Energa

ENERGA SA Group

Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, for the year ended 31 December 2015

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Continuing operations			
Revenue	**11.1**	**10,804**	**10,590**
Cost of sales	**11.2**	(8,786)	(8,464)
Gross profit on sales		**2,018**	**2,126**
Other operating income	**11.5**	91	107
Selling and distribution expenses	**11.2**	(336)	(312)
General and administrative expenses	**11.2**	(344)	(350)
Other operating expenses	**11.6**	(149)	(125)
Financial income	**11.7**	59	115
Financial costs	**11.8**	(287)	(313)
Profit before tax		**1,052**	**1,248**
Income tax	**12**	(212)	(239)
Net profit on continuing operations		**840**	**1,009**
Discontinued operations			
Net profit (loss) on discontinued operations		-	(3)
Net profit for the period		**840**	**1,006**
Attributable to:			
Equity holders of the Parent Company		832	982
Non-controlling interest		8	24
Earnings per share (in PLN)	**22**		
- basic		**2.01**	**2.38**
- diluted		**2.01**	**2.38**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Net profit for the period		**840**	**1,006**
Items that will never be reclassified to profit or loss		***(6)***	***(47)***
Actuarial gains and losses on defined benefit plans	**24**	(7)	(57)
Deferred tax	**12.3**	1	10
Items that are or may be reclassified subsequently to profit or loss		***23***	***(42)***
Foreign exchange differences from translation of foreign entities		-	2
Cash flow hedges	**28.7**	28	(54)
Deferred tax	**12.3**	(5)	10
Net other comprehensive income		**17**	**(89)**
Total comprehensive income		**857**	**917**
Attributable to:			
Equity holders of the Parent Company		849	893
Non-controlling interest		8	24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2015	As at 31 December 2014 (restated)	As at 1 January 2014 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	**13**	12,912	12,315	11,761
Intangible assets	**14**	395	393	399
Goodwill	**15**	143	143	157
Deferred tax assets	**12.3**	260	246	245
Other non-current financial assets	**28.1**	60	49	31
Other non-current assets	**19.1**	103	96	57
		13,873	**13,242**	**12,650**
Current assets				
Inventories	**16**	513	296	302
Current tax receivables		47	76	43
Trade receivables	**28.5.1**	1,762	1,551	1,470
Portfolio of financial assets	**28.4**	322	764	567
Other current financial assets	**28.1**	38	22	13
Cash and cash equivalents	**18**	1,669	1,932	1,785
Other current assets	**19.2**	232	208	146
Assets classified as held for sale	**20**	-	27	109
		4,583	**4,876**	**4,435**
TOTAL ASSETS		**18,456**	**18,118**	**17,085**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont.)

	Note	As at 31 December 2015	As at 31 December 2014 (restated)	As at 1 January 2014 (restated)
EQUITY AND LIABILITIES				
Equity				
Share capital	**21.1**	4,522	4,522	4,522
Foreign exchange differences from translation of a foreign entity		-	-	(2)
Reserve capital	**21.4**	447	447	447
Supplementary capital	**21.5**	661	607	522
Cash flow hedge reserve	**21.6, 28.5**	6	(17)	27
Retained earnings	**21.7**	3,134	2,957	2,520
Equity attributable to equity holders of the Parent Company		**8,770**	**8,516**	**8,036**
Non-controlling interest	**21.8**	**44**	**37**	**13**
		8,814	**8,553**	**8,049**
Non-current liabilities				
Loans and borrowings	**28.5.2**	2,475	2,390	1,812
Bonds issued	**28.5.2**	3,116	3,117	3,120
Non-current provisions	**24**	664	632	549
Deferred tax liabilities	**12.3**	591	553	544
Deferred income and non-current grants	**26**	531	526	489
Other non-current financial liabilities	**28.1**	25	32	6
		7,402	**7,250**	**6,520**
Current liabilities				
Trade liabilities		877	869	890
Current loans and borrowings	**28.5.2**	203	171	274
Bonds issued	**28.5.2**	76	72	70
Current income tax liability		2	50	7
Deferred income and grants	**26**	161	158	159
Provisions	**24**	471	374	444
Other financial liabilities	**28.1**	193	229	235
Other current liabilities	**25**	257	363	356
Liabilities related to assets classified as held for sale	**20**	-	29	81
		2,240	**2,315**	**2,516**
Total liabilities		**9,642**	**9,565**	**9,036**
TOTAL EQUITY AND LIABILITIES		**18,456**	**18,118**	**17,085**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Equity attributable to equity holders of the Parent Company							Non-controlling interests	Total equity
		Share capital	Foreign exchange differences from translation of foreign entities	Reserve capital	Supplementary capital	Cash flow hedge reserve	Retained earnings	Total		
Note		**21.2**		**21.4**	**21.5**	**21.6, 28.7**	**21.7**		**21.8**	
As at 1 January 2015		**4,522**	**-**	**447**	**607**	**(17)**	**2,957**	**8,516**	**37**	**8,553**
Actuarial gains and losses on defined benefit plans	**24**	-	-	-	-	-	(6)	**(6)**	-	**(6)**
Cash flow hedges	**28.7**	-	-	-	-	23	-	**23**	-	**23**
Net profit for the period		-	-	-	-	-	832	**832**	8	**840**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**23**	**826**	**849**	**8**	**857**
Retained earnings distribution		-	-	-	54	-	(54)	**-**	-	**-**
Dividends	**23**	-	-	-	-	-	(596)	**(596)**	-	**(596)**
Purchase of shares in subsidiaries		-	-		-	-	1	**1**	(1)	**-**
As at 31 December 2015		**4,522**	**-**	**447**	**661**	**6**	**3,134**	**8,770**	**44**	**8,814**
As at 1 January 2014		**4,522**	**(2)**	**447**	**522**	**27**	**2,520**	**8,036**	**13**	**8,049**
Actuarial gains and losses on defined benefit plans	**24**	-	-	-	-	-	(47)	**(47)**	-	**(47)**
Foreign exchange differences from translation of foreign entities		-	2	-	-	-	-	**2**	-	**2**
Cash flow hedges	**28.7**	-	-	-	-	(44)	-	**(44)**	-	**(44)**
Net profit for the period		-	-	-	-	-	982	**982**	24	**1,006**
Total comprehensive income for the period		**-**	**2**	**-**	**-**	**(44)**	**935**	**893**	**24**	**917**
Retained earnings distribution		-	-	-	85	-	(85)	**-**	-	**-**
Dividends	**23**	-	-	-	-	-	(414)	**(414)**	-	**(414)**
Disposals of shares in subsidiaries		-	-	-	-	-	1	**1**	-	**1**
As at 31 December 2014		**4,522**	**-**	**447**	**607**	**(17)**	**2,957**	**8,516**	**37**	**8,553**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015	Year ended 31 December 2014 (restated)
Cash flows from operating activities			
Profit before tax from continuing operations		**1,052**	**1,248**
Loss before tax on discontinued operations and disposal of non-current assets classified as held for sale		**-**	**(3)**
Adjustments for:			
Foreign currency (gains)/losses		(1)	10
Amortization and depreciation	**11.2**	916	861
Net interest and dividends		241	212
Loss on investing activities	**30**	66	30
Changes in working capital:			
Change in receivables	**30**	(235)	(129)
Change in inventories		(214)	7
Change in liabilities excluding loans and borrowings	**30**	(100)	(56)
Change in prepayments and accruals		(15)	14
Change in provisions	**30**	106	(44)
		1,816	**2,150**
Income tax paid		**(212)**	**(198)**
Net cash from operating activities		**1,604**	**1,952**
Cash flows from investing activities			
Disposal of property, plant and equipment and intangible assets		13	33
Purchase of property, plant and equipment and intangible assets		(1,602)	(1,469)
Proceeds from deposits above 3m		14	57
Establishment of deposits above 3m		(14)	(30)
Purchase of ENERGA Trading SFIO Fund units		-	(247)
Disposal of ENERGA Trading SFIO Fund units		442	50
Disposal of subsidiary		-	21
Other		8	5
Net cash from investing activities		**(1,139)**	**(1,580)**
Cash flows from financing activities			
Proceeds from loans and borrowings		340	950
Repayment of loans and borrowings		(240)	(529)
Dividends paid	**23**	(596)	(414)
Interest paid		(220)	(242)
Other		(2)	(9)
Net cash from financing activities		**(718)**	**(244)**
Net increase/ (decrease) in cash and cash equivalents		**(253)**	**128**
Cash and cash equivalents at the beginning of the period	**18**	**1,911**	**1,783**
Cash and cash equivalents at the end of the period	**18**	**1,658**	**1,911**

ACCOUNTING PRINCIPLES (POLICIES) AND OTHER EXPLANATORY INFORMATION

1. General information

The ENERGA SA Group (the "Group") consists of **ENERGA Spółka Akcyjna** ("Parent Company", "Company") with its registered office in Gdańsk and its subsidiaries (see Note 2). The consolidated financial statements of the Group cover the year ended 31 December 2015 and contain appropriate comparative data.
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,
2. production of electricity and heat,
3. trading in electricity.

As at 31 December 2015, 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 2015, the Group consists of ENERGA SA and the following companies:

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2015	31 December 2014
	Distribution Segment				
1	ENERGA-OPERATOR SA	Gdańsk	distribution of electricity	100	100
2	ENERGA-OPERATOR Eksploatacja Elbląg Sp. z o.o.	Elbląg	grid operation	100	100
3	ENERGA-OPERATOR Eksploatacja Gdańsk Sp. z o.o.	Gdańsk	grid operation	100	100
4	ENERGA-OPERATOR Eksploatacja Kalisz Sp. z o.o.	Kalisz	grid operation	100	100
5	ENERGA-OPERATOR Eksploatacja Płock Sp. z o.o.	Płock	grid operation	100	100
6	ENERGA-OPERATOR Eksploatacja Słupsk Sp. z o.o.	Słupsk	grid operation	100	100
7	ENERGA-OPERATOR Eksploatacja Toruń Sp. z o.o.	Toruń	grid operation	100	100
8	ENERGA-OPERATOR Techniczna Obsługa Odbiorców Sp. z o.o.	Koszalin	technical customer service	100	100
9	Przedsiębiorstwo Budownictwa Elektroenergetycznego ENBUD Słupsk Sp. z o.o.	Słupsk	contracting and design	100	100
10	Energetyka Kaliska – Usługi Techniczne Sp. z o.o.	Kalisz	contracting and design	100	100
11	ZEP - Centrum Wykonawstwa Specjalistycznego Sp. z o.o.	Płock	contracting and design	100	100
12	Zakład Budownictwa Energetycznego Sp. z o.o.	Koszalin	contracting and design	100	100
13	ENERGA-OPERATOR Logistyka Sp. z o.o.	Płock	logistics and supply	100	100
14	Zakład Energetyczny Toruń - ENERGOHANDEL Sp. z o.o. in liquidation [1]	Toruń	supply	100	100
	Sales Segment				
15	ENERGA-OBRÓT SA	Gdańsk	trading in electricity	100	100

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2015	31 December 2014
16	ENERGA Obsługa i Sprzedaż Sp. z o.o.	Gdańsk	customer service	100	100
17	ENERGA Oświetlenie Sp. z o.o.	Sopot	lighting services	100	100
18	ENERGA SLOVAKIA s.r.o.	Bratislava	trading in electricity	100	100
19	Enspirion Sp. z o.o. (formerly: ENERGA Innowacje Sp. z o.o.) [2]	Gdańsk	organization and management of development of innovative power projects	100	100
20	EOB PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
21	EOB PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
	Generation Segment				
22	ENERGA Wytwarzanie SA	Gdańsk	energy production	100	100
23	ENERGA Elektrownie Ostrołęka SA	Ostrołęka	energy production	89.64	89.38
24	ENERGA Kogeneracja Sp. z o.o.	Elbląg	energy production	100	100
25	ENERGA Ciepło Ostrołęka Sp. z o.o. [3]	Ostrołęka	heat distribution	99.99	99.99
26	ENERGA Serwis Sp. z o.o.	Ostrołęka	repairs and maintenance services	94.81	94.68
27	ENERGA Ciepło Kaliskie Sp. z o.o. [4]	Kalisz	heat distribution	91.24	91.24
28	ENERGA Invest SA	Gdańsk	investment project management	100	100
29	ZEC Żychlin Sp. z o.o.	Żychlin	heat distribution	100	100
30	Elektrownia Ostrołęka SA	Ostrołęka	energy production	100	100
31	AEGIR 4 Sp. z o.o.	Gdańsk	energy production	100	100
32	BORA Sp. z o.o.	Gdańsk	energy production	100	100
33	BREVA Sp. z o.o. [5]	Gdańsk	energy production	-	100
34	Ekologiczne Materiały Grzewcze Sp. z o.o.	Gdańsk	consulting activity	100	100
35	Elektrownia CCGT Gdańsk Sp. z o.o.	Gdańsk	energy production	100	100
36	Elektrownia CCGT Grudziądz Sp. z o.o.	Grudziądz	energy production	100	100
37	ENERGA Elektrociepłownia Kalisz SA w likwidacji (in liquidation)	Kalisz	energy production	-	100
	Others Segment				
38	ENERGA Centrum Usług Wspólnych Sp. z o.o.	Gdańsk	accounting, payroll and administrative services	100	100

