



**PGE Polska Grupa Energetyczna S.A.
Condensed interim separate
financial statements for the 3-month
and 9-month period**

**ended September 30, 2016
in accordance with IFRS EU (in PLN million)**

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STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months	9 months	3 months	9 months
		ended	ended	ended	ended
		September 30, 2016		September 30, 2015	
		(not audited)		(not audited)	
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	<u>5.1</u>	2,540	8,166	2,594	7,621
Costs of goods sold	<u>5.2</u>	(2,419)	(7,611)	(2,396)	(6,951)
GROSS PROFIT ON SALES		121	555	198	670
Distribution and selling expenses	<u>5.2</u>	(11)	(37)	(6)	(23)
General and administrative expenses	<u>5.2</u>	(35)	(106)	(37)	(117)
Other operating income		(1)	1	1	4
Other operating expenses		-	(1)	(3)	(6)
OPERATING PROFIT		74	412	153	528
Financial income	<u>5.3</u>	102	1,293	68	1,251
Financial expenses	<u>5.3</u>	(89)	(189)	(59)	(183)
PROFIT BEFORE TAX		87	1,516	162	1,596
Current income tax	<u>6</u>	5	(68)	(50)	(78)
Deferred income tax	<u>6.8</u>	7	3	(4)	(20)
NET PROFIT FOR THE REPORTING PERIOD		99	1,451	108	1,498
OTHER COMPREHENSIVE INCOME					
Items, which may be reclassified to profit or loss, including:					
Valuation of hedging instruments	<u>12.2</u>	19	59	(2)	75
Deferred tax	<u>6</u>	(3)	(11)	1	(14)
Items, which will not be reclassified to profit or loss, including:					
Actuarial gains and losses from valuation of provisions for employee benefits		-	-	-	1
Deferred tax		-	-	-	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		16	48	(1)	62
TOTAL COMPREHENSIVE INCOME		115	1,499	107	1,560
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)		0.05	0.78	0.06	0.80

STATEMENT OF FINANCIAL POSITION

	Note	As at September 30, 2016 (not audited)	As at December 31, 2015 (audited)	As at September 30, 2015 (reviewed) <i>restated*</i>
NON-CURRENT ASSETS				
Property, plant and equipment	<u>7</u>	186	189	189
Intangible assets		6	7	7
Financial receivables	<u>9.1</u>	6,091	6,053	4,525
Derivatives	<u>10</u>	132	43	41
Available-for-sale financial assets		3	3	3
Shares in subsidiaries	<u>9.2</u>	29,655	29,469	29,286
Deferred tax assets	<u>8</u>	15	24	26
		36,088	35,788	34,077
CURRENT ASSETS				
Inventories		107	191	604
Trade and other receivables	<u>9.1</u>	3,147	1,043	1,013
Derivatives	<u>10</u>	9	7	23
Other current assets	<u>11</u>	205	419	663
Income tax receivables		-	79	-
Cash and cash equivalents	<u>9.3</u>	4,738	2,013	4,060
		8,206	3,752	6,363
TOTAL ASSETS		44,294	39,540	40,440
EQUITY				
Share capital	<u>12.1</u>	18,698	18,698	18,698
Reserve capital to increase share capital		467	-	-
Capital from valuation of financial instruments	<u>12.2</u>	31	(17)	1
Reserve capital		13,730	13,009	13,009
Retained earnings		1,447	1,764	1,496
		34,373	33,454	33,204
NON-CURRENT LIABILITIES				
Non-current provisions	<u>13</u>	21	21	19
Loans, borrowings, bonds, cash pooling	<u>14.1</u>	8,292	4,216	3,725
Derivatives	<u>10</u>	39	43	48
		8,352	4,280	3,792
CURRENT LIABILITIES				
Current provisions	<u>13</u>	32	34	28
Loans, borrowings, bonds, cash pooling	<u>14.1</u>	684	1,255	1,463
Derivatives	<u>10</u>	-	34	84
Trade and other liabilities	<u>14.2</u>	159	307	126
Income tax liabilities		98	-	268
Other current non-financial liabilities		596	176	1,475
		1,569	1,806	3,444
TOTAL LIABILITIES		9,921	6,086	7,236
TOTAL EQUITY AND LIABILITIES		44,294	39,540	40,440

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

STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital to increase share capital	Capital from valuation of financial instruments	Reserve capital	Retained earnings	Total equity	
	<u>Note</u>	<u>12.1</u>	<u>12.2</u>				
AS AT JANUARY 1, 2015		18,698	-	(60)	9,231	5,233	33,102
Net profit for the reporting period		-	-	-	1,768		1,768
Other comprehensive income		-	-	43	(1)		42
COMPREHENSIVE INCOME FOR THE PERIOD		-	-	43	-	1,767	1,810
Retained earnings distribution		-	-	-	3,778	(3,778)	-
Dividend		-	-	-	(1,458)		(1,458)
AS AT DECEMBER 31, 2015		18,698	-	(17)	13,009	1,764	33,454
Net profit for the reporting period		-	-	-	1,451		1,451
Other comprehensive income		-	-	48	-		48
COMPREHENSIVE INCOME FOR THE PERIOD		-	-	48	-	1,451	1,499
Retained earnings distribution		-	-	-	1,301	(1,301)	-
Dividend		-	-	-	(467)		(467)
Increase of share capital from the Company's own funds		-	467	-	(467)	-	-
Tax related to the increase of the share capital		-	-	-	(110)	-	(110)
Other changes		-	-	-	(3)	-	(3)
AS AT SEPTEMBER 30, 2016		18,698	467	31	13,730	1,447	34,373

