# PGE Polska Grupa Energetyczna S.A. Capital Group

**Consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013.**

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Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| STATEMENT OF PROFIT OR LOSS | Note | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)** |
|---|---|---|---|
| ***Continuing operations*** | | | |
| **Total sales revenues** | **15** | **30.144.855** | **30.481.076** |
| Costs of goods sold | **15** | (23.370.062) | (21.762.212) |
| **Gross profit on sales** | | **6.774.793** | **8.718.864** |
| Other operating revenues | **15** | 1.025.888 | 782.721 |
| Distribution and selling expenses | **15** | (1.244.134) | (1.495.512) |
| General and administrative expenses | **15** | (795.359) | (764.903) |
| Other operating expenses | **15** | (700.747) | (2.863.411) |
| **Operating profit** | | **5.060.441** | **4.377.759** |
| Financial revenues | **15** | 313.906 | 612.993 |
| Financial expenses | **15** | (314.176) | (367.147) |
| Share of profit of associates | **25** | (987) | (13.570) |
| **Profit before tax** | | **5.059.184** | **4.610.035** |
| Corporate income tax | **17** | (916.021) | (966.128) |
| **Net profit from continuing operations** | | **4.143.163** | **3.643.907** |
| **Discontinued operations** | | | |
| Profit for the period on discontinued operations | **19** | - | 278 |
| **Net profit for the operating period** | | **4.143.163** | **3.644.185** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Other comprehensive income, which may be reclassified to profit or loss:** | | | |
| Valuation of available-for-sale financial assets | | 321 | 777 |
| Foreign exchange differences from translation of foreign entities | | 633 | (2.550) |
| **Other comprehensive income, which will never be reclassified to profit or loss:** | | | |
| Actuarial gains and losses from valuation of provision for employee benefits | | 252.360 | (163.765) |
| **Other comprehensive income for the period** | | **253.314** | **(165.538)** |
| **TOTAL COMPREHENSIVE INCOME** | | **4.396.477** | **3.478.647** |
| **Net profit attributable to:** | | | |
| - equity holders of the parent company | | 4.118.469 | 3.616.254 |
| - non-controlling interest | | 24.694 | 27.931 |
| **Total comprehensive income attributable to:** | | | |
| - equity holders of the parent company | | 4.370.609 | 3.451.598 |
| - non-controlling interest | | 25.868 | 27.049 |
| **Earnings per share (in PLN)** | | | |
| – basic earnings per share for the period | **32** | 2,20 | 1,93 |
| – basic earnings from the continuing operations | **32** | 2,20 | 1,93 |

* For details on comparative data restatement please refer to Note 13 of these financial statements.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2013 | As at 31 December 2012 (restated)* | As at 1 January 2012 (restated)* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 21 | 45.626.300 | 43.738.301 | 42.974.819 |
| Investment property | 22 | 22.301 | 28.283 | 33.286 |
| Intangible assets | 23 | 717.827 | 512.764 | 261.781 |
| Loans and receivables | 42 | 391.970 | 329.395 | 323.473 |
| Available-for-sale financial assets | 42 | 24.786 | 33.256 | 100.751 |
| Shares in associates accounted for under the equity method | 25 | 9.033 | 40.454 | 55.062 |
| Other non-current assets | 29 | 643.968 | 357.166 | 396.514 |
| Deferred tax assets | 17 | 302.040 | 367.079 | 296.387 |
| Non-current assets related to discontinued operations | | - | - | 4.077 |
| **Total non-current assets** | | **47.738.225** | **45.406.698** | **44.446.150** |
| **Currents assets** | | | | |
| Inventories | 27 | 1.683.698 | 2.199.873 | 1.305.327 |
| Emission rights | 28 | 1.403.742 | 791.148 | 456.431 |
| Income tax receivables | | 8.584 | 8.918 | 31.920 |
| Short-term financial assets at fair value through profit or loss | 42 | 104.248 | 18.833 | - |
| Trade receivables | 42 | 2.192.088 | 1.894.733 | 1.767.739 |
| Other loans and financial assets | 42 | 903.097 | 768.200 | 2.784.000 |
| Available-for-sale short-term financial assets | 42 | 9.025 | 4.377 | 8.432 |
| Other current assets | 29 | 749.052 | 805.946 | 945.839 |
| Cash and cash equivalents | 30 | 5.951.964 | 4.795.493 | 4.052.238 |
| Assets classified as held-for-sale | 18 | 7.585 | 9.385 | 33.067 |
| Current assets related to discontinued operations | | - | - | 20.931 |
| **Total current assets** | | **13.013.083** | **11.296.906** | **11.405.924** |
| **TOTAL ASSETS** | | **60.751.308** | **56.703.604** | **55.852.074** |

* For details on comparative data restatement please refer to Note 13 of these financial statements.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| EQUITY AND LIABILITIES | Note | As at 31 December 2013 | As at 31 December 2012 *(restated)** | As at 1 January 2012 *(restated)** |
|---|---|---|---|---|
| **Equity (attributable to equity holders of the parent)** | | | | |
| Share capital | 31 | 18.697.608 | 18.697.608 | 18.697.837 |
| Revaluation reserve | | 321 | - | (777) |
| Treasury shares | 31 | - | - | (229) |
| Foreign exchange differences from translation of foreign entities | | 152 | 3.742 | 6.292 |
| Reserve capital | 31 | 8.941.152 | 9.687.596 | 8.553.143 |
| Other capital reserves | | 49.779 | 49.779 | 49.779 |
| Retained earnings | 31 | 15.692.905 | 12.278.204 | 13.322.998 |
| **Non-controlling interests** | 31 | **266.346** | **294.357** | **412.969** |
| **Total equity** | | **43.648.263** | **41.011.286** | **41.042.012** |
| **Non-current liabilities** | | | | |
| Interest-bearing loans and borrowings, bonds and lease | 42 | 1.993.860 | 1.085.244 | 1.341.351 |
| Other liabilities | 42 | 10.665 | 22.038 | 17.864 |
| Provisions | 35 | 4.462.064 | 4.695.414 | 3.289.921 |
| Deferred tax liabilities | 17 | 1.665.046 | 1.547.431 | 1.353.719 |
| Deferred income and government grants | 37 | 1.180.901 | 1.124.754 | 1.255.298 |
| Non-current liabilities related to discontinued operations | 19 | - | - | 667 |
| **Total non-current liabilities** | | **9.312.536** | **8.474.881** | **7.258.820** |
| **Current liabilities** | | | | |
| Trade liabilities | 42 | 934.834 | 1.201.870 | 1.117.172 |
| Financial liabilities at fair value through profit or loss | 42 | 23.725 | 36.513 | 48.093 |
| Interest-bearing loans, borrowings, bonds and lease | 42 | 527.831 | 811.447 | 697.661 |
| Other current financial liabilities | 42 | 1.944.082 | 1.546.320 | 1.826.613 |
| Other current non-financial liabilities | 36 | 1.672.725 | 1.557.993 | 1.499.755 |
| Income tax liabilities | | 154.738 | 231.234 | 414.618 |
| Deferred income and government grants | 37 | 97.328 | 123.401 | 117.117 |
| Current provisions | 35 | 2.435.246 | 1.708.659 | 1.812.299 |
| Current liabilities related to discontinued operations | | - | - | 17.914 |
| **Total current liabilities** | | **7.790.509** | **7.217.437** | **7.551.242** |
| **Total liabilities** | | **17.103.045** | **15.692.318** | **14.810.062** |
| **TOTAL EQUITY AND LIABILITIES** | | **60.751.308** | **56.703.604** | **55.852.074** |

* For details on comparative data restatement please refer to Note 13 of these financial statements.

*Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### for the period ended 31 December 2013

| | Share capital | Revaluation reserve | Foreign exchange differences from translation | Reserve capital | Other capital reserves | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2013** | **18.697.608** | **-** | **3.742** | **9.687.596** | **49.779** | **12.278.204** | **40.716.929** | **294.357** | **41.011.286** |
| **Total comprehensive income for the period** | ***-*** | ***321*** | ***633*** | ***-*** | ***-*** | ***4.369.655*** | ***4.370.609*** | ***25.868*** | ***4.396.477*** |
| Reimbursement of payments from profit for previous years | **-** | - | - | - | - | 294 | **294** | **-** | **294** |
| Retained earnings distribution | **-** | - | - | 77.552 | - | (77.552) | **-** | **-** | **-** |
| Dividend | - | - | - | (823.996) | - | (783.998) | **(1.607.994)** | (1.946) | **(1.609.940)** |
| Exclusion of companies from the Capital Group | - | - | (4.223) | - | - | (4.542) | **(8.765)** | 14.222 | **5.457** |
| Changes due to mergers of companies within the Capital Group | - | - | - | - | - | 2.898 | **2.898** | (2.898) | **-** |
| Settlement of purchase of additional stock in subsidiaries: | - | - | - | - | - | (58) | **(58)** | (62.053) | **(62.111)** |
| *Value of the purchased non-controlling interest* | - | - | - | - | | *62.053* | ***62.053*** | *(62.053)* | **-** |
| *Cost of shares and stocks in subsidiaries* | - | - | - | - | - | *(62.111)* | ***(62.111)*** | - | ***(62.111)*** |
| Other changes | - | - | - | - | - | (91.996) | **(91.996)** | (1.204) | **(93.200)** |
| **As at 31 December 2013** | **18.697.608** | **321** | **152** | **8.941.152** | **49.779** | **15.692.905** | **43.381.917** | **266.346** | **43.648.263** |

*Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### for the period ended 31 December 2012

| *(restated)** | Share capital | Revaluation reserve | Treasury shares | Foreign exchange differences from translation | Reserve capital | Other capital reserves | Retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2012** | **18.697.837** | **(777)** | **(229)** | **6.292** | **8.553.143** | **49.779** | **13.322.998** | **40.629.043** | **412.969** | **41.042.012** |
| **Total comprehensive income for the period** | **-** | ***777*** | **-** | ***(2.550)*** | **-** | **-** | ***3.453.371*** | ***3.451.598*** | ***27.049*** | ***3.478.647*** |
| Retained earnings distribution | **-** | - | - | - | 1.134.453 | - | (1.134.453) | **-** | **-** | **-** |
| Dividend | - | - | - | - | - | - | (3.421.472) | **(3.421.472)** | (1.011) | **(3.422.483)** |
| Purchase of new companies | - | - | - | - | - | - | - | **-** | 19.723 | **19.723** |
| Redemption of Treasury shares | (229) | - | 229 | - | - | - | - | **-** | - | **-** |
| Adjustment of purchase cost of stock in subsidiaries | - | - | - | - | - | - | (1.885) | **(1.885)** | - | **(1.885)** |
| Settlement of purchase of additional stock in subsidiaries: | - | - | - | - | - | - | 22.313 | **22.313** | (127.041) | **(104.728)** |
| *Value of the purchased non-controlling interest* | - | - | - | - | - | - | *127.041* | ***127.041*** | *(127.041)* | **-** |
| *The acquisition cost of shares and stocks in subsidiaries* | - | - | - | - | - | - | *(104.728)* | ***(104.728)*** | - | ***(104.728)*** |
| Change of shares in result of mergers of companies within the Capital Group | - | - | - | - | - | - | 37.332 | **37.332** | (37.332) | **-** |
| **As at 31 December 2012** | **18.697.608** | **-** | **-** | **3.742** | **9.687.596** | **49.779** | **12.278.204** | **40.716.929** | **294.357** | **41.011.286** |

* For details on comparative data restatement please refer to Note 13 of these financial statements.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year ended 31 December 2013 | Year ended 31 December 2012 *(restated)** |
|---|---|---|
| **Cash flows – operating activities** | | |
| Profit before tax related to discontinued operations | **-** | **340** |
| Profit before tax from continuing operations | **5.059.184** | **4.610.035** |
| **Adjustments for:** | | |
| Share of profit from associates accounted for under the equity method | 987 | 13.570 |
| Depreciation, amortization and impairment of property, plant and equipment and intangible assets | 2.957.313 | 2.932.376 |
| Interest and dividend, net | 17.517 | (23.077) |
| Profit / loss on investment activities | (113.184) | (51.145) |
| Change in receivables | (503.882) | (343.400) |
| Change in inventories | 516.041 | (895.269) |
| Change in liabilities, excluding loans and bank credits | 252.584 | (33.175) |
| Change in other non-financial assets, prepayments and emission rights | (557.960) | (503.535) |
| Change in provisions | 837.478 | 1.081.893 |
| Income tax paid | (826.988) | (966.728) |
| Other | 302.170 | 1.588.978 |
| **Net cash from operating activities** | **7.941.260** | **7.410.863** |
| **Cash flow from investing activities** | | |
| Disposal of property, plant and equipment and intangible assets | 44.139 | 34.273 |
| Purchase of property, plant and equipment and intangible assets | (4.618.887) | (4.967.478) |
| Purchase/ disposal of investment property | 373 | 1.436 |
| Disposal of financial assets | 18.585 | 2.188.380 |
| Purchase of financial assets and increase in shareholding in Group companies | (117.212) | (65.839) |
| Purchase/ disposal of subsidiaries after deduction of acquired cash | (1.063.155) | 703.509 |
| Dividends received | 2.479 | 3.867 |
| Interest received | 983 | 35.804 |
| Loans repaid | 1.243 | 191.593 |
| Loans granted | (3.678) | (678.224) |
| Other | 18.182 | 33.665 |
| **Net cash from investing activities** | **(5.716.948)** | **(2.519.014)** |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

| | Year ended 31 December 2013 | Year ended 31 December 2012 *(restated)** |
|---|---|---|
| **Cash flow from financing activities** | | |
| Proceeds from the share issue | - | 11.000 |
| Proceeds from bank credits and issue of bonds | 1.429.456 | 640.491 |
| Repayment of bank credits, bonds and finance lease | (816.098) | (1.331.472) |
| Dividends paid | (1.611.005) | (3.506.327) |
| Interest paid | (46.526) | (63.791) |
| Return of dividends from non-controlling shareholders | - | 146.443 |
| Other | (22.408) | (39.185) |
| **Net cash flow from financing activities** | **(1.066.581)** | **(4.142.841)** |
| **Net change of cash and cash equivalents** | **1.157.731** | **749.008** |
| Effect of foreign exchange rate changes | (5.828) | (8.510) |
| **Cash and cash equivalents at the beginning of the period** | **4.789.910** | **4.040.902** |
| **Cash and cash equivalents at the end of period, including** | **5.947.641** | **4.789.910** |
| Restricted cash | 403.051 | 400.708 |
| Attributed to discontinued operations | - | - |

* For details on comparative data restatement please refer to Note 13 of these financial statements.

# APPLIED ACCOUNTING PRINCIPLES (POLICIES) AND EXPLANATORY NOTES

## 1. General information

PGE Polska Grupa Energetyczna S.A. Group ("Capital Group", "PGE S.A. Capital Group", "PGE Group", "Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (described in Note 2).

Polska Grupa Energetyczna S.A. ("parent company", "the Company", "PGE S.A.") was founded on the basis of the Notary Deed of 2 August 1990 and registered in the District Court in Warsaw, XVI Commercial Department on 28 September 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307.

During the reporting period and as at the date of preparation of these consolidated financial statements for the period 31 December 2013 ("consolidated financial statements", "financial statements") the parent company is seated in Warsaw, 2 Mysia Street.

Core operations of the Group companies are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail sale of electricity,
- production and distribution of heat,
- rendering of other services related to the above mentioned activities.

Business activities are conducted under appropriate concessions granted to particular Group companies.

The State Treasury is the majority shareholder of the parent company.

The consolidated financial statements of the Group comprise financial data for the period from 1 January 2013 to 31 December 2013.

**Merger of PGE Polska Grupa Energetyczna S.A. with PGE Energia Jądrowa S.A.**

As at 31 July 2013, the District Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register registered the merger of PGE S.A. with subsidiary PGE Energia Jądrowa S.A. The merger was effected pursuant to art. 492 § 1 point 1 in connection with Art. 515 § 1 and Art. 516 § 5 and 6 of the Commercial Code, namely the transfer of all assets of the acquired company at PGE S.A. (merger by acquisition) without increasing the share capital and without the exchange of the shares of the acquired equity for the shares of PGE S.A.

PGE Energia Jądrowa S.A. was a subsidiary of PGE S.A., responsible within the group for the preparation of the project to build a nuclear power plant. PGE S.A. owned 100% of the shares of the acquired company giving 100% of votes at the General Meeting.

The merger has no influence on the consolidated financial statements.

*Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)*

# 2. Structure of the Group

## 2.1. Entities included in the Group

During the reporting period, PGE Capital Group consisted of the enumerated below companies, consolidated directly and indirectly:

| | Entity | Share of Group entities as at 31 December 2013 | Parent company as at 31 December 2013 | Share of Group entities as at 31 December 2012 | Parent company as at 31 December 2012 |
|---|---|---|---|---|---|
| | **Segment: wholesale** | | | | |
| 1. | PGE Polska Grupa Energetyczna S.A. *Warszawa* | The Parent company of the Capital Group | | | |
| 2. | PGE Trading GmbH *Niemcy* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| | **Segment: mining and conventional energy** | | | | |
| 3. | PGE Górnictwo i Energetyka Konwencjonalna S.A.* *Bełchatów* | 93,91%<br>4,97% | PGE Polska Grupa Energetyczna S.A<br>PGE Obrót S.A. | 91,20%<br>7,37% | PGE Polska Grupa Energetyczna S.A<br>PGE Obrót S.A. |
| 4. | Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. *Zgierz* | 50,98% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 50,98% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| | **Segment: renewable energy** | | | | |
| 5. | PGE Energia Odnawialna S.A. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| 6. | Bio-Energia S.A. *Warszawa* | 100,00% | PGE Energia Odnawialna S.A. | 100,00% | PGE Energia Odnawialna S.A. |
| | Biogazownia Łapy sp. z o.o. *Warszawa* | - | - | 100,00% | Bio-Energia S.A. |
| | Biogazownia Wożuczyn sp. z o.o. *Warszawa* | - | - | 100,00% | Bio-Energia S.A. |
| 7. | Elektrownia Wiatrowa Baltica-1 sp. z o.o. *Warszawa* | 100,00% | PGE Energia Odnawialna S.A. | 100,00% | PGE Energia Odnawialna S.A. |
| 8. | Elektrownia Wiatrowa Baltica-2 sp. z o.o. *Warszawa* | 100,00% | PGE Energia Odnawialna S.A. | 100,00% | PGE Energia Odnawialna S.A. |
| 9. | Elektrownia Wiatrowa Baltica-3 sp. z o.o. *Warszawa* | 100,00% | PGE Energia Odnawialna S.A. | 100,00% | PGE Energia Odnawialna S.A. |
| 10. | Pelplin sp. z o.o. *Warszawa* | 100,00% | PGE Energia Odnawialna S.A. | 100,00% | PGE Energia Odnawialna S.A. |
| 11. | Żuromin sp. z o.o. *Warszawa* | 100,00% | PGE Energia Odnawialna S.A. | 100,00% | PGE Energia Odnawialna S.A. |
| 12. | Eolica Wojciechowo sp. z o.o. *Gniewino* | 100,00% | PGE Energia Odnawialna S.A. | 50,00% | PGE Energia Odnawialna S.A. |
| 13. | PGE Energia Natury S.A. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | - | - |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

| | Entity | Share of Group entities as at 31 December 2013 | Parent company as at 31 December 2013 | Share of Group entities as at 31 December 2012 | Parent company as at 31 December 2012 |
|---|---|---|---|---|---|
| 14. | PGE Energia Natury sp. z o.o. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | - | - |
| 15. | PGE Energia Natury Karnice sp. z o.o. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | - | - |
| 16. | PGE Energia Natury Bukowo sp. z o.o. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | - | - |
| 17. | EPW Energia Olecko sp. z o.o. *Warszawa* | 81,00% | PGE Polska Grupa Energetyczna S.A. | - | - |
| 18. | PGE Energia Natury Omikron sp. z o.o. *Warszawa* | 100,00% | PGE Energia Natury S.A. | - | - |
| 19. | PGE Energia Natury Kappa sp. z o.o. *Warszawa* | 100,00% | PGE Energia Natury S.A. | - | - |
| 20. | PGE Energia Natury PEW sp. z o.o. *Warszawa* | 100,00% | PGE Energia Natury S.A. | - | - |
| 21. | EPW Energia sp. z o.o. ** *Warszawa* | 32,70% | PGE Polska Grupa Energetyczna S.A. | - | - |
| | **Segment: distribution** | | | | |
| 22. | PGE Dystrybucja S.A.* *Lublin* | 89,92%<br>10,08% | PGE Obrót S.A.<br>PGE Polska Grupa Energetyczna S.A. | 89,91%<br>10,07% | PGE Obrót S.A.<br>PGE Polska Grupa Energetyczna S.A. |
| | **Segment: retail sail** | | | | |
| 23. | PGE Obrót S.A. *Rzeszów* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 99,55% | PGE Polska Grupa Energetyczna S.A. |
| | **Segment: other** | | | | |
| 24. | EXATEL S.A. *Warszawa* | 99,98% | PGE Polska Grupa Energetyczna S.A. | 99,94% | PGE Polska Grupa Energetyczna S.A. |
| 25. | NOM sp. z o.o. *Warszawa* | 100,00% | EXATEL S.A. | 100,00% | EXATEL S.A. |
| 26. | ENERGO-TEL S.A. *Warszawa* | 100,00% | EXATEL S.A. | 51,10%<br>48,90% | EXATEL S.A.<br>NOM sp. z o.o. |
| | MEGA sp. z o.o. *Miłocin* | - | - | 75,01% | PGE Energia Odnawialna S.A. |
| | „EnBud" sp. z o.o. w likwidacji *Czymanowo* | - | - | 100,00% | PGE Energia Odnawialna S.A. |
| | „ESP Usługi" sp. z o.o. w likwidacji *Warszawa* | - | - | 100,00% | PGE Energia Odnawialna S.A. |
| | Budownictwo Hydro-Energetyka - Dychów sp. z o. o. *Dychów* | - | - | 100,00% | PGE Energia Odnawialna S.A. |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

| | Entity | Share of Group entities as at 31 December 2013 | Parent company as at 31 December 2013 | Share of Group entities as at 31 December 2012 | Parent company as at 31 December 2012 |
|---|---|---|---|---|---|
| 27. | ELBIS sp. z o.o.<br>*Rogowiec* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| 28. | MEGAZEC sp. z o.o.<br>*Bydgoszcz* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| 29. | „ELBEST" sp. z o.o.<br>*Bełchatów* | 91,30%<br>7,50%<br>1,11%<br>0,09% | PGE Górnictwo i Energetyka Konwencjonalna S.A.<br>PGE Dystrybucja S.A.<br>PGE Obrót S.A.<br>PGE Energia Odnawialna S.A. | 91,30%<br>7,50%<br>1,11%<br>0,09% | PGE Górnictwo i Energetyka Konwencjonalna S.A.<br>PGE Dystrybucja S.A.<br>PGE Obrót S.A.<br>PGE Energia Odnawialna S.A. |
| 30. | MegaSerwis sp. z o.o.<br>*Bogatynia* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | - | |
| 31. | PGE Gubin sp. z o.o.<br>*Gubin* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| 32. | Elektrownia Puławy sp. z o.o.<br>*Puławy* | 50,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 50,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A |
| 33. | „Energoserwis – Kleszczów" sp. z o.o.<br>*Kleszczów* | 51,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 51,00% | ELBIS sp. z o.o. |
| 34. | „ELMEN" sp. z o.o.<br>*Rogowiec* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | ELBIS sp. z o.o. |
| 35. | Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o.<br>*Bogatynia* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| 36. | EPORE sp. z o.o. (previous name: Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji „ELTUR–WAPORE sp. z o.o.)<br>*Bogatynia* | 85,38% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| 37. | Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o.<br>*Bogatynia* | 100,00% | Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o. | 100,00% | Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o. |
| 38. | ENESTA sp. z o.o.<br>*Stalowa Wola* | 84,85%<br>2,48% | PGE Dystrybucja S.A.<br>PGE Górnictwo i Energetyka Konwencjonalna S.A. | 84,85%<br>2,48% | PGE Dystrybucja S.A.<br>PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| 39. | RAMB sp. z o.o.<br>*Piaski* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |

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| | Entity | Share of Group entities as at 31 December 2013 | Parent company as at 31 December 2013 | Share of Group entities as at 31 December 2012 | Parent company as at 31 December 2012 |
|---|---|---|---|---|---|
| 40. | Przedsiębiorstwo Transportowo Sprzętowe „BETRANS" sp. z o.o. *Bełchatów* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 98,65%<br>1,16%<br>0,17%<br>0,02% | PGE Górnictwo i Energetyka Konwencjonalna S.A.<br>PGE Dystrybucja S.A.<br>PGE Obrót S.A.<br>PGE Energia Odnawialna S.A. |
| 41. | Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. *Rogowiec* | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. | 100,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| | „EPO" sp. z o.o. *Opole* | - | - | 50,00% | PGE Górnictwo i Energetyka Konwencjonalna S.A. |
| | ELECTRA Bohemia s.r.o. *(w likwidacji)* *Czechy* | - | - | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| | PGE Inwest spółka z ograniczoną odpowiedzialnością II S.K.A. w likwidacji *Warszawa* | - | - | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| 42. | Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. *Białystok* | 100,00% | PGE Dystrybucja S.A. | 100,00% | PGE Dystrybucja S.A. |
| 43. | Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. *Białystok* | 100,00% | PGE Dystrybucja S.A. | 100,00% | PGE Dystrybucja S.A. |
| 44. | Energetyczne Systemy Pomiarowe sp. z o.o. *Białystok* | 100,00% | PGE Dystrybucja S.A. | 100,00% | PGE Dystrybucja S.A. |
| 45. | Zakład Obsługi Energetyki sp. z o.o. *Zgierz* | 100,00% | PGE Dystrybucja S.A. | 100,00% | PGE Dystrybucja S.A. |
| 46. | PGE Systemy S.A. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| 47. | PGE Inwest sp. z o.o. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| | PGE Energia Jądrowa S.A. *Warszawa* | - | - | 100,00% | PGE Polska Grupa Energetyczna S.A. |
| 48. | PGE EJ 1 sp. z o.o. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 51,00%<br>49,00% | PGE Energia Jądrowa S.A.<br>PGE Polska Grupa Energetyczna S.A. |
| 49. | PGE Dom Maklerski S.A. *Warszawa* | 100,00% | PGE Polska Grupa Energetyczna S.A. | 100,00% | PGE Polska Grupa Energetyczna S.A. |

* Share excluding entity's own shares
** PGE S.A. consolidates controlled branches of EPW Energia Sp. z o.o. using full method

Changes in the structure of the PGE Group companies which are subject to full consolidation are mentioned in the table above and include inter alia following transformations which took place during the period ended 31 December 2013:

- On 24 January 2013 PGE Energia Odnawialna S.A. acquired 50% shares in the company Eolica Wojciechowo Sp. z o.o., reaching a 100% interest in the company. From that day PGE Energia Odnawialna S.A. has control over Eolica Wojciechowo Sp. z o.o. and therefore the company has been included in the consolidated financial statements.
- On 31 January 2013 merger of Bio-Energia S.A. with Biogazownia Łapy Sp. z o.o. and Biogazownia Wożuczyn Sp. z o.o. was registered.
- On 21 February 2013 all owned shares in Budownictwo Hydro-Energetyka Dychów sp. z o.o. were sold. The assets of the company were 0.01% of the total assets of PGE Capital Group before consolidation eliminations.
- On 5 March 2013 the liquidation of PGE Inwest spółka z ograniczoną odpowiedzialnością II SKA w likwidacji was completed and the company has been deleted from the National Court Register (KRS).
- On 27 March 2013, PGE S.A. sold all owned shares in PGE Gubin Sp. z o.o. to PGE Górnictwo i Energetyka Konwencjonalna S.A.
- In April of 2013 MEGA Sp. z o.o. was put into liquidation and consequently the control over the company has been lost. Consequently MEGA Sp. z o.o. has been excluded from consolidation.
- On 28 April 2013, the decision on deletion of the ELECTRA Bohemia s.r.o. w likwidacji from the register of companies became valid.
- On 3 June 2013 the merger of Przedsiębiorstwo Produkcji Sorbentów i Rekultywacji „ELTUR–WAPORE" Sp. z o.o. (acquiring company) with "EPO" Sp. z o.o. has been registered. After the merger, the company operates under the name EPORE Sp. z o.o.
- On 28 June 2013 PGE S.A purchased shares and stocks of the following companies:
  - Dong Energy Polska S.A. (currently the company operates under the name PGE Energia Natury S.A.) - 100%;
  - Dong Energy Renewables Polska sp. z o.o. (currently the company operates under the name PGE Energia Natury sp. z o.o.) - 100%;
  - Dong Energy Karnice III sp. z o.o. (currently the company operates under the name PGE Energia Natury Karnice sp. z o.o.) - 100%;
  - Dong Energy Bukowo sp. z o.o. (currently the company operates under the name PGE Energia Natury Bukowo sp. z o.o.) - 100%;
  - Dong Energy Olecko sp. z o.o. (currently the company operates under the name EPW Energia Olecko sp. z o.o.) - 81%;
  - In addition, PGE Energia Natury S.A. is the sole shareholder in the companies: PGE Energia Natury Kappa Sp. z o.o., PGE Energia Natury Omikron Sp. z o.o. and PGE Energia Natury PEW Sp. z o.o.

  Details of the acquisition of these entities are described in Note 2.2 of these consolidated financial statements.
- Starting from 30 June 2013 the company MegaSerwis Sp. z o.o. has been included in the consolidated financial statements. Earlier the company was not included in consolidated financial statements, as it was in the organization.
- On 31 July 2013 PGE S.A. purchased 292.461 shares in the company Iberdrola Renewables Polska Sp. z o.o. (currently the company operates under the name EPW Energia Sp. z o.o.) representing 32,7% of its share capital. Details of the acquisition of wind farms are described in Note 2.2 of these consolidated financial statements.

  According to the cooperation agreement purchasing parties carefully tagged assets that are of their interest and PGE S.A. exercises operational control over the selected wind farms. Accordingly, the investment is treated as a subsidiary.

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- As described in Note 1 on 31 July 2013 merger of PGE S.A. with its subsidiary PGE Energia Jądrowa S.A. was registered. The merger has no influence on the consolidated financial statements.
- On 29 November 2013 liquidation of the company ESP Usługi Sp. z o.o. w likwidacji was finished and the company was removed from National Court Register (KRS).
- On 18 December 2013 liquidation of the company EnBud sp. z o.o. w likwidacji was finished and the company was removed from National Court Register (KRS).

After the balance sheet date the split of the company EPW Energia Sp. z o.o. has been completed and the transfer of branches belonging to PGE S.A. to PGE Energia Natury Sp. z o.o. has materialized. On 10 February 2014 there was a decrease in the share capital of EPW Energia Sp. z o.o. and on 28 February 2014 the capital increase of PGE Energia Natury Sp. z o.o. was registered, thus ending the process of splitting the entity.

## 2.2. Settlement of acquisition of new subsidiaries

In 2012 and 2013 the PGE Capital Group acquired described below operating wind farms and farm projects. The reason for the acquisition of these assets was to diversify the energy mix and to increase the value of the Capital Group.

### 2.2.1 Settlement of acquisition of Żuromin and Pelplin

In 2012, PGE Energia Odnawialna S.A. acquired Pelplin Sp z o.o. and Żuromin Sp. z o.o, which main assets were operating wind farms and which liabilities consisted mainly of long-term debt.

In the current period, the valuation of intangible assets of wind farms Pelplin and Żuromin acquired in the last year was performed. On the basis of this valuation, intangible assets regarding land lease and interconnection agreements were separated from the estimated goodwill. Since the beginning of 2013 they are subject to amortization for the period of 20 years.

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| | **Pelplin Sp. z o.o.** | **Żuromin Sp. z o.o.** |
|---|---|---|
| Acquisition price | 118.897 | 51.140 |
| Fair value of net assets acquired | (3.846) | (9.891) |
| Fair value of intangibles | 13.100 | 16.900 |
| **Goodwill on consolidation** | **109.643** | **44.131** |

Goodwill recognized by the PGE Capital Group arises from the fact that the Group assumes a higher value of the discounted cash flows from operating activities of acquired wind farms than the net value of the acquired assets.

Impairment test performed as at 31 December 2013 did not indicate the need for goodwill impairment.

### 2.2.2 Settlement of acquisition of companies from Dong group (currently entities from the group PGE Energia Natury) and Iberdrola (currently EPW Energia Sp. z o.o.)

**Acquisition of the Dong group companies**

On 28 June 2013 PGE S.A. and Energa Hydro Sp. z o.o. (subsidiary of Energa S.A.) concluded an agreement with DONG Energy Wind Power A/S ("DONG Energy") concerning acquisition of stocks and shares in companies managing operating wind farms and developing wind farms projects in Poland. The agreement was signed as the result of the conditional agreement concluded on 19 February 2013 and permission obtained by PGE S.A. from the President of the Office of Competition and Consumer Protection ("OCCP") regarding concentration.

According to the agreement with DONG Energy, PGE S.A. acquired operating wind farms in Karnice with installed capacity of 30 MW and in Jagniątkowo with installed capacity of 30.5 MW, with protected energy and certificates collection, respectively, for the farm in Karnice till the end of 2020 and for the farm in Jagniątkowo till the end of 2017. In addition, PGE S.A. took over package of projects with planned capacity of about 555 MW.

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The value of acquisition of stocks and shares in the companies of the Dong group per PGE S.A. amounted to 464 million PLN.