No.	Company name	Registered office	Line of business	% held by the Group in share capital as at	
				31 December 2015	31 December 2014
39	ENERGA Finance AB (publ)	Stockholm	financing activity	100	100
40	ENERGA Informatyka i Technologie Sp. z o.o.	Gdańsk	information and communication technologies	100	100
41	RGK Sp. z o.o.	Gdańsk	financing services and property management	100	100
42	ENSA PGK1 Sp. z o.o.	Gdańsk	financing services	100	100
43	ENSA PGK2 Sp. z o.o.	Gdańsk	financing services	100	100
44	ENSA PGK3 Sp. z o.o.	Gdańsk	financing services	100	100
45	ENSA PGK4 Sp. z o.o.	Gdańsk	financing services	100	100
46	ENSA PGK5 Sp. z o.o.	Gdańsk	financing services	100	100
47	ENSA PGK6 Sp. z o.o.	Gdańsk	financing services	100	100
48	ENSA PGK7 Sp. z o.o.	Gdańsk	financing services	100	100
49	ENSA PGK8 Sp. z o.o.	Gdańsk	financing services	100	100

[1] On 23 January 2015, the Extraordinary General Meeting of the company adopted a resolution on dissolution and commencement of the company's liquidation process. The Company was deregistered from KRS on 25 January 2016.
[2] 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.
[3] On 24 November 2015, KRS registered the new name of the company, ENERGA OPEC Sp. z o.o. The current official name is ENERGA Ciepło Ostrołęka Sp. z o.o.
[4] On 23 November 2015, KRS registered the new name of the company, Ciepło Kaliskie Sp. z o.o. The current official name is ENERGA Ciepło Kaliskie Sp. z o.o.
[5] See description in note 2.2.

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

On 15 April 2015, the merger of ENERGA Wytwarzanie SA (acquiring company) and BREVA Sp. z o.o. (acquired company) was registered. The merger has been carried out without increasing the share capital of the acquiring company.

On 30 December 2015, the Court of Registration removed ENERGA Elektrociepłownia Kalisz SA w likwidacji from KRS.

3. Composition of the Parent Company's Management Board

In the period from 1 January to 29 April 2015, the Management Board of the Parent Company was as follows:

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

On 29 April 2015, the Company's Supervisory Board adopted a resolution to appoint the Company's Management Board for the 4th term of office, comprised of:

- Andrzej Tersa – President of the Management Board, dismissed as of 7 December 2015,
- Seweryn Kędra – Vice-President of the Management Board for Financial Matters, dismissed as of 3 January 2016,
- Jolanta Szydłowska – Vice-President of the Management Board for Corporate Matters, dismissed as of 7 December 2015.

In the period from 6 October to 2 December 2015, Supervisory Board member Waldemar Kamrat was delegated to discharge the function of the Vice-President of the Management Board, Strategy and Investments.

In the period from 7 December 2015 to 3 January 2016, Supervisory Board member Roman Pionkowski was delegated to discharge the function of the President of the Management Board.

3. Composition of the Parent Company's Management Board (cont.)

On 29 December 2015, the Company's Supervisory Board adopted a resolution to appoint as of 4 January 2016 the Company's Management Board for the 5th term of office comprised of:

- Dariusz Kaśków – President of the Management Board,
- Mariusz Rędaszka – Vice-President of the Management Board for Financial Matters,
- Roman Pionkowski – Vice-President of the Management Board, Strategy and Investments, dismissed as of 26 February 2016.

On 1 April 2016, the Company's Supervisory Board adopted a resolution to appoint Mr. Grzegorz Ksepko to the Company's Management Board as of 1 February 2016 to serve as the Vice-President of the Management Board for Corporate Matters.

4. Approval of the financial statements

These consolidated financial statements were approved for publication by the Company's Management Board on 14 March 2016.

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 millions of zloty ("PLN m").

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 2015. 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 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. Exchange differences from translation were captured in other comprehensive income.

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, intangible assets and goodwill

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 9.7. Information on the impairment tests that we have conducted is presented in Notes 13 and 15.

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 to which employees of Group companies are entitled after their employment period) are estimated using actuarial methods.

Other provisions are measure 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.

6. Material items subject to judgment and estimates (cont.)

Detailed information about the accepted assumptions and provisions recognized are presented in Note 24.

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. The revision carried out in 2015 had no significant influence on the costs of the current period.

Energy price paths

Energy price paths developed by independent industry experts are an important element of the estimation of value 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. Detailed information about the analysis of sensitivity to changes in the paths is disclosed in Notes 13 and 24.

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 determine fair value of individual financial instruments is presented in Note 28.3.

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. The amount of revenues recognized as at 31 December 2015 on the basis of the estimations was PLN 644 m (PLN 524 m as at 31 December 2014).

Impairment losses on 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 recognizes an impairment loss bringing it down to the present value of planned cash flows. Impairment losses 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 losses on receivables are provided in Note 28.5.1.

7. Changes in estimates

During the periods covered by these consolidated financial statements, no changes were made in the scope or methods used in determining significant estimates. The changes in the amounts of the estimates resulted from events that occurred during the reporting periods.

8. New standards and interpretations

8.1. Standards and interpretations adopted for the first time in 2015

The following amendments to the existing standards published by the International Accounting Standards Board and endorsed in the EU came into force in 2015:

- 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 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).

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:

- Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions - endorsed in the EU on 17 December 2015 (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 2015 (applicable to annual periods beginning on or after 1 February 2015),
- 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 amortization and depreciation (applicable to annual periods beginning on or after 1 January 2016),

8. New standards and interpretations (cont.)

- 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 various standards "Annual Improvements to IFRS (2012-2015 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 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 the 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 2018),
- 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 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 (no effective date specified),
- IFRS 16 "Leases" (applicable to annual periods beginning on or after 1 January 2019),
- Amendments to IAS 12 "Income Taxes" – Detailed regulation of the recognition of deferred tax assets for unrealised losses (applicable to annual periods beginning on or after 1 January 2017).
- Amendments to IAS 7 "Statement of Cash Flows" – Disclosure Initiative (applicable to annual periods beginning on or after 1 January 2017).

New standards IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" introduce significant changes as compared to the currently applicable standards. After a tentative analysis, the Group expects these changes not to have a significant influence on its financial statements, which will be confirmed after this matter is examined more thoroughly.

The new standard IFRS 16 "Leases" changes the rules for recognizing agreements that satisfy the definition of a lease. From the Group's point of view, the main change is the requirement to recognize the right to use an asset and a financial liability in the lessee's statement of financial position – both in the case of agreements that meet the criteria of finance leases and operating leases. This change will increase the value of assets and liabilities. The Group has not yet conducted a detailed analysis of the impact that the new standard will exert on the consolidated financial statements.

The Group does not expect the remaining amendments to IFRSs mentioned above to have a material influence on its financial statements.

9. Significant accounting policies

The key accounting policies used by the Company are presented below. The policies have been applied continuously, with the exception of the changes discussed in Note 9.28.

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 2015.

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 returns, or if it holds rights to the variable returns and can also influence those returns 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.

The Group settles transactions to purchase subsidiary undertakings by using the acquisition method. A payment transferred within the framework of the transaction is determined as the fair value of transferred assets, accepted obligations towards previous owners of the entity being acquired and equities issued by the acquiring entity.

The identifiable assets and liabilities of the acquired entity are measured as at the acquisition date at fair value. Non-controlling interest in an acquired entity is recognized at the amount of the proportionate percentage (corresponding to the non-controlling interest) of the identifiable, recognized net assets of the acquired entity.

The goodwill that is created in a purchase transaction is calculated in accordance with the rules presented in Note 9.6.

The costs related to the purchase of a subsidiary entity are recognized as the costs of the period.

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

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. Significant accounting policies (cont.)

9.2. Business combinations of entities under common control

Business combinations of entities under common control are recognized by 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. In the case of the acquired company, all the balance sheet and profit and loss items included in the financial statements of that company are added up in the amounts presented in the Group's consolidated financial statements. 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.

9.3. 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.

Foreign exchange differences resulting from this translation are recognized respectively as financial income (cost) items or, in the cases identified in the accounting principles (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 2015	31 December 2014
EUR	4.2615	4.2623

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

Average exchange rate in the period		
Currency	1 January - 31 December 2015	1 January - 31 December 2014
EUR	4.1848	4.1893

9.4. Property, plant and equipment

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 losses. 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 becomes 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.

9. Significant accounting policies (cont.)

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, of which:	5 - 100 years
– Buildings	10 - 100 years
– Premises and civil and marine engineering facilities	5 - 50 years
• Machinery and technical equipment	3 - 50 years
• Vehicles	3 - 14 years
• Office equipment, of which:	1 - 15 years
– Computer hardware	1 - 5 years
– Other	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 gains or losses arising from derecognition of 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 derecognition took place.

9.5. Intangible assets

The Group's intangible assets include identifiable non-cash assets, which have no physical form, including perpetual usufruct rights to land purchased for cash or as part of business combinations (right of perpetual usufruct to land received free of charge is treated as an operating lease and recognized off the balance sheet).

Intangible assets are carried at purchase price or production cost, less accumulated amortization and impairment losses.

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.

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. Amortization 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 arising from derecognition of intangible assets from the statement of financial position are measured as the difference between net proceeds from their sale and the carrying amount of the asset and are posted to the statement of profit or loss upon derecognition.

9.6. 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. On initial recognition, goodwill is recognized at purchase price less all the accumulated impairment losses. Goodwill is not amortized. The impairment test is carried out once a year, or more frequently if necessary.

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 loss 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 loss is recognized.

9.7. 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 equal to either: its fair value less the cost to sell 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 losses on 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.

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 loss was recognized. In such a case, the carrying amount of the asset is

9. Significant accounting policies (cont.)

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 loss had not been applied at all to such asset in previous years. A reversal of an asset impairment loss is recognized immediately as income in the statement of profit or loss.

9.8. 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 cost 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.

9.9. Inventories

Inventories include:

- assets designated for sale in the regular course of business activity,
- 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 CO_2 emission allowances.

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

The purchase prices applied to the valuation at the end of the reporting period cannot be higher than the net realizable value of those assets. The net realizable 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 and CO_2 emission allowances – according to the FIFO method,
- materials purchased to fulfill orders – using a detailed price identification method,
- 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 co-firing process, and recognized in sales revenues. 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.

CO_2 emission allowances

The acquired CO_2 emission allowances are measured at purchase price. The CO_2 emission allowances received free of charge are measured at zero value and registered off-balance sheet.

9.10. 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.

The balance of cash and cash equivalents shown in the consolidated statement of cash flows 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.

9.11. Other assets

Other non-financial assets recognized by the Group include also 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 Social 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.

9. Significant accounting policies (cont.)

Accruals and deferred income

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.

9.12. 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.

9.13. 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.

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.

9.14. Provisions for employee benefits

In accordance with the regulations applicable in the individual companies, Group employees are eligible for certain benefits after their employment period and other long-term employee benefits - jubilee bonuses.

The group recognizes provisions for employee benefits in order to allocate costs to the pertinent periods. The present value of those liabilities at the end of each reporting period is calculated by an actuary using the projected unit credit method. 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 for pensions and other post-employment defined benefit plans

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

- pension and similar benefits are paid once, upon retirement/qualification for disability award,
- cash equivalent resulting from employee tariff for energy industry employees.
- benefits from the company Social Benefit Fund.

Provisions established are recognized in the statement of profit or loss (as operating expenses or financial costs, respectively – discount unwinding), except for actuarial gains and losses. Gains and losses on actuarial calculations are recognized fully in other comprehensive income.

Provision for jubilee bonuses

Employees of Group companies are eligible to jubilee bonuses paid out after they reach certain lengths of employment.

Provisions established for jubilee bonuses are recognized fully in the statement of profit or loss (as operating expenses or financial costs, respectively – discount unwinding).

Provision for employee restructuring

In the previous reporting periods, voluntary departure programs ("PDO") and individual termination rules ("ZIO") were launched in Group companies. As employment 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. Provisions are recognized when the interested parties are notified about the main elements of the restructuring plan.

