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

ended March 31, 2017
in accordance with IFRS EU (in PLN million)

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for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2017 (not audited)	Period ended March 31, 2016 (not audited)
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	**5,741**	**7,133**
Costs of goods sold	5.2	(4,149)	(5,605)
GROSS PROFIT/(LOSS) ON SALES		**1,592**	**1,528**
Distribution and selling expenses	5.2	(304)	(379)
General and administrative expenses	5.2	(176)	(183)
Other operating income	5.3	132	204
Other operating expenses	5.3	(43)	(47)
OPERATING PROFIT/(LOSS)		**1,201**	**1,123**
Financial income	5.4	114	26
Financial expenses	5.4	(177)	(74)
Share of profit/(loss) of entities accounted for using the equity method	5.5	9	-
PROFIT/(LOSS) BEFORE TAX		**1,147**	**1,075**
Current income tax	7	(139)	(116)
Deferred income tax	7	(45)	(90)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		**963**	**869**
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of financial instruments	16.2	2	-
Valuation of hedging instruments	16.2	(40)	1
Foreign exchange differences from translation of foreign entities		(6)	-
Deferred tax	7	7	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(37)**	**1**
TOTAL COMPREHENSIVE INCOME		**926**	**870**
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		964	870
– non-controlling interests		(1)	(1)
COMPREHENSIVE INCOME ATTRIBUTABLE TO :			
– equity holders of the parent company		927	871
– non-controlling interests		(1)	(1)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		**0.52**	**0.47**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at March 31, 2017 (not audited)	As at December 31, 2016 (audited)	As at March 31, 2016 (not audited)
NON-CURRENT ASSETS				
Property, plant and equipment	*8*	51,378	51,365	48,205
Investment property		26	27	32
Intangible assets	*8*	631	653	916
Financial receivables	*14.1*	245	237	150
Derivatives	*15*	239	356	39
Available-for-sale financial assets		39	37	15
Shares accounted for using the equity method	*10*	550	402	9
Other non-current assets	*13.1*	662	730	956
Deferred tax assets	*11.1*	163	268	222
		53,933	**54,075**	**50,544**
CURRENT ASSETS				
Inventories		1,627	1,596	1,854
CO_2 emission rights for own use	*12*	2,411	2,349	2,325
Income tax receivables		31	19	66
Derivatives	*15*	-	9	8
Trade and other financial receivables	*14.1*	4,271	6,325	4,011
Available-for-sale financial assets		5	4	4
Other current assets	*13.2*	374	416	413
Cash and cash equivalents	*14.2*	4,656	2,669	1,629
Assets classified as held-for-sale		12	12	20
		13,387	**13,399**	**10,330**
TOTAL ASSETS		**67,320**	**67,474**	**60,874**
EQUITY				
Share capital	*16.1*	19,165	19,165	18,698
Hedging reserve	*16.2*	116	147	(20)
Foreign exchange differences from translation of foreign entities		(3)	3	(1)
Reserve capital		13,730	13,730	13,009
Retained earnings		10,599	9,634	9,506
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		**43,607**	**42,679**	**41,192**
Non-controlling interests		93	96	94
TOTAL EQUITY		**43,700**	**42,775**	**41,286**
NON-CURRENT LIABILITIES				
Non-current provisions	*17*	5,056	5,004	6,109
Loans, borrowings, bonds and lease	*18.1*	9,433	9,603	5,124
Derivatives	*15*	37	30	58
Deferred tax liabilities	*11.2*	1,153	1,191	854
Deferred income and government grants		1,097	1,141	1,199
Other financial liabilities	*18.2*	29	33	35
		16,805	**17,002**	**13,379**
CURRENT LIABILITIES				
Current provisions	*17*	2,500	2,181	2,094
Loans, borrowings, bonds and lease	*18.1*	404	411	289
Trade and other financial liabilities	*18.2*	2,726	3,556	2,682
Income tax liabilities		1	6	1
Deferred income and government grants		119	119	116
Other current non-financial liabilities		1,065	1,424	1,027
		6,815	**7,697**	**6,209**
TOTAL LIABILITIES		**23,620**	**24,699**	**19,588**
TOTAL EQUITY AND LIABILITIES		**67,320**	**67,474**	**60,874**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY							
	Share capital	Hedging reserve	Foreign exchange differences from translation of foreign entities	Reserve capital	Retained earnings	Total	Non-controlling interests	Total
Note	*16.1*	*16.2*						
AS AT JANUARY 1, 2016	**18,698**	**(21)**	**(1)**	**13,009**	**8,636**	**40,321**	**96**	**40,417**
Net profit for the reporting period	-	-	-	-	2,568	2,568	(2)	2,566
Other comprehensive income	-	168	4	-	200	372	-	372
COMPREHENSIVE INCOME	**-**	**168**	**4**	**-**	**2,768**	**2,940**	**(2)**	**2,938**
Retained earnings distribution	-	-	-	1,301	(1,301)	-	-	-
Dividend	-	-	-	-	(467)	(467)	(4)	(471)
Increase of the share capital	467	-	-	(467)	-	-	10	10
Tax related to the increase of the share capital	-	-	-	(110)	-	(110)	-	(110)
Acquisition of additional shares in subsidiaries	-	-	-	-	(2)	(2)	(4)	(6)
Other changes	-	-	-	(3)	-	(3)	-	(3)
TRANSACTIONS WITH OWNERS	**467**	**-**	**-**	**721**	**(1,770)**	**(582)**	**2**	**(580)**
DECEMBER 31, 2016	**19,165**	**147**	**3**	**13,730**	**9,634**	**42,679**	**96**	**42,775**
Net profit for the reporting period	-	-	-	-	964	964	(1)	963
Other comprehensive income	-	(31)	(6)	-	-	(37)	-	(37)
COMPREHENSIVE INCOME	**-**	**(31)**	**(6)**	**-**	**964**	**927**	**(1)**	**926**
Acquisition of additional shares in subsidiaries	-	-	-	-	-	-	(1)	(1)
Other changes	-	-	-	-	1	1	(1)	-
TRANSACTIONS WITH OWNERS	**-**	**-**	**-**	**-**	**1**	**1**	**(2)**	**(1)**
MARCH 31, 2017	**19,165**	**116**	**(3)**	**13,730**	**10,599**	**43,607**	**93**	**43,700**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2017 (not audited)	Period ended March 31, 2016 (not audited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**1,147**	**1,075**
Income tax paid		(276)	(82)
Adjustments for:			
Share of profit/ (loss) of entities accounted for using the equity method		(9)	-
Depreciation, amortization, disposal and impairment losses		748	699
Interest and dividend, net		25	24
Profit / loss on investment activities		47	(34)
Change in receivables		130	(266)
Change in inventories		(32)	106
Change in liabilities, excluding loans and borrowings		(409)	(812)
Change in other non-financial assets, prepayments and CO_2 emission rights		(59)	15
Change in provisions		352	325
Other		(27)	18
NET CASH FROM OPERATING ACTIVITIES		**1,637**	**1,068**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangible assets		(1,631)	(2,522)
Deposits with a maturity over 3 months		(108)	(205)
Termination of deposits over 3 months		2,392	194
Acquisition of financial assets and increase in shareholding in the PGE Group companies		(143)	9
Acquisition / disposal of subsidiaries, net after deduction of cash acquired / disposed of		(97)	-
Interest received		10	-
Other		2	2
NET CASH FROM INVESTING ACTIVITIES		**425**	**(2,522)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of non-controlling interests		-	12
Repayment of loans, borrowings, bonds and finance lease		(23)	(33)
Interest paid		(55)	(7)
Received subsidies for non-current assets		-	8
Other		(2)	-
NET CASH FROM FINANCING ACTIVITIES		**(80)**	**(20)**
CHANGE IN CASH AND CASH EQUIVALENTS		**1,982**	**(1,474)**
Effect of movements in exchange rates on cash held		(3)	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	*14.2*	**2,666**	**3,101**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	*14.2*	**4,648**	**1,627**
Restricted cash		64	388

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

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

1. General information

1.1 Information about the parent company

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

As at January 1, 2017 the composition of the Company's Management Board was as follows:

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

On February 13, 2017 the Supervisory Board dismissed all members of the Management Board as of February 13, 2017. At the same time, the Supervisory Board adopted resolutions on appointment to the Management Board of the tenth term of office as from February 14, 2017 of Mr. Henryk Baranowski, entrusting him the position of the President of the Management Board nad Mr. Bolesław Jankowski, Mr. Wojciech Kowalczyk, Mr. Marek Pastuszko, Mr. Paweł Śliwa, Mr. Ryszard Wasiłek and Mr. Emil Wojtowicz for positions of Vice-Presidents of the Management Board.

As at March 31, 2017 and the date of publication of these financial statements the composition of the Company's Management Board is as follows:

- **Henryk Baranowski** – 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** – Vice-President of the Management Board.

