

***PGE Polska Grupa Energetyczna S.A.
Condensed interim consolidated
financial statements
for the 6-month period***

ended June 30, 2017

in accordance with IFRS EU (in PLN million)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2017 (reviewed)	Period ended June 30, 2016 (reviewed)
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	5.1	10,620	13,666
Cost of goods sold	5.2	(7,872)	(11,822)
GROSS PROFIT/(LOSS) ON SALES		2,748	1,844
Distribution and selling expenses	5.2	(600)	(727)
General and administrative expenses	5.2	(345)	(399)
Other operating income	5.3	202	325
Other operating expenses	5.3	(73)	(91)
OPERATING PROFIT/(LOSS)		1,932	952
Financial income	5.4	144	49
Financial expenses	5.4	(266)	(204)
Share of profit/(loss) of entities accounted for under the equity method	5.5	1	(42)
PROFIT/(LOSS) BEFORE TAX		1,811	755
Current income tax	7	(248)	(227)
Deferred income tax	7	(68)	15
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD		1,495	543
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments	16.2	(72)	40
Foreign exchange differences from translation of foreign entities		(6)	4
Deferred tax	7	14	(8)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		(64)	36
TOTAL COMPREHENSIVE INCOME		1,431	579
NET PROFIT/(LOSS) ATTRIBUTABLE TO:			
– equity holders of the parent company		1,497	546
– non-controlling interests		(2)	(3)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		1,433	582
– non-controlling interests		(2)	(3)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		0.80	0.29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2017 (reviewed)	As at December 31, 2016 (audited)	As at June 30, 2016 (reviewed)
NON-CURRENT ASSETS				
Property, plant and equipment	8	52,095	51,365	48,833
Investment property		26	27	31
Intangible assets	8	645	653	635
Financial receivables	14.1	245	237	148
Derivatives	15	209	356	197
Available-for-sale financial assets		37	37	15
Shares in entities accounted for under the equity method	10	615	402	327
Other non-current assets	13.1	609	730	909
Deferred tax assets	11.1	253	268	253
		54,734	54,075	51,348
CURRENT ASSETS				
Inventories		1,693	1,596	1,799
CO ₂ emission rights for own use	12	1,406	2,349	1,888
Income tax receivables		13	19	15
Derivatives	15	-	9	16
Trade and other financial receivables	14.1	3,689	6,325	3,705
Available-for-sale financial assets		5	4	4
Other current assets	13.2	460	416	473
Cash and cash equivalents	14.2	5,117	2,669	1,712
Assets classified as held-for-sale		12	12	20
		12,395	13,399	9,632
TOTAL ASSETS		67,129	67,474	60,980
EQUITY				
Share capital	16.1	19,165	19,165	18,698
Hedging reserve	16.2	89	147	11
Foreign exchange differences from translation		(3)	3	3
Reserve capital		15,328	13,730	14,310
Retained earnings		9,535	9,634	7,412
EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY		44,114	42,679	40,434
Non-controlling interests		88	96	88
TOTAL EQUITY		44,202	42,775	40,522
NON-CURRENT LIABILITIES				
Non-current provisions	17	5,106	5,004	6,185
Loans, borrowings, bonds and lease	18.1	8,368	9,603	5,638
Derivatives	15	29	30	51
Deferred tax liabilities	11.2	1,260	1,191	786
Deferred income and government grants		1,077	1,141	1,180
Other financial liabilities	18.2	28	33	22
		15,868	17,002	13,862
CURRENT LIABILITIES				
Current provisions	17	1,751	2,181	1,841
Loans, borrowings, bonds and lease	18.1	1,392	411	308
Trade and other financial liabilities	18.2	2,686	3,556	2,830
Income tax liabilities		28	6	14
Deferred income and government grants		114	119	121
Other current non-financial liabilities		1,088	1,424	1,482
		7,059	7,697	6,596
TOTAL LIABILITIES		22,927	24,699	20,458
TOTAL EQUITY AND LIABILITIES		67,129	67,474	60,980

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EQUITY ATTRIBUTED TO EQUITY HOLDERS OF THE PARENT COMPANY

	Share capital	Hedging reserve	Foreign exchange differences from translation	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 share capital	467	-	-	(467)	-	-	10	10
Tax on increase of 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)
AS AT DECEMBER 31, 2016	19,165	147	3	13,730	9,634	42,679	96	42,775
Net profit for the reporting period	-	-	-	-	1,497	1,497	(2)	1,495
Other comprehensive income	-	(58)	(6)	-	-	(64)	-	(64)
COMPREHENSIVE INCOME	-	(58)	(6)	-	1,497	1,433	(2)	1,431
Retained earnings distribution	-	-	-	1,598	(1,598)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Acquisition of additional shares in subsidiaries	-	-	-	-	2	2	(3)	(1)
Other changes	-	-	-	-	-	-	(1)	(1)
TRANSACTIONS WITH OWNERS	-	-	-	1,598	(1,596)	2	(6)	(4)
AS AT JUNE 30, 2017	19,165	89	(3)	15,328	9,535	44,114	88	44,202

	Share capital	Hedging reserve	Foreign exchange differences from translation	Reserve capital	Retained earnings	TOTAL	Non-controlling interests	TOTAL
Nota	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	-	-	-	-	546	546	(3)	543
Other comprehensive income	-	32	4	-	-	36	-	36
COMPREHENSIVE INCOME	-	32	4	-	546	582	(3)	579
Retained earnings distribution	-	-	-	1,301	(1,301)	-	-	-
Dividend	-	-	-	-	(467)	(467)	(4)	(471)
Acquisition of additional shares in subsidiaries	-	-	-	-	(1)	(1)	(2)	(3)
Other changes	-	-	-	-	(1)	(1)	1	-
TRANSACTIONS WITH OWNERS	-	-	-	1,301	(1,770)	(469)	(5)	(474)
AS AT JUNE 30, 2016	18,698	11	3	14,310	7,412	40,434	88	40,522

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period ended June 30, 2017 (reviewed)	Period ended June 30, 2016 (reviewed)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before tax	1,811	755
Income tax paid	(340)	(129)
Adjustments for:		
Share of profit of associates consolidated under the equity method	(1)	42
Depreciation, amortization, disposal and impairment losses	1,513	2,192
Interest and dividend, net	65	63
Profit / loss on investment activities	43	(57)
Change in receivables	348	47
Change in inventories	(99)	152
Change in liabilities, excluding loans and borrowings	(465)	(710)
Change in other non-financial assets, prepayments and CO ₂ emission rights	830	348
Change in provisions	(367)	115
Other	(56)	39
NET CASH FROM OPERATING ACTIVITIES	3,282	2,857
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	(2,948)	(4,228)
Deposits with a maturity over 3 months	(202)	(524)
Termination of deposits over 3 months	2,485	513
Acquisition of financial assets / increase in shareholding in the PGE Group companies	(218)	(382)
Acquisition /proceeds from sales of subsidiaries after deduction of acquired/returned cash	272	-
Interest received	10	-
Other	10	20
NET CASH FROM INVESTING ACTIVITIES	(591)	(4,601)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings and issue of bonds	8	510
Repayment of loans, borrowings, bonds and finance lease	(91)	(98)
Interest paid	(156)	(103)
Grants received for non-current assets	-	48
Other	(3)	(3)
NET CASH FROM FINANCING ACTIVITIES	(242)	354
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,449	(1,390)
Effect of movements in exchange rates on cash held	(3)	1
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,666	3,101
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5,115	1,711
Restricted cash	82	216

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

1. General information

1.1 Information about the parent company

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

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

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

On February 13, 2017 the Supervisory Board recalled all Members of the Company's Management Board effective from February 13, 2017. At the same time, the Supervisory Board appointed the following persons to the 10th term of the Management Board effective from February 14, 2017: Mr. Henryk Baranowski entrusting him the position of the President of the Management Board, Mr. Bolesław Jankowski, Mr. Wojciech Kowalczyk, Mr. Marek Pastuszko, Mr. Paweł Śliwa, Mr. Ryszard Wasilek and Mr. Emil Wojtowicz entrusting them the positions of Vice-Presidents of the Management Board.

As at June 30, 2017 the composition of the Company's Management Board was as follows:

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

On June 20, 2017 Mr. Bolesław Jankowski submitted his resignation form the Management Board effective from July 1, 2017.

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

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

Separate half-year report of PGE S.A.

Starting from the first half of 2017 the separate half-year report of PGE S.A. is included as a part of a condensed half-year report. This possibility results from § 83 of the Minister of Finance Regulation of February 19, 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal 2014, item 133, with amendments) and PGE S.A. declared that it will use this possibility in current report no. 3/2017 dated January 23, 2017.

Therefore, note 23 of these consolidated financial statements includes the half-year condensed separate financial statements of PGE S.A.

Ownership structure

As at June 30, 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 June 30, 2017	57.39%	42.61%	100.00%

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

According to information available in the Company as at the date of publication of these financial statements the sole shareholder who holds at least 5% of votes at the General Meeting of PGE S.A. is the State Treasury.

1.2 Information about the PGE Group

PGE Polska Grupa Energetyczna S.A. Group („PGE Capital Group”, „PGE Group”, „Group”, „CG PGE”) comprises the parent company PGE Polska Grupa Energetyczna S.A., 50 subsidiaries, 3 associates and 1 joint arrangement. As described in note 22.4, in the current period, the Group gained significant influence on Polimex-Mostostal S.A. and accounts for 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 June 30, 2017 („financial statements”, „consolidated financial statements”) and include comparative data for the period from January 1, 2016 to June 30, 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 significant 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. The foregoing financial statements are prepared based on the same accounting principles (policy) and methods of computation as compared with the most recent annual financial statements. These financial statements are to be read together with the audited consolidated financial statements of the PGE Group 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 companies, consolidated directly and indirectly:

Entity	Entity holding shares	Share of the Group entities as at June 30, 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.	100.00%	99.98%
7. ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

	Entity	Entity holding shares	Share of the Group entities as at June 30, 2017	Share of the Group entities as at December 31, 2016
8.	MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
9.	MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10.	„ELMEN” sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
11.	Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
12.	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS” sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
13.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
14.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
15.	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	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 Ciepłej 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%

Entity	Entity holding shares	Share of the Group entities as at June 30, 2017	Share of the Group entities as at December 31, 2016
34. PGE Centrum sp. z o.o. (formerly PGE Inwest 6 sp. z o.o.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
35. PGE Ventures sp. z o.o. (formerly 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%
41. PGE Inwest 13 S.A. 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. (formerly 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-Uslugowe „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 reporting period ended June 30, 2017:

- On February 1, 2017 PGE Polska Grupa Energetyczna S.A. set up a company named PGE Inwest 19 sp. z o.o. which was registered in the National Court Register on February 24, 2017,
- On March 29, 2017 PGE S.A. concluded agreement for sale of 100% shares of EXATEL S.A. Together with the sale of shares of 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 Minister of Finance Regulation of February 19, 2009 on current and periodic information provided by issuers of securities and conditions of recognition as equivalent information required by the law of a non-Member State (Official Journal 2014, item 133, with amendments).