	Share capital	Capital from valuation of financial instruments	Reserve capital	Retained earnings	Total equity
AS AT JANUARY 1, 2015	18,698	(60)	9,231	5,233	33,102
Net profit for the reporting period	-	-	-	1,498	1,498
Other comprehensive income	-	61	-	1	62
COMPREHENSIVE INCOME FOR THE PERIOD	-	61	-	1,499	1,560
Retained earnings distribution	-	-	3,778	(3,778)	-
Dividend	-	-	-	(1,458)	(1,458)
AS AT SEPTEMBER 30, 2015	18,698	1	13,009	1,496	33,204

STATEMENT OF CASH FLOWS

Note	Period ended September 30, 2016 (not audited)	Period ended September 30, 2015 (not audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,516	1,596
Settlement with tax group ("TG")	23	(15)
Income tax paid by PGE S.A. (taking into account the benefit on tax losses of the TG)	(15)	(41)
Adjustments for:		
Depreciation, amortization and impairment losses	11	11
Interest and dividend, net	(1,080)	(1,017)
Profit / loss on investment activities	(46)	42
Change in receivables	278	191
Change in inventories	84	(164)
Change in liabilities, excluding loans and borrowings	(211)	(115)
Change in other non-financial assets	212	(313)
Change in provisions	(2)	(4)
Other	1	5
NET CASH FROM OPERATING ACTIVITIES	771	176
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment and intangible assets	(8)	(10)
Redemption of bonds issued within the PGE Group	1,179	7,529
Acquisition of bonds issued within the PGE Group	(3,480)	(8,512)
Proceeds from sale of other financial assets	-	48
Acquisition of shares in subsidiaries	(16)	(146)
Loans granted under cash pooling agreement	(808)	-
Other loans granted	(18)	-
Dividends received	1,058	1,049
Interest received	18	36
Loans repaid	1	2
Other	1	1
NET CASH FROM INVESTING ACTIVITIES	(2,073)	(3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings and issue of bonds	4,148	-
Proceeds from cash pooling	-	1,018
Interest paid	(114)	(110)
Other	(6)	(2)
NET CASH FROM FINANCING ACTIVITIES	4,028	906
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,726	1,079
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,010	2,979
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4,736	4,058

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

1. General information

1.1 The Company's operations

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

The Company is seated in Warsaw, 2 Mysia Street.

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

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follows:

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

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

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

Going concern

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

These financial statements comprise financial data for the period from January 1, 2016 to September 30, 2016 („financial statements”) and include comparative data for the period from January 1, 2015 to December 31, 2015 and for the period from January 1, 2015 to September 30, 2015.

The foregoing financial statements are prepared based on the same accounting principles (policy) and methods of computation as compared with the most recent annual financial statements. These financial statements are to be read together with the audited separate financial statements of PGE S.A. prepared in accordance with IFRS EU for the year ended December 31, 2015.

Seasonality of business operations

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

The level of electricity sales is variable throughout a year and depends especially on air temperature and the length of the day. As a rule, lower air temperature in winter and shorter days cause the growth in electricity demand, while higher temperatures and longer days in 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.

Seasonality of sales of PGE S.A. results from the fact that the Company realized 86% of the electricity sales volume to PGE Obrót S.A. and PGE Dystrybucja S.A. whose demand for electricity is subject to seasonality.

1.2 Ownership structure of the Company

	State Treasury	Other shareholders	Total
As at January 1, 2016	58.39%	41.61%	100.00%
As at September 30, 2016	57.39%	42.61%	100.00%

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

As of March 30, 2016 the State Treasury transferred 18,697,608 shares, constituting 1% of the share capital of the Company. According to the information received from the Ministry of the State Treasury, after the transaction the State Treasury holds 57.39% in the share capital of the Company. According to information available in the Company as at the date of publication of these financial statements the sole shareholder who holds at least 5% of votes at the General Meeting of PGE S.A. is the State Treasury.

1.3 The composition of the Company's Management Board

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

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

From January 1, 2016 till September 30, 2016 the following changes occurred in the composition of the Management Board:

- on January 29, 2016 the Supervisory Board recalled Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and delegated its member – Mr. Marek Pastuszko – to temporarily perform the duties of the Vice-President of the Management Board for the 3-month period,
- on February 25, 2016 the Supervisory Board cancelled delegation of Mr. Marek Pastuszko to temporarily perform the duties of the Member of the Management Board and appointed Mr. Marek Pastuszko for the position of the Vice-President of the Management Board,
- on February 26, 2016 the Supervisory Board appointed Mr. Emil Wojtowicz to the Management Board as from March 15, 2016 entrusting him the position of the Vice-President of the Management Board and appointed Mr. Ryszard Wasilek to the Management Board 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 September 30, 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 Wasilek** – the Vice-President of the Management Board,
- **Emil Wojtowicz** – the Vice-President of the Management Board.

2. Basis for preparation of the financial statements

These financial statements of PGE Polska Grupa Energetyczna S.A. were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, relevant accounting Standards adopted by the European Union that affect interim financial reporting, published and effective during the period of preparation of these financial statements and in the scope required under the Minister of Finance Regulation of February 19, 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal no. 33, item 259) ("Regulation").

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

2.1 Presentation and functional currency

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

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

	September 30, 2016	December 31, 2015	September 30, 2015
USD	3.8558	3.9011	3.7754
EUR	4.3120	4.2615	4.2386

2.2 New standards and interpretations published, not yet effective

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

Standard	Description of changes	Effective date
IFRS 9 <i>Financial Instruments</i> (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 <i>Regulatory Deferral Accounts</i>	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
IFRS 15 <i>Revenue from Contracts with Customers</i>	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 <i>Leases</i>	IFRS 16 eliminates the classification of leases as either operating 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 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Has not been determined
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IFRS 4	Application of IFRS9 Financial instruments jointly with Insurance contracts	January 1, 2018

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

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

The new IFRS 9 *Financial Instruments* introduces fundamental changes in respect of classification, presentation and measurement of financial instruments. As part of IFRS 9, new model for calculating impairment will be introduced that will require more timely recognition of expected credit losses and rules for hedge accounting will be updated. These changes are intended primarily to adapt risk management requirements, allowing preparers of financial statements to reflect entity's actions more accurately. The new IFRS 9 will possibly have material influence on future financial statements of the Company. At the date of preparation of these financial statements all phases of IFRS 9 have not been published and the standard is not yet approved by the European Union. As a result analysis of its impact on the future financial statements of the Company 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/IAS) 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 Company'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 finance or operating leases. All contracts which meet the criteria of lease will be recognized as finance lease.