**Acquisition of shares in Iberdrola Renewables Polska Sp. z o.o.**

On 31 July 2013 PGE S.A. and Energa Hydro Sp. z o.o concluded with Iberdrola Renovables Energía S.A.U. ("Iberdola") and European Bank for Reconstruction and Development (EBRD) two acquisition agreements for 100% of shares in Iberdrola Renewables Polska Sp. z o.o. (currently EPW Energia Sp. z o.o.), which was managing a portfolio of wind farms in Poland. The agreements were signed as the result of the conditional agreements concluded with Iberdrola (26 February 2013) and EBRD (21 June 2013) and permission obtained by PGE S.A. from the President of the Office of Competition and Consumer Protection regarding concentration.

According to the agreements with Iberdrola and EBRD, PGE S.A. acquired three operating wind farms with a total installed capacity of 70,5 MW with protected collection of energy and certificates till 2029. PGE S.A. additionally acquired two projects at the advanced stage of development with a capacity of 36 MW. Value of transactions (Enterprise Value - EV) involving the acquisition of shares in Iberdrola Renewables Poland Sp. z o.o. realized by PGE S.A. amounted to 366 million PLN what represented 32.7% of the equity of the company. Fixed EV value was then adjusted, mainly by the change in working capital. Finally, the acquisition price of the shares in the company amounted to almost 396 million PLN.

**Settlement of acquisition**

In the current period, the Group performed the valuation of the fair value of acquired assets in Dong and Iberdrola companies. As a result of the performed valuations of intangible assets regarding land lease agreements and contracts for the sale of the property rights of energy origin rights were identified. Additionally a valuation of the fair value of acquired tangible assets (including investment projects during development) and recultivation provisions was established.

Identified intangible assets are a subject to amortization for the period of the agreement, but no longer than the remaining time of economic useful life of related wind farm.

| | Dong companies | Iberdrola Renewables Polska sp. z o.o. |
|---|---|---|
| **Acquisition price** | **464.680** | **395.841** |
| **Assets, including:** | **675.125** | **378.741** |
| Value of acquired operating wind farms | 330.563 | 311.080 |
| Value of acquired investment projects | 293.700 | 12.000 |
| Intangible assets | 6.412 | 27.400 |
| Cash | 16.762 | 16.991 |
| Other assets | 27.688 | 11.270 |
| **Liabilities, including:** | **274.097** | **25.355** |
| Credits and loans | 241.585 | - |
| Provisions | 11.660 | 14.495 |
| Other liabilities | 20.852 | 10.860 |
| **Fair value of net assets, acquired:** | **401.028** | **353.386** |
| **Goodwill on consolidation** | **63.652** | **42.455** |

Recognized by the PGE Capital Group goodwill arises from the fact that the Group assumes a higher value of the discounted cash flows from operating activities of the acquired wind farms in comparison to net value of acquired assets.

Impairment test performed as at 31 December 2013 did not indicate the need for goodwill impairment.

## 3. The composition of the Management Board of the Parent Company

As at 1 January 2013 the composition of the Management Board was as follows:

- Mr. Krzysztof Kilian – the President of the Management Board,
- Mrs. Bogusława Matuszewska – the Vice-President of the Management Board,
- Mr. Wojciech Ostrowski – the Vice-President of the Management Board,
- Mr. Paweł Smoleń – the Vice-President of the Management Board,
- Mr. Piotr Szymanek – the Vice-President of the Management Board.

In the period from 1 January 2013 to 31 December 2013 following changes in composition of the Management Board took place:

- On 17 July 2013 Mr. Paweł Smoleń resigned from the position of the President of the Management Board, effective 19 July 2013.
- On 25 October 2013 the Supervisory Board adopted a resolution to dismiss the members of the Management Board - Mrs. Bogusława Matuszewska and Mr. Wojciech Ostrowski.
- On 14 November 2013 the Supervisory Board delegated Mr. Grzegorz Krystek – Member of the Supervisory Board to temporarily perform the duties of a member of the Management Board, effective 18 November 2013.
- On 14 November 2013 the Supervisory Board delegated Mr. Jacek Drozd – Member of the Supervisory Board to temporarily perform the duties of a member of the Management Board, effective 18 November 2013.
- On 18 November 2013 Mr. Krzysztof Kilian resigned from the position of the President of the Management Board.
- On 23 December 2013 the Supervisory Board adopted a resolution to dismiss the member of the Management Board - Mr. Piotr Szymanek.
- On 23 December 2013 the Supervisory Board adopted a resolution for the appointment:
  - Mr. Marek Woszczyk to the position of the President of the Management Board, effective 23 December 2013.
  - Mr. Jacek Drozd to the position of the Vice-President of the Management Board, effective 23 December 2013.
  - Mr. Grzegorz Krystek to the position of the Vice-President of the Management Board, effective 23 December 2013.
  - Mr. Dariusz Marzec to the position of the Vice-President of the Management Board, effective 24 December 2013.

As at 31 December 2013, the composition of the Management Board was as follows:

- Mr. Marek Woszczyk – the President of the Management Board,
- Mr. Jacek Drozd – the Vice-President of the Management Board,
- Mr. Grzegorz Krystek – the Vice-President of the Management Board,
- Mr. Dariusz Marzec – the Vice-President of the Management Board.

## 4. Approval of financial statements

These consolidated financial statements were authorized for issue by the Management Board on 12 March 2014.

## 5. Going concern

These consolidated financial statements were prepared under the assumption that the Group companies will continue to operate as a going concern for the foreseeable future. As at the date of the approval of these consolidated financial statements, there is no evidence indicating that the significant Group companies will not be able to continue its business activities as a going concern.

## 6. Presentation currency

The presentation currency of the consolidated financial statements is Polish zloty („PLN"). All the amounts are stated in PLN thousand, unless stated otherwise.

## 7. Statement of compliance with International Financial Reporting Standards

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

IFRS comprise standards and interpretations approved by International Accounting Standards Board (IASB) and International Financial Reporting Interpretation Committee (IFRIC).

## 8. The basis for the preparation of the consolidated financial statements

With regards to financial reporting obligations resulting from the planned public offering of the parent company PGE Polska Grupa Energetyczna S.A., the Management Board decided to implement the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The first consolidated financial statement of the PGE Group comprising a statement of unconditional compliance with IFRS were the consolidated financial statements prepared for the year ended 31 December 2007.

The bookkeeping in the PGE Group entities is maintained in accordance with the accounting policies (rules) specified in the IFRS as adopted by the European Union or in the Accounting Act dated 29 September 1994 ("the Accounting Act") and related bylaws, and other applicable regulations ("Polish Accounting Standards"). Moreover a subsidiary PGE Trading GmbH, seated in Germany, runs books in compliance with German reporting regulations.

Since the consolidated financial statements comprise data derived from financial statements of companies that maintain their books in accordance with accounting standards other than IFRS, it includes adjustments which were not included in the books of Group entities. The purpose of these adjustments was to make the financial statements of these entities compliant with IFRS approved by the EU.

## 9. Significant values based on estimates and professional judgment

In the process of applying accounting rules with regards to the below issues, the most significant, apart from accounting estimates, was the professional judgment of the management, which influenced the values presented in the consolidated financial statements and in the supplementary information and explanations. The estimates were based on the best knowledge of the Management Boards relating to current and future operations and events in particular accounting areas. Detailed information on the applied estimates was presented below or in relevant explanatory notes to the consolidated financial statements.

**Depreciation period of non-current assets**

Depreciation rates are calculated on the basis of the estimated economic useful life of an item of property, plant and equipment and intangible assets as well as estimates of its residual value. Capitalized costs of major inspections and overhauls are depreciated throughout the period until the beginning of the next planned overhaul/ inspection. Estimated economic useful life of assets is subject to verification at least once a year.

**Recoverable amount of property, plant and equipment and goodwill**

The electric energy market is the basic field of business activities of PGE Group entities. Changes in this market have a significant influence on the recoverable amount of production property, plant and equipment of particular PGE Group entities. If impairment indications exist, the Group estimates the recoverable amount of an item of property, plant and equipment owned. Goodwill is tested for impairment together with cash generating units.

The Group's impairment analysis of cash generating units is based on a number of significant assumptions, some of which are outside the control of the Group. Any significant change in these assumptions will impact the result of future impairment tests and as a consequence may lead to significant changes to the financial position and results of the PGE Group.

**Valuation of provisions for retirement benefits**

Provisions for post-employment benefits (provision for retirement and pension awards, energy tariff, additional allowances for the Social Fund ("ZFŚS") for former employees of the Group entities, medical benefits and coal allowances) and jubilee benefits were estimated on the basis of actuarial methods.

**Provision for recultivation of after-exploitation grounds, including recultivation and utilization of final excavation and recultivation of ash storages**

On the basis of Geological and Mining Law, lignite mines, which are the part of the Group, are obliged to perform land recultivation after the land exploitation is finished. The proper provision is created as a proportion of lignite excavated to the planned total lignite excavation from the layer in the expected excavation period.

In the case of recultivation of ash storages (production waste from electricity production) the cost of provision is recognised in operating costs in proportion to the extent of storage filling and discount is settled with the financial costs.

Provision for recultivation of grounds after wind farms is created in the moment of commissioning of farm in the whole value and cover estimated costs of dismantling and removal of remaining devices, construction and buildings and also bringing grounds to condition prior the commissioning the farm as close as possible.

Estimates concerning expected costs of recultivation are subject to revaluation at least once in 5 years period. However, once a year the amount of provision is verified according to actual assumptions in terms of inflation rate and discount rate. In case of provision for recultivation of after-exploitation grounds, it is verified in terms of size of extraction.

**Provision for carbon dioxide emission rights**

Provisions for liabilities relating to $CO_2$ emission rights are created in relation to the deficiency of $CO_2$ emission allowances. The provision is established in the most appropriate estimation of expenses necessary to fulfill the existing obligations as at the balance sheet date, including the registered value of EUA obtained free of charge and purchased, and possibility to cover any shortage with CER or ERU.

**Other provisions and contingent liabilities**

In accordance with IAS 37 with respect to recognition and measurement of provisions and contingent liabilities, the Group estimates the probability of occurrence of potential liabilities. If the occurrence of unfavorable future event is probable, the Group recognizes a provision in the appropriate amount. If the occurrence of unfavorable future event is estimated by the Group as not probable but possible, the contingent liability is recognized.

**Deferred tax assets**

The deferred tax assets if measured at the tax rates that are expected to be applied at the moment of realization of the asset, based on tax regulations in force as at the balance sheet date. The deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the asset can be realized. A deterioration in taxable results in the future could make the above assumption inappropriate.

**Presentation of financial instruments**

Non-derivative financial instruments with defined payment dates or determinable maturity are classified as held-to-maturity assets applying the classification of IAS 39. For making this estimate, the intention and possibility of holding these assets to maturity are evaluated.

**Revenues from sale of electric energy estimates**

Reading numbers from meters regarding the volume of electric energy sold in retail including distribution services as well as its invoicing is performed mainly in periods different than reporting periods. Taking into account the above, retail sale company (PGE Obrót S.A.) and distribution company (PGE Dystrybucja S.A.) within the Group perform certain revenues estimates at each balance sheet date for the period not covered with a reading.

**Compensations resulting from termination of long-term agreements for the sales of electric power and energy (LTC)**

Producers of electric energy, who joined the program of early termination of long-term contracts for the sales of electric power and energy, are entitled to receive compensations to cover stranded costs. The compensations are paid in the form of annual advances as four quarterly installments which are adjusted on yearly basis. At the end of the adjustment period, the final amount of stranded costs will be determined. Due to the above, the producers of electric energy of PGE Group estimate and recognize the revenue from LTC compensations in the amount in which it will be finally approved for the given period, i.e. after final and annual adjustments expected as at the date of the preparation of the consolidated financial statements. For more details on estimation of the above mentioned revenues please refer to Note 45.1 of these consolidated financial statements.

The Group's estimations of compensation related to early termination of long-term contracts for the sales of electric power and energy and recognition of related revenues and receivables prepared by the Group were based on the Group's interpretation of regulations dated 29 June 2007, the Act on rules of covering producer's costs related to early termination of long-term agreements for the sales of electric power and energy (Official Journal, No. 130, item 905, year 2007) (" the LTC Act"), predictions as to resolve disputes with the President of the Energy Regulatory Office and on a number of significant assumptions, some of which are outside the control of the Group.

An unfavorable outcome for the PGE Group of the dispute, described in the Note 45.1 of these financial statements, with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used, including those resulting from planned legal mergers within the PGE Group, may impact the estimates and as a consequence may lead to significant changes to the financial position and results of the PGE Group. The final outcome of the dispute with the President of the Energy Regulation Office cannot be determined as at the date of preparation of these financial statements.

**Impairment allowances on receivables**

As at the balance sheet date the PGE Group entities assess whether there is an objective evidence of impairment of receivables or a group of receivables. If the recoverable amount of assets is lower than its carrying amount, the entity recognizes an impairment allowances to the amount of the present value of planned cash flows.

**Valuation of assets arising due to stripping costs in the production phase of a surface mine**

The value of the assets due stripping costs at the production stage is determined based on the model that takes into account, inter alia, the estimated value of the overall N-W ratio (the proportion of overburden to lignite). The ratio is calculated based on the remaining amount of overburden to remove to the remaining recoverable lignite resources - from the date of application of IFRIC 20 to the end of the exploitation of lignite from the deposit component. This ratio is calculated based on the best knowledge of the technical services of the mine at the end of each year and may be subject to change in case of acquisition of new information on the size of the deposit and the way it is located underground.

**Measurement of fair values of acquired assets and liabilities, and goodwill calculation**

PGE Capital Group recognizes and measures fair value of assets and liabilities, and recognizes goodwill or gain on bargain purchase in accordance with IFRS 3 *Business combinations.* Measurement is based on a number of assumptions, which include inter alia: application of appropriate valuation method, management's plans relating to the use of acquired assets, financial projections (including price forecasts influencing main positions of revenues and expenses), changes in laws and regulations and other. Moreover, appropriate determination of the consideration transferred also influences the transaction settlements (including contingent part).

Assumptions applied may significantly influence fair values of acquired assets and liabilities, and calculation of goodwill or gain on bargain purchase.

## 10. Change of estimates

In the period covered by the consolidated financial statements, the following significant changes to estimates influencing the numbers presented in the consolidated financial statements took place:

- During the reporting period the Group has updated estimates of recoverable value of some tangible assets. Changes of estimations are presented in Note 21 of these financial statements.
- During the reporting period the Group has updated estimates of economic useful life of some tangible assets. Changes of estimations are presented in Note 21 of these financial statements.
- During the reporting period the Group updated the estimates of compensations of the LTC. Details are described in note 45.1 of these financial statements.
- Change of discount rate and other assumptions used to calculate the current value of provisions, particularly recultivation provisions and actuarial provisions. Changes in the value of provisions were presented in Notes 34 and 35 of these financial statements.
- Provisions are liabilities of uncertain timing or amount. During the reporting period, the Group changed estimations regarding the basis and amounts of some provisions, including in particular provision for liability due to carbon dioxide emission. Changes of estimations are presented in Note 35 of these financial statements.
- Trade receivables from the Group companies, including in particular presented by the retail company are a subject to periodical evaluation in terms of their recoverability. Changes in trade receivable allowances are presented in Note 43.11 of these financial statements.

## 11. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union and are not effective as at 1 January 2013:

- IFRS 9 *Financial Instruments* (with amendments) – no mandatory effective date set.
- IFRS 14 *Regulatory Deferral Accounts* – effective for the periods starting 1 January 2016.
- IFRIC 21 *Levies* – effective for the periods starting 1 January 2014.
- Amendments to IAS 19 *Employee Benefits* – effective for the periods starting 1 July 2014.
- Amendments to set of standards (IFRS 1, IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38, IAS 40) – effective for the periods starting 1 July 2014.

The following standards, changes in already effective standards and interpretations are adopted by the European Union but are not effective as at 1 January 2013:

- Amendments to IAS 32 *Financial Instruments: Presentation* – effective for the periods starting 1 January 2014.
- IFRS 10 *Consolidated Financial Statements* – effective for the periods starting 1 January 2014.
- IFRS 11 *Joint Arrangements* – effective for the periods starting 1 January 2014.
- IFRS 12 *Disclosure of Interests in Other Entities* – effective for the periods starting 1 January 2014.
- Amended IAS 27 *Separate Financial Statements* – effective for the periods starting 1 January 2014.
- Amended IAS 28 *Investments in Associates and Joint Ventures* – effective for the periods starting 1 January 2014.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance* and MSR 27 *Separate Financial Statements* (matters relating to investments in other entities) – effective for periods starting 1 January 2014.
- Amendments to IAS 36 *Impairment of Assets* (disclosure relating to the recoverable value of non-financial assets) – effective for periods starting 1 January 2014.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* (issues relating to the novation of derivatives and hedge accounting continuation) – effective for periods starting 1 January 2014.

Earlier implementation of selected standards is described in note 13 of these financial statements.

**The influence of new regulations on future financial statements of the Capital Group**

The new IFRS 9 *Financial instruments* introduces fundamental changes to classifying, presenting and measuring of financial instruments. These changes will possibly have material influence on future financial statements of the Group. At the date of preparation of these financial statements IFRS 9 is not yet approved by the European Union and as a result its impact on the future financial statements of the PGE Group is not yet determined.

Other standards and their changes should have no significant impact on future financial statements of the PGE Capital Group.

## 12. Accounting principles applied

The most significant accounting principles applied are presented below.

### 12.1. Consolidation principles

The consolidated financial statements comprise the financial statements of PGE Polska Grupa Energetyczna S.A. and financial data of its subsidiaries. Financial statements of subsidiaries are prepared for the same reporting period as the parent company's, with the use of consistent accounting principles, based on unified accounting principles related to classes of transactions and events of similar characteristics.

All significant Intra-Group balances and transactions, including unrealized gains from Intra-Group transactions, were fully eliminated. Unrealized losses are eliminated, unless they prove the impairment of assets.

The consolidation of subsidiaries begins on the day of taking over the control and is finished when the control ceases. Control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or it is possible to prove that a certain number of voting rights represents control. Control is also evidenced when the Group is able to govern the financial and operating policies of a company so as to benefit from the results of its activity.

**Businesses combinations under common control**

IFRS 3 Business Combinations does not apply to entities or businesses under common control both before and after business combinations. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. In such cases, the Group should apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 10-12, and choose a relevant accounting policy. In making the above judgment, the management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework as IASB

With regards to the fact that both standards and IASB conceptual framework do not contain either requirements or insights on business combinations under common control, PGE Polska Grupa Energetyczna S.A. chooses an accounting principle according to which such transactions are settled under the pooling of interest method. The pooling of interest method is a method of accounting in which financial information of associates, including the aggregated amounts of assets, liabilities, revenues and expenses are summarized after initial implementation of a unified method of measurement and relevant eliminations. Share capitals of entities are eliminated if their shares were contributed to PGE Polska Grupa Energetyczna S.A. Specified positions in equity are adjusted with a difference between the aggregated amounts of assets and liabilities. All Intra-Group balances and transactions, including unrealized gains from Intra-Group transactions, are fully eliminated. Unrealized losses are eliminated, unless they prove to be impaired. The consolidated financial statements of the Group, which include entities under common control, prepared for the reporting year in which the business combination took place, comprise comparative financial data for the previous reporting year measured as if the business combination took place at the beginning of the previous financial year.

**Applying the acquisition method**

Acquisition of companies from unrelated entities is accounted for under the acquisition method.

The cost of acquisition is measured at fair values at the date of exchange of assets given, issued equity instruments, incurred or assumed liabilities plus any cost related directly to the acquisition. Identifiable assets, liabilities and contingent liabilities at the date of business combination are measured at their fair values regardless of the minority interest.

Goodwill is initially recognized at the acquisition price being the excess of the cost of the acquisition over the acquirer's share in the net fair value of identifiable assets, liabilities and contingent liabilities at the acquisition date. After initial recognition, goodwill shall be measured at cost less any accumulated impairment losses. Goodwill on acquisition in not amortized. Goodwill is to be tested for impairment at least annually (or more frequently if there are any events or triggers that could indicate possible impairment).

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## 12.2. Investments in associates

Investments in associates are recognized using the equity method. An associate is an entity over which the Parent Company directly, or through dependent entities, has a significant influence and that associate is neither a subsidiary nor an interest in a joint venture. Financial statements of associates are the basis for measurement of parent-owned shares using the equity method. The associates and the parent company have the same financial year.

Upon initial recognition, investments in associates are recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share in the investee's net assets after the date of acquisition less impairment losses if applicable. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Adjustments recognized directly in the equity of associates, are recognized in the share owned by the parent company and disclosed in statement of changes in equity if such disclosure is justified.

## 12.3. Methods applied to translation of data denominated in foreign currencies

Transactions denominated in currencies other than Polish zloty were translated into Polish zlotys at the rate on the transaction date. As at the balance sheet date:

- Monetary items were translated at the closing rate on the balance sheet date (the closing rate is the average exchange rate established by the National Bank of Poland for this day).
- Non-monetary items were valued at historical cost in foreign currency at an exchange rate on the day of the first transaction (exchange rate of the bank of the company).
- Non-monetary items measured at fair value in foreign currency are translated at an exchange rate on the day of fair value measurement.

Foreign exchange differences resulting from translation are recognized in the profit or loss or, in cases specified in the accounting principles (policies) applied, recorded in the value of assets.

Foreign exchange differences resulting from translation of non-monetary items, such as equity instruments measured at fair value through the profit or loss, are recognized as a change in fair value.

Foreign exchange differences resulting from translation of non-monetary items, such as equity instruments classified as financial assets available for sale, are recognized in revaluation reserve.

Foreign exchange differences resulting from translation of assets and liabilities of foreign entities are recognized in equity.

The following exchange rates were used for the valuation of monetary items denominated in foreign currencies at the respective period end:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| USD | 3,0120 | 3,0996 |
| EUR | 4,1472 | 4,0882 |

### 12.4. Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;
- expected to be used for more than one year;
- for which it is probable that future economic benefits associated with them will flow to the entity;
- the cost of which can be measured reliably.

Significant items of property, plant and equipment used before the date of transition to IFRS, i.e. 1 January 2006, were measured at fair value as at this date (deemed cost). Differences between fair value and carrying amount were recognized in retained earnings. Property, plant and equipment as well as property, plant and equipment under construction after the date of transition to IFRS are measured at cost of acquisition or cost of manufacturing.

After recognition as an asset, an item of property, plant and equipment is measured at its net value, i.e. initial value (or at deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises of purchase price including all costs directly attributable to the purchase and making capable of operating. The cost of an item of property, plant and equipment comprises an estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. Capitalization of costs ends when the item is brought to the location and conditions necessary for it to be capable of operating in the manner intended by the management.

As at the day of acquiring or manufacturing of the item of property, plant and equipment or as at the day of transition to IFRS, in case of existing items of property, plant and equipment, all significant elements compared to the acquisition price, cost of manufacture or deemed cost of the whole position of components being a part of an item of property, plant and equipment and are depreciated separately.

The Group also recognizes as a component of property, plant and equipment the cost of major overhauls (excluding the identified and separated main components, which are depreciated separately).

Major special spare parts and stand-by equipment of significant value qualify as property, plant and equipment when an entity expects to use them during more than one year. Other spare parts and servicing equipment are usually carried as inventories and recognized in the profit or loss as consumed, except for costs of replacement of parts during an overhaul of an item of property, plant and equipment. The assessment of significant value is subject to verification at least once a year

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the component of the plant, property and equipment is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used shall reflect the pattern in which the item of plant, property and equipment future economic benefits are expected to be consumed by the entity.

Major inspection and overhauls recognized as a component of property, plant and equipment are depreciated starting the next day after finishing the inspection/overhaul until the beginning of the next overhaul/inspection.

Major spare parts and stand-by equipment of significant value qualified as property, plant and equipment are depreciated during the remaining economic useful life of the related item (i.e. from the purchase date of the component till the end of the usage of the property, plant and equipment).

The following useful lives are adopted for property, plant and equipment:

| Group | Average remaining depreciation period in years | Average depreciation period in years |
|---|---|---|
| Buildings and structures | 17 | 20 – 40 |
| Machinery and equipment | 14 | 5 – 15 |
| Vehicles | 6 | 5 – 7 |
| Other | 10 | 3 – 10 |

Depreciation methods, depreciation rates and residual values of property, plant and equipment are verified at least each financial year. Changes identified during verification are accounted for as a change in an accounting estimate and possible adjustments to depreciation amounts are recognized in the year in which the verification took place and in the following periods.

If there have been events or changes which indicate that the carrying amount of property, plant and equipment may not be recoverable, the assets are analyzed for potential impairment. If there are indications of impairment, and the carrying amount exceeds the estimated recoverable amount, the value of those assets or cash-generating units to which the assets belong is decreased to the recoverable amount by appropriate impairment write-downs.

Investments relating to fixed assets under construction or assembly are recognized at cost of acquisition or cost of manufacturing less impairment losses. Property, plant and equipment under construction is not depreciated until the construction is completed and the items are available for use.

**Stripping costs**

Surface mines from the Group recognize stripping costs incurred during the construction and start of the mine as assets and present them as tangible assets. At the moment of start of lignite exploitation those capitalized cost are systematically depreciated using the natural method of depreciation based on the amount of the lignite.

In the event that the conditions recorded in the interpretation of IFRIC 20 are met, mines also recognize as a tangible asset so-called deferred stripping – stripping costs incurred during the production phase stripping costs. An asset of the stripping activity is systematically depreciated using the natural method of depreciation based on the amount of coal mined from certain coalfield.

## 12.5. Investment property

The Group recognizes property as investment property when it is held to earn rentals, for capital appreciation, or both, instead of being for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

An investment property is measured initially at its cost (cost of acquisition or cost of manufacturing). The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure.

Transfers to investment property is made when, and only when, there is a change in use, evidenced by end-of-owner-occupation, commencement of an operating lease or end of construction or development of an investment property.

## 12.6. Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, such as:

- assets acquired by the Group entities and recognized in non-current assets, with an economic useful life exceeding one year intended to be used by the company,
- development costs,
- goodwill excluding internally generated goodwill,
- acquired right of perpetual usufruct of land
- easements acquired and set free

The right of perpetual usufruct of land obtained free of charge by an administrative decision is not recognized in the statement of financial position.

As at the date of initial recognition of an intangible asset, it is measured initially at acquisition or production cost with respect to development costs. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses. The cost of an internally generated intangible asset, except for development costs, are not capitalized and are recorded in profit or loss for the period when the related cost was incurred.

The Group assesses whether the useful life of intangible assets is definite or indefinite. If the useful life is definite, the Group estimates the length of useful period, the volume of production or other measures as the basis to define the useful life. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The amortizable amount of an intangible asset with a definite useful life is determined after deducting its residual value. The Group adopted a policy according to which the residual value of an intangible asset with a definite useful life shall be assumed to be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life – the residual value is based on the amount recoverable from disposal; or
- there is an active market for the asset and residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

The amortizable amount of an intangible asset with a definite useful life shall be allocated on a systematic basis over its useful life. Amortization starts when the asset is available for use.

Intangible assets with a definite useful life are amortized over their useful life and analyzed for potential impairment, if there are indications of impairment. The amortization period and method are reviewed at least each financial year. If the expected useful life of the asset is different from previous estimates, the amortization period is changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization period and method are changed to reflect the changed pattern, which is treated as change of estimate.

Intangible assets with an indefinite useful life and those not being used are subject to impairment testing each year. The following useful lives are adopted for intangible assets:

| Group | Average remaining amortization period in years | Average amortization period in years |
|---|---|---|
| Acquired patents and licenses | 5 | 3 - 5 |
| Costs of finished developed works | 4 | 3 - 5 |
| Other | 9 | 3 - 25 |

## 12.7. Research and development costs

All intangible assets internally generated by the Group are not recognized as assets, but rather as expenses in profit or loss in the period when the related costs are incurred, except for development costs. An intangible asset arising from development shall be recognized if, and only if, the Group demonstrates all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- its intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and
- its ability to reliably measure the expenditure attributable to the intangible asset during its development.

## 12.8. Borrowing costs

Borrowing costs, including relevant foreign exchange differences, that are directly attributable to the acquisition, construction or production of a qualifying asset shall be eligible for capitalization to items of property, plant and equipment and intangible assets. In case of exchange differences arising from foreign currency borrowings, these are capitalized to the extent that they are regarded as an adjustment to interest costs.

## 12.9. Financial assets

Financial assets are classified in the following categories:

- Held-to-maturity investments (HTM),
- Financial assets at fair value through profit or loss (FVP),
- Loans and receivables,
- Available-for-sale financial assets (AFS).

### 12.9.1 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest method. If the maturity exceeds 12 months, the financial assets held to maturity are classified as long-term assets.

### 12.9.2 Financial assets at fair value through profit or loss

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

- It is classified as held for trading. A financial asset is classified as held for trading if it is:
  - acquired or incurred principally for the purpose of selling in the near term;
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
  - a derivative, except for a derivative that is a designated and effective hedging instrument.

- Upon initial recognition it is designated by the entity as at fair value through profit or loss (in accordance with IAS 39). Any financial asset within the scope of this standard may be designated when initially recognized as a financial asset at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

These assets are measured at fair value considering the market value as at the balance sheet date. The change in fair value of those assets classified as FVP is recognized in financial income or expense in the statement of comprehensive income.

### 12.9.3 Loans granted and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, if their maturity does not exceed 12 months from the balance sheet date. Loans and receivables with maturity exceeding 12 months are classified as non-current assets.
If the time value of money is significantly over the period, the assets are measured at a discounted value. Loans and receivables are recognized at amortized cost.

### 12.9.4 Available-for-sale financial assets

All other financial assets are account for as available-for-sale financial assets. Financial assets available for sale are recognized at fair value as at each balance sheet date. Fair value of an instrument which does not have a quoted market price is estimated with regards to another instrument of similar characteristics or based on future cash flows relevant to an investment asset (measurement at discounted cash flow method).

Positive and negative differences between fair value of available-for-sale financial assets (if their price is determinable on a regulated active market or if the fair value may be estimated by some other reliable method) and cost, net of deferred tax, are recognized in other comprehensive income, except for:

- impairment losses,
- exchange gains and losses arising on monetary assets,
- interest recognized using the effective interest rate method.

Dividends from equity instrument in the AFS portfolio shall be recognized in profit or loss on the date that the Group's right to receive payment is established.

## 12.10. Impairment of non-financial non-current assets

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, or if there is a need to perform an annual impairment testing, the Group estimates the recoverable amount of the asset or cash-generating unit.

Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying value is higher than the recoverable value, an impairment loss is recorded. When estimating the value in use of an asset, future cash flows are discounted to the present value using a discount rate before tax, which represents current market estimate of time value of money and risk relevant to an asset. Impairment losses applicable to assets used in continuing operations are reflected in costs relating to the function of impaired assets.

### 12.11. Derivatives and hedging instruments

The Group uses derivatives in order to hedge against the risk relevant to changes in interest rates and exchange rates. The most frequently used derivatives are forward contracts and interest rate swaps. Such derivatives are designated at fair value. Depending on whether the value of a derivative is positive or negative, it is recognized as a financial asset or financial liability, respectively.

The gain or loss from the change in value of the hedging instrument at fair value (for a derivative hedging instrument not qualifying for hedge accounting) is recognized directly in profit or loss.

The fair value of currency forward contracts is estimated with reference to current forward rates for contracts of similar maturity. Fair value of interest rate swaps is estimated with reference to the market value of similar financial instruments.

### 12.12. Inventories

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories include purchased, produced or received rights of origin of electricity produced from renewable energy sources, property rights relating to energy generated in cogeneration and rights for energy efficiency certificates. Carbon dioxide emission rights held for trading are also considered as goods.

Inventories are measured at the lower of cost and net realizable value.

Cost of usage of inventories is determined as follows:

- materials and merchandise – at weighed average cost, however in case of representation and advertising materials and office supplies the purchases may be recognized in profit or loss in the period when incurred,
- energy origin rights – according to detailed identification.

As at the balance sheet date, the cost of inventories cannot be higher than net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 12.13. Greenhouse gas emission rights

Group under the course of business emits carbon dioxide to the atmosphere. Demand for carbon dioxide emission rights is partially covered free of charge but the remaining part Group have to obtain from the market. In order to meet the demand of conventional generating units PGE Polska Grupa Energetyczna S.A. concludes external purchase transactions for greenhouse gas emission rights. Additionally the Group concludes commercial transactions of purchase/sell of greenhouse gas emission rights in order to realize profit from market prices fluctuations.

**Greenhouse gas emission rights for unit own purposes**

A separate item in the statement of financial position is used for presentation of European Union Allowances (EUA) for carbon emissions, designed for the own use purposes, and other units redeemable pursuant to greenhouse gas emissions (CER, ERU) - received gratuitously or purchased. EUA received gratuitously are presented in the statement of financial position in nominal value, which is zero. Purchased EUA are presented at purchase price.

Use of $CO_2$ emission rights for unit own purposes is valued at average weighted rate, however emission rights acquired free of charge are included in the calculation of average weighted rate proportionally to the passage of time.

**Inventories of emission of greenhouse gases held for trading**

Greenhouse gas emissions, acquired in order to realize profits from fluctuations in market prices, are measured at fair value less costs of disposal, disposals are measured using detailed identification method.

**Financial instruments relating to greenhouse gas emission rights**

Commodity forwards

The Company recognizes and measures commodity forwards for purchase / sale of greenhouse gas emissions rights as derivatives held for trading. The Company measures these contracts as derivatives at fair value through profit or loss.

