

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

***ended March 31, 2018,
in accordance with IFRS (in PLN million)***

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	5
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
CONSOLIDATED STATEMENT OF CASH FLOWS	7
GENERAL INFORMATION, BASIS FOR PREPARATION OF FINANCIAL STATEMENTS AND OTHER EXPLANATORY INFORMATION	8
1. General information	8
1.1 Information on the parent	8
1.2 Information on PGE Group	8
1.3 PGE Group's composition	9
1.4 Accounting for new acquisitions	11
2. Basis for preparation of financial statements.....	11
2.1 Statement of compliance.....	11
2.2 Presentation and functional currency.....	12
2.3 New standards and interpretations published, not yet effective	12
2.4 Professional judgment of management and estimates	13
3. Changes in accounting principles and data presentation	13
4. Fair value hierarchy	16
EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	17
EXPLANATORY NOTES TO OPERATING SEGMENTS	17
5. Information on operating segments.....	17
5.1 Information on business segments	18
EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	20
6. Revenues and expenses	20
6.1 Sales revenues	20
6.2 Costs by nature and function.....	20
6.3 Other operating income and expenses	21
6.4 Finance income and finance costs	22
6.5 Share of profit of entities accounted for using the equity method	22
7. Impairment losses on assets	23
8. Tax in the statement of comprehensive income	23
EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	24
9. Significant additions and disposals of property, plant and equipment and intangible assets	24
10. Future investment commitments.....	24
11. Shares accounted for using the equity method	24
12. Deferred tax in the statement of financial position.....	25
12.1 Deferred income tax assets	25
12.2 Deferred income tax liabilities	25
13. CO₂ emission allowances for captive use	26
14. Selected financial assets	26
14.1 Trade and other financial receivables.....	26
14.2 Cash and cash equivalents.....	27
15. Derivatives.....	27
16. Equity	28
16.1 Share capital.....	28
16.2 Hedging reserve	29
16.3 Dividends paid and recommended for payment.....	29
17. Provisions	30
17.1 Provision for employee benefits	30
17.2 Rehabilitation provision.....	31
17.3 Provision for shortage of CO ₂ emission allowances	31
17.4 Provision for energy origin rights held for redemption	31
17.5 Provision for non-contractual use of the property.....	31
17.6 Other provisions	31
18. Financial liabilities	32
18.1 Loans, borrowings, bonds and lease.....	32
18.2 Trade and other financial liabilities	33
19. Other current non-financial liabilities	33

OTHER EXPLANATORY NOTES.....	33
20. Contingent liabilities and receivables. Legal claims	33
20.1 Contingent liabilities.....	33
20.2 Other significant issues related to contingent liabilities	35
20.3 Contingent receivables	35
20.4 Other legal claims and disputes.....	35
21. Tax settlements	36
22. Information on related parties.....	38
22.1 Associates and jointly controlled entities	38
22.2 State Treasury-controlled companies	38
22.3 Management remuneration.....	39
23. Significant events during and after the reporting period.....	39
24. PGE Polska Grupa Energetyczna S.A. quarterly financial information	40
SEPARATE STATEMENT OF COMPREHENSIVE INCOME	40
SEPARATE STATEMENT OF FINANCIAL POSITION.....	41
SEPARATE STATEMENT OF CHANGES IN EQUITY	42
SEPARATE STATEMENT OF CASH FLOWS	43
24.1 Changes in accounting rules and data presentation.....	44
25. Approval of financial statements	45

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Period ended March 31, 2018 <i>(unaudited)</i>	Period ended March 31, 2017 <i>(unaudited)</i>
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	<u>6.1</u>	7,137	5,741
Cost of goods sold	<u>6.2</u>	(5,229)	(4,149)
GROSS PROFIT ON SALES		1,908	1,592
Distribution and selling expenses	<u>6.2</u>	(363)	(304)
General and administrative expenses	<u>6.2</u>	(256)	(176)
Other operating income	<u>6.3</u>	88	132
Other operating expenses	<u>6.3</u>	(62)	(43)
OPERATING PROFIT		1,315	1,201
Financial income	<u>6.4</u>	15	114
Financial expenses	<u>6.4</u>	(116)	(177)
Share of profit of entities accounted for using the equity method	<u>6.5</u>	11	9
PROFIT BEFORE TAX		1,225	1,147
Current income tax	<u>8</u>	(226)	(139)
Deferred income tax	<u>8</u>	(13)	(45)
NET PROFIT FOR THE REPORTING PERIOD		986	963
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuation of financial instruments	<u>16.2</u>	1	2
Valuation of hedging instruments	<u>16.2</u>	(45)	(40)
Foreign exchange differences from translation of foreign entities		1	(6)
Deferred tax	<u>8</u>	8	7
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		(35)	(37)
TOTAL COMPREHENSIVE INCOME		951	926
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		935	964
– non-controlling interests		51	(1)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		900	927
– non-controlling interests		51	(1)
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)		0.50	0.52

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at March 31, 2018 <i>(unaudited)</i>	As at December 31, 2017 <i>(audited)</i> <i>restated data*</i>	As at March 31, 2017 <i>(unaudited)</i> <i>restated data*</i>
NON-CURRENT ASSETS				
Property, plant and equipment	9	58,612	58,620	51,378
Investment property		47	47	26
Intangible assets	9	1,266	1,281	631
Financial receivables	14.1	168	158	245
Derivatives and other assets measured at fair value through profit or loss	15	186	222	239
Shares and other equity instruments		32	47	39
Shares accounted for using the equity method	11	698	634	550
Other non-current assets		522	524	662
CO ₂ emission allowances for captive use	13	449	402	1,218
Deferred income tax assets	12.1	594	651	163
		62,574	62,586	55,151
CURRENT ASSETS				
Inventories		1,963	1,879	1,627
CO ₂ emission allowances for captive use	13	1,061	1,040	1,193
Income tax receivables		29	36	31
Derivatives and other assets measured at fair value through profit or loss	15	65	83	-
Trade and other financial receivables	14.1	3,661	3,522	4,271
Shares and other equity instruments		5	5	5
Other current assets		462	391	374
Cash and cash equivalents	14.2	2,356	2,552	4,656
		9,602	9,508	12,157
ASSETS CLASSIFIED AS HELD FOR SALE				
		11	12	12
TOTAL ASSETS		72,187	72,106	67,320
EQUITY				
Share capital	16.1	19,165	19,165	19,165
Reserve capital		15,328	15,328	13,730
Hedging reserve	16.2	47	83	116
Foreign exchange differences from translation		(3)	(4)	(3)
Retained earnings		11,932	10,616	10,599
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
		46,469	45,188	43,607
Equity attributable to non-controlling interests		1,124	1,165	93
TOTAL EQUITY		47,593	46,353	43,700
NON-CURRENT LIABILITIES				
Non-current provisions	17	5,720	5,651	5,056
Loans, borrowings, bonds and lease	18.1	8,435	8,422	9,433
Derivatives	15	21	18	37
Deferred tax liabilities	12.2	1,269	1,250	1,153
Deferred income and government grants		625	1,038	1,097
Other financial liabilities	18.2	375	379	29
Other non-financial liabilities		18	-	-
		16,463	16,758	16,805
CURRENT LIABILITIES				
Current provisions	17	2,523	1,991	2,130
Loans, borrowings, bonds and lease	18.1	1,629	1,623	404
Derivatives	15	75	106	-
Trade and other financial liabilities	18.2	1,882	3,231	2,726
Income tax liabilities		159	196	1
Deferred income and government grants		96	115	119
Other non-financial liabilities	19	1,767	1,733	1,435
		8,131	8,995	6,815
TOTAL LIABILITIES		24,594	25,753	23,620
TOTAL EQUITY AND LIABILITIES		72,187	72,106	67,320

* restatement of comparative data is described in note 3 of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total EQUITY	
	Note	16.1	16.2						
JANUARY 1, 2017		19,165	13,730	147	3	9,634	42,679	96	42,775
Net profit for the reporting period		-	-	-	-	2,660	2,660	7	2,667
Other comprehensive income		-	-	(64)	(7)	(82)	(153)	-	(153)
COMPREHENSIVE INCOME		-	-	(64)	(7)	2,578	2,507	7	2,514
Retained earnings distribution		-	1,598	-	-	(1,598)	-	-	-
Dividend		-	-	-	-	-	-	(2)	(2)
Purchase of new subsidiaries		-	-	-	-	-	-	1,067	1,067
Change in stake in subsidiaries not resulting in loss of control		-	-	-	-	-	-	-	-
Tax on capital increase		-	-	-	-	-	-	-	-
Settlement of purchase of additional shares in subsidiaries		-	-	-	-	2	2	(3)	(1)
TRANSACTIONS WITH OWNERS		-	1,598	-	-	(1,596)	2	1,062	1,064
DECEMBER 31, 2017		19,165	15,328	83	(4)	10,616	45,188	1,165	46,353
Net profit for the reporting period		-	-	-	-	935	935	51	986
Other comprehensive income		-	-	(36)	1	-	(35)	-	(35)
COMPREHENSIVE INCOME FOR THE PERIOD		-	-	(36)	1	935	900	51	951
Inclusion of companies in consolidation		-	-	-	-	27	27	20	47
Changes in accounting principles – IFRS 15		-	-	-	-	340	340	-	340
Settlement of purchase of additional shares in subsidiaries		-	-	-	-	14	14	(112)	(98)
TRANSACTIONS WITH OWNERS		-	-	-	-	381	381	(92)	289
MARCH 31, 2018		19,165	15,328	47	(3)	11,932	46,469	1,124	47,593

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation	Retained earnings	Total	Non-controlling interests	Total EQUITY	
	Note	16.1	16.2						
JANUARY 1, 2017		19,165	13,730	147	3	9,634	42,679	96	42,775
Net profit for the reporting period		-	-	-	-	964	964	(1)	963
Other comprehensive income		-	-	(31)	(6)	-	(37)	-	(37)
COMPREHENSIVE INCOME		-	-	(31)	(6)	964	927	(1)	926
Settlement of purchase of additional shares		-	-	-	-	-	-	(1)	(1)
Tax on capital increase		-	-	-	-	1	1	(1)	-
TRANSACTIONS WITH OWNERS		-	-	-	-	1	1	(2)	(1)
MARCH 31, 2017		19,165	15,730	116	(3)	10,599	43,607	93	43,700

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Period ended March 31, 2018 <i>(unaudited)</i>	Period ended March 31, 2017 <i>(unaudited) restated data*</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,225	1,147
Income tax paid		(275)	(276)
Adjustments for:			
Share of profit of associates consolidated under the equity method		(11)	(9)
Depreciation, amortisation, disposal and impairment losses		899	748
Interest and dividend, net		48	25
Profit / loss on investing activities		9	47
Change in receivables		(139)	130
Change in inventories		(85)	(32)
Change in liabilities, excluding loans and borrowings		(399)	(379)
Change in other non-financial assets, prepayments and CO ₂ emission allowances		(165)	(59)
Change in provisions		584	322
Other		(10)	(27)
NET CASH FROM OPERATING ACTIVITIES		1,681	1,637
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets		(1,697)	(1,631)
Deposits with maturity over 3 months		(89)	(108)
Termination of deposits with maturity over 3 months		79	2,392
Purchase of financial assets and increase in stake in Group companies		(136)	(143)
Sale of subsidiaries after offsetting acquired cash		-	(97)
Inclusion of companies in consolidation		18	-
Interest received		-	10
Other		7	2
NET CASH FROM INVESTING ACTIVITIES		(1,818)	425
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans, borrowings and issue of bonds		32	-
Repayment of loans, borrowings, bonds and finance leasing		(82)	(23)
Interest paid		(59)	(55)
Grants received for non-current assets		7	-
Other		42	(2)
NET CASH FROM FINANCING ACTIVITIES		(60)	(80)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(197)	1,982
<i>Net exchange differences</i>		(3)	(3)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	14.2	2,551	2,666
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	14.2	2,354	4,648

* restatement of comparative data is described in note 3 of these financial statements.

