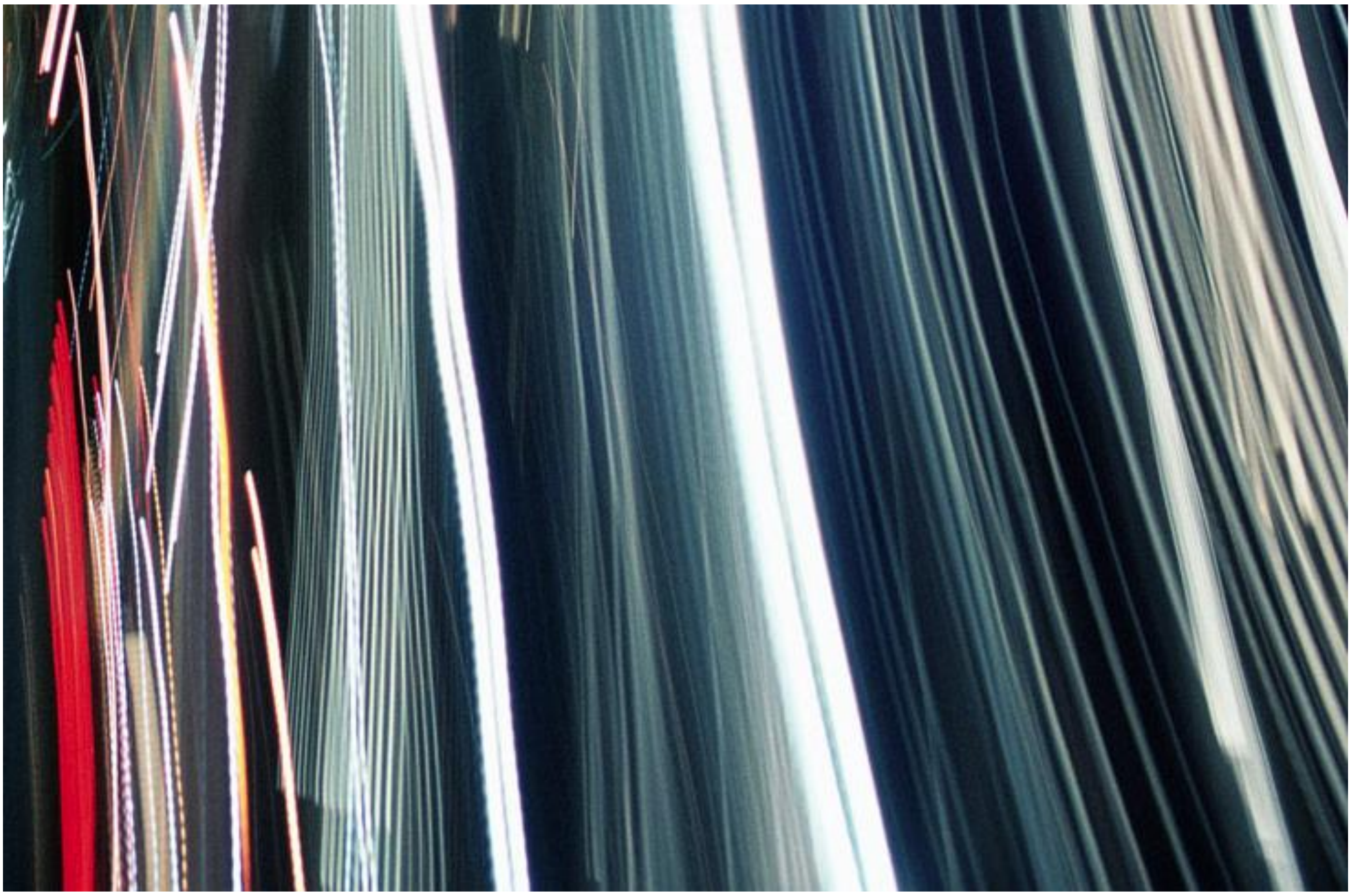

PGE Polska Grupa Energetyczna S.A.
Consolidated Financial Statements
for the year 2015

ended December 31, 2015
in accordance with IFRS EU (in PLN million)

Polska Grupa
Energetyczna

TABLE OF CONTENTS

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2015	Year ended December 31, 2014 *restated**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	7.1	**28,542**	**28,143**
Costs of goods sold	7.2	(30,066)	(21,735)
GROSS PROFIT/(LOSS) ON SALES		**(1,524)**	**6,408**
Distribution and selling expenses	7.2	(1,408)	(1,540)
General and administrative expenses	7.2	(825)	(831)
Other operating income	7.3	431	1,554
Other operating expenses	7.3	(263)	(495)
OPERATING PROFIT/(LOSS)		**(3,589)**	**5,096**
Financial income	7.4	156	385
Financial expenses	7.4	(323)	(868)
PROFIT/(LOSS) BEFORE TAX		**(3,756)**	**4,613**
Current income tax	8.1	(461)	(560)
Deferred income tax	8.1	1,180	(396)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**(3,037)**	**3,657**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	22.2	49	(75)
Foreign exchange differences from translation of foreign entities		-	(1)
Deferred tax	8.1	(9)	14
Items, which will not be reclassified to profit or loss, including :			
Actuarial gains and losses from valuation of provisions for employee benefits	23	15	(397)
Deferred tax	8.1	(3)	75
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**52**	**(384)**
TOTAL COMPREHENSIVE INCOME		**(2,985)**	**3,273**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		(3,032)	3,638
– non-controlling interests		(5)	19
COMPREHENSIVE INCOME ATTRIBUTABLE TO :			
– equity holders of the parent company		(2,980)	3,255
– non-controlling interests		(5)	18
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)	22.7	**(1.62)**	**1.95**

** for information regarding restatement of comparative figures please refer to note 5 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2015	As at December 31, 2014 *restated**	As at January 1, 2014 *restated**
NON-CURRENT ASSETS				
Property, plant and equipment	9	47,068	49,738	46,127
Investment property	10	30	33	22
Intangible assets	11	904	763	718
Financial receivables	27.1.1	142	125	492
Derivatives	27.1.2	43	4	-
Available-for-sale financial assets	27.1.3	15	15	25
Shares in associates accounted for under the equity method	12	8	9	9
Other non-current assets	17.1	1,063	1,228	644
Deferred tax assets	14.1	313	383	302
		49,586	**52,298**	**48,339**
CURRENT ASSETS				
Inventories	15	1,959	2,175	1,684
CO_2 emission rights for own use	16	2,172	1,552	1,404
Income tax receivables		101	46	9
Derivatives	27.1.2	7	11	104
Trade and other financial receivables	27.1.1	3,748	3,515	3,533
Available-for-sale financial assets	27.1.3	4	16	9
Other current assets	17.2	599	380	210
Cash and cash equivalents	18	3,104	6,196	5,952
Assets classified as held-for-sale	19	16	16	8
		11,710	**13,907**	**12,913**
TOTAL ASSETS		**61,296**	**66,205**	**61,252**
EQUITY				
Share capital	22.1	18,698	18,698	18,698
Hedging reserve	22.2	(21)	(61)	-
Foreign exchange differences from translation of foreign entities	22.3	(1)	(1)	-
Reserve capital	22.4	13,009	9,231	8,941
Other capital reserves	22.4	-	-	50
Retained earnings	22.5	8,636	16,901	15,851
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		**40,321**	**44,768**	**43,540**
Non-controlling interests	22.6	96	116	268
TOTAL EQUITY		**40,417**	**44,884**	**43,808**
NON-CURRENT LIABILITIES				
Non-current provisions	23;24	6,044	6,099	4,766
Loans, borrowings, bonds and lease	27.1.4	5,118	4,688	1,994
Derivatives	27.1.2	55	84	-
Deferred tax liabilities	14.2	852	2,090	1,702
Deferred income and government grants	25.1	1,192	1,158	1,181
Other financial liabilities	27.1.5	34	16	11
		13,295	**14,135**	**9,654**
CURRENT LIABILITIES				
Current provisions	23;24	1,809	2,070	2,435
Loans, borrowings, bonds and lease	27.1.4	291	357	528
Derivatives	27.1.2	34	37	24
Trade and other financial liabilities	27.1.5	3,945	3,132	2,879
Income tax liabilities		5	81	155
Deferred income and government grants	25.2	112	142	151
Other current non-financial liabilities	26	1,388	1,367	1,618
		7,584	**7,186**	**7,790**
TOTAL LIABILITIES		**20,879**	**21,321**	**17,444**
TOTAL EQUITY AND LIABILITIES		**61,296**	**66,205**	**61,252**

** for information regarding restatement of comparative figures please refer to note 5 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY								
	Share capital	Hedging reserve	Foreign exchange differences from translation of foreign entities	Reserve capital	Other capital reserves	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
Note	22.1	22.2	22.3	22.4	22.4	22.5		22.6	
AS AT JANUARY 1, 2014	**18,698**	**-**	**-**	**8,941**	**50**	**15,851**	**43,540**	**268**	**43,808**
Net profit for the reporting period	-	-	-	-	-	3,638	**3,638**	19	**3,657**
Other comprehensive income	-	(61)	(1)	-	-	(321)	**(383)**	(1)	**(384)**
COMPREHENSIVE INCOME	**-**	**(61)**	**(1)**	**-**	**-**	**3,317**	**3,255**	**18**	**3,273**
Retained earnings distribution	-	-	-	290	(50)	(240)	**-**	-	**-**
Dividend	-	-	-	-		(2,057)	**(2,057)**	(4)	**(2,061)**
Changes within the PGE Group	-	-	-	-	-	-	**-**	(17)	**(17)**
Purchase of additional shares in the PGE Group companies	-	-	-	-	-	15	**15**	(148)	**(133)**
Other changes	-	-	-	-	-	15	**15**	(1)	**14**
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**290**	**(50)**	**(2,267)**	**(2,027)**	**(170)**	**(2,197)**
AS AT DECEMBER 31, 2014	**18,698**	**(61)**	**(1)**	**9,231**	**-**	**16,901**	**44,768**	**116**	**44,884**
Net loss for the reporting period	-	-	-	-	-	**(3,032)**	**(3,032)**	**(5)**	**(3,037)**
Other comprehensive income	-	40	-	-	-	12	**52**	-	**52**
COMPREHENSIVE INCOME	**-**	**40**	**-**	**-**	**-**	**(3,020)**	**(2,980)**	**(5)**	**(2,985)**
Retained earnings distribution	-	-	-	3,778	-	(3,778)	**-**	-	**-**
Dividend	-	-	-	-	-	(1,458)	**(1,458)**	(4)	**(1,462)**
Change in ownership interests while retaining control	-	-	-	-	-	-	**-**	68	**68**
Acquisition of non-controlling interest without a change in control	-	-	-	-	-	(10)	**(10)**	(78)	**(88)**
Other changes	-	-	-	-	-	1	**1**	(1)	**-**
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**3,778**	**-**	**(5,245)**	**(1,467)**	**(15)**	**(1,482)**
AS AT DECEMBER 31, 2015	**18,698**	**(21)**	**(1)**	**13,009**	**-**	**8,636**	**40,321**	**96**	**40,417**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2015	Year ended December 31, 2014 *restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(3,756)**	**4,613**
Income tax paid		(616)	(635)
Adjustments for:			
Depreciation, amortization, disposal and impairment losses		11,817	3,197
Interest and dividend, net		134	56
Profit / loss on investment activities	29.1	(28)	531
Change in receivables	29.1	(236)	41
Change in inventories	29.1	224	(508)
Change in liabilities, excluding loans and borrowings	29.1	318	(541)
Change in other non-financial assets, prepayments and CO_2 emission rights	29.1	(860)	(378)
Change in provisions	29.1	(348)	9
Other		128	(52)
NET CASH FROM OPERATING ACTIVITIES		**6,777**	**6,333**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		39	44
Purchase of property, plant and equipment and intangible assets	29.2	(8,606)	(6,376)
Proceeds from sale of financial assets		74	-
Deposits with a maturity over 3 months		(243)	(2,202)
Termination of deposits over 3 months		233	2,191
Acquisition of financial assets and increase in shareholding in the PGE Group companies	29.2	(97)	(111)
Acquisition / disposal of subsidiaries, net of after deduction of cash acquired / disposed of		-	28
Dividends received		1	3
Interest received		-	17
Loans repaid		-	(2)
Other		5	26
NET CASH FROM INVESTING ACTIVITIES		**(8,594)**	**(6,382)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds	29.3	648	2,950
Repayment of loans, borrowings, bonds and finance lease	29.3	(311)	(530)
Dividends paid	29.3	(1,462)	(2,061)
Interest paid	29.3	(176)	(84)
Other		36	9
NET CASH FROM FINANCING ACTIVITIES		**(1,265)**	**284**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(3,082)**	**235**
Effect of movements in exchange rates on cash held		4	8
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	18	**6,183**	**5,948**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	18	**3,101**	**6,183**
Restricted cash		333	136

** for information regarding restatement of comparative figures please refer to note 5 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

GENERAL INFORMATION, BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS AND OTHER EXPLANATORY INFORMATION

1. General information

1.1 Information about the parent company

PGE Polska Grupa Energetyczna S.A. („parent company", „the Company", „PGE S.A.") was founded on the basis of the Notary Deed of August 2, 1990 and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 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.

At the date of preparation of these consolidated financial statements the composition of the Management Board is as follows:

- **Marek Woszczyk** – the President of the Management Board,
- **Grzegorz Krystek** – the Vice-President of the Management Board,
- **Marek Pastuszko –** the Vice-President of the Management Board.

In 2015 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.

After the reporting date there have been following changes in the composition of the Management Board:

- on January 29, 2016 the Supervisory Board decided to recall Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board. Moreover, the Supervisory Board has temporarily delegated its member – Mr. Marek Pastuszko – to perform the duties of the Member of the Management Board.

Ownership structure

As at December 31, 2015 the ownership structure of the parent company is as follows:

	State Treasury	Other shareholders	Total
As at January 1, 2015	58.39%	41.61%	100.00%
As at December 31, 2015	58.39%	41.61%	100.00%

According to information available in the Company as at the date of publication of these financial statements the sole shareholder who holds at least 5% of votes on the General Meeting of PGE S.A. is the State Treasury.

After the reporting date up to the date of preparation of these financial statements, there have been no changes in the amount of the Company's share capital.

1.2 Information about the PGE Group

PGE Polska Grupa Energetyczna S.A. Group („PGE Group", „Group") comprises the parent company PGE Polska Grupa Energetyczna S.A., 50 subsidiaries and 1 associate.

For additional information about subsidiaries included in the consolidated financial statements please refer to notes 1.3 and 12.

The consolidated financial statements of the PGE Group comprise financial data for the period from January 1, 2015 to December 31, 2015 („financial statements", „consolidated financial statements") and include comparative data for the period from January 1, 2014 to December 31, 2014.

The financial statements of all affiliated companies were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles except for the financial statements of the associated company (note 12).

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Core operations of the PGE Group companies are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail sale of electricity, energy origin rights, CO_2 emission rights and gas,
- production and distribution of heat,
- rendering of other services related to the above mentioned activities.

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

Going concern

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

1.3 Structure of the PGE Group

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

	Entity	Entity holding shares	Share of the Group entities as at December 31, 2015	Share of the Group entities as at December 31, 2014
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	The Parent Company		
2.	PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
	SEGMENT: CONVENTIONAL GENERATION			
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A	99.96%	99.60%*
7.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
8.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10	„ELMEN" sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
12	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15	RAMB sp. z o.o. Piaski	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	100.00%
16	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
17	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
18	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Entity	Entity holding shares	Share of the Group entities as at December 31, 2015	Share of the Group entities as at December 31, 2014
	SEGMENT: RENEWABLES			
19	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
20	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
21	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
22	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	Pelplin sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	-	100.00%
	Eolica Wojciechowo sp. z o.o. Gniewino	PGE Energia Odnawialna S.A.	-	100.00%
	PGE Energia Natury S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	-	100.00%
23	PGE Energia Natury sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	-
		PGE Polska Grupa Energetyczna S.A.	-	100.00%
	PGE Energia Natury Karnice sp. z o.o. Warsaw	PGE Energia Natury S.A.	-	100.00%
	PGE Energia Natury Bukowo sp. z o.o. Warsaw	PGE Energia Natury S.A.	-	100.00%
	PGE Energia Natury Olecko sp. z o.o. Warsaw	PGE Energia Natury S.A.	-	100.00%
24	PGE Energia Natury Omikron sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	-
		PGE Energia Natury S.A.	-	100.00%
	PGE Energia Natury Kappa sp. z o.o. Warsaw	PGE Energia Natury S.A.	-	100.00%
25	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	-
		PGE Energia Natury S.A.	-	100.00%
	SEGMENT: DISTRIBUTION			
26	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER OPERATIONS			
27	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	100.00%
28	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29	EXATEL S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30	PGE Sweden AB (publ) Sztokholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31	„Elbest” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
32	PGE Obsługa Księgowo-Kadrowa sp. z o.o. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
33	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34	Elbest Security sp. z o.o. *(previously PGE Inwest 3 sp. z o.o.)* Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35	PGE Inwest 4 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37	PGE Inwest 6 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38	PGE Inwest 7 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Entity	Entity holding shares	Share of the Group entities as at December 31, 2015	Share of the Group entities as at December 31, 2014
41	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44	PGE Inwest 13 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46	PGE Inwest 15 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	PGE Gubin sp. z o.o. Gubin	PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
48	ENERGO-TEL S.A. Warsaw	EXATEL S.A.	100.00%	100.00%
49	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
50	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
	Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. Białystok	PGE Dystrybucja S.A.	-	100.00%
51	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

* Share excluding entity's own shares

The table above includes the following changes in the structure of the PGE Group companies subject to full consolidation which took place during the year ended December 31, 2015:

- On February 26, 2015, PGE Górnictwo i Energetyka Konwencjonalna S.A. merged with PGE Gubin sp. z o.o. The merger did not affect these financial statements.
- On March 31, 2015, PGE Energia Odnawialna S.A. merged with Pelplin sp. z o.o. The merger did not affect these financial statements.
- On April 15, 2015, an agreement was concluded for sale of 30% shares held by PGE S.A. in PGE EJ 1 sp. z o.o. More details of the transaction are described in note 35.2 of these consolidated financial statements.
- On June 1, 2015, a spin-off of PGE Energia Natury sp. z o.o. took place. The separated part, constituting organized part of the enterprise was contributed to PGE Energia Odnawialna S.A. The described transaction did not affect these financial statements.
- On June 30, 2015, mergers of PGE Energia Odnawialna S.A. with Eolica Wojciechowo sp. z o.o and PGE Energia Natury S.A. were registered (due to the merger PGE Energia Odnawialna S.A. became a direct owner of entities owned by PGE Energia Natury S.A.). The mergers did not affect these financial statements.
- On July 13, 2015, a spin-off of „ELBEST" sp. z o.o. took place. The separated part, constituting organized part of the enterprise was contributed to ELBEST Security sp. z o.o. The described transaction did not affect these financial statements.
- On July 22, 2015, an agreement was concluded for disposal of 100% shares of Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. The disposal did not have material impact on these financial statements.
- On August 26, 2015, 100% shares of PGE Energia Natury sp. z o.o. were transferred from PGE Polska Grupa Energetyczna S.A. to PGE Energia Odnawialna S.A. as a result of an increase of the share capital of PGE Energia Odnawialna S.A. that was covered with the contribution in kind in form of shares of PGE Energia Natury sp. z o.o. The increase of the share capital was registered on October 8, 2015.
- On November 30, 2015, the mergers of PGE Energia Odnawialna S.A. with PGE Energia Natury Kappa sp. z o.o., PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Olecko sp. z o.o. and PGE Energia Natury Karnice sp. z o.o. were registered. The mergers did not affect these financial statements.

2. Basis for preparation of the financial statements

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").

2.2 Presentation and functional currency

The functional currency of the parent company and the presentation currency of these consolidated 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:

	December 31, 2015	December 31, 2014	December 31, 2013
USD	3.9011	3.5072	3.0120
EUR	4.2615	4.2623	4.1472

2.3 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 January 1, 2015:

Standard	Description of changes	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 amortized cost and at fair value. Changes to hedge accounting.	January 1, 2018
IFRS 14 *Regulatory Deferral Accounts*	Accounting and disclosure principles for regulatory deferral accounts.	January 1, 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. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition.	January 1, 2018
IFRS 16 *Leases*	IFRS 16 eliminates the classification of leases as either operating lease or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease.	January 1, 2019
Amendments to IAS 12	Clarification of the method of deferred tax asset settlement on unrealized losses.	January 1, 2017
Amendments to IAS 7	The initiative on changes to the disclosures.	January 1, 2017
Amendments to IFRS 11	Additional accounting guidance for the acquisition of an interest in a joint operation.	January 1, 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.	Not specified
Amendments to IFRS 10, IFRS 12 and IAS 28	Clarification of the provisions on recognition of investment units in the consolidation.	January 1, 2016
Amendments to IAS 1	Changes regarding disclosures required in the financial statements.	January 1, 2016
Amendments to IAS 16 and IAS 38	Clarifies that a method of depreciation/amortization that is based on the revenue expected to be generated from using the asset is not allowed.	January 1, 2016
Amendments to IAS 16 and IAS 41	Accounting for bearer plants.	January 1, 2016
Amendments to IAS 19	Simplifies the accounting for contributions by employees or third parties to defined-benefit plans.	February 1, 2015
Amendments to IAS 27	Use of the equity method in separate financial statements.	January 1, 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 – disproportionate change in gross amount and accumulated depreciation/amortization in revaluation method; - IAS 24 – definition of key management personnel.	February 1, 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.	January 1, 2016

The PGE Group 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 Group

The new IFRS 9 *Financial Instruments* introduces fundamental changes in respect of classification, presentation and measurement of financial instruments. As part of IFRS 9, new model for calculating impairment will be introduced that will require more timely recognition of expected credit losses and rules for hedge accounting will be updated. Most of all, these changes are intended to adapt the requirements in the field of risk management, allowing preparers of financial statements to reflect entity's actions more accurately. New IFRS 9 will possibly have material influence on future financial statements of the Group. 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 the Group has not been finished yet.

The new IFRS 15 *Revenue from Contracts with Customers* is intended to unify principles of revenue recognition (except for specific revenues regulated by other IFRS) and indicate disclosure requirements. Adoption of IFRS 15 may cause changes in the Company's revenue recognition. Analysis of the impact of IFRS 15 has not been completed yet, nonetheless preliminary evaluation indicates that the standard should not have significant influence on the Group's future financial statements.

The new IFRS 16 *Leases* changes principles for the recognition of contracts which meet the criteria of lease. The main change is to eliminate the classification of leases as either operating leases or finance leases. All contracts which meet the criteria of lease will be recognized as finance lease. Adoption of the standard will have the following effect:

- in the statement of financial position: increase of non-financial non-current assets and financial liabilities,
- in the statement of comprehensive income: decrease of operating expenses (other than amortization), increase of amortization and financial expenses.

The standard has been published in January 2016 and the PGE Group has not performed yet the analysis of its impact on the future financial statements.

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

Amendments to standards and interpretations that entered into force in the period from January 1, 2015 to the date of approval of these consolidated financial statements did not have significant influence on these financial statements.

2.4 Professional judgment of management and estimates

In the process of applying accounting rules with regards to the below issues, management has made judgments and estimates that affect the amounts presented in the consolidated financial statements, including in other explanatory information. 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 consolidated financial statements.

Recoverable amount of property, plant and equipment and goodwill

Changes in the electricity market may have a significant influence on the recoverable amount of power generating property, plant and equipment of particular PGE Group entities. If impairment indicators are identified, the Group estimates the recoverable amount of the respective property, plant and equipment owned. Estimate of recoverable amount of goodwill is performed once a year.

Impairment analysis of property, plant and equipment and goodwill is performed by estimating the recoverable amount of cash generating units. The analysis is based on a number of significant assumptions concerning factors, some of which are outside the control of the Group. Any significant changes 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 Group.

Performed impairment test is described in note 3 of these financial statements.

