ENERGA SA

Financial Statements prepared in accordance with IFRS EU
for the year 2013

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prepared in accordance with IFRS EU (in PLN thousand)

STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Continuing operations			
Sales of services		79 651	53 040
Rental income		1 345	2 095
Revenue		**80 996**	**55 135**
Cost of sales	**9.5**	(84 569)	(61 662)
Gross loss		**(3 573)**	**(6 527)**
Other operating income	**9.1**	7 588	7 284
General and administrative expenses		(97 864)	(79 754)
Other operating expenses	**9.2**	(4 543)	(2 691)
Financial income	**9.3**	942 948	995 776
Financial costs	**9.4**	(341 089)	(393 266)
Profit before tax		**503 467**	**520 822**
Income tax	**10.1**	(4 418)	9 354
Net profit on continuing operations		**499 049**	**530 176**
Discontinued operations and assets classified as held for sale			
Net profit on disposal of assets classified as held for sale		-	15 419
Net profit for the period		**499 049**	**545 595**

Financial statements for the year ended 31 December 2013 prepared in accordance with IFRS EU (in PLN thousand)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Net profit for the period		**499 049**	**545 595**
Net other comprehensive income		**26 577**	**1 541**
Items that will never be reclassified to profit or loss		***38***	***1 541***
Actuarial gains and (losses) on defined benefit plans		46	1 903
Deferred tax on other comprehensive income		(8)	(362)
Items that are or may be reclassified subsequently to profit or loss		***26 539***	**-**
Cash flow hedges		32 765	-
Deferred tax on other comprehensive income		(6 226)	-
Net other comprehensive income		**26 577**	**1 541**
Total comprehensive income		**525 626**	**547 136**
Earnings per share (in PLN)	**20**		
Net profit per share (ordinary & diluted)		1,21	1,32

prepared in accordance with IFRS EU (in PLN thousand)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2013	As at 31 December 2012 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	**12**	10 962	7 256
Investment property	**14**	11 079	11 736
Intangible assets	**15**	25 680	26 987
Investments in subsidiaries and associates at cost	**29.3.1**	6 170 698	5 953 106
Other investments		-	551
Bonds	**29.4.1**	4 104 817	3 147 730
Deferred tax assets	**10.3**	-	10 653
Hedging derivatives	**29.6**	13 017	-
Other non-current assets	**18.1**	129 028	182 994
		10 465 281	**9 341 013**
Current assets			
Inventories	**16**	467	496
Current tax receivables		-	1 380
Trade receivables and other financial receivables	**18.2**	39 864	22 600
Shares		1 000	11 119
Bonds	**29.4.1**	335 787	232 941
Cash and cash equivalents	**17**	710 399	688 261
Other current assets	**18.3**	12 289	67 628
		1 099 806	**1 024 425**
TOTAL ASSETS		**11 565 087**	**10 365 438**

prepared in accordance with IFRS EU (in PLN thousand)

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			
Equity			
Share capital	**19.1**	4 521 613	4 968 805
Supplementary capital	**19.2**	521 490	471 235
Reserve capital	**19.2**	447 192	-
Cash flow hedge reserve	**29.6**	26 539	-
Retained earnings	**19.3**	543 184	591 233
Total equity		**6 060 018**	**6 031 273**
Non-current liabilities			
Loans and borrowings	**29.4.4**	3 866 077	2 000 547
Bonds issued	**29.4.4**	1 059 781	1 079 219
Non-current provisions	**23**	723	908
Deferred tax liabilities	**10.3**	-	-
Deferred income and non-current government grants	**27.1**	62 057	67 975
		4 988 638	**3 148 649**
Current liabilities			
Trade and other financial liabilities	**24.1**	23 468	23 911
Current loans and borrowings	**29.4.4**	266 545	349 491
Bonds issued	**29.4.4**	16 598	580 212
Deferred income and government grants	**27.1**	8 251	8 611
Accruals	**27.2**	7 949	4 353
Provisions	**23**	144	162
Other current liabilities	**24.2**	193 476	218 776
		516 431	**1 185 516**
Total liabilities		**5 505 069**	**4 334 165**
TOTAL EQUITY AND LIABILITIES		**11 565 087**	**10 365 438**

prepared in accordance with IFRS EU (in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital	Supplementary capital	Reserve capital	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2013	**4 968 805**	**471 235**	**-**	**-**	**591 233**	**6 031 273**
Cash flow hedges	-	-	-	26 539	-	26 539
Net profit for the period	-	-	-	-	499 049	499 049
Actuarial gains and (losses) on defined benefit plans	-	-	-	-	38	38
Total comprehensive income for the year	**-**	**-**	**-**	**26 539**	**499 087**	**525 626**
Retained earnings distribution	-	50 255	-	-	(50 255)	-
Dividends	-	-	-	-	(496 881)	(496 881)
Reduction of share capital	(447 192)	-	447 192	-	-	-
As at 31 December 2013	**4 521 613**	**521 490**	**447 192**	**26 539**	**543 184**	**6 060 018**

prepared in accordance with IFRS EU (in PLN thousand)

For the year ended 31 December 2012

	Share capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total equity
As at 1 January 2012:	**4 968 805**	**362 500**	**-**	**798 777**	**6 130 082**
Actuarial gains and (losses) on defined benefit plans	-	-	-	1 541	1 541
Net profit for the year	-	-	-	545 595	545 595
Total comprehensive income for the period	**-**	**-**	**-**	**547 136**	**547 136**
Retained earnings distribution	-	108 735	-	(108 735)	-
Dividends	-	-	-	(645 945)	(645 945)
As at 31 December 2012	**4 968 805**	**471 235**	**-**	**591 233**	**6 031 273**

prepared in accordance with IFRS EU (in PLN thousand)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Profit before tax		**503 467**	**520 822**
Profit before tax on disposal of assets classified as held for sale		**-**	**15 198**
Adjustments for:		**(598 792)**	**(642 481)**
Foreign currency gains/(losses)		9 233	-
Amortization and depreciation		7 083	4 797
Net interest and dividends		(650 368)	(830 803)
Loss on investing activities		67 008	185 864
Change in receivables		(6 158)	(6 182)
Change in inventories		29	(105)
Change in payables excluding loans and borrowings		(14 062)	12 968
Change in prepayments and accruals		(11 700)	(7 622)
Change in provisions		143	(6 977)
Other		-	5 579
Income tax paid		**(1 379)**	**4 703**
Net cash from operating activities		**(96 704)**	**(101 758)**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		45	306
Purchases of property, plant and equipment and intangible assets		(15 463)	(29 064)
Disposal of other financial assets		319 071	47 261
Purchase of other financial assets		(1 525 689)	(1 653 337)
Dividends received		686 888	822 956
Interest received		176 593	145 800
Other		9 758	6 282
Net cash used in investing activities		**(348 797)**	**(659 796)**
Cash flows from financing activities			
Proceeds from bond issue		-	1 646 000
Repurchase of bonds issued		(580 000)	-
Payment of finance lease liabilities		(430)	-
Proceeds from loans and borrowings		2 130 764	697 700
Repayment of loans and borrowings		(366 440)	(239 300)
Dividends paid		(495 697)	(645 736)
Interest paid		(213 464)	(145 926)
Other		-	2 122
Net cash from financing activities		**474 733**	**1 314 860**
Net increase in cash and cash equivalents		**29 232**	**553 306**
Cash and cash equivalents at the beginning of the period		**677 573**	**124 267**
Cash and cash equivalents at the end of the period	**17**	**706 805**	**677 573**

ACCOUNTING PRINCIPLES (POLICIES) AND NOTES

1. General information

Company information:

a) Name:	ENERGA Spółka Akcyjna
b) Legal form:	Spółka Akcyjna (joint stock company)
c) Registered office:	80-309 Gdańsk, al. Grunwaldzka 472
d) Registry court:	District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591.
e) Core business:	holding activity
f) Company's duration:	unspecified

ENERGA SA was established on 6 December 2006 by the State Treasury, ENERGA-OPERATOR SA (formerly Koncern Energetyczny ENERGA SA) and ENERGA Elektrownie Ostrołęka SA (formerly Zespół Elektrowni Ostrołęka SA). Since 2013, the Company's shares are publicly traded.

The core business of ENERGA SA is holding activity (the Company acts as a parent in the ENERGA SA Group and accordingly it prepares the consolidated financial statements of the Group).

2. Composition of the Company's Management Board

On the date of these financial statements, the composition of the Management Board was as follows:

- 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.

3. Approval of the financial statements

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

4. Basis for preparation of the financial statements

These 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.

Unless stated otherwise, these financial statements have been drawn up in thousands of Polish zloty (PLN 000s).

These financial statements were prepared under the assumption that the Company will continue to operate as going concern for the foreseeable future and there are no circumstances indicating a threat to the Company's continuing operations.

4.1. Statement of compliance

These financial statements were prepared in accordance with the International Financial Reporting Standards endorsed 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").

To the extent not regulated by the EU IFRS standards, ENERGA SA keeps its accounting ledgers in accordance with the accounting policy (principles) defined by the Accountancy Act of 29 September 1994 (Journal of Laws of 2013 No. 47, Item 330, as amended) and the regulations issued on its basis ("accountancy act", "Polish accounting standards", "PAS").

4.2. Functional and presentation currency

The Company's functional currency and the presentation currency used in these individual financial statements is the Polish zloty.

5. 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 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 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 assets

No less frequently than at the end of every reporting period, the Company 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 Company estimates the recoverable amount of such asset or cash generating unit to which such asset is allocated. The amount of impairment allowances for investments in subsidiaries and associates is presented in note 29.4.3.

Depreciation rates

Depreciation rates and charges are determined on the basis of the anticipated economic useful life of the given property, plant and equipment component or intangible asset and estimates regarding the residual value of property, plant and equipment. Every year, ENERGA SA revises the assumed periods of useful life, based on its current estimates.

