



Energa

**ENERGA SA
Group**

**Consolidated
Financial Statements
prepared in accordance
with the International
Financial Reporting
Standards
as adopted
by the European Union
for the year ended
31 December 2014**

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Continuing operations			
Sales of products and goods for resale including excise tax		6,741,300	7,833,611
Excise tax		(259,095)	(288,540)
Sales of products and goods for resale		6,482,205	7,545,071
Sales of services		4,022,262	3,811,937
Rental income		86,128	72,241
Revenue		10,590,595	11,429,249
Cost of sales		(8,463,733)	(9,455,472)
Gross profit on sales		2,126,862	1,973,777
Other operating income	11.1	107,319	155,718
Selling and distribution expenses	11.5	(311,995)	(294,321)
General and administrative expenses	11.5	(350,621)	(412,147)
Other operating expenses	11.2	(125,325)	(228,193)
Financial income	11.3	114,512	151,006
Financial costs	11.4	(312,534)	(322,892)
Share of profit (loss) of associates		(157)	(582)
Profit before tax		1,248,061	1,022,366
Income tax	12	(238,612)	(273,748)
Net profit on continuing operations		1,009,449	748,618
Discontinued operations			
Net profit (loss) on discontinued operations	21.1	(3,251)	(5,640)
Net profit for the period		1,006,198	742,978
Attributable to:			
Equity holders of the Parent Company		982,138	763,972
Non-controlling interests		24,060	(20,994)
Earnings per share (in PLN)	26		
- basic		2.38	1.86
- diluted		2.38	1.86
Loss per share from discontinued operations (in PLN)	26		
- basic		(0.01)	(0.01)
- diluted		(0.01)	(0.01)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Net profit for the period		1,006,198	742,978
Items that will never be reclassified to profit or loss		(46,851)	81,251
Actuarial gains and losses on defined benefit plans	24	(57,841)	100,310
Deferred tax on other comprehensive income	12.3	10,990	(19,059)
Items that are or may be reclassified subsequently to profit or loss		(40,744)	24,181
Foreign exchange gains / (losses) arising on translation of foreign operations		2,727	(2,358)
Cash flow hedges	33.7	(53,670)	32,765
Deferred tax on other comprehensive income	12.3	10,199	(6,226)
Net other comprehensive income		(87,595)	105,432
Total comprehensive income		918,603	848,410
Attributable to:			
Equity holders of the Parent Company		894,568	869,397
Non-controlling interests		24,035	(20,987)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2014	As at 31 December 2013 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	13	12,315,221	11,760,776
Investment property	14	40,408	15,189
Intangible assets	15	393,079	398,677
Goodwill	16	143,058	156,773
Deferred tax assets	12.3	245,591	245,086
Hedging derivatives	33.7	28,662	13,017
Other non-current financial assets		20,327	17,727
Other non-current assets	20.1	55,110	42,291
		13,241,456	12,649,536
Current assets			
Inventories	17	295,741	302,043
Current tax receivables		76,090	43,427
Trade receivables	33.4.1, 33.6	1,550,754	1,469,543
Deposits		42	4,121
Other current financial assets		22,364	8,891
Cash and cash equivalents	19	2,695,398	2,352,305
Other current assets	20.2	208,201	145,574
Assets classified as held for sale	21.2	26,632	109,116
		4,875,222	4,435,020
TOTAL ASSETS		18,116,678	17,084,556

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

	Note	As at 31 December 2014	As at 31 December 2013 (restated)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent Company			
Share capital	28.1	4,521,613	4,521,613
Foreign exchange gains / (losses) arising on translation of foreign operation		417	(2,310)
Reserve capital	28.2	447,192	447,192
Supplementary capital	28.3	606,472	521,490
Cash flow hedge reserve	28.4, 33.7	(16,932)	26,539
Retained earnings	28.5	2,956,946	2,519,955
Non-controlling interests	28.6	37,851	13,816
Total equity		8,553,559	8,048,295
Non-current liabilities			
Loans and borrowings	33.4.2	2,389,554	1,811,548
Bonds issued	33.4.2	3,116,835	3,119,453
Non-current provisions	29	631,716	549,499
Deferred tax liabilities	12.3	553,387	544,001
Deferred income and non-current grants	23.1	525,824	489,234
Derivatives	33.7	22,748	-
Other financial non-current liabilities		8,539	4,873
Other non-current liabilities	22.1	1,186	1,406
		7,249,789	6,520,014
Current liabilities			
Trade liabilities		869,106	889,902
Current loans and borrowings	33.4.2	170,568	274,177
Bonds issued	33.4.2	71,540	70,584
Current income tax liability		50,432	6,838
Deferred income and grants	23.1	36,965	32,048
Accruals	23.2	120,594	126,813
Provisions	29	373,995	444,108
Other financial liabilities		228,910	234,725
Other current liabilities	22.2	362,314	355,733
Liabilities related to assets classified as held for sale	21.2	28,906	81,319
		2,313,330	2,516,247
Total liabilities		9,563,119	9,036,261
TOTAL EQUITY AND LIABILITIES		18,116,678	17,084,556

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	Equity attributable to equity holders of the Parent Company								Non-controlling interests	Total equity
	Note	Share capital	Foreign exchange gains / (losses) arising on translation of foreign operations	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total		
As at 1 January 2014		4,521,613	(2,310)	447,192	521,490	26,539	2,519,955	8,034,479	13,816	8,048,295
Actuarial gains and losses on defined benefit plans	24	-	-	-	-	-	(46,826)	(46,826)	(25)	(46,851)
Foreign exchange gains / (losses) arising on translation of foreign operations		-	2,727	-	-	-	-	2,727	-	2,727
Cash flow hedges	33.7	-	-	-	-	(43,471)	-	(43,471)	-	(43,471)
Profit for the period		-	-	-	-	-	982,138	982,138	24,060	1,006,198
Total comprehensive income for the period		-	2,727	-	-	(43,471)	935,312	894,568	24,035	918,603
Retained earnings distribution		-	-	-	84,982	-	(84,982)	-	-	-
Dividends	27	-	-	-	-	-	(414,067)	(414,067)	-	(414,067)
Disposal of shares in subsidiaries		-	-	-	-	-	728	728	-	728
As at 31 December 2014		4,521,613	417	447,192	606,472	(16,932)	2,956,946	8,515,708	37,851	8,553,559

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont.)
for the year ended 31 December 2013

	Note	Equity attributable to equity holders of the Parent Company							Non-controlling interests	Total equity
		Share capital	Foreign exchange gains / (losses) arising on translation of foreign operations	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total		
As at 1 January 2013		4,968,805	48	-	471,235	-	2,231,138	7,671,226	47,296	7,718,522
Actuarial gains and losses on defined benefit plans	24	-	-	-	-	-	81,244	81,244	7	81,251
Foreign exchange gains / (losses) arising on translation of foreign operations		-	(2,358)	-	-	-	-	(2,358)	-	(2,358)
Cash flow hedges		-	-	-	-	26,539	-	26,539	-	26,539
Profit for the period		-	-	-	-	-	763,972	763,972	(20,994)	742,978
Total comprehensive income for the period		-	(2,358)	-	-	26,539	845,216	869,397	(20,987)	848,410
Retained earnings distribution		-	-	-	50,255	-	(50,255)	-	-	-
Reduction of share capital		(447,192)	-	447,192	-	-	-	-	-	-
Dividends	27	-	-	-	-	-	(496,881)	(496,881)	(1,755)	(498,636)
Purchase of shares in subsidiaries		-	-	-	-	-	(286)	(286)	(9,978)	(10,264)
Disposal of shares in subsidiaries		-	-	-	-	-	(8,977)	(8,977)	(760)	(9,737)
As at 31 December 2013		4,521,613	(2,310)	447,192	521,490	26,539	2,519,955	8,034,479	13,816	8,048,295

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Cash flows from operating activities			
Profit before tax from continuing operations		1,248,061	1,022,366
Loss before tax on discontinued operations and disposal of non-current assets classified as held for sale		(3,251)	(5,640)
Adjustments for:			
Share of loss of associates		157	582
Foreign currency (gains)/losses		10,282	3,071
Amortization and depreciation	11.5	860,719	770,635
Net interest and dividends		211,553	190,642
Loss on investing activities		30,396	158,713
Changes in working capital:			
Change in receivables		(129,370)	52,044
Change in inventories		6,908	72,406
Change in payables excluding loans and borrowings		(55,878)	211,044
Change in prepayments and accruals		14,231	11,196
Change in provisions	29	(43,906)	(164,997)
		2,149,902	2,322,062
Income tax paid		(197,611)	(314,836)
Net cash from operating activities		1,952,291	2,007,226
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		33,356	29,780
Purchase of property, plant and equipment and intangible assets		(1,469,113)	(1,626,802)
Disposal of shares in associates		3,188	20,850
Disposal of other financial assets		56,942	31,052
Purchase of other financial assets		(30,322)	(28,479)
Disposal of subsidiary		20,525	1,900
Acquisition of subsidiary, net of cash acquired	2.2.1	(3)	(1,216,099)
Dividends received		116	68
Interest received		461	954
Net cash used in investing activities		(1,384,850)	(2,786,776)
Cash flows from financing activities			
Proceeds from bond issue		-	2,088,700
Payment of finance lease liabilities		(5,930)	(7,746)
Proceeds from loans and borrowings		949,846	63,975
Repayment of loans and borrowings		(528,499)	(404,010)
Dividends paid	27	(414,067)	(497,467)
Subsidies received		-	30,595
Interest paid		(241,610)	(171,999)
Other		(3,313)	(1,158)
Net cash from financing activities		(243,573)	1,100,890
Net increase in cash and cash equivalents		323,868	321,340
Cash and cash equivalents at the beginning of the period	19	2,350,713	2,029,373
Cash and cash equivalents at the end of the period	19	2,674,581	2,350,713

ACCOUNTING PRINCIPLES (POLICIES) AND NOTES

1. General information

The ENERGA SA Group (the "Group") consists of **ENERGA Spółka Akcyjna** ("parent company", "Company") and its subsidiaries (see Note 2). The consolidated financial statements of the Group cover the year ended 31 December 2014 and contain comparative data for the year ended 31 December 2013.

The parent company is entered in the Register of Entrepreneurs of the National Court Register held by the District Court Gdańsk-Północ, 7th Commercial Division of the National Court Register under number KRS 0000271591.

The parent company's REGON statistical number is 220353024.

The primary activities of the Group are as follows:

1. distribution and sales of electricity and heat energy,
2. production of electricity and heat energy,
3. trading in electricity.

As at 31 December 2014, the Polish State Treasury is the Company's parent and ultimate controlling party of the ENERGA SA Group.

2. Composition of the Group and its changes

2.1. Composition of the Group at the end of the reporting period

As at 31 December 2014, the Group consists of ENERGA SA and the following companies:

Subsidiaries

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2014	31 December 2013
1	ENERGA – OPERATOR SA	Gdańsk	distribution of electricity	100.00	100.00
2	ENERGA – OBRÓT SA	Gdańsk	trading in electricity	100.00	100.00
3	ENERGA Wytwarzanie SA (formerly ENERGA Wytwarzanie Sp. z o.o.) ¹	Gdańsk	energy production	100.00	100.00
4	AEGIR 1 Sp. z o.o. ²	Gdańsk	energy production	-	100.00
5	AEGIR 2 Sp. z o.o. ²	Gdańsk	energy production	-	100.00
6	AEGIR 3 Sp. z o.o. ²	Gdańsk	energy production	-	100.00
7	AEGIR 4 Sp. z o.o.	Gdańsk	energy production	100.00	100.00
8	AEGIR 5 Sp. z o.o. ²	Gdańsk	energy production	-	100.00
9	BORA Sp. z o.o. ²	Gdańsk	energy production	100.00	-
10	Breva Sp. z o.o.	Gdańsk	energy production	100.00	100.00
11	Ciepło Kaliskie Sp. z o.o.	Kalisz	heat energy distribution	91.24	90.00
12	Ekologiczne Materiały Grzewcze Sp. z o.o.	Gdańsk	production of and trading in biomass	100.00	100.00

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2014	31 December 2013
13	Elektrownia CCGT Gdańsk Sp. z o.o.	Gdańsk	energy production	100.00	100.00
14	Elektrownia CCGT Grudziądz Sp. z o.o.	Grudziądz	energy production	100.00	100.00
15	Elektrownia Ostrołęka SA	Ostrołęka	energy production	100.00	100.00
16	ENERGA – OPERATOR Eksploatacja Elbląg Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.)	Elbląg	grid operation	100.00	100.00
17	ENERGA – OPERATOR Eksploatacja Gdańsk Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.)	Gdańsk	grid operation	100.00	100.00
18	ENERGA – OPERATOR Eksploatacja Kalisz Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.)	Kalisz	grid operation	100.00	100.00
19	ENERGA – OPERATOR Eksploatacja Płock Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.)	Płock	grid operation	100.00	100.00
20	ENERGA – OPERATOR Eksploatacja Słupsk Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.)	Słupsk	grid operation	100.00	100.00
21	ENERGA – OPERATOR Eksploatacja Toruń Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.)	Toruń	grid operation	100.00	100.00
22	ENERGA – OPERATOR Produkcja Sp. z o.o. ²	Kalisz	production of power equipment	-	100.00
23	ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100.00	100.00
24	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100.00	100.00
25	ENERGA Elektrociepłownia Kalisz SA w likwidacji (in liquidation) ⁴	Kalisz	energy production	100.00	100.00
26	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	energy production	89.38	89.38
27	ENERGA Finance AB (publ)	Stockholm	financing activity	100.00	100.00
28	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100.00	100.00
29	ENERGA Innowacje Sp. z o.o. ⁷	Gdańsk	organization and management of development of innovative power projects	100.00	100.00
30	ENERGA Invest SA ²	Gdańsk	investment project management	100.00	100.00
31	ENERGA Kogeneracja Sp. z o.o.	Elbląg	energy production	100.00	100.00
32	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	100.00	100.00
33	ENERGA OPEC Sp. z o.o.	Ostrołęka	heat energy distribution	99.99	99.99
34	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	100.00	100.00
35	ENERGA Serwis Sp. z o.o. ⁶	Ostrołęka	repairs and maintenance services	94.68	94.68
36	ENERGA SLOVAKIA s.r.o.	Bratislava	trading in electricity	100.00	100.00
37	ENERGETYK Sp. z o.o. w likwidacji (in liquidation) ²	Płock	contracting and design	-	100.00

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2014	31 December 2013
38	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and design	100.00	100.00
39	ENSA PGK1 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
40	ENSA PGK2 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
41	ENSA PGK3 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
42	ENSA PGK4 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
43	ENSA PGK5 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
44	ENSA PGK6 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
45	ENSA PGK7 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
46	ENSA PGK8 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
47	ENSPIRION Sp. z o.o. ²	Gdańsk	energy consulting and management of demand for electricity	-	100.00
48	EOB PGK1 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
49	EOB PGK2 Sp. z o.o. w organizacji ⁸	Gdańsk	financing services	100.00	-
50	EPW 1 Sp. z o.o.	Pruszcz Gdański	energy production	-	100.00
51	EPW 2 Sp. z o.o. ²	Pruszcz Gdański	energy production	-	100.00
52	EPW 3 Sp. z o.o. ²	Pruszcz Gdański	energy production	-	100.00
53	EPW Energia Olecko Sp. z o.o. ³	Warsaw	energy production	-	19.00
54	EPW Energia Sp. z o.o. ^{2,3}	Warsaw	energy production	-	67.30
55	EPW Parsówek Sp. z o.o. ²	Pruszcz Gdański	energy production	-	100.00
56	Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. ⁵	Straszyn	hotel and training services	-	100.00
57	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and design	100.00	100.00
58	Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL” Sp. z o.o. ²	Raciąż	contracting and design	-	100.00
59	RGK Sp. z o.o.	Gdańsk	financing services and property management	100.00	100.00
60	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and design	100.00	100.00
61	ENERGA – OPERATOR Logistyka Sp. z o.o. (formerly Zakład Energetyczny Płock - Centrum Handlowe Sp. z o.o.)	Płock	logistics and supply	100.00	100.00
62	Zakład Energetyczny Płock - Dystrybucja Zachód Sp. z o.o. w likwidacji (in liquidation) ²	Sierpc	grid operation and investment projects	-	100.00
63	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o.	Toruń	supply	100.00	100.00
64	ZEC Żychlin Sp. z o.o.	Żychlin	heat energy distribution	100.00	100.00
65	ZEP - AUTO Sp. z o.o. ²	Płock	sale and repair of motor vehicles	-	100.00

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2014	31 December 2013
66	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and design	100.00	100.00
67	ZEP - MOT Sp. z o.o. ²	Płock	sale and repair of motor vehicles	-	100.00

¹ Transformation of ENERGA Wytwarzanie Sp. z o.o. into a joint stock company ("SA") was registered on 3 June 2014.

² See description in Note 2.2.

³ See description in Note 39.1.

⁴ On 1 July 2014, the Extraordinary General Meeting adopted a resolution to dissolve the company and appoint a liquidator.

⁵ On 30 September 2014, the Extraordinary General Meeting of the company adopted a resolution to discontinue the liquidation process of the company and on 10 December 2014 a merger with RGK Sp. z o.o. was registered.

⁶ In Q3 2014, action was taken to sell the company (see description in note 21.2.).

⁷ On 30 January 2015 the Court of Registration registered the change of the company's business name from ENERGA Innowacje Sp. z o.o. to ENSPIRION Sp. z o.o.

⁸ In January 2015 the Companies were registered in KRS.

Associates

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2014	31 December 2013
1	Bio - Power Sp. z o.o. ¹	Międzyrzec Podlaski	energy production	-	25.00
2	SOEN Sp. z o.o. ¹	Grudziądz	hotel and administration services	-	48.50

¹ See description in note 2.2.

2.2. Changes in the composition of the Group in the reporting period

2.2.1. Acquisitions

On 29 July 2014, the subsidiary ENERGA Invest SA acquired 100% in the share capital of a special-purpose vehicle BORA Sp. z o.o. holding the right to develop the Czaplonek Wind Farm project. The purchase price was PLN 250 thousand.

Fair value of acquired assets and liabilities as at the date of acquisition

Title	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	1,164
Other non-current assets	10
Cash and cash equivalents	-
Other current assets	119
TOTAL ASSETS	1,293
LIABILITIES	
Trade liabilities	1
Other current liabilities	99
TOTAL LIABILITIES	100
Identifiable net assets at fair value	1,193

Bargain purchase gains arising from the acquisition

Title	Value at the acquisition date
Identifiable net assets at fair value	(1,193)
Purchase price	250
Gain on bargain purchase	(943)

Cash outflows in relation to the acquisition

Title	Year ended 31 December 2014
Expenses related to the acquisition of shares	3
Cash and cash equivalents acquired	-
Acquisition, net of cash acquired	3

Impact of acquisitions on the Group results

In the period from the acquisition date, BORA Sp. z o.o. generated no revenues and its contribution to the Group's profit before tax was negative at PLN 32 thousand. Had the acquisition been conducted at the beginning of the year, it would not have had a material effect on the Group's revenues and profit on continuing operations.

Acquisition-related costs

Acquisition-related transaction costs incurred by the Group amounted to PLN 3 thousand and were recognized in the statement of profit or loss as financial costs.

2.2.2. Business combinations

On 8 January 2014, the merger of AEGIR 4 Sp. z o.o. (acquiring company), AEGIR 1 Sp. z o.o., AEGIR 2 Sp. z o.o. and AEGIR 3 Sp. z o.o. (acquired companies) was registered.

On 30 April 2014, the merger of the following subsidiaries: ENERGA Invest S.A. (as the acquiring company) and EPW 1 Sp. z o.o., EPW 2 Sp. z o.o., EPW 3 Sp. z o.o., EPW Parsówek Sp. z o.o. and AEGIR 5 Sp. z o.o. (acquired companies) was registered.

On 21 May 2014, the merger of ENERGA Wytwarzanie SA (acquiring company) and EPW Energia Sp. z o.o. (acquired company) was registered.

On 27 November 2014, the merger of ENERGA Innowacje Sp. z o.o. (acquiring company) and ENSPIRION Sp. z o.o. (acquired company) was registered.

On 10 December 2014, the merger of RGK Sp. z o.o. (acquiring company) and Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (acquired company) was registered.

As the above mentioned mergers related to the subsidiaries of ENERGA SA, they did not affect the Group's assets, liabilities, revenues, expenses and cash flows presented in these consolidated financial statements. These mergers did not result in a change of control over any of the Group companies. Therefore the Group believes that the transactions satisfied the definition of a transaction executed under common control (see Note 9.3).

2.2.3. Other changes in the composition of the Group

Disposals of shares in subsidiaries

ENERGA – OPERATOR SA sold all of its shares in companies: ENERGA – OPERATOR Produkcja Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Energetyki „ELEKTROINSTAL” Sp. z o.o. pursuant to a sale agreement concluded on 6 February 2014 with an entity from outside of the ENERGA Group. The sale agreement was concluded with a condition precedent, that is for the President of the Office of Competition and Consumer Protection to grant his approval for concentration. The approval was issued on 27 February 2014 and therefore the ownership title to the shares of the companies mentioned above was transferred to the new shareholder.

On 15 May 2014, ENERGA SA sold the shares it held in ZEP-MOT Sp. z o.o. This also resulted in selling all of the Group's shares in ZEP-AUTO Sp. z o.o., which was fully owned by ZEP-MOT Sp. z o.o.

Disposal of shares in associates

On 1 April 2014 ENERGA SA signed a conditional sale agreement of the shares it held in the associate SOEN Sp. z o.o. The suspending condition was satisfied on 13 May 2014 and thus the ownership title to the shares was transferred to the new shareholder.

On 28 April 2014 ENERGA Wytwarzanie SA signed an agreement to sell the shares it held in the associate Bio-Power Sp. z o.o.

Liquidation of subsidiaries

On 17 February 2014, Zakład Energetyczny Płock – Dystrybucja Zachód Sp. z o.o. w likwidacji (in liquidation) was deregistered from the Register of Entrepreneurs of the National Court Register which completed the process of its liquidation.

On 16 April 2014 ENERGETYK Sp. z o.o. w likwidacji (in liquidation) was deleted from the Register of Entrepreneurs of the National Court Register, which completed the process of its liquidation.

On 1 July 2014, the Extraordinary General Meeting of ENERGA Elektrociepłownia Kalisz S.A. adopted a resolution to dissolve the company and appoint a liquidator.

Establishment of new entities

On 19 December 2014, ENERGA SA established 10 limited liability companies with registered seats in Gdańsk and the following business names:

- 1) ENSA PGK1 Spółka z ograniczoną odpowiedzialnością,
- 2) ENSA PGK2 Spółka z ograniczoną odpowiedzialnością,
- 3) ENSA PGK3 Spółka z ograniczoną odpowiedzialnością,
- 4) ENSA PGK4 Spółka z ograniczoną odpowiedzialnością,
- 5) ENSA PGK5 Spółka z ograniczoną odpowiedzialnością,
- 6) ENSA PGK6 Spółka z ograniczoną odpowiedzialnością,
- 7) ENSA PGK7 Spółka z ograniczoną odpowiedzialnością,
- 8) ENSA PGK8 Spółka z ograniczoną odpowiedzialnością,

- 9) EOB PGK1 Spółka z ograniczoną odpowiedzialnością,
10) EOB PGK2 Spółka z ograniczoną odpowiedzialnością,
with the share capital of PLN 10 thousand each.

