

Capital Group ENERGIA S.A.

**Consolidated financial report compliant with IFRS
for the year ended December 31, 2009
together with independent auditor's opinion**

Capital Group ENERGA S.A.

Consolidated Financial Statements for the year ended December 31, 2009
under IFRS (in zlotys)

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Capital Group ENERGA S.A.

Consolidated Financial Statements for the year ended December 31, 2009
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CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2008	Year ended 31 December 2009
Continuing operations			
Sale of products and goods for resale including excise tax		5 225 242 975,08	5 783 703 340,18
Excise tax		(59 191 710,00)	(234 260 730,00)
Sale of products and goods for resale		5 166 051 265,08	5 549 442 610,18
Sale of services		3 066 036 158,23	2 776 289 476,92
Rental income		18 453 612,95	54 363 900,35
Revenues		8 250 541 036,26	8 380 095 987,45
Cost of sales	11.5	7 179 702 683,62	7 503 726 592,11
Profit/loss from sales		1 070 838 352,64	876 369 395,34
Other operating income	11.1	102 045 856,07	134 629 875,03
Selling costs		90 624 582,71	92 550 813,88
General and administrative expenses		297 664 895,91	353 906 686,28
Other operating expenses	11.2	72 341 463,20	66 269 263,26
Financial Income	11.3	76 264 585,72	114 933 633,03
Financial costs	11.4	75 719 286,45	80 701 167,08
Share of profit of an associate		2 976 112,26	(1 680 657,39)
Profit/(loss) before tax		715 774 678,42	530 824 315,52
Income tax	12.1, 12.2	134 714 998,66	103 831 115,61
Net profit/(loss) from continuing operations		581 059 679,76	426 993 199,90
Discontinued operations			
Profit for the year from discontinued operations	24.2	-	(1 645 352,44)
Net profit/(loss) for the year		581 059 679,76	425 347 847,46
Attributable to equity holders of the parent		495 469 548,54	397 189 015,15
Attributable to non-controlling interests		85 590 131,21	28 158 832,31

Capital Group ENERGA S.A.

*Consolidated Financial Statements for the year ended December 31, 2009
under IFRS (in zlotys)*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2008	Year ended 31 December 2009
Net result	581 059 679,76	425 347 847,46
Valuation of financial instruments	-	-
Deferred tax related to valuation of financial instruments	-	-
Foreign exchange gains / losses arising on translation	26 825,05	(8 687,00)
Other net total income	26 825,05	(8 687,00)
Total comprehensive income	581 086 504,81	425 339 160,46
Attributable to equity holders of the parent	495 496 373,59	397 180 328,15
Attributable to non-controlling interests	85 590 131,21	28 158 832,31

Chief Financial Officer
Aleksandra Gajda - Gryber

.....
(date and signature)

Chairman of the Management Board

Miroslaw Bieliński

.....
(date and signature)

Head of the Consolidated Accounting Department
Sebastian Cichowski

.....
(date and signature)

Vice-Chairman of the Management Board
for Financial Issues

Roman Szyszko

.....
(date and signature)

Capital Group ENERGA S.A.

*Consolidated Financial Statements for the year ended December 31, 2009
under IFRS (in zlotys)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2008	31 December 2009
ASSETS			
Non - current assets			
Tangible fixed assets	14	7 699 188 897,99	8 032 048 734,22
Real estate investments	16	10 811 942,83	26 043 537,30
Intangible assets	18	172 505 613,44	212 366 170,75
Goodwill	17	-	17 246 353,14
Shares in associates and joint ventures valued in accordance with the equity method	19	71 112 102,15	41 827 151,07
Other shares		32 473 110,84	32 857 887,24
Deferred tax assets	12.3	80 885 314,16	97 722 813,26
Other non - current assets	23.1	2 734 077,82	2 466 578,19
		8 069 711 059,23	8 462 579 225,17
Current assets			
Inventories	21	202 194 551,18	275 913 756,43
Income tax receivables		16 328 387,00	19 040 182,00
Trade and other receivables		1 022 493 774,75	1 151 919 283,90
Other shares		813 600,00	262 200,00
Bonds and other debt securities		752 021,92	-
Deposits		-	-
Other financial assets		20 339 038,05	-
Cash and cash equivalents	22	809 883 154,34	886 816 549,64
Other current assets	23.2	135 596 638,20	101 846 335,01
		2 208 401 165,44	2 435 798 306,98
Non - current assets held for sale		-	35 689 882,09
TOTAL ASSETS		10 278 112 224,67	10 934 067 414,24

Capital Group ENERGA S.A.

Consolidated Financial Statements for the year ended December 31, 2009
under IFRS (in zlotys)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CTD.)

	Note	31 December 2008	31 December 2009
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	31.1	4 845 866 133,00	4 968 805 368,00
Foreign exchange gains / losses arising on translation		21 229,28	12 542,28
Supplementary capital	31.2	147 707 974,86	141 957 561,67
Retained earnings (loss)	31.3	1 036 261 742,48	1 366 589 091,57
		6 029 857 079,62	6 477 364 563,52
Non-controlling interests			
		1 032 944 390,19	905 786 648,22
Total equity			
		7 062 801 469,81	7 383 151 211,74
Non - current liabilities			
Loans and borrowings	36.4.4.1	139 537 721,38	57 012 356,31
Non - current provisions	32.1	370 271 187,01	549 977 881,35
Deferred tax liability	12.3	599 718 985,83	580 108 659,58
Deferred income and non - current government grants		379 857 243,66	470 035 998,01
Trade and other non - current liabilities		125 357,72	344 677,26
Lease liabilities		1 463 903,95	9 669 726,10
Other non - current liabilities	25.1	392 378,56	194 654,11
		1 491 366 778,11	1 667 343 952,72
Current liabilities			
Trade and other liabilities		704 211 460,12	775 003 487,95
Current loans and borrowings	36.4.4.1, 36.4.4.2, 38.5	144 201 682,25	289 416 404,15
Income tax liability		65 681 271,90	120 574 586,00
Deferred income and government grants	26.1	15 148 980,34	12 206 525,92
Accruals	26.2	82 508 752,97	61 498 418,77
Provisions	32.1	389 286 533,50	323 299 113,15
Other current liabilities	25.2	322 905 295,67	301 056 522,62
		1 723 943 976,75	1 883 055 058,56
Liabilities directly associated with the assets held for sale			
		-	517 191,22
Total liabilities			
		3 215 310 754,86	3 550 916 202,50
TOTAL EQUITY AND LIABILITIES			
		10 278 112 224,67	10 934 067 414,24

Chief Financial Officer
Aleksandra Gajda - Gryber

.....
(date and signature)

Chairman of the Management Board

Mirosław Bieliński

.....
(date and signature)

Head of the Consolidated Accounting Department
Sebastian Cichowski

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(date and signature)

Vice-Chairman of the Management Board
for Financial Issues

Roman Szyzsko

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(date and signature)

Capital Group ENERGA S.A.

*Consolidated Financial Statements for the year ended December 31, 2009
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CONSOLIDATED STATEMENT OF EQUITY CHANGES

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

Capital Group ENERGA S.A.

Consolidated Financial Statements for the year ended December 31, 2009
under IFRS (in zlotys)

	Equity attributable to equity holders of the parent					Non-controlling interests	Total equity
	Share capital	Foreign exchange gains / losses arising on translation	Supplementary capital	Retained earnings (loss)	Total		
1 January 2008	4 845 866 133,00	(5 595,77)	-	791 163 673,85	5 637 024 211,08	1 007 216 229,75	6 644 240 440,83
Income/expenses recognized in equity	-	26 825,05	-	-	26 825,05	-	26 825,05
Profit (loss) for the year	-	-	-	521 275 053,94	521 275 053,94	90 144 043,93	611 419 097,87
Total income/expenses for the year	-	26 825,05	-	521 275 053,94	521 301 878,99	90 144 043,93	611 445 922,92
Previous years' profit distribution	-	-	147 707 974,86	(147 707 974,86)	-	-	-
Payment for State Treasury	-	-	-	(1 072 960,10)	(1 072 960,10)	(189 345,90)	(1 262 306,00)
Dividends	-	-	-	(36 940 000,00)	(36 940 000,00)	-	(36 940 000,00)
Purchase of subsidiaries' shares	-	-	-	(1 756 591,56)	(1 756 591,56)	(96 756,43)	(1 853 347,99)
Change in status of consolidated entity	-	-	-	-	-	(43 323 735,27)	(43 323 735,27)
Other changes	-	-	-	-	-	-	-
31 December 2008	4 845 866 133,00	21 229,28	147 707 974,86	1 124 961 201,27	6 118 556 538,41	1 053 750 436,08	7 172 306 974,49

Chief Financial Officer
Aleksandra Gajda - Gryber

Head of the Consolidated Accounting Department
Sebastian Cichowski

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Capital Group ENERGA S.A.

Consolidated Financial Statements for the year ended December 31, 2009
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CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2008	Year ended 31 December 2009
Cash flows from operating activities		
Net profit (loss)	753 255 441,52	530 824 315,52
Adjustments:	467 111 276,15	341 739 618,84
Share of profits of the associates and joint ventures valued in accordance with the equity method	(2 976 112,26)	1 680 657,39
Amortisation and depreciation	479 430 830,74	554 503 003,41
Net interest and dividends	23 696 326,61	10 608 472,51
(Profit) loss on investing activities	(87 052 757,14)	(4 487 792,21)
(Increase) decrease in receivables	(298 292 930,98)	(121 482 703,54)
(Increase) decrease in inventories	68 292 827,76	(71 395 544,89)
Increase (decrease) in payables excluding loans and borrowings	154 160 107,64	(5 182 865,28)
Change in prepayments and accruals	216 695 497,91	47 213 636,47
Change in provisions	45 968 319,37	90 677 242,19
Income tax paid	(132 810 833,50)	(90 028 822,60)
Other	-	(70 365 664,61)
Net cash flows from operating activities	1 220 366 717,67	872 563 934,35
Cash flows from investing activities		
Sale of intangible assets and tangible fixed assets	163 163 573,78	2 446 306,07
Purchase of intangible assets and tangible fixed assets	(714 211 660,98)	(808 950 450,77)
Sale of other financial assets	10 660 887,59	551 400,00
Purchase of another financial assets	(23 018 673,65)	-
Acquisition of subsidiary, net cash acquired	-	(48 451 696,53)
Dividends received	4 822 099,15	495 691,27
Interest received	1 932 433,90	562 000,53
Repayment of loans granted	-	-
Loans granted	-	-
Other	(5 732 123,83)	21 947 110,31
Net cash flows from investing activities	(562 383 464,04)	(831 399 639,12)
Cash flows from financing activities		
Issue of shares	-	-
Payment of finance lease liabilities	(423 080,71)	(1 215 559,09)
Proceeds from loans and borrowings	60 332 542,42	177 514 892,33
Repayment of loans and borrowings	(321 158 007,33)	(136 698 463,75)
Dividends paid to equity holders of the parent	(36 940 000,00)	(14 031 509,77)
Repayment from State Treasury	36 544 821,00	-
Interest paid	(26 379 393,17)	(11 666 164,31)
Other	-	4 909 758,30
Net cash flows from financing activities	(288 023 117,79)	18 812 953,71
Net increase (decrease) in cash and cash equivalents	369 960 135,84	59 977 248,94
Cash as at the start of period	434 417 660,41	804 377 796,25
Cash as at the end of period	804 377 796,25	864 355 045,20

Chief Financial Officer
Aleksandra Gajda - Gryber

.....
(date and signature)

Head of the Consolidated
Accounting Department
Sebastian Cichowski

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Chairman of the
Management Board
Mirosław Bieliński

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

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ACCOUNTING PRINCIPLES (POLICY) AND ADDITIONAL EXPLANATORY NOTES

1. General information

The Capital Group ENERGA S.A. (the „Group”) consists of **ENERGA Spółka Akcyjna** (the „parent company”, the “Company”) and its subsidiary companies (see note 2). Consolidated financial report of the Group covers the year ended December 31, 2009 and includes comparative data for the year 2008 ended December 31, 2008.

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

The parent company was assigned statistical number REGON 220353024.

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

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

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

As of December 31, 2009 the State Treasury is the entity having control over the Company.

On 20 March 2009 the Registration Court in Gdańsk register an increase of the ENERGA SA’s share capital by PLN 122 939 235.00. The increase resulted from the registration of the split of ENERGA - OPERATOR S.A. (Splited Company) and a takeover of a part of its assets by ENERGA SA. The new 122 939 235 registered shares series “C” were issued with a par value amounting to PLN 1 each. On the basis of an Art. 531 §1 point 5 of the Commercial Companies’ Code the issued shares series “C” were taken over by the minority shareholders of ENERGA – OPERATOR S.A.

Capital Group ENERGA S.A.

*Consolidated Financial Statements for the year ended December 31, 2009
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2. Composition of the Group

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

a) subsidiary entities covered by consolidated financial statements:

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of the Capital Group of ENERGA S.A. in the share capital [%]	Share of the Capital Group of ENERGA S.A. in total number of votes [%]
1	ENERGA-OPERATOR SA	Gdańsk	Energy distribution	603 301 400,00	85,00	85,00	85,00
2	ENERGA Elektrownie Ostrołęka S.A.	Ostrołęka	Energy production	223 000 000,00	85,00	85,00	85,00
3	ENERGA Kogeneracja Sp. z o.o.	Elbląg	Energy production	43 465 000,00	100,00	100,00	100,00
4	ENERGA - OBRÓT S.A.	Gdańsk	Electric energy turnover	106 631 778,00	100,00	100,00	100,00
5	ENERGA Invest S.A. (previously ENERGA Trading S.A. i ELNORD S.A.)	Gdańsk	Electric energy turnover / investment projects management	3 250 000,00	77,50	98,25	100,00***
6	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	Customer service	811 000,00	100,00	100,00	100,00
7	Centrum Badawczo - Rozwojowe ENERGA Sp. z o.o.	Gdańsk	Research and development	52 000,00	28,85	98,13	100,00***
8	ENERGA Elektrownie Straszyn Sp. z o.o.	Straszyn	Energy production	235 824 000,00	100,00	100,00	100,00
9	ENERGA Oświetlenie Sp. z o.o.	Sopot	Maintenance of lighting	30 620 500,00	100,00	100,00	100,00
10	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o.	Straszyn	Hotel and training services	7 725 000,00	100,00	100,00	100,00
11	ENERGA Elektrociepłownia Kalisz S.A.	Kalisz	Energy production	16 456 000,00	99,99	99,99	100,00***
12	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	Power network realisation and designing	1 712 000,00	0,00	85,00	100,00***
13	Energetyka Kaliska – Liczniki i Instalacje Sp. z o.o.	Kalisz	Trading	813 000,00	0,00	85,00	100,00***
14	Multiserwis Sp. z o.o.	Kalisz	Transport, managing real estate	914 000,00	0,00	81,84	96,28***
15	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	Power network realisation and designing	27 980 000,00	0,00	84,97	99,97***
16	Zaopatrzenie Energetyki Koszalin Sp. z o.o.	Koszalin	Supply	1 670 000,00	100,00	100,00	100,00
17	Zakład Transportu Energetyki Sp. z o.o.	Koszalin	Rent and servicing of transportation means	2 178 000,00	0,00	85,00	100,00***
18	ENERGA Elektrownie w Koszalinie Sp. z o.o.	Koszalin	Energy production	7 655 000,00	100,00	100,00	100,00
19	„Energo-Konsulting” Sp. z o.o.	Koszalin	Execution and designing	220 000,00	0,00	85,00	100,00***
20	Zakład Oświetlenia Drogowego „PÓLNOC” Sp. z o.o.	Karlino	Lighting services	28 620 000,00	0,00	85,00	100,00***
21	ENERGA Elektrownie Łyna S.A.	Olsztyn	Energy production	12 468 000,00	96,05	99,56	99,60***
22	Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o.	Sierpc	Energy distribution	757 500,00	0,00	85,00	100,00***
23	Zakład Energetyczny Płock - Dystrybucja Wschód Sp. z o.o.	Ciechanów	Energy distribution	909 500,00	0,00	85,00	100,00***
24	Zakład Energetyczny Płock - Operator Sieci Rozdzielczej Sp. z o.o.	Płock	Energy distribution	701 000,00	0,00	85,00	100,00***
25	Zakład Energetyczny Płock - Multienergetyczne Przedsiębiorstwo Sieciowe Sp. z o.o.	Żychlin	Energy production*	655 000,00	100,00	100,00	100,00
26	Zakład Energetyczny Płock - Centrum Techniki Energetycznej Sp. z o.o.	Płock	Tele-informatics	685 500,00	100,00	100,00	100,00

Capital Group ENERGA S.A.

