PGE Polska Grupa Energetyczna S.A.
Separate Financial Statements
for the year 2016

ended December 31, 2016

in accordance with IFRS EU (in PLN million)

TABLE OF CONTENTS

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended December 31, 2016	Period ended December 31, 2015
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	**10,847**	**10,929**
Costs of goods sold	5.2	(10,157)	(10,012)
GROSS PROFIT ON SALES		**690**	**917**
Distribution and selling expenses	5.2	(46)	(37)
General and administrative expenses	5.2	(142)	(164)
Other operating income		1	8
Other operating expenses		(8)	(9)
OPERATING PROFIT		**495**	**715**
Financial income	5.3	1,439	1,285
Financial expenses	5.3	(260)	(210)
PROFIT BEFORE TAX		**1,674**	**1,790**
Current income tax	6.1	(58)	(34)
Deferred income tax	6.1	(18)	12
NET PROFIT FOR THE REPORTING PERIOD		**1,598**	**1,768**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	15.2	205	52
Deferred tax	6.1	(39)	(9)
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		**166**	**42**
TOTAL COMPREHENSIVE INCOME		**1,764**	**1,810**
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)	15.5	0.85	0.95

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2016	As at December 31, 2015
NON-CURRENT ASSETS			
Property, plant and equipment	7	186	189
Intangible assets	8	5	7
Financial receivables	19.1.1	8,848	6,053
Derivatives	19.1.2	356	43
Available-for-sale financial assets and shares measured using the equity method	19.2	6	3
Shares in subsidiaries	9	29,678	29,469
Deferred tax assets	11.1	-	24
		39,079	**35,788**
CURRENT ASSETS			
Inventories	12	76	191
Trade and other receivables	19.1.1	3,474	1,043
Derivatives	19.1.2	9	7
Other current assets	13	81	419
Income tax receivables		-	79
Cash and cash equivalents	14	1,932	2,013
		5,572	**3,752**
TOTAL ASSETS		**44,651**	**39,540**
EQUITY			
Share capital	15.1	19,165	18,698
Hedging reserve	15.2	149	(17)
Reserve capital	15.3	13,730	13,009
Retained earnings	15.5	1,594	1,764
		34,638	**33,454**
NON-CURRENT LIABILITIES			
Non-current provisions	16,17	22	21
Loans, borrowings, bonds, cash pooling	19.1.3	8,854	4,216
Derivatives	19.1.2	23	43
Deferred tax liabilities	11.2	33	-
		8,932	**4,280**
CURRENT LIABILITIES			
Current provisions	16,17	30	34
Loans, borrowings, bonds, cash pooling	19.1.3	704	1,255
Derivatives	19.1.2	-	34
Trade and other liabilities	19.1.4	189	307
Income tax liabilities		4	-
Other current non-financial liabilities	18	154	176
		1,081	**1,806**
TOTAL LIABILITIES		**10,013**	**6,086**
TOTAL EQUITY AND LIABILITIES		**44,651**	**39,540**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Reserve capital	Retained earnings	Total equity
Note	15.1	15.2	15.3	15.4	
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	-	-	-	1,598	**1,598**
Other comprehensive income	-	166	-	-	**166**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**166**	**-**	**1,598**	**1,764**
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 DECEMBER 31, 2016	**19,165**	**149**	**13,730**	**1,594**	**34,638**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2016	Year ended December 31, 2015 restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1.674**	**1.790**
Income tax paid		(4)	(104)
Adjustments for:			
Depreciation, amortization and impairment losses		15	15
Interest and dividend, net	21.1	(1.071)	(994)
Profit / loss on investment activities	21.1	(123)	(1)
Change in receivables	21.1	168	(67)
Change in inventories		115	249
Change in liabilities, excluding loans and borrowings	21.1	(163)	123
Change in other non-financial assets	21.1	266	(221)
Change in provisions		(3)	2
Other		-	5
NET CASH FROM OPERATING ACTIVITIES		**874**	**797**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		(10)	(14)
Redemption of bonds issued within the PGE Group	21.2	1.179	8.661
Acquisition of bonds issued within the PGE Group	21.2	(3.830)	(11.057)
Proceeds from sale of other financial assets		-	48
Acquisition of shares in subsidiaries		(44)	(146)
Dividends received	21.2	1.063	1.050
Deposits with a maturity over 3 months	21.2	(2.290)	-
Loans granted under cash pooling agreement	21.2	(991)	-
Loans granted		(38)	(72)
Interest received		28	49
Loans repaid		1	30
Other		1	3
NET CASH FROM INVESTING ACTIVITIES		**(4.931)**	**(1.448)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds	21.3	4.648	500
Proceeds from cash pooling		-	835
Dividends paid	21.3	(467)	(1.458)
Interest paid		(203)	(181)
Other		(1)	(14)
NET CASH FROM FINANCING ACTIVITIES		**3.977**	**(318)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(80)**	**(969)**
Effect of movements in exchange rates on cash held		(1)	5
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	14	**2.010**	**2.979**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14	**1.930**	**2.010**

** The restatement relates to net presentation of cash flows resulting from cash pooling, which were presented in investing and financing activities in 2015. The revised presentation relects the nature of these items more accurately.*

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

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follows:

- trading of electricity and other products of energy market,
- supervision over activities of central and holding companies,
- rendering of financial services for the companies from 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. Both in 2016 and 2015 the Company's cost in respect of concessions amounted to PLN 1 million.

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.

The accounts of PGE S.A. are kept by its subsidiary PGE Obsługa Księgowo-Kadrowa sp. z o.o.

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

Seasonality of business operations

Main factors affecting demand for electricity and heat are: weather conditions – air temperature, wind force, rainfall, socio-economic factors – number of energy consumers, energy carriers prices, growth of GDP and technological factors – advances in technology, product manufacturing technology. Each of these factors has an impact on technical and economic conditions of production, distribution and transmission of energy carriers, thus influence the results obtained by the Company.

The level of electricity sales is variable throughout a year and depends especially on weather conditions- air temperature, length of the day. Growth in electricity demand is particularly evident in winter periods, while lower demands are observed during the summer months. Moreover, seasonal changes are evident among selected groups of end users. 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 85% of the electricity sales volume to PGE Obrót S.A. and PGE Dystrybucja S.A. whose demand for electricity is subject to seasonality.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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 December 31, 2016	**57.39%**	**42.61%**	**100.00%**

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

As of March 30, 2016 the State Treasury transferred 18,697,608 shares, constituting 1% of the share capital of the Company. According to the information received from the Ministry of the State Treasury, after the transaction the State Treasury holds 57.39% in the share capital of the Company. According to information available in the Company as at the date of publication of these financial statements the sole shareholder who holds at least 5% of votes 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 December 31, 2016 the following changes occurred in the composition of the Management Board:

- on January 29, 2016 the Supervisory Board recalled Mr. Jacek Drozd and Mr. Dariusz Marzec from the Management Board and delegated its member – Mr. Marek Pastuszko – to temporarily perform the duties of 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 Member of the Management Board and appointed Mr. Marek Pastuszko to the position of 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 Vice-President of the Management Board and appointed Mr. Ryszard Wasiłek to the Management Board as from March 7, 2016 entrusting him the position of 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 President of the Management Board and Ms. Marta Gajęcka, Mr. Bolesław Jankowski and Mr. Paweł Śliwa to the positions of Vice-Presidents of the Management Board.

As at December 31, 2016 the composition of the Company's Management Board was 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.

After the reporting date, on February 13, 2017, the Supervisory Board decided to recall all Management Board's members effective from February 13, 2017. At the same time, The Supervisory Board appointed the following individuals to the 10th term of Management Board: Mr. Henryk Baranowski entrusting him the position of President of the Management Board; Mr. Bolesław Jankowski, Wojciech Kowalczyk, Mr. Marek Pastuszko, Mr. Paweł Śliwa, Mr. Ryszard Wasiłek and Mr. Emil Wojtowicz to the positions of Vice-Presidents of the Management Board.

As at the date of publication of these financial statements the composition of the Company's Management Board is as follows:

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

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These financial statements were prepared in accordance with IFRS EU. IFRS comprise standards and interpretations, approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

These financial statements comprise the additional information, referred to in art. 44 section 2 of the Energy Law dated April 10, 1997 (Official Journal from 2012 item. 1059 with amendments) which was presented in note 25.

2.2 Presentation and functional currency

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

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

	December 31, 2016	December 31, 2015	December 31, 2014
USD	4.1793	3.9011	3.5072
EUR	4.4240	4.2615	4.2623

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	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	Standard in the current version will not be effective in the EU
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*	The standard eliminates the classification of leases as either operating or finance lease in the lessee's accounts. 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 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 IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts	January 1, 2018
Annual improvements to IFRS (cycle 2014-2016)	A collection of amendments dealing with: IFRS 1 – elimination of short-term exemption for entities using IFRS for the first time; IFRS 12 – clarification of the scope of disclosure requirements; IAS 28 – valuation of entities, in which an investment has been made, at fair value through profit or loss or using an individual method	January 1, 2018/ January , 2017
Amendments to IAS 40	Changes to the classification of properties: i.e. transfer from investment property to other groups of assets.	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Guidelines specifying determination of the date of a transaction and related spot foreign exchange rate to be used in case foreign currency payments are made or received in advance.	January 1, 2018

The Company intends to adopt the above mentioned new standards, amendments to standards and IFRS 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

IFRS 9 Financial Instruments

The standard 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 will allow preparers of financial statements to reflect entity's actions more accurately.
Current analysis of the standard mentioned above indicates that possible changes may refer to the following areas:

- rules for calculation and recognition of impairment allowances concerning financial assets (change from incurred loss model to expected loss model),
- classification of financial assets,
- possible simplifications of hedge accounting.

Analysis of the impact of IFRS 9 has not been finished yet, nonetheless according to the Company the standard should not have significant influence on the Company's future financial statements.

IRFS 15 Revenue from Contracts with Customers

IFRS 15 is intended to unify and simplify principles of revenue recognition by introducing one model for revenue recognition. In particular, the standard will impact revenue recognition resulting from agreements or package agreements based on which clients are provided with separate services and/or goods.

Adoption of IFRS 15 should not have significant impact on the Company's financial statements. The analysis of the impact of the IFRS 15 has not been finished yet.

IFRS 16 Lease
The new standard 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 in the lessee's accounts. All contracts which meet the criteria of lease will be recognized as finance lease. Adoption of the standard will have the following effect:

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

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

Other standards and their changes should have no significant impact on the Company's future financial statements. Amendments to standards and interpretations that entered into force in the period from January 1, 2016 to the date of publication of these separate financial statements did not have significant influence on these separate financial statements.

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 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 respective explanatory notes to the separate financial statements.

Recoverable amount of assets

The electricity market is the primary area of operations of the Company and the PGE Group entities. Changes in this market may have a significant influence on the recoverable amount of power generating property, plant and equipment of the Company's subsidiaries. If impairment indicators specified in IAS 36 *Impairment of Assets* are identified, the Company estimates the recoverable amount of the respective shares owned.
The Company's impairment analysis of cash generating units is based on a number of significant assumptions concerning factors, some of which are outside the control of the Company. Any significant change in these assumptions will impact the result of future impairment tests and as a consequence may lead to significant changes to the financial position and results of the Company.
During the reporting period the Company has performed impairment tests of shares in PGE Energia Odnawialna S.A. and has analysed impairment indicators analysis in PGE GiEK S.A. and PGE Obrót S.A. These tests are described in note 9.1 of these financial statements. Additionally, the Company periodically analyses impairment of non-current financial assets in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.*

Provisions

As described in note 3.16 recognition of provisions requires estimates of the probable outflow of economic benefits and determination of the amount that shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The most significant values concern provision for jubilee awards and post-employment benefits. Provisions for employee benefits were estimated using actuarial methods.

Key actuarial assumptions related to the calculation of provisions as at the reporting date are as follows:

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

	As at December 31, 2016	As at December 31, 2015
Expected inflation rate (%)	1.30-1.80%	1.59-2.47%
Discount rate (%)	3.5%	3.0%
Expected salary growth rate (%)	1.73%	1.1-2.5%
Employee turnover (%)	9.41%	9.53%
Expected medical care costs growth rate (%)	1.30-1.80%	1.59-2.50%
Expected Social Fund (ZFŚS) allowance growth rate (%)	3.50-8.40%	3.50-5.00%

probability of employee attrition has been predicted on the basis of historical data related to Company's employee turnover ratio and statistical data on employee attrition in the industry.

- Mortality and survival probability have been adopted from the Life Expectancy Tables published by Central Statistical Office of Poland, assuming that the population of the Company's employees corresponds, in respect of mortality, to the average in Poland.
- Normal procedure of employees' retirement was assumed, in accordance with detailed rules included in the Law on State Social Insurance Pensions, with the exception of employees who meet the conditions required to early retirement.
- For discounting future benefit payments a discount rate of 3.5% was adopted (December 31, 2015: 3.0%), which corresponds to the profitability of long-term Treasury bonds listed on the Polish capital market.

Contingent liabilities

Recognition and measurement of provisions and contingent liabilities requires that the Company estimates the probability of occurrence of potential liabilities. If the occurrence of an unfavorable future event is probable, the Company recognizes a provision in the appropriate amount. If the occurrence of an unfavorable future event is estimated by the Company as not probable but possible, the contingent liability is recognized. Contingent liabilities are described in note 22 of these financial statements.

Impairment allowance on receivables

As at the reporting date the Company assesses whether there is an objective evidence for impairment of a receivable or a group of receivables. If the recoverable amount of an asset is lower than its carrying amount, the entity recognizes an impairment allowance to the amount of the present value of expected cash flows. Revision of impairment allowances on trade and other receivables is described in note 20.5.1 of these financial statements.

3. Significant accounting principles applied

The financial statements have been prepared under the historical cost convention, which was modified in relation to:

- Property, plant and equipment and intangible assets – property, plant and equipment and intangible assets that were owned by the Company at the date of transition to IFRS were measured at deemed cost as at that date. In addition, for certain property, plant and equipment and intangible assets impairment loss has been recognized.
- Financial instruments – selected categories of financial instruments are measured and presented in the statement of financial position at fair value. Details on the valuation of particular categories of financial instruments are presented in the description of the accounting principles applied.
- Impaired assets – presented in historical cost adjusted by impairment losses.
- Inventories – CO2 emission rights acquired in order to realize profits from fluctuations in market prices, are measured at fair value less costs of disposal.

3.1 Revenues

Revenues are measured at the fair value of the consideration received or due. The revenue is recognized after deducting value added tax (VAT), excise tax and other sales-based taxes as well as discounts. When recognizing the revenues, the criteria specified below are also taken into account.