9.15. Other 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. 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

9. Significant accounting policies (cont.)

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.

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. The increase of the provision related to the passage of time (discount unwinding) is recognized in financial costs. The change in provision resulting from a change of the discount rate or the estimated reclamation/liquidation costs adjusts the value of the property, plant and equipment to which the provision refers.

Provision for liabilities for gas emissions

The provision for gas emissions is recognized gradually over the annual reporting period, based on actual CO_2 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.

9.16. Other liabilities

Other non-financial liabilities include in particular tax liabilities and liabilities arising from advance payments received for deliveries of goods, services or property, plant and equipment.

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

9.17. Accruals and deferred income

Accrued costs

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 costs, 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 liabilities.

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 in the form of a grant to finance a purchase or production of property, plant and equipment. 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.
- property, plant and equipment accepted free of charge and intangible assets. These revenues are recorded in other operating income and also in depreciation charges on non-current assets received,

As deferred income, the Group also posts revenues on the connection of customers to the grid, i.e. the “connection fees” received before 1 July 2009. Connection fees received after that date are recognized fully in the period’s revenues.

9.18. Grants

Grants are recognized when there is sufficient certainty that the Group will meet the conditions associated with such grants and that the grants will be received.

Grants related to assets are captured in deferred income and then written off regularly to the period’s revenues for the estimated period of economic life of the related asset.

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 grant 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. Significant accounting policies (cont.)

9.19. 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 (including right of perpetual usufruct of land received free of charge). 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 (see Note 33.2). Leasing payments are recognized as revenues in the statement of profit or loss using the straight-line method throughout the term of lease.

9.20. Financial instruments

9.20.1. 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 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 classifies as financial assets at fair value through profit or loss, in particular the participation units in the ENERGA Trading SFIO mutual fund ("Fund"). At the end of a reporting period (month) the Group measures the value of participation units in the Fund as the product of the number of participation units held and the value of a single participation unit. Measurement is done by the fund management company.

Financial assets in this category are initially measured at fair value. After initial recognition, the gains/losses on restatement to fair value are posted in profit or loss.

Loans and receivables

Loans granted and receivables include financial assets with determined or determinable payments, not listed on an active market, which are not classified as derivative instruments. Loans and receivables are initially measured at fair value plus transaction costs and after initial recognition they are measured 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, gains and losses on restatement to fair value (which do not constitute impairment) are recognized in other comprehensive income. 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).

9. Significant accounting policies (cont.)

9.20.2. 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, significant or persisting decline of fair value below the purchase price, 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 Group recognizes an impairment loss 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 amount of loss is recognized in the statement of profit or loss.

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 loss 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 losses 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. 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. Impairment losses on equity instruments classified as available for sale cannot be reversed in the statement of profit or loss.

9.20.3. Financial liabilities

The Group identifies financial liabilities measured at amortized cost

Financial liabilities held at amortized cost include primarily trade liabilities, 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.

9.20.4. 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 hedging 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.
- 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, to the extent they are an effective hedge, are recognized in other comprehensive income, whereas any ineffective portion of the hedge is recognized in the statement of profit or loss.

The accumulated amounts of hedging instrument revaluation to fair value, 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.

9. Significant accounting policies (cont.)

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 to other comprehensive income in the period when the hedge was effective remains separately recognized in equity 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, comprehensive income in the period when the hedge was effective remains recognized separately in equity 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 to other comprehensive income in the period when the hedge was effective, is recognized in the statement of profit or loss. A planned transaction, which is no longer 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 posted to comprehensive income 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 posted to other comprehensive income and accumulated in revaluation 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 hedging instruments is recognized in the result on financial instruments held for trading.

9.21. Income tax

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 liabilities which are 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 (see Note 12.4), 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 tax liability is established for all positive temporary differences except for cases where the deferred income tax liability 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.

Deferred tax assets and liabilities are presented in the statement of financial position, after netting at the level of individual entities of the ENERGA Group.

9.22. Sales revenues

Sales 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.

9. Significant accounting policies (cont.)

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 recovery of the due amount is probable and when the amount of revenues may be measured reliably and incurred costs may be reliably estimated.

Revenues on sales of electricity distribution services and on sales of electricity to end users

The sale of electricity distribution services or electricity occurs at the moment when the electricity distribution service or electricity is delivered to the customer, which is recorded by an electricity meter. In practice, the sale occurs on the date of reading a metering and billing system.

If no actual meter reading was performed in the billing period then revenues are determined through estimation based on average daily consumption of electricity in the previous billing periods. Revenues are calculated using the price lists applicable in the period.

Revenues on electricity sales on the wholesale market

Wholesale electricity transactions are conducted when a supplier and a buyer declare to the Transmission System Operator (TSO) the quantity of electricity that the Group is contractually obligated to supply or ensure its supply (by purchasing electricity on the Balancing Market) and the buyer is obligated to accept in each hourly period. When a production unit generates electricity without a bilateral transaction signed (with a buyer) then the electricity is sold on the Balancing Market (to the TSO). TSO as a guarantor of volumes ensures reliability of data on the quantity of electricity supplied.

9.23. Operating expenses

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 losses on property, plant and equipment, intangible assets, receivables and inventories,

Selling and distribution expenses include expenses related to customer service and customer acquisition as well as marketing and advertising expenses.

General and administrative expenses include expenses related to the governance and administration of the Group as a whole and the companies comprising the Group.

9.24. Other operating income and expenses

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

- disposals of property, plant and equipment, intangible assets,
- 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.

9.25. 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.

9.26. 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.

9.27. STATEMENT OF CASH FLOWS

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

9. Significant accounting policies (cont.)

9.28. 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 those described below.

- in the previous reporting periods, the Group recognized its investments in participation units of the ENERGA Trading SFIO fund ("Fund") as cash equivalents. In the current reporting period, the Group changed this presentation practice by creating a separate current assets item "Investments in the financial assets portfolio". The Management Board of the Group believes that such a presentation is a better reflection of the risks associated with the investment in the Fund.
- moreover, the Group has changed the layout of the items presented in the consolidated statement of financial position, by combining titles into collective items. The purpose of those changes was to increase clarity and usefulness of data presented in the financial statements.

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

	As at 31 December 2014 (previously reported)	Adjustments	As at 31 December 2014 (restated)
ASSETS			
Investment property	41	(41)	-
Derivative financial instruments	29	(29)	-
Other non-current financial assets	20	29	49
Other non-current assets	55	41	96
Portfolio of financial assets	-	764	764
Cash and cash equivalents	2,696	(764)	1,932
EQUITY AND LIABILITIES			
Derivative financial instruments	23	(23)	-
Other financial non-current liabilities	8	24	32
Other non-current liabilities	1	(1)	-
Deferred income and grants	37	(37)	-
Accruals	121	(121)	-
Deferred income and grants	-	158	158

	As at 1 January 2014 (previously reported)	Adjustments	As at 1 January 2014 (restated)
ASSETS			
Investment property	15	(15)	-
Derivative financial instruments	13	(13)	-
Other non-current financial assets	18	13	31
Other non-current assets	42	15	57
Portfolio of financial assets	-	567	567
Cash and cash equivalents	2,352	(567)	1,785
EQUITY AND LIABILITIES			
Other financial non-current liabilities	5	1	6
Other non-current liabilities	1	(1)	-
Deferred income and grants	32	(32)	-
Accruals	127	(127)	-
Deferred income and grants	-	159	159

9. Significant accounting policies (cont.)

	Year ended 31 December 2014 (previously reported)	Adjustments	Year ended 31 December 2014 (restated)
Cash flows from investing activities			
Purchase of ENERGA Trading SFIO Fund units	-	(247)	(247)
Disposal of ENERGA Trading SFIO Fund units	-	50	50
Net increase in cash and cash equivalents	**325**	**(197)**	**128**
Cash and cash equivalents at the beginning of the period	**2,350**	**(567)**	**1,783**
Cash and cash equivalents at the end of the period	**2,675**	**(764)**	**1,911**

Changes in comparative data do not affect the statement of profit or loss and on earnings per share.

NOTES ON OPERATING SEGMENTS

10. Operating segments

The Group presents segment information in accordance with IFRS 8 Operating Segments for the current and for comparative reporting periods. The Group is organized and managed within operating segments, which are defined by the types of products offered. The Group's disclosures are made for the following operating segments:

- Distribution – distribution of electricity by ENERGA-OPERATOR SA (Distribution System Operator), as well as operations directly associated with the distribution operations conducted by other Group companies;
- Generation – production of electricity from conventional and renewable sources, production and distribution of heat and maintenance and repair activity, related directly to the production of energy;
- Sales - trading in electricity (wholesale trading and retail sales) and lighting services.
- Other - shared services centers in the accounting, HR and salary, administration and ITC areas as well as financing activity and real estate management areas. The Parent Company has also been classified as belonging to the other segment.

The key measures used by the ENERGA SA Management Board to assess the performance of the segments is net profit and EBITDA, i.e. operating profit /(loss) (calculated as the profit /(loss) before tax adjusted by the share of profit of the associate, financial income and financial costs) plus amortization and depreciation.

Transactions between segments are settled on market terms.

The Group does not present information by geographic segments since its operations conducted for international clients and its international assets 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 2015 and the assets and liabilities as at 31 December 2015 assigned to individual reporting segments, together with duly restated comparative information (the changed presentation of the ENERGA Trading SFIO fund is discussed in Note 9.28).

10. Operating segments (cont.)

Year ended 31 December 2015 or as at 31 December 2015	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	4,199	5,570	1,031	4	**10,804**	-	**10,804**
Inter-segment sales	56	170	353	170	**749**	(749)	**-**
Total segment revenues	**4,255**	**5,740**	**1,384**	**174**	**11,553**	**(749)**	**10,804**
EBITDA	**1,688**	**172**	**375**	**(27)**	**2,208**	**(12)**	**2,196**
Amortization and depreciation	711	34	168	18	**931**	(15)	**916**
Operating profit/ (loss)	977	138	207	(45)	**1,277**	3	**1,280**
Net finance income/expense	(137)	16	(62)	885	**702**	(930)	**(228)**
Profit/ (loss) before tax	**840**	**154**	**145**	**840**	**1,979**	**(927)**	**1,052**
Income tax	(173)	(35)	(30)	27	**(211)**	(1)	**(212)**
Net profit/ (loss)	**667**	**119**	**115**	**867**	**1,768**	**(928)**	**840**
Assets and liabilities							
Cash and cash equivalents	708	115	227	619	**1,669**	-	**1,669**
Total assets	**12,259**	**2,461**	**4,589**	**12,811**	**32,120**	**(13,664)**	**18,456**
Financial liabilities	3,670	255	1,512	5,835	**11,272**	(5,402)	**5,870**
Total liabilities	**5,994**	**1,580**	**2,052**	**6,076**	**15,702**	**(6,060)**	**9,642**
Other segment information							
Capital expenditures	1,123	58	392	48	**1,621**	(38)	**1,583**
Impairment losses on property, plant and equipment, intangible assets and investment property	-	1	17	2	**20**	-	**20**

10. Operating segments (cont.)

Year ended 31 December 2014 or as at 31 December 2014 (restated)	Distribution	Sales	Generation	Other	Total	Consolidation eliminations and adjustments	Total activity
Revenue							
Sales to external clients	3,934	5,150	1,497	9	**10,590**	-	**10,590**
Inter-segment sales	63	565	326	124	**1,078**	(1,078)	**-**
Total segment revenues	**3,997**	**5,715**	**1,823**	**133**	**11,668**	**(1,078)**	**10,590**
EBITDA	**1,536**	**131**	**698**	**(70)**	**2,295**	**12**	**2,307**
Amortization and depreciation	692	30	142	21	**885**	(24)	**861**
Operating profit/ (loss)	844	101	556	(91)	**1,410**	36	**1,446**
Net finance income/ expense	(131)	37	(73)	716	**549**	(747)	**(198)**
Share of profit/ (loss) of associates	-	-	-	-	**-**	-	**-**
Profit/ (loss) before tax	**713**	**138**	**483**	**625**	**1,959**	**(711)**	**1,248**
Income tax	(114)	(30)	(99)	14	**(229)**	(10)	**(239)**
Net loss on discontinued operations and disposal of assets classified as held for sale	-	-	-	(3)	**(3)**	-	**(3)**
Net profit/ (loss)	**599**	**108**	**384**	**636**	**1,727**	**(721)**	**1,006**
Assets and liabilities							
Cash and cash equivalents	840	322	350	420	**1,932**	-	**1,932**
Total assets	**12,204**	**2,386**	**4,686**	**12,369**	**31,645**	**(13,527)**	**18,118**
Financial liabilities	3,474	51	1,474	5,716	**10,715**	(4,965)	**5,750**
Total liabilities	**6,027**	**1,517**	**2,031**	**5,915**	**15,490**	**(5,925)**	**9,565**
Other segment information							
Capital expenditures	1,148	38	271	29	**1,486**	(9)	**1,477**
Impairment losses on property, plant and equipment, intangible assets and investment property	1	-	34	1	**36**	-	**36**