*Consolidated Financial Statements for the year ended December 31, 2009
under IFRS (in zlotys)*

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of the Capital Group of ENERGA S.A. in the share capital [%]	Udział Grupy ENERGA SA w całkowitej liczbie głosów [%]
27	ZEP-INFO sp. z o.o.	Płock	Tele-informatics	778 000,00	48,97	92,35	100,00***
28	Zakład Energetyczny Płock - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	Execution and designing	456 500,00	0,00	85,00	100,00***
29	ZEP - MOT Sp. z o.o.	Płock	Sale and service of mechanical vehicles	5 292 000,00	100,00	100,00	100,00
30	Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o.	Płock	Supply	738 500,00	100,00	100,00	100,00
31	ZEP-INPRO Sp. z o.o.	Płock	Execution and designing	381 500,00	0,00	85,39	100,00***
32	ENERGA - Nieruchomości S.A. w likwidacji	Płock	Managing and valuation of real estate	600 000,00	10,00	90,24	100,00***
33	Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL” Sp. z o.o.	Raciąż	Execution and designing	244 000,00	9,84	86,48	100,00***
34	KONGRES Sp. z o.o.	Łąck	Hotel and training services	550 000,00	7,27	95,36	100,00***
35	ZEP - AUTO Sp. z o.o.	Płock	Sale and service of mechanical vehicles	50 000,00	0,00	100,00	100,00
36	ENERGETYK Sp. z o.o.	Żychlin	Execution and designing	220 000,00	10,00	86,50	100,00***
37	ERA-GOST Sp. z o.o.**	Gostynin	Production of energy subassemblies	300 000,00	0,00	75,33	75,33
38	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	Execution and designing	300 000,00	0,00	85,00	100,00***
39	Przedsiębiorstwo Zaopatrzenia Materiałowego Energetyki Słupsk Sp. z o.o.	Słupsk	Supply	600 000,00	100,00	100,00	100,00
40	ENERGA Elektrownie Słupsk Sp. z o.o.	Słupsk	Energy production	29 400 000,00	100,00	100,00	100,00
41	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o.	Słupsk	Sale of mechanical vehicles	2 500 000,00	0,00	85,00	100,00***
42	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o.	Toruń	Supply	8 010 000,00	100,00	100,00	100,00
43	Elektrownia Wodna we Włocławku Sp. z o.o.	Włocławek	Energy production	425 000,00	70,00	70,00	70,00
44	ELNORD SLOVAKIA s.r.o.	Bratysława	Electric energy turnover	39 833,00 EURO	0,00	98,25	100,00***
45	ENERGA Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej Sp. z o.o.	Ostrołęka	Heat energy distribution	13 919 000,00	29,75	76,71	85,00***
46	Ekologiczne Materiały Grzewcze Sp. z o.o.	Szepietowo	Biomass production	6 330 000,00	0,00	82,17	96,68***
47	Elektrownia Ostrołęka S.A. w organizacji	Ostrołęka	Execution and designing	100 000,00	100,00	100,00	100,00

*The activity concerning the energy production of Zakład Energetyczny Płock – Multienergetyczne Przedsiębiorstwo Sieciowe Sp. z o.o. was transferred to ENERGA Kogeneracja Sp. z o.o. in December 2009. At present, the company is a leader of ENERGA BIOGAZ program.

** The shares of ERA – GOST Sp. z o.o. were sold on 12 March 2010.

*** Group's share in voting rights is higher than its share in equity due to indirect relations between subsidiaries

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b) associated entities measured in accordance with the equity method

No.	Company name	Registered office	Scope of operations	The company's share capital [PLN]	Share of ENERGA SA in the share capital [%]	Share of the Capital Group of ENERGA S.A. in the share capital [%]	Share of the Capital Group of ENERGA S.A. in total number of votes [%]
1	Oświetlenie Uliczne i Drogowe Sp. z o.o.	Kalisz	Lighting services	73 010 000,00	42,20	42,20	42,20
2	P.P.S.Ż.W. WIRBET S.A.	Ostrów Wlk.	Production of energy subassemblies	5 490 000,00	30,60	30,60	30,60
3	Toruńska Energetyka Cergia S.A.*	Toruń	Production and distribution of energy	39 044 129,00	23,53	23,53	23,53
4	SOEN Sp. z o.o.	Grudziądz	Hotel and administration services	1 000 000,00	48,50	48,50	48,50
5	Słupskie Towarzystwo Koszykówki Sportowa S.A.	Słupsk	Sports activities	513 500,00	0,00	40,90	40,90

* The shares of Toruńska Energetyka CERGIA S.A. were sold on 27 January 2010.

Changes in the Capital Group composition

Registration of the Split of ENERGA – OPERATOR S.A.

In March 2009, in connection with the registration of the Plan of the Split of ENERGA - OPERATOR SA the changes took place in the direct capital relations in the Capital Group. Due to the fact that the transaction was concluded by entities included in the consolidated financial statements, this reorganization had no influence on the assets, liabilities, revenues and costs, and the cash flow of the Capital Group in the particular years.

Purchase of shares

On 25 February 2009 the Capital Group purchased 23 662 shares in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o. o. (OPEC Sp. z o.o.), that constitutes 85% of the company's share capital. The shares were purchased by ENERGA SA (8 282 shares) and ENERGA Elektrownie Ostrołęka S.A (15 380 shares) for the total of PLN 39 042 300.00. As the result of this transaction the Capital Group share in the net assets of OPEC Sp. z o.o. equaled 76.71%.

On 27 August 2009 and 22 September 2009 ENERGA Elektrownie Ostrołęka S.A. purchased in the company Ekologiczne Materiały Grzewcze Sp. z o.o. (EMG Sp. z o.o.) 5 909 and 6 331 shares respectively, for the total amount of PLN 7 999 941.60. The purchased shares constitute 96.70% of EMG Sp. z o.o.'s share capital. As the result of the above transaction the Capital Group share in the net assets of EMG Sp. z o.o. equaled 82.17%.

Formation of a company

On 29 September 2009 ENERGA SA formed a New company Elektrownia Ostrołęka S.A. in organization, acquiring 100% of the company's shares. The share capital of the formed company equals PLN 100 000,00. The company was registered on 23 February 2010 under number KRS 0000348557.

3. Composition of the Management Board of the parent com

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

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

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

4. Approval of the Financial Report

The present financial report was approved for publication by the Management Board on April 30, 2010.

5. Basis for preparing the financial report

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

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

The consolidated financial statements have been prepared on the going concern assumption with respect to the related parties in the foreseeable future except from the company ENERGA Nieruchomości S.A. being in the process of liquidation.

On 16 July 2009 the Extraordinary General Meeting of Shareholders of ENERGA Nieruchomości S.A. set up a decision to stop the company's operations and to start the liquidation process. The Company is subject to consolidation. Taking under consideration the condition of assets and liabilities performed in the Company's financial statement it has been assumed that the assets and liabilities values included in the consolidated financial statements of the Capital Group of ENERGA SA do not essentially differ from their retrievable values.

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

All information related to the sales, costs and financial results of the discontinued activity in the accounting period or to be discontinued in the next accounting year are presented in the Note No 24.2.

5.1. Declaration on compliance

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

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

IFRS approved by the European Union in the area of accounting methods applied by the Group except for the Interpretation KIMSF 18 *Transfers of assets from customers*. The Group's Management Board is now analyzing the impact of the Interpretation KIMSF 18 on the financial statements of the Group.

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

The Management Board of the parent Company used its Best knowledge regarding the standards and interpretations application as well as the valuation methods and principles regarding particular positions of the Capital Group ENERGA SA financial statements according to IFRS EU as at December 31, 2009. The data and the explanatory notes were presented with all suitable care and accuracy.

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

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

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

5.2. Currency of measurement and currency of the financial statements

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

6. Important values based on professional judgment and estimates

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

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

Impairment of assets' value

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

Depreciation/amortization rates

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

Measurement of provisions

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

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

Deferred tax assets item

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

Classification of financial instruments

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

Fair value of financial instruments

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

Adjustment of revenues from sales of electricity

In most cases, counter readings concerning the amount of electricity sold in retail trade and its invoicing are performed in the periods different than reporting periods. Therefore, the

business units belonging to the Group make appropriate sales estimations as of each balance-sheet day, for the period not covered by the reading.

Receivables write-down

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

7. Change of estimations

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

8. New standards and interpretations that have been published but are not effective yet

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee and became effective after the balance-sheet day and before preparing these financial statements:

- IFRS 3 *Business Combinations* (revised in January 2008) – effective for financial years beginning on or after 1 July 2009,
- Amendments to IAS 27 *Consolidated and Separate Financial Statements* (issued in January 2008) – effective for financial years beginning on or after 1 July 2009,
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (issued in July 2008) – effective for financial years beginning on or after 1 July 2009,
- Revised IFRS 1 *First-time Adoption of International Financial Reporting Standards* (revised in November 2008) – effective for financial years beginning on or after 1 July 2009,
- IFRIC 17 *Distributions of Non-cash Assets to Owners* – effective for financial years beginning on or after 1 July 2009,
- *Improvements to IFRSs* (issued in April 2009) – some improvements are effective for annual periods beginning on or after 1 July 2009, the rest is effective for annual periods beginning on 1 January 2010,
- Amendments to IFRS 2 *Share-based Payments – Group Cash-settled Share-based Payment Transactions* (amended in June 2009) – effective for financial years beginning on or after 1 January 2010,
- Amendments to IAS 32 *Financial instruments: presentation: Classification of Rights Issues* – effective for financial years beginning on or after 1 February 2010.

The following standards and interpretations have been issued by the International Accounting Standards Board or the International Financial Reporting Interpretations Committee but not became effective before the day of approval of these financial statements:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters* – effective for financial years beginning on or after 1 January 2010,
- IAS 24 *Related Party Disclosures* (revised in November 2009) – effective for financial years beginning on or after 1 February 2010,
- IFRS 9 *Financial Instruments* – effective for financial years beginning on or after 1 January 2013,
- Amendments to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: Prepayments of a Minimum Funding Requirements* – effective for financial years beginning on or after 1 January 2011,
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* – effective for financial years beginning on or after 1 July 2010,
- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* – effective for financial years beginning on or after 1 July 2010.
- Interpretation IFRIC 12 *Service concession agreements* – applicable to annual periods starting January 1, 2008 or later – this interpretation was approved by EU for adoption, however – according to EU regulation – entities have obligation to adopt it no later than from the beginning of the first annual year beginning after March 2009.

In the opinion of the Management Board, the introduction of the above-mentioned standards and interpretations shall not have a substantial impact on the accounting principles (policy) applied by the Group.

9. Important accounting principles

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

9.1. Principles of consolidation

This consolidated financial report includes financial report of ENERGA S.A. and financial data of its subsidiaries, prepared in case of each company for the year ended December 31, 2009. Financial reports of subsidiary entities, after adjustments making the financial report compliant with IFRS, are prepared for the same reporting period as the financial report of the parent company, with use of coherent accounting principles, based on uniform accounting principles applied for transactions and business events of similar nature, except for Elektrownia Ostrołęka S.A. w organizacji that has not prepared the financial statement as at December 31, 2009 due to the longer accounting period in accordance to the Polish Accounting Standards. The financial information regarding Elektrownia Ostrołęka S.A. w organizacji as at December 31, 2009 and for the period September 29 – December 31, 2009 was included to the presented consolidated financial statements.

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

Subsidiary entities are subject to consolidation during the period from the day on which the Group took over control over them and cease to be consolidated from the day on which the control ceased to be exercised. The entity is controlled by the parent company when it holds, directly or indirectly through its subsidiaries, more than half of the number of votes in a given

company, unless it is possible to prove that such ownership is not decisive of exercising the control. Control is also exercised when the Company has a possibility to direct financial and operating policy of a given entity.

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

9.2. Investment in associated entities

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

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

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

9.3. Conversion of items expressed in foreign currencies

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

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

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

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

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

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

Exchange rate at the end of reporting period		
Currency	31 December 2008	31 December 2009
USD	2,9618	2,8503
EURO	4,1724	4,1082
CHF	2,8014	2,7661

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

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

Average exchange rate in reporting period		
Currency	2008	2009
USD	2,6307	3,1175
EURO	3,8532	4,3276
CHF	2,4473	2,8665

9.4. Tangible fixed assets

Tangible fixed assets are tangible items:

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

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

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

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

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

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

<i>Group of assets</i>	<i>Depreciation period in years</i>
Buildings, premises and civil engineering and marine structures	5 -100 years
Machines and technical equipment	2 – 50 years
Means of transport	3 – 14 years
Office equipment	4 - 20 years
Other fixed assets	4 - 20 years

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

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

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

9.5. Real estate investments

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

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

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

possible, the whole property is only treated as an investment property when the part used for Group's own needs is an irrelevant part of such property.

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

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

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

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

9.6. Intangible assets

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

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

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

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

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

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

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

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- the entity has binding agreement with non-related entity for the disposal of such rights after a fixed period of use – then the residual value is equal to the value determined in the agreement for the disposal of such rights;
- there exists active market for such rights and the value can be determined reasonably and it is highly probable that such market will exist after the useful life period of such asset.

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

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

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

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

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

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

9.6.1 Research and development costs

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

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

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

9.6.2 Goodwill

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

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

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

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

9.7. Impairment of non-financial fixed assets

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

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

As at each balance-sheet day, the Group makes an assessment if there are any prerequisites indicating that the impairment loss recognized in previous periods with respect to a given asset is unnecessary or should be decreased. If there are such prerequisites, the Group estimates the recoverable value of such asset. Previously recognized impairment loss is reversed only when from the time of the last impairment loss the estimated values used to determine recoverable value of the given asset have changed. In such case, the balance-sheet value of the asset is increased to its recoverable value. The increased amount may not exceed the balance sheet value of an asset item which would be determined (less

amortization) if in the previous years no impairment loss was recognized for this asset item. Reversal of the impairment loss is recognized immediately as a revenue in the income statement. After the impairment loss reversal is made, the amortization charge relating to a given asset is adjusted during the subsequent periods in a manner allowing making regular write-downs of its verified balance-sheet amount decreased by its residual value.

9.8. Costs of external financing

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

9.9. Financial assets

Financial assets are divided into the following categories:

- Financial assets held to maturity,
- Financial assets at fair value through financial result,
- Loans granted and receivables,
- Assets available for sale.

Investments held to maturity

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

Financial assets at fair value through financial result

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

- a) it is classified as tradable. Components of the financial assets are classified as tradable if they are:
 - purchased mostly for sale in short-term,
 - a part of the portfolio of specific and collectively managed financial instruments on which it is likely to earn profit in short-term; or
 - derivatives, excluding derivatives that are hedging instruments.
- b) it is classified in this category upon purchase, as per IAS 39. Financial asset covered by IAS 39 may be classified upon purchase to the portfolio measured at fair value, with changes related to the income statement (except capital instruments that are not priced in the active market and therefore their fair value cannot be reliably determined), if the following criteria are met:
 - such classification eliminates or significantly reduces incoherence of consideration when both, valuation and profit and loss identification principles, are subject to other regulations; or
 - such assets are part of financial assets, which are managed and assessed based on the fair value as per documented risk management strategy; or

- financial assets incorporate derivatives which should be reported separately.

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

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

Loans and receivables

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

Assets available for sale

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

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

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

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

9.10. Impairment of financial assets

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

Assets measured at amortized cost

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

The Group assesses first if there are objective indications of the impairment of particular components of financial assets which are significant individually, as well as the indications of impairment of financial assets which are not significant individually. If it results from the performer analysis that there are no objective indications of impairment of the financial asset

assessed individually, whether it is significant or not, the Group includes such an asset into the group of financial assets with similar characteristics of credit risk and assesses it entirely with regards to impairment. Assets which are individually assessed in respect of value loss and for which the impairment loss was recognized or recognized as not subject to change, are not taken into account when jointly testing the group of assets with regards to impairment.

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

Financial assets available for sale

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

9.11. Embedded derivative instruments

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

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

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

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

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

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

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

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

9.12. Inventories

Inventories include as follows:

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

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

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

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

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

Certificates of origin (green, red, yellow, white, grey and black certificates)

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

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

Purchased certificates of origin are valued at the purchase cost.

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

9.13. Cash, cash equivalents and short-term investments

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

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

Short-term investments include:

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

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

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

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

Cash and other cash equivalents are measured at nominal value.

9.14. Other assets, prepayments and accruals

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

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

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

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

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

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

9.15. Equity

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

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

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

9.16. Provisions

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

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

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

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

In particular, the following provisions are provided:

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

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

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

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

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

Retirement severance pays and jubilee rewards

Employees of the companies operating within the Group are entitled to jubilee rewards and retirement severance pays under the company remuneration schemes and the labor code. Jubilee rewards are paid to employees when their work service exceeds specific number of years. Retirement severance pays are paid as one-off benefit upon retirement or leaving the company due to disability. Retirement severance pay and jubilee reward level depends on the length of work service and average salary of the employee. The Group creates provision

for future liabilities arising from retirement severance pays and jubilee rewards in order to attribute costs to the periods to which they refer. Under IAS 19, jubilee rewards are considered as other long-term employee benefits, while retirement severance pays are certain benefit schemes after termination of the employment. Current value of such liabilities as of each balance sheet date is calculated by an independent actuary. Calculated liabilities are also discounted payments which will be made in the future, taking into account the employment rotation and apply to the period up to the balance sheet date. Demographic and employment rotation information is based on historical data. Profits and losses from calculations made by an actuary are recognized in the income statement.

Profit appropriation for social (employee) purposes and special funds

As per the Polish practice, mostly in the companies emerged from former state-owned enterprises, shareholders may appropriate profit earned by the company for social (employee) purposes, including but not limited to: an increase of the value of the Company Social Benefit Fund, awards for the employees. Such payments are recognized in the statutory financial statements in the same way as dividends that is by change in the equity. In the financial reports drafted in line with IFRS, if the profit is appropriated for the increase of the Company Social Benefit Fund than it is classified as operating expense in the year for which the profit appropriation took place.

9.17. Financial liabilities

Financial liabilities are divided into the following categories:

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

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

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

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

Financial liabilities measured at fair value through financial result include tradable financial liabilities and financial liabilities initially classified as measured at fair value through financial result. Financial liabilities are classified as tradable if they were purchased for resale in the near future. Derivative instruments, including isolated embedded instruments, are also classified as tradable, unless they are considered as effective hedging instruments. Financial assets may be initially classified as measured at fair value through financial result if the following criteria are met: (i) being so classified eliminates or notably reduces incoherence of consideration when both, the valuation and profit or loss identification are governed by different regulations; or (ii) liabilities are part of the group of financial liabilities managed and measured at fair value as per documented risk management strategy; or (iii) financial liabilities incorporate embedded derivative instruments that should be disclosed separately. As of December 31, 2009 the financial assets classified as measured at fair value through financial result amounted to PLN zero (as of December 31, 2008 PLN 14 348 885.13).