Forward foreign exchange (FX Forward)

The Company enters into FX forward contracts to hedge the cash flows associated with exchange rate fluctuations on transactions of purchase / sale of greenhouse gas emissions rights. The Company recognizes FX Forwards as a derivative measured at fair value through profit or loss.

## 12.14. Trade receivables

The recoverable amount of receivables is measured at least at each balance sheet date in the amount due, i.e. at the nominal value increased by applicable penalty interest, in accordance with the principle of prudence, i.e. less applicable impairment losses.

The Group assesses at each balance sheet date whether there is any objective evidence that a receivable or a group of receivables is impaired. If the recoverable amount of the receivable is lower than the carrying amount, the amount of the impairment loss is measured as the difference between the carrying amount of the receivable and the present value of estimated future cash flows.

Receivable allowance is recognized as other operating expenses or financial expenses, depending on the nature of receivable.

Long-term receivables are measured at present (discounted) value.

## 12.15. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 12.16. Other assets and prepayments

The Group recognizes an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to the Group's operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognized at reliably measured amounts, relate to future periods and will generate future economic benefits for the Group.

A prepayment is amortized over time or in proportion to the value of goods and services provided. The period and method of the settlement is based on the characteristics of the relevant expenses, in accordance with the principle of prudence.

Other assets also comprise receivables from the state.

## 12.17. Equity

Equity is stated at nominal value, classified by nature, in accordance with legal regulations and the Company's Articles of Association.

Share capital in the statement of financial position is stated at the value specified in the parent company's Articles of Association and as registered in the Court Register. Declared, but not yet contributed, share capital contributions are recognized as outstanding share capital contributions as negative value.

## 12.18. Provisions

The Group raises a provision when the Group entities have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the amount of the obligation.

Provisions are recognized in profit or loss as operating expenses, other operating expenses or financial expenses, depending on the nature of the future obligations.

When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate (or rates) is a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) does not reflect risks for which future cash flow estimates have been adjusted.

The following provisions are expected to be raised in particular:

### 12.18.1 Provision for social benefits

The value of liabilities in relation to former employees is estimated on the basis of conditions of Corporate Collective Labor Agreements (Zakładowe Układy Zbiorowe Pracy) or other legal regulations. These liabilities result from employees' rights acquired during the employment period. The provision raised is recognized as an operating expense in the amount corresponding with accrued future employees' benefits.

**Provision for cash equivalent related to energy tariff for employees of power industry**

Based on the Inter-Corporate Collective Labor Agreement (Ponadzakładowy Układ Zbiorowy Pracy) amended in 2005, the Group entities are obliged to pay a so called "energy tariff", to former employees of the energy industry. Due to the above, since December 2005 the PGE Group entities raise appropriate provision. The provision is estimated by an actuary. The provision is recognized as operating expenses.

**Retirement and pension benefits and jubilee awards**

According to the institutional defined remuneration system the employees of Group entities are entitled to receive jubilee, retirement and pension benefits. Jubilee awards are paid after an employee has worked for a specified period of time. Retirement and pension benefits are paid once when the employee retires or becomes a pensioner. The amount of benefits paid depends on the period of service and the average remuneration of the employee. The Group recognizes a provision for future obligations relevant to retirement and pension benefits and jubilee awards for the purpose of assigning costs to the periods in which they are incurred. According to IAS 19 jubilee awards are classified as other long-term employee benefits, whereas the retirement and pension benefits are classified as post-employment benefits. The present value of these obligations is measured by an independent actuary at each balance sheet date. The recognized liability in relation to the defined benefit plan comprises discounted future payments, taking into account employee turnover, as at the balance sheet date. Demographic assumptions and employee turnover information are based on historical data.

**Actuarial gains and losses arising from the change of assumptions and variation of discount rate**

Actuarial gains and losses arising from the change of actuarial assumptions (including the change of discount rate) and ex post actuarial adjustments are presented as follows:

- for post-employment benefits - as other comprehensive income,
- for jubilee benefits and other short- and long-term benefits - as operating costs of the current period.

### 12.18.2 Provision for recultivation of post-exploitation grounds, including recultivation and development of final excavations and recultivation of ash storages

The mining companies which belong to the Group raise provisions for recultivation costs of post-exploitation grounds. The value of the provision is based on the estimated cost of recultivation and development works related to final excavations. In case of mining excavations, the provision is created based on the proportion of the lignite excavated to the total planned volume of excavation over the period of exploitation. The estimates of planned recultivation costs are updated at least once every 5 years; however at each year-end the amount of the recultivation provision is verified with regards to inflation rate, discount rate and the volume of excavation. The portion of the provision used in the given period is recognized in operating expenses, the difference resulting from discount of provision from previous years is reflected as financial income or expenses.

The cost of creating a provision for recultivation of ash storages (electricity post-production waste) is recognized in operating costs proportionally as the storage is filled, and the discount is recognized in financial expenses.

Provision for recultivation of land after the construction of wind farms is created in a full amount at time of transfer to use and includes all estimated costs of disassembling and disposal of remaining equipment, structures and buildings and includes bringing the land to the state close as possible from the moment before the construction of the farm.

### 12.18.3 Provision for deficit of greenhouse gas emission rights

The provision for $CO_2$ emission is created in the amount relating to this part of $CO_2$ emission which is not covered by allowances obtained for free. That provision is presented in the short- and/or long-term part, depending on the anticipated time of utilization. The provision is established in the amount corresponding to the most appropriate estimation of expenses necessary to fulfill the existing obligations as at the balance sheet date, particularly in regard to the EUA purchased, and possibly to cover any shortage with CER or ERU. Purchase of allowances, which will be used for unit own purposes do not reduce unit liability due to shortage of allowances till the date of their physical redemption.

To meet the statutory requirements, the Group makes, at the date of redemption, offset of acquired EUA and/or CER, ERU and provisions for $CO_2$ emission rights.

Expense relating to recognised provision is presented in operating costs, as costs of goods sold by function and taxes and charges in costs by kind.

## 12.19. Profit-based payments for employees benefits and special funds

According to Polish industry practice, shareholders may distribute the Group's profit as employee benefits, such as: an allocation to the Social Fund (ZFŚS) or employee profit share. Such payments are reflected in statutory financial statements, similarly to dividend payments, as changes in equity. According to IFRS, profit allocation to the Social Fund or employee profit share are classified as operating expenses in the period for which the profit distribution took place.

## 12.20. Liabilities

Liabilities are the Group's present obligations, arising from past events, settlement of which will cause an outflow of resources embodying economic benefits from the Group.

Trade and other liabilities are stated at the amount due. When the effect of the time value of money is significant, long-term liabilities are presented at the present (discounted) value.

A liability is classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the Group's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is due to be settled within twelve months after the balance sheet date; or
- the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities are classified as non-current. .

If the Group expects, and has the discretion, to refinance or roll over a liability for at least twelve months after the balance sheet date under an existing loan facility, it classifies the liability as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the liability is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the liability is classified as current.

Some current liabilities, such as trade payables, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date.

## 12.21. The Social Fund

The Group off-sets liabilities and assets of the Social Fund, the Efficiency Improvement Fund and other employee benefit funds. Such an arrangement reflects the relationship between the entity and the Funds, in which the entity is a trustee. This means, that the entity has legal title to the Funds' assets, however the Funds are the beneficiaries.

## 12.22. Deferred income

Deferred income is recognized under the principle of prudence and the accrual basis. Deferred income comprises:

- Amounts received or due from business partners to be realized in subsequent reporting periods. Deferred income from connection fees that were received before 1 July 2009 is recognized evenly in revenues from sales of products.
- Grants obtained to finance acquisition or production of fixed assets, fixed assets under construction and development works, recognized through other operating income in an amount equivalent to the depreciation charges on non-current assets financed from this source. This applies in particular to forgiven loans and credits and grants to acquire an item of property, plant and equipment and to finance development works.
- Property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating income in line with the depreciation charges on these fixed assets.
- Revenues relevant to sale and leaseback of property, plant and equipment and intangible assets.

## 12.23. Leasing

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. At the commencement of the lease term, the lessees recognizes finance leases as assets and liabilities in the statement of financial positions at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs of the lessee are added to the amount recognized as an asset. Classification of the lease is made at the lease inception, based on the economic substance of the lease agreement. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Financial costs are recognized in financial expenses in profit or loss throughout the lease term in the periods in which they are incurred.

An operating lease is a lease under which the lessor retains significant part of the risks and rewards incidental to ownership of the asset. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

## 12.24. Taxes

Corporate income tax in the statement of comprehensive income comprises actual fiscal charges for the reporting period calculated by the Group entities in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than that charged or credited directly to equity.

Deferred tax asset or deferred tax liability is calculated on the basis of temporary differences between the carrying amount of a given asset or liability and its tax base and tax loss as recoverable in the future.

A deferred tax liability shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss)
- taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures if the parent, investor or venturer is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred tax asset arises from:

- the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss),
- deductible temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, where a deferred tax asset is recognized to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The Group reduces the carrying amount of the deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of deferred tax asset to be utilized.

## 12.25. Revenues

Revenue from sales is recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Group and the amount of the revenue can be measured reliably. The revenue is recognized after deducting value added tax (VAT), excise tax and other sales-based taxes as well as discounts. When recognizing the revenue, the criteria specified below are also taken into account.

### 12.25.1 Revenues from sale of goods and merchandise

Revenues from the sale of goods and merchandise are recognized when related risks and rewards have been transferred and when the amount of revenue can be reliably measured and costs incurred can be reliably estimated.

Revenues from sale of goods and merchandise primarily include:

- amounts receivable from wholesale and retail sale of: electricity, heat energy, lignite, certificates of energy origin from renewable energy sources, certificates of production of energy in high efficiency cogeneration plants, greenhouse gas emission rights and rendered services relevant to core business operations based at net price, excluding applicable discounts, rebates and excise tax,
- amounts receivable from sales of materials and merchandise based on the net price, excluding applicable discounts and rebates.

#### 12.25.2 Revenues from services rendered

When the outcome of a transaction involving the rendering of long-term services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the balance sheet date less revenue recognized in the previous reporting periods. Depending on the class of transaction, the stage of completion of the transaction is recognized on the basis of:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion of costs incurred to a given date to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue are recognized only to the extent of the expenses recognized that are recoverable.

#### 12.25.3 Revenues from LTC compensations

In accordance with the Act on rules of covering producers' costs related to early termination of long-term contracts for the sales of electric power and energy (LTC) dated 29 June 2007, the entities of the PGE Capital Group receive compensations in the form of quarter advances to cover stranded costs. The annual adjustment is made after the end of each year and the final adjustment is made after the termination of LTC.

The Group entities as revenue of the period recognize, received as advances, cash, corrected by annual adjustment and adequate part of planned final adjustment. The allocation of the final adjustment to the reporting period is based on the expected sales of electricity and system services in the adjusting period, taking into account the final adjustment. The model is discounted with risk free rate.

Changes in receivables allowances for LTC are presented in other operating revenues or expenses.

### 12.26. Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period adjusted for related changes in inventories (finished goods, semi-finished products and production in progress) and costs related to production of goods for the Group's own use,
- value of electricity sold and goods and materials at purchase prices.

Costs that are directly attributable to revenues recognized affect the profit or loss for the reporting period in which they were incurred.

Production costs that can only be indirectly attributed to revenues or other economic benefits recognized by the entities, are recognized in profit or loss in proportion relevant to the given reporting period, under the accrual principle and the principles of measurement of property, plant and equipment and inventories.

### 12.27. Other operating revenues and expenses

Other operating expenses and revenues include in particular:

- profit or loss on disposal of property, plant and equipment and intangible assets,
- raising and reversing provisions, except from allowances related to financial operations or reflected in cost of goods sold,

- acquiring or disposal of assets and cash free of charge, including donations,
- due and obtained compensations, penalties and other expenses not relating to core operations.

### 12.28. Financial revenues and expenses

Financial revenues and expenses include in particular gains or losses relating to:

- disposal of financial assets, investment property and investment in entities not consolidated,
- revaluation of financial instruments, except financial assets available for sale, the result of which is reflected in revaluation reserve,
- share of profits of other entities,
- interest,
- changes in provisions related to passage of time (unwinding of the discount effect),
- exchange differences resulting from operations performed during the reporting period and measurement of the carrying amount of assets and liabilities at the balance sheet date, except for the exchange differences recognized in the initial value of an item of property, plant and equipment, to the extent they are recognized as an adjustment to interest expense and exchange differences related to valuation of financial instruments classified to AFS portfolio,
- other items related to financial operations.

Interest income and expenses are recognized over the respective period using the effective interest method relating to the carrying amount of a given financial instrument. Dividends are recognized when the shareholders' right to receive payments is established.

### 12.29. Earnings per share

Net earnings per share for each period are calculated by dividing the net profit for a given period allocated to shareholders of the parent company by the weighted average number of shares during that period.

### 12.30. Statement of cash flows

Statement of cash flows is prepared using the indirect method.

## 13. Change of accounting principles and data presentation

**Early adoption of new financial standards**

The Group decided to early adopt the following standards and their application from 2013:

- Revised IAS 27 *Separate Financial Statements*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*

The implementation of these new standards and amendments did not result in the need to restate the comparable periods

**Changes in applied accounting policies – IFRIC 20**

New interpretation of IFRIC 20 which unifies recognition of stripping costs in the production phase of a surface mine is effective for annual periods beginning on 1 January 2013. According to the former accounting policy the Group recognized such expenses in the statement of the comprehensive income when incurred. Currently part of the above-mentioned costs are recognized as an asset and then depreciated. The Group adopted IFRIC 20 starting from 1 January 2012. Therefore, the Group restated the data presented in the comparative consolidated financial statements for 2012.

**Changes in applied accounting policy regarding valuation of emission rights trading portfolio**

In 2013, the Capital Group changed the valuation principles of purchased greenhouse gas emission rights. According to the former rules greenhouse gas emissions rights, were measured at the purchase price and the forward contracts for purchase/ sale of these rights were not measured and recognized in the financial statements.

In accordance with the current accounting policy part of the rights, which were acquired, in order to realize profits from fluctuations in market prices, is recognized in inventories at fair value less costs of disposal. Forward contracts for the purchase / sale of greenhouse gas emission rights, are recognized as derivatives held for trading. The fair value of financial instruments related to greenhouse gases emission rights (foreign currency forwards and commodity forwards) is presented in the statement of financial position as financial instruments measured at fair value through profit or loss. Changes in the fair value of these instruments, as well as the change in the value of inventories of emission rights measured at fair value (held for trading ) is recognized as a separate position in the note regarding financial income or expenses.

The changes in the accounting policy resulted in a more reliable valuation of the transaction.

**Changes in applied accounting policies – $CO_2$ emission rights acquired free of charge**

In accordance with the previous accounting policy the Group recognized greenhouse gas emission rights free of charge in fair value and provision for obligation of redemption rights was created for whole $CO_2$ emission. After changes in applied accounting policies emission rights acquired free of charge are presented in the statement of financial position in the nominal value, which is zero. Provision for liabilities due to $CO_2$ emission is created in a part which is not covered by emission rights acquired free of charge.

After change of accounting policies the Group adopted the most common approach used by Polish energy market operators making its statement of financial position more comparable to others companies from the industry.

**Changes in applied accounting policies – right of perpetual usufruct of land**

In 2013, the Group has changed the rules for the presentation of perpetual usufruct of land from other long and short-term assets to intangible assets.

The data restatement is presented in below tables. Information presented in other notes to these financial statements has also been restated accordingly.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 1 January 2012 *(published data)* | Perpetual usufruct of land | Change in $CO_2$ valuation *(acquired free of charge)* | As at 1 January 2012 *(restated)* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 42.974.819 | - | - | 42.974.819 |
| Investment property | 33.286 | - | - | 33.286 |
| Intangible assets | 216.921 | 44.860 | - | 261.781 |
| Loans and receivables | 323.473 | - | - | 323.473 |
| Available-for-sale financial assets | 100.751 | - | - | 100.751 |
| Shares in associates accounted for under the equity method | 55.062 | - | - | 55.062 |
| Other long-term assets | 440.157 | (43.643) | - | 396.514 |
| Deferred tax asset | 296.387 | - | - | 296.387 |
| Non-current assets related to discontinued operations | 4.077 | - | - | 4.077 |
| **Total non-current assets** | **44.444.933** | **1.217** | **-** | **44.446.150** |
| | | | | |
| **Currents assets** | | | | |
| Inventories | 1.305.327 | - | - | 1.305.327 |
| Emission rights | 3.366.988 | - | (2.910.557) | 456.431 |
| Income tax receivables | 31.920 | - | - | 31.920 |
| Short-term financial assets at fair value through profit or loss | - | - | - | - |
| Trade receivables | 1.767.739 | - | - | 1.767.739 |
| Other loans and financial assets | 2.784.000 | - | - | 2.784.000 |
| Available-for-sale short-term financial assets | 8.432 | - | - | 8.432 |
| Other current assets | 947.056 | (1.217) | - | 945.839 |
| Cash and cash equivalents | 4.052.238 | - | - | 4.052.238 |
| Assets classified as held-for-sale | 33.067 | - | - | 33.067 |
| Current assets related to discontinued operations | 20.931 | - | - | 20.931 |
| **Total currents assets** | **14.317.698** | **(1.217)** | **(2.910.557)** | **11.405.924** |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 1 January 2012 (published data) | Perpetual usufruct of land | Change in $CO_2$ valuation (acquired free of charge) | As at 1 January 2012 (restated) |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | 18.697.837 | - | - | 18.697.837 |
| Revaluation reserve | (777) | - | - | (777) |
| Treasury shares | (229) | - | - | (229) |
| Foreign exchange differences from translation of foreign entities | 6.292 | - | - | 6.292 |
| Reserve capital | 8.553.143 | - | - | 8.553.143 |
| Other capital reserves | 49.779 | - | - | 49.779 |
| Retained earnings | 13.393.571 | - | (70.573) | 13.322.998 |
| Equity attributable to non-controlling interest | 413.994 | - | (1.025) | 412.969 |
| **Total equity** | **41.113.610** | **-** | **(71.598)** | **41.042.012** |
| **Long-term liabilities** | | | | |
| Interest-bearing loans and borrowings, bonds and lease | 1.341.351 | - | - | 1.341.351 |
| Other liabilities | 17.864 | - | - | 17.864 |
| Provisions | 3.289.921 | - | - | 3.289.921 |
| Deferred tax liabilities | 1.370.515 | - | (16.796) | 1.353.719 |
| Deferred income and government grants | 1.255.298 | - | - | 1.255.298 |
| Long-term liabilities related to discontinued operations | 667 | - | - | 667 |
| **Total long-term liabilities** | **7.275.616** | **-** | **(16.796)** | **7.258.820** |
| **Short-term liabilities** | | | | |
| Trade liabilities | 1.117.172 | - | - | 1.117.172 |
| Financial liabilities at fair value through profit or loss | 48.093 | - | - | 48.093 |
| Interest-bearing loans, borrowings, bonds and lease | 697.661 | - | - | 697.661 |
| Other short-term financial liabilities | 1.826.613 | - | - | 1.826.613 |
| Other short-term non-financial liabilities | 1.499.755 | - | - | 1.499.755 |
| Income tax liabilities | 414.618 | - | - | 414.618 |
| Deferred income and government grants | 117.117 | - | - | 117.117 |
| Short-term provisions | 4.634.462 | - | (2.822.163) | 1.812.299 |
| Short-term liabilities related to discontinued operations | 17.914 | - | - | 17.914 |
| **Total short-term liabilities** | **10.373.405** | **-** | **(2.822.163)** | **7.551.242** |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | As at 31 December 2012 (published data) | Implementation of IFRIC 20 | Change in $CO_2$ valuation (trade) | Change in $CO_2$ valuation (acquired free of charge) | As at 31 December 2012 (restated) |
|---|---|---|---|---|---|
| **Total sales revenues** | **30.556.814** | **-** | **(75.738)** | **-** | **30.481.076** |
| Costs of goods sold | (22.345.193) | 549.105 | 75.483 | (41.607) | (21.762.212) |
| **Gross profit on sales** | **8.211.621** | **549.105** | **(255)** | **(41.607)** | **8.718.864** |
| Other operating revenues | 782.721 | - | - | - | 782.721 |
| Distribution and selling expenses | (1.495.512) | - | - | - | (1.495.512) |
| General and administrative expenses | (764.903) | - | - | - | (764.903) |
| Other operating expenses | (2.863.411) | - | - | - | (2.863.411) |
| **Profit from operations** | **3.870.516** | **549.105** | **(255)** | **(41.607)** | **4.377.759** |
| Financial revenues | 612.886 | - | 107 | - | 612.993 |
| Financial expenses | (367.295) | - | 148 | - | (367.147) |
| Share of profit of associate | (13.570) | - | - | - | (13.570) |
| **Profit before tax** | **4.102.537** | **549.105** | **-** | **(41.607)** | **4.610.035** |
| Corporate income tax | (869.703) | (104.330) | - | 7.905 | (966.128) |
| **Net profit from continuing operations** | **3.232.834** | **444.775** | **-** | **(33.702)** | **3.643.907** |
| **Discontinued operations** | | | | | |
| Profit/ (loss) for the period on discontinued operations | 278 | - | - | - | 278 |
| **Net profit for the operating period** | **3.233.112** | **444.775** | **-** | **(33.702)** | **3.644.185** |
| **Other comprehensive income for the period, net** | **(165.538)** | - | **-** | **-** | **(165.538)** |
| **TOTAL COMPREHENSIVE INCOME** | **3.067.574** | **444.775** | **-** | **(33.702)** | **3.478.647** |
| **Net profit attributable to:** | | | | | |
| - equity holders of the parent company | 3.211.070 | 438.403 | - | (33.219) | 3.616.254 |
| - non-controlling interest | 22.042 | 6.372 | - | (483) | 27.931 |
| **Total comprehensive income attributable to:** | | | | | |
| - equity holders of the parent company | 3.046.414 | 438.403 | - | (33.219) | 3.451.598 |
| - non controlling interest | 21.160 | 6.372 | - | (483) | 27.049 |
| **Earnings per share (in PLN)** | | | | | |
| - basic earnings per share for the period | 1,72 | 0,23 | - | (0,02) | 1,93 |
| - basic earnings from the continuing operations | 1,72 | 0,23 | - | (0,02) | 1,93 |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December 2012 *(published data)* | Implementation of IFRIC 20 | Perpetual usufruct of land | Change in $CO_2$ valuation *(trade)* | Change in $CO_2$ valuation *(acquired free of charge)* | As at 31 December 2012 *(restated)* |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| Property, plant and equipment | 43.189.196 | 549.105 | - | - | - | 43.738.301 |
| Investment property | 28.283 | - | - | - | - | 28.283 |
| Intangible assets | 462.422 | - | 50.342 | - | - | 512.764 |
| Loans and receivables | 329.395 | - | - | - | - | 329.395 |
| Available-for-sale financial assets | 33.256 | - | - | - | - | 33.256 |
| Shares in associates accounted for under the equity method | 40.454 | - | - | - | - | 40.454 |
| Other long-term assets | 407.221 | - | (50.055) | - | - | 357.166 |
| Deferred tax asset | 367.079 | - | - | - | - | 367.079 |
| **Total non-current assets** | **44.857.306** | **549.105** | **287** | **-** | **-** | **45.406.698** |
| | | | | | | |
| **Currents assets** | | | | | | |
| Inventories | 2.213.180 | - | - | (13.307) | - | 2.199.873 |
| Emission rights | 2.890.584 | - | - | - | (2.099.436) | 791.148 |
| Income tax receivables | 8.918 | - | - | - | - | 8.918 |
| Short-term financial assets at fair value through profit or loss | 5.526 | - | - | 13.307 | - | 18.833 |
| Trade receivables | 1.894.733 | - | - | - | - | 1.894.733 |
| Other loans and financial assets | 768.200 | - | - | - | - | 768.200 |
| Available-for-sale short-term financial assets | 4.377 | - | - | - | - | 4.377 |
| Other current assets | 806.233 | - | (287) | - | - | 805.946 |
| Cash and cash equivalents | 4.795.493 | - | - | - | - | 4.795.493 |
| Assets classified as held-for-sale | 9.385 | - | - | - | - | 9.385 |
| **Total currents assets** | **13.396.629** | **-** | **(287)** | **-** | **(2.099.436)** | **11.296.906** |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at 31 December 2012 *(published data)* | Implementation of IFRIC 20 | Change in $CO_2$ valuation *(acquired free of charge)* | As at 31 December 2012 *(restated)* |
|---|---|---|---|---|
| **Equity** | | | | |
| Share capital | 18.697.608 | - | - | 18.697.608 |
| Foreign exchange differences from translation of foreign entities | 3.742 | - | - | 3.742 |
| Reserve capital | 9.687.596 | - | - | 9.687.596 |
| Other capital reserves | 49.779 | - | - | 49.779 |
| Retained earnings | 11.943.593 | 438.403 | (103.792) | 12.278.204 |
| Equity attributable to non-controlling interest | 289.493 | 6.372 | (1.508) | 294.357 |
| **Total equity** | **40.671.811** | **444.775** | **(105.300)** | **41.011.286** |
| **Long-term liabilities** | | | | |
| Interest-bearing loans and borrowings, bonds and lease | 1.085.244 | - | - | 1.085.244 |
| Other liabilities | 22.038 | - | - | 22.038 |
| Provisions | 4.695.414 | - | - | 4.695.414 |
| Deferred tax liabilities | 1.467.801 | 104.330 | (24.700) | 1.547.431 |
| Deferred income and government grants | 1.124.754 | - | - | 1.124.754 |
| **Total long-term liabilities** | **8.395.251** | **104.330** | **(24.700)** | **8.474.881** |
| **Short-term liabilities** | | | | |
| Trade liabilities | 1.201.870 | - | - | 1.201.870 |
| Financial liabilities at fair value through profit or loss | 36.513 | - | - | 36.513 |
| Interest-bearing loans, borrowings, bonds and lease | 811.447 | - | - | 811.447 |
| Other short-term financial liabilities | 1.546.320 | - | - | 1.546.320 |
| Other short-term non-financial liabilities | 1.557.993 | - | - | 1.557.993 |
| Income tax liabilities | 231.234 | - | - | 231.234 |
| Deferred income and government grants | 123.401 | - | - | 123.401 |
| Short-term provisions | 3.678.095 | - | (1.969.436) | 1.708.659 |
| **Total short-term liabilities** | **9.186.873** | **-** | **(1.969.436)** | **7.217.437** |

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## CONSOLIDATED STATEMENT OF CASH FLOWS

| | As at 31 December 2012 *(published data)* | Implementation of IFRIC 20 | Perpetual usufruct of land | Change in $CO_2$ valuation *(acquired free of charge)* | Change in $CO_2$ valuation *(acquired free of charge)* | As at 31 December 2012 *(restated)* |
|---|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | | |
| Profit before tax related to discontinued operations | **340** | - | - | - | - | **340** |
| Profit before tax related to continuing operations | **4.102.537** | **549.105** | - | - | **(41.607)** | **4.610.035** |
| **Adjustments for:** | | | | | | |
| Share of profit from associates accounted for under the equity method | 13.570 | - | - | - | - | 13.570 |
| Depreciation and amortization | 2.920.051 | 11.303 | 1.022 | - | - | 2.932.376 |
| Interest and dividend, net | (23.077) | - | - | - | - | (23.077) |
| Profit / loss on investment activities | (32.460) | - | - | (18.685) | - | (51.145) |
| Change in receivables | (348.926) | - | - | 5.526 | - | (343.400) |
| Change in inventories | (908.576) | - | - | 13.307 | - | (895.269) |
| Change in liabilities, excluding loans and bank credits | (33.027) | - | - | (148) | - | (33.175) |
| Change in other non-financial assets, prepayments and emission right | 300.886 | - | 6.699 | - | (811.120) | (503.535) |
| Change in provisions | 229.166 | - | - | - | 852.727 | 1.081.893 |
| Income tax paid | (966.728) | - | - | - | - | (966.728) |
| Other | 1.588.978 | - | - | - | - | 1.588.978 |
| **Net cash from operating activities** | **6.842.734** | **560.408** | **7.721** | **-** | **-** | **7.410.863** |
| **Cash flow from investing activities** | | | | | | |
| Disposal of property, plant and equipment and intangible assets | 34.273 | - | - | - | - | 34.273 |
| Purchase of property, plant and equipment and intangible assets | (4.399.349) | (560.408) | (7.721) | - | - | (4.967.478) |
| Purchase/ disposal of investment property | 1.436 | - | - | - | - | 1.436 |
| Disposal of financial assets | 2.188.380 | - | - | - | - | 2.188.380 |
| Purchase of financial assets and increase in share capital in Group companies | (65.839) | - | - | - | - | (65.839) |
| Purchase/ disposal of subsidiaries after deduction of acquired cash | 703.509 | - | - | - | - | 703.509 |
| Dividends received | 3.867 | - | - | - | - | 3.867 |
| Interest received | 35.804 | - | - | - | - | 35.804 |
| Repayment of loans | 191.593 | - | - | - | - | 191.593 |
| Loans repaid | (678.224) | - | - | - | - | (678.224) |
| Other | 33.665 | - | - | - | - | 33.665 |
| **Net cash from investing activities** | **(1.950.885)** | **(560.408)** | **(7.721)** | **-** | **-** | **(2.519.014)** |

## 14. Operating segments

The Group reporting is based on business segments:

- Conventional Energy includes exploration and mining of lignite and production of energy in the Group power plants and heat and power plants;
- Renewable Energy includes generation of energy in pumped storage power plants and from renewable sources;
- Wholesale includes trade in electricity on the wholesale market, trading in emissions certificates and property rights related to energy origin units and fuel trading;
- Distribution includes management over local distribution networks and delivery of electricity with the use of these networks;
- Retail sale includes sale of electricity and rendering services to end users;

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in Note 2 of these financial statements. Transactions between segments are settled within the Group as if they were concluded with third parties – under market conditions.

Additionally, the Group presents geographical areas of its activities, however these do not represent operating segments.

### Seasonality of business segments

Atmospheric conditions cause seasonality of demand for electricity and heat, and have an impact on technical and economic conditions of their production, distribution and transmission, and thus influence the results obtained by the companies of PGE Group.

The level of electricity sales per year is variable and depends primarily on air temperature and day length. As a rule, lower air temperature in winter and shorter days cause the growth of electricity demand, while higher temperatures and longer days during the summer contribute to its decline. Moreover, seasonal changes are evident among selected groups of end users. Seasonality effects are more significant in particular for households than for the industrial sector.

Sales of heat depends in particular on air temperature and is higher in winter and lower in summer.

### Segment Analysis

Analyzing the activity of individual segments, the management of the Group pays special attention to revenues, operating profit (EBIT), operating profit before depreciation and amortization (EBITDA) and capex expenditures.

