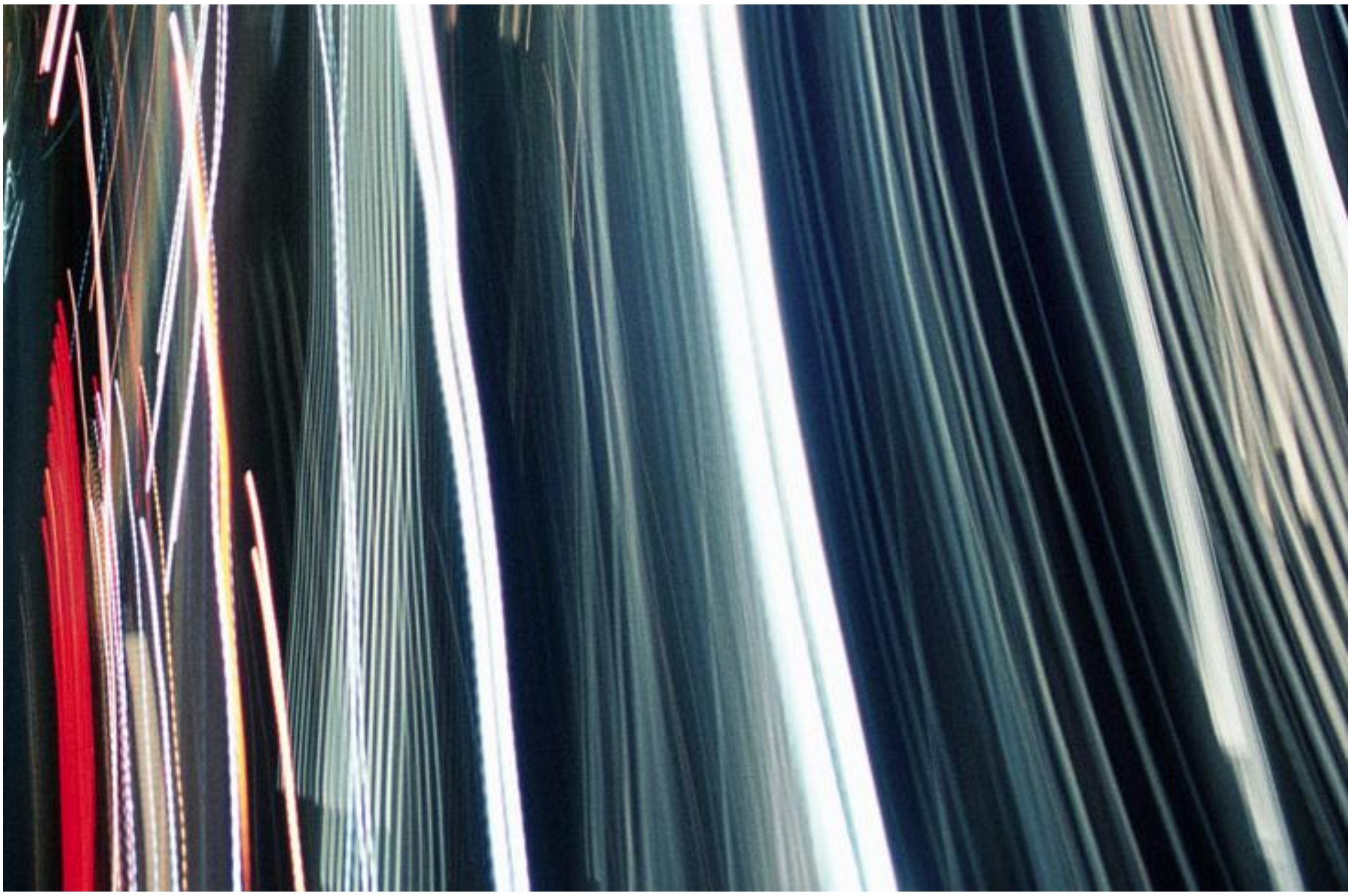

PGE Polska Grupa Energetyczna S.A.
Separate Financial Statements
for the year 2014

ended 31 December 2014

in accordance with IFRS EU (in PLN million)

Polska Grupa Energetyczna

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IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014	Year ended 31 December 2013 *restated**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	B.1	**9,671**	**12,408**
Costs of goods sold	B.1	(9,021)	(11,269)
GROSS PROFIT ON SALES		**650**	**1,139**
Distribution and selling expenses	B.1	(23)	(17)
General and administrative expenses	B.1	(150)	(162)
Other operating revenues	B.1	10	16
Other operating expenses	B.1	(11)	(10)
OPERATING PROFIT		**476**	**966**
Financial income	B.1	5,543	1,384
Financial expenses	B.1	(542)	(27)
PROFIT BEFORE TAX		**5,477**	**2,323**
Income tax	B.2	(24)	(202)
NET PROFIT FOR THE REPORTING PERIOD		**5,453**	**2,121**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments		(74)	-
Deferred tax		14	-
Other comprehensive income, which will not be reclassified to profit or loss, including:			
Actuarial gains and losses from valuation of provisions for employee benefits		(4)	4
Deferred tax		1	(1)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET		**(63)**	**3**
TOTAL COMPREHENSIVE INCOME		**5,390**	**2,124**
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)		**2.92**	**1.13**

** For information regarding restatement of comparative figures please refer to note A.3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014	As at 31 December 2013 *restated**	As at 1 January 2013
NON-CURRENT ASSETS				
Property, plant and equipment	B.3	193	196	205
Intangible assets	B.4	6	6	11
Loans and receivables	B.17	3,827	3,330	3,627
Available-for-sale financial assets		3	-	3
Shares in subsidiaries	B.6	29,046	24,165	23,107
Deferred tax assets	B.2	22	-	-
TOTAL NON-CURRENT ASSETS		**33,097**	**27,697**	**26,953**
CURRENT ASSETS				
Inventories	B.8	440	281	492
Short-term financial assets at fair value through profit or loss	B.17	11	104	19
Trade receivables	B.17	598	771	740
Other loans and financial assets	B.17	89	100	1,086
Available-for-sale short-term financial assets		-	3	37
Shares in subsidiaries	B.6	-	-	25
Other current assets	B.9	126	16	35
Cash and cash equivalents	B.10	2,988	2,190	960
TOTAL CURRENT ASSETS		**4,252**	**3,465**	**3,394**
TOTAL ASSETS		**37,349**	**31,162**	**30,347**

** For information regarding restatement of comparative figures please refer to note A.3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014	As at 31 December 2013 *restated**	As at 1 January 2013
EQUITY				
Share capital	B.12	18,698	18,698	18,698
Revaluation reserve on financial instruments	B.12	(60)	-	-
Reserve capital	B.12	9,231	8,941	9,688
Other capital reserves	B.12	-	50	50
Retained earnings	B.12	5,233	2,080	817
TOTAL EQUITY		**33,102**	**29,769**	**29,253**
NON-CURRENT LIABILITIES				
Non-current provisions	B.13	20	19	23
Interest-bearing loans and borrowings, bonds and lease	B.17	3,754	1,000	-
Deferred tax liability	B.2	-	35	66
TOTAL NON-CURRENT LIABILITIES		**3,774**	**1,054**	**89**
CURRENT LIABILITIES				
Current provisions	B.13	33	29	227
Interest-bearing loans and borrowings, bonds and lease	B.17	58	-	143
Financial liabilities at fair value through profit or loss	B.17	99	1	-
Trade liabilities	B.17	237	132	481
Income tax liabilities		4	-	70
Deferred income and government grants		-	1	36
Other current financial liabilities	B.17	6	4	4
Other current non-financial liabilities	B.15	36	172	44
TOTAL CURRENT LIABILITIES		**473**	**339**	**1,005**
TOTAL LIABILITIES		**4,247**	**1,393**	**1,094**
TOTAL EQUITY AND LIABILITIES		**37,349**	**31,162**	**30,347**

** For information regarding restatement of comparative figures please refer to note A.3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Revaluation reserve on financial instruments	Reserve capital	Other capital reserves	Retained earnings	Total equity
AS AT 1 JANUARY 2014 *restated*	**18,698**	**-**	**8,941**	**50**	**2,080**	**29,769**
Profit for the period	-	-	-	-	5,453	5,453
Other comprehensive income	-	(60)	-	-	(3)	(63)
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**(60)**	**-**	**-**	**5,450**	**5,390**
Retained earnings distribution	-	-	290	(50)	(240)	**-**
Dividend	-	-	-	-	(2,057)	**(2,057)**
AS AT 31 DECEMBER 2014	**18,698**	**(60)**	**9,231**	**-**	**5,233**	**33,102**

*restated**	Share capital	Reserve capital	Other capital reserves	Retained earnings	Total equity
AS AT 1 JANUARY 2013	**18,698**	**9,688**	**50**	**817**	**29,253**
Profit for the period	-	-	-	2,121	**2,121**
Other comprehensive income	-	-	-	3	**3**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	-	-	**2,124**	**2,124**
Retained earnings distribution	-	77	-	(77)	**-**
Dividend	-	(824)	-	(784)	**(1,608)**
AS AT 31 DECEMBER 2013	**18,698**	**8,941**	**50**	**2,080**	**29,769**

** For information regarding restatement of comparative figures please refer to note A.3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2014	Year ended 31 December 2013 *restated**
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**5,477**	**2,323**
Income tax paid		(73)	(246)
Adjustments for:			
Depreciation, amortization and impairment losses		13	18
Interest and dividend, net	B.19	(5,361)	(1,251)
Profit / loss on investment activities	B.19	573	(87)
Change in receivables	B.19	190	(23)
Change in inventories		(159)	211
Change in liabilities, excluding loans and bank credits	B.19	(20)	(280)
Change in other non-financial assets		(115)	21
Change in provisions		5	(199)
Other		-	(18)
NET CASH FROM OPERATING ACTIVITIES		**530**	**469**
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment and intangible assets		1	20
Purchase of property, plant and equipment and intangible assets		(10)	(14)
Redemption of bonds issued within PGE Capital Group		9,963	28,482
Purchase of bonds issued within PGE Capital Group		(10,869)	(27,125)
Disposal of other financial assets		-	25
Purchase of shares in subsidiaries		(589)	(757)
Dividends received	B.1.7	991	759
Deposits with a maturity over 3 months		(1,999)	-
Termination of deposits over 3 months		1,999	-
Interest received		151	209
Loans repaid		41	421
Loans granted		-	(504)
Other		1	17
NET CASH FROM INVESTING ACTIVITIES		**(320)**	**1,533**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans, bank credits and issue of bonds		2,720	994
Repayment of loans, bank credits, bonds and finance lease		-	(143)
Dividends paid		(2,057)	(1,608)
Interest paid		(82)	(18)
Other		-	1
NET CASH FROM FINANCING ACTIVITIES		**581**	**(774)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**791**	**1,228**
Effect of foreign exchange rate changes, net		8	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**2,188**	**960**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**2,979**	**2,188**
Restricted cash		-	72

** For information regarding restatement of comparative figures please refer to note A.3 of these financial statements*

Difference between cash and cash equivalents in the statement of financial position and in the statement of cash flows results from interests accrued but not received as at the balance sheet date and from unrealized exchange differences.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

A. ACCOUNTING POLICIES AND OTHER BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. General information

1.1 The Company's operations

PGE Polska Grupa Energetyczna S.A. ("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.

The parent company is seated in Warsaw, 2 Mysia Street.

PGE S.A. is the parent company of PGE Polska Grupa Energetyczna S.A. Group ("PGE Group", "Group") and prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union („IFRS").

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follows:

- trading of electricity and other products of energy market,
- activities of central and holding companies,
- rendering of financial services for the companies from PGE Group,
- rendering of other services related to the above mentioned activities.

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. According to the concession the annual fees are paid depending on the level of trading. In 2014 and 2013 the Company's cost in respect of concessions amounted to PLN 1 million.

Revenues from sale of electricity and other products of energy market are the only significant items of operating revenues. These revenues are generated on the domestic market. As a result the Company's operations are not divided into operating or geographical segments.

Going concern

These financial statements were prepared under the assumption that the Company will continue to operate as a going concern in the foreseeable future. As at the date of approval of these financial statements, there is no evidence indicating that the Company will not be able to continue its operations as a going concern.

These financial statements comprise financial data for the period from 1 January 2014 to 31 December 2014 („financial statements").

1.2 Ownership structure of the Company

	State Treasury	Other Shareholders	Total
As at 1 January 2014	**61.89%**	**38.11%**	**100.00%**
As at 31 December 2014	**58.39%**	**41.61%**	**100.00%**

The ownership structure as at particular balance sheet dates was prepared on the basis of data available to the Company.

On 2 July 2014 the State Treasury has disposed (directly and indirectly through Polskie Inwestycje Rozwojowe S.A.) 65,441,629 ordinary shares of the Company, representing 3.50% share in the share capital of the Company. According to the received notification from the Ministry of Treasury, after the above transaction, the share of the State Treasury in the Company's share capital amounts to 58.39%. According to information available to the Company on the date of publication of these financial statements, the only shareholder holding at least 5% of the total number of votes at the General Meeting of PGE S.A. was the State Treasury. After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of share capital of the Company.

1.3 Presentation and functional currency

The functional currency of the Company and presentation currency of these financial statements is Polish Zloty („PLN"). All amounts are in PLN million, unless indicated otherwise.

For the purpose of translation at the reporting date of items denominated in currency other than PLN the following exchange rates were applied:

	31 December 2014	31 December 2013	31 December 2012
USD	3.5072	3.0120	3.0996
EUR	4.2623	4.1472	4.0882

1.4 The composition of the Management Board of the Company

In 2014 the composition of the Management Board was as follows:

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

During the reporting period up to the date of preparation of these financial statements, there have been no changes in the composition of the Management Board.

2. The basis for the preparation of the financial statements

These financial statements does not comprise the additional information, referred to in art. 44 section 2 of the Energy Law dated 10 April 1997 (OJ from 2012 item. 1059 with amendments). The Company will prepare a separate, regulatory financial statement to fulfil the obligation mentioned above that will be audited by the auditor in compliance with art. 44 section 3 of the Energy Law.

