ENERGA SA Group

Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2013

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Continuing operations			
Sales of products and goods for resale including excise tax		7 833 611	7 764 431
Excise tax		(288 540)	(329 638)
Sales of products and goods for resale		7 545 071	7 434 793
Sales of services		3 811 937	3 688 458
Rental income		72 241	53 548
Revenue		**11 429 249**	**11 176 799**
Cost of sales	**11.5**	(9 455 472)	(9 482 447)
Gross profit on sales		**1 973 777**	**1 694 352**
Other operating income	**11.1**	155 718	134 921
Selling and distribution expenses	**11.5**	(294 321)	(308 153)
General and administrative expenses	**11.5**	(412 147)	(376 521)
Other operating expenses	**11.2**	(228 193)	(238 592)
Financial income	**11.3**	151 006	79 197
Financial costs	**11.4**	(322 892)	(359 085)
Share of profit (loss) of associates	**18**	(582)	214
Profit before tax		**1 022 366**	**626 333**
Income tax	**12**	(273 748)	(166 548)
Net profit on continuing operations		**748 618**	**459 785**
Discontinued operations & assets classified as held for sale			
Net loss on discontinued operations	**22.1**	(5 640)	(18 307)
Net profit on disposal of assets classified as held for sale		-	14 942
Net profit for the period		**742 978**	**456 420**
Attributable to:			
Equity holders of the Parent Company		763 972	457 034
Non-controlling interests		(20 994)	(614)
Earnings per share (in PLN)	**27**		
- basic		**1,86**	**1,15**
- diluted		**1,86**	**1,15**
Earnings per share from discontinued operations (in PLN)			
- basic		**(0,01)**	**(0,04)**
- diluted		**(0,01)**	**(0,04)**

Accounting policies and notes to the consolidated financial statements constitute an integral part thereof

(This is translation of the consolidated financial statements originally issued in Polish)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Net profit for the period		**742 978**	**456 420**
Items that will never be reclassified to profit or loss		***81 251***	***30 362***
Actuarial gains and (losses) on defined benefit plans	**25**	100 310	37 483
Income tax on items that will never be reclassified to profit or loss		(19 059)	(7 121)
Items that are or may be reclassified subsequently to profit or loss		***24 181***	***(235)***
Foreign exchange gains / (losses) arising on translation of foreign operations		(2 358)	(235)
Cash flow hedges	**34.7**	32 765	-
Income tax on items that are or may be reclassified subsequently to profit or loss		(6 226)	-
Net other comprehensive income		**105 432**	**30 127**
Total comprehensive income		**848 410**	**486 547**
Attributable to:			
Equity holders of the Parent Company		869 397	487 161
Non-controlling interests		(20 987)	(614)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2013	As at 31 December 2012 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	**13**	11 772 576	10 000 916
Investment property	**14**	15 189	17 060
Intangible assets	**15**	398 677	378 563
Goodwill	**17**	144 973	28 627
Deferred tax assets	**12.3**	245 086	209 870
Hedging derivatives	**34.7**	13 017	-
Other non-current financial assets	**34.6**	17 727	30 668
Other non-current assets	**21.1**	42 291	31 692
		12 649 536	**10 697 396**
Current assets			
Inventories	**19**	302 043	376 928
Current tax receivables		43 427	37 493
Trade receivables	**34.4.1, 34.6**	1 469 543	1 520 668
Deposits		4 121	26 784
Other current financial assets		8 891	18 762
Cash and cash equivalents	**20**	2 352 305	2 069 058
Other current assets	**21.2**	145 574	155 516
Assets classified as held for sale	**22.2**	109 116	10 168
		4 435 020	**4 215 377**
TOTAL ASSETS		**17 084 556**	**14 912 773**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

	Note	As at 31 December 2013	As at 31 December 2012 (restated)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent Company			
Share capital	**29.1**	4 521 613	4 968 805
Foreign exchange gains / (losses) arising on translation of foreign operation		(2 310)	48
Reserve capital	**29.2**	447 192	-
Supplementary capital	**29.3**	521 490	471 235
Cash flow hedge reserve	**34.7**	26 539	-
Retained earnings	**29.5**	2 519 955	2 231 138
Non-controlling interests	**29.6**	**13 816**	**47 296**
Total equity		**8 048 295**	**7 718 522**
Non-current liabilities			
Loans and borrowings	**34.4.2**	1 811 548	2 026 138
Bonds issued	**34.4.2**	3 119 453	1 079 219
Non-current provisions	**30**	549 499	710 786
Deferred tax liabilities	**12.3**	544 001	519 686
Deferred income and non-current grants	**24.1**	489 234	456 010
Other financial non-current liabilities	**9.20**	4 873	9 010
Other non-current liabilities	**23.1**	1 406	613
		6 520 014	**4 801 462**
Current liabilities			
Trade liabilities		889 902	710 651
Other financial liabilities		234 725	170 488
Current loans and borrowings	**34.4.2**	274 177	389 639
Bonds issued	**34.4.2**	70 584	-
Current income tax liability		6 838	34 662
Deferred income and grants	**24.1**	32 048	28 933
Accruals	**24.2**	126 813	116 897
Provisions	**30**	444 108	555 345
Other current liabilities	**23.2**	355 733	386 174
Liabilities related to assets classified as held for sale	**22.2**	81 319	-
		2 516 247	**2 392 789**
Total liabilities		**9 036 261**	**7 194 251**
TOTAL EQUITY AND LIABILITIES		**17 084 556**	**14 912 773**

(This is translation of the consolidated financial statements originally issued in Polish)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Equity attributable to equity holders of the Parent Company								
	Share capital	Foreign exchange gains / (losses) arising on translation of foreign operations	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total	Non-controling interests	Total equity
As at 1 January 2013	**4 968 805**	**48**	**-**	**471 235**	**-**	**2 231 138**	**7 671 226**	**47 296**	**7 718 522**
Actuarial gains and (losses) on defined benefit plans	-	-	-	-	-	81 244	81 244	7	81 251
Foreign exchange gains / (losses) arising on translation of foreign operations	-	(2 358)	-	-	-	-	(2 358)	-	(2 358)
Cash flow hedges	-	-	-	-	26 539	-	26 539	-	26 539
Profit for the period	-	-	-	-	-	763 972	763 972	(20 994)	742 978
Total comprehensive income for the period	**-**	**(2 358)**	**-**	**-**	**26 539**	**845 216**	**869 397**	**(20 987)**	**848 410**
Retained earnings distribution	-	-	-	50 255	-	(50 255)	-	-	-
Reduction of share capital	(447 192)	-	447 192	-		-	-	-	-
Dividends	-	-	-	-	-	(496 881)	(496 881)	(1 755)	(498 636)
Purchase of shares in subsidiaries	-	-		-	-	(286)	(286)	(9 978)	(10 264)
Disposal of shares in subsidiaries	-	-	-	-	-	(8 977)	(8 977)	(760)	(9 737)
As at 31 December 2013	**4 521 613**	**(2 310)**	**447 192**	**521 490**	**26 539**	**2 519 955**	**8 034 479**	**13 816**	**8 048 295**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont.)

For the year ended 31 December 2012

	Equity attributable to equity holders of the Parent Company						
	Share capital	Foreign exchange gains / (losses) arising on translation of foreign operations	Reserve capital	Retained earnings	Total	Non-controling interests	Total equity
As at 1 January 2012	**4 968 805**	**283**	**362 500**	**2 494 195**	**7 825 783**	**59 726**	**7 885 509**
Actuarial gains and (losses) on defined benefit plans	-	-	-	30 362	30 362	-	30 362
Foreign exchange gains / (losses) arising on translation of foreign operations	-	(235)	-	-	(235)	-	(235)
Profit for the period	-	-	-	457 034	457 034	(614)	456 420
Total comprehensive income for the period	**-**	**(235)**	**-**	**487 396**	**487 161**	**(614)**	**486 547**
Retained earnings distribution	-	-	108 735	(108 735)	-	-	-
Dividends	-	-	-	(645 945)	(645 945)	(8 184)	(654 129)
Purchase of shares in subsidiaries	-	-	-	4 227	4 227	(3 632)	595
As at 31 December 2012	**4 968 805**	**48**	**471 235**	**2 231 138**	**7 671 226**	**47 296**	**7 718 522**

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Cash flows from operating activities			
Profit before tax from continuing operations		**1 022 366**	**626 333**
Loss before tax on discontinued operations and disposal of non-current assets classified as held for sale		**(5 640)**	**(3 365)**
Adjustments for:		**1 305 336**	**1 026 696**
Share of profit (loss) of associates	**18**	582	180
Foreign currency gains/(losses)		3 071	(236)
Amortization and depreciation	**11.5**	770 635	723 239
Net interest and dividends		190 642	130 728
Loss on investing activities		158 713	172 359
Change in receivables		52 044	25 064
Change in inventories		72 406	19 111
Change in payables excluding loans and borrowings		211 044	(167 980)
Change in prepayments and accruals		11 196	5 081
Change in provisions	**30**	(265 306)	87 550
Other		100 309	31 600
Income tax paid		**(314 836)**	**(314 997)**
Net cash from operating activities		**2 007 226**	**1 334 667**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		29 780	18 353
Purchase of property, plant and equipment and intangible assets		(1 626 802)	(1 817 248)
Disposal of shares in associates		20 850	8 067
Disposal of other financial assets		31 052	16 344
Acquisition of other investments		(28 479)	(26 781)
Disposal of subsidiary		1 900	-
Acquisition of subsidiary, net of cash acquired	**2.2.1**	(1 216 099)	(2 779)
Dividends received		68	78
Interest received		954	824
Net cash used in investing activities		**(2 786 776)**	**(1 803 142)**
Cash flows from financing activities			
Proceeds from bond issue		2 088 700	1 066 000
Payment of finance lease liabilities		(7 746)	(1 385)
Proceeds from loans and borrowings		63 975	738 892
Repayment of loans and borrowings		(404 010)	(258 288)
Dividends paid	**28**	(497 467)	(653 924)
Subsidies received		30 595	-
Interest paid		(171 999)	(148 920)
Other		(1 158)	(68)
Net cash from financing activities		**1 100 890**	**742 307**
Net increase in cash and cash equivalents		**321 340**	**273 832**
Cash and cash equivalents at the beginning of the period	**20**	**2 029 373**	**1 755 541**
Cash and cash equivalents at the end of the period	**20**	**2 350 713**	**2 029 373**

ACCOUNTING POLICIES AND NOTES

1. General information

ENERGA SA Group (the "Group") consists of **ENERGA Spółka Akcyjna** ("Parent Company", "Company") and its subsidiaries (see Note 2). The consolidated financial statements of the Group cover the year ended 31 December 2013 and contain comparative data for the year ended 31 December 2012.

The Parent Company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591.

The Parent Company's statistical number is REGON 220353024.

The duration of the Parent Company and of the entities comprising the Capital Group is unspecified.

The primary activities of the Group companies are as follows:

1. distribution and sales of electricity and heat energy,
2. production of electricity and heat energy,
3. trade in electricity.

As at 31 December 2013, the Company was controlled by the State Treasury.

2. Composition of the Group and its changes

2.1. Composition of the Group at the end of the reporting period

As at 31 December 2013, the Group consists of ENERGA SA and the following companies:

Subsidiaries

No.	Company name	Registered office	Scope of operations	% of the Group's share capital as at	
				31 December 2013	31 December 2012
1	ENERGA – OPERATOR SA	Gdańsk	distribution of electricity	100.00	99.75
2	ENERGA – OBRÓT SA	Gdańsk	electric energy trade	100.00	100.00
3	ENERGA Wytwarzanie Sp. z o.o. (formerly ENERGA Hydro Sp. z o.o.)	Straszyn	energy production	100.00	100.00
4	AEGIR 1 Sp. z o.o. [1)]	Gdańsk	energy production	100.00	100.00
5	AEGIR 2 Sp. z o.o. [1)]	Gdańsk	energy production	100.00	100.00
6	AEGIR 3 Sp. z o.o. [1)]	Gdańsk	energy production	100.00	100.00
7	AEGIR 4 Sp. z o.o. [1)]	Gdańsk	energy production	100.00	100.00
8	AEGIR 5 Sp. z o.o.	Gdańsk	energy production	100.00	100.00
9	Biogazownia Starogard Sp. z o.o.	Wrocław	energy production	-	90.00
10	Breva Sp. z o.o.	Gdańsk	energy production	100.00	100.00
11	Ciepło Kaliskie Sp. z o.o.	Kalisz	heat and energy distribution	90.00	-
12	Ekologiczne Materiały Grzewcze Sp. z o.o.	Gdańsk	biomass production	100.00	100.00

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No.	Company name	Registered office	Scope of operations	% of the Group's share capital as at	
				31 December 2013	31 December 2012
13	Elektrownia CCGT Gdańsk Sp. z o.o.	Gdańsk	energy production	100.00	100.00
14	Elektrownia CCGT Grudziądz Sp. z o.o.	Grudziądz	energy production	100.00	100.00
15	Elektrownia Ostrołęka SA	Ostrołęka	contracting and designing	100.00	100.00
16	Elektrownia Wodna we Włocławku Sp. z o.o. w likwidacji (in liquidation)	Włocławek	energy production	-	96.47
17	ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.	Elbląg	network operation and investment projects	100.00	99.75
18	ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.	Gdańsk	network operation and investment projects	100.00	99.75
19	ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.	Kalisz	network operation and investment projects	100.00	99.75
20	ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.	Płock	network operation and investment projects	100.00	99.75
21	ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.	Słupsk	network operation and investment projects	100.00	99.75
22	ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.	Toruń	network operation and investment projects	100.00	99.75
23	ENERGA – OPERATOR Produkcja Sp. z o.o.	Kalisz	production of power devices	100.00	99.75
24	ENERGA – OPERATOR Projektowanie Sp. z o.o.	Płock	contracting and designing	-	99.75
25	ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100.00	99.75
26	ENERGA Bio Sp. z o.o.	Gdańsk	investment project management	-	100.00
27	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100.00	100.00
28	ENERGA Elektrociepłownia Kalisz S.A.	Kalisz	energy production	100.00	100.00
29	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	energy production	89.38	89.38
30	ENERGA Finance AB (publ)	Stockholm	financing activities	100.00	100.00
31	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	ICT	100.00	100.00
32	ENERGA Innowacje Sp. z o.o.	Gdańsk	organisation and management of development of innovative power projects	100.00	99.88
33	ENERGA Invest SA	Gdańsk	investment project management	100.00	100.00
34	ENERGA Kogeneracja Sp. z o.o.	Elbląg	energy production	100.00	97.67
35	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	100.00	100.00
36	ENERGA OPEC Sp. z o.o.	Ostrołęka	heat and energy distribution	99.99	99.91
37	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	100.00	100.00
38	ENERGA Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	94.68	94.64
39	ENERGA SLOVAKIA s.r.o.	Bratislava	electric energy trade	100.00	100.00
40	ENERGETYK Sp. z o.o. w likwidacji (in liquidation)	Płock	contracting and designing	100.00	99.75
41	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and designing	100.00	99.75

No.	Company name	Registered office	Scope of operations	% of the Group's share capital as at	
				31 December 2013	31 December 2012
42	ENSPIRION Sp. z o.o. (formerly ENERGA Agregator Sp. z o.o.)	Gdańsk	energy consulting and management of demand for electricity	100.00	100.00
43	EPW 1 Sp. z o.o. (formerly DONG Energy Tuszyny Sp. z o.o.)	Pruszcz Gdański	energy production	100.00	-
44	EPW 2 Sp. z o.o. (formerly DONG Energy Gąsiorowo Sp. z o.o.)	Pruszcz Gdański	energy production	100.00	-
45	EPW 3 Sp. z o.o. (formerly DONG Energy Pancerzyn Sp. z o.o.)	Pruszcz Gdański	energy production	100.00	-
46	EPW Energia Olecko Sp. z o.o. (formerly Dong Energy Olecko Sp. z o.o.) [2)]	Warsaw	energy production	19.00	-
47	EPW Energia Sp. z o.o. (formerly Iberdrola Renewables Polska Sp. z o.o.) [3)]	Warsaw	energy production	67.30	-
48	EPW Parsówek Sp. z o.o. (formerly DONG Energy 3 Sp. z o.o.)	Pruszcz Gdański	energy production	100.00	-
49	KONGRES Sp. z o.o. w likwidacji (in liquidation)	Nowe Rumunki	hotel and training services	-	100.00
50	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. w likwidacji (in liquidation)	Straszyn	hotel and training services	100.00	100.00
51	Multiserwis Sp. z o.o. w likwidacji (in liquidation)	Kalisz	transport and real estate management	-	96.04
52	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and designing	100.00	99.75
53	Przedsiębiorstwo Wielobranżowe Energetyki "ELEKTROINSTAL" Sp. z o.o.	Raciąż	contracting and designing	100.00	99.75
54	RGK Sp. z o.o.	Gdańsk	financing activities	100.00	100.00
55	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and designing	100.00	99.75
56	Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o	Płock	procurement	100.00	99.75
57	Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o. w likwidacji (in liquidation)	Sierpc	network operation and investment projects	100.00	99.75
58	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o.	Toruń	procurement	100.00	99.75
59	Zakład Transportu Energetyki Sp. z o.o. w likwidacji (in liquidation)	Koszalin	renting and servicing of vehicles	-	99.75
60	Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o. w likwidacji (in liquidation)	Słupsk	sale of motor vehicles	-	99.75
61	ZEC Żychlin Sp. z o.o. (formerly Zakład Energetyki Cieplnej w Żychlinie Sp. z o.o.)	Żychlin	heat and energy distribution	100.00	100.00
62	ZEP - AUTO Sp. z o.o.	Płock	sale and repair of motor vehicles	100.00	100.00
63	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and designing	100.00	99.75
64	ZEP - MOT Sp. z o.o.	Płock	sale and repair of motor vehicles	100.00	100.00

1) On 8 January 2014, a merger of AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o., AEGIR 3 Sp. z o.o. and AEGIR 4 Sp. z o.o. (acquiring company) was registered.
2) Only part of this entity is consolidated by the full method (see description in Note 2.2.1.2).
3) Only part of this entity is consolidated by the full method (see description in Note 2.2.1.3).

Associates

No.	Company name	Registered office	Scope of operations	% of the Group's share capital as at	
				31 December 2013	31 December 2012
1	Bio - Power Sp. z o.o.	Międzyrzec Podlaski	energy production	25.00	25.00
2	Oświetlenie Uliczne i Drogowe Sp. z o.o.[1)]	Kalisz	lighting services	-	42.20
3	Słupskie Towarzystwo Koszykówki Sportowa S.A.[2)]	Słupsk	sports activities	-	40.90
4	SOEN Sp. z o.o.	Grudziądz	hotel and administration services	48.50	48.50

1) On 6 November 2013, the company's shares held by the ENERGA Group were sold.
2) On 17 July 2013, the company's shares held by the ENERGA Group were sold.

2.2. Changes in the composition of the Group in the reporting period

2.2.1 Acquisitions

2.2.1.1 Acquisition of shares in Ciepło Kaliskie Sp. z o.o.

On 9 April 2013 the subsidiary ENERGA Kogeneracja Sp. z o.o. signed an agreement with the City of Kalisz to acquire a 90% stake in Ciepło Kaliskie Sp. z o.o., a company which manages the integrated heat distribution system in Kalisz and has a natural monopoly position on the market.

Fair value of acquired assets and liabilities as at the date of acquisition

Title	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	38 391
Intangible assets	1
Trade receivables	209
Cash and cash equivalents	2 356
Other current assets	55
TOTAL ASSETS	**41 012**
LIABILITIES	
Deferred income and non-current government grants	1 710
Trade liabilities	81
Other current liabilities	202
TOTAL LIABILITIES	**1 993**
Identifiable net assets at fair value	**39 019**

Goodwill on acquisition

Title	Value at the acquisition date
Identifiable net assets at fair value	(39 019)
Non-controlling interests based on their proportionate interest in the recognised amounts of the net assets of the acquired entity	4 721
Purchase price	45 744
Goodwill	**11 446**

The recognized goodwill results from the synergies and benefits expected from the combination of assets and areas of operation of Ciepło Kaliskie Sp. z o.o. with the operations of the Group.

Cash outflows in relation to the acquisition

Title	Year ended 31 December 2013
Expenses related to the acquisition of shares	(46 211)
Cash and cash equivalents acquired	2 356
Acquisition, net of cash acquired	**(43 855)**

Impact of acquisitions on the Group results

In the period from the acquisition date, the contribution of Ciepło Kaliskie Sp. z o.o. to the Group's revenues and pre-tax profit was PLN 1,595 thousand and PLN (759) thousand, respectively. If the combination had occurred at the beginning of the year, the Group's revenues from continuing operations would reach PLN 11,430 m (including PLN 2,157 thousand of the acquired entity) and profit on the Group's continuing operations would amount to PLN 748.2 m (including loss of PLN 1,176 thousand suffered by the acquired entity).

Acquisition-related costs

Acquisition-related transaction costs incurred by the Group amounted to PLN 467 thousand and were recognized in the statement of profit or loss as financial costs.

2.2.1.2 Acquisition of Dong Energy Wind Power A/S wind assets

On 19 February 2013 ENERGA Wytwarzanie Sp. z o.o. signed a preliminary purchase agreement for up to 100% of the shares in the companies making up the on-shore wind assets of Dong Energy Wind Power A/S in Poland as part of a consortium with the partner, Polska Grupa Energetyczna SA ("PGE"). The condition precedent to the transaction was obtaining, by way of a decision of the President of the Office of Competition and Consumer Protection ("OCCP"), of consent for the concentration. OCCP's favourable decision was issued on 4 June 2013.

On 28 June 2013 the final sale agreement was entered into as a result of which the subsidiary ENERGA Wytwarzanie Sp. z o.o. acquired:

- 100% of the shares in Dong Energy Karcino Sp. z o.o. (currently EPW Karcino Sp. z o.o.),
- 100% of the shares in Dong Energy Tuszyny Sp. z o.o. (currently EPW 1 Sp. z o.o.),
- 100% of the shares in Dong Energy Pancerzyn Sp. z o.o. (currently EPW 3 Sp. z o.o.),
- 100% of the shares in Dong Energy Gąsiorowo Sp. z o.o. (currently EPW 2 Sp. z o.o.),
- 100% of the shares in Dong Energy 3 Sp. z o.o. (currently EPW Parsówek Sp. z o.o.),
- 19% of the shares in Dong Energy Olecko Sp. z o.o. (currently EPW Energia Olecko Sp. z o.o.).

After the acquisition of the foregoing entities, the Group holds one active 51 MW wind farm and a portfolio of wind projects at different stages of development with an aggregate capacity of approximately 220 MW.

Following the acquisition, a process began in EPW Energia Olecko Sp. z o.o. aimed at dividing assets of this company between the Group and PGE, as a result of which the Group would acquire a wind farm project in Kętrzyn. On 25 September 2013, the division plan was signed according to which EPW 1 Sp. z o.o. will take over the mentioned branch of EPW Energia Olecko Sp. z o.o. The spin-off of EPW Energia Olecko Sp. z o.o. was registered on 11 February 2014 (see also the description of events following the end of the reporting period in Note 41).

In these financial statements, part of the entity where the investment was made (called a “silo”) is consolidated. Based on the approach described above, the company branch established for the wind farm project taken over by ENERGA Wytwarzanie Sp. z o.o., i.e. EPW Energia Olecko Sp. z o.o. “Kętrzyn” Branch Pruszcz Gdański was identified as the part of EPW Energia Olecko Sp. z o.o. controlled by the Group.

Fair value of acquired assets and liabilities as at the date of acquisition

As a result of analyses and valuations of acquired assets and liabilities, the fair value of identifiable assets, liabilities and contingent liabilities of the acquired entities was determined.

