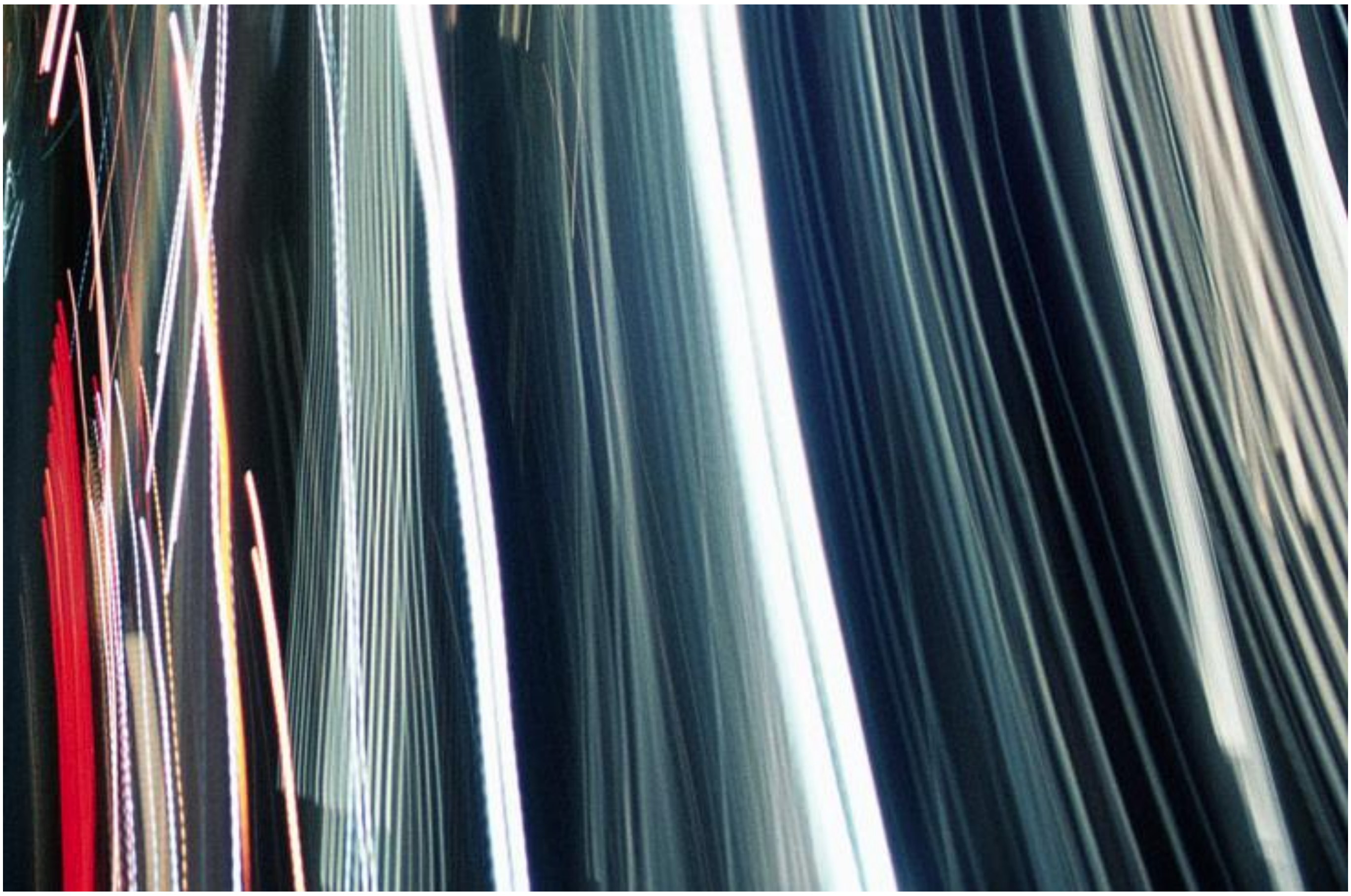

PGE Polska Grupa Energetyczna S.A.

Condensed interim separate financial statements for the 3-month period

ended March 31, 2016
in accordance with IFRS EU (in PLN million)

PGE Polska Grupa Energetyczna

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IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2016 (not audited)	Period ended March 31, 2015 (not audited) *data restated**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	**2,821**	**2,610**
Costs of goods sold	5.2	(2,584)	(2,348)
GROSS PROFIT ON SALES		**237**	**262**
Distribution and selling expenses	5.2	(14)	(10)
General and administrative expenses	5.2	(34)	(36)
Other operating income		1	1
Other operating expenses		(1)	(2)
OPERATING PROFIT		**189**	**215**
Financial income	5.3	68	61
Financial expenses	5.3	(55)	(74)
PROFIT BEFORE TAX		**202**	**202**
Current income tax	6	(33)	(7)
Deferred income tax	6;8	4	3
NET PROFIT FOR THE REPORTING PERIOD		**173**	**198**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	12.2	-	75
Deferred tax	6	-	(14)
Items, which will not be reclassified to profit or loss, including:			
Actuarial gains and losses from valuation of provisions for employee benefits		-	-
Deferred tax		-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**-**	**61**
TOTAL COMPREHENSIVE INCOME		**173**	**259**
NET PROFIT AND DILUTED NET PROFIT PER SHARE (IN PLN)		**0.09**	**0.11**