Separate quarterly report of PGE S.A.

Starting from the first quarter of 2017, the parent company no longer publishes a separate quarterly report, instead being included as part of the consolidated quarterly report. This is possible under § 83 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state. (Dziennik Ustaw of 2014, item 133, as amended) and PGE S.A. had declared that it would use this option in current report 3/2017 of January 23, 2017.

In connection with this, note 25 to these consolidated financial statements contains quarterly financial information for PGE S.A.

Ownership structure

As at March 31, 2017 the ownership structure of the parent company is as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2016	57.39%	42.61%	100.00%
As at March 31, 2017	57.39%	42.61%	100.00%

Ownership structure for particular reporting dates was presented in accordance with all information obtained and available for 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.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

1.2 Information about the PGE Group

PGE Polska Grupa Energetyczna S.A. Group ("PGE Capital Group", "PGE Group", the "Group", "CG PGE") comprises the parent company PGE Polska Grupa Energetyczna S.A., 50 consolidated subsidiaries, 3 associates and 1 jointly controlled entity. As described in note 22.4, in the current period the Group gained significant influence on Polimex-Mostostal S.A. and consolidates this company under the equity method. For additional information about subsidiaries included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of the PGE Group comprise financial data for the period from January 1, 2017 to March 31, 2017 (the "financial statements", the "consolidated financial statements") and include comparative data for the period from January 1, 2016 to March 31, 2016 and as at December 31, 2016.

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

Core operations of the PGE Group companies are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail sale of electricity, energy origin rights, CO2 emission rights and gas,
- production and distribution of heat,
- rendering of other services related to the above mentioned activities.

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

Going concern

These consolidated financial statements were prepared under the assumption that the Group companies will continue to operate as a going concern in the foreseeable future. As at the date of the approval of these consolidated financial statements, there is no evidence indicating that the significant Group companies will not be able to continue its business activities as a going concern. In these financial statements, the accounting rules (policy) and calculation methods are the same as the ones applied in the latest annual financial statements and they shall be read in conjunction with the audited consolidated financial statements of PGE S.A. for the year ended December 31, 2016.

1.3 Structure of the PGE Group

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

	Entity	Entity holding shares	Share of the Group entities as at March 31, 2017	Share of the Group entities as at December 31, 2016
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	The parent company		
2.	PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
	SEGMENT: CONVENTIONAL GENERATION			
6.	PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A.	99.99%	99.98%
7.	ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
8.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10.	„ELMEN" sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11.	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
12.	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

	Entity	Entity holding shares	Share of the Group entities as at March 31, 2017	Share of the Group entities as at December 31, 2016
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
16.	EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
17.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
18.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%
	SEGMENT: RENEWABLES			
19.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
20.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
21.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
22.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
23.	PGE Energia Natury sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
24.	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
25.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER OPERATIONS			
26.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
27.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	EXATEL S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	-	100.00%
28.	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
29.	PGE Obsługa Księgowo-Kadrowa sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
30.	„Elbest" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
31.	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
32.	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
33.	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34.	PGE Inwest 6 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35.	PGE Inwest 7 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

	Entity	Entity holding shares	Share of the Group entities as at March 31, 2017	Share of the Group entities as at December 31, 2016
41.	PGE Inwest 13 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43.	PGE Nowa Energia sp. z o.o. *(dawniej PGE Inwest 15 sp. z o.o.)* Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45.	PGE Inwest 17 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46.	PGE Inwest 18 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	-
48.	PGE Towarzystwo Funduszy Inwestycyjnych S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	ENERGO-TEL S.A. Warsaw	EXATEL S.A.	-	100.00%
49.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
50.	Przedsiębiorstwo Transportowo-Usługowe „ETRA” sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
51.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

The table above includes the following changes in the structure of the PGE Group companies subject to full consolidation which took place during the period ended March 31, 2017:

- On February 1, 2017, PGE Polska Grupa Energetyczna S.A. formed PGE Inwest 19 sp. z o.o. On February 24, 2017, this company was registered at the National Court Register.
- On March 29, 2017, an agreement to sell 100% of shares of Exatel S.A. was signed. With the sale of the stake in Exatel S.A., the Group lost control over its subsidiary ENERGO-TEL S.A.

2. Basis for preparation of the financial statements

2.1 Statement of compliance

These financial statements were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and in the scope required under the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state. (Dziennik Ustaw of 2014, item 133, as amended).

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

2.2 Presentation and functional currency

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

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

	March 31, 2017	December 31, 2016	March 31, 2016
USD	3.9455	4.1793	3.7590
EUR	4.2198	4.4240	4.2684

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

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, 2017:

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 with explanations to IFRS 15*	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 IFRS9 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 1, 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 PGE Group intends to adopt the above mentioned new standards, amendments to standards and interpretations published by the International Accounting Standards Board but not yet effective at the reporting date, when they become effective.

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

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 are intended to allow the 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 calculating 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 PGE Group the standard should not have significant influence on the reported financial results.

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.

Analysis of the impact of the standard indicates that changes may concern mainly the following areas:

- revenues from connection to the distribution network. Currently, revenues from connection fees are recognized at one time when they become due i.e. at the moment of connection. The new standard may change principles of revenue recognition from connection to the distribution network and related expenses depending on the final output of dependency analysis between connection agreement and distribution agreement concluded with the same client;
- acting as an intermediary in respect of selected, separate services and goods offered to clients on the basis of electricity or gas sale agreement, or distribution agreement. The change may result in a decrease of sales revenues and related expenses, but it will not affect the reported profit or loss;
- extending the scope of disclosures related to sales revenues.

Apart from the possible impact of changes in recognition of revenues and expenses resulting from connection to distribution network, the implementation of the standard should not significantly influence the Group's financial statements. Analysis of the impact of the standard has not been finished yet.

MSSF 16 *Lease*

The new standard changes principles for the recognition of contracts which meet the criteria of a 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 a lease will be recognized as a 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.

The PGE Group is in the process of analysis of IFRS 16's impact on the future financial statements.

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

2.4 Professional judgment of management and estimates

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

- In previous reporting periods, the Group recognised impairment losses on asset, including property, plant and equipment. During the present reporting period, the Group did not identify indications that would justify impairment tests or the reversal of impairment losses recognised in previous periods. Estimates regarding the recoverable value of property, plant and equipment are based on a number of assumptions, the fruition of which in the future is uncertain and is largely beyond PGE Group's control. The Group adopted the most appropriate values and amounts, however it cannot be ruled out that the actual figures will differ from the Group's assumptions.
- Provisions are liabilities of uncertain timing or amount. During the reporting period, PGE Group changed estimations regarding the basis and amounts of some provisions. Changes of estimations are presented in note 17 of these financial statements.
- The Group's estimates of compensation related to early termination of long-term contracts for sale of capacity and electricity resulting in recognition of related revenues and receivables are based on appropriate, in the Group's opinion, interpretation of the Act dated June 29, 2007 on the principles for coverage of costs incurred due to early termination of long-term contracts for sales of capacity and electricity (Official Journal from 2007, No. 130, item 905) ("the LTC Act"), the anticipated outcome of disputes with the President of the Energy Regulatory Office and on a number of significant assumptions to the factors, some of which are outside the control of the Group.

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

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3. Fair value hierarchy

The principles for valuation of inventories, derivatives, stocks, shares and instruments not quoted on active markets, for which fair value may not be determined reliably, are the same as presented in the financial statements for the year ended December 31, 2016.

	As at March 31, 2017		As at December 31, 2016	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
CO_2 emission rights	-	-	29	-
Inventories	**-**	**-**	**29**	**-**
Currency forward	-	-	-	1
Commodity forward	-	-	-	8
CCIRS valuation	-	81	-	231
IRS valuation	-	98	-	125
Derivatives - options	-	60	-	-
Financial assets	**-**	**239**	**-**	**365**
IRS valuation	-	37	-	30
Financial liabilities	**-**	**37**	**-**	**30**

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.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO THE OPERATING SEGMENTS

4. Information on operating segments

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

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

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

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

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

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

Seasonality of business segments

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 PGE Group.

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.