Depreciation period of property, plant and equipment and intangible assets

Depreciation rates are calculated on the basis of the estimated economic useful life of an item of property, plant and equipment or intangible assets as well as estimates of its residual value. Capitalized costs of major inspections and overhauls are depreciated throughout the period until the beginning of the next major inspection or overhaul.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Estimated economic useful lives of assets are subject to verification at least once a year. Depreciation periods applied are presented in notes 4.10 and 4.12 of these financial statements.

The verification of the economic useful lives of property, plant and equipment and intangible assets conducted in 2015 resulted in a decrease in the depreciation and amortization costs for 2015 by approx. PLN 1 million in total, which had the following effects on the costs of particular segments:

- a decrease in the depreciation and amortization costs in the Conventional Generation segment by approx. PLN 32 million,
- an increase in the depreciation and amortization costs in the Distribution segment by approx. PLN 24 million,
- an increase in the depreciation and amortization costs in the Renewables segment by approx. PLN 7 million,

The verification of economic useful lives of assets in other segments did not have significant impact on the depreciation and amortization costs for 2015.

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

Capitalization of stripping cost in the production phase is determined based on N-W ratio. N-W ratio is calculated by comparing the total volume of overburden still to be removed over the remaining period of exploitation of the deposit to the total volume of coal still to be extracted over the remaining period of exploitation of the deposit – from the date of application of IFRIC 20 to the end of the exploitation of lignite from the deposit. This ratio is calculated at the end of each year based on the best knowledge of the technical experts employed in the mine and may be subject to change in case of acquisition of new information on the size of the deposit and the way it is located underground. Change of N-W ratio during the year 2015 caused an increase in costs of PLN 21 million.

Impact of assets arising due to the stripping costs in the production phase of a surface mine on property, plant and equipment and its depreciation is described in note 9 of these financial statements.

Valuation of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods.
Key actuarial assumptions related to the calculation of provisions as at the reporting date are as follows:

	As at December 31, 2015	As at December 31, 2014
Expected inflation rate (%)	1.59-2.47%	2.20-2.50%
Discount rate (%)	3.0%	2.60%
Expected salary growth rate (%)	0-5.43 %	0-2.97%
Employee turnover (%)	0.24-12.83 %	0.5-8.84%
Expected medical care costs growth rate (%)	1.59 – 2.5%	0-2.30%
Expected Social Fund (ZFŚS) allowance rate (%)	3.50-5.00%	3.50-5.00%

- The probability of employee attrition has been predicted on the basis of historical data related to Group's employee turnover ratio and statistical data on employee attrition in the industry.
- Mortality and survival probability have been adopted from the Life Expectancy Tables published by Central Statistical Office of Poland, assuming that the population of Company's employees corresponds, in respect of mortality, to the average in Poland.
- Calculation takes into account changes resulting from the amended Law on State Social Insurance Pensions, especially changes related to retirement age for women and men, including increase of retirement age, in a defined time horizon, to 67 for both women and men.
- Normal procedure of employees' retirement was assumed, in accordance with detailed rules included in the Law on State Social Insurance Pensions, with the exception of employees who meet the conditions required to early retirement.
- For discounting future benefit payments a discount rate of 3.0% was adopted, (December 31, 2014: 2.6%), which corresponds to the profitability of long-term Treasury bonds listed on the polish capital market.

Provisions

As described in note 4.25 of these financial statements 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 rehabilitation of post-exploitation mining properties, including rehabilitation and utilization of final excavation, rehabilitation of ash storages and rehabilitation of post-construction grounds of wind farms;
- provision for deficit of CO_2 emission rights;
- provision for energy origin units held for redemption;
- provisions for jubilee awards and post-employment benefits.

Sensitivity analysis for changes in assumptions used for calculation of carrying value of provisions, in particular a change in a discount rate, is presented in notes 23 and 24 of these financial statements.

Contingent liabilities

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

Detailed information on contingent liabilities and legal claims and disputes is presented in note 30 of these financial statements.

Compensations resulting from termination of long-term agreements (LTC)

The Group's estimates of compensation related to early termination of long-term contracts for sale of capacity and electricity resulting in recognition of related revenues and receivables are based on appropriate, in the Group's opinion, interpretation of the Act dated June 29, 2007 on the principles for coverage of costs incurred due to early termination of long-term contracts for sales of capacity and electricity (Official Journal from 2007, No. 130, item 905) (" the LTC Act"), the anticipated outcome of disputes with the President of the Energy Regulatory Office and on a number of significant assumptions to the factors, some of which are outside the control of the Group.

An unfavorable outcome of the dispute with the President of the Energy Regulation Office, described in note 35.1 of these financial statements, with respect to the interpretation of the LTC Act, and changes in assumptions used, including those resulting from mergers within the PGE Group, may significantly impact the estimates and as a consequence may lead to significant changes in the financial position and results of the PGE Group. It is not possible to predict the final outcome of the dispute with the President of the Energy Regulation Office as at the date of preparation of these consolidated financial statements.

During the reporting period the Group revised the estimates of LTC compensations. Detailed information is presented in note 35.1 of these financial statements.

Impairment allowances on receivables

As at the reporting date the Group entities assess whether there is an objective evidence for impairment of a receivable or a group of receivables. If the recoverable amount of an asset is lower than its carrying amount, the PGE Group recognizes an impairment allowance to the amount of the present value of expected cash flows.

Change in impairment allowance on trade and other receivables is presented in note 28.5.1 of these financial statements.

Accrual of electricity sales

Reading numbers from meters regarding the volume of electricity provided in retail sales including distribution services and its invoicing is performed mainly in periods different from the reporting periods. Taking into account the above, a retail sale company (PGE Obrót S.A.) and a distribution company (PGE Dystrybucja S.A.) that are part of the PGE Group perform certain revenues estimates at each reporting date that cover the period not covered by the meters reading. The estimates include also a change in the cost of purchase of electricity during the period of the estimates and reconciliation of the energy balance.

The carrying amount of the accrual of electricity sales as at December 31, 2015 is described in note 27.1.1 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

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

During the year ended December 31, 2015 the PGE Group did not acquire any new companies that would result in measurement of fair values of assets and liabilities and goodwill calculation.

Influence of changes in estimates on the statement of comprehensive income for the year 2015

	Impairment of power generating assets	Change in actuarial provisions	Change in rehabilitation provision	Change in N-W ratio	TOTAL
SALES REVENUES	-	-	-	-	-
Costs of goods sold	(9,029)	46	-	(21)	(9,004)
GROSS PROFIT/(LOSS) ON SALES	(9,029)	46	-	(21)	(9,004)
Distribution and selling expenses	(8)	3	-	-	(5)
General and administrative expenses	(2)	8	-	-	6
Other operating income	-	-	93	-	93
OPERATING PROFIT/(LOSS)	(9,039)	57	93	(21)	(8,910)
PROFIT/(LOSS) BEFORE TAX	(9,039)	57	93	(21)	(8,910)
Other comprehensive income	-	15	-	-	15

3. The analysis of impairment of property, plant and equipment, intangible assets and goodwill

Property, plant and equipment is the most significant group of assets of the PGE Group. Due to changeable macroeconomic conditions the PGE Group regularly verifies the impairment indicators of its assets. When assessing the market situation the PGE Group uses both its own analytical tools and independent think tanks' support.

3.1 The analysis of impairment of power generating assets of Conventional Generation segment

Within the first half of 2015 the PGE Group has identified a number of factors that could have had significant impact on a change in the value of power generating assets of Conventional Generation segment held by the Group. In the PGE Group's opinion, the most important factors influencing the recoverable amount of assets are:

- decline in the futures and spot prices of electricity in Poland and abroad

In 2015 the prices of futures contracts for BASE and PEAK products decreased by 8%. Lower prices on spot markets in Germany and Scandinavia result in maintaining competitiveness of the energy import to Poland.

- restrictive climate policy of the EU

The increasingly restrictive approach of the EU to the climate policy is reflected in the legislative processes currently in progress, intended to prevent the climate change, reduce the impact of polluting emissions, and enhance power efficiency. The introduction of new emission standards has resulted in the Industrial Emissions Directive (IED), reference documents concerning the best available techniques (BAT conclusions) for large combustion sources, and the Market Stability Reserve (MSR). Energy produced from renewable energy sources is, and is going to be subsidized through a system of certification of origin and auction system. It should be expected that new tools for electric power industry decarbonization will be created within these initiatives, including a shift of part of production from coal-fired units to renewable energy sources. The most significant consequence will be a drop in competitiveness of lignite-based power plants, which are characterized by high CO_2 emission coefficients expressed in MWh.

- oversupply of hard coal on the domestic market

Oversupply of coal and sharpened price competition on the domestic market result in significant decrease of hard coal prices. This causes a significant reduction of fuel costs in power plants based on hard coal and worsened competitiveness of power plants based on lignite. In the PGE Group's opinion, this situation is permanent what is reflected in the persistently low quotations of futures on the global market and low transaction prices observed on the Polish market. Oversupply of hard coal results in a decline in expectations regarding profit margins generated by lignite power plants in the medium and long term.

As a result of the above events, the PGE Group has reduced its forecasts of the expected future cash flows and identified the impairment risk concerning its conventional power generating assets.

The impairment tests of cash-generating units ("CGU") were carried out as at June 30, 2015 and as at December 31, 2015 in order to determine their recoverable amount. Determination of fair value for very large groups of assets for which no active market exists and there are few comparable transactions, is in practice very difficult. In case of whole power plants and mines, for which there is a need to specify the value on the local market, the observed fair values do not exist.

Therefore, the recoverable amount was determined based on an estimated value in use of the tested assets calculated using the discounted cash flow method on the basis of financial projections for the years 2015 – 2030. For the power generating units with a deemed economic useful lives going beyond 2030, the residual value for the remaining life was determined. According to the PGE Group, adoption of the financial projections longer than five years is reasonable due to the significant and long-term impact of estimated changes in the regulatory environment of the Group. Through the adoption of longer projections the recoverable value may be estimated more reliably.

The assumptions

While performing the impairment test as at June 30, 2015, the key assumptions influencing the recoverable amount of tested CGUs were as follows:

- recognizing:
  - Branch Kopalnia Węgla Brunatnego Bełchatów and Branch Elektrownia Bełchatów („Bełchatów complex"),
  - Branch Kopalnia Węgla Brunatnego Turów and Branch Elektrownia Turów („Turów complex")

  as one CGU due to the technological and economical connections between these branches,
- recognizing as three separate CGUs: Elektrownia Dolna Odra, Elektrociepłownia Szczecin and Elektrociepłownia Pomorzany being a part of Branch Zespół Elektrowni Dolna Odra,
- electricity prices forecasts for the years 2015-2030 assuming an increase in the wholesale market price by more than 20% till 2020 and a smaller increase in the following years (in fixed prices),
- CO_2 emission rights prices forecasts for the years 2015-2030 assuming a twofold increase in market prices till 2020 and a smaller increase in the following years (in fixed prices),
- hard coal prices forecasts for the years 2015-2030 assuming a relatively constant level of coal market prices in the years 2015-2018, increase of prices in the years 2019-2020 and a stabilization of prices in the following years (in fixed prices),
- the assumptions on the number of CO_2 emission rights for the production of electricity received free of charge for the years 2015-2020 for particular CGUs in accordance with the Application of Poland for temporary allocation of free of charge emission rights for modernization of electricity production on the basis of article 10c paragraph 5 of Directive 2003/87/EC of the European Parliament and of the Council (so-called derogations application), which meets the requirements of Commission Decision of July 13, 2012. In terms of heat production, free of charge rights has been taken into account in line with the list of allocations of CO_2 emission rights for heat in the reference period 2013-2020, published by Ministry of the Environment,
- taking into account free allocations of CO_2 emission rights in the period 2021-2030 forecasted based on allocation method applied until now,
- taking into account the so-called capacity market, ie. remunerating power generating units and reducing the demand, necessary to ensure security of electricity supply in the National Power System, since 2023; the remuneration was assumed based on the performance of the capacity market in the UK,
- taking into account the system of support for high-performance cogeneration in the whole period of forecast,
- taking into account the optimization of employment costs, resulting among others from the current employment plan,
- maintenance of production capacities at the current level, as a result of replacement investments,
- taking into account development investments, which were started,
- adopting weighted average cost of capital after tax (WACC) at the level of 7.26%,
- receipt of compensation for the early termination of long-term contracts (so called LTC) by eligible producers.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The forecasts of electricity, CO_2 emission rights, hard coal prices, production and demand for electricity come from a study prepared by an independent expert. The most probable forecast of energy prices was adopted, wherein for the year 2016 the prices arising from signed contracts were adopted, when applicable.

It must be noted that as at June 30, 2015 and as at the date of preparation of these financial statements, there are no specific projects and plans for the Polish market, on the manner and timing of the so-called capacity market after 2023 and for support for natural gas-fired generation units for the period after 2018. Nevertheless, the PGE Group believes their assumptions are reasonable in the view of the anticipated and desired changes in the regulatory environment. The assumptions that have been reflected in the projected cash flows represent, in the PGE Group's opinion, a reasonable scenario of the way how and the period when they will function. Nevertheless, it cannot be excluded that the final shape and duration of these solutions may significantly differ from the ones adopted.

The results of the tests for CGUs for which impairment has been identified are presented below:

As at June 30, 2015	Value tested	Impairment loss	Value after impairment loss
Power generating units of Conventional Generation segment			
Bełchatów complex	**17,188**	(3,136)	14,052
Turów complex	**5,561**	(5,116)	445
Opole power plant	**4,408**	-	4,408
Szczecin CHP	**516**	-	516
Bydgoszcz CHP	**417**	(417)	-
Lublin-Wrotków CHP	**400**	-	400
Rzeszów CHP	**300**	-	300
Gorzów CHP	**296**	-	296
Kielce CHP	**157**	(157)	-
Pomorzany CHP	**70**	-	70
Dolna Odra power plant	**-**	-	-
Zgierz CHP	**-**	-	-
Other assets allocated to segment	**16**	(16)	-
TOTAL	**29,329**	**(8,842)**	**20,487**

The above value tested is the carrying value of the testes assets as at June 30, 2015 decreased by the value of rehabilitation provision as at that date.

As a result of the conducted test as at June 30, 2015, the PGE Group deemed impairment of power generating assets of PLN 8,842 million.

Revaluation of the recoverable value of the power generating assets as at December 31, 2015

In the PGE Group's opinion, the long-term assumptions adopted as at June 30, 2015 during the asset impairment tests are mostly still correct also at the date of preparation of these financial statements. Due to the fact that some of the assumptions, particularly the short-term ones, have been verified, the tests conducted have been updated according to the situation as at December 31, 2015. Subjected to the update were mainly the first two years of the forecast (i.e. the years 2016 and 2017). Also the plans regarding the investment expenditure over the period covered by the forecast have been updated, as well as the electricity sales goals, and the valuation of the resources that are to be collected for the rehabilitation of post-exploitation mining properties. The result obtained was set against the carrying amounts as at December 31, 2015.

The revaluation of the recoverable amount has not provided a basis for reversing the impairment losses recognized before nor need for creating new impairment losses in relation to the whole cash generating units.

In addition, during the year 2015 the Group recognized impairment losses concerning the assets belonging to Conventional Generation segment of PLN 145 million. Total impairment loss of PLN 8,987 million was included in the statement of comprehensive income in costs of goods sold.

The changes in market conditions and the regulatory environment described above caused that the competitive position of the PGE Group has been weakened. The expected decrease in margins especially concerns units using lignite as a fuel, which do not benefit from a reduction in hard coal prices. In addition, these power plants emit more CO_2 per energy unit produced, therefore they are affected to a larger extent by the predicted rise in prices of the emission rights.

Sensitivity analysis

The results of a sensitivity analysis for individual units showed that the electricity prices, CO_2 emission rights prices, weighted average cost of capital and the assumption regarding the introduction of so-called capacity market in Poland have the greatest impact on the value in use of the tested assets. The change in the purchase price of hard coal influences the value in use to a lesser extent.

The table below presents the sensitivity analysis of impairment tests concerning Conventional Generation segment assets for changes in key assumption as at December 31, 2015.

Parameter	Change	Impact on impairment in billions of PLN	
		Increase in impairment allowance	Decrease in impairment allowance
Change in electricity prices throughout the forecast period	+ 1%	-	1.0
	- 1%	1.0	-
Change in WACC	+ 0.5 p.p.	0.8	-
	- 0.5 p.p.	-	0.9
Change in CO_2 emission rights prices throughout the forecast period	+ 1%	0.4	-
	- 1%	-	0.4
Assumption regarding so-called capacity market	no capacity market after 2023	5.0	-

3.2 Impairment of the power generating assets of the Renewables segment

The goodwill of PLN 286 million presented in the financial statements is attributed to the Renewables segment. The PGE Group regularly verifies the recoverable amount of goodwill together with the cash-generating units (CGUs) to which it is allocated.

Total value of property, plant and equipment and intangible assets assigned to the segment amounts to PLN 4,410 million as at December 31, 2015. The recoverable amount of the assets was determined based on the estimated value in use of the assets tested using the discounted cash flow method on the basis of the financial projections for the years 2015-2030. For wind farms, the projection period adopted corresponds to the exploitation period assumed for a given project. As a result, for the CGUs comprising wind farms, the projection periods are longer and end between 2032 and 2034. The Group is of the opinion that adoption of the financial projections longer than five years is reasonable due to significant and long-term impact of estimated changes in the regulatory environment. Through the adoption of longer projections the recoverable amount may be estimated more reliably.

The main assumptions influencing the estimation of the value in use of the CGUs tested comply with the assumptions adopted for the verification of the value of the Conventional Generation segment assets. The assumptions characteristic of this segment include:

- recognition as a single CGU of:
  - pumped-storage power plants,
  - other hydroelectric power plants,
  - wind farms.
- a system of support for renewable energy sources (RES) in compliance with the assumptions of the new act on RESs, i.e. on the assumption that support in the form of certificates will be given to hydroelectric power plants with installed capacity not exceeding 5 MW,
- the assumption that the production of electricity and energy origin rights on the basis of historical data and expert estimates made for the investment needs and taking into consideration the availability of particular units.

The estimated recoverable amount of analyzed assets was significantly higher than theirs carrying amount, and therefore no impairment loss of goodwill and operating power generating units was recognized.

Independently from performed tests, the PGE Group has reviewed its investment projects portfolio of wind farms. As a result of the review, projects with low probability of implementation were identified. Consequently, the PGE Group recognized an impairment allowance of fixed assets under construction of PLN 52 million.

Sensitivity analysis

The results of the sensitivity analysis show that changes in estimates regarding the prices of sale of energy origin rights, electricity prices and weighted average cost of capital have the most significant impact on the recoverable amount of the measured assets. Given the assumptions adopted, the PGE Group estimates that an impairment of assets in the Renewables segment would take place in the case of:

- an increase in the WACC by over 2.0 p.p.;
- a decrease in the electricity price by over 17% throughout the whole projection period;
- a decrease in the price of energy origin rights by over 44% throughout the whole projection period.

3.3 Property, plant and equipment in Distribution segment

As at reporting date carrying amount of property, plant and equipment related to the distribution activity amounted to more than PLN 15 billion and represented over 32% of the total consolidated assets. Their recoverable amount depends mainly on tariffs granted by the Energy Regulatory Office. Regulated revenue (tariff) determined annually provides covering justified costs: operating, depreciation and amortisation, taxes, purchase of energy to cover the balancing difference and transferred costs. It provides also a return on equity involved in the distribution activity at a justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Value of Assets.

As at the date of preparation of these consolidated financial statements, the PGE Group has not identified the indications for impairment of property, plant and equipment in Distribution segment.

4. Significant 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 Group 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.

4.1 Consolidation principles

These consolidated financial statements of the PGE Group have been prepared on the basis of the financial statements of the parent company, financial statements of its subsidiaries and associates. The financial statements of consolidated entities are prepared for the same reporting period, based on unified accounting principles.

All balances, income and expenses arising between the Group entities and unrealized gains from intra-group transactions, were fully eliminated.

Subsidiaries are consolidated from the date of taking control over them by the Group, till the date of cessation of control. Control by a parent company occurs when this company owns, directly or indirectly through its subsidiaries, more than half of votes in the entity unless it is possible to prove that such ownership does not constitute control. Exercising control occurs when the company, due to its involvement in another entity holds the rights to variable financial results and has the power to influence the amount of financial results by controlling the entity. Exercising control may also occur when the parent company does not owns half of votes in a subsidiary.

Formation of the PGE Group

During the implementation of the Program for the Power Industry of March 28, 2006, a decision was made about the establishment of the PGE Group on the basis of:

- Polskie Sieci Elektroenergetyczne S.A. (presently PGE Polska Grupa Energetyczna S.A.),
- the former BOT Group: BOT Górnictwo i Energetyka S.A. ("BOT GiE S.A."), BOT Elektrownia Bełchatów S.A., BOT Kopalnia Węgla Brunatnego Bełchatów S.A., BOT Elektrownia Opole S.A., BOT Elektrownia Turów S.A., and BOT Kopalnia Węgla Brunatnego Turów S.A.,
- Zespół Elektrowni Dolna Odra S.A. ("ZEDO"),
- eight utility companies: Zamojska Korporacja Energetyczna S.A., Rzeszowski Zakład Energetyczny S.A., Lubelskie Zakłady Energetyczne S.A., Zakłady Energetyczne Okręgu Radomsko-Kieleckiego S.A., Łódzki Zakład Energetyczny S.A., Zakład Energetyczny Łódź-Teren S.A., Zakład Energetyczny Warszawa-Teren S.A., and Zakład Energetyczny Białystok S.A.

In compliance with the provisions of the Program for the Power Industry, a consolidation model for the aforementioned companies was devised. The model was based on a contribution in-kind of the shares of all the aforementioned companies to the company Polskie Sieci Elektroenergetyczne S.A.

The consolidation process had two stages. The first stage involved the contribution by the State Treasury of 85% of the shares of ZEDO and the eight utility companies to the share capital of the company PGE Energia S.A in December 2006. The second stage was increasing the share capital of the parent company by the contribution of 85% of shares of PGE Energia S.A. and BOT GiE S.A. on May 9, 2007.

Accounting for the formation of the PGE Group in the consolidated financial statements

The issues related to the mergers and acquisitions of business units are generally regulated by International Financial Reporting Standard 3 Business Combinations. However, the scope of this standard does not include transactions among business entities under common control. Same as the companies of the PSE Group of that time, the business entities contributed to the Company in May 2007 were controlled by the State Treasury. Thus, in the Company's opinion, the contribution of the companies described above meets the definition of transaction under common control, and thus is excluded from the scope of IFRS 3.

The aforementioned mergers of the entities under common control were accounted for by the pooling of interests method and thus the consolidated financial statements reflect the fact of the common control continuity and does not present the changes in the net asset value to fair value (or recognition of new assets), or valuation of the goodwill.

Further major transformations of the Group

In the years 2009–2015, further major transformations of the PGE Group took place, including:

- purchase of additional shares in subsidiaries,
- mergers of subsidiaries,
- merger of the parent company with subsidiaries.

All the transformations listed above were presented as transactions between entities under common control, for which reason they were accounted for within the Group's equity, without any impact on the goodwill.

The purchase of companies from third parties is accounted for using the acquisition method.

Joint arrangements

A joint operation is an arrangement whereby the jointly controlling parties have rights to the assets and obligations for the liabilities relating to the arrangement. A joint operator recognizes:

- its own assets;
- liabilities incurred;
- share of the revenue from the sale of the output by the joint operation;
- cost incurred.

In relation to participation in a joint venture (a joint arrangement giving the right to the net assets of the arrangement) a joint venture accounts for its interest i a joint venture under the equity method.

Investments in associates

The associates are entities over which the parent company directly, or through the subsidiary, has significant influence and that are neither controlled nor jointly controlled. Investments in associates are recognized in the statement of financial position at cost increased or decreased to recognize the investor's share in the investee's net assets after the date of acquisition less impairment losses if applicable.

Investments in associates are recognized using the equity method.