Title	DONG Energy Karcino Sp. z o.o.	Other acquired companies	Total
ASSETS			
Property, plant and equipment	277 467	65 640	343 107
Intangible assets	2 701	1	2 702
Deferred tax assets	3 245	-	3 245
Other non-current assets	401	472	873
Inventories	3 864	-	3 864
Trade receivables	1 988	-	1 988
Cash and cash equivalents	3 513	7 916	11 429
Other current assets	2 695	1 971	4 666
TOTAL ASSETS	**295 874**	**76 000**	**371 874**
LIABILITIES			
Non-current provisions	3 300	-	3 300
Deferred tax liabilities	2 255	-	2 255
Trade liabilities	1 253	721	1 974
Current loans and borrowings	196 003	868	196 871
Other current liabilities	34	2	36
TOTAL LIABILITIES	**202 845**	**1 591**	**204 436**
Identifiable net assets	**93 029**	**74 409**	**167 438**

Bargain purchase gains arising from the acquisition

In order to settle the acquisition of wind assets of Dong Energy Wind Power A/S, the purchase price was allocated to individual identifiable assets and liabilities in the wind farm project portfolio, at the amount determined by their fair value on date of the acquisition. The remaining part of the purchase price was allocated to the operational wind farm in Karcino.

The transaction was settled on 9 September 2013 with the total purchase price of PLN 149,531 thousand.

Title	DONG Energy Karcino Sp. z o.o.	Other acquired companies	Total
Identifiable net assets	(93 029)	(74 409)	(167 438)
Purchase price			149 531
Gain on bargain purchase			**17 907**

The bargain purchase gain recognized resulted from the recognition of the higher value of the purchased wind projects. Some of the acquired wind projects had higher capacity and higher wind parameters of the area than those assumed when the transaction was priced.

The bargain purchase gains were recognized in the statement of profit or loss as other operating income.

Cash outflows in relation to the acquisition

Title	DONG Energy Karcino Sp. z o.o.	Other acquired companies	Total
Expenses related to the acquisition of shares	(158 765)		(158 765)
Cash and cash equivalents acquired	3 513	7 916	11 429
Acquisition, net of cash acquired			**(147 336)**

Impact of acquisitions on the Group results

In the period from the acquisition date, the contribution of acquired entities to the Group's revenues and pre-tax profit was PLN 18,672 thousand and PLN (85) thousand, respectively. If the combination had occurred as at the beginning of the year, the revenues from the continuing operations would have reached PLN 11,442 m (including PLN 43,871 thousand of revenues from the acquired companies) and the profit on the Group's continuing operations would have amounted to PLN 740.0 m (including the PLN 12,084 thousand loss recorded by the acquired entities).

Acquisition-related costs

Acquisition-related transaction costs incurred by the Group amounted to approx. PLN 9.23 m and were recognized to the statement of profit or loss as financial costs.

Items that are not part of the consideration paid for the acquired entity

Under the contractual arrangements relating to the acquisition of the shares, ENERGA Wytwarzanie Sp. z o.o. committed to pay the obligations of the acquired entities to Dong Energy Wind Power A/S (the seller). The final aggregated payments of PLN 196.9 m in the above transaction were made on 28 June and 9 September 2013.

2.2.1.3 Acquisition of shares in Iberdrola Renewables Polska Sp. z o.o. (currently EPW Energia Sp. z o.o.)

On 26 February 2013, the subsidiary ENERGA Wytwarzanie Sp. z o.o. signed the preliminary purchase agreement for a 75% stake in Iberdrola Renewables Polska Sp. z o.o. ("Iberdrola") acting in a consortium with the partner, PGE, while it announced its intention to purchase the remaining 25% stake held by a minority shareholder, EBRD. On 21 June 2013 ENERGA Wytwarzenie Sp. z o.o. together with PGE signed a preliminary agreement for the acquisition from EBRD of the 25% stake in Iberdrola.

The condition precedent to the transaction was obtaining, by way of a decision of OCCP, of consent for the concentration. OCCP's favourable decision was issued on 4 June 2013.

On 31 July 2013, the subsidiary ENERGA Wytwarzanie Sp. z o.o. together with PGE signed the final agreements for the acquisition of shares in Iberdrola. In this transaction, ENERGA Wytwarzanie Sp. z o.o. and PGE S.A. became owners of respectively: 67.3% and 32.7% of shares in the acquired company. On 9 September 2013, the name Iberdrola was changed to EPW Energia Sp. z o.o. (“EPW Energia”).

After the acquisition transaction, a process was launched to divide EPW Energia's assets between the Group and PGE, as a result of which the Group will become the owner of two operational wind farms with the capacity of 114 MW and a portfolio of wind projects with different progress levels and the aggregated capacity of 1,186 MW. The assets will be divided by splitting EPW Energia by spinning off the parts of its assets to be transferred to PGE. The spin-off process should be completed by the end of Q1 2014 (see also the description of events following the end of the reporting period in Note 41).

In these financial statements, parts of the entity where the investment was made (called a “silo”) have been consolidated. Based on the approach described above, the company branches established for the wind farm projects taken over by ENERGA Wytwarzanie Sp. z o.o., i.e. EPW Energia Sp. z o.o. Karścino Branch, EPW Energia Sp. z o.o. Bystra Branch and EPW Energia Sp. z o.o. Pruszcz Gdański “Pipeline” Branch were identified as the parts of EPW Energia that are controlled by the Group.

Fair value of acquired assets and liabilities as at the date of acquisition

As a result of the analyses and valuations of acquired assets and liabilities carried out, the fair value of identifiable assets, liabilities and contingent liabilities of the acquired entities was determined.

Title	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	661 057
Intangible assets	6 430
Deferred tax assets	36 750
Other non-current assets	2 372
Inventories	13 391
Trade receivables	581
Cash and cash equivalents	20 374
Other current assets	5 655
TOTAL ASSETS	**746 610**
LIABILITIES	
Non-current provisions	11 400
Deferred tax liabilities	3 702
Trade liabilities	4 111
Accruals	25 310
Other current liabilities	1 369
TOTAL LIABILITIES	**45 892**
Identifiable net assets at fair value	**700 718**

Goodwill on the acquisition

For the purposes of settling the transaction of acquiring wind assets of EPW Energia, the purchase price was allocated to the individual identifiable assets and liabilities, at the amount of their fair value on the date of the acquisition. The remaining part of the purchase price was allocated to the operational wind farms in Karścino and Bystra.

The transaction was settled on 17 October 2013 with the total purchase price of PLN 805,980 thousand.

The calculation of goodwill created as a result of the acquisition is presented in the table below.

Title	Value at the acquisition date
Identifiable net assets at fair value	(700 718)
Purchase price	805 980
Goodwill	**105 262**

The resulting goodwill is derived from the fact that the Group expects the acquired parts of the entity (branches) to generate cash flows greater than those that could be achieved by selling their net assets.

Cash outflows in relation to the acquisition

Title	Year ended 31 December 2013
Expenses related to the acquisition of shares	(822 673)
Cash and cash equivalents acquired	20 374
Acquisition, net of cash acquired	**(802 299)**

Impact of acquisitions on the Group results

In the period from the acquisition date, the contribution of acquired entities to the Group's revenues and pre-tax profit was PLN 39,109 thousand and PLN 14,355 thousand, respectively. If the combination had occurred as at the beginning of the year, the revenues from the Group's continuing operations would have reached PLN 11,470 m (including PLN 79,419 thousand of revenues from the acquired companies) and the profit on the Group's continuing operations would have amounted to PLN 755.6 m (including the PLN 18,557 thousand profit of the acquired entity).

Acquisition-related costs

Acquisition-related transaction costs incurred by the Group amounted to approx. PLN 16.69 m and were recognized to the statement of profit or loss as financial costs.

2.2.2 Business combinations

In connection with the consolidation of the Group's activities in the generation sector, a merger of the subsidiary ENERGA Wytwarzanie Sp. z o.o. (acquiring company) was completed with:

- ENERGA Bio Sp. z o.o. (acquired company) – on 3 April 2013;
- EPW Karcino Sp. z o.o. (acquired company) – on 31 October 2013.

As the above mentioned mergers related to the subsidiaries of ENERGA SA, they did not affect the Group's assets, liabilities, revenues, expenses and cash flows presented in these consolidated financial statements. These mergers did not result in a change of control over any of the Group companies. Therefore the Group believes that the transactions satisfied the definition of a transaction executed under common control (see Note 9.3).

2.2.3 Other changes in the composition of the Group

Establishment of entities

on 4 July 2013, ENERGA – OPERATOR SA established two companies: DGP PROVIDER Sp. z o.o. and EKOTRADE SERWIS FM Sp. z o.o. (see description in Note 40.3).

Liquidation of subsidiaries

The following companies were removed from the National Court Register, which completed the process of their liquidation:

- On 27 February 2013 – Elektrownia Wodna we Włocławku Sp. z o.o. w likwidacji (in liquidation);
- On 17 June 2013 – Zakład Transportu Energetyki Sp. z o.o. w likwidacji (in liquidation);
- On 29 July 2013, Zakład Transportu Energetyki ENTRANS Słupsk Sp. z o.o. w likwidacji (in liquidation);
- On 22 October 2013, Multiserwis Sp. z o.o. w likwidacji (in liquidation);
- On 28 November 2013, KONGRES Sp. z o.o. w likwidacji (in liquidation).

Disposals of shares in subsidiaries

On 4 January 2013 the subsidiary ENERGA Bio Sp. z o.o. sold all its shares in Biogazownia Starogard Sp. z o.o. constituting 90% of the share capital of that company.

On 1 October 2013, ENERGA – OPERATOR SA sold all the shares it held in DGP PROVIDER Sp. z o.o. and EKOTRADE SERWIS FM Sp. z o.o. to industry investors.

On 29 November 2013, ENERGA – OPERATOR SA sold all the shares it held in ENERGA – OPERATOR Projektowanie Sp. z o.o.

3. Composition of the Parent Company's Management Board

On the date of preparing these consolidated financial statements, the Parent Company's Management Board comprised:

- Mirosław Bieliński – President of the Management Board,
- Roman Szyszko – Executive Vice-President of the Management Board, Chief Financial Officer,
- Wojciech Topolnicki – Executive Vice-President of the Management Board, Strategy and Investments.

During the reporting period and in the period from the end of the reporting period to the date of preparation of these financial statements, no changes occurred in the Management Board of the Parent Company.

4. Approval of the financial statements

These consolidated financial statements have been approved for publication by the Company's Management Board on 6 March 2014.

5. Basis for preparation of the financial statements

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These consolidated financial statements are presented in thousands of zlotys ("PLN").

These consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

As at the date of these financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

5.1. Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and IFRS approved by the European Union ("IFRS EU").

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

The Management Board of the Parent Company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the ENERGA SA Group in accordance with IFRS EU as at 31 December 2013. All the tables and explanations have been prepared with due care.

5.2. Functional and presentation currency

The functional currency of the Parent Company and other Polish companies covered by these consolidated financial statements and the presentation currency of these consolidated financial statements is the Polish zloty except for ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB (publ) where the functional currency of their individual financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN at the following rates: assets and liabilities, except equity - exchange rates at the reporting date; equity - exchange rates at the date of transaction and data in the statement of profit or loss - at the average exchange rate for the financial period.

6. Material items subject to judgment and estimates

In the process of applying the accounting policies, one of the most important factors next to accounting estimates was the professional judgment of the management, which affected the amounts stated in the consolidated financial statements, including the notes. The assumptions adopted for the purposes of those estimates are based on the best knowledge of the Management Board regarding the current and future actions and events in individual areas. Detailed information on the assumptions is presented in the relevant notes in these consolidated financial statements.

The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are presented below.

Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any evidence of impairment of the Cash Generating Units ("CGU") and individual assets. This analysis covers external factors, including technological, market, economic or legal changes in the environment in which we conduct our business or on the markets where we use the Group's assets to serve our clients, as well as internal factors associated with the physical condition of property, plant and equipment components and changes in the way they are used. If we find any such evidence, we carry out an asset impairment test following the rules described in Note 9.9. Information on the impairment tests that we have conducted are presented in Notes 13 and 17.

Identification of business combinations

The Group analyses whether a transaction or other event constitutes a business combination. If the assets acquired and liabilities assumed do not constitute a business then the transaction is recognized as an asset purchase transaction.

The Group also considers whether to treat the part of the entity where the investment was made as a separate entity (a silo). If the Group controls the recognized separate entity then it consolidates the part of the entity where the investment was made.

Information on acquisitions made in the current reporting period is presented in Notes 2.2.1.2 and 2.2.1.3.

Measurement of provisions

Provisions for employee benefits (provisions for pensions and similar benefits, jubilee bonuses, energy tariff, additional allowances for the Company Social Benefit Fund for former employees of Group companies) are estimated using actuarial methods. The assumptions made for this purpose are presented in Note 25.

Other provisions are measure according to the best estimation of expenditures necessary to fulfill the existing duties. If the time value of money is important then the provision is equal to the present value of expenditures expected to be necessary to fulfill this duty.

Energy price paths

Energy price paths developed by industry experts are an important element of the estimation of values in use of cash generating centers in the generation segment. They are also used to estimate provisions for post-employment benefits in the form of energy tariffs. The Group uses expert price path reports, which include pricing projections for the Polish market.

Deferred tax asset

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force on the end of the reporting period. The Group recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the

asset. This assumption may prove to be unjustified if tax results deteriorate in the future. Details on the deferred tax asset are provided in Note 12.3.

Fair value of financial instruments

The fair value of financial instruments, for which no active markets exist, is measured by using appropriate valuation techniques. The Group applies professional judgment to the selection such appropriate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in Note 34.3.

Estimation of revenues on sales of electricity and distribution services

Meter readings of electricity sold to retail customers are made in periods different from reporting periods. Therefore, the entities comprising the Group make estimations of electricity and distribution services sold as at every last day of the reporting period, for the period not covered by meter readings.

Impairment allowances for receivables

As at the end of the reporting period, the entity evaluates whether there is objective evidence of impairment of a receivable or a group of receivables. If a recoverable amount of an asset is lower from its carrying amount then the entity makes an impairment allowance down to the present value of planned cash flows. Impairment allowances are recognized based on the age analysis of receivables and an analysis of the financial standing of the individual debtors. The amounts of the impairment allowances for receivables are provided in Note 34.4.1.

7. Changes in estimates

During the periods covered by these consolidated financial statements, no changes were made in the methods used in determining significant estimates. Changes of estimates resulted from events occurring during the reporting periods.

8. New standards and interpretations

8.1. Standards and interpretations adopted for the first time in 2013

The accounting policies of the Group are applied on a continuous basis, except for the changes caused by amendments introduced in IFRS EU.

The following amendments to the existing standards published by the International Accounting Standards Board and endorsed by the EU came into force in 2013:

- IFRS 13 "Fair Value Measurement", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Government Loans, endorsed by the EU on 4 March 2013 (applicable to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2013).

- Amendments to IAS 1 "Presentation of Financial Statements" - Presentation of Items of Other Comprehensive Income, endorsed by the EU on 5 June 2012 (applicable to annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets, endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013),
- Amendments to IAS 19 “Employee Benefits” - Amendments to accounting for post-employment benefits, endorsed by the EU on 5 June 2012 (applicable to annual periods beginning on or after 1 January 2013),
- Amendments to various standards "Annual Improvements to IFRS (2009-2011 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) aimed mainly at removing inconsistencies agreeing on the wording, endorsed by the EU on 27 March 2013 (applicable to annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013).

These amendments to the standard have had no significant impact on the Group's accounting policies applied so far.

Additionally, the Group has decided to take advantage of the possibility of early application of the standard:

- IFRS 10 "Consolidated Financial Statements", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014).

The early application of the above standard obligates the Group to apply also the following standards/amendments to standards:

- IFRS 11 "Joint Arrangements", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosure of Interests in Other Entities", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014),
- IAS 27 (revised in 2011) "Separate Financial Statements", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", endorsed by the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" - Transition Guidance, as endorsed by the EU on 4 April 2013 (applicable to annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 27 "Separate Financial Statements" - investment entities (applicable to annual periods beginning on or after 1 January 2014),

The Group believes that the early application of the above standards had no significant effect on the Group's financial standing and performance for the comparative period as presented in these consolidated financial statements.

8.2. Standards and interpretations already published and endorsed by the EU, which have not come into effect

When approving these financial statements, the Group did not apply the following standards, amendments to standards and interpretations that were published and endorsed by the EU but are not as yet become effective:

- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities, endorsed by the EU on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2014).
- Amendments to IAS 36 "Impairment of assets" – disclosures concerning the recoverable amount of non-financial assets, endorsed by the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Novation of Derivatives and Continuation of Hedge Accounting, endorsed by the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014).

The Group estimates that the above amendments to standards would have had no material influence on the financial statements, had they been applied by the Group as at the end of this reporting period.

8.3. Standards and interpretations adopted by IASB but not yet endorsed by the EU

IFRS as endorsed by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 9 “Financial Instruments” (the final effective date has not been specified yet),
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions (applicable to annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Annual Improvements to IFRS (2010-2012 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 July 2014),
- Amendments to various standards "Annual Improvements to IFRS (2011-2013 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 July 2014),
- IFRIC 21 "Levies" (applicable to annual periods beginning on or after 1 January 2014),
- IFRS 14 "Regulatory Deferral Accounts" (applicable to annual periods beginning on or after 1 January 2016).

The Group believes that the introduction of the above-mentioned standards, amendments to standards and interpretations will not have any substantial impact on the accounting policies applied by the Group.

9. Significant accounting policies

The key accounting policies used by the Company are presented below.

9.1. Principles of consolidation

This consolidated financial statements includes the financial statements of ENERGA SA and financial data of its subsidiaries prepared in each company for the year ended 31 December 2013.

Unrealized profits from transactions concluded within the Group are eliminated in their entirety. Unrealized losses are ignored, unless they constitute a proof of impairment.

Subsidiaries are consolidated in the period from the date the Group took control over them and they cease to be consolidated on the date such control ceases. Control is exerted by the Parent Company when, because of its investment, it is subject to exposure to varying financial results, or if it holds rights to the variable financial results and can also influence those financial results by effecting control over the subsidiary.

The Group also considers whether to treat the part of the entity where the investment was made as a separate entity (a silo). If the Group controls the recognized separate entity then it consolidates the part of the entity where the investment was made.

Purchase or sale of minority interest, when control is not acquired or lost, is recognized as a transaction between shareholder and settled through equity.

9.2. Investments in associates

Investments in associates are recognized using the equity method. Associates are entities on which the Parent Company exerts, directly or through subsidiaries, significant influence and which are not its subsidiaries or joint ventures

When using the equity method as the basis of measurement, the investment is initially measured using the purchase price and then the carrying amount is elevated or reduced by the share of the results determined according to the affiliate entity's consistent accounting standards generated after the date of purchase. The investor's share of associate's results is reported in the statement of profit or loss. Distributions of the associate's profit reduce the carrying amount of the investment. In the event of changes to the amount of the associate's equity other than stemming from the result generated by this entity (e.g. change of capital stemming from the revaluation of property, plant and equipment), the investor's share in these changes to comprehensive income is also reported in other comprehensive income. When calculating the investor's share of the associate's profit, potential voting rights are not taken into consideration, but only its existing voting rights.

The foregoing principle does not pertain to a circumstance in which the investment has been classified as belonging to assets held for sale according to IFRS 5 *Non-current assets held for sale and discontinued operations*.

9.3. Business combinations of entities under common control

The IFRS 3 standard "Business combinations" regulates acquisitions and mergers. However, this standard excludes transactions executed between entities under common control from its scope. The situation in which a given transaction or economic process requiring recognition in the statements prepared in accordance with IFRS is not regulated by individual standards, is regulated by IAS 8 paragraphs 10-12. These clauses impose an obligation on the entity preparing the statements in accordance with IFRS of creating its own set of accounting standards indicating the attributes of these accounting standards: fair representation of its financial position, operating results and cash flow, reflection of the economic nature of a transaction, impartiality, prudence and completeness in all aspects. Having the above in mind, to account for business combinations under common control, the Group employs the pooling of interests method.

A business combination under the pooling of interests method involves summing up the various line items of the relevant assets and liabilities as well as the revenues and expenses of the merged companies, after first converting their values using uniform measurement methods and making the relevant exclusions. The share capital of the company whose assets are transferred to another company, or of the companies that are stricken from the commercial register as a result of the business combination, is subject to exclusion. After effecting this exclusion, the pertinent line items of the equity of the company to which the assets of the merged companies or of the newly-formed company are transferred, are adjusted by the difference between the sum total of assets and liabilities and equity. All the account balances and transactions between the merging entities, including the profits or losses on business operations executed prior to the business combination and included in the assets and liabilities and equity undergoing combination are also subject to exclusion.

9.4. Conversion of items in foreign currencies

Transactions denominated in currencies other than the Polish zloty are converted on initial recognition into Polish zloty using the exchange rate applicable on the date of the transaction. At the end of the reporting period:

- cash is converted using the closing exchange (it is assumed that the closing exchange rate is the average exchange rate set for the currency by the National Bank of Poland for the day),
- non-cash items measured at historical cost in a foreign currency are converted using the exchange rate in effect on the initial transaction date (exchange rate of the company's bank), and
- non-cash items measured at fair value in a foreign currency are converted using the exchange rate from the date the fair value is determined.

The foreign exchange gains and losses resulting from this conversion are recognized respectively as financial income (cost) items or, in the cases identified in the accounting policies, they are capitalized as assets.

Exchange differences on non-cash items such as equity instruments measured at fair value through profit or loss are recognized as changes in fair value.

Assets and liabilities of foreign entities consolidated by the full method are converted to the Group's presentation currency at the rate in effect on the end of the reporting period and their statements of profit or loss are converted at the average weighted exchange rate for the reporting period. Exchange differences resulting from such a conversion are posted directly to other comprehensive income. When a foreign entity is sold, the accumulated deferred exchange differences recognized in other comprehensive income relating to that foreign entity are recognized in the statement of profit or loss.

The following exchange rates were used for measurement purposes at the end of the reporting period:

Exchange rate at the end of each respective reporting period

Currency	31 December 2013	31 December 2012
EURO	4,1472	4,0882

The weighted average exchange rates for each respective reporting period were as follows:

Average exchange rate in the period

Currency	1 January - 31 December 2013	1 January - 31 December 2012
EURO	4,2110	4,1736

9.5. Property, plant and equipment

Property, plant and equipment are the assets:

- which are held by the entity to be used in the production process or in deliveries of goods and provision of services, or for administrative purposes,
- which are expected to be used for a period longer than one year,
- for which it is probable that the entity will obtain economic benefits in the future associated with the asset,
- where the purchase price or manufacturing cost of an asset by the entity may be measured reliably.

Property, plant and equipment and property, plant and equipment under construction are measured at the purchase price or manufacturing cost.

Property, plant and equipment is measured at net value, i.e. the initial value (or at cost assumed for property, plant and equipment used before transition to IFRS EU) less accumulated depreciation and impairment allowances. The initial value of property, plant and equipment includes their cost price plus all the costs directly related to the purchase and bringing the asset to the condition necessary for its use. The cost also includes the expected cost of dismantling the property, plant and equipment, removal and restoration of the asset's location to its initial condition; the obligation to incur this cost arises upon installation of the asset or its use for purposes other than the production of inventories. The costs of purchase or manufacturing costs are capitalized until the asset is adapted to the place and conditions needed to begin its operation.

As at the date of purchasing a component of property, plant and equipment, all relevant elements with different useful lives comprising the asset are identified and separated (components). Property, plant and equipment also includes costs of general overhauls, periodic inspections, provided that their value is significant, and cost of replacement of major parts.

Depreciation charges are calculated on the basis of purchase price/manufacturing cost of the property, plant and equipment component less its residual value. Depreciation commences in the month following the month in which the asset is available for use. Property, plant and equipment is depreciated based on a depreciation plan defining the expected useful life of the property, plant and equipment item. The depreciation method used reflects the manner in which the business consumes economic benefits provided by the asset.

Depreciation is calculated by the straight-line method for the estimated period of the asset's useful life, i.e. for respective groups of property, plant and equipment:

- Buildings, premises and civil and marine engineering facilities 2 - 100 years
- Machinery and technical equipment 2 - 50 years
- Means of transportation 2.5 - 14 years
- Office equipment 3 - 15 years
- Other property, plant and equipment 2 - 15 years

Depreciation methods, rates and residual values of property, plant and equipment are reviewed at least once a year at the end of each financial year. Any changes resulting from such reviews are recognized as changes of estimates, with possible adjustments of depreciation charges accounted for on a prospective basis.