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

1. General information

1.1 Information on the parent

PGE Polska Grupa Energetyczna S.A. ("Parent," "Company," "PGE S.A.") was founded on the basis of a Notary Deed dated 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's registered office is in Warsaw, ul. Mysia 2.

As at January 1, 2018 and on the date on which these financial statements were published, the Company's Management Board was as follows:

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

PGE S.A. Separate quarterly report

PGE S.A. does not publish a separate quarterly report relating solely to the parent company. Instead, this is included as part of the consolidated quarterly report. This is possible under § 83 of the Regulation of the Minister of Finance dated February 19, 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognized as being equivalent to information required by the regulations of law of a state which is not a member state. (Polish Journal of Laws of 2014, item 133, as amended) and PGE S.A. had declared that it would use this option in current report 3/2017 of January 23, 2017.

In view of this, note 24 to these consolidated financial statements contains quarterly financial information for PGE S.A.

Ownership structure

As at March 31, 2018, the parent's ownership structure was as follows:

	State Treasury	Other shareholders	Total
As at December 31, 2017	57.39%	42.61%	100.00%
As at March 31, 2018	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 known to the Company as of the date on which these financial statements were prepared, the State Treasury was the only shareholder with at least 5% of votes at the general meeting of PGE S.A.

1.2 Information on PGE Group

PGE Group ("PGE Group," "Group") includes the parent, PGE Polska Grupa Energetyczna S.A., 61 consolidated subsidiaries, 3 associates and 1 jointly controlled entity. For additional information about subordinated entities included in the consolidated financial statements please refer to note 1.3.

These consolidated financial statements of PGE Group comprise financial data for the period from January 1, 2018 to March 31, 2018 ("financial statements", "consolidated financial statements") and include comparative data for the period from January 1, 2017 to March 31, 2017.

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

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO₂ emission allowances and gas,
- production and distribution of heat,
- provision of other services related to these activities

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

Going concern

These financial statements were prepared under the assumption that the Group's 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.

Changes in accounting policies

The same accounting rules (policies) and calculation methods were applied in these financial statements as in the most recent annual financial statements, except for changes resulting from the entry into force of IFRS 9 *Financial Instruments* and IFRS 15 *Contracts with Customers*. A detailed description of the changes is presented in note 3. These financial statements should be read in conjunction with PGE Group's consolidated financial statements for the year ended December 31, 2017.

1.3 PGE Group's composition

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

Entity	Entity holding shares	PGE Group entities' shares as at March 31, 2018	PGE Group entities' shares as at December 31, 2017
SEGMENT: SUPPLY			
1. PGE Polska Grupa Energetyczna S.A. Warsaw	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. PGE Centrum sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
6. PGE Nowa Energia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
7. ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
8. PGE Paliwa sp. z o.o. Kraków	PGE Energia Ciepła S.A.	100.00%	100.00%
SEGMENT: CONVENTIONAL GENERATION			
9. PGE Górnictwo i Energetyka Konwencjonalna S.A. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
10. PGE Energia Ciepła S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	99.52%	99.52%
11. PGE Toruń S.A. Toruń	PGE Energia Ciepła S.A.	95.22%	95.22%
12. PGE Gaz Toruń sp. z o.o. Warsaw	PGE Energia Ciepła S.A.	50.04%	50.04%
13. Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. Wrocław	PGE Energia Ciepła S.A. Investment III B.V.	25.81% 32.26%	17.74% 32.26%
14. Elektrociepłownia Zielona Góra S.A. Zielona Góra	Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.	98.40%	98.40%
15. ELBIS sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
16. MEGAZEC sp. z o.o. Bydgoszcz	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
17. MegaSerwis sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
18. ELMEN sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
19. Przedsiębiorstwo Usługowo-Produkcyjne „ELTUR-SERWIS” sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
20. Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS” sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
21. Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
22. Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
23. RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
24. EPORE sp. z o.o. Bogatynia	PGE Górnictwo i Energetyka Konwencjonalna S.A.	85.38%	85.38%
25. „Energoserwis – Kleszczów” sp. z o.o. Rogowiec	PGE Górnictwo i Energetyka Konwencjonalna S.A.	51.00%	51.00%
26. Przedsiębiorstwo Energetyki Ciepłej sp. z o.o. Zgierz	PGE Górnictwo i Energetyka Konwencjonalna S.A.	50.98%	50.98%

SEGMENT: RENEWABLES				
27.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
28.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
29.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
30.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
31.	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
32.	PGE Klaster sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
SEGMENT: DISTRIBUTION				
33.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
SEGMENT: OTHER ACTIVITY				
34.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
35.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36.	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37.	Investment III B.V. Amsterdam	PGE Energia Ciepła S.A.	100.00%	100.00%
38.	PGE Synergia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39.	„Elbest” sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40.	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41.	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42.	PGE Inwest 5 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43.	PGE Ventures sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
49.	PGE Inwest 13 S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
50.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
51.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
52.	PGE Inwest 17 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
53.	PGE Inwest 18 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
54.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
55.	PGE Towarzystwo Funduszy Inwestycyjnych S.A. (currently Towarzystwo Funduszy Inwestycyjnych Energia S.A.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
56.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
57.	Przedsiębiorstwo Transportowo-Uslugowe „ETRA” sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
58.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
59.	PGE Ekoserwis sp. z o.o. Wrocław	PGE Energia Ciepła S.A.	84.15%	84.15%
60.	ZOWER sp. z o.o. Czerwionka-Leszczyny	PGE Energia Ciepła S.A.	100.00%	-
61.	Przedsiębiorstwo Usługowo - Handlowe TOREC sp. z o.o. Toruń	PGE Toruń S.A.	50.04%	-

62	Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o. Gliwice	PGE Polska Grupa Energetyczna S.A.	22.78%	-
		PGE Górnictwo i Energetyka Konwencjonalna S.A.	22.14%	-
		PGE Energia Ciepła S.A.	7.38%	-

During the reporting period, three subsidiaries were added to consolidation that previously had not been consolidated due to immateriality:

- ZOWER sp. z o.o.
- Przedsiębiorstwo Usługowo - Handlowe TOREC sp. z o.o.
- Zakłady Pomiarowo-Badawcze Energetyki Energopomiar sp. z o.o.

As a result of a subscription to sell 2 383 999 ordinary bearer shares of Zespół Elektrociepłowni Wrocławskich KOGENERACJA Spółka Akcyjna ("KOGENERACJA"), announced on February 1, 2018, PGE Energia Ciepła S.A. on March 14, 2018 purchased 1 202 172 shares in the Company, entitling to 1 202 172 votes at KOGENERACJA's general meeting and constituting (after rounding to the nearest one-hundredth of percent) 8.07% of KOGENERACJA's total shares and general meeting votes.

As of the date on which these financial statements were prepared, PGE Group held 58.07% of the total number of votes at KOGENERACJA's general meeting. The change in the number of votes resulted from transactions to sell shares on the WSE, carried out and cleared on March 14, 2018.

Events after the reporting period:

- On February 26, 2018, a resolution was adopted to merge ELTUR-SERWIS Sp. z o.o. (acquiring company) with TOP-SERWIS sp. z o.o. (the acquired company). The merger was registered at the National Court Register on April 12, 2018.
- On March 27, 2018, a resolution was adopted on the merger of PGE Energia Odnawialna S.A. (the acquiring company) and PGE Energia Natury PEW sp. z o.o. (the acquired company). The merger was registered at the National Court Register on May 2, 2018.

The aforementioned mergers will not have a major impact on PGE Group's future financial statements.

1.4 Accounting for new acquisitions

As described in note 1.4 to the consolidated financial statements for 2017, the acquisition of EDF's assets in Poland took place in 2017. As a result of this transaction, PGE S.A. acquired direct and indirect control over the following companies:

- EDF Polska S.A. (currently PGE Energia Ciepła S.A.)
- EDF Investment III B.V. (currently Investment III B.V.)
- EDF Paliwa sp. z o.o. (currently PGE Paliwa sp. z o.o.)
- EDF Toruń S.A. (currently PGE Toruń S.A.)
- EDF Ekoserwis sp. z o.o. (currently PGE Ekoserwis sp. z o.o.)
- EDF Gaz Toruń sp. z o.o. (currently PGE Gaz Toruń sp. z o.o.)
- Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A.
- Elektrociepłownia Zielona Góra S.A.

According to IFRS 3, PGE Group should settle the transaction within 12 months from the acquisition date. Initial recognition of the acquisition of the acquired entities' assets and liabilities was done for the purposes of these financial statements. The Group is working on final recognition.

2. Basis for preparation of financial statements

2.1 Statement of compliance

These financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and in the scope required under the Minister of Finance Regulation of March 29, 2018 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 2018, items 512 and 685).

IFRS comprise standards and interpretations, approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC").

2.2 Presentation and functional currency

The functional currency of the parent company and the presentation currency of these consolidated financial statements is Polish zloty ("PLN"). All amounts are in PLN millions (PLNm), unless indicated otherwise.

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

	March 31, 2018	December 31, 2017	March 31, 2017
USD	3.4139	3.4813	3.9455
EUR	4.2085	4.1709	4.2198

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, 2018:

Standard	Description of changes	Effective date
IFRS 16 <i>Leases</i>	The standard eliminates classification of leases as either operating or finance lease in the lessee's accounts. All contracts that meet the criteria of lease will be recognised as finance lease.	January 1, 2019
Amendments to IFRS 9	These changes apply to the right of early repayment with negative fees.	January 1, 2019
IFRIC 23 <i>Uncertainty over income tax treatments</i>	This interpretation applies to establishing taxable revenue, tax base, unsettled tax losses, unused tax rebates and tax rates.	January 1, 2019
Amendments to IAS 28	This amendment concerns measurement of non-current investments in associates	January 1, 2019
Annual improvements to IFRS (cycle 2015-2017)	A collection of amendments dealing with: IFRS 3 - measurement of existing stake in a joint operation; IFRS 11 - no measurement of existing stake in a joint operation; IFRS 12 - income tax consequences of dividends; IAS 23 - financing costs when an asset is ready for its intended use.	January 1, 2019
Amendments to IAS 19	Amendments concern defined-benefit plans.	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS	These amendments aim to clarify the Conceptual Framework	January 1, 2020
IFRS 17 <i>Insurance contracts</i>	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2021

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.