Adoption of the standard will have the following effect:

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

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

Other standards and their changes should have no significant impact on the Company's future financial statements.

2.3 Professional judgment of management and estimates

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

3. Changes of accounting principles and data presentation

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

- Amendments to IAS 19 Employee benefits;
- Changes resulting from annual improvements 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 annual improvements of IFRS 2012-2014;
- Amendments to IAS 1 Disclosures
- Amendments to IFRS10, IFRS12 and IAS 28 outlining recognition of investment units in consolidation.

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

Presentation changes

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

- "Trade receivables" and "Other loans and financial assets" were combined into "Trade and other receivables" and "Trade liabilities" and "Other current financial liabilities" were combined into "Trade and other liabilities"
- derivatives (CCIRS and IRS) were reclassified from financial "Financial assets/ liabilities at fair value through profit or loss" to non-current "Derivatives".

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

STATEMENT OF FINANCIAL POSITION

	As at September 30, 2015 <i>published</i>	Reclassification of derivatives	Change in presentation of selected items	As at September 30, 2015 <i>restated</i>
NON-CURRENT ASSETS, including:				
Derivatives	-	41	-	41
	34,036	41	-	34,077
CURRENT ASSETS, including:				
Financial assets at fair value through profit or loss	64	(41)	(23)	-
Derivatives	-	-	23	23
Trade receivables	411	-	(411)	-
Other loans and financial assets	602	-	(602)	-
Trade and other receivables	-	-	1,013	1,013
	6,404	(41)	-	6,363
TOTAL ASSETS	40,440	-	-	40,440
NON-CURRENT LIABILITIES, including:				
Derivatives	-	48	-	48
	3,744	48	-	3,792
CURRENT LIABILITIES, including:				
Financial liabilities at fair value through profit or loss	132	(48)	(84)	-
Derivatives	-	-	84	84
Trade liabilities	119	-	(119)	-
Other current financial liabilities	7	-	(7)	-
Trade and other liabilities	-	-	126	126
	3,492	(48)	-	3,444
TOTAL LIABILITIES	7,236	-	-	7,236
TOTAL EQUITY AND LIABILITIES	40,440	-	-	40,440

4. Fair value hierarchy

The principles for valuation of inventories, derivatives, stocks, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2015.

FAIR VALUE HIERARCHY	As at September 30, 2016		As at December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
CO ₂ emission rights	60	-	98	-
Inventories	60	-	98	-
Currency forward	-	2	-	7
Commodity forward	-	7	-	-
CCIRS valuation	-	130	-	43
IRS valuation	-	2	-	-
Financial assets	-	141	-	50
Currency forward	-	-	-	1
Commodity forward	-	-	-	33
IRS valuation	-	39	-	43
Financial liabilities	-	39	-	77

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

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

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS**EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME****5. Revenues and expenses****5.1 Sales revenues**

	3 months	9 months	3 months	9 months
	ended September 30, 2016		ended September 30, 2015	
SALES REVENUES				
Sale of electricity	2,093	6,506	2,011	6,008
Sale of energy origin rights	20	48	93	580
Sale of gas	61	390	25	177
Other sales of merchandise and materials	204	744	319	423
Revenues from sale of services	162	478	146	433
TOTAL SALES REVENUES	2,540	8,166	2,594	7,621

The increase in revenues from sale of electricity in the first three quarters of 2016 in comparison to the corresponding period of the previous year is mainly due to higher sales volumes on the wholesale market.

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

The increase in other sales of merchandise and materials is mainly due to significantly higher sales volumes of CO₂ emission rights.

Information regarding main customers

The main business partners of the Company are subsidiaries in the PGE Group. In the first three quarters of 2016 sales to PGE Obrót S.A. constituted 75% of sales revenues, whereas sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for approx. 15% thereof. In the first three quarters of 2015, sales to these entities amounted to 78% and 11%, respectively.

5.2 Cost by nature and function

	3 months	9 months	3 months	9 months
	ended September 30, 2016		ended September 30, 2015	
COST BY NATURE				
Depreciation, amortization	3	11	4	11
Materials and energy	-	2	1	3
External services	24	72	18	61
Taxes and charges	1	3	1	3
Employee benefits expenses	23	71	23	69
Other cost by nature	18	55	27	67
TOTAL COST BY NATURE	69	214	74	214
Distribution and selling expenses	(11)	(37)	(6)	(23)
General and administrative expenses	(35)	(106)	(37)	(117)
Cost of merchandise and materials sold	2,396	7,540	2,365	6,877
COST OF GOODS SOLD	2,419	7,611	2,396	6,951

The increase in cost of merchandise and materials sold (mainly purchased electricity and CO₂ emission rights) in the first three quarters of 2016 in comparison to the corresponding period of the previous year is directly related to the increase of revenues described above.

Other cost by nature consist mainly of sponsorship, advertising and management's payroll costs.

5.3 Financial income and expenses

	Period ended September 30, 2016	Period ended September 30, 2015
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	1,063	1,050
Interest	174	156
Revaluation of financial instruments	10	28
Foreign exchange gains	46	17
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS	1,293	1,251
TOTAL FINANCIAL INCOME	1,293	1,251

In the period ended September 30, 2016, the Company recognized mainly dividends from PGE Dystrybucja S.A. of PLN 1,012 million and from PGE Energia Odnawialna S.A. of PLN 35 million (in the corresponding period PLN 977 million and PLN 58 million, respectively).