4.2 Methods applied to convert positions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into Polish Zlotys at the rate on the transaction date. As at the reporting date:

- monetary items are translated at the closing NBP rate;
- non-monetary items are valued at historical cost in foreign currency at an exchange rate on the day of the transaction;
- non-monetary items measured at fair value in foreign currency are translated at an exchange rate on the day of fair value measurement.

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

Foreign exchange differences resulting from translation of non-monetary items, such as equity instruments measured at fair value through profit or loss, are recognized as a change in fair value. Foreign exchange differences resulting from translation of non-monetary items, such as equity instruments classified as financial assets available for sale, are recognized in other comprehensive income. Foreign exchange differences resulting from translation of assets and liabilities of foreign entities with functional currency other than functional currency of the parent company are recognized in separate position of the equity.

4.3 Operating segments

An operating segments is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses,
- whose operating results are regularly reviewed by the entity's chief operating decision maker in the Group to make decisions about resources to be allocated to the segment and assess its performance,
- for which discrete financial information is available.

Due to the types of production processes as well as the current system of regulation within the PGE Group, the following segments are distinguished:

- Conventional Generation,
- Renewables,
- Supply,
- Distribution,
- Other operations that include the activities of the subsidiaries other than listed above, but not material enough to create separate segment.

Segment revenues are the revenues, including both sales to external customers and intersegment transfers within the Group that are presented in profit or loss of the Group and can be directly attributed to the segment together with a relevant portion of revenue that can be allocated on a reasonable basis to the segment. Segment expenses include cost of sales to external customers and the cost of intersegment transfers within the Group, which results from operating activities of the segment and can be directly attributed to the segment together with a relevant portion of entity's expenses that can be allocated on a reasonable basis to the segment. Segment result is a difference between revenues and expenses of the segment.

Segment assets are those operating assets that are used by that segment in its operating activity and that can be directly attributed to the segment or can be allocated on a reasonable basis to the segment. Segment liabilities are those operating liabilities that result from operating activities of the segment and can be directly attributed to the segment or can be allocated on a reasonable basis to the segment. Segment assets and liabilities do not include settlements connected with income tax.

4.4 Revenues

Revenues are measured at the fair value of the consideration received or due. 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. In particular, revenues from the sale of electricity are recognized at the time of delivery.

Revenues from sale of goods and merchandise primarily include:

- amounts receivable from: wholesales and retail sales of electricity, sales of heat energy, gas, lignite, certificates of energy origin from renewable energy sources, certificates of production of energy in high efficiency cogeneration plants, greenhouse gas emission rights, distribution and transmission services and other services relevant to core business,
- amounts receivable from sales of materials and merchandise not mentioned above.

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 Group recognizes revenue only to the extent of the expenses recognized that are recoverable.

Connection fees

PGE Dystrybucja S.A. generates revenues from connecting clients to the network, so-called connection fees. According to the interpretation IFRIC 18 *Transfers of Assets from Customers*, starting from July 1, 2009 these revenues are recognized at once when the service is performed. Fees received until July 1, 2009 are recognized as deferred income and settled through the period of 25 years.

Revenues from LTC compensations

Producers of electric energy, who joined the program of early termination of long-term contracts for sale of capacity and electricity, are entitled to receive compensations to cover stranded costs. The compensations are paid in the form of annual advances as four quarterly instalments which are adjusted on yearly basis. At the end of the adjustment period, the final amount of stranded costs will be determined. Due to the above, the producers of electricity of the PGE Group estimate and recognize the revenue from LTC compensations in the amount in which it will be finally approved for the given period, i.e. after annual and final adjustments expected as at the date of the preparation of the consolidated financial statements. Allocation of the final adjustment to the respective reporting period is based on estimated schedule of sales of electricity and system services in the adjustment period, including the final adjustment.

Revenues adjustments in respect of LTC compensations arising from court decisions are presented in other operating activities.

Revenues from distribution activity

In Poland, the electricity distribution sector is subject to the price regulation. It concerns setting the level of regulated revenues for distribution companies based on which the entities established in tariffs the level of charges for distribution services. The tariffs for the distribution companies are set annually.

The regulated revenues include the following elements:

- operating costs (excluding taxes and depreciation) – so called model costs,
- depreciation,
- taxes,
- return on capital invested in activity under concession,
- network losses,
- costs incurred due to purchase of transfer services from Polskie Siecie Elektroenergetyczne S.A. and the balances of transit.

4.5 Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period adjusted for related changes in inventories (finished goods, semi-finished products and production in progress) and costs related to production of goods for the Group's own use,
- value of electricity, certificates of origin for energy and gas sold, and 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 entities, 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.

4.6 Other operating income and expenses

Other operating income and expenses include in particular:

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

4.7 Financial income and expenses

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

- disposal of financial assets and interests in unconsolidated entities,
- revaluation of financial instruments, except for financial assets available for sale ("AFS"), the result of which is reflected in hedging 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 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.

4.8 Taxes

Corporate income tax recognized in profit or loss comprises current income tax and deferred income tax, that are actual fiscal charges for the reporting period calculated by the Group entities in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than 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); and
- 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); and
- differences associated with investments in subsidiaries, branches, 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 reviewed at each reporting date. The deferred tax asset and deferred tax liabilities are classified as long-term. The Group offsets deferred tax asset and liabilities, at the level of each company of the Group.

The Group 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.

4.9 Earnings per share

Earnings per share for each period is calculated by dividing profit or loss attributable to equity holders of the parent company by the weighted average number of shares outstanding during the reporting period.

An entity calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders (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).

4.10 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, as an asset, 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. As at the date of acquiring or manufacturing of an item of property, plant and equipment, the Group identifies and distinguishes all components being a part of a respective asset that are significant as compared to the acquisition price, cost of manufacture or deemed cost, and depreciates them separately.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

Group	Average remaining depreciation period in years	The most often applied total amortization period in years
Buildings and structures	16	20 – 60
Machinery and equipment	12	4 – 40
Vehicles	6	4 – 14
Other	4	3 – 10

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

If there is an impairment loss on property, plant and equipment to be recognized the PGE Group applies principles described in note 4.14.

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

Stripping costs

Surface mines from the Group recognize stripping costs incurred during the construction and start of the mine as assets and present them as property, plant and equipment.From the beginning of lignite exploitation those capitalized cost are systematically depreciated using the natural method of depreciation based on the amount of the lignite extracted.

If the conditions of the IFRIC 20 interpretation are met, mines also recognize as a property, plant and equipment so-called deferred stripping cost, i.e. stripping costs incurred during the production phase. The value of the assets arising due to stripping costs in the production phase is determined based on the model that takes into account, inter alia, the estimated value of the overall N-W ratio (the proportion of overburden to lignite) and annual real rate of N-W. An asset arising due to stripping costs is systematically depreciated using the natural method of depreciation based on the amount of lignite extracted from the given deposit.

Costs of rehabilitation of post-exploitation surface mining properties

Surface mines operating in the Group capitalize in the value of the corresponding component of fixed assets estimated costs of rehabilitation of post-exploitation mining properties in the proportion of the volume of the excavation resulting from stripping of overburden at the reporting date to the planned volume of excavation resulting from stripping of overburden at the end of exploitation period.

Capitalized costs of rehabilitation are systematically depreciated using the natural method of depreciation based on the amount of lignite extracted from a particular field.

4.11 Investment property

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

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

An investment property is measured initially at its cost (cost of acquisition or cost of manufacturing) including transaction costs. As at reporting date investment property is measured at its net value, i.e. initial value less any accumulated depreciation and any impairment losses. Transfers to investment property is made when, and only when, there is a change in use, evidenced by end-of-owner-occupation, commencement of an operating lease or end of construction or development of an investment property.

4.12 Intangible assets

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

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

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

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

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

Intangible assets with a definite useful life are amortized over their useful life and analyzed for potential impairment, if there are indications of impairment. Amortization periods and amortization methods of intangible assets with a definite useful life are verified at least each financial year. Changes in the expected useful lives and in the expected pattern of consumption of the future economic benefits embodied in the asset are treated as change of estimate.

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

Group	Average remaining amortization period in years	The most often applied total amortization period in years
Acquired patents and licenses	3	3 – 10
Costs of finished developed works	2	5 – 15
Other	17	3 – 25

An intangible asset arising from development phase of a project shall be recognized if, and only if, the Group 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.

4.13 Borrowing costs

Borrowing costs are interest and other costs that the Group 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 recognized as an expense. Exchange differences arising from foreign currency borrowings the Group capitalizes to the extent that they are regarded as an adjustment to interest costs.

4.14 Impairment of non-financial assets

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

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

4.15 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).

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, or
  - a derivative, except for a derivative that is a designated and effective hedging instrument.
- Upon initial recognition it is designated by the entity as at fair value through profit or loss. 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 as at the reporting date. Gains and losses on financial assets classified as FVP are recognized in profit or loss and 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 discounted value.

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. Non-current receivables are measured at present (discounted) value.

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 entity's right to receive payment is established.

4.16 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 Group 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 combined instrument is not measured at fair value with changes in fair value recognized in profit or loss.

When assessing if 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, the Group also considers 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 (e.g. office space rental agreement in Poland, with a rental price specified in EUR includes embedded derivative that is not separated, because EUR is a currency that is commonly used on this market).

Embedded derivatives that are separated are recognized in a similar way to the other derivatives, namely they are recognized in the statements of financial position at fair value and changes in the fair value are recognized in profit or loss.

4.17 Derivatives and hedging instruments

The Group 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 (IRS). 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.

4.18 Hedge accounting

Changes in fair value of derivative financial instruments designated as cash flow hedges CCIRS (Cross Currency Interest Rate Swap) are recognized in hedging 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 accumulated changes in fair value of hedging instrument, previously recognized in hedging 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 Group excludes the amount from equity and includes in the initial cost or other carrying amount of a non-financial asset or liability.

4.19 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 energy produced from renewable energy sources, rights of origin for 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 merchandise (except for the CO_2 emission rights) – using FIFO 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 a specific item of inventory is recovered fully or partially, its carrying amount is adjusted by decreasing revaluation adjustment.

4.20 CO_2 emission rights for own use

European Union Allowances (EUA) for carbon dioxide emissions intended for captive use of power generating units and other allowances redeemable pursuant to greenhouse gas emissions (CER, ERU), received free of charge or purchased, are presented in a separate line in the statement of financial position. EUA received free of charge are recognized in the statement of financial position in nominal value, which is zero. Purchased EUA are recognized at purchase price. Use of CO_2 emission rights for captive use is measured based on FIFO method.

4.21 Other assets (including prepayments)

The Group 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 state receivables, advances for deliveries and services and dividends receivables.

4.22 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.

4.23 Non-current assets classified as held for sale

Non-current assets classified as held for sale are those which comply simultaneously with the following criteria:

- the appropriate level of management (General Shareholders Meeting, Supervisory Board, Management Board) is committed to a plan to sell the asset,
- the assets are available for immediate sale in their present condition,
- an active program to locate a buyer has been initiated,
- the sale transaction is highly probable and can be settled within 12 months following the decision,
- the selling price is reasonable in relation to its current fair value,
- it is unlikely that significant changes to the sales plan of these assets will be made.

Non-current assets (or disposal groups) classified as held for sale are not subject to depreciation. Non-current assets or group of assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. In the consolidated statement of financial position assets (or disposal groups) classified as held for sale are presented in separate line of current assets.

4.24 Equity

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

Share capital, reserve capital and other capital reserves in the consolidated financial statements are the ones of the parent company. Hedging reserve, foreign exchange differences from translation on foreign entities and retained earnings include both the amounts deriving from the financial statements of the parent company and the relevant portion of the subsidiaries' equity, established in accordance with the consolidation principles. Declared, but not yet contributed, share capital contributions are recognized as outstanding share capital contributions as negative value.

In the consolidated statement of financial position equity is divided into:

- Equity attributable to equity holders of the parent company,
- Non-controlling interests.

4.25 Provisions

The Group 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 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 awards provision

Depending on an entity, employees of the Group companies 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,
- coal allowance given in nature or paid as a cash equivalent,
- benefits from the Social Fund,
- medical benefits.

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

The Group recognizes a provision for future obligations relevant to past service costs and jubilee awards 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 recognized in other comprehensive income for past service costs and in operating expenses of the current period for jubilee awards.

Rehabilitation provision

The mining companies which belong to the Group raise provisions for costs of rehabilitation of post-exploitation mining properties. The value of the provision is based on the estimated cost of rehabilitation and development works related to final excavations. This cost is divided into the part attributable to stripping cost and the part attributable to mined lignite. The provision is created:

- for the part attributable to mined lignite: in the proportion of the extracted lignite as at the reporting date to the total planned volume of extraction over the period of the lignite deposit exploitation,
- for the part attributable to the stripping cost: in the proportion of the volume of the excavation resulting from stripping of overburden as at the reporting date to the planned excavation volume resulting from stripping of overburden at the end of exploitation period.

In case of rehabilitation of ash storages (production waste from electricity production) the cost of provision is recognized in operating expenses in proportion to the extent of storage filling, whereas the reversal of the discount is recognized in the financial expenses.

Provision for rehabilitation of grounds after wind farms is created when the farm is brought into use in the present value of estimated costs of dismantling and removal of remaining devices, constructions and buildings and also cost of bringing grounds to condition as close to its state prior the commissioning the farm as possible.

Estimates concerning expected costs of rehabilitation are subject to revaluation at least once in a 5-year-period. However, once a year the amount of provision is verified according to actual assumptions in terms of inflation rate, discount rate and the volume of lignite extraction or the extent of storage filling, respectively.

The increase in the provision concerning the given year is recognized in operating expenses or in the initial value of property plant and equipment, respectively. The unwinding of the discount is recognized in financial expenses. Changes in the valuation of provisions resulting from the change of assumptions (e.g. macroeconomic factors, way of conducting the rehabilitation, date, etc.), are recognized in the following way:

- for the provisions recognized as the part of the cost of property, plant and equipment: they are added to or deducted from the costs of the asset to which they relate, however the amount deducted from the cost of the asset should not exceed its carrying amount;
- as other operating expenses or other operating income - in other cases.

Provision for deficit of CO_2 emission rights

The provision for deficit of CO_2 emission rights is created by the PGE Group entities for the shortfall of CO_2 emission rights obtained free of charge. The provision is measured at the best estimate of the expenditure to be incurred to fulfil the existing obligations as at reporting date, taking into account recorded EUA obtained free of charge and EAU purchased as well as the possibly to cover any shortage with CER or ERU certificates.

Provisions are recognized in operating expenses (as costs of goods sold in cost by function and taxes and charges in cost by nature).

Provisions for energy origin rights held for redemption

The provision is created based on the requirement of the percentage share of the renewable energy and the energy generated in cogeneration units in the total sales of electricity to end users and the volume of sales to a end users. To the extent of owned energy origin rights held for redemption the provision is recognized at the value of those rights. The provision for the energy origin rights missing is measured at a reliably estimated amount of future obligation of redemption. When making the estimate, the Group takes into account substitution fees and prices. The provision is recognized in distribution and selling expenses.

4.26 Liabilities

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

The Group divides liabilities into the following categories:

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

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

4.27 The Social Fund and Other Special Funds

The Social Fund Act of March 4, 1994 states that a Social Fund is created by employers employing over 20 employees (calculated using full time equivalents). The Group creates such fund and makes periodic contributions to it. The objective of the fund is to subsidize the social activity for employees of the Group, 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 23, the Group creates provision for the post-employment benefits from the Social Fund.

4.28 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. Deferred income form connection fees that were received before July 1, 2009 is amortised evenly to sales revenues,
- grants obtained to finance acquisition or production of property, plant and equipment and intangible assets,
- property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating income in line with the depreciation charges on these assets.

Government grants are recognized 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 income proportionally to the depreciation charges on these assets.

4.29 Lease

Classification of the lease is made at the lease inception, based on the economic substance of the lease agreement.

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. 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 as 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.

4.30 Statement of cash flows

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

5. Changes of accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2015

On January 1, 2015 annual improvements to IFRS (cycle 2011-2013) became effective. Improvements refer to:

- 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.

For annual periods beginning on or after June 17, 2014 IFRIC 21 *Levies* is effective.

Above changes and new IFRIC 21 have no influence on the amounts reported in the financial statements.

Change in operating segments reporting

In order to ensure greater transparency of operating segments reporting, the following changes have been made starting from 2015:

- Previous segments of Wholesale and Retail Sale were merged and created Supply segment.
  Implementation of this change enables elimination of flows between previous segments, thus allowing for clearer presentation and more effective assessment of the results achieved by the PGE Group.
- The company ENESTA sp. z o.o. was shifted from Other Operations to Supply segment.
  Implementation of this change enables presentation of operational results of the above company according to the character of its activities ensuring more consistent view of the Group's operations in the Supply segment.
- Companies which run their operations for Conventional Generation segment were transferred from Other Operations to Conventional Generation segment.
  The above mentioned change provides better comparability between the periods through elimination of volatility in settling of services rendered by the ancillary companies. The companies added to the Conventional Generation segment run the following activities:
    - construction, renovation, modernization and investments with regard to electricity equipment;
    - deputy investor at the implementation of investment projects;
    - comprehensive diagnostic tests and measurements of electro-energy machines and equipment;
    - management of by-products of coal combustion, development and implementation of technologies of usage of the above;
    - rehabilitation of degraded areas.

Change in presentation of impairment losses of property, plant and equipment, intangible assets and goodwill

IFRS EU regulations do not explicitly indicate the line in the statement of profit or loss in which the impairment loss should be recognized, thus it depends on the adopted accounting policy. In practice, different approaches can be observed, however, both companies applying IFRS EU and audit firms prefer to recognize impairment losses in cost by nature (as part of the depreciation and amortization or in a separate line). Thus, the recognition or reversal of impairment losses does not affect the reported EBITDA.

In accordance with the previously applied accounting policy, the PGE Group recognized impairment losses of property, plant and equipment, intangible assets and goodwill in other operating expenses.

Starting from the interim financial statements for the period ended June 30, 2015, the PGE Group changed its accounting policy in such a way, that the recognition or reversal of impairment of property, plant and equipment, intangible assets and goodwill is included in cost by nature. According to the Group's management, the changed accounting policy applies IFRS EU regulations in a better way and provides greater transparency and comparability of financial statements with other entities.

Presentation changes

The following items were merged in the consolidated statement of financial position: trade receivables with other financial receivables and trade liabilities with other financial liabilities.

Moreover, the PGE Group has made the followingpresentation changes:

- accrual of electricity sales was reclassified from other current assets to trade receivables;
- CCIRS and IRS derivatives were reclassified from financial instruments measured at fair value through profit or loss to non current derivatives;
- funds of Mine Liquidation Fund collected and invested in accordance with the Geological and Mining Law Act from were reclassified from cash and cash equivalents and other loans and financial assets to non-current financial receivables;
- selected items of other operating income and expenses were reclassified to operating revenues and expenses.

In the opinion of the Group management, the new way of presentation reflects more adequately the character of the items and ensures increased comparability of the statements with other entities.

Restatement of comparative information

In accordance with the above, the PGE Group restated the comparative data presented in the statement of comprehensive income, statements of financial position and statement of cash flows. The restatement is presented in the below tables. Information presented in explanatory notes to these financial statements was also restated accordingly.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, 2014 *published*	Change in recognition of impairment allowances	Reclassification	Year ended December 31, 2014 *restated*
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**28,137**	**-**	**6**	**28,143**
Costs of goods sold	(21,546)	(173)	(16)	(21,735)
GROSS PROFIT ON SALES	**6,591**	**(173)**	**(10)**	**6,408**
Distribution and selling expenses	(1,540)	-	-	(1,540)
General and administrative expenses	(831)	-	-	(831)
Other operating income	1,561	(1)	(6)	1,554
Other operating expenses	(685)	174	16	(495)
OPERATING PROFIT	**5,096**	**-**	**-**	**5,096**
Financial income	385	-	-	385
Financial expenses	(868)	-	-	(868)
PROFIT BEFORE TAX	**4,613**	**-**	**-**	**4,613**
Income tax	(956)	-	-	(956)
NET PROFIT FOR THE REPORTING PERIOD	**3,657**	**-**	**-**	**3,657**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at December 31, 2014 *published*	Reclassification	Merger of items	As at December 31, 2014 *restated*
NON-CURRENT ASSETS, including:				
Financial receivables	13	112	-	125
Derivatives	-	4	-	4
TOTAL NON-CURRENT ASSETS	**52,182**	**116**	**-**	**52,298**
CURRENT ASSETS, including:				
Trade and other financial receivables	-	-	3,515	3,515
Trade receivables	1,729	632	(2,361)	-
Other loans and financial assets	1,180	(26)	(1,154)	-
Other current assets	1,012	(632)	-	380
Cash and cash equivalents	6,282	(86)	-	6,196
TOTAL CURRENT ASSETS	**14,019**	**(112)**	**-**	**13,907**
TOTAL ASSETS	**66,201**	**4**	**-**	**66,205**
NON-CURRENT LIABILITIES, including:				
Derivatives	-	84	-	84
TOTAL NON-CURRENT LIABILITIES	**14,051**	**84**	**-**	**14,135**
CURRENT LIABILITIES, including:				
Trade and other financial liabilities	-	-	3,132	3,132
Trade liabilities	1,179	15	(1,194)	-
Other financial liabilities	1,953	(15)	(1,938)	-
Financial liabilities at fair value through profit or loss / Derivatives	117	(80)	-	37
TOTAL CURRENT LIABILITIES	**7,266**	**(80)**	**-**	**7,186**
TOTAL LIABILITIES	**21,317**	**4**	**-**	**21,321**
TOTAL EQUITY AND LIABILITIES	**66,201**	**4**	**-**	**66,205**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31, 2014 *published*	Change in recognition of impairment allowances	Reclassification	Year ended December 31, 2014 *restated*
Profit before tax	**4,613**	**-**	**-**	**4,613**
Adjustments for:				
Amortization, disposal and impairment	3,024	173	-	3,197
Profit / loss on investment activities	550	(19)	-	531
Change in receivables	135	-	(94)	41
Change in other non-financial assets, prepayments and CO_2 emission rights	(472)	-	94	(378)
Other	102	(154)	-	(52)
NET CASH FROM OPERATING ACTIVITIES	**6,333**	**-**	**-**	**6,333**
Deposits with a maturity over 3 months	(2,116)	-	(86)	(2,202)
NET CASH FROM INVESTING ACTIVITIES	**(6,296)**	**-**	**(86)**	**(6,382)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**321**	**-**	**(86)**	**235**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,948**	**-**	**-**	**5,948**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**6,269**	**-**	**(86)**	**6,183**
Restricted cash	*368*	-	*(232)*	*136*

	As at January 1, 2014 *published*	Reclassification	Merger of items	As at January 1, 2014 *restated*
NON-CURRENT ASSETS, including:				
Financial receivables	392	100	-	492
TOTAL NON-CURRENT ASSETS	**48,239**	**100**	**-**	**48,339**
CURRENT ASSETS, including:				
Trade and other financial receivables	-	-	3,533	3,533
Trade receivables	2,192	538	(2,730)	-
Other loans and financial receivables	903	(100)	(803)	-
Other current assets	748	(538)	-	210
TOTAL CURRENT ASSETS	**13,013**	**(100)**	**-**	**12,913**
TOTAL ASSETS	**61,252**	**-**	**-**	**61,252**
CURRENT LIABILITIES, including:				
Trade and other financial liabilities	-	-	2,879	2,879
Trade liabilities	935	13	(948)	-
Other financial liabilities	1,944	(13)	(1,931)	-
TOTAL CURRENT LIABILITIES	**7,790**	**-**	**-**	**7,790**
TOTAL LIABILITIES	**17,444**	**-**	**-**	**17,444**
TOTAL EQUITY AND LIABILITIES	**61,252**	**-**	**-**	**61,252**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE OPERATING SEGMENTS

6. Information on operating segments

Companies of the PGE Group conduct their business activities based on relevant concessions, including primarily concession on: production, trading and distribution of electricity, generation, transmission and distribution of heat, granted by the President of Energy Regulatory Office and concessions for the extraction of lignite deposits, granted by the Minister of the Environment. Concessions, as a rule, are being issued for the period between 10 and 50 years. Main concessions in the PGE Group expire in the years 2020-2038.