A given property, plant and equipment item may be removed from the statement of financial position after its disposal or when no economic benefits are expected from further usage of such asset. All the profits or losses resulting from removing a given asset component from the statement of financial position (calculated as a difference between the possible net sale price and the carrying amount of the item) are posted to the statement of profit or loss in the period when such removal took place.

9.6. Investment property

The Group recognizes property as investment property if held to earn rentals or for capital appreciation, or both.

On initial recognition, investment property is measured at purchase price or manufacturing cost, including transaction costs. If an investment property has been purchased, the purchase price includes the cost price plus any costs directly associated with the transaction, such as fees for legal services and the tax on the purchase of property.

After initial recognition, the Group measures such assets at their purchase price or manufacturing cost, i.e. uses the same principles as for property, plant and equipment.

Investment property is removed from the statement of financial position when it is sold or when the investment property is withdrawn from use and no further benefits from its sale are expected. All the gains or losses resulting from the removal of the investment property are recognized in the statement of profit or loss of the period when it is removed.

9.7. Intangible assets

The Group's intangible assets include identifiable non-cash assets, which have no physical form.

On initial recognition, an intangible asset is measured at the purchase price or production cost. The purchase price of an intangible asset includes:

- the cost price including import duties, non-deductible taxes included in the price, less any granted discounts and rebates and
- expenditures connected directly with the preparation of an asset for use according to its planned purpose, in particular employee benefit costs, fees for expert services and the cost of tests to confirm that the asset operates properly.

After initial recognition, intangible assets are carried at purchase price or production cost, less accumulated amortization and impairment allowances.

Outlays incurred for intangible assets developed in-house, with the exception of the outlays incurred for development work, are not converted into assets and are recognized in the cost of the period in which they were incurred.

The Group assesses whether useful life of an intangible asset component is definite or indefinite and, if definite, estimates the duration of that period. The useful life of an intangible asset is identified as unspecified if, following an analysis of relevant factors, no expected period is specified in which the asset will generate cash flows for the entity.

Amortization value of an intangible asset with a specified useful life is reduced by its residual value. The Group has adopted the principle that the residual value of intangible assets is zero, except when:

- the entity has a valid agreement with an unrelated party to sell such rights after a specified period of use – in such a case, the residual value is equal to the amount stated in the rights sale agreement;
- there is an active market for such right and the value may be reasonably determined and it is highly probable that the market will still exist after the period of use of that asset.

Intangible assets with a limited usage period are subject to straight-line amortization throughout their useful lives and subject to impairment tests each time when there are prerequisites indicating their impairment. Depreciation commences in the month following the month in which the asset is available for use. The amortization period and method applied to intangible assets with limited useful lives must be reviewed at least at the end of each reporting period. Any changes in the expected useful life or in the expected consumption of economic benefits from the asset are recognized by changing the amortization period or method accordingly and treated as changes to estimated amounts.

The Group applies the following amortization rates for intangible assets with specific useful lives:

- Perpetual usufruct right to land 40 - 99 years
- Other 1 - 5 years

Gains or losses resulting from a removal of intangible assets from the statement of financial position are measured at the difference between net proceeds from their sale and the carrying amount of the asset and are recognized in the statement of profit or loss upon derecognition of such intangible assets.

9.8. Goodwill

Goodwill from acquisition of a business is initially recognized at purchase price constituting the surplus of the price paid for shares in the acquired business plus the value of non-controlling interest, over the net fair value of identifiable assets, liabilities and contingent liabilities. If control is acquired in stages then the purchase price is increased by the fair value of the interest already held in the acquired business. After initial recognition, goodwill is valued at purchase price less all the accumulated impairment allowances. The impairment test is carried out once a year, or more frequently if necessary. Goodwill is not amortized.

As at the date of acquisition, the acquired goodwill is allocated to each cash generating unit (or groups of units) which may benefit from merger synergies. An impairment allowance is determined by estimating the recoverable amount of the cash generating unit to which the given goodwill has been allocated. If the recoverable amount of a cash generating unit is lower than its carrying amount then an impairment allowance is recognized. If goodwill forms part of the cash generating unit and part of the business within that unit is sold then, when determining gains or losses on the sale of such business, the goodwill linked to the business sold is included in its carrying amount. In such circumstances, the goodwill sold is calculated based on the relative value of the business sold and the value of the retained part of the cash generating unit.

9.9. Impairment of non-financial non-current assets

At the end of every reporting period, the Group determines whether there is any evidence of impairment of any non-financial non-current asset. If such evidence is found or when an annual impairment test must be carried out, the Group estimates the recoverable amount of such asset or cash generating unit ("CGU") to which such asset is allocated.

Recoverable amount of an asset or a cash generating unit is either: the fair value minus the cost of selling such asset or cash generating unit, or its value in use, whichever is higher. Recoverable amount is determined for individual assets, unless the asset does not by itself generate any cash proceeds, which are mostly independent from those generated by other assets or asset groups. If the carrying amount of an asset is greater than its recoverable amount, impairment occurs and the value is written off to match the calculated recoverable amount.

When estimating the value in use, the forecast cash flows are discounted to their present value using the discount rate before the effects of taxation are taken into account, which reflects the current market estimation of time value of money and risk typical for a given asset. Impairment allowances for assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

When estimating the fair value amount minus selling cost, the Group takes into account the capacity of the market player to achieve economic benefits through the highest and most effective use of the asset or its sale to another market player, who would ensure such highest and most effective use of that asset.

At the end of each reporting period, the Group estimates whether there is any evidence that the impairment allowance applied in previous periods to such asset is redundant or whether it should be decreased. If such evidence exists, the Group estimates the recoverable amount of the asset. The previously recognized impairment allowance is reversed only when the estimated values used to determine the recoverable amount of the asset changed since the last impairment allowance was made. In such a case, the carrying amount of the asset is increased to its recoverable amount. The increased amount must not exceed the carrying amount of the asset

which would be calculated (after deducting depreciation) if the impairment allowance had not been applied at all to such asset in previous years. A reversal of an asset impairment allowance is recognized immediately as income in the statement of profit or loss. After the impairment allowance is reversed, the depreciation charge for the asset is adjusted in the following periods in a way that would allow, during the remaining useful period of that asset, for making regular write-downs of its adjusted carrying amount less its final value.

9.10. External financing expenses

External financing expenses are capitalized as a portion of the cost of constructing property, plant and equipment. External financing expenses consist of: interest and gains or losses on foreign exchange differences up to the amount corresponding to the interest expense adjustment.

The capitalization of financing expenses commences when measures are taken that are necessary to prepare an asset for usage, capital expenditures and external financing expenses are incurred for a given asset. When an investment in an asset is discontinued for a longer period, the capitalization of external financing expenses is suspended. Capitalization is stopped when all the measures required to adapt an asset for usage are in principle concluded.

Capitalization applies to the current expenses of special-purpose loans and borrowings less the revenues from temporarily investing surplus funds and the pertinent portion of the current expenses of general loans and borrowings, when the expenditures for non-current assets exceed the value of special-purpose loans and borrowings. General financing expenses are capitalized in an amount equal to the product of the capitalization rate and the surplus expenditures for non-current assets above special-purpose financing. The capitalization rate is determined as the weighted-average of external financing expenses pertaining to the loans and borrowings constituting the Group's liabilities other than special-purpose loans and borrowings. The amount of external financing expenses capitalized in a period does not exceed the amount of external financing expenses incurred in the period.

9.11. Financial assets

The Group identifies the following categories of financial assets:

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

Financial assets held to maturity

Assets held to maturity include financial assets with specified or determinable payments and a set maturity date, which the Group intends and is able to hold until such time. Financial assets held to maturity are measured at amortized cost using the effective interest rate method. Financial assets held to maturity are classified as long-term assets if their maturity exceeds 12 months from the end of the reporting period.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss must meet one of the following conditions:

a) be classified as 'held for trading'. Financial assets are classified as held for trading if:

  - they have been purchased primarily for sale in the near future,
  - they are part of the portfolio of specified financial instruments managed together where there is high probability that gains would be achieved in the short term, or
  - they are derivatives, except for derivatives under hedge accounting,

b) they have been classified as such upon purchase. Upon purchase, a financial asset may be classified as measured at fair value, with any changes in value recognized through profit or loss (except for equity securities whose prices are not quoted on an active market and whose fair value cannot be measured reliably) if the following criteria are satisfied:

- such classification eliminates or materially reduces inconsistencies in treatment, when both measurement and the rules for recognizing losses or gains are subject to other regulations; or
- assets are part of a group of financial assets managed and measured based on their fair value in accordance with a documented risk management strategy; or
- such financial assets contain embedded derivatives, which should be recognized separately.

The Group cannot change the classification of financial instruments to and from the portfolio of assets measured at fair value through profit or loss.

These instruments are measured at fair value at the end of the reporting period. Gains or losses on financial assets classified as at fair value through profit or loss are recognized in the statement of profit or loss.

Loans and receivables

Loans granted and receivables include financial assets with determined or determinable payments, which are not classified as derivatives and are not listed on an active market. They are classified as current assets unless their maturity exceeds 12 months from the end of the reporting period. Loans granted and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets. Loans granted and receivables are carried at amortized cost.

Assets available for sale

All the remaining financial assets are assets available for sale. Assets available for sale are measured at fair value at the end of each reporting period. The fair value of investments with no listed market price is determined in reference to the current market value of another instrument with generally the same features or based on the expected cash flows from the asset comprising the investment (discounted cash flow valuation).

The positive or negative differences between the fair value of assets available for sale (if there is a market price listed on an active regulated market or whose fair value can be determined otherwise) and the purchase price, after deducting deferred tax, are recognized in other comprehensive income, except for:

- impairment losses,
- exchange gains and losses for cash assets,
- interest calculated using the effective interest rate method.

Dividends from equity instruments held in the available for sale portfolio are recognized in the statement of profit or loss when the entity's right to receive the payment is vested.

9.12. Impairment of financial assets

At the end of each reporting period, the Group evaluates whether there exists objective evidence of impairment of a financial asset or a group of financial assets.

Assets recognized at amortized cost

If there exists objective evidence that a loss has been incurred on impairment of loans granted and receivables measured at amortized cost then the impairment allowance is equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on defaulted receivables, which have not yet been incurred), discounted using the initial effective interest rate

(i.e. one determined on initial recognition). The carrying amount of an assets is reduced by impairment allowance. The amount of loss is recognized in the statement of profit or loss.

First, the Group estimates whether there exists objective evidence of individually material impairment of respective financial assets and whether there exists evidence of individually immaterial impairment of financial assets. If the analysis shows no objective evidence of impairment of a financial asset assessed on an individual basis, material or immaterial, then the Group includes such an asset in a group of financial assets with similar credit risk characteristics and assesses them for impairment on a collective basis. The assets evaluated for impairment individually, for which an impairment allowance has been recognized or maintained, are not taken into account in the collective assessment of a group of assets for impairment.

If impairment loss is reduced in the next period and the reduction may be objectively tied to an event occurring after the impairment loss was recognized then the previous impairment loss is reversed. A reversal of an impairment loss is recognized in the statement of profit or loss, provided however that the carrying amount of the asset on the reversal date must not exceed its amortized cost.

Financial assets available for sale

If there exists objective evidence that a financial asset available for sale has been impaired then the amount equal to the difference between the purchase price of that asset (less any principal repayments and, in the case of financial assets measured at amortized cost using the effective interest rate method, also amortization) and its present fair value, less any impairment allowances previously recognized for this asset in the statement of profit or loss, is derecognized from equity and transferred to the statement of profit or loss. A reversal of an impairment allowance for equity instruments classified as available for sale may not be recognized in the statement of profit or loss. If the fair value of a debt instrument available for sale increases in the following period and the increase can be objectively tied to an event following the recognition of the impairment loss in the statement of profit or loss, the amount of the reversed charge is recognized in the statement of profit or loss.

9.13. Hedge accounting

Hedging derivatives and hedge accounting

The Group may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Group allows the use of cash flow hedge accounting only if certain criteria are met, i.e.:

- At the inception of the hedge the Group formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedge instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- The hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- The forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the statement of profit or loss.
- The effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably measured;
- The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

Applicable accounting principles for derivatives designated as hedges under cash flow hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges are reported to the revaluation reserve in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is recognized to the statement of profit or loss

The amounts of the cumulative fair value revaluations to the hedge, previously recognized in the revaluation reserve, are recognized to the statement of profit or loss in the period or periods when the hedged position affects the statement of profit or loss.

The Group ceases to use the cash flow hedge accounting principles in the event of one or more of the following events:

- The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in equity from the period when the hedge was effective remains separately recognized in equity until the forecast transaction occurs;
- The hedge no longer meets the hedge accounting criteria. In this case, the cumulative gain or loss on the hedging instrument that remains recognized directly in equity from the period when the hedge was effective remains separately recognized in equity until the forecast transaction occurs;
- The forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument that remains recognized directly in equity from the period when the hedge was effective is recognized in the statement of profit or loss. The forecast transaction which ceases to be highly likely, may still be expected;
- The Group cancels any hedging relationship. For hedges of forecast transactions, the cumulative gain or loss on the hedging instrument that remains recognized directly in equity from the period when the hedge was effective remains separately recognized in equity until the forecast transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss that was recognized directly in equity is recognized in the statement of profit or loss.

Presentation

In connection with the use of cash flow hedge accounting, the Group applies the following presentation:

- the effective portion of any change in the valuation of CCIRS hedges is recognized in the revaluation reserve,
- interest on CCIRS hedges is presented in the same line of the statement of profit or loss in which the interest result on the hedged position is presented,
- any revaluation of CCIRS hedges is presented in the same line of the statement of profit or loss in which the revaluation of the hedged position is presented,
- the ineffective portion of changes in the valuation of hedges is recognized in the result on financial instruments held for trading.

9.14. Inventories

Inventories include:

- assets designated for sale in the regular course of business activity,
- assets in production for sale, or
- assets taking the form of raw materials used in the manufacturing process or in the provision of services.

Inventories are measured at the lower of: purchase price (manufacturing cost) and net realizable value.

The purchase prices applied to the valuation at the end of the reporting period cannot be higher than the net realizable value of those assets. The net realizable value is a difference between the estimated sale price in the regular course of business activity, and the estimated cost of completion and costs necessary to make the sale.

The Group measures consumption of materials which are identical or considered identical due to similarity of their type and purpose, as follows:

- coal – using the FIFO method,
- materials purchased to fulfill orders – using a detailed price identification method,
- other inventories – using the weighted average method.

Certificates of origin

The certificates of origin of electricity generated by the Group in the reporting period are measured on initial recognition at fair value on the date of recognition of that asset, i.e. the date when energy is generated from renewable sources or in the cofiring process. Fair value of a certificate is understood as the certificate price quoted at the Polish Power Exchange on the date when energy is generated from renewable sources or in the cofiring process.

The certificates of origin which are purchased are measured at purchase price.

9.15. Cash and cash equivalents

Cash and cash equivalents include:

- cash on hand and on current bank accounts,
- other cash, including bank deposits with maturities no longer than 3 months and units in the ENERGA Trading SFIO mutual fund.

The balance of cash and cash equivalents shown in the consolidated cash flow statement consists of the aforementioned cash and other cash less outstanding current account overdrafts.

Bank deposits with initial maturities exceeding 3 months are presented by the Group as deposits.

Cash is measured at par value. Other cash assets are measured according to the rules applicable to financial instruments.

9.16. Other assets

In other assets, the Group recognizes accruals if the following conditions are satisfied:

- they result from past events – an expenditure incurred for the entities' operational objectives,
- their amount may be measured reliably,
- they will bring economic benefits to the entities in the future,
- they refer to future reporting periods.

Prepayments are recorded at the level of incurred and reliably measured expenses that refer to future periods and will bring future economic benefits to the entities.

Prepaid costs may be written off in proportion to the passage of time or benefits received. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Group reviews prepayments to find whether the degree of certainty that the entity will achieve economic benefits after the elapse of the reporting period is sufficient to recognize the item as an asset component.

Other assets also include receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of financial position), surplus of assets over liabilities of the Employee Benefit Fund and advances paid for future purchases of property, plant and equipment, intangible assets and inventories as well as biological assets. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

Biological assets and agricultural produce

Biological assets include plants that, after harvesting, become agricultural produce. The group presents biological assets under other assets.

A biological asset is measured on initial recognition and at the end of each reporting period, at fair value less estimated cost to sell. If fair value cannot be measured reliably then a biological asset is measured at purchase price or manufacturing cost less accumulated depreciation and impairment allowances.

Agricultural produce harvested/obtained from biological assets is measured at fair value less estimated cost to sell. The value measured in this way becomes the cost of production for the purposes of recognition of inventories or another asset.

The fair value is determined while taking into account the current condition and location of those assets upon measurement. it is the amount for which, on an arm's length, the asset could be exchanged and the obligation paid between interested and well-informed parties.

Any changes in the fair value of biological assets during the reporting period are recognized as operating expenses.

9.17. Assets classified as held for sale

Non-current assets and groups to be sold are classified by the Group as held for sale, if their carrying amount is recovered as a result of a sale transaction rather than from their continued use. This condition is deemed satisfied only when the sale transaction is very probable and the asset (or group to be sold) is available for immediate sale in its current condition (according to generally accepted commercial terms). Classification of an asset as designated for sale assumes an intention to make a sale transaction within one year from the change in classification..

If the Group intends to make a disposal leading to a loss of control over a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale if all of the above criteria are met and regardless of whether the Group retains any non-controlling stakes after the disposal.

Non-current assets and groups to be sold classified as held for sale are measured at the lower of initial carrying amount or fair value, less cost to sell.

9.18. Equity

Equity is carried at par value, broken down into types and according to the principles set forth by the law and by the Parent Company's Articles of Association.

In the consolidated financial statements, share capital is recognized at the amount stated in the Parent Company's Articles of Association. Capital contributions declared but not paid in are classified as contributions due to share capital, as a negative figure.

Retained earnings include net result of the current year, results carried forward from previous years, reserve capital and supplementary capital of subsidiaries, arising after the acquisition of control, IFRS transition

adjustments and adjustments tied to a change in interests held in subsidiaries after the Parent Company acquired control over them.

9.19. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that settlement of the obligation by the Group will require an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation. When the Group expects to recover the costs required to settle a provision, for example under an insurance agreement then such reimbursement is recognized as a separate asset, but only if it is virtually certain that reimbursement will be received. The costs tied to a provision are recognized in the statement of profit or loss, net of any reimbursements. Recognized provisions are classified as operating expenses, other operating expenses, financial costs, as required by the circumstances.

If the time value of money is important then the provision is equal to the present value of expenditures expected to be necessary to fulfill this duty. A pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability. The discount rate is not adjusted for risk, since the estimates of future cash flows have been adjusted. If a discounting-based method has been used then an increase in the provision associated with passage of time is recognized as financial costs.

In particular, the following titles are expected for provisioning:

Provisions for pensions and other post-employment benefits

The amount of provisions for pensions and other post-employment benefits is estimated using actuarial methods. Provisions established are recognized in the statement of profit or loss (as operating expenses or financial costs, respectively), except for actuarial gains and losses. Gains and losses on actuarial calculations are recognized fully in other comprehensive income.

The Group recognizes provisions for the following post-employment benefits:

a) Pension and similar benefits

According to the company remuneration systems and the labour law, employees of Group companies are entitled to receive pension and similar benefits. Pension and similar benefits are paid once, upon retirement/qualification for disability pension. The amount of pension and disability pension is tied to the length of employment record and average salary received by the employee. The group recognizes a provision for pension and similar benefits, in order to allocate costs to pertinent periods. The liabilities are calculated as discounted future payments adjusted for employee turnover, and refer to the period up to the end of the reporting period. Demographic information and information on employee turnover are based on historic data.

b) Provision for cash equivalent resulting from energy tariff for energy industry employees

By the power of the Sectoral Collective Bargaining Agreement amended in 2005, the obligation to pay benefits with so-called "energy tariff" to former energy industry employees has been allocated to individual companies for which the retirees and disability pensioners used to work. Accordingly, since in December 2005 the Group has established an adequate provision.

The cost of establishing the provision for eligible retirees on the effective date of the additional protocol to the Sectoral Collective Bargaining Agreement was charged in its entirety to the result of 2005. The cost of past employment, relating to employees of the companies who are future retirees, is recognized on the earlier of: the date of change or restriction of the defined benefit plan, and the date when the entity recognizes the related restructuring cost or employment termination benefit.

c) Provision for the Company Social Benefit Fund and other benefits for retirees and disability pensioners

Group companies make contributions to Company Social Benefit Funds for retirees and disability pensioners. The value of the liability to former employees is estimated on the basis of the terms and conditions of the applicable Collective Agreements for the companies or on the basis of other legal regulations. These obligations arise from the rights acquired by the Group companies' employees in the period of employment.

Provision for jubilee bonuses

According to company remuneration systems, employees of Group companies are eligible to jubilee bonuses paid out after they reach certain lengths of employment. The amount of jubilee bonuses depend on the length of employment record and average salary received by the employee. The group recognizes a provision for jubilee bonuses, in order to allocate costs to pertinent periods. The present value of those liabilities at the end of each reporting period is calculated by an actuary. The liabilities are calculated as discounted future payments adjusted for employee turnover, and refer to the period up to the end of the reporting period. Demographic information and information on employee turnover are based on historic data. Provisions established are recognized fully in the statement of profit or loss (as operating expenses or financial costs, respectively).

Third party claims and lawsuits

The provision for third party claims and effects of pending lawsuits is recognized at the restated claim amount and including the possible costs of dispute.

Provision for land reclamation and for property, plant and equipment liquidation costs

The provision for land reclamation and future costs of property, plant and equipment liquidation is established in the circumstances where the provisions of law require such assets to be dismantled and removed when they are no longer used and restore their locations to their previous state.

Provision for gas emission liabilities

If CO_2 emissions exceed the free-of-charge emission allowances held as at the end of the reporting period, a provision is recognized based on actual use of the rights, based on the market price of such right as at the date when the provision is calculated.

Provision for redemption of certificates

Provision for redemption of certificates of origin of electricity generated from renewable energy sources, certificates of origin of electricity generated in the cogeneration process and energy efficiency credits, is recognized:

- in the part covered by the certificates of origin held at the end of the reporting period – at the value of certificates held,
- in the part not covered by the certificates of origin held at the end of the reporting period – at the value of contracted property rights and the market value of certificates needed to fulfill the obligation at the end of the reporting period or at the amount of the substitution fee.

Restructuring provision

In the current reporting period as well as in previous ones, voluntary employment termination programs have been carried out in Group companies. As restructuring provisions, the Group recognizes primarily the provisions for benefits for employment termination under a voluntary employment termination program and other employment restructuring measures, based on the expected number of employees to terminate work for Group companies and estimated value of severance awards or compensation.

9.20. Financial liabilities

The Group identifies financial liabilities measured at amortized cost

Financial liabilities held at amortized cost include primarily trade payables, bank loans, borrowings and debt securities. On initial recognition, they are recognized at fair value less costs of with obtaining the loan or borrowing. After initial recognition, they are measured at amortized cost using the effective interest rate method.

When calculating amortized cost, the cost of obtaining the loan or borrowing must be taken into account, as well as any discounts and bonuses obtained in connection with the liability.

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

The Group derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired. Replacement of a current debt instrument with another one with substantially different terms, performed between the same parties, is recognized by the Group as expiry of the original financial liability and recognition of a new financial liability. Similarly, material amendments of terms and conditions of agreements relating to an existing financial liability is recognized by the Group as expiry of the initial and recognition of a new financial liability. Differences of respective carrying amounts arising from the replacement are shown in the statement of profit or loss.

9.21. Other liabilities

Other non-financial liabilities include in particular liabilities to the tax office on account of value added tax and liabilities on account of received advance payments to be settled by deliveries of goods, services or property, plant and equipment.

Other non-financial liabilities are recognized at the amount of the required payment.

9.22. Accruals and deferred income

Accrued cost

The Group records accrued cost:

- which is certain or highly probable to arise,
- which results from past events and will result in the utilization of already held or future assets of the entity,
- the amount of which can be estimated reliably.