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## Information on business segments

| Period ended 31 December 2013 | Segment: Conventional energy | Segment: Renewable energy | Segment: Wholesale | Segment: Distribution | Segment: Retail sale | Other activities | Consolidation adjustments | Total continued operations |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Revenues from sales to external | 11.818.706 | 636.014 | 2.682.969 | 1.420.773 | 12.774.467 | 775.828 | 36.098 | **30.134.855** |
| Revenues from sales between segments | 392.629 | 97.512 | 9.805.647 | 4.195.565 | 233.394 | 1.062.310 | (15.787.057) | **-** |
| **Total revenues from segments** | **12.211.335** | **733.526** | **12.488.616** | **5.616.338** | **13.007.861** | **1.838.138** | **(15.750.959)** | **30.144.855** |
| **Result** | | | | | | | | |
| **EBIT *)** | **2.184.236** | **187.967** | **964.989** | **1.221.199** | **279.568** | **29.188** | **193.294** | **5.060.441** |
| **EBITDA **)** | **3.819.959** | **386.048** | **982.805** | **2.209.131** | **287.739** | **144.909** | **194.278** | **8.024.869** |
| Net financial revenues (expenses) | | | | | | | | (270) |
| Share of profit of associates | | | | | | | | (987) |
| **Profit (loss) before tax** | | | | | | | | **5.059.184** |
| Corporate income tax | | | | | | | | (916.021) |
| **Net profit (loss) for the reporting year** | | | | | | | | **4.143.163** |
| **Assets and liabilities** | | | | | | | | |
| Assets of the segments excluding trade receivables | 30.782.277 | 3.263.326 | 500.372 | 14.878.871 | 646.255 | 1.082.694 | (299.322) | 50.854.473 |
| Trade receivables | 242.257 | 74.214 | 779.299 | 313.583 | 1.418.242 | 351.277 | (986.784) | 2.192.088 |
| Shares in associates | | | | | | | | 9.033 |
| Unallocated assets | | | | | | | | 7.695.714 |
| **Total assets** | | | | | | | | **60.751.308** |
| Liabilities of the segment excluding trade liabilitie | 7.885.494 | 236.400 | 225.440 | 1.848.760 | 1.541.184 | 381.382 | (291.924) | 11.826.736 |
| Trade liabilities | 543.527 | 37.461 | 143.254 | 205.521 | 644.978 | 288.864 | (868.771) | 934.834 |
| Unallocated liabilities | | | | | | | | 4.341.475 |
| **Total liabilities** | | | | | | | | **17.103.045** |
| **Other information on business segments** | | | | | | | | |
| Capital expenditures | 2.722.101 | 195.869 | 12.955 | 1.334.878 | 6.283 | 178.019 | (93.545) | 4.356.560 |
| Purchase of non-current assets (net value) within acquired new companies | - | 721.822 | - | - | - | - | 394.677 | 1.116.499 |
| Impairment allowances on financial and non-financial assets | 389.548 | 18.684 | 973 | 39.889 | 14.479 | 7.332 | (35.128) | 435.777 |
| Amortization, depreciation | 1.635.723 | 198.081 | 17.816 | 987.932 | 8.171 | 115.721 | 984 | 2.964.428 |
| Other non-monetary expenses ***) | 1.299.318 | 3.351 | 18.297 | 63.503 | 888.397 | 49.116 | (215.079) | 2.106.903 |

*) EBIT = profit (loss) from operating activities
**) EBITDA = EBIT + depreciation/amortization
***) Non-monetary changes of provisions inter alia: provisions for retirement and pension awards, recultivation, provision for liability due to carbon dioxide emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income

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| Period ended 31 December 2012 (restated data) | Segment: Conventional energy | Segment: Renewable energy | Segment: Wholesale | Segment: Distribution | Segment: Retail sale | Other activities | Consolidation adjustments | Total continued operations |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| Revenues from sales to external | 14.301.574 | 553.088 | 1.121.593 | 1.229.466 | 12.421.352 | 816.120 | 37.883 | **30.481.076** |
| Revenues from sales between segments | 780.083 | 20.822 | 9.451.550 | 4.309.277 | 188.501 | 929.599 | (15.679.832) | **-** |
| **Total revenues from segments** | **15.081.657** | **573.910** | **10.573.143** | **5.538.743** | **12.609.853** | **1.745.719** | **(15.641.949)** | **30.481.076** |
| **Result** | | | | | | | | |
| **EBIT *)** | **2.520.642** | **102.569** | **554.535** | **1.028.953** | **218.672** | **(114.302)** | **66.690** | **4.377.759** |
| **EBITDA **)** | **4.243.916** | **250.483** | **573.873** | **1.970.663** | **227.577** | **(1.677)** | **45.300** | **7.310.135** |
| Net financial revenues (expenses) | | | | | | | | 245.846 |
| Share of profit of associates | | | | | | | | (13.570) |
| **Profit (loss) before tax** | | | | | | | | **4.610.035** |
| Corporate income tax | | | | | | | | (966.128) |
| **Net profit (loss) for the reporting year** | | | | | | | | **3.643.907** |
| **Assets and liabilities** | | | | | | | | |
| Assets of the segments excluding trade receivables | 29.442.432 | 2.400.570 | 737.107 | 14.579.855 | 913.655 | 1.053.894 | (694.032) | 48.433.481 |
| Trade receivables | 403.559 | 61.048 | 761.904 | 299.331 | 1.212.689 | 331.341 | (1.175.139) | 1.894.733 |
| Shares in associates | - | - | - | - | - | - | - | 40.454 |
| Unallocated assets | | | | | | | | 6.334.936 |
| **Total assets** | | | | | | | | **56.703.604** |
| Liabilities of the segment excluding trade liabilities | 6.404.433 | 135.153 | 336.750 | 1.770.216 | 1.823.140 | 404.231 | (58.831) | 10.815.092 |
| Trade liabilities | 764.285 | 24.620 | 501.545 | 229.707 | 534.094 | 230.444 | (1.082.825) | 1.201.870 |
| Unallocated liabilities | | | | | | | | 3.675.356 |
| **Total liabilities** | | | | | | | | **15.692.318** |
| **Other information on business segments** | | | | | | | | |
| Capital expenditures | 3.336.335 | 126.677 | 4.727 | 1.339.296 | 4.600 | 135.797 | (124.000) | 4.823.432 |
| Purchase of non-current assets (net value) | 113 | 659.999 | - | - | - | - | 195.422 | 855.535 |
| Impairment allowances on financial and non-financial assets | 1.665.044 | 42.660 | 66.202 | 7.149 | 25.388 | 17.111 | (25.672) | 1.797.882 |
| Amortization, depreciation | 1.723.274 | 147.914 | 19.338 | 941.710 | 8.905 | 112.625 | (21.390) | 2.932.376 |
| Other non-monetary expenses ***) | 3.330.714 | 14.122 | (189.965) | 263.006 | 1.158.658 | 87.809 | - | 4.664.344 |

*) EBIT = profit (loss) from operating activities
**) EBITDA = EBIT + depreciation/amortization
***) Non-monetary changes of provisions inter alia: provisions for retirement and pension awards, recultivation, provision for liability due to carbon dioxide emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income

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**Information on geographical areas**

Period ended 31 December 2013

| Revenues | Domestic market | EU countries | Other countries | Total |
|---|---|---|---|---|
| Revenues from continuing operations | 29.478.092 | 652.275 | 14.488 | 30.144.855 |
| **Revenues from the area** | **29.478.092** | **652.275** | **14.488** | **30.144.855** |

| Other information on the area | Domestic market | EU countries | Other countries | Total |
|---|---|---|---|---|
| Assets of the area | 53.037.672 | 8.889 | - | 53.046.561 |
| Unallocated assets | 7.633.421 | 62.096 | 197 | 7.695.714 |
| Investments in associates | 9.033 | - | - | 9.033 |
| **Total assets** | **60.680.126** | **70.985** | **197** | **60.751.308** |

Period ended 31 December 2012

| Revenues | Domestic market | EU countries | Other countries | Total |
|---|---|---|---|---|
| Revenues from continuing operations | 29.975.728 | 487.871 | 17.477 | 30.481.076 |
| **Revenues from the area** | **29.975.728** | **487.871** | **17.477** | **30.481.076** |

| Other information on the area | Domestic market | EU countries | Other countries | Total |
|---|---|---|---|---|
| Assets of the area | 50.315.348 | 12.866 | - | 50.328.214 |
| Unallocated assets | 6.293.933 | 36.717 | 4.286 | 6.334.936 |
| Investments in associates | 40.454 | - | - | 40.454 |
| **Total assets** | **56.649.735** | **49.583** | **4.286** | **56.703.604** |

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# 15. Revenues and expenses

## 15.1. Sales revenues

| Revenues from operating activities | Period ended 31 December 2013 | Period ended 31 December 2012 (restated) |
|---|---|---|
| *Sales of finished goods and merchandise with excise tax* | *29.677.331* | *28.984.500* |
| *Excise tax* | *(506.611)* | *(466.284)* |
| Revenues from sale of finished goods and merchandise | 29.170.720 | 28.518.216 |
| Revenues from sale of services | 634.936 | 599.158 |
| Revenues from leases | 38.373 | 36.401 |
| Revenues from LTC compensations | 300.826 | 1.327.301 |
| **Sales revenues** | **30.144.855** | **30.481.076** |

The issue of revenues from LTC compensations is described in Note 45.1 of these financial statements.

## 15.2. Costs by type and functions

| Costs by type | Period ended 31 December 2013 | Period ended 31 December 2012 (restated) |
|---|---|---|
| Depreciation/amortization | 2.964.428 | 2.932.376 |
| Materials and energy | 3.513.976 | 4.124.432 |
| External services | 2.304.554 | 2.499.729 |
| Taxes and charges | 3.363.242 | 2.254.302 |
| Personnel expenses | 4.325.727 | 4.846.793 |
| Other costs by type | 353.684 | 322.250 |
| **Total costs by type** | **16.825.611** | **16.979.882** |
| Change in inventories | 12.443 | (14.613) |
| Cost of products and services for the entity's own needs | (1.577.409) | (1.443.388) |
| Distribution and selling expenses | (1.244.134) | (1.495.512) |
| General and administrative expenses | (795.359) | (764.903) |
| Cost of merchandise and materials sold | 10.148.910 | 8.500.746 |
| **Cost of goods sold** | **23.370.062** | **21.762.212** |

Significant increase in „Taxes and charges" position is caused mainly by provision for liability due to carbon dioxide emission rights, described in Note 35.3 of these financial statements.

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## 15.3. Other operating revenues and expenses

| Other operating revenues | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| Adjustment of revenues from LTC compensations | 336.892 | 199.629 |
| Profit on disposal of property, plant and equipment and intangible assets | 23.531 | 16.839 |
| Reversal of impairment allowances for receivables | 16.502 | 31.387 |
| Reversal of impairment allowances for other assets | 10.950 | 2.329 |
| Provisions reversed | 110.536 | 262.791 |
| Effect of change in recultivation provision due to change in discount rate | 225.764 | - |
| Compensations, penalties and fines received | 174.764 | 144.377 |
| Grants received | 18.535 | 18.377 |
| Taxes refunded | 3.257 | 12.415 |
| Court fees refunded | 6.562 | 4.347 |
| Assets acquired free of charge | 6.278 | 20.461 |
| Surpluses / disclosures of assets | 26.846 | 28.547 |
| Revenues from illegal energy consumption | 9.383 | 6.949 |
| Other | 56.088 | 34.273 |
| **Total other operating revenues** | **1.025.888** | **782.721** |

The issue of revenues from LTC compensations is described in Note 45.1 of these financial statements.

| Other operating expenses | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| Impairment allowances raised for receivables | 68.192 | 64.569 |
| Impairment allowances raised for other assets | 346.724 | 1.676.021 |
| Loss on disposal of property, plant and equipment and intangible assets | 812 | 803 |
| Provisions raised | 125.562 | 106.942 |
| Effect of change in recultivation provision due to change in discount rate | - | 886.201 |
| Donations granted | 29.849 | 5.896 |
| Compensation paid | 5.576 | 3.369 |
| Court fees paid | 25.208 | 8.494 |
| Liquidation of damages/ removal of failures | 39.988 | 49.313 |
| Scrapping of non-current assets | 21.220 | 20.841 |
| Forgiveness of receivables | 2.252 | 8.352 |
| Costs of social activities | 8.679 | 4.269 |
| Settlement of inventory shortages | 4.130 | 6.487 |
| Other | 22.555 | 21.854 |
| **Total other operating expenses** | **700.747** | **2.863.411** |

Impairment allowances raised for other assets relate mainly to impairment allowance of generation assets. These events are discussed in Note 21 to these consolidated financial statements.

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## 15.4. Financial revenues and expenses

| Financial revenues | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)* |
|---|---|---|
| **Financial revenues from financial instruments** | **299.861** | **570.011** |
| Dividends | 2.479 | 3.944 |
| Interest revenue | 220.984 | 391.920 |
| Revaluation | 57.109 | 19.230 |
| Profit on disposal of investments | 15.077 | 58.295 |
| Exchange gains | 4.212 | 96.622 |
| **Other financial revenues** | **14.045** | **42.982** |
| Discount rate adjustment | - | 127 |
| Interest on statutory receivables | 108 | 3.250 |
| Provisions reversed | 6.097 | 38.633 |
| Other | 7.840 | 972 |
| **Total financial revenues** | **313.906** | **612.993** |

The Group presents interest incomes arising mainly from cash investments and bonds issued by third parties.

Financial instruments revaluation concern mainly transactions related to carbon dioxide emission rights on so called trading portfolio, described in note 15.5.

In 2012, earnings from sales of investments were mainly related to the sale of a non-controlling stake in Towarowa Giełda Energii S.A.

| Financial expenses | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)* |
|---|---|---|
| **Financial expenses from financial instruments** | **77.111** | **202.197** |
| Interest expenses | 68.958 | 83.894 |
| Revaluation | 170 | 356 |
| Impairment losses | 4.616 | 69.333 |
| Loss on disposal of investments | 1.155 | 10 |
| Exchange losses | 2.212 | 48.604 |
| **Other financial expenses** | **237.065** | **164.950** |
| Interest expenses (effect of discount unwinding) | 188.712 | 156.420 |
| Interest paid relating to state liabilities | 861 | 2.369 |
| Provisions created | 38.227 | 2.680 |
| Other | 9.265 | 3.481 |
| **Total financial expenses** | **314.176** | **367.147** |

Impairment of investment recognized in 2012 relates mainly to impairment of shares of AWSA Holland II BV.

Interest cost (unwinding of discount) of non-financial items relates mainly to provisions for employee benefits and provisions for recultivation.

Costs of provision created in period ended 31 December 2013 concern mainly claims for interests on late payment of dividend in PGE Górnictwo i Energetyka Konwencjonalna S.A.

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## 15.5. Valuation of carbon dioxide emission rights

As described in Note 13 of the these financial statements in "revaluation" in financial revenues and costs the Group recognizes result of transactions related to carbon dioxide emission rights on so called trading portfolio. The impact of particular items related to carbon dioxide emission rights on financial revenues and expenses is presented below.

| | **Period ended 31 December 2013** |
|---|---|
| **Financial revenues** | |
| Valuation of commodity forward | 95.696 |
| Valuation of foreign currency forward | 8.700 |
| Profit on sale of carbon dioxide emission rights outside the PGE Capital Group | 5.854 |
| Profit on realization of foreign currency forward | 2.436 |
| Impairment allowances of commodity spot | 555 |
| | |
| **Financial expenses** | |
| Commodity spot valuation | (66.616) |
| Foreign currency forward valuation | (6.573) |
| **Financial revenues/ (expenses) related to carbon dioxide trading portfolio** | **40.052** |

During the period ended 31 December 2012, the total impact of above events on the financial income amounted to PLN 5.568 thousand.

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## 15.6. Depreciation costs and impairment losses in the statement of comprehensive income

| | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)* |
|---|---|---|
| **Included in cost of goods sold:** | **2.906.360** | **2.868.590** |
| Property, plant and equipment depreciation | 2.842.943 | 2.809.119 |
| Impairment allowances on property, plant and equipment | 6.220 | 13.215 |
| Amortization and impairment allowances on intangible assets | 54.209 | 44.983 |
| Other | 2.988 | 1.273 |
| **Included in distribution and selling expenses:** | **15.229** | **19.964** |
| Depreciation and impairment allowances on property, plant and equipment | 12.629 | 17.116 |
| Amortization and impairment allowances on intangible assets | 2.600 | 2.848 |
| **Included in general and administrative expenses:** | **39.157** | **40.075** |
| Depreciation and impairment allowances on property, plant and equipment | 32.222 | 33.661 |
| Amortization and impairment allowances on intangible assets | 6.853 | 6.414 |
| Other | 82 | - |
| **Included in other operating expenses:** | **346.291** | **1.658.562** |
| Depreciation and impairment allowances on property, plant and equipment | 346.246 | 1.658.497 |
| Amortization and impairment allowances on intangible assets | 45 | 65 |
| **Included in other operating revenues:** | **10.498** | **-** |
| Impairment allowances on property, plant and equipment | 10.951 | - |
| Impairment allowances on intangible assets | (453) | - |
| **Included in change in inventories** | **3.357** | **3.447** |
| **Included in cost of products and services for the entity's own use** | **325** | **300** |

## 16. Employee benefits expenses

| | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| Payroll | 3.168.953 | 3.182.500 |
| Social security expenses | 612.259 | 618.962 |
| Retirement and pensions costs | 14.515 | 26.462 |
| Jubilee awards and allowances | 104.733 | 92.637 |
| Other post-employment benefits | 20.258 | 31.191 |
| Other employee benefits | 405.009 | 895.041 |
| **Total employee benefits expenses:** | **4.325.727** | **4.846.793** |
| Included in cost of goods sold | 3.408.452 | 3.900.024 |
| Included in distribution and selling expenses | 270.046 | 267.088 |
| Included in general and administrative expenses | 466.516 | 491.914 |
| Included in cost of products and services for the entity's own use | 180.713 | 187.767 |

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# 17. Income tax

## 17.1. Tax disclosed in the statement of comprehensive income

Main elements of income tax expense for the periods ended 31 December 2013 and 31 December 2012 are as follows:

| | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)* |
|---|---|---|
| **Profit or loss** | | |
| Current income tax expense | 807.977 | 797.844 |
| Previous periods' current income tax adjustments | (27.589) | 5.067 |
| Deferred tax | 135.633 | 163.217 |
| **Income tax expense presented in profit or loss** | **916.021** | **966.128** |
| **Income tax expenses presented in discontinued operations** | **-** | **62** |
| **Other comprehensive income** | | |
| Tax recognized in other comprehensive income (equity) | 59.198 | (38.238) |

A reconciliation of the calculation of income tax on profit before tax at the statutory tax rate and income tax calculated according to the effective tax rate for the Group is as follows:

| | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)* |
|---|---|---|
| **Profit before tax from continued operations** | **5.059.184** | **4.610.035** |
| **Profit before tax from discontinued operations** | **-** | **340** |
| **Profit before tax** | **5.059.184** | **4.610.375** |
| Income tax according to Polish statutory tax rate of 19% | 961.245 | 883.876 |
| Previous periods current income tax adjustments | (27.589) | 5.067 |
| Previous periods deferred income tax adjustments | (3.271) | - |
| The use of tax losses previously not recognized as deferred tax assets | (819) | - |
| Allowance for deferred tax assets raised | 3.089 | - |
| Costs not recognized as tax-deductible costs | 70.598 | 79.962 |
| Non-taxable revenues | (36.880) | (58.061) |
| Other | (50.352) | 55.346 |
| **Tax at effective tax rate amounting to 18,1% [2012: 21,0%]** | **916.021** | **966.190** |
| Income tax (expense) as presented in statement of profit or loss | 916.021 | 966.128 |
| Income tax attributable to discontinued operations | - | 62 |

In the position of other differences are mainly recognized adjustments relating to deferred tax estimates by PGE Group subsidiaries.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## 17.2. Deferred tax disclosed in statement of financial position

| Components of deferred tax liability | As at 31 December 2013 | As at 31 December 2012 *(restated)* |
|---|---|---|
| 1996-2000 investment relief | 804 | 838 |
| Difference between tax value and carrying value of property, plant and equipment | 2.487.459 | 2.153.022 |
| Accrued interest on deposits, loans granted, bonds and receivables | 51.933 | 52.520 |
| Difference between tax value and carrying value of other financial assets | 327 | 290 |
| Difference between tax value and carrying value of financial liabilities | 31.167 | 14.440 |
| Current period revenues unrealized for tax purposes | 150.982 | 140.800 |
| Difference between tax value and carrying value of energy origin units | 70.384 | 60.899 |
| Revenues from accrued LTC compensations | 647.093 | 632.633 |
| Accrued revenues | 138.127 | 133.584 |
| $CO_2$ emission rights | 234.637 | 513.137 |
| Other | 51.718 | 55.931 |
| **Gross deferred tax liability** | **3.864.631** | **3.758.094** |

| Components of deferred tax assets | As at 31 December 2013 | As at 31 December 2012 *(restated)* |
|---|---|---|
| Difference between tax value and carrying value of property, plant and equipment | 493.620 | 414.365 |
| Current period costs not realized for tax purpose | 169.533 | 128.303 |
| Provisions for employee benefits | 453.329 | 503.836 |
| Provisions for recultivation | 369.028 | 376.243 |
| Accrued employee bonuses | 22.394 | 23.048 |
| Difference between tax value and carrying value of financial assets | 24.166 | 7.541 |
| Difference between tax value and carrying value of financial liabilities | 18.844 | 25.487 |
| Difference between tax value and carrying value of inventories | 40.689 | 27.367 |
| Payroll and other employee benefits | 24.434 | 19.330 |
| Tax losses | 6.458 | 1.542 |
| Energy infrastructure acquired free of charge and connection payments received | 154.975 | 161.365 |
| Provision due to shortage of $CO_2$ emission rights | 272.033 | 429.836 |
| Other provisions | 66.366 | 51.276 |
| Provision for energy origin units | 75.298 | 142.715 |
| Compensations from reversal of LTC | 215.441 | 177.534 |
| Other | 98.957 | 88.807 |
| **Gross deferred tax asset** | **2.505.565** | **2.578.595** |
| Impairment allowances on tax asset | (3.940) | (853) |
| **Net deferred tax asset** | **2.501.625** | **2.577.742** |
| After off-set of balances at the Group companies' level the deferred tax of the Group is presented as: | | |
| **Deferred tax asset** | **302.040** | **367.079** |
| **Deferred tax liability** | **(1.665.046)** | **(1.547.431)** |

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## 18. Non-current assets classified as held for sale

Property, plant and equipment comprise social holiday resorts of PGE Dystrybucja S.A. Stock and shares classified as held for sale comprise packages of stock and shares in companies excluded from the consolidated financial statements of PGE Group.

| | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| **Assets** | | |
| Intangible assets | - | - |
| Property, plant and equipment | 7.229 | 8.029 |
| Stock and shares classified as held for sale | 356 | 1.356 |
| **Assets classified as held for sale** | **7.585** | **9.385** |
| **Liabilities directly associated with non-current assets classified as held for sale** | **-** | **-** |
| **Net assets/liabilities classified as held for sale** | **7.585** | **9.385** |

## 19. Discontinued operations

During the year ended 31 December 2013 the parent company and key subsidiaries did not discontinue any significant operations. However, in PGE Capital Group there are carried out activities under which assets, that are not closely related to core business, are sold.

## 20. Assets and liabilities of the Social Fund

The Social Fund Act of 4 March 1994 states that a social fund is created by employers employing over 20 full time employees. The Group entities create such a fund and perform periodical allowances. The fund does not possess any property, plant and equipment. The goal of the fund is to subsidize the social activity for employees of the Group, loans granted to its employees and other social expenses.

The Capital Group entities compensated the Fund's assets with liabilities as the Fund's assets do not represent the assets of the Group.

As at 31 December 2013, assets assigned to the social fund in the Group amounted to PLN 165.853 thousand and as at 31 December 2012, PLN 179.880 thousand.

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

## 21. Property, plant and equipment

| 31 December 2013 | Land | Buildings and construction | Machinery and equipment | Vehicles | Other property, plant and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| ***Gross book value*** | | | | | | | |
| **Opening balance** | **222.502** | **27.177.146** | **32.147.146** | **569.155** | **961.764** | **3.102.993** | **64.180.706** |
| Direct purchase | - | 726 | 6.320 | 3.697 | 3.023 | 4.253.910 | 4.267.676 |
| Transfer from construction in progress | 15.474 | 1.318.562 | 2.796.385 | 66.854 | 646.718 | (4.843.993) | - |
| Sales/ disposals | (2.912) | (33.848) | (23.671) | (32.985) | (1.801) | (268) | (95.485) |
| Transfer between groups | - | (2.771) | 2.948 | 27 | (204) | - | - |
| Scrapping | (4) | (70.578) | (507.153) | (4.245) | (7.349) | (9) | (589.338) |
| Acquisition of subsidiary | 106 | 252.245 | 517.033 | - | 898 | 315.969 | 1.086.251 |
| Disposal of subsidiary | (2.979) | (935) | (5.099) | (4.262) | (178) | (16.236) | (29.689) |
| Other changes in values | 52.732 | (7.836) | (61.467) | 690 | (3.783) | (41.647) | (61.311) |
| **Closing balance** | **284.919** | **28.632.711** | **34.872.442** | **598.931** | **1.599.088** | **2.770.719** | **68.758.810** |
| ***Depreciation and impairment* allowances** | | | | | | | |
| **Opening balance** | **14.419** | **7.973.842** | **11.596.277** | **307.870** | **304.101** | **245.896** | **20.442.405** |
| Depreciation for the period | 5.268 | 1.173.188 | 1.600.717 | 49.016 | 62.814 | - | 2.891.003 |
| Increase of impairment allowances | 248 | 86.342 | 193.778 | 189 | 708 | 73.101 | 354.366 |
| Decrease of impairment allowances | - | (4.342) | (7.476) | - | (49) | (521) | (12.388) |
| Sales/ disposals | (838) | (15.092) | (20.661) | (28.494) | (1.660) | - | (66.745) |
| Transfers between groups | - | 98 | 102 | - | (200) | - | - |
| Scrapping | - | (54.125) | (496.761) | (3.890) | (7.091) | - | (561.867) |
| Acquisition of subsidiary | - | 36.805 | 91.851 | - | 77 | - | 128.733 |
| Disposal of subsidiary | (2.652) | (519) | (3.733) | (3.460) | (166) | - | (10.530) |
| Other changes in values | 4.709 | (9.730) | 2.899 | 8 | (1.669) | (28.684) | (32.467) |
| **Closing balance** | **21.154** | **9.186.467** | **12.956.993** | **321.239** | **356.865** | **289.792** | **23.132.510** |
| **Opening balance net book value** | **208.083** | **19.203.304** | **20.550.869** | **261.285** | **657.663** | **2.857.097** | **43.738.301** |
| **Closing balance net book value** | **263.765** | **19.446.244** | **21.915.449** | **277.692** | **1.242.223** | **2.480.927** | **45.626.300** |

Consolidated financial statements for the year ended 31 December 2013 prepared in accordance with IFRS (all amounts in thousand PLN)

| 31 December 2012 (restated) | Land | Buildings and construction | Machinery and equipment | Vehicles | Other property, plant and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| ***Gross book value*** | | | | | | | |
| **Opening balance** | **195.256** | **25.566.620** | **30.450.110** | **547.541** | **386.558** | **2.269.938** | **59.416.023** |
| Direct purchase | 8 | 524 | 3.782 | 2.897 | 3.041 | 4.685.855 | 4.696.107 |
| Transfer from construction in progress | 11.841 | 1.513.525 | 1.647.837 | 39.665 | 589.987 | (3.802.855) | - |
| Sales/ disposals | (910) | (12.935) | (30.535) | (26.065) | (817) | (832) | (72.094) |
| Transfer between groups | - | (1.001) | 908 | (17) | 110 | - | - |
| Donations and transfers free of charge | 1 | 13.129 | 208 | (176) | - | - | 13.162 |
| Scrapping | (5) | (97.819) | (382.350) | (1.722) | (6.096) | (19) | (488.011) |
| Acquisition of subsidiary | 253 | 217.794 | 446.774 | - | 81 | 15 | 664.917 |
| Disposal of subsidiary | (455) | (17.013) | (2.266) | (233) | (10.692) | (2.839) | (33.498) |
| Other changes in values | 16.513 | (5.678) | 12.678 | 7.265 | (408) | (46.270) | (15.900) |
| **Closing balance** | **222.502** | **27.177.146** | **32.147.146** | **569.155** | **961.764** | **3.102.993** | **64.180.706** |
| | | | | | | | |
| ***Depreciation and impairment*** **allowances** | | | | | | | |
| **Opening balance** | **9.071** | **6.357.545** | **9.504.155** | **272.968** | **275.294** | **22.171** | **16.441.204** |
| Depreciation for the period | 1.652 | 1.128.771 | 1.642.148 | 51.876 | 39.393 | - | 2.863.840 |
| Increase of impairment allowances | 4.311 | 588.573 | 846.945 | 2.757 | 3.905 | 227.290 | 1.673.781 |
| Decrease of impairment allowances | - | (500) | (800) | - | (29) | (760) | (2.089) |
| Sales/ disposals | (16) | (4.586) | (16.917) | (21.188) | (562) | - | (43.269) |
| Transfers between groups | - | 182 | (212) | (1) | 8 | - | (23) |
| Donations and transfers free of charge | - | - | (82) | (134) | - | - | (216) |
| Scrapping | - | (82.500) | (373.371) | (1.183) | (5.862) | - | (462.916) |
| Acquisition of subsidiary | 2 | 258 | 834 | - | 64 | - | 1.158 |
| Disposal of subsidiary | (113) | (2.876) | (1.579) | (61) | (7.580) | - | (12.209) |
| Other changes in values | (488) | (11.025) | (4.844) | 2.836 | (530) | (2.805) | (16.856) |
| **Closing balance** | **14.419** | **7.973.842** | **11.596.277** | **307.870** | **304.101** | **245.896** | **20.442.405** |
| | | | | | | | |
| **Opening balance net book value** | **186.185** | **19.209.075** | **20.945.955** | **274.573** | **111.264** | **2.247.767** | **42.974.819** |
| **Closing balance net book value** | **208.083** | **19.203.304** | **20.550.869** | **261.285** | **657.663** | **2.857.097** | **43.738.301** |

During the period ended 31 December 2013, the Group entities included in the values of property, plant and equipment, and construction in progress expenses related to external financing in the amount of PLN 9.545 thousand (PLN 2.196 thousand during the year ended 31 December 2012).

**Significant increases**

During the current reporting period, PGE Group purchased property, plant and equipment and construction in progress of PLN 4,268 million. Largest expenditures were made by PGE Górnictwo i Energetyka Konwencjonalna S.A. (PLN 2,706 million) and PGE Dystrybucja S.A. (PLN 1,313 million). The main items of investments were: the integrated restructuring and refurbishing project for power units 3-12 at the Elektrownia Bełchatów (Power Plant Bełchatów) (PLN 542.3 million), connection of new customers (PLN 542.1 million) and modernization and development of electric power networks (PLN 472,0 million) in PGE Dystrybucja S.A.

In addition, property, plant and equipment were increased during the reporting period due to purchase of entities from DONG Group and Iberdrola Renewables Polska sp. z o.o. by PGE S.A. in the fair value of PLN 947 million and due to obtaining a control over Eolica Wojciechowo sp. z o.o. by PGE Energia Odnawialna S.A. in the amount of about PLN 11 million.

No significant property, plant and equipment sale transactions occurred during the reporting period.

**Changes in estimating useful life of property, plant and equipment**

During the reporting period the Group companies reviewed economic useful lives of property, plant and equipment used in determining the depreciation rates. In result of the review part of the depreciation rates was updated. The change resulted in decrease of the annual depreciation cost by PLN 93.435 thousand.

**The recoverable amount of production property, plant and equipment**

During the period ended 31 December 2013 there were significant changes in the economic environment of production companies operating in Poland.

Consequently, taking into consideration IAS 36 *Impairment of assets,* PGE Group performed impairment tests related to cash generating units ("CGU"), including production property, plant and equipment the purpose of which was to determine their recoverable value as at 31 December 2013. Due to the fact, that there were no similar transactions on the Polish market, the recoverable value was determined based on estimation of tested assets` value in use, with the use of the discounted cash flow method on the basis of financial projections for the years 2014 - 2030.

The key assumptions influencing the recoverable value of tested CGUs are as follows:

- Recognized as one CGU, respectively:
  - Oddział Kopalnia Węgla Brunatnego Bełchatów (lignite coal mine) and Oddział Elektrownia Bełchatów (power plant) („Kompleks Bełchatów"),
  - Oddział Kopalnia Węgla Brunatnego Turów (lignite coal mine) and Oddział Elektrownia Turów (power plant) („Kompleks Turów"),

due to the technological and economical connections between these entities;

- recognized as three separate CGU: Elektrownia Dolna Odra (Power Plant Dolna Odra), Elektrownia Szczecin (Power Plant Szczecin) and Elektrownia Pomorzany (Power Plant Pomorzany) being a part of Oddział Zespół Elektrowni Dolna Odra,
- the adopted assumptions of electricity prices in the years 2014-2030, including influence of LTC settlements and the costs of purchase of $CO_2$ emission allowances,
- the assumptions on the number of $CO_2$ emission rights for the production of electricity received free of charge for the years 2013-2020 for particular CGU in accordance with the Poland Application for temporary allocation of free of charge emission rights for modernization of electricity production on the basis of article 10c paragraph 5 of Directive 2003/87/WE of the European Parliament and of the Council (so-called derogations application), which meets the requirements of Commission Decision of 13 July 2012. In terms of heat production, free of charge rights has been taken into account in line with the list of allocations of $CO_2$ emission rights for heat in the reference period 2013-2020, published by Ministry of the Environment,

- taking into account support system for renewable sources of energy and high-performance cogeneration in whole period of forecast,
- maintenance of production capacities at current level,
- the adopted after tax weighted average cost of capital at the level of 7,63%,
- LTC compensations received by entitled producers.

As a result of tests conducted as at 31 December 2013, recoverable value of tested property, plant and equipment appeared to be lower than their carrying value in three tested CGUs. Therefore, following impairment has been written off the value of tangible fixed assets in following producers:

- Elektrownia Dolna Odra – PLN 124,0 million,
- Elektrociepłownia Pomorzany – PLN 149,5 million,
- Elektrociepłownia Zgierz – PLN 69,4 million,

Total value of foregoing impairment allowances amounts to PLN 342.9 million.

The results of sensitivity analysis performed indicate that the most significant factors influencing the estimation of measured assets` value in use are changes in electricity prices, weighted average cost of capital and purchase cost of production fuels (hard coal or gas depending on the entity). Change of assumptions regarding the price of $CO_2$ emission rights influences the results to a lesser extent. The least influence on estimation has the change of assumptions regarding prices of energy origin rights.

In year 2012 PGE Capital Group raised impairment allowance on tangible assets of Elektrownia Dolna Odra in amount of PLN 1.486 million. Raising impairment on tangible assets in year 2013 was due to negative changes in assumption used for cash flow projections, including prices of electric energy, $CO_2$ emission rights and production level in selected units.

**Measurement estimate of property, plant and equipment in distribution company**

As at the balance sheet date carrying value of fixed assets related to the distribution activity amounted to more than PLN 14 billion and represents almost 24% of the total consolidated assets. Their recoverable amount depends on the tariff granted by the Energy Regulatory Office. The regulatory (tariff) revenue of the companies, calculated yearly in the financial plan, assures covering of justified costs: operating costs, depreciation charges, tax charges, purchase costs of electricity to cover balancing differences, costs transferred and return on capital invested in distribution activity on the justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Value of Assets.

As at the date of preparation of these consolidated financial statements, PGE Group has not identified the need to update the carrying values of the relevant property, plant and equipment.