Impact of new regulations on PGE Group's consolidated financial statements

IFRS 16 Leases

The new standard changes principles for the recognition of contracts which meet the criteria of lease. The main change is to eliminate the classification of leases as either operating leases or finance leases in the lessee's accounts. All contracts which meet the criteria of a lease will be recognised as a finance lease. Adoption of the standard will have the following effect:

- in the statement of financial position: increase of non-financial non-current assets and financial liabilities,
- in the statement of comprehensive income: decrease of operating expenses (other than depreciation/amortisation), increase of depreciation/amortisation and financial expenses.
- increase in net debt and net debt to EBITDA due to proportionally higher increase in financial liabilities than decrease in operating expenses other than depreciation

PGE is currently analysing the potential impact of IFRS 16 on the future financial statements. The analysis is particularly focusing on the potential impact of standard on the receipt of free perpetual usufruct rights to land. In accordance with PGE Group's existing accounting policy, rights to perpetual usufruct of land were not recognised as contracts containing a lease component. Analysis of this standard has not finished yet but its application should not have a significant impact on the Group's future financial statements.

Other standards

The other standards and amendments should not have a major impact on PGE Group's future financial statements.

2.4 Professional judgment of management and estimates

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

- In the previous reporting periods PGE Group recognised impairment losses on assets, in particular of property, plant and equipment. In the present period, the Group did not identify any need to conduct impairment testing or reverse impairment losses recognised in previous reporting periods. Estimate of recoverable amount of property, plant and equipment is based on a number of significant assumptions to the factors, realisation of which is uncertain and mostly beyond PGE Group's control. The Group believes that it has assumed the most accurate volumes and values. Nevertheless, realisation 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.

3. Changes in accounting principles and data presentation

New standards and interpretations that became effective on January 1, 2018

The accounting principles applied in preparing these consolidated financial statements are consistent with those applied in preparing the Company's consolidated financial statements for 2017, except as stated below. The following amendments to IFRSs are applied in these financial statements in line with their effective dates. Amendments relating to IFRS 9 and IFRS 15 are described below. The other amendments did not have material impact on the presented and disclosed financial information or they were not applicable to the Group's transactions:

- Amendments to IFRS 2 - Classification and measurement of share-based payment transactions
- Amendments to IFRS 4 - Application of IFRS 9 Financial instruments jointly with IFRS 4 Insurance contracts
- Amendments resulting from IFRS annual improvement cycle 2014-2016 - amendments to IFRS 1, IAS 28;
- Amendments to IAS 40 - Classification of properties: i.e. transfer from investment property to other groups of assets.
- Amendments to IFRIC 23 - 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.

IFRS 9 Financial Instruments

Amendments introduced by the new standard IFRS 9 mostly relate to the following areas:

- Classification of financial instruments - the existing four categories resulting from IAS 39 Financial Instruments: Recognition and Measurement will be replaced with three categories: financial assets measured at amortised cost, at fair value through profit or loss and at fair value through other comprehensive income. This resulted in presentation changes in financial statements but had no impact on the Group's financial results.
- Rules for estimating and recognising impairment losses on financial assets (transition from incurred loss model to expected loss model):
 - for trade receivables from significant clients that are subject to a credit risk assessment procedure, the Group estimates expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to counterparties; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
 - for receivables from mass or clients not covered by the credit risk assessment procedure, the Group estimates expected credit losses based on an analysis of the likelihood of credit losses in each age bracket;
 - for deposits in banks, the Group estimates expected credit losses based on a model used to evaluate this risk on the basis of ratings assigned to banks by external institutions; ratings have a likelihood of default assigned, which is adjusted to reflect impact of macroeconomic factors;
 - for investments in other equity instruments, measurement is at fair value; currently the Group does not have significant investments in equity instruments.

Moreover, after analysis, the Group decided not to implement the changes resulting from IFRS 9 as regards hedge accounting from January 1, 2018.

The Group applied IFRS 9 from January 1, 2018, without restating its comparative data.

If PGE Group applied IFRS 9 in its financial statements for 2017, impairment losses on financial assets as at December 31, 2017, would have been approx. PLN 4 million higher. Equity as at December 31, 2017 would have decreased by about PLN 4 million gross, (no impact on deferred tax).

Due to the immaterial impact of the new standard, its effects were not recognised as retained earnings as of January 1, 2018. Starting from January 1, 2018, PGE Group recognises expected credit losses in accordance with IFRS 9 requirements.

Changes in the classification of financial instruments resulted in the change of name of several items from the statement of financial position but non amounts were reclassified between items.

IFRS 15 Revenue from Contracts with Customers

The Group applied IFRS 15 from the date it enters into force, i.e. January 1, 2018, without restating its comparative data. As a result of this, as at January 1, 2018, the Group recognised PLN 340 million as retained earnings, which concerned a one-off settlement of revenue from connection fees, which prior to entry into force of IFRIC 18 *Transfers of Assets from Customers*, i.e. prior to July 1, 2009, had been recognised as deferred income and were settled in time, whereas under IFRS 15 they should be accounted for on a one-off basis when the connection is made.

The impact of applying IFRS 15 on the Group's consolidated financial statements in the first quarter of 2018, compared to IAS 11, IAS 18 and the related interpretations, is presented below.

	March 31, 2018 <i>Published data</i>	<i>Connection fees</i>	<i>Transition fee and renewables fee</i>	<i>Gas distribution and transmission</i>	March 31, 2018 without IFRS 15
STATEMENT OF PROFIT OR LOSS					
SALES REVENUES	7,137	10	156	8	7,311
COST OF GOODS SOLD	(5,229)	-	(156)	(8)	(5,393)
PROFIT BEFORE TAX	1,225	10	-	-	1,235
Income tax	(239)	(2)	-	-	(241)
NET PROFIT FOR THE REPORTING PERIOD	986	8	-	-	994
STATEMENT OF FINANCIAL POSITION					
Retained earnings	10,946	(340)	-	-	10,606
Net profit	986	8	-	-	994
TOTAL EQUITY	47,593	(332)	-	-	47,261
Deferred tax liabilities	1,269	(72)	-	-	1,197
Deferred income and governments grants	721	404	-	-	1,125
TOTAL LIABILITIES	24,594	332	-	-	24,926

The transition fee and renewables fee, which are collected from end users by PGE Dystrybucja S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. and then passed on to the Transmission System Operator ("TSO"), constitute a sort of fee collected from electricity end users, which is why in accordance with IFRS 15 should not be treated as revenue. From the beginning of 2018, these fees are recognised on a net basis. The renewables fee for 2018 is zero.

For gas distribution and transmission services, PGE Obrót serves as agent and therefore has no influence over the key parameters of the services - this is governed by existing regulations concerning terms for the distribution of gas fuel. PGE Obrót is not responsible for failure to perform, or incorrect performance, of framework agreements to provide gas fuel distribution and transmission services. It also does not bear the risk of storing inventories prior to this service being provided to the client. It has no influence over the prices of distribution and transmission services. Given the above, in accordance with IFRS 15, revenue and costs related to distribution and transmission services are recognised in net values from the beginning of 2018.

The Group decided not to apply early any other standards, interpretations or amendments that were published but are not yet effective.

Changes in accounting principles

- Amendment to the presentation of CO₂ emission allowances for captive use

In the consolidated financial statements as at December 31, 2017, the Group changed the way in which it presents CO₂ emission allowances for captive use. In previous financial statements, these allowances were fully presented as short-term, whereas in the financial statements as at December 31, 2017, they are split into short-term and long-term. According to the Group's management, this amended presentation will more correctly reflect the nature of this item.

■ Change in presentation of employee benefits concerning accrued leave and bonuses

In the reporting period, the Group decided to change the way in which it presents employee benefits concerning accrued leave, bonuses and similar from the item "provisions" to the item "other non-financial liabilities." According to the Group, this method of presentation better meets the requirements of IFRS 19 *Employee Benefits*.

PGE Group restated its comparative data presented in the statement of financial position. The restatement is presented in the table below. Information presented in notes to these financial statements was also restated accordingly.

	As at March 31, 2017 <i>published data</i>	Change in presentation	As at March 31, 2017 <i>restated data</i>
NON-CURRENT ASSETS, including:			
CO ₂ emission allowances for captive use	-	1,218	1,218
TOTAL NON-CURRENT ASSETS	53,933	1,218	55,151
CURRENT ASSETS, including:			
CO ₂ emission allowances for captive use	2,411	(1,218)	1,193
Assets classified as held for sale	12	(12)	-
TOTAL CURRENT ASSETS	13,387	(1,230)	12,157
ASSETS CLASSIFIED AS HELD FOR SALE	-	12	12
TOTAL ASSETS	67,320	-	67,320
CURRENT LIABILITIES, including:			
Current provisions	2,500	(370)	2,130
Other non-financial liabilities	1,065	370	1,435
TOTAL CURRENT LIABILITIES	6,815	-	6,815
TOTAL EQUITY AND LIABILITIES	67,320	-	67,320
	As at March 31, 2017 <i>published data</i>	Change in presentation	As at March 31, 2017 <i>restated data</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Adjustments for:			
Change in liabilities, excluding loans and borrowings	(409)	30	(379)
Change in provisions	352	(30)	322
NET CASH FROM OPERATING ACTIVITIES	1,637	-	1,637
	As at December 31, 2017 <i>published data</i>	Change in presentation	As at December 31, 2017 <i>restated data</i>
NON-CURRENT LIABILITIES, including:			
Non-current provisions	5,666	(15)	5,651
TOTAL NON-CURRENT LIABILITIES	16,773	(15)	16,758
CURRENT LIABILITIES, including:			
Current provisions	2,404	(413)	1,991
Other non-financial liabilities	1,305	428	1,733
TOTAL CURRENT LIABILITIES	8,980	15	8,995
TOTAL EQUITY AND LIABILITIES	72,106	-	72,106

4. Fair value hierarchy

The principles for valuation of inventories, derivatives, 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, 2017.

The Group 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 which prices are denominated in these currencies) derived from active markets. The fair value of derivatives is determined based on discounted future cash flows from transactions, calculated on the difference between the forward rate and transaction price. Forward exchange rates are not modelled as separate risk 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 March 31, 2018		As at December 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Currency forwards	-	4	-	2
Commodity forwards	-	-	-	14
Commodity SWAP	-	18	-	64
Contracts for purchase/sale of coal	-	44	-	9
CCIRS valuation	-	51	-	44
IRS valuation	-	62	-	98
Options	-	22	-	24
Fund participation units	-	50	-	50
Financial assets	-	251	-	305
Currency forwards	-	72	-	82
Commodity SWAP	-	4	-	7
Contracts for purchase/sale of coal	-	-	-	20
IRS valuation	-	20	-	15
Financial liabilities	-	96	-	124

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EXPLANATORY NOTES TO OPERATING SEGMENTS

5. Information on operating segments

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. PGE Group's key concessions expire in the years 2020-2038.

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

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

- Conventional Generation comprises exploration and mining of lignite and production of electricity in the Group's power plants and heat and power plants as well as ancillary services.
- Renewables comprise generation of electricity in pumped-storage power plants and from renewable sources.
- Supply includes sales and purchases of electricity and gas on the wholesale market, trading in emissions certificates and energy origin rights, sales and purchases of fuel, as well as sales of electricity and rendering services to end users,
- Distribution comprises management of local distribution networks and transmission of electricity.
- Other activity comprises services rendered by the subsidiaries for the Group, e.g. fund raising, IT, 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 and investments in startups.