3. Composition of the parent company's Management Board

On the date of preparing these consolidated financial statements, the following persons comprised the parent company's Management Board:

- Mirosław Bieliński – President of the Management Board,
- Roman Szyszko – Executive Vice-President of the Management Board, Chief Financial Officer,
- Wojciech Topolnicki – Executive Vice-President of the Management Board, Strategy and Investments.

During the reporting period and in the period from the end of the reporting period to the date of preparation of these financial statements, no changes occurred in the Management Board of the parent company.

4. Approval of the financial statements

These consolidated financial statements were approved for publication by the Company's Management Board on 12 March 2015.

5. Basis for preparation of the financial statements

These consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss and hedging derivatives.

These consolidated financial statements are presented in thousands of zloty ("PLN 000s").

These consolidated financial statements have been prepared based on the assumption that the Group would continue as a going concern in the foreseeable future.

As at the date of these financial statements there is no evidence indicating significant uncertainty as to the ability of the Group to continue its business activities as a going concern.

5.1. Statement of compliance

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

IFRS include standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The Management Board of the parent company used its best knowledge in the application of standards and interpretations as well as measurement methods and principles for the individual items of the consolidated financial statements of the ENERGA SA Group in accordance with IFRS EU as at 31 December 2014. All the tables and explanations have been prepared with due care.

5.2. Functional and presentation currency

The functional currency of the parent company and other Polish companies covered by these consolidated financial statements and the presentation currency of these consolidated financial statements is the Polish zloty except for ENERGA SLOVAKIA s.r.o. and ENERGA Finance AB (publ) where the functional currency of their individual financial statements is euro. For the purpose of these financial statements, the underlying accounts of the above-mentioned companies have been translated into PLN as follows: data in the statement of financial position, except equity - exchange

rates at the reporting date; equity - exchange rates at the date of transaction and data in the statement of profit or loss - at the weighted average exchange rate for the financial period.

6. Material items subject to judgment and estimates

In the process of applying the accounting policies, one of the most important factors next to accounting estimates was the professional judgment of the management, which affected the amounts stated in the consolidated financial statements, including the notes. The assumptions adopted for the purposes of those estimates are based on the best knowledge of the Management Board regarding the current and future actions and events in individual areas. Detailed information on the assumptions is presented in the relevant notes in these consolidated financial statements.

The key assumptions for the future and other main sources of uncertainty occurring as at the end of the reporting period, which entail a significant risk of considerable adjustment of the carrying amount of assets and liabilities in the next financial year, are presented below.

Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any evidence of impairment of the Cash Generating Units ("CGU") and individual assets. This analysis covers external factors, including technological, market, economic or legal changes in the environment in which we conduct our business or on the markets where we use the Group's assets to serve our clients, as well as internal factors associated with the physical condition of property, plant and equipment components and changes in the way they are used. If we find any such evidence, we carry out an asset impairment test following the rules described in Note 9.9. Information on the impairment tests that we have conducted is presented in Notes 13 and 16.

Measurement of provisions

Provisions for employee benefits (provision for pensions and similar benefits, jubilee bonuses, energy tariff, additional allowances for the Company Social Benefit Fund for former employees of Group companies) are estimated using actuarial methods. The assumptions made for this purpose are presented in Note 24.

Other provisions are measured according to the best estimation of expenditures necessary to fulfill the existing duties. If the time value of money is important then the provision is equal to the present value of expenditures expected to be necessary to fulfill this duty.

Depreciation rates

Depreciation rates and charges are determined on the basis of the anticipated useful life of a property, plant and equipment component or intangible asset and estimates regarding their residual value. Every year, Group companies revise the assumed periods of useful life, based on the current estimates.

Energy price paths

Energy price paths developed by industry experts are an important element of the estimation of values in use of cash generating centers in the generation segment. They are also used to estimate provisions for post-employment benefits in the form of employee energy tariffs. The Group uses expert price path reports, which include pricing projections for the Polish market.

Deferred tax asset

Deferred tax assets are measured using the tax rates that will be applied at the moment when the asset is utilized, based on the tax regulations in force on the end of the reporting period. The Group recognizes a deferred tax asset based on the assumption that tax profit would be recorded in the future, allowing the Group to use the asset. This assumption may prove to be unjustified if tax results deteriorate in the future. Details on the deferred tax asset are provided in Note 12.3.

Fair value of financial instruments

The fair value of financial instruments, for which no active markets exist, is measured by using appropriate valuation techniques. The Group applies professional judgment to the selection such appropriate methods and assumptions. The method used to measure fair value of individual financial instruments is presented in Note 33.3.1.

Estimation of revenues on sales of electricity and distribution services

Meter readings of electricity sold to retail customers are made in periods different from reporting periods. Therefore, the entities comprising the Group make estimations of electricity and distribution services sold as at every last day of the reporting period, for the period not covered by meter readings.

Impairment allowances for receivables

As at the end of the reporting period, the entity evaluates whether there is objective evidence of impairment of a receivable or a group of receivables. If a recoverable amount of an asset is lower from its carrying amount then the entity makes an impairment allowance down to the present value of planned cash flows. Impairment allowances are recognized based on the age analysis of receivables and an analysis of the financial standing of the individual debtors. The amounts of the impairment allowances for receivables are provided in Note 33.4.1.

7. Changes in estimates

During the periods covered by these consolidated financial statements, no changes were made in the methods used in determining significant estimates. Changes of estimates resulted from events occurring during the reporting periods.

8. New standards and interpretations

8.1. Standards and interpretations adopted for the first time in 2014

The following amendments to the existing standards published by the International Accounting Standards Board and endorsed in the EU came into force in 2014:

- Amendments to IAS 32 "Financial Instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities, endorsed in the EU on 13 December 2012 (applicable to annual periods beginning on or after 1 January 2014).
- Amendments to IAS 36 "Impairment of assets" – disclosures concerning the recoverable amount of non-financial assets, endorsed in the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Novation of Derivatives and Continuation of Hedge Accounting, endorsed in the EU on 19 December 2013 (applicable to annual periods beginning on or after 1 January 2014).

These amendments to the standards have had no significant impact on the Group's accounting policies applied so far.

8.2. Standards and interpretations already published and endorsed in the EU, which have not come into effect

When approving these financial statements, the Group did not apply the following standards, amendments to standards and interpretations that were published and endorsed in the EU but have not yet become effective:

- IFRIC 21 "Levies" interpretation endorsed in the EU on 13 June 2014 (applicable to annual periods beginning on or after 17 June 2014).
- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions - endorsed in the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Annual Improvements to IFRS (2010-2012 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) aimed mainly at removing inconsistencies agreeing on the wording - endorsed in the EU on 17 December 2014 (applicable to annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Annual Improvements to IFRS (2011-2013 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 1, IFRS 3, IFRS 13, and IAS 40) aimed mainly at removing inconsistencies agreeing on the wording - endorsed in the EU on 18 December 2014 (applicable to annual periods beginning on or after 1 January 2015).

The Group estimates that the above amendments to standards would have had no material influence on the financial statements, had they been applied by the Group as at the end of this reporting period.

8.3. Standards and interpretations adopted by IASB but not yet endorsed in the EU

IFRS as endorsed in the EU do not currently differ from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which as at the date of approving these financial statements have not yet been adopted for application:

- IFRS 9 "Financial Instruments" (applicable to annual periods beginning on or after 1 January 2018),
- IFRS 14 "Regulatory Deferral Accounts" (applicable to annual periods beginning on or after 1 January 2016).
- IFRS 15 "Revenue from Contracts with Customers" (applicable to annual periods beginning on or after 1 January 2017),
- Amendments to IFRS 11 "Joint Arrangements" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" – Acceptable methods of depreciation and amortization (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture – Bearer Plants" (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" – Equity Method in Separate Financial Statements (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sales or contributions of assets between an investor and its associate/joint venture (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (applicable to annual periods beginning on or after 1 January 2016).

- Amendments to various standards "Annual Improvements to IFRS (2012-2014 cycle)" – changes introduced during the annual cycle of improvements to IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) aimed mainly at removing inconsistencies agreeing on the wording (applicable to annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2016).

The Group believes that the introduction of the above-mentioned standards, amendments to standards and interpretations will not have any substantial impact on the accounting policies currently applied by the Group.

9. Significant accounting policies

The key accounting policies used by the Company are presented below.

9.1. Principles of consolidation

This consolidated financial statements includes the financial statements of ENERGA SA and financial data of its subsidiaries prepared in each company for the year ended 31 December 2014.

Unrealized profits from transactions concluded within the Group are eliminated in their entirety. Unrealized losses are ignored, unless they constitute a proof of impairment.

Subsidiaries are consolidated in the period from the date the Group took control over them and they cease to be consolidated on the date such control ceases. Control is exerted by the parent company when, because of its investment, it is subject to exposure to varying financial results, or if it holds rights to the variable financial results and can also influence those financial results by effecting control over the subsidiary.

The Group also considers whether to treat the part of the entity where the investment was made as a separate entity (a silo). If the Group controls the recognized separate entity then it consolidates the part of the entity where the investment was made.

Purchase or sale of minority interest, when control is not acquired or lost, is recognized as a transaction between shareholder and settled through equity.

9.2. Investments in associates

Investments in associates are recognized using the equity method. Associates are entities on which the parent company exerts, directly or through subsidiaries, significant influence and which are not its subsidiaries or joint ventures

When using the equity method as the basis of measurement, the investment is initially measured using the purchase price and then the carrying amount is elevated or reduced by the share of the results determined according to the affiliate entity's consistent accounting standards generated after the date of purchase. The investor's share of associate's results is reported in the statement of profit or loss. Distributions of the associate's profit reduce the carrying amount of the investment. In the event of changes to the amount of the associate's equity other than stemming from the result generated by this entity (e.g. change of capital stemming from the revaluation of property, plant and equipment), the investor's share in these changes to comprehensive income is also reported in other comprehensive income. When calculating the investor's share of the associate's profit, potential voting rights are not taken into consideration, but only its existing voting rights.

The foregoing principle does not pertain to a circumstance in which the investment has been classified as belonging to assets classified as held for sale according to IFRS 5 Non-current assets held for sale and discontinued operations.

9.3. Business combinations of entities under common control

The IFRS 3 standard "Business combinations" regulates acquisitions and mergers. However, this standard excludes transactions executed between entities under common control from its scope. The situation in which a given transaction or economic process requiring recognition in the statements prepared in accordance with IFRS is not regulated by individual standards, is regulated by IAS 8 paragraphs 10-12. These clauses impose an obligation on the entity preparing the statements in accordance with IFRS of creating its own set of accounting standards indicating the attributes of these accounting standards: fair representation of its financial position, operating results and cash flow, reflection of the economic nature of a transaction, impartiality, prudence and completeness in all aspects. Having the above in mind, to account for business combinations under common control, the Group employs the pooling of interests method.

A business combination under the pooling of interests method involves summing up the various line items of the relevant assets and liabilities as well as the revenues and expenses of the merged companies, after first converting their values using uniform measurement methods and making the relevant exclusions. The share capital of the company whose assets are transferred to another company, or of the companies that are stricken from the commercial register as a result of the business combination, is subject to exclusion. After effecting this exclusion, the pertinent line items of the equity of the company to which the assets of the merged companies or of the newly-formed company are transferred, are adjusted by the difference between the sum total of assets and liabilities and equity. All the account balances and transactions between the merging entities, including the profits or losses on business operations executed prior to the business combination and included in the assets and liabilities and equity undergoing combination are also subject to exclusion.

9.4. Conversion of items in foreign currencies

Transactions denominated in currencies other than the Polish zloty are converted on initial recognition into Polish zloty using the exchange rate applicable on the date of the transaction. At the end of the reporting period:

- cash is converted using the closing exchange (it is assumed that the closing exchange rate is the average exchange rate set for the currency by the National Bank of Poland for the day),
- non-cash items measured at historical cost in a foreign currency are converted using the exchange rate in effect on the initial transaction date (exchange rate of the company's bank), and
- non-cash items measured at fair value in a foreign currency are converted using the exchange rate from the date the fair value is determined.

Exchange differences resulting from this conversion are recognized respectively as financial income (cost) items or, in the cases identified in the accounting policies, they are capitalized as assets.

Foreign exchange gains/losses on non-cash items such as equity instruments measured at fair value through profit or loss are recognized as changes in fair value.

Assets and liabilities of foreign entities consolidated by the full method are converted to the Group's presentation currency at the rate in effect on the end of the reporting period and their statements of profit or loss are converted at the average weighted exchange rate for the reporting period. Foreign exchange gains/losses resulting from such a conversion are posted directly to other comprehensive income. When a foreign entity is sold, the accumulated deferred exchange differences recognized in other comprehensive income relating to that foreign entity are recognized in the statement of profit or loss.

The following exchange rates were used for measurement purposes at the end of the reporting period:

Exchange rate at the end of each respective reporting period		
Currency	31 December 2014	31 December 2013
EURO	4.2623	4.1472

The weighted average exchange rates for each respective reporting period were as follows:

Currency	Average exchange rate in the period	
	1 January - 31 December 2014	1 January - 31 December 2013
EURO	4.1893	4.2110

9.5. Property, plant and equipment

Property, plant and equipment are the assets:

- which are held by the entity to be used in the production process or in deliveries of goods and provision of services, or for administrative purposes,
- which are expected to be used for a period longer than one year,
- for which it is probable that the entity will obtain economic benefits in the future associated with the asset,
- where the purchase price or manufacturing cost of an asset by the entity may be measured reliably.

Property, plant and equipment and property, plant and equipment under construction are measured at the purchase price or manufacturing cost.

Property, plant and equipment is measured at net value, i.e. the initial value (or at cost assumed for property, plant and equipment used before transition to IFRS EU) less accumulated depreciation and impairment allowances. The initial value of property, plant and equipment includes their cost price plus all the costs directly related to the purchase and bringing the asset to the condition necessary for its use. The cost also includes the expected cost of dismantling the property, plant and equipment, removal and restoration of the asset's location to its initial condition; the obligation to incur this cost arises upon installation of the asset or its use for purposes other than the production of inventories. The costs of purchase or manufacturing costs are capitalized until the asset is adapted to the place and conditions needed to begin its operation.

As at the date of purchasing a component of property, plant and equipment, all relevant elements with different useful lives comprising the asset are identified and separated (components). Property, plant and equipment also includes costs of general overhauls, periodic inspections, provided that their value is significant, and cost of replacement of major parts.

Depreciation charges are calculated on the basis of purchase price/manufacturing cost of the property, plant and equipment component less its residual value. Depreciation commences in the month following the month in which the asset is available for use. Property, plant and equipment is depreciated based on a depreciation plan defining the expected useful life of the property, plant and equipment item. The depreciation method used reflects the manner in which the business consumes economic benefits provided by the asset.

Depreciation is calculated by the straight-line method for the estimated period of the asset's useful life, i.e. for respective groups of property, plant and equipment:

- | | |
|-------------------------------------------------------------------|---------------|
| • Buildings, premises and civil and marine engineering facilities | 2 - 100 years |
| • Machinery and technical equipment | 1 - 50 years |
| • Means of transportation | 3 - 14 years |
| • Office equipment | 1 - 15 years |
| • Other property, plant and equipment | 2 - 15 years |

Depreciation methods, rates and residual values of property, plant and equipment are reviewed at least once a year at the end of each financial year. Any changes resulting from such reviews are recognized as changes of estimates, with possible adjustments of depreciation charges accounted for on a prospective basis.

A property, plant and equipment item may be removed from the statement of financial position after its disposal or when no economic benefits are expected from further usage of such asset. All the profits or losses resulting from removing an asset (calculated as a difference between the possible net sale price and the carrying amount of the item) are posted to the statement of profit or loss in the period when such removal took place.

9.6. Investment property

The Group recognizes property as investment property if held to earn rentals or for capital appreciation, or both.

On initial recognition, investment property is measured at purchase price or manufacturing cost, including transaction costs. If an investment property has been purchased, the purchase price includes the cost price plus any costs directly associated with the transaction, such as fees for legal services and the tax on the purchase of property.

After initial recognition, the Group measures such assets at their purchase price or manufacturing cost, i.e. uses the same principles as for property, plant and equipment.

Investment property is removed from the statement of financial position when it is sold or when the investment property is withdrawn from use and no further benefits from its sale are expected. All the gains or losses resulting from the removal of investment property are recognized in the statement of profit or loss of the period when it is removed.

9.7. Intangible assets

The Group's intangible assets include identifiable non-cash assets, which have no physical form.

On initial recognition, an intangible asset is measured at the purchase price or production cost. The purchase price of an intangible asset includes:

- the cost price including import duties, non-deductible taxes included in the price, less any granted discounts and rebates and
- expenditures connected directly with the preparation of an asset for use according to its planned purpose, in particular employee benefit costs, fees for expert services and the cost of tests to confirm that the asset operates properly.

After initial recognition, intangible assets are carried at purchase price or production cost, less accumulated amortization and impairment allowances.

Outlays incurred for intangible assets developed in-house, with the exception of the outlays incurred for development work, are not converted into assets and are recognized in the cost of the period in which they were incurred.

The Group assesses whether useful life of an intangible asset component is definite or indefinite and, if definite, estimates the duration of that period. The useful life of an intangible asset is identified as unspecified if, following an analysis of relevant factors, no expected period is specified in which the asset will generate cash flows for the entity.

Amortization value of an intangible asset with a specified useful life is reduced by its residual value. The Group has adopted the principle that the residual value of intangible assets is zero, except when:

- the entity has a valid agreement with an unrelated party to sell such rights after a specified period of use – in such a case, the residual value is equal to the amount stated in the rights sale agreement;
- there is an active market for such right and the value may be reasonably determined and it is highly probable that the market will still exist after the period of use of that asset.

Intangible assets with a limited useful life are subject to straight-line amortization throughout their useful lives and subjected to impairment tests each time when there are prerequisites indicating their impairment. Depreciation commences in the month following the month in which the asset is available for use. The amortization period and method applied to intangible assets with limited useful lives must

be reviewed at least at the end of each reporting period. Any changes in the expected useful life or in the expected consumption of economic benefits from the asset are recognized by changing the amortization period or method accordingly and treated as changes to estimated amounts.

Gains or losses resulting from a removal of intangible assets from the statement of financial position are measured at the difference between net proceeds from their sale and the carrying amount of the asset and are recognized in the statement of profit or loss upon derecognition of such intangible assets.

9.8. Goodwill

Goodwill from acquisition of a business is initially recognized at purchase price constituting the surplus of the price paid for shares in the acquired business plus the value of non-controlling interest, over the net fair value of identifiable assets, liabilities and contingent liabilities. If control is acquired in stages then the purchase price is increased by the fair value of the interest already held in the acquired business. On initial recognition, goodwill is recognized at purchase price less all the accumulated impairment allowances. The impairment test is carried out once a year, or more frequently if necessary. Goodwill is not amortized.

As at the date of acquisition, the acquired goodwill is allocated to each cash generating unit (or groups of units) which may benefit from merger synergies. An impairment allowance is determined by estimating the recoverable amount of the cash generating unit to which the given goodwill has been allocated. If the recoverable amount of a cash generating unit is lower than its carrying amount then an impairment allowance is recognized. If goodwill forms part of the cash generating unit and part of the business within that unit is sold then, when determining gains or losses on the sale of such business, the goodwill linked to the business sold is included in its carrying amount. In such circumstances, the goodwill sold is calculated based on the relative value of the business sold and the value of the retained part of the cash generating unit.

9.9. Impairment of non-financial non-current assets

At the end of every reporting period, the Group determines whether there is any evidence of impairment of any non-financial non-current asset. If such evidence is found or when an annual impairment test must be carried out, the Group estimates the recoverable amount of such asset or cash generating unit ("CGU") to which such asset is allocated.

Recoverable amount of an asset or a cash generating unit is either: the fair value less the cost of selling such asset or cash generating unit, or its value in use, whichever is higher. Recoverable amount is determined for individual assets, unless the asset does not by itself generate any cash proceeds, which are mostly independent from those generated by other assets or asset groups. If the carrying amount of an asset is greater than its recoverable amount, impairment occurs and the value is written off to match the calculated recoverable amount.

When estimating the value in use, the forecast cash flows are discounted to their present value using the discount rate before the effects of taxation are taken into account, which reflects the current market estimation of time value of money and risk typical for a given asset. Impairment allowances for assets used in the continuing activity are recognized in those cost categories, which correspond to the function of the impaired asset.

When estimating the fair value amount less selling cost, the Group takes into account the capacity of the market player to achieve economic benefits through the highest and most effective use of the asset or its sale to another market player, who would ensure such highest and most effective use of that asset.

At the end of each reporting period, the Group estimates whether there is any evidence that the impairment allowance applied in previous periods to such asset is redundant or whether it should be decreased. If such evidence exists, the Group estimates the recoverable amount of the asset. The previously recognized impairment allowance is reversed only when the estimated values used to determine the recoverable amount of the asset changed since the last impairment allowance was recognized. In such a case, the carrying amount of the asset is increased to its recoverable amount. The increased amount must not exceed the carrying amount of the asset which would be calculated

(after deducting depreciation) if the impairment allowance had not been applied at all to such asset in previous years. A reversal of an asset impairment allowance is recognized immediately as income in the statement of profit or loss. After the impairment allowance is reversed, the depreciation charge for the asset is adjusted in the following periods in a way that would allow, during the remaining useful period of that asset, for making regular write-downs of its adjusted carrying amount less its final value.

9.10. External financing expenses

External financing expenses are capitalized as a portion of the cost of constructing property, plant and equipment. External financing expenses consist of: interest and gains or losses on foreign exchange differences up to the amount corresponding to the interest expense adjustment.

The capitalization of financing expenses commences when measures are taken that are necessary to prepare an asset for usage, capital expenditures and external financing expenses are incurred for a given asset. When an investment in an asset is discontinued for a longer period, the capitalization of external financing expenses is suspended. Capitalization is stopped when all the measures required to adapt an asset for usage are in principle concluded.

Capitalization applies to the current expenses of special-purpose loans and borrowings less the revenues from temporarily investing surplus funds and the pertinent portion of the current expenses of general loans and borrowings, when the expenditures for property, plant and equipment exceed the value of special-purpose loans and borrowings. General financing expenses are capitalized in an amount equal to the product of the capitalization rate and the surplus expenditures for property, plant and equipment above special-purpose financing. The capitalization rate is determined as the weighted-average of external financing expenses pertaining to the loans and borrowings constituting the Group's liabilities other than special-purpose loans and borrowings. The amount of external financing expenses capitalized in a period does not exceed the amount of external financing expenses incurred in the period.

9.11. Financial assets

The Group identifies the following categories of financial assets:

- Financial assets held to maturity
- Financial assets at fair value through profit or loss,
- Granted loans and receivables,
- Assets available for sale.

