PGE Polska Grupa Energetyczna S.A.
Consolidated financial statements
For the year 2014

ended 31 December 2014
in accordance with IFRS EU (in PLN million)

PGE Polska Grupa Energetyczna

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 7
CONSOLIDATED STATEMENT OF CASH FLOWS 8

A. ACCOUNTING POLICIES AND OTHER BASIS OF PREPARATION OF FINANCIAL STATEMENTS 9
1. General Information 9
1.1 The PGE Group's operations 9
1.2 Ownership structure of the Company 9
1.3 Presentation and functional currency 9
1.4 The composition of the Management Board of the parent company 10
1.5 Structure of the Group 10
2. The basis for the preparation of the financial statements 14
2.1. Statement of compliance 14
2.2. New standards and interpretations published, not yet effective 14
2.3. Professional judgment of management and estimates 15
2.4 Accounting principles applied 17
3. Settlement of acquisition of new subsidiaries 32
4. Impairment test of property, plant and equipment and goodwill 32
5. Changes of accounting principles and data presentation 34

B. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 38
1. Operating segments 38
2. Revenues and expenses 41
2.1. Sales revenues 41
2.2. Information concerning major customers 42
2.3. Cost by type and functions 42
2.4. Depreciation, amortisation and impairment losses 42
2.5. Materials and energy 43
2.6. External services 43
2.7. Employee benefits expenses and employment structure 44
2.8. Other operating revenues and expenses 44
2.9. Financial income and expenses 45
2.10. Valuation of transaction related to trading in CO2 emission rights 46
3. Income tax 47
3.1. Tax in the statement of comprehensive income 47
3.2. Effective tax rate 47
3.3. Deferred tax in the statement of financial position 48
3.4. Tax settlements 48
4. Property, plant and equipment 49
5. Future investment commitment 51
6. Investment property 52
7. Intangible assets 52
8. Leasing 53
8.1 Operating lease liabilities – the Group as the lessee 53
8.2 Operating lease receivables – Group as a lessor 53
8.3 Liabilities from finance lease and lease agreement with option to purchase 53
8.4 Receivables from finance lease and lease agreement with purchase option 54
9. Investments in associates accounted for using the equity method 54
10. Joint venture 54
11. Inventories 54
12. CO2 emission rights for own purposes 55
13. Other short-term and long-term assets 56
13.1 Other long-term assets 56
13.2 Other short-term assets 56
14. Cash 57
15. Assets classified as held-for-sale 57
16. Discontinued operations 57
17. Assets and liabilities of the Social Fund 57

18. Share capital ... 58
18.1 Share Capital ... 58
18.2 Reserve capital and other capital reserves ... 58
18.3 Revaluation reserve ... 59
18.4 Retained earnings and limitations to payment of a dividend ... 59
18.5 Equity attributable to non-controlling interests ... 60
18.6 Earnings per share ... 60
18.7 Dividends paid and dividends declared ... 61
19. Post-employment benefits ... 61
20. Provisions ... 62
20.1 Provisions for rehabilitation and liquidation of property, plant and equipment ... 64
20.2 Provision for deficit of CO2 emission rights ... 64
20.3 Provisions for jubilee awards ... 65
20.4 Provisions for non-contracted use of property ... 65
20.5 Other provisions ... 65
21. Deferred income and governments grants ... 66
21.1 Long-term deferred income and government grants ... 66
21.2 Short-term deferred income and government grants ... 66
22. Other non-financial liabilities ... 67
23. Contingent liabilities and receivables. Legal claims ... 67
23.1 Contingent liabilities ... 67
23.2 Other significant issues related to contingent liabilities ... 68
23.3 Contingent receivables ... 68
23.4 Other legal claims and disputes ... 68
24. Financial instruments ... 69
24.1 Description of significant position within particular classes of financial instruments ... 69
24.2 Fair value of financial instruments ... 73
24.3 Fair value hierarchy ... 73
24.4 Statement of comprehensive income ... 75
24.5 Collaterals for repayment of receivables and liabilities ... 76
25. Objectives and principles of credit risk management ... 76
25.1 Liquidity risk ... 77
25.2 Interest rate risk ... 78
25.3 Foreign currency risk ... 79
25.4 Price risk ... 80
25.5 Credit risk ... 82
25.6 Market (financial) risk – sensitivity analysis ... 84
25.7 Hedge accounting ... 87
26. Statement of cash flows ... 87
26.1 Profit/ loss on investment activities ... 87
26.2 Change in receivables ... 88
26.3 Change in inventories ... 88
26.4 Change in liabilities, excluding loans and bank credits ... 88
26.5 Change in other non-financial assets, deferred income and CO2 emission rights ... 88
26.6 Change in provisions ... 89
27. Information on related parties ... 89
27.1 Associates ... 89
27.2 Subsidiaries of the State Treasury ... 89
27.3 Key management personel remuneration ... 90
28. Significant events of the reporting period and subsequent events ... 90
28.1 Compensations for long term contracts ... 90
28.2 Preparation for the construction and operation of the first Polish nuclear power plant ... 92
28.3 Establishment of the Eurobonds programme ... 92
29. Approval of financial statements ... 93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014	Year ended 31 December 2013 *restated**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	B.2	**28,137**	**30,145**
Costs of goods sold	B.2	(21,546)	(23,360)
GROSS PROFIT ON SALES		**6,591**	**6,785**
Other operating revenues	B.2	1,561	802
Distribution and selling expenses	B.2	(1,540)	(1,244)
General and administrative expenses	B.2	(831)	(795)
Other operating expenses	B.2	(685)	(701)
OPERATING PROFIT		**5,096**	**4,847**
Financial income	B.2	385	314
Financial expenses	B.2	(868)	(313)
Share of profit of associates	B.9	-	(1)
PROFIT BEFORE TAX		**4,613**	**4,847**
Income tax	B.3	(956)	(876)
NET PROFIT FOR THE REPORTING PERIOD		**3,657**	**3,971**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments		(75)	-
Foreign exchange differences from translation of foreign entities		(1)	1
Deferred tax		14	-
Other comprehensive income, which will not be reclassified to profit or loss, including:			
Actuarial gains and losses from valuation of provisions for employee benefits		(397)	311
Deferred tax		75	(59)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(384)**	**253**
TOTAL COMPREHENSIVE INCOME		**3,273**	**4,224**
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		3,638	3,948
– non-controlling interest		19	23
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		3,255	4,200
– non-controlling interest		18	24
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**1.95**	**2.11**

* *For information regarding restatement of comparative figures please refer to note A.5 of these financial statements*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014	As at 31 December 2013 *restated**	As at 1 January 2013 *restated**
NON-CURRENT ASSETS				
Property, plant and equipment	B.4	49,738	46,127	44,323
Investment property	B.6	33	22	28
Intangible assets	B.7	763	718	513
Loans and receivables	B.24	13	392	329
Available-for-sale financial assets	B.24	15	25	33
Shares in associates accounted for under the equity method	B.9	9	9	40
Other non-current assets	B.13	1,228	644	359
Deferred tax assets	B.3	383	302	367
TOTAL NON-CURRENT ASSETS		**52,182**	**48,239**	**45,992**
CURRENT ASSETS				
Inventories	B.11	2,175	1,684	2,200
CO_2 emission rights	B.12	1,552	1,404	791
Income tax receivables		46	9	9
Short-term financial assets at fair value through profit or loss	B.24	11	104	19
Trade receivables	B.24	1,729	2,192	1,895
Other loans and financial assets	B.24	1,180	903	768
Available-for-sale financial assets	B.24	16	9	4
Other current assets	B.13	1,012	748	807
Cash and cash equivalents	B.14	6,282	5,952	4,795
Assets classified as held-for-sale	B.15	16	8	9
TOTAL CURRENT ASSETS		**14,019**	**13,013**	**11,297**
TOTAL ASSETS		**66,201**	**61,252**	**57,289**

** For information regarding restatement of comparative figures please refer to note A.5 of these financial statements*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014	As at 31 December 2013 *restated**	As at 1 January 2013 *restated**
EQUITY				
Share capital	B.18	18,698	18,698	18,698
Revaluation on financial assets and hedging reserves	B.18	(61)	-	-
Foreign exchange differences from translation of foreign entities		(1)	-	4
Reserve capital	B.18	9,231	8,941	9,688
Other capital reserves		-	50	50
Retained earnings	B.18	16,901	15,851	12,605
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		**44,768**	**43,540**	**41,045**
Non-controlling interests	B.18	116	268	299
TOTAL EQUITY		**44,884**	**43,808**	**41,344**
NON-CURRENT LIABILITIES				
Non-current provisions	B.20	6,099	4,766	4,870
Interest-bearing loans and borrowings, bonds and lease	B.24	4,688	1,994	1,085
Deferred tax liabilities	B.3	2,090	1,702	1,625
Deferred income and government grants	B.21	1,158	1,181	1,125
Other financial liabilities	B.24	16	11	23
TOTAL NON-CURRENT LIABILITIES		**14,051**	**9,654**	**8,728**
CURRENT LIABILITIES				
Current provisions	B.20	2,070	2,435	1,709
Interest-bearing loans and borrowings, bonds and lease	B.24	357	528	811
Financial liabilities at fair value through profit or loss	B.24	117	24	37
Trade liabilities	B.24	1,179	935	1,202
Income tax liabilities		81	155	231
Deferred income and government grants	B.21	142	151	123
Other current financial liabilities	B.24	1,953	1,944	1,546
Other current non-financial liabilities	B.22	1,367	1,618	1,558
TOTAL CURRENT LIABILITIES		**7,266**	**7,790**	**7,217**
TOTAL LIABILITIES		**21,317**	**17,444**	**15,945**
TOTAL EQUITY AND LIABILITIES		**66,201**	**61,252**	**57,289**

** For information regarding restatement of comparative figures please refer to note A.5 of these financial statements*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Revaluation reserve on financial instruments	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
AS AT 1 JANUARY 2014	**18,698**	**-**	**-**	**8,941**	**50**	**15,851**	**43,540**	**268**	**43,808**
Profit for the reporting period	-	-	-	-	-	3,638	3,638	19	3,657
Other comprehensive income	-	(61)	(1)	-	-	(321)	(383)	(1)	(384)
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**(61)**	**(1)**	**-**	**-**	**3,317**	**3,255**	**18**	**3,273**
Retained earnings distribution	-	-	-	290	(50)	(240)	-	-	-
Dividend	-	-	-	-	-	(2,057)	(2,057)	(4)	(2,061)
Changes within the PGE Group	-	-	-	-	-	-	-	(17)	(17)
Purchase of additional shares in the PGE Group companies	-	-	-	-	-	15	15	(148)	(133)
Other changes	-	-	-	-	-	15	15	(1)	14
TRANSACTIONS WITH OWNERS FOR THE PERIOD	**-**	**-**	**-**	**290**	**(50)**	**(2,267)**	**(2,027)**	**(170)**	**(2,197)**
AS AT 1 DECEMBER 2014	**18,698**	**(61)**	**(1)**	**9,231**	**-**	**16,901**	**44,768**	**116**	**44,884**

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

*restated**	Share capital	Foreign exchange differences from translation	Reserve capital	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
AS AT 1 JANUARY 2013	**18,698**	**4**	**9,688**	**50**	**12,605**	**41,045**	**299**	**41,344**
Profit for the reporting period	-	-	-	-	3,948	3,948	23	3,971
Other comprehensive income	-	1	-	-	251	252	1	253
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**1**	**-**	**-**	**4,199**	**4,200**	**24**	**4,224**
Retained earnings distribution	-	-	77	-	(77)	-	-	-
Dividend	-	-	(824)	-	(784)	(1,608)	(2)	(1.610)
Changes within the PGE Group	-	(5)	-	-	(5)	(10)	14	4
Impact of the mergers of companies within the Group	-	-	-	-	3	3	(3)	-
Purchase of additional shares in the PGE Group companies	-	-	-	-	-	-	(62)	(62)
Other changes	-	-	-	-	(90)	(90)	(2)	(92)
TRANSACTIONS WITH OWNERS FOR THE PERIOD	**-**	**(5)**	**(747)**	**-**	**(953)**	**(1,705)**	**(55)**	**(1,760)**
AS AT 31 DECEMBER 2013	**18,698**	**-**	**8,941**	**50**	**15,851**	**43,540**	**268**	**43,808**

** For information regarding restatement of comparative figures please refer to note A.5 of these financial statements*

CONSOLIDATED STATEMENT OF CASH FLOWS

	Nota	Year ended 31 December 2014	Year ended 31 December 2014 *restated**
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before tax		**4,613**	**4,847**
Income tax paid		(635)	(827)
Adjustments for:			
Shares in profit of associates accounted for under the equity method		-	1
Depreciation, amortization and impairment losses		3,024	2,982
Interest and dividend, net		56	18
Profit / loss on investment activities	B.26	550	(113)
Change in receivables	B.26	135	(504)
Change in inventories	B.26	(508)	516
Change in liabilities, excluding loans and bank credits	B.26	(541)	228
Change in other non-financial assets, prepayments and CO_2 emission rights	B.26	(472)	(533)
Change in provisions	B.26	9	1,024
Other		102	302
NET CASH FROM OPERATING ACTIVITIES		**6,333**	**7,941**
CASH FLOW FROM INVESTING ACTIVITIES			
Disposal of property, plant and equipment and intangible assets		44	44
Purchase of property, plant and equipment and intangible assets		(6,376)	(4,619)
Disposal of financial assets		-	9
Deposits with a maturity over 3 months		(2,116)	(99)
Termination of deposits over 3 months		2,191	10
Purchase of financial assets and increase in shareholding in the PGE Group companies		(111)	(18)
Purchase/ disposal of subsidiaries after deduction of acquired/disposed cash		28	(1,063)
Dividends received		3	2
Interest received		17	1
Loans repaid		(2)	1
Loans granted		-	(4)
Other		26	19
NET CASH FROM INVESTING ACTIVITIES		**(6,296)**	**(5,717)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loans, bank credits and issue of bonds		2,950	1,429
Repayment of loans, bank credits, bonds and finance lease		(530)	(816)
Dividends paid		(2,061)	(1,610)
Interest paid		(84)	(46)
Other		9	(23)
NET CASH FROM FINANCING ACTIVITIES		**284**	**(1,066)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**321**	**1,158**
Effect of foreign exchange rate changes, net		8	(6)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**5,948**	**4,790**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**6,269**	**5,948**
Restricted cash		368	403

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

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

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

1. General Information

1.1 The PGE Group's operations

PGE Polska Grupa Energetyczna S.A. Group ("PGE Group", "Group") comprises the parent company PGE Polska Grupa Energetyczna S.A. and subsidiaries (described in note A.1.5).

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

Core operations of the PGE Group companies are as follows:

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

Business activities are conducted under appropriate concessions granted to particular Group companies, described in note B.1 of these financial statements.

Going concern

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

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

1.2 Ownership structure of the Company

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

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

On 2 July 2014 the State Treasury has disposed (directly and indirectly through Polskie Inwestycje Rozwojowe S.A.) 65,441,629 ordinary shares of the Company, representing 3.50% share in the share capital of the Company. According to the received notification from the Ministry of Treasury, after the above transaction, the share of the State Treasury in the Company's share capital amounts to 58.39%. According to information available to the Company on the date of publication of these financial statements, the only shareholder holding at least 5% of the total number of votes at the General Meeting of PGE S.A. was the State Treasury.

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

1.3 Presentation and functional currency

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

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

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

1.4 The composition of the Management Board of the parent company

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

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

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

1.5 Structure of the Group

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

	Entity	Entity holding shares	Share of the Group entities as at 31 December 2014	Share of the Group entities as at 31 December 2013
	SEGMENT: WHOLESALE			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	The Parent Company		
2.	PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: MINING AND CONVENTIONAL ENERGY ("CONVENTIONAL ENERGY")			
4.	PGE Górnictwo i Energetyka Konwencjonalna S.A.* Bełchatów	PGE Polska Grupa Energetyczna S.A	99.60%	93.91%
		PGE Obrót S.A.	-	4.97%
5.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%
	SEGMENT: RENEWABLE ENERGY			
6.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
7.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
8.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
9.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
10.	Pelplin sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	Żuromin sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	-	100.00%
11.	Eolica Wojciechowo sp. z o.o. Gniewino	PGE Energia Odnawialna S.A.	100.00%	100.00%
12.	PGE Energia Natury S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13.	PGE Energia Natury sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14.	PGE Energia Natury Karnice sp. z o.o. Warsaw	PGE Energia Natury S.A.	100.00%	-
		PGE Polska Grupa Energetyczna S.A.	-	100.00%
15.	PGE Energia Natury Bukowo sp. z o.o. Warsaw	PGE Energia Natury S.A.	100.00%	-
		PGE Polska Grupa Energetyczna S.A.	-	100.00%
16.	PGE Energia Natury Olecko sp. z o.o. Warsaw	PGE Energia Natury S.A.	100.00%	-
		PGE Polska Grupa Energetyczna S.A.	-	81.00%
17.	PGE Energia Natury Omikron sp. z o.o. Warsaw	PGE Energia Natury S.A.	100.00%	100.00%
18.	PGE Energia Natury Kappa sp. z o.o. Warsaw	PGE Energia Natury S.A.	100.00%	100.00%
19.	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Natury S.A.	100.00%	100.00%
	EPW Energia sp. z o.o. ** Warsaw	PGE Polska Grupa Energetyczna S.A.	-	32.70%

	Entity	Entity holding shares	Share of the Group entities as at 31 December 2014	Share of the Group entities as at 31 December 2013
	SEGMENT: DISTRIBUTION			
20.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	10.08%
		PGE Obrót S.A.	-	89.92%
	SEGMENT: RETAIL SALE			
21.	PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER			
22.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
23.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
24.	EXATEL S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	99.98%
25.	PGE Sweden AB (publ) Sweden	PGE Polska Grupa Energetyczna S.A.	100.00%	-
26.	PGE Obsługa Księgowo-Kadrowa sp. z o.o. *(Previously PGE Inwest sp. z o.o.)* Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
27.	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
28.	PGE Inwest 3 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
29.	PGE Inwest 4 sp. z o.o. Warszawa	PGE Polska Grupa Energetyczna S.A.	100.00%	-
30.	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
31.	PGE Inwest 6 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
32.	PGE Inwest 7 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
33.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
34.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
35.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
36.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
37.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
38.	PGE Inwest 13 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
39.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
40.	PGE Inwest 15 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
41.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
42.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
43.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
44.	„ELBEST" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	91.30%
		PGE Dystrybucja S.A.	-	7.50%
		PGE Obrót S.A.	-	1.11%
		PGE Energia Odnawialna S.A.	-	0.09%
45.	MegaSerwis sp. z o.o.	PGE Polska Grupa Energetyczna S.A.	100.00%	-