Accrued costs are liabilities payable for goods or services received/provided but not paid for, billed or formally agreed with the supplier, including amounts due to the employees. Even though it is sometimes necessary to estimate the amount or payment term of the accruals, the degree of uncertainty is in general considerably lower than in the case of provisions.

Accrued cost, measured at the amount of reliably estimated and probable liabilities due in the current reporting period, resulting in particular from benefits provided to the Group by external contractors, is reported in the statement of financial position as trade payables.

Deferred income

Deferred income is recorded in keeping with the principle of conservative valuation and of commensurability of income and expenses. Deferred income includes:

- equivalents of funds received or due from contractors for benefits to be delivered in subsequent reporting periods,

- cash received to finance a purchase or production of property, plant and equipment, and development works. These are settled by gradually increasing other operating income by an amount corresponding to depreciation on these assets, in the part financed by the mentioned cash. This refers in particular to partially amortized loans and borrowings and subsidies for a purchase of property, plant and equipment,
- property, plant and equipment accepted free of charge and intangible assets. These revenues are recorded in other operating revenues and also in depreciation charges on non-current assets received,
- if the Group receives a loan or borrowing on preferential terms then, on initial recognition, such financial instrument is measured at fair value equal to the value of discounted cash flows, using market interest rates for similar instruments. The difference between the valuation amount calculated using this method and at amortized cost is recognized in the statement of financial position as a subsidy and amortized on a straight-line basis during the repayment period of the liability, charged to other operating income in the statement of profit or loss.

9.23. CO_2 emission allowances

The acquired CO_2 emission allowances are measured at purchase price and recognized as intangible assets. These values are not amortized. The acquired emission allowances are redeemed when used to cover the shortage on the settlement date of the annual CO_2 emission limit. The redemption of emission allowances is referred to the costs of the period.

The awarded emission allowances are recorded off-balance. Their use is also recorded off-balance, according to actual emissions.

Fees paid for the awarding of the rights are treated as costs of the period.

9.24. Lease

Group as a lessee

Financial lease agreements, which transfer to the Group essentially the entire risk and benefits derived from the possession of the leased item, are recognized in the statement of financial position as at the lease commencement date, at the lower of: fair value of the property, plant and equipment component which constitutes the leased item, or the present value of minimum leasing fees. Leasing fees are allocated between financial expenses and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial expenses are posted directly to the statement of profit or loss.

Property, plant and equipment used under financial lease agreements are depreciated for the shorter of the two periods: estimated useful life of the asset or the term of the lease, if there is no certainty that the lessee obtains the ownership title before the end of the term of lease.

Lease agreements under which the lessor retains essentially all the risks and all the benefits derived from possession of the leased item are classified as operating lease agreements. Leasing fees under operating lease contracts and the subsequent leasing installments are recognized as expenses in the statement of profit or loss using the straight-line method throughout the term of lease.

Group as a lessor

Lease agreements under which the Group retains essentially all the risks and all the benefits derived from possession of the leased item are classified as operating lease agreements. The initial direct costs incurred in the course of negotiating operating lease agreements are added to the carrying amount of the leased item and are recognized during the term of the lease on the same basis as rental revenues. Conditional leasing fees are recognized as revenues in the period in which they become due.

9.25. Taxes

Income tax recognized in the statement of profit or loss includes the actual tax liability for the reporting period and a change in deferred tax assets and deferred tax provisions which not recognized in equity or other comprehensive income.

Current tax liability

The actual tax liability for the reporting period is calculated by Group entities according to the applicable provisions of the corporate income tax act.

On 28 December 2011, the Tax Group was established under the name of PGK ENERGA – OPERATOR ("PGK"). In PGK, tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses. For additional information on PGK, see Note 32.1.

Deferred tax

In connection with temporary differences between the value of assets and liabilities carried in accounting ledgers and their tax value and taxable loss that may be deducted in the future, the entity creates a provision and calculates deferred income tax assets.

The deferred income tax reserve is established for all positive temporary differences except for cases where the deferred income tax reserve follows from:

- initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, not affecting, at the moment of the transaction, either gross financial result or taxable income (loss); and
- positive temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, in which it is possible to control the reversal of the temporary differences and it is probable that those differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized with respect to all negative temporary differences to the extent to which it is probable that there will be sufficient taxable profits against which to deduct the negative temporary differences, except for:

- cases where a deferred income tax asset results from an initial recognition of an asset or liability under a transaction other than business combination, which at the moment of the transaction has no effect on gross financial result or taxable profit (loss); and
- negative temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, where deferred income tax assets are recognized only to the extent that it is probable that those temporary differences will be reversed in the foreseeable future and that there will be sufficient taxable profits against which to utilize the benefits of the negative temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period. The Company reduces the carrying amount of deferred tax assets to the extent that it is no longer probable to that sufficient taxable profit will be achieved for part or all of that deferred tax asset to be utilized. Unrecognized deferred income tax assets are reviewed at the end of each reporting period and are recognized to the extent that it becomes probable that sufficient taxable profit will be available to utilize them.

Deferred income tax assets and provisions are presented in the statement of financial position, after netting at the level of individual entities

Value added tax (VAT)

Revenues, costs, assets and liabilities are recognized net of value added tax, with the exception of situations, where:

- the value added tax paid upon the purchase of assets or services cannot be recovered from the state budget, then it is recognized accordingly as part of the asset purchase price or part of a cost item; and
- receivables and liabilities are recognized inclusive of the value added tax.

The net amount of the value added tax recoverable from or due to be paid to the state budget in the following period is recognized in the statement of financial position as other assets or liabilities.

9.26. Revenues

Revenues are recognized at the amount at which it is probable that the Group will obtain economic benefits tied to a specific transaction and where the amount of revenues may be measured reliably. Revenues are recognized net of value added tax (VAT), excise tax and other sales taxes or fees and discounts and rebates. The criteria presented below apply also to the recognition of revenues.

Revenues include primarily:

- amounts due for sales of: electricity to wholesale and retail clients, heat, certificates of origin of electricity generated from renewable sources, certificates of origin of electricity in the cogeneration process, emission allowances, distribution and transmission services and other core business services, calculated on the basis of the net price, adjusted for discounts and rebates and excise tax,
- amounts due for materials and merchandise sold, on a net price basis, adjusted for discounts and rebates and excise tax.

Revenues on the sale of goods and products are recognized when the significant risk and benefits stemming from ownership title of merchandise and products have been passed to the buyer and when the amount of revenues may be measured reliably and incurred costs may be reliably estimated.

Interest income is recognized gradually as it accrues (taking the effective interest rate method into account, where the effective rate is the rate used to discount future cash flows for the estimated useful life of the financial instruments) in relation to the net carrying amount of the financial asset.

Dividends are recognized when the title of shareholders to receive them are determined.

Rental revenues are recognized using the straight-line method for the entire term of lease, in relation to active agreements.

9.27. Costs

Cost of sales

Cost of sales is comprised of the following:

- cost of manufacturing products and providing services incurred in a reporting period, adjusted for a change in products and adjusted for the cost of manufacturing products for own needs,
- value of electricity and materials sold, at purchase prices,
- recognition/reversal of impairment allowances for property, plant and equipment, intangible assets, investment property, receivables and inventories,
- all selling and distribution expenses and general and administrative expenses incurred in the reporting period (recognized separately in the statement of profit or loss).

Manufacturing costs, which may be tied directly to revenues earned by the entities influence the financial result of the entities for the reporting period in which they occurred.

Manufacturing costs, which may be tied indirectly to revenues or other benefits achieved by the entities influence the financial result of the entities to the extent they pertain to the reporting period.

9.28. Other operating income and expenses

Other operating income and expenses include in particular items associated with:

- disposals of property, plant and equipment, intangible assets and investment property,
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses,
- giving or receiving assets, including cash, free of charge, also as a donation,
- with damages, penalties and fines and other costs not associated with ordinary operations.

9.29. Financial income and costs

Financial income and costs include in particular income and costs associated with:

- disposal of financial assets,
- restatement of financial instruments, excluding financial assets available for sale, for which the effects of restatement are recognized in other comprehensive income,
- revenues from profit-sharing in other entities,
- interest,
- change in provision resulting from the approaching date of incurring the cost (unwinding discount effect),
- exchange differences resulting from operations performed during the reporting period and book valuation of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial value of property, plant and equipment, to the extent they are recognized as adjustment of interest cost and exchange differences from measurement of equity instruments denominated in foreign currencies and classified in the available-for-sale portfolio,
- other items related to financing activity.

Interest income and interest expense are recognized gradually as they accrue (taking the effective interest rate method into account) in relation to the net carrying amount of the financial instrument and in line with the materiality principle.

Dividends are recognized when the title of shareholders to receive them are determined.

9.30. Earnings per share

Earnings per share for each period are calculated by dividing the net profit allocated to shareholders of the Parent Company for the period by the weighted average number of shares in the reporting period. In the case of a split or reverse split of shares, the number of shares after the split or reverse split is applied to the calculation retrospectively.

9.31. Cash Flow Statement

The cash flow statement is prepared using the indirect method.

9.32. Changes to accounting policies and presentation

In 2013, the Group decided to avail itself of the early application of the IFRS 10 "Consolidated Financial Statements" standard (see description in Note 8.1).

Moreover, the Group has reclassified certain revenues and expenses in order to make sure that rules for their presentation are consistent in subsequent reporting period, which has not affected the net result presented, and changes in the layout of the items presented in the consolidated statement of financial position, which included separation of selected line items and combination of titles into collective items. The purpose of those changes was to increase clarity and usefulness of data presented in the financial statements.

The Group has also transformed data presented in the comparative consolidated statement of financial position and in the consolidated statement of profit or loss. Information presented in other notes of these financial statements have also been adjusted accordingly.

The adjustments relating to the prior period presented in the consolidated financial statements are presented in the table below:

Title	Previously reported	Total adjustments	Restated
Revenue	11 176 799	-	11 176 799
Cost of sales	(9 532 055)	49 608	(9 482 447)
Other operating income	134 921	-	134 921
Selling and distribution expenses	(247 540)	(60 613)	(308 153)
General and administrative expenses	(375 341)	(1 180)	(376 521)
Other operating expenses	(250 777)	12 185	(238 592)
Financial income	79 197	-	79 197
Financial costs	(359 085)	-	(359 085)
Share of profit of associates	214	-	214
Profit before tax	**626 333**	**-**	**626 333**
Income tax	(166 548)	-	(166 548)
Net profit on continuing operations	**459 785**	**-**	**459 785**
Net profit/loss on discontinued operations and on disposal of assets classified as held for sale	(3 365)	-	(3 365)
Net profit for the period	**456 420**	**-**	**456 420**

10. Segment information

The Group is organized and managed in operating segments relating to different types of products and services.

The Group distinguishes the following operating segments: distribution of electricity, production, sales, services and others. In the previous reporting period, the Group presented the segments of: baseload power plants, combined heat and power and renewable energy sources. Currently, they are reported as a single segment, i.e. generation.

The electrical energy distribution segment consists of operations involving the distribution of electrical energy by ENERGA – OPERATOR SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other companies (including the wholesale and retail trade of electric energy products and materials, as presented in the previous reporting period in the service segment).

The generation segment consists of generating and investing operations in conventional power plants and combined heat and power plants, generating electrical energy in renewable sources, distributing heat and maintenance and refurbishment operations associated with the generation of electrical and thermal energy.

The sales segment consists of operations associated with trading electrical energy and customer service as well as lighting services.

The service segment consists of accounting, HR and payroll administration, information and communication operations, investment project management, procurement and the generation and trade of biofuels.

Other operations include hotel and training facilities, transport services and financing activity. The Parent Company has also been classified as belonging to the other segment.

The data presented for the various segments take into consideration exclusions of reciprocal transactions between Group companies operating within a single segment. The eliminations of reciprocal transactions between Group companies operating in different segments are presented as consolidation exclusions and adjustments.

The Group accounts for inter-segment transactions in such a way as if they pertain to unrelated entities – using current market prices.

EBITDA is calculated as operating profit /(loss) (calculated as the net profit /(loss) on continued activity, adjusted by income tax, the share in an associate's profit, financial income and expenses) plus depreciation.

Financial liabilities include liabilities for drawn down credits and loans and outstanding bonds.

The purchases of property, plant and equipment, intangible assets and investment properties (including acquisitions) and investment expenditures associated with the preparation of investments are recognized as capital expenditures.

The Group does not present information by geographic segments since its operations conducted for international clients do not have a significant impact on the Group's results.

In the current reporting period, the Group changed the presentation of revenues and expenses related to the sale of electricity distribution services to end users in the sales segment. In the previous year, the Group presented expenses and revenues of the sales segment in relation to such services on a gross basis whereas since 2013 they are off set. Accordingly, revenues of the distribution segment from the sale of electricity distribution services to the sales segment were accounted for as sales to external customers and the value of eliminated sales revenues between segments was adjusted.

The tables below show the breakdown of revenues and expenses for the period from 1 January to 31 December 2013 and the assets and liabilities as at 31 December 2013 assigned to individual segments, together with duly restated comparative information.

Year ended 31 December 2013 or as at 31 December 2013	Distribution of electricity	Sales	Generation	Services	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue								
Sales to external clients	3 744 151	6 597 824	1 058 734	4 240	24 300	11 429 249	-	11 429 249
Inter-segment sales	52 260	508 731	490 630	347 037	86 413	1 485 071	(1 485 071)	-
Total segment revenues	**3 796 411**	**7 106 555**	**1 549 364**	**351 277**	**110 713**	**12 914 320**	**(1 485 071)**	**11 429 249**
EBITDA	1 560 888	206 579	222 766	25 494	(93 319)	1 922 408	43 061	1 965 469
Profit/(loss) on continuing operations before tax and finance income/expense	920 508	179 948	114 883	9 742	(102 024)	1 123 057	71 777	1 194 834
Net finance income/expense	(107 977)	31 328	(30 589)	73	612 193	505 028	(676 914)	(171 886)
Share of profit/(loss) of associates	-	-	-	-	-	-	(582)	(582)
Profit/(loss) before tax	**812 531**	**211 276**	**84 294**	**9 815**	**510 169**	**1 628 085**	**(605 719)**	**1 022 366**
Income tax	(200 519)	(41 199)	(16 825)	(4 039)	(12 014)	(274 596)	848	(273 748)
Net loss on discontinued operations and disposal of assets classified as held for sale	-	-	-	-	(5 640)	(5 640)	-	(5 640)
Net profit/(loss) for the period	**612 012**	**170 077**	**67 469**	**5 776**	**492 515**	**1 347 849**	**(604 871)**	**742 978**
Assets and liabilities								
Cash and cash equivalents	606 098	452 394	385 833	81 336	826 644	2 352 305	-	2 352 305
Total assets	**11 338 567**	**2 500 787**	**4 662 049**	**233 732**	**10 682 077**	**29 417 212**	**(12 332 656)**	**17 084 556**
Financial liabilities	2 917 002	1 768	1 555 834	3 401	5 238 398	9 716 403	(4 440 641)	5 275 762
Total liabilities	**5 246 806**	**1 578 091**	**2 097 037**	**117 614**	**5 551 078**	**14 590 626**	**(5 554 365)**	**9 036 261**
Other segment information								
Capital expenditure	1 396 785	42 163	1 331 891	14 116	29 879	2 814 834	(13 075)	2 801 759
Amortization and depreciation	640 380	26 631	107 883	15 752	8 705	799 351	(28 716)	770 635
Impairment losses on property, plant and equipment, intangible assets and investment property	220	(28)	147 480	-	2 302	149 974	-	149 974

Year ended 31 December 2012 (restated) or as at 31 December 2012 (restated)	Distribution of electricity	Sales	Generation	Services	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue								
Sales to external clients	3 654 715	6 534 844	940 513	13 157	33 570	11 176 799	-	11 176 799
Inter-segment sales	29 596	643 790	571 005	362 957	75 377	1 682 725	(1 682 725)	-
Total segment revenues	**3 684 311**	**7 178 634**	**1 511 518**	**376 114**	**108 947**	**12 859 524**	**(1 682 725)**	**11 176 799**
EBITDA	1 217 978	264 467	157 165	21 692	(74 800)	1 586 502	42 744	1 629 246
Profit/(loss) on continuing operations before tax and finance income/expense	610 298	239 905	57 128	9 976	(81 799)	835 508	70 499	906 007
Net finance income/expense	(211 905)	8 098	3 429	211	626 454	426 287	(706 175)	(279 888)
Share of profit/(loss) of associates	-	-	-	-	-	-	214	214
Profit/(loss) before tax	**398 393**	**248 003**	**60 557**	**10 187**	**544 655**	**1 261 795**	**(635 462)**	**626 333**
Income tax	(78 323)	(56 232)	(37 264)	108	5 959	(165 752)	(796)	(166 548)
Net loss on discontinued operations and disposal of assets classified as held for sale	-	-	-	-	(3 365)	(3 365)	-	(3 365)
Net profit/(loss) for the period	**320 070**	**191 771**	**23 293**	**10 295**	**547 249**	**1 092 678**	**(636 258)**	**456 420**
Assets and liabilities								
Cash and cash equivalents	715 429	246 150	396 600	20 491	690 388	2 069 058	-	2 069 058
Total assets	**11 313 145**	**2 385 320**	**2 193 746**	**227 883**	**9 389 415**	**25 509 509**	**(10 596 736)**	**14 912 773**
Financial liabilities	3 058 363	2 365	378 167	1 504	4 015 479	7 455 878	(3 960 882)	3 494 996
Total liabilities	**5 557 421**	**1 360 692**	**803 766**	**125 934**	**4 357 225**	**12 205 038**	**(5 010 787)**	**7 194 251**
Other segment information								
Capital expenditure	1 363 619	30 407	412 364	51 599	38 963	1 896 952	(48 102)	1 848 850
Amortization and depreciation	607 680	24 562	100 037	11 716	6 999	750 994	(27 755)	723 239
Impairment losses on property, plant and equipment, intangible assets, investment property and incurred advances	282	(94)	123 732	(168)	199	123 951	-	123 951

11. Revenues and expenses

11.1. Other operating income

Title	Year ended 31 December 2013	Year ended 31 December 2012
Subsidies	6 836	6 805
Reversal of impairment allowances for other assets	1 208	1 385
Reversal of provisions (e.g.litigations)	49 055	64 991
Penalties, compensations and fines received	58 816	35 540
Refund of litigation expenses	5 473	6 088
Revenues from illigal energy consumption	6 136	5 296
Gain on bargain purchase	17 907	-
Other	10 287	14 816
Total other operating income	**155 718**	**134 921**

11.2. Other operating expenses

Title	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Loss on disposal/liquidation of property, plant & equipment/intangible assets	3 281	16 532
Donations	2 951	2 418
Creation of valuation allowances for other assets	4 439	1 842
Creation of provisions	71 604	64 946
Litigation with PSE SA	-	62 514
Costs of employment restructuring	86 240	48 243
Compensations	3 967	2 829
Litigation expenses	8 824	6 605
Damages' repairs expenses	34 713	23 676
Costs of illegal energy consumption	3 236	1 916
Other	8 938	7 071
Total other operating expenses	**228 193**	**238 592**

The employment restructuring expenses presented in the table have been offset with the reversal of provisions for employee benefits (post-employment benefits and jubilee bonuses) for employees affected in the Group by the restructuring (in particular those employees who availed themselves of the voluntary departure programs)

11.3. Financial income

Title	Year ended 31 December 2013	Year ended 31 December 2012
Income on financial instruments, including:	**121 664**	**75 269**
Interest income	106 791	74 767
Dividend income	68	78
Revaluation of financial assets (including reversal of valuation allowances for financial assets)	12 098	163
Foreign exchange gains	2 707	18
Profit on sales of investments	-	243
Other financial income, including:	**29 342**	**3 928**
Provisions reversed	28 181	969
Interest on budgetary receivables	179	32
Other	982	2 927
Total	**151 006**	**79 197**

11.4. Financial expenses

Title	Year ended 31 December 2013	Year ended 31 December 2012
Costs of financial instruments, including:	**257 323**	**247 792**
Interest expenses	241 077	179 581
Revaluation of financial assets (including creation of valuation allowances)	13 303	47 725
Foreign exchange losses	696	1 359
Loss on disposal of investments	2 247	19 127
Other financial expenses, including:	**65 569**	**111 293**
Acquisition expenses	26 393	173
Actuarial and other interests	30 726	45 469
Interest on budget liabilities	4 682	415
Litigation with PSE SA	-	62 987
Other	3 768	2 249
Total	**322 892**	**359 085**

11.5. Expenses by nature

Title	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Depreciation and amortization expense	770 635	723 239
Impairment losses on property, plant and equipment and intangible assets (including advances paid)	149 974	123 951
Materials and energy used, including:	945 545	1 016 463
Fuel consumption	657 364	649 598
External services, including:	1 127 191	1 218 637
Transmission and transit fees	731 035	858 835
Taxes and fees	363 818	277 722
Employee benefits expenses	921 049	1 011 913
Valuation allowance for inventories	733	(6 462)
Valuation allowance for trade receivables	64 021	66 110
Other expenses	83 377	83 839
Change in inventories, prepayments and accruals	7 912	(10 697)
Cost of producing services for own needs	(101 117)	(152 862)
Cost of merchandise and raw materials sold	5 828 802	5 815 268
Total operating expenses	**10 161 940**	**10 167 121**
of which:		
Cost of sales	9 455 472	9 482 447
Selling and distribution expenses	294 321	308 153
General and administrative expenses	412 147	376 521

11.6. Cost of depreciation and revaluation allowance recognized in the statement of profit or loss

Title	Year ended 31 December 2013	Year ended 31 December 2012
Items included in cost of sales	**893 063**	**822 124**
Depreciation of property, plant & equipment	660 177	645 698
Impairment loss on property, plant and equipment	149 662	123 937
Amortization of intangible assets	82 404	51 537
Impairment loss on intangible assets	312	16
Depreciation of investment property	508	737
Impairment loss on investment property	-	199
Items included in costs of sales	**6 778**	**5 098**
Depreciation of property, plant & equipment	4 736	3 292
Impairment loss on property, plant and equipment	-	(2)
Amortization of intangible assets	2 042	1 808
Items included in general and administrative expenses	**20 768**	**20 167**
Depreciation of property, plant & equipment	16 593	16 343
Amortization of intangible assets	4 137	3 811
Depreciation of investment property	38	13

11.7. Cost of employee benefits

Title	Year ended 31 December 2013	Year ended 31 December 2012 (restated)
Wages and salaries	669 450	675 401
Social security contributions	95 967	102 538
Post-employment benefits and jubilee bonuses	13 666	85 045
Other costs of employee benefits,including:	141 966	148 929
Energy tariff – current costs	15 928	11 600
Company Social Benefit Fund – charges for the current financial year	40 423	48 379
Employee Pension Plan	45 097	34 051
Employee training	10 128	13 088
Expenses related to health and safety	11 019	8 787
Other	19 371	33 024
Employee benefits expenses	**921 049**	**1 011 913**

12. Income tax

12.1. Tax liabilities

The key components of the tax liability for the year ended 31 December 2013 are as follows:

Title	Year ended 31 December 2013	Year ended 31 December 2012
Statement of profit or loss		
Current income tax expense	(284 098)	(223 491)
Adjustments to income tax for prior years	(1 926)	5 117
Fixed-rate income tax on dividends received	(13)	-
Deferred income tax expense	12 289	51 826
Tax expense recognized in the statement of profit or loss	**(273 748)**	**(166 548)**
Statement of comprehensive income		
Income tax	(25 285)	(7 121)
Tax expense recognized in statement of comprehensive income	**(25 285)**	**(7 121)**

With regard to income tax, the Group was principally subject to the general regulations in 2013. Except for the Tax Group established in 2012 by the subsidiary ENERGA – OPERATOR SA (see more in Note 32.1), there were no other occurrences that would require calculation of tax liabilities using methods different from the general regulations in this respect.

