PGE Polska Grupa Energetyczna S.A.
Consolidated financial statements for 2018

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

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PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2018	Year ended December 31, 2017 *restated data**
STATEMENT OF PROFIT OR LOSS			
SALES REVENUES	*7.1*	**25,946**	**23,100**
Cost of goods sold	*7.2*	(21,087)	(17,683)
GROSS PROFIT ON SALES		**4,859**	**5,417**
Distribution and selling expenses	*7.2*	(1,406)	(1,220)
General and administrative expenses	*7.2*	(984)	(793)
Net other operating income/expenses	*7.3*	2	148
OPERATING PROFIT		**2,471**	**3,552**
Net financial expenses	*7.4*	(350)	(370)
Share of profit of entities accounted for using the equity method	*7.5*	71	40
PROFIT BEFORE TAX		**2,192**	**3,222**
Current income tax	*8.1*	(350)	(632)
Deferred income tax	*8.1*	(331)	15
NET PROFIT FOR THE REPORTING PERIOD		**1,511**	**2,605**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified to profit or loss in the future:			
Valuationof debt financial instruments	*19.3*	(6)	(5)
Valuationof hedging instruments	*19.3*	(158)	(74)
Foreign exchange differences from translation of foreign entities	*19.4*	3	(7)
Deferred tax	*8.1*	31	15
Items that may not be reclassified to profit or loss in the future:			
Actuarial gains and losses from valuation of provisions for employee benefits	*21*	(207)	(101)
Deferred tax	*8.1*	39	19
Share of profit of entities accounted for using the equity method	*7.5*	1	-
OTHER COMPREHENSIVE INCOME FOR THE REPORTING PERIOD, NET		**(297)**	**(153)**
TOTAL COMPREHENSIVE INCOME		**1,214**	**2,452**
NET PROFIT ATTRIBUTABLE TO:			
– equity holders of the parent company		1,498	2,600
– non-controlling interests		13	5
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
– equity holders of the parent company		1,202	2,447
– non-controlling interests		12	5
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)	*19.7*	**0.80**	**1.39**

** restatement of comparative data is described in note 5 of these consolidated financial statements.*

The accounting principles and additional explanatory notes
constitute an integral part of the consolidated financial statements

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2018	As at December 31, 2017 *restated data**	As at January 1, 2017 *restated data**
NON-CURRENT ASSETS				
Property, plant and equipment	*9*	62,274	59,010	51,365
Investment property	*10*	48	50	27
Intangible assets	*11*	1,046	1,032	653
Financial receivables	*24.1.1*	168	158	237
Derivatives and other assets at fair value through profit or loss	*24.1.2*	117	222	356
Shares and other equity instruments		53	47	37
Shares accounted for using the equity method	*12*	776	634	402
Other non-current assets	*16.1*	528	524	730
CO_2 emission rights for captive use	*15*	1,203	402	1,157
Deferred tax assets	*13.1*	552	571	268
		66,765	**62,650**	**55,232**
CURRENT ASSETS				
Inventories	*14*	2,699	1,890	1,596
CO_2 emission rights for captive use	*15*	408	1,040	1,192
Income tax receivables		69	36	19
Derivatives and other assets at fair value through profit or loss	*24.1.2*	114	83	9
Trade and other financial receivables	*24.1.1*	4,102	3,522	6,325
Shares and other equity instruments		1	5	4
Other current assets	*16.2*	457	391	416
Cash and cash equivalents	*17*	1,281	2,552	2,669
		9,131	**9,519**	**12,230**
ASSETS CLASSIFIED AS HELD FOR SALE		**9**	14	12
TOTAL ASSETS		**75,905**	**72,183**	**67,474**
EQUITY				
Share capital	*19.1*	19,165	19,165	19,165
Reserve capital	*19.2*	19,872	15,328	13,730
Hedging reserve	*19.3*	(52)	83	147
Foreign exchange differences from translation of foreign entities	*19.4*	(1)	(4)	3
Retained earnings	*19.5*	7,743	10,556	9,634
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**46,727**	**45,128**	**42,679**
Equity attributable to non-controlling interests	*19.6*	1,074	1,250	96
TOTAL EQUITY		**47,801**	**46,378**	**42,775**
NON-CURRENT LIABILITIES				
Non-current provisions	*20*	6,428	5,651	5,004
Loans, borrowings, bonds and lease	*24.1.3*	6,247	8,422	9,603
Derivatives	*24.1.2*	26	18	30
Deferred income tax liabilities	*13.2*	1,616	1,302	1,191
Deferred income and government grants	*22.1*	611	1,038	1,141
Other financial liabilities	*24.1.4*	521	379	33
Other non-financial liabilities	*23*	15	-	-
		15,464	**16,810**	**17,002**
CURRENT LIABILITIES				
Current provisions	*20*	2,608	1,991	1,841
Loans, borrowings, bonds and leases	*24.1.3*	4,461	1,623	411
Derivatives	*24.1.2*	110	106	-
Trade and other financial liabilities	*24.1.4*	3,613	3,231	3,556
Income tax liabilities		14	196	6
Deferred income and government grants	*22.2*	87	115	119
Other non-financial liabilities	*23*	1,747	1,733	1,764
		12,640	**8,995**	**7,697**
TOTAL LIABILITIES		**28,104**	**25,805**	**24,699**
TOTAL EQUITY AND LIABILITIES		**75,905**	**72,183**	**67,474**

** restatement of comparative data is described in note 5 of these consolidated financial statements.*

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Reserve capital	Hedging reserve	Foreign exchange differences from translation of foreign entities	Retained earnings	Total	Non-controlling interests	Total equity
Note	*19.1*	*19.2*	*19.3*	*19.4*			*19.6*	
JANUARY 1, 2017 *restated data**	**19,165**	**13,730**	**147**	**3**	**9,634**	**42,679**	**96**	**42,775**
Net profit for the reporting period	-	-	-	-	2,600	2,600	5	2,605
Other comprehensive income	-	-	(64)	(7)	(82)	(153)	-	(153)
COMPREHENSIVE INCOME	**-**	**-**	**(64)**	**(7)**	**2,518**	**2,447**	**5**	**2,452**
Retained earnings distribution	-	1,598	-	-	(1,598)	-	-	-
Dividend	-	-	-	-	-	-	(2)	(2)
Purchase of new subsidiaries	-	-	-	-	-	-	1,154	1,154
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	2	2	(3)	(1)
TRANSACTIONS WITH OWNERS	**-**	**1,598**	**-**	**-**	**(1,596)**	**2**	**1,149**	**1,151**
DECEMBER 31, 2017	**19,165**	**15,328**	**83**	**(4)**	**10,556**	**45,128**	**1,250**	**46,378**
Effect of IFRS 15 implementation	-	-	-	-	340	340	-	340
January 1, 2018	**19,165**	**15,328**	**83**	**(4)**	**10,896**	**45,468**	**1,250**	**46,718**
Net profit for the reporting period	-	-	-	-	1,498	1,498	13	1,511
Other comprehensive income	-	-	(133)	3	(166)	(296)	(1)	(297)
COMPREHENSIVE INCOME FOR THE PERIOD	**-**	**-**	**(133)**	**3**	**1,332**	**1,202**	**12**	**1,214**
Retained earnings distribution	-	4,544	-	-	(4,544)	-	-	-
Dividend	-	-	-	-	-	-	(38)	(38)
Inclusion of companies in consolidation	-	-	-	-	18	18	8	26
Settlement of purchase of additional shares in subsidiaries	-	-	-	-	42	42	(150)	(108)
Capital increase by minority shareholders	-	-	-	-	-	-	18	18
Share redemption	-	-	-	-	-	-	(26)	(26)
Other changes	-	-	(2)	-	(1)	(3)	-	(3)
TRANSACTIONS WITH OWNERS	**-**	**4,544**	**(2)**	**-**	**(4,485)**	**57**	**(188)**	**(131)**
DECEMBER 31, 2018	**19,165**	**19,872**	**(52)**	**(1)**	**7,743**	**46,727**	**1,074**	**47,801**

The accounting principles and additional explanatory notes constitute an integral part of the consolidated financial statements

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended December 31, 2018	Year ended December 31, 2017 *restated data**
CASH FLOWS FROM OPERATING ACTIVITIES			
Gross profit		**2,192**	**3,222**
Income tax paid		(586)	(570)
Adjustments for:			
Share of profit of equity-accounted entities		(71)	(40)
Depreciation, amortisation, disposal and impairment losses		3,893	4,098
Interest and dividend, net		179	151
(Profit) / loss on investing activities	*26.1*	(14)	132
Change in receivables	*26.1*	(553)	(434)
Change in inventories	*26.1*	(803)	115
Change in liabilities, excluding loans and borrowings	*26.1*	339	431
Change in other non-financial assets, prepayments and CO_2 emission rights	*26.1*	(333)	874
Change in provisions	*26.1*	789	29
Other		70	(74)
NET CASH FROM OPERATING ACTIVITIES		**5,102**	**7,934**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment and intangible assets		25	27
Acquisition of property, plant and equipment and intangible assets	*26.2*	(6,393)	(6,071)
Deposits with maturity over 3 months	*26.2*	(372)	(203)
Termination of deposits with maturity over 3 months	*26.2*	358	2,486
Purchase of financial assets and increase in stake in Group companies	*26.2*	(114)	(213)
Purchase of subsidiaries after offsetting acquired cash	*26.2*	13	(4,091)
Sale of subsidiaries after offsetting sold cash	*26.2*	-	272
Other		18	18
NET CASH FROM INVESTING ACTIVITIES		**(6,465)**	**(7,775)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in stake in Group companies	*26.3*	(111)	-
Proceeds from share of non-controlling interests		18	-
Proceeds from loans, borrowings and issue of bonds	*26.3*	2,582	192
Repayment of loans, borrowings, bonds and finance leasing	*26.3*	(2,024)	(193)
Dividends paid	*26.3*	(34)	(1)
Interest paid	*26.3*	(316)	(300)
Other		(24)	28
NET CASH FROM FINANCING ACTIVITIES		**91**	**(274)**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,272)**	**(115)**
Net exchange differences		*3*	*(3)*
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	*17*	**2,551**	**2,666**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	*17*	**1,279**	**2,551**

** restatement of comparative data is described in note 5 of these consolidated financial statements..*

The accounting principles and additional explanatory notes constitute an integral part of the consolidated financial statements

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

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 of August 2, 1990, and registered in the District Court in Warsaw, XVI Commercial Department on September 28, 1990. The Company was registered in the National Court Register of the District Court for the capital city of Warsaw, XII Commercial Department, under no. KRS 0000059307. The Company's registered office is in Warsaw, ul. Mysia 2.

As at January 1 and December 31, 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 Wasiłek – Vice-President of the Management Board,
- Emil Wojtowicz – Vice-President of the Management Board.

Ownership structure

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 December 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., 57 consolidated subsidiaries, 4 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 cover the period from January 1, 2018 to December 31, 2018 ("financial statements", "consolidated financial statements") and include comparative data for the period from January 1, 2017 to December 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. Companies acquired in the course of the year were the exception, preparing financial data for the period from the moment PGE Group obtained control.

PGE Group companies' core activities are as follows:

- production of electricity,
- distribution of electricity,
- wholesale and retail trade in electricity, energy origin rights, CO_2 emission rights and gas,
- production and distribution of heat,
- rendering of other services related to these activities

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

Going concern

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

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

1.3 PGE Group's composition

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

	Entity	Entity holding stake	Share held by Group entities as at December 31, 2018	Share held by Group entities as at December 31, 2017
	SEGMENT: SUPPLY			
1.	PGE Polska Grupa Energetyczna S.A. Warsaw	Parent		
2.	PGE Dom Maklerski S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
3.	PGE Trading GmbH Berlin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
4.	PGE Obrót S.A. Rzeszów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
5.	ENESTA sp. z o.o. Stalowa Wola	PGE Obrót S.A.	87.33%	87.33%
6.	PGE Centrum sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
7.	PGE Nowa Energia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
8.	PGE Paliwa sp. z o.o. Kraków	PGE Energia Ciepła S.A.	100.00%	100.00%
	SEGMENT: CONVENTIONAL GENERATION			
9.	PGE GiEK 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.	100,00%	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.	58.07%	17.74%
		Investment III B.V.	-	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%
	Przedsiębiorstwo Usługowo-Produkcyjne „TOP SERWIS" sp. z o.o. Bogatynia	PGE Polska Grupa Energetyczna S.A.	-	100.00%
20.	Przedsiębiorstwo Transportowo-Sprzętowe „BETRANS" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
21.	Przedsiębiorstwo Wulkanizacji Taśm i Produkcji Wyrobów Gumowych BESTGUM POLSKA sp. z o.o. Rogowiec	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
22.	RAMB sp. z o.o. Piaski	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
23.	EPORE sp. z o.o. Bogatynia	PGE GiEK S.A.	85.38%	85.38%
24.	„Energoserwis – Kleszczów" sp. z o.o. Rogowiec	PGE GiEK S.A.	51.00%	51.00%
25.	Przedsiębiorstwo Energetyki Cieplnej sp. z o.o. Zgierz	PGE GiEK S.A.	50.98%	50.98%
	SEGMENT: RENEWABLES			
26.	PGE Energia Odnawialna S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%

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	Entity	Entity holding stake	Share held by Group entities as at December 31, 2018	Share held by Group entities as at December 31, 2017
27.	Elektrownia Wiatrowa Baltica-1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A. PGE Energia Odnawialna S.A.	100.00% -	- 100.00%
28.	Elektrownia Wiatrowa Baltica-2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A. PGE Energia Odnawialna S.A.	100.00% -	- 100.00%
29.	Elektrownia Wiatrowa Baltica-3 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A. PGE Energia Odnawialna S.A.	100.00% -	- 100.00%
	PGE Energia Natury PEW sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	-	100.00%
30.	PGE Klaster sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
	SEGMENT: DISTRIBUTION			
31.	PGE Dystrybucja S.A. Lublin	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	SEGMENT: OTHER OPERATIONS			
32.	PGE EJ 1 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	70.00%	70.00%
33.	PGE Systemy S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
34.	PGE Sweden AB (publ) Stockholm	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
	Investment III B.V. Amsterdam	PGE Energia Ciepła S.A.	-	100.00%
35.	PGE Synergia sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
36.	„Elbest" sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
37.	Elbest Security sp. z o.o. Bełchatów	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
38.	PGE Inwest 2 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
39.	PGE Inwest 5 sp. z o.o. (currently PGE Baltica sp. z o.o.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
40.	PGE Ventures sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
41.	PGE Inwest 8 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
42.	PGE Inwest 9 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
43.	PGE Inwest 10 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
44.	PGE Inwest 11 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
45.	PGE Inwest 12 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
46.	PGE Inwest 13 S.A. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
47.	PGE Inwest 14 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
48.	PGE Inwest 16 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
49.	PGE Inwest 17 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
50.	PGE Inwest 18 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
51.	PGE Inwest 19 sp. z o.o. Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
52.	Towarzystwo Funduszy Inwestycyjnych Energia S.A. (formerly PGE TFI S.A.) Warsaw	PGE Polska Grupa Energetyczna S.A.	100.00%	100.00%
53.	BIO-ENERGIA sp. z o.o. Warsaw	PGE Energia Odnawialna S.A.	100.00%	100.00%
54.	Przedsiębiorstwo Transportowo-Usługowe „ETRA" sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%
55.	Energetyczne Systemy Pomiarowe sp. z o.o. Białystok	PGE Dystrybucja S.A.	100.00%	100.00%

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	Entity	Entity holding stake	Share held by Group entities as at December 31, 2018	Share held by Group entities as at December 31, 2017
56.	PGE Ekoserwis sp. z o.o. Wrocław	PGE Energia Ciepła S.A.	84.15%	84.15%
57.	ZOWER sp. z o.o.* Czerwionka-Leszczyny	PGE Energia Ciepła S.A.	100.00%	100.00%
58.	Przedsiębiorstwo Usługowo-Handlowe TOREC sp. z o.o.* Toruń	PGE Toruń S.A.	50.04%	50.04%

** During the present period, two subsidiaries were included in consolidation that previously had not been consolidated due to immateriality: ZOWER sp. z o.o. and Przedsiębiorstwo Usługowo - Handlowe TOREC sp. z o.o.*

The table above includes the following changes in the structure of PGE Group companies subject to full consolidation which took place during the period ended December 31, 2018:

- On February 26, 2018, a resolution was adopted to merge Przedsiębiorstwo Usługowo-Produkcyjne ELTUR-SERWIS Sp. z o.o. (the acquiring company) with Przedsiębiorstwo Usługowo-Produkcyjne TOP SERWIS sp. z o.o. (the acquired company). The merger was registered at the National Court Register on April 12, 2018. The merger did not have an impact on the Group's financial statements.
- On March 27 and 29, 2018, resolutions were 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 merger did not have an impact on the Group's financial statements.
- On March 7, 2018 and May 7, 2018, PGE S.A. purchased 3,285 and 2,970 shares of PGE Energia Ciepła S.A. respectively in a mandatory squeeze out procedure pursuant to art. 418[1] of the Polish Commercial Companies Code. On May 18, 2018, PGE S.A. purchased 336,473 shares of PGE Energia Ciepła S.A. in a mandatory squeeze out procedure pursuant to art. 418 of the Polish Commercial Companies Code. As a result of these transactions, PGE S.A. currently holds a 100% interest in PGE Energia Ciepła S.A. The price paid for the shares was PLN 13 million.
- 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, constituting 8.07% of the total number of KOGENERACJA's shares and general meeting votes. The price paid for the shares was PLN 98 million. 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.
  As a result of the purchase of shares in PGE Energia Ciepła S.A. and KOGENERACJA, equity attributable to PGE Group increased by PLN 42 million, while equity attributable to non-controlling interests decreased by PLN 150 million.
- On August 31, 2018, an agreement was executed pursuant to which PGE Polska Grupa Energetyczna S.A. purchased from PGE Energia Odnawialna S.A. all shares in Elektrownia Wiatrowa Baltica-1 sp. z o.o., Elektrownia Wiatrowa Baltica-2 sp. z o.o. and Elektrownia Wiatrowa Baltica-3 sp. z o.o. The shares were transferred on September 3, 2018. The transaction had no impact on these consolidated financial statements.
- A merger of PGE Energia Ciepła S.A. (acquiring company) with Investment III B.V. (acquired company) was registered on September 4, 2018. The merger had no impact on these consolidated financial statements.

Furthermore, on October 18, 2018, the Extraordinary General Meetings of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A. adopted resolutions to divide PGE Górnictwo i Energetyka Konwencjonalna S.A. (divided company) by transferring the following PGE Górnictwo i Energetyka Konwencjonalna S.A. branches to PGE Energia Ciepła S.A.:

- Elektrociepłownia Kielce,
- Elektrociepłownia Gorzów,
- Elektrociepłownia Rzeszów,
- Elektrociepłownia Lublin Wrotków,
- Elektrociepłownia Zgierz,
- Zespół Elektrociepłowni Bydgoszcz.

The division was registered at the National Court Register on January 2, 2019.

On November 28, 2018, the Management Board of PGE S.A. announced preliminary interest in purchasing all of the shares of PGE EJ 1 sp. z o.o. This transaction will be possible after valuation is carried out by an independent adviser and once corporate approvals are obtained by all of the entities involved.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

1.4 Accounting for new acquisitions

Accounting for acquisition of EDF companies in Poland

A transaction between PGE Polska Grupa Energetyczna S.A. and EDF International SAS and EDF Investment II B.V. concerning the sale of EDF's assets in Poland pursuant to a Conditional Share Sale Agreement of May 19, 2017, was finalised on November 13, 2017. Initial recognition of the acquisition of EDF's assets was done for the purposes of the consolidated financial statements for 2017. In the present period, a process consisting of the measurement of tangible and intangible assets of the acquired entitles was completed, in connection with which final accounting for the assets and liabilities of the acquired entities is included in these financial statements.

The following table presents a summary of the recognised assets and liabilities as at the acquisition date.

	As at November 13, 2017		
	Initial recognition	**Adjustments**	**Final recognition**
Property, plant and equipment and intangible assets	4,710	745	5,455
Other property, plant and equipment	951	(85)	866
Inventories	398	11	409
Cash and cash equivalents	186	-	186
Other current assets	1,166	(1)	1,165
Total assets	**7,411**	**670**	**8,081**
Loans and borrowings	2,839	-	2,839
Provisions	478	-	478
Other liabilities	1,759	48	1,807
Total liabilities	**5,076**	**48**	**5,124**
Net assets of acquired entities	**2,335**	**622**	**2,957**

The following table presents preliminary accounting for the acquisition and goodwill arising on consolidation.

	As at November 13, 2017		
	Initial recognition	**Adjustments**	**Final recognition**
Net assets of acquired entities	2,335	622	2,957
Net assets attributable to non-controlling interests	(1,067)	(87)	(1,154)
Exclusion of liabilities (subrogation)	2,285	-	2,285
PGE Group's stake in net assets of acquired entities	**3,553**	**535**	**4,088**
Cash transferred	1,992	-	1,992
Subrogation of liabilities	2,285	-	2,285
Total acquisition price	**4,277**	**-**	**4,277**
Goodwill arising on consolidation	**724**	**(535)**	**189**

The goodwill recognised by PGE Group arises from the fact that in accordance with PGE Group's assumptions discounted cash flows from operating activities that will be generated by the acquired assets will be higher than the net asset value of the acquired companies, established in accordance with IFRS 3 *Business Combinations*. The acquisition of control over EDF's assets in Poland will generate synergies for the Group's entire cogeneration activities, and the acquired assets will be managed and analysed together with other assets in this area. Thus, goodwill will be allocated to the entire cogeneration activity.

The goodwill recognised does not constitute goodwill for tax purposes.

Due to fair value measurement of assets and final recognition of the acquisition, the net resulted for the period from November 14 to December 31, 2017 was adjusted by PLN (-)62 million (of which PLN (-)60 million was attributable to shareholders of the parent and PLN (-)2 million to non-controlling interests). The restatement of data for the comparative period is presented in note 5 to these financial statements.

2. Basis for preparation of financial statements

2.1 Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union („EU"). 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:

	December 31, 2018	December 31, 2017
USD	3.7597	3.4813
EUR	4.3000	4.1709

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 14 Regulatory Deferral Accounts	Accounting and disclosure principles for regulatory deferral accounts.	Standard in the current version will not be effective in the EU
Amendments to IFRS 10 and IAS 28	Deals with the sale or contribution of assets between an investor and its joint venture or associate.	Postponed indefinitely
IFRS 16 Leases	The standard eliminates the classification of leases as either operating or finance lease in the lessee's accounts. All contracts which meet the criteria of lease will be recognized as finance lease.	January 1, 2019
Amendments to IFRS 9	These changes apply to the right of early repayment with negative fees.	January 1, 2019
IFRIC 23 Uncertainty over income tax treatments	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 the Conceptual Framework	These amendments aim to harmonise the Conceptual Framework	January 1, 2020
IFRS 17 Insurance Contracts	Defines a new approach to recognising revenue and profit/loss in the period in which insurance services are provided	January 1, 2021
Amendments to IFRS 3	These changes clarify the definition of economic activity	January 1, 2020
Amendments to IAS 1 and IAS 8	The amendments concern the definition of 'material.'	January 1, 2020

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 Group has analysed the potential impact of IFRS 16 on its future financial statements. The Group inventoried its contracts in order to identify those that contain a lease or a lease component in accordance with IFRS 16.

The following areas were identified as potentially being influenced by IFRS 16:

- right to perpetual usufruct of land - both purchased and received as contribution-in-kind or received free of charge based on an administrative decision;
- land easements and transmission service easements;
- tenancy agreements, lease agreements, etc. related to the installation of power line and technical infrastructure (heat transfer systems, transformers);
- tenancy agreements, lease agreements, etc. related to office space;
- tenancy agreements, lease agreements, etc. related to buildings, structures and technical equipment.

The Group has analysed which of these agreements should be recognised and measured as a lease contract, what interest rate should be used for measuring the liability, how to define the lease term and which exemptions and simplifications from IFRS 16 to use.

PGE Group will implement the new IFRS 16 standard starting from financial statements prepared for periods beginning after January 1, 2019. The Group selected the option to implement this standard described in paragraph C5.b) of IFRS 16, i.e. retrospectively with the cumulative effect of initially applying the standard recognised at January 1, 2019 as adjustment to the opening balance of retained earnings.

In accordance with the selected option, the Group will not restate comparative data. As at the moment IFRS 16 is implemented, the Group will recognise an asset consisting of the right to perpetual usufruct of land as an operating lease under IAS 17 *Leases* in an amount equal to the lease liability, adjusted by the amounts of all prepayments and accrued lease payments relating to this lease and recognised directly in the statement of financial situation prior to the first day of application, in compliance with paragraph C8.b.ii).

Moreover, PGE Group decided to use the following practical expedients as at January 1, 2019, as specified in par. C10 IFRS 16 as regards leases previously classified as operating leases under IAS 17:

- PGE Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as properties),
- PGE Group elected not to apply the requirements in paragraph C8 to leases for which the lease term ends within 12 months of the date of initial application, i.e. January 1, 2019. The Group accounted for those leases in the same way as short-term leases,
- PGE Group decided to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- PGE Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

As a result of applying IFRS 16, the Group estimates that rights to use financial assets and liabilities as at January 1, 2019, will be PLN 0,8 billion higher, while gross financial result for 2019 will be PLN 22 million lower. Retained earnings will not change. The largest contribution to balance sheet total growth will come from the recognition of rights to perpetual usufruct of land, amounting to approx. PLN 0.5 billion, and tenancy and land lease contracts worth approx. PLN 0.2 billion.

The aforementioned conclusions and estimates of the impact on future financial statements are subject to change.

Other standards

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

2.4 Professional judgement of management and estimates

In the process of applying accounting rules with regards to the following issues, management has made judgements and estimates that affect the amounts presented in the financial statements, including in other explanatory information. The assumptions of these 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 was presented below or in respective explanatory notes.

Recoverable amount of property, plant and equipment, intangible assets and goodwill

Changes on the electricity market may have a significant influence on the recoverable amount of power generating property, plant and equipment of particular PGE Group entities. If impairment indications are identified, the Group estimates the recoverable amount of the respective property, plant and equipment. Estimates of the recoverable amount of goodwill are performed once a year.

Impairment analysis of property, plant and equipment and goodwill is performed by estimating the recoverable amount of cash generating units. The analysis is based on a number of significant assumptions, some of which are outside the control of the Group. Any significant change in these assumptions will impact the result of future impairment tests and as a consequence may lead to significant changes to the financial position and results of the Group. The impairment test carried out on PGE Group's selected assets is described in note 3 to these financial statements.

Depreciation/amortisation period for property, plant and equipment and intangible assets

Depreciation rates are calculated on the basis of the estimated economic useful life of an item of property, plant and equipment or intangible assets as well as estimates of its residual value. Capitalised costs of major inspections and overhauls are depreciated throughout the period until the beginning of the next major inspection or overhaul.

Estimated economic useful lives of assets are subject to verification at least once a year. Depreciation periods are presented in notes 9 and 11.

The verification of the economic useful lives of property, plant and equipment and intangible assets conducted in 2018 resulted in a decrease in the depreciation and amortisation costs for 2018 by approx. PLN 90 million.

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Measurement of assets arising from capitalisation of stripping costs in the production phase of surface mine

The capitalisation of stripping costs in the production phase is determined based on the excess of annual N:W ratio (ratio of the volume of overburden removed to the volume of coal extracted within a given year) over general N:W calculated for a particular deposit. The general N:W ratio is calculated by comparing the total volume of overburden still to be removed to the total volume of coal still to be extracted from the date of application of IFRIC 20 to the end of the exploitation of lignite from a particular deposit. This ratio is calculated at the end of each year based on the best knowledge of the technical experts employed in the mine and may be subject to change in case of acquisition of new information on the size of the deposit and the way it is located underground. An update of the N:W ratio during 2018 caused an increase in costs of PLN 4 million.

Impact of assets arising from capitalisation of the stripping costs in the production phase of a surface mine on property, plant and equipment and its depreciation is described in note 9 of these financial statements.