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:

	June 30, 2017	December 31, 2016	June 30, 2016
USD	3.7062	4.1793	3.9803
EUR	4.2265	4.4240	4.4255

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 <i>Financial Instruments</i>	Changes to the classification and measurement requirements – replacement of the existing categories of financial instruments with the two following categories: measured at amortized cost and at fair value. Changes to hedge accounting.	January 1, 2018
IFRS 14 <i>Regulatory Deferral Accounts</i>	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
IFRS 15 <i>Revenue from Contracts with Customers</i> 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 <i>Lease</i>	The standard eliminates the classification of leases as either operating or finance lease in the lessee’s accounts. All contracts which meet the criteria of lease will be recognized as finance lease.	January 1, 2019
Amendments to IAS 12	Clarification of the method of deferred tax asset settlement on unrealized losses.	January 1, 2017
Amendments to IAS 7	The initiative on changes to disclosures.	January 1, 2017
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Has not been determined
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
Amendments to IFRS 4	Application of IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts	January 1, 2018
Annual improvements to IFRS (cycle 2014-2016)	A collection of amendments dealing with: IFRS 1 – elimination of short-term exemption for entities using IFRS for the first time; IFRS 12 – clarification of the scope of disclosure requirements; IAS 28 – valuation of entities, in which an investment has been made, at fair value through profit or loss or using an individual method.	January 1, 2018/ January 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 <i>Foreign Currency Transactions and Advance Consideration</i>	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
IFRS 17 <i>Insurance contracts</i>	Establishes new principles for recognition of revenues and profit/loss during the period of rendering insurance services.	January 1, 2021
IFRIC 23 <i>Uncertainty over income tax treatment</i>	The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.	January 1, 2019

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

IFRS 9 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 preparers of financial statements to reflect entities' actions more accurately.

Current analysis of the standard 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.

IFRS 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 for recognition of revenues 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.

IFRS 16 Lease

The new standard changes principles for 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 current 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 not have 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 have the most significant impact on the amounts presented in the consolidated financial statements, including in other explanatory information. These 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 taken was presented below or in the relevant explanatory notes.

- In the previous reporting periods the PGE Group raised impairment allowances of assets, in particular of property, plant and equipment. In the current reporting period the Group has not identified any impairment indicators nor indicators to reverse previously recognized impairment allowances. Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realization of which is uncertain and mostly beyond the PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realization of the particular assumptions may diverge from the ones established by the Group.
- Provisions are liabilities of uncertain amount or timing. During the reporting period, the Group changed estimates regarding the validity or amounts of some provisions. Changes in estimates 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 beyond the Group's control.

An unfavorable outcome of the dispute with the President of the Energy Regulation Office, described in note 22.1, 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 financial results of the PGE Group. It is not possible to predict the final outcome of the dispute with the President of the Energy Regulation Office as at the date of preparation of these consolidated financial statements.

3. Fair value hierarchy

The principles for valuation of inventories, 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.

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

FAIR VALUE HIERARCHY	As at June 30, 2017		As at December 31, 2016	
	Level 1	Level 2	Level 1	Level 2
CO ₂ emission rights	-	-	29	-
Inventories	-	-	29	-
Currency forward	-	-	-	1
Commodity forward	-	-	-	8
CCIRS valuation	-	76	-	231
IRS valuation	-	87	-	125
Derivatives - option	-	46	-	-
Financial assets	-	209	-	365
IRS valuation	-	29	-	30
Financial liabilities	-	29	-	30

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

The PGE Group presents information on operating segments in the current and comparative reporting periods in accordance with IFRS 8 *Operating Segments*. The PGE Group's 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, intersegment 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 the 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 influences 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 and the length of the day. Increase in demand for electricity is particularly visible in winter and decline is observed in summer. Moreover, seasonal changes are evident among selected groups of end users. In particular, seasonality effects are more significant for households than for the industrial sector.

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

4.1 Information on business segments

Information on business segments for the period ended June 30, 2017

	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	2,201	306	6,889	1,093	113	18	10,620
Sales revenues from inter-segment transactions	3,449	63	741	2,082	138	(6,473)	-
TOTAL SEGMENT REVENUES	5,650	369	7,630	3,175	251	(6,455)	10,620
Cost of goods sold	(4,466)	(294)	(6,599)	(2,396)	(242)	6,125	(7,872)
EBIT *)	855	37	409	642	(31)	20	1,932
Financial income / (expenses), net							(122)
Share of profit / (loss) of entities accounted for under the equity method							1
PROFIT/(LOSS) BEFORE TAX							1,811
Income tax							(316)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							1,495
Depreciation, amortization, disposal and impairment losses recognized in profit or loss	757	132	13	580	51	(20)	1,513
EBITDA **)	1,612	169	422	1,222	20	-	3,445
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	35,903	3,459	4,021	16,623	540	(3,612)	56,934
Trade receivables	750	88	2,409	726	69	(1,713)	2,329
Shares in entities accounted for under the equity method							615
Unallocated assets							7,251
TOTAL ASSETS							67,129
Segment liabilities excluding trade liabilities	9,680	341	1,137	2,583	82	(2,685)	11,138
Trade liabilities	471	27	1,612	225	22	(1,645)	712
Unallocated liabilities							11,077
TOTAL LIABILITIES							22,927
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	1,906	28	5	629	53	(26)	2,595
Impairment allowances on financial and non-financial assets	121	1	5	5	-	-	132
Other non-monetary expenses ***)	875	14	412	51	14	-	1,366

*) 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 CO₂ emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

Information on business segments for the period ended June 30, 2016

	Conventional Generation	Renewables	Supply	Distribution	Other operations	Consolidation adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	5,364	332	6,791	966	195	18	13,666
Sales revenues from inter-segment transactions	288	38	1,256	1,956	138	(3,676)	-
TOTAL SEGMENT REVENUES	5,652	370	8,047	2,922	333	(3,658)	13,666
Cost of goods sold	(4,493)	(1,045)	(7,106)	(2,233)	(304)	3,359	(11,822)
EBIT *)	915	(720)	195	557	(29)	34	952
Financial income / (expenses), net							(155)
Share of profit/(loss) of entities accounted for under the equity method							(42)
PROFIT/(LOSS) BEFORE TAX							755
Income tax							(212)
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD							543
Depreciation, amortization, disposal and impairment losses recognized in profit or loss	653	925	13	560	62	(22)	2,191
EBITDA **)	1,568	205	208	1,117	33	12	3,143
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	33,309	3,773	2,270	16,126	923	(1,833)	54,568
Trade receivables	294	76	2,381	688	119	(1,199)	2,359
Shares in entities accounted for under the equity method							327
Unallocated assets							3,726
TOTAL ASSETS							60,980
Segment liabilities excluding trade liabilities	8,417	391	1,940	2,897	221	(1,037)	12,829
Trade liabilities	550	32	1,109	235	66	(1,160)	832
Unallocated liabilities							6,797
TOTAL LIABILITIES							20,458
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditure	2,855	95	7	713	68	(48)	3,690
Impairment allowances on financial and non-financial assets	26	788	8	6	1	(3)	826
Other non-monetary expenses***)	779	11	529	60	26	-	1,405

*) 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 CO₂ emission rights, provision for jubilee awards and employee tariff that are recognized in profit or loss and other comprehensive income.

EXPLANATORY NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2017
Sales revenues	5,741	4,879	10,620
Cost of goods sold	(4,149)	(3,723)	(7,872)
GROSS PROFIT / (LOSS) ON SALES	1,592	1,156	2,748
Other operating income / (expenses), net	89	40	129
EBIT – OPERATING PROFIT / (LOSS)	1,201	731	1,932
Financial income / (expenses), net	(63)	(59)	(122)
Share of profit/(loss) of entities accounted for under the equity method	9	(8)	1
PROFIT / (LOSS) BEFORE TAX	1,147	664	1,811
Income tax	(184)	(132)	(316)
NET PROFIT / (LOSS) FOR THE REPORTING PERIOD	963	532	1,495

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2016
Sales revenues	7,133	6,533	13,666
Cost of goods sold	(5,605)	(6,217)	(11,822)
GROSS PROFIT / (LOSS) ON SALES	1,528	316	1,844
Other operating income / (expenses), net	157	77	234
EBIT – OPERATING PROFIT / (LOSS)	1,123	(171)	952
Financial income / (expenses), net	(48)	(107)	(155)
Share of profit/(loss) of entities accounted for under the equity method	-	(42)	(42)
PROFIT / (LOSS) BEFORE TAX	1,075	(320)	755
Income tax	(206)	(6)	(212)
NET PROFIT / (LOSS) FOR THE REPORTING PERIOD	869	(326)	543

5. Revenues and expenses

5.1 Sales revenues

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2017
SALES REVENUES			
<i>Sales of merchandise and finished goods with excise tax</i>	5,743	4,949	10,692
<i>Excise tax</i>	(125)	(116)	(241)
Revenues from sale of merchandise and finished goods, including	5,618	4,833	10,451
Sale of electricity	3,221	2,814	6,035
Sale of distribution services	1,574	1,453	3,027
Sale of heat	285	129	414
Sale of energy origin rights	158	87	245
Regulatory system services	147	125	272
Sale of gas	146	135	281
Other sale of merchandise and materials	87	90	177
Revenues from sale of services	123	46	169
TOTAL SALES REVENUES	5,741	4,879	10,620

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2016
SALES REVENUES			
Sales of merchandise and finished goods with excise tax	7,001	6,400	13,401
Excise tax	(126)	(120)	(246)
Revenues from sale of merchandise and finished goods, including:	6,875	6,280	13,155
Sale of electricity	4,678	4,608	9,286
Sale of distribution services	1,433	1,332	2,765
Sale of heat	283	119	402
Sale of energy origin rights	185	(39)	146
Regulatory system services	137	113	250
Sale of gas	73	58	131
Other sale of merchandise and materials	86	89	175
Revenues from sale of services	128	130	258
Revenues from LTC compensations	130	123	253
TOTAL SALES REVENUES	7,133	6,533	13,666

The decline in sale of electricity in the period ended 30 June, 2017 in comparison to the corresponding period of the previous year is mainly due to lower so called "power exchange obligation" and lower average selling price of electricity. Lower power exchange obligation starting from 2017 resulted in increased volume of electricity sales within the PGE Group. Such transactions are subject to eliminations on the level of consolidated financial statements.

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

5.2 Cost by nature and function

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2017
COST BY NATURE			
Depreciation, amortization and impairment losses	778	797	1,575
Materials and energy	758	589	1,347
External services	671	642	1,313
Taxes and charges	863	727	1,590
Employee benefits expenses	1,098	1,094	2,192
Other cost by nature	53	53	106
TOTAL COST BY NATURE	4,221	3,902	8,123
Change in inventories	(18)	2	(16)
Cost of products and services for the entity's own needs	(190)	(246)	(436)
Distribution and selling expenses	(304)	(296)	(600)
General and administrative expenses	(176)	(169)	(345)
Cost of merchandise and materials sold	616	530	1,146
COST OF GOODS SOLD	4,149	3,723	7,872

Decrease of sales of merchandise and finished goods (mainly purchased electricity) in the period ended June 30, 2017 in comparison to the corresponding period of the previous year is mainly due to lower revenues from sale of electricity (described in the table above).