NOTES TO CONSOLIDATED STATEMENT OF PROFIT OR LOSS

11. Revenues and expenses

11.1. Sales revenues

	Year ended 31 December 2015	Year ended 31 December 2014
Revenues on sales of products and goods for resale and materials, including:	**6,424**	**6,482**
Electricity	6,112	6,019
Certificates of origin	205	473
Gas	90	12
Other products, goods for resale and materials	276	237
Excise tax	(259)	(259)
Revenues on sales of services, including:	**4,380**	**4,108**
Distribution and transit services	3,923	3,724
Customer connection fees	97	60
Rental income	85	86
Other services	275	238
TOTAL	**10,804**	**10,590**

11.2. Costs by nature

	Year ended 31 December 2015	Year ended 31 December 2014
Depreciation and amortization of property, plant and equipment, intangible assets and investment properties	916	861
Impairment losses on property, plant and equipment, intangible assets and investment property (including advances paid)	20	36
Materials and energy used, including:	832	873
Fuel consumption	*448*	*593*
External services, including:	1,434	1,292
Transmission and transit fees	*933*	*866*
Taxes and fees	377	332
Employee benefit expenses	913	947
Impairment allowance on trade receivables	40	36
Other costs by nature	76	63
Change in product inventories	(5)	2
Cost of producing services for own needs	(97)	(84)
Cost of products and materials sold	4 960	4 768
Total operating expenses	**9,466**	**9,126**
including:		
Cost of sales	8,786	8,464
Selling and distribution expenses	336	312
General and administrative expenses	344	350

11. Revenues and expenses (cont.)

11.3. Cost of depreciation and impairment losses recognized on non-financial non-current assets in the statement of profit or loss

	Year ended 31 December 2015	Year ended 31 December 2014
Items included in cost of sales:	**902**	**872**
Depreciation of property, plant and equipment	810	762
Impairment loss on property, plant and equipment	18	35
Amortization of intangible assets	71	73
Depreciation of investment property	1	1
Impairment losses on investment property	2	1
Items included in selling and distribution expenses:	**14**	**8**
Depreciation of property, plant and equipment	6	4
Amortization of intangible assets	8	4
Items included in general and administrative expenses:	**20**	**17**
Depreciation of property, plant and equipment	9	13
Amortization of intangible assets	11	4

11.4. Employee benefit expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Wages and salaries	635	649
Social security contributions	123	120
Post-employment benefits and jubilee bonuses	34	56
Other employee benefit expenses, including:	121	122
Energy tariff - current costs	11	10
Company Social Benefit Fund - charges for the current financial year	30	32
Employee Pension Plan	36	38
Employee training	12	9
Expenses related to health and safety	7	7
Other	25	26
TOTAL	**913**	**947**

11.5. Other operating income

	Year ended 31 December 2015	Year ended 31 December 2014
Penalties, fines, compensations received	35	37
Grants	18	11
Reversal of provisions (e.g. court cases)	17	42
Revenues related to illegal energy consumption	5	5
Surplus of revenues on reversal of actuarial provisions over headcount restructuring expenses	6	-
Other	10	12
TOTAL	**91**	**107**

11. Revenues and expenses (cont.)

11.6. Other operating expenses

	Year ended 31 December 2015	Year ended 31 December 2014
Loss on disposal/ liquidation of property, plant and equipment /intangible assets	46	20
Cost of remedying losses arising from unexpected events	38	28
Creation of provisions	33	26
Compensations	14	10
Costs related to illegal energy consumption	7	3
Litigation expenses	3	6
Surplus of headcount restructuring expenses over revenues on reversal of actuarial provisions	-	8
Goodwill impairment allowance	-	14
Other	8	10
TOTAL	**149**	**125**

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).

11.7. Financial income

	Year ended 31 December 2015	Year ended 31 December 2014
Income on financial instruments, including:	**58**	**111**
Interest income	58	90
Profit on sales of investments	-	15
Revaluation of financial assets (including reversal of impairment allowances for financial assets)	-	5
Foreign exchange differences	-	1
Other financial income	**1**	**4**
TOTAL	**59**	**115**

11.8. Financial costs

	Year ended 31 December 2015	Year ended 31 December 2014
Costs of financial instruments, including:	**264**	**286**
Interest expenses	261	284
Foreign exchange differences	3	2
Other financial costs, including:	**23**	**27**
Actuarial and other interests	19	22
Other	4	5
TOTAL	**287**	**313**

12. Income tax

12.1. Tax liabilities

The key components of the tax liability for the year ended 31 December 2015 are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Statement of profit or loss		
Current income tax expense	(181)	(235)
Adjustments to income tax for prior years	(8)	27
Deferred income tax expense	(23)	(31)
Tax expense recognized in the statement of profit or loss	**(212)**	**(239)**
Statement of comprehensive income		
Deferred income tax expense	(4)	20
Tax expense recognized in the statement of comprehensive income	**(4)**	**20**

With regard to income tax, the Group was principally subject to the general regulations in 2015. Except for the ENERGA Tax Group (see description in Note 12.4), 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 using the statutory tax rate to income tax calculated according to the Group's effective tax rate is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit before tax on continuing operations	**1,052**	**1,248**
Loss before tax on discontinued operations and disposal of assets classified as held for sale	-	(3)
Profit before tax	**1,052**	**1,245**
Tax at Poland's statutory tax rate of 19%	**(200)**	**(237)**
Adjustments to income tax for prior years	(8)	27
Tax impact of permanently non tax-deductible expenses	(16)	(14)
Tax impact on permanently non-taxable income	2	4
Tax losses	11	(6)
Temporary differences for which no deferred tax asset was recognized	(1)	(13)
Tax at the effective tax rate in the statement of profit or loss	**(212)**	**(239)**

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 2015 and 2014. 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. Income tax (cont.)

12.3. Deferred tax

The deferred tax results from the following items:

	As at 31 December 2015	As at 31 December 2014
Deferred tax assets	**520**	**513**
on the difference between the tax and carrying value of property, plant and equipment, intangible assets and inventories	149	142
on the difference between the tax and carrying value of financial assets and liabilities	51	89
power infrastructure received free of charge and connection fees received	65	71
on provisions for post-employment benefits	76	73
on provisions for jubilee bonuses	50	46
on provisions for redemption of certificates of origin	47	29
on provisions for reclamation and decomissioning costs of property, plant and equipment	7	7
on provisions for gas emission liabilities	6	8
unpaid employee salaries and benefits	4	5
on other provisions	36	44
accrued expenses	15	11
tax losses	7	16
other	7	3
Adjustment of the asset to the value to be realized in the future	-	(31)
Set-off	**(260)**	**(267)**
Deferred tax assets after set-off	**260**	**246**

	As at 31 December 2015	As at 31 December 2014
Deferred tax liabilities	**851**	**820**
on the difference between the tax and carrying value of property, plant and equipment and intangible assets	758	747
accrued revenues	48	27
on the difference between the tax and carrying value of energy certificates	13	19
on the difference between the tax and carrying value of financial assets and liabilities	28	26
other	4	1
Set-off	**(260)**	**(267)**
Deferred tax liabilities after set-off	**591**	**553**

The Group did not include in the balance sheet the deferred income tax asset on the value of outstanding tax losses incurred in 2012 - 2013 for the total amount of PLN 109 m.

12. Income tax (cont.)

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

	Year ended 31 December 2015	Year ended 31 December 2014
Deferred tax assets		
At the beginning of the reporting period	**513**	**555**
Increases	*82*	*108*
recognized in profit or loss	72	98
recognized in other comprehensive income	7	10
reinstatement of assets held for sale	3	-
Decreases	*(75)*	*(150)*
recognized in profit or loss	(75)	(150)
At the end of the reporting period	**520**	**513**
Unrecognized assets		
At the beginning of the reporting period	**-**	**(6)**
Decreases	*-*	*6*
At the end of the reporting period	**-**	**-**
Set-off	**(260)**	**(267)**
Deferred tax asset at the end of the reporting period	**260**	**246**
Deferred tax liabilities		
At the beginning of the reporting period	**820**	**846**
Increases	*79*	*60*
recognized in profit or loss	68	60
recognized in other comprehensive income	11	-
Decreases	*(48)*	*(86)*
recognized in profit or loss	(48)	(75)
recognized in other comprehensive income	-	(10)
disposal of subsidiary	-	(1)
At the end of the reporting period	**851**	**820**
Set-off	**(260)**	**(267)**
Deferred tax liabilities at the end of the reporting period	**591**	**553**

12.4. ENERGA Tax Group

On 27 January 2015, ENERGA SA and its related entities: 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. and EOB PGK2 Sp. z o.o. entered into a tax capital group agreement under the name of PGK ENERGA. The agreement was registered by the Head of the Pomorski Tax Authority on 27 February 2015. ENERGA SA was selected as the company representing the ENERGA Tax Group in respect to the duties arising from the Corporate Income Tax Act and the Tax Ordinance Act.

The launch date of ENERGA Tax Group's activity is 1 May 2015. The agreement was concluded for 3 fiscal years, that is until 31 December 2017. Income 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.

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. Property, plant and equipment

	Own land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value							
As at 1 January 2015	**141**	**10,902**	**4,730**	**270**	**645**	**1,086**	**17,774**
Direct purchase	-	-	2	1	-	1,473	**1,476**
Transfer from property, plant and equipment under construction	12	767	514	19	125	(1,437)	**-**
Sale, disposal	-	(18)	(3)	(6)	(4)	-	**(31)**
Liquidation	-	(39)	(20)	-	(3)	(18)	**(80)**
Received free of charge	-	7	1	-	-	-	**8**
Transfer from assets classified as held for sale	-	1	7	3	4	-	**15**
Capitalized financing expenses	-	-	-	-	-	10	**10**
Other changes	-	(4)	5	1	-	(1)	**1**
As at 31 December 2015	**153**	**11,616**	**5,236**	**288**	**767**	**1,113**	**19,173**
Accumulated depreciation and impairment losses							
As at 1 January 2015	**-**	**(3,422)**	**(1,441)**	**(154)**	**(293)**	**(149)**	**(5,459)**
Amortization for the period	-	(437)	(276)	(32)	(80)	-	**(825)**
Increase in impairment losses	-	(1)	-	-	-	(17)	**(18)**
Sale, disposal	-	4	3	6	4	-	**17**
Liquidation	-	16	15	-	3	-	**34**
Transfer from assets classified as held for sale	-	-	(5)	(2)	(4)	-	**(11)**
Other changes	-	1	-	-	-	-	**1**
As at 31 December 2015	**-**	**(3,839)**	**(1,704)**	**(182)**	**(370)**	**(166)**	**(6,261)**
Net value as at 1 January 2015	**141**	**7,480**	**3,289**	**116**	**352**	**937**	**12,315**
Net value as at 31 December 2015	**153**	**7,777**	**3,532**	**106**	**397**	**947**	**12,912**

13. Property, plant and equipment (cont.)

	Own land	Buildings, premises and civil and marine engineering facilities	Plant and equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment under construction	Total
Gross value							
As at 1 January 2014	**127**	**10,163**	**4,044**	**239**	**597**	**1,301**	**16,471**
Direct purchase	5	-	2	2	-	1,368	**1,377**
Transfer from property, plant and equipment under construction	11	823	702	26	54	(1,616)	**-**
Sale, disposal	(1)	(18)	(7)	(20)	(3)	(2)	**(51)**
Liquidation	-	(33)	(17)	(1)	(1)	(4)	**(56)**
Reclassification between groups	-	(14)	6	(10)	-	18	**-**
Transfer to assets classified as held for sale	-	(2)	(7)	(3)	(3)	-	**(15)**
Transfer from assets classified as held for sale	-	11	10	38	3	-	**62**
Transfer to investment property	(1)	(33)	(2)	-	(2)	(1)	**(39)**
Capitalized financing expenses	-	-	-	-	-	20	**20**
Disposal of subsidiary	-	(6)	(1)	(1)	-	-	**(8)**
Provision for land reclamation and liquidation costs	-	9	2	-	-	-	**11**
Other changes	-	2	(2)	-	-	2	**2**
As at 31 December 2014	**141**	**10,902**	**4,730**	**270**	**645**	**1,086**	**17,774**
Accumulated depreciation and impairment losses							
As at 1 January 2014	**-**	**(3,024)**	**(1,226)**	**(120)**	**(228)**	**(112)**	**(4,710)**
Amortization for the period	-	(430)	(237)	(39)	(73)	-	**(779)**
Increase in impairment losses	-	(3)	(1)	-	-	(39)	**(43)**
Decrease in impairment losses	-	6	3	-	-	2	**11**
Sale, disposal	-	3	6	18	3	-	**30**
Liquidation	-	15	11	1	1	-	**28**
Transfer to assets classified as held for sale	-	-	5	2	4	-	**11**
Transfer from assets classified as held for sale	-	(3)	(5)	(16)	(1)	-	**(25)**
Transfer to investment property	-	13	1	-	1	-	**15**
Other changes	-	1	2	-	-	-	**3**
As at 31 December 2014	**-**	**(3,422)**	**(1,441)**	**(154)**	**(293)**	**(149)**	**(5,459)**
Net value as at 1 January 2014	**127**	**7,139**	**2,818**	**119**	**369**	**1,189**	**11,761**
Net value as at 31 December 2014	**141**	**7,480**	**3,289**	**116**	**352**	**937**	**12,315**

13. Property, plant and equipment (cont.)

The carrying amount of property, plant and equipment constituting security for liabilities is disclosed in Note 28.8.

