Journal of Laws of 2002, No. 76, item 694
2003-04-24 amendment Journal of Laws of 2003, No. 60, item 535 (Art. 527)
2003-08-23 amendment Journal of Laws of 2003, No. 139, item 1324 (Art. 1)
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2005-01-01 amendment Journal of Laws of 2004, No. 213, item 2155 (Art. 1)
2005-02-01 amendment Journal of Laws of 2005, No. 10, item 66 (Art.2)
2005-10-24 amendment Journal of Laws of 2005, No. 184, item 1539 (Art. 108)

THE ACCOUNTING ACT of 29 September 1994 [1)]

(uniform text)

Chapter 1

General provisions

Art. 1. The Act specifies accounting principles and the procedures for auditing financial statements by statutory auditors.

Art. 2. 1. [(1)] The provisions of the Accounting Act (hereinafter referred to as "the Act") shall apply, subject to the provisions of Paragraph 3, to the following entities whose registered offices or place of executive management are located on the territory of the Republic of Poland:

1) commercial companies[1] (partnerships and companies, including those in the process of setting up) and civil partnerships, subject to the provisions of Point 2, as well as other legal persons, except for the State Treasury and the National Bank of Poland;

2) natural persons, civil partnerships established by natural persons, general partnerships established by natural persons and professional partnerships, if their net revenue from the sales of goods for resale, finished goods and financial transactions for the prior financial year amounted to at least the Polish zloty equivalent of EUR 800,000;

3) [(2)] business units which operate on the basis of the Banking Law, regulations on trading in securities, investment fund regulations, insurance regulations or regulations on the organization and operation of pension funds, irrespective of their revenue;

4) communes, districts, provinces and their associations, as well as state, communal, district and provincial entities such as:

a) public sector entities;

b) auxiliary units of public sector entities;

c) public sector organizations;

d) [(3)] special purpose funds without the status of a legal person;

5) business units without the status of a legal person, except for partnerships referred to in Points 1 and 2;

6) foreign legal persons, foreign entities without the status of a legal person, as well as foreign natural persons who carry out business operations on the territory of the Republic in Poland in person, by an authorized person, with the aid of employees - in respect of business activities conducted on the territory of the Republic in Poland, irrespective of their revenue;

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[1] Commercial companies means here the entities established on the basis of the Code of Commercial Companies.

7) entities not mentioned in Points 1-6, if they receive subsidies or subventions from the state budget, budgets of local authorities or special purpose funds for carrying out assignments commissioned to them - from the beginning of the financial year in which such subsidies or subventions were granted.

2. Natural persons, civil partnerships established by natural persons, general partnerships established by natural persons and professional partnerships may apply the accounting principles specified in the Act from the beginning of the following financial year, if their net revenue from the sales of goods for resale, finished goods and financial transactions for the prior financial year is less than the Polish zloty equivalent of EUR 800,000. In such a case, these persons or partners are required to notify, before the beginning of the financial year, the tax office relevant to income tax matters.

3. [(4)] Entities which prepare their financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations published in the form of regulations of the European Commission, hereinafter referred to as "IAS", shall conform to the provisions of the Act and its related secondary legislation, in matters not regulated by IAS.

Art. 3. 1. Whenever the Act refers to:

1) an entity, it means entities and persons specified in Art. 2 Paragraph 1;

2) a bank, it means an entity which operate on the basis of the provisions of the Banking Law;

3) an insurer, it means an entity which carries out insurance activities on the basis of insurance regulations;

3a) [(5)] regulations on trading in securities, it means provisions of the Act on Trading in Financial Instruments, the Act on Capital Market Supervision, the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies;

4) shares or shareholders, it means shares of and shareholders in a limited liability company as well as shares of and shareholders in a joint stock company;

5) a local currency, foreign currencies and foreign exchange instruments, it means local currency, foreign currencies and foreign exchange instruments specified in the provisions of the Foreign Exchange Law;

6) [(6)] an entity's manager, it means a person or a body composed of one or more persons (the management board) which, by virtue of the law, articles of association, partnership or company deed, or a title of ownership, has the right to manage a given entity, except for proxies appointed by the entity. In the case of a general partnership or a civil partnership partners who manage the affairs of the partnership shall be regarded as an entity's manager; in the case of a professional partnership - partners who manage the affairs of the partnership or its management board; and in the case of a limited partnership or a limited joint stock partnership - general (non-limited) partners who manage the affairs of the partnership. In the case of a natural person conducting business activities, such a person is regarded as an entity's manager; this provision applies to freelance professionals accordingly. A receiver, as well as an official receiver or a bankruptcy trustee appointed in the bankruptcy proceedings - if they manage the enterprise of the bankrupt – shall also be regarded as an entity's manager;

7) an approving body, it means a body which, by virtue of the law, articles of association, partnership or company deed, or a title of ownership, has the right to approve the entity's financial statements. In the case of general partnerships (except for a limited joint stock partnership) and civil partnerships, their partners are regarded as the approving body;

8) a reporting period, it means a period for which financial statements are prepared on the basis of the procedures specified in the Act or a period for which other statements are prepared on the basis of the books of accounts;

9) a financial year, it means a calendar year or another period which lasts 12 full consecutive calendar months, applied for taxation purposes as well. The financial year or its changes shall be specified in the articles of association or a partnership or company deed on the basis of which the entity was set up. If an entity commenced its operations in the second half of the adopted financial year, its books of accounts and financial statements for that period may be combined with the books of accounts and financial statements for

the following year. If the financial year is changed, the first financial year after the change should cover a period longer than 12 consecutive months;

10) a balance sheet date, it means the date at which an entity prepares its financial statements;

11) [7] adopted accounting policies, it means accounting solutions allowed by the Act, selected and applied by an entity, including those specified in IAS, ensuring the required quality of the financial statements;

12) assets, it means resources of a reliably estimated value controlled by an entity, resulting from the past events and causing in the future the inflow of economic benefits to the entity;

13) non-current assets , it means the entity's assets which are not classified as current assets referred to in Point 18;

14) intangible assets, it means, subject to the provisions of Point 17, property rights acquired by an entity, classified as non-current assets, suitable for business use, with expected economic useful lives exceeding one year, which are intended to be used by the entity, in particular:

a) copyright and similar rights, licences, concessions;

b) rights to inventions, patents, trademarks, designs and decorative patterns;

c) know-how.

In the case of intangible assets used under a rent, lease or similar agreement, intangible assets are classified as non-current assets of one party to the agreement, in accordance with the provisions of Paragraph 4. Acquired goodwill and costs of completed development projects shall also be classified as intangible assets;

15) property, plant and equipment, it means, subject to the provisions of Point 17, tangible non-current assets and their equivalents, with expected useful lives exceeding one year, that are complete, usable, and intended for the entity's own use. They include in particular:

a) real property, including land, rights to perpetual usufruct of land, structures and buildings, as well as premises to which an entity has a separate title of ownership, co-operative title of ownership to an apartment and co-operative title of ownership to a business premises;

b) machinery, equipment, vehicles and other items;

c) leasehold improvements;

d) livestock.

The items of property, plant and equipment used under a rent, lease or similar agreement are recognised as non-current assets of one party to the agreement, in accordance with the provisions of Paragraph 4,

16) property, plant and equipment under construction, it means property, plant and equipment classified as non-current assets, in the time of their construction, assembly or improvement of an already existing item of property, plant and equipment;

17) investments, it means assets acquired in order to derive economic benefits resulting from an increase in the value of these assets, generation of income in the form of interest, dividends (participation in profits) or other rewards, including rewards from a commercial transaction, in particular financial assets and those real property and intangible assets which are not used by the entity but which have been acquired to derive such benefits. In the case of insurers, investments shall mean placements;

18) current assets, it means this part of the entity's assets which:

a) in the case of tangible assets referred to in Point 19 - are held for sale or consumption within 12 months from the balance sheet date or in the course of a normal operating cycle characteristic to a given type of operations, if such a cycle lasts longer than 12 months;

b) in the case of financial assets referred to in Point 24 - are payable and mature or are held for sale within 12 months from the balance sheet date or the date of their origination, issue or acquisition, or if they represent monetary assets;

c) in the case of short-term receivables - comprise all trade receivables and the whole or a part of other receivables not classified to financial assets that mature within 12 months from the balance sheet date;

d) in the case of prepaid, accrued and deferred items - are settled over a period not longer than 12 months from the balance sheet date;

19) tangible current assets, it means materials acquired for the entity's own use, finished goods (products and services) manufactured or processed by an entity which are ready for sale or work in progress, semi-finished goods, and goods acquired for resale in an unprocessed form;

20) liabilities, it means an entity's obligation arising from the past events to provide goods or services of a reliably estimated value, and which will involve the use of existing or future assets of the entity;

21) provisions, it means liabilities whose due dates or amounts are not certain;

22) short-term liabilities, it means all trade payables as well as the whole or a part of other liabilities which mature within 12 months from the balance sheet date;

23) financial instruments, it means any contract giving rise to financial assets of one entity and a financial liability or an equity instrument of another entity, on condition that a contract concluded by two or more parties clearly results in economic effects, irrespective of whether the execution of contractual rights or obligations is unconditional or conditional. Financial instruments do not include in particular:

a) deferred tax liabilities and deferred tax assets;

b) financial guarantee contracts which provide for the fulfilment of guarantee obligations by paying amounts corresponding to losses incurred by a beneficiary due to a debtor's failure to settle the debt within a required deadline;

c) contracts for the transfer of rights to securities in the period between the transaction date and the settlement date, if in order to execute these contracts it is necessary to deliver the securities at a specified date, and also when the transfer of these rights is made by making an entry in a securities account maintained by an entity authorized to do so under other regulations;

d) assets and liabilities in respect of programmes which give the entity's employees and other persons related to it the share in its equity;

e) business combination agreements which give rise to obligations specified in Art. 44b Paragraph 9;

24) financial assets, it means monetary assets, equity instruments issued by other entities, as well as a contractual right to receive monetary assets or to exchange financial instruments with another entity under favourable conditions;

25) monetary assets, it means assets in the form of a domestic currency, foreign currencies and foreign exchange instruments. Monetary assets also include other financial assets, in particular accrued interest on financial assets. If such assets are payable or due within 3 months from their receipt, issue, acquisition or placement, they are classified as cash for the purpose of a cash flow statement, unless they are included in the cash flows from investing activities;

26) equity instruments, it means contracts which give a right to assets of an entity which remain after satisfying or securing all its creditors, as well as an obligation of an entity to issue or deliver its own equity instruments, in particular shares, share options or warrants;

27) financial liabilities, it means an obligation of an entity to deliver financial assets or to exchange financial instruments with another entity under unfavourable conditions;

28) contingent liabilities, it means an obligation to provide goods or services whose origination depends on the occurance of specified events;

29) net assets, it means the assets of an entity net of its liabilities, equal in their amount to the entity's equity;

30) income and profits, it means probable economic benefits of a reliably estimated value, which may arise during a reporting period in the form of increases in the value of assets or decreases in the value of liabilities, that will result in an increase of the equity or a decrease of the equity deficit in a manner other than through contributions made by shareholders or owners;

31) costs and losses, it means probable decreases of economic benefits of a reliably estimated value, which may arise during a reporting period, in the form of decreases in the value of assets or increases in the value of liabilities and provisions, that will result in a decrease of the equity or an increase of the equity deficit in a manner other than through a withdrawal of funds by shareholders or owners;

32) other operating costs and income, it means costs and income which are indirectly related to operating activities of an entity, in particular costs and income relating to:

a) social activities;

b) (8) the disposal of items of property, plant and equipment, items of property, plant and equipment under construction, intangible assets, as well as the maintenance and disposal of real property and intangible assets classified as investments;

c) writing off of expired, forgiven, and uncollectable receivables and payables, except for the state or local authority receivables and payables not charged to costs;

d) recognising provisions or the reversal of provisions, except for the provisions related to financial transactions;

e) write-downs of assets and their adjustments, except for the write-downs that increase the costs of manufacture of finished goods sold or goods for resale sold, selling costs or financial costs;

f) compensations, penalties and fines;

g) a free-of-charge transfer or receipt (including a donation) of assets, including also cash for purposes other than the acquisition or manufacture of items of property, plant and equipment, items of property, plant and equipment under construction or intangible assets;

33) extraordinary losses and gains, it means losses and gains arising from events which are difficult to predict, outside the entity's operating activities and not related to its general operating risk;

34) exercising control over another entity, it means the entity's ability to govern the financial and operating policies of another entity in order to obtain economic benefits from its activities;

35) exercising joint control over another entity, it means the entity's ability to govern, jointly and equally with other shareholders or partners, the financial and operating policies of another entity in order to obtain joint economic benefits from its activities;

36) significant influence on another entity, it means the entity's ability, other than control or joint control, to influence the financial and operating policies of another entity, including the profit appropriation or loss offset of another entity;

37) a parent company, it means a commercial company (a partnership or company), that exercises control or joint control over another entity, and which, in particular:

a) holds directly or indirectly through shares, the majority of the total number of votes in the decision-making body of another entity (subsidiary), also on the basis of agreements with other entities or persons entitled to vote and exercising their rights in accordance with the will of the parent company, or

b) is entitled to govern the financial and operating policies of another entity (subsidiary) in a direct way or through persons or entities appointed on the basis of an agreement concluded with other entities or persons entitled to vote who have, on the basis of the articles of association or partnership or company deed, together with the parent company, the majority of the total number of votes in the decision-making body of another entity, or

c) is entitled, as a shareholder, to appoint or dismiss the majority of members of the management or supervisory bodies of another entity (subsidiary), or

d) is a shareholder in an entity whose management board members - in the prior financial year, the current financial year, and till the preparation of the financial statements for the current financial year - constitute more than a half of the members of the management board of that entity (subsidiary), or persons appointed to perform those functions as a result of exercising by the parent company its voting rights in the bodies of that entity (subsidiary), or

e) is a shareholder or partner in another co-subsidiary not being a commercial company (a partnership or company), and exercises joint control over that entity together with other entities or persons entitled to vote;

38) a significant investor, it means a commercial company (a partnership or company), a which holds not less than 20% of votes in the decision-making body of other entity not being a subsidiary, and which exerts significant influence on or exercises joint control over this entity; the number of votes is determined in accordance with the rule specified in Point 37 Letter a). The share in the total number of votes may be less than 20%, if other circumstances indicate that significant influence is exerted or joint-control is exercised;

39) a subsidiary, it means a commercial company (a partnership or company), which is controlled by the parent company;

40) a co-subsidiary, it means a commercial company (a partnership or company) or another entity which is jointly controlled by a parent company or a significant investor and other shareholders or partners on the basis of the articles of association, partnership or company deed or an agreement concluded for the period longer than a year;

41) an associated entity, it means a commercial company (a partnership or company), on which a significant investor exerts significant influence;

42) subordinated entities, it means subsidiaries, co-subsidiaries of the parent company, and associated entities of a significant investor;

43) related entities, it means a group of entities which includes a parent company or a significant investor, subsidiaries, co-subsidiaries and associated entities;

44) a capital group, it means a parent company together with its subsidiaries and co-subsidiaries not being commercial companies (partnerships or companies);

45) consolidation, it means combining the financial statements of entities constituting a capital group by summing up respective items of the financial statements of the parent company, its subsidiaries, and co-subsidiaries not being commercial companies (partnerships or companies), taking into account necessary eliminations and adjustments;

46) minority interest, it means that part of the net assets of a subsidiary which is owned by shareholders from outside the capital group;

47) the equity method, it means a method of measuring the value of shares in the net assets of a subordinated entity adopted by a parent company or a significant investor, taking into account goodwill or negative goodwill determined as at the date of taking over control, joint control or of exerting significant influence. The initial cost of a share is adjusted - as at the balance sheet date for which the financial statements are prepared - for the changes in the value of the net assets of a subordinated entity that occurred in a given reporting period, arising both from the financial result achieved, adjusted for the amortization of goodwill or negative goodwill relating to a given reporting period, and from any other changes, including the changes resulting from the settlements with a parent company or a significant investor.

48) [9] European Economic Area, it means EU countries as well as Island, Liechtenstein and Norway.

2. Amounts denominated in EUR are translated into the Polish currency at the average exchange rate set by the National Bank of Poland as at the balance sheet date, subject to the provisions of Paragraph 3.

3. The amounts denominated in EUR referred to in Art. 2 Paragraph 1 Point 2 and Paragraph 2 are translated into the Polish currency at the average exchange rate set by the National Bank of Poland as at 30 September of the year preceding a given financial year.

4. If an entity has accepted for use the items of property, plant and equipment or intangible assets of a third party on the basis of an agreement according to which one party (hereinafter referred to as "the lessor") grants the other party (hereinafter referred to as "the lessee") the right to use the items of property, plant and equipment or intangible assets in exchange for a fee, as well as the right to receive related rewards for a definite period of time, these items and intangible assets are recognised as non-current assets of the lessee, provided that the agreement meets at least one of the following conditions:

1) it transfers the title of ownership to the asset to the lessee after the end of the term of the agreement;

2) it provides the lessee with the option to purchase the asset after the end of the term of the agreement for a price which is lower than the market price as at the purchase date;

3) the term of the agreement covers the major part of the expected economic useful life of the asset or property right, but may not be less than three quarters of that period. The title of ownership may be transferred to the lessee after the end of the term of the agreement;

4) the total lease payments, net of the related discount, determined as at the agreement date and due over the term of the agreement, exceed 90% of the market price of the leased asset as at that date. The total lease payments include the residual value of the leased asset which the lessee agrees to pay in return for the transfer of the title of ownership to the asset. The total lease payments do not include any payments to the lessee for additional services, taxes and insurance premiums related to the asset, if they are incurred by the lessee irrespective of the lease payments;

5) it includes the lessor's commitment to conclude with the lessee a subsequent lease agreement for granting the use of the same asset in exchange for payment, or to extend the existing agreement under more favourable conditions than those specified in the existing agreement;

6) provides for an option to terminate the agreement, provided that any related costs and losses incurred by the lessor are covered by the lessee;

7) the leased asset is tailored to the individual needs of the lessee. The leased asset may be used only by the lessee, without making significant modifications to it.

5. If at least one of the conditions specified in Paragraph 4 is met, the items of property, plant and equipment or intangible assets transferred for use to the lessee shall be classified by the lessor as receivables in non-current assets.

6. If the annual financial statements of the lessee are exempted from the obligation to be audited and published under Art. 64 Paragraph 1, the lessee may classify the agreements referred to in Paragraph 4 according to the rules specified in tax regulations, and may refrain from applying the provisions of Paragraphs 4 and 5.