Relevant assets are assigned to the held concessions on lignite mining and generation and distribution of electricity and heat, which was presented in detailed information on operating segments. For holding concessions concerning electricity and heat the Group incurres annual charges dependent on the level of turnover, whereas for conducting licensed extraction of lignite the exploitation charges as well as fees for the use of mining are borne. The exploitation charges depend on the current rate and the volume of the extraction. In 2015, the license costs incurred by the PGE Group amounted to PLN 5 million (in 2014 to PLN 4 million), and exploitation charges and fees for the use of mining amounted to PLN 126 million in 2015 and PLN 124 million in 2014.

PGE Group presents information on operating segments in the current and comparative reporting period in accordance with IFRS 8 *Operating Segments*. The PGE Group' segment reporting is based on the following business segments:

- Conventional Generation comprises exploration and mining of lignite and production of electricity in the Group's power plants and heat and power plants as well as ancillary services.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and gas on the wholesale market, trading in emissions certificates and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to end users.
- Distribution comprises management over local distribution networks and transmission of electricity.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project.

Organization and management over the PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 of these financial statements. As a rule, inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. The exception to this rule were new bonds issued by subsidiaries belonging the tax group with interest rates below market rates and settlements of tax losses within the tax group.

When analysing the results of particular business segments the management of the PGE Group draws attention primarily to EBITDA reached.

Seasonality of business segments

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

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

Sales of heat depend in particular on air temperature and are higher in winter and lower in summer.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION))

6.1 Information on business segments for the period ended December 31, 2015

	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	12,164	709	13,308	1,935	409	17	28,542
Sales revenues from inter-segment transactions	551	52	2,475	4,148	273	(7,499)	-
TOTAL SEGMENT REVENUES	**12,715**	**761**	**15,783**	**6,083**	**682**	**(7,482)**	**28,542**
Costs of goods sold	(17,706)	(586)	(13,719)	(4,397)	(611)	6,953	(30,066)
EBIT *)	**(5,732)**	**107**	**585**	**1,387**	**(51)**	**115**	**(3,589)**
Financial income / (expenses), net							(167)
Share of profit of associates							-
PROFIT/(LOSS) BEFORE TAX							**(3,756)**
Income tax							719
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**(3,037)**
Amortization, disposal and impairment	10,430	284	25	1,074	117	(113)	11,817
EBITDA **)	**4,698**	**391**	**610**	**2,461**	**66**	**2**	**8,228**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	31,974	4,687	1,168	15,945	917	(896)	53,795
Trade receivables	445	80	2,594	765	116	(1,452)	2,548
Shares in associates							8
Unallocated assets							4,945
TOTAL ASSETS							**61,296**
Segment liabilities excluding trade liabilities	9,373	436	1,745	2,076	209	(345)	13,494
Trade liabilities	711	39	1,330	260	82	(1,303)	1,119
Unallocated liabilities							6,266
TOTAL LIABILITIES							**20,879**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	6,495	931	31	1,841	216	(64)	9,450
Impairment allowances on financial and non-financial assets	8,997	49	10	19	2	(13)	9,064
Other non-monetary expenses ***)	975	6	1,040	119	30	6	2,176

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortization, disposal and impairment losses reflected in financial result

***) monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION))

Information on business segments for the period ended December 31, 2014

restated	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	12,531	745	12,462	1,652	735	18	28,143
Sales revenues from inter-segment transactions	375	22	1,969	4,129	1,119	(7,614)	-
TOTAL SEGMENT REVENUES	**12,906**	**767**	**14,431**	**5,781**	**1,854**	**(7,596)**	**28,143**
Costs of goods sold	(9,733)	(510)	(12,675)	(4,245)	(1,619)	7,047	(21,735)
EBIT *)	**3,296**	**174**	**228**	**1,306**	**31**	**61**	**5,096**
Financial income / (expenses), net							(483)
Share of profit of associates							-
PROFIT/(LOSS) BEFORE TAX							**4,613**
Income tax							(956)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**3,657**
Amortization, disposal and impairment	1,687	217	18	1,023	130	(42)	3,033
EBITDA **)	**4,983**	**391**	**246**	**2,329**	**161**	**19**	**8,129**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	35,061	4,015	1,214	15,328	1,112	(861)	55,869
Trade receivables	297	95	2,387	398	288	(1,104)	2,361
Shares in associates							9
Unallocated assets							7,966
TOTAL ASSETS							**66,205**
Segment liabilities excluding trade liabilities	8,518	296	1,899	2,111	352	(265)	12,911
Trade liabilities	705	88	959	241	176	(975)	1,194
Unallocated liabilities							7,216
TOTAL LIABILITIES							**21,321**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	4,362	374	17	1,508	158	(70)	6,349
Impairment allowances on financial and non-financial assets	186	2	12	25	1	-	226
Other non-monetary expenses ***)	749	29	1,185	217	70	101	2,351

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortization, disposal and impairment losses reflected in financial result

***) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

6.2 Information on geographical areas

The geographic distribution of sales revenues for the year ended December 31, 2015 and December 31, 2014 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
REVENUES FROM OPERATING ACTIVITIES		
Domestic market	28,421	27,974
EU countries	110	154
Other countries	11	15
TOTAL REVENUES	**28,542**	**28,143**

The geographical distribution of assets as at December 31, 2015 and December 31, 2014 are as follows:

	As at December 31, 2015	As at December 31, 2014 *restated*
OTHER INFORMATION ON THE AREA		
Domestic market	56,324	58,212
EU countries	19	18
ASSETS OF THE AREA, TOTAL	**56,343**	**58,230**
Domestic market	4,902	7,922
EU countries	43	44
UNALLOCATED ASSETS, TOTAL	**4,945**	**7,966**
Domestic market	8	9
INVESTMENTS IN ASSOCIATES, TOTAL	**8**	**9**
TOTAL ASSETS	**61,296**	**66,205**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2015
Sales revenues	*7,553*	*6,693*	*6,915*	*7,381*	***28,542***
Costs of goods sold	*(5,538)*	*(13,935)*	*(5,140)*	*(5,453)*	***(30,066)***
GROSS PROFIT / (LOSS) ON SALES	**2,015**	**(7,242)**	**1,775**	**1,928**	**(1,524)**
Other operating income / (expenses), net	*14*	*174*	*39*	*(59)*	***168***
EBIT – OPERATING PROFIT / (LOSS)	**1,416**	**(7,590)**	**1,312**	**1,273**	**(3,589)**
Financial income / (expenses), net	*(55)*	*(6)*	*(48)*	*(58)*	***(167)***
PROFIT / (LOSS) BEFORE TAX	**1,362**	**(7,596)**	**1,263**	**1,215**	**(3,756)**
Income tax	*(264)*	*1,439*	*(234)*	*(222)*	***719***
NET PROFIT / (LOSS) FOR THE REPORTING PERIOD	**1,098**	**(6,157)**	**1,029**	**993**	**(3,037)**

In order to correct presentation of the data for the quarterly periods the Group conducted reclassifications between specific positions.

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2014
Sales revenues	*6,931*	*7,280*	*6,651*	*7,281*	***28,143***
Costs of goods sold	*(5,449)*	*(5,095)*	*(5,143)*	*(6,048)*	***(21,735)***
GROSS PROFIT ON SALES	**1,482**	**2,185**	**1,508**	**1,233**	**6,408**
Other operating income / (expenses), net	*43*	*927*	*4*	*85*	***1,059***
EBIT – OPERATING PROFIT	**978**	**2,548**	**937**	**633**	**5,096**
Financial income / (expenses), net	*5*	*(11)*	*(452)*	*(25)*	***(483)***
PROFIT BEFORE TAX	**983**	**2,537**	**485**	**608**	**4,613**
Income tax	*(190)*	*(494)*	*(104)*	*(168)*	***(956)***
NET PROFIT FOR THE REPORTING PERIOD	**793**	**2,043**	**381**	**440**	**3,657**

In order to correct presentation of the data for the quarterly periods the Group conducted reclassifications between specific positions.

7. Revenues and expenses

7.1 Sales revenues

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2015
SALES REVENUES					
Sales of merchandise and finished goods with excise tax	*7,375*	*6,549*	*6,779*	*7,269*	***27,972***
Excise tax	*(117)*	*(130)*	*(130)*	*(134)*	***(511)***
Revenues from sale of merchandise and finished goods, including:	**7,258**	**6,419**	**6,649**	**7,135**	**27,461**
Sale of electricity	*4,988*	*4,540*	*4,844*	*4,874*	**19,246**
Sale of distribution services	*1,455*	*1,358*	*1,395*	*1,475*	**5,683**
Sale of heat	*271*	*132*	*90*	*231*	**724**
Sale of energy origin rights	*207*	*122*	*56*	*215*	**600**
Regulatory system services	*127*	*117*	*117*	*138*	**499**
Others sale of merchandise and materials	*210*	*150*	*147*	*202*	**709**
Revenues from sale of services	*133*	*134*	*124*	*144*	**535**
Revenues from LTC compensations	*162*	*140*	*142*	*102*	**546**
TOTAL SALES REVENUES	**7,553**	**6,693**	**6,915**	**7,381**	**28,542**

In order to correct presentation of the data for the quarterly periods the Group conducted reclassifications between specific positions.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2014
SALES REVENUES					
Sales of merchandise and finished goods with excise tax	*6,813*	*6,254*	*6,475*	*7,016*	***26,558***
Excise tax	*(133)*	*(133)*	*(134)*	*(137)*	***(537)***
Revenues from sale of merchandise and finished goods, including:	**6,680**	**6,121**	**6,341**	**6,879**	**26,021**
Sale of electricity	*4,526*	*4,350*	*4,537*	*4,847*	***18,260***
Sale of distribution services	*1,399*	*1,276*	*1,320*	*1,415*	***5,410***
Sale of heat	*255*	*113*	*84*	*235*	***687***
Sale of energy origin rights	*231*	*131*	*136*	*151*	***649***
Regulatory system services	*114*	*101*	*95*	*91*	***401***
Other sale of merchandise and materials	*155*	*150*	*169*	*140*	***614***
Revenues from sale of services	*120*	*128*	*118*	*217*	***583***
Revenues from LTC compensations	*131*	*1,031*	*192*	*185*	***1,539***
TOTAL SALES REVENUES	**6,931**	**7,280**	**6,651**	**7,281**	**28,143**

In order to correct presentation of the data for the quarterly periods the Group conducted reclassifications between specific positions.

The increase in revenues from sale of electricity in 2015 as compared to 2014 is mainly due to higher average price of electricity sold and higher wholesale volumes.

Revenues from LTC compensations are described in note 35.1 of these financial statements.

Information concerning major customers

The Group does not hold single external customers, from whom sales revenues would constitute 10% or more of total sales revenue of the Group.

7.2 Cost by nature and function

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2015
COST BY NATURE					
Depreciation, amortization and disposal	812	807	694	635	**2,948**
Impairment losses	24	8,867	41	107	**9,039**
Materials and energy	917	730	709	897	**3,253**
External services	582	618	629	724	**2,553**
Taxes and charges	762	694	721	726	**2,903**
Employee benefits expenses	1,121	1,033	1,019	1,036	**4,209**
Other cost by nature	59	68	78	75	**280**
TOTAL COST BY NATURE	**4,277**	**12,817**	**3,891**	**4,200**	**25,185**
Change in inventories	(44)	-	-	32	**(12)**
Cost of products and services for the entity's own needs	(307)	(373)	(378)	(434)	**(1,492)**
Distribution and selling expenses	(395)	(337)	(321)	(355)	**(1,408)**
General and administrative expenses	(218)	(184)	(181)	(242)	**(825)**
Cost of merchandise and materials sold	2,225	2,012	2,129	2,252	**8,618**
COST OF GOODS SOLD	**5,538**	**13,935**	**5,140**	**5,453**	**30,066**

In order to correct presentation of the data for the quarterly periods the Group conducted reclassifications between specific positions.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2014 *restated*
COST BY NATURE					
Amortization and disposal	748	754	772	765	**3,039**
Impairment allowances	-	53	29	74	**156**
Materials and energy	813	780	706	992	**3,291**
External services	556	578	605	680	**2,419**
Taxes and charges	821	610	730	741	**2,902**
Employee benefits	1,199	1,103	1,058	1,483	**4,843**
Other cost by nature	64	65	80	73	**282**
TOTAL COST BY NATURE	**4,201**	**3,943**	**3,980**	**4,808**	**16,932**
Change in inventories	(35)	7	6	47	**25**
Cost of products and services for the entity's own needs	(329)	(313)	(317)	(460)	**(1,419)**
Distribution and selling expenses	(363)	(381)	(383)	(413)	**(1,540)**
General and administrative expenses	(183)	(183)	(192)	(273)	**(831)**
Cost of merchandise and materials sold	2,158	2,022	2,049	2,339	**8,568**
COST OF GOODS SOLD	**5,449**	**5,095**	**5,143**	**6,048**	**21,735**

In order to correct presentation of the data for the quarterly periods the Group conducted reclassifications between specific positions.

7.2.1 Depreciation, amortization, disposal and impairment losses

Recognition of depreciation, amortization, disposal and impairment losses of property, plant and equipment in the financial statement of comprehensive income is presented below.

Year ended December 31, 2015	Depreciation, amortization and disposal				Impairment losses		
	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	2,631	74	2	**2,707**	9,013	16	**9,029**
Distribution and selling expenses	23	4	-	**27**	8	-	**8**
General and administrative expenses	33	11	-	**44**	2	-	**2**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES REFLECTED IN FINANCIAL RESULT	**2,687**	**89**	**2**	**2,778**	**9,023**	**16**	**9,039**
Change in inventories	(12)	-	-	**(12)**	-	-	**-**
Cost of products and services for the entity's own needs	182	-	-	**182**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**2,857**	**89**	**2**	**2,948**	**9,023**	**16**	**9,039**

Year ended December 31, 2014	Depreciation, amortization and disposal				Impairment losses		
	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	2,751	62		**2,813**	156	-	**156**
Distribution and selling expenses	21	3	-	**24**	-	-	**-**
General and administrative expenses	34	6	-	**40**	-	-	**-**
Other operating expenses	-	-	2	**2**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES REFLECTED IN FINANCIAL RESULT	**2,806**	**71**	**2**	**2,879**	**156**	**-**	**156**
Change in inventories	15	-	-	**15**	-	-	**-**
Cost of products and services for the entity's own needs	147	-	-	**147**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**2,968**	**71**	**2**	**3,041**	**156**	**-**	**156**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

7.2.2 Materials and energy

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Cost of production fuel	2,372	2,267
Renovation materials	474	576
Energy	156	168
Other	251	280
TOTAL MATERIALS AND ENERGY	**3,253**	**3,291**

7.2.3 External services

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Transmission services	1,483	1,356
External services – repairs and exploitation	311	311
Logistics services	84	130
Telecommunication services	231	236
Rent and lease	56	57
IT services	89	71
Consulting services	45	44
Other	254	214
TOTAL EXTERNAL SERVICES	**2,553**	**2,419**

7.2.4 Employee benefits expenses and employment structure

	Year ended December 31, 2015	Year ended December 31, 2014
Payroll	3,173	3,151
Social security expenses	612	599
Retirement and pension expenses	16	14
Jubilee awards, coal benefits	100	100
Other post-employment benefits	30	25
Change in provisions for employee benefits	(173)	75
Cost of the Voluntary Leave Program	(20)	404
Other employee benefits	471	475
TOTAL EMPLOYEE BENEFITS EXPENSES	**4,209**	**4,843**
Included in costs of goods sold	2,984	3,786
Included in distribution and selling expenses	233	261
Included in general and administrative expenses	512	468
Included in cost of products and services for the entity's own needs	480	328

Employment in the PGE Group (FTE) was as follows:

	As at December 31, 2015	As at December 31, 2014 *restated*
Conventional Generation	23,198	23,903
Renewables	519	577
Supply	2,002	2,113
Distribution	10,298	10,648
Other consolidated units	2,860	2,736
TOTAL EMPLOYMENT	**38,877**	**39,977**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

7.3 Other operating income and expenses

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
OTHER OPERATING INCOME		
Change in rehabilitation provision	93	-
Reversal of other provisions	74	874
Penalties, fines and compensations received	67	145
Gain on liquidation/disposal of current assets	49	37
Reversal of impairment allowances on receivables	31	75
Grants received	25	90
Profit on disposal of property, plant and equipment / intangible assets	20	16
Surpluses / recognition of assets	18	5
Compensation for legal proceedings' costs	9	7
Property, plant and equipment, intangible assets received free of charge	9	7
Revenues from illegal energy consumption	7	7
Adjustment of revenues from LTC compensations	-	246
Other	29	45
TOTAL OTHER OPERATING INCOME	**431**	**1,554**

Reversal of other provisions recognized in the comparative period relates mainly to the reversal of provision for the purchase of CO_2 emission rights of PLN 751 million that was created in 2013 in the Conventional Generation segment.

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
OTHER OPERATING EXPENSES		
Recognition of other provisions	56	39
Recognition of impairment allowances on receivables	56	111
Reinvoices	24	9
Liquidation of damages / breakdowns	20	33
Donations granted	18	8
Impairment of discounted investments and liquidation of current assets	12	14
Legal proceedings' costs	8	12
Compensations	7	12
Impairment allowances on other assets	5	3
Liquidation of property, plant and equipment and intangible assets associated with other operations	4	5
Change in rehabilitation provision	-	213
Other	53	36
TOTAL OTHER OPERATING EXPENSES	**263**	**495**

Change in rehabilitation provision relates primarily to surface mines as described in note 23.1 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

7.4 Financial income and expenses

	Year ended December 31, 2015	Year ended December 31, 2014
FINANCIAL INCOME FROM FINANCIAL INSTRUMNETS		
Dividends	1	3
Interest	103	214
Revaluation of financial instruments, including:	33	30
CO_2 emission rights	*11*	*22*
Other derivatives	*22*	*8*
Gain on disposal of investments	15	-
Foreign exchange gain	-	101
FINANCIAL INCOME FROM FINANCIAL INSTRUMNETS	**152**	**348**
OTHER FINANCIAL INCOME		
Interest on statutory receivables	1	1
Reversal of provisions	1	36
Other	2	-
OTHER FINANCIAL INCOME	**4**	**37**
TOTAL FINANCIAL INCOME	**156**	**385**

The Group recognizes interest income primarily on cash.

Revaluation of financial instruments includes valuation of transactions concluded on the market for CO_2 emission rights, described in more detail in note 7.4.1 of these financial statements. Additionally, it includes an ineffective portion of valuation of CCIRS hedging transactions designated as hedging instruments in the cash-flow hedge accounting and total valuation of other derivatives.

Reversal of provisions in the comparative period concern mainly claims for penalty interest on late payment of dividend in PGE Górnictwo i Energetyka Konwencjonalna S.A.

	Year ended December 31, 2015	Year ended December 31, 2014
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest	123	114
Revaluation of financial instruments	-	56
Impairment loss	5	390
Foreign exchange losses	30	119
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**158**	**679**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	156	183
Interest on statutory liabilities	1	1
Provisions created	5	1
Other	3	4
OTHER FINANCIAL EXPENSES	**165**	**189**
TOTAL FINANCIAL EXPENSES	**323**	**868**

In the period ended December 31, 2015 interest expense relates mainly to issued bonds, received loans and borrowings, and interest payments on realized derivatives.

Interest expense (unwinding of the discount) on non-financial items relates mainly to rehabilitation provision and provisions for employee benefits.

In 2014, revaluation on financial instruments includes an ineffective portion of valuation of CCIRS transactions designated as hedging instruments in the cash-flow hedge accounting and total valuation of other derivatives.

Impairment loss recognized in the comparative period comprises primarily the estimated impairment loss of bonds issued by the company Autostrada Wielkopolska S.A. of PLN 386 million.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

7.4.1 Valuation of transaction related to trading in CO_2 emission rights

As described in note 7.4 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 illustrated the effects of particular items related to the CO_2 emission rights on the financial income and expenses.

	Year ended December 31, 2015	Year ended December 31, 2014
Income		
Valuation of commodity forward	4	-
Valuation of currency forward	-	2
Profit on sale of CO_2 emission rights outside of PGE Group	52	5
Profit on realization of currency forward	4	-
Revaluation of CO_2 trading portfolio	-	147
INCOME RELATED TO TRADING IN CO_2 EMISSION RIGHTS, TOTAL	**60**	**154**
Expenses		
Valuation of commodity forward	-	(132)
Valuation of currency forward	(7)	-
Revaluation of trading portfolio	(42)	-
EXPENSES RELATED TO TRADING IN CO_2 EMISSION RIGHTS, TOTAL	**(49)**	**(132)**
Financial income / (Expenses) related to trading in CO_2 emission rights	**11**	**22**

8. Income tax

8.1 Tax in the statement of comprehensive income

Main elements of income tax expense for the years ended December 31, 2015 and December 31, 2014 are as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
INCOME TAX PRESENTED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	467	581
Previous periods current income tax adjustments	(6)	(21)
Deferred income tax	(1,180)	396
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**(719)**	**956**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	3	(75)
From valuation of hedging instruments	9	(14)
(TAX BENEFIT) / EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**12**	**(89)**

A substantial change in the deferred tax in 2015 is related to the creation of impairment allowances on property, plant and equipment.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

8.2 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 Group is as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
GROSS PROFIT / (LOSS)	**(3,756)**	**4,613**
Income tax according to Polish statutory tax rate of 19%	(714)	876
Previous periods current income tax adjustments	(6)	(21)
Previous periods deferred income tax adjustments	(17)	22
Costs not recognized as tax-deductible costs	61	87
Non-taxable income	(26)	(75)
Other	(17)	67
TAX AT EFFECTIVE TAX RATE (Income tax (expense) as presented in the consolidated statements)	**(719)**	**956**
EFFECTIVE TAX RATE	**19%**	**21%**

Other differences presented in the comparative period concern mainly adjustments of deferred tax estimates made by the PGE Group subsidiaries.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. Property, plant and equipment

	As at December 31, 2015	As at December 31, 2014
Land	243	268
Buildings and construction	18,465	19,583
Technical equipment	17,774	22,089
Vehicles	325	302
Other property, plant and equipment	2,390	2,798
Construction in progress	7,871	4,698
CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT	**47,068**	**49,738**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Changes in property, plant and equipment by type

	Land	Buildings and construction	Technical equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
COST							
AS AT JANUARY 1, 2015	**293**	**29,865**	**36,457**	**658**	**4,198**	**4,800**	**76,271**
Capital expenditures	-	1	7	3	2	9,205	**9,218**
Transfer from construction in progress	14	1,880	3,200	82	810	(5,986)	**-**
Liquidation, disposal	(2)	(130)	(442)	(21)	(11)	(4)	**(610)**
Changes in the PGE Group	-	(2)	(1)	(1)	-	-	**(4)**
Other	(39)	55	40	(1)	(8)	4	**51**
AS AT DECEMBER 31, 2015	**266**	**31,669**	**39,261**	**720**	**4,991**	**8,019**	**84,926**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
AS AT JANUARY 1, 2015	**25**	**10,282**	**14,368**	**356**	**1,400**	**102**	**26,533**
Amortization and net value of liquidation presented in costs by nature	6	1,169	1,471	56	152	3	**2,857**
Impairment allowances	-	1,859	6,077	4	1,037	46	**9,023**
Liquidation, disposal	(1)	(106)	(439)	(19)	(11)	(3)	**(579)**
Changes in PGE Group	-	(1)	(1)	(1)	-	-	**(3)**
Other	(7)	1	11	(1)	23	-	**27**
AS AT DECEMBER 31, 2015	**23**	**13,204**	**21,487**	**395**	**2,601**	**148**	**37,858**
CARRYING AMOUNT AS AT DECEMBER 31, 2015	**243**	**18,465**	**17,774**	**325**	**2,390**	**7,871**	**47,068**

restated	Land	Buildings and construction	Technical equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
COST							
AS AT JANUARY 1, 2014	**285**	**28,633**	**34,872**	**599**	**3,060**	**2,771**	**70,220**
Capital expenditures	-	16	6	2	3	6,214	**6,241**
Transfer from construction in progress	18	1,347	1,968	81	605	(4,019)	**-**
Liquidation, disposal	-	(100)	(340)	(19)	(7)	(1)	**(467)**
Changes in the PGE Group	(18)	-	(13)	(5)	(1)	(1)	**(38)**
Other	8	(31)	(36)	-	538	(164)	**315**
AS AT DECEMBER 31, 2014	**293**	**29,865**	**36,457**	**658**	**4,198**	**4,800**	**76,271**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
AS AT JANUARY 1, 2014	**21**	**9,187**	**12,957**	**321**	**1,317**	**290**	**24,093**
Amortization and net value of liquidation presented in costs by nature	5	1,199	1,622	54	88	-	**2,968**
Impairment allowances	-	5	57	-	-	94	**156**
Liquidation, disposal	-	(67)	(330)	(16)	(7)	-	**(420)**
Changes in PGE Group	-	-	(4)	(3)	(1)	-	**(8)**
Other	(1)	(42)	66	-	3	(282)	**(256)**
AS AT DECEMBER 31, 2014	**25**	**10,282**	**14,368**	**356**	**1,400**	**102**	**26,533**
CARRYING AMOUNT AS AT DECEMBER 31, 2014	**268**	**19,583**	**22,089**	**302**	**2,798**	**4,698**	**49,738**

Significant additions and disposals of property, plant and equipment

The most significant capital expenditures were incurred by the Conventional Generation segment (PLN 6,434 million), Distribution segment (PLN 1,775 million) and Renewables segment (PLN 930 million). The main investment projects were: construction of power units 5-6 at the Elektrownia Opole (Power Plant Opole) (PLN 2,663 million), reconstruction and refurbishment of power units 7-12 at the Elektrownia Bełchatów (Power Plant Bełchatów) (PLN 1,043 million), construction of wind farms Resko II (PLN 349 million) and Lotnisko (PLN 381 million) in the Renewables segment, connection of new customers (PLN 585 million) and modernization and development of electric power networks (PLN 828 million) in the Distribution segment.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Borrowing costs

During the year ended December 31, 2015 the PGE Group capitalized in the value of property, plant and equipment and construction in progress borrowings costs of approx. PLN 67 million (PLN 37 million in the comparative period).