Measurement of provisions

Provisions for employee benefits (provision for pensions and similar benefits, jubilee bonuses, energy tariff, additional allowances for the Company Social Benefit Fund for former employees of ENERGA SA) have been estimated using actuarial methods. The assumptions made for this purpose are presented in note 22.

Energy price paths were adopted on the basis of industry expert materials.

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 at the end of the reporting period. ENERGA SA 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.

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 Company uses professional judgment when selecting such adequate methods and assumptions. The method used to determine fair value of individual financial instruments is presented in note 29.3.

6. Changes in estimates

During the periods covered by these financial statements, no changes were made in the methods used in determining significant estimates. The estimates resulted from events that occurred during the reporting periods.

7. New standards and interpretations, which have been applied and standards and interpretations already published, but not yet effective

Standards and interpretations applied for the first time in 2013

The following standards, amendments to the existing standards and interpretations published by the International Accounting Standards Board (IASB) and endorsed for application by the EU came into force for the first time in 2013:

- IFRS 13 "Fair Value Measurement", endorsed in 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 in 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 in 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 in 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 in 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 in 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 in 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 in 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 in the EU on 11 December 2012 (applicable to annual periods beginning on or after 1 January 2013).

The standards, interpretations and amendments to the standards mentioned above have had no significant impact on the company's accounting policies applied so far.

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

- IFRS 10 "Consolidated Financial Statements", endorsed in 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 Company to apply also the following standards/amendments to standards:

- IFRS 11 "Joint Arrangements", endorsed in 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 in 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 in 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 in 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, endorsed in 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 Company evaluates that earlier application of the above standards did not have material influence on its financial standing and its results.

Standards and interpretations already published and endorsed in the EU, which have not yet 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 in the EU but have not become effective as at the date of these financial statements:

- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities, endorsed in 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 in 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 in the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014).

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

IFRS as endorsed in 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 the financial statements have not yet been adopted for application:

- IFRS 9 "Financial Instruments" and subsequent amendments (the 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 Management believes that the introduction of the above-mentioned standards and interpretations will not have any substantial impact on the accounting policies applied by the Company.

8. Significant accounting policies

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

prepared in accordance with IFRS EU (in PLN thousand)

8.1. Conversion of items in foreign currencies

Transactions denominated in currencies other than the Polish zloty are converted upon 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 arising on this translation are recorded respectively as financial income (cost) items or, in the cases identified in the accounting policies, they are capitalized as assets.

8.2. Property, plant and equipment

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

Property, plant and equipment are presented according to their net values, i.e. the initial value minus 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 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).

Depreciation charges are calculated on the basis of purchase price/manufacturing cost of the property, plant and equipment component minus its residual value.

Depreciation commences in the month following the month in which the asset is available for use.

Property, plant and equipment of the initial value not exceeding PLN 3,500 is posted as single items to materials used cost in the month they are handed over 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 plan should ensure a gradual distribution of the initial value of the property, plant and equipment component over the pre-defined depreciation period.

Specific depreciation rates have been introduced for property, plant and equipment items accepted for use, depending on the actual expected useful lives, for the following groups:

• buildings and structures	2.5%
• computer hardware	30% and 25%
• television and radio equipment, telephones and telephone equipment	10%
• other office machines and devices	14%-20%
• brand new cars	20%
• other (including fixtures and equipment)	14%-20%

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 property, plant and equipment item may derecognized after it is sold or when no economic benefits are expected from further usage of such asset. All the profits or losses resulting from removing an asset 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.

8.3. Investment property

The Company recognizes property as investment property if held to earn rentals or for capital appreciation, or both, provided however that such property is not:

- used for the provision of services, deliveries of goods or for administrative purposes or
- designated for sale in regular business activity of the entity.

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. Investment properties manufactured by the Company itself, are recognized until the completion date based on the principles applied to property, plant and equipment.

After initial recognition, the Company 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 benefits or losses resulting from the removal of investment property from the statement of financial position are recognized in the statement of profit or loss of the period when it is removed.

Assets are transferred to investment property only when there is a change in the way they are used, which is confirmed by the fact of the owner no longer using the asset, when an operating lease agreement is concluded or the construction/manufacturing of the investment property is completed.

8.4. Intangible assets

The Company classifies as intangible assets any identifiable non-pecuniary asset components devoid of 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 purchase price including import duties, non-deductible taxes included in the price, minus any granted discounts and rebates and
- expenditures directly connected with preparing the asset component for use according to its planned purpose

After initial recognition, intangible assets are carried at purchase price or production cost, minus accumulated amortization and impairment allowances. The Company assesses whether useful life of an intangible asset component is definite or indefinite and, if definite, estimates the duration of that period. Amortization begins in the month following the one in which the asset component becomes ready for use.

Intangible assets with a limited useful life are subject to impairment tests each time when there are prerequisites indicating their impairment. The amortization period and method are reviewed at least at the end of each financial year.

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

The Company applies the following amortization rates for intangible assets with specific useful lives: 20%, 25%, 50% and 100%.

8.5. Shares

The Company carries investments in subsidiaries and associates at historical cost less impairment allowances created in accordance with the principles described in note 8.6.

8.6. Impairment of non-financial non-current assets

No less frequently than at the end of every reporting period, the Company 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 Company estimates the recoverable amount of such asset or cash generating unit to which such asset is allocated.

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. When estimating the fair value amount minus selling cost, the Company 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.

Impairment allowances for assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

At the end of each reporting period, the Company 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 Company 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 recognized. 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 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-offs of its adjusted carrying amount minus its final value.

8.7. Financial instruments

Financial instruments are divided into the following categories:

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

Investments held to maturity

Financial investments held to maturity, other than derivatives, are financial investments with specified or determinable payments and a set maturity date, which the Company intends and is able to hold until such time. Financial investments held to maturity are measured at amortized cost using the effective interest rate method. Financial investments 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:

- It is 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,
- 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.

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, not listed on an active market, which are not classified as derivative instruments. They are classified as current assets unless their maturity does not exceed 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 the revaluation reserve, except for:

- impairment losses,
- foreign exchange gains and losses arising on translation of 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.

8.8. Impairment of financial assets

At the end of each reporting period, the Company 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 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 an impairment allowance. The amount of loss is recognized in the statement of profit or loss.

First, the Company 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 Company 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 (minus 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, minus 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.

8.9. Inventories

ENERGA SA's inventories constitute the materials purchased by the Company for the purpose of ENERGA Group's promotional activity. At the time of initial recognition, materials are carried at purchase price. As at the end of the reporting period verification is carried out to see whether the purchase price is not higher than the net recoverable amount of such assets.

8.10. Cash and cash equivalents

Cash and other cash assets 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 cash flow statement consists of the aforementioned cash and other cash minus outstanding current account overdrafts.

At the end of each reporting period the Company valuates the portfolio of the ENERGA Trading SFIO investment fund as a product of the number of participation units held 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. The ENERGA Trading SFIO fund invests 100% of its assets in cash instruments, treasury bonds and corporate mortgage bonds, certificates of deposit and other domestic debt instruments with high liquidity and high security level, defined as an investment rating granted externally or internally by the management company. The financial effects of an increase or decrease in the value of short-term investments measured at market prices (values) is recognized in financial income or expenses, respectively.

The Company uses the FIFO method to measure the expenditure of participation units in the ENERGA Trading SFIO investment fund.

Cash is measured at fair value, which is equal to the nominal value.

8.11. Other assets

In other assets, the Company recognizes accrued costs if the following conditions are satisfied:

- they result from past events – an expenditure incurred for the entity's operational objectives,
- their amount may be measured reliably,
- they will bring economic benefits to the Company 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 Company.

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 Company reviews prepaid costs to find whether the degree of certainty that the Company 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. 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.

8.12. Equity

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

The retained earnings/accumulated losses item includes net result of the current year, results carried forward from previous years, as well as adjustments connected with the transition to IFRS EU.

8.13. Financial liabilities

At ENERGA SA, the only financial liabilities are those classified as held 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 them. 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 Company 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 captured by the Company as expiry of the original financial liability and recognition of a new financial liability. Significant amendments to the terms and conditions of an agreement regarding an existing financial liability are recorded in a similar manner. Differences of respective carrying amounts arising from the replacement are shown in the statement of profit or loss.

8.14. Non-financial liabilities

Other non-financial liabilities include in particular liabilities to the tax office on account of goods and services 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.

8.15. Provisions for post-employment benefits

Provision for pension and similar benefits

Retirement and disability awards are paid once, upon retirement/qualification for disability award. The amount of retirement and disability awards is tied to the length of employment record and average salary received by the employee.

Provision for energy tariff

By the power of the Sectoral Collective Bargaining Agreement amended in 2005, the Company is obligated to pay benefits to former employees (retirement and disability pensioners) in the energy industry, resulting from the so called "energy tariff". Accordingly, the Company recognizes a relevant provision.

Provision for company social benefit fund

The amount of the liability to former employees is estimated on the basis of the Bylaws of the Company Employee Benefit Fund in place in the Company. These liabilities ensue from the rights acquired by Company employees during employment period. Provisions are recognized for the cost of such benefits, in amounts estimated using actuarial techniques. The provision is recognized at amounts corresponding to the acquisition of future rights by the current employees.

8.16. Accruals and deferred income and government grants

The Company records accrued costs:

- 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.

Deferred income is recorded in keeping with the conservative valuation principle. Deferred income includes:

- grants recognized while valuing preferential loans,
- cash received to finance a purchase or production of property, plant and equipment, and development work. 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.

8.17. Lease

Company as a lessee

Assets subject to financial lease agreements, which transfer to the Company 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 costs and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial costs are recognized directly in 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.

Company as a lessor

In the case of financial leases, the Company recognizes the assets that are the object of the lease agreement in the statement of financial position and in its accounting records as non-current or possibly current financial assets on account of receivables. They are measured at amortized cost, using the interest rate of the lease.