2.1 Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union („EU"). IFRS comprise standards and interpretations, approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

2.2 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 or are not effective as at 1 January 2014:

Standard	Description of changes	EU effective date
IFRS 9 Financial Instruments (along with amendments)	Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortised cost and at fair value. Changes to hedge accounting.	1 January 2018
IFRS 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	1 January 2016
IFRS 15 Revenue from Contracts with Customers	The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. leasing contracts, insurance contracts and contracts relating to financial instruments). IFRS 15 clarifies principles of revenue recognition.	1 January 2017
Amendments to IFRS 11	Additional accounting guidance for the acquisition of an interest in a joint operation.	1 January 2016
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Clarification of the provisions on recognition of investment units in the consolidation.	1 January 2016
Amendments to IAS 1	Changes regarding disclosures required in the financial statements.	1 January 2016
Amendments to IAS 16 and IAS 38	Clarifies that a method of depreciation/amortisation that is based on the revenue expected to be generated from using the asset is not allowed.	1 January 2016
Amendments to IAS 16 and IAS 41	Accounting for bearer plants.	1 January 2016
Amendments to IAS 19	Simplifies the accounting for contributions by employees or third parties to defined-benefit plans.	1 February 2015
Amendments to IAS 27	Use of the equity method in separate financial statements.	1 January 2016
Annual improvements to IFRS (cycle 2010-2012)	A collection of amendments dealing with: - IFRS 2 – matter of vesting conditions; - IFRS 3 – matter of conditional consideration; - IFRS 8 – matter of presentation of operating segments; - IFRS 13 – current receivables and payables; - IAS 16 / IAS 38 – matter of disproportionate change in gross amount and accumulated depreciation/amortisation in revaluation method; - IAS 24 – definition of key management personnel.	1 February 2015
Annual improvements to IFRS (cycle 2011-2013)	A collection of amendments dealing with: - IFRS 3 – change in the scope of exception for joint ventures; - IFRS 13 – scope of paragraph 52 (portfolio exception); - IAS 40 – clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 January 2015
Annual improvements to IFRS (cycle 2012-2014)	A collection of amendments dealing with: IFRS 5 – changes in methods of disposal; IFRS 7 – regulations regarding servicing contracts, and applicability of the amendments to IFRS 7 to interim financial statements; IAS 19 – discount rate: regional market issue; IAS 34 – additional guidance relating to disclosures in interim financial statements.	1 January 2016

The Company intends to adopt the above mentioned new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they become effective.

The influence of new regulations on future financial statements of the Company

The new *IFRS 9 Financial Instruments* introduce fundamental changes in respect of classifying, presenting and measuring of financial instruments. These changes will possibly have material influence on future financial statements of the Company. At the date of preparation of these financial statements all phases of IFRS 9 have not been published and standard is not yet approved by the European Union. As a result analysis of its impact on the future financial statements of PGE S.A has not been finished yet.

The amendments to IAS 27 introduce the option to use the equity method of accounting in separate financial statements. If the Company was to change its accounting policy in this scope, it would increase the value of PGE S.A.'s assets and equity. Furthermore, the statement of comprehensive income would include the proportionate share of the profit or loss of subsidiaries, and would no longer include dividends received from these companies. The Company has not decided to introduce changes mentioned above.

Other standards and their changes should have no significant impact on future financial statements of PGE S.A. Amendments to standards and interpretations that entered into force in the period from 1 January 2014 to the date of approval of these separate financial statements did not have significant influence on these separate financial statements.

2.3 Professional judgment of management and estimates

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

Recoverable amount

The electric energy market is the primary area of operations of the Company and PGE Group entities. Changes in this market can have a significant influence on the recoverable amount of production property, plant and equipment of the Company's subsidiaries. If impairment indicators specified in IAS 36 *Impairment of Assets* are identified, the Company estimates the recoverable amount of the respective shares owned.

The Company's impairment analysis of cash generating units is based on a number of significant assumptions of factors, some of which are outside the control of the Company. 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 Company.

During the reporting period the Company performed an impairment test for PGE Obrót S.A., described in note B.6 of these financial statements.

Additionally, the Company periodically analyses impairment of non-current financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In 2014 PGE S.A. recognized an impairment loss of bonds issued by Autostrada Wielkopolska S.A. The impairment loss was presented in note B.18.5.1 of these financial statements.

Provisions

As described in note A.2.4.19 recognition of provisions requires estimates of the probable outflow of economic benefits and determination of the amount that shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The most important provisions are provision for jubilee awards and post-employment benefits. Change of assumption adopted in estimates on the value of provisions, especially variation of discount rate, is presented in notes B.13 and B.14 of these financial statements.

Contingent liabilities

Recognition and measurement of provisions and contingent liabilities requires from the Company assessment of the probability of occurrence of potential liabilities. If the occurrence of unfavourable future event is probable, the Company recognizes a provision in the appropriate amount. If the occurrence of unfavourable future event is estimated by the Company as not probable but possible, the contingent liability is recognized. Contingent liabilities are described in note B.16 to these financial statements.

Classification of financial instruments

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

Impairment allowance on receivables

As at the reporting date the Company assesses whether there is an objective proof for 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 allowance to the amount of the present value of planned cash flows.

Change in impairment allowance on trade and other receivables is described in note B.18.5 of these financial statements.

2.4 Accounting principles applied

The financial statements have been prepared under the historical cost convention, which was modified in relation to:

- Property, plant and equipment and intangible assets – property, plant and equipment and intangible assets that were owned by the Company at the date of transition to IFRS were measured at deemed costs as at that date. In addition, for certain property, plant and equipment and intangible assets impairment loss has been recognized.
- Financial instruments – selected categories of financial instruments are measured and presented in the statement of financial position at fair value. Details on the valuation of individual categories of financial instruments are presented in the description of the accounting principles applied,
- Impaired assets – presented in historical cost adjusted by impairment losses.
- Inventories – CO_2 emission rights acquired in order to realize profits from fluctuations in market prices, are measured at fair value less costs of disposal.

2.4.1 Revenues

Revenues from sales are recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Company 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 revenues, the criteria specified below are also taken into account.

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 sale of: electricity, certificates of origin for energy, greenhouse gases emission rights and rendered services relevant to core business,
- amounts receivable from sales of materials and merchandise.

Revenues from sale of services

Revenues from services rendered are recognized when the service is performed. 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 reporting date less revenue recognized in the previous reporting periods.

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

2.4.2 Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period,
- value of electricity sold, goods and materials at purchase prices.

Costs that can be directly attributable to revenues recognized by the Company are recognized in profit or loss for the reporting period in which the revenues were recognized.

Costs that can only be indirectly attributed to revenues or other economic benefits recognized by the Company, are recognized in the profit or loss in the reporting periods to which they relate, in accordance with accrual basis of accounting, taking into account the principles of measurement of property, plant and equipment and inventories.

2.4.3 Other operating revenues and expenses

Other operating revenues and expenses include in particular:

- profit or loss on disposal of property, plant and equipment and intangible assets,
- recognition and reversal of provisions, except for provisions related to financial operations or reflected in cost of goods sold,
- acquisition or disposal of assets and cash free of charge, including donations,
- due and obtained compensations, penalties and other expenses not relating to core operations.

2.4.4 Financial income and expenses

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

- disposal of financial assets,
- revaluation of financial instruments, except for financial assets available for sale (“AFS”), 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),
- exchange differences resulting from operations performed during the reporting period and translation of the carrying amount of assets and liabilities at the reporting date, except for the exchange differences recognized in the initial value of a non-current asset, to the extent they are recognized as an adjustment to interest expense and exchange differences related to valuation of financial instruments classified to the AFS portfolio,
- other items related to financial operations.

Interest income and expenses are recognized over the respective period using the effective interest method in relation to the net amount of the financial instrument at the reporting date. Dividends are recognized when the shareholders’ right to receive payments is established.

2.4.5 Taxes

Corporate income tax recognized in profit or loss comprises current income tax and deferred income tax. Actual fiscal charges for the reporting period calculated by the Company in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than the ones charged or credited directly to equity.

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

A deferred tax liability is 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 and deferred tax liability is verified at each reporting date. The deferred tax asset and deferred tax liabilities are classified as long-term. The Company offsets deferred tax asset and liabilities.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow deferred tax asset to be utilized partially or entirely.

2.4.6 Earnings per share

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

2.4.7 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 and
- expected to be used for more than one year.

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or 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 purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises 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 it used for purposes other than to produce inventories.

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

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

Group	Average remaining depreciation period in years	Applied total depreciation periods in years
Buildings and structures	22	2-31
Machinery and equipment	3	1-39
Vehicles	3	1-10
Other	3	1-15

2.4.8 Intangible assets

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

- economic rights acquired by the Company 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.

As at the date of initial recognition, an intangible asset is measured at acquisition cost 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 Company assesses whether the useful life of intangible assets is definite or indefinite. If the useful life is definite, the Company estimates the length of the 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 Company.

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.

The following useful lives are adopted for intangible assets:

Group	Average remaining amortization period in years	Applied total amortization period in years
Acquired patents and licenses	2	1-11
Costs of finished developed works	<1	2-5

An intangible asset arising from development shall be recognized if, and only if, the Company can demonstrate 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,
- its ability to reliably measure the expenditure attributable to the intangible asset during its development.

2.4.9 Borrowing costs

Borrowing costs are interest and other costs that the Company incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.

Exchange differences arising from foreign currency borrowings are capitalized to the extent that they are regarded as an adjustment to interest costs.

2.4.10 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),
- Shares in subsidiaries, jointly controlled entities and associates.

Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company 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.

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-sale. A financial asset is classified as held-for-sale 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,
  - 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 profit or loss. Profits and losses on financial assets classifies as FVTPL are not reduced by the amount of accrued interest.

Loans 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 reporting date. Loans and receivables with maturity exceeding 12 months are classified as non-current assets. If the time value of money is significant over the period, the assets are measured at a discounted value. Loans and receivables are recognized at amortized cost.

Available-for-sale financial assets

All other financial assets (except for shares in subsidiaries) are accounted for as available-for-sale financial assets. Financial assets available for sale are recognized at fair value as at each reporting 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 using 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 are recognized in profit or loss on the date that the Company's right to receive payment is established.

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are those companies whose financial and operational policies are managed by the Company in order to derive economic benefits from their operations. This involves holding the majority of total votes in decision-making bodies of these organizations. To determine whether the Company has control over the given organization, existence and impact of potential voting rights that can be realized or converted at any time are considered.

A jointly controlled entity is an organization in which the division of control over the business as specified in the agreement requires unanimity of controlling parties with respect to strategic financial and operational decisions.

An associate is a business organization, including a partnership (such as a civil partnership) upon which the investor has significant influence and which is not a wholly or partially owned subsidiary. "Significant influence" is defined in IAS as the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

The shares and stocks in wholly and partially owned subsidiaries and in associates held by the Company are measured at historical cost of acquisition. If there is objective proof of impairment of these assets, the amount of impairment is measured as the difference between the carrying value of the asset and the estimated recoverable amount.

2.4.11 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

When the conditions are met the Company separates embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative if following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, in which the instrument is embedded,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

The extent to which, in accordance with IAS 39, the economic characteristics and risks of an embedded derivative in a foreign currency are closely related to the economic characteristics and risks of the host contract (basic agreement) also covers situations when the currency of the host contract is commonly used in contracts for purchase or sale of non-financial items in the market for a given transaction.

Embedded derivatives are recognized in a similar way to the other derivatives that are not classified as hedging instruments.

"Separated" embedded derivative is recognized in the statement of financial position at fair value with changes in fair value recognized in profit or loss. At the moment of initial recognition the Company assess whether an embedded derivative is separated.

2.4.12 Derivatives and hedging instruments

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

The gain or loss resulting from the change in fair value of a derivative 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.

2.4.13 Hedge accounting

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognized in revaluation reserve in the portion determined to be an effective hedge, while the ineffective portion of the hedge is recognized in the profit or loss.

The amount of accumulated changes in fair value of hedging instrument, previously recognized in revaluation reserve are transferred to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a planned transaction results in the recognition of non-financial assets or non-financial liabilities, the Company excludes the amount from equity and includes in the initial cost or other carrying amount of a non-financial asset or liability.

2.4.14 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 rendering of services.

Inventories comprise:

- materials,
- finished goods,
- work in progress,
- energy origin rights – purchased rights of origin for electric energy produced from renewable energy sources, rights of origin for electric energy relating to energy generated in cogeneration and rights to energy efficiency certificates,
- merchandise (especially CO_2 emission rights purchased for resale).

Inventories are measured at the lower of cost and net realizable value. CO_2 emission rights acquired in order to realize profits from fluctuations in market prices are measured at fair value less costs of disposal.

Cost of usage of inventories is determined as follows:

- Materials and goods (except for the CO_2 emission rights) – using weighted average method,
- CO_2 emission rights:
  - acquired in order to realize profits from fluctuations in market prices - using detailed identification method,
  - purchased for resale to conventional generating units in the PGE Group - according to the FIFO method,
- energy origin rights – using detailed identification method.

As at reporting date, the cost of inventories cannot be higher than net realizable value. Impairment allowances on inventories are recognized in operating expenses. When the realizable value of an impaired item of inventory is recovered fully or partially, its carrying amount is adjusted by decreasing impairment allowance.

2.4.15 Trade receivables

Trade receivables are measured at least at each reporting 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 allowances. Impairment allowances on receivables are recognized as other operating expenses or financial expenses. Long-term receivables are measured at present (discounted) value.

2.4.16 Other assets and prepayments

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

- an expense was incurred in the past in relation to 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.

Other assets include in particular receivables from the state, advances for deliveries and services and dividends receivables.

2.4.17 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.

2.4.18 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 Articles of Association as registered in the Court Register. Declared, but not contributed, share capital contributions are recognized as outstanding share capital contributions as negative value.

2.4.19 Provisions

The Company recognizes provisions when there is present obligation (legal or constructive) that arises from 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.

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

Post-employment and jubilee benefits provision

The employees of the Company are entitled to the following post-employment benefits:

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- post-mortem severance,
- cash equivalent related to energy tariff for employees of power industry,
- benefits from the Social Fund,
- medical benefits.

The employees of the Company are entitled to receive jubilee benefits that are paid after an employee has worked for a specified period of time. The amount of benefits paid depends on the period of service and the average remuneration of the employee.

The Company recognizes a provision for future obligations relevant to post-employment benefits and jubilee benefits for the purpose of assigning costs to the periods in which they are incurred. The provision raised is recognized as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

Actuarial gains and losses arising from the change of actuarial assumptions (including change in discount rate) and ex post actuarial adjustments are presented as other comprehensive income for post-employment benefits and as operating expenses of the current period for jubilee benefits.

2.4.20 Liabilities

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

The Company divides liabilities into the following categories:

- financial liabilities at fair value through profit or loss,
- other financial liabilities measured at subsequent reporting dates at amortised cost,
- non-financial liabilities.

When the effect of the time value of money is significant, liabilities are presented at discounted value.

2.4.21 The Social Fund and Other Special Funds

The Social Fund Act of 4 March 1994 states that a Social Fund is created by employers employing over 20 full time employees (calculated using full time equivalents). The Company creates such fund and makes periodic contributions to it. The objective of the fund is to subsidize the social activity for employees of the Company, loans granted to its employees and other social expenses. Contributions to the Social Fund are recognized as an expense in the period in which they are incurred.

The assets and liabilities of the Social Fund are netted off in the financial statements. In addition, as described in note B.14, the Company creates provision for the Social Fund for employees as future pensioners.

2.4.22 Deferred income and government grants

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

- amounts received or due from business partners to be realized in subsequent reporting periods,
- grants obtained to finance acquisition or production of property, plant and equipment and development works,
- property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating revenues in line with the depreciation charges on these assets.