	Q1 <i>not reviewed</i>	Q2 <i>not reviewed</i>	Period ended June 30, 2016
COST BY NATURE			
Depreciation, amortization and impairment losses	731	1,522	2,253
Materials and energy	840	655	1,495
External services	593	617	1,210
Taxes and charges	811	773	1,584
Employee benefits expenses	1,117	1,059	2,176
Other cost by nature	63	65	128
TOTAL COST BY NATURE	4,155	4,691	8,846
Change in inventories	(29)	19	(10)
Cost of products and services for the entity's own needs	(264)	(269)	(533)
Distribution and selling expenses	(379)	(348)	(727)
General and administrative expenses	(183)	(216)	(399)
Cost of merchandise and materials sold	2,305	2,340	4,645
COST OF GOODS SOLD	5,605	6,217	11,822

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 statement of comprehensive income is presented below.

Period ended June 30, 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	1,406	40	1,446	42	-	42
Distribution and selling expenses	6	2	8	-	-	-
General and administrative expenses	11	6	17	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES RECOGNIZED IN PROFIT OR LOSS	1,423	48	1,471	42	-	42
Cost of products and services for the entity's own needs	62	-	62	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	1,485	48	1,533	42	-	42

Period ended June 30, 2016	Depreciation, amortization and disposal			Impairment losses		
	Property, plant and equipment	Intangible assets	TOTAL	Impairment losses	Intangible assets	TOTAL
Cost of goods sold	1,287	40	1,327	524	282	806
Distribution and selling expenses	6	2	8	-	-	-
General and administrative expenses	43	6	49	-	1	1
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES RECOGNIZED IN PROFIT OR LOSS	1,336	48	1,384	524	283	807
Cost of products and services for the entity's own needs	62	-	62	-	-	-
TOTAL DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES	1,398	48	1,446	524	283	807

5.3 Other operating income and expenses

	Period ended June 30, 2017	Period ended June 30, 2016
OTHER OPERATING INCOME		
Adjustment of revenues from LTC compensations	83	148
Penalties, fines and compensations received	29	64
Reversal of other provisions	21	22
Grants received	14	34
Reversal of impairment allowances on receivables	9	13
Profit on disposal of property, plant and equipment / intangible assets	7	3
Property, plant and equipment, intangible assets received free of charge	6	5
Revenues from illegal energy consumption	4	3
Surpluses / recognition of assets	3	2
Refund of legal proceedings' costs	2	2
Tax refund	2	5
Other	22	24
TOTAL OTHER OPERATING INCOME	202	325

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

	Period ended June 30, 2017	Period ended June 30, 2016
OTHER OPERATING EXPENSES		
Recognition of impairment allowances on receivables	17	25
Donations granted	11	3
Compensations	9	4
Recognition of other provisions	7	25
Liquidation of damages / breakdowns	6	9
Legal proceedings' costs	3	3
Liquidation of property, plant and equipment and intangible assets associated with other operations	3	2
Other	17	20
TOTAL OTHER OPERATING EXPENSES	73	91

5.4 Financial income and expenses

	Period ended June 30, 2017	Period ended June 30, 2016
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Dividends	4	1
Interest	50	22
Revaluation of financial instruments / reversal of impairment allowances	50	10
Foreign exchange gains	37	14
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS	141	47
OTHER FINANCIAL INCOME		
Interest on budget receivables	2	-
Reversal of provisions	-	2
Other	1	-
OTHER FINANCIAL INCOME	3	2
TOTAL FINANCIAL INCOME	144	49

The Group recognizes interest income primarily on cash deposits and receivables. Increase of "Revaluation of financial instruments" is mainly due to revaluation of an option to acquire Polimex shares.

	Period ended June 30, 2017	Period ended June 30, 2016
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS		
Interest	75	59
Revaluation of financial instruments	4	4
Loss on the disposal of an investment	92	-
Impairment loss	3	2
Foreign exchange losses	3	29
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS	177	94
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of the discount	84	88
Recognition of provisions (interest)	3	21
Other	2	1
OTHER FINANCIAL EXPENSES	89	110
TOTAL FINANCIAL EXPENSES	266	204

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

Loss on the disposal of an investment in the amount of PLN 92 million is related to the sale of EXATEL S.A. shares.

5.5 Share of profit of associates and joint arrangements accounted for under the equity method

	Polska Grupa Górnica	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15.76%	16.48%	25.00%	34.93%
PERIOD ENDED JUNE 30, 2017				
Revenues	3,716	933	-	8
Result from continuing operations	12	27	-	-
Share of profit of associates and joint arrangements	2	4	-	-
Elimination of unrealized losses	(5)	-	-	-
SHARE OF PROFIT OF ASSOCIATES AND JOINT ARRANGEMENTS	(3)	4	-	-

The PGE Group has made a consolidation adjustment related to margin on sales of coal sale between Polska Grupa Górnica and the Group.

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

6. Impairment allowances on assets

	Period ended June 30, 2017	Period ended June 30, 2016
IMPAIRMENT ALLOWANCES ON PROPERTY, PLANT AND EQUIPMENT		
Impairment allowances raised	42	524
IMPAIRMENT ALLOWANCES ON INTANGIBLE ASSETS		
Impairment allowances raised	-	283
IMPAIRMENT ALLOWANCES ON INVENTORIES		
Impairment allowances raised	6	16
Impairment allowances reversed	2	13

7. Tax in the statement of comprehensive income

Main elements of income tax expense for the periods ended June 30, 2017 and June 30, 2016 are as follows:

	Period ended June 30, 2017	Period ended June 30, 2016
INCOME TAX RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS		
Current income tax	247	207
Previous periods current income tax adjustments	1	20
Deferred income tax	68	(15)
INCOME TAX EXPENSE RECOGNIZED IN THE STATEMENT OF PROFIT OR LOSS	316	212
INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME		
From valuation of hedging instruments	(14)	8
TAX BENEFIT RECOGNIZED IN OTHER COMPREHENSIVE INCOME	(14)	8

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

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

During the current reporting period, the PGE Group purchased property, plant and equipment and intangible assets of a total amount of PLN 2,595 million. The largest expenditures were incurred by Conventional Generation segment (PLN 1,906 million) and Distribution segment (PLN 629 million). The main items of expenditure were: construction of units 5 and 6 in Opole power plant (PLN 1,018 million), construction of unit 11 in Turów power plant (PLN 129 million), construction of gas and steam unit in Gorzów heat and power plant (PLN 58 million) and modernization of units 1-3 in Turów power plant (PLN 55 million).

During the current reporting period, the Group sold 100% of EXATEL S.A. shares. At the same time, the Group lost control over its subsidiary ENERERGO-TEL S.A. As a result, property, plant and equipment and intangible assets decreased by PLN 340 million.

9. Future investment commitments

As at June 30, 2017 the PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 7,800 million. These amounts relate mainly to construction of new power units, modernization of Group's assets and purchase of machinery and equipment.

	As at June 30, 2017	As at December 31, 2016 <i>restated*</i>
Conventional Generation	6,474	7,647
Distribution	1,086	796
Renewables	35	38
Supply	2	2
Other operations	203	201
TOTAL FUTURE INVESTMENT COMMITMENTS	7,800	8,684

* optional scope of advisory agreement concluded by PGE EJ1 sp. z o.o. was excluded from information presented as at December 31, 2016

The most significant future investment commitments involve:

- Conventional Generation:
 - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 1,954 million,
 - Branch Turów Power Plant – construction of a new power unit – approximately PLN 2,976 million,
 - Branch Turów Power Plant – modernization of power units no. 1-3 – approximately PLN 477 million,
 - Branch Rzeszów Heat and Power Plant - construction of Thermal Processing Installation with Energy Recycling – approximately PLN 265 million,
- Distribution – investment commitments related to network distribution assets with total value of approximately PLN 1,086 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 of PLN 183 million. The optional scope of the agreement amounts to PLN 1,100 million.

10. Shares in associates and joint arrangements accounted for under the equity method

	As at June 30, 2017	As at December 31, 2016
Polska Grupa Górnicza Sp. z o.o.	519	391
Polimex Mostostal S.A.	85	-
ElectroMobility Poland S.A.	3	3
PEC Bogatynia Sp. z o.o.	8	8
INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD	615	402

The Group is currently working on allocating the purchase price of Polimex. As a result, the aforesaid investment is recognized in the financial statements of the PGE Group for the first half of 2017 at acquisition cost, adjusted by valuation under the equity method for the period of having significant influence on Polimex-Mostostal Group. The acquisition of shares in Polimex Mostostal S.A. is described in note 22.4 of these financial statements.

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

11. Deferred tax in the statement of financial position

11.1 Deferred tax assets

	As at June 30, 2017	As at December 31, 2016
Difference between tax value and carrying amount of property, plant and equipment	1,538	1,559
Difference between tax value and carrying amount of financial assets	13	16
Difference between tax value and carrying amount of liabilities	230	272
Difference between tax value and carrying amount of inventories	16	15
LTC compensations	251	253
Rehabilitation provision	490	472
Provision for CO ₂ emission rights	112	220
Provisions for employee benefits	545	529
Other provisions	129	129
Energy infrastructure acquired free of charge and connection payments received	116	129
Other	18	15
DEFERRED TAX ASSETS	3,458	3,609

11.2 Deferred tax liabilities

	As at June 30, 2017	As at December 31, 2016
Difference between tax value and carrying amount of property, plant and equipment	3,137	2,945
Difference between tax value and carrying amount of energy origin rights	46	65
Difference between tax value and carrying amount of financial assets	316	377
CO ₂ emission rights	261	439
LTC compensations	674	680
Other	31	26
DEFERRED TAX LIABILITIES	4,465	4,532

AFTER OFF-SET OF THE ASSET AND THE LIABILITY IN PARTICULAR COMPANIES THE GROUP'S DEFERRED TAX IS PRESENTED AS:

Deferred tax assets	253	268
Deferred tax liabilities	(1,260)	(1,191)

12. CO₂ emission rights for own use

Power generating units belonging to the PGE Group, which are covered by the provisions of the Act dated June 12, 2015 on a scheme for greenhouse gas emission allowance trading, receive CO₂ emission rights (EUA). Starting from 2013, only part of EUA allowances will be granted unconditionally, namely those to cover CO₂ emissions resulting from production of heat, while, as a rule, there are no free of charge EUA allowances to cover CO₂ emissions resulting from production of electricity. Article 10c of Directive 2009/29/EC introduced the possibility of a derogation from the rule of lack of free of charge EUA allowances to cover CO₂ emissions connected with production of electricity providing the realization of investment tasks included in the National Investment Plan ("NIP"). The condition under which free of charge EUA to cover CO₂ emissions connected with production of electricity can be obtained is annual submission of factual-financial statements from realization of tasks included in the NIP.

In September 2016 the PGE Group submitted subsequent reports on the realization of the investments included in the NIP in order to obtain EUA to cover CO₂ emissions connected with production of electricity in 2016. The allowances were issued in April 2017 and were used to cover CO₂ emissions in 2016 (approximately 19 million of EUA). The schedule of granting EUA to cover CO₂ emissions resulting from production of heat is different - in February 2017 EUA allowances were issued in order to cover CO₂ emissions in 2017 (approximately 750 thousand of EUA).

Currently, all companies belonging to the PGE Group are preparing reports on the implementation of the investments recognized in NIP, which will be submitted by September 30, 2017.