Revenues from sale of goods and merchandise

Revenues from the sale of goods and merchandise are recognized when related risks and rewards have been transferred and when the amount of revenue can be reliably measured and costs incurred can be reliably estimated.

Revenues from sale of goods and merchandise primarily include:

- amounts receivable from sale of: electricity, gas, certificates of origin for energy, greenhouse gases emission rights and rendered services relevant to core business,

- amounts receivable from sales of materials and merchandise.

Revenues from sale of services

Revenues from services rendered are recognized when the service is performed.

3.2 Cost of goods sold

Cost of goods sold includes: value of electricity, certificates of origin for energy, gas sold and other goods and materials at acquisition prices.

Costs that can be directly attributable to revenues recognized by the Company are recognized in profit or loss for the reporting period in which the revenues were recognized.

Costs that can only be indirectly attributed to revenues or other economic benefits recognized by the Company, are recognized in the profit or loss in the reporting periods to which they relate, in accordance with accrual basis of accounting, taking into account the principles of measurement of property, plant and equipment and inventories.

3.3 Financial income and expenses

Interest income and expenses are recognized over the respective period using the effective interest method in relation to the net amount of the financial instrument at the reporting date.

Dividends are recognized when the shareholders' right to receive payments is established.

3.4 Taxes

Corporate income tax recognized in profit or loss comprises current income tax and deferred income tax, that are actual fiscal charges for the reporting period calculated by the Company in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than the ones charged or credited directly to equity.

Deferred tax asset or deferred tax liability are calculated on the basis of temporary differences between the carrying amount of a given asset or liability and its tax base and tax loss that is recoverable in the future.

The carrying amount of a deferred tax asset and deferred tax liability is verified at each reporting date. The deferred tax assets and deferred tax liabilities are classified as long-term. The Company offsets deferred tax asset and liabilities.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow deferred tax asset to be utilized partially or entirely.

3.5 Earnings per share

Earnings per share for each period is calculated by dividing profit or loss attributable to ordinary equity holders of the Company by the weighted average number of shares outstanding during the reporting period

The Company calculates diluted earnings per share by dividing profit or loss attributable to ordinary equity holders of the Company (after deduction of interest on redeemable convertible preference shares) by the weighted average number of shares outstanding during the period (adjusted by the number of dilutive options or dilutive redeemable convertible preference shares).

3.6 Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and
- expected to be used for more than one year.

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories.

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

The following useful lives are adopted for particular groups of property, plant and equipment:

Group	Average remaining depreciation period in years	Applied total depreciation periods in years
Buildings and structures	20	2-31
Machinery and equipment	7	1-39
Vehicles	1	1-10
Other	6	1-15

3.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance, such as:

- economic rights acquired by the Company and recognized in non-current assets, with an economic useful life exceeding one year, intended to be used by the Company,
- development costs,
- goodwill excluding internally generated goodwill,
- acquired right of perpetual usufruct of land.

As at the date of initial recognition, an intangible asset is measured at acquisition cost or production cost with respect to development costs. After initial recognition, an intangible asset shall be carried at its cost less accumulated amortization and accumulated impairment losses. The cost of an internally generated intangible asset, excluding development costs, are not capitalized and are recorded in profit or loss for the period when the related cost was incurred.

The Company assesses whether the useful life of intangible assets is definite or indefinite. If the useful life is definite, the Company estimates the length of the useful period, the volume of production or other measures as the basis to define the useful life. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company.

The amortizable amount of an intangible asset with a definite useful life shall be allocated on a systematic basis over its useful life. Amortization starts when the asset is available for use.

The following useful lives are adopted for intangible assets:

Group	Average remaining amortization period in years	Applied total amortization period in years
Acquired patents and licences	1	1-11

3.8 Financial assets

Financial assets are classified in the following categories:

- Held-to-maturity investments (HTM),
- Financial assets at fair value through profit or loss (FVP),
- Loans and receivables,
- Available-for-sale financial assets (AFS),
- Shares in subsidiaries, jointly controlled entities and associates.

Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- It is classified as held-for-sale. A financial asset is classified as held-for-sale if it is:
  - acquired or incurred principally for the purpose of selling in the near term,
  - part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
  - a derivative, except for a derivative that is a designated and effective hedging instrument.
- Upon initial recognition it is designated by the Company as at fair value through profit or loss. Any financial asset within the scope of this standard may be designated when initially recognized as a financial asset at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

These assets are measured at fair value as at the reporting date. Gains and losses on financial assets classified as FVP are recognized in profit or loss and are not reduced by the amount of accrued interest.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, if their maturity does not exceed 12 months from the reporting date. Loans and receivables with maturity exceeding 12 months are classified as non-current assets. If the time value of money is significant over the period, the assets are measured at discounted value.

Available-for-sale financial assets

All other financial assets (except for shares in subsidiaries, jointly controlled entities and associates) are accounted for as available-for-sale financial assets. Financial assets available for sale are recognized at fair value as at each reporting date. Fair value of an instrument which does not have a quoted market price is estimated with regards to another instrument of similar characteristics or based on future cash flows relevant to an investment asset (measurement using discounted cash flow method).

Positive and negative differences between fair value of available-for-sale financial assets (if their price is determinable on a regulated active market or if the fair value may be estimated by some other reliable method) and cost, net of deferred tax, are recognized in other comprehensive income, except for:

- impairment losses,
- exchange gains and losses arising on monetary assets,
- interest recognized using the effective interest rate method.

Dividends from equity instrument in the AFS portfolio are recognized in profit or loss on the date that the Company's right to receive payment is established.

Shares in subsidiaries, jointly controlled entities and associates

Subsidiaries are those companies whose financial and operational policies are managed by the Company in order to derive economic benefits from their operations. This involves holding the majority of total votes in decision-making bodies of these organizations. To determine whether the Company has control over the given organization, existence and impact of potential voting rights that can be realized or converted at any time are considered.

A jointly controlled entity is an organization in which the division of control over the business as specified in the agreement requires unanimity of controlling parties with respect to strategic financial and operational decisions.

An associate is a business organization, including a partnership (such as a civil partnership) upon which the investor has significant influence and which is not a wholly or partially owned subsidiary. "Significant influence" is defined in IAS as the power to participate in the financial and operating policy decisions of the investee but does not refer either to control or joint control over those policies.

Shares in subsidiaries, jointly controlled entities and associates held by the Company are measured at historical acquisition cost. If there is an objective evidence of impairment of these assets, the amount of impairment is measured as the difference between the carrying value of the asset and the estimated recoverable amount

3.9 Derivatives and hedging instruments

The Company uses derivatives in order to hedge against interest rate risk and exchange rate risk. The most frequently used derivatives are forward contracts and interest rate swaps (IRS). Such derivatives are measured at fair value. Depending on whether the valuation of a derivative is positive or negative, it is recognized as a financial asset or financial liability, respectively.

The gain or loss resulting from the change in fair value of a derivative not qualifying for hedge accounting, is recognized directly in profit or loss.

The fair value of currency forward contracts is estimated with reference to current forward rates for contracts of similar maturity. Fair value of interest rate swaps is estimated with reference to the market value of similar financial instruments.

3.10 Hedge accounting

Changes in fair value of derivative financial instruments designated as cash flow hedges CCIRS (Cross Currency Interest Rate Swap) and IRS (Interest Rate Swap) are recognized in hedging reserve in the portion determined to be an effective hedge, while the ineffective portion of the hedge is recognized in profit or loss.

The accumulated changes in fair value of hedging instrument, previously recognized in hedging reserve are transferred to profit or loss in the period or periods in which the hedged item affects profit or loss. Alternatively, if the hedge of a planned transaction results in the recognition of non-financial assets or non-financial liabilities, the Company excludes the amount from equity and includes it in the initial cost or other carrying amount of a non-financial asset or liability.

3.11 Inventories

Inventories are assets held for sale in the ordinary course of business, in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in rendering of services.

Inventories comprise:

- materials,
- finished goods,
- work in progress,
- energy origin rights – purchased rights of origin for energy produced from renewable energy sources, rights of origin for energy relating to energy generated in cogeneration and rights to energy efficiency certificates,
- merchandise (especially CO_2 emission rights purchased for resale).

Inventories are measured at the lower value of the following two: acquisition cost or inventory cost and net realizable value. CO2 emission rights acquired in order to realize profits from fluctuations in market prices are measured at fair value less costs of disposal.

Cost of usage of inventories is determined as follows:

- Materials and merchandise (except for the CO_2 emission rights) – using FIFO method;
- CO2 emission rights
  - acquired in order to realize profits from fluctuations in market prices - using detailed identification method,
  - purchased for resale to conventional generating units in the PGE Group - according to the FIFO method,
- energy origin rights – using detailed identification method.

As at reporting date, the cost of inventories cannot be higher than net realizable value. Revaluation adjustments on inventories are recognized in operating expenses. When the realizable value of a specific item of inventory is recovered fully or partially, its carrying amount is adjusted by decreasing revaluation adjustment.

3.12 Trade receivables

Trade receivables are measured at least at each reporting date in the amount due, i.e. at the nominal value increased by applicable penalty interest, in accordance with the principle of prudence, i.e. less applicable impairment allowances. Impairment allowances on receivables are recognized as other operating expenses or financial expenses. Long-term receivables are measured at present (discounted) value.

3.13 Other assets (including prepayments)

The Company recognizes an asset as a prepayment under the following conditions:

- an expense was incurred in the past in relation to operating activity,
- it can be reliably measured,
- it refers to future reporting periods.

Prepayments are recognized at reliably measured amounts, relate to future periods and will generate future economic benefits.

Other assets include in particular state receivables, advances for deliveries and services and dividend receivables.

3.14 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.15 Equity

Equity is stated at nominal value, classified by nature, in accordance with legal regulations and the Company's Articles of Association.

Share capital in the statement of financial position is stated at the value specified in the Articles of Association and registered in the Court Register.

Declared, but not contributed, share capital contributions are recognized as outstanding share capital contributions as negative value.

3.16 Provisions

The Company recognizes provisions when there is present obligation (legal or constructive) that arises from past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Post-employment and jubilee awards provision

The employees of the Company are entitled to the following post-employment benefits:

- retirement and pension benefits – paid once when the employee retires or becomes a pensioner,
- post-mortem severance,
- cash equivalent related to energy tariff for employees of power industry,
- benefits from the Social Fund,
- medical benefits.

The employees of the Company are also entitled to receive jubilee awards that are paid after an employee has worked for a specified period of time. The amount of awards paid depends on the period of service and the average remuneration of the employee.

The Company recognizes a provision for future obligations relevant to past service costs and jubilee awards for the purpose of assigning costs to the periods in which they are incurred. The provision raised is recognized as an operating expense in the amount corresponding with accrued future employees' benefits. The present value of these obligations is measured by an independent actuary.

Actuarial gains and losses arising from the change of actuarial assumptions (including change in discount rate) and ex post actuarial adjustments are recognized in other comprehensive income for post-employment benefits and in operating expenses of the current period for jubilee awards.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

3.17 Liabilities

Liabilities are the Company's present obligations, arising from past events, settlement of which will cause an outflow of resources embodying economic benefits from the Company.

The Company divides liabilities into the following categories:

- financial liabilities at fair value through profit or loss,
- other financial liabilities measured at subsequent reporting dates at amortized cost,
- non-financial liabilities.

When the effect of the time value of money is significant, liabilities are presented at discounted value.

3.18 Statement of cash flows

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

3.19 Specific common control transactions

Bonds issued not at arm's length terms

Due to the fact that the Company acquired bonds issued by its subsidiaries with interest rates lower than market interest rates, they were recognized at the date of acquisition at fair value, lower than their issue price. The difference between the issue price and the fair value at the date of acquisition was recognized by the Company as an increase in the value of investment in subsidiaries issuing the bonds. The difference is amortized using an effective interest rate and recognized in the statement of comprehensive income.

4. 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 IFRS 10, IFRS 12 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.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

5. Revenues and expenses

5.1 Sales revenues

	Q1 unaudited	Q2 unaudited	Q3 unaudited	Q4 unaudited	Year ended December 31, 2016
Revenues from sales of goods including:	**2,659**	**2,651**	**2,378**	**2,513**	**10,201**
Sale of electricity	*2,206*	*2,207*	*2,093*	*2,138*	***8,644***
Sale of energy origin rights	*17*	*11*	*20*	*7*	***55***
Sale of gas	*225*	*104*	*61*	*121*	***511***
Other sales of merchandise and materials	*211*	*329*	*204*	*247*	***991***
Revenues from sales of services	**162**	**154**	**162**	**168**	**646**
TOTAL SALES REVENUES	**2,821**	**2,805**	**2,540**	**2,681**	**10,847**

	Q1 unaudited	Q2 unaudited	Q3 unaudited	Q4 unaudited	Year ended December 31,

					2015
SALES REVENUES					
Revenues from sales of goods including:	**2,459**	**2,281**	**2,448**	**3,160**	**10,348**
Sale of energy origin rights	*315*	*172*	*93*	*63*	***643***
Sale of gas	*117*	*36*	*25*	*211*	***389***
Other sales of merchandise and materials	*13*	*90*	*319*	*788*	***1,210***
Revenues from sales of services	**151**	**136**	**146**	**148**	**581**
TOTAL SALES REVENUES	**2,610**	**2,417**	**2,594**	**3,308**	**10,929**

The increase in revenues from sale of electricity in 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 decrease in other sales of merchandise and materials is mainly due to lower wholesale sales prices of CO2 emission rights.

Information regarding main customers

The main business partners of the Company are subsidiaries in the PGE Group. In 2016, sales to PGE Obrót S.A. constituted 73% of sales revenues, whereas sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for approx. 15% thereof. In 2015, sales to these entities amounted to 73% and 16%, respectively.