Government grants are recognised if there is a reasonable assurance that the grant will be received and all the related conditions will be met. Government grants related to assets are amortized to other operating revenues proportionally to the depreciation charges on these assets.

2.4.23 Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. At the commencement of a finance lease, the leased asset and the leased liability are recorded at the lower of the fair value of the leased asset or the present value of the minimum lease payments 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. Lease payments shall be apportioned between reduction of the outstanding liability and the finance charge. 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. The finance charge is recognized as financial expenses in the statement of comprehensive income throughout the lease term.

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.

2.4.24 Statement of cash flow

The statement of cash flows is prepared using the indirect method.

2.4.25 Specific common control transactions

Capital group transformations and other equity transactions between related parties under common control are not regulated in IFRS. Accounting approach to these transactions depends on the accounting policies applied by the entity, unless they conflict with IFRS.

Free of charge transfer of shares from a subsidiary to a higher level parent company

In case of free of charge transfer of assets from a subsidiary to a higher level parent company (for example in a form of non-reciprocal transfer or dividend in kind), the Company chose the book value accounting using the book values in the books of the transferor. The acquirer recognizes the free of charge transfer as a dividend received in the financial income.

Transfer of shares between related parties for a fee in a form other than contribution of shares

In case of transfer of shares between related parties for a fee (including a transfer between a parent and a subsidiary) the Company chose the fair value accounting.

Contribution of shares to a subsidiary in exchange for new shares

In case of contribution of shares to a subsidiary, the Group choses the following principles:

- the transferor recognizes contributed shares at book value;
- the acquirer recognizes contributed shares in the exchange amount, i.e. in the amount concluded in documents being the base for designating the amount of shares issued.

Any differences are eliminated in the consolidated financial statements of the PGE Group.

Merger of a parent company with a subsidiary

Merger of a parent company with a subsidiary is accounted for using pooling of interest method, i.e. through summing up the corresponding items of assets and liabilities as well as revenues and costs of the merged companies with appropriate adjustments. Assets and liabilities of merged companies should be valued using uniform valuation methods.

Assets, liabilities and profits of a subsidiary are recognized at the value that was recognized in the consolidated financial statements of the parent company.

Comparative data is restated as if merger occurred at the beginning of the comparative period or at the date of acquisition of control of a subsidiary.

Tax Capital Group (TCG)

When an entity belonging to TCG incurs tax loss and the respective tax benefits are transferred to the representing company, the deferred tax asset is not recognized in this entity. Tax benefits received by the representing company are recognized in the separate statement of comprehensive income of the representing company in line “income tax”.

3. Changes of accounting principles and data presentation

The implementation of hedge accounting

In 2014 the Company has revised the applied accounting principles by introducing hedge accounting. The Company permits the use of cash flow hedge accounting, fair value hedge accounting and hedge of a net investments in foreign operations. Accordingly, the Company may decide to designate selected derivatives as a hedging instruments within the identified hedging relationship. The Company permits the application of hedge accounting only if the criteria defined in IAS 39 are met. Details concerning hedge accounting are described in note A.2.4.13 of these financial statements.

The implementation of hedge accounting has not caused the need to restate comparative data.

The approach to a dividend in kind from a subsidiary

In 2014 the Company revised the applied accounting principles by introducing detailed regulation on specific common control transactions (the principles are presented in note A.2.4.25 of these financial statements). According to the new principles, in case of free of charge transfer of assets from a subsidiary to a higher level parent company (e.g. in a form of non-reciprocal transfer or dividend in kind), the Company recognizes transaction in the book value in the books of the transferor. The acquirer recognizes the free of charge transfer as a dividend received in the financial income.

In the year ended 31 December 2013 the Company received non-cash dividend in form of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. that was recognized at fair value. Due to the accounting policy change, the Company restated the data presented in the comparative statement of comprehensive income, statement of financial position and statement of cash flows. The restatement was presented in tables below. The information presented in explanatory notes of these financial statements were restated respectively.

The Company believes that the revised accounting principles, due to the non-cash nature of the transactions between the subsidiaries and the parent company, will result in more relevant presentation of such transactions.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME FOR 2013

	Year ended 31 December 2013 *published*	Change in valuation of shares	Year ended 31 December 2013 *restated*
STATEMENT OF PROFIT OR LOSS			
OPERATING PROFIT	**966**	**-**	**966**
Financial income	1,601	(217)	1,384
Financial expenses	(27)	-	(27)
PROFIT BEFORE TAX	**2,540**	**(217)**	**2,323**
Income tax	(202)	-	(202)
NET PROFIT FOR THE REPORTING PERIOD	**2,338**	**(217)**	**2,121**
OTHER COMPREHENSIVE INCOME	3	-	**3**
TOTAL COMPREHENSIVE INCOME	**2,341**	**(217)**	**2,124**
EARNINGS PER SHARE (IN PLN)	**1.25**	**(0.12)**	**1.13**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	AS at 31 December 2013 *published*	Change in valuation of shares	As at 31 December 2013 *restated*
NON-CURRENT ASSETS, including:			
Shares in subsidiaries	24,382	(217)	24,165
TOTAL NON-CURRENT ASSETS	**27,914**	**(217)**	**27,697**
TOTA ASSETS	**31,379**	**(217)**	**31,162**
EQUITY, including:			
Retained earnings	2,297	(217)	2,080
TOTAL EQUITY	**29,986**	**(217)**	**29,769**
TOTAL LIABILITIES AND EQUITY	**31,379**	**(217)**	**31,162**

STATEMENT OF CASH FLOWS FOR 2013

	Period ended 31 December 2013 *published*	Change in valuation of shares	Period ended 31 December 2013 *restated*
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax	**2,540**	**(217)**	**2,323**
Interest and dividend, net	(1,468)	217	(1,251)
NET CASH FROM OPERATING ACTIVITIES	**469**	**-**	**469**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

B. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

1. Revenues and expenses

1.1 Sales revenues

	Year ended 31 December 2014	Year ended 31 December 2013
SALES REVENUES		
Sale of electricity	7,185	10,171
Sale of energy origin rights	1,042	904
Other sales of merchandise and materials	896	773
Revenues from sale of services	548	560
TOTAL SALES REVENUES	**9,671**	**12,408**

The decrease in sales revenues for the year 2014 as compared to 2013 is mainly due to the expiration of the contract with Energa Obrót S.A. and a decline in realized prices of electricity.

Information concerning main business partners

The main business partners of the Company are subsidiaries in PGE Group. In 2014 sale to PGE Obrót S.A. constituted almost 78% of sales revenues and to PGE Górnictwo i Energetyka Konwencjonalna S.A. almost 15% of sales revenues. In 2013 sale to those entities constituted 64% and 10%, respectively.

1.2 Cost by type and function

	Year ended 31 December 2014	Year ended 31 December 2013
COST BY TYPE		
Depreciation, amortisation and impairment losses	13	18
Materials and energy	4	5
External services	63	59
Taxes and charges	3	4
Employee benefits expenses	97	87
Other cost by type	93	95
TOTAL COST BY TYPE	**273**	**268**
Change in inventories	-	(1)
Distribution and selling expenses	(23)	(17)
General and administrative expenses	(150)	(162)
Cost of merchandise and materials sold	8,921	11,181
COST OF GOODS SOLD	**9,021**	**11,269**

Decrease of cost of merchandise and materials sold (mainly purchased electricity) in 2014 in comparison to previous year is directly related to the decrease of revenues from sale of electricity described above.

The other cost by type consist mainly sponsorship, advertising and management's payroll costs.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

1.3 Depreciation, amortisation and impairment losses

	Depreciation, amortisation and impairment losses					
	Year ended 31 December 2014			Year ended 31 December 2013		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	5	-	**5**	6	-	**6**
Distribution and selling expenses	-	-	-	1	-	**1**
General and administrative expenses	6	2	**8**	7	4	**11**
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**11**	**2**	**13**	**14**	**4**	**18**

1.4 External services

	Year ended 31 December 2014	Year ended 31 December 2013
Consulting services	15	20
IT Services	18	18
Trading commissions	17	8
Other	13	13
TOTAL EXTERNAL SERVICES	**63**	**59**

1.5 Employee benefits expenses and employment structure

	Year ended 31 December 2014	Year ended 31 December 2013
Payroll	71	66
Social security expenses	10	10
Retirement and pension expenses	-	-
Jubilee awards and allowances	1	1
Other post-employment benefits	1	1
Change in provisions for employee benefits	8	2
Other employee benefits	6	7
TOTAL EMPLOYEE BENEFITS EXPENSES	**97**	**87**
Included in costs of goods sold	23	18
Included in distribution and selling expenses	4	6
Included in general and administrative expenses	70	63

As at 31 December 2014, there were 465 employees (full-time equivalent). As at 31 December 2013, there were 419 employees.

1.6 Other operating revenues and expenses

In 2014, the Company recognized other operating revenues of PLN 10 million (of which almost PLN 6 million related to revenues from re-invoiced costs, PLN 2 million to reversed provisions and almost 1 million to grants received). In the comparable period the Company recognized mainly PLN 6 million of compensations received, PLN 4 million of revenues from reversal of provisions and PLN 3 million of profit from disposal of property, plant and equipment.

In the current period the Company recognized in other operating expenses mainly PLN 6 million related to re-invoiced costs and PLN 3 million related to ceased investment projects, whereas in the corresponding period the Company recognized mainly court fees and a granted donation with a total value of PLN 10 million.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

1.7 Financial income and expenses

The most significant item of the financial income is the non-reciprocal transfer of shares of PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. from PGE Obrót S.A. that took place on 10 September 2014. The value of the non-reciprocal transfer, recognised as a dividend from a subsidiary, amounted to PLN 9,817 million. Since the equity of PGE Obrót S.A. decreased significantly as a result of the non-reciprocal, PGE S.A. recognised impairment loss of shares in PGE Obrót S.A. in the amount of PLN 5,536 million. Details of the conducted impairment test are presented in note B.6 of these financial statements.
The income resulting from the non-reciprocal transfer and impairment loss should be analyzed jointly, therefore in these financial statements financial income from the non-reciprocal transfer is reduced by the amount of recognised impairment loss. Total influence of the non-reciprocal transfer and impairment loss of shares in PGE Obrót S.A. on financial income amounted to PLN 4,281 million.

Details of the transaction are presented in note B.21.3 of these financial statements.

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	5,273	1,062
Interest	235	258
Revaluation of financial instruments	22	40
Foreign exchange gain	13	4
Other	-	15
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS	**5,543**	**1,379**
OTHER FINANCIAL INCOME		
Provisions reversed	-	4
Other	-	1
OTHER FINANCIAL INCOME	**-**	**5**
TOTAL FINANCIAL INCOME	**5,543**	**1,384**

Apart from the non-reciprocal transfer described above, in the period ended 31 December 2014 the Company recognized revenues from dividends received from PGE Obrót S.A. of PLN 900 million and from PGE Dystrybucja S.A. of PLN 91 million.

In the corresponding period, the Company recognized revenues from dividends received from PGE Obrót S.A. of PLN 968 million and from PGE Dystrybucja S.A. of PLN 94 million. A part of the dividend form PGE Obrót S.A. of PLN 86 million was transfered in form of dividend in kind comprising shares of PGE Górnictwo i Energetyka Konwencjonalna S.A.

Interest income relates mainly to bonds issued by subsidiaries and investing available cash in bank deposits.

Revaluation of financial instruments concerns mainly transactions concluded on the market for CO_2 emission rights, described in note B.1.8 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Year ended 31 December 2014	Year ended 31 December 2013
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest expense	99	25
Revaluation	56	-
Impairment loss	386	-
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**541**	**25**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	1	1
Other	-	1
OTHER FINANCIAL EXPENSES	**1**	**2**
TOTAL FINANCIAL EXPENSES	**542**	**27**

Impairment loss includes estimated loss of value of bonds issued by Autostrada Wielkopolska S.A., described in note B.18.5.2.

Interest expense relate mainly to bonds issued and bank loans described in note B.17.1.3 of these financial statements.

Revaluation includes valuation of CCIRS and IRS (ineffective portion of instruments designated as hedging instruments in the cash-flow hedge and total amount regarding other derivatives).

1.8 Valuation of transactions related to trading in CO_2 emission rights

As described in note B.1.7 of these financial statements, income and expenses recognized under the heading "revaluation of the financial instruments" comprise result on transactions related to the CO_2 emission rights (so called trading portfolio). The following table illustrates the effects of particular items related to the CO_2 emission rights on the financial income and expenses.

	Year ended 31 December 2014	Year ended 31 December 2013
Income	**154**	**114**
Valuation of commodity forward	-	96
Valuation of currency forward	2	9
Profit on sale of CO_2 emission rights outside of PGE Group	5	6
Profit on realization of currency forward	-	2
Revaluation of trading portfolio	147	1
Expenses	**(132)**	**(74)**
Valuation of commodity forward	(132)	(67)
Valuation of currency forward	-	(7)
Financial income / (Expenses) related to trading in CO_2 emission rights	**22**	**40**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

2. Income tax

2.1 Tax in the statement of comprehensive income

Main elements of income tax expense for the periods ended 31 December 2014 and 31 December 2013 are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
INCOME TAX PRESENTED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	105	232
Previous periods current income tax adjustments	(38)	1
Deferred income tax	(43)	(31)
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**24**	**202**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
(Tax benefit) / expense recognized in other comprehensive income (equity)	**(15)**	**1**

Previous periods current income tax adjustments relate mainly to refunds of income taxes received in 2014.

2.2 Effective tax rate

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 of the Company is as follows:

	Year ended 31 December 2014	Year ended 31 December 2014 *restated*
PROFIT BEFORE TAX	**5,477**	**2,323**
Income tax according to Polish statutory tax rate of 19%	1,041	441
Previous periods current income tax adjustments	(38)	1
Previous periods deferred income tax adjustments	37	(39)
Difference between accounting and tax approach to the value of the non-reciprocal transfer	1,842	-
Tax losses of companies belonging to the tax capital group	(2,669)	-
Non-taxable income	(189)	(202)
Costs not recognized as tax-deductible costs	1	1
Other	(1)	
TAX AT EFFECTIVE TAX RATE AMOUNTING TO 0.4% [2013: 9%]	**24**	**202**
INCOME TAX (EXPENSE) AS PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	24	202

As a result of the non-reciprocal transfer described in note B.1.7 of these financial statements that took place in 2014, PGE Obrót S.A. recognized significant tax expense and PGE S.A. as the company receiving the non-reciprocal transfer, recognized tax income. Since these two entities belong to the Tax Capital Group revenues and costs related to this non-reciprocal transfer were offset in the combined tax settlement.