Financial assets held to maturity

Assets held to maturity include financial assets with specified or determinable payments and a set maturity date, which the Group intends and is able to hold until such time. Financial assets held to maturity are measured at amortized cost using the effective interest rate method. Financial assets held to maturity are classified as non-current assets if their maturity exceeds 12 months from the end of the reporting period.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss must meet one of the following conditions:

- a) they are classified as 'held for trading'. Financial assets are classified as held for trading if:
 - they have been purchased primarily for sale in the near future,
 - they are part of the portfolio of specified financial instruments managed together where there is high probability that gains would be achieved in the short term, or
 - they are derivatives, except for derivatives under hedge accounting,
- b) they have been classified as such upon purchase. Upon purchase, a financial asset may be classified as measured at fair value, with any changes in value recognized through profit or loss (except for equity securities whose prices are not quoted on an active market and whose fair value cannot be measured reliably) if the following criteria are satisfied:

- such classification eliminates or materially reduces inconsistencies in treatment, when both measurement and the rules for recognizing losses or gains are subject to other regulations; or
- assets are part of a group of financial assets managed and measured based on their fair value in accordance with a documented risk management strategy; or
- such financial assets contain embedded derivatives, which should be recognized separately.

The Group cannot change the classification of financial instruments to and from the portfolio of assets measured at fair value through profit or loss.

These instruments are measured at fair value at the end of the reporting period. Gains or losses on financial assets classified as at fair value through profit or loss are recognized in the statement of profit or loss.

Loans and receivables

Loans granted and receivables include financial assets with determined or determinable payments, which are not classified as derivatives and are not listed on an active market. They are classified as current assets unless their maturity exceeds 12 months from the end of the reporting period. Loans granted and receivables with maturities exceeding 12 months from the end of the reporting period are classified as non-current assets. Loans granted and receivables are carried at amortized cost.

Assets available for sale

All the remaining financial assets are assets available for sale. Assets available for sale are measured at fair value at the end of each reporting period. The fair value of investments with no listed market price is determined in reference to the current market value of another instrument with generally the same features or based on the expected cash flows from the asset comprising the investment (discounted cash flow valuation).

The positive or negative differences between the fair value of assets available for sale (if there is a market price listed on an active regulated market or whose fair value can be determined otherwise) and the purchase price, after deducting deferred tax, are recognized in other comprehensive income, except for:

- impairment losses,
- exchange differences resulting from conversion of cash assets,
- interest calculated using the effective interest rate method.

Dividends from equity instruments held in the available for sale portfolio are recognized in the statement of profit or loss when the entity's right to receive the payment is vested.

9.12. Impairment of financial assets

At the end of each reporting period, the Group evaluates whether there exists objective evidence of impairment of a financial asset or a group of financial assets. Such important objective evidence considered by the Group includes primarily: serious financial difficulties of the debtor, litigation against the debtor, material adverse change in the economic, legal or market environment of the issuer of the financial instrument.

Assets recognized at amortized cost

If there exists objective evidence that a loss has been incurred on impairment of loans granted and receivables measured at amortized cost then the impairment allowance is equal to the difference between the carrying amount of the financial asset and the present value of estimated future cash flows (excluding future losses on defaulted receivables, which have not yet been incurred), discounted using the initial effective interest rate (i.e. one determined on initial recognition). The carrying amount of an assets is reduced by an impairment allowance. The amount of loss is recognized in the statement of profit or loss.

First, the Group estimates whether there exists objective evidence of individually material impairment of respective financial assets and whether there exists evidence of individually immaterial impairment of financial assets. If the analysis shows no objective evidence of impairment of a financial asset

assessed on an individual basis, material or immaterial, then the Group includes such an asset in a group of financial assets with similar credit risk characteristics and assesses them for impairment on a collective basis. The assets evaluated for impairment individually, for which an impairment allowance has been recognized or maintained, are not taken into account in the collective assessment of a group of assets for impairment.

If impairment loss is reduced in the next period and the reduction may be objectively tied to an event occurring after the impairment loss was recognized then the previous impairment loss is reversed. A reversal of an impairment allowance is recognized in the statement of profit or loss, provided however that the carrying amount of the asset on the reversal date must not exceed its amortized cost.

Financial assets available for sale

If there exists objective evidence that a financial asset available for sale has been impaired then the amount equal to the difference between the purchase price of that asset (less any principal repayments and, in the case of financial assets measured at amortized cost using the effective interest rate method, also amortization) and its present fair value, less any impairment allowances previously recognized for this asset in the statement of profit or loss, is derecognized from equity and transferred to the statement of profit or loss. A reversal of an impairment allowance for equity instruments classified as available for sale may not be recognized in the statement of profit or loss. If the fair value of a debt instrument available for sale increases in the following period and the increase can be objectively tied to an event following the recognition of the impairment loss in the statement of profit or loss, the amount of the reversed charge is recognized in the statement of profit or loss.

9.13. Hedge accounting

Hedging derivatives and hedge accounting

The Group may decide to designate selected derivatives as hedges under cash flow hedge accounting under any identified hedge relationship. The Group allows the use of cash flow hedge accounting only if certain criteria are met, i.e.:

- At the inception of the hedge the Group formally designates and documents the hedging relationship and the risk management objective as well as strategy for undertaking the hedge. The documentation includes the identification of the hedge instrument, the hedged position, the nature of risk and the method for a current assessment of the effectiveness of the hedge in offsetting the risk of changes in cash flows associated with the hedged risk;
- The hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- The planned transaction, which is the subject of the hedge, must be highly probable and must be exposed to variations in cash flows that could ultimately affect the statement of profit or loss.
- The effectiveness of the hedge can be reliably assessed, i.e. cash flows related to the hedged position resulting from the hedged risk and the fair value of the hedge can be reliably measured;
- The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the reporting periods for which the hedge was designated.

Applicable accounting principles for derivatives designated as hedges under cash flow hedge accounting

Changes in the fair value measurement of derivative financial instruments designated as cash flow hedges are recognized in the cash flow hedge reserve in proportion thereof that is an effective hedge, whereas any ineffective portion of the hedge is recognized to the statement of profit or loss

The amounts of the cumulative fair value revaluations to the hedge, previously recognized in the cash flow hedge reserve, are recognized in the statement of profit or loss in the period or periods when the hedged position affects the statement of profit or loss.

The Group ceases to use the cash flow hedge accounting principles in the event of one or more of the following events:

- The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy). In this case, the cumulative gain or loss on the hedging instrument, which is posted directly to equity in the period when the hedge was effective, remains recognized in a separate equity item until the planned transaction occurs;
- The hedge no longer meets the hedge accounting criteria. In this case, the cumulative gain or loss on the hedging instrument, which is posted directly to equity in the period when the hedge was effective, remains recognized in a separate equity item until the planned transaction occurs;
- The planned transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument, which is posted directly to equity in the period when the hedge was effective, is recognized in the statement of profit or loss. A planned transaction, which ceases to be highly probable, may still be expected;
- The Group cancels any hedging relationship. For hedges of planned transactions, the cumulative gain or loss on the hedging instrument, which is posted directly to equity in the period when the hedge was effective remains recognized in a separate equity item until the planned transaction occurs or is no longer expected to occur. If the transaction is no longer expected to occur, the cumulative gain or loss that was recognized directly in equity is recognized in the statement of profit or loss.

Presentation

In connection with the use of cash flow hedge accounting, the Group applies the following presentation:

- the effective portion of any change in the valuation of hedges is recognized in the cash flow hedge reserve,
- interest on hedges is presented in the same line of the statement of profit or loss in which the interest result on the hedged position is presented,
- any revaluation of hedges is presented in the same line of the statement of profit or loss in which the revaluation of the hedged position is presented,
- the ineffective portion of changes in the valuation of hedges is recognized in the result on financial instruments held for trading.

9.14. Inventories

Inventories include:

- assets designated for sale in the regular course of business activity,
- assets in production for sale, or
- assets taking the form of raw materials used in the manufacturing process or in the provision of services.

as well as certificates of origin and CO₂ emission allowances.

Inventories are measured at the lower of: purchase price (manufacturing cost) and net realisable value.

The purchase prices applied to the valuation at the end of the reporting period cannot be higher than the net realisable value of those assets. The net realisable value is a difference between the estimated sale price in the regular course of business activity, and the estimated cost of completion and costs necessary to make the sale.

The Group measures consumption of materials which are identical or considered identical due to similarity of their type and purpose, as follows:

- coal – using the FIFO method,
- materials purchased to fulfill orders – using a detailed price identification method,
- CO₂ emission allowances - according to the specific price identification method (the allowances received free of charge are redeemed first),
- other inventories – using the weighted average method.

Certificates of origin

The certificates of origin of electricity generated by the Group in the reporting period are measured on initial recognition at fair value on the date of recognition of that asset, i.e. the date when energy is generated from renewable sources or in the cofiring process. Fair value is defined as the average weighted price of the certificates of origin from a given month, determined on the basis of listings on the Polish Power Exchange.

The certificates of origin which are purchased are measured at purchase price.

CO₂ emission allowances

The acquired CO₂ emission allowances are measured at purchase price. The CO₂ emission allowances received free of charge are measured at zero value and registered off-balance sheet.

9.15. Cash and cash equivalents

Cash and cash equivalents include:

- cash on hand and on current bank accounts,
- other cash, including bank deposits with maturities no longer than 3 months and units in the ENERGA Trading SFIO mutual fund.

The balance of cash and cash equivalents shown in the consolidated cash flow statement consists of the aforementioned cash and other cash less outstanding current account overdrafts.

Bank deposits with initial maturities exceeding 3 months are presented by the Group as deposits.

Cash is measured at par value. Other cash assets are measured according to the rules applicable to financial instruments.

9.16. Other assets

In other assets, the Group recognizes accruals if the following conditions are satisfied:

- they result from past events – an expenditure incurred for the entities' operational objectives,
- their amount may be measured reliably,
- they will bring economic benefits to the entities in the future,
- they refer to future reporting periods.

Prepayments are recorded at the level of incurred and reliably measured expenses that refer to future periods and will bring future economic benefits to the entities.

Prepayments may be written off in proportion to the passage of time or benefits received. The time and manner of settlement is justified by the nature of the cost being settled, in keeping with the conservative valuation principle.

At the end of a reporting period, the Group reviews prepayments to find whether the degree of certainty that the entity will achieve economic benefits after the elapse of the reporting period is sufficient to recognize the item as an asset component.

Other assets also include receivables on account of public and legal settlements (except for settlements on account of corporate income tax, presented as a separate item in the statement of financial position), surplus of assets over liabilities of the Employee Benefit Fund and advances paid for future purchases of property, plant and equipment, intangible assets and inventories as well as

biological assets. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

Biological assets and agricultural produce

Biological assets include plants that, after harvesting, become agricultural produce. The group presents biological assets under other assets.

A biological asset is measured on initial recognition and at the end of each reporting period, at fair value less estimated cost to sell. If fair value cannot be measured reliably then a biological asset is measured at purchase price or manufacturing cost less accumulated depreciation and impairment allowances.

Agricultural produce harvested/obtained from biological assets is measured at fair value less estimated cost to sell. The value measured in this way becomes the cost of production for the purposes of recognition of inventories or another asset.

Any changes in the fair value of biological assets during the reporting period are recognized as operating expenses.

9.17. Assets classified as held for sale

Non-current assets and groups to be sold are classified by the Group as held for sale, if their carrying amount is recovered as a result of a sale transaction rather than from their continued use. This condition is deemed satisfied only when the sale transaction is very probable and the asset (or group to be sold) is available for immediate sale in its current condition (according to generally accepted commercial terms). Classification of an asset as designated for sale assumes an intention to make a sale transaction within one year from the change in classification..

If the Group intends to make a disposal leading to a loss of control over a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale if all of the above criteria are met and regardless of whether the Group retains any non-controlling stakes after the disposal.

Non-current assets and groups to be sold classified as held for sale are measured at the lower of initial carrying amount or fair value, less cost to sell.

9.18. Equity

Equity is carried at par value, broken down into types and according to the principles set forth by the law and by the parent company's articles of association.

In the consolidated financial statements, share capital is recognized at the amount stated in the parent company's articles of association. Capital contributions declared but not paid in are classified as contributions due to share capital, as a negative figure.

Retained earnings include net result of the current year, results carried forward from previous years, reserve capital and supplementary capital of subsidiaries, arising after the acquisition of control, IFRS transition adjustments and adjustments tied to a change in interests held in subsidiaries after the parent company acquired control over them.

9.19. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that settlement of the obligation by the Group will require an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation. When the Group expects to recover the costs required to settle a provision, for example under an insurance agreement then such reimbursement is recognized as a separate asset, but only if it is virtually certain that reimbursement will be received. The costs tied to a provision are recognized in the statement of profit or loss, net of any reimbursements. Recognized provisions are classified as operating expenses, other operating expenses, financial costs, as required by the circumstances.

If the time value of money is important then the provision is equal to the present value of expenditures expected to be necessary to fulfill this duty. A pre-tax discount rate is used that reflects the current

market assessments of the time value of money and the risks specific to the liability. The discount rate is not adjusted for risk, since the estimates of future cash flows have been adjusted. If a discounting-based method has been used then an increase in the provision associated with passage of time is recognized as financial costs.

In particular, the following titles are expected for provisioning:

Provisions for pensions and other post-employment benefits

The amount of provisions for pensions and other post-employment benefits is estimated using actuarial methods. Provisions established are recognized in the statement of profit or loss (as operating expenses or financial costs, respectively), except for actuarial gains and losses. Gains and losses on actuarial calculations are recognized fully in other comprehensive income.

The Group recognizes provisions for the following post-employment benefits:

a) Pension and similar benefits

According to company remuneration systems and the labour law, employees of Group companies are eligible to receive pensions and similar benefits. Pensions and similar benefits are paid once, upon retirement/qualification for disability award.. The amount of pension and similar benefits is tied to the length of employment record and average salary received by the employee. The group recognizes a provision for pensions and similar benefits, in order to allocate costs to pertinent periods. The liabilities are calculated as discounted future payments adjusted for employee turnover, and refer to the period up to the end of the reporting period. Demographic information and information on staff turnover are based on historical information.

b) Provision for cash equivalent resulting from employee tariff for energy industry employees

By the power of the Multi-Company Collective Bargaining Agreement amended in 2005, the obligation to pay benefits with so-called "energy tariff" to former energy industry employees has been allocated to individual companies for which the retirees and disability pensioners used to work. Accordingly, since in December 2005 the Group has established an adequate provision.

c) Provision for the company Social Benefits Fund allowance

Group companies recognize an allowance for Company Social Benefit Funds for retirees and disability pensioners. The amount of the liability to former employees is estimated on the basis of provisions of the Collective Bargaining Agreements binding at the entities or on other legal regulations. These liabilities ensue from the rights acquired by employees of Group companies during employment period.

Provision for jubilee bonuses

According to company remuneration systems, employees of Group companies are eligible to jubilee bonuses paid out after they reach certain lengths of employment. The amount of jubilee bonuses is tied to the length of employment record and average salary received by the employee. The group recognizes a provision for jubilee bonuses, in order to allocate costs to pertinent periods. The present value of those liabilities at the end of each reporting period is calculated by an actuary. The liabilities are calculated as discounted future payments adjusted for employee turnover, and refer to the period up to the end of the reporting period. Demographic information and information on staff turnover are based on historical information. Provisions established are recognized fully in the statement of profit or loss (as operating expenses or financial costs, respectively).

Third party claims and lawsuits

The provision for third party claims and effects of pending lawsuits is recognized at the restated claim amount and including the possible costs of dispute.

Provision for land reclamation and for property, plant and equipment liquidation costs

The provision for land reclamation and future costs of property, plant and equipment liquidation is established in the circumstances where the provisions of law require such assets to be dismantled and removed when they are no longer used and restore their locations to their previous state.

Provision for liabilities for gas emissions

The provision for gas emissions is recognized gradually over the annual reporting period, based on actual CO₂ emissions, while taking into account the free emission allowances according to the following rules and order:

- in the part covered by the awarded free allowances (pro rata to the total quantity of free emission allowances awarded for the year) - at zero.
- in the part covered by acquired allowances - at purchase price,
- in the part not covered by allowances held or receivable - based on the contracted allowance purchase prices and then based on market prices of those allowances at the end of the reporting period.

Provision for redemption of certificates

The provision for redemption of certificates of origin of electricity generated from renewable energy sources, certificates of origin of electricity generated in the cogeneration process and energy efficiency credits, is recognized:

- in the part covered by the certificates of origin held at the end of the reporting period – at the value of certificates held,
- in the part not covered by the certificates of origin held at the end of the reporting period – at the value of contracted property rights and the market value of certificates needed to fulfill the obligation at the end of the reporting period or at the amount of the substitution fee.

Restructuring provision

In the current reporting period as well as in previous ones, voluntary employment termination programs have been carried out in Group companies. As restructuring provisions, the Group recognizes primarily the provisions for benefits for employment termination under a voluntary employment termination program and other employment restructuring measures, based on the expected number of employees to terminate work for Group companies and estimated value of severance awards or compensation.

9.20. Financial liabilities

The Group identifies financial liabilities measured at amortized cost

Financial liabilities held at amortized cost include primarily trade payables, bank loans, borrowings and debt securities. On initial recognition, they are recognized at fair value less costs of with obtaining the loan or borrowing. After initial recognition, they are measured at amortized cost using the effective interest rate method.

When calculating amortized cost, the cost of obtaining the loan or borrowing must be taken into account, as well as any discounts and bonuses obtained in connection with the liability.

Revenues and costs are recognized in the statement of profit or loss upon derecognition of the liability from the statement of financial position and also as a result of a settlement using the effective interest rate method.

The Group derecognizes a financial liability from its statement of financial position if the liability has expired, i.e. when the obligation defined in the respective agreement has been performed, has been canceled or has expired. Replacement of a current debt instrument with another one with substantially different terms, performed between the same parties, is recognized by the Group as expiry of the original financial liability and recognition of a new financial liability. Similarly, material amendments of

terms and conditions of agreements relating to an existing financial liability is recognized by the Group as expiry of the initial and recognition of a new financial liability. Differences of respective carrying amounts arising from the replacement are shown in the statement of profit or loss.

9.21. Other liabilities

Other non-financial liabilities include in particular liabilities to the tax office on account of value added tax and liabilities on account of received advance payments to be settled by deliveries of goods, services or property, plant and equipment.

Other non-financial liabilities are recognized at the amount of the required payment.

9.22. Accruals and deferred income

Accrued cost

The Group records accrued cost:

- which is certain or highly probable to arise,
- which results from past events and will result in the utilization of already held or future assets of the entity,
- the amount of which can be estimated reliably.

Accrued costs are liabilities payable for goods or services received/provided but not paid for, billed or formally agreed with the supplier, including amounts due to the employees. Even though it is sometimes necessary to estimate the amount or payment term of the accruals, the degree of uncertainty is in general considerably lower than in the case of provisions.

Accrued cost, measured at the amount of reliably estimated and probable liabilities due in the current reporting period, resulting in particular from benefits provided to the Group by external contractors, is reported in the statement of financial position as trade payables.

Deferred income

Deferred income is recorded in keeping with the principle of conservative valuation and of commensurability of income and expenses. Deferred income includes:

- equivalents of funds received or due from contractors for benefits to be delivered in subsequent reporting periods,
- cash received to finance a purchase or production of property, plant and equipment, and development works. These are settled by gradually increasing other operating income by an amount corresponding to depreciation on these assets, in the part financed by the mentioned cash. This refers in particular to partially amortized loans and borrowings and subsidies for a purchase of property, plant and equipment,
- property, plant and equipment accepted free of charge and intangible assets. These revenues are recorded in other operating revenues and also in depreciation charges on non-current assets received,
- if the Group receives a loan or borrowing on preferential terms then, on initial recognition, such financial instrument is measured at fair value equal to the value of discounted cash flows, using market interest rates for similar instruments. The difference between the valuation amount calculated using this method and at amortized cost is recognized in the statement of financial position as a subsidy and amortized on a straight-line basis during the repayment period of the liability, charged to other operating income in the statement of profit or loss.

9.23. Lease

Group as a lessee

Financial lease agreements, which transfer to the Group essentially the entire risk and benefits derived from the possession of the leased item, are recognized in the statement of financial position as at the lease commencement date, at the lower of: fair value of the property, plant and equipment component which constitutes the leased item, or the present value of minimum leasing fees. Leasing fees are allocated between financial costs and reduction of principal lease debt balance, in the manner that allows us to receive a fixed interest rate on the outstanding debt. Financial costs are posted directly to the statement of profit or loss.

Property, plant and equipment used under financial lease agreements are depreciated for the shorter of the two periods: estimated useful life of the asset or the term of the lease, if there is no certainty that the lessee obtains the ownership title before the end of the term of lease.

Lease agreements under which the lessor retains essentially all the risks and all the benefits derived from possession of the leased item are classified as operating lease agreements. Leasing fees under operating lease contracts and the subsequent leasing installments are recognized as expenses in the statement of profit or loss using the straight-line method throughout the term of lease.

Group as a lessor

Lease agreements under which the Group retains essentially all the risks and all the benefits derived from possession of the leased item are classified as operating lease agreements. The initial direct costs incurred in the course of negotiating operating lease agreements are added to the carrying amount of the leased item and are recognized during the term of the lease on the same basis as rental revenues. Conditional leasing fees are recognized as revenues in the period in which they become due.

9.24. Taxes

Income tax recognized in the statement of profit or loss includes the actual tax liability for the reporting period and a change in deferred tax assets and deferred tax provisions which not recognized in equity or other comprehensive income.

Current tax liability

The actual tax liability for the reporting period is calculated by Group companies according to the applicable provisions of the corporate income tax act.

For companies comprising a tax capital group, income tax is calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

Deferred tax

In connection with temporary differences between the value of assets and liabilities carried in accounting ledgers and their tax value and taxable loss that may be deducted in the future, the entity calculates and recognizes deferred income tax assets and liabilities.

The deferred income tax liabilities is established for all positive temporary differences except for cases where the deferred income tax reserve follows from:

- initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, not affecting, at the moment of the transaction, either gross financial result before tax or taxable income (loss); and
- positive temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, in which it is possible to control the reversal of the temporary differences and it is probable that those differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized with respect to all negative temporary differences to the extent to which it is probable that there will be sufficient taxable profits against which to deduct the negative temporary differences, except for:

- cases where a deferred income tax asset results from an initial recognition of an asset or liability under a transaction other than business combination, which at the moment of the transaction has no effect on financial result before tax or taxable profit (loss); and
- negative temporary differences connected with investments in subsidiaries and associates, and interests in joint ventures, where deferred income tax assets are recognized only to the extent that it is probable that those temporary differences will be reversed in the foreseeable future and that there will be sufficient taxable profits against which to utilize the benefits of the negative temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period. The Company reduces the carrying amount of deferred tax assets to the extent that it is no longer probable to that sufficient taxable profit will be achieved for part or all of that deferred tax asset to be utilized. Unrecognized deferred income tax assets are reviewed at the end of each reporting period and are recognized to the extent that it becomes probable that sufficient taxable profit will be available to utilize them.