Organisation and management of PGE Group is based on segment reporting separated by nature of the products and services provided. Each segment represents a strategic business unit, offering different products and serving different markets. Assignment of particular entities to operating segments is described in note 1.3 of these financial statements. As a rule, inter-segment transactions are disclosed as if they were concluded with third parties – under market conditions. When analysing the results of particular business segments the management of PGE Group draws attention primarily to EBITDA reached.

In November 2017, PGE Group acquired EDF's assets in Poland. These assets are assigned to business segments, as seen in note 1.3 to these financial statements. Segment results for the first quarter of 2017 do not include the assets acquired from EDF. The results of these acquired assets are the most visible in the Conventional Generation segment, as presented in chapter 4 of the Management Board report on operations.

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 influence the results obtained by PGE Group.

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

In the Renewables segment, electricity is generated from natural resources such as water, wind and sun. Weather conditions are an important factor affecting electricity generation in this segment.

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

5.1 Information on business segments

Information on business segments for the period ended March 31, 2018

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales revenues from external customers	2,680	134	2,782	1,489	48	4	7,137
Inter-segment sales	1,964	78	868	27	96	(3,033)	-
TOTAL SEGMENT REVENUE	4,644	212	3,650	1,516	144	(3,029)	7,137
Cost of goods sold	(3,526)	(153)	(3,129)	(1,124)	(126)	2,829	(5,229)
EBIT *)	765	50	182	346	(5)	(23)	1,315
Net financial income / (expenses)							(101)
Share of profit/(loss) of entities accounted for using the equity method							11
PROFIT BEFORE TAX							1,225
Income tax							(239)
NET PROFIT FOR THE REPORTING PERIOD							986
Depreciation, amortisation, disposal and impairment allowances recognised in profit or loss	523	64	7	292	22	(9)	899
EBITDA **)	1,288	114	189	638	17	(32)	2,214
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	43,178	3,200	1,181	17,041	602	(820)	64,382
Trade receivables	1,413	87	3,059	856	92	(2,500)	3,007
Shares accounted for using the equity method							698
Unallocated assets							4,100
TOTAL ASSETS							72,187
Segment liabilities excluding trade payables	8,843	346	1,311	1,571	129	(416)	11,784
Trade payables	1,200	32	2,090	252	34	(2,386)	1,222
Unallocated liabilities							11,588
TOTAL LIABILITIES							24,594
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	596	15	2	226	41	(25)	855
Impairment allowances on financial and non-financial assets	51	-	13	7	-	-	71
Other non-monetary expenses ***)	388	1	200	(61)	4	-	532

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (PPE, IA, goodwill) that are recognised 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 recognised in profit or loss and other comprehensive income.

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

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

*) EBIT = operating profit (loss)

**) EBITDA = EBIT + depreciation, amortisation, disposal and impairment losses (PPE, IA, goodwill) that are recognised 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 recognised in profit or loss and other comprehensive income.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

6. Revenues and expenses

6.1 Sales revenues

	Period ended March 31, 2018	Period ended March 31, 2017
SALES REVENUES		
Revenue from sale of goods and products with taxes and fees	7,344	5,743
Taxes and fees collected on behalf of third parties	(282)	(125)
Revenue from sale of goods and products, including:	7,062	5,618
Sale of electricity	3,802	3,221
Sale of distribution services	1,443	1,574
Sale of heat	852	285
Sale of energy origin rights	206	158
Regulatory system services	153	147
Sale of gas	242	146
Sale of fuel	245	-
Other sales of goods and materials	119	87
Revenue from sale of services	61	123
Revenues from LTC compensations	14	-
TOTAL SALES REVENUES	7,137	5,741

The increase in sales in the period ended March 31, 2018, compared to the same period in the previous year, resulted mainly from the recognition of revenue generated by EDF Group's companies in Poland acquired in 2017.

The acquired assets had the largest impact on growth in revenue from the sale of electricity, district heating, fuels and energy origin rights.

6.2 Costs by nature and function

	Period ended March 31, 2018	Period ended March 31, 2017
COSTS BY NATURE		
Depreciation, amortisation, disposal and impairment losses	923	778
Materials and energy	1,369	758
External services	574	671
Taxes and fees	927	863
Employee benefits expenses	1,236	1,098
Other costs by nature	66	53
TOTAL COST BY NATURE	5,095	4,221
Change in inventories	(6)	(18)
Cost of products and services for the entity's own needs	(243)	(190)
Distribution and selling expenses	(363)	(304)
General and administrative expenses	(256)	(176)
Cost of goods and materials sold	1,002	616
COST OF GOODS SOLD	5,229	4,149

The increase in consumption of materials and energy in the period ended March 31, 2018, compared to the same period in the previous year, results from an increase in the cost of fuel for production purposes. The largest impact on this change in the cost of fuel came from hard coal- and gas-fired assets acquired from EDF.

6.2.1 Depreciation, amortisation, disposal and impairment losses

The following presents depreciation, amortisation, disposals and impairment losses of property, plant and equipment, intangible assets in the statement of comprehensive income.

Period ended	Depreciation, amortisation, disposal			Impairment		
	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
March 31, 2018						
Cost of goods sold	814	23	837	43	-	43
Distribution and selling expenses	3	1	4	-	-	-
General and administrative expenses	8	7	15	-	-	-
Recognised in profit or loss	825	31	856	43	-	43
Cost of products and services for the entity's own needs	24	-	24	-	-	-
TOTAL	849	31	880	43	-	43
Other operating income	-	-	-	(1)	-	(1)
Period ended	Depreciation, amortisation, disposal			Impairment		
March 31, 2017	Property, plant and equipment	Intangible assets	TOTAL	Property, plant and equipment	Intangible assets	TOTAL
Cost of goods sold	707	21	728	7	-	7
Distribution and selling expenses	3	1	4	-	-	-
General and administrative expenses	5	3	8	-	-	-
Recognised in profit or loss	715	25	740	7	-	7
Cost of products and services for the entity's own needs	31	-	31	-	-	-
TOTAL	746	25	771	7	-	7

6.3 Other operating income and expenses

	Period ended March 31, 2018	Period ended March 31, 2017
OTHER OPERATING INCOME		
Penalties, fines and compensations received	34	13
Reversal of other provisions	12	15
Reversal of impairment losses on receivables	7	3
Surpluses / asset disclosures	7	-
Grants received	4	7
Tax refund	4	1
Property, plant and equipment and intangible assets received free of charge	3	3
Income from illegal energy consumption	2	2
Sale of property, plant and equipment and intangible assets	1	1
Compensation for legal proceedings' costs	1	1
Adjustment of income from LTC compensations	-	75
Other	13	11
TOTAL OTHER OPERATING INCOME	88	132
	Period ended March 31, 2018	Period ended March 31, 2017
OTHER OPERATING EXPENSES		
Recognition of impairment losses	29	9
Recognition of other provisions	6	7
Damage / failure removal	6	4
Re-invoicing	4	-
Effect of change in rehabilitation provision	2	-
Liquidation of property, plant and equipment and intangible assets related to other activities	2	1
Donations granted	1	8
Compensation	1	5
Legal proceedings' costs	1	2
Other	10	7
TOTAL OTHER OPERATING EXPENSES	62	43

6.4 Finance income and finance costs

	Period ended March 31, 2018	Period ended March 31, 2017
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS		
Interest	13	26
Revaluation of financial instruments	1	54
Foreign exchange gains	-	32
FINANCIAL INCOME FROM FINANCIAL INSTRUMENTS	14	112
OTHER FINANCIAL INCOME		
Interest on statutory receivables	1	1
Other	-	1
OTHER FINANCIAL INCOME	1	2
TOTAL FINANCIAL INCOME	15	114

The Group recognises interest income mainly on cash and receivables.

	Period ended March 31, 2018	Period ended March 31, 2017
FINANCIAL EXPENSES RELATED TO FINANCIAL INSTRUMENTS		
Interest	48	34
Revaluation of financial instruments	14	4
Loss on disposal of investment	1	92
Impairment loss	1	2
Foreign exchange losses	1	2
FINANCIAL EXPENSES RELATED TO FINANCIAL INSTRUMENTS	65	134
OTHER FINANCIAL EXPENSES		
Interest expenses, including unwinding of discount	45	42
Provisions created	3	-
Other	3	1
OTHER FINANCIAL EXPENSES	51	43
TOTAL FINANCIAL EXPENSES	116	177

Interest costs mainly relate to bonds issued and credit and loans taken out. Interest cost (discount unwinding) on non-financial items relates mainly to rehabilitation provisions and employee benefit provisions.

6.5 Share of profit of entities accounted for using the equity method

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15.32%	16.48%	25.00%	34.93%
PERIOD ENDED MARCH 31, 2018				
Revenue	2,380	262	-	5
Result on continuing operations	153	32	(2)	1
Share of profit of entities accounted for using the equity method	23	5	-	-
Elimination of unrealised transactions	(17)	-	-	-
SHARE OF PROFIT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	6	5	-	-
SHARE IN VOTES	17.14%	16.48%	25.00%	34.93%
PERIOD ENDED MARCH 31, 2017				
Revenue	1,633	545	-	5
Result on continuing operations	56	16	-	1
Share of profit of entities accounted for using the equity method	10	3	-	-
Elimination of unrealised transactions	(4)	-	-	-
SHARE OF PROFIT OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	6	3	-	-

The Group made a consolidation adjustment related to margin on sale of coal between PGG and the Group.

7. Impairment losses on assets

	Period ended March 31, 2018	Period ended March 31, 2017
IMPAIRMENT LOSSES ON PROPERTY, PLANT AND EQUIPMENT		
Recognition of impairment	43	7
Reversal of impairment loss	1	-
IMPAIRMENT LOSSES ON INVENTORY		
Recognition of impairment	3	3
Reversal of impairment loss	1	1

8. Tax in the statement of comprehensive income

The main elements of the tax burden for the period ended March 31, 2018 and March 31, 2017, were as follows:

	Period ended March 31, 2018	Period ended March 31, 2017
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	221	138
Adjustments concerning current income tax from prior years	5	1
Deferred income tax	13	45
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	239	184
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From measurement of hedging instruments	(8)	(7)
Tax benefit recognised in other comprehensive income	(8)	(7)

Adjustments related to the settlement of income tax from previous years concern mainly invoicing of sales for the previous year in the first quarter of the present year. In the previous period, sales were recognised on the basis of estimates, with income tax being recognised on this basis.

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

In the present period, PGE Group purchased property, plant and equipment and intangible assets worth PLN 855 million. The largest expenditures were incurred in the Conventional Generation segment (PLN 596 million) and the Distribution segment (PLN 226 million). The key expenditures items were as follows: construction of units 5-6 at Elektrownia Opole (PLN 166 million), construction of unit 11 at Elektrownia Turów (PLN 72 million), construction of thermal processing installation with energy recovery at Elektrociepłownia Rzeszów (PLN 31 million).