As described in note B.2.4 of these financial statements, in accordance with the agreements concluded, when the company belonging to the Tax Capital Group incurs tax loss the respective tax benefits are transfer to the representing company, PGE S.A.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

2.3 Deferred tax in the statement of financial position

	As at 31 December 2014	As at 31 December 2013
COMPONENTS OF DEFERRED TAX ASSET		
Current period costs unrealized for tax purposes	4	37
Difference between tax value and carrying value of financial liabilities	36	-
Difference between tax value and carrying value of financial assets	21	-
Difference between tax value and carrying value of inventories	-	13
Provisions for employee benefits	8	6
Payroll and other employee benefits	2	2
Other	-	2
DEFERRED TAX ASSET	**71**	**60**

The Company does not recognize deferred tax asset related to difference between tax and carrying amount of shares in subsidiaries.

	As at 31 December 2014	As at 31 December 2013
COMPONENTS OF DEFERRED TAX LIABILITY		
Difference between tax value and carrying value of property, plant and equipment	23	25
Difference between tax value and carrying value of other financial assets	2	-
Difference between tax value and carrying value of financial liabilities	2	20
Accrued interest on deposits, loans granted, bonds and receivables	3	49
CO_2 emission rights	15	-
Current period revenues unrealized for tax purposes	4	1
DEFERRED TAX LIABILITY	**49**	**95**

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS :		
Deferred tax asset	22	-
Deferred tax liability	-	(35)

2.4 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 were as follows: in 2014 corporate income tax rate – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to the 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.

During the reporting period there was a change as regards to the date of tax obligation of VAT tax. In particular, by the end of 2013, the general principle in respect of the tax obligation date was as follows: the date of issue of invoice, no later than 7 days from the date of sale, and for the supply of electricity - it was the date of payment. From 1 January 2014 the general principle of the tax obligation date is as follows: the moment of delivery or performance of the service, and for the supply of electricity - the date of issue of invoice.

As at 31 December 2014 and during the reporting period the Company was not the party to significant proceedings relating to state settlements.

Tax Capital Group

On 18 September 2014 an agreement concerning a tax capital group, named "TCG PGE 2015" was executed for a 25-year period. PGE S.A. is the representing company of this group. The TCG PGE 2015 comprises the Company together with PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Dystrybucja S.A., PGE Obrót S.A., PGE Energia Odnawialna S.A., PGE Energia Natury S.A., PGE Dom Maklerski S.A., PGE Systemy S.A., ELBIS sp. z o.o., ELBEST sp. z o.o., ELTUR-SERWIS sp. z o.o., Betrans sp. z o.o., MegaSerwis sp. z o.o., MEGAZEC sp. z o.o., BESTGUM POLSKA sp. z o.o., ELMEN sp. z o.o., TOP SERWIS sp. z o.o. and 15 companies named PGE Inwest, PGE Inwest 2,3,…,15 that were not operational at the time the agreement was signed.

The Polish Corporate Income Tax Act treats tax groups as separate income tax payers. This means that companies within TCG PGE 2015 are not treated as separate entities for corporate income tax purposes (CIT), with TCG PGE 2015 being treated as one whole entity instead. TCG PGE 2015's tax base will constitute the group's aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. TCG PGE 2015 is considered to be a separate entity only for the purposes of corporate income tax. This should not be equated with a separate legal entity. This also does not transfer over to other taxes, with particular emphasis on the fact that each of the companies within TCG PGE 2015 will continue to be a separate payer of VAT and tax on civil-law transactions, as well as withholding agent with respect to personal income tax.

TCG PGE 2015 was registered by tax authorities on 30 October 2014. The agreement is effective from 1 January 2015. Until 31 December 2014, PGE S.A. was a member of a tax group established in 2011, which also included PGE Systemy S.A. and PGE Obrót S.A.

In accordance with agreements on settlement within the Tax Capital Group described above, when the entity generates tax profits, it transfers the appropriate amount of income tax to PGE S.A. PGE S.A. settles with the tax office as the representing company. When entity included in the Tax Capital Group incurs tax loss, the tax benefits are transferred to the representing company, PGE S.A.

Flows between companies included in the TCG are carried out within the year at the periods preceding payment of income tax advances. The final settlement between the companies included in the TCG occurs after submission of the annual declaration.

The companies forming a tax capital group are obligated to meet a number of requirements including: the appropriate level of equity, the parent company's share in companies included in TCG at least at the level of 95%, no equity relationships between subsidiaries, no tax arrears and share of revenue in income at least at the level of 3% (for all TCG), concluding transactions with entities not belonging to TCG solely on market terms. The violation of these requirements will affect in solution of the tax capital group and the loss of status of the taxpayer. Since the solution of group, each of the companies included in the tax group becomes an independent taxpayer for CIT tax purpose.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

3. Property, plant and equipment

	As at 31 December 2014	As at 31 December 2013
Buildings	179	183
Technical equipment	6	5
Vehicles	3	3
Other property, plant and equipment	1	2
Construction in progress	4	3
CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT	**193**	**196**

Additions and disposals of property, plant and equipment

In the reporting period the Company not purchased nor sold any significant property, plant and equipment.

4. Intangible assets

	As at 31 December 2014	As at 31 December 2013
Software	4	2
Non-commissioned intangible assets	2	4
CARRYING VALUE OF INTANGIBLE ASSETS	**6**	**6**

Non-commissioned intangible assets

Presented amount of intangible assets not available for use yet as at 31 December 2014 relates primarily to implementation of information systems within the PGE Group. As at 31 December 2014 the risk of impairment of these assets has not been identified.

5. Lease

The Company shall bear the cost of annual fees for the right of perpetual usufruct of land. The amount of these costs for the year 2014 and 2013 amounted to PLN 1 million.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

6. Shares in subsidiaries

Shares in subsidiaries are recognized at cost less accumulated impairment losses.

	Seat	Share as at 31 December 2014	As at 31 December 2014	Share as at 31 December 2013	As at 31 December 2013 *restated*
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	99.21%	14,856	93.62%	14,569
PGE Dystrybucja S.A.	Lublin	100.00%	10,592	10.08%	950
PGE Obrót S.A.	Rzeszów	100.00%	1,117	100.00%	6,653
PGE Energia Natury S.A.	Warsaw	100.00%	462	100.00%	421
Exatel S.A.	Warsaw	100.00%	428	99.98%	428
PGE Energia Odnawialna S.A.	Warsaw	100.00%	415	100.00%	415
PGE Energia Natury sp. z o.o.	Warsaw	100.00%	397	-	-
PGE EJ 1 sp. z o.o.	Warsaw	100.00%	206	100.00%	131
PGE Systemy S.A.	Warsaw	100.00%	125	100.00%	125
PGE Sweden AB (publ)	Sweden	100.00%	112	-	-
ELBEST sp. z o.o.	Bełchatów	100.00%	101	-	-
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	17
BETRANS sp. z o.o.	Bełchatów	100.00%	35	-	-
ELMEN sp. z o.o.	Rogowiec	100.00%	23	-	-
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	23	-	-
PGE Trading GmbH	Berlin	100.00%	14	100.00%	14
BESTGUM sp. z o.o.	Rogowiec	100.00%	12	-	-
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	-	-
ELBIS sp. z o.o.	Rogowiec	100.00%	8	-	-
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7	-	-
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5	-	-
PGE Obsługa Księgowo-Kadrowa sp. z o.o. *(previously PGE Inwest sp. z o.o.)*	Lublin	100.00%	1	100.00%	1
PGE Energia Natury Bukowo sp. z o.o	Warsaw	-	-	100.00%	28
PGE Energia Natury Karnice sp. z o.o.	Warsaw	-	-	100.00%	16
PGE Energia Natury Olecko sp. z o.o. *(previously EPW Energia Olecko sp. z o.o.)*	Warsaw	-	-	81.00%	1
EPW Energia sp. z o.o.	Warsaw	-	-	32.70%	396
15 limited liability companies companies named PGE Inwest from 2 to 16	Warsaw	100.00%	<1	-	-
TOTAL		-	**29,046**		**24,165**

During the year ended 31 December 2014, the following significant changes in the structure of shares in subsidiaries occurred:

- On 28 February 2014 the division of EPW Energia sp. z o.o. ended. The branches belonging to PGE S.A. were combined with PGE Energia Natury sp. z o.o. Simultaneously during the period, an adjustment to the purchase price was made.
- On 8 April 2014, PGE S.A. purchased the company Goldcup 5812 AB based in Sweden. After the purchase, the company's name was changed and is now known as PGE Sweden AB (publ). The purchase of the company was related to the organization of financing for the PGE Group as described in note B.21.2 of these financial statements.
- In August and September 2014, 14 new limited liability companies (with names: PGE Inwest from 2 to 15) were registered. Total share capital of these entities amounts to PLN 140 thousand. Setting up of companies was connected with the works on creation of new tax capital group as described in note B.2.4 in these financial statements.

- On 31 August 2014 PGE S.A. purchased from its subsidiaries shares in companies: ELBEST sp. z o.o., ELMEN sp. z o.o., ELTUR SERWIS sp. z o.o., TOP Serwis sp. z o.o., BETRANS sp. z o.o., MEGAZEC sp. z o.o., BESTGUM sp. z o.o., Elbis sp. z o.o. and MegaSerwis sp. z o.o. Purchase of these companies was connected with establishing of the tax capital group as described in note B.2.4 of these financial statements.
- On 10 September 2014 PGE S.A. received shares of PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. in form of the non-reciprocal transfer from PGE Obrót S.A. Impact of these transactions on the financial statements of PGE S.A. was described in detail in note B.21.3 of these financial statements.
- On 8 October 2014 PGE S.A. made a contribution in kind to PGE Energia Natury S.A. in form of shares in PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Karnice sp. z o.o. and PGE Energia Natury Olecko sp. z o.o.
- On 29 October 2014 new company, named PGE Inwest 16 sp. z o.o was registered. Setting up of company was connected with development plans of PGE Group.
- Buyout of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. from minority shareholders was taking place during the reporting period. Shares were purchased by PGE S.A. and for redemption by the company itself.

Impairment of shares in PGE Obrót S.A.

As described in note B.21.3 of these financial statements, on 10 September 2014, PGE S.A. received from PGE Obrót S.A. the non-reciprocal transfer in form of shares of PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. Since the equity of PGE Obrót S.A. decreased significantly as a result of the non-reciprocal transfer, PGE S.A. performed impairment test of this item of non-current financial assets.

Impairment test was carried out in accordance with IAS 36 on the basis of discounted cash flows method. Estimates were based on five year financial projections of PGE Obrót S.A. Key assumptions used in the valuation are as follows:

- Weighted average cost of capital (WACC) amounted to 7.85%.
- The increase in total sales volume in 2018 by approximately 3% in comparison to the year 2013.
- Wholesale energy price increase in 2016 in comparison to the year 2013 and decrease in 2018 in comparison to the price level recorded in 2013.
- Correlation between retail and wholesale energy prices influenced by obligation of redemption of energy origin units and increase in the price of energy origin units.

As a result of the impairment test, the market value of PGE Obrót S.A. was determined at PLN 1,117 million, consequently PGE S.A. recognized an impairment loss of PLN 5,536 million. The sensitivity analysis indicated that valuation is the most sensitive to changes in WACC and the electricity price in particular tariff groups, mainly in the group C1. Increase in WACC by 1 p.p. would reduce the valuation of shares by more than PLN 300 million and reduction in WACC by 1 p.p. would increase the valuation of shares by approximately PLN 450 million. The increase or decrease in sales prices realized in the group C1 by 1 p.p. would increase or decrease the valuation of shares by approximately PLN 200 million, respectively.

7. Joint ventures

During the periods ended 31 December 2014 and 31 December 2013, the Company did not participate in significant joint ventures.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

8. Inventories

	As at 31 December 2014			As at 31 December 2013		
	Historical cost	Revaluation	Carrying value	Historical cost	Revaluation	Carrying value
Energy origin rights	15	-	15	8	-	8
CO_2 emission rights - trading portfolio	329	80	409	313	(67)	246
Other CO_2 emission rights	16	-	16	27	-	27
TOTAL INVENTORIES	**360**	**80**	**440**	**348**	**(67)**	**281**

	Year ended 31 December 2014	Year ended 31 December 2013
REVALUATION OF INVENTORIES AS AT 1 JANUARY	**(67)**	**(1)**
Fair value of CO_2 emission rights	147	(66)
REVALUATION OF INVENTORIES AS AT 31 DECEMBER	**80**	**(67)**

Revaluation of inventories of PLN 80 million was raised to adjust the value of CO_2 emission rights in accordance with the principles of valuation of inventories, as described in the accounting principles applied and should be read in conjunction with the revenue from the valuation of forward contracts (as presented in note B.1.8 of these financial statements).

9. Other short-term assets

As at 31 December 2014 the Company presents as other short-term assets mainly advances in the amount of PLN 121 million (including funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity in the amount of PLN 112 million) and prepaid expenses in the amount of PLN 4 million. As at 31 December 2013 the Company presents mainly advances in the amount of PLN 6 million, receivables due to settlement of tax capital group of PLN 2 million and prepaid expenses in the total value of PLN 8 million.

10. Cash

Short-term deposits are made for different periods, from one day up to one month, depending on the Company's needs for cash, and are deposited at individually agreed interest rates.

The balance of cash and cash equivalents comprise the following positions:

	As at 31 December 2014	As at 31 December 2013
Cash on hand and cash at bank	830	281
Overnight deposits	7	208
Short-term deposits	2,151	1,701
TOTAL	**2,988**	**2,190**
Interest accrued on cash, not received at the reporting date	(1)	(2)
Exchange differences on cash in foreign currencies	(8)	-
Cash and cash equivalents presented in the statement of cash flows	**2,979**	**2,188**
including restricted cash	-	*72*
Credit limits at disposal	1,250	1,250
including credit limits on current account	*1,250*	*1,250*

11. Assets and liabilities of the Social Fund

As at 31 December 2014 assets assigned to the Social Fund and other employee funds amounted to PLN 2 million and as at 31 December 2013, PLN 3 million. Assets and liabilities related to the Social Fund are offset for the purpose of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

12. Equity

The basic assumption of the Company's 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 Company. 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 Company.

12.1 Share capital

	As at 31 December 2014	As at December 2013
Number of Series A ordinary Shares with a nominal value of PLN 10 each	1,470,576,500	1,470,576,500
Number of Series B ordinary Shares with a nominal value of PLN 10 each	259,513,500	259,513,500
Number of Series C ordinary Shares with a nominal value of PLN 10 each	73,228,888	73,228,888
Number of Series D ordinary Shares with a nominal value of PLN 10 each	66,441,941	66,441,941
TOTAL NUMBER OF SHARES	**1,869,760,829**	**1,869,760,829**

All shares of the Company are paid up.