The Company divides the base fee into the principal part and the interest part. The interest part of the base fee is income from financial leases recognized in financial income.

The principal portion of the leasing fee in a given reporting period constitutes repayment of liabilities from the lessee. The fee is divided using the interest rate of the lease.

Lease agreements under which the Company 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.

8.18. Taxes

Income tax

Income tax posted in the statement of profit or loss includes the actual tax liability for the reporting period calculated by the entity according to the applicable provisions of the Corporate Income Tax Act and a change in deferred tax assets and deferred tax provisions not carried through equity.

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.

A deferred income tax provision 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 financial result before tax 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 utilize 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 financial result before tax 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 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 are calculated at the amount expected to be deducted from income tax in connection with negative temporary differences, which will reduce the income tax base in the future and the tax loss to be deducted, as calculated while using the conservative valuation principle. Deferred income tax assets are recognized only if their utilization is probable.

Deferred income tax provision is established in the amount of income tax which requires future payment, in connection with positive temporary differences, i.e. differences that will increase the income tax taxable base in the future.

Deferred income tax assets and deferred income tax provisions are measured using tax rates that are expected to be applied when the asset is utilized or the provision is dissolved, taking as the basis the tax rates (and tax regulations) which were in force or for which the legislative process was essentially completed at the end of the reporting period.

Value added tax (VAT)

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

- the VAT 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 VAT.

The net amount of the VAT recoverable from or due to be paid to the state budget is recognized in the statement of financial position as part of receivables or liabilities.

8.19. Revenues

Revenues are carried at fair value of the received remuneration (payment received or due), after deducting discounts, rebates and VAT.

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

The time of domestic sale is recognized as the date of delivery in accordance with the purchase-sale agreement (receipt of the service).

Sales of products are comprised of sales of services, including in particular sales of the rights to use the ENERGA brand and to promote it.

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

8.20. Costs

Operating expenses consist of the following:

- cost of sales incurred in the reporting period, adjusted for a change in products and adjusted for the cost of manufacturing products for own needs,
- general and administrative expenses

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

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

8.21. 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,
- including compensations and other revenues and costs not associated with ordinary activity.

8.22. 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),
- 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 taking the materiality principle into account.

Dividends are recognized when the title to receive them is determined.

The Company nets income and costs from exchange differences.

8.23. 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.

8.24. Hedge accounting

Hedging derivatives and hedge accounting

The Company has implemented the cash flow hedge accounting in order to eliminate accounting mismatches resulting from derivative-based hedges against the future cash flows related to foreign currency loans.

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

- At the inception of the hedge the Company 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.
- 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 recognized in the cash flow hedge reserve in the portion 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 in the statement of profit or loss in the period or periods when the hedged position affects the statement of profit or loss.

The Company 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 Company 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 Company applies the following presentation:

- the effective portion of any change in the valuation of Cross Currency Interest Rate Swap (CCIRS) hedges is recognized in the cash flow hedge 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.

8.25. Change in presentation of data

The Company has made changes to the layout of the items presented in the statement of financial position – transfer of long-term receivables and other long-term financial assets to the other long-term assets line item. The purpose of those changes was to increase clarity and usefulness of data presented in the financial statements.

prepared in accordance with IFRS EU (in PLN thousand)

9. Revenues and expenses

9.1. Other operating income

	Year ended 31 December 2013	Year ended 31 December 2012
Subsidies	5 918	5 918
Profit on disposal of property, plant and equipment / intangible assets / investment property	676	195
Penalties, compensations and fines received	66	153
Refund of taxes and social security contributions	34	92
Time-barred liabilities	280	-
Other	614	926
Total	**7 588**	**7 284**

9.2. Other operating expenses

	Year ended 31 December 2013	Year ended 31 December 2012
Donations	2 055	2 034
Compensations	41	475
The annual adjustment of value added tax	1 378	-
Previous years costs	604	-
Other	465	182
Total	**4 543**	**2 691**

9.3. Financial income

	Year ended 31 December 2013	Year ended 31 December 2012
Income on financial instruments, including:	**942 610**	**994 325**
Interest income	227 315	170 876
Dividend income	686 888	822 956
Reversal of valuation allowances for financial assets	25 937	493
Foreign exchange gains	2 470	-
Other financial income, including:	**338**	**1 451**
Leasing income	251	1 438
Other financial income	87	13
Total	**942 948**	**995 776**

prepared in accordance with IFRS EU (in PLN thousand)

9.4. Financial costs

	Year ended 31 December 2013	Year ended 31 December 2012
Costs of financial instruments, including:	**340 675**	**390 334**
Interest expenses	244 849	174 414
Revaluation allowance for financial assets	95 032	209 755
Additional equity contributions	-	2 058
Bank fees	500	414
Foreign exchange losses	-	9
Loss on disposal of investments	294	3 684
Other financial expenses, including:	**414**	**2 932**
Interest expense	-	4
Actuarial interest	43	161
Leasing costs	371	2 767
Total	**341 089**	**393 266**

9.5. Expenses by nature

	Year ended 31 December 2013	Year ended 31 December 2012
Expenses by nature		
Depreciation and amortization expense	7 083	5 083
Impairment losses on property, plant and equipment and intangible asset	-	199
Materials and energy used	1 891	2 720
External services	92 503	64 826
Taxes and fees	5 625	3 784
Employee benefits expenses	31 480	35 937
Change in inventories, prepayments and accruals	-	(9 627)
Cost of producing services for own needs (negative value)	-	(76)
Other expenses	43 851	38 570
Total operating expenses	**182 433**	**141 416**

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

	Year ended 31 December 2013	Year ended 31 December 2012
Items included in cost of sales:	**4 097**	**2 539**
Depreciation of property, plant & equipment	193	506
Amortization of intangible assets	3 610	1 548
Depreciation of investment property	294	286
Impairment loss on investment property	-	199
Items included in general and administrative expenses:	**2 986**	**2 743**
Depreciation of property, plant & equipment	1 047	807
Amortization of intangible assets	1 939	1 936

prepared in accordance with IFRS EU (in PLN thousand)

9.7. Cost of employee benefits

	Year ended 31 December 2013	Year ended 31 December 2012
Wages and salaries	24 995	27 982
Social security contributions	3 139	3 691
Post-employment benefits, including:	(56)	56
Provision for pension and similar benefits	*(42)*	*11*
Energy tariff	*(9)*	*32*
Company social benefit fund	*(5)*	*13*
Other costs of employee benefits	3 402	4 208
Total	**31 480**	**35 937**

10. Income tax

10.1. Tax liabilities

The key components of the tax liability for the years ended 31 December 2013 and 31 December 2012 are as follows:

	Year ended 31 December 2013	Year ended 31 December 2012
Statement of profit or loss		
Current income tax expense	-	(1)
Deferred income tax expense	(4 418)	9 355
Tax expense recognized in the statement of profit or loss	**(4 418)**	**9 354**
Statement of comprehensive income		
Current income tax	-	-
Deferred income tax	(6 234)	(362)
Tax gain / (expense) recognized in statement of comprehensive income	**(6 234)**	**(362)**

10.2. Reconciliation of effective tax rate

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

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before tax on continuing operations	**503 467**	**520 822**
Loss before tax on disposal of assets classified as held for sale	-	15 198
Profit before tax	**503 467**	**536 020**
Tax at the Poland's statutory tax rate of 19%	**(95 659)**	**(101 844)**
Tax impact of non-taxable income and non tax-deductible expenses	91 241	111 418
Tax at the effective tax rate	**(4 418)**	**9 574**
Income tax (charge) as per the statement of profit or loss	(4 418)	9 354
Income tax attributable to disposal of assets held for sale	-	221

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 2012 and 2013. Current regulations do not provide for differentiated tax rates for future periods.

prepared in accordance with IFRS EU (in PLN thousand)

As for income tax, the Company is subject to general regulations. In 2012 - 2013 the Company did not belong to a tax capital group and did not conduct activity in a Special Economic Zone, which would change the rules of determination of the tax burdens compared to the general regulations in this respect. The fiscal year and the reporting period correspond to the calendar year.

10.3. Deferred income tax

The deferred income tax results from the following items:

	As at 31 December 2013	As at 31 December 2012 (restated)
Deferred tax assets	**27 109**	**23 764**
on the difference between the tax base and carrying value of property, plant and equipment and intangible assets	3 483	5 318
on post-employment benefits provisions	53	69
on provisions for jubilee bonuses	112	134
on provisions for bonuses	1 338	655
on provision for unused holiday	173	160
on unpaid compensation liabilities	57	-
on the costs estimates (supplies and services not invoiced)	-	2 360
on unpaid employee salaries and benefits	151	-
on the difference between the tax base and carrying value of shares	6 872	8 845
on the difference between the tax base and carrying value of financial liabilities measured at amortized cost	10 364	6 192
on the difference between the tax base and carrying value of hedging instruments	3 752	-
on accrued expenses of audit and actuary	-	11
on foreign exchange differences	803	
other	1	20
adjustment of deferred tax assets to the amount of the provision	(50)	-
Set-off	**(27 109)**	**(13 111)**
Deferred tax assets after set-off	**-**	**10 653**

	As at 31 December 2013	As at 31 December 2012 (restated)
Deferred tax liabilities	**27 109**	**13 111**
on the difference between the tax base and carrying value of shares and bank deposits	1 486	2 031
on the difference between the tax base and carrying value of financial assets held to maturity	10 640	3 908
on the difference between the tax base and carrying value of loans and receivables	-	8
on the difference between the tax base and carrying value of hedging instruments	6 225	-
on the difference between the tax base and carrying amount of financial assets excluded from IAS 39	6 609	7 152
on accrued foreign exchange differences	2 149	-
other	-	12
Set-off	**(27 109)**	**(13 111)**
Deferred tax liabilities after set-off	**-**	**-**

prepared in accordance with IFRS EU (in PLN thousand)

The Company did not include in the statement of financial position the deferred income tax asset on the value of outstanding tax losses incurred in 2009 - 2013 for the total amount of PLN 28,124 thousand.