** for information regarding restatement of comparative figures please refer to note 3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	As at March 31, 2016 (not audited)	As at December 31, 2015 (audited)	As at March 31, 2015 (not audited) *data restated**
NON-CURRENT ASSETS				
Property, plant and equipment	7	186	189	191
Intangible assets		7	7	6
Financial receivables	9.1	7,063	6,053	4,480
Derivatives	10	39	43	12
Available-for-sale financial assets		3	3	3
Shares in subsidiaries	9.2	29,581	29,469	29,086
Deferred tax assets	8.1	28	24	20
		36,907	**35,788**	**33,798**
CURRENT ASSETS				
Inventories		95	191	411
Trade and other receivables	9.1	1,500	1,043	930
Derivatives	10	8	7	27
Other current assets	11	359	419	640
Income tax receivables		47	79	-
Cash and cash equivalents	9.3	634	2,013	3,655
		2,643	**3,752**	**5,663**
TOTAL ASSETS		**39,550**	**39,540**	**39,461**
EQUITY				
Share capital	12.1	18,698	18,698	18,698
Hedging reserve	12.2	(17)	(17)	1
Reserve capital		13,009	13,009	9,231
Retained earnings		1,937	1,764	5,431
		33,627	**33,454**	**33,361**
NON-CURRENT LIABILITIES				
Non-current provisions	13	21	21	20
Loans, borrowings, bonds, cash pooling	14.1	4,235	4,216	3,627
Derivatives	10	46	43	128
		4,302	**4,280**	**3,775**
CURRENT LIABILITIES				
Current provisions	13	35	34	24
Loans, borrowings, bonds, cash pooling	14.1	1,218	1,255	1,835
Derivatives	10	-	34	15
Trade and other liabilities	14.2	198	307	246
Income tax liabilities		-	-	154
Other current non-financial liabilities		170	176	51
		1,621	**1,806**	**2,325**
TOTAL LIABILITIES		**5,923**	**6,086**	**6,100**
TOTAL EQUITY AND LIABILITIES		**39,550**	**39,540**	**39,461**

** for information regarding restatement of comparative figures please refer to note 3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Reserve capital	Retained earnings	Total equity
Note	12.1	12.2			
AS AT JANUARY 31, 2015	**18,698**	**(60)**	**9,231**	**5,233**	**33,102**
Net profit for the reporting period	-	-	-	1,768	**1,768**
Other comprehensive income	-	43	-	(1)	**42**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**43**	**-**	**1,767**	**1,810**
Retained earnings distribution	-	-	3,778	(3,778)	**-**
Dividend	-	-	-	(1,458)	**(1,458)**
AS AT DECEMBER 31, 2015	**18,698**	**(17)**	**13,009**	**1,764**	**33,454**
Net profit for the reporting period	-	-	-	173	173
Other comprehensive income	-	-	-	-	-
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**-**	**173**	**173**
Retained earnings distribution	-	-	-	-	-
Dividend	-	-	-	-	-
AS AT MARCH 31, 2016	**18,698**	**(17)**	**13,009**	**1,937**	**33,627**

	Share capital	Hedging reserve	Reserve capital	Retained earnings	Total equity
AS AT JANUARY 31, 2015	**18,698**	**(60)**	**9,231**	**5,233**	**33,102**
Net profit for the reporting period	-	-	-	198	198
Other comprehensive income	-	61	-	-	61
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**61**	**-**	**198**	**259**
Retained earnings distribution	-	-	-	-	**-**
Dividend	-	-	-	-	**-**
AS AT MARCH 31, 2015	**18,698**	**1**	**9,231**	**5,431**	**33,361**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2016 (not audited)	Period ended March 31, 2015 (not audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**202**	**202**
Settlement with the tax capital group ("TCG")		80	(23)
Income tax paid by PGE S.A. (including benefit due to TCG's losses)		(18)	(23)
Adjustments for:			
Depreciation, amortization and impairment losses		4	4
Interest and dividend, net		(3)	12
Profit / loss on investment activities		(32)	(35)
Change in receivables		171	(19)
Change in inventories		96	29
Change in liabilities, excluding loans and borrowings		(125)	41
Change in other non-financial assets		9	(245)
Change in provisions		1	(8)
Other		(1)	25
NET CASH FROM OPERATING ACTIVITIES		**384**	**(40)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(2)	(3)
Redemption of bonds issued within the PGE Group		1,070	3,435
Acquisition of bonds issued within the PGE Group		(2,120)	(4,078)
Acquisition of shares in subsidiaries		(15)	-
Loans granted under cash pooling		(663)	-
Other loans granted		(16)	-
Interest received		3	24
NET CASH FROM INVESTING ACTIVITIES		**(1,743)**	**(622)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from cash pooling		-	1,374
Interest paid		(18)	(16)
Other		(1)	(2)
NET CASH FROM FINANCING ACTIVITIES		**(19)**	**1,356**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,378)**	**694**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**2,010**	**2,979**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9.3	**632**	**3,673**

** for information regarding restatement of comparative figures please refer to note 3 of these financial statements*

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

1. General information

1.1 The Company's operations

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

The Company is seated in Warsaw, 2 Mysia Street.

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

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follows:

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

PGE S.A.'s business activities are conducted under appropriate concessions, including concession for electricity trading granted by the Energy Regulatory Office. The concession is valid until 2025. No significant assets or liabilities are assigned to the concession. According to the concession the annual fees are paid depending on the level of trading.