5.2 Cost by nature and function

	Q1 unaudited	**Q2** unaudited	**Q3** unaudited	**Q4** unaudited	**Year ended December 31, 2016**
COST BY NATURE					
Depreciation, amortization	4	4	3	4	**15**
External services	24	24	24	19	**91**
Employee benefits expenses	24	24	23	22	**93**
Other cost by nature	20	21	19	24	**84**
TOTAL COST BY NATURE	**72**	**73**	**69**	**69**	**283**
Distribution and selling expenses	(14)	(12)	(11)	(9)	**(46)**
General and administrative expenses	(34)	(37)	(35)	(36)	**(142)**
Cost of merchandise and materials sold	2,560	2,584	2,396	2,522	**10,062**
COST OF GOODS SOLD	**2,584**	**2,608**	**2,419**	**2,546**	**10,157**

	Q1 unaudited	**Q2** unaudited	**Q3** unaudited	**Q4** unaudited	**Year ended December 31, 2015**
COST BY NATURE					
Depreciation, amortization	4	3	4	4	**15**
External services	22	21	18	29	**90**
Employee benefits expenses	22	24	23	25	**94**
Other cost by nature	18	26	29	27	**100**
TOTAK COST BY NATURE	**66**	**74**	**74**	**85**	**299**
Distribution and selling expenses	(10)	(7)	(6)	(14)	**(37)**
General and administrative expenses	(46)	(34)	(37)	(47)	**(164)**
Cost of merchandise and materials sold	2,328	2,184	2,365	3,037	**9,914**
COST OF GOODS SOLD	**2,338**	**2,217**	**2,396**	**3,061**	**10,012**

The increase in cost of merchandise and materials sold (mainly purchased electricity) in 2016 in comparison to 2015 is directly related to the increase of revenues from sale described above.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

5.2.1 Depreciation, amortization and impairment losses

	Depreciation, amortization					
	Year ended December 31, 2016			Year ended December 31, 2015		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	4	2	**6**	4	1	**5**
Distribution and selling expenses	-	1	**1**	-	1	**1**
General and administrative expenses	6	2	**8**	7	2	**9**
TOTAL	**10**	**5**	**15**	**11**	**4**	**15**

5.2.2 External services

	Year ended December 31, 2016	Year ended December 31, 2015
Trading commissions	27	25
IT Services	19	21
Consulting services	8	13
Transmission services	20	13
Other	17	18
TOTAL EXTERNAL SERVICES	**91**	**90**

5.2.3 Employee benefits expenses and employment structure

	Year ended December 31, 2016	Year ended December 31, 2015
Payroll	78	71
Social security expenses	11	10
Change in provisions for employee benefits	(7)	1
Other employee benefits	11	12
TOTAL EMPLOYEE BENEFITS EXPENSES	**93**	**94**
Included in costs of goods sold	24	20
Included in distribution and selling expenses	5	6
Included in general and administrative expenses	64	68

As at December 31, 2016, there were 507 employees (full-time equivalent) in the Company. As at December 31, 2015, there were 463 employees.

5.2.4 Other cost by nature

Other cost by nature consists of sponsorship, advertising and mangement's payroll costs.

5.3 Financial income and expenses

	Year ended December 31, 2016	Year ended December 31, 2015
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Dividends	1,063	1,050
Interest	252	208
Reversed impairment allowance	89	-
Revaluation of financial instruments, including:	21	26
CO_2 emissions allowances	-	11
Other derivatives	21	15
Positive foreign exchange differences	14	1
TOTAL FINANCIAL INCOME	**1,439**	**1,285**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

In 2016, the Company recognized revenues from dividends mainly 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, the Company recognized revenues of PLN 977 million and PLN 58 million, respectively).

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

PGE S.A. holds bonds issued by Autostrada Wielkopolska S.A. all of which have been impaired in previous years. As a result of a revaluation of recoverable value, the Company partly reversed impairment allowance of PLN 89 million in the reporting period.

Revaluation of financial instruments includes an ineffective portion of valuation of derivatives designated as hedging instruments in the cash-flow hedge accounting and total valuation of other derivatives.

	Year ended December 31, 2016	Year ended December 31, 2015
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest	226	186
Impairment loss raised	23	-
Revaluation of financial instruments, including:	10	-
CO_2 emissions allowances	5	-
Other derivatives	5	-
Loss on disposal of investments	-	14
Negative foreign exchange differences	1	7
Other	-	2
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**260**	**209**
Other financial expenses	-	1
TOTAL FINANCIAL EXPENSES	**260**	**210**

Interest expense relates mainly to bonds issued and bank loans incurred described in note 19.1.3 of these financial statements.

5.3.1 Valuation of transactions related to trading in CO_2 emission rights

As described in note 5.3 of these financial statements, income and expenses recognized under the heading "Revaluation of financial instruments" comprise the result on transactions related to CO_2 emission rights (so-called trading portfolio).

The following table illustrates the effects of particular items related to the CO_2 emission rights on the financial income and expenses.

	Year ended December 31, 2016	Year ended December 31, 2015
Income		
Valuation of commodity forward	41	4
Profit on sale of CO_2 emission rights outside of the PGE Group	1	52
Profit on realization of currency forward	-	4
INCOME RELATED TO TRADING IN CO_2 EMISSION RIGHTS, TOTAL	**42**	**60**
Expenses		
Valuation of currency forward	(1)	(7)
Revaluation of CO_2 trading portfolio	(46)	(42)
EXPENSES RELATED TO TRADING IN CO_2 EMISSION RIGHTS, TOTAL	**(47)**	**(49)**
Income / (Expenses) from revaluation of financial instruments related to trading in CO_2 emission rights	**(5)**	**11**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

6. Income tax

6.1 Tax in the statement of comprehensive income

Main elements of income tax expense for the years ended December 31, 2016 and December 31, 2015 are as follows

	Year ended December 31, 2016	Year ended December 31, 2015
INCOME TAX PRESENTED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax of PGE S.A.	63	128
Benefits on tax group settlements	(35)	(113)
Adjustments related to settlement of current income tax of previous years	30	19
Deferred income tax	18	(12)
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**76**	**22**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	39	9
INCOME TAX EXPENSE RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EQUITY)	**39**	**9**

The principles regarding settlements between companies forming the PGE tax group (“TG PGE”) are described in note 23 of these financial statements.

Adjustments related to settlement of current income tax of previous years concern mainly 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.

6.2 Effective tax rate

A reconciliation of the calculation of income tax on profit before tax at the statutory tax rate and income tax calculated according to the effective tax rate of the Company is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
PROFIT BEFORE TAX	**1,674**	**1,790**
Income tax according to Polish statutory tax rate of 19%	318	340
Adjustments related to settlement of current income tax of previous years	30	19
Tax losses of companies belonging to the tax group	(35)	(113)
Non-taxable income	(244)	(225)
Other	7	1
TAX AT EFFECTIVE TAX RATE (Income tax (expense) as presented in the financial statements)	**76**	**22**
EFFECTIVE TAX RATE	**4.5%**	**1.2%**

In accordance with the agreements within TG PGE, when the company belonging to the tax group incurs tax loss, the respective tax benefits are transferred to the representing company, PGE S.A.

Non-taxable income refers mainly to dividend income which are not included in the calculation of the current income tax base (in 2016 tax impact of PLN 202 million and in 2015 of PLN 199 million).

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. Property, plant and equipment

	As at December 31, 2016	As at December 31, 2015
Buildings	171	174
Other property, plant and equipment	15	15
CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT	**186**	**189**

In the reporting and comparative periods, the Company did not purchase nor sold any significant property, plant and equipment.

8. Intangible assets

Intangible assets consists mainly of software and licences relating to IT implementation programs within the PGE Group. As at December 31, 2016 no impairment risk regarding these assets has been identified.

9. Shares in subsidiaries

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

	Seat	Share as at December 31, 2016	As at December 31, 2016	Share as at December 31, 2015	As at December 31, 2015
COMPANIES BELONGING TO TG PGE 2015					
PGE Górnictwo i Energetyka Konwencjonalna S.A.	Bełchatów	99.98%	15,396	99.96%	15,205
PGE Dystrybucja S.A.	Lublin	100.00%	10,592	100.00%	10,592
PGE Energia Odnawialna S.A.	Warsaw	100.00%	1,347	100.00%	1,349
PGE Obrót S.A.	Rzeszów	100.00%	1,117	100.00%	1,117
PGE Systemy S.A.	Warsaw	100.00%	137	100.00%	135
ELBEST sp. z o.o.	Bełchatów	100.00%	101	100.00%	101
PGE Dom Maklerski S.A.	Warsaw	100.00%	97	100.00%	97
BETRANS sp. z o.o.	Bełchatów	100.00%	35	100.00%	35
ELMEN sp. z o.o.	Rogowiec	100.00%	23	100.00%	23
BESTGUM sp. z o.o.	Rogowiec	100.00%	13	100.00%	12
MEGAZEC sp. z o.o.	Bydgoszcz	100.00%	10	100.00%	10
ELBIS sp. z o.o.	Rogowiec	100.00%	8	100.00%	8
Ramb sp. z o.o.	Piaski	100.00%	7	-	-
MegaSerwis sp. z o.o.	Bogatynia	100.00%	7	100.00%	7
TOP Serwis sp. z o.o.	Bogatynia	100.00%	5	100.00%	5
PGE Obsługa Księgowo-Kadrowa sp. z o.o.	Lublin	100.00%	2	100.00%	2
ELBEST Security sp. z o.o.	Warsaw	100.00%	<1	100.00%	<1
12 limited liability companies named PGE Inwest 2, 5 to 15	Warsaw	100.00%	<1	100.00%	<1
ELTUR SERWIS sp. z o.o.	Bogatynia	100.00%	-	100.00%	23
COMPANIES NOT BELONGING TO PGE GROUP 2015					
Exatel S.A.	Warsaw	100.00%	428	100.00%	428
PGE EJ 1 sp. z o.o.	Warsaw	70.00%	218	70.00%	193
PGE Sweden AB (publ)	Sztokholm	100.00%	112	100.00%	112
PGE Trading GmbH	Berlin	100.00%	23	100.00%	14
3 limited liability companies named PGE Inwest 16, 17, 18	Warsaw	100.00%	<1	100.00%	<1
PGE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	100.00%	<1	-	-
TOTAL		-	**29,678**	-	**29,469**

Significant changes in the structure of subsidiaries that took place in 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 shares in 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 capital amounts to PLN 10,000 for each company. The companies were registered in 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 General Meeting 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). The merger was registered in the National Court Register on December 16, 2016. After the merger the company changed its name from PGE Invest 4 sp. z o.o. to RAMB sp. z o.o.
- On December 29, 2016 PGE Polska Grupa Energetyczna S.A. established PGE Towarzystwo Funduszy Inwestycyjnych S.A. The entity has been registered in the National Court Register on January 27, 2017.

I 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.

After the reporting date, on February 1, 2017 PGE S.A. established PGE Inwest 19 sp. z o.o. The share capital of the aforesaid company amounts to PLN 10,000. The company has been registered in the National Court Register on February 24, 2017.

9.1 Impairment loss of non-current financial assets

In the current period the Company recognized an impairment loss of PLN 23 million on shares in subsidiary ELTUR SERWIS sp. z o.o. due to the economic and financial condition of the subsidiary.

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.

Additionally, PGE S.A. possesses bonds issued by Autostrada Wielkopolska S.A. which were fully covered with an impairment loss in previous years. As a result of a revaluation of recoverable value, the Company partly reversed impairment allowance of PLN 89 million.

Analysis of impairment of shares in PGE Energia Odnawialna S.A.

In 2016 the PGE Group recognized an impairment loss of property, plant and equipment and goodwill of PLN 865 million in segment "Renewables", which significantly reduced the equity of PGE Energia Odnawialna S.A. Consequently, PGE S.A conducted impairment tests of shares held in this entity.

Impairment tests of cash-generating units ("CGU") were conducted as at June 30, 2016 and then as at December 31, 2016 in order to determine their recoverable value. The recoverable value of the analyzed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU. According to the Company, accepting the financial projections with the duration longer than 5 years is wellgrounded due to the fact that property, plant and equipment used by PGE Energia Odnawialna S.A. are characterized by significantly longer useful lives and also due to significant and long-term effects of projected changes in regulatory environment.

Key assumptions that affect the estimate of value in use of the CGUs tested are as follows:

- Recognition as one CGU of:
    - Pumped – storage power plants ,
    - Other hydropower plants,
    - Particular wind farms.
- Production of electricity and origin rights set based on historical data and expert estimates made for investment needs and taking into consideration the availability of particular units,
- Forecasts of electricity prices for years 2017-2038 assuming increasing trend of wholesale market price by 2031 and decrease in prices in the next years (at constant prices),
- Price forecast for renewable energy origin rights assuming first growth and then, since 2019, decrease of prices (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 an impairment loss. The recoverable amount of shares is significantly higher than its carrying value presented in these separate financial statements.

Analysis of impairment loss indicators in respect of 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 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 CO_2 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 electricity, coal and CO_2 emissions rights prices.

The analysis shows that conventional production units execute the financial plan as intended. New forecasts for electricity, coal, and CO_2 emission allowances available to the PGE Group do not cause a significant change in the realized margins forecast. At the same time, according to the PGE Group the assumptions about the capacity market, cogeneration support and the volume of free of charge CO_2 emissions rights that were adopted in 2015 are also valid as at December 31, 2016. Therefore, as at the reporting date, according to PGE S.A. there is no risk of impairment of shares in PGE Górnictwo i Energetyka Konwencjonalna S.A. and there is no need to recognize impairment loss of shares nor to reverse previously recognized impairment losses.

Some important regulatory assumptions adopted in this analysis are beyond the control of the PGE Group and their implementation in the future is uncertain. This concerns in particular issues related to the final shape of the Polish power market and its notification by the European Commission, cogeneration support after 2018 and allocation of free of charge CO_2 emission rights after 2020. In these areas, the PGE Group uses its current assumptions as to the development of the regulations that are subject to risk.

Analysis of impairment loss indicators in respect of shares in PGE Obrót S.A.

In previous reporting periods PGE S.A. recognized an impairment loss of shares in PGE Obrót S.A. For this reason, at the end of 2016 the Company carried out an analysis of evidence, that might indicate the need to repeat the impairment tests in order to determine whether there is further impairment of these assets or necessity to reverse previously recognized impairment losses.

The most important factors analyzed included:

- Analysis of the execution of the financial plan in 2016,
- Analysis of the volume of sales for the years 2017-2021,
- Review of margin estimates on electricity sales for the years 2017-2021.

The decrease in margin on electricity sales in the years 2018-2021 will be partially offset by the planned increase in the result on sales of VAS services and gas, which means that the results achieved by PGE Obrót will not differ significantly from the ones previously projected. Projected changes in operating costs are not significant. There are also no significant changes in the regulations regarding the sales of energy and related products to end customers.

Therefore, as at the reporting date, according to PGE S.A. there is no need to recognize further impairment of shares nor to reverse previously recognized impairment losses.

9.2 Available-for-sale financial assets and shares measured using the equity method

Available-for-sale assets

The Company recognizes as available-for-sale assets shares in Energopomiar sp. z o.o. of PLN 3 million as at December 31, 2016 and December 31, 2015.