EUA	As at June 30, 2017		As at December 31, 2016	
	Amount (Mg million)	Value	Amount (Mg million)	Value
AS AT JANUARY 1	85	2,349	77	2,172
Purchase	10	213	40	937
Granted free of charge	20	-	26	-
Redemption	(56)	(1,156)	(58)	(760)
AS AT THE REPORTING DATE	59	1,406	85	2,349

13. Other current and non-current assets

13.1 Other non-current assets

	As at June 30, 2017	As at December 31, 2016
Advances for construction in progress	595	713
Other non-current assets	14	17
OTHER ASSETS, TOTAL	609	730

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

13.2 Other current assets

	As at June 30, 2017	As at December 31, 2016 <i>restated</i>
PREPAYMENTS		
Social Fund	51	2
Fees and commissions	45	34
Fees for the exclusion of land from agricultural production / forestry	24	4
IT services	10	6
Perpetual usufruct of land	8	-
Fees for occupation of the roadway with equipment	6	-
Property and tort insurance	4	2
Concessions	3	-
Other prepayments	26	19
OTHER CURRENT ASSETS		
VAT receivables	210	222
Excise tax receivables	51	100
Advances for deliveries	7	6
Other current assets	15	21
OTHER ASSETS, TOTAL	460	416

Fees and commissions include agency commissions, fees for the use of mining and bank loan commissions. Other prepayments include costs of energy infrastructure collisions, maintenance services, licenses 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.

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 June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade receivables	-	2,329	-	2,705
LTC compensations	-	1,270	-	1,241
Debt securities, including bonds	89	5	89	-
Deposits	146	3	136	2,300
Bails and security deposits	1	6	2	12
Other financial receivables	9	76	10	67
FINANCIAL RECEIVABLES, TOTAL	245	3,689	237	6,325

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.

	As at June 30, 2017	As at December 31, 2016
Cash on hand and cash at bank	704	808
Overnight deposits	125	42
Short-term deposits	4,288	1,819
TOTAL	5,117	2,669
Interest accrued on cash, not received at the reporting date	(1)	(2)
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	5,115	2,666
<i>including restricted cash</i>	82	107
Undrawn borrowing facilities	6,573	6,081
<i>including overdraft facilities</i>	2,001	2,001

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

Restricted cash disclosed in the consolidated statement of cash flows relates 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 the PGE Group entities with Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House).

15. Derivatives

	As at June 30, 2017		As at December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forward	-	-	1	-
Commodity forward	-	-	8	-
IRS transactions	-	20	-	30
Options	46	-	-	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	76	-	231	-
IRS hedging transactions	87	9	125	-
DERIVATIVES, TOTAL	209	29	365	30
current	-	-	9	-
non-current	209	29	356	30

Options

On January 20, 2017 the PGE Group acquired from Towarzystwo Finansowe Silesia Sp. z o.o. a call option for purchase of Polimex-Mostostal S.A. shares. Dates of realization of the option were set at: July 30, 2020, July 30, 2021 and July 30, 2022.

IRS transactions

In the current reporting period, PGE S.A. entered into an IRS transaction hedging the interest rate on a bank loan with a nominal value of PLN 500 million. For the recognition of this IRS transaction, the Company applies hedge accounting.

In 2016 the PGE Group concluded IRS transactions hedging the interest rate on bank loans with a total nominal value of PLN 4,630 million. For recognition of these IRS transactions the Company applies hedge accounting.

The impact of hedge accounting is 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 total nominal value of PLN 1 billion. Payments arising from the IRS transactions are correlated with interest payments on bonds. Change in fair value of these IRS transactions is 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-swap hedge transaction. This transaction is aimed to hedge variable interest rates (USD LIBOR 6m) on investment loan of USD 80 million drawn from Nordic Investment Bank to finance investments in Turów power plant. Change in fair value of this IRS transaction is 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 concerning payments of principal and interest 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 perspective 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 June 30, 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 have been paid up.

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

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

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

Special rights of the State Treasury that are applicable to the PGE Group entities derive from the Act of March 18, 2010 on special rights of the minister competent for 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 competent for 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 competent for 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 resolutions 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 June 30, 2017	Year ended December 31, 2016
AS AT JANUARY 1	147	(21)
Change of hedging reserve	(72)	207
Valuation of hedging instruments, including:	(72)	206
<i>Deferral of changes in fair value of hedging instruments recognized as an effective hedge</i>	<i>(202)</i>	<i>313</i>
<i>Accrued interest on derivatives transferred from hedging reserve and recognized in interest expense</i>	<i>2</i>	<i>1</i>
<i>Currency revaluation of CCIRS transaction transferred from hedging reserve and recognized in the result on foreign exchange differences</i>	<i>130</i>	<i>(107)</i>
<i>Ineffective portion of change in fair value of hedging derivatives recognized in profit or loss</i>	<i>(2)</i>	<i>(1)</i>
Valuation of other financial instruments	-	1
Deferred tax	14	(39)
HEDGING RESERVE INCLUDING DEFERRED TAX	89	147

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

16.3 Dividends paid and dividends declared

	Dividend paid or declared from the profit for the period ended		
	June 30, 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 the Company has made no advance payments of dividends.

On May 11, 2017, the Management Board of the Company decided to change dividend policy. Taking into consideration the ambitious development plan and limitations of debt ratio growth, the Management Board of the Company recommended suspension of dividends payments for the years 2016, 2017 and 2018.

After that period, the Management Board of the Company intends to provide a recommendation for the General Shareholders' Meeting of the Company to pay dividends at the level of 40-50% of the consolidated net profit attributable to equity holders of the parent, adjusted by impairment allowances on property, plant and equipment and intangible assets.

Every dividend payment will depend on total debt amount of the Company, expected capital expenditures and potential acquisitions.

Dividend from the profit for the year 2016

According to the updated dividend policy, on June 27, 2017 the Ordinary Shareholders' Meeting of PGE S.A. resolved to allocate the whole net profit for 2016 of PLN 1,598 million to reserve capital.

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). Dividend was paid off on October 14, 2016.

17. Provisions

The carrying amount of provisions is as follows:

	As at June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Employee benefits	2,158	674	2,148	543
Rehabilitation provision	2,766	4	2,666	4
Provision for deficit of CO ₂ emission rights	-	587	-	1,154
Provisions for energy origin units held for redemption	-	418	-	416
Provision for non-contractual use of property	79	11	91	12
Other provisions	103	57	99	52
TOTAL PROVISIONS	5,106	1,751	5,004	2,181

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for deficit of CO ₂ emission rights	Provisions for energy origin units held for redemption	Provision for non-contractual use of property	Other provisions	Total
JANUARY 1, 2017	2,691	2,670	1,154	416	103	151	7,185
Current service costs	32	-	-	-	-	-	32
Interest costs	40	44	-	-	-	-	84
Benefits paid / Provisions used	(267)	-	(1,156)	(377)	-	(8)	(1,808)
Provisions reversed	(14)	-	-	(7)	(19)	(5)	(45)
Provisions raised in correspondence with costs	367	15	589	386	6	18	1,381
Provisions raised in correspondence with property, plant and equipment	-	40	-	-	-	-	40
Change in the Group composition	(8)	-	-	-	-	(4)	(12)
Other changes	(9)	1	-	-	-	8	-
June 30, 2017	2,832	2,770	587	418	90	160	6,857

	Employee benefits	Rehabilitation provision	Provision for deficit of CO ₂ emission rights	Provisions for energy origin units held for redemption	Provision for non-contractual use of 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 1,577 million (PLN 1,570 million as at December 31, 2016);
- jubilee awards – PLN 794 million (PLN 788 million as at December 31, 2016);
- other benefits (bonuses, unused holidays, etc.) – PLN 461 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 years 2045-2087 (in case of PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Turów Lignite Mine).

The PGE Group creates provisions for rehabilitation of post-exploitation mining properties. The amount of the provision recognized in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at June 30, 2017 amounted to PLN 2,459 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 provision for rehabilitation of ash storages. As at the reporting date, the value of provision amounted to PLN 102 million and as at December 31, 2016 to PLN 98 million.

Provisions for rehabilitation of post-construction grounds of wind farms

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

Liquidation of property, plant and equipment

The obligation to liquidate assets and rehabilitate the area results from „The integrated permission for running electric energy and heat energy producing installation” in which the restitution of the area was specified. As at the reporting date, the value of the provision amounts to PLN 159 million (PLN 157 million as at December 31, 2016) and refers to some assets of Conventional Generation and Renewables segments.

17.3 Provision for deficit of CO₂ emission rights

As a general rule, the PGE Group entities recognize provision for the shortfall of CO₂ 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 CO₂ emissions rights granted free of charge in connection with expenditures incurred for investments included in the 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 June 30, 2017, amounted to PLN 418 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 that are claimed under court proceedings. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 90 million (of which 42 million related to litigations). In the comparative period 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 prior year). These provisions mainly relate to PGE GiEK S.A. Branch Opole Power Plant.

18. Financial liabilities

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

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their value at amortized cost presented in these financial statements as at June 30, 2017 amounted to EUR 641 million whereas their assessed fair value amounted to EUR 677 million. The indicators used in the valuation belong to Level 2 of the fair value hierarchy.

18.1 Loans, borrowings, bonds and lease

	As at June, 30 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,711	341	5,839	332
Bonds issued	2,657	1,051	3,764	78
Lease	-	-	-	1
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	8,368	1,392	9,603	411

Loans and borrowings

Among loans and borrowings presented above as at June 30, 2017, the PGE Group presents mainly the following facilities:

- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank to finance construction of 858 MW power unit in Bełchatów Power Plant of PLN 515 million;
- investment credit facilities taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank and UBS Investment Bank AG to finance the modernization of power blocks no. 1-6 in Turów Power Plant of PLN 74 million;
- investment credit facility taken out by PGE S.A. from Bank Gospodarstwa Krajowego S.A. in total value of PLN 1,501 million;
- long-term loan agreement taken out by PGE S.A. from 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 June 30, 2017 PGE S.A. used the whole term loan facility of PLN 3,647 million. The revolving loan facility of up to PLN 1,870 million is available, but not used by PGE S.A.

On June 7, 2017, PGE S.A. concluded loan agreement with European Bank for Reconstruction and Development Bank for the total amount of PLN 500 million with the maturity date of June 7, 2028. The funds obtained on the basis of the agreement will be used for projects relating to the modernization and development of distribution grid. As at June 30, 2017 the loan was not used.

Additionally, on October 27, 2015, PGE S.A. concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2,000 million. The amount of PLN 1,500 million, obtained on the basis of the first of the two agreements, will be used for projects relating to the modernization and development of distribution grid. The funds from the second agreement, i.e. the remaining PLN 490 million, will be used to finance and refinance the construction of cogeneration units Gorzów Heat and Power Plant and Rzeszów Heat and Power Plant. 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 June 30, 2017 the aforesaid loans were not used.

The value of overdraft facilities at the disposal of significant PGE Group entities amounted to PLN 2,001 million as at June 30, 2017.