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

Going concern

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

In these financial statements, the accounting rules (policy) and calculation methods are the same as the ones applied in the latest annual financial statements and they shall be read in conjunction with the audited separate financial statements of PGE S.A. for the year ended December 31, 2015 prepared in accordance with the IFRS.

These financial statements comprise financial data for the period from January 1, 2016 to March 31, 2016 („financial statements").

1.2 Ownership structure of the Company

	State Treasury	Other shareholders	Total
As at January 1, 2016	**58.39%**	**41.61%**	**100.00%**
As at March 31, 2016	**57.39%**	**42.61%**	**100.00%**

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

As of March 30, 2016 the State Treasury transferred 18,697,608 shares, constituting 1% of the share capital of the Company. According to the information received from the Ministry of the State Treasury, after the transaction the State Treasury holds 57.39% in the share capital of the Company. According to information available in the Company as at the date of publication of these financial statements the sole shareholder who holds at least 5% of votes on the General Meeting of PGE S.A. is the State Treasury. After the reporting date up to the date of preparation of these financial statements, there have been no changes in the amount of the Company's share capital.

1.3 The composition of the Company's Management Board

As at January 1, 2016 the composition of the Management Board was as follows:

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

From January 1, 2016 till March 31 2016 the following changes occurred in the composition of the Management Board:

- on January 29, 2016 the Supervisory Board recalled Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and temporarily delegated its member – Mr. Marek Pastuszko – to temporarily perform the duties of the Vice-President of the Management Board for the 3-month period.
- on February 25, 2016 the Supervisory Board cancelled delegation of Mr. Marek Pastuszko to temporarily perform the duties of the Member of the Management Board and appointed Mr. Marek Pastuszko for the position of the Vice-President of the Management Board.
- on February 26, 2016 the Supervisory Board appointed Mr. Emil Wojtowicz to the Management Board as from March 15, 2016 entrusting him the position of the Vice-President of the Management Board and appointed Mr. Ryszard Wasiłek to the Management Board of office as from March 7, 2016 entrusting him the position of the Vice-President of the Management Board.
- on March 2, 2016 Mr. Marek Woszczyk and Mr. Grzegorz Krystek submitted resignations from their positions in the Management Board as from March 30, 2016.
- on March 22, 2016 Mr. Paweł Śliwa submitted his resignation from the Supervisory Board and the Supervisory Board appointed four members of the Management Board as from March 31, 2016: Mr. Henryk Baranowski, entrusting him the position of the President of the Management Board and Ms. Marta Gajęcka, Mr. Bolesław Jankowski and Mr. Paweł Śliwa to the positions of the Vice-Presidents of the Management Board.

As at March 31, 2016 and as at the date of preparation of these financial statements the composition of the Company's Management Board is as follows:

- **Henryk Baranowski** – the President of the Management Board,
- **Marta Gajęcka** – the Vice-President of the Management Board,
- **Bolesław Jankowski** – the Vice-President of the Management Board**,**
- **Marek Pastuszko** – the Vice-President of the Management Board,
- **Paweł Śliwa** – the Vice-President of the Management Board,
- **Ryszard Wasiłek** – the Vice-President of the Management Board,
- **Emil Wojtowicz** – the Vice-President of the Management Board.

2. Basis for the preparation of the financial statements

These financial statements of PGE Polska Grupa Energetyczna S.A. were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, in accordance with proper accounting standards applicable to the interim financial reporting adopted by the European Union, published and binding during preparation of these statements and in accordance with the Regulation of the Polish Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state (Dz. U. No 33, item 259) (the „Regulation").

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

2.1 Presentation and functional currency

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

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	March 31, 2016	December 31, 2015	March 31, 2015
USD	3.7590	3.9011	3.8125
EUR	4.2684	4.2615	4.0890

2.2 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 2016:

Standard	Description of changes	Effective date
IFRS 9 *Financial Instruments* (along with amendments)	Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting.	January 1, 2018
IFRS 14 *Regulatory Deferral Accounts*	Accounting and disclosure principles for regulatory deferral accounts.	January 1, 2016*
IFRS 15 *Revenue from Contracts with Customers*	The standard applies to all contracts with customers, except for those within the scope of other IFRSs (e.g. lease contracts, insurance contracts and financial instruments). IFRS 15 clarifies principles of revenue recognition.	January 1, 2018
IFRS 16 *Leases*	IFRS 16 eliminates the classification of leases as either operating lease or finance lease. All contracts which meet the criteria of lease will be recognized as finance lease.	January 1, 2019
Amendments to IAS 12	Clarification of the method of deferred tax asset settlement on unrealized losses.	January 1, 2017
Amendments to IAS 7	The initiative on changes to the disclosures.	January 1, 2017
Amendments to IFRS 10, IFRS 12 and IAS 28	Clarification of the provisions on recognition of investment units in the consolidation.	January 1, 2016*
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Not specified

** Not approved by the EU until the approval date of these financial statements*

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

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

The new *IFRS 9 Financial Instruments* introduces fundamental changes in respect of classification, presentation and measurement of financial instruments. As part of *IFRS 9*, new model for calculating impairment will be introduced that will require more timely recognition of expected credit losses and rules for hedge accounting will be updated. Most of all, these changes are intended to adapt the requirements in the field of risk management, allowing preparers of financial statements to reflect entity's actions more accurately. New *IFRS 9* will possibly have material influence on future financial statements of the Company. At the date of preparation of these financial statements all phases of *IFRS 9* have not been published and standard is not yet approved by the European Union. As a result analysis of its impact on the future financial statements of PGE S.A has not been finished yet.