Rights of the shareholders - Rights of the State Treasury regarding the Company's operations

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

Special rights that are applicable to PGE Group entities derive from 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 (Official Journal from 2010, No 65, item. 404). Based on this act 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 may result in threat to functioning, continuity of operations and integrity of critical infrastructure. 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 functioning, continuity of operations and integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

The Act introduces 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 Centre.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

12.2 Revaluation reserve

The below table presents changes in revaluation reserve in the reporting period due to applied cash flow hedge accounting:

	Year ended 31 December 2014	Year ended 31 December 2013
REVALUATION RESERVE AS AT 1 JANUARY	**-**	**-**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	(8)	-
Accrued interest on derivatives transferred from revaluation reserve and recognized in interest expense	7	-
Currency revaluation of CCIRS transferred from revaluation reserve and recognized in the result on foreign exchange differences	(74)	-
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit or loss	1	-
REVALUATION RESERVE AS AT 31 DECEMBER, GROSS	**(74)**	**-**
Deferred tax	**14**	**-**
REVALUATION RESERVE LESS DEFERRED TAX	**(60)**	**-**

12.3 Reserve capital

Reserve capital results from statutory allocation of profits generated in previous reporting periods, from surplus of profit distribution in excess of the value of statutory allocations, as well as from merger of PGE S.A. with the subsidiaries.

According to regulations of the Commercial Code, 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 separate financial statements of the Company is transferred to reserve capital, until this capital amounts to at least one third of share capital. The part of reserve capital which amounts to one third of share capital can only be used to cover losses recognized in the separate financial statements and cannot be distributed for other purposes. The General Shareholders' Meetings decides on the use of the reserve capital and other capital reserves.

Reserve capital subject to distribution to shareholders amounted to PLN 2,998 million as at 31 December 2014.

12.4 Other capital reserves

Other capital reserves in the amount of PLN 50 million, which were created from distribution of the profit of PGE Electra S.A. before the merger of this company with PGE Polska Grupa Energetyczna S.A., on the basis of the Resolution of the Annual General Meeting of the Company dated 6 June 2014 has been reversed and the funds were transferred to the reserve capital.

As at 31 December 2014 the Company did not recognize other capital reserves.

12.5 Retained earnings and limitations of payment of dividend

Retained earnings which are not subject to distribution are the amounts which cannot be paid as a dividend.

	As at 31 December 2014	As at 31 December 2013 *restated*
Retained earnings not subject to distribution - profit / (loss) recognized in positions of other comprehensive income	(3)	3
Retained earnings subject to distribution	5.236	2.077
TOTAL RETAINED EARNINGS PRESENTED IN THE STATEMENT	**5.233**	**2.080**

For information regarding limitations of payment of dividend from reserve capital please refer to the note B.12.3 of these financial statements. As at 31 December 2014 there were no other restrictions on payment of dividends.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

12.6 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.

Diluted earnings per share shall be calculated 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).

	Year ended 31 December 2014	Year ended 31 December 2013
NET PROFIT	**5,453**	**2,121**
NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**5,453**	**2,121**
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
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USD TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	**2.92**	**1.13**

12.7 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the year ended		
	31 December 2014	31 December 2013	31 December 2012
CASH DIVIDENDS FROM ORDINARY SHARES			
Dividend paid from retained earnings	-	2,057	784
Dividend paid from reserve capital	-	-	824
TOTAL CASH DIVIDENDS FROM ORDINARY SHARES	**-**	**2,057**	**1,608**
Cash dividends per share (in PLN)	**-**	**1.10**	**0.86**

Dividend from the profit for the year ended 31 December 2014

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 the profit distribution as well as before of the decision about the amount of dividend is taken.

Until the date of preparation of the financial statement suggested distribution of the Company’s profit for 2014 was not been approved yet. According to the Dividend Policy implemented by PGE S.A. the Company’s Management Board intends to recommend dividend payment of about 40-50% of the net profit attributable to the shareholders of the parent company, reported in the consolidated financial statements.

Dividend from the profit for year ended 31 December 2013

On 6 June 2014, the General Shareholders Meeting of PGE S.A. resolved to distribute PLN 2.057 million from the net profit of 2013 as a dividend (that comprises dividend of PLN 1.10 per share). Dividend determined by the resolution of the Ordinary General Meeting of 6 June 2014 was paid on 26 September 2014.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

13. Provisions

The carrying value of provisions is as follows:

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Post-employment benefits	18	2	16	1
Provisions for jubilee awards	2	-	3	1
Provisions for employee bonuses and other	-	27	-	20
Provisions for third parties claims	-	-	-	2
Other provisions	-	4	-	5
TOTAL PROVISIONS	**20**	**33**	**19**	**29**

Changes in provisions

Year ended 31 December 2014

	Post-employment benefits	Provisions for jubilee awards	Provisions for third parties claims	Provisions for employee bonuses and other	Other	Total
AS AT 1 JANUARY 2014	**17**	**4**	**2**	**20**	**5**	**48**
Discount rate adjustment	4	-	-	-	-	**4**
Interest costs	1	-	-	-	-	**1**
Benefits paid / Provisions used	(2)	(2)	-	(25)	(2)	**(31)**
Provisions raised	-	-	-	32	1	**33**
Provisions reversed	-	-	(2)	-	-	**(2)**
AS AT 31 DECEMBER 2014	**20**	**2**	**-**	**27**	**4**	**53**

Year ended 31 December 2013

	Post-employment benefits	Provisions for jubilee awards	Provisions for third parties claims	Provisions for employee bonuses and other	Other	Total
AS AT 1 JANUARY 2013	**20**	**4**	**206**	**16**	**4**	**250**
Actuarial gains and losses excluding discount rate adjustment	(3)	-	-	-	-	**(3)**
Discount rate adjustment	(1)	-	-	-	-	**(1)**
Current service costs	1	-	-	-	-	**1**
Interest costs	1	-	-	-	-	**1**
Benefits paid / Provisions used	(1)	-	(196)	(23)	-	**(220)**
Provisions raised	-	-	-	27	2	**29**
Provisions reversed	-	-	(8)		(1)	**(9)**
AS AT 31 DECEMBER 2013	**17**	**4**	**2**	**20**	**5**	**48**

Provision for third parties claims presented in the comparative period relates to a dispute with Alpiq, ended in 2013.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Based on information obtained from an actuary, the Company assesses that the influence of changes in assumptions on the value of provisions for jubilee awards would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), the respective provisions would decrease by ca. 7% and should the discount rate be lower by 1 p.p. the respective provisions would increase by ca. 6%,
- should the growth rates be higher by 1 p.p., the respective provisions would increase by ca. 7% and should the rates be lower by 1 p.p., relevant provisions would decrease by ca. 8%.

14. Post-employment benefits

The amount of provisions for post-employee benefit disclosed in the financial statements results from the valuation prepared by the independent actuary.

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

	As at 31 December 2014	As at 31 December 2013
Expected inflation rate (%)	2.20-2.50%	1.80-3.40%
Discount rate (%)	2.60%	4.35%
Employee turnover (%)	8.4%	8.83%
Expected salary growth rate (%)	2.36%	2.74%
Expected medical benefits costs growth rate (%)	0-2.30%	0-2.90%
Expected Social Fund (ZFŚS) allowance rate (%)	3.50-5.00%	3.50-5.00%

The current book value of provisions for employee benefits:

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Retirement, pension and other benefits provisions	1	1	1	-
Energy tariff	7	1	8	1
Social Fund	6	-	4	-
Medical benefits	4	-	3	-
TOTAL EMPLOYEE BENEFITS	**18**	**2**	**16**	**1**

Based on information obtained from an actuary, the Company assesses that the influence of changes in assumptions on the value of provisions for retirement and pension benefits, social fund and medical benefits would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), the respective provisions would decrease by ca. 9% and should the discount rate be lower by 1 p.p. the respective provisions would increase by ca. 11%,
- should the growth rates be higher by 1 p.p., the respective provisions would increase by ca. 12% and should the rates be lower by 1 p.p., relevant provisions would decrease by ca. 9%.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

15. Other non-financial liabilities

The main components of non-financial liabilities as at respective reporting dates are as follows:

	As at 31 December 2014	As at 31 December 2013
Liabilities due to settlements in the Tax Capital Group	23	35
VAT liabilities	7	133
Payroll liabilities	1	-
Personal income tax	1	1
Liabilities for social insurances	1	1
Other	2	2
TOTAL OTHER LIABILITIES	**35**	**172**

PGE S.A. is the representing company in the Tax Capital Group that includes the Company and its subsidiaries. For principles of operation and settlement between the companies please refer to the note B.2.4 of these financial statements.

Decrease in balance of output VAT liabilities results from changes in tax law as regards to the date of tax obligation, especially for the supply of electricity. Until the end of 2013 the tax obligation for the supply of electricity arose at the date of payment, while from 1 January 2014 the tax obligation arises as the date of invoice issue.

16. Contingent liabilities and receivables. Legal claims

16.1 Contingent liabilitue

	As at 31 December 2014	As at 31 December 2013
Bank guarantees	12,644	23
Other contingent liabilities	1	1
TOTAL CONTINGENT LIABILITIES	**12,645**	**24**

Surety for the obligations of PGE Sweden AB (publ)

In connection with the establishment of the eurobonds programme, disclosed in note B.21.2 of these financial statements, on 22 May 2014 an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted up to the total amount of EUR 2,500 million (PLN 10.656 million) and will be valid until 31 December 2041. As at 31 December 2014 PGE Sweden AB (publ) liabilities due to bonds issued amounted to EUR 641 million (PLN 2,731 million).

Surety for the obligations of PGE Górnictwo i Energetyka Konwencjonalna S.A.

In January 2014, the Company granted three sureties to pay the bank guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. The total value of sureties is PLN 1,971 million. Granting guaranties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. in the construction of the new power units in Elektrownia Opole.

16.2 Other significant issues related to contingent liabilities

Promise referring to ensuring financing of new investments in Group companies

Due to planned strategic investments in PGE Group, the Company committed, in the form of promises to group companies, to ensure financing of planned investments. The promises relate to specific investments and may be used only for such purposes. As at 31 December 2014 the estimated value of the promise amounts to PLN 15 billion, as at 31 December 2013 amounted to PLN 15.2 billion.

Commitment to support liquidity at PGE Obrót S.A.

As has been described in note B.21.3 to these financial statements, on 10 September 2014 PGE Obrót S.A. transferred to PGE S.A., in form of a non-reciprocal transfer, its shares in PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. Because this transaction resulted in a substantial decrease in PGE Obrót S.A.'s equity, the Company committed to ensure the liquidity of PGE Obrót S.A. if this entity was to face insolvency. Ensuring liquidity can take form of a capital increase, debt financing or other activities aimed at reducing the likelihood of insolvency.

Also on 10 September 2014 PGE Obrót S.A. and PGE S.A. executed a debt subordination agreement pursuant to which, in the event that PGE Obrót S.A. becomes insolvent, PGE S.A.'s receivables from PGE Obrót S.A. will constitute subordinated debt.

At the date on which these financial statements were prepared, there were no indications of default risk at PGE Obrót S.A.

16.3 Other legal claims and disputes

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 of the above, on 12 November 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit to impose a compensation in the total amount of over PLN 493 million (plus interest) for damages incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. In accordance with the court decision the Company has a 4-month term for response to the lawsuit filed.

PGE S.A. does not recognize the claims of Socrates Investment S.A. and other shareholders who call for trial settlements. These claims are unfounded. In PGE S.A.'s opinion the consolidation process was conducted fairly and properly. The value of the shares, which were subject to the process of consolidation (merger) were valued by the independent company PwC Polska sp. z o.o. Additionally, the plan of the merger, including the 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.

For the reported claims, the Company has not created a provision.

Claims for annulment of the resolutions of the General Shareholders Meetings

On 1 April 2014 and on 17 September 2014 PGE S.A. received a copies of lawsuits filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Shareholders Meeting of the Company held on 6 February 2014 and for annulment of the resolution 4 of the Ordinary General Shareholders Meeting of the Company held on 6 June 2014.

The Company filed responses to the claims.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17. Financial Instruments

17.1 Description of significant position within particular classes of financial instruments

17.1.1 Loans and receivables

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Bonds, bills and notes receivables	3,797	67	3,302	6
Loans granted	30	2	28	56
Other financial receivables	-	20	-	38
TOTAL LOANS AND RECEIVABLES, EXCLUDING TRADE RECEIVABLES	3,827	89	3,330	100
TRADE RECEIVABLES	-	598	-	771

Acquired bonds

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
ACQUIRED BONDS - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	2,653	12	2,018	3
PGE Energia Odnawialna S.A.	729	1	728	1
PGE Energia Natury Omikron sp. z o.o.	145	-	145	2
PGE Energia Natury PEW sp. z o.o.	270	1	-	-
PGE Energia Natury Kappa sp. z o.o.	-	50	50	-
PGE Energia Natury S.A.	-	3	3	-
Autostrada Wielkopolska S.A.	-	-	358	-
TOTAL BONDS ACQUIRED	3,797	67	3,302	6

PGE S.A. acquires bonds issued by subsidiaries. Cash obtained from the issue of bonds is used for financing the investments, repayment of financial liabilities as well as for financing current operations. Interests are calculated on the basis of WIBOR (1M, 3M, 6M) plus margin.

As described in note B.18.5.2 acquired bonds issued by Autostrada Wielkopolska S.A. were fully impaired.

Loans granted

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	30	-	28	-
PGE Energia Natury PEW sp. z o.o.	-	-	-	23
PGE Energia Natury sp. z o.o.	-	-	-	19
PGE EJ 1 sp. z o.o.	-	-	-	12
PGE Energia Natury Olecko sp. z o.o.	-	2	-	2
TOTAL LOANS GRANTED	30	2	28	56

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Other financial receivables

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Security deposits	-	20	-	33
Other	-	-	-	5
TOTAL OTHER RECEIVABLES	**-**	**20**	**-**	**38**

Trade receivables

Trade receivables in the amount of PLN 598 million relate mainly to the sale of electricity and services to subsidiaries in PGE Group. As at 31 December 2014 the balance of three most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dystrybucja S.A., constituted for 91% of total balance of trade receivables.

Additional information relating to trade receivables is presented in note B.18.5 of these financial statements.

17.1.2 Financial assets and liabilities at fair value through profit or loss

In accordance with the International Financial Reporting Standards, the Company recognizes in its financial statements all derivatives measured at fair value.

	As at 31 December 2014	As at 31 December 2013
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Commodity forward	-	96
Currency forward	11	8
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**11**	**104**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOS		
Commodity forward	37	-
Currency forward	-	1
IRS hedging transactions	54	-
CCIRS hedging transactions	8	-
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE	**99**	**1**

Commodity and currency forwards

Commodity and currency forwards relate mainly to CO_2 emissions rights trade.

IRS hedging transactions

In the reporting period the Company concluded 2 IRS transactions, hedging the interest rate on issued bonds with a nominal value of PLN 1,000 million. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transaction are recognized fully in profit or loss.

CCIRS hedging transactions

In connection with loan received from PGE Sweden AB (publ), disclosed in note B.21.2 of these financial statements, in June and August 2014 the Company concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

For the CCIRS transactions the Company applies hedge accounting. The impact of hedge accounting is presented in note B.12.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17.1.3 Interest-bearing borrowings, loans and bonds

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Loans and borrowings	2,754	58	-	-
Bonds issued	1,000	-	1,000	-
TOTAL BANK CREDITS, LOANS, BONDS AND LEASE	**3,754**	**58**	**1,000**	**-**

Loans received from PGE Sweden AB (publ)

In the line "loans and borrowings" the Company presents a loan of EUR 660 million drawn from a subsidiary – PGE Sweden AB (publ). The financing provided by PGE Sweden AB (publ) is described in note B.21.2 of these financial statements.