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

Revaluation of financial instruments includes valuation of transactions concluded on the market for CO₂ 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 September 30, 2016	Period ended September 30, 2015
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest	146	135
Revaluation of financial instruments	7	-
Loss on disposal of investments	-	14
Foreign exchange losses	35	32
Other	-	1
FINANCIAL EXPENSES FORM FINANCIAL INSTRUMENTS	188	182
Interest expense, including the effect of unwinding of discount	1	1
TOTAL FINANCIAL EXPENSES	189	183

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

6. Tax in the statement of comprehensive income

Main elements of tax expense for the periods ended September 30, 2016 and September 30, 2015 are as follows:

	Period ended September 30, 2016	Period ended September 30, 2015
INCOME TAX RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax of PGE S.A.	58	80
Benefits on tax group settlements	(21)	(21)
Previous periods current income tax adjustments	31	19
Deferred income tax	(3)	20
INCOME TAX EXPENSE RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS	65	98
INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
On valuation of hedging instruments	11	14
(TAX BENEFIT) / EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EQUITY)	11	14

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

Effective tax rate in the period ended September 30, 2016 amounts to 4.29%. Main items affecting the effective tax rate relate to recognition of dividends that are not included in the tax base calculation and settlements of tax benefits between the companies comprising the tax group, including prior year settlements corrections. Rules of settlements between the companies forming the tax group TG PGE are described in note 16 of these financial statements.

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. Property, plant and equipment

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

8. Deferred tax in the statement of financial position

8.1 Deferred tax assets

	As at September 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of financial liabilities	37	36
Difference between tax value and carrying amount of financial assets	21	21
Provisions for employee benefits	10	10
DEFERRED TAX ASSETS	68	67

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

8.2 Deferred tax liabilities

	As at September 30, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	23	23
Difference between tax value and carrying amount of other financial assets	28	11
CO ₂ emission rights	-	7
Other	2	2
DEFERRED TAX LIABILITIES	53	43

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS:

Deferred tax assets	15	24
Deferred tax liabilities	-	-

9. Financial assets

The carrying value of financial assets at amortized cost is not significantly different from their fair value.

9.1 Trade and other financial receivables

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade receivables	-	413	-	666
Acquired bonds	6,013	2,288	5,993	29
Cash pooling receivables	-	442	-	320
Loans granted	78	1	60	1
Other financial receivables	-	3	-	27
TOTAL FINANCIAL RECEIVABLES	6,091	3,147	6,053	1,043

Trade receivables

Trade receivables of PLN 413 million relate mainly to sale of electricity and services to subsidiaries in the PGE Group. As at September 30, 2016, the balance of the three most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dystrybucja S.A., constituted 87% of total balance of trade receivables.

Acquired bonds

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
ACQUIRED BONDS - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	4,659	2,205	4,597	4
PGE Energia Odnawialna S.A. and its subsidiaries	1,354	83	1,396	25
TOTAL ACQUIRED BONDS	6,013	2,288	5,993	29

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

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

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

Cash pooling receivables

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

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

Loans granted

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	61	-	60	-
PGE Trading GmbH	13	1	-	1
Bestgum sp. z o.o.	4	-	-	-
TOTAL LOANS GRANTED	78	1	60	1

9.2 Shares in subsidiaries

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

	Seat	Share as at September 30, 2016	As at September 30, 2016
COMPANIES BELONGING TO TG PGE 2015			
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	99.98%	15,377
PGE Dystrybucja S.A.	Lublin	100.00%	10,592
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,347
PGE Obrót S.A.	Rzeszów	100.00%	1,117
PGE Systemy S.A.	Warsaw	100.00%	135
ELBEST sp. z o.o.	Bełchatów	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97
BETRANS sp. z o.o.	Bełchatów	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	12
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10
ELBIS sp. z o.o.	Rogowiec	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5
PGE Obsługa Księgowo-Kadrowa sp. z o.o.	Lublin	100.00%	2
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1
13 limited liability companies named PGE Inwest 2, 4 to 15	Warsaw	100.00%	<1
COMPANIES NOT BELONGING TO TG PGE 2015			
Exatel S.A.	Warsaw	100.00%	428
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	193
PGE Sweden AB (publ)	Stockholm	100.00%	112
PGE Trading GmbH	Berlin	100.00%	23
PGE Inwest 16 sp. z o.o.	Warsaw	100.00%	<1
TOTAL		-	29,655

Significant changes in the structure of subsidiaries during the period ended September 30, 2016:

- On March 10, 2016 PGE Polska Grupa Energetyczna S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. signed an agreement for purchase of 100% of the share capital of its subsidiary RAMB sp. z o.o.
- On September 15, 2016 PGE Polska Grupa Energetyczna S.A. set up two companies named: PGE Inwest 17 sp. z o.o. and PGE Inwest 18 sp. z o.o. The share capitals amount to PLN 10,000 for each company. The companies were registered with the National Court Register: PGE Inwest 17 sp. z o.o. on October 20, 2016 and PGE Inwest 18 sp. z o.o. on October 19, 2016.
- On September 19, 2016 the Extraordinary Assembly of Partners of PGE Inwest 4 sp. z o.o. and RAMB sp. z o.o. adopted resolutions on merger of PGE Inwest 4 sp. z o.o. (the Acquiring Company) with RAMB sp. z o.o. (the Acquired Company). As at the date of this report, there's been no information on registration of the merger by the register court. The merger will have no impact on financial statements.

In addition, on May 31, 2016 PGE S.A. and Polska Grupa Zbrojeniowa S.A. (PGZ) signed a letter of intent in which they express their willingness to cooperate in order to conclude a sale of Exatel S.A. from PGE to PGZ. Since the conditions resulting from IFRS 5 Non-current Assets Held for Sale and Discontinued Operations were not met, the shares of Exatel S.A. are recognized on previously existing rules.