Art. 4. 1. [10] Entities are required to apply the adopted accounting principles (policies), truly and fairly presenting their financial position and financial result.

2. Events, including business transactions, are recognised in the books of accounts and presented in the financial statements in accordance with their economic substance.

3. An entity's accounting shall include:

1) the adopted accounting principles (policies);

2) keeping, based on the accounting documents, the books of accounts which record the entries of the events in a chronological and systematic manner;

3) a periodic determination or verification, through a stocktaking, of actual balances of assets, liabilities and equity;

4) measurement of assets, liabilities and equity, and determination of the financial result;

5) preparation of financial statements;

6) gathering and storing accounting documents and other documentation required by the Act;

7) having financial statements audited and published in cases required by the Act.

4. Within its adopted accounting principles (policies) an entity may apply simplifications, provided that it has no significant negative impact on the fulfilment of the obligation specified in Paragraph 1.

5. The entity's manager is responsible for the fulfilment of accounting obligations specified in the Act, including the supervisory obligation, even if certain accounting obligations (except for the responsibility for a stocktaking) have been delegated to another person upon that person's consent. The acceptance of a responsibility by another person should be confirmed in writing. If an entity is managed by a collective body and no single person has been appointed responsible, the responsibility is borne by all the members of that body.

Art. 5. 1. The adopted accounting principles (policies) must be applied on a consistent basis assuring that the classification of business transactions, measurement of assets, liabilities and equity, including the amortization or depreciation charges, determination of the financial result, and preparation of the financial statements are carried out in the same way in consecutive financial years so that the information resulting therefrom for the consecutive financial years is comparable. Balances of assets, liabilities and equity recognised in the books of accounts as at their closing date must be recognised in the same amounts in the books of accounts opened for the following financial year.

2. Adopted accounting principles (policies) are applied on the assumption that an entity will continue as a going concern in the foreseeable future, without material curtailing of the scope of its operations, without being put into receivership or declared bankrupt, unless it is in contradiction with the actual or legal status. While assessing the entity's ability to continue as a going concern, the entity's manager takes into account all information available as at the date of preparing the financial statements relating to the foreseeable future, covering a period not shorter than 12 months from the balance sheet date.

Art. 6. 1. All income earned by an entity and all related costs which refer to a given financial year, must be recognised in the entity's books of accounts, irrespective of the date of their payment.

2. In order to ensure the matching of the income and related costs, assets or liabilities and equity of a given reporting period shall include costs or income which relate to the future periods as well as costs relating to this reporting period, which have not been incurred yet.

Art. 7. 1. Individual items of assets, liabilities and equity shall be measured at the actual prices (costs) paid (incurred) for their acquisition (manufacture), taking into account the prudence principle. In particular, the following should be recognised in the income statement, irrespective of their amounts:

1) decreases in the useful or commercial value of an item of assets, including depreciation or amortization charges;

2) (deleted);

3) only absolutely certain other operating income and extraordinary gains;

4) all other operating costs and extraordinary losses incurred;

5) provisions for any risk known to the entity, impending losses and the outcome of other events.

2. The events referred to in Paragraph 1 should be recognised also when they become known between the balance sheet date and the date when the books of accounts are actually closed.

3. The value of individual items of assets, liabilities and equity, income and related costs, as well as extraordinary gains and losses, shall be determined separately. Different types of assets, liabilities and equity, income and related costs, as well as extraordinary gains and losses shall not be offset against each other.

Art. 8. 1. [11] While selecting accounting principles (policies), it is necessary to ensure separate identification within the accounting system of all the events which are material for the assessment of the financial position and financial result of an entity, taking into account the prudence principle referred to in Art. 7.

2. In order to give a true and fair presentation of its situation, an entity may, as of the first day of a financial year and irrespective of the decision date, replace the accounting solutions applied so far with others allowed by the Act. Changes in the accounting solutions applied so far require a disclosure, in the notes to the financial statements, of the impact of those changes on the financial statements required by other legal regulations, if these financial statements have been prepared for the period in which the above solutions were changed. In such a case, in its financial statements for the financial year in which the changes were made, the entity should specify the reasons for such changes, quantify their impact on the financial result, and ensure comparability of the financial statements data for the financial year preceding the financial year in which the changes were made.

Chapter 2
Keeping the books of accounts

Art. 9. Books of accounts shall be kept in the Polish language and currency.

Art. 10. 1. An entity should have a documentation which describes, in Polish, its adopted accounting principles (policies), in particular the principles (policies) related to:

1) a determination of the financial year and reporting periods covered by it;

2) [12] the methods of measuring assets, liabilities and equity, and determining the financial result;

3) the manner of keeping the books of accounts, including at least:

a) a corporate chart of accounts which lists general ledger accounts, adopted principles of events classification, principles of keeping subsidiary ledger accounts and their linkages with general ledger accounts;

b) a list of the books of accounts and, in the case of computerized books of accounts, a list of data files composing the books of accounts on electronic data media, with the specification of their structure, mutual linkages and their function in the entire books of accounts structure and in data processing;

c) a description of the data processing system and, in the case of computerized books of accounts, a description of the computer system, including a list of programs, procedures or functions, depending on the software structure, together with a description of algorithms and parameters, as well as logical data protection principles, in particular the methods of protecting the access to data and to the data processing system, as well as a specification of the software version and the date when it was first launched for use;

4) a system protecting data and its files, including accounting documents, books of accounts and other documents constituting the basis for accounting entries.

2. The entity's manager specifies, in writing, and updates the documentation referred to in Paragraph 1.

3. [13] For matters not regulated by the Act, while adopting their accounting principles (policies), entities may apply domestic accounting standards issued by the Accounting Standards Committee. If there is no applicable domestic standard, entities other than specified in Art. 2 Paragraph 3, may apply IAS.

Art. 11. 1. Books of accounts shall be kept in the registered office of an entity (a representative or branch office of a foreign legal person).

2. Entities with branches (business units) may keep the books of accounts of such branches (business units) in the registered office of an entity or in the offices of the branches (business units).

3. The books of accounts may be kept on the territory of the Republic of Poland outside the registered office of an entity (branch, business unit) in the case specified in Art. 13 Paragraphs 2 and 3, or if the bookkeeping has been outsourced to a natural person, legal person or entity without the status of a legal person, who are licensed to provide such services.

4. If the books of accounts are not kept in the registered office of an entity (branch, business unit), the entity's manager is required to:

1) inform a relevant tax office about the place where the books of accounts are kept - within 15 days from the date when the books have been moved outside the registered office of the entity (branch, business unit);

2) ensure access to the books of accounts for auditing by authorized external control bodies in the registered office of the entity (branch, business unit).

Art. 12. 1. Books of accounts are opened:

1) as at the date of starting operations, i.e. the date of the first event which brings effects related to financial position or financial result

2) as at the beginning of each subsequent financial year;

3) as at the date of a change in the legal status, subject to the provisions of Paragraph 3,

4) as at the registration date of a merger or a demerger which result in a new entity (entities) being established;

5) as at the start date of initiating receivership or bankruptcy proceedings

- within 15 days from the date when these events occurred.

2. Books of accounts are closed:

1) as at the last day of a financial year;

2) as at the last day of the entity's operations, including its sale and the completion of receivership or bankruptcy proceedings;

3) as at the date which precedes a change in a legal status, subject to the provisions of Paragraph 3;

4) [14] at the acquiree's - as at the date of a merger resulting from the acquisition of the entity by another entity, in particular as at the registration date of that merger;

5) [15] as at the date preceding the date of a demerger or merger of entities, if the demerger or merger results in the establishment of a new entity, in particular as at the date preceding the registration date of the demerger or merger;

6) as at the date preceding the date of putting an entity into receivership or declaring bankrupt;

7) as at another balance sheet date specified in separate regulations

- not later than within 3 months from the date when these events occurred.

3. The books of accounts need not be closed and opened if a partnership or a civil partnership is transformed into another partnership, or in the case of a merger of entities, if, in accordance with the provisions of the Act, the acquisition of the entity is accounted for under the pooling of interests method and does not result in a new entity being established.

4. The final closing and opening of the books of accounts of an entity being a going concern should be carried out within 15 days from the approval of the financial statements for a given financial year at the latest.

5. Closing the books of accounts consists in an irreversible exclusion of a possibility to make accounting entries in the files constituting the closed books of accounts, subject to the provisions of Art. 13 Paragraphs 2 and 3.

Art. 13. 1. Books of accounts comprise files of accounting entries, activities (entry totals) and balances, which include:

1) a journal;

2) a general ledger;

3) subsidiary ledgers;

4) trial balances of general and subsidiary ledger accounts;

5) a list of items of assets, liabilities and equity (inventory);

2. In the case of computerised books of accounts, accounting information resources in the form of separate electronic data files, databases or their individual separate components are regarded as equivalent to the books of accounts, irrespective of the place of their origin and storage.

3. An entity may maintain the accounting system information resources in the form specified in Paragraph 2, on the condition that the entity is in the possession of software enabling it to obtain readable information in respect of entries made in the books of accounts, by printing it out or transferring it to another computer data medium.

4. Books of accounts, taking into account the bookkeeping method, should be:

1) permanently marked with the name (full or abbreviated) of the entity to which they relate (each bound book, each loose-leaf ledger sheet, even in the form of computer print-outs or lists displayed on a computer monitor), the name of the type of a book of accounts, and the name of the processing software used;

2) clearly marked as to the financial year, reporting period and preparation date to which they relate;

3) carefully stored in a pre-determined order.

5. In the case of computerized books of accounts, it is required to ensure automatic control over the sequencing of entries, control of activities and balance. Computer printouts of the books of accounts should consist of automatically numbered pages, the first and last being marked as such, and be subtotalled on each page on an ongoing basis during a given financial year.

6. Books of accounts should be printed out not later than as at the end of a financial year. Transferring the contents of the books of accounts to another electronic data medium which ensures durability of recorded data for the period not shorter than the one required for the storage of the books of accounts, is regarded as equivalent to a print-out.

Art. 14. 1. A journal contains chronologically-recorded events which took place in a given reporting period. Irrespective of the bookkeeping method, a journal should enable the reconciliation of its activities with the activities of a trial balance of general ledger accounts.

2. Journal entries must be numbered sequentially, and their totals (activities) calculated on an ongoing basis. Journal entries should be made in such a manner which allows them to be clearly correlated to verified and approved accounting documents.

3. If sub-journals classifying events by type are used, a statement of activities in such sub-journals for a given reporting period should be prepared.

4. In the case of computerized books of accounts, an accounting entry should automatically be assigned a sequential reference number that represents its record in journal, as well as data allowing for the identification of the person responsible for the contents of this accounting entry.

Art. 15. 1. General ledger accounts comprise event entries arranged in a systematic order. Events recorded previously or simultaneously in a journal shall also be recorded in general ledger accounts in accordance with the double entry principle.

2. Entries in a specific general ledger account shall be made in a chronological order.

Art. 16. 1. Subsidiary ledger accounts include entries which provide additional detailed and supplementary data to entries in general ledger accounts. They are arranged in a systematic order as a separate system of ledgers, files (account sets) and computer files, reconciled to the balances and entries made in general ledger accounts.

2. During a reporting period, subsidiary ledger accounts may be maintained in volume units, in addition to or instead of monetary units. In such a case, as at the end of the reporting period, a statement of entries made in natural units in subsidiary ledger accounts should be prepared and valued.

3. (deleted).

Art. 17. 1. Subsidiary ledger accounts are kept in particular for:

1) items of property, plant and equipment, including items of property, plant and equipment under construction, intangible assets as well as related amortization and depreciation charges;
2) trade receivables and payables;
3) employee receivables and payables, in particular a remuneration record of each individual employee which provides information on the entire period of employment;
4) sales transactions (sequentially numbered sales invoices and other documents, with sufficient detail to meet tax requirements);
5) purchase transactions (sequentially numbered purchase invoices and other documents, with sufficient detail to measure the value of assets and meet tax requirements);
6) costs and items of assets which are material to an entity;
7) cash transactions, if an entity possesses cash-box.

2. Taking into account the type and value of individual categories of tangible current assets held by an entity, the entity's manager shall decide on the use of one of the following methods for maintaining subsidiary ledger accounts for these asset categories:

1) value and volume records, where activities and balances of each asset item are recorded in volume and monetary units;
2) volume records for activities and balances, kept for individual items of assets or their homogeneous categories exclusively in volume units. The values of balances are measured at least as at the end of a reporting period for which an entity settles its income tax liabilities, on the basis of actual data;
3) value records for activities and balances of goods for resale and packaging, maintained for retail outlets or storage facilities, where entries are made only for receipts, transfers and balances of total inventories;
4) charging to costs the value of materials and goods for resale as at the date of their purchase, or finished goods at the time of their manufacture, together with the determination, not later than as at the balance sheet date, of balances of these items of assets and their valuation, as well as the adjustment of costs for the value of these balances.

Art. 18. 1. On the basis of entries in general ledger accounts, a trial balance shall be prepared as at the end of each reporting period, but at least as often as at each month-end, which includes:

1) account codes or names;
2) opening balances of accounts, activities for a given reporting period and cumulatively year-to-date, as well as balances as at the end of the reporting period;
3) the total of opening balances of accounts, total activities for a given reporting period and cumulatively year-to-date, as well as the total of balances as at the end of the reporting period;

Activities in this trial balance should agree with activities in the journal or activities in the statement of activities in sub-journals.

2. A trial balance of all subsidiary ledger accounts shall be prepared at least as at the date of closing the books of accounts. A statement of balances of asset category under stocktaking shall be prepared as at the date of the stocktaking.

Art. 19. 1. A list of assets, liabilities and equity (an inventory) confirmed by stocktaking shall be prepared by entities which have not yet kept their books of accounts in a manner stipulated in the Act. In other entities, an inventory's function is performed by a trial balance of general ledger accounts and a statement of balances of subsidiary ledger accounts prepared as at the date of closing the books of accounts.

2. Items of the inventory prepared by the entities which have not kept their books of accounts yet, should constitute equivalents or more detailed representations of individual items of the opening balance sheet. Assets, liabilities and equity shall be measured in an inventory in accordance with the rules specified in Chapter 4.

Art. 20. 1. Each event which occurred in a given reporting period should be recorded in the form of an entry in the books of accounts of this reporting period.

2. Entries in the books of accounts are based on the following accounting documents (hereinafter referred to as "source documents") which confirm that a given transaction actually took place:

1) third party external source documents - received from contractors;
2) own external source documents – originals of documents submitted to contractors;
3) internal source documents - relating to internal transactions of an entity.

3. Entries may also be based on the following types of accounting documents prepared by an entity:

1) aggregated documents - used to make summary entries in respect of a set of source documents which shall be mentioned separately in a related aggregated document;
2) documents correcting previous entries;
3) substitute documents – made out pending the receipt of an external source document from a third party;
4) settlement documents - which allocate existing entries in accordance with new classification criteria.

4. In the case of a justifiable inability to obtain third party external source documents, the entity's manager may allow a business transaction to be documented using substitute accounting documents, prepared by persons who conduct these transactions. However, this may not apply to business transactions which involve purchases subject to value added taxes and the purchase of non-ferrous scrap metal from individuals.

5. In the case of computerized books of accounts, entries in the books of accounts made automatically through telecommunications devices, computer data media or generated according to an algorithm (a program) on the basis of information already included in the books of accounts, may be considered as equivalent to source documents, provided that at least the following conditions are met while these entries are made:

1) they obtain a permanently readable form which is consistent with the contents of relevant accounting documents;
2) it is possible to determine the source of origin and the person responsible for making the entries;
3) the procedure applied ensures the verification of the correctness of the relevant data processing as well as the completeness and identical content of entries;
4) source documents are properly protected at the point of their origin in a way ensuring that they will remain unchanged over a period required to store a given type of accounting documents.

Art. 21. 1. An accounting document should contain at least:

1) a description of the type of document and its identification number;
2) a specification of the parties (names, addresses) conducting business transaction;
3) a description of the transaction and its value, specified also in volume units, if possible;
4) a transaction date and a date when the document was prepared if it is different from the transaction date;
5) a signature of the person who made out the document and of the person who received or delivered a given item of assets;
6) a statement that the document was verified and approved for recording in the books of accounts by indicating the month and manner of an entry of the document in the books of accounts (posting), as well as a signature of the person responsible for such statements;

7) (deleted).

1a. [16] The data referred to in Paragraph 1 Points 5 and 6 may be omitted in a document if it results from other regulations or a method of documenting accounting entries.

2. The value of a transaction may be omitted in a document, if in the course of accounting processing of the data expressed in volume units, the data is measured, which is confirmed with a suitable print-out.

3. An accounting document expressed in foreign currencies should include a translation of their amount into the Polish currency at the exchange rate in force as at the transaction date. The translated amount shall be shown directly on the document itself, unless the data processing system ensures automatic translation of foreign currencies into the Polish currency, and such a translation is confirmed with a suitable print-out.

4. If a document does not document a transfer or receipt of an item of assets, a transfer of the title of ownership or a right to perpetual usufruct of land, or if it is not a substitute document, the signatures of the persons referred to in Paragraph 1 Point 5 may be replaced by marks which ensure the identification of such persons. Signatures on insurance documents or issued securities may be reproduced mechanically.

5. At the request of controlling bodies or a statutory auditor, a reliable translation into Polish of foreign-language documents specified by such bodies or auditors, shall be ensured.

Art. 22. 1. Accounting documents should be reliable, i.e. consistent with the actual course of the business transaction which they document; complete, containing at least the data specified in Art. 21, and free from arithmetical errors. Making any obliterations or alterations in accounting documents is forbidden.

2. Errors in third party and own external source documents may only be corrected by sending to a contractor an appropriate document containing a correction, together with a suitable justification, unless other regulations provide otherwise.

3. Errors in internal documents may be corrected by crossing out the incorrect text or amount, while retaining the legibility of the expressions or amounts crossed out, entering a correct text and the date of the correction, and signing by an authorized person, unless other regulations provide otherwise. Single letters or figures must not be corrected.

4. If a single transaction is documented by more than one document or more than one copy of a document, the entity's manager shall decide on the manner of dealing with each of them, and shall indicate which document or its copy will constitute the basis for making an entry.

Art. 23. 1. Entries in the books of accounts shall be made in a permanent manner, without leaving any space allowing for later additions or modifications. In the case of computerized books of accounts, appropriate procedures and security measures must be adopted to protect entries against destruction, modification or concealment.