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## 22. Investment property

| | 2013 | 2012 |
|---|---|---|
| **Opening balance as at 1 January** | **28.283** | **33.286** |
| Increase of value | 2.321 | 426 |
| Depreciation and impairment allowances | (3.070) | (1.273) |
| Decrease of value | (5.233) | (4.156) |
| **Closing balance as at 31 December** | **22.301** | **28.283** |

Investment property in the Group companies comprises mainly buildings located in the entity's location, leased to third parties in part or in full.

The Group measures investment property at cost of acquisition less depreciation amount. Fair value of investment property is not significantly higher than their carrying amount in light of the materiality related to the consolidated financial statements as a whole.

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## 23. Intangible assets

| 31 December 2013 | Development costs | Goodwill | Computer software | Other licenses and patents | Purchase of rights of perpetual usufruct of land | Other intangible assets | Non-commissioned intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Gross book value** | | | | | | | | |
| **Opening balance** | **14.807** | **187.798** | **366.372** | **49.976** | **56.731** | **132.772** | **84.497** | **892.953** |
| Direct purchase | - | - | 794 | 83 | - | - | 87.617 | 88.494 |
| Transfer of non-commissioned intangible assets | - | - | 19.126 | 57.148 | 2.008 | 9.625 | (87.907) | - |
| Sales/ disposals | - | - | (5.996) | (4) | - | - | - | (6.000) |
| Transfers between groups | - | (30.000) | 490 | (172) | - | 29.682 | - | - |
| Donations and transfers free of charge | - | - | - | - | 143 | 7.202 | - | 7.345 |
| Scrapping | (80) | - | (16.932) | (261) | (64) | (54) | (7) | (17.398) |
| Purchase of subsidiary | - | 125.169 | - | - | - | 33.812 | - | 158.981 |
| Other changes of values | 3.612 | 5.867 | (1.654) | 1.565 | 4.072 | (31) | 1.415 | 14.846 |
| **Closing balance** | **18.339** | **288.834** | **362.200** | **108.335** | **62.890** | **213.008** | **85.615** | **1.139.221** |
| **Amortization and impairment allowances** | | | | | | | | |
| **Opening balance** | **13.359** | **-** | **271.657** | **15.674** | **6.462** | **72.290** | **747** | **380.189** |
| Amortization for the period | 976 | - | 37.222 | 16.190 | 835 | 6.756 | - | 61.979 |
| Increase of impairment allowances | - | - | - | - | 45 | - | 2.434 | 2.479 |
| Decrease of impairment allowances | - | - | - | - | - | - | (288) | (288) |
| Sales/ disposals | - | - | (5.468) | - | - | - | - | (5.468) |
| Transfers between groups | - | - | 418 | (132) | - | (286) | - | - |
| Scrapping | (80) | - | (16.932) | (261) | (19) | (46) | - | (17.338) |
| Other changes of values | - | - | (880) | 732 | 218 | (1) | (228) | (159) |
| **Closing balance** | **14.255** | **-** | **286.017** | **32.203** | **7.541** | **78.713** | **2.665** | **421.394** |
| **Net book value** | | | | | | | | |
| **Opening balance** | **1.448** | **187.798** | **94.715** | **34.302** | **50.269** | **60.482** | **83.750** | **512.764** |
| **Closing balance** | **4.084** | **288.834** | **76.183** | **76.132** | **55.349** | **134.295** | **82.950** | **717.827** |

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| 31 December 2012 *(restated)* | Development costs | Goodwill | Computer software | Other licenses and patents | Purchase of rights of perpetual usufruct of land | Other intangible assets | Non-commissioned intangible assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Gross book value** | | | | | | | | |
| **Opening balance** | **14.383** | **9.891** | **357.012** | **24.548** | **50.642** | **130.900** | **30.824** | **618.200** |
| Direct purchase | - | - | 505 | 61 | 8.276 | - | 118.597 | 127.439 |
| Transfer of non-commissioned intangible assets | - | - | 42.210 | 21.709 | 438 | 6.400 | (70.757) | - |
| Transfers between groups | 90 | - | - | 1.748 | - | (1.838) | - | - |
| Donations and transfers free of charge | - | - | - | - | - | 7.100 | - | 7.100 |
| Scrapping | - | - | (12.343) | (359) | - | (33) | - | (12.735) |
| Purchase of subsidiary | - | 177.907 | - | - | - | - | - | 177.907 |
| Sale of subsidiary | - | - | (1.502) | - | - | - | - | (1.502) |
| Other changes of values | 334 | - | (19.510) | 2.269 | (2.625) | (9.757) | 5.833 | (23.456) |
| **Closing balance** | **14.807** | **187.798** | **366.372** | **49.976** | **56.731** | **132.772** | **84.497** | **892.953** |
| **Amortization and impairment allowances** | | | | | | | | |
| **Opening balance** | **12.665** | **-** | **244.473** | **22.086** | **5.782** | **70.606** | **747** | **356.359** |
| Amortization for the period | 694 | - | 40.722 | 8.122 | 1.022 | 3.508 | - | 54.068 |
| Increase of impairment allowances | - | - | - | - | 65 | - | - | 65 |
| Transfers between groups | - | - | - | 22 | - | (22) | - | - |
| Scrapping | - | - | (12.128) | (37) | - | (29) | - | (12.194) |
| Sale of subsidiary | - | - | (962) | - | - | - | - | (962) |
| Other changes of values | - | - | (448) | (14.519) | (407) | (1.773) | - | (17.147) |
| **Closing balance** | **13.359** | **-** | **271.657** | **15.674** | **6.462** | **72.290** | **747** | **380.189** |
| **Net book value** | | | | | | | | |
| **Opening balance** | **1.718** | **9.891** | **112.539** | **2.462** | **44.860** | **60.294** | **30.077** | **261.841** |
| **Closing balance** | **1.448** | **187.798** | **94.715** | **34.302** | **50.269** | **60.482** | **83.750** | **512.764** |

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**Goodwill**

Increases of goodwill as presented in 2013 are related mainly to acquisition of entities from Dong Group and Iberdrola, as specified in Note 2.2 to these financial statements.

Goodwill as of 31 December 2013 was subjected to impairment tests, along with appropriate cash generating units. Key assumptions used in the preparation of cash flow projections are described in Note 21 of these financial statements.

Tests have shown no need for impairment. As of 31 December 2013, the aggregate carrying value of tangible fixed assets, intangible assets and goodwill allocated to operating wind farm companies Pelplin Sp. z o.o., Żuromin Sp. z o.o., PGE Energia Natury Kappa Sp. z o.o., PGE Energia Natury Omikron Sp. z o.o. and branches of EPW Energia Sp. z o.o. belonging to the Group amounts to PLN 1.563 million. Estimated by the PGE Capital Group recoverable value of these assets amounts to PLN 1.738 million.

**Intangible assets not commissioned**

The presented amount of intangible assets not commissioned as at 31 December 2013 concerns mainly: programs of IT systems implementation in Capital Group (including SAP), research and development connected with construction of first polish nuclear power plant and investments hold by Kopalnia Węgla Brunatnego Bełchatów (Lignite Coal Mine Bełchatów) on Złoczew field. As of 31 December 2013 the risk of impairment of these assets was not recognised.

# 24. Leasing

## 24.1. Operating lease liabilities – the Group as the lessee

As at 31 December 2013 and as at 31 December 2012, the future minimum lease payments related to irrevocable lease agreements are as follows:

| | Future liabilities as at | |
|---|---|---|
| | **31 December 2013** | **31 December 2012** |
| Less than 1 year | 398 | 394 |
| Between 1 and 5 years | 1.990 | 1.968 |
| More than 5 years | 5.573 | 2.755 |
| **Total lease payments** | **7.961** | **5.117** |

Additionally the Group entities incur costs related to a perpetual usufruct of land. The value of these costs for the year ended 31 December 2013 amounted to PLN 15.681 thousand.

## 24.2. Operating lease receivables – Group as a lessor

The PGE Group companies have signed agreements with Polskie Sieci Elektroenergetyczne S.A. on rendering intervention services related to administration of and using of production units by the system operator in order to balance active and passive power on an intervention basis in the National Electroenergetic System (NES). This aims at ensuring proper and safe operation of the system. The above mentioned agreements, although not having a legal form of leasing, give the right to use the assets for a series of payments.

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## 24.3. Liabilities from finance lease and lease agreement with option to purchase

As at 31 December 2013 and as at 31 December 2012, the future minimum lease payments related to these agreements and current value of minimum net lease payments are as follows:

| | As at 31 December 2013 | | As at 31 December 2012 *(restated)* | |
|---|---|---|---|---|
| | Minimal payments | Current value of payments | Minimal payments | Current value of payments |
| Less than 1 year | 2.137 | 1.905 | 2.565 | 2.213 |
| Between 1 and 5 years | 2.088 | 1.847 | 2.378 | 2.124 |
| More than 5 years | - | - | 136 | 133 |
| **Total minimum lease payments** | **4.225** | **3.752** | **5.079** | **4.470** |
| Less financial expenses | (473) | - | (609) | - |
| **Current value of minimum lease payments, including:** | **3.752** | **3.752** | **4.470** | **4.470** |
| Short-term | 1.905 | 1.905 | 2.213 | 2.213 |
| Long-term | 1.847 | 1.847 | 2.257 | 2.257 |

## 24.4. Receivables from finance lease and lease agreement with purchase option

| | As at 31 December 2013 | | As at 31 December 2012 | |
|---|---|---|---|---|
| | Minimal payments | Current value of payments | Minimal payments | Current value of payments |
| Less than 1 year | 23 | 19 | 145 | 113 |
| Between 1 and 5 years | 23 | 22 | 116 | 108 |
| More than 5 years | - | - | - | - |
| **Total minimum lease payments** | **46** | **41** | **261** | **221** |
| Less financial revenues | (5) | - | (40) | - |
| **Current value of minimum lease payments, including:** | **41** | **41** | **221** | **221** |
| Short-term | 19 | 19 | 113 | 113 |
| Long-term | 22 | 22 | 108 | 108 |

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## 25. Investments in associates accounted for using the equity method

| | PEC Bogatynia* | Swe-Pol Link | RAZEM |
|---|---|---|---|
| Share in voting rights | 34,93% | 0,00% | |
| | Transmission, distribution and turnover of heat | Transmission of electricity | |
| **As at 31 December 2013** | | | |
| Share of statement of financial position in associate: | | | |
| Current assets (short-term) | 2.218 | - | **2.218** |
| Non-current assets (long-term) | 7.570 | - | **7.570** |
| Short-term liabilities | (682) | - | **(682)** |
| Long-term liabilities | (73) | - | **(73)** |
| **Share of net assets** | **9.033** | **-** | **9.033** |
| Goodwill | - | - | - |
| **Shares in associate in the statement of financial position** | **9.033** | **-** | **9.033** |
| **Period ended 31 December 2013** | | | |
| Share of revenue of the associate | 4.341 | - | **4.341** |
| **Share of profit (loss) of the associate:** | **(48)** | **(939)** | **(987)** |

* Preliminary non-audited data

PGE S.A. as a 49% shareholder in SwePol Link AB signed contracts to the effect of restructuring of the Poland-Sweden DC link. At the end of 2010, there were certain changes in EU legislation (implementation of Third Party Access principle), followed by signing of a multilateral agreement - so-called Market Coupling Agreement in December 2010 by PSE Operator S.A., Svenska Kraftnat, SwePol Link AB, SwePol Link Poland, Nordpool and TGE energy exchanges, formally releasing the transmission capacity of the link on the market. On 31 August 2012, link assets were sold and transferred to the Polish and Swedish transmission operators. Further consequence of assets sale was the decision about the liquidation of SwePol Link Poland and SwePol Link AB.

Winding-up proceeding ended up in December 2013.

## 26. Joint ventures

During the reporting periods ended 31 December 2013 and 31 December 2012 the Group did not participate in any significant joint ventures.

In 2013 PGE S.A. purchased the company Iberdrola Renewables Polska sp. z o.o. (currently EPW Energia sp. z o.o.), both with the entity Energa Hydro sp. z o.o. However, according to joint venture agreement, purchasers strictly specified the assets of their interests and PGE S.A. has the control over selected branches of the company. Therefore, investment is treated as subsidiary and included in these financial statements.

Additionally, PGE S.A. took part in works connected with establishment the coordination conditions between parties interested in exploration, recognition and extracting of shale gas. As stated in note 45.2 of these financial statements, the framework agreement expired on 31 December 2013.

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## 27. Inventories

| | 31 December 2013 | | | 31 December 2011 (restated) | | |
|---|---|---|---|---|---|---|
| | Historical cost | Impairment allowances | Carrying amount | Historical cost | Impairment allowances | Carrying amount |
| Materials | 1.069.073 | (137.943) | 931.130 | 1.178.752 | (134.549) | 1.044.203 |
| Finished goods | 3.154 | - | 3.154 | 5.632 | (22) | 5.610 |
| Semi-products and work in progress | 61.022 | (462) | 60.560 | 74.876 | - | 74.876 |
| Energy origin rights | 417.363 | (8.450) | 408.913 | 664.622 | (11.950) | 652.672 |
| Merchandise | 7.655 | (1.091) | 6.564 | 7.592 | (932) | 6.660 |
| $CO_2$ emission rights | 339.993 | (66.616) | 273.377 | 416.407 | (555) | 415.852 |
| **Total** | **1.898.260** | **(214.562)** | **1.683.698** | **2.347.881** | **(148.008)** | **2.199.873** |

| | |
|---|---|
| **Impairment allowances for inventories as at 1 January 2013** | **(148.008)** |
| Impairment allowances raised | (96.487) |
| Impairment allowances reversed | 1.566 |
| Impairment allowances used | 24.847 |
| Other | 3.520 |
| **Impairment allowances for inventories as at 31 December 2013** | **(214.562)** |

Revaluation in the amount of PLN 66,616 thousand was raised to adjust the value of $CO_2$ emission rights in accordance with the principles of valuation of inventories, as described in Note 12.13 of these financial statements and should be read in conjunction with the revenue from valuation of forward contracts (as described in Note 15.5 of these financial statements).

Creation of the rest impairment allowances related mainly to spare parts and materials as a result of their depreciation or obsolescence.

However, reversal of impairment allowances, mainly on spare parts and materials, resulted from their disposal or usage to the value exceeding the previously measured carrying amount.

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## 28. Carbon dioxide emission rights

A separate item in the statement of financial position is used for presentation of European Union Allowances (EUA) for carbon emissions, designed for the PGE Group companies' own purposes, and other units redeemed pursuant to greenhouse gas emissions (CER, ERU) - acquired and received free of charge. EUA received free of charge are recognized in the books at nominal value, namely PLN 0. Purchased allowances are presented at purchase price.

The PGE Group producers maintain installations, covered with the act dated 28 April 2011 about a scheme for greenhouse gas emission allowance trading. So far, PGE Capital Group has been receiving significant quantity free of charge emission rights under, so called, National Allocation Plan (until end of 2012), which has been sufficient to cover the whole or part greenhouse gas emission. The regulations, which have taken effect from 1 January 2013, that is from the begin of next – third settlement period (years 2013-2020), significantly reduced so far free of charge emission rights. Only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Only on the basis of article 10c of Directive 2003/87/WE of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce $CO_2$ emission. The condition under which free of charge $CO_2$ emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

PGE Polska Grupa Energetyczna S.A. submitted required statement from realization of investment tasks on 9 December 2013.

As the 31 December 2013 the final quantity of free of charge EUA allocations has not been approved, because lack of announcement of suitable acts. Therefore, in 2013 Group does not recognize free of charge received emission rights. The lack of recognition has an influence on calculation of provision for liability due to carbon dioxide emission rights, described in Note 35.3 of these financial statements.

| | EUA | | CER/ERU | | Total |
|---|---|---|---|---|---|
| | **Amount** | **Value** | **Amount** | **Value** | **Value** |
| **As at 1 January 2012** | **56.405** | **127.728** | **8.238** | **328.703** | **456.431** |
| Purchase | 17.041 | 534.435 | 2.484 | 42.202 | 576.637 |
| Allocation within NAP | 57.042 | - | - | - | - |
| Redemption | (54.185) | (127.728) | (4.935) | (176.792) | (304.520) |
| Other | - | 62.600 | - | - | 62.600 |
| **As at 31 December 2012** | **76.303** | **597.035** | **5.787** | **194.113** | **791.148** |
| Purchase | 38.111 | 772.053 | 24 | 45 | 772.098 |
| Allocated free of charge | - | - | - | - | - |
| Redemption | (54.955) | (42.127) | (5.763) | (193.237) | (235.364) |
| Other | (27) | 76.736 | (24) | (876) | 75.860 |
| **As at 31 December 2013** | **59.432** | **1.403.697** | **24** | **45** | **1.403.742** |

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## 29. Other short-term and long assets

**Other long-term assets**

| | As at 31 December 2013 | As at 31 December 2012 *(restated)* |
|---|---|---|
| Advances for construction in progress | 601.969 | 342.592 |
| Other deferred expenses | 41.999 | 14.574 |
| **Total other long-term assets** | **643.968** | **357.166** |

Advances for construction in progress relate mainly to investment projects conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A.

**Other short-term assets**

| | As at 31 December 2013 | As at 31 December 2012 *(restated)* |
|---|---|---|
| **Deferred expenses** | | |
| Property and tort insurance | 19.734 | 27.425 |
| IT services | 9.937 | 5.085 |
| Accrued commissions | 21.836 | 16.177 |
| Accrued construction-assembly contracts | 8.921 | 7.984 |
| Other accrued costs | 40.672 | 35.692 |
| **Other short-term assets** | | |
| Accrued revenues | 528.688 | 548.629 |
| VAT receivables | 66.671 | 102.611 |
| Excise tax receivable | 22.708 | 26.651 |
| Other tax receivables | 2.213 | 5.640 |
| Advances for deliveries of property, plant and equipment, and intangible assets | 15.847 | 18.023 |
| Other short-term assets | 11.825 | 12.029 |
| **Total other short-term assets** | **749.052** | **805.946** |

The accrued revenues comprise estimation of sales of the electric energy not read from the meters as at the balance sheet date.

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## 30. Cash and cash equivalents

Cash at the bank is subject to variable interest rates which are based on bank deposits' interest rates. Short-term deposits are made for different periods, from one day up to one month, depending on the Group's needs for cash, and are deposited at individually agreed interest rates. Fair value of cash and cash equivalents as at 31 December 2013 amounted PLN 5.951.964 thousand (as at 31 December 2012, amounted to PLN 4.795.493 thousand).

The balance of cash equivalents comprises the following positions:

| | **As at 31 December 2013** | **As at 31 December 2012** |
|---|---|---|
| Cash on hand and cash at bank | 986.439 | 1.040.338 |
| Overnight deposits | 516.914 | 547.336 |
| Short-term deposits | 4.448.611 | 3.207.819 |
| **Total** | **5.951.964** | **4.795.493** |
| Interest accrued on cash, not received as at the balance sheet date | (4.637) | (5.758) |
| Exchange rate differences on cash in foreign currencies | 314 | (175) |
| **Cash and cash equivalents presented in the statement of cash flows** | **5.947.641** | **4.789.910** |
| Credit limits at disposal | 1.756.520 | 991.880 |
| *Including credit in current account* | 1.646.177 | 983.580 |

Restricted cash disclosed in the consolidated statement of cash flows relate primarily to:

- cash maintained as a guarantee of performance of the agreement concerning building of blocks in Elektrownia Opole (Power Plant Opole) and Elektrownia Bełchatów (Power Plant Belchatów),
- Mine Liquidation Fund and Mine Recultivation Fund (Fundusz Likwidacji Zakładu Górniczego i Fundusz Rekultywacji Zakładu Górniczego) in lignite coal mines,
- cash deposit securing the settlements of subsidiaries of PGE Capital Group with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) and electricity trading platform (poee RE GPW).

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## 31. Share capital and other equity

The basic assumption of the Group policy regarding equity management is to maintain an optimal equity structure over the long term in order to assure a good financial standing and secure equity structure ratios that would support the operating activity of the Group. It is also crucial to maintain a sound equity base that would be the basis to win confidence of potential investors, creditors and the market and assure further development of the Group.

### 31.1. Share Capital

| | As at 31 December 2013 |
|---|---|
| Number of Series A ordinary Shares with a nominal value of 10 PLN each | 1.470.576.500 |
| Number of Series B ordinary Shares with a nominal value of 10 PLN each | 259.513.500 |
| Number of Series C ordinary Shares with a nominal value of 10 PLN each | 73.228.888 |
| Number of Series D ordinary Shares with a nominal value of 10 PLN each | 66.441.941 |
| **Total** | **1.869.760.829** |

There were no changes in the structure and amount of share capital in the current reporting period.

All shares of the Company are paid up.

Ownership structure of the Company in the reporting period is presented below:

| | State Treasury | Other Shareholders | Total |
|---|---|---|---|
| **As at 1 January 2013** | **61,89%** | **38,11%** | **100,00%** |
| **As at 31 December 2013** | **61,89%** | **38,11%** | **100,00%** |

The ownership structure as at balance sheet dates was determined on the basis of information available to the Company.

As at the date of these financial statements no changes to the share capital of the Company were registered as compared to the balance sheet date.

### 31.2. Rights of the shareholders

**Rights of the State Treasury**

The Company is a part of the PGA Group, to which State Treasury holds special rights as long as it remains a shareholder of the Company

Even though the shares of the Company are not preferential, the Company's Articles of Association provide special rights to the State Treasury as long as it remains a shareholder of the Company. According to the Company's Articles of Association, the State Treasury holds the right to approach the Management Board with a written demand for a General Meeting of Shareholders to be called, including matters for the meeting agenda, submitting draft resolutions related to matters included in the agenda or matters that may be included in the agenda, obtaining copies of announcements published in the Court and Commercial Monitor.

In addition, based on the Company's Articles of Association, the State Treasury holds special rights to influence the process of appointing members of the Supervisory Board. Namely, half of the members of the Supervisory Board, including the President of the Supervisory Board, are appointed by the Shareholders' Meeting from the list of candidates submitted by the State Treasury. The State Treasury will hold this right for as long as its shareholding in the Company is not less than 20%. Furthermore, based on the Company's Articles of Association, the State Treasury holds the right to appoint and dismiss one member of the Supervisory Board in the form of a written statement submitted to the

Company during the General Meeting of Shareholders or outside the General Meeting of Shareholders through of the Management Board. Furthermore, this right can be executed by the State Treasury independently of voting rights in appointing other members of the Supervisory Board.

Additionally, if the mandate of a member of the Supervisory Board expires and as a result the number of members of the Supervisory Board is less than the minimum number of members specified in the Company's Articles of Association, the Management Board is obliged to call a General Meeting of Shareholders in order to appoint an additional member. As soon as at least one mandate of a member of the Supervisory Board appointed in group voting expires, the State Treasury regains its individual right to appoint one member of the Supervisory Board in the form of a written statement.

On 29 June 2011 the Shareholders' Meeting adopted a resolution introducing changes to restrictions on voting rights for existing shares. The voting right was limited, meaning that no shareholder may exercise more than 10% of the total number of voting rights exercisable during the Shareholders' Meeting, with the exception that for the purpose of determining obligations of purchasers of significant shareholdings described in the Act on Public Offering, Conditions Governing the Introduction of Financial Statements to Organized Trading, and Public Companies dated 29 July 2005 ("Act on Public Offering"), the mentioned restriction will not apply. The above mentioned restriction does not apply to the State Treasury and other shareholders, who act with the State Treasury under agreement for joint exercise of voting rights. These restrictions are effective for as long as the shareholding owned by the State Treasury is not less than 5%.

**Right regarding the Company's operations**

Based on the Act of 18 March 2010 on special rights the Minister of the Treasury and their performance in certain incorporated companies or holding companies operating in the electricity, oil and gaseous fuels sectors (OJ No 65, dated 21 April 2010, item. 404) the Minister of the Treasury has the right to object to any resolution or legal action of the Management Board that relates to the ability to dispose a part of company's property, which is of significant importance to its functioning, continuity of operations and integrity of critical infrastructure if there is a reasonable assumption that such legal action might violate public order or public safety. The objection can also be expressed against any resolution adopted that relates to:

- liquidation of the Company,
- changes of the use or discontinuance of exploitation of the company's asset, which is a component of critical infrastructure,
- change in the scope of activities of the Company,
- sale or lease of the enterprise or its organized part or establishment of legal restrictions,
- approval of operational and financial plan, investment plan, or long-term strategic plan,
- movement of the Company's seat abroad,

if the enforcement of such a resolution resulted in an actual threat to the operation continuity or integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

The Act introduced a function of a representative for critical infrastructure. The representative is chosen by the company in consultation with the Minister of Treasury and the director of the Government Security Center.

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### 31.3. Reserve capital and other capital reserves

In accordance with adopted accounting policy reserve capital and other capital reserves of the Group is a capital presented in the separate financial statements of PGE S.A.

Other capital reserves resulted from distribution of PGE Electra S.A. profit for 2009 as a consequence of merger of PGE Polska Grupa Energetyczna S.A. with PGA Electra S.A.

Reserve capital results from a surplus of issue value over nominal value less costs of share issue. Furthermore, a reserve capital results from statutory write-offs on profits generated in previous reporting periods, as well as from a surplus of profit distribution over the value of a statutory write-off.

Reserve capital subject to distribution amounted to PLN 2.709 million as at 31 December 2013.

### 31.4. Retained earnings and limitations to payment of a dividend

Other changes of retain earnings in the amount of PLN (93.200) thousand presented in statement of changes in consolidated equity relate mainly to adjustments to retained earnings reported by the Capital Group subsidiaries.

The following table shows the division of retained earnings of the parent company and its subsidiaries for distributable and non-distributable. Non-distributable retained earnings concern amounts which cannot be paid in the form of dividends by the parent company:

| | **As at 31 December 2013** | **As at 31 December 2012** *(restated)* |
|---|---|---|
| Amounts included in retained earnings that cannot be distributed by the parent: | | |
| Retained earnings of subsidiaries, attributable to equity holders of the parent, including consolidation adjustments | 13.395.728 | 11.416.653 |
| Profit/loss recognized by the parent company as retained earnings in the position of other comprehensive income | 2.535 | (1.913) |
| Other retained earnings of the parent company not subject to distribution | 274 | 79.466 |
| Retained earnings of the parent subject to distribution | 2.294.368 | 783.998 |
| **Total retained earnings presented in the consolidated financial statements of the parent attributable to equity holders of the parent** | **15.692.905** | **12.278.204** |

According to regulations of the Commercial Code, entities which are joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognized in the statutory financial statements is transferred to reserve capital, until this capital amounts to at least one third of the share capital. The General Shareholders' Meetings decides on the use of the reserve capital, however the part of reserve capital which amounts to one third of share capital can only be used to cover losses recognized in statutory financial statements and cannot be distributed for other purposes.

As at 31 December 2013 there were no other restrictions on payment of dividends.

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### 31.5. Equity attributable to non-controlling interests

As at 31 December 2013 equity attributable to non-controlling interests relates mainly to non-controlling shareholders of PGE Górnictwo i Energetyka Konwencjonalna S.A.

The below table presents changes in the equity attributable to non-controlling shareholders in the reporting periods.

| | **Period ended 31 December 2013** | **Period ended 31 December 2012** *(restated)* |
|---|---|---|
| **Opening balance** | **294.357** | **412.969** |
| Share in profit of subsidiaries | 24.694 | 27.931 |
| Share in actuarial gains and losses | 1.174 | (882) |
| Dividends declared by subsidiaries | (1.946) | (1.011) |
| Acquisition of new companies | - | 19.723 |
| Sale of subsidiaries | 14.222 | - |
| Acquisition of non-controlling interests by the Capital Group | (62.053) | (127.041) |
| Effect of merger in the Capital Group | (2.898) | (37.332) |
| Other | (1.204) | - |
| **Closing balance** | **266.346** | **294.357** |

Acquisition of non-controlling shares during the year ended 31 December 2013 relates mainly to the acquisition of shares of PGE GiEK S.A. by PGE S.A. and the effect of the purchase of treasury shares by PGE GiEK S.A. (for the purpose of accounting in the consolidated equity the transaction was recognized as if the treasury shares were redeemed).

Acquisition of non-controlling shares during the year ended 31 December 2012 relates mainly to the acquisition of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Obrót S.A., and PGE Dystrybucja S.A. by PGE S.A. and the effect of the purchase of treasury shares by PGE Obrót S.A. (for the purpose of accounting in the consolidated equity the transaction was recognized as if the treasury shares were redeemed). Change in non-controlling interests relates also to merger of PGE Elektrownia Opole S.A. with PGE Górnictwo i Energetyka Konwencjonalna S.A. in March 2012.

## 32. Earnings per share

Earnings per share shall be calculated by dividing profit or loss attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

An entity shall calculate diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the Company (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted by the number of dilutive options or dilutive redeemable convertible preference shares).

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Presented below is information on profit and shares used to calculate basic earnings per share.

| | Period ended 31 December 2013 | Period ended 31 December 2012 *(restated)* |
|---|---|---|
| Net profit on continuing operations | 4.143.163 | 3.643.907 |
| Net profit on discontinued operations | - | 278 |
| **Net profit, attributed to** | **4.143.163** | **3.644.185** |
| - shareholders of the parent company | 4.118.469 | 3.616.254 |
| - non-controlling interests | 24.694 | 27.931 |
| **Net profit attributable to ordinary equity holders of the Company used to calculate diluted earnings per share** | **4.118.469** | **3.616.254** |
| Number of ordinary shares at the beginning of the reporting period | 1.869.760.829 | 1.869.760.829 |
| Number of ordinary shares at the end of the reporting period | 1.869.760.829 | 1.869.760.829 |
| **Average weighted number of ordinary shares issued used to calculate basic earnings per share** | **1.869.760.829** | **1.869.760.829** |

Presented number of shares does not contain treasury shares acquired for redemption purposes.

## 33. Dividends paid and dividends declared

| | Dividend paid or declared from the profit for the year ended | | |
|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2011 |
| *Cash dividends from ordinary shares* | | | |
| Dividend paid from retained earnings | - | 783.998 | 3.421.662 |
| Dividend paid from reserve capital | - | 823.996 | - |
| **Total cash dividends from ordinary shares** | **-** | **1.607.994** | **3.421.662** |
| Cash dividends per share (in PLN) | - | **0,86** | **1,83** |

**Dividend from the profit for 2012**

On 27 June 2013 the General Meeting of the Company resolved to distribute PLN 783.998 thousand from the net profit from 2012 and part of the reserve capital in the amount of PLN 823.997 thousand as a dividend.

Dividend was declared by resolution of the Ordinary General Meeting held on 27 June 2013 and paid on 24 September 2013.

**Dividend from the profit for period ended 31 December 2013**

During the reporting period and as at the date of preparation of the financial statement the Company made no advance payments of dividends. The financial statement was prepared before profit distribution as well as before determination of the amount of dividend.

The Management Board of the Company recommends to pay out the dividend in the amount of PLN 2.056.737 thousand (PLN 1,10 per share), constituting 50% of the net profit attributable to shareholders of the parent company reported in the consolidated financial statements for the year ended 31 December 2013.

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## 34. Employee benefits

**Retirement and pension allowances, coal allowance, medical benefits, allowance for Social Fund and other benefits for pensioners**

The Group entities pay retirement or pension awards in the amount specified in the Corporate Collective Labour Agreement when an employee retires or becomes a pensioner. Moreover, the former employees of the companies of PGE Group receive benefits in the form of medical care, coal allowance (so called 'employee rate'), Social Fund allowance, etc. Due to the above, Group entities raise a provision for these awards based on the valuation made by an actuary.

Amounts of these provisions and a reconciliation of changes in provisions during the reporting period are presented below:

**Period ended 31 December 2013**

| | Retirement, pension and other benefits provisions | Coal allowance | Energy tariff | Social Fund | Medical care | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2013** | **367.614** | **121.345** | **781.804** | **237.560** | **43.794** | **1.552.117** |
| Changes in the composition of the Group | (52) | - | - | - | - | **(52)** |
| Current service costs | 15.864 | 953 | 9.472 | 5.529 | 727 | **32.545** |
| Actuarial gains and losses excluding discount rate adjustment | 9.801 | 14.747 | (288.789) | 5.026 | 2.588 | **(256.627)** |
| Benefits paid | (14.158) | (7.681) | (22.529) | (9.944) | (1.580) | **(55.892)** |
| Discount rate adjustments | (14.134) | (4.513) | (23.705) | (10.764) | (1.815) | **(54.931)** |
| Interest costs | 14.432 | 4.716 | 30.348 | 9.245 | 1.903 | **60.644** |
| Other changes | 65.329 | - | (457) | (283) | - | **64.589** |
| **As at 31 December 2013** | **444.696** | **129.567** | **486.144** | **236.369** | **45.617** | **1.342.393** |
| **Short-term** | **48.656** | **8.329** | **24.431** | **10.116** | **2.024** | **93.556** |
| **Long-term** | **396.040** | **121.238** | **461.713** | **226.253** | **43.593** | **1.248.837** |

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**Period ended 31 December 2012**

| | Retirement, pension and other benefits provisions | Coal allowance | Energy tariff | Social Fund | Medical care | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2012** | **329.903** | **118.867** | **602.300** | **211.519** | **37.723** | **1.300.312** |
| Changes in the composition of the Group | (732) | - | - | (484) | - | **(1.216)** |
| Current service costs | 12.643 | 1.089 | 9.742 | 4.392 | 644 | **28.510** |
| Actuarial gains and losses excluding discount rate adjustment | (34.183) | (16.065) | (22.743) | (26.090) | (2.942) | **(102.023)** |
| Benefits paid | (18.804) | (7.165) | (21.788) | (9.464) | (1.372) | **(58.593)** |
| Discount rate adjustments | 59.359 | 17.968 | 172.854 | 45.905 | 8.122 | **304.208** |
| Interest costs | 18.291 | 6.651 | 33.995 | 11.795 | 2.059 | **72.791** |
| Other changes | 1.137 | - | 7.444 | (13) | (440) | **8.128** |
| **As at 31 December 2012** | **367.614** | **121.345** | **781.804** | **237.560** | **43.794** | **1.552.117** |
| **Short-term** | **40.495** | **7.878** | **25.908** | **9.590** | **1.751** | **85.622** |
| **Long-term** | **327.119** | **113.467** | **755.896** | **227.970** | **42.043** | **1.466.495** |

Key actuarial assumptions related to the calculation of provisions as at the balance sheet date are as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Discount rate (%) | 4,35 | 4,0 |
| Expected inflation rate (%) | 2,37 | 2,5 |
| Employee turnover (%) | 0,25-8,83 | 0,47-8,56 |
| Expected salary growth rate (%) | 1,5-3,0 | 2,5-4,5 |
| Expected medical benefits costs growth rate (%) | 0-2,9 | 2,2-3,5 |
| Expected Social Fund (ZFŚS) allowance rate (%) | 3,5-5,0 | 3,5-5,0 |

Based on information obtained from an actuary, the PGE Capital Group assesses that the influence of changes in assumptions on the value of provisions for retirement and pension benefits, coal allowance, social fund, medical care and jubilee awards (Note 35) would be as follows

- should the discount rate be higher by 1 percentage point (p.p.), relevant provisions would decrease by 9% and should the discount rate be lower by 1 p.p. the respective provisions would increase by 9%,
- should the growth rates be higher by 1 p.p., the respective provisions would increase by ca. 9% and should the growth rates be lower by 1 p.p., relevant provisions would decrease by 10%.