	Entity	Entity holding shares	Share of the Group entities as at 31 December 2014	Share of the Group entities as at 31 December 2013
	Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
46.	„ELMEN" sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
47.	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
48.	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS sp. z o.o.	-	100.00%
49.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
50.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
51.	PGE Gubin sp. z o.o. Gubin	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	100.00%
	Elektrownia Puławy sp. z o.o. Puławy	PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	50.00%
52.	„Energoserwis – Kleszczów" sp. z o.o. Kleszczów	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
53.	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
54.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	-
		PGE Dystrybucja S.A.	-	84.85%
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	2.48%
55.	RAMB sp. z o.o. Piaski	PGE Górnictwo i Energetyka Konwencjonalna S.A.	100.00%	100.00%
	NOM sp. z o.o. Warsaw	EXATEL S.A.	-	100.00%
56.	ENERGO-TEL S.A. Warsaw	EXATEL S.A.	100.00%	100.00%
57.	Bio-Energia S.A. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
58.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
59.	Przedsiębiorstwo Produkcyjno-Handlowe EKTO sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
60.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
	Zakład Obsługi Energetyki sp. z o.o. Zgierz	PGE Dystrybucja S.A.	-	100.00%

* Share excluding entity's own shares

**During the reporting period PGE S.A. consolidated controlled branches of EPW Energia Sp. z o.o. using full method

Changes in the structure of the PGE Group companies which are subject to full consolidation are mentioned in the table above and include inter alia following transformations which took place during the period ended 31 December 2014:

- On 7 February 2014, the division of the company EPW Energia Olecko sp. z o.o. was completed. As a result, PGE S.A. share in the entity's equity is currently 100%. The division had no effect on these consolidated financial statements.
- On 28 February 2014, the division of the company EPW Energia sp. z o.o. was completed. The branches belonging to PGE S.A. were merged with PGE Energia Natury sp. z o.o. The division had no effect on these consolidated financial statements.
- On 8 April 2014, PGE S.A. purchased the company Goldcup 5812 AB based in Sweden. After the purchase, the company name was changed and is now known as PGE Sweden AB (publ). The purchase of the company was related to the organization of financing for the PGE Group as described in note B.28.3 of these financial statements.
- In August and September 2014, 14 new limited liability companies (with names: PGE Inwest from 2 sp. z o.o. to 15 sp. z o.o.) were registered. Total share capital of these entities amounts to PLN 140 thousand. Setting up of companies was connected with the works on creation of new Tax Capital Group as described in note B.3.4 of these financial statements.
- On 22 August 2014, disposal of Zakład Obsługi Energetyki sp. z o.o. took place. As a result of disposal PGE Group earned profit in amount of more than PLN 5 million.
- On 31 August 2014, PGE S.A. purchased from its subsidiaries stakes in companies: ELBEST sp. z o.o., ELMEN sp. z o.o., ELTUR SERWIS sp. z o.o., TOP Serwis sp. z o.o., BETRANS sp. z o.o., MEGAZEC sp. z o.o., BESTGUM sp. z o.o., Elbis sp. z o.o. and MegaSerwis sp. z o.o. Purchase of the companies was connected with the works on creation of new Tax Capital Group as described in note B.3.4 of these financial statements.
- On 10 September 2014, PGE Obrót S.A. transferred shares of PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. to PGE S.A. in form of a donation.
- On 8 October 2014, PGE S.A. made a contribution in kind to PGE Energia Natury S.A. in form of shares in PGE Energia Natury Bukowo sp. z o.o., PGE Energia Natury Karnice sp. z o.o. and PGE Energia Natury Olecko sp. z o.o.
- NOM sp. z o.o. was disposed on 29 September 2014. As a result of disposal PGE Group reported profit in amount of more than PLN 6 million.
- On 29 October 2014 new company, named PGE Inwest 16 sp. z o.o was registered. Setting up of company was connected with development plans of PGE Group.
- On 6 November 2014 PGE S.A. purchased 1,300 shares of Exatel S.A. As a result of the transaction PGE S.A. became 100% shareholder of Exatel S.A.
- On 30 September 2014 merger of PGE Energia Odnawialna S.A. with Żuromin sp. z o.o. took place. The merger will have no impact on these financial statements.
- On 7 November 2014 PGE Energia Odnawialna S.A. (the acquirer) and Pelplin sp. z o.o. (the acquiree) signed the Merger Plan. Until the date of these financial statements the merger has not been carried out. The merger will have no impact on these financial statements.
- On 23 December 2014 all shares in Elektrownia Puławy sp. z o.o. have been disposed. As a result of the sale PGE Group incurred loss amounted to PLN 1 million.
- Buyout of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. from minority shareholders was taking place during the reporting period. Shares were purchased by PGE S.A. and for redemption by the company itself.

After the reporting date PGE S.A till the date of these financial statements the following events occurred:

- On 14 January 2015 the Extraordinary Shareholders Meeting of PGE Gubin sp. z o.o. adopted a resolution on merger with PGE Górnictwo i Energetyka Konwencjonalna S.A. Until the date of preparation of these financial statements the merger has not been carried out. The merger will have no impact on these financial statements.

2. The basis for the preparation of the financial statements

2.1. Statement of compliance

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

2.2. New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at 1 January 2014:

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

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

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

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

The new IFRS 15 is aimed to standardize the revenue recognition rules (except for these within the scope of other IFRS/IAS) and indicate the extent of disclosure required. The analysis of its impact on the future financial statements of the Group has not been finished yet.

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

2.3. Professional judgment of management and estimates

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

Recoverable amount of property, plant and equipment and goodwill

Changes in energy market may have a significant influence on the recoverable amount of production property, plant and equipment of particular PGE Group entities. If impairment indicators exist, the Group estimates the recoverable amount of an item of property, plant and equipment owned. Estimate of recoverable amount of goodwill is performed once a year.

Impairment analysis of property, plant and equipment and goodwill is performed by estimating the recoverable amount of cash generating units. The analysis is based on a number of significant assumptions, some of which are outside the control of the Group. Any significant changes in these assumptions will impact the result of impairment tests and as a consequence may lead to significant changes to the financial position and results of the Group.

Performed impairment test is described in note A.4 of these financial statements.

Depreciation period of property, plant and equipment

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

Estimated economic useful life of assets is subject to verification at least once a year. Depreciation periods applied are presented in note A.2.4.11 of these financial statements, and influence of their changes is presented in note B.4 of these financial statements.

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

Capitalization of stripping cost in the production phase is determined based on N-W ratio. The ratio is calculated based on the remaining amount of overburden to remove to the remaining recoverable lignite resources - from the date of application of IFRIC 20 to the end of the exploitation of lignite from the deposit component. This ratio is calculated based on the best knowledge of the technical services of the mine at the end of each year and may be subject to change in case of acquisition of new information on the size of the deposit and the way it is located underground.

Influence of assets arising due to the stripping costs in the production phase of a surface mine on property, plant and equipment and its depreciation is described in note B.4 of these financial statements.

Provisions

As described in note A.2.4.27 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 necessary to fulfil the present obligation at the end of the reporting period. The most important provisions are:

- provision for rehabilitation of after-exploitation grounds, including rehabilitation and utilization of final excavation and rehabilitation of ash storages;
- provision for CO_2 emission rights;
- provisions for energy origin units held for redemption;
- provisions for jubilee awards and post-employment benefits.

Change in assumptions used for calculation of carrying value of provisions, especially change in discount rate are described in note B.19 and B.20 of these financial statements.

Contingent liabilities

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

Detailed information on contingent liabilities and legal claims and disputes is presented in note B.23 of these financial statements.

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

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

An unfavorable outcome of the dispute for the PGE Group, described in note B.28.1 of these financial statements, with the President of the Energy Regulation Office with respect to the interpretation of the LTC Act and changes in assumptions used, including those resulting from mergers within the PGE Group, may significantly impact the estimates and as a consequence may lead to significant changes in the financial position and results of the PGE Group. It is not possible to determine the final outcome of the dispute with the President of the Energy Regulation Office as at the date of preparation of these consolidated financial statements.

During the reporting period the Group revised the estimates of LTC compensations. Detailed information is presented in note B.28.1 of these financial statements.

Impairment allowances on receivables

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

Change in impairment allowance on trade and other receivables is presented in note B.25.5 of these financial statements.

Presentation of financial instruments

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

As at 31 December 2014 PGE Group do not classified financial asset to this category.

Upward valuation of electric energy sales

Reading numbers from meters regarding the volume of electric energy sold in retail including distribution services as well as its invoicing is performed mainly in periods different than reporting periods. Taking into account the above, retail sale company (PGE Obrót S.A.) and distribution company (PGE Dystrybucja S.A.) within the Group perform certain revenues estimates at each reporting date for the period not covered with a reading. The estimate includes also a change in the cost of purchase of electric energy resulting from conducted estimates of energy sales and reconciliation of energy balancing difference.

The amount of receivables from the upward valuation of electric energy sales as at 31 December 2014 is described in note B.13 of these financial statements.

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

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

During the year ended 31 December 2014 PGE Group did not acquire any new companies that would result in measurement of fair values of assets and liabilities and goodwill calculation. Description of goodwill is presented in note A.4 of these financial statements.

2.4. Accounting principles applied

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

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

2.4.1 Consolidation principles

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

In order to reconcile any differences in accounting policies consolidation adjustments are made. All balances, income and expenses arising between the Group entities and unrealized gains from intra-group transactions, were fully eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

In accordance with the materiality principle prescribed in the IFRS conceptual framework, these controlled subsidiaries whose financial statements present values immaterial to fulfil obligation of true and fair view regarding the Group's financial position and results have not been consolidated.

Investments in subsidiaries

The subsidiaries are entities over which the parent company exercises control. Control is normally evidenced when the Group holds directly or indirectly more than 50% of the voting rights in a company or it is possible to prove that a certain number of voting rights represents control. Control is also evidenced when the Group is able to govern the financial and operating policies of a company so as to benefit from the results of its activity. Subsidiaries are consolidated using the full consolidation method. Non-controlling interests in net assets of consolidated subsidiaries are presented in the consolidated financial statements in separate position of the equity.

Joint Arrangements

A joint arrangement is an arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In relation to interest in a joint operation in financial statements following item shall be disclosed:

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

In relation to participation in joint venture in the financial statements the interest in a joint venture is recognized as an investment and shall account for that investment using the equity.

Investments in associates

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

Investments in associates are recognized using the equity method.

2.4.2 Businesses combinations

Businesses combinations under common control

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

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

Applying the acquisition method

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

Goodwill is initially recognized at the acquisition price being the excess of the cost of the acquisition over the acquirer's share in the net fair value of identifiable assets, liabilities and contingent liabilities at the acquisition date. After initial recognition, goodwill shall be measured at cost less any accumulated impairment losses. Goodwill on acquisition in not amortized. Goodwill is to be tested for impairment at least annually.

2.4.3 Methods applied to translation of data denominated in foreign currencies

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

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

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

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

2.4.4 Operating segments

The operating segments are components of the Group:

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

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

- Mining and Conventional Energy („Conventional Energy")
- Renewable Energy,
- Wholesale,
- Distribution,
- Retail Sale
- Other activity that includes the operation of the subsidiaries other than listed above, but not material enough to create separate segment.

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

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

2.4.5 Revenues

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

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: electricity for wholesale and retail sale, heat energy, lignite, certificates of energy origin from renewable energy sources, certificates of production of energy in high efficiency cogeneration plants, greenhouse gas emission rights, distribution and transmission services and other 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 Group recognizes revenue only to the extent of the expenses recognized that are recoverable.

Connection fees

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

Revenues from LTC compensations

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

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

Revenues from distribution activity

Distribution activity is strictly regulated in terms of tariffs of service prices and development (investment) planning for network companies.

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

The regulated revenues include the following elements:

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

2.4.6 Cost of goods sold

Cost of goods sold includes:

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

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

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

2.4.7 Other operating revenues and expenses

Other operating revenues and expenses include in particular:

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

2.4.8 Financial income and expenses

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

- disposal of financial assets and interests in unconsolidated entities,
- revaluation of financial instruments, except for financial assets available for sale ("AFS"), the result of which is reflected in revaluation reserve,
- share of profits of other entities,
- interest,
- changes in provisions related to passage of time (unwinding of the discount),
- exchange differences resulting from operations performed during the reporting period and translation of the carrying amount of assets and liabilities at the reporting date, except for the exchange differences recognized in the initial value of an item of property, plant and equipment, to the extent they are recognized as an adjustment to interest expense and exchange differences related to valuation of financial instruments classified to AFS portfolio,
- other items related to financial operations.

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

2.4.9 Taxes

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

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

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

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

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

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

The carrying amount of a deferred tax asset and deferred tax liability is reviewed at each reporting date. The deferred tax asset and deferred tax liabilities are classified as long-term. The Group offsets deferred tax asset and liabilities, at the level of each company of the Group.

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

2.4.10 Earnings per share

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

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

2.4.11 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 recognition as an asset, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or at deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories. As at the day of acquiring or manufacturing of an item of property, plant and equipment, the Group identifies and distinguishes all significant elements being a part of respective asset, comparing to the acquisition price, cost of manufacture or deemed cost, and depreciates them separately.

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the component of the plant, property and equipment is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used shall reflect the pattern in which the item of plant, property and equipment future economic benefits are expected to be consumed by the entity. Major inspection and overhauls recognized as a component of property, plant and equipment are depreciated starting the next month after finishing the inspection/overhaul until the beginning of the next overhaul/inspection.

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

Group	Average remaining depreciation period in years	The most often applied total amortization period in years
Buildings and structures	17	20 – 40
Machinery and equipment	14	5 – 35
Vehicles	6	5 – 14
Other	4	3 – 10

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

If there is an impairment loss on property, plant and equipment to be recognised the PGE Group applies principles described in note A2.4.16.

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

Stripping costs

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

In the event that the conditions recorded in the interpretation of IFRIC 20 are met, mines also recognize as a property, plant and equipment so-called deferred stripping cost, i.e. stripping costs incurred during the production phase.

The value of the assets arising due to stripping costs in the production phase is determined based on the model that takes into account, inter alia, the estimated value of the overall N-W ratio (the proportion of overburden to lignite) and annual real rate of N-W. An asset of the stripping activity is systematically depreciated using the natural method of depreciation based on the amount of coal mined from certain coalfield.

Costs of rehabilitation of post-exploitation surface mining properties

Surface mines operating in the Group capitalize in the value of the corresponding component of fixed assets estimated costs of rehabilitation of post-exploitation mining properties in the proportion of the volume of the excavation resulting from stripping of overburden at the reporting date to the planned excavation volume corresponding to overburden at the end of exploitation period.
Capitalized costs of rehabilitation are systematically depreciated using the natural method of depreciation based on the amount of lignite mined from a particular field.

2.4.12 Investment property

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

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

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

2.4.13 Intangible assets

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

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

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

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

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

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

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

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

Group	Average remaining amortization period in years	The most often applied total amortization period in years
Acquired patents and licenses	4	3 - 5
Costs of finished developed works	3	3 - 5
Other	15	3 - 25

An intangible asset arising from development shall be recognized if, and only if, the Group can demonstrate all of the following:

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

2.4.14 Borrowing costs

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

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

2.4.15 Financial assets

Financial assets are classified in the following categories:

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

Held-to-maturity investments

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

Financial assets at fair value through profit or loss

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

- It is classified as held-for-sale. A financial asset is classified as held-for-sale if it is:
    - acquired or incurred principally for the purpose of selling in the near term,
    - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
    - a derivative, except for a derivative that is a designated and effective hedging instrument.
- Upon initial recognition it is designated by the entity as at fair value through profit or loss (in accordance with IAS 39). Any financial asset within the scope of this standard may be designated when initially recognized as a financial asset at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

These financial assets are measured at fair value considering the market value as at the reporting date. The change in fair value of those assets classified as FVP is recognized in profit or loss. Profits and losses on financial assets classifies as FVTPL are not reduced by the amount of accrued interest.

Granted 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. Loans and receivables are recognized at amortized cost.

Available-for-sale financial assets

All other financial assets are account for as available-for-sale financial assets. Financial assets available for sale are recognized at fair value as at each 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 Group's right to receive payment is established.

2.4.16 Impairment of non-financial assets

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

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

2.4.17 Embedded derivatives

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

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

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

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

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

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

2.4.18 Derivatives and hedging instruments

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

The gain or loss resulting from the change in fair value of derivative not qualifying for hedge accounting, is recognized directly in profit or loss.

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

2.4.19 Hedge accounting

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

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

2.4.20 Inventories

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

Inventories comprise:

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

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

CO_2 emission rights acquired in order to realize profits from fluctuations in market prices are measured at fair value less costs of disposal. Cost of usage of inventories is determined as follows:

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

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

2.4.21 CO_2 emission rights for unit own purposes

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

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

2.4.22 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 allowance. Impairment allowances are recognized as other operating expenses or financial expenses. Long-term receivables are measured at present (discounted) value.

2.4.23 Other assets and prepayments

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

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

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

Other assets include in particular receivables from the state, advances for deliveries and services (including advances for property, plant and equipment under construction) and receivables from dividends, and asset arising from upward valuation of electric energy sales.

2.4.24 Cash and cash equivalents

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

2.4.25 Non-current assets classified as held for sale

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

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

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

2.4.26 Equity

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

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

In the consolidated financial statement of financial position equity is presented with regards to:

- Equity attributable to equity owners of the parent,
- Non-controlling interest.

2.4.27 Provisions

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

When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Post-employment and jubilee benefits provisions

Depending on the entity, employees of the Group companies are entitled to the following post-employment benefits:

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

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

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

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

Provision for rehabilitation

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

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

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

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

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

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

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

as other operating expenses or other operating revenues - in other cases.

Provisions for liability due to CO_2 emission rights

The provision for CO_2 emission is created by the PGE Group entities in the amount relating to this part of CO_2 emission rights, which is obtained for free. The provision is established in the amount corresponding to the most appropriate estimation of expenses necessary to fulfil the existing obligations as at reporting date, taking into account recorded value of EUA obtained for fee and EAU purchased as well as the possibly to cover any shortage with CER or ERU.