2. An accounting entry should contain at least:

1) the date of a business transaction;

2) a specification of the type and the identification number of an accounting document constituting the basis for the entry as well as its date, if it is different from the transaction date;

3) an intelligible text, abbreviation or code describing the transaction; together with a written explanation of the contents of abbreviations or codes used;

4) the amount and date of the entry;

5) the identification of relevant accounts.

3. Entries related to transactions expressed in foreign currencies shall be made in a manner allowing the determination of the amount of the transaction in both Polish and foreign currency.

4. Entries in a journal and general ledger accounts should be correlated in a manner which enables their verification.
5. Entries in the books of accounts should be made in a manner which ensures their durability, for the period not shorter than the one required for the storage of the books of accounts.

Art. 24. 1. Books of accounts should be kept in an reliable, error-free and verifiable manner and on an ongoing basis.
2. Books of accounts are regarded as reliable, if their entries reflect the actual situation.
3. Books of accounts are regarded as error-free, if all accounting documents approved for entry in a given month have been entered into them in a complete and correct manner, and the continuity of entries and error-free operation of the calculation procedures applied have been ensured.
4. Books of accounts are regarded as verifiable, if they enable the verification of the correctness of entries, balances (activities) and the operation of the calculation procedures applied, in particular:
1) the documentation of entries allows for the identification of documents and the manner in which they were recorded in the books of accounts at all stages of data processing;
2) entries are kept in a chronological and systematic order in accordance with classification criteria which allow an entity to prepare statutory financial statements and other reports, including tax returns, as well as carry out financial settlements;
3) in the case of computerized books of accounts, control over the completeness of accounting system files and data processing parameters is ensured;
4) access to data files is ensured allowing, irrespective of the method used, for the clear and intelligible information on the contents of the entries made in the books of accounts to be available at any time and for any reporting period;
5. Books of accounts are regarded as kept on an ongoing basis, if:
1) information derived therefrom enables the timely preparation of statutory financial statements and other reports, including tax returns, as well as carrying out financial settlements;
2) trial balances of general ledger accounts are prepared at least for individual reporting periods, and at least as often as at the month-end, by the dates referred to in Point 1, and for a financial year – not later than 85 days from the balance sheet date;
3) receipts and payments in the form of cash, cheques, bills of exchange, as well as retail and catering turnover are recognised on the same date as the transaction date.

Art. 25. 1. Errors identified in entries are corrected as follows:
1) by crossing out the existing text and inserting a new one, while retaining the legibility of the incorrect entry and signing the correction and dating it; such corrections shall be made simultaneously in all the books of accounts and they cannot be made after the closing of a given month; or
2) by entering, into the books of accounts, an accounting document which includes corrections of incorrect entries, made only in positive or only in negative amounts.
2. If errors are identified after the closing of a given month, or in the case of computerized books of accounts, only corrections made in the manner specified in Paragraph 1 Point 2 are allowed.

Chapter 3
Stocktaking

Art. 26. 1. As at the last day of each financial year, entities shall carry out stocktaking of:

1) monetary assets (except for cash at bank), securities, tangible current assets, property, plant and equipment, subject to the provisions of Point 3, as well as machinery and equipment included in property, plant and equipment under construction - by means of a physical count, valuation of the counted quantities, comparison of their values with values in the books of accounts, as well as an explanation of and accounting for any discrepancies;

2) financial assets deposited in bank accounts or held with other entities, receivables, including loans granted, subject to the provisions of Point 3, as well as own assets entrusted to contractors - by means of receiving from banks and contractors the confirmations of the correctness of these assets balances recognised in the entity's books of accounts, as well as an explanation of and accounting for any discrepancies;

3) property, plant and equipment which are difficult to access, land, disputable or doubtful receivables, and in the case of banks - also, non-performing receivables, receivables and liabilities in respect of persons who do not keep books of accounts, receivables and liabilities in respect of state or local authority, as well as assets, liabilities and equity not referred to in Points 1 and 2, and items referred to Points 1 and 2 - if, for justified reasons, it was not possible to carry out their count or their confirmation - by means of comparing the values in the books of accounts with relevant documents and verifying the real value of these items.

2. The stocktaking through a physical counting applies also assets owned by other entities, which have been entrusted to and are held by the entity for sale, storage, processing or use. The entity shall notify these entities about the physical count results. This obligation does not apply to entities which provide postal, transport, forwarding and storage services.

3. The dates and frequency of stocktaking specified in Paragraph 1 are regarded as met, if the stocktaking of:

1) items of assets - except for monetary assets, securities, work in progress and materials, goods for resale and finished goods, defined in Art. 17 Paragraph 2 Point 4 - began not earlier than 3 months before the end of the financial year and ended by 15th day of the following year, whereas the balances were determined by adding to or deducting from the balances determined in the physical count or balance confirmation, the inflows or outflows (increases or decreases) which took place between the physical count or balance confirmation date and the date when the balances resulting from the books of accounts were determined, with the restriction that the balances resulting from the books of accounts cannot be determined after the balance sheet date;

2) stocks of materials, goods for resale, finished goods and semi-finished goods, located in guarded storage facilities and covered by the value and volume records - was carried out once every 2 years;

3) property, plant and equipment as well as machinery and equipment included in property, plant and equipment under construction, located in a guarded area - was carried out once every 4 years;

4) [(17)] stocks of goods for resale and materials (packaging) covered by the value records in the entity's retail outlets - was carried out once a year;

5) [(18)] stocks of wood in entities engaged in a forestry business - was carried out once a year.

4. The stocktaking referred to in Paragraph 1 is also carried out as at the date when an entity discontinues its operations or as at the date preceding the date of putting an entity into receivership or declaring bankrupt. In the case of a merger or demerger of entities, except for limited liability and joint stock companies, the parties may agree – under a written agreement - not to carry out the stocktaking.

Art. 27. 1. The stocktaking process and its results must be properly documented and reconciled with entries in the books of accounts.

2. Any discrepancies between the actual balances and the balances in the books of accounts must be explained and accounted for in the books of accounts of the financial year in which the stocktaking took place.

Chapter 4

Valuation of assets, liabilities and equity, and determination of the financial result

Art. 28. 1. Assets, liabilities and equity shall be measured at least as at the balance sheet date in the following manner:

1) Property, plant and equipment and intangible assets - at cost of acquisition or manufacture or revalued amounts (after revaluation of items of property, plant and equipment), less accumulated depreciation or amortization and permanent impairment losses;

1a) [19] real property and intangible assets classified as investments - under rules applicable to property, plant and equipment and intangible assets specified in Point 1 and Art. 31, Art. 32 Sections 1-5 and Art. 33 Section 1 or at their market price or fair values determined in another manner;

2) property, plant and equipment under construction - at total costs directly attributable to their acquisition or manufacture, less accumulated permanent impairment losses;

3) [20] shares in other entities and other investments included in non-current assets not mentioned in Point 1a- at cost of acquisition, less accumulated permanent impairment losses, or at fair value; the cost of acquisition may be revalued to market price, and the revaluation difference (surplus/deficit) shall be accounted for in accordance with Art. 35 Section 4,

4) shares in subordinated entities - in accordance with the rules specified in Point 3, but that shares included in non-current assets may be valued under the equity method, taking into account the valuation rules specified in Art. 63,

5) short-term investments - at market price (value) or at the lower of cost of acquisition and market price (value); and short-term investments for which there is no active market - at their fair value determined in another manner;

6) tangible current assets - at the lower of cost of acquisition or manufacture, and net selling prices as at the balance sheet date;

7) receivables and loans granted - at amounts due, taking into account the prudence principle;

8) liabilities - at amounts due, but financial liabilities which, under a contract, shall be settled by an delivery of financial assets other than cash or by an exchange for a financial instrument- at a fair value;

9) provisions - at justifiable amounts estimated in a reliable manner;

9a) [21] own shares - at the cost of acquisition;

10) [22] equity, except for own shares, and other assets and liabilities - at their par value.

2. The cost of acquisition which is referred to in Paragraph 1, is the purchase price of an asset, including an amount due to the seller, excluding recoverable value added tax and excise duty, plus (in the case of import) relevant taxes and duties, plus costs directly attributable to the purchase and bringing an asset to trade, including expenses relating to transport, loading and unloading, storage, bringing an asset to trade, less any rebates, discounts or similar items and recovered amounts. If it is not possible to determine an asset's cost of acquisition, particularly in the case of an asset which was received free of charge, including through a donation - its value measurement is based on the selling price of an identical or similar asset.

2a. [23] In the case of a purchase of own shares through a debt collection process, the cost of acquisition equals the cost of acquisition determined during the debt collection process, plus the costs incurred during the debt collection process which were not refunded to an entity. If own shares were acquired free of charge, the cost of acquisition includes all the expenses which an entity incurred to acquire the shares.

3. The cost of manufacture of a finished product is comprised of costs directly attributable to a given finished product as well as a justified portion of costs indirectly attributable to the manufacture of the product. Cost of direct materials used include cost of direct materials used, costs of obtaining and processing materials directly attributable to the manufacture, and other costs incurred in bringing a finished product to its condition and location as at the measurement date. A justified portion of indirect costs, relevant to the period of manufacture of a finished product, includes variable indirect production costs and this portion of fixed, indirect production costs which represent the level of these costs at the normal utilization of production capacity. The normal level of utilization of production capacity is defined as average, expected in typical circumstances, production output for a given number of periods or seasons, taking

into account planned repairs. If it is not possible to determine the cost of manufacture of a finished product, it is measured at the net selling price of an identical or similar product, less the average gross profit on the sale of finished goods, and in the case of work in progress - taking into account its completion stage as well.

The cost of manufacture of a finished product does not include the following costs:

1) which result from underutilization of production capacity and production losses;
2) administrative expenses which are not related to bringing a finished product to its condition and location as at the measurement date;
3) cost of storing finished goods and semi-finished goods, unless such costs are required during a production process;
4) selling costs of finished goods.

These costs are recognised in the financial result of a reporting period in which they were incurred.

4. In circumstances justified by the necessary, long-term preparation of goods for resale or a finished product for sale or by the long-term manufacture of a finished product, the cost of acquisition or manufacture may be increased by the cost of servicing liabilities incurred to finance the inventories of goods for resale or finished products over the period of their preparation for sale or manufacturing and by related foreign exchange differences, less related revenue.

5. The net selling price of an asset is its estimated selling price as at the balance sheet date, net of value added taxes and excise duty, less any rebates, discounts and similar items, and the costs related to preparing such asset for sale and making the sale, plus a related subsidy due. If it is not possible to determine the net selling price of a given asset, its fair value as at the balance sheet date should be determined in a different manner.

6. The fair value is an amount for which a given asset could be exchanged, and a liability settled in an arm's length transaction, between willing, well-informed and non-related parties. The fair value of financial instruments traded on an active market is their market price, less transaction costs, if they are significant. The current market bid price is the market value of financial assets held by an entity or financial liabilities which the entity intends to incur, whereas the current market offer price is the market value of financial assets which an entity intends to acquire or financial liabilities which it have already incurred.

7. Permanent impairment of asset takes place when it is very likely that an asset controlled by an entity will not bring, in whole or in part, expected economic benefits in the future. This justifies a write-down of the book value of such an asset to its net selling price or, if there is no such a value, to its fair value determined in a different manner.

8. The cost of acquisition or manufacture of items of property, plant and equipment under construction, items of property, plant and equipment and intangible assets, is comprised of all the costs which an entity incurred for the period of construction, assembly, preparation and improvement, until the balance sheet date or the date of commissioning the assets for use, including also:

1) irrecoverable value added tax and excise duty;
2) the cost of servicing liabilities incurred to finance them and related foreign exchange differences, less related revenue.

9. A life insurer shall measure investments where the related risk is borne by insurants at a fair value determined as at the balance sheet date. Differences between a fair value and the cost of acquisition or manufacture of such investments are added to or deducted from life insurance technical reserves, where investment risk is borne by insurants. The fair value of real property is determined by a real property expert at least once every 5 years. If it is not possible to determine the fair value of investments other than real property, they are measured at the cost of acquisition or manufacture. The fair value of real property located abroad and foreign financial instruments is determined in accordance with rules applicable in their countries of origin.

10. [24] For property and personal insurance, it is allowed to use discounts or write-downs only to determine reserves for capitalized annuities, life insurance reserves, life insurance reserves where the investment risk is borne by insurants, as well as reserves for bonuses and rebates for the insured in relation to income from investments which cover the reserves.

11. As at their acquisition or creation date, the following acquired or created items shall be recognised in the books of accounts:

1) inventories of tangible current assets - at their cost of acquisition or manufacture;

2) receivables and liabilities, including loans - at their par value.

12. The provisions of Section 11 Point 2 do not apply to banks.

Art. 29. 1. If the going concern assumption, referred to in Art. 5 Section 2 is not valid, the assets shall be measured at the lower of the realisable net selling prices and the cost of acquisition or manufacture, less accumulated depreciation or amortization and permanent impairment loss. In such a case an entity is also required to recognise a provision against expected additional costs and losses caused by discontinuation of operations or inability to continue as a going concern.

2. The measurement at the net selling prices and recognising a provision are carried out in particular as at the date preceding the date when an entity was put into receivership (unless it resulted from the privatisation of a state-owned enterprise) or declared bankrupt; as at the end of a financial year, if, as at the date of approval of the financial statements for a given financial year the entity discontinues its operations; as at the end of a financial year during being under receivership or bankruptcy proceedings; as well as at the date preceding a transfer, demerger or sale of an entity, if an appropriate agreement does not specify that the values of assets determined on the assumption of a going concern will be the basis for related settlements.

2a. The difference that resulted from the remeasurement and recognising the provision referred to in Paragraph 1 is recognised in the revaluation reserve in equity.

3. The commencement of recovery proceedings or a change in the legal status does not prevent an entity from being regarded as a going concern, if an appropriate agreement does not provide for a decrease in the value of balance sheet assets, liabilities and equity.

Art. 30. 1. [25] The following items denominated in foreign currencies shall be valued at least as at each balance sheet date:

1) assets (except for shares in subordinated entities measured under the equity method) and liabilities - at the average exchange rate as at that date set by the National Bank of Poland, subject to the provisions of Point 2;

2) cash held by entities which buy and sell foreign currencies - at the lower of their buying rate and the average exchange rate as at the valuation date set by the National Bank of Poland.

2. Business transactions denominated in foreign currencies shall be recognised in the books of account as at the transaction dates at the following exchange rates:

1) at the buying or selling rate used by an entity's bank - for sale or purchase of foreign currencies or the settlement of receivables or liabilities;

2) at the average exchange rate as at that date set by the National Bank of Poland for a given currency, unless a customs declaration or another document which binds the entity specifies a different rate - for other transactions.

3. If assets, liabilities and equity are denominated in currencies whose exchange rates are not set by the entity's bank or the National Bank of Poland, their exchange rates are determined by reference to a foreign currency specified by the entity and whose exchange rate is set by the National Bank of Poland.

4. Foreign exchange differences on long-term investments denominated in foreign currencies, arising as at their valuation date, are accounted for in a manner specified in Art. 35 Section 2 and 4. Foreign exchange differences, subject to the provisions of Sections 5-7, which relate to other assets, liabilities and equity denominated in foreign currencies, arising as at their valuation date and at the time when receivables and liabilities denominated in foreign currencies are settled, as well as on the sale of foreign currencies, are recognised as financial income or costs respectively, and in justified cases - as part of the cost of manufacture of finished goods or the cost of acquisition of goods for resale, or the cost of acquisition or manufacture of items of property, plant and equipment, items of property, plant and equipment under construction or intangible assets.

5. Life insurers shall recognise foreign exchange differences on investments which cover technical reserves, arising as at the valuation date, as investment income or investment costs , and present them in the technical income statement of a life insurer.
6. Foreign exchange differences on investments which cover technical reserves, arising as at the valuation date, in part relating to investment of capitalised annuities and reserves for bonuses and rebates for the insured, are recognised by property and personal insurers as investment income or investment costs, and presented in the technical income statement of a property and personal insurer.
7. Foreign exchange differences on insurance and reinsurance receivables and liabilities, arising as at the valuation date, are recognised as other technical income or costs, net of reinsurance.

Art. 31. 1. The initial cost represented by cost of acquisition or manufacture of an item of property, plant and equipment is increased by costs of improvement being restructuring, expansion, modernisation or reconstruction which result in an asset's usefulness after the improvement being higher than the usefulness at the time when it was commissioned; the usefulness is measured in terms of a useful life, productivity, quality of products manufactured with the use of an item of property, plant and equipment, operating expenses or other criteria.
2. The initial cost of property, plant and equipment, except for land other than an open pit, is decreased by depreciation charges which reflect the impairment of the property, plant and equipment caused by usage or the passage of time.
3. The initial cost and accumulated depreciation of property, plant and equipment may be revalued in accordance with other regulations. The net carrying amount of a revalued item of property, plant and equipment should not exceed its fair value, which is justified from economic point of view through the expected remaining useful life of the asset.
4. Any surplus on revaluation referred to in Paragraph 3 is recognised in a revaluation reserve in equity and cannot be distributed. The revaluation reserve in equity, subject to the provisions of Art. 32 Paragraph 5, is reduced by revaluation surpluses recognised for previously revalued items of property, plant and equipment on the sale or scrapping of such items. Such surpluses are recognised in a supplementary or similar capital, unless otherwise stated in other regulations.

Art. 32. 1. An item of property, plant and equipment is depreciated by a systematic, scheduled allocation of its initial cost over a specific depreciation period. Depreciation commences no earlier than an asset has been commissioned for use, and depreciation ends no later than when accumulated depreciation equals the initial cost of the item of property, plant and equipment or a given asset is earmarked for scrapping, sale, or identified to be missing, with taking into account the expected net selling price of the remains of the item of property, plant and equipment at the time of scrapping if necessary.
2. While determining a depreciation period and an annual depreciation rate, the economic useful life of a given item of property, plant and equipment is taken into account. An economic useful life depends on the following:
1) the number of shifts during which an item of property, plant and equipment is used;
2) the pace of technological and economic progress;
3) the productivity of an item of property, plant and equipment, measured with the number of work hours or the number of finished goods produced, or on the basis of another, suitable measure.
4) legal or other limitations of the time for which an item of property, plant and equipment may be used;
5) the expected net selling price of material remains of the item of property, plant and equipment at a time of scrapping.
3. At the date when an item of property, plant and equipment is commissioned for use it is necessary to determine its depreciation period or rate and depreciation method. An entity should verify the correctness of applied depreciation periods and rates of its property, plant and equipment on a regular basis, leading to an appropriate adjustment to depreciation charges being made in subsequent financial years.