10. Future investment commitments

As at March 31, 2018, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 7,405 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at March 31, 2018	As at December 31, 2017 <i>restated data</i>
Conventional energy	5,922	4,755
Distribution	1,243	1,005
Renewables	56	67
Supply	1	1
Other activity	183	171
TOTAL FUTURE INVESTMENT COMMITMENTS	7,405	5,999

The most significant future investment commitments concern:

- Conventional Generation:
 - Branch Opole Power Plant – construction of power units no. 5 and 6 – approximately PLN 2,408 million,
 - Branch Turów Power Plant – construction of new power unit – approximately PLN 2,190 million,
 - Branch Turów Power Plant – modernisation of power units no. 1-3 – approximately PLN 431 million,
 - Branch Rzeszów Heat and Power Plant – construction of Thermal Processing Installation with Energy Recovery – approximately PLN 144 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,243 million,
- Other activity, PGE EJ1 sp. z o.o. – agreement for owners engineer in the investment process related to construction of the first Polish nuclear power plant – approximately PLN 159 million (basic scope) An optional scope includes the amount of approx. PLN 1,121 million.

11. Shares accounted for using the equity method

	As at March 31, 2018	As at December 31, 2017
Polska Grupa Górnicza S.A.	587	533
Polimex Mostostal S.A.	96	91
ElectroMobility Poland S.A.	7	2
PEC Bogatynia Sp. z o.o.	8	8
EQUITY-ACCOUNTED INVESTMENTS	698	634

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15.32%	16.48%	25.00%	34.93%
As at March 31, 2018				
Current assets	2,314	1,454	26	5
Non-current assets	9,068	711	-	22
Current liabilities	3,324	885	-	3
Non-current liabilities	4,230	793	-	-
NET ASSETS	3,828	487	26	24
Share in net assets	586	80	7	8
Goodwill	1	16	-	-
EQUITY-ACCOUNTED INVESTMENTS	587	96	7	8
	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	15.76%	16.48%	25.00%	34.93%
As at December 31, 2017				
Current assets	1,876	1,586	7	4
Non-current assets	9,074	654	-	22
Current liabilities	3,409	974	-	3
Non-current liabilities	4,167	810	-	1
NET ASSETS	3,374	456	7	22
Share in net assets	532	75	2	8
Goodwill	1	16	-	-
EQUITY-ACCOUNTED INVESTMENTS	533	91	2	8

12. Deferred tax in the statement of financial position

12.1 Deferred income tax assets

	As at March 31, 2018	As at December 31, 2017
Difference between tax value and carrying amount of property, plant and equipment	2,404	2,403
Difference between tax value and carrying amount of financial assets	37	48
Difference between tax value and carrying amount of financial liabilities	273	268
Difference between tax value and carrying amount of inventories	18	17
LTC compensations	48	48
Rehabilitation provision	558	548
Provision for purchase of CO ₂ emission allowances	344	276
Provisions for employee benefits	583	571
Other provisions	149	122
Energy infrastructure acquired free of charge and connection payments received	36	111
Other	36	38
DEFERRED TAX ASSETS	4,486	4,450

12.2 Deferred income tax liabilities

	As at March 31, 2018	As at December 31, 2017
Difference between tax value and carrying amount of property, plant and equipment	4,266	4,188
Difference between tax value and carrying amount of energy origin units	50	46
Difference between tax value and carrying amount of financial assets	386	382
Difference between tax value and carrying amount of financial liabilities	97	92
CO ₂ emission allowances	287	274
LTC compensations	34	34
Other	41	33
DEFERRED TAX LIABILITIES	5,161	5,049

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

Deferred tax assets	594	651
Deferred tax liabilities	(1,269)	(1,250)

13. CO₂ emission allowances for captive use

CO₂ emission rights (EUA) are received power generating units belonging to the PGE Group, which are covered with the Act dated June 12, 2015 on a scheme for greenhouse gas emission allowance trading. Starting from 2013, only part of emission rights for production of heat will be granted unconditionally, while for production of electricity there is, as a rule, lack of free of charge EUA. Pursuant to art. 10c of Directive 2003/87/EC of the European Parliament and of the Council establishing a scheme for greenhouse gas emission allowance trading within the Community, the derogation is possible providing the realization of investment tasks included in National Investment Plan, which allow to reduce CO₂ emission. The condition under which free of charge CO₂ emission rights can be obtained is presentation of factual-financial statements from realization of tasks included in National Investment Plan.

In September 2017, PGE Group submitted another report on investments included in the National Investment Plan in order to obtain CO₂ EUA allocations related to electricity generated in 2017. These allowances were issued in April 2018 and were used to cover CO₂ emissions for 2017 (15 million EUAs).

As regards EUA allowances for CO₂ emissions related to district heating produced, the allocation schedule is different – EUAs were issued in February 2018 intended to cover CO₂ emissions for 2018 (2 million EUAs).

EUA	As at March 31, 2018		As at December 31, 2017	
	Long-term	Short-term	Long-term	Short-term
Quantity (Mg million)	20	46	18	44
Value	449	1,061	402	1,040

EUA	Quantity (Mg million)	Value
AS AT JANUARY 1, 2017	85	2,349
Purchase of new subsidiaries	-	2
Purchase	12	247
Granted free of charge	21	-
Redemption	(56)	(1,156)
AS AT DECEMBER 31, 2017	62	1,442
Purchase	2	68
Granted free of charge	2	-
AS AT MARCH 31, 2018	66	1,510

14. Selected financial assets

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

14.1 Trade and other financial receivables

	As at March 31, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,007	-	3,159
Bank deposits	158	6	148	6
Security deposits and collateral	2	396	-	95
LTC compensations	-	21	-	10
Other financial receivables	8	231	10	252
TOTAL FINANCIAL RECEIVABLES	168	3,661	158	3,522

The item 'security, deposits and collateral' concerns mainly security and transaction-related deposits and the guarantee fund.

The value of other financial receivables consists mainly of compensation for damages and disputed receivables described in note 20.4 of these financial statements.

14.2 Cash and cash equivalents

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

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

	As at March 31, 2018	As at December 31, 2017
Cash on hand and cash at bank	1,040	1,309
Overnight deposits	387	34
Short-term deposits	929	1,209
TOTAL	2,356	2,552
Interest accrued on cash, not received at the reporting date	-	-
Exchange differences on cash in foreign currencies	(2)	(1)
Cash and cash equivalents presented in the statement of cash flows	2,354	2,551
Undrawn borrowing facilities <i>including overdraft facilities</i>	5,687 1,149	6,740 2,174

A detailed description of credit agreements is presented in note 18.1 of these financial statements.

Restricted cash amounting to PLN 38 million (PLN 92 million in the comparative period) concerns funds that constitute collateral for settlements with Izba Rozliczeniowa Gield Towarowych S.A. (Warsaw Commodity Clearing House).

15. Derivatives

	As at March 31, 2018		As at December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE				
Currency forwards	4	68	1	49
Commodity forwards	-	-	14	-
Commodity SWAP	18	4	64	7
Contracts for purchase/sale of coal	44	-	9	20
IRS transactions	-	10	-	10
Options	22	-	24	-
HEDGING DERIVATIVES				
CCIRS hedges	51	-	44	-
IRS hedges	62	10	98	5
Currency forwards	-	4	1	33
OTHER ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Investment fund participation units	50	-	50	-
TOTAL DERIVATIVES	251	96	305	124
current	65	75	83	106
non-current	186	21	222	18

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO₂ emission allowances and coal sales.

Options

On January 20, 2017 PGE S.A. purchased a call option to purchase shares of Polimex-Mostostal S.A. from Towarzystwo Finansowe Silesia Sp. z o.o. The option was valued using the Black-Scholes method. The option exercise dates are: July 30, 2020, July 30, 2021 and July 30, 2022.

Coal swaps

In the current period, PGE Paliwa sp. z o.o. in order to secure commodity risk related to the price of imported coal executed a number of transactions to hedge this risk using commodity swaps for coal. The number and value of these transactions is correlated to the quantity and value of imported coal. Changes in fair value are recognised in profit or loss.

Purchase and sale contracts with physical delivery of coal

PGE Paliwa sp. z o.o. measures all of its sales and purchase contracts with physical delivery of coal at fair value using the trader-broker model. As at the reporting date, the company held contracts that would be performed on March 31, 2019.

IRS transactions

In the present reporting period, PGE S.A. executed an IRS transaction to hedge interest rates on a credit facility with a nominal value of PLN 500 million. To recognise this IRS transaction, the Company uses hedge accounting.

In 2016, PGE S.A. executed IRS transactions to hedge interest rates on credit facilities with a total nominal value of PLN 4,630 million. To recognise these IRS transactions, the Company uses hedge accounting.

The impact of hedge accounting on equity is presented in note 16.2 to these financial statements.

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

In 2003, Elektrownia Turów S.A. (currently a branch of PGE Górnictwo i Energetyka Konwencjonalna S.A.) concluded an IRS hedge transactions - swap. This transaction hedges variable interest rates (USD LIBOR 6m) on an investment credit of USD 80 million taken from Nordic Investment Bank to finance investments in Turów power plant. Changes in the fair value of IRS transactions are fully recognised in profit or loss.

CCIRS hedges

In connection with loans received from PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions, hedging both the exchange rate and interest rate. In these transactions, banks - counterparties 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, a relevant part of the CCIRS transaction is treated as a hedge of bonds issued by PGE Sweden AB (publ).

To recognise these CCIRS transactions, the Group uses hedge accounting. The impact of hedge accounting on equity is presented in note 16.2 to 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 PGE Group. It is also crucial to maintain a sound equity base that would be the basis to win confidence of potential investors, creditors and the market and assure further development of the Group.

16.1 Share capital

	As at March 31, 2018	As at December 31, 2017
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 of the Company's shares are paid up.

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

Rights of the shareholders - State Treasury rights concerning the Company's activities

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

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

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

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

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

16.2 Hedging reserve

	Period ended March 31, 2018	Year ended December 31, 2017
AS AT JANUARY 1	83	147
Change in hedging reserve	(44)	(79)
Measurement of hedging instruments, including:	(45)	(74)
<i>Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge</i>	<i>(30)</i>	<i>(242)</i>
<i>Accrued interest on derivatives transferred from hedging reserve and recognised in interest expense</i>	<i>10</i>	<i>(4)</i>
<i>Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences</i>	<i>(25)</i>	<i>167</i>
<i>Ineffective portion of change in fair value of hedging derivatives recognised in profit or loss</i>	<i>-</i>	<i>5</i>
Measurement of other financial assets	1	(5)
Deferred tax	8	15
HEDGING RESERVE INCLUDING DEFERRED TAX	47	83

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

16.3 Dividends paid and recommended for payment

On May 11, 2017 the Company's Management Board decided to change its dividend policy. In light of the need to finance an ambitious growth programme and with a view towards reducing debt growth, the Company's Management Board recommended the suspension of dividends from profit for years 2016, 2017 and 2018.

After this period, the Company's Management Board intends to recommend to the General Meeting dividend payments to shareholders amounting to 40-50% of consolidated net profit attributable to the parent's shareholders, adjusted for impairment of tangible and intangible assets.