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

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

4.1 Information on business segments

Information on business segments for the period ended March 31, 2017

	Conventional Generation	Renewables	Supply	Distribution	Other operations	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	1,344	160	3,562	566	101	8	5,741
Sales revenues from inter-segment transactions	1,820	32	391	1,077	71	(3,391)	-
TOTAL SEGMENT REVENUES	**3,164**	**192**	**3,953**	**1,643**	**172**	**(3,383)**	**5,741**
Costs of goods sold	(2,380)	(148)	(3,391)	(1,250)	(163)	3,183	**(4,149)**
EBIT *)	**630**	**25**	**237**	**326**	**(21)**	**4**	**1,201**
Financial income / (expenses), net							(63)
Share of profit/(loss) of entities under the equity method							9
PROFIT/(LOSS) BEFORE TAX							**1,147**
Income tax							(184)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							**963**
Depreciation, amortization, disposal and impairment losses recognized in profit or loss	362	66	6	292	33	(12)	747
EBITDA **)	**992**	**91**	**243**	**618**	**12**	**(8)**	**1,948**
ASSETS AND LIABILITIES							
Assets excluding trade receivables	36,274	3,521	1,016	16,540	541	(783)	57,109
Trade receivables	827	110	2,553	792	50	(1,830)	2,502
Shares accounted for under the equity method							550
Unallocated assets							7,159
TOTAL ASSETS							**67,320**
Liabilities excluding trade liabilities	8,394	350	1,089	1,744	76	142	11,795
Trade liabilities	552	26	1,761	237	13	(1,792)	797
Unallocated liabilities							11,028
TOTAL LIABILITIES							**23,620**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	788	12	3	263	33	(11)	1,088
Impairment allowances on financial and non-financial assets	83	-	4	4	-	-	91
Other non-monetary expenses ***)	495	8	216	31	8	-	758

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortization, disposal and impairment losses (PPE, IA, goodwill) that are recognized in profit or loss

***) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO_2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

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

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

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortization, disposal and impairment losses (PPE, IA, goodwill) that are recognized in profit or loss

***) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO_2 emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

5. Revenues and expenses

5.1 Sales revenues

	Period ended March 31, 2017	Period ended March 31, 2016
SALES REVENUES		
Sales of merchandise and finished goods with excise tax	*5,743*	*7,001*
Excise tax	*(125)*	*(126)*
Revenues from sale of merchandise and finished goods, including:	**5,618**	**6,875**
Sale of electricity	3,221	4,678
Sale of distribution services	1,574	1,433
Sale of heat	285	283
Sale of energy origin rights	158	185
Regulatory system services	147	137
Sale of gas	146	73
Others sale of merchandise and materials	87	86
Revenues from sale of services	**123**	**128**
Revenues from LTC compensations	**-**	**130**
TOTAL SALES REVENUES	**5,741**	**7,133**

The decrease in revenues from sale of electricity in the period ended March 31, 2017 as compared to the analogical period of the previous year is mainly due to lower so called „power exchange obligation" and lower average price of electricity sold. Lowering of the power exchange obligation as of 2017 resulted in higher electricity volumes traded directly between PGE Group companies. Those transaction are eliminated in the consolidated financial statements.

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

5.2 Cost by nature and function

	Period ended March 31, 2017	Period ended March 31, 2016
COST BY NATURE		
Depreciation, amortization, disposal and impairment losses	778	731
Materials and energy	758	840
External services	671	593
Taxes and charges	863	811
Employee benefits expenses	1,098	1,117
Other cost by nature	53	63
TOTAL COST BY NATURE	**4,221**	**4,155**
Change in inventories	(18)	(29)
Cost of products and services for the entity's own needs	(190)	(264)
Distribution and selling expenses	(304)	(379)
General and administrative expenses	(176)	(183)
Cost of merchandise and materials sold	616	2,305
COST OF GOODS SOLD	**4,149**	**5,605**

Decrease in Cost of merchandise and materials sold (mainly electricity purchased) in the period ended March 31, 2017 as compared to the analogical period of the previous year is mainly due to decreased revenues from electricity sale that is described above.

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5.2.1 Depreciation, amortization, disposal and impairment losses

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

Period ended March 31, 2017	Depreciation, amortization and disposal			Impairment losses		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	707	21	**728**	7	-	**7**
Distribution and selling expenses	3	1	**4**	-	-	**-**
General and administrative expenses	5	3	**8**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES REFLECTED IN FINANCIAL RESULT	**715**	**25**	**740**	**7**	**-**	**7**
Cost of products and services for the entity's own needs	31	-	**31**	-	-	**-**
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	**746**	**25**	**771**	**7**	**-**	**7**

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

5.3 Other operating income and expenses

	Period ended March 31, 2017	Period ended March 31, 2016
OTHER OPERATING INCOME		
Adjustment of revenues from LTC compensations	75	148
Reversal of other provisions	15	15
Penalties, fines and compensations received	13	10
Grants received	7	7
Reversal of impairment allowances on receivables	3	6
Property, plant and equipment, intangible assets received free of charge	3	3
Revenues from illegal energy consumption	2	2
Profit on disposal of property, plant and equipment / intangible assets	1	1
Compensation for legal proceedings' costs	1	-
Tax refund	1	4
Other	11	8
TOTAL OTHER OPERATING INCOME	**132**	**204**

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

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

	Period ended March 31, 2017	Period ended March 31, 2016
OTHER OPERATING EXPENSES		
Recognition of impairment allowances on receivables	9	12
Donations granted	8	-
Recognition of other provisions	7	18
Compensations	5	2
Liquidation of damages / breakdowns	4	3
Legal proceedings' costs	2	2
Liquidation of property, plant and equipment and intangible assets associated with other operations	1	1
Other	7	9
TOTAL OTHER OPERATING EXPENSES	**43**	**47**

5.4 Financial income and expenses

	Period ended March 31, 2017	Period ended March 31, 2016
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Interest	26	12
Revaluation of financial instruments	54	1
Foreign exchange gains	32	12
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS	**112**	**25**
OTHER FINANCIAL INCOME		
Interest on statutory receivables	1	-
Reversal of provisions	-	1
Other	1	-
OTHER FINANCIAL INCOME	**2**	**1**
TOTAL FINANCIAL INCOME	**114**	**26**

The Group recognizes interest income primarily on cash and receivables.

The increase in the item 'Revaluation of financial instruments' is mainly caused by the valuation of an option to purchase Polimex shares.

	Period ended March 31, 2017	Period ended March 31, 2016
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS		
Interest	34	24
Revaluation of financial instruments	4	5
Loss on investment disposal	92	-
Impairment loss	2	1
Foreign exchange losses	2	-
FINANCIAL EXPENSES FROM FINANCIAL INSTRUMENTS	**134**	**30**
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	42	44
Other	1	-
OTHER FINANCIAL EXPENSES	**43**	**44**
TOTAL FINANCIAL EXPENSES	**177**	**74**

Interest expense relates mainly to issued bonds, loans and borrowings. Interest expense (unwinding of the discount) on non-financial items relates mainly to rehabilitation provision and provisions for employee benefits.

Loss on investment disposal in amount of PLN 92 million results from sale of shares of EXATEL S.A.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

5.5 Share of profit of associates and entities jointly controlled accounted for under the equity method

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	17.14%	16.48%	25.00%	34.93%
PERIOD ENDED MARCH 31, 2017				
Revenues	1,633	545	-	5
Result from continuing operations	56	16	-	1
Share of profit of associates and jointly controlled entities	**10**	**3**	-	-
Elimination of unrealized transactions	(4)	-	-	-
SHARE OF PROFIT OF ASSOCIATES AND ENTITIES JOINTLY CONTROLLED	**6**	**3**	**-**	**-**

The Group made a consolidation adjustment related to the margin of coal sale between Polska Grupa Górnicza and the Group.

Purchase of shares in Polimex Mostostal is described in more details in note 22.4 of these financial statements.

6. Impairment allowances on assets

	Period ended March 31, 2017	Period ended March 31, 2016
IMPAIRMENT ALLOWANCES ON PROPERTY, PLANT AND EQUIPMENT		
Impairment allowances raised	7	8
IMPAIRMENT ALLOWANCES ON INTANGIBLE ASSETS		
Impairment allowances raised	-	1
IMPAIRMENT ALLOWANCES ON INVENTORIES		
Impairment allowances raised	3	12
Impairment allowances reversed	1	6

7. Tax in the statement of comprehensive income

Main elements of income tax expense for the periods ended March 31, 2017 and March 31, 2016 are as follows:

	Period ended March 31, 2017	Period ended March 31, 2016
INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	138	102
Previous periods current income tax adjustments	1	14
Deferred income tax	45	90
INCOME TAX EXPENSE PRESENTED IN THE STATEMENT OF PROFIT OR LOSS	**184**	**206**
INCOME TAX PRESENTED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	(7)	-
TAX BENEFIT RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**(7)**	**-**

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

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EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8. Significant additions and disposals of property, plant and equipment

During the reporting period, the PGE Group purchased property, plant and equipment and intangible assets of a total amount of PLN 1,088 million. The most significant capital expenditures were incurred by the Conventional Generation segment (PLN 788 million), Distribution segment (PLN 263 million). The main investment projects were: construction of power units 5-6 at the Elektrownia Opole (Power Plant Opole) (PLN 440 million), construction of power unit 11 at the Elektrownia Turów (PLN 43 million) and construction of gas and steam unit at the Gorzów CHP (PLN 42 million).

In the reporting period the Group disposed 100% shares in Exatel S.A. With the sale of the stake in Exatel S.A., the Group lost control over its subsidiary ENERGO-TEL S.A. As a result of these value of prooerty, plant and equipment and intangible assets of the Group decreased by PLN 340 million.

