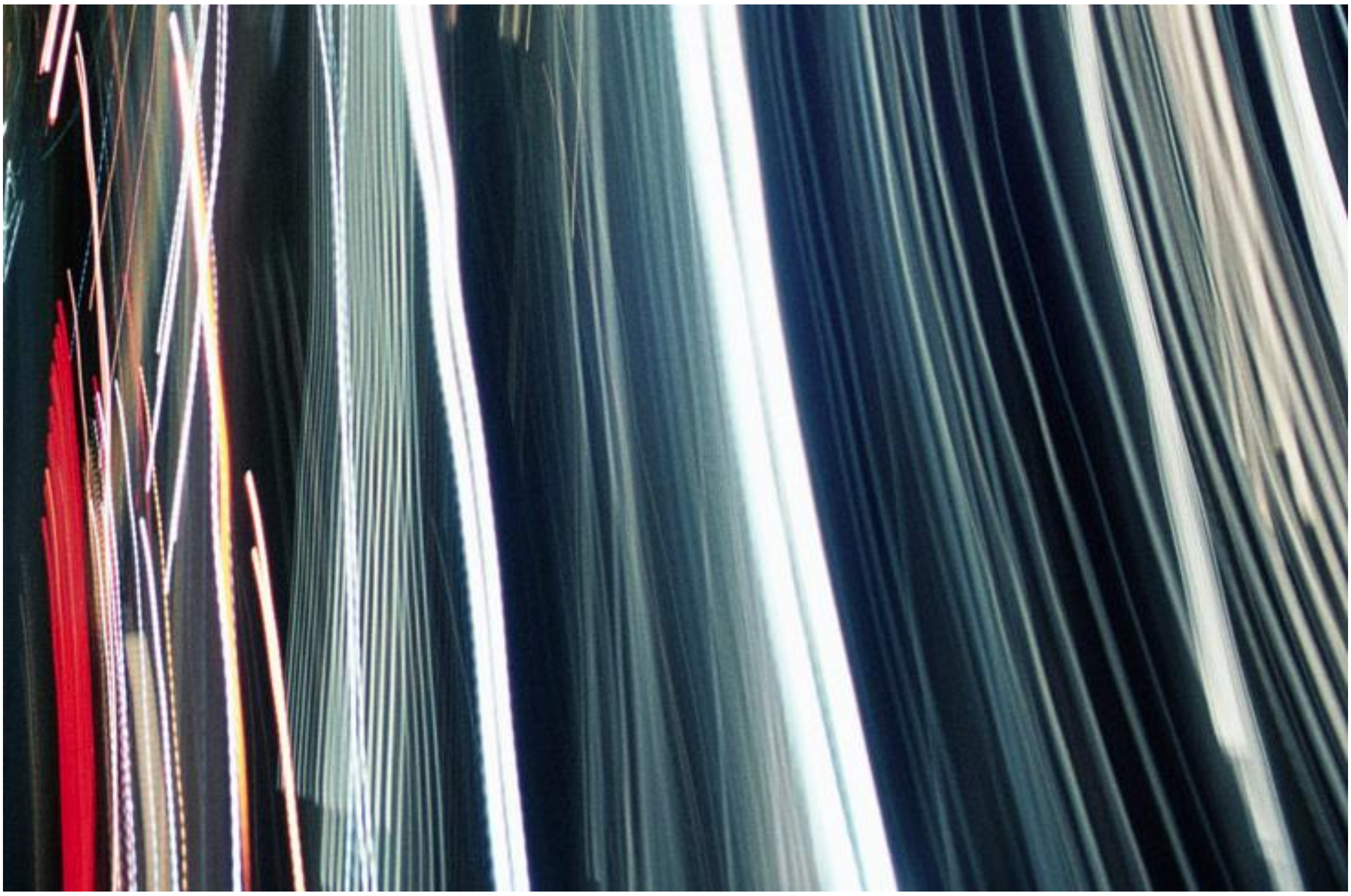

PGE Polska Grupa Energetyczna S.A.
Condensed interim consolidated financial statements for the 3 months period

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

TABLE OF CONTENTS

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED 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	6.1	**7,133**	**7,553**
Costs of goods sold	6.2	(5,605)	(5,548)
GROSS PROFIT/(LOSS) ON SALES		**1,528**	**2,005**
Distribution and selling expenses	6.2	(379)	(395)
General and administrative expenses	6.2	(183)	(208)
Other operating income	6.3	204	81
Other operating expenses	6.3	(47)	(67)
OPERATING PROFIT/(LOSS)		**1,123**	**1,416**
Financial income	6.4	26	51
Financial expenses	6.4	(74)	(105)
PROFIT/(LOSS) BEFORE TAX		**1,075**	**1,362**
Current income tax	8	(116)	(179)
Deferred income tax	8	(90)	(85)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**869**	**1,098**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	16.2	1	71
Foreign exchange differences from translation of foreign entities		-	(5)
Deferred tax	8	-	(13)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**1**	**53**
TOTAL COMPREHENSIVE INCOME		**870**	**1,151**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		870	1,095
– non-controlling interests		(1)	3
COMPREHENSIVE INCOME ATTRIBUTABLE TO :			
– equity holders of the parent company		871	1,148
– non-controlling interests		(1)	3
NET PROFIT/(LOSS) AND DILUTED NET PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.47**	**0.59**

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED 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		48,205	47,068	50,296
Investment property		32	30	31
Intangible assets		916	904	778
Financial receivables	14.1	150	142	135
Derivatives	15	39	43	11
Available-for-sale financial assets		15	15	15
Shares in associates accounted for under the equity method		9	8	9
Other non-current assets	13.1	956	1,063	1,488
Deferred tax assets	11.1	222	313	354
		50,544	**49,586**	**53,117**
CURRENT ASSETS				
Inventories		1,854	1,959	2,241
CO_2 emission rights for own use	12	2,325	2,172	1,565
Income tax receivables		66	101	64
Derivatives	15	8	7	27
Trade and other financial receivables	14.1	4,011	3,748	3,764
Available-for-sale financial assets		4	4	16
Other current assets	13.2	413	599	415
Cash and cash equivalents	14.2	1,629	3,104	4,943
Assets classified as held-for-sale		20	16	16
		10,330	**11,710**	**13,051**
TOTAL ASSETS		**60,874**	**61,296**	**66,168**
EQUITY				
Share capital	16.1	18,698	18,698	18,698
Hedging reserve	16.2	(20)	(21)	(3)
Foreign exchange differences from translation of foreign entities		(1)	(1)	(6)
Reserve capital		13,009	13,009	9,231
Retained earnings		9,506	8,636	17,996
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		**41,192**	**40,321**	**45,916**
Non-controlling interests		94	96	120
TOTAL EQUITY		**41,286**	**40,417**	**46,036**
NON-CURRENT LIABILITIES				
Non-current provisions	17	6,109	6,044	6,165
Loans, borrowings, bonds and lease	18.1	5,124	5,118	4,566
Derivatives	15	58	55	147
Deferred tax liabilities	11.2	854	852	2,165
Deferred income and government grants	25.1	1,199	1,192	1,144
Other financial liabilities	18.2	35	34	15
		13,379	**13,295**	**14,202**
CURRENT LIABILITIES				
Current provisions	17	2,094	1,809	2,186
Loans, borrowings, bonds and lease	18.1	289	291	245
Derivatives	15	-	34	15
Trade and other financial liabilities	18.2	2,682	3,945	2,057
Income tax liabilities		1	5	159
Deferred income and government grants		116	112	146
Other current non-financial liabilities		1,027	1,388	1,122
		6,209	**7,584**	**5,930**
TOTAL LIABILITIES		**19,588**	**20,879**	**20,132**
TOTAL EQUITY AND LIABILITIES		**60,874**	**61,296**	**66,168**