9.2.1 Impairment loss of non-current financial assets

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

In addition, PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A., all of which have been impaired. Due to the fact that the financial position of Autostrada Wielkopolska S.A. has not changed in the current period, PGE S.A. did not see indicators for reversal of previously recognized impairment allowances.

The analysis of impairment of shares in PGE Energia Odnawialna S.A.

In the first half of 2016 the PGE Group recognized impairment allowances on property, plant and equipment and goodwill in the Renewable Energy segment of PLN 783 million that significantly reduced the equity of PGE Energia Odnawialna S.A. As a result PGE S.A. conducted an impairment test of shares owned in this entity.

The impairment tests of cash-generating units ("CGU") were carried out as at June 30, 2016 in order to determine their recoverable amount. The recoverable amount was determined based on estimated value in use of the tested assets calculated using the discounted cash flow method on the basis of financial projections for assumed economic useful life of the particular CGU. According to the Company, adoption of the financial projections longer than five years is reasonable due to the fact that property, plant and equipment used by PGE Energia Odnawialna S.A. have significantly longer economic useful life and due to the significant and long-term impact of projected changes in the regulatory environment.

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

- recognition as a single CGU of:
 - pumped-storage power plants,
 - other hydropower plants,
 - wind farms,
- the production of electricity and energy origin rights based on historical data and expert estimates made for the investment needs and taking into consideration the availability of particular units,
- electricity prices forecasts for the years 2016-2030 assuming an increase in the wholesale market price by more than 20% till 2020 and a smaller increase in the following years (in fixed prices),
- energy origin rights prices assuming an increase in prices for the years 2017-2019 in relation to current prices and a significant decrease in the following years (with an exception that for the production covered by binding contracts prices resulting from these contracts were assumed),
- increase of property tax,
- maintenance of production capacities at the current level, as a result of replacement investments,
- adoption of weighted average cost of capital after tax (WACC) at the level of 7.56 %.

Forecasted electricity and energy origin rights prices are derived from the study prepared by an independent expert. The forecast of energy prices defined as the most likely was considered, with an exception that for the part covered by binding contracts, prices resulting from these contracts during their validity were assumed.

The tests conducted did not indicate the need to recognize impairment allowances. The recoverable amount of shares is significantly higher than its carrying value presented in these separate financial statements.

In the third quarter of 2016, the Group verified the indications once again and found no significant changes compared to the previous analysis.

The analysis of impairment indications concerning shares in PGE Górnictwo i Energetyka Konwencjonalna S.A.

In the previous reporting periods, PGE S.A. identified impairment indications concerning shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. Impairment tests performed so far indicated no need to create impairment allowances. In the current reporting period, the Company analyzed impairment indications in order to verify whether there is a need to recognize an impairment of these assets nor to reverse previously recognized impairment allowances.

The most important factors analyzed, included:

- analysis of the execution of the financial plan in 2016,
- confirmation of validity of the investment plan,
- analysis of the electricity prices in the contracts concluded for the coming years,
- analysis of the accuracy of assumptions about the so-called capacity market, cogeneration support after 2018, and allocation of free of charge CO₂ emissions rights,
- review of estimated margins on the production and sale of electricity in the future periods, in the light of the most recent forecasts of energy, coal and CO₂ emissions rights prices.

The analysis shows that PGE Górnictwo i Energetyka Konwencjonalna S.A. executes the financial plan as intended. New forecasts of electricity, coal and CO₂ emissions rights prices that are available to the Group do not cause a significant change in the forecasted margins. At the same time, according to PGE S.A. the assumptions about capacity market, cogeneration support and the volume of free of charge CO₂ emissions rights that were adopted in 2015 are also valid as at September 30, 2016.

Therefore, according to PGE S.A. there is no risk of impairment of shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. as at the reporting date.

9.3 Cash and cash equivalents

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

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

	As at September 30, 2016	As at December 31, 2015
Cash on hand and cash at bank	3,238	611
Overnight deposits	-	2
Short-term deposits	1,500	1,400
TOTAL	4,738	2,013
Interest accrued on cash, not received at the reporting date	(1)	(2)
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	4,736	2,010
<i>including restricted cash</i>	-	-
Undrawn borrowing facilities as at September 30, 2016	6,360	5,240
<i>including overdraft facilities</i>	2,000	2,250
Borrowing facilities available from Q2 2016	-	5,500

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

10. Derivatives

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

	As at September 30, 2016		As at December 31, 2015	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	2	-	7	1
Commodity forward	7	-	-	33
IRS transactions	-	34	-	43
HEDGING DERIVATIVES				
CCIRS hedging transactions	130	-	43	-
IRS hedging transactions	2	5	-	-
TOTAL DERIVATIVES	141	39	50	77
non-current	132	39	43	43
current	9	-	7	34

Commodity and currency forwards

Commodity and currency forwards relate mainly to trading in CO₂ emissions rights.

IRS transactions

In the current period, the Company entered into 3 IRS transaction hedging the interest rate of a bank loan with a nominal value of PLN 4,600 million. For the recognition of this IRS transaction, the Company applies hedge accounting. The impact of hedge accounting is described in note 12.2 of these financial statements.

In 2014, PGE S.A. concluded 2 IRS transactions hedging the interest rate on issued bonds with a nominal value of PLN 1,000 million. Payments arising from IRS transactions are correlated with interest payments on bonds. Changes in fair value of IRS transactions are recognized fully in profit or loss.

CCIRS hedging transactions

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

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

11. Other current assets

	As at September 30, 2016	As at December 31, 2015
Dividend receivables	5	-
Advance payments	105	305
Receivables from TG	76	70
VAT receivables	9	19
Other	10	25
TOTAL	205	419

Advance payments comprise mainly funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas in the amount of PLN 104 million in the current reporting period as compared to PLN 302 million in the corresponding period.