12.2. Reconciliation of effective tax rate

Reconciliation of income tax calculated on gross financial result before tax using the statutory tax rate to income tax calculated according to the Group's effective tax rate is as follows:

Title	Year ended 31 December 2013	Year ended 31 December 2012
Profit/(loss) before tax on continuing operations	**1 022 366**	**626 333**
Profit/(loss) before tax on discontinued operations and disposal of assets classified as held for sale	(5 640)	(3 372)
Profit before tax	**1 016 726**	**622 961**
Tax at the Poland's statutory tax rate of 19%	**(193 178)**	**(118 363)**
Adjustments to income tax for prior years	(1 926)	5 117
Tax impact of non-taxable income and non tax-deductible expenses	(78 644)	(53 295)
Tax at the effective tax rate	**(273 748)**	**(166 541)**
Income tax (charge) as per the statement of profit or loss	(273 748)	(166 548)
Income tax attributable to discontinued operations and disposal of assets held for sale	-	7

Current tax liability is calculated on the basis of the applicable tax regulations. Application of those regulations causes differences between the tax profit (loss) and accounting net profit (loss) because of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. Tax liabilities are calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was used in 2013 and 2012. Current regulations do not provide for differentiated tax rates for future periods.

Both the fiscal year and the reporting period of these financial statements are the same as the calendar year.

12.3. Deferred income tax

The deferred income tax results from the following items:

Title	As at 31 December 2013	As at 31 December 2012
Deferred tax assets	**548 088**	**487 329**
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	194 464	86 133
on the difference between the tax and carrying value of inventories	638	468
on the difference between the tax and carrying value of financial assets and liabilities	42 013	36 977
power infrastructure received free of charge and connection fees received	71 278	74 315
on post-employment benefits provisions	63 422	87 197
on provisions for jubilee bonuses	43 071	52 327
on provisions for reclamation and decommissioning costs of property, plant and equipment	4 523	1 767
on provisions for liabilities for gas emissions obligations	11 922	58
on provisions for redemption of energy certificates of origin	7 192	40 097
on restructuring provisions	15 330	10 813
unpaid employee salaries and benefits	8 869	5 320
on othert provisions	28 233	48 362
accrued expenses	24 094	22 375
tax losses	25 278	2 552
other	7 761	18 568
Set-off	**(303 002)**	**(277 459)**
Deferred tax assets after set-off	**245 086**	**209 870**

Title	As at 31 December 2013	As at 31 December 2012
Deferred tax liabilities	**847 003**	**797 145**
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	741 498	739 115
accrued revenues	39 938	34 223
on the difference between the tax and carrying value of energy certificates of origin	30 759	7 826
on the difference between the tax and carrying value of financial assets and liabilities	30 434	15 191
other	4 374	790
Set-off	**(303 002)**	**(277 459)**
Deferred tax liabilities after set-off	**544 001**	**519 686**

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

Title	Year ended 31 December 2013	Year ended 31 December 2012
Deferred tax assets		
At the beginning of the reporting period	**487 682**	**452 611**
Increases	317 003	184 971
recognized in profit or loss	272 052	173 161
recognized in other comprehensive income	12 062	11 810
acquisition of subsidiary	32 889	-
Decreases	(250 243)	(149 900)
recognized in profit or loss	(221 056)	(131 037)
recognized in other comprehensive income	(28 244)	(18 863)
disposal of subsidiary	(943)	-
At the end of the reporting period	**554 442**	**487 682**
Unrecognized assets		
At the beginning of the reporting period	**(353)**	**-**
increases	(6 508)	(353)
decreases	507	-
At the end of the reporting period	**(6 354)**	**(353)**
Set-off	**(303 002)**	**(277 459)**
Deferred tax assets at the end of the reporting period	**245 086**	**209 870**
Deferred tax liabilities		
At the beginning of the reporting period:	**797 145**	**806 805**
Increases	94 394	39 899
recognized in profit or loss	81 491	39 831
recognized in other comprehensive income	9 146	68
acquisition of subsidiary	3 757	-
Decreases	(44 536)	(49 559)
recognized in profit or loss	(44 493)	(49 559)
recognized in other comprehensive income	(43)	-
At the end of the reporting period	**847 003**	**797 145**
Set-off	**(303 002)**	**(277 459)**
Deferred tax liabilities at the end of the reporting period	**544 001**	**519 686**

13. Property, plant and equipment

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross value							
As at 1 January 2013	**117 038**	**9 132 650**	**3 070 104**	**243 508**	**436 503**	**936 187**	**13 935 990**
Direct purchase	340	2 113	3 961	11 357	1 129	1 603 921	1 622 821
Acquisition of subsidiary	1 840	361 919	481 471	41	970	196 313	1 042 554
Transfer from property, plant and equipment under construction	7 940	704 488	521 066	35 752	166 640	(1 435 886)	-
Sale, disposal	(1 291)	(14 311)	(7 476)	(9 580)	(3 721)	(3 470)	(39 849)
Scrapping	(53)	(3 664)	(7 868)	(909)	(3 491)	(2 367)	(18 352)
Donations and gratuitous transfers	-	(123)	(21)	(34)	-	(401)	(579)
Reclassification between groups	-	(9 603)	(11 458)	(115)	(360)	15 096	(6 440)
Gratuitous receipt	-	1 207	69	-	-	-	1 276
Transfer to assets classified as held for sale	(64)	(12 327)	(11 839)	(39 533)	(2 778)	(3 792)	(70 333)
Capitalized borrowing costs	-	-	-	-	-	18 931	18 931
Disposal of subsidiary	-	(711)	(710)	(391)	(70)	(811)	(2 693)
Other changes	750	1 723	6 792	(646)	1 982	(11 095)	(494)
As at 31 December 2013	**126 500**	**10 163 361**	**4 044 091**	**239 450**	**596 804**	**1 312 626**	**16 482 832**
Cumulative depreciation and impairment							
As at 1 January 2013	**(158)**	**(2 568 260)**	**(958 492)**	**(112 167)**	**(175 428)**	**(120 569)**	**(3 935 074)**
Depreciation for the period	-	(399 839)	(190 346)	(34 824)	(56 497)	-	(681 506)
Impairment losses	-	(60 761)	(96 372)	(88)	(1 097)	(937)	(159 255)
Reversal of impairment losses	-	28	317	28	81	9 560	10 014
Sale, disposal	-	3 302	6 096	8 740	2 218	-	20 356
Scrapping	-	1 282	5 968	897	2 639	-	10 786
Transfer to assets classified as held for sale	-	2 944	6 472	16 961	1 269	-	27 646
Donations and gratuitous transfers	-	1	21	34	-	-	56
Reclassification between groups	-	(1 444)	7 258	143	483	-	6 440
Disposal of subsidiary	-	174	648	263	58	-	1 143
Other changes	-	(1 840)	(7 597)	547	(1 972)	-	(10 862)
As at 31 December 2013	**(158)**	**(3 024 413)**	**(1 226 027)**	**(119 466)**	**(228 246)**	**(111 946)**	**(4 710 256)**
Net value as at 1 January 2013	**116 880**	**6 564 390**	**2 111 612**	**131 341**	**261 075**	**815 618**	**10 000 916**
Net value as at 31 December 2013	**126 342**	**7 138 948**	**2 818 064**	**119 984**	**368 558**	**1 200 680**	**11 772 576**

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross value							
As at 1 January 2012	**89 878**	**8 327 109**	**2 674 620**	**208 081**	**351 130**	**674 573**	**12 325 391**
Direct purchase	38 045	6 314	8 477	9 127	3 410	1 586 287	1 651 660
Acquisition of subsidiary	190	388	3 132	-	1	410	4 121
Transfer from property, plant and equipment under construction	4 502	830 747	407 445	32 230	101 941	(1 376 866)	(1)
Sale, disposal	(379)	(7 510)	(8 749)	(4 690)	(5 372)	(126)	(26 826)
Scrapping	-	(7 231)	(9 275)	(391)	(11 056)	(1 100)	(29 053)
Donations and gratuitous transfers	-	-	(94)	(18)	-	-	(112)
Reclassification between groups	(14 490)	(13 158)	(4 144)	(729)	(3 426)	33 585	(2 362)
Gratuitous receipt	-	3 547	81	-	-	-	3 628
Transfer to assets classified as held for sale	(1 052)	(8 250)	(146)	-	(81)	(412)	(9 941)
Transfer from investment property	81	936	-	-	-	2 936	3 953
Capitalized borrowing costs	-	-	-	-	-	18 598	18 598
Other changes	263	(242)	(1 243)	(102)	(44)	(1 698)	(3 066)
As at 31 December 2012	**117 038**	**9 132 650**	**3 070 104**	**243 508**	**436 503**	**936 187**	**13 935 990**
Cumulative depreciation and impairment							
As at 1 January 2012	**-**	**(2 170 224)**	**(782 628)**	**(82 333)**	**(138 828)**	**(714)**	**(3 174 727)**
Depreciation for the period	-	(405 227)	(178 325)	(34 122)	(47 659)	-	(665 333)
Impairment losses	(395)	(11 638)	(1 102)	(29)	(119)	(119 921)	(133 204)
Reversal of impairment losses	-	562	248	-	30	66	906
Sale, disposal	-	1 416	6 076	4 009	3 779	-	15 280
Scrapping	-	3 498	5 872	290	7 325	-	16 985
Transfer to assets classified as held for sale	237	2 020	49	-	27	-	2 333
Donations and gratuitous transfers	-	-	94	18	-	-	112
Reclassification between groups	-	11 385	(8 925)	(102)	3	-	2 361
Acquisition of subsidiary	-	-	(186)	-	-	-	(186)
Other changes	-	(52)	335	102	14	-	399
As at 31 December 2012	**(158)**	**(2 568 260)**	**(958 492)**	**(112 167)**	**(175 428)**	**(120 569)**	**(3 935 074)**
Net value as at 1 January 2012	**89 878**	**6 156 885**	**1 891 992**	**125 748**	**212 302**	**673 859**	**9 150 664**
Net value as at 31 December 2012	**116 880**	**6 564 390**	**2 111 612**	**131 341**	**261 075**	**815 618**	**10 000 916**

The carrying amount of property, plant and equipment constituting security for liabilities is disclosed in Note 34.8.

Impairment tests for property, plant and equipment

In connection with changes arising in its market environment, the Group has identified certain indications, which may result in a decline of recoverable amount of property, plant and equipment of the companies in the generation segment.

The impairment tests were performed using the income method, determining value in use based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

a) paths for electricity prices for the period 2014-2028, taking into account, among others, fuel costs, costs of CO_2 allowances and the impact of the balance of demand and supply of electricity in the market, paths for prices of certificates of origin, on the basis of latest available report prepared by an independent agency for the Polish market as at 30 November 2013,

b) CO_2 emission limits for the period 2013-2021 as reported in the Polish government's derogation statement to the European Commission,

c) volumes of production from renewable energy sources and combined heat and power sources resulting from production capacities,

d) maintaining the production capacities of the existing fixed assets following replacement investments.

The performed sensitivity analyses show that the most important factors affecting the estimate of the value in use of cash generating units are projected wholesale electricity prices and fuel prices.

In case of significant changes in market conditions there is a risk that test results will be different in the future.

Power Plant B in Ostrołęka ("CGU B")

The impairment test of CGU B was performed as at 30 November 2013. The value in use was calculated on the basis of financial projections for the period of Dec 2013 - Dec 2022 and residual value. To calculate the value in use of CGU B, a discount rate equal to the weighted average cost of capital (WACC) was assumed at 10.28% before tax (8.65% after tax) taking into account the risk-free rate (based on the yield on 10-year Treasury bonds, i.e. 4.4%) and the risk premium for the relevant activities of the energy sector (5.5%). The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

The Group also determined the fair value of CGU B, corresponding to its market value less costs to sell. The fair value estimate was made based on the financial projections for the period from December 2013 to 2028 (the year 2028 results from the availability of forecasts) using the income method, considering the assumptions described above in items a) – c), the post-tax discount rate of 8.65% and the ability of market players to attain economic benefits through the most extensive and best usage of the assets forming part of CGU B.

The calculated fair value exceeded the estimated value in use of CGU B, and thus it was accepted as the recoverable amount of the property, plant and equipment forming part of CGU B as at 31 December 2013. At yearend 2013 the Group used the above value to compare the value of property, plant and equipment while recognizing the changes in the month of December to be immaterial.

Based on the calculated recoverable amount, in 2013 the Group recognized impairment allowances of PLN 151.6 m, of which:

- PLN 123.4 m was recorded in Q1 2013 as a result of the impairment test conducted as at 31 March 2013;
- PLN 28.2 m was recorded in Q4 2013 as a result of the impairment test conducted as at 30 November 2013.

The impairment allowances were recognized in the cost of sales.

Wind Farms

As at 31 December 2013 impairment tests were also conducted on the wind farms acquired in 2013 (see the description in Notes 2.2.1.2 and 2.2.1.3). On account of the assumed 25-year period of operation of the wind farms, the calculations were made on the basis of the financial projections for the full duration of their operation. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 8.86% to 9.26%. The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

Based on the results no impairment allowances were required.

14. Investment property

Investment property in ENERGA Group companies include land, perpetual usufruct right to land and buildings leased to third parties in whole or in part.

The carrying amount of investment properties presented in the consolidated statement of financial position does not differ materially from their fair value.

	Year ended 31 December 2013	Year ended 31 December 2012
Book value as at beginning of the reporting period	**17 060**	**24 552**
Increases	-	515
Depreciation	(546)	(750)
Transfer to assets classified as held for sale	(723)	(2 306)
Decreases	(602)	(4 951)
Book value as at end of reporting period	**15 189**	**17 060**

Rental revenues and direct operating expenses relating to the investment properties were as follows.

Title	Year ended 31 December 2013	Year ended 31 December 2012
Rental income from investment property	1 428	1 566
Direct operating expenses related to investment property, which generated rental income in the period	740	848
Direct operating expenses related to investment property, which did not generate rental income in the period	57	63

15. Intangible assets

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Other intangible assets	Intangible assets not in use	Total
		Total	Including software				
Gross value							
As at 1 January 2013	**644**	**356 687**	**234 569**	**86 986**	**77 020**	**52 453**	**573 790**
Direct purchase	-	1 018	795	1 332	830	91 300	94 480
Transfer of intangible assets not in use	-	32 958	17 894	-	25 539	(58 497)	-
Sale, disposal	-	(1 169)	(1 141)	(1 155)	(1 057)	-	(3 381)
Scrapping	(242)	(1 396)	(781)	-	(111)	(21)	(1 770)
Reclassification between groups	-	(4 625)	(4 760)	-	(9 626)	12 792	(1 459)
Capitalized borrowing costs	-	-	-	-	-	1 062	1 062
Acquisition of subsidiary	-			-	9 133	-	9 133
Disposal of subsidiary	-	(303)	(174)	-	-	-	(303)
Transfer to assets classified as held for sale	-	(1 994)	(1 663)	(340)	(319)	-	(2 653)
Other changes	-	891	890	1 363	1	5 326	7 581
As at 31 December 2013	**402**	**382 067**	**245 629**	**88 186**	**101 410**	**104 415**	**676 480**
Cumulative amortization (depreciation) and impairment							
As at 1 January 2013	**(644)**	**(144 417)**	**(71 427)**	**(15 266)**	**(34 900)**	**-**	**(195 227)**
Amortization for the period	-	(65 249)	(46 237)	(2 200)	(21 134)	-	(88 583)
Increase in impairment allowance	-	(34)	(23)	(224)	-	(54)	(312)
Sale, disposal	-	50	22	218	622	-	890
Scrapping	242	1 354	740	-	111	-	1 707
Reclassification between groups	-	(2 071)	(1 161)	-	3 530	-	1 459
Transfer to assets classified as held for sale	-	1 760	1 447	107	193	-	2 060
Disposal of subsidiary	-	282	152	-	-	-	282
Other changes	-	4	(167)	(101)	18	-	(79)
As at 31 December 2013	**(402)**	**(208 321)**	**(116 654)**	**(17 466)**	**(51 560)**	**(54)**	**(277 803)**
Net value as at 1 January 2013	**-**	**212 270**	**163 142**	**71 720**	**42 120**	**52 453**	**378 563**
Net value as at 31 December 2013	**-**	**173 746**	**128 975**	**70 720**	**49 850**	**104 361**	**398 677**

	Costs of development work	Licenses and patents		Right of perpetual usufruct of land	Emmision rights	Other intangible assets	Intangible assets not in use	Total
		Total	Including software					
Gross value								
As at 1 January 2012	**707**	**190 473**	**104 874**	**84 919**	**490**	**48 769**	**128 193**	**453 551**
Direct purchase	-	3 507	2 030	3 951	34 754	7 713	116 440	166 365
Transfer of intangible assets not in use	-	173 588	131 052	-	-	37 430	(211 018)	-
Sale, disposal	-	(1 980)	(1 980)	(675)	-	(5 873)	-	(8 528)
Scrapping	(63)	(1 919)	(1 277)	(33)	-	(1 563)	-	(3 578)
Donations and gratuitous transfers	-	-	-	(6)	-	-	-	(6)
Reclassification between groups	-	(7 124)	(272)	-	-	(9 456)	16 580	-
Capitalized borrowing costs	-	-	-	-	-	-	2 230	2 230
Transfer to assets classified as held for sale	-	-	-	(887)	-	-	-	(887)
Redemption of emmision rights	-	-	-	-	(35 244)	-	-	(35 244)
Other changes	-	142	142	(283)	-	-	28	(113)
As at 31 December 2012	**644**	**356 687**	**234 569**	**86 986**	**-**	**77 020**	**52 453**	**573 790**
Cumulative amortization (depreciation) and impairment								
As at 1 January 2012	**(707)**	**(110 306)**	**(47 341)**	**(12 641)**	**-**	**(17 405)**	**-**	**(141 059)**
Amortization for the period	-	(38 811)	(25 840)	(2 210)	-	(16 135)	-	(57 156)
Increase in impairment allowance	-	(30)	(30)	(732)	-	(1)	-	(763)
Sale, disposal	-	29	29	97	-	211	-	337
Scrapping	63	1 776	1 134	5	-	1 447	-	3 291
Reclassification between groups	-	3 017	713	-	-	(3 017)	-	-
Transfer to assets classified as held for sale	-	-	-	220	-	-	-	220
Other changes	-	(92)	(92)	(5)	-	-	-	(97)
As at 31 December 2012	**(644)**	**(144 417)**	**(71 427)**	**(15 266)**	**-**	**(34 900)**	**-**	**(195 227)**
Net value as at 1 January 2012	**-**	**80 167**	**57 533**	**72 278**	**490**	**31 364**	**128 193**	**312 492**
Net value as at 31 December 2012	**-**	**212 270**	**163 142**	**71 720**	**-**	**42 120**	**52 453**	**378 563**

16. CO_2 emission allowances

In 2012 the second settlement period for CO2 emission allowances in the National Allocation Plan "NAP" for 2008-2012 ended. As at the date of preparing these financial statements, the allocations of free CO_2 emission allowances to generate electrical energy under NAP for the third settlement period (included in the Polish government's derogation application to the European Commission) has been published. The prerequisite to receive them is to complete the investment projects included in the National Investment Plan ("NIP") and to use the capital expenditures for their execution to make settlements for the awarded allowances. On 22 January 2014 the European Commission recognized the Polish plan calling for the designation of 404.6 m CO_2 emission allowances to modernize the electrical energy sector as being compliant with the regulations on state aid. The next step is for the Polish government to issue a regulation containing a list of the installations generating electrical energy covered by the EU ETS scheme during the settlement period from 2013 to 2020 along with the number of emission allowances assigned to these installations. The allowances will be transferred to the accounts of the businesses on this basis.

According to the assumptions, during the third settlement period the free-of-charge allowances to generate electrical energy will be gradually retracted, while at the latest by 2020 the issuance of free-of-charge CO_2 emission allowances for installations generating electrical energy will be ended. A similar mechanism will be in force for the generation of heat where the free-of-charge allowances will expire in 2027.

The changes to the quantity (in 000s of tons) of emission allowances received under the NAP, as well as the ones bought by the Group companies on the secondary market were as follows:

Title	Year ended 31 December 2013	Year ended 31 December 2012*
	(thousands of tons)	
The balance of CO_2 emission rights at the beginning of the period	**30,7**	**(122,5)**
Granted under the National Allocation Plan	-	3 080,4
Acquired on the secondary market	1 023,0	2 426,9
Total	**1 023,0**	**5 507,3**
CO_2 emissions	(3 184,6)	(2 942,4)
CO_2 emission rights sold	(9,2)	(2 411,7)
The balance of emission rights from previous years	30,7	(122,5)
The balance of CO_2 emission rights as at the end of period	**(2 140,1)**	**30,7**
of which generating companies	(3 154,2)	30,4
of which ENERGA – OBRÓT SA	1 014,1	0,3

*In 2012 the 5-year settlement period for CO_2 emission allowances came to an end. Purchases made in 2013 to cover the previous year's losses in the foregoing table were included in 2012.

According to the adopted policy (see Note 9.19) the Group recognizes provisions for gas emission liabilities in the event of exceeding CO_2 emissions above the free-of-charge emission allowances held as at the end of the reporting period. As at 31 December 2013 free-of-charge CO_2 emission allowances stemming from the published allocation had not been credited to the accounts of the Group companies and the appropriate legal regulations on whose basis these allowances are to be transferred had not been accepted.

Accordingly, the provision for the gas emission was calculated as at 31 December 2013 in the amount of PLN 62.6 m, corresponding to the volume of CO_2 emissions the Group companies made in 2013.

17. Goodwill

	Year ended 31 December 2013	Year ended 31 December 2012
Gross value at the beginning of the period	**28 627**	**17 609**
Total increases, of which:	**116 708**	**11 018**
purchase of shares in subsidiaries	116 708	11 018
Total decreases	**(362)**	**-**
disposal of shares in a subsidiary	(362)	-
Gross value at the end of the period	**144 973**	**28 627**
Impairment at the beginning of the period	**-**	**-**
increase	-	-
decrease	-	-
Impairment at the end of the period	**-**	**-**
Net value at the beginning of the period	**28 627**	**17 609**
Net value at the end of the period	**144 973**	**28 627**

As at 31 December 2013, the Group conducted an impairment test of the company established as a result of the share purchase transaction in companies held by EPW Energia Sp. z o.o. (formerly Iberdrola Renewables Polska Sp. z o.o.) The goodwill of PLN 105.3 m recognized on the purchase of EPW Energia Sp. z o.o.'s net assets was allocated to the group of cash generating units comprising wind generation assets. Assumptions made for the purposes of this test are presented in Note 13. Based on the results, no impairment allowances were required at the end of the reporting period.

The performed sensitivity analyses show that the most key factor affecting the estimate of the value in use are projected wholesale electricity prices. In case of significant changes in market conditions there is a risk that test results will be different in the future.

18. Investments in associated entities measured by the equity method

The table below contains information on investments in associates measured by the equity method:

Name of associate	SOEN SP. Z O.O.	BIO-POWER SP. Z O.O.	TOTAL
Share in the votes of the associate	48,5%	25,0%	
Year ended 31 December 2013			
Share in assets and liabilities of the associates:			
Current (short-term) assets	2 255	90	2 345
Non-current (long-term) assets	4 113	4 606	8 719
Short-term liabilities	2 067	964	3 031
Long-term liabilities	105	3 035	3 140
Share in net assets	**4 196**	**697**	**4 893**
Goodwill	-	1 301	1 301
Impairment of investments in associates	(3 196)	-	(3 196)
Shares and interests in associates presented in statement of financial position, of which:	**1 000**	**1 998**	**2 998**
- other non-current assets	**-**	**1 998**	**1 998**
- other current assets	**1 000**	**-**	**1 000**
Share in the profit (loss) of the associated entity:	**1**	**(583)**	**(582)**

19. Inventories

Title	Historical cost	31 December 2013 Impairment charge	Net value
Materials	96 509	(633)	95 876
Finished products	56	-	56
Semi-finished products and production in progress	5 138	-	5 138
Merchandise	38 613	(1 772)	36 841
Energy certificates of origin	165 009	(877)	164 132
Total	**305 325**	**(3 282)**	**302 043**

Impairment of inventories as at 31 December 2012	**(2 549)**
Impairment allowances created	(1 508)
Impairment allowances reversed	775
Impairment allowances used	-
Impairment of inventories as at 31 December 2013	**(3 282)**

Group companies recognize revaluation allowances for inventories based on the loss of their economic usefulness determined by aging and turnover, down to the amount of the achievable net sale price. The allowances are reversed when the inventories affected by the allowance are used up or sold.

20. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates negotiated with banks, the level of which depends on the interest rate applicable to overnight bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Group's current cash requirements and earn interest at interest rates negotiated individually with banks. Cash and cash equivalents also include units in the ENERGA Trading SFIO fund, which are measured at fair value (measurement method described in Note 34.3.1).

ENERGA Trading SFIO has been established to manage financial surpluses of ENERGA Group companies and is an alternative to bank deposits, even overnight deposits. The fund is high liquidity and low risk. Mechanisms embedded in the fund settlement system offer the redemption of fund units to cash on the same business day (for orders placed in the morning) or on the next day (for orders placed in the afternoon). Additionally, ENERGA Group companies may offset their mutual receivables and liabilities using the units in the fund.

The balance of cash and cash equivalents presented in the cash flow statement consisted of the following items:

Title	As at 31 December 2013	As at 31 December 2012
Cash at bank and in hand	466 178	390 198
Short term deposits up to 3 months	1 318 811	972 732
Participation units in liquidity funds	567 249	705 911
Other	67	217
Total cash and cash equivalents presented in the statement of financial position	**2 352 305**	**2 069 058**
Unrealised exchange rate differences and interest	(6 762)	(13 655)
Cash and cash equivalents classified as assets held for sale	14 439	-
Current account overdrafts	(9 269)	(26 030)
Total cash and cash equivalents presented in the statement of cash flow	**2 350 713**	**2 029 373**

21. Other assets

21.1. Other non-current assets

Title	As at 31 December 2013	As at 31 December 2012
Long-term receivables	2 065	218
Advances for property, plant & equipment under construction and intangible assets	4 268	8 707
Long-term prepayments and accrued expenses	34 656	21 194
Other	1 302	1 573
TOTAL	**42 291**	**31 692**

21.2. Other current assets

Title	As at 31 December 2013	As at 31 December 2012
Property, casualty and transport insurance	14 409	14 777
IT services	2 075	676
Other deferred costs	4 566	15 783
Advance for deliveries	14 699	7 059
VAT receivable	101 745	93 687
Other tax receivables	1	12 189
Surplus of Social Fund assets over Social Fund liabilities	316	603
Biological assets	4 055	1 812
Other short-term assets	3 708	8 930
TOTAL	**145 574**	**155 516**

22. Discontinued activity and assets classified as held for sale

22.1. Discontinued operations

In 2012, the Group made a decision to discontinue a hotel business operated by its subsidiaries: Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. w likwidacji (in liquidation) and Kongres Sp. z o.o. w likwidacji (in liquidation). By the date of these financial statements, Kongres Sp. z o.o. has been liquidated, while the liquidation of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. has commenced. The financial results of those companies for the current reporting period (including impairment allowances for non-current assets) are included in the consolidated statement of profit or loss as result on discontinued operations.

The table below contains results on discontinued operations for 2013 and comparative data:

Title	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	4 799	6 576
Costs	(10 439)	(24 670)
Loss before tax	(5 640)	(18 094)
Tax expense	-	(213)
Net loss	**(5 640)**	**(18 307)**
Cash flows, of which:	**4 011**	**(8 869)**
from operating activities	(3 528)	(4 517)
from investing activities	10 084	398
from financing activities	(2 545)	(4 750)
Earnings per share from discontinued operations (ordinary and diluted) (in PLN)	**(0,01)**	**(0,04)**

The entire net result on discontinued operations is allocated to the shareholders of the Parent Company.

22.2. Assets classified as held for sale

The Group has taken steps to sell shares in the following subsidiaries operating as supporting services providers for the Distribution System Operator business (ENERGA – OPERATOR SA), i.e. design and specialized power construction and the production of power devices: Przedsiębiorstwo Budownictwa Elektroenergetycznego "ENBUD" Słupsk Sp. z o.o., Zakład Budownictwa Energetycznego Sp. z o.o., ZEP – Centrum Wykonawstwa Specjalistycznego Sp. z o.o., Energetyka Kaliska – Usługi Techniczne Sp. z o.o., ENERGA – OPERATOR Produkcja Sp. z o.o., Przedsiębiorstwo Wielobranżowe Energetyki "ELEKTROINSTAL" Sp. z o.o., ENERGETYK Sp. z o.o. w likwidacji (in liquidation).

On 6 February 2014, conditional sales agreements were concluded for 100% stakes in ENERGA – OPERATOR Produkcja Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Energetyki "ELEKTROINSTAL" Sp. z o.o. The suspending condition was an approval of the President of OCCP for concentration, whose favourable decision was issued on 27 February 2014. Currently the Group is in search of prospective buyers for shares in the remaining entities. The Group expects that the sales process will be completed in the next 12 months. Consequently, all the assets and liabilities of these entities were presented in the consolidated statement of financial position as held for sale.

The Group also presents a part of the assets of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. w likwidacji (in liquidation) (hotel and recreation and leisure facilities) as assets held for sale.

Main categories of assets and liabilities making up the activities classified as held for sale at the end of the reporting period are presented in the following table:

Title	As at 31 December 2013	As at 31 December 2012
ASSETS		
Property, plant and equipment	44 568	7 195
Investment property	3 029	2 306
Intangible assets	1 156	667
Deferred tax assets	4 217	-
Other non-current assets	900	-
Inventories	8 038	-
Current tax receivables	1 473	-
Trade receivables	4 959	-
Deposits	24 057	-
Cash and cash equivalents	14 439	-
Other current assets	2 280	-
Assets classified as held for sale	**109 116**	**10 168**
LIABILITIES		
Non-current provisions	20 632	-
Deferred tax liabilities	506	-
Other financial non-current liabilities	951	-
Trade liabilities	39 208	-
Other financial liabilities	2 199	
Accruals	1 941	-
Provisions	1 286	-
Other current liabilities	14 596	-
Liabilities related to assets classified as held for sale	**81 319**	**-**

23. Other liabilities

23.1. Other non-current liabilities

Title	As at 31 December 2013	As at 31 December 2012
Other non-financial liabilities	**1 406**	**613**
Liabilities to employees on account of restructuring severance pay	1 167	385
Other	239	228
Total	**1 406**	**613**

23.2. Other current liabilities

Title	As at 31 December 2013	As at 31 December 2012
Liabilities on account of taxes, customs duties, social security, salaries and others	**131 966**	**187 426**
Excise tax	5 557	31 959
VAT	52 203	85 234
Liabilities on social security insurance	40 652	45 155
Personal income tax	18 949	16 652
Environmental fees	13 791	6 566
Other	814	1 860
Other non-financial liabilities	**223 767**	**198 748**
Payroll liabilities	31 288	32 575
Liabilities to employees on account of restructuring severance pay	49 781	7 281
Deferred counterparty payments and advances received	139 017	153 411
Surplus of Social Fund assets over Social Fund liabilities	206	436
Other	3 475	5 045
Total	**355 733**	**386 174**

24. Accruals and deferred income

24.1. Deferred income

Title	As at 31 December 2013	As at 31 December 2012
Property, plant & equipment acquired free of charge	60 642	63 057
Subsidies received	134 547	96 027
Lease income	13 637	21
Connection fees	306 712	320 144
Other deferred income	5 744	5 694
TOTAL, including:	**521 282**	**484 943**
Long-term	489 234	456 010
Short-term	32 048	28 933

As at 31 December 2013, the Group recognizes as subsidies: primarily, the valuation effect of the preferential loan from the European Investment Bank (see descriptions in Note 9.22 and 34.5) of PLN 70.2 m and co-financing of PLN 30.6 m received to execute the project of building a biomass-fired power unit in Elbląg.

24.2. Accrued cost

Title	As at 31 December 2013	As at 31 December 2012 (restated)
Accruals for unused holiday leave pay	23 592	20 825
Accruals for annual bonus and other employee bonuses	96 896	92 713
Management Board bonuses	6 325	3 359
TOTAL	**126 813**	**116 897**

25. Employee benefits

Pension and similar benefits, jubilee bonuses

The Group pays out retirement and disability pensions to its employees who retire or go on a disability pension, in amounts set in the Collective Bargaining Agreements. Jubilee bonuses are paid to those employees who reach specified anniversaries of their professional work. Accordingly, based on actuarial valuations, Group companies recognize a provision for the present value of the liability for retirement and disability pensions and jubilee bonuses.

Employee's Energy Tariff

By the power of the Sectoral Collective Bargaining Agreement amended in 2005, the obligation to pay benefits under so-called "employee's energy tariff" to former energy industry employees and other eligible persons has been allocated to individual companies which the eligible persons used to work for. Accordingly, the Group recognizes a relevant provision. The provision amount is estimated by an actuary.

Company Social Benefit Fund

Group entities make contributions to their Company Social Benefit Funds for retirees and disability pensioners. Provisions are recognized for the cost of such benefits, in amounts estimated using actuarial methods.

The amounts of those provisions and the reconciliation of changes in the balances are presented in the tables below:

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2013	**113 391**	**264 736**	**80 805**	**458 932**
Acquisition of subsidiary	(994)	(701)	(284)	(1 979)
Current service cost	7 925	6 801	2 528	17 254
Actuarial gains and losses	(12 712)	(57 797)	(29 801)	(100 310)
Benefits paid	(3 259)	(9 123)	(2 575)	(14 957)
Interest cost	4 644	10 715	3 270	18 629
Provisions released	(10 807)	(10 957)	(4 107)	(25 871)
Transfer to assets held for sale	(4 387)	(7 116)	(2 273)	(13 776)
Reclassified	(1 776)	(1 405)	(326)	(3 507)
As at 31 December 2013	**92 025**	**195 153**	**47 237**	**334 415**
Short-term as at 31 December 2013	**3 250**	**9 930**	**2 700**	**15 880**
Long-term as at 31 December 2013	**88 775**	**185 223**	**44 537**	**318 535**

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2012	**96 376**	**306 272**	**72 439**	**475 087**
Current service cost	8 903	4 626	2 960	16 489
Actuarial gains and losses	8 367	(50 205)	4 375	(37 463)
Benefits paid	(2 082)	(9 007)	(2 336)	(13 425)
Past service cost	(483)	-	-	(483)
Interest cost	5 850	15 811	4 261	25 922
Provisions released	(363)	(344)	(115)	(822)
Reclassified	(3 177)	(2 417)	(779)	(6 373)
As at 31 December 2012 (restated)	**113 391**	**264 736**	**80 805**	**458 932**
Short-term as at 31 December 2012 (restated)	**2 476**	**9 928**	**2 684**	**15 088**
Long-term as at 31 December 2012 (restated)	**110 915**	**254 808**	**78 121**	**443 844**

Key assumptions adopted by the actuary to calculate the liability amounts at the end of the reporting period are as follows:

Title	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate	4,66%	3,80%
Employee turnover rate	by companies' employee turnover*	
Expected salary increase rate (%)	4,50%	4,50%
Expected Company Social Benefit Fund charge increase rate (%)	3,50%	5,70%
Basis for the Company Social Benefit Fund charge (%)	3,00%	3,00%
Expected energy tariff increase rate	by price paths**	

* Employee turnover has been calculated on the basis of historical data from three most recent years, separately for each 10-year age bracket.
** Energy price paths were adopted on the basis of industry experts' reports.

Based on data received from the actuary, the Group estimates that the change in assumptions would affect the amount of provisions for retirement and disability benefits, the employee benefit fund and the energy tariff as follows:

- Adoption of a discount rate higher by 1 percentage point would cause a decrease in the amount of the provisions by about 11% in 2013, while adoption of a discount rate lower by 1 percentage point would cause an increase in the provision amount by about 13%,
- Adoption of planned salary increases 1 percentage point higher would result in an increase in provisions by about 13%, while adoption of planned increases of salaries 1 percentage point lower would result in a decrease in provisions by about 11%.

26. Social assets and liabilities of the Company Social Benefit Fund

Pursuant to the Social Benefit Fund Act of 4 March 1994, as amended, the Company Social Benefit Fund is established by employers (companies) employing more than 20 employees on a full time equivalent basis. Group companies establish such funds and make periodic contributions. The funds of ENERGA SA Group companies contain no property, plant and equipment. The purpose of the Funds is to subsidize the social activity of the individual Group companies, grant loans to employees and subsidize other social expenses, such as co-payments to employee holidays.

Group companies have offset the Fund's assets with their liabilities towards the Fund on the individual level, because these assets do not constitute separate assets of the companies. At the level of consolidated financial data, the net balance as at 31 December 2013 was PLN 110 thousand.

The table below presents the structure of the Funds' assets, liabilities and expenses.

Title	As at 31 December 2013	As at 31 December 2012
Loans granted to employees	16 435	18 992
Cash and cash equivalents	4 399	6 202
Fund's liabilities	20 724	25 027
Balance after set-off	**110**	**167**
Charges to the fund during the period	40 423	48 379

27. Earnings per share

There were no diluting instruments in the Company and therefore diluted earnings per share are equal to basic earnings per share. The data used to calculate earnings per share are presented below.

Title	Year ended 31 December 2013	Year ended 31 December 2012
Net profit on continuing operations attributable to the ordinary shareholders of the Parent Company	769 612	475 341
Net loss on discontinued operations attributable to the ordinary shareholders of the Parent Company	(5 640)	(18 307)
Net profit attributable to the ordinary shareholders of the parent company	**763 972**	**457 034**
Number of ordinary shares at the end of the period	414 067 114	4 968 805 368
Number of issued common shares used to calculate basic earnings per share*	414 067 114	414 067 114
Earnings per share from continuing operations (basic and diluted) (in PLN)	**1,86**	**1,15**
Earnings per share from discontinued operations (basic and diluted) (in PLN)	**(0,01)**	**(0,04)**

*for calculation of earnings per share for the current and previous period, the number of shares after the reverse split was used – see note 29.1

28. Dividends

Title	Year ended 31 December 2013	Year ended 31 December 2012
Dividends declared in the period		
dividend declared by subsidiaries to non-controlling interests	1 755	8 184
dividend declared by the Parent Company	496 881	645 945
Total	**498 636**	**654 129**
Dividends paid in the period		
dividend paid in the period	1 770	8 188
dividend per share paid by the Group	495 697	645 736
Total	**497 467**	**653 924**
Dividend per share paid by the Parent Company	**0,10**	**0,13**

When calculating dividend per share paid by the Parent Company, the number of Parent Company's shares on the dividend payment date was used. Dividend per share paid out in 2013 and 2012, in a situation where the reverse split of the Parent Company had taken place before the dividend was paid out, would have amounted to PLN 1.20 and PLN 1.56, respectively.

The Management Board of ENERGA SA proposes to pay out a dividend from the 2013 profit in the amount off PLN 1 per share, which makes up the total amount of PLN 414,067 thousand.

29. Share capital and other capital

29.1. Share capital

On 3 September 2013, the Extraordinary General Meeting of ENERGA SA adopted a resolution on a reverse split of ENERGA SA shares and reduction of the company's share capital. In the reverse split, the overall number of the company's shares, of all the series: A, B and C, was reduced pro rata from 4,968,805,368 shares to

414,067,114 shares. The share capital reduction was achieved by reducing the par value of all the existing shares in the company from PLN 12 (the new par value of shares after the reverse split) to PLN 10.92 each. The company's share capital was reduced without any distributions to shareholders, including the State Treasury and resulted in a transfer of funds from the share capital to reserve capital.

As a result of the resolutions adopted, as at 31 December 2013, the share capital of ENERGA SA amounted to PLN 4,521,612,884.88 and was divided into shares as specified below:

Title	As at 31 December 2013
Registered shares of AA series with a nominal value of PLN 10,92 each	269 139 114
Registered shares of BB series with a nominal value of PLN 10,92 each	144 928 000
Total number of shares	**414 067 114**

Title	As at 31 December 2012
Registered shares of A series with a nominal value of PLN 1 each	255 000
Registered shares of B series with a nominal value of PLN 1 each	4 845 611 133
Registered shares of C series with a nominal value of PLN 1 each	122 939 235
Total number of shares	**4 968 805 368**

29.1.1 Major shareholders

Title	Year ended 31 December 2013	Year ended 31 December 2012
State Treasury		
share in capital	51,52%	84,18%
share in voting rights	64,09%	84,18%
Other shareholders		
share in capital	48,48%	15,82%
share in voting rights	35,91%	15,82%

On 27 January 2014, the State Treasury Minister informed the Parent Company that, as a result of a reverse transfer outside of the regulated market of 6,286,317 series AA common bearer shares of the Company by one of the stabilizing managers, the exposure of the State Treasury to Energa SA increased (stabilization ended in December 2013). As at the date of these financial statements, the State Treasury holds 51.52% of ENERGA shares, which represents 64.09% of the overall number of votes in ENERGA SA.

29.1.2 Shareholders' rights

At the end of the reporting period, the State Treasury owned 213,326,317 shares of the Company, constituting 51.52% of its share capital and entitling to exercise 358,254,317 votes at the General Meeting, which makes up 64.09% of the total number of votes at the General Meeting (including 144,928,000 registered series BB shares, preferred with respect to the voting right at the General Meeting in such a way that one series BB share gives the right to two votes at the General Meeting).

According to the Parent Company's Articles of Association in effect on the date of this report, Supervisory Board members are appointed and dismissed by the General Meeting, but the State Treasury is personally entitled to appoint and dismiss Supervisory Board members so that the State Treasury has an absolute majority of the votes in the Supervisory Board. The above entitlement expires on the date on which the State Treasury's share in the share capital falls below 20%.

29.2. Reserve capital

Reserve capital was created as a result of the share capital reduction made in connection with reverse split of the Parent Company's shares (see the description above). Reserve capital may be used only to cover future losses or to raise the Parent Company's share capital.

29.3. Supplementary capital

Supplementary capital was created from profit generated by the Parent Company in previous reporting periods.

29.4. Cash flow hedge reserve

The cash flow hedge reserve follows from valuation of the transaction of cross-currency interest rate swaps (CCIRS) executed to hedge the currency exchange risk connected with Eurobonds issued by the subsidiary – ENERGA Finance AB (publ) (see the description in Note 34.7).

29.5. Retained earnings and restrictions on dividend payment

The Group's retained earnings include amounts that are not subject to distribution, or cannot be paid out as dividend by the Parent Company. This refers, in particular, to the retained earnings of subsidiaries (taking into account consolidation adjustments), adjustments resulting from the transition of the Parent Company's financial statements from the Accounting Act to IFRS EU and actuarial gains and losses from the valuation of provisions for post-employment benefits recognized in other comprehensive income.

In addition, pursuant to the Commercial Company Code, the parent company and the subsidiaries having the status of joint stock companies are obligated to establish supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the company's separate statements is transferred to supplementary capital until the capital reaches at least one third of the company's share capital. The use of the supplementary capital and reserve capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the standalone financial statements and cannot be allocated to other purposes.

29.6. Non-controlling interest

As at 31 December 2013, equity attributable to non-controlling interest refer to minority shareholders of companies in the generation segment, in particular ENERGA Elektrownie Ostrołęka SA.

30. Provisions

	Post-employment benefits	Jubilee bonuses	Employee matters	Restructuring provision	Total provisions for employee benefit	Provision fo legal claims	Provision for reclamation and decommissioning costs of property, plant and equipment	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Other provisions	Total other provisions	Total
As at 1 January 2013	**458 932**	**275 407**	**3 505**	**56 913**	**794 757**	**199 092**	**9 299**	**307**	**211 036**	**51 640**	**471 374**	**1 266 131**
Purchase/disposal of subsidiary	(1 979)	(1 138)	-	-	**(3 117)**	(394)	14 700	-	-	(3)	**14 303**	**11 186**
Current service cost	17 254	23 342	-	-	**40 596**	-	-	-	-	-	**-**	**40 596**
Actuarial gains and losses	(100 310)	(26 929)	-	-	**(127 239)**	-	-	-	-	-	**-**	**(127 239)**
Benefits paid	(14 957)	(21 015)	-	-	**(35 972)**	-	-	-	-	-	**-**	**(35 972)**
Interest cost	18 629	11 237	-	-	**29 866**	-	305	-	-	-	**305**	**30 171**
Raised	-	-	-	69 091	**69 091**	73 342	336	62 746	116 603	47 408	**300 435**	**369 526**
Released	(25 871)	(21 996)	(347)	(1 254)	**(49 468)**	(74 344)	(832)	-	(2 745)	(1 435)	**(79 356)**	**(128 824)**
Used	-	-	(1 813)	(51 909)	**(53 722)**	(97 504)	-	(307)	(208 291)	(50 226)	**(356 328)**	**(410 050)**
Reclassified	(3 507)	(4 339)	-	7 846	**-**	-	-	-	-	-	**-**	**-**
Transfer to liabilities related to assets classified as held for sale	(13 776)	(7 815)	-	-	**(21 591)**	-	-	-	-	(327)	**(327)**	**(21 918)**
As at 31 December 2013	**334 415**	**226 754**	**1 345**	**80 687**	**643 201**	**100 192**	**23 808**	**62 746**	**116 603**	**47 057**	**350 406**	**993 607**
Short-term as at 31 December 2013	**15 880**	**19 598**	**1 345**	**80 687**	**117 510**	**100 192**	**-**	**62 746**	**116 603**	**47 057**	**326 598**	**444 108**
Long-term as at 31 December 2013	**318 535**	**207 156**	**-**	**-**	**525 691**	**-**	**23 808**	**-**	**-**	**-**	**23 808**	**549 499**

	Post-employment benefits	Jubilee bonuses	Employee matters	Restructuring provision	Total provisions for employee benefit	Provision for legal claims	Provision for reclamation of ash landfills	Provision for liabilities for gas emissions	Provision for redemption of energy certificates of origin	Other provisions	Total other provisions	Total
As at 1 January 2012 roku	**475 087**	**217 785**	**3 115**	**64 143**	**760 130**	**76 771**	**4 754**	**31 015**	**268 647**	**37 264**	**418 451**	**1 178 581**
Current service cost	16 489	19 991	-	-	**36 480**	-	-	-	-	-	**-**	**36 480**
Actuarial gains and losses	(37 463)	50 738	-	-	**13 275**	-	-	-	-	-	**-**	**13 275**
Benefits paid	(13 425)	(20 158)	-	-	**(33 583)**	-	-	-	-	-	**-**	**(33 583)**
Past service cost	(483)	(1 691)	-	-	**(2 174)**	-	-	-	-	-	**-**	**(2 174)**
Interest cost	25 922	13 732	-	-	**39 654**	-	1 254	-	-	-	**1 254**	**40 908**
Raised	-	-	2 161	52 325	**54 486**	188 682	3 291	17	211 036	43 030	**446 056**	**500 542**
Released	(822)	(309)	(1 111)	(8 128)	**(10 370)**	(65 299)	-	(45)	(1 794)	(120)	**(67 258)**	**(77 628)**
Used	-	-	(660)	(62 481)	**(63 141)**	(1 062)	-	(30 680)	(266 853)	(28 534)	**(327 129)**	**(390 270)**
Reclassified	(6 373)	(4 681)	-	11 054	-	-	-	-	-	-	**-**	**-**
As at 31 December 2012 (restated)	**458 932**	**275 407**	**3 505**	**56 913**	**794 757**	**199 092**	**9 299**	**307**	**211 036**	**51 640**	**471 374**	**1 266 131**
Short-term as at 31 December 2012 (restated)	**15 088**	**18 651**	**3 478**	**56 083**	**93 300**	**199 092**	**-**	**307**	**211 036**	**51 610**	**462 045**	**555 345**
Long-term as at 31 December 2012 (restated)	**443 844**	**256 756**	**27**	**830**	**701 457**	**-**	**9 299**	**-**	**-**	**30**	**9 329**	**710 786**

31. Investment commitments

Development of the heat & power system in Ostrołęka

Following the 2009 acquisition of shares in ENERGA OPEC Sp. z o.o. (formerly Ostrołęckie Przedsiębiorstwo Energetyki Cieplnej Sp. z o.o.) ENERGA SA and ENERGA Elektrownie Ostrołęka SA agreed to proceed with an investment program for the development of the heat and power system in the area of the city of Ostrołęka. In 2012, ENERGA Elektrownie Ostrołęka SA entered into an agreement to perform an investment project "Investment commitments to ENERGA OPEC sp. z o.o. – Construction of a heat source for the city of Ostrołęka." Completion of works and putting in operation a new heat source of 174 MWt powered by heating water is planned for 2014. According to the assumptions, the object of the agreement will be worth PLN 160 m.