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

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

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

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

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

Amendments to standards and interpretations that entered into force in the period from January 1, 2016 to the date of publication of these separate financial statements did not have significant influence on these separate financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

2.3 Professional judgment of management and estimates

In the period covered by these financial statements there were no significant changes in estimates influencing the numbers presented in the financial statements. As described in note 13 the Company updated the value of provisions recognized in the statement of financial position.

3. Changes of accounting principles and data presentation

New standards and interpretations which became effective on January 1, 2016

- Amendments to IAS 19 Employee benefits;
- Changes resulting from reviews of IFRS 2010-2012;
- Amendments to IFRS 11 Settlement of acquisition of an interest in a joint operation;
- Amendments to IAS 16 and IAS 38 Explanation of allowed depreciation methods;
- Amendments to IAS 16 and IAS 41 Agriculture: bearer plants;
- Amendments to IAS 27 Equity method in separate financial statements;
- Changes resulting from reviews of IFRS 2012-2014;
- Amendments to IAS 1 Disclosures.

The above amendments had no influence on the accounting policy and did not require amendments to the financial statements.

Presentation changes

During 2015 the Company has decided to change presentation of the selected items:

- Reclassification between costs of goods sold and general and administrative expenses,
- “Trade receivables” and “Other loans and financial assets” were combined into “Trade and other receivables” and “Trade liabilities” and “Other current financial liabilities” were combined into “Trade and other liabilities”
- derivatives (CCIRS and IRS) were reclassified them from financial liabilities at fair value through profit or loss to non-current derivatives.

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

STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2015 *published*	Change in presentation of selected items	Period ended March 31, 2015 *data restated*
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	**2,610**	**-**	**2,610**
Costs of goods sold	(2,338)	(10)	(2,348)
GROSS PROFIT ON SALES	**272**	**(10)**	**262**
Distribution and selling expenses	(10)	-	(10)
General and administrative expenses	(46)	10	(36)
Other operating revenues	1	-	1
Other operating expenses	(2)	-	(2)
OPERATING PROFIT	**215**	**-**	**215**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	As at March 31, 2015 *published*	Reclassification of derivatives	Change in presentation of selected items	As at March 31, 2015 *data restated*
NON-CURRENT ASSETS, including:				
Derivatives	-	12	-	12
	33,786	**12**	**-**	**33,798**
CURRENT ASSETS, including:				
Financial assets at fair value through profit or loss	27	-	(27)	-
Derivatives	-	-	27	27
Trade receivables	517	-	(517)	-
Other loans and financial assets	413	-	(413)	-
Trade and other receivables	-	-	930	930
	5,663	**-**	**-**	**5,663**
TOTAL ASSETS	**39,449**	**12**	**-**	**39,461**
NON-CURRENT LIABILITIES, including:				
Derivatives	-	128	-	128
	3,647	**128**	**-**	**3,775**
Financial liabilities at fair value through profit or loss	131	(116)	(15)	-
Derivatives	-	-	15	15
Trade liabilities	242	-	(242)	-
Other current financial liabilities	4	-	(4)	-
Trade and other liabilities	-	-	246	246
	2,441	**(116)**	**-**	**2,325**
TOTAL LIABILITIES	**6,088**	**12**	**-**	**6,100**
TOTAL EQUITY AND LIABILITIES	**39,449**	**12**	**-**	**39,461**

4. Fair value hierarchy

The rules for the valuation of inventories, derivatives, stocks, shares and non-quoted instruments on the active markets, for which the fair value is not possible to be determined, are the same as presented in the separate financial statements for year ended December 31, 2015.

FAIR VALUE HIERARCHY	As at March 31, 2016		As at December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission rights	62	-	98	-
Inventories	**62**	**-**	**98**	**-**
FX forward	-	4	-	7
Commodity forward	-	4	-	-
CCIRS valuation	-	39	-	43
Financial assets	**-**	**47**	**-**	**50**
FX forward	-	-	-	1
Commodity forward	-	-	-	33
IRS valuation	-	46	-	43
Financial liabilities	**-**	**46**	**-**	**77**

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

Valuation of hedging transactions CCIRS and IRS is disclosed in note 10 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5. Revenues and expenses

5.1 Sales revenues

	Period ended March 31, 2016	Period ended March 31, 2015
SALES REVENUES		
Sale of electricity	2,206	2,014
Sale of energy origin rights	17	315
Other sales of merchandise and materials	436	130
Revenues from sale of services	162	151
TOTAL SALES REVENUES	**2,821**	**2,610**

The increase in sales revenue for the first quarter of 2016 compared to the corresponding period is mainly due to the increase of volumes sold on the wholesale market.

The decline in the revenues from sale of energy origin rights was caused by reorganisation of certificates trading within the PGE Capital Group, including assignment of bilateral contracts to PGE Obrót S.A. and takeover of contracting for the PGE Group by PGE Dom Maklerski S.A.

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

Information concerning main business partners

The main business partners of the Company are subsidiaries in PGE Group. In the first quarter of 2016 sales to PGE Obrót S.A. constituted 76% of sales revenues whereas sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for approx. 13% thereof. In the first quarter of 2015 sales to these entities amounted to 80% and 6%, respectively.