Shares measured using the equity method

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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

As at the date of establishment of the company its share capital amounts to PLN 10 million. Each of the founding companies purchased 25 % of shares representing 25% voting rights at the General Meeting.

10. Joint ventures

During the reporting periods ended December 31, 2016 and December 31, 2015, the Company did not participate in any significant joint venture.

11. Deferred tax in the statement of financial position

11.1 Deferred tax assets

	As at December 31, 2016	As at December 31, 2015
Difference between tax value and carrying amount of financial liabilities	49	36
Difference between tax value and carrying amount of financial assets	5	21
Provisions for employee benefits	10	10
DEFERRED TAX ASSETS	**64**	**67**

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

11.2 Deferred tax liabilities

	As at December 31, 2016	As at December 31, 2015
Difference between tax value and carrying amount of property, plant and equipment	22	23
Difference between tax value and carrying amount of other financial assets	74	11
Other	1	9
DEFERRED TAX LIABILITIES	**97**	**43**

AFTER OFF-SET OF BALANCES THE COMPANY'S DEFERRED TAX IS PRESENTED AS:		
Deferred tax assets	-	24
Deferred tax liabilities	33	-

12. Inventories

	As at December 31, 2016			As at December 31, 2015		
	Historical cost	Revaluation adjustments	Carrying amount	Historical cost	Revaluation adjustments	Carrying amount
CO_2 emission rights - trading portfolio	37	(8)	29	60	38	98
Other CO_2 emission rights	37	-	37	93	-	93
Energy origin rights	10	-	10	-	-	-
TOTAL INVENTORIES	**84**	**(8)**	**76**	**153**	**38**	**191**

	Year ended December 31, 2016	Year ended December 31, 2015
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT JANUARY 1	**38**	**80**
Fair value valuation of CO_2 emission rights	(46)	(42)
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT DECEMBER 31	**(8)**	**38**

13. Other current assets

	As at December 31, 2016	As at December 31, 2015

Advance payments	39	305
Receivables from TG	11	70
VAT receivables	24	19
Other	7	25
TOTAL	**81**	**419**

Advance payments consist mainly of funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 38 million in the current reporting period as compared to PLN 302 million in the corresponding period.

14. 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 December 31, 2016	As at December 31, 2015
Cash on hand and cash at bank	331	611
Overnight deposits	1	2
Short-term deposits	1,600	1,400
TOTAL	**1,932**	**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	**1,930**	**2,010**
including restricted cash	-	-
Undrawn borrowing facilities as at December 31	5,860	5,240
including overdraft facilities	*2,000*	*2,250*

For detailed description of credit agreements please refer to note 19.1.3 of these financial statements.

15. 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.

15.1 Share capital

	As at December 31, 2016
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681
TOTAL SHARE CAPITAL	**19,165**

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

All shares of the Company are paid up.

On September 5, 2016 the Extraordinary General Meeting of PGE S.A. („EGM") adopted resolution on the increase of the Company's share capital by PLN 467,440,207.25 from the reserve capital by increasing the nominal value of shares from PLN 10.00 to PLN 10.25. Raising the nominal value of shares is an event that generates tax revenue on the shareholders' side. On September 5, 2016 the EGM adopted a resolution that the flat-rate income tax related to the increase in the share capital from the Company's own funds will be financed from the Company's reserve capital, therefore the tax burden will be borne by the Company. PGE S.A. received tax interpretations in response to questions on the proper application of the provisions relating to corporate income tax and personal income tax.

Analysis of received interpretations 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 December 31, 2016, the amount has decreased the Company's shareholders' equity and is recognized under non-financial liabilities. The tax was fully paid on January 9, 2017.

After the reporting date and until the date of preparation of the foregoing financial statements there were no changes in the value of the Company's share capital.

Rights of the shareholders - Rights of the State Treasury regarding the Company's operations

The Company is a part of the PGE Polska Grupa Energetyczna S.A. Group, to which State Treasury holds special rights as long as it remains a shareholder.

Special rights of the State Treasury that are applicable to the PGE Group entities derive from the Act of March 18, 2010 on special rights of the Minister of Energy and their performance in certain companies and groups operating in the electricity, oil and gaseous fuels sectors (Official Journal from 2016, item 2012). The aforesaid Act specifies the particular rights entitled to the Minister of Energy related to companies and groups operating in the electricity, oil and gaseous fuels sectors whose property was disclosed within the register of buildings, installations, equipment and services included in critical infrastructure.

Based on this act the Minister of Energy has the right to object to any resolution or legal action of the Management Board that relates to the ability to dispose of a part of Company's property, which may result in threat to functioning, continuity of operations and integrity of critical infrastructure.

The objection can also be expressed against any resolution adopted that relates to:

- Liquidation of the Company,
- Changes of the use or discontinuance of exploitation of the Company's asset, which is a component of critical infrastructure,
- Change in the scope of activities of the Company,
- Sale or lease of the enterprise or its organized part or establishment of legal restrictions,
- Approval of operational and financial plan, investment plan, or long-term strategic plan,
- Movement of the Company's seat abroad,

if the enforcement of such a resolution would result in an actual threat to functioning, continuity of operations and integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

The Act of September 14, 2016 on change of Act on functioning of hard coal mining and some other acts changed also the Act of March 18, 2010 on special rights of the Minister of Energy and their performance in certain companies and groups operating in the electricity, oil and gaseous fuels sectors. The name of the Act was change into the Act on special rights of the Minister of Energy and their performance in certain companies and groups operating in the electricity, oil and gaseous fuels sectors. Additionally previous rights of Minister of the State Treasury arising from this Act were attributed to the Minister of Energy.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

15.2 Hedging reserve

Change in hedging reserve due to applied cash flow hedge accounting:

	Year ended December 31, 2016	Year ended December 31, 2015
AS AT JANUARY 1	**(17)**	**(60)**
Change of hedging reserve, including:	**205**	**52**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	313	50
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense	-	1
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognized in the result on foreign exchange differences	(107)	1
Ineffective portion of changes in fair value of hedging derivatives recognized in profit or loss	(1)	-
Deferred tax	**(39)**	**(9)**
HEDGING RESERVEINCLUDING DEFERRED TAX	**149**	**(17)**

15.3 Reserve capital

Reserve capital results from statutory allocation of profits generated in previous reporting periods, from surplus of profit distribution in excess of the value of statutory allocations, as well as from merger of PGE S.A. with its subsidiaries.

According to regulations of the Commercial Code, joint stock companies are obliged to create reserve capital to cover potential losses. At least 8% of the profit for the reporting year recognized in the separate financial statements of the Company is transferred to reserve capital, until this capital amounts to at least one third of share capital. The part of reserve capital which amounts to one third of share capital can only be used to cover losses recognized in the separate financial statements and cannot be distributed for other purposes. The General Shareholders' Meeting decides on the use of the reserve capital and other capital reserves.

Reserve capital subject to distribution to shareholders amounted to PLN 7,342 million as at December 31, 2016 and to PLN 6,776 million as at December 31, 2015.

15.4 Retained earnings and limitations of payment of dividend

Retained earnings which are not subject to distribution are the amounts which cannot be paid in the form of dividends.

	As at December 31, 2016	As at December 31, 2015
Retained earnings not subject to distribution - profits / losses recognized in other comprehensive income	(4)	(4)
Retained earnings subject to distribution	1,598	1,768
TOTAL RETAINED EARNINGS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	**1,594**	**1,764**

For information regarding limitations of dividend payments from reserve capital please refer to note 15.3 of these financial statements. As at December 31, 2016 there were no other restrictions on dividend payments.

15.5 Earnings per share

During current and comparative reporting period there was no dilutive effect on earnings per share.

	Year ended December 31, 2016	Year ended December 31, 2015
NET PROFIT	**1,598**	**1,768**
NET PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**1,598**	**1,768**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED TO CALCULATE EARNINGS PER SHARE	**1,869,760,829**	**1,869,760,829**
EARININGS/ DILUTED EARNINGS PER SHARE (IN PLN)	**0.85**	**0.95**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

15.6 Dividends paid and dividends declared

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

Dividend from the profit for the year 2016

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

Until the date of preparation of these financial statements suggested distribution of the Company's profit for 2016 has not been approved. The Company's dividend policy provides for payments of dividends amounting to 40-50% of the consolidated net profit adjusted by impairment of non-current assets.

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 dividend was paid on October 14, 2016.

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.

16. Provisions

The carrying amount of provisions is as follows:

	As at December 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Post-employment benefits	20	2	19	2
Jubilee awards	2	-	2	-
Employee bonuses and other employee related	-	28	-	32
TOTAL PROVISIONS	**22**	**30**	**21**	**34**

Changes in provisions

Year ended December 31, 2016	Post-employment benefits	Jubilee awards	Employee bonuses and other employee related	Total
AS AT JANUARY 1, 2016	**21**	**2**	**32**	**55**
Benefits paid / Provisions used	(1)	-	(24)	**(25)**
Provisions reversed	-	-	(10)	**(10)**
Provisions raised	-	-	29	**29**
Other	2	-	1	**3**
AS AT DECEMBER 31, 2016	**22**	**2**	**28**	**52**

Year ended December 31, 2015	Post-employment benefits	Jubilee awards	Employee bonuses and other employee related	Other	Total
AS AT JANUARY 1, 2015	**20**	**2**	**27**	**4**	**53**
Actuarial gains and losses excluding discount rate adjustment	2	-	-	-	**2**
Discount rate adjustment	(1)	-	-	-	**(1)**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Benefits paid / Provisions used	(1)	-	(32)	-	**(33)**
Provisions raised	-	-	34	-	**34**
Other	1	-	3	(4)	-
AS AT DECEMBER 31, 2015	**21**	**2**	**32**	**-**	**55**

Based on information received from the actuary, the Company estimates that the influence of changes in assumptions on the value of provisions for post-employment benefits and jubilee awards would be as follows:

- should the discount rate be higher by 1 percentage point (p.p.), the provision would decrease by PLN 1 million, and should the discount rate be lower by 1 p.p., the provision would increase by PLN 4 million.
- should the growth rates be higher by 1 p.p., the provision would increase by PLN 4 million, and should the rates be lower by 1 p.p., the provision would decrease by PLN 1 million.

17. Post-employment benefits

The amount of provisions for post-employment benefits recognized in the financial statements results from the valuation prepared by an independent actuary.

The carrying amount of provisions for employee benefits:

	As at December 31, 2016		As at December 31, 2015	
	Non-current	**Current**	**Non-current**	**Current**
Retirement, pension and post-mortem benefits	1	1	1	1
Energy tariff	8	1	7	1
Social Fund	7	-	6	-
Medical benefits	4	-	5	-
TOTAL EMPLOYEE BENEFITS	**20**	**2**	**19**	**2**

18. Other non-financial liabilities

The main components of non-financial liabilities as at respective reporting dates are as follows:

	As at December 31, 2016	As at December 31, 2015
Tax related to the increase of the share capital	110	-
Liabilities due to settlements in the tax group	18	107
VAT liabilities	19	66
Other	7	3
TOTAL OTHER LIABILITIES	**154**	**176**

The matter of tax liability related to the increase in the share capital is described in note 15.1 of these financial statement. Tax was paid on January 9, 2017.

PGE S.A. is the representing company in the tax group that includes the Company and majority of its subsidiaries. For principles of operation and settlements between the companies please refer to note 23 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

19. Financial Instruments

19.1 Description of significant items within particular classes of financial instruments

19.1.1 Trade and other financial receivables

	As at December 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade receivables	-	523	-	666
Bonds acquired	8,751	21	5,993	29
Cash pooling receivables	-	628	-	320
Loans granted	97	-	60	1
Deposits with a maturity over 3 months	-	2,299	-	-
Other financial receivables	-	3	-	27
TOTAL FINANCIAL RECEIVABLES	**8,848**	**3,474**	**6,053**	**1,043**

Trade receivables

Trade receivables of PLN 523 million relate mainly to the sale of electricity and services to subsidiaries in the PGE Group. As at December 31, 2016, the balance of three most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Dom Maklerski S.A. constituted 71% of total balance of trade receivables.

Additional information relating to trade receivables is presented in note 20.5.1 of these financial statements.

Bonds acquired

	As at December 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
BONDS ACQUIRED - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	7,236	7	4,597	4
PGE Energia Odnawialna S.A. and its subsidiaries	1,426	14	1,396	25
Autostrada Wielkopolska S.A.	89	-	-	-
TOTAL BONDS ACQUIRED	**8,751**	**21**	**5,993**	**29**

PGE S.A. acquires bonds issued by 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.
Due to the fact that the Company acquired bonds issued by its subsidiaries with interest rates lower than market interest rates, they were recognized at the date of acquisition at fair value, lower than their issue price. The difference between the issue price and the fair value at the date of acquisition was recognized by the Company as an increase in the value of investment in subsidiaries issuing the bonds. The difference is amortized using an effective interest rate and recognized in the statement of comprehensive income.

Cash pooling receivables

In 2014, in order to centralize the management of financial liquidity in the PGE Group, agreements for real cash pooling services were executed between 16 companies of the PGE Group and each bank separately, i.e. with Powszechna Kasa Oszczędności Bank Polski S.A. and Polska Kasa Opieki S.A. PGE S.A. coordinates the cash pooling service in the PGE Group. This means, among others, that certain entities settle with the Company and the Company settles with banks. In connection to the above, balances with related parties participating in cash pooling are reported in financial receivables and financial liabilities of PGE S.A.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Loans granted

	As at December 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	80	-	60	-
PGE Trading GmbH	13	-	-	1
Bestgum sp. z o.o.	4	-	-	-
TOTAL LOANS GRANTED	**97**	**-**	**60**	**1**

Deposits with a maturity over 3 months

As at December 31, 2016 the Company recognizes deposits with a maturity over 3 months at the total amount of PLN 2,299 million.

19.1.2 Derivatives

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

	As at December 31, 2016			
	Recognized in profit or loss	Recognized in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	(5)	-	1	-
Commodity forward	(5)	-	8	-
IRS transactions	3	-	-	23
HEDGING DERIVATIVES				
CCIRS hedging transactions	49	79	231	-
IRS hedging transactions	(1)	126	125	-
TOTAL DERIVATIVES	**41**	**205**	**365**	**23**
Non-current			356	23
Current			9	-

	As at December 31, 2015			
	Recognized in profit or loss	Recognized in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	(4)	-	7	1
Commodity forward	4	-	-	33
IRS transactions	11	-	-	43
HEDGING DERIVATIVES				
CCIRS hedging transactions	(63)	52	43	-
TOTAL DERIVATIVES	**(52)**	**52**	**50**	**77**
non-current			43	43
current			7	34

Commodity and currency forwards

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

IRS transactions

In the current reporting period the Company concluded 6 IRS transactions hedging the interest rate on incurred loans with a total nominal value of PLN 4,630 million. To the IRS transactions the Company applies hedge accounting. The influence of hedge accounting is presented in note 15.2 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 fully recognized in profit or loss.