Deferred income tax assets and provisions are presented in the statement of financial position, after netting at the level of individual entities

Value added tax (VAT)

Revenues, costs, assets and liabilities are recognized net of value added tax (VAT), with the exception of situations, where:

- the value added tax paid upon the purchase of assets or services cannot be recovered from the state budget, then it is recognized accordingly as part of the asset purchase price or part of a cost item; and
- receivables and liabilities are recognized inclusive of the value added tax.

The net amount of the value added tax recoverable from or due to be paid to the state budget in the following period is recognized in the statement of financial position as other assets or liabilities.

9.25. Revenues

Revenues are recognized at the amount at which it is probable that the Group will obtain economic benefits tied to a specific transaction and where the amount of revenues may be measured reliably. Revenues are recognized net of value added tax (VAT), excise tax and other sales taxes or fees and discounts and rebates. The criteria presented below apply also to the recognition of revenues.

Revenues include primarily:

- amounts due for sales of: electricity to wholesale and retail clients, heat, certificates of origin of electricity generated from renewable sources, certificates of origin of electricity in the cogeneration process, emission allowances, distribution and transmission services and other core business services, calculated on the basis of the net price, adjusted for discounts and rebates and excise tax.
- amounts due for materials and merchandise sold, on a net price basis, adjusted for discounts and rebates and excise tax.

Sales of products and goods are recognized when the significant risk and benefits stemming from ownership title of merchandise and products have been surrendered to the buyer and when the amount of revenues may be measured reliably and incurred costs may be reliably estimated.

Interest income is recognized gradually as it accrues (taking the effective interest rate method into account, where the effective rate is the rate used to discount future cash flows for the estimated useful life of the financial instruments) in relation to the net carrying amount of the financial asset.

Dividends are recognized when the title of shareholders to receive them are determined.

Rental revenues are recognized using the straight-line method for the entire term of lease, in relation to active agreements.

9.26. Costs

Cost of sales

Cost of sales is comprised of the following:

- cost of manufacturing products and providing services incurred in a reporting period, adjusted for a change in products and adjusted for the cost of manufacturing products for own needs,
- value of electricity and materials sold, at purchase prices,
- recognition/reversal of impairment allowances for property, plant and equipment, intangible assets, investment property, receivables and inventories,
- all selling and distribution expenses and general and administrative expenses incurred in the reporting period (recognized separately in the statement of profit or loss).

Manufacturing costs, which may be tied directly to revenues earned by the entities influence the financial result of the entities for the reporting period in which they occurred.

Manufacturing costs, which may be tied indirectly to revenues or other benefits achieved by the entities influence the financial result of the entities to the extent they pertain to the reporting period.

9.27. Other operating income and expenses

Other operating income and expenses include in particular items associated with:

- disposals of property, plant and equipment, intangible assets and investment property,
- recognition and reversal of provisions, except for provisions tied to financial operations or recognized in operating expenses,
- giving or receiving assets, including cash, free of charge, also as a donation,
- with damages, penalties and fines and other costs not associated with ordinary operations.

9.28. Financial income and costs

Financial income and costs include in particular income and costs associated with:

- disposal of financial assets,
- restatement of financial instruments, excluding financial assets available for sale, for which the effects of restatement are recognized in other comprehensive income,
- revenues from profit-sharing in other entities,
- interest,
- change in provision resulting from the approaching date of incurring the cost (unwinding discount effect),
- exchange differences resulting from operations performed during the reporting period and book valuation of assets and liabilities at the end of the reporting period, except for exchange differences recognized in the initial value of property, plant and equipment, to the extent they are recognized as adjustment of interest cost and exchange differences from measurement of equity instruments denominated in foreign currencies and classified in the available-for-sale portfolio,
- other items related to financing activity.

Interest income and interest expense are recognized gradually as they accrue (taking the effective interest rate method into account) in relation to the net carrying amount of the financial instrument and in line with the materiality principle.

Dividends are recognized when the title of shareholders to receive them are determined.

9.29. Earnings per share

Earnings per share for each period are calculated by dividing the net profit allocated to shareholders of the parent company for the period by the weighted average number of shares in the reporting period. In the case of a split or reverse split of shares, the number of shares after the split or reverse split is applied to the calculation retrospectively.

9.30. Cash Flow Statement

The cash flow statement is prepared using the indirect method.

9.31. Changes to accounting policies and presentation of data and correction of financial data from previous years

In the current reporting period, the accounting policies of the Group are applied on a continuous basis, except for:

- presentation of CO₂ emission allowances
- the rules for recognizing provisions for gas emissions.

Change in the presentation of CO₂ emission allowances

In the previous reporting periods, the Group presented the CO₂ emission allowances acquired for redemption in non-current assets, as intangibles. Currently, the Group presents the CO₂ emission allowances in current assets, as inventories.

As at 31 December 2013, there were no such assets and accordingly the Group has not restated the comparative information.

Provision for liabilities for gas emissions

In the previous reporting periods, the Group recognized provisions for gas emission liabilities when CO₂ emissions exceeded the quantity of free-of-charge emission allowances held as at the end of the reporting period. At present, the provisions are recognized gradually over the annual reporting period, based on actual CO₂ emissions, while taking into account the free emission allowances according to the following rules and order:

- in the part covered by the awarded free allowances (pro rata to the total quantity of free emission allowances awarded for the year) - at zero.
- in the part covered by acquired allowances - at purchase price,
- in the part not covered by allowances held or receivable - based on the contracted allowance purchase prices and then based on market prices of those allowances at the end of the reporting period.

This change in the accounting policies has no effect on the comparative data presented in these financial statements.

The purpose of the changes was to increase clarity and usefulness of data presented in the financial statements and to ensure comparability with other industry peers.

Adjustment of the allocation of wind asset purchase price

Comparative data presented in the statement of financial position as at 31 December 2013 has been restated as compared to the information approved in connection with the reallocation of the acquisition price of the wind assets acquired in 2013 from EPW Energia Sp. z o.o. (formerly Iberdrola

Renewables Polska Sp. z o.o.). As a result, the goodwill recognized on the transaction has been increased by PLN 11.8 m.

The Group has accordingly restated the information presented in the comparative consolidated statement of financial position and the information presented in notes to these consolidated financial statements.

The adjustments relating to the prior period presented in the consolidated financial statements are presented below:

Title	As at 31 December 2013 (previously reported)	Adjustments	As at 31 December 2013 (restated)
Property, plant and equipment	11,772,576	(11,800)	11,760,776
Goodwill	144,973	11,800	156,773

In addition to the above changes, selected notes were changed to present the elimination of transactions between Group companies more accurately.

10. Operating segments

The Group is organized and managed in the following operating segments: distribution, generation, sales and other. Transactions between segments are settled on market terms.

In the previous reporting period, the Group presented as separate certain segments (services and other) which are currently presented as a single segment – other. Additionally, in the current reporting period:

- the companies ENERGA Invest SA, Ekologiczne Materiały Grzewcze Sp. z o.o. and Bora Sp. z o.o. (see note 2.2.1) were included in the generation segment (previously service segment);
- ENERGA Innowacje Sp. z o.o. was included in the sales segment (previously service segment).
- the sales segment also comprises the total effect of the measurement of provisions for the mandatory retirement of certificates of origin of electricity as at the end of the reporting period (previously, this measurement was partially presented as consolidation exclusions and adjustments).

The Group does not present information by geographic segments since its operations conducted for international clients do not have a significant impact on the Group's results.

The tables below show the breakdown of revenues and expenses for the period from 1 January to 31 December 2014 and the assets and liabilities as at 31 December 2014 by individual segments, together with duly restated comparative information.

Year ended 31 December 2014 or as at 31 December 2014	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	3,934,199	5,149,984	1,497,479	8,933	10,590,595	-	10,590,595
Inter-segment sales	62,777	564,688	325,560	124,995	1,078,020	(1,078,020)	-
Total segment revenues	3,996,976	5,714,672	1,823,039	133,928	11,668,615	(1,078,020)	10,590,595
EBITDA							
EBITDA	1,535,501	131,040	698,490	(69,976)	2,295,055	11,904	2,306,959
Profit/(loss) on continuing operations before tax and finance income/expense	843,739	101,050	555,786	(90,997)	1,409,578	36,662	1,446,240
Net finance income/expense	(130,998)	37,291	(72,931)	715,683	549,045	(747,067)	(198,022)
Share of profit/(loss) of associates	-	-	-	-	-	(157)	(157)
Profit/(loss) before tax	712,741	138,341	482,855	624,686	1,958,623	(710,562)	1,248,061
Income tax	(113,682)	(30,692)	(98,502)	14,655	(228,221)	(10,391)	(238,612)
Net loss on discontinued operations and disposal of assets classified as held for sale	-	-	-	(3,251)	(3,251)	-	(3,251)
Net profit/(loss) for the period	599,059	107,649	384,353	636,090	1,727,151	(720,953)	1,006,198
Assets and liabilities							
Cash and cash equivalents	904,004	328,703	415,279	1,047,412	2,695,398	-	2,695,398
Total assets	12,203,969	2,385,956	4,686,612	12,368,852	31,645,389	(13,528,711)	18,116,678
Financial liabilities	3,474,170	51,173	1,473,868	5,716,018	10,715,229	(4,966,732)	5,748,497
Total liabilities	6,026,966	1,517,589	2,030,868	5,914,665	15,490,088	(5,926,969)	9,563,119
Other segment information							
Capital expenditure	1,147,977	37,813	271,300	28,489	1,485,579	(8,121)	1,477,458
Amortization and depreciation	691,762	29,990	142,704	21,021	885,477	(24,758)	860,719
Impairment losses on property, plant and equipment, intangible assets and investment property	1,402	(33)	34,094	576	36,039	-	36,039

Year ended 31 December 2013 (restated) or as at 31 December 2013 (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	3,744,151	6,597,849	1,058,541	28,708	11,429,249	-	11,429,249
Inter-segment sales	52,261	510,794	493,322	179,221	1,235,598	(1,235,598)	-
Total segment revenues	3,796,412	7,108,643	1,551,863	207,929	12,664,847	(1,235,598)	11,429,249
EBITDA	1,560,888	225,686	233,324	(77,429)	1,942,469	23,000	1,965,469
Profit/(loss) on continuing operations before tax and finance income/expense	920,508	198,926	123,749	(99,895)	1,143,288	51,546	1,194,834
Net finance income/expense	(107,977)	32,788	(29,636)	606,507	501,682	(673,568)	(171,886)
Share of profit/(loss) of associates	-	-	-	-	-	(582)	(582)
Profit/(loss) before tax	812,531	231,714	94,113	506,612	1,644,970	(622,604)	1,022,366
Income tax	(200,519)	(45,595)	(19,155)	(12,817)	(278,086)	4,338	(273,748)
Net loss on discontinued operations and disposal of assets classified as held for sale	-	-	-	(5,640)	(5,640)	-	(5,640)
Net profit/(loss) for the period	612,012	186,119	74,958	488,155	1,361,244	(618,266)	742,978
Cash and cash equivalents	606,098	456,995	448,330	840,882	2,352,305	-	2,352,305
Total assets	11,338,567	2,504,741	4,733,905	10,764,274	29,341,487	(12,256,931)	17,084,556
Financial liabilities	2,917,002	1,768	1,555,834	5,241,799	9,716,403	(4,440,641)	5,275,762
Total liabilities	5,246,806	1,457,185	2,106,327	5,595,304	14,405,622	(5,369,361)	9,036,261
Other segment information							
Capital expenditure	1,396,785	43,054	1,333,296	38,900	2,812,035	(10,276)	2,801,759
Amortization and depreciation	640,380	26,760	109,575	22,466	799,181	(28,546)	770,635
Impairment losses on property, plant and equipment, intangible assets and investment property	220	(28)	147,480	2,302	149,974	-	149,974

11. Revenues and expenses

11.1. Other operating income

Title	Year ended 31 December 2014	Year ended 31 December 2013
Subsidies	11,198	6,836
Reversal of impairment allowances for other assets	2,085	1,208
Reversal of provisions (e.g.litigations)	41,727	49,055
Penalties, compensations and fines received	36,778	58,816
Tax refund	1,098	-
Refund of litigation expenses	1,374	5,473
Liabilities written off	161	-
Revenues from illegal energy consumption	5,406	6,136
Gain on bargain purchase	943	17,907
Infrastructure received free of charge	3,436	2,903
Other	3,113	7,384
Total other operating income	107,319	155,718

11.2. Other operating expenses

Title	Year ended 31 December 2014	Year ended 31 December 2013
Loss on disposal/liquidation of property, plant & equipment/intangible assets	20,251	3,281
Donations	3,131	2,951
Creation of valuation allowances for other assets	1,006	4,439
Creation of provisions	26,143	71,604
Costs of employment restructuring	7,553	86,240
Compensations	10,399	3,967
Litigation expenses	5,553	8,824
Social activity expenses	243	-
Damages' repairs expenses	27,641	34,713
Costs of illegal energy consumption	3,008	3,236
Goodwill impairment allowance	13,715	-
Other	6,682	8,938
Total other operating expenses	125,325	228,193

The employment restructuring expenses presented in the table have been offset with the reversal of provisions for employee benefits (post-employment benefits and jubilee bonuses) for employees affected in the Group by the restructuring (in particular those employees who availed themselves of the voluntary departure programs)

11.3. Financial income

Title	Year ended 31 December 2014	Year ended 31 December 2013
Income on financial instruments, including:	111,406	121,664
Interest income	90,248	106,791
Dividend income	102	68
Revaluation of financial assets (including reversal of valuation allowances for financial assets)	4,776	12,098
Foreign exchange gains	911	2,707
Profit on sales of investments	15,369	-
Other financial income, including:	3,106	29,342
Provisions reversed	2,466	28,181
Interest on budgetary receivables	88	179
Other	552	982
Total	114,512	151,006

11.4. Financial costs

Title	Year ended 31 December 2014	Year ended 31 December 2013
Costs of financial instruments, including:	286,558	257,323
Interest expenses	283,924	241,077
Revaluation of financial assets (including creation of valuation allowances)	-	13,303
Foreign exchange losses	2,146	696
Loss on disposal of investments	488	2,247
Other financial expenses, including:	25,976	65,569
Acquisition expenses	3	26,393
Actuarial and other interests	22,110	30,726
Interest on budget liabilities	1,144	4,682
Provisions recognition	1,879	2,175
Other	840	1,593
Total	312,534	322,892

11.5. Costs by nature

Title	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Depreciation and amortization of property, plant and equipment and intangible assets	860,719	770,635
Impairment losses on property, plant and equipment and intangible assets (including advances paid)	36,039	149,974
Materials and energy used, including:	872,768	965,647
<i>Fuel consumption</i>	592,639	657,364
External services, including:	1,291,816	1,127,191
<i>Transmission and transit fees</i>	865,656	731,035
Taxes and fees	332,148	363,818
Employee benefits expenses	947,032	921,049
Valuation allowance for inventories	(123)	733
Valuation allowance for trade receivables	36,167	64,021
Other expenses	64,177	83,377
Change in inventories, prepayments and accruals	1,754	7,912
Cost of producing services for own needs	(83,727)	(101,117)
Cost of merchandise and raw materials sold	4,767,579	5,808,700
Total operating expenses	9,126,349	10,161,940
of which:		
Cost of sales	8,463,733	9,455,472
Selling and distribution expenses	311,995	294,321
General and administrative expenses	350,621	412,147

11.6. Cost of depreciation and impairment allowances recognized in the statement of profit or loss

Title	Year ended 31 December 2014	Year ended 31 December 2013
Items included in cost of sales:	871,124	893,063
Depreciation of property, plant & equipment	761,478	660,177
Impairment loss on property, plant and equipment	35,398	149,662
Amortization of intangible assets	73,130	82,404
Impairment loss on intangible assets	(80)	312
Depreciation of investment property	477	508
Impairment loss on investment property	721	-
Items included in costs of sales	7,955	6,778
Depreciation of property, plant & equipment	4,403	4,736
Amortization of intangible assets	3,552	2,042
Items included in general and administrative expenses	17,679	20,768
Depreciation of property, plant & equipment	13,192	16,593
Amortization of intangible assets	4,462	4,137
Depreciation of investment property	25	38

11.7. Cost of employee benefits

Title	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Wages and salaries	648,990	669,450
Social security contributions	120,125	116,165
Post-employment benefits and jubilee bonuses	55,862	13,666
Other costs of employee benefits, including:	122,055	121,768
<i>Energy tariff – current costs</i>	10,077	12,013
<i>Company Social Benefit Fund – charges for the current financial year</i>	31,959	40,423
<i>Employee Pension Plan</i>	38,293	34,014
<i>Employee training</i>	9,020	7,639
<i>Expenses related to health and safety</i>	6,810	8,308
<i>Other</i>	25,896	19,371
Employee benefits expenses	947,032	921,049

12. Income tax

12.1. Tax liabilities

The key components of the tax liability for the year ended 31 December 2014 are as follows:

Title	Year ended 31 December 2014	Year ended 31 December 2013
Statement of profit or loss		
Current income tax expense	(234,617)	(284,098)
Adjustments to income tax for prior years	26,722	(1,926)
Fixed-rate income tax on dividends received	(14)	(13)
Deferred income tax expense	(30,703)	12,289
Tax expense recognized in the statement of profit or loss	(238,612)	(273,748)
Statement of comprehensive income		
Deferred income tax expense	21,189	(25,285)
Tax expense recognized in statement of comprehensive income	21,189	(25,285)

With regard to income tax, the Group was principally subject to the general regulations in 2014. Except for the Tax Group established in 2012 by the subsidiary ENERGA – OPERATOR SA (see more in Note 31.2), there were no other occurrences that would require calculation of tax liabilities using methods different from the general regulations in this respect.

12.2. Reconciliation of effective tax rate

Reconciliation of income tax calculated on financial result before tax before tax using the statutory tax rate to income tax calculated according to the Group's effective tax rate is as follows:

Title	Year ended 31 December 2014	Year ended 31 December 2013
Profit/(loss) before tax on continuing operations	1,248,061	1,022,366
Profit/(loss) before tax on discontinued operations and disposal of assets classified as held for sale	(3,251)	(5,640)
Profit before tax	1,244,810	1,016,726
Tax at the Poland's statutory tax rate of 19%	(236,514)	(193,178)
Adjustments to income tax for prior years	26,722	(1,926)
The difference between the tax rate of 19% and the tax rate applicable in other countries	(27)	-
Tax impact of non-taxable income and non tax-deductible expenses	(28,793)	(78,644)
Tax at the effective tax rate	(238,612)	(273,748)
Income tax (charge) as per the statement of profit or loss	(238,612)	(273,748)
Income tax attributable to discontinued operations and disposal of assets held for sale	-	-

Current tax liability is calculated on the basis of the applicable tax regulations. Application of those regulations causes differences between the tax profit (loss) and accounting net profit (loss) because of non-taxable revenues and non-deductible expenses and items of income or expense which are never taxable. Tax liabilities are calculated on the basis of tax rates applicable in the given financial year. A 19% tax rate was used in 2014 and 2013. Current regulations do not provide for differentiated tax rates for future periods.

Both the fiscal year and the reporting period of these financial statements are the same as the calendar year.

12.3. Deferred income tax

The deferred income tax results from the following items:

Title	As at 31 December 2014	As at 31 December 2013
Deferred tax assets	512,355	548,088
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	142,334	194,464
on the difference between the tax and carrying value of inventories	359	638
on the difference between the tax and carrying value of financial assets and liabilities	88,623	42,013
power infrastructure received free of charge and connection fees received	70,664	71,278
on post-employment benefits provisions	73,395	63,422
on provisions for jubilee bonuses	45,818	43,071
on provisions for reclamation and decommissioning costs of property, plant and equipment	6,895	4,523
on provisions for liabilities for gas emissions obligations	7,646	11,922
on provisions for redemption of energy certificates of origin	29,258	7,192
on restructuring provisions	3,411	15,330
unpaid employee salaries and benefits	4,944	8,869
on other provisions	40,941	28,233
accrued expenses	10,503	24,094
tax losses	16,145	25,278
other	2,455	7,761
The adjustment to the value to be realized in the future	(31,036)	-
Set-off	(266,764)	(303,002)
Deferred tax assets after set-off	245,591	245,086

Title	As at 31 December 2014	As at 31 December 2013
Deferred tax liabilities	820,151	847,003
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	746,831	741,498
accrued revenues	26,719	39,938
on the difference between the tax and carrying value of energy certificates of origin	18,713	30,759
on the difference between the tax and carrying value of financial assets	25,958	30,434
other	1,930	4,374
Set-off	(266,764)	(303,002)
Deferred tax liabilities after set-off	553,387	544,001

The Group did not include in the statement of financial position the deferred income tax asset on the value of outstanding tax losses incurred in 2010 - 2014 for the total amount of PLN 43,622 thousand.