17. Provisions

The carrying amount of provisions is as follows:

	As at March 31, 2018		As at December 31, 2017		
	Non-current	Current	Non-current	Current	
Employee benefits		2,311	240	2,301	229
Rehabilitation provision		3,138	3	3,082	4
Provision for shortage of CO ₂ emission allowances		114	1,695	112	1,341
Provision for energy origin units held for redemption		-	513	-	340
Provision for non-contractual use of the property		65	11	72	11
Other provisions		92	61	84	66
TOTAL PROVISIONS		5,720	2,523	5,651	1,991

Changes in provisions

	Employee benefits	Rehabilitation provision	Provision for shortage of CO ₂ emission allowances	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
January 1, 2018	2,530	3,086	1,453	340	83	150	7,642
Current service costs	17	-	-	-	-	-	17
Interest costs	21	24	-	-	-	-	45
Benefits paid / Provisions used	(31)	-	-	(29)	-	(4)	(64)
Provisions reversed	-	-	-	-	(12)	(1)	(13)
Provisions recognised - costs	1	10	356	202	5	8	582
Provisions recognised - expenditures	-	20	-	-	-	-	20
Inclusion of companies in consolidation	10	-	-	-	-	6	16
Other changes	3	1	-	-	-	(6)	(2)
March 31, 2018	2,551	3,141	1,809	513	76	153	8,243

	Employee benefits	Rehabilitation provision	Provision for shortage of CO ₂ emission allowances	Provisions for energy origin rights held for redemption	Provision for non-contractual use of property	Other	Total
<i>restated data</i>							
JANUARY 1, 2017	2,359	2,670	1,154	416	103	142	6,844
Actuarial gains and losses	148	-	-	-	-	-	148
Current service costs	65	-	-	-	-	-	65
Past service costs	(8)	-	-	-	-	-	(8)
Interest costs	82	89	-	-	-	-	171
Discount rate and other assumptions adjustment	24	65	-	-	-	-	89
Benefits paid / Provisions used	(160)	-	(1,156)	(864)	(1)	(15)	(2,196)
Provisions reversed	(1)	(2)	-	(12)	(28)	(31)	(74)
Provisions recognised - costs	1	82	1,205	759	8	38	2,093
Provisions recognised - expenditures	-	70	-	-	-	-	70
Purchase of new subsidiaries	22	27	250	41	-	18	358
Change in PGE Group	(1)	-	-	-	-	(3)	(4)
Other changes	(1)	85	-	-	1	1	86
DECEMBER 31, 2017	2,530	3,086	1,453	340	83	150	7,642

17.1 Provision for employee benefits

PGE Group companies recognise provisions for:

- post-employment benefits - PLN 1,704 million (PLN 1,570 million as at December 31, 2017),
- jubilee awards - PLN 832 million (PLN 825 million as at December 31, 2017),

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

PGE Group creates provision for rehabilitation of post-exploitation mining properties. The amount of the provision recognised in the financial statements includes also the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law Act. The value of the provision as at March 31, 2018 amounted to PLN 2,742 million and as at December 31, 2017 to PLN 2,693 million.

Provision for rehabilitation of ash landfills

PGE Group power generating units raise provisions for rehabilitation of ash storages. The value of the provision as at March 31, 2018 amounted to PLN 180 million and as at December 31, 2017 to PLN 175 million.

Provisions for rehabilitation of post-construction grounds of wind farms

Companies that own wind farms create provisions for rehabilitation of post-construction grounds of wind farms. The value of the provision as at March 31, 2018 and as at December 31, 2017 amounted to PLN 53 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 166 million (PLN 165 million as at December 31, 2017) and refers to some assets of the Conventional Generation and Renewables segments.

17.3 Provision for shortage of CO₂ emission allowances

The provision for deficit of CO₂ emission allowances is created by PGE Group entities for the shortfall of CO₂ emission allowances obtained free of charge. As described in note 13 of these financial statements PGE Group is entitled to receive CO₂ emissions rights granted free of charge in connection to expenditures concerning investments included in National Investment Plan. The calculation of the provision includes also these rights.

17.4 Provision for energy origin rights held for redemption

Companies within PGE Group create provision for energy origin rights related to sale realised during the reporting period or in prior reporting periods, in the amount of non-depreciated part until the reporting date. The total value of provision as at March 31, 2018 amounted to PLN 513 million (PLN 340 million in the comparative period) and was created mainly by PGE Obrót S.A.

17.5 Provision for non-contractual use of the property

PGE Group companies recognise a provision for damages related to a non-contractual use of property. This issue mainly relates to distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately PLN 76 million (of which 38 million relate to litigations). In the comparative period the value of the provision amounted to PLN 83 million (of which PLN 38 million related to litigations).

17.6 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 82 million (PLN 81 million in the prior year).

18. Financial liabilities

The value of financial assets and liabilities measured at amortised cost is a rational approximation of their fair value, except for bonds issued by PGE Sweden AB (publ).

Bonds issued by PGE Sweden AB (publ) are based on a fixed interest rate. Their amortised cost presented in these financial statements as at March 31, 2018 amounted to EUR 646 million and their estimated fair value amounted to EUR 668 million. The indicators used in the valuation belong to Level 2 of fair value hierarchy.

18.1 Loans, borrowings, bonds and lease

	As at March 31, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,765	568	5,788	570
Bonds issued	2,668	1,058	2,632	1,051
Lease	2	3	2	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASE	8,435	1,629	8,422	1,623

Loans and borrowings

Among loans and borrowings presented above as at March 31, 2018, 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 block in Bełchatów Power Plant of PLN 469 million;
- investment credit facility taken out by PGE Górnictwo i Energetyka Konwencjonalna S.A. from Nordic Investment Bank to finance the modernisation of units 1-6 at Elektrownia Turów – totalling PLN 55 million,
- investment loans taken out by PGE S.A. at Bank Gospodarstwa Krajowego S.A. totalling PLN 1,512 million,
- long-term loan agreement with a syndicate of banks composed of: BNP Paribas S.A., Société Générale S.A., Bank Handlowy w Warszawie S.A., ING Bank Śląski S.A., Bank Zachodni WBK S.A., mBank S.A., Powszechna Kasa Oszczędności Bank Polski S.A. and Bank Polska Kasa Opieki S.A., executed on September 7, 2015. Subject matter of the agreement is granting a loan in two parts, i.e. term loan facility and revolving loan facility. As at March 31, 2018, the Company used all of the term loan facility of PLN 3,630 million.

The revolving part of the credit facility, up to PLN 1,870 million, is available but unused by the Group.

On October 27, 2015, PGE S.A. concluded two loan agreements with the European Investment Bank for the total amount of nearly PLN 2 billion. The amount of PLN 1.5 billion, obtained on the basis of the first of the two agreements, will be used for projects relating to the modernisation and development of distribution grid. The funds from the second agreement, i.e. the remaining PLN 490 million, will be used to finance and refinance the construction of cogeneration units Gorzów CHP and Rzeszów CHP. The European Investment Bank loans will be available for disbursement over a period of up to 22 months from the date of signing of the agreements. The funds shall be repaid within 15 years from the date of the last tranche. As at March 31, 2018, the Company did not use these credit lines.

Furthermore, on June 7, 2017, PGE S.A. executed a PLN 500 million credit agreement with the European Bank for Reconstruction and Development. The funds raised will be intended to finance selected investment tasks related to the modernisation and development of distribution grids. The credit availability term is 36 months from signing and the credit facility should be repaid by June 7, 2028. As of March 31, 2018, the credit facility was not used.

Moreover, the Group recognises loans from environmental funds amounting to a total of PLN 452 million.

As at March 31, 2018, the value of the available overdrafts at significant PGE Group companies was PLN 1,149 million.

Bonds issued

The Group has the ability to finance its own operations through two bond issue programs:

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

18.2 Trade and other financial liabilities

	As at March 31, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,222	-	1,650
Purchase of property, plant and equipment and intangible assets	2	505	-	1,418
Security deposits received	20	69	22	87
Liabilities related to LTC	331	-	332	-
Insurance		12	-	17
Other	22	74	25	59
TRADE AND OTHER FINANCIAL LIABILITIES	375	1,882	379	3,231

19. Other current non-financial liabilities

	As at March 31, 2018	As at December 31, 2017
		<i>restated data</i>
Fee for use of environment	127	234
VAT liabilities	387	126
Excise duty liabilities	124	128
Payroll liabilities	166	257
Bonuses for employees	165	222
Unused leave	175	139
Liabilities due to Voluntary Leave Programme	15	49
Estimates regarding liabilities for other employee benefits	56	39
Personal income tax	56	85
Social insurance liabilities	210	246
Advances for deliveries	179	147
Other	107	53
OTHER CURRENT NON-FINANCIAL LIABILITIES, TOTAL	1,767	1,733

Fees for use of the environment mainly concern fees for water consumption and gas emissions at conventional power plants as well as exploitation fees paid by lignite mines.

The "Other" item largely covers contributions to the Employee Retirement Programme, State Fund for Rehabilitation of Disabled People and withholdings from employee wages.

OTHER EXPLANATORY NOTES

20. Contingent liabilities and receivables. Legal claims

20.1 Contingent liabilities

	As at March 31, 2018	As at December 31, 2017
Contingent return of grants from environmental funds	993	753
Legal claims	216	188
Bank guarantee liabilities	209	223
Contractual fines and penalties	12	12
Employees' claims	1	2
Other contingent liabilities	89	74
CONTINGENT LIABILITIES, TOTAL	1,520	1,252

Contingent return of grants from environmental funds

The liabilities represent the value of possible future reimbursements of funds received by 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.

Legal claims

Dispute with WorleyParsons

The contingent liability is mainly related to the dispute with WorleyParsons. WorleyParsons made a claim for payment of PLN 59 million due to the claimant 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 was 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. Through a letter of March 24, 2017, WorleyParsons expanded its claim from PLN 59 million to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company responded to an expanded lawsuit by WorleyParsons. The Group does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to property right sale contracts executed by Energa Obrót S.A.

In October 2017, PGE Energa Odnawialna S.A. and PGE Energa Natury sp. z o.o. (currently acquired by PGE Energa Odnawialna S.A.) received lawsuits in which Energa Obrót S.A. demand the annulment of a legal relation that were to arise as a result of the execution of an agreement to sell property rights resulting from electricity origin certificates at FW Kisielice in 2009, FW Koniecwałd (Malbork) and FW Galicja (a wind farm owned by PGE Energa Natury sp. z o.o.). Energa Obrót S.A.'s demands in all of the lawsuits are based on the accusation that executive (agreements to sell specific property rights) were executed in a way that circumvented the Public Procurement Law. Alternatively, if the Agreement is considered as an agreement on award of a public procurement, Energa Obrót S.A. was claiming absolute invalidity of the Agreements due to them being executed in a way that circumvented the Public Procurement Law. In November 2017, PGE companies filed responses to the lawsuits, in which they indicated that the accusations made by Energa-Obrót S.A. are groundless.

These proceedings are in progress. In the cases involving FW Koniecwałd (Malbork) and FW Galicja, the Court referred the parties for mediation. In the FW Kisielice case, on April 2015 2018 the first hearing was held, in which the Court, at the request of both of the parties, referred the parties for mediation for a period of three months and deferred the hearing to November 14, 2018.

In addition, through motions filed in September 2017, Energa Obrót S.A. summoned PGE Energa Odnawialna S.A. and PGE Energa Natury sp. z o.o. (currently acquired by PGE Energa Odnawialna S.A.) for amicable resolution of disputes for the payment of claims totalling PLN 71 million concerning considerations paid on the basis of invalid contracts from 2009. No agreement was reached during meetings held in November and December 2017. In connection with this, the PLN 71 million claim is presented as a contingent liability. The Group does not accept the claim and regards its possible admission by the court as unlikely.