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

	Year ended 31 December 2013	Year ended 31 December 2012
Deferred tax assets		
At the beginning of the reporting period:	**25 106**	**11 033**
Increases	18 285	30 908
recognized in profit or loss	18 285	30 908
Decreases:	(16 282)	(18 177)
recognized in profit or loss	(16 272)	(17 815)
recognized in other comprehensive income	(10)	(362)
Set-off	**(27 109)**	**(13 111)**
At the end of the reporting period	**-**	**10 653**
Deferred tax assets	**-**	**10 653**
Deferred tax liabilities		
At the beginning of the reporting period:	**14 453**	**9 234**
Increases:	20 597	19 031
recognized in profit or loss	14 372	19 031
recognized in other comprehensive income	6 225	-
Decreases	(7 941)	(15 154)
recognized in profit or loss	(7 941)	(15 154)
Set-off	**(27 109)**	**(13 111)**
Deferred tax liabilities at the end of the reporting period	**-**	**-**

11. Discontinued operations

Both in the current year and in the previous year the Company did not discontinue any activity. In the following year, there are no plans to discontinue any activity as well.

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12. Property, plant and equipment

31 December 2013	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	**4 626**	**2 369**	**185**	**2 480**	**294**	**9 954**
Purchase of tangible fixed assets (including under construction)	-	-	-	-	5 577	**5 577**
Transfer from property, plant and equipment under construction	-	415	-	99	(514)	**-**
Sale, disposal	-	(71)	-	(12)	-	**(83)**
Scrapping	(935)	(25)	-	(28)	-	**(988)**
As at 31 December 2013	**3 691**	**2 688**	**185**	**2 539**	**5 357**	**14 460**
Cumulative depreciation						
As at 1 January 2013	**(487)**	**(1 620)**	**(57)**	**(534)**	**-**	**(2 698)**
Depreciation for the period	(438)	(314)	(36)	(452)	-	**(1 240)**
Sale, disposal	-	46	-	4	-	**50**
Scrapping	366	13	-	11	-	**390**
As at 31 December 2013	**(559)**	**(1 875)**	**(93)**	**(971)**	**-**	**(3 498)**
Net value as at 1 January 2013	**4 139**	**749**	**128**	**1 946**	**294**	**7 256**
Net value as at 31 December 2013	**3 132**	**813**	**92**	**1 568**	**5 357**	**10 962**

31 December 2012	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	**899**	**15 931**	**185**	**3 935**	**673**	**21 623**
Purchase of tangible fixed assets (including under construction)	-	-	-	-	6 029	**6 029**
Transfer from property, plant and equipment under construction	3 771	772	-	1 725	(6 268)	**-**
Sale, scrapping	(44)	(4)	-	-	-	**(48)**
Contribution in kind	-	(14 330)	-	(3 180)	-	**(17 510)**
Other changes	-	-	-	-	(140)	**(140)**
As at 31 December 2012	**4 626**	**2 369**	**185**	**2 480**	**294**	**9 954**
Cumulative depreciation and impairment						
As at 1 January 2012	**(297)**	**(6 114)**	**(21)**	**(735)**	-	**(7 167)**
Depreciation for the period	(204)	(750)	(36)	(323)	-	**(1 313)**
Sale, scrapping	14	-	-	-	-	**14**
Contribution in kind	-	5 244	-	524	-	**5 768**
As at 31 December 2012	**(487)**	**(1 620)**	**(57)**	**(534)**	-	**(2 698)**
Net value as at 1 January 2012	**602**	**9 817**	**164**	**3 200**	**673**	**14 456**
Net value as at 31 December 2012	**4 139**	**749**	**128**	**1 946**	**294**	**7 256**

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13. Lease

13.1. Operating lease liabilities

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
Within up to 1 year	684	772
Within 1 to 5 years	306	839
Total leasing fees	**990**	**1 611**

13.2. Operating lease receivables

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

	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	11 252	9 446	10 488	8 536
Within 1 to 5 years	26 665	24 818	31 056	28 114
Total minimum lease payments	**37 917**	**34 264**	**41 544**	**36 650**
Less finance costs	(3 653)	-	(4 894)	-
Current value of minimum lease payments	**34 264**	**34 264**	**36 650**	**36 650**

14. Investment property

Investment property in the Company include land, perpetual usufruct right to land and buildings leased to third parties in whole or in part.

	As at 31 December 2013	As at 31 December 2012
Book value as at beginning of the reporting period	**11 736**	**12 682**
Increases	-	104
Depreciation	(294)	(286)
Decreases	(363)	(565)
Impairment charge	-	(199)
Book value as at end of reporting period	**11 079**	**11 736**
Fair value of investment property	**11 079**	**11 736**

Additionally, the Company has perpetual usufruct rights to land, received free of charge, which, pursuant to IAS 17, constitute operating lease. The Company incurs the costs of annual fees. The amount of those costs in 2013 was PLN 75 thousand. The costs planned for the next period are PLN 56 thousand.

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15. Intangible assets

31 December 2013	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	**2 141**	**1 154**	**12**	**19 039**	**14 402**	**35 594**
Purchase of intangible assets (including assets not in use)	-	-	-	-	11 354	**11 354**
Transfer of intangible assets not in use	2 296	1 888	-	7 901	(10 197)	**-**
Reclassification between groups	5 090	3 663	-	(5 090)	-	**-**
Lease agreements	(1 439)	(1 439)	-	(5 673)	-	**(7 112)**
As at 31 December 2013	**8 088**	**5 266**	**12**	**16 177**	**15 559**	**39 836**
Cumulative amortization and impairment						
As at 1 January 2013	**(754)**	**(694)**	**(12)**	**(7 841)**	**-**	**(8 607)**
Amortization for the period	(2 224)	(1 669)	-	(3 325)	-	**(5 549)**
Reclassification between groups	(3 243)	(1 326)	-	3 243	-	**-**
As at 31 December 2013	**(6 221)**	**(3 689)**	**(12)**	**(7 923)**	**-**	**(14 156)**
Net value as at 1 January 2013	**1 387**	**460**	**-**	**11 198**	**14 402**	**26 987**
Net value as at 31 December 2013	**1 867**	**1 577**	**-**	**8 254**	**15 559**	**25 680**

31 December 2012	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 2012	**7 073**	**26**	**12**	**10 369**	**23 131**	**40 585**
Purchase of intangible assets (including assets not in use)	-	-	-	-	25 801	**25 801**
Transfer of intangible assets not in use	3 681	3 281	-	30 885	(34 566)	**-**
Lease agreements	(2 153)	(2 153)	-	(21 926)	-	**(24 079)**
Contribution in kind	(6 460)	-	-	(289)	-	**(6 749)**
Other changes	-	-	-	-	36	**36**
As at 31 December 2012	**2 141**	**1 154**	**12**	**19 039**	**14 402**	**35 594**
Cumulative amortization and impairment						
As at 1 January 2012	**(1 365)**	**(15)**	**(12)**	**(6 358)**	-	**(7 735)**
Amortization for the period	(1 698)	(679)	-	(1 785)	-	**(3 483)**
Contribution in kind	2 309	-	-	289	-	**2 598**
Lease agreements	-	-	-	13	-	**13**
As at 31 December 2012	**(754)**	**(694)**	**(12)**	**(7 841)**	**-**	**(8 607)**
Net value as at 1 January 2012	**5 708**	**11**	**-**	**4 011**	**23 131**	**32 850**
Net value as at 31 December 2012	**1 387**	**460**	**-**	**11 198**	**14 402**	**26 987**

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16. Inventories

Title	As at 31 December 2013	As at 31 December 2012
Materials (historical cost)	467	496
Total	**467**	**496**

In the current and previous reporting periods there were no revaluation allowances or movements in the revaluation allowances of inventories.

17. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates, 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 Company's current cash requirements and earn interest at interest rates negotiated individually with banks. Cash and cash equivalents comprise also participation units in the ENERGA Trading investment fund carried at fair value.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

	As at 31 December 2013	As at 31 December 2012
Cash at bank and in hand	6 568	9 057
Short-term deposits up to 3 months	329 068	242 868
Participation units in Energa liquidity funds	374 763	436 336
Total cash and cash equivalents presented in the statement of financial position	**710 399**	**688 261**
Unrealized exchange rate differences and interest	(3 594)	(10 688)
Total cash and cash equivalents presented in the statement of cash flows	**706 805**	**677 573**

18. Other assets

18.1. Other non-current assets

Title	As at 31 December 2013	As at 31 December 2012
Trade receivables and other long-term receivables	24 818	28 115
Advances for property, plant & equipment under construction and intangible assets	5 096	270
Accruals (Wisla project)	30 507	20 274
Additional equity contributions	66 480	133 165
Other	2 127	1 170
Total	**129 028**	**182 994**

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18.2. Trade receivables and other current receivables

Title	As at 31 December 2013	As at 31 December 2012
Receivables from subsidiaries	39 836	22 304
trade receivables	30 390	13 763
other	9 446	8 541
Receivables from other entities	28	296
trade receivables	28	55
other	-	241
Trade receivables and other financial receivables	**39 864**	**22 600**

18.3. Other current assets

Title	As at 31 December 2013	As at 31 December 2012
Operating cost accrued, including:	**959**	**497**
Subscription	4	4
Property, casualty and transport insurance	183	347
IT services	715	96
Other expenses	57	50
Accrued financial expenses	**899**	**2 096**
Other accruals, including:	**-**	**10 417**
Project Ostrołęka C	-	57
Project ENERGA IMP	-	6 499
Project Akwizycja	-	3 442
Project Energa Finance	-	365
Other project	-	54
Other current assets, including:	**10 431**	**54 618**
Advance payments towards trade payables	9 567	5 227
VAT receivables	630	2 947
Receivables from sale of shares	-	45 930
Other short-term assets	234	514
Total	**12 289**	**67 628**

19. Share capital and other capital

19.1. Share capital

On 3 September 2013, the extraordinary General Meeting of ENERGA SA adopted a resolution on consolidation 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. Amendments to the Company's articles of association required due to the above resolutions were registered by the Court of Registration on 9 September 2013. As a result of the resolutions, as at 31 December 2013, the share capital of ENERGA SA amounts to PLN 4,521,613 thousand.