4. In the event of change of production technology, earmarking a given asset for scrapping, withdrawal from use or other reasons which give rise to a permanent impairment of such an item of property, plant and equipment - a write-down is recognised as other operating costs.
5. Write-downs , referred to in Paragraph 4, that relate to property, plant and equipment revalued in accordance with other regulations, reduce the surpluses resulting from revaluation which were recognised in revaluation reserve in equity. Any excess of a write-down referred to in Paragraph 4, over a revaluation surplus is recognised as other operating costs.
6. In the case of property, plant and equipment with a low unit initial cost, depreciation may be recognised in a simplified way, by making summary depreciation charges for aggregated groups of property, plant and equipment which are similar in type and application, or by recognising the cost of such assets as a one-off cost.

Art. 33. 1. The provisions of Art. 31 Paragraph 2 and Art. 32 Paragraphs 1-4 and 6 shall apply to the measurement of intangible assets and the manner of their amortization.
2. Costs of a completed development project, carried out by an entity for its own needs and incurred before the commencement of production or implementation of a technology, are recognised as intangible assets if:
1) a given product or production technology is clearly defined, and related development costs are reliably measured;
2) the technical usefulness of a product or technology has been determined and properly documented, and on that basis an entity has decided to manufacture these products or implement the technology.
3) it is expected that development costs will be covered with the revenue from the sales of these products or implementation of the technology.
3. Development costs shall be amortized over a period not exceeding 5 years.
4. Goodwill is a difference between the cost of acquisition of a specified entity or its business unit and the fair value of acquired net assets. If the cost of acquisition of an entity or its business unit is lower than the fair value of acquired net assets, the difference represents negative goodwill. The methods for accounting for and amortizing both goodwill and negative goodwill are specified in Art. 44b Paragraphs 10-12.

Art. 34. 1. Entities may measure:
1) materials and goods for resale - at purchase price;
2) work in progress - at direct cost of manufacture or cost of direct materials used only, or it may be not measured at all
- if that does not distort asset balances and financial result of an entity. The principles referred to in Point 2 must not be applied to production whose expected period to completion exceeds 3 months, which is intended for sale or for an entity's property, plant and equipment under construction. The restriction does not apply to agricultural production.
2. Tangible current assets may be recognised in the books of accounts as at their acquisition or manufacture date at the record prices adopted in accounting records, taking into account the differences between these prices and the actual cost of their acquisition or purchase, or the cost of their manufacture. As at the balance sheet date, tangible current assets expressed at the record prices are adjusted to the value specified in Paragraph 1 or in Art. 28 Paragraph 1 Point 6. This does not apply to finished goods, work in progress and semi-finished goods, if they are recorded at the budgeted cost, including standard cost, and the differences between the budgeted and actual cost of manufacture are insignificant. The cost of acquisition or purchase, or the budgeted cost of manufacture which are applied as at the balance sheet date, must not exceed the net selling prices of these assets.
3. Films, computer software, standard designs and similar items manufactured by entity, which are held for sale, shall be measured over the period in which they bring economic benefits, but not longer than 5 years, as the surplus of their production cost over income

set at net selling prices, generated during that period. Production costs which have not been recognised as costs by the end of the period are recognised as other operating costs.

4. In the case of a difference between costs of acquisition or purchase, or costs of manufacture of identical tangible current assets or tangible current assets regarded as identical due to a similarity of type and application, the closing balance of tangible current assets is measured depending on the method which an entity adopted for setting the cost of their outflow, including consumption, sale, i.e:

1) at the average cost, i.e. at the weighted average price (cost) of a given asset;

2) on a first-in/first-out basis (FIFO),;

3) on a last-in, first-out basis (LIFO);;

4) by means of a detailed identification of the actual price (cost) of those assets which are related to specified projects, irrespective of the date of their purchase or manufacture.

5. Write-downs of tangible current assets which were made because of their impairment and resulted from the measurement at net selling prices instead of than the cost of acquisition or purchase or cost of manufacture - are recognised as other operating costs, cost of sales or selling costs respectively.

Art. 34a. 1. [26] Revenue from contractual services in progress, including construction services, whose term exceeds 6 months, and which are completed to a significant extent as at the balance sheet date, is determined as at the balance sheet date in proportion to the stage of completion, if the stage as well as forecasted total costs of a service for the whole period during which it is provided can be reliably estimated.

2. Revenue from services in progress, including construction services, for the period from the contract date to the balance sheet date - net of revenue which were recognised in the financial result in prior reporting periods - is determined in proportion to the stage of the service completion. The stage of completion is measured, depending on the method applied by an entity, by:

1) reference to the proportion of costs incurred from the contract date to the date of determining revenue in relation to the total cost of providing a service.

2) the number of direct hours spent on providing a service;

3) on the basis of the survey of the completed work;

4) another method

- if they represent, in a reliable manner, the stage of completion of a service.

3. If a service contract, including a construction service, provides that the price of a service is determined at:

1) a cost-plus contract - then revenue from services in progress is determined as the costs related to a completed portion of the services, plus a profit margin;

2) a fixed price contract - revenue from services in progress is determined in proportion to the stage of completion of the service, if the stage of completion of the service as at the balance sheet date can be reliably estimated.

4. [27] If the stage of completion of services in progress, including construction services, or the expected total cost of the completion of the services cannot be reliably estimated as at the balance sheet date, revenue is recognised at costs incurred in a given reporting period, to the extent in which they are likely to be covered in the future by the party which ordered the services (i.e. the engager).

5. Expected losses related to the provision of contractual services are recognised in the entity's financial result, regardless of a revenue recognition method applied.

Art. 34b. 1. Costs of manufacture which may be directly attributable to the revenue earned by an entity are recognised in the entity's financial result for the reporting period in which this revenue was generated.

2. Costs of manufacture which are only indirectly attributable to revenue or other benefits received by an entity are recognised in the financial result to the extent in which they relate to a given reporting period, in order to match revenue or other economic benefits.

Art. 34c. 1. Costs of services in progress, including construction services, comprise costs incurred from the date when a relevant contract has been concluded to the balance sheet date. Costs incurred before signing the contract and related to the substance of the contract are recognised as assets, if they are likely to be covered in the future with revenue from the engager.

2. If revenue is determined in proportion to the stage of completion of services in progress and in a manner other than specified in Art. 34a Paragraph 2 Point 1, the costs which are recognised in the entity's financial result are determined as the portion of total contract costs which represents the stage of completion of the services, less costs which were recognised in the entity's financial result in prior reporting periods, having taken into account the loss referred to in Art. 34a Paragraph 5. A difference between costs actually incurred and costs which are recognised in the financial result is recognised as prepayments (accruals).

3. An entity should verify the methods used to determine the stage of completion of the services, as well as total expected costs and revenue related to the provision of the services, no later than as at a balance sheet date. Any adjustments resulting from the verification are recognised in the entity's financial result in the reporting period in which such verification was carried out.

Art. 34d. The provisions of Art. 34a and 34c need not be applied, if the proportion of revenue from the services in progress as at the balance sheet date is not material to total operating income in a given reporting period.

Art. 35. 1. Financial assets acquired or created as well as other investments are recognised in the books of accounts as at their purchase or creation date, at the cost of acquisition or purchase, if the transaction costs are not material.

2. A write-down (loss) reflecting a permanent impairment of investments classified as non-current assets is made no later than as at the end of the reporting period.

3. The effects of an increase or decrease in the value of short-term investments measured at market prices are recognised as financial income or financial costs respectively. If an entity applies short-term investment valuation principles other than those specified in Art. 28 Paragraph 1 Point 5, the results of the decrease in their value are recognised as financial costs in full, whereas the results of the increase in their value are recognised as financial income in the amount which is not higher than the differences which were previously recognised as financial costs.

4. The effects of the revaluation of investments classified as non-current assets to their market prices, are credited to the revaluation reserve in equity. A decrease in the value, which offsets a surplus for the same investment previously credited to the revaluation reserve in equity and subsequently not cleared as at the measurement date, is debited to the revaluation reserve in equity. In other cases, the effects of a decrease in the value of investments are recognised as financial costs. An increase in the value of a given investment directly related to a previous decrease in the value of the same investment which was recognised as financial costs, is recognised as financial income to the extent in which it offsets the previously recognised financial costs.

5. If an investment that was classified as non-current assets and disposed of was previously revalued or valued at the lower of market price (value) and cost of acquisition, and the effects of such a measurement were recognised in a manner specified in Paragraph 4, then a revaluation surplus is determined and accounted for with the revaluation reserve.

6. Investments classified as non-current assets are remeasured as at the date when they are reclassified to short-term investments:

1) at the lower of their carrying amount and the cost of acquisition - if short-term investments are measured at the lower of market price and the cost of acquisition;

2) at their book value - if short-term investments are measured at market price.

If a reclassified long-term investment was previously revalued, and the revaluation surplus is recognised in the revaluation reserve in equity, then any surplus on the revaluation of the long-term investment remaining as at the reclassification date is recognised as financial costs or financial income.

7. Investments reclassified from short-term to long-term are measured at their reclassification date in accordance with the rules specified in Paragraph 6, however if a short-term investment was measured at its market price, then its value remains unchanged, despite the reclassification.

8. If the cost of acquisition of identical investments or investments regarded as identical due to similarity of type and application differ, their outflows are measured on the basis of a method selected by an entity from the methods referred to in Art. 34 Paragraph 4 Point 1-3.

Art. 35a. 1. As at the contract date, an issuer of a financial instrument shall recognise, in its books of accounts, the issued instrument as well as its components, classified as equity instruments in equity, or as part of short-term or long-term liabilities respectively, even when the liability element does not represent a financial liability.

2. Gains or losses on the revaluation of a financial instrument, as well as income earned or costs incurred in accordance with the classification of a given financial instrument specified in Paragraph 1, are recognised in the financial result or the revaluation reserve in equity.

3. Contracts on financial instruments are regarded as hedging instruments which mitigate the risk related to the entity's assets or liabilities, if at least:

1) a contract objective was set prior to the contract date, and it was specified which assets or liabilities are to be hedged under the contract;

2) the hedging financial instrument and the assets or liabilities that are hedged by such instrument have similar characteristics, in particular a par value, maturity date, sensitivity to interest or foreign exchange rate fluctuations;

3) the degree of certainty concerning the expected cash flows due to a contract is significant.

4. If the conditions referred to in Paragraph 3 are met, the measurement of hedged assets or liabilities shall include the value of related hedging instruments and changes in their value.

Art. 35b. 1. The value of receivables is written down depending on the probability of their collection, i.e.:

1) amounts due from debtors which were put into receivership or declared bankrupt - up to the amount not guaranteed or secured in another manner, as reported to a receiver or judge-commissioner during bankruptcy proceedings;

2) amounts due from debtors for which filing for bankruptcy was dismissed if the debtor's assets are not sufficient to cover the cost of bankruptcy proceedings - in full;

3) receivables disputed by debtors as well as overdue receivables, where a review of the debtor's financial position indicates that the collection of a contractual amount due is unlikely - up to the amount not guaranteed or secured in another manner;

4) receivables which represent equivalents of amounts added to receivables which were previously written down - at these amounts, until they are received or written-off;

5) overdue receivables or non-overdue receivables which are very unlikely to be collected, in the cases justified by an entity's type of business or client structure - at an amount of a reliably estimated write-down, including a general write-down, in respect of uncollectable receivables.

2. The write-downs of receivables are recognised as other operating costs or financial costs respectively - depending on the type of receivables to which a write-down is related.

3. Forgiven, expired or uncollectable receivables decrease the related, previously-made write-downs.

4. The receivables referred to in Paragraph 3, for which no write-downs were previously recognised, or for which the recognised write-downs did not cover their full amount, are recognised as other operating costs or financial costs respectively.

Art. 35c. If the reason for recognising a write-down, including a write-down due to a permanent impairment of assets, ceased to exist, the whole or a part of the previously recognised write-down increases the value of a given asset and is recognised in other operating income or financial income respectively.

Art. 35d. 1. Provisions are recognised for:

1) certain or very likely future liabilities which may be estimated in a reliable manner, in particular for losses on business transactions in progress, including those in respect of guarantees and warranties granted, credits and the outcome of pending litigation.

2) future liabilities arising from restructuring process if, in accordance with other regulations, an entity is required to carry out restructuring, or if binding, related agreements have been signed, and restructuring plans enable the reliable estimation of the amount of the future liabilities;

2. The provisions referred to in Paragraph 1, are recognised as other operating costs, financial costs or extraordinary losses respectively, depending on circumstance to which future liabilities are related.

3. If a liability, for which a provision was previously recognised arises, a related provision shall be reduced accordingly.

4. Provisions which are not utilized due to a reduction or elimination of an underlying risk, are recognised, as at the date at which they are no longer required, as other operating income, financial income or extraordinary gains.

Art. 36. 1. Equity is recognised in the books of accounts by its type and in accordance with applicable legal regulations, the provisions of the entity's articles of association or deed.

2. The share capital of companies , mutual insurance companies, and the share fund of a co-operative, is recognised at the amount stated in the deed or articles of association and registered in the court register. Share capital declared but not paid is recognised as share capital not paid up.

2a. [28] (withdrawn).

2b.Share issue costs incurred on the formation of a joint stock company or share capital increases reduce a company's supplementary capital to the amount of a share premium, whereas the remaining amount is recognised as financial costs.

2c.Equity (funds) arising on the conversion of debt securities, liabilities and loans into shares are recognised at the par value of these debt securities, liabilities and loans, taking into account unamortized discount or premium, accrued interest not paid as at the conversion date, which will not be paid out, unrealized foreign exchange differences and capitalised issue costs. If debt securities, liabilities and loans are denominated in foreign currencies, then as at the conversion date they are subject to the provisions of Art. 30.

2d.The provisions of Paragraph 2c apply to liabilities which have been unconditionally forgiven as a result of recovery or composition agreement proceedings.

2e. [29] If shareholders of a limited liability company adopt a resolution which specifies the date and the amount of share capital contributions, the amount of the contributions is recognised in a separate item of passive side of balance sheet (reserves from shareholders contributions) and disclosed as a component of equity until it is used in a manner which justifies that it may be written off; declared yet unpaid contributions are disclosed in an additional item of equity "Contributions due in respect of reserves (a negative amount)".

3. Components of the equity of entities which were put into receivership or declared bankrupt shall be combined into one share capital, as at the date of commencement of receivership or bankruptcy proceedings, and reduced:

1) (deleted),

2) [30] in limited liability and mutual insurance companies - by own shares;

3) [31] in joint stock companies - by share capital not paid up, unless the interested parties have been called to contribute it, as well as by own shares.

4. The provisions of Paragraph 3 may be applied accordingly by entities which are subject to recovery or composition agreement proceedings.

Art. 36a. [32] 1. In the case of sale of own shares, the surplus between the selling price net of selling costs, and their cost of acquisition shall be recognised under supplementary capital. The deficit shall be recognised as a reduction of supplementary capital, and the remaining portion of the deficit in excess of the supplementary capital, shall be recognised as accumulated losses of previous years and described in the notes to the financial statements for the year in which the sale took place.

2. In the case of redemption of own shares, the surplus between their par value and the cost of acquisition shall be recognised under supplementary capital. The deficit must be recognised as a reduction of supplementary capital, and the remaining portion of the deficit in excess of the supplementary capital shall be recognised as accumulated losses of previous years and described in the notes to the financial statements for the year in which the share capital was decreased.

3. The provisions of Paragraphs 1 and 2 apply to own shares of a limited liability company, except for the redemption of shares without decreasing the share capital. In the case of redemption of own shares which were acquired under enforcement proceedings and without the reduction in the share capital, the value of the own shares at the cost of acquisition shall be recognised as a reduction of reserves which were recognised for the purpose of the redemption.

Art. 37. 1. An entity recognizes deferred tax liabilities and determines deferred tax assets in respect of temporary differences between the book values of assets or liabilities and their tax values, and tax loss carry forwards.

2. The tax value of assets represents the amount which reduces the income tax base if such assets bring, directly or indirectly, economic benefits to an entity. If economic benefits from specific assets do not result in a reduction of the income tax base, the tax value of the assets equals their book value.

3. The tax value of liabilities represents their book value, less amounts which will reduce the income tax base in the future.

4. Deferred tax assets are determined at the amount of income tax recoverable in the future in respect of deductible temporary differences, which will result in a future decrease of the tax base and the carry forward of tax losses, taking into account the prudence principle.

5. A deferred tax provision is recognised at the amount of income tax payable in the future in respect of taxable temporary differences, i.e. differences which result in an increase of the tax base in the future.

6. A deferred tax provision and assets are determined by taking into account tax rates applicable in the year in which the related tax obligation arises.

7. A deferred tax provision and assets are presented separately in the balance sheet. A deferred tax provision and assets may be offset if an entity has a legal right to their simultaneous recognition while calculating its tax liability.

8. An income tax for a given reporting period includes as follows:

1) a current element;

2) a deferred element.

A deferred element recognised in the profit and loss account represents a difference between deferred tax provisions and assets as at the beginning and as at the end of a reporting period, taking into account the provisions of Paragraph 9.

9. Deferred tax provisions or assets that are related to transactions which are recognised in equity shall also be recognised in equity.

10. [33] If an entity's annual financial statements are not required to be audited and published in the meaning of Art. 64 Paragraph 1, the entity need not determine deferred tax assets and provisions.

Art. 38. 1. Insurers recognise as operating costs changes in technical reserves which should ensure full covering of current and future liabilities which could result from insurance contracts.
2. Technical reserves, except for claims equalization reserves, are determined not later than as at the balance sheet date. A claims equalization reserve shall be determined not later than as at the last day of a financial year.

Art. 39. 1. Entities shall recognise prepaid expenses if they are related to future reporting periods.
2. Entities shall recognise accrued expenses at amounts of probable liabilities which are related to the current reporting period, in particular with respect to:
1) goods and services provided to an entity by its contractors, if the amount of a liability can be estimated in a reliable manner;
2) the obligation to provide, in the future, goods and services, relating to current activities, to unknown persons, the amount of which can be estimated even though the origination date of a liability is not yet known, including amounts relating to guarantees and warranties in respect of durable finished goods sold.
Recognition of liabilities classified as accrued expenses as well as methods for their valuation should result from generally accepted business practice.
3. Prepayments, deferred costs and accruals may be recognised on a pro rata basis or in proportion to the goods or services provided. The timing and method of recognition should correspond to the nature of the expenses recognised, taking into account the prudence principle.
4. If under the contract the amount of received financial assets is lower than the amount of the related liability, including amounts received in respect of securities issued by an entity, the difference represents prepaid expense and is recognised as financial costs in equal rates over the related liability period.
5. Liabilities recognised as accrued expenses reduce the costs of a reporting period in which it was discovered that such liabilities had not arisen.