Bonds issued

The Group has the ability to finance its 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 June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade liabilities	-	712	-	976
Purchase of property, plant and equipment and intangible assets	5	624	12	1,225
Bails and security deposits received	23	70	21	65
Liabilities related to LTC	-	1,246	-	1,253
Other	-	34	-	37
TOTAL TRADE AND OTHER FINANCIAL LIABILITIES	28	2,686	33	3,556

OTHER EXPLANATORY NOTES

19. Contingent liabilities and receivables. Legal claims

19.1 Contingent liabilities

	As at June 30, 2017	As at December 31, 2016
Contingent return of grants from environmental funds	473	469
Contingent return of CO ₂ emission rights received free of charge	112	115
Legal claims	117	73
Employees' claims	1	1
Contractual fines and penalties	12	12
Other contingent liabilities	39	61
TOTAL CONTINGENT LIABILITIES	754	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 CO₂ emission rights received free of charge

The contingent liability results from the risk of a return of the equivalent of CO₂ emission rights (including interest) balanced in 2013 and 2014 by capital expenditure 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 the remuneration 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 WorleyParsons extended its claim from PLN 59 million up to PLN 104 million (i.e. by PLN 45 million). The Group does not accept the claim and regards its possible admission by the court as unlikely. The next hearing was set for September 13, 2017.

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.

19.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 17.5, 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 Group companies are obliged to collect the minimum volume of fuels and not to exceed the maximum level of collection of gas fuel in particular hours and months. A failure to collect a minimum volume of fuels specified in the contracts, may result in a necessity to pay some extra fee (in case of gas fuel, the volume not collected by power plants but paid up, may be collected within the next three contractual years).

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

19.3 Contingent receivables

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

19.4 Other legal claims and disputes

The issue of compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. present to the courts a 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 has responded to the lawsuit. Currently the proceedings before the court of first instance are in progress.

Additionally, Pozwy sp. z o.o. (an entity which purchased claims from former PGE Elektrownia Opole S.A.'s shareholders) filed a similar claim to the District Court in Warsaw. It demands payment of over PLN 260 million (plus interest) from PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. based on "in solidum" rule alternatively based on joint and several liability. The claim concerns compensation for the allegedly incorrect (in their opinion) determination of the exchange ratio of shares of PGE Elektrownia Opole S.A. into shares of PGE Górnictwo i Energetyka Konwencjonalna S.A. in the process of merging these companies. The lawsuit was received by PGE S.A. on March 9, 2017. The date to respond to the lawsuit was established by the court for July 9, 2017. On July 8, 2017 PGE S.A. and PGE GiEK S.A. filed a response to the lawsuit.

The PGE Group entities do not recognize the claims of Socrates Investment S.A., Pozwy Sp. z o.o. and other shareholders who call for trial settlements. These claims are unfounded. In PGE S.A.'s opinion the consolidation process was conducted fairly and properly. The value of shares which were subject to the process of consolidation (merger) was established by an independent company PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the share exchange ratios were examined for accuracy and reliability by an expert appointed by the registration court. No irregularities were found. Then, the court registered the merger of the companies mentioned above.

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

Claims for annulment of the resolutions of the General Shareholders' Meetings

On April 1, 2014, PGE S.A. received a copy of a lawsuit filed to the District Court 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 Shareholders' Meeting of the Company held on February 6, 2014. The Company filed a response to the claim. On June 22, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The shareholder filed an appeal and the Company filed a response to the appeal. On March 24, 2017 a hearing was held before the Court of Appeal in Warsaw. The Court discontinued the proceedings due to withdrawal of a legal action without waiving the claim.

On August 21, 2015, PGE S.A. received a copy of a 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 Shareholders' Meeting of the Company held on June 24, 2015. The Company filed a response to the lawsuit. The District Court in Warsaw dismissed the shareholder's claim in its judgement issued on April 26, 2016. On April 3, 2017, the shareholder filed an appeal. The District Court dismissed the appeal on April 18, 2017 due to failure to meet the deadline for submitting of the appeal.

On September 17, 2014 PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuits, the shareholder is seeking for annulment of the resolution 4 of the Ordinary General Shareholders' Meeting of the Company held on June 6, 2014. The Company filed a response to the lawsuit. On August 13, 2015, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The shareholder appealed and the Company filed a response to the appeal. On March 2, 2017 the Court of Appeal in Warsaw dismissed the appeal. The shareholder filed a cassation appeal dated 10 June 2017.

On October 23, 2015 PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders' Meeting of the Company held on September 14, 2015. The Company filed a response to the lawsuit. On April 24, 2017 the hearing was conducted before the District Court in Warsaw. The court dismissed the shareholder's claim in its judgement issued on May 8, 2017. The shareholder filed an appeal on July 3, 2017.

On May 20, 2016 PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders' Meeting of the Company held on March 1, 2016. The Company filed a response to the lawsuit. On March 14, 2017, the proceedings were discontinued due to withdrawal of a legal action before the first trial.

On September 12, 2016 PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Ordinary General Shareholders' Meeting of the Company held on June 28, 2016. The Company filed a response to the lawsuit. On March 17, 2017, the proceedings were discontinued due to withdrawal of a legal action before the first trial.

On December 30, 2016 PGE S.A. received a copy of a lawsuit filed to the District Court in Warsaw by one of the shareholders. In the lawsuit, the shareholder is seeking for annulment of the resolution 1 of the Extraordinary General Shareholders' Meeting of the Company held on September 5, 2016. The Company filed a response to the lawsuit. On March 16, 2017, the proceedings were discontinued due to withdrawal of a legal action before the first trial.

On March 15, 2017 PGE S.A. received a copy of a 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 Shareholders' Meeting held on September 5, 2016. The Company filed a response to the lawsuit.

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 Naturity 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. occurred. 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. The parties did not reach an agreement in mediation proceedings, therefore court proceedings were instituted. The disputed amount is PLN 42 million.

In the PGE Group's opinion, notices of termination of contracts presented by Enea S.A. were filled in with a violation of terms of the agreements. Therefore, as at the reporting date, the Group has not created any impairment allowances, nor revalued inventories or trade receivables.

20. Tax settlements

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

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

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

The tax system in Poland is characterized by a significant changeability of tax regulations, their high complexity, high potential fees foreseen in case of commitment of a tax crime or violation. 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 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 Tax Group) as well as concluding transactions with entities not belonging to Tax Group 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

Taking into account pending disputes the PGE Group created at the reporting date the provision for property tax of PLN 91 million. The provision relates mainly to tax proceedings with regards to property tax in PGE GIEK S.A. Branch Opole Power Plant. 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 concluded based on market prices for provided goods, products and services or are based on the cost of manufacturing.

21.1 Associates and joint arrangements

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

	Period ended June 30, 2017	Period ended June 30, 2016
Sales to associates and joint arrangements	5	35
Purchases from associates and joint arrangements	807	114
	As at June 30, 2017	As at December 31, 2016
Trade receivables from associates and joint arrangements	1	41
Trade liabilities to associates and joint arrangements	84	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*, the 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 and balances with such entities is presented in the table below.

	Period ended June 30, 2017	Period ended June 30, 2016
Sales to related parties	1,047	1,107
Purchases from related parties	1,921	1,638
	As at June 30, 2017	As at December 31, 2016
Trade receivables from related parties	221	313
Trade liabilities to related parties	299	418

The largest transactions with the State Treasury companies involve Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., ENERGA S.A. Group companies, Zakłady Azotowe PUŁAWY S.A., PKN Orlen S.A., Enea S.A. Group companies 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. The sale revenue of PLN 369 million is 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.

<i>PLN thousand</i>	Period ended June 30, 2017	Period ended June 30, 2016
Short-term employee benefits (salaries and salary related costs)	18,012	16,356
Post-employment benefits	1,488	6,894
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	19,500	23,250
Remuneration of key management personnel of entities of non-core operations	7,204	7,063
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	26,704	30,313

<i>PLN thousand</i>	Period ended June 30, 2017	Period ended June 30, 2016
Management Board of the parent company	4,573	7,211
<i>Including post-employment benefits</i>	20	3,066
Supervisory Board of the parent company	407	243
Management Boards – subsidiaries	13,205	14,708
Supervisory Boards – subsidiaries	1,315	1,088
TOTAL	19,500	23,250
Remuneration of key management personnel of entities of non-core operations	7,204	7,063
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	26,704	30,313

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 cost by nature disclosed in note 5.2 Cost by nature and function.

22. Significant events of the reporting period and subsequent events

22.1 Compensation resulting from termination of long term contracts

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.

The table below presents basic data for Group power generating units assumed with the LTC Act.

Power generating unit	Effective term of LTC	Maximum stranded and extra costs (in PLN million)
Turów Power Plant	Until 2016	2,571
Opole Power Plant	Until 2012	1,966
Dolna Odra Power Plant Complex ("ZEDO")	Until 2010	633
Lublin Wrotków Heat and Power Plant	Until 2010	617
Rzeszów Heat and Power Plant	Until 2012	422
Gorzów Heat and Power Plant	Until 2009	108
TOTAL		6,317

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

In December 2016, the adjustment period for power generating units involved in the compensation system in PGE GiEK S.A. ended.

On April 5, 2017 PGE GiEK S.A. received information about the initiation of proceedings regarding the amount of annual adjustment of stranded costs for 2016. On July 31, 2017 the President of the Energy Regulatory Office ("ERO President") issued a decision concerning annual adjustment of stranded costs for 2016. Pursuant to the decision, the adjustment of stranded costs arising in power generating units of PGE GiEK S.A. for 2016 amounted to PLN (+) 276 million.

On April 10, 2017 PGE GiEK S.A. received information about the initiation of proceedings regarding the value of the final adjustment of stranded costs.

According to the provisions of the LTC Act, the process of establishing the final adjustment of stranded costs should be completed by August 31, 2017. If no disagreements arise in this process, the decision issued by the ERO President will terminate the participation of PGE GiEK S.A. in the compensation system.

Decisions of the President of the Energy Regulatory Office related to realization of the LTC Act

Until the date of preparation of these financial statements, power generating units 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 units, and, in the opinion of the Group, 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 generating units from the PGE Group against the Decision of the 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 of stranded costs – 14 cases, (ii) regarding unfavourable decisions relating to the amounts of annual adjustments of gas costs – 5 cases,
- 7 proceedings ended with favourable verdict for PGE GiEK; 5 proceedings ended with favourable verdict for the ERO President; 7 proceedings ended with partly favourable verdict for PGE GiEK.