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## 35. Provisions

**Period ended 31 December 2013**

| | Post-employment benefits | Provisions for jubilee awards | Provisions for third-party claims | Provisions for non-contractual use of the property | Provisions for purchase of $CO_2$ emission rights | Provisions for employee claims | Provisions for recultivation costs | Provisions for scrapping of property, plant and equipment | Provisions for energy origin units held for redemption | Other provisions | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2013** *(restated)* | **1.552.117** | **989.948** | **204.761** | **91.259** | **162.859** | **14.275** | **2.075.960** | **83.454** | **751.295** | **478.145** | **6.404.073** |
| Changes in the composition of the Group | (52) | (684) | - | - | - | (10) | 25.838 | - | - | (2.494) | **22.598** |
| Costs of present employment | 32.545 | 45.950 | - | - | - | - | - | - | - | - | **78.495** |
| Actuarial gains and losses excluding discount rate adjustment | (256.627) | (14.746) | - | - | - | - | - | - | - | - | **(271.373)** |
| Revaluation of provision/ discount rate adjustments | (54.931) | (24.568) | - | - | - | - | (225.764) | - | - | - | **(305.263)** |
| Interest costs | 60.644 | 37.451 | - | - | - | - | 88.277 | 2.340 | - | - | **188.712** |
| Benefits paid/ provisions used | (55.892) | (93.950) | (196.269) | (869) | (158.167) | (836) | - | (21.433) | (1.177.773) | (247.985) | **(1.953.174)** |
| Raised during the year | - | - | 7.780 | 109.697 | 1.427.061 | 1.050 | 65.673 | 50 | 978.502 | 339.430 | **2.929.243** |
| Reversed | - | - | (7.422) | (39.351) | - | (7.861) | (36.466) | (926) | (156.593) | (73.913) | **(322.532)** |
| Other changes | 64.589 | 1.991 | - | 704 | - | (224) | 60.927 | - | - | (1.456) | **126.531** |
| **As at 31 December 2013** | **1.342.393** | **941.392** | **8.850** | **161.440** | **1.431.753** | **6.394** | **2.054.445** | **63.485** | **395.431** | **491.727** | **6.897.310** |
| **Short-term** | **93.556** | **96.710** | **8.850** | **37.237** | **1.431.753** | **6.194** | **-** | **17.664** | **395.431** | **347.851** | **2.435.246** |
| **Long-term** | **1.248.837** | **844.682** | **-** | **124.203** | **-** | **200** | **2.054.445** | **45.821** | **-** | **143.876** | **4.462.064** |

According to the current plans for recultivation of post-exploitation grounds, the Group estimates that relevant costs will be incurred in the years 2032-2081 (for PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Kopalnia Węgla Brunatnego Bełchatów) and in the years 2041-2090 (for PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Kopalnia Węgla Brunatnego Turów).

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## Period ended 31 December 2012

| _(restated)_ | Post-employment benefits | Provisions for jubilee awards | Provisions for third-party claims | Provisions for non-contractual use of the property | Provisions for purchase of $CO_2$ emission rights | Provisions for employee claims | Provisions for recultivation costs | Provisions for scrapping of property, plant and equipment | Provisions for energy origin units held for redemption | Other provisions | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2012** | **1.300.312** | **762.532** | **408.333** | **107.871** | **277.692** | **13.926** | **1.102.039** | **84.649** | **633.290** | **411.576** | **5.102.220** |
| Changes in the composition of the Group | (1.216) | (2.786) | - | - | - | - | - | - | - | (778) | **(4.780)** |
| Costs of present employment | 28.510 | 37.708 | - | - | - | - | - | - | - | - | **66.218** |
| Actuarial gains and losses excluding discount rate adjustment | (102.023) | 128.351 | - | - | - | - | - | - | - | - | **26.328** |
| Revaluation of provision/ discount rate adjustments | 304.208 | 115.354 | - | - | - | - | 886.201 | - | - | - | **1.305.763** |
| Interest costs | 72.791 | 40.400 | - | - | - | - | 40.926 | 4.142 | - | 6 | **158.265** |
| Benefits paid/ provisions used | (58.593) | (92.960) | - | (2.057) | (241.921) | (1.179) | (602) | (5.083) | (969.297) | (448.908) | **(1.820.600)** |
| Raised during the year | - | - | 1.070 | 45.846 | 127.088 | 7.675 | 43.068 | 150 | 1.108.870 | 586.090 | **1.919.857** |
| Reversed | - | - | (204.642) | (57.595) | - | (4.961) | - | (404) | (22.537) | (75.244) | **(365.383)** |
| Other changes | 8.128 | 1.349 | - | (2.806) | - | (1.186) | 4.328 | - | 969 | 5.403 | **16.185** |
| **As at 31 December 2012** | **1.552.117** | **989.948** | **204.761** | **91.259** | **162.859** | **14.275** | **2.075.960** | **83.454** | **751.295** | **478.145** | **6.404.073** |
| **Short-term** | **85.622** | **98.459** | **204.761** | **37.853** | **162.859** | **9.659** | **-** | **23.035** | **751.295** | **335.116** | **1.708.659** |
| **Long-term** | **1.466.495** | **891.489** | **-** | **53.406** | **-** | **4.616** | **2.075.960** | **60.419** | **-** | **143.029** | **4.695.414** |

### 35.1. Provisions for post employment benefits

The amount of provisions disclosed in the financial statements results from the valuation prepared by the independent actuary and was described in note 34 to these financial statements.

### 35.2. Provisions for jubilee awards

According to the corporate remuneration system, the majority of employees of PGE Capital Group are entitled to jubilee awards. These awards are paid after an employee has worked a specified period of time. The amount of awards paid depends on the period of employment and the average remuneration of the employee. The entity recognizes a provision for future obligations from jubilee awards in order to recognize costs to the periods they refer to. The present value of these obligations is measured by an independent actuary at each balance sheet date.

### 35.3. Provisions for liability due to carbon dioxide emission rights

As a rule, according to updated accounting policy entities from PGE Capital Group record the provision for liability due to carbon dioxide emission rights in relation to shortage of $CO_2$ emission rights received free of charge. The provision is calculated taking into account the most accurate estimation of the expenditures needed to fulfill current obligation as at balance sheet date, including recorded EUA's value received as free of charge and acquired EUA, and also possibility to cover any shortage with CER or ERU certificates.

As described in Note 28, according to regulations i.a. Directive 2003/87/WE of the European Parliament and of the Council, PGE Capital Group is entitled to receive free of charge $CO_2$ emission rights in connection to incurred investment expenditures reported to National Investment Plan. However due to the fact that as of the balance sheet date, relevant regulations have not been adopted and the allocation of free of charge emission rights owed to entities of the PGE Capital Group for 2013 was not established, calculation of provision as of 31 December 2013 did not include the rights due to Group entities. Lack of taking into account of these rights caused the increase of provision by PLN 751 million.

### 35.4. Provisions for third-party claims

Provisions presented under this position relate to dispute of the parent company with Alpiq Holding AG as at 1 January 2013. The issue was described in note 38.4 to these financial statements.

### 35.5. Provisions for non-contracted use of property

Entities of the PGE Capital Group raise provisions for damages related to a non-agreed usage of property. This issue mainly relates to distribution company, which own distribution networks. As at the reporting date the provision amounted to approximately PLN 162 million (of which 62 million relate to litigations). In comparable period the value of the provision amounted to PLN 91 million, of which 80 million related to litigations.

## 35.6. Provisions for recultivation and liquidation costs

**Provision for recultivation of mine excavation**

According to regulations of the Act of 3 February 1995 on Agricultural and Forest grounds and regulations of the Act of 4 February 1994 on Geological and Mining Law, the entrepreneur causing loss or reduction in value of the ground is obliged to recultivate the ground at the entrepreneur's expense.

Kopalnia Węgla Brunatnego Bełchatów and Kopalnia Węgla Brunatnego Turów (lignite coal mines) which belong to PGE Górnictwo i Energetyka Konwencjonalna S.A. raise provisions for recultivation of final mine excavations. Costs of recultivation of final excavations are reflected and settled throughout the period of the exploitation of mines, with the use of the unit-of-production method based on the rate of lignite excavation. The provision as at the end of the period is calculated as a product of the discounted total cost of recultivation divided by the rate of lignite excavation. Mine Liquidation Fund which is created in accordance with Geological and Mining Law constitutes part of the provision.

**Provision for recultivation of ash storages**

The PGE Group producers raise provisions for recultivation of ash storages. The provision is created with the use of the natural method - proportionally as the storage is filled. The provision at the end of each year is calculated as a product of the discounted value of total recultivation costs for the given year and the proportion in which the storage is filled.

**Provisions for recultivation of post-constructions grounds of wind farms**

The companies which own wind farms create provision for recultivation of post-constructions grounds of wind farms. Provision is created in the moment of commissioning of farm in the whole value and cover estimated costs of dismantling and removal of remaining devices, construction and buildings and also bringing grounds to condition prior the commissioning the farm as close as possible.

**Scrapping of property, plant and equipment**

The provision for scrapping of property, plant and equipment relates to assets of PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów (Power Plant Turów). The obligation to scrap assets and recultivate the area results from „The integrated permission for running electric energy and heat energy producing installation" („Pozwolenie zintegrowane na prowadzenie instalacji produkującej energię elektryczną oraz energię cieplną") in which the restitution of the area was specified. As at the balance sheet date, the value of provision amounts to PLN 63.5 million (PLN 83.5 million in comparable period).

## 35.7. Provision for energy origin units held for redemption

The companies from the PGE Capital Group (mainly PGE Obrót SA) raise provision for the amount of energy origin units related to sales in the current or previous reporting periods, in amount of certificates not redeemed till the balance sheet date. The provision as at 31 December 2013 amounts to PLN 395 million and as at the 31 December 2012 amounts to PLN 751 million.

## 35.8. Other provisions

**Dispute concerning the scope of taxation with real estate tax**

The main position of other provisions is a provision covering both reported and declared claims relating to real estate tax. The matter of dispute was described in detail in note 40 of these consolidated financial statements.

**Provisions for litigation created by Exatel SA**

At the balance sheet date, a subsidiary of Exatel S.A. estimated the risk associated with business including the ongoing litigations, losses on contracts in progress, judicial proceedings in matters of employee and likely costs due to penalties and damages. As at the date of the financial statements for the year 2013 the Management Board of Exatel S.A. estimated level of risk to be PLN 50 million (57 million in 2012).

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**Dispute concerning the redemption of energy origin units**

PGE Obrót S.A. is a party to the proceedings against the Energy Regulatory Office, related to an obligation of redemption of energy origin units – so called green and red certificates. As at 31 December 2013 the provision created to cover possible penalties amounted to PLN 18 million (PLN 21 million in comparable period). The final value of possible penalties will depend on the results of the court proceedings and may be subject to change.

**Annual bonus**

Employees of PGE Capital Group are entitled to the "annual bonus" paid on the basis of the Corporate Collective Labour Agreement or regulations applicable to individual entities. As at 31 December 2013 created provisions amounted to approximately PLN 103 million and as at 31 December 2012 approximately PLN 79 million.

**Provision for unused annual holiday leave**

The Group creates provision for employee benefits related to unused annual holiday leave. As at the balance sheet date the provision amounted to PLN 105 million (PLN 87 million in comparable period).
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## 36. Other non-financial liabilities

The non-financial liabilities for the years ended 31 December 2012 and 31 December 2011 are as follows:

| | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Liabilities from dividends | 8.658 | 9.773 |
| Excise tax | 101.601 | 103.229 |
| VAT tax | 393.601 | 316.924 |
| Liabilities from social insurances | 247.235 | 211.410 |
| Personal income tax | 79.101 | 81.497 |
| Environmental fees | 281.431 | 140.835 |
| Payroll | 280.949 | 307.679 |
| Liabilities due to Voluntary Leave Program | 30.832 | 110.393 |
| Advances for deliveries | 192.033 | 212.274 |
| Other | 57.284 | 63.979 |
| **Total** | **1.672.725** | **1.557.993** |

The "other" position comprises mainly payments to the Social Fund, the Employment Pension Program and to the State Fund for Rehabilitation of Persons with Disabilities.

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## 37. Deferred income and government grants

| Deferred income and government grants | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| **Long-term:** | | |
| Government grants | 354.200 | 264.945 |
| Other deferred income | 826.701 | 859.809 |
| **Long-term deferred income and government grants** | **1.180.901** | **1.124.754** |
| **Short-term:** | | |
| Government grants | 17.341 | 9.734 |
| Other deferred income | 79.987 | 113.667 |
| **Short-term deferred income and government grants** | **97.328** | **123.401** |

| Government grants | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Redemption of loans from environmental funds | 53.755 | 55.197 |
| Grants received from NFOŚ i GW (environmental funds) | 164.732 | 101.082 |
| Grants from EU for CCS | 84.159 | 85.492 |
| Other government grants | 68.895 | 32.908 |
| **Total deferred income, including:** | **371.541** | **274.679** |
| **Long-term** | **354.200** | **264.945** |
| **Short-term** | **17.341** | **9.734** |

| Other deferred income | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Property, plant and equipment acquired free of charge | 137.812 | 155.094 |
| Subsidies received and connection fees | 689.739 | 760.972 |
| Lease income | 38.859 | 2.704 |
| Other deferred income | 40.278 | 54.706 |
| **Total deferred income, including:** | **906.688** | **973.476** |
| **Long-term** | **826.701** | **859.809** |
| **Short-term** | **79.987** | **113.667** |

Subsidies received in position other deferred income comprise mainly fees received until 1 July 2009 for connection to power network, which are presented as government grants to property, plant and equipment in these consolidated financial statements. Change in presentation of these fees is associated with the implementation of IFRIC 18 *Transfers of Assets from Customers*.

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# 38. Contingent liabilities and receivables. Legal claims

## 38.1. Contingent liabilities

| Contingent liabilities | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| Liabilities due to bank guarantees | 2.536 | 250 |
| Contingent return of grants from environmental funds | 270.732 | 294.304 |
| Legal claims | 10.999 | 8.282 |
| Contractual fines and penalties | 12.481 | 14.190 |
| Employee claims | 14 | 52.040 |
| Compensations related to non-agreed usage of property | - | 2.558 |
| Other contingent liabilities | 22.902 | 101.486 |
| **Total contingent liabilities** | **319.664** | **473.110** |

**Contingent return of grants from environmental funds**

Liabilities present the value of probable future reimbursements of funds received by PGE Group companies from environmental funds for the particular investments. The funds will be reimbursed, if the investment for which they were granted, will not bring the expected environmental effect.

**Claims related to contractual fines and penalties**

The contingent liability comprises mainly accrued contractual fines relating to delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). In February 2012 the company committed to the Municipality of Gryfino to accomplish two investments of total value not less than PLN 7.733 thousand until the end of year 2015. Failure to realize investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

**Other contingent liabilities**

The other contingent liabilities comprise the compensation in the amount of PLN 15 million for damages caused by unforeseen events and value of potential cash fines in the amount of almost PLN 7 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some of PGE Capital Group companies).

## 38.2. Other issues related to contingent liabilities

**Non-agreed usage of property**

Due to the nature of its activities the companies of the Group use many properties, on which the buildings and structures or devices used to the transmission of the electricity are based. In respect of many properties there are doubts as to the title of usage. In the case of property, for which the PGE Capital Group companies have no legal title or the title is doubtful, there is a risk of claims by their owners, the alleged owner or other person for compensation in respect of non-agreed usage of these properties. Entities of PGE Capital Group create the relevant provision to cover claims under court proceedings or in cases where the application claims court is likely. However, there are disputes at an early stage in the Group as well as there is a possibility of increased number of disputes in the future. Impact on this issue may also have the planned Act on transmission corridors.

**Contractual liabilities related to the purchase of commodities (fuel)**

According to the concluded agreements on the purchase of fuels (mainly coal and gas), the PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular hours and months. If an entity does not collect a minimum volume of fuel specified in the contract, it is obliged to pay appropriate fee (the amount of gas fuel not collected by power plants but paid up, may be collected within the next three contractual years). In the opinion of the Group, the terms and conditions of fuel deliveries do not differ from other fuel deliveries conditions on the Polish market.

**The issue of compensation for conversion of shares**

Former shareholders of PGE Górnictwo i Energetyka S.A. are presenting to the courts a motion to summon PGE S.A. to attempt a settlement for payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during consolidation process that took place in 2010. The total value of claims resulting from the settlement directed by the former shareholders of PGE Górnictwo i Energetyka amounts to nearly PLN 8 million.

Independently from the settlement attempts stated above, Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) called for two trial settlements to the courts. The company demands from PGE S.A. damages in a total amount of almost PLN 371 million in connection with incorrectly (in their opinion) determining the exchange ratio of shares in the merger between PGE Górnictwo i Energetyka S.A. with PGE S.A.

PGE S.A. does not recognize the claims of Socrates Investment S.A. and other shareholders who call for trial settlements. These claims are undocumented and unfounded. The value of the shares of which were subject to the process of consolidation (merger) were valued by the company PwC. The plan of the merger, including the share exchange ratio of the company's shares which was merged with PGE S.A., was tested for correctness and fairness by the court-appointed expert, who found no irregularities. The independent court registered the merger. The former shareholders appearing before the courts have not established the basis on which, how nor based on what data or documents their claims were calculated.

In these cases, PGE S.A. refuses any settlements. It is to be noted, that there is a risk that Socrates Investment S.A. and other former shareholders will take a legal action lawsuit to receive payment which amounts to previously claimed in the proceedings of settlement attempts. For the reported claims, the Company has not created a provision.

### 38.3. Contingent receivables

As at balance sheet date, the PGE Capital Group did not have material contingent receivables. Contingent receivables related mainly to financing received from the National Fund for Environmental Protection and Water Management regarding realization of the project of construction of cogeneration unit, reimbursement of VAT and registered claims for compensations from insurers relating to fortuitous events.

## 38.4. Other legal claims and court issues

**PGE - ATEL (presently Alpiq Holding AG) dispute**

Since 2009 PGE S.A. was a party to arbitration proceedings with Alpiq. The proceedings were held before the Court of Arbitration in Vienna. The subject of the arbitration proceedings was the claim by Alpiq, raised against PGE S.A., resulting from the default on an electricity supply agreement signed on 28 October 1997. Claims submitted by Atel in a supplemented (rephrased) lawsuit dated 4 October 2010 amounted to EUR 155 million. After replacing the previous pleadings (the so-called post-hearing briefs) Apliq finally demanded an amount around EUR 168 million plus interest. The arbitration proceedings were held in written form and were based on the exchange of pleadings between the parties and presentation of written statements of witnesses, experts and parties as evidence to the Tribunal.

On 12 September 2012 the Tribunal issued a decision on the matter, by which PGE S.A. is obliged to pay Alpiq the amount of EUR 43.204 thousand, plus accrued interest.

The Company and Alpiq reached an agreement on the implementation of the above judgment. According to this agreement, the Company was to pay the principal amount along with interest to the date of judgment, less the costs of arbitration awarded against Alpiq to PGE S.A., of EUR 22.898 thousand each. The first payment was paid in April 2013, and the second in December 2013.

**Legal issues related to the Consolidation Programme**

As a result of the Consolidation Programme, on 3 and 16 August 2010 extraordinary general meetings of certain PGE Group entities passed resolutions to merge (merger resolutions). Few shareholders of these companies filed appeals against the above mentioned resolutions for determining their invalidity and possibly demanding that the resolutions be repealed. The above claims were made with reference to the merger resolution adopted by PGE Elektrownia Opole S.A. and merger resolutions adopted by some companies merged within the mining and conventional energy business line (PGE Górnictwo i Energetyka Konwencjonalna S.A. conducts these cases), as well as a merger resolution adopted by shareholders of PGE Górnictwo i Energetyka S.A. (case conducted by PGE S.A.).

All sentences have been issued and courts confirmed that the claims of the shareholders were unfounded and the actual aim of these shareholders is to question the parity of shares, which is unacceptable on the basis of procedure of appeals against resolutions.

Shareholders, using their procedural rights, filed cassation complaints against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Elektrownia Opole S.A. and PGE S.A. In case against PGE Górnictwo i Energetyka Konwencjonalna S.A. the Supreme Court refused to recognize cassation appeals, or ruled to dismiss the shareholders' cassation appeals.

# 39. Future investment commitments

At the date preparation of these financial statements, the largest contemplated investment at PGE Group is the construction of power units 5 and 6 at PGE Górnictwo i Energetyka Konwencjonalna S.A., Oddział Elektrownia Opole (Power Plant Opole). According to the contract signed with the General Contractor, the value of this project is PLN 9.397 million, including the first part of advance payment already made of PLN 188 million. On 31 January 2014 the General Contractor has received Start of Work Order. The investment is described in Note 45.4 to these financial statements.

Beyond the above mentioned investment as at 31 December 2013, the PGE Capital Group was committed to incur capital expenditures on property, plant and equipment in the amount of PLN 5.096 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and a purchase of machinery and equipment. Significant future investment commitments concern:

- PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów (Power Plant Belchatów) – reconstruction and modernization of blocks, including flue gas desulphurization, in for the total amount of ca. PLN 2.721 million,
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrociepłownia Gorzów (Heat and Power Plant Gorzów) – construction of new steam – gas block including service agreement and connection to transmission network – about PLN 688 million
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów, Elektrownia Opole i Elektrownia Dolna Odra (Power Plants Turów, Opole and Dolna Odra) – investment aiming to reduce nitric oxide emission – about PLN 632 million.
- investment commitments of PGE Dystrybucja S.A. related to network assets of the total value of approx. PLN 552 million.

## 40. Tax settlements

Tax obligations and rights are specified in the Constitution of the Republic of Poland, tax regulations and rectified international agreements. According to the tax ordinance, tax is defined as public, unpaid, obligatory and non-returnable cash liability toward the State Treasury, provincial or other regional authorities resulting from tax regulation. Taking into account the subject criterion, current taxes in Poland can be divided into five groups: taxation of incomes, taxation of turnover, taxation of assets, taxation of activities and other, not classified elsewhere.

From the point of view of economic units, the most important is the taxation of incomes (corporate income tax), taxation of turnover (value added tax, excise tax) followed by taxation of assets (real estate tax and vehicle tax). Other payments classified as quasi – taxes cannot be omitted. Among these there are social security charges.

Basic tax rates in 2013 were as follows: corporate income tax – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to tax exemption.

The tax system in Poland is characterized by a significant changeability of tax regulations, their complexity, high potential fees foreseen in case of commitment of a tax crime or violation as well as general pro-tax approach of tax authorities. Tax settlements and other activity areas subject to regulations (customs or currency controls) can be subject to controls of respective authorities that are entitled to issue fines and penalties with penalty interest. Controls may cover tax settlements for the period of 5 years after the end of calendar year in which the tax was due.

The significant proceedings regarding public and state settlement within the Group entities are presented below.

**Excise tax**

As a result of non-compliance of Polish legal regulations on excise tax on electricity with the European Union law, on 11 February 2009, power plants and heat and power stations of PGE Group filed adjusted excise tax declarations together with motions stating surplus payments of excise tax in the years 2006-2008 and the months January and February 2009. The total value of the surplus declared (without the cost of interest) in the subject motions amounted to ca. PLN 3.4 billion.

The issue of excise tax refund for the period currently is a matter of dispute between producers and tax authorities. Taking into account a significant uncertainty related to final court decision on the above described matter, the Group does not recognize any financial results of possible refund of the excise tax surplus payment in the consolidated financial statements and do not consider this potential return as contingent receivable.

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**Real estate tax**

There are tax proceedings carried out in respect of real estate tax in PGE Group power stations. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and technical machinery should be taxed as autonomous constructions.

Tax proceedings are currently at various levels in front of first instance authorities (vogt, mayor), local government board of appeals and administrative courts. Considering the pending disputes, PGE Group established an appropriate provision.

## 41. Information on related parties

Transactions with related entities are concluded using market prices for provided goods, products and services or are based on the cost of manufacturing.

### 41.1. Associates

The information on investments in associates accounted for using the equity method is presented in note 25 of these financial statements

| | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| Sales to associates | 6.993 | 6.481 |
| Purchase from associates | 338 | 333 |
| Trade receivables from associates | 1.018 | 1.038 |
| Trade liabilities towards associates | 80 | 50 |

### 41.2. Transactions with State Treasury entities

The State Treasury is the dominant shareholder of PGE S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are recognized as related entities. PGE Capital Group entities identify in detail transactions with approx. 40 of the biggest State Treasury related companies. The total value of transactions with such entities is presented in the table below.

| | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| Sales to State Treasury entities | 4.017.311 | 2.422.095 |
| Purchase from State Treasury entities | 3.673.036 | 4.647.636 |
| Trade receivables from State Treasury entities | 523.118 | 260.621 |
| *Including overdue* | *3.530* | *855* |
| Trade liabilities towards State Treasury entities | 351.281 | 545.675 |
| *Including overdue* | *221* | *654* |

Increase in sales to State Treasury entities relates to realization of sale agreement with Energa Obrót S.A. concerning electricity. Moreover, the largest transactions with the participation of State Treasury companies involve PSE-Operator S.A., public utility power generating plants, electricity trading companies, retailers involved in sales and purchases of coal from Polish mines.

Moreover, PGE Group closes significant transactions on the energy market via the Towarowa Giełda Energii S.A. (Polish Power Exchange). However, because this entity is only engaged in organization of exchange trading activities, purchases and sales transacted through this entity are not recognized as transactions with related parties.

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### 41.3. Key management personnel remuneration

The key management comprises the Management Boards and Supervisory Boards of the parent company and of group entities included in main business lines, as well as: PGE Energia Jądrowa S.A., PGE EJ1 sp. z o.o., PGE Systemy S.A. and Exatel S.A.

| | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| Short-term employee benefits (salaries and salary related costs) | 25.715 | 22.945 |
| Post-employment and termination benefits | 9.755 | 6.641 |
| **Remuneration of key management personnel** | **35.470** | **29.586** |
| Remuneration of key management personnel of entities of non-core operations | 18.064 | 17.925 |
| **Total remuneration of key management personnel** | **53.534** | **47.511** |

| | Period ended 31 December 2013 | Period ended 31 December 2012 |
|---|---|---|
| The Management Board of the parent company | 13.254 | 8.473 |
| The Supervisory Board of the parent company | 282 | 325 |
| The Management Boards – subsidiaries | 20.993 | 19.655 |
| The Supervisory Boards – subsidiaries | 941 | 1.133 |
| **Remuneration of key management personnel** | **35.470** | **29.586** |
| Remuneration of key management personnel of entities of non-core operations | 18.064 | 17.925 |
| **Total remuneration of key management personnel** | **53.534** | **47.511** |

The Members of the Management Boards of some of the Group companies are employed on the basis of civil law contracts for management (Management contracts). The mentioned remuneration is included in other costs by type in Note 15.2 *Costs by type and function* of these financial statements.

The increase of remuneration expense of the Management Board of the parent company in the period ended 31 December 2013 results mainly from the provision for the remuneration of former Management Board Members for non-competition covenant. Remunerations will be paid in 2014.

Detailed information about the remuneration of the Management Board and the Supervisory Board of the parent company is presented in note 6.3.1 and 6.3.2 of the Management Report on Activities of PGE Capital Group.

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# 42. Financial instruments

## 42.1. Amount in the statement of financial position and fair value of categories and classes of financial instruments

| | | Carrying amount | | | | | |
|---|---|---|---|---|---|---|---|
| | | As at 31 December 2013 | | | As at 31 December 2012 | | |
| **Categories and classes of financial assets:** | | **Long-term** | **Short-term** | **Total** | **Long-term** | **Short-term** | **Total** |
| **1. Held-to-maturity investments** | | - | - | - | - | - | - |
| **2. Loans and receivables:** | | | | | | | |
| (i) Trade receivables | a) | - | 2.192.088 | **2.192.088** | - | 1.894.733 | **1.894.733** |
| (ii) Deposits and investments | b) | - | 99.774 | **99.774** | - | 10.217 | **10.217** |
| (iii) Other financial loans and receivables | | 391.947 | 803.305 | **1.195.252** | 329.287 | 757.870 | **1.087.157** |
| ▪ Bonds, bill and notes receivable acquired | b) | 357.518 | - | **357.518** | 321.341 | - | **321.341** |
| ▪ Originated loans | b) | 132 | 177 | **309** | 2.681 | 336 | **3.017** |
| ▪ Other financial receivables | b) | 34.297 | 128.533 | **162.830** | 5.265 | 143.386 | **148.651** |
| ▪ LTC compensations | b) | - | 674.595 | **674.595** | - | 614.148 | **614.148** |
| **Total loans and receivables:** | | **391.947** | **3.095.167** | **3.487.114** | **329.287** | **2.662.820** | **2.992.107** |
| **3. Available-for-sale financial assets, including:** | | | | | | | |
| (i) Shares in entities not quoted on active markets | | 24.786 | 4.910 | **29.696** | 33.242 | 550 | **33.792** |
| (ii) Shares quoted on active markets | | - | - | **-** | 14 | 90 | **104** |
| (iii) Investment funds' units | | - | 4.115 | **4.115** | - | 3.737 | **3.737** |
| **Total available-for-sale financial assets:** | | **24.786** | **9.025** | **33.811** | **33.256** | **4.377** | **37.633** |
| **4. Financial assets at fair value through profit or loss** | | | | | | | |
| (i) Derivatives | | - | 104.248 | **104.248** | - | 18.833 | **18.833** |
| **5. Cash and cash equivalents** | | - | 5.951.964 | **5.951.964** | - | 4.795.493 | **4.795.493** |
| **Financial assets not included in IAS 39** | | | | | | | |
| (i) Lease receivables | b) | 23 | 18 | **41** | 108 | 113 | **221** |

a) Long-term trade receivables are presented in the statement of financial position as "Other long-term financial assets". Short-term trade receivables are presented in the statement of financial position as "Trade receivables".

b) These are presented in the statement of financial position as "Loans and receivables".

The carrying value of financial instruments measured at amortized cost is a reasonable estimate of their fair value.

