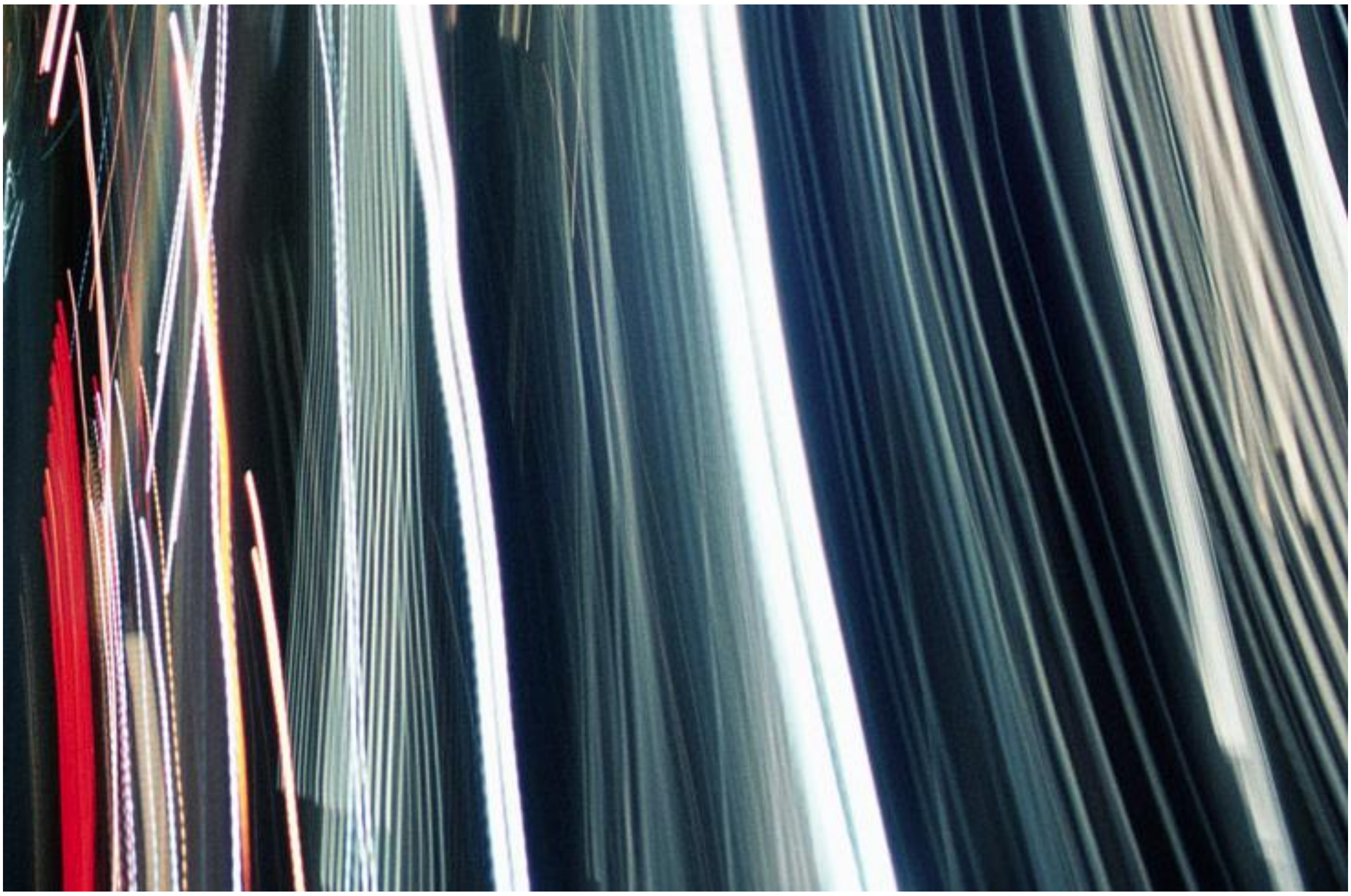

PGE Polska Grupa Energetyczna S.A.

Separate Financial Statements for the year 2015

ended December 31, 2015

in accordance with IFRS EU (in PLN million)

TABLE OF CONTENTS

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2015	Year ended December 31, 2014
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	**10,929**	**9,671**
Costs of goods sold	5.2	(10,012)	(9,021)
GROSS PROFIT ON SALES		**917**	**650**
Distribution and selling expenses	5.2	(37)	(23)
General and administrative expenses	5.2	(164)	(150)
Other operating income	5.3	8	10
Other operating expenses	5.3	(9)	(11)
OPERATING PROFIT		**715**	**476**
Financial income	5.4	1,285	5,543
Financial expenses	5.4	(210)	(542)
PROFIT BEFORE TAX		**1,790**	**5,477**
Current income tax	6.1	(34)	(67)
Deferred income tax	6.1	12	43
NET PROFIT FOR THE REPORTING PERIOD		**1,768**	**5,453**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	17.2	52	(74)
Deferred tax	6.1	(9)	14
Items, which will not be reclassified to profit or loss, including:			
Actuarial gains and losses from valuation of provisions for employee benefits	18	(1)	(4)
Deferred tax	6.1	-	1
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**42**	**(63)**
TOTAL COMPREHENSIVE INCOME		**1,810**	**5,390**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)	17.6	**0.95**	**2.92**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2015	As at December 31, 2014 *restated**	As at January 1, 2014
NON-CURRENT ASSETS				
Property, plant and equipment	7	189	193	196
Intangible assets	8	7	6	6
Financial receivables	21.1.1	6,053	3,827	3,330
Derivatives	21.1.2	43	4	-
Available-for-sale financial assets		3	3	-
Shares in subsidiaries	10	29,469	29,046	24,165
Deferred tax assets	12.1	24	22	-
		35,788	**33,101**	**27,697**
CURRENT ASSETS				
Inventories	13	191	440	281
Trade and other receivables	21.1.1	1,043	687	874
Derivatives	21.1.2	7	11	104
Other current assets	14	419	126	16
Income tax receivables		79	-	-
Cash and cash equivalents	15	2,013	2,988	2,190
		3,752	**4,252**	**3,465**
TOTAL ASSETS		**39,540**	**37,353**	**31,162**
EQUITY				
Share capital	17.1	18,698	18,698	18,698
Hedging reserve	17.2	(17)	(60)	-
Reserve capital	17.3	13,009	9,231	8,941
Other capital reserves	17.4	-	-	50
Retained earnings	17.5	1,764	5,233	2,080
		33,454	**33,102**	**29,769**
NON-CURRENT LIABILITIES				
Non-current provisions	18,19	21	20	19
Loans, borrowings, bonds, cash pooling	21.1.3	4,216	3,754	1,000
Derivatives	21.1.2	43	66	-
Deferred tax liability	12.2	-	-	35
		4,280	**3,840**	**1,054**
CURRENT LIABILITIES				
Current provisions	18,19	34	33	29
Loans, borrowings, bonds, cash pooling	21.1.3	1,255	58	-
Derivatives	21.1.2	34	37	1
Trade and other liabilities	21.1.4	307	243	137
Income tax liabilities		-	4	-
Other current non-financial liabilities	20	176	36	172
		1,806	**411**	**339**
TOTAL LIABILITIES		**6,086**	**4,251**	**1,393**
TOTAL EQUITY AND LIABILITIES		**39,540**	**37,353**	**31,162**

** for information regarding restatement of comparative figures please refer to note 4 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Reserve capital	Other capital reserves	Retained earnings	Total equity
Note	17.1	17.2	17.3	17.4	17.5	
AS AT JANUARY 1, 2014	**18,698**	**-**	**8,941**	**50**	**2,080**	**29,769**
Net profit for the reporting period	-	-	-	-	5,453	**5,453**
Other comprehensive income	-	(60)	-	-	(3)	**(63)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**(60)**	**-**	**-**	**5,450**	**5,390**
Retained earnings distribution	-	-	290	(50)	(240)	**-**
Dividend	-	-	-	-	(2,057)	**(2,057)**
AS AT DECEMBER 31, 2014	**18,698**	**(60)**	**9,231**	**-**	**5,233**	**33,102**
Net profit for the reporting period	-	-	-	-	1,768	**1,768**
Other comprehensive income	-	43	-	-	(1)	**42**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**43**	**-**	**-**	**1,767**	**1,810**
Retained earnings distribution	-	-	3,778	-	(3,778)	**-**
Dividend	-	-	-	-	(1,458)	**(1,458)**
AS AT DECEMBER 31, 2015	**18,698**	**(17)**	**13,009**	**-**	**1,764**	**33,454**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2015	Year ended December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,790**	**5,477**
Income tax paid		(104)	(73)
Adjustments for:			
Depreciation, amortization and impairment losses		15	13
Interest and dividend, net	23.1	(994)	(5,361)
Profit / loss on investment activities	23.1	(1)	573
Change in receivables	23.1	(67)	190
Change in inventories		249	(159)
Change in liabilities, excluding loans and borrowings	23.1	123	(20)
Change in other non-financial assets		(221)	(115)
Change in provisions		2	5
Other		5	-
NET CASH FROM OPERATING ACTIVITIES		**797**	**530**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		3	1
Acquisition of property, plant and equipment and intangible assets		(14)	(10)
Redemption of bonds issued within the PGE Group	23.2	8,661	9,963
Acquisition of bonds issued within the PGE Group	23.2	(11,057)	(10,869)
Proceeds from sale of other financial assets		48	-
Acquisition of shares in subsidiaries		(146)	(589)
Dividends received	23.2	1,050	991
Deposits with a maturity over 3 months		-	(1,999)
Termination of deposits over 3 months		-	1,999
Loans granted under cash pooling agreement		(320)	-
Loans granted		(72)	-
Interest received		49	151
Loans repaid		30	41
Other		-	1
NET CASH FROM INVESTING ACTIVITIES		**(1,768)**	**(320)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds	23.3	500	2,720
Proceeds from cash pooling	23.3	1,155	-
Dividends paid	23.3	(1,458)	(2,057)
Interest paid		(181)	(82)
Other		(14)	-
NET CASH FROM FINANCING ACTIVITIES		**2**	**581**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(969)**	**791**
Effect of movements in exchange rates on cash held		5	8
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	15	**2,979**	**2,188**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	15	**2,010**	**2,979**

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 The Company's operations

PGE Polska Grupa Energetyczna S.A. ("the Company", "PGE S.A.") was founded on the basis of the Notary Deed of 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 Company is seated in Warsaw, 2 Mysia Street.

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

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follows:

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

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. According to the concession the annual fees are paid depending on the level of trading. Both in 2015 and 2014 the Company's cost in respect of concessions amounted to PLN 1 million.

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

Going concern

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

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

1.2 Ownership structure of the Company

	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%**

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

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.

1.3 The composition of the Company's Management Board

At the date of preparation of these financial statements the composition of the Company's 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 Company's 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 the 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.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

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

These financial statements comprise the additional information, referred to in art. 44 section 2 of the Energy Law dated April 10, 1997 (Official Journal from 2012 item. 1059 with amendments) which was presented in note 27.