12. Equity

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

12.1 Share capital

	As at June 30, 2016	As at December 31, 2015
1,470,576,500 of Series A ordinary Shares with a nominal value of PLN 10 each	14,706	14,706
259,513,500 of Series B ordinary Shares with a nominal value of PLN 10 each	2,595	2,595
73,228,888 of Series C ordinary Shares with a nominal value of PLN 10 each	732	732
66,441,941 of Series D ordinary Shares with a nominal value of PLN 10 each	665	665
TOTAL SHARE CAPITAL	18,698	18,698

All shares of the Company are paid up.

The Extraordinary General Meeting of PGE („EGM”), convened for September 5, 2016 adopted resolution on the increase of the share capital from the Company’s own funds. EGM adopted a resolution on the increase of the share capital by PLN 467,440,207.25, from the reserve capital by increasing the nominal value of shares from PLN 10 to PLN 10.25. Since as at the preparation date of this report there’s been no information about the registration of the increase of the share capital by the register court, in the statement of financial position as at September 30, the amount of the capital increase is reported in a separate line of equity: "Reserve capital to increase share capital".

Raising the nominal value of shares is an event that causes the tax revenue on the shareholder's side. On September 5, 2016 the EGM adopted a resolution on the allocation of the supplementary capital for the financing of the flat-rate income tax related to the increase in the share capital to be financed from the Company's own funds, therefore the tax will be paid by the Company. PGE S.A. received an interpretations in response to questions on the proper application of the provisions relating to corporate income tax and income tax imposed on individuals. Analysis of received interpretation leads to the conclusion that the amount of tax which the Company must pay to the Tax Office due to the increase of the share capital amounts to PLN 110 million. As at September 30, 2016, the amount has decreased shareholders' equity of the Company and is recognized under financial liabilities.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of share capital, reserve capital nor other capital reserves of the Company.

12.2 Capital from valuation of financial instruments

The below table presents change in capital from valuation of financial instruments due to applied cash flow hedge accounting.

	Period ended September 30, 2016	Year ended December 31, 2015
AS AT JANUARY 1	(17)	(60)
Change of capital from valuation of financial instruments, including:	59	52
<i>Deferral of changes in fair value of hedging instruments recognized as an effective hedge</i>	83	50
<i>Accrued interest on derivatives transferred from capital from valuation of financial instruments and recognized in interest expense</i>	9	1
<i>Currency revaluation of CCIRS transaction transferred from capital from valuation of financial instruments and recognized in the result on foreign exchange differences</i>	(33)	1
<i>Ineffective portion of changes in fair value of hedging derivatives recognized in profit or loss</i>	-	-
Deferred tax	(11)	(9)
CAPITAL FROM VALUATION OF FINANCIAL INSTRUMENTS INCLUDING DEFERRED TAX	31	(17)

12.3 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the period ended		
	September 30, 2016	December 31, 2015	December 31, 2014
CASH DIVIDENDS FROM ORDINARY SHARES			
Dividend paid from retained earnings	-	467	1,458
Dividend paid from reserve capital	-	-	-
TOTAL CASH DIVIDENDS FROM ORDINARY SHARES	-	467	1,458
Cash dividends per share (in PLN)	-	0.25	0.78

Dividend from the profit for the period ended September 30, 2016

During the reporting period and until the date of preparation of these financial statements the Company made no advance payments of dividends.

Dividend from the profit for the year 2015

On June 28, 2016, the General Shareholders' Meeting of PGE S.A. resolved to distribute PLN 467 million from the net profit of 2015 as a dividend (that comprises dividend of PLN 0.25 per share). The Ordinary General Meeting fixed the dividend record date on September 23, 2016 and dividend payout date on October 14, 2016.

In the statement of financial position prepared as at September 30, 2016 the liability resulting from declared dividends is presented in line other non-financial liabilities.

Dividend from the profit for the year 2014

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

13. Provisions

The carrying amount of provisions is as follows:

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Post-employment benefits	19	2	19	2
Jubilee awards	2	-	2	-
Employee bonuses and other employee related	-	30	-	32
TOTAL PROVISIONS	21	32	21	34

14. Financial liabilities

The carrying value of financial liabilities measured at amortized cost is a reasonable approximation of their fair value.

14.1 Loans, borrowings, bonds, cash pooling

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Bank credits	4,519	113	487	14
Loans received	2,791	78	2,753	60
Bonds issued	982	25	976	24
Cash pooling liabilities	-	468	-	1,157
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	8,292	684	4,216	1,255

Loans received from PGE Sweden AB (publ)

The Company recognizes loans of EUR 665 million drawn from a subsidiary – PGE Sweden AB (publ).

In case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 3,203 million (in relation to PLN 2,869 million of carrying value). Fair value was determined using the estimated credit risk of PGE S.A. Indicators used for the valuation are at Level 2 of the fair value hierarchy.

Issuance of bonds on the domestic market

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

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

Bank credits

- On December 17, 2014, PGE S.A. signed the Loan Agreement in the amount of PLN 1 billion with Bank Gospodarstwa Krajowego S.A. with the maturity date of December 31, 2027. As at September 30, 2016, the Company used the available loan.
- On September 7, 2015 the Company 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 and revolving loan facility. As at September 30 the Company used the whole amount of term loan facility in the amount of PLN 3,630 million and final repayment date falls on September 30, 2023. Revolving part of the loan facility of up to PLN 1,870 million and final repayment date falls on April 30, 2019 is available but not used by the Company.

Additionally, in 2015 the Company entered into the following loan agreements:

- 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 the remaining PLN 490 million, will be intended to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 22 months from the date of signing of the agreements. The funds shall be repaid within 15 years from the date of the last tranche.
- On December 4, 2015, the Company signed a loan agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego S.A. 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 September 30, 2016 the aforesaid loans were not used.