	31 December 2013
Registered shares of AA series with a nominal value of PLN 10,92 each	269 139
Registered shares of BB series with a nominal value of PLN 10,92 each	144 928
Total number of shares in thousands	**414 067**

	31 December 2012
Registered shares of A series with a nominal value of PLN 1 each	255
Registered shares of B series with a nominal value of PLN 1 each	4 845 611
Registered shares of C series with a nominal value of PLN 1 each	122 939
Total number of shares in thousands	**4 968 805**

The table below presents the Company's organizational structure:

	31 December 2013*	31 December 2012
State Treasury	51,52%	84,18%
Other shareholders	48,48%	15,82%
Total	**100,00%**	**100,00%**

On 27 January 2014, the State Treasury Minister informed the 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 to 51.52% (stabilization ended in December 2013).

19.1.1 Par value per share

All the outstanding shares have the aggregated par value of PLN 4,521,613 thousand and have been fully paid up.

19.1.2 Shareholders' rights

As at 31 December 2013, the State Treasury held 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 Company's articles of association in effect on the date of these statements, 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 will fall below 20%.

19.2. Supplementary capital and reserve capital

Supplementary capital has been created from write-offs from profit generated by the Company. As at 31 December 2013, its amount was PLN 521,490 thousand. Reserve capital in the amount of PLN 447,192 thousand 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) and may only be used to cover future losses or to raise the Company's share capital.

19.3. Retained earnings and restrictions on dividend payment

Retained earnings include capital established and utilized according to the principles defined by provisions of law and the Company's articles of association as well as results of the current reporting period. As at 31 December 2013, there are no restrictions to dividend payment, other than those resulting from provisions of law.

20. Data used to calculate profit 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.

	Year ended 31 December 2013	Year ended 31 December 2012
Net profit on continuing operations	499 049	530 176
Net profit on disposal of assets held for sale	-	15 419
Net profit	**499 049**	**545 595**
Number of shares in thousands applied to the calculation of earnings per share*	**414 067**	**414 067**

** For the calculation for the current and previous period number of shares after the reversed split was used - see Note 19.1*

21. Dividends paid and proposed

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

On 23 April 2013, the Ordinary General Meeting adopted a resolution to earmark an amount of PLN 496,881 thousand for payment of dividend to the Company's shareholder, which makes up PLN 0.10 per share (if we used for the calculation the number of shares after the reverse split made in September 2013, the divided per share would be PLN 1.20). The dividend was paid out of the net profit generated by the Company in 2012. At the end of the reporting period, the liability on account of dividend from the 2012 profit amounted to PLN 1,363 thousand. In 2013, PLN 495,518 thousand was paid out.

On 31 May 2012, the Ordinary General Meeting adopted a resolution to earmark an amount of PLN 645,945 thousand for payment of dividend to the Company's shareholder, which makes up PLN 0.13 per share (if we used for the calculation the number of shares after the reverse split made in September 2013, the divided per share would be PLN 1.56). The dividend was paid out from the profit generated by the Company in 2011. In 2013, an amount of PLN 179 thousand was paid out in connection with the above liability.

22. Pensions and other benefits after the employment period

The amounts of provisions for post-employment benefits and the agreement on changes to their balance during the reporting period for 2013 are presented in the table below:

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	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2013	**97**	**220**	**49**	**366**
Current service cost	(42)	(9)	(5)	**(56)**
Actuarial gains and losses	(4)	(20)	(22)	**(46)**
Benefits paid	-	(2)	-	**(2)**
Interest cost	4	9	2	**15**
As at 31 December 2013	**55**	**198**	**24**	**277**
Short-term as at 31 December 2013	31	3	-	**34**
Long-term as at 31 December 2013	24	195	24	**243**

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

	Year ended 31 December 2013	Year ended 31 December 2012
Discount rate	4,66%	3,80%
Employee turnover rate	11,57%	13,75%
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**	*by price paths**

** Energy price paths were adopted on the basis of industry expert materials*

Based on data received from the actuary, the Company estimates that the change in actuarial assumptions would affect the amount of provisions for retirement and disability benefits, jubilee awards, 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 9%, while adoption of a discount rate lower by 1 percentage point would cause an increase in the provision amount by about 10%,
- adoption of planned bases increases 1 percentage point higher would result in an increase in provisions by about 10%, while adoption of planned increases of bases 1 percentage point lower would result in a decrease in provisions by about 9%.

23. Provisions

	Post-employment benefits	Jubilee bonuses	Total
As at 1 January 2013	**366**	**704**	**1 070**
Current service cost	(56)	41	**(15)**
Actuarial gains and losses	(46)	19	**(27)**
Benefits paid	(2)	(202)	**(204)**
Interest cost	15	28	**43**
As at 31 December 2013	**277**	**590**	**867**
Short-term as at 31 December 2013	34	110	**144**
Long-term as at 31 December 2013	243	480	**723**

prepared in accordance with IFRS EU (in PLN thousand)

24. Liabilities

24.1. Trade payables and other liabilities

Title	As at 31 December 2013	As at 31 December 2012
Liabilities to subsidiaries	5 298	5 379
trade liabilities	1 745	2 934
other	3 553	2 445
Liabilities to other entities	18 170	18 532
trade liabilities	14 557	14 680
other	3 613	3 852
Trade and other financial liabilities	**23 468**	**23 911**

24.2. Other current liabilities

	As at 31 December 2013	As at 31 December 2012
Liabilities on account of taxes, customs duties, social security, salaries and others	**1 471**	**1 370**
Liabilities on social security insurance	768	465
Personal income tax	693	619
Other	10	286
Other current liabilities	**192 005**	**217 406**
Liabilities from acquisition of shares	189 825	216 135
Other	2 180	1 271
Total	**193 476**	**218 776**

25. Investment commitments

On 24 June 2013, ENERGA SA signed an agreement with Infovide-Matrix S.A. for the development and implementation of the sales support system, including billing and customer relationship management system in the ENERGA Group and on the provision of warranty and repair services for that system. Under that agreement, the Company undertook to incur the expenditures for property, plant and equipment and intangible assets in the amounts of PLN 5,494 thousand and PLN 63,197 thousand, respectively.

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. The Company has established such a fund and makes periodic charges. ENERGA SA's Fund does not have any property, plant and equipment.

The purpose of the Fund is to subsidize the Company's social activity, grant housing loans to employees and subsidize other social costs, such as: subsidies to employee recreation, Christmas boxes for children and non-refundable financial aid in special situations.

The Company has compensated the Fund's assets with its liabilities towards the Fund, because these assets do not constitute separate assets of the Company.

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

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	As at 31 December 2013	As at 31 December 2012
Loans granted to employees	784	598
Cash and cash equivalents	28	82
Fund's liabilities	(812)	(680)
Balance after set-off	**-**	**-**
Charges to the fund during the period	452	561

27. Prepayments and accruals

27.1. Deferred income and government grants

Title	As at 31 December 2013	As at 31 December 2012
Subsidies received	70 236	76 288
Other	72	298
Total, including:	**70 308**	**76 586**
Long-term	62 057	67 975
Short-term	8 251	8 611

27.2. Accrued cost

Title	As at 31 December 2013	As at 31 December 2012
Accruals for unused holiday leave pay	908	840
Accruals for annual bonus and other employee bonuses	7 041	3 447
Other prepayments and accrued expenses	-	66
Total	**7 949**	**4 353**

28. Information on related entities

The Company recognizes as related entities all companies from the ENERGA SA Group, State Treasury Companies and members of the senior management of the Company.

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

28.1. Transactions involving State Treasury companies

The Company's parent entity is the State Treasury. ENERGA SA concludes transactions with other State Treasury companies with regard to normal, daily business operations. These transactions are concluded on an arms' length basis and their terms and conditions do not deviate from transactions with other entities. They do not constitute material transactions in relation to others. The Company 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.

ENERGA SA identifies transactions with approx. 10 State Treasury Companies. The total value of the transactions with these entities is presented in the table below. The transactions were done at an arm's-length basis

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Year	Sales	Purchases	Receivables	Liabilities
2013	-	429	-	-
2012	10	386	-	-

28.2. Transactions involving entities related excluding State Treasury

Subsidiaries	Year ended 31 December 2013	Year ended 31 December 2012
Net income from sale of products, goods and materials	79 562	53 762
Costs of purchase	20 048	13 427
Other operating income	1 219	717
Other operating expenses	-	4
Financial income	888 126	1 027 708
Financial costs	62 625	1 321

	As at 31 December 2013	As at 31 December 2012
Long-term receivables	24 818	28 115
Trade receivables	30 390	13 763
Long-term investments	4 104 817	3 147 730
Current investments	335 787	232 941
Other receivables	9 446	54 470
Non-current liabilities	2 069 453	-
Trade liabilities	1 414	2 933
Other liabilities	211 298	788 843

Associated entities and other	Year ended 31 December 2013	Year ended 31 December 2012
Costs of purchase	2 060	1 942
Other operating expenses	2 000	2 000

	As at 31 December 2013	As at 31 December 2012
Trade receivables	301	1

28.3. Remuneration paid or due to the Company's Management Board members and Supervisory Board members.

	Year ended 31 December 2013	Year ended 31 December 2012
Management Boards	5 171	1 213
Supervisory Board	249	280
Total	**5 420**	**1 493**