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Hedging reserve	Foreign exchange differences from translation of foreign entities	Reserve capital	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
Note	16.1	16.2						
JANUARY 1, 2015	**18,698**	**(61)**	**(1)**	**9,231**	**16,901**	**44,768**	**116**	**44,884**
Net loss for the reporting period	-	-	-	-	(3,032)	**(3,032)**	**(5)**	**(3,037)**
Other comprehensive income	-	40	-	-	12	**52**	-	**52**
COMPREHENSIVE INCOME	**-**	**40**	**-**	**-**	**(3,020)**	**(2,980)**	**(5)**	**(2,985)**
Retained earnings distribution	-	-	-	3,778	(3,778)	**-**	-	**-**
Dividend	-	-	-	-	(1,458)	**(1,458)**	(4)	**(1,462)**
Changes within the PGE Group	-	-	-	-	-	**-**	68	**68**
Purchase of additional shares in the PGE Group companies	-	-	-	-	(10)	**(10)**	(78)	**(88)**
Other changes	-	-	-	-	1	**1**	(1)	**-**
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**3,778**	**(5,245)**	**(1,467)**	**(15)**	**(1,482)**
AS AT DECEMBER 31, 2015	**18,698**	**(21)**	**(1)**	**13,009**	**8,636**	**40,321**	**96**	**40,417**
Net profit for the reporting period	-	-	-	-	870	**870**	**(1)**	**869**
Other comprehensive income	-	1	-	-	-	**1**	-	**1**
COMPREHENSIVE INCOME	**-**	**1**	-	**-**	**870**	**871**	**(1)**	**870**
Acquisition of non-controlling interest without a change in control	-	-	-	-	-	**-**	(1)	**(1)**
TRANSACTIONS WITH OWNERS	-	-	-	-	-	**-**	(1)	**(1)**
MARCH 31, 2016	**18,698**	**(20)**	**(1)**	**13,009**	**9,506**	**41,192**	**94**	**41,286**

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Hedging reserve	Foreign exchange differences from translation of foreign entities	Reserve capital	Retained earnings	TOTAL	Non-controlling interests	TOTAL EQUITY
JANUARY 1, 2015	**18,698**	**(61)**	**(1)**	**9,231**	**16,901**	**44,768**	**116**	**44,884**
Net profit for the reporting period	-	-	-	-	1,095	**1,095**	**3**	**1,098**
Other comprehensive income	-	58	(5)	-		**53**	-	**53**
COMPREHENSIVE INCOME	**-**	**58**	**(5)**	**-**	**1,095**	**1,148**	**3**	**1,151**
Other changes	-	-	-	-	-	**-**	1	**1**
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
MARCH 31, 2015	**18,698**	**(3)**	**(6)**	**9,231**	**17,996**	**45,916**	**120**	**46,036**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2016 (not audited)	Period ended March 31, 2015 (not audited) *data restated**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**1,075**	**1,362**
Income tax paid		(82)	(109)
Adjustments for:			
Depreciation, amortization, disposal and impairment losses		699	818
Interest and dividend, net		24	35
Profit / loss on investment activities		(34)	(55)
Change in receivables		(266)	(152)
Change in inventories		106	(81)
Change in liabilities, excluding loans and borrowings		(812)	(617)
Change in other non-financial assets, prepayments and CO_2 emission rights		15	(58)
Change in provisions		325	166
Other		18	52
NET CASH FROM OPERATING ACTIVITIES		**1,068**	**1,361**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		2	10
Purchase of property, plant and equipment and intangible assets		(2,522)	(2,434)
Deposits with a maturity over 3 months		(205)	(120)
Termination of deposits over 3 months		194	111
Other		9	-
NET CASH FROM INVESTING ACTIVITIES		**(2,522)**	**(2,433)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		12	30
Repayment of loans, borrowings, bonds and finance lease		(33)	(170)
Interest paid		(7)	(8)
Grants received for non-current assets		8	-
Other		-	(2)
NET CASH FROM FINANCING ACTIVITIES		**(20)**	**(150)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,474)**	**(1,222)**
Effect of movements in exchange rates on cash held		-	1
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14.2	**3,101**	**6,183**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14.2	**1,627**	**4,961**
Restricted cash		388	441

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

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

1. General information

1.1 Information about the parent company

PGE Polska Grupa Energetyczna S.A. („parent company", „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 parent company is seated in Warsaw, 2 Mysia Street.

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 decided to recall Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and temporarily delegated its member – Mr. Marek Pastuszko – to perform the duties of the Member 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Ownership structure

As at March 31, 2016 the ownership structure of the parent company is as follows:

	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%

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.

1.2 Information about the PGE Group

PGE Polska Grupa Energetyczna S.A. Group („PGE Group", „Group") comprises the parent company PGE Polska Grupa Energetyczna S.A., 50 subsidiaries subject to consolidation and 1 associate. For additional information about subsidiaries included in the consolidated financial statements please refer to notes 1.3.

The consolidated financial statements of the PGE Group comprise financial data for the period from January 1, 2016 to March 31, 2016 („financial statements", „consolidated financial statements") and include comparative data for the period from January 1, 2015 to December 31, 2015 and from January 1, 2015 to March 31, 2015.

The financial statements of all affiliated companies were prepared for the same reporting period as the financial statements of the parent company, using consistent accounting principles except for the financial statements of the associated company.

Core operations of the PGE Group companies are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail sale of electricity, energy origin rights, CO_2 emission rights and gas,
- production and distribution of heat,
- rendering of other services related to the above mentioned activities.

Business activities are conducted under appropriate concessions granted to particular Group companies.

Going concern

These consolidated financial statements were prepared under the assumption that the Group companies will continue to operate as a going concern in the foreseeable future. As at the date of the approval of these consolidated financial statements, there is no evidence indicating that the significant Group companies will not be able to continue its business activities as a going concern. 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 consolidated financial statements of PGE S.A. for the year ended December 31, 2015.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

1.3 Structure of the PGE Group

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

	Entity	Entity holding shares	Share of the Group entities as at March 31, 2016	Share of the Group entities as at December 31, 2015
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	The Parent Company		
2.	PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
	SEGMENT: CONVENTIONAL GENERATION			
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A	99.97%	99.96%
7.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
8.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10	„ELMEN" sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
12	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	-	100.00%
16	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
17	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
18	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%
	SEGMENT: RENEWABLE ENERGY			
19	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
20	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
21	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
22	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
23	PGE Energia Natury sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
24	PGE Energia Natury Omikron sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
25	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Entity	Entity holding shares	Share of the Group entities as at March 31, 2016	Share of the Group entities as at December 31, 2015
	SEGMENT: DISTRIBUTION			
26	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER OPERATIONS			
27	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
28	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29	EXATEL S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31	PGE Obsługa Księgowo-Kadrowa sp. z o.o. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
32	„Elbest" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
33	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35	PGE Inwest 4 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37	PGE Inwest 6 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38	PGE Inwest 7 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44	PGE Inwest 13 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46	PGE Inwest 15 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48	ENERGO-TEL S.A. Warsaw	EXATEL S.A.	100.00%	100.00%
49	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
50	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
51	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

The table above includes the following changes in the structure of the PGE Group companies subject to full consolidation which took place during the period ended March 31, 2016:

- on March 10, 2016 PGE Polska Grupa Energetyczna S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. concluded agreement for purchase of 100% shares of subsidiary RAMB sp. z o.o. The transaction did not have influence on these financial statements.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These financial statements of PGE Polska Grupa Energetyczna S.A. were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* 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”).