2.2 Presentation and functional currency

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

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

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

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

The new *IFRS 9 Financial Instruments* 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 Company. At the date of preparation of these financial statements all phases of *IFRS 9* have not been published and standard is not yet approved by the European Union. As a result analysis of its impact on the future financial statements of PGE S.A has not been finished yet.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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/IAS) 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 Company'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 depreciation/amortization), increase of depreciation/amortization and financial expenses.

Adoption of the standard should have no significant impact on Company's future financial statements.

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

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

Recoverable amount

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

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

During the reporting period the Company performed impairment tests of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Obrót S.A. These tests are described in note 10 of these financial statements.

Additionally, the Company periodically analyses impairment of non-current financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In 2014 PGE S.A. recognized an impairment loss of bonds issued by Autostrada Wielkopolska S.A. The impairment loss was presented in note 22.5.1 of these financial statements.

Provisions

As described in note 3.19 recognition of provisions requires estimates of the probable outflow of economic benefits and determination of the amount that shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The most important provisions are provision for jubilee awards and post-employment benefits. 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 (%)	1.1-2.5%	0-2.97%
Employee turnover (%)	9.53%	8.84%
Expected medical care costs growth rate (%)	1.59-2.50%	0-2.30%
Expected Social Fund (ZFŚS) allowance growth 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 Company'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 the 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.

Changes in key actuarial assumptions related to the calculation of provisions, in particular, change of discount rate, are presented in notes 18 and 19 of these financial statements.

Contingent liabilities

Recognition and measurement of provisions and contingent liabilities requires from the Company estimates the probability of occurrence of potential liabilities. If the occurrence of an unfavorable future event is probable, the Company recognizes a provision in the appropriate amount. If the occurrence of an unfavorable future event is estimated by the Company as not probable but possible, the contingent liability is recognized. Contingent liabilities are described in note 24 of these financial statements.

Impairment allowance on receivables

As at the reporting date the Company assesses 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 entity 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 described in note 22.5.1 of these financial statements.

3. 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 Company at the date of transition to IFRS were measured at deemed cost as at the 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 particular 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.

3.1 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.

Revenues from sale of goods and merchandise primarily include:

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

Revenues from sale of services

Revenues from services rendered are recognized when the service is performed. When the outcome of a transaction involving the rendering of long-term services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the reporting date less revenue recognized in the previous reporting periods.

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

3.2 Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period,
- value of electricity, certificates of origin for energy and gas sold, and other goods and materials at purchase prices.

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

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

3.3 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 for provisions related to financial operations, reflected in cost of goods sold or other comprehensive income,
- acquisition or disposal of assets and cash free of charge, including donations,
- due and obtained compensations, penalties and other expenses not relating to core operations.

3.4 Financial income and expenses

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

- disposal of financial assets,
- revaluation of financial instruments, except for financial assets available for sale (“AFS”), the result of which is reflected in 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 the AFS portfolio,
- other items related to financial operations.

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

3.5 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 Company in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than the ones charged or credited directly to equity.

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

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

- the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss); and
- differences associated with investments in subsidiaries, branches, 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 verified at each reporting date. The deferred tax asset and deferred tax liabilities are classified as long-term. The Company offsets deferred tax asset and liabilities.

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

3.6 Earnings per share

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

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

3.7 Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and
- expected to be used for more than one year.

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories.

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

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

Group	Average remaining depreciation period in years	Applied total depreciation periods in years
Buildings and structures	21	2-31
Machinery and equipment	4	1-39
Vehicles	2	1-10
Other	4	1-15

3.8 Intangible assets

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

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

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

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

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

The following useful lives are adopted for intangible assets:

Group	Average remaining amortization period in years	Applied total amortization period in years
Acquired patents and licenses	2	1-11

3.9 Borrowing costs

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

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

3.10 Financial assets

Financial assets are classified in the following categories:

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

Held to maturity investments

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

Financial assets at fair value through profit or loss

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

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

Available-for-sale financial assets

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

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

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

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

Shares in subsidiaries, jointly controlled entities and associates

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

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

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

Shares in subsidiaries, jointly controlled entities and associates held by the Company are measured at historical acquisition cost. If there is an objective evidence of impairment of these assets, the amount of impairment is measured as the difference between the carrying value of the asset and the estimated recoverable amount.

3.11 Embedded derivatives

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

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

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, in which the instrument is embedded,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the 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 Company 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 profit or loss.

3.12 Derivatives and hedging instruments

The Company uses derivatives in order to hedge against interest rate risk and exchange rate risk. The most frequently used derivatives are forward contracts and interest rate swaps (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.

3.13 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 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 Company excludes the amount from equity and includes in the initial cost or other carrying amount of a non-financial asset or liability.

3.14 Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in rendering of services.

Inventories comprise:

- materials,
- finished goods,
- work in progress,
- energy origin rights – purchased rights of origin for 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. Revaluation adjustments 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.

3.15 Trade receivables

Trade receivables are measured at least at each reporting date in the amount due, i.e. at the nominal value increased by applicable penalty interest, in accordance with the principle of prudence, i.e. less applicable impairment allowances. Impairment allowances on receivables are recognized as other operating expenses or financial expenses. Long-term receivables are measured at present (discounted) value.

3.16 Other assets (including prepayments)

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

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

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

Other assets include in particular state receivables, advances for deliveries and services and dividend receivables.

3.17 Cash and cash equivalents

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

3.18 Equity

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

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

3.19 Provisions

The Company recognizes provisions when there is present obligation (legal or constructive) that arises from past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and 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

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

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

The employees of the Company are entitled to receive jubilee 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 Company 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.

3.20 Liabilities

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

The Company divides liabilities into the following categories:

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

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

3.21 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 Company creates such fund and makes periodic contributions to it. The objective of the fund is to subsidize the social activity for employees of the Company, loans granted to its employees and other social expenses. Contributions to the Social Fund are recognized as an expense in the period in which they are incurred.

The assets and liabilities of the Social Fund are netted off in the financial statements. In addition, as described in note 19, the Company creates provision for the post-employment benefits from the Social Fund.

3.22 Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. At the commencement of a finance lease, the leased asset and the leased liability are recorded at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs of the lessee are added to the amount recognized as an asset. Classification of the lease is made at the lease inception, based on the economic substance of the lease agreement. Lease payments shall be apportioned between reduction of the outstanding liability and the finance charge. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is recognized as financial expenses in the statement of comprehensive income throughout the lease term.

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

3.23 Statement of cash flows

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

3.24 Specific common control transactions

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

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

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

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

In case of free of charge transfer of assets from a higher level parent company to a subsidiary (for example in a form of non-reciprocal transfer or a donation), the Company applies book value accounting using book values in the books of the transferor. The transferor recognizes the free of charge transfer as an increase in the value of shares in subsidiaries.

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

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

- Contribution of shares to a subsidiary in exchange for new shares

In case of contribution of shares to a subsidiary for new shares, the Company recognizes newly acquired shares at book value of contributed shares.

- Merger of a parent company with a subsidiary

Merger of a parent company with a subsidiary is accounted for using pooling of interest method, i.e. through summing up the corresponding items of assets and liabilities as well as revenues and costs of the merged companies with appropriate adjustments. Assets and liabilities of merged companies should be valued using uniform valuation methods.
Assets, liabilities and profit or loss of a subsidiary are recognized at values that were recognized in the consolidated financial statements of the parent company.
Comparative data is restated as if merger occurred at the beginning of the comparative period or at the date of acquisition of control over the subsidiary.

- Bonds issued not at arm's length terms

The intergroup bonds acquired by the Company with interest rates lower than market interest rates, are recognized at the date of acquisition at fair value, lower than issue price. The difference between the issue price and the fair value at the date of acquisition is recognized as an increase in the value of shares in subsidiaries issuing the bonds. The difference is amortized using an effective interest rate and recognized in the statement of comprehensive income.

4. 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.

The above improvements and new IFRIC 21 have no influence on the amounts reported in the financial statements.

Bonds issued by subsidiaries not at arm's length

Starting from 2015, subsidiaries belonging to the tax group issue bonds with terms (especially interest) that may differ from market conditions. These bonds are acquired by PGE S.A. In order to recognize such bonds in the financial statements, market interest is estimated, which is then used to calculate amortized cost. The difference between the sum of interest resulting from the bond terms and the sum of interest according to estimated market interest is recognized as an increase in the value of shares in subsidiaries issuing the bonds. Similarly, interest income is recognized in the statement of comprehensive income using an estimated market interest rate. Updating the accounting policy did not result in the need to restate comparative data.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Presentation changes

The Company has decided to change presentation of the selected items:

- "Trade receivables" and "Other loans and financial assets" were combined into "Trade and other receivables" and "Trade liabilities" and "Other current financial liabilities" were combined into "Trade and other liabilities"
- derivatives (CCIRS and IRS) were reclassified them from financial liabilities at fair value through profit or loss to non-current derivatives.

Changed presentation reflects characteristic of these items more accurately and ensures better comparability of the Company's financial statements with other entities.

STATEMENT OF FINANCIAL POSITION

	As at December 31, 2014 *published*	Reclassification of derivatives	Change in presentation of selected items	As at December 31, 2014 *restated*
NON-CURRENT ASSETS, including:				
Derivatives	-	4	-	4
	33,097	**4**	**-**	**33,101**
CURRENT ASSETS, including:				
Financial assets at fair value through profit or loss	11	-	(11)	-
Derivatives	-	-	11	11
Trade receivables	598	-	(598)	-
Other loans and financial assets	89	-	(89)	-
Trade and other receivables	-	-	687	687
	4,252	**-**	**-**	**4,252**
TOTAL ASSETS	**37,349**	**4**	**-**	**37,353**
NON-CURRENT LIABILITIES, including:				
Derivatives	-	66	-	66
	3,774	**66**	**-**	**3,840**
Financial liabilities at fair value through profit or loss	99	(62)	(37)	-
Derivatives	-	-	37	37
Trade liabilities	237	-	(237)	-
Other current financial liabilities	6	-	(6)	-
Trade and other liabilities	-	-	243	243
	473	**(62)**	**-**	**411**
TOTAL LIABILITIES	**4,247**	**4**	**-**	**4,251**
TOTAL EQUITY AND LIABILITIES	**37,349**	**4**	**-**	**37,353**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5. Revenues and expenses

5.1 Sales revenues

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2015
SALES REVENUES					
Sale of electricity	2,014	1,983	2,011	2,098	**8,106**
Sale of energy origin rights	315	172	93	63	**643**
Other sales of merchandise and materials	130	126	344	999	**1,599**
Revenues from sale of services	151	136	146	148	**581**
TOTAL SALES REVENUES	**2,610**	**2,417**	**2,594**	**3,308**	**10,929**

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2014
SALES REVENUES					
Sale of electricity	1,843	1,744	1,731	1,867	**7,185**
Sale of energy origin rights	400	237	153	252	**1,042**
Other sales of merchandise and materials	55	188	262	391	**896**
Revenues from sale of services	136	122	137	153	**548**
TOTAL SALES REVENUES	**2,434**	**2,291**	**2,283**	**2,663**	**9,671**

The increase in revenues from sale of electricity in 2015 in comparison to the previous year results mainly from the increase in sales volume and higher electricity sales prices.