Art. 40. (deleted).

Art. 41. 1. Deferred income recognised under the prudence principle includes in particular the following:
1) amounts received or receivable from contractors in respect of goods or services to be provided in future reporting periods;
2) cash received to finance the purchase or manufacture of property, plant and equipment, including items of property, plant and equipment under construction and development costs, if, in accordance with other acts, it is not credited to equity. Amounts recognised as deferred income are gradually recognised as other operating income, in parallel to the depreciation or amortization of property, plant and equipment or development costs financed from such sources;
3) negative goodwill referred to in Art. 33 Paragraph 4 and Art. 44b Paragraph 11.
2. The provisions of Paragraph 1 Point 2 applies to property, plant and equipment under construction, property, plant and equipment and intangible assets, received free of charge, also in the form of donations.
3. [34] Banks recognise interest receivable on non-performing receivables as deferred income - until they are received or written off.

Art. 42. 1. For entities other than banks or insurers the net financial result is composed of the following:
1) an operating financial result, including other operating income and costs;

2) a result of financial operations;

3) a result of extraordinary events;

4) entity's mandatory charges relating to income tax and equivalent payments charged under other regulations.

2. The operating result represents a difference between net revenue from sale of finished goods, goods for resale and materials, taking into account subsidies, discounts, rebates and other increases or decreases, net of value added taxes, as well as other operating income, and the cost of sales of finished goods, goods for resale and materials, measured at the cost of manufacture or the cost of acquisition or purchase, plus the total of administrative expenses, selling costs of finished goods, goods for resale and materials, and other operating costs, incurred since the beginning of a financial year.

3. The result of financial operations represents a difference between financial income, in particular from dividends (share in profits), interest, gains on the disposal of investments, investment revaluation, net foreign exchange gains, and financial costs, in particular interest expense, losses on disposal of investments, investment revaluation, net foreign exchange losses, except for interest, commission, foreign exchange gains and losses referred to in Art. 28 Paragraph 4 and Paragraph 8 Point 2.

4. The result of extraordinary events represents the difference between extraordinary gains and losses.

Art. 43. 1. In the case of banks, the net financial result is composed of the following:

1) an operating result (including profit or loss on banking activities);

2) a result of extraordinary events;

3) entity's mandatory charges relating to income tax and equivalent payments charged under other regulations.

2. Profit or loss on banking activities is composed of the following: net interest result, net commission result, income from shares and other securities, other financial operations result, net foreign exchange result.

3. The operating result is composed of profit or loss on banking activities, adjusted for the difference between other operating income and other operating costs, overheads, depreciation and amortization of items of property, plant and equipment and intangible assets, net result of change in revaluation provisions.

4. The provisions of Art. 42 Paragraph 4 shall apply to the result of extraordinary events.

Art. 44. 1. In the case of insurers the net financial result is composed of the following:

1) a technical financial result;

2) a difference between investment income and investment costs, excluded from a technical financial result;

3) a difference between other income and other costs;

4) a result of extraordinary events;

5) entity's mandatory charges relating to income tax and equivalent payments charged under other regulations.

2. The technical financial result represents a difference between written premiums, other technical income, and claims and benefits paid, and changes in technical reserves, net of reinsurers' share in premiums, claims and changes in technical reserves; as well as overheads and other technical expenses. When:

1) investment income is transferred, under other regulations, to reserves;

2) a life insurer jointly invests its own funds and funds matching technical reserves

- then investment income and costs are recognised in the technical income statement.

3. The difference between other income and costs includes in particular a difference between:

1) other financial income and other financial costs;

2) other operating income and other operating costs;

3) revenue and costs related to serving as an emergency executive officer.

4. The provisions of Art. 42 Paragraph 4 shall apply to the result of extraordinary events.

Chapter 4a
Business combinations

Art. 44a. 1. Business combinations of commercial companies (partnerships and companies, hereinafter referred to as "companies") shall be accounted for and recognised as at the business combination date, subject to the provisions of Art. 44b Paragraph 7, in the books of accounts of the company to which the assets of the combining companies (the acquirer) or a new company established as a result of the combination (a newly-formed company) are transferred- under the acquisition method, and in the cases specified in Art. 44c - under the pooling of interests method.
2. The business combination date represents the date on which a given business combination is registered in the court register relevant to the registered office of the acquirer or a newly-formed company.

Art. 44b. 1. Accounting for a business combination under a purchase method involves adding particular items of assets and liabilities of the acquirer, at their book value, and the relevant items of assets and liabilities of the acquiree, at their fair value determined as at the business combination date.
2. Assets and liabilities of the acquiree as at the business combination date also include assets and liabilities which have not been previously recognised in the acquiree's books of account and financial statements, if such assets and liabilities are revealed as a result of a business combination, and if they meet the definition of assets and liabilities.
3. The acquiree's equity determined as at the business combination date as the fair value of its net assets shall be eliminated.
4. Fair values of specific assets or liabilities represents, in particular:
1) for listed securities - current market prices net of selling costs;
2) non-listed securities - estimated values taking into account such factors as price-earnings ratios and dividend yields of comparable securities issued by companies with similar characteristics;
3) receivables - current (discounted) value of amounts due, determined at appropriate current interest rates, net of write-downs in respect of non-performing and uncollectable receivables and debt collection expenses, if any. Determination of current (discounted) values is not required for short-term receivables, if the difference between the value of receivables at amounts due and the value of receivables at discounted amounts is not material;
4) stocks of finished goods and goods for resale - the net selling price less allowance for the decrease in the profit margin resulting from the costs due to acquirer's efforts to sell the stocks or find a buyer;
5) stocks of work in progress - the net selling price of finished goods less the costs of production completion and allowance for the decrease in the profit margin resulting from the costs due to acquirer's efforts to sell the stocks or find a buyer;
6) stocks of materials - current cost of acquisition;
7) property, plant and equipment - market price or the value according to an independent valuation. If it is not possible to obtain an independent valuation of property, plant and equipment - current cost of acquisition or cost of manufacture, taking into account current wear and tear;
8) intangible assets - estimated values measured on the basis of market prices of identical or similar intangible assets, and in the case of goodwill or negative goodwill included in the acquiree's balance sheet - nil value. If an estimated value cannot be determined on the basis of market prices, there shall be adopted such a value which will not result in the creation of or will not increase negative goodwill on the combination;

9) liabilities - current (discounted) amounts due, determined on the basis of appropriate current interest rates. Determination of current (discounted) values is not required for short-term liabilities, if the difference between the value of liabilities at amounts due and the value of liabilities at discounted amounts is not material;

10) deferred tax liabilities or assets - the value that may be realized by the combined companies, taking into account changes in the tax value and book values of net assets of the acquiree.

5. The acquisition cost shall be as follows:

1) if, for the purpose of the combination, a company delivers (issues) shares - the market price of the shares or their fair value determined in a different manner, if their market price is unknown. In such a case, the surplus of the market value of shares or their fair value determined in a different manner is included in the supplementary capital. The market price of delivered (issued) shares is stated as at the date when all significant conditions of the combination, including share exchange parity, are published. If the market price underwent significant fluctuations in the period, then the average market price in the month which preceded and the month which followed the date when all significant conditions of the combination were published, may be adopted as the market price.

2) if a company acquires own shares for the purpose of a acquisition - the cost of acquisition of own shares;

3) if a company acquires the acquiree's shares - the cost of acquisition of these shares;

4) if, for the purpose of a combination, a company makes a payment in a form other than the one specified in Point 1-3 - the fair value of the object covered by the payment;

5) if, for the purpose of a combination, a company makes a payment in various forms - the total of relevant values referred to in Points 1-4.

6. A surplus of the acquisition cost, referred to in Paragraph 5, over the fair value of the acquiree's net assets shall be presented as goodwill in the assets of the company to which the assets of combined companies or the company established as a result of the combination were transferred.

7. If a business combination is a sequence of transactions that follow one another, the acquisition cost , a percentage of the fair value of the acquiree's net assets corresponding to the percentage of the rights acquired to net assets, and difference between the acquisition cost and the fair value of net assets are determined separately as at the date of each material transaction, on the assumption that the first material transaction is conducted not later than as at the date when a subordination relationship arise between the acquirer and the acquiree. The final acquisition cost , the fair value of the acquiree's net assets, and difference between the acquisition cost and fair value of the acquiree's net assets as at the business combination date, is the total of relevant amounts as at the date of each material transaction.

8. The carrying amount of assets and liabilities determined as at the business combination date is adjusted in subsequent reporting periods, if, as a result of events that occurred or information obtained, it is revealed that the fair value as at the business combination date was determined incorrectly. In such cases, it is necessary to adjust goodwill or negative goodwill, on condition that the entity expects to recover the adjustment from future economic benefits, and such an adjustment is made during the financial year in which the business combination was carried out. Otherwise, such an adjustment is recognised as other operating income or costs.

9. If the terms and conditions of a business combination allow the acquisition cost to be adjusted as a result of specific future events, then such an adjustment is taken into account during the determination of the acquisition cost as at the acquisition date, if the occurrence of future events underlying such an adjustment is probable, and it is possible to measure an adjustment to the acquisition cost in a reliable manner. If the events which underlie an adjustment to the cost of acquisition do not occur in the following reporting periods, or the actual adjustment is different from the estimated amount, an appropriate adjustment to the acquisition cost and goodwill or negative goodwill shall be made.

10. An entity shall amortize goodwill over a period not exceeding 5 years. In justified cases, the entity's manager may extend such a period to 20 years. The extension of the amortization period shall be disclosed in the notes to financial statements together with its justification. Amortization shall be recognised as other operating costs on a straight-line basis.
11. Subject to the provisions of Paragraph 12, a surplus of the fair value of the acquiree's net assets over the acquisition cost , i.e. negative goodwill, up to the amount which does not exceed the fair value of the acquired non-current assets, except for long-term financial assets listed on regulated markets, shall be recognised by an entity as deferred income over the period being the weighted average economic useful life of the acquired depreciable assets. The amount of negative goodwill which exceeds the fair value of non-current assets, except for long-term financial assets listed on regulated markets, shall be recognised as income as at the business combination date.
12. Negative goodwill is recognised as other operating income up to the amount in which it relates to future losses and costs, determined by the acquirer in a reliable manner as at the business combination date, which do not however represent the liability referred to in Paragraph 2. Such deduction of negative goodwill is recognised in the reporting period in which such losses and costs are recognised in the financial result. If such losses and costs are not incurred in previously expected reporting periods, the related goodwill shall be recognised in a manner specified in Paragraph 11.
13. Mutual receivables and liabilities as well as similar balances shall be eliminated from the balance sheet of combined companies.
14. If a new company was established as a result of a business combination, the acquirer's and the acquiree's revenue and costs as well as profits and losses shall be recognised in the profit and loss account for the financial year in which the business combination took place, from the business combination date. If the acquiree’s assets were transferred to the acquirer as a result of a business combination, the following shall be recognised in the profit and loss account for the financial year in which the business combination took place: the acquiree's revenue and costs as well as profits and losses - from the business combination date, and the acquirer's revenue and costs as well as profits and losses - from the beginning of the financial year. If, before the business combination date, a subordination relationship existed between the combining entities, then the acquiree's net profit or loss that originated before the business combination date, are recognised, in proportion to the percentage of the acquiree's net assets controlled by the acquirer in a given period prior to the combination date, in relevant equity items of the acquirer, the company established as a result of the business combination, taking into account amortization of goodwill or negative goodwill for the period between the date of the commencement of the subordination relationship and the business combination date.
15. Costs incurred directly in relation to a business combination increase the acquisition cost . Setting-up costs incurred during the formation of a new joint stock company or costs related to share capital increase incurred for the purpose of a business combination reduce the supplementary capital of the acquirer or a newly-formed company to the amount of a share premium, whereas the remaining amount is recognised as financial costs.
16. Financial statements prepared as at the end of the financial year in which a business combination took place should comprise comparative data for the prior financial year. Data from the acquirer's financial statements represent comparative data for the prior financial year.

Art. 44c. 1. A business combination shall be accounted for and recognised in the books of accounts of the company to which the assets of the combining companies are transferred, including of a newly-formed company that resulted from the combination - under the pooling of interests method, if none of the combining companies can be regarded as the acquirer. In particular, none of the combining companies is regarded as the acquirer if all of the following conditions are met:
1) the shareholders of any of the combining companies do not receive more than 60% of the total number of votes at the general meeting of shareholders of the new company established as a result of the business combination;

2) the fair value of the net assets of one of the combining companies does not differ from the fair value of the net assets of the other combining entity by more than 10%;

3) current members of the management board or supervisory bodies or shareholders managing the affairs of any of the combining companies do not represent the majority of members of the management board or supervisory bodies of the company to which the assets of the combining companies or a company newly-formed as a result of the business combination are transferred;

4) during the last 2 years before the combination, none of the combining companies was a subsidiary or a co-subsidiary of another combining entity or a parent company to another combining company;

5) as at the combination date, all the combining companies as well as their parent companies, subsidiaries, co-subsidiaries and associated entities do not jointly hold interests representing more than 10% of the total number of votes at the general meeting of shareholders of any of the combining companies;

6) the combination is carried out by one or more transactions, in accordance with the adopted plan, within 12 months from the publication of all significant conditions of the combination;

7) during a business combination process, the share capital of one of the combining companies is increased in such a way that the company which increases its share capital delivers (issues) only shares which carry the same rights as the majority of shares of which its existing share capital was composed;

8) the business combination was carried out without an option to acquire one's own shares by any of the combining companies for the purpose of the combination;

9) the business combination was carried out without an option to make additional contributions to the shares issued by any of the combining companies;

10) voting rights acquired by a shareholder from the shares received under the combination are neither contractually nor actually limited;

11) within 2 years from the combination date, the company to which the assets of the combining companies or a company newly-established as a result of the combination are transferred, does not intend to sell or scrap a significant portion of its assets, unless such a sale or scrapping resulted from the surplus of resources created by the combination;

2. A business combination shall be accounted for and recognised in the books of accounts of the company to which the assets of the combining companies, including the assets a company newly-formed as a result of the combination, are transferred - under the pooling of interests method, also in the case of:

1) a combination of companies which are subsidiaries of the same parent company, if, as at the combination date, the parent company or its subsidiaries hold 100% of shares in the combining companies;

2) a combination of a parent company and its subsidiary, if, as at the combination date, the combining parent company or its subsidiaries hold 100% of shares in the combining subsidiary and, at the same time, the parent company is a subsidiary of another higher-level parent company which holds, on its own or together with its subsidiaries, 100% of shares in the combining lower-level parent company.

3. A combination under the pooling of interests method consists in adding together individual items of relevant assets, liabilities, revenue and costs of the combined companies, as at the combination date, having adjusted them using uniform valuation methods and after the eliminations referred to in Paragraphs 4 and 5.

4. The share capital of a company whose assets were transferred to another company or the share capital of companies which were removed from a business register as a result of the combination shall be eliminated. As soon as this elimination is carried out, relevant items of the equity of the company to which the assets of the combined companies or of the newly-formed company are transferred, shall be adjusted for the difference between total assets and total equity and liabilities.

5. The elimination covers also the following items:

1) mutual receivables and liabilities as well as similar items of the combining companies;

2) revenue and costs of business transactions between the combining companies, that were carried out in a financial year before the combination;

3) profits or losses on business transactions between the combining companies, that were carried out before the combination, included in values of assets and liabilities subject to the combination.

6. The eliminations referred to in Paragraph 5 Points 2 and 3 need not be made, if this does not affect the reliability and fairness of the financial statements of the company to which the assets of the combined companies or of the newly-formed company are transferred.

7. Costs incurred in relation to a combination, including the setting-up costs of a newly-formed company or costs of an increase in the share capital of the company to which the assets of the combining companies are transferred, shall be recognised as financial costs.

8. The financial statements of the company to which the assets of the combined companies or the assets of the newly-formed company are transferred, prepared as at the end of the reporting period in which the combination took place, shall include comparative data for the prior financial year, determined in such a manner as if the combination took place as at the end of the prior financial year.

Art. 44d. (35) The provisions of Art. 44a-44c apply if an entity acquires a business unit of another entity, including the case of a demerger.

Chapter 5

Financial statements of an entity

Art. 45. 1. (36) Financial statements shall be prepared as at the date of closing books of accounts, referred to in Art. 12 Paragraph 2, and as at another balance sheet date, by applying respectively, subject to the provisions of Paragraphs 1a and 1b, the principles for the measurement of assets, liabilities and equity, and for the determination of the financial result specified in Chapter 4.

1a. (37) The financial statements of issuers of securities admitted to, issuers of securities intending to file for admission to or issuers of securities pending admission to trading on one of the regulated markets of the European Economic Area, may be prepared in accordance with IAS.

1b. (38) The financial statements of entities being members of a capital group, in which a parent company prepares consolidated financial statements under IAS, may be prepared in accordance with IAS.

1c. (39) A decision in respect of the preparation of financial statements in accordance with IAS, by the entities referred to in Paragraphs 1a and 1b, shall be taken by an approving body.

2. Financial statements include:

1) a balance sheet;

2) a profit and loss account;

3) notes to the financial statements, including an introduction to the financial statements as well as additional notes and explanations.

3. (40) Financial statements of entities specified in Art. 64 Paragraph 1, which are subject to annual audits, also include a statement of changes in equity (in the case of investment funds - a statement of changes in net assets), and a cash flow statement, subject to the provisions of Paragraph 3a.

3a. (41) Financial statements of an open-ended investment fund does not include a cash flow statement.

4. An annual report shall be enclosed to the annual financial statements, if its preparation is required by the Act or other regulations.

5. Financial statements and an annual report shall be prepared in the Polish language and the Polish currency. Numerical data may be rounded up to the nearest thousands of Polish zlotys, unless it distorts the view of the entity presented in its financial statements and annual report.
6. Financial statements and annual reports of issuers of securities admitted to, issuers of securities intending to file for admission to or issuers of securities pending admission to trading on one of the regulated markets of the European Economic Area, shall be prepared in accordance with the provisions of the Act, taking into account regulations which govern trading in securities.