Impairment tests for property, plant and equipment

In connection with changes occurring in its market environment in 2015, such as the declining prices of certificates of origin of energy and persisting low prices for electricity in forward and spot contracts, 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 for cash generating units ("CGUs") 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) price forecasts have been adopted for electricity, coal, CO_2 allowances and for certificates of origin, based on a report on the Polish market prepared for the Group by an independent agency in May 2015; the forecast was prepared with the timeframe until 2035;
b) assumptions adopted for costless CO_2 emission allowances for 2015-2021 as specified in the Regulation of the Council of Ministers of 31 March 2015 (Item 439) and 8 April 2015 (Item 472),
c) assumptions made for capital expenditures at the levels allowing for maintenance of the production capacity of the existing non-current assets after replacement investments, including capital expenditures to adjust industrial emission levels to the requirements of the Industrial Emission Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010,
d) support maintained for production of energy from renewable sources in accordance with the Renewable Energy Sources Act of 20 February 2015,
e) support system maintained for high-efficient cogeneration throughout the forecast period,
f) Operating Reserve maintained throughout the forecast period,
g) the length of forecasts for the individual CGUs has been adopted in such a way to ensure that the cash flow used to calculate residual value was as similar as possible to the cash flows expected in the coming years (in the case of CGU Ostrołęka B and CGU EC Elbląg, projections were extended to consider the negative effect of the termination of support in the form of green certificates).

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

The impairment test for CGU Ostrołęka B was conducted as at 30 November 2015. The value in use was calculated on the basis of financial projections for the period of December 2015 - December 2022 and residual value. To calculate value in use of CGU Ostrołęka B, a discount rate was applied, which was equal to the weighted average cost of capital (WACC) at 7.50% (6.90% 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 losses on CGU Ostrołęka B.

Heating network in Ostrołęka ("CGU OPEC")

The impairment test for CGU OPEC was conducted as at 31 May 2015. The value in use was calculated on the basis of financial projections for the period of June 2015 - December 2020 and residual value. To calculate value in use of CGU OPEC, a discount rate was applied, which was equal to the weighted average cost of capital (WACC) at 7.15% (6.08% 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%.

Based on the results of the test, the Group has found no need to change the impairment losses on CGU OPEC.

Combined Heat and Power Plant Elbląg with biomass-fired installation ("CGU CHP Elbląg")

The impairment test for CGU CHP Elbląg (including the biomass unit) was conducted as at 30 November 2015. The value in use was calculated on the basis of financial projections for the period of December 2015 - December 2030 and residual value. The discount rate at the pre-tax weighted-average cost of capital (WACC) used for calculation was 7.52% (6.12% after tax). No growth rate was used to extrapolate the cash flow forecasts beyond 2030.

Based on the results of the test, the Group has found no need to recognize impairment losses on CGU CHP Elbląg.

Wind farms ("CGU Karcino, Karścino, Bystra, Myślino")

The impairment tests for the wind farms were conducted as at 31 May 2015. The value in use was calculated on the basis of financial projections for the full useful life period of the wind farms, that is 25 years.The discount rates at the pre-tax weighted-average cost of capital (WACC) used for calculation fell within the range from 7.33% to 7.73% (5.94% after tax).

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

Sensitivity analysis

The estimated impact of the change of selected parameters on the overall valuation of the above-mentioned tested assets of the generation segment is presented below.

13. Property, plant and equipment (cont.)

The sensitivity analyses show that the factors with the highest impact on the estimated value in use of the above CGUs are: electricity prices, hard coal prices and discount rates. In case of their negative change, impairment losses may have to be recognized for the total amount specified below.

The sensitivity analysis takes into account the change of the factors over the entire forecast period.

Parameter	Amount and direction of change	Impact on overall appraisal value of tested CGUs		Possible impairment allowance
		Increase in value	Decrease in value	
Electricity prices	[+ 1%]	117	-	-
	[- 1%]	-	(127)	81
Coal prices	[+ 1%]	-	(59)	28
	[- 1%]	56	-	-
Discount rates	[+ 0.5 p.p.]	-	(122)	12
	[- 0.5 p.p.]	144	-	-

If market conditions change, there is a risk that test results will be different in the future.

Wind projects

During the financial year, following the verification of the possible further development of wind projects, a number of factors were identified in certain locations (such as inability to obtain the rights to land, negative provisions in the Local Zoning Plan or negative stance of the municipality) that would prevent further development of the projects. Consequently, a decision was made to restate the value or liquidate 12 projects with a total amount of PLN 31.8 m, of which:

- PLN 11.4 m was recognized in the Q2 2015 result,
- PLN 20.4 m was recognized in the Q4 2015 result.

14. 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 2015	**463**	**328**	**87**	**122**	**76**	**748**
Direct purchase	4	4	-	1	91	**96**
Transfer of intangible assets not in use	52	37	1	8	(61)	**-**
Sale, disposal	-	-	(1)	-	-	**(1)**
Liquidation	(4)	(3)	-	-	(3)	**(7)**
Reclassification between groups	79	65	-	(79)	-	**-**
As at 31 December 2015	**594**	**431**	**87**	**52**	**103**	**836**
Accumulated amortization and impairment losses						
As at 1 January 2015	**(276)**	**(168)**	**(18)**	**(61)**	**-**	**(355)**
Amortization for the period	(77)	(61)	(3)	(10)	-	**(90)**
Liquidation	4	3	-	-	-	**4**
Reclassification between groups	(53)	(47)	-	53	-	**-**
As at 31 December 2015	**(402)**	**(273)**	**(21)**	**(18)**	**-**	**(441)**
Net value as at 1 January 2015	**187**	**160**	**69**	**61**	**76**	**393**
Net value as at 31 December 2015	**192**	**158**	**66**	**34**	**103**	**395**

14. Intangible assets (cont.)

	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**	**246**	**88**	**102**	**104**	**676**
Direct purchase	1	-	-	-	77	**78**
Transfer of intangible assets not in use	84	82	1	23	(108)	**-**
Sale, disposal	(1)	(1)	(2)	-	-	**(3)**
Liquidation	(2)	-	-	(1)	(1)	**(4)**
Reclassification between groups	(2)	-	-	(1)	3	**-**
Capitalized financing expenses	-	-	-	-	1	**1**
Other changes	1	1	-	(1)	-	**-**
As at 31 December 2014	**463**	**328**	**87**	**122**	**76**	**748**
Accumulated amortization and impairment losses						
As at 1 January 2014	**(208)**	**(117)**	**(17)**	**(52)**	**-**	**(277)**
Amortization for the period	(69)	(50)	(2)	(10)	-	**(81)**
Decrease in impairment losses	-	-	1	-	-	**1**
Liquidation	2	-	-	1	-	**3**
Other changes	(1)	(1)	-	-	-	**(1)**
As at 31 December 2014	**(276)**	**(168)**	**(18)**	**(61)**	**-**	**(355)**
Net value as at 1 January 2014	**174**	**129**	**71**	**50**	**104**	**399**
Net value as at 31 December 2014	**187**	**160**	**69**	**61**	**76**	**393**

15. Goodwill

No changes in goodwill occurred in the current reporting period.

As at 31 May 2015, the Group conducted impairment tests of the goodwill recognized as a result of the acquisition of heating assets and wind farms. The total tested goodwill amounted to PLN 143 m. The tests were conducted using the discounted cash flow method based on the projection of assets to which goodwill is attributed. The discount rates at the pre-tax weighted-average cost of capital (WACC) were used and fell within the range from 6.74% to 7.73%. Based on the results, no impairment losses on goodwill were required at the end of the reporting period.

The performed sensitivity analyses show that the key factor affecting the estimate of the value in use are the discount rate and projected price paths for electricity and property rights. In case of significant changes in market conditions there is a risk that test results will be different in the future.

As at 31 December 2014, 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 loss on the goodwill allocated to CGU EMG in the amount of PLN 14 m.

16. Inventories

	31 December 2015			31 December 2014		
	Historical cost	Impairment losses	Net value	Historical cost	Impairment losses	Net value
Energy certificates of origin	351	-	**351**	158	-	**158**
Materials	94	(1)	**93**	89	(1)	**88**
CO2 emission allowances	34	-	**34**	32	-	**32**
Semi-finished products and production in progress	16	-	**16**	-	-	**-**
Merchandise	20	(1)	**19**	19	(1)	**18**
TOTAL	**515**	**(2)**	**513**	**298**	**(2)**	**296**

Group companies recognize impairment losses on 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.

17. CO_2 emission allowances

Emission volumes and gas emission allowances awarded free of charge are presented in the table below:

	Year ended 31 December 2015	Year ended 31 December 2014
CO_2 emissions from all installations (thousands of tons), including:	**2,349**	**3,286**
Number of emission allowances received free of charge	1,408	1,633
Number of emission allowances paid for	941	1,653
Cost of the obligation to redeem CO_2 emission allowances (PLN m)	**33**	**41**

18. 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.

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

	As at 31 December 2015	As at 31 December 2014 (restated)
Cash at bank and in hand	705	701
Short-term deposits up to 3 months	964	1,231
Total cash and cash equivalents presented in the statement of financial position	**1,669**	**1,932**
Unrealized exchange rate differences and interest	1	(13)
Cash classified as assets held for sale	-	3
Current account overdraft	(12)	(11)
Total cash and cash equivalents presented in the statement of cash flows	**1,658**	**1,911**
including restricted cash	-	-

19. Other assets

19.1. Other non-current assets

	As at 31 December 2015	As at 31 December 2014 (restated)
Long-term prepayments and accrued expenses	50	36
Investment property	41	41
Advances for property, plant and equipment under construction and intangible assets	9	14
Long-term receivables	3	5
TOTAL	**103**	**96**

19.2. Other current assets

	As at 31 December 2015	As at 31 December 2014
VAT receivables	115	142
Advances for deliveries	58	22
Deferred costs	46	39
Other tax receivables	7	-
Other current assets	6	5
TOTAL	**232**	**208**

20. Assets classified as held for sale

In Q3 2014, the Group has taken action to sell the 100% stake held by the Company in ENERGA Serwis Sp. z o.o. Despite the initial interest shown by potential investors, the Group did not receive any binding purchase offers. As at the final date of the reporting period, no active measures are taken any more to sell the shares in the company. Accordingly, the Group ceased to classify the assets and liabilities of this company as held for sale. The amount of non-current assets was adjusted for amortization and depreciation, which would have been recognized had they been not classified as held for sale. This adjustment of PLN 0.3 m was charged to cost of sales.

21. Share capital and other capital

21.1. Share capital

As at 31 December 2015, the share capital of ENERGA SA amounted to PLN 4,522 m and was divided into shares as specified below:

	As at 31 December 2015	As at 31 December 2014
AA series bearer shares with par value of PLN 10.92 each	269,139,114	269,139,114
BB series registered shares with par value of PLN 10.92 each	144,928,000	144,928,000
Total number of shares	**414,067,114**	**414,067,114**

21.2. Major shareholders

	Year ended 31 December 2015	Year ended 31 December 2014
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%

21. Share capital and other capital (cont.)

21.3. 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 these financial statements, 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%.

21.4. 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.

21.5. 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 Company 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 financial 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 financial statements and cannot be allocated to other purposes.

21.6. 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 28.7).

21.7. 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.

21.8. Non-controlling interest

As at 31 December 2015, equity attributable to non-controlling interest refer to minority shareholders of companies in the generation segment, in particular ENERGA Elektrownie Ostrołęka SA.