Financial liabilities measured at fair value through financial result are measured at fair value taking into account their market value as at the balance sheet date and ignoring the costs of

the transaction. Changes in the fair value of such instruments are recognized in income statement as financial expenses or revenues.

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

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

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

9.18. Accruals and deferred income

The Group creates accruals:

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

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

Deferred income is created in line with the prudence and commensuracy principles in respect of revenues and expenses. Deferred income includes:

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

9.19. Emission rights

The purchased emission rights are valued AT a purchase price and reported as intangibles. The value of the rights is not depreciated. The rights are written-off in the case of their use

for coverage of the shortage of the value of the certificates held in comparison to the CO2 emission. The write-offs are recorded as a costs of the accounting period.

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

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

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

The provision is created as operating costs.

9.20. Lease

The Capital Group as lessee

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

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

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

The Capital Group as lessor

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

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

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

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

9.21. Taxes

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

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

VAT

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

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

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

9.22. Revenues

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

Revenues from sales of goods and products

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

Revenues include:

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

Interest

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

Dividends

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

Revenues from rent and from operating lease

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

9.23. Costs

Cost of sales

Cost of sales includes:

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

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

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

9.24. Other operating revenues and costs

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

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

9.25. Financial revenues and expenses

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

- disposal of financial assets,
- revaluation of financial instruments, excluding financial assets available for sale the effects of which are recognized as revaluation capital,
- revenues from share in net profits of other entities,
- interest,

- changes in provisions resulting from approaching the date when the cost is to be incurred (discount reversal effect),
- exchange rate differences resulting from operations performed in the reporting period and valuations of balance sheet assets and liabilities at the end of the reporting period, except the exchange rate differences recognized in the initial value of a fixed asset, to the extent that they are considered adjustment of costs of interest and exchange rate differences for valuation of capital instruments in a foreign currency, classified to AFS portfolio,
- other items associated with financial operations.

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

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

9.26. Net earnings per share

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

9.27. Cash flow statement

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

10. Information on business activity segments

Since January 1, 2010 the IAS 14 „Segment reporting” had been replaced by IFRS 8 „Operating segments”. IFRS 8 requires the following information to be disclosed in the financial statements: the data related to operating segments of the Capital Group based on the internal reports used by CODM (Chief Operating Decision Makers) in order to make decisions regarding resources allocation and to assess the results of the operating segments. The values disclosed should be in accordance with the values internally reported to CODM and do not need to agree with IFRS. IAS 14 required the disclosure of information regarding industry segments and geographic segments.

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

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

The Group operates in the following business activity segments: distribution, trade, production, other.

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

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

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

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Other operations include predominantly street lighting, grid construction, supply, training centers, transport and IT.

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

Tables below show breakdown of the revenues, costs, assets and liabilities by specific industry segments in 2008-2009:

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31 December 2009	Distribution	Trading	Production	Others	Total	Unallocated items and eliminations	Total activity
Revenues							
Sale to external customers	310 050 195,85	7 208 542 555,70	624 221 581,02	237 281 654,88	8 380 095 987,45	-	8 380 095 987,45
Sale to other segments	2 718 352 710,44	2 333 564 244,96	892 340 843,09	658 314 192,22	6 602 571 990,71	(6 602 571 990,71)	-
Total revenues	3 028 402 906,29	9 542 106 800,66	1 516 562 424,11	895 595 847,10	14 982 667 978,16	(6 602 571 990,71)	8 380 095 987,45
					-		-
Net profit/loss before income tax and financial income/expense	(29 200 550,20)	107 606 872,17	410 597 615,30	25 016 523,42	514 020 460,69	(15 747 953,74)	498 272 506,95
Net financial income/expense	24 440 161,65	20 252 813,10	14 405 412,64	241 455 725,67	300 554 113,06	(266 321 647,11)	34 232 465,95
Share of profit of an associate	-	-	-	-	-	(1 680 657,39)	(1 680 657,39)
Profit/loss before tax	(4 760 388,55)	127 859 685,27	425 003 027,94	266 472 249,09	814 574 573,75	(283 750 258,24)	530 824 315,51
Income tax	2 642 514,53	27 459 750,91	91 966 707,87	(3 572 412,74)	118 496 560,57	(14 665 444,96)	103 831 115,61
Profit for the year from discontinued operations	-	-	-	-	-	(1 645 352,44)	(1 645 352,44)
Net profit/loss for the year	(7 402 903,08)	100 399 934,36	333 036 320,07	270 044 661,83	696 078 013,18	(269 084 813,28)	425 347 847,46
Assets and liabilities							
Segment assets	7 255 314 105,97	1 379 173 661,69	1 553 226 604,56	5 566 145 174,48	15 753 859 546,70	(4 897 309 165,62)	10 856 550 381,08
Share in an associate	-	-	-	90 277 675,68	90 277 675,68	(48 450 524,61)	41 827 151,07
Unallocated assets	-	-	-	-	-	35 689 882,09	35 689 882,09
Total assets	7 255 314 105,97	1 379 173 661,69	1 553 226 604,56	5 656 422 850,16	15 844 137 222,38	(4 910 069 808,14)	10 934 067 414,24
Segment liabilities	2 096 734 151,65	680 505 310,30	508 310 797,07	251 263 964,41	3 536 814 223,43	13 584 787,85	3 550 399 011,28
Unallocated activities	-	-	-	-	-	517 191,22	517 191,22
Total liabilities	2 096 734 151,65	680 505 310,30	508 310 797,07	251 263 964,41	3 536 814 223,43	14 101 979,07	3 550 916 202,50
31 December 2009	Distribution	Trading	Production	Others	Total activity		
Other data concerning segment:							
Investment expenditure:							
- for fixed assets	635 330 263,35	13 176 439,67	123 498 214,30	21 195 812,24	793 200 729,56		
- for intangible assets	35 875 948,14	6 581 077,33	5 797 356,27	9 009 675,24	57 264 056,98		
- for real estate investments	-	-	-	-	-		
Depreciation of fixed assets	447 958 100,79	3 087 644,39	67 222 674,83	15 360 265,38	533 628 685,39		
Amortisation of intangibles	14 180 911,13	958 257,08	2 158 970,32	1 783 404,31	19 081 542,84		
Impairment write - downs for fixed assets	-	-	2 169 170,51	2 499 923,30	4 669 093,81		
Impairment write - downs for inventories	301 987,44	-	596 961,62	1 794 190,37	2 693 139,43		
Other write - downs	-	-	-	83 164,00	83 164,00		
Other non - monetary expenses:							
- provision for post - employment benefits	107 473 302,25	9 710 115,74	24 544 913,11	13 602 813,29	155 331 144,39		
- jubilee bonuses	26 432 413,55	4 663 172,73	7 995 559,00	3 869 654,14	42 960 799,42		
- other provisions	(2 152 058,59)	197 833 129,45	8 780 764,06	13 631 224,60	218 093 059,52		
- other	-	-	-	-	-		

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31 December 2008	Distribution	Trading	Production	Others	Total	Unallocated items and eliminations	Total activity
Revenues							
Sale to external customers	206 533 826,16	7 291 559 423,11	497 753 431,22	254 694 355,77	8 250 541 036,26	-	8 250 541 036,26
Sale to other segments	2 976 342 093,20	997 587 325,59	724 674 787,44	543 764 252,69	5 242 368 458,92	(5 242 368 458,92)	-
Total revenues	3 182 875 919,36	8 289 146 748,70	1 222 428 218,66	798 458 608,46	13 492 909 495,18	(5 242 368 458,92)	8 250 541 036,26
Net profit/loss before income tax and financial income/expense	371 810 025,69	112 120 601,48	252 379 380,92	(3 882 785,11)	732 427 222,98	-	732 427 222,98
Net financial income/expense	371 810 025,69	112 120 601,48	252 379 380,92	(3 882 785,11)	732 427 222,98	17 306 807,00	749 734 029,98
Share of profit of an associate	-	-	-	1 683 819,28	1 683 819,28	(1 138 520,00)	545 299,28
Profit/loss before tax	2 976 112,26	-	-	-	2 976 112,26	-	2 976 112,26
Income tax	374 786 137,95	112 120 601,48	252 379 380,92	(2 198 965,83)	737 087 154,52	16 168 287,00	753 255 441,52
Profit for the year from discontinued operations	-	-	-	-	-	141 836 343,65	141 836 343,65
Net profit/loss for the year	374 786 137,95	112 120 601,48	252 379 380,92	(2 198 965,83)	737 087 154,52	(125 668 056,65)	611 419 097,87
Assets and liabilities							
Segment assets	6 960 007 154,07	1 393 211 399,02	1 351 096 222,49	408 052 662,94	10 112 367 438,52	-	10 112 367 438,52
Share in an associate	71 112 102,15	-	-	-	71 112 102,15	-	71 112 102,15
Unallocated assets	-	-	-	-	-	229 824 665,08	229 824 665,08
Total assets	7 031 119 256,22	1 393 211 399,02	1 351 096 222,49	408 052 662,94	10 183 479 540,67	229 824 665,08	10 413 304 205,75
Segment liabilities	1 207 204 033,11	618 990 989,83	274 105 769,13	152 250 107,25	2 252 550 899,32	-	2 252 550 899,32
Unallocated activities	-	-	-	-	-	988 446 331,94	988 446 331,94
Total liabilities	1 207 204 033,11	618 990 989,83	274 105 769,13	152 250 107,25	2 252 550 899,32	988 446 331,94	3 240 997 231,26
31 December 2008	Distribution	Trading	Production	Others	Total activity		
Other data concerning segment:							
Investment expenditure:							
- for fixed assets	521 347 285,69	3 578 426,48	135 048 377,86	18 631 481,47	678 605 571,50		
- for intangible assets	45 214 837,00	3 732 914,05	747 016,30	3 501 132,13	53 195 899,48		
- for real estate investments	-	-	-	254 297,56	254 297,56		
Depreciation of fixed assets	381 127 012,43	1 273 621,85	59 012 233,00	14 242 554,09	455 655 421,37		
Amortisation of intangibles	22 176 378,44	304 713,90	379 047,81	915 269,22	23 775 409,37		
Impairment write - downs for fixed assets	1 115 050,39	453 460,92	572 537,19	-	2 141 048,50		
Impairment write - downs for inventories	948 866,90	225 823,03	610 057,81	577 599,17	2 362 346,91		
Other write - downs	-	-	-	-	-		
Other non - monetary expenses:							
- provision for post - employment benefits	39 171 490,34	110 637,00	4 581 513,54	2 273 770,73	46 137 411,61		
- jubilee bonuses	19 898 809,67	183 660,00	3 275 262,47	1 825 981,16	25 183 713,30		
- other provisions	7 956 214,45	280 227 571,34	400 712,62	1 412 074,58	289 996 572,99		
- other	-	-	-	-	-		

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11. Revenues and costs**11.1. Other operating revenues**

Item	Year ended 31 December 2008	Year ended 31 December 2009
Gains on disposals of tangible fixed assets and intangible fixed assets	3 151 338,62	1 382 951,29
Grants	380 581,39	434 299,63
Reversal of other write - downs for other assets	5 843 470,19	4 340 012,27
Reversal of provisions (fe court proceedings)	37 512 274,28	35 401 543,65
Compensations, penalties and fines received	14 865 299,20	61 026 129,13
Reimbursement of taxes	798 269,27	2 114 867,18
Reimbursement of court expenses	2 389 077,82	3 141 679,30
Redeemed liabilities	116 469,90	296 459,91
Income related to illegal energy consumption	7 877 227,55	8 071 904,51
Other	29 111 847,85	18 420 028,16
Total other operating income	102 045 856,07	134 629 875,03

11.2. Other operating costs

Item	Year ended 31 December 2008	Year ended 31 December 2009
Loss on disposals of tangible fixed assets and intangible fixed assets	-	3 297 612,30
Disposals on fixed assets and intangibles	-	6 813 131,17
Donations	1 117 415,06	3 103 218,59
Other write - downs for other assets	5 758 851,58	3 028 881,34
Provisions set up	28 310 780,51	19 941 986,97
Compensations	5 638 266,52	1 680 028,60
Court expenses	3 059 248,80	3 861 521,09
Social expenses	1 490 365,42	1 288 530,88
Costs of removing random damages	13 579 097,66	11 034 324,29
Costs related to illegal energy consumption	2 676 247,55	2 747 505,48
Other	10 711 190,10	9 472 522,55
Total other operating expenses	72 341 463,20	66 269 263,26

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11.3. Financial revenues

Item	Year ended 31 December 2008	Year ended 31 December 2009
Income from financial instruments:	75 542 222,90	102 722 967,91
Interest	53 103 083,56	77 986 146,13
Dividends	4 822 099,15	495 691,27
Reversal of write - downs for financial assets	1 746 470,60	1 924 119,26
Valuation of financial assets	736 553,22	19 806 687,49
Foreign exchange rate differences	2 526 179,79	1 042 290,91
Gains on disposal of financial instruments	12 607 836,58	1 468 032,85
Other financial income:	722 362,82	12 210 665,12
Interest on tax liabilities	9 599,00	16 141,05
Other	712 763,82	12 194 524,07
Total	76 264 585,72	114 933 633,03

11.4. Financial costs

Item	Year ended 31 December 2008	Year ended 31 December 2009
Financial instruments' costs:	44 369 925,73	38 323 580,53
Interest expenses	26 379 393,17	15 969 986,10
Write - downs set up	4 029 651,46	1 672 733,19
Valuation of financial assets	13 894 385,13	19 000 375,53
Foreign exchange rate differences	66 495,97	1 266 341,63
Loss on disposal of financial instruments	-	414 144,08
Other financial costs:	31 349 360,72	42 377 586,55
Interest expenses	28 967 862,63	30 576 835,27
Interest on tax receivables	127 296,67	2 085 363,12
Other financial costs:	2 254 201,42	9 715 388,16
Total	75 719 286,45	80 701 167,08

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11.5. Costs of operations by nature

Item	Year ended 31 December 2008	Year ended 31 December 2009
Expenses by nature		
Amortisation and depreciation	479 430 830,74	554 503 003,41
Write - downs for fixed assets and intangibles	2 140 489,54	1 412 038,53
Raw materials and energy used	542 648 804,15	706 117 684,04
External services	1 240 232 408,97	1 186 144 694,99
Taxes and fees	194 239 674,49	252 570 382,80
Social security and other employees' benefits	869 548 257,53	1 045 161 704,88
Write - downs for inventories	355 198,71	1 531 307,88
Write - downs for trade receivables	2 145 173,42	27 723 758,65
Other	56 468 526,04	68 641 477,55
Total expenses by nature	3 387 209 363,59	3 843 806 052,73
Change in inventories, prepayments and accruals	133 990 352,66	(7 293 598,28)
Cost of manufacture of products for own needs (negative value)	(105 112 473,14)	(45 371 366,13)
Selling costs (negative value)	(90 624 582,71)	(92 550 813,88)
General and administrative expenses (negative value)	(297 664 895,91)	(353 906 686,28)
Value of sold raw materials and goods for resale	4 114 424 156,03	4 159 043 003,95
Cost of sales	7 142 221 920,52	7 503 726 592,11

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

Item	Year ended 31 December 2008	Year ended 31 December 2009
Included in cost of sales:	451 729 700,80	537 956 672,59
Fixed assets' depreciation	439 111 343,99	521 792 218,63
Write - downs for fixed assets	933 508,79	1 407 568,68
Intangibles' amortisation	11 684 848,02	12 964 110,10
Depreciation of real estate investments	-	1 792 775,18
Included in selling costs:	2 482 740,11	1 818 430,53
Fixed assets' depreciation	630 838,69	1 642 631,36
Write - downs for fixed assets	630 788,21	
Intangibles' amortisation	1 221 113,21	175 799,17
Included in general and administrative expenses:	25 834 672,83	12 866 586,39
Fixed assets' depreciation	14 734 000,32	7 618 779,53
Write - downs for fixed assets	468 662,40	4 469,85
Intangibles' amortisation	10 632 010,11	5 243 337,01
Included in change in products' balance	-	118 579,38
Included in costs of manufacture of goods for own needs	848 418,04	3 154 773,05

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11.7 Costs of employee benefits

Item	Year ended 31 December 2008	Year ended 31 December 2009
Salaries	624 662 001,60	693 317 595,53
Social security	145 175 984,01	120 983 419,24
Jubilee bonuses	19 555 171,33	31 907 093,42
Post - employment benefits, including:	31 382 588,61	135 857 185,04
<i>Provision for retirement and similar benefits</i>	<i>2 959 243,66</i>	<i>18 816 286,44</i>
<i>Electricity equivalent</i>	<i>20 794 319,95</i>	<i>101 447 875,53</i>
<i>Social Fund</i>	<i>7 629 025,00</i>	<i>15 593 023,07</i>
Other employees' benefits expenses	48 772 511,98	63 096 411,65
Employees' benefits expenses	869 548 257,53	1 045 161 704,88

12. Income tax**12.1. Tax burden**

Major tax items for the year ended on 31 December 2009 are as follows:

Item	Year ended 31 December 2008	Year ended 31 December 2009
Profit and loss statement		
Current income tax charge	181 724 412,23	145 248 754,84
Previous years' adjustments	-	(3 038 413,14)
Deferred tax	(39 888 068,58)	(38 379 226,09)
Tax charge recognized in profit and loss statement	141 836 343,65	103 831 115,61
Consolidated statement of changes in equity		
Deferred tax	-	-
Tax profit / (tax charge) recognized in equity	-	-

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12.2. Reconciliation of effective tax rate

Reconciliation of income tax on gross financial result before taxation at statutory tax rate with income tax calculated at effective tax rate of the Group for the year ended on 31 December 2009 is shown below:

Item	Year ended 31 December 2008	Year ended 31 December 2009
Gross profit (loss) from continuing operations	753 255 441,52	530 824 315,52
Gross profit (loss) from discontinued operations	-	(2 415 586,68)
Profit / (loss) before tax	753 255 441,52	528 408 728,83
Tax at Polish statutory rate of 19%	143 118 533,89	100 397 658,48
Previous years' adjustments	(35 872,24)	(3 038 413,14)
Tax effect on non - deductible items	(1 246 318,00)	5 701 636,03
Tax at effective tax rate	141 836 343,65	103 060 881,37
Tax charge recognized in profit and loss statement	141 836 343,65	103 831 115,61
Tax attributable to discontinued operations	-	(770 234,24)

Current tax burden is calculated in line with the applicable tax regulations. Under these regulations a taxable profit (loss) is differentiated from a book profit (loss) as non-taxable revenues and non-deductible costs are excluded as well as cost and revenue items that will never be subject to taxation. Tax burden is calculated based on tax rates applicable in a specific financial year. Tax rate of 19% was applicable in the years 2008 -2009. Current regulations do not provide for tax rate differentiation for future periods.