9. Future investment commitments

As at March 31, 2017 the PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 8,516 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and purchase of machinery and equipment.

	As at March 31, 2017	As at December 31, 2016 *data restated*
Conventional Generation	7,218	7,647
Distribution	1,064	796
Renewables	39	38
Supply	3	2
Other operations	192	201
TOTAL FUTURE INVESTMENT COMMITMENTS	**8,516**	**8,684**

The most significant future investment commitments concern:

- Conventional Generation:
  - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 2,408 million,
  - Branch Turów Power Plant – contract for construction of new power unit – approximately PLN 3,112 million,
  - Branch Turów Power Plant – modernization of power units no. 1-3 – approximately PLN 596 million,
  - Branch Rzeszów Heat and Power Plant – construction of Thermal Processing Installation with Energy Recovery – approximately PLN 265 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,064 million,
- Other operations, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – basic scope PLN 183 million. Optional scope of the agreement amounts to approximately PLN 1,101 million.

10. Shares in associates and entities jointly controlled accounted for under the equity method

	As at March 31, 2017	As at December 31, 2016
Polska Grupa Górnicza Sp. z o.o.	456	391
Polimex Mostostal S.A.	83	-
ElectroMobility Poland S.A.	3	3
PEC Bogatynia Sp. z o.o.	8	8
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	**550**	**402**

The Group is currently working on allocating the purchase price paid for Polimex. Because of this, the investment is recognised in PGE Group's consolidated financial statements for the first quarter of 2017 at purchase price adjusted by equity method measurement during the period in which significant influence was exerted on Polimex-Mostostal Group. The purchase of shares in Polimex-Mostostal S.A. is described in more detail in note 22.4 of these financial statements.

New investment agreement regarding Polska Grupa Górnicza is described in note 22.2.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

11. Deferred tax in the statement of financial position

11.1 Deferred tax asset

	As at March 31, 2017	As at December 31, 2016
Difference between tax value and carrying amount of property, plant and equipment	1,532	1,559
Difference between tax value and carrying amount of financial assets	14	16
Difference between tax value and carrying amount of liabilities	240	272
Difference between tax value and carrying amount of inventories	15	15
LTC compensations	251	253
Rehabilitation provision	481	472
Provision for CO_2 emission rights	286	220
Provisions for employee benefits	525	529
Other provisions	120	129
Energy infrastructure acquired free of charge and connection payments received	118	129
Other	24	15
DEFERRED TAX ASSET	**3,606**	**3,609**

11.2 Deferred tax liability

	As at March 31, 2017	As at December 31, 2016
Difference between tax value and carrying amount of property, plant and equipment	3,035	2,945
Difference between tax value and carrying amount of energy origin units	61	65
Difference between tax value and carrying amount of financial assets	345	377
CO_2 emission rights	451	439
LTC compensations	689	680
Other	15	26
DEFERRED TAX LIABILITY	**4,596**	**4,532**

AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFFERED TAX IS PRESENTED AS:		
Deferred tax asset	163	268
Deferred tax liability	(1,153)	(1,191)

12. CO_2 emission rights for captive use

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

In September 2016 PGE Capital Group submitted subsequent reports on the implementation of the investments in order to obtain new units for CO_2 emission concerning energy produced. They were issued in April 2017 and will be used to cover the emission of CO_2 for 2016 (approximately 19 million EUAs).

In case of EUA for CO_2 emission related to the heat produced, the allocation schedule is different – In February 2017 EUA were granted, that will be used to cover CO_2 emission for 2017 (approximately 750 thousand of EUA).

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EUA	As at March 31, 2017 Amount (Mg million)	As at March 31, 2017 Value	As at December 31, 2016 Amount (Mg million)	As at December 31, 2016 Value
AS AT JANUARY 1	**85**	**2,349**	**77**	**2,172**
Purchase	3	62	40	937
Granted free of charge	1	-	26	-
Redemption	-	-	(58)	(760)
AS AT THE REPORTING DATE	**89**	**2,411**	**85**	**2,349**

13. Other current and non-current assets

13.1 Other non-current assets

	As at March 31, 2017	As at December 31, 2016
Advances for construction in progress	650	713
Other non-current assets	12	17
OTHER ASSETS, TOTAL	**662**	**730**

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

13.2 Other current assets

	As at March 31, 2017	As at December 31, 2016
PREPAYMENTS		
Fees, agency commission	52	34
Perpetual usufruct of land fee	12	-
Fees for devices positioning and for occupancy of the Right of Way	9	-
IT services	6	6
Property and tort insurance	6	2
Fees for the exclusion of land from agricultural production / forestry	4	4
Concessions	4	-
Other prepayments	35	21
OTHER CURRENT ASSETS		
VAT receivables	188	222
Excise tax receivables	39	100
Advances for deliveries	5	6
Other current assets	14	21
OTHER ASSETS, TOTAL	**374**	**416**

Fees and commissions include agency commissions, fees for the use of mining and commissions on loan. Other prepayments include inter alia so called energy infrastructure collision costs, services, licences and Long term contracts.

The amount of excise tax receivables regards the exemption from excise tax of electricity generated from renewable energy sources on the basis of a document confirming the redemption of the certificate of origin.

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14. Selected financial assets

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

14.1 Trade and other financial receivables

	As at March 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,502	-	2,705
LTC compensations	-	1,318	-	1,241
Debt securities including bonds	89	-	89	-
Deposits	146	2	136	2,300
Bails and security deposits	1	7	2	12
Other financial receivables	9	442	10	67
TOTAL FINANCIAL RECEIVABLES	**245**	**4,271**	**237**	**6,325**

Other financial receivables include receivables from sale of financial assets – sale of shares of Exatel S.A. (PLN 369 million).

14.2 Cash and cash equivalents

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

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

	As at March 31, 2017	As at December 31, 2016
Cash on hand and cash at bank	641	808
Overnight deposits	99	42
Short-term deposits	3,916	1,819
TOTAL	**4,656**	**2,669**
Interest accrued on cash, not received at the reporting date	(7)	(2)
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	**4,648**	**2,666**
including restricted cash	*64*	*107*
Undrawn borrowing facilities	6,081	6,081
including overdraft facilities	*2,001*	*2,001*

For detailed description of credit agreements please refer to note 18.1 of these financial statements.

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

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

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15. Derivatives

	As at March 31, 2017		As at December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
FINANCIAL INSTRUMENTS AT FAIR VALUE				
Currency forward	-	-	1	-
Commodity forward	-	-	8	-
IRS transactions	-	37	-	30
Options	60	-	-	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	81	-	231	
IRS hedging transactions	98	-	125	
TOTAL DERIVATIVES	**239**	**37**	**365**	**30**
current	-	-	9	-
non-current	239	37	356	30

Options

On January 20, 2017 PGE S.A. purchased Call option for purchase of shares of Polimex-Mostostal S.A.

IRS transactions

In the current reporting period PGE S.A. concluded IRS transaction, hedging the interest rate on loans taken with a nominal value of PLN 500 million. The Company applies hedge accounting to the above IRS transaction. The impact of hedge accounting was described in note 16.2 of these financial statements.

In 2016 PGE S.A. concluded IRS transactions, hedging the interest rate on loans taken with a total nominal value of PLN 4,630 million. The Company applies hedge accounting to the above IRS transactions. The impact of hedge accounting was described in note 16.2 of these financial statements.

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

In 2003, Elektrownia Turów S.A. (currently a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) concluded IRS hedge transactions. These transactions are aimed to hedge variable interest rates (USD LIBOR 6m) on investment credits of USD 30, 40 and 80 million taken from Nordic Investment Bank to finance investments in Turów power plant. Changes in fair value of IRS transaction are fully recognized in profit or loss.

CCIRS hedging transaction

In connection with loans received from PGE Sweden AB (publ), 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. In the consolidated financial statements the relevant part of CCIRS transactions is recognized as a hedge of bonds issued by PGE Sweden AB (publ).

The Group applies hedge accounting to the above CCIRS transactions. The impact of hedge accounting is presented in note 16.2 of these financial statements.

16. Equity

The basic assumption of the Group's policy regarding equity management is to maintain an optimal equity structure over the long term in order to assure a good financial standing and secure equity structure ratios that would support the operating activity of 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 Group.

16.1 Share capital

	As at March 31, 2017	As at December 31, 2016
1,470,576,500 Series A ordinary Shares with a nominal value of PLN 10.25 each	15,073	15,073
259,513,500 Series B ordinary Shares with a nominal value of PLN 10.25 each	2,660	2,660
73,228,888 Series C ordinary Shares with a nominal value of PLN 10.25 each	751	751
66,441,941 Series D ordinary Shares with a nominal value of PLN 10.25 each	681	681
TOTAL SHARE CAPITAL	**19,165**	**19,165**

All shares of the Company are paid up.