The decline in the revenues from sale of energy origin rights was caused by a reduced trading of energy origin rights from renewable energy sources due to gradual takeover of contracting for the PGE Group by PGE Dom Maklerski S.A. since June 2015 assignment of bilateral contracts to PGE Obrót S.A. and decrease of prices on the market of energy origin rights from renewable energy sources.

The increase in revenues from other sales of merchandise and materials is mainly due to higher volume of natural gas wholesale and higher prices of CO_2 emission rights.

Information regarding main business partners

The main business partners of the Company are subsidiaries in the PGE Group. In 2015, sales to PGE Obrót S.A. constituted nearly 73% of sales revenues, whereas sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for approx. 16% thereof. In 2014, sales to these entities amounted to 78% and 15%, respectively.

5.2 Cost by nature and function

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2015
COST BY NATURE					
Depreciation, amortization and impairment losses	4	3	4	4	**15**
Materials and energy	1	1	1	1	**4**
External services	22	21	18	29	**90**
Taxes and charges	1	1	1	1	**4**
Employee benefits expenses	22	24	23	25	**94**
Other cost by nature	16	24	27	25	**92**
TOTAL COST BY NATURE	**66**	**74**	**74**	**85**	**299**
Distribution and selling expenses	(10)	(7)	(6)	(14)	**(37)**
General and administrative expenses	(46)	(34)	(37)	(47)	**(164)**
Cost of merchandise and materials sold	2,328	2,184	2,365	3,037	**9,914**
COST OF GOODS SOLD	**2,338**	**2,217**	**2,396**	**3,061**	**10,012**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2014
COST BY NATURE					
Depreciation, amortization and impairment losses	3	3	3	4	**13**
Materials and energy	1	1	-	2	**4**
External services	15	12	19	17	**63**
Taxes and charges	1	1	1	-	**3**
Employee benefits expenses	22	22	23	30	**97**
Other cost by nature	23	14	30	26	**93**
TOTAL COST BY NATURE	**65**	**53**	**76**	**79**	**273**
Distribution and selling expenses	(5)	(4)	(6)	(8)	**(23)**
General and administrative expenses	(35)	(32)	(42)	(41)	**(150)**
Cost of merchandise and materials sold	2,203	2,114	2,113	2,491	**8,921**
COST OF GOODS SOLD	**2,228**	**2,131**	**2,141**	**2,521**	**9,021**

The increase in cost of merchandise and materials sold (mainly purchased electricity) in 2015 in comparison to the previous year is directly related to the increase of revenues from sale of electricity described above.

Other cost by nature consist mainly of sponsorship, advertising and management's payroll costs.

5.2.1 Depreciation, amortization and impairment losses

	Depreciation, amortization and impairment losses					
	Year ended December 31, 2015			Year ended December 31, 2014		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	4	1	**5**	5	-	**5**
Distribution and selling expenses	-	1	**1**	-	-	**-**
General and administrative expenses	7	2	**9**	6	2	**8**
TOTAL	**11**	**4**	**15**	**11**	**2**	**13**

5.2.2 External services

	Year ended December 31, 2015	Year ended December 31, 2014
Trading commissions	25	17
IT Services	21	18
Consulting services	13	15
Transmission services	13	-
Other	18	13
TOTAL EXTERNAL SERVICES	**90**	**63**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

5.2.3 Employee benefits expenses and employment structure

	Year ended December 31, 2015	Year ended December 31, 2014
Payroll	71	71
Social security expenses	10	10
Jubilee awards, coal benefits	1	1
Other post-employment benefits	1	1
Change in provisions for employee benefits	1	8
Other employee benefits	10	6
TOTAL EMPLOYEE BENEFITS EXPENSES	**94**	**97**
Included in costs of goods sold	20	23
Included in distribution and selling expenses	6	4
Included in general and administrative expenses	68	70

As at December 31, 2015, there were 463 employees (full-time equivalent) in the Company. As at December 31, 2014, there were 465 employees.

5.3 Other operating income and expenses

In 2015, the Company recognized other operating income of PLN 8 million (of which almost PLN 5 million related to revenues from re-invoiced costs and PLN 3 million to gain on disposal of property, plant and equipment). In the comparative period, the Company recognized mainly PLN 6 million of revenues from re-invoiced costs, PLN 2 million of revenues from reversal of provisions and almost PLN 1 million of grants received.

In the current period, the Company recognized in other operating expenses mainly PLN 5 million related to re-invoiced costs and PLN 1 million of donations granted, whereas in the corresponding period the Company recognized mainly re-invoiced costs of PLN 6 million.

5.4 Financial income and expenses

	Year ended December 31, 2015	Year ended December 31, 2014
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	1,050	5,273
Interest	208	235
Revaluation of financial instruments, including:	26	22
CO_2 emission rights	*11*	*22*
Other derivatives	*15*	-
Foreign exchange gain	1	13
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS	**1,285**	**5,543**
TOTAL FINANCIAL INCOME	**1,285**	**5,543**

In 2015, the Company recognizes revenues form dividends received mainly from PGE Obrót S.A. of PLN 977 million and from PGE Energia Odnawialna S.A. of PLN 58 million. In the corresponding period, the Company recognized revenues from dividends from PGE Obrót S.A. of PLN 900 million and from PGE Dystrybucja S.A. of PLN 91 million.

Additionally, in the corresponding period the Company recognized the non-reciprocal transfer of shares of PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. from PGE Obrót S.A. The value of the non-reciprocal transfer, recognized as a dividend from a subsidiary, amounted to PLN 9,817 million. Since the equity of PGE Obrót S.A. decreased significantly as a result of the non-reciprocal transfer, PGE S.A. recognized impairment loss of shares in PGE Obrót S.A. of PLN 5,536 million. The dividend resulting from the non-reciprocal transfer and impairment loss should be analyzed jointly, therefore financial income from the non-reciprocal transfer was reduced by the amount of recognized impairment loss. Total influence of the non-reciprocal transfer and impairment loss of shares in PGE Obrót S.A. on financial income amounted to PLN 4,281 million.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Revaluation of financial instruments includes valuation of transactions concluded on the market for CO_2 emission rights, described in more detail in note 5.4.1. Additionally, in 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.

	Year ended December 31, 2015	Year ended December 31, 2014
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest	186	99
Revaluation of financial instruments	-	56
Impairment loss	-	386
Loss on disposal of investments	14	-
Foreign exchange losses	7	-
Other	2	-
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**209**	**541**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	1	1
OTHER FINANCIAL EXPENSES	**1**	**1**
TOTAL FINANCIAL EXPENSES	**210**	**542**

Interest expense relates mainly to bonds issued and bank loans described in note 21.1.3 of these financial statements.

In the corresponding period, impairment loss includes estimated loss of value of bonds issued by Autostrada Wielkopolska S.A., described in note 22.5.1.

5.4.1 Valuation of transactions related to trading in CO_2 emission rights

As described in note 5.4 of these financial statements, income and expenses recognized under the heading "revaluation of financial instruments" comprise the result on transactions related to CO_2 emission rights (so-called trading portfolio). The following table illustrates the effects of particular items related to the CO_2 emission rights on the financial income and expenses.

	Year ended 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 the 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 CO_2 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**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

6 Income tax

6.1 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 of PGE S.A.	128	2,774
Benefits on tax group settlements	(113)	(2,669)
Previous periods current income tax adjustments	19	(38)
Deferred income tax	(12)	(43)
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**22**	**24**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	9	(14)
From actuarial gains and losses from valuation of provisions for employee benefits	-	(1)
(TAX BENEFIT) / EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**9**	**(15)**

The principles regarding settlements between companies forming the PGE tax group ("TG PGE") are described in note 25 of these financial statements.

Previous periods current income tax adjustments relate mainly to final settlement of the tax group which existed until December 31, 2014.

6.2 Effective tax rate

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

	Year ended December 31, 2015	Year ended December 31, 2014
PROFIT BEFORE TAX	**1,790**	**5,477**
Income tax according to Polish statutory tax rate of 19%	340	1,041
Previous periods current income tax adjustments	19	(38)
Previous periods deferred income tax adjustments	-	37
Difference between accounting and tax approach to the value of the non-reciprocal transfer	-	1,842
Tax losses of companies belonging to the tax group	(113)	(2,669)
Non-taxable income	(225)	(189)
Costs not recognized as tax-deductible costs	1	1
Other	-	(1)
TAX AT EFFECTIVE TAX RATE (Income tax (expense) as presented in the financial statements)	**22**	**24**
EFFECTIVE TAX RATE	1.2%	0.4%

As described in note 25 of these financial statements, in accordance with the agreements concluded, when the company belonging to the tax group incurs tax loss, the respective tax benefits are transferred to the representing company, PGE S.A.

As a result of the non-reciprocal transfer described in note 5.4 of these financial statements that took place in 2014, PGE Obrót S.A. recognized significant tax expense and PGE S.A. as the company receiving the non-reciprocal transfer, recognized tax income. Since these two entities belong to the tax group, income and expense related to this non-reciprocal transfer were offset in the combined tax settlement.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR 2015 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. Property, plant and equipment

	As at December 31, 2015	As at December 31, 2014
Buildings	174	179
Technical equipment	6	6
Vehicles	2	3
Other property, plant and equipment	1	1
Construction in progress	6	4
CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT	**189**	**193**

Additions and disposals of property, plant and equipment

In the reporting and comparative periods, the Company did not purchase nor sold any significant property, plant and equipment.

8. Intangible assets

	As at December 31, 2015	As at December 31, 2014
Software	3	4
Other licenses and patents	2	-
Intangible assets not-commissioned to use	2	2
CARRYING AMOUNT OF INTANGIBLE ASSETS	**7**	**6**

Intangible assets not-commissioned to use

Presented amount of intangible assets not commissioned to use as at December 31, 2015 relates primarily to implementation of information systems within the PGE Group. As at December 31, 2015 the risk of impairment of these assets has not been identified.

9. Lease

The Company bears the cost of annual fees for the right of perpetual usufruct of land. The amount of these costs both for the year 2015 and 2014 amounted to PLN 1 million.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

10. Shares in subsidiaries

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

	Seat	Share as at December 31, 2015	As at December 31, 2015	Share as at December 31, 2014	As at December 31, 2014
COMPANIES BELONGING TO TG PGE 2015					
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	99.96%	15,205	99.21%	14,856
PGE Dystrybucja S.A.	Lublin	100.00%	10,592	100.00%	10,592
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,349	100.00%	415
PGE Obrót S.A.	Rzeszów	100.00%	1,117	100.00%	1,117
PGE Systemy S.A.	Warsaw	100.00%	135	100.00%	125
ELBEST sp. z o.o.	Bełchatów	100.00%	101	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
BETRANS sp. z o.o.	Bełchatów	100.00%	35	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23	100.00%	23
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	23	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	12	100.00%	12
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7	100.00%	7
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5	100.00%	5
PGE Obsługa Księgowo-Kadrowa sp. z o.o.	Lublin	100.00%	2	100.00%	1
ELBEST Security sp. z o.o. *(previously: PGE Inwest 3 sp. z o.o.)*	Warsaw	100.00%	<1	100.00%	<1
13 limited liability companies named PGE Inwest 2, 4 to 15	Warsaw	100.00%	<1	100.00%	<1
PGE Energia Natury S.A.	Warsaw	-	-	100.00%	462
COMPANIES NOT BELONGING TO TG PGE 2015					
Exatel S.A.	Warsaw	100.00%	428	100.00%	428
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	193	100.00%	206
PGE Sweden AB (publ)	Stockholm	100.00%	112	100.00%	112
PGE Trading GmbH	Berlin	100.00%	14	100.00%	14
PGE Inwest 16	Warsaw	100.00%	<1	100.00%	<1
PGE Energia Natury sp. z o.o.	Warsaw	-	-	100.00%	397
TOTAL		-	**29,469**	-	**29,046**

During the year ended December 31, 2015, the following significant changes in the structure of PGE Group occurred:

- As described in note 28.1 of these financial statements, on April 15, 2015 an agreement for the disposal of shares in PGE EJ 1 sp. z o.o. has been concluded. As a result of the disposal the Company realized a loss of PLN 14 million.
- On June 1, 2015 division of PGE Energia Natury sp. z o.o. took place. The separated part, constituting an organized part of the enterprise, was merged with PGE Energia Odnawialna S.A.
- On June 30, 2015 merger of PGE Energia Odnawialna S.A. and PGE Energia Natury S.A. was registered.
- Increase in the equity of PGE Energia Odnawialna S.A. due to contribution in kind in form of shares in PGE Energia Natury sp. z o.o. was registered on October 8, 2015.
- Buyout of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. from minority shareholders was taking place during the reporting period.