The value of overdraft facilities at the Company's disposal amounted to PLN 2,000 million as at September 30, 2016 and amounted to PLN 2,250 million as at December 31, 2015. The aforesaid overdraft facilities are available until April 29, 2018.

In the period covered by these financial statements after the reporting period there were no cases of default of repayment or violation of other terms of credit agreements.

Cash pooling liabilities

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

14.2 Other financial liabilities measured at amortized cost

	As at September 30, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	154	-	303
Other	-	5	-	4
TOTAL OTHER FINANCIAL LIABILITIES	-	159	-	307

Trade liabilities

Trade liabilities relate mainly to purchase of electricity and gas.

OTHER EXPLANATORY NOTES**15. Contingent liabilities and receivables. Legal claims****15.1 Contingent liabilities**

	As at September 30, 2016	As at December 31, 2015
Bank guarantees	11,771	12,153
Other contingent liabilities	54	-
TOTAL CONTINGENT LIABILITIES	11,825	12,153

Guarantee for the obligations of PGE Sweden AB (publ)

Due to establishment in 2014 of the Eurobonds program, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). Guarantee was granted to the amount of EUR 2,500 million (PLN 10,780 million) and will be valid until December 31, 2041. As at September 30, 2016, PGE Sweden AB (publ) liabilities due to bonds issued amounted to EUR 639 million (PLN 2,756 million) and as at December 31, 2015 these liabilities amounted to EUR 642 million (PLN 2,734 million).

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

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. The total value of sureties is PLN 910 million. Granting sureties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. relating to the construction of new power units in Elektrownia Opole.

15.2 Other significant issues related to contingent liabilities**Standby commitments to ensure financing of new investments in the PGE Group companies**

Due to planned strategic investments in the PGE Group, the Company committed to its subsidiaries, to ensure financing of planned investments. The standby commitments relate to specific investments and may be used only for such purposes. As at September 30, 2016 and December 31, 2015 the estimated value of the standby commitments amounts to PLN 15 billion.

Commitment to support liquidity of PGE Obrót S.A.

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

PGE Obrót S.A. constitutes a party to the cash-pool agreement established for the companies from the PGE Group and may use the financing available under this program.

15.3 Other legal claims and disputes**Claims concerning 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. On April 27, 2016 a hearing was held at which both parties reiterated previously raised conclusions and statements.

At a subsequent hearing on August 10, 2016, the parties reiterated their motions and statements; the plaintiff's attorney responded, in the form of a written statement from the plaintiff, to a procedural document dated July 20, 2016 from PGE S.A.'s intervening party, PwC

Polska sp. z o.o., and a point of PwC Polska sp. z o.o. was presented, showing the correctness of the valuation prepared for the purposes of the merger. The next hearing was set for November 9, 2016.

In addition, company Pozwy sp. z o.o. submitted a similar claim amounting to more than PLN 229 million in its letter dated October 31, 2016 which constituted a notification about the purchase of claims and demand for payment addressed to PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. Pozwy sp. z o.o., indicated in its letter that the company bought claims of former shareholders of PGE Elektrownia Opole S.A. The claim concerns compensation for alleged incorrect determination of the share exchange ratio of PGE Elektrownia Opole S.A. for the shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. in the merger process of those companies.

PGE S.A. does not recognize the claims of Socrates Investment S.A., Pozwy Sp. z o.o. 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, plans of the companies' merger, including the exchange ratios with respect to shares of the acquired companies for the shares of the acquiring companies were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, the court registered the mergers of the above mentioned companies.

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

Claims for annulment of the resolutions of the General Shareholders' 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 Shareholders' Meeting of the Company held on February 6, 2014. The Company filed a response to the claim. On June 22, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. 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 lawsuit, the shareholder is seeking for annulment of the resolution 4 of the Ordinary General Shareholders' Meeting of the Company held on June 6, 2014. The Company filed a response to the lawsuit. On August 13, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The judgement is appealable. 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 lawsuit, the shareholder is seeking for annulment of the resolution 5 of the Ordinary General Shareholders' Meeting of the Company held on June 24, 2015. The Company filed a response to the lawsuit on September 21, 2015. 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 lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders' Meeting of the Company held on September 14, 2015. On November 23, 2015 the Company filed a response to the lawsuit.

On May 20, 2016 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 Shareholders' Meeting of the Company held on March 1, 2016. On June 2, 2016 the Company filed a response to the lawsuit.

On September 12, 2016 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Ordinary General Meeting of the Company held on June 28, 2016 concerning the election of Chairperson of the Ordinary General Meeting. On October 11, 2016 the Company filed response to the claim.

16. Tax settlements

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

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

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

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

As at September 30, 2016 and during the reporting period, the Company was not a party to significant proceedings regarding public and legal settlements.

Tax Group

Since January 1, 2015, PGE S.A. has been a member of the tax group “TG PGE 2015”. PGE S.A. is the representing company of this group. The TG PGE 2015 agreement was executed for 25 years. Companies forming TG PGE 2015 were indicated in note 9.2. The Polish Corporate Income Tax Act treats tax groups as separate income tax payers (CIT). This means that companies within TG PGE 2015 are not treated as separate entities for corporate income tax purposes (CIT), with TG PGE 2015 being treated as one whole entity instead. TG PGE 2015’s tax base will constitute the group’s aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. TG PGE 2015 is considered to be a separate entity only for the purposes of corporate income tax. This should not be equated with a separate legal entity. This also does not transfer over to other taxes, with particular emphasis on the fact that each of the companies within TG PGE 2015 will continue to be a separate payer of VAT and tax on civil-law transactions, as well as withholding agent with respect to personal income tax.

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

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

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 TG) as well as concluding transactions with entities not belonging to TG PGE 2015 solely on market terms. The violation of these requirements will affect in termination of TG PGE 2015 and the loss of status of the taxpayer. Since the termination, each of the companies included in the tax group becomes an independent taxpayer for CIT tax purpose.