Moreover, in 2011 the subsidiary ENERGA OPEC Sp. z o.o. entered into an agreement with the National Environment Protection and Water Management Fund in Warsaw for subsidising a project aimed at reducing transmission losses. The assumed total costs of the project are planned at PLN 33.8 m.

By the end of 2013, the total expenditures incurred for the execution of all the above projects amounted to PLN 139.4 m.

Distribution System Operator Commitments

ENERGA – OPERATOR SA (Distribution System Operator) runs its business based on the Polish Energy Law and the concession held. Both documents define duties such as, among others, the obligation to deliver electricity safely and continuously as well as connecting new entities to the grid. The Energy Law also imposes on the company the obligation to prepare development plans defining a substantive and financial scope of capital expenditures, to be subsequently approved by the President of the Energy Regulatory Office ("URE").

The expenditures planned for the years 2014-2016 are as follows: 2014 – PLN 1,281.9 m, 2015 – PLN 1,240.7 m, 2016 – PLN 1,145.9 m (according to fixed prices from 2013).

Investment program of ENERGA Kogeneracja Sp. z o.o.

The bond issue program for funding the investments of the subsidiary ENERGA Kogeneracja Sp. z o.o. covering the construction of a new power unit and the modernization of the boiler through implementing a biomass joint combustion option is also classified as an investment commitment. The total planned capital expenditures amount to PLN 224.5 m, of which investments of PLN 212.3 m were made by the end of 2013.

Construction of gas - steam power plants in Grudziadz and Gdansk

The process of construction of the gas - steam power plants in Grudziadz and Gdansk is handled by special purpose vehicles established in December 2012, Elektrownia CCGT Grudziądz Sp. z o.o. and Elektrownia CCGT Gdańsk Sp. z o.o. The total estimated value of liabilities under the contracts concluded by the companies in connection with this investment project is approx. PLN 34.7 m, of which PLN 4.0 m were already expended by the end of 2013.

Development of the heat system in Kalisz

Following the acquisition on 9 April 2013 of 90% of the shares in Ciepło Kaliskie Sp. z o.o. (see Note 2.2.1.1), the subsidiary ENERGA Kogeneracja Sp. z o.o. committed to implement an investment programme in the acquired company for an amount of not less than PLN 15 m within 6 years.

Sales support system

On 24 June 2013 ENERGA SA signed an agreement for the development and implementation of the sales support system, including billing and customer relationship management systems (CRM, Customer Relationship Management) in the Group. Under such agreement ENERGA SA undertook to incur expenditures for property, plant and equipment and intangible assets for the total amounts of PLN 5.5 m and PLN 63.2 m - respectively.

32. Tax settlements

32.1. ENERGA – OPERATOR Tax Group

On 28 December 2011, the subsidiary ENERGA – OPERATOR SA, with its associates:

- ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.,
- ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.,
- ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.,
- ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.,
- ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.,
- ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.,
- ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.

entered into an agreement on a Tax Group named PGK ENERGA – OPERATOR ("PGK"). ENERGA – OPERATOR SA was selected as a company to represent PGK with regard to duties resulting from the Corporate Income Tax Act and the Tax Ordinance.

PGK's operation started on 1 April 2012 and will continue for the period of 3 tax years. In PGK, tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

32.2. Excise tax refund

As the Polish provisions on excise tax turned out to be inconsistent with provisions of the Energy Directive, ENERGA Elektrownie Ostrołęka SA filed an application to the relevant customs office regarding recognition and refund of excise tax paid in excess for the years 2006-2008 in the amount PLN 166.9 m. In compliance with the Excise Tax Act, the company declared and paid, in the years 2006-2008, excise tax on the sale of energy to non-final recipients, whereas pursuant to provisions binding in the European Union, electricity is subject to taxation not earlier than at the moment of delivery to a final recipient.

As at the date ending the reporting period, no final decisions were issued in the case.

33. Information on related entities

Transactions with related entities are made based on market prices of goods, products or services delivered resulting from their manufacturing costs.

33.1. Transactions involving entities related to the State Treasury

The Group's parent is the State Treasury. Accordingly, other entities related to the State Treasury are treated by the Group as related parties.

Transactions with entities related to the State Treasury were concluded in regular business dealings and pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase and transportation of fuel (mainly coal). The Group does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

Moreover, in the current reporting period, the subsidiary ENERGA – OPERATOR SA paid to PSE SA the amount of PLN 95.5 m in connection with the discontinuation of the dispute described in Note 40.6.

(This is translation of the consolidated financial statements originally issued in Polish)

33.2. Transactions with associates

Year ended 31 December 2013	Sales	Purchases	Receivables	Liabilities
Soen Sp. z o.o.	539	4 076	13	676
Słupskie Towarzystwo Koszykówki Sportowa Spółka Akcyjna*	-	2 240	-	-
Oświetlenie Uliczne i Drogowe Sp. z o.o.*	26 807	-	-	-
Total	**27 346**	**6 316**	**13**	**676**

* Transactions in the period from 1 January 2013 to the date of selling shares in the companies.

As at the end of the reporting period, there were no overdue receivables or liabilities under transactions with associates.

33.3. Transactions with members of the Parent Company's Managements Board

During the reporting period, the Parent Company did not conclude material transactions with Management Board members.

33.4. Remuneration paid or due to members of Management Boards and Supervisory Boards of Group companies

Title	Year ended 31 December 2013	Year ended 31 December 2012
Management Board of the parent company	5 171	1 213
Supervisory Board of the parent company	249	280
Management Boards of subsidiaries	32 921	22 715
Supervisory Board of subsidiaries	1 655	2 621
Total	**39 996**	**26 829**

33.5. Remuneration paid or due to senior management (except for members of Management Boards and Supervisory Boards)

Title	Year ended 31 December 2013	Year ended 31 December 2012
Short-term employee benefits (salaries and salary related costs)	49 717	46 721
Jubilee bonuses	711	903
Post-employment benefits	59	81
Employment termination benefits	834	304
Total amount of remuneration paid to senior management (except for Management Boards and Supervisory Boards members)	**51 321**	**48 009**

34. Financial instruments

34.1. Carrying value of financial instruments by category and class

Title	As at 31 December 2013	As at 31 December 2012 (restated)
Classes of financial instruments		
Deposits	4 121	26 784
Bonds, treasury bills and other debt instruments	14 728	27 107
(Non-consolidated) shareholdings	1 314	2 831
Trade receivables	1 469 543	1 520 668
Cash and cash equivalents, including:	2 352 305	2 069 058
Units of participation in the ENERGA Trading SFIO fund	567 249	705 911
Receivables from sale of property, plant & equipment and intangible assets	1 979	2 516
Other financial assets	7 528	4 923
Hedging derivatives (assets)	13 017	-
Total assets	**3 864 535**	**3 653 887**
Preferential loans and borrowings	935 800	996 129
Loans and borrowings	1 140 657	1 393 618
Current account overdraft	9 269	26 030
Bonds issued	3 190 037	1 079 219
Trade liabilities	889 902	710 651
Other financial liabilities	12 462	26 615
Liabilities from purchase of property, plant & equipment and intangible assets	219 640	139 034
Total liabilities	**6 397 767**	**4 371 296**
Categories of financial instruments		
Financial assets measured at fair value through profit or loss	2 361 147	2 075 858
Financial assets available for sale	14 728	-
Investments held to maturity	4 121	53 891
Loans and receivables	1 471 522	1 524 138
Hedging derivatives	13 017	-
Total assets	**3 864 535**	**3 653 887**
Financial liabilities measured at amortized cost	6 397 767	4 371 296
Total liabilities	**6 397 767**	**4 371 296**

34.2. Items of income, expense, profits and losses recognized in the statement of comprehensive income, by category of financial instruments

Year ended 31 December 2013	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Hedging derivatives	Total
Dividends and profit-sharing	68	-	-	-	-	**68**
Interest income/(cost)	68 810	1 039	36 852	(222 579)	(18 408)	**(134 286)**
Foreign exchange gains and losses	7 312		(9)	11 028	(16 320)	**2 011**
Reversal of impairment allowances / increase of value	128	-	51 483	-	-	**51 611**
Creation of Impairment allowances / decrease of value	(924)	(12 379)	(115 504)	-	-	**(128 807)**
Profit/(loss) on sale of investments	(1 128)	-	-	-	-	**(1 128)**
Total net profit/(loss)	**74 266**	**(11 340)**	**(27 178)**	**(211 551)**	**(34 728)**	**(210 531)**
Net other comprehensive income	-	-	-	-	32 765	32 765
Total comprehensive income	**74 266**	**(11 340)**	**(27 178)**	**(211 551)**	**(1 963)**	**(177 766)**

Year ended 31 December 2012	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Total
Dividends and profit-sharing	78	-	-	-	**78**
Interest income/(cost)	45 476	683	28 585	(179 558)	**(104 814)**
Foreign exchange gains and losses	-	-	(1 327)	(14)	**(1 341)**
Reversal of impairment allowances / increase of value	163	-	56 746	-	**56 909**
Creation of Impairment allowances / decrease of value	(19 575)	-	(122 856)	-	**(142 431)**
Profit/(loss) on sale of investments	(18 884)	-	-	-	**(18 884)**
Total net profit/(loss)	**7 258**	**683**	**(38 852)**	**(179 572)**	**(210 483)**

34.3. Fair value of financial instruments

34.3.1 Fair value of financial instruments measured at fair value on an ongoing basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below analyses fair value measurements for financial assets and financial liabilities categorized into three level hierarchy:

- level 1 - fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

Title	31 December 2013		
	Level 1	Level 2	Level 3
Assets			
Units of participation in the ENERGA Trading SFIO fund	-	567 249	-
Hedging derivatives (CCIRS)	-	13 017	-

The value of participation units in the ENERGA Trading SFIO fund is measured as the product of their quantity and the value of a single participation unit. Measurement is made by the fund management company in accordance with the Act on investment funds of 27 May 2004.

Cross Currency Interest Rate Swaps (CCIRSs) are measured at fair value by discounting future cash flows separately for each currency. Interest rates for each currency and basis spread used in discounting are obtained from Bloomberg.

34.3.2 Fair value of financial instruments that are not measured at fair value on an ongoing basis

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

Title	31 December 2013			
	Book value	Fair value		
		Level 1	Level 2	Level 3
Liabilities				
Liabilities arising from the issue of domestic bond	1 009 846	-	1 017 811	-
Liabilities arising from the issue of Eurobonds	2 113 658	2 143 563	-	-

Measurement of fair values of liabilities on account of issued:

- domestic bonds – has been estimated on the basis of an analysis of future cash flows discounted using market interest rates updated for 31 December 2013;
- Eurobonds – has been estimated on the basis of quotations from the Bloomberg system from 31 December 2013.

For non-listed shares and debt securities there is no active market, nor is it possible to apply to them any other valuation techniques providing reasonable output values, therefore the Group is not able to determine the range of their possible fair values. These assets are measured at purchase price less impairment losses.

34.4. Description of material items in individual categories of financial instruments

34.4.1 Financial assets

In the current reporting period, the Company reclassified bonds of a company in arrangement bankruptcy from the category of assets held to maturity to assets available for sale. As at the date of these financial statements, the Group cannot determine by which dates and in what manner the company's liabilities to creditors, including bondholders, will be settled because the parties did not reach any satisfactory proposals within the arrangement proceedings. Subject to reclassification was the carrying amount of the bonds as at the date ending the reporting period in the amount of PLN 14.7 m.

Financial assets held to maturity

In this category of financial instruments, the Group presents bank deposits with maturities exceeding 3 months.

Loans and receivables

The main item of the loans and receivables category are trade receivables.

Trade receivables	Before impairment allowances	Impairment allowances determined individually	General impairment allowances	Total impairment allowances	After impairment allowances
Not overdue	1 203 623	(371)	(12 552)	(12 923)	**1 190 700**
Overdue, including:					
< 30 days	166 111	(842)	(1 221)	(2 063)	**164 048**
30 - 90 days	88 664	(2 322)	(3 112)	(5 434)	**83 230**
90 - 180 days	32 564	(2 503)	(8 383)	(10 886)	**21 678**
180 - 360 days	58 871	(1 883)	(47 220)	(49 103)	**9 768**
>360 days	171 724	(1 462)	(170 143)	(171 605)	**119**
Total	**1 721 557**	**(9 383)**	**(242 631)**	**(252 014)**	**1 469 543**

Financial assets available for sale

In this category of financial instruments, the Group presents corporate bonds.

Hedge derivatives

Derivatives hedging the FX risk tied to outstanding Eurobonds are described in detail in Note 34.7.

34.4.2 Financial liabilities

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost. This category of the Group's financial instruments includes primarily contracted loans and borrowings and issued bonds.

Loans and borrowings

	As at 31 December 2013	As at 31 December 2012
Currency	PLN	
Reference Rate	WIBOR, Rediscount rate	
Value of the loan/ borrowing	**2 085 725**	**2 415 777**
Of which, repayable:		
up to 1 year (short-term)	274 177	389 639
1 to 2 years	361 109	275 676
2 to 3 years	229 592	371 394
3 to 5 years	454 902	440 624
over 5 years	765 945	938 444

As at 31 December 2013 and 2012, the amount of credit limits available to the Group was PLN 4,841 m and PLN 3,492 m respectively.

Detailed information on contracted loans and borrowings is presented in Note 34.5.

Liabilities under bonds issued

	As at 31 December 2013	As at 31 December 2012
Currency	PLN	
Reference Rate	WIBOR	
Value of the issue	**1 076 379**	**1 079 219**
of which, repayable:		
up to 1 year (short-term)	16 598	-
1 to 2 years	7 203	7 340
2 to 3 years	7 630	7 391
3 to 5 years	15 306	14 995
over 5 years	1 029 642	1 049 493

	As at 31 December 2013	As at 31 December 2012
Currency	EUR	
Reference Rate	fixed	
Value of the issue		
in currency	509 659	-
in PLN	2 113 658	-
of which, repayable:		
up to 1 year (short-term)	53 986	-
1 to 2 years	-	-
2 to 3 years	-	-
3 to 5 years	-	-
over 5 years	2 059 672	-

Detailed information on issued bonds is set out in Note 34.5.

34.5. Available external financing

Loans to finance the investment programme at ENERGA – OPERATOR SA for the years 2009-2012

In the years 2009-2010 ENERGA SA together with its subsidiary ENERGA – OPERATOR SA entered into loan agreements to finance the investment program of ENERGA – OPERATOR SA for the period 2009-2012 associated with the redevelopment and modernization of the distribution grid:

1. agreement with the European Investment Bank ("EIB") with the limit of up to PLN 1,050 m;
2. agreement with the European Bank for Reconstruction and Development ("EBRD") with the limit of up to PLN 800 m;
3. agreement with the Nordic Investment Bank ("NIB") with the limit of up to PLN 200 m.

The above funding has been fully utilised of which the following amounts are still outstanding and remain to be repaid: to EIB – PLN 977.1 m with the final maturity of 15 December 2025, to EBRD – PLN 683.3 m with the final maturity of 18 December 2021, to NIB – PLN 183.8 m with the final maturity of 15 June 2022.

Loans to finance the investment programme at ENERGA – OPERATOR SA for the years 2012-2015

On 26 June 2013 ENERGA SA and its subsidiary ENERGA – OPERATOR SA signed the loan agreement with EBRD for the amount of PLN 800 m under which the EBRD will provide PLN 400 m and the remainder will be covered by a consortium of two commercial banks: PKO Bank Polski SA and ING Bank Śląski SA.

Funds received under the agreement will be used to finance the investment programme of ENERGA – OPERATOR SA for the years 2012-2015 which includes development of the distribution network and improvement of its effectiveness, including the implementation of advanced meters, as part of a new "smart grid" solution.

The final maturity of the loan is 18 December 2024. The loan is unsecured and based on customary contractual clauses. The utilization of the loan as at 31 December 2013 reached PLN 50.0 m.

On 10 July 2013 ENERGA SA and its subsidiary ENERGA – OPERATOR SA signed a financing agreement for PLN 1 bn with the EIB. Funds received under the agreement will be used to finance the investment program of ENERGA – OPERATOR SA for the years 2012-2015 which assumes, among others, the development of the distribution network and improvement of its effectiveness, including the implementation of advanced meters, as a part of a new "smart grid" solution.

The maturity is 15 years from the date of drawing each tranche. The loan is unsecured and based on customary contractual clauses. The borrower has the right to choose fixed or variable interest rates and PLN or EUR for individual tranches of the loan on terms and conditions laid down in the agreement. As at 31 December 2013, the loan was not used.

Loans from NORDEA Bank Polska SA

In the years 2010-2011 ENERGA SA entered into the following loan agreements with NORDEA Bank Polska SA:

1. investment loan agreement for PLN 100 m for the purchase of bonds issued by ENERGA Wytwarzanie Sp. z o.o. in connection with the investments carried out in the modernization of the pumped-storage power plant in Żydowo. By 31 December 2013, the full amount of PLN 100 m was committed under the loan, of which PLN 80 m remains to be repaid by 7 September 2015 according to the agreed schedule.
2. investment loan agreement for PLN 160 m for the purchase of bonds issued by ENERGA Kogeneracja Sp. z o.o. in connection with the investments carried out on the modernization of the boiler including the implementation of the biomass joint combustion option, on the construction of a straw-based pellet production unit and on the construction of a new power unit. By 31 December 2013, the amount of PLN 134.7 m was committed under the loan, of which PLN 104.7 m remains to be repaid by 16 December 2015 according to the agreed schedule.
3. agreement for arranging loans for ENERGA Group's companies with a total limit of PLN 75 m. As at 31 December 2013, the financing amount of PLN 51.4 m was committed of which PLN 15.7 m was actually used. The facilities expire on 29 June 2015.
4. master agreement for bank guarantees for ENERGA Group's companies with a total limit of PLN 10.0 m. As at 31 December 2013, the limit was used in the amount of PLN 8.2 m. The facilities expire on 15 October 2016.
5. agreement for arranging loans for ENERGA SA with a total limit of PLN 300 m. As at 31 December 2013, the funding limit committed was not used. The facilities expire on 11 October 2016.

Loans from Pekao SA

In the years 2011-2012 ENERGA SA entered into the following loan agreements with Pekao SA:

1. loan agreement with a total limit of PLN 200 m. As at 31 December 2013, the loan was not used. The loan is to be repaid by 12 October 2016;
2. loan agreement in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company (see Note 31). The use of the loan as at 31 December 2013 reached PLN 33.0 m. The loan is to be repaid by 29 May 2022.

Loans from PKO Bank Polski SA

In the years 2011-2012 ENERGA SA entered into the following loan agreements with PKO Bank Polski SA:

1. master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 150 m. As at 31 December 2013 the financing limit for the aggregated amount of PLN 149.4 m was committed of which PLN 8.7 m was actually used. The facilities expire on 30 August 2016;
2. master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 200 m. As at 31 December 2013, the financing limit for the aggregated amount of PLN 8.6 m was committed of which PLN 8.6 m was actually used. The facilities expire on 19 September 2017.

Eurobond issue program

As part of the EMTN medium-term Eurobond issue program for up to EUR 1,000 m, on 19 March 2013, the subsidiary Energa Finance AB (publ) proceeded with the first issue of Eurobonds with the value of EUR 500 m. The first issue includes Eurobonds maturing in 7 years and paying an annual coupon of 3.250%.

Domestic bond issue

In 2012 a domestic bond issue program for up to PLN 4,000 m was established. By 31 December 2013, as part of the program ENERGA SA issued 7-year bonds for the total amount of PLN 1,000 m. The issued bonds were introduced into trading on one of Catalyst markets – Alternatywny System Obrotu (ASO) platform operated by BondSpot SA.

On 20 December 2013 the Financial Supervision Authority received a prospectus filed in connection with the intention to apply for admission and introduction of the bonds issued by ENERGA SA to trading on a regulated market operated by BondSpot S.A. On 20 January 2014, the prospectus was approved by the Financial Supervision Authority and the first listing date of the bonds issued by ENERGA SA on the regulated market operated by BondSpot S.A. was set at 29 January 2014.

Bonds issue through PKO Bank Polski SA

In 2012 ENERGA SA entered into a bonds issue agreement with PKO Bank Polski SA. Proceeds under the agreement are to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the company's investment program. The bonds are issued as short-term securities, which, in quarterly cycles will be exchanged (rolled over) to bonds of a new issue, with the commitment of the Bank to cover them under the terms of the issue agreement throughout the entire period of its duration. The value of the issues under this financing programme was PLN 66 m as at 31 December 2013.

34.6. Impairment allowances for financial assets

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
Impairment allowances as at 1 January 2013 (restated)	**193 221**	**18 072**	**2 871**
Impairment allowances created	115 504	12 379	924
Impairment allowances used	(5 228)	-	(3 667)
Impairment allowances reversed	(51 483)	-	(128)
Impairment allowances as at 31 December 2013	**252 014**	**30 451**	**-**

34.7. Cash flow hedge accounting

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds – see description in Note 34.5) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499 m. In order to hedge the currency risk under such loans, the Group concluded CCIRS transactions.

As a hedged position under the above hedging relationship the Group designates the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 80% of the total nominal amount of loans.

As the hedge the Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the intra-group loans. The Group expects that the hedged cash flows will continue until March 2020.

The fair value of the hedge as at 31 December 2013 was PLN 13.0 m.

Under the cash flow hedge accounting the Group recognized PLN 26.5 m during the reporting period in the cash flow hedge reserve (the effective portion of changes in the value of the hedge less deferred tax).

The table below presents changes in the cash flow hedge reserve resulting from the hedge accounting in the reporting period:

Changes in the cash flow hedge reserve within the reporting period	Year ended 31 December 2013
At the beginning of the reporting period	-
Amount recognized in the cash flow hedge reserve during the period, equal to the change in the fair value of hedge instruments	13 017
Accrued interest transferred from the reserve to the interest expense	3 428
Revaluation of hedging instruments transferred from the equity to foreign exchange (gains) / losses	16 320
Income tax on other comprehensive income	(6 226)
At the end of the reporting period	**26 539**

As at 31 December 2013, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

34.8. Liability repayment collateral

At the end of the reporting period, assets with the following carrying amounts constituted collateral for the repayment of actual or contingent liabilities:

Group of assets on which collateral was established	Carrying value of assets securing repayment of liabilities as at	
	As at 31 December 2013	As at 31 December 2012
Property, plant and equipment	44 227	78 417
Receivables	1 500	300
Inventories	1 709	25 303
Cash	154 140	130 438
Total assets securing repayment of financial liabilities	**201 576**	**234 458**

The collateral presented here secures primarily the loan granted to ENERGA Elektrownie Ostrołęka SA by the National Fund for Environmental Protection and Water Management and the guarantees extended by banks to contractors of ENERGA – OBRÓT SA.

35. Financial risk management principles and objectives

The major financial instruments used by the Group include bank loans, bonds, cash, short-term investments and participation units in liquidity funds. The main purpose of these financial instruments is to secure funds to finance the Group's operations.

The Group also concludes transactions on derivatives. The purpose of such transactions is to manage the risk emerging in the course of the Group's business activity.

Key risks generated by the Group's financial instruments include:

- market risk,
- liquidity risk,
- credit risk.

The Management board verifies and agrees the principles of managing each type of risk – these principles have been briefly discussed below. The Group also monitors the market risk concerning all the financial instruments held by it.

The Group identifies the following major market risks to which it is exposed:

- interest rate risk,
- foreign currency risk,
- commodity price risk.

For the purposes of sensitivity analysis to changes in market risk factors, the ENERGA SA Group uses a scenario analysis method. The Group uses expert scenarios reflecting the Group's subjective judgment on how individual market risk factors will develop in the future.

