type.

10.6. Expenditures related to the exploration and evaluation of mineral resources

Under mine assets the Group presents also expenditures related to exploration and evaluation of mineral resources.

The Group capitalizes expenditure incurred for exploration and assessment of natural resources until exploration works completion. The next stage covers verification whether identified mineral resources show technical and economic feasibility for their mining. If mining feasibility analysis proves that it is unreasonable, the entire amount of said expenditure is taken to other operating expenses.

The expenditures related to the exploration and evaluation of mineral resources include, among others:

- topographical, geological, geochemical and geophysical analysis
- drilling
- open pit works,
- sampling,
- acquisition of mining rights.

10.7. Intangible assets

Intangible assets acquired separately or constructed (if they meet the recognition criteria for capitalised research and development costs) are measured on initial recognition at acquisition cost or cost of development. The acquisition cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at acquisition cost or cost of development less any accumulated amortisation and any accumulated impairment losses.

Expenditures incurred for internally generated intangible assets, excluding capitalised development costs, are not capitalised and are charged against profits in the year in which they are incurred.

The useful lives of intangible assets are determined by the Group to be either finite or indefinite. Intangible assets with finite useful lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end.

Changes in the expected economic useful life or the expected pattern of inflow of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and those that are not in use are tested for impairment annually either individually or at the cash generating unit level.

Economic useful lives are reviewed on an annual basis and, if necessary, are adjusted with effect from the beginning of the financial year that has just ended. Any changes resulting from the review are recorded as changes in estimates.

Research and development costs

Research costs are recognized in profit or loss when incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition, the historical cost model is applied, which requires that the assets are carried at acquisition cost or cost of development less any accumulated amortisation and accumulated impairment losses.

Capitalized development costs are depreciated over expected period of revenue from the sale of a given project.

A summary of the policies applied to the Group's intangible assets is as follows:

	Concession, patents and licenses	*Software*	*Other*
Useful life	5 years	2 years	5 years
Method of amortisation	Straight-line method	Straight-line method	Straight-line method
Internally generated or acquired	Acquired	Acquired	Acquired
Impairment testing	Annual review to determine whether there is any indication of impairment.	Annual review to determine whether there is any indication of impairment.	Annual review to determine whether there is any indication of impairment.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Intangible assets also include CO2 emission rights acquired free of charge or purchased for the Company's own needs.

Details of the accounting policy regarding CO2 emission rights are described in note 10.25.

10.8. Leases

The Group as lessee

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are recognized in the statement of financial position at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. 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 taken to profit or loss unless capitalization criteria are met.

Assets leased under finance lease agreements are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all of the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease and subsequent lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Contingent lease payments are recognized as an expense in the period they become due and payable.

10.9. Impairment of non-financial long-term assets

An assessment is made at each reporting date to determine whether there is any indication that a non-financial long-term asset may be impaired. If such indication exists, or in case an annual impairment testing is required, the Group makes an estimate of the recoverable amount of that asset or of the cash generating unit to which such asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the expense categories consistent with the function of the impaired asset. An assessment is made at each reporting date to determine whether there is any indication that the previously recognised impairment losses are no longer required or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount of the given item.

A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would be determined, net of accumulated depreciation or accumulated amortisation, had no impairment loss been recognised for the asset in prior years. Reversal of impairment losses is recognised immediately as revenue.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's verified carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

10.10. Borrowing costs

Borrowing costs are capitalized to the cost of fixed assets' development. Included in the borrowing costs are the following items: interest calculated using the effective interest rate, finance charges under finance lease agreements and foreign exchange gains/ losses that arose in connection with external financing to the amount representing adjustment to interest expense. With respect to FX differences, the Group applies cumulative approach.

10.11. Financial assets

Financial assets are classified into one of the following categories:

- financial assets held to maturity,
- financial assets at fair value through profit or loss,
- loans and receivables,
- financial assets available for sale.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold until maturity, other than:

- those that upon initial recognition are designated as at fair value through profit or loss,
- those that are designated as available for sale,
- those that meet the definition of loans and receivables.

Financial assets held to maturity are measured at amortised cost using the effective interest rate. Financial assets held to maturity are classified as non-current assets if they are falling due within more than 12 months from the reporting date.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

a) it is classified as held for trading. A financial asset is classified as held for trading if it is:

  - acquired principally for the purpose of selling it in the near term,
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
  - a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument),

b) designated as at fair value through profit or loss upon initial recognition, in accordance with IAS 39.

Financial assets at fair value through profit or loss are measured at fair value, which takes into account their market value at the reporting date, but no sale transaction costs. Any changes in the fair value of these instruments are taken to profit or loss as finance costs or finance income. If the contract contains one or more embedded derivatives, the entire contract may be classified to the group of financial assets at fair value thorough profit or loss. This does not apply to instances, where embedded derivative does not materially affect cash flows from the contract or where – based on general analysis - bifurcating embedded derivatives from host contracts is expressly forbidden. Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a document risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2012 and as at 31 December 2011 no financial assets have been designated as at fair value through profit and loss.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are classified as current assets, provided their maturity does not exceed

12 months after the reporting date. Loans and receivables with maturities exceeding 12 months from the reporting date are classified under non-current assets.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Available-for-sale financial assets are measured at fair value, including transaction costs that may be directly attributed to the acquisition or issue of financial asset. Where no quoted market price is available and there is no possibility to determine their fair value using alternative methods, available-for-sale financial assets are measured at cost, adjusted for any impairment losses. Positive and negative differences between the fair value and acquisition cost, net of deferred tax, of financial assets available for sale (if quoted market price determined on the regulated market is available or if the fair value can be determined using other reliable method), are taken to other comprehensive income. Any decrease in the value of financial assets available for sale resulting from impairment losses is taken to the income statement and recorded under finance cost.

Purchase and sale of financial assets is recognized at the transaction date. Initially, financial assets are recognized at fair value plus, for financial assets other than classified as financial assets as at fair value through profit and loss, transaction costs that may be directly attributed to the acquisition.

Financial assets are derecognized if the Group loses its control over contractual rights attached to those assets, which usually takes place upon sale of the asset or where all cash flows attributed to the given asset are transferred to an independent third party.

10.12. Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

10.12.1. Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance amount. The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included on a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

10.12.2. Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and has to be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

10.12.3. Available-for-sale financial assets

If there is objective evidence that an impairment loss has been incurred on an available-for-sale asset, then the amount of the difference between the acquisition cost (net of any principal payment and interest) and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from equity and recognised in the income statement.

Reversals of impairment losses on equity instruments classified as available for sale cannot be recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

10.13. Other non-financial assets

The Group recognizes prepayments under other non-financial assets if the following conditions are met:

- they result from past events - the expenditure for operating purposes of the companies,
- their value can be reliably measured,
- it is probable that future economic benefits associated with those items will flow to the companies,
- relate to future reporting periods.

Prepaid expenses may be amortized in proportion to passage of time or amount of benefit.

The time and the manner of prepayments amortization shall be consistent with the nature of prepayments and should comply with the prudence concept.

An assessment is made at each reporting date as to whether the degree of certainty of receipt of future economic benefits is sufficient to be able to recognise the given item as an asset.

The following items, among others, are recognized by the Company as prepayments::

- property insurance expenses,
- current fee for perpetual usufruct of land,
- property tax,
- amounts transferred to the Social Fund during the period,
- subscriptions,
- other costs relating to the following reporting periods.

Included in other non-financial assets are, in particular, receivables under public or state budget settlements (except for current tax assets, which are presented in a separate line of the statement of financial position), and advance payments (prepayments) for future purchases of fixed assets, intangible assets and inventories. Prepayments are presented in compliance with the nature of the asset they relate to - under non-current or current assets. As non-monetary assets, prepayments are not subject to discounting.

10.14. Embedded derivatives

Embedded derivatives are separated from host contracts and treated as derivative financial instruments if all of the following conditions are met

- the economic characteristics and risks of embedded derivatives are not strictly related to those of the host contract;
- a separate instrument with the same terms as embedded derivative would meet the definition of a derivative;
- the hybrid instrument is not recognized at fair value and changes in its value are not recorded in profit or loss.

Embedded derivatives are recognized in a similar manner to that of separate derivatives, which have not been designated as hedging instruments.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of embedded derivative in foreign currency are related to those of the host contract covers circumstances where the currency of the host contract is also the common currency of purchase or sale of non-financial items on the market of

a given transaction.

The Group assesses whether embedded derivatives are required to be separated from host contracts upon instrument initial recognition.

10.15. Derivative financial instruments and hedges

Derivative financial instruments which are used by the Group to hedge against interest rate and foreign exchange risks are mainly currency forward contracts (currency forwards) and interest rate swaps. Such derivative financial instruments are measured at fair value. Derivative financial instruments (derivatives) are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken directly to the net profit or loss for the period.

The fair value of foreign currency forward contracts is determined by reference to current forward rates of instruments with similar maturity. The fair value of interest rate swaps is determined by reference to market value of similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges, when hedging the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges, when hedging the exposure to cash flow fluctuations that can be associated with a particular type of risk connected with a recognized asset, liability or anticipated transaction, or
- hedges of a net investment in a foreign operation.

Hedges of foreign currency risk in a firm commitment are treated as cash flow hedges. Upon establishing hedge, the Group formally designates and documents hedging relationship as well as the objective of risk management and hedge accounting strategy. Hedge accounting documentation defines hedging instrument, hedged item or transaction, type of hedged risk and the manner of assessment of hedge effectiveness in offsetting unfavourable changes in the fair value of hedged item or cash flows connected with hedged risk. It is expected that hedge will be highly effective in offsetting changes in the fair value of hedged item or cash flows that result from the hedged risk. Hedge effectiveness is assessed on a regular basis in order to verify whether or not hedging instrument is highly effective in all periods for which it was designated.

10.15.1. Fair value hedges

Fair value hedge is a hedge against changes in the fair value of recognised assets or liabilities or highly probable planned transaction (firm commitment), or a separated part of such asset, liability or future liability that can be attributed to the specific type of risk which could affect profit or loss.

With fair value hedges, the carrying amount of a hedged item is adjusted by gains or losses arising from changes in the fair value, hedging instrument is re-measured to fair value and gains or losses on hedging instrument and hedged item are recognised in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The change in fair value of hedging instrument is also recognised in profit or loss.

The Group discontinues hedge accounting, if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting, or if the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may commence from the moment the adjustment is made, however no later than at the time the hedged item stops being adjusted for changes in its fair value attributable to the risk being hedged.

10.15.2. Cash flow hedges

Cash flow hedge is a hedge against fluctuations in cash flows that are attributable to a particular risk associated with a recognized asset or liability or a highly probable future transaction that could affect profit or loss.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income, whilst the ineffective portion of the hedge – in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income and accumulated in shareholders' equity are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the associated gains or losses that were recognised in other comprehensive income are removed from equity and are included in the initial cost or other carrying amount of the asset or liability.

Any gains or losses arising from changes in the fair value of derivative financial instruments which do not meet the special criteria of hedge accounting are recognised directly in the net profit or loss for the current period.

The Group discontinues hedge accounting, if the hedging instrument expires, or is sold, terminated or exercised, or the hedge no longer qualifies for hedge accounting. If this is the case, the accumulated gains or losses on hedging instruments that were recognised in other comprehensive income and accumulated in shareholders' equity continue to be recognised in equity until a forecast transaction occurs.

If the Group no longer expects a forecast transaction to occur, then the total net gains or losses accumulated in shareholders' equity are transferred to the net profit or loss for the period.

10.16. Inventories

Inventories are stated at the lower of acquisition or development cost and net realizable value.

Costs incurred in bringing each inventory item to its present location and condition – both in relation to current and prior year – are accounted for as follows:

Production fuel	• weighted average cost;
Spare parts and other materials	• weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less costs of completion and the estimated costs necessary to make the sale.

Energy origin certificates

Energy origin certificates acquired free of charge due to production of energy from renewable sources, gas and cogeneration are recognized at fair value as at the date when it becomes certain that the Company will receive the Certificates.

10.17. Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debt allowance is made when collection of the full amount is no longer probable.

If the effect of the time value of money is material, the value of receivables is determined by discounting the estimated future cash flows to the present value using a discount rate that reflects current market assessments of the time value of money. Where discounting is used, any increase in the balance due to the passage of time is recognized as finance income.

Other receivables include, in particular, receivables under employee settlements.

Prepayments for future purchases of property, plant and equipment, intangible assets and inventories are recognized under other non-financial assets.

Prepayments are recognized in accordance with the nature of the assets they refer to i.e. as non-current or current assets. As non-monetary assets, prepayments are not subject to discounting.

State budget or public receivables are presented as other non-financial assets, except for current tax assets that constitute a separate item in the statement of financial position.

10.18. Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and cash on hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash and cash equivalents referred to above less outstanding overdraft balances.

10.19. Interest-bearing loans and borrowings and debt securities

All loans, borrowings and debts securities are initially recognized at the fair value, net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans, borrowings and debts securities are subsequently measured at amortised cost using the effective interest rate method, except for liabilities designated as hedged items, which are valued in accordance with hedge accounting policies, as described in note 10.15.

In determining amortised cost, transaction costs and any discount or premium on settlement are taken into account.

Gains and losses are recognised in profit or loss when liabilities are derecognised as well as through the amortisation process using the effective interest rate.

10.20. Trade payables and other financial liabilities

Short-term trade payables are carried at the amount due and payable.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on

a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain embedded derivatives which should be recorded separately. As at 31 December 2012 and as at 31 December 2011 no financial liabilities were designated as at fair value through profit and loss.

Financial liabilities at fair value through profit or loss are measured at fair value, after considering their market value at the reporting date without transaction costs. Any changes in the fair value of these liabilities are recognised in profit or loss as finance income or finance cost.

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

A financial liability is derecognized when the liability is discharged – i.e. when the obligation stated in the agreement is fulfilled, cancelled or expired. An exchange between an existing borrower and lender of debt instrument with substantially different terms is accounted for by the Group as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, significant modifications to the terms and conditions of an existing financial liability are treated as an extinguishment of the original financial liability and the recognition of a new financial liability with any resultant differences in the respective carrying amounts taken to profit or loss.

10.21. Other non-financial liabilities

Other non-financial liabilities include, in particular, liabilities in respect of value added tax, liabilities to public authorities (except for current tax liability recognized as a separate line item in the statement of financial position) and advance payment liabilities which will be settled by way of delivery of goods or services, or fixed assets. Other non-financial liabilities are recognized at the amount due and payable.

10.22. Appropriation of profit for employee-related and special funds purposes

According to Polish business practice stockholders/shareholders may allocate the profit for employee-related goals such as Social Fund or other special funds. In the IFRS financial statements, this part of profit appropriation is treated as operating cost of the period during which profit distribution was authorized by the Shareholders' Meeting due to the fact that Group companies have no legal or constructive obligation to appropriate profit for such purposes.

10.23. Share-based payment

A share-based payment is a transfer of the entity's equity instruments or their equivalents made by the entity or its shareholders to third parties (including employees) in return for goods or services provided to the entity by such parties unless the transfer is made for other purpose than payment of consideration for the goods and services provided to the entity.

The Group recognizes goods or services received or acquired as part of an equity-settled share-based payment transaction and the corresponding increase in equity at the date of receipt of those goods or services. The goods or services received or acquired as part of a share-based payment transaction that do not qualify for recognition as an asset are expensed.

The Group measures the value of the goods or services received and the corresponding increase in equity at the fair value of the goods or services received unless their fair value cannot be measured reliably. Where the Group is unable to measure the fair value of the goods or services received reliably, then it determines the value of the goods or services received and the corresponding increase in equity indirectly by reference to the fair value of the equity instruments granted.

Share-based payment resulting from entitlement of PAK KWB Konin S.A. and PAK KWB Adamów S.A. employees to acquire free of charge shares of the Company based on the act of 30 August 1996 on commercialization and privatization of state-owned enterprises are recognized according to the abovementioned rules. The Group recognises employee-related expenses in this respect from the date of acquisition of 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 retained earnings allocating part of the equity to non-controlling interest.

10.24. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects that the costs covered by the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Where the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

In particular the Group recognizes following provisions:

- ***provisions for retirement benefits and jubilee bonuses***
  According to internal remuneration system the Group employees are entitled to the following benefits:
  - jubilee bonuses- upon completion of a number of years in service,
  - retirement benefits - one-off retirement bonus,

- posthumous benefit - paid to the family of a deceased employee,
- employee electricity allowance - granted to the current and retired, former, employees of the Company.

The amounts of the benefits depend on the number of years in service and average remuneration. The Group recognizes provisions for abovementioned future liabilities to allocate the costs to the periods to which they relate. The present value of these liabilities is estimated at each year-end by an independent actuary. Estimated liabilities equate discounted cash flows to be made in the future, after considering employee rotation, and refer to the period to year-end. Demographic information and information on employee rotation is based on historical data. Actuarial gains and losses are recorded in profit or loss.

- ***provision for dismantling (liquidation) of property, plant and equipment***

  The provision for liquidation of fixed assets is recorded once a legal obligation exists or at the time of assuming such obligation by Group management. The provision is valued based on estimates of future liquidation costs obtained from market offers of such services whilst observing the provisions of IFRIC 1. Discounting effect is recorded in profit or loss.
  The planned date for liquidation of power unit number 6 and 5 in Elektrownia Pątnów I was set for the year 2023 and 2025, respectively.
- ***provision for reclamation of land (recultivation of post ash storage yard land)***
  The Group recognizes a provision for liquidation of industrial ash stockyards due to its legal obligation set forth in the license held. The provision is recorded based on estimates of future reclamation costs arising from case studies, technical-economic analyses prepared by Group management and those arising from the external offers prepared for planned recultivation of land.
- ***provision for redemption of energy certificates***
  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.
- ***provision for obligation relating to greenhouse gas emission and provision for CERs redemption***
  A provision for obligations relating to the emission of greenhouse gases covered by the emission allowance scheme is only recognized when the actual emission shows a deficit of emission allowances with regard to allowances granted for the entire settlement period.
  The provision is recognized using the net liabilities method at the following amounts:
  - in the part covered by allowances held at year-end – at the cost of the allowances held i.e. if purchased - at carrying amount, if received - at zero value;
  - in the part not covered by allowances held at year-end – at the lower of market value of allowances earmarked for redemption at year-end and the potential penalty.

  The Group recognizes a provision for redemption of certified emission reduction units (CER) at the time of exchange of CO2 emission rights into CERs in the amount equating the redemption value of CERs for the given year.
  At first, the Group redeems CERs obtained from the exchange of CO2 (EUA) emission rights. After that subject to redemption are CERs obtained free of charge under National Allocation Plan for CO2 allowances, and finally- the CERs which were purchased.
  At each year-end, Group management decides what number of CERs will be allocated to fulfil the redemption obligation for a given year.

Reclamation and other related to mining activity

- ***provision for dismantling of mining facilities and post-mine land restoration***

According to the Mining and Geological Law, the companies conducting extracting activities are obliged to restore the land where mining works were carried out. As a result, the Group recognizes a provision for both the cost of restoration of land associated with current coal mining activities on the given open-pit, and the cost of restoration of the final excavation site, after considering the stage of coal mining in individual open pits at the reporting date.

Provision for post-mine land restoration is recorded in correspondence with an asset (in part which relates to initial excavation works, based on proportion of the capacity of the initial excavation work to capacity of final excavation) and in correspondence with profit and loss (in the remaining part, taking into account severity of coal mining in various quarries on the reporting date). In correspondence with the asset the Group also recognizes provision for reclamation of external dump. The provision for reclamation costs related to current coal mining is created in correspondence with profit and loss.