Issuance of bonds on domestic market

In addition to the above mentioned financing, the Company has the ability to finance its own operations through two bond issue programs:

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. On 27 June 2013, the first non-public issuance took place 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 27 June 2018. On 29 August 2013 the bonds were floated in the Alternative Trading System organized by BondSpot S.A. and Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).
- The bond issue program in the amount of PLN 5 billion directed towards entities within the PGE Group.

As at 31 December 2014 and 31 December 2013 the value of remaining available credit limits on current accounts amounted to PLN 1,250 million.

The credit lines in the current accounts are available until 30 July 2016.

Bank loans

On 17 December 2014 the Company signed a Loan Agreement in the amount of PLN 1,000 million with Bank Gospodarstwa Krajowego with the maturity date of 31 December 2027. As at 31 December 2014 the credit was not used.

Interest-bearing borrowings, loans, bonds

As at 31 December 2014

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1,000	1,000	Indefinite program, maturity date of the tranche issued - June 2018
	Fixed	-	-	
TOTAL PLN			**1,000**	
EUR	Variable	-	-	
	Fixed	515	2,194	June 2019
	Fixed	145	618	July 2029
TOTAL EUR			**2,812**	
TOTAL BORROWINGS, LOANS AND BONDS			**3,812**	

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

As at 31 December 2013

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1,000	1,000	Indefinite program, maturity date of the tranche issued - June 2018
	Fixed	-	-	-
TOTAL BORROWINGS, LOANS AND BONDS			**1,000**	

The following table illustrates changes in interest-bearing debt in the years ended 31 December 2014 and 2013:

	Year ended 31 December 2014	Year ended 31 December 2013
AS AT 1 JANUARY	**1,000**	**143**
CHANGE IN OVERDRAFTS	**-**	**(143)**
CHANGE IN OTHER LOANS, BORROWINGS AND BONDS	**2,812**	**1,000**
Drawn loans and borrowings and issued bonds	2,720	1,000
Accrued interest	63	-
Repayment of loans and borrowings / redemption of bonds	(53)	-
Foreign exchange differences	82	-
AS AT 31 DECEMBER	**3,812**	**1,000**

17.1.4 Other financial liabilities measured at amortized cost

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Purchase of property, plant and equipment and intangible assets	-	2	-	1
Security deposits	-	4	-	3
TOTAL OTHER FINANCIAL LIABILITIES	**-**	**6**	**-**	**4**
TRADE LIABILITIES	**-**	**237**	**-**	**132**

Trade liabilities

Trade liabilities relate mainly to purchase of electricity. The majority of the Company's liabilities are liabilities towards subsidiaries of PGE Group.

17.2 Fair value of financial instruments

The carrying value of loans and receivables and financial liabilities at amortised cost, except for loans received from PGE Sweden AB (publ) represents a reasonable approximation of their fair value.

The Company believes that the carrying value of loans granted to subsidiaries (including bonds) is not significantly different from their fair value, because the interest rate is based on macroeconomic indicators (corresponding WIBOR) plus a margin that reflects the credit risk, and the interest rate is periodically updated.

In case of loans received from PGE Sweden AB (publ), PGE S.A. estimated fair value at PLN 2,919 million (as compared to PLN 2,812 million of the carrying value). The fair value was determined using the estimated credit risk of PGE S.A. It is Level 2 of fair value hierarchy.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17.3 Fair value hierarchy

Inventories

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

Derivatives

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

In the category of financial assets at fair value through profit, the Company presents derivatives related to greenhouse gases emission rights – currency and commodities forwards (Level 2). In the category of financial liabilities at fair value through profit, the Company presents currency forwards as well as CCIRS and IRS hedging transactions (Level 2).

	As at 31 December 2014		As at 31 December 2013	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
CO_2 emission rights	409	-	246	-
Inventories	**409**	**-**	**246**	**-**
Commodity forward	-	-	-	96
Currency forward	-	11	-	8
Financial assets	**-**	**11**	**-**	**104**
Currency forward	-	-	-	1
CCIRS valuation	-	8	-	-
IRS valuation	-	54	-	-
Commodity forward	-	37	-	-
Financial liabilities	**-**	**99**	**-**	**1**

During the current and comparative reporting periods, there have been no transfers of derivatives between the first and the second level of fair value hierarchy.

Inventories are described in note B.8 of these financial statement, financial assets and liabilities at fair value through profit or loss are presented in note B.17.1.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The table below presents terms of each of derivatives:

	As at 31 December 2014		As at 31 December 2013		
	Carrying value in PLN	Nominal value in currency	Carrying value in PLN	Nominal value in currency	Maturity
Currency forward - EUR	11	113	8	94	to January 2017
Commodity forward sale - EUA - EUR	-	-	96	106	to December 2016
Commodity forward purchase - EUA - EUR	-	-		17	to December 2016
FINANCIAL ASSETS	**11**		**104**		
Currency forward - EUR	-	5	(1)	18	to January 2016
Commodity forward sale - EUA - EUR	(37)	135	-	-	to December 2016
Commodity forward purchase - EUA - EUR		40	-	-	to December 2016
CCIRS – EUR to PLN	(8)	514	-	-	to June 2019
		144	-	-	to July 2029
IRS - rate % PLN	(54)	1,000	-	-	to June 2018
FINANCIAL LIABILITIES	**(99)**	**-**	**(1)**	**-**	

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

The primary assets of the Company 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 possibility of using measurement techniques for reliable valuation of given shares. Due to the above, the Company is not able to establish a range of reasonable fair value estimates. Such assets are measured at cost less impairment losses.

17.4 Collaterals for repayment of receivables and liabilities

The Company uses a variety of collaterals and its combinations. The most frequently used are execution statements. Additionally, the Company uses the power of attorney for the bank accounts and assignment of receivables. As a rule, subsidiaries' liabilities toward PGE S.A. are not being hedged.

As at 31 December 2014 Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17.5 Statement of comprehensive income

The table below presents the combined effect of the various categories of the financial instruments on the financial income and expenses.

YEAR ENDED 31 DECEMBER 2014	Assets and liabilities at fair value through profit and loss and cash	Shares in subsidiaries	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	5,273	-	-	-	**5,273**
Interest income/ (expense)	11	-	-	187	(62)	**136**
Exchange gains / (losses)	93	-	-	5	(85)	**13**
Reversal of impairment allowances / increase of value	22	-	-	-	-	**22**
Creation of impairment allowances / decrease of value	(56)	-	-	(386)	-	**(442)**
TOTAL PROFIT/ (LOSS)	**70**	**5,273**	**-**	(194)	**(147)**	**5,002**

Creation of impairment allowance on loans and receivables of PLN 386 million relates mainly to impairment loss of the bonds issued by Autostrada Wielkopolska S.A.

FOR YEAR ENDED 31 DECEMBER 2013 *restated*	Assets and liabilities at fair value through profit and loss and cash	Shares in subsidiaries	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	1,062	-	-	-	**1,062**
Interest income/ (expense)	46	-	-	213	(18)	**241**
Exchange gains / (losses)	1	-	-	4	(1)	**4**
Reversal of impairment allowances / increase of value	40	-	-	-	-	**40**
Creation of impairment allowances / decrease of value	-	-	-	-	-	**-**
Gains / (losses) on investment disposals			14		(7)	**7**
TOTAL PROFIT/ (LOSS)	**87**	**1,062**	**14**	**217**	**(26)**	**1,354**

18. Objectives and principles of credit risk management

Due to the type of business activities, the Company is exposed to the following types of financial risk:

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

The main objective of financial risk management in the Company is to reduce fluctuations of cash flows and financial result related to Company's exposure to market risk, as well as to other categories of financial risk, especially credit risk, to the level acceptable by the Company.

The objectives are achieved with the use of the mechanism of natural hedging and hedging derivative transactions in the range compliant with the Company's internal regulations of PGE Group.

The Company does not execute derivative transactions for any reason other than in order to secure the identified exposure to market risk. Accordingly, it is not allowed in the Group, in the area of derivative transactions, to enter into speculative transactions, i.e. such transactions, which increases the exposure to the interest rate risk or foreign currency risk as compared to its level arising out of the identified sources of companies' exposure to the above listed types of market risk and are aimed at gaining additional earnings from the change of risk factors levels.

In the PGE Group, the supreme goal of financial risk management is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management. This goal is attained through reducing the effect of risk factors changes on the range of cash flows and financial result fluctuations arising out of the PGE Group's exposure to financial risk. The financial risk management activities are integrated from the perspective of the PGE Group as a whole with a leading role of the Company being the center of competence in this area. This means that the process of risk management takes into account the sources of exposure to the risk generated by individual areas of business, co-relationships between them and their aggregate influence on the risk profile and the financial situation of the PGE Group. The intent is to use the natural possibilities of compensating opposite positions appearing in the Group.

Financial risk management model includes:

- collection and consolidation of data on exposure to particular categories of financial risk,
- calculation and analysis of the aggregate measures of financial risk and a global risk measurement,
- management of PGE Group consolidated exposure in relation to capital at risk and risk limits established on its basis (including the identification and implementation of hedging strategies).

Responsibility for the infrastructure of financial risk management is vested in the Management Board of PGE S.A. that determines also the risk appetite which is an acceptable level of worsening of the financial result of the PGE Group, taking into account its current and projected economic and financial situation. The Management Board also decides on the allocation of the risk appetite to individual areas of business activity. In the PGE Group the Risk Committee operates that supervises the process of risk management as well as the scope and level of the Group's exposure to significant risks (including financial risks) in the relation to applicable limits and risk appetite. The Risk Committee takes key decisions in the area of risk management concerning, among others, setting risk limits as part of the risk appetite determined by the Management Board of PGE S.A., as well as the approval of applied methods and instruments in the area of commercial and hedging operations.

The organization of a function of financial risk management is based on the principle of autonomy of an entity responsible for measurement and control of risk vs business entities (risk owners) responsible for taking and managing the risk on an ongoing basis. The risk control function being independent from business entities assuming the risk is guaranteed by way of locating the risk unit in a separate division in the Company's organizational structure and of independent reporting lines for the Risk Committee and the Management Board of PGE S.A.

In the key areas for financial risks, including the market risk – price, foreign exchange and interest rate risks – the PGE Group has developed internal rules for risk management and it is currently at the stage of their implementation. Regarding its commercial business, the Group applies the rules arising out of the Credit Risk Management Policy. The rules for financial risk management support a business decision making process and attainment of assumed strategic goals with the concurrent risk optimization. They are implemented through identification of financial risk sources, their mutual co-relations and resulting threats and scale of their potential effect on the attainment of business goals with the unequivocal determination of responsibility for management of individual types of risk by their owners. In the process of risk management there are applied the mechanisms of control and limitation of risk effect on the attainment of strategic goals to the level acceptable by the PGE Group expressed by the risk appetite and limits structure.

The risk owners execute transactions exclusively in the scope of the agreed area of operations and approved procedures, markets and types of instruments/transactions. A decision regarding the scope of operations, on an each time basis, is preceded with an independent assessment of, among others, a risk unit, in respect of the generated risk profile, effect on risk exposure of the PGE Group and requirements to be met by risk control and it must be also approved by the Risk Committee.

A target approach to the market (price), interest rate and foreign currency risks management in the PGE Group assumes the transfer of market risk generated by the companies from the PGE Group to the dominant entity, i.e. PGE S.A., by way of internal transactions. The internal transactions are executed on an arm's length basis.

18.1 Liquidity Risk

The main task in the process of management of liquidity risk in the PGE Group is to plan and to report on a regular basis the liquidity of PGE S.A. and its main subsidiaries. The PGE Group monitors the risk of losing the liquidity with the use of periodical liquidity planning tools, i.e. prepared forecasts of cash flows from operating, investing and financing activities. The purpose of the PGE Group is to maintain balance between continuity and flexibility of financing through the use of differentiated sources of financing, such as: overdraft facilities, investment loans, national bonds and Eurobonds. Moreover, the dominant entity conducts the on-going monitoring of performance of covenants stipulated in the agreements for financing and their forecasts in subsequent periods.

The above activities allow to determine the PGE Group's debt raising capacity and ensure the capacity to repay debt on a long-term basis. They also affect the determination of its investment abilities.

In the PGE Group a central financing model applies, which provides that principally, the external financing is executed by PGE Polska Grupa Energetyczna S.A. The subsidiaries in the PGE Group use various sources of intra-group financing, such as: loans, bonds or cash pooling agreements.

The Company actively invest free funds, which means that it monitors the financial surplus and forecasts future cash flows and on this ground it implements the investment strategy in respect of free funds in pursuit to attain investment strategy goals.

In the case of insufficient funds, the Company uses the available sources of financing:

- bank credits granted in current account;
- bank accounts consolidation agreements (cash-pool);
- bond issue addressed to external investors;
- loans granted by the subsidiaries in the PGE Group;
- bonds issue acquired by the subsidiaries in the PGE Group.

The Company regularly monitors the risk of lack of funds with the use of a periodical liquidity planning tools i.e. cash flow projections prepared in respect of the operating, investing and financing activities.

The Company is exposed to liquidity risk in the following areas:

- core operations of the Company – liquidity risks results from maladjustment of structure of dates of operating cash flows and execution of assets and liabilities;
- market risk exposure – liquidity risk results from possible necessity of settlement of hedging forward contracts, the value of which is negative from the point of view of the Company (in case of necessity of premature transactions settlement in conjunction with the failure of the contract by the contractor) or the necessity of granting a guarantee to the second party of the collateral deposit transaction (cash collateral lodged for participation in commodity exchanges), in the case of negative valuation of derivatives over the duration of a collateral transaction;
- allocation of free cash of the companies – 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The below table presents maturity of the Company's financial liabilities in accordance with the maturity date, based on contractual non-discounted payments.

AS AT 31 DECEMBER 2014	Carrying value	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Loans and borrowings	**2,812**	**3,274**	8	51	2,412	803
Bonds issued	**1,000**	**1,097**	-	28	1,069	-
Trade and other financial liabilities measured at amortized cost	**243**	**243**	241	2	-	-
Derivatives	**99**	**65**	5	84	43	(67)
TOTAL	**4,154**	**4,678**	**253**	**165**	**3,524**	**736**

AS AT 31 DECEMBER 2013	Carrying value	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Bonds issued	**1,000**	**1,154**	-	34	1,120	-
Trade and other financial liabilities measured at amortized cost	**136**	**136**	136	-	-	-
Derivatives	**1**	**1**	-	1	-	-
TOTAL	**1,137**	**1,291**	**136**	**35**	**1,120**	**-**

18.2 Interest rate risk

The Company is 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 entity is exposed to interest rate risk related to cash, investment in debt instruments, liabilities from loans granted, bonds issued and acquired and changes in fair value of derivatives swaps resulting from changes in interest rates.