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

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12.3. Deferred income tax

Deferred income tax results from the following items:

	Consolidated balance sheet	
	31 December 2008	31 December 2009
Deferred tax assets	269 319 503,29	323 199 716,68
difference between carrying value and tax base of fixed assets and intangibles	39 627 843,23	47 297 963,59
difference between carrying value and tax base of inventories	403 314,35	511 696,49
power infrastructure granted free of charge and connection charges	68 658 756,43	85 167 608,81
post - employment benefits provisions	40 333 647,69	68 127 478,15
jubilee bonuses provision	33 961 922,97	39 187 937,57
provisions for reclamation of ash storage yard	856 235,57	2 368 046,00
provisions for emission rights	5 794 142,91	536 881,92
provisions for certificates of origin	13 153 107,92	34 318 701,74
unpaid salaries and employees' benefits	12 630 088,09	3 096 492,04
other provisions	32 021 465,50	15 658 731,26
accrued expenses	15 676 663,06	11 684 699,57
tax loss	1 320 864,32	4 421 749,73
others	4 881 451,25	10 821 729,81
Write - down	(663 086,00)	(263 253,46)
Offsetting	(187 771 103,13)	(225 213 649,96)
Deferred tax assets including write - downs, net	80 885 314,16	97 722 813,26

	Consolidated balance sheet	
	31 December 2008	31 December 2009
Deferred tax liabilities	625 405 462,23	580 108 659,58
difference between carrying value and tax base of fixed assets and intangibles	766 921 788,50	746 920 997,73
accrued income	31 359 681,40	24 739 894,02
difference between carrying value and tax base of certificates of origin	10 915 696,60	17 162 055,35
others	3 979 398,86	16 499 347,32
Offsetting	(187 771 103,13)	(225 213 634,84)
Deferred tax liabilities, net	625 405 462,23	580 108 659,58

Non-recognized deferred tax assets and liabilities relate to valuation of shares in the affiliated companies that are measured by equity method. Amount of temporary differences arising out of this is as follows: taxable difference of PLN 5,472 thousand as of 31 December 2009 and deductible difference of PLN 1,512 thousand as of 31 December 2008.

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

	Year ended 31 December 2009
Deferred tax assets gross	
Opening balance	81 548 400,16
<i>Increase:</i>	116 334 396,39
Charged to profit and loss	115 717 439,46
Charged to equity	261 325,76
Acquisition of a subsidiary	355 631,17
<i>Decrease:</i>	(62 454 198,12)
Charged to profit and loss	(62 454 198,12)
Charged to equity	-
Closing balance	135 428 598,43
Write - downs	-
Opening balance	(663 086,00)
Increase:	(263 253,46)
decrease	663 086,00
Closing balance	(263 253,46)
Offsetting	(37 442 531,71)
Deferred tax assets including write - downs as at the end of period	97 722 813,26
Deferred tax liabilities	
Opening balance	625 405 462,23
adjustments of the errors	(25 686 476,41)
Opening balance after adjustments	599 718 985,82
<i>Increase:</i>	79 162 726,50
Charged to profit and loss	76 214 536,28
Charged to equity	2 855 812,51
Acquisition of a subsidiary	92 377,71
<i>Decrease:</i>	(61 330 521,03)
Charged to profit and loss	(61 330 521,03)
Charged to equity	-
Offsetting	(37 442 531,71)
Deferred tax liabilities as at the end of period	580 108 659,58

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

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

Assets of the Funds and liabilities for the Funds were offset at the company level by the companies within the Group as such assets are not separate assets of the Group. Due to the above net balance as of 31 December 2009 is PLN 550 thousand net balance and was presented as other short-term liabilities, as of 31 December 2008 is PLN 137 thousand and was presented as other short-term liabilities.

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

Item	Year ended 31 December 2008	Year ended 31 December 2009
Fixed assets contributed to the fund	-	-
Loans for employees	29 326 417,15	29 373 785,32
Cash	5 849 518,02	5 165 707,72
Other assets	31 641,01	844,31
Liabilities	35 344 546,93	35 090 830,12
Net balance	(136 970,75)	(550 492,77)
Charges to Social Fund	18 672 145,43	26 367 602,48

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14. Tangible fixed assets

	Land	Buildings, premises and land and water engineering structures	Technical devices and machinery	Vehicles	Other fixed assets	Assets under construction	Total
Gross value							
Opening balance	26 965 778,72	6 830 590 171,67	1 888 635 305,65	119 348 260,53	266 258 508,85	160 906 503,90	9 292 704 529,32
Direct purchase	19 032 761,27	3 586 479,35	10 301 891,77	6 370 452,48	2 629 805,01	751 279 339,68	793 200 729,56
Acquisition of a subsidiary	386 656,34	45 950 151,64	8 966 225,21	1 129 924,66	1 000 765,87	685 640,29	58 119 364,01
Transfer from fixed assets under construction	1 857 051,90	424 763 975,80	235 924 401,11	19 504 981,87	34 672 856,12	(716 723 266,80)	-
Sale	(66 996,49)	(2 718 136,96)	(2 168 830,31)	(7 427 114,43)	(1 738 463,56)	(176 393,02)	(14 295 934,77)
Transfers between groups	-	287 643,71	(173 020,03)	251 320,00	(363 262,93)	(2 680,75)	0,00
Donations	-	(53 000,00)	(128 500,00)	(5 800,00)	(118 818,00)	-	(306 118,00)
Disposal	-	(24 713 896,27)	(856 439,61)	(1 837 724,29)	(20 641 118,43)	(286 729,15)	(48 335 907,75)
Received free of charge	-	13 852 277,61	288 996,17	-	25 001,00	-	14 166 274,78
Transfer to investments	(43 140,00)	(12 368 025,10)	(1 310 034,37)	-	(182 288,83)	-	(13 903 488,30)
Discontinued investments	-	(32 363,54)	(28 549,93)	-	(53 943,39)	(1 751 451,46)	(1 866 308,32)
Others	29 837,00	(11 273 292,39)	(480 366,77)	872 084,15	(278 408,69)	30 375 979,97	19 245 833,27
Closing balance	48 161 948,74	7 267 871 985,52	2 138 971 078,89	138 206 384,97	281 210 633,02	224 306 942,66	10 098 728 973,80
Accumulated depreciation							
Opening balance	-	(982 185 408,65)	(323 906 679,92)	(40 481 795,11)	(111 675 900,84)	(73 865,73)	(1 458 323 650,25)
adjustments of the errors	-	(114 400 044,11)	(14 258 934,67)	(99 446,24)	(6 433 556,05)	-	(135 191 981,07)
Opening balance after adjustments	-	(1 096 585 452,76)	(338 165 614,59)	(40 581 241,35)	(118 109 456,89)	(73 865,73)	(1 593 515 631,32)
Depreciation for period	-	(357 839 968,82)	(131 854 724,35)	(17 298 133,31)	(26 635 858,91)	-	(533 628 685,39)
Write - downs increase	-	(192 642,78)	(1 384 324,17)	(6 236,40)	(53 909,75)	(83 164,00)	(1 720 277,10)
Write - downs decrease	-	-	288 696,18	364 561,62	37 701,17	7 321,60	698 280,57
Sale	-	608 963,41	224 968,86	4 183 485,13	1 722 917,77	-	6 740 335,17
Transfers between groups	-	6 364,32	70 049,27	(296 436,35)	220 022,76	-	0,00
Donations	-	14 930,45	128 243,36	5 800,00	118 480,24	-	267 454,05
Disposal	-	26 396 844,06	456 443,79	1 735 310,81	14 652 164,56	-	43 240 763,22
Transfer to investments	-	871 365,23	1 064 256,08	-	103 052,86	-	2 038 674,17
Discontinued investments	-	3 438,54	24 352,81	-	51 853,40	-	79 644,75
Others	-	(212 797,22)	9 234 286,53	(106 509,54)	204 222,53	-	9 119 202,30
Closing balance	-	(1 426 928 955,57)	(459 913 366,23)	(51 999 399,39)	(127 688 810,26)	(149 708,13)	(2 066 680 239,58)
Net value as at the start of period	26 965 778,72	5 848 404 763,02	1 564 728 625,73	78 866 465,42	154 582 608,01	160 832 638,17	7 834 380 879,07
Net value as at the end of period	48 161 948,74	5 840 943 029,95	1 679 057 712,66	86 206 985,58	153 521 822,76	224 157 234,53	8 032 048 734,22

Carrying value of fixed assets in use as of 31 December 2009 under the financial lease and hire purchase agreements is PLN 2,873 thousand and as of 31 December 2008 is PLN 2,159 thousand.

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

Value of capitalized costs of external financing in the year ended 31 December 2009 was PLN 12 thousand and in the year ended 31 December 2008 was PLN 22 thousand.

Testing for impairment of tangible fixed assets

The Group performs impairment tests for cash generating units (CGUs) within distribution and electricity generation segments by determining the recovered value as of 31 December 2009.

As there are no comparable transactions in the Polish market the recovered value of assets was determined by discounted net financial flows method based on financial projections prepared for the years 2010-2020 for distribution and for the years 2010-2016 for electricity generation. For distribution the main discount rates in the range 8.98% - 12.59% were applied and for electricity generation the discount rates in the range 8.59% - 13.50% were applied.

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

15. Leases

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

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

	Lease payments to be paid as at 31 December 2008	Lease payments to be paid as at 31 December 2009
Within 1 year	227 164,74	609 084,02
1 - 5 years	313 751,43	1 064 630,87
More than 5 years	-	-
Total lease payments	540 916,17	1 673 714,89

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

The Group pays annual rent for the perpetual usufruct. Value of these costs in the year ended 31 December 2009 was ca. PLN 1,467 thousand. Planned costs of charges for perpetual usufruct of the land in the next period are ca. PLN 1,365 thousand. Annual amortization charge of the rights amounted to PLN 2,069 thousand in 2009.

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

15.2. Receivables from operating lease – The Group as lessor

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

	Lease payments to be collected as at 31 December 2008	Lease payments to be collected as at 31 December 2009
Within 1 year	19 128 097,00	24 361 200,00
1 - 5 years	103 023 569,69	101 546 000,00
More than 5 years	23 338 931,53	42 824 100,00
Total lease payments	145 490 598,22	168 731 300,00

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

Total contingent rents recognised as income in the year 2009 amounts to PLN 30,594,497.66.

15.3. Liabilities under financial lease and hire purchase agreements

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

	31 December 2008		31 December 2009	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within 1 year	1 546 965,44	1 430 528,66	9 594 008,86	9 033 293,16
1 - 5 years	1 581 597,70	1 463 903,95	10 673 089,39	9 669 726,10
More than 5 years	-	-	-	-
Total minimum lease payments	3 128 563,14		20 267 098,25	
Less financial costs	234 130,53		1 564 078,99	
Present value of lease payments including:	2 894 432,61	2 894 432,61	18 703 019,26	18 703 019,26
Short - term		1 430 528,66		9 033 293,16
Long - term		1 463 903,95		9 669 726,10

16. Investment real properties

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

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

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	Year ended 31 December 2009
Net value as at the start of period	10 811 942,83
Increase	17 024 369,65
Depreciation	(1 792 775,18)
Other decrease	-
Net value as at the end of period	26 043 537,30
Fair value of investment real properties	26 043 537,30

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

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

17. Change in goodwill of subsidiaries

Item	Year ended 31 December 2009
Gross value opening balance	-
Increase:	17 246 353,14
Purchase of subsidiaries' shares	17 246 353,14
Decrease:	-
Gross value closing balance	17 246 353,14
Write-downs opening balance	-
increase	-
decrease	-
Write-downs closing balance	-
Net value as at the start of period	-
Net value as at the end of period	17 246 353,14

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18. Intangible assets

	R&D expenses	Goodwill	Patents and licences		Perpetual usufruct rights to land	Emission rights	Others	Intangibles not put to usage	Total
			Total	Including software					
Gross value									
Opening balance	724 072,75	-	88 224 059,72	67 240 269,54	86 766 416,30	-	53 885 927,39	4 955 386,18	234 555 862,34
Direct purchase	-	-	19 991 010,23	8 382 536,49	735 447,07	5 378 444,39	21 002 039,75	10 157 115,54	57 264 056,98
Transfer from intangibles assets not put to usage	-	-	3 768 702,63	1 132 702,35	-	-	46 537,35	3 722 165,28	-
Sale	-	-	30 109,70	30 109,70	98 975,28	-	1 469 680,15	-	1 598 765,13
Transfers between groups	78 710,81	-	13 427 475,69	33 874 868,35	-	-	13 506 186,50	-	-
Donations	-	-	-	-	4 156,60	-	-	-	4 156,60
Disposal	-	-	700 314,66	596 774,24	-	-	4 900,62	-	705 215,28
Discontinued investments	-	-	21 495,96	-	923,96	-	30 607,65	-	53 027,57
Acquisition of a subsidiary	-	-	9 700,00	9 700,00	-	-	8 500,15	-	18 200,15
Transfer to investments	-	-	-	-	2 882 646,02	-	-	-	2 882 646,02
Others	-	-	8 063 689,50	5 755 857,37	598 334,51	-	7 389 895,18	6 675 019,19	6 750 479,00
Closing balance	802 783,56	-	132 732 717,45	48 019 313,46	83 916 827,00	5 378 444,39	52 448 659,84	18 065 355,63	293 344 787,87
Accumulated amortisation									
Opening balance	- 586 230,18	-	- 43 890 012,51	- 31 716 909,22	- 6 042 061,07	-	- 11 531 945,14	-	- 62 050 248,90
Amortisation for period	- 76 355,98	-	- 10 685 429,67	- 7 503 356,96	- 2 069 155,35	-	- 6 250 601,84	-	- 19 081 542,84
Write - downs increase	-	-	-	-	-	-	-	-	-
Write - downs decrease	-	-	-	-	-	-	-	-	-
Sale	-	-	30 109,70	30 109,70	25 449,63	-	62 511,58	-	118 070,91
Transfers between groups	- 15 742,16	-	- 8 700 310,06	- 18 111 458,94	-	-	- 8 716 052,22	-	-
Donations	-	-	-	-	-	-	-	-	-
Disposal	-	-	691 755,42	596 774,24	-	-	4 621,63	-	696 377,05
Discontinued investments	-	-	21 495,96	-	-	-	30 607,65	-	52 103,61
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-
Transfer to investments	-	-	-	-	307 055,02	-	-	-	307 055,02
Others	-	-	- 1 020 041,37	- 1 020 041,37	39 346,15	-	39 736,75	-	- 1 020 431,97
Closing balance	- 678 328,32	-	- 63 552 432,53	- 21 501 964,67	- 7 739 365,62	-	- 9 008 490,65	-	- 80 978 617,12
Net value as at the start of period	137 842,57	-	44 334 047,21	35 523 360,32	80 724 355,23	-	42 353 982,25	4 955 386,18	172 505 613,44
Net value as at the end of period	124 455,24	-	69 180 284,92	26 517 348,79	76 177 461,38	5 378 444,39	43 440 169,19	18 065 355,63	212 366 170,75

Carrying value of software used under financial lease agreements as of 31 December 2009 amounts to PLN 18,151 thousand. As of 31 December 2008 the Group did not use software under financial lease agreements.

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19. Investments in associated companies measured under the equity method

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

Associates' name	SOEN SP. Z O.O.	SŁPSCIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA S.A	PRZEDSIĘBIORSTWO PRODUKCJI STRUNEBETONOWYCH ŻERDZI WIROWANYCH "WIRBET" SA	OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.	Total
Share in votes	48,50%	40,90%	30,60%	42,2%	
31 December 2009					
<i>Share in balance sheet values</i>					
Current assets	1 927 957,37	585 671,05	2 888 973,95	7 524 260,00	12 341 191,32
Non - current assets	3 766 268,41	55 118,72	2 721 764,82	34 124 734,60	40 612 767,83
Short - term liabilities	1 030 464,46	948 916,92	1 696 015,37	6 660 257,20	9 386 737,03
Long - term liabilities	305 778,51	-	298 690,53	1 135 602,00	1 740 071,04
Share in net assets	4 357 982,80	(308 127,15)	3 616 032,87	33 853 135,40	41 519 023,92
Goodwill	-	-	-	-	-
Impairment write - down	-	-	-	-	-
Shares in associated recognized in consolidated balance sheet	4 357 982,80	-	3 616 032,87	33 853 135,40	41 827 151,07
Share in contingent liabilities	-	-	-	-	-
Share in profit (loss)	172 640,34	(33 998,65)	540 217,29	(2 206 403,88)	(1 527 544,90)

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

20. Emission rights

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

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

	2008 Tons	2009 Tons
Granted under National Allocation Plan	3 080 376,00	3 160 531,00
Purchased on the market	-	97 183,00
Total	3 080 376,00	3 257 714,00
Used for own needs	(3 605 645,00)	(3 065 496,00)
Sold	-	-
Surplus (shortage) of rights	(525 269,00)	192 218,00

In 2008, provision for emission allowance shortage was created in the amount of PLN 2,826 thousand.