2.2 Presentation and functional currency

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

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

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

2.3 New standards and interpretations published, not yet effective

The following standards, changes in already effective standards and interpretations are not endorsed by the European Union or are not effective as at January 1, 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 Capital Group intends to adopt the above mentioned new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they become effective.

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

The new IFRS 9 *Financial Instruments* 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 Group. At the date of preparation of these financial statements all phases of IFRS 9 have not been published and standard is not yet approved by the European Union. As a result analysis of its impact on the future financial statements of the Group 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 amortization), increase of amortization and financial expenses.

The standard has been published in January 2016 and the PGE Group has not performed yet the analysis of its impact on the future financial statements.

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

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

2.4 Professional judgment of management and estimates

In the process of applying accounting rules with regards to the below issues, management has made judgments and estimates that affect the amounts presented in the consolidated financial statements, including in other explanatory information. The estimates were based on the best knowledge of the Management Board relating to current and future operations and events in particular areas. Detailed information on the assumptions made was presented below or in relevant explanatory notes to the consolidated financial statements.

- In 2015 an impairment loss of property, plant and equipment of PLN 9,039 million was recognized. In the reporting period, the Group did not identify indicators for performing impairment tests and for reversal of impairments recognized in previous periods.
- Provisions are liabilities of uncertain timing or amount. During the reporting period, PGE Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations are presented in note 17 of these financial statements.
- The Group's estimates of compensation related to early termination of long-term contracts for sale of capacity and electricity resulting in recognition of related revenues and receivables are based on appropriate, in the Group's opinion, interpretation of the Act dated June 29, 2007 on the principles for coverage of costs incurred due to early termination of long-term contracts for sales of capacity and electricity (Official Journal from 2007, No. 130, item 905) (" the LTC Act"), the anticipated outcome of disputes with the President of the Energy Regulatory Office and on a number of significant assumptions to the factors, some of which are outside the control of the Group.

  An unfavorable outcome of the dispute with the President of the Energy Regulation Office, described in note 22.1 of these financial statements, with respect to the interpretation of the LTC Act, and changes in assumptions used, including those resulting from mergers within the PGE Group, may significantly impact the estimates and as a consequence may lead to significant changes in the financial position and results of the PGE Group. It is not possible to predict the final outcome of the dispute with the President of the Energy Regulation Office as at the date of preparation of these consolidated financial statements.

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.

Change in presentation of impairment losses of property, plant and equipment, intangible assets and goodwill

IFRS EU regulations do not explicitly indicate the line in the statement of profit or loss in which the impairment loss should be recognized, thus it depends on the adopted accounting policy. In practice, different approaches can be observed, however, both companies applying IFRS EU and audit firms prefer to recognize impairment losses in cost by nature (as part of the depreciation and amortization or in a separate line). Thus, the recognition or reversal of impairment losses does not affect the reported EBITDA.

In accordance with the previously applied accounting policy, the PGE Group recognized impairment losses of property, plant and equipment, intangible assets and goodwill in other operating expenses.

Starting from the interim financial statements for the period ended June 30, 2015, the PGE Group changed its accounting policy in such a way, that the recognition or reversal of impairment of property, plant and equipment, intangible assets and goodwill is included in cost by nature. According to the Group's management, the changed accounting policy applies IFRS EU regulations in a better way and provides greater transparency and comparability of financial statements with other entities.

Other presentation changes

The following items were merged in the statement of financial position: trade receivables with other financial receivables and trade liabilities with other financial liabilities.

Moreover, the PGE Group has made the following presentation changes:

- accrual of electricity sales was reclassified from other current assets to trade receivables;
- CCIRS and IRS derivatives were reclassified from financial instruments measured at fair value through profit or loss to derivatives ;
- funds of Mine Liquidation Fund collected and invested in accordance with the Geological and Mining Law Act from were reclassified from cash and cash equivalents and other loans and financial assets to non-current financial receivables;
- other operating income and expenses were reclassified to operating revenues and expenses;
- reclassification between costs of goods sold and general and administrative expenses.

New way of presentation reflects more adequately the character of the items and ensures increased comparability of the statements with other entities.

Restatement of comparative information

In accordance with the above, the PGE Group restated the comparative data presented in the statement of comprehensive income, statements of financial position and statement of cash flows. The restatement is presented in the below tables. Information presented in explanatory notes to the financial statements was also restated accordingly.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2015 *published*	Change in recognition of impairment allowances	Reclassification	Period ended March 31, 2015 *data restated*
STATEMENT OF PROFIT OR LOSS				
SALES REVENUES	**7,553**	**-**	**-**	**7,553**
Costs of goods sold	(5,507)	(24)	(17)	(5,548)
GROSS PROFIT ON SALES	**2,046**	**(24)**	**(17)**	**2,005**
Distribution and selling expenses	(395)	-	-	(395)
General and administrative expenses	(218)	-	10	(208)
Other operating income	82	-	(1)	81
Other operating expenses	(99)	24	8	(67)
OPERATING PROFIT	**1,416**	**-**	**-**	**1,416**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2015 *published*	Reclassification	Merger of items	As at March 31, 2015 *data restated*
NON-CURRENT ASSETS, including:				
Financial receivables	13	122	-	135
Derivatives	-	11	-	11
TOTAL NON-CURRENT ASSETS	**52,984**	**133**	**-**	**53,117**
CURRENT ASSETS, including:				
Trade and other financial receivables	-	-	3,764	3,764
Trade receivables	1,920	627	(2,547)	-
Other loans and financial assets	1,339	(122)	(1,217)	-
Other current assets	1,042	(627)	-	415
TOTAL CURRENT ASSETS	**13,173**	**(122)**	**-**	**13,051**
TOTAL ASSETS	**66,157**	**11**	**-**	**66,168**
NON-CURRENT LIABILITIES, including:				
Derivatives	-	147	-	147
TOTAL NON-CURRENT LIABILITIES	**14,055**	**147**	**-**	**14,202**
CURRENT LIABILITIES, including:				
Trade and other financial liabilities	-	-	2,057	2,057
Trade liabilities	833	27	(860)	-
Other financial liabilities	1,224	(27)	(1,197)	-
Financial liabilities at fair value through profit or loss / Derivatives	151	(136)	-	15
TOTAL CURRENT LIABILITIES	**6,066**	**(136)**	**-**	**5,930**
TOTAL LIABILITIES	**20,121**	**11**	**-**	**20,132**
TOTAL EQUITY AND LIABILITIES	**66,157**	**11**	**-**	**66,168**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended March 31, 2015 *published*	Change in recognition of impairment allowances	Reclassification	Period ended March 31, 2015 *data restated*
Profit before tax	**1,362**	**-**	**-**	**1,362**
Adjustments for:				
Amortization, disposal and impairment	794	24	-	818
Profit / loss on investment activities	(31)	(24)	-	(55)
Change in receivables	(157)	-	5	(152)
Change in other non-financial assets, prepayments and CO_2 emission rights	(53)	-	(5)	(58)
NET CASH FROM OPERATING ACTIVITIES	**1,361**	**-**	**-**	**1,361**
Termination of deposits over 3 months	25	-	86	111
NET CASH FROM INVESTING ACTIVITIES	**(2,519)**	**-**	**86**	**(2,433)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(1,308)**	**-**	**86**	**(1,222)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**6,269**	**-**	**(86)**	**6,183**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,961**	**-**	**-**	**4,961**
Restricted cash	*526*	-	*(85)*	*441*

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.