After the reporting date until the date of preparation of these financial statements, there have been no changes to the Company's share capital.

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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 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 resulted in an actual threat to the operation continuity or integrity of the critical infrastructure. The objection is expressed in the form of an administrative decision.

16.2 Hedging reserve

	Period ended March 31, 2017	Year ended December 31, 2016
AS AT JANUARY 1	**147**	**(21)**
Change of hedging reserve	**(38)**	**207**
Valuation of hedging instruments, including:	**(40)**	**206**
Deferral of changes in fair value of hedging instruments recognized as an effective hedge	*(184)*	*313*
Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense	*11*	*1*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognized in the result on foreign exchange differences	*134*	*(107)*
Ineffective portion of change in fair value of hedging derivatives recognized in profit or loss	*(1)*	*(1)*
Valuation of other financial instruments	**2**	**1**
Deferred tax	**7**	**(39)**
HEDGING RESERVE INCLUDING DEFERRED TAX	**116**	**147**

Hedging reserve includes mainly valuation of hedging instruments to which cash flow hedge accounting is applied.

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16.3 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the year ended		
	March 31, 2017	December 31, 2016	December 31, 2015
CASH DIVIDENDS FROM ORDINARY SHARES			
Dividend paid from retained earnings	-	-	467
Cash dividends per share (in PLN)	**-**	**-**	**0.25**

Dividend from the profit for the year 2017

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

Dividend from the profit for the year 2016

In accordance with the updated dividend policy, the Management Board of the Company intends to recommend to the General Meeting of the Company allocation of whole net profit for year 2016 to the reserve capital. Until the preparation date of these financial statements, the General Meeting approving the financial statements and distribution of the profit has not been held.

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.

17. Provisions

The carrying amount of provisions is as follows:

	As at March 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Employee benefits	2,156	567	2,148	543
Rehabilitation provision	2,715	4	2,666	4
Provision for deficit of CO_2 emission rights	-	1,503	-	1,154
Provision for energy origin units held for redemption	-	357	-	416
Provision for non-contractual use of the property	81	11	91	12
Other provisions	104	58	99	52
TOTAL PROVISIONS	**5,056**	**2,500**	**5,004**	**2,181**

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provision for energy origin units held for redemption	Provision for non-contractual use of the property	Other provisions	Total
JANUARY 1, 2017	**2,691**	**2,670**	**1,154**	**416**	**103**	**151**	**7,185**
Current service costs	16	-	-	-	-	-	16
Interest costs	20	22	-	-	-	-	42
Benefits paid / provisions used	(176)	-	-	(257)	-	(5)	(438)
Provisions reversed	(8)	-	-	(13)	(16)	(1)	(38)
Provisions raised in correspondence with costs	197	8	349	211	5	11	781
Provisions raised in correspondence with property, plant and equipment	-	18	-	-	-	-	18
Changes in the PGE Group	(8)	-	-	-	-	(4)	(12)
Other changes	(9)	1	-	-	-	10	2
MARCH 31, 2017	**2,723**	**2,719**	**1,503**	**357**	**92**	**162**	**7,556**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

	Employee benefits	Rehabilitation provision	Provision for deficit of CO_2 emission rights	Provision for energy origin units held for redemption	Provision for non-contractual use of the property	Other provisions	Total
JANUARY 1, 2016	**3,013**	**3,350**	**760**	**380**	**117**	**233**	**7,853**
Actuarial gains and losses excluding discount rate adjustment	(175)	-	-	-	-	-	(175)
Current service costs	74	-	-	-	-	-	74
Past service costs	(23)	-	-	-	-	-	(23)
Interest costs	82	99	-	-	-	-	181
Discount rate and other assumptions adjustment	(121)	(460)	-	-	-	-	(581)
Benefits paid / provisions used	(691)	(1)	(760)	(336)	-	(104)	(1,892)
Provisions reversed	(59)	(449)	-	(3)	(30)	(27)	(568)
Provisions raised in correspondence with costs	577	34	1,154	375	16	67	2,223
Provisions raised in correspondence with property, plant and equipment	-	92	-	-	-	-	92
Other changes	14	5	-	-	-	(18)	1
DECEMBER 31, 2016	**2,691**	**2,670**	**1,154**	**416**	**103**	**151**	**7,185**

17.1 Provision for employee benefits

The PGE Group companies raise provisions for:

- post-employment benefits – PLN 1,579 million (PLN 1,570 million as at December 31, 2016),
- jubilee awards – PLN 791 million (PLN 788 million as at December 31, 2016),
- other benefits (bonuses, unused annual holiday leave, etc.) – PLN 353 million (PLN 333 million as at December 31, 2016).

17.2 Rehabilitation provision

Provision for rehabilitation of post-exploitation mining properties

After the completion of the lignite mining, the area of the surface mines belonging to the PGE Group will be rehabilitated. According to the current plans, costs will be incurred in the years 2023 - 2069 (in case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Bełchatów Lignite Mine) and in the years 2045-2087 (in case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Turów Lignite Mine)

The PGE Group creates provision for rehabilitation of post-exploitation mining properties. The amount of the provision recognized in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at March 31, 2017 amounted to PLN 2,411 million and as at December 31, 2016 to PLN 2,366 million.

Provision for rehabilitation of ash storages

The PGE Group power generating units raise provisions for rehabilitation of ash storages. As at the reporting date the provision amounted to PLN 100 million and as at December 31, 2016 the provision amounted to PLN 98 million.

Provisions for rehabilitation of post-construction grounds of wind farms

The companies which own wind farms create provision for rehabilitation of post-construction grounds of wind farms. As at the reporting date the provision amounted to PLN 50 million and as at December 31, 2016 the provision amounted to PLN 49 million.

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from „The integrated permission for running electric energy and heat energy producing installation" in which the restitution of the area was specified. As at the reporting date, the value of the provision amounts to PLN 158 million (PLN 157 million as at December 31, 2016) and refers to some assets of the Conventional Generation and Renewables segments.

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17.3 Provision for deficit of CO_2 emission rights

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

17.4 Provision for energy origin rights held for redemption

Companies within the PGE Group create provision for energy origin rights related to sale realized during the reporting period or in prior reporting periods, in the amount of non-depreciated part until the reporting date. The total value of provision as at March 31, 2017 amounted to PLN 357 million (PLN 416 million in the comparative period) and was created mainly by PGE Obrót S.A.

17.5 Provision for non-contractual use of property

Entities of the PGE Group recognize provision for damages related to a non-contractual use of property. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 92 million (of which 44 million relate to litigations). In the comparative period the value of the provision amounted to PLN 103 million (of which PLN 43 million related to litigations).

17.6 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 91 million (PLN 90 million in the previous year).

18. Financial liabilities

18.1 Loans, borrowings, bonds and lease

	As at March 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,778	328	5,839	332
Bonds issued	3,655	76	3,764	78
Lease	-	-	-	1
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	**9,433**	**404**	**9,603**	**411**

Loans and borrowings

Among loans and borrowings presented above as at March 31, 2017, the PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) to finance construction of 858 MW power unit in Bełchatów Power Plant of PLN 544 million;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordycki Bank Inwestycyjny (Nordic Investment Bank) and UBS Investment Bank AG to finance the modernization of power units no. 1-6 in Turów Power Plant in the total amount of PLN 95 million;
- investment credit facilities taken out by PGE S.A. from Bank Gospodarstwa Krajowego S.A. of PLN 1,511 million;
- 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., Bank Polska Kasa Opieki S.A. concluded on September 7, 2015. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility and revolving loan facility. As at March 31, 2017 PGE S.A. used the whole term loan facility of PLN 3,630 million.
  The revolving loan facility of up to PLN 1,870 million is available, but not used by the Company.

Additionally, on October 27, 2015, PGE S.A. 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 in 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 March 31, 2017 the aforesaid loans were not used.

The value of overdraft facilities at the disposal of the significant PGE Group's companies amounted to PLN 2,001 million as at March 31, 2017.

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Bonds issued

The Group 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. On June 27, 2013, the first non-public issuance of 5-year bonds under this program took place, the coupon bearer bonds with a variable interest rate. The nominal value of the issue was PLN 1 billion and the maturity of the bonds is June 27, 2018. On August 29, 2013, the bonds were floated in the Alternative Trading System organized by BondSpot S.A. and Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange).
- The medium term Eurobonds Issue Program of EUR 2 billion established on May 22, 2014 by PGE S.A. together with PGE Sweden AB (publ), a 100% subsidiary of PGE S.A. Under the Program, PGE Sweden AB (publ) may issue eurobonds up to the amount of EUR 2 billion with a minimum maturity of 1 year. On June 9, 2014, PGE Sweden AB (publ) issued Eurobonds in the total amount of EUR 500 million and a five year maturity and on August, 1 2014 it has issued bonds in the amount of EUR 138 million and fifteen year maturity.