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 proceedings in that case, (ii) overruled judgement of the Court of Appeal regarding the determination of annual adjustment of stranded costs for Branch Gorzów Heat and Power Plant for 2009. The case was submitted for re-examination by the Court of Appeal. On May 25, 2017, the Court of Appeal revoked the sentence of the CCP Court and discontinued the proceedings. The above means validation of the ERO President's decision. As a result of the above Zarządca Rozliczeń S.A. returned the amount of approx. PLN 8 million.
- On January 26, 2017, the Supreme Court issued an alter decision concerning: (i) the annual adjustment of stranded costs for Branch Lublin Wrotków Heat and Power Plant 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 of stranded costs for Branch Rzeszów Heat and Power Plant 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 of the ERO President issued a judgement regarding the determination of annual adjustment of the stranded costs for 2008 for Branch Opole Power Plant, in which it determined its value at approximately PLN (+) 129 million. As a result, PGE GiEK S.A. returned to Zarządca Rozliczeń S.A. approximately PLN 6 million.
- On April 11, 2017, the Court of Appeal issued a ruling regarding refusal to issue a decision on a final adjustment for Branch Gorzów Heat and Power Plant, which was in line with the position of PGE GiEK S.A., through which: (i) it annulled the contested ruling of the CCP Court in its entirety and (ii) discontinued the proceedings in this case. This ruling ended the proceedings in this case.
- On April 27, 2017, the Court of Appeal issued a verdict regarding determination of annual adjustment of the stranded costs for 2009 for Branch Lublin-Wrotków Heat and Power Plant, in which it determined its value at PLN 0. As a result, the Branch 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 to the Supreme Court.
- On May 11, 2017, the PGE Group filed an appeal to the Court of Appeal from the decision of the District Court in the case against the State Treasury - the ERO President for compensation for lost profits as a result of unfavourable decision issued by the ERO President regarding stranded costs for 2008. Value of the subject matter of the dispute amounts to PLN 57 million.

Impact on the financial statements for the period ended June 30, 2017

In the financial statements for the period ended June 30, 2017 the PGE Group did not recognize 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 Heat and Power Plant and Gorzów Heat and Power Plant resulted in recognition of LTC adjustment of PLN 83 million in the financial statements for the period ended June 30, 2017. The adjustment is presented in the statement of comprehensive income in other operating income.

22.2 Capital investment in Polska Grupa Górnicza S.A.

On March 31, 2017, PGE GiEK S.A. signed the subsequent investment agreement determining the conditions of the financial investment in Polska Grupa Górnicza Sp. z o.o. ("PGG") ("Investment") ("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., Węglkok 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 of PLN 100 million, in three stages:

- within the first stage PGE GiEK S.A. acquired new shares in PGG in exchange for the cash contribution of PLN 50 million. Recapitalisation within the first stage took place on April 6, 2017,
- within the second stage PGE GiEK S.A. acquired new shares in PGG in exchange for the cash contribution of PLN 20 million. Recapitalisation within the second stage took place on June 23, 2017,
- within the third stage PGE GiEK S.A. will acquire new shares in PGG in exchange for the cash contribution of PLN 30 million. Recapitalisation within the third stage will take place in the first quarter of 2018.

After acquisition of the above mentioned shares within the third stage PGE GiEK S.A. will have 15.3% in the share capital of PGG in comparison to 15.8% as at June 30, 2017.

As in the case of the Agreement from 2016, 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. Additionally, key decisions concerning equity management and transformation require Investors permission. Taking into account the entitlements mentioned above, the investment in PGG is recognized as joint arrangement and accounted for under the equity method.

22.3 Submission of offer for acquisition of EDF assets in Poland

On May 11, 2017, PGE S.A. together with EDF International SAS and EDF Investment II BV (together „EDF”) signed Put Option Agreement (“POA Agreement”) concerning sale of EDF’s assets in Poland. Pursuant to the POA Agreement, EDF obtained option to call PGE S.A. to sign up agreement concerning sale of shares in respect of assets described below after meeting certain conditions, including obtaining corporate permission of EDF for the sale transaction.

On May 19, 2017, as a result of execution of put option resulting from the POA Agreement by EDF, EDF and PGE signed a conditional sale agreement („Sale Agreement”).

The Sale Agreement concerns mainly (“Transaction”):

- purchase of 99.51% shares of EDF Polska S.A.,
- purchase of 100% shares of EDF Investment III B.V.,
- indirect purchase of 50% and 1 share of ZEW Kogeneracja S.A. (shares owned by EDF Polska S.A. and EDF Investment III B.V.) and purchase of shares in subsidiaries of EDF Polska, providing auxiliary activities.

As a result of the Agreement, PGE S.A. will acquire a series of manufacturing assets, including: 4 heat and power plants (Kraków, Gdańsk, Gdynia, Toruń), heat distribution grid in Toruń and Rybnik power plant (currently controlled by EDF Polska S.A.) as well as 4 heat and power plants (Wrocław, Zielona Góra, Czechnica, Zawidawie) and heat distribution grids in Zielona Góra, Siechnice and Zawidawie (currently controlled by EDF Polska S.A. and EDF Investment III B.V.).

The Enterprise Value for all assets was established under the Locked-Box Date formula as at December 31, 2016 and amounts to PLN 4.51 billion, of which PLN 2.45 billion stands for the share capital and PLN 2.06 billion stands for the net debt.

Total PGE S.A. expenses related to the Transaction will include:

- share capital amount of PLN 2.45 billion (“Share Capital Amount”),
- interest costs from the Share Capital Amount, settled pro-rata starting from January 1, 2017 until the end of the Transaction, in the maximum amount of PLN 107 million due to economic benefits achieved by the Company from the operation of the subject of the Sale Agreement after the date of price settlement,
- intergroup debt as at the closing date of the Transaction, at the maximum amount of PLN 1.68 billion and approximately USD 40 million (“Intergroup debt”),
- outstanding Intergroup debt interest as at the closing date of the Transaction.

After closing of the Transaction, according to the Polish regulations regarding the capital market, as a consequence of purchase of ZEW Kogeneracja S.A. shares, the PGE Group will be obligated to announce a tender offer to subscribe for the sale of shares in ZEW Kogeneracja S.A. in quantity sufficient to exceed the 66% threshold of voting rights in ZEW Kogeneracja S.A. The costs of announcement are not included in the value of the Transaction.

It is anticipated that the Transaction will be closed not later than on January 2, 2018. Payments for assets will be proceeded at the moment of the Transaction's closure.

Closing of the Transaction requires the following conditions to be fulfilled:

- PGE S.A. obtains an approval of the Office of Competition and Consumer Protection,
- PGE S.A. obtains an approval of the Minister of Energy, pursuant to the Act of July 24, 2015 related to control of particular investments,
- PGE S.A. obtains a waiver of pre-emption right from the President of the Agricultural Property Agency,
- EDF obtains an approval for transaction from certain governments in France concerning supervision over State Treasury companies and transactions involving their shares.

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 referred to as “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 by Investors up to 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 obligations 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 18, 2017, the President of the Office for Competition and Consumer Protection issued a permission for Investors to take joint control over Polimex.

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

Additionally, on January 20, 2017, on the terms of agreement with SPV Operator and due to the fulfillment of conditions precedent specified in the Investment Agreement, the Company acquired 1,500,001 Polimex shares from SPV Operator at the total amount of approximately PLN 5.6 million.

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. acquired 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 7 members maximum, including 4 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 to the Investors that hold together a majority stake in Polimex's voting rights (65.93%). 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 aforesaid investment is recognized in the consolidated financial statements of the PGE Group for the first half of 2017 at acquisition cost adjusted by the Group's share in Polimex's result, without taking into account potential adjustments required to bring assets and liabilities to fair values.

22.5 Subsequent events after the reporting period

After the reporting period a series of significant events in regulation environment took place that might have an impact on future financial results of the PGE Group, in particular within Conventional Generation and Renewables segments. The most important changes are presented below:

- adoption of the Amendment to Act on renewable energy (“OZE Act”) on July 20, 2017.
The Amendment anticipates a change in calculation of compensatory payments resulting in unit compensatory payment amounting to 125% of annual weighted average price of origin rights. This change may result in a decrease of compensatory payments, which may lead to lower average price of origin rights in the future. Additionally, the Polish Parliament is working on the project of OZE Act that is now subject to inter - departmental and public consultations. Other regulatory changes (e.g. project of regulation on higher redemption obligation) are also being proceeded.
- adoption of the Water Resources Law on July 20, 2017.
The Water Resources Law Act determines new rules for usage of water resources. In particular, the Act implements charges (fixed and variable) for usage of water resources and higher maximum charges for water consumption and sewage insertion through installations belonging to the PGE Group’s entities. The Water Resources Law anticipates the maximum rates of variable charges, which might be lowered by means of the regulation.
- project of amendment of the Act on wind power plants (“Project of Wind Power Plants Act”).
The project anticipates change in definition of wind power plant through reintroducing definition included in the Act of July 7, 1994 – Building Law. In case of introducing the change mentioned above, wind power plants will no longer be recognized as a construction, which will result in lower property tax. The Project of Wind Power Plants Act also predicts abolition of modernizations and reconstructions ban in respect of wind power plants functioning as at the date of entering into force of the Act and involves some modifications of distance criterion.
- project of Act on capacity market, approved on July 4, 2017 by the Council of Ministers.
The Act aims to introduce the capacity market, with disposable energy as a commodity which can be offered only by producers, attaining remuneration for the willingness to provide energy, including an obligation to deliver energy in case of predicted unsatisfied consumers’ demands. According to the Act, the capacity market shall operate on the basis of auctions, organized by the operator of energy power transfer system, based on parameters established by the Minister of Energy.

Due to the legislation process (concerning inter alia executive acts to the amendments and projects of acts mentioned above) and reconciliations of the projects of acts with the European Commission it is not possible to estimate clear impact of regulatory changes on revenues and costs generated by the PGE Group, as well as on recoverable amount of assets. In the nearest future the PGE Group will proceed analytical work to establish the approximate influence of changes described above on the Group results.

23. Half-year condensed separate financial information of PGE Polska Grupa Energetyczna S.A.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended June 30, 2017 (reviewed)	Period ended June 30, 2016 (audited)
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	23.5	4,591	5,626
Cost of goods sold	23.6	(4,212)	(5,192)
GROSS PROFIT ON SALES		379	434
Distribution and selling expenses	23.6	(10)	(26)
General and administrative expenses	23.6	(72)	(71)
Other operating income		1	2
Other operating expenses		(8)	(1)
OPERATING PROFIT		290	338
Financial income	23.7	4,374	1,191
Financial expenses	23.7	(227)	(100)
PROFIT BEFORE TAX		4,437	1,429
Current income tax		18	(73)
Deferred income tax		(3)	(4)
NET PROFIT FOR THE REPORTING PERIOD		4,452	1,352
OTHER COMPREHENSIVE INCOME			
Items, which may be reclassified to profit or loss, including:			
Valuation of hedging instruments		(70)	40
Deferred tax		13	(8)
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		(57)	32
TOTAL COMPREHENSIVE INCOME		4,395	1,384
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)		2.38	0.72

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at June 30, 2017 (reviewed)	As at December 31, 2016 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		180	186
Intangible assets		4	5
Financial receivables	23.9	9,730	8,848
Derivatives	23.11	209	356
Available-for-sale financial assets		3	6
Shares in subsidiaries and associates	23.8	30,686	29,678
		40,812	39,079
CURRENT ASSETS			
Inventories		70	76
Trade and other financial receivables	23.9	1,152	3,474
Derivatives		-	9
Other current assets	23.12	2,945	81
Cash and cash equivalents	23.10	4,602	1,932
		8,769	5,572
TOTAL ASSETS		49,581	44,651
EQUITY			
Share capital		19,165	19,165
Hedging reserve		92	149
Reserve capital		15,327	13,730
Retained earnings		4,449	1,594
		39,033	34,638
NON-CURRENT LIABILITIES			
Non-current provisions		22	22
Loans, borrowings, bonds and cash-pooling	23.14	7,750	8,854
Derivatives	23.11	25	23
Deferred tax liabilities		23	33
		7,820	8,932
CURRENT LIABILITIES			
Current provisions		26	30
Loans, borrowings, bonds and cash-pooling	23.14	2,090	704
Trade and other financial liabilities		531	189
Income tax liabilities		27	4
Other current non-financial liabilities		54	154
		2,728	1,081
TOTAL LIABILITIES		10,548	10,013
TOTAL EQUITY AND LIABILITIES		49,581	44,651