CCIRS hedging transactions

In June and August 2014, in connection with loans received from PGE Sweden AB (publ) disclosed in note 19.1.3 of these financial statements, PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements.

To the CCIRS transactions the Company applies hedge accounting. The impact of hedge accounting is presented in note 15.2 of these financial statements.

The following table illustrates the terms of particular derivatives.

	As at December 31, 2016		As at December 31, 2015		
	Carrying value in PLN	Nominal value in curency	Carrying value in PLN	Nominal value in currency	Maturity date
Currency forward - EUR	1	17	7	66	until January 2018
Commodity forward sale EUA - EUR	8	9	-	-	until December 2017
Commodity forward purchase EUA - EUR		-	-	-	until December 2017
CCIRS - EUR to PLN	231	514	43	514	until June 2019
		144		144	until July 2029
IRS - rate % PLN	125	3,630	-	-	until September 2023
		1,000	-	-	until December 2027
FINANCIAL ASSETS	**365**		**50**		
Currency forward - EUR	-	1	1	6	until January 2018
Commodity forward sale EUA - EUR	-	-	33	25	until December 2017
Commodity forward purchase EUA - EUR	-	-		10	until December 2017
IRS - rate % PLN	23	1,000	43	1,000	until June 2018
FINANCIAL LIABILITIES	**23**	**-**	**77**		

19.1.3 Loans, borrowings, bonds, cash pooling

	As at December 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Bank credits	5,020	127	487	14
Loans received	2,858	80	2,753	60
Bonds issued	976	24	976	24
Cash pooling liabilities	-	473	-	1,157
TOTAL LOANS, BORROWINGS, BONDS AND CASH POOLING	**8,854**	**704**	**4,216**	**1,255**

Loans received from PGE Sweden AB (publ)

The Company recognizes loans of EUR 664 million (PLN 2,938 million) drawn from a subsidiary – PGE Sweden AB (publ).

In 2014, PGE S.A. and PGE Sweden AB (publ) established a Euro Medium Term Note Program, in which PGE Sweden AB (publ) may issue Eurobonds up to EUR 2 billion with a minimum maturity of 1 year. In 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 638 million. The subsidiary allocated the funds raised under this program to grant a loan to its parent company.

Issuance of bonds on the domestic market

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

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

Bank credits

- On December 17, 2014, PGE S.A. signed the Loan Agreement in the amount of PLN 1,000 million with Bank Gospodarstwa Krajowego with the maturity date of December 31, 2027. As at December 31, 2016, the Company used all available credit.
- 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 December 31, 2016 the Company used all of the term loan facility of PLN 3,630 million which falls on September 30, 2023.
  The revolving loan facility of up to PLN 1,870 million and falling on April 30, 2019 is available, but not used by the Company.
- On December 4, 2015 the Company signed the Loan Agreement in the amount of PLN 500 million with Bank Gospodarstwa Krajowego S.A. with the maturity date of December 31, 2028. As at December 31, 2016, the Company used all available credit.

Additionally, 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 used for projects relating to the modernization and development of distribution grid. The funds from the second agreement, i.e. the remaining PLN 490 million, will be used 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. As at December 31, 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 December 31, 2016 and 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 and after the reporting period there were no cases of default of repayment or violation of other terms of credit agreements.

Cash pooling liabilities

Launch of real cash pooling is described in note 19.1.1 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Currency position and interest rates

As at December 31, 2016

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	3,646	3,646	September 2023
	Variable	1,001	1,001	December 2027
	Variable	1,000	1,000	indefinite program, maturity date of the tranche issued- June 2018
	Variable	500	500	December 2028
	Variable	473	473	five-year program
	Fixed	-	-	
TOTAL PLN		**6,620**	**6,620**	
EUR	Variable	-	-	
	Fixed	515	2,277	June 2019
	Fixed	145	643	July 2029
	Fixed	4	18	June 2017
TOTAL EUR		**664**	**2,938**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**9,558**	

As at December 31, 2015

Currency	Reference rate	Value in currency	Value in PLN	Final maturity date
PLN	Variable	1.000	1.000	indefinite program, maturity date of the tranche issued - June 2018
	Variable	501	501	December 2027
	Variable	1.157	1.157	five-year program
	Fixed	-	-	
TOTAL PLN		**2.658**	**2.658**	
EUR	Variable	-	-	
	Fixed	515	2.193	June 2019
	Fixed	145	620	July 2029
TOTAL EUR		**660**	**2.813**	
TOTAL LOANS, BORROWINGS, BONDS, CASH POOLING			**5.471**	

The following table illustrates changes in interest-bearing debt in the years ended December 31, 2016 and 2015:

	Year ended December 31, 2016	Year ended December 31, 2015
AS AT JANUARY 1	**5,471**	**3,812**
CHANGE IN OVERDRAFTS	**-**	**-**
CHANGE IN CASH POOLING LIABILITIES	**(684)**	**1,157**
CHANGE IN OTHER LOANS, BORROWINGS AND BONDS	**4,771**	**502**
Drawn loans and borrowings / issued bonds	4,648	500
Accrued interest	77	87
Repayment of loans and borrowings / redemption of bonds	(60)	(85)
Foreign exchange differences	106	-
AS AT DECEMBER 31	**9,558**	**5,471**

19.1.4 Other financial liabilities measured at amortized cost

	As at December 31, 2016		As at December 31, 2015	
	Non-current	Current	Non-current	Current
Trade liabilities	-	184	-	303
Other	-	5	-	4
TOTAL OTHER FINANCIAL LIABILITIES	**-**	**189**	**-**	**307**

Trade liabilities

Trade liabilities relate mainly to purchase of electricity and gas.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

19.2 Fair value of financial instruments

The carrying amount of receivables and financial liabilities at amortized cost, except for loans received from PGE Sweden AB (publ) represents a reasonable approximation of their fair value.

In case of loans received from PGE Sweden AB (publ), PGE S.A. estimates their fair value at PLN 3,036 million (as compared to PLN 2,938 million of the carrying amount). The fair value was determined using the estimated credit risk of PGE S.A. It is Level 2 of fair value hierarchy.

19.3 Fair value hierarchy

Inventories

The Company possesses CO_2 emission rights, some of which are acquired in order to realize profits related to market prices fluctuations. This part of the emission rights is recognized in inventories at fair value less costs of disposal, cost of usage of inventories is measured by detailed identification. Fair value is based on the market quotations (Level 1).

Derivatives

The Company measures derivatives at fair value using valuation models for financial instruments based on publicly available exchange rates, interest rates, discount curves for currencies (valid also for commodities, prices of which are denominated in those currencies) derived from active markets. The fair value of derivatives is determined based on discounted future cash flows from transactions, calculated on the difference between the forward rate and transaction price. Forward exchange rates are not modelled as separate risk factors, but are derived from the spot rate and appropriate forward interest rate for foreign currencies in relation to PLN.

In the category of financial assets and financial liabilities at fair value through profit or loss, the Company presents financial instruments related to greenhouse gases emission rights – currency and commodity forwards and IRS hedging transaction changing variable interest rate in PLN to fixed interest rate in PLN (Level 2).

In addition, the Company presents CCIRS derivative that hedges foreign exchange rate and interest rate (Level 2).

FAIR VALUE HIERARCHY	As at December 31, 2016		As at December 31, 2015	
	Level 1	Level 2	Level 1	Level 2
CO_2 emission rights	29	-	98	-
Inventories	**29**	**-**	**98**	**-**
Currency forward	-	1	-	7
Commodity forward	-	8	-	-
CCIRS valuation	-	231	-	43
IRS valuation	-	125	-	-
Financial assets	**-**	**365**	**-**	**50**
Currency forward	-	-	-	1
Commodity forward	-	-	-	33
IRS valuation	-	23	-	43
Financial liabilities	**-**	**23**	**-**	**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.

Inventories are described in note 12 of these financial statements, whereas derivatives are presented in note 19.1.2 of these financial statements.

Financial instruments not quoted on active markets, for which fair value cannot be estimated reliably

PGE S.A. holds significant amount of shares in entities not quoted on active markets. For shares in entities that are not quoted on the stock exchange, there is no active market nor possibility to use measurement techniques that will give reliable values. Due to the above, the Company is not able to establish reasonable market value estimates. Such assets are measured at cost less impairment losses. Additionally, due to the fact that the Company acquired bonds issued by its subsidiaries with interest rates lower than market interest rates, the difference between the issue price and fair value of acquired bonds was recognized as an increase in the value of shares in subsidiaries issuing the bonds.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

19.4 Collaterals for repayment of receivables and liabilities

The Company uses a variety of collaterals and its combinations. The most frequently used are execution statements. Additionally, the Company uses the power of attorney to the bank accounts and assignment of receivables. As a rule, there are no collaterals on subsidiaries' liabilities towards PGE S.A.

As at December 31, 2016, Company's assets are not encumbered as collateral for the repayment of the Company's liabilities and contingent liabilities.

19.5 Statement of comprehensive income

The table below presents the combined effect of the various categories of the financial instruments on the financial income and expenses.

YEAR ENDED DECEMBER 31, 2016	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash	Shares in subsidiaries	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	-	-	1,063	-	-	**1,063**
Interest income/ (expenses)	(59)	(17)	16	-	235	(149)	**26**
Exchange gains/ (losses)	107	-	11	-	3	(108)	**13**
Revaluation of financial instruments/Reversal of impairment allowances	-	20	-	-	89	1	**110**
Revaluation of financial instruments /Creation of allowances	-	(10)	-	(23)	-	-	**(33)**
TOTAL PROFIT/ (LOSS)	**48**	**(7)**	**27**	**1,040**	**327**	**(256)**	**1,179**

YEAR ENDED DECEMBER 31, 2015	Hedging derivatives	Derivatives measured at fair value through profit or loss	Cash	Shares in subsidiaries	Loans and receivables	Financial liabilities at amortized cost	TOTAL
Dividends	-	-	-	1,050	-	-	**1,050**
Interest income/ (expenses)	(62)	(15)	54	-	153	(108)	**22**
Exchange gains/ (losses)	(1)		(2)	-	(4)	1	**(6)**
Reversal of impairment allowances	-	26	-	-	-	-	**26**
Gains/ (losses) on investment disposals	-	-	-	(14)		-	**(14)**
Other	-	-	-	-	-	(2)	**(2)**
TOTAL PROFIT/ (LOSS)	**(63)**	**11**	**52**	**1,036**	**149**	**(109)**	**1,076**

20. Objectives and principles of financial risk management

Due to the type of the Company's business activities, the Company is exposed to the following types of financial risk:

- liquidity risk
- market risk, including: interest rate risk, currency risk, price risk;
- credit risk.

The supreme goal of financial risk management in the PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group management. This goal is attained through reducing the effect of risk factors changes on the range of cash flows and financial result fluctuations arising out of the PGE Group's exposure to financial risk. The financial risk management activities are integrated from the perspective of the PGE Group as a whole with a leading role of the Company being the center of competence in this area. This means that the process of risk management takes into account the sources of exposure to the risk generated by individual areas of business, co-relationships between them and their aggregate influence on the risk profile and the financial situation of the PGE Group.

In the process of financial risk management the Group uses mechanisms such as natural hedging and hedging instruments, including derivative transactions, which are concluded only to the extent determined by the internal regulations of the PGE Group. These regulations do not allow to conclude speculative transactions increasing exposure to interest rate risk or currency risk. Derivative transactions concerning instruments based on interest rates or currency are concluded only to hedge the identified risk exposure.

The financial risk management model includes:

- collection and consolidation of data on exposure to particular categories of financial risk,

- calculation and analysis of the aggregated measures in respect of particular categories of financial risk,
- management of the PGE Group's consolidated exposure in relation to capital at risk and risk limits established based on it (including the identification and implementation of hedging strategies).

Management Board of PGE S.A. bears the responsibility for the infrastructure of financial risk management. The Management Board of PGE S.A. determines the risk appetite which is an acceptable level of worsening of the financial result of the PGE Group, taking into account its current and projected economic and financial situation. The Management Board decides also on the allocation of the risk appetite to particular areas of business activity. In the PGE Group, there is the Risk Committee that supervises the process of risk management as well as the scope and level of the Group's exposure to significant risks (including financial risks) in the relation to applicable limits and risk appetite. The Risk Committee makes key decisions in the area of risk management concerning, among others, setting risk limits as part of the risk appetite, as well as the approval of applied methods and instruments in the area of commercial and hedging operations.

The organization of a function of financial risk management is based on the principle of independence of an entity responsible for measurement and control of risk vs business entities (risk owners) responsible for taking and managing the risk on an ongoing basis. The independence of the risk control function from business entities assuming the risk is guaranteed by way of locating the risk unit in a separate division in the Company's organizational structure and independent reporting lines for the Risk Committee and the Management Board of PGE S.A.

In the key areas for financial risks, the PGE Group has implemented internal rules for managing these risks. These rules support a business decision making process and attainment of assumed strategic goals with the concurrent risk optimization. The risk owners execute transactions exclusively in the scope of the agreed area of operations and approved products, markets and types of instruments/transactions. Each decision regarding the extension of operations into a new area is preceded with an independent assessment of, among others, the risk unit, in respect of the generated risk profile, impact on the risk exposure of the PGE Group and requirements to be met to ensure risk control and must be approved by the Risk Committee.

Interest rate and foreign currency risks management in the PGE Group assumes that the transfer of market risk generated by the companies from the PGE Group is transferred to the parent entity, i.e. PGE S.A., by way of intergroup transactions.

20.1 Liquidity risk

The main task in the process of management of liquidity risk in the PGE Group is to plan and to report on a regular basis the liquidity of PGE S.A. and its subsidiaries. The PGE Group monitors the risk of losing the liquidity with the use of liquidity periodical planning tools, i.e. prepared forecasts of cash flows from operating, investing and financing activities. The purpose of the PGE Group is to maintain balance between flexibility of financing and risk of refinancing through the use of various sources of financing, such as: overdraft facilities, term and investment loans, national bonds and Eurobonds. Moreover, the parent entity conducts the on-going monitoring of meeting covenants stipulated in the agreements for financing and their forecasts in subsequent periods. The above activities allow to determine the PGE Group's debt raising capacity and ensure the capacity to repay debt on a long-term basis. They also affect the determination of its investment abilities. In the PGE Group a central financing model applies, which provides that principally the external financing is executed by PGE Polska Grupa Energetyczna S.A.