Rehabilitation provision

The rehabilitation provision is calculated using estimates of future costs of rehabilitation together with all information available as at the reporting date. The provision is updated in the case of changes in estimated time or amounts of expenses necessary to conduct rehabilitation process, or in case of change of discount rate. Estimation of rehabilitation provision requires making technical, geological, environmental, legal and tax assumptions, as well as schedule, scope and the level of rehabilitation costs. Changes in assumptions mentioned above impact the value of rehabilitation provision and capitalized rehabilitation costs recognized in property, plant and equipment, as well as statement of comprehensive income.

In the presenting reporting period, the Group adjusted discount rates and inflation rates used for estimating the present value of future expenditures on rehabilitation of excavations at surface lignite mines. In previous years, the value of this provision was calculated using an inflation forecast of 1.8% and a discount rate of 3.4%. In 2018, these estimates were changed, by assuming 2.5% growth in rehabilitation costs during the forecast period, and the discount rate was increased to 3.7%. The largest rehabilitation expenses at mines will be incurred in 2037-2065 (approx. 93% of total expenses), and the discount rate should be adapted to the time when they will be incurred. Because there are no observable discount rates for payments with such maturities, the Group extrapolates the yield on 10-year treasury bonds.

Correcting the level of discount rates and inflation rates used to estimate the present value of excavation rehabilitation provisions for surface lignite mines caused an additional operating cost of PLN 103 million.

Correcting the other assumptions having an impact on the amount of PGE Group's rehabilitation provisions caused an additional operating cost of PLN 43 million.

Measurement of provisions for employee benefits

Provisions for employee benefits were estimated using actuarial methods.

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

	As at December 31, 2018	**As at December 31, 2017**
Expected inflation rate (%)	2.3% in 2019, 2.5% in 2020 and subsequent years	1.8%
Discount rate (%)	3.0%	3.4%
Expected salary growth rate (%)	2.1% - 4.46%	0.00-4.29%
Employee turnover (%)	0.0% - 8.4%	0.27-9.57%
Expected medical care costs growth rate (%)	0.0% - 1.8%	1.8%
Expected Social Fund (ZFŚS) allowance growth rate (%)	3.6%	3.5%-5.0%

- The probability of employee attrition has been predicted on the basis of historical data related to Group's employee turnover ratio and statistical data on employee attrition in the industry.
- Mortality and survival probability have been adopted from the Life Expectancy Tables published by Central Statistical Office of Poland, assuming that the population of the Group's employees corresponds, in respect of mortality, to the average in Poland.
- A regular procedure of employees' retirement was assumed, in accordance with detailed rules included in the Law on State Social Insurance Pensions, with the exception of employees who meet the conditions required to early retirement.
- For discounting future benefit payments a discount rate of 3.0% was adopted (December 31, 2017: 3.4%), which corresponds to the profitability of long-term Treasury bonds listed on the Polish capital market.

Other provisions

As described in note 20, the recognition of provisions requires estimates of the probable outflow of economic benefits and determination of the amount that shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Aside from the above, the most important provisions are:

- provisions for CO_2 emission allowances;
- provision for energy origin units held for redemption.

Sensitivity analysis for changes in assumptions used for calculation of carrying value of provisions, in particular a change in a discount rate, is presented in notes 20 and 21 of these financial statements.

Contingent liabilities

In accordance with IAS 37 with respect to recognition and measurement of provisions and contingent liabilities, PGE Group estimates the probability of occurrence of potential liabilities. If the occurrence of unfavourable future event is probable, PGE Group recognises a provision in the appropriate amount. If the occurrence of unfavourable future event is estimated by PGE Group as not probable but possible, a contingent liability is recognised.

Detailed information on contingent liabilities and legal claims and disputes is presented in note 27 of these financial statements.

Impairment of receivables

As at the reporting date, PGE Group entities recognise impairment allowances for expected credit losses in an amount equal to full lifetime expected credit losses.

The companies apply the following rules for estimating and recognising impairment losses on financial assets:

- for trade receivables from significant clients that are subject to a credit risk assessment procedure, the Companies estimate 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 Companies estimate expected credit losses based on an analysis of the likelihood of credit losses in each age bracket;
- in justified cases, the Companies might estimate the amount of an impairment loss on an individual basis.

Information on impairment allowances for expected credit losses on trade and other receivables is described in note 24.1.1 of these financial statements.

Electricity sales accrual

Readings from meters regarding the volume of electricity provided in retail sales including distribution services and its invoicing is performed mainly in periods different from the reporting periods. Taking into account the above, a retail sale company (PGE Obrót S.A.) and a distribution company (PGE Dystrybucja S.A.) that are part of the PGE Group perform certain revenues estimates at each reporting date that cover the period not covered by the meters reading. The estimates include also a change in the cost of purchase of electricity during the period of the estimates and reconciliation of the energy balance.

The carrying amount of the electricity sales accrual as at December 31, 2018 is stated in note 24.1.1 of these financial statements.

Measurement of fair values of acquired assets and liabilities, goodwill calculation

PGE Group identifies acquired assets and liabilities, measures their fair value and recognizes goodwill or gain on bargain purchase in accordance with IFRS 3 Business combinations. Measurement is based on a number of assumptions, which include inter alia: application of appropriate valuation method, management's plans relating to the use of acquired assets, financial projections (including price forecasts influencing main positions of revenues and expenses), changes in laws and regulations and other. On the other hand, the settlement of the transaction is also influenced by the appropriate determination of the consideration transferred (including contingent part). Assumptions applied may significantly impact fair values of acquired assets and liabilities, and calculation of goodwill or gain on bargain purchase. Goodwill is tested for impairment together with the respective cash generating units.

In 2017, PGE Group purchased EDF's assets in Poland. As a result of initial recognition, goodwill of PLN 724 million was recognised. In the first half of 2018, the acquisition was accounted for, as a result of which goodwill was adjusted to PLN 189 million. A detailed description of the acquisition accounting for EDF's assets is presented in note 1.4.

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Uncertainty concerning tax settlements

Regulations concerning tax on goods and services, corporate income tax and burdens related to social insurance are subject to changes. These frequent changes result in a lack of reference points, inconsistent interpretations and few precedents that can be applied. The existing regulations also contain uncertainties that result in differing opinions as to legal interpretation of tax regulations both between state organs and between state organs and companies.

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 authorised to issue fines and penalties, and all additional tax liabilities resulting from such audits must be paid with high interest. This means that tax risk in Poland is higher than in countries with more stable tax systems.

As a consequence, the amounts presented and disclosed in financial statements may change in the future as a result of a final decision by a tax control organ.

On July 15, 2016, changes were introduced to the Tax Ordinance intended to take into account the provisions of General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the formation and use of artificial legal structures created in order to avoid paying tax in Poland. GAAR defines tax avoidance as an activity performed primarily to obtain a tax benefit contrary under the circumstances to the subject and aim of the tax law. According to GAAR, such an activity does not result in a tax benefit if it is artificial. All proceedings regarding unjustified division of operations, involving intermediaries despite a lack of economic justification, mutually offsetting elements or other similar activities may be treated as a condition for the existence of artificial activities subject to GAAR. These new regulations will require a much greater judgement in assessing the tax effects of transactions.

The GAAR clause is to be applied in relation to transactions executed after its entry into force and to transactions that were executed prior to its entry into force but in the case of which tax benefits were or continue to be obtained after GAAR went into force. The implementation of these regulations will make it possible for Polish tax inspection authorities to question legal arrangements and agreements made by taxpayers such as group restructuring and reorganisation.

The Group recognises current and deferred income tax assets and liabilities under IAS 12 Income tax based on profit (tax loss), tax base, unsettled tax losses, unused tax exemptions and tax rates, taking into account assessment of uncertainties related to tax settlements. If there is uncertainty over where or not and in what scope the tax authority will accept tax accounting for transactions, the Group recognises these settlements taking into account an uncertainty of assessment.

Impact of changes in select estimates on the statement of comprehensive income for 2018

	Impairment losses on non-current assets	Change in measurement of actuarial provisions	Change in measurement of rehabilitation provision	Updated of overall N:W ratio	Verification of periods of useful economic life
REVENUE FROM SALES	-	-	-	-	-
Cost of goods sold	(402)	(55)	-	(4)	90
GROSS PROFIT/(LOSS) ON SALES	(402)	(55)	-	(4)	90
Distribution and selling expenses	-	(6)	-	-	-
General and administrative expenses	(3)	(10)	-	-	-
Other operating income	2	-	-	-	-
Other operating expenses	-	-	(146)		
OPERATING PROFIT / (LOSS)	(403)	(71)	(146)	(4)	90
GROSS PROFIT/(LOSS)	(403)	(71)	(146)	(4)	90
Other comprehensive income	-	(208)	-	-	-

3. The analysis of impairment on property, plant and equipment, intangible assets and goodwill

Property, plant and equipment is PGE Group's most significant group of assets. Due to changeable macroeconomic conditions PGE Group regularly verifies the impairment indicators of its assets. When assessing the market situation PGE Group uses both its own analytical tools and independent think tanks' support. In previous reporting periods, PGE Group recognised substantial impairment allowances for property, plant and equipment in the Conventional Generation segment and the Renewables segment.

In the current reporting period, the Group analysed the impairment indications and identified factors that could result in changes to the asset values in the above segments.

External factors

- Market capitalisation of PGE Polska Grupa Energetyczna S.A. remaining below net asset book value.
- Entry into force on December 14, 2018, of the Act on promotion of electricity from high-efficiency cogeneration. A reduction of support for gas-fired generating units after 2018 vs assumptions adopted in 2017 was introduced alongside inclusion of hard coal-fired generating units in the support system,
- Positive regulatory changes concerning wind farm maintenance costs in the Renewables segment due to legislative changes in respect of the act of May 20, 2016, on investments in wind farms ("Act") resulting from the entry into force of the act of June 7, 2018, on amendment of the act on renewables and certain other acts ("Renewables Act"). In particular, the Renewables Act introduces a change in the definition of wind farm by re-introducing the wording contained in the act of July 7, 1994 - Construction Law. In accordance with the justification in the Renewables Act, this should clear up interpretation doubts with regard to property tax bases for wind farms, which arose after January 1, 2017. Given the change in the Act in the above scope, wind farms are no longer considered entirely as structures, which translates into lower property tax expenses. Tax base changes are in effect retrospectively, from January 1, 2018.
- Execution on December 18/19, 2018, of agreements between the representatives of EU member states and the European Parliament on Capacity Market regulations and subsequent approval of the agreement on January 18, 2019 by EU member state ambassadors. Comparing to previous assumptions, the key change in the new regulations is rejection from the Capacity Market from July 1, 2025 of units that do not meet the emission criterion of 550g CO_2/kWh of electricity produced (except for long term contracts executed in main auctions for 2021-2024), which in practice removes coal-based units from the Capacity Market after 2024.

Following analysis of these factors, the Group conducted asset impairment tests as at November 30, 2018, recognised as at December 31, 2018, for the Conventional Generation segment, in which goodwill is assigned, and for the Renewables segment.

Macroeconomic assumptions

The key price assumptions, i.e. the prices of electricity, CO_2 emission allowances, hard coal, gas, and assumptions related to production at most of the Group's installations were derived from a study prepared by an independent expert, basing on the current market situation for the first three years of the forecast.

Electricity price forecasts expect a major increase in 2019 comparing to 2018, followed by stability until 2022 and several-percent growth in subsequent years.

Price forecasts for CO_2 emission allowances assume dynamic market price growth in following years covered by the forecast.

Hard coal price forecasts expect strong growth in 2019 comparing to 2018, followed by stability until 2022 and several-percent growth in subsequent years.

Gas price forecasts assume average annual growth until 2022 at approx. 7% and growth of approx. 4% annually in the years thereafter.

The forecast for prices of property rights concerning certificates of origin was drafted by PGE S.A.'s in-house experts, based on a demand-supply balance and expected regulatory changes in renewables property rights area. It was assumed that auctions will be the main support mechanism. Forecast for the prices of property rights concerning the origin of energy from renewable sources see a down trend, resulting mainly from a reduction of potential support in a situation of dynamically increasing electricity prices for units within the green certificate system. For production covered by contracts the prices and settlement terms used in these contracts during their validity were adopted.

Capacity-market revenue forecast for 2021-2023 is based on the results of main auctions for these delivery periods, taking into account the mechanisms of the agreement to re-allocate revenue within PGE Group companies. The forecast after 2024 was developed by a in-house experts from PGE S.A., based on assumptions concerning estimated future cash flows for generation units, on the basis of completed auctions. From July 1, 2025, removed from the Capacity Market are units that fail to meet the 550 g CO_2 emission criterion, except for units covered by multiannual contracts executed in main auctions for years 2021-2024.

Revenue from regulatory system services was based on existing bilateral agreements with PSE S.A.

Unit availability was estimated based on repair plans, taking into account statistical failure rates.

3.1 Description of assumptions for the Conventional Generation segment

Impairment tests were conducted on November 30, 2018, on cash generating unit basis by establishing their recoverable amounts. Determining fair value for very large groups of assets for which there is no active market and there are few comparable transactions is very difficult in practice. In the case of power plants and mines for which a value on the local market should be determined there are no observable fair values. Given the above, the recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on financial projections prepared for the period from December 2018 to 2030. For generating units with expected periods of economic useful lives in excess of 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified due to significant and long-term effects of projected changes in the regulatory environment. Using longer projections, recoverable amounts may be determined more reliably.

Detailed segment assumptions

Presented below are the key assumptions having impact on estimates of the useful value of CGU:

- classification as CGU of the following:
  - Branch KWB Bełchatów and Branch Elektrownia Bełchatów ("Bełchatów complex").
  - Branch KWB Turów and Branch Elektrownia Turów ("Turów complex").

  given the technological and economic links between these branches,
- classification as three separate CGUs of Elektrownia Dolna Odra, Elektrownia Szczecin and Elektrownia Pomorzany, which are part of Branch Zespół Elektrowni Dolna Odra
- specific units of PGE Energia Ciepła S.A. being considered as separate CGUs (Rybnik branch - Elektrownia Rybnik), branch 1 in Kraków (Elektrownia Kraków), branch Wybrzeże (Elektrociepłownia Gdańsk, Elektrociepłownia Gdynia),
- three production facilities owned by KOGENERACJA S.A., i.e. Elektrociepłownia Wrocław, Elektrociepłownia Czechnica and Elektrociepłownia Zawidawie, being considered as one CGU.
- a quantity of free-of-charge CO_2 emission allowances for the purposes of production of energy for 2019-2020 for specific cash generating units in accordance with Poland's application for a temporary allocation of free emission allowances for the modernisation of electricity generation activities pursuant to art. 10c sec. 5 of directive 2003/87/EC of the European Parliament and the Council (derogation application), which meets the requirements of Commission Decision of July 13, 2012. As regards heat production, free-of-charge allowances were taken into account in accordance with the list of quantities of CO_2 emission allowances allocated for heat for 2013-2020 published by the Environment Ministry,
- take into account the allocation of free CO_2 emission allowances in the period 2021-2030 only for system district heating and high-efficiency cogeneration, based on the 2020 level and assuming annual reduction
- assumption for conventional plants that during the residual period there will be support from the capacity market or equivalent, only for units that meet the emission criterion of 550 g CO_2 of electricity produced
- taking into account the support system for high-efficiency cogeneration for gas units over the entire forecast period and in the residual period,
- take into account work cost optimisation resulting from current work plans, among other things,
- maintain production capacities as a result of replacement-type investments,
- take into account development investments for which construction work has begun,
- adopt WACC for the projection period at 7.29%.

Some significant regulatory assumptions adopted for impairment tests are uncontrollable for PGE Group and their realisation is not guaranteed. This especially applies to issues concerning the final shape of the Polish capacity market after July 1, 2025, support for cogeneration after 2018 and the allocation of free CO_2 emission allowances after 2020. In these areas, the Group uses existing assumptions as to the development of regulations which subject to downtown risk. Changes in these regulations in the future versus PGE's existing expectations might have an impact on the recoverable amounts of generating assets in the Conventional Generation segment.

Nonetheless, according to the Group, the adoption of these assumptions is justified given the expected changes in the regulatory framework. The assumptions that are reflected in cash flows constitute a real scenario in terms of method and period, according to the Group. However, it cannot be excluded that the final shape and period for these solutions will be significantly different from the assumptions.

Impairment tests in the Conventional Generation segment were carried out for two CGU of particular generating assets owned by PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A. and its subsidiaries. As explained in note 1.4 to these financial statements, as a result of the acquisition of EDF's assets, goodwill arose and was subsequently allocated to the acquired district heating assets.

As at November 30, 2018, the tested property, plant and equipment and intangible assets at PGE GiEK S.A. amounted to PLN 34,888 million. This value does not include those CGUs with negative useful asset values. As a result of the asset impairment test, the Group estimated the useful value of the assets being tested at PLN 37,480 million, which concluded that there is no need to recognise or reverse impairment allowances on these assets.

As at November 30, 2018, the tested property, plant and equipment and intangible assets at PGE Energia Ciepła S.A. and its subsidiaries, concerning district heating assets belonging to the Conventional Generation segment, amounted to PLN 4,600 million (including PLN 189 million in goodwill). This value does not include those CGUs with negative useful asset values. As a result of the asset impairment test, the Group estimated the useful value of the assets being test at PLN 7,284 million, which concluded that there is no need to recognise impairment allowances on these assets.

Sensitivity analysis

Under IAS 36, the Group conducted a sensitively analysis for the generation assets of PGE Górnictwo i Energetyka Konwencjonalna S.A. and PGE Energia Ciepła S.A.

The impact of key changes in assumptions on the useful value and amount of impairment on assets as at November 30, 2018, for PGE Górnictwo i Energetyka Konwencjonalna S.A. is presented below. The sensitivity analysis was carried out only for CGUs with positive useful values.

Parameter	Change	Impact on useful value in PLN billion	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	1.3	-
	-1%	-	1.5

A 1% decline in electricity price would have caused a PLN 1.5 billion decrease in these assets' useful value and would have resulted in a PLN 0.2 billion impairment for the Turów complex.

Parameter	Change	Impact on useful value in PLN billion	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.	-	1.8
	- 0.5 p.p.	1.9	-

A 1% increase in WACC would have caused a PLN 1.8 billion decrease in these assets' useful value and would have resulted in a PLN 0.3 billion impairment, including PLN 0.2 billion for the Turów complex and PLN 0.1 billion for the Opole plant.

The impact of changes in key assumptions on the useful values and impairment of assets as at November 30, 2018, for PGE Energia Ciepła S.A. and its subsidiaries is presented below.

Parameter	Change	Impact on useful value in PLN billion	
		Increase	Decrease
Change in electricity prices throughout the forecast period	1%	0.2	-
	-1%	-	0.2

A 1% decline in electricity price would have caused a PLN 0.2 billion decrease in these assets' useful value and would not have resulted in impairment.

Parameter	Change	Impact on useful value in PLN billion	
		Increase	Decrease
Change in WACC	+ 0.5 p.p.	-	0.7
	- 0.5 p.p.	0.9	-

A 0.5pp increase in WACC would have caused a PLN 0.7 billion decrease in these assets' useful value and would not have resulted in impairment.

3.2 Description of assumptions for the Renewables segment

Impairment tests were conducted on November 30, 2018, on cash generating unit basis by establishing their recoverable amounts. The recoverable value of the analysed assets was estimated on the basis of discounted net cash flow method which relied on the financial projections prepared for the assumed useful life of the particular CGU in the case of wind farms or for 2019-2030 in the case of other CGUs. For generating units with expected periods of economic useful lives beyond 2030, a residual value was determined for the remaining service time. According to the Group, financial projections longer than five years are justified because the property, plant and equipment used by the tested entities has significantly longer useful lives and also due to significant and long-term effects of projected changes in the regulatory environment.

Detailed segment assumptions

The key assumptions having impact on estimates of the useful value of CGU:

- classification as a separate CGU of the following:
  - pumped-storage power plants
  - other hydropower plants
  - particular wind farm
- production of electricity and e was estimated based on historic data and expert estimates prepared for investment purposes, adjusted by the availability of units;
- recognition of cash flows concerning contractual penalties and damages awarded in disputes with Enea S.A. and Energa Obrót S.A. in amounts resulting from the contracts;
- decline in property tax expenses from 2018; In accordance with the assumptions adopted for the impairment tests as at December 31, 2017, the lower property tax base was adopted starting from 2019;
- maintain production capacities as a result of replacement-type investments,
- adopt WACC for the projection period at 7.29%.

As at November 30, 2018, the tested property, plant and equipment and intangible assets at the Renewables segment amounted to PLN 2,694 million. As a result of the asset impairment test, the Group estimated the useful value of the assets being test at PLN 5,378 million, which concluded that there is no need to recognise or reverse impairment allowances on these assets.

PGE Group estimates that potential unfavourable outcomes of disputes with Energa Obrót S.A. and Enea S.A., as referred to note 27 to these financial statements, would have resulted in a PLN 22 million impairment loss on the value of wind farms.

3.3 Distribution segment's property, plant and equipment

As at the reporting date the carrying amount of property, plant and equipment related to the distribution activity amounted to more than PLN 17 billion and represented approx. 28% of total consolidated assets. Their recoverable amount depends mainly on tariffs granted by President of the Energy Regulatory Office. Regulated revenue (tariff) which is determined annually provides covering justified costs: operating costs, depreciation and amortisation, taxes, purchase of energy to cover balancing difference and transferred costs. It provides also a return on equity involved in the distribution activity at a justified level. Return on equity and depreciation charges are dependent on the so called Regulatory Asset Base.

As at the date of preparation of these consolidated financial statements, PGE Group did not identify any indications for impairment of property, plant and equipment allocated to Distribution segment.

4. Selected accounting rules

These financial statements are prepared in accordance with the historic cost concept, except for select categories of financial instruments and the assets and liabilities of acquired entities, which are measured in accordance with IFRS 3.

These consolidated financial statements of the PGE Group have been prepared on the basis of the financial statements of the parent company, financial statements of its subsidiaries, associates and joint ventures. The financial statements of consolidated entities are prepared for the same reporting period, based on unified accounting principles. Companies acquired in the course of the year were the exception, preparing financial data for the period from the moment when PGE Group obtained control.

All balances, income and expenses arising between the Group entities and unrealised gains from intra-group transactions, were fully eliminated.

Subsidiaries are consolidated from the date of taking control over them by the Group, until the date of cessation of control. Control by a parent company occurs when this company owns, directly or indirectly through its subsidiaries, more than half of votes in the entity unless it is possible to prove that such ownership does not constitute control. Exercising control occurs when the company, due to its involvement in another entity holds the rights to variable financial results and has the power to influence the amount of financial results by controlling the entity. Exercising control may also occur when the parent company does not own half of votes in a subsidiary.

Accounting for the formation of PGE Group and later Group transformations in the consolidated financial statements

Matters concerning mergers and acquisitions of business units are generally regulated by International Financial Reporting Standard 3 Business Combinations. However, the scope of this standard does not include transactions among business entities under common control. The entities that later formed PGE Group had been controlled by the State Treasury. This transaction thus, according to the Company, meets the definition of transaction under joint control and is therefore excluded from IFRS 3.

The aforementioned mergers of the entities under common control were accounted for by the pooling of interests method and thus the consolidated financial statements reflect the fact of the common control continuity and does not present the changes in the net asset value to fair value (or recognition of new assets), or valuation of the goodwill.

Further mergers and acquisitions within PGE Group were recognised as transactions concluded between jointly controlled entities, therefore should be accounted within the equity of PGE Group, without affecting goodwill.

The purchase of companies from third parties is accounted using the acquisition method in line with IFRS 3.

Joint ventures and joint operations

In relation to participation in a joint venture (a joint arrangement giving the right to the net assets of the arrangement) a joint venture accounts for its interest i a joint venture under the equity method.

Joint control is the contractually agreed sharing of control in the framework of the contractual arrangement, which exists only when decisions about relevant activities require the unanimous consent of the parties who share control.

Investments in associates

Associates are entities over which the parent company directly, or through the subsidiary, has significant influence and that are neither controlled nor jointly controlled. Investments in associates are recognised in the statement of financial position at cost increased or decreased to recognise the investor’s share in the investee’s net assets after the date of acquisition less impairment losses if applicable.

Investments in associates are recognised using the equity method.

Translation of items denominated in foreign currencies

Transactions denominated in foreign currencies are translated into PLN at the rate on the transaction date. As at the reporting date:

- monetary items are translated at the closing NBP rate;
- non-monetary items are valued at historical cost in foreign currency at an exchange rate on the day of the transaction;
- non-monetary items measured at fair value in foreign currency are translated at an exchange rate on the day of fair value measurement.

Foreign exchange differences resulting from translation are recognised in profit or loss or, in cases specified in the accounting policies applied, recorded in the value of assets.

Exchange differences resulting from translation of non-monetary items, such as equity instruments measured at fair value through profit or loss, are recognised as a change in fair value. Exchange differences resulting from translation of non-monetary items, such as equity instruments, are recognised in other comprehensive income. Exchange differences resulting from translation of assets and liabilities of foreign entities with functional currency other than functional currency of the parent company are recognised in separate position of the equity.

5. Changes in accounting principles and data presentation

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

The accounting principles applied in preparing these financial statements are consistent with those applied in preparing the Company's 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 as well as a change in the accounting for CO_2 emission allowances 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 22 - 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.

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

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

IFRS 9 Financial Instruments

IFRS 9 replaced IAS MSR 39 *Financial instruments: recognition and measurement* and is effective for annual periods beginning as at or after January 1, 2018. IFRS addressed three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

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.

The Group analysed the business model as at the first date of application of IFRS 9, i.e. January 1, 2018, and subsequently applied retrospectively, regardless of what business model was used in previous reporting periods on these assets for which recognition had not ceased prior to January 1, 2018. Based on the facts and circumstances at initial recognition of a financial asset, the Group assessed whether contractual cash flows concerning a given instrument cover solely payments of principal and interest on the principal amount outstanding - the Solely Payments of Principal and Interest test (SPPI).

If PGE Group applied IFRS 9 in its financial statements for 2017, impairment losses on financial assets as at December 31, 2017, would be approx.. PLN 4 million higher. Equity as at December 31, 2017 would have decreased by about PLN 4 million gross (without deferred tax impact).

Due to the insignificant 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 not amounts were reclassified between items.

Financial Instruments	Classification of instruments under IAS 39	Classification of instruments under IFRS 9
ASSETS		
Trade and other financial receivables	Loans and receivables	Measured at amortised cost
Cash and cash equivalents	Cash and cash equivalents	Measured at amortised cost
Available-for-sale financial assets and shares measured at fair value through profit or loss	Financial assets carried at fair value through profit or loss	Carried at fair value through profit or loss
Derivative financial instruments	Hedging derivatives	Hedging derivatives
EQUITY AND LIABILITIES		
Loans, borrowings, bonds and leases	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Trade and other financial liabilities	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Derivative financial instruments	Financial liabilities at fair value through profit or loss	Carried at fair value through profit or loss
Derivative financial instruments	Hedging derivatives	Hedging derivatives

IFRS 15 Revenue from Contracts with Customers

IFRS 15 repeals IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, with the exception of those that fall under the scope of other standards. The new standard establishes the Five Step Model for recognising revenue from contracts with customers. According to IFRS 15, revenue is recognised in the amount that - according to the entity's expectations - is due in exchange for delivery of the goods or services to the customer.