10.1 The analysis of impairment of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A.

In the first half of 2015, the subsidiary PGE Górnictwo i Energetyka Konwencjonalna S.A. („PGE GiEK S.A.") created impairment allowances on property, plant and equipment of almost PLN 9 billion that significantly reduced its equity. As a result PGE S.A. conducted an impairment test of shares owned in this entity as at June 30, 2015.

Determination of fair value for very large companies for which no active market exists and for which there are few comparable transactions, is difficult in practice. Therefore, the recoverable amount of PGE GiEK S.A. was determined based on estimated value in use calculated using the discounted cash flow method on the basis of financial projections for the years 2015 – 2030. For production units, whose deemed economic useful life goes beyond 2030 the residual value for remaining life was determined. The Company 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 projection the recoverable amount may be estimated more reliably.

The assumptions taken

The key assumptions influencing the estimated value are as follows:

- 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 an over 200% 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 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 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 the 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 i.e. 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 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 by eligible producers.

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, PGE S.A. 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 S.A.'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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Evaluation of recoverable amount

The tests conducted as at June 30, 2015 did not indicate the need to recognize impairment allowances. The recoverable amount of shares is significantly higher than its carrying amount presented in the financial statements.

Factors observed in the first half of 2015 remained unchanged in the second half of the year. In the PGE S.A.'s assessment, the long-term assumptions used in the valuation as at June 30, 2015 are mostly still correct also at the date of preparation of these financial statements. Due to verification of some assumptions, mostly short-term, PGE GiEK S.A. performed an update to the tests as at December 31, 2015. Reassessed recoverable amount did not reveal the validity of creating additional impairment. Accordingly, PGE S.A. does not identify indicators of possible impairment of this company in its separate financial statements.

10.2 The analysis of impairment of shares in PGE Obrót S.A.

In 2014, PGE S.A. received from PGE Obrót S.A. the non-reciprocal transfer in form of shares of PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. Since the equity of PGE Obrót S.A. decreased significantly as a result of the non-reciprocal transfer, PGE S.A. performed impairment test of this item of non-current financial assets. As a result of the impairment test, the recoverable amount of PGE Obrót S.A. was determined at PLN 1,117 million, consequently PGE S.A. recognized an impairment loss of PLN 5,536 million.

Due to change of PGE Obrót S.A.'s financial projections the impairment test was reperformed during current reporting period. The impairment test was carried out on the basis of discounted cash flows method.

The assumptions taken

Key assumptions influencing the estimated value are as follows:

- weighted average cost of capital (WACC) of 7.26%,
- decrease in total sales volume to end-users in 2020 by approximately 4% in comparison to the year 2014,
- correlation between retail and wholesale energy prices influenced by obligation of redemption of energy origin units and increase in the price of energy origin units.

Evaluation of recoverable amount

The test did not reveal the validity of creating additional impairment and, at the same time, there are no indications to reverse the impairment created in 2014.

The sensitivity analysis indicated that valuation is the most sensitive to changes in WACC and electricity prices in particular tariff groups, mainly in the group B.

The following table illustrates estimated changes of impairment of financial assets due to change of key assumptions.

Factor	Change	Impact on impairment	
		Increase of impairment	Decrease of impairment
Change of WACC	+1 p.p.	150	-
	-1 p.p.	-	465
Change of realized selling price in the group B	+1 p.p.	-	496
	-1 p.p.	310	-

11. Joint ventures

During the reporting periods ended December 31, 2015 and December 31, 2014, the Company did not participate in any significant joint venture.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

12. Deferred tax in the statement of financial position

12.1 Deferred tax assets

	As at December 31, 2015	As at December 31, 2014
Difference between tax value and carrying amount of financial liabilities	36	40
Difference between tax value and carrying amount of financial assets	21	21
Provisions for employee benefits	10	10
DEFERRED TAX ASSET	**67**	**71**

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

12.2 Deferred tax liability

	As at December 31, 2015	As at December 31, 2014
Difference between tax value and carrying amount of property, plant and equipment	23	23
Difference between tax value and carrying amount of other financial assets	11	9
Difference between tax value and carrying amount of financial liabilities	-	2
CO_2 emission rights	7	15
Other	2	-
DEFERRED TAX LIABILITY	**43**	**49**

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax asset	24	22
Deferred tax liability	-	-

13. Inventories

	As at December 31, 2015			As at December 31, 2014		
	Historical cost	Revaluation adjustments	Carrying amount	Historical cost	Revaluation adjustments	Carrying amount
CO_2 emission rights - trading portfolio	60	38	98	329	80	409
Other CO_2 emission rights	93	-	93	16	-	16
Energy origin rights	-	-	-	15	-	15
TOTAL INVENTORIES	**153**	**38**	**191**	**360**	**80**	**440**

	Year ended December 31, 2015	Year ended December 31, 2014
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT JANUARY 1	**80**	**(67)**
Fair value of CO_2 emission rights	(42)	147
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT DECEMBER 31	**38**	**80**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

14. Other current assets

	As at December 31, 2015	As at December 31, 2014
Advance payments	305	121
Receivables from TG	70	-
VAT receivables	19	-
Other	25	5
TOTAL	**419**	**126**

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 302 million in the current reporting period as compared to PLN 112 million in the corresponding period.

Issues related to settlement of the tax group have been described in note 25 of these financial statements.

15. Cash and cash equivalents

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

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

	As at December 31, 2015	As at December 31, 2014
Cash on hand and cash at bank	611	830
Overnight deposits	2	7
Short-term deposits	1,400	2,151
TOTAL	**2,013**	**2,988**
Interest accrued on cash, not received at the reporting date	(2)	(1)
Exchange differences on cash in foreign currencies	(1)	(8)
Cash and cash equivalents presented in the statement of cash flows	**2,010**	**2,979**
including restricted cash	-	-
Undrawn borrowing facilities as at December 31, 2015	5,240	1,250
including overdraft facilities	*2,250*	*1,250*
Borrowing facilities available from Q2 2016	5,500	-

For detailed description of credit agreements please refer to note 21.1.3 of these financial statements.

16. Assets and liabilities of the Social Fund

As at December 31, 2015 and December 31, 2014 assets assigned to the Social Fund and other employee funds amounted to PLN 2 million. Assets and liabilities related to the Social Fund are offset in these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17. Equity

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

17.1 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 of the Company are paid up.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of share capital of the Company.

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

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

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 would resulted in an actual threat to functioning, continuity of operations and integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

The Act introduces a function of a plenipotentiary 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)

17.2 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	**(60)**	**-**
Change of hedging reserve, including:	**52**	**(74)**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*50*	*(8)*
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense	*1*	*7*
Currency revaluation of CCIRS transferred from hedging reserve and recognized in the result on foreign exchange differences	*1*	*(74)*
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit or loss	*-*	*1*
Deferred tax	**(9)**	**14**
HEDGING RESERVE LESS DEFERRED TAX	**(17)**	**(60)**

17.3 Reserve capital

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

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

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

17.4 Other capital reserves

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

As at December 31, 2015 the Company did not recognize other capital reserves.

17.5 Retained earnings and limitations of payment of dividend

Retained earnings which are not subject to distribution are the amounts which cannot be paid in the form of dividends.

	As at December 31, 2015	As at December 31, 2014
Retained earnings not subject to distribution - profit / (loss) recognized in positions of other comprehensive income	(4)	(3)
Retained earnings subject to distribution	1,768	5,236
TOTAL RETAINED EARNINGS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	**1,764**	**5,233**

For information regarding limitations of payment of dividend from reserve capital please refer to note 17.3 of these financial statements. As at December 31, 2015 there were no other restrictions on payment of dividends.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17.6 Earnings per share

Earnings per share is calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing net profit 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	**1,768**	**5,453**
NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**1,768**	**5,453**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USD TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
EARININGS/ DILUTED EARNINGS PER SHARE (IN PLN)	**0.95**	**2.92**

17.7 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 until the date of preparation of these financial statements the Company made no advance payments of dividends. The foregoing financial statements were prepared before the profit distribution and before the decision about the amount of dividend is taken.

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). The 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). The dividend was paid on September 26, 2014.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

18. 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
Post-employment benefits	19	2	18	2
Jubilee awards	2	-	2	-
Employee bonuses and other employee related	-	32	-	27
Other	-	-	-	4
TOTAL PROVISIONS	**21**	**34**	**20**	**33**

Changes in provisions

Year ended December 31, 2015

	Post-employment benefits	Jubilee awards	Employee bonuses and other employee related	Other	Total
AS AT JANUARY 1, 2015	**20**	**2**	**27**	**4**	**53**
Actuarial gains and losses excluding discount rate adjustment	2	-	-	-	**2**
Discount rate adjustment	(1)	-	-	-	**(1)**
Benefits paid / Provisions used	(1)	-	(32)	-	**(33)**
Provisions raised	-	-	34	-	**34**
Other	1	-	3	(4)	**-**
AS AT DECEMBER 31, 2015	**21**	**2**	**32**	**-**	**55**

Year ended December 31, 2014

	Post-employment benefits	Jubilee awards	Employee bonuses and other employee related	Other	Total
AS AT JANUARY 1, 2014	**17**	**4**	**20**	**7**	**48**
Discount rate adjustment	4	-	-	-	**4**
Interest costs	1	-	-	-	**1**
Benefits paid / Provisions used	(2)	(2)	(25)	(2)	**(31)**
Provisions raised	-	-	32	1	**33**
Provisions reversed	-	-	-	(2)	**(2)**
AS AT DECEMBER 31, 2014	**20**	**2**	**27**	**4**	**53**

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

- should the discount rate be higher by 1 percentage point (p.p.), the provision for jubilee awards would decrease by ca. 6%, i.e. PLN 161 thousand, and should the discount rate be lower by 1 p.p., the provision would increase by ca. 7%, i.e. PLN 183 thousand,
- should the growth rates be higher by 1 p.p., the provision for jubilee awards would increase by ca. 8%, i.e. PLN 226 thousand, and should the rates be lower by 1 p.p., the provision would decrease by ca. 7%, i.e. PLN 177 thousand.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

19. Post-employment benefits

The amount of provisions for post-employment benefits recognized in the financial statements results from the valuation prepared by an independent actuary.