5.2 Cost by nature and function

	Period ended March 31, 2016	Period ended March 31, 2015 *data restated*
COST BY NATURE		
Depreciation, amortization and impairment losses	4	4
Materials and energy	1	1
External services	24	22
Taxes and charges	1	1
Employee benefits expenses	24	22
Other cost by nature	18	16
TOTAL COST BY NATURE	**72**	**66**
Distribution and selling expenses	(14)	(10)
General and administrative expenses	(34)	(36)
Cost of merchandise and materials sold	2,560	2,328
COST OF GOODS SOLD	**2,584**	**2,348**

The increase in cost of merchandise and materials sold (mainly purchased electricity) in the first quarter of 2016 in comparison to the previous year is directly related to the increase of revenues from sale of electricity described above.
Other cost by nature consist mainly of sponsorship, advertising and management's payroll costs.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

5.3 Financial income and expenses

	Period ended March 31, 2016	Period ended March 31, 2015
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Interest	52	50
Revaluation of financial instruments	-	11
Foreign exchange gain	16	-
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS	**68**	**61**
TOTAL FINANCIAL INCOME	**68**	**61**

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

In the corresponding period Revaluation of financial instruments includes valuation of transactions concluded on the market for CO_2 emission rights and an ineffective portion of valuation of CCIRS hedging transactions designated as hedging instruments in the cash-flow hedge accounting and total valuation of other derivatives.

	Period ended March 31, 2016	Period ended March 31, 2015
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest	43	43
Revaluation of financial instruments	5	5
Foreign exchange losses	7	25
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**55**	**73**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	-	1
OTHER FINANCIAL EXPENSES	**-**	**1**
TOTAL FINANCIAL EXPENSES	**55**	**74**

Interest expense relates mainly to bonds issued and bank loans described in note 14.1 of these financial statements.

6. Income tax in the statement of comprehensive income

Main elements of tax expense for the periods ended March 31, 2016 and March 31, 2015 are as follows:

	Period ended March 31, 2016	Period ended March 31, 2015
INCOME TAX PRESENTED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax of PGE S.A.	35	41
Tax benefits resulting from current settlements of tax capital group	(33)	(53)
Previous periods current income tax adjustments	31	19
Deferred income tax	(4)	(3)
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**29**	**4**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	-	14
(TAX BENEFIT) / EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**-**	**14**

Previous periods current income tax adjustments relate mainly to final settlement of the tax group for the previous year. The differences arise from invoiced sales of electricity for the previous year in the first quarter of the current year, previously recognized basing on estimates.

Effective tax rate in the period ended on March 31, 2016 amounted to 14.36%. Main items affecting the effective tax rate relate to settlements of tax benefits between the companies comprising a tax capital group, including settlements corrections for previous periods. Rules of settlements between the companies forming the tax capital group TCG PGE are described in note 16 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. Property, plant and equipment

In the reporting and comparable period the Company neither purchased nor sold any significant property, plant and equipment.

8. Deferred tax in the statement of financial position

8.1 Deferred tax assets

	As at March 31, 2016	As at December 31, 2015
Difference between tax value and carrying value of financial liabilities	33	36
Difference between tax value and carrying value of financial assets	21	21
Provisions for employee benefits	11	10
DEFERRED TAX ASSET	**65**	**67**

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

8.2 Deferred tax liability

	As at March 31, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	22	23
Difference between tax value and carrying amount of other financial assets	13	11
CO_2 emission rights	-	7
Other	2	2
DEFERRED TAX LIABILITY	**37**	**43**

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax asset	28	24
Deferred tax liability	-	-

9. Financial assets

9.1 Trade receivables and other financial receivables

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Short-term	Non-current	Short-term
Trade receivables	-	521	-	666
Acquired bonds	6,988	32	5,993	29
Cash pooling receivables	-	946	-	320
Loans granted	75	1	60	1
Other financial receivables	-	-	-	27
TOTAL FINANCIAL RECEIVABLES	**7,063**	**1,500**	**6,053**	**1,043**

Trade receivables

Trade receivables of PLN 521 million relate mainly to the sale of electricity and services to subsidiaries in the PGE Group. As at March 31, 2016, the balance of three most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dystrybucja S.A., constituted 86% of total balance of trade receivables.

Acquired bonds

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
ACQUIRED BONDS - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	5,580	25	4,597	4
PGE Energia Odnawialna S.A.	1,408	7	1,396	25
TOTAL ACQUIRED BONDS	**6,988**	**32**	**5,993**	**29**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

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

Some of the acquired bonds have maturity up to 1 year however as it is planned to roll the bonds over, they are presented as non-current asset in these financial statements.

Cash pooling receivables

In 2014, in order to centralize the management of financial liquidity in the PGE Group, agreements for real cash pooling services were executed between 16 companies of the PGE Group and each bank separately, i.e. with Powszechna Kasa Oszczędności Bank Polski S.A. and Polska Kasa Opieki S.A.