SEPARATE 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	-	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 on increase of 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	-	-	-	4,452	4,452
Other comprehensive income	-	(57)	-	-	(57)
COMPREHENSIVE INCOME	-	(57)	-	4,452	4,395
Retained earnings distribution	-	-	1,598	(1,598)	-
Other changes	-	-	(1)	1	-
AS AT JUNE 30, 2017	19,165	92	15,327	4,449	39,033

	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	-	-	-	1,352	1,352
Other comprehensive income	-	32	-	-	32
COMPREHENSIVE INCOME	-	32	-	1,352	1,384
Retained earnings distribution	-	-	1,301	(1,301)	-
Dividend	-	-	-	(467)	(467)
AS AT JUNE 30, 2016	18,698	15	14,310	1,348	34,371

SEPARATE STATEMENT OF CASH FLOWS

	Period ended June 30, 2017 (reviewed)	Period ended June 30, 2016 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4,437	1,429
Income tax paid	(82)	(30)
Adjustments for:		
Depreciation, amortization and impairment losses	7	8
Interest and dividend, net	(2,853)	(1,069)
Profit / loss on investment activities	(1,267)	(49)
Change in receivables	(49)	228
Change in inventories	7	98
Change in liabilities, excluding loans and borrowings	353	(172)
Change in other non-financial assets	8	233
Change in provisions	(4)	(4)
NET CASH FROM OPERATING ACTIVITIES	557	672
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(1)	(5)
Redemption of bonds issued within the PGE Group	70	1,179
Acquisition of bonds issued within the PGE Group	(850)	(3,180)
Acquisition of shares in subsidiaries	(103)	(16)
Proceeds from sale of other financial assets	368	-
Deposits with a maturity over 3 months	(50)	-
Termination of deposits with a maturity over 3 months	2,340	-
Loans granted under cash-pooling agreement	-	(246)
Other loans granted	(25)	(16)
Dividends received	-	5
Interest received	24	10
Other	-	1
NET CASH FROM INVESTING ACTIVITIES	1,773	(2,268)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans, borrowings and issue of bonds	-	518
Repayment of loans	(17)	-
Proceeds from cash-pooling	507	-
Interest paid	(147)	(89)
Other	(3)	(2)
NET CASH FROM FINANCING ACTIVITIES	340	427
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,670	(1,169)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,930	2,010
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4,600	841

23.1 General information

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

The Company is seated in Warsaw, 2 Mysia Street.

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

The State Treasury is the majority shareholder of the Company.

Core operations of the Company are as follow:

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

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

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

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

Going concern

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

These financial statements comprise financial data for the period from January 1, 2017 to June 30, 2017 („financial statements”) and include comparative data for the period from January 1, 2016 to June 30, 2016 and as at December 31, 2016.

The foregoing financial statements are prepared based on the same accounting principles (policy) and methods of computation as compared with the most recent annual financial statements. These financial statements are to be read together with the audited separate financial statements of PGE S.A. prepared in accordance with IFRS EU for the year ended December 31, 2016.

Seasonality of business operations

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

The level of electricity sales is variable throughout a year and depends especially on weather conditions - air temperature and length of the day. Increase in demand for electricity is particularly visible in winter and decline is observed in summer. Moreover, seasonal changes are evident among selected groups of end users. Seasonality effects are more significant for households than for the industrial sector.

Seasonality of sales of PGE S.A. results from the fact that the Company realized 84% of the electricity sales volume to PGE Obrót S.A. and PGE Dystrybucja S.A. whose demand for electricity is subject to seasonality.

23.2 Professional judgment of management and estimates

In the previous reporting periods, PGE S.A. created an impairment allowance of shares in PGE Obrót S.A. In the current reporting period, due to an improvement of current and projected financial situation of PGE Obrót S.A., the Company conducted an impairment test and partly reversed the impairment allowance raised in the previous periods. Detailed information concerning this issue is described in note 23.8 of these financial statements.

In the period covered by these financial statements there were no significant changes in estimates influencing the numbers presented in the financial statements.

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

New standards and interpretations published, but not yet effective, are described in note 2.3 of these financial statements. The analysis of new regulations has not been finished yet, however they shall not have a significant impact on future financial statements of the Company.

23.4 Fair value hierarchy

The principles for valuation of inventories, 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.

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

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

23.5 Sales revenues

	Period ended June 30, 2017	Period ended June 30, 2016
SALES REVENUES		
Sale of electricity	3,751	4,413
Sale of energy origin rights	10	28
Sale of gas	296	329
Other sales of merchandise and materials	220	540
Revenues from sale of services	314	316
TOTAL SALES REVENUES	4,591	5,626

The decline in sale of electricity in the first half of 2017 in comparison to the corresponding period of the previous year is mainly due to decreased sales volume within the PGE Group resulting from lower demand of companies trading on retail market as well as lower transaction prices.

The decline in other sales of merchandise and materials results from lower volumes of CO₂ emission rights and lower wholesale price of CO₂ emission rights.

Information regarding main customers

The main business partners of the Company are subsidiaries in the PGE Group. In the first half of 2017 sales to PGE Obrót S.A. constituted 70% of sales revenues and sales to PGE Górnictwo i Energetyka Konwencjonalna S.A. accounted for approx. 11% thereof. In the first half of 2016, sales to these entities amounted to 75% and 15%, respectively.

23.6 Cost by nature and function

	Period ended June 30, 2017	Period ended June 30, 2016
COST BY NATURE		
Depreciation, amortization and impairment losses	7	8
Materials and energy	2	2
External services	30	48
Taxes and charges	2	2
Employee benefits expenses	55	48
Other cost by nature	26	37
TOTAL COST BY NATURE	122	145
Distribution and selling expenses	(10)	(26)
General and administrative expenses	(72)	(71)
Cost of merchandise and materials sold	4,172	5,144
COST OF GOODS SOLD	4,212	5,192

The decrease in cost of merchandise and materials sold (mainly purchased electricity and CO₂ emission rights) in the first half of 2017 in comparison to the corresponding period of the previous year is directly related to the decline of revenues described above.

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

23.7 Financial income and expenses

	Period ended June 30, 2017	Period ended June 30, 2016
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS		
Dividends	2,872	1,063
Interest	166	110
Reversal of impairment allowances	1,289	
Revaluation of financial instruments	47	7
Foreign exchange gains	-	11
FINANCIAL INCOME ON FINANCIAL INSTRUMENTS	4,374	1,191
TOTAL FINANCIAL INCOME	4,374	1,191

In the period ended June 30, 2017, the Company recognized mainly dividends from PGE GiEK S.A. of PLN 2,019 million and from PGE Dystrybucja S.A. of PLN 808 million (in the corresponding period PLN 1,012 million from PGE Dystrybucja S.A. and PLN 35 million from PGE Energia Odnawialna S.A.).

During the current reporting period, the Company partly reversed the impairment allowance of shares in PGE Obrót S.A., which was described in detail in note 23.8 of these financial statements.

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

Revaluation of financial instruments includes fair value valuation of an option to acquire Polimex-Mostostal shares, an ineffective portion of valuation of derivatives designated as hedging instruments in the cash-flow hedge accounting and total valuation of other derivatives.

	Period ended June 30, 2017	Period ended June 30, 2016
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS		
Interest	158	96
Revaluation of financial instruments	64	2
Foreign exchange losses	2	-
Other	3	2
FINANCIAL EXPENSES ON FINANCIAL INSTRUMENTS	227	100
TOTAL FINANCIAL EXPENSES	227	100

Interest expenses relate mainly to bonds issued and bank loans incurred described in note 23.14 of these financial statements.

Revaluation of financial instruments consists mainly of impairment allowance of Exatel S.A.'s shares of PLN 59 million.

23.8 Shares in subsidiaries

In the current reporting period PGE S.A. disposed of 100% shares in EXATEL S.A. with the total carrying amount at the sale date of PLN 368.5 million and acquired 16.48% shares in Polimex-Mostostal S.A. for the total amount of PLN 80.9 million. The acquisition is described in detail in note 22.4 of these financial statements.

Reversal of impairment allowance of shares in PGE Obrót S.A.

In the previous reporting periods, PGE S.A. created an impairment allowance of shares in PGE Obrót S.A. of PLN 5,536 million. Impairment loss was triggered by donation of shares in PGE Dystrybucja S.A., which resulted in significant decrease of PGE Obrót S.A.'s equity. After the donation was granted, the value of shares in PGE Obrót S.A. was estimated based on discounted cash flows model pursuant to IAS 36.

In the current reporting period, the Company conducted the analysis of impairment indicators concerning shares in PGE Obrót S.A. Due to an improvement of current and projected financial situation of PGE Obrót S.A. as compared to the previous projections, the Company identified indicators to reperform an impairment test of shares in PGE Obrót S.A. The impairment test was conducted in accordance with IAS 36 based on discounted cash flows model that was prepared using 5 - year financial projections of PGE Obrót S.A.

Key assumptions of the test are as follows:

- weighted average cost of capital (WACC) at 7.56%,
- decrease of the total sale volume in 2021 by approximately 8% in comparison to 2017,
- increase of wholesale prices of electricity in 2018 in comparison to 2017 and decrease in the period 2019-2021,
- correlation between electricity prices for retail consumers with electricity prices on the wholesale market and the impact on electricity prices of changed obligation for redemption of origin rights and changed origin rights prices.

As a result, the recoverable amount of shares in PGE Obrót S.A. was estimated at PLN 2,406 million and consequently PGE S.A. reversed an impairment allowance of PLN 1,289 million. The sensitivity analysis indicated that the valuation is most vulnerable to changes in WACC and sale prices of electricity within particular rate groups, mainly within group B. The increase of WACC by 1 percentage point results in decreased value of shares by almost PLN 287 million, whereas the decrease of WACC by 1 percentage point results in increased value of shares by almost PLN 389 million. In turn, growth or decline of realized sale prices within group B by 1 percentage point results respectively in increased or decreased value of shares by almost PLN 246 million.

23.9 Financial assets

	As at June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Trade receivables	-	586	-	523
Acquired bonds	9,609	16	8,751	21
Cash-pooling receivables	-	550	-	628
Loans granted	121	-	97	-
Deposits with a maturity over 3 month	-	-	-	2,299
Other financial receivables	-	-	-	3
TOTAL FINANCIAL RECEIVABLES	9,730	1,152	8,848	3,474

Trade receivables

Trade receivables of PLN 586 million relate mainly to sale of electricity and services to subsidiaries in the PGE Group. As at June 30, 2017, the balance of the two most important debtors, i.e. PGE Obrót S.A., PGE Górnictwo i Energetyka Konwencjonalna S.A. constituted 81% of total balance of trade receivables.