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

Provisions for energy origin rights held for redemption

The provision is created based on the requirement of the percentage share of the renewable energy and the energy generated in cogeneration units in the total sale of the electric energy to the final recipient and the volume of trade to the final recipient. To the exited of owned energy origin rights held for redemption the provision is recognized at the value of those rights. Provisions in the amount uncovered by energy origin rights are measured at reliably estimated amount of future obligation of redemption. Making estimates it is taking into account the amount of payment substitute and prices. The cost of the created provision is being included in costs of sales.

2.4.28 Liabilities

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

The Group divide liabilities into the following categories:

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

2.4.29 The Social Fund and Other Special Funds

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

The assets and liabilities of the Social Fund are netted off in the financial statements. In addition, as described in note B.19, the Group entities create provision for the Social Fund for employees as future pensioners.

2.4.30 Deferred income and government grants

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

- amounts received or due from business partners to be realized in subsequent reporting periods. Deferred income form connection fees that were received before 1 July 2009 is recognized evenly in revenues from sales of products,
- grants obtained to finance acquisition or production of property, plant and equipment and intangible assets,
- property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortized to other operating revenues in line with the depreciation charges on these assets,

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

2.4.31 Leasing

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

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

2.4.32 Statement of cash flow

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

3. Settlement of acquisition of new subsidiaries

Changes in the PGE Group in 2014

Within the reporting period PGE S.A. purchased the Goldcup 5812 AB company (at present PGE Sweden AB (publ)). At the moment of the purchase the company did not possess significant assets, liabilities and capital and the acquisition price did not differ from its carrying amount. The purchase of the company was related to organization of financing for the PGE Group, described in note B.28.3 of these financial statement.

In addition, PGE S.A. established 15 new limited liability subsidiaries (names: PGE Inwest 2 sp. z o.o. to 16 sp. z o.o.). These companies do not conduct the operating activity.

Purchase and establishment of new companies in 2014 did not result in the goodwill recognition.

Changes in the PGE Group in 2013

In June 2013 PGE S.A. and Energa Hydro Sp. z o.o. (subsidiary of Energa S.A.) concluded an agreement with DONG Energy Wind Power A/S concerning acquisition of shares in the companies managing operating wind farms and developing wind farms projects in Poland. PGE S.A. acquired operating wind farms with installed capacity of 60.5MW and package of projects with planned capacity of about 555 MW.

In addition, in July 2013 PGE S.A. and Energa Hydro Sp. z o.o concluded with Iberdrola Renovables Energía S.A.U. and European Bank for Reconstruction and Development, two acquisition agreements for 100% of shares in Iberdrola Renewables Polska Sp. z o.o. (then EPW Energia Sp. z o.o.), which was managing a portfolio of wind farms in Poland. According to the agreements PGE S.A. acquired three operating wind farms with a total installed capacity of 70.5 MW and two projects with a capacity of 36 MW.

After incorporation of above mentioned entities into PGE Group structure they renamed to contain the element "PGE Energia Natury".

In addition, in 2013, the Group performed the valuation of the fair value of acquired assets. As a result of the performed valuations the intangible assets regarding land lease agreements and contracts for the sale of energy origin rights were identified. Identified intangible assets are the subject to amortization for the period of the agreement, but no longer than the remaining time of economic useful life of related wind farm. Additionally, the measurement of the fair value of the acquired property, plant and equipment (including investment projects under development) have been conducted and rehabilitation provision created.

Recognized goodwill in the total amount of PLN 106 million arises from the fact that the Group assumes a higher value of the discounted cash flows from operating activities of the acquired wind farms in comparison to net value of acquired assets.

4. Impairment test of property, plant and equipment and goodwill

Property, plant and equipment is the most significant item of PGE Group's assets. Due to changeable macroeconomic conditions the PGE Group periodically verify the recoverable value of its manufacturing assets and the goodwill assigned to them.

PGE Group performed impairment tests related to cash generating units ("CGU"), through determining their recoverable amount. Due to the fact, that there were no similar transactions on the Polish market, the recoverable amount was determined based on estimated value in use of tested assets calculated using the discounted cash flow method on the basis of financial projections for the years 2015 – 2030, and in of some CGU (e.g. wind farms) based on projections covering the total remaining useful life. According to the PGE Group, adoption of the financial projections longer than five years is reasonable due to the fact that property, plant and equipment used by the Group have significantly longer economic useful lives and due to the significant impact of estimated changes in the regulatory environment of the Group.

The assumptions

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

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

  as one CGU due to the technological and economical connections between these branches;
- recognizing as three separate CGU: Elektrownia Dolna Odra (Power Plant Dolna Odra), Elektrownia Szczecin (Power Plant Szczecin) and Elektrownia Pomorzany (Power Plant Pomorzany) being a part of Branch Zespół Elektrowni Dolna Odra,
- the assumptions on electricity prices in the years 2015-2030 taking into account influence of LTC settlements and the costs of purchase of CO_2 emission allowances,
- the assumptions on the number of CO_2 emission rights for the production of electricity received free of charge for the years 2015-2020 for particular CGU 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/WE of the European Parliament and of the Council (so-called derogations application), which meets the requirements of Commission Decision of 13 July 2012. In terms of heat production, free of charge rights has been taken into account in line with the list of allocations of CO_2 emission rights for heat in the reference period 2013-2020, published by Ministry of the Environment,
- taking into account free allocations of CO_2 emission rights in the period 2021-2030,
- significant (repeated) increase in prices of CO_2 emission rights, which the PGE Group will have to buy on the market,
- increase in prices of coal during the forecast period slightly above the assumed inflation,
- taking into account system of support for renewable energy sources according to RES Act. i.e. hydro-electric power stations of installed power not exceeding 5 MW will be provided with support in the form of certificates granted,
- taking into account system of support for renewable sources of energy and high-performance cogeneration in whole period of forecast,
- maintenance of production capacities at current level, as a result of reconstruction investments,
- taking into account development investments, for which construction works began,
- adopting weighted average cost of capital after tax at the level of 7.63%,

taking into account compensations to be received by authorised producers due to early termination of long-term contracts.

Property, plant and equipment – power generating assets

Conducted tests did not indicate the impairment loss of the power generating assets in the segment of Renewable Energy

The tests conducted in Conventional Energy segment indicates that the recoverable amount of assets in Dolna Odra Power Plant, Zgierz Power Plant and Pomorzany Power Plant (belonging to PGE Górnictwo i Energetyka Konwencjonalna S.A.), are lower than their carrying amount. Accordingly, these financial statements include impairment loss of these assets of PLN 153 million.

Results of the sensitivity analysis for individual units showed that the biggest impact on the recoverable amount of tested assets have changes in prices of the electric energy and the weighted average cost of capital. To a lesser extent the recoverable amount is influenced by change in the cost of purchase of production fuel (coal or gas, depending on the entity) and change of the assumptions concerning the price of CO_2 emission rights. For assets from the Renewable Energy segment a change of the assumptions concerning the selling price of energy origin rights has significant influence.

Goodwill

The total goodwill presented in these financial statements amounts to the PLN 286 million. From the total value of goodwill, the amount of PLN 285 million is allocated to the wind assets of Renewable Energy segment and was subject to impairment tests, along with entire cash generating units in the manner described above. The total value of tested assets as at 31 December 2014 amounts to the PLN 1,856 million and includes the value of working wind farms, assigned intangible assets and the goodwill. The recoverable value of analysed assets was determined at the PLN 2,095 million, and therefore no impairment loss was recognized.

Measurement estimate of property, plant and equipment in distribution company

As at reporting date carrying value of property, plant and equipment related to the distribution activity amounted to more than PLN 14 billion and represents over 22% of the total consolidated assets. Their recoverable value depends mainly on tariffs granted by the Energy Regulatory Office. Regulated revenue (tariff) determined annually in the financial projection, provides covering justified costs: operating, depreciation, taxes, purchase of energy to cover the balancing difference and transferred costs. It provides also a return on equity involved in the distribution activity at a justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Value of Assets.

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

5. Changes of accounting principles and data presentation

The implementation of hedge accounting

In 2014 the Group has revised the applied accounting principles by introducing hedge accounting. The Group permits the use of cash flow hedge accounting, fair value hedge accounting and hedge of a net investment in a foreign operation. Accordingly, the Group may decide to designate selected derivatives as a hedging instruments within the identified hedging relationship. The Group permits the application of hedge accounting only if the criteria defined in IAS 39 are met. Details of applied hedge accounting is described in note A.2.4.19 of these financial statements.

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

Change of accounting principles on valuation of provisions for rehabilitation of surface mines

According to accounting principles previously applied, the amount of the provision corresponded to the expected cost of future rehabilitation, discounted to the current value, in the proportion of the extracted lignite to the total planned lignite extraction from the deposit over the entire operating period. The increase in the provision resulting from exploitation of the deposit and the reversal of the discount was expensed. Any changes in the assumptions were recognized in profit or loss.

New accounting principles in respect of rehabilitation provision were described in detail in note A.2.4.27 of these financial statements. According to the new principles concerning recognition of the rehabilitation provision future rehabilitation costs are divide into:

- to the part corresponding to the volume of the excavation resulting from extraction of lignite,
- to the part corresponding to the volume of the excavation resulting from stripping of overburden.

The part relating to lignite is recognized using the method previously applied i.e. natural method based on the quantities of extracted lignite. In turn the part relating to stripping costs is capitalized in the value of property, plant and equipment and then depreciated. Changes in the assumptions taken to estimate the provision are recognized in profit or loss (in the part relating to lignite) and capitalized (in the part relating to stripping costs), provided that the amount deducted from the purchase price or production cost cannot be higher than its carrying amount.

If the PGE Group maintained in the financial statements as at and for the period ended 31 December 2014 the accounting policy previously applied:

- the consolidated net profit would be lower by approximately PLN 340 million (gross profit by about PLN 420 million),
- the property, plant and equipment would be lower by about PLN 1,014 million,
- the non-current provisions would be lower by approximately PLN 396 million,
- the equity would be lower by approximately PLN 500 million,
- the deferred tax liabilities would be lower by approximately PLN 118 million.

According to the PGE Group the revised accounting policy provides more fairly the financial situation and results of the Group in respect of the mining of lignite from surface mines and better applies IFRS. In addition, the revised principles reduce the volatility of the financial result of the PGE Group to changes of macroeconomic assumptions.

Reclassification

In addition, PGE Group has reclassified the presentation of connection fees from other non-financial liabilities to deferred income.

Restatement of comparative information

Accordingly, the Group restated the information presented in the comparative statements of financial position, statement of comprehensive income and the statement of cash flows. The restatement is presented in below tables. Information presented in explanatory notes to these financial statements have also been restated accordingly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2013 *published data*	Change in valuation of rehabilitation provision	Year ended 31 December 2013 *restated*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	**30,145**	**-**	**30,145**
Cost of goods sold	(23,370)	10	(23,360)
GROSS PROFIT ON SALES	**6,775**	**10**	**6,785**
Other operating revenues	1,025	(223)	802
Distribution and selling expenses	(1,244)	-	(1,244)
General and administrative expenses	(795)	-	(795)
Other operating expenses	(701)	-	(701)
OPERATING PROFIT	**5,060**	**(213)**	**4,847**
Financial income	314	-	314
Financial expenses	(314)	1	(313)
Share of profit of associates	(1)	-	(1)
PROFIT BEFORE TAX	**5,059**	**(212)**	**4,847**
Income tax	(916)	40	(876)
NET PROFIT FOR THE REPORTING PERIOD	**4,143**	**(172)**	**3,971**
OTHER COMPREHENSIVE INCOME			
Other income for the period, net	253	-	253
TOTAL COMPREHENSIVE INCOME	**4,396**	**(172)**	**4,224**
NET PROFIT ATTRIBUTABLE TO :			
– equity holders of the parent company	4,118	(170)	3,948
– non-controlling interest	25	(2)	23
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
- equity holders of the parent company	4,370	(170)	4,200
- non-controlling interest	26	(2)	24
EARNINGS PER SHARE (in PLN)			
– basic earnings per share for the period	2.20	(0.09)	2.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December 2013 *published data*	Change in valuation of rehabilitation provision	Reclassification of connection fees	As at 31 December 2013 *restated*
NON-CURRENT ASSETS , including:				
Property, plant and equipment	45,626	501	-	46,127
TOTAL NON-CURRENT ASSETS	**47,738**	**501**	**-**	**48,239**
TOTAL ASSETS	**60,751**	**501**	**-**	**61,252**
EQUITY, including:				
Retained earnings	15,693	158	-	15,851
Non-controlling interests	266	2	-	268
TOTAL EQUITY	**43,648**	**160**	**-**	**43,808**
NON-CURRENT LIABILITIES, including:				
Provisions	4,462	304	-	4,766
Deferred tax liabilities	1,665	37	-	1,702
TOTAL NON- CURRENT LIABILITIES	**9,313**	**341**	**-**	**9,654**
CURRENT LIABILITIES, including:				
Deferred income and government grants	96	-	55	151
Other current non-financial liabilities	1,673	-	(55)	1,618
TOTAL CURRENT LIABILITIES	**7,790**	**-**	**-**	**7,790**
TOTAL EQUITY AND LIABILITIES	**60,751**	**501**	**-**	**61,252**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December 2013 *published data*	Change in valuation of rehabilitation provision	Reclassification of connection fees	Year ended 31 December 2013 *restated*
Profit before tax	**5,059**	**(212)**	**-**	**4,847**
Adjustments for:				
Depreciation, amortization and impairment losses	2,957	25	-	2,982
Change in liabilities , excluding loans and bank credits	253	-	(25)	228
Change in prepayments	(558)	-	25	(533)
Change in provisions	837	187	-	1,024
NET CASH FROM OPERATING ACTIVITIES	**7,941**	**-**	**-**	**7,941**

CONSOLIDATED STATEMENT OF CASH FLOWS

	As at 1 January 2013 *published data*	Change in valuation of rehabilitation provision	As at 1 January 2013 *restated*
NON-CURRENT ASSETS , including:			
Property, plant and equipment	43,738	585	44,323
TOTAL NON-CURRENT ASSETS	**45,407**	**585**	**45,992**
TOTAL ASSETS	**56,704**	**585**	**57,289**
EQUITY, including:			
Retained earnings	12.278	327	12.605
Non-controlling interest	294	5	299
TOTAL EQUITY	**41,012**	**332**	**41,344**
NON-CURRENT LIABILITIES, including:			
Provisions	4,695	175	4,870
Deferred tax liabilities	1,547	78	1,625
TOTAL NON- CURRENT LIABILITIES	**8,475**	**253**	**8,728**
TOTAL EQUITY AND LIABILITIES	**56,704**	**585**	**57,289**

B. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Operating segments

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

For the concessions on coal mining, generation and distribution of electricity and heat the relevant assets are assigned, presented in detailed information about operating segments. In relation to held concessions concerning the electric energy and heat, the annual charges dependent on the level of turnovers are incurred. In the case of conducting licensed activities related to the extraction of coal the exploitation charges as well as fees for the use of mining are beard. The amount of fees depends on the current rate and the volume of the extraction. In 2014, the cost of the PGE Group in respect of licenses amounted to PLN 4 million (in 2013 PLN 5 million), and costs related to operating fees and charges for the use of mining amounted to PLN 124 million in 2014 and PLN 130 million in 2013.

PGE Group presents information on business segments in the current and comparative reporting period in accordance with IFRS 8 Operating Segments. The division of the reporting of the PGE Group is based on business segments:

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

Organization and management over the Group is based on the division into segments, taking into account the nature of the products and services. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note A.1.5 of these financial statements. Transactions between segments are settled within the Group as if they were concluded with third parties – under market conditions.

Analysing the results of the particular business segments the management of PGE Group draws attention to the EBITDA reached.

Seasonality of business segments

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

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

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

INFORMATION ON BUSINESS SEGMENTS FOR THE PERIOD ENDED 31 DECEMBER 2014

	Conventional Energy	Renewable Energy	Wholesale	Distribution	Retail sale	Other activities	Consolidation adjustments	Total
STATEMENT OF PROFIT AND LOSS								
Sales revenues from external customers	12,531	700	285	1,646	12,222	735	18	28,137
Sales revenues from transactions with other segments	375	22	9,437	4,129	149	1,119	(15,231)	-
REVENUES FROM SEGMENTS, TOTAL	**12,906**	**722**	**9,722**	**5,775**	**12,371**	**1,854**	**(15,213)**	**28,137**
Costs of goods sold	(13.554)	(533)	(9,080)	(5,055)	(11,197)	(1,715)	19,588	(21,546)
EBIT *)	**3,296**	**137**	**464**	**1,306**	**(200)**	**31**	**62**	**5,096**
Net financial revenues (expenses)								(483)
Share of profit of associates								-
GROSS PROFIT								**4,613**
Income tax								(956)
NET PROFIT FOR THE REPORTING PERIOD								**3,657**
Amortization, depreciation and impairment losses	1,696	212	14	1,005	7	130	(42)	3,022
EBITDA **)	**4,992**	**349**	**478**	**2,311**	**(193)**	**161**	**20**	**8,118**
ASSETS AND LIABILITIES								
Assets of the segments excluding trade receivables	35,061	4,015	655	15,360	1,159	1,112	(861)	56,501
Trade receivables	297	95	602	365	1,186	288	(1,104)	1,729
Shares in associates								9
Unallocated assets								7,962
ASSETS, TOTAL								**66,201**
Liabilities of the segments excluding trade liabilities	8,518	296	448	2,122	1,462	352	(276)	12,922
Trade liabilities	705	88	240	231	715	176	(976)	1,179
Unallocated liabilities								7,216
LIABILITIES, TOTAL								**21,317**
OTHER INFORMATION ON BUSINESS SEGMENTS								
Capital expenditures	4,362	374	12	1,508	5	158	(70)	6,349
Impairment allowances on financial and non-financial assets	186	3	14	(8)	13	1	(2)	207
Other non-monetary expenses ***)	1,833	29	44	255	1,149	68	56	3,434

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation/amortization included in the cost of basic activities

***) Non-monetary changes of provisions relate among others to: rehabilitation, provision for liability due to CO_2 emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income.