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

Loans granted

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	60	-	60	-
PGE Trading GmbH	12	1	-	1
Bestgum sp. z o.o.	3	-	-	-
TOTAL LOANS GRANTED	**75**	**1**	**60**	**1**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

9.2 Shares in subsidiaries

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

	Seat	Share as at March 31, 2016	As at March 31, 2016
COMPANIES BELONGING TO TCG PGE 2015			
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	99.97%	15,303
PGE Dystrybucja S.A.	Lublin	100.00%	10,592
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,347
PGE Obrót S.A.	Rzeszów	100.00%	1,117
PGE Systemy S.A.	Warsaw	100.00%	135
ELBEST sp. z o.o.	Bełchatów	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97
BETRANS sp. z o.o.	Bełchatów	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	12
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10
ELBIS sp. z o.o.	Rogowiec	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5
PGE Obsługa Księgowo-Kadrowa sp. z o.o.	Lublin	100.00%	2
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1
13 limited liability companies named PGE Inwest 2, 4 to 15	Warsaw	100.00%	<1
COMPANIES NOT BELONGING TO TCG PGE 2015			
Exatel S.A.	Warsaw	100.00%	428
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	193
PGE Sweden AB (publ)	Stockholm	100.00%	112
PGE Trading GmbH	Berlin	100.00%	23
PGE Inwest 16 sp. z o.o.	Warsaw	100.00%	<1
TOTAL		-	**29,581**

9.2.1 Impairment loss of non-current assets

In previous periods the Company recognized an impairment loss of PLN 5,536 million on shares of subsidiary PGE Obrót S.A. and impairment loss of PLN 115 million on shares in Autostrada Wielkopolska S.A.

In the reporting period, the Company did not identify indicators for performing impairment tests for loss of value of shares and for reversal of impairments recognized in previous periods.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

9.3 Cash and cash equivalents

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

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

	As at March 31, 2016	As at December 31, 2015
Cash on hand and cash at bank	134	611
Overnight deposits	-	2
Short-term deposits	500	1,400
TOTAL	**634**	**2,013**
Interest accrued on cash, not received at the reporting date	(1)	(2)
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	**632**	**2,010**
including restricted cash	-	-
Undrawn borrowing facilities as at March 31, 2016	5,240	5,240
including overdraft facilities	*2,250*	*2,250*
Borrowing facilities available from Q2 2016	5,500	5,500

For detailed description of credit agreements please refer to note 14.1 of these financial statements.

10. Derivatives

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

	As at March 31, 2016		As at December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	4	-	7	1
Commodity forward	4	-	-	33
IRS transactions	-	46	-	43
HEDGING DERIVATIVES				
CCIRS hedging transactions	39	-	43	-
TOTAL DERIVATIVES	**47**	**46**	**50**	**77**
non-current	39	46	43	43
current	8	-	7	34

Commodity and currency forwards

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

IRS transactions

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

CCIRS hedging transactions

In connection with loan received from PGE Sweden AB (publ), disclosed in note 14.1 of these financial statements, PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

For the CCIRS transactions the Company applies hedge accounting. The impact of hedge accounting is presented in note 12.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

11. Other current assets

	As at March 31, 2016	As at December 31, 2015
Advance payments	314	305
Receivables from TCG	19	70
VAT receivables	-	19
Other	26	25
TOTAL	**359**	**419**

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 312 million in the current reporting period as compared to PLN 302 million in the corresponding period.

12. Equity

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

12.1 Share capital

	As at March 31, 2016	As at December 31, 2015
Number of Series A ordinary shares with a nominal value of PLN 10 each	1,470,576,500	1,470,576,500
Number of Series B ordinary shares with a nominal value of PLN 10 each	259,513,500	259,513,500
Number of Series C ordinary shares with a nominal value of PLN 10 each	73,228,888	73,228,888
Number of Series D ordinary shares with a nominal value of PLN 10 each	66,441,941	66,441,941
TOTAL NUMBER OF SHARES	**1,869,760,829**	**1,869,760,829**

All shares of the Company are paid up.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the amount of share capital, reserve capital and other capital reserves of the Company.

12.2 Hedging reserve

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

	Period ended March 31, 2016	Year ended December 31, 2015
AS AT JANUARY 1	**(17)**	**(60)**
Change of hedging reserve, including:	**-**	**52**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*(5)*	*50*
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense	*9*	*1*
Currency revaluation of CCIRS transferred from hedging reserve and recognized in the result on foreign exchange differences	*(4)*	*1*
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit or loss	*-*	*-*
Deferred tax	**-**	**(9)**
HEDGING RESERVE LESS DEFERRED TAX	**(17)**	**(17)**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

12.3 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the period ended		
	March 31, 2016	December 31, 2015	December 31, 2014
CASH DIVIDENDS FROM ORDINARY SHARES			
Dividend paid from retained earnings	-	-	1,458
Dividend paid from reserve capital	-	-	-
TOTAL CASH DIVIDENDS FROM ORDINARY SHARES	**-**	**-**	**1,458**
Cash dividends per share (in PLN)	**-**	**-**	**0.78**

Dividend from the profit for the period ended March 31, 2016

During the reporting period and till the day of the preparation of these financial statements, the Company made no advance payments of dividends.

Dividend from the profit for the year 2015

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

Dividend from the profit for the year 2014

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

13. Provisions

The carrying amount of provisions is as follows:

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Post-employment benefits	19	2	19	2
Jubilee awards	2	-	2	-
Employee bonuses and other employee related	-	33	-	32
Other	-	-	-	-
TOTAL PROVISIONS	**21**	**35**	**21**	**34**

14. Financial liabilities

14.1 Loans, borrowings, bonds, cash pooling

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Loans received	2,763	61	2,753	60
Bonds issued	982	24	976	24
Bank credits	490	14	487	14
Cash pooling liabilities	-	1,119	-	1,157
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**4,235**	**1,218**	**4,216**	**1,255**

Loans received from PGE Sweden AB (publ)

The Company recognizes loans of EUR 661 million drawn from a subsidiary – PGE Sweden AB (publ).