Changes in deferred tax assets and provisions are presented in the table below:

Title	Year ended 31 December 2014	Year ended 31 December 2013
Deferred tax assets		
At the beginning of the reporting period	554,442	487,682
<i>Increases</i>	108,577	317,003
recognized in profit or loss	97,587	272,052
recognized in other comprehensive income	10,990	12,062
acquisition of subsidiary	-	32,889
<i>Decreases</i>	(150,390)	(250,243)
recognized in profit or loss	(150,390)	(221,056)
recognized in other comprehensive income	-	(28,244)
disposal of subsidiary	-	(943)
At the end of the reporting period	512,629	554,442
Unrecognized assets		
At the beginning of the reporting period	(6,354)	(353)
increases	-	(6,508)
decreases	6,080	507
At the end of the reporting period	(274)	(6,354)
Set-off	(266,764)	(303,002)
Deferred tax assets at the end of the reporting period	245,591	245,086
Deferred tax liabilities		
At the beginning of the reporting period:	847,003	797,145
<i>Increases</i>	59,716	94,394
recognized in profit or loss	59,716	81,491
recognized in other comprehensive income	-	9,146
acquisition of subsidiary	-	3,757
<i>Decreases</i>	(86,568)	(44,536)
recognized in profit or loss	(75,736)	(44,493)
recognized in other comprehensive income	(10,199)	(43)
disposal of subsidiary	(633)	-
At the end of the reporting period	820,151	847,003
Set-off	(266,764)	(303,002)
Deferred tax liabilities at the end of the reporting period	553,387	544,001

13. Property, plant and equipment

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross value							
As at 1 January 2014 (restated)	126,500	10,163,361	4,044,091	239,450	596,804	1,300,826	16,471,032
Direct purchase	4,851	123	1,630	1,940	138	1,367,908	1,376,590
Acquisition of subsidiary	-	-	-	-	-	1,164	1,164
Transfer from property, plant and equipment under construction	11,186	823,345	701,537	25,593	54,025	(1,615,686)	-
Sale, disposal	(1,033)	(18,069)	(7,229)	(19,724)	(3,447)	(1,624)	(51,126)
Scrapping	(175)	(32,999)	(16,769)	(1,333)	(970)	(3,371)	(55,617)
Reclassification between groups	-	(14,242)	5,598	(9,831)	154	18,321	-
Transfer to assets classified as held for sale	-	(1,568)	(6,661)	(2,557)	(4,040)	(115)	(14,941)
Transfer from assets classified as held for sale	64	10,764	10,069	38,097	2,566	31	61,591
Transfer to investment property	(547)	(33,393)	(2,325)	-	(1,549)	(1,073)	(38,887)
Capitalized borrowing costs	-	-	-	-	-	19,714	19,714
Disposal of subsidiary	-	(6,250)	(970)	(571)	(198)	-	(7,989)
Provision for liquidation costs	-	9,609	1,790	-	-	-	11,399
Other changes	(22)	1,658	(1,401)	(30)	(19)	685	871
As at 31 December 2014	140,824	10,902,339	4,729,360	271,034	643,464	1,086,780	17,773,801
Cumulative depreciation and impairment							
As at 1 January 2014	(158)	(3,024,413)	(1,226,027)	(119,466)	(228,246)	(111,946)	(4,710,256)
Depreciation for the period	-	(430,448)	(236,902)	(39,445)	(73,036)	-	(779,831)
Impairment losses	(39)	(3,199)	(628)	(52)	(8)	(39,337)	(43,263)
Reversal of impairment losses	73	5,847	2,868	186	350	1,541	10,865
Sale, disposal	-	2,756	6,432	17,940	3,204	-	30,332
Scrapping	-	15,359	11,233	1,323	884	-	28,799
Transfer to assets classified as held for sale	-	446	5,114	1,681	3,544	-	10,785
Transfer from assets classified as held for sale	-	(2,627)	(5,300)	(16,270)	(1,162)	-	(25,359)
Transfer to investment property	124	12,579	1,387	-	1,497	46	15,633
Disposal of subsidiary	-	1,175	632	334	159	-	2,300
Other changes	-	524	874	25	(8)	-	1,415
As at 31 December 2014	-	(3,422,001)	(1,440,317)	(153,744)	(292,822)	(149,696)	(5,458,580)
Net value as at 1 January 2014 (restated)	126,342	7,138,948	2,818,064	119,984	368,558	1,188,880	11,760,776
Net value as at 31 December 2014	140,824	7,480,338	3,289,043	117,290	350,642	937,084	12,315,221

	Land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant & equipment	Property, plant & equipment under construction	Total
Gross value							
As at 1 January 2013	117,038	9,132,650	3,070,104	243,508	436,503	936,187	13,935,990
Direct purchase	340	2,113	3,961	11,357	1,129	1,603,921	1,622,821
Acquisition of subsidiary	1,840	361,919	481,471	41	970	184,513	1,030,754
Transfer from property, plant and equipment under construction	7,940	704,488	521,066	35,752	166,640	(1,435,886)	-
Sale, disposal	(1,291)	(14,311)	(7,476)	(9,580)	(3,721)	(3,470)	(39,849)
Scrapping	(53)	(3,664)	(7,868)	(909)	(3,491)	(2,367)	(18,352)
Reclassification between groups	-	(9,603)	(11,458)	(115)	(360)	15,096	(6,440)
Transfer to assets classified as held for sale	(64)	(12,327)	(11,839)	(39,533)	(2,778)	(3,792)	(70,333)
Capitalized borrowing costs	-	-	-	-	-	18,931	18,931
Disposal of subsidiary	-	(711)	(710)	(391)	(70)	(811)	(2,693)
Other changes	750	2,807	6,840	(680)	1,982	(11,496)	203
As at 31 December 2013 (restated)	126,500	10,163,361	4,044,091	239,450	596,804	1,300,826	16,471,032
Cumulative depreciation and impairment							
As at 1 January 2013	(158)	(2,568,260)	(958,492)	(112,167)	(175,428)	(120,569)	(3,935,074)
Depreciation for the period	-	(399,839)	(190,346)	(34,824)	(56,497)	-	(681,506)
Impairment losses	-	(60,761)	(96,372)	(88)	(1,097)	(937)	(159,255)
Reversal of impairment losses	-	28	317	28	81	9,560	10,014
Sale, disposal	-	3,302	6,096	8,740	2,218	-	20,356
Scrapping	-	1,282	5,968	897	2,639	-	10,786
Transfer to assets classified as held for sale	-	2,944	6,472	16,961	1,269	-	27,646
Reclassification between groups	-	(1,444)	7,258	143	483	-	6,440
Disposal of subsidiary	-	174	648	263	58	-	1,143
Other changes	-	(1,839)	(7,576)	581	(1,972)	-	(10,806)
As at 31 December 2013 (restated)	(158)	(3,024,413)	(1,226,027)	(119,466)	(228,246)	(111,946)	(4,710,256)
Net value as at 1 January 2013	116,880	6,564,390	2,111,612	131,341	261,075	815,618	10,000,916
Net value as at 31 December 2013 (restated)	126,342	7,138,948	2,818,064	119,984	368,558	1,188,880	11,760,776

The carrying amount of property, plant and equipment constituting security for liabilities is disclosed in Note 33.8.

Impairment tests for property, plant and equipment

In connection with changes arising in its market environment, the Group has identified certain indications, which may result in a decline of recoverable amount of property, plant and equipment of the companies in the generation segment.

The impairment tests were performed using the income method, determining the value in use based on the discounted value of estimated cash flows from operating activities, taking into account, among others, the following assumptions:

- a) paths for electricity prices for the period 2014-2035, taking into account, among others, fuel costs, costs of CO₂ allowances and the impact of the balance of demand and supply of electricity in the market, paths for prices of certificates of origin, on the basis of latest available report prepared by an independent agency for the Polish market as at 1 October 2014,
- b) CO₂ emission limits for 2014-2021 as specified in the Regulation of the Council of Ministers of 31 March 2014 (Item 439) and 8 April 2014 (Item 472),
- c) volumes of production from renewable energy sources and combined heat and power sources resulting from production capacities,
- d) maintaining the production capacities of the existing fixed assets following replacement investments.

The performed sensitivity analyses show that the most important factors affecting the estimated value in use of cash generating units are the price paths of electricity, CO₂ emission allowances, fuels, certificates of origin, production volumes and discount rates.

In case of changes in market conditions there is a risk that test results will be different in the future.

Power Plant B in Ostrołęka ("CGU Ostrołęka B")

The impairment test for CGU Ostrołęka B was conducted as at 30 November 2014. The value in use was calculated on the basis of financial projections for the period of December 2014 - December 2022 and residual value. To calculate value in use of CGU Ostrołęka B, a discount rate equal to the weighted average cost of capital (WACC) at 6.75% before tax was applied (6.59% after tax). The growth rate used to extrapolate cash flow projections beyond the period covered by detailed planning was adopted at the level of 2.0% which does not exceed the average long-term inflation growth rates in Poland.

Based on the results of the test, the Group has found no need to change the impairment allowance for CGU Ostrołęka B.

Elektrociepłownia Elbląg with biomass-fired installation ("CGU EC Elbląg")

The impairment test for CGU EC Elbląg was conducted as at 30 November 2014. The value in use was calculated on the basis of financial projections for the period of December 2014 - December 2019 and residual value. The discount rate at the pre-tax weighted-average cost of capital (WACC) used for calculation was 8.68% (6.10% after tax).

Based on the results of the test, the Group has found no need to recognize an impairment allowance for CGU Elbląg B.

Karcino, Karścino, Bystra wind farms

As at 30 November 2014 impairment tests were also conducted on the wind farms acquired in 2013. On account of the assumed 25-year period of operation of the wind farms, the calculations were made on the basis of the financial projections for the full duration of their operation. The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 7.29% to 7.68% (6.08% after tax).

Based on the results of the tests, the Group has found no need to recognize impairment allowances for the wind farms.

Wind projects

During the financial year, no capacity for further development was identified for thirteen of the wind projects purchased in 2013. Accordingly, a decision was made to make an impairment allowance for the entire amount of these projects. The aggregated impairment allowance was PLN 39.2 m, of which:

- PLN 10 m was recognized in the Q2 2014 result,
- PLN 29.2 m was recognized in the Q4 2014 result.

14. Investment property

Investment property in ENERGA Group companies include land, perpetual usufruct right to land and buildings leased to third parties in whole or in part.

The carrying amount of investment properties presented in the consolidated statement of financial position does not differ materially from their fair value.

Title	Year ended 31 December 2014	Year ended 31 December 2013
Book value as at beginning of the reporting period	15,189	17,060
Increases	26,804	-
Depreciation	(528)	(546)
Transfer from assets classified as held for sale	735	-
Transfer to assets classified as held for sale	-	(723)
Decreases	(1,792)	(602)
Book value as at end of reporting period	40,408	15,189

Rental revenues and direct operating expenses relating to the investment properties were as follows.

Title	Year ended 31 December 2014	Year ended 31 December 2013
Rental income from investment property	2,162	1,428
Direct operating expenses related to investment property, which generated rental income in the period	971	740
Direct operating expenses related to investment property, which did not generate rental income in the period	58	57

15. Intangible assets

	Licenses and patents		Right of perpetual usufruct of land	Other intangible assets	Intangible assets not in use	Total
	Total	Including software				
Gross value						
As at 1 January 2014	382,067	245,629	88,186	101,812	104,415	676,480
Direct purchase	576	351	7	235	76,809	77,627
Transfer of intangible assets not in use	84,290	82,085	1,017	22,687	(107,994)	-
Sale, disposal	(791)	(763)	(1,887)	(357)	(91)	(3,126)
Scrapping	(2,096)	(271)	-	(569)	(577)	(3,242)
Reclassification between groups	(1,895)	25	-	(1,139)	3,034	-
Capitalized borrowing costs	-	-	-	-	818	818
Other changes	1,065	919	(18)	(1,195)	487	339
As at 31 December 2014	463,216	327,975	87,305	121,474	76,901	748,896
Cumulative amortization (depreciation) and impairment						
As at 1 January 2014	(208,321)	(116,654)	(17,466)	(51,962)	(54)	(277,803)
Amortization for the period	(68,980)	(49,776)	(2,259)	(9,950)	-	(81,189)
Increase in impairment allowance	-	-	(161)	-	(2)	(163)
Decrease in impairment allowance	252	241	813	-	56	1,121
Sale, disposal	282	260	245	357	-	884
Scrapping	2,096	271	-	569	-	2,665
Other changes	(974)	(725)	(385)	27	-	(1,332)
As at 31 December 2014	(275,645)	(166,383)	(19,213)	(60,959)	-	(355,817)
Net value as at 1 January 2014	173,746	128,975	70,720	49,850	104,361	398,677
Net value as at 31 December 2014	187,571	161,592	68,092	60,515	76,901	393,079

	Licenses and patents		Right of perpetual usufruct of land	Other intangible assets	Intangible assets not in use	Total
	Total	Including software				
Gross value						
As at 1 January 2013	356,687	234,569	86,986	77,664	52,453	573,790
Direct purchase	1,018	795	1,332	830	91,300	94,480
Transfer of intangible assets not in use	32,958	17,894	-	25,539	(58,497)	-
Sale, disposal	(1,169)	(1,141)	(1,155)	(1,057)	-	(3,381)
Scrapping	(1,396)	(781)	-	(353)	(21)	(1,770)
Reclassification between groups	(4,625)	(4,760)	-	(9,626)	12,792	(1,459)
Capitalized borrowing costs	-	-	-	-	1,062	1,062
Acquisition of subsidiary	-	-	-	9,133	-	9,133
Other changes	(1,406)	(947)	1,023	(318)	5,326	4,625
As at 31 December 2013	382,067	245,629	88,186	101,812	104,415	676,480
Cumulative amortization (depreciation) and impairment						
As at 1 January 2013	(144,417)	(71,427)	(15,266)	(35,544)	-	(195,227)
Amortization for the period	(65,249)	(46,237)	(2,200)	(21,134)	-	(88,583)
Increase in impairment allowance	(34)	(23)	(224)	-	(54)	(312)
Sale, disposal	50	22	218	622	-	890
Scrapping	1,354	740	-	353	-	1,707
Reclassification between groups	(2,071)	(1,161)	-	3,530	-	1,459
Other changes	2,046	1,432	6	211	-	2,263
As at 31 December 2013	(208,321)	(116,654)	(17,466)	(51,962)	(54)	(277,803)
Net value as at 1 January 2013	212,270	163,142	71,720	42,120	52,453	378,563
Net value as at 31 December 2013	173,746	128,975	70,720	49,850	104,361	398,677

16. Goodwill

	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Gross value at the beginning of the period	156,773	28,627
Total increases, of which:	-	128,508
purchase of shares in subsidiaries	-	128,508
Total decreases	-	(362)
disposal of shares in a subsidiary	-	(362)
Gross value at the end of the period	156,773	156,773
Impairment at the beginning of the period	-	-
increase	(13,715)	-
Impairment at the end of the period	(13,715)	-
Net value at the beginning of the period	156,773	28,627
Net value at the end of the period	143,058	156,773

As at 31 December 2014, the Group conducted an impairment test of the company established as a result of the share purchase transaction in companies held by EPW Energia Sp. z o.o. (formerly Iberdrola Renewables Polska Sp. z o.o.). The goodwill of PLN 117.1 m recognized on the purchase of EPW Energia Sp. z o.o.'s net assets was allocated to the group of cash generating units comprising wind generation assets (operational wind farms). Assumptions made for the purposes of this test are presented in Note 13. Based on the results, no impairment allowances were required at the end of the reporting period.

The performed sensitivity analyses show that important factors affecting the value in use estimates include: projected wholesale electricity prices, production volumes, price paths of certificates of origins and the discount rate. In case of changes in market conditions there is a risk that test results will be different in the future.

Additionally, in connection with the planned split of Ekologiczne Materiały Grzewcze Sp. z o.o. ("CGU EMG") and suspension of its manufacturing business, the Group recognized an impairment allowance for the goodwill allocated to CGU EMG in the amount of PLN 13.7 m.

17. Inventories

Title	31 December 2014		
	Historical cost	Impairment charge	Net value
Materials	88,375	(1,016)	87,359
Finished products	33	-	33
Semi-finished products and production in progress	6	-	6
Merchandise	19,140	(820)	18,320
CO2 emission rights	31,585	-	31,585
Energy certificates of origin	158,490	(52)	158,438
Total	297,629	(1,888)	295,741
Impairment of inventories as at 31 December 2013			(3,282)
Impairment allowances created			(1,387)
Impairment allowances reversed			1,510
Impairment allowances used			1,271
Impairment of inventories as at 31 December 2014			(1,888)

Group companies recognize impairment allowances for inventories based on the loss of their economic usefulness determined by aging and turnover, down to the amount of the achievable net sale price. The allowances are reversed when the inventories affected by the allowance are used up or sold.

18. CO₂ emission allowances

In 2012 the second settlement period for CO₂ emission allowances in the National Allocation Plan "NAP" for 2008 – 2012 ended. As at the date of preparing these financial statements, the allocations of free CO₂ emission allowances to generate electricity under NAP for the third settlement period (included in the Polish government's derogation application to the European Commission) has been published. The prerequisite to receive them is to complete the investment projects included in the National Investment Plan ("KPI") in line with the approved compliance ratios and to use the eligible capital expenditures to settle the allowances, which are planned to be awarded. On 22 January 2014, the European Commission recognized the Polish plan calling for the designation of 404.6 m CO₂ emission allowances to modernize the electrical energy sector as being compliant with the regulations on state's public aid.

On 8 April 2014, the European Commission completed the analysis of the report on the fulfillment of investment tasks by Polish power companies in the period of June 2009 - June 2013, which was used as the grounds for issuing free CO₂ emission allowances to power sector entities for 2013. On the same date, the Council of Ministers adopted a regulation listing power generating installations covered by the trading system of greenhouse gas emission allowances in the period starting on 1 January 2013 and the number of emission allowances awarded to them in successive years in the period 2013-2020. In Q2 2014, the Group companies received the CO₂ emission allowances for 2013 in quantities stated in the regulation.

On the other hand, for installations other than power generating installations, covered by the trading system of greenhouse gas emission allowances in the settlement period starting on 1 January 2013, the allocation of free CO₂ emission allowances was regulated by the Regulation of the Council of Ministers of 31 March 2014. Based on this regulation, owners of the Group's heat-producing installations also received CO₂ emission allowances in Q2 2014.

According to the assumptions, during the third settlement period the free-of-charge allowances to generate electrical energy will be gradually retracted, while at the latest by 2020 the issuance of free-of-charge CO₂ emission allowances for installations generating electrical energy will be ended (as part of the third settlement period). A similar mechanism will be in force for the generation of heat where the free-of-charge allowances will expire in 2027.

At the same time, one should note the arrangements adopted by the European Council of 23 October 2014, which set the framework for EU's climate and energy policies 2020-2030. In its decision, the EU assumed, among others, an obligation to reduce greenhouse gas emissions until 2030 by at least 40% (compared to the 1990 levels). Through negotiation, Poland obtained a possibility to transfer to the energy sector, until 2030, free CO₂ emission allowances up to 40% of the available allocation pool. Detailed terms under which these decisions will be implemented, will be subject to the government's work in near future.

The changes to the quantity (in 000s of tons) of emission allowances received under the NAP, as well as the ones bought by the Group companies on the secondary market were as follows:

Title	Year ended 31 December 2014	Year ended 31 December 2013
	(thousands of tons)	
The balance of CO₂ emission rights at the beginning of the period	(2,140)	31
Granted under the National Allocation Plan	2,024	-
Acquired on the secondary market	3,141	1,023
Total	5,165	1,023
CO ₂ emissions	(3,288)	(3,185)
CO ₂ emission rights sold	(1,480)	(9)
The balance of CO₂ emission rights as at the end of period	(1,743)	(2,140)
of which generating companies	(3,104)	(3,154)
of which ENERGA – OBRÓT SA	1,361	1,014

* in 2014, the Group received allowances corresponding to 1,764 thousand tons, applicable to 2013 emissions.

* in 2014, the Group purchased allowances corresponding to 1,313 thousand tons, applicable to 2013 emissions.

19. Cash and cash equivalents

Cash in the bank earns interest at variable interest rates negotiated with banks, the level of which depends on the interest rate applicable to overnight bank deposits. Short-term deposits are made for different periods, from one day to three months, depending on the Group's current cash requirements and earn interest at interest rates negotiated individually with banks. Cash and cash equivalents also include units in the ENERGA Trading SFIO fund, which are measured at fair value (measurement method described in Note 33.3.1).

ENERGA Trading SFIO has been established to manage financial surpluses of ENERGA Group companies and is an alternative to bank deposits, even overnight deposits. The fund is high liquidity and low risk. Mechanisms embedded in the fund settlement system offer the redemption of fund units to cash on the same or the next business day. Additionally, ENERGA Group companies may offset their mutual receivables and liabilities using the units in the fund.

The balance of cash and cash equivalents presented in the statement of cash flows comprises the following items:

Title	As at	As at
	31 December 2014	31 December 2013
Cash at bank and in hand	700,807	466,178
Short term deposits up to 3 months	1,230,831	1,318,811
Participation units in liquidity funds	763,760	567,249
Other	-	67
Total cash and cash equivalents presented in the statement of financial position	2,695,398	2,352,305
Unrealised exchange rate differences and interest	(12,852)	(6,762)
Cash and cash equivalents classified as assets held for sale	3,093	14,439
Current account overdrafts	(11,058)	(9,269)
Total cash and cash equivalents presented in the statement of cash flow	2,674,581	2,350,713

20. Other assets

20.1. Other non-current assets

Title	As at	As at
	31 December 2014	31 December 2013
Long-term receivables	5,245	2,065
Advances for property, plant & equipment under construction and intangible assets	13,708	4,268
Long-term prepayments and accrued expenses	35,962	34,656
Other	195	1,302
TOTAL	55,110	42,291

20.2. Other current assets

Title	As at	As at
	31 December 2014	31 December 2013
Property, casualty and transport insurance	7,551	14,409
IT services	1,683	2,075
Other deferred costs	29,193	4,566
Advance for deliveries	21,702	14,699
VAT receivable	142,236	101,745
Surplus of Social Fund assets over Social Fund liabilities	405	316
Biological assets	4,724	4,055
Other short-term assets	707	3,709
TOTAL	208,201	145,574

21. Discontinued operations and assets classified as held for sale

21.1. Discontinued operations

In 2012, the Group made a decision to discontinue a hotel business operated by its subsidiaries: Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. and Kongres Sp. z o.o. By the date of these financial statements, Kongres Sp. z o.o. has been liquidated. In December 2014, the merger of Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. with RGK Sp. z o.o. was registered (see note 2.2.2). The financial results of RGK Sp. z o.o. for the current reporting period referring to its hotel business (including impairment allowances for non-current assets) are included in the consolidated statement of profit or loss as result on discontinued operations.

The table below contains results on discontinued operations for 2014 and comparative data.

Title	Year ended 31 December 2014	Year ended 31 December 2013
Revenue	2,946	4,799
Costs	(6,197)	(10,439)
Loss before tax	(3,251)	(5,640)
Tax expense	-	-
Net loss	(3,251)	(5,640)
Cash flows, of which:	5,965	4,011
from operating activities	(2,923)	(3,528)
from investing activities	8,698	10,084
from financing activities	190	(2,545)
Earnings per share from discontinued operations (ordinary and diluted) (in PLN)	(0.01)	(0.01)

The entire net result on discontinued operations is allocated to the shareholders of the parent company.

21.2. Assets classified as held for sale

In 2013, the Group has taken steps to sell shares in the following subsidiaries operating as supporting services providers for the Distribution System Operator business (ENERGA – OPERATOR SA), i.e. design and specialized power construction and the production of power devices: Przedsiębiorstwo Budownictwa Elektroenergetycznego "ENBUD" Słupsk Sp. z o.o., Zakład Budownictwa Energetycznego Sp. z o.o., ZEP – Centrum Wykonawstwa Specjalistycznego Sp. z o.o., Energetyka Kaliska – Usługi Techniczne Sp. z o.o., ENERGA – OPERATOR Produkcja Sp. z o.o., Przedsiębiorstwo Wielobranżowe Energetyki "ELEKTROINSTAL" Sp. z o.o. In the previous reporting periods, assets and liabilities of these entities were presented in the consolidated statement of financial position as held for sale.

On 6 February 2014, conditional sales agreements were concluded for 100% stakes in ENERGA – OPERATOR Produkcja Sp. z o.o. and Przedsiębiorstwo Wielobranżowe Energetyki "ELEKTROINSTAL" Sp. z o.o. The condition precedent was for the President of Office of Competition and Consumer Protection to issue an approval for concentration, which was issued on 27 February 2014.

During the 12 months after the assets and liabilities of the subsidiaries: Przedsiębiorstwo Budownictwa Elektroenergetycznego „ENBUD” Słupsk Sp. z o.o., Zakład Budownictwa Energetycznego Sp. z o.o., ZEP – Centrum Wykonawstwa Specjalistycznego Sp. z o.o., Energetyka Kaliska – Usługi Techniczne Sp. z o.o. were classified as held for sale, the Group did not receive any binding purchase offers. Since there has been no real interest from potential buyers, the Group suspended its active endeavors to sell shares in these companies.

Accordingly, the Group ceased to classify the assets and liabilities of these companies as held for sale. The amount of non-current assets was adjusted for depreciation, which would have been recognized had they been not classified as held for sale. This adjustment of PLN 3,431 thousand was

charged to cost of sales.