Art. 46. 1. A balance sheet shall present balances of assets, liabilities and equity as at the last day of the current and prior financial years.
1a.If a balance sheet is prepared as at a balance sheet date other than the date specified in Paragraph 1, the balance sheet shall include the balances of assets, liabilities and equity as at that date and as at the last day of the financial year which directly precedes that balance sheet date.
2. The value of individual categories of assets presented in a balance sheet, subject to the provisions of Paragraph 2a, is derived from their book value adjusted for the following items:
1) accumulated amortization or depreciation write-downs and write-downs, including write-downs due to a permanent impairment of non-current assets;
2) write-downs of tangible current assets;
3) write-downs of receivables.
2a. Financial assets and financial liabilities are presented in a balance sheet in their net amounts after offsetting, if an entity has an unconditional right to offset assets and liabilities of a given type and intends either to settle them in net amounts or to deliver a financial asset and, at the same time, to settle a financial liability.
3. If under separate regulations, write-offs from the financial result of the current year are made during that year, such write-offs should be presented as negative amounts under a separate item of equity, i.e. under "Appropriation of net profit during the year (negative amount)".
4. A corporate social benefits fund as well as other funds set up under separate regulations and not recognised as equity, shall be presented in liabilities of the balance sheet as special funds.
5. A balance sheet should include information within the scope specified as follows:
1) for entities other than banks or insurers - in Appendix 1 to the Act;
2) for banks - in Appendix 2 to the Act;
3) for insurers - in Appendix 3 to the Act.

Art. 47. 1. A profit and loss account shall present separately income, costs, profits and losses, as well as mandatory charges to the financial result for the current and prior financial years.
2. If a profit and loss account is prepared for a reporting period other than the one referred to in Paragraph 1, the profit and loss account shall present separately income, costs, profits and losses, as well as mandatory charges to the financial result for the current reporting period and the corresponding period of the previous financial year.
3. If an entity intends to discontinue a specified part of its operations having an impact on the income and costs of the future reporting periods, on the assumption that it will continue as a going concern - respective income and costs should be presented separately from income and costs of continued operations.
4. A profit and loss account should include information within the scope specified as follows:

1) for entities other than banks or insurers - in Appendix 1 to the Act, by function of cost or by nature of cost, depending on a decision of the entity's manager;

2) for banks - in Appendix 2 to the Act;

3) for insurers - in Appendix 3 to the Act.

Art. 48. 1. Notes to the financial statements should include material data and explanations which are necessary for the financial statements to satisfy the conditions specified in Art. 4 Paragraph 1, and in particular they should include:

1) an introduction to the financial statements, including a description of adopted accounting principles (policies), in particular the measurement methods and methods for the preparation of the financial statements - to the extent in which the Act gives the entity the right to choose, as well as a disclosure of reasons and consequences of their changes in relation to the prior year;

2) additional notes and explanations:

a) to the items of a balance sheet, a profit and loss account, a statement of changes in equity and a cash flow statement for the reporting periods covered by the financial statements;

b) proposed appropriation of profit or loss offset;

c) general information on employees and bodies of an entity;

d) other information which is material to understand the financial statements.

2. The scope of the notes to the financial statements prepared by entities other than banks and insurers is specified in Appendix 1 to the Act.

Art. 48a. 1. A statement of changes in equity contains information on changes in individual equity items for the current and prior financial years, specified as follows:

1) for entities other than banks or insurers - in Appendix 1 to the Act;

2) for banks - in Appendix 2 to the Act;

3) for insurers - in Appendix 3 to the Act.

2. If a statement of changes in equity is prepared for a reporting period other than the one specified in Paragraph 1, the statement of changes in equity shall present changes in individual equity items for the current reporting period and the prior financial year.

Art. 48b. 1. A cash flow statement prepared under a direct or indirect method, depending on a decision of the entity's manager, shall present data for the current and prior financial years, including information within the scope specified as follows:

1) for entities other than banks or insurers - in Appendix 1 to the Act;

2) for banks - in Appendix 2 to the Act;

3) for insurers - in Appendix 3 to the Act.

2. If a cash flow statement is prepared for a reporting period other than the one specified in Paragraph 1, the cash flow statement shall be prepared for the current reporting period and the corresponding reporting period of the previous financial year.

3. A cash flow statement should include all inflows and outflows from the entity's operating, investing and financing activities, except for inflows and outflows resulting from the purchase or sale of cash; however in order to value cash flows properly:

1) operating activities mean the entity's mainstream activities as well as other activities which were not classified as investing or financing activities;

2) investing activities mean the acquisition or disposal of non-current assets and short-term financial assets as well as all related monetary costs and benefits;

3) financing activities mean obtaining or losing sources of finance (changes in the size and the ratio between equity and borrowings), as well as all related monetary costs and benefits.

Art. 49. [42] 1. In the case of limited liability and joint stock companies, limited joint stock partnerships, mutual insurance companies, co-operatives, state-owned enterprises, the entity's manager shall prepare an annual report, together with the annual financial statements.

2. An annual report should include material information on the property and financial position, including a performance assessment and an identification of risks and a description of threats, and in particular information on:

1) events with a material impact on the entity's operations which took place during the financial year and after the end of it, up to the date of the approval of the financial statements;

2) expected growth (development) of an entity;

3) key research and development achievements;

4) a current and expected financial position;

5) purchase of own shares, in particular the purpose of their purchase, their number and par value, specifying how much of share capital they represent, the purchase price, as well as the selling price of these shares if they were sold;

6) branches (business units) of an entity;

7) financial instruments in terms of:

a) the price risk, credit risk, cash flow risk and liquidity risk, to which an entity is exposed;

b) financial risk management objectives and methods adopted by an entity, including the methods which are used to hedge major types of forecasted transactions which are covered by hedge accounting.

3. An annual report should also include - if it is material for the assessment of the entity's position - financial and non-financial indicators, together with the information relating to environmental and employment matters, as well as additional explanations to amounts presented in the financial statements.

Art. 50. 1. Information included in the financial statements may be presented in more detail than specified in appendices to the Act, if required by the needs or specific nature of an entity.

2. [43] An entity which, in the financial year for which it prepares its financial statements and in the financial year preceding that year, has not achieved two of the following three limits, i.e.:

1) the annual average number of employees in full-time equivalents did not exceed 50 people;

2) the total assets as at the end of the financial year did not exceed the Polish zloty equivalent of EUR 2,000,000;

3) the net revenue from the sales of finished goods and goods for resale and the financial transactions did not exceed the Polish zloty equivalent of EUR 4,000,000;

- is allowed to prepare abridged financial statements, and present information in the scope specified in Appendix 1 using letters and Roman numerals. Notes to the financial statements shall be prepared in an abridged format, accordingly.

3. If the information on a particular financial statement items did not occur in the entity both in the current and the prior financial years, such items shall be omitted when preparing the financial statements.

4. The provisions of Paragraph 2 do not apply to banks or insurers.

Art. 51. 1. An entity which includes business units preparing their separate financial statements, shall prepare aggregated financial statements being the total of the entity's financial statements and all of its branches (business units), after eliminating accordingly:

1) separated assets and funds;

2) mutual receivables and liabilities as well as similar items;

3) revenue and costs of transactions carried out between the entity and its branches (business units) or between its branches (business units);

4) financial result on internal business transactions, included in the values of assets of the entity or its branches (business units).

The eliminations referred to in Points 2-4 need not be made, if this does not have a negative impact on the fulfilment of the requirements specified in Art. 4 Paragraph 1.

2. The financial statements of an entity having branches (business units) situated outside the territory of Poland, which prepare their financial statements abroad, shall include relevant balance sheet data of these branches (business units) denominated in foreign currencies and translated into the Polish currency at the average exchange rate as at a given balance sheet date set for a given currency by the National Bank of Poland, whereas the profit and loss account data shall be translated at an exchange rate being an arithmetical mean of average exchange rates as at the last day of each month of the financial year, and, in justified cases, at an exchange rate being an arithmetical mean of average exchange rates as at the last day of the prior financial year and the last day of the current financial year, set for a given currency by the National Bank of Poland. Foreign exchange differences that resulted from these translations shall be presented in the aggregated financial statements as "Currency translation differences" being a separate item of the revaluation reserve in equity.

Art. 52. 1. The entity's manager shall ensure that the annual financial statements are prepared within three months from the balance sheet date and shall present them to the relevant authorities, in accordance with applicable legal regulations and the provisions of the entity's articles of association or deed.

2. Financial statements shall be signed and dated by a person responsible for keeping the books of accounts, and the entity's manager, and if an entity is managed by a collective body - by all the members of that body. Refusal to sign requires a written justification to be enclosed to the financial statements.

3. The provisions of Paragraphs 1 and 2 also apply accordingly to:

1) the financial statements prepared as at the date specified in Art. 12 Paragraph 2 or as at another balance sheet date;

2) the annual report specified in Art. 49, except that it is not signed by the person responsible for keeping the books of accounts.

Art. 53. 1. The annual financial statements of an entity shall be approved by the approving body, within 6 months from the balance sheet date. Prior to the approval, the annual financial statements of entities referred to in Art. 64 are subject to an audit in accordance with the provisions of Chapter 7.

2. (deleted).

2a. [44] The provisions of Paragraph 1 do not apply to entities which were declared bankrupt.

3. The appropriation of the net profit or the offset of the net loss of entities which, in accordance with Art. 64 Paragraph 1, are required to have their annual financial statements audited, may only be carried out after the approval of the financial statements by the approving body, preceded by an unqualified or qualified opinion on these financial statements expressed by a statutory auditor. The appropriation of the net profit or the offset of the net loss which is carried out without meeting this condition is invalid by virtue of the law.

4. The appropriation of the net profit or the offset of the net loss of entities which are not required to have their annual financial statements audited may be carried out after the approval of the financial statements by the approving body.

Art. 54. 1. If in the period after the preparation of the annual financial statements but before their approval, an entity received information about events which have a material impact on these financial statements or invalidate the going concern assumption, the

financial statements should be adjusted accordingly, and appropriate entries should be made in the books of accounts of the financial year to which the financial statements relate, and the statutory auditor who is or has audited these financial statements should be notified. If the events which occurred after the balance sheet date do not change the conditions existing as at the balance sheet date, then appropriate explanations shall be included in the notes to the financial statements.

2. If an entity was informed about the events referred to Paragraph 1 after the approval of its annual financial statements , the effects of the events shall be recognised in the books of accounts of the financial year in which the entity received the information.

3. If, in a given financial year or before the approval of the financial statements for that financial year, an entity becomes aware of a fundamental error which was made in prior financial years, and due to the error the financial statements for one or more prior financial years cannot be regarded as meeting the requirements specified in Art. 4 Paragraph 1, then the amounts of the adjustment required to eliminate the error shall be recognised in equity under "Profit(loss) of previous years".

Chapter 6
Financial statements of related entities

Art. 55. 1. A parent company with its registered office or place of executive management located on the territory of the Republic of Poland shall prepare annual consolidated financial statements of the capital group which include data of the parent company and its subsidiaries at all levels, irrespective of the country in which their registered offices are located, compiled in such a manner as if the capital group were one entity.

2. (45) Consolidated financial statements include the following:

1) a consolidated balance sheet;
2) a consolidated profit and loss account;
3) a consolidated cash flow statement;
4) a statement of changes in consolidated equity;
5) notes to the consolidated financial statements, including an introduction to the consolidated financial statements as well as additional notes and explanations.

An annual report of the capital group prepared in accordance the requirements referred to in Art. 49 Paragraphs 2 and 3 shall be enclosed to the annual consolidated financial statements of the group, however, the information specified in Art. 49 Paragraph 2 Point 5 should relate to own shares held by the parent company, capital group companies and persons acting on their behalf.

3. Consolidated financial statements are also prepared as at another balance sheet date, if required by other regulations.

4. If capital group entities are significant investors as well, then shares in associated entities shall be presented in separate items of the consolidated financial statements, in accordance with the provisions specified in this chapter.

5. If capital group entities under consolidation hold shares in co-subsidiaries, then data on these entities being commercial companies (partnerships and companies) shall be presented in the consolidated financial statements in accordance with the provisions specified in Art. 62, unless the data is already included in the financial statements of the capital group entities, whereas data of other co-subsidiaries shall be presented in accordance with the provisions of Art. 61.

6. Consolidated financial statements shall be prepared in accordance with the provisions of Chapters 4 and 5, unless the provisions of this chapter state otherwise.

6a. (46) Consolidated financial statements of issuers of securities referred to in Art. 4 of the Regulation No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1; OJ Polish special addition, chapter 13, volume 29, p. 609), and of banks shall be prepared in accordance with IAS.

6b. [47] Consolidated financial statements of issuers of securities intending to file for admission to or issuers of securities pending admission to trading on one of the regulated markets of the European Economic Area may be prepared in accordance with IAS.

6c. [48] Consolidated financial statements of entities being part of a capital group where a higher-level parent company prepares consolidated financial statements under IAS, may be prepared in accordance with IAS.

6d. [49] A decision in respect of the preparation of consolidated financial statements in accordance with IAS, by the entities referred to in Paragraphs 1a and 1b, is taken by an approving body of the parent company.

7. [50] If a significant investor not being a parent company measures and presents, in its financial statements, shares in associated entities and co-subsidiaries being commercial companies (partnerships and companies) under the equity method, it shall apply the provisions of Art. 63. If the equity method is not used, the effects of its potential application and the potential impact on the financial result shall be disclosed in the notes to the financial statements.

Art. 56. 1. [51] A parent company is not required to prepare consolidated financial statements, if, as at the balance sheet date of the financial year and as at the balance sheet date of the prior financial year, the total data of the parent company and all of its subsidiaries at every level, before consolidation eliminations referred to in Art. 60 Paragraphs 2 and 6, taking into account data of co-subsidiaries not being commercial companies (partnerships and companies), meet at least two of the following criteria:

1) an annual average number of employees in full-time equivalents did not exceed 250 people ;

2) the total assets did not exceed the Polish zloty equivalent of EUR 7,500,000;

3) the net revenue from sales of finished goods and goods for resale and the financial transactions did not exceed the Polish zloty equivalent of EUR 15,000,000;

2. [52] A parent company which is a subsidiary of another entity having its registered office or the place of executive management located within the European Economic Area, is not required to prepare consolidated financial statements, if:

1) a higher-level parent company holds at least 90% of its shares, and all other shareholders of the parent company have agreed on it;

2) a higher-level parent company will be consolidating both the parent company being its subsidiary and all other subsidiaries of the parent company which was exempted from preparing the consolidated financial statements.

3. A parent company is not required to prepare consolidated financial statements also when all of its subsidiaries are excluded from the consolidation obligation on the basis of Art. 57 or Art. 58.

4. [53] If a parent company or its subordinated entity is an issuer of securities admitted to trading, or issuer of securities intending to file for admission to or issuer of securities pending admission to trading on one of the regulated markets of the European Economic Area, the exemptions referred to in Paragraphs 1 and 2 do not apply.

Art. 57. 1. A subsidiary and a co-subsidiary not being a commercial companies (a partnership or a company) is excluded from consolidation, if:

1) shares in such an entity were acquired, purchased or otherwise obtained with an exclusive intention to sell them, within 1 year from their acquisition, purchase or otherwise being obtained;

2) [54] (withdrawn);

3) there are restrictions on exercising control or joint control over such an entity which prevent a free use of its assets, including the net profit generated by it, or restrictions which prevent exercising control over the entity's governing bodies.

2. [55] (withdrawn).

Art. 58. 1. A subsidiary or a co-subsidiary not being a commercial company (a partnership or a company) is not required to be consolidated, if:

1) financial data of such an entity is not material to fulfil the obligation specified in Art. 4 Paragraph 1,

2) [56] (withdrawn),

3) [57] obtaining information necessary for correct and reliable consolidation of such an entity may involve disproportionately high costs which prevent the fulfilment of statutory obligations related to the preparation, audit, approval and publication of consolidated financial statements. This provision applies only to entities which have their registered office or a place of executive management located outside the territory of the European Economic Area.

2. If two or more subsidiaries or co-subsidiaries meet the criterion referred to in Paragraph 1, yet their combined data is material in respect of the fulfilment of the obligation referred to in Art. 4 Paragraph 1, such entities shall be consolidated.

Art. 59. 1. Data of a subsidiary shall be consolidated under the acquisition accounting method referred to in Art. 60 Paragraph 1, whereas data of co-subsidiaries not being commercial companies (partnerships and companies), shall be consolidated under the proportionate consolidation method referred to in Art. 61 Paragraph 1, subject to the provisions of Art. 55 Paragraph 5.

2. [58] If the conditions referred to in Art. 57 Paragraph 1 Point 3 are met, and the subsidiary or co-subsidiary was previously consolidated, or the parent company became a significant investor, the data of such entities shall be accounted for under the equity method referred to in Art. 62 Paragraph 1.

3. Shares in an associated entity and shares in co-subsidiaries being commercial companies (partnerships and companies) shall be disclosed in the consolidated financial statements of the capital group under the equity method referred to in Art. 62 Paragraph 1.

Art. 60. 1. Acquisition accounting consists in adding together full individual items of the relevant financial statements of a parent company and its subsidiaries, making eliminations referred to in Paragraphs 2 and 6, as well as other adjustments referred to in Paragraphs 8-9.

2. The following shall be eliminated: the value of shares at their acquisition price held by the parent company and other consolidated entities in subsidiaries, and the portion of the net assets of subsidiaries measured at their fair value which corresponds to the interest of the parent company and other consolidated capital group entities in subsidiaries as at the date of the commencing the control over them. If the value of shares held and the corresponding portion of the net assets of subsidiaries ,measured at their fair value differ, then, subject to the provisions of Paragraphs 3 and 4:

1) a surplus of the value of shares over the corresponding portion of the net assets measured at the fair value (goodwill), is presented in non-current assets of the consolidated balance sheet under a separate item “goodwill of subordinated entities”;

2) a surplus of the corresponding portion of the net assets measured at the fair value over the value of shares (negative goodwill), is presented in the equity and liabilities of the consolidated balance sheet as a separate item "negative goodwill of subordinated entities".

3. If exercising control over a subsidiary originates or is reinforced as a result of a number of significant transactions, or if these transactions occur within significant intervals, then the surpluses referred to in Paragraph 2, are determined as at each date of acquisition of individual portions of shares; these surpluses are determined for the first time as at the date of establishing the subordination relationship.

4. In the case of changes in the percentage interest of the parent company or a capital group in the net assets of a subsidiary that resulted from the issuance of shares, the whole amount of the resulting difference referred to in Paragraph 2, shall be recognised as the financial income or financial costs.