INFORMATION ON BUSINESS SEGMENTS FOR THE PERIOD ENDED 31 DECEMBER 2013

restated	Conventional Energy	Renewable Energy	Wholesale	Distribution	Retail sale	Other activities	Consolidation adjustments	Total
STATEMENT OF PROFIT AND LOSS								
Sales revenues from external customers	11,819	636	2,683	1,421	12,774	776	36	30,145
Sales revenues from transactions with other segments	392	98	9,806	4,195	254	1,062	(15,807)	-
REVENUES FROM SEGMENTS, TOTAL	**12,211**	**734**	**12,489**	**5,616**	**13,028**	**1,838**	**(15,771)**	**30,145**
Costs of goods sold	(14,067)	(549)	(11,451)	(5,412)	(11,552)	(1,685)	21,356	(23,360)
EBIT *)	**1,971**	**188**	**965**	**1,221**	**403**	**29**	**70**	**4,847**
Net financial revenues (expenses)								1
Share of profit of associates								(1)
GROSS PROFIT								**4,847**
Income tax								(876)
NET PROFIT FOR THE REPORTING PERIOD								**3,971**
Amortization, depreciation and impairment losses	1,661	198	18	988	8	116	1	2,990
EBITDA **)	**3,632**	**386**	**983**	**2,209**	**411**	**145**	**71**	**7,837**
ASSETS AND LIABILITIES								
Assets of the segments excluding trade receivables	31,283	3,542	500	14,871	646	1,103	(598)	51,347
Trade receivables	242	74	779	314	1,418	351	(986)	2,192
Shares in associates								9
Unallocated assets								7,704
ASSETS, TOTAL								**61,252**
Liabilities of segment excluding trade liabilities	8,189	236	225	1,849	1,541	381	(290)	12,131
Trade liabilities	544	37	143	206	645	229	(869)	935
Unallocated liabilities								4.378
LIABILITIES, TOTAL								**17,444**
OTHER INFORMATION ON BUSINESS SEGMENTS								
Capital expenditures	2,722	196	13	1,335	6	178	(93)	4,357
Purchase of non-current assets (net value) within acquired new companies	-	847	-	-	-	-	269	1,116
Impairment allowances on financial and non-financial assets	390	19	1	40	14	7	(35)	436
Other non-monetary expenses ***)	1,603	3	18	64	888	49	(214)	2,411

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation/amortization included in the cost of basic activities

***) Non-monetary changes of provisions relate among others to: rehabilitation provision for liability due to CO_2 emission rights, jubilee awards, employee tariff that are recognized in profit or loss and other comprehensive income.

Information on geographical areas

The geographic distribution of sales revenues for the year ended 31 December 2014 and 31 December 2013 are as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
REVENUES FROM OPERATING ACTIVITIES		
Domestic market	27,968	29,607
EU countries	154	523
Other countries	15	15
TOTAL REVENUES	**28,137**	**30,145**

The geographical distribution of assets as at 31 December 2014 and 31 December 2013 are as follows:

	As at 31 December 2014	As at 31 December 2013 *restated*
OTHER INFORMATION ON THE AREA		
Domestic market	58,228	53,538
EU countries	2	9
ASSETS OF THE AREA, TOTAL	**58,230**	**53,547**
Domestic market	7,886	7,634
EU countries	76	62
UNLLOCATED ASSETS, TOTAL	**7,962**	**7,696**
Domestic market	9	9
INVESTMENTS IN ASSOCIATES	**9**	**9**
TOTAL ASSETS	**66,201**	**61,252**

2. Revenues and expenses

2.1. Sales revenues

	Year ended 31 December 2014	Year ended 31 December 2013
REVENUES FROM OPERATING ACTIVITIES		
Sales of finished goods and merchandise with excise tax	*26,552*	*29,677*
Excise tax	*(537)*	*(506)*
Revenues from sale of merchandise and finished goods:	**26,015**	**29,171**
Sale of electricity	18,260	21,810
Sale of distribution services	5,410	5,219
Sale of heat	687	711
Sale of the energy origin rights	649	456
Regulatory system services	401	415
Other sales	608	560
Revenues from sale of services	**583**	**673**
Revenues from LTC compensations	**1,539**	**301**
SALES REVENUES, TOTAL	**28,137**	**30,145**

The decrease in sales revenues for the period ended 31 December 2014 compared to the corresponding period of prior year is mainly due to the expiration of the contract with Energa Obrót S.A. and decrease of electricity price.

The issue of revenues from LTC compensations is described in note B26.1 of these financial statements.

2.2. Information concerning major customers

The Group does not hold outside, single customers, from which the sales revenue would constitute 10% or more of total income of the Group.

2.3. Cost by type and functions

	Year ended 31 December 2014	Year ended 31 December2013 *restated*
COSTS BY TYPE		
Depreciation and amortisation	3,006	2,982
Impairment losses	16	8
Materials and energy	3,201	3,514
External services	2,497	2,305
Taxes and charges	2,903	3,363
Employee benefits	4,843	4,326
Other costs by type	281	318
TOTAL COST BY TYPE, TOTAL	**16,747**	**16,816**
Change in inventories	25	12
Cost of products and services for the entity's own needs	(1,423)	(1,577)
Distribution and selling expenses	(1,540)	(1,244)
General and administrative expenses	(831)	(795)
Cost of merchandise and materials sold	8,568	10,148
COST OF GOODS SOLD	**21,546**	**23,360**

2.4. Depreciation, amortisation and impairment losses

Presented below is depreciation, amortisation and impairment losses recognized in the statement of comprehensive income:

Year ended 31 December 2014	Depreciation and amortisation				Impairment losses		
	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	2,761	62	-	2,823	16	-	**16**
Distribution and selling expenses	21	3	-	24	-	-	**-**
General and administrative expenses	34	6	-	40	-	-	**-**
Change in inventories	15	-	-	15	-	-	**-**
Cost of products and services for the entity's own needs	104	-	-	104	-	-	**-**
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**2,935**	**71**	**-**	**3,006**	**16**	**-**	**16**
Other operating expenses	-	-	2	**2**	155	-	**155**
Other operating revenues	-	-	-	-	(2)	-	**(2)**
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**2,935**	**71**	**2**	**3,008**	**169**	**-**	**169**

Year ended 31 December 2013	Depreciation and amortisation				Impairment losses		
	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	2,869	55	3	**2,927**	6	-	6
Distribution and selling expenses	13	2	-	**15**	-	-	-
General and administrative expenses	32	5	-	**37**	-	2	2
Change in inventories	3	-	-	**3**	-	-	-
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**2,917**	**62**	**3**	**2,982**	**6**	**2**	**8**
Other operating expenses	-	-	-	-	346	-	346
Other operating revenues	-	-	-	-	(11)	-	(11)
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	**2,917**	**62**	**3**	**2,982**	**341**	**2**	**343**

2.5. Materials and energy

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Cost of production fuel	2,183	2,359
Renovation materials	576	649
Energy	168	196
Others	274	310
TOTAL MATERIALS AND ENERGY	**3,201**	**3,514**

2.6. External services

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Transmission services	1,356	1,138
External services- repairs and exploitation	311	251
Logistics services	218	248
Telecommunication services	165	180
Rent and lease	128	123
IT services	71	70
Consulting services	44	64
Other	204	231
TOTAL EXTERNAL SERVICES	**2,497**	**2,305**

2.7. Employee benefits expenses and employment structure

	Year ended 31 December 2014	Year ended 31 December 2013
Payroll	3,151	3,170
Social security expenses	599	613
Retirement and pension expenses	14	15
Jubilee awards and allowances	100	105
Other post-employment benefits	25	20
Change in provisions for employee benefits	75	(65)
Cost of the Voluntary Leave Program	404	1
Other employee benefits	475	467
TOTAL EMPLOYEE BENEFITS EXPENSES	**4,843**	**4,326**
Included in costs of goods sold	3,786	3,408
Included in distribution and selling expenses	261	270
Included in general and administrative expenses	468	467
Included in cost of products and services for the entity's own needs	328	181

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

	As at 31 December 2014	As at 31 December 2013
Conventional energy	17,485	18,871
Renewable energy	577	584
Wholesale	494	424
Distribution	10,648	10,938
Retail sale	1,497	1,505
Other consolidated units	9,276	8,873
TOTAL EMPLOYMENT	**39,977**	**41,195**

2.8. Other operating revenues and expenses

	Year ended 31 December2014	Year ended 31 December 2013 *restated*
OTHER OPERATING REVENUES		
Effect of change in rehabilitation provision	-	77
Provisions reversed	874	36
Adjustment of revenues from LTC compensations	246	337
Compensations, penalties and fines received	152	175
Grants received	90	19
Reversal of impairment allowances for receivables	75	17
Profit on disposal of property, plant and equipment and intangible assets	16	24
Revenues from illegal energy consumption	7	9
Surpluses / disclosures of assets	5	27
Other	96	81
TOTAL OTHER OPERATING REVENUES	**1,561**	**802**

Revenue from provisions reversed relates mainly to the release of provision for the purchase of CO_2 emission rights which amounted to PLN 751 million in PGE Górnictwo i Energetyka Konwencjonalna S.A. The issue was described in details in note B.20.2 The issue of revenues from the LTC compensation is described in note B.28.1 of these financial statements.

	Year ended 31 December2014	Year ended 31 December 2013
OTHER OPERATING EXPENSES		
Effect of change in rehabilitation provision	213	-
Loss on disposal of property, plant and equipment and intangible assets	159	347
Impairment allowances raised for receivables	111	68
Liquidation of damages/ removal of failures	48	40
Other provisions raised	39	126
Liquidation of property, plant and equipment/intangible assets	23	21
Donations granted	8	30
Other	84	69
TOTAL OTHER OPERATING EXPENSES	**685**	**701**

The change in the evaluation of rehabilitation provisions regarding to the surface mines is described in note B. 20.1 of these financial statements. The impairment allowances for other assets in the current period relate to investment projects in generation units that were subject to impairment due to loss of value in relation to cash generating units. The test for impairment is described in note A.4 of these financial statements.

2.9. Financial income and expenses

	Year ended 31 December 2014	Year ended 31 December 2013
FINANCIAL INCOME FROM FINANCIAL INSTRUMNETS		
Dividends	3	2
Interest income	214	221
Revaluation / Reversal of impairment allowance	30	57
Profit on disposal of investments	-	15
Exchange gains	101	4
FINANCIAL REVENUES FROM FINANCIAL INSTRUMNETS	**348**	**299**
OTHER FINANCIAL INCOME		
Interest on statutory receivables	1	-
Provisions reversed	36	6
Other	-	9
OTHER FINANCIAL INCOME	**37**	**15**
TOTAL FINANCIAL INCOME	**385**	**314**

Revaluation of financial instruments relates mainly to transactions concluded on the market for carbon dioxide emission rights and is described in the note B. 2.10

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest expense	114	69
Revaluation	56	-
Impairment losses	390	5
Loss on disposal of investments	-	1
Exchange losses	119	2
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**679**	**77**
OTHER FINANCIAL EXPENSES		
Interest expenses including unwinding of the discount	183	188
Interest paid relating to state liabilities	1	1
Provisions created	1	38
Other	4	9
OTHER FINANCIAL EXPENSES	**189**	**236**
TOTAL FINANCIAL EXPENSES	**868**	**313**

As described in note B.25.5.1 of these financial statements, impairment losses include estimated loss of value of bonds issued by Autostrada Wielkopolska S.A. with a carrying amount of PLN 386 million.

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

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

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

2.10. Valuation of transaction related to trading in CO_2 emission rights

As described in note B.2.9 of these financial statements, income and expenses recognized under the heading "revaluation of the financial instruments" comprise result on transactions related to the CO_2 emission rights so called trading portfolio. The following table illustrated the effects of particular items related to the CO_2 emission rights on the financial income and expenses.

	Year ended 31 December 2014	Year ended 31 December 2013
Income	**154**	**114**
Valuation of commodity forward	-	96
Valuation of foreign currency forward	2	8
Profit on sale of carbon dioxide emission rights outside the PGE Capital Group	5	6
Profit on realization of currency forward	-	3
Revaluation of CO_2 emission	147	1
Expenses	**(132)**	**(74)**
Valuation of commodity forward	(132)	(67)
Foreign currency forward valuation	-	(7)
Financial income/ (expenses) related to trading in CO_2 emission rights	**22**	**40**

3. Income tax

3.1. Tax in the statement of comprehensive income

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

	Year ended 31 December 2014	Year ended 31 December 2013*restated*
INCOME TAX PRESENTED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	582	808
Previous periods' current income tax adjustments	(21)	(28)
Deferred income tax	395	96
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**956**	**876**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
(Tax benefit) / expense recognized in other comprehensive income (equity)	**(89)**	**58**
- of profits from actuarial losses on valuation of provisions for employee benefits	75	(59)
- of valuation of hedging instruments	14	1

3.2. Effective tax rate

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

	Year ended 31 December2014	Year ended 31 December 2013 *restated*
PROFIT BEFORE TAX	**4,613**	**4,847**
Income tax according to Polish statutory tax rate of 19%	876	921
Previous periods current income tax adjustments	(21)	(28)
Previous periods deferred income tax adjustments	22	(3)
The use of tax losses previously not recognized as deferred tax assets	(1)	(1)
Allowance for deferred tax assets raised	-	3
Costs not recognized as tax-deductible costs	87	71
Non-taxable revenues	(75)	(37)
Other	68	(50)
TAX AT EFFECTIVE TAX RATE AMOUNTING TO 21% [2013: 18%]	**956**	**876**
Income tax (expenses) as presented in the consolidated statement of comprehensive income	**956**	**876**

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

3.3. Deferred tax in the statement of financial position

	As at 31 December 2014	As at 31 December 2013
COMPONENTS OF DEFERRED TAX ASSET		
Difference between tax value and carrying value of property, plant and equipment	505	494
Difference between tax value and carrying value of financial assets	35	24
Difference between tax value and carrying value of financial liabilities	64	19
Difference between tax value and carrying value of inventories	27	41
Revenues from accrued LTC compensations	161	215
Provision for rehabilitation	598	369
Provision for CO_2 emission rights	129	272
Provisions for employee benefits	581	453
Other provisions	176	141
Current period costs unrealized for tax purposes	271	216
Energy infrastructure acquired free of charge and connection payments received	149	155
Tax losses	3	6
Other	12	97
DEFERRED TAX ASSETS	**2,711**	**2,502**
COMPONENTS OF DEFERRED TAX LIABILITY		
Difference between tax value and carrying value of property, plant and equipment	2,999	2,487
Difference between tax value and carrying value of financial liabilities	6	31
Difference between tax value and carrying value of energy origin units	83	70
CO_2 emission rights	310	235
Revenues from accrued LTC compensations	672	647
Current period revenues unrealized for tax purposes	139	151
Accrued revenues	185	138
Other	24	143
DEFERRED TAX LIABILITY	**4,418**	**3,902**

AFTER OFF-SET OF BALANCES AT THE GROUP COMPANIES' LEVEL THE DEFERRED TAX OF THE GROUP IS PRESENTED AS:		
Deferred tax asset	383	302
Deferred tax liability	(2,090)	(1,702)

3.4. Tax settlements

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

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

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

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

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

Tax Capital Group

On 18 September 2014 an agreement concerning a tax capital group, named "TCG PGE 2015" was executed for a 25-year period. PGE S.A. is the representing company of this group. The TCG PGE 2015 tax group comprises the Company together with PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Dystrybucja S.A., PGE Obrót S.A., PGE Energia Odnawialna S.A., PGE Energia Natury S.A., PGE Dom Maklerski S.A., PGE Systemy S.A., ELBIS sp. z o.o., ELBEST sp. z o.o., ELTUR-SERWIS sp. z o.o., Betrans sp. z o.o., MegaSerwis sp. z o.o., MEGAZEC sp. z o.o., BESTGUM POLSKA sp. z o.o., ELMEN sp. z o.o., TOP SERWIS sp. z o.o. and 15 companies named PGE Inwest, PGE Inwest 2,3,...,15 that were not operational at the time the agreement was signed. The agreement will apply to the period after 1 January 2015 and was registered in the tax office 30 October 2014.

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

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

Real estate tax

Considering the pending disputes PGE Group established at the reporting date the provision for property tax in the amount of PLN 135 million. These reserves are mostly related to tax proceedings with regard to property tax in selected plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various levels of tax authorities, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

4. Property, plant and equipment

	As at 31 December 2014	As at 31 December 2013 *restored*
Land	268	264
Buildings	19,583	19,446
Technical equipment	22,089	21,915
Vehicles	302	278
Other property, plant and equipment	2,798	1,743
Construction in progress	4,698	2,481
CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT	**49,738**	**46,127**

Changes in property, plant and equipment by type

	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
GROSS BOOK VALUE							
AS AT 1 JANUARY 2014	**285**	**28,633**	**34,872**	**599**	**3,060**	**2,771**	**70,220**
Capital expenditures	-	16	6	2	3	6,214	**6,241**
Transfer from construction in progress	18	1,347	1,968	81	605	(4,019)	**-**
Liquidation, disposal	-	(100)	(340)	(19)	(7)	(1)	**(467)**
Changes in PGE Group	(18)	-	(13)	(5)	(1)	(1)	**(38)**
Other	8	(31)	(36)	-	538	(164)	**315**
AS AT 31 DECEMBER 2014	**293**	**29,865**	**36,457**	**658**	**4,198**	**4,800**	**76,271**
DEPRECIATION AND IMPAIRMENT ALLOWANCES							
AS AT 1 JANUARY 2014	**21**	**9,187**	**12,957**	**321**	**1,317**	**290**	**24,093**
Depreciation	5	1,169	1,619	54	88	-	**2,935**
Impairment allowances	-	18	57	-	-	94	**169**
Liquidation, disposal	-	(67)	(330)	(16)	(7)	-	**(420)**
Changes in PGE Group	-	-	(4)	(3)	(1)	-	**(8)**
Other	(1)	(25)	69	-	3	(282)	**(236)**
AS AT 31 DECEMBER 2014	**25**	**10,282**	**14,368**	**356**	**1,400**	**102**	**26,533**

restated	Land	Buildings and construction	Machinery and equipment	Vehicles	Other property, plant and equipment	Construction in progress	Total
GROSS BOOK VALUE							
AS AT 1 JANUARY 2013	**223**	**27,177**	**32,147**	**569**	**2,482**	**3,103**	**65,701**
Capital expenditures	-	1	6	4	3	4,254	4,268
Liquidation, disposal	15	1,319	2,796	67	647	(4,844)	-
Changes in PGE Group	(3)	(104)	(531)	(37)	(9)	-	(684)
Other	(3)	251	512	(4)	1	300	1,057
Transfer from construction in progress	53	(11)	(58)	-	(64)	(42)	(122)
AS AT 31 DECEMBER 2013	**285**	**28,633**	**34,872**	**599**	**3,060**	**2,771**	**70,220**
DEPRECIATION AND IMPAIRMENT ALLOWANCES							
AS AT 1 JANUARY 2013	**14**	**7,975**	**11,596**	**308**	**1,239**	**246**	**21,378**
Depreciation	5	1,173	1,601	49	89	-	2,917
Impairment allowances	-	82	186	-	-	73	341
Liquidation, disposal	(1)	(69)	(517)	(32)	(9)	-	(628)
Changes in PGE Group	(3)	36	88	(3)	-	-	118
Other	6	(10)	3	(1)	(2)	(29)	(33)
AS AT 31 DECEMBER 2013	**21**	**9,187**	**12,957**	**321**	**1,317**	**290**	**24,093**

Significant additions and disposals of property, plant and equipment

During the current reporting period, PGE Group purchased property, plant and equipment and construction in progress of 6,241 million PLN. Largest expenditures were made by PGE Górnictwo i Energetyka Konwencjonalna S.A. (PLN 4,355 million) and PGE Dystrybucja S.A. (PLN 1,483 million). The main items of investments were: the integrated restructuring and refurbishing project for power units 3-12 at the Elektrownia Bełchatów (Power Plant Bełchatów) (PLN 1,369 million), building power units 5-6 at the Elektrownia Opole (Power Plant Opole) (PLN 708 million PLN), connection of new customers (PLN 499 million) and modernization and development of electric power networks (PLN 414 million) in PGE Dystrybucja S.A.