Capitalization of stripping costs

In the current period, in accordance with the requirements of IFRIC 20, the Group capitalized expenditures regarding stripping costs in the production phase of PLN 778 million. At the same time, the Group recognized depreciation of capitalized stripping costs of PLN 58 million. Capitalized stripping costs are presented as "other property, plant and equipment".

Capitalization of changes in valuation of rehabilitation provision

The PGE Group recognizes in the property, plant and equipment changes in the value of rehabilitation provision assigned to stripping of overburden, provision for rehabilitation of post-construction grounds of wind farms and provision for liquidation of property, plant and equipment. As at December 31, 2015 net value of capitalized rehabilitation provision amounted to PLN 900 million (including PLN 779 million of the provision for rehabilitation of post-exploitation mining properties). In comparative period net value of capitalized rehabilitation provision amounted to PLN 1,068 million (including PLN 1,014 million of the provision for rehabilitation of post-exploitation mining properties). Capitalized rehabilitation provision is presented in: “land” and “other property, plant and equipment”.

10. Investment property

	As at December 31, 2015	As at December 31, 2014
AS AT JANUARY 1	**33**	**22**
Increase of value	-	13
Depreciation and impairment losses	(2)	(2)
Decrease of value	(1)	-
AS AT DECEMBER 31	**30**	**33**

Investment property in the PGE Group companies comprises mainly buildings located in the entity’s locations, leased fully or partially to third parties.

Fair value of investment property is not significantly different than valuation determined under the historical cost convention in light of the materiality related to the consolidated financial statements.

11. Intangible assets

	As at December 31, 2015	As at December 31, 2014
Development costs	2	3
Goodwill	286	286
Software	93	63
Other licenses and patents	127	94
Purchase of right of perpetual usufruct of land	61	56
Other intangible assets	135	143
Intangible assets not-commissioned to use	200	118
CARRYING AMOUNT OF INTANGIBLE ASSETS	**904**	**763**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Changes in intangible assets

	Development costs	Goodwill	Software	Other licenses and patents	Purchase of right of perpetual usufruct of land	Other intangible assets	Intangible assets not-commissioned to use	Total
COST								
AS AT JANUARY 1, 2015	**19**	**286**	**382**	**149**	**64**	**228**	**121**	**1,249**
Capital expenditures	-	-	1	-	-	-	231	232
Transfer of non-commissioned intangible assets	-	-	69	72	1	9	(151)	-
Liquidation, disposal	(1)	-	(21)	-	-	-	(1)	(23)
Other	1	-	(1)	2	6	5	1	14
AS AT DECEMBER 31, 2015	**19**	**286**	**430**	**223**	**71**	**242**	**201**	**1,472**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES								
AS AT JANUARY 1, 2015	**16**	**-**	**319**	**55**	**8**	**85**	**3**	**486**
Amortization	1	-	39	40	1	8	-	89
Impairment allowances	-	-	-	-	-	16	-	16
Liquidation, disposal	(1)	-	(21)	-	-	-	-	(22)
Other	1	-	1	1	1	(2)	(2)	(1)
AS AT DECEMBER 31, 2015	**17**	**-**	**337**	**96**	**10**	**107**	**1**	**568**
CARRYING AMOUNT AT DECEMBER 31, 2015	**2**	**286**	**93**	**127**	**61**	**135**	**200**	**904**

	Development costs	Goodwill	Software	Other licenses and patents	Purchase of right of perpetual usufruct of land	Other intangible assets	Intangible assets not-commissioned to use	Total
COST								
AS AT JANUARY 1, 2014	**18**	**289**	**362**	**108**	**63**	**213**	**86**	**1,139**
Capital expenditures	-	-	-	-	-	-	108	108
Transfer of non-commissioned intangible assets	-	-	24	41	1	9	(75)	-
Liquidation, disposal	-	-	(2)	-	-	(1)	-	(3)
Changes in PGE Group	-	-	(2)	-	-	(1)	-	(3)
Other	1	(3)	-	-	-	8	2	8
AS AT DECEMBER 31, 2014	**19**	**286**	**382**	**149**	**64**	**228**	**121**	**1,249**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES								
AS AT JANUARY 1, 2014	**14**	**-**	**286**	**32**	**8**	**78**	**3**	**421**
Amortization	1	-	37	24	-	9	-	71
Liquidation, disposal	-	-	(2)	-	-	(1)	-	(3)
Changes in PGE Group	-	-	(2)	-	-	(1)	-	(3)
Other	1	-	-	(1)	-	-	-	-
AS AT DECEMBER 31, 2014	**16**	**-**	**319**	**55**	**8**	**85**	**3**	**486**
CARRYING AMOUNT AT DECEMBER 31, 2014	**3**	**286**	**63**	**94**	**56**	**143**	**118**	**763**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Intangible assets non-commissioned to use

The presented amount of intangible assets non-commissioned to use as at December 31, 2015 concerns mainly: programs of IT systems' implementation in the Group (including SAP), research and development connected with construction of first Polish nuclear power plant.

Goodwill

Evaluation of recoverable value of goodwill has been described in note 3 of these consolidated financial statements.

12. Shares in associates accounted for under the equity method

As at December 31, 2015 and December 31, 2014 the Group had an affiliated company Przedsiębiorstwo Energetyki Cieplnej S.A. in Bogatynia, in which the Group held a stake of 34.93% in share capital and the rights to vote on the general meeting.

The shares in associates accunted for under the equity method in the statement of financial position amounted to PLN 8 million as at December 31, 2015 and to PLN 9 million as at December 31, 2014, while the Group's share in profit / loss of associates accunted for under the equity method in both years was about PLN 1 million.

13. Joint venture

During the reporting periods ended December 31, 2015 and December 31, 2014 the PGE Group did not participate in any significant joint ventures.

14. Deferred tax in the statement of financial position

14.1 Deferred tax asset

	As at December 31, 2015	As at December 31, 2014 *restated**
Difference between tax value and carrying amount of property, plant and equipment	1,520	505
Difference between tax value and carrying amount of financial assets	31	35
Difference between tax value and carrying amount of liabilities	271	285
Difference between tax value and carrying amount of inventories	21	27
LTC compensations	231	161
Rehabilitation provision	605	598
Provision for CO_2 emission rights	144	129
Provisions for employee benefits	591	631
Other provisions	128	176
Energy infrastructure acquired free of charge and connection payments received	141	149
Other	20	15
DEFERRED TAX ASSET	**3,703**	**2,711**

**restatement of comparative data included reclassifications between selected positions*

Change of deferred tax – assets

	Year ended December 31, 2015	Year ended December 31, 2014
AS AT JANUARY 1	**2,711**	**2,560**
Changes recognized in profit or loss	1,012	59
Changes recognized in other comprehensive income	(16)	89
Other changes	(4)	3
AS AT DECEMBER 31	**3,703**	**2,711**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

14.2 Deferred tax liability

	As at December 31, 2015	As at December 31, 2014 *restated**
Difference between tax value and carrying amount of property, plant and equipment	2,681	2,999
Difference between tax value and carrying amount of energy origin units	107	83
Difference between tax value and carrying amount of financial assets	357	334
CO_2 emission rights	403	310
LTC compensations	671	672
Other	23	20
DEFERRED TAX LIABILITY	**4,242**	**4,418**

** restatement of comparative data included reclassifications between selected positions*

Change of deferred tax – liabilities

	Year ended December 31, 2015	Year ended December 31, 2014
AS AT JANUARY 1	**4,418**	**3,960**
Changes recognized in profit or loss	(172)	451
Changes recognized in other comprehensive income	(4)	-
Other changes	-	7
AS AT DECEMBER 31	**4,242**	**4,418**

AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFFERED TAX IS PRESENTED AS:		
Deferred tax asset	313	383
Deferred tax liability	(852)	(2,090)

15. Inventories

	As at December 31, 2015			As at December 31, 2014		
	Historical cost	Revaluation adjustments	Carrying amount	Historical cost	Revaluation adjustments	Carrying amount
Materials, including:	**1,067**	**(103)**	**964**	**1,129**	**(134)**	**995**
Renovation materials	*643*	*(80)*	*563*	*581*	*(105)*	*476*
Coal	*307*	*-*	*307*	*380*	*-*	*380*
Mazut	*14*	*-*	*14*	*31*	*-*	*31*
Investment materials	*16*	*-*	*16*	*44*	*(6)*	*38*
Other materials	*87*	*(23)*	*64*	*93*	*(23)*	*70*
Energy origin rights, including:	**831**	**(17)**	**814**	**707**	**(8)**	**699**
Green energy origin rights	681	(14)	667	601	(6)	595
Yellow energy origins rights	113	(2)	111	89	(2)	87
Other energy origin rights	37	(1)	36	17	-	17
Merchandise, including:	**66**	**36**	**102**	**351**	**79**	**430**
CO_2 emission rights	60	38	98	329	80	409
Other merchandise	6	(2)	4	22	(1)	21
Other inventories	**79**	**-**	**79**	**51**	**-**	**51**
TOTAL INVENTORIES	**2,043**	**(84)**	**1,959**	**2,238**	**(63)**	**2,175**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Year ended December 31, 2015	Year ended December 31, 2014
REVALUATION ADJUSTMENT FOR INVENTORIES AS AT JANUARY 1	**(63)**	**(215)**
Fair value of CO_2 emission rights	(42)	147
Write-down created	(55)	(38)
Write-down reversed	58	17
Write-down used	19	22
Other	(1)	4
REVALUATION ADJUSTMENT FOR INVENTORIES AS AT DECEMBER 31	**(84)**	**(63)**

CO_2 emission rights recognized in the inventories include the rights classified as held-for-sale. These rights are presented at fair value. Change in valuation of these rights in the reporting period should be analyzed together with the revaluation of forward contracts (as presented in note 7.4.1 of these consolidated financial statements).

Creation of write-downs related mainly to spare parts and materials as a result of their amortization or obsolescence.

As described in note 27.5 of these consolidated financial statements, PLN 65 million of inventories constituted a collateral for the repayment of liabilities or contingent liabilities.

16. CO_2 emission rights for captive use

The power generating units belonging to the PGE Group maintain installations, covered with the act dated June, 12 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Only on the basis of article 10c of Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce CO_2 emission. The condition under which free of charge CO_2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

The PGE Group submitted required statement from realization of investment tasks in September 2014. In April 2015 entities of the PGE Group received free of charge CO_2 emission rights in the amount of about 29 million tonnes for units generating electricity, and about 1 million tonnes for the installations other than generating electricity.

In September 2015 the PGE Group submitted another required statement from realization of investments included in National Investment Plan. Free of charge CO_2 emission rights for 2015 should be granted until the end of April 2016.

	EUA		CER/ERU		Total Value
	Amount (Mg million)	Value	Amount (Mg million)	Value	
AS AT JANUARY 1, 2015	**68**	**1,552**	**-**	**-**	**1,552**
Purchase	38	1,301	-	-	1,301
Granted free of charge	30	-	-	-	-
Redemption	(59)	(681)	-	-	(681)
AS AT DECEMBER 31, 2015	**77**	**2,172**	**-**	**-**	**2,172**

	EUA		CER/ERU		Total Value
	Amount (Mg million)	Value	Amount (Mg million)	Value	
AS AT JANUARY 1, 2014	**59**	**1,404**	**-**	**-**	**1,404**
Purchase	33	829	3	2	831
Granted free of charge	34	-	-	-	-
Redemption	(61)	(683)	-	-	(683)
Other changes	3	2	(3)	(2)	-
AS AT DECEMBER 31, 2014	**68**	**1,552**	**-**	**-**	**1,552**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17. Other current and non-current assets

17.1 Other non-current assets

	As at December 31, 2015	As at December 31, 2014
Advances for construction in progress	1,042	1,193
Other non-current assets	21	35
OTHER ASSETS, TOTAL	**1,063**	**1,228**

Advances for construction in progress relate mainly to investment projects conducted by the Conventional Generation segment.

17.2 Other current assets

	As at December 31, 2015	As at December 31, 2014 *restated*
PREPAYMENTS		
Property and tort insurance	3	10
IT services	7	8
Fees, agency commission	41	23
Fees for the exclusion of land from agricultural production / forestry	4	4
Other prepayments	19	25
OTHER CURRENT ASSETS		
VAT receivables	388	261
Excise tax receivables	90	29
Advances for deliveries of property, plant and equipment and intangible assets	34	13
Other current assets	13	7
OTHER ASSETS, TOTAL	**599**	**380**

The increased VAT receivables result from the investment purchases in the Conventional Generation and Renewables segments.

The amount of excise tax receivables regards the exemption from excise tax of electricity generated from renewable energy sources on the basis of a document confirming the redemption of the certificate of origin.

18. Cash and cash equivalents

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

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

	As at December 31, 2015	As at December 31, 2014 *restated*
Cash on hand and cash at bank	1,304	1,615
Overnight deposits	57	164
Short-term deposits	1,743	4,417
TOTAL	**3,104**	**6,196**
Interest accrued on cash, not received at the reporting date	(1)	(5)
Exchange differences on cash in foreign currencies	(2)	(8)
Cash and cash equivalents presented in the statement of cash flows	**3,101**	**6,183**
including restricted cash	*333*	*136*
Undrawn borrowing facilities as at December 31, 2015	5,257	3,064
including overdraft facilities	*2,254*	*1,916*
Borrowing facilities available from Q2 2016	5,500	-

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

For detailed description of credit agreements please refer to note 27.1.4 of these financial statements.

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

- cash received as a guarantee of proper execution of the contract and cash received as a tender deposit;
- cash deposit securing the settlements of subsidiaries of the PGE Group with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House).

19. Assets classified as held-for-sale

The Group's assets classified as held-for-sale include mainly buildings and associated infrastructure of PLN 16 million as at both December 31, 2015 and December 31, 2014.

20. Discontinued operations

During the year ended December 31, 2015 and December 31, 2014 the parent company and key subsidiaries did not discontinue any significant operations. However, there are some activities carried out in the PGE Group under which assets that are not closely related to core business are disposed.

21. Assets and liabilities of the Social Fund

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

	As at December 31, 2015	As at December 31, 2014
Loans granted to employees	96	108
Cash	48	51
Social Fund liabilities	(141)	(161)
BALANCE AFTER COMPENSATION	**3**	**(2)**
Contributions to the Social Fund	**128**	**134**

The assets and liabilities of the Social Fund are netted off in these financial statements.

22. Equity

The purpose of capital management is to maintain safe and effective financing structure, which take into account the operational risk, investment expenditures and interests of shareholders and debt investors. The capital management takes place at the Group level.

According to common practice, the Group monitors the net debt ratio (short- and long-term financial debt, namely bank credits and loans, issued bonds, reduced by cash and cash equivalents, securities held for trading or sale, investments held to maturity and loans and receivables) to EBITDA. Financial aspirations defined in Strategy of the PGE Group for the years 2014-2020 indicate 2.5x as a safe level of debt.

	Year ended December 31, 2015	Year ended December 31, 2014
Debt ratio / EBITDA	0.32x	(0.13)x
Debt ratio / equity	0.07x	(0.02)x

It should be noted, that in relation to scale of the Group, the level of net debt ratio in 2015 was relatively low: net debt ratio to EBITDA approximates zero.

Due to continuation of investment program, gradual increase of financial leverage is planned, whereby the Group will intensify analysis of the ratio described above. Net debt to EBITDA ratio is the key element of Group's forecasts and financial strategies.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

22.1 Share capital

	As at December 31, 2015	As at December 31, 2014
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 have been paid. During the reporting period and as at the date of these financial statements there were no changes in the structure and amount of the share capital.

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

As long as State Treasury remains a shareholder of PGE Polska Grupa Energetyczna S.A. it holds special rights in relation to the Company.

Special rights of the State Treasury that are applicable to the PGE Group entities derive from the Act of March 18, 2010 on special rights of 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 the operation continuity or integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

The Act introduced a function of a representative for critical infrastructure. The representative is chosen by the company in consultation with the Minister of Treasury and the director of the Government Security Centre. The Company has not appointed plenipotentiary for critical infrastructure

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

22.2 Hedging reserve

The below table presents changes in hedging reserve due to applied cash flow hedge accounting:

	Year ended December 31, 2015	Year ended December 31, 2014
AS AT JANUARY 1	**(61)**	**-**
Change of hedging reserve, including:	**49**	**(75)**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*51*	*(8)*
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense	*1*	*6*
Currency revaluation of CCIRS transferred from hedging reserve and recognized in foreign exchange gain/ losses	*1*	*(74)*
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit or loss	*(4)*	*1*
Deferred tax	(9)	14
HEDGING RESERVE LESS DEFERRED TAX	**(21)**	**(61)**

22.3 Foreign exchange differences from translation of foreign entities

The foreign exchange differences from translation of subsidiaries comprise the effect of the translation of the financial statements of the foreign companies belonging to the Group, i.e. PGE Trading GmbH and PGE Sweden AB (publ) into PLN as part of consolidation procedures.

22.4 Reserve capital and other capital reserves

In accordance with adopted accounting policy reserve capital and other capital reserves of the PGE Group are the ones presented in the separate financial statements of the parent company.

According to regulations of the Commercial Code, entities which are joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognized in the parent company's separate financial statements is transferred to reserve capital, until this capital amounts to at least one third of the share capital. The General Shareholders' Meetings decides on the use of the reserve capital, however the part of reserve capital which amounts to one third of share capital can only be used to cover losses recognized in the separate financial statements and cannot be distributed for other purposes. As at December 31, 2015 there are no other resctrictions on the payment of dividends.

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

Reserve capital subject to distribution amounted to PLN 6,776 million as at December 31, 2015 and to PLN 2,998 million as at December 31, 2014.

22.5 Retained earnings and limitations to payment of a dividend

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

	As at December 31, 2015	As at December 31, 2014
Amounts included in retained earnings not subject to distribution by the parent company		
▪ Retained earnings of subsidiaries, attributable to equity holders of the parent company, including consolidation adjustments	6,872	11,668
▪ Profit/loss recognized by the parent company in retained earnings through other comprehensive income	(4)	(3)
Retained earnings of the parent company subject to distribution	1,768	5,236
Total retained earnings presented in the consolidated financial statements attributable to equity holders of the parent company	**8,636**	**16,901**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

22.6 Non-controlling interests

As at December 31, 2015 and December 31, 2014 non-controlling interests relates mainly to non-controlling shareholders of PGE Górnictwo i Energetyka Konwencjonalna S.A.

The below table presents changes in non-controlling interests in the reporting periods.

	As at December 31, 2015	As at December 31, 2014
AS AT JANUARY 1	**116**	**268**
Share in net profit of subsidiaries	(5)	19
Share in actuarial gains and losses	-	(1)
Dividends declared by subsidiaries	(4)	(4)
Change in ownership interests while retaining control	68	-
Sale of subsidiaries / Leaving the Group by subsidiaries	-	(17)
Acquisition of non-controlling interests by the Group	(78)	(148)
Other changes	(1)	(1)
AS AT 31 DECEMBER 31	**96**	**116**

Acquisition of non-controlling interests during the year ended December 31, 2015 relates mainly to the acquisition of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. by PGE S.A. Acquisition of non-controlling interests during the year ended December 31, 2014 relates mainly to the acquisition of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. and the effect of the purchase of own shares by this company (for the purpose of accounting in the consolidated equity the transaction was recognized as if the treasury shares were redeemed).

Change in ownership interests while retaining control concerns the sales of 30% of PGE EJ1 sp. z o.o. shares owned by PGE S.A. A broader description of the transaction is given in note 35.2 of these consolidated financial statements.

22.7 Earnings per share

Earnings/(loss) per share is calculated by dividing net profit/(loss) for the period attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings/(loss) per share is calculated by dividing net profit/(loss) for the period 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).

During current and comparative reporting period there was no dilutive effect on earnings per share.

	Year ended December 31, 2015	Year ended December 31, 2014
NET PROFIT / (LOSS), ATTRIBUTED TO	**(3,037)**	**3,657**
▪ shareholders of the parent company	(3,032)	3,638
▪ non-controlling interests	(5)	19
NET PROFIT / (LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**(3,032)**	**3,638**
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 / (LOSS) PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT / (LOSS) AND DILUTED NET PROFIT / (LOSS) PER SHARE ATTRIBUTALBE TO PARENT COMPANY SHAREHOLDERS (IN PLN)	**(1.62)**	**1.95**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

22.8 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the year ended		
	December 31, 2015	December 31, 2014	December 31, 2013
CASH DIVIDENDS FROM ORDINARY SHARES			
Dividend paid from retained earnings	-	1,458	2,057
Dividend paid from reserve capital	-	-	-
TOTAL CASH DIVIDENDS FROM ORDINARY SHARES	**-**	**1,458**	**2,057**
Cash dividends per share (in PLN)	**-**	**0.78**	**1.10**

Dividend from the profit for the year 2015

During the reporting period and as at the date of preparation of the financial statement the PGE S.A. made no advance payments of dividends.

Until the date of preparation of these financial statement suggested distribution of the Company's profit for 2015 has not been approved. According to the Dividend Policy adopted in August 2015, the Company's Management Board intends to recommend dividend payment of 40-50% of the consolidated net profit adjusted by impairment of non-current assets.

Dividend from the profit for the year 2014

On June 24, 2015, the General Shareholders Meeting of PGE S.A. resolved to distribute PLN 1,458 million from the net profit of 2014 as a dividend (that comprises dividend of PLN 0.78 per share). Dividend was paid on October 15, 2015.