Claiming invalidity of the 2009 contracts, Energa Obrót S.A. refused to purchase property rights resulting from the production of renewable electricity at FW Kisielice, FW Koniecwałd (Malbork) and FW Galicja, which constituted a breach of the contracts and resulted in contractual penalties of PLN 24 million being imposed (recognised as revenue in 2017 of PLN 16 million and PLN 8 million in the present period). In the case of refusal to pay these contractual penalties, PGE Energa Odnawialna S.A. intends to seek their payment in court proceedings. On April 25, 2018, during the first hearing, PGE Energa Odnawialna S.A. filed a counterclaim for payment of the principal amount together with statutory late interest for contractual penalties imposed in connection with Energa Obrót S.A.'s failure to perform the contract related to FW Kisielice. Having referred the parties for mediation, the Court did not set a deadline for Energa Obrót S.A. to respond to the counterclaim.

Estimated volume of the green certificates covered by the contracts with Energa Obrót S.A. amounts to 836 000 MWh. This volume was calculated based on the volume of production in the period from July 2017 (FW Koniecwałd/Malbork) or from August 2017 (other farms) to the end of the expected support periods for each of the farms.

Bank guarantee liabilities

These liabilities for the most part present bank guarantees provided as collateral for stock market transactions resulting from membership in the Stock Exchange Clearinghouse. As at March 31, 2018, the total amount of bank guarantees was PLN 205 million (PLN 215 million in the comparative period).

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 realise investments included in the agreement will result in claims relating to contractual fines and penalties by the Municipality of Gryfino.

Other contingent liabilities

Other contingent liabilities comprise the value of potential claim from WorleyParsons of PLN 33 million, which was described above, as well as PLN 47 million related to risk of additional costs related to PGE Group's debt financing programmes.

20.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 17.5 of these financial statements, PGE Group recognises provision for disputes under court proceedings, concerning non-contractual use of properties for distribution activities. In addition, in 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), 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. 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 PGE Group's opinion, the terms and conditions of fuel deliveries to its power generating units as described above do not differ from terms and conditions of fuel deliveries to other power generating units on the Polish market.

20.3 Contingent receivables

As at the reporting date, PGE Group held PLN 17 million in contingent receivables related to non-balancing of purchase and sale of energy on the domestic market (PLN 10 million in the comparative period).

20.4 Other legal claims and disputes

Compensation for conversion of shares

Former shareholders of PGE Górnictwo i Energetyka S.A. are presenting to the courts motions to summon PGE S.A. to a conciliation hearing concerning payment of compensation for incorrect (in their opinion) determination of the exchange ratio of shares of PGE Górnictwo i Energetyka S.A. into shares of PGE S.A. during a consolidation process that took place in 2010. The total value of claims resulting from summons to a conciliation hearing directed by the former shareholders of PGE Górnictwo i Energetyka S.A. amounts to over PLN 10 million.

Regardless of the above, on November 12, 2014 Socrates Investment S.A. (an entity which purchased claims from former PGE Górnictwo i Energetyka S.A. shareholders) filed a lawsuit to impose a compensation in the total amount of over PLN 493 million (plus interest) for damages incurred in respect of incorrect (in their opinion) determination of the exchange ratio of shares in the merger of PGE Górnictwo i Energetyka S.A. and PGE S.A. The Company filed a response to the lawsuit. Currently the proceedings before the court of first instance are in progress.

Moreover, a similar claim was raised by Pozwy sp. z o.o., a buyer of claims from the former shareholders of PGE Elektrownia Opole S.A. Through a lawsuit filed at the District Court in Warsaw against PGE GiEK S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), Pozwy sp. z o.o. demanded from the Defendants, in solidum, or jointly damages for Pozwy sp. z o.o. totalling over PLN 260 million with interest for allegedly incorrect (in its opinion) determination of exchange ratio for PGE Elektrownia Opole S.A. shares for PGE Górnictwo i Energetyka Konwencjonalna S.A. shares in a merger of these companies. This lawsuit was delivered to PGE S.A. on March 9, 2017, and the deadline for responding to it was set by the court as July 9, 2017. The following companies: PGE S.A. and PGE GiEK S.A. submitted a response to the claim and the lawsuit is currently being proceeded in the first instance.

PGE Group companies do not recognise the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and other shareholders requesting conciliatory settlements. According to PGE S.A., these claims are groundless and the entire consolidation process was conducted fairly and properly. The value of the shares, which were subject to the process of consolidation (merger), was established by an independent company PwC Polska sp. z o.o. Additionally, merger plans of the companies mentioned above, including the exchange ratios were examined for accuracy and reliability by an expert appointed by the registration court; no irregularities were found. Then, the court registered the mergers of the companies mentioned above.

PGE Group has not recognised a provision for this claim.

Claims for annulment of General Meeting resolutions

On March 15, 2017, PGE S.A. received a copy of a lawsuit filed to the District Court of Warsaw by one of its shareholders. In the lawsuit, the shareholder is seeking for annulment of resolution 4 of the Company's Extraordinary General Meeting held on September 5, 2016. The Company filed a response to the lawsuit.

Having examined the shareholder's claim at a closed-door hearing on October 11, 2017, the District Court in Warsaw ruled to refer the case for mediation.

PGE S.A. decided not to agree to mediation. On March 15, 2018, the District Court in Warsaw issued a judgment dismissing the shareholder's claim in its entirety. The court decision is not final.

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

In October 2016 and November 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. received from Enea S.A. termination of long-term contracts for purchase of renewable energy origin rights, so called "green certificates". In its justification, Enea S.A. claimed that the companies significantly breached the provisions of these contracts, i.e. failed to re-negotiate contractual provisions in accordance with the adaptive clause, as requested by Enea S.A. in July 2015 in connection with an alleged change in legal regulations having impact on performance of these contracts.

In the opinion of PGE Group, the 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. With Enea S.A. refusing to perform long-term contracts to purchase property rights resulting from certificates of origin received by PGE Group companies in connection with the production of renewable energy, PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Natury PEW sp. z o.o. have demanded from Enea S.A. payment of contractual penalties, while PGE Energia Odnawialna S.A. has demanded payment of compensation for damages. If these requests are refused, the companies intend to seek payment in court. In a lawsuit regarding payment instigated by PGE Energia Natury PEW sp. z o.o., the District Court in Poznań, 9th Commercial Division ruled fully in favour and issued a payment demand in a writ-of-payment proceeding. The payment demand became invalid once Enea submitted an appeal. The proceeding is in progress. The next hearing is scheduled for September 2018.

Due to the fact that according to PGE Group declarations on termination of the agreements presented by Enea S.A. were submitted in breach of contractual terms, as at December 31, 2017 the Group recognised contractual penalty and compensation receivables of PLN 128 million. As the same time, green certificate stock that was initially measured at values resulting from the agreements were revalued to market prices. According to PGE Group companies, based on available legal analysis, a favourable resolution in the above disputes is more probable than a negative resolution.

Estimated volume of the green certificates covered by the contracts with Enea S.A. amounts to approximately 2,662,000 MWh. The above amount was calculated for the period from the date the contracts were terminated to the end of the expected initial term of the contracts.

In addition, PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. filed lawsuits against Enea S.A. for the payment of receivables totalling PLN 47 million concerning invoices issued to Enea S.A. for the sale of property rights based on these contracts. Enea S.A. refused to pay these receivables, claiming that they were offset by receivables from the Group's companies related to compensation for alleged damages arising as a result of the companies' failure to re-negotiate the contracts. According to Group companies, such offsets are groundless because Enea S.A.'s receivables concerning the payment of compensation never arose and there are no grounds for acknowledging Enea S.A.'s claim that the companies breached contractual provisions. The proceedings are in progress. The next hearings are scheduled for September 2018.

21. Tax settlements

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

From the point of view of business entities, the most important is the taxation of incomes (corporate income tax), taxation of turnover (value added tax, excise tax) followed by taxation of assets (real estate tax and vehicle tax). Other payments classified as quasi – taxes must also be mentioned. These include social security charges.

Basic tax rates were as follows in 2018: corporate income tax rate – 19%, for smaller enterprises a 15% rate is possible; basic value added tax rate – 23%, reduced: 8%, 5%, 0%, furthermore some goods and products are subject to a VAT tax exemption.

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

Tax group

An agreement for a tax group named PGK PGE 2015, for which PGE S.A. is the representative, was signed on September 18, 2014, for a period of 25 years.

Companies included in the tax group must meet a number of requirements covering: appropriate level of equity, parent's stake in PGK companies of at least 75%, lack of capital ties between subsidiaries, no tax arrears, share in total revenue of at least 2% (counted at tax group level), and execution of transactions with related parties from outside the tax group only on market terms. Violating these requirements would mean the dissolution of the tax group and loss of its taxpayer status. When the tax group is dissolved, each of its member companies becomes an individual payer of corporate income tax.

Changes in corporate income tax in effect from January 1, 2018

As a result of changes in legislation, starting from 2018 taxpayer revenue is divided into two sources: economic (operating) activities and capital gains. This means that each source of revenues will be settled separately and that companies may not offset losses incurred in one source using revenue from the other source. The capital gains source includes: dividends, income obtained as a result of mergers of de-mergers, in-kind contributions, share disposals, disposal of debt claims, income from property rights (authors' rights, licences) and income from securities.

According to existing estimates, the introduction of two income sources should not substantially affect the PGE Group's tax burden.

VAT split payment mechanism

Starting from July 1, 2018, a VAT split payment mechanism will be introduced. This solution is intended to seal off the tax system by separating VAT amounts from bank transfers being made by buyers of products and services and directing these to sellers' dedicated VAT accounts. Funds collected in these VAT accounts may only be used for VAT settlements concerning invoices received and VAT settlements with the tax office. Using split VAT payments will not be the buyer's right but rather an obligation.

Funds collected at the VAT account will constitute restricted cash. Given the above, the introduction of a split payment mechanism might increase net debt and the net debt to EBITDA ratio. At the date on which these financial statements were prepared, there was no set practice as to how cash in VAT accounts will be taken into account when calculating debt ratios that are presented to financing institutions. PGE Group intends to effectively use the funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts will depend mainly on how many of PGE Group's counterparties decide to use this mechanism and the relation between receivables and liabilities payment dates. According to the Group's estimates, the average level of cash in VAT accounts might be in the range of PLN 100-200 million.

Excise tax

In connection with an incorrect implementation of EU regulations in the Polish legal system, PGE GiEK S.A. in 2009 initiated proceedings regarding reimbursement of improperly paid excise tax for the period January 2006 - February 2009. The irregularity consisted of taxing electricity at the first stage of sale, i.e. by producers, whereas sales to end users should have been taxed.

Examining the company's complaints with regard to the restitution claims against decisions issued by tax authorities refusing to confirm overpayment of excise tax, administrative courts ruled that the company did not bear the economic burden of the improperly calculated excise tax (which in the context of the resolution by the Supreme Administrative Court of June 22, 2011, file no. I GPS 1/11, precludes the return of overpaid amounts). According to the Supreme Administrative Court, the claims that the company sought, especially using economic analyses, are of an offsetting nature and therefore may be sought only in civil courts. Given the above, PGE GiEK S.A. decided to withdraw from the proceedings as regards restitution claims. Currently, the issue of overpaid excise tax is in civil courts and the intention is to reach a settlement with the State Treasury as regards restitution claims.