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

The value recognized under other changes relates mainly to write down of abandoned project "Construction of the installation for the capture, transport and geological storage of CO_2 (CCS - Carbon Capture and Storage)" at Elektrownia Bełchatów.

Borrowing costs

During the year ended 31 December 2014, the PGE Group recognized borrowing cost of approximately PLN 31 million (PLN 10 million in the comparable period) in property, plant and equipment.

Capitalization of stripping costs

In the current period, in accordance with the requirements of IFRIC 20, expenditures regarding stripping costs at the production stage in the amount of PLN 578 million were capitalized. At the same time in the reporting period, the Group recognized depreciation regarding capitalized costs in the amount of PLN 57 million. Capitalized stripping costs are presented as "other property, plant and equipment".

Capitalization of changes in valuation of rehabilitation provision

In accordance with the updated accounting policy described in Note A.2.4.11 and A.2.4.27 of these financial statements, the PGE Group recognizes in the property, plant and equipment changes in the value of rehabilitation provision assigned to stripping of overburden. During the reporting period, the increase of rehabilitation provision in the amount of PLN 537 million has been capitalized in the value of property, plant and equipment. The increase is primarily due to significantly lower discount rate used, which resulted from the macroeconomic environment and was partially offset by changes in assumptions concerning the expected inflation and other factors. As at 31 December 2014, the capitalized part of the rehabilitation provision amounted to PLN 1,998 million. The capitalized part of rehabilitation provision is presented in the position "other property, plant and equipment".

Changes in estimating useful life of property, plant and equipment

During the reporting period the Group companies reviewed economic useful lives of property, plant and equipment used in determining the depreciation rates. In result of the review part of the depreciation rates was updated. The change resulted in decrease of the annual depreciation cost by PLN 49 million.

5. Future investment commitment

As at 31 December 2014 the PGE Group committed to incur capital expenditures on property, plant and equipment in the amount of approximately PLN 16,765 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and a purchase of machinery and equipment. Significant future investment commitments concern:

- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Opole Power Plant – construction of power units no. 5 i 6 – approximately PLN 8,152 million,
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Turów Power Plant – contract for construction of new power unit – approximately PLN 3,250 million,
- PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Bełchatów Power Plant – reconstruction and modernization of power units – approximately PLN 1,211 million,
- PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 1,328 million (including PLN 205 million as base case – remaining part of the contract is optional),
- PGE Dystrybucja S.A. – investment commitments related to network distribution assets of the total value of approximately PLN 867 million.

6. Investment property

	As at 31 December 2014	As at 31 December 2013
AS AT 1 JANUARY	**22**	**28**
Increase of value	13	2
Depreciation and impairment allowances	(2)	(3)
Decrease of value	-	(5)
AS AT 31 DECEMBER	**33**	**22**

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

Fair value of investment property is not significantly higher than valuation determined in accordance with the historical cost assumptions in light of the materiality related to the consolidated financial statements as a whole.

7. Intangible assets

	As at 31 December 2014	As at 31 December 2013
Development costs	3	4
Goodwill	286	289
Computer software	63	76
Other licences and patents	94	76
Purchase of right of perpetual usufruct of land	56	55
Other intangible assets	143	135
Non-commissioned intangible assets	118	83
CARRYING NET VALUE OF INTANGIBLE ASSETS	**763**	**718**

Changes in intangible assets

	Development costs	Goodwill	Computer software	Other licenses and patents	Purchase of rights of perpetual usufruct of land	Other intangible assets	Non-commissioned intangible assets	Total
GROSS BOOK VALUE								
AS AT 1 JANUARY 2014	**18**	**289**	**362**	**108**	**63**	**213**	**86**	**1,139**
Capital expenditures	-	-	-	-	-	-	108	108
Transfer of non-commissioned intangible assets	-	-	24	41	1	9	(75)	-
Liquidation, disposal	-	-	(2)	-	-	(1)	-	(3)
Changes in PGE Group	-	-	(2)	-	-	(1)	-	(3)
Other	1	(3)	-	-	-	8	2	8
AS AT 31 DECEMBER 2014	**19**	**286**	**382**	**149**	**64**	**228**	**121**	**1,249**
AMORTIZATION AND IMPAIRMENT ALLOWANCES								
AS AT 1 JANUARY 2014	**14**	**-**	**286**	**32**	**8**	**78**	**3**	**421**
Amortization	1	-	37	24	-	9	-	71
Liquidation, disposal	-	-	(2)	-	-	(1)	-	(3)
Changes in PGE Group	-	-	(2)	-	-	(1)	-	(3)
Other	1	-	-	(1)	-	-	-	-
AS AT 31 DECEMBER 2014	**16**	**-**	**319**	**55**	**8**	**85**	**3**	**486**

	Development costs	Goodwill	Computer software	Other licenses and patents	Purchase of rights of perpetual usufruct of land	Other intangible assets	Non-commissioned intangible assets	Total
GROSS BOOK VALUE								
AS AT 1 JANUARY 2013	**15**	**188**	**366**	**50**	**57**	**133**	**84**	**893**
Capital expenditures	-	-	1	-	-	-	88	89
Transfer of non-commissioned intangible assets	-	-	19	57	2	10	(88)	-
Liquidation, disposal	-	-	(23)	-	-	-	-	(23)
Changes in PGE Group	-	125	-	-	-	34	-	159
Other	3	(24)	(1)	1	4	36	2	21
AS AT 31 DECEMBER 2013	**18**	**289**	**362**	**108**	**63**	**213**	**86**	**1,139**
AMORTIZATION AND IMPAIRMENT ALLOWANCES								
AS AT 1 JANUARY 2013	**13**	**-**	**272**	**16**	**7**	**71**	**1**	**380**
Amortization	1	-	37	16	1	7	-	62
Impairment allowances	-	-	-	-	-	-	2	2
Liquidation, disposal	-	-	(23)	-	-	-	-	(23)
AS AT 31 DECEMBER 2013	**14**	**-**	**286**	**32**	**8**	**78**	**3**	**421**

Intangible assets non-commissioned

The presented amount of intangible assets non-commissioned as at 31 December 2014 concerns mainly: programs of IT systems' implementation in Capital Group (including SAP), research and development connected with construction of first Polish nuclear power plant and investments hold by Kopalnia Węgla Brunatnego Bełchatów (Lignite Coal Mine Bełchatów) on Złoczew field. As at 31 December 2014 the risk of impairment of these assets was not recognised.

Goodwill

Assessment of the recoverable amount of goodwill is described in note A.4 of these financial statements.

8. Leasing

8.1 Operating lease liabilities – the Group as the lessee

As at 31 December 2014 and as at 31 December 2013, the future minimum lease payments related to irrevocable lease agreements are PLN 10 million and PLN 8 million.

The PGE Group entities incur costs related to a perpetual usufruct of land. The value of these costs for the year ended 31 December 2014 amounted to PLN 17 million.

8.2 Operating lease receivables – Group as a lessor

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

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

As at 31 December 2014 and 31 December 2013, the present value of the minimum short-term lease payments was approximately PLN 1 million and PLN 2 million, while the present value of the minimum long-term lease payments amounted to approximately PLN 1 million in the current year and PLN 2 million in the comparable reporting period.

8.4 Receivables from finance lease and lease agreement with purchase option

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

9. Investments in associates accounted for using the equity method

As at 31 December 2014 and 31 December 2013 the Group has an affiliated company Przedsiębiorstwo Energetyki Cieplnej S.A. in Bogatynia, in which the Group holds a stake of 34.93% in share capital and the rights to vote on the general meeting.

The share of the affiliated company in the statement of financial position amounted to PLN 9 million as at 31 December 2014, as well as at 31 December 2013. The share in the income of the affiliated company amounted to PLN 4 million in both financial periods, whereas share in profit/loss in both years was about zero. Data of the affiliated company for the 2014 is in the course of the audit.

10. Joint venture

During the reporting periods ended 31 December 2014 and 31 December 2013 the Group did not participate in any significant joint ventures.

In 2013 PGE S.A. purchased the company Iberdrola Renewables Polska sp. z o.o. (then EPW Energia sp. z o.o. and ultimately branches of PGE S.A. were merged with PGE Energia Natury sp. z o.o.), with the entity Energa Hydro sp. z o.o. However, according to joint venture agreement, purchasers strictly specified the assets of their interests and PGE S.A. had the control over selected branches of the company. Therefore, also before the demerger, the investment was treated as a subsidiary and adequately included in these consolidated financial statements.

11. Inventories

	As at 31 December 2014			As at 31 December 2013		
	Historical cost	Impairment allowances	Carrying amount	Historical cost	Impairment allowances	Carrying amount
Materials, including:	1,129	(134)	995	1,069	(138)	931
Coal	380	-	380	324	-	324
Mazut	31	-	31	35	-	35
Renovation materials	581	(105)	476	601	(115)	486
Investment materials	44	(6)	38	26	-	26
Other materials	93	(23)	70	83	(23)	60
Energy origin rights, including:	707	(8)	699	418	(9)	409
Green energy origin rights	601	(6)	595	415	(6)	409
Yellow energy origins rights	89	(2)	87	2	(2)	-
Red energy origins rights	10	-	10	1	(1)	-
Other energy origin rights	7	-	7	-	-	-
Merchandise, including:	351	79	430	348	(68)	280
CO_2 emission rights - trading portfolio	329	80	409	313	(67)	246
Other CO_2 emission rights	16	-	16	27	-	27
Other merchandise	6	(1)	5	8	(1)	7
Other inventories	51	-	51	64	-	64
TOTAL INVENTORIES	2,238	(63)	2,175	1,899	(215)	1,684

	Year ended 31 December 2014	Year ended 31 December 2013
IMPAIRMENT ALLOWANCES FOR INVENTORIES AS AT 1 JANUARY	**(215)**	**(148)**
Fair value of CO_2 emission rights	147	(67)
Impairment allowances raised	(38)	(29)
Impairment allowances reversed	17	2
Impairment allowances used	22	25
Other	4	2
IMPAIRMENT ALLOWANCE FOR INVENTORIES AS AT 31 DECEMBER	**(63)**	**(215)**

CO_2 emission rights recognized in the inventories include the rights classified as held-for-sale. These rights are presented at fair value. Change in valuation of these rights in the reporting period should be analysed together with the revaluation of forward contracts (as presented in note B.2.10 of these consolidated financial statements).

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

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

12. CO_2 emission rights for own purposes

The PGE Group producers maintain installations, covered with the act dated 28 April 2011 about a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Only on the basis of article 10c of Directive 2003/87/WE of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce CO_2 emission. The condition under which free of charge CO_2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

PGE Group submitted required statement from realization of investment tasks on 9 December 2013. In April 2014 entities of the PGE Group received free of charge CO_2 emission rights in the amount of about 31 million tonnes for units generating electricity, and about 3 million tonnes for the installations other than generating electricity.

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

	EUA		CER/ERU		Total Value
	Amount (mln Mg)	Value	Amount (mln Mg)	Value	
AS AT 1 JANUARY 2013	**76**	**597**	**6**	**194**	**791**
Purchase	38	772	-	-	772
Allocated free of charge	-	-	-	-	-
Redemption	(55)	(42)	(6)	(193)	(235)
Other changes		77		(1)	76
AS AT 31 DECEMBER 2013	**59**	**1,404**	**-**	**-**	**1,404**

In September 2014 PGE Group submitted another required statement from realization of investment under the National Investment Plan. Free of charge CO_2 emission rights for 2014 should be granted until the end of April of 2015.

13. Other short-term and long-term assets

13.1 Other long-term assets

	As at 31 December 2014	As at 31 December 2013
Advances for construction in progress	1,193	602
Other deferred expenses	35	42
TOTAL OTHER LONG-TERM ASSETS	**1,228**	**644**

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

13.2 Other short-term assets

	As at 31 December 2014	As at 31 December 2013
DEFERRED EXPENSES		
Property and tort insurance	10	20
Accrued commissions	20	22
IT services	8	10
Accrued distribution services	13	10
Accrued construction-assembly contracts	-	9
Other accrued costs	32	31
OTHER CURRENT ASSETS		
Upward valuation of revenues	618	529
VAT receivables	261	67
Excise tax receivables	29	23
Advances for deliveries of property, plant and equipment, and intangible assets	13	16
Other current assets	8	11
TOTAL OTHER ASSETS	**1,012**	**748**

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

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

14. Cash

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

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

	As at 31 December 2014	As at 31 December 2013
Cash on hand and cash at bank	1,701	986
Overnight deposits	164	517
Short-term deposits	4,417	4,449
TOTAL	**6,282**	**5,952**
Interest accrued on cash, not received as at the balance sheet date	(5)	(4)
Exchange rate differences on cash in foreign currencies	(8)	-
Cash and cash equivalents presented in the statement of cash flows	**6,269**	**5,948**
Including restricted cash	*368*	*403*
Credit limits at disposal	3,064	1,757
Including credit in current account	*1,916*	*1,646*

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

- cash received as a guarantee of proper execution of the contract and cash received as a tender deposit by particular Branches of PGE GiEK S.A.;
- Mine Liquidation Fund and Mine Rehabilitation Fund in lignite coal mines;
- cash deposit securing the settlements of subsidiaries of PGE Group with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House).

15. Assets classified as held-for-sale

Mainly buildings and infrastructure used in PGE Dystrybucja S.A. are recognized in this position. The position value at the reporting date is PLN 16 million.

16. Discontinued operations

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

17. Assets and liabilities of the Social Fund

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

	As at 31 December 2014	As at 31 December 2013
Loans granted to employees	108	114
Cash	51	51
Other Social funds assets	-	1
Social Fund liabilities	(161)	(161)
BALANCE AFTER COMPENSATION	**(2)**	**5**
Contributions to the Social Fund	**134**	**125**

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

18. Share capital

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

18.1 Share Capital

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

All shares have been paid. During the reporting period there were no changes in the structure and amount of the share capital.

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

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

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

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

- Liquidation of the Company,
- Changes of the use or discontinuance of exploitation of the company's asset, which is a component of critical infrastructure,,
- Change in the scope of activities of the Company,
- Sale or lease of the enterprise or its organized part or establishment of legal restrictions,
- Approval of operational and financial plan, investment plan, or long-term strategic plan,
- Movement of the Company's seat abroad,

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

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

18.2 Reserve capital and other capital reserves

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

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

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

18.3 Revaluation reserve

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

	Year ended 31 December 2014	Year ended 31 December 2013
AS AT 1 JANUARY	-	-
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	(8)	-
Accrued interest on derivatives transferred from revaluation reserve and recognized in interest expense	6	-
Currency revaluation of CCIRS transferred from revaluation reserve and recognized in the result on foreign exchange differences	(74)	-
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit and or loss	1	-
REVALUATION RESERVE AS AT 31 DECEMBER, GROSS	**(75)**	-
Deferred tax	14	-
REVALUATION RESERVE LESS DEFERRED TAX	**(61)**	-

18.4 Retained earnings and limitations to payment of a dividend

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

	As at 31 December 2014	As at 31 December 2013 *restated*
Amounts included in retained earnings that cannot be distributed by the parent		
▪ Retained earnings of subsidiaries, attributable to equity holders of the parent, including consolidation adjustments	11,668	13,771
▪ Profit/loss recognized by the parent company as retained earnings in the position of other comprehensive income	(3)	3
▪ Other retained earnings of the parent company not subject to distribution	-	-
Retained earnings of the parent subject to distribution	5,236	2,077
Total retained earnings presented in the consolidated financial statements attributable to equity holders of the parent company	**16,901**	**15,851**

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

As at 31 December 2014 there were no other restrictions on payment of dividends.

18.5 Equity attributable to non-controlling interests

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

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

	As at 31 December 2014	As at 31 December 2013 *restated*
AS AT 1 JANUARY	**268**	**299**
Share in profit of subsidiaries	19	22
Share in actuarial gains and losses	(1)	1
Dividends declared by subsidiaries	(4)	(2)
Sale of subsidiaries	(17)	14
Acquisition of non-controlling interests by the PGE Group	(148)	(62)
Effect of merger within the PGE Group	-	(3)
Other changes	(1)	(1)
AS AT 31 DECEMBER	**116**	**268**

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

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

18.6 Earnings per share

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

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

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
NET PROFIT, ATTRIBUTED TO	**3,657**	**3,971**
▪ shareholders of the parent company	3,638	3,948
▪ non-controlling interests	19	23
NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**3,638**	**3,948**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USD TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
NET PROFIT AND DILUTED NET PROFIT PER SHARE ATTRIBUTALBE TO PARENT COMPANY SHAREHOLDERS (IN PLN)	**1.95**	**2.11**

18.7 Dividends paid and dividends declared

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

Dividend from the profit for the year ended 31 December 2014

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

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

Dividend from the profit for year ended 31 December 2013

On 6 June 2014, the General Shareholders Meeting of PGE S.A. resolved to distribute PLN 2,057 million from the net profit of 2013 as a dividend (that comprises dividend of PLN 1.10 per share). Dividend determined by the resolution of the Ordinary General Meeting of 6 June 2014 was paid on 26 September 2014.