18.2 Trade and other financial liabilities

	As at March 31, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade liabilities	-	797	-	976
Purchase of property, plant and equipment and intangible assets	6	591	12	1,225
Bails and security deposits received	23	60	21	65
Liabilities related to LTC	-	1,246	-	1,253
Other	-	32	-	37
TRADE AND OTHER FINANCIAL LIABILITIES	**29**	**2,726**	**33**	**3,556**

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OTHER EXPLANATORY NOTES

19. Contingent liabilities and receivables. Legal claims

19.1 Contingent liabilities

	As at March 31, 2017	As at December 31, 2016
Contingent return of grants from environmental funds	471	469
Contingent return of CO_2 emission rights received free of charge	111	115
Legal claims	110	73
Employees' claims	2	1
Contractual fines and penalties	12	12
Other contingent liabilities	51	61
TOTAL CONTINGENT LIABILITIES	**757**	**731**

Contingent return of grants from environmental funds

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

Contingent return of CO_2 emission rights received free of charge

The contingent liability results from the risk of a return of the equivalent of CO_2 emission rights (including interest) balanced in 2013 and 2014 by capital expenditures that may not obtain the approval of compliance indicators.

Legal claims

The contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons made a claim for payment of PLN 59 million due to the claimant in the claimant's opinion, and for the return of the amount that in the claimant's opinion was unduly collected by PGE EJ 1 sp. z o.o. from a bank guarantee. PGE EJ 1 sp. z o.o. filed a response to the lawsuit. Moreover, the value of the claims mentioned in the WorleyParsons' lawsuit of PLN 54 million has been included in a request for payment of PLN 92 million related to termination of the agreement, that was filed by WorleyParsons on March 13, 2015. On March 24, 2017, PGE EJ 1 sp. z o.o. received a procedural document expanding the action being brought by WorleyParsons from PLN 59 million to approx. PLN 104 million (i.e. by PLN 45 million). It is possible that WorleyParsons will file another claim amounting to PLN 32 million representing the difference in amount of claims from the demand for payment of March 13, 2015 and the expanded claim of March 24, 2017. The company does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to contractual fines and penalties

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

Other contingent liabilities

Other contingent liabilities comprise the value of potential claim from WorleyParsons of PLN 32 million, which was described above and not balanced transactions for purchase and sale of electricity on the domestic market at the total amount of PLN 15 million.

19.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 17.5 of these financial statements the PGE Group recognizes provision for disputes under court proceedings, concerning non-contractual use of properties utilized for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will grow in the future.

Contractual liabilities related to purchase of fuels

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

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

19.3 Contingent receivables

As at the reporting date, the PGE Group do not have any significant contingent receivables.

19.4 Other legal claims and disputes

The issue of compensation regarding the 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. 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 response to the claim and currently the legal proceeding in the first instance is pending.

In addition, company Pozwy sp. z o.o., the company which bought claims of former shareholders of PGE Elektrownia Opole S.A., submitted a similar claim. Through an action brought to the District Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. (the "Defendants"), Pozwy sp. z o.o. seeks a ruling on the payment by the Defendants, on in solidum terms, or alternatively jointly, to Pozwy sp. z o.o. of compensation amounting to over PLN 260 million, together with interest, for the allegedly improper (according to Pozwy sp. z o.o.) calculation of parity ratio for the exchange of PGE Elektrownia Opole S.A. shares for PGE GiEK S.A. in the process of merging these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for a reply to the lawsuit is established by the court as July 9, 2017.

The companies from the Group do not accept the claims of Socrates Investment S.A., Pozwy sp. z o.o. and of the other shareholders filing for a pre-trial settlement. In the opinion of PGE S.A. the claims are unfounded and the whole consolidation process was executed in fair and proper manner. The value of the shares of companies subject to the mergers was assessed by the independent company - PwC Polska sp. z o.o. Additionally, plans of the above mentioned companies' merger, including the exchange ratios with respect to shares 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.

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

Claims for annulment of the resolutions of the General Meetings

On April 1, 2014 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolutions 1, 2 and 4 of the Extraordinary General Meeting of the Company held on February 6, 2014. The Company filed response to the claim. On June 22, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The shareholder appealed against that verdict and the Company filed reply to that appeal. The Court of Appeal in Warsaw dismissed the case because the petition was withdrawn without the waiver of claims.

On August 21, 2015 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 5 of the Ordinary General Meeting of the Company held on June 24, 2015. On September 21, 2015 the Company filed response to the claim. The District Court in Warsaw dismissed the shareholder's claim in the verdict published on April 26, 2016. On April 3, 2017 the shareholder filed an appeal. With the verdict of April 18, 2017 the District Court rejected the appeal, due to failing to meet the deadline for submission thereof.

On September 17, 2014 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 4 of the Ordinary General Meeting of the Company held on June 6, 2014. The Company filed response to the claim. On August 13, 2015 the District Court in Warsaw dismissed in full the shareholder's claim. The shareholder appealed against that verdict and the Company filed reply to that appeal. With the verdict of March 2, 2017 the Court of Appeal in Warsaw dismissed the shareholder's appeal.

On October 23, 2015 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 Meeting of the Company held on September 14, 2015. The Company filed response to the claim. The trial before the court was held on April 24, 2017. With the verdict of May 8, 2017 the court dismissed the shareholder's claim.

On May 20, 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 Meeting of the Company held on March 1, 2016. The Company filed response to the claim. The proceeding was dismissed through a ruling of March 14, 2017 as a result of the claim being withdrawn prior to the hearing.

On September 12, 2016 PGE S.A. received a copy of lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Ordinary General Meeting of the Company held on June 28, 2016. The Company filed response to the claim. The proceeding was dismissed through a ruling of March 17, 2017 as a result of the claim being withdrawn prior to the hearing.

On December 30, 2016 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 Meeting of the Company held on September 5, 2016. The Company filed response to the claim. The proceeding was dismissed through a ruling of March 16, 2017 as a result of the claim being withdrawn prior to the hearing.

On March 15, 2017 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 4 of the Extraordinary General Meeting of the Company held on September 5, 2016. The Company filed response to the claim.

Termination of long-term contracts for purchase of energy origin rights by Enea S.A.

On October 28, 2016 and October 31, 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. received from Enea S.A. termination of long-term contracts for purchase of renewable energy origin rights, so called "green certificates".

In the opinion of the PGE Group, notices of termination of contracts presented by Enea S.A. were filled in with a violation of terms of the agreements. The companies took appropriate steps to enforce their rights. In particular, in the opinion of the Management Board of PGE GiEK S.A. the termination of the contract by Enea S.A. is ineffective and against the earlier agreement between the parties (a letter of intent) and on that ground PGE GiEK S.A. will demand compensation for termination of the long-term contract.

Estimated volume of the green certificates, covered by the contracts with Enea S.A., amounts to approximately 3,115 thousand MWh. The above amount was calculated for the period from December 2016 (i.e. the month from which Enea S.A. stopped purchasing of green certificates - after taking into account the notice period) until the initial maturity dates of the contracts.

Additionally, PGE Górnictwo i Energetyka Konwencjonalna S.A. is a part to the dispute with ENEA S.A. in connection to damage resulting from inadequate (according to ENEA) execution of agreement for sales of energy origin rights by not participating in renegotiations of the agreement within a contract procedure. In PGE GiEK S.A.'s opinion, there is no reasonable basis to acknowledge ENEA S.A.'s viewpoint that inadequate execution of any contractual obligations by PGE GiEK S.A. occured. Therefore, the Company does not accept the claim in principle, nor the amount. ENEA S.A. disagrees with the opinion of PGE GiEK S.A. and thus it deducted the amount of its claim from its liabilities to PGE GiEK S.A. As at the date of preparation of these financial statements the dispute is in mediation proceedings. The disputed amount is PLN 42 million.

20. Tax settlements

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

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

Basic tax rates were as follows in 2017: corporate income tax rate – 19%, for small entrepreneurs 15% tax rate is possible, basic value added tax rate – 23%, lowered: 8%, 5%, 0%, furthermore some goods and products are subject to the tax exemption.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

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

Tax Capital Group

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

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

Real estate tax

Considering pending disputes the PGE Group established at the reporting date the provision for property tax in the amount of PLN 91 million. The provision relates mainly to tax proceedings with regard to property tax in selected power plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and detached technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various stages of tax authorities proceedings, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

21. Information on related parties

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

21.1 Associates and jointly controlled entities

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

	Period ended March 31, 2017	Period ended March 31, 2016
Sales to associates and jointly controlled entities	3	3
Purchases from associates and jointly controlled entities	413	-
	As at March 31, 2017	**As at December 31, 2016**
Trade receivables from associates and jointly controlled entities	1	41
Trade liabilities to associates and jointly controlled entities	72	16

The increase in turnover and balances results from the inclusion of Polska Grupa Górnicza sp. z o.o. and Polimex-Mostostal S.A. in these financial statements.