21. Inventories

	31 December 2009		
	Cost	Write - down	Net realisable value
Raw materials	119 704 945,62	(906 031,82)	118 798 913,80
Finished goods	8 761 989,99	-	8 761 989,99
Semi finished goods and work in progress	4 440 443,20	(1 016 225,11)	3 424 218,09
Goods for resale	55 372 909,95	(770 882,50)	54 602 027,45
Certificates of origin	90 326 607,10	-	90 326 607,10
Total	278 606 895,86	(2 693 139,43)	275 913 756,43
Write - downs on inventories as at 1 January 2009			(2 136 523,88)
Set up			(2 385 027,87)
Reversal			853 719,99
Utilisation			974 692,33
Write - downs on inventories as at 31 December 2009			(2 693 139,43)

Companies within the Group create inventory write-downs basis on economic usability that is determined based on inventory turnover. Write-downs are reversed upon the consumption or sale of inventories covered by the write-down.

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22. Cash and cash equivalents

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

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

Item	Year ended 31 December 2008	Year ended 31 December 2009
Cash in hand and cash at bank	220 355 841,40	113 051 165,84
Short-term deposits (up to 3 months)	575 556 776,20	676 972 787,86
Participation units in liquidity funds	-	92 789 054,22
Othes	13 970 536,74	4 003 541,72
Cash and cash equivalents in balance sheet, including:	809 883 154,34	886 816 549,64
Foreign exchange rate differences	-	-
Bank overdrafts	(5 505 358,09)	(22 461 504,44)
Cash and cash equivalents in cash flow statement	804 377 796,25	864 355 045,20

In the consolidated statement of cash flows, item "other" in cash flows from operating activities comprises predominantly corrections from the way of settlement of subsidiary ENERGA – OPERATOR SA's Plan of the Split, including non-cash effect of increase of the Capital Group share in subsidiaries equity.

23. Other assets

23.1. Other long-term assets

Item	Year ended 31 December 2008	Year ended 31 December 2009
Long - term trade and other receivables	1 435 167,13	1 221 807,15
Prepayments for fixed assets and intangibles	1 005 479,64	357 125,89
Others	293 431,05	887 645,15
Total	2 734 077,82	2 466 578,19

23.2. Other short term assets

Item	Year ended 31 December 2008	Year ended 31 December 2009
Subscriptions	274 940,27	252 665,95
Insurances	8 284 238,70	7 540 528,30
Membership fees, trainings	136 484,29	29 807,42
IT services	827 767,52	690 480,48
Other prepaid expenses	2 678 119,34	6 168 500,75
Prepayments for deliveries	5 476 954,73	17 407 075,85
VAT tax receivables	114 052 748,69	34 909 547,33
Payment to State Treasury receivables	58 472,00	-
Other tax receivables	1 243 401,46	1 918 386,67
Social Funds assets surplus over liabilities	1 082 602,00	198 885,29
Others	1 463 821,20	32 730 456,97
Total	135 596 638,20	101 846 335,01

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

24.1. Non – current assets held for sale

As of 31 December 2009 shares in associated company Toruńska Energetyka CERGIA S.A. were classified as non – current assets held for sale. In the year 2009 shares were actively marketed for sale f.e. throughout national press announcement of sale in open written auction. Shares were sold on 27 January 2010.

Carrying value of shares amounts to PLN 35,586,139.20. Write – off charged to income statement related to revaluation of shares to its fair value amounted to PLN 4,118,596 and was presented as result from discontinued operations.

24.2. Discontinued operations

In the accounting year the Group ENERGA SA discontinued activity in area of Real properties management and valuation and put into liquidation subsidiary ENERGA Nieruchomości S.A.

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

Item	Rok zakończony 31 grudnia 2008	Rok zakończony 31 grudnia 2009
Revenues	1 836 440,94	774 041,93
Costs	1 780 205,24	1 473 482,25
Gross profit/loss	56 235,70	(699 440,32)
Tax	18 902,00	12 299,00
Net profit/loss	37 333,70	(711 739,32)
Cash flows from:		
operating activities	(354 509,11)	(187 658,11)
investing activities	141 106,15	(252 693,12)
financing activities	(26 381,93)	65 380,73
	(469 233,33)	(345,72)

Group's share in profit of the associated company Toruńska Energetyka CERGIA S.A. as well as impairment write down on the non - current asset held for sale in total amount of PLN (933,613.12) were also presented in income statement as profit for the year from discontinued operations.

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

25. Other liabilities

25.1. Other long – term liabilities

Item	Year ended 31 December 2008	Year ended 31 December 2009
Tax, customs, salaries, social securities and other liabilities	-	-
Other non - financial liabilities	392 378,56	194 654,11
Warranties	171 798,56	179 368,73
Purchase of fixed assets liabilities	220 580,00	-
Other non - financial liabilities	-	15 285,38
Total	392 378,56	194 654,11

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25.2. Other short – term liabilities

Item	Year ended 31 December 2008	Year ended 31 December 2009
Tax, customs, salaries, social securities and other liabilities	223 722 964,57	190 389 131,89
Excise tax	4 832 060,00	26 919 508,16
VAT tax	157 729 734,27	79 111 730,79
Withholding tax	-	6 711,00
Social security	38 887 000,76	40 732 138,94
Personal income tax	14 227 038,01	37 612 880,11
Environmental fees	5 796 402,08	5 083 714,97
Real estate tax	90 157,70	95 845,88
Others	2 160 571,75	826 602,04
Other non - financial liabilities	99 182 331,10	110 667 390,73
Salaries	30 503 173,62	30 503 534,92
Prepayments	65 493 601,18	70 017 860,48
Social Funds liabilities surplus over assets	1 032 291,32	749 378,06
Others	2 153 264,98	9 396 617,27
Total	322 905 295,67	301 056 522,62

26. Accruals and deferred income

26.1. Deferred income

Item	31 December 2008	31 December 2009
Fixed assets received free of charge	46 150 247,54	78 426 744,15
Grants	5 335 636,91	27 169 895,84
Rental fees	6 126 651,16	5 782 389,89
Connection charges	337 073 659,04	369 823 828,54
Others	174 754,35	1 039 665,51
Total, including:	394 860 949,00	482 242 523,93
Long - term	379 711 968,66	470 035 998,01
Short - term	15 148 980,34	12 206 525,92

26.2. Accruals

Item	31 December 2008	31 December 2009
Unused holidays	7 805 227,62	8 728 490,31
Annual bonus	72 859 420,22	48 793 446,29
Management bonuses	756 447,71	1 373 101,92
Other	1 087 657,42	2 603 380,25
Total	82 508 752,97	61 498 418,77

27. Employee benefits

27.1. Employee stock Plan

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

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

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

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

As of 31 December 2009 as a result of shares conversion entitled people took 10.40% of shares of ENERGA SA valued at PLN 516,811,042.

27.2. Retirement benefits and other post – employment benefits

Retirement severance pays and jubilee rewards

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

Employee Power Tariff

Pursuant to the Sectoral Collective Labor Agreement (Ponadzakładowy Układ Zbiorowy Pracy – PUZP) as amended in 2005, the obligation to pay benefits to former employees of energy sector and other entitled persons under so called “energy tariff” was carried forward to the companies from which specific pensioners originate. Due to the above, companies within the Group create appropriate provision from December 2006. Value of the provision is estimated by the actuary. Cost of the provision creation is recognized as operating expenses.

Company Social Benefit Fund

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

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

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	Provision for retirement and similar benefits	Electricity equivalent	Social Fund	Total
1 January 2009	73 250 743,00	100 808 457,25	42 409 798,00	216 468 998,25
Acquisition of a subsidiary	552 307,81	-	-	552 307,81
Current service cost	6 990 847,25	9 588 576,00	2 089 349,07	18 668 772,32
Actuarial gains and losses	11 825 439,19	89 130 380,55	13 503 674,00	114 459 493,74
Payments	(3 367 519,95)	(8 377 836,00)	(2 041 420,00)	(13 786 775,95)
Past service cost	-	2 728 918,98	-	2 728 918,98
Interest	4 768 392,00	11 771 896,00	2 933 671,35	19 473 959,35
31 December 2009	94 020 209,30	205 650 392,78	58 895 072,42	358 565 674,50
Short - term as at 31 December 2009	4 961 081,30	8 123 085,30	1 155 708,68	14 239 875,28
Short - term as at 31 December 2009	89 059 128,00	197 527 307,48	57 739 363,74	344 325 799,22

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

Item	Year ended 31 December 2008	Year ended 31 December 2009
Discount rate	5,50%	5,50%
Labour turnover	3,00%	1,00-5,00%
Expected growth rate of salaries	4,50%	4,50%
Expected growth rate of charges for Social Fund	4,00%	4,50-5,50%
Basis for provision for Social Fund	3,00%	3,00%
Expected growth rate of provision for electricity equivalent	2,50%	<i>in line with projected price values</i>

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

- Taking discount rate higher by 1 percentage point would result in decreasing in provisions by about 11% and taking discount rate lower by 1 percentage point would result in increasing in provisions by about 13,5%,
- Taking assumed rate of increase in basis higher by 1 percentage point would result in increasing in provisions by about 13,5% and taking assumed rate of increase in basis lower by 1 percentage point would result in decreasing in provisions by about 11%.

As of 31 December 2009 non-recognized past service costs are PLN 43,834,203.78.

28. Earnings per share (EPS)

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

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

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

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Item	Year ended 31 December 2008	Year ended 31 December 2009
Net profit from continuing operations	611 419 097,87	426 993 199,90
Profit for the year from discontinued operations	-	(1 645 352,44)
Net profit for the year	611 419 097,87	428 638 552,35
Interest on convertible preference shares	-	-
Net profit attributable to ordinary shareholders of Parent Company	611 419 097,87	428 638 552,35
Number of ordinary shares at year-end	4 845 866 133,00	4 968 805 368,00
Number of ordinary shares used for basic earnings per share calculations	4 845 866 133,00	4 927 825 623,00
Earnings per share	0,13	0,09

In presented periods there was no dilution effect.

29. Dividends paid and proposed

Item	Year ended 31 December 2008	Year ended 31 December 2009
Declared and paid during the year		
final dividend paid by subsidiaries	-	8 010 509,77
final dividend paid by Parent Company	36 940 000,00	-
payment to State Treasury by parent Company	-	84 615,00
payment to State Treasury by subsidiaries	1 262 306,00	495 233,00
prepaid dividend paid by subsidiaries	-	6 021 000,00
Total	38 202 306,00	14 611 357,77

	Year ended 31 December 2008	Year ended 31 December 2009
Dividend per share paid by the Capital Group (PLN)	0,008	0,003

There were no dividend payment restrictions in the reporting period.

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

Chile calculating dividends per share paid by the entities of the Group the weighted average number of shares of the holding company was applied, as in the case of calculating EPS described in the note 28.

30. Business combination

There was no business combination of the entities of the Group in the reporting period.

On 20 March 2009 the Registration Court in Gdańsk registered Plan of the Split of subsidiary ENERGA – OPERATOR SA (splited company) and an takeover of a part of its assets by ENERGA SA. As a result of that Split ENERGA SA became f.e. holder of shares in Companies previously directly controlled by ENERGA – OPERATOR SA, operating in areas not related to distribution of electricity. As a result of the Split the Group's share in those subsidiaries has increased.

The subject of business acquisitions and combinations is regulated by IFRS 3 "Business combinations". However, this standard does not regulate and excludes transactions between the entities under joint control. The Split of subsidiary ENERGA – OPERATOR S.A., registered and settled in 2009, has not resulted in change in control over any subsidiary. Thus the operation in the judgement of the Company fulfill definition of transaction under joint control and is excluded from the scope of IFRS 3.

If a transaction or economic event required to be recognized in the statements prepared in line with IFRS is not regulated by provisions of any specific standard, then such situation is

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regulated by IAS 8 item 10-12. IAS 8 requires the company that prepares a statement in line with IFRS to create own set of accounting principles and specify the features of such principles: true and accurate representation of financial standing, results of operations and cash flows, reflecting the substance of an economic transaction, objectiveness, prudence and comprehensive nature in all aspects.

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

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

31. Share capital and other capitals

31.1. Share capital

Item	Year ended	Year ended
	31 December 2008	31 December 2009
"A" series ordinary shares of 1 PLN each	255 000	255 000
"B" series ordinary shares of 1 PLN each	4 845 611 133	4 845 611 133
"C" series ordinary shares of 1 PLN each	-	122 939 235
Total volume of shares	4 845 866 133	4 968 805 368

On 20 March 2009 the District Court in Gdańsk registered increased of equity of ENERGA SA by the amount of PLN 122,939,235.00 through emission of "C" series shares. The increase was related to registration of split of ENERGA-OPERATOR SA (divided company) and transfer of part of its assets to ENERGA SA (division by separation under art. 529 § 1 item 4 of the code of commercial companies).

Purpose of the division of ENERGA OPERATOR S.A. was to adhere to the requirements as to the legal form of transmission operator provided for in Directive 2003/54/EC concerning common rules for the internal market in electricity and the Energy Law Act dated 10 April 1997.

Pursuant to the regulations of the Code of Commercial Companies, the Management Board of ENERGA S.A. allocated C type shares to ENERGA OPERATOR S.A. shareholders who owned shares in ENERGA OPERATOR S.A. (so called employee portion) on 20 March 2009.

On 20 March 2009, the shareholders in ENERGA - OPERATOR SA were employees of ENERGA - OPERATOR SA who acquired their shares in ENERGA OPERATOR SA pursuant to the Act on commercialization and privatization. Therefore, as of the date of separation, the employees of ENERGA OPERATOR S.A., aside the State Treasury, became shareholders in ENERGA S.A.

31.1.1 Share nominal value

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

31.1.2 Shareholders' rights

Rights of the State Treasury

As of 31 December 2008 ENERGA S.A. was a company solely owned by the State Treasury and pursuant to the Act dated 1 December 1995 on the payments from profit by companies solely owned by the State Treasury it was required to make such payments from profit.

On 20 March 2009, a plan of the split of ENERGA - OPERATOR S.A. has been registered. Details in the note 30.

As of the end of reporting period ENERGA S.A. is no longer the company solely owned by the State Treasury.

Employee stock plan

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

31.1.3 Major shareholders

Item	Year ended 31 December 2008	Year ended 31 December 2009
State Treasury		
share in equity	100,00%	89,60%
share in voting rights	100,00%	89,60%
Minority shareholders		
share in equity	0,00%	10,40%
share in voting rights	0,00%	10,40%

After the end of reporting period, the process of employee stock conversion, commenced in 2009, has been continued in ENERGA S.A.. Shares of ENERGA - OPERATOR SA and ENERGA Elektrownie Ostrołęka SA were converted into shares of ENERGA S.A. As of 31 December 2009 as a result of shares conversion entitled people took 14.29% of shares of ENERGA SA.

31.2. Supplementary capital

Supplementary capital was created from distributions from profit generated by the parent company and as of the end of reporting period amounted to PLN 141,957,561.67.

31.3. Retained earnings and limitations in dividend payments

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

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Item	Year ended 31 December 2008	Year ended 31 December 2009
Amounts included in Retained Earnings, not subject to distribution of profit by Parent Company		
- Retained Earnings of subsidiaries, attributable to shareholders of Parent Company	1 130 662 187,77	1 104 896 324,67
- difference in the amount of Retained Earnings between statutory and IFRS financial statements of Parent Company	49 426,69	53 370 077,36
- 8% of statutory net profit of Parent Company distributed to Supplementary capital, in accordance with Commercial Companies Code	-	-
- net losses of Parent Company to be covered in subsequent periods	(5 750 413,19)	-
Retained Earnings of Parent Company subject to distribution of profit	-	208 322 689,54
Total consolidated Retained Earnings attributable to shareholders of Parent Company	1 124 961 201,27	1 366 589 091,57

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

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

As of 31 December 2009, the value of share capital of the parent company as presented in statutory financial reports in line with the Accounting Act was PLN 4,968,805,368 and the supplementary capital amounted to PLN 141,957,561.67.

31.4. Non – controlling interests

Changes in non – controlling interests were disclosed in statement of changes in equity. The changes result predominately from decrease in share of non – controlling interests in net assets of the subsidiaries derived from settlement of the Split of ENERGA – OPERATOR SA.