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| | | Carrying amount | | | | | |
|---|---|---|---|---|---|---|---|
| | | As at 31 December 2013 | | | As at 31 December 2012 | | |
| **Categories and classes of financial assets:** | | **Long-term** | **Short-term** | **Total** | **Long-term** | **Short-term** | **Total** |
| **1. Financial liabilities at fair value through profit or loss held for trading:** | | | | | | | |
| (i) Derivatives | | - | 23.725 | **23.725** | - | 36.513 | **36.513** |
| **Total financial liabilities at fair value through profit or loss:** | | **-** | **23.725** | **23.725** | **-** | **36.513** | **36.513** |
| **2. Financial liabilities at amortized cost:** | | | | | | | |
| (i) Interest bearing loans and credits | a) | 992.013 | 525.552 | **1.517.565** | 1.082.987 | 809.234 | **1.892.221** |
| (ii) Bonds issued | a) | 1.000.000 | 374 | **1.000.374** | - | - | **-** |
| (iii) Trade liabilities | | - | 934.834 | **934.834** | - | 1.201.870 | **1.201.870** |
| (iv) LTC compensations | b) | - | 816.605 | **816.605** | - | 393.568 | **393.568** |
| (v) Other financial liabilities at amortized cost | b) | 10.665 | 1.127.477 | **1.138.142** | 22.038 | 1.152.752 | **1.174.790** |
| **Total financial liabilities at amortized cost:** | | **2.002.678** | **3.404.842** | **5.407.520** | **1.105.025** | **3.557.424** | **4.662.449** |
| **3. Other financial liabilities not included in IAS 39** | | | | | | | |
| (i) Liabilities from finance lease and lease agreements with option of purchase | a) | 1.847 | 1.905 | **3.752** | 2.257 | 2.213 | **4.470** |
| **Total other financial liabilities:** | | **1.847** | **1.905** | **3.752** | **2.257** | **2.213** | **4.470** |

a) These are presented in the statement of financial position as "Interest bearing loans and borrowings"

b) These are presented in the statement of financial position as "Other financial liabilities"

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## 42.2. Statement of comprehensive income

There is combined effect of the various categories of financial instruments on the financial income and expenses presented below.

| Period ended 31 December 2013 | Assets and liabilities at fair value through profit or loss and cash | Available-for-sale financial assets | Held-to-maturity financial assets | Loans and receivables | Financial liabilities at amortized cost | Total financial instruments by class |
|---|---|---|---|---|---|---|
| Dividends | - | 2.479 | - | - | - | **2.479** |
| Gains / (losses) from interest | 131.106 | 1.664 | | 76.070 | (56.814) | **152.026** |
| Gains / (losses) from foreign exchange | 449 | - | - | 3.791 | (2.240) | **2.000** |
| Reversal of impairment allowances / increase of value* | 53.740 | 377 | - | 19.494 | - | **73.611** |
| Creation of impairment allowances / decrease of value* | (170) | - | - | (72.808) | - | **(72.978)** |
| Gain / (loss) on investment disposal | - | 13.922 | - | - | - | **13.922** |
| **Total profit / (loss)** | **185.125** | **18.442** | **-** | **26.547** | **(59.054)** | **171.060** |

| Period ended 31 December 2012 | Assets and liabilities at fair value through profit or loss and cash | Available-for-sale financial assets | Held-to-maturity financial assets | Loans and receivables | Financial liabilities at amortized cost | Total financial instruments by class |
|---|---|---|---|---|---|---|
| Dividends | - | 3.944 | - | - | - | **3.944** |
| Gains / (losses) from interest | 262.352 | 120 | - | 114.585 | (69.031) | **308.026** |
| Gains / (losses) from foreign exchange | (19.131) | 2.272 | - | (29.473) | 94.350 | **48.018** |
| Reversal of impairment allowances / increase of value* | 17.361 | 681 | - | 32.559 | 16 | **50.617** |
| Creation of impairment allowances / decrease of value* | - | (65.065) | - | (69.193) | - | **(134.258)** |
| Gain / (loss) on investment disposal | - | 58.285 | - | - | - | **58.285** |
| **Total profit / (loss)** | **260.582** | **237** | **-** | **48.478** | **25.335** | **334.632** |

*) the position includes the creation and release of receivables impairment allowances presented in other operating income / expenses

During the period ended 31 December 2013, the amount of PLN 321 thousand, net of deferred tax, related to a measurement of available-for-sale financial assets was reflected in other comprehensive income.

## 42.3. Fair value of financial instruments

The book value of the following assets and liabilities represents a reasonable estimate of their fair value:

- loans and receivables and financial liabilities at amortized cost,
- available-for-sale financial assets except for shares in entities not quoted on an active markets,
- financial assets and liabilities at fair value through profit or loss.

### 42.3.1. Methods of measurement to fair value of financial instruments recognized in the statement of financial position at fair value (fair value hierarchy)

**Instruments not quoted on active markets, for which the fair value can be estimated reliably**

Fair value of instruments not quoted on active markets is measured by the Group by applying an appropriate valuation method as long as a reliable measurement is possible with the use of prices from the most recent transactions conducted under standard market rules; a comparison with prices from other instruments' active markets, which are essentially identical; analysis of discounted cash flows and other methods/techniques of measurement commonly used on the market, suitable for particular specifics and characteristics of a measured financial instrument and the situation of the issuer (drawer).

**Inventories**

The Company has the greenhouse gases emission rights, some of which are acquired in order to realize profits from fluctuations in market prices. This part of the emission allowances is recognized in inventories at fair value less costs of disposal, decreases are measured by detailed identification. The fair value is determined based on the market quotations (Level 1).

**Derivatives**

The Group measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, forward and volatility curves for currencies and commodities derived from active markets. The fair value of derivative instruments is determined based on discounted future cash flows from the transactions, calculated based on the difference between the forward rate and transaction. Forward exchange rates are not modeled as a separate risk factor, but derived from the spot rate and forward interest rate for foreign currencies in relation to PLN.

Derivatives are presented as assets when their valuation is positive and as liabilities when negative valuation. Gains and losses arising from changes in value are recognized in profit or loss of the reporting year.

In the category of financial assets at fair value through profit, the Group presents derivatives related to the greenhouse gases emission rights - foreign exchange and commodities - items shown in the separate financial statements of PGE Polska Grupa Energetycza S.A. (Level 2). In the category of financial liabilities at fair value through profit the Group presents hedging IRS – swap in PGE Górnictwo i Energetyka Konwencjonalna S.A., Oddział Elektrownia Turów (Level 2) and currency forwards in PGE Polska Grupa Energetyczna S.A. (Level 2).

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| | As at 31 December 2013 | | As at 31 December 2012 | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| **Inventories** | **246.431** | **-** | **194 207** | **-** |
| **Financial assets** | **-** | **104.248** | **-** | **18.833** |
| - commodity forward | - | 95.696 | - | 13.307 |
| - FX forward | - | 8.552 | - | 5.526 |
| **Financial Liabilities** | **-** | **23.725** | **-** | **36.513** |
| - FX forward | - | 1.046 | - | 148 |
| - swap | - | 22.679 | - | 36.365 |

### 42.3.2. Financial instruments quoted on active markets (shares, bonds)

Fair value of shares and bonds listed on a stock exchange was measured on the basis of the closing rate of these financial instruments, published on the Internet page of the Giełda Papierów Wartościowych S.A. (Warsaw Stock Exchange) as at the balance sheet date.

### 42.3.3 Financial instruments not quoted on active markets, for which the fair value can be estimated reliably

Fair value of instruments not quoted on active markets is measured by the Group by applying an appropriate valuation method as long as a reliable measurement is possible with the use of prices from the most recent transactions conducted under standard market rules; a comparison with prices from other instruments' active markets, which are essentially identical; analysis of discounted cash flows and other methods/techniques of measurement commonly used on the market, suitable for particular specifics and characteristics of a measured financial instrument and the situation of the issuer (drawer).

Fair value of the Group's financial instruments not quoted on active markets is based on valuation methods for which input data can only be observed market data, which are obtained from renowned providers of financial information.

Fair value of derivative transactions used by the Group is determined on the market yield curve of future interest rates. Interest rates are used for discounting future cash flows are calculated on the basis of quotations of IRS transactions on the inter-bank market, obtained from the Reuters agency.

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### 42.3.4 Financial instruments not quoted on active markets, for which fair value cannot be estimated reliably

Basic assets of the Group classified as available-for-sale financial assets are shares in entities not quoted on active markets. For shares in entities that are not listed, there is no active market nor is there a possibility of using measurement techniques for reliable valuation of given shares. Due to the above, the Group is not able to establish a range of reasonable fair value estimates. Such assets are measured at cost of acquisition less impairment losses.

## 42.4. Description of significant position within particular classes of financial instruments

### 42.4.1 Loans and receivables

| As at 31 December 2013 | Long-term | Short-term |
|---|---|---|
| **Trade receivables** | | **2.192.088** |
| **Other loans and financial receivables, within the scope of IAS 39:** | | |
| Deposits over 3 months | - | 99.774 |
| Bonds, bills and notes receivable acquired | 357.518 | - |
| Originated loans | 132 | 177 |
| Compensations related to LTC | - | 674.595 |
| Other financial receivables | 34.297 | 128.533 |
| **Other loans and financial receivables, within the scope of IAS 39, total:** | **391.947** | **903.079** |
| Lease receivables | 23 | 18 |
| **Other loans and financial receivables, Recognized in the financial statement, total** | **391.970** | **903.097** |

### Trade receivables

The main component of trade receivables are receivables recognized by the company PGE Obrót S.A. Receivables from households account for about 12% of the consolidated balance of trade receivables while receivables from corporate clients of PGE Obrót S.A. represent about 56% of the consolidated balance of trade receivables. On 31 December 2013 the share of the three largest customers of PGE Capital Group amounted to approximately 8% of the balance of this position of the financial statement.

Additional information relating to trade receivables is presented in Note 43.6 of these financial statements.

### Bonds, bills and notes receivable acquired

The position comprises of bonds issued by Autostrada Wielkopolska S.A. with a carrying value of PLN 357,518 thousand. Bonds issued by Autostrada Wielkopolska S.A. are not traded and their market quotations are not known. PGE S.A. performed an impairment test of these financial instruments as at 31 December 2012. The test was conducted on the basis of the financial model of the company, which assumed, among other things, winning of Autostrada Wielkopolska S.A. in a dispute with the State Treasury on compensation for exemption from tolls vehicles with vignette. Given the above assumptions, as a result of the test, there was no need to make the impairment. In 2013 the dispute between Autostrada Wielkopolska S.A. and the State Treasury has been resolved in favour of the company. In order to assess the value of investments as at 31 December 2013, PGE S.A. has evaluated impairment indicators and concluded that there is no need to re-perform the impairment test of owned bonds.

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**Compensations related to LTC**

The issue of compensations related to LTC has been detailed described in the Note 45.1 to these financial statements.

**Other financial receivables**

The value of other financial receivables consist mainly of receivables from bails, guarantee deposits, as well as receivables from the security of the balancing market and receivables from damages and penalties.

### 42.4.2 Available-for-sale financial assets

The most significant positions of available-for-sale financial assets are shares in entities not quoted on active markets. As at 31 December 2013, the largest items presented in the above category are shares of Energo-Utech, constituting 39% of the balance of the above items.

The Group is not able to reliably estimate the fair value of entities that are not quoted on active markets, therefore the value of these is presented in the purchase price adjusted by applicable impairment allowances.

### 42.4.3 Financial assets and liabilities at fair value through profit or loss

As at 31 December 2013 the Group recognized in above category financial instruments such as forward and swap.

| | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| **Financial assets at fair value through profit or loss** | **104.248** | **18.833** |
| - commodity forward | 95.696 | 13.307 |
| - FX forward | 8.552 | 5.526 |
| **Financial liabilities at fair value through profit or loss** | **23.725** | **36.513** |
| - FX forward | 1.046 | 148 |
| - swap | 22.679 | 36.365 |

The key position of financial instruments measured at fair value through profit or loss are the instruments related to emissions of $CO_2$. In the reporting period and in previous periods the Group entered into a series of transactions (forward) on the commodity and currency market. Their impact on the statement of comprehensive income is presented in note 15.5 of these financial statements. The maturity dates of these transactions are 2014-2016.

Additionally, the Group presented IRS hedge transactions, related to swap concluded by PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów as financial liabilities at fair value through profit or loss. These transactions were concluded on 18 September 2003 with Citibank N.A. London Branch and are meant to hedge variable (USD LIBOR 6m) interest rates on investment credits granted by Nordic Investment Bank in the value of USD 30, 40 and 80 million.

Based on the transaction, the bank – party to a contract pays to the entity interest based on a variable rate, and PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów pays to Citibank interest based on a fixed rate. Effectively the variable rate bank credit from Nordic Investment Bank was changed to fixed rate credit.

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List of instruments owned is presented in the table below:

| Type of hedge | Description of the hedging instrument | Fair value as at the balance sheet date | Description of the risk subject to the hedge |
|---|---|---|---|
| Cash flow hedge | IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,20%) for NIB 40 credit; half-year payments, amortized in accordance to credit repayment schedule | (879) | Currency credit in the amount of USD 40 million, interest rate LIBOR 6m+ 0,23% margin; half-yearly payments, |
| Cash flow hedge | IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,2050%) for NIB 30 credit; half-year payments, amortized in accordance to credit repayment schedule | (2.235) | Currency credit in the amount of USD 30 million, interest rate LIBOR 6m +0,18% margin; half-yearly payments |
| Cash flow hedge | IRS transaction - change of a variable interest rate USD LIBOR 6m to a fixed rate (5,61%) for NIB 80 credit; half-year payments, amortized in accordance to credit repayment schedule | (19.565) | Currency credit in the amount of USD 80 million, interest rate LIBOR 6m +0,86% margin; half-yearly payments |
| **Total** | | **(22.679)** | |

As the Group does not apply hedge accounting, the change in fair value of the above hedging instruments is recognized in consolidated profit or loss in the relevant reporting period.

The above mentioned agreements expire in years 2015, 2016 and 2019. The estimation of the fair value of IRS instruments is based on the comparison of discounted future cash flows, so-called "swap legs". The value of cash flows resulting from interest rate on "variable leg" of the transaction and the amount of the discount is calculated on the basis of the yield curve of market interest rates.

During the period ended 31 December 2013 the Group fair valued IRS transactions and recognized the negative accrued valuation of the IRS transaction amounting to PLN 13.686 thousand in the statement of comprehensive income. Furthermore, during the period the Group incurred the costs of swap payments accounting for PLN 11.949 thousand. Taking into account the long-term period of the transactions concluded and that the credit limit granted by the party of the transaction has not been exceeded, the entity did not take any actions aimed at closing the above described transaction.

### 42.4.4 Financial liabilities measured at amortized cost

#### 42.4.4.1 Interest bearing loans and credits

Loans and credits drawn as at 31 December 2013:

| Currency | Reference rate | Value of credit / loan as at reporting date (in thousands) in currency | in PLN | Due in the period: Within 1 year | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Above 5 years |
|---|---|---|---|---|---|---|---|---|---|
| PLN | Variable | 556.040 | 556.040 | 420.156 | 34.845 | 22.685 | 21.005 | 20.297 | 37.052 |
| | Fixed | 51.883 | 51.883 | 7.014 | 10.638 | 10.830 | 7.662 | 7.662 | 8.077 |
| **Total PLN** | | **607.923** | **607.923** | **427.170** | **45.483** | **33.515** | **28.667** | **27.959** | **45.129** |
| EURO | Variable | 148.424 | 615.542 | 7.810 | 24.052 | 62.185 | 66.202 | 96.529 | 358.764 |
| | Fixed | - | - | - | - | - | - | - | - |
| **Total EURO** | | **148.424** | **615.542** | **7.810** | **24.052** | **62.185** | **66.202** | **96.529** | **358.764** |
| USD | Variable | 63.081 | 190.001 | 45.425 | 39.156 | 33.132 | 24.096 | 24.096 | 24.096 |
| | Fixed | - | - | - | - | - | - | - | - |
| **Total USD** | | **63.081** | **190.001** | **45.425** | **39.156** | **33.132** | **24.096** | **24.096** | **24.096** |
| CHF | Variable | 30.784 | 104.099 | 45.147 | 37.070 | 21.882 | - | - | - |
| | Fixed | - | - | - | - | - | - | - | - |
| **Total CHF** | | **30.784** | **104.099** | **45.147** | **37.070** | **21.882** | **-** | **-** | **-** |
| **Total credits and loans** | | | **1.517.565** | **525.552** | **145.761** | **150.714** | **118.965** | **148.584** | **427.989** |

Loans and credits drawn as at 31 December 2012.

| Currency | Reference rate | Value of credit / loan as at reporting date (in thousands) in currency | in PLN | Due in the period: Within 1 year | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Above 5 years |
|---|---|---|---|---|---|---|---|---|---|
| PLN | Variable | 887.552 | 887.552 | 715.960 | 37.591 | 29.994 | 23.598 | 21.918 | 58.491 |
| | Fixed | 7.386 | 7.386 | 922 | 1.295 | 2.438 | 1.982 | 749 | - |
| **Total PLN** | | **894.938** | **894.938** | **716.882** | **38.886** | **32.432** | **25.580** | **22.667** | **58.491** |
| EURO | Variable | 150.000 | 605.702 | 176 | 12.644 | 33.420 | 49.785 | 72.819 | 436.858 |
| | Fixed | - | - | - | - | - | - | - | - |
| **Total EURO** | | **150.000** | **605.702** | **176** | **12.644** | **33.420** | **49.785** | **72.819** | **436.858** |
| USD | Variable | 78.123 | 242.152 | 46.876 | 46.494 | 40.295 | 34.096 | 24.797 | 49.594 |
| | Fixed | - | - | - | - | - | - | - | - |
| **Total USD** | | **78.123** | **242.152** | **46.876** | **46.494** | **40.295** | **34.096** | **24.797** | **49.594** |
| CHF | Variable | 44.121 | 149.429 | 45.300 | 45.087 | 37.127 | 21.915 | - | - |
| | Fixed | - | - | - | - | - | - | - | - |
| **Total CHF** | | **44.121** | **149.429** | **45.300** | **45.087** | **37.127** | **21.915** | **-** | **-** |
| **Total credits and loans** | | | **1.892.221** | **809.234** | **143.111** | **143.274** | **131.376** | **120.283** | **544.943** |

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Among the borrowing items presented above as at 31 December 2013, the PGE Capital Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) to finance construction of 858 MW power unit in Elektrownia Bełchatów (Power Plant Bełchatów) - with value of PLN 615.542 thousand;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Elektrownia Turów (Power Plant Turów) in total value of PLN 294.100 thousand;
- credit in current accounts in total value of PLN 382.144 thousand.

As at 31 December 2013 the value of available overdraft facilities in current account amounted to PLN 1.646.177 thousand. Overdrafts in current account relating to the main PGE Capital Group entities are due for repayment until December 2016.

#### 42.4.4.2 Liabilities form bonds issued

As at 31 December 2013 the PGE Capital Group had liabilities from bonds issued:

| Currency | Reference rate | Value at reporting date | Due in the period: Within 1 year | From 1 to 2 years | From 2 to 3 years | From 3 to 4 years | From 4 to 5 years | Above 5 years |
|---|---|---|---|---|---|---|---|---|
| PLN | Variable | 1.000.374 | 374 | - | - | - | 1.000.000 | - |
| | Fixed | - | - | - | - | - | - | - |
| **Total PLN** | | **1.000.374** | **374** | **-** | **-** | **-** | **1.000.000** | **-** |

As at 31 December 2012 the PGE Capital Group had no liabilities from bonds issued.

As at 31 December 2013, PGE S.A. had a possibility of issuing bonds within programme addressed to Polish capital markets investors of maximum amount of PLN 5 billion of which bonds with a nominal value of PLN 1 billion were issued in 2013.

**Bond Issue Program of PLN 5 billion addressed to Polish capital market investors**

On 29 August 2011 PGE S.A. signed an issue agreement with Pekao S.A. bank (acting as Agent, Paying Agent and Depository) and ING Bank Śląski S.A. (acting as Sub-Agent, Sub-Paying Agent and Sub-Depository) for an indefinite period of time, under which the bond issue programme was established.

The maximum Programme amount (representing a maximum aggregate nominal amount of bonds issued and outstanding under the Programme) is PLN 5 billion.

Bonds are to be issued as specified in article 9 paragraph 3 of the Act on Bonds dated 29 June 1995 (Official Journal 2001, no. 120, item 1300 with amendments) based on the Programme Agreement and Issue Terms, as dematerialized bearer coupon bonds or bearer zero-coupon bonds with maturity not shorter than 1 month and not longer than 10 years.

Bonds under the Programme will be denominated in Polish zloty (PLN). The nominal value of one bond will amount to PLN 10.000 or multiples of this amount. Bonds issued may be coupon or zero-coupon bonds based on market interest rates in accordance with *best-effort* rule.

On 27 June 2013 there took place the first non-public issuance of 5-year bonds, the coupon bearer bonds with a variable interest rate under this program. The nominal value of the issue was PLN 1 billion and the maturity of the bonds is 29 June 2018. On 29 August 2013 the bonds were floated in the Alternative Trading System organized by BondSpot S.A. and Giełda Papierów Wartościowych S.A.

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#### 42.4.4.3 Other financial liabilities valued at amortized cost

The value of other financial liabilities measured at amortized cost, with a carrying amount of PLN 1.138.142 thousand (as shown in the table in Note 42.1 to these financial statements), consists mainly of:

- liabilities related to the purchase of tangible fixed assets and intangible assets with a value of PLN 547.276 thousand,
- received bails and guarantee deposits with a value of PLN 350.200 thousand,
- liability related to grant for the installation to capture, transport and storage of $CO_2$ (CCS) with a value of PLN 164.531 thousand.

### 42.5 Collaterals for repayments of liabilities

The Group uses many financial instruments and combinations thereof as collaterals for repayment of loans. The most frequently used are agreements of assignment of receivables, bills and execution statements. Additionally, the Group uses power of attorney to bank accounts and cessions of receivables

As at the balance sheet date, assets of the following value were collateral for repayment of liabilities or contingent liabilities:

| | **Carrying amount of assets being collateral for repayment of liabilities as at** | |
|---|---|---|
| | **31 December 2013** | **31 December 2012** |
| Property, plant and equipment | 1.053.131 | 1.152.235 |
| Inventories | 52.744 | 29.713 |
| Trade receivables | 15.056 | 13.270 |
| Cash | - | - |
| Other assets | - | - |
| **Total assets being collaterals for repayment of liabilities** | **1.120.931** | **1.195.218** |

Property, plant and equipment presented in the table above are collaterals for repayment of drawn investment credits. As at 31 December 2013 and as at 31 December 2012 the most significant position is a collateral mortgage on the new power unit 858 MW constructed in PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Bełchatów. The table lists the value of the mortgage, i.e. the amount of EUR 195 million, but the value of the assets on which the mortgage is registered amounts to value of PLN 4.186.095 thousand.

The collaterals on inventories comprise mainly pledges related to funds received from environmental funds.

The companies from PGE Capital Group are obliged to maintain a specified cash balance on its account held with Bank Ochrony Środowiska S.A. according to the rules of Izba Rozliczeniowa Giełd Towarowych S.A. (WCCH - Warsaw Commmodity Clearing House) and to participation in a guarantee fund. Moreover, the entities maintain bank accounts at Nordea S.A. bank as a deposit securing payments of liabilities due to purchases of electric energy on poee Warsaw Stock Exchange Energy Market (poee RE GPW) and the companies' open positions on the market. Cash accounted for as restricted cash of these two titles as at 31 December 2013 amounted to PLN 84.434 thousand.

# 43. Objectives and principles of financial risk management

PGE Capital Group companies, due to their business activities, are exposed to the following types of financial risks:

- Liquidity risk
- market risk, including: interest rate risk; currency risk; price risk;
- credit risk;

Since the contribution of the entities to PGE S.A., the PGE Capital Group manages financial risk in shape and range as presented in further part of this paragraph. In the previous periods, financial risk management was executed on the level of particular entities constituting the PGE Group.

The main objective of financial risk management in PGE Group entities is to reduce fluctuations of cash flows and financial result related to entities' exposure to market risk and other categories of financial risk, particularly credit risk to an acceptable level by the Company's management. The defined objective is realized on the level of PGE Group or on the level of each entity, as long as it is consistent with objectives at the Group level.

Both on the Group level and entity level, the objectives are achieved with the use of the mechanism of natural hedging and hedging derivative transactions in the range compliant with the PGE Capital Group's internal regulations.

None of the PGE Group entities, except as described in Note 42.3.1, conclude derivative transactions for purposes other than to secure an identified exposure to market risk. As a result, it is prohibited in the Group to conclude speculative transactions, i.e. such transactions that increase the exposure to interest rate risk or currency risk, in comparison to the risk level resulting from identified sources of entities' exposure to the mentioned types of market risk, the purpose of which is to obtain additional gains on changes of risk level.

The PGE Group applies an active approach to market risk management. This approach assumes that the market risk generated by the PGE Group entities shall be transferred to the parent company, i.e. PGE S.A. with the use of Intra-Group transactions. Internal transactions are concluded at market conditions. The active approach to market risk management assumes the following:

- adjustment of the level of collateral (the ratio of secured exposure in relation to the whole of exposure for interest rate risk and currency risk) to the Group expectations on the shaping of risk factors in order to avoid significant losses resulting from unexpected changes of risk factors;
- supporting the realization of budgetary assumptions of the Group, realization of investment programmes and Group development strategy with the use of a collateral mechanism against interest rate risk and currency risk

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### 43.1. Liquidity risk

PGE Group entities run an active policy on investment of cash surpluses. It means that the entities are monitoring the state of monetary surplus and are forecasting future cash flows, and on such a basis the investment strategy is realized towards cash aimed at realization of the investment strategy objectives.

In case of monetary shortage, PGE Group entities use available financing sources:

- bank credit granted in current account;
- bonds issued that are acquired by PGE S.A;
- bonds issued that are acquired by external buyers.

The Bond issue program is presented in detail in Note 42.4.4.2 of these financial statements

### 43.2. Interest rate risk

PGE Capital Group entities are exposed to interest rate risk as a result of financing their operating and investment activities with interest bearing indebtedness at variable interest rates or through investments in financial assets at variable or fixed interest rates. On the other hand, financing business activity with indebtedness at a fixed interest rate is related to the opportunity cost risk in case of interest rates' decline.

The entities are exposed to interest rate risk related to deposits placed, cash, investment in bonds issued by Autostrada Wielkopolska S.A. and liabilities from credits granted and bonds issued and changes in fair value of derivatives swaps, resulting from changes in interest rates.

The below table presents the interest rate gap, constituting the Group's exposure to interest rate risk and risk concentration, with regards to currencies and type of interest rate:

| | | **Type of interest rate** | **Nominal value as at 31 December 2013** | **Nominal value as at 31 December 2012** *(restated)* |
|---|---|---|---|---|
| Financial assets exposed to interest rate risk | PLN | Fixed | 365 | 10.886 |
| | | Variable | 6.003.812 | 4.685.600 |
| | Other currencies | Fixed | 104.248 | 18.833 |
| | | Variable | 405.429 | 433.803 |
| Financial liabilities exposed to interest rate risk | PLN | Fixed | 55.635 | 7.386 |
| | | Variable | 1.556.414 | 887.552 |
| | Other currencies | Fixed | 1.046 | 148 |
| | | Variable | 932.321 | 1.033.648 |
| **Net exposure** | PLN | Fixed | **(55.270)** | **3.500** |
| | | Variable | **4.447.398** | **3.798.048** |
| | Other currencies | Fixed | **103.202** | **18.685** |
| | | Variable | **(526.892)** | **(599.845)** |

Interest on financial instruments of a variable interest rate is updated in periods shorter than one year. Interest on financial instruments of a fixed interest rate is flat throughout the whole period until maturity of these instruments

Cash is presented in the position of financial assets exposed to variable interest rates. Cash comprises mainly short-term deposits (not longer than 3 months) of fixed interest rate. However due to risk of variability of interest rates when negotiating the interest rates in future periods, the Group presents them in above table as variable.

## 43.3. Currency risk

In the PGE Group companies two types of exposure to currency risk can be identified:

**Exposure to transaction risk**

The risk results from the fact that a portion of cash flows related to core operations of entities is denominated in or indexed to foreign currencies. The other sources of exposure to the risk are capital investments and financing in foreign currencies. Currency risk relates to changes in future cash flows denominated in or indexed to foreign currencies as a result of changes in foreign exchange rates.

**Exposure to translation risk**

The risk results from translation of carrying amounts of items of assets and liabilities denominated in foreign currency to the functional currency of financial statements of the entities, i.e. PLN. Similar to transaction risk, the lack of certainty of future foreign exchange rates, at which the carrying amounts of items of assets and liabilities shall be translated as at the balance sheet date, causes uncertainty concerning carrying amounts of these items in PLN as at the balance sheet date and relevant financial income and/or expenses resulting from foreign exchange differences recognized in statement of comprehensive income. Presented below are main sources of exposure to currency risk:

- Capital expenditures denominated in or indexed to foreign currencies,
- Loans and borrowings of Group companies denominated in foreign currencies,
- Sales (export) of electricity in import denominated in foreign currencies,
- Purchases of electricity denominated in foreign currencies
- Fees denominated in or indexed to foreign currency relevant to purchase of transmission capacities,
- Sales and Purchases of $CO_2$ emission rights denominated in or indexed to foreign currencies,
- Expenses related to current exploitation of production goods denominated in or indexed to foreign currencies,
- Financial assets with deposit characteristics denominated in foreign currencies.

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The below table presents the Group's exposure to currency risk with regards to particular classes of financial instruments:

| | Total carrying value | Currency position as at 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | EUR | | USD | | CHF | | DKK | |
| | PLN | in currency | PLN | in currency | PLN | in currency | PLN | in currency | PLN |
| **Financial assets** | | | | | | | | | |
| Deposits | 99.774 | - | - | - | - | - | - | - | - |
| Bonds, bills and notes receivable acquired | 357.518 | 86.207 | 357.518 | - | - | - | - | - | - |
| Trade receivables | 2.192.088 | 3.550 | 15.206 | 575 | 1.445 | - | - | - | - |
| Cash and cash equivalents | 5.951.964 | 11.529 | 47.730 | 56 | 170 | - | - | - | - |
| Originated loans | 309 | - | - | - | - | - | - | - | - |
| Other financial receivables | 162.830 | 12 | 48 | - | - | - | - | - | - |
| Shares in entities not quoted on active markets | 29.696 | - | - | - | - | - | - | - | - |
| Other financial assets | 4.115 | - | - | - | - | - | - | - | - |
| Lease receivables | 41 | - | - | - | - | - | - | - | - |
| Compensations related to LTC | 674.595 | - | - | - | - | - | - | - | - |
| Derivatives forward * | 104.248 | 215.358 | 920.855 | - | - | - | - | - | - |
| **Financial liabilities** | | | | | | | | | |
| Derivatives forward * | (1.046) | (18.375) | (80.510) | - | - | - | - | - | - |
| Derivatives swap | (22.679) | - | - | (7.530) | (22.679) | - | - | - | - |
| Interest bearing loans and credits | (1.517.565) | (148.424) | (615.542) | (63.081) | (190.001) | (30.784) | (104.099) | - | - |
| Bonds and debt securities issued | (1.000.374) | - | - | - | - | - | - | - | - |
| Trade and other financial liabilities at amortized cost | (2.072.976) | (9.208) | (38.190) | (472) | (1.421) | - | - | (169) | (94) |
| Liabilities related to LTC | (816.605) | - | - | - | - | - | - | - | - |
| Liabilities from finance lease and lease agreements with option of purchase | (3.752) | - | - | - | - | - | - | - | - |
| **Net currency position** | | **140.649** | **607.115** | **(70.452)** | **(212.486)** | **(30.784)** | **(104.099)** | **(169)** | **(94)** |

* The value of currency risk exposure for derivative instruments (forward) is their nominal value, converted into Polish zlotys at the rate applicable to each transaction, without taking into account the discount. In turn, the carrying value of these derivative instruments is fair value measurement.

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| | Total carrying value | Currency position as at 31 December 2012 (restated) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | EUR | | USD | | CHF | | SEK | |
| | PLN | in currency | PLN | in currency | PLN | in currency | PLN | in currency | PLN |
| **Financial assets** | | | | | | | | | |
| Deposits | 10.217 | - | - | - | - | - | - | - | - |
| Bonds, bills and notes receivable acquired | 321.341 | 78.602 | 321.341 | - | - | - | - | - | - |
| Trade receivables | 1.894.733 | 4.689 | 19.261 | 209 | 646 | - | - | - | - |
| Cash and cash equivalents | 4.795.493 | 27.490 | 112.113 | 62 | 192 | 45 | 153 | 9 | 4 |
| Originated loans | 3.017 | - | - | - | - | - | - | - | - |
| Other financial receivables | 148.651 | - | - | - | - | - | - | - | - |
| Shares in entities not quoted on active markets | 33.792 | - | - | - | - | - | - | - | - |
| Shares quoted on active markets | 104 | - | - | - | - | - | - | - | - |
| Other financial assets | 3.737 | - | - | - | - | - | - | - | - |
| Lease receivables | 221 | - | - | - | - | - | - | - | - |
| Compensations related to LTC | 614.148 | - | - | - | - | - | - | - | - |
| Derivatives forward* | 18.833 | 130.414 | 554.139 | - | - | - | - | - | - |
| **Financial liabilities** | | | | | | | | | |
| Derivatives forward* | (148) | (3.176) | (13.492) | - | - | - | - | - | - |
| Derivatives swap | (36.365) | - | - | (11.732) | (36.365) | - | - | - | - |
| Interest bearing loans and credits | (1.892.221) | (150.000) | (605.702) | (78.123) | (242.152) | (44.121) | (149.429) | - | - |
| Bonds and debt securities issued | - | - | - | - | - | - | - | - | - |
| Trade and other financial liabilities at amortized cost | (2.376.660) | (9.984) | (44.199) | (337) | (1.032) | - | - | - | - |
| Liabilities related to LTC | (393.568) | - | - | - | - | - | - | - | - |
| Liabilities from finance lease and lease agreements with option of purchase | (4.470) | - | - | - | - | - | - | - | - |
| **Net currency position** | | **78.035** | **343.461** | **(89 921)** | **(278 711)** | **(44 076)** | **(149 276)** | **9** | **4** |

* The value of currency risk exposure for derivative instruments (forward) is their nominal value, converted into Polish zlotys at the rate applicable to each transaction, without taking into account the discount. In turn, the carrying value of these derivative instruments is fair value measurement.

## 43.4. Price risk

Due to the type of business activities, the PGE Capital Group entities are susceptible to change of cash flows and financial results in domestic currency due to price changes of the following risk factors:

- electric energy;
- hard coal;
- gas;
- biomass;
- $CO_2$ emission rights;
- energy origin rights.

The PGE Capital Group owns lignite mines, that deliver production fuel to two power plants. Due to this fact, the Group's exposure to price fluctuations of these resources is not significant.