In Q3 2014, the Group has taken action to sell the 100% stake held by the Company in ENERGA Serwis Sp. z o.o. The Group expects that the sales process will be completed in the next 12 months. Consequently, all the assets and liabilities of ENERGA Serwis Sp. z o.o. were presented in the consolidated statement of financial position as held for sale.

Main categories of assets and liabilities making up the operations classified as held for sale at the end of the reporting period are presented in the following table:

Title	As at 31 December 2014	As at 31 December 2013
ASSETS		
Property, plant and equipment	4,156	44,568
Investment property	-	3,029
Intangible assets	208	1,156
Deferred tax assets	4,749	4,217
Other non-current assets	-	900
Inventories	2,865	8,038
Current tax receivables	1,277	1,473
Trade receivables	4,876	4,959
Deposits	-	24,057
Other financial assets	114	-
Cash and cash equivalents	3,093	14,439
Other current assets	5,294	2,280
Assets classified as held for sale	26,632	109,116
LIABILITIES		
Non-current provisions	14,638	20,632
Deferred tax liabilities	-	506
Other long-term Liabilities	118	951
Trade liabilities	3,546	39,208
Other financial liabilities	490	2,199
Deferred income and grants	325	-
Accruals	3,311	1,941
Provisions	875	1,286
Other short-term Liabilities	5,603	14,596
Liabilities related to assets classified as held for sale	28,906	81,319

22. Other liabilities

22.1. Other non-current liabilities

Title	As at 31 December 2014	As at 31 December 2013
Other non-financial liabilities	1,186	1,406
Liabilities to employees on account of restructuring severance pay	1,124	1,167
Other	62	239
Total	1,186	1,406

22.2. Other current liabilities

Title	As at 31 December 2014	As at 31 December 2013
Liabilities on account of taxes, customs duties, social security, salaries and others	162,246	131,966
Excise tax	27,403	5,557
VAT	65,551	52,203
Liabilities on social security insurance	37,869	40,652
Personal income tax	16,324	18,949
Environmental fees	14,400	13,791
Other	699	814
Other non-financial liabilities	200,068	223,767
Payroll liabilities	28,264	31,288
Liabilities to employees on account of restructuring severance pay	38,312	49,781
Deferred counterparty payments and advances received	131,851	139,017
Surplus of Social Fund assets over Social Fund liabilities	142	206
Other	1,499	3,475
Total	362,314	355,733

23. Accruals and deferred income

23.1. Deferred income and government grants

Title	As at 31 December 2014	As at 31 December 2013
Property, plant & equipment acquired free of charge	59,271	60,642
Subsidies received	190,875	134,547
Lease income	16,997	13,637
Connection fees	293,410	306,712
Other deferred income	2,236	5,744
TOTAL, including:	562,789	521,282
Long-term	525,824	489,234
Short-term	36,965	32,048

As at 31 December 2014, the Group recognizes as subsidies: primarily, the valuation effect of the preferential loan from the European Investment Bank (see descriptions in Note 9.22 and 33.5) of PLN 94.6 m and co-financing of PLN 38.9 m received to execute the project of building a biomass-fired power unit in Elbląg.

23.2. Accrued cost

Title	As at 31 December 2014	As at 31 December 2013
Accruals for unused holiday leave pay	26,050	23,592
Accruals for annual bonus and other employee bonuses	85,683	96,896
Management Board bonuses	8,861	6,325
TOTAL	120,594	126,813

24. Employee benefits

The Group measures provisions for post-employment benefits and for jubilee bonuses (see description in note 9.19) using actuarial methods.

The amounts of provisions for jubilee bonuses and the reconciliation presenting changes in balances are presented note 29.

The amounts of provisions for post-employment benefits and the agreement on changes to the balances are presented in the tables below:

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2014	92,025	195,153	47,237	334,415
Acquisition of subsidiary	(25)	-	(12)	(37)
Current service cost	7,361	3,459	1,875	12,695
Actuarial gains and losses	18,457	16,334	23,050	57,841
Benefits paid	(2,757)	(9,996)	(2,602)	(15,355)
Interest cost	3,112	6,626	1,588	11,326
Provisions released	(5,909)	(4,023)	(1,462)	(11,394)
Reclassified	(4,030)	(2,605)	(916)	(7,551)
Transfer from assets held for sale	4,070	6,037	1,976	12,083
Transfer to assets held for sale	(4,478)	(1,966)	(1,289)	(7,733)
As at 31 December 2014	107,826	209,019	69,445	386,290
Short-term as at 31 December 2014	3,604	9,529	2,759	15,892
Long-term as at 31 December 2014	104,222	199,490	66,686	370,398

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total
As at 1 January 2013	113,391	264,736	80,805	458,932
Acquisition of subsidiary	(994)	(701)	(284)	(1,979)
Current service cost	7,925	6,801	2,528	17,254
Actuarial gains and losses	(12,712)	(57,797)	(29,801)	(100,310)
Benefits paid	(3,259)	(9,123)	(2,575)	(14,957)
Interest cost	4,644	10,715	3,270	18,629
Provisions released	(10,807)	(10,957)	(4,107)	(25,871)
Reclassified	(1,776)	(1,405)	(326)	(3,507)
Transfer to assets held for sale	(4,387)	(7,116)	(2,273)	(13,776)
As at 31 December 2013	92,025	195,153	47,237	334,415
Short-term as at 31 December 2013	3,250	9,930	2,700	15,880
Long-term as at 31 December 2013	88,775	185,223	44,537	318,535

Key assumptions adopted by the actuary to calculate the liability amounts at the end of the reporting period are as follows:

Title	Year ended	
	31 December 2014	31 December 2013
Discount rate	2.68%	4.66%
Employee turnover rate	by companies' employee turnover*	
Expected salary increase rate (%)	4.00%	4.50%
Expected Company Social Benefit Fund charge increase rate (%)	4.70%	3.50%
Basis for the Company Social Benefit Fund charge (%)	3.00%	3.00%
Expected energy tariff increase rate	<i>by price paths**</i>	

* Employee turnover has been calculated on the basis of historical data from three most recent years, separately for each 10-year age bracket.

** Energy price paths on the basis of studies of industry experts.

Based on data received from the actuary, the Group estimates that the change in assumptions would affect the amount of provisions for pension and similar benefits, jubilee bonuses, the employee benefit

fund and the energy tariff as follows:

- Adoption of a discount rate higher by 1 percentage point would cause a decrease in the amount of the provisions by about 11% in 2014, while adoption of a discount rate lower by 1 percentage point would cause an increase in the provision amount by about 14%,
- Adoption of planned salary increases 1 percentage point higher would result in an increase in provisions by about 14%, while adoption of planned increases of salaries 1 percentage point lower would result in a decrease in provisions by about 11%.

25. Assets and liabilities of the Company Social Benefit Fund

Pursuant to the Social Benefit Fund Act of 4 March 1994, as amended, the Company Social Benefit Fund is established by employers (companies) employing more than 20 employees on a full time equivalent basis. Group companies establish such funds and make periodic allowances. The funds of ENERGA SA Group companies contain no property, plant and equipment. The purpose of the Funds is to subsidize the social activity of the individual Group companies, grant loans to employees and subsidize other social expenses, such as co-payments to employee holidays.

Group companies have offset the Fund's assets with their liabilities towards the Fund on the individual level, because these assets do not constitute separate assets of the companies. At the level of consolidated financial data, the net balance as at 31 December 2014 was PLN 263 thousand.

The table below presents the structure of the Funds' assets, liabilities and expenses.

Title	As at	As at
	31 December 2014	31 December 2013
Loans granted to employees	13,301	16,435
Cash and cash equivalents	5,157	4,399
Fund's liabilities	18,195	20,724
Balance after set-off	263	110
Charges to the fund during the period	31,959	40,423

26. Earnings per share

There were no diluting instruments in the Company and therefore diluted earnings per share are equal to basic earnings per share. The data used to calculate earnings per share are presented below.

Title	Year ended	Year ended
	31 December 2014	31 December 2013
Net profit on continuing operations attributable to the shareholders of the Parent Company	985,389	769,612
Net loss on discontinued operations attributable to the shareholders of the Parent Company	(3,251)	(5,640)
Net profit attributable to the ordinary shareholders of the Parent	982,138	763,972
Number of shares at the end of the period (in thousands)	414,067	414,067
Number of shares used to calculate earnings per share	414,067	414,067
Earnings per share from continuing operations (basic and diluted) (in PLN)	2.38	1.86
Earnings per share from discontinued operations (basic and diluted) (in PLN)	(0.01)	(0.01)

27. Dividends

Title	Year ended 31 December 2014	Year ended 31 December 2013
Dividends declared in the period		
dividend declared by subsidiaries	-	1,755
dividend declared by the Parent Company	414,067	496,881
Total	414,067	498,636
Dividends paid in the period		
dividend paid in the period by subsidiaries to non-controlling interests	-	1,770
dividend paid in the period by the Parent Company	414,067	495,697
<i>including dividend paid to preferred shares</i>	<i>144,928</i>	<i>-</i>
Total	414,067	497,467

On 20 May 2014, the Annual General Meeting of the parent company adopted a resolution to allocate PLN 414,067 thousand for payment of dividend to the Company's shareholders, which is PLN 1 per share. The dividend was paid out of the net profit generated by the Company in 2013. The dividend was paid out in full, out of which PLN 144,928 thousand on preferred shares.

By the date of approval of these financial statements for publication, the proposed distribution of the 2014 profit has not been adopted.

28. Share capital and other capital

28.1. Share capital

As at 31 December 2014, the share capital of ENERGA SA amounted to PLN 4,521,613 thousand and was divided into shares as specified below:

Title	As at 31 December 2014	As at 31 December 2013
Registered shares of AA series with a nominal value of PLN 10,92 each	269,139,114	269,139,114
Registered shares of BB series with a nominal value of PLN 10,92 each	144,928,000	144,928,000
Total number of shares	414,067,114	414,067,114

28.1.1. Major shareholders

Title	Year ended 31 December 2014	Year ended 31 December 2013
State Treasury		
share in capital	51.52%	51.52%
share in voting rights	64.09%	64.09%
Other shareholders		
share in capital	48.48%	48.48%
share in voting rights	35.91%	35.91%

28.1.2. Shareholders' rights

At the end of the reporting period, the State Treasury owned 213,326,317 shares of the Company, constituting 51.52% of its share capital and entitling to exercise 358,254,317 votes at the General

Meeting, which makes up 64.09% of the total number of votes at the General Meeting (including 144,928,000 registered series BB shares, preferred with respect to the voting right at the General Meeting in such a way that one series BB share gives the right to two votes at the General Meeting).

According to the parent company's articles of association in effect on the date of this report, Supervisory Board members are appointed and dismissed by the General Meeting, but the State Treasury is personally entitled to appoint and dismiss Supervisory Board members so that the State Treasury has an absolute majority of the votes in the Supervisory Board. The above entitlement expires on the date on which the State Treasury's share in the share capital falls below 20%.

28.2. Reserve capital

Reserve capital was created as a result of the share capital reduction made in connection with reverse split of the parent company's shares in 2013. Reserve capital may be used only to cover future losses or to raise the parent company's share capital.

28.3. Supplementary capital

Supplementary capital was created from allowances from profit generated by the parent company in previous reporting periods.

Pursuant to the requirements of the Commercial Companies Code, joint stock companies are required to create supplementary capital to cover losses. At least 8% of the company's profit for a given financial year presented in the company's separate statements is transferred to supplementary capital until the capital reaches at least one third of the company's share capital. The use of the supplementary capital is decided by the General Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss posted in the individual financial statements and cannot be allocated to other purposes.

28.4. Cash flow hedge reserve

The cash flow hedge reserve follows from valuation of the transaction of cross-currency interest rate swaps (CCIRS) executed to hedge the currency exchange risk connected with Eurobonds issued by the subsidiary – ENERGA Finance AB (publ) and IRS interest rate swaps concluded to hedge interest rate risk related to the external financing used (see the description in Note 33.7).

28.5. Retained earnings and restrictions on dividend payment

The Group's retained earnings include amounts that are not subject to distribution, or cannot be paid out as dividend by the parent company. This refers, in particular, to the retained earnings of subsidiaries (taking into account consolidation adjustments), adjustments resulting from the transition of the parent company's financial statements from the Accounting Act to IFRS EU and actuarial gains and losses from the valuation of provisions for post-employment benefits recognized in other comprehensive income.

28.6. Non-controlling interest

As at 31 December 2014, equity attributable to non-controlling interest refer to minority shareholders of companies in the generation segment, in particular ENERGA Elektrownie Ostrołęka SA.

29. Provisions

	Post-employment benefits (see Note 24.)	Jubilee bonuses	Employee matters	Restructuring provision	Total provisions for employee benefit	Provision for legal claims	Provision for reclamation and decommissioning costs of property, plant and equipment	Provision for gas emission liabilities	Provision for redemption of energy certificates of origin	Other provisions	Total other provisions	Total
As at 1 January 2014	334,415	226,754	1,345	80,687	643,201	100,192	23,808	62,746	116,603	47,057	350,406	993,607
Disposal of subsidiary	(37)	-	-	-	(37)	-	-	-	-	-	-	(37)
Current service cost	12,695	18,079	-	-	30,774	-	-	-	-	-	-	30,774
Actuarial gains and losses*	57,841	25,088	-	-	82,929	-	-	-	-	-	-	82,929
Benefits paid	(15,355)	(21,017)	-	-	(36,372)	-	-	-	-	-	-	(36,372)
Interest cost	11,326	7,674	-	-	19,000	-	1,022	-	-	-	1,022	20,022
Raised	-	-	402	20,289	20,691	27,194	11,462	38,305	153,988	50,007	280,956	301,647
Released	(11,394)	(9,886)	-	(26,477)	(47,757)	(42,151)	-	(35,920)	-	(12,557)	(90,628)	(138,385)
Used	-	-	(359)	(69,114)	(69,473)	(2,242)	-	(24,889)	(116,603)	(39,257)	(182,991)	(252,464)
Reclassified	(7,551)	(5,019)	-	12,570	-	-	-	-	-	-	-	-
Transfer from liabilities related to assets classified as held for sale	12,083	7,093	-	-	19,176	-	-	-	-	327	327	19,503
Transfer to liabilities related to assets classified as held for sale	(7,733)	(7,617)	-	-	(15,350)	-	-	-	-	(163)	(163)	(15,513)
As at 31 December 2014	386,290	241,149	1,388	17,955	646,782	82,993	36,292	40,242	153,988	45,414	358,929	1,005,711
Long-term as at 31 December 2014	15,892	16,123	1,388	17,955	51,358	82,993	-	40,242	153,988	45,414	322,637	373,995
Short-term as at 31 December 2014	370,398	225,026	-	-	595,424	-	36,292	-	-	-	36,292	631,716

*The breakdown of actuarial gains and losses is presented in the table below:

	Provision for pension and similar benefits	Energy tariff	Company Social Benefit Fund	Total post-employment benefits	Jubilee bonuses	Total
Actuarial gains and losses, including	18,457	16,334	23,050	57,841	25,088	82,929
changes of financial assumptions	17,975	13,127	21,523	52,625	27,718	80,343
changes of demographical assumptions	(1,189)	389	(216)	(1,016)	(627)	(1,643)
other	1,671	2,818	1,743	6,232	(2,003)	4,229

	Post- employment benefits (see Note 24.)	Jubilee bonuses	Employee matters	Restructuring provision	Total provisions for employee benefit	Provision for legal claims	Provision for reclamation and decommissioning costs of property, plant and equipment	Provision for gas emission liabilities	Provision for redemption of energy certificates of origin	Other provisions	Total other provisions	Total
As at 1 January 2013	458,932	275,407	3,505	56,913	794,757	199,092	9,299	307	211,036	51,640	471,374	1,266,131
Purchase of subsidiary	(1,979)	(1,138)	-	-	(3,117)	(394)	14,700	-	-	(3)	14,303	11,186
Current service cost	17,254	23,342	-	-	40,596	-	-	-	-	-	-	40,596
Actuarial gains and losses	(100,310)	(26,929)	-	-	(127,239)	-	-	-	-	-	-	(127,239)
Benefits paid	(14,957)	(21,015)	-	-	(35,972)	-	-	-	-	-	-	(35,972)
Interest cost	18,629	11,237	-	-	29,866	-	305	-	-	-	305	30,171
Raised	-	-	-	69,091	69,091	73,342	336	62,746	116,603	47,408	300,435	369,526
Released	(25,871)	(21,996)	(347)	(1,254)	(49,468)	(74,344)	(832)	-	(2,745)	(1,435)	(79,356)	(128,824)
Used	-	-	(1,813)	(51,909)	(53,722)	(97,504)	-	(307)	(208,291)	(50,226)	(356,328)	(410,050)
Reclassification	(3,507)	(4,339)	-	7,846	-	-	-	-	-	-	-	-
Transfer to liabilities related to assets classified as held for sale	(13,776)	(7,815)	-	-	(21,591)	-	-	-	-	(327)	(327)	(21,918)
As at 31 December 2013	334,415	226,754	1,345	80,687	643,201	100,192	23,808	62,746	116,603	47,057	350,406	993,607
Short-term as at 31 December 2013	15,880	19,598	1,345	80,687	117,510	100,192	-	62,746	116,603	47,057	326,598	444,108
Long-term as at 31 December 2013	318,535	207,156	-	-	525,691	-	23,808	-	-	-	23,808	549,499

Provisions for legal claims

As a result of transition to a different political system, in the 1990s, serious problems arose in the present legal and economic system with transmission equipment built in the former legal system on private properties. The main purpose of the provisions for litigation are the court cases relating to power infrastructure located on private land without the necessary legal titles.

Other provisions

This category contains mainly provisions for excise tax, that is tax liability calculated on the quantities of electricity sold to end users, property tax and adjustments to CIT for previous years.

30. Investment commitments

At the end of the reporting period, the Group's commitments to incur expenditures for the purchase of property, plant and equipment and intangible assets, which have not yet been included in the statement of financial position, were about PLN 5,887.4 m, of which:

- undertakings covered by the development plan of ENERGA – OPERATOR SA to satisfy the current and future demand for electricity in the years 2015-2019 (agreed upon with the President of the Energy Regulatory Office) – approx. PLN 5,706.0 m;
- sales support system – approx. PLN 62.9 m;
- execution of wind projects (mainly the Myślino Wind Farm) – approx. PLN 15.4 m;
- gas-steam power plants in Grudziadz and Gdansk – approx. PLN 38.2 m;
- heat source for the City of Ostrołęka – approx. PLN 30.8 m;
- modernization of the power plant in Ostrołęka – approx. PLN 21.1 m.
- photovoltaic power stations – approx. PLN 12.3 m.

31. Tax settlements

31.1. General description

Tax rights and duties are defined in the Constitution, tax acts and ratified international treaties. Pursuant to the Tax Ordinance of 29 August 1997 (Journal of Laws number 137 Item 926, as later amended), tax is defined as public-law, free-of-charge, obligatory and non-refundable pecuniary consideration in favor of the State Treasury, voivodship, county or municipality, arising from a tax act. Using the subject criterion, taxes applicable in Poland may be classified in five groups: taxation of income, turnover, property, activities and other fees, not elsewhere classified.

For businesses, the key is taxation of income (corporate income tax), turnover (VAT) and property (property tax and tax on means of transportation). There are also other duties and levies that may be classified as semi-taxes. They include, among others, social security contributions.

The basic tax rates in 2013-2014 were as follows: corporate income tax rate: 19%; basic VAT rate: 23%; reduced VAT rates: 8%, 5%, 0% and certain goods and services were covered by a tax exemption.

The fiscal system in Poland is subject to a significant volatility of tax regulations, which are complex and provide for high fines for tax offense or delinquency; tax authorities in general have an overly fiscal approach.

Tax settlements, together with other areas of legal compliance (such as customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe penalties and sanctions and penalty interest. The absence of foundation of long-standing legal regulations in Poland creates ambiguity and inconsistency of applicable regulations. Frequently occurring differences in opinions on the legal interpretation of tax regulations, both inside government authorities and between government authorities and companies, create areas of uncertainty and

conflicts. Therefore, the tax risk in Poland is significantly higher than normally seen in countries with more developed tax systems.

Tax settlements may be audited for a period of five years, starting from the end of the year in which the tax was paid. As a result of conducted audits, additional tax liabilities may be added to previous tax settlements of Group companies. The Group believes that adequate reserves were established for the identified and measurable tax risk as at 31 December 2014.

31.2. ENERGA – OPERATOR Tax Group

On 28 December 2011, the subsidiary ENERGA – OPERATOR SA, with its subsidiaries:

- ENERGA – OPERATOR Eksploatacja Elbląg Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Elbląg Sp. z o.o.),
- ENERGA – OPERATOR Eksploatacja Gdańsk Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Gdańsk Sp. z o.o.),
- ENERGA – OPERATOR Eksploatacja Kalisz Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Kalisz Sp. z o.o.),
- ENERGA – OPERATOR Eksploatacja Płock Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Płock Sp. z o.o.),
- ENERGA – OPERATOR Eksploatacja Słupsk Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Słupsk Sp. z o.o.),
- ENERGA – OPERATOR Eksploatacja Toruń Sp. z o.o. (formerly ENERGA – OPERATOR Eksploatacja i Inwestycje Toruń Sp. z o.o.),
- ENERGA – OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.

entered into an agreement on a Tax Group named PGK ENERGA – OPERATOR ("PGK EOP"). ENERGA – OPERATOR SA was selected as a company to represent PGK EOP with regard to duties resulting from the Corporate Income Tax Act and the Tax Ordinance.

PGK EOP's operation started on 1 April 2012 and will continue for the period of 3 tax years, that is until 31 December 2014. Tax was calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

In January 2015, the ENERGA Tax Group agreement was signed (see description in note 40.2).

32. Information on related entities

Transactions with related entities are made based on market prices of goods, products or services delivered resulting from their manufacturing costs.

32.1. Transactions involving entities related to the State Treasury

The Group's parent is the State Treasury. Accordingly, other entities related to the State Treasury are treated by the Group as related parties.

Transactions with entities related to the State Treasury were concluded in regular business dealings and pertained mainly to the purchase and sale of electricity and property rights, sale of electricity distribution services (including transit), settlements with the transmission system operator in the balancing market, for transmission services, system services and intervention work services and the purchase and transportation of fuel (mainly coal). The Group does not keep records that would allow it to aggregate the value of all transactions concluded with all state institutions and with subsidiaries of the State Treasury.

32.2. Transactions with associates

In the current reporting period, there were no material transactions with associates.

At the end of the reporting period, the Group has no associates.

32.3. Transactions with members of the parent company's Managements Board

During the reporting period, the parent company did not conclude material transactions with Management Board members.

32.4. Remuneration paid or due to members of Management Boards and Supervisory Boards of Group companies

Title	Year ended 31 December 2014	Year ended 31 December 2013
Management Board of the parent company	4,621	5,171
Supervisory Board of the parent company	290	249
Management Boards of subsidiaries	35,943	32,921
Supervisory Boards of subsidiaries	592	1,655
Total	41,446	39,996

32.5. Remuneration paid or due to senior management (except for members of Management Boards and Supervisory Boards)

In 2014, the Group identified the key senior management levels, which included management boards and selected management positions in the parent company and its key subsidiaries. Accordingly, the comparative information presented in the table below has been restated accordingly.