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32. Provisions

32.1. Changes in provisions

	Post - employment benefits	Jubilee bonuses	Claims	Court proceedings	Employees' issues	Reclamation of ash storage yard	Provision for emission rights	Provision for certificates of origin	Provision for estimated energy purchased	Other provisions	TOTAL
1 January 2009	216 468 998,25	179 126 312,00	3 047 176,00	142 779 303,35	15 008 891,92	4 506 503,00	30 495 489,00	150 499 887,81	4 187 047,99	13 438 111,19	759 557 720,51
Acquisition of a subsidiary	552 307,81	417 282,95	362 932,84	7 160,08	157 190,08	-	-	-	-	-	1 496 873,76
Current service cost	18 668 772,32	14 654 474,37	-	-	-	-	-	-	-	-	33 323 246,69
Actuarial gains and losses	114 459 493,74	17 252 619,05	-	-	-	-	-	-	-	-	131 712 112,79
Payments	(13 786 775,95)	(16 252 091,37)	-	-	-	-	-	-	-	-	(30 038 867,32)
Past service cost	2 728 918,98	-	-	-	-	-	-	-	-	-	2 728 918,98
Interest	19 473 959,35	11 053 706,00	-	-	-	-	-	-	-	-	30 527 665,35
Set up in period	-	-	1 435 573,72	49 592 148,11	3 978 704,57	7 956 897,00	2 825 694,29	180 624 745,98	24 203 107,82	52 100 149,65	322 717 021,14
Reversal	-	-	(1 014 695,23)	(56 118 939,80)	(3 676 370,75)	-	(2 790 211,62)	(7 238,88)	(23 019 177,52)	(17 997 327,82)	(104 623 961,62)
Utilisation	-	-	(221 101,67)	(87 662 907,21)	(3 003 863,01)	-	(27 705 277,38)	(150 492 648,93)	(133 052,75)	(4 904 884,83)	(274 123 735,78)
Reclassification	-	-	732 544,29	(732 544,29)	-	-	-	-	-	-	-
31 December 2009	358 565 674,50	206 252 303,00	4 342 429,95	47 864 220,24	12 464 552,81	12 463 400,00	2 825 694,29	180 624 745,98	5 237 925,54	42 636 048,19	873 276 994,50
Short - term as at 31 December 2009	14 239 875,28	17 850 875,00	4 342 429,95	47 605 620,24	12 335 075,43	-	2 825 694,29	180 624 745,98	5 237 925,54	38 236 871,44	323 299 113,15
Long - term as at 31 December 2009	344 325 799,22	188 401 428,00	-	258 600,00	129 477,38	12 463 400,00	-	-	-	4 399 176,75	549 977 881,35

32.2. Description of other provisions

Claims by other entities and litigations

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

Provisions for fixed assets liquidation

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

Provisions for gas emission liabilities

In the case of a surplus of CO₂ emission in excess of certificates held at the balance sheet date, a provision is created based on actual use of the rights and market price of the rights at the date of such provision valuation.

Provisions for certificate presentation obligation

Provision is created to cover shortage of certificates of origin of electricity generated from renewable sources or from cogeneration that was not covered by the purchase of certificates in the market or a substitute fee.

Other provisions

Provisions for guarantees or sureties granted are created in the amount of such issued guarantees or sureties.

Estimation is made based on the knowledge and professional judgment of the entity management and current experience with the same or similar types of transactions. It is also practicable to use opinion of independent experts in the respective field.

33. Investment liabilities

Purchase of shares in OPEC Sp. z o.o

On 25 February 2009 ENERGA S.A. and ENERGA Elektrownie Ostrołęka S.A. became a strategic investor in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o. o. purchasing 23,662 shares in the company for the amount of PLN 39,042,300.00, out of which ENERGA S.A. purchased 8,282 shares for the amount of PLN 13,665,300.00. The purchased shares jointly constitute 85% of the share capital of OPEC Sp. z o. o. The City of Ostrołęka (the Seller) undertakes also to sell the remaining part of shares being its property, not later than within 60 days following the notification on the circumstances allowing the sale of such shares.

Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o. o. is the heat supplier for the city of 55 thousand inhabitants. The heat energy, of which the company is the distributor, is

generated in ENERGA Elektrownie Ostrołęka S.A. Furthermore, the agreement stipulates the implementation of investment programme within the scope of heat engineering development in the territory of Ostrołęka. ENERGA S.A. and ENERGA Elektrownie Ostrołęka S.A. undertook to invest at least PLN 320 million in the development of the distribution system and heat energy generation within 10 years.

Zobowiązania Operatora Systemu Dystrybucyjnego

ENERGA – OPERATOR SA (Distribution System Operator) operates under the Act on Energy Law and a licence held. Both documents provide obligations specifying, among others, the necessity to supply electric energy safely and on a continuous basis and connect new entities to the system. The Act on Energy Law also imposes on the enterprise the necessity to draw up development plans specifying the material and financial scope of capital expenditures, which are then subject to agreement with the President of the Energy Regulatory Office. It may thus be stated that the agreed development plan constitutes, so to speak, an investment obligation of ENERGA – OPERATOR SA. The agreed expenditures for 2010 equal PLN 887 million.

34. Tax settlements

34.1. Overall characteristic

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

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

Base tax rates in 2009 were as follows: corporate income tax rate - 19%, VAT tax base rate - 22%, reduced: 7%, 3%, 0%, moreover, some goods and services were exempted from tax. The amount of payment on profit after income tax - 15% (applicable to the period when ENERGA SA was company solely owned by State Treasury).

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

the tax risk in Poland to be significantly higher than the one existing usually in the countries with a more developed tax system.

Tax settlements can undergo inspection within five years of the end of the year when the tax was paid. As a result of the inspections carried out, previous tax settlements of the Group may be increased by additional tax liability. In the opinion of the Group, as of 31 December 2009 probability of such situation is low.

34.2. Real property tax

In 2006 Oddział Olsztyn of the subsidiary company ENERGA – OPERATOR SA reclassified some of its transformation stations from structures to buildings and filed motions with appropriate local authorities demanding confirmation of overpayment of the real property tax in 2002 – 2005. An opinion of the Capital Group in this case is supported, among others, by a letter of Local Taxes and Charges Department Director on Real Property Tax on Telecommunication and Power Grid Structures of 31 January 2007, number PL-833/13/PP/07/183, judgment of the Supreme Administrative Court of 24 July 2008, case no. II FSK 418/08 and experts' opinions obtained by the Capital Group.

Some tax authorities rejected the motions starting a number of long disputes. Some disputes are still pending and the opinion of a council of appeal of local authorities in the area with regard to the case has not been issued yet. In 2009 The Capital Group established a provision for the following periods in case of losing disputes with tax authorities by Oddział Olsztyn in order to pay possible adjustment of the real property tax including interest accrued for subsequent tax years when the new qualification of transformation stations applied, i.e. 2006-2009. Establishment of the provision is justified by the fact that in similar cases of disputes with tax authorities conducted by Oddział Koszalin of the subsidiary company ENERGA – OPERATOR SA, Supreme Administrative Court ruled against the Capital Group in early 2010.

Also Oddział Toruń of the subsidiary company ENERGA – OPERATOR SA, is engaged in disputes with two tax authorities in its area of operations in connection with real property tax. In both cases appropriate local authority appeal council returned the issue for reconsideration and the Capital Group waits for new decisions of authorities of the 1st instance. The disputes are related to principles of setting "structure" in the case of grid structures and taxation of polemount transformers and remotely controlled cut-off switches. In case of losing dispute in 2009 the Capital Group established provision for the amount of possible payment which could become due if the company loses both disputes. The provision also covers potential adjustment of real property tax and interest on overdue taxes, which would be paid to the above tax authorities in connection with taxation of polemount transformation stations and remotely controlled cut-off switches for the period after the disputed period, i.e. in 2009. The provision for the real property tax amounts to PLN 883 121.33 and the provision for interest amounts to PLN 265 703.00.

The tax system in Poland is characterized by high inconstancy of the tax law, the big degree of complexity, high potential value of penalties in case of revenue offence and general pro-fiscal policy of the tax authorities. Tax settlement and other activities being subject to

regulations (customs control, foreign currency exchange) also can be controlled by respective authorities who are entitled to imposing of fines along with penalty interests. Company's tax settlements, property tax in particular, can be the subject of the tax authorities control for 5 year period since the end of the calendar year in which the term of the tax payment expired.

34.3. Excise tax refund

Due to the incompatibility of domestic regulations on excise tax and European Power Directive the subsidiary ENERGA Elektrownie Ostrołęka S.A. applied to appropriate duty office in the year 2009 for stating excess payment and refund of excise tax for the years 2006 – 2008 in the amount of PLN 166,888,696.00. The Subsidiary, under Excise Tax Act, declared and paid excise tax on sale of electric energy for ultimate beneficiaries in the years 2006 – 2008. Whereas under European regulations electric energy undergo excise tax not earlier than in the moment of supply to the ultimate beneficiary.

After the end of reporting period Head of Duty Office refused stating the excess payment. The subsidiary appealed that decision to the higher instance of Duty Administration.

35. Information about related entities

Transactions with related entities are made at arm's length.

35.1. Transactions with participation of State Treasury companies

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

Year	Sales	Purchases	Receivables	Payables
2008	837 421 322,75	3 177 571 752,52	87 286 221,44	171 043 159,24
2009	940 764 741,32	2 262 695 968,62	102 181 024,64	171 068 536,06

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35.2. Transactions with associated companies

	Sales to associates	Purchase from associates	Receivables from associates		Liabilities towards associates	
			current	overdue	current	overdue
SOEN SP. Z O.O.	1 241 840,77	8 285 106,51	67 561,49	4 931,87	1 128 285,56	4 030,00
TORUŃSKA ENERGETYKA CERGIA SA	7 120 341,61	84 563,89	1 246 795,19	-	70 917,26	-
PRZEDSIĘBIORSTWO PRODUKCJI STRUNEBETONOWYCH ŻERDZI WIROWANYCH "WIRBET" SA	892 185,85	3 576 116,55	68 612,89	1 683,84	173 678,13	-
SŁUPSKIE TOWARZYSTWO KOSZYKÓWKI SPORTOWA SPÓŁKA AKCYJNA	6 962,60	2 031 514,00	-	-	106 750,00	-
OŚWIETLENIE ULICZNE I DROGOWE SP. Z O.O.	37 967 646,65	-	8 182 389,80	-	32 553,58	-
Total	47 228 977,48	13 977 300,95	9 565 359,37	6 615,71	1 512 184,53	4 030,00

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35.3. Loan granted to a Management Board Member

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

35.4. Other transactions with participation of Management Board Members

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

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

Item	Year ended 31 December 2008	Year ended 31 December 2009
Management Board of Parent Company	507 536,41	752 926,08
Supervisory Board of Parent Company	214 372,88	278 861,52
Management Boards of subsidiaries	14 909 585,27	14 903 518,99
Supervisory Boards of subsidiaries	4 409 063,12	4 831 595,09
Total	20 040 557,68	20 766 901,68

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

Tytuł	Year ended 31 December 2009
Short term employee benefits (salaries and social security)	30 296 654,28
Jubilee bonuses	370 032,05
Post employment benefits	42 723,30
Severance pay	6 262,00
Total benefits contributed to top management	30 715 671,63

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36. Financial instruments

36.1. Carrying value of categories and classes of financial instruments

Item	Year ended 31 December 2008	Year ended 31 December 2009
Classes of financial instruments		
Deposits	-	-
Bonds, treasury bills and other debt securities	752 021,92	-
Shares (non- consolidated companies)	32 473 110,84	33 120 087,24
Shares in associate companies	71 112 102,15	41 827 151,07
Trade receivables and other receivables	1 023 880 038,62	1 151 647 424,79
Cash and cash equivalents	809 883 154,34	790 023 953,70
Finance lease receivables	-	123 332,67
Receivables from sale of tangible and intangible assets	48 903,26	148 526,44
Investment fund units	20 339 038,05	96 792 595,94
Derivatives (assets)	-	1 104,50
Total assets	1 958 488 369,18	2 113 684 176,35
Preferential loans and borrowings	56 000 000,00	48 462 000,00
Loans and borrowings	220 219 011,12	268 590 613,71
Bank overdrafts	5 505 358,09	22 461 504,45
Issued bonds and debt securities	2 015 034,42	6 914 642,30
Trade payables	601 321 935,48	637 848 851,23
Finance lease payables	2 894 432,61	18 703 019,26
Other financial liabilities	7 207 166,70	20 198 236,27
Liabilities from acquisition of tangible and intangible assets	80 028 301,90	108 267 784,55
Derivatives (liabilities)	14 348 885,13	-
Razem zobowiązania	989 540 125,45	1 131 446 651,77
Categories of financial instruments		
Financial assets at fair value through profit or loss	862 695 303,23	919 937 741,38
Available-for-sale financial assets	-	-
Held to maturity assets	752 021,92	-
Loans and receivables	1 023 928 941,88	1 151 795 951,23
Financial assets out of scope of IAS 39	71 112 102,15	41 950 483,74
Total assets	1 958 488 369,18	2 113 684 176,35
Financial liabilities at fair value through profit or loss	14 348 885,13	-
Financial liabilities measured at amortised cost	972 296 807,71	1 112 743 632,51
Loan commitments, factoring and out of scope of IAS 39 liabilities	2 894 432,61	18 703 019,26
Hedging instruments	-	-
Total liabilities	989 540 125,45	1 131 446 651,77

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

Item	Assets measured at fair value through profit and loss	Loans and receivables	Financial liabilities measured at amortised cost	Liabilities measured at fair value through profit and loss	Derivative instruments	Total
Dividends and profits' shares	495 691,27	-	-	-	-	495 691,27
Interest income (expenses)	-	77 986 146,13	(11 841 732,40)	(4 128 253,70)	-	62 016 160,03
Foreign exchange rate differences	-	166 804,82	(28 356,62)	(362 498,92)	-	(224 050,72)
Reversal of write - downs/ Revaluation increase	7 381 921,62	24 844 405,95	-	-	14 348 885,13	46 575 212,70
Write - downs set up/ Revaluation decrease	(1 721 826,19)	(52 568 164,60)	-	-	(18 951 282,53)	(73 241 273,32)
Gain/ (loss) on disposals of financial assets	1 053 888,77	-	-	-	-	1 053 888,77
Total net profit (loss)	7 209 675,47	50 429 192,30	(11 870 089,02)	(4 490 752,62)	(4 602 397,40)	36 675 628,73

36.3. Wartość godziwa instrumentów finansowych

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

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

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

The fair value of derivatives used by the Capital Group is determined on a basis of the percentage rates time curve. The percentage rates free of risk used for discounting of the future cash flows are determined upon the quotations of IRS transactions on the interbank market published by Reuters.

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

36.4.1 Financial assets held to maturity

The value of financial assets held to maturity consists, most of all, of all short-term debt securities with determined redemption date and bonds issued by local government entities.

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36.4.2 Loans and receivables

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

Trade receivables	Not overdue	Overdue					Total
		< 30 days	30 – 90 days	90 - 180 days	180 - 360 days	>360 days	
Before impairment write downs	947 048 844,33	11 276 925,26	183 428 301,81	23 536 356,94	31 191 555,74	60 393 129,53	1 256 875 113,61
Individual impairment	(6 753 270,99)	(626 002,95)	(1 897 621,52)	(5 765 282,01)	(1 709 204,47)	(19 907 953,99)	(36 659 335,93)
Overall impairment	(1 341 475,26)	(97 422,31)	(13 553,37)	(4 029 741,58)	(26 587 248,78)	(39 272 721,27)	(71 342 162,57)
Total impairment write downs	(8 094 746,25)	(723 425,26)	(1 911 174,89)	(9 795 023,59)	(28 296 453,25)	(59 180 675,26)	(108 001 498,50)
After impairment write downs	938 954 098,08	10 553 500,00	181 517 126,92	13 741 333,35	2 895 102,49	1 212 454,27	1 148 873 615,11

Pożyczki udzielone - jednostki nie konsolidowane	Nie przeterminowane	Przeterminowane					Ogółem
		< 30 dni	30 – 90 dni	90 - 180 dni	180 - 360 dni	>360 dni	
Przed uwzględnieniem odpisu z tytułu utraty wartości	-	-	-	-	-	-	-
Odpisy ustalone w sposób indywidualny	-	-	-	-	-	-	-
Odpis ogólny	-	-	-	-	-	-	-
Razem odpisy aktualizujące	-	-	-	-	-	-	-
Po uwzględnieniu odpisu aktualizującego	-	-	-	-	-	-	-

36.4.3 Impairment loss recognized for financial assets

	Accumulated impairment losses on trade receivables	Accumulated impairment losses on receivables from sale of tangible and intangible assets	Accumulated impairment losses on shares
1 January 2009	92 234 310,55	-	1 588 320,55
Charge for the year	52 568 164,60	-	-
Utilised	(12 130 004,64)	-	(1 588 320,55)
Unused amounts reversed	(24 844 405,95)	-	(101 506,35)
Acquisition of a subsidiary	173 433,94	-	303 279,64
31 December 2009	108 001 498,50	-	201 773,29

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36.4.4 Financial liabilities valued at amortized cost**36.4.4.1 Loans and borrowings**

Loans and borrowings received as of 31 December 2009

Currency	Reference rate	Value as at 31.12.2009		With repayment date:				
		actual currency	PLN	Within 12 months	After a year but not more than 2	After 2 years but not more than 3	After 3 years but not more than 5	More than 5 years
PLN	Variable	339 514 118,16	339 514 118,16	282 501 761,85	12 963 877,15	18 549 233,85	17 499 245,31	8 000 000,00
Total loans and borrowings		339 514 118,16	339 514 118,16	282 501 761,85	12 963 877,15	18 549 233,85	17 499 245,31	8 000 000,00

36.4.4.2 Liabilities from bonds issued

Bonds issued as of 31 December 2009

Currency	Reference rate	Value as at 31.12.2009		Repayable within 12 months
		actual currency	PLN	
PLN	Variable	-	6 914 642,30	6 914 642,30
Total bonds		-	6 914 642,30	6 914 642,30

36.4.4.3 Credit limits

As of 31 December 2009 credit limits received by the Group entities amounts to PLN 1,597,282.6 thousand.