19. Post-employment benefits

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

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

	As at 31 December 2014	As at 31 December 2013
Expected inflation rate (%)	2.20-2.50%	1.80-3.40%
Discount rate (%)	2.60%	4.35%
Expected average salary growth rate (%)	0-2.97%	0-5.0%
Employee turnover (%)	0.5-8.84%	0.25-8.83%
Expected medical benefits costs growth rate (%)	0-2.30%	0-2.90%
Expected Social Fund (ZFŚS) allowance rate (%)	3.50-5.00%	3.50-5.00%

The carrying value of provisions for employee benefits:

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Retirement, pension and other benefits provisions	474	51	396	49
Coal allowance	143	9	122	8
Energy tariff	670	25	462	24
Social Fund	290	11	226	10
Medical care	56	2	44	2
TOTAL EMPLOYEE BENEFITS	**1,633**	**98**	**1,250**	**93**

Change in provisions for employee benefits

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical care	Total
AS AT 1 JANUARY 2014	**445**	**130**	**486**	**236**	**46**	**1,343**
Actuarial gains and losses excluding discount rate adjustment	(3)	3	56	-	2	58
Discount rate adjustments	87	24	156	61	11	339
Costs of present employment	14	1	8	5	-	28
Costs of future employment	(22)	(3)	(7)	(2)	(1)	(35)
Benefits paid	(12)	(8)	(22)	(9)	(2)	(53)
Interest costs	16	5	20	10	2	53
Changes within the PGE Group	-	-	(2)	-	-	(2)
AS AT 31 DECEMBER 2014	**525**	**152**	**695**	**301**	**58**	**1,731**

	Retirement, pension and other benefits provisions	Coal allowance	Energy tariff	Social Fund	Medical care	Total
AS AT 1 JANUARY 2013	**368**	**121**	**782**	**237**	**44**	**1,552**
Actuarial gains and losses excluding discount rate adjustment	10	15	(289)	5	3	**(256)**
Discount rate adjustments	(14)	(5)	(23)	(11)	(2)	**(55)**
Costs of present employment	81	1	8	6	1	**97**
Interest costs	14	6	30	9	2	**61**
Benefits paid	(14)	(8)	(22)	(10)	(2)	**(56)**
AS AT 31 DECEMBER 2013	**445**	**130**	**486**	**236**	**46**	**1,343**

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

- should the discount rate be higher by 1 percentage point (p.p.), relevant provisions would decrease by 12% and should the discount rate be lower by 1 p.p. the respective provisions would increase by 15%,
- should the growth rates be higher by 1 p.p., the respective provisions would increase by ca. 16% and should the growth rates be lower by 1 p.p., relevant provisions would decrease by 12%.

20. Provisions

The carrying value of provisions is as follows:

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Post-employment benefits	1,633	98	1,250	93
Provisions for jubilee awards	949	93	845	96
Provisions for rehabilitation costs	3,297	2	2,404	18
Provisions for purchase of CO_2 emission rights	-	676	-	1,432
Provisions for energy origin units held for redemption	-	555	-	395
Provisions for non-contractual use of the property	73	19	124	37
Other provisions	147	627	143	364
TOTAL PROVISIONS	**6,099**	**2,070**	**4,766**	**2,435**

Change in provisions

	Post-employment benefits	Provisions for jubilee awards	Provisions for rehabilitation costs	Provisions for purchase of CO_2 emission rights	Provisions for energy origin units held for redemption	Provisions for non-contractual use of the property	Other provisions	Total
AS AT 1 JANUARY 2014 *restated*	**1,343**	**941**	**2,422**	**1,432**	**395**	**161**	**507**	**7,201**
Actuarial gains and losses excluding discount rate adjustment	58	4	-	-	-	-	-	62
Costs of present employment	28	45	-	-	-	-	-	73
Costs of past employment	(35)	(22)	-	-	-	-	-	(57)
Interest costs	53	38	89	-	-	-	-	180
Discount rate and other assumptions adjustment	339	126	1,297	-	-	-	-	1,762
Benefits paid/ provisions used	(53)	(90)	(16)	(682)	(917)	(1)	(493)	(2,252)
Provisions reversed	-	-	(576)	(751)	(89)	(79)	(136)	(1,631)
Provisions raised	-	-	83	677	1,166	11	897	2,834
Changes in the PGE Group	(2)	-	-	-	-	-	(1)	(3)
AS AT 31 DECEMBER 2014	**1,731**	**1,042**	**3,299**	**676**	**555**	**92**	**774**	**8,169**

restated	Post-employment benefits	Provisions for jubilee awards	Provisions for rehabilitation costs	Provisions for purchase of CO_2 emission rights	Provisions for energy origin units held for redemption	Provisions for non-contractual use of the property	Other provisions	Total
AS AT 1 JANUARY 2013	**1,552**	**990**	**2,334**	**163**	**751**	**91**	**698**	**6,579**
Actuarial gains and losses excluding discount rate adjustment	(256)	(14)	-	-	-	-	-	(270)
Discount rate adjustment	(55)	(25)	(136)	-	-	-	-	(216)
Costs of present employment	97	46	-	-	-	-	-	143
Interest costs	61	37	89	-	-	-	-	187
Benefits paid/ provisions used	(56)	(94)	(21)	(158)	(1,178)	(1)	(445)	(1,953)
Provisions raised	-	-	211	1,427	979	110	347	3,074
Provisions reversed	-	-	(81)	-	(157)	(39)	(90)	(367)
Changes in the PGE Group	-	(1)	26	-	-	-	(2)	23
Other changes	-	2	-	-	-	-	(1)	1
AS AT 31 DECEMBER 2013	**1,343**	**941**	**2,422**	**1,432**	**395**	**161**	**507**	**7,201**

20.1 Provision for rehabilitation and liquidation of property, plant and equipment

Provision for rehabilitation of post-exploitation mining properties

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

The PGE Group creates provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognized in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision at 31 December 2014 amounts to PLN 3,047 million and as at 31 December 2013 amounted to PLN 2,211 million.

During the reporting period the provision for rehabilitation of final excavations increased by PLN 836 million. The increase was mainly influenced by fall in the discount rate from 4.35% to 2.60%. This increase was partially offset by change in assumptions about the expected inflation and other factors. In accordance with the revised accounting policy, the change has been recognized in the following manner:

- PLN 536 million – as an increase of property, plant and equipment,
- PLN 300 million – in financial results.

The discount rate had the most significant impact on value of the rehabilitation provision. The PGE Group estimates that:

- should the discount rate be lower by 1 percentage point (p.p.) the relevant provision would increase by PLN 1,124 million (whereof the amount of PLN 331 million will be presented in profit or loss)
- should the discount rate be higher by 1 percentage point (p.p.) the relevant provision would decrease by PLN 799 million (whereof the amount of PLN 236 million will be presented in profit or loss).

Provision for rehabilitation of ash storages

The PGE Group producers raise provisions for rehabilitation of ash storages. As at the reporting date, the value of provision amounts to PLN 93 million and PLN 62 million as at 31 December 2013.

Provisions for rehabilitation of post-constructions grounds of wind farms

The companies which own wind farms create provision for rehabilitation of post-constructions grounds of wind farms. As at the reporting date, the value of provision amounts to PLN 115 million and PLN 86 million as at 31 December 2013.

Liquidation of property, plant and equipment

The provision for liquidation of property, plant and equipment relates to assets of PGE Górnictwo i Energetyka Konwencjonalna S.A. Oddział Elektrownia Turów. The obligation to liquid assets and rehabilitate the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the value of provision amounts to PLN 43 million (PLN 63 million in comparable period).

20.2 Provision for deficit of CO2 emission rights

As a general rule, particular Group entities record provisions for liabilities of CO_2 emissions in relation to the shortage with CO_2 emission rights granted free of charge. Provision includes acquired EUA, and also possible coverage of the shortage with CER or ERU certificates. As described in note B.12 of these financial statements the PGE Group is entitled to receive CO_2 emissions rights granted free of charge in connection to expenditures concerning investments submitted to the National Investment Plan.

On 8 April 2014, the European Commission approved the list of installations producing electricity, which included installations belonging to the PGE Group entities, together with the number of allocated emission rights for 2013. On 10 April 2014 the Resolution of the Council of Ministers was published on the list of installations generating electricity and covered by the trading system for greenhouse gas emission rights in the settlement period beginning on 1 January 2013. Based on this regulation in April 2014 National Centre for Balance and Management of Emissions granted CO_2 emission rights in total amount of 31 million tonnes to the respective accounts of installations belonging to the Group entities.

Also in April 2014, KOBiZE transferred CO_2 emission rights in total amount of 3 million tonnes to the accounts of PGE Group for years 2013 and 2014 for installations other than generating electricity.

Accordingly, in the second quarter of 2014, the PGE Group reversed the provision of PLN 751 million recognized in 2013, relating to CO_2 emission rights for 2013. While creating provision for liability due to CO_2 emission rights, the PGE Group takes into account free of charge emission rights for year 2014, to obtain which the Group is entitled.

20.3 Provisions for jubilee awards

Provision for jubilee awards was valued by the independent actuary with the use of the assumptions presented in note B.19 of these financial statements. Based on information obtained from an actuary, the PGE Group assesses that the influence of changes in assumptions on the value of provisions for jubilee awards would be as follows:

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

20.4 Provisions for non-contracted use of property

Entities of the PGE Group raise provisions for damages related to a non-agreed usage of property. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 92 million (of which 46 million relate to litigations). In comparable period the value of the provision amounted to PLN 161 million, of which 62 million related to litigations.

20.5 Other provisions

Provision for Voluntary Leave Program

The companies from PGE Group raise provision for Voluntary Leave Program. According to the Programs conditions, the employees are entitled to receive a specified amount of compensation in exchange for termination of employment. PGE Group estimated the value of provision as at 31 December 2014 in the amount of PLN 236 million (PLN 3 million in 2013).

Dispute concerning the scope of taxation with real estate tax

As described in note B.3.4 of these consolidated financial statements, provision for reported and declared claims relating to real estate tax was created in the amount of PLN 135 million (PLN 131 million on 2013).

Provisions for litigation created by Exatel S.A.

At the reporting date, a subsidiary Exatel S.A. estimated the risk associated with business including the ongoing litigations, losses on contracts in progress, judicial proceedings in matters of employee and likely costs due to penalties and damages. As at the date of the financial statements for the year 2014 the Management Board of Exatel S.A. estimated level of risk to be PLN 53 million (PLN 50 million in 2013).

Annual bonus

Employees of PGE Capital Group are entitled to the “annual bonus” paid on the basis of the Corporate Collective Labour Agreement or regulations applicable to individual entities. As at 31 December 2014 created provisions amounted to approximately PLN 103 million in current and comparable reporting period.

Provision for unused annual holiday leave

The Group creates provision for employee benefits related to unused annual holiday leave. As at the reporting date the provision amounted to PLN 121 million (PLN 105 million in comparable period).

21. Deferred income and governments grants

21.1 Long-term deferred income and government grants

	As at 31 December 2014	As at 31 December 2013
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (environmental funds)	224	157
Grants from EU for CCS	14	84
Redemption of loans from environmental funds	49	52
Other government grants	77	61
DEFERRED INCOME		
Subsidies received and connection fees	611	644
Donations and property, plant and equipment granted free of charges	125	129
Lease income	28	33
Other deferred income	30	21
LONG-TERM GOVERNMENT GRANTS AND DEFERRED INCOME, TOTAL	**1,158**	**1,181**

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

21.2 Short-term deferred income and government grants

	As at 31 December 2014	As at 31 December 2013 *restated*
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (environmental funds)	8	8
Grants from EU for CCS	1	1
Redemption of loans from environmental funds	2	2
Other government grants	9	7
DEFERRED INCOME		
Subsidies received and connection fees	94	100
Donations and property, plant and equipment granted free of charges	9	9
Lease income	6	6
Other deferred income	13	18
SHORT-TERM GOVERNMENT GRANTS AND DEFERRED INCOME, TOTAL	**142**	**151**

22. Other non-financial liabilities

The non-financial liabilities as at the reporting dates are as follows:

	As at 31 December 2014	As at 31 December 2013 *restated*
Environmental fees	284	281
VAT liabilities	34	394
Excise tax liabilities	132	102
Payroll	291	281
Liabilities from social insurances	244	247
Personal income tax	81	79
Liabilities due to Voluntary Leave Programs	88	31
Advances for deliveries	137	137
Other	76	66
OTHER LIABILITIES, TOTAL	**1,367**	**1,618**

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

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

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

23. Contingent liabilities and receivables. Legal claims

23.1 Contingent liabilities

	As at 31 December 2014	As at 31 December 2013
Liabilities due to bank guarantees	11	3
Contingent return of grants from environmental funds	331	271
Legal claims	8	11
Contractual fines and penalties	12	12
Other contingent liabilities	43	23
CONTINGENT LIABILITIES, TOTAL	**405**	**320**

Contingent return of grants from environmental funds

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

Claims related to contractual fines and penalties

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

Other contingent liabilities

The other contingent liabilities comprise the compensation in the amount of PLN 15 million for damages caused by unforeseen events and value of potential cash fines in the amount of almost PLN 6 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some of PGE Group companies) and the value of possible future return of grants received by Branch of PGE Dystrybucja S.A. from Łódź Province, in the amount of PLN 12 million.

23.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note B.20.4 the PGE Group creates provision for disputes under court proceedings, concerning non-contractual use of properties used for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and there is a possibility of increased number of disputes in the future.

Contractual liabilities related to the purchase of commodities (fuel)

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

In the opinion of the Group, the terms and conditions of fuel deliveries do not differ from other fuel deliveries conditions on the Polish market.

23.3 ingent receivables

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

23.4 Other legal claims and disputes

The issue of compensation for conversion of shares

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

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

PGE S.A. does not recognize the claims of Socrates Investment S.A. and other shareholders who call for trial settlements. These claims are unfounded. In PGE S.A.'s opinion the consolidation process was conducted fairly and properly. The value of the shares, which were subject to the process of consolidation (merger) were valued by the independent company PwC Polska sp. z o.o. Additionally, the plan of the merger, including the exchange ratio of the company's shares which was merged with PGE S.A., was tested for correctness and fairness by the court-appointed expert, who found no irregularities. The independent court registered the merger.

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

Claims for annulment of the resolutions of the General Shareholders Meetings

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

Compensation from WorleyParsons

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

Contractual penalties charged in 2013 were deducted from the remuneration payable to WorleyParsons in 2014. Penalties charged in 2014 in the total amount PLN 28 million were deducted from the remuneration payable to WorleyParsons and the bank guarantee. As at the date of preparation of these financial statements, there are no grounds to question validity of the issued debit notes and all actions taken by PGE EJ1 sp. comply with the contractual provisions and other laws.

The Contractor has questioned validity of contractual penalties claimed and has not made due payments. Therefore, it cannot be excluded that WorleyParsons will claim in future the reimbursement of penalties that have been deducted or obtained as a result of the bank guarantee in the court proceedings. Additionally, the Contractor raised its claim against PGE EJ 1 Sp. z o.o. of PLN 5 million. The Company does not accept this claim and considers claims adjudication by the court to be unlikely.

24. Financial instruments

24.1 Description of significant position within particular classes of financial instruments

24.1.1 Loans and receivables

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Deposits	-	27	-	100
Bonds, notes receivables and bills	-	-	358	-
LTC compensations	-	968	-	675
Other deposits	-	38	1	58
Collateral – balancing market	-	49	18	13
Other financial receivables	13	98	15	57
TOTAL LOANS AND RECEIVABLES, EXCLUDING TRADE RECEIVABLES	13	1,180	392	903
TRADE RECEIVABLES	-	1,729	-	2,192

Trade receivables

The main component of trade receivables are receivables recognized by the company PGE Obrót S.A. Receivables from households account for about 20% of the consolidated balance of trade receivables while receivables from corporate clients of PGE Obrót S.A. represent about 55% of the consolidated balance of trade receivables. On 31 December 2014 the share of the three largest customers of PGE Capital Group amounted to approximately 7% of the balance of this position of the financial statement. Additional information relating to trade receivables is presented in note B.25.5.1.of these financial statements.

LTC compensations

The issue of revenues from LTC compensations is described in note B.28.1 of these financial statements.

Other financial receivables

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

24.1.2 Available-for-sale financial assets

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

24.1.3 Financial assets and liabilities at fair value through profit and loss

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

	As at 31 December 2014	As at 31 December 2013
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Commodity forward	-	96
Currency forward	11	8
TOTAL FINANCIAL ASSETS AT FAIR VALUE	**11**	**104**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		
Commodity forward	37	-
Currency forward	-	1
IRS hedging transactions	72	23
CCIRS hedging transactions	8	-
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE	**117**	**24**

Commodity and currency forwards

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

IRS hedging transactions

In the reporting period the Company concluded 2 IRS transactions, hedging the interest rate on issued bonds with a nominal value of PLN 1.000 million. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transaction are recognized fully in financial results.

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

CCIRS hedging transaction

In connection with loans received from PGE Sweden AB (publ), disclosed in note B.28.3 of these financial statements, PGE S.A. concluded a CCIRS transaction, that hedges currency and interest rate. In these transactions, banks-contractors of PGE S.A. pay interests based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. In the consolidated financial statements the relevant part of CCIRS transactions is recognized as a hedge of bonds issued by PGE Sweden AB (publ).

For the CCIRS transaction the Group applies hedge accounting. The impact of hedge accounting is presented in note B.18.3 of these financial statements.