Title	Year ended 31 December 2014	Year ended 31 December 2013 (restated)
Short-term employee benefits (salaries and salary related costs)	17,138	23,196
Jubilee bonuses	393	145
Post-employment benefits	174	(115)
Employment termination benefits	182	249
Total amount of remuneration paid to senior management (except for Management Boards and Supervisory Boards members)	17,887	23,475

33. Financial instruments

33.1. Carrying value of financial instruments by category and class

Title	As at 31 December 2014	As at 31 December 2013
Classes of financial instruments		
Deposits	42	4,121
Bonds, treasury bills and other debt instruments	19,456	14,728
Shareholdings (Non-consolidated)	1,133	1,314
Trade receivables	1,550,754	1,469,543
Cash and cash equivalents, including: <i>Units of participation in the ENERGA Trading SFIO fund</i>	2,695,398	2,352,305
	763,760	567,249
Receivables from sale of property, plant & equipment and intangible assets	1,397	1,979
Other financial assets	25,950	7,528
Hedging derivatives	28,662	13,017
Total assets	4,322,792	3,864,535
Preferential loans and borrowings	1,430,971	935,800
Loans and borrowings	1,118,093	1,140,656
Current account overdraft	11,058	9,269
Bonds issued	3,188,375	3,190,037
Trade liabilities	869,106	889,902
Other financial liabilities	21,828	12,462
Liabilities from purchase of property, plant & equipment and intangible assets	211,061	219,640
Hedging derivatives	22,620	-
Total liabilities	6,873,112	6,397,766
Categories of financial instruments		
Financial assets measured at fair value through profit or loss	2,722,481	2,361,147
Financial assets available for sale	19,456	14,728
Investments held to maturity	42	4,121
Loans and receivables	1,552,151	1,471,522
Hedging derivatives	28,662	13,017
Total assets	4,322,792	3,864,535
Financial liabilities measured at amortized cost	6,850,492	6,397,766
Hedging derivatives	22,620	-
Total liabilities	6,873,112	6,397,766

33.2. Items of income, expenses, profits and losses recognized in the statement of comprehensive income by category of financial instruments

Year ended 31 December 2014	Financial assets and liabilities measured at fair value through profit or loss	Financial assets available to purchase	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Hedging derivatives	Total
Dividends and profit-sharing	102	-	-	-	-	-	102
Interest income/(cost)	60,274	-	238	31,292	(253,728)	(31,752)	(193,676)
Foreign exchange gains and losses	8,557	-	-	-	(58,577)	48,785	(1,235)
Reversal of impairment allowances / increase of value	-	4,776	-	49,924	-	-	54,700
Creation of Impairment allowances / decrease of value	-	-	-	(86,091)	-	-	(86,091)
Profit/(loss) on sale of investments	5,909	-	-	-	-	-	5,909
Total net profit/(loss)	74,842	4,776	238	(4,875)	(312,305)	17,033	(220,291)
Net other comprehensive income	-	-	-	-	-	(53,670)	(53,670)
Total comprehensive income	74,842	4,776	238	(4,875)	(312,305)	(36,637)	(273,961)

Year ended 31 December 2013	Financial assets and liabilities measured at fair value through profit or loss	Investments held to maturity	Loans and receivables	Financial liabilities measured at amortized cost	Derivatives	Total
Dividends and profit-sharing	68	-	-	-	-	68
Interest income/(cost)	68,810	1,039	36,852	(222,579)	(18,408)	(134,286)
Foreign exchange gains and losses	7,312	-	(9)	11,028	(16,320)	2,011
Reversal of impairment allowances / increase of value	128	-	51,483	-	-	51,611
Creation of Impairment allowances / decrease of value	(924)	(12,379)	(115,504)	-	-	(128,807)
Profit/(loss) on sale of investments	(1,128)	-	-	-	-	(1,128)
Total net profit/(loss)	74,266	(11,340)	(27,178)	(211,551)	(34,728)	(210,531)
Net other comprehensive income	-	-	-	-	32,765	32,765
Total comprehensive income	74,266	(11,340)	(27,178)	(211,551)	(1,963)	(177,766)

33.3. Fair value of financial instruments

33.3.1. Fair value of financial instruments measured at fair value on an ongoing basis

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period.

The table below analyses fair value measurements for financial assets and financial liabilities categorised into three level hierarchy:

- level 1 – fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- level 2 – fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3 – fair value based on unobservable inputs for the asset or liability.

Title	31 December 2014		
	Level 1	Level 2	Level 3
Assets			
Units of participation in the ENERGA Trading SFIO fund	763,760	-	-
Hedging derivatives (CCIRS I)	-	27,894	-
Hedging derivatives (CCIRS II)	-	768	-
Liabilities			
Hedging derivatives (IRS)	-	22,620	-
Derivatives (IRS)*	-	128	-

* 97% of the nominal value of the concluded IRS transactions was designated for hedge accounting.

The Group measures participation units in the ENERGA Trading SFIO fund as the product of their quantity and the value of a single participation unit, as measured by the fund management company pursuant to the Mutual Funds Act of 27 May 2004.

Cross Currency Interest Rate Swaps (CCIRSs) and Interest Rate Swaps (IRSs) are measured at fair value by discounting future cash flows. The interest rates and the basis spread used in discounting are obtained from Bloomberg.

33.3.2. Fair value of financial instruments that are not measured at fair value on a recurring basis

Except for the information given in the table below, the carrying amounts of financial assets and liabilities do not depart in a material way from their fair values.

Title	Book value	31 December 2014		
		Level 1	Fair value Level 2	Level 3
Liabilities				
Liabilities arising from the issue of Eurobonds	2,174,268	2,349,849	-	-

Fair value measurement of liabilities arising from the issue of Eurobonds has been estimated on the basis of quotations from the Bloomberg system from 31 December 2014.

For non-listed shares and debt securities there is no active market, nor is it possible to apply to them any other valuation techniques providing reasonable output values, therefore the Group is not able to determine the range of their possible fair values. These assets are measured at purchase price less impairment allowances.

33.4. Description of material items in individual categories of financial instruments

33.4.1. Financial assets

Financial assets held to maturity

In this category of financial instruments, the Group presents bank deposits with maturities exceeding 3 months.

Loans and receivables

The main item of the loans and receivables category are trade receivables.

Trade receivables	Before impairment allowances	Impairment allowances determined individually	General impairment allowances	Total impairment allowances	After impairment allowances
Not overdue	1,286,180	-	(1,783)	(1,783)	1,284,397
Overdue, including:					
< 30 days	160,903	(109)	(1,557)	(1,666)	159,237
30 - 90 days	77,183	(1,871)	(2,824)	(4,695)	72,488
90 - 180 days	28,105	(548)	(5,487)	(6,035)	22,070
180 - 360 days	43,203	(574)	(30,221)	(30,795)	12,408
>360 days	238,702	(1,647)	(236,901)	(238,548)	154
Total	1,834,276	(4,749)	(278,773)	(283,522)	1,550,754

Financial assets available for sale

In this category of financial instruments, the Group presents corporate bonds.

Hedge derivatives

Hedge derivatives, CCIRS and IRS, are described in detail in Note 33.7.

33.4.2. Financial liabilities

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedge derivatives. This category of the Group's financial instruments includes primarily contracted loans and borrowings and issued bonds.

Loans and borrowings

	As at 31 December 2014	As at 31 December 2013
Currency	PLN	
Reference Rate	WIBOR, Rediscount rate	
Value of the loan/ borrowing	2,560,122	2,085,725
Of which, repayable:		
up to 1 year (short-term)	170,568	274,177
1 to 2 years	188,647	361,109
2 to 3 years	209,476	229,592
3 to 5 years	511,540	454,902
over 5 years	1,479,891	765,945

As at 31 December 2014 and 2013, the amount of credit limits available to the Group was PLN 4,937 m and PLN 4,841 m respectively.

Detailed information on contracted loans and borrowings is presented in Note 33.5.

Liabilities under bonds issued

	As at 31 December 2014	As at 31 December 2013
Currency	PLN	
Reference Rate	WIBOR	
Value of the issue	1,014,108	1,076,379
of which, repayable:		
up to 1 year (short-term)	14,108	16,598
1 to 2 years	-	7,203
2 to 3 years	-	7,630
3 to 5 years	1,000,000	15,306
over 5 years	-	1,029,642

	As at 31 December 2014	As at 31 December 2013
Currency	EUR	
Reference Rate	fixed	
Value of the issue		
in currency	510,116	509,659
in PLN	2,174,267	2,113,658
of which, repayable:		
up to 1 year (short-term)	57,432	53,986
1 to 2 years	-	-
2 to 3 years	-	-
3 to 5 years	-	-
over 5 years	2,116,835	2,059,672

Detailed information on issued bonds is provided in Note 33.5.

33.5. Available external financing

Loans to finance the investment programme at ENERGA – OPERATOR SA for the years 2009-2012

In the years 2009 – 2010 ENERGA SA together with its subsidiary ENERGA – OPERATOR SA entered into loan agreements aimed at financing the investment program of ENERGA – OPERATOR SA for the period 2009 -2012 associated with the redevelopment and modernization of the distribution grid:

1. agreement with the European Investment Bank ("EIB") with the limit of up to PLN 1,050 m;
2. agreement with the European Bank for Reconstruction and Development ("EBRD") with the limit of up to PLN 800 m;
3. agreement with the Nordic Investment Bank ("NIB") with the limit of up to PLN 200 m.

The above funding has been fully utilised of which the following amounts are still outstanding and remain to be repaid: to EIB – PLN 891.4 m with the final maturity of 15 December 2025, to EBRD – PLN 581.3 m with the final maturity of 18 December 2024, to NIB – PLN 162.2 m with the final maturity of 15 June 2022.

On 30 September 2014, ENERGA SA together with its subsidiary ENERGA – OPERATOR SA signed an Amendment Letter to the Finance Contract with EIB of 16 December 2009. The Amendment Letter changes some of the material clauses of the contract, including primarily the elimination of financial covenants and introduction of a rating loss clause. Signing of the Amendment Letter does not increase the available financing amount or extend the term of financing.

On 13 November 2014, ENERGA SA with its subsidiary ENERGA – OPERATOR SA and EBRD introduced the following amendments to the loan agreement of 29 April 2010:

- extension of the lending period by 3 years, as a result of which the final maturity of the loan is now 18 December 2024,
- increase of the available loan amount by PLN 275.8 m (as at 31 December 2014, the additional financing amount has not been committed).

On 18 December 2014, ENERGA SA together with its subsidiary ENERGA – OPERATOR SA signed an Amendment Letter to the finance contract with NIB of 30 April 2010. The Amendment Letter removed financial covenants and introduced a loss of rating clause. Signing of the Amendment Letter does not increase the available financing amount and does not extend the term of financing.

Loans to finance the investment programme at ENERGA – OPERATOR SA for the years 2012-2015

In 2013 ENERGA SA together with its subsidiary ENERGA – OPERATOR SA entered into loan agreements to finance the investment program of ENERGA – OPERATOR SA for the period 2012-2015 associated with the redevelopment and modernization of the distribution grid:

1. agreement with EBRD with a limit of PLN 800 m – as at 31 December 2014, PLN 340.0 m of the loan has been utilized. PLN 460 m remains available. The final maturity of the loan is 18 December 2024;
2. agreement with EIB with a limit of PLN 1,000 m – as at 31 December 2014, PLN 600.0 m of the loan has been utilized. PLN 400 m remains available. The final maturity of the first tranche of the loan is 15 March 2029.

NIB loan

On 23 October 2014, ENERGA SA signed an investment loan agreement with NIB in the amount of PLN 67.5 m to finance the Myślino wind farm construction project. As at 31 December 2014, the loan has not been committed. The final maturity of the loan is 15 September 2026.

Eurobond issue program

As part of the EMTN medium-term Eurobond issue program launched in 2012 for up to EUR 1,000 m, on 19 March 2013, the subsidiary Energa Finance AB (publ) proceeded with the first issue of Eurobonds with the value of EUR 500 m. The first issue includes Eurobonds with a 7-year maturity paying an annual coupon of 3.25%. The Eurobonds are listed at the Luxembourg exchange.

Domestic bond issue

In 2012 a domestic bond issue program for up to PLN 4,000 m was established. As part of the program, on 19 October 2012 ENERGA SA issued 7-year bonds for the total amount of PLN 1,000 m. Since 29 January 2014, the bonds issued by ENERGA SA have been listed on the regulated market run by BondSpot S.A.

Loans from Pekao SA

ENERGA SA entered into the following loan agreements with Bank Pekao SA:

1. renewable loan agreement with a limit of PLN 500 m. As at 31 December 2014, the loan has not been used. The final maturity of the loan is 29 May 2020;
2. loan agreement in the amount of PLN 85 m to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program of the company. The aggregate use of the loan as at 31 December 2014 was PLN 29 m. The final maturity of the loan is 29 May 2022.

Loans from PKO Bank Polski SA

ENERGA SA entered into the following loan agreements with PKO Bank Polski SA:

1. master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 150 m. As at 31 December 2014, the financing limit for the aggregated amount of PLN 8.2 m was committed of which PLN 6.0 m has been used, including PLN 0.7 m in the form of bank guarantees. The limit will expire on 30 August 2016;
2. master agreement to extend an overdraft limit to ENERGA SA and its subsidiaries with a total limit of PLN 200 m. As at 31 December 2014, the financing limit for the aggregated amount of PLN 103.5 m was committed of which PLN 102.5 m has been used, including PLN 0.7 m in the form of bank guarantees. The limit will expire on 19 September 2017.
3. agreement for arranging loans for ENERGA Group's companies with a total limit of PLN 75 m. As at 31 December 2014, the financing amount of PLN 37.4 m was committed of which PLN 11.4 m was actually used. The limit will expire on 29 June 2015.
4. agreement for arranging loans for ENERGA SA with a total limit of PLN 300 m. As at 31 December 2014, the financing has not been used. The limit will expire on 11 October 2016.

Bonds issue through PKO Bank Polski SA

In 2012, ENERGA SA concluded with PKO Bank Polski SA a bond issue agreement where the funds raised under the agreement were to be used to acquire bonds issued by ENERGA Elektrownie Ostrołęka SA in connection with the implementation of the investment program. Notes may only be issued as short-term securities. As at 31 December 2014, no bond issue has been carried out under the agreement. As at 31 December 2014, PLN 88.9 m was available under the bond issue agreement.

33.6. Impairment allowances for financial assets

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt securities	Impairment of shares
Impairment allowances as at 1 January 2014	252,014	30,451	-
Impairment allowances created	86,091	-	98
Impairment allowances used	(4,659)	-	-
Impairment allowances reversed	(49,924)	(4,728)	-
Impairment allowances as at 31 December 2014	283,522	25,723	98

33.7. Cash flow hedge accounting

FX risk hedging

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds – see description in Note 33.5) and ENERGA SA signed two loan agreements denominated in EUR for the total amount of EUR 499 m. In order to hedge currency risk under these loans, in 2013 and in July 2014, the Group concluded cross-currency interest rate swap transactions with nominal values of EUR 400 m (CCIRS I) and EUR 25 m (CCIRS II), respectively.

As a hedged position under the above hedging relationships the Group designated the foreign currency risk arising from intra-group loans denominated in EUR. The foreign currency risk is hedged at the level of 85% of the total nominal amount of loans.

As the hedge the Group designated CCIRS transactions under which the Group receives fixed-rate cash flows in EUR and pays fixed-rate cash flows in PLN. Cash flows received by the Group correspond with the cash flows under the intra-group loans. The Group expects that the hedged cash flows will continue until March 2020.

Interest rate risk hedging

In June 2014, the Group concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see description in note 33.5):

- loan agreement concluded with EIB in 2013 – PLN 600 m;
- domestic bond issue program established in 2012 – PLN 1,000 m,
- loan agreement concluded with EBRD in 2013 – PLN 340 m (the hedging applies to interest flows accruing on the principal of PLN 330.6 m, interest accruing on principal above this amount remain outside of hedge accounting).

As hedged positions under hedging relationships, the Group designated the risk related to the WIBOR 3M interest rate arising from interest payments on the financial liabilities stated above in the period no longer than 2 years from the date of the hedging transactions.

As the hedge the Group designated the IRS transactions under which the Group receives floating-rate cash flows in PLN and pays fixed-rate cash flows in PLN. Interest cash flows received by the Group correspond with interest cash flows under the hedged financial liabilities. The Group expects that the hedged cash flows will continue until June 2016.

Fair value of hedges

The fair value of the hedge as at 31 December 2014 was:

- CCIRS I – PLN 27.9 m (recognized in the statement of financial position in assets as Hedging derivatives);
- CCIRS II – PLN 0.8 m (recognized in the statement of financial position in assets as Hedging derivatives);

- IRS – PLN 22.6 m (recognized in the statement of financial position in liabilities as Hedging derivatives);

Under cash flow hedge accounting, the cash flow hedge reserve (the effective portion of changes in the value of the hedge, less deferred tax) decreased in the reporting period by PLN 43.5 m.

The table below presents changes in the cash flow hedge reserve resulting from the hedge accounting in the reporting period:

Changes in the cash flow hedge reserve within the reporting period	Year ended 31 December 2014
At the beginning of the reporting period	26,539
Amount recognized in the cash flow hedge reserve during the period, equal to the change in the fair value of hedge instruments	(5,944)
Accrued interest transferred from the reserve to the interest expense	1,059
Revaluation of hedging instruments transferred from the equity to foreign exchange (gains) / losses	(48,785)
Income tax on other comprehensive income	10,199
At the end of the reporting period	(16,932)

As at 31 December 2014, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

33.8. Liability repayment collateral

At the end of the reporting period, assets with the following carrying amounts constituted collateral for the repayment of actual or contingent liabilities:

Group of assets on which collateral was established	Carrying value of assets securing repayment of liabilities as at	
	As at 31 December 2014	As at 31 December 2013
Property, plant and equipment	50,338	44,227
Receivables	-	1,500
Inventories	-	1,709
Cash	94,561	154,140
Total assets securing repayment of financial liabilities	144,899	201,576

The collateral presented here secures primarily the loan granted to ENERGA Elektrownie Ostrołęka SA by the National Fund for Environmental Protection and Water Management and the guarantees extended by banks to contractors of ENERGA – OBRÓT SA.

34. Financial risk management principles and objectives

The major financial instruments used by the Group include bank loans, bonds, cash, short-term investments and participation units in liquidity funds. The main purpose of these financial instruments is to secure funds to finance the Group's operations.

The Group also concludes transactions on derivatives. The purpose of such transactions is to manage the risk emerging in the course of the Group's business activity.

Key risks generated by the Group's financial instruments include:

- market risk,
- liquidity risk,
- credit risk.

The Management board verifies and agrees the principles of managing each type of risk – these principles have been briefly discussed below. On 1 December 2014, the Management Board of

ENERGA SA approved and introduced in the Company the ENERGA Group Liquidity Management Policy and the ENERGA Group Market Risk Management Policy (applicable to FX risk and interest rate risk). Ultimately, the two documents will be introduced across the ENERGA Group, which will enable the holding company to manage these risks effectively. These policies define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

The Group also monitors the market risk concerning all the financial instruments held by it.

The Group identifies the following major market risks to which it is exposed:

- interest rate risk,
- foreign exchange risk,
- commodity price risk.

For the purposes of sensitivity analysis to changes in market risk factors, the ENERGA SA Group uses a scenario analysis method. The Group uses expert scenarios reflecting the Group's subjective judgment on how individual market risk factors will develop in the future.

Scenario analyses presented in this item aim to analyze the impact of changes in market risk factors on the Group's financial results. Only those items, which satisfying the definition of financial instruments, are subject to analysis.

In interest rate risk sensitivity analysis, the Group uses a parallel shift of the interest rate curve by the possible change in reference interest rates in the coming year. For the purposes of the analysis of sensitivity to the risk of interest rate changes, the levels of reference interest rates on the final day of a reporting period were used. The extent of potential changes to interest rates was assessed on the basis of volatility of implied options per interest rate quoted on the inter-bank market. In the case of WIBOR, due to the low liquidity of the interest rate option market, the shift of the yield curve has been assumed arbitrarily.

Possible fluctuations of currency exchange rates were calculated on the basis of annual variability implied for currency options quoted on the inter-bank market for the given currency pair at the date ending the reporting period.

In the case of analysis of sensitivity to interest rate changes, the effect of changes to risk factors would be carried to:

- other comprehensive income for derivative hedging instruments,
- interest income/cost for other financial instruments.

34.1. Interest rate risk

The Group identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt. The Group's policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. As at 31 December 2014, 70.5% of financial debt recorded in the statement of financial position (loans and borrowings and bonds issued) has a fixed interest rate.

The table below presents sensitivity of financial result before tax and other comprehensive income to reasonably possible interest rate changes, assuming that there are no variations in other risk factors for these financial instrument classes that are exposed to interest rate risk:

Financial Assets and Liabilities	31 December 2014		Interest rate risk sensitivity analysis as at 31 December 2014			
	Book value	Value exposed to the risk	WIBOR		EURIBOR	
			PLN	PLN	WIBOR + 95 bp	WIBOR - 95bp
Assets						
Deposits	42	42	-	-	-	-
Cash and cash equivalents	2,695,398	1,931,638	8,215	(8,215)	(831)	831
Liabilities						
Preferential loans and borrowings	1,430,971	1,430,971	(7,155)	7,155	-	-
Loans and borrowings	1,118,093	1,118,093	(5,590)	5,590	-	-
Bonds issued	3,188,375	1,014,107	(5,071)	5,071	-	-
Current account overdraft	11,058	6,241	(31)	31	-	-
Derivatives	128	128	68	(68)	-	-
Change of gross profit			(9,564)	9,564	(831)	831
Hedging derivatives (assets)	28,662	28,662	47,748	(49,011)	(26,700)	27,111
Hedging derivatives (liabilities)	22,620	22,620	11,997	(12,102)	-	-
Change of other comprehensive income			59,745	(61,113)	(26,700)	27,111

34.2. Foreign exchange risk

The Group is exposed to foreign currency risk on account of trade and financial transactions that it concludes. The risk arises as a result of the Group companies entering into purchase and sale transactions in currencies other than the valuation currency. The Group identifies exposure to the risk of changes in the EUR/PLN exchange rate.

The table below presents the sensitivity of the gross financial result and other comprehensive income to rational, possible changes of FX rates, assuming that there are no changes of other risk factors for such classes of financial instruments which are exposed to the FX rate change risk.

Financial Assets and Liabilities	31 December 2014		Interest rate risk sensitivity analysis as at 31 December 2014	
	Book value	Value exposed to the risk	EUR/PLN	
			PLN	PLN
Assets				
Trade receivables	1,550,754	1,867	132	(132)
Cash and cash equivalents	2,695,398	288,558	20,430	(20,430)
Hedging derivatives	28,662	2,129,848	150,808	(150,808)
Liabilities				
Trade liabilities	869,106	3,063	(217)	217
Outstanding bonds and notes	3,188,375	2,174,268	(153,938)	153,938
Change of gross profit			(5,431)	5,431
Change of other comprehensive income*			22,646	(22,646)

* concerns hedging derivatives

With regard to trade transactions, the Group is not exposed, to a material extent, to the exchange rate risk because the Group's cash settlements are mainly in PLN.