Dividend from the profit for the year 2013

On June 6, 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 June 6, 2014 was paid on September 26, 2014.

23. Provisions

The carrying amount of provisions is as follows:

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Employee benefits	2,496	517	2,582	661
Rehabilitation provision	3,348	2	3,297	2
Provision for deficit of CO_2 emission rights	-	760	-	676
Provision for energy origin units held for redemption	-	380	-	555
Provision for non-contractual use of the property	97	20	73	19
Other provisions	103	130	147	157
TOTAL PROVISIONS	**6,044**	**1,809**	**6,099**	**2,070**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provision for energy origin units held for redemption	Provision for non-contractual use of the property	Other provisions	Total
JANUARY 1, 2015	**3,243**	**3,299**	**676**	**555**	**92**	**304**	**8,169**
Actuarial gains and losses excluding discount rate adjustment	50	-	-	-	-	-	50
Current service costs	82	-	-	-	-	-	82
Past service costs	(55)	-	-	-	-	-	(55)
Interest costs	70	86	-	-	-	-	156
Discount rate and other assumptions adjustment	(122)	(224)	-	-	-	-	(346)
Benefits paid / provisions used	(725)	(1)	(680)	(1,159)	(1)	(74)	(2,640)
Provisions reversed	(116)	(4)	(1)	(2)	(19)	(82)	(224)
Provisions raised	560	56	765	986	45	85	2,497
Changes in the PGE Group	(3)	-	-	-	-	-	(3)
Other changes	29	138	-	-	-	-	167
DECEMBER 31, 2015	**3,013**	**3,350**	**760**	**380**	**117**	**233**	**7,853**

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provision for energy origin units held for redemption	Provision for non-contractual use of the property	Other provisions	Total
JANUARY 1, 2014	**2,501**	**2,422**	**1,432**	**395**	**161**	**290**	**7,201**
Actuarial gains and losses excluding discount rate adjustment	62	-	-	-	-	-	62
Current service costs	73	-	-	-	-	-	73
Past service costs	(57)	-	-	-	-	-	(57)
Interest costs	91	89	-	-	-	-	180
Discount rate and other assumptions adjustment	465	1,297	-	-	-	-	1,762
Benefits paid / provisions used	(585)	(16)	(682)	(917)	(1)	(51)	(2,252)
Provisions reversed	(55)	-	(751)	(89)	(79)	(81)	(1,055)
Provisions raised	750	83	677	1,166	11	147	2,834
Changes in the PGE Group	(2)	-	-	-	-	(1)	(3)
Other changes	-	(576)	-	-	-	-	(576)
DECEMBER 31, 2014	**3,243**	**3,299**	**676**	**555**	**92**	**304**	**8,169**

23.1 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

After the completion of the lignite mining, the area of the surface mines belonging to the PGE Group will be rehabilitated. According to the current plans, costs will be incurred in the years 2023 - 2064 (in the case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Bełchatów) and in years 2045-2065 (in the case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Kopalnia Węgla Brunatnego Turów).

The PGE Group creates provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognized in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at December 31, 2015 amounted to PLN 3,051 million and as at December 31, 2014 to PLN 3,047 million.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Estimated influence of changes in discount rate on the value of rehabilitation provision:

	Carrying amount	Discount rate	
		-1 p.p.	+1 p.p.
Provision for rehabilitation of post-exploitation mining properties	3,051	1,077	(774)

Provision for rehabilitation of ash storages

The PGE Group power generating units raise provisions for rehabilitation of ash storages. As at the reporting date, the value of provision amounted to PLN 98 million and as at December 31, 2014 to PLN 93 million.

Provisions for rehabilitation of post-construction grounds of wind farms

The companies which own wind farms create provision for rehabilitation of post-construction grounds of wind farms. As at the reporting date, the value of provision amounted to PLN 49 million and as at December 31, 2014 to PLN 115 million.

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the value of the provision amounts to PLN 152 million (PLN 44 million as at the end of comparative period) and refers to some assets of the Conventional Generation and Renewables segments.

23.2 Provision for deficit of CO_2 emission rights

As a general rule, the PGE Group entities recognize provision for the shortfall of CO_2 emission rights granted free of charge. In estimating the value of the provision the Group takes into accpunt EUA purchased as well as the possibility to cover any shortage with CER or ERU certificates. As described in note 16 of these financial statements the PGE Group is entitled to receive CO_2 emissions rights granted free of charge in connection to expenditures concerning investments included in National Investment Plan. The calculation of the provision includes also these rights.

23.3 Provision for non-contractual use of property

Entities of the PGE Group recognize provision for damages related to a non-contractual use of property. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 117 million (of which 46 million relate to litigations). In the comparative period the value of the provision amounted to PLN 92 million (of which PLN 46 million related to litigations).

23.4 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 88 million (PLN 135 million as at December 31, 2014) and for the ongoing litigations conducted by Exatel S.A. in the amount of PLN 57 million (PLN 53 million in 2014).

24. Employee benefits

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Post-employment benefits	1,624	97	1,633	98
Jubilee awards	861	92	949	93
Other provisions for employee benefits	11	328	-	470
TOTAL PROVISIONS FOR EMPLOYEE BENEFITS	**2,496**	**517**	**2,582**	**661**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

24.1 Post-employment benefits and jubilee awards

The amount of the actuarial provisions recognized in the financial statements results from derives the valuation prepared by an independent actuary.

The carrying amount of the provisions for the post-employment and jubilee benefits:

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Retirement, pension and post-mortem benefits	443	49	474	51
Coal allowance	151	9	143	9
Energy tariff	669	24	670	25
Social Fund	300	12	290	11
Medical care	61	3	56	2
TOTAL POST-EMPLOYMENT BENEFITS	**1,624**	**97**	**1,633**	**98**
Jubilee awards	861	92	949	93
TOTAL ACTUARIAL PROVISIONS	**2,485**	**189**	**2,582**	**191**

24.2 Other provisions for employee benefits

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Provision for Voluntary Leave Program costs	11	59	-	236
Annual bonus and other employee bonuses	-	139	-	103
Unused annual holiday leave	-	127	-	121
Other provisions for employee benefits	-	3	-	10
TOTAL OTHER PROVISIONS FOR EMPLOYEE BENEFITS	**11**	**328**	**-**	**470**

Change in provisions for employee benefits

	Retirement, pension and post-mortem benefits	Coal allowance	Energy tariff	Social Fund	Medical care	Jubilee awards	Other employee benefits	Total
AS AT JANUARY 1, 2015	**525**	**152**	**695**	**301**	**58**	**1,042**	**470**	**3,243**
Actuarial gains and losses excluding discount rate adjustment	(11)	22	44	11	11	(27)	-	**50**
Discount rate adjustment	(20)	(7)	(44)	(18)	(3)	(30)	-	**(122)**
Current service costs	18	1	9	4	1	49	-	**82**
Past service costs	(19)	(4)	(5)	(6)	(2)	(19)	-	**(55)**
Interest costs	13	4	18	8	1	26	-	**70**
Benefits paid / provisions used	(16)	(8)	(23)	(10)	(2)	(93)	(573)	**(725)**
Provisions reversed	-	-	-	-	-	-	(116)	**(116)**
Provisions raised	-	-	-	-	-	-	560	**560**
Changes in the PGE Group	-	-	(1)	-	-	(1)	(1)	**(3)**
Other changes	2	-	-	22	-	6	(1)	**29**
AS AT DECEMBER 31, 2015	**492**	**160**	**693**	**312**	**64**	**953**	**339**	**3,013**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Retirement, pension and post-mortem benefits	Coal allowance	Energy tariff	Social Fund	Medical benefits	Jubilee awards	Other employee benefits	Total
AS AT JANUARY 1, 2014	**445**	**130**	**486**	**236**	**46**	**941**	**217**	**2,501**
Actuarial gains and losses excluding discount rate adjustment	(3)	3	56	-	2	4	-	**62**
Discount rate adjustment	87	24	156	61	11	126	-	**465**
Current service costs	14	1	8	5	-	45	-	**73**
Past service costs	(22)	(3)	(7)	(2)	(1)	(22)	-	**(57)**
Interest costs	16	5	20	10	2	38	-	**91**
Benefits paid / provisions used	(12)	(8)	(22)	(9)	(2)	(90)	(442)	**(585)**
Provisions reversed	-	-	-	-	-	-	(55)	**(55)**
Provisions raised	-	-	-	-	-	-	750	**750**
Changes in the PGE Group	-	-	(2)	-	-	-	-	**(2)**
AS AT DECEMBER 31, 2014	**525**	**152**	**695**	**301**	**58**	**1,042**	**470**	**3,243**

Sensitivity analysis for changes in key assumptions on the value of actuarial provisions as at December 31, 2015:

	Value in the statement	Discount rate		Expected average salary growth rate	
		-1 p.p.	+ 1 p.p.	-1 p.p.	+ 1 p.p.
Retirement, pension and post-mortem benefits	492	51	(54)	(51)	56
Coal allowance	160	19	(15)	(9)	20
Energy tariff	693	109	(103)	(104)	108
Social Fund	312	46	(39)	(41)	47
Medical care	64	9	(6)	(6)	10
Jubilee awards	953	56	(88)	(82)	65
TOTAL	**2,674**	**290**	**(305)**	**(293)**	**306**

25. Deferred income and governments grants

25.1 Non-current deferred income and government grants

	As at December 31, 2015	As at December 31, 2014
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (environmental funds)	267	224
Redemption of loans from environmental funds	46	49
Other government grants	141	91
DEFERRED INCOME		
Subsidies received	337	374
Connection fees	230	237
Donations and property, plant and equipment granted free of charge	95	125
Lease income	26	28
Other deferred income	50	30
NON-CURRENT GOVERNMENT GRANTS AND DEFERRED INCOME, TOTAL	**1,192**	**1,158**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

25.2 Current deferred income and government grants

	As at December 31, 2015	As at December 31, 2014
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (environmental funds)	12	8
Redemption of loans from environmental funds	2	2
Other government grants	9	10
DEFERRED INCOME		
Subsidies received	32	43
Connection fees	36	51
Donations and property, plant and equipment granted free of charges	8	9
Lease income	3	6
Other deferred income	10	13
CURRENT GOVERNMENT GRANTS AND DEFERRED INCOME, TOTAL	**112**	**142**

Subsidies received in position deferred income comprise mainly fees received until July 1, 2009 for connection to power network, so before the interpretation IFRIC 18 Transfers of Assets from Customers became effective.

26. Other non-financial liabilities

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

	As at December 31, 2015	As at December 31, 2014
Environmental fees	273	284
VAT liabilities	110	34
Excise tax liabilities	128	132
Payroll	247	291
Liabilities from social insurances	234	244
Personal income tax	81	81
Liabilities due to Voluntary Leave Programs	106	88
Advances for deliveries	142	137
Other	67	76
OTHER LIABILITIES, TOTAL	**1,388**	**1,367**

Environmental fees relate mainly to charges for the use of water and gas emission in conventional power plants as well as exploitation charges paid by the coal mines.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

27. Financial instruments

27.1 Description of significant items within particular classes of financial instruments

27.1.1 Financial receivables

	As at December 31, 2015		As at December 31, 2014 *restated*	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,548	-	2,361
Deposits	124	1	112	1
LTC compensations	-	1,075	-	968
Bails and security deposits	-	37	-	38
Collateral – balancing market	-	18	-	49
Other financial receivables	18	69	13	98
FINANCIAL RECEIVABLES	**142**	**3,748**	**125**	**3,515**

Trade receivables

The main component of trade receivables are receivables recognized by the company PGE Obrót S.A. Receivables from households account for about 25% of the consolidated balance of trade receivables while receivables from corporate clients of PGE Obrót S.A. represent about 53% of the consolidated balance of trade receivables. On December 31, 2015 the share of the three most significant customers of the PGE Group amounted to approximately 10% of the total consolidated balance. Additional information relating to trade receivables is presented in note 28.5.1 of these financial statements.

Trade receivables comprise also accrual of electricity sales.

LTC compensations

LTC compensations are described in note 35.1 of these financial statements.

Other financial receivables

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

27.1.2 Derivatives

All derivatives are recognized in the Company's financial statements at fair value.

	As at December 31, 2015			
	Recognized in profit or loss	Recognized in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	(4)	-	7	1
Commodity forward	4	-	-	33
IRS transactions	8	-	-	55
HEDGING DERIVATIVES				
CCIRS hedging transactions	(63)	52	43	-
TOTAL DERIVATIVES	**(55)**	**52**	**50**	**89**
current			7	34
non-current			43	55

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	As at December 31, 2014 *restated*			
	Recognized in profit or loss	Recognized in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	3	-	11	-
Commodity forward	18	-	-	37
IRS transactions	(63)	-	-	72
HEDGING DERIVATIVES				
CCIRS hedging transactions	42	(74)	4	12
TOTAL DERIVATIVES		**(74)**	**15**	**121**
current			11	37
non-current			4	84

Commodity and currency forwards

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

IRS transactions

In 2014 the Company concluded 2 IRS transactions, hedging the interest rate on issued bonds with a nominal value of PLN 1 billion. 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.

In 2003, Elektrownia Turów S.A. (currently a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) concluded IRS hedge transactions. These transactions are aimed to hedge variable interest rates (USD LIBOR 6m) on investment credits of USD 30, 40 and 80 million from Nordic Investment Bank incurred to finance investments in Turów power plant. In these transactions, banks-contractors pay interest based on variable rate, and the company pays to bank interest based on fixed rate.

CCIRS hedging transaction

In connection with loans received from PGE Sweden AB (publ) PGE S.A. concluded a CCIRS transaction, that hedges currency and interest rate. In these transactions, banks-contractors of PGE S.A. pay interests based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. In the consolidated financial statements the relevant part of CCIRS transactions is recognized as a hedge of bonds issued by PGE Sweden AB (publ).

For the CCIRS transaction the Group applies hedge accounting. The impact of hedge accounting is presented in note 22.2 of these financial statements.

27.1.3 Available-for-sale financial assets

The most significant positions of available-for-sale financial assets are shares in entities not quoted on active markets. PGE Group is not able to estimate reliably the fair value of shares not-quoted on an active markets, therefore the value of these is presented in the purchase price adjusted by applicable impairment allowances.

27.1.4 Loans, borrowings, bonds and lease

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Loans and borrowings	1,459	214	1,008	304
Bonds issued	3,658	76	3,679	52
Lease	1	1	1	1
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	**5,118**	**291**	**4,688**	**357**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Currency position and interest

As at December 31, 2015

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1,759	1,759	I 2016 - XII 2027; bonds - indefinite program, maturity date of the tranche issued - VI 2018
	Fixed	156	156	X 2016 - IX 2020
TOTAL PLN		**1,915**	**1,915**	
EUR	Variable	140	597	VI 2024
	Fixed	642	2,734	VI 2019 - VIII 2029
TOTAL EUR		**782**	**3,331**	
USD	Variable	35	137	VIII 2016 - V 2019
TOTAL USD		**35**	**137**	
CHF	Variable	6	26	XII 2016
TOTAL CHF		**6**	**26**	
TOTAL LOANS, BORROWINGS AND BONDS			**5,409**	

As at December 31, 2014

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1,351	1,351	III 2015 - IX 2024, bonds - indefinite program, maturity date of the tranche issued - VI 2018
	Fixed	106	106	III 2015 - IX 2020
TOTAL PLN		**1,457**	**1,457**	
EUR	Variable	147	626	VI 2024
	Fixed	641	2,731	VI 2019 - VIII 2029
TOTAL EUR		**788**	**3,357**	
USD	Variable	48	169	VI 2015 - V 2019
TOTAL USD		**48**	**169**	
CHF	Variable	17	62	XII 2016
TOTAL CHF		**17**	**62**	
TOTAL LOANS, BORROWINGS AND BONDS			**5,045**	

Loans, borrowings and bonds maturity

	As at December 31, 2015	As at December 31, 2014
Within 1 year	291	357
From 1 to 2 years	288	227
From 2 to 3 years	1,225	213
From 3 to 4 years	2,262	1,222
From 4 to 5 years	202	2,181
Above 5 years	1,141	845
TOTAL LOANS, BORROWINGS AND ISSUED BONDS AS AT DECEMBER 31	**5,409**	**5,045**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The following table presents changes in interest-bearing debt in the years ended December 31, 2015 and 2014:

	Year ended December 31, 2015	Year ended December 31, 2014
AS AT JANUARY 1	**5,045**	**2,522**
CHANGE IN OVERDRAFTS	**(135)**	**(247)**
CHANGE IN LOANS, BORROWINGS, BONDS AND LEASE (excluding overdrafts)	**499**	**2,770**
Drawn loans, borrowings, leases / issued bonds	648	2,774
Repayment of loans, borrowings, leases / redemption of bonds	(176)	(144)
Accrued interest	99	88
Paid interest	(95)	(48)
Foreign exchange differences	23	100
AS AT DECEMBER 31	**5,409**	**5,045**

Loans and borrowings

Among loans and borrowings presented above as at December 31, 2015, the PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) to finance construction of 858 MW power unit in Elektrownia Bełchatów (Power Plant Bełchatów) of PLN 597 million;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Elektrownia Turów (Power Plant Turów) of PLN 162 million;
- investment credit facility taken out by PGE S.A. from Bank Gospodarstwa Krajowego in total value of PLN 1,000 million with the maturity date of December 31, 2027. As at December 31, 2015, the Company used PLN 500 million of the credit available.

Additionally, in the current period the parent company concluded the following loan agreements:

- On September 7, 2015 PGE S.A. concluded a long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility of up to PLN 3,630 million and revolving loan facility of up to PLN 1,870 million. Final repayment date of the revolving loan facility falls on April 30, 2019 and final repayment date of the term loan facility falls on September 30, 2023.
- On October 27, 2015, the Company concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2 billion. The amount of PLN 1.5 billion, obtained on the basis of the first of the two agreements, will be intended for projects relating to the modernization and development of distribution grid. The funds from the second agreement, which amount to remaining PLN 490 million, will be intended to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 22 months from the date of signing of the agreements. The funds shall be repaid within 15 years from the date of the last tranche.
- On December 4, 2015, the Company concluded a Loan Agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego with the maturity date of December 31, 2028. The loan will be used to co-finance the investments and current activities of the Group. This Agreement is the second loan agreement concluded between PGE S.A. and Bank Gospodarstwa Krajowego S.A. under the program "Polish Investments" launched by the Government, whose aim is to maintain the pace of economic growth by financing selected investments.

As at December 31, 2015 the above loans were not used.

Additionally, as at December 31, 2015 the value of available overdraft facilities of the significant PGE Group's members amounted to PLN 2,354 million. Maturity dates of overdraft facilities of the main PGE Group's entities fall to December 2019.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Bonds issued

The parent company has the ability to finance its own, and its subsidiaries operations through three bond issue programs:

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. On June 27, 2013, the first non-public issuance of 5-year bonds under this program took place, the coupon bearer bonds with a variable interest rate. The nominal value of the issue was PLN 1 billion and the maturity of the bonds is June 27, 2018. On August 29, 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 medium term Eurobonds Issue Program of EUR 2 billion established on May 22, 2014 by PGE S.A. together with PGE Sweden AB (publ), a 100% subsidiary of PGE S.A. Under the Program, PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. On June 9, 2014, PGE Sweden AB (publ) issued Eurobonds in total amount of EUR 500 million and a five year maturity and on August, 1 2014 it has issued bonds in the amount of EUR 138 million and fifteen year maturity.

27.1.5 Trade and other financial liabilities

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,119	-	1,194
Purchase of property, plant and equipment and intangible assets	25	1,608	2	1,095
Bails and security deposits received	-	81	12	60
Liabilities related to LTC	-	1,131	-	767
Insurances	-	-	-	6
Other	9	6	2	10
TRADE AND OTHER FINANCIAL LIABILITIES	34	3,945	16	3,132

27.2 Fair value of financial instruments

The value of financial assets and liabilities measured at amortized cost is a rational approximation of their fair value, excluding bonds issued by PGE Sweden AB (publ).

Bonds issued by PGE Sweden AB (publ) are based on fixed interest rate. Their amortized cost presented in these financial statements as at December 31, 2015 amounted to EUR 642 million and their estimated fair value amounted to EUR 700 million. The indicators used in the valuation are recognized in Level 2 of fair value hierarchy.

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

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

27.3 Fair value hierarchy

Inventories

The Group possesses CO_2 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, cost of usage of inventories is measured by detailed identification. Fair value is determined based on the market quotations (Level 1).

Derivatives

The Group measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, 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 ACCORDANCE WITH IFRS EU (IN PLN MILLION)

In the category of financial assets at fair value through profit or loss, the Group presents derivatives related to greenhouse gases emission rights – currency and commodities forwards and IRS hedging transaction changing variable interest rate in PLN to fixed interest rate in PLN (Level 2).

In addition, the Group presents CCIRS derivative that hedges foreign exchange rate and interest rate (Level 2).

	As at December 31, 2015		As at December 31, 2014	
FAIR VALUE HIERARCHY	Level 1	Level 2	Level 1	Level 2
CO_2 emission rights	98	-	409	-
Inventories	**98**	**-**	**409**	**-**
Commodity forward	-	-	-	-
Currency forward	-	7	-	11
CCIRS valuation	-	43	-	4
Financial assets	**-**	**50**	**-**	**15**
Currency forward	-	1	-	-
Commodity forward	-	33	-	37
CCIRS valuation	-	-	-	12
IRS valuation	-	55	-	72
Financial liabilities	**-**	**89**	**-**	**121**

Inventories are described in note 15 of these financial statements, whereas derivatives are presented in note 27.1.2 of these financial statements. During the reporting and comparative reporting periods, there have been no transfers of financial instruments between the first and the second level of fair value hierarchy.

The table below presents terms of particular derivatives.

	As at December 31, 2015		As at December 31, 2014		
restated	Carrying amount in PLN	Nominal value in currency	Carrying amount in PLN	Nominal value in currency	Maturity
Currency forward - EUR	7	66	11	113	to April 2017
CCIRS - EUR to PLN	43	514	4	514	to June 2019
		144	-	-	to July 2029
Financial assets	**50**		**15**		
Currency forward - EUR	(1)	6	-	5	to January 2017
Commodity forward sale - EUA - EUR	(33)	25	(37)	135	to December 2017
Commodity forward purchase - EUA - EUR		10		40	to December 2017
CCIRS - EUR to PLN	-	-	(12)	144	to July 2029
IRS - rate % PLN	(43)	1.000	(54)	1.000	to June 2018
IRS - rate % USD	(12)	-	(18)	2	to June 2015
		3		6	to August 2016
		32		40	to May 2019
Financial liabilities	**(89)**		**(121)**		

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

27.4 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 December 31, 2015	Cash	Financial instruments measured at fair value	Hedging derivatives	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	-	-	1	-	-	**1**
Interest income/(expenses)	74	(24)	(62)	-	26	(34)	**(20)**
Exchange gains/ (losses)	-	-	(1)	-	(2)	(27)	**(30)**
Reversal of impairment allowances	-	32	-	-	1	-	**33**
Creation of impairment allowances	-	-	-	-	(5)	-	**(5)**
Gains/(losses) on disposal of investments	-	-	-	15	-	-	**15**
TOTAL PROFIT / (LOSS)	**74**	**8**	**(63)**	**16**	**20**	**(61)**	**(6)**

Year ended December 31, 2014	Cash	Financial instruments measured at fair value	Hedging derivatives	Available-for-sale financial assets	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	-	-	3	-	-	**3**
Interest income/(expenses)	132	(14)	(32)	-	80	(66)	**100**
Exchange gains/ (losses)	22	-	75	-	4	(119)	**(18)**
Reversal of impairment allowances	-	27	-	-	3	-	**30**
Creation of impairment allowances	-	(55)	(1)	(1)	(389)	-	**(446)**
TOTAL PROFIT / (LOSS)	**154**	**(42)**	**42**	**2**	**(302)**	**(185)**	**(331)**

27.5 Collaterals for repayment of receivables and liabilities

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

As at the reporting date, the following assets were used as collateral for repayment of liabilities or contingent liabilities:

	As at December 31, 2015	As at December 31, 2014
Property, plant and equipment	845	935
Inventories	65	51
Trade receivables	28	17
TOTAL ASSETS BEING COLLATERAL FOR REPAYMENT OF LIABILITIES	**938**	**1,003**

Property, plant and equipment presented in the table above are collaterals for repayment of drawn investment credits. As at December 31, 2015 and as at December 31, 2014 the most significant item is a collateral mortgage on the power unit 858 MW constructed in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów.