The subsidiaries in the PGE Group use various sources of intragroup financing, such as: loans, bonds or agreements for consolidation of bank accounts and cash management agreements in the group of accounts (real cash pooling). The Company actively invests free funds, which means that it monitors the financial surplus and forecasts future cash flows and on this ground it implements the investment strategy in respect of free funds in pursuit to attain investment strategy goals.

In the case of insufficient funds, the Company uses the available sources of financing:

- overdrafts, term loans, working capital loans;
- bank accounts consolidation agreements (real cash-pooling);
- bond issues addressed to external investors;
- bonds issues acquired by the subsidiaries in the PGE Group.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Maturity date of the financial liabilities based on contractual non-discounted payments:

AS AT DECEMBER 31, 2016	Carrying amount	Total payments	Less than 3 month	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Bank credits	**5,147**	**5,823**	43	86	1,399	4,295
Loans received	**2,938**	**3,292**	10	71	2,418	793
Bonds issued	**1,000**	**1,038**	-	25	1,013	-
Cash pooling liabilities	**473**	**473**	473	-	-	-
Trade and other financial liabilities measured at amortized cost	**189**	**189**	188	-	1	-
Derivatives measured at fair value through profit or loss	**23**	**23**	-	16	7	-
TOTAL	**9,770**	**10,838**	**714**	**198**	**4,838**	**5,088**

AS AT DECEMBER 31, 2015	Carrying amount	Total payments	Less than 3 months	Between 3 and 12 months	Between 1 and 5 years	More than 5 years
Bank credits	**501**	**617**	-	14	119	484
Loans received	**2,813**	**3,214**	10	51	2,370	783
Bonds issued	**1,000**	**1,062**	-	25	1,037	-
Cash pooling liabilities	**1,157**	**1,157**	1,157	-	-	-
Trade and other financial liabilities measured at amortized cost	**307**	**307**	304	3	-	-
Derivatives measured at fair value through profit or loss	**77**	**78**	1	51	26	-
TOTAL	**5,855**	**6,435**	**1,472**	**144**	**3,552**	**1,267**

20.2 Interest rate risk

The Company is exposed to interest rate risk as a result of financing their operating and investment activities with interest bearing indebtedness at variable interest rates or through investments in financial assets at variable or fixed interest rates. On the other hand, financing business activity with indebtedness at a fixed interest rate is related to the opportunity cost risk in case of interest rates' decline.

The Company is exposed to interest rate risk related to investment in debt instruments, liabilities from loans granted, bonds issued and acquired and changes in fair value of derivative swaps resulting from changes in interest rates.

Bonds issued in the amount of PLN 1 billion under the Bonds issue program of PLN 5 billion that was described in note 19.1.3 of these financial statements, are interest-bearing bonds at a variable rate in PLN. Payments relating to those bonds are hedged by IRS transactions, described in note 19.1.2.

Loans received from a subsidiary PGE Sweden AB (publ) are interest bearing loans at a fixed interest rate in EUR. Payments for these loans are hedged by CCIRS transactions described in note 19.1.2.

In addition, the Company holds long-term bank credit of PLN 1 billion under the terms of Credit Agreement signed on December 17, 2014 with Bank Gospodarstwa Krajowego and syndicated loan (term loan facility tranche) of PLN 3,63 billion under the terms of Credit Agreement signed on September 7, 2015. Both aforesaid credits constitute financial instruments with variable interest rate in PLN. Payments related to bank credits are hedged with IRS hedge instruments, described in note 19.1.2.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The Company's exposure to interest rate risk and risk concentration by currencies:

		Type of interest rate	As at December 31, 2016	As at December 31, 2015
Derivatives – assets, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	125	-
	EUR	Fixed	-	-
		Variable	240	50
Loans granted, bonds acquired and cash exposed to interest rate risk	PLN	Fixed	12,611	7,490
		Variable	1,010	712
	EUR	Fixed	18	214
		Variable	89	-
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(23)	(43)
	EUR	Fixed	-	-
		Variable	-	(34)
Loans received, bonds issued exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(6,620)	(2,658)
	EUR	Fixed	(2,938)	(2,813)
		Variable	-	-
Net exposure	**PLN**	**Fixed**	**12,611**	**7,490**
		Variable	**(5,508)**	**(1,989)**
	EUR	**Fixed**	**(2,920)**	**(2,599)**
		Variable	**329**	**16**

Interest rates on variable interest rate financial instruments are updated in periods shorter than one year. Interest rates on fixed interest rate financial instruments are fixed throughout the whole period until maturity of these instruments.

20.3 Currency risk

The Company is exposed to currency transaction risk and currency translation risk.

The main sources of exposure to currency risk are presented below:

- loans and borrowings denominated in foreign currencies;
- sales of electricity denominated in foreign currencies (export);
- fees denominated in or indexed to foreign currency relevant to purchase of transmission capacities;
- sales and purchases of CO_2 emission rights and gas denominated in or indexed to foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies,
- foreign subsidiaries.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

The Company's exposure to currency risk with regards to particular classes of financial instruments:

	Total carrying amount in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2016	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other financial receivables, including:	12,322	22	186
Trade receivables	*523*	*19*	*84*
Bonds acquired	*8,772*	*20*	*89*
Loans granted	*97*	*3*	*13*
Cash and cash equivalents	1,932	1	4
Derivatives, including:	365	743	3,288
Measured at fair value through profit or loss	*9*	*15*	*66*
CCIRS hedging instruments	*231*	*728*	*3,222*
FINANCIAL LIABILITIES			
Loans, borrowings, bonds, including:	(9,558)	(664)	(2,938)
Loans received	*(2,938)*	*(664)*	*(2,938)*
Trade and other financial liabilities, including:	(189)	(5)	(22)
Trade liabilities	*(184)*	*(5)*	*(22)*
Derivatives measured at fair value through profit or loss	(23)	-	-
NET CURRENCY POSITION		**117**	**518**

The carrying amount of derivative instruments is their fair value. The value of currency risk exposure for forward derivatives is their nominal value at currency. The value of currency risk exposure for CCIRS derivatives is the currency value of discounted cash flows of currency leg.

	Total carrying amount in PLN	CURRENCY POSITION AS AT DECEMBER 31, 2015	
		EUR	PLN
FINANCIAL ASSETS			
Trade and other financial receivables, including:	7,096	33	141
Trade receivables	*666*	*33*	*140*
Loans granted	*61*	*<1*	*1*
Cash and cash equivalents	2,013	51	213
Derivatives, including:	50	694	2.958
Measured at fair value through profit or loss	*7*	*(35)*	*(149)*
CCIRS hedging instruments	*43*	*729*	*3.107*
FINANCIAL LIABILITIES			
Loans, borrowings, bonds, including	(5,471)	(660)	(2,813)
Loans received	*(2,813)*	*(660)*	*(2,813)*
Trade and other financial liabilities, including	(307)	(40)	(172)
Trade liabilities	*(303)*	*(40)*	*(172)*
Derivatives measured at fair value through profit or loss	(77)	(9)	(37)
NET CURRENCY POSITION		**69**	**290**

The carrying amount of derivative instruments is their fair value. The value of currency risk exposure for forward derivatives is their nominal value at currency. The value of currency risk exposure for CCIRS derivatives is the currency value of discounted cash flows of currency leg.

20.4 Price risk

Due to the type of the Company's business activities, the Company is exposed to change of cash flows and financial results due to price changes of the following risk factors:

- electricity;
- CO_2 emission rights;
- energy origin rights;
- natural gas.

The main objective of market risk management is to shape the optimal relation of the profit generated to the level of risk incurred and acceptable by the Group within its commercial activities. The defined objective is realized by reducing potential changes of financial result and the level of cash flows resulting from market prices fluctuations of electricity and related products. The PGE Group has implemented the internal rules for market risk management, including the determination of the global risk appetite, risk limits measured "at risk" as well as the management of consolidated exposure to the price risk of commodities and mechanisms hedging the risk levels in excess of the acceptable level, with the leading role of the Company in this process. This allows to create hedging strategies in the area of electricity and related products taking into account the risk borne by the PGE Group in relation to the expected return on assets.

The market risk management policies stipulate uniform assumptions for the organization of that process in the context of commercial strategies and medium-term planning, including among others:

- division of responsibility of individual units;
- specification of accepted products, markets and strategies of operations;
- rules for the calculation of open contract position for particular scopes of commercial activity;
- level of accepted risk with the principles of allocation and management of the capital at risk;
- applicable risk limits;
- risk quantification methodology (including among others, nominal measures, VaR, PaR, scenario analyses, stress tests);
- data and reporting circulation in the risk management process (specifically in the area of application of limits and implementation of hedging strategies).

The management of the consolidated exposure to the market risk in the area of commercial operations of the PGE Group includes the global measurement of market risk, calculation of aggregated risk measures based on, among others, a concept of value at risk (including VaR and PaR), maintaining the level of risk borne within acceptable limits as well as security of the risk exceeding that level and regular reporting of the global exposure level with respect to the risk limits.

The PGE Group has developed the rules for strategies to secure the key exposures in the area of trading in electricity and related products equivalent to the risk appetite at medium-term (up to 5 years, with the assumption of availability of required markets liquidity). The level of securing the position is determined taking into account the results of measurement of the risk of electricity and related products prices. The results of the risk measurement show the expected income in individual years and the value of potential deviations from the expected values with the assumed probability. The PGE Group assesses the results of the measurement in the context of its risk appetite and the possibilities of hedging the risk of prices of electricity and related products, taking into account liquidity of individual markets. Furthermore, while setting out the target hedge ratios, the PGE Group considers its financial situation, including in particular the assumed goals resulting from the strategy adopted by the Group.

20.5 Credit risk

Credit risk is connected with a potential credit event that can occur, such as insolvency of a customer, partial payment of a receivable, significant delay in receivable payment or other breaches of contract conditions (in particular the lack of delivery and acceptance of the goods as agreed in the contract and the possible non-payment for damages and contractual penalties).

The Company is exposed to credit risk arising in the following areas:

- Basic activities – the credit risk results from, among others, purchases and sales of electricity, energy origin rights, gas, hard coal and CO_2 emission rights. It relates primarily to the possibility of a default of the other party of transaction, if fair value of the transaction is positive from the point of view of the Company;
- Investing free cash – the credit risk results from investing free cash of PGE S.A. in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Maximum credit risk exposure resulting from financial assets is equal to the carrying value of these items.

	Year ended December 31, 2016	Year ended December 31, 2015
Trade receivables	523	666
Loans and receivables	11,799	6,430
Cash and cash equivalents	1,932	2,013
Derivatives – assets	365	50
MAXIMUM CREDIT RISK EXPOSURE	**14,619**	**9,159**

20.5.1 Trade and other financial receivables

The terms of payments for trade receivables are usually 2-3 weeks. In 2016, the Company received payments for receivables on average after 20 days. Trade receivables relate mainly to receivables for energy sold. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by impairment on receivables.

The Company reduces and controls the credit risk related to trade transactions. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognized or the Company uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with rules pertaining to credit risk management. The level of used limit is regularly monitored and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. The Company regularly monitors the payment of receivables and uses the system of early vindication. It also cooperates with Credit Bureaus.

Credit risk relating to trade receivables by geographical region is presented in the table below:

	December 31, 2016		December 31, 2015	
	Receivables balance	Share %	Receivables balance	Share %
Poland	504	96.4%	648	97.3%
Luxemburg	13	2.5%	14	2.1%
Germany	5	1.0%	2	0.3%
Great Britain	1	0.2%	2	0.3%
TOTAL	**523**	**100%**	**666**	**100%**

The majority of sales transactions and trade receivables balances relate to related parties within the PGE Group, as well as large Polish entities from the electricity market. Information on transactions with related parties is presented in note 24 of these financial statements.

Ageing of receivables and impairment allowances

As at December 31, 2016 part of financial assets was covered by impairment allowances.

The change in allowances accounts for these classes of financial instruments is presented in the table below:

Year ended December 31, 2016	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Impairment allowance as at January 1	**(3)**	**-**	**-**	**(386)**	**(25)**
Impairment allowance reversed	-	-	-	89	-
Impairment allowance as at December 31	**(3)**	**-**	**-**	**(297)**	**(25)**
Value before the impairment allowance	**526**	**97**	**628**	**9,069**	**28**
Net value (carrying amount)	**523**	**97**	**628**	**8,722**	**3**

There are no significant receivables that would be substantially past due and not covered by an impairment allowance.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Year ended December 31, 2015	Trade receivables	Loans granted	Cash pooling receivables	Bonds acquired	Other financial receivables
Impairment allowance as at January 1	**(5)**	**-**	**-**	**(415)**	**(25)**
Impairment allowance used	2	-	-	29	-
Impairment allowance as at December 31	**(3)**	**-**	**-**	**(386)**	**(25)**
Value before the impairment allowance	**669**	**61**	**320**	**6,408**	**52**
Net value (carrying amount)	**666**	**61**	**320**	**6,022**	**27**

PGE S.A. possesses bonds issued by Autostarda Wielkopolska S.A., which in previous years were fully covered with an impairment allowance. Due to revaluation of recoverable amount, the Company partly reversed the impairment allowance of PLN 89 million.

TRADE RECEIVABLES AND OTHER LOANS AND RECEIVABLES

	December 31, 2016			December 31, 2015		
	Gross amount	Impairment allowances	Carrying amount	Gross amount	Impairment allowances	Carrying amount
Receivables before due date	**10,321**	**(300)**	**10,021**	**7,469**	**(388)**	**7,081**
Past due <30 days	2	-	**2**	*15*	-	*15*
Past due 30-90 days	-	-	**-**	-	-	**-**
Past due 90-180 days	-	-	**-**	-	-	**-**
Past due 180-360 days	-	-	**-**	-	-	**-**
Past due >360 days	*25*	*(25)*	**-**	*26*	*(26)*	-
RECEIVABLES PAST DUE, TOTAL	**27**	**(25)**	**2**	**41**	**(26)**	**15**
TOTAL LOANS AND RECEIVABLES	**10,348**	**(325)**	**10,023**	**7,510**	**(414)**	**7,096**

20.5.2 Deposits, cash and cash equivalents

The Company manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities, that the Company concludes deposit transactions with, operate in the financial sector. These can only be banks registered in Poland or divisions of foreign banks with high investment level ratings, adequate indicator of solvency and equity as well as strong, stable market position.