Provision calculation is made based on external estimates of future restoration costs presented in the reports of independent experts commissioned by the Management Boards' of companies conducting extracting activities. Estimates regarding the anticipated costs of restoration are updated periodically, with the proviso that at each reporting date, the amount of the provision is verified under current assumptions for the discount rate, inflation and volume of coal mined. Impairment write-downs against current year mining provision are taken to operating expenses (other operating costs), whilst the difference resulting from provision discounting in prior years – to finance costs. Provision utilisation is settled at the end of each year-end in correspondence with operating expenses. Utilization of the part of the provision that relates to taxes and charges is accounted for as decrease in the costs of taxes and charges incurred during the reporting period, whilst utilization of the part relating to other costs of liquidation/ dismantling and restoration – as decrease in other costs by type.

- ***provision for the costs of preparation of mining site***

As part of its business activities, the Group is obliged to restore the post-mine land to the original state and to liquidate damages caused by the mining activity. To this end, the Group creates a provision for the expected costs it is required to incur under contractual agreements. Estimates relating to the expected costs of conducted mining activity are updated at each reporting date. The creation of the provision is recognized in correspondence with mine assets.

10.25. CO2 emission allowances

According to the National Allocation Plan for CO2 allowances for the years 2008 – 2012 ("NAP II"), the emission limit of CO2 for Zespół Elektrowni Pątnów – Adamów – Konin S.A. amounts to 11,685,526 tons per year and for Elektrownia Pątnów II sp. z o.o. 2,760,000 tons per year.

Received free of charge under the National Allocation Plan, CO2 emission allowances are presented in the financial statements in the nominal value as rights allocated for own purposes at zero value under intangible assets. Emission rights and their equivalents acquired for Group's own needs are presented as intangible assets. These rights are measured at cost.

The Group accounts for emission allowances in the whole settlement period (five-year period). Provision for liabilities relating to deficit in emission allowances is recognized when the actual emission exceeds granted allowances. The cost of the provision is recorded in the income statement under cost of sale.

Provision is recognized as follows:

- in the part covered by emission allowances held year-end – in the amount equating the value of held rights, i.e. purchased - at carrying amount, granted free of charge – at zero value,

- in the part not covered by emission allowances held at year-end – at the lower of market value of emission rights earmarked for redemption and the value of potential fine.

The Group recognizes a provision for redemption of certified emission reduction units (CER), at the time of exchange of CO2 emission rights into CERs in the amount equating the redemption value of CERs for the given year.

At first, the Group redeems CERs obtained from the exchange of CO2 (EUA) emission allowances. After that subject to redemption are CERs obtained free of charge under National Allocation Plan for CO2 allowances, and finally- the CERs which were purchased.

At each year-end, Group management decides what number of CERs will be allocated to fulfil the redemption obligation for a given year.

Information regarding quantity and market value of emission allowances held by the Group are presented in the notes to these consolidated financial statements.

The effect of exchange of CO2 emission allowances for CERs (the limit of exchange is 10% of COE emission allowances earmarked for obligatory redemption in a given settlement period) is presented in the income statement under result from operating activities as sales revenue.

Profit or loss achieved from the sale of excess of allowances acquired free of charge is presented in the income statement under other operating income.

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

10.26. Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognized at the fair value of consideration received or receivable less value added tax (VAT), excise tax and rebates. The following specific recognition criteria must also be met before revenue is recognized.

10.26.1. Revenue from sale of goods for resale and finished goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

Revenues from sale of finished goods also include revenues from sale of green and red certificates. At the moment of production, the energy origin certificates for sale are recognized as revenue and therefore – in order to prevent profit overestimation upon certificates disposal - certificates selling expenses are recognized as an adjustment to sales revenue.

10.26.2. Revenue from rendering of services

Revenue from the provision of services is recognised by reference to the stage of service completion. Stage of service completion is measured as the proportion of costs incurred to date to the total estimated costs required to complete the given contract.

If the results of a given contract cannot be assessed in a reliable manner, revenue from this contract is recognized only to the amount of the incurred costs that the Group expects to recover.

10.26.3. Construction contracts

Construction contract is a contract for the construction of an asset or a group of related or interdependent assets in terms of their design, technology and function or their ultimate purpose or use.

When the outcome of a construction contract can be reliably measured, contract revenue and contract costs are recognised as revenue and expenses in proportion to the stage of contract completion at the end of the reporting period.

The stage of completion is determined as the proportion of costs incurred for work performed to the date of measurement to the estimated total contract costs.

When the outcome of a construction contract cannot be reliably measured:

(a) revenue shall be recognised only to the extent of incurred contract costs that are expected to be recovered; and

(b) contract costs shall be recognised as an expense of the period in which they were incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be immediately recognised as an expense.

The gross amount due from customers for contract work is presented in the statement of the financial position as an assets and the gross amount due to customers for contract work as a liability.

10.26.4. Revenue from stranded costs compensations

The Group receives compensations to cover stranded costs in accordance with the Act of 29 June 2007 on covering the costs incurred by producers in connection with early termination of long-term contracts for sale of power and electricity. Revenue resulting from the compensation is recognized in proportion to acquired rights to compensation at each year-end over the period of their duration.

In order to estimate the value of the revenue related to the period, the Group estimates the ratio of stranded costs to the total amount of received, returned and expected annual advances (including advances received to the time of ratio calculation). The revenue for the period is calculated as the product of stranded costs ratio and advances received adjusted by annual adjustments less recorded prior year revenue from compensations.

Any difference between total amount of recognized revenue and total amount of advances received up to the total amount of stranded costs the Group recognizes as:

- receivables, in case the difference between the total amount of advances received and compensation revenue recorded is negative,
- liability, in case the difference between the total amount of advances received and compensation revenue recorded is positive.

10.26.5. Government grants

Government grants are recognised at their fair value where there is reasonable certainty that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, its fair value is credited to a deferred income account and is released systematically to the profit or loss over the estimated useful life of the underlying asset by way of equal annual instalments.

If the Group receives a non-monetary grant, both asset item and grant are recognized at nominal value and are released systematically to the profit or loss over the estimated useful life of the underlying asset by way of equal annual instalments.

10.27. Costs

Cost of goods sold

Cost of goods sold contains:

- manufacturing costs incurred in the reporting period, adjusted for changes in inventories (finished goods, semi-finished goods, work in progress) and adjusted for cost of goods produced for internal needs,
- cost of goods for resale and raw materials sold in the amount of acquisition cost,
- impairment write-downs against fixed assets, intangible assets and inventories,
- administrative, selling and distribution expenses incurred in the reporting period (presented as profit or loss).

Manufacturing costs which can be directly allocated to revenues earned by the Group companies are recognized in profit or loss in the part they relate to the period in which they occurred.

Manufacturing costs which can only be allocated indirectly to the revenues or other benefits earned by the Group companies are recognized in profit or loss in part they relate to the period in which they occurred so as to ensure their matching with revenues or other benefits including fixed assets and inventories valuation principles.

10.28. Other operating income and other operating expenses

Other operating income and expenses include, in particular, items relating to:

- disposals of fixed assets and intangible assets,
- recognition and reversal of provisions, except for provisions relating to financial transactions or transactions affecting operating expenses,
- assets, including cash, transferred or received free of charge,
- compensations, penalties, fines and other expenses not related to ordinary business activities.

10.29. Finance income and finance costs

Finance income and finance costs comprise, in particular, items relating to:

- disposal of financial assets,
- revaluation/ impairment of financial instruments, except for financial assets available for sale, for which the effects of the above are taken to revaluation reserve,
- share in profits of other entities (dividends),
- interest (including the effect of measurement at amortised cost),
- changes in amount of provision resulting from the approaching date of incurring the expense (effect of discount reversal).
- foreign exchange differences resulting from transactions incurred during reporting period and from year-end valuation of assets and liabilities except for foreign exchange differences included in the initial cost of a fixed asset, to the extent they represent an interest rate or foreign exchange adjustment,
- other items related to financial activities.

Group companies present foreign exchange gains and foreign exchange losses on a net basis, while the Group - separately.

Interest income and interest expense are recognized on a cumulative basis (as they accrue), using the effective interest rate method in respect of instrument carrying amount, whilst observing the principle of materiality.

Dividend income is recognised when the shareholders rights to receive the payment are established.

10.30. Taxes

10.30.1. Current income tax

Current tax assets and current tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

10.30.2. Deferred tax

For financial reporting purposes, deferred tax is recognised, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liability is recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of 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 differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting 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 income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available that will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items not recognised directly in profit or loss is recognized outside profit or loss: under other comprehensive income if relates to items recognised under other comprehensive income, or under equity – if relates to items recognized in equity.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes are levied by the same taxation authority.

10.30.3. Value added tax and excise tax

Revenues, expenses, assets and liabilities are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated inclusive of the amount of value added tax.

The net amount of value added tax recoverable from or payable to the taxation authority is recognized in the statement of financial position as part of receivables or payables.

The net amount of value added tax and excise tax recoverable from or payable to the taxation authority is recognized in the statement of financial position as part of receivables or payables.

10.31. Earnings per share

Earnings per share for each reporting period is calculated as the quotient of the net profit for the given accounting period and the weighted average number of shares outstanding in that period.

10.32. Acquisitions under common control

The situation in which the transaction or economic phenomenon that needs to be recorded in the financial statements prepared in accordance with IFRS are not regulated by the provisions of the standards, is regulated by the provisions of IAS 8 point 10-12. These provisions require the entity preparing financial statements in accordance with IFRS to design its own set of accounting policies, with regard to the following accounting principles: true and fair view, neutrality, prudence concept and completeness in all aspects.

The analysis performed by the Company showed that the commonly used accounting method for such transactions is the pooling of interest method thus this method was applied by the Company. This method is based on an assumption, that merging entities were, both before and after the merger, under the control of the same shareholder and therefore the consolidated financial statements reflect the continuity of joint control and does not reflect the change in net asset's fair value (or recognition of new assets) or the valuation of goodwill because none of the merging entities is in fact being purchased. The settlement is made as at the date of the merger and prior data is not adjusted.

10.33. Liability to put options held by non-controlling interests

In accordance with the applied policy, the financial result and other comprehensive income are allocated to non-controlling interests in consecutive reporting periods. At the end of each reporting period, an adjustment is made to the value of non-controlling interests as if the non-controlling interests were acquired with simultaneous recognition of share redemption liability. The difference between the value of non-controlling interests derecognized as at as at reporting date and recognized financial liability is accounted into retained earnings.

11. Acquisitions

On the basis of the Share Sale Agreement between ZE PAK and the State Treasury of 28 May 2012, ZE PAK acquired 10,200,000 A-series ordinary registered shares of PAK Kopalnia Węgla Brunatnego Adamów S.A. („PAK KWB Adamów") and 20,803,750 A-series ordinary registered shares of PAK Kopalnia Węgla Brunatnego Konin S.A. („PAK KWB Konin") which give right to 85% votes at general meetings of these entities and 85% share in their issued capital. Payment for the acquired shares and transfer of their ownership to ZE PAK depended on issuing permission of the President of the Office of Competition and Consumer Protection to effect concentration, which consisted in assuming by ZE PAK control over PAK KWB Adamów and the PAK KWB Konin, which took place on 16 July 2012. On 18 July 2012, the Minister of Treasury transferred to ZE PAK the ownership right to the block of 85% of PAK KWB Adamów shares and the block of 85% of PAK KWB Konin shares. Thereby, at the time of effective acquisition of shares, ZE PAK took control over PAK KWB Adamów and PAK KWB Konin

The remaining 15% shares of PAK KWB Adamów and PAK KWB Konin will be transferred by the State Treasury to eligible employees. The Share Sale Agreement obligates ZE PAK to conduct employee buyout after employee shares were transferred to employees at a price specified in the Agreement. This will result in the origination of liability to put options held by non-controlling interest in the consolidated financial statement of the Group.

The acquisition of 85% of shares in PAK KWB Adamów and PAK KWB Konin and recognition of put option liability were accounted as separate transactions. The sale price was set at PLN 67,320,000 for PAK KWB Adamów Shares and PLN 108,179,500 for PAK KWB Konin shares. ZE PAK made the payment of the above mentioned amounts on 17 July 2012.

As at 31 December 2012 the process of determining the fair value of identifiable net assets has not yet been completed by the Group, thus the settlement of the acquisition of PAK KWB Konin and PAK KWB Adamów is incomplete.

The Group has applied the following assumptions for provisional settlement of the acquisition based on available information:

- The value of the assets and liabilities of PAK KWB Konin and PAK KWB Adamów was established based on the data from financial statements prepared by PAK KWB Konin and PAK KWB Adamów with application of accounting policies in accordance with IFRS, assuming that the transition date to IFRS is 1 January 2011 except for recognition of additional mine assets related to PAK KWB Adamów in the amount of PLN 22,075 thousand and deferred tax asset connected with this position,
- The fair value of contingent liabilities in both acquired entities equals zero,
- The fair value of non-controlling interest equals their percentage share in net assets of PAK KWB Konin and PAK KWB Adamów,
- The valuation of ZE PAK's liability to purchase shares from entitled employees resulting from the PAK KWB Konin and PAK KWB Adamów share sale agreement is based on fixed price resulting from the agreement of purchase of 85% shares without the discount effect.

Temporarily measured value of identifiable assets, liabilities and contingent liabilities of PAK KWB Konin and PAK KWB Adamów as at the date of the acquisition is as follows:

In PLN thousand	**PAK KWB Konin**	**PAK KWB Adamów**
Acquired % of shares	85%	85%
Temporarily set values as at the date of acquisition		
Assets		
Property, plant and equipment	688,404	112,238
Investment property	2,665	817
Intangible assets	1,803	244
Assets relating to overburden removal and other mine assets	111,588	24,249
Deferred tax asset	74,689	27,020
Inventory	20,252	12,311
Trade and other receivables	1,929	2,531
Current tax assets	375	2,198
Other financial and non-financial assets	31,412	10,394
Cash and Cash equivalents	31	9,600
	933,148	**201,602**
Liabilities		
Provisions and accruals	257,941	69,626
Long-term employee benefits	98,296	42,766
Interest-bearing loans and borrowings	285,492	-
Trade and other financial liabilities	195,965	20,420
Other non-financial liabilities	27,096	11,380
	864,790	**144,192**
Identifiable net assets	**68,358**	**57,410**

Establishing the price of the acquisition:

in PLN thousand	**PAK KWB Konin**	**PAK KWB Adamów**
Value of cash transfer red	108,180	67,320
The amount settling the existing relationship – ZE PAK's liabilities	(82,405)	(21,790)
Cost of acquisition	25,775	45,530

The effect of settlement of the acquisition

Determination of goodwill/gain on bargain purchase in PLN thousand	**PAK KWB Konin**	**PAK KWB Adamów**
Cost of acquisition	25,775	45,530
Non-controlling interests measured at fair value	22,614	11,880
total	**48,389**	**57,410**
Gain on bargain purchase	19,969	-

Notes to consolidated financial statements (in PLN thousand)

As a result of settlement of the acquisition of PAK KWB Adamów the Group recognized the value of mining assets in the amount of PLN 22,075 thousand (and deferred tax associated with this item).

In respect of the provisions of IFRS 3.36 and based on the fact that settlement of the purchase of PAK KWB Konin is provisional the Group did not recognized the above mentioned gain on bargain purchase in profit or loss but presented it, until final settlement of the acquisition, under "Grants and deferred income (short-term)". Transaction costs in the amount of PLN 3,301 thousand were recognized as general administrative expenses in profit or loss and as cash flows from operating activities in consolidated cash flow statement.

Cash outflow :

	PAK KWB Konin	**PAK KWB Adamów**		**Total**
Net cash acquired with the subsidiary (accounted for as cash from investing activities)	31	9,600	–	9,631
Cash paid (accounted for as cash flows from investing activities)	(108,180)	(67,320)	–	(175,500)
Paid transaction costs (accounted for as cash flow from operating activities)	–	–	(1,759)	(1,759)
Net cash outflow	**(108,149)**	**(57,720)**	**(1,759)**	**(167,628)**

Since the date of acquisition PAK KWB Adamów has generated PLN 130,832 thousand revenue and PLN 5,763 thousand loss, which were accounted for in consolidated statement of comprehensive income for the reporting period (data before consolidation adjustments). Since the date of the acquisition PAK KWB Konin generated PLN 305,526 thousand revenue and PLN 29,148 thousand loss, which were accounted for in consolidated statement of comprehensive income for the reporting period (data before the consolidation adjustments).

As a result of the Share Sale Agreement with the State Treasury, ZE PAK for the first time in its history incurred the liability to put options held by non-controlling interests. Recognition of this liability in consolidated financial statements required selection of accounting policy appropriate for this type of transactions.

In accordance with the applied policy, the financial result and other comprehensive income are allocated to non-controlling interests in consecutive reporting periods. At the end of each reporting period, an adjustment is made to the value of non-controlling interests as if the non-controlling interests were acquired with simultaneous recognition of share redemption liability. The difference between the value of non-controlling interests derecognized as at as at reporting date and recognized financial liability is accounted into retained earnings.

On 1 October 2012 ZE PAK S.A. delegated to Trigon Dom Maklerski S.A. purchase of shares of Elektrim-Volt S.A. placed in Non-public Market Instrument Depository operated by Trigon Dom Maklerski, from ARGUMENTOL INVESTMENT COMPANY LIMITED. As a result, ZE PAK S.A. purchased on 1 October 2012 1,500,000 ordinary registered shares of series A and 1,450,000 ordinary registered shares of series B, total 2,950,000 shares of Eletrim-Volt S.A. for PLN 118,500,000 which grant the right to 100% votes on General Meeting and which give 100% share in capital. ZE PAK paid the above mentioned amount on 3 October 2012.

The value of assets and liabilities of Elektrim-Volt S.A. was set based on the financial data prepared by Elektrim-Volt S.A. in accordance with IFRS. Acquisitions and business combinations are regulated by IFRS 3 Business Combinations. However this standard excludes from its scope transactions between entities remaining under common control. Zespół Elektrowni Pątnów – Adamów – Konin S.A. and Elektrim-Volt S.A. both were under control of Elektrim S.A. In the Company's opinion the transaction of purchase of Elektrim-Volt S.A. shares meets the requirements of the definition of transactions under common control, therefore it is excluded from scope of IFRS 3.

The situation in which the transaction or economic phenomenon that needs to be recorded in the financial statements prepared in accordance with IFRS are not regulated by the provisions of the standards, is regulated by the provisions of IAS 8 point 10-12. These provisions require the entity preparing financial statements in accordance with IFRS to design its own set of accounting policies, with regard to the following accounting principles: true and fair view, neutrality, prudence concept and completeness in all aspects.

The analysis performed by the Company showed that the commonly used accounting method for such transactions is the pooling of interest method thus this method was applied by the Company. This method is based on an assumption, that merging entities were, both before and after the merger, under the control of the same shareholder and therefore the consolidated financial statements reflect the continuity of joint control and does not reflect the change in net asset's fair value (or recognition of new assets) or the valuation of goodwill because none of the merging entities is in fact being purchased. The settlement is made as at the date of the merger and prior data is not adjusted.