28.4. Loans granted to, and other transactions with, Management Board members

In the reporting period there were no loans granted or other material transactions with ENERGA SA's Management Board members.

prepared in accordance with IFRS EU (in PLN thousand)

28.5. Remuneration paid or due to senior management (except for members of the Company's Management Board and Supervisory Board)

	Year ended 31 December 2013	Year ended 31 December 2012
Short-term employee benefits (salaries and salary related costs)	11 984	10 889
Jubilee awards	84	11
Total amount of remuneration paid to senior management	**12 068**	**10 900**

29. Financial instruments

29.1. Carrying value of financial instruments by category

	As at 31 December 2013	As at 31 December 2012
Classes of financial instruments		
Bonds, treasury bills and other debt instruments	4 440 604	3 380 671
Shares and holdings	-	2 140
Trade receivables	30 418	13 818
Cash and cash equivalents, including:	710 399	688 261
Units of participation in the ENERGA Trading SFIO fund	374 763	436 336
Additional equity contribution	66 480	133 165
Receivables from sale of property, plant & equipment and intangible assets	-	246
Receivables from sale of shares	-	45 930
Hedging derivatives (assets)	13 017	-
Total assets	**5 260 918**	**4 264 231**
Loans and borrowings	4 132 622	2 350 038
Bonds issued	1 076 379	1 659 431
Trade and other payables	16 302	17 614
Liabilities from the purchase of shares	189 825	216 135
Other financial liabilities	1 392	1 010
Liabilities from purchase of property, plant & equipment and intangible assets	7 166	6 297
Total liabilities	**5 423 686**	**4 250 525**
Categories of financial instruments		
Financial assets measured at fair value through profit or loss	710 399	690 401
Hedge derivatives	13 017	-
Investments held to maturity	4 440 604	3 380 671
Loans and receivables	96 898	193 159
Total assets	**5 260 918**	**4 264 231**
Financial liabilities measured at amortised cost	5 423 686	4 250 525
Total liabilities	**5 423 686**	**4 250 525**

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29.2. Items of income, expenses, profits and losses recognized in the statement of profit or loss by category of financial instruments

	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Financial assets out of scope of IAS 39	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Total
Year ended 31 December 2013							
Dividends and profit-sharing	-	-	686 888	-	-	-	686 888
Interest income/(cost)	26 058	199 155	2 065	37	(226 441)	(18 408)	(17 534)
Foreign exchange gains and losses	7 504	-	-	-	11 286	(16 320)	2 470
Reversal of impairment allowances / increase of value	99	-	25 838	-	-	-	25 937
Creation of Impairment allowances / decrease of value	(924)	-	(80 223)	(13 885)	-	-	(95 032)
Profit/(loss) on sale of investments	389	-	(683)	-	-	-	(294)
Other	-	-	-	-	(500)	-	(500)
Total net profit/(loss)	**33 126**	**199 155**	**633 885**	**(13 848)**	**(215 655)**	**(34 728)**	**601 935**
Net other comprehensive income	-	-	-	-	-	32 765	32 765
Total comprehensive income	**33 126**	**199 155**	**633 885**	**(13 848)**	**(215 655)**	**(1 963)**	**634 700**

	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Financial assets out of scope of IAS 39	Loans and receivables	Financial liabilities measured at amortized cost	Hedging instruments	Total
Year ended 31 December 2012							
Dividends and profit-sharing	7	-	822 949	-	-	-	822 956
Interest income/(cost)	12 728	156 995	1 126	27	(174 414)	-	(3 538)
Foreign exchange gains and losses	-	-		-	(9)	-	(9)
Reversal of impairment allowances / increase of value	-	-	493	-	-	-	493
Creation of Impairment allowances / decrease of value	(1 605)	-	(189 815)	(18 335)	-	-	(209 755)
Additional equity contributions	-	-	-	(2 058)	-	-	(2 058)
Profit/(loss) on sale of investments	(1 753)	-	(1 931)	-	-	-	(3 684)
Other	-	-	-	-	(414)	-	(414)
Total net profit/(loss)	**9 377**	**156 995**	**632 822**	**(20 366)**	**(174 837)**	**-**	**603 991**

29.3. Fair value of financial instruments

The carrying amount of the following financial assets and liabilities carried at adjusted purchase price:

- investments held-to-maturity, based on variable interest rates,
- loans granted, receivables and other financial liabilities,

is a reasonable approximation of their fair value.

The financial assets listed below are carried at fair value:

- financial assets at fair value through profit or loss,
- hedging derivatives.

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 Company is not able to determine the range of their possible fair values. These assets are measured at purchase price less impairment allowances.

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 Company 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	As at 31 December 2013		
	Level 1	Level 2	Level 3
Assets			
Units of participation in the ENERGA Trading SFIO fund	-	374 763	-
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.

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.

During the reporting period no significant changes in the financial risk management policy were introduced except for hedge accounting, as described in note 8.24.

29.3.1 List of companies (name, registered office) where the entity holds at least 20% of shares in the capital or of the total number of votes in the company's decision-making body; the list contain information about the percentage of shares, the degree of participation in management

No.	Company	Registered office	Value of the shares in the books of Energa SA	Share of ENERGA SA in the share capital (%)	Share of ENERGA SA in the total number of votes (%)	Net profit for 2013 year in thousands	The dividend from the profit for 2013 as resoluted by Shareholder Meetings of the subsidiaries
1	ENERGA-OPERATOR SA	Gdańsk	4 471 125	100,00	100,00	526 594	390 755
2	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	411 738	89,38	89,38	(119 235)	N/D
3	ENERGA - OBRÓT SA	Gdańsk	329 409	100,00	100,00	168 873	168 873
4	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	4 343	100,00	100,00	607	N/D
5	ENERGA Wytwarzanie Sp. z o.o. (formerly ENERGA Hydro Sp. z o.o.)	Straszyn	543 180	100,00	100,00	256 820	181 000
6	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. w likwidacji	Straszyn	1 429	100,00	100,00	(4 582)	N/D
7	ZEP - MOT Sp. z o. o.	Płock	-	100,00	100,00	(3 973)	N/D
8	Ekologiczne Materiały Grzewcze Sp. z o.o.	Gdańsk	16 802	100,00	100,00	8 512	N/D
9	Elektrownia Ostrołęka SA	Ostrołęka	268 120	100,00	100,00	741	N/D
10	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	37 229	100,00	100,00	(872)	N/D
11	ENERGA Finance AB (publ)	Sztokholm	85 308	100,00	100,00	EUR 101 thousand	N/D
12	SOEN Sp. z o.o.	Grudziądz	1 000	48,50	48,50	N/D	N/D
13	RGK Sp. z o.o.	Gdańsk	0,00	100,00	100,00	(30 784)	N/D

The above list does not present companies where the share of ENERGA SA in share capital is less than 20% and accordingly it does not include shares with the aggregated carrying amount of PLN 2,015 thousand as at 31 December 2013.

The value of shares specified in the table above is the value at purchase price minus impairment allowances. As at 31 December 2013, the total amount of impairment allowances for shares was PLN 238,674 thousand. The value of the impairment allowances, broken down to individual companies, is presented in note 29.4.3.

Optimization of ENERGA SA's ownership structure

The following transactions were conducted in the current period as ENERGA SA ordered its ownership structure:

- completed compulsory purchase procedures for the shares in ENERGA–OPERATOR SA from minority shareholders, and consequently in July 2013 ENERGA SA became the sole shareholder of the company;
- registered the share capital increase at ENERGA Kogeneracja Sp. z o.o. by PLN 48,511,500, in return for a contribution in kind in the form of shares in ENERGA Elektrociepłownia Kalisz S.A and ENERGA OPEC Sp. z o.o. by ENERGA SA and ENERGA Elektrownie Ostrołęka SA was registered in the National Court Register; Then ENERGA SA purchased from ENERGA Elektrownie Ostrołęka SA its shares in ENERGA Kogeneracja Sp. z o.o.,
- ENERGA SA's shares in the following companies were contributed in kind to ENERGA Wytwarzanie Sp. z o.o. (formerly ENERGA Hydro Sp. z o.o.): ENERGA Invest SA, Elektrownia CCGT Gdańsk Sp. z o.o., Elektrownia CCGT Grudziądz Sp. z o.o., AEGIR 5 Sp. z o.o., ENERGA Kogeneracja Sp. z o.o., Breva Sp. z o.o.,
- shares in ENERGA Innowacje Sp. z o.o. were purchased from ENERGA–OPERATOR SA, Then all ENERGA SA's shares in ENERGA Innowacje were contributed in kind to ENERGA – OBRÓT SA,

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- Elektrownie Wodne we Włocławku Sp. z o.o. w likwidacji (in liquidation) and Kongres Sp. z o.o. w likwidacji (in liquidation) were liquidated and deleted from the KRS register,
- ENERGA Wytwarzanie Sp. z o.o. (formerly ENERGA Hydro Sp. z o.o.) and Energa Bio Sp. z o.o. (acquired company) were merged,
- shares in SIDEN Sp. z o.o. and Oświetlenie Uliczne i Drogowe Sp. z o.o. were sold.

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

29.4.1 Financial assets held to maturity

In 2012 - 2013 the Company classified purchased bonds as assets held to maturity.

The purchased bonds are presented in the table below, broken down by issuers.

	As at 31 December 2013	As at 31 December 2012
ENERGA-OPERATOR SA	2 913 931	3 057 281
ENERGA Wytwarzanie Sp. z o.o.	1 211 462	89 567
ENERGA Elektrownie Ostrołęka SA	185 440	99 136
ENERGA Kogeneracja Sp. z o.o.	129 771	134 687
Total, including:	**4 440 604**	**3 380 671**
Long-term	4 104 817	3 147 730
Short-term	335 787	232 941

29.4.2 Loans and receivables

The main item of financial instruments classified as loans and receivables are trade receivables and additional equity contributions.