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

	As at March 31, 2016		As at December 31, 2015	
FAIR VALUE HIERARCHY	**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	-	58	-	55
Financial liabilities	**-**	**58**	**-**	**89**

As at the reporting date, the book value of inventories amounted to PLN 1,854 million. The item contains CO_2 emission rights at fair value in the amount of PLN 62 million, as presented in the table above. Valuation of derivatives is presented in note 15 of these financial statements.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE OPERATING SEGMENTS

5. Information on operating segments

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

Relevant assets are assigned to the held concessions on lignite mining and generation and distribution of electricity and heat, which was presented in detailed information on operating segments. For holding concessions concerning electricity and heat the Group incurs annual charges dependent on the level of turnover, whereas for conducting licensed extraction of lignite the exploitation charges as well as fees for the use of mining are borne. The exploitation charges depend on the current rate and the volume of the extraction.

PGE Group presents information on operating segments in the current and comparative reporting period in accordance with IFRS 8 *Operating Segments*. The PGE Group' segment reporting is based on the following business segments:

- Conventional Generation comprises exploration and mining of lignite and production of electricity in the Group's power plants and heat and power plants as well as ancillary services.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and gas on the wholesale market, trading in emissions certificates and energy origin rights, purchases and supply of fuel, as well as sales of electricity and rendering services to end users.
- Distribution comprises management over local distribution networks and transmission of electricity.
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project.

Organization and management over the PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 of these financial statements. As a rule, inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. The exception to this rule were new bonds issued by subsidiaries belonging the tax group with interest rates below market rates and settlements of tax losses within the tax group.

When analysing the results of particular business segments the management of the PGE Group draws attention primarily to EBITDA reached.

Seasonality of business segments

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

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

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

5.1 Information on business segments for the period ended March 31, 2016

	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	2,878	192	3,460	497	96	10	7,133
Sales revenues from inter-segment transactions	195	21	682	1,013	67	(1,978)	-
TOTAL SEGMENT REVENUES	**3,073**	**213**	**4,142**	**1,510**	**163**	**(1,968)**	**7,133**
Costs of goods sold	(2,315)	(144)	(3,624)	(1,170)	(152)	1,800	**(5,605)**
EBIT *)	**680**	**49**	**132**	**273**	**(17)**	**6**	**1,123**
Financial income / (expenses), net							(48)
Share of profit of associates							-
PROFIT/(LOSS) BEFORE TAX							**1,075**
Income tax							(206)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**869**
Amortization, disposal and impairment	320	65	7	282	32	(7)	699
EBITDA **)	**1,000**	**114**	**139**	**555**	**15**	**(1)**	**1,822**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	33,029	4,622	1,038	15,978	909	(875)	54,701
Trade receivables	438	95	2,577	741	125	(1,353)	2,623
Shares in associates							9
Unallocated assets							3,541
TOTAL ASSETS							**60,874**
Segment liabilities excluding trade liabilities	8,792	376	1,515	1,840	187	(155)	12,555
Trade liabilities	501	34	1,173	239	63	(1,303)	707
Unallocated liabilities							6,326
TOTAL LIABILITIES							**19,588**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	1,471	76	4	287	24	(21)	1,841
Impairment allowances on financial and non-financial assets	12	-	4	3	1	1	21
Other non-monetary expenses ***)	409	6	282	34	9	-	740

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortization, disposal and impairment losses reflected in financial result

***) monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income .

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Information on business segments for the period ended March 31, 2015

data restated	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	3,316	200	3,450	471	107	9	7,553
Sales revenues from inter-segment transactions	201	15	347	1,070	66	(1,699)	-
TOTAL SEGMENT REVENUES	**3,517**	**215**	**3,797**	**1,541**	**173**	**(1,690)**	**7,553**
Costs of goods sold	(2,472)	(128)	(3,230)	(1,100)	(149)	1,531	**(5,548)**
EBIT *)	**810**	**70**	**153**	**367**	**(5)**	**21**	**1,416**
Financial income / (expenses), net							(54)
Share of profit of associates							-
PROFIT/(LOSS) BEFORE TAX							**1,362**
Income tax							(264)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**1,098**
Amortization, disposal and impairment	446	55	6	265	26	(12)	786
EBITDA **)	**1,256**	**125**	**159**	**632**	**21**	**9**	**2,202**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	36,149	4,029	1,515	15,321	829	(1,029)	56,814
Trade receivables	357	94	2,511	411	111	(936)	2,548
Shares in associates							9
Unallocated assets							6,797
TOTAL ASSETS							**66,168**
Segment liabilities excluding trade liabilities	8,197	357	2,109	1,883	166	(736)	11,976
Trade liabilities	585	25	883	180	65	(879)	859
Unallocated liabilities							7,297
TOTAL LIABILITIES							**20,132**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	1,042	68	4	263	33	(17)	1,393
Impairment allowances on financial and non-financial assets	28	-	5	10	(1)	-	42
Other non-monetary expenses ***)	320	7	297	52	9	-	685

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortization, disposal and impairment losses reflected in financial result

***) monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

6. Revenues and expenses

6.1 Sales revenues

	Period ended March 31, 2016	Period ended March 31, 2015
SALES REVENUES		
Sales of merchandise and finished goods with excise tax	*7,001*	*7,374*
Excise tax	*(126)*	*(116)*
Revenues from sale of merchandise and finished goods, including:	**6,875**	**7,258**
Sale of electricity	*4,678*	4,988
Sale of distribution services	*1,433*	1,455
Sale of heat	*283*	271
Sale of energy origin rights	*185*	207
Regulatory system services	*137*	127
Others sale of merchandise and materials	159	210
Revenues from sale of services	**128**	**133**
Revenues from LTC compensations	**130**	**162**
TOTAL SALES REVENUES	**7,133**	**7,553**

The decrease in revenues from sale of electricity in the period ended March 31, 2016 as compared to the corresponding period of the previous year is mainly due to lower wholesale volumes and lower average price of electricity sold.
Revenues from LTC compensations are described in note 22.1 of these financial statements.