The Group applied IFRS 15 from the date it enters into force, i.e. January 1, 2018, without restating its comparative data. In connection with 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.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

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

	December 31, 2018 *published data*	*Connection fees*	*Transition fee and renewables fee*	*Gas distribution and transmission*	December 31, 2018 *without IFRS 15*
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME					
REVENUE FROM SALES	**25,946**	**38**	**614**	**27**	**26,625**
COST OF GOODS SOLD	**(21,087)**	**-**	**(614)**	**(27)**	**(21,728)**
GROSS PROFIT	**2,192**	**38**	**-**	**-**	**2,230**
Income tax	(681)	(7)	-	-	(688)
NET PROFIT FOR THE REPORTING PERIOD	**1,511**	**31**	**-**	**-**	**1,542**
NET PROFIT AND DILUTED NET PROFIT PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN):	**0,80**	**0,02**	**-**	**-**	**0,82**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Retained earnings	6,232	(340)	-	-	5,892
Net profit	1,511	31	-	-	1,542
TOTAL EQUITY	**47,801**	**(309)**	-	-	**47,492**
Deferred income tax liabilities	1,616	(67)	-	-	1,549
Deferred income and governments grants	698	376	-	-	1,074
TOTAL LIABILITIES	**28,104**	**309**	**-**	**-**	**28,413**
CONSOLIDATED STATEMENT OF CASH FLOWS					
CASH FLOWS FROM OPERATING ACTIVITIES					
Gross profit	**2,192**	**38**	**-**	**-**	**2,230**
Change in other non-financial assets, prepayments and CO_2 emission allowances	(333)	(38)	-	-	(371)
NET CASH FROM OPERATING ACTIVITIES	**5,102**	**-**	**-**	**-**	**5,102**

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 they 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 intermediary 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 applied accounting principles and data presentation

Risk of changes in the accounting for CO_2 emission allowances

In previous reporting periods, PGE Group applied the first in, first out method (FIFO) to estimate provisions for free CO_2 emission allowance shortages. PGE Group purchases CO_2 emission allowances when sales are contracted, i.e. in a great majority of cases - prior to actual emission. Because CO_2 emission allowances concerning contracted sales are purchased both in derivative transactions and on-going, the FIFO method did not reflect the commercial substance faithfully how PGE Group secures its demand for allowances. The FIFO method is based on the sequence of physical delivery of allowances, rather their being contracted by PGE Group and their prices being determined. Due to the above, PGE Group voluntarily changed the method in which it estimates expenses necessary to comply with the requirement to redeem CO_2 emission allowances to specific identification. Because when a transaction to purchase CO_2 emission allowances takes place, in both current and derivative transactions, the Group allocates a given batch to the given period and this method credibly presents the transaction's economic substance.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

Had PGE Group not changed its accounting policy in this scope, the period ended on and as at December 31, 2018:

- cost of own sales and value of provisions for shortages of CO_2 emission allowances would be PLN 407 million higher,
- deferred income tax asset would have been higher and tax burden in the statement of comprehensive income would have been lower by PLN 77 million;
- gross profit would have been PLN 407 million lower, while net profit would have been PLN 330 million lower,
- earnings per share would have been lower by PLN 0.18 per share.

Applying the specific identification method in estimating the provision for shortage of free emission allowances in earlier periods does not yield a different result than the FIFO method, which presented the actual usage of emission rights, in connection with which the change in accounting rules did not have an impact on the financial results presented in previous reporting periods and does not require comparative data to be restated.

Change in presentation of employee benefits concerning accrued leave and bonuses

In the present 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.

Final accounting for the acquisition of EDF's assets in Poland

As described in note 1.4 to these financial statements, during the analysed period PGE Group conducted a final settlement of the acquisition of the assets and liabilities of EDF's Polish companies. Fair value measurement of property, plant and equipment, intangible assets and investment properties by external appraisers resulted in changes in values from the preliminary accounting for the acquisition as of November 13, 2017 and results for the period from November 14 to December 31, 2017.

Given the above reasons, comparative data for previous periods was restated as shown below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2017

	As at January 1, 2017 *published data*	Change of presentation	As at January 1, 2017 *restated data*
CURRENT LIABILITIES, including:			
Current provisions	2,181	(340)	1,841
Other non-financial liabilities	1,424	340	1,764
TOTAL CURRENT LIABILITIES	**7,697**	**-**	**7,697**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31, 2017 *published data*	Final recognition of EDF acquisition	Year ended December 31, 2017 *restated data*
Cost of goods sold	(17,615)	(68)	(17,683)
GROSS PROFIT ON SALES	**5,485**	**(68)**	**5,417**
OPERATING PROFIT	**3,620**	**(68)**	**3,552**
GROSS PROFIT	**3,290**	**(68)**	**3,222**
Deferred income tax	9	6	15
NET PROFIT FOR THE REPORTING PERIOD	**2,667**	**(62)**	**2,605**
TOTAL COMPREHENSIVE INCOME	**2,514**	**(62)**	**2,452**
NET PROFIT ATTRIBUTABLE TO:			
equity holders of the parent company	2,660	(60)	2,600
non-controlling interests	7	(2)	5
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
equity holders of the parent company	2,507	(60)	2,447
non-controlling interests	7	(2)	5
NET PROFIT AND DILUTED NET PROFIT PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)	**1.42**	**(0.03)**	**1.39**

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	As at December 31, 2017 *published data*	Final recognition of EDF acquisition	Change of presentation	As at December 31, 2017 *restated data*
NON-CURRENT ASSETS, including:				
Property, plant and equipment	58,620	390	-	59,010
Investment properties	47	3	-	50
Intangible assets	1,281	(249)	-	1,032
Deferred income tax assets	651	(80)	-	571
NON-CURRENT ASSETS	**62,586**	**64**	**-**	**62,650**
CURRENT ASSETS, including:				
Inventories	1,879	11	-	1,890
CURRENT ASSETS	**9,508**	**11**	**-**	**9,519**
ASSETS CLASSIFIED AS HELD FOR SALE	**12**	**2**	**-**	**14**
TOTAL ASSETS	**72,106**	**77**	**-**	**72,183**
EQUITY, including:				
Retained earnings	10,616	(60)	-	10,556
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**45,188**	**(60)**	-	**45,128**
Equity attributable to non-controlling interests	1,165	85	-	1,250
TOTAL EQUITY	**46,353**	**25**	-	**46,378**
NON-CURRENT LIABILITIES, including:				
Non-current provisions	5,666	-	(15)	5,651
Deferred income tax liabilities	1,250	52	-	1,302
NON-CURRENT LIABILITIES	**16,773**	**52**	**(15)**	**16,810**
CURRENT LIABILITIES, including:				
Current provisions	2,404	-	(413)	1,991
Other non-financial liabilities	1,305	-	428	1,733
CURRENT LIABILITIES	**8,980**	**-**	**15**	**8,995**
TOTAL LIABILITIES	**25,753**	**52**	**-**	**25,805**
TOTAL EQUITY AND LIABILITIES	**72,106**	**77**	**-**	**72,183**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31, 2017 *published data*	Final recognition of EDF acquisition	Change of presentation	Year ended December 31, 2017 *restated data*
Gross profit	3,290	(68)	-	3,222
Depreciation, amortisation, disposal and impairment losses	4,030	68	-	4,098
Change in liabilities, excluding loans and borrowings	343	-	88	431
Change in provisions	117	-	(88)	29
NET CASH FROM OPERATING ACTIVITIES	**7,934**	**-**	**-**	**7,934**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
EXPLANATORY NOTES TO OPERATING SEGMENTS

6. Information on operating segments

ACCOUNTING RULES

Operating segments

An operating segment is a component of the Group:

- that engages in business activities from which it may earn revenues and incur expenses,
- whose operating results are regularly reviewed by the entity's chief operating decision maker in the Group to make decisions about resources to be allocated to the segment and assess its performance,
- for which discrete financial information is available.

Due to the types of production processes as well as the current system of regulation within PGE Group, the following segments are distinguished:

- Conventional Generation,
- Renewables,
- Supply,
- Distribution,
- Other activity, which includes the activities of subsidiaries other than listed above, but not material enough to create separate segments.

Segment revenues are revenues, including both sales to external customers and inter-segment transfers within the Group that are presented in profit or loss of the Group and can be directly attributed to the segment together with a relevant portion of revenue that can be allocated on a reasonable basis to the segment. Segment expenses include cost of sales to external customers and the cost of inter-segment transfers within the Group, which results from operating activities of the segment and can be directly attributed to the segment together with a relevant portion of entity's expenses that can be allocated on a reasonable basis to the segment. Segment result is a difference between revenues and expenses of the segment.

Segment assets are those operating assets that are used by that segment in its operating activity and that can be directly attributed to the segment or can be allocated on a reasonable basis to the segment. Segment liabilities are those operating liabilities that result from operating activities of the segment and can be directly attributed to the segment or can be allocated on a reasonable basis to the segment. Segment assets and liabilities do not include settlements connected with income tax.

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. In 2018, PGE Group's concessions costs amounted to approx. PLN 10 million (PLN 6 million in 2017), exploitation charges and mining usufruct charges amount to PLN 136 million in 2018 and PLN 129 million in 2017.

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 over local distribution networks and transmission of electricity,
- Other operations comprise services rendered by the subsidiaries for the Group, e.g. fund raising, IT, telecommunication, accounting and HR, and transport services. Additionally, the other operations segment comprises the activities of a subsidiary whose main business is preparation and implementation of a nuclear power plant construction project, 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 consolidated 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.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

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.

6.1 Information on business segments

Information on business segments for 2018

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales to external customers	8,760	647	10,551	5,779	195	14	25,946
Inter-segment sales	7,884	192	3,826	99	420	(12,421)	-
TOTAL SEGMENT REVENUE	**16,644**	**839**	**14,377**	**5,878**	**615**	**(12,407)**	**25,946**
Cost of goods sold	(14,746)	(602)	(12,415)	(4,411)	(513)	11,600	(21,087)
EBIT *)	**564**	**205**	**238**	**1,277**	**(4)**	**191**	**2,471**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	2,374	258	25	1,186	85	(35)	3,893
EBITDA **)	**2,938**	**463**	**263**	**2,463**	**81**	**156**	**6,364**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	46,631	3,191	1,400	17,767	659	(985)	68,663
Trade receivables	1,490	70	3,178	821	123	(2,527)	3,155
Shares accounted for using the equity method							776
Unallocated assets							3,311
TOTAL ASSETS							**75,905**
Segment liabilities excluding trade liabilities	10,959	417	2,048	2,051	133	(1,489)	14,119
Trade liabilities	1,387	48	2,034	312	46	(2,316)	1,511
Unallocated liabilities							12,474
TOTAL LIABILITIES							**28,104**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	4,895	103	16	1,853	162	(173)	6,856
Impairment losses on financial and non-financial assets	413	-	44	13	2	4	476
Other non-monetary expenses ***)	2,598	29	890	199	35	-	3,751

*) 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 CO_2 emission allowances, jubilee awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

Information on business segments for 2017

restated data	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
STATEMENT OF PROFIT OR LOSS							
Sales to external customers	6,079	597	14,006	2,234	149	35	23,100
Inter-segment sales	6,996	127	1,656	4,158	300	(13,237)	-
TOTAL SEGMENT REVENUE	**13,075**	**724**	**15,662**	**6,392**	**449**	**(13,202)**	**23,100**
Cost of goods sold	(10,507)	(738)	(13,582)	(4,974)	(428)	12,546	(17,683)
EBIT *)	**1,686**	**(36)**	**784**	**1,166**	**(88)**	**40**	**3,552**
Depreciation, amortisation, disposal and impairment losses recognised in profit or loss	2,413	400	27	1,167	131	(40)	4,098
EBITDA **)	**4,099**	**364**	**811**	**2,333**	**43**	**-**	**7,650**
ASSETS AND LIABILITIES							
Segment assets excluding trade receivables	43,251	3,232	1,129	17,084	546	(903)	64,339
Trade receivables	1,459	107	3,009	859	75	(2,350)	3,159
Shares accounted for using the equity method							634
Unallocated assets							4,051
TOTAL ASSETS							**72,183**
Segment liabilities, excluding trade liabilities	8,977	357	1,162	2,044	99	(151)	12,488
Trade liabilities	1,356	41	2,084	324	31	(2,186)	1,650
Unallocated liabilities							11,667
TOTAL LIABILITIES							**25,805**
OTHER INFORMATION ON BUSINESS SEGMENT							
Capital expenditures	4,899	81	14	1,716	126	(85)	6,751
Acquisition of property, plant and equipment, intangible assets as part of acquisition of new companies***)	5,426	-	2	-	24	-	5,452
Impairment losses on financial and non-financial assets	919	134	6	10	37	-	1,106
Other non-monetary expenses ****)	1,820	16	829	162	30	2	2,859

*) EBIT = operating profit (loss)

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

***) Including goodwill arising on initial recognition of assets acquired from EDF

***) Non-monetary expenses include mainly changes in provisions such as: rehabilitation provision, provision for CO_2 emission allowances, jubilee awards, employee tariff and non-financial liabilities concerning employee benefits that are recognised in profit or loss and other comprehensive income.

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6.2 Information on geographical areas

Geographic distribution of sales revenues for 2018 and 2017 is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
REVENUES FROM OPERATING ACTIVITIES		
Domestic market	25,596	22,722
EU countries	349	334
Other countries	1	44
TOTAL REVENUE FROM SALE	**25,946**	**23,100**

Geographic distribution of assets as at December 31, 2018, and December 31, 2017, is as follows:

	As at December 31, 2018	As at December 31, 2017 *restated data*
OTHER INFORMATION ON AREA		
Domestic market	71,740	67,429
EU countries	77	67
Other countries	1	2
TOTAL SEGMENT ASSETS	**71,818**	**67,498**
Domestic market	3,256	4,004
EU countries	55	47
TOTAL UNALLOCATED ASSETS	**3,311**	**4,051**
Domestic market	776	634
SHARES ACCOUNTED FOR UNDER THE EQUITY METHOD, TOTAL	**776**	**634**
TOTAL ASSETS	**75,905**	**72,183**

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EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2018
Revenue from sales	7,137	5,734	6,091	6,984	**25,946**
Cost of goods sold	(5,229)	(4,625)	(5,068)	(6,165)	**(21,087)**
GROSS PROFIT/(LOSS) ON SALES	**1,908**	**1,109**	**1,023**	**819**	**4,859**
Net other operating income / (expenses)	26	10	14	(48)	**2**
EBIT – OPERATING PROFIT / (LOSS)	**1,315**	**516**	**532**	**108**	**2,471**
Net financial expenses	(101)	(107)	(54)	(88)	**(350)**
Share of profit/(loss) of equity-accounted entities	11	32	15	13	**71**
GROSS PROFIT/(LOSS)	**1,225**	**441**	**493**	**33**	**2,192**
Income tax	(239)	(131)	(90)	(221)	**(681)**
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	**986**	**310**	**403**	**(188)**	**1,511**

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2017 *restated data**
Revenue from sales	5,741	4,879	6,073	6,407	**23,100**
Cost of goods sold	(4,149)	(3,723)	(3,759)	(6,052)	**(17,683)**
GROSS PROFIT/(LOSS) ON SALES	**1,592**	**1,156**	**2,314**	**355**	**5,417**
Net other operating income / (expenses)	89	40	7	12	**148**
EBIT – OPERATING PROFIT / (LOSS)	**1,201**	**731**	**1,883**	**(263)**	**3,552**
Net financial expenses	(63)	(59)	(80)	(168)	**(370)**
Share of profit/(loss) of equity-accounted entities	9	(8)	10	29	**40**
GROSS PROFIT/(LOSS)	**1,147**	**664**	**1,813**	**(402)**	**3,222**
Income tax	(184)	(132)	(351)	50	**(617)**
NET PROFIT/(LOSS) FOR THE REPORTING PERIOD	**963**	**532**	**1,462**	**(352)**	**2,605**

** restatement of comparative data is described in note 5 to these consolidated financial statements.*

7. Revenue and costs

7.1 Revenue from sales

ACCOUNTING RULES

__Revenue from contracts with customers - accounting policy applied from January 1, 2018__

Revenue is recognised so as to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when the performance obligation concerning the goods and services is met (or is in the process of being met) by delivery to the customer. The product is delivered when the customer obtains control over it.

The entity recognises revenue from a contract with a customer only if all of the following criteria are met:

- the parties have executed a contract (in written or verbal form or in accordance with customary trade practices) and are obligated to perform their duties;
- the Group is able to identify the rights of each of the parties with regard to the goods or services that are to be transferred;
- the Group is able to identify terms of payment for the goods or services that are to be transferred;
- the contract has commercial substances;
- it is probable that the consideration to which the entity is entitled to in exchange for the goods or services will be collected.

In assessing whether the amount of remuneration is likely to be received, the Group takes into account only the customer's ability and intention to pay the remuneration within the relevant deadline.

Upon contract execution, the Group analyses the goods or services covered by the contract with the client and identifies as a performance obligation all commitments to provide the client with:

- goods or services (or packages of goods or services) that are distinguishable; or
- groups of separate goods or services that are essentially the same and in the transfer to the client is the same.

The Group recognises revenue when the performance obligation concerning the goods and services is met (or is in the process of being met). The transfer of the asset occurs when the client obtains control over the asset, i.e. gains the ability to directly manage the asset and obtain largely all other benefits from it.

The Group transfers control over goods or services over time and thus satisfies the performance obligation and recognises revenue over time if one of the following conditions is met:

- the customer receives and derives benefits from the Group's consideration as the Group provides the consideration;
- as a result of the Group's consideration a new or improved asset is created (e.g. production in progress) and control over this asset - as it is created or improved - is exercised by the customer; or
- as a result of the Group's consideration no new asset is created for alternative use by the Group and the Group has an enforceable title to pay for the consideration provided thus far.

For each performance obligation over time, the Group recognises revenue over time, measuring the degree of performance of this obligation. This measurement is intended to determine the progress in performing the entity's obligation to transfer control over goods or services promised to the customer (i.e. degree to which the performance obligation is met).

Once a performance obligation is provided (or is in the process of being provided), the entity recognised as revenue an amount equal to the transaction price that was assigned to this performance obligation. The transaction price takes into account part or all of the amount of estimated variable consideration only in as far as there is high likelihood that there will not be a reversal of a significant portion of the amount formerly recognised in accumulated revenue when the amount of variable consideration is no longer uncertain. Revenue was recognised after deducting value added tax (VAT), excise tax and other sales-based taxes as well as discounts.

In order to determine the transaction price, the entity takes into account contractual terms and the customary trade practices. Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

If another entity is involved in the provision of goods or services to the customer, the Group determines what type of promise is the Group's performance obligation consisting of the provision of specific goods or services independently (in which case the Group is a principal) or on a commission so that these goods are delivered by another entity (in which case the Group is an agent).

The Group specifies whether it is the principal or agent for each good or service promised to the customer. A specific product or service is a separate product or service (or a group of separate products or services) that are to be delivered to the customer. If the contract with a customer contains more than one specific product or service, the Group might be a principal for some of the products or services and an agent for others.

The Group is a principal if the entity controls a promised good or service before the entity transfers the good or service to a customer.

When the Group that is a principal satisfies a performance obligation, the entity recognises revenue in the gross amount of consideration to which it expects to be entitled in exchange for those goods or services transferred.

The Group is an agent if the Group's performance obligation is to arrange for the provision of goods or services by another party. The Group's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

Revenue from sales - accounting policy used until December 31, 2017

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

Revenue from sale of goods and products

Revenues from the sale of goods and merchandise are recognised when related risks and rewards have been transferred and when the amount of revenue can be reliably measured and costs incurred can be reliably estimated. In particular, revenues from the sale of electricity are recognised at the time of delivery.

Revenue from the sale of goods and products mainly includes:

- amounts receivable from: wholesale and retail sales of electricity, sales of heat energy, gas, lignite, certificates of energy origin from renewable energy sources, certificates of production of energy in high efficiency cogeneration plants, greenhouse gas emission rights, distribution and transmission services and other services relevant to core business,
- amounts receivable from sales of materials and merchandise not mentioned above.

Revenue from sale of services

Revenue from services rendered is recognised when the service is performed. Revenue from the provision of unfinished long-term services in the period from contract date to reporting date - after subtracting revenue recognised in previous reporting period - is determined proportionally to the services' status, if this status can be determined reliably.

When the outcome of a contract cannot be estimated reliably, the Group recognises revenue only to the extent of the expenses recognised that are recoverable.

Connection fees

PGE Dystrybucja S.A. generates revenues from connecting clients to the network, so-called connection fees. According to the interpretation IFRIC 18 *Transfers of Assets from Customers*, starting from July 1, 2009 these revenues are recognised at once when the service is performed. Fees received prior to July 1, 2009 are recognised as deferred income and settled through the period of 25 years.

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Revenues from LTC compensations

Producers of electric energy, who joined the program of early termination of long-term contracts for sale of capacity and electricity, are entitled to receive compensations to cover stranded costs. The compensations are paid in the form of annual advances as four quarterly instalments which are adjusted on yearly basis. At the end of the adjustment period, the final amount of stranded costs will be determined. Due to the above, the producers of electricity of the PGE Group estimate and recognize the revenue from LTC compensations in the amount in which it will be finally approved for the given period, i.e. after annual and final adjustments expected as at the date of the preparation of the consolidated financial statements and the final adjustment. Allocation of the final adjustment to the respective reporting period is based on estimated schedule of sales of electricity and system services in the adjustment period, including the final adjustment.

Revenues adjustments in respect of LTC compensations arising from court decisions are presented in other operating activities.

Revenue from sales in 2018, by category

The following table shows a reconciliation of revenue disclosure by category and information on revenue that the entity discloses for each reporting segment.

	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from contracts with customers	16,731	588	14,371	5,843	612	(12,381)	**25,764**
Revenues from LTC compensations	(120)	-	-	-	-	-	**(120)**
Revenue from operating leases	33	251	6	35	3	(26)	**302**
TOTAL REVENUE FROM SALES*	**16,644**	**839**	**14,377**	**5,878**	**615**	**(12,407)**	**25,946**

*The total revenue amount includes approx. PLN 69 million in sales transactions for which the value was not ultimately established as of the end of the reporting period.

The following table shows revenue from contracts with customers divided into categories that reflect the manner in which economic factors influence the nature, amount and payment deadline and the uncertainty of revenue and cash flows.

Type of good or service	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from sale of goods and products, without excluding taxes and fees	16,673	587	14,221	6,379	170	(11,296)	**26,734**
Taxes and fees collected on behalf of third parties	*(33)*	-	*(470)*	*(603)*	-	-	***(1,106)***
Revenue from sale of goods and products, including:	**16,640**	**587**	**13,751**	**5,776**	**170**	**(11,296)**	**25,628**
Sale of electricity	13,638	452	10,146	3	-	(8,800)	**15,439**
Sale of distribution services	27	-	48	5,590	-	(87)	**5,578**
Sale of heat	2,010	-	12	-	-	(1)	**2,021**
Sale of energy origin rights	439	134	-	-	-	(15)	**558**
Regulatory system services	338	-	-	-	-	-	**338**
Sale of gas	3	-	533	-	-	(41)	**495**
Sale of fuel	-	-	1,795	-	-	(1,143)	**652**
Other sales of goods and materials	185	1	1,217	183	170	(1,209)	**547**
Revenue from sale of services	**91**	**1**	**620**	**67**	**442**	**(1,085)**	**136**
Total Revenue from Contracts with Customers	**16,731**	**588**	**14,371**	**5,843**	**612**	**(12,381)**	**25,764**

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Timing of transfer of goods or services	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from the sale of goods and products or services provided to the customer over time	16,016	452	10,739	5,593	-	(8,929)	**23,871**
Revenue from the sale of goods and products or services provided to the customer at a point in time	715	136	3,632	250	612	(3,452)	**1,893**
Total Revenue from Contracts with Customers	**16,731**	**588**	**14,371**	**5,843**	**612**	**(12,381)**	**25,764**

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2018
REVENUE FROM SALES					
Revenue from sale of goods and products, without excluding taxes and fees	*7,344*	*6,027*	*6,284*	*7,325*	***26,980***
Taxes and fees collected on behalf of third parties	*(282)*	*(264)*	*(277)*	*(283)*	***(1,106)***
Revenue from sale of goods and products, including:	**7,062**	**5,763**	**6,007**	**7,042**	**25,874**
Sale of electricity	3,802	3,565	3,862	4,210	**15,439**
Sale of distribution services	1,443	1,331	1,357	1,447	**5,578**
Sale of heat	852	292	221	656	**2,021**
Sale of energy origin rights	206	66	69	217	**558**
Regulatory system services	153	143	149	139	**584**
Sale of gas	242	72	83	98	**495**
Sale of fuel	245	154	131	122	**652**
Other sales of goods and materials	119	140	135	153	**547**
Revenue from sale of services	**61**	**68**	**83**	**(20)**	**192**
Revenues from LTC compensations	**14**	**(97)**	**1**	**(38)**	**(120)**
TOTAL REVENUE FROM SALES	**7,137**	**5,734**	**6,091**	**6,984**	**25,946**

Revenue from sales in 2017, by category

Type of good or service	Conventional Generation	Renewables	Supply	Distribution	Other activity	Adjustments	Total
Revenue from sale of goods and products, excluding excise duty	11,764	718	15,562	6,290	32	(12,287)	**22,079**
Excise tax	*(7)*	-	*(476)*	-	-	-	***(483)***
Revenue from sale of goods and products, including:	**11,757**	**718**	**15,086**	**6,290**	**32**	**(12,287)**	**21,596**
Sale of electricity	9,955	410	9,654	2	-	(7,588)	**12,433**
Sale of distribution services	24	-	4,102	6,100	-	(4,145)	**6,081**
Sale of heat	975	-	12	-	-	-	**987**
Sale of energy origin rights	343	63	4	-	-	(3)	**407**
Regulatory system services	307	244	-	-	-	-	**551**
Sale of gas	-	-	634	-	-	(50)	**584**
Sale of fuel	-	-	408	-	-	(274)	**134**
Other sales of goods and materials	153	1	272	188	32	(227)	**419**
Revenue from sale of services	**103**	**6**	**576**	**102**	**417**	(915)	**289**
Revenues from LTC compensations	**1,215**	**-**	**-**	**-**	**-**	-	**1,215**
TOTAL REVENUE FROM SALES	**13,075**	**724**	**15,662**	**6,392**	**449**	**(13,202)**	**23,100**

The Group applied IFRS 15 for the first time in 2018. In accordance with the standard's implementation method, the Group did not restate comparative data.

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	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2017
REVENUE FROM SALES					
Revenue from sale of goods and products, excluding excise duty	*5,743*	*4,949*	*4,910*	*6,477*	***22,079***
Excise tax	*(125)*	*(116)*	*(114)*	*(128)*	***(483)***
Revenue from sale of goods and products, including:	**5,618**	**4,833**	**4,796**	**6,349**	**21,596**
Sale of electricity	3,221	2,814	2,910	3,488	**12,433**
Sale of distribution services	1,574	1,453	1,473	1,581	**6,081**
Sale of heat	285	129	88	485	**987**
Sale of energy origin rights	158	87	(7)	169	**407**
Regulatory system services	147	125	124	155	**551**
Sale of gas	146	135	92	211	**584**
Sale of fuel	-	-	-	134	**134**
Other sales of goods and materials	87	90	116	126	**419**
Revenue from sale of services	**123**	**46**	**66**	**54**	**289**
Revenues from LTC compensations	**-**	**-**	**1,211**	**4**	**1,215**
TOTAL REVENUE FROM SALES	**5,741**	**4,879**	**6,073**	**6,407**	**23,100**

7.2 Costs by nature and function

ACCOUNTING RULES

Cost of goods sold

Cost of goods sold includes:

- production costs incurred in the reporting period adjusted for related changes in inventories (finished goods, semi-finished products and production in progress) and costs related to production of goods for own use,
- value of electricity, goods and materials sold, at purchase prices, changes in measurement of fair value of financial instruments related to coal, measured at fair value, as well as changes in measurement of coal inventories measured at fair value.

Production costs that can be directly attributable to revenues recognised by the entities are recognised in profit or loss for the reporting period in which the revenues were recognised.

Production costs that can only be indirectly attributed to revenues or other economic benefits recognised by the entities are recognised in the profit or loss in the relevant reporting periods, ensuring the proportionality of costs to revenue or other economic benefits.