In case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 3,148 million (in relation to PLN 2,824 million of book value). Fair value was determined using the estimated credit risk of PGE S.A. Indicators used for the valuation are at Level 2 of the fair value hierarchy.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Issuance of bonds on the domestic market

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

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. In 2013, the first non-public issuance of 5-year bonds under this program took place, the coupon bearer bonds with a variable interest rate. The nominal value of the issue was PLN 1 billion and the maturity of the bonds is June 27, 2018. On August 29, 2013, the bonds were floated in the Alternative Trading System organized by BondSpot S.A. and Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).
- The bond issue program in the amount of PLN 5 billion directed towards entities within the PGE Group.

Bank credits

On December 17, 2014, the Company signed the Loan Agreement in the amount of PLN 1 billion with Bank Gospodarstwa Krajowego with the maturity date of December 31, 2027. As at March 31, 2016, the Company used PLN 500 million of the credit available.

Additionally, in 2015 the Company concluded the following loan agreements:

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

As at March 31, 2016 the aforesaid loans were not used.

The value of credit limits at the Company's disposal on the current account amounted to PLN 2,250 million as at March 31, 2016 and December 31, 2015. The aforesaid overdraft facilities in current accounts are available until April 29, 2018.

Cash pooling liabilities

Real cash pooling is described in note 9.1 of these financial statements.

14.2 Other financial liabilities measured at amortised cost

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	194	-	303
Purchase of property, plant and equipment and intangible assets	-	1	-	1
Security deposits	-	3	-	3
TOTAL OTHER FINANCIAL LIABILITIES	**-**	**198**	**-**	**307**

Trade liabilities

Trade liabilities relate mainly to purchase of electricity and gas.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

OTHER EXPLANATORY NOTES

15. Contingent liabilities and receivables. Legal claims

15.1 Contingent liabilities

	As at March 31, 2016	As at December 31, 2015
Bank guarantees	12,002	12,153
Other contingent liabilities	55	-
CONTINGENT LIABILITIES, TOTAL	**12,057**	**12,153**

Surety for the obligations of PGE Sweden AB (publ)

Due to establishment in 2014 of the Eurobonds program, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). Guarantee was granted to the amount of EUR 2,500 million (PLN 10,671 million) and will be valid until December 31, 2041. As at March 31, 2016, PGE Sweden AB (publ) liabilities due to bonds issued amounted to EUR 644 million (PLN 2,752 million), as at December 31, 2015 liabilities amounted to EUR 642 million (PLN 2,734 million).

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

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. The total value of sureties is PLN 1,317 million. Granting sureties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. relating to the construction of the new power units in Opole power plant.

15.2 Other significant issues related to contingent liabilities

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

Due to planned strategic investments in the PGE Group, the Company committed, in the form of promises to group companies, to ensure financing of planned investments. The promises relate to specific investments and may be used only for such purposes. As at March 31, 2016 and December 31, 2015 the estimated value of the promise amounts to PLN 15 billion.

Commitment to support liquidity at PGE Obrót S.A.

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

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

15.3 Other legal claims and disputes

The issue of compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. are presenting to the courts a motion to summon PGE S.A. to attempt a settlement for payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during consolidation process that took place in 2010. The total value of claims resulting from the settlement directed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

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

The Company filed a response to the lawsuit on March 28, 2015. In September 2015, Socrates Investment S.A. submitted a letter which constitutes a response to the response to the lawsuit. The court hearing took place on April 27, 2016. Both of the parties upheld their previous motions and statements. The court scheduled the next hearing for August 10, 2016.

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

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

Claims for annulment of the resolutions of the General Meetings

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

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

On August 21, 2015 PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Meeting of the Company held on June 24, 2015. PGE S.A. filed responses to the claims. The District Court in Warsaw dismissed the shareholder's claim in the verdict published on April 26, 2016.

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

16. Tax settlements

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

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

Basic tax rates were as follows: in 2016 corporate income tax rate – 19%, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to the tax exemption.

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

As at March 31, 2016 and during the reporting period, the Company was not a party to significant proceedings regarding public and legal settlements.

Tax Capital Group

Since January 1, 2015, PGE S.A. has been a member of the tax group "TCG PGE 2015". PGE S.A. is the representing company of this group. The TCG PGE 2015 agreement was executed for 25 years. Companies forming TCG PGE 2015 were indicated in note 10. The Polish Corporate Income Tax Act treats tax groups as separate income tax payers (CIT). This means that companies within TCG PGE 2015 are not treated as separate entities for corporate income tax purposes (CIT), with TCG PGE 2015 being treated as one whole entity instead. TCG PGE 2015's tax base will constitute the group's aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. TCG PGE 2015 is considered to be a separate entity only for the purposes of corporate income tax. This should not be equated with a separate legal entity. This also does not transfer over to other taxes, with particular emphasis on the fact that each of the companies within TCG PGE 2015 will continue to be a separate payer of VAT and tax on civil-law transactions, as well as withholding agent with respect to personal income tax.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

In accordance with agreements on settlement within the tax group described above, when the entity generates tax profits, it transfers the appropriate amount of income tax to PGE S.A. PGE S.A. settles with the tax office as the representing company. When entity included in the TCG PGE 2015 incurs tax loss, the tax benefits are transferred to the representing company, i.e. PGE S.A. This also means that if tax settlements of companies incurring tax loss are adjusted, such change has direct impact on financial results of PGE S.A.