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36.5. Liabilities repayment collaterals

As of the end of reporting period assets of the following values constituted collaterals for repayment of liabilities or contingent liabilities:

Group of assets	Balance sheet value of assets	Type of secured liability	Balance sheet value of secured liability	Limit of secured liability
Real estate	98 735 900,11	loans and borrowings	76 759 465,22	86 220 176,90
Other fixed assets	2 236 882,79	loans and borrowings	3 817 056,56	5 204 089,96
Receivables	26 603 551,51	loans and borrowings	16 674 869,01	29 507 256,69
Receivables	96 169 240,61	securing contracts	-	502 000 000,00
Inventories	15 196 338,37	loans and borrowings	9 107 349,59	13 150 000,00
Total	238 941 913,39		106 358 740,38	636 081 523,55

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

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

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

In the Group in the reporting period ended on 31 December 2009 none of the following commercial events or situations requiring to be disclosed occurred:

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

37. Contingent assets and liabilities

37.1. Contingent liabilities

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

Liabilities arising from	As at 31.12.2008	As at 31.12.2009
guarantees	408 301 867,07	502 000 000,00
warranties	23 775 000,00	6 177 373,85
bills of exchange	81 211 015,28	49 879 425,10
patronage statements	1 400 000,00	700 000,00
cases against the related parties	-	11 257 384,24
other	179 414,97	29 548 784,58
Total	514 867 297,32	599 562 967,77

37.2. Contingent assets

As of 31 December 2009 the Group recognized contingent asset related to claim of subsidiary ENERGA Invest SA against PSE – Operator S.A. The claim concerns decrease in transmission ability on the Polish – German boundary for July 2006 purchased in monthly auction. Estimated loss of the subsidiary amounts to PLN 645,937.22 and additionally statutory interests until the day of payment.

38. Objectives and rules of financial risk management

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

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

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

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

- interest risk.
- foreign exchange rate risk.

The Group identifies its exposure to the risks of WIBOR, EURIBOR interest rates.

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

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

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

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

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

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

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38.1. Interest rate risk

Interest rate risk -vulnerability to changes

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

Financial assets and liabilities	31 December 2009		The analysis of vulnerability to interest rate risk as of 31 December 2009			
	Balance sheet value	Value exposed to risk	WIBOR		EURIBOR	
			net financial result		net financial result	
			WIBOR + 79 pb	WIBOR -79 pb	EURIBOR + 64 pb	EURIBOR -64 pb
Cash and cash equivalents	799 459 290,26	566 807 030,70	4 451 026,69	(4 451 026,69)	21 669,96	(21 669,96)
Preferential loans and borrowings	48 462 000,00	48 462 000,00	(382 849,80)	382 849,80	-	-
Loans and borrowings granted on market conditions	268 590 613,71	268 590 613,71	(2 121 865,85)	2 121 865,85	-	-
Current account overdraft facility	22 461 504,45	22 461 504,45	(177 445,89)	177 445,89	-	-
Bonds and debt securities issued	6 914 642,30	6 914 642,30	(54 625,67)	54 625,67	-	-
Change in gross profit			1 714 239,48 -	1 714 239,48	21 669,96 -	21 669,96

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

38.2. Foreign currency risk

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

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

Classes of financial instruments	31 December 2009		The analysis of vulnerability to foreign currency risk as of 31 December 2009	
	Balance sheet value	Value exposed to risk	EUR/PLN	
			net financial result	
			EUR/PLN currency + 13,25%	EUR/PLN currency - 13,25%
Cash and cash equivalents	799 459 290,26	3 385 930,94	448 635,85	(448 635,85)
Trade liabilities	646 589 099,44	79 606,56	(10 547,87)	10 547,87
Change in gross profit			438 087,98 -	438 087,98

Exposure to risk as of 31 December 2009 is representative of the exposure of the Group to risk in annual periods preceding such dates. Changes of currency rates do not directly affect the value of the Group's equity.

38.3. Goods price risk

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

38.4. Credit risk

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

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

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

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

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

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

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

38.5. Liquidity risk

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

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

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

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31 December 2009	Within 3 months	After 3 months but not more than a year	After a year but not more than 5 years	More than 5 years	Total
Interest-bearing loans and borrowings	248 159 221,23	34 342 540,62	49 012 356,31	8 000 000,00	339 514 118,16
Bonds	6 914 642,30	-	-	-	6 914 642,30
Trade and other payables	769 361 700,17	5 641 787,78	10 014 403,36	-	785 017 891,31
Total	1 024 435 563,70	39 984 328,40	59 026 759,67	8 000 000,00	1 131 446 651,77

39. Capital management

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

The Group manages the capital structure and, as a result of changes in economic conditions, amends it. To retain or adjust the capital structure, the Group may change the payment of dividend to shareholders, return the capital to shareholders or issue new shares. In the year 2009 no changes were introduced in the objectives, principles and processes in this area.

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

Item	As at 31.12.2008	As at 31.12.2009
Interest-bearing loans and borrowings	283 739 403,63	346 428 760,46
Trade and other payables	705 800 721,79	785 017 891,31
Less cash and cash equivalents	(809 883 154,34)	(886 816 549,64)
Net borrowings	179 656 971,08	244 630 102,13
Equity	7 172 306 974,49	7 383 151 211,74
Kapitał i zadłużenie netto	7 351 963 945,57	7 627 781 313,87
Leverage	0,02	0,03

40. Employment structure

Average employment in the Group was as follows:

Item	Year ended 31 December 2008	Year ended 31 December 2009
Management board of Parent Company	2	2
Management boards of subsidiaries	45	51
Administration	2 320	2 476
Production Department	7 462	7 382
Others	2 677	2 707
Total employees	12 506	12 618

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41. Comparative Data

	current year	statements for the previous year	comparative data for the previous year	Change - valuation of fixed assets
ASSETS				
Non - current assets				
Tangible fixed assets	8 032 048 734,22	7 834 380 879,07	7 699 188 897,99	(135 191 981,08)
Real estate investments	26 043 537,30	10 811 942,83	10 811 942,83	-
Intangible assets	212 366 170,75	172 505 613,44	172 505 613,44	-
Goodwill	17 246 353,14	-	-	-
Shares in associates and joint ventures valued in accordance with the equity method	41 827 151,07	71 112 102,15	71 112 102,15	-
Other shares	32 857 887,24	32 473 110,84	32 473 110,84	-
Deferred tax assets	97 722 813,26	80 885 314,16	80 885 314,16	-
Other non - current assets	2 466 578,19	2 734 077,82	2 734 077,82	-
	8 462 579 225,17	8 204 903 040,31	8 069 711 059,23	(135 191 981,08)
Current assets				
Inventories	275 913 756,43	202 194 551,18	202 194 551,18	-
Income tax receivables	19 040 182,00	16 328 387,00	16 328 387,00	-
Trade and other receivables	1 151 919 283,90	1 022 493 774,75	1 022 493 774,75	-
Other shares	262 200,00	813 600,00	813 600,00	-
Bonds and other debt securities	-	752 021,92	752 021,92	-
Deposits	-	-	-	-
Other financial assets	-	20 339 038,05	20 339 038,05	-
Cash and cash equivalents	886 128 681,65	809 883 154,34	809 883 154,34	-
Other current assets	102 534 203,00	135 596 638,20	135 596 638,20	-
	2 435 798 306,98	2 208 401 165,44	2 208 401 165,44	-
Non - current assets held for sale	35 689 882,09	-	-	-
TOTAL ASSETS	10 934 067 414,24	10 413 304 205,75	10 278 112 224,67	(135 191 981,08)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	4 968 805 368,00	4 845 866 133,00	4 845 866 133,00	-
Foreign exchange gains / losses arising on translation	12 542,28	21 229,28	21 229,28	-
Supplementary capital	141 957 561,67	147 707 974,86	147 707 974,86	-
Retained earnings (loss)	1 366 589 091,57	1 124 961 201,27	1 031 881 522,29	(93 079 678,98)
Non-controlling interests	905 786 648,22	1 053 750 436,08	1 037 324 610,37	(16 425 825,70)
Total equity	7 383 151 211,74	7 172 306 974,49	7 062 801 469,81	(109 505 504,68)
Non - current liabilities				
Loans and borrowings	57 012 356,31	139 537 721,38	139 537 721,38	-
Non - current provisions	549 977 881,35	370 271 187,01	370 271 187,01	-
Deferred tax liability	580 108 659,58	625 405 462,23	599 718 985,83	(25 686 476,40)
Deferred income and non - current government grants	470 035 998,01	379 857 243,66	379 857 243,66	-
Trade and other non - current liabilities	344 677,26	125 357,72	125 357,72	-
Lease liabilities	9 669 726,10	1 463 903,95	1 463 903,95	-
Other non - current liabilities	194 654,11	392 378,56	392 378,56	-
	1 667 343 952,72	1 517 053 254,51	1 491 366 778,11	(25 686 476,40)
Current liabilities				
Trade and other liabilities	775 003 487,95	704 211 460,12	704 211 460,12	-
Current loans and borrowings	289 416 404,15	144 201 682,25	144 201 682,25	-
Income tax liability	120 574 586,00	65 681 271,90	65 681 271,90	-
Deferred income and government grants	12 206 525,92	15 148 980,34	15 148 980,34	-
Accruals	61 498 418,77	82 508 752,97	82 508 752,97	-
Provisions	323 299 113,15	389 286 533,50	389 286 533,50	-
Other current liabilities	301 056 522,62	322 905 295,67	322 905 295,67	-
	1 883 055 058,56	1 723 943 976,75	1 723 943 976,75	-
Liabilities directly associated with the assets held for sale	517 191,22	-	-	-
Total liabilities	3 550 916 202,50	3 240 997 231,26	3 215 310 754,86	(25 686 476,40)
TOTAL EQUITY AND LIABILITIES	10 934 067 414,24	10 413 304 205,75	10 278 112 224,67	(135 191 981,08)

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INCOME STATEMENT	current year	statements for the previous year	comparative data for the previous year	Change - valuation of fixed assets
Continuing operations				
Sale of products and goods for resale including excise tax	5 783 703 340,18	5 225 242 975,08	5 225 242 975,08	-
Excise tax	(234 260 730,00)	(59 191 710,00)	(59 191 710,00)	-
Sale of products and goods for resale	5 549 442 610,18	5 166 051 265,08	5 166 051 265,08	-
Sale of services	2 776 289 476,92	3 066 036 158,23	3 066 036 158,23	-
Rental income	54 363 900,35	18 453 612,95	18 453 612,95	-
Revenues	8 380 095 987,45	8 250 541 036,26	8 250 541 036,26	-
Cost of sales	7 503 726 592,11	7 142 221 920,52	7 179 702 683,62	37 480 763,10
Profit/loss from sales	876 369 395,34	1 108 319 115,74	1 070 838 352,64	(37 480 763,10)
Other operating income	134 629 875,03	102 045 856,07	102 045 856,07	-
Selling costs	92 550 813,88	90 624 582,71	90 624 582,71	-
General and administrative expenses	353 906 686,28	297 664 895,91	297 664 895,91	-
Other operating expenses	66 269 263,26	72 341 463,20	72 341 463,20	-
Financial income	114 933 633,03	76 264 585,72	76 264 585,72	-
Financial costs	80 701 167,08	75 719 286,45	75 719 286,45	-
Share of profit of an associate	(1 680 657,39)	2 976 112,26	2 976 112,26	-
Profit/(loss) before tax	530 824 315,52	753 255 441,52	715 774 678,42	(37 480 763,10)
Income tax	103 831 115,61	141 836 343,65	134 714 998,66	(7 121 344,99)
Net profit/(loss) from continuing operations	426 993 199,90	611 419 097,87	581 059 679,76	(30 359 418,11)
Discontinued operations				
Profit for the year from discontinued operations	(1 645 352,44)	-	-	-
Net profit/(loss) for the year	425 347 847,46	611 419 097,87	581 059 679,76	(30 359 418,11)
Attributable to equity holders of the parent	397 189 015,15	521 275 053,94	495 469 548,54	(25 805 505,40)
Attributable to non-controlling interests	28 158 832,31	90 144 043,93	85 590 131,21	(4 553 912,72)

The fixed assets valuation - the change of comparative data results from the error's correction recorded in the current year concerning valuation at fair value of fixed assets as at the day of taking over the control. The error resulted from the use of inappropriate algorithm for the calculation of depreciation.

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

42.1. Consortium of the Capital Group ENERGA SA and the Mine Adamów

On 7 January 2010 the consortium agreement between Kopalnia Węgla Brunatnego "Adamów" and the Capital Group ENERGA SA was executed regarding the construction and use of the wind power plants. The above project will be realized according the formula of project finance by the company specialty established for this purpose. Both entities will acquire 50% of the share capital of the new company. The agreement sets up a Steering Committee formed by the both parties representatives. The aim of the Committee will be preparation of the documentation necessary for the start up of the investment.

The wind farm will be located at the post-exploitation areas belonging to the mine, in Przykona commune. Mine Adamów possesses approximately 600 hectares of such a terrain at present. At the end such area might be tripled since the Mine Adamów increase the area of recultivated land by 100 hectares. The first construction stage assuming the power of approximately 40 MW can be finalized in 2012. The planned power of destination of the Wind

Farm Przykona equals 80 MW. There is a possibility of construction of more such farms on the remaining opencasts of the Mine Adamów.

The wind farm will be realized under the Program ENERGA WIND.

42.2. ENERGA Wisła Project

On 9 March 2009 there was signed an agreement for completion of "Necessary documentation for construction of dam and hydro plant on Vistula river downstream from Włocławek".

ENERGA Wisła Project consist of construction of the second dam on Vistula river downstream from Włocławek. Under preliminary assumptions the capacity of the hydro plant is planned between 60 and 100 MW and average annual output is planned over 500 thousand MWh. Completion of the project is estimated for 7 years (launch in the half of 2016) and capital expenditure is estimated for PLN 2,5 billion.

42.3. Restructurization of the Capital Group

Due to the reorganization of the Group, after the end of reporting period, there were published plans of the merger of the companies running activity in the area of lighting and tele - informatics.

Plan of the merger of lighting companies ENERGA Oświetlenie Sp. z o.o. and Zakład Oświetlenia Drogowego Północ Sp. z o.o. was published in Monitor Sądowy i Gospodarczy on 5 March 2010 and submitted to the Court on 25 February 2010.

Plan of the merger of tele – informatics companies ZEP – Info Sp. z o.o. and Zakład Energetyczny Płock – Centrum Techniki Energetycznej Sp. z o.o. was published in Monitor Sądowy i Gospodarczy on 5 January 2010 and submitted to the Court on 4 March 2010.

42.4. Letter of intent regarding financing the construction of biogas plants and biogas power plants.

On 20 April 2010 ENERGA and BGŻ Bank signed a letter of intent regarding cooperation in financing the construction of biogas plants and biogas power plants.

Biogas plant construction program is a part of development strategy of ENERGA Group, which provides for among others investments in innovative scattered renewable - biogas power engineering.

ENERGA will predominately base the development of this type of power engineering on small, i.e. from 0.5 to 2 MW sources of energy, that utilize fermentation process of biomass of waste origin. The project is carried out under strategic program ENERGA BIOGAZ, which provides for generating the energy of biogas from agriculture and commune - utilization biogas plants.

The letter of intent begins the long-term cooperation aimed at financing the construction of biogas plants and biogas power plants through participation in joint projects with partners and clients of both parties as well as capital expenditures and financing by means of credit instruments.

The cooperation includes selection of and gaining biomass partner (which supply the batch and collect the after ferment product), optimal localization for the construction of biogas plants and arranging the financing and supervision in the process of construction and operation, until repayment of the investment credit from BGŻ Bank.

42.5. Conversion of employees' shares

In 2009 ENERGA SA commenced the process of conversion of employees' shares of ENERGA – OPERATOR SA to the shares of ENERGA SA.

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

43.1. Obtaining external financing

On 16 December 2009 ENERGA SA and its subsidiary ENERGA-OPERATOR S.A. executed a loan agreement with European Investment Bank for a loan up to PLN 1,050.0 million. Funds obtained under the agreement will be used to finance investment program of ENERGA-OPERATOR SA in 2009-2011 related to development and modernization of a distribution network. The loan agreement constitutes an investment obligation under which the indebtedness can be repaid within a period not exceeding 15 years. The loan agreement is secured on the borrower's assets and is primarily based on financial covenants.

On 22 February 2010 the first tranche of the loan in the amount of PLN 630 million was drawn up. In accordance with adopted financial policy, obtained funds will be transferred to the final beneficiary, i.e. the company ENERGA-OPERATOR SA, using issue of long term bonds.

ENERGA SA is furthermore engaged in negotiations with European Bank for Reconstruction and Development and Nordic Investment Bank to obtain financing for implementation of an investment program of ENERGA-OPERATOR SA. Acquired funds will supplement closed financing provided by European Investment Bank. Conclusion of negotiations with the above financial institutions is planned for the 1st half of 2010.

43.2. Purchase of shares of OPEC Sp. z o.o.

On 25 February 2009 ENERGA SA and ENERGA Elektrownie Ostrołęka S.A. became a strategic investor in Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o. o. by purchasing 23,662 shares of the company for PLN 39,042,300.00 including 8,282 shares purchased by ENERGA S.A. for the amount of PLN 13,665,300.00. Purchased shares constitute 85% of share capital of OPEC sp. z o. o.

Ostrołęka Municipality, the seller, also assumed an obligation to sell other shares held by the Municipality not later than 60 days after obtaining an information about circumstances allowing it to sell OPEC's shares.

The Purchasers assumed the following:

- to provide employees of the company with individual employment guarantee for the period of 72 months from purchase of shares of OPEC sp. z o. o.
- to pay the privatization premium (ENERGA S.A. incurred the cost of PLN 97 300.00),
- to guarantee the redemption by all eligible persons of OPEC's shares obtained free of charge,
- to guarantee remunerations, training, the level of the industrial safety, operation of trade unions and to provide social guarantees.