Trade receivables and other financial receivables	As at 31 December 2013	As at 31 December 2012
Not overdue	60 990	49 251
Overdue:	**3 692**	**1 464**
< 30 days	2 906	1 396
30 – 90 days	745	5
90 - 180 days	39	-
180 - 360 days	1	-
>360 days	1	63
Gross receivables	**64 682**	**50 715**
Impairment allowances	-	-
Net receivables, including:	**64 682**	**50 715**
Long-term	24 818	28 115
Short-term	39 864	22 600

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29.4.3 Impairment allowances for financial assets

Impairment write-downs of shares and holdings	As at 1 January 2013	Recognition	Use	Release	As at 31 December 2013
Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. w likwidacji	22 775	5 215	-	-	27 990
ZEP-MOT Sp. z o.o.	5 658	2 024	-	-	7 682
Energa BIO Sp. z o.o.	9 055	-	-	(9 055)	-
Energa Informatyka i Technologie Sp. z o.o.	4 813	-	-	(4 813)	-
RGK Sp. z o.o.	-	654	-	-	654
ENERGA Elektrownie Ostrołęka SA	-	72 330	-	-	72 330
Elektrownia Ostrołęka SA	126 981	-	-	-	126 981
Chłodnia Olsztyn Sp. z o.o.	509	-	(410)	(99)	-
SOEN Sp. z o.o.	3 037	-	-	-	3 037
Oświetlenie Uliczne i Drogowe Sp. z o.o.	31 666	-	(19 696)	(11 970)	-
Biuro Handlowo Usługowe SA	1 193	924	(2 117)	-	-
SIDEN Sp. z o.o.	739	-	(739)	-	-
Total impairment write-downs of shares and holdings	**206 426**	**81 147**	**(22 962)**	**(25 937)**	**238 674**

Impairment write-downs of additional equity contributions	As at 1 January 2013	Recognition	Use	Release	As at 31 December 2013
RGK Sp. z o.o.	18 335	7 039	-	-	25 374
ZEP-MOT Sp. z o.o.	-	6 846	-	-	6 846
Total impairment write-downs of additional equity contributions	**18 335**	**13 885**	**-**	**-**	**32 220**

Impairment test for shares in ENERGA Elektrownie Ostrołęka SA

In view of evidence found in relation to the subsidiary ENERGA Elektrownie Ostrołęka SA indicating a possible decrease in the value of the company's shares, an impairment test was carried out as at 31 March 2013. As a result of the test carried out on 31 March 2013, it was determined that an impairment allowance of PLN 72,330 thousand was required for shares in ENERGA Elektrownie Ostrołęka.

As at 30 November 2013 the share impairment test was carried out again.

The test was carried out taking into account, among other things, the following assumptions:

- paths for electricity prices for the period 2014–2020, 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,
- CO_2 emission limits for the period 2013–2020 as reported in the Polish government's derogation statement sent to the European Commission,
- volumes of production from renewable energy sources and combined heat and power sources resulting from production capacities,
- maintaining the production capacities of the existing fixed assets following replacement investments.

The test was performed using the income method, determining the recoverable amount based on the discounted value of estimated cash flows from operating activities. The calculations were carried out based on the summarized financial projections for the period from December 2013 to December 2022 and the residual value.

For the purpose of the calculations, the discount rate equal to the weighted average cost of capital (WACC) at 10.28% before tax taking into account the risk-free rate (based on the yield on 10-year Treasury bonds - at 4.4%) and the risk premium for the relevant activities of the energy sector (5.5%) were applied. 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.

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

The result of the test carried out as at 30 November 2013 confirmed the amount of the revaluation allowance of the shares which was recognized as at 31 March 2013.

29.4.4 Financial liabilities measured at amortized cost

29.4.4.1 Loans and borrowings

Loans and borrowings contracted as at 31 December 2013 are presented in the table below:

	As at 31 December 2013	
Currency	PLN	EUR
Reference Rate	WIBOR	Fixed
Value of the loan/ borrowing		
in currency	2 044 206	503 573
in PLN	2 044 206	2 088 416
Of which, payable:		
up to 1 year (short-term)	247 582	18 963
1 to 2 years	351 132	-
2 to 3 years	228 177	-
3 to 5 years	452 123	-
over 5 years	765 192	2 069 453

Loans and borrowings contracted as at 31 December 2012 are presented in the table below:

	As at 31 December 2012
Currency	PLN
Reference Rate	WIBOR
Value of the loan/ borrowing	
in currency	2 350 038
in PLN	2 350 038
Of which, payable:	
up to 1 year (short-term)	349 491
1 to 2 years	261 923
2 to 3 years	361 602
3 to 5 years	439 042
over 5 years	937 980

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29.4.4.2 Liabilities under bonds issued

Outstanding bonds are presented in the table below:

	As at 31 December 2013	As at 31 December 2012
Currency	PLN	PLN
Reference Rate	WIBOR	WIBOR
Value of the issue		
in currency	1 076 379	1 659 431
in PLN	1 076 379	1 659 431
of which, repayable:		
up to 1 year (short-term)	16 598	580 212
1 to 2 years	7 203	7 340
2 to 3 years	7 630	7 391
3 to 4 years	7 670	7 584
4 to 5 years	7 636	7 411
over 5 years	1 029 642	1 049 493

29.5. Liability repayment collateral

As at the end of the reporting period, there were no collaterals on the Company's assets.

29.6. Cash flow hedge accounting

The special purpose vehicle ENERGA Finance AB (publ) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499,000 thousand. In order to hedge future cash flow under these loans, the Company concluded CCIRS transactions.

As a hedged position under the above hedging relationship the Company designates the cash flows under the fixed rate loans denominated in EUR that it took out.

As the hedge the Company designated CCIRS transactions under which the Company receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Company correspond with the cash flows under the intra-group loans. The Company expects that the hedged cash flows will continue from September 2013 to March 2020.

The fair value of the hedge instrument asset as at 31 December 2013 was PLN 13,017 thousand. Under cash flow hedge accounting, the Company recognized the amount of PLN 26,539 thousand during the reporting period in the cash flow hedge reserve (the effective portion of changes in the value of the hedge after taking into account deferred income tax).

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

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Changes in the cash flow hedge reserve within the reporting period	As at 31 December 2013	As at 31 December 2012
Opening balance	**-**	**-**
Amount recognized in the cash flow hedge reserve during the period, equal to the change in the fair value of the hedge instrument	13 017	-
Accrued interest transferred from the reserve to the interest result	3 428	-
Revaluation of hedging instruments transferred from the equity to foreign exchange (gains)/losses	16 320	-
Income tax on the other comprehensive income	(6 226)	-
Closing balance	**26 539**	**-**

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

30. Contingent assets and liabilities and security granted

The Company does not recognize any material contingent assets or liabilities. Granted security at the end of the reporting period is presented in the table below:

Granted security	As at 31 December 2013	As at 31 December 2012
joint and several liability of ENERGA SA for the financial liabilities of Energa Group companies	226 242	185 867
surety issued	5 684 000	-
Total	**5 910 242***	**185 867**

** The maximum amount of ENERGA SA liabilities resulting from the concluded agreements, the secured liabilities as at 31 December 2013 reached PLN 2 284 471*

On 15 November 2012, an EMTN Eurobond issue program was established for the amount up to EUR 1,000,000 thousand. Under the program ENERGA Finance AB (publ) a company registered under the Swedish law, acting as a subsidiary of ENERGA SA may issue Eurobonds with maturities from 1 year to 10 years. Pursuant to the surety agreement of 15 November 2012, ENERGA SA undertook, unconditionally and irrevocably to guarantee liabilities of ENERGA Finance AB (publ) resulting from Eurobonds up to EUR 1,250,000 thousand until 31 December 2024 inclusive. As at 31 December 2013, ENERGA Finance AB (publ) conducted one issue of bonds for an amount of EUR 500,000 thousand.

In the current reporting period, ENERGA SA extended a surety to ENERGA – OBRÓT SA for an amount up to PLN 500,000 thousand for liabilities under a signed trade agreement (on 4 December 2013, the Company terminated the surety agreement effective on 1 February 2014).

31. Financial risk management principles and objectives

The main financial instruments used by the Company include bonds, cash, short-term investments, participation units in liquidity funds, loans, bank loans and derivative hedging instruments. The main objective of these financial instruments is to obtain cash for the activity of the Company and other companies from the ENERGA SA Group, to distribute cash to the Group companies and to invest cash surpluses. The Company also has other financial instruments such as trade receivables and payables generated directly in the course of its business activity.

The main type of risk resulting from the Company's financial instruments include the interest rate risk, liquidity risk, foreign exchange risk and credit risk. The Management Board verifies and agrees the principles of managing each type of risk – these principles have been briefly discussed below. The Company also monitors the market risk concerning all the financial instruments held by it.

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The main market risk type to which the Company is exposed is interest rate risk. At present, ENERGA SA is exposed for the most part to the risk of changes to referential interest rates for PLN.

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

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

In interest rate risk sensitivity analysis, the Company 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 ATMF options per interest rate quoted on the inter-bank market for the currencies for which the Company is exposed to the interest rate risk on the statement of financial position date.

In the case of analysis of sensitivity to changes to interest rates, the percentage effect of changes to risk factors was referred to the values of income/interest costs for financial instruments measured at amortized cost and to the fair value as at the statement of financial position date for financial instruments measured at fair value.

31.1. Interest rate risk

The assets and liabilities exposed to changes to interest rates are primarily bonds, loans, bank investments and derivative hedging instruments, purchased and issued by the Company.

The Company identifies exposure to changes to the WIBOR and EURIBOR interest rates.