6.2 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	731	836
Materials and energy	840	917
External services	593	582
Taxes and charges	811	762
Employee benefits expenses	1,117	1,121
Other cost by nature	63	59
TOTAL COST BY NATURE	**4,155**	**4,277**
Change in inventories	(29)	(44)
Cost of products and services for the entity's own needs	(264)	(307)
Distribution and selling expenses	(379)	(395)
General and administrative expenses	(183)	(208)
Cost of merchandise and materials sold	2,305	2,225
COST OF GOODS SOLD	**5,605**	**5,548**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

6.2.1 Depreciation, amortization, disposal and impairment losses

Recognition of depreciation, amortization, disposal and impairment losses of property, plant and equipment and intangible assets in the financial statement of comprehensive income is presented below.

Period ended March 31, 2016	Depreciation, amortization and disposal			Impairment losses		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	655	20	**675**	8	-	**8**
Distribution and selling expenses	4	2	**6**	-	-	**-**
General and administrative expenses	6	3	**9**	-	1	**1**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES REFLECTED IN FINANCIAL RESULT	**665**	**25**	**690**	**8**	**1**	**9**
Change in inventories	1	-	**1**	-	-	**-**
Cost of products and services for the entity's own needs	31	-	**31**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**697**	**25**	**722**	**8**	**1**	**9**

Period ended March 31, 2015	Depreciation, amortization and disposal			Impairment losses		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	725	15	**740**	24	-	**24**
Distribution and selling expenses	12	1	**13**	-	-	**-**
General and administrative expenses	7	2	**9**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES REFLECTED IN FINANCIAL RESULT	**744**	**18**	**762**	**24**	-	**24**
Change in inventories	4	-	**4**	-	-	**-**
Cost of products and services for the entity's own needs	46	-	**46**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**794**	**18**	**812**	**24**	**-**	**24**

6.3 Other operating income and expenses

	Period ended March 31, 2016	Period ended March 31, 2015 *data restated*
OTHER OPERATING INCOME		
Adjustment of revenues from LTC compensations	148	-
Reversal of other provisions	15	16
Penalties, fines and compensations received	10	21
Grants received	7	6
Reversal of impairment allowances on receivables	6	10
Tax refunds	4	-
Property, plant and equipment, intangible assets received free of charge	3	2
Revenues from illegal energy consumption	2	2
Profit on disposal of property, plant and equipment / intangible assets	1	4
Surpluses / recognition of assets	-	4
Other	8	16
TOTAL OTHER OPERATING INCOME	**204**	**81**

Revenues from LTC compensations are described in note 22.1 of these financial statements.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Period ended March 31, 2016	Period ended March 31, 2015 *data restated*
OTHER OPERATING EXPENSES		
Recognition of other provisions	18	16
Recognition of impairment allowances on receivables	12	21
Liquidation of damages / breakdowns	3	8
Legal proceedings' costs	2	3
Compensations	2	1
Liquidation of property, plant and equipment and intangible assets associated with other operations	1	1
Donations granted	-	8
Other	9	9
TOTAL OTHER OPERATING EXPENSES	**47**	**67**

6.4 Financial income and expenses

	Period ended March 31, 2016	Period ended March 31, 2015
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Interest	12	33
Revaluation of financial instruments	1	11
Foreign exchange gain	12	6
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS	**25**	**50**
OTHER FINANCIAL INCOME		
Reversal of provisions	1	1
OTHER FINANCIAL INCOME	**1**	**1**
TOTAL FINANCIAL INCOME	**26**	**51**

The Group recognizes interest income primarily on cash and on receivables.

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	24	31
Revaluation of financial instruments	5	7
Impairment loss	1	2
Foreign exchange losses	-	26
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**30**	**66**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	44	38
Other	-	1
OTHER FINANCIAL EXPENSES	**44**	**39**
TOTAL FINANCIAL EXPENSES	**74**	**105**

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

7. Impairment allowances of assets

	Period ended March 31, 2016	Period ended March 31, 2015
IMPAIRMENT ALLOWANCES ON PROPERTY, PLANT AND EQUIPMENT		
Impairment allowances raised	8	28
Reversal of impairment allowance	-	-
IMPAIRMENT ALLOWANCES ON INTANGIBLE ASSETS		
Impairment allowances raised	1	-
IMPAIRMENT ALLOWANCES ON INVENTORIES		
Impairment allowances raised	12	7
Reversal of impairment allowance	6	2

8. Tax in the statement of comprehensive income

Main elements of income 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	102	165
Previous periods current income tax adjustments	14	14
Deferred income tax	90	85
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**206**	**264**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	-	-
From valuation of hedging instruments	-	13
(Tax benefit) / expense recognized in other comprehensive income (equity)	**-**	**13**

Previous periods current income tax adjustments relate mainly to sales of electricity for the previous year invoiced in the first quarter of the current year. In the previous period sales as recognised basing on estimates, on which deferred tax was recognised.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. Significant purchase transactions of property, plant and equipment and intangible assets

During the reporting period, PGE Group purchased tangible fixed assets and intangible assets of a total amount of PLN 1,841 million. The largest expenditures were incurred by Conventional Generation segment (PLN 1,471 million) and PGE Dystrybucja S.A. (PLN 287 million). The main items of expenditure were: construction of units 5 and 6 in Opole power plant (PLN 904 million) and comprehensive modernization of units 7-12 in Bełchatów power plant (PLN 267 million).

In the current period there were no significant sales transactions regarding property, plant and equipment.

10. Future investment commitment

As at March 31, 2016 the PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 13,428 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and a purchase of machinery and equipment.

	As at March 31, 2016	As at December 31, 2015
Conventional Generation	10,819	11,603
Distribution	1,109	850
Renewables	79	116
Supply	2	3
Other operations	1,419	1,323
TOTAL FUTURE INVESTMENT COMMITMENTS	**13,428**	**13,895**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 5,008 million,
  - Branch Turów Power Plant – contract for construction of new power unit – approximately PLN 3,493 million,
  - Branch Turów Power Plant – modernization of boilers and turbines on power units no. 1-3 – approximately PLN 463 million,
  - Branch Bełchatów Power Plant – reconstruction and modernization of power units – approximately PLN 379 million,
- Distribution – investment commitments related to network distribution assets of the total value of approximately PLN 1,109 million,
- Other operations, PGE EJ 1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 1,307 million (including PLN 205 million as base case – remaining part of the contract is optional).

11. Deferred tax in the statement of financial position

11.1 Deferred tax asset

	As at March 31, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	1,531	1,520
Difference between tax value and carrying amount of financial assets	33	31
Difference between tax value and carrying amount of liabilities	259	271
Difference between tax value and carrying amount of inventories	22	21
LTC compensations	222	231
Rehabilitation provision	616	605
Provision for CO_2 emission rights	192	144
Provisions for employee benefits	591	591
Other provisions	131	128
Energy infrastructure acquired free of charge and connection payments received	139	141
Other	18	20
DEFERRED TAX ASSET	**3,754**	**3,703**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

11.2 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	2,801	2,681
Difference between tax value and carrying amount of energy origin units	92	107
Difference between tax value and carrying amount of financial assets	327	357
CO_2 emission rights	436	403
LTC compensations	711	671
Other	19	23
DEFERRED TAX LIABILITY	**4,386**	**4,242**

AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFFERED TAX IS PRESENTED AS:		
Deferred tax asset	222	313
Deferred tax liability	(854)	(852)

12. CO_2 emission rights for captive use

The power generating units belonging to the PGE Group maintain installations, covered with the act dated June, 12 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Only on the basis of article 10c of Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce CO_2 emission. The condition under which free of charge CO_2 emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

EUA	As at March 31, 2016		As at December 31, 2015	
	Amount (Mg million)	Value	Amount (Mg million)	Value
AS AT JANUARY 1	**77**	**2,172**	**68**	**1,552**
Purchase	6	153	38	1,301
Granted free of charge	1	-	30	-
Redemption	-	-	(59)	(681)
AS AT THE REPORTING DATE	**84**	**2,325**	**77**	**2,172**

Additionally, in April 2016 entities of the PGE Group received free of charge CO2 emission rights in the amount of about 25 million tonnes for units generating electricity.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

13. Other current and non-current assets

13.1 Other non-current assets

	As at March 31, 2016	As at December 31, 2015
Advances for construction in progress	934	1,042
Other non-current assets	22	21
OTHER ASSETS, TOTAL	**956**	**1,063**

Advances for construction in progress relate mainly to investment projects conducted by the Conventional Generation segment.