24.1.4 Interest bearing credits, loans, bonds and leasing

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Loans and borrowings	1,008	304	992	526
Bonds issued	3,679	52	1,000	-
Lease	1	1	2	2
TOTAL BANK CREDITS, LOANS, BONDS AND LEASE	4,688	357	1,994	528

Currency position and interest

As at 31 December 2014

Currency	Reference rate	Value in currency	Value in PLN	Maturity
PLN	Variable	1,351	1,351	III 2015 - IX 2024, bonds – Indefinite program, maturity date of tranche issued 27 June 2018
	Fixed	106	106	III 2015 – IX 2020
TOTAL PLN		**1,457**	**1,457**	
EUR	Variable	147	626	VI 2024
	Fixed	641	2.731	VI 2019 - VIII 2029
TOTAL EUR		**788**	**3,357**	
USD	Variable	48	169	VI 2015 – V 2019
	Fixed	-	-	-
TOTAL USD		**48**	**169**	
CHF	Variable	17	62	XII 2016
	Fixed	-	-	-
TOTAL CHF		**17**	**62**	
TOTAL CREDITS, LOANS AND BONDS			**5,045**	

As at 31 December 2013

Currency	Reference rate	Value in currency	Value in PLN	Maturity
PLN	Variable	1,556	1,556	III 2014 - X 2020, bonds – Indefinite program, maturity date of tranche issued 27 June 2018
	Fixed	56	56	IX 2014 – V 2022
TOTAL PLN		1,612	1,612	
EUR	Variable	148	616	VI 2024
	Fixed			
TOTAL EUR		148	616	
USD	Variable	63	190	IX 2014 – V 2016
	Fixed			
TOTAL USD		63	190	
CHF	Variable	31	104	XII 2016
	Fixed			
TOTAL CHF		**31**	**104**	
TOTAL CREDIT, LOANS AND BONDS			**2,522**	

The following table presents changes in interest bearing credits, loans and bonds in periods ended 31 December 2014 and 2013:

	Year ended 31 December 2014	Year ended 31 December 2013
AS AT 1 JANUARY	2,522	1,896
CHANGE IN CREDITS IN CURRENT ACCOUNT	(247)	(235)
CHANGE IN credits, loans, bonds and lease (excluding credit in current account)	2,770	861
New credits, loans, bonds and lease/ issue of bonds	2,774	1,053
Repayment of credits, loans and lease/ redemption of bonds	(144)	(198)
Interest received	88	45
Interest paid	(48)	(35)
Effect of foreign exchange rate changes	100	(4)
AS AT 31 DECEMBER	5,045	2,522

Loans and borrowings

Among the borrowing items presented above as at 31 December 2014, the PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) to finance construction of 858 MW power unit in Elektrownia Bełchatów (Power Plant Bełchatów) - with value of PLN 626 million;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Elektrownia Turów (Power Plant Turów) in total value of PLN 230 million;
- credit in current accounts in total value of PLN 135 million.

As at 31 December 2014 the value of available overdraft facilities in current account amounted to PLN 1,916 million. Overdrafts in current account relating to the main PGE Capital Group entities are due for repayment until November 2017.

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

Bonds issued

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

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

Credits, loans and bonds maturity

	As at 31 December 2014	As at 31 December 2013
Within 1 year	357	527
From 1 to 2 years	227	148
From 2 to 3 years	213	151
From 3 to 4 years	1,222	119
From 4 to 5 years	2,181	1,149
Above 5 years	845	428
TOTAL CREDITS, LOANS, BONDS ISSUED AS AT 31 DECEMBER	**5,045**	**2,522**

24.1.5 Other financial liabilities measured at amortized cost

	As at 31 December 2014		As at 31 December 2013	
	Long-term	Short-term	Long-term	Short-term
Purchase of property, plant and equipment and intangible assets	2	1,095	2	545
Bails and guarantee deposits	12	60	6	344
Insurances	-	6	-	-
Liabilities related to LTC	-	767	-	817
Other	2	25	3	238
TOTAL OTHER FINANCIAL LIABILITIES	**16**	**1,953**	**11**	**1,944**
TRADE LIABILITIES	**-**	**1,179**	**-**	**935**

24.2 Fair value of financial instruments

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

Bonds issued by PGE Sweden AB (publ) are based on fixed interest rate. Their value at amortized cost presented in these financial statements as at 31 December 2014 amounted to EUR 641 million and their assessed fair value amounted to EUR 665 million. The indicators used in the valuation are recognized in Level 1 of fair value hierarchy.

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

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

24.3 Fair value hierarchy

Inventories

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

Derivatives

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

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

	As at 31 December 2014		As at 31 December 2013	
FAIR VALUE HIERACHY	Level 1	Level 2	Level 1	Level 2
CO_2 emission rights	409	-	246	-
Inventories	409	-	246	-
Currency forward	-	-	-	96
Commodity forward	-	11	-	8
Financial assets	-	11	-	104
Currency forward	-	-	-	1
CCIRS valuation	-	8	-	-
IRS valuation	-	72	-	23
Commodity forward	-	37	-	-
Financial liabilities	-	117	-	24

Inventories are described in note B.11 of these financial statements, whereas financial assets and liabilities at fair value through profit or loss are presented in note B.24.1.3 of these financial statements.

During the reporting and the comparative period, there have been no movements of financial instruments between the first and second levels of the fair value of hierarchy.

Presented below are conditions of individual derivatives.

	As at 31 December 2014		As at 31 December 2013		
	Carrying amount in PLN	Nominal value in currency	Carrying amount in PLN	Nominal value in currency	Maturity
Currency forward - EUR	11	113	8	94	to January 2017
Commodity forward sale - EUA - EUR	-	-	96	106	to December 2016
Commodity forward purchase - EUA - EUR	-	-		17	to December 2016
Financial assets	11		104		
Currency forward - EUR	-	5	(1)	18	to January 2016
Commodity forward sale - EUA - EUR	(37)	135	-	-	to December 2016
Commodity forward purchase - EUA - EUR		40	-	-	to December 2016
CCIRS - EUR to PLN	(8)	514	-	-	to June 2019
		144	-	-	to July2029
IRS - rate % PLN	(54)	1,000	-	-	to June 2018
IRS - rate % USD	(18)	2	(23)	6	to June 2015
		6		9	to August 2016
		40		48	to May 2019
Financial liabilities	(117)		(24)		

24.4 Statement of comprehensive income

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

YEAR ENDED 31 DECEMBER 2014	Assets and liabilities at fair value through profit and loss and cash	Available-for-sale financial assets	Held-to-maturity assets	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	3	-	-	-	**3**
Interest income/ (expense)	86	-	-	80	(66)	**100**
Exchange gains / (losses)	97	-	-	4	(119)	**(18)**
Reversal of impairment allowances / increase of value	27	-	-	78	-	**105**
Creation of impairment allowances / decrease of value	(56)	(1)	-	(500)	-	**(557)**
TOTAL PROFIT/ (LOSS)	**154**	**2**	**-**	**(338)**	**(185)**	**(367)**

Creation of impairment allowance on loans and receivables of PLN 500 million relates mainly to impairment loss of bonds issued by Autostrada Wielkopolska S.A. of PLN 386 million and impairment allowances of trade receivables. Creation and reversal of impairment allowances of trade receivables is recognised as other operating revenues and expenses.

YEAR ENDED 31 DECEMBER 2013	Assets and liabilities at fair value through profit and loss and cash	Available-for-sale financial assets	Held-to-maturity assets	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	2	-	-	-	**2**
Interest income/ (expense)	131	2	-	76	(57)	**152**
Exchange gains / (losses)	-	-	-	4	(2)	**2**
Reversal of impairment allowances / increase of value	54	-	-	20	-	**74**
Creation of impairment allowances / decrease of value	-	-	-	(73)	-	**(73)**
Gains / (losses) on investment disposals	-	14	-	-	-	**14**
TOTAL PROFIT/ (LOSS)	**185**	**18**	**-**	**27**	**(59)**	**171**

24.5 Collaterals for repayment of receivables and liabilities

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

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

	As at 31 December 2014	As at 31 December 2013
Property, plant and equipment	935	1,053
Inventories	51	53
Trade receivables	17	15
TOTAL ASSETS BEING COLLATERAL FOR REPAYMENT OF LIABILITIES	**1,003**	**1,121**

Property, plant and equipment presented in the table above are collaterals for repayment of drawn investment credits. As at 31 December 2014 and as at 31 December 2013 the most significant position is a collateral mortgage on the new power unit 858 MW constructed in PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Elektrownia Bełchatów. The table lists the value of the mortgage, i.e. the amount of EUR 195 million, but the value of the assets on which the mortgage is registered amounts to value of PLN 4,024 million.

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

The companies from PGE Group are obliged to maintain a specified cash balance on its account held with Bank Ochrony Środowiska S.A. according to the rules of Izba Rozliczeniowa Giełd Towarowych S.A. (WCCH - Warsaw Commodity Clearing House) and to participation in a guarantee fund. Cash accounted for as restricted cash of these two titles as at 31 December 2014 amounted to PLN 244 million.

25. Objectives and principles of credit risk management

PGE Group is exposed to different kinds of financial risks, which types and significance depends on the range of activities on the commodity and financial markets, in particular:

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

In the PGE Group, the supreme goal of financial risk management is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk level 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 level fluctuations and the financial result 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 centre of competence in this area. This means that the process of risk management takes into account the sources of exposure to the risk generated by individual areas of business, co-relationships between them and their aggregate influence on the risk profile and the financial situation of the PGE Group. The intent is to use the natural possibilities of compensating opposite positions appearing in the Group.

Financial risk management model includes:

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

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

The organization of a function of financial risk management is based on the principle of autonomy of an entity responsible for measurement and control of risk borne in respect of business entities (risk owners) responsible for taking and managing the risk on an ongoing basis. The risk control function being independent from business entities assuming the risk is guaranteed by way of locating the

risk unit in a separate division in the PGE Group Corporate Centre's organizational structure and of independent reporting lines for the Risk Committee and the Management Board of PGE S.A.

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

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

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

25.1 Liquidity risk

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

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

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

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

AS AT 31 DECEMBER 2014	Carrying amount	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Loans and credits	1,312	1,381	151	167	713	350
Bonds issued	3,731	4,254	-	80	3,392	782
Trade and other financial liabilities at amortized cost	3,148	3,148	2,329	803	15	1
Liabilities from finance lease and lease agreements with an option of purchase	2	2	1	-	1	-
Derivatives	117	87	6	92	56	(67)
TOTAL	8,310	8,872	2,487	1,142	4,177	1,066

AS AT 31 DECEMBER 2013	Carrying amount	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Loans and credits	1,518	1,602	38	516	593	455
Bonds issued	1,000	1,154	-	34	1,120	-
Trade and other financial liabilities at amortized cost	2,890	2,890	1,846	1,033	10	1
Liabilities from finance lease and lease agreements with an option of purchase	4	4	1	1	2	-
Derivatives	24	29	1	9	18	1
TOTAL	5,436	5,679	1,886	1,593	1,743	457

25.2 Interest rate risk

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

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

Bonds issued under the Bonds issue program in the amount of PLN 5 billion, are interest-bearing bonds at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions. Bonds issued under the medium term Eurobonds Issue Programme, are interest-bearing bonds at a fixed rate in EUR. Payments for these loans are hedged by CCIRS transactions. Bonds issuance programs are described in note B.24.1.4 and hedging instruments are described in note B.24.1.3 of these financial statements.

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

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

		Type of interest rate	As at 31 December 2014	As at 31 December 2013 *restated*
Interest on financial instruments	Financial assets at fair value exposed to interest rate risk	PLN	Fixed	-	-
			Variable	-	-
		Other currencies	Fixed	-	-
			Variable	11	104
	Deposits and cash	PLN	Fixed	5,661	5,904
			Variable	-	100
		Other currencies	Fixed	648	48
			Variable	-	358
	Financial liabilities at fair value exposed to interest rate risk	PLN	Fixed	-	-
			Variable	54	-
		Other currencies	Fixed	-	-
			Variable	63	24
	Credits, loans, bonds issued and leasing	PLN	Fixed	106	55
			Variable	1,351	1,557
		Other currencies	Fixed	2,731	-
			Variable	857	910
	Net exposure	**PLN**	**Fixed**	**5,555**	**5,849**
			Variable	**(1,405)**	**(1,457)**
		Other currencies	**Fixed**	**(2,083)**	**48**
			Variable	**(909)**	**(472)**

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

25.3 Foreign currency risk

The PGE Group entities exposure to currency transaction risk and currency translation risk can be identified. Presented below are main sources of exposure to the Group currency risk:

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

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

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

	Total carrying amount in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2014					
		EUR		USD		CHF	
		Currency	PLN	Currency	PLN	Currency	PLN
FINANCIAL ASSETS							
Trade receivables	1,729	6	26	-	-	-	-
Cash and cash equivalents	6,282	152	648	-	-	-	-
Derivatives - forward	11	69	296	-	-	-	-
FINANCIAL LIABILITIES				-	-	-	-
Derivatives – commodity forward	(37)	(37)	(158)	-	-	-	-
Derivatives – currency forward	-	(5)	(22)	-	-	-	-
Derivatives IRS - PLN	(54)	-	-	-	-	-	-
Derivatives IRS - USD	(18)	-	-	(5)	(18)	-	-
Derivatives CCIRS	(8)	740	3,154	-	-	-	-
Interest-bearing loans and borrowings	(1,312)	(147)	(626)	(48)	(169)	(17)	(62)
Bonds issued and other debt securities	(3,731)	(641)	(2,731)	-	-	-	-
Trade and other financial liabilities measured at amortized cost	(3,148)	(12)	(52)	-	-	-	-
NET CURRENCY POSITION		**125**	**535**	**(53)**	**(187)**	**(17)**	**(62)**

The carrying value of derivatives constitutes fair value measurement. The value of the exposure to currency risk for derivatives (forward) is the nominal value of the currency. The value of the exposure to currency risk for CCIRS derivatives is the value in the currency of the discounted cash flows of currency legs.

restated	Total carrying amount in PLN	CURRENCY POSITION AS AT 31 DECEMBER 2013					
		EUR		USD		CHF	
		Currency	PLN	Currency	PLN	Currency	PLN
FINANCIAL ASSETS							
Bonds, bills and notes receivable acquired	358	86	358	-	-	-	-
Trade receivables	2,192	4	15	-	-	-	-
Cash and cash equivalents	5,952	12	48	-	-	-	-
Derivatives – commodity forward	96	65	270	-	-	-	-
Derivatives – currency forward	8	94	390				-
FINANCIAL LIABILITIES				-			
Derivatives – currency forward	(1)	(6)	(23)	-	-	-	-
Derivatives IRS - PLN	(23)	-	-	(8)	(23)	-	-
Bonds issued and other debt securities	(1,518)	(148)	(616)	(63)	(190)	(31)	(104)
Trade and other financial liabilities measured at amortized cost	(2,890)	(9)	(38)	-	-	-	-
NET CURRENCY POSITION		**98**	**404**	**(71)**	**(213)**	**(31)**	**(104)**

The carrying value of derivatives constitutes fair value measurement. The value of the exposure to currency risk for derivatives (forward) is the nominal value of the currency.

25.4 Price risk

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

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

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

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

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

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

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

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

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

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

	Year ended 2014		Year ended 2013	
TYPE OF FUEL	Tonnage – external purchase (in thousand tons)	Cost of purchase (mln PLN)	Tonnage – external purchase (in thousand tons)	Cost of purchase (mln PLN)
Coal	6,197	1,536	6,109	1,557
Gas [m^3 thousand]	378,949	258	377,177	271
Biomass	1,236	353	1,061	304
Fuel oil	40	75	44	96
TOTAL		**2,222**		**2,228**

Moreover, as presented in note B.12 of these financial statements, during the period ended 31 December 2014, the Group purchased CO_2 emission rights for PLN 831 million for own purposes and during the period ended 31 December 2013 CO_2 emission rights for PLN 772 million.

25.5 Credit risk

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

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

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

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

- Trade receivables from key customers. The three most significant customers accounted for ca. 7% of the trade receivables balance. In addition, receivables from sale of electricity to households account for ca. 20% of the trade receivables balance and receivables from corporate customers represent approximately 55% of the balance of trade receivables.
- Compensation from Long-Term Contracts.

Maximum credit risk exposure resulting from PGE Group's financial assets is equal to the carrying value of these items. The total maximum credit risk exposure resulting from the PGE Group's assets amounted to PLN 9,215 million as at 31 December 2014.

25.5.1 Trade receivables. Other loans and financial receivables.

The terms of payments for trade receivables are usually 2-3 weeks. In year 2014 the PGE Group received payments for receivables after 29 days on average (debtors turnover ratio in the main companies in PGE Group ranged between 6 and 44 days, taken retail sale and distribution segment). Trade receivables relate mainly to receivables for energy sold and supplementary services. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by allowances for receivables.

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

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

	31 December 2014		31 December 2013	
	Receivables balance	Share %	Receivables balance	Share %
Poland	1,644	95%	2,150	98%
Germany	40	2%	9	0,5%
Other	45	3%	33	1,5%
TOTAL	**1,729**	**100%**	**2,192**	**100%**

Ageing receivables and impairment allowance for receivables

As at 31 December 2014 part of the financial assets were the subject to impairment allowances. The change in allowances accounts for these classes of financial instruments are presented in the table below:

Year ended 31 December 2014

	Trade receivables	Bonds
Impairment allowance as at 1 January	**(270)**	**(29)**
Impairment allowance used	32	-
Impairment allowance reversed	15	-
Impairment allowance raised	(23)	(386)
Other changes	3	-
Impairment allowance as at 31 December	**(243)**	**(415)**
Value before the impairment allowance	**1,972**	**415**
Net value (carrying amount)	**1,729**	**-**

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 proceeding before the European Commission on the unlawful state aid. Bonds acquired by PGE S.A. are unsecured and subordinated in relation to other debt instruments issued by Autostrada Wielkopolska S.A.

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

The majority of impairment allowances created by the PGE Group during the reporting period relates to trade receivables of companies from retail sale and distribution segment. Impairment allowances in these companies as at 31 December 2014 amounted to PLN 193 million (PLN 207 million in 2013).