20.5.3 Derivatives

All entities, that the Company concludes derivatives transactions with, operate in the financial sector. These are banks with investment ratings, adequate equity and strong, stable market position. As at the reporting date, the Company was party to the derivative transactions, described in detail in note 19.1.2 to these financial statements.

20.5.4 Guarantees granted

Guarantees granted by the Company are presented in note 22 of these financial statements.

20.6 Market (financial) risk – sensitivity analysis

The Company identifies the following types of market risk to which it is exposed:

- interest rate risk,
- currency risk.

Currently, the Company is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN. Furthermore, the Company is exposed to interest rate risk related to referential interest rates of PLN and EUR. The Company uses a scenario analysis for the purpose of analyzing sensitivity to changes of market risk factors. The Company uses experts' scripts reflecting the subjective opinion on the Company in relation to future fluctuations of individual market risk factors.

The scenario analysis presented in this point is intended to analyze the influence of changes in market risk factors on the financial results of the Company. Only those items that can be defined as financial instruments are subject to the analysis of interest and currency risk.

In sensitivity analysis related to interest rate risk, the Company applies parallel shift of interest rate curve related to a potential possible change of referential interest rates during the following year.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

In case of sensitivity analysis of interest rates' fluctuations, the effect of risk factors' changes could be recorded in the statement of comprehensive income as income or expenses or as revaluation of financial instruments measured at fair value.

The sensitivity analysis related to all types of market risks the Company is exposed to as at the reporting date, indicating the potential influence of changes of individual risk factors by class of financial assets and liabilities on profit before tax is presented below.

Sensitivity analysis for currency risk

The table below presents the sensitivity of profit before tax and equity to reasonably possible changes in foreign currency exchange rates, under the assumption of stability of other risk factors for these classes of financial instruments exposed to currency risk.

FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2016 EUR/PLN Impact on financial result/Equity +10%	-10%
Trade and other financial receivables	12,322	186	19	(19)
Cash and cash equivalents	1,932	4	-	-
Derivatives – assets	9	66	7	(7)
CCIRS hedging derivatives	231	3,222	291	(291)
Loans, borrowings, bonds	(9,558)	(2,938)	(294)	294
Trade and other financial liabilities	(189)	(22)	(2)	2
IMPACT ON PROFIT OR LOSS			**21**	**(21)**
CCIRS hedging derivatives	231	3,222	31	(31)
IMPACT ON HEDGING RESERVE			**31**	**(31)**

FINANCIAL INSTRUMENTS BY CLASS	Carrying amount in PLN	Amount exposed to risk in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2015 EUR/PLN Impact on financial result/Equity +10%	-10%
Trade and other financial receivables	7,096	141	14	(14)
Cash and cash equivalents	2,013	213	21	(21)
Derivatives – assets	7	(149)	(15)	15
CCIRS hedging derivatives	43	3,107	280	(280)
Loans, borrowings, bonds	(5,471)	(2,813)	(281)	281
Trade and other financial liabilities	(307)	(172)	(17)	17
Derivatives – liabilities	(77)	(37)	(4)	4
IMPACT ON PROFIT OR LOSS			**(2)**	**2**
CCIRS hedging derivatives	43	3.107	30	(30)
IMPACT ON HEDGING RESERVE			**30**	**(30)**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Sensitivity analysis for interest rate risk

The table below presents the sensitlivity of profit before tax and equity to reasonably possible changes in interest rates, under the assumption of stability of other risk factors for these classes of financial instruments that are exposed to interest rate risk:

SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2016						
FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk in PLN	WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity	
			+50bp	–50bp	+25bp	–25bp
Trade and other receivables	12.322	1.099	5	(5)	-	-
Derivatives - assets	365	9	-	-		
Loans, borrowings, bonds, cash pooling	(9.558)	(6.620)	(33)	33	-	-
Derivatives – liabilities	(23)	(23)	5	(5)	-	-
IMPACT ON FINANCIAL RESULT			**(23)**	**23**	**-**	**-**
CCIRS hedging derivatives	231	231	60	(62)	(37)	37
IRS hedging derivatives	125	125	128	(133)	-	-
IMPACT ON HEDGING RESERVE			**188**	**(195)**	**(37)**	**(37)**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2015						
FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Amount exposed to risk in PLN	WIBOR Impact on financial result/Equity		EURIBOR Impact on financial result/Equity	
			+50bp	–50bp	+25bp	–25bp
Trade and other receivables	7.096	712	4	(4)	-	-
Derivatives - assets	50	7	<1	<(1)	-	-
Loans, borrowings, bonds, cash pooling	(5.471)	(2.658)	(13)	13	-	-
Derivatives – liabilities	(77)	(77)	12	(13)	-	-
IMPACT ON FINANCIAL RESULT			**2**	**(3)**	**-**	**-**
CCIRS Hedging derivatives	43	43	73	(76)	(43)	44
IMPACT ON HEDGING RESERVE			**73**	**(76)**	**(43)**	**44**

Value of derivatives exposed to interest rate risk is fair value of those instruments (carrying amount). Sensitivity analysis for CCIRS and IRS derivatives was carried out using the valuation change due to the shift of interest rates curves for particular currency.

20.7 Hedge accounting

Due to the loan received from PGE Sweden AB (publ) in June and August 2014 PGE S.A. concluded CCIRS transactions, that hedge the exchange rate. In these transactions, banks - contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN. The nominal value, payment of interest and repayment of nominal value in CCIRS transactions are correlated with the relevant conditions arising from loan agreements. The Company applies hedge accounting to these transactions.

Hedge accounting is also applied to the IRS transactions hedging interest rate due to the financial liabilities under credit agreements such as the Credit Agreement with a syndicate of banks signed on September 7, 2015 and Credit Agreement with Bank Gospodarstwa Krajowego signed on December 17, 2014. Within the concluded IRS transactions, banks-contractors pay PGE S.A. interest based on a variable rate in PLN and PGE S.A. pays interest based on a fixed rate in PLN.

The impact of hedge accounting on hedging reserve is presented in note 15.2 of these financial statements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

21. Statement of cash flows

Presented below is the analysis of the most significant items of cash flow statement.

21.1 Cash flows from operating activities

Interest and dividends

	Year ended December 31, 2016	Year ended December 31, 2015
Dividend receivables	(1,063)	(1,050)
Interest on bonds acquired	(215)	(141)
Interest on bonds issued	25	26
Interest on loans granted	62	60
Interest and commissions relating to bank credits	44	37
Other	76	74
TOTAL INTEREST AND DIVIDEND	**(1,071)**	**(994)**

Profit/loss on investment activities

	Year ended December 31, 2016	Year ended December 31, 2015
Result on disposal of financial non-current assets	-	14
Valuation of derivatives	(57)	(12)
Impairment allowances of financial assets	(66)	-
Other	-	(3)
TOTAL PROFIT/LOSS ON INVESTMENT ACTIVITIES	**(123)**	**(1)**

Change in receivables

	Year ended December 31, 2016	Year ended December 31, 2015
Change in trade and other receivables	(5,226)	(2,582)
Less change in loans granted (including cash pooling)	344	349
Less change in bonds acquired	2,750	2,158
Less change in deposits with maturity over 3 months	2,299	-
Other	1	8
TOTAL CHANGE IN RECEIVABLES	**168**	**(67)**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2016	Year ended December 31, 2015
Change in trade and other financial liabilities	(118)	64
Change in other non-financial liabilities	(22)	140
Less change in tax related to the increase of share capital	(110)	-
Less change in settlements within the tax group	89	(84)
Other	(2)	3
TOTAL CHANGE IN LIABILITIES, EXCLUDING LOANS AND BORROWINGS	**(163)**	**123**

Change in other non-financial assets

	Year ended December 31,2016	Year ended December 31,2015
Change in other current assets	338	(293)
Less change in settlements within the tax group	(59)	70
Other	(13)	2
TOTAL CHANGE IN OTHER NON-FINANCIAL ASSETS	**266**	**(221)**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

21.2 Cash flows from investing activities

Acquisition and redemption of bonds issued within the PGE Group

PGE S.A. acquires bonds issued by other members of the PGE Group. The proceeds from the bond issue are used for financing investments, refinancing financial liabilities and financing current activities. For detailed description please refer to note 19.1.1.

Deposits with maturity over 3 months

In the current reporting period the Company opened deposits with maturity over 3 months with the total amount of PLN 2,290 million.

Dividends received

The total sum of dividends received consists mainly of dividends from PGE Dystrybucja S.A. of PLN 1,012 million and PGE Energia Odnawialna S.A. of PLN 35 million. In 2015 the total sum of dividends received amounted to PLN 977 million and PLN 58 million, respectively.

Loans granted under cash pooling agreement

As described in note 19.1.1 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 liabilities of PGE S.A.

21.3 Cash flows from financing activities

Proceeds from loans, borrowings and issue of bonds

The Company has used all of the credits available within the agreements signed in previous years with Bank Gospodarstwa Krajowego and Syndicate of Banks. In 2016 the Company has used the amount of PLN 4,630 million (PLN 500 million in the corresponding period).

In addition, during the reporting period, the Company received a loan from a subsidiary: PGE Sweden of PLN 18 million.

Dividends paid

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 dividend was paid on October 14, 2016 (PLN 1,458 million in the corresponding period)..

OTHER EXPLANATORY NOTES

22. Contingent liabilities and receivables. Legal claims

22.1 Contingent liabilities

	As at December 31, 2016	As at December 31, 2015
Bank guarantees	11,908	12,153
Other contingent liabilities	1	-
CONTINGENT LIABILITIES, TOTAL	**11,909**	**12,153**

Surety for the obligations of PGE Sweden AB (publ)

Due to establishment of the Eurobonds program in 2014, 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 11,060 million) and will be valid until December 31, 2041. As at December 31, 2016, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 642 million (PLN 2,842 million), as at December 31, 2015 liabilities amounted to EUR 642 million (PLN 2,734 million).

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

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A at the total value of PLN 758 million at the reporting date (PLN 1,451 million in the corresponding period). Granting sureties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. relating to the construction of the new power units in Elektrownia Opole.

22.2 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, in the form of standby commitments, to ensure financing of the planned investments. The standby commitments relate to specific investments and may be used only for such purposes. As at the reporting date approximate value of future investment commitments related to these projects amounts to about PLN 6 billion. As at December 31, 2016 and December 31, 2015 the estimated value of the standby commitments amounts to PLN 15 billion.

Commitment to support liquidity at 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 can take a form of a capital increase, debt financing or other activities aimed at reducing the likelihood of insolvency. PGE Obrót S.A. and PGE S.A. executed also a debt subordination agreement pursuant to which, in case 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 the terms of this program. As at the date of preparation of these financial statements, there were no indications of insolvency risk at PGE Obrót S.A.

22.3 Other legal claims and disputes

The issue of compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. are presenting to the courts motions to summon PGE S.A. to a conciliation hearing concerning 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 summons to a conciliation hearing directed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A.'s 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. Currently the proceedings before the court of first instance are in progress.

Additionally, Pozwy Sp. z o.o. (an entity which purchased claims from former PGE Elektrownia Opole S.A.'s shareholders) filed a similar claim for the amount of over PLN 229 million in the letter dated October 31, 2016 in which they notify about the acquisition of debt and demand payment from PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. The claim concerns compensation for the allegedly incorrect determination of the exchange ratio of shares of PGE Elektrownia Opole S.A. into shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. in the process of merging these companies. In January 2017, the Company received from Pozwy sp. o.o. two additional notices of acquisition of debt and demands for payment of compensation due to titles mentioned above for the total amount of PLN 27 million.

The PGE Group entities do 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), was established by an independent company PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios 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 companies mentioned above.

For the reported claims, the Company has not created any 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. The shareholder appealed, and the Company filed a reply to the appeal.
- 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. The District Court in Warsaw dismissed the shareholder's claim in its judgment issued on April 26, 2016.
- 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 shareholder appealed, and the Company filed a reply to the appeal. On March 2, 2017 the Apeals Court in Warsaw dismissed the appeal.
- 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. 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. 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 Shareholders' Meeting of the Company held on June 28, 2016. The Company filed response to the claim.
- On December 30, 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 Extraordinary General Shareholders' Meeting of the Company held on September 5, 2016. The Company filed a response to the claim.

23. 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 business entities, 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 for commitment of a tax crime or violation. Tax settlements and other activity areas are conditioned by regulations (customs or currency controls) and 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 December 31, 2016 and during the reporting period, the Company was not a party to any significant proceedings regarding public and legal settlements.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

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 representative of this group. The TG PGE 2015 agreement was executed for 25 years. Companies forming TG PGE 2015 were indicated in note 9. In accordance with the concluded agreements, when an entity belonging to the tax group generates tax profit, it transfers the appropriate amount of income tax to PGE S.A. and PGE S.A. settles with the tax office as the representing company. By contrasr, when an entity belonging to 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 the date of payment of income tax advances. The final settlement between the companies included in the TG occurs after submission of the annual return.

24. Information on related parties

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

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

- bonds issued by subsidiaries belonging to the tax group with interest rates below market rates, described in note 19.1.1 of these financial statements,
- tax losses settlements within the tax group, described in notes 6.2 and 23 of these financial statements.

24.1 Transactions with related parties

Year ended December 31, 2016

	Subsidiaries	Other related parties within the PGE Group	Other related parties	Third parties	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenues	10,120	-	205	522	**10,847**
Financial income	1,288	89	-	162	**1,439**
Operating expenses	986	-	167	9,192	**10,345**
Financial expenses	97	-	-	163	**260**

Year ended December 31, 2015

	Subsidiaries	Other related parties	Third parties	Offsetting revenues and expenses	TOTAL
STATEMENT OF COMPREHENSIVE INCOME					
Sales revenues	10,287	315	327	-	**10,929**
Other operating income	5	-	3	-	**8**
Financial income	1,204	453	29	(401)	**1,285**
Operating expenses	1,110	71	9,032	-	**10,213**
Other operating expenses	1	-	8	-	**9**
Financial expenses	81	-	530	(401)	**210**

The Company recognizes revenues from sales to related parties in the PGE Group mainly related to sales of electricity, gas, energy origin rights and CO_2 emission rights.

Financial income relates primarily to dividends and interest on bonds.

Operating expenses relate to the value of sales of materials and merchandise.