13.2 Other current assets

	As at March 31, 2016	As at December 31, 2015
PREPAYMENTS		
Fees, agency commission	65	41
IT services	7	7
Property and tort insurance	7	3
Fees for the exclusion of land from agricultural production / forestry	4	4
Other prepayments	55	19
OTHER CURRENT ASSETS		
VAT receivables	214	388
Excise tax receivables	43	90
Advances for deliveries of property, plant and equipment and intangible assets	5	34
Other current assets	13	13
OTHER ASSETS, TOTAL	**413**	**599**

Fees and commissions include agency commissions, commissions on loan and fees for the use of mining. Other prepayments include concessions, fees for perpetual usufruct of land, fees for devices positioning and for occupancy of the Right of Way.

The increased VAT receivables in the corresponding period result from the investment purchases in the Conventional Generation and Renewables segments. The amount of excise tax receivables regards the exemption from excise tax of electricity generated from renewable energy sources on the basis of a document confirming the redemption of the certificate of origin.

14. Significant financial assets

The carrying amount of financial assets measured at amortized cost is a reasonable estimate of their fair value.

14.1 Trade and other financial receivables

	As at March 31, 2016		As at December 31, 2015	
	non-current	Current	non-current	Current
Trade receivables	-	2,623	-	2,548
LTC compensations	-	1,310	-	1,075
Deposits	134	1	124	1
Bails and security deposits	-	7	-	37
Collateral – balancing market	-	2	-	18
Other financial receivables	16	68	18	69
FINANCIAL RECEIVABLES	**150**	**4,011**	**142**	**3,748**

Trade receivables comprise also accrual of electricity sales (PLN 607 million as at March 31, 2016 and PLN 601 million in the corresponding period).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

14.2 Cash and cash equivalents

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

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

	As at March 31, 2016	As at December 31, 2015
Cash on hand and cash at bank	829	1,304
Overnight deposits	44	57
Short-term deposits	756	1,743
TOTAL	**1,629**	**3,104**
Interest accrued on cash, not received at the reporting date	-	(1)
Exchange differences on cash in foreign currencies	(2)	(2)
Cash and cash equivalents presented in the statement of cash flows	**1,627**	**3,101**
including restricted cash	*388*	*333*
Undrawn borrowing facilities	5,511	5,257
including overdraft facilities	*2,254*	*2,254*
Borrowing facilities available from Q2 2016	5,500	5,500

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

- cash received as a guarantee of proper execution of the contract and cash received as a tender deposit;
- cash deposit securing the settlements of subsidiaries of the PGE Group with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House).

Credit agreements are described in note 18.1 of these financial statements.

15. Derivatives

	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 hedging transactions	-	58	-	55
HEDGING DERIVATIVES				
CCIRS hedging transactions	39	-	43	-
DERIVATIVES, TOTAL	**47**	**58**	**50**	**89**
current	8	-	7	34
non-current	39	58	43	55

Commodity and currency forwards

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

IRS transactions

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

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

CCIRS hedging transaction

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

For the CCIRS transaction the Group applies hedge accounting. The impact of hedge accounting is presented in note 16.2 of these financial statements.

16. Equity

The basic assumption of the Group'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 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.

16.1 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. During the reporting period and until the date of preparation of the foregoing financial statements there were no changes in the structure and amount of the share capital.

16.2 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	**(21)**	**(61)**
Change of hedging reserve, including:	**1**	**49**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*(5)*	*51*
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 foreign exchange gain/ losses	*(4)*	*1*
Ineffective portion of changes in fair value of hedging derivatives recognized in the profit or loss	*1*	*(4)*
Deferred tax	-	(9)
HEDGING RESERVE LESS DEFERRED TAX	**(20)**	**(21)**

16.3 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**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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, PGE S.A. 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). Dividend was paid on October 15, 2015.

17. 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
Employee benefits	2,500	564	2,496	517
Rehabilitation provision	3,406	5	3,348	2
Provision for deficit of CO_2 emission rights	-	1,011	-	760
Provision for energy origin units held for redemption	-	368	-	380
Provision for non-contractual use of the property	97	15	97	20
Other provisions	106	131	103	130
TOTAL PROVISIONS	**6,109**	**2,094**	**6,044**	**1,809**

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provision for energy origin units held for redemption	Provision for non-contractual use of the property	Other provisions	Total
JANUARY 1, 2016	**3,013**	**3,350**	**760**	**380**	**117**	**233**	**7,853**
Actuarial gains and losses excluding discount rate adjustment	-	-	-	-	-	-	-
Current service costs	18	-	-	-	-	-	18
Past service costs	-	-	-	-	-	-	-
Interest costs	20	24	-	-	-	-	44
Discount rate and other assumptions adjustment	-	-	-	-	-	-	-
Benefits paid / provisions used	(178)	-	-	(271)	-	(6)	(455)
Provisions reversed	(3)	-	-	(3)	(16)	(6)	(28)
Provisions raised	195	8	251	262	11	22	749
Other changes	(1)	29	-	-	-	(6)	22
MARCH 31, 2016	**3,064**	**3,411**	**1,011**	**368**	**112**	**237**	**8,203**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provision for energy origin units held for redemption	Provision for non-contractual use of the property	Other provisions	Total
JANUARY 1, 2015	**3,243**	**3,299**	**676**	**555**	**92**	**304**	**8,169**
Actuarial gains and losses excluding discount rate adjustment	50	-	-	-	-	-	50
Current service costs	82	-	-	-	-	-	82
Past service costs	(55)	-	-	-	-	-	(55)
Interest costs	70	86	-	-	-	-	156
Discount rate and other assumptions adjustment	(122)	(224)	-	-	-	-	(346)
Benefits paid / provisions used	(725)	(1)	(680)	(1,159)	(1)	(74)	(2,640)
Provisions reversed	(116)	(4)	(1)	(2)	(19)	(82)	(224)
Provisions raised	560	56	765	986	45	85	2,497
Changes in the PGE Group	(3)	-	-	-	-	-	(3)
Other changes	29	138	-	-	-	-	167
DECEMBER 31, 2015	**3,013**	**3,350**	**760**	**380**	**117**	**233**	**7,853**

17.1 Provision for employee benefits

PGE Group companies raise provisions for:

- post-employment benefits – PLN 1,732 million(PLN 1,721 million as at December 31, 2015),
- jubilee awards – PLN 959 million (PLN 953 million as at December 31, 2015),
- other benefits (bonuses, unused holidays leaves, etc.) – PLN 373 million (PLN 339 million as at December 31, 2015).