	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31,2018
COSTS BY NATURE					
Depreciation, amortisation and impairment losses	923	976	955	1,131	**3,985**
Materials and energy	1,369	975	1,117	1,475	**4,936**
External services	574	622	611	674	**2,481**
Taxes and fees	927	808	1,028	1,238	**4,001**
Employee benefits expenses	1,236	1,231	1,187	1,228	**4,882**
Other costs by nature	66	80	82	95	**323**
TOTAL COST BY NATURE	**5,095**	**4,692**	**4,980**	**5,841**	**20,608**
Change in product inventories	(6)	(2)	(7)	13	**(2)**
Cost of products and services for the entity's own needs	(243)	(249)	(323)	(361)	**(1,176)**
Distribution and selling expenses	(363)	(348)	(280)	(415)	**(1,406)**
General and administrative expenses	(256)	(255)	(225)	(248)	**(984)**
Cost of goods and materials sold	1,002	787	923	1,335	**4,047**
COST OF GOODS SOLD	**5,229**	**4,625**	**5,068**	**6,165**	**21,087**

Growth in the consumption of materials and energy in the period ended December 31, 2018, compared to the same period last year resulted from an increase in the cost of fuel for production purposes. The largest impact on the change in fuel costs had coal- and gas-fired assets acquired from EDF.

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	Q1 *unaudited*	Q2 *unaudited*	Q3 *unaudited*	Q4 *unaudited*	Year ended December 31, 2017 *restated data*
COSTS BY NATURE					
Depreciation, amortisation and impairment losses	778	797	808	1,826	**4,209**
Materials and energy	758	589	634	1,124	**3,105**
External services	671	642	668	818	**2,799**
Taxes and fees	863	727	735	866	**3,191**
Employee benefits expenses	1,098	1,094	1,023	1,260	**4,475**
Other costs by nature	53	53	75	102	**283**
TOTAL COST BY NATURE	**4,221**	**3,902**	**3,943**	**5,996**	**18,062**
Change in product inventories	(18)	2	8	4	**(4)**
Cost of products and services for the entity's own needs	(190)	(246)	(244)	(321)	**(1,001)**
Distribution and selling expenses	(304)	(296)	(282)	(338)	**(1,220)**
General and administrative expenses	(176)	(169)	(156)	(292)	**(793)**
Cost of goods and materials sold	616	530	490	1,003	**2,639**
COST OF GOODS SOLD	**4,149**	**3,723**	**3,759**	**6,052**	**17,683**

7.2.1 Depreciation, amortisation, disposal and impairment losses

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

Year ended December 31, 2018	Depreciation, amortisation, disposal				Impairment			
	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	Investment property	TOTAL
Cost of goods sold	3,319	95	2	**3,416**	402	-	-	**402**
Distribution and selling expenses	11	3	-	**14**	-	-	-	**-**
General and administrative expenses	39	20	-	**59**	1	1	-	**2**
RECOGNISED IN PROFIT OR LOSS	**3,369**	**118**	**2**	**3,489**	**403**	**1**	**-**	**404**
Change in product inventories	-	1	-	**1**	-	-	-	**-**
Cost of products and services for the entity's own needs	91	-	-	**91**	-	-	-	**-**
TOTAL	**3,460**	**119**	**2**	**3,581**	**403**	**1**	**-**	**404**
Other operating income	-	-	-	**-**	(2)	-	-	**(2)**

Year ended December 31, 2017 *restated data*	Depreciation, amortisation, disposal				Impairment			
	Property, plant and equipment	Intangible assets	Investment property	TOTAL	Property, plant and equipment	Intangible assets	Investment property	TOTAL
Cost of goods sold	2,907	88	2	**2,997**	1,013	1	(3)	**1,011**
Distribution and selling expenses	11	5	-	**16**	-	-	-	**-**
General and administrative expenses	23	14	-	**37**	-	37	-	**37**
RECOGNISED IN PROFIT OR LOSS	**2,941**	**107**	**2**	**3,050**	**1,013**	**38**	**(3)**	**1,048**
Cost of products and services for the entity's own needs	111	-	-	**111**	-	-	-	**-**
TOTAL	**3,052**	**107**	**2**	**3,161**	**1,013**	**38**	**(3)**	**1,048**
Other operating income	-	-	-	**-**	(2)	-	-	**(2)**

Impairment allowances recognised in the reporting period concern investment expenditures at units for which impairment had been recognised in previous periods.

In the item 'Amortisation and liquidation' the Group recognised PLN 39 million as net value of liquidating property, plant and equipment and intangible assets.

7.2.2 Materials and energy

	Year ended December 31, 2018	Year ended December 31, 2017
Cost of production fuel	3,890	2,190
Use of repair and operation materials	524	513
Use of energy	175	161
Other	347	241
TOTAL MATERIALS AND ENERGY	**4,936**	**3,105**

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7.2.3 External services

	Year ended December 31, 2018	Year ended December 31, 2017
Transmission services	1,259	1,900
External services - repairs and exploitation	465	282
Logistics services	239	124
Telecommunication services	24	79
Rent and lease	47	44
IT services	86	83
Consulting services	80	54
Other	281	233
TOTAL EXTERNAL SERVICES	**2,481**	**2,799**

7.2.4 Employee benefits expenses and employment structure

	Year ended December 31, 2018	Year ended December 31, 2017
Payroll	3,640	3,239
Social security expenses	688	635
Retirement and pension expenses	37	17
Jubilee awards, coal benefits	111	105
Other post-employment benefits	37	37
Change in provisions for employee benefits	(145)	(14)
Cost of Voluntary Leave Programme	3	2
Other employee benefits	511	454
TOTAL EMPLOYEE BENEFITS EXPENSES, INCLUDING:	**4,882**	**4,475**
Included in costs of goods sold	3,571	3,443
Included in distribution and selling costs	395	264
Included in general and administrative expenses	653	490
Cost of products and services for the entity's own needs	263	278

In the item Other costs of employee benefits the Group recognises the costs of employee pension schemes, contributions to Social Fund, cost of healthcare and training.

Employment at PGE Group (FTE) was as follows:

	As at December 31, 2018	As at December 31, 2017
Conventional Generation	25,098	25,382
Renewables	529	510
Supply	2,379	2,219
Distribution	10,257	10,200
Other consolidated companies	3,179	2,920
TOTAL EMPLOYMENT	**41,442**	**41,231**

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

7.3 Other operating income and expenses

ACCOUNTING RULES

Other operating income and expenses

Other operating income and costs are recognised in the financial statements in accordance with the prudence and proportionality principles.

	Year ended December 31, 2018	Year ended December 31, 2017
Net other operating income / (expenses)		
Measurement of rehabilitation provisions	(146)	(42)
Penalties, fines and compensations received	130	102
Recognition of impairment losses	(68)	(16)
Tax refund	33	2
Surpluses / asset disclosures	30	9
Gain on liquidation/disposal of current assets	29	31
Grants received	25	38
Donations granted	(16)	(43)
Gain on sale of property, plant and equipment and intangible assets	14	13
Reversal of other provisions	4	27
Adjustment of revenues from LTC compensations	-	69
Other	(33)	(42)
Total net other operating income / (expenses)	**2**	**148**

The issue of measuring rehabilitation provisions is described in notes 2.4 and 20 to these financial statements.

7.4 Financial income and financial expenses

ACCOUNTING RULES

Financial income and financial expenses

Interest income and expenses are recognised over the respective period using the effective interest method in relation to the net amount of the financial instrument at the reporting date, taking into account the materiality principle.

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

	Year ended December 31, 2018	Year ended December 31, 2017
NET FINANCIAL INCOME / (EXPENSES) FROM FINANCIAL INSTRUMENTS		
Dividends	2	5
Interest	(140)	(85)
Reversal of impairment / revaluation	74	39
Recognition of impairment / revaluation	(56)	(111)
Exchange differences	(38)	42
Loss on disposal of investment	(1)	(93)
TOTAL NET FINANCIAL INCOME / (EXPENSES) FROM FINANCIAL INSTRUMENTS	**(159)**	**(203)**
NET OTHER FINANCIAL INCOME / (EXPENSES)		
Interest costs, including effect of discount unwinding	(189)	(172)
Interest on statutory receivables	2	1
Reversal of provisions	8	3
Other	(12)	1
TOTAL NET OTHER FINANCIAL INCOME / (EXPENSES)	**(191)**	**(167)**
TOTAL NET FINANCIAL INCOME / (EXPENSES)	**(350)**	**(370)**

Interest costs mainly relate to bonds issued and credit and loans taken out. In the item 'Reversal of impairment / revaluation' PGE Group presents mainly measurement of hedging transactions in their ineffective part for instruments designated as cash flow hedges and in full as regards other instruments. Interest cost (discount unwinding) on non-financial items relates mainly to rehabilitation provisions and employee benefit provisions. The amount of negative exchange differences results from incurred foreign-currency credit facilities, among other things.

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

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**47.30%**
2018					
Revenue	9,371	1,556	-	15	70
Result on continuing operations	493	104	(7)	-	1
Share of profit of equity-accounted entities	**76**	**17**	**(2)**	**-**	**-**
Elimination of unrealised gains and losses	(25)	5	-	-	-
Share of profit of equity-accounted entities	**51**	**22**	**(2)**	**-**	**-**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia
SHARE IN VOTES	**15.76%**	**16.48%**	**25.00%**	**34.93%**
2017				
Revenue	8,236	2,068	-	14
Result on continuing operations	86	65	(3)	-
Share of profit of equity-accounted entities	**14**	**11**	**(1)**	**-**
Elimination of unrealised gains and losses	21	(5)	-	-
Share of profit of equity-accounted entities	**35**	**6**	**(1)**	**-**

The Group made a consolidation adjustment related to margin on sale of coal between PGG and the Group and an adjustment of margin on Polimex Mostostal's contracts for the Group.

8. Income tax

ACCOUNTING RULES

Income tax

Income tax recognised in profit or loss comprises current income tax and deferred income tax.

Corporate income tax recognised in profit or loss comprises current income tax and deferred income tax, that are actual fiscal charges for the reporting period calculated by the Group entities in accordance with regulations of the Corporate Income Tax Act and the change in deferred tax assets and deferred tax liabilities other than those settled through equity.

8.1 Tax in the statement of comprehensive income

The key elements of tax expenses for the years ended December 31, 2018 and December 31, 2017 are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
INCOME TAX RECOGNISED IN STATEMENT OF PROFIT OR LOSS		
Current income tax	350	632
Deferred income tax	173	(11)
Adjustment of deferred income tax	158	(4)
INCOME TAX EXPENSE RECOGNISED IN STATEMENT OF PROFIT OR LOSS	**681**	**617**
INCOME TAX EXPENSE RECOGNISED IN OTHER COMPREHENSIVE INCOME		
From actuarial gains and losses from valuation of provisions for employee benefits	(39)	(19)
From measurement of hedging instruments	(31)	(15)
(Tax benefit) / tax burden recognised in other comprehensive income (equity)	**(70)**	**(34)**

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8.2 Effective tax rate

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

	Year ended December 31, 2018	Year ended December 31, 2017
PROFIT BEFORE TAX	**2,192**	**3,222**
Income tax according to Polish statutory tax rate of 19%	416	612
ITEMS ADJUSTING INCOME TAX		
Adjustment of deferred income tax	158	(4)
Costs not recognised as tax-deductible costs	108	43
Non-taxable income	(41)	(42)
Other adjustments	40	8
TAX AT EFFECTIVE TAX RATE **Income tax (expense) as presented in the consolidated financial statements**	**681**	**617**
EFFECTIVE TAX RATE	**31%**	**19%**

EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. Property, plant and equipment

ACCOUNTING RULES

Property, plant and equipment

Property, plant and equipment are assets:

- held for use in the production or supply of goods or services, for rental to other entities based on an rental agreement, or for administrative purposes and
- expected to be used for more than one year.

After initial recognition, an item of property, plant and equipment is measured at carrying amount, i.e. initial value (or deemed cost for items of property, plant and equipment used before the transition to IFRS) less any accumulated depreciation and any impairment losses. Initial value comprises purchase price including all costs directly attributable to the purchase and bringing the asset into use. The cost comprises estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having it used for purposes other than to produce inventories. As at the date of acquiring or manufacturing of an item of property, plant and equipment, the Group identifies and distinguishes all components being a part of a respective asset that are significant as compared to the acquisition price, cost of manufacture or deemed cost, and depreciates them separately. The Group also recognises the costs of major overhauls, periodic inspections that meet the definition of component as components of property, plant and equipment.

The depreciable amount is the cost of an asset less its residual value. Depreciation commences when the asset is available for use. Depreciation is based on a depreciation plan reflecting the future useful life of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity. Major inspection and overhauls recognised as a component of property, plant and equipment are depreciated starting from the next month after finishing the inspection/overhaul until the beginning of the next major inspection/overhaul.

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

Group	Average remaining amortisation period in years	Most frequently applied total depreciation periods in years
Buildings and structures	15	20 – 60
Machinery and equipment	13	4 – 40
Vehicles	6	4 – 14
Other property, plant and equipment	3	3 – 23

Depreciation methods, depreciation rates and residual values of property, plant and equipment are verified at least each financial year. Changes identified during verification are accounted for as a change in an accounting estimate and possible adjustments to depreciation amounts are recognised in the year in which the verification took place and in the following periods.

Investments relating to tangible assets under construction or assembly are recognised at cost of acquisition or cost of manufacturing less impairment losses. Property, plant and equipment under construction is not depreciated until the construction is completed and the items are available for use.

Borrowing costs

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense. Exchange differences arising from foreign currency borrowings the Group capitalises to the extent that they are regarded as an adjustment to interest costs.

Impairment of non-current assets

The Group assesses at each reporting date whether there is any indication that a component of non-financial assets may be impaired. If any such indication exists, or if there is a need to perform an annual impairment testing, the Group estimates the recoverable amount of the asset or cash-generating unit.

Recoverable amount is defined as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount is higher than the recoverable amount, an impairment loss is recorded. When estimating the value in use of an asset, future cash flows are discounted to the present value using a discount rate before tax, which represents current market estimate of time value of money and risk relevant to an asset. Impairment losses applicable to assets used in continuing operations are recognised in costs relating to the function of impaired assets.

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Stripping costs

Surface mines from the Group recognise stripping costs incurred during the construction and start of the mine as assets and present them as property, plant and equipment. From the beginning of lignite exploitation those capitalized cost are systematically depreciated using the natural method of depreciation based on the amount of the lignite extracted.

If the conditions of the IFRIC 20 interpretation are met, mines also recognize as a property, plant and equipment so-called deferred stripping cost, i.e. stripping costs incurred during the production phase. The value of the assets arising due to stripping costs in the production phase is determined based on the model that takes into account, inter alia, the estimated value of the overall N-W ratio (the proportion of overburden to lignite) and annual real rate of N-W. An asset arising due to stripping costs is systematically depreciated using the natural method of depreciation based on the amount of lignite extracted from the given deposit.

Costs of post-mining rehabilitation of surface mines

Surface mines operating in the Group capitalise in the value of the corresponding component of tangible assets estimated costs of rehabilitation of post-exploitation mining properties in the proportion of the volume of the excavation resulting from stripping of overburden at the reporting date to the planned volume of excavation resulting from stripping of overburden at the end of exploitation period.

Capitalised costs of rehabilitation are systematically depreciated using the natural method of depreciation based on the amount of lignite extracted from a particular field.

	As at December 31, 2018	As at December 31, 2017 *restated data*
Land	236	248
Buildings and construction	21,011	20,666
Technical equipment	22,446	22,459
Vehicles	342	339
Other property, plant and equipment	3,428	2,952
Property, plant and equipment in progress	14,811	12,346
NET VALUE OF PROPERTY, PLANT AND EQUIPMENT	**62,274**	**59,010**

Changes in property, plant and equipment by type

	Land	Buildings and structures	Technical equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT							
AS AT JANUARY 1, 2018	**290**	**36,275**	**46,457**	**757**	**5,810**	**12,814**	**102,403**
Capital expenditures	-	-	1	10	1	6,727	6,739
Transfer from construction in progress	3	1,748	2,055	55	303	(4,164)	-
Liquidation, disposal	(1)	(130)	(423)	(10)	(7)	(3)	(574)
Purchase of new subsidiaries	-	-	5	1	-	1	7
Other	(8)	28	(19)	(1)	380	(57)	323
AS AT DECEMBER 31, 2018	**284**	**37,921**	**48,076**	**812**	**6,487**	**15,318**	**108,898**
DEPRECIATION AND IMPAIRMENT LOSSES							
AS AT JANUARY 1, 2018	**42**	**15,609**	**23,998**	**418**	**2,858**	**468**	**43,393**
Depreciation and net value of liquidation presented in costs by nature	5	1,371	1,816	61	206	1	3,460
Impairment	-	61	255	-	2	83	401
Liquidation, disposal	-	(127)	(419)	(9)	(7)	-	(562)
Other	1	(4)	(20)	-	-	(45)	(68)
AS AT DECEMBER 31, 2018	**48**	**16,910**	**25,630**	**470**	**3,059**	**507**	**46,624**
NET VALUE AT DECEMBER 31, 2018	**236**	**21,011**	**22,446**	**342**	**3,428**	**14,811**	**62,274**

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restated data	Land	Buildings and structures	Technical equipment	Vehicles	Other property, plant and equipment	Property, plant and equipment in progress	Total
GROSS CARRYING AMOUNT							
AS AT JANUARY 1, 2017	**271**	**33,492**	**42,152**	**729**	**5,271**	**9,965**	**91,880**
Capital expenditures	-	-	1	2	-	6,610	**6,613**
Accounting for property, plant and equipment under construction	4	1,865	2,006	54	398	(4,327)	**-**
Liquidation, disposal	-	(134)	(324)	(25)	(11)	-	**(494)**
Purchase of new subsidiaries	13	1,460	3,124	4	9	515	**5,125**
Entities' exit from PGE Group	-	(406)	(505)	(5)	(41)	(33)	**(990)**
Other	2	(2)	3	(2)	184	84	**269**
AS AT DECEMBER 31, 2017	**290**	**36,275**	**46,457**	**757**	**5,810**	**12,814**	**102,403**
DEPRECIATION AND IMPAIRMENT LOSSES							
AS AT JANUARY 1, 2017	**35**	**14,431**	**22,548**	**388**	**2,749**	**364**	**40,515**
Depreciation and net value of liquidation presented in costs by nature	4	1,268	1,567	58	153	2	**3,052**
Impairment	4	291	601	1	2	112	**1,011**
Liquidation, disposal	-	(121)	(289)	(23)	(11)	-	**(444)**
Entities' exit from PGE Group		(246)	(386)	(3)	(35)	-	**(670)**
Other	(1)	(14)	(43)	(3)	-	(10)	**(71)**
AS AT DECEMBER 31, 2017	**42**	**15,609**	**23,998**	**418**	**2,858**	**468**	**43,393**
NET VALUE AT DECEMBER 31, 2017	**248**	**20,666**	**22,459**	**339**	**2,952**	**12,346**	**59,010**

The other changes in the gross value of property, plant and equipment mainly cover changes in assumptions and the capitalisation of costs of rehabilitation provisions.

Significant additions and disposals of property, plant and equipment

The largest expenditures were incurred in the Conventional Generation segment (PLN 4,491 million) and the Distribution segment (PLN 1,853 million). The key expenditures items were as follows: construction of units 5-6 at Elektrownia Opole (PLN 1,075 million), construction of unit 11 at Elektrownia Turów (PLN 1,080 million), modernisation of units 1-3 at Elektrownia Turów (PLN 254 million), construction of thermal processing installation with energy recovery at Elektrociepłownia Rzeszów (PLN 177 million).

Borrowing costs

During the year ended December 31, 2018, PGE Group recognised approx. PLN 147 million of borrowing costs in the value of property, plant and equipment under construction (PLN 159 million in the comparative period).

Capitalisation of stripping costs

In the current period, in accordance with the requirements of IFRIC 20, the Group capitalized expenditures regarding stripping costs in the production phase of PLN 269 million. At the same time, the Group recognised depreciation of capitalised stripping costs of PLN 130 million. Capitalised stripping costs are presented as "other property, plant and equipment".

Capitalisation of changes in valuation of rehabilitation provision

PGE Group recognises in the property, plant and equipment changes in the value of rehabilitation provision assigned to stripping of overburden, provision for rehabilitation of post-construction grounds of wind farms and provision for liquidation of property, plant and equipment. As at December 31, 2018, the net value of the capitalised portion of rehabilitation provisions amounted to PLN 1,138 million (including PLN 1,041 million of the provision for rehabilitation of post-exploitation mining properties). In comparative period, the net value of the capitalised portion of rehabilitation provisions amounted to PLN 792 million (including PLN 702 million of the provision for rehabilitation of post-exploitation mining properties). Capitalised rehabilitation provision is presented in: “land” and “other property, plant and equipment”.

10. Investment property

ACCOUNTING RULES

Investment property

At initial recognition, investment property is measured at purchase price or cost to manufacture, taking into account transaction costs. If an investment property was purchased, then the purchase price includes the purchase prices as well as all costs directly related to the purchase transaction, such as legal services and tax on property purchase.

Investment property at PGE Group companies comprises mainly buildings located in the entity’s locations, leased fully or partially to third parties. Fair value of investment property is not significantly different than valuation determined under the historical cost convention in light of the materiality related to the consolidated financial statements.In the present period, the Group recognised PLN 1 million in investment property, while amortisation costs reached PLN 2 million.

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11. Intangible assets

ACCOUNTING RULES

Intangible assets

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

- economic rights acquired by the Company and recognised in non-current assets, with an economic useful life exceeding one year, intended to be used by the Company,
- development costs,
- goodwill excluding internally generated goodwill,
- acquired right of perpetual usufruct of land,
- easements acquired and set free,
- intangible assets not commissioned for use.

The initial recognition of intangible assets acquired in a separate transaction is at purchase price or cost to manufacture (in the case of development works). After initial recognition, intangible assets are measured at purchase price or cost to manufacture, less accumulated amortisation and accumulated impairment losses. The cost of an internally generated intangible asset, excluding development costs, is not capitalised and is recorded in profit or loss for the period when the related cost was incurred.

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

The amount of an intangible asset with a definite useful life subject to amortisation is amortised on a systematic basis over its useful life. Amortisation starts on the first day of the month following the month in which the asset is available for use.

Intangible assets, both those with indefinite use periods and those not in use yet, are subject to cyclical testing for impairment (at least once a year).

Other intangible assets are subject to impairment verification only if there are indications of impairment. If there are indications of impairment and the balance sheet value exceeds the estimated recoverable value, then the balance sheet value of these assets or the cash generating units to which these assets belong is reduced to recoverable value. The Group recognised impairment losses on intangible assets in the statement of profit and loss, under costs by nature. This also applies to impairment losses on intangible assets not yet put into service or those resulting from the impairment of an entire CGU.

The amortisation period and method are subject to verification at least at the end of each balance sheet year. Changes resulting from such verification are recognised as a change in estimates. The following useful lives are adopted for intangible assets:

Group	Average remaining amortisation period in years	Applied total amortisation period in years
Acquired patents and licences	2	3-13
Cost of finished development works	3	3-15
Other	13	3-25

	As at December 31, 2018	As at December 31, 2017 *restated data*
Cost of finished development works	1	2
Goodwill	198	199
Software	150	49
Other licences and patents	39	141
Acquired right of perpetual usufruct of land	352	353
Other intangible assets	154	151
Intangible assets not commissioned for use	152	137
NET VALUE OF INTANGIBLE ASSETS	**1,046**	**1,032**

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

Change in intangible assets

	Cost of finished development works	Goodwill	Software	Other licences and patents	Acquired right of perpetual usufruct of land	Other intangible assets	Intangible assets not commissioned for use	Total
GROSS CARRYING AMOUNT								
AS AT JANUARY 1, 2018	**19**	**199**	**428**	**302**	**364**	**229**	**145**	**1,686**
Capital expenditures	-	-	-	-	-	-	116	**116**
Intangible assets not commissioned for use	-	-	84	12	1	11	(108)	**-**
Liquidation, disposal	-	-	(3)	(1)	(4)	-	(1)	**(9)**
Transfers	-	-	173	(173)	-	-	-	**-**
Other	-	(1)	-	3	5	4	8	**19**
AS AT DECEMBER 31, 2018	**19**	**198**	**682**	**143**	**366**	**244**	**160**	**1,812**
DEPRECIATION AND IMPAIRMENT LOSSES								
AS AT JANUARY 1, 2018	**17**	**-**	**379**	**161**	**11**	**78**	**8**	**654**
Depreciation, amortisation	1	-	79	19	8	12	-	**119**
Impairment	-	-	-	-	-	-	1	**1**
Liquidation, disposal	-	-	(3)	(1)	(4)	-	-	**(8)**
Transfers	-	-	77	(77)	-	-	-	**-**
Other	-	-	-	2	(1)	-	(1)	**-**
AS AT DECEMBER 31, 2018	**18**	**-**	**532**	**104**	**14**	**90**	**8**	**766**
NET VALUE AT DECEMBER 31, 2018	**1**	**198**	**150**	**39**	**352**	**154**	**152**	**1,046**

restated data	Cost of finished development works	Goodwill	Software	Other licences and patents	Acquired right of perpetual usufruct of land	Other intangible assets	Intangible assets not commissioned for use	Total
GROSS CARRYING AMOUNT								
AS AT JANUARY 1, 2017	**18**	**9**	**448**	**274**	**74**	**256**	**246**	**1,325**
Capital expenditures	-	-	-	-	-	-	148	**148**
Intangible assets not commissioned for use	-	-	18	47	-	14	(79)	**-**
Liquidation, disposal	-	-	(11)	(19)	(1)	(7)	-	**(38)**
Purchase of new subsidiaries	1	189	-	27	299	3	-	**519**
Changes in PGE Group	-	-	(27)	(26)	(8)	(53)	(3)	**(117)**
Other	-	1	-	(1)	-	16	(167)	**(151)**
AS AT DECEMBER 31, 2017	**19**	**199**	**428**	**302**	**364**	**229**	**145**	**1,686**
DEPRECIATION AND IMPAIRMENT LOSSES								
AS AT JANUARY 1, 2017	**16**	**-**	**375**	**142**	**10**	**122**	**7**	**672**
Depreciation, amortisation	1	-	36	58	2	10	-	**107**
Impairment	-	-	-	-	-	1	37	**38**
Liquidation, disposal	-	-	(11)	(19)	-	(7)	-	**(37)**
Changes in PGE Group	-	-	(21)	(20)	(1)	(53)	-	**(95)**
Other	-	-	-	-	-	5	(36)	**(31)**
AS AT DECEMBER 31, 2017	**17**	**-**	**379**	**161**	**11**	**78**	**8**	**654**
NET VALUE AT DECEMBER 31, 2017	**2**	**199**	**49**	**141**	**353**	**151**	**137**	**1,032**

Intangible assets not commissioned for use

The presented amounts of intangible assets not commissioned for use as at December 31, 2018, related mainly to IT implementation programmes at the Group and expenditures related to deposit prospecting and evaluation at the Złoczew field.

Available financial projections do not indicate any impairment of intangible assets not commissioned for use.

Goodwill

At the reporting date, December 31, 2018, goodwill was allocated to the following segments:

- Conventional Generation - PLN 194 million,
- Renewables - PLN 4 million.

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12. Shares accounted for using the equity method

	As at December 31, 2018	As at December 31, 2017
Polska Grupa Górnicza Sp. z o.o., Katowice	640	533
Polimex - Mostostal S.A., Warsaw	108	91
ElectroMobility Poland S.A., Warsaw	15	2
PEC Bogatynia Sp. z o.o., Bogatynia	8	8
Energopomiar Sp. z o.o. , Gliwice	5	-
Shares accounted for using the equity method	**776**	**634**

	Polska Grupa Górnicza	Polimex Mostostal	ElectroMobility Poland	PEC Bogatynia	Energopomiar
SHARE IN VOTES	**15.32%**	**16.48%**	**25.00%**	**34.93%**	**47.30%**
AS AT DECEMBER 31, 2018					
Current assets	2,759	1,223	52	5	31
Non-current assets	9,528	713	9	22	19
Current liabilities	3,679	840	2	2	18
Non-current liabilities	4,435	538	-	1	9
NET ASSETS	**4,173**	**558**	**59**	**24**	**23**
Share in net assets	**639**	**92**	**15**	**8**	**11**
Goodwill	1	16	-	-	-6
Shares accounted for using the equity method	**640**	**108**	**15**	**8**	**5**

	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	-	-
Shares accounted for using the equity method	**533**	**91**	**2**	**8**

13. Deferred tax in the statement of financial position

ACCOUNTING RULES

Deferred income tax

Due to temporary differences between the carrying amount of a given asset or liability and its tax value and tax loss that is recoverable in the future, the Group recognises deferred income tax liabilities and assets.