17. Information on related parties

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

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

17.1 Subsidiaries in the PGE Group

	Period ended September 30, 2016	Period ended September 30, 2015
Sales to related parties	7,666	7,162
Purchases from related parties	755	872
Financial income	1,227	1,161
Financial expenses	55	61

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

	As at September 30, 2016	As at December 31, 2015
RECEIVABLES FROM RELATED PARTIES		
Bonds issued by subsidiaries	8,301	6,022
Trade receivables from subsidiaries	372	487
Loans granted to subsidiaries	79	61
Cash pooling receivables	442	320
TOTAL RECEIVABLES FROM RELATED PARTIES	9,194	6,890

	As at September 30, 2016	As at December 31, 2015
LIABILITIES TOWARDS RELATED PARTIES		
Loans received from a subsidiary	2,869	2,813
Trade payables to related parties	74	63
Cash pooling liabilities	468	1,157
TOTAL LIABILITIES TOWARDS RELATED PARTIES	3,411	4,033

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

17.2 Subsidiaries of the State Treasury

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

	Period ended September 30, 2016	Period ended September 30, 2015
Sales to related parties	116	237
Purchases from related parties	88	49

	As at September 30, 2016	As at December 31, 2015
Trade receivables from related parties	12	152
Trade liabilities to related parties	8	6

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

17.3 Management personnel remuneration

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

<i>PLN thousand</i>	Period ended September 30, 2016	Period ended September 30, 2015
Short-term employee benefits (salaries and salary related costs)	6,707	4,971
Post-employment and termination benefits	3,066	(46)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	9,773	4,925

<i>PLN thousand</i>	Period ended September 30, 2016	Period ended September 30, 2015
Management Board	9,405	4,614
Supervisory Board	368	311
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	9,773	4,925

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

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

18. Significant events of the reporting period and subsequent events

18.1 Agreement on financial investment in Polska Grupa Górnicza

On April 28, 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., signed the Investment Agreement specifying the financial investment conditions (the "Investment") in Polska Grupa Górnicza Sp. z o.o. (the "Agreement"). The parties to the Agreement are: PGE Górnictwo i Energetyka Konwencjonalna S.A., ENERGA Kogeneracja Sp. z o.o., PGNiG TERMIKA S.A., Węglkokoks S.A., Towarzystwo Finansowe "Silesia" Sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw FIZAN (jointly referred later to as the "Investors") and Polska Grupa Górnicza Sp. z o.o. ("PGG"). PGG operates on the basis of selected mining assets, 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 were transferred therewith).

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

Recapitalization of PGG in total amount of PLN 2,417 million, was divided into 3 phases 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. As a result PGE GiEK S.A. acquired 15.7% in the share capital of PGG as at April 29, 2016;
- PLN 83.3 million within the second tranche. The result was acquisition on November 3, 2016 of further shares increasing the share of PGE GiEK S.A. in the share capital of 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.A.'s share in the share capital of PGG will increase to 17.1%.

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

PGG functions on the basis of the business plan, which aims at optimization of coal production costs and achieving defined profitability levels. The 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). In addition, the key decisions of the Shareholders' Meeting of PGG on equity management and transformations require approval of the Investors.

Moreover, on June 17, 2016 PGE GiEK S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A. and Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (jointly referred to as „New Investors”) signed an agreement concerning PGG (the „Agreement”). The purpose of the Agreement is to provide increased control over PGG leading to higher probability of investment success in PGG, as well as increased impact on potential modifications to PGG's business plan that would meet the expectations of New Investors and new market challenges.

On June 29, 2016 the Office of Competition and Consumer Protection issued consent for concentration that involves the taking of joint control over PGG by the New Investors.

Due to the entitlements of PGE Górnictwo i Energetyka Konwencjonalna S.A. described above, investment in PGG it is treated as a jointly controlled entity and measured using the equity method in the consolidated financial statements of the PGE Group.

18.2 Submission of an initial offer with partners for EDF assets in Poland

On September 16, 2016 PGE together with Enea S.A., ENERGA S.A. and PGNiG TERMIKA S.A. (the "Business Partners") jointly submitted to EDF International SAS ("EDF") an initial, non-binding offer for purchase of shares and stakes in EDF subsidiaries in Poland, possessing conventional generation assets and operating a service business. These assets encompass in particular:

- Rybnik power plant;
- CHP in Kraków, CHP in Gdańsk, CHP in Gdynia, CHP and district heating network in Toruń;
- CHPs and district heating network in Wrocław metropolitan area; CHP and district heating network in Zielona Góra (belonging to the company Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. and its subsidiary Elektrociepłownia Zielona Góra S.A.);
- Investment in gas-fired unit in Toruń (as a part of EDF Gaz Toruń sp. z o.o.).

18.3 Setting up of ElectroMobility Poland

On October 19, 2016 PGE Polska Grupa Energetyczna S.A., ENERGA S.A., ENEA S.A. and Tauron Polska Energia S.A. set up a company named ElectroMobility Poland. Operations of the new company are intended to develop electromobility system in Poland.

The share capital of the company amounts to PLN 10 million as at the set up date. Each of the above companies will take up 25% of the share capital, obtaining 25% of votes on the General Meeting of the company.

19. Approval of the financial statements

These financial statements were approved for publication by the Management Board on November 8, 2016.

Warsaw, November 8, 2016

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

**President of the
Management Board** **Henryk Baranowski**

**Vice-President of the
Management Board** **Marta Gajęcka**

**Vice-President of the
Management Board** **Bolesław Jankowski**

**Vice-President of the
Management Board** **Marek Pastuszko**

**Vice-President of the
Management Board** **Paweł Śliwa**

**Vice-President of the
Management Board** **Ryszard Wasilek**

**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