5. In order to determine the fair values of the net assets and to account for goodwill or negative goodwill, the provisions of Art. 28 Paragraph 5 and Art. 44b Paragraphs 4, 11 and 12 shall be applied respectively.
6. The following items shall be eliminated in full amounts:
1) mutual receivables and liabilities as well as similar items of entities under consolidation;
2) revenue and costs of business transactions carried out between entities under consolidation;
3) profits or losses on business transactions carried out between entities under consolidation, included in the values of the assets subject to consolidation;
4) dividend payable or paid by subsidiaries to the parent company and to other entities under consolidation.
7. The eliminations referred to in Paragraph 6 are not required, if they are not material to fulfil the obligation specified in Art. 4 Paragraph 1.
8. If shares in a subsidiary are disposed of during a financial year, the consolidated profit and loss account shall include:
1) the results of operations of the subsidiary until the date of the disposal of shares by the parent company or another entity under consolidation;
2) gains or losses on the disposal of shares in the subsidiary, determined as the difference between the revenue from the disposal of the shares and the corresponding portion of the subsidiary's net assets, adjusted for the unamortized portion of goodwill or negative goodwill which relates to the shares disposed of.
9. Interest in the equity of subsidiaries held by persons or entities other than those under consolidation, shall be presented in the equity and liabilities of the consolidated balance sheet as a separate item "Minority interests" beneath the equity items. The initial value of minority interests is determined at the corresponding fair value of the net assets, determined as at the date of commencing the control. This value is respectively increased or decreased by changes in the net assets of subsidiaries. Profits or losses attributable to persons or entities not being subject to consolidation are recognised in the consolidated profit and loss account below "Net financial result", as "Profits/losses of minority shareholders", taking into account an adjustment to the financial result due to reasons specified in Paragraph 6 Point 4. If subsidiaries' losses attributable to minority shareholders exceed the amounts which guarantee their coverage, then their surplus is recognised in equity of the capital group.

Art. 61. 1. The proportionate consolidation method involves adding individual items of the financial statements of the parent company in their full value and the portion of individual items of financial statements of its co-subsidiaries not being commercial companies (partnerships or companies), in proportion to shares held by consolidated entities of the capital group, as well as making eliminations.
2. The value of shares at their cost of acquisition held by the parent company and other entities under consolidated entities under consolidation in co-subsidiaries, and the portion of the net assets of subsidiaries measured at the fair value, which corresponds to the share of the parent company and other consolidated entities of the capital group in co-subsidiaries as at the date of commencing the joint control shall be eliminated. If the value of shares held and the corresponding portion of the net assets of co-subsidiaries measured at the fair value differ, then, subject to the provisions of Paragraphs 3 and 4:
1) goodwill is recognised as "goodwill of subordinated entities" under a separate item of non-current assets of the consolidated balance sheet;
2) [59] negative goodwill is recognised as "negative goodwill of subordinated entities" under a separate item of equity and liabilities of the consolidated balance sheet.
3. If joint control over a co-subsidiary originates or is reinforced as a result of a few significant transactions, or if the transactions occur with long periods of time between them, the surpluses referred to in Paragraph 2, are determined as at each date of acquisition of individual parts of shares, and these surpluses are determined for the first time as at the date when the subordination relationship originated.

4. In the case of changes in the percentage share of the parent company or a capital group in the net assets of a co-subsidiary that resulted from an issue of shares, the whole amount of the resulting difference referred to in Paragraph 2, is recognised as financial income or financial costs.
5. In order to determine the basis for the fair values of net assets and to account for goodwill or negative goodwill, the provisions of Art. 28 Paragraph 5 and Art. 44b Paragraphs 4, 11 and 12 shall be applied.
6. The following items shall be eliminated before adding relevant items of the financial statements:
1) full amounts of mutual receivables and liabilities as well as similar items of entities under consolidation;
2) full amounts of revenue and costs of business transactions carried out between entities under consolidation;
3) profits or losses on business transactions carried out between entities under consolidation, included in values of assets subject to consolidation- in proportion to shares held;
4) full amounts of dividend payable or paid by co-subsidiaries to the parent company and to other entities under consolidation.
7. The eliminations referred to in Paragraph 6 are not required, if they are not material to fulfil the obligation specified in Art. 4 Paragraph 1.
8. If shares in a co-subsidiary were disposed of during a financial year, the consolidated profit and loss account shall include:
1) the results of operations of the co-subsidiary until the date of disposal of shares by the parent company or another entity under consolidation, if that entity is still consolidated;
2) gains or losses on the disposal of shares in the co-subsidiary, determined as the difference between the revenue from the disposal of the shares and the corresponding portion of the co-subsidiary's net assets, adjusted for the unamortized portion of goodwill or negative goodwill which relates to the shares disposed of.
9. It is not required to recognise shares in the equity of co-subsidiaries, including net profit or loss, which are held by persons or entities which are not part of the group and which are not under consolidation.

Art. 62. 1. The equity method requires the presentation of "interests in subordinated entities measured under the equity method" fixed assets of the consolidated balance sheet. The shares are recognised at the cost of acquisition, adjusted for the difference between the cost of acquisition of shares and the value of shares in the equity of these entities. The difference is determined and presented as a separate item of the consolidated balance sheet, and recognised in the consolidated profit and loss account by applying the provisions specified in Art. 60 Paragraphs 2 and 5.
2. The adjusted cost of acquisition, referred to in Paragraph 1, determined as at the date of obtaining significant influence or as at the date of commencing the control or joint control , is increased or decreased by increases or decreases in the equity of the subordinated entity, which are attributable to the parent company or another entity under consolidation of the capital group, and which took place from the date of obtaining significant influence or from the date of commencing the control or joint control , until the balance sheet date, including decreases related to settlements with owners of the subordinated entity.
3. The equity method requires a presentation of a separate item in the consolidated profit and loss account, i.e. the share of a significant investor or the parent company, or another entity under consolidation of the capital group, in the financial result of a subordinated entity. Profits or losses on transactions carried out between the subordinated entity and entities under consolidation shall be eliminated from the financial result of the given subordinated entity.
4. If a subordinated entity is required to prepare consolidated financial statements, the data of the entity is included in the consolidated financial statements of the capital group on the basis of the financial data, taking into account the financial data of its group. This also applies to the method of determining the difference referred to in Paragraph 1.

5. In the case of a permanent restriction of significant influence on an associated entity, the value of shares in the associated entity is measured under the equity method, in the amount determined as at the restriction date. This applies also to other subordinated entities referred to in Art. 58 Paragraph 1 Point 3.
6. In the case of a permanent impairment of shares in subordinated entities, goodwill or negative goodwill determined as at the date of acquisition of shares , is recognises in the financial result at the amount equal to the difference between the previous value of shares and the adjusted value of shares.

Art. 63. 1. If the parent company or a significant investor measures its shares in a subordinated entity, which are classified as fixed assets, under the equity method in accordance with Art. 28 Paragraph 1 Point 4, then the value of net assets and goodwill or negative goodwill are determined on the basis of the provisions specified in Art. 60 Paragraph 2 and 5.
2. The cost of acquisition of shares is increased or decreased by increases or decreases in the equity of the subordinated entity, attributable to the parent company or a significant investor, which took place from the date of obtaining significant influence or from the date of commencing control or joint control , until the balance sheet date, including decreases related to settlements with owners of subordinated entities, however, the share in net profit (loss) of the subordinated entity is adjusted for the amortization of goodwill or negative goodwill, in line with the provisions referred to in Art. 44b Paragraphs 11 and 12, and for the difference between the fair value and book value of net assets, which relate to a given reporting period.
3. The provisions of Art. 62 Paragraphs 3-6 shall be applied accordingly.

Art. 63a. The equity method referred to in Art. 62 and 63, shall not apply in the cases specified in Art. 57 Paragraph 1 and its application is optional in the cases specified in Art. 58.

Art. 63b. [60] 1. Entities whose data is consolidated, in particular subsidiaries and co-subsidiaries, should apply identical methods of measurement of assets, equity and liabilities and identical methods for the preparation of financial statements, which are in accordance with accounting principles applied by the parent company, subject to the provisions of Paragraph 2.
2. If – for valid reasons - it is not possible to apply identical methods of measurement and preparation of financial statements, or if the parent company prepares its financial statements in accordance with IAS, and the entities whose data is consolidated do not prepare financial statements or consolidated financial statements under IAS, it is required to restate accordingly the financial statements of the entities whose financial data is material for the fulfilment of the obligation specified in Art. 4 Paragraph 1.
3. The provisions of Art. 51 Paragraph 2 should be applied accordingly.

Art. 63c. 1. The financial statements referred to in Art. 55 Paragraphs 1 and 7, shall be prepared as at the same balance sheet date and for the same financial year as the parent company's financial statements. If it is not possible for individual entities of the capital group to adopt the same balance sheet date, then the consolidation may cover financial statements prepared for the annual period other than the financial year, on condition that the balance sheet date of these financial statements difference takes place no earlier than 3 months before the balance sheet date adopted by the capital group. This also applies to financial statements of entities for which the equity method is applied.
2. The parent company prepares consolidated financial statements within 2 months from the deadline for the preparation of its individual financial statements. If consolidation covers the level of subordinated entities as well, the deadline is extended by another month.
3. Consolidated financial statements shall be signed by the parent company's manager and other persons responsible for the preparation of these financial statements. The provisions of Art. 52 Paragraph 2 shall be applied accordingly.

4. Annual consolidated financial statements shall be approved by the approving body of the parent company, within 8 months from the balance sheet date as at which annual financial statements of the parent company shall be prepared.

Art. 63d. Financial statements and the annual reports of related entities, whose parent companies or significant investors are issuers of securities admitted to, issuers of securities intending to file for admission to or issuers of securities pending admission to trading on one of the regulated markets of the European Economic Area, shall be prepared on the basis of the provisions of the Act, taking into account the regulations on trading in securities.

Chapter 7
Audit and publication of financial statements

Art. 64. 1. [61] Subject to the provisions of Art. 64b, the audit and the publication shall be required in respect of annual financial statements of related entities, including annual financial statements of capital groups, as well as the annual financial statements of the following entities which continue as a going concern:

1) [62] banks and insurers;

2) [63] entities which operate on the basis of regulations on trading in securities and regulations on investment funds;

2a) entities which operate on the basis of regulations on the organisation and operations of pension funds;

3) [64] joint stock companies, except for companies which are in the setting-up process as at the balance sheet date;

4) [65] other entities which in the prior financial year for which the financial statements were prepared, met at least two of the following conditions:

a) the annual average number of employees in full-time equivalents amounted to at least 50 people;

b) the total assets as at the end of the financial year were at least the Polish zloty equivalent of EUR 2,500,000;

c) the net revenue from the sales of goods for resale and finished goods and the financial transactions for the financial year, was at least the Polish zloty equivalent of EUR 5,000,000;

2. [66] In the case of entities which prepare aggregated financial statements referred to in Art. 51 Paragraph 1, the conditions specified in Paragraph 1 apply to the aggregated annual financial statements.

3. [67] The financial statements of acquirers and newly-formed companies, prepared for the financial year in which the business combination took place under the terms and conditions specified in Chapter 4a, are required to be audited.

4. [68] Combined annual financial statements of investment funds, which have separate sub-funds, as well as annual financial statements of the sub-funds, are required to be audited and published as well.

5. [69] (deleted).

6. [70] (withdrawn).

Art. 64a. [71] 1. A branch of:

1) an insurer, and

2) a foreign bank, a credit institution or a financial institution, within the meaning of the Banking Law

- with their registered offices outside the territory of the Republic of Poland, and hereinafter referred to as "a credit or financial institution", shall publish the annual financial statements of this institution, which were prepared and audited in accordance with the legal regulations in force in the country where a credit or financial institution has its registered office, together with an annual report and a statutory auditor's opinion.

2. The provisions of Paragraph 1 apply accordingly to consolidated financial statements together with a consolidated annual report and a statutory auditor's opinion.

Art. 64b. [72] 1. Annual financial statements of a branch of a credit or financial institution are not required to be published, unless circumstances specified in Paragraph 2 exist.

2. A branch of a credit or financial institution having a registered office in a country outside the European Economic Area, apart from the documents specified in Art. 64a, is also required to publish the branch's annual financial statements being subject to an obligatory audit, together with a statutory auditor's opinion, if:

1) the annual financial statements of this credit or financial institution are not prepared in accordance with the principles adopted or equivalent to adopted in the European Economic Area, or

2) the reciprocity condition in respect of credit or financial institutions with their registered offices in a country from within the European Economic Area is not fulfilled in the country where this credit or financial institution has its registered office.

Art. 65. 1. An audit of financial statements is aimed at expressing by a statutory auditor a written opinion together with a report on whether the financial statements are correct, and give a true and fair presentation of the property and financial position and the financial result of the audited entity.

2. The opinion referred to in Paragraph 1, should, in particular, state whether the audited financial statements:

1) have been prepared on the basis of books of accounts kept in a proper manner;

2) have been prepared in accordance with accounting principles (policies) specified in the Act;

3) comply in form and contents with the legal regulations applicable to the entity, as well as its articles of association or deed;

4) give a true and fair presentation of all information material for the assessment of the entity, and, with respect to the annual report, whether the information included in this report takes into account the provisions of Art. 49 Paragraph 2 and is consistent with the information included in the annual financial statements.

3. The opinion shall also:

1) provide information on non-compliance, as at the date of expressing the opinion, with the obligations specified in Art. 69 and 70 to file with a relevant court register and to publish the financial statements for the year or years preceding the financial year;

2) indicate any serious threats to the entity's operations as a going concern which were detected during an audit.

4. The opinion should specify, in an unequivocal manner, the reasons for qualifications in respect of the financial statements, for expressing an adverse opinion or for a disclaimer of an opinion due to the existence of circumstances which make it impossible to prepare an opinion. The qualifications should be presented in a manner indicating their scope.

5. The report referred to in Paragraph 1 should present in particular:

1) a general description of an entity (its identification data);

2) a statement that an entity provided requested information, explanations and representations;

3) [73] an assessment of the correctness of the accounting system used by an entity;

4) a description of the financial statement items or their groups, if, in the opinion of a statutory auditor, they require a description;

5) a statement that a bank has complied with applicable prudence laws, specified in other regulations, and a statement that a capital adequacy ratio has been calculated in a correct manner;

6) a statement confirming that an insurer has recognised sufficient technical reserves to ensure the full settlement of current and future liabilities resulting from existing insurance contracts, and that these reserves are secured by investments in accordance with

applicable insurance regulations, and also that a solvency margin has been calculated in a correct manner, and that there are sufficient funds to cover that margin;

7) a presentation of the property and financial position and the financial result of an entity, with the specification of events which, compared to prior reporting periods, have a significant negative impact on this position, and, in particular, which represent a threat to the entity's operations as a going concern. If, during an audit, a statutory auditor identifies a significant breach of the law or the entity's articles of association or a deed, which has an impact on the financial statements, the auditor should disclose such information in his/her report, and, if necessary, in the opinion as well.

6. The opinion and report should result from audit documentation which was gathered and processed during the audit. They should enable a statutory auditor who did not participate in the audit to trace its course and find substantiation for the opinion expressed on the audited financial statements.

Art. 66. 1. An audit of the financial statements shall be carried out by a statutory auditor who meets conditions which ensure the expression of an impartial and independent opinion on these financial statements.

2. Impartiality and independence are regarded as not met, if a statutory auditor:

1) holds shares or other ownership rights in an entity or its associated entity, parent company, subsidiary or co-subsidiary, except for shares in a housing co-operative;

2) is or was during the last 3 years a legal representative (a proxy), a member of the supervisory or management bodies, or an employee of the entity or its associated entity, parent company, subsidiary or co-subsidiary;

3) during the last 3 years participated in bookkeeping or preparing the financial statements which are to be audited;

4) earned, at least during 1 year out of the last 5 years, at least 50% of his/her annual income by providing services to a given entity, its parent company, associated entities, its subsidiaries or co-subsidiaries. This condition does not apply to the first year of practice of a statutory auditor.

5) is a spouse, relative or lineal kin to the second degree, or a person fostered, in the custody of or under the wardship of a executive manager or a member of the supervisory bodies of an entity, or has engaged such people during an audit;

6) is for other reasons unable to prepare an impartial and independent opinion.

3. The impartiality and independence rules specified in Paragraph 2 apply accordingly to the entities referred to in Art. 10 Paragraphs 1 and 2 of the Act of 13 October 1994 on statutory auditors and their self-government (Journal of Laws of 2001, No. 31, item 359) and to executive managers and members of supervisory bodies of such entities or other persons involved in auditing these financial statements.

4. The selection of the entity referred to in Paragraph 3 is made by the body approving the entity's financial statements, unless articles of association, a deed or other applicable regulations provide otherwise.

5. The entity's manager signs, with the entity referred to in Paragraph 3, an audit contract at a date which enables this entity to participate in the stocktaking of significant assets. Audit fees are covered by the audited entity.

6. An audit carried out with the violations of the provisions of Paragraphs 1-4 is invalid by virtue of the law.

Art. 67. 1. The audited entity's manager shall ensure that a statutory auditor who is auditing the financial statements, has access to the books of accounts and documents being the basis for the entries, as well as to any other documents. The audited entity's manager shall also provide full information, explanations and statements which are required to express an audit opinion on the entity's financial statements.

2. A statutory auditor has a right to obtain audit-related information from the entity's contractors, including banks and its legal advisers, upon the authorization of the entity's manager.

3. If an audit covers financial statements of a parent company, the rights of a statutory auditor referred to in Paragraphs 1 and 2, apply also to subsidiaries, co-subsidiaries and associated entities.

4. Statutory auditors who audited the financial statements of:

1) an entity, its subsidiaries, co-subsidiaries or associated entities - for reporting periods preceding the financial year;

2) subsidiaries, co-subsidiaries or associated entities - for the financial year

are required to provide appropriate information and explanations to the statutory auditor who is auditing the entity's financial statements for the financial year, including the financial statements of the parent company.

Art. 67a. The provisions of Art. 65, Art. 66 Paragraphs 1, 2, 4 and 5 as well as Art. 67 apply accordingly to the audit of financial statements other than those specified in Art. 64.

Art. 68. Limited liability companies, mutual insurance companies, joint stock companies and co-operatives are required to make available to their shareholders or members the annual financial statements and the annual report, and - if the financial statements are required to be audited - a statutory auditor's opinion and report – not later than 15 days before a shareholders' meeting, annual general meeting, or a general meeting of co-operative members or their representatives. A joint stock company shall additionally make available to its shareholders the reports of its supervisory board and audit commission.

Art. 69. 1. [(74)] The entity's manager shall file, with a relevant court register, the entity's annual financial statements, a statutory auditor's opinion - if the financial statements were required to be audited, subject to the provisions of Paragraph 1a, a copy of the resolution or decision of the approving body concerning the approval of the annual financial statements and the profit appropriation or loss offset, and, in the case of the entities referred to in Art. 49 Paragraph 1 - also an annual report - within 15 days from the date of the approval of the annual financial statements.