The carrying amount of provisions for employee benefits:

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Retirement, pension and post-mortem benefits	1	1	1	1
Energy tariff	7	1	7	1
Social Fund	6	-	6	-
Medical benefits	5	-	4	-
TOTAL EMPLOYEE BENEFITS	**19**	**2**	**18**	**2**

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

- should the discount rate be higher by 1 percentage point (p.p.), the provisions for post-employment benefits would decrease by ca. 9%, i.e. PLN 1,939 thousand, and should the discount rate be lower by 1 p.p., the respective provisions would increase by ca. 11%, i.e. PLN 2,369 thousand,
- should the growth rates be higher by 1 p.p., the for post-employment benefits would increase by ca. 12%, i.e. PLN 2,576 thousand, and should the rates be lower by 1 p.p., the respective provisions would decrease by ca. 10%, i.e. PLN 2,130 thousand.

20. 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
Liabilities due to settlements in the tax group	107	23
VAT liabilities	66	7
Other	3	6
TOTAL OTHER LIABILITIES	**176**	**36**

PGE S.A. is the representing company in the tax group that includes the Company and majority of its subsidiaries. For principles of operation and settlements between the companies please refer to the note 25 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

21. Financial Instruments

21.1 Description of significant items within particular classes of financial instruments

21.1.1 Trade and other financial receivables

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Trade receivables	-	666	-	598
Acquired bonds	5,993	29	3,797	67
Cash pooling receivables	-	320	-	-
Loans granted	60	1	30	2
Other financial receivables	-	27	-	20
TOTAL FINANCIAL RECEIVABLES	6,053	1,043	3,827	687

Trade receivables

Trade receivables of PLN 666 million relate mainly to the sale of electricity and services to subsidiaries in the PGE Group. As at December 31, 2015, the balance of three most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dom Maklerski S.A., constituted 69% of total balance of trade receivables.

Additional information relating to trade receivables is presented in note 22.5.1 of these financial statements.

Acquired bonds

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
ACQUIRED BONDS - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	4,597	4	2,653	12
PGE Energia Odnawialna S.A.	1,396	25	729	1
PGE Energia Natury Omikron sp. z o.o.	-	-	145	-
PGE Energia Natury PEW sp. z o.o.	-	-	270	1
PGE Energia Natury Kappa sp. z o.o.	-	-	-	50
PGE Energia Natury S.A.	-	-	-	3
TOTAL ACQUIRED BONDS	5,993	29	3,797	67

PGE S.A. acquires bonds issued by subsidiaries. Cash obtained from the issue of bonds is used for financing investments, repayment of financial liabilities as well as for financing current operations.

The intergroup bonds acquired by the Company with interest rates lower than market interest rates, are recognized at the date of acquisition at fair value, lower than issue price. The difference between the issue price and the fair value at the date of acquisition is recognized as an increase in the value of shares in subsidiaries issuing the bonds. The difference is amortized using an effective interest rate and recognized in the statement of comprehensive income.

Cash pooling receivables

On December 22, 2014, in order to centralize the management of financial liquidity in the PGE Group, agreements for real cash pooling services were executed between 16 companies of the PGE Group and each bank separately, i.e. with Powszechna Kasa Oszczędności Bank Polski S.A. and Polska Kasa Opieki S.A. Real cash pooling service was launched on January 16, 2015 by Polska Kasa Opieki S.A. and on January 19, 2015 by Powszechna Kasa Oszczędności Bank Polski S.A.

Introduction of real cash pooling services resulted in optimization of financial flows and increase in efficiency of liquidity management in the PGE Group, reduction of external debt by use of own funds, assurance of short-term financial security of particular entities and reduction of bank service costs.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

PGE S.A. coordinates the cash pooling service in the PGE Group. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

Loans granted

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	60	-	30	-
PGE Trading GmbH	-	1	-	-
PGE Energia Natury Olecko sp. z o.o.	-	-	-	2
TOTAL LOANS GRANTED	**60**	**1**	**30**	**2**

Other financial receivables

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Security deposits	-	27	-	20
Other	-	-	-	-
TOTAL OTHER RECEIVABLES	**-**	**27**	**-**	**20**

21.1.2 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	11	-	-	43
HEDGING DERIVATIVES				
CCIRS hedging transactions	(63)	52	43	-
TOTAL DERIVATIVES	**(52)**	**52**	**50**	**77**
non-current			43	43
current			7	34

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	As at December 31, 2014			
	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	(58)	-	-	54
HEDGING DERIVATIVES				
CCIRS hedging transactions	42	(74)	4	12
TOTAL DERIVATIVES	**5**	**(74)**	**15**	**103**
non-current			4	66
current			11	37

Commodity and currency forwards

Commodity and currency forwards relate mainly to trading in CO_2 emissions rights.

IRS transactions

In 2014, PGE S.A. concluded 2 IRS transactions, hedging the interest rate on issued bonds with a nominal value of PLN 1,000 million. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are recognized fully in profit or loss.

CCIRS hedging transactions

In connection with loan received from PGE Sweden AB (publ), disclosed in note 21.1.3 of these financial statements, in June and August 2014 PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

For the CCIRS transactions the Company applies hedge accounting. The impact of hedge accounting is presented in note 17.2 of these financial statements.

21.1.3 Loans, borrowings, bonds, cash pooling

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Loans received	2,753	60	2,754	58
Bonds issued	976	24	1,000	-
Bank credits	487	14	-	-
Cash pooling liabilities	-	1,157	-	-
TOTALLOANS, BORROWINGS, BONDS AND CASH POOLING	**4,216**	**1,255**	**3,754**	**58**

Loans received from PGE Sweden AB (publ)

The Company recognizes loans of EUR 660 million drawn from a subsidiary – PGE Sweden AB (publ).
In 2014, PGE S.A. and PGE Sweden AB (publ) established a Euro Medium Term Note Program, in which PGE Sweden AB (publ) may issue Eurobonds up to EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 638 million. The subsidiary allocated the funds raised under this program to grant a loan to its parent company.

Issuance of bonds on the domestic market

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

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. In 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 bond issue program in the amount of PLN 5 billion directed towards entities within the PGE Group.

Bank credits

On December 17, 2014, the Company signed the Loan Agreement in the amount of PLN 1,000 million with Bank Gospodarstwa Krajowego 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 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 signed 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 aforesaid loans were not used.

The value of credit limits at the Company's disposal on the current account amounted to PLN 2,250 million as at December 31, 2015 and PLN 1,250 million as at December 31, 2014. The aforesaid overdraft facilities in current accounts are available until April 29, 2018.

Cash pooling liabilities

Launch of real cash pooling is described in note 21.1.1 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Currency position and interest rates

As at December 31, 2015

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1,000	1,000	indefinite program, maturity date of the tranche issued - June 2018
	Variable	501	501	December 2027
	Variable	1,157	1,157	five-year program
	Fixed	-	-	
TOTAL PLN		**2,658**	**2,658**	
EUR	Variable	-	-	
	Fixed	515	2,193	June 2019
	Fixed	145	620	July 2029
TOTAL EUR		**660**	**2,813**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**5,471**	

As at December 31, 2014

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1,000	1,000	indefinite program, maturity date of the tranche issued - June 2018
	Fixed	-	-	
TOTAL PLN		**1,000**	**1,000**	
EUR	Variable	-	-	
	Fixed	515	2,194	June 2019
	Fixed	145	618	July 2029
TOTAL EUR		**660**	**2,812**	
TOTAL LOANS, BORROWINGS, AND BONDS			**3,812**	

The following table illustrates 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	**3,812**	**1,000**
CHANGE IN OVERDRAFTS	**-**	**-**
CHANGE IN CASH POOLING LIABILITIES	**1,157**	**-**
CHANGE IN OTHER LOANS, BORROWINGS AND BONDS	**502**	**2,812**
Drawn loans and borrowings / issued bonds	500	2,720
Accrued interest	87	63
Repayment of loans and borrowings / redemption of bonds	(85)	(53)
Foreign exchange differences	-	82
AS AT DECEMBER 31	**5,471**	**3,812**

21.1.4 Other financial liabilities measured at amortized cost

	As at December 31, 2015		As at December 31, 2014	
	Non-current	Current	Non-current	Current
Trade liabilities	-	303	--	237
Purchase of property, plant and equipment and intangible assets	-	1	-	2
Security deposits	-	3	-	4
TOTAL OTHER FINANCIAL LIABILITIES	**-**	**307**	**-**	**243**

Trade liabilities

Trade liabilities relate mainly to purchase of electricity.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

21.2 Fair value of financial instruments

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

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

In case of loans received from PGE Sweden AB (publ), PGE S.A. estimated their fair value at PLN 3,089 million (as compared to PLN 2,813 million of the carrying amount). The fair value was determined using the estimated credit risk of PGE S.A. It is Level 2 of fair value hierarchy.

21.3 Fair value hierarchy

Inventories

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

In the category of financial assets at fair value through profit or loss, the Company 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 Company presents CCIRS derivative that hedges foreign exchange rate and interest rate (Level 2).

FAIR VALUE HIERARCHY	As at December 31, 2015		As at December 31, 2014	
restated	Level 1	Level 2	Level 1	Level 2
CO_2 emission rights	98	-	409	-
Inventories	**98**	**-**	**409**	**-**
Currency forward	-	7	-	11
CCIRS valuation	-	43	-	4
Financial assets	**-**	**50**	**-**	**15**
Currency forward	-	1	-	-
Commodity forward	-	33	-	37
CCIRS valuation	-	-	-	12
IRS valuation	-	43	-	54
Financial liabilities	**-**	**77**	**-**	**103**

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

Inventories are described in note 13 of these financial statements, whereas derivatives are presented in note 21.1.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The table below presents terms of particular derivatives.

restated	As at December 31, 2015 Carrying amount in PLN	As at December 31, 2015 Nominal value in currency	As at December 31, 2014 Carrying amount in PLN	As at December 31, 2014 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
FINANCIAL LIABILITIES	**(77)**	**-**	**(103)**	**-**	

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

PGE S.A. holds significant amount of shares in entities not quoted on active markets. For shares in entities that are not quoted on the stock exchange, there is no active market nor possibility of using measurement techniques for reliable valuation of given shares. Due to the above, the Company is not able to establish a range of reasonable fair value estimates. Such assets are measured at cost less impairment losses. Additionally, due to the fact that the Company acquired bonds issued by other member of the Group with interest rates lower than market interest rates, the difference between the issue price and fair value of acquired bonds was recognized as an increase in the value of shares in subsidiaries issuing the bonds

21.4 Collaterals for repayment of receivables and liabilities

The Company uses a variety of collaterals and its combinations. The most frequently used are execution statements. Additionally, the Company uses the power of attorney for the bank accounts and assignment of receivables. As a rule, there are no collaterals on subsidiaries' liabilities toward PGE S.A..