Bonds issued under the Bonds issue program in the amount of PLN 5 billion, described in note B.17.1.3 of these financial statements, are interest-bearing bonds at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions, described in note B.17.1.3.

Loans received from a subsidiary PGE Sweden AB (publ) are interest bearing loans at a fixed interest rate in EUR. Payments for these loans are hedged by CCIRS transactions described in note B.17.1.3.

The companies from the PGE Group, including PGE S.A., execute derivative transactions in respect of instruments based on the interest rate exclusively in order to secure the identified risk exposure. Accordingly, it is not permitted in the PGE Group as regards derivative transactions based on the interest rate, to enter into speculative transactions, i.e., ones, which increase the interest rate risk exposure as compared to the level arising out of the identified exposure sources of the companies and are aimed at obtaining additional gains arising from the risk factors levels fluctuations.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The below table presents the Company's exposure to interest rate risk and risk concentration by currencies:

		Type of interest rate	As at 31 December 2014	As at 31 December 2013 *restated*
Financial assets at fair value exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	-
	EUR	Fixed	-	-
		Variable	11	104
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	5,803	4,989
		Variable	2,846	201
	EUR	Fixed	611	33
		Variable	-	358
Financial liabilities at fair value exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(54)	-
	EUR	Fixed	-	-
		Variable	(45)	(1)
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(1,000)	(1,000)
	EUR	Fixed	(2,812)	-
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**5,803**	**4,989**
		Variable	**(586)**	**(799)**
	EUR	**Fixed**	**(2,201)**	**33**
		Variable	**(34)**	**461**

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.

18.3 Currency risk

The Company is exposed to currency transaction risk and currency translation risk.

The main sources of exposure to currency risk are presented below:

- loans and borrowings denominated in foreign currencies;
- sales of electricity denominated in foreign currencies (export);
- purchases of electricity denominated in foreign currencies (import);
- fees denominated in or indexed to foreign currency relevant to purchase of transmission capacities;
- sales and purchases of CO_2 emission rights and gas denominated in or indexed to foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies,
- foreign subsidiaries.

The Company enters into currency based derivative transactions only in the purpose to hedge identified exposure to risk. Thus, the Company is not permitted, within a range of currency based derivative transactions, to enter into speculative transactions, i.e. those that increase exposure to currency risk in comparison with their level resulting from identified sources of exposure and that aim to obtain additional gains from risk factor changes.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

	Total carrying amount in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2014			
		EUR		USD	
		Currency	PLN	Currency	PLN
FINANCIAL ASSETS					
Bonds, bills and notes receivable acquired	3,864	-	-	-	-
Cash and cash equivalents	2,988	143	610	-	-
Trade receivables	598	4	17	-	-
Loans granted	32	-	-	-	-
Other financial receivables	20	-	-	-	-
Derivatives – currency forward	11	69	294	-	-
FINANCIAL LIABILITIES					
Derivatives – commodity forward	(37)	(37)	(158)	-	-
Derivatives – currency forward	-	(5)	(22)	-	-
Derivatives CCIRS	(8)	740	3,154	-	-
Derivatives IRS	(54)	-	-	-	-
Interest-bearing loans and borrowings	(2,812)	(660)	(2,812)	-	-
Bonds issued and other debt securities	(1,000)	-	-	-	-
Trade and other financial liabilities measured at amortized cost	(243)	(9)	(38)	<1	1
NET CURRENCY POSITION		**245**	**1,045**	**<1**	**1**

The carrying value of derivative instruments is fair value measurement. The value of derivatives' (forward) exposure to currency risk is their nominal value at currency. The value of currency risk exposure for CCIRS derivatives is the value of discounted cash flows of currency leg.

The above table regarding the Company's exposure to currency risk as at 31 December 2014 contains loans received from PGE Sweden AB. The entity raises funds through the Eurobonds issues under the Euro Medium Term Note Programme, described in note B.17.1.3 of these financial statements. Exchange rate at which the bounds will be repaid was secured by hedging instruments CCIR, described in note B.17.1.3.

Restated	Total carrying amount in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2013			
		EUR		USD	
		Currency	PLN	Currency	PLN
FINANCIAL ASSETS					
Bonds, bills and notes receivable acquired	3,307	86	358	-	-
Cash and cash equivalents	2,190	8	33	-	-
Trade receivables	771	1	4	-	-
Loans granted	84	-	-	-	-
Other financial receivables	38	-	-	-	-
Derivatives – commodity forward	96	65	270	-	-
Derivatives – currency forward	8	94	390	-	-
FINANCIAL LIABILITIES					
Derivatives – currency forward	(1)	(6)	(23)	-	-
Bonds issued and other debt securities	(1,000)	-	-	-	-
Trade and other financial liabilities measured at amortized cost	(136)	(1)	(5)	<1	(1)
NET CURRENCY POSITION		**247**	**1,027**	**<1**	**(1)**

The carrying value of derivative instruments is fair value measurement. The value of derivatives' (forward) exposure to currency risk is their nominal value at currency.

18.4 Price risk

Due to the type of Company's business activities, the Company is exposed to change of cash flows and financial results due to price changes of the following risk factors:

- electric energy;
- CO_2 emission rights;
- energy origin rights.

The main objective of market risk management is to shape the optimal relations between the profit generated and incurred and acceptable by the Group level of risk. The defined objective is realized by reducing potential changes of financial result and the level of cash flows resulting from market prices fluctuations of electric energy and related products.

The PGE Group has determined and has been implementing the internal rules for market risk management including the determination of the global risk appetite, risk limits measured "at risk" as well as the management of consolidated exposure to the price risk of prices of commodities and mechanisms hedging the risk levels in excess of the acceptable level, with the leading role of the Company in this process. This allows to create hedging strategies in the area of electricity and related products taking into account the risk borne by the PGE Group in relation to the expected return on assets.

The market risk management policy stipulates uniform assumptions for material companies from the PGE Group for the organisation of that process in the context of commercial strategies and medium-term planning, including among others:

- division of responsibility of individual units;
- specification of accepted products, markets and strategies of operation;
- rules for the calculation of open contract position for individual scopes of commercial activity;
- level of accepted risk with the principles of allocation and management of the risk exposed;
- applicable risk limits;
- risk quantification methodology (including, inter alia, nominal measures, VaR, PaR, scenario analyses, stress tests);
- data and reporting circulation in the risk management process (specifically in the area of application of limits and implementation of hedging strategies).

The management of the consolidated exposure to the market risk in the area of commercial operations of the PGE Group and material risk factors includes the global measurement of market risk, calculation of aggregated risk measures based on, among others, a concept of value at risk (including VaR and PaR), maintaining the level of risk borne within acceptable limits as well as security of the risk exceeding that level and regular reporting of the global exposure level with respect to the risk limits.

The PGE Group has developed the rules for strategies to secure the key exposures in the area of trading in electricity and related products equivalent to the risk appetite at medium-term (up to 5 years, with the assumption of availability of required markets liquidity). The level of securing the position is determined taking into account the results of measurement of the risk of electricity and related products prices. The results of the risk measurement show the expected income in individual years and the value of potential deviations from the expected values with the assumed probability. The PGE Group assesses the results of the measurement in the context of its risk appetite and the possibilities of hedging the risk of electricity and related products prices, taking into account liquidity of individual markets. Furthermore, while setting out the target hedge ratios, the PGE Group considers its financial situation, including in particular the assumed goals resulting from the strategy adopted by the Group.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

18.5 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 Company is exposed to credit risk arising in the following areas:

- Basic activities – the credit risk results from, among others, purchases and sales of electric energy, energy origin rights, gas and CO_2 emission rights. It also relates to the possibility of a lack of obligations fulfilment of the other party of transaction, if fair value of the transaction is positive from the point of view of the Company;
- Allocation of free cash – the credit risk results from investing free cash of PGE S.A. in securities bearing credit risk i.e. financial instruments other than those issued by State Treasury.

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

- Trade receivables from key customers. As described in note B.17.1.1. to these financial statements as at 31 December 2014 the three most significant customers accounted for ca. 91% of the trade receivables balance.
- Bonds issued by the subsidiaries.

Maximum credit risk exposure resulting from Company's financial assets is equal to the carrying value of these items.

	Year ended 31 December 2014	Year ended 31 December 2013
Loans and receivables	3,916	3,430
Cash and cash equivalents	2,988	2,190
Trade receivables	598	771
Financial assets at fair value through profit or loss	11	104
MAXIMUM CREDIT RISK EXPOSURE	**7,513**	**6,495**

18.5.1 Trade receivables. Other financial receivables.

The terms of payments for trade receivables are usually 2-3 weeks. In year 2014 the Company received payments for receivables after 26 days on average. Trade receivables relate mainly to receivables for energy sold and supplementary services. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by allowances for receivables.

The Company holds a Policy of Credit Risk Management, 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

	31 December 2014		31 December 2013	
	Receivables balance	Share %	Receivables balance	Share %
Poland	580	97.0%	741	96.1%
France	17	2.8%	14	1.8%
Germany	1	0.2%	10	1.3%
Czech Republic	-	-	4	0.5%
Great Britain	-	-	2	0.3%
TOTAL	**598**	**100%**	**771**	**100%**

The majority of sales transactions and the trade receivables balance relates to affiliated entities within the PGE Group, as well as large Polish entities from the electricity market. Information on transactions with related parties are presented in note B.20 of these financial statements.

Ageing of receivables and impairment allowance

As at 31 December 2014 part of the financial assets were the subject to impairment allowances.

The change in allowances accounts for these classes of financial instruments are presented in the table below:

Year ended 31 December 2014

	Trade receivables	Loans granted	Bonds	Other financial receivables
Impairment allowance as at 1 January	**(5)**	**-**	**(29)**	**(26)**
Impairment allowance raised	-	-	(386)	-
Impairment allowance reversed	-	-	-	-
Impairment allowance used	-	-	-	1
Impairment allowance as at 31 December	**(5)**	**-**	**(415)**	**(25)**
Value before the impairment allowance	**603**	**32**	**4,279**	**45**
Net value (carrying amount)	**598**	**32**	**3,864**	**20**

Impairment allowance raised on bonds presented in the table above refers to the debt issued by Autostrada Wielkopolska S.A. The company has a negative financial results, negative equity and due to the debt incurred in EUR is significantly exposed to exchange rate fluctuations. In addition, Autostrada Wielkopolska S.A. is in the process of debt restructuring and is the party of dispute with the State Treasury regarding the highway fee and proceedings before the European Commission on the unlawful state aid. Bonds acquired by PGE S.A. are unsecured and subordinated in relation to other debt instruments issued by Autostrada Wielkopolska S.A.

Maintaining high exchange rate EUR against PLN, the delay in debt restructuring and possible defeat in dispute with State Treasury causes that according to PGE S.A. there is a risk of impairment of these assets.

Year ended 31 December 2013

	Trade receivables	Loans grated	Bonds	Other financial receivable
Impairment allowance as at 1 January	**(6)**		**(29)**	**(27)**
Impairment allowance raised	-	-	-	-
Impairment allowance reversed	1	-	-	1
Impairment allowance used	-	-	-	-
Impairment allowance as at 31 December	**(5)**	**-**	**(29)**	**(26)**
Value before the impairment allowance	**776**	**84**	**3,337**	**64**
Net value (carrying amount)	**771**	**84**	**3,308**	**38**

There are no other significant receivables positions, except for trade receivables, that would be significantly past due, but not covered by an impairment allowances.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

TRADE RECEIVABLES AND OTHER LOANS AND FINANCIAL RECEIVABLES

	31 December 2014			31 December 2013		
	Gross carrying amount	Impairment allowance	Net carrying amount	Gross carrying amount	Impairment allowance	Net carrying amount
Receivables before due date	**4,884**	**(389)**	**4,495**	**4,203**	**(3)**	**4,200**
Past due <30 days	18	-	18	1	-	1
Past due 30-90 days	-	-	-	-	-	-
Past due 90-180 days	1	-	1	-	-	-
Past due 180-360 days	-	-	-	-	-	-
Past due >360 days	56	(56)	-	57	(57)	-
RECEIVABLES PAST DUE, TOTAL	**75**	**(56)**	**19**	**58**	**(57)**	**1**
TRADE RECEIVABLES AND OTHER LOANS AND FINANCIAL RECEIVABLES	**4,959**	**(445)**	**4,514**	**4,261**	**(60)**	**4,201**

18.5.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that the Company 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 equity and strong, stable market position. The most significant cash balances of the Company allocated in three banks accounted for PLN 2,801 million as at 31 December 2014 and PLN 1,949 million as at 31 December 2013.

18.5.3 Derivatives

All entities, that the Company concludes derivatives 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 reporting date, the Company was party to the derivative transactions, described in detail in note B.17.1 to these financial statements.

18.5.4 Guarantees granted

Guarantees granted by the Company are presented in the note B.16 of these financial statements.

18.6 Market (financial) risk – sensitivity analysis

The Company identifies as the main types of market risk to which it is exposed as follows:

- interest rate risk,
- currency risk.

Currently, the Company is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN. Furthermore, the Company is exposed to interest rate risk related to referential interest rates of PLN, EUR. The Company uses a script analysis method for the purpose of analysing sensitivity to changes of market risk factors. The Entity uses experts' scripts reflecting the subjective opinion on the Company 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 Company. Only items that can be defined as financial instruments are subject to the analysis of interest and currency risk.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year.

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes could be recorded in the statement of comprehensive income under the caption of interest income or expenses related to financial instruments at amortized cost or to the position of revaluation of the value of financial instruments at fair value.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Sensitivity analysis for currency risk

The table below presents the sensitivity of financial result to reasonably possible changes to foreign currency 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	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT 31 DECEMBER 2014 EUR/PLN Impact on financial result/Equity +7.73%	-7.73%
Trade receivables	598	17	1	(1)
Cash and cash equivalents	2,988	610	47	(47)
Derivatives – currency forward	11	296	23	(23)
Derivatives – commodity forward	(37)	(158)	(12)	12
Derivatives – currency forward	(-)	(22)	2	(2)
Derivatives – CCIRS	(8)	3,154	217	(217)
Interest bearing credit and loans	(2,812)	(2,812)	(217)	217
Trade liabilities and other financial liabilities at amortized cost	(243)	(37)	(3)	3
IMPACT ON FINANCIAL RESULT			**58**	**(58)**
Derivatives – CCIRS	(8)	3,154	27	(27)
IMPACT ON REVALUATION RESERVE			**27**	**(27)**

Potential foreign exchange rate changes used in sensitivity analysis was calculated on the basis of annual volatilities implied for individual currency pairs.