22. Earnings per share

There were no diluting instruments in the Parent 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.

	Year ended 31 December 2015	Year ended 31 December 2014
Net profit on continuing operations attributable to equity holders of the Parent Company	832	985
Net loss on discontinued operations attributable to equity holders of the Parent Company	-	(3)
Net profit attributable to common equity holders of the Parent Company	**832**	**982**
Number of shares at the end of the reporting period (millions)	414	414
Number of shares used to calculate earnings per share (millions)	414	414
Earnings per share on continuing operations (basic and diluted) (in PLN)	**2.01**	**2.38**
Loss per share on discontinued operations (basic and diluted) (in PLN)	**0.00**	**(0.01)**

23. Dividends

	Year ended 31 December 2015	Year ended 31 December 2014
Dividends declared in the period		
dividend declared by subsidiaries	-	-
dividend declared by the Parent Company	596	414
TOTAL	**596**	**414**
Dividends paid in the period		
dividend paid in the period by subsidiaries to non-controlling shareholders	-	-
dividend paid in the period by the Parent Company	596	414
of which attributable to preferred shares	*209*	*145*
TOTAL	**596**	**414**

On 29 April 2015, the Annual General Meeting of the Parent Company adopted a resolution to distribute the 2014 profit, out of which PLN 596 m, i.e. PLN 1.44 per share, was allocated to a dividend for the Company's shareholders (the dividend in 2014 was PLN 1 per share).

By the date of approval of these financial statements for publication, the proposed distribution of the 2015 profit has not been adopted.

24. Provisions

24.1. Provisions for employee benefits

The Group measures provisions for post-employment benefits and for jubilee bonuses (see description in note 9.14) using actuarial methods.

The amounts of provisions for employee benefits and the reconciliation of changes to the balances are presented in the tables below.

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructuring	Total
As at 1 January 2015	**108**	**209**	**71**	**241**	**18**	**647**
Current service cost	5	2	2	14	-	**23**
Actuarial gains and losses, of which arising from changes in assumptions:	4	16	(13)	11	-	**18**
financial	5	27	(7)	7	-	**32**
demographic	5	2	1	6	-	**14**
other	(6)	(13)	(7)	(2)	-	**(28)**
Benefits paid	(3)	(10)	(3)	(18)	-	**(34)**
Interest costs	3	6	2	7	-	**18**
Reversed	(1)	(2)	(1)	(2)	(10)	**(16)**
Used	-	-	-	-	(6)	**(6)**
Transfer from liabilities related to assets classified as held for sale	4	2	1	8	-	**15**
As at 31 December 2015, including:	**120**	**223**	**59**	**261**	**2**	**665**
Short-term	**4**	**10**	**3**	**20**	**2**	**39**
Long-term	**116**	**213**	**56**	**241**	**-**	**626**

24. Provisions (cont.)

	Pension and similar benefits	Energy tariff	Company Social Benefit Fund	Jubilee bonuses	Restructu-ring	Total
As at 1 January 2014	**92**	**195**	**47**	**227**	**81**	**642**
Current service cost	7	3	2	18	-	**30**
Actuarial gains and losses, of which arising from changes in assumptions:	18	16	23	25	-	**82**
financial	18	13	22	28	-	**81**
demographic	(1)	-	-	(1)	-	**(2)**
other	1	3	1	(2)	-	**3**
Benefits paid	(2)	(9)	(2)	(21)	-	**(34)**
Interest costs	3	7	2	8	-	**20**
Recognized	-	-	-	-	20	**20**
Reversed	(6)	(4)	(1)	(10)	(26)	**(47)**
Used	-	-	-	-	(70)	**(70)**
Reclassified	(4)	(3)	(1)	(5)	13	**-**
Transfer from liabilities related to assets classified as held for sale	4	6	2	7	-	**19**
Transfer to liabilities related to assets classified as held for sale	(4)	(2)	(1)	(8)	-	**(15)**
As at 31 December 2014, including:	**108**	**209**	**71**	**241**	**18**	**647**
Short-term	**4**	**10**	**3**	**16**	**18**	**51**
Long-term	**104**	**199**	**68**	**225**	**-**	**596**

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

	Year ended 31 December 2015	Year ended 31 December 2014
Discount rate	2.88%	2.68%
Employee turnover rate	4.56%	4.49%
Expected salary growth rate	4.00%	4.00%
Expected growth rate of the Company Social Benefit Find (“ZFŚS”) charge	3.60%	4.70%
Base of the ZFŚS charge	3.00%	3.00%
Expected energy equivalent growth rate	0.70%	0.70%

24. Provisions (cont.)

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 social benefit fund and the energy tariff as follows:

Actuarial provisions	Carrying amount	Analysis of sensitivity to discount rate changes		Analysis of sensitivity to changes in the provisions calculation base	
	PLN	deviation in PLN			
		discount rate +1 p.p.	*discount rate -1 p.p.*	*base +1%*	*base -1%*
As at 31 December 2015					
Provision for pension and similar benefits	120	(14)	17	16	(14)
Energy tariff	223	(43)	59	58	(43)
Company Social Benefit Fund	59	(10)	13	13	(10)
Jubilee bonuses	261	(23)	27	26	(23)
TOTAL	**663**	**(90)**	**116**	**113**	**(90)**
Contribution to profit before tax		*(23)*	*27*	*26*	*(23)*
As at 31 December 2014					
Provision for pension and similar benefits	108	(14)	17	17	(14)
Energy tariff	209	(28)	35	34	(27)
Company Social Benefit Fund	71	(10)	13	12	(10)
Jubilee bonuses	241	(20)	24	23	(21)
TOTAL	**629**	**(72)**	**89**	**86**	**(72)**
Contribution to profit before tax		*(20)*	*24*	*23*	*(21)*

24.2. Other provisions

	Legal claims	Land reclamation and liquidation costs*	Liabilities for gas emissions	Redemption of certificates of origin	Other provisions	Total
As at 1 January 2015	**83**	**36**	**40**	**154**	**46**	**359**
Interest costs	-	1	-	-	-	1
Recognized	33	3	33	258	45	372
Reversed	(18)	(2)	-	-	(3)	(23)
Used	(1)	-	(40)	(165)	(33)	(239)
As at 31 December 2015, including:	**97**	**38**	**33**	**247**	**55**	**470**
Short-term	**97**	**-**	**33**	**247**	**55**	**432**
Long-term	**-**	**38**	**-**	**-**	**-**	**38**

* The recognition amount for the provision for reclamation and liquidation costs in 2015 arises from changes in the estimated amounts; provision reversal results from a change in the discount rate to 2.88%.

	Legal claims	Land reclamation and liquidation costs*	Liabilities for gas emissions	Redemption of certificates of origin	Other provisions	Total
As at 1 January 2014	**100**	**24**	**63**	**117**	**48**	**352**
Interest costs	-	1	-	-	-	1
Recognized	27	11	38	154	50	280
Reversed	(42)	-	(36)	-	(13)	(91)
Used	(2)	-	(25)	(117)	(39)	(183)
As at 31 December 2014, including:	**83**	**36**	**40**	**154**	**46**	**359**
Short-term	**83**	**-**	**40**	**154**	**46**	**323**
Long-term	**-**	**36**	**-**	**-**	**-**	**36**

* The recognition amount for the provision for reclamation and liquidation costs in 2014 in the amount of PLN 11 m arises from a change in the discount rate to 2.68%.

24. Provisions (cont.)

Provision for land reclamation and liquidation costs

In 2008, ENERGA Elektrownie Ostrołęka SA recognized the provision for ash landfills reclamation, which will be amortized until 2050.

This category also presents provisions for the dismantling costs of the following wind farms:

- FW Bystra – provision recognized in 2012 and amortized until 2037,
- FW Karścino, FW Mołtowo, FW Krukowo – provisions recognized in 2009 and amortized until 2034,
- FW Karcino – provision recognized in 2010 and amortized until 2035,
- FW Myślino – provision recognized in 2015 and amortized until 2040.

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 legal claims are the court cases relating to power infrastructure located on private land without the necessary legal titles. The balance of these provisions was PLN 79 m at the end of 2015 and PLN 66 m at the end of 2014.

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.

25. Other current liabilities

	As at 31 December 2015	As at 31 December 2014
Liabilities on account of taxes, customs duties, social security, salaries and others	**115**	**162**
VAT	47	66
Liabilities on social security insurance	41	38
Excise tax	-	27
Personal income tax	15	16
Environmental fees	11	14
Other	1	1
Other non-financial liabilities	**142**	**201**
Deferred counterparty payments and advances received	105	132
Payroll liabilities	28	28
Liabilities to employees on account of restructuring severance pay	8	38
Other	1	3
TOTAL	**257**	**363**

26. Deferred income and government grants

	As at 31 December 2015	As at 31 December 2014 (restated)
Connection fees	279	293
Grants received	206	191
Property, plant and equipment acquired free of charge	64	59
Rental income	12	17
Accruals for annual bonus and other employee bonuses	89	86
Accruals for unused holiday leaves	27	26
Awards for Management Boards	8	9
Other deferred income	7	3
TOTAL, of which:	**692**	**684**
Long-term	**531**	**526**
Short-term	**161**	**158**

As at 31 December 2015, the Group recognizes as grants: primarily the valuation effect of the preferential loan from the European Investment Bank in the amount of PLN 95 m, which is recognized over the loan repayment period (see descriptions in Notes 9.17 and 28.6) and co-financing of PLN 39 m received to execute the biomass-fired power unit building project in Elbląg, which is recognized over the depreciation period of the assets until 2054. In the case of the co-financing of the construction of the unit in Elbląg, the Group is obligated to achieve appropriate performance ratios (specified production levels of electricity and heat) throughout the duration of the project. The ratios were satisfied as at 31 December 2015 and for the year ended on that date.

27. 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.

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

	As at 31 December 2015	As at 31 December 2014
Loans granted to employees	11	13
Cash	5	5
Fund's liabilities	16	18
Balance after set-off	**-**	**-**
Charges to the fund in the period	30	32

NOTES ON FINANCIAL INSTRUMENTS

28. Financial instruments

28.1. Carrying value of financial instruments by category and class

As at 31 December 2015	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets							
Trade receivables	-	1,762	-	-	-	-	**1,762**
Portfolio of financial assets	322	-	-	-	-	-	**322**
Cash and cash equivalents	-	-	1,669	-	-	-	**1,669**
Other financial assets	-	58	-	-	40	-	**98**
Bonds, treasury bills and other debt instruments	-	19	-	-	-	-	**19**
Derivative financial instruments	-	-	-	-	40	-	**40**
Other	-	39	-	-	-	-	**39**
TOTAL	**322**	**1,820**	**1,669**	**-**	**40**	**-**	**3,851**
Liabilities							
Loans and borrowings	-	-	-	2,678	-	-	**2,678**
Preferential loans and borrowings	-	-	-	1,550	-	-	**1,550**
Loans and borrowings	-	-	-	1,116	-	-	**1,116**
Current account overdraft	-	-	-	12	-	-	**12**
Bonds issued	-	-	-	3,192	-	-	**3,192**
Trade liabilities	-	-	-	877	-	-	**877**
Other financial liabilities	-	-	-	186	8	24	**218**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	155	-	-	**155**
Derivative financial instruments	-	-	-	-	8	-	**8**
Other	-	-	-	31	-	24	**55**
TOTAL	**-**	**-**	**-**	**6,933**	**8**	**24**	**6,965**

28. Financial instruments (cont.)

As at 31 December 2014 (restated)	Financial assets at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Hedging derivatives	Financial instruments excluded from the scope of IAS 39	TOTAL
Assets							
Trade receivables	-	1,551	-	-	-	-	**1,551**
Portfolio of financial assets	764	-	-	-	-	-	**764**
Cash and cash equivalents	-	-	1,932	-	-	-	**1,932**
Other financial assets	-	47	-	-	29	-	**76**
Bonds, treasury bills and other debt instruments	-	19	-	-	-	-	**19**
Derivative financial instruments	-	-	-	-	29	-	**29**
Other	-	28	-	-	-	-	**28**
TOTAL	**764**	**1,598**	**1,932**	**-**	**29**	**-**	**4,323**
Liabilities							
Loans and borrowings	-	-	-	2,561	-	-	**2,561**
Preferential loans and borrowings	-	-	-	1,431	-	-	**1,431**
Loans and borrowings	-	-	-	1,118	-	-	**1,118**
Current account overdraft	-	-	-	12	-	-	**12**
Bonds issued	-	-	-	3,189	-	-	**3,189**
Trade liabilities	-	-	-	869	-	-	**869**
Other financial liabilities	-	-	-	233	23	5	**261**
Liabilities on purchase of property, plant and equipment and intangible assets	-	-	-	211	-	-	**211**
Derivative financial instruments	-	-	-	-	23	-	**23**
Other	-	-	-	22	-	5	**27**
TOTAL	**-**	**-**	**-**	**6,852**	**23**	**5**	**6,880**