1a. [(75)] The manager of an entity which prepares abridged financial statements in accordance with Art. 50 Paragraph 2, instead of a statutory auditor's opinion, files with the court register the information on the type of an audit opinion, and specifies whether it contains any additional commentary.

2. [(76)] If the financial statements are not approved within the deadline specified in Art. 53 Paragraph 1, they should be filed with a court register within 15 days after that deadline.

3. The provisions of Paragraphs 1 and 2 apply accordingly to a parent company which prepares the annual consolidated financial statements of the capital group.

4. [(77)] The manager of a parent company not preparing the consolidated financial statements in accordance with Art. 56 Paragraph 2 files, with a relevant court register the consolidated financial statements and the consolidated annual report of a higher-level parent company and a statutory auditor's opinion on the audit of these consolidated financial statements, translated into Polish by a sworn translator - within 30 days from their approval date.

Art. 70. 1. [(78)] The manager of the entity referred to in Art. 64 Paragraph 1 is required to submit for publication an introduction to the financial statements being a part of the notes to the financial statements, a balance sheet, a profit and loss account, a statement of changes in equity, and a cash flow statement for a given financial year, within 15 days from the approval date, together with a statutory auditor's opinion, subject to the provisions of Paragraph 1c, and a copy of the resolution or decision of the approving body concerning the approval of the financial statements and the profit appropriation or loss offset. The scope of the annual or semi-annual financial statements of investment funds, including the combined financial statements of investment funds with separate sub-funds, and individual financial statements of sub-funds, as well as the deadlines for submitting for publication the annual financial statements,

including combined financial statements of investment funds with separate sub-funds, and individual financial statements of sub-funds, are specified in other regulations.

1a. [79] The manager of a branch of a credit or financial institution is required to submit, for publication, documents referred to in Art. 64a, translated into Polish by a sworn translator, within 30 days from the approval date of the annual financial statements of this institution.

1b. [80] The manager of a parent company not preparing the consolidated financial statements in accordance with Art. 56 Paragraph 2 is required to submit for publication, documents referred to in Art. 69 Paragraph 4, translated into Polish by a sworn translator, within 30 days from the approval date of the consolidated financial statements of a higher-level parent company.

1c. [81] The manager of an entity preparing abridged financial statements in accordance with Art. 50 Paragraph 2, instead of a statutory auditor's opinion, submits, for publication, information on the type of an audit opinion, and specifies whether it contains any additional commentary.

2. [82] The publication referred to in Paragraphs 1, 1a-1c and Art. 64 Paragraph 4, shall be made in Dziennik Urzędowy Rzeczypospolitej Polskiej "Monitor Polski B", and in the case of co-operatives - in "Monitor Spółdzielczy".

3. The provisions of Paragraphs 1 and 2 apply accordingly to a parent company which prepares annual consolidated financial statements of the capital group.

Chapter 8
Data protection

Art. 71. 1. The documentation referred to in Art. 10 Paragraph 1, the books of accounts, accounting documents, stocktaking documentation and financial statements, hereinafter also referred to as "files", should be stored in a proper manner and protected against forbidden modifications, unauthorized distribution, damage or destruction.

2. In the case of computerized books of accounts, data protection should involve the use of damage-resistant data media, the selection of proper physical access controls, regular back-up of computer files, provided that durability of the accounting system records is ensured for at least the minimum storage period required for the books of accounts, as well as ensuring the protection of the accounting system software and data by using appropriate programme and organisation solutions which prevent unauthorized access to or damage of data.

Art. 72. 1. Books of accounts may be kept, subject to the provisions of Art. 13 Paragraphs 2 and 3, as files recorded on computer data media, provided that the solutions specified in Art. 71 Paragraph 2 are applied.

2. If a system for the protection of accounting files recorded on computer data media does not meet the requirements specified in Art. 71 Paragraph 2, the files should be printed out at times specified in Art. 13 Paragraph 6.

3. Storing books of accounts on media other than those specified in Paragraph 2 is allowed provided that it is possible to reproduce the books of accounts in the form of print-outs.

Art. 73. 1. The originals of accounting documents and stocktaking documentation shall be stored in the registered office of an entity or its branch office (business unit), in a specified order which is consistent with the bookkeeping method adopted by the entity, broken down into reporting periods, in a manner which makes it easy to find them. Annual files of accounting documents and stocktaking documentation shall be marked with their type name and the code of last years and last numbers in the file.

2. Except for documents which pertain to the transfer of property rights to real estate, payroll, asset custody, significant agreements and other important documents specified by the entity's manager, upon approving financial statements, the contents of accounting

documents may be transferred to data media which make it possible to retain the contents of the accounting documents in a lasting form. This method of data storage is permitted on condition that an entity has equipment which allows documents to be reproduced in the form of print-outs, unless other regulations provide otherwise.
3. Upon approving financial statements for a given financial year, the documentation of the adopted accounting principles (policies), the books of accounts and financial statements, including an annual report, shall be stored in the manner specified in Paragraph 1.

Art. 74. 1. Approved annual financial statements shall be stored in a permanent manner.
2. Other files shall be stored for at least the following periods:
1) books of accounts - for 5 years;
2) payroll slips or their equivalents - for the statutory minimum period resulting from pension, annuity and tax regulations, though not shorter than for 5 years;
3) accounting documents related to retail sales - by the approval date of financial statements for a given financial year, though not shorter than by the clearance date of persons who were entrusted the assets involved in retail sales;
4) accounting documents which are related to long-term investments, borrowings, loans and business contracts, claims under the civil law or claims under penal or tax proceedings - for 5 years from the beginning of the year which follows the financial year in which operations, transactions and proceedings were have been completed, paid, settled or expired;
5) documentation of the bookkeeping method applied - for at least 5 years after its expiration date;
6) documents which are related to warranties and complaints - for 1 year after a warranty expiry date or a complaint settlement date;
7) stocktaking documents - for 5 years;
8) other accounting documents - for 5 years.
3. The storage periods specified in Paragraph 2 are determined from the beginning of the year which follows the financial year to which the files relate.

Art. 75. Making files or their parts available to third parties:
1) for a review on the entity's premises - requires the permission of the entity's manager or a person authorized by the entity's manager;
2) for a review outside the registered office of the entity or its branch - requires a written permission of the entity's manager, and leaving a certified list of borrowed documents on the entity's premises
unless other regulations provide otherwise.

Art. 76. 1. Files of entities which:
1) discontinued their operations due to a combination with another entity or a legal transformation - shall be stored by the entity which remains in operations;
2) were wound up - shall be stored by a specially appointed person or entity; the entity's manager, receiver or a bankruptcy trustee shall report the storage location to a relevant court or another body which maintains the register or business activities records[83], as well as a relevant tax office.
2. In matters referred to in Paragraph 1, the provisions of Art. 72-74 shall be applied accordingly.

Chapter 9
Penal liability

Art. 77. Whoever, contrary to the provisions of the Act, allows that:

1) books of accounts are not kept, or are kept contrary to the provisions of the Act, or present unreliable information;

2) financial statements are not prepared, or are prepared contrary to the provisions of the Act, or present unreliable data

- is subject to a fine or imprisonment of up to 2 years, or to both penalties.

Art. 78. 1. A statutory auditor who expresses an opinion on the financial statements and their underlying books of accounts or on the financial position of an entity, which is contrary to actual facts is subject to a fine or imprisonment of up to 2 years, or to both penalties.

2. If a person committing the offence specified in Paragraph 1 unintentionally is subject to a fine or imprisonment.

Art. 79. Whoever, contrary to the provisions of the Act:

1) fails to have annual financial statements audited by a statutory auditor;

2) fails to provide a statutory auditor with information, explanations, reservations or provides him/her with information, explanations, representations, which are contrary to actual facts, or prevents the statutory auditor from performing his/her duties;

3) fails to submit annual financial statements for publication;

4) fails to file annual financial statements or an annual report with a relevant court register;

5) fails to make available financial statements and other documents referred to in Art. 68;

6) [(84)] provides bookkeeping services without a proper licence;

7) [(85)] provides bookkeeping services without proper insurance specified in Art. 80a Paragraph 1

- is subject to a fine or imprisonment.

Chapter 10
Specific and interim provisions

Art. 80. 1. [(86)] The provisions of Chapters 5, 6 and 7 of the Act do not apply to entities specified in Art. 2 Paragraph 1 Point 4.

2. The Minister of Finance may, by means of a regulation, impose the requirement to audit financial statements of the entities referred to in Art. 2 Paragraph 1 Point 4.

3. [(87)] The provisions of Chapters 6 and 7 of the Act do not apply to entities not being commercial companies (partnerships and companies) if they do not conduct any business activities, are not covered by the provisions of Chapters 6 and 7 of the Act.

Art. 80a. [(88)] 1. The entities which are authorized to provide bookkeeping services referred to in Art. 11 Paragraph 3, are required to obtain civil liability insurance cover against claims resulting from their activities.

2. The Minister of Finance, upon consulting the Insurance Chamber, shall specify, by means of a regulation, a detailed scope of mandatory insurance referred to in Paragraph 1, the date of insurance obligation and a minimum guarantee amount, taking into account, in particular, a specific nature of the profession and the scope of activities conducted.

Art. 81. 1. [(89)] (withdrawn).

2. The Minister of Finance shall specify by means of a regulation:

1) [(90)] upon consulting the Chairman of the Securities and Exchange Commission, specific accounting principles of investment funds, including:

a) the scope of information presented in the financial statements, combined financial statements of an investment fund with separate sub-funds, and statutory financial statements of sub-funds;

b) rules for preparing financial statements, combined financial statements of an investment fund with separate sub-funds, and individual financial statements of sub-funds;

c) deadlines for the preparation and submission for publication of annual financial statements and annual combined financial statements of an investment fund, and annual statutory financial statements of sub-funds;

d) deadlines for the preparation and review of semi-annual financial statements and semi-annual combined financial statements of an investment fund, and semi-annual statutory financial statements of sub-funds;

e) deadlines for the approval of annual financial statements, annual combined financial statements of an investment fund with separate sub-funds, and annual statutory financial statements of sub-funds;

2) upon consulting the Chairman of the Securities and Exchange Commission, and in the case of banks' business units which carry out brokerage activities, upon consulting the Banking Supervision Commission, specify accounting principles of brokerage houses and banks' business units which carry out brokerage activities, including the scope of information presented in financial statements and in the financial statements of related entities and an annual report, respectively;

3) detailed rules for preparing financial statements of related entities by entities other than banks or insurers, including the scope of information presented in the financial statements of related entities and in the annual report;

4) detailed rules of recognition, methods of measurement, scope of disclosure, and presentation manner of financial instruments;

5) conditions that shall be met in order to provide bookkeeping services, including:

a) qualifications and other requirements whose fulfilment authorizes to provide bookkeeping services - taking into account the need to differentiate the requirements with respect to natural persons, including the need to have their qualifications verified by means of an examination, due to the level and type of their education and the scope of their bookkeeping experience;

b) a list of documents to be submitted by natural persons who apply for an accounting certificate confirming that they have qualifications required to provide bookkeeping services, and a template of the accounting certificate;

c) operating procedures and organization of the Examination Board appointed by the Minister of Finance to verify, by means of an examination, the qualifications of persons who apply for an accounting certificate, including the manner of remunerating the members of the Examination Board as well as examination procedures, the level of examination fees and the form of their payment;

d) procedures for maintaining a list of persons holding an accounting certificate - taking into account the need to ensure access to personal data of the persons, within the scope necessary for their identification;

6) upon consulting the Insurance and Pension Fund Supervision Commission:

a) specific accounting principles of insurers, including rules for recognising technical reserves and the scope of disclosures in the notes to the financial statements, rules for the preparation of financial statements of related entities, including the scope of information presented in the financial statements of related entities and in an annual reports;

b) specific accounting principles of pension funds, including the scope of information presented in financial statements, deadlines for preparing annual financial statements and submitting them for publication, the scope of publication of annual financial statements, and the deadline for the approval annual financial statements;

7) (deleted);

8) upon consulting the Banking Supervision Commission):

a) specific accounting principles of banks, including the scope of disclosures in the notes to financial statements;

b) rules for the preparation of consolidated financial statements for the purpose of exercising consolidated supervision, including consolidated financial statements of banks and consolidated financial statements of a financial holding within the meaning of the Banking Law, as well as the scope of information presented in these financial statements;

c) rules for recognising banking risk reserves;

9) the scope of operations, number of members and entities authorised to appoint them, as well as the manner of organization of the Accounting Standards Committee referred to in Art. 10 Paragraph 3;

10) upon consulting the National Savings and Credit Co-operative Bank, specific accounting principles of co-operative savings and credit banks, including the scope of disclosures in the notes to the financial statements.

Art. 82. The Minister of Finance may, by means of a regulation:

1) determine specific accounting principles for certain entities referred to in Art. 80 Paragraph 3,

2) upon consulting the Chairman of the Securities and Exchange Commission, determine specific accounting principles of the National Depository of Securities and the clearing fund referred to in the regulations on trading in securities, including the scope of information presented in the financial statements, as well as in the financial statements of related entities and in the annual reports, respectively;

3) upon consulting the Chairman of the Securities and Exchange Commission, determine specific accounting principles of the guarantee fund referred to in the regulations on trading in securities, including the scope of information presented in the financial statements;

4) upon consulting the Chairman of the Securities and Exchange Commission, determine specific accounting principles of companies operating stock exchanges and the over-the-counter market, including the scope of information presented in the financial statements, and in the financial statements of related entities and in the annual reports, respectively;

Art. 83. 1. In order to harmonize rules for the grouping of business transactions, and in order to reduce the workload required to develop corporate charts of accounts, standard charts of accounts may be applied.

2. The Minister of Finance may specify, by means of a regulation, standard charts of accounts:

1) upon consulting the Banking Supervision Commission - for banks;

2) upon consulting the Chairman of the Securities and Exchange Commission - for entities operating on the basis of regulations on trading in securities;

3) upon consulting the Chairman of the Securities and Exchange Commission - for investment funds;

4) upon consulting the Insurance and Pension Fund Supervision Commission - for insurers or pension funds;

5) (deleted);

6) for other entities;

7) upon consulting the National Savings and Credit Co-operative Bank - for co-operative savings and credit banks.

Chapter 11

Amendments to the provisions in force, and final provisions

Art. 84. 1. In the Act on the National Bank of Poland of 31 January 1989 (Journal of Laws of 1992 No. 72/360, of 1993 No. 6/29 and of 1994 No. 1/2 and No. 80/369) in Art. 52 Point 1, the words "uniform accounting policies, a typical chart of accounts for banks and" shall be deleted.

2. In the Regulation of the President of the Republic of Poland of 27 June 1934 - the Commercial Code (Journal of Laws No. 57/502 of 1946, No. 57/321 of 1950, No. 34/312 of 1964, No. 16/94 of 1969, No. 13/95 of 1988, No. 41/326 of 1990, No. 17/98 and No. 51/298 and of 1991 No. 35/155, No. 94/418 and No. 111/480) the following amendments are introduced: (changes omitted).

3. In the Insurance Activity Act of 28 July 1990 (Journal of Laws No. 59/344 of 1993, No. 5/21 and No. 44/201 and of 1994 No. 4/17) in Art. 42 in Section 7 and in Art. 50 in Section 1 the words "that result from insurance activity" are replaced with "that may result from insurance contracts signed".

4. In the Budget Act of 5 January 1991 (Journal of Laws of 1993 No. 72/344 and of 1994 No. 76/344) the following amendments are introduced: (changes omitted).

Art. 85. 1. The following regulations expire, subject to the provisions of Section 2:

1) Art. 244-252, 418-420, 422-426 and Art. 428 of the Decree of the President of the Republic of Poland of 27 June 1934 - the Commercial Code;

2) Art. 26a Section 1 of the Act of 6 July 1982 on the rules for small businesses operated by foreign entities on the territory if the Republic of Poland (Journal of Laws of z 1989 No. 27/148 and No. 74/442 and of 1991 No. 60/253 and No. 111/480);

3) Art. 39 and 40 of the Act on Mixed Entities of 10 July 1985 (Journal of Laws No. 32/142 of 1986, No. 12/72 and of 1987 No. 33/181);

4) Art. 20 Section 2 of Act of 31 January 1989 on financial administration of state-owned enterprises (Journal of Laws of 1992 No. 6/27 and of 1993 No. 18/82);

5) Art. 48^1 of the Banking Law of 31 January 1989 (Journal of Laws of 1992 No. 72/359 of 1993, No. 6/29, No. 28/127 and No. 134/646 and of 1994 No. 80/369);

6) Art. 14 of the Act of 13 July 1990 on the privatisation of state-owned enterprises (Journal of Laws No. 51/298 and of 1991 No. 60/253 and No. 111/480);

7) Art. 41 Section 3, Art. 47, Art. 58 Point 1 and Art. 59 of the Insurance Activity Act of 28 July 1990,

8) Art. 29 Sections 2 and 3 of the University Education Act of 12 September 1990 (Journal of Laws No. 65/385 of 1992, No. 54/254 and No. 63/314 and of 1994 No. 1/3, No. 43/163 and No. 105/509);

9) Art. 30 Section 2 of the Cultural Activity Act of 25 October 1991 (Journal of Laws No. 114/493);

10) Art. 32 § 3 and Art. 95 of the Act of 22 March 1991 on public trading in securities and unit trusts (Journal of Laws of 1994 No. 58/239 and No. 71/ 313);

11) Art. 61 Sections 2 and 3 of the Health Institutions Act of 30 August 1991 (Journal of Laws No. 91/408 and of 1992 No. 63/315).

2. The provisions referred to in Section 1, remain in force with respect to entities whose financial year is different from a calendar year, until these entities end their financial year, yet no later than until 31 December 1995.

Art. 86. The Act takes effect on 1 January 1995 and applies for the first time to financial statements for a financial year beginning in 1995.

[1)] This Act implements, within the scope if its regulations, the following EC Directives:

1) Directive 2001/65/EC of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions (Official Journal of the European Communities L 283 of 27.10.2001);

2) Directive 2003/38/EC of 13 May 2003 amending Directive 78/660/EEC on annual accounts of certain types of companies as regards amounts expressed in Euro (Official Journal of the European Communities L 120 of 15.05.2003);

3) Directive 2003/51/EC of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (Official Journal of the European Communities L 178 of 17.07.2003).

Data on the publication of EU legal regulations which is included in this Act - from the date when the Republic of Poland joins the European Union - pertains to the publication of these regulations in the Official Journal of the European Union - special edition.[(91)]