A deferred income tax liability is recognised for all positive temporary differences.

A deferred tax asset is recognised for all negative temporary differences to the extent that it is probable that taxable profit will be available against which the negative temporary difference can be utilised.

The carrying amount of a deferred tax asset and deferred tax liability is reviewed at each reporting date. Deferred tax assets and deferred tax liabilities are classified as long-term. The Group offsets deferred tax asset and liabilities at tax group level and at the level of each PGE Group company.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

13.1 Deferred income tax assets

	As at December 31, 2018	As at December 31, 2017 *restated data*
Difference between tax value and carrying amount of property, plant and equipment	1,985	2,323
Difference between tax value and carrying amount of financial assets	65	48
Difference between tax value and carrying amount of liabilities	301	268
Difference between tax value and carrying amount of inventories	24	17
LTC compensations	61	48
Rehabilitation provision	549	548
Provision for purchase of CO_2 emission allowances	365	276
Provisions for employee benefits	604	571
Other provisions	131	122
Energy infrastructure acquired free of charge and connection payments received	34	111
Other	49	38
DEFERRED TAX ASSETS	**4,168**	**4,370**

Change in deferred income tax - assets

	Year ended December 31, 2018	Year ended December 31, 2017 *restated data*
AS AT JANUARY 1	**4,370**	**3,609**
Change in correspondence to financial result	(151)	(113)
Change in correspondence to retained earnings	(73)	-
Change in correspondence to other comprehensive income	42	21
Purchase of new subsidiaries	-	891
Entities' exit from PGE Group	-	(30)
Other changes	(20)	(8)
AS AT 31 DECEMBER 31	**4,168**	**4,370**

13.2 Deferred tax liabilities

	As at December 31, 2018	As at December 31, 2017 *restated data*
Difference between tax value and carrying amount of property, plant and equipment	4,265	4,240
Difference between tax value and carrying amount of energy origin units	48	46
Difference between tax value and carrying amount of financial assets	399	382
Difference between tax value and carrying amount of financial liabilities	47	1
CO_2 emission allowances	302	274
LTC compensations	23	34
Other	148	124
DEFERRED TAX LIABILITIES	**5,232**	**5,101**

Change in deferred income tax - liabilities

	Year ended December 31, 2018	Year ended December 31, 2017 *restated data*
AS AT JANUARY 1	**5,101**	**4,532**
Change in correspondence to financial result	180	(128)
Change in correspondence to retained earnings	(4)	-
Change in correspondence to other comprehensive income	(28)	(13)
Purchase of new subsidiaries	-	719
Other changes	(17)	(9)
AS AT 31 DECEMBER 31	**5,232**	**5,101**

Group's deferred tax after offset of assets and liabilities at each company

Deferred tax assets	552	571
Income tax liabilities	(1,616)	(1,302)

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

14. Inventories

ACCOUNTING RULES

Inventories

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

Inventories comprise:

- materials
- products
- work in progress
- energy origin rights – purchased rights of origin for energy produced from renewable energy sources, rights of origin for energy relating to energy generated in cogeneration and rights to energy efficiency certificates,
- goods (especially CO_2 emission allowances intended for re-sale).

Inventories are measured at the lower value of the following two values: purchase price or cost to manufacture and net realisable value.

Emission allowances acquired in order to realise profits from fluctuations in market prices are measured at fair value less costs of disposal.

Cost of usage of inventories is determined as follows:

- Materials and goods (except for CO_2 emission allowances) – using FIFO method;
- CO_2 emission allowances – using specific identification;
- Energy origin rights - using specific identification method.

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

	As at December 31, 2018			As at December 31, 2017 *restated data*		
	Historic cost	Impairment	Net carrying amount	Historic cost	Impairment	Net carrying amount
Materials for repairs and operations	*683*	*(43)*	*640*	700	(44)	656
Hard coal	*959*	*-*	*959*	512	-	512
Mazut	*52*	*-*	*52*	42	-	42
Other materials	*75*	*(13)*	*62*	59	(13)	46
TOTAL MATERIALS	**1,769**	**(56)**	**1,713**	**1,313**	**(57)**	**1,256**
Green energy origin rights	*736*	*(160)*	*576*	419	(143)	276
Yellow energy origin rights	*171*	*(2)*	*169*	178	(1)	177
Other energy origin rights	*15*	*(1)*	*14*	33	(1)	32
TOTAL ENERGY ORIGIN RIGHTS	**922**	**(163)**	**759**	**630**	**(145)**	**485**
Hard coal	*140*	*-*	*140*	71	-	71
CO_2 emission allowances	*4*	*-*	*4*	2	-	2
Other goods	*17*	*(2)*	*15*	8	(3)	5
TOTAL GOODS	**161**	**(2)**	**159**	**81**	**(3)**	**78**
OTHER INVENTORIES	**68**	**-**	**68**	**71**	**-**	**71**
TOTAL INVENTORIES	**2,920**	**(221)**	**2,699**	**2,095**	**(205)**	**1,890**

	2018	2017
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT JANUARY 1	**(205)**	**(97)**
Purchase of new subsidiaries	-	(14)
Fair value measurement of CO2 emission allowances	-	8
Recognition of impairment	(36)	(127)
Reversal of impairment loss	14	20
Use of impairment loss	5	5
Other changes	1	-
REVALUATION ADJUSTMENTS OF INVENTORIES AS AT DECEMBER 31	**(221)**	**(205)**

As described in note 24.5 of these financial statements, PLN 45 million of inventories constituted collateral for repayment of liabilities or contingent liabilities.

15. CO_2 emission rights for captive use

ACCOUNTING RULES

CO_2 emission rights for captive use

European Union Allowances (EUA) for carbon dioxide emissions intended for captive use of power generating units and CO_2 emission rights are presented in a separate line in the statement of financial position. EUAs received free of charge are recognised in the statement of financial position at nominal value, which is zero. Purchased EUAs are recognised at purchase price. Use of CO_2 emission allowances for captive use is measured based on the specific identification method.

CO_2 emission allowances (EUA) are received by power generating units belonging to PGE Group, which are covered by 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 CO_2 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 CO_2 EUA allocations concerning electricity generated in 2017. The allowances were issued in April 2018 and were used to cover CO_2 emissions for 2017 (15 million EUAs).

In the case of EUAs for CO_2 emissions related to district heating, the allocation schedule is different - in February 2018 EUAs were allocated for the coverage of CO_2 emissions for 2018 (2 million EUAs).

In September 2018, PGE Group submitted another report on investments included in the National Investment Plan in order to obtain CO_2 EUA allocations concerning electricity generated which should be issued to the installations' accounts by April 2019 at the latest.

In February 2019, EUAs for CO_2 emissions related to district heating for 2019 was issued (1 million EUAs)

	As at December 31, 2018		As at December 31, 2017	
EUA	**Non-current**	**Current**	**Non-current**	**Current**
Quantity (Mg million)	**18**	**19**	**18**	**44**
Value (PLN million)	**1,203**	**408**	**402**	**1,040**

The accounting principles and additional explanatory notes constitute an integral part of the consolidated financial statements

EUA	Quantity (Mg million)	Value (PLN million)
AS AT JANUARY 1	**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	39	1,714
Granted free of charge	17	-
Redemption	(70)	(1,311)
Sale	(11)	(234)
AS AT DECEMBER 31, 2018	**37**	**1,611**

16. Other current and non-current assets

ACCOUNTING RULES

Other assets (including prepayments)

The Group recognises an asset as a prepayment under the following conditions:

- resulting from past events - expenses related to entities' operational purposes,
- it can be reliably measured,
- it refers to future reporting periods.

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

Other assets include in particular state receivables, advances for deliveries (including advances for property, plant and equipment in progress) and services and dividend receivables.

16.1 Other non-current assets

	As at December 31, 2018	As at December 31, 2017
Advances for property, plant and equipment	402	432
Client acquisition costs	102	-
Other non-current assets	24	92
TOTAL OTHER ASSETS	**528**	**524**

Advances for property, plant and equipment under construction relate mainly to investment projects conducted by the Conventional Generation segment and the Renewables segment. In 2017, other non-current assets covered co-financing by PGE Energia Ciepła S.A. of an investment in district heating networks - these were amounts related to client acquisition. Client acquisition costs for 2018 are presented in a separate item.

16.2 Other current assets

	As at December 31, 2018	As at December 31, 2017
PREPAYMENTS		
Client acquisition costs	41	-
Property and tort insurance	22	21
Long-term contracts	18	20
IT services	9	8
Fees, agency commission	5	36
Co-financing of investment in development of district heating networks	-	15
Social Fund	3	3
Other prepayments	20	21
OTHER CURRENT ASSETS		
VAT receivables	265	216
Excise tax receivables	18	18
Advances for deliveries	8	8
Other current assets	48	25
TOTAL OTHER ASSETS	**457**	**391**

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The amount of VAT receivables is related to an estimate of electricity sales, unread on metering equipment as of the reporting date. The amount of excise tax receivables regards the exemption from excise tax of electricity generated from renewable energy sources on the basis of a document confirming the redemption of the certificate of origin. The increase in other current assets mainly results from adjustments to property tax.

ACCOUNTING RULES

Client acquisition costs

Costs incurred prior to contract execution related to performance of its subject are classified as other assets and recognised as prepayments if it is likely that future revenue from the customer will cover these costs.

The Group may recognised additional costs related to contract execution as costs when they are incurred if the amortisation period for these assets that would otherwise be recognised by the entity is one year or shorter.

As at December 31, 2018, the Group recognised the following costs to be settled over time

	Year ended December 31, 2018
AS AT JANUARY 1, 2018	**125**
Capitalised costs related to arranging a contract	56
Depreciation, amortisation	(38)
AS AT DECEMBER 31, 2018	**143**
Current	41
Non-current	102

Costs related to arranging a contract mainly include agency commissions concerning client acquisition or retention.

This asset is systematically amortised, taking into account the period in which the relevant good or service is delivered to the client.

17. Cash and cash equivalents

ACCOUNTING RULES

Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

Short-term deposits are made for different periods, from one day up to one month, depending on the Group's needs for cash.

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

	As at December 31, 2018	As at December 31, 2017
Cash on hand and cash at bank	1,023	1,309
Overnight deposits	33	34
Short-term deposits	156	1,209
Cash in VAT accounts	69	-
TOTAL	**1,281**	**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	**1,279**	**2,551**
Undrawn borrowing facilities as at December 31	8,312	6,740
including overdraft facilities	*934*	*2,174*

A detailed description of credit agreements is presented in note 24.1.3 of these financial statements.

Restricted cash amounting to PLN 98 million (PLN 92 million in the comparative period) concerns funds that constitute collateral for settlements with the clearing-house Izba Rozliczeniowa Giełd Towarowych S.A., funds on VAT accounts amounting to PLN 69 million and PLN 13 million in collateral and security.

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18. Social Fund assets and liabilities

ACCOUNTING RULES

Social Fund and Other Special Funds

The Social Fund Act of March 4, 1994 states that a Social Fund is created by employers employing over 20 employees (calculated using full time equivalents). The Group's entities create such a fund and make periodic contributions to it. The objective of the fund is to subsidize the social activity for employees of the Group, loans granted to its employees and other social expenses. Contributions to the Social Fund are recognised as an expense in the period in which they are incurred.

The assets and liabilities of the Social Fund are netted off in the financial statements.

	As at December 31, 2018	As at December 31, 2017
Property, plant and equipment contributed to the fund	2	1
Loans granted to employees	84	89
Cash and cash equivalents	44	50
Other fund assets	1	1
Fund liabilities	(124)	(135)
BALANCE AFTER COMPENSATION	**7**	**6**
Social Fund contributions in the period	**141**	**138**

In addition, as described in note 21, PGE Group creates a provision for post-employment benefits.

19. Equity

ACCOUNTING RULES

Equity

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

Share capital, reserve capital and other capital reserves in the consolidated financial statements are the ones of the parent company. Hedging reserve, foreign exchange differences from translation on foreign entities and retained earnings include both the amounts deriving from the financial statements of the parent company and the relevant portion of the subsidiaries' equity, established in accordance with the consolidation principles. Declared, but not contributed, share capital contributions are recognised as outstanding share capital contributions as negative value.

In the consolidated statement of financial position equity is divided into:

- Equity attributable to equity holders of the parent company,
- Equity attributable to non-controlling interests

The objective of equity management is to ensure a secure and effective financing structure that takes into account operational risk, investment expenditures and the interests of shareholders and debt investors. Equity management takes places at Group level.

In line with commonly applicable practices, PGE Group monitors its net debt to EBITDA ratio at Group level. Net debt is understood as short- and long-term financial debt (interest-bearing credit and loans, bonds and other debt instruments as well as finance lease liabilities), less cash and cash equivalents and short-term deposits. Restricted cash is not included in calculating net debt.

The Group's aim is to maintain its investment grade credit ratings. The net debt to EBITDA ratio is a central element of the Group's financial forecasts and plans. However, given the on-going investment programme, financial leverage is expected to increase in the coming years.

	Year ended December 31, 2018	Year ended December 31, 2017
Net debt / EBITDA	1.51x	0.99x
Net debt / equity	0.20x	0.16x

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19.1 Share capital

	As at December 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.

Shareholder rights - 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 as long as it remains a shareholder.

Special rights of the State Treasury that may be 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 gas fuel sectors (Polish Journal of Laws of 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:

- dissolution of company,
- changes of the use or discontinuance of exploitation of an asset that is a component of critical infrastructure,
- change in the scope of the company's activities,
- sale or lease of 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 registered office 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.

19.2 Reserve capital

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

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

Reserve capital subject to distribution to shareholders amounted to PLN 13,484 million as at December 31, 2018 and to PLN 8,940 million as at December 31, 2017.

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19.3 Hedging reserve

	Period ended December 31, 2018	Year ended December 31, 2017
AS AT JANUARY 1	**83**	**147**
Change in hedging reserve:	**(166)**	**(79)**
Measurement of hedging instruments, including:	**(158)**	**(74)**
Deferral of changes in fair value of hedging financial instruments in the part considered as effective hedge	*(62)*	*(242)*
Accrued interest on derivatives transferred from hedging reserve and recognised in interest cost	*(10)*	*(4)*
Currency revaluation of CCIRS transaction transferred from hedging reserve and recognised in the result on foreign exchange differences	*(85)*	*167*
Ineffective portion of changes in fair value of hedging derivatives recognised in profit or loss	*(1)*	*5*
Measurement of other financial assets	**(8)**	**(5)**
Deferred tax	**31**	**15**
HEDGING RESERVE AFTER DEFERRED TAX	**(52)**	**83**

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

19.4 Foreign exchange differences from translation of foreign entities

Exchange differences from translation of subsidiaries comprise the effect of translation into PLN of the financial statements of foreign companies belonging to the Group, i.e. PGE Trading GmbH and PGE Sweden AB (publ) as part of consolidation procedures.

19.5 Retained earnings and limitations on payment of dividend

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

	As at December 31, 2018	As at December 31, 2017 *restated data*
Amounts included in retained earnings not subject to distribution by the parent company		
Retained earnings of subsidiaries, attributable to equity holders of the parent company, including consolidation adjustments	7,944	6.015
Profit/loss recognised by the parent company in retained earnings through other comprehensive income	2	(3)
Retained earnings subject to distribution	-	4,544
Parent's net loss	(203)	-
TOTAL RETAINED EARNINGS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	**7.743**	**10,556**

For information regarding limitations in payment of dividends from reserve capital please refer to note 19.2 of these financial statements. As at December 31, 2018 there were no other restrictions on dividend payments.

19.6 Equity attributable to non-controlling interests

As at December 31, 2018, equity attributable to non-controlling interests related mainly to the non-controlling interests of EDF's assets in Poland. The acquisition took place on November 13, 2017.

The table below presents changes in non-controlling interests in the reporting periods.

	As at December 31, 2018	As at December 31, 2017 *restated data*
AS AT JANUARY 1	**1,250**	**96**
Share of net profit of subsidiaries	13	5
Share of actuarial gains and losses	(1)	-
Dividends declared by subsidiaries	(38)	(2)
Purchase of new subsidiaries	-	1,154
Share capital increase and share purchase	18	-
Acquisition of non-controlling interests by the Group	(150)	(3)
Inclusion of companies in consolidation	8	-
Share redemption	(26)	-
AS AT 31 DECEMBER 31	**1,074**	**1,250**

86% of the total value of equity attributable to non-controlling interests constitutes the equity of Zespół Elektrociepłowni Wrocławskich Kogeneracja S.A. and PGE Gaz Toruń Sp. z o.o. A summary of these subsidiaries is presented below.

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	ZEW Kogeneracja S.A.	PGE Gaz Toruń Sp. z o.o.
SHARE IN VOTES	**58.07%**	**50.04%**
AS AT DECEMBER 31, 2018*		
Current assets	329	32
Non-current assets	1,600	485
Current liabilities	177	12
Non-current liabilities	186	14
Equity	1,566	491
Revenue	622	46
Result on continuing operations	61	29
Approved dividends	40	28

** The data is different from statutory data due to consolidation procedures.*

19.7 Profit / loss per share

ACCOUNTING RULES

Net profit / (loss) per share

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

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

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

	Year ended December 31, 2018	Year ended December 31, 2017 *restated data*
ATTRIBUTED NET PROFIT/(LOSS)	**1,511**	**2,605**
equity holders of the parent company	1,498	2,600
non-controlling interests	13	5
NET PROFIT / (LOSS) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY USED TO CALCULATE EARNINGS PER SHARE	**1,498**	**2,600**
Number of ordinary shares at the beginning of the reporting period	1,869,760,829	1,869,760,829
Number of ordinary shares at the end of the reporting period	1,869,760,829	1,869,760,829
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES USED TO CALCULATE EARNINGS / (LOSS) PER SHARE	**1,869,760,829**	**1,869,760,829**
EARNINGS AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (IN PLN)	**0.80**	**1.39**

19.8 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.

20. Provisions

ACCOUNTING RULES

PROVISIONS

The Group recognises provisions when there is present obligation (legal or constructive) that arises from past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is significant, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Reversing a discount is accounted for in financial expenses.

Post-employment and jubilee awards provision

Depending on the unit, the Group's employees are entitled to the following post-employment benefits:

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

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

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

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

Rehabilitation provision

The mining companies which belong to the Group raise provisions for costs of rehabilitation of post-exploitation mining properties. The value of the provision is based on the estimated cost of rehabilitation and development works related to final excavations. This cost is divided into the part attributable to stripping cost and the part attributable to mined lignite. The provision is created:

- for the part attributable to mined lignite: in the proportion of the extracted lignite as at the reporting date to the total planned volume of extraction over the period of the lignite deposit exploitation,
- for the part attributable to the stripping cost: in the proportion of the volume of the excavation resulting from stripping of overburden as at the reporting date to the planned excavation volume resulting from stripping of overburden at the end of exploitation period.

In case of rehabilitation of ash storages (production waste from electricity production) the cost of provision is recognised in operating expenses in proportion to the extent of storage filling.

Provision for rehabilitation of grounds after wind farm construction is created when the farm is brought into use in the present value of estimated costs of dismantling and removal of remaining devices, constructions and buildings and also cost of bringing grounds to condition as close to its state prior to the commissioning of the farm as possible.

Estimates concerning expected costs of rehabilitation are subject to revaluation at least once in a 5-year-period. However, once a year the amount of provision is verified according to actual assumptions in terms of inflation rate, discount rate and the volume of lignite extraction or the extent of storage filling, respectively.

The increase in the provision concerning the given year is recognised in operating expenses or in the initial value of property plant and equipment, respectively. The unwinding of the discount is recognised in financial expenses. Changes in the valuation of provisions resulting from the change of assumptions (e.g. macroeconomic factors, way of conducting the rehabilitation, date, etc.), are recognised in the following way:

- for the provisions recognised as the part of the cost of property, plant and equipment: they are added to or deducted from the costs of the asset to which they relate, however the amount deducted from the cost of the asset should not exceed its carrying amount;
- as other operating expenses or other operating income - in other cases.

Provision for deficit of CO_2 emission allowances

The provision for deficit of CO_2 emission allowances is created by PGE Group entities for the shortfall of CO_2 emission allowances obtained free of charge. The provision is created in an amount that represents the best estimate of the expenditure to be incurred to fulfil the existing obligations as at reporting date. Expenses related to compliance with the obligation to redeem CO_2 emission allowances are estimated using the specific identification method, taking into account both free and purchased allowances for the given year.

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

Provisions are recognised in the statement of comprehensive income as operating expenses (as costs of goods sold in cost by function and taxes and charges in cost by nature).

Provisions for energy origin rights held for redemption

The provision is created based on the requirement of the percentage share of the renewable energy and the energy generated in cogeneration units in the total sales of electricity to end users and the volume of sales to final customers. To the extent of owned energy origin rights held for redemption the provision is recognised at the value of those rights. The part of provision that is not covered by energy origin rights is measured at a reliably estimated amount of future obligation of redemption. When making the estimate, the Group takes into account substitution fees and prices. The provision is recognised in distribution and selling expenses.

The carrying amount of provisions is as follows:

	As at December 31, 2018		As at December 31, 2017 *restated data*	
	Non-current	Current	Non-current	Current
Employee benefits	2,460	245	2,301	228
Rehabilitation provision	3,763	3	3,082	4
Provision for shortage of CO_2 emission allowances	119	1,802	112	1,341
Provision for energy origin units held for redemption	-	423	-	340
Provision for non-contractual use of property	63	10	72	11
Other provisions	23	125	84	67
TOTAL PROVISIONS	**6,428**	**2,608**	**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 the property	Other	Total
January 1, 2018	**2,529**	**3,086**	**1,453**	**340**	**83**	**151**	**7,642**
Actuarial gains and losses	179	-	-	-	-	-	179
Current employment costs	94	-	-	-	-	-	94
Past employment costs	(105)	-	-	-	-	-	(105)
Interest costs	86	103	-	-	-	-	189
Discount rate and other assumptions adjustment	100	242	-	-	-	-	342
Benefits paid / Provisions used	(181)	(1)	(1,311)	(769)	-	(17)	(2,279)
Provisions reversed	-	(1)	(29)	(9)	(18)	(85)	(142)
Provisions recognised - costs	-	276	1,808	861	8	94	3,047
Provisions recognised - expenditures	-	58	-	-	-	-	58
Purchase of new subsidiaries	1	-	-	-	-	6	7
Other changes	2	3	-	-	-	(1)	4
DECEMBER 31, 2018	**2,705**	**3,766**	**1,921**	**423**	**73**	**148**	**9,036**
Change recognised in operating expenses	(61)	(38)	(1,779)	(852)	-	(14)	(2,744)
Change recognised in other operating income/ (expenses)	-	(146)	-	-	9	(9)	(146)
Change recognised in other financial income/ (expenses)	(86)	(103)	-	-	1	14	(174)
Change recognised in assets	-	(394)	-	-	-	-	(394)
Change recognised in other comprehensive income	(207)	-	-	-	-	-	(207)

PGE Group consolidated financial statements for 2018 in accordance with IFRS EU (in PLN million)

restated data	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 the property	Other	Total
JANUARY 1, 2017	**2,358**	**2,670**	**1,154**	**416**	**103**	**144**	**6,845**
Actuarial gains and losses	148	-	-	-	-	-	148
Current employment costs	65	-	-	-	-	-	65
Past employment costs	(8)	-	-	-	-	-	(8)
Interest costs	82	89	-	-	-	-	171
Discount rate and other assumptions adjustment	24	65	-	-	-	-	89
Benefits paid / Provisions used	(158)	-	(1,156)	(864)	(1)	(15)	(2,194)
Provisions reversed	-	(2)	-	(12)	(28)	(31)	(73)
Provisions recognised - costs	-	82	1,205	759	8	38	2,092
Provisions recognised - expenditures	-	70	-	-	-	-	70
Purchase of new subsidiaries	20	27	250	41	-	18	356
Entities' exit from PGE Group	(1)	-	-	-	-	(3)	(4)
Other changes	(1)	85	-	-	1		85
DECEMBER 31, 2017	**2,529**	**3,086**	**1,453**	**340**	**83**	**151**	**7,642**
Change recognised in operating expenses	(128)	(65)	(1,205)	(747)	-	(25)	(2,170)
Change recognised in other operating income/ (expenses)	-	(42)	-	-	18	6	(18)
Change recognised in other financial income/ (expenses)	(82)	(89)	-	-	2	2	(167)
Change recognised in assets	-	(192)	-	-	-	-	(192)
Change recognised in other comprehensive income	(101)	-	-	-	-	-	(101)

20.1 Rehabilitation provision

Provision for rehabilitation of post-mining properties

The area of PGE Group's surface lignite mines is subject to rehabilitation after mining is completed. According to current plans, costs will be incurred in the years 2030 - 2065 (in the case of KWB Bełchatów and 2046 - 2088 in the case of KWB Turów.

The Group creates provisions for the costs to rehabilitate post-mining land. The amount of such provision recognised in the financial statements also includes the value of Mine Liquidation Fund created in accordance with the Geological and Mining Law. The value of the provision as at December 31, 2018 was PLN 3,338 million and as at December 31, 2017 PLN 2,693 million.

In 2018, the Group updated data as at the balance sheet date concerning the planned deadline for completing mining and conducting rehabilitation as well as the volume of excavations assigned to overburden and to coal when mining ends at each field in accordance with the best knowledge of technical professionals.

Estimated influence of changes in discount rate on the value of rehabilitation provision:

	Carrying amount	Discount rate	
		-1 p.p.	+1 p.p.
Provision for rehabilitation of post-exploitation mining properties	3,338	1,146	(827)

Provision for rehabilitation of ash landfills

PGE Group power generating units raise provisions for rehabilitation of ash storages. As at December 31, 2018, this provision amounted to PLN 195 million (PLN 175 million at the end of the comparative period).

Provisions for rehabilitation of post-construction grounds of wind farms

Companies that own wind farms create provision for rehabilitation of post-construction grounds of wind farms. The provision amounted to PLN 49 million as of December 31, 2018 (PLN 53 million at December 31, 2017).

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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 184 million (PLN 165 million as at the end of the comparative period) and refers to some assets of the Conventional Generation and Renewables segments.

The discount rate used to value the mine excavation rehabilitation provision as at December 31, 2018, was 3.7% (3,4% in the comparative period), while the discount rate for valuation of other rehabilitation provisions as at December 31, 2018, was 3.0% (3.4% in the comparative period).

20.2 Provision for shortage of CO_2 emission allowances

As described in note 15 of these financial statements PGE Group is entitled to receive CO_2 emissions rights granted free of charge in connection to expenditures concerning investments included in National Investment Plan. The calculation of the provision includes also these rights.

20.3 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 December 31, 2018, amounted to PLN 423 million (PLN 340 million in the comparative period) and was created mainly by PGE Obrót S.A.

20.4 Provision for claims concerning non-contractual use of property

PGE Group companies recognise a provision for claims relating to a non-contractual use of property. This issue mainly relates to the distribution company, which owns distribution networks. As at the reporting date the provision amounted to approximately approx. PLN 73 million (of which 34 million was related to litigations). In the comparative period the value of the provision amounted to PLN 83 million (of which PLN 38 million related to litigations).

20.5 Other provisions

Other provisions comprise mainly provisions raised for claims relating to real estate tax of PLN 11 million (PLN 81 million in the prior year) and a provision for easements for State Forests worth PLN 30 million.