As at December 31, 2015, Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

21.5 Statement of comprehensive income

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

YEAR ENDED DECEMBER 31, 2015	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash	Shares in subsidiaries	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	-	-	1,050	-	-	**1,050**
Interest income or (expenses)	(62)	(15)	54	-	153	(108)	**22**
Exchange gains or (losses)	(1)	-	(2)	-	(4)	1	**(6)**
Reversal of impairment allowances	-	26	-	-	-	-	**26**
Gains or (losses) on investment disposals	-	-	-	(14)	-	-	**(14)**
Other	-	-	-	-	-	(2)	**(2)**
TOTAL PROFIT/ (LOSS)	**(63)**	**11**	**52**	**1,036**	**149**	**(109)**	**1,076**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

YEAR ENDED DECEMBER 31, 2014	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash	Shares in subsidiaries	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	-	-	5,273	-	-	**5,273**
Interest income or (expenses)	(32)	(4)	47	-	187	(62)	**136**
Exchange gains or (losses)	75	-	18	-	5	(85)	**13**
Reversal of impairment allowances	-	22	-	-	-	-	**22**
Creation of impairment allowances	(1)	(55)	-	-	(386)	-	**(442)**
TOTAL PROFIT/ (LOSS)	**42**	**(37)**	**65**	**5,273**	**(194)**	**(147)**	**5,002**

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

22. Objectives and principles of financial risk management

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

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

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

The objectives are achieved with the use of the mechanism of natural hedging and hedging instruments, including hedging derivative transactions to the extent that it is compliant with the internal regulations of the PGE Group.

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

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 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 makes key decisions in the area of risk management concerning, among others, setting risk limits as part of the risk appetite determined by the Management Board of PGE S.A., as well as the approval of applied methods and instruments in the area of commercial and hedging operations.

The organization of a function of financial risk management is based on the principle of independence 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 independence 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 Company's organizational structure and of independent reporting lines for the Risk Committee and the Management Board of PGE S.A.

In the key areas for financial risks, 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 S.A. 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.

22.1 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 with the use of periodical liquidity planning tools, i.e. prepared forecasts of cash flows from operating, investing and financing activities. The purpose of the PGE Group is to maintain balance between continuity and flexibility of financing through the use of 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 Polska Grupa Energetyczna S.A. The subsidiaries in the PGE Group use various sources of intragroup 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 Company actively invests free funds, which means that it monitors the financial surplus and forecasts future cash flows and on this ground it implements the investment strategy in respect of free funds in pursuit to attain investment strategy goals.

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

- overdrafts, term loans, working capital credits;
- bank accounts consolidation agreements (real cash-pooling);
- bond issues addressed to external investors;
- bonds issues acquired by the subsidiaries in the PGE Group.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

AS AT 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 received	**2,813**	**3,214**	10	51	2,370	783
Bonds issued	**1,000**	**1,062**	-	25	1,037	-
Bank credits	**501**	**617**	-	14	119	484
Cash pooling liabilities	**1,157**	**1,157**	1,157	-	-	-
Trade and other financial liabilities measured at amortized cost	**307**	**307**	304	3	-	-
Derivatives measured at fair value through profit or loss	**77**	**78**	1	51	26	-
TOTAL	**5,855**	**6,435**	**1,472**	**144**	**3,552**	**1,267**

AS AT DECEMBER 31, 2014 *restated*	Carrying amount	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Loans received	**2,812**	**3,274**	8	51	2,412	803
Bonds issued	**1,000**	**1,097**	-	28	1,069	-
Trade and other financial liabilities measured at amortized cost	**243**	**243**	241	2	-	-
Derivatives measured at fair value through profit or loss	**91**	**94**	-	29	65	-
Hedge instruments	**12**	**(28)**	5	55	(21)	(67)
TOTAL	**4,158**	**4,680**	**254**	**165**	**3,525**	**736**

22.2 Interest rate risk

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

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

Bonds issued under the Bonds issue program in the amount of PLN 5 billion, described in note 21.1.3 of these financial statements, are interest-bearing bonds at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions, described in note 21.1.2.

Loans received from a subsidiary PGE Sweden AB (publ) are interest bearing loans at a fixed interest rate in EUR. Payments for these loans are hedged by CCIRS transactions described in note 21.1.2.

PGE S.A. execute derivative transactions in respect of instruments based on the interest rate exclusively in order to secure the identified risk exposure. Accordingly, it is not permitted in the PGE Group as regards derivative transactions based on the interest rate, to enter into speculative transactions, i.e., those that increase the interest rate risk exposure in comparison with their level resulting from identified sources of exposure and are aimed at obtaining additional gains from risk factor changes.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

		Type of interest rate	As at December 31, 2015	As at December 31, 2014 *restated*
Derivatives – assets, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	-	-
	EUR	Fixed	-	-
		Variable	50	15
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	7,490	5,803
		Variable	712	468
	EUR	Fixed	214	611
		Variable	-	-
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(43)	(54)
	EUR	Fixed	-	-
		Variable	(34)	(49)
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(2,658)	(1,000)
	EUR	Fixed	(2,813)	(2,812)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**7,490**	**5,803**
		Variable	**(1,989)**	**(586)**
	EUR	**Fixed**	**(2,599)**	**(2,201)**
		Variable	**16**	**(34)**

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

22.3 Currency risk

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

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

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

The Company enters into currency based derivative transactions only in the purpose to hedge identified exposure to risk. Thus, the Company is not permitted, 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

	Total carrying amount in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2015			
		EUR		USD	
		Currency	PLN	Currency	PLN
FINANCIAL ASSETS					
Trade and other financial receivables, including:	7,096	33	141	-	-
Trade receivables	*666*	*33*	*140*	-	-
Loans granted	*61*	*<1*	*1*	-	-
Cash and cash equivalents	2,013	51	213	-	-
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, borrowings, bonds, including:	(5,471)	(660)	(2,813)	-	-
Loans received	*(2,813)*	*(660)*	*(2,813)*	-	-
Trade and other financial liabilities, including:	(307)	(40)	(172)	<(1)	(1)
Trade liabilities	*(303)*	*(40)*	*(172)*	-	-
Derivatives measured at fair value through profit or loss	(77)	(9)	(37)	-	-
NET CURRENCY POSITION		**69**	**290**	**<(1)**	**(1)**

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.

	Total carrying amount in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2014			
		EUR		USD	
Restated		Currency	PLN	Currency	PLN
FINANCIAL ASSETS					
Trade and other financial receivables	4,514	4	17	-	-
Cash and cash equivalents	2,988	143	610	-	-
Derivatives – assets	11	69	294	-	-
CCIRS hedging instruments	4	553	2,358	-	-
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	(3,812)	(660)	(2,812)	-	-
Loans received	*(2,812)*	*(660)*	*(2,812)*	-	-
Trade and other financial liabilities	(243)	(9)	(38)	<1	1
Derivatives measured at fair value through profit or loss	(91)	(14)	(59)	-	-
CCIRS hedging instruments	(12)	187	796		
NET CURRENCY POSITION		**273**	**1,166**	**<1**	**1**

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.

22.4 Price risk

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

- electricity;
- CO_2 emission rights;
- energy origin rights;
- natural gas.

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 expected income in individual years and the value of potential deviations from the expected values with the assumed probability. The PGE Group assesses the results of the measurement in the context of its risk appetite and the possibilities of hedging the risk of 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

22.5 Credit risk

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

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

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

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

	Year ended December 31, 2015	Year ended December 31, 2014 *restated*
Trade receivables	666	598
Loans and receivables	6,430	3,916
Cash and cash equivalents	2,013	2,988
Derivatives - assets	50	15
MAXIMUM CREDIT RISK EXPOSURE	**9,159**	**7,517**

22.5.1 Trade and other financial receivables

The terms of payments for trade receivables are usually 2-3 weeks. In year 2015, the Company received payments for receivables on average after 21 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 impairment for receivables.

The Company reduces and controls the credit risk related to trade transactions. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognized or the Company uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with rules pertaining to credit risk management. The level of used limit is regularly monitored and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. The Company regularly monitors the payment of receivables and uses the system of early vindication. It also cooperates with Credit Bureaus.

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

	December 31, 2015		December 31, 2014	
	Receivables balance	Share %	Receivables balance	Share %
Poland	648	97.3%	580	97.0%
Luxembourg	14	2.1%	-	-
Germany	2	0.3%	1	0.2%
Great Britain	2	0.3%	-	-
Sweden	-	-	17	2.8%
TOTAL	**666**	**100%**	**598**	**100%**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The majority of sales transactions and the trade receivables balance relate to related parties within the PGE Group, as well as large Polish entities from the electricity market. Information on transactions with related parties is presented in note 26 of these financial statements.

Ageing of receivables and impairment allowances

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	Loans granted	Cash pooling receivables	Acquired bonds	Other financial receivables
Impairment allowance as at January 1	**(5)**	**-**	**-**	**(415)**	**(25)**
Impairment allowance raised	-	-	-	-	-
Impairment allowance reversed	-	-	-	-	-
Impairment allowance used	2	-	-	29	-
Impairment allowance as at December 31	**(3)**	**-**	**-**	**(386)**	**(25)**
Value before the impairment allowance	**669**	**61**	**320**	**6,408**	**52**
Net value (carrying amount)	**666**	**61**	**320**	**6,022**	**27**

There are no significant receivables that would be substantially past due and not covered by an impairment allowance.

Year ended December 31, 2014

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

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

Maintaining high exchange rate of 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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

TRADE RECEIVABLES AND OTHER LOANS AND RECEIVABLES

	December 31, 2015			December 31, 2014		
	Gross carrying amount	Impairment allowances	Net carrying amount	Gross carrying amount	Impairment allowances	Net carrying amount
Receivables before due date	**7,469**	**(388)**	**7,081**	**4,884**	**(389)**	**4,495**
Past due <30 days	*15*	-	*15*	*18*	-	***18***
Past due 30-90 days	-	-	-	-	-	-
Past due 90-180 days	-	-	-	*1*	-	***1***
Past due 180-360 days	-	-	-	-	-	-
Past due >360 days	*26*	*(26)*	-	*56*	*(56)*	-
RECEIVABLES PAST DUE, TOTAL	**41**	**(26)**	**15**	**75**	**(56)**	**19**
TOTAL LOANS AND RECEIVABLES	**7,510**	**(414)**	**7,096**	**4,959**	**(445)**	**4,514**

22.5.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities, that the Company concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate indicator of solvency and equity as well as strong, stable market position.

22.5.3 Derivatives

All entities, that the Company concludes derivatives transactions with, operate in the financial sector. These are Polish banks with high ratings, adequate equity and strong, stable market position. As at the reporting date, the Company was party to the derivative transactions, described in detail in note 21.1.2 to these financial statements.

22.5.4 Guarantees granted

Guarantees granted by the Company are presented in the note 24 of these financial statements.

22.6 Market (financial) risk – sensitivity analysis

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

- interest rate risk,
- currency risk.

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

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

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

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

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Sensitivity analysis for currency risk

The table below presents the sensitivity of profit before tax and equity to reasonably possible changes to foreign currency exchange rates, under the assumption of stability of other risk factors for these classes of financial instruments exposed to currency risk.

FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2015 EUR/PLN Impact on financial result/Equity +10%	-10%
Trade and other financial receivables	7,096	141	14	(14)
Cash and cash equivalents	2,013	213	21	(21)
Derivatives – assets	7	(149)	(15)	15
CCIRS hedging derivatives	43	3,107	280	(280)
Loans, borrowings, bonds	(5,471)	(2,813)	(281)	281
Trade and other financial liabilities	(307)	(172)	(17)	17
Derivatives – liabilities	(77)	(37)	(4)	4
IMPACT ON PROFIT OR LOSS			**(2)**	**2**
CCIRS hedging derivatives	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 in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2014 EUR/PLN Impact on financial result/Equity +7.73%	-7.73%
Trade and other financial receivables	4,514	17	1	(1)
Cash and cash equivalents	2,988	610	47	(47)
Derivatives – assets	11	294	23	(23)
CCIRS hedging derivatives	4	2,358	170	(170)
Loans, borrowings, bonds	(3,812)	(2,812)	(217)	217
Trade and other financial liabilities	(243)	(38)	(3)	3
Derivatives – liabilities	(91)	(59)	(10)	10
Hedging derivatives	(12)	796	47	(47)
IMPACT ON PROFIT OR LOSS			**58**	**(58)**
CCIRS hedging derivatives	(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 table below presents the sensitivity of profit before tax and equity to reasonably possible changes to interest rates, under the assumption of stability of other risk factors for these classes of financial instruments that are exposed to interest rate risk:

FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2015 – WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity	
			+50bp	-50bp	+25bp	-25bp
Trade and other receivables	7,096	712	4	(4)	-	-
Derivatives - assets	50	7	<1	<(1)	-	-
Loans, borrowings, bonds	(5,471)	(2,658)	(13)	13	-	-
Derivatives – liabilities	(77)	(77)	12	(13)	-	-
IMPACT ON FINANCIAL RESULT			**2**	**(3)**	**-**	**-**
Hedging derivatives	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 and EURIBOR.

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.

FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2014 – WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity	
			+71.67bp	-71.67bp	+48.50bp	-48.50bp
Bonds acquired	3,864	469	3	(3)	-	-
Derivatives – assets	15	11	<1	<(1)	-	-
Bonds issued	(1,000)	(1,000)	(7)	7	-	-
Derivatives – liabilities	(103)	(91)	24	(25)	-	-
IMPACT ON FINANCIAL RESULT			**20**	**(21)**	**-**	**-**
Hedging derivatives	(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 and EURIBOR.

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

22.7 Hedge accounting

In the financial statements for the year 2015 the Company applies hedge accounting. In connection with loan received from PGE Sweden AB (publ) in June and August 2014 PGE S.A. concluded CCIRS transactions, that hedge the exchange rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

The impact of hedge accounting on hedging reserve is presented in note 17.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

23. Statement of cash flows

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

23.1 Cash flows from operating activities

Interest and dividends

	Year ended December 31, 2015	Year ended December 31, 2014
Dividends receivable	(1,050)	(5,273)
Interest on bonds acquired	(141)	(168)
Interest on bonds issued	26	34
Interest on loans granted	60	29
Interest and commissions relating to bank credits	37	-
Other	74	17
TOTAL INTEREST AND DIVIDEND	**(994)**	**(5,361)**

Profit/loss on investment activities

	Year ended December 31, 2015	Year ended December 31, 2014
Result on disposal of financial non-current assets	14	-
Valuation of derivatives	(12)	185
Impairment allowances on financial assets	-	386
Other	(3)	2
TOTAL PROFIT/LOSS ON INVESTMENT ACTIVITIES	**(1)**	**573**

Change in receivables

	Year ended December 31, 2015	Year ended December 31, 2014
Change in trade and other receivables	(2,582)	(310)
Change in loans granted (including cash pooling)	349	(52)
Change in bonds acquired	2,158	555
Change in receivables from disposal of property, plant and equipment	9	-
Other	(1)	(3)
TOTAL CHANGE IN RECEIVABLES	**(67)**	**190**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2015	Year ended December 31, 2014
Change in trade and other liabilities	64	105
Change in other non-financial liabilities	140	(136)
Change in settlements within the tax group	(84)	11
Other	3	-
TOTAL CHANGE IN LIABILITIES	**123**	**(20)**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

23.2 Cash flows from investing activities

Acquisition and redemption of bonds issued within the PGE Group

PGE S.A. acquires bonds issued by other members of the PGE Group. The proceeds from the bond issue are used for financing investments, refinancing financial liabilities and financing current activities. For detailed description please refer to note 21.1.1.

Dividends received

The total sum of dividends received consists mainly of dividends from PGE Dystrybucja S.A. of PLN 977 million and PGE Energia Odnawialna S.A. of PLN 58 million.

Loans granted under cash pooling agreement

As described in note 21.1.1 PGE S.A. coordinates the cash pooling service in the PGE Group. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and liabilities of PGE S.A.

23.3 Cash flows from financing activities

Proceeds from loans, borrowings and issue of bonds

The Company signed a Loan Agreement for the amount of PLN 1,000 million with Bank Gospodarstwa Krajowego. As at December 31, 2015 the Company used PLN 500 million of available credit.

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.

OTHER EXPLANATORY NOTES

24. Contingent liabilities and receivables. Legal claims

24.1 Contingent liabilities

	As at December 31, 2015	As at December 31, 2014
Bank guarantees	12,153	12,644
Other contingent liabilities	-	1
CONTINGENT LIABILITIES, TOTAL	**12,153**	**12,645**

Surety for the obligations of PGE Sweden AB (publ)

Due to establishment in 2014 of the Eurobonds program, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). Guarantee was granted to the amount of EUR 2,500 million (PLN 10,654 million) and will be valid until December 31, 2041. As at December 31, 2015, PGE Sweden AB (publ) liabilities due to bonds issued amounted to EUR 642 million (PLN 2,734 million), as at December 31, 2014 liabilities amounted to EUR 641 million (PLN 2,731 million).

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

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. The total value of sureties is PLN 1,451 million. Granting sureties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. relating to the construction of the new power units in Elektrownia Opole.

24.2 Other significant issues related to contingent liabilities

Promise referring to ensuring financing of new investments in the PGE Group companies

Due to planned strategic investments in the PGE Group, the Company committed, in the form of promises to group companies, to ensure financing of planned investments. The promises relate to specific investments and may be used only for such purposes. As at December 31, 2015 and December 31, 2014 the estimated value of the promise amounts to PLN 15 billion.

Commitment to support liquidity at PGE Obrót S.A.

Due to a donation of shares in PGE Dystrybucja S.A. and PGE GiEK S.A. received by the Company in 2014 from PGE Obrót S.A , the Company committed to ensure the liquidity of PGE Obrót S.A. if this entity was to face insolvency. Ensuring liquidity can take form of a capital increase, debt financing or other activities aimed at reducing the likelihood of insolvency. PGE Obrót S.A. and PGE S.A. executed a debt subordination agreement pursuant to which, in the event that PGE Obrót S.A. becomes insolvent, PGE S.A.'s receivables from PGE Obrót S.A. will constitute subordinated debt.

PGE Obrót S.A constitutes a party to the cash-pool agreement established for the companies from the PGE Group and may use the financing available under this program. As at the date of preparation of these financial statements, there were no indications of insolvency risk at PGE Obrót S.A.

24.3 Other legal claims and disputes

The issue of compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. are presenting to the courts a motion to summon PGE S.A. to attempt a settlement for payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during consolidation process that took place in 2010. The total value of claims resulting from the settlement directed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to 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 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 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 Extraordinary General Shareholders Meeting of the Company held on June 24, 2015. The Company filed a response to the lawsuit on September 21, 2015.
- On September 17, 2014, PGE S.A. received a copy of 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 Extraordinary General Shareholders Meeting of the Company held on June 6, 2014. The Company filed a response to the lawsuit. On August 13, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim. The judgement is appealable.
- On October 23, 2015, PGE S.A. received a copy of 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 of the Extraordinary General Shareholders Meeting of the Company held on September 14, 2015 regarding appointment of the Chairman of the Extraordinary General Shareholders Meeting. The Company filed a response to the lawsuit on November 23, 2015.

25. 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 the 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.

As at December 31, 2015 and during the reporting period, the Company was not a party to significant proceedings regarding public and legal settlements.

Tax Group

Since January 1, 2015, PGE S.A. has been a member of the tax group “TG PGE 2015”. PGE S.A. is the representing company of this group. The TG PGE 2015 agreement was executed for 25 years. Companies forming TG PGE 2015 were indicated in note 10. Until December 31, 2014, PGE S.A. was a member of the tax group established in 2011 and formed also by PGE Systemy S.A. and PGE Obrót S.A.

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.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

26. Information on related parties

The State Treasury is the dominant shareholder of the PGE Group and as a result State Treasury companies are recognized as related entities. The Company identifies in detail transactions with the most important State Treasury related companies. The total value of transactions with such entities is presented in the table below in the column "other related parties".

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

- new bonds issued by subsidiaries included in the tax group whose interest rates are below market rates described in note 21.1.3 of these financial statements.
- tax losses settlement within the tax group, described in notes 6.2 and 25 of these financial statements.

26.1 Transactions with related parties

Year ended December 31, 2015

	Subsidiaries	Other related parties	Third parties	Offsetting revenues and expenses	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenues	10,287	315	327	-	**10,929**
Other operating income	5	-	3	-	**8**
Financial income	1,204	453	29	(401)	**1,285**
Operating expenses	1,110	71	9,032	-	**10,213**
Other operating expenses	1	-	8	-	**9**
Financial expenses	81	-	530	(401)	**210**

Year ended December 31, 2014

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

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

Financial income relates primarily to dividends and interest on bonds.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

26.2 Balances with related parties

As at December 31, 2015

	Subsidiaries	Other related parties within the PGE Group	Other related parties	Third parties	TOTAL
ASSETS					
Loans and receivables:	**6,890**	**-**	**152**	**54**	**7,096**
Acquired bonds	*6,022*	*-*	*-*	*-*	*6,022*
Trade receivables	*487*	*-*	*152*	*27*	*666*
Other loans and financial receivables	*381*	*-*	*-*	*27*	*408*
Shares in subsidiaries	**29,469**	**-**	**-**	**-**	**29,469**
Available-for-sale financial assets:	**-**	**3**	**-**	**-**	**3**
Shares in entities not quoted on active markets	-	3	-	-	**3**
Derivatives – assets	**-**	**-**	**-**	**50**	**50**
Other current assets	**302**	**-**	**-**	**117**	**419**

As at December 31, 2014

Restated	Subsidiaries	Other related parties within the PGE Group	Other related parties	Third parties	TOTAL
ASSETS					
Loans and receivables:	**4,449**	**-**	**7**	**58**	**4,514**
Acquired bonds	*3,864*	*-*	*-*	*-*	***3,864***
Trade receivables	*554*	*-*	*7*	*37*	***598***
Other loans and financial receivables	*31*	*-*	*-*	*21*	***52***
Shares in subsidiaries	**29,046**	**-**	**-**	**-**	**29,046**
Available-for-sale financial assets:	**-**	**3**	**-**	**-**	**3**
Shares in entities not quoted on active markets	-	3	-	-	**3**
Derivatives - assets	**-**	**-**	**-**	**15**	**15**
Other current assets	**112**	**-**	**-**	**14**	**126**

As at December 31, 2015

	Subsidiaries	Other related parties	Third parties	TOTAL
LIABILITIES				
Derivatives – equity and liabilities	**-**	**-**	**77**	**77**
Financial liabilities at amortized cost:	**4,033**	**6**	**1,739**	**5,778**
Bonds issued	*-*	*-*	*1,000*	***1,000***
Interest bearing loans and borrowings	*2,813*	*-*	*501*	***3,314***
Cash pooling liabilities	*1,157*	*-*	*-*	***1,157***
Trade liabilities	*63*	*6*	*234*	***303***
Other financial liabilities	*-*	*-*	*4*	***4***

As at December 31, 2014

restated	Subsidiaries	Other related parties	Third parties	TOTAL
LIABILITIES				
Derivatives – equity and liabilities	**-**	**-**	**103**	**103**
Financial liabilities at amortized cost:	**2,917**	**7**	**1,131**	**4,055**
Bonds issued	*-*	*-*	*1,000*	***1,000***
Interest bearing loans and borrowings	*2,812*	*-*	*-*	***2,812***
Trade liabilities	*105*	*7*	*125*	***237***
Other financial liabilities	*-*	*-*	*6*	***6***

The promises and sureties granted to the PGE S.A.'s subsidiaries are described in note 24 of these financial statements.