Financial Assets and Liabilities	31 December 2013		Interest rate risk sensitivity analysis as at 31 December 2013			
	Book value	Value exposed to the risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR + 95 pb*	*WIBOR - 95 pb*	*EURIBOR + 18 pb*	*EURIBOR -18 pb*
Assets						
Cash and cash equivalents	710 399	335 636	60	(60)	592	(592)
Bonds issued	4 440 604	3 304 635	31 394	(31 394)	-	-
Liabilities						
Loans and borrowings	4 132 622	2 044 206	(19 420)	19 420	-	-
Bonds issued	1 076 379	1 076 379	(10 226)	10 226	-	-
Change of gross profit			**1 808**	**(1 808)**	**592**	**(592)**
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**

31.2. Foreign exchange risk

With regard to financial transactions, the Company is exposed to foreign exchange risk because of loans from a subsidiary – ENERGA Finance AB (publ). To hedge that risk, the Company has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 8.24). In addition, the Company identifies foreign exchange risk relating to cash.

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Financial Assets and Liabilities	31 December 2013		Interest rate risk sensitivity analysis as at 31 December 2013	
	Book value	Value exposed to the risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN + 7,75%*	*EUR/PLN - 7,75%*
Assets				
Cash and cash equivalents	710 399	329 343	25 524	(25 524)
Hedging instruments	13 017	1 881 326	145 803	(145 803)
Liabilities				
Loans and borrowings	4 132 622	2 088 416	(161 852)	161 852
Change of gross profit			**9 475**	**(9 475)**

31.3. Credit risk

The income and receivables generated mainly in transactions with subsidiaries follow from the specific line of ENERGA SA's business. The financial standing of Capital Group companies is monitored on an ongoing basis by appropriate task forces of ENERGA SA, and therefore exposure to bad debt risk is insignificant.

With respect to other financial assets, such as cash and cash equivalents, financial assets available for sale and certain derivatives, 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 adopted investment policy, the fund invests in assets such as treasury bills and bonds and commercial debt instruments. 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 assets characterized by an investment rating awarded by rating agencies or awarded internally by the fund manager.

There is no material concentration of credit risk in ENERGA SA.

31.4. Liquidity risk

The Company monitors the liquidity risk using a periodic liquidity planning tool. The tool takes into account the payment due/maturity dates both for investment liabilities and financial assets and liabilities and forecast cash flows from operating activity.

The objective of the Company is to maintain balance between continuity and flexibility of financing through the use of various sources of financing, such as current account overdrafts, working capital loans, investment loans and bonds, finance lease agreements and leases with a purchase option.

At the end of the reporting period, long-term loans were the main external source of the Company's financing. These liabilities are not collateralized on assets and are based primarily on operating and financial covenants. Financial covenants are calculated on the basis of the consolidated financial statements of the ENERGA SA Group prepared in accordance with EU IFRS. The Company conducts on-going monitoring of compliance with the covenants.

The next most important group of financial liabilities is the loan from a subsidiary ENERGA Finance AB (publ) and domestic bond issue with the maturity period of 7 years. The loan is not collateralized and the bond issue is secured by financial covenants.

prepared in accordance with IFRS EU (in PLN thousand)

The tables below present the Company's financial liabilities as at the maturity date on the basis of contractual payments.

31 December 2013	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	124 659	306 340	1 628 663	3 051 314	5 110 976
Bonds issued	13 062	41 336	269 438	1 088 926	1 412 762
Liabilities from acquisition of shares	-	189 825	-	-	189 825
Trade and other financial liabilities	23 468	-	-	-	23 468
Other liabilities	1 392	-	-	-	1 392
Total financial liabilities	**162 581**	**537 501**	**1 898 101**	**4 140 240**	**6 738 423**

31 December 2012	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	-	-	1 401 130	1 112 045	2 513 175
Bonds issued	580 212	-	256 918	1 155 844	1 992 974
Liabilities from acquisition of shares	77 385	-	138 750	-	216 135
Trade and other financial liabilities	23 911	-	-	-	23 911
Other liabilities	1 010	-	-	-	1 010
Total financial liabilities	**682 518**	**-**	**1 796 798**	**2 267 889**	**4 747 205**

31.5. 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 programme of ENERGA–OPERATOR SA for the period 2009-2012 associated with the redevelopment and modernization of the distribution grid:

- agreement with the European Investment Bank ("EIB") with the limit of up to PLN 1,050,000 thousand;
- agreement with the European Bank for Reconstruction and Development ("EBRD") with the limit of up to PLN 800,000 thousand;
- agreement with the Nordic Investment Bank ("NIB") with the limit of up to PLN 200,000 thousand.

The above funding has been fully utilized by the Company, of which the following amounts are still outstanding and remain to be repaid: to EIB – PLN 977,100 thousand with the final maturity of 15 December 2025, to EBRD – PLN 683,300 thousand with the final maturity of 18 December 2021, to NIB – PLN 183,800 thousand 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 ENERGA SA and its subsidiary ENERGA–OPERATOR SA signed the loan agreement with EBRD for the amount of PLN 800,000 thousand under which the EBRD will provide PLN 400,000 thousand 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. As at 31 December 2013, utilization of the facility by the Company was PLN 50,000 thousand.

On 10 July 2013 ENERGA SA and its subsidiary ENERGA–OPERATOR SA signed a financing agreement for PLN 1,000,000 thousand 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.

Loan agreements

On 21 March and 25 March 2013, ENERGA SA signed loan agreements with ENERGA Finance AB (publ) for the total amount of EUR 499,000 thousand. As at 31 December 2013, the loans have been used in full.

Domestic bond issue

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

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 17 January 2014, the prospectus was approved by the Financial Supervision Authority, and on 29 January 2014 the bonds issued by ENERGA SA were floated on the regulated market operated by BondSpot S.A.

Loans from NORDEA Bank Polska SA

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

- investment loan agreement for PLN 100,000 thousand 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 100,000 thousand was committed under the loan, of which PLN 80,000 thousand remains to be repaid by 7 September 2015 according to the agreed schedule;
- investment loan agreement for PLN 160,000 thousand 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 134,700 thousand was committed under the loan, of which PLN 104,700 thousand remains to be repaid by 16 December 2015 according to the agreed schedule;
- agreement for arranging loans for ENERGA Group's companies with a total limit of PLN 75,000 thousand. As at 31 December 2013, the financing amount of PLN 51,400 thousand was committed of which PLN 15,700 thousand was actually used. The limit will expire on 29 June 2015;

- master agreement for bank guarantees for ENERGA Group's companies with a total limit of PLN 10,000 thousand. As at 31 December 2013, the limit was used in the amount of PLN 8,200 thousand. The limit will expire on 15 October 2016;
- agreement for arranging loans for ENERGA SA with a total limit of PLN 300,000 thousand. 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:

- loan agreement with a limit of PLN 200,000 thousand. As at 31 December 2013, the loan was not used. The loan is to be repaid by 12 October 2016;
- loan agreement in the amount of PLN 85,000 thousand to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company. The use of the loan as at 31 December 2013 reached PLN 33,000 thousand. 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:

- master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 150,000 thousand. As at 31 December 2013, ENERGA SA did not use the limit granted; its validity lasts till 30 August 2016;
- master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 200,000 thousand. As at 31 December 2013, the financing limit for the aggregated amount of PLN 8,600 thousand was committed of which PLN 8,600 thousand was actually used. The facilities expire on 19 September 2017.

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 66,000 thousand as at 31 December 2013.

32. Capital management

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

The Company manages the capital structure and makes changes to it as a result of changing economic conditions. To maintain or adjust the capital structure, the Company may change disbursement of dividend to shareholders, return capital to shareholders or issue new shares. In the period ended 31 December 2012 and 31 December 2013, no changes were made to the objectives, principles and processes prevailing in this area.

The Company monitors its capital level by using the leverage ratio calculated as net debt to total equity plus net debt. In net debt, the Company includes interest-bearing loans and borrowings, trade liabilities and other liabilities, minus cash and cash equivalents. Capital comprises equity minus reserve capitals on account of unrealized net profit.

Financial statements for the year ended 31 December 2013 prepared in accordance with IFRS EU (in PLN thousand)

	As at 31 December 2013	As at 31 December 2012
Interest-bearing loans and borrowings	4 132 622	2 350 038
Bonds issued	1 076 379	1 659 431
Liabilities from acquisition of shares	189 825	216 135
Trade and other financial liabilities	23 468	23 911
Other liabilities	1 392	1 010
Excluding cash and cash equivalents	(710 399)	(688 261)
Net debt	**4 713 287**	**3 562 264**
Equity	6 060 018	6 031 273
Total equity	**6 060 018**	**6 031 273**
Capital and net debt	**10 773 305**	**9 593 537**
Leverage ratio	0,44	0,37

33. Employment structure

The average headcount in the Company in the year ended 31 December 2012 and 31 December 2013 was as follows (at the end of the current reporting year, the Company's Management Board was employed on the basis of management contracts):

	Year ended 31 December 2013	Year ended 31 December 2012
Management Board	-	2
Other	137	173
Total	**137**	**175**

34. Amount of the remuneration paid to the auditor

	Year ended 31 December 2013	Year ended 31 December 2012
Obligatory audit	40	57
Other certifying services	3 349	750
Total	**3 389**	**807**

35. Subsequent events

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).

36. Other information with material influence on the evaluation of the Company's assets and financial standing and its financial performance

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.

Ostrołęka C

In 2012 ENERGA SA 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 Company 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 Company did not receive any satisfactory proposals. Currently the Company 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.

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 19). 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 trial date was set for 12 March 2014.

Signatures of Management Board members and persons responsible for keeping ENERGA SA's accounting books:

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

Karol Jacewicz ....
Chief Accountant

Artur Chmura ....
President of the Management Board
ENERGA Centrum Usług Wspólnych Sp. z o.o.

Katarzyna Ogrodowska ....
Vice-President of the Management Board
ENERGA Centrum Usług Wspólnych Sp. z o.o.

Ewa Banaszak ....
Director of the Other Companies Servicing Department
ENERGA Centrum Usług Wspólnych Sp. z o.o.

Gdańsk, 6 March 2014