21. Employee benefits

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

Carrying amount of the provisions for the post-employment benefits and jubilee awards:

	As at December 31, 2018		As at December 31, 2017 *restated data*	
	Non-current	Current	Non-current	Current
Retirement, pension and post-mortem benefits	498	90	443	79
Coal subsidy	131	9	138	9
Energy tariff	702	25	621	27
Social Fund	316	14	311	11
Medical benefits	58	2	62	3
Total post-employment benefits	**1,705**	**140**	**1,575**	**129**
Jubilee awards	755	105	726	99
TOTAL ACTUARIAL PROVISIONS	**2,460**	**245**	**2,301**	**228**

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Change in provisions for employee benefits

	Retirement, pension and post-mortem benefits	Coal subsidy	Energy tariff	Social Fund	Medical benefits	Jubilee awards	Total
AS AT JANUARY 1, 2018	**522**	**147**	**648**	**322**	**65**	**825**	**2,529**
Actuarial gains and losses	40	11	37	32	9	50	179
Discount rate adjustment	17	5	39	16	2	21	100
Current employment costs	26	1	17	7	1	42	94
Past employment costs	(4)	(21)	(12)	(48)	(16)	(4)	(105)
Interest costs	18	5	22	11	2	28	86
Benefits paid / Provisions used	(33)	(8)	(24)	(10)	(3)	(103)	(181)
Purchase of new subsidiaries	-	-	-	-	-	1	1
Other changes	2	-	-	-	-	-	2
AS AT DECEMBER 31, 2018	**588**	**140**	**727**	**330**	**60**	**860**	**2,705**
Change recognised in operating expenses	(23)	20	(5)	41	15	(109)	(61)
Change recognised in other financial income/ (expenses)	(18)	(5)	(22)	(11)	(2)	(28)	(86)
Change recognised in other comprehensive income	(56)	(16)	(76)	(48)	(11)	-	(207)

restated data	Retirement, pension and post-mortem benefits	Coal subsidy	Energy tariff	Social Fund	Medical benefits	Jubilee awards	Total
AS AT JANUARY 1, 2017	**464**	**147**	**592**	**304**	**63**	**788**	**2,358**
Actuarial gains and losses	24	(1)	51	8	-	66	148
Discount rate adjustment	4	1	9	4	1	5	24
Current employment costs	16	1	7	5	1	35	65
Past employment costs	(4)	-	(7)	3	-	-	(8)
Interest costs	16	7	20	11	2	26	82
Benefits paid / Provisions used	(17)	(8)	(24)	(11)	(3)	(95)	(158)
Purchase of new subsidiaries	20	-	-	-	-	-	20
Entities' exit from PGE Group	(1)	-	-	-	-	-	(1)
Other changes	-	-	-	(2)	1	-	(1)
AS AT DECEMBER 31, 2017	**522**	**147**	**648**	**322**	**65**	**825**	**2,529**
Change recognised in operating expenses	(12)	(1)	-	(8)	(1)	(106)	(128)
Change recognised in other financial income/ (expenses)	(16)	(7)	(20)	(11)	(2)	(26)	(82)
Change recognised in other comprehensive income	(28)	-	(60)	(12)	(1)	-	(101)

Sensitivity analysis of the value of actuarial provisions as at December 31, 2018, for changes in key assumptions

	Carrying amount	Discount rate		Expected average growth rate of the basis of calculation	
		-1 p.p.	+1 p.p.	-1 p.p.	+1 p.p.
Retirement, pension and post-mortem benefits	588	49	(42)	(43)	49
Coal subsidy	140	13	(12)	(13)	13
Energy tariff	727	119	(94)	(97)	120
Social Fund	330	48	(38)	(40)	49
Medical benefits	60	7	(6)	(6)	7
Jubilee awards	860	60	(53)	(54)	59
TOTAL	**2,705**	**296**	**(245)**	**(253)**	**297**

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22. Deferred income and governments grants

ACCOUNTING RULES

Deferred income and governments grants

Deferred income is recognised under the principle of prudence and the proportionality of revenue and costs. Deferred income comprises:

- funds obtained to finance the acquisition or production of property, plant and equipment and intangible assets, It is accounted for by gradually increasing other operating revenue by an amount corresponding to depreciation in the part financed by this cash. This especially applies to partially or fully redeemed loans and credit facilities as well as grants for the purchase of property, plant and equipment and to funding for development works or purchase of intangible assets (note 5 Changes in accounting and presentation rules includes a description of the impact of the Group applying IFRS 15 on deferred income concerning connection fees, which were received prior to July 1, 2009);
- property, plant and equipment and intangible assets acquired free of charge. Deferred income is amortised in other operating revenue in line with the depreciation charges on these assets.

Government grants are recognised if there is a reasonable assurance that the grant will be received and all the related conditions will be met. Government grants related to assets are amortized to other operating income proportionally to the depreciation charges on these assets.

22.1 Non-current deferred income and government grants

	As at December 31, 2018	As at December 31, 2017
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (environmental funds)	258	255
Redemption of loans from environmental funds	36	37
Other government grants	123	136
DEFERRED INCOME		
Subsidies received and connection fees	32	478
Donations and property, plant and equipment granted free of charge	109	78
Other deferred income	53	54
NON-CURRENT GOVERNMENT GRANTS AND DEFERRED INCOME, TOTAL	**611**	**1,038**

The decline in amounts in the item Grants received and connection fees (both non-current and current) is related to the introduction of IFRS 15 as of January 1, 2018, which is further described in note 5 Changes in accounting and presentation rules.

22.2 Current deferred income and governments grants

	As at December 31, 2018	As at December 31, 2017
GOVERNMENT GRANTS		
Grants received from NFOŚiGW (environmental funds)	17	13
Redemption of loans from environmental funds	3	3
Other government grants	9	10
DEFERRED INCOME		
Subsidies received and connection fees	1	68
Donations and property, plant and equipment granted free of charge	40	9
Other deferred income	17	12
CURRENT GOVERNMENT GRANTS AND DEFERRED INCOME, TOTAL	**87**	**115**

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23. Other non-financial liabilities

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

	As at December 31, 2018	As at December 31, 2017 *restated data*
Environmental fees	266	234
VAT liabilities	173	126
Excise tax liabilities	36	128
Payroll liabilities	279	257
Bonuses for employees	214	205
Unused holiday leave	132	139
Other employee benefits	47	105
Personal income tax	88	85
Liabilities from social insurances	258	246
Received advances and prepayments	186	147
Other	68	61
TOTAL OTHER LIABILITIES	**1,747**	**1,733**

Environmental fees relate mainly to charges for the use of water and gas emission in conventional power plants as well as exploitation charges paid by coal mines.
The item 'Other' comprises mainly payments to the Employment Pension Programme, the Social Fund and the State Fund for Rehabilitation of Persons with Disabilities.

Contract liabilities

The Group recognised the following liabilities arising from contracts with customers:

	As at December 31, 2018	As at January 1, 2018
Current	186	174
Non-current	10	7

Contract liabilities mainly include advances for deliveries and prepayments made by customers for connection to the distribution grid and forecasts for electricity consumption concerning future periods.

In 2018, the Group recognised revenue amounting to PLN 127 million, which was occurred account in the balance of contract liabilities at the beginning of the period.

EXPLANATORY NOTES TO FINANCIAL INSTRUMENTS

24. Financial Instruments

ACCOUNTING RULES

Financial instruments - accounting policy applied from January 1, 2018

Classification and measurement

Financial assets are subject to classification in the following categories of financial instruments:

- measured at amortised cost;
- measured at fair value through other comprehensive income ("FVTOCI");
- measured at fair value through profit or loss ("FVTPL").

The classification of financial assets is based on the business model and characteristics of cash flows.

A debt instrument is measured at amortised cost if both of the following conditions are met:

- the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

A debt instrument is measured at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

All other debt instruments must be measured at fair value through profit or loss (FVTPL).

All equity investments are to be measured at fair value. If an equity investment is not held for trading, the Group can make an irrevocable election at initial recognition to measure it at FVTOCI. For equity instruments held for trading, changes in fair value are recognised in profit or loss.

All standard transactions to purchase or sell financial assets are recognised at the transaction date, i.e. at the date on which the entity committed to purchase the asset. Standard transactions to purchase or sell financial assets are purchase or sale transactions in which the asset delivery deadline is explicitly stated by law or customs in a given market.

An impairment model is based on expected credit losses and its scope covers the following:

- Financial assets measured at amortised cost;
- Financial assets mandatorily measured at FVTOCI;
- Loan commitments when there is a present obligation to extend credit;
- Financial guarantee contracts to which IFRS 9 is applied;
- Lease receivables within the scope of IAS 17;
- Contract assets within the scope of IFRS 15.

The Group classified financial liabilities in one of the following categories:

- measured at amortised cost;
- measured at fair value through profit or loss.

Financial instruments - accounting policy applied until December 31, 2017

In accordance with IAS 39, financial assets were classified into the following categories:

- Held-to-maturity investments,
- Financial assets at fair value through profit or loss,
- Loans and receivables
- Available-for-sale financial assets.

Financial assets carried at fair value through profit or loss

An asset constituting a financial asset carried at fair value through profit or loss had to meet one of the following conditions:

- was qualified as held for trading. Financial assets were classified as held for trading if they were:
- acquired principally for the purpose of selling in the near term,
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- derivatives, except for a derivative that is a designated and effective hedging instrument.
- Was classified to this category at acquisition. Every financial asset that falls under IAS 39 could have been reclassified at acquisition to a portfolio measured at fair value with changes recognised in profit or loss except for equity instruments that have no prices quoted on an active market and their fair value cannot be reliably established.

These instruments were measured at fair value as at the reporting date. Gain or loss on financial assets classified to the FVP portfolio were recognised in the financial result and and not decreased by amount of interest.

Loans and receivables

Loans and receivables were financial assets other than derivatives with identified or identifiable payments, not listed on an active market. They were classified as current assets if their maturities did not exceed 12 months from the reporting date. Loans and receivables with maturity exceeding 12 months were classified as non-current assets. Loans and receivables were recognised at amortised cost.

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

Available-for-sale assets

All other financial assets were available-for-sale financial assets. Financial assets available for sale were recognised at fair value as at each reporting date. The fair value of an instrument which does not have a quoted market price was estimated with regards to another instrument of similar characteristics or based on future cash flows relevant to an investment asset (measurement using discounted cash flow method).

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

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

Dividends from equity instrument in the AFS portfolio were recognised in profit or loss on the date that the entity's right to receive payment is established.

24.1 Description of significant items within particular classes of financial instruments

24.1.1 Financial receivables

ACCOUNTING RULES

Financial receivables

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

For trade receivables, the Group measures impairment for expected credit losses in an amount equal to the expected credit losses throughout the entire term of the instrument.

The Group measures financial assets at amortised cost using the adopted business model.

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	As at December 31, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade receivables	-	3,155	-	3,159
Deposits	161	7	148	6
LTC compensations	-	-	-	10
Debt securities including bonds	-	-	-	-
Security deposits	1	694	-	95
Damages and penalties	-	193	-	158
Other financial receivables	6	53	10	94
FINANCIAL RECEIVABLES	**168**	**4,102**	**158**	**3,522**

Deposits, securities and collateral mainly concern transaction and hedging deposits and the guarantee fund. The increase in collateral results mainly from an increase in electricity prices on the wholesale market and higher electricity volumes sold by PGE Group on the power exchange Towarowa Giełda Energii.

Trade receivables

The main component of trade receivables are receivables recognised by the company PGE Obrót S.A. Receivables from households account for about 14% of the consolidated balance of trade receivables, while receivables from the corporate clients of PGE Obrót S.A. represent about 54% of the consolidated balance of trade receivables. As at December 31, 2018, the share of PGE Group's three most significant customers accounted for approximately 9% of the total balance. Additional information relating to trade receivables is presented in note 25.3.1 of these financial statements.

Trade receivables also include electricity sales accrual.

Other financial receivables

The value of other financial receivables consists mainly of the guarantee fund, compensation for damages and disputed receivables described in note 27.4 of these financial statements.

24.1.2 Derivatives and shares measured at fair value through profit or loss

ACCOUNTING RULES

Derivatives and hedging instruments

The Group uses derivatives in order to hedge against interest rate risk and currency risk, mostly forwards, futures and interest rate swaps (IRS) as well as CCIRS for hedging currency risk and interest rate risk. Such derivatives are measured at fair value. Depending on whether the valuation of a derivative is positive or negative, it is recognised as a financial asset or financial liability, respectively.

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

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

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	As at December 31, 2018			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forwards	2	-	18	11
Commodity forwards	-	-	6	-
Commodity SWAP	-	-	4	46
Contracts for purchase/sale of coal	-	-	2	7
IRS transactions	8	-	-	-
Options	(12)	-	12	-
HEDGING DERIVATIVES				
CCIRS hedges	16	(31)	113	-
IRS hedges	(4)	(109)	4	24
Currency forward - USD	-	7	2	-
Currency forward - EUR		(25)	4	48
Other assets carried at fair value through profit or loss				
Investment fund participation units	1	-	66	-
TOTAL	**11**	**(158)**	**231**	**136**
current			114	110
non-current			117	26

	As at December 31, 2017			
	Recognised in profit or loss	Recognised in other comprehensive income	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS				
Currency forwards	(32)	-	1	49
Commodity forwards	(4)	-	14	-
Commodity SWAP	5	-	64	7
Contracts for purchase/sale of coal	-	-	9	20
IRS transactions	16	-	-	10
Options	17	-	24	-
HEDGING DERIVATIVES				
CCIRS hedges	(168)	(22)	44	-
IRS hedges	(3)	(48)	98	5
Currency forwards	(23)	(4)	1	33
Other assets carried at fair value through profit or loss				
Investment fund participation units	-	-	50	-
TOTAL	**(192)**	**(74)**	**305**	**124**
current			83	106
non-current			222	18

Commodity and currency forwards

Commodity and currency forward transactions mainly relate to trade in CO_2 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.

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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 in 2019.

IRS transactions

In 2017, 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 hedging reserve is presented in note 19.3 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 fair value of IRS transactions are fully recognised in profit or loss.

The company bought back the bonds in the present period, and the hedging IRS transaction was settled.

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 hedging reserve is presented in note 19.3 to these financial statements.

24.1.3 Loans, borrowings, bonds and leases

	As at December 31, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Loans and borrowings	5,663	2,273	5,788	570
Bonds issued	583	2,186	2,632	1,051
Leases	1	2	2	2
TOTAL LOANS, BORROWINGS, BONDS AND LEASES	**6,247**	**4,461**	**8,422**	**1,623**

Currency position and interest rates

As at December 31, 2018

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Variable	7,083	7,083	credit, loans - January 2019 - December 2028
	Fixed	290	290	credit, loans - September 2019 - December 2028
TOTAL PLN		**7,373**	**7,373**	
EUR	Variable	90	387	Credit and loans - June 2024
	Fixed	644	2.769	Bonds - June 2019 - August 2029
TOTAL EUR		**734**	**3,156**	
USD	Variable	48	179	credit, loans - May 2019 - September 2020
TOTAL USD		**48**	**179**	
TOTAL LOANS, BORROWINGS, BONDS AND LEASES			**10,708**	

As at December 31, 2017

Currency	Reference rate	Value in currency	Value in PLN	Final repayment deadline
PLN	Variable	6,351	6,351	credit, loans - October 2018 - December 2028; bonds - indefinite programme, maturity date for issued tranche - June 2018
	Fixed	356	356	credit, loans - October 2018 - December 2028
TOTAL PLN		**6,707**	**6,707**	
EUR	Variable	111	465	Credit and loans - June 2024
	Fixed	643	2,682	Bonds - June 2019 - August 2029
TOTAL EUR		**754**	**3,147**	
USD	Variable	55	191	credit, loans - May 2019 - September 2020
TOTAL USD		**55**	**191**	
TOTAL LOANS, BORROWINGS, BONDS AND LEASES			**10,045**	

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Maturity of loans, borrowings, bonds and leasing

	As at December 31, 2018	As at December 31, 2017
Within 1 year	4,461	1,623
From 1 year to 2 years	460	2,471
From 2 year to 3 years	1,158	464
From 3 year to 4 years	1,707	1,108
From 4 year to 5 years	1,606	1,636
Over 5 years	1,316	2,743
Total Loans, borrowings, bonds and lease	**10,708**	**10,045**

The following table illustrates changes in interest-bearing debt in the years ended December 31, 2018 and 2017:

	Year ended December 31, 2018	Year ended December 31, 2017
AS AT JANUARY 1	**10,045**	**10,014**
CHANGE IN OVERDRAFTS	**582**	**67**
CHANGE IN LOANS, BORROWINGS, BONDS AND LEASE (excluding overdrafts)	**81**	**(36)**
Drawn loans, borrowings, leases / issued bonds	2,000	125
Repayment of loans, borrowings, leases / redemption of bonds	(2,024)	(193)
Accrued interest	229	226
Paid interest	(221)	(220)
Exchange differences	108	(214)
Purchase of new subsidiaries	-	240
Other changes	(11)	-
AS AT DECEMBER 31	**10,708**	**10,045**

Loans and borrowings

Among loans and borrowings presented above as at December 31, 2018, PGE Group presents mainly the following facilities:

Lender	Execution date	Maturity date	Limit in currency	Currency	Interest rate	Liability as at December 31, 2018	Liability as at December 31, 2017
Bank Gospodarstwa Krajowego	2014-12-17	2027-12-31	1,000	PLN	Variable	1,001	1,001
Bank Gospodarstwa Krajowego	2015-12-04	2028-12-31	500	PLN	Variable	500	500
Bank consortium	2015-09-07	2023-09-30	3,630	PLN	Variable	3,648	3,647
Bank consortium	2015-09-07	2019-04-30	1,870	PLN	Variable	1,171	-
European Investment Bank	2015-10-27	2032-10-26	1,500	PLN	Variable	-	-
European Investment Bank	2015-10-27	2032-10-26	490	PLN	Variable	-	-
European Bank for Reconstruction and Development	2017-06-07	2028-06-06	500	PLN	Variable	-	-
Revolving credit facility	2018-09-17	2023-12-17	4,100	PLN	Variable	-	-
Bank Pekao S.A.	2018-07-05	2021-07-03	500	PLN	Variable	148	-
PKO BP S.A.	2018-04-30	2020-04-29	500	PLN	Variable	-	-
Bank Gospodarstwa Krajowego	2018-06-01	2021-05-31	500	PLN	Variable	420	-
Millennium	2014-06-08	2021-06-16	7	PLN	Variable	2	3
PeKaO S.A.	2017-09-21	2020-09-21	40	USD	Variable	149	135
Bank Ochrony Środowiska SA	2006-05-30	2020-10-01	136	PLN	Variable	16	27
Nordic Investment Bank	2005-10-10	2024-06-20	150	EUR	Variable	387	464
Nordic Investment Bank	1999-11-30	2019-05-28	80	USD	Variable	30	56

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Bank Ochrony Środowisk SA	2007-05-18	2019-03-31	20	PLN	Variable	1	3
Loan from shareholders	2017-11-08	2020-11-06	9	PLN	Fixed	9	9
Loan from shareholders	2018-03-02	2021-03-02	14	PLN	Fixed	15	0
NFOŚiGW	2014-06-01	November 2020 December 2028	250	PLN	Fixed	203	97
NFOŚiGW	December 2013 September 2017	September 2021 September 2024	212	PLN	Variable	127	112
WFOŚiGW	May 2012 - June 2014	July 2019 - December 2020	370	PLN	Fixed	69	196
WFOŚiGW	April 2013 - Decen 2018	January 2019 - September 2026	157	PLN	Variable	40	108
Total Loans and borrowings						**7,936**	**6,358**

** Voivodship Fund for Environmental Protection and Water Management – WFOŚiGW*
** National Fund for Environmental Protection and Water Management – WFOŚiGW*

As at December 31, 2018, the value of the available overdrafts at significant PGE Group companies was PLN 934 million. The repayment date of used overdraft facilities of PGE Group's key companies is 2019-2021.

In 2018 and after the reporting period, there were no cases of default on repayment or breach of other terms of credit agreements.

Bonds issued

The medium term Eurobonds Issue Program of EUR 2 billion was 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 issued bonds in the amount of EUR 138 million, with 15 year maturity.

24.1.4 Trade and other financial liabilities

ACCOUNTING RULES

Liabilities

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

The Group divides liabilities into the following categories:

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

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

	As at December 31, 2018		As at December 31, 2017	
	Non-current	Current	Non-current	Current
Trade liabilities	-	1,511	-	1,650
Purchase of property, plant and equipment and intangible assets	6	1,622	-	1,418
Security deposits received	38	83	22	87
Liabilities related to LTC	455	11	332	-
Insurance	-	17	-	17
Collateral for CO_2 transactions	-	278	-	-
Other	22	91	25	59
TRADE AND OTHER FINANCIAL LIABILITIES	**521**	**3,613**	**379**	**3,231**

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24.2 Fair value of financial instruments

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 December 31, 2018 was EUR 644 million and their estimated fair value amounted to EUR 653 million. The indicators used in the valuation belong to Level 1 of fair value hierarchy.

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

The most significant positions in this category of financial instruments are shares in entities not quoted on active markets. PGE Group is not able to estimate reliably the fair value of shares not-quoted on an active markets, therefore they are measured at cost less impairment losses. As at December 31, 2018, and December 31, 2017, there was no need to recognise an impairment loss on these shares.

24.3 Fair value hierarchy

Derivatives

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 based on the difference between the forward rate and transaction price. Forward exchange rates are not modelled as separate risk factor, but are derived from the spot rate and appropriate forward interest rate for foreign currencies in relation to PLN.

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

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

	As at December 31, 2018		As at December 31, 2017	
FAIR VALUE HIERARCHY	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Currency forwards	-	24	-	2
Commodity forwards	-	6	-	14
Commodity SWAP	-	4	-	64
Contracts for purchase/sale of coal	-	2	-	9
Measurement of CCIRS transactions	-	113	-	44
Measurement of IRS transactions	-	4	-	98
Options	-	12	-	24
Fund participation units	-	66	-	50
Financial assets	**-**	**231**	**-**	**305**
Currency forwards	-	59	-	82
Commodity forwards	-	-	-	-
Commodity SWAP	-	46	-	7
Contracts for purchase/sale of coal	-	7	-	20
Measurement of IRS transactions	-	24	-	15
Financial liabilities	**-**	**136**	**-**	**124**

Derivative instruments are presented in note 24.1.2 to these financial statements. During the current and comparative reporting periods, there were no transfers of financial instruments between the first and second level of fair value hierarchy.

Presented below are the terms of the derivative instruments and other receivables carried at fair value through profit or loss.

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	As at December 31, 2018		As at December 31, 2017		
	Value in financial statements in PLN	Instrument's nominal value in original currency	Value in financial statements in PLN	Instrument's nominal value in original currency	Maturity as at December 31, 2018
CCIRS - EUR to PLN	113	514 144	44	514 144	by June 2019 by July 2029
IRS – interest rate to PLN	4	- 1,000	98	3,630 1,000	- by December 2027
Options	12	6	24	6	by July 2022
Investment fund participation units	66	65	50	50	n/a
Currency forward - EUR	4	203	-	-	by December 2021
Commodity forward - PLN	6	63 57	- -	- -	by March 2019
Currency forward - USD	18	133	-	-	by January 2020
Currency forward - USD	2	7	1	3	by February 2019
Commodity SWAP - USD	4	27 3	64	79 1	by December 2019
Currency forward - EUR	-	10	1	6	by January 2021
Contracts for purchase - USD Contracts for sale - USD	2	3 18	9	100 26	by December 2019
Commodity forward - EUR	-	-	14	219 12	-
Financial assets	**231**	**-**	**305**	**-**	
Currency forward - EUR	48	1,222	19	193	by March 2020
IRS – interest rate to PLN	24	500 3,630	13	500 1,000	by December 2027 by June 2018
IRS - interest rate USD	-	-	2	16	by June 2018
Currency forward - EUR	7	71	30	137	by January 2021
Commodity SWAP - USD	46	136 6	7	1 12	by December 2019
Currency forward - USD Currency forward - EUR	4	108 3	28	121 8	by January 2020
Currency forward - USD	-	-	5	25	-
Contracts for purchase - USD Contracts for sale - USD	7	- 1	20	45 53	by December 2019
Financial liabilities	**136**		**124**		

24.4 Statement of comprehensive income

Impact of different categories of financial instruments on financial income and financial expenses

Year ended December 31, 2018	Cash and cash equivalents	Other financial assets	Shares and other equity instruments	Financial instruments measured at fair value	Hedging derivatives	Other financial liabilities	TOTAL
Dividends	-	-	2	-	-	-	2
Interest income / (costs)	19	22	-	(3)	12	(190)	(140)
Exchange differences	(2)	1	-	(19)	1	(19)	(38)
Reversal of impairment / revaluation	-	1	-	72	-	1	74
Recognition of impairment / revaluation	-	(4)	(1)	(50)	(1)	-	(56)
Loss on disposal of investment	-	-	-	(1)	-	-	(1)
TOTAL PROFIT/ (LOSS)	**17**	**20**	**1**	**(1)**	**12**	**(208)**	**(159)**

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Year ended December 31, 2017	Cash and cash equivalents	Financial instruments measured at fair value	Hedging derivatives	Available-for-sale financial assets and other	Loans and receivables	Financial liabilities at amortised cost	TOTAL
Dividends	-	-	-	5	-	-	5
Interest income / (costs)	67	(4)	(4)	-	16	(160)	(85)
Exchange differences	(4)	-	(166)	-	(2)	214	42
Reversal of impairment / revaluation	-	37	-	-	2	-	39
Recognition of impairment / revaluation	-	(12)	-	-	(92)	(7)	(111)
Loss on disposal of investment	-	-	-	(93)	-	-	(93)
TOTAL PROFIT/ (LOSS)	**63**	**21**	**(170)**	**(88)**	**(76)**	**47**	**(203)**

24.5 Collateral for repayment of receivables and liabilities

The Group uses many financial instruments and combinations thereof as collaterals for repayment of loans. The most frequently used are agreements for transfer of receivables, bills and enforcement declarations. Additionally, the Group uses powers of attorney to bank accounts and assignments of receivables.

As at the reporting date, the following assets were used as collateral for repayment of liabilities or contingent liabilities:

	As at December 31, 2018	As at December 31, 2017
Property, plant and equipment	881	862
Inventories	45	45
Trade receivables	62	52
TOTAL ASSETS AS COLLATERAL FOR REPAYMENT OF LIABILITIES	**988**	**959**

Property, plant and equipment presented in the table above are collaterals for repayment of drawn investment credits. As at December 31, 2018 and as at December 31, 2017 the most significant item is a collateral mortgage on the 858 MW unit at PGE Górnictwo i Energetyka Konwencjonalna S.A. Branch Bełchatów Power Plant.

Collateral on inventories comprise mainly pledges related to loans received from environmental funds.

PGE Group companies are obliged to maintain a specified cash balance on its accounts held with PKO BP and Nordea Bank AB according to the rules of Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) and to participate in a guarantee fund. Cash from the two titles mentioned above is accounted for as restricted cash. As at December 31, 2018, this amounted to PLN 98 million (PLN 92 million in the comparative period).

25. Objectives and principles of financial risk management

The main goal of financial risk management at PGE Group is to support the process of creating value for shareholders and to implement business strategies of the Group through maintaining the financial risk at the level acceptable for the Group's management.

Responsibility for managing PGE Group's financial risk lies with the Management Board of PGE S.A. The Management Board specifies risk appetite, understood as an acceptable level of deterioration of PGE Group's financial results, taking into consideration its current and planned economic and financial situation. The Management Board also decided on the allocation of risk appetite to specific business areas.

The organisation of a function of financial risk management at PGE Group is based on the principle of independence of an entity responsible for measurement and control of risk at PGE Group (Risk Department at PGE Polska Grupa Energetyczna S.A.) vs business entities (risk owners) responsible for taking and managing the risk on an ongoing basis. Risk reports are submitted directly to the Risk Committee, Audit Committee and the Management Board of PGE S.A.

PGE Group has a Risk Committee that exercises oversight of the financial and corporate risk management process at PGE Group. The Risk Committee monitors PGE Group's exposure levels, sets limits for significant financial risks, accepts methodologies in financial risk resulting from trade and finance activities, permits expansions of activities in new business areas and makes key decisions regarding risk management.