26.3 Management personnel remuneration

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

PLN thousand	Year ended December 31, 2015	Year ended December 31, 2014
Short-term employee benefits (salaries and salary related costs)	6,670	6,880
Post-employment and termination benefits	(46)	790
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**6,624**	**7,670**

PLN thousand	Year ended December 31, 2015	Year ended December 31, 2014
Management Board	6,217	7,324
Supervisory Board	407	346
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**6,624**	**7,670**

The Members of the Company's Management Board of 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 5.2 Costs by nature and function.

In the current period, the Company reversed the surplus of a provision for the remuneration of former Members of the Management Board in relation to non-competition clause established in previous years. The remuneration of PLN 618 thousand was paid in 2015. The provision amounted to PLN 664 thousand as at January 1, 2015.

27. Disclosures arising of Article 44 of the Energy Law related to particular types of activities

In connection with the amendment to the Energy Law dated April 10, 1997, starting from financial statements for the year ended on December 31, 2014, selected units were obliged to disclose additional information related to activity conducted.

Article 44 of the Energy Law imposes on obligation on the energy companies to prepare regulatory financial statements with a balance sheet (statement of financial position) and the statement of profit or loss for the reporting periods separately for each type of business activity related to the following areas:

- supply of gaseous fuels or energy, including fixed costs, variable costs and financial income separately for the generation, transmission, distribution and sale of gaseous fuels or energy, gaseous fuel storage and liquefaction of natural gas or regasification of liquefied natural gas, also in relation to groups of recipients specified in the tariff;
- unrelated to the activities listed above.

27.1 Principles for allocation to different types of activities

The section below presents the types of activities referred to in Article 44 of the Energy Act which are distinguished in the Company and principles for allocation of revenues, expenses, assets and liabilities resulting from these types of activities.

27.1.1 Description of types of activities distinguished

The Company has identified the following types of activities pursuant to Article 44 (1) of the Act:

- trading in electricity,
- trading in gaseous fuels,
- other activities.

27.1.2 Rules for the allocation of revenues, expenses, assets and liabilities

Selected items in the statement of comprehensive income and statement of financial position are assigned by the Company to certain types of activities based on the accounting records:

- sales revenues,
- costs of goods sold,
- selling and distribution expenses,
- general and administrative expenses,
- other operating income and expenses,
- financial income and expenses,
- trade receivables,
- trade liabilities,
- derivatives,
- inventories,
- provisions, excluding provisions for employee benefits.

Selected items in the statement of financial position are assigned by the Company to certain types of activities with the use of allocation keys:

- property, plant and equipment as well as intangible assets in proportion to the depreciation/amortization costs,
- provisions for employee benefits and liabilities arising from wages, PIT and social insurance in proportion to the costs of employee benefits,
- liabilities arising from VAT in proportion to revenues from sales.

Selected items in the statement of comprehensive income and statement of financial position are not assigned to certain types of activities as they pertain to all activities of the unit. The main unallocated items include:

- deferred tax assets and liabilities,
- loans and receivables other than trade receivables,
- interest-bearing loans, borrowings, bonds,
- shares in subsidiaries and financial assets available for sale,
- income tax receivables and liabilities,
- cash and cash equivalents,
- equity, excluding profit for the reporting period,
- income tax in statement of profit or loss.

The unallocated items are reported together with other activity.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

27.2 Breakdown by type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2015

	Electricity	Gas	Other activity and unallocated items	Total
SALES REVENUES	**8,106**	**391**	**2,432**	**10,929**
Costs of goods sold	(7,695)	(373)	(1,944)	(10,012)
GROSS PROFIT ON SALES	**411**	**18**	**488**	**917**
Distribution and selling expenses	(18)	(14)	(5)	(37)
General and administrative expenses	(71)	(3)	(90)	(164)
Other operating income	-	-	8	8
Other operating expenses	-	-	(9)	(9)
OPERATING PROFIT	**322**	**1**	**392**	**715**
Financial income	-	4	1,281	1,285
Financial expenses	-	-	(210)	(210)
PROFIT BEFORE TAX	**322**	**5**	**1,463**	**1,790**
Income tax	-	-	(22)	(22)
NET PROFIT FOR THE REPORTING PERIOD	**322**	**5**	**1,441**	**1,768**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

	Electricity	Gas	Other activity and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	52	3	134	189
Intangible assets	3	-	4	7
Financial receivables	-	-	6,053	6,053
Derivatives	-	-	43	43
Shares in subsidiaries	-	-	29,469	29,469
Available-for-sale financial assets	-	-	3	3
Deferred tax assets	-	-	24	24
	55	**3**	**35,730**	**35,788**
CURRENT ASSETS				
Inventories	-	-	191	191
Income tax receivables	-	-	79	79
Derivatives	-	5	2	7
Trade and other financial receivables	310	93	640	1,043
Other current assets	250	40	129	419
Cash and cash equivalents	-	-	2,013	2,013
	560	**138**	**3,054**	**3,752**
TOTAL ASSETS	**615**	**141**	**38,784**	**39,540**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

	Electricity	Gas	Other activity and unallocated items	Total
Net profit for the reporting period	322	5	1,441	1,768
Other reserves	-	-	31,686	31,686
TOTAL EQUITY	**322**	**5**	**33,127**	**33,454**
NON-CURRENT LIABILITIES				
Non-current provisions	7	-	14	21
Loans, borrowings, bonds and cash-pooling	-	-	4,216	4,216
Derivatives	-	-	43	43
	7	**-**	**4,273**	**4,280**
CURRENT LIABILITIES				
Current provisions	12	1	21	34
Loans, borrowings, bonds and cash pooling	-	-	1,255	1,255
Derivatives	-	-	34	34
Trade and other financial liabilities	90	43	174	307
Other non-financial liabilities	49	2	125	176
	151	**46**	**1,609**	**1,806**
TOTAL LIABILITIES	**158**	**46**	**5,882**	**6,086**
TOTAL EQUITY AND LIABILITIES	**480**	**51**	**39,009**	**39,540**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2014

	Electricity	Gas	Other activity and unallocated items	Total
SALES REVENUES	**7,185**	**67**	**2,419**	**9,671**
Costs of goods sold	(6,994)	(65)	(1,962)	(9,021)
GROSS PROFIT ON SALES	**191**	**2**	**457**	**650**
Distribution and selling expenses	(15)	(2)	(6)	(23)
General and administrative expenses	(38)	-	(112)	(150)
Other operating income	-	-	10	10
Other operating expenses	-	-	(11)	(11)
OPERATING PROFIT	**138**	**-**	**338**	**476**
Financial income	-	1	5,542	5,543
Financial expenses	-	-	(542)	(542)
PROFIT BEFORE TAX	**138**	**1**	**5,338**	**5,477**
Income tax	-	-	(24)	(24)
NET PROFIT FOR THE REPORTING PERIOD	**138**	**1**	**5,314**	**5,453**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014

restated	Electricity	Gas	Other activity and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	28	1	164	193
Intangible assets	1	-	5	6
Financial receivables	-	-	3,827	3,827
Derivatives	-	-	4	4
Shares in subsidiaries	-	-	29,046	29,046
Available-for-sale financial assets	-	-	3	3
Deferred tax assets	-	-	22	22
	29	**1**	**33,071**	**33,101**
CURRENT ASSETS				
Inventories	-	-	440	440
Derivatives	-	1	10	11
Trade and other financial receivables	322	17	348	687
Other current assets	117	-	9	126
Cash and cash equivalents	-	-	2,988	2,988
	439	**18**	**3,795**	**4,252**
TOTAL ASSETS	**468**	**19**	**36,866**	**37,353**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014

restated	Electricity	Gas	Other activity and unallocated items	Total
Net profit for the reporting period	138	1	5,314	5,453
Other reserves	-	-	27,649	27,649
TOTAL EQUITY	**138**	**1**	**32,963**	**33,102**
NON-CURRENT LIABILITIES				
Non-current provisions	4	-	16	20
Loans, borrowings, bonds and cash pooling	-	-	3,754	3,754
Derivatives	-	-	66	66
	4	**-**	**3,836**	**3,840**
CURRENT LIABILITIES				
Current provisions	7	-	26	33
Loans, borrowings, bonds and cash pooling	-	-	58	58
Derivatives	-	-	37	37
Trade and other financial liabilities	45	-	198	243
Income tax liabilities	-	-	4	4
Other non-financial liabilities	7	-	29	36
	59	**-**	**352**	**411**
TOTAL LIABILITIES	**63**	**-**	**4,188**	**4,251**
TOTAL EQUITY AND LIABILITIES	**201**	**1**	**37,151**	**37,353**

28. Significant events of the reporting period and subsequent events

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

On September 3, 2014 PGE S.A., TAURON, ENEA and KGHM (Business Partners) concluded a Partners' Agreement.

On April 15, 2015 an agreement for the disposal of shares in PGE EJ 1 sp. z o.o. has been concluded. As a result thereof, each Business Partner purchased 10% of shares in PGE EJ 1 sp. z o.o.

As a result of the sale of shares in PGE EJ 1 sp. z o.o. to the Business Partners by PGE S.A., PGE S.A. has 70% of the share capital of PGE EJ 1 sp. z o.o. and each of Business Partners have 10% of the share capital of PGE EJ 1 sp. z o.o. In May 2015, the National Court Register registered a new wording of the Company Agreement resulting from the provisions of the Partners' Agreement, whereas in May and June 2015 representatives of the Business Partners became the members of the Supervisory Board of PGE EJ 1 sp. z o.o.

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

The Parties of the Partners' Agreement anticipate that further decision on the Project, including decision on declaration of further participation of particular Parties in the next stage of the Project, will be made directly before the settlement of the Integrated Proceedings.

29. Approval of the financial statements

These financial statements were approved for publication 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