17.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

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

The PGE Group creates provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognized in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at March 31, 2016 amounted to PLN 3,098 million and as at December 31, 2014 to PLN 3,051 million.

Provision for rehabilitation of ash storages

The PGE Group power generating units raise provisions for rehabilitation of ash storages. As at the reporting date, the value of provision amounted to PLN 103 million and as at December 31, 2015 to PLN 98 million.

Provisions for rehabilitation of post-construction grounds of wind farms

The companies which own wind farms create provision for rehabilitation of post-construction grounds of wind farms. As at the reporting date, the value of provision amounted to PLN 51 million and as at December 31, 2015 to PLN 49 million.

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the value of the provision amounts to PLN 159 million (PLN 152 million as at December 31, 2015) and refers to some assets of the Conventional Generation and Renewables segments.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

17.3 Provision for deficit of CO_2 emission rights

As a general rule, the PGE Group entities recognize provision for the shortfall of CO_2 emission rights granted free of charge. In estimating the value of the provision the Group takes into account EUA purchased as well as the possibility to cover any shortage with CER or ERU certificates. As described in note 12 of these financial statements the PGE Group is entitled to receive CO_2 emissions rights granted free of charge in connection to expenditures concerning investments included in National Investment Plan. The calculation of the provision includes also these rights.

17.4 Provision for non-contractual use of property

Entities of the PGE Group recognize provision for damages related to a non-contractual use of property. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 112 million (of which 47 million relate to litigations). In the comparative period the value of the provision amounted to PLN 117 million (of which PLN 46 million related to litigations).

17.5 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 93 million (PLN 88 million as at December 31, 2015) and for the ongoing litigations conducted by Exatel S.A. in the amount of PLN 57 million (PLN 57 million as at December 31, 2015).

18. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on fixed interest rate. Their amortized cost presented in these financial statements as at March 31, 2016 amounted to EUR 644 million and their estimated fair value amounted to EUR 715 million. The indicators used in the valuation are recognized at Level 2 of fair value hierarchy.

18.1 Loans, borrowings, bonds and lease

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Loans and borrowings	1,441	212	1,459	214
Bonds issued	3,682	76	3,658	76
Lease	1	1	1	1
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	**5,124**	**289**	**5,118**	**291**

Loans and borrowings

Among loans and borrowings presented above as at March 31, 2016, the PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank to finance construction of 858 MW power unit in Elektrownia Bełchatów (Bełchatów Power Plant) of PLN 599 million;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Elektrownia Turów (Turów Power Plant) of PLN 143 million.

Additionally, in 2015 the parent 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

- on December 4, 2015, the Company concluded 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 above loans were not used.

The value of available overdraft facilities amounted to PLN 2,254 million as at March 31, 2016 and as at December 31, 2015. Above overdraft facilities limits are available until April 29, 2018.

In the reporting period and after the reporting date there were no breaches of repayment or of other conditions ot the loan agreements.

Bonds issued

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

- The bond issue program for the amount of PLN 5 billion directed towards investors from the Polish capital market. On June 27, 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 medium term Eurobonds Issue Program of EUR 2 billion established on May 22, 2014 by PGE S.A. together with PGE Sweden AB (publ), a 100% subsidiary of PGE S.A. Under the Program, PGE Sweden AB (publ) may issue Eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. On June 9, 2014, PGE Sweden AB (publ) issued Eurobonds in total amount of EUR 500 million and a five year maturity and on August, 1 2014 it has issued bonds in the amount of EUR 138 million and fifteen year maturity.

18.2 Trade and other financial liabilities

	As at March 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	707	-	1,119
Purchase of property, plant and equipment and intangible assets	24	801	25	1,608
Liabilities related to LTC	-	1,087	-	1,131
Bails and security deposits received	11	81	9	81
Insurances	-	2	-	-
Other	-	4	-	6
TRADE AND OTHER FINANCIAL LIABILITIES	**35**	**2,682**	**34**	**3,945**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

OTHER EXPLANATORY NOTES

19. Contingent liabilities and receivables. Legal claims

19.1 Contingent liabilities

	As at March 31, 2016	As at December 31, 2015
Contingent return of grants from environmental funds	441	433
Legal claims	67	67
Contractual fines and penalties	12	12
Bank guarantees	1	1
Other contingent liabilities	47	47
CONTINGENT LIABILITIES, TOTAL	**568**	**560**

Contingent return of grants from environmental funds

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

Legal claims

Contingent liability is mainly related to the dispute with WorleyParsons, which made a claim for remuneration in the amount of PLN 59 million payable to the claimant in the claimant's opinion, and for the return of the amount that in the claimant's opinion was unduly collected by the Company from a bank guarantee. PGE EJ 1 sp. z o.o. filed a response to the lawsuit. Moreover, the value of the claims mentioned in the WorleyParsons' lawsuit in the amount of PLN 54 million has been included in a request for payment for the amount of PLN 92 million due to termination of an agreement, which WorleyParsons filed on March 13, 2015. It is anticipated that WorleyParsons may take a separate legal action for the amount of PLN 38 million. The Company does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to contractual fines and penalties

The contingent liability comprises mainly accrued contractual fines relating to delay in realization of the investment issued by the Mayor of the City and Municipality of Gryfino to Zespół Elektrowni Dolna Odra S.A. (currently PGE Górnictwo i Energetyka Konwencjonalna S.A.). The Group committed to the Municipality of Gryfino to accomplish two investments with the total value of not less than almost PLN 8 million until the end of 2018. Failure to realize investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

Other contingent liabilities

Other contingent liabilities comprise the value of potential claim from WorleyParsons of PLN 38 million, which was described above and cash fines of almost PLN 6 million resulting from proceeding relating to environmental protection (breach of the conditions of disposal of sewage and deforestation in some of the PGE Group companies).

19.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 17 of these financial statements the PGE Group recognizes provision for disputes under court proceedings, concerning non-contractual use of properties for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and there is a possibility of increased number of disputes in the future.

Contractual liabilities related to purchase of fuels

According to the concluded agreements on the purchase of fuels (mainly coal and gas), the PGE Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular hours and months. A failure to collect a minimum volume of fuels specified in the contracts, may result in a necessity to pay some extra fee (in case of gas fuel, the volume not collected by power plants but paid up, may be collected within the next three contractual years).

In the PGE Group's opinion, the described above terms and conditions of fuel deliveries to its power generating units do not differ from terms and conditions of fuel deliveries to other power generating units on the Polish market.

19.3 Contingent receivables

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

19.4 Other legal claims and disputes

The issue of compensation for conversion of shares

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

20. Tax settlements

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

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

Basic tax rates were as follows: in 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.

Tax Capital Group

On September 18, 2014 an agreement concerning a tax group, named “TCG PGE 2015” was executed for a 25-year period. PGE S.A. is the representing company of this group.

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 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.

Real estate tax

Considering pending disputes the PGE Group established at the reporting date the provision for property tax in the amount of PLN 93 million. The provision relates mainly to tax proceedings with regard to property tax in selected power plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and detached technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various stages of tax authorities proceedings, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

21. Information on related parties

The PGE Group’s transactions with related entities are being concluded using market prices for provided goods, products and services are based on the cost of manufacturing.