Year ended 31 December 2013

	Trade receivables	Bonds
Impairment allowance as at 1 January	**(249)**	**(29)**
Impairment allowance used	16	-
Impairment allowance reversed	65	-
Impairment allowance raised	(102)	-
Other changes	-	-
Impairment allowance as at 31 December	**(270)**	**(29)**
Value before the impairment allowance	**2,462**	**387**
Net value (carrying amount)	**2, 192**	**358**

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

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

	31 December 2014			31 December 2013		
	Gross carrying amount	Impairment allowance	Net carrying amount	Gross carrying amount	Impairment allowance	Net carrying amount
Receivables before due date	**3,064**	**(456)**	**2,608**	**3,224**	**(72)**	**3,152**
Past due <30 days	246	(3)	**243**	260	(13)	**247**
Past due 30-90 days	76	(18)	**58**	65	(8)	**57**
Past due 90-180 days	16	(8)	**8**	40	(15)	**25**
Past due 180-360 days	26	(23)	**3**	40	(34)	**6**
Past due >360 days	311	(309)	**2**	269	(269)	-
Receivables past due, total	**675**	**(361)**	**314**	**674**	**(339)**	**335**
Trade receivables and other loans and financial receivables	**3,739**	**(817)**	**2,922**	**3,898**	**(411)**	**3,487**

As at 31 December 2014 more than 72% of the overdue trade receivables, other loans and receivables that were not covered with an impairment allowances relate to companies from retail sale segment.

25.5.2 Deposits, cash and cash equivalents

The Group manages credit risk related to cash by diversification of banks in which surpluses of cash are allocated. All entities, that PGE Group concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high ratings, adequate equity and strong, stable market position. The share of three major banks in which PGE Group allocated the most significant cash balances as at 31 December 2014 accounted for approximately 78%.

25.5.3 Derivatives

All entities, that the PGE Group concludes derivatives transactions with, operate in the financial sector. These are Polish banks with high ratings, of adequate equity and strong, stable market position. As at the balance sheet date, the PGE Group was party to the derivative transactions, described in detail in note B.24.1.3 to these consolidated financial statements.

25.5.4 Guarantees granted

Guarantees granted by the PGE Group entities are presented in the note B.23 of these consolidated financial statements.

25.6 Market (financial) risk – sensitivity analysis

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

- interest rate risk,
- currency risk.

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

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

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

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

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

The value of currency risk exposure for derivative instruments is their nominal value with accrued interest to the reporting date, converted into Polish zlotys at the closing price on 31 December 2014 and 31 December 2013, without taking the discount into account. In turn, the carrying value of these derivative instruments constitutes fair value measurement.

Sensitivity analysis for currency risk

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

FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT 31 DECEMBER 2014					
			EUR/PLN Impact on financial result/capital		USD/PLN Impact on financial result/capital		CHF/PLN Impact on financial result/capital	
			+7.73%	+7.73%	+9.04%	+9.04%	+9.04%	-9.04%
Trade receivables	1,729	26	2	(2)	-	-	-	-
Cash and cash equivalents	6,282	648	50	(50)	-	-	-	-
Derivatives – currency forward	11	296	23	(23)	-	-	-	-
Derivatives – commodity forward	(37)	(158)	(12)	12	-	-	-	-
Derivatives – currency forward	-	(22)	2	(2)	-	-	-	-
Derivatives IRS – USD	(18)	(18)	-	-	(2)	2	-	-
Derivatives – CCIRS	(8)	3,154	217	(217)	-	-	-	-
Interest bearing credit and loans	(1,312)	(857)	(48)	48	(22)	22	(6)	6
Bonds issued	(3,731)	(2,731)	(211)	211	-	-	-	-
Trade liabilities and other financial liabilities	(3,148)	(52)	(4)	4	-	-	-	-
IMPACT ON FINANCIAL RESULT			**19**	**(19)**	**(24)**	**24**	**(6)**	**6**
Derivatives – CCIRS	(8)	3,154	27	(27)	-	-	-	-
IMPACT ON REVALUATION RESERVE			**27**	**(27)**	**-**	**-**	**-**	**-**

Potential possible changes in the exchange rates used for the sensitivity analysis were calculated on the basis of annual implied volatilities for different currency pairs.

Potential positive/negative impact on the revaluation reserve	FINANCIAL INSTRUMENTS BY CLASS restated	Carrying amount in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT 31 DECEMBER 2013							
			Amount exposed to risk in PLN	EUR/PLN Impact on financial result/capital		USD/PLN Impact on financial result/capital		CHF/PLN Impact on financial result/capital		
				+7.75%	-7.75%	+13.08%	-13.08%	+8.95%	-8.95%
	Trade receivables	2,192	15	1	(1)	-	-	-	-
	Bonds, bills, notes receivable acquired	358	358	28	(28)	-	-	-	-
	Cash and cash equivalents	5,952	48	4	(4)	-	-	-	-
	Derivatives – currency forward	8	390	30	(30)	-	-	-	-
	Derivatives – commodity forward	96	270	21	(21)	-	-	-	-
	Derivatives – currency forward	(1)	(23)	2	(2)	-	-	-	-
	Derivatives IRR - USD	(23)	(23)	-	-	3	(3)	-	-
	Interest bearing credit and loans	(1,518)	(910)	(48)	48	(25)	25	(9)	9
	Trade liabilities and other financial liabilities	(2,890)	(38)	(3)	3	-	-	-	-
	IMPACT ON REVALUATION RESERVE			**35**	**(35)**	**(22)**	**22**	**(9)**	**9**

changes in the exchange rates used for the sensitivity analysis were calculated on the basis of annual implied volatilities for different currency pairs.

Sensitivity analysis for interest rate risk

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

FINANCIAL ASSTES AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT 31 DECEMBER 2014					
			WIBOR Impact on financial result/capital		EURIBOR Impact on financial result/capital		LIBOR USD Impact on financial result/capital	
			+71.67bp	-71.67bp	+48.50bp	-48.50bp	+25.36bp	-25,36pb
Derivatives – currency forward	11	11	<1	<(1)	-	-	-	-
Derivatives – commodity forward	(37)	(37)	<1	<(1)	-	-	-	-
Derivatives – currency forward	<1	<1	<1	<(1)	-	-	-	-
Derivatives IRS – PLN	(54)	(54)	24	(25)	-	-	-	-
Derivatives IRS - USD	(18)	(18)	-	-	-	-	1	(1)
Interest bearing loans and credits	(1,311)	(1,207)	(3)	3	(3)	3	(1)	1
Bonds issued	(3,732)	(1,000)	(7)	7	-	-	-	-
IMPACT ON COMPREHENSIVE INCOME			**14**	**(15)**	**(3)**	**3**	**-**	**-**
Derivatives – CCIRS	(8)	(8)	126	(135)	(98)	102	-	-
INPACT ON REVALUATION RESERVE			**126**	**(135)**	**(98)**	**102**	**-**	**-**

Potential changes in the interest rates can be used to the sensitivity analyse and has been calculated on the basis of annual implied volatilities for WIBOR, EURIBOR and LIBOR.

For derivatives the value exposed for interest rate risk is the fair value of these instruments. Sensitivity analysis of derivatives CCIRS and the IRS has been carried out with the use of changes in valuation of the shifted interest rate curves in a currency.

FINANCIAL ASSTES AND LIABILITIES *restored*	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT 31 DECEMBER 2013 WIBOR Impact on financial result/capital		EURIBOR Impact on financial result/capital		LIBOR USD Impact on financial result/capital	
			+62.51bp	-62.51bp	+40.30bp	-40.30bp	+25.87bp	-25.87bp
Bonds acquired	358	358	-	-	1	(1)	-	-
Derivatives – currency forward	8	8	<1	<(1)	-	-	-	-
Derivatives – commodity forward	96	96	<1	<(1)	-	-	-	-
Derivatives	(1)	(1)	<(1)	<1	-	-	-	-
Derivatives IRS - USD	(23)	(23)	-	-	-	-	1	(1)
Interest bearing loans and credits	(1,518)	(1,466)	(4)	4	(2)	2	(1)	1
Bonds issued	(1,000)	(1,000)	(6)	6	-	-	-	-
IMPACT ON COMPREHENSIVE INCOME			**(10)**	**10**	**(1)**	**1**	**-**	**-**

Potential changes in the interest rates can be used to the sensitivity analyze and has been calculated on the basis of annual implied volatilities for WIBOR, EURIBOR and LIBOR.

For derivatives the value exposed for interest rate risk is the fair value of these instruments.

25.7 Hedge accounting

In connection with loans received from PGE Sweden AB (publ), disclosed in note B.28.3 of these financial statements, PGE S.A. concluded a CCIRS transaction, that hedges currency and interest rate. In these transactions, banks-contractors of PGE S.A. pay interests based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transaction are correlated with the relevant conditions arising from loan agreements. In the consolidated financial statements the relevant part of CCIRS transactions is regarded as a collateral of bonds issued by PGE Sweden AB (publ).

For the CCIRS transaction the Group applies hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note B.18.3 of these financial statements.

26. Statement of cash flows

Presented below is the analysis of the main positions of the operating activities from cash flow statement.

26.1 Profit/ loss on investment activities

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Profit/ (loss) on disposal of property, plant and equipment	(22)	(21)
Net value of liquidated property, plant and equipment	31	21
Net value of property, plant and equipment transferred free of charge	(2)	19
Profit/(loss) on write-off of discontinued investments	7	3
Profit/ (loss) on disposal of non-current financial assets	1	(60)
Change in impairment loss on shares and other financial assets	389	4
Accrual valuation of derivatives	186	(85)
Other	(40)	6
PROFIT/ LOSS ON INVESTMENT ACTIVITIES, TOTAL	**550**	**(113)**

26.2 Change in receivables

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Change in loans and long term receivables	379	(63)
Change in loans and other financial receivables (short-term)	(277)	(135)
Change in trade receivables	463	(297)
Adjustment by change in receivables from loans and bonds	(358)	89
Adjustment by change in deposits	(73)	(43)
Other	1	(55)
CHANGE IN RECEIVABLES, TOTAL	**135**	**(504)**

26.3 Change in inventories

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Change in inventories	(491)	516
Inventories acquired / transferred as part of merger	(17)	-
CHANGE IN INVENTORIES, TOTAL	**(508)**	**516**

26.4 Change in liabilities, excluding loans and bank credits

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Change in trade payables	244	(267)
Change in other financial liabilities	14	386
Change in other non-financial liabilities	(251)	40
Adjustment by change in investment liabilities	(550)	79
Change in other financial liabilities	2	(10)
Change in other non-financial liabilities	**(541)**	**228**

26.5 Change in other non-financial assets, deferred income and CO2 emission rights

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Change in other short-term assets	(584)	(285)
Change in other long-term assets	(264)	59
Change in CO_2 emission rights	(148)	(613)
Change in long-term deferred income	(23)	56
Change in short-term deferred income	(9)	48
Adjustment by change in advances for construction in progress	561	261
Adjustment by change in other short-term and long-term assets regarding financial/investment activities	(3)	-
Other	(2)	(59)
CHANGE IN OTHER NON-FINANCIAL ASSETS, DEFERRED INCOME AND CO_2 EMISSION RIGHTS, TOTAL	**(472)**	**(533)**

26.6 Change in provisions

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Change in long term provisions	1,333	(104)
Change in short term provisions	(365)	726
Adjustment by change in actuarial provisions recognized in other comprehensive income	(397)	311
Adjustment by change in rehabilitation provisions recognized in assets	(562)	-
Other	-	91
CHANGE IN PROVISIONS, TOTAL	**9**	**1,024**

27. Information on related parties

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

27.1 Associates

The sale of entities belonging to the PGE Group to associates in 2014 amounted to PLN 5 million and PLN 7 million in the comparative period. As at 31 December 2014 and as at 31 December 2013, the Group presented trade receivables from associates in the amount of PLN 1 million.

27.2 Subsidiaries of the State Treasury

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

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

	Year ended 31 December 2014	Year ended 31 December 2013 *restated*
Sales to related parties	1,992	4,017
Purchases from related parties	3,477	3,673

	As at 31 December 2014	As at 31 December 2013
Trade receivables from related parties	218	523
Including overdue	*14*	*4*
Trade payables to related parties	517	351
Including overdue	*2*	-

The largest transactions with the participation of State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A and purchases of coal from Polish mines. The decrease in sales and receivables from related entities is mainly due to the expiration of the contract of the parent company with Energa Obrót S.A.

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

27.3 Key management personel remuneration

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

PLN thousand	Year ended 31 December 2014	Year ended 31 December 2013
Short-term employee benefits (salaries and salary related costs)	26,288	25,715
Post-employment and termination benefits	4,085	9,755
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**30,373**	**35,470**
Remuneration of key management personnel of entities of non-core operations	18,948	18,064
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**49,321**	**53,534**

PLN thousand	Year ended 31 December 2014	Year ended 31 December 2013
The Management Board of the parent company	7,324	13,254
The Supervisory Board of the parent company	346	282
The Management Boards – subsidiaries	21,581	20,993
The Supervisory Boards – subsidiaries	1,122	941
TOTAL	**30,373**	**35,470**
Remuneration of key management personnel of entities of non-core operations	18,948	18,064
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**49,321**	**53,534**

The Members of the Management Boards of some of the Group companies are employed on the basis of civil law contracts for management (Management contracts). The mentioned remuneration is included in other costs by type in note B.2.3 Costs by type and function of these financial statements.

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

28. Significant events of the reporting period and subsequent events

28.1 Compensation resulting from termination of long term contracts

Some producers from the PGE GiEK S.A. became entitled to receive funds to cover stranded costs (the so-called "compensations") in accordance with the Act of 29 June 2007 on the principles for coverage of costs incurred due to early termination of long-term contracts for sales of capacity and electricity (Official Journal, No. 130, item 905 of 2007) ("LTC Act"). Provisions of the LTC Act are in many respects ambiguous and raise important questions of interpretation. When calculating the forecasted results of individual producers and the resulting compensation, annual stranded cost adjustments, final adjustments and the resulting amount of revenue recognized in the statement of comprehensive income, the PGE Group has applied its best knowledge in this respect, being also supported by external experts.

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

In 2014:

- Final sentences, favourable for the Group, were made in the proceedings concerning appeals against the President of ERO decisions regarding the annual adjustment of stranded costs for PGE GiEK S.A. Branch Rzeszów CHP for the year 2009, PGE GiEK S.A. Branch Opole Power Plant for the year 2009 and PGE GiEK S.A. for the year 2010. The amount of dispute in these cases was PLN 680 million.
- CCP Court issued a sentence which considered part of the appeal of PGE GiEK S.A. and changed the decision of the President of ERO dated July 11, 2011 regarding the amount of the annual adjustment of the stranded costs due to PGE GiEK S.A. Branch Opole Power Plant for the year 2010. Based on the CCP Court sentence, the annual adjustment of the stranded costs due to PGE GiEK S.A. Branch Opole Power Plant for the year 2010 amounted to approximately PLN (-) 50 million including interests.
- On 11 August 2014, PGE GiEK S.A. received an administrative decision from the President of ERO regarding the amount of the annual adjustment of the stranded costs for the year 2013. In accordance with the decision of the President of ERO, the annual adjustment of stranded costs incurred in the manufacturing units: Branch Turów Power Plant and Branch Opole Power Plant for the year 2013 amounted to approximately PLN (+) 438 million. The Group considers this amount as undisputable.
- A favourable verdict of the Court of Appeal was issued in case of annual adjustments costs related to natural gas fired entities for PGE GiEK S.A. Branch Lublin Wrotków CHP for the year 2009. Claim value in the above case is PLN 7 million.
- An unfavourable for PGE Group verdict of the Court of Appeal in case related to the appeal of the decision of the President of the Energy Regulatory Authority for the annual adjustments of costs related to natural gas fired entities for PGE GiEK S.A. Branch Rzeszów CHP for the year 2009 and for PGE GiEK S.A. for the year 2010. The amount of dispute in these cases was PLN 8 million.
- An unfavourable verdict of CCP Court in case of annual adjustments of costs related to natural gas entities for PGE GiEK S.A. Branch Rzeszów CHP for the year 2011. The amount of dispute in this case was PLN 6 million.

On 8 October, the Supreme Court examined a cassation appeal from the President of the Energy Regulatory Office related to the sentence of the Court of Appeal regarding the amount of annual corrections in stranded costs for PGE GiEK S.A- Branch Zespół Elektrowni Dolna Odra for the year 2009. The Supreme Court has not yet issued a final decision regarding the appeal and has submitted an inquiry to the Court of Justice of the European Union. Following the verdict of the Supreme Court:

- on 22 October 2014 – the Supreme Court adjourned the cassation trial regarding the amount of the annual adjustment of the stranded costs due to GiEK S.A. Branch Gorzów CHP for the year 2009, and
- on 28 October 2014 – the Court of Appeal suspended the proceedings regarding the amount of the annual adjustment of the stranded costs due to GiEK S.A. Branch Lublin Wrotków CHP for the year 2009,

until the PGE GiEK S.A. Branch Zespół Elektrowni Dolna Odra's proceedings for the year 2009 are settled.

Impact on the financial statements for the period ended 31 December 2014

In the financial statements for the period ended 31 December 2014, the Group recognized LTC revenue in sales revenue in the amount of PLN 1,539 million.

In addition, the final judgments of the Court of Appeal on PGE GiEK S.A. Branch Opole Power Plant, PGE GiEK S.A. Branch Rzeszów CHP and PGE GiEK S.A. caused an LTC compensation adjustment of approximately PLN 246 million recorded in the financial statements for the period ended 31 December 2014. The adjustment value is recognized in the statement of comprehensive income under other operating income.

The amount of disputes in all matters relating to the years 2008 – 2012 amount to PLN 1,660 million, including the amount of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment regarding CCP Court in the amount of PLN 1,429 million.

Overall in the period 2008-2014, the PGE Group recognized income from LTC compensation in the amount of PLN 6,540 million. In addition, PGE Group has applied for an advance payment of LTC compensation for the year 2015 in the amount of PLN 251 million.

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

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

On 25 September 2014 an Amendment no. 1 to the Partners' Agreement was signed. The subject to the Agreement no. 1 was to extend the deadline for conclusion the contract, which aim was to completion proceeding before the Polish Office of Competition and Consumer Protection regarding the intention of the concentration. On 7 October 2014 the President of the Polish Office of Competition and Consumer Protection issued unconditional concentration approval for creation by the Applicants of a joint enterprise under the name PGE EJ 1 sp. z o.o. Obtaining of concentration approval is the precedent for conclusion of agreement for the acquisition of shares in PGE EJ 1 sp. z o.o., that was specified in the Partners' Agreement, which according to current assumption is expected in 2018.

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

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

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

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

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

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

28.3 Establishment of the Eurobonds programme

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

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

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

The total value of loans received as at the reporting date amounts to EUR 641 million (PLN 2,731 million). Flows of nominal and interests resulting from the bonds are hedged by CCIRS transactions.

29. Approval of financial statements

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

Warsaw, 17 February 2015

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

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

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