The value of assets and liabilities of Elektrim-Volt S.A. as at the date of the acquisition were as follows:

in PLN thousand	**Elektrim-Volt S.A.**
Acquired % of shares	100%
Temporarily set as at the date of the acquisition	
Assets	
Property, plant and equipment	250
Investment property	–
Intangible assets	–
Deferred tax asset	572
Inventory	49
Trade and other receivables	63,810
Current tax assets	–
Other financial and non-financial assets	5,712
Cash and Cash equivalents	40,235
	110,628
Liabilities	
Provisions and accruals	685
Long-term employee benefits	68
Interest bearing loans and borrowings	–
Trade and other financial liabilities	1,354
Other non-financial liabilities	766
	2,873
Identifiable net assets	**107,755**
Value of the transferred funds	**118,500**

Receivables in the amount of PLN 63,810 thousand comprised mainly receivables from sale of electricity in the amount of PLN 29,600 thousand and receivables from sale of ZE PAK S.A.'s shares to EMBUD sp. z o.o. in the amount of PLN 31,000 thousand. Under other financial and non-financial assets as at the acquisition, Elektrim-Volt S.A. presented prepayments for deliveries received from ZE PAK S.A. in the amount of PLN 2,800 thousand and shares in Megadex Serwis sp. z o.o. in the amount of PLN 2,900 thousand.

Establishing the acquisition price

in PLN thousand	ELEKTRIM-VOLT S.A.
Value of cash transfer red	118,500
The amount settling the existing relationship	21,104
Cost of acquisition	139,604

The effect of settlement of the acquisition

As a result of settling the acquisition the difference between identifiable net assets and acquisition price in the amount of PLN 31,849 thousand occurred and was recorded in retained earnings.

Cash outflow :

	ELEKTRIM-VOLT S.A.
Net cash acquired with the subsidiary (accounted for as cash from investing activities)	40,235
Cash paid (accounted for as cash flows from investing activities)	(118,500)
Paid transaction costs (accounted for as cash flow from operating activities)	–
Net cash outflow	**(78,265)**

Since the date of the acquisition Elektrim-Volt S.A. has generated PLN 163,725 thousand of revenue and PLN 1,260 thousand profit which were included in consolidated statement of comprehensive income for the reporting period (data before the consolidation adjustments).

12. Operating Segments

In connection with the acquisition of PAK KWB Konin and PAK KWB Adamów the Group has verified the information regarding operating segments. For the management purposes the Group was divided into parts based on the products and services.

The following operating segments were distinguished:

- Production Segment including both production of electric energy from conventional sources (including CHP) and production of electricity through biomass combustion. The main fuel used by the Production Segment is lignite and biomass. Production Segment comprises 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. w likwidacji.
- Extraction Segment, which includes lignite mining. Extraction Segment comprises:
    - “PAK Górnictwo” sp. z o.o.,
    - “PAK Kopalnia Węgla Brunatnego Konin” S.A. Capital Group(Since 3 quarter of 2012),
    - „PAK Kopalnia Węgla Brunatnego Adamów” S.A. (Since 3 quarter of 2012).

- Repair Segment rendering services in the field of construction and renovation. Segment comprises:
    - Przedsiębiorstwo Remontowe “PAK SERWIS” sp. z o.o.,
    - Przedsiębiorstwo Serwisu Automatyki i Urządzeń “EL PAK” sp. z o.o.,
    - “Energoinwest Serwis” sp. z o.o.

ZE PAK Capital Group also conducts other activities through „PAK Centrum Usług Informatycznych” sp. z o.o., „PAK Centrum Badań Jakości” sp. z o.o. and „Elektrim-Volt” S.A. The activities of these entities have been aggregated in the „Other” column.

Transactional prices used in transactions between operating segments are set at arm's length as in transactions with unrelated parties.

Revenue from transactions between segments is eliminated in the consolidation process.

Management monitors the operating results of the segments in order to make decisions about allocating resources, evaluation of the impact of this allocation and performance assessment. The basis for the assessment is profit or loss from operating activity and EBITDA.

Presented below are the results of the segments for the periods ended 31 December 2012 and 31 December 2011:

Notes to consolidated financial statements (in PLN thousand)

As at 31 December 2012

	Production	Extraction	Renovation	Other	Consolidation adjustment	Total
Revenue from sales to external customers	2,451,195	5,792	100,718	165,689	–	2,723,394
Revenue from sales between segments	133,441	430,400	211,315	17,037	(792,193)	–
Sales revenues	**2,584,636**	**436,192**	**312,033**	**182,726**	**(792,193)**	**2,723,394**
Cost of goods sold	(2,083,010)	(407,407)	(252,162)	(173,959)	785,406	(2,131,132)
Gross profit	**501,626**	**28,785**	**59,871**	**8,767**	**(6,787)**	**592,262**
Other operating income	14,249	1,515	268	301	(4,088)	12,245
Selling and distribution expenses	(2,820)	(459)	–	(158)	–	(3,437)
Administrative expenses	(58,946)	(51,423)	(17,608)	(3,877)	(1,760)	(133,614)
Other operating expenses	(14,911)	(4,365)	(487)	(129)	4,018	(15,874)
Finance income	126,346	1,132	1,465	720	(46,212)	83,451
Finance costs	(46,869)	(21,632)	(1,764)	(22)	–	(70,287)
Profit before tax	**518,675**	**(46,447)**	**41,745**	**5,602**	**(54,829)**	**464,746**
Income tax expense	(89,575)	8,406	(8,461)	(865)	1,186	(89,309)
Net profit/ (loss) for the year from continuing operations	**429,100**	**(38,041)**	**33,284**	**4,737**	**(53,643)**	**375,437**
Profit / (loss) from operating activities, without financial operations and income tax	**439,198**	**(25,947)**	**42,044**	**4,904**	**(8,617)**	**451,582**
Depreciation / Amortization	245,072	36,844	5,051	1,532	(3,023)	285,476
Change in allowance for tangible assets	(125)	–	–	–	–	(125)
EBITDA	**684,145**	**10,897**	**47,095**	**6,436**	**(11,640)**	**736,933**

Notes to consolidated financial statements (in PLN thousand)

As at 31 December 2011

	Production	**Extraction**	**Renovation**	**Other**	**Consolidation adjustment**	**Total**
Revenue from sales to external customers	2,567,069	–	121,417	589	–	2,689,075
Revenue from sales between segments	8,245	–	204,872	16,757	(229,874)	–
Sales revenues	**2,575,314**	–	**326,289**	**17,346**	**(229,874)**	**2,689,075**
Cost of goods sold	(2,065,082)	–	(271,587)	(12,418)	226,368	(2,122,719)
Gross profit	**510,232**	–	**54,702**	**4,928**	**(3,506)**	**566,356**
Other operating income	8,924	–	1,906	26	–	10,856
Selling and distribution expenses	(20,218)	–	–	–	–	(20,218)
Administrative expenses	(57,118)	(1,178)	(18,358)	(2,600)	–	(79,254)
Other operating expenses	(8,978)	–	(240)	(5)	–	(9,223)
Finance income	66,629	118	5,863	70	(13,631)	59,049
Finance costs	(135,386)	(3)	(160)	(1)	–	(135,550)
Profit before tax	**364,085**	**(1,063)**	**43,713**	**2,418**	**(17,137)**	**392,016**
Income tax expense	(68,735)	–	(6,493)	(486)	666	(75,048)
Net profit/ (loss) for the year from continuing operations	**295,350**	**(1,063)**	**37,220**	**1,932**	**(16,471)**	**316,968**
Profit / (loss) from operating activities, without financial operations and income tax	**432,842**	**(1,178)**	**38,010**	**2,349**	**(3,506)**	**468,517**
Depreciation / Amortization	266,240	17	4,354	1,631	(1,811)	270,431
Change in allowance for tangible assets	30,419	–	–	–	–	30,419
EBITDA	**729,501**	**(1,161)**	**42,364**	**3,980**	**(5,317)**	**769,367**

Notes to consolidated financial statements (in PLN thousand)

13. Revenues and expenses

13.1. Sales revenues

Revenues by type		*Year ended 31 December 2012*	*Year ended 31 December 2011*
Revenue from sale of electricity		2,108,465	2,028,759
Revenue from electricity from the market		205,480	233,866
Revenue from origin certificates		129,896	121,407
Revenue from construction contracts	*13.8*	93,821	102,138
Compensation related to PPAs termination		89,972	98,331
Revenue from sale of heat		54,222	49,787
Exchange of EUAs for CERs		23,402	30,056
Other sales revenue		18,965	25,492
Excise tax		(829)	(761)
Total sales revenue		2,723,394	2,689,075

Territorial structure	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Poland	2,673,896	2,574,615
UE Countries	46,906	114,460
Outside UE	2,592	–
Total sales revenue	2,723,394	2,689,075

13.2. Other operating income

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue from the sale of CO2 emission allowances	3,185	3,526
Compensations received	1,204	618
Reversal of write-downs against receivables	271	383
Government grants received	690	1,911
Gain on the sale of non-financial fixed assets	953	27
Reversal of provisions for costs and losses and liabilities write-off	191	3,927
Other	5,751	464
Total other operating income	12,245	10,856

Included in Revenue from the sale of CO2 emission allowances are sales of unused emission allowances received free of charge under National Allocation Plan for carbon dioxide emission allowances for the years 2008 – 2012.

Notes to consolidated financial statements (in PLN thousand)

13.3. Other operating expenses

	Year ended 31 December 2012	*Year ended 31 December 2011*
Loss on the sale of property, plant and equipment	942	19
Recognition of provisions	1,659	2,012
Impairment write-downs against receivables	220	83
Compensations paid	142	120
Loss on liquidation of property, plant and equipment	818	3,047
Electricity equivalents paid for pensioners and former employees	4,776	2,797
Electricity-related damages	763	319
Cost of social assets maintenance	237	233
Donations given	888	263
Cost of trade unions	193	190
Cost of shortages and damages	42	26
Other	5,194	114
Total other operating expenses	15,874	9,223

13.4. Finance income

	Year ended 31 December 2012	*Year ended 31 December 2011*
Interest income	22,335	20,511
Valuation of foreign currency options (PAI MEDIA)	–	23,089
Dividends	54	1,687
Foreign exchange gains	40,343	11,798
Valuation of instruments hedging against interest rate fluctuations (SWAP)	–	1,950
Sale of TGE shares	20,649	–
Other	70	14
Total finance income	83,451	59,049

Based on the agreement signed with Giełda Papierów Wartościowych w Warszawie S.A. parent company sold 157,000 shares in Towarowa Giełda Energii S.A. Sale price of one share amounted to PLN 154,00. Gain on sale of shares amounted to PLN 20,649 thousand.

In the year ended 31 December 2011 parent company repaid the PAI MEDIA loan which resulted in settlement of built-in currency option.

13.5. Finance costs

	Year ended 31 December 2012	*Year ended 31 December 2011*
Interest expenses	40,643	46,821
Valuation and realization of derivative financial instruments	10,289	5,300
Foreign exchange losses	2,660	80,691
Reclamation provision discount	10,014	–
Settlement discount	–	1,255
Power blocks provision discount	1,066	1,229
Other	5,615	254
Total finance cost	70,287	135,550

Notes to consolidated financial statements (in PLN thousand)

13.6. Costs by type

	Note	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Depreciation / Amortisation	*13.7*	285,476	270,431
Impairment write-downs against property, plant and equipment	*18, 13.7*	(125)	30,419
Impairment write-downs against inventories		33,314	2,270
Materials		929,453	1,187,105
External services		144,463	94,925
Taxes and charges, excluding excise duty		141,932	85,978
Social security and other allowances		439,098	265,925
Other costs		78,126	40,680
Cost of goods for resale and raw materials sold and electricity purchased from the market sold		230,388	237,055
Total costs by type		2,282,125	2,214,788
Items included in cost of goods sold		2,131,132	2,122,719
Items included in selling and distribution expenses		3,437	20,218
Items included in administrative expenses		133,614	79,254
Change in the stocks of finished goods		(11,249)	(7,906)
Cost of goods and services for internal needs		25,191	503

13.7. Depreciation of property, plant and equipment and amortization of intangible assets, impairment losses recognized in profit or loss

	Year ended 31 December 2012	*Year ended 31 December 2011*
Items included in cost of goods sold:		
Depreciation of property, plant and equipment	276,926	267,052
Depreciation of mine assets	4,875	–
Amortization of intangible assets	1,298	1,429
Impairment of property, plant and equipment	(125)	30,419
Impairment of intangible assets	–	–
	282,974	298,900
Items recognized in selling and distribution expenses:		
Depreciation of property, plant and equipment	6	12
Amortization of intangible assets	–	–
Impairment of property, plant and equipment	–	–
Impairment of intangible assets	–	–
	6	12
Items recognized in administrative expenses:		
Depreciation of property, plant and equipment	2,132	1,683
Amortization of intangible assets	239	255
Impairment of property, plant and equipment	–	–
Impairment of intangible assets	–	–
	2,371	1,938

Notes to consolidated financial statements (in PLN thousand)

13.8. Construction contracts

	Year ended 31 December 2012	*Year ended 31 December 2011*
Revenue related to construction contracts recognized in the period:	93,821	102,138
Revenue invoiced in the period:	111,605	103,241
Valuation of construction contracts:	(17,784)	(1,103)
Expenses incurred in the period:	67,720	95,978
Expected losses recognized in the period:	541	713
Result on the construction contracts recognized in the period:	25 560	5,447

	31 December 2012	*31 December 2011*
Gross amount due from customers for contract work:	3,605	25,378
Gross amount due to customers for contract work:	3,080	4,920

Group companies – Przedsiębiorstwo Remontowe "PAK Serwis" sp. z o.o. and Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp.z o.o. execute construction contracts.

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

The main construction contracts realised by the Company in the reporting periods covered by these consolidated financial statements are presented below:

- installation services on power units under construction for Neurath power station for the total amount of EUR 18,888 thousand; Principal: BILFINGER PIPING TECHNOLOGIES GmbH
- full-scale installation of MD and ND pipelines and components of power units D and E in the Westfalen power station for the total amount of EUR 12,663 thousand; Principal: BILFINGER PIPING TECHNOLOGIES GmbH
- renovation works in Jänschwalde Power station for the total amount of EUR 667 thousand; Principal: BABCOCK BORSIG STEINMULLER GmbH
- disassembly and assembly work associated with upgrading the furnace and boiler pressure parts of boiler BB-1150 Bełchatów block 7 and 8 in Bełchatów Power plant; total value of commission amounts to PLN 18,276 thousand; Principal: BABCOCK BORSIG STEINMULLER GmbH
- construction and repair services related to comprehensive revitalization of turbine TG6 for the total amount of PLN 16,142 thousand; Principal: TurboCare Sp. z o.o.
- modernization of boiler combustion (furnace) chamber as part of modernization of boiler 5 in order to reduce NOx for the total amount of PLN 6,919 thousand; Principal: REMAK- ROZRUCH S.A.
- implementation of WS web inserts, WPP, WP, sewage KD, KS for the biomass boiler for the total amount of PLN 3,061 thousand; Principal: PP-B CONDIX
- disassembly and assembly of the piping block WP / WT combining biomass boiler with turbine TG-6 for the total amount of PLN 1,399 thousand; Principal: CHEMAR RUROCIĄGI SP. ZO.O.

Notes to consolidated financial statements (in PLN thousand)

Przedsiębiorstwo Serwisu Automatyki i Urządzeń EL PAK sp. z o.o. provides services related to industrial automatics and electric appliances maintenance.

The main contracts executed by the Company in the reporting periods covered by these consolidated financial statements are presented below:

- services related to construction of boiler for biomass burning in Elektrownia Konin for the total amount of PLN 32,387 thousand for Foster Wheeler and Condix S.A.,
- services related to the transfer of power station, GPZ Zegrze, for the total amount of PLN 7,630 thousand for Arvea,
- delivery and assembly for MIOS in EC Siekierki for the total amount of PLN 4,830 thousand,
- services related to revitalization of turbine TG-6 in Elektrownia Konin for the total amount of PLN 4,530 thousand for TurboCare sp. z o.o.;
- preparation of Automatic, Measurement and Control Devices Industry (“AKPiA”) dedicated for IOS of power units no. 5 and 6 in PGE ZE Dolna Odra for the total amount of PLN 3,788 thousand for Rafako;
- services related to construction of IOS control system for the power units no. 5 and 6 Dolna Odra for the total amount of PLN 2,555 thousand for Rafako.
- Wide range renovation works related to revitalization of turbine TG – 6 in Konin Power Plant for the total amount of PLN 17,262.5 thousand for TurboCare sp. z o.o.;
- Services related to construction of combustion chamber during the modernization of boiler OP-650b K5 in Elektrownia Pątnów in order to reduce NOx for the total amount of PLN 6,500 thousand for Remak Rozruch S.A.;
- assembly of a dedicated biomass boiler in the Konin Power Station in the total amount of PLN 3,255 thousand for Remak Rozruch S.A.;
- removal of existing pipelines and installation of a new pipeline system in the total amount of PLN 1,399 thousand for Chemar Rurociągi sp. z o.o.
- reconstruction works on WN/SN Mirosławiec for the total amount of PLN 4,883 thousand.