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

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

24.2 Balances with related parties

As at December 31, 2016

ASSETS	Subsidiaries	Other related parties within the PGE Group	Other related parties	Third parties	TOTAL
Loans and receivables:	**9,804**	**89**	**71**	**2,358**	**12,322**
Bonds acquired	8,683	89	-	-	8,772
Trade receivables	393	-	71	59	523
Deposits with maturity over 3 months				2,299	2,299
Other loans and financial receivables	728	-	-		728
Shares in subsidiaries	**29,678**	**-**	**-**	**-**	**29,678**
Available-for-sale financial assets and shares measured using the equity method	**-**	**6**	**-**	**-**	**6**
	-		-	-	
Derivatives - assets	**-**	**-**	**-**	**365**	**365**
Other current assets	**49**		**-**	**32**	**81**

As at December 31, 2015

ASSETS	Subsidiaries	Other related parties within the PGE Group	Other related parties	Third parties	TOTAL
Loans and receivables:	**6,890**	**-**	**152**	**54**	**7,096**
Bonds acquired	*6,022*	-	-	-	*6,022*
Trade receivables	*487*	-	*152*	*27*	*666*
Other loans and financial receivables	*381*	-	-	*27*	*408*
Shares in subsidiaries	**29,469**	**-**	**-**	**-**	**29,469**
Available-for-sale financial assets and shares measured using the equity method	**-**	**3**	**-**	**-**	**3**
Derivatives – assets	**-**	**-**	**-**	**50**	**50**
Other current assets	**302**	**-**	**-**	**117**	**419**

As at December 31, 2016

LIABILITIES	Subsidiaries	Other related parties	Third parties	TOTAL
Derivatives – equity and liabilities	**-**	**-**	**23**	**23**
Financial liabilities at amortized cost:	**3,485**	**34**	**6,228**	**9,747**
Bonds issued	-	-	*1,000*	*1,000*
Interest bearing loans and borrowings	*2,938*	-	*5,147*	*8,085*
Cash pooling liabilities	*473*	-	-	*473*
Trade liabilities	*74*	*34*	*76*	*184*
Other financial liabilities	-	-	*5*	*5*
Other non-financial liabilities	*18*	-	*136*	*154*

As at December 31, 2015

LIABILITIES	Subsidiaries	Other related parties	Third parties	TOTAL
Derivatives – equity and liabilities	**-**	**-**	**77**	**77**
Financial liabilities at amortized cost:	**4,033**	**6**	**1,739**	**5,778**
Bonds issued	-	-	*1,000*	***1,000***
Interest bearing loans and borrowings	*2,813*	-	*501*	***3,314***
Cash pooling liabilities	*1,157*	-	-	***1,157***
Trade liabilities	*63*	*6*	*234*	***303***
Other financial liabilities	-	-	*4*	***4***

The standby commitments and sureties granted to the PGE S.A.'s subsidiaries are described in note 22 of these financial statements.

24.3 Management personnel remuneration

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

PLN thousand	Year ended December 31, 2016	Year ended December 31, 2015
Short-term employee benefits (salaries and salary related costs)	9,113	6,670
Post-employment and termination benefits	3,066	(46)
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**12,179**	**6,624**

PLN thousand	Year ended December 31, 2016	Year ended December 31, 2015
Management Board	11,669	6,217
Supervisory Board	510	407
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**12,179**	**6,624**

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 Cost by nature and function.

Increase of the remuneration of the Management Board in 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.

25. Disclosures arising from Article 44 of the Energy Law related to particular types of activities

Article 44 of the Energy Law imposes an obligation on the energy companies to prepare regulatory financial statements with a balance sheet (statement of financial position) and the statement of profit or loss for the reporting periods separately for each type of business activity related to the following areas:

- supply of gaseous fuels or energy, including fixed costs, variable costs and revenues separately for the generation, transmission, distribution and trade in gaseous fuels or energy, gaseous fuel storage and liquefaction of natural gas or regasification of liquefied natural gas, also in relation to groups of recipients specified in the tariff;
- unrelated to the activities listed above.

25.1 Principles for allocation to different types of activities

The section below presents the types of activities referred to in Article 44 of the Energy Act which are distinguished in the Company and principles for allocation of revenues, expenses, assets and liabilities resulting from these types of activities.

25.1.1 Description of types of activities distinguished

The Company has identified the following types of activities pursuant to Article 44 point 1 of the Act:

- trade in electricity,
- trade in gaseous fuels,
- other activities.

25.1.2 Rules for the allocation of revenues, expenses, assets and liabilities

Selected items in the statement of comprehensive income and statement of financial position are assigned by the Company to certain types of activities based on the accounting records:

- sales revenues,
- costs of goods sold,
- selling and distribution expenses,
- general and administrative expenses,
- financial income and expenses,
- trade receivables,
- trade liabilities,
- derivatives,
- inventories,
- provisions, excluding provisions for employee benefits.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

Selected items in the statement of financial position are assigned by the Company to certain types of activities with the use of allocation keys:

- property, plant and equipment as well as intangible assets in proportion to the depreciation/amortization costs,
- provisions for employee benefits and liabilities arising from wages, PIT and social insurance in proportion to the costs of employee benefits,
- liabilities arising from VAT in proportion to revenues from sales.

Selected items in the statement of comprehensive income and statement of financial position are not assigned to certain types of activities as they pertain to all activities of the entity. The main unallocated items include:

- deferred tax assets and liabilities,
- loans and receivables other than trade receivables,
- interest-bearing loans, borrowings, bonds,
- shares in subsidiaries and financial assets available for sale,,
- income tax receivables and liabilities,
- cash and cash equivalents,
- equity, excluding profit for the reporting period,
- income tax in statement of profit or loss.

Unallocated items are presented together with the other activities.

25.2 Breakdown by type of business activity

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2016

	Electricity	Gas	Other activities and unallocated items	Total
SALES REVENUES	**8,644**	**522**	**1,681**	**10,847**
Costs of goods sold	(8,520)	(496)	(1,141)	**(10,157)**
GROSS PROFIT ON SALES	**124**	**26**	**540**	**690**
Distribution and selling expenses	(23)	(22)	(1)	**(46)**
General and administrative expenses	(26)	(5)	(111)	**(142)**
Other operating income	-	-	1	**1**
Other operating expenses	-	-	(8)	**(8)**
OPERATING PROFIT	**75**	**(1)**	**421**	**495**
Financial income	-	5	1,434	**1,439**
Financial expenses	-	-	(260)	**(260)**
PROFIT BEFORE TAX	**75**	**4**	**1,595**	**1,674**
Income tax	-	-	(76)	**(76)**
NET PROFIT FOR THE REPORTING PERIOD	**75**	**4**	**1,519**	**1,598**

In Note 5.1 Revenues from sales of each activity are presented in revenues from sales of goods and revenues from sales of services.

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

	Electricity	Gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	22	4	160	186
Intangible assets	1	-	4	5
Financial receivables	-	-	8,848	8,848
Derivatives	-	-	356	356
Shares in subsidiaries	-	-	29,678	29,678
Available-for-sale financial assets and shares measured using the equity method	-	-	6	6
	23	**4**	**39,052**	**39,079**
CURRENT ASSETS				
Inventories	-	-	76	76
Derivatives	-	-	9	9
Trade and other receivables	330	35	3,109	3,474
Other current assets	17	1	63	81
Cash and cash equivalents	-	-	1,932	1,932
	347	**36**	**5,189**	**5,572**
TOTAL ASSETS	**370**	**40**	**44,241**	**44,651**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2016

	Electricity	Gas	Other activities and unallocated items	Total
Net profit for the reporting period	75	4	1,519	1,598
Other equity	-	-	33,040	33,040
TOTAL EQUITY	**75**	**4**	**34,559**	**34,638**
NON-CURRENT LIABILITIES				
Non-current provisions	4	1	17	22
Loans,borrowings, bonds, cash pooling	-	-	8,854	8,854
Derivatives	-	-	23	23
Deferred tax liabilities	-	-	33	33
	4	**1**	**8,927**	**8,932**
CURRENT LIABILITIES				
Current provisions	5	1	24	30
Loans, borrowings, bonds, cash pooling	-	-	704	704
Trade and other liabilities	102	32	55	189
Income tax liabilities	-	-	4	4
Other current non-financial liabilities	-	-	154	154
	107	**33**	**941**	**1.081**
TOTAL LIABILITIES	**111**	**34**	**9,868**	**10,013**
TOTAL EQUITY AND LIABILITIES	**186**	**38**	**44,427**	**44,651**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2015

	Electricity	Gas	Other activities and unallocated items	Total
SALES REVENUES	**8,106**	**391**	**2,432**	**10,929**
Costs of goods sold	(7,695)	(373)	(1,944)	(10,012)
GROSS PROFIT ON SALES	**411**	**18**	**488**	**917**
Distribution and selling expenses	(18)	(14)	(5)	(37)
General and administrative expenses	(71)	(3)	(90)	(164)
Other operating income	-	-	8	8
Other operating expenses	-	-	(9)	(9)
OPERATING PROFIT	**322**	**1**	**392**	**715**
Financial income	-	4	1,281	1,285
Financial expenses	-	-	(210)	(210)
PROFIT BEFORE TAX	**322**	**5**	**1,463**	**1,790**
Income tax	-	-	(22)	(22)
NET PROFIT FOR THE REPORTING PERIOD	**322**	**5**	**1,441**	**1,768**

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

	Electricity	Gas	Other activities and unallocated items	Total
NON-CURRENT ASSETS				
Property, plant and equipment	52	3	134	**189**
Intangible assets	3	-	4	**7**
Financial receivables	-	-	6,053	**6,053**
Derivatives	-	-	43	**43**
Shares in subsidiaries	-	-	29,469	**29,469**
Available-for-sale financial assets and shares measured using the equity method	-	-	3	**3**
Deferred tax assets	-	-	24	**24**
	55	**3**	**35,730**	**35,788**
CURRENT ASSETS				
Inventories	-	-	191	191
Income tax receivables	-	-	79	79
Derivatives	-	5	2	7
Trade and other receivables	310	93	640	1,043
Other current assets	250	40	129	419
Cash and cash equivalents	-	-	2,013	2,013
	560	**138**	**3,054**	**3,752**
TOTAL ASSETS	**615**	**141**	**38,784**	**39,540**

IN ACCORDANCE WITH IFRS EU (IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2015

	Electricity	Gas	Other activityies and unallocated items	Razem
Net profit for the reporting period	322	5	1,441	1,768
Other reserves	-	-	31,686	31,686
TOTAL EQUITY	**322**	**5**	**33,127**	**33,454**
NON-CURRENT LIABILITIES				
Non-current provisions	7	-	14	21
Loans, borrowings, bonds, cash-pooling	-	-	4,216	4,216
Derivatives	-	-	43	43
	7	**-**	**4,273**	**4,280**
CURRENT LIABILITIES				
Current provisions	12	1	21	34
Loans, borrowings, bonds, cash pooling	-	-	1,255	1,255
Derivatives - liabilities	-	-	34	34
Trade and other liabilities	90	43	174	307
Other non-financial liabilities	49	2	125	176
	151	**46**	**1,609**	**1,806**
TOTAL LIABILITIES	**158**	**46**	**5,882**	**6,086**
TOTAL EQUITY AND LIABILITIES	**480**	**51**	**39,009**	**39,540**

26. Significant events of the reporting period and subsequent events

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

On September 16, 2016 PGE S.A. together with Energa S.A., Enea S.A. and PGNiG Termika S.A. jointly submitted an initial, non-binding offer for purchase of conventional generation and heat and power plant assets.

Due to the fact that initial offer was applicable until December 2016, PGE Polska Grupa Energetyczna S.A., together with Energa S.A., Enea S.A. and PGNiG Termika S.A. submitted on November 30, 2016 a conditional offer concerning a purchase of EDF's assets to maintain a willingness of further participation in the sale process.

On January 27, 2017 PGE Polska Grupa Energetyczna S.A. together with ENEA S.A., Energa S.A. and PGNiG Termika S.A. signed a Memorandum of Understanding with EDF concerning conducting negotiations to purchase EDF's assets located in Poland and related due diligence procedures.

26.2 Capital investment in Polimex-Mostostal S.A.

On January 18, 2017 PGE S.A. signed the following agreements concerning capital investment in Polimex-Mostostal S.A. („Polimex"):

- investment agreement with ENEA S.A., Energa S.A., PGNiG Technologie S.A. (jointly refered as to "Investors") and Polimex, on the basis of which, subject to conditions precedent specified in the agreement, Investors are obligated to make an investment in Polimex. The investment includes taking up 150,000,000 of series T ordinary shares with a nominal value of PLN 2 each and an issue price of PLN 2 each (" New Shares") issued by Polimex as the increase of share capital of Polimex by up to PLN 300 million (" Investment Agreement"). Under the terms of the Agreement PGE committed to purchase 37,500,000 New Shares at the total issue price amounting to PLN 75 million;
- agreement between Investors, defining the terms of cooperation together with mutual rights and responsibilities oof Investors relating to the investment carried out on the basis of Investment Agreement;
- agreement between Investors and SPV Operator Sp. z o.o. ("SPV Operator") obliging the parties, subject to fulfillment of conditions precedent, to conduct a sale transaction of 6,000,001 Polimex shares by SPV Operator to Investors, whereas PGE obligated to acquire 1,500,001 Polimex shares;
- agreement between Investors and TFS whereby TFS granted Investors, for remuneration, a possibility to acquire Polimex shares provided that TFS realizes conversion right in respect of convertible bonds issued by Polimex. Moreover, TFS has committed not to converse possessed convertible bonds of series A issued by Polimex without prior written request made by Investors.

On January 20, 2017, due to the fulfillment of conditions precedent specified in the Investment Agreement, PGE accepted the offer made by Polimex's Management Board to acquire 37,500,000 series T ordinary shares issued by Polimex with a nominal value of PLN 2 each and an issue price of PLN 2 each and the total issue price of PLN 75 million.

Additionally, on the terms of agreement with SPV Operator and due to the fulfillment of conditions precedent, the Company acquired 1,500,001 Polimex shares from SPV Operator.

On January 18, 2017, President of the Office for Competition and Consumer Protection issued a permission for Investors to take joint control over Polimex.

Due to rights entitled to PGE S.A. under the terms of the aforesaid investments, in the next financial statements Polimex will be treated as a jointly controlled entity, and the investment in Polimex will be recognized under the equity method.

27. Approval of the financial statements

These financial statements were approved for publication by the Management Board on March 7, 2017.

Warsaw, March 7, 2017

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	**Bolesław Jankowski**
Vice-President of the Management Board	**Wojciech Kowalczyk**
Vice-President of the Management Board	**Marek Pastuszko**
Vice-President of the Management Board	**Paweł Śliwa**
Vice-President of the Management Board	**Ryszard Wasiłek**
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