Scenario analyses presented in this item aim to analyze the impact of changes in market risk factors on the Group's financial results. Only those items, which satisfying the definition of financial instruments, are subject to analysis.

In interest rate risk sensitivity analysis, the Group uses a parallel shift of the interest rate curve by the possible change in reference interest rates in the coming year. For interest rate risk sensitivity analysis purposes, the average levels of reference interest rates in the given year were used. The extent of potential changes to interest rates was assessed on the basis of volatility of implied options per interest rate quoted on the inter-bank market for the currencies for which the Group is exposed to the interest rate risk at the end of the reporting period.

Possible fluctuations of currency exchange rates were calculated on the basis of annual variability implied for currency options quoted on the inter-bank market for the given currency pair at the date ending the reporting period.

In the case of analysis of sensitivity to interest rate changes, the effect of changes to risk factors would be carried to:

- interest income/cost for financial instruments measured at amortized cost and cash and cash equivalents;
- other comprehensive income for derivative hedging instruments.

35.1. Interest rate risk

The Group identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt. The Group's policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. As at 31 December 2013, 40.1% of financial debt recorded in the statement of financial position (loans and borrowings and bonds issued) has a fixed interest rate.

The table below presents sensitivity of financial result before tax and other comprehensive income to reasonably possible interest rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to interest rate risk:

			Interest rate risk sensitivity analysis as at 31 December 2013			
	31 December 2013					
Financial Assets and Liabilities	Book value	Value exposed to	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 95 bp*	*WIBOR - 95bp*	*EURIBOR + 18 pb*	*EURIBOR -18 pb*
Deposits	4 121	4 121	39	(39)	-	-
Cash and cash equivalents	2 352 305	1 785 056	12 962	(12 962)	757	(757)
Liabilities						
Preferential loans and borrowings	935 800	935 800	(8 890)	8 890	-	-
Loans and borrowings	1 140 657	1 140 657	(10 836)	10 836	-	-
Bonds issued	3 190 037	1 076 379	(10 226)	10 226	-	-
Current account overdraft	9 269	9 269	-	-	-	-
Change of gross profit			**(16 951)**	**16 951**	**757**	**(757)**
Hedging derivatives (assets)	13 017	13 017	90 709	(96 275)	(19 769)	20 022
Change of other comprehensive income			**90 709**	**(96 275)**	**(19 769)**	**20 022**

35.2. Foreign currency risk

The Group is exposed to foreign currency risk on account of trade and financial transactions that it concludes. The risk arises as a result of the Group companies entering into purchase and sale transactions in currencies other than the valuation currency. The Group identifies exposure to the risk of changes in the EUR/PLN exchange rate.

The table below presents sensitivity of gross financial result to reasonably possible exchange rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to the exchange rate risk:

	31 December 2013		Interest rate risk sensitivity analysis as at 31 December 2013	
Financial Assets and Liabilities	Book value	Value exposed to	EUR/PLN	
	PLN	PLN	*EUR/PLN + 7,75%*	*EUR/PLN - 7,75%*
Assets				
Trade receivables	1 469 543	3 118	242	(242)
Cash and cash equivalents	2 352 305	420 676	32 602	(32 602)
Hedging derivatives	13 017	1 881 326	145 803	(145 803)
Liabilities				
Trade liabilities	889 902	1 902	(147)	147
Outstanding bonds and notes	3 190 037	2 113 658	(163 809)	163 809
Change of gross profit			**14 691**	**(14 691)**

With regard to trade transactions, the Group is not exposed, to a material extent, to the exchange rate risk because the Group's cash settlements are mainly in PLN.

With regard to financial transactions, the Group is exposed to currency exchange risk because of loans within the Group connected with issued Eurobonds. To hedge that risk, the Group has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 34.7).

35.3. Commodity risk

The Group is exposed to risks tied to variation in prices of commodities used in the operating activity.

The most significant risk is the risk of changing purchase prices of electricity and certificates of origin on the wholesale market in long-, medium- and short-term contracts executed on the Polish market, and financial instruments on foreign markets, such as futures/forward contracts for electricity, CO_2 emission allowances and selected raw materials.

To reduce the risk of volatile purchase prices on the wholesale electricity market, the Group takes actions to protect itself against sudden price changes by optimizing the contracting process to execute contracts in certain proportions and for various products. In addition, the purchasing process is distributed over time, so that the average price of the Group's portfolio is closer to the average purchase price of the annual volume set as a target based on market prices. To reduce the exposure to the risk connected with an excessively open position on the spot market, open position limits and other participation limits are set. Within the activity connected with trading financial instruments, the Value at Risk (VaR) measure is approved based on which trading limits on particular products are set and monitored to mitigate the market risk. VaR resulting from the awarded limits and the actual exposure is monitored on a daily basis so that it does not exceed the values accepted by the Group. Additionally, the Group also monitors the levels of executed contracts and Profit at Risk according to the rules in place in the Group (Profit at Risk is a measure offering an estimation of threats to the Group's future financial results).

Furthermore, a mechanism mitigating the trading risk on the wholesale and retail sides has been implemented in the Group involving optimization and synchronization of purchasing and selling processes. In this process, contracts executed on the wholesale and retail markets are monitored and reported, with analysis of the assumed and accepted threshold parameters.

35.4. Credit risk

In the Group, credit risk is defined as the probability that a counterparty defaults on its financial obligations. Credit risk is minimized by actions aiming at value-based risk assessment, monitoring the counterparties' financial standing and securing trade credit by available instruments such as bank guarantees, sureties, etc.

Credit risk is reduced in the case of counterparties having the highest turnover, or the portfolios of wholesalers and strategic clients. The following are of special importance in this respect: credit rating, trade limits, special provisions in agreements with counterparties and obtaining security from clients with a low credit rating.

In the Group, appropriate procedures have been established to minimize the risk of counterparties' insolvency. On the wholesale energy market, the procedures set the limits for possible electricity sales without requiring security. Transactions above the limit require security, such as bank guarantees.

For sales to strategic and business clients, the procedures impose the duty to rate clients' creditworthiness. For clients with a low credit rating, the sale may be initiated on condition that a security accepted by the seller is obtained.

Moreover, thanks to the ongoing monitoring of the status of receivables, the Group's exposure to the risk of uncollectible receivables is minor.

With respect to the Group's other financial assets, such as cash and cash equivalents and certain derivatives, the Group's credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments.

Credit risk is also incurred in the case of funds involved in participation units in the ENERGA Trading SFIO fund. According to the investment policy in place, the fund invests funds in assets such as financial instruments, treasury bonds and corporate mortgage bonds, certificates of deposit and other domestic debt instruments with high liquidity and high level of safety. Credit risk associated with investments in treasury bills and bonds is referred to the solvency risk of the State Treasury. Credit risk associated with investments in commercial debt instruments may raise greater concern. It is mitigated through the fund's properly defined investment policy. The

fund may invest its monies only in investment grade assets with a rating awarded by rating agencies or awarded internally by the fund management company.

No significant concentrations of credit risk exist within the Group.

35.5. Liquidity risk

The Group monitors the risk of insufficient funds, which are required to settle our liabilities at maturity dates, using a tool for periodic liquidity planning. The tool takes into account the payment due/maturity dates for financial assets and liabilities and forecast cash flows from operating activity.

The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as overdrafts, bank loans, bonds and financial leasing agreements.

Detailed information on contracted external financing obtained by the Group is set out in Note 34.5.

The table below presents the Group's financial liabilities by maturity dates, based on contractual, undiscounted payments (at nominal values, including payments of possible interest).

31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	102 251	283 947	1 357 053	876 596	**2 619 847**
Bonds issued	80 454	41 336	539 191	3 297 495	**3 958 476**
Trade liabilities	889 898	4	-	-	**889 902**
Other liabilities	227 102	2 044	2 742	-	**231 888**
Total financial liabilities	**1 299 705**	**327 331**	**1 898 986**	**4 174 091**	**7 700 113**

The Group's financial assets are highly liquid. They are comprised mainly of cash and cash equivalents and trade payables. The structure of cash and cash equivalents is presented in the following table: Aging analysis of trade payables is presented in Note 34.4.1.

36. Lease

36.1. Operating lease liabilities

Future minimum charges for non-cancellable operating lease agreements are as follows:

	Lease receivables as at	
	31 December 2013	31 December 2012
Within up to 1 year	3 681	2 876
Within 1 to 5 years	1 578	4 682
Total leasing fees	**5 259**	**7 558**

Group companies also hold perpetual usufruct rights to land, granted to them free of charge by an administrative decision, and these rights constitute an operating lease.

For the perpetual usufruct rights to land, the Group incurs costs of annual fees. During the year ended on 31 December 2013, these costs amounted to PLN 6.2 m.

36.2. Operating lease receivables

Future receivables on account of minimum leasing fees resulting from non-cancellable operating lease agreements are presented in the table below.

	Lease receivables as at	
	31 December 2013	31 December 2012
Within up to 1 year	32 848	25 188
Within 1 to 5 years	64 378	142 488
Total leasing fees	**97 226**	**167 676**

Operating lease refers to machines of the pumped-storage plant in Żydowo, through which interventional work service is provided in favor of PSE SA (Transmission System Operator, "TSO"). The service involves the TSO having the plant at its disposal and using it to intervene to balance active and reactive power and to control load-flows in the power grid of the Polish Public Power System. The service includes intervention reserve of active power and regulation of voltage and reactive power. The property used to provide the service remains exclusively at the TSO's disposal and the TSO has the right to use the generating units of the power plant. The agreement pursuant to which the service is provided has sufficient features, as defined in KIMSF4, to be recognized as leasing, but does not transfer the entire risk and benefits associated with the leased property to the TSO.

36.3. Liabilities under financial lease agreements

The future minimum leasing fees for the agreements and the present value of the minimum net leasing fees are as follows:

	Lease receivables as at			
	31 December 2013		31 December 2012	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within up to 1 year	5 431	5 365	7 303	6 556
Within 1 to 5 years	2 468	2 131	7 644	7 293
Total minimum lease payments	**7 899**		**14 947**	
Less finance costs	403		1 098	
Current value of minimum lease payments, including:	**7 496**		**13 849**	**13 849**
Short-term	5 365		6 556	
Long-term	2 131		7 293	

37. Capital management

The Group manages its capital in order to maintain investment-grade credit rating and safe capital ratios to support the Group's operating activity and increase the Group's value for shareholders.

The Group monitors its capital level by using the leverage ratio calculated as net debt to total equity plus net debt. The net debt of the Group includes interest-bearing loans and borrowings, issued bonds and debt securities, financial lease liabilities, less cash and cash equivalents.

Furthermore, the Group's financial policy prevailing as at the date of these financial statements assumes that the maximum debt level for the Group, calculated as the ratio of net debt to EBITDA (based on consolidated amounts) should not exceed 3.0. For the purposes of the long-term plan of strategic investments in the Group, even more restrictive level of this ratio has been adopted, i.e. 2.5. The level of the ratio is also monitored by institutions financing the Group and by rating agencies; therefore, it has a significant effect on the opportunity and cost of raising financing as well as on the Group's credit rating.

Title	As at 31 December 2013	As at 31 December 2012
Interest-bearing loans and borrowings	2 085 726	2 415 777
Bonds issued	3 190 037	1 079 219
Finance lease liabilities	7 496	13 849
Less cash and cash equivalents	(2 352 305)	(2 069 058)
Net debt	**2 930 954**	**1 439 787**
Equity	**8 048 295**	**7 718 522**
Capital and net debt	**10 979 249**	**9 158 309**
EBITDA	**1 965 469**	**1 629 246**
Leverage ratio	**0,27**	**0,16**
Net debt / EBITDA	**1,49**	**0,88**

38. Contingent assets and liabilities

38.1. Contingent liabilities and security granted

Contingent liabilities and security granted at the end of the reporting period are presented in the table below:

Title	As at 31 December 2013	As at 31 December 2012 (restated)
Contingent liabilities		
legal claims	180 474	144 066
other	11 624	13 441
Other security		
guarantees	227 020	476 788
sureties	5 696 027	8 585
bills of exchange	133 105	78 815
joint and several liability of ENERGA SA for the financial liabilities of Energa Group companies	226 242	185 867
Total	**6 474 492**	**907 562**

38.1.1 Contingent liabilities

As contingent liabilities, the Group recognizes primarily contingent liabilities relating to disputes involving ENERGA Group companies, where a victory by the company is probable and no provision has been established for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of ENERGA – OPERATOR SA where it is located on private land (see description in Note 40.5). As at 31 December 2013, the estimated value of those claims recognized as contingent liabilities is PLN 114.5 m.

38.1.2 Security granted

Guarantees

As at 31 December 2013, the Group recognizes as guarantees mainly the following items:

1. guarantee facilities awarded by banks acting on behalf of ENERGA – OBRÓT SA in favor of business partners to cover liabilities under contracted trade agreements in the overall amount of PLN 200 m;
2. guarantees extended by Nordea Bank Polska S.A. acting on behalf of ENERGA – OPERATOR SA, relating to the adequate security of the agreement with the Warmia and Mazury Voivodship seated in Olsztyn, in the amount of PLN 17.7 m.

Sureties

As at 31 December 2013, the Group recognizes as surety mainly the following items:

- surety extended by ENERGA SA for the liabilities of Energa Finance AB (publ) under the Eurobonds issued, for up to EUR 1,250 m.
- surety up to PLN 500 m for liabilities under the signed trade agreement, extended by the Parent Company in favor of ENERGA – OBRÓT SA (on 4 December 2013, the Parent Company terminated the surety agreement, effective from 1 February 2014);
- sureties up to EUR 2.9 m extended by ENERGA – OBRÓT SA for the liabilities of ENERGA Slovakia s.r.o. arising from signed trade agreements;

Bills of exchange

As at 31 December 2013, the Group recognized primarily:

- blank promissory Notes in the aggregated amount of up to PLN 99.6 m drawn by Group companies to secure agreements on co-funding of investment projects
- bill of exchange in the amount of PLN 30 m drawn by ENERGA – OBRÓT SA and submitted to PSE SA to secure a transmission services agreement.

Other

The Group also recognizes, as other security extended as at 31 December 2013, joint and several liability obligations of ENERGA SA for the financial liabilities incurred by the Group companies under loan agreements and guarantee agreements, as described in Note 34.5;

38.2. Contingent assets

As at 31 December 2013, the Group recognized contingent assets in the amount of PLN 62.2 m.

The major items making up the above amount include damages for default in performance of agreements by counterparties to the Group’s companies and the disputed case concerning PKN ORLEN SA described in item 40.6.

39. Employment structure

The average headcount in the Group was as follows:

Title	Year ended 31 December 2013	Year ended 31 December 2012
Blue collar employees	6 362	6 640
Non-blue collar employees	4 180	4 409
Total	**10 542**	**11 049**

40. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group

40.1. Initial Public Offering of ENERGA SA

On 15 November 2013, the Financial Supervision Authority (KNF) approved the prospectus of ENERGA SA prepared in connection with the IPO for the Company's shares in Poland, conducted by the State Treasury, and to apply for admission into trading and floating of the Company's shares on the regulated (main) market run by Warsaw Stock Exchange (GPW). 141,522,067 series AA shares of the Company were eventually offered in the IPO (including shares tied to an over-allotment option), which represented 34.18% of the Company's existing share capital. The share price in the IPO was PLN 17 per share. On 11 December 2013, 269,139,114 series AA shares of the Company were admitted to trading on the regulated market run by the Warsaw Stock Exchange.

40.2. Ostrołęka C Project

In 2012 the Group decided to suspend preparations for the construction of a coal unit in Ostrołęka. The reasons for suspending the project were, among others, difficulties in obtaining funding under the Project Finance formula and adverse conditions on the market of construction companies. In 2013 the Group was actively seeking for a partner interested in a joint implementation of the project or in a purchase thereof. Despite initial interest in participation in the project from a few prospective investors, the Group actually did not receive any satisfactory proposals. Currently the Group is considering alternative scenarios of further actions, including a reduction of the capacity of the unit in Ostrołęka, or a switch to a gas fuel.

40.3. Restructuring of the Group

The following restructuring activities were undertaken in the Group in the current reporting period:

- ENERGA – OPERATOR SA initiated activities aimed at selling the shares in the subsidiaries providing supporting services for the Distribution System Operator's business, i.e. designing and specialized power construction and production of power devices (see description in Note 22.2);
- Following the implementation of the plan for integrated services related to maintenance and use of non-power real estates (the so called Facility Management) of ENERGA – OPERATOR SA on 4 July 2013 the following two companies were established: DGP PROVIDER Sp. z o.o. and EKOTRADE SERWIS FM Sp. z o.o. Separate processes associated with the provision of these services along with their supporting employees (about 90 people) have been assigned to the newly created entities. On 1 October 2013 the companies were sold to industry investors;
- In September 2013, ENERGA – OPERATOR SA terminated parts of the contracts for the performance of investment work signed with operation and investment companies (i.e. ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o. , ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o., ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.). These companies will

cease their investment activity at the end of March 2014. Accordingly, actions have been taken to prepare and implement additional protection programs for employees affected by the discontinuation of investment activities by the operation and investment companies. For these programs, provisions have been recognized and charged to other operating expenses (see Note 11.2);

- In Q4 2013, restructuring actions were started in Energa Obsługa i Sprzedaż Sp. z o.o., connected in particular with a change in the structure of contact channels with customers, assuming complete liquidation of the direct customer service channel and migration of the contacts to the telephone channel (tBOK) and Internet channel (eBOK). For these actions, provisions have been recognized and charged to other operating expenses (see Note 11.2).

40.4. Social agreements entered into during the consolidation and restructuring process

On 19 July 2007, a Social Agreement was executed between trade unions and the Group. The Agreement came into force on 1 August 2007. Provisions of the Social Agreement concern in particular the Group's commitments to employees on account of employment guarantee for 120 months from its entry into force. The Social Agreement also includes other provisions concerning protection of rights and interests of employees of the Group's companies that are parties to the Agreement in connection with the Group's consolidation and restructuring process.

In addition, on 1 August 2007, a separate social agreement was executed between ENERGA Elektrownie Ostrołęka and trade union organizations concerning protection of rights of its employees in connection with the process of consolidation and privatization of the electrical energy sector. Pursuant to the agreement, the employer undertook to ensure, for the period of 10 years from the date of signing the agreement, employment guarantees and keep the conditions of work and remuneration on each employee position at a level not less beneficial from that binding on the agreement execution date.

In addition, a separate social package was executed with employees of ENERGA OPEC sp. z o.o. on 27 November 2008. The agreement provides for protection of the employees' rights and interests in connection with acquisition of shares in the company by ENERGA SA and ENERGA Elektrownie Ostrołęka SA, ensuring, among others, a six-year employment guarantee.

40.5. Energy infrastructure located on private land

As a result of transition to a different political system, in the 1990s, serious problems arose in the present legal and economic system with transmission equipment built in the former legal system on private properties without obtaining legal titles to them.

As at 31 December 2013, the Group established provisions of PLN 77.0 m and contingent liabilities of PLN 114.5 m for the possible payments under such claims – see Notes 31 and 38.1.1).

40.6. Dispute with PSE SA and PKN ORLEN SA

In July 2003 PSE SA (formerly PSE–Operator SA) filed a court action against ENERGA – OPERATOR SA (formerly Zakład Energetyczny Płock S.A. hereinafter referred to as "EOP") for the payment of PLN 62.5 m as charges for transmission services. In response to the action EOP sued PKN ORLEN S.A. ("PKN"). On 30 June 2004 EOP filed in the Regional Court in Warsaw an action against PKN for the payment of PLN 46.2 m as a system fee pursuant to § 36 of the Tariff Ordinance.

On 2 August 2013, the "Agreement on terms of the settlement with PSE SA" was signed ("Settlement Agreement"), under which EOP paid to PSE the amount of PLN 95.5 m (including the principal of PLN 62.5 m and statutory interest of PLN 33.0 m) on 9 August 2013. On 4 February 2014, a court settlement was concluded on the terms and conditions set forth in the "Settlement Agreement".

On the other hand, taking into account the procedural status of the case between EOP and PKN, it can be assumed that EOP's action against PKN is justified, and only the amount thereof is in dispute. In connection with the current status of the case, the Group recognized a contingent asset of PLN 27.9 m. As at the date of these financial statements, no final decisions were issued in that case.

40.7. Proceedings initiated by FORTA Sp. z o.o.

On 3 September 2013 the Extraordinary General Meeting of ENERGA SA adopted, inter alia, the resolution on determining the series of the company's shares and amending the Articles of Association (the "Resolution on Preferred Shares") (see Note 29). Pursuant to the Resolution on Preferred Shares preference in respect of voting rights of series BB shares was introduced to the Articles of Association. On 16 October 2013, ENERGA SA was served with a statement of claim filed by a shareholder, i.e. FORTA Sp. z o.o., to rule on invalidity of the Resolution on Preferred Shares or to repeal it, as the resolution was allegedly adopted in breach of good practices, hurting the Company's interest and aimed at harming a shareholder – FORTA sp. z o.o. The date of the court session was set at 12 March 2014.

41. Subsequent events

- On 10 January 2014, Extraordinary General Meetings of EPW Energia Sp. z o.o., EPW Parsówek Sp. z o.o. and PGE Energia Natury Sp. z o.o. were held. They adopted resolutions to divide EPW Energia Sp. z o.o. by transferring two parts of the company's assets, as:
  - branches under the business names of: EPW Energia Sp. z o.o. Branch "Kisielice/Malbork" Wracławek and EPW Energia Sp. z o.o. Branch "Galicja" Orzechowce, to PGE Energia Natury Sp. z o.o. with its registered office in Warsaw,
  - branch under the business name of EPW Energia Sp. z o.o. Branch "Pipeline" Pruszcz Gdański, to EPW Parsówek Sp. z o.o. with its registered office in Pruszcz Gdański.

  In connection with the division of EPW Energia Sp. z o.o., an increase of the share capital of EPW Parsówek Sp. z o.o. was registered on on 4 February 2014 and a reduction of the share capital of EPW Energia Sp. z o.o. was registered on 10 February 2014. On 28 February 2014 the capital increase in PGE Energia Natury Sp. z o.o. was registered, which constituted of registration of division of EPW Energia Sp. z o.o.
- On 10 January 2014, Extraordinary General Meetings of EPW Energia Olecko Sp. z o.o. and EPW 1 Sp. z o.o. were held. They adopted resolutions to divide EPW Energia Olecko Sp. z o.o. by transferring part of assets of the company being divided, i.e. a branch under the name of EPW Energia Olecko Sp. z o.o. Branch in Kętrzyn to EPW 1 Sp. z o.o. The division of the company was registered on 11 February 2014. As a result, EPW 1 Sp. z o.o. took over the assets spun off from EPW Energia Olecko Sp. z o.o.
- ENERGA SA and ENERGA – OBRÓT SA concluded agreements to open guarantee facilities for ENERGA – OBRÓT SA with banks: Pekao SA in the amount of PLN 300 m (on 12 February 2014), ING Bank Śląski in the amount of PLN 50 m (on 12 February 2014) and with mBank SA in the amount of PLN 100 m (on 24 February 2014).
- To optimize employment in ENERGA Elektrownie Ostrołęka SA, the principles of the Voluntary Departure Program ("PDO") have been adopted applicable to employees covered by the social agreement of 1 August 2007. The PDO Bylaws offer an option of voluntary termination of employment agreements with mutual consent and against payment of additional benefits. As at the date of these financial statements, the Group estimates that the cost of the above program will be approx. PLN 9 m. An agreement with the trade unions ratifying the PDO Bylaws was signed on 24 February 2014 and therefore the Group did not recognize a provision for this program at the end of the reporting period.

Signatures of Management Board members and persons responsible for the accounts of the ENERGA SA Group:

Mirosław Bieliński ....
President of the Management Board

Roman Szyszko ....
Executive Vice-President of the Management Board, Chief Financial Officer

Wojciech Topolnicki ....
Executive Vice-President of the Management Board, Strategy and Investments

Aleksandra Gajda – Gryber ....
Director of the Finance Management Center

Marek Pertkiewicz ....
Director of the Consolidated Reporting Department

Gdańsk, 6 March 2014