14. Components of other comprehensive income

Components of other comprehensive income are as follows:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Cash flow hedges		
Gains (losses) for the period	(16,317)	(34,238)
Adjustments relating to reclassification of gains (losses) recognized in profit or loss	10,268	5,327
Gross cash flow hedge for the period	**(6,049)**	**(28,911)**
Tax charge on cash flow hedge	1,149	5,493
Net cash flow hedge for the period	**(4,900)**	**(23,418)**
Gross FX differences on translation of foreign operations	**(575)**	**4,008**
Tax charge on FX differences on translation of foreign operations	–	(761)
Net FX differences on translation of foreign operations	**(575)**	**3,247**

Other comprehensive income gross		**(6,624)**	**(24,903)**
Tax charge on other comprehensive income	**15.1**	**1,149**	**4,732**
Other comprehensive income net		**(5,475)**	**(20,171)**

Notes to consolidated financial statements (in PLN thousand)

15. Income tax

15.1. Tax expense

The main components of income tax expense for the year ended 31 December 2012 and 31 December 2011 are as follows:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Income tax reported in the consolidated income statement		
Current income tax:		
Current tax expense	53,746	87,461
Deferred tax:		
Relating to the origination and reversal of temporary differences	37,136	(12,397)
Other	(1,573)	(16)
Income tax expense reported in the consolidated income statement	**(89,309)**	**75,048**
Recognised in the consolidated statement of comprehensive income		
Tax on net gain /(loss) on revaluation of cash flow hedges	4,710	5,493
Tax on foreign exchange differences on translation of foreign operations	–	(761)
Tax income / (tax expense) reported in other comprehensive income	4,710	4,732

15.2. Reconciliation of effective income tax rate

The reconciliation of the accounting gross profit/ (loss) calculated using the statutory tax rate to taxable profit/ (tax loss) calculated using the effective interest rate of the Group for the year ended 31 December 2012 and 31 December 2011 is as follows:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Accounting profit before tax from continuing operations	**464,746**	**392,016**
At statutory income tax rate	88,302	74,483
Change in the value of unrecognized deferred tax assets on tax losses in Elektrownia Pątnów II	(865)	(517)
Change in the value of unrecognized deferred tax assets on tax losses incurred by German branch, PAK Serwis	(103)	(2,390)
Change relating to different tax rate in Germany (30%)	86	876
Fixed assets (changes in tax approach related to PPA)	–	–
Changes in deferred tax estimates	–	(783)
Non-tax deductible expenses	1,889	3,379
Tax at the effective income tax rate of 19%	89,309	75,048
Income tax expense reported in the consolidated income statement	**89,309**	**75,048**

Notes to consolidated financial statements (in PLN thousand)

15.3. Deferred tax

Deferred income tax relates to the following:

	Consolidated statement of financial position as at		*Consolidated income statement for the year ended*	
	31 December 2012	*31 December 2011*	*31 December 2012*	*31 December 2011*
Deferred tax asset				
Balance sheet provisions and accruals	130,922	47,674	(5,463)	(1,957)
Assets for overburden removal and other mine assets	12,503	–	4,137	
Interest and foreign exchange differences	11,398	33,465	(22,070)	(9,802)
Hedging instruments	7,068	5,770	149	(8,379)
Valuation of construction contracts	858	7,958	(7,100)	7,084
Prior year tax losses	70,135	74,031	(11,881)	36,487
Impairment write-downs against inventory	1,934	338	30	26
Impairment write-downs against receivables	5,581	4,953	30	(24)
Impairment write-downs against non – current assets	269	2,239	(1,970)	(24)
Employee settlements	6,660	922	5,689	(21)
Other	3,422	389	(438)	(219)
Total	**250,750**	**177,739**	**(38,887)**	**23,171**
Deferred tax liability				
Difference between carrying amount and tax base of fixed assets	361,753	342,417	11,035	26,205
Receivables due to compensation (PPAs)	6,923	13,420	(6,497)	(3,347)
Energy certificates	20,448	22,325	(1,877)	7,501
Interest and foreign exchange differences	1,150	3,923	(2,879)	(25,765)
Valuation of uncompleted construction contracts	1,134	7,358	(6,224)	6,180
Accrued receivables under contractual penalties (liquidated damages)	–	–	–	–
Other	4,752	–	4,691	–
Total	**396,160**	**389,443**	**(1,751)**	**10,774**

Notes to consolidated financial statements (in PLN thousand)

	Consolidated statement of financial position as at		*Consolidated income statement for the year ended*	
	31 December 2012	*31 December 2011*	*31 December 2012*	*31 December 2011*
After set off of balances at the level of individual Group companies, deferred tax of the Group is presented as:				
Deferred tax asset:	**120,549**	**8,081**		
Deferred tax liability:	**265,959**	**219,785**		
Deferred tax expense reported in consolidated income statement:			**(37,136)**	**12,397**
Total deferred tax expense for the period:			**66,294**	**17,129**
- recognized in correspondence with comprehensive income			1,149	4,732
- recognized in correspondence with profit or loss			(37,136)	12,397
- acquisition of PAK KWB Adamów and PAK KWB Konin			101,709	
- acquisition of Elektrim-Volt S.A.			572	

In the year ended 31 December 2012, „Elektrownia Pątnów II" sp. z o.o. reported a tax gain of PLN 116,399 thousand while in previous years EP II reported tax losses: in the year ended 31 December 2011 in the amount of PLN 185,766 thousand, in the year ended 31 December 2010 in the amount of PLN 37,531 thousand. The accumulated amount of tax losses for the years 2008-2011, that remained available for settlement amounted to PLN 271,805 thousand. As at 31 December 2012 the Company recognized deferred tax asset on previously unrecognized tax losses in the amount of PLN 855 thousand.

In accordance with Polish tax regulations, tax losses may be deducted from future taxable income earned by the Company in successive five years, with the provision that the amount reducing taxable income shall not exceed half the amount of tax loss in each year. At each reporting date, the Company analyzes the possibility of utilization of tax losses based on the budgets prepared.

Notes to consolidated financial statements (in PLN thousand)

The company - Przedsiębiorstwo Remontowe „PAK Serwis" sp. z o.o. conducts its operations through the branch in Germany. In the years 2008 – 2010, the company incurred tax losses amounting to PLN 24,811 thousand.

Based on the budgets for the coming years, the company analyzed the possibility of accounting for tax losses. Total amount of tax losses for the years 2008-2009 amounted to PLN 18,087 thousand. Deferred tax asset was not recognized. It amounted to PLN 5,426 thousand. In the year ended 31 December 2010, tax losses incurred by the German branch amounted to PLN 6,732 thousand. Deferred tax asset of PLN 2,017 thousand was not unrecognized.

In the year ended 31 December 2011, the German branch earned taxable profit and therefore it was able to account for the accumulated tax loss from previous years in the amount of PLN 4,214 thousand for which no deferred tax asset was recognized.

In the year ended 31 December 2012, the German branch earned taxable profit, therefore it was able to account for the accumulated tax loss from previous years in the amount of PLN 3,586 thousand (equivalent of EUR 859 thousand) for which deferred tax asset was recognized in the amount of EUR 850 thousand.

Furthermore, based on the projections for the coming years, an additional deferred tax asset on prior year tax losses was recognized in the amount of PLN 103 thousand.

16. Social assets and Social Fund liabilities

The Social Fund Act dated 4 March 1994 (with subsequent amendments) requires enterprises that have more than 20 FTEs (full time employees) to establish and run a Social Fund ("the Fund"). Group companies operate such Funds and make periodic transfers to the Fund based on the amounts agreed with trade unions. In addition, Group companies contribute social assets to the Fund. The Fund's purpose is to subsidize social activities of Group companies, grant loans to their employees and to incur other social expenses.

The subsidiaries PAK KWB Konin and PAK KWB Adamów are not part of the Group's Social Fund.

The Group has netted off social assets with its liabilities to the Social Fund because these assets are not separate assets of the Group. Given the above, the balance of Social Fund as at 31 December 2012 amounts to PLN 1,120 thousand (as at 31 December 2011 – PLN 327 thousand, respectively).

The table below shows social assets, liabilities to and costs of the Social Fund.

	31 December 2012	*31 December 2011*
Loans granted to employees	14,366	6,514
Cash of the Social Fund	9,779	3,418
Liabilities towards the Social Fund	(23,025)	(10,259)
Balance after netting off	1,120	(327)

	Year ended 31 December 2012	*Year ended 31 December 2011*
Amounts transferred to the Social Fund during the period	15,969	5,928

17. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year adjusted by the weighted average number of ordinary shares that would be issued as a result of conversion of all potential dilutive equity instruments into ordinary shares.

Notes to consolidated financial statements (in PLN thousand)

In September 2012 the split of shares took place. Before the transaction issued capital of the Company was divided into 8,671,000 shares with a nominal amount of PLN 12.00 each. Following the split issued capital of the Company consists of 52 026 000 ordinary shares with a nominal amount of PLN 2.00 each. Earnings per share for each of the reporting periods presented in these consolidated financial statements has been calculated taking into account the fact that an increase in number of shares took place.

Additionally in December 2012 the Company has purchased 1,202,453 treasury shares in order to redeem them. Treasury shares were excluded from the base for the calculation of earnings per share.

Presented below is the data concerning profit and shares, which was used in the calculation of basic and diluted earnings per share:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Net profit from continuing operations	375,437	316,945
Loss from discontinued operations	–	–
Net profit	375,437	316,945
Net profit attributable to ordinary shareholders of the parent, used to compute diluted earnings per share	375,437	316,945

	Year ended 31 December 2012	*Year ended 31 December 2011*
Average number of shares in the year 2011	–	52,026,000
Average number of shares in period January – November 2012	52,026,000	–
Average number of shares in December 2012	50,823,547	–
Effect of dilution:		
Share options	–	–
Redeemable preference shares	–	–
Adjusted weighted average number of ordinary shares used to calculate diluted earnings per share	51,925,796	52,026,000

During the period from the reporting date to the date of the preparation of these consolidated financial statements there were no other transactions involving ordinary shares or potential ordinary shares.

Notes to consolidated financial statements (in PLN thousand)

18. Property, plant and equipment

Year ended 31 December 2012

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other fixed assets*	*Assets under construction*	*Total*
Gross carrying amount as at 1 January 2012	37,040	1,522,756	2,805,129	14,104	21,520	659,171	5,059,720
Direct purchase	6,913	417	7,243	1,939	3,048	246,919	266,479
Purchase of PAK KWB Konin and PAK KWB Adamów	117,912	126,679	432,722	56,015	2,494	63,869	799,691
Purchase of Elektrim-Volt S.A.	–	1	64	155	30	–	250
Overhauls	–	–	15,802	17	–	–	15,819
Disposals and liquidation	(3,880)	(5,030)	(31,024)	(1,338)	(1,099)	(1,323)	(43,694)
Transfer from assets under construction	5,244	196,400	591,752	1,579	3,073	(798,048)	–
Gross carrying amount as at 31 December 2012	163,229	1,841,223	3,821,688	72,471	29,066	170,588	6,098,265
Accumulated depreciation and impairment as at 1 January 2012	888	216,362	519,663	7,525	15,054	30,291	789,783
Depreciation charge for the year	223	70,677	200,099	5,443	2,622	–	279,064
Impairment	–	(40)	6	–	–	(91)	(125)
Disposals and liquidation	–	(2,967)	(30,359)	(1,117)	(974)	–	(35,417)
Accumulated depreciation and impairment as at 31 December 2012	1,111	284,032	689,409	11,851	16,702	30,200	1,033,305
Net carrying amount as at 1 January 2012	36,152	1,306,394	2,285,466	6,579	6,466	628,880	4,269,937
Net carrying amount as at 31 December 2012	162,118	1,557,191	3,132,279	60,620	12,364	140,388	5,064,960

Notes to consolidated financial statements (in PLN thousand)

Year ended 31 December 2011

	Land and perpetual usufruct	*Buildings and constructions*	*Plant and machinery*	*Motor vehicles*	*Other fixed assets*	*Assets under construction*	*Total*
Gross carrying amount as at 1 January 2011	36,975	1,472,025	2,889,930	12,173	17,891	281,492	4,710,486
Direct purchase	–	69	5,049	2,084	3,207	440,692	451,101
Overhauls	–	–	34,940	–	–	–	34,940
Disposals and liquidation	–	(1,129)	(135,238)	(217)	(223)	–	(136,807)
Transfer from assets under construction	65	51,791	10,448	64	645	(63,013)	–
Gross carrying amount as at 31 December 2011	37,040	1,522,756	2,805,129	14,104	21,520	659,171	5,059,720
Accumulated depreciation and impairment as at 1 January 2011	884	151,340	451,828	6,047	13,309	–	623,408
Depreciation charge for the year	4	65,962	199,215	1,676	1,890	–	268,747
Impairment	–	128	–	–	–	30,291	30,419
Disposals and liquidation	–	(1,068)	(131,380)	(198)	(145)	–	(132,791)
Accumulated depreciation and impairment as at 31 December 2011	888	216,362	519,663	7,525	15,054	30,291	789,783
Net carrying amount as at 1 January 2011	36,091	1,320,685	2,438,102	6,126	4,582	281,492	4,087,078
Net carrying amount as at 31 December 2011	36,152	1,306,394	2,285,466	6,579	6,466	628,880	4,269,937

Notes to consolidated financial statements (in PLN thousand)

As at 31 December 2012, the carrying amount of plant and equipment used under finance lease agreements amounted to PLN 75,443 thousand (as at 31 December 2011: PLN 876 thousand).

As at 31 December 2012, mortgage security was established on land and buildings with the carrying amount of PLN 563,380 thousand (as at 31 December 2011: PLN 368,732 thousand) to collateralize bank loans taken out by the Group (note 25).

In the year ended 31 December 2012, capitalized borrowings costs amounted to PLN 200 thousand (in the year ended 31 December 2011: PLN 39,480 thousand.

The value of liquidated plant and machinery relates mainly to fully depreciated steam turbo generator TG-7 (with a gross carrying amount of PLN 30m). Furthermore the Group sold post-mine lands with a net book value of PLN 3.9m.

Impairment write-down against assets under construction relates mainly to changed reconstruction plans of Elektrownia Pątnów I. As a result, impairment write-down was recognized for an investment in prospective documentation in the amount of PLN 28,768 thousand and in connection with discontinuation of an investment relating to agro-based biomass management in Elektrownia Adamów (PLN 1,519 thousand).

19. Leasing

19.1. Liabilities from finance leases and lease with option to purchase

An increase in finance lease liabilities as at 31 December 2012 in comparison with data as at 31 December 2011 is related to acquisition of PAK KWB Konin. Fixed assets used under finance lease agreements comprise mainly cars, bulldozers and loaders, tractors and trailers. As at 31 December 2012 and as at 31 December 2011 future minimum lease payments under finance lease and lease with option to purchase and the present value of net minimum lease payments are as follows:

	As at 31 December 2012		*As at 31 December 2011*	
	Minimum payments	*Present value of payments*	*Minimum payments*	*Present value of payments*
Up to 1 year	22,590	18,952	599	532
1 year to 5 years	43,320	39,380	459	337
Over 5 years	–	–	–	–
Total minimal lease payments	65,910	58,332	1,058	869
Minus finance expenses	(7,578)		(189)	
Present value of minimal lease payments, including:	58,332	58,332	869	869
Short-term	18,952	18,952	532	532
Long-term	39,380	39,380	337	337

Notes to consolidated financial statements (in PLN thousand)

20. Intangible assets

Long – term intangible assets - year ended 31 December 2012

	Development costs	*Patents and licences*	*Computer software*	*Other intangible assets*	*Total*
Gross carrying amount 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 carrying amount as at 31 December 2012	–	32,117	1,624	346	34,087
Accumulated amortisation and impairment as at 1 January 2012	–	25,045	939	245	26,229
Amortisation charge for the year	–	1,341	184	12	1,537
Impairment write–down	–	–	(34)	–	(34)
Decreases	–	(437)	(43)	–	(480)
Accumulated amortisation and impairment as at 31 December 2012	–	25,949	1,046	257	27,252
Net carrying amount as at 1 January 2012	–	3,179	499	76	3,754
Net carrying amount as at 31 December 2012	–	6,168	578	89	6,835

Notes to consolidated financial statements (in PLN thousand)

Long – term intangible assets - year ended 31 December 2011

	Development costs	*Patents and licences*	*Computer software*	*Other intangible assets*	*Total*
Gross carrying amount as at 1 January 2011	120	27,514	869	257	28,760
Increases	–	735	570	64	1,369
Decreases	(120)	(25)	(1)	–	(146)
Gross carrying amount as at 31 December 2011	–	28,224	1,438	321	29,983
Accumulated amortisation and impairment as at 1 January 2011					
Amortisation charge for the year	120	23,484	858	229	24,691
Impairment write–down	–	1,586	82	16	1,684
Decreases	–	–	–	–	–
Accumulated amortisation and impairment as at 31 December 2011	(120)	(25)	(1)	–	(146)
	–	25,045	939	245	26,229
Net carrying amount as at 1 January 2011	–	4,030	11	28	4,069
Net carrying amount as at 31 December 2011	–	3,179	499	76	3,754

Notes to consolidated financial statements (in PLN thousand)

Short-term intangible assets

	31 December 2012	*31 December 2011*
	Certified emission reductions (CERs/ERU)	*Certified emission reductions (CERs/ERU)*
Gross carrying amount as at 1 January	84,729	98,522
Direct purchase	24,957	87,208
Redemption of CERs	(74,318)	(101,001)
Gross carrying amount as at 31 December	35,368	84,729
Accumulated amortisation and impairment as at 1 January	–	–
Impairment write–down	–	–
Accumulated amortisation and impairment as at 31 December	–	–
Net carrying amount as at 1 January	84,729	98,522
Net carrying amount as at 31 December	35,368	84,729

Notes to consolidated financial statements (in PLN thousand)

21. Assets for overburden removal and other mine assets

As at 31 December 2012 assets for overburden removal and other mine assets comprises mainly: expenses incurred by „PAK Górnictwo" sp. z o.o. related to search and evaluation of mineral resources in the amount of PLN 7,747 thousand and assets related overburden removal and other mine assets PAK KWB Konin in the amount of PLN 92,933 thousand and PAK KWB Adamów in the amount of PLN 25,386 thousand.

	Assets for overburden removal and other mine assets
As at 31 December 2011	–
Reclassification from "other long-term non-financial assets"	1,104
Purchase of PAK KWB Konin and PAK KWB Adamów	119,582
Increases	12,437
Decreases	(1,726)
Depreciation charge for the period	(4,875)
As at 31 December 2012	**126,522**
- long-term	126,066
- short-term	456

22. Other assets

22.1. Other financial assets

	31 December 2012	*31 December 2011*
Deposits to service debt costs	88,154	97,844
FLZG and FRZG deposits	15,144	–
Other deposits	16,513	49,231
Shares	15,588	4,095
Other	14,696	1,302
Total other financial assets	150,095	152,472
- short– term	103,697	109,738
- long– term	46,398	42,734

Notes to consolidated financial statements (in PLN thousand)

22.2. Other non-financial assets

	31 December 2012	*31 December 2011*
VAT receivables	2,311	2,101
Insurance	367	2,946
Other receivables from the state budget	157	72
Receivables from tax on civil law transactions	4,022	4,022
Other non–financial assets	385	–
Other prepayments	5,154	1,843
Inventory prepayments	11	32
Prepayments for intangible assets	4	–
Prepayments for assets under construction	7,121	2,008
Prepayments for tangible assets – lands	1,004	–
Other	849	–
Total other non–financial assets	21,385	13,024
– short– term	17,230	9,789
– long– term	4,155	3,235

Notes to consolidated financial statements (in PLN thousand)

23. Employee benefits

23.1. Post-employment retirement and other employee benefits

Group companies provide retirement benefits to their retiring employees in accordance with the provisions of Group Collective Bargaining Agreement.

As a result, based on the valuation made by a professional actuarial company, the Group recognised a provision for the present value of its liability under retirement and other benefits.

The table below summarises the amount of provisions for employee benefits and movements in the balance of the provisions during the year:

	Provision for retirement and posthumous benefits	*Employee electricity rates/coal allowance*	*Jubilee bonuses*	*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
Current service costs	1,923	470	6,982	9,375
Interest costs	1,653	3,153	4,335	9,141
Actuarial gains and losses	11,022	8,020	29,806	48,848
Benefits paid	(6,012)	(8,177)	(9,730)	(23,919)
Past service costs	–	–	–	–
Other	–	–	–	–
As at 31 December 2012	**59,675**	**77,406**	**147,997**	**285,078**
Current	2,251	6,727	11,839	20,817
Non- current	57,424	70,679	136,158	264,261

	Provision for retirement and posthumous benefits	*Employee electricity rates*	*Jubilee bonuses*	*Total*
As at 1 January 2011	**10,565**	**42,898**	**44,329**	**97,792**
Current service costs	794	411	2,660	3,865
Interest costs	485	2,027	2,048	4,560
Actuarial gains and losses	1,975	1,650	825	4,450
Benefits paid	(1,201)	(2,795)	(5,525)	(9,521)
Past service costs	–	183	–	183
Other	–	–	–	–
As at 31 December 2011	**12,618**	**44,374**	**44,337**	**101,329**
Current	956	3,651	4,467	9,074
Non- current	11,662	40,723	39,870	92,255

Notes to consolidated financial statements (in PLN thousand)

The main assumptions used by the actuary in determining the amount of the Group's liability are as follows::

	31 December 2012	*31 December 2011*
Discount rate (%)	4.0%	5.8%
Forecasted inflation index (%)	2.5%	2.5%
Employee turnover ratio (%)	3.4%	2.3%
Expected salary increases (%)	3.0%	3.0%
For PAK KWB Konin and PAK KWB Adamów in years 2013 – 2015	0.0%	–
Estimated electricity price increase rate (%)	3.0%	3.0%

24. Inventories

	31 December 2012	*31 December 2011*
Production fuel	19,243	10,832
Spare parts and other raw materials	61,339	21,092
Energy origin certificates	107,620	117,502
Merchandise	123	–
Total inventories, at the lower of acquisition (manufacturing) cost and net realizable value	188,325	149,426

In the year ended 31 December 2012, the Group made a write-down against inventories in the amount of PLN 33,314 thousand (in 2011, PLN 2,270 thousand). In 2012 the write-down related mainly to „green energy certificates" from renewable energy sources and to "red energy certificates" from high – efficiency cogeneration following decrease in their market price.