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

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

17. Information on related parties

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

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

- new bonds issued by subsidiaries included in the tax group whose interest rates are below market rates described in note 9.1 of these financial statements,
- tax losses settlement within the tax group, described in notes 6 and 16 of these financial statements.

17.1 Subsidiaries in PGE Capital Group

	Period ended March 31, 2016	Period ended March 31, 2015
Sales to related parties	2,661	2,405
Purchases from related parties	272	365

Sales to subsidiaries in PGE Capital Group relate mainly to electricity.

	As at March 31, 2016	As at December 31, 2015
RECEIVABLES FROM RELATED PARTIES		
Bonds issued by subsidiaries	7,020	6,022
Trade receivables from subsidiaries	463	487
Loans granted to subsidiaries	76	61
Cash pooling receivables	946	320
TOTAL RECEIVABLES FROM RELATED PARTIES	**8,505**	**6,890**

	As at March 31, 2016	As at December 31, 2015
LIABILITIES TOWARDS RELATED PARTIES		
Loans received from subsidiary	2,824	2,813
Trade payables to related parties	96	63
Cash pooling liabilities	1,119	1,157
TOTAL LIABILITIES TOWARDS RELATED PARTIES	**4,039**	**4,033**

The promises and guarantees granted to the PGE S.A.'s subsidiaries were described in note 15 of these financial statements.

17.2 Subsidiaries of the State Treasury

The total value of transactions with subsidiaries of the State Treasury is presented in the table below.

	Period ended March 31, 2016	Period ended March 31, 2015
Sales to related parties	31	78
Purchases from related parties	40	18

	Period ended March 31, 2016	As at December 31, 2015
Trade receivables from related parties	11	152
Trade liabilities to related parties	5	6

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

17.3 Management personnel remuneration

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

PLN thousand	Period ended March 31, 2016	Period ended March 31, 2015
Short-term employee benefits (salaries and salary related costs)	1,628	1,705
Post-employment and termination benefits	2,382	(45)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**4,010**	**1,660**

The Members of the Company's Management Board of are employed on the basis of civil law contracts for management (so called management contracts). The above remuneration is included in other costs by nature disclosed in note 5.2 Costs by nature and function.

Increase of the remuneration of the Management Board in the first quarter of 2016 is mainly caused by provision raised for the remuneration of the former Management Board members due to so called non-competition clause. In the comparable period the Company reversed the surplus of a provision for the remuneration established in previous years.

18. Significant events of the reporting period and subsequent events

18.1 Signing of agreement on initiation of Polska Grupa Górnicza (Polish Mining Group)

On April 28, 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., the Company's subsidiary, signed the Investment Agreement (the "Agreement") specifying the financial investment conditions (the"Investment") in Polska Grupa Górnicza Sp. z o.o.(PGG). The parties to the Agreement are: PGE Górnictwo i Energetyka Konwencjonalna S.A., ENERGA Kogeneracja S.A., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe „Silesia" Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN (jointly referred later to as the „Investors") and PGG.

PGG will operate on the basis of selected mining assets, to be acquired from Kompania Węglowa S.A. ("KW") (including 11 hard coal mines, 4 operational units and support, managing and supervisory functions of KW headquarters that will be transferred therewith)

The Agreement specifies the Investment conditions, including inter alia, conditions of PGG recapitalisation by the Investors, operating rules of PGG and corporate governance rules, including method of Investors' supervision over PGG.

Recapitalisation of PGG in total amount of PLN 2,417 million, will take place in 3 tranches within which PGE Górnictwo i Energetyka Konwencjonalna S.A. will pay a total of PLN 500 million, including:

- PLN 361.1 million within the first tranche (payable within 4 business days after signing of the Bond Issue Agreement by PGG). As a result of the first payment, PGE GiEK will have 15.7% in the share capital of PGG;
- PLN 83.3 million within the second tranche (up to November 3, 2016). As a result of the second payment, PGE GiEK's share in the share capital of PGG will increase to 16.6%;
- PLN 55.6 million within the third tranche (up to February 1, 2017). As a result of the third payment, PGE GiEK's share in the share capital of PGG will increase to 17.1%.

The particular tranches will be released, on the condition, inter alia, that terms of PGG bonds issue are not breached.

PGG shall function on the basis of the business plan, which aims at optimisation of coal production costs and achieving defined profitability levels. Business Plan assumes that in 2017 PGG will generate positive cash flows for the Investors. The Agreement foresees several mechanisms allowing for on-going monitoring of the financial standing of PGG, including execution of the business plan and taking further optimization measures, among others, in case of adverse changes in market conditions. The Agreement assumes that each shareholder of PGG is entitled to appoint, recall and suspend one member of the Supervisory Board (individual rights).

Due to lack of control over the company, PGE S.A. does not plan to consolidate PGG under full consolidation method.

19. Approval of the financial statements

These financial statements were approved for publication by the Management Board on May 11, 2016.

Warsaw, May 11, 2016

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

President of the Management Board	**Henryk Baranowski**
The Vice-President of the Management Board	**Marta Gajęcka**
The Vice-President of the Management Board	**Bolesław Jankowski**
The Vice-President of the Management Board	**Marek Pastuszko**
The Vice-President of the Management Board	**Paweł Śliwa**
The Vice-President of the Management Board	**Ryszard Wasiłek**
The Vice-President of the Management Board	**Emil Wojtowicz**

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