Given the significant uncertainty over the final ruling in this issue, the Group does not recognise in its financial statements any effects related to potential compensation in civil courts in connection with the improperly paid excise tax.

Real estate tax

Considering pending disputes, PGE Group established at the reporting date the provision for property tax in the amount of PLN 82 million. The provision relates mainly to tax proceedings with regard to property tax in selected power plants. The dispute is related to the subject of taxation and concerns mainly a decision whether installations in buildings and detached technical machinery should be taxed as autonomous constructions. Tax proceedings are currently at various stages of tax authorities proceedings, i.e. in front of first instance authorities (village mayor, mayor), local government board of appeals and administrative courts.

22. Information on related parties

PGE Group's transactions with related parties are concluded based on market prices for provided goods, products and services or the cost of manufacture.

22.1 Associates and jointly controlled entities

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

	Period ended March 31, 2018	Period ended March 31, 2017
Sales to associates and jointly controlled entities	6	3
Purchases from associates and jointly controlled entities	393	413
	As at March 31, 2018	As at December 31, 2017
Trade receivables from associates and jointly controlled entities	8	9
Trade liabilities to associates and jointly controlled entities	138	180

The above turnover and balances take into account transactions with Polska Grupa Górnicza S.A. and Polimex-Mostostal S.A.

22.2 State Treasury-controlled companies

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

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

	Period ended March 31, 2018	Period ended March 31, 2017
Sales to related parties	463	556
Purchases from related parties	1,209	1,046
	As at March 31, 2018	As at December 31, 2017
Trade receivables from related parties	199	280
Trade liabilities to related parties	566	629

The largest transactions with companies where the State Treasury holds a stake concern Polskie Sieci Elektroenergetyczne S.A., Enea S.A., Energa Obrót S.A., Zakłady Azotowe PUŁAWY S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., PKN Orlen S.A., and the purchase of coal from Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. (in the comparative period) and Węglokoks S.A.

Moreover, 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 recognised as transactions with related parties.

22.3 Management remuneration

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

<i>PLN 000s</i>	Period ended March 31, 2018	Period ended March 31, 2017
Short-term employee benefits (salaries and salary related costs)	9,371	9,750
Post-employment benefits	612	854
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	9,983	10,604
Remuneration of key management personnel of entities of non-core operations	5,071	3,830
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	15,054	14,434

<i>PLN 000s</i>	Period ended March 31, 2018	Period ended March 31, 2017
Management Board of the parent company	2,027	2,322
<i>including post-employment benefits</i>	-	20
Supervisory Board of the parent company	165	215
Management Boards – subsidiaries	7,157	7,359
Supervisory Boards – subsidiaries	634	708
TOTAL	9,983	10,604
Remuneration of key management personnel of entities of non-core operations	5,071	3,830
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	15,054	14,434

Until June 30, 2017, members of the management boards of PGE Group companies were employed on the basis of civil contracts and employment contracts. From the end of June 2017, PGE Group companies (direct and indirect subsidiaries) apply a rule according to which management board members are employed on the basis of management services contracts, taking into account the provisions of the Act of June 9, 2016, concerning remuneration for persons managing certain companies (Polish Journal of Laws of 2017, 2190, i.e. of November 28, 2017). In establishing remuneration for members of management and supervisory bodies, the scale of the company's activities is taken into account, especially the size of its assets, revenue and personnel.

Increase in remuneration for the management of companies in the other activities segment in the period ended March 31, 2018, compared to the same period last year, resulted mainly from consolidation of entities subject to control as a result of the acquisition of EDF's assets.

The above remuneration is included in other costs by nature disclosed in note 6.2 Costs by nature and function.

23. Significant events during and after the reporting period

In the first quarter of 2018 and until the date on which these consolidated financial statements were published, no such events took place.

24. PGE Polska Grupa Energetyczna S.A. quarterly financial information

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

	Period ended March 31, 2018 (unaudited)	Period ended March 31, 2017 (unaudited)
STATEMENT OF PROFIT OR LOSS		
SALES REVENUES	2,717	2,400
Cost of goods sold	(2,512)	(2,196)
GROSS PROFIT ON SALES	205	204
Distribution and selling expenses	(5)	(5)
General and administrative expenses	(49)	(35)
Other operating income	1	-
Other operating expenses	(1)	(7)
OPERATING PROFIT	151	157
Financial income	88	135
Financial expenses	(106)	(143)
PROFIT BEFORE TAX	133	149
Current income tax	(15)	29
Deferred income tax	(9)	(3)
NET PROFIT FOR THE REPORTING PERIOD	109	175
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified to profit or loss:	-	-
Valuation of hedging instruments	(49)	(38)
Deferred tax	9	7
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET	(40)	(31)
TOTAL COMPREHENSIVE INCOME	69	144
EARNINGS AND DILUTED EARNINGS PER SHARE (IN PLN)	0.06	0.09

SEPARATE STATEMENT OF FINANCIAL POSITION

	As at March 31, 2018 <small>(unaudited)</small>	As at December 31, 2017 <small>(audited) restated data</small>	As at March 31, 2017 <small>(unaudited) restated data</small>
NON-CURRENT ASSETS			
Property, plant and equipment	174	176	182
Intangible assets	2	3	4
Financial receivables	11,876	11,840	9,453
Derivatives and other assets measured at fair value through profit or loss	185	216	239
Shares in subsidiaries	32,542	32,568	29,287
Shares in other related parties	89	84	87
	44,868	44,887	39,252
CURRENT ASSETS			
Inventories	3	2	39
Trade and other receivables	2,732	2,636	1,577
Derivatives	24	54	-
Other current assets	129	220	96
Income tax receivables	-	-	19
Cash and cash equivalents	1,690	1,832	4,104
	4,578	4,744	5,835
TOTAL ASSETS	49,446	49,631	45,087
EQUITY			
Share capital	19,165	19,165	19,165
Reserve capital	15,328	15,328	13,730
Hedging reserve	71	110	118
Retained earnings	4,650	4,541	1,770
	39,214	39,144	34,783
NON-CURRENT LIABILITIES			
Non-current provisions	20	20	22
Loans, borrowings, bonds	7,734	7,714	8,722
Derivatives	10	5	31
Deferred tax liabilities	13	13	29
Other liabilities	21	23	-
	7,798	7,775	8,804
CURRENT LIABILITIES			
Current provisions	2	2	6
Loans, borrowings, bonds, cash pooling	1,570	1,764	834
Derivatives	25	27	-
Trade and other liabilities	670	682	582
Income tax liabilities	125	176	-
Other non-financial liabilities	42	61	78
	2,434	2,712	1,500
TOTAL LIABILITIES	10,232	10,487	10,304
TOTAL EQUITY AND LIABILITIES	49,446	49,631	45,087

* The restatement of comparative data is described in note 24.1 to these financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2017	19,165	13,730	149	1,594	34,638
Net profit for the reporting period	-	-	-	4,544	4,544
Other comprehensive income	-	-	(39)	-	(39)
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(39)	4,544	4,505
Retained earnings distribution	-	1,598	-	(1,598)	-
Other changes	-	-	-	1	1
AS AT DECEMBER 31, 2017	19,165	15,328	110	4,541	39,144
Net profit for the reporting period	-	-	-	109	109
Other comprehensive income	-	-	(40)	-	(40)
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(40)	109	69
Retained earnings distribution	-	-	-	-	-
Other changes	-	-	1	-	1
AS AT MARCH 31, 2018	19,165	15,328	71	4,650	39,214
	Share capital	Reserve capital	Hedging reserve	Retained earnings	Total equity
AS AT JANUARY 1, 2017	19,165	13,730	149	1,594	34,638
Net profit for the reporting period	-	-	-	175	175
Other comprehensive income	-	-	(31)	-	(31)
COMPREHENSIVE INCOME FOR THE PERIOD	-	-	(31)	175	144
Other changes	-	-	-	1	1
AS AT MARCH 31, 2017	19,165	13,730	118	1,770	34,783

SEPARATE STATEMENT OF CASH FLOWS

	Period ended March 31, 2018 <small>(unaudited)</small>	Period ended March 31, 2017 <small>(unaudited) restated data</small>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	133	149
Income tax paid	11	(121)
Adjustments for:		
Depreciation, amortisation and impairment losses	3	4
Interest and dividend, net	(7)	4
Profit / loss on investing activities	30	17
Change in receivables	(88)	(114)
Change in inventories	(1)	37
Change in liabilities, excluding loans and borrowings	(8)	376
Change in other non-financial assets	20	28
Change in provisions	-	-
Other	-	-
NET CASH FROM OPERATING ACTIVITIES	93	380
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment and intangible assets	(1)	(1)
Acquisition of bonds issued by PGE Group companies	(195)	(550)
Purchase of other financial assets	(5)	(88)
Deposits with maturity over 3 months	-	(50)
Release of deposits with maturity over 3 months	-	2,340
Loans granted / (repayment) under cash pooling agreement	(368)	211
Repayment of loans	797	-
Origination of other loans	(419)	(25)
Interest received	20	12
NET CASH FROM INVESTING ACTIVITIES	(171)	1 849
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(63)	(62)
Other	(2)	(1)
NET CASH FROM FINANCING ACTIVITIES	(65)	(63)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(143)	2,166
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	1,831	1,930
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	1,688	4,096

* The restatement of comparative data is described in note 24.1 to these financial statements.

24.1 Changes in accounting rules and data presentation

New standards and interpretations entering into force from January 1, 2018

The new standards and interpretations that went into force on January 1, 2018, as described in detail in note 3 to these financial statements, had no impact on the Company's separate financial statements.

Changes in applied accounting rules

- Change in presentation of employee benefits concerning unused leave and bonuses

In the present period, the Group decided to change the way in which it presents employee benefits concerning unused leave, bonuses and similar from the item "provisions" to the item "other non-financial liabilities."

The Company restated its comparative data presented in the statement of financial position. The restatement is presented in the table below.

	As at March 31, 2017 <i>published data</i>	Change in presentation	As at March 31, 2017 <i>restated data</i>
CURRENT LIABILITIES, including:			
Current provisions	35	(29)	6
Other non-financial liabilities	49	29	78
TOTAL CURRENT LIABILITIES	1,500	-	1,500
TOTAL EQUITY AND LIABILITIES	45,087	-	45,807
CASH FLOWS FROM OPERATING ACTIVITIES			
Adjustments:			
Change in liabilities, excluding loans and borrowings	372	4	376
Change in provisions	4	(4)	-
NET CASH FROM OPERATING ACTIVITIES	93	-	93
CURRENT LIABILITIES, including:			
Current provisions	33	(31)	2
Other non-financial liabilities	30	31	61
TOTAL CURRENT LIABILITIES	2,712	-	2,712
TOTAL EQUITY AND LIABILITIES	49,631	-	49,631

25. Approval of financial statements

These consolidated financial statements, containing quarterly separate financial information, were approved for publication by the Management Board on May 15, 2018.

Warsaw, May 15, 2018

Signatures of 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 person responsible for drafting these financial statements

Michał Skiba - Director, Reporting and Tax Department