21.1 Associates

The sale of entities belonging to the PGE Group to associates in the period ended March 31,2016 amounted to PLN 3 million and in the comparative period to PLN 2 million. As at March 31, 2016 and as at December 31, 2015, the Group’s trade receivables from associates amounted to PLN 2 million and PLN 1 million respectively.

21.2 Subsidiaries of the State Treasury

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

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

	Period ended March 31, 2016	Period ended March 31, 2015*
Sales to related parties	623	553
Purchases from related parties	835	841

* *data restated in the comparative period*

	As at March 31, 2016	As at December 31, 2015
Trade receivables from related parties	338	383
including overdue	*45*	*14*
Trade liabilities to related parties	277	387
including overdue	-	-

The largest transactions with the State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A., PKN Orlen S.A. and purchases of coal from Polish mines. The increase in sales from related parties is mainly due to the increase of sales volume of certificates to related parties.

Moreover, the PGE Group concludes significant transactions on the energy market via the 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.

21.3 Management personnel remuneration

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

PLN thousand	Period ended March 31, 2016	Period ended March 31, 2015
Short-term employee benefits (salaries and salary related costs)	7,054	7,427
Post-employment and termination benefits	5,456	432
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**12,510**	**7,859**
Remuneration of key management personnel of entities of non-core operations	2,412	3,913
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**14,922**	**11,772**

PLN thousand	Period ended March 31, 2016	Period ended March 31, 2015
Management Board of the parent company	3,907	1,550
Supervisory Board of the parent company	103	110
Management Boards – subsidiaries	8,018	5,856
Supervisory Boards – subsidiaries	482	343
TOTAL	**12,510**	**7,859**
Remuneration of key management personnel of entities of non-core operations	2,412	3,913
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**14,922**	**11,772**

Increase of the remuneration of the management personnel 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.

The Members of the Management Boards of some of the Group companies 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 6.2 Costs by nature and function.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE 3 MONTHS PERIOD ENDED MARCH 31, 2016 IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

22. Significant events of the reporting period and subsequent events

22.1 Compensation resulting from termination of long term contracts LTC

Due to the termination of long-term contracts for sale of capacity and electricity, pursuant to the LTC Act, power generating units who once served as parties to such contracts have acquired the right to compensations for the coverage of the so-called stranded costs. Stranded costs are the expenses of the power generating units, borne until May 1, 2004 for property, plant and equipment related to the production of electricity, uncovered by revenue from the sales of the electricity produced, capacity reserves and system services on the competitive market, after the premature termination of the long-term contract. The LTC Act limits the total resources which can be paid out to all power generating units to cover stranded costs discounted as of January 1, 2007 to the sum of PLN 11.6 billion, with PLN 6.3 billion attributable to PGE.

Table: Basic data for Group power generating units assumed with the LTC Act.

Power generating unit	Effective term of the Act	Maximum stranded and extra costs
Turów Power Plant	Up to 2016	2,571
Opole Power Plant	Up to 2012	1,966
Dolna Odra Power Plant Complex	Up to 2010	633
Lublin Wrotków CHP Plant	Up to 2010	617
Rzeszów CHP Plant	Up to 2012	422
Gorzów CHP Plant	Up to 2009	108
TOTAL		**6,317**

Within the term stipulated by the LTC Act, i.e. until December 31, 2007, PGE S.A. signed contracts terminating its long-term capacity and electricity sales contracts with power generating units who once served as parties to the then effective LTC. Therefore, the power generating units have gained the right to receive resources to cover stranded costs.

Decisions of the President of the Energy Regulatory Office under the LTC Act

Some generating entities, currently branches of PGE GiEK S.A., became entitled to receive funds to cover stranded costs (so-called "LTC compensation") pursuant to the LTC Act. The LTC Act is ambiguous in many points and raise important questions of interpretation. The calculation of the estimated results of each entity and resulting compensations, annual adjustments of stranded costs and final adjustments as well as resulting revenues recognized in the statement of comprehensive income was performed by the Group with the best of its knowledge in this area and with support of external experts.

Until the preparation date of this report, producers from PGE Group received decisions on annual adjustments of stranded costs and costs related to natural gas fired entities for 2008-2014. The part of these decisions were disadvantageous for the particular entities and the Group believes that they were issued in violation of the Long-Term Contracts Act. As a consequence, since 2009, a number of proceedings have been pending before the Regional Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal. As at the preparation date of this report, majority of the proceedings are conducted before the Supreme Court.

In 2016:

- A hearing before the Court of Justice of the European Union (CJEU) took place on January 27, 2016 regarding preliminary questions from the Supreme Court to the CJEU, where each of the parties presented their position. The Company is awaiting a ruling by the CJEU.
- On April 7, 2016 the court case was conducted before the Supreme Court, during which a cassation appeal of the ERO President was examined in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009. The Supreme Court repealed the contested judgment of the Court of Appeal in Warsaw in full and dismissed the appeal of PGE GiEK S.A. Claim value in this case amounts to nearly PLN 7.0 million. As a consequence of the verdict, the company paid that amount to the account of Zarządca Rozliczeń S.A.
- On April 7, 2016 the Supreme Court refused to accept the cassation appeal for examination in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków and Branch Elektrociepłownia Rzeszów for 2010. The ruling ends the proceedings, meaning that rulings by the CCP Court and the Court of Appeal are binding. Claim value in this case amounts to PLN 4 million.
- On April 14, 2016 the court case was conducted before the Court of Appeal on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Elektrownia Opole for 2010. The court allowed the appeal of PGE GiEK S.A. and at the same time dismissed the appeal of the ERO President. The above means that the court changed the contested decision as requested by the appeal of PGE GiEK S.A. The judgement is final and binding. The ERO President is entitled to file a

cassation appeal with the Supreme Court. Claim value in this case amounts to approx. PLN 142 million. The company intends to apply for payment of that amount to Zarządca Rozliczeń S.A.

Impact on the financial statements for the period ended March 31, 2016

In the financial statements for the period ended March 31, 2016, the Group recognized LTC revenue in sales revenue in the amount of PLN 130 million.

The verdict of the Court of Appeal on determining the annual adjustment for stranded costs due to GiEK S.A. Branch Elektrownia Opole for 2010 caused an adjustment of LTC settlements of nearly PLN (+) 173 million in the financial statements for the period ended March 31, 2016. Moreover, refusal to accept the cassation appeal for examination in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków and Branch Elektrociepłownia Rzeszów for 2010 and unfavourable ruling of the Supreme Court in case of the annual adjustment of costs arising in gas-fired units at PGE GiEK S.A. Branch Elektrociepłownia Lublin Wrotków for 2009 caused an adjustment of LTC settlements of PLN (-) 25 million in the financial statements for the period ended March 31, 2016.

Above adjustments are presented after compensation in the statement of the comprehensive income in other operating revenues.

The value of disputes in all matters relating to the years 2008 – 2012 amounts to PLN 1,660 million, including the value of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment by the CCP Court in the amount of PLN 1,563 million.

In the period 2008 – March 31, 2016 the PGE Capital Group recognised LTC revenues in total amount of PLN 7,365 million.

22.2 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.

23. Approval of the financial statements

These consolidated financial statements were approved for publication by the Management Board of the parent company 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