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

The companies from the PGE Group are obliged to maintain a specified cash balance on its accounts held with PKO BP and Nordea Bank AB according to the rules of Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) and to participate in a guarantee fund. Cash accounted for as restricted cash of these two titles as of December 31,2015 amounted to PLN 285 mln (PLN 98 mln in comparative period).

28. Objectives and principles of financial risk management

The PGE Group is exposed to different kinds of financial risks. Types and significance of those risks depend on the range of activities on the commodity and financial markets. In particular these are:

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

The supreme goal of financial risk management in the PGE Group 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.

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 the PGE Group's 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 bears on 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, there is the Risk Committee 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 in the PGE Group 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 autonomy of the risk control function from business entities assuming the risk is guaranteed by way of locating the risk unit in a separate division in the PGE Group Corporate Centre's organizational structure and of independent reporting lines for the Risk Committee, the Audit Committee and the Management Board of PGE S.A.

In the key areas for financial risks, the PGE Group has developed internal rules for risk management. Regarding its commercial business, in the area of price market risk the Group applies the rules arising out of the General Procedures for Market Risk Management in Commercial Activity of the PGE Group, as far as credit risk is concerned – principles resulting from the Credit Risk Management Policy in the PGE Group, whereas in the area of interest rate risk and foreign exchange risk the principles laid down in the General Procedure for Financial Risk Management are applied.

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 certain mechanisms of control and limitation of risk effect on the attainment of strategic goals to the level acceptable by the PGE Group.

The risk owners execute transactions exclusively in the scope of the agreed area of operations and approved products, markets and types of instruments/transactions. Each decision regarding the extension of operations into a new area 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.

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 parent entity, i.e. PGE S.A., by way of intergroup transactions.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

28.1 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 subsidiaries. The PGE Group monitors the risk of losing the liquidity using 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 various sources of financing, such as: overdraft facilities, investment loans, national bonds and Eurobonds. Moreover, the parent 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 S.A. The subsidiaries in the PGE Group use various sources of intra-group financing, such as: loans, bonds or agreements for consolidation of bank accounts and cash management agreements in the group of accounts (real cash pooling).

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 DECEMBER 31, 2015	Carrying amount	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Loans and borrowings	**1,673**	**1,847**	36	194	877	740
Bonds issued	**3,734**	**4,166**	-	77	3,342	747
Trade and other financial liabilities	**3,979**	**3,979**	2,780	1,165	34	-
Liabilities from finance lease and lease agreements with an option of purchase	**2**	**2**	-	1	1	-
Derivatives measured at fair value through profit or loss	**89**	**92**	1	57	34	-
TOTAL	**9,477**	**10,086**	**2,817**	**1,494**	**4,288**	**1,487**

AS AT DECEMBER 31, 2014	Carrying amount	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Loans and borrowings	**1,312**	**1,381**	151	167	713	350
Bonds issued	**3,731**	**4,254**	-	80	3,392	782
Trade and other financial liabilities	**3,148**	**3,148**	2,329	803	15	1
Liabilities from finance lease and lease agreements with an option of purchase	**2**	**2**	1	-	1	-
Derivatives measured at fair value through profit or loss	**109**	**116**	1	37	78	-
Hedge instruments	**12**	**(28)**	5	55	(21)	(67)
TOTAL	**8,314**	**8,873**	**2,487**	**1,142**	**4,178**	**1,066**

28.2 Interest rate risk

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

The PGE Group entities are exposed to interest rate risk related to investment in debt instruments, liabilities from loans granted, and changes in fair value of derivatives swaps, resulting from changes in interest rates.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Bonds issued under the Bonds Issue Program in the amount of PLN 1 billion (the Program concerns issue of bonds in the amount of PLN 5 billion, of which bonds in the amount of PLN 1 billion were issued) are interest-bearing bonds at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions. Bonds issued under the medium term Eurobonds Issue Program, are interest-bearing bonds at a fixed rate in EUR. Payments relating to these bonds are hedged by CCIRS transactions. Bonds issuance programs are described in note 27.1.4 and hedging instruments are described in note 27.1.2 of these financial statements.

The companies from the PGE Group, 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., that those increase the interest rate risk exposure in comparison with to the level resulting from of the identified sources of exposure and are aimed at obtaining additional gains from the risk factors levels fluctuations.

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

		Type of interest rate	As at December 31, 2015	As at December 31, 2014
Derivatives – assets, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	-
	Other currencies	Fixed	-	-
		Variable	50	15
Deposits and cash	PLN	Fixed	2,948	5,661
		Variable	-	-
	Other currencies	Fixed	281	648
		Variable	-	-
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(43)	(54)
	Other currencies	Fixed	-	-
		Variable	(46)	(67)
Loans, borrowings, bonds and lease	PLN	Fixed	(156)	(106)
		Variable	(1,759)	(1,351)
	Other currencies	Fixed	(2,734)	(2,731)
		Variable	(760)	(857)
Net exposure	**PLN**	**Fixed**	**2,792**	**5,555**
		Variable	**(1,802)**	**(1,405)**
	Other currencies	**Fixed**	**(2,453)**	**(2,083)**
		Variable	**(756)**	**(909)**

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.

28.3 Currency risk

The PGE Group entities are exposed to currency transaction risk and currency translation risk. The main sources of exposure to currency risk are presented below:

- capital expenditures denominated in or indexed to foreign currencies;
- loans and borrowings denominated in foreign currencies;
- sales of electricity denominated in foreign currencies (export);
- 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;
- expenses related to current use of production goods denominated in or indexed to foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The PGE Group entities enter into currency based derivatives transactions only in the purpose to hedge identified exposure to risk. Thus, the Group entities are not permitted, as regards currency based derivative transactions, to enter into speculative transactions, i.e. those that increase the currency risk exposure in comparison with their level resulting from identified sources of exposure and that aim to obtain additional gains from risk factor changes.

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

	Total carrying amount in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2015					
		EUR		USD		CHF	
		Currency	PLN	Currency	PLN	Currency	PLN
FINANCIAL ASSETS							
Trade receivables	2,548	36	151	-	-	-	-
Cash and cash equivalents	3,104	67	280	-	-	-	-
Derivatives, including:	50	694	2,958	-	-	-	-
Measured at fair value through profit or loss	*7*	*(35)*	*(149)*	-	-	-	-
CCIRS hedging instruments	*43*	*729*	*3,107*	-	-	-	-
FINANCIAL LIABILITIES							
Loans and borrowings	(1,673)	(140)	(597)	(35)	(137)	(6)	(26)
Bonds issued and other debt securities	(3,734)	(642)	(2,734)				
Trade and other financial liabilities measured at amortized cost, including:	(3,979)	(50)	(213)	-	-	-	-
Trade liabilities	*(1,119)*	*(42)*	*(178)*	-	-	-	-
Liabilities due to purchase of property, plant and equipment	*(1,633)*	*(8)*	*(35)*	-	-	-	-
Derivatives, including:	(89)	(9)	(37)	(3)	(12)	-	-
Measured at fair value through profit or loss	*(89)*	*(9)*	*(37)*	*(3)*	*(12)*		
NET CURRENCY POSITION		**(44)**	**(192)**	**(38)**	**(149)**	**(6)**	**(26)**

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

restated	Total carrying amount in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2014					
		EUR		USD		CHF	
		Currency	PLN	Currency	PLN	Currency	PLN
FINANCIAL ASSETS							
Trade receivables	2,361	6	26	-	-	-	-
Cash and cash equivalents	6,196	152	648	-	-	-	-
Derivatives, including:	15	622	2,652	-	-	-	-
Measured at fair value through profit or loss	*11*	*69*	*294*				
CCIRS hedging instruments	*4*	*553*	*2,358*				
FINANCIAL LIABILITIES					-	-	-
Loans and borrowings	(1,312)	(147)	(626)	(48)	(169)	(17)	(62)
Bonds issued and other debt securities	(3,731)	(641)	(2,731)	-	-	-	-
Trade and other financial liabilities measured at amortized cost, including:	(3,148)	(12)	(52)	-	-	-	-
Trade liabilities	*(1,194)*	*(10)*	*(42)*	-	-	-	-
Liabilities due to purchase of property, plant and equipment	*(1,095)*	*(2)*	*(10)*	-	-	-	-
Derivatives, including:	(121)	173	737	(5)	(18)	-	-
Measured at fair value through profit or loss	*(109)*	*(14)*	*(59)*	*(5)*	*(18)*	-	-
CCIRS hedging instruments	*(12)*	*187*	*796*	-	-	-	-
NET CURRENCY POSITION		**153**	**654**	**(53)**	**(187)**	**(17)**	**(62)**

The carrying amount of derivative instruments is their fair value. The value of currency risk exposure for forward derivatives is their nominal value at currency.

28.4 Price risk

Due to the type of PGE Group company's business activities, they are exposed to change of cash flows and financial results due to price changes of the following risk factors:

- electricity;
- hard coal, gas, biomass and other fuels;
- CO_2 emission rights;
- energy origin rights.

The PGE Group owns lignite mines that deliver production fuel to two power plants. Due to this fact, the Group's exposure to price risk in this area is not significant.

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

The PGE Group has determined and has been implementing the internal rules for market risk management stipulated in the General Procedures for Market Risk Management in Commercial Activity of the PGE S.A. Group, 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 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 policies stipulate uniform assumptions for the organization 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 particular scopes of commercial activity;
- level of accepted risk with the principles of allocation and management of the capital at risk;
- 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 level of potential deviations from the expected achievable results in particular years. The PGE Group assesses the results of the measurement of price risk in the context of its risk appetite and the hedging of securing the risk o3f prices of electricity and related products, 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.

The Group's exposure to price risk of merchandise (in relation to raw materials) reflects the volume of external purchase of particular resources is presented in the table below:

TYPE OF FUEL	Year ended December 31, 2015		Year ended December 31, 2014	
	Tonnage – external purchase (in thousand tonnes)	Cost of purchase (PLN million)	Tonnage – external purchase (in thousand tonnes)	Cost of purchase (PLN million)
Hard coal	5,588	1,315	6,197	1,536
CO_2 emission rights for own use	37,879	1,301	35,670	831
Gas [thousand m^3]	575,198	484	378,949	258
Biomass	1,215	333	1,236	353
Fuel oil	30	38	40	75
TOTAL		**3,471**		**3,053**

28.5 Credit risk

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

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

- basic activities of entities – the credit risk results from, among others, purchases and sales of electricity and heat, purchases and sales of energy origin rights and CO_2 emission rights, purchases of fuels etc. It relates primarily to the possibility of a default by the other party of the transaction, if fair value of the transaction is positive from the point of view of the Group;
- investment activities of entities – the credit risk results from transactions resulting from investment projects which depend on the financial situation of the Group's suppliers;
- investing free cash of entities – the credit risk results from investing free cash of the PGE Group entities in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

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

- trade receivables from key customers. The three most significant customers accounted for ca. 10% of the trade receivables balance.
- compensation from LTC.

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

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Trade and other financial receivables	3,890	3,640
Cash and cash equivalents	3,104	6,196
Derivatives – assets	50	15
MAXIMUM CREDIT RISK EXPOSURE	**7,044**	**9,851**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

28.5.1 Trade receivables. Other loans and financial receivables

The terms of payments for trade receivables are usually 2-3 weeks. In year 2015 the PGE Group received payments for receivables on average after 34 days (debtors turnover ratio in the main companies in PGE Group ranged between 6 and 57 days). 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 Group reduces and controls credit risk related to commercial transactions. In case of high-value commercial transactions, which may generate significant losses as a result of default of a contracting party, the assessment of the contractor is carried out before the transaction is concluded taking into account financial analysis, past experiences and other factors. Based on the above assessment, the internal rating is awarded or the PGE Group uses ratings given by the independent renowned agencies. Credit limit is determined on the basis of the rating. As a general rule, entering into contracts, which would increase an exposition over the approved limits, requires a collateral consistent with accepted principles of credit risk management. The level of limits used is regularly monitored, and in case of exceeding the limit the units responsible for counterpart risk management are obliged to take action to eliminate them. The PGE Group regularly monitors payments of receivables and uses system of early vindication, taking into consideration deadlines arising from the energy law and high level of repayment of receivables with short term of expire. It also works with business intelligence agencies and debt collection companies.

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

	December 31, 2015		December 31, 2014 *(restated)*	
	Receivables balance	Share %	Receivables balance	Share %
Poland	2,520	99%	2,276	95%
Germany	-	-	40	2%
Other	28	1%	45	3%
TOTAL	**2,548**	**100%**	**2,361**	**100%**

Ageing receivables and impairment allowance

As at December 31, 2015 part of the financial assets were covered by impairment allowances. The change in allowances accounts for these classes of financial instruments are presented in the table below:

Year ended December 31, 2015	Trade receivables	Other financial receivables	Bonds
Impairment allowance as at January 1	**(243)**	**(163)**	**(415)**
Impairment allowance used	33	-	29
Impairment allowance reversed	7	15	-
Impairment allowance raised	(16)	(33)	-
Other changes	7	-	-
Impairment allowance as at December 31	**(212)**	**(181)**	**(386)**
Value before the impairment allowance	**2,760**	**1,523**	**386**
Net value (carrying amount)	**2,548**	**1,342**	**-**

The majority of impairment allowances raised during the reporting period relates to trade receivables of companies from supply and distribution segment. Impairment allowances in these companies as at December 31, 2015 amounted to PLN 171 million (PLN 193 million in 2014). There are no significant receivables that would be substantially past due and not covered by an impairment allowance.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Year ended December 31, 2014	Trade receivables *(restated)*	Other financial receivables	Bonds
Impairment allowance as at January 1	**(270)**	**(141)**	**(29)**
Impairment allowance used	32	8	-
Impairment allowance reversed	15	11	-
Impairment allowance raised	(23)	(40)	(386)
Other changes	3	3	-
Impairment allowance as at December 31	**(243)**	**(159)**	**(415)**
Value before the impairment allowance	**2,604**	**1,438**	**415**
Net value (carrying amount)	**2,361**	**1,279**	**-**

Impairment allowance raised on bonds presented in the table above concerning comparative period 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 proceeding 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 the State Treasury causes that according to PGE S.A. there is a risk of impairment of these assets.

The ageing structure of trade receivables and other loans and receivables taking into account of impairment allowances is presented below:

	December 31, 2015			December 31, 2014 *(restated)*		
	Gross carrying amount	Impairment allowance	Net carrying amount	Gross carrying amount	Impairment allowance	Net carrying amount
Receivables before due date	**4,096**	**(447)**	**3,649**	**3,782**	**(456)**	**3,326**
Past due <30 days	*196*	*(3)*	***193***	*246*	*(3)*	***243***
Past due 30-90 days	*41*	*(2)*	***39***	*76*	*(18)*	***58***
Past due 90-180 days	*15*	*(8)*	***7***	*16*	*(8)*	***8***
Past due 180-360 days	*34*	*(32)*	***2***	*26*	*(23)*	***3***
Past due >360 days	*287*	*(287)*	*-*	*311*	*(309)*	***2***
Receivables past due, total	**573**	**(332)**	**241**	**675**	**(361)**	**314**
Trade and other financial receivables	**4,669**	**(779)**	**3,890**	**4,457**	**(817)**	**3,640**

As at December 31, 2015, more than 82% of overdue trade receivables and other loans and receivables that were not covered with impairment allowances related to sale of energy to end-users.

28.5.2 Deposits, cash and cash equivalents

The Group manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities, that the PGE Group concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate equity and strong, stable market position. The share of three major banks in which the PGE Group allocated the most significant cash balances as at December 31, 2015 accounted for approximately 88%.

28.5.3 Derivatives

All entities, that the PGE Group 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 PGE Group was party to the derivative transactions, described in detail in note 27.1.2 to these consolidated financial statements.

28.5.4 Guarantees granted

Guarantees granted by the PGE Group entities are presented in the note 30 of these consolidated financial statements.

28.6 Market (financial) risk – sensitivity analysis

The PGE Group identifies the following as the main types of market risk to which it is exposed:

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

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

The scenario analysis presented in this point is intended to analyze the influence of changes in market risk factors on the financial results of the Group. 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 PGE Group 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 consolidated statement of comprehensive income under the caption of interest income or expenses or to the position of revaluation of the value of financial instruments at fair value.

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

The currency risk exposure for derivative forward instruments is their nominal value together with accrued interest to the reporting date, translated into Polish zlotys at the closing price on December 31, 2015 and December 31, 2014, without taking the discount into account. In turn, the carrying amount of these derivative instruments constitutes their fair value measurement.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Sensitivity analysis for currency risk

The table below presents sensitivity of financial instruments to reasonably possible changes to foreign currency exchange rates, under the assumption of stability of other risk factors.

FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Amount exposed to risk	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2015 EUR/PLN Impact on financial result/Equity		USD/PLN Impact on financial result/Equity		CHF/PLN Impact on financial result/Equity	
			+10%	-10%	+10%	-10%	+10%	-10%
Trade receivables	2,548	151	15	(15)	-	-	-	-
Cash and cash equivalents	3,104	280	28	(28)	-	-	-	-
Derivatives – assets	50	2,958	265	(265)	-	-	-	-
Interest bearing loans and borrowings	(1,673)	(760)	(60)	60	(14)	14	(3)	3
Bonds issued	(3,734)	(2,734)	(273)	273	-	-	-	-
Trade and other financial liabilities	(3,979)	(213)	(21)	21	-	-	-	-
Derivatives – liabilities	(89)	(49)	(4)	4	(1)	1	-	-
IMPACT ON PROFIT OR LOSS			**(50)**	**50**	**(15)**	**15**	**(3)**	**3**
CCIRS hedging instruments	43	3,107	30	(30)	-	-	-	-
IMPACT ON HEDGING RESERVE			**30**	**(30)**	**-**	**-**	**-**	**-**

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	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2014 EUR/PLN Impact on financial result/Equity		USD/PLN Impact on financial result/Equity		CHF/PLN Impact on financial result/Equity	
			+7.73%	-7.73%	+12.89%	-12.89%	+9.04%	-9.04%
Trade receivables	2,361	26	2	(2)	-	-	-	-
Cash and cash equivalents	6,196	648	50	(50)	-	-	-	-
Derivatives – assets	15	2,652	193	(193)	-	-	-	-
Interest bearing loans and borrowings	(1,312)	(857)	(48)	48	(22)	22	(6)	6
Bonds issued	(3,731)	(2,731)	(211)	211	-	-	-	-
Trade and other financial liabilities	(3,148)	(52)	(4)	4	-	-	-	-
Derivatives – liabilities	(121)	719	37	(37)	(2)	2	-	-
IMPACT ON PROFIT OR LOSS			**19**	**(19)**	**(24)**	**24**	**(6)**	**6**
CCIRS hedging instruments	(8)	3,154	27	(27)	-	-	-	-
IMPACT ON HEDGING 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Sensitivity analysis for interest rate risk

The Group identifies exposure to interest rate risk related to WIBOR, EURIBOR and LIBOR. The table below presents the sensitivity of financial instruments based on reasonable, possible future fluctuations of interest rates, under assumption of stability of other risk factors.

			SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2015					
FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk	WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity		LIBOR USD Impact on financial result/Equity	
			+50pb	-50pb	+25pb	-25pb	+25pb	-25 pb
Derivatives measured at fair value through profit or loss – assets	50	7	<1	<(1)	-	-	-	-
Interest bearing loans and borrowings	(1,673)	(1,519)	(4)	4	(1)	1	-	-
Bonds issued	(3,734)	(1,000)	(5)	5	-	-	-	-
Derivatives measured at fair value through profit or loss – liabilities	(89)	(89)	12	(13)	-	-	(1)	1
IMPACT ON FINANCIAL RESULT			**3**	**(4)**	**(1)**	**1**	**(1)**	**1**
CCIRS hedging instruments	43	43	73	(76)	(43)	44	-	-
IMPACT ON HEDGING RESERVE			**73**	**(76)**	**(43)**	**44**	**-**	**-**

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

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

			SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2014					
FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk	WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity		LIBOR USD Impact on financial result/Equity	
			+71,67pb	-71,67pb	+48,50pb	-48,50pb	+25,36pb	-25,36pb
Derivatives measured at fair value through profit or loss – assets	11	11	<1	<(1)	-	-	-	-
Interest bearing loans and borrowings	(1,312)	(1,207)	(3)	3	(3)	3	(1)	1
Bonds issued	(3,731)	(1,000)	(7)	7	-	-	-	-
Derivatives measured at fair value through profit or loss – liabilities	(109)	(109)	24	(25)	-	-	1	(1)
IMPACT ON FINANCIAL RESULT			**14**	**(15)**	**(3)**	**3**	**-**	**-**
CCIRS hedging instruments	(8)	(8)	126	(135)	(98)	102	-	-
IMPACT ON HEDGING RESERVE			**126**	**(135)**	**(98)**	**102**	**-**	**-**

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

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

Sensitivity analysis for commodity price risk

The Group identifies exposure to commodity price risk. The table below presents the sensitivity analysis for changes of the purchase cost of selected commodities by 10%:

COMMODITY	AS AT DECEMBER 31, 2015			AS AT DECEMBER 31, 2014		
	Purchase cost	Impact on profit or loss		Purchase cost	Impact on profit or loss	
		10%	-10%		10%	-10%
Hard coal	1,315	132	(132)	1,536	154	(154)
CO_2 emission rights for captive use	1,301	130	(130)	831	83	(83)
Gas [thousand m^3]	484	48	(48)	258	26	(26)
Biomass	333	33	(33)	353	35	(35)
Fuel oil	38	4	(4)	75	8	(8)
TOTAL	**3,471**	**347**	**(347)**	**3,053**	**306**	**(306)**

28.7 Hedge accounting

In connection with loans received from PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions, that hedge currency. In these transactions, banks-contractors of PGE S.A. pay interests based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. In the consolidated financial statements the relevant portion of CCIRS transactions is regarded as hedging bonds issued by PGE Sweden AB (publ).

Hedge accounting is applied in respect of the above CCIRS transaction. The impact of hedge accounting on the hedging reserve is presented in note 22.2 of these financial statements.

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

29. Statement of cash flows

Presented below is the analysis of the most significant items of cash flow statements.