21.2 Subsidiaries of the State Treasury

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

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

	Period ended March 31, 2017	Period ended March 31, 2016
Sales to related parties	556	623
Purchases from related parties	1,046	835
	As at March 31, 2017	**As at December 31, 2016**
Trade receivables from related parties	236	313
Trade liabilities to related parties	387	418

The largest transactions with State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A., Enea S.A., ENERGA-OBRÓT S.A., Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A. and purchases of coal from Polish mines.

Moreover, the PGE Group 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.

On March 29, 2017 an agreement for sale of 100% shares of Exatel S.A. to the State Treasury was signed. Sale and receivable from this title in amount of PLN 369 million are not presented in the above tables.

21.3 Management personnel remuneration

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

PLN thousand	Period ended March 31, 2017	Period ended March 31, 2016
Short-term employee benefits (salaries and salary related costs)	9,750	7,054
Post-employment and termination benefits	854	5,456
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**10,604**	**12,510**
Remuneration of key management personnel of entities of non-core operations	3,830	2,412
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**14,434**	**14,922**

PLN thousand	Period ended March 31, 2017	Period ended March 31, 2016
Management Board of the parent company, including:	2,322	3,907
Post-employment benefits	*20*	*2,382*
Supervisory Board of the parent company	215	103
Management Boards – subsidiaries	7,359	8,018
Supervisory Boards – subsidiaries	708	482
TOTAL	**10,604**	**12,510**
Remuneration of key management personnel of entities of non-core operations	3,830	2,412
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	**14,434**	**14,922**

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

22. Significant events of the reporting period and subsequent events

22.1 Termination of long-term contracts (LTC)

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

Table: Key data relating to PGE Group generators subject to the LTC Act.

Generator	**LTC maturity**	**Maximum amount of stranded and additional costs (in PLN million)**
Turów Power Plant	2016	2,571
Opole Power Plant	2012	1,966
ZEDO	2010	633
Lublin Wrotków CHP	2010	617
Rzeszów CHP	2012	422
Gorzów CHP	2009	108
TOTAL		**6,317**

In the period provided for by the LTC Act, i.e. till December 31, 2007, PGE S.A. signed LTC termination agreements with generators being parties to the then applicable LTCs. Therefore generators obtained a right to receive funds to cover their stranded costs.

An adjustment period for PGE GiEK S.A. producers covered by the compensation system ended in December 2016.

On April 5, 2017, PGE GiEK S.A. received information about the initiation of a proceeding regarding the amount of annual adjustment of stranded costs for 2016. On April 10, 2017, PGE GiEK S.A. received information about the initiation of a proceeding regarding the amount of final adjustment of stranded costs.

According to the provisions of the LTC Act, the process of establishing the annual adjustment of stranded costs for 2016 should be completed by July 31, 2017, while the process of establishing the final adjustment of stranded costs by August 31, 2017. If no disagreements arise in these processes, decisions issued by the President of the Energy Regulatory Office will conclude the participation of PGE GiEK S.A. producers in the compensation system.

Decisions of the ERO President and disputes within realisation of the LTC Act

Until the date of preparation of these financial statements, producers received decisions on annual adjustments of stranded costs and costs generated in gas-fired units for the years 2008-2015. In part, these decisions were unfavourable for the particular branches, and, in the opinion of the company, were issued in violation of the LTC Act. In consequence, since 2009, a number of proceedings have been pending before the District Court in Warsaw - Competition and Consumer Protection Court ("CCP Court") and before the Court of Appeal, regarding appeals of power generators against the Decision of the President of the Energy Regulatory Office ("ERO President"). As at the date of preparation of these financial statements, majority of the proceedings are conducted before the Supreme Court.

In the period from 2009 to the date on which these financial statements were prepared:

- 19 court cases were initiated by PGE GiEK S.A., including: (i) regarding unfavourable decisions relating to the amounts of annual adjustments for stranded costs – 14 cases, (ii) regarding unfavourable decisions relating to the amounts of annual adjustments for gas costs – 5 cases
- 8 cases were concluded positively for PGE GiEK S.A.; 4 cases were won by the President of the Energy Regulatory Office; 7 cases were partially favourable to PGE GiEK S.A.

During the reporting period and until the date of preparation of these financial statements, the following events took place regarding annual adjustments of stranded costs and costs generated in gas-fired units:

- On January 10, 2017 the Supreme Court: (i) refused to accept for examination the cassation appeal of PGE GiEK S.A. against the judgement of the Court of Appeal concerning the determination of annual adjustment of stranded costs for Branch ZEDO for 2008. The verdict ended the proceeding in that case, (ii) overruled judgement of the Court of Appeal regarding the determination of annual adjustment of stranded costs for Branch Gorzów CHP for 2009. The case was submitted for re-examination by the Court of Appeal.
- On January 26, 2017 the Supreme Court issued an alter decision concerning: (i) the annual adjustment of stranded costs for Branch Lublin Wrotków CHP for 2008 in which it determined its value at approx. PLN (+) 9 million. As a result, PGE GiEK S.A. returned to Zarządca Rozliczeń S.A. the amount of approx. PLN 1 million, (ii) the annual adjustment for stranded costs for Branch Rzeszów CHP for 2009, in which it determined its value at PLN 0. As a result, PGE GiEK S.A. returned to Zarządca Rozliczeń S.A. the amount of approx. PLN 7 million.
- On March 14, 2017 the Supreme Court, as a result of examination of a cassation appeal by the ERO President issued a verdict in case of the settlement of value of annual adjustment of the stranded costs for 2008 for Opole Power Plant, in which the Supreme Court set the amount of annual adjustment of LTC compensations for approximately PLN (+) 129 million. As a result of the above verdict, PGE GiEK S.A. returned approximately PLN 6 million to Zarządca Rozliczeń S.A.
- On April 11, 2017, the Court of Appeal issued a ruling in the case of a refusal to issue a decision on a final adjustment for Gorzów CHP, which was in line with the position of PGE GiEK S.A., through which: (i) it annulled the contested ruling by the Court for Competition and Consumer Protection in its entirety and (ii) dismissed the proceeding in this case. This ruling ended the proceeding in this case.
- On April 27, 2017 the Court of Appeal in Warsaw issued a verdict in case of the settlement of value of annual adjustment of the stranded costs for 2009 for Branch Lublin Wrotków CHP, in which it determined its value at PLN 0. As a result, PGE GiEK S.A. will receive from Zarządca Rozliczeń S.A. the amount of PLN 61 million. The verdict is final and binding, however the ERO President is entitled to file a cassation appeal with the Supreme Court.

Effect on the financial statements for the period ended March 31, 2017

In the financial statements for the period ended March 31, 2017, the PGE Group did not recognise revenues from LTC compensations in sales revenues due to the termination of the adjustment period in December 2016.

The Court of Appeal's verdict in case of Branch Lublin Wrotków CHP resulted in recognition of LTC adjustment of PLN 75 million in the financial statements for the period ended March 31, 2017. The above adjustment is presented in the statement of comprehensive income in other operating income.

The value of disputes in all cases relating to the years 2008 – 2012 amounts to PLN 1,660 million, including the value of disputes favourably resolved for PGE Group by the Court of Appeal and a favourable final judgment by the CCP Court in the amount of PLN 1,544 million.

22.2 Capital investment in Polska Grupa Górnicza sp. z o.o.

On March 31, 2017 PGE GiEK S.A. signed the investment agreement determining the conditions of the financial investment (the "Investment") in Polska Grupa Górnicza Sp. z o.o. ("PGG")(the "Investment") (the "Investment Agreement").

The parties of the Investment Agreement are PGE GiEK S.A., Enea S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A., Węglokoks S.A., Towarzystwo Finansowe Silesia sp. z o.o., Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (jointly referred later to as the "Investors") and PGG. The Investment Agreement provides that PGG will acquire selected mining assets from Katowicki Holding Węglowy S.A. ("KHW") on the ground of the promised contract, which was signed on April 1, 2017.
The Investment Agreement determines method of investment, operating rules of PGG and its bodies, as well as rules for withdrawal from the Investment. The Investment Agreement assumes recapitalisation of PGG in three stages by PGE GiEK, Enea S.A., ENERGA Kogeneracja sp. z o.o., PGNiG TERMIKA S.A. and Towarzystwo Finansowe Silesia sp. z o.o. with total amount of PLN 1 billion.

Within the recapitalisation of PGG, PGE GiEK committed itself to acquire new shares of PGG with a total nominal value of PLN 100 million in exchange for the cash contribution in amount of PLN 100 million, in three tranches:

- within the first tranche PGE GiEK S.A. will acquire new shares in PGG in exchange for the cash contribution in amount of PLN 50 million. Recapitalisation within the first tranche took place on April 6, 2017,
- within the second tranche in June 2017 PGE GiEK S.A. will acquire new shares in PGG in exchange for the cash contribution in amount of PLN 20 million,
- within the third tranche in the first quarter of 2018 PGE GiEK S.A. will acquire new shares in PGG in exchange for the cash contribution in amount of PLN 30 million.