The Group's exposure to price risk of merchandise reflects the volume of external purchase of particular resources presented in the table below:

| | Year 2013 | | Year 2012 | |
|---|---|---|---|---|
| **Type of fuel** | **Tonnage – external purchase (in thousand tons)** | **Cost of purchase (PLN million)** | **Tonnage – external purchase (in thousand tons)** | **Cost of purchase (PLN million)** |
| Coal | 6.109 | 1.557 | 6.555 | 1.917 |
| Gas [m3 thousand] | 377.177 | 271 | 635.477 | 600 |
| Biomass | 1.061 | 304 | 1.374 | 517 |
| Fuel oil | 44 | 96 | 56 | 133 |
| **Total** | | **2.228** | | **3.167** |

Moreover, as presented in Note 28 of these financial statements, during the period ended 31 December 2013, the Group purchased $CO_2$ emission rights for PLN 772 million and during the period ended 31 December 2012, $CO_2$ emission rights for PLN 577 million.

## 43.5. Credit risk

Credit risk is connected with a potential credit event that can occur, such as insolvency of a customer, partial payment of a receivable, significant delay in receivable payment or other breaches of contract conditions (in particular the lack of delivery and acceptance of the goods as agreed in the contract and the possible non-payment for damages and contractual penalties).

The PGE Group entities are exposed to credit risk arising in the following areas:

- Basic activities of entities – the credit risk results from, among others, purchases and sales of electricity and heat energy, purchases and sales of energy origin rights and $CO_2$ emission rights, purchases of fossil fuels, etc.
- Investment activities of entities – the credit risk results from transactions resulting from investment projects which depend on the financial situation of the Group's suppliers.
- Exposure to the risk of market price changes resulting from the possible non-realization of commitments on the other party of the transaction for the delivery or receipt – the credit risk relates to the possibility of there being a lack of fulfilling of liabilities of the other party to the derivative transaction in relation to the PGE Group entity, if fair value of the derivative transaction is positive from the point of view of the Group.

- Allocation of free cash of entities – the credit risk results from investing free cash of PGE Group entities in securities bearing credit risk i.e. financial instruments other than those issued by State Treasury.

The classes of financial instruments exposed to credit risk but having different characteristics of credit risk:

- Deposits;
- Bonds, bills, notes receivable acquired;
- Trade receivables;
- Loans granted;
- Other financial receivables;
- Cash and cash equivalents;
- Derivatives;
- Guarantees and securities granted.

There are significant concentrations of credit risk within the Group related to:

- Trade receivables from key customers. As described in Note 42.4.1 to these financial statements as at 31 December 2013 the three most significant customers accounted for ca. 8% of the trade receivables balance. In addition, receivables from sale of electricity to households account for ca. 12% of the trade receivables balance and receivables from corporate customers represent approximately 56% of the balance of trade receivables.
- Compensation from Long-Term Contracts.
- Bonds issued by the company Autostrada Wielkopolska S.A.

Maximum credit risk exposure resulting from PGE Capital Group's financial assets is equal to the carrying value of these items. The total maximum credit risk exposure resulting from the PGE Capital Group's assets amounted to PLN 9.577.178 thousand as at 31 December 2013.

## 43.6. Trade receivables

The terms of payments for trade receivables are usually 2-3 weeks, however in 2013 the PGE Capital Group received payments for receivables after 28 days (debtors turnover ratio in the main companies in PGE Capital Group ranged between 7 and 42 days, taken retail sale and distribution segment). Trade receivables relate mainly to receivables for energy sold and additional services rendered. According to the management, due to current control over trade receivables, there is no additional significant credit risk that would exceed the level reflected by allowances for receivables.

A significant part of the Group entities introduced Policy of Credit Risk Management of PGE Capital Group, which is applied in the process of management of the credit risk mainly by using the following mechanisms and techniques: evaluation of financial standing of the customers and setting up credit limits; requiring credit collaterals from customers with lower financial standing; standardization of contents of agreements relating to credit risk and standardization of credit collaterals; system of current monitoring of payments and system of early vindication; cooperation with business intelligence agencies and debt collection companies.

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Credit risk relating to trade receivables by geographical region is presented in the table below:

| Geographical region/ country | 31 December 2013 Receivables balance | Share % | 31 December 2012 Receivables balance | Share % |
|---|---|---|---|---|
| Poland | 2.150.445 | 98,1% | 1.841.530 | 97,2% |
| United Kingdom | 3.948 | 0,1% | 6.039 | 0,3% |
| Germany | 8.721 | 0,4% | 28.695 | 1,5% |
| France | 14.340 | 0,7% | - | - |
| Czech Republic | 4.086 | 0,2% | 4.480 | 0,2% |
| Other | 10.548 | 0,5% | 13.989 | 0,8% |
| **Total** | **2.192.088** | **100,0%** | **1.894.733** | **100,0%** |

## 43.7. Deposits, cash and cash equivalents

The Group manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that the Group concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate solvency ratio, equity and strong, stable market position in Poland. The most significant cash balances of the PGE Capital Group allocated in three banks accounted for approx. 80% as at 31 December 2013.

## 43.8. Other Loans and financial receivables

Other financial receivables and loans comprise of the receivables from to LTC compensations (for more details please refer to note 45.1 to these consolidated financial statements) and acquired bonds of Autostrada Wielkopolska S.A., loans granted as well as other financial receivables. The position is described in details in Note 42.4.1.

## 43.9. Derivatives

All entities, the Group concludes derivative transactions with operate in the financial sector. These are Polish banks with high ratings, of adequate equity and strong, stable market position. As at the balance sheet date, the Group was party to the derivative transactions, described in detail in note 42.4.3 to these consolidated financial statements

## 43.10. Guarantees granted

Guarantees granted by the Group entities are presented in note 38 of the consolidated financial statements.

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## 43.11. Ageing of receivables and write offs on receivables

As at 31 December 2013, trade receivables and shares in entities not quoted on active markets were subject to impairment allowances. The change in impairment allowances for these classes of financial instruments are presented in the table below:

| | Trade receivables | Loans granted | Shares in entities not quoted on active markets |
|---|---|---|---|
| **Year ended 31 December 2013** | | | |
| **Impairment allowances as at 1 January** | **(248.802)** | **-** | **(178.809)** |
| Impairment allowances used | 15.572 | - | |
| Impairment allowances reversed | 65.514 | - | |
| Impairment allowances created | (101.813) | - | |
| Change in presentation | (481) | - | (8.764) |
| **Impairment allowances as at 31 December** | **(270.010)** | **-** | **(187.573)** |
| Value before the impairment allowances | 2.462.098 | 309 | 217.269 |
| Net value (carrying amount) | 2.192.088 | 309 | 29.696 |
| **Year ended 31 December 2012** | | | |
| **Impairment allowances as at 1 January** | **(221.833)** | **-** | **(114.969)** |
| Impairment allowances used | 16.617 | - | 227 |
| Impairment allowances reversed | 58.406 | - | - |
| Impairment allowances created | (91.740) | - | (64.542) |
| Change in presentation | (10.252) | - | 475 |
| **Impairment allowances as at 31 December** | **(248.802)** | **-** | **(178.809)** |
| Value before the impairment allowances | 2.143.535 | 3.017 | 212.601 |
| Net value (carrying amount) | 1.894.733 | 3.017 | 33.792 |

The majority of impairment allowances created by the PGE Capital Group during the reporting period relate to trade receivables of companies from retail sale and distribution segment. Impairment allowances in companies of retail sale and distribution segment as at 31 December 2013 amounted to PLN 206.922 thousand (PLN 201.082 thousand in 2012). Factors that were taken into consideration by the Group in the calculation of the impairment of the above positions are described in note 12 to these consolidated financial statements.

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There are no other significant receivables positions within the Group, except for trade receivables, that would be significantly past due but not covered by an impairment allowances. The ageing structure of trade receivables and other loans and receivables taking into account impairment allowances, are presented below:

| Trade receivables and other loans and receivables | Before due date | Past due < 30 days | 30 – 90 days | 90 – 180 days | 180 – 360 days | >360 days |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Before the impairment allowances | 3.125.574 | 259.566 | 65.287 | 39.896 | 40.012 | 268.703 |
| Impairment allowances | (72.674) | (13.146) | (7.759) | (15.275) | (34.300) | (268.544) |
| **After impairment allowances** | **3.052.900** | **246.420** | **57.528** | **24.621** | **5.712** | **159** |

| Trade receivables and other loans and receivables | Before due date | Past due < 30 days | 30 – 90 days | 90 – 180 days | 180 – 360 days | >360 days |
|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | |
| Before the impairment allowances | 2.591.674 | 337.196 | 91.055 | 30.246 | 43.840 | 273.220 |
| Impairment allowances | (60.883) | (2.951) | (5.422) | (9.916) | (33.599) | (272.570) |
| **After impairment allowances** | **2.530.791** | **334.245** | **85.633** | **20.330** | **10.241** | **650** |

As at 31 December 2013 more than 84% of the overdue trade receivables, other loans and receivables that were not covered with an impairment allowances relate to companies from retail sale segment.

## 43.12. Liquidity risk

The Group is monitoring the risk of lack of funds with the use of a periodical liquidity planning tool. This tool takes into account the maturity of both investments and financial assets (i.e. receivables' and other financial assets' accounts) and estimated future cash flows from operating activities.

PGE Group entities are exposed to liquidity risk in the following areas:

- Core operations of entities – liquidity risks results from mismatch of structure of dates of operating activities cash flows and execution of assets and liabilities.
- Market risk exposure within the Group – liquidity risk results from possible necessity of settlement of hedging derivative transactions, the market value of which is negative from the point of view of the Group (for example in case of the need for early settlement of transactions due to counterparty default) or the necessity of granting a guarantee to the second party of the collateral deposit transaction (cash collateral deposited i.e. due to participation in commodity exchanges) in the case of negative valuation of derivatives to the moment of full settlement of transaction.
- Allocation of free cash of entities – the liquidity risk results from necessity of realization of financial assets owned, the market of which is characterized by low volume of turnover and/or relatively high spread between purchase price and sale price.

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The below table presents the maturity of the Group's financial liabilities as at the balance sheet dates on the basis of the maturity date based on contractual non-discounted payments.

| 31 December 2013 | Less than 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Interest bearing loans and credits | 38.197 | 516.205 | 592.498 | 455.407 | 1.602.307 |
| Debt securities/ bonds issued | - | 34.200 | 1.119.747 | - | 1.153.947 |
| Trade liabilities, LTC liabilities and other financial liabilities at amortized cost | 1.845.857 | 1.032.982 | 10.231 | 511 | 2.889.581 |
| Liabilities from finance lease and lease agreements with an option of purchase | 1.475 | 430 | 1.847 | - | 3.752 |
| Derivatives | 775 | 9.154 | 18.057 | 1.071 | 29.057 |
| **Total** | **1.886.304** | **1.592.971** | **1.742.380** | **456.989** | **5.678.644** |

| 31 December 2012 | Less than 3 months | Between 3 and 12 months | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|---|
| Interest bearing loans and credits | 188.557 | 661.740 | 565.372 | 582.310 | 1.997.979 |
| Trade liabilities, LTC liabilities and other financial liabilities at amortized cost | 2.337.653 | 410.416 | 22.024 | 135 | 2.770.228 |
| Liabilities from finance lease and lease agreements with an option of purchase | 1.589 | 624 | 2.257 | - | 4.470 |
| Derivatives | 893 | 10.892 | 25.031 | 2.878 | 39.694 |
| **Total** | **2.528.692** | **1.083.672** | **614.684** | **585.323** | **4.812.371** |

## 43.13. Market (finance) risk – sensitivity analysis

The Group identifies the following types of market risk as the most significant:

- interest rate risk,
- currency risk.

The PGE Group is exposed mainly to currency risk related to foreign exchange rates of EUR/PLN, USD/PLN and CHF/PLN. Furthermore, the Group is exposed to interest rate risk related to referential interest rates of PLN, EUR, USD and CHF. The Group uses a script analysis method for the purpose of analyzing sensitivity to changes of market risk factors. The Group uses experts' scripts reflecting the subjective opinion on the Group in relation to future fluctuations of individual market risk factors.

The scenario analysis presented in this point is intended to analyse the influence of changes in market risk factors on the financial results of the Group. Only positions that can be defined as financial instruments are subject to the analysis of interest and currency risk.

Potential foreign exchange rates' changes were calculated as ±7,75% for EUR/PLN, ±13,08% for USD/PLN, ±8,95% for CHF/PLN and ±7,98% for DKK/PLN.

In sensitivity analysis related to interest rate risk, the Group applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year. For the purpose of sensitivity analysis on the interest rate risk for currencies, for which the Group is exposed to as at the balance sheet date, potential interest rates' changes was estimated as ±62,51 bp for WIBOR, ±40,30 bp for EURIBOR, ±25,87 bp for LIBOR USD and ±39,27 bp for LIBOR CHF.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes would be recognized in the statement of comprehensive income in the position of interest income or expenses for the financial instruments at amortized cost and on the position of revaluation of financial instruments at fair value.

Presented below is the sensitivity analysis related to all types of market risks the Group is exposed to as at the balance sheet date, indicating the potential influence of changes of individual risk factors by class of assets and liabilities on the gross profit.

## 43.14. Sensitivity analysis for currency risk

The Group identifies an exposure to fluctuations of foreign exchange rates of the following pairs of currencies: EUR/PLN, USD/PLN, CHF/PLN and DKK/PLN.

The below table presents the sensitivity of a gross financial result to reasonably possible changes to foreign currencies exchange rates, under the assumption of stability of other risk factors for these classes of financial instruments exposed to currency risk.

| Financial instruments by class | 31 December 2013 | | Sensitivity analysis for currency risk as at 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total amount in statement of financial position | Amount exposed to risk | EUR/PLN gross financial result | | USD/PLN gross financial result | | CHF/PLN gross financial result | | DKK/PLN gross financial result | |
| | PLN thousand | PLN thousand | Exchange rate EUR/PLN + 7,75% | Exchange rate EUR/PLN -7,75% | Exchange rate USD/PLN + 13,08% | Exchange rate USD/PLN -13,08% | Exchange rate CHF/PLN + 8,95% | Exchange rate CHF/PLN -8,95% | Exchange rate DKK/PLN + 7,98% | Exchange rate DKK/PLN -7,98% |
| Trade receivables | 2.192.088 | 16.651 | 1.178 | (1.178) | 189 | (189) | - | - | - | - |
| Bonds, bills, notes receivable acquired | 357.518 | 357.518 | 27.708 | (27.708) | - | - | - | - | - | - |
| Cash and cash equivalents | 5.951.964 | 47.900 | 3.699 | (3.699) | 22 | (22) | - | - | - | - |
| Other financial receivables | 162.830 | 48 | 4 | (4) | - | - | - | - | - | - |
| Derivatives – forward | 104.248 | 920.855 | 71.366 | (71.366) | - | - | - | - | - | - |
| Derivatives – forward | (1.046) | (80.510) | (6.240) | 6.240 | - | - | - | - | - | - |
| Derivatives – swap | (22.679) | (22.679) | - | - | (2.966) | 2.966 | - | - | - | - |
| Interest bearing loans and credits | (1.517.565) | (909.642) | (47.705) | 47.705 | (24.852) | 24.852 | (9.317) | 9.317 | - | - |
| Trade liabilities, LTC liabilities and other financial liabilities at amortized cost | (2.889.581) | (39.705) | (2.960) | 2.960 | (186) | 186 | - | - | (8) | 8 |
| **Gross profit change** | | | **47.050** | **(47.050)** | **(27.793)** | **27.793** | **(9.317)** | **9.317** | **(8)** | **8** |

The value of currency risk exposure for derivative instruments (forwards) is their nominal value, converted into Polish zlotys at the rate applicable to each transaction, without taking into account the discount. In turn, the carrying value of these derivative instruments is fair value measurement.

| Financial instruments by class | 31 December 2012 | | Sensitivity analysis for currency risk as at 31 December 2012 (*restated*) | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total amount in statement of financial position | Amount exposed to risk | EUR/PLN | | USD/PLN | | CHF/PLN | |
| | | | gross financial result | | gross financial result | | gross financial result | |
| | PLN thousand | PLN thousand | Exchange rate EUR/PLN +8,65% | Exchange rate EUR/PLN -8,65% | Exchange rate USD/PLN + 14,51% | Exchange rate USD/PLN -14,51% | Exchange rate CHF/PLN + 10,34% | Exchange rate CHF/PLN -10,34% |
| Trade receivables | 1.894.733 | 19.907 | 1.666 | (1.666) | 94 | (94) | - | - |
| Bonds, bills, notes receivable acquired | 321.341 | 321.341 | 27.796 | (27.796) | - | - | - | - |
| Cash and cash equivalents | 4.795.493 | 112.462 | 9.698 | (9.698) | 28 | (28) | 16 | (16) |
| Derivatives – forward | 18.833 | 554.139 | 47.933 | (47.933) | - | - | - | - |
| Derivatives – forward | (148) | (13.492) | (621) | 621 | - | - | - | - |
| Derivatives – swap | (36.365) | (36.365) | - | - | (5.275) | 5.275 | - | - |
| Interest bearing loans and credits | (1.892.221) | (997.283) | (52.393) | 52.393 | (35.124) | 35.124 | (15.449) | 15.449 |
| Trade liabilities, LTC liabilities and other financial liabilities at amortized cost | (2.770.228) | (45.231) | (3.823) | 3.823 | (150) | 150 | - | - |
| **Gross profit change** | | | **(30.256)** | **30.256** | **(40.427)** | **40.427** | **(15.433)** | **15.433** |

## 43.15. Sensitivity analysis for interest rate risk

The Group identifies exposure to interest rate risk related to WIBOR, EURIBOR and LIBOR rates. The table below presents the sensitivity of the gross financial result based on reasonable, possible future fluctuations of interest rates, under assumption of stability of other risk factors for these classes of financial instruments that are exposed to interest rate risk:

| Financial assets and liabilities | 31 December 2013 | | Sensitivity analysis for interest rate risk as at 31 December 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total amount in statement of financial position | Amount exposed to risk | WIBOR | | EURIBOR | | LIBOR USD | | LIBOR CHF | |
| | | | gross financial result | | gross financial result | | gross financial result | | gross financial result | |
| | PLN thousand | PLN thousand | WIBOR + 62,51bp | WIBOR -62,51bp | EURIBOR +40,30bp | EURIBOR -40,30bp | LIBOR USD +25,87bp | LIBOR USD -25,87bp | LIBOR CHF +39,27bp | LIBOR CHF -39,27bp |
| Cash and cash equivalents | 5.951.964 | 5.951.964 | 33.088 | (33.088) | 322 | (322) | - | - | - | - |
| Deposits | 99.774 | 99.718 | 312 | (312) | - | - | - | - | - | - |
| Bonds | 357.518 | 357.518 | - | - | 1.368 | (1.368) | - | - | - | - |
| Derivatives | (22.679) | (22.679) | - | - | - | - | (1.202) | 1.202 | - | - |
| Interest bearing loans and credits | (1.517.565) | (1.465.682) | (4.674) | 4.674 | (2.461) | 2.461 | (559) | 559 | (498) | 498 |
| Bonds issued | (1.000.374) | (1.000.374) | (3.247) | 3.247 | - | - | - | - | - | - |
| **Gross profit change** | | | **25.479** | **(25.479)** | **(771)** | **771** | **(1.761)** | **1.761** | **(498)** | **498** |

| Financial assets and liabilities | 31 December 2012 | | Sensitivity analysis for interest rate risk as at 31 December 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total amount in statement of financial position | Amount exposed to risk | WIBOR | | EURIBOR | | LIBOR USD | | LIBOR CHF | |
| | | | gross financial result | | gross financial result | | gross financial result | | gross financial result | |
| | PLN thousand | PLN thousand | WIBOR +94bp | WIBOR -94bp | EURIBOR +60bp | EURIBOR -60bp | LIBOR USD +34bp | LIBOR USD -34bp | LIBOR CHF +34bp | LIBOR CHF -34bp |
| Cash and cash equivalents | 4.795.493 | 4.795.493 | 40.501 | (40.501) | 717 | (717) | 1 | (1) | - | - |
| Bonds | 321.341 | 321.341 | - | - | 1.896 | (1.896) | - | - | - | - |
| Derivatives | (36.513) | (36.365) | - | - | - | - | (2.453) | 2.453 | - | - |
| Interest bearing loans and credits | (1.892.221) | (1.884.835) | (8.169) | 8.169 | (3.761) | 3.761 | (951) | 951 | (605) | 605 |
| **Gross profit change** | | | **32.332** | **(32.332)** | **(1.148)** | **1.148** | **(3.403)** | **3.403** | **(605)** | **605** |

Change of interest rates will have a direct influence on the valuation of derivatives relating to swap of variable to fixed interest rates. In case of other assets and liabilities presented in the above tables, changes of interest rates would have impact on future valuation of these instruments.

The above mentioned positions are recorded in profit or loss and consequently in the position of retained earnings. Change of interest rates does not influence the value of other positions of equity in the statement of financial position.

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## 44. Employment structure

Employment in the Group (in full time equivalents) was as follows:

| | As at 31 December 2013 | As at 31 December 2012 |
|---|---|---|
| **Total employees, including**: | **41.195** | **41.276** |
| Conventional Energy | 18.871 | 19.638 |
| Renewable Energy | 584 | 546 |
| Wholesale | 423 | 390 |
| Distribution | 10.938 | 11.306 |
| Retail sale | 1.505 | 1.491 |
| Other consolidated entities | 8.874 | 7.905 |

## 45. Significant events during the reporting period and subsequent events

### 45.1. Compensation for long term contacts

As described in previous financial statements, some producers from the group of PGE Górnictwo i Energetyka Konwencjonalna S.A. ("PGE GiEK S.A.") became entitled to receive funds to cover stranded costs (the so-called "compensations") in accordance with the Act of 29 June 2007 on the rules of coverage of costs incurred due to of early termination of long-term power and energy sales (DZ. U. No. 130, item 905 of 2007) ("LTC Act"). Provisions of the LTC Act are in many respects ambiguous and raise important questions of interpretation. When calculating the forecasted results of individual producers and the resulting compensation, annual stranded cost adjustments, final adjustments and the resulting amount of revenue recognized in the statement of comprehensive income, the Group has applied its best knowledge in this respect, being also supported by external experts.

In previous years, the manufacturers of the PGE Capital Group received decisions regarding the annual adjustment of stranded costs and the costs incurred in the gas-fired units for the years 2008-2012. In the majority, these decisions were unfavourable to the individual entities and the Group's management believes they were issued in violation of the LTC Act. As a result, starting from 2009, there take place a series of proceedings before the District Court in Warsaw - the Court of Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - "SOKiK") and the Court of Appeal on appeals filed by producers of PGE Capital Group against the Decisions of the President of the URE (Energy Regulatory Office) . These proceedings are at various stages.

Below there is a summary of the issue of the LTC:

**Annual adjustments of stranded costs for 2008**

In 2013 three litigations with the total amount of the dispute of PLN 247,8 million have been finally completed, of which in the amount of PLN 245,9 million have been completed in favour of the company,. In one of the mentioned proceedings, which value amounts to PLN 178,8 million, the president of the URE filed a cassation complaint. Moreover in two other proceeding of value of PLN 22,3 million the Supreme Court considered cassation complaints in favour of the Company.

**Annual adjustments of stranded costs and expenses incurred in the gas-fired units for 2009**

So far there have been 3 final judgments favourable for PGE GiEK S.A. in the amount of PLN 308.7 million (including the two in which the president of the URE filed a cassation complaint). The total value of the dispute amounts to PLN 672.9 million.

**Annual adjustments of stranded costs and expenses incurred in the gas-fired units for 2010**

In year 2013, SOKiK issued a favourable verdict for the company (the verdict does not include Elektrownia Opole [Power Plant Opole], for which a separate proceeding is held). The President of URE filed an appeal in the above mentioned case. The value of the dispute amounts to PLN 393,5 million.

On 29 November 2013, SOKiK gave a judgment on the annual adjustment of gas costs for 2010 for PGE GiEK S.A., which partially upheld the appeal of the company. The judgment is not final. On 30 December 2013, the President of the URE appealed to the extent unfavourable for URE part of the judgment. On 13 January 2014, the Company filed an appeal to the Court of Appeal concerning unfavourable to the company part of the judgment. The value of the dispute on the annual adjustment of gas for 2010 is PLN 4.4 million.

**Annual adjustments of stranded costs and expenses incurred in the gas-fired units for 2012**

PGE GiEK S.A. filed an appeal regarding the decision of the President of the URE on the gas cost adjustments consumption of natural gas collected and not-collected natural gas in Elektrociepłownia Rzeszów (Combined Heat and Power Plant). The total value of the dispute amounts to PLN 7.4 million.

**Impact on the statement for the year 2013**

The judgments of the Court of Appeal on the Oddział Elektrociepłownia Gorzów, Oddział Elektrownia Opole, Oddział Elektrociepłownia Lublin Wrotków, Oddział Zespół Elektrowni Dolna Odra and the final judgment SOKiK on Oddział Elektrownia Turów (power plants and combined heat and power plants) resulted in the financial statements for the period ended 31 December 2013 LTC compensation adjustment of PLN 336,9 million. The value of adjustment was recognized in the statement of comprehensive income in the position of other operating income.

**Other Issues**

The total value of all disputes relating to the years 2008 - 2012 amounts to PLN 1.660,3 million, including favourable judgments of Court of Appeal and the favourable final judgment of SOKiK of PLN 741,5 million.

On 29 August 2013, the Management Board of PGE GiEK S.A. submitted to the President of the URE application for an advance for units: Oddział Elektrownia Turów and Oddział Elektrownia Opole in the amount of PLN 299.4 million.

On 9 December 2013, SOKiK held a hearing on the appeal PGE GiEK S.A. against URE decision dated 16 March 2012, in which the President of the URE refused to issue a decision on the final adjustment of stranded costs for Elektrociepłownia Gorzów before 16 December 2016. The court issued an unfavourable judgment to PGE GiEK S.A. and dismissed the appeal of the company. The judgment is not final. On 10 January 2014, the company appealed to the Court of Appeal.

## 45.2. Framework agreement on the exploration and extraction of shale gas

On 31 December 2013, the Framework Agreement regarding the exploration and extraction of the shale gas signed on 4 July 2012 has expired. Parties related to the agreement were PGE Polska Grupa Energetyczna S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., ENEA S.A., KGHM Polska Miedź S.A., and TAURON Polska Energia S.A.

The subject of the agreement was the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG.

## 45.3. Signing a Letter of Intent concerning joint participation in development, construction and service of the first Polish nuclear power plant.

On 5 September 2012, PGE S.A. signed a Letter of Intent concerning participation in the development, construction and exploitation of a nuclear power plant (the „Project"). The parties to the Letter of Intent are: PGE Polska Grupa Energetyczna S.A., KGHM Polska Miedź S.A., Tauron Polska Energia S.A. and ENEA S.A. (further together as „Parties").

On 23 September 2013, as a result of the work related to the development of the draft agreement for the acquisition of shares in the special purpose entity to build and operate a nuclear power plant, the Parties initialled the shareholders agreement. In accordance, the Parties stated that the initialled document was a draft of the future shareholders agreement, which would be signed after obtaining necessary corporate approvals of all Parties.

Shareholders agreement commits the parties to conclude an agreement for the acquisition of shares in PGE EJ1 Sp. z o.o., the special purpose entity for the purpose of constructing and operating the nuclear power plant. In accordance with the Shareholders Agreement, PGE S.A. will sell, based on the remaining parties of the shareholders agreement, a package of 438.000 shares representing a total of 30% of the share capital of PGE EJ1 Sp. z o.o. As a result, PGE S.A. will own 70% of the share capital of PGE EJ1 Sp. z o.o. The shares will be acquired in the following manner: - KGHM Polska Miedź S.A. will acquire 146.000 shares which represent 10% of the share capital of PGE EJ1 Sp. z o.o., - Tauron Polska Energia S.A. will acquire 146.000 shares which represent 10% of the share capital of PGE EJ1 Sp. z o.o., ENEA S.A. will acquire 146.000 shares which represent 10% of the share capital of PGE EJ1 Sp. z o.o.

PGE S.A. and each of its business partners will be required to enter the share purchase agreement upon fulfillment of the condition precedent of: obtaining a favourable response from the President of the OCCP regarding the intention of the concentration, as required by law. The second of the previously agreed conditions by the business partners – the adoption by the Council of Ministers, by resolution, the Polish Nuclear Power Program – was met on 28 January 2014.

## 45.4. Power generating unit construction project at PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Opole.

On 4 April 2013, the Management Board of PGE Górnictwo i Energetyka Konwencjonalna S.A. acting on the basis of an analysis of changes in the energy market and the macroeconomic environment as well as the recommendation of the Investment Committee of the PGE Capital Group adopted a resolution to close the investment project "Project Opole II" on the construction of new coal-fired blocks 5 and 6 in Oddział Elektrownia Opole (Power Plant Opole).

In connection with the investment PGE Elektrownia Opole S.A. (now after the merger PGE GiEK S.A. Oddział Elektrownia Opole) has concluded a number of agreements with contractors, including in particular:

- a contract with the General Contractor (Consortium Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A.) for the construction of two power units with a total capacity of 1.800 MW, with the net value of PLN 9.397 million,
- an agreement with PSE Operator S.A. for connection to the grid units 5 and 6 in Opole Power Plant.

As a result of the government information about the possible support of the Project, on 18 June 2013, the Management Board of PGE GiEK S.A. adopted a resolution on the approval to undertake examination on additional solutions that improve the profitability of the Project and enable its possible realization.

Based on the examination performed on the formula to project realization and seeking more favourable business conditions for the project, Management Board of PGE GiEK S.A. adopted a resolution on the resumption of the investment project "Project Opole II (Construction of new coal blocks 5 and 6)".

In the second half of 2013 and in January 2014, the company entered into several agreements, annexes to contracts relating to the organization and co-operation with the Project Opole II. Among other, on 11 October 2013, the company signed an amendment to the contract with the General Contractor (consortium Rafako S.A., Polimex-Mostostal S.A. and Mostostal Warszawa S.A.), which allowed to introduce Alstom Power Sp. z o.o. as a subcontractor of the boiler and IOS installation, and as the General Designer, and regulates the way of securing by the General Contractor the advance paid and the issue of the proper execution of the contract.

The observed parallel evolution of the regulatory environment of the energy market in Poland and Europe, in particular started works on the introduction of power market mechanisms, rationalization of support for renewable energy sources and changes in the trading of CO2 emission rights allowed for positive verification of the business substance of the project. On 31 January 2014 the General Contractor has received Start of Work Order.

## 45.5. Conclusion of the agreement for the supply of coal for Project Opole II

On 13 August 2013, PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded the agreement with Kompania Węglowa S.A. concerning supply of coal in the years 2018-2038. The contract covers the supply of coal by Kompania Węglowa S.A. to meet the needs of blocks 5 and 6 of Elektrownia Opole, in case of the realization of Project Opole II.

The agreement was concluded in order to reduce some of the risks associated with the Project Opole II. The estimated net value of the agreement amounts from about PLN 16 billion to PLN 22 billion, depending on the volume of delivery. The price of coal for the subsequent years of the Agreement is determined on the basis of indicators on average electricity prices, the average market prices of coal, and the average cost of CO2 emission rights.

Starting the coal supply is dependent on the completion date of the Project Opole II. PGE GiEK S.A. has the ability to withdraw from the contract until 30 September 2020, and to claim for contractual penalties in case of violation of the provisions of the Agreement.

## 45.6. Conclusion of the agreement for the construction of gas and steam block in Elektrociepłownia Gorzów

On 3 October 2013, PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded the agreement for the construction of gas and steam block in Elektrociepłownia Gorzów (Combined Heat and Power Plant Gorzów) and the long-term contract for the provision of maintenance services with the consortium of Siemens Sp. z o.o. and with Siemens Industrial Turbomachinery AB (the "Consortium Siemens").

The gas and steam block with electric power of 138 MWe and heat power of 90 MWt and efficiency in cogeneration amounting to 83.93%, would be handed over for the use, according to the agreement, within 28 months from the award of the contract. The net value of the contract for the construction of the unit amounts to PLN 562 million.

Therefore, PGE GiEK S.A. concluded on 3 October 2013 also a contract for the supply of natural gas with Polskie Górnictwo Naftowe i Gazownictwo S.A. The subject of the contract is the sale of natural nitrogen-rich gas extracted from the deposits of PGNiG to Elektrociepłownia Gorzów for consumption in the new gas and steam unit. The agreement was concluded for the period of 20 years from the date of the beginning of gas supply, which is dependent on the date of delivery of the new block into use. The annual volume of the gas supply will amount to $m^3$ 281 million per year. The estimated net value of the agreement on the day of its signing amounts to about PLN 3 billion. The agreement provides the opportunity to claim for contractual penalties in case of violation of the provisions of the agreement.

## 45.7. The agreement for the supply of coal for the period 2014-2018

On 12 August 2013, PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded an agreement with Kompania Węglowa S.A. concerning the supply of coal. The agreement covers the supply of coal by Kompania Węglowa S.A. for units belonging to the PGE Group in the years 2014-2018. The net value of the agreement amounts to approximately PLN 5.6 billion.

The price of coal for the subsequent years of the contract is determined based on the indicators relating to the average electricity prices and average market prices of coal.

Signatures of the Members of the Management Board of PGE Polska Grupa Energetyczna S.A.

***Marek Woszczyk***

***President of the Management Board***

| | | |
|---|---|---|
| ***Jacek Drozd*** | ***Grzegorz Krystek*** | ***Dariusz Marzec*** |
| ***Vice-President of the Management Board*** | ***Vice-President of the Management Board*** | ***Vice-President of the Management Board*** |