Financial risk is managed at Group level, in an integrated manner. This process is implemented or supervised by PGE Group's Corporate Centre, which is a centre of competences in this area. Risk exposures at specific business areas are examined in a comprehensive manner, taking into account the interdependencies between exposures, opportunities for natural hedging and their overall impact on risk profile and PGE Group's financial situation.

The financial risk management model includes:

- collection and consolidation of data on exposure to particular categories of financial risk,
- calculation of Value-at-Risk and Profit-at-Risk for specific risk factors and overall for all risk factors;
- management of the PGE Group's consolidated exposure in relation to capital at risk and risk limits established based on it (including the identification and implementation of hedging strategies).

In key areas of financial risk, PGE Group has implemented internal regulations for managing these risks.

PGE Group is exposed to a variety of financial risks:

- market risk (commodity risk, interest rate risk, currency risk);
- liquidity risk;
- credit risk.

PGE Group's exposure to specific financial risks depends on the scope of activities in commodity and financial markets.

25.1 Market risk

Market risk covers commodity risk, interest rate risk, currency risk.

The main objective of managing market risk at PGE Group is to retain a level of risk resulting from trade and finance activities at an acceptable level and to support business strategy and maximisation of the Group's value for shareholders.

PGE Group's procedures for managing specific market risk categories in trade and finance activities specify the following:

- objective, scope and rules for managing risk;
- scope of responsibility for managing risk;
- management and operational processes within risk management in trade activities on electricity markets and electric product markets and as regards finance activities;
- ways of identifying sources of exposure to risk;
- methods for measuring and monitoring exposures to risk;

PGE Group's market risk management rules also specify ways to set risk appetite, limit exposures to market risk based on Profit-at-Risk and Value-at-Risk and mechanisms for limiting risk when limits are exceeded.

25.1.1 Commodity risk

Commodity risk is related to the possibility that financial results deteriorate as a result of changes in commodity prices.

PGE Group companies' exposure to commodity risk relates to the following commodity markets:

- electricity
- CO_2 emission allowances;
- rights to electricity origin certificates;
- hard coal;
- natural gas;
- biomass and other fuels.

PGE Group owns lignite mines that deliver production fuel to two power plants operating within the PGE Group. Due to this fact, the Group's exposure to price risk in this area is not significant.

Selected types of commodity risk (including currency) that PGE Group is exposed to:

Risk associated with	Description	Example of exposure source
Risk of changes in electricity prices	▪ PGE Group has a natural long position due to its generation assets and a lack of possibility to place its production on the market at a pre-determined price.	▪ Cost to generate electricity, ▪ Price of electricity sale contracts to retail clients, ▪ Price of transactions to buy/sell energy on the wholesale market,
Risk of changes in the prices of rights to electricity origin certificates	▪ PGE Group has a net short position resulting from the obligation to redeem rights to electricity origin certificates related to the sale of electricity to end users.	▪ Price of transactions to buy/sell rights to electricity origin certificates s on the wholesale market,
Risk of changes in the prices of CO_2 emission allowances	▪ Risk related to changes in the prices of CO_2 emission allowances in EUR and risk of changes in EURPLN exchange rate; ▪ PGE Group has a short position given its electricity generation at units participating in the EU-ETS scheme.	▪ Use of generation sources not as planned due to their varying emission levels; ▪ Uncertainty with regard to volume of free allowances received in EU-ETS scheme; ▪ Price of transactions to buy/sell CO_2 emission allowances on the wholesale market.

Risk of fuel price changes (including hard coal, natural gas, biomass, heating oil)	▪ Risk of commodity price changes, including commodities denominated in foreign currency (or indexed to foreign currency) and foreign currency risk; ▪ PGE Group has a short position due to its need to purchase fuel on the market.	▪ Price of transactions to buy/sell fuel on the wholesale market.
Long-term volume risk	▪ Risk related to changes in demand for electricity in the National Power System.	▪ Macroeconomic situation, especially in energy-intensive industries; ▪ Technological changes, especially in energy efficiency; ▪ Climate changes; ▪ Regulations, including preferences for specific sectors of the energy industry; ▪ Degree of integration with foreign power systems.
Short-term volume risk	▪ Risk related to changes in planned electricity sales volumes as a result of changes in retail demand for electricity	▪ Trends among retail clients concerning changes in energy providers; ▪ Regulations, including those pertaining to the opportunity to change energy providers; ▪ Short-, mid-term weather changes; ▪ Risk associated to the model for planning demand for energy and quality of source data used in planning.

PGE Group has a strategy for hedging key exposures in trading electricity and related commodities adequately to the level of risk appetite over a mid-term horizon. The level of hedging for an open position is set taking into account risk appetite, results of monitoring the risk of electricity and related product prices, liquidity of specific markets as well as the financial situation of the Group and the Group's strategic objectives.

PGE Group's exposure to commodity price risk (as regards raw materials) reflects the volume of external purchases of each raw material, as presented in the table below:

COMMODITY	Year ended December 31, 2018 Tonnage – external purchase (in thousand tonnes)	Year ended December 31, 2018 Purchase costs (PLN million)	Year ended December 31, 2017 Tonnage – external purchase (in thousand tonnes)	Year ended December 31, 2017 Purchase costs (PLN million)
Hard coal	12,127	3,051	6,211	1,395
CO_2 emission allowances for captive use	38,835	1,714	11,447	247
Natural gas [m^3 000s]	1,131,074	826	756,850	527
Biomass	467	107	528	99
Fuel oil	60	117	36	51
TOTAL		**5,815**		**2,319**

As described in note 15 to these financial statements, the Group changed rules for purchasing CO_2 emission allowances.

25.1.2 Interest rate risk

Interest rate risk is related to the possibility that financial results deteriorate as a result of changes in interest rates.

PGE Group's exposure to interest rate risk results from the fact that PGE Group companies finance their operating and investing activities with interest bearing debt at variable interest rates, in the form of credits, loans and bonds in domestic and foreign currency, or through investments in financial assets at variable or fixed interest rates.

PGE Group controls interest rate risk through a system of limits relating to the maximum potential loss due to changes in interest rates in related to consolidated exposure to interest rate risk by PGE Group companies. The interest rate risk measure is based on the Value at Risk methodology.

Moreover, PGE Group sets out hedging strategies in relation to consolidated exposure to the Group's interest rate risk through hedging coefficients that are subject to approval by the Risk Committee and Management Board of PGE S.A. The hedging strategy and level of interest rate risk are subject to monitoring and are regularly reported to the Risk Committee.

PGE Group companies execute derivative transactions concerning instruments that are based on interest rates only in order to hedge identified risk exposures. Regulations applicable to PGE Group do not permit derivative transactions based on interest rates for the purposes of speculative transactions that would be intended to generate additional earnings resulting from changes in interest rates while exposing the Company to a risk of potential losses.

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Bonds issued in the amount of PLN 1 billion under the Bonds issue program of PLN 5 billion are interest-bearing bonds at a variable rate in PLN. Payments under these bonds are secured using Interest Rate Swaps.

Bonds issued under the medium term Eurobonds Issue Program, are interest bearing bonds at a fixed rate in EUR. Payments relating to these bonds are hedged by CCIRS transactions.

Long-term bank credit of PLN 1.5 billion under the terms of Credit Agreements signed on December 17, 2014, and December 4, 2015, with Bank Gospodarstwa Krajowego and syndicated loan (term loan facility tranche) of PLN 3.63 billion under the terms of Credit Agreement signed on September 7, 2015. These credit facilities are based on variable interest rates in PLN. Payments under these credit facilities are secured using Interest Rate Swaps.

Bond programmes are described in note 24.1.3, hedging instruments in note 24.1.2 to these financial statements.

PGE Group's exposure to interest rate risk and concentration of this risk by currency:

		Type of interest	As at December 31, 2018	As at December 31, 2017
Derivatives - assets exposed to interest rate risk	PLN	Fixed	6	-
		Variable	16	122
	Other currencies	Fixed	-	-
		Variable	143	133
Deposits, cash and debt securities	PLN	Fixed	1,070	2,553
		Variable	4	4
	Other currencies	Fixed	375	153
		Variable	-	-
Derivatives – liabilities, exposed to interest rate risk	PLN	Fixed	-	-
		Variable	(24)	(13)
	Other currencies	Fixed	-	-
		Variable	(112)	(111)
Loans, borrowings, bonds and lease	PLN	Fixed	(290)	(356)
		Variable	(7,083)	(6,351)
	Other currencies	Fixed	(2,769)	(2,682)
		Variable	(566)	(655)
Net exposure	PLN	Fixed	786	2,197
		Variable	(7,087)	(6,238)
	Other currencies	Fixed	(2,394)	(2,529)
		Variable	(535)	(633)

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

25.1.3 Currency risk

Currency risk is related to the possibility that financial results deteriorate as a result of changes in currency prices.

The main sources of PGE Group's exposure to currency risk are presented below:

- capital expenditures denominated in or indexed to foreign currencies;
- loans and borrowings denominated in foreign currencies;
- sales of electricity denominated in foreign currencies (export);
- fees denominated in or indexed to foreign currency relevant to purchase of transmission capacities;
- sales and purchases of CO_2 emission allowances and gas as well as purchases of hard coal denominated in or indexed to foreign currencies;
- expenses related to current use of production goods denominated in or indexed to foreign currencies;
- financial assets with deposit characteristics denominated in foreign currencies.
- other operating flows denominated in or indexed to foreign currencies

PGE Group controls currency risk through a system of limits relating to the maximum potential loss due to changes in exchange rates in related to consolidated exposure to currency risk by PGE Group companies. The currency risk measure is based on the Value at Risk methodology.

Moreover, PGE Group sets out hedging strategies for the Group's currency risk using hedging ratios subject to approval by the Company's Risk Committee and Management Board. The hedging strategy and level of currency risk are subject to monitoring and are regularly reported to the Risk Committee.

PGE Group companies execute derivative transactions concerning instruments that are based on interest rates only in order to hedge identified risk exposures.

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Regulations applicable to PGE Group do not permit derivative transactions based on currencies for the purposes of speculative transactions that would be intended to generate additional earnings resulting from changes in currencies while exposing the Company to a risk of potential losses.

The following tables present the Group's exposure to currency risk by class of financial instrument:

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2018			
		EUR		USD	
		currency	PLN	currency	PLN
FINANCIAL ASSETS					
Trade and other financial receivables	4,270	34	145	2	6
Cash and cash equivalents	1,281	89	383	1	3
Derivatives, including:	231	913	3,926	142	532
Carried at fair value through profit or loss	*42*	*11*	*47*	*135*	*506*
Hedging instruments	*123*	*902*	*3,879*	*7*	*26*
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	(10,708)	(734)	(3,156)	(48)	(179)
Interest bearing loans and borrowings	*(7,936)*	*(90)*	*(387)*	*(48)*	*(179)*
Issued bonds and debt securities	*(2,769)*	*(644)*	*(2,769)*	-	-
Trade and other financial liabilities measured at amortised cost	(4,137)	(48)	(205)	(17)	(65)
Derivatives, including:	(136)	(1,296)	(5,573)	(122)	(459)
Carried at fair value through profit or loss	*(64)*	*(74)*	*(318)*	*(122)*	*(459)*
Hedging instruments	*(72)*	*(1,222)*	*(5,255)*	-	-
NET CURRENCY POSITION		**(1,042)**	**(4,480)**	**(42)**	**(162)**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to currency risk for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

	Total value in financial statements in PLN	CURRENCY POSITION AT DECEMBER 31, 2018			
		EUR		USD	
		currency	PLN	currency	PLN
FINANCIAL ASSETS					
Trade and other financial receivables	3,680	3	13	3	10
Cash and cash equivalents	2,552	32	132	6	21
Derivatives, including:	305	720	3,004	23	79
Carried at fair value through profit or loss	*89*	*9*	*38*	*23*	*79*
Hedging instruments	*44*	*711*	*2,966*	-	-
FINANCIAL LIABILITIES					
Loans, borrowings, bonds, including:	(10,045)	(753)	(3,306)	(55)	(191)
Interest bearing loans and borrowings	*(6,358)*	*(111)*	*(464)*	*(55)*	*(191)*
Issued bonds and debt securities	*(3,683)*	*(642)*	*(2,842)*	-	-
Trade and other financial liabilities measured at amortised cost	(3,610)	(8)	(34)	(22)	(76)
Derivatives, including:	(124)	(338)	(1,405)	(167)	(583)
Carried at fair value through profit or loss	*(106)*	*(338)*	*(1,405)*	*(140)*	*(488)*
Hedging instruments	*(5)*	-	-	*(27)*	*(95)*
NET CURRENCY POSITION		**(344)**	**(1,596)**	**(212)**	**(740)**

The book value of derivatives constitutes their fair value measurement. The value of exposure to currency risk for forwards constitutes their nominal value in currency. The value of exposure to risk currency for CCIRS constitutes a value in the currency of discounted cash flows in the currency leg.

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25.2 Liquidity risk

Liquidity risk concerns a situation in which an entity is unable to meet its liabilities (current or non-current) when they become due.

The main objective of liquidity risk management at PGE Group is to ensure and maintain the companies' ability to meet their existing and future financial liabilities, taking into account the cost to obtain liquidity.

Liquidity risk management at PGE Group involves planning and monitoring short- and long-term cash flows from operating, investing and financing activities and taking action intended to secure funds for the activities of PGE Group, while limiting the cost of these actions.

Periodic planning and monitoring of PGE Group's liquidity makes it possible to secure funds for any liquidity gaps by allocating funds among PGE Group companies (cash pooling) as well as using external financing, including overdrafts.

Liquidity risk management in the long term allows PGE Group to define its borrowing capacity and supports decisions regarding the financing of long-term investments.

PGE Group has a central financing model in which, as a rule, agreements relating to external financing are executed by PGE S.A. PGE Group subsidiaries use various sources of intra-group financing such as loans, bonds, bank account consolidation agreements and real cash pooling agreements.

PGE Group uses various financing sources, such as overdrafts, term loans and investment loans, issue of domestic bonds and eurobonds.

The following table presents maturities of the Group's financial liabilities at reporting dates by maturity based on contractual undiscounted payments

AS AT DECEMBER 31, 2018	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Loans and borrowings	7,936	8,554	1,957	335	5,296	966
Bonds issued	2,769	2,974	18	2,185	71	700
Trade and other financial payables	4,134	4,134	3,402	211	63	458
Finance lease liabilities and lease contracts with buy option	3	3	1	1	1	-
Derivatives	136	137	24	67	46	-
TOTAL	**14,978**	**15,802**	**5,402**	**2,799**	**5,477**	**2,124**

As at December 31, 2017	Carrying amount	Total payments	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Loans and borrowings	6,358	7,103	90	499	3,871	2,643
Bonds issued	3,683	3,949	-	1,064	2,189	696
Trade and other financial payables	3,610	3,610	3,189	40	48	333
Finance lease liabilities and lease contracts with buy option	4	4	1	1	2	-
Derivatives	124	125	15	81	33	(4)
TOTAL	**13,779**	**14,791**	**3,295**	**1,685**	**6,143**	**3,668**

25.3 Credit risk

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

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PGE Group companies are exposed to credit risk arising in the following areas:

- basic activities of entities – the credit risk results from, among others, purchases and sales of electricity and heat, purchases and sales of energy origin rights and CO_2 emission allowances, purchases of fuels etc. This relates primarily to the possibility of a default by the other party of the transaction, if fair value of the transaction is positive from the point of view of the Group;
- investment activities of entities – the credit risk results from transactions resulting from investment projects which depend on the financial situation of the Group's suppliers;
- investing free cash of entities – the credit risk results from investing free cash of the PGE Group entities in securities bearing credit risk, i.e. financial instruments other than those issued by the State Treasury.

There are significant concentrations of credit risk within PGE Group related to trade receivables. The three most significant customers accounted for approx. 9% of the trade receivables balance.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Trade and other financial receivables	4,270	3,680
Cash and cash equivalents	1,281	2,552
Derivatives - assets	231	305
MAXIMUM EXPOSURE TO CREDIT RISK	**5,782**	**6,537**

25.3.1 Trade receivables . Other financial assets.

ACCOUNTING RULES

Financial receivables

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

Trade receivables typically have a 2-3 week payment deadline. In 2018, PGE Group waited on average 47 days for the payment of receivables on average (receivables turnover ratio in the main companies of PGE Group ranged between 18 and 89 days). Trade receivables relate mainly to receivables for energy sold and distribution services. According to the management, due to current control over trade receivables, there is no additional credit risk that would exceed the level reflected by allowances for receivables.

PGE Group reduces and controls credit risk related to commercial transactions in accordance with harmonised credit risk management rules implemented at all key PGE Group companies. In the case of trade transactions which due to high value may generate substantial loss in case of failure of business partner to comply with the agreement, the assessment of contractor is carried out before the transaction is conducted, taking into account contractor's financial analysis, its credit history and other factors. Based on the assessment, an internal rating is recognised or PGE Group uses a rating determined by an independent reputable agency. A limit for the contractor is set based on the rating. Entering into contracts that would increase exposure above the limit, requires in principle the collateral in line with PGE Group's rules pertaining to credit risk management. The level of used limit is regularly monitored and reported to the Risk Committee and if it is substantially exceeded, units responsible for contractor's risk are obliged to undertake measures to eliminate them. PGE Group regularly monitors payments of receivables and uses system of early vindication, taking into consideration deadlines arising from the energy law and high level of repayment of receivables with short term of expire. It also works with business intelligence agencies and debt collection companies.

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

	DECEMBER 31, 2018		DECEMBER 31, 2017	
	Receivables balance	% share	Receivables balance	% share
Poland	3,081	98%	3,070	97%
Netherlands	-	-	59	2%
Great Britain	74	2%	-	-
Other	-	-	30	1%
TOTAL	**3,155**	**100%**	**3,159**	**100%**

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Ageing of receivables and impairment

Certain financial assets were covered by impairment losses as of December 31, 2018. The change in allowances accounts for these classes of financial instruments is presented in the table below:

2018	Trade and other receivables	Other financial receivables	Bonds	Total financial assets
Impairment as of January 1	**(170)**	**(203)**	**(386)**	**(759)**
Use of impairment	17	9	-	**26**
Reversal of impairment	7	20	-	**27**
Recognition of impairment	(44)	(54)	-	**(98)**
Purchase of new subsidiaries	-	-	-	**-**
Entities' exit from PGE Group	-	-	-	**-**
Other changes	-	(12)	-	**(12)**
Impairment as of December 31	**(190)**	**(240)**	**(386)**	**(816)**
Value prior to impairment	**3,345**	**1,355**	**386**	**5,086**
Net value (carrying amount)	**3,155**	**1,115**	**-**	**4,270**

Impairment of trade receivables concerns the supply and distribution segments. The total amount of trade receivables impairment at these companies as at December 31, 2018, was PLN 143 million (PLN 141 million in 2017).

There are no significant receivables in the Group that would be substantially past due and not covered by an impairment allowance, except for disputed claims from ENEA S.A. described in detail in note 27.4 of these financial statements.

2017	Trade and other receivables	Other financial receivables	Bonds	Total financial assets
Impairment as of January 1	**(170)**	**(195)**	**(297)**	**(662)**
Use of impairment	13	5	-	**18**
Reversal of impairment	5	9	-	**14**
Recognition of impairment losses	(14)	(22)	(89)	**(125)**
Purchase of new subsidiaries	(16)	-	-	**(16)**
Entities' exit from PGE Group	7	-	-	**7**
Other changes	5	-	-	**5**
Impairment as of December 31	**(170)**	**(203)**	**(386)**	**(759)**
Value prior to impairment	**3,329**	**724**	**386**	**4,439**
Net value (carrying amount)	**3,159**	**521**	**-**	**3,680**

Analysis of ageing structure of financial assets taking into account impairment is presented below:

	December 31, 2018			December 31, 2017		
	Gross	Impairment	Net carrying amount	Gross	Impairment	Net carrying amount
Receivables before due date	**4,250**	**(457)**	3,793	**3,776**	**(449)**	**3,327**
Past due <30 days	***240***	***(16)***	***224***	***242***	***(9)***	***233***
Past due 30-90 days	***53***	***(13)***	***40***	***51***	***(2)***	***49***
Past due 90-180 days	***28***	***(8)***	***20***	***28***	***(7)***	***21***
Past due 180-360 days	***54***	***(28)***	***26***	***20***	***(15)***	***5***
Past due >360 days	***461***	***(294)***	***167***	***322***	***(277)***	***45***
Receivables past due, total	**836**	**(359)**	**477**	**663**	**(310)**	**353**
Total financial assets	**5,086**	**(816)**	**4,270**	**4,439**	**(759)**	**3,680**

As at December 31, 2018, more than 44% of overdue financial assets that were not covered by an impairment related to sale of energy to end-users.

25.3.2 Deposits, cash and cash equivalents

The Group manages credit risk related to cash and cash equivalents by diversification of banks in which surpluses of cash are allocated. All entities with which PGE Group concludes deposit transactions with operate in the financial sector. These are only be banks registered in Poland or divisions of foreign banks with high investment grade ratings, adequate solvency and equity ratios as well as strong, stable market position. The share of three major banks in which PGE Group allocated the most significant cash balances as at December 31, 2018, accounted for approximately 70% (72% in the comparative period).

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25.3.3 Derivatives

All entities with which PGE Group concludes derivative transactions with operate in the financial sector. These are banks with investment ratings, adequate equity and strong, stable market position. As at the reporting date, PGE Group was party to the derivative transactions, described in detail in note 24.1.2 of these financial statements.

25.3.4 Guarantees and sureties issued

Guarantees and sureties issued by PGE Group companies are presented in note 27 to these consolidated financial statements.

25.4 Market (financial) risk - sensitivity analysis

PGE Group is exposed mainly to currency risk related to foreign exchange rates between EUR/PLN, USD/PLN and to interest rate risk related to referential interest rates of PLN, EUR, USD. PGE Group uses a script analysis method for the purpose of analysing sensitivity to changes of market risk factors i.e. the Group uses experts' scripts reflecting the subjective opinion in relation to future fluctuations of individual market risk factors.

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

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

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

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

The currency risk exposure for derivative forward instruments is their nominal value together with accrued interest to the reporting date, converted into Polish zloty at the closing rate as at December 31, 2018 and December 31, 2017, without taking the discount into account. The book value of these derivatives constitutes their fair value measurement.

Sensitivity analysis for currency risk

The table below presents sensitivity of financial instruments to reasonably possible changes in foreign currency exchange rates, under the assumption of stability of other risk factors.

FINANCIAL INSTRUMENTS BY CLASS	Value in financial statements, in PLN	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2018				
		Value at risk	EUR/PLN Impact on financial result / equity		USD/PLN Impact on financial result / equity	
			+10%	-10%	+10%	-10%
Trade and other financial receivables	4,270	151	15	(15)	14	(14)
Cash and cash equivalents	1,281	386	38	(38)	-	-
Derivatives at fair value through profit or loss	42	553	5	(5)	50	(50)
Hedging derivatives	123	3,032	283	(283)	3	(3)
Interest bearing loans and borrowings	(7,936)	(566)	(39)	39	(18)	18
Bonds issued	(2,769)	(2,769)	(277)	277	-	-
Trade and other financial liabilities	(4,137)	(270)	(21)	21	(7)	7
Derivatives	(136)	(777)	(32)	32	(46)	46
Impact on financial result			**(28)**	**28**	**(4)**	**4**
Hedging instruments	69	(1,376)	(421)	421	-	-
Impact on hedging reserve			**(421)**	**421**	**-**	**-**

The accounting principles and additional explanatory notes constitute an integral part of the consolidated financial statements

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FINANCIAL INSTRUMENTS BY CLASS	Value in financial statements, in PLN	Value at risk	SENSITIVITY ANALYSIS FOR CURRENCY RISK AS AT DECEMBER 31, 2017 EUR/PLN Impact on financial result / equity		USD/PLN Impact on financial result / equity	
			+10%	-10%	+10%	-10%
Trade and other financial receivables	3,680	23	1	(1)	1	(1)
Cash and cash equivalents	2,552	153	13	(13)	2	(2)
Derivatives at fair value through profit or loss	89	117	13	(13)	2	(2)
Hedging derivatives	*44*	*2,966*	*274*	*(274)*	-	-
Interest bearing loans and borrowings	(6,358)	(655)	(46)	46	(19)	19
Bonds issued	(3,683)	(2,282)	(268)	268	-	-
Trade and other financial liabilities	(3,610)	(109)	(3)	3	(8)	8
Derivatives at fair value through profit or loss	(106)	(1,893)	(141)	141	(49)	49
Impact on financial result			**(157)**	**157**	**(71)**	**71**
Hedging instruments	39	2,871	22	(22)	(10)	10
Impact on hedging reserve			**22**	**(22)**	**(10)**	**10**

Sensitivity analysis for interest rate risk

The Group identifies exposure to interest rate risk related to WIBOR, EURIBOR and LIBOR. The table below presents the sensitivity of financial instruments to reasonably possible changes in interest rates, under assumption of stability of other risk factors.

FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Value at risk	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2018 WIBOR Impact on financial result / equity		EURIBOR Impact on financial result / equity		LIBOR USD Impact on financial result / equity	
			+50bp	-50bp	+25bp	-25bp	+25bp	-25bp
Derivatives measured at fair value through profit or loss - assets	42	24	-	-	-	-	-	-
Interest bearing loans and borrowings	(7,936)	(7,646)	(35)	35	(1)	1	-	-
Leases	1	1	-	-	-	-	-	-
Derivatives	(136)	(88)	-	-	-	-	-	-
Impact on financial result			**(35)**	**35**	**(1)**	**1**	**-**	**-**
Hedging instruments	51	51	141	(142)	(20)	21	-	-
Impact on hedging reserve			**141**	**(142)**	**(20)**	**21**	**-**	**-**

FINANCIAL ASSETS AND LIABILITIES	Carrying amount in PLN	Value at risk	SENSITIVITY ANALYSIS FOR INTEREST RATE RISK AS AT DECEMBER 31, 2017 WIBOR Impact on financial result / equity		EURIBOR Impact on financial result / equity		LIBOR USD Impact on financial result / equity	
			+50bp	-50bp	+25bp	-25bp	+25bp	-25bp
Derivatives measured at fair value through profit or loss - assets	305	111	<1	<(1)	<1	<(1)	<1	<(1)
Interest bearing loans and borrowings	(6,358)	(6,002)	(27)	27	(1)	1	<(1)	<1
Bonds issued	(3,683)	(1,000)	(5)	5	-	-	-	-
Leases	(4)	(4)	-	-	-	-	-	-
Derivatives measured at fair value through profit or loss - liabilities	(114)	(27)	-	-	-	-	-	-
Impact on financial result			**(32)**	**32**	**(1)**	**1**	**-**	**-**
CCIRS hedges	137	44	143	(145)	(27)	27	-	-
Impact on hedging reserve			**143**	**(145)**	**(27)**	**27**	**-**	**-**

Sensitivity analysis for commodity price risk

The Group identifies exposure to commodity price risk, including commodities to produce electricity and heat using the Group's generating assets.

The table below presents the sensitivity analysis to changes of the purchase cost of selected commodities by 10% of price change.:

COMMODITY	AS AT DECEMBER 31, 2018			AS AT DECEMBER 31, 2017		
	Cost to purchase commodities	Impact on financial result		Cost to purchase commodities	Impact on financial result	
		+10%	-10%		+10%	-10%
Hard coal	3,051	305	(305)	1,395	140	(140)
CO_2 emission allowances for captive use	1,714	171	(171)	247	25	(25)
Natural gas [m3 000s]	826	83	(83)	527	53	(53)
Biomass	107	11	(11)	99	10	(10)
Fuel oil	117	12	(12)	51	5	(5)
TOTAL	**5,815**	**582**	**(582)**	**2,319**	**233**	**(233)**

25.5 Hedge accounting

ACCOUNTING RULES

HEDGE ACCOUNTING

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

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

In connection with loans received from PGE Sweden AB (publ), PGE S.A. concluded CCIRS transactions, hedging the exchange 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).