As at 31 December 2012 in PAK KWB Konin transfer of ownership was established on movable inventories – spare parts and drums – with a value not less than PLN 8,000 thousand, located in warehouses.

25. Trade and other receivables

	31 December 2012	*31 December 2011*
Trade receivables	142,277	141,992
Receivables for compensation due to the termination of the PPAs	36,438	70,632
Receivables from securing energy purchases on the balancing market	5,141	5,000
Other receivables	36,703	1,743
Total receivables (net)	220,559	219,367
Write–downs against receivables	39,611	35,463
Receivables (gross)	260,170	254,830

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

The terms and conditions of the transactions with related parties are presented in note 37.

Trade receivables are non-interest bearing and usually have 14-day payment deadline.

The Group's policy is to make sales only to customers who have undergone an appropriate credit verification procedure. As a result, Management believes there is no additional credit risk that would exceed the balance of impairment write-down recognized for trade receivables of the Group.

Notes to consolidated financial statements (in PLN thousand)

As at 31 December 2012 trade and other receivables in the amount of PLN 39,611 (as at 31 December 2011: PLN 35,463 thousand) were covered by the write-down. Movements in the balance of receivables impairment write-downs were as follows:

	2012	*2011*
Impairment write-down as at 1 January	38,810	40,850
Increases	1,187	83
Utilization	50	5,087
Reversal	336	383
Closing balance as at 31 December	39,611	35,463

The table below presents analysis of trade and other receivables which, as at 31 December 2012, and as at 31 December 2011 were overdue, but were not classified as unrecoverable therefore were not written-off.

			Overdue, but recoverable				
	Total without allowance	*current*	*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*>120 days*
31 December 2012	220,559	203,894	15,130	95	687	352	401
31 December 2011	219,367	134,938	84,331	67	28	3	–

Notes to consolidated financial statements (in PLN thousand)

26. Cash and cash equivalents

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, usually between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates.

The fair value of cash and cash equivalents as at 31 December 2012 amounts to PLN 318,002 thousand (as at 31 December 2011: PLN 385,429 thousand)

Cash and cash equivalents presented in the consolidated statement of cash flows consist of the following items:

	31 December 2012	*31 December 2011*
Cash on hand and cash at bank	17,217	276,313
Short-term deposits	300,785	109,116
Total balance of cash and cash equivalents presented in the statement of financial position:	318,002	385,429
FX differences	(5,063)	(12,431)
Total balance of cash and cash equivalents presented in the statement of cash flow	312,939	372,998

Additional explanations to the consolidated cash flow statement:

	Year ended 31 December 2012	*Year ended 31 December 2011*
<u>Depreciation / Amortisation:</u>		
Depreciation in the consolidated income statement	285,476	270,431
Amortisation of grants received	(1,946)	(1,911)
Depreciation / Amortisation in the cash flow statement	**283,530**	**268,520**

Notes to consolidated financial statements (in PLN thousand)

	Year ended 31 December 2012	*Year ended 31 December 2011*
Receivables:		
(Increase)/ decrease in trade and other receivables	(1,192)	17,527
(Increase)/ decrease in other long- and short-term non-financial assets	(8,361)	7,876
(Increase)/ decrease in amounts due from customers under long-term construction contracts	21,773	(4,845)
(Increase)/decrease in prepayments for assets under construction	5,113	(11,097)
Purchase of Elektrim-Volt S.A. and mines	125,654	–
Other changes	–	(892)
(Increase)/ decrease in receivables in the consolidated cash flow statement	**142,987**	**8,569**

	Year ended 31 December 2012	*Year ended 31 December 2011*
Liabilities:		
Increase/ (decrease) in trade and other financial long- and short-term liabilities	54,250	20,838
Increase/ (decrease) in other non-financial liabilities	60,571	(2,122)
Increase/ (decrease) in amounts due to customers under long-term construction contracts	(1,840)	3,971
Change in investment liabilities	44,781	(12,393)
Payment of finance lease liabilities	14,010	755
Purchase of Elektrim-Volt S.A. and mines	(256,981)	
Other movements	–	(517)
Increase/ (decrease) in liabilities in the cash flow statement	**(85,209)**	**10,532**

	Year ended 31 December 2012	*Year ended 31 December 2011*
Inventory:		
Increase/ (decrease) in inventory	(38,899)	(53,350)
Purchase of PAK KWB Konin, PAK KWB Adamów and Elektrim-Volt S.A.	32,563	–
Other movements	44	–
Increase/ (decrease) in inventory in the cash flow statement	**(6,292)**	**(53,350)**

Notes to consolidated financial statements (in PLN thousand)

	Year ended 31 December 2012	*Year ended 31 December 2011*
Provisions, accruals and employee benefits:		
Increase/ (decrease) in provisions and accruals	275,846	(12,481)
Increase/ (decrease) in long- and short-term employee benefits	183,749	3,537
Changes in provision for redemption of CERs	49,360	13,793
Deferred tax expense reported in other comprehensive income	(1,578)	(4,732)
Purchase of mines and Elektrim-Volt S.A.	(469,382)	
Other changes	(1,131)	(692)
Change in provisions, accruals and employee benefits	**36,864**	**(575)**

Other:

Included in other adjustments to operating activities both in the year ended 31 December 2012 and 31 December 2011 were mainly movements in the derivatives valuation.

Included in proceeds and expenses related to other financial assets are cash-related proceeds and expenses assigned to service debt servicing and relating to guarantees received.

Included in other adjustments to financial activities in 2011 were mainly paid bank fees related to refinancing of Elektrownia Patnów II debt.

Notes to consolidated financial statements (in PLN thousand)

27. Issued capital and reserves

27.1. Issued capital

Issued capital	*31 December 2012*	*31 December 2011*
52,026,000 shares with a nominal value PLN 2 each	104,052	104,052
	104,052	104,052

27.1.1. Nominal value of shares

All issued shares have a nominal value of PLN 2 and have been fully paid.

27.1.2. Shareholders' rights

Shares of all classes rank pari passu as regards dividend and return on equity.

27.1.3. Shareholders with significant participation

	31 December 2012	*31 December 2011*
State Treasury		
Participation in issued capital	–	50.0000%
Participation in votes	–	50.0000%
Elektrim S.A.		
Participation in issued capital	0.38%	1.8885%
Participation in votes	0.38%	1.8885%
Elektrim Volt S.A.		
Participation in issued capital	–	7.5458%
Participation in votes	–	7.5458%
EMBUD sp. z o.o.		
Participation in issued capital	11.16%	0.4651%
Participation in votes	11.16%	0.4651%
Polsat Media B.V.		
Participation in issued capital	38.82%	38.8158%
Participation in votes	38.82%	38.8158%
ING OFE		
Participation in issued capital	10.76%	–
Participation in votes	10.76%	–
ZE „PAK" S.A.		
Participation in issued capital	2.31%	–
Participation in votes	2.31%	–
Others		
Participation in issued capital	36.57%	1.2848%
Participation in votes	36.57%	1.2848%
Total	100%	100%

28. Treasury shares

The Company acquired treasury shares on 4 December 2012 from Credit Suisse Securities (Europe) Limited ("Stabilising Manager") based on authorization included in resolution no. 6 from Extraordinary General Meeting of Shareholders that took place on 20 August 2012 on the authorization of the Management Board to acquire treasury shares in connection with stabilizing action in relation to Company's share price and as an exercise of stabilizing option granted to "Stabilising Manager" under the terms of the stability agreement between the Company and the "Stabilising Manager" on 22 October 2012.

Treasury shares were purchased at PLN 25.99 each, i.e. with total remuneration amounting to PLN 31,279,880.05.

Based on resolution no. 5 of Extraordinary General Shareholder's Meeting dated 21 February 2013 the Company redeemed voluntarily 1,202,453 ordinary shares registered with a nominal value of PLN 2 each, which stand for 2.31% of issued Capital, and which give 1,202,453 votes on a General Shareholders Meeting which represent 2.31% of total number of votes. The shares are dematerialized and identified by the National Depository for Securities ISIN securities code PLZEPAK00012. The resolution came into force upon adoption, provided that legal consequence of redemption will take place at the moment of registration of the decrease in issued capital of the Company in National Court Register.

29. Reserve capital

In accordance with Polish regulations, reserve capital in the amount of PLN 1,956,261 thousand was created out of statutory transfers from profits generated in previous financial years.

29.1. Other reserves

The Company Zespół Elektrowni Pątnów – Adamów – Konin S.A. was founded through commercialization of a state-owned enterprise Zespół Elektrowni PAK, which was conducted on the basis of act of 13 July 1990 on the privatization of state-owned enterprises. The Privatization Fund presented in the balance sheet under other reserves was created in the state-owned ZE PAK on the basis of the act dated 31 January 1989 on managing finance at state-owned enterprises.

The amount of reserve capital is composed of the Privatisation Fund in the amount of PLN 3,472 thousand, which was created from the net profit from the year 1994 on the basis of the resolution of the Extraordinary General Meeting of the newly created Company.

Cash accumulated in this fund was to be used by employees for the purchase from the State Treasury the company's shares after its transformation into a joint stock company and its privatization (purchase up to 10% shares at half price). The Act of 30 August 1996, on commercialization and privatization of state-owned enterprises, implemented in 1996, gave the employees the right to acquire free of charge 15% of the company's shares belonging to the State Treasury. As a result, the underlying objectives of creating Privatization Fund ceased to exist, but the Privatization Fund has continued to be recognised in the Company's equity and liabilities.

29.2. Retained earnings and dividend restrictions

Retained earnings may include amounts that are not subject to distribution, i.e. cannot be distributed in the form of dividend:

- retained earnings of subsidiaries, attributable to equity shareholders of the parent,
- differences in the values of retained earnings shown in the statutory and IFRS financial statements of the parent,
- the equivalent of 8% of statutory net profit of the parent allocated to based on the provisions of articles of association of subsidiary companies.

As at 31 December 2012, the total value of retained earnings (including reserve capital and other reserves created from prior year profit appropriation), is subject to restriction on distribution in the form of dividends. The basis for this approach results from the following:

Notes to consolidated financial statements (in PLN thousand)

- Statutory financial statements of all Group companies are prepared in accordance with Polish Accounting Standards. Dividends may be distributed based on the net profit reported in the separate annual financial statements prepared for statutory purposes.
- In accordance with the provisions of the Code of Commercial Companies, the parent company is required to create reserve capital for possible losses. Transferred to this capital is 8% of profit for the given financial year recognised in the separate financial statements of the parent company until such time as the balance of the reserve capital reaches at least one third of the issued capital of the parent company. Appropriation of the reserve capital and other reserves depends on the decision of the General Meeting of Shareholders; however, the reserve capital in the amount of one third of the issued capital may be used solely for the absorption of losses reported in the separate financial statements of the parent company and shall not be used for any other purpose.

As at 31 December 2012, there were no other restrictions on distribution of profit in the form of dividends.

29.3. Non- controlling interests

	Year ended 31 December 2012	*Year ended 31 December 2011*
At the beginning of the period	90	67
Purchase of mines	34,494	–
Realization of put option	(28,180)	–
Employee share scheme	(955)	–
Dividends paid by subsidiary companies	–	–
Share in the change in value of financial instruments	–	–
Acquisition of non- controlling interests by the Group	–	–
Share in net profit or loss of subsidiary companies	(5,332)	23
	117	90

Allocation of profit to non-controlling interest

In consolidated financial statements 15% of net profit (loss) of PAK KWB Adamów and 15% of net profit (loss) of PAK KWB Konin for the period between 19 July 2012 to 31 December 2012 was allocated as profit (loss) attributable to non-controlling interest.

Recognition of ZE PAK liabilities to employee share purchases

ZE PAK is obliged to purchase employees' shares according to purchase agreement of PAK KWB Konin and PAK KWB Adamów shares, if the employees will be willing to sell them. The terms of the agreement include price as well as date of the purchase.

According to IFRS ZE PAK recognized as at the date of acquisition a liability to purchase shares owned by non-controlling interest. Based on applied accounting policy ZE PAK presented in consolidated financial statements a liability in the amount of PLN 11,880 thousand regarding PAK KWB Adamów and PLN 19,091 thousand regarding PAK KWB Konin. The difference between the value of non-controlling interest derecognised on the balance sheet date and recognized financial liability is recognized in retained earnings.

Notes to consolidated financial statements (in PLN thousand)

30. Interest-bearing loans and borrowings

Short-term	*Maturity*	*31 December 2012*	*31 December 2011*
Bank loan (syndicated) in the amount EUR 240,000 thousand, interest rate at 3M EURIBOR+ bank margin	20.07.2019	128,409	150,013
Bank loan in Bank Pocztowy S.A. in the amount of PLN 15,000 thousand, interest rate 3M WIBOR+ bank margin	28.06.2013	1,500	3,826
Bank loan in BRE Bank S.A. in the amount of PLN 6,800 thousand, interest rate 3M WIBOR+ bank margin	31.12.2012	–	1,425
Bank loan in Pekao S.A. in the amount of PLN 12,000 thousand, interest rate 3M WIBOR+ bank margin	30.12.2013	2,084	2,085
Loan from NFOŚiGW in the amount of PLN 226,000 thousand, interest rate at 0.5 of bills of exchange rediscount rate	23.06.2015	29,883	30,619
Bank loan (syndicated) in the amount of PLN 291,000 thousand, interest rate at 3M WIBOR+ bank margin	31.12.2015	44,329	57,843
Overdraft facility at BRE Bank in the amount of PLN 9,700 thousand PLN, interest rate at 1M WIBOR + bank margin	29.04.2013	9,545	–
Overdraft facility at BZ WBK in the amount of PLN 65,000 thousand, interest rate at 1M WIBOR + bank margin	30.06.2013	64,737	–
Investment loan from BZ WBK S.A in the amount of PLN 46,463 thousand, interest rate at 1M WIBOR + bank margin	31.12.2016	33,359	–
Credit services agreement, BRE Bank S.A. (bill of Exchange loan) up to PLN 49,000,000 thousand – discounting of bills of exchange	30.06.2016	26,976	–
Bonds services agreement, PKO BP S.A. in the amount of PLN 135,000 thousand interest rate at 3M WIBOR 3M + bank margin	31.12.2016	90,802	–
BRE Bank S.A. – bank loan in the amount of PLN 30,000 thousand interest rate at 1M WIBOR + bank margin	29.04.2013	20,000	–
BRE Bank S.A. – bank loan in the amount of PLN 10,300 thousand interest rate at 1M WIBOR 1M + bank margin	24.01.2013	10,300	–
Total		461,924	245,811

Long-term	*Maturity*	*31 December 2012*	*31 December 2011*
Bank loan in Bank Pocztowy S.A. in the amount of PLN 15,000 thousand, interest rate 3M WIBOR+ bank margin	28.06.2013	–	1,500
Bank loan in Pekao S.A. in the amount of PLN 12,000 thousand, interest rate 3M WIBOR+ bank margin	30.12.2013	–	2,084
Loan from NFOŚiGW in the amount of PLN 226,000 thousand, interest rate at 0.5 of bills of exchange rediscount rate	23.06.2015	39,790	64,640
Bank loan (syndicated) in the amount of PLN 291,000 thousand, interest rate at 3M WIBOR+ bank margin	31.12.2015	75,060	111,686
Bank loan (syndicated) in the amount EUR 240,000 thousand, interest rate at 3M EURIBOR+ bank margin	20.07.2019	675,535	828,208
Total		790,385	1,008,118

Notes to consolidated financial statements (in PLN thousand)

As at 31 December 2012 PAK KWB Konin did not meet certain financial loan covenants relating to financial liabilities, which were specified in the underlying loan agreements. As at 31 December 2012 the Company did not receive an appropriate waiver for meeting these covenants from the financing banks. Therefore, in accordance with IFRS, these bank loans have been fully presented as current liabilities, however as at the preparation date of these consolidated financial statements ie. as at 15 March 2013 the Group has received assurance from BZ WBK and BRE Bank concerning lack of maturity of these loans. Assurance from PKO BP concerning bonds issued by PAK KWB Konin is, as at the date of preparation of these consolidated financial statements, under negotiation. Breach of loan covenants in PAK KWB Konin has no effect on maturity of other Group's liabilities. In the year ended 31 December 2012 the Group has repaid part of its loans and interests in the amount of PLN 284,250 thousand, including:

- repayment of syndicated loan by ZE PAK S.A. in the Mount of 60,108 (capital and interest),
- repayment of other loans by ZE PAK S.A. in the Mount of PLN 7,771 thousand (capital and interest),
- repayment of NFOŚ loan by EP II in the amount of PLN 32,353 thousand (capital and interest),
- repayment of syndicated loan by EP II in the amount of PLN 142,934 thousand (capital and interest),
- repayment of other loans by PAK KWB Konin in the amount of PLN 41,084 thousand (capital and interest).

In 2011, the subsidiary company, Elektrownia Pątnów II re-financed a great majority of its financial liabilities. On 14 January 2011, Elektrownia Pątnów II signed an agreement of a syndicated loan which was taken out to repay the previous syndicated loan taken out in 2005 to finance the construction of the 464MW power unit. The second tranche of the loan taken out allowed the company to repay the majority of loans taken out from the parent entity ZE PAK S.A. to supplement the then current structure of financing of the „Pątnów II" project. Funds of EUR 240 million were made available by three banks: BRE Bank S.A., Pekao S.A. and European Bank for Reconstruction and Development (EBRD) and the amount engaged by each of the three banks was equal. Both tranches of the loan were transferred directly to the accounts of the banks which formed the consortium for the old loan and to the parent company.

Collaterals established in connection with the new syndicated loan are described in note 35.

31. Provisions and accruals

31.1. Accruals

	31 December 2012	*31 December 2011*
Provisions for bonuses and unused annual leave	34,461	29,985
Compensations from the insurer	328	204
Audit of financial statements	671	509
Other	97	819
Total	35,557	31,517
long-term	–	–
short-term	35,557	31,517

Notes to consolidated financial statements (in PLN thousand)

31.2. Movements in provisions

	Provision for CERs redemption	*Provision for dismantling of fixed assets*	*Provision for reclamation of ash stock yards*	*Provision for expected losses on construction contracts*	*Provision for redemption of energy origin certificates*	*Provision for reclamation of post-mining lands*	*Other*	*Total*
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
Increase	24,958	1,238	–	380	958	43,240	4,422	75,196
Decrease	(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
of which:								
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
As at 1.01.2011	98,522	19,031	6,114	4,191	1,353	–	6,288	135,499
Increase	87,208	2,679	–	–	152	–	4,781	94,820
Decrease	(101,001)	–	–	(3,504)	–	–	(4,256),	(108,761)
As at 31.12.2011	84,729	21,710	6,114	687	1,505	–	6,813	121,558
of which:								
Long – term	–	21,710	4,314	–	–	–	1,058	27,082
Short – term	84,729	–	1,800	687	1,505	–	5,755	94,476

31.3. Description of significant provisions

31.3.1. Provision for reclamation of ash storage yards and cost of fixed assets dismantling

The Group recognizes a provision for future costs of reclamation of land resulting from legal obligation defined in "Integrated permissions". The amount of the provision is estimated on the basis of professional analyses and technical-economic expertises prepared by internal personnel or external specialists. At each reporting date, the amount of the provision is verified on the basis of current estimates and discount. As at 31 December 2012 the value of the provision amounted to PLN 4,484 thousand .