FINANCIAL INSTRUMENTS BY CLASS *restated*	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT 31 DECEMBER 2013 EUR/PLN Impact on financial result +7.75%	-7.75%
Trade receivables	771	4	-	-
Bonds, bills, notes receivable acquired	3,307	358	28	(28)
Cash and cash equivalents	2,190	33	3	(3)
Derivatives – currency forward	8	390	30	(30)
Derivatives – commodity forward	96	270	21	(21)
Derivatives – currency forward	(1)	(23)	2	(2)
Trade liabilities and other financial liabilities at amortized cost	(136)	(6)	(1)	1
IMPACT ON FINANCIAL RESULT			**83**	**(83)**

Potential foreign exchange rate changes used in sensitivity analysis was calculated on the basis of annual volatilities implied for individual currency pairs.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Sensitivity analysis for interest rate risk

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	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT 31 DECEMBER 2014 WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity	
			WIBOR + 71.67bp	WIBOR -71.67bp	EURIBOR +48.50bp	EURIBOR -48.50bp
Bonds acquired	3.864	469	3	(3)	-	-
Derivatives – currency forward	11	11	<1	<(1)	-	-
Derivatives – commodity forward	(37)	(37)	<1	<(1)	-	-
Derivatives – currency forward	<1	<1	<1	<(1)	-	-
Derivatives IRS	54	54	24	(25)	-	-
Issued bonds	(1,000)	(1,000)	(7)	7	-	-
IMPACT ON FINANCIAL RESULT			**20**	**(21)**	**-**	**-**
Derivatives CCIRS	(8)	(8)	126	(135)	(98)	102
IMPACT ON REVALUATION RESERVE			**126**	**(135)**	**(98)**	**102**

Potential interest rate changes used in sensitivity analysis was calculated on the basis of annual volatilities implied for WIBOR and EURIBOR.

For derivatives value exposed to interest rate risk is fair value of those instruments (carrying value). Sensitivity analysis for CCIRS and IRS was carried out using valuation at shifted yield curve.

FINANCIAL ASSTES AND LIABILITIES *restated*	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT 31 DECEMBER 2013 WIBOR Impact on financial result		EURIBOR Impact on financial result	
			WIBOR + 62.51bp	WIBOR –62.51bp	EURIBOR +40.30bp	EURIBOR -40.30bp
Bonds acquired	3,307	200	1	(1)	1	(1)
Derivatives – commodity forward	96	96	<1	<(1)	-	-
Derivatives – currency forward	8	8	<1	<(1)	-	-
Derivatives – currency forward	(1)	(1)	<1	<(1)	-	-
Bonds issued	(1,000)	1,000	(6)	6	-	-
IMPACT ON FINANCIAL RESULT			**(5)**	**5**	**1**	**(1)**

Potential interest rate changes used in sensitivity analysis was calculated on the basis of annual volatilities implied for WIBOR and EURIBOR.

For derivatives value exposed to interest rate risk is fair value of those instruments (carrying value).

18.7 Hedge accounting

In the financial statements for the year ended 31 December 2014, the Company applies hedge accounting. In connection with loan received from PGE Sweden AB (publ), disclosed in note B.21.2. of these financial statements, in June and August 2014 PGE S.A. concluded a CCIRS transaction, hedging the exchange rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transaction are correlated with the relevant conditions arising from loan agreements.

The impact of hedge accounting on revaluation reserve is presented in note B.12.3 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

19. Statement of cash flow

Presented below is the analysis of the most significant items of operating activities of cash flow statement.

19.1 Interest and dividends

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Dividends receivable	5,273	1,062
Interest relating to bonds acquired	168	208
Interest relating to bonds issued	(34)	(17)
Interest relating to loans granted	(29)	-
Other	(17)	(2)
TOTAL INTEREST AND DIVIDEND	**5,361**	**1,251**

19.2 Profit/ loss on investment activities

	Year ended 31 December 2014	Year ended 31 December 2013
Impairment allowances raised for financial assets	(386)	-
Accrual valuation of derivatives	(185)	84
Other	(2)	3
TOTAL PROFIT/ LOSS ON INVESTMENT ACTIVITIES	**(573)**	**87**

19.3 Change in liabilities, excluding loans and bank credits

	Year ended 31 December 2014	Year ended 31 December 2013
Change in trade liabilities	(105)	347
Change in other non-financial liabilities	136	(125)
Change in settlements within Tax Capital Group	(11)	58
TOTAL CHANGE IN LIABILITIES	**20**	**280**

19.4 Change in receivables

	Year ended 31 December 2014	Year ended 31 December 2013
Change in loans and receivables	(486)	1,284
Change in trade receivables	173	(31)
Change in loans grated	(52)	84
Change in bonds acquired	555	(1,351)
Change in receivables from disposal of property, plant and equipment	-	(9)
CHANGE IN LOANS AND RECEIVABLES	**190**	**(23)**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

20. Information on related parties

The State Treasury is the dominant shareholder of the PGE Group and as a result in accordance with *IAS 24 Related Party Disclosures*, State Treasury companies are recognized as related entities. The Company identifies in detail transactions with the most important State Treasury related companies. The total value of transactions with such entities is presented in the table below in the item “other related parties”.

Transactions with related entities are concluded using current market prices for provided goods, products and services or are based on the cost of manufacturing. Exception to this rule were:

- PGE Obrót S.A. transfer of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dystrybucja S.A. shares in form of a non-reciprocal transfer, described in note B.21.3 of these financial statements,
- tax losses settlement within the Tax Capital Group, described in notes B.2.2 and B.2.4 of these financial statements.

In addition, starting from January 2015, interest rates of new bonds issued by subsidiaries included in the Tax Capital Group are below market rates.

20.1 Transactions with related parties

Year ended 31 December 2014

	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenues	9,444	-	75	152	9,671
Other operating revenues	5	-	-	5	10
Financial income	5,418	-	-	125	5,543
Operating expenses	710	-	141	8,343	9,194
Other operating expenses	-	-	-	11	11
Financial expenses	29	-	-	513	542

Year ended 31 December 2013

restated	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenues	9,913	-	2,056	439	12,408
Other operating revenues	2	-	-	14	16
Financial income	1,241	-	-	143	1,384
Operating expenses	814	-	108	10,526	11,448
Other operating expenses	1	1	-	8	10
Financial expenses	-	-	-	27	27

The Company recognizes revenues from sales to related parties in PGE Group mainly related to sales of electric energy, energy origin rights and CO_2 emission rights.

The significant decrease in sales to related parties is mainly due to the expiration of the contract with a company related through the State Treasury - Energa Obrót S.A.

Financial income relates primarily to dividends and interest on bonds.

In addition, the Company concludes significant transactions on the energy market via the Towarowa Giełda Energii S.A. (Polish Power Exchange). Due to the fact that this entity only deals with the organization of trading, purchases and sales transacted through this entity are not recognized as transactions with related parties.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

20.2 Balances with related parties

As at 31 December 2014

	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	TOTAL
ASSETS					
Loans and receivables:	**4.449**	**-**	**7**	**57**	**4,513**
Bonds purchased	*3,864*	*-*	*-*	*-*	*3,864*
Trade receivables	*554*	*-*	*7*	*37*	*598*
Other loans and financial receivables	*32*	*-*	*-*	*20*	*52*
Shares in subsidiaries	**29,046**	**-**	**-**	**-**	**29,046**
Available-for-sale financial assets:	**-**	**3**	**-**	**-**	**3**
Shares in entities not quoted on active markets	-	3	-	-	3
Financial assets at fair value	**-**	**-**	**-**	**11**	**11**
Other current assets	**112**	**-**	**-**	**14**	**126**

As at 31 December 2013

Restated	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	TOTAL
ASSETS					
Loans and receivables:	**3,554**	**-**	**203**	**444**	**4,201**
Bonds purchased	2,950	-	-	357	**3,307**
Trade receivables	520	-	203	48	**771**
Other loans and financial receivables	84	-	-	38	**122**
Shares in subsidiaries	**24,165**	**-**	**-**	**-**	**24,165**
Available-for-sale financial assets:	**-**	**3**	**-**	**-**	**3**
Shares in entities not quoted on active markets	-	3	-	-	**3**
Financial assets at fair value	**-**	**-**	**-**	**104**	**104**

As at 31 December 2014

	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	TOTAL
LIABILITIES					
Financial liabilities at fair value through profit and loss	**-**	**-**	**-**	**99**	**99**
Financial liabilities at amortized cost:	**2,917**	**-**	**7**	**1,131**	**4,055**
Bonds issued	*-*	*-*	*-*	*1,000*	*1,000*
Interest bearing credit and loans	*2,812*	*-*	*-*	*-*	*2,812*
Trade liabilities	*105*	*-*	*7*	*125*	*237*
Other financial liabilities	*-*	*-*	*-*	*6*	*6*

As at 31 December 2013

	Subsidiaries	Other related parties within PGE Group	Other related parties	Third parties	TOTAL
LIABILITIES					
Financial liabilities at fair value through profit and loss	-	-	-	1	**1**
Financial liabilities at amortized cost:	31	-	8	1,097	**1,136**
Bonds issued	-	-	-	1,000	**1,000**
Interest bearing credit and loans	-	-	-	-	**-**
Trade liabilities	30	-	8	94	**132**
Other financial liabilities	1	-	-	3	**4**

The promises and guarantees granted to the PGE S.A.'s subsidiaries are described in note B.16.1 and B.16.2 of these financial statements.

20.3 Management personnel remuneration

The key management personnel comprises the Management Board and Supervisory Board.

PLN thousand	Year ended 31 December 2014	Year ended 31 December 2013
Short-term employee benefits (salaries and salary related costs)	6,880	6,602
Post-employment and termination benefits	790	6,934
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**7,670**	**13,536**

The Members of the Management Board of the Company are employed on the basis of civil law contracts for management (Management contracts). The above remuneration is included in other costs by type disclosed in note B.1.2 Costs by type and function.

In 2013 the Company created a provision for the remuneration of former Members of the Management Board in relation to non-competition clause. Benefits were paid during 2014.

21. Significant events of the reporting period and subsequent events

21.1 Preparations for the construction and operation of the first Polish nuclear power plant

On 3 September 2014 PGE S.A., TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A. concluded a Partners' Agreement. In accordance with the Partners' Agreement TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A., as Business Partners, will acquire from PGE S.A., under a separate agreement, a total of 30% of shares (each Business Partner will acquire 10% of shares) in special purpose company PGE EJ 1 sp. z o.o., which is responsible for preparation and execution of investment of construction and operating of the first nuclear power plant in Poland.

On 25 September 2014 an Amendment no. 1 to the Partners' Agreement was signed. The subject to the Agreement no. 1 was to extend the expiration of the agreement intended to completion of proceeding by the President of the Polish Office of Competition and Consumer Protection regarding the intention of the concentration. On 7 October 2014 the President of the Polish Office of Competition and Consumer Protection issued unconditional concentration approval for creation by the Applicants of a joint enterprise under the name PGE EJ 1 sp. z o.o. Obtaining of concentration approval is the precedent for conclusion of agreement for the acquisition of shares in PGE EJ 1 sp. z o.o., that was specified in the Partners' Agreement.

It is assumed that the agreement for sale of shares in PGE EJ 1 sp. z o.o. shall take place in the first quarter of 2015.

As a result of planned sale of 30% of shares in PGE EJ 1 sp. z o.o. to Business Partners:

- PGE S.A. will possess 70% of share capital of PGE EJ1 sp. z o.o.
- KGHM Polska Miedź S.A. will possess 10% of the share capital of PGE EJ1 sp. z o.o.
- Tauron Polska Energia S.A. will possess 10% of the share capital of PGE EJ1 sp. z o.o.
- ENEA S.A. will possess 10% of the share capital of PGE EJ1 sp. z o.o.

According to assumptions, PGE Group will be the leader of the Project and PGE EJ 1 sp. z o.o. will be a future operator of the power plant.

According to the Partners' Agreement, the parties jointly undertake to finance operations in years 2014-2016 under the initial phase of the Project (the "Initial Phase"), proportionally to their shareholdings. The Initial Phase is to determine such elements as potential partners, including strategic partner, technology providers, EPC contractor (Engineering, Procurement, Construction), a provider of nuclear fuel and obtaining financing for the Project, as well as organizational and competence preparation of PGE EJ 1 sp. z o.o. to the future role of nuclear power plant operator, responsible for its safe and efficient operation (the "Integrated Proceeding"). PGE's financial commitment in the Initial Phase will not exceed amount of approx. PLN 700 million.

The Parties of the Partners' Agreement anticipate that further decision on the Project, including decision on declaration of further participation of particular Parties in the next stage of the Project, will be made after the completion of the Initial Phase, directly before the settlement of the Integrated Proceeding, which according to current assumption is expected in 2018.

21.2 Establishment of the Eurobonds programme

On 22 May 2014 PGE Polska Grupa Energetyczna S.A. along with PGE Sweden AB (publ), 100% subsidiary of PGE S.A., established a Euro Medium Term Note Programme. Under the Programme PGE Sweden AB (publ) may issue Eurobonds up to EUR 2 billion with a minimum maturity of 1 year.

On 9 June 2014 PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 500 million with a five-year maturity. Then, on 10 June 2014 PGE Sweden AB (publ) concluded 3 loan agreements with PGE S.A. of EUR 514 million. The loans were granted for the period of 5 years.

On 1 August 2014 PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 138 million with a fifteen-year maturity. Then, on 27 August 2014 PGE Sweden AB (publ) concluded 2 loan agreements with PGE S.A. of EUR 144 million for the period of 15 years.

The total value of loans received as at the reporting date amounts to PLN 2,812 million. Flows of nominal and interests resulting from the loan agreements are hedged by CCIRS transactions, which terms exactly match the terms of secured instruments.

21.3 Non-reciprocal transfer of PGE Dystrybucja S.A.'s shares

On 10 September 2014, PGE S.A. executed a non-reciprocal transfer agreement with PGE Obrót S.A., an entity within PGE S.A.'s tax capital group, the object of which was receiving from PGE Obrót S.A. shares constituting 89.91% of share capital of PGE Dystrybucja S.A. and 4.95% of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. Due to the fact that the non-reciprocal transfer of shares was executed between a parent company and a subsidiary, the transaction was recognised in these financial statements as a dividend. Also because the transaction was executed between related parties, PGE S.A.'s revenue was established in the amount in which these shares had been previously recorded in PGE Obrót S.A.'s books. In total, the non-reciprocal transfer resulted in recognition of PLN 9,817 million in financial income.

Given the fact that, as a result of the non-reciprocal transfer of shares, PGE Obrót S.A.'s equity substantially decreased, PGE S.A. carried out an impairment test on these non-current financial assets. The valuation performed resulted in necessity to recognise an impairment loss of PLN 5,536 million.

The total impact of the non-reciprocal transfer and impairment of PGE Obrót S.A.'s shares on the result on financing activities was PLN 4,281 million.

Transfer of the shares in PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. was intended to streamline PGE Group's structure and eliminate cross-ownership between subsidiaries.

22. Approval of financial statements

These financial statements were authorized for issue by the Management Board on 17 February 2015.

Warsaw, 17 February 2015

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

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

Signature of the person responsible for preparation of financial statements
Michał Skiba - Director of Financial Reporting and Tax Department