28. Financial instruments (cont.)

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

Year ended 31 December 2015	Assets measured at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Derivatives	TOTAL
Interest income/ (cost)	11	24	23	(213)	(48)	**(203)**
Foreign exchange differences	(3)	-	-	-	-	**(3)**
Reversal of impairment losses/ increase in value	-	32	-	-	-	**32**
Recognition of impairment losses/ decrease in value	-	(72)	-	-	-	**(72)**
Net profit/ (loss)	**8**	**(16)**	**23**	**(213)**	**(48)**	**(246)**
Other comprehensive income	-	-	-	-	28	**28**
Comprehensive income	**8**	**(16)**	**23**	**(213)**	**(20)**	**(218)**

Year ended 31 December 2014 (restated)	Assets measured at fair value through profit or loss	Loans and receivables	Cash and cash equivalents	Financial liabilities measured at amortized cost	Derivatives	TOTAL
Interest income/ (cost)	19	32	41	(254)	(32)	**(194)**
Foreign exchange differences	9	-	-	(59)	49	**(1)**
Reversal of impairment losses/ increase in value	-	55	-	-	-	**55**
Recognition of impairment losses/ decrease in value	-	(86)	-	-	-	**(86)**
Profit/ (loss) on sales of investments	6	-	-	-	-	**6**
Net profit/ (loss)	**34**	**1**	**41**	**(313)**	**17**	**(220)**
Other comprehensive income	-	-	-	-	(54)	**(54)**
Comprehensive income	**34**	**1**	**41**	**(313)**	**(37)**	**(274)**

28. Financial instruments (cont.)

28.3. Fair value of financial instruments

28.3.1. 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 categorized 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.

	31 December 2015	31 December 2014 (restated)
	Level 2	Level 2
Assets		
Portfolio of financial assets	322	764
Hedging derivatives (CCIRS I)	38	28
Hedging derivatives (CCIRS II)	2	1
Liabilities		
Hedging derivatives (IRS)	8	23

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.

28.3.2. Financial instruments not measured at fair value on an ongoing 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.

Liabilities arising from the issue of Eurobonds	Carrying amount	Fair value Level 1
As at 31 December 2015	2,176	2,266
As at 31 December 2014	2,174	2,350

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 2015.

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 losses.

28.4. ENERGA Trading SFIO fund

The Group has been investing in a portfolio of assets financed through the Fund in which it has 100% participation units.

The Fund 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 Group classifies the following assets within the Fund portfolio structure:

- treasury bills and bonds,
- corporate debt instruments – financial sector,
- corporate debt instruments – non-financial sector,
- bonds issued by Bank Gospodarstwa Krajowego,
- mortgage bonds,
- municipal bonds,
- other.

28. Financial instruments (cont.)

The following table presents the structure of the Fund's assets at the end of the reporting period and comparative periods. The table does not include the Fund's liabilities and accordingly cannot be reconciled to the statement of financial position.

	As at 31 December 2015	As at 31 December 2014	As at 1 January 2014
Treasury bills and bonds	115	342	232
Corporate debt instruments – financial sector	51	257	75
Corporate debt instruments – non-financial sector	29	68	29
Bonds issued by Bank Gospodarstwa Krajowego	47	123	104
Mortgage bonds	63	101	117
Municipal bonds	17	40	10
TOTAL	**322**	**931**	**567**

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

28.5.1. Financial assets

Loans and receivables

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

Trade receivables	Not overdue	Overdue (days)					Total
		<30	30–90	90-180	180-360	>360	
As at 31 December 2015							
Before impairment allowances	1,502	165	67	29	40	245	**2,048**
Impairment allowances	(1)	(2)	(4)	(5)	(29)	(245)	**(286)**
After impairment allowances	**1,501**	**163**	**63**	**24**	**11**	**-**	**1,762**
As at 31 December 2014							
Before impairment allowances	1,286	161	78	28	43	239	**1,835**
Impairment allowances	(1)	(2)	(5)	(6)	(31)	(239)	**(284)**
After impairment allowances	**1,285**	**159**	**73**	**22**	**12**	**-**	**1,551**

Hedging derivatives

Hedging derivatives, CCIRS and IRS, are described in detail in Note 28.7.

Financial assets at fair value through profit or loss

The Company classifies as financial assets at fair value through profit or loss its investments in the financial assets portfolio, which consists of participation units in the ENERGA Trading SFIO Fund.

Impairment allowances on financial assets

	Impairment of trade receivables	Impairment of bonds, treasury bills and other debt instruments
Impairment losses as at 1 January 2015	**284**	**25**
Recognition of impairment allowances	72	-
Used	(38)	-
Unused amounts written off (reversal of the allowance)	(32)	-
Impairment allowances as at 31 December 2015	**286**	**25**
Impairment losses as at 1 January 2014	**252**	**30**
Recognition of impairment allowances	86	-
Used	(4)	-
Unused amounts written off (reversal of the allowance)	(50)	(5)
Impairment allowances as at 31 December 2014	**284**	**25**

28. Financial instruments (cont.)

28.5.2. Financial liabilities

All of the Group's financial liabilities are classified as financial liabilities measured at amortized cost, except for hedging 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 2015	As at 31 December 2014
Currency	PLN	
Reference rate	WIBOR, Rediscount rate	
Value of the loan/ borrowing	**2,678**	**2,561**
Of which maturing in:		
up to 1 year (short-term)	203	171
1 to 2 years	223	189
2 to 3 years	259	209
3 to 5 years	561	512
over 5 years	1,432	1,480

As at 31 December 2015 and 31 December 2014, the amount of credit limits available to the Group was PLN 4,763 m (57.4% used) and PLN 4,937 m (53.3% used), respectively.

Detailed information on contracted loans and borrowings is presented in Note 28.6.

Liabilities under bonds issued

	As at 31 December 2015	As at 31 December 2014
Currency	PLN	
Reference rate	WIBOR	
Value of the issue	**1,016**	**1,014**
of which maturing in:		
up to 1 year (short-term)	16	14
3 to 5 years	1,000	1,000

	As at 31 December 2015	As at 31 December 2014
Currency	EUR	
Reference rate	fixed	
Value of the issue		
in currency	511	510
in PLN	2,176	2,175
of which maturing in:		
up to 1 year (short-term)	60	58
3 to 5 years	2,116	-
over 5 years	-	2,117

Detailed information on bonds issued is provided in Note 28.6.

28.6. Available external financing

In the current reporting period:

- under the credit agreement with the European Investment Bank (EIB) with the limit of PLN 1,000, a tranche of PLN 200 m was committed,
- an investment loan from the Nordic Investment Bank ("NIB") was committed in the full amount of PLN 67 m;
- ENERGA SA entered into a master loan agreement with Bank Handlowy w Warszawie SA with a limit of PLN 75 m.

In the current reporting period and as at the last day of the reporting period and as at the date of approving these financial statements for publication, there were no events of default on contractual obligations under the terms and conditions of any external funding acquired.

28. Financial instruments (cont.)

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 expansion and modernization of the distribution grid:

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

The above funding has been fully utilised and the following amounts are still outstanding and remain to be repaid: to EIB – PLN 805.7 m with the final maturity of 15 December 2025, to EBRD – PLN 523.2 m with the final maturity of 18 December 2024, to NIB – PLN 140.5 m with the final maturity of 15 June 2022.

In 2014, ENERGA SA with ENERGA-OPERATOR SA and EBRD amended the above loan agreement, as a result of which, among others, the available loan amount increased by PLN 276 m and is to be used to fund ENERGA-OPERATOR SA's capital expenditures, with the funds available for drawdown by the end of 2016. As at 31 December 2015, the additional financing amount had not been committed.

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:

- agreement with EBRD with a limit of PLN 800 m – as at 31 December 2015, 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;
- agreement with EIB with a limit of PLN 1,000 m – as at 31 December 2015, PLN 800.0 m of the loan has been utilized, out of which PLN 200 m was drawn down in Q1 2015 (PLN 233.3 m matures in 1 to 5 years, while the remaining amount in the period of above 5 years). PLN 200 m remains available. The final maturity of the drawn loan is 15 March 2030.

Eurobond issue program

As part of the Euro Medium Term Note (EMTN) issue program launched in 2012 for up to EUR 1,000 m, on 19 March 2013, the subsidiary Energa Finance AB (publ) conducted the first issue of Eurobonds in the amount 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 on 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 2015, the bonds issued by ENERGA SA have been listed on the regulated market run by BondSpot S.A.

Loans from PKO Bank Polski SA

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

- 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 2015, the financing limit for the aggregated amount of PLN 110.7 m was committed of which PLN 13.8 m has been used, including PLN 0.6 m in the form of bank guarantees. The limit will expire on 30 August 2016;
- 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 2015, the financing limit for the aggregated amount of PLN 117.2 m has been committed, of which PLN 103.2 m has been used, all in the form of bank guarantees. The limit will expire on 19 September 2017.
- agreement for arranging loans for ENERGA SA with a total limit of PLN 300 m. As at 31 December 2015, the financing was not used. The limit will expire on 11 October 2016.

Loans from Bank Pekao SA

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

- renewable loan agreement with a limit of PLN 500 m. As at 31 December 2015, the loan has not been used. The final maturity of the loan is 29 May 2020;
- 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 2015 was PLN 25 m. The final maturity of the loan is 29 May 2022.

Loans from Bank Handlowy w Warszawie SA

On 14 May 2015, ENERGA SA concluded a master agreement with Bank Handlowy w Warszawie SA setting forth the terms and conditions of availability of different forms of loan transactions for ENERGA Group entities up to the limit amount of PLN 75 m. As at 31 December 2015, the financing was not used. The limit will expire on 30 May 2020.

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. The bonds may only be issued as short-term securities. As at 31 December 2015, no bond issue has been carried out under the agreement. As at 31 December 2015, PLN 77.8 m was available under the bond issue agreement.

28. Financial instruments (cont.)

NIB loan

On 23 October 2014, ENERGA SA signed an investment loan agreement with NIB in the amount of PLN 67 m to finance the Myślino wind farm construction project. In the current reporting period, the full amount of the loan was committed. The final maturity of the loan is 15 September 2026, of which PLN 28.7 m is to be repaid within 1 to 5 years and the remaining amount in the period of above 5 years.

28.7. Cash flow hedge accounting

FX risk hedging

The special purpose vehicle ENERGA Finance AB (publ) (the issuer of Eurobonds – see description in Note 28.6) 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 2015, 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 2015, the Group concluded interest rate swap transactions to hedge the interest rate risk arising from the financing used under (see description in Note 28.6):

- 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 hedges was:

	Value	Recognition in the statement of financial position
As at 31 December 2015		
CCIRS I	38	Non-current assets – Other financial assets
CCIRS II	2	Non-current assets – Other financial assets
IRS	8	Liabilities and equity – Other non-current financial liabilities
As at 31 December 2014		
CCIRS I	28	Non-current assets – Other financial assets
CCIRS II	1	Non-current assets – Other financial assets
IRS	23	Liabilities and equity – Other non-current financial liabilities

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.

28. Financial instruments (cont.)

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

Change in cash flow hedge reserve during the reporting period	Year ended 31 December 2015	Year ended 31 December 2014
At the beginning of the reporting period	**(17)**	**27**
Amount recognized in the cash flow hedge reserve in the period, equal to the change in the fair value of hedging instruments	26	(6)
Accrued interest transferred from the reserve to financial income/ costs	2	1
Revaluation of hedging instruments transferred from the reserve to financial income/ costs	-	(49)
Income tax on other comprehensive income	(5)	10
At the end of the reporting period	**6**	**(17)**

As at 31 December 2015, no inefficiencies were identified resulting from the applied cash flow hedge accounting.

28.8. 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	Book value of assets securing repayment of liabilities	
	As at 31 December 2015	As at 31 December 2014
Property, plant and equipment	42	50
Cash	82	95
TOTAL	**124**	**145**

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.

29. 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 the ENERGA Trading SFIO liquidity fund and hedging instruments. The main purpose of these financial instruments is to secure funds to finance the Group's operations or to mitigate financial risks.

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. 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). The two documents have been introduced across the ENERGA Group, which allows the holding company to manage these risks effectively. Both documents define financial risk management procedures for individual Group companies and introduce appropriate reporting obligations.

29.1. Market risk

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 Group uses scenario analysis method, which 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.