Acquired bonds

	As at June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
ACQUIRED BONDS - ISSUER				
PGE Górnictwo i Energetyka Konwencjonalna S.A.	8,145	6	7,236	7
PGE Energia Odnawialna S.A. and its subsidiaries	1,375	10	1,426	14
Autostrada Wielkopolska S.A.	89	-	89	-
TOTAL ACQUIRED BONDS	9,609	16	8,751	21

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

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

Cash-pooling receivables

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

Loans granted

	As at June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
LOANS GRANTED - BORROWER				
PGE Systemy S.A.	104	-	80	-
PGE Trading GmbH	13	-	13	-
Bestgum sp. z o.o.	4	-	4	-
TOTAL LOANS GRANTED	121	-	97	-

23.10 Cash and cash equivalents

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

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

	As at June 30, 2017	As at December 31, 2016
Cash on hand and cash at bank	353	331
Overnight deposits	-	1
Short-term deposits	4,249	1,600
TOTAL	4,602	1,932
Interest accrued on cash, not received at the reporting date	(1)	(1)
Exchange differences on cash in foreign currencies	(1)	(1)
Cash and cash equivalents presented in the statement of cash flows	4,600	1,930
<i>including restricted cash</i>	-	-
Undrawn borrowing facilities	6,360	5,860
<i>including overdraft facilities</i>	<i>2,000</i>	<i>2,000</i>

For detailed description of bank loan agreements please refer to note 23.14 of these financial statements.

23.11 Derivatives

	As at June 30, 2017		As at December 31, 2016	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE				
Currency forward	-	-	1	-
Commodity forward	-	-	8	-
IRS transactions	-	16	-	23
Options	46	-	-	-
HEDGING DERIVATIVES				
CCIRS hedging transactions	76	-	231	-
IRS hedging transactions	87	9	125	-
TOTAL DERIVATIVES	209	25	365	23
current	-	-	9	-
non-current	209	25	356	23

Options

On January 20, 2017, PGE S.A. acquired from Towarzystwo Finansowe Silesia Sp. z o.o. a call option for purchase of Polimex-Mostostal S.A. shares. Dates of realization for the option were set at: July 30, 2020, July 30, 2021, July 30, 2022.

IRS transactions

In the current reporting period, PGE S.A. entered into an IRS transaction hedging the interest rate on a bank loan with a nominal value of PLN 500 million. For recognition of this IRS transaction, the Company applies hedge accounting. The impact of hedge accounting is described in note 16.2 of these financial statements.

In 2016 PGE S.A. concluded IRS transactions, hedging the interest rate on bank loans with a total nominal value of PLN 4,630 million. For recognition of these IRS transactions, the Company applies hedge accounting. The impact of hedge accounting is 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 the IRS transactions are correlated to interest payments on bonds. Change in fair value of these IRS transactions is 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 concerning payments of principal and interest and interest rate. In these transactions, banks-contractors pay PGE S.A. interest based on a fixed rate in EUR and PGE S.A. pays interest based on a fixed rate in PLN.

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

23.12 Other current assets

	As at June 30, 2017	As at December 31, 2016
Dividend receivables	2,872	-
Advance payments	27	39
Receivables from TG	23	11
VAT receivables	14	24
Other	9	7
TOTAL	2,945	81

Dividend receivables relate mainly to receivables from PGE GiEK and PGE Dystrybucja S.A.

Advance payments comprise mainly funds transferred to the subsidiary PGE Dom Maklerski S.A. for the purchase of electricity and gas of PLN 27 million in the current reporting period as compared to PLN 38 million in the comparative period.

23.13 Selected financial assets

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

23.14 Loans, borrowings, bonds, cash-pooling

	As at June 30, 2017		As at December 31, 2016	
	Non-current	Current	Non-current	Current
Loans received	2,730	59	2,858	80
Bonds issued	-	1,000	976	24
Bank loans	5,020	129	5,020	127
Cash-pooling liabilities	-	902	-	473
TOTAL LOANS, BORROWINGS, BONDS AND CASH-POOLING	7,750	2,090	8,854	704

Loans received from PGE Sweden AB (publ)

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

The Company recognizes loans drawn from its subsidiary – PGE Sweden AB (publ) of EUR 660 million.

PGE S.A. estimates the fair value of these loans at PLN 2.872 million (as compared to carrying value of PLN 2,789 million). The fair value was established using estimated credit risk of PGE S.A. The indicators used in the valuation belong to Level 2 of the fair value hierarchy.

Issuance of bonds on the domestic market

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

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

Bank loans

On June 7, 2017, the Company concluded loan agreement with European Bank for Reconstruction and Development for the total amount of PLN 500 million with the maturity date of June 7, 2028. The funds obtained on the basis of the agreement will be used for projects relating to the modernization and development of distribution grid. As at June 30, 2017 the loan was not used.

Additionally, the Company has contracted the following credit agreements:

- the Loan Agreement signed on December 17, 2014 with Bank Gospodarstwa Krajowego for the amount of PLN 1 billion with the maturity date of December 31, 2027. As at June 30, 2017, the Company used the whole available credit.
- long-term loan agreement concluded on September 7, 2015 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. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility of PLN 3,630 million and revolving loan facility of PLN 1,870 million. The maturity date for the revolving loan facility is April 30, 2019 and for the term loan facility is September 30, 2023. As at June 30, 2017 the term loan facility was used and the liability amounts to PLN 3,647 million.
- two loan agreements signed on October 27, 2015 with the European Investment Bank for the total amount of nearly PLN 2,000 million. The amount of PLN 1,500 million, 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 of Gorzów Heat and Power Plant and Rzeszów Heat and Power Plant. 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 June 30, 2017 the aforesaid loans were not used.
- loan agreement signed on December 4, 2015 with Bank Gospodarstwa Krajowego S.A. for the amount of PLN 500 million with the maturity date of December 31, 2028. As at December 31, 2016, PGE S.A. used the whole available credit.

The value of overdraft facilities at the Company's disposal amounted to PLN 2,000 million as at June 30, 2017. The aforesaid overdraft facilities consists of two credits agreements limited to the amount of PLN 1 billion each. Part of the facilities is available until February 22, 2018 and the second part until April 29, 2018.

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

23.15 Contingent liabilities

	As at June 30, 2017	As at December 31, 2016
Bank guarantees	11,189	11,908
Other contingent liabilities	1	1
CONTINGENT LIABILITIES, TOTAL	11,190	11,909

Surety for the obligations of PGE Sweden AB (publ)

Due to establishment of the Eurobonds program in 2014, an agreement was concluded for the issue of guarantee by PGE S.A. for the liabilities of PGE Sweden AB (publ). The guarantee was granted to the amount of EUR 2,500 million (PLN 10,566 million) and will be valid until December 31, 2041. As at June 30, 2017, PGE Sweden AB (publ)'s liabilities due to bonds issued amounted to EUR 641 million (PLN 2,709 million), as at December 31, 2016 these liabilities amounted to EUR 642 million (PLN 2,842 million).

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

In January 2014, the Company granted three sureties to the bank payment guarantee issued for PGE Górnictwo i Energetyka Konwencjonalna S.A. at the total value of PLN 549 million. Granting sureties is related to the investment conducted by PGE Górnictwo i Energetyka Konwencjonalna S.A. concerning construction of new power units in Elektrownia Opole.

23.16 Other significant issues related to contingent liabilities

Standby commitments to ensure financing of new investments in the PGE Group companies

Due to planned strategic investments in the PGE Group, the Company committed to its subsidiaries, in the form of standby commitments, to ensure financing of the planned investments. The standby commitments relate to specific investments and may be used only for such purposes. As at June 30, 2017 and December 31, 2016 approximate value of standby commitments amounts to PLN 15 billion.

Commitment to support liquidity at PGE Obrót S.A.

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

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

23.17 Other legal claims and disputes

The issue of compensation for conversion of shares and claims for annulment of the resolutions of the General Shareholders' Meetings in described in note 19.4 of these financial statements.

23.18 Information on related parties

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

- bonds issued by subsidiaries belonging to the tax group with interest rates below market rates, described in note 23.9 of these financial statements,
- tax losses settlements within the tax group, described in notes 7 and 20 of these financial statements.

23.19 Subsidiaries within the PGE Group

	Period ended June 30, 2017	Period ended June 30, 2016
Sales to related parties	3,984	5,303
Purchases from related parties	3,544	551
Financial income	3,004	1,167
Financial expenses	93	39

The Company recognizes sales revenue from subsidiaries within the PGE Group mainly due to sales of electricity.

	As at June 30, 2017	As at December 31, 2016
RECEIVABLES FROM RELATED PARTIES		
Bonds issued by subsidiaries	9,537	8,683
Dividend receivables	2,871	-
Trade receivables from subsidiaries	521	393
Loans granted to subsidiaries	121	97
Cash-pooling receivables	550	631
Receivables due to settlements within the Tax Group	23	11
RECEIVABLES FROM RELATED PARTIES, TOTAL	13,623	9,815

	As at June 30, 2017	As at December 31, 2016
LIABILITIES TO RELATED PARTIES		
Loans received from subsidiaries	2,790	2,938
Trade liabilities to subsidiaries	475	74
Cash-pooling liabilities	902	473
Liabilities due to settlements within the Tax Group	17	18
LIABILITIES TO SUBSIDIARIES, TOTAL	4,184	3,503

Sureties and standby commitments granted to subsidiaries of PGE S.A. are described in note 23.15 of these financial statements.

23.20 Subsidiaries of the State Treasury

The State Treasury is the dominant shareholder of the PGE Group and as a result in accordance with IAS 24 *Related Party Disclosures*, the State Treasury companies are treated as related entities. The Company identifies in detail transactions with approximately 40 of the biggest State Treasury subsidiaries. The total value of transactions with such entities is presented in the tables below.

	Period ended June 30, 2017	Period ended June 30, 2016
Sales to related parties	185	72
Purchases from related parties	148	71

	As at June 30, 2017	As at December 31, 2016
Trade receivables from related parties	24	71
Trade liabilities to related parties	26	34

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

23.21 Management personnel remuneration

The key management includes the Management Board and Supervisory Board.

<i>PLN thousand</i>	Period ended June 30, 2017	Period ended June 30, 2016
Short-term employee benefits (salaries and salary related costs)	4,960	4,388
Post-employment and termination benefits	20	3,066
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	4,980	7,454

<i>PLN thousand</i>	Period ended June 30, 2017	Period ended June 30, 2016
Management Board	4,573	7,211
Supervisory Board	407	243
TOTAL REMUNERATION OF MANAGEMENT PERSONNEL	4,980	7,454

The Members of the Company's Management Board are employed on the basis of civil law contracts for management (so called management contracts). The above remuneration is included in other cost by nature disclosed in note 23.6 Cost by nature and function.

23.22 Significant events of the reporting period

In the current reporting period, the Company recognized a partial reversal of an impairment allowance of shares in PGE Obrót S.A. raised in the previous periods. Detailed information was described in note 23.8.

Other significant events of the reporting period are described in notes 22.3 and 22.4 of these financial statements.

24. Approval of the financial statements

These consolidated financial statements, including half-year separate financial information, were authorized for issue by the Management Board on August 8, 2017.

Warsaw, August 8, 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 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 Wasilek**

**Vice-President of the
Management Board Emil Wojtowicz**

Signature of the person responsible for preparation of the financial statements

Michał Skiba - Director of Financial Reporting and Tax Department