With regard to financial transactions, the Group is exposed to currency exchange risk because of loans within the Group connected with issued Eurobonds. To hedge that risk, the Group has entered into cross-currency interest rate swap (CCIRS) transactions and has implemented hedge accounting (see the description in Note 33.7).

34.3. Commodity risk

The Group is exposed to risks tied to variation in prices of commodities used in the operating activity.

The most significant risk is the risk of changing purchase prices of electricity and certificates of origin on the wholesale market in long-, medium- and short-term contracts executed by ENERGA – OBRÓT SA on the Polish market, and financial instruments on foreign markets, such as futures/forward contracts for electricity, CO₂ emission allowances and selected raw materials.

Accordingly, it is important to refer the actual risk exposure to the assumed financial result for the year. Market risk exposure arises on all open positions (transactions) and it is mitigated using the Value at Risk (VaR) risk management model. The model mitigates market risk related to, among others, volatility of electricity prices, prices of CO₂ certificates or property rights. The model assumes that risk is incurred within the acceptable boundaries only for an open position of the product portfolio, by imposing risk exposure limits on each portfolio and for ENERGA – OBRÓT SA as a whole. Value at Risk (VaR) is regularly monitored and reported to make sure that it does not exceed the set levels and takes into account, among others, the open position volume (difference between volume sold and bought), volatility of product prices and correlation between individual products in the portfolio.

Additionally, to mitigate the risk associated with the volatility of electricity purchase prices on the wholesale end user contracting market, the following hedging measures are taken:

- the open position on the electricity portfolio is minimized; this involves coordination and optimization of the purchasing and selling process to ensure that the difference between volumes purchased and sold do not exceed the pre-defined levels.
- contracts are concluded in specific proportions and for different products,
- volume limits are set for the open position for participation on selected markets, minimizing risk related to large fluctuations of electricity prices on the market.
- mark to market valuation of the open position.

Additionally, as part of the trading activity on CO₂ emission allowances (EUA) and emission reduction certificates (CER), to reduce the possible loss, Stop Loss and Take Profit (SL/TP) levels are set for each transaction and are monitored on an ongoing basis.

34.4. Credit risk

In the Group, credit risk is defined as the probability that a counterparty defaults on its financial obligations. Credit risk is minimized by actions aiming at value-based risk assessment, monitoring the counterparties' financial standing and securing trade credit by available instruments such as bank guarantees, sureties, etc.

Credit risk is reduced in the case of counterparties having the highest turnover, or the portfolios of wholesalers and strategic clients. The following are of special importance in this respect: credit rating, trade limits, special provisions in agreements with counterparties and obtaining security from clients with a low credit rating.

In the Group, appropriate procedures have been established to minimize the risk of counterparties' insolvency. On the wholesale energy market, the procedures set the limits for possible electricity sales without requiring security. Transactions above the limit require security, such as bank guarantees.

For sales to strategic and business clients, the procedures impose the duty to rate clients' creditworthiness. For clients with a low credit rating, sales may begin on the that security acceptable to the seller is obtained.

Moreover, thanks to the ongoing monitoring of the status of receivables, the Group's exposure to the risk of uncollectible receivables is minor.

With respect to the Group's other financial assets, such as cash and cash equivalents and certain derivatives, the Group's credit risk arises when the other party to a contract is unable to make a payment and the maximum exposure to this risk equals the carrying amount of such instruments.

In the financial area, credit risk is mitigated through ongoing monitoring of the ratings of financial institutions and by limiting the risk of concentrating cash surpluses in a single financial institution. Ultimately, the management of this area in the ENERGA Group will be systematically regulated following the implementation of the liquidity and financial risk management policies approved by the ENERGA SA Management Board in December 2014.

No significant concentrations of credit risk exist within the Group.

34.5. Liquidity risk

The Group monitors the risk of insufficient funds, which are required to settle our liabilities at maturity dates, using a tool for periodic liquidity planning. The tool takes into account the payment due/maturity dates for financial assets and liabilities and forecast cash flows from operating and investing activity. Additionally, an ongoing monitoring of cash and indebtedness levels of selected Group companies that are of key importance in this respect.

The Group aims at maintaining the balance between continuity and flexibility of financing through use of various sources of financing, such as overdrafts, bank loans, bonds and financial lease agreements.

Detailed information on contracted external financing obtained by the Group is set out in Note 33.5.

The table below presents the Group's financial liabilities by maturity dates, based on contractual, undiscounted payments (at nominal values, including payments of possible interest).

31 December 2014	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing loans and borrowings	72,899	191,805	1,263,623	1,684,635	3,212,962
Bonds issued	78,160	26,627	1,448,648	2,200,602	3,754,037
Trade liabilities	868,749	357	-	-	869,106
Other liabilities	222,021	4,103	6,765	-	232,889
Total financial liabilities	1,241,829	222,892	2,719,036	3,885,237	8,068,994

The Group's financial assets are highly liquid. They are comprised mainly of cash and cash equivalents and trade payables. The structure of cash and cash equivalents is presented in note 19. Aging analysis of trade payables is presented in Note 33.4.1.

35. Lease

35.1. Operating lease liabilities

Future minimum charges for non-cancellable operating lease agreements are as follows:

	Lease receivables as at	
	31 December 2014	31 December 2013
Within up to 1 year	1,391	3,681
Within 1 to 5 years	1,208	1,578
Total leasing fees	2,599	5,259

Group companies also hold perpetual usufruct rights to land, granted to them free of charge by an administrative decision, and these rights constitute an operating lease.

For the perpetual usufruct rights to land, the Group incurs costs of annual fees. During the year ended on 31 December 2014, these costs amounted to PLN 6.0 m.

35.2. Operating lease receivables

Future receivables on account of minimum leasing fees resulting from non-cancellable operating lease agreements are presented in the table below.

	Lease receivables as at	
	31 December 2014	31 December 2013
Within up to 1 year	31,620	32,848
Within 1 to 5 years	20,453	64,378
Total leasing fees	52,073	97,226

The leasing fees mentioned above refer mainly to machines of the pumped-storage plant in Żydowo, through which interventional work service is provided in favor of PSE SA (Transmission System Operator, "TSO"). The service involves the TSO having the plant at its disposal and using it to intervene to balance active and reactive power and to control load-flows in the power grid of the Polish Public Power System. The service includes intervention reserve of active power and regulation of voltage and reactive power. The property used to provide the service remains exclusively at the TSO's disposal and the TSO has the right to use the generating units of the power plant. The agreement pursuant to which the service is provided has sufficient features, as defined in KIMSF4, to be recognized as leasing, but does not transfer the entire risk and benefits associated with the leased property to the TSO.

35.3. Liabilities under financial lease agreements

The future minimum leasing fees for the agreements and the present value of the minimum net leasing fees are as follows:

	Lease receivables as at			
	31 December 2014		31 December 2013	
	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
Within up to 1 year	2,862	2,786	5,431	5,365
Within 1 to 5 years	1,963	1,903	2,468	2,131
Total minimum lease payments	4,825	4,689	7,899	7,496
Less finance costs	136	-	403	-
Current value of minimum lease payments, including:	4,689	4,689	7,496	7,496

36. Capital management

The Group manages its capital in order to maintain investment-grade credit rating and safe capital ratios to support the Group's operating activity and increase the Group's value for shareholders.

The Group monitors its capital level by using the leverage ratio calculated as net debt to total equity plus net debt. The net debt of the Group includes interest-bearing loans and borrowings, issued bonds and debt securities, financial lease liabilities, less cash and cash equivalents.

Furthermore, the Group's financial policy prevailing as at the date of these financial statements assumes that the maximum debt level for the Group, calculated as the ratio of net debt to EBITDA (based on consolidated amounts) should not exceed 3.0. For the purposes of the long-term plan of strategic investments in the Group, even more restrictive level of this ratio has been adopted, i.e. 2.5. The level of the ratio is also monitored by institutions financing the Group and by rating agencies; therefore, it has a significant effect on the opportunity and cost of raising financing as well as on the Group's credit rating.

Title	As at 31 December 2014	As at 31 December 2013
Interest-bearing loans and borrowings	2,560,122	2,085,725
Bonds issued	3,188,375	3,190,037
Finance lease liabilities	4,689	7,496
Less cash and cash equivalents	(2,695,398)	(2,352,305)
Net debt	3,057,788	2,930,953
Equity	8,553,559	8,048,295
Capital and net debt	11,611,347	10,979,248
EBITDA	2,306,959	1,965,469
Leverage ratio	0.26	0.27
Net debt / EBITDA	1.33	1.49

37. Contingent assets and liabilities

37.1. Contingent liabilities

Contingent liabilities at the end of the reporting period are presented in the table below:

Title	As at 31 December 2014	As at 31 December 2013
Contingent liabilities		
legal claims against the group	175,266	180,474
other	-	11,624
Total	175,266	192,098

The Group recognizes as contingent liabilities mainly the contingent liabilities relating to disputes involving ENERGA Group companies, where a victory by the company is probable and no provision has been established for these cases.

The largest contingent liability item consists of disputes relating to power infrastructure of ENERGA – OPERATOR SA where it is located on private land. As at 31 December 2014, the estimated value of those claims recognized as contingent liabilities is PLN 93.7 m.

37.2. Contingent assets

As at 31 December 2014, the Group recognized contingent assets in the amount of PLN 37.7 m.

The main item making up this amount is the disputed case concerning PKN ORLEN SA described in note 39.3.

38. Employment structure

The average headcount in the Group was as follows:

Title	Year ended 31 December 2014	Year ended 31 December 2013
Blue collar employees	3,219	6,362
Non-blue collar employees	5,925	4,180
Total	9,144	10,542

39. Other information significantly affecting the assessment of assets, financial position and the financial result of the Group

39.1. Restructuring of the Group

In the current reporting period, the following actions were taken involving a restructuring of the Group's structure:

- On 10 January 2014, Extraordinary General Meetings of EPW Energia Sp. z o.o., EPW Parsówek Sp. z o.o. and PGE Energia Natury Sp. z o.o. were held. They adopted resolutions to divide EPW Energia Sp. z o.o. by transferring two parts of the company's assets, as:
 - branches under the business names of: EPW Energia Sp. z o.o. Branch "Kisielice/Malbork" Wrocław and EPW Energia Sp. z o.o. Branch "Galicja" Orzechowce to PGE Energia Natury Sp. z o.o. with its registered office in Warsaw,
 - branch under the business name of EPW Energia Sp. z o.o. Branch "Pipeline" Pruszcz Gdański, to EPW Parsówek Sp. z o.o. with its registered office in Pruszcz Gdański.

In connection with the division of EPW Energia Sp. z o.o., an increase of the share capital of EPW Parsówek Sp. z o.o. was registered on 4 February 2014 and a reduction of the share capital of EPW Energia Sp. z o.o. was registered on 10 February 2014. On 28 February 2014, a capital increase in PGE Energia Natury Sp. z o.o. was registered, which was tantamount to registration of a split of EPW Energia Sp. z o.o.

- On 10 January 2014, Extraordinary General Meetings of EPW Energia Olecko Sp. z o.o. and EPW 1 Sp. z o.o. were held. They adopted resolutions to divide EPW Energia Olecko Sp. z o.o. by transferring part of assets of the company being divided, i.e. a branch under the name of EPW Energia Olecko Sp. z o.o. Branch in Kętrzyn to EPW 1 Sp. z o.o. The division of the company was registered on 11 February 2014. As a result, EPW 1 Sp. z o.o. took over the assets spun off from EPW Energia Olecko Sp. z o.o.
- On 18 March 2014, an increase of the share capital of ENERGA Wytwarzanie SA by PLN 512,531,500 up to PLN 1,171,382,000 was registered.

New shares in the increased share capital of the company were subscribed by ENERGA SA by making a contribution-in-kind in the following form:

- 100% shares in the share capital of Ekologiczne Materiały Grzewcze Sp. z o.o.;
- 100% shares in Elektrownia Ostrołęka SA;
- 89.38% shares in ENERGA Elektrownie Ostrołęka SA.

On 9 May 2014, an increase of the share capital of Ciepło Kaliskie Sp. z o.o. by PLN 6,118,000 to PLN 49,375,000 was registered. New shares in the increased share capital of the company were subscribed by ENERGA Elektrociepłownia Kalisz SA by making a contribution-in-kind in the form of an organized part of an enterprise.

- On 1 July 2014, the subsidiary ENERGA – OPERATOR Logistyka Sp. z o.o. (formerly Zakład Energetyczny Płock – Centrum Handlowe Sp. z o.o.) took over the assets of the subsidiary Zakład Energetyczny Toruń – Energohandel Sp. z o.o. that were necessary for ENERGA – OPERATOR Logistyka Sp. z o.o. to provide logistic and storage support of the ongoing trading activity of ENERGA – OPERATOR SA and other ENERGA Group companies and for the external market.
- On 22 October 2014, the management boards of RGK Sp. z o.o. (acquiring company) and Międzynarodowe Centrum Szkolenia Energetyki Sp. z o.o. (acquired company) adopted resolutions to merge both companies. Consequently, the liquidation process of the latter was discontinued. The merger was registered on 10 December 2014.
- On 27 November 2014, the merger of ENERGA Innowacje Sp. z o.o. (acquiring company) and ENSPIRION Sp. z o.o. was registered. The merger was aimed at integrating in one entity the

services associated with research and development and commercialization of innovative solutions provided in the Sales Segment.

- On 16 December 2014 the management boards of Ekologiczne Materiały Grzewcze Sp. z o.o. (split company) and ENERGA Elektrownie Ostrołęka SA (acquiring company) signed a split-up plan for Ekologiczne Materiały Grzewcze Sp. z o.o. Under the split, the assets associated with the production activity of the company being split will be spun off and transferred to the acquiring company.

Changes in the composition of the Group are presented in Note 2.2.

39.2. Social contracts entered into during the consolidation and restructuring process

On 19 July 2007, a Social Contract was executed between trade unions and the Group. The Contract came into force on 1 August 2007. Provisions of the Social Contract concern in particular the Group's commitments to employees on account of employment guarantee for 120 months from its entry into force. The Social Contract also includes other provisions concerning protection of rights and interests of employees of the Group's companies that are parties thereto in connection with the Group's consolidation and restructuring process.

In addition, on 1 August 2007, a separate social contract was executed between ENERGA Elektrownie Ostrołęka SA and trade union organizations concerning protection of rights of its employees in connection with the process of consolidation and privatization of the electrical energy sector. Pursuant to the agreement, the employer undertook to ensure, for the period of 10 years from the date of signing the agreement, employment guarantees and keep the conditions of work and remuneration on each employee position at a level not less beneficial from that binding on the agreement execution date.

In addition, a separate social package was executed with employees of ENERGA OPEC sp. z o.o. on 27 November 2008. The agreement provides for protection of the employees' rights and interests in connection with acquisition of shares in the company by ENERGA SA and ENERGA Elektrownie Ostrołęka SA, ensuring, among others, a six-year employment guarantee.

39.3. Dispute with PSE S.A. and PKN ORLEN S.A.

In July 2003 PSE S.A. (previously PSE – Operator S.A.) filed a court action against ENERGA – OPERATOR SA (previously Zakład Energetyczny Płock S.A. hereinafter referred to as „EOP”) for the payment of PLN 62.5 m as charges for transmission services. In response to the action EOP sued PKN ORLEN S.A. ("PKN"). On 30 June 2004 EOP filed in the Regional Court in Warsaw an action against PKN for the payment of PLN 46.2 m as a system fee pursuant to § 36 of the Tariff Ordinance.

On 2 August 2013, the "Agreement on terms of the settlement with PSE SA" was signed ("Settlement Agreement"), under which EOP paid to PSE SA the amount of PLN 95.5 m (including the principal of PLN 62.5 m and statutory interest of PLN 33.0 m) on 9 August 2013. On 4 February 2014, a court settlement was concluded on the terms and conditions set forth in the "Settlement Agreement". Following the above, the Court of Appeals in Warsaw discontinued the proceedings in this case.

On the other hand, taking into account the procedural status of the case between EOP and PKN, it can be assumed that EOP's action against PKN is justified. In connection with the current status of the case at the end of the reporting period, the Group recognizes a contingent asset of PLN 27.9 m (see also details in note 37.2). On 27 October 2014, the District Court in Warsaw announced its judgment in the case filed by ENERGA – OPERATOR SA against PKN to pay PLN 46.2 m following a re-examination of the case. The court awarded to ENERGA – OPERATOR SA the full amount of the claim pursued in the lawsuit, that is PLN 46.2 m, with interest calculated for the period from 30 June 2004. The entire amount due to ENERGA – OPERATOR SA including statutory interest calculated as at 31 December 2014 is PLN 107.2 m. The judgment is not final.

39.4. Proceedings launched by FORTA Sp. z o.o.

On 3 September 2013 the Extraordinary General Meeting of ENERGA SA adopted, inter alia, the resolution on determining the series of the company's shares and amending the Articles of Association (the "Resolution on Preferred Shares"). Pursuant to the Resolution on Preferred Shares preference in respect of voting rights of series BB shares was introduced to the Articles of Association. On 16 October 2013, ENERGA SA was served with a statement of claim filed by a shareholder FORTA Sp. z o.o. ("FORTA") to rule on invalidity of the Resolution on Preferred Shares or to repeal it, as the resolution was allegedly adopted in breach of good practices, hurting the Company's interest and aimed at harming a shareholder – FORTA. The Regional Court in Gdańsk in a judgment of 26 March 2014 dismissed FORTA's claim in this case. The judgment became final on 22 August 2014.

40. Subsequent events

40.1. Renewable Energy Sources Act ("RES Act")

On 11 March 2015, President of the Republic of Poland signed the renewable energy sources act, which introduced major changes to the support system for energy from RES. Previously, the RES energy market was regulated by the Energy Law Act.

The RES Act provides for limited support, in the form of green certificates, for electricity produced from renewable sources, starting from 1 January 2016, while:

- for co-firing – support at current levels (i.e. 1 certificate per 1 MWh of energy) will be awarded for electricity produced in dedicated multi-fuel fired installations;
- for hydro power plants – support will be awarded to electricity generated in hydro plants with capacity under 5 MW.

Implementation of these regulations will entail loss of certificates of origin by the Włocławek and Bielkowo hydro power plants and partial loss of the biomass co-firing certificates at Ostrołęka B Power Plant. Based on the reporting data for 2014, the Group estimates that the overall volume of proprietary rights lost from these three sources would be 992 Gwh. When we add the change in the fuel structure at Ostrołęka B Power Plant if it partially abandons the co-firing regime, the Group estimates that the total negative contribution to the 2014 EBITDA would be about PLN 145 m (of which about PLN 135 m would apply to the mentioned hydro power plants).

The Group estimates that these changes in regulations have no effect on the value of property, plant and equipment stated in the statement of financial position as at 31 December 2014,

The RES Act also provides for the introduction of new regulations for electricity seller who fulfill the existing obligation to purchase electricity from renewable energy sources under offtaker of last resort function (for the ENERGA Group, this function is provided by ENERGA – OBRÓT SA). After these regulations come into force, a similar function will be provided by the so called "obligated offtaker". The main change will involve departing from the settlement of energy purchases from the local market at the average electricity sales price on the competitive market for the previous year, as announced by the President of ERO, and settling purchases using quarterly prices (also announced by the President of ERO). This will reduce the room for speculation and will result in a more equal allocation of the risk of electricity prices between generators and obligated offtakers. Moreover, an obligation will be introduced for the producer of energy from renewable energy sources to sell the full production volume to the obligated offtaker for a period of at least 90 days. This will improve the possibility for the obligated offtaker to forecast energy purchases and will prevent electricity producers from selling to the obligated offtaker only in the hours when the market price is much lower than the price set by the President of ERO.

40.2. Establishment of the ENERGA Tax Group

On 27 January 2015, ENERGA SA and its associates:

- ENERGA – OPERATOR SA,

- ENERGA – OBRÓT SA,
- ENERGA Wytwarzanie SA,
- ENERGA Informatyka i Technologie Sp. z o.o.,
- ENERGA Centrum Usług Wspólnych Sp. z o.o.,
- RGK Sp. z o.o.,
- ENSA PGK1 Sp. z o.o.,
- ENSA PGK2 Sp. z o.o.,
- ENSA PGK3 Sp. z o.o.,
- ENSA PGK4 Sp. z o.o.,
- ENSA PGK5 Sp. z o.o.,
- ENSA PGK6 Sp. z o.o.,
- ENSA PGK7 Sp. z o.o.,
- ENSA PGK8 Sp. z o.o.,
- EOB PGK1 Sp. z o.o.,
- EOB PGK2 Sp. z o.o.,

entered into an agreement on a Tax Group named PGK ENERGA ("PGK"). The agreement was registered by the Head of the Pomorski Tax Authority on 27 February 2015. ENERGA SA was selected as a company to represent PGK ENERGA with respect to duties resulting from the Corporate Income Tax Act and the Tax Ordinance.

PGK ENERGA will start its activity on 1 May 2015. The agreement was concluded for 3 fiscal years, that is until 31 December 2017. Tax will be calculated on income earned in the fiscal year equal to the surplus of aggregated income of all companies comprising the group over their aggregate losses.

40.3. Other events

- By 21 January 2015, the ten companies established by ENERGA SA on 19 December 2014 (see description in note 2.2.3) in connection with the establishment of PGK ENERGA were registered in KRS.
- On 23 January 2015, the Extraordinary General Meeting of Zakład Energetyczny Toruń – ENERGOHANDEL Sp. z o.o. adopted a resolution on dissolution and commencement of the of the company's liquidation process as of 1 February 2015. As of 1 February 2015, the company has been operating under the name Zakład Energetyczny Toruń – ENERGOHANDEL Sp. z o.o. w likwidacji (in liquidation).
- On 30 January 2015, the Extraordinary General Meeting of Ekologiczne Materiały Grzewcze Sp. z o.o. adopted a resolution to split the company. The split will entail a spin-off and transfer of part of the assets associated with the production activity of the company being split to ENERGA Elektrownie Ostrołęka SA (acquiring company), in return for the shares of the acquiring company which will be awarded to the shareholder of the company being split, i.e. ENERGA Wytwarzanie SA. Currently the split is being registered in the National Court Register.
- On 9 February 2014, a merger plan was signed to merge ENERGA Wytwarzanie SA (acquiring company) and Breva Sp. z o.o. (acquired company). According to the Plan, the merger will be carried out without increasing the share capital of the acquiring company.

Signatures of Management Board members and persons responsible for the accounts of the ENERGA SA Group:

Mirosław Bieliński
President of the Management Board

Roman Szyszko
Executive Vice-President of the Management Board, Chief Financial Officer

Wojciech Topolnicki
Executive Vice-President of the Management Board, Strategy and Investments

Aleksandra Gajda – Gryber
Director of the Finance and Corporate Governance Center

Marek Pertkiewicz
Director of the Corporate Governance and Consolidation Department

Gdańsk, 12 March 2015