Ostrołęckie Przedsiębiorstwo Energetyki Ciepłej sp. z o. o. distributes heat power to 55 thousand inhabitants of the city. Heat distributed by the company is produced by the company ENERGA Elektrownie Ostrołęka S.A.

The agreement also assumes the implementation of an investment program related to development of the heating sector in Ostrołęka. ENERGA S.A. and ENERGA Elektrownie Ostrołęka S.A. assumed an obligation to invest not less than PLN 320 million in 10 years in development of distribution network and production of heat energy.

43.3. ENERGA Trading SFIO investment fund

On 21 December 2009 ENERGA SA and Union Investment TFI established an investment fund ENERGA Trading SFIO. Its basic purpose is to manage liquidity and financial surplus of the ENERGA Group companies. The fund's investment policy enable to reach competitive return rates in comparison to bank deposits.

ENERGA Trading SFIO is dedicated only to companies of the ENERGA Group. Such construction is aimed at better efficiency of liquidity management and monitoring the companies' financial surpluses. ENERGA Trading SFIO is an umbrella fund comprising sub – fund ENERGA Trading 1.

The purpose of the sub – fund ENERGA Trading 1 is to achieve gains regardless stock market situation, maintaining low investment risk and profitability higher than return on one – month bank deposits. Investment policy assumes investing i.e. in treasury bonds, mortgage bills, commercial papers and other debt papers with maturity not exceeding than one year. Due to the above ENERGA Trading 1 is classified as money market fund, the safest investment fund offered by investment fund companies. The benefit of the fund for the Group is its high liquidity.

43.4. Power infrastructure located on private land

As a result of political transformation in 1990s and current legal and economic environment some serious problems surfaced with transmission grids constructed under the previous legal regime on privately owned property without obtaining the title to the property.

A significant evaluative increase of law suites against subsidiary ENERGA-OPERATOR SA due to construction of electric grid was observed in 2009. The amount of claims increased by 17.62 % in the first quarter of 2009 in comparison with the amount as at 31 December 2008. During the second and the third quarter the amount of claims increased by 56.91 % and 103.63 % respectively. Considering the whole previous year, the amount of claims as at 31 December 2009 in comparison with the amount as at 31 December 2008 increased by the total of 124.89 %.

Analysis of a number of claims filed in 2009 against subsidiary ENERGA – OPERATOR SA in connection with construction of electric grid equipment has also increased significantly. The number of claims increased only by 2.59 % in the first quarter of 2009 in comparison with the amount as at 31 December 2008. During the second and the third quarter the amount of claims increased by 13.37 % and 19.54 % respectively. Considering the whole previous year, the number of claims as at 31 December 2009 in comparison with the amount as at 31 December 2008 increased by the total of 27.46 %. The Capital Group formed provisions for the above amounting to PLN 11 544 thousand. The amount of established provisions does not equal the amount of claims but constitutes the most probable amount which could be paid in connection with the disputes.

These provisions are included in provisions for court proceedings disclosed in note 32.1.

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

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

In 2009 the subsidiary company ENERGA – OPERATOR SA identified a particular increase of a scale of claims filed by Państwowe Gospodarstwo Leśne Lasy Państwowe (hereinafter PGL Lasy Państwowe) acting for the State Treasury. In the first quarter of 2009 the amount of claims increased by 310.59% in comparison with the amount as at 31 December 2008. During the second and the third quarter the amount of claims increased to the level of 350.28 % and 367.90 % respectively. Considering the whole previous year, the amount of claims as at 31 December 2009 in comparison with the amount as at 31 December 2008 increased by the total of 369.60 %.

Also the number of claims filed by PGL Lasy Państwowe grew significantly. In reality, most of Forest Authorities operating in the area of subsidiary company ENERGA – OPERATOR SA filed claims against the company. In the first quarter of 2009 the number of claims increased by 50.25 %. Considering the whole year, the number of claims filed by PGL Lasy Państwowe as at 31 December 2009 in comparison with the number of claims filed as at 31 December 2008 increased by the total of 73.44 %. Provisions for the above, pending claims were established by the Capital Group ENERGA SA . The provisions amount to PLN 1.514.125,43 and it does not equal the total amount of the claims. It is the most probable amount which could be paid in connection with the disputes.

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

On 19 July 2007 a Social Agreement – No. 1/1 – GK ENERGA/2007 was concluded concerning protection of the employee rights and interests in the process of consolidation and restructuring of the Capital Group of ENERGA. The Agreement was concluded on the basis of Art. 9 of the Labor Code, Art.26' of the Act on labor unions dated 23 May 1991 and constitutes a development and detailed presentation of the provisions of:

- The Agreement concerning the social partners' rights in the process of vertical consolidation and the rules for cooperation in the process of restructuring concluded on 7 March 2007;
- Agreement in G8 No. 3/1 – Consolidation and restructuring - G8/2004.

The Social Agreement came into force on 01 August 2007.

The provisions in the agreement are related to the obligations towards the employees arising from:

- guarantees for the circumstances related to restructuring conditions,
- occasional bonus related to the consolidation for distribution companies and subsidiaries,
- employment guarantee,
- remuneration guarantee,
- social guarantees and health care guarantees,

- securing the rights to the employee shares.

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

Liabilities due to social guarantees are the continuation of hitherto prevailing liabilities towards the employees, their families and former employees – retired and pensioners, taking into account the yearly contribution to the company social benefit fund while applying the double ratio of the contribution stemming from the provision of the Act on the Company Social Benefits Fund in 2007. From 2009 the contribution amounted to 3 times the basic contribution.

Moreover, on 1 August 2007 the Social Agreement between Zespół Elektrowni Ostrołęka S.A. and the trade unions was signed regarding securing the rights of employees of Zespół Elektrowni Ostrołęka S.A. in the process of consolidation and privatization of electrical power engineering sector. According to the agreement the employer is obliged within 10 years beginning from the day of the agreement execution to guarantee the employment and to guarantee the structure of the employment as well as the remuneration at the level not inferior than the ones at the day of the agreement execution.

43.7. Dispute concerning PSE SA and PKN ORLEN SA

In July 2003 PSE SA brought an action to the Regional Court in Warsaw against Zakład Energetyczny Płock SA (hereinafter referred to as ZEP SA, at present ENERGA-OPERATOR SA) concerning payment of the amount of PLN 62 514 169.94, constituting a difference in the paid thereto transmission charge. ZEP SA instituted third party proceedings against PKN ORLEN SA. Regardless thereof, on the basis of a motion dated 26 September 2003 ZEP SA called PKN ORLEN SA to try to solve the issue amicably before the District Court in Płock in the scope of its compensation claims relating to non-performance by PKN ORLEN SA of an energy sale agreement via refusal to provide information about the size of the energy produced in own sources. In relation to the refusal by PKN ORLEN SA to participate in the settlement proceedings, on 30 June 2004 ZEP SA filed a petition to the Regional Court in Warsaw against the company for payment of PLN 46 232 530.31 arising from the system charge assigned to the auto-producer under the § 36 of the Regulation dated 14 December 2000, however applying to calculation thereof also the plan data.

On the basis of the decision dated 2 June 2005, the court officially suspended the proceedings until completion of the legal proceedings with PSE S.A., acknowledging that settlement of the issue depends on the result of the case with PSE SA. In both the cases there also occurs the issue of compliance of the provisions of the mentioned regulation with the Republic of Poland Constitution, which is reflected in the motions of ZEP S.A. and PKN ORLEN S.A. requesting the court to lodge an appropriate legal inquiry to the Constitutional Tribunal.

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

In the justification of the judgment, the Tribunal pointed out that the norm § 36 is a disposition regulation, and not an unconditionally binding one (*iuris cogentis*), which means that its application in the relations between the operator of the distributive system and auto-producer depends on the will of the parties. The above judgment resulted in the Appellate Court in Warsaw, on the basis of a decision dated 19 December 2007, after examination of the complaint of PKN ORLEN S.A. deciding to go back to the suspended proceeding in the case brought by ZEP SA against PKN ORLEN S.A., acknowledging that the clarification of the

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Tribunal allows for continuing of the lawsuit without waiting for the result of the lawsuit brought by PSE S.A. against ENERGA - OPERATOR S.A. On 25 June 2008 a verdict was pronounced in the case dismissing the petition of ZEP S.A. The Court decided that on the basis of the evidence the amount of the electric energy used in the period under dispute may not be determined by PKN ORLEN SA, and this does not allow for calculation of the remuneration for ZEP S.A. On 2 September 2008 ENERGA - OPERATOR S.A. appealed against the verdict to the Appellate Court in Warsaw. The Appellate Court changed the appealed judgment by the ruling of 10 September 2009, case I ACa 1062/08, and order payment of PLN 46,232,530.31 and statutory interest accrued from 30 June 2004 and reimbursement of the legal fees of PLN 253,915.00 by PKN ORLEN SA to ENERGA – OPERATOR SA, Oddział w Płocku. On 30 September 2009 PKN ORLEN SA aid all the awarded amount including interest, i.e. PLN 75,625,019.79 and reimbursed the legal fees. PKN ORLEN SA appealed against the verdict to the Supreme Court (the copy of the appeal was delivered to ENERGA – OPERATOR SA on 8 March 2010).

On the other hand, in the lawsuit brought by PSE S.A. against ENERGA - OPERATOR S.A. the defendant filed a repeated motion for repeated directing of the issue to the Constitutional Tribunal with an inquiry whether § 36 of the said regulation is also a disposition norm in the relations between the transmission system operator (PSE S.A.) and the distribution system operator (ENERGA - OPERATOR S.A.) The Court issued a negative decision with respect to the motion, and on 25 March 2008 pronounced a verdict, adjudging to PSE SA the entire amount of the claim that is PLN 62,514,169.94. In the justification the Court emphasized that in its opinion, a transmission agreement was concluded between the parties on 9 August 2001 and the same PSE S.A. was entitled to use in the settlements with ZEP S.A. the replacement amounts. On 10 June 2008 ENERGA - OPERATOR S.A. appealed against the verdict to the Appellate Court in Warsaw. On 19 March 2009 the Appellate Court in Warsaw discharged the appeal of ENERGA - OPERATOR S.A. in the subject issue. On 30 July 2009 ENERGA - OPERATOR S.A. brought appeal against this sentence to the Supreme Court. There was no court's decision on that appeal until preparing this information.

As a result of a negative settlement, it was necessary to increase the provision set up for this purpose by interest accrued as at 31 December 2008 in the amount of PLN 7 232 684.50. As at 31 December 2008 the provision set up due to the reason amounts to PLN 107 297 922.86, including PLN 51 241 122.93 for basic receivable.

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

Legal costs and costs of the representation amounting to PLN 148,400.00 were paid on 16 April 2009. Following negotiations, an agreement between PSE Operator SA and ENERGA - OPERATOR SA was signed on 05 May 2009 under which a time schedule for repayment of debt in 10 monthly installments starting from 15 May 2009 was agreed.

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

The agreement was implemented as follows:

- 15 May 2009 - payment of the first installment of PLN 12,746,445.45;
- 15 June 2009 - payment of the second installment of PLN 11,516,937.01;

- 15 July 2009 - payment of the third installment of PLN 11,087,296.56;
- 13 August 2009 - payment of the fourth installment of PLN 16,826,894.25;
- 15 September 2009 - payment of the fifth installment (the last installment of the main liability) of PLN 10,336,596.67;
- 15 October 2009 - payment of the sixth installment (the 1st interest installment) of PLN 6,590,705.48;

The amount of statutory installment payable as the 1st installment was reduced by PLN 2,001,532.97 set-off by PSE Operator SA under a set-off representation of 07 April 2009, by the amount of PLN 1,777,085.20 set-off by PSE Operator SA under a set-off representation of 05 June 2009, by the amount of PLN 2,013,514.23 set-off by PSE Operator SA under a set-off representation of 03 August 2009, by the amount of PLN 879,861.42 set-off by PSE Operator SA; under a set-off representation of 06 October 2009.

- the seventh installment (2nd interest installment) was paid on 13 November 2009; it amounted to PLN 11,383,914.11;
- December 2009 - payment of the eight installment (the 3rd interest installment) of PLN 9,257,461.57.

The amount of statutory interest payable as the 3rd interest installment was decreased by the amount of PLN 1,317,003.17 set-off by PSE Operator SA under a set-off representation of 30 November 2009.

A provision for interest amounting to PLN 4,385,886.94 was established in 2009; as a result of complete repayment of the main amount, a previously established provision of PLN 51,241,122.93 was fully utilized. Related provision on interest amounted to PLN 25,221,608.72 as at 31 December 2009.

Following the agreement assumption in the period from 15 May 2009 to 15 February 2010 ENERGA - OPERATOR S.A. paid all the liabilities amounting to PLN 120,955,323.83.

On 26 March 2010 the Supreme Court overruled the verdict of the Court of Appeal and remitted the case to recognition. The main reason of the overruling of the verdict was the Supreme Court's statement that to use the replacement values they need to be the result of the parties' negotiations. Another words, the replacement values did result neither from the Tariff Decree nor from the tariff of PSE.

43.8. Agreement with Grupa Lotos S.A. and PGNiG S.A. concerning construction of a gas combined heat and power plant (CHP plant)

In the framework of carrying out of the Program ENERGA Pro-Gaz, on 6 May 2009 an agreement was signed concerning preparation of a feasibility study, construction and exploitation of a modern CHP plant powered by gas fuel. The parties of the undertaking are ENERGA S.A., Grupa LOTOS S.A., and PGNiG S.A.

Launching of a CHP plant of electric capacity of 200 MW is planned in the autumn of 2013, whereas the estimated investment expenditures amount to approx. PLN 1 billion.

ENERGA S.A. will be an organiser of the construction of the CHP plant, Polskie Górnictwo Naftowe i Gazownictwo S.A. will supply the raw material, whereas the major client of the new plant will be Grupa LOTOS that will ensure thereto electric power and technological steam for the extended refinery. For the purposes of the project execution, a special purpose association of capital (company) will be set up, which will be directly responsible for the process of construction of the CHP plant. The Capital Group of ENERGA S.A. will be a

majority shareholder in the company – it will hold 60% of the shares, Grupa LOTOS - 20%, and PGNiG S.A. 20%.

The investment will be carried out on the basis of project finance, without charging the statement of financial position of the consortium members. It means that approx. 75% of the investment value will be financed with bank loans secured with years' long agreements, guaranteeing – under terms adequate for particular type of security - gas supplies (PGNiG), collection of heat and electric energy (LOTOS) and collection of electric energy (ENERGA).

The leader of the Program ENERGA Pro-Gaz became the company ENERGA Invest S.A.

43.9. Agreement with ESBi on construction gas – steam power plant

On 16 September 2009 there was signed an agreement between ENERGA SA and ESB International Investments Limited. The common aim of both sides is implementation of the project consisting of construction of gas – steam power plant with installed capacity about 800 MW. Signing the agreements there was established consortium aimed at completion of the first stage of the Project (defining location, selection and pre – feasibility study), that enables decision concerning possibility of common projects implementation throughout SPV. Both sides are obliged to cover 50% of third parties expenses incurred after signing the agreement under accepted budget. After the end of reporting period, on 5 March 2010, there was bought land for the purposes of construction gas – steam power plant.

43.10. The agreement for providing service “intervention work”

The increase in wind power engineering in the north of Poland results in the necessity of extension of new energy capacities related to ensuring regulatory services. Nowadays, in the north of the country there are not enough power plants that could render regulatory services, and thus the importance of power plants operating for the needs of regulatory services in the following years shall considerably increase (especially in the north). Currently, technical devices operating in the power plant are overused and may not constitute the basis for providing to PSE – Operator S.A. good quality regulatory services.

The subsidiary ENERGA Elektrownie Straszyn Sp. z o.o. (former ENERGA Zakład Elektrowni Wodnych Sp. z o.o.) provides to PSE – Operator S.A. “emergency operation” service. The service consists in disposing of and using generating units of ENERGA Elektrownie Straszyn Sp. z o.o. by PSE – Operator SA in order to balance on an emergency basis active and reactive power and to control the distribution of power in the electric energy network of the National Electric Power System, for the purpose of ensuring ongoing safety of National Electric Power System operation.

The Service Agreement stipulates adjusting the generating units for the purpose of ensuring proper parameters of the service, as part of the modernization performed in accordance with the schedule.

On 31 March 2009 annex No. 4 was concluded amending the provisions related to works within the scope of modernization of generating units. The reason for the changes was the delay in the implementation of the investment within the scope of modernization, for reasons beyond the control of ENERGA Elektrownie Straszyn Sp. z o.o. including the lack of required funds, except revenues from the Agreement, for financing the anticipated investment.

On 28 August 2009 a new agreement with PSE – Operator S.A. was concluded, under which the previously binding agreement was terminated and settled up. During preparation of the conclusion of the new agreement an update of the planned modernization was made and its technical scope was adjusted to the limited financial expenditures. Eventually it was provided in the agreement that total expenditures on modernization of Żydowo power plant would

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amount to PLN 134,252 thousand, of which PLN 43,308 thousand had been incurred until 31 December 2009. The remaining planned expenditures for the years 2010 – 2012 amounts to PLN 90.944 thousand.

Chief Financial Officer
Aleksandra Gajda - Gryber

.....
(date and signature)

Chairman of the Management Board

Mirosław Bieliński

.....
(date and signature)

Head of the Consolidated Accounting Department
Sebastian Cichowski

.....
(date and signature)

Vice-Chairman of the Management Board
for Financial Issues

Roman Szyszko

.....
(date and signature)