After acquisition of the above mentioned shares, PGE GiEK S.A. will have 15.3% in the share capital of PGG in comparison to 17.1% as at March 31, 2017.

The Investment Agreement determines the rules for appointing the Supervisory Board members, according to which each Investor and the State Treasury will be entitled to appoint one member in the Supervisory Board which will consist of up to 8 members.

22.3 Submission of offer for acquisition of EDF assets in Poland

In September 2016 PGE Polska Grupa Energetyczna S.A., Energa S.A., Enea S.A., and PGNiG Termika S.A. jointly submitted to EDF an initial, non-binding offer for purchase of conventional generation and heat and power plant assets. In next months of 2016 and 2017 the transaction related works continued.

On May 11, 2017 PGE and EDF International SAS and EDF Investment II B.V. (jointly "EDF") have signed Put Option Agreement (the "POA") regarding the sale of EDF assets in Poland. PGE - previously declaring 60% share in the transaction to be executed with business partners - currently is acting as the sole bidder in the transaction and has committed to individually buy assets of EDF in Poland, including:

- acquisition of all shares held by EDF in EDF Polska S.A., which is the owner of in particular: 4 CHPs i.e. Kraków, Gdańsk, Gdynia and Toruń, district heating network in Toruń and Rybnik power plant, and
- acquisition of all shares of EDF in Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A., which is the owner of 4 CHPs i.e. Wrocław, Zielona Góra, Czechnica and Zawidawie and district heating network in Zielona Góra, Siechnica and Zawidawie.

POA's terms provide EDF with the option to call PGE to sign the Share sale agreement for the above mentioned assets, provided that certain conditions are met, including inter alia EDF's corporate approvals for the sale transaction.

Share sale agreement shall be signed no later than July 26, 2017.

22.4 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 with PGE S.A. referred 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 of 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 a number of 1,500,001 aforesaid shares;
- agreement between Investors and Towarzystwo Finansowe Silesia ("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 S.A. 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, on January 20, 2017 due to the fulfillment of conditions precedent from the Investment Agreement, the Company acquired 1,500,001 Polimex shares from SPV Operator.

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

On March 21, 2017, the investors announced a tender offer to subscribe for the sale of Polimex shares in quantity sufficient to exceed the 66% threshold of voting rights pursuant to art. 73 sec. 2 of the Act of July 29, 2005, on public offerings and the terms for introducing financial instruments to an organised trading system and on public companies, as a result of which PGE will be able to purchase 42,102 shares of Polimex at the price of PLN 4.90. On March 28, 2017, the investors adjusted their price proposed in the tender offer from PLN 4.90 to PLN 4.91 per one share of Polimex. The settlement by the National Depository of Securities (KDPW) of purchase of shares under the tender offer took place on April 28, 2017. As a result of the tender offer PGE S.A. acuired 24 shares and currently holds 39,000,025 shares representing 16.48% of the share capital of Polimex and entitling to 16.48% of total votes at the General Meeting of Polimex.

The investment agreement gives the investors influence over Polimex's financial and operating policies. These entitlements are exercised by the Supervisory Board. Under the agreement, the Supervisory Board will consist of three members, indicated by the investors. Moreover, the investors signed an agreement regarding the investment in Polimex ("Agreement"). The aim of the Agreement is to ensure greater control over Polimex. The investors together hold a majority stake in Polimex's voting rights (66%). The Agreement addresses issues such as agreeing, by vote, of a joint position in making key decisions at General Meeting and Supervisory Board level, including the composition of Polimex's Management Board.

Given the investors' entitlements mentioned above, which provide for significant influence, the stake in Polimex was classified as associate accounted for under the equity method.

The Group is currently working on allocating the purchase price paid for Polimex in accordance with IFRS 3. Because of this, the investment in PGE Group's consolidated financial statements for the first quarter of 2017 is recognised at purchase price adjusted by stake of the Group in Polimex, not including possible adjustments bringing assets and liabilities to the fair values.

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

23. Quarterly financial information on PGE Polska Grupa Energetyczna S.A.

STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2017 (not audited)	Period ended March 31, 2016 (not audited)
STATEMENT OF PROFIT OR LOSS		
SALES REVENUES	**2,400**	**2,821**
Costs of goods sold	(2,196)	(2,584)
GROSS PROFIT ON SALES	**204**	**237**
Distribution and selling expenses	(5)	(14)
General and administrative expenses	(35)	(34)
Other operating income	-	1
Other operating expenses	(7)	(1)
OPERATING PROFIT	**157**	**189**
Financial income	135	1,080
Financial expenses	(143)	(55)
PROFIT BEFORE TAX	**149**	**1,214**
Current income tax	29	(33)
Deferred income tax	(3)	4
NET PROFIT FOR THE REPORTING PERIOD	**175**	**1,185**
OTHER COMPREHENSIVE INCOME		
Items, which may be reclassified to profit or loss, including:		
Valuation of hedging instruments	(38)	-
Deferred tax	7	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	**(31)**	**-**
TOTAL COMPREHENSIVE INCOME	**144**	**1,185**
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)	**0.09**	**0.63**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

STATEMENT OF FINANCIAL POSITION

	As at March 31, 2017 (not audited)	As at December 31, 2016 (audited)
NON-CURRENT ASSETS		
Property, plant and equipment	182	186
Intangible assets	4	5
Financial receivables	9,453	8,848
Derivatives	239	356
Available-for-sale financial assets and shares measured using the equity method	87	6
Shares in subsidiaries	29,287	29,678
	39,252	**39,079**
CURRENT ASSETS		
Inventories	39	76
Trade and other receivables	1,577	3,474
Derivatives	-	9
Other current assets	96	81
Income tax receivables	19	-
Cash and cash equivalents	4,104	1,932
	5,835	**5,572**
TOTAL ASSETS	**45,087**	**44,651**
EQUITY		
Share capital	19,165	19,165
Hedging reserve	118	149
Reserve capital	13,730	13,730
Retained earnings	1,770	1,594
	34,783	**34,638**
NON-CURRENT LIABILITIES		
Non-current provisions	22	22
Loans, borrowings, bonds, cash pooling	8,722	8,854
Derivatives	31	23
Deferred tax liabilities	29	33
	8,804	**8,932**
CURRENT LIABILITIES		
Current provisions	35	30
Loans, borrowings, bonds, cash pooling	834	704
Derivatives	-	-
Trade and other liabilities	582	189
Income tax liabilities	-	4
Other current non-financial liabilities	49	154
	1,500	**1,081**
TOTAL LIABILITIES	**10,304**	**10,013**
TOTAL EQUITY AND LIABILITIES	**45,087**	**44,651**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Hedging reserve	Reserve capital	Retained earnings	Total equity
AS AT JANUARY 1, 2016	**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**
Net profit for the reporting period	-			175	**175**
Other comprehensive income	-	(31)	-	-	**(31)**
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**(31)**	**-**	**175**	**144**
Other changes	-	-	-	1	**1**
AS AT MARCH 31, 2017	**19,165**	**118**	**13,730**	**1,770**	**34,783**

for the 3-month period ended March 31, 2017 in accordance with IFRS EU (in PLN million)

STATEMENT OF CASH FLOWS

	Period ended March 31, 2017 (not audited)	Period ended March 31, 2016 (not audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**149**	**1,214**
Income tax paid	(121)	62
Adjustments for:		
Depreciation, amortization and impairment losses	4	4
Interest and dividend, net	4	(1,015)
Profit / loss on investment activities	17	(32)
Change in receivables	(114)	171
Change in inventories	37	96
Change in liabilities, excluding loans and borrowings	372	(125)
Change in other non-financial assets	28	9
Change in provisions	4	1
Other	-	(1)
NET CASH FROM OPERATING ACTIVITIES	**380**	**384**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment and intangible assets	(1)	(2)
Redemption of bonds issued within the PGE Group	-	1,070
Acquisition of bonds issued within the PGE Group	(550)	(2,120)
Acquisition of shares in subsidiaries	-	(15)
Acquisition of other financial assets	(88)	-
Deposits with a maturity over 3 months	(50)	-
Termination of deposits over 3 months	2,340	-
Loans granted under cash pooling agreement	-	(663)
Other loans granted	(25)	(16)
Interest received	12	3
NET CASH FROM INVESTING ACTIVITIES	**1,638**	**(1,743)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from cash pooling	211	-
Interest paid	(62)	(18)
Other	(1)	(1)
NET CASH FROM FINANCING ACTIVITIES	**148**	**(19)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**2,166**	**(1,378)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,930**	**2,010**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**4,096**	**632**

24. Approval of the financial statements

These consolidated financial statements, including quarterly standalone financial information, were approved for publication by the Management Board of the parent company on May 11, 2017.

Warsaw, May 11 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