Due to the legal obligation to dismantle fixed assets after their retirement, the Group recognizes the provision for anticipated future costs which will be incurred to fulfil this obligation. As at 31 December 2012 value of provision for this purpose amounted to PLN 19,547 thousand.

31.3.2. Reclamation and other provisions related to mine activity

According to the Mining and Geological Law PAK KWB Konin and PAK KWB Adamów are obliged to restore the land where mining works were carried out. As a result, on the reporting date, the Group recognizes a provision for both the cost of restoration of land associated with current coal mining activities on the given open-pit, and the cost of restoration of the final excavation site, after considering the stage of coal mining in individual open pits at the reporting date.

Provision calculation is made based on external estimates of future restoration costs presented in the reports of independent experts commissioned by the Group's Management Board. Estimates regarding the anticipated costs of restoration are updated periodically, with the proviso that at each reporting date, the amount of the provision is verified under current assumptions for the discount rate, inflation and volume of coal mined.

As part of its business activities, PAK KWB Konin and PAK KWB Adamów are obliged to restore the post-mine land to the original state and to liquidate damages caused by the mining activity. As a result, the Group creates a provision for the expected costs it is required to incur under contractual agreements. Estimates relating to the expected costs of conducted mining activity are updated at each reporting date. The creation of the provision is recognized in correspondence with mine assets.

Provision for reclamation and liquidation of mine lands and for preparation of mine areas in PAK KWB Konin and PAK KWB Adamów as at 31 December 2012 amounted to PLN 303,517 thousand and increased in comparison with year ended 31 December 2011 by PLN 43,240 thousand. When calculating the provision the Group has adopted the following assumptions: discount rate at 4%, inflation rate at 2.5%. In comparison with prior year the discount rate used for provision calculation decreased from 6% in 2011 to 4% in 2012. Changes in the value of the provision are also a result of change in estimated reclamation and liquidation costs based on external experts' report and percentage coal production as well as reports of environmental protection division.

31.3.3. Provision for the obligation to redeem energy origin certificates

Due to the sale of electricity to final recipients, the Group has an obligation to redeem the specific number of certificates of energy origin from renewable sources, gas and cogeneration. As at 31 December 2012 the value of the provision for this purpose amounted to PLN 958 thousand.

31.3.4. Other provisions

Increase in other provisions is related to purchase of PAK KWB Konin and PAK KWB Adamów and was mainly related to provision for post-mine damages which as at the date of the acquisition amounted to PLN 19,169 thousand, and provision for legal cases which as at the date of acquisition amounted to PLN 4,298 thousand.

Notes to consolidated financial statements (in PLN thousand)

32. CO2 emission allowances

The First National Allocation Plan for CO2 emission allowances concerned the years 2005-2007. On 14 November 2008, the Council of Ministers of the Republic of Poland accepted the National Allocation Plan for CO2 allowances for the years 2008-2012 (NAP II) in the community system of trading in emission limits on carbon dioxide emissions between various systems involved in the system of emissions trading.

This adopted regulation is based on the regulation draft of 12 February 2008 after including changes of 16 May 2008.

According to adopted accounting policy, the Group creates the provision to cover shortages in emission allowances when actual emission exceeds allowances granted in the entire reporting period.

In accordance with NAP II, the limit for emission of CO2 for Zespół Elektrowni Pątnów – Adamów – Konin S.A. allocated for the years 2008-2012 amounts to 11,685,526 tons per year, and for Elektrownia Pątnów II – 2,760,000 tons per year.

The tables below show the emission allowances obtained through NAP, purchased on the secondary market divided into emission rights used for own purposes and sold during the years ended 31 December 2012 and 31 December 2011.

CO2 emission allowances in the year ended 31 December 2012

		Zespół Elektrowni Pątnów – Adamów – Konin S.A.	***Elektrownia Pątnów II sp. z o.o.***
(*in tons*)	CO2 emission*	9,859,148	2,722,755
EUA	Balance as at 1.01.2012	22,134,186	5,733,116
	Purchases	–	–
	Redemption**	(7,981,849)	(2,181,760)
	Sales	(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
	Purchases	–	–
	Redemption**	(2,422,886)	–
	Sales	–	–
	Exchange	674,585	(442,000)
	Balance as at 31.12.2012	4,528	10,000
ERU	Balance as at 1.01.2012	–	100,000
	Purchases	–	–
	Redemption**	–	(100,000)
	Sales	–	–
	Exchange	493,967	718,000
	Balance as at 31.12.2012	493,967	718,000

**Emission for the 12-month period (verified data)*

*** Redemption of emission rights for the given year occurs in the first quarter of the next year.*

Notes to consolidated financial statements (in PLN thousand)

CO2 emission allowances in the year ended 31 December 2011

		Zespół Elektrowni Pątnów – Adamów – Konin S.A.	***Elektrownia Pątnów II sp. z o.o.***
(*in tons*)	CO2 emission*	10,404,735	2,281,760
EUA	Balance as at 1.01.2011	32,330,014	8,365,151
	Purchases	–	–
	Redemption**	(8,296,857)	(2,080,035)
	Sales	(100,000)	–
	Exchange	(1,798,971)	(552,000)
	Balance as at 31.12.2011	22,134,186	5,733,116
CER	Balance as at 1.01.2011	1,366,687	220,000
	Purchases	–	–
	Redemption**	(1,412,687)	(220,000)
	Sales	–	–
	Exchange	1,798,829	452,000
	Balance as at 31.12.2011	1,752,829	452,000
ERU	Balance as at 1.01.2011	340,000	56,000
	Purchases	–	–
	Redemption**	(340,142)	(56,000)
	Sales	–	–
	Exchange	142	100,000
	Balance as at 31.12.2011	–	100,000

**Emission for the 12-month period (verified data)*

*** Redemption of emission rights for the given year occurs in the first quarter of the next year.*

Under the obligation to redeem emission rights for the year 2012 Group plans to submit for redemption 12,581,903 emission rights.

Notes to consolidated financial statements (in PLN thousand)

33. Trade payables, other liabilities and accruals

33.1. Trade payables and other financial liabilities (short-term)

	31 December 2012	*31 December 2011*
Trade payables	131,609	135,419
Financial liabilities	630	532
Other liabilities:		
Investment liabilities	14,220	59,001
Payroll	21,420	8,806
Other liabilities	20,600	2,824
Total	188,479	206,582

In other liabilities as at 31 December 2012 the Group presents mainly finance lease liabilities in the amount of PLN 19,800 thousand.

The terms and conditions of payments of the financial liabilities presented above:

For terms and conditions of transactions with related parties, refer to note 37.

Trade payables are non-interest bearing and are normally settled within 14 or 30 days.

Interest payables are normally settled within 1 month or quarter within the entire year.

33.2. Trade payables and other financial liabilities (long-term)

	31 December 2012	*31 December 2011*
Finance lease liabilities	41,361	–
Put option liabilities	30,971	–
Short-term liabilities to other entities – over 12 months	605	543
Other finance liabilities	85	432
Other liabilities	310	4
Total	73,332	979

Notes to consolidated financial statements (in PLN thousand)

33.3. Other non-financial liabilities

	31 December 2012	*31 December 2011*
Liabilities arising from VAT settlements	31,421	12,664
Liabilities arising from environmental charges	28,586	24,696
Excise tax liabilities	185	70
Social security liabilities	35,527	10,209
Personal Income Tax	9,288	2,701
Other state budget liabilities	1,918	359
Prepayments for inventory	9,217	15,933
Operating fee	11,609	–
Other	473	1,021
Total	128,224	67,653

Liabilities arising from environmental charges relate to fees for air pollution, waste storage, water consumption and sewage disposal. Those fees are paid twice a year.

Operating fees relate to extracted minerals, which are a result of Geological and Mining Law. These fees are paid twice a year.

33.4. Derivative financial instruments

	31 December 2012	*31 December 2011*
Financial instruments hedging against fluctuations in interest rates (SWAP)	37,203	30,367
Other currency options	–	–
Total	37,203	30,367
of which:		
long-term	26,059	21,696
short-term	11,144	8,671

33.5. Grants and deferred income

	31 December 2012	*31 December 2011*
Grants and deferred income (short-term)	21,914	1,910
Grants and deferred income (long-term)	50,986	52,967
Total	72,900	54,877

Grants recognised in the consolidated statement of financial position in the amount of PLN 49,781 thousand as at 31 December 2012 (as at 31 December 2011 in the amount of PLN 51,236 thousand) originated as a result of valuation of the loan from National Fund for Environmental Protection and Water Management as if the loan was granted on an arm's length basis. The grant is settled over economic useful life of the underlying fixed assets at the 464 MW power unit in Elektrownia Pątnów II.

Grants in the amount of PLN 3,150 thousand as at 31 December 2012 (as at 31 December 2011 PLN 3,641 thousand) originated as a result of redemption through subsidizing loans obtained for financing of environmentally friendly investments from the National Fund for Environmental Protection and Water Management. The grant is settled over economic useful life of the underlying fixed assets purchased or financed within the investment.

In short-term grants and deferred income as at 31 December 2012 the Group presented gain on bargain purchase of PAK KWB Konin in the amount of PLN 19,969 thousand (described in note 11).

Grants settlement is presented under other operating income.

34. Contingent liabilities and description of significant legal proceedings

Apart from the liabilities described in note below as at 31 December 2012 the Group did not have other contingent liabilities, guarantees or suretyships issued.

34.1. Legal proceedings

Compensations resulting from dissolution of the long – term electric energy and power sales contracts

The subsidiary company „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 in connection with early termination of long-term power and electricity sales contracts. Revenue from the received compensations is recognized in proportion to earned rights to compensations until the end of the period to which they apply. In order to estimate the value of revenue for the period to which the compensations relate, the Company makes estimates to determine the ratio of estimated stranded costs to total received, reimbursed and expected discounted annual advances (including already received advances), annual adjustments and expected final adjustment.

Elektrownia Pątnów II" sp. z o.o., in line with the accepted accounting policy and based on the adopted financial model, recognized in the 12-month period ended 31 December 2012 and in years 2011, 2010 and 2009 revenue from received compensations in the amount of PLN 83,635 thousand, PLN 98,331 thousand, PLN 102,132 thousand and PLN 155,801 thousand respectively Based on the decision of the President of Energy Regulatory Office ("ERO") dated 31 July 2009, the Company was required to return to the administrator of the compensation system, Zarządca Rozliczeń S.A., the amount of PLN 52,493 thousand as an adjustment to the stranded costs for the year 2008. The Management Board of the Company disagreed with the decision of the ERO's President and filed an appeal with the Regional Court in Warsaw – the Court of Competition and Consumer Protection ("CCCP"). On 23 September 2009, the CCCP ruled to partially cancel the execution of the decision of President of ERO and ordered to pay the amount of PLN 26,493 thousand.

On 1 December 2010, the Court of Competition and Consumer Protection dismissed the Company's appeal against the decision of the President of ERO and considered his arguments as reasonable.

The Company performed detailed legal analysis of the CCCP's decision in co-operation with prestigious law office and on 9 February 2011 filed an appeal with the Court of Appeal challenging the first instance sentence.

On 11 October 2012 the Court of Appeal gave the company a favourable judgment amending the judgment of the Court of First Instance and the decision of the President of the ERO dated 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. Judgment of the Court of Appeal is final and binding. Accordingly, on 17 October 2012, "Elektrownia Pątnów II" sp. z o.o. called Zarządca Rozliczeń S.A. to pay the awarded adjustment of the year 2008 and to return the amount of PLN 26,493 thousand paid by EP II as a partial settlement of the President of ERO decision resulted from CCP's decision dated 23 September 2009. The request for payment was issued in the total amount of PLN 55,576 thousand. On 22 October 2012 Zarządca Rozliczeń S.A. paid the mentioned amount to Company's bank account. The amount of awarded adjustment for the year 2008, in part that was not recognized as a revenue from PPA for the year 2008 (ie. PLN 19,971 thousand) was recognized as revenue from sales and was received in the year 2012.

The decision of the Court of Appeal confirmed the correctness of calculating adjustments by "Elektrownia Pątnów II" sp. z o.o. in each of the previous periods, therefore, the Company did not change the revenue recognition rules related to revenues from compensations for the year 2012 and for the previous years. The President of Energy Regulatory Office filed a cassation complaint against the judgment of the Court of Appeal.

Administrative proceedings related to the non-compliance with the "energy exchange obligation" requirement"

The provisions of the Energy act, in particular Article 49a, par. 1 obligate the Companies from ZE PAK S.A. Capital Group to sell not less than 15% of energy produced in the period starting 9 August 2010 to 31 December 2010 on TGE or on a regulated market and the remaining part in a manner that ensures public access to this energy by means of open tender, sale on online trading platform on a regulated market. On 20 January 2012 and on 16 February 2012 President of Energy Regulatory Office notified the Group Companies (the parent ZE PAK S.A. and Elektrownia Pątnów II sp. z o.o., respectively) about initiating administrative procedure to impose a fine in connection with discovery of irregularities connected with failure to fulfil the abovementioned obligation. On 16 August 2012 the President of ERO issued a decision in which he punished ZE PAK S.A. with a fee amounting to PLN 6,000 and EP II sp. z o.o. a punishment in the amount of PLN 4,000 in connection with failure to fulfil the obligation specified in Article 49a, par. 1 and 2 of Energy Law. The Companies did not 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 URE commenced proceedings to impose a financial penalty on the Company due to the Company's failure to satisfy the obligation to maintain stocks of fuel ensuring continuity of supply of electricity and heat 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.

On the basis of decision dated 28 December 2010, President of URE imposed a cash penalty on ZE PAK S.A.

due to the Company's failure to satisfy the obligation to maintain stocks of fuel ensuring continuity of supply of electricity and heat for the years 2008 and 2009 in the amount of PLN 1,500 thousand.

In 2010 the Company recognised a provision for the full cost of the penalty. On 17 January 2011, the Company appealed against that decision to the Regional Court in Warsaw - Court of Competition and Consumer Protection.

Due to lack of final decision in this case, the company has not reversed the provision and recognized as at 31 December 2012 provision in the amount of PLN 1,500 thousand for the costs of penalty.

Proceedings for the refund of overpaid excise tax

According to regulations being in force in the European Union, in particular Article 21 Section 5 of the Energy Directive in conjunction with Article 6 Section 1 of the Horizontal Directive, since 1 January 2006 the sale of energy at the final stage of trading i.e. sale by the distributor to the final recipient (consumer) is subject to excise. The sale of energy at earlier stages of trading, e.g. from electricity producer to the distributor, is not subject to excise. In this case the tax obligation arises at the moment of supply of electricity to the consumer.

Therefore, ZE PAK SA, based on Article 75 § 1, in conjunction with Article 75 § 2 of the Act dated 29 August 1997 Tax Code (Journal of Laws of 1997 No. 137, item 926, as amended) applied for a declaration of overpayment of excise for the years 2006, 2007, 2008 and for January and February 2009, in the total amount of appx. PLN 626m, arguing that according to the regulations existing in the European Union and the Provincial Administrative Courts case law, transactions executed by ZE PAK SA are not subject to excise. The individual applications are considered at the levels of: Customs Office in Kalisz, Customs Chamber in Poznań, the Provincial Administrative Court in Poznań and the Supreme Administrative Court.

In connection with judgments of Administrative Courts in the matter of excise tax overpaid by other energy companies, ZE PAK S.A., together with its tax advisor analyzed Resolution I GPS 1/11 of the Supreme Administrative Court of 22 June 2011, in which the Supreme Administrative Court concluded that the transfer of the tax burden in the price excludes the possibility of the refund of an overpayment. Based on the rationale for this resolution it can be expected that there is a risk that the tax authorities will refuse to refund overpayments on the grounds that tax proceedings are not appropriate for claims of this type. Such claims could then be asserted under civil law, as a result of which a significant issue will arise due to the statute of limitations (under civil law, it is 3 years). Therefore, on 10 February 2012 ZE PAK S.A. filed a petition with the District Court Warszawa Śródmieście for sending a summons to the State Treasury to enter into a settlement in respect of the Company's claim amounting to PLN 626,405,829.00 and thus interrupted the running of the period of limitations.

No settlement was made, as during the hearing held on 16 April 2012 file VI Co 311/12the representatives of the State Treasury did not agree to enter into a settlement. At the same time, on 14 September 2012, the Company, while waiting for the outcome of tax proceedings relating to its previous requests for declaration of overpayment, provided the Customs Chamber in Poznań with additional explanations in the form of the results of a detailed economic analysis aiming to prove that the Company incurred a loss due to the payment of excise that it was not liable to pay. The proceedings that are currently at the stage of the Customs Chamber in Poznań relate to the period of December 2006 – September 2008. However, the Company is of the opinion that the document submitted also applies to other requests for overpayment from the whole period of January 2006 – February 2009.

As of 1 March 2009, the Excise Act of 6 December 2008 came into force, according to which the sale of electricity to an entity which is not a final user is not subject to excise.

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

On 28 October 2005, the agreement between PAK Odsiarczanie (whose legal successor is ZE PAK S.A.) and RAFAKO S.A. was signed for the design and turnkey construction of two desulfurization installations for power units no. 1-4 in Elektrownia Pątnów I. On 12 August 2008 the parties signed a protocol of early acceptance of work of two desulfurization installations and on 29 December 2009 a fan failure occurred in one of those installations and as a result ZE PAK S.A. suffered losses because of interruption of work of broken installations.

On 2 September 2011 parties have prepared final protocol from the meeting of the committee for emergency stops and calculation of the availability parameter. The calculations included in the protocol indicate that ZE PAK S.A., according to the provisions of the abovementioned agreement, can claim a penalty payment from RAFAKO S.A. in the total amount of PLN 21,700 thousand. On 3 August 2012 ZE PAK S.A. called RAFAKO to voluntarily pay the penalty for non-compliance with availability parameters of desulfurization installation provided by RAFAKO S.A. and on 10 August 2012 filed a summons to compromise with RAFAKO SA to District Court in Racibórz. Due to changes in composition of the Management Board of RAFAKO S.A. in November and December 2012 ie. at the time when District Court in Racibórz analysed ZE PAK S.A.'s summon to compromise, RAFAKO S.A. did not agree to any settlement. Therefore, on 21 December 2012, at the hearing, the District Court in Racibórz stated that the settlement did not occur and closed the proceeding. As at the date of preparation of these consolidated financial statements the Company cannot predict if RAFAKO S.A. will pay the claimed amount, and as a consequence if litigation will take place and what will be the final ruling. However the Company believes that it should be noted the parties do not renounce to negotiate extrajudicial settlement of the dispute. Both ZE PAK S.A. and RAFAKO S.A. have a lot of arguments to sustain their positions which may indicate that none of the parties can be certain of any decision in court. Therefore it seems that the most reasonable decision is to agree to a settlement, which according to ZE PAK S.A. would cover substantial part of ZE PAK S.A.'s claims in the amount of ca. PLN 21m and thus as a consequence it would result in lack of the need to return bank guarantee by ZE PAK S.A. The dispute with RAFAKO S.A. has not been reflected in the Company's books.