29.1 Cash flows from operating activities

Profit/loss on investment activities

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Profit / (loss) on disposal of property, plant and equipment	(20)	(16)
Carrying amount of property, plant and equipment liquidated or transferred free of charge	3	10
Profit/ (loss) on write-off of discontinued investments	2	7
Profit / (loss) on disposal of financial non-current assets	(15)	1
Change in impairment of shares and other financial assets	-	389
Valuation of securities	(12)	-
Valuation of derivatives	(5)	186
Other	19	(46)
PROFIT/ LOSS ON INVESTMENT ACTIVITIES, TOTAL	**(28)**	**531**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Change in receivables

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Change in non-current financial receivables	(17)	379
Change in trade and other financial receivables	(233)	92
Adjustment by change in receivables from loans and bonds	-	(358)
Adjustment by change in deposits	11	(73)
Other	3	1
CHANGE IN RECEIVABLES, TOTAL	**(236)**	**41**

Change in inventories

	Year ended December 31, 2015	Year ended December 31, 2014
Change in inventories	216	(491)
Inventories acquired / transferred as part of a merger	-	(17)
Adjustment by property rights from the test run	8	-
CHANGE IN INVENTORIES, TOTAL	**224**	**(508)**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2015	Year ended December 31, 2014
Change in trade and other financial liabilities	831	258
Change in other non-financial liabilities	21	(251)
Adjustment by change in investment liabilities	(536)	(550)
Other	2	2
CHANGE IN LIABILITIES, TOTAL	**318**	**(541)**

Change in other non-financial assets, deferred income and CO_2 emission rights

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Change in other current assets	(219)	(490)
Change in other non-current assets	165	(264)
Change in CO_2 emission rights	(620)	(148)
Change in non-current deferred income	34	(23)
Change in current deferred income	(30)	(9)
Adjustment by change in advances for construction in progress	(130)	561
Adjustment by change in other short-term and long-term assets concerning financing/investing activities	(51)	(3)
Other	(9)	(2)
CHANGE IN OTHER NON-FINANCIAL ASSETS, DEFERRED INCOME AND CO_2 EMISSION RIGHTS, TOTAL	**(860)**	**(378)**

Change in provisions

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Change in non-current provisions	(55)	1.333
Change in current provisions	(261)	(365)
Adjustment by change in actuarial provisions recognized in other comprehensive income	15	(397)
Adjustment by change in rehabilitation provision recognized in assets	(47)	(562)
CHANGE IN PROVISIONS, TOTAL	**(348)**	**9**

29.2 Cash flows from investing activities

Acquisition of property, plant and equipment and intangible assets

The most significant capital expenditures were incurred by the Conventional Generation segment (PLN 5,636 million, of which PLN 2,243 million is related to expenditures on the construction of power units no. 5 and 6 in Branch Elektrownia Opole), and PLN 1,026 million is related to expenditures on reconstruction and refurbishment of power units in Branch Elektrownia Bełchatów, by the Distribution segment (PLN 1,917 million related mainly to connection of new customers and modernization and development of electric power networks) and by the Renewables segment (PLN 649 million of which PLN 587 million is related to expenditures on construction of wind farms).

Acquisition of financial assets and increase in shareholding in the PGE Group companies

The amount of PLN 97 million concerns entirely acquisition of PGE GiEK S.A.'s shares from minority shareholders.

29.3 Cash flows from financing activities

Proceeds from loans, borrowings and issue of bonds

This position includes mainly partial use of credit obtained by PGE S.A. from Bank Gospodarstwa Krajowego of PLN 500 million and loans from NFOŚiGW and WFOŚiGW obtained by the Conventional Generation segment to finance investments in power plants and heat and power plants in the total amount of approximately PLN 139 million.

Repayment of loans, bank credits, bonds and finance lease

This position includes mainly repayment of loans from environmental funds obtained by the Conventional Generation segment in the total amount of approximately PLN 296 million.

Dividends paid

On June 24, 2015 the General Shareholders Meeting of PGE S.A. resolved to distribute PLN 1,458 million from the net profit of 2014 as a dividend. Dividend was paid on October 15, 2015. Remaining PLN 4 million is related to the dividends paid to minority shareholders.

Interest paid

This position consists of interest on loans and borrowings of PLN 16 million, interest on bonds of PLN 79 million and interest on financial instruments (CCIRS and IRS) of PLN 81 million.

OTHER EXPLANATORY NOTES

30. Contingent liabilities and receivables. Legal claims

30.1 Contingent liabilities

	As at December 31, 2015	As at December 31, 2014
Bank guarantees	1	11
Contingent return of grants from environmental funds	433	331
Legal claims	67	8
Contractual fines and penalties	12	12
Other contingent liabilities	47	43
CONTINGENT LIABILITIES, TOTAL	**560**	**405**

Contingent return of grants from environmental funds

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

Legal claims

Contingent liability is mainly related to the dispute with WorleyParsons. In 2013 PGE EJ 1 sp. z o.o. signed an agreement for an environmental study, a site study and services related to obtaining permits and licenses necessary in the investment process connected with construction of a nuclear power plant with the consortium of WorleyParsons Nuclear Services JSC, WorleyParsons International Inc. and WorleyParsons Group Inc. ("WorleyParsons", "Contractor") in the net amount of PLN 253 million (including basic scope of PLN 167 million). Due to the delays in delivery of products specified in the agreement, in 2013 PGE EJ 1 sp. z o.o. charged WorleyParsons with contractual penalties of PLN 7 million. In addition, in 2014 due to further non-performance of the agreement, additional contractual penalties in the total amount of PLN 43 million were charged. On December 23, 2014, PGE EJ 1 sp. z o.o. terminated the contract due to reasons attributable to the Contractor.

Contractual penalties charged in 2013 were deducted from the remuneration payable to WorleyParsons in 2014. Penalties charged in 2014 in the total amount PLN 30 million were deducted from the remuneration payable to WorleyParsons and the bank guarantee. After all deductions and receiving the amount from the bank guarantee, the Company is entitled to claim PLN 14 million from WorleyParsons as penalty for delay.

On August 7, 2015 PGE EJ 1 sp. z o.o. filed a statement of claim to the District Court in Warsaw, Commercial Department against WorleyParsons for a payment of almost PLN 15 million increased by the statutory interest resulting from the delay in payment of the amount due. The requested amount comprises unpaid contractual penalties and interest for the delay capitalized as of the day of filing the lawsuit. On January 8, 2016 PGE EJ 1 sp. z o.o. received a response to a suit from WorleyParsons.

On November 13, 2015, PGE EJ 1 sp. z o.o. received a claim made by WorleyParsons for remuneration in the amount of PLN 59 million payable to the claimant in the claimant's opinion, and for the return of the amount that in the claimant's opinion was unduly collected by the Company from a bank guarantee. PGE EJ 1 sp. z o.o. filed a response to the lawsuit. Moreover, the value of the claims mentioned in the WorleyParsons' lawsuit in the amount of PLN 54 million has been included in a request for payment for the amount of PLN 92 million due to termination of an agreement, which WorleyParsons filed on March 13, 2015. It is anticipated that WorleyParsons may take a separate legal action for the amount of PLN 38 million. The Company does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to contractual fines and penalties

The contingent liability comprises mainly accrued contractual fines relating to delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). In February 2012 the Group committed to the Municipality of Gryfino to accomplish two investments with the total value of not less than almost PLN 8 million until the end of 2015. According to the agreement signed on December 28, 2015 the deadline has been postponed to December 31, 2018. Failure to realize investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

Other contingent liabilities

Other contingent liabilities comprise the value of potential claim from WorleyParsons of PLN 38 million, which was described in more detail above and cash fines of almost PLN 6 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some of the PGE Group companies).

30.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 24.3 of these financial statements the PGE Group recognizes provision for disputes under court proceedings, concerning non-contractual use of properties for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and there is a possibility of increased number of disputes in the future.

Contractual liabilities related to purchase of fuels

According to the concluded agreements on the purchase of fuels (mainly coal and gas), the PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular hours and months. A failure to collect a minimum volume of fuels specified in the contracts, may result in a necessity to pay some extra fee (in case of gas fuel, the volume not collected by power plants but paid up, may be collected within the next three contractual years).

In the PGE Group's opinion, the described above terms and conditions of fuel deliveries to its power generating units do not differ from terms and conditions of fuel deliveries to other power generating units on the Polish market.

30.3 Contingent receivables

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

30.4 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 over PLN 10 million.

Independently of the above, on November 12, 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.

The Company filed a response to the lawsuit on March 28, 2015. In September, 2015 Socrates Investment S.A. submitted a letter which constitutes a response to the lawsuit.

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 share exchange ratio of the acquire for shares of the acquirer, 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 April 1, 2014, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Shareholders Meeting of the Company held on February 6, 2014. The Company filed responses to the claims. On June 22, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim. The judgement is appealable. On July 28, 2015, the shareholder filed an appeal. The Company filed a response to the appeal.

On September 17, 2014 PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolution 4 of the Extra Ordinary General Shareholders Meeting of the Company held on June 6, 2014. The Company filed response to the claim. On August 13, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The verdict is not final and binding. On December 7, 2015, PGE S.A. received a copy of the plaintiff's appeal. The Company filed reply to that appeal on December 21, 2015.

On August 21, 2015 PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Shareholders Meeting of the Company held on June 24, 2015. PGE S.A. filed responses to the claims.

On October 23, 2015 PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders Meeting of the Company held on September 14, 2015 concerning the election of the President of the Extraordinary General Shareholders Meeting. On November 23, 2015 PGE S.A. filed responses to the claims.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

31. Future investment commitments

As at December 31, 2015 the PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 13,895 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and a purchase of machinery and equipment.

	As at December 31, 2015	As at December 31, 2014
Conventional Generation	11,603	14,107
Renewables	116	448
Distribution	850	867
Supply	3	1
Other operations	1,323	1,342
TOTAL FUTURE INVESTMENT COMMITMENTS	**13,895**	**16,765**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 5,809 million,
  - Branch Turów Power Plant – contract for construction of new power unit – approximately PLN 3,495 million,
  - Branch Turów Power Plant – modernization of boilers and turbines on power units no. 1-3 – approximately PLN 463 million,
  - Branch Bełchatów Power Plant – reconstruction and modernization of power units – approximately PLN 590 million,
- Distribution – investment commitments related to network distribution assets of the total value of approximately PLN 850 million,
- Other operations, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 1,307 million (including PLN 205 million as base case – remaining part of the contract is optional).

32. Lease

32.1 Operating lease liabilities – the Group as a lessee

As at December 31, 2015 and as at December 31, 2014, the future minimum lease payments related to irrevocable lease agreements are PLN 150 million and PLN 157 million, respectively.

The PGE Group entities incur costs related to a perpetual usufruct of land. The value of these costs for the year ended December 31, 2015 amounted to PLN 17 million.

32.2 Operating lease receivables – the Group as a lessor

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

32.3 Liabilities from finance lease and lease agreement with option to purchase

As at the reporting date and in the comparative period, the present value of the minimum current lease payments was approximately PLN 1 million, while the present value of the minimum non-current lease payments amounted to approximately PLN 1 million in both current and comparative period.

32.4 Receivables from finance lease and lease agreement with option to purchase

At the reporting date, and in the comparative period the Group did not identify significant receivables from finance lease agreements.

33. 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 2015 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 high 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.

Tax Group

On September 18, 2014 an agreement concerning a tax group, named “TG PGE 2015” was executed for a 25-year period. PGE S.A. is the representing company of this group. The TG 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., PGE Obsługa Księgowo-Kadrowa sp. z o.o., ELBEST Security sp. z o.o. and 13 companies named PGE Inwest 2,4,...,15 that were not operational at the time the agreement was signed. The agreement will apply to the period after January, 1 2015.

The Polish Corporate Income Tax Act treats tax groups as separate income tax payers (CIT). This means that companies within TG PGE 2015 are not treated as separate entities for corporate income tax purposes (CIT), with TG PGE 2015 being treated as one whole entity instead. TG 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. TG 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 TG 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.

In accordance with agreements on settlement within the tax 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 TG PGE 2015 incurs tax loss, the tax benefits are transferred to the representing company, i.e. PGE S.A. This also means that if tax settlements of companies incurring tax loss are adjusted, such change has direct impact on financial results of PGE S.A.

Flows between companies belonging to the TG PGE 2015 are carried out within the year at the periods preceding payment of income tax advances. The final settlement between the companies included in the TG occurs after submission of the annual declaration.

The companies forming a tax group are obligated to meet a number of requirements including: the appropriate level of equity, the parent company’s share in companies included in the group at least at the level of 95%, no equity relationships between subsidiaries, no tax arrears and share of profits in revenues at least at the level of 3% (calculated for the whole TG) as well as concluding transactions with entities not belonging to TG PGE 2015 solely on market terms. The violation of these requirements will affect in termination of the TG PGE 2015 and the loss of status of the taxpayer. Since the termination, each of the companies included in the tax group becomes an independent taxpayer for CIT tax purpose.

Real estate tax

Considering pending disputes the PGE Group established at the reporting date the provision for property tax in the amount of PLN 88 million. The provision relates mainly to tax proceedings with regard to property tax in selected power plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and detached technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various stages of tax authorities proceedings, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

34. Information on related parties

The PGE Group's transactions with related entities are being concluded using market prices for provided goods, products and services are based on the cost of manufacturing.

34.1 Associates

The sale of entities belonging to the PGE Group to associates in 2015 amounted to PLN 7 million and in the comparative period to PLN 5 million. Both as at December 31, 2015 and as at December 31, 2014, the Group's trade receivables from associates amounted to PLN 1 million.

34.2 Subsidiaries of the State Treasury

The State Treasury is the dominant shareholder of PGE S.A. and as a result in accordance with IAS 24 *Related Party Disclosures*, State Treasury companies are treated as related entities. The PGE Group entities identify in detail transactions with approximately 40 of the biggest State Treasury subsidiaries.

The total value of transactions with such entities is presented in the table below.

	Year ended December 31, 2015	Year ended December 31, 2014
Sales to related parties	2,509	1,992
Purchases from related parties	3,539	3,477

	As at December 31, 2015	As at December 31, 2014
Trade receivables from related parties	383	218
including overdue	*14*	*14*
Trade liabilities to related parties	387	517
including overdue	-	*2*

The largest transactions with the State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A., PKN Orlen S.A. and purchases of coal from Polish mines. The increase in sales and receivables from related parties is mainly due to the increase of sales volume of CO_2 emission rights to related parties.

Moreover, the PGE Group 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.

34.3 Management personnel remuneration

The key management includes the Management Boards and Supervisory Boards of the parent company and significant Group entities.

PLN thousand	Year ended December 31, 2015	Year ended December 31, 2014
Short-term employee benefits (salaries and salary related costs)	30,877	27,045
Post-employment and termination benefits	4,542	4,510
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**35,419**	**31,555**
Remuneration of key management personnel of entities of non-core operations	13,720	17,766
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**49,139**	**49,321**

PLN thousand	Year ended December 31, 2015	Year ended December 31, 2014
Management Board of the parent company	6,217	7,324
Supervisory Board of the parent company	407	346
Management Boards – subsidiaries	27,394	22,639
Supervisory Boards – subsidiaries	1,401	1,246
TOTAL	**35,419**	**31,555**
Remuneration of key management personnel of entities of non-core operations	13,720	17,766
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**49,139**	**49,321**

The Members of the Management Boards of some of the Group companies are employed on the basis of civil law contracts for management (so called management contracts). The above remuneration is included in other costs by nature disclosed in note 7.2 Costs by nature and function.

35. Significant events of the reporting period and subsequent events

35.1 Compensation resulting from termination of long term contracts LTC

Due to the termination of long-term contracts for sale of capacity and electricity, pursuant to the LTC Act, power generating units who once served as parties to such contracts have acquired the right to compensations for the coverage of the so-called stranded costs. Stranded costs are the expenses of the power generating units, borne until May 1, 2004 for property, plant and equipment related to the production of electricity, uncovered by revenue from the sales of the electricity produced, capacity reserves and system services on the competitive market, after the premature termination of the long-term contract. The LTC Act limits the total resources which can be paid out to all power generating units to cover stranded costs discounted as of January 1, 2007 to the sum of PLN 11.6 billion, with PLN 6.3 billion attributable to PGE.

Table: Basic data for Group power generating units assumed with the LTC Act.

Power generating unit	Effective term of the Act	Maximum stranded and extra costs
Turów Power Plant	Up to 2016	2,571
Opole Power Plant	Up to 2012	1,966
Dolna Odra Power Plant Complex	Up to 2010	633
Lublin Wrotków CHP Plant	Up to 2010	617
Rzeszów CHP Plant	Up to 2012	422
Gorzów CHP Plant	Up to 2009	108
TOTAL		**6,317**

Within the term stipulated by the LTC Act, i.e. until December 31, 2007, PGE S.A. signed contracts terminating its long-term capacity and enectricity sales contracts with power generating units who once served as parties to the then effective LTC. Therefore, the power generating units have gained the right to receive resources to cover stranded costs.

Decisions of the President of the Energy Regulatory Office under the LTC Act

A part of the power generating units currently incorporated in PGE GiEK S.A. have gained the right to receive resources for the coverage of stranded costs (the so-called "compensations") within the meaning of the LTC Act. The provisions of the LTC Act are however vague in multiple points and raise essential interpretive doubts. When calculating the prospective results for particular power generating units and the resulting compensations, annual adjustments of stranded costs, final adjustment and the resulting revenues recognized in the statement of comprehensive income, the Group exercised its best knowledge in this respect and referred to external experts.

Until the date of preparation of these financial statements, the power generating units from the PGE Group have received decisions regarding adjustments of annual stranded costs and the costs generated in units fueled by natural gas for 2008-2014. In part, these decisions were unfavorable for particular units and, in the opinion of the Group, were issued in violation of the LTC Act. In consequence, as of 2009, a series of proceedings were instituted with the District Court in Warsaw, the Court of Protection of Competition and Consumers and with the Court of Appeal, regarding appeals of power generating units from the PGE Group against the Decision of the President of the Energy Regulatory Office. These proceedings are currently at various stages.

In 2015:

- The President of the Energy Regulatory Office has missed the deadline for filing for cassation on the sentence of the Court of Appeal regarding the establishment of the value of annual adjustment of stranded costs payable to PGE GiEK S.A. for 2010 and PGE GiEK S.A. Branch Elektrownia Opole for 2009. Hence, the cases were closed. The value of the subject of dispute in these cases was PLN 635 million in total.
- On February 20, 2015, the Supreme Court decided on the postponement of hearing in the cassation case regarding the establishment of annual adjustment of stranded costs payable to PGE GiEK Branch Elektrownia Opole (dispute value PLN 179 million); PGE GiEK S.A. Branch Dolna Odra Power Plant Complex (dispute value PLN 42 million) and to PGE GiEK S.A Branch Elektrociepłownia Lublin Wrotków for 2008 (dispute value PLN 27 million) and to PGE GiEK S.A. Branch Elektrociepłownia Rezszów for 2009 (dispute value PLN 45 million) until the case of PGE GiEK S.A. Branch Dolna Odra Power Plant Complex for 2009 (dispute value PLN 93 million) is solved by the EU Tribunal of Justice.
- A favorable sentence was issued by the Court of Protection of Competition and Consumers in the case regarding the annual adjustment of costs generated in units fueled by natural gas for PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2012. The sentence is not final and binding yet. The President of the Energy Regulatory Office filed an appeal to the Court of Appeal. The value of the subject of dispute is PLN 7 million.
- The President of the Energy Regulatory Office filed for cassation to the Supreme Court on the sentence of the Court of Appeal regarding the establishment of the value of annual adjustment of costs generated in units fueled with natural gas, payable to PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009. On May 22, 2015, the Supreme Court issued a decision to postpone the hearing in the cassation case until the case of the PGE GiEK Branch Dolna Odra Power Plant Complex for 2009 is solved by the EU Tribunal of Justice. The value of the subject of dispute is nearly PLN 7 million.
- PGE GiEK S.A. filed for cassation to the Supreme Court regarding the sentence of the Court of Appeal regarding the establishment of the value of annual adjustment of costs generated in units fueled with natural gas, payable to PGE GiEK S.A. for 2010. The value of the subject of dispute is PLN 5 million.
- PGE GiEK S.A. filed for cassation to the Supreme Court regarding the sentence of the Court of Appeal regarding the establishment of the value of annual adjustment of costs generated in units fueled with natural gas, payable to PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2009. The value of the subject of dispute is PLN 4 million.
- In December, 2015, PGE GiEK S.A. filed for cassation to the Supreme Court regarding the sentence of the Court of Appeal regarding the establishment of the value of annual adjustment of costs generated in units fueled with natural gas, payable to PGE GiEK S.A. Branch Elektrociepłownia Rzeszów for 2011. The value of the subject of dispute is PLN 6 million.

On July 30, 2015, PGE GiEK applied to State Treasury – the President of the Energy Regulatory Office for requesting a conciliation hearing in the case of payment of PLN 0.5 million to PGE GiEK S.A. in compensation for lost profits of PGE GiEK S.A. due to the issue of unfavorable decision for the year 2011. On October 23, 2015, the Parties did not reach a consensus in the conciliation hearing.

On July 31, 2015, a suit was filed with the District Court in Warsaw in the case brought by PGE GiEK S.A. against State Treasury – the President of the Energy Regulatory Office for lost profits of PGE GiEK S.A. as a result of the issue of unfavorable decisions regarding stranded costs for 2008 by the President of the Energy Regulatory Office. On January 7, 2016, PGE GiEK S.A. filed an application regarding the change of compensatory action in terms of the sum of compensation. The current sum of compensation is PLN 57 million.

On August 6, 2015, PGE GiEK S.A. received an administrative decision issued by the President of the Energy Regulatory Office and regarding the establishment of the annual adjustment of stranded costs for 2014. The value of annual adjustment of stranded costs generated in power generating units: PGE GiEK S.A. Branch Elektrownia Turów and PGE GiEK S.A. Branch Elektrownia Opole is approximately (+) PLN 599 million. PGE GiEK S.A. recognizes this sum as unquestionable. The value of advances taken for 2014 was PLN 299 million.

On August 24, 2015, the Management Board of PGE GiEK S.A. submitted an application for the President of the Energy Regulatory Office for the payment of advance for the Turów Power Plant and Opole Power Plant manufacture units for a sum of approximately PLN 229 million. This value corresponds to the maximum sum of stranded costs for PGE GiEK S.A. for 2016, which was updated by decision of the President of the Energy Regulatory Office of July 21, 2015.

A trial including prejudicial questions formulated by the Supreme Court to the EU Tribunal of Justice tool place on January 27, 2016. During the trial, each of the parties presented their stances. PGE GiEK is expecting the issue of a EU Tribunal of Justice statement.

The date of the trial at the Court of Appeal in the case for the establishment of the annual adjustment of stranded costs payable to PGE GiEK S.A. Branch Elektrownia Opole for 2010 was set for February 19, 2016. The value of the subject of dispute is approximately PLN 142 million.

Effect on the financial statements for the period ended December 31, 2015

In the financial statements for the period ended December 31, 2015, the PGE Group included revenues from LTC contracts of PLN 546 million in the revenues from sales category.

The value of the subject of dispute in all cases regarding the years 2008 – 2012 is PLN 1,660 million, including the value of dispute on the sentences of the Court of Appeal, favorable to the PGE Group, and the sentence of the Court of Protection of Competition and Consumers in the amount of PLN 1,429 million, which is final and binding and also favorable for the Group. Generally speaking, in 2008 – 2015, the PGE Group recognized revenues from LTC compensations of PLN 7,086 million.

35.2 Preparation for the construction and operation of the first Polish nuclear power plant

On September 3, 2014 PGE S.A., TAURON Polska Energia S.A., ENEA S.A. and KGHM Polska Miedź S.A. (“Business Partners”) concluded a Partners’ Agreement.

On April 15, 2015, in accordance with the Partners’ Agreement, an agreement was concluded for the disposal of shares in PGE EJ 1 sp. z o.o., and as a result each of the Business Partners acquired 10 % of shares in PGE EJ 1 sp. z o.o.

Consequently, PGE S.A. holds 70% and each of the Business Partners holds 10% in the share capital of PGE EJ 1 sp. z o.o. In May 2015 the National Court Register registered new wording of the Articles of Association, under the provisions of Partners’ Agreement, and in May and June 2015, the Supervisory Board has been expanded to include representatives of Business Partners.

According to assumptions, the PGE Group will be the leader of the project of construction and operating of the first nuclear power plant in Poland with capacity of approximately 3,000 MW (“Project”) and PGE EJ 1 sp. z o.o. will be a future operator of the power plant.

According to the Partners’ Agreement, the Business Partners jointly undertake to finance operations under the initial phase of the Project (the “Development Stage”), proportionally to their shareholdings. The Development Stage 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.A. financial commitment in the Development Stage will not exceed amount of approximately 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 Development Stage, directly before the settlement of the integrated proceeding.

35.3 Impairment loss of property, plant and equipment

In 2015 an impairment loss of property, plant and equipment of PLN 9,039 million was recognized. Details are presented in note 3 of these financial statements.

36. Approval of financial statements

These consolidated financial statements were authorized for issue by the Management Board on February 16, 2016.

Warsaw, February 16, 2016

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	**Grzegorz Krystek**
Vice-President of the Management Board	**Marek Pastuszko**

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