29. Financial risk management principles and objectives (cont.)

Interest rate risk

The ENERGA Group is exposed to interest rate risk in connection with the fact that it holds assets and liabilities for which income and expenses are calculated on the basis of market interest rates, which are subject to change.

The Group identifies exposure to the risk of WIBOR interest rate changes, which involves primarily long-term financial debt. The Group's financial policy envisages that the risk of changing interest rates is mitigated by keeping a portion of debt at fixed rates. Additionally, at the holding company level the ENERGA Group has entered into a number of transaction hedging the interest rate risk (IRS). As at 31 December 2015, 70% of financial debt recorded in the statement of financial position (loans and borrowings and bonds issued) bore a fixed interest rate or was hedged against interest rate risk with IRS transactions.

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. The levels of reference interest rates on the final day of a reporting period were used for this purpose. 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.

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

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 2015		Interest rate risk sensitivity analysis as at 31 December 2015			
	Book value	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR +50 bp*	*WIBOR -50 bp*	*EURIBOR +20 bp*	*EURIBOR -20 bp*
Assets						
Cash and cash equivalents	1,669	1,669	8	(8)	(1)	1
Liabilities						
Preferential loans and borrowings	1,550	1,550	(8)	8	-	-
Loans and borrowings granted on market terms	1,116	1,116	(6)	6	-	-
Bonds and debt securities issued	3,192	1,016	(5)	5	-	-
Current account overdraft	12	12	-	-	-	-
Change in profit before tax			**(11)**	**11**	**(1)**	**1**
Hedging derivatives (assets)	40	40	38	(39)	(17)	18
Hedging derivatives (liabilities)	8	8	2	(2)	-	-
Change in other comprehensive income			**40**	**(41)**	**(17)**	**18**

29. Financial risk management principles and objectives (cont.)

Financial assets and liabilities	31 December 2014 (restated)		Interest rate risk sensitivity analysis as at 31 December 2014			
	Book value	Value at risk	WIBOR		EURIBOR	
	PLN	PLN	*WIBOR +50 bp*	*WIBOR -50 bp*	*EURIBOR +28 bp*	*EURIBOR -28 bp*
Assets						
Cash and cash equivalents	1,932	1,932	8	(8)	1	(1)
Liabilities						
Preferential loans and borrowings	1,431	1,431	(7)	7	-	-
Loans and borrowings granted on market terms	1,118	1,118	(6)	6	-	-
Bonds and debt securities issued	3,189	1,014	(5)	5	-	-
Current account overdraft	12	6	-	-	-	-
Change in profit before tax			**(10)**	**10**	**1**	**(1)**
Hedging derivatives (assets)	29	29	48	(49)	(27)	27
Hedging derivatives (liabilities)	23	23	12	(12)	-	-
Change in other comprehensive income			**60**	**(61)**	**(27)**	**27**

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 or incurring financial liabilities in currencies other than the valuation currency or holding financial assets in such currencies. The Group identifies primarily the exposure to the risk of changes in the EUR/PLN exchange rate.

In the foreign exchange risk sensitivity analysis, the 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.

The table below presents sensitivity of the financial result before tax and other comprehensive income to reasonably possible changes of exchange rates, assuming that there are no changes of other risk factors for such classes of financial instruments which are exposed to the exchange rate change risk:

Financial assets and liabilities	31 December 2015		FX risk sensitivity analysis as at 31 December 2015	
	Book value	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate +7.00%*	*EUR/PLN rate -7.00%*
Assets				
Trade receivables	1,762	17	1	(1)
Cash and cash equivalents	1,669	279	20	(20)
Hedging derivatives	40	2,084	127	(127)
Liabilities				
Trade liabilities	877	11	(1)	1
Bonds and debt securities issued	3,192	2,175	(152)	152
Change in profit before tax			**(24)**	**24**
Change in other comprehensive income*			**19**	**(19)**

* in respect to hedging derivatives

29. Financial risk management principles and objectives (cont.)

Financial assets and liabilities	31 December 2014 (restated)		FX risk sensitivity analysis as at 31 December 2014	
	Book value	Value at risk	EUR/PLN	
	PLN	*PLN*	*EUR/PLN rate +7.08%*	*EUR/PLN rate -7.08%*
Assets				
Trade receivables	1,551	2	-	-
Cash and cash equivalents	1,932	289	20	(20)
Hedging derivatives	29	2,130	151	(151)
Liabilities				
Trade liabilities	869	3	-	-
Bonds and debt securities issued	3,189	2,174	(154)	154
Change in profit before tax			**(5)**	**5**
Change in other comprehensive income*			**23**	**(23)**

* in respect to 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 28.7).

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, CO_2 emission allowances.

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 CO_2 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 CO_2 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.

29.2. 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.

29. Financial risk management principles and objectives (cont.)

For sales to strategic and business clients, the procedures impose the duty to rate clients' creditworthiness. For clients with a low credit rating, the sales may begin on the condition 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 uncollectable 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.

No significant concentrations of credit risk exist within the Group.

29.3. Liquidity risk

The Group monitors the risk of insufficient funds, which are required to settle the liabilities at maturity dates, using a tool for periodic liquidity planning. This tool is based on projected cash flows from operating, investing and financing activities, which are prepared by all Group companies. Additionally regular reviews are conducted to test reliability of the projections.

On 4 January 2016, a one-way zero-balancing cash pooling service was launched in the ENERGA Group for funds in Polish zloty. This tool allows the holding company manage the Group's liquidity in an efficient fashion. According to the assumptions about the structure, at the end of each business day, cash owned by the Group's companies is consolidated on ENERGA SA's accounts and on the following day it may be used to finance payment liabilities of the individual participants. This tool makes it possible to finance the operations first of all with the funds generated by the Group and only then with debt financing.

In respect to liquidity risk management, 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, eurobonds and financial lease agreements.

Detailed information on contracted external financing obtained by the Group is set out in Note 28.6.

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).

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
31 December 2015					
Interest-bearing loans and borrowings	63	208	1,365	1,595	**3,231**
Bonds	78	23	3,525	-	**3,626**
Trade liabilities	874	3	-	-	**877**
Other financial liabilities	177	24	17	-	**218**
TOTAL	**1,192**	**258**	**4,907**	**1,595**	**7,952**
31 December 2014 (restated)					
Interest-bearing loans and borrowings	73	192	1,264	1,685	**3,214**
Bonds	78	27	1,449	2,201	**3,755**
Trade liabilities	869	-	-	-	**869**
Other financial liabilities	224	5	32	-	**261**
TOTAL	**1,244**	**224**	**2,745**	**3,886**	**8,099**

The Group's financial assets are highly liquid. They are comprised mainly of cash and cash equivalents, investments in participation units in the ENERGA Trading SFIO fund and trade receivables. The structure of cash and cash equivalents is presented in note 18. Aging analysis of trade receivables is presented in Note 28.5.1.

NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

30. Statement of cash flows

Loss on investing activities

	Year ended 31 December 2015	Year ended 31 December 2014
Result on disposal of property, plant and equipment and intangible assets	47	23
Impairment losses for property, plant and equipment and intangible assets	18	17
Other	1	(10)
TOTAL	**66**	**30**

Change in receivables

	Year ended 31 December 2015	Year ended 31 December 2014
Change in trade receivables	(211)	(81)
Change in VAT receivables	27	(40)
Change in advances towards deliveries	(36)	(7)
Other	(15)	(1)
TOTAL	**(235)**	**(129)**

Change in liabilities excluding loans and borrowings

	Year ended 31 December 2015	Year ended 31 December 2014
Change in trade liabilities	8	(21)
Change in other non-current financial liabilities	(7)	26
Change in other financial liabilities	(36)	(6)
Change in other current liabilities	(106)	7
Adjustment by the change in investment commitments	56	9
Adjustment by the change in liabilities recognized as liabilities related to assets classified as held for sale	(10)	(47)
Other	(5)	(24)
TOTAL	**(100)**	**(56)**

Change in provisions

	Year ended 31 December 2015	Year ended 31 December 2014
Change in non-current provisions	32	83
Change in current provisions	97	(70)
Adjustment by the change in provisions recognized as liabilities related to assets classified as held for sale	(16)	(7)
Adjustment by the change in actuarial provisions recognized in other comprehensive income	(7)	(58)
Other	-	8
TOTAL	**106**	**(44)**

OTHER NOTES

31. 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 4,904 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. 4,464 m;
- undertakings executed in the Ostrołęka Power Plant (modernization of power units, construction of an installation for denitrifying exhaust fumes) – approx. PLN 216 m;
- execution of wind projects (mainly the Przykona Wind Farm) – approx. PLN 157 m;
- sales support system – approx. PLN 32 m;
- gas-steam power plants in Grudziadz and Gdansk – approx. PLN 35 m.

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 controlling entity is the State Treasury. Accordingly, other entities related to the State Treasury are treated by the Group as related entities.

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 Parent Company's Managements Board members

During the reporting period, the Parent Company did not conclude material transactions with Management Board members.

32.3. Remuneration paid or due to key management and Supervisory Boards of Group companies

	Year ended 31 December 2015	Year ended 31 December 2014
Management Board of the parent company	3	5
Supervisory Board of the parent company	<1	<1
Management Boards of subsidiaries	33	36
Supervisory Boards of subsidiaries	1	1
Other key management	16	18
TOTAL	**53**	**60**

33. Lease

33.1. Operating lease liabilities

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

For the rights of perpetual usufruct to land, the Group incurs costs of annual fees. These costs amounted to PLN 11 m in the year ended 31 December 2015 and PLN 10 m in the year ended 31 December 2014.

33.2. 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 receivable as at	
	31 December 2015	31 December 2014
Within up to 1 year	23	32
Within 1 to 5 years	88	20
TOTAL	**111**	**52**

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").

33. Lease (cont.)

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.

33.3. 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 payables as at			
	31 December 2015		31 December 2014	
	Minimum lease payments	Current value of payments	Minimum lease payments	Current value of payments
Within up to 1 year	15	14	3	3
Within 1 to 5 years	10	10	2	2
Total minimum lease payments	**25**	**24**	**5**	**5**
Less financial costs	1	-	-	-
Present value of the lease payments	**24**	**24**	**5**	**5**

34. 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. This goal is achieved through the internal regulations adopted in the Group. The parent company is the only entity that is responsible for running the Group's debt policy and for entering into hedging transactions.

The Group monitors its basic debt ratio, that is net debt to EBITDA, estimated on the consolidated basis. As at the balance sheet date, this ratio was 1.9. The Group's internal regulations in place as at the date of these financial statements assume that the maximum debt level for the Group should not exceed 3.0.

The level of the ratio is also regularly monitored by institutions financing the Group and by rating agencies; therefore, it has a significant influence on the evaluation of the Group's credit rating and consequently the availability and cost of debt financing.

	As at 31 December 2015	As at 31 December 2014 (restated)
Interest-bearing loans and borrowings	2,678	2,561
Bonds and debt securities issued	3,192	3,189
Cash and cash equivalents	(1,669)	(1,932)
Net debt	**4,201**	**3,818**
EBITDA	**2,196**	**2,307**
Net debt / EBITDA	**1.91**	**1.65**

35. Contingent assets and liabilities

35.1. Contingent liabilities

As at 31 December 2015, the Group recognizes contingent liabilities in the amount of PLN 217 m (PLN 175 m as at 31 December 2014).

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 recognized 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. The Group recognizes provisions for reported legal claims. If there is uncertainty whether a claim amount or legal title to land is justified, the Group recognizes contingent liabilities. As at 31 December 2015, the estimated value of those claims recognized as contingent liabilities is PLN 164 m, compared with PLN 94 m on 31 December 2014.

35.2. Contingent assets

As at 31 December 2015, the Group recognized contingent assets in the amount of PLN 36 m (PLN 38 m as at 31 December 2014).

The main item making up this amount is the disputed case with PKN ORLEN SA described in note 37.1.

36. Employment structure

The average headcount in the Group was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Blue collar employees	3,004	3,219
Non-blue collar employees	5,468	5,925
TOTAL	**8,472**	**9,144**

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

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

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 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 2015 is over PLN 110 m. The judgment is not final.

38. Subsequent events

After the final day of the reporting period, there were no significant events.

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

Dariusz Kaśków ……………………………………………

President of the Management Board

Mariusz Rędaszka ……………………………………………

Vice-President of the Management Board for Financial Matters

Grzegorz Ksepko ……………………………………………

Vice-President of the Management Board for Corporate Matters

Marek Pertkiewicz ……………………………………………

Director of the Finance Department

Karol Jacewicz ……………………………………………

Director of the Financial Reporting Unit

Gdańsk, 14 March 2016