Notes to consolidated financial statements (in PLN thousand)

34.2. Tax settlements

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The lack of reference to well established regulations in Poland results in a lack of clarity and integrity in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems.

Tax authorities may examine the accounting records within up to five years after the end of the year in which the final tax payments were to be made. Consequently, the Group may be subject to additional tax liabilities, which may arise as a result of additional tax audits. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard as at 31 December 2012 and as at 31 December 2011.

35. Securities for repayment of liabilities

In order to secure the repayment of its liabilities, the Group uses different forms of collaterals. The most common form of collateral use is mortgage and registered pledge.

In the year ended 31 December 2012 the Group has signed an agreement which transfer the rights, claims and entitlements of “Elektrownia Pątnów II” sp. z o.o. related to sales transactions conducted on TGE. As a results, the contract of assignment of receivables from electricity sale agreement signed between Elektrownia Pątnów II and trading companies has been terminated.

As at 31 December 2012, the Group reported the following liabilities that were secured on its assets and other securities:

Liabilities secured on assets

No.	*Assets pledged as security*	*31 December 2012* *Value of collateral*	*currency*	*31 December 2011* *Value of collateral*	*currency*
ZE PAK S.A.					
1	Registered and financial pledge				
1.1	Registered pledge on ZE PAK S.A.’s assets (power units Nos. 3 and 4 in the Pątnow Power Plant)	460,000	PLN	460,000	PLN
1.2	Registered and financial pledge on rights and cash arising from ZE PAK S.A.’s IOS bank account held in PKO BP	240,000	PLN	240,000	PLN
1.3	Registered and financial pledge on rights and cash arising from ZE PAK S.A’s A and B bank accounts held in PKO BP and PEKAO	460,000	PLN	460,000	PLN
1.4	Registered pledge on a group of movables being part of the Desulphurising Installation in the Pątnow Power Plant	240,000	PLN	240,000	PLN
2	Registered and financial pledge on shares in subsidiaries				
2.1	Registered and financial pledge on the shares of ZE PAK S.A. in PAK Infrastruktura Sp. z o.o. and PAK HOLDCO sp. z o.o. in favour of BRE Bank S.A. (ZE PAK as guarant of the “Pątnów II” project)	400,000 339,750	EUR PLN	400,000 339,750	EUR PLN

Notes to consolidated financial statements (in PLN thousand)

No.	*Assets pledged as security*	*31 December 2012 Value of collateral*	*currency*	*31 December 2011 Value of collateral*	*currency*
3	Mortgage				
3.1	Joint and ceiling mortgage on plots no. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 In favour of PEKAO S.A.	145,500	PLN	145,500	PLN
3.2	Joint and ceiling mortgage on plots no. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 in favour of PEKAO S.A.	73,000	PLN	73,000	PLN
3.3	Joint and ceiling mortgage on plots no. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 in favour of PKO BP S.A.	145,500	PLN	145,500	PLN
3.4	Joint and ceiling mortgage on plots no. KN1N/00072269/2, KN1N1/00072270/2, KN1N/00073272/3, KN1N/00073273/0 in favour of PEKAO S.A..	73,000	PLN	73,000	PLN
PAK Serwis Spółka z o.o.					
1	Registered pledge				
1.1	Registered pledge on group of movables of PAK Serwis in favour of BGŻ Bank	–	PLN	4,525	PLN
1.2	Registered pledge on group of movables of PAK Serwis in favour of DZ Bank	2,521	PLN	3,441	PLN
EL PAK sp. z o.o.					
1	Bank deposit up to the amount of guarantee sum				
1.1	Bank guarantee for proper performance	1,012	PLN	420	PLN
2	Bank deposit above the guarantee sum				
2.1	Bank guarantee for proper performance	2,090	PLN	–	
3	Cash – bank transfer				
3.1.	Payment of deposit	47	PLN	–	
Elektrownia Pątnów II sp. z o.o.					
1	Registered and financial pledge				
1.1	Registered and financial pledge on rights arising from bank accounts of Elektrownia Pątnów II sp. z o.o. held in PEKAO and BRE Bank	339,750 400,000	PLN EUR	339,750 400,000	PLN EUR
1.2	Registered and financial pledge on rights arising from bank accounts of Elektrownia Pątnów II sp. z o.o. held in BOŚ	339,750 400,000	PLN EUR	339,750 400,000	PLN EUR
1.3	Registered pledge on group of movables and rights of Elektrownia Pątnów II sp. z o.o.	339,750 400,000	PLN EUR	339,750 400,000	PLN EUR
2	Mortgage				
2.1	Joint and ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots nos. KN1N/00071134/0, KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2,KN1N/00071136/4 in favour of BRE Bank S.A.	400,000	EUR	400,000	EUR

Notes to consolidated financial statements (in PLN thousand)

No.	*Assets pledged as security*	*31 December 2012* *Value of collateral*	*currency*	*31 December 2011* *Value of collateral*	*currency*
2.2	Joint and ceiling mortgage established by Elektrownia Pątnów II sp. z o.o. and PAK Infrastruktura sp. z o.o. on plots nos. KN1N/00071134/0,KN1N/00040530/0, KN1N/00064879/2, KN1N/00064880/2,KN1N/00071136/4 in favour of BRE Bank S.A.	339,750	PLN	339,750	PLN
PAK Holdco sp. z o.o.					
1	Registered and financial pledge				
1.1	Registered and financial pledge on the shares of PAK Holdco in Elektrownia Pątnów II sp. z o.o. in favour of BRE Bank S.A.	339,750 400,000	PLN EUR	339,750 400,000	PLN EUR
1.2	Registered pledge on group 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 and financial pledge				
1.1	Registered pledge of group 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 perpetual usufruct of land register – nos.:53149, 55458, 55457, 554534, KN1N/00080827/1, KN1N/00075017/2, KN1N/00080824/0, KN1N/00080825/7 in favour of BZ WBK	90,000	PLN	–	
2	Registered and financial pledge				
2.1	Transfer of title to two excavators and five driving stations together with the assignment of the insurance policy	86,590	PLN	–	
2.2	Pledge of receivables from coal sales contracts to Pątnów II - PKO BP	270,000	PLN	–	
2.3	Guarantee agreement no. 2110-52346- transfer of rights to movables – spare parts and other located in storage together with an assignment of insurance policy - BANK POCZTOWY	8,000	PLN	–	

Notes to consolidated financial statements (in PLN thousand)

Other securities

		31 December 2012		*31 December 2011*	
No.	*Type of security*	*value of collateral*	*Currency*	*value of collateral*	*Currency*
ZE PAK S.A.					
1	Guarantees				
1.1	Bank guarantee of payment No. DDF/4869/2010 issued by PEKAO S.A. for Condix S.A.	–		7,920	PLN
1.2	Bank guarantee of payment No. DDF/4870/2010 issued by PEKAO S.A. for Condix S.A.	–		12,037	PLN
2	Surety and contract transferring rights and obligations for ALPIQ	1,000	PLN	–	
EL PAK sp. z o.o.					
1	Bills of exchange				
1.1	Insurance guarantees for proper performance	4,296	PLN	5,671	PLN
1.2	Insurance guarantees relating to payment of tender deposit	220	PLN	570	PLN
1.3	Lease liabilities	7	PLN	43	PLN
Elektrownia Pątnów II sp. z o.o.					
1	Assignment of receivables under electricity sale agreement				
1.1	Agreement with Elektrim Volt S.A., Framework Agreement No. SPOT/129/EPII/E- VOLT/2009 + Sales Agreement No. EPII/EV(1)/2011, for the benefit of BRE Bank S.A.	–		188,536	PLN
1.2	Agreement with Inter Energia S.A., Framework Agreement No. SPOT/127/EPII/InterEnergia/2009 + Sales Agreement No. EPII/InterEnergia(1)/2011, for the benefit of BRE Bank S.A.	–		19,139	PLN
1.3	Agreement with Polska Energia - Pierwsza Kompania Handlowa sp. z o.o., Framework Agreement No. SPOT/68/EPII/PEPKH/2010 + Sales Agreement No. EPII/ PEPKH(1)/2011, for the benefit of BRE Bank S.A.	–		71,134	PLN
PAK Serwis sp. z o.o.					
1.	Bills of exchange	3,043	PLN	–	
2.	Guarantees				
2.1	Guarantees for proper performance	–	PLN	2,621	PLN
2.1	Guarantees for proper performance	385	EUR	684	EUR
2.3	Guarantee for defects repair	4,438	PLN	1,674	PLN
2.4	Guarantee for defects re air	94	EUR	932	EUR
2.5	Guarantee for refund of prepayment	–		705	PLN

Notes to consolidated financial statements (in PLN thousand)

PAK KWB Konin				
1.	Guarantees			–
1.1	Department of Health Care and Occupational Medicine "MED-ALKO	800	PLN	–
2.	Guarantees			–
2.1	Guarantee no. 2110-52346 -Bank Pocztowy	4,000	PLN	–
2.2	BRE BANK nr 40014KPA11	4,800	PLN	–

36. Guarantees and suretyships received

No.	*Type of liabilities, guarantees and suretyships*	*As at 31 December 2012* *Received in PLN*	*Received in EUR*	*As at 31 December 2011* *Received in PLN*	*Received in EUR*
	ZE PAK S.A.				
1	Bills of exchange	27,500	908	27,500	–
2	Payment guarantees	975	15,000	13,672	15,000
3	Guarantees for proper performance	27,301	1,053	38,954	4,480
4	Guarantees for withheld amounts	–	–	6,898	790
5	Guarantee for advance repayment	5,289	–	3,567	–
6	Suretyships received	211,143*	17,550	211,143*	17,550
	EL PAK sp. z o.o.				
1	Guarantees				
1.1	Guarantees for proper performance and removal of defects and faults (Cash payments)	84	–	215	–
1.2	Guarantees for proper performance and removal of defects and faults	2,474	–	2,216	–
	PAK Serwis sp. z o.o.				
1	Guarantees	1,144	61	1,396	61
2	Bills of exchange	171	56	171	56
	Elektrownia Pątnów II sp. z o.o				
	Guarantees for proper performance	6,338	–	–	–
	Guarantee for advance repayment	4,678	–	–	–

*surety in the amount of PLN 211,143 thousand relate to contract no. 1/2009 dated 30 July 2009 with Foster Wheeler Energia Polska sp. z o.o.

Notes to consolidated financial statements (in PLN thousand)

37. Related party disclosures

Total amounts of transactions with related parties for the current and preceeding financial years are presented below:

Related party		*Sales to related parties*	*Purchases from related parties*	*Receivables from related parties*	*Liabilities towards related parties*
Elektrim S.A.	*2012*	1	130	2,988	–
	2011	–	15	–	13
PAI MEDIA S.A.	*2012*	–	–	–	–
	2011	–	–	–	–
Elektrim Magadex S.A.	*2012*	–	–	10	–
	2011	–	–	10	–
Elektrim Volt S.A.:	*2012***	367,790	–	–	–
	2011	211,788	14,274	52	16,115
Magadex Serwis Sp. z o.o.	*2012*	3	55,665	–	6,419
	2011	–	4,578	–	426
Energia-Nova S.A.	*2012*	–	3,673	–	–
	2011	–	4,263	–	320
Polkomtel	*2012*	94	255	22	42
	2011	76	6	13	1
Centernet	*2012*	–	22	–	–
	2011	–	57	–	12
WKS Śląsk Wrocław	*2012*	–	2,000	–	–
	2011	–	2,000	–	–
Rafako*	*2012*	–	–	–	–
	2011	4,063	3,477	171	–
Laris Investments sp. z o.o.	*2012*	–	903	171	–
	2011	–	94	–	–
Embud sp. z o.o.	*2012*	–	–	31,104	–
	2011	–	–	–	–
Total	*2012*	367,888	62,648	34,295	6,461
	2011	215,927	28,764	246	16,887

*data as at 25 October 2011, on this day Rafako S.A. ceased to be a related party to GK ZE PAK S.A.

**data for period ended 30 September 2012, when Elektrim-Volt S.A.'s shares were acquired by ZE PAK S.A.

Sales to Elektrim Volt S.A. are related to sale of electric energy. Purchases from Elektrim Volt S.A. are related to commissions for brokerage services provided to the Group in relation to sale of electricity according to agency agreement dated 22 December 2006.

Notes to consolidated financial statements (in PLN thousand)

37.1. Transactions involving State Treasury companies

The total value of transactions with the State Treasury companies is presented in the table below:

Year	*Sales to State Treasury companies*	*Purchases from State Treasury companies*	*Receivables from State Treasury companies*	*Liabilities towards State Treasury companies*
2012	1,088,576	649,816	143,915	42,693
2011	1,271,641	1,023,086	149,857	66,996

Among the State Treasury companies, the following were the largest clients of the Zespół Elektrowni Pątnów – Adamów – Konin S.A. Capital Group during the year 2012: Energa Obrót S.A., PSE Operator S.A., TAURON Polska Energia S.A. and ENEA S.A. Total sales to these counterparties accounted for 81% of revenue from transactions with State Treasury companies. The largest purchase transactions were made by the Group with Kopalnia Węgla Brunatnego Konin S.A., Kopalnia Węgla Brunatnego Adamów S.A. and PSE Operator S.A. Purchases from these counterparties accounted for 71% of the value of purchases from the State Treasury companies during the year 2012.

Transactions with the State Treasury companies were presented for the period starting 1 January 2012 to 30 October 2012. For transactions with PAK KWB Konin S.A. and PAK KWB Adamów S.A. for the period starting 1 January 2012 to 18 July 2012, when ZE PAK S.A. Capital Group acquired mines. Transactions with State Treasury companies mainly relate to the operating activities of the Group and are made at arm's length.

37.2. Loan to Member of Management Board

The parent company did not grant any loans or other similar benefits to members of management or supervisory boards, either in the year ended 31 December 2012 and 31 December 2011.

37.3. Other transactions involving Management Board members

The Group did not make any transactions with members of management or supervisory boards, either in the year ended 31 December 2012 or 31 December 2011.

Notes to consolidated financial statements (in PLN thousand)

37.4. Executive Board emoluments

37.4.1. Remuneration paid or payable to Members of Management or Supervisory Boards

	Year ended 31 December 2012	*Year ended 31 December 2011*
Management Board of the parent company		
Short-term employee benefits (salaries and surcharges)	4,290	12,048
Jubilee bonuses	78	274
Post-employment benefits	–	–
Termination benefits	167	–
Supervisory Board of the parent company		
Short-term employee benefits (salaries and surcharges)	516	500
Jubilee bonuses	–	–
Post-employment benefits	–	–
Termination benefits	–	–
Management boards of subsidiaries		
Short-term employee benefits (salaries and surcharges)	6,385	4,624
Jubilee bonuses	–	–
Post-employment benefits	96	1
Termination benefits	218	–
Share-based payments	–	–
Supervisory Board of subsidiaries		
Short-term employee benefits (salaries and surcharges)	134	–
Jubilee bonuses	–	–
Post-employment benefits	–	–
Termination benefits	–	–
Total	11,884	17,447

37.4.2. Remuneration paid or payable to other key management personnel

	Year ended 31 December 2012	*Year ended 31 December 2011*
Short-term employee benefits (salaries and surcharges)	13,766	10,338
Jubilee bonuses	275	301
Post-employment benefits	22	67
Termination benefits	–	29
Share-based payments	–	–
Total remuneration paid to key management personnel (excluding Management Board and Supervisory Board)	14,063	10,735

Notes to consolidated financial statements (in PLN thousand)

38. Remuneration of certified auditor or entity authorised to audit financial statements

The table below shows remuneration of entity authorized to audit financial statements paid or payable for the year ended 31 December 2012 and 31 December 2011, by types of services:

Type of services	*Year ended 31 December 2012*	*Year ended 31 December 2011*
Statutory audit of the consolidated financial statements	210	215
Other attest services	–	40
Tax advisory services	–	–
Other related services	153	359
Total	363	614

The consolidated financial statements of the Group for the year 2012 and 2011 were audited by Ernst & Young Audit sp. z o.o.

Remuneration of certified auditor includes audit of statutory and consolidated financial statements of ZE PAK S.A. and does not include services rendered to the other Group companies.

In connection with the preparation of the prospectus, the Company incurred expenses in 2012 related to the work of the audit performed by Ernst & Young Audit Sp. z o.o. in the amount of PLN 2,896 thousand.

39. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivative financial instruments, comprise bank loans, loans received from affiliates and other institutions, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into transactions involving derivatives, mainly interest rate swaps. The purpose of these transactions is to manage the interest rate risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Management Board reviews and develops policies for managing each of these risks; these have been summarised below. The Company also monitors the market price risk arising from all the financial instruments held. The level of this risk is discussed in note 39. The Company's accounting policies in relation to derivatives are set out in note 10.15.

39.1. Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term financial liabilities.

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

In order to minimize interest rate risk, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge the underlying debt obligations.

Interest rate risk – sensitivity to changes

In interest rate sensitivity analysis, the Group uses parallel interest rates curve movement by potential, possible change of reference interest rates during the coming year. For the purpose of analysis of interest rates sensitivity to changes, average levels of reference interest rates for each year have been used. The scale of potential interest rates changes has been estimated based on variability of implicated ATMF options on interest rate, quoted on inter-bank market for those currencies, for which the Group has exposure on interest rates risk as at the reporting date.

Classes of financial instruments	31 December 2012		Analysis of sensitivity to interest rate risk as at 31 December 2012							
			WIBOR				***EURIBOR***			
	Carrying amount	***Value at risk***	***WIBOR + 113 bp***		***WIBOR -113 bp***		***EURIBOR + 107 bp***		***EURIBOR -107 bp***	
	In PLN thousand	***In PLN thousand***	***Profit/loss***	***Equity***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Equity***
Other financial assets	150,095	138,489	746	–	(746)	–	775	–	(775)	–
Trade 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 loans and borrowings	(1,252,309)	(1,252,309)	(5,066)	–	5,066	–	(8,602)	–	8,602	–
Trade payables and other financial liabilities	(261,811)	–	–	–	–	–	–	–	–	–
Derivative financial instruments	(37,203)	(37,203)	–	–	–	–	–	15,589	–	(15,589)
Total			**(1,898)**	–	**1,898**	–	**(6,718)**	**15,589**	**6,718**	**(15,589)**

Classes of financial instruments	31 December 2011		Analysis of sensitivity to interest rate risk as at 31 December 2011							
			WIBOR				***EURIBOR***			
	Carrying amount	***Value at risk***	***WIBOR + 84 bp***		***WIBOR -84 bp***		***EURIBOR + 72 bp***		***EURIBOR -72 bp***	
	in PLN thousand	***in PLN thousand***	***Profit/loss***	***Equity***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Other comprehensive income***	***Profit/loss***	***Equity***
Other financial assets	152,472	–	–	–	–	–	–	–	–	–
Trade and other receivables	219,367	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	385,429	385,429	1,940	–	(1,940)	–	1,113	–	(1,113)	–
Interest–bearing loans and borrowings	(1,253,929)	(1,237,045)	(1,004)	–	1,004	–	(8,046)	–	8,046	–
Trade payables and other financial liabilities	(207,561)	–	–	–	–	–	–	–	–	–
Derivative financial instruments	(30,367)	(30,367)	–	–	–	–	–	14,318	–	(14,318)
Total			**936**	–	**(936)**	–	**(6,933)**	**14,318**	**6,933**	**(14,318)**

39.2. Foreign currency risk

The Group is exposed to currency risk in connection with the transactions made. This risk relates to liabilities arising from loans and borrowings and liabilities to main contractor of the 464MW power unit, denominated in currencies other than its measurement currency.