PGE S.A. secures cash flow risk resulting from exchange rates related to forward contracts to purchase CO_2 emission allowances, the price of which is expressed in EUR.

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

To recognise these CCIRS transactions, PGE Group uses hedge accounting. The impact of hedge accounting on the revaluation reserve is presented in note 19.3 to these financial statements.

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EXPLANATORY NOTES TO THE STATEMENT OF CASH FLOWS

26. Statement of cash flows

ACCOUNTING RULES

Statement of cash flows

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

26.1 Cash flows from operating activities

(Profit) / loss on investing activities

	Year ended December 31, 2018	Year ended December 31, 2017
(Profit) / loss on sale of property, plant and equipment	(18)	(13)
(Profit) / loss on disposal of financial non-current assets	21	93
Change in impairment of shares and other financial assets	-	90
Accruals valuation of derivatives	(15)	(76)
Other	(2)	38
(PROFIT) / LOSS ON INVESTING ACTIVITIES, TOTAL	**(14)**	**132**

Change in receivables

	Year ended December 31, 2018	Year ended December 31, 2017
Change in trade receivables and other financial receivables	(590)	2,882
Adjustment for changes in purchased bonds	-	(88)
Adjustment for deposits	14	(2,282)
Netting of LTC receivables/liabilities	-	(1,241)
Adjustment for purchase of new subsidiaries	28	321
Other	(5)	(26)
TOTAL CHANGE IN RECEIVABLES	**(553)**	**(434)**

Change in inventories

	Year ended December 31, 2018	Year ended December 31, 2017
Change in inventories	(809)	(283)
Adjustment for transfer of investment materials to property, plant and equipment	-	(2)
Adjustment for purchase of new subsidiaries	6	398
Other	-	2
TOTAL CHANGE IN INVENTORIES	**(803)**	**115**

Change in liabilities, excluding loans and borrowings

	Year ended December 31, 2018	Year ended December 31, 2017
Change in trade and other financial liabilities	524	109
Change in other non-financial liabilities	29	(119)
Adjustment for change in investment liabilities	(221)	(101)
Adjustment for changes in tax liabilities due to share capital increase	-	110
Netting of LTC receivables/liabilities	-	1,241
Adjustment for purchase of new subsidiaries	(9)	(829)
Other	16	20
TOTAL CHANGE IN LIABILITIES	**339**	**431**

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Change in other non-financial assets, prepayments and CO_2 emission allowances

	Year ended December 31, 2018	Year ended December 31, 2017
Change in other assets	(70)	231
Change in CO_2 emission allowances	(169)	907
Change in deferred income	(455)	(107)
Adjustment for accounting for connection fees in retained earnings (impact of IFRS 15)	414	-
Change in advances for construction in progress	(30)	(285)
Change in balance concerning financing/investing activities	(25)	(15)
Adjustment for purchase of new subsidiaries	-	144
Other	2	(1)
CHANGE IN OTHER NON-FINANCIAL ASSETS, PREPAYMENTS AND CO_2 EMISSION ALLOWANCE, TOTAL CO	**(333)**	**874**

Change in provisions

	Year ended December 31, 2018	Year ended December 31, 2017
Change in provisions	1,394	797
Change in actuarial provisions recognised in other comprehensive income	(208)	(101)
Change in rehabilitation provision recognised in assets	(391)	(192)
Adjustment for purchase of new subsidiaries	(7)	(478)
Other	1	3
TOTAL CHANGE IN PROVISIONS	**789**	**29**

26.2 Cash flows from investing activities

Purchase of property, plant and equipment and intangible assets

In 2018, the largest expenditure for acquisition of property, plant and equipment and intangible assets were made in the following segments:

- Conventional Generation - PLN 4,159 million, including:
  - Elektrownia Opole branch – construction of units 5 and 6 – approx. PLN 872 million,
  - Elektrownia Turów branch – construction of new unit – approx. PLN 867 million,
  - Elektrownia Turów branch – modernisation of units 1-3 – approx. PLN 186 million,
  - Elektrownia Bełchatów branch - replacement repairs at units 1,3,4 - approx. PLN 79 million
  - Elektrownia Bełchatów branch - programme to adapt generation assets to BAT conclusions - approx. PLN 70 million
- Distribution - PLN 1,849 million
  connection of new customers and modernisation and expansion of grid, stations and lines.

In 2017, the Conventional Generation segment incurred PLN 4,200 million in expenditures and the Distribution segment PLN 1,619 million.

Purchase of financial assets and increase in shares in Group companies

Expenditures in 2018, amounting to PLN 114 million, mainly concerned investments in Polska Grupa Górnicza, Bank Ochrony Środowiska S.A., ElectroMobility Poland and Investment Funds.

Expenditures incurred in 2017, amounting to PLN 213 million, related to the investment in Polska Grupa Górnicza (PLN 126 million) and in Polimex-Mostostal S.A.

Recognition and release of deposits with maturity over 3 months

Companies in the Conventional Generation segment are obligated to hold funds in the Mine Liquidation Fund, which is collected and deposited as required by the Geological and Mining Law.

Furthermore in 2017, PGE S.A. terminated deposits with maturity over 3 months in the total amount of PLN 2,340 million.

Purchase of subsidiaries after offsetting acquired cash

In the present reporting period, the Group consolidated Zower and Torec.

In 2017, the Group recognised expenditures on the acquisition of EDF's companies in Poland. Funds paid PLN 1,992 million, subrogation of liabilities PLN 2,285 million, adjusted by acquired cash PLN 186 million. Details of this accounting are presented in note 1.4 of these financial statements.

Sale of subsidiaries after offsetting sold cash

On March 29, 2017 an agreement to sell 100% of EXATEL S.A. shares was executed. Along with the sale of EXATEL S.A., the Group lost control over its subsidiary ENERGO-TEL S.A. The sale price amounting to PLN 369 million was adjusted by cash handed over.

26.3 Cash flows from financing activities

Increase in stake in Group companies

During the present reporting period, the Group purchased additional shares in subsidiaries PGE Energia Ciepła S.A. and Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. The price paid was PLN 13 million and PLN 98 million, respectively.

Proceeds from loans

In the present reporting period, PGE S.A. incurred credit facilities worth PLN 2,438 million in total. Furthermore, companies in the Conventional Generation segment received credits and loans from environmental funds worth a total of approx. PLN 106 million.

In 2017, companies in the Conventional Generation segment received credits and loans from environmental funds worth a total of approx. PLN 116 million. PGE Paliwa sp. z o.o. increased its credit line debt by PLN 67 million.

Repayment of loans, borrowings, bonds and finance lease

In the present reporting period, PGE S.A. bought back bonds worth PLN 1,000 million and repaid a revolving credit facility amounting to PLN 700 million.

This position includes mainly repayment of loans from environmental funds obtained by the Conventional Generation segment in the total amount of approximately PLN 200 million and PLN 193 million in the previous reporting period.

Interest paid

In the present reporting period, this item included mainly interest on loans and credit of PLN 148 million, interest on bonds of PLN 65 million and interest on CCIRS and IRS of PLN 87 million.

In 2017, this item included mainly interest on loans and credit of PLN 143 million, interest on bonds of PLN 77 million and interest on CCIRS and IRS of PLN 75 million.

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OTHER EXPLANATORY NOTES

27. Contingent liabilities and receivables. Legal claims

27.1 Contingent liabilities

	As at December 31, 2018	As at December 31, 2017
Contingent return of grants from environmental funds	756	753
Legal claims	222	188
Bank guarantee liabilities	177	223
Contractual fines and penalties	-	12
Employees' claims	1	2
Other contingent liabilities	36	74
Total contingent liabilities	**1,192**	**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, and later extended the claim to PLN 104 million (i.e. by PLN 45 million). On March 31, 2018, the company filed a response to WorleyParsons' expanded claim. The Group does not accept the claim and regards its possible admission by the court as unlikely.

Claims related to energy origin rights sale contracts executed by Energa-Obrót S.A.

In October 2017, PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (acquired by PGE Energia 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 energy origin rights resulting from electricity origin certificates at FW Kisielice in 2009, FW Koniecwałd (Malbork) and FW Galicja. Energa Obrót S.A.'s demands in all of the lawsuits are based on the accusation that executive (agreements to sell energy origin 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 violation 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 all of the cases, the court referred the parties for mediation, which ended on December 15, 2018, without reaching an agreement.

In addition, through motions filed in September 2017, Energa Obrót S.A. summoned PGE Energia Odnawialna S.A. and PGE Energia Natury sp. z o.o. (currently acquired by PGE Energia 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 energy origin 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 45 million being imposed (recognised as revenue in 2017 of PLN 16 million and PLN 29 million in the present period). In the case of refusal to pay these contractual penalties, PGE Energia Odnawialna S.A. intends to seek their payment in court proceedings. On April 25, 2018, during the first hearing, PGE Energia 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. According to PGE Group companies, based on legal opinions, a favourable outcome to these disputes is more likely than an unfavourable outcome.

Estimated volume of the green certificates covered by the contracts with Energa Obrót S.A. amounts to 794 thousand 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 December 31, 2018, the total amount of bank guarantees was PLN 177 million (PLN 215 million in the comparative period).

Other contingent liabilities

Other contingent liabilities mainly include a potential claim by WorleyParsons,(over the claim already reported as described above), amounting to PLN 33 million.

27.2 Other significant issues related to contingent liabilities

Non-contractual use of property

As described in note 20.4 of these financial statements, PGE Group recognises a provision for disputes under court proceedings, concerning non-contractual use of properties for distribution activities. In addition, in the PGE Group, there are disputes at an earlier stage of proceedings and it cannot be excluded that the number and value of similar disputes will grow in the future.

Contractual liabilities related to purchase of fuels

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

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

27.3 Contingent receivables

As at the reporting date, PGE Group held PLN 27 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).

27.4 Other legal cases 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. A hearing concerning appointment of an expert was held on November 20, 2018. The next court hearing has not been scheduled.

A similar claim was raised by Pozwy sp. z o.o., an entity that purchased claims from former PGE Elektrownia Opole S.A. shareholders. Pozwy sp. z o.o. has filed a claim at the District Court in Warsaw against PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE S.A. and PwC Polska sp. z o.o. ("Defendants"), 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 on July 8, 2017. On September 28, 2018, the District Court in Warsaw ruled in the first instance - the lawsuit by Pozwy sp. z o.o. against PGE S.A., PGE GiEK S.A. and PWC Polska sp. z o.o. was rejected. Pozwy sp. z o.o. appealed the District Court's ruling.

PGE Group companies do not recognise the claims being raised by Socrates Investment S.A., Pozwy sp. z o.o. and the rest of 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 shares subject to the process of consolidation 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.

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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 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 judgement dismissing the shareholder's claim in its entirety. The ruling is final.

On January 29, 2019, 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 annulment of resolutions 7, 9 and 20 of the Company's Ordinary General Meeting held on July 19, 2018. The Company submitted a response to the lawsuit on February 28, 2019.

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

In October and November 2016 PGE Górnictwo i Energetyka Konwencjonalna S.A., PGE Energia Odnawialna S.A. and PGE Energia Natury PEW sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) received from Enea S.A. termination of long-term contracts for purchase of renewable energy origin rights, so called "green certificates." Justifying the termination, 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, 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 energy origin 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. Proceedings in all of the cases are in progress.

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, 2018, the Group recognised contractual penalty and compensation receivables of PLN 135 million (of which PLN 7 million was recognised as present-period revenue). According to PGE Group companies, based on available legal analysis, a favourable resolution in the above disputes is more probable then a negative resolution.

Estimated volume of the green certificates covered by the contracts with Enea S.A. amounts to approximately 2,657 thousand 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 Natury PEW sp. z o.o. (acquired by PGE Energia Odnawialna S.A.) and PGE Energia Odnawialna S.A. 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 energy origin 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.

28. Future investment commitments

As at December 31, 2018, PGE Group committed to incur capital expenditures on property, plant and equipment of approximately PLN 5,371 million. These amounts relate mainly to construction of new power units, modernisation of Group's assets and purchase of machinery and equipment.

	As at December 31, 2018	As at December 31, 2017 *restated data*
Conventional Generation	3,808	4,755
Distribution	1,199	1,005
Renewables	177	67
Supply	12	1
Other activity	175	171
TOTAL FUTURE INVESTMENT COMMITMENTS	**5,371**	**5,999**

The accounting principles and additional explanatory notes constitute an integral part of the consolidated financial statements

The most significant future investment commitments concern:

- Conventional Generation:
  - Elektrownia Opole branch – construction of units 5 and 6 – approx. PLN 931 million,
  - Elektrownia Turów branch – construction of new unit – approximately PLN 1,495 million,
  - Elektrownia Turów branch – modernisation of units 1-3 – approx. PLN 248 million,
- Distribution – investment commitments related to network distribution assets with the total value of approximately PLN 1,199 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 158 million (basic scope) An optional scope includes the amount of approx. PLN 1,120 million.

PGE Group's entity PGE EJ1 sp. z o.o. is directly responsible for preparing the investment process, conducting environmental and site surveys, obtaining all of the essential decisions for construction of the first Polish nuclear power plant and for carrying out this investment. In the future, PGE EJ1 sp. z o.o. will serve as the nuclear plant's operator.

Decisions with regard to the programme to build the first Polish nuclear power plant are made in the context of a decision by the Minister of Energy regarding the model for acquiring technology for the nuclear power plant, the investment's financing model and the updated shape of Poland's nuclear power programme. At the date of these financial statements, the update of Poland's nuclear power programme was accepted by the Minister of Energy. The next step if for the Council of Ministers to approve it.

PGE EJ1 sp. z o.o. is currently conducting preparatory works for the Programme, consisting of environmental and site surveys at two locations. PGE Group intends to continue providing financial support for PGE EJ1 sp. z o.o., as is necessary to continue works under the existing scope of preparatory works for the Programme. A decision on the investment consisting of a nuclear power plant build depends on whether a dedicated financing model will be in place.

PGE S.A. currently holds a 70% stake in PGE EJ1 sp. z o.o. On November 28, 2018, the Management Board of PGE S.A. announced preliminary interest in purchasing all of the shares of PGE EJ 1 sp. z o.o. This transaction will be possible after a valuation is carried out by an independent adviser and once corporate approvals are obtained by all of the entities involved.

29. Leases

ACCOUNTING RULES

Leases

Classification of the lease is made at the lease inception, based on the economic substance of the lease agreement.

A lease, tenancy contract or other contract of a similar nature under which transfer to the Group substantially all the risks and rewards of ownership is classified as a finance lease. The subject of a finance lease is recognized in assets as at the lease commencement date at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs of the lessee are added to the amount recognised as an asset. Lease payments shall be apportioned between reduction of the outstanding liability balance and the financial expenses in such a way as to maintain a constant discount rate in relation to the unsettled part of the liability.Financial expenses are recognised as financial expenses in the statement of comprehensive income during the lease period.

An operating lease is a lease under which the lessor retains significant part of the risks and rewards incidental to ownership of the asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

29.1 Operating lease liabilities – the Group as lessee

PGE Group companies conclude tenancy and rental contracts, which in accordance with IAS 17 *Leases* meet the definition of operating lease contract. The Group also uses rights of perpetual usufruct of land. Future minimum lease payments concerning irrevocable operating leases amounted to PLN 1,829 million as at December 31, 2018, while lease payments recognised as costs in 2018 amounted to PLN 59 million (including PLN 27 million in fees for perpetual usufruct of land).

29.2 Operating lease receivables – the Group as lessor

PGE Group companies have signed agreements with Polskie Sieci Elektroenergetyczne S.A. on rendering intervention services related to administration and use of production units by the system operator in order to balance active and passive power on an intervention basis in the National Power System. This aims at ensuring proper and safe operation of the system. The above mentioned agreements, although not having a legal form of a lease, give the right to use the assets for a series of payments. *In addition, PGE Group companies execute tenancy and rental contracts, which in accordance with IAS 17* Leases meet the definition of operating lease contract. Future minimum lease payments concerning irrevocable operating leases amount to PLN 539 million as at December 31, 2018, while lease payments recognised as revenue in 2018 amounted to PLN 302 million.

29.3 Finance lease liabilities and lease contracts with buy option

As at the reporting date the present value of the minimum current and non-current lease payments amounted to approximately PLN 2 million and PLN 1 million, while in the corresponding period the present value of the minimum current and non-current lease payments amounted to approximately PLN 2 million.

29.4 Receivables from finance lease and lease agreement with a purchase option

At the reporting date and in the comparative period the Group identified receivables from current and non-current finance lease contracts of PLN 1 million and PLN 3 million, respectively.

30. Tax settlements

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

From the point of view of 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 Among these there are 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 revenue 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.

The introduction of two income sources did not affect the Group's tax burden for 2018.

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VAT split payment mechanism

Starting from July 1, 2018, a VAT split payment mechanism was 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 is the buyer's right but not an obligation.

The Group uses funds received from counterparties in VAT accounts to pay its liabilities that contain VAT. The level of funds in these VAT accounts at a given date depends mainly on how many of the Group's counterparties decide to use this mechanism and the relation between receivables and liabilities payment dates. As at December 31, 2018, the cash balance in these VAT accounts totalled PLN 69 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 compensations 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

Tax on property constitutes a significant burden on certain PGE Group companies. Regulations concerning property tax are unclear in certain areas and give rise to a variety of interpretation doubts. Tax authorities, i.e. municipality leader, mayor or city president, often issue inconsistent tax interpretations in similar cases. Due to the above, PGE Group companies were and can be a party to court proceedings concerning property tax. If the Group considers that an adjustment of settlements is likely due to such a proceeding, it recognises an appropriate provision.

31. Information on related parties

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

31.1 Associates and jointly controlled entities

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

	Year ended December 31, 2018	Year ended December 31, 2017
Sales to associates and jointly controlled entities	20	14
Purchases from associates and jointly controlled entities	2,085	1,854

	As at December 31, 2018	As at December 31, 2017
Trade receivables from associates and jointly controlled entities	7	9
Trade liabilities to associates and jointly controlled entities	120	180

The value of purchases and balance of liabilities result from transactions with Polska Grupa Górnicza sp. z o.o. and Polimex-Mostostal S.A.

31.2 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:

	Year ended December 31, 2018	Year ended December 31, 2017
Sales to related parties	2,114	2,164
Purchases from related parties	4,702	3,987

	As at December 31, 2018	As at December 31, 2017
Trade receivables from related parties	230	280
Trade liabilities to related parties	682	629

The largest transactions with companies where the State Treasury holds a stake concern Polskie Sieci Elektroenergetyczne S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., Grupa LOTOS S.A., Zakłady Azotowe PUŁAWY S.A., PKP Cargo S.A., PKN Orlen S.A., TAURON Dystrybucja S.A., Energa Group companies, Jastrzębska Spółka Węglowa S.A. 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.

31.3 Management remuneration

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

PLN 000s	Year ended December 31, 2018	Year ended December 31, 2017 **restated data*
Short-term employee benefits (salaries and salary related costs)	36,163	31,944
Post-employment benefits	4,624	2,427
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**40,787**	**34,371**
Remuneration of key management personnel of entities of non-core operations	19,664	15,347
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**60,451**	**49,718**

PLN 000s	Year ended December 31, 2018	Year ended December 31, 2017 **restated data*
Management Board of the parent company	7,858	7,454
including post-employment benefits	-	*168*
Supervisory Board of the parent company	685	760
Management Boards – subsidiaries	29,211	23,683
Supervisory Boards – subsidiaries	3,033	2,474
TOTAL	**40,787**	**34,371**
Remuneration of key management personnel of entities of non-core operations	19,664	15,347
TOTAL REMUNERATION OF KEY MANAGEMENT PERSONNEL	**60,451**	**49,718**

** The number of entities considered as core business has been increased.*

Until June 30, 2017, members of the management boards of PGE Group companies were employed based on 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.

The above remuneration is included in other costs by nature disclosed in note 7.2 Costs by nature and function.

32. Entity authorised to audit financial statements

Ernst & Young Audyt Polska sp. z o.o. sp.k. is the entity authorised to audit the separate financial statements of PGE Polska Grupa Energetyczna S.A. for 2018 and 2017 and PGE Group's consolidated financial statements for 2018 and 2017, based on an agreement executed on July 17, 2017.

In 2017 and 2018, Ernst & Young Audyt Polska sp. z o.o. sp. k. also audited the annual financial statements of the following PGE Group companies: PGE GiEK S.A., PGE EJ 1 sp. z o.o., PGE Energia Odnawialna S.A., EW Baltica 1 sp. z o.o., EW Baltica 2 sp. z o.o., EW Baltica 3 sp. z o.o., PGE Dom Maklerski S.A., PGE Energia Natury PEW sp. z o.o., PGE Dystrybucja S.A., PGE Obrót S.A., PGE Ekoserwis sp. z o.o., PGE Paliwa sp. z o.o., PGE Energia Ciepła S.A., PGE Toruń S.A., PGE Gaz Toruń sp. z o.o., EC Zielona Góra S.A., Kogeneracja S.A., PGE TFI S.A., PGE Systemy S.A., PGE Synergia sp. z o.o., PGE Sweden AB.

The following table presents remuneration for Ernst & Young Audyt Polska sp. z o.o. sp. k. and other entities authorised to audit the financial statements of subsidiaries.

Amount of remuneration for auditing the financial statements of PGE Polska Grupa Energetyczna S.A. and subsidiaries

PLN 000s	Year ended December 31, 2018	Year ended December 31, 2017 **restated data*
Audit firm remuneration for:		
Audit of annual financial statements	3,187	2,881
Other assurance services, including review of interim financial statements	1,358	1,582
TOTAL	**4,545**	**4,463**

33. Significant events during and after the reporting period

33.1 Capacity auction results

The first three capacity market auctions for delivery years 2021, 2022 and 2023 were held in November and December 2018. As a result, PGE contracted capacities for the Group's existing, modernised and new generation assets. Agreements for the under-construction units at the Opole and Turów plants are executed for a 15-year period, guaranteeing stable and long-term remuneration for readiness to delivery capacity to the system, which will supplement revenue from the sale of electricity. The auction closing prices were respectively: 240.32 PLN/kW/year (2021), 198.00 PLN/kW/year (2022) and 202.99 PLN/kW/year (2023). In the case of multiannual capacity contracts, the price will be subject to annual indexation using the weighted average price index for consumer goods and services. Detailed information is presented in point 5.5 of the Management Report.

33.2 Adoption and entry into force of the Act on amendment of the act on excise duty and certain other acts

On December 28, 2018, an act amending the act on excise duty and certain other acts ("Act") was adopted. The Act aims to stabilise electricity prices for final customers in 2019. In accordance with the new regulations, the excise duty on electricity is reduced from PLN 20 to PLN 5 per MWh. The transition fee, paid each month by electricity customers, was reduced by 95%.

The above legislative changes are a response and an attempt to ease the effects of dynamic growth in electricity prices on the wholesale market, mainly due to growth in the prices of CO_2 allowances. Price growth on the wholesale market translates into growth in prices for final customers in subsequent periods.

As a rule, the Act requires retail companies (such as PGE Obrót S.A.) to reduce prices in contracts with customers - which in consequence reduces revenue from sales. Nonetheless, the Act also introduces a compensation system, which covers the difference between the price indicated in the electricity tariff / price list and the weighted average price of electricity on the wholesale market. At the date on which these financial statements were prepared, implementing regulations to the Act were not published yet, therefore there is no detailed information as to how the amounts of compensation will be estimeted. In consequence, the amount of compensation for PGE Obrót S.A. (subsidiary) and for the Group cannot be established. The overall effect, including the effect of price reductions for customers and the compensations resulting from the Act, on the financial situation of PGE Obrót S.A. and the Group as at the date on which these financial statements were signed cannot be determined.

On February 21, 2019, the Polish parliament adopted an updated version of the Act. The updated Act indicates that the electricity prices for final customers in 2019 must correspond to the prices indicated in the tariff approved by the URE President on December 31, 2018. Where electricity prices for 2019 were determined in a manner other than tariff, including in individually negotiated contracts or through a tender, then the prices for 2019 may not be higher than those applied on June 30, 2018. The Act was adopted by the Senate on February 26, 2019, and was signed by the President on March 1, 2019. According to PGE Group, the scope of changes in the update, especially the key art. 5, this is not a clarification to the legal state as of December 31, 2018, and therefore in the meaning of IAS 10 this is an event after the reporting period that does not require adjustments.

Effects on reporting

As a result of the Act being adopted, the Group assessed its impact, in the wording adopted on December 28, 2018, on these financial statements. The Act was especially analysed in terms of whether or not in light of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* the Group is required to create provisions for onerous contracts. According to reporting regulations, if a given contract or group of contracts result in a loss, then the entity should recognise an appropriate provision in the period in which the loss became unavoidable. Costs, as a rule, include only those costs that are directly related to the contract that the entity would have avoided if it did not perform the contract. Calculating a loss on a contract in the meaning of IAS 37 does not include future operating losses, including those resulting from overhead, for example.

In assessing the reporting effects on consolidated financial statements, the Group examined:

- the difference between revenue estimated in accordance with the Act and the unavoidable costs to satisfy the obligation to perform contracts at the level of PGE Obrót S.A.,
- a positive energy balance between the value of electricity produced and sales to final customers,
- the lack of possibility to calculate compensations as at the balance sheet date,
- a range of uncertainties related to the legal background and interpretations of the Act.

The Group was unable to determine all of the effects of introducing the Act (e.g. the amount of expected compensation). Nonetheless, taking into account the above arguments and uncertainties, the Group considers that there are no onerous contracts in the meaning of IAS 37 at the level of consolidated financial statements. In consequence, PGE Group did not recognise any provisions or assets resulting from the Act in these consolidated financial statements.

At the level of PGE Obrót S.A., the difference between revenue estimated in accordance with the Act and the unavoidable costs to satisfy the obligation to perform contracts amounts to PLN 539 million.

The updated Act adopted on February 21, 2019, will cause a further decline in revenue for electricity sellers. On the other hand, the update also clarifies that aside from the electricity price difference the expected compensation should reimburse the entities for operating costs, balancing costs and costs to redeem energy origin certificates as well as margins. Given the above, PGE Group expects the lower revenue in 2019 to be fully cover by relevant compensations.

33.3 Tender offer for 100% of Polenergia S.A. shares

On May 22, 2018, PGE, with the intermediation of Pekao Investment Banking S.A., announced a tender offer to subscribe for the sale of 45 443 547 ordinary bearer shares, i.e. all shares issued by Polenergia S.A., entitling to 100% of votes at Polenergia S.A.'s general meeting, for PLN 16.29 per share. PGE is also the acquiring entity in this Tender Offer. Under the tender offer, collateral in the form of a bank guarantee was put up for PGE's liabilities. The guarantee was issued by Bank Polska Kasa Opieki S.A. and the beneficiary is PEKAO Investment Banking S.A. The bank guarantee was issued on May 22, 2018, for PLN 740 million, valid until November 21, 2018.

The Tender Offer was announced on conditions specified in the Tender Offer content, including:

- unconditional approval from the President of the Office of Competition and Consumer Protection for a concentration of undertakings consisting of the acquisition of control over Polenergia S.A.,
- subscription to sell in the Tender Offer Polenergia S.A. shares representing at least 66% of shares,
- appointment to Polenergia S.A.'s supervisory board of candidates designated by PGE,
- adoption by Polenergia S.A.'s general meeting of a resolution on changes in Polenergia S.A.'s articles of association and
- execution of a strategic cooperation agreement between PGE and Polenergia S.A. and Polenergia S.A.'s integration into PGE Group.

Given that some of the aforementioned conditions were not met, PGE decided not to purchase Polenergia S.A. shares.

33.4 Events after the reporting period

At the date on which these financial statements were approved for publication, no significant events took place after the end of the reporting period the impact or disclosure of which is not included in these financial statements.

34. Approval of financial statements

These consolidated financial statements were approved for publication by the Management Board on March 8, 2019.

Warsaw, March 8, 2019

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 Wasiłek**	
Vice-President of the Management Board	**Emil Wojtowicz**	
Signature of person responsible for drafting these financial statements	Michał Skiba Director, Reporting and Tax Department	