The Group does not use derivative financial instruments to hedge against the risk of fluctuations in foreign exchange risk.

Possible fluctuations in the exchange rates have been calculated based on annual fluctuations, implicated for currency options quoted on an inter-bank market for the given currency pair at the reporting date.

The Group identifies the exposure to changes in the EUR / PLN exchange rates.

The following table demonstrates the sensitivity of the gross financial result of the Group to reasonably possible fluctuations in the said exchange rates, with all other variables remaining unchanged for those classes of financial instruments, which are subject to currency exchange rate risk..

Classes of financial instruments	*31 December 2012*		*Analysis of sensitivity to interest rate risk as at 31 December 2012*			
			EUR/PLN			
	Carrying amount	*Value at risk*	*rate EUR/PLN +8,65%*		*rate EUR/PLN -8,65%*	
			4.4418		*3.7346*	
	in PLN thousand	*in PLN thousand*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Equity*
Other financial assets	150,095	72,468	6,268	–	(6,268)	–
Trade and other receivables	220,559	2,866	248	–	(248)	–
Derivative financial instruments (assets)	–	–	–	–	–	–
Cash and cash equivalents	318,002	103,669	8,967	–	(8,967)	–
Interest–bearing loans and borrowings	(1,252,309)	(803,944)	(69,541)	–	69,541	–
Trade and other short–term financial liabilities	(261,811)	(795)	(68)	–	68	–
Derivative financial instruments (liabilities)	(37,203)	–	–	–	–	–
Total		**(625,736)**	**(54,126)**	–	**54,126**	–

Classes of financial instruments	*31 December 2011*		**Analysis of sensitivity to interest rate risk as at 31 December 2011**			
			EUR/PLN			
	Carrying amount	*Value at risk*	*EUR/PLN +14,05%*		*EUR/PLN -14,05%*	
			5,0374		*3,7962*	
	in PLN thousand	*in PLN thousand*	*Profit/loss*	*Other comprehensive income*	*Profit/loss*	*Equity*
Other financial assets	152,472	–	–	–	–	–
Trade and other receivables	219,367	5,390	663	–	(663)	–
Derivative financial instruments (assets)	–	–	–	–	–	–
Cash and cash equivalents	385,429	154,534	21,712	–	(21,712)	–
Interest–bearing loans and borrowings	(1,253,929)	(1,117,533)	(157,013)	–	157,013	–
Trade and other short–term financial liabilities	(207,561)	(6,875)	(966)	–	966	–
Derivative financial instruments (liabilities)	(30,367)	–	–	–	–	–
Total		**(964,484)**	**(135,604)**	–	**135,604**	–

39.3. Commodity price risk

The Group is exposed to the operation and adverse impact of risk factors associated with variability in cash flows and earnings due to changes in commodity prices. The exposure to commodity price risk reflects the volume of purchases of basic raw materials, which mainly includes lignite and wood and agricultural biomass.

The volume and purchase costs of basic raw materials are presented in the table below:

	2012		2011	
	Volume (tons)	*Usage cost (in PLN thousand)*	*Volume (tons)*	*Usage cost (in PLN thousand)*
Fuel type:				
Lignite	13,699,953	910,935	13,706,425	891,324
Wood biomass	310,660	72,600	289,555	59,125
Agro biomass	259,902	114,208	203,304	82,141
Oil	838	2,956	14,598	25,785
Sorbent	314,842	23,496	231,069	25,910

39.4. Credit risk

Credit risk is a potential credit event that may materialize in the form of the following factors: debtor insolvency partial repayment of debts, significant delay in the repayment of debts or other unexpected departure from the conditions of concluded contract.

The Group trades only with recognised parties with good credit capacity. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

In 2011, in connection with the implementation of the so called Law amending the Energy Law (Journal of Laws No. 21, item 104, dated 8 January 2010) imposing on energy manufacturers an obligation to sell not less than 15% of the volume of energy produced through the power exchange and, in case of the entities that are subject to the Act on termination of long-term contracts, to sell 100% through power exchange or in tenders under terms of regulations stated in ordinance, the energy sale structure of the Group has changed.

The subsidiary company, Elektrownia Pątnów II, which is subject to the Act on long-term contract termination, obtained in 2010 exemption from President of Energy Regulatory Office (ERO) from the above obligation for 60% of planned electric energy production in 2011. This amount was sold through bilateral agreements. The rest of the produced energy was sold through exchange and on balancing market ie. through PSE Operator in order to fulfil the obligation.

In may 2011 the Company has again applied to President of ERO for an exemption from the abovementioned obligation in respect of 60% of net electricity produced in 2012. The need for this was supported by the requirements of the Loan agreement and Security Agreement – the Company is obliged to make assignment of claims and rights of the contracts for the sale of energy in relation to 60% of produced energy to banks financing Pątnów II Project.

Unfortunately the Company did not receive a positive decision of the President of ERO for the year 2012 and therefore nearly 100% of produced energy was sold through the Power Exchange. The remaining volume was delivered to the system operator in the balancing market transactions.

Transactions conducted on power exchange market are settled on a daily basis by Towarowa Giełda Energii S.A., what minimises credit risk. Balancing market transactions are settled with the company PSE Operator, which, because of their function in the National Power System has indisputable creditworthiness.

With respect to credit risk arising from other financial assets of the Group such as cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Notes to consolidated financial statements (in PLN thousand)

39.5. Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets and projected cash flows from operations

The Group's objective is to maintain a balance between continuity of funding and flexibility. As a source of financing Group Companies use mainly loans, borrowings and bonds.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments.

31 December 2012	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	290,272	177,056	665,204	241,355	1,373,887
Trade payables 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**

31 December 2011	*Less than 3 months*	*3 – 12 months*	*1 – 5 years*	*Over 5 years*	*Total*
Interest bearing loans and borrowings	39,435	195,414	817,980	415,405	1,468,234
Trade payables and other financial liabilities	206,582	–	979	–	207,561
Derivative financial instruments	3,839	10,879	40,409	9,190	64,317
	249,856	**206,293**	**859,368**	**424,595**	**1,740,112**

Presented in the tables above derivatives are in gross values of undiscounted payments. However, these contracts can be settled in the gross values or on a net basis. The following tables present a reconciliation of these values to the carrying values of derivative instruments:

31 December 2012	*On demand*	*Less than 3 months*	*from 3 to 12 months*	*from 1 year to 5 years*	*Over 5 years*	*Total*
Inflow	–	209	530	5,668	2,018	8,425
Outflow	–	3,124	8,767	30,347	3,671	45,909
Net amount	–	(2,915)	(8,237)	(24,679)	(1,653)	(37,484)
Discounted using appropriate interbank rates	–	(2,915)	(8,229)	(24,471)	(1,588)	(37,203)

Notes to consolidated financial statements (in PLN thousand)

31 December 2011	*On demand*	*Less than 3 months*	*From 3 to 12 months*	*From 1 to 5 years*	*Over 5 years*	*Total*
Inflow	–	1,980	4,022	18,928	8,310	33,240
Outflow	–	3,839	10,879	40,409	9,190	64,317
Net amount	–	(1,859)	(6,857)	(21,481)	(880)	(31,077)
Discounted using appropriate interbank rates	–	(1,859)	(6,812)	(20,892)	(804)	(30,367)

Notes to consolidated financial statements (in PLN thousand)

40. Financial instruments

40.1. Fair values of individual classes of financial instruments

The table below presents a comparison of carrying amounts and fair values of all financial instruments reported by the Group by individual classes of assets and liabilities:

		Carrying amount		*Fair value*	
Financial assets	*Category according to IAS 39*	*31 December 2012*	*31 December 2011*	*31 December 2012*	*31 December 2011*
Other financial assets	LaR	150,095	152,472	150,095	152,472
Trade and other receivables	LaR	220,559	219,367	220,559	219,367
Derivatives	FVtPoL	–	–	–	–
Cash and cash equivalents	FAHtM	318,002	385,429	318,002	385,429
Financial liabilities					
Interest–bearing loans and borrowings, of which:		1,252,309	1,253,929	1,252,309	1,253,929
– floating rate long–term borrowings	FLaAC	790,385	1,008,118	790,385	1,008,118
– floating rate short–term borrowings	FLaAC	461,924	245,811	461,924	245,811
Trade and other financial liabilities	FLaAC	261,811	207,561	261,811	207,561
Derivatives	FVtPoL	37,203	30,367	37,203	30,367

Abbreviations used*:*

FAHtM	– Financial assets held to maturity
FVtPoL	– Financial assets/ financial liabilities at fair value through profit or loss,
LaR	– Loans and receivables,
HFS	– Financial assets held for sale
FLaAC	– Other financial liabilities at amortised cost

Notes to consolidated financial statements (in PLN thousand)

As at 31 December 2012 and as at 31 December 2011 the Group held the following financial instruments measured at fair value:

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

	31 December 2011	*Level 1*	*Level 2*	*Level 3*
Derivatives hedging assets	–	–	–	–
Derivatives hedging liabilities	–	–	30,367	–

In the year ended 31 December 2012, and 31 December 2011 there were no transfers between Level 1 and Level 2 of fair value hierarchy, and none of the financial instruments was moved to level 3 of fair value hierarchy.

Notes to consolidated financial statements (in PLN thousand)

40.2. Items of income, expense, gains and losses recognised in profit or loss, by class of financial instruments

Year ended 31 December 2012

	Income/ (expense) from interest (including amortised cost valuation)	*Foreign exchange gains/(losses)*	*Impairment write–down reversal/ (recognition)*	*Gains/(losses) on 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						
Loans and borrowings (long– and short–term)	(40,514)	57,201	1,167	–	(4,108)	13,746
Trade liabilities	(30)	(43)	–	–	(289)	(362)
Other financial liabilities (without derivatives)	(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 other income from short – term financial assets the Group presented gain on sale of TGE shares in the amount of PLN 20,000 thousand.

Notes to consolidated financial statements (in PLN thousand)

Year ended 31 December 2011

	Income/ (expense) from interest (including amortised cost valuation)	*Foreign exchange gains/(losses)*	*Impairment write–down reversal/ (recognition)*	*Gains/(losses) on derivatives*	*Other*	*Total*
Financial assets						
Cash and cash equivalents	20,315	27,663	–	–	–	47,978
Other short– term financial assets	90	156	–	–	1,105	1,351
Trade receivables	105	(1,314)	(45)	–	–	(1,254)
Other receivables	1	2,775	–	–	594	3,370
Derivatives	–	–	–	–	–	–
Financial liabilities						
Loans and borrowings (long– and short–term)	(47,895)	(98,116)	–	–	(117)	(146,128)
Trade liabilities	(1)	(4)	–	–	(3)	(8)
Other financial liabilities (without derivatives)	(66)	(2)	(2)	–	(63)	(133)
Derivatives	–	–	–	19,739	–	19,739
Other liabilities	(114)	(51)	–	–	(22)	(187)
Total	(27,565)	(68,893)	(47)	19,739	1,494	(75,272)

Notes to consolidated financial statements (in PLN thousand)

40.3. Interest rate risk

The following table shows the interest rate gap, representing the Group's exposure to interest rate risk, and concentration of this risk by currency and type of interest, after taking into account the effect of hedging transactions, i.e. Interest Rate Swaps, used to translate a stream of interest payments based on variable EURIBOR rate into fixed EUR rate.

		Type of interest rate	Carrying amount as at 31 December 2012	Carrying amount as at 31 December 2011
Financial assets exposed to interest rate risk	PLN	Fixed	–	–
		Variable	280,354	(154,149)
	Other currencies	Fixed	–	–
		Variable	176,137	154,534
Financial liabilities exposed to interest rate risk	PLN	Fixed	–	–
		Variable	448,365	(1,116,296)
	Other currencies	Fixed	403,604	490,585
		Variable	400,340	626,948
Net exposure	**PLN**	**Fixed**	**–**	**–**
		Variable	**(168,011)**	**962,147**
	Other currencies	**Fixed**	**(403,604)**	**(490,585)**
		Variable	**(224,203)**	**(472,414)**

Interest on financial instruments with floating rate is updated in the periods of less than one year. Interest on financial instruments with fixed interest rate does not change in the period to instrument maturity. Other financial instruments of the Group, which are not included in the tables above, are non-interest bearing and therefore are not subject to interest rate risk.

40.4. Hedges and hedge accounting

The Group hedges against the interest rate risk associated with taken out syndicated loan denominated in EUR with floating interest rate based on 6M EURIBOR reference rate using derivatives transactions. The instrument that hedges the exposure to interest rate risk is the transaction of Interest Rate Swap type, through which the Group translates the stream of interest payments based on variable 6M EURIBOR interest rate into payments at fixed interest rate of 3.1050%. The Group designates derivative instruments as hedging instruments in the model of cash flow hedges and recognizes them in accordance with the principles of hedge accounting.

The tables below present the basic parameters of derivatives designated as hedging instruments, including the periods during which the cash flows will occur due to cash flow hedges and during which they will affect the financial results, as well as their fair value in Polish zloty at 31 December 2012 and 31 December 2011.

Notes to consolidated financial statements (in PLN thousand)

Type of instrument	Nominal value in the currency of the transaction [EUR]*	Fair value in PLN	Expected duration of hedged item
	31 December 2012	31 December 2012	31 December 2012
IRS-type transaction	98,724	(37,203)	every six months, in January and July each year to the date of IRS maturity, i.e. July 2019

*) nominal value is amortized according to loan repayment schedule

Type of instrument	Nominal value in the currency of the transaction [EUR]*	Fair value in PLN	Expected duration of hedged item
	31 December 2011	31 December 2011	31 December 2011
IRS-type transaction	111,072	(30,367)	every six months, in January and July each year to the date of IRS maturity, i.e. July 2019

*) nominal value is amortized according to loan repayment schedule

The table below shows changes in the fair value of cash flow hedges taken to equity::

	Year ended 31 December 2012	*Year ended 31 December 2011*
Opening balance	(28,911)	–
Effective part of gains / (losses) on hedging instrument	(16,317)	(34,238)
Amounts recognized in profit or loss, of which:	(10,268)	(5,327)
- adjustment to interest costs	(10,268)	(5,327)
- adjustment due to ineffective hedge	–	–
Closing balance	(34,960)	(28,911)
Deferred tax assets recognized in the revaluation reserve	6,642	5,493
Closing balance, including deferred tax	(28,318)	(23,418)

41. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios that would support its business and maximise its value to the shareholders.

The Group manages its capital structure and as a result of changes in economic environment makes adjustments to it. No changes were made in the objectives, policies or processes relating to capital management during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using the gearing ratio, which is calculated as the ratio of net debt divided by total capital increased by net debt. The Group's policy is to keep the gearing ratio in the ranging from 20% to 60%.

Included in the net debt, are all interest bearing loans and borrowings, trade and other payables reduced by cash and cash equivalents. Capital includes shareholders' equity less the reserve for unrealized net gains.

Notes to consolidated financial statements (in PLN thousand)

	31 December 2012	*31 December 2011*
Interest bearing loans and borrowings	1,252,309	1,253,929
Derivative financial instruments (liabilities)	37,203	30,367
Trade payables and other financial liabilities	261,811	207,561
Less cash and cash equivalents	318,002	385,429
Net debt	1,233,321	1,106,428
Shareholders' equity	3,533,560	3,229,573
Revaluation reserve- valuation of hedging instruments	(28,318)	(23,418)
Total capital	3,561,878	3,252,991
Capital and net debt	4,795,199	4,359,419
Gearing ratio	26%	25%

42. Employment structure

The average employment in the Group in the years ended 31 December 2012 and 31 December 2011 was as follows:

	Year ended 31 December 2012	*Year ended 31 December 2011*
Management Board of the parent company	3	7
Management Boards of Group companies	26	15
Administration Department	581	180
Sales Department	52	43
Production Department	6,976	2,475
Other	671	252
Total	8,309	2,972

An increase in average employment in the year ended 31 December 2012 is related mainly to acquisition of PAK KWB Konin and PAK KWB Adamów, in which total employment as at 31 December 2012 amounted to 5,335 persons.

43. Events after the reporting date

Personal changes in the bodies of the Subsidiaries

On 18 February 2013 Supervisory Board meetings of PAK KWB Konin S.A. and PAK KWB Adamów S.A. took place. During the meeting of PAK KWB Konin S.A. Supervisory Board, Mr. Slawomir Mazurek was dismissed from the position of President of the Management Board – Chief Executive Officer and was appointed to the position of Vice President of Production. Ms Bożena Kopiecka – Member of the Board- Chief Financial Officer and Mr Roman Tomaszewski – Member of the Board – Directof of Production – were dismissed from their positions.

During the meeting of PAK KWB Adamów S.A. Supervisory Board Mr Piotr Rybarski was dismissed from the position of President of the Management Board, and was appointed to the position of Vice President of Production. Furthermore Mr Zbigniew Rabęda – Member of the Board for Technical issues was dismissed from his position.

In both mines mr Zbigniew Bryja was appointed as President of Management Board – Chief Executive Officer. Mr Zbigniew Bryja, as a result of new vocations, resigned from membership in the Supervisory Boards of the both mines. To the Management Boards of both mines were also appointed: Mr Jarosław Czyż as Vice President for Development and Mr Leszek Jakubow as Vice President for Finance and Restructuring.

When making changes to the corporate authorities and citing the same people the Supervisory Board wanted to ensure the proper implementation of the restructuring processes that needs be carried out in the near future.

As at 28 December 2012 the former President of PAK SERWIS sp. z o.o. Jan Siewierski resigned from his position. From 1 February 2013 the Supervisory Board of PAK SERWIS sp. z o.o. appointed mr Tomasz Starzak as Chairmen of the Management Board.

The Extraordinary General Meeting of Shareholders of ZE PAK S.A.

On 21 February 2013 an Extraordinary General Meeting of the Company took place. During the meeting a resolution on redemption of treasury shares acquired by the Company for redemption was taken.

1,202,453 ordinary shares with a nominal value of PLN 2 each, which stand for 2.31% of issued Capital, and which give 1,202,453 votes on a General Shareholders Meeting which represent 2.31% of total number of votes will be a subject of redemption.

The Company acquired treasury shares on 4 December 2012 from Credit Suisse Securities (Europe) Limited ("Stabilising Manager") based on authorization included in resolution no. 6 from Extraordinary General Meeting of Shareholders that took place on 20 August 2012 on the authorization of the Management Board to acquire treasury shares in connection with stabilizing action in relation to Company's share price and as an exercise of stabilizing option granted to "Stabilising Manager" under the terms of the stability agreement between the Company and the "Stabilising Manager" on 22 October 2012.

Treasury shares were purchased at PLN 25.99 each, i.e. with total remuneration amounting to PLN 31,251,753.47. The resolution came into force upon adoption, provided that legal consequence of redemption will take place at the moment of registration of the decrease in issued capital of the Company in National Court Register.

Resignation of Supervisory Board Members

On 21 February 2012 the Company has received the following statements:

-Mr Andrzej Mazurek, Member of the Supervisory Board resigned from his position on 21 February 2013 as a result of changes in shareholders structure,

-Mr Marian Eger, Member of the Supervisory Board resigned from his position on 21 February 2013 as a result of changes in shareholders structure,

-Mr Ireneusz Gołębiak, Member of the Supervisory Board resigned from his position on 21 February 2013 as a result of changes in shareholders structure,

-Mr Tomasz Klapsa, Member of the Supervisory Board resigned from his position on 21